

Cross-National Inequality: Trends, Causes, Consequences

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Which countries?

I'll focus on 21 rich longstanding-democratic nations

Income inequality data

Top 1% vs bottom 99%

Tax records

1900ff

Pretax

World Inequality Database

Within the bottom 99%

Household surveys

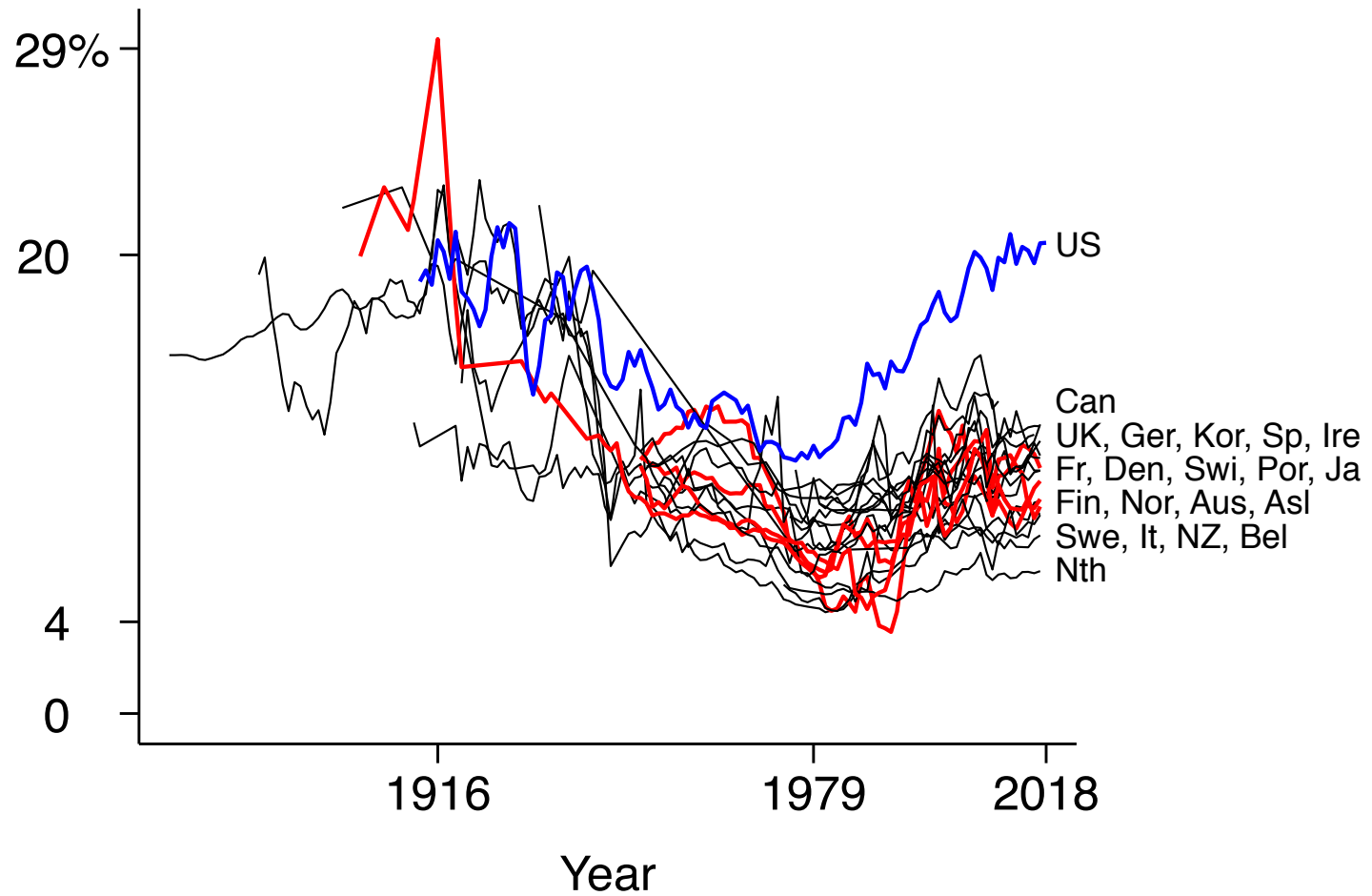
1960ff

Posttransfer-posttax

LIS, OECD, SWIID

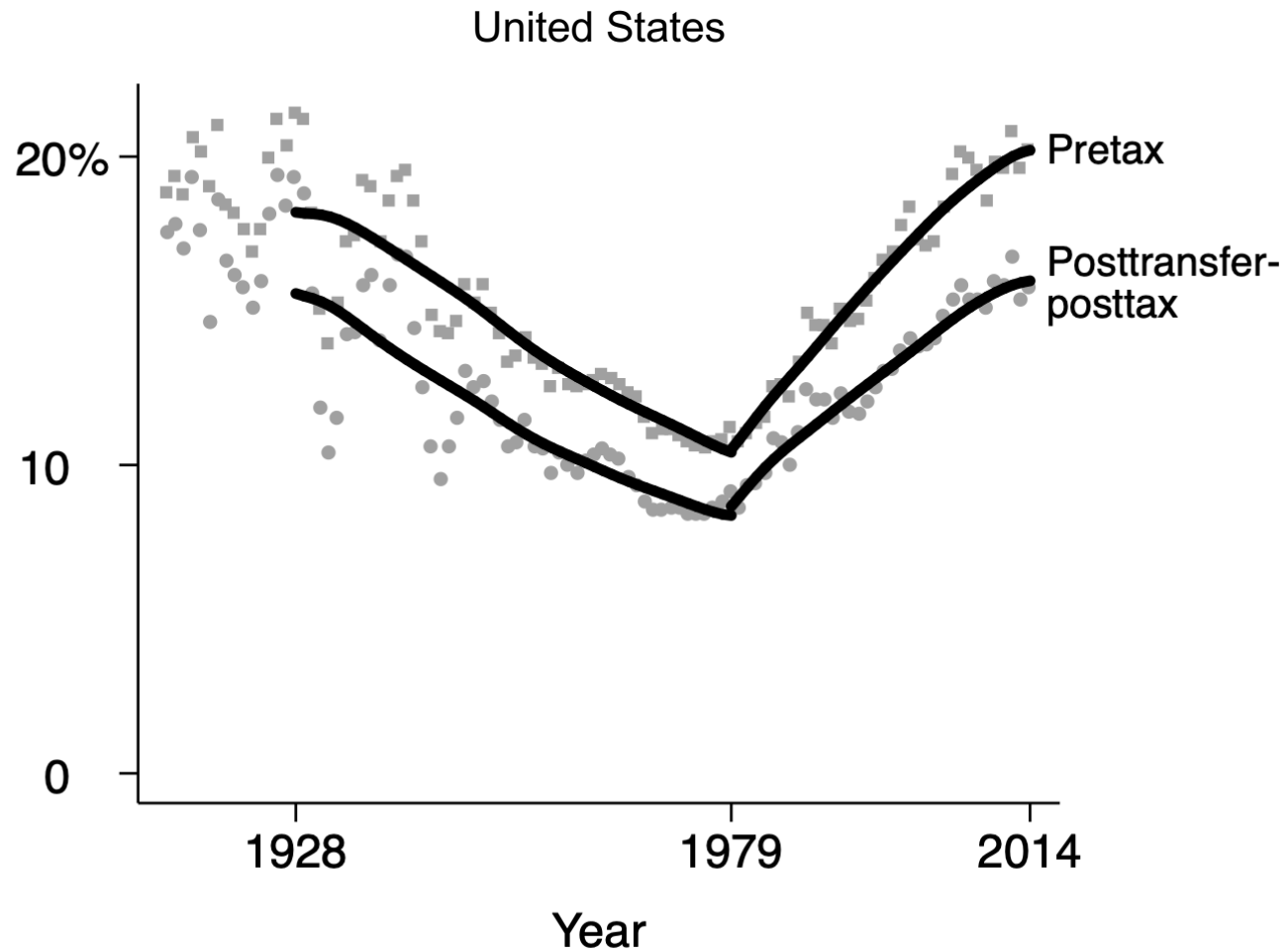
Trends and causes

Top 1%'s income share



Pretax income. Excludes capital gains. Data source: World Inequality Database. Red: Den, Fin, Nor, Swe. Blue: US. "Asl" is Australia; "Aus" is Austria.

Top 1%'s income share



The lines are loess curves. Individuals age 20 and above. Incomes within married couples are equally split. "Pretax" income includes private pensions, Social Security, and unemployment insurance. "Posttransfer-posttax" income adds other government transfers and subtracts tax payments. Both pretax and posttransfer-posttax incomes aggregate to national income. Data source: Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States," Working Paper 22945, National Bureau of Economic Research, 2016, appendix tables II.B1 and II.C1.

Causes: top 1% share

Increases in product market size

Changes in corporate governance and executive pay setting

Increases in the market power of large firms

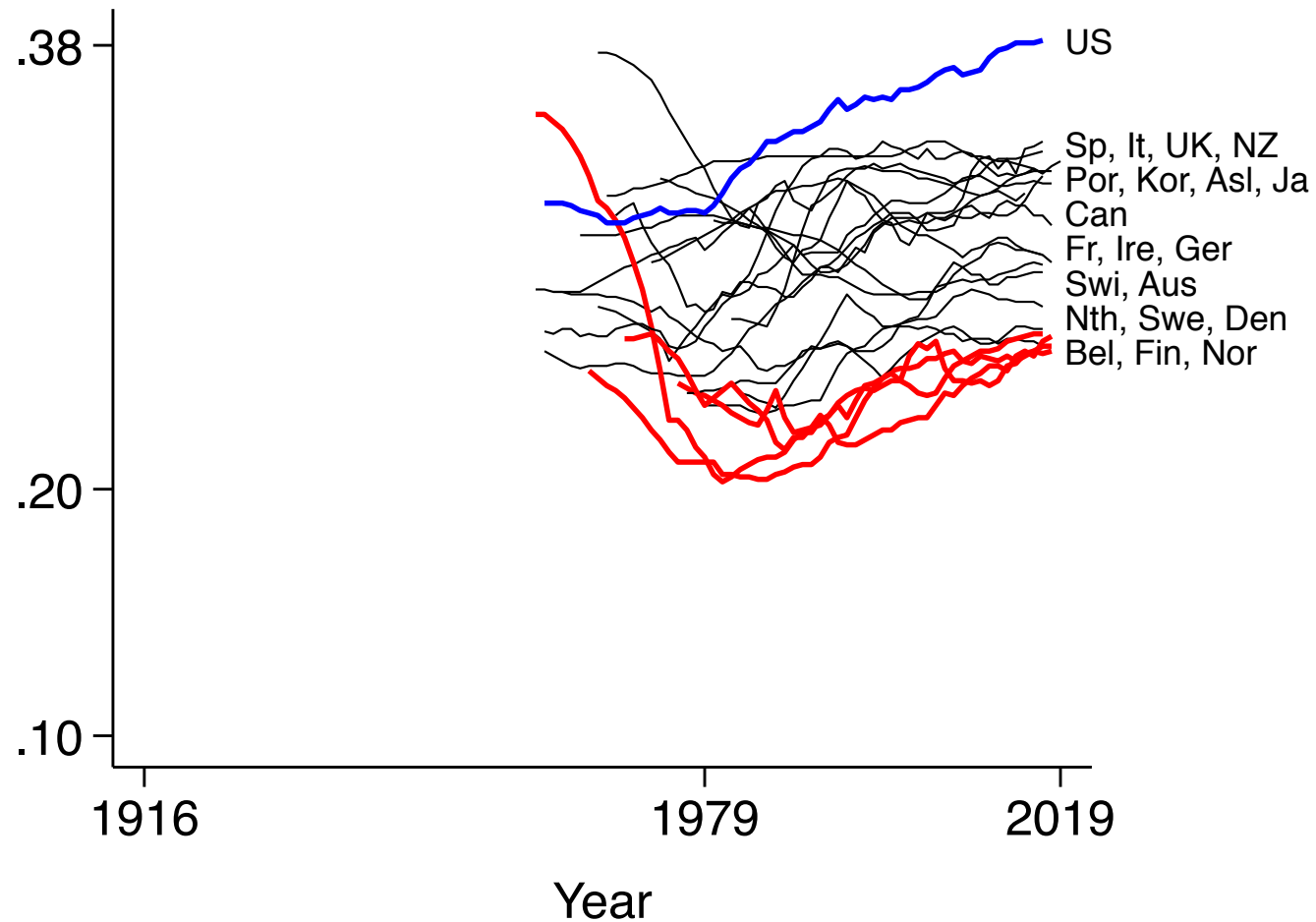
Financialization

Soaring stock values

Union decline

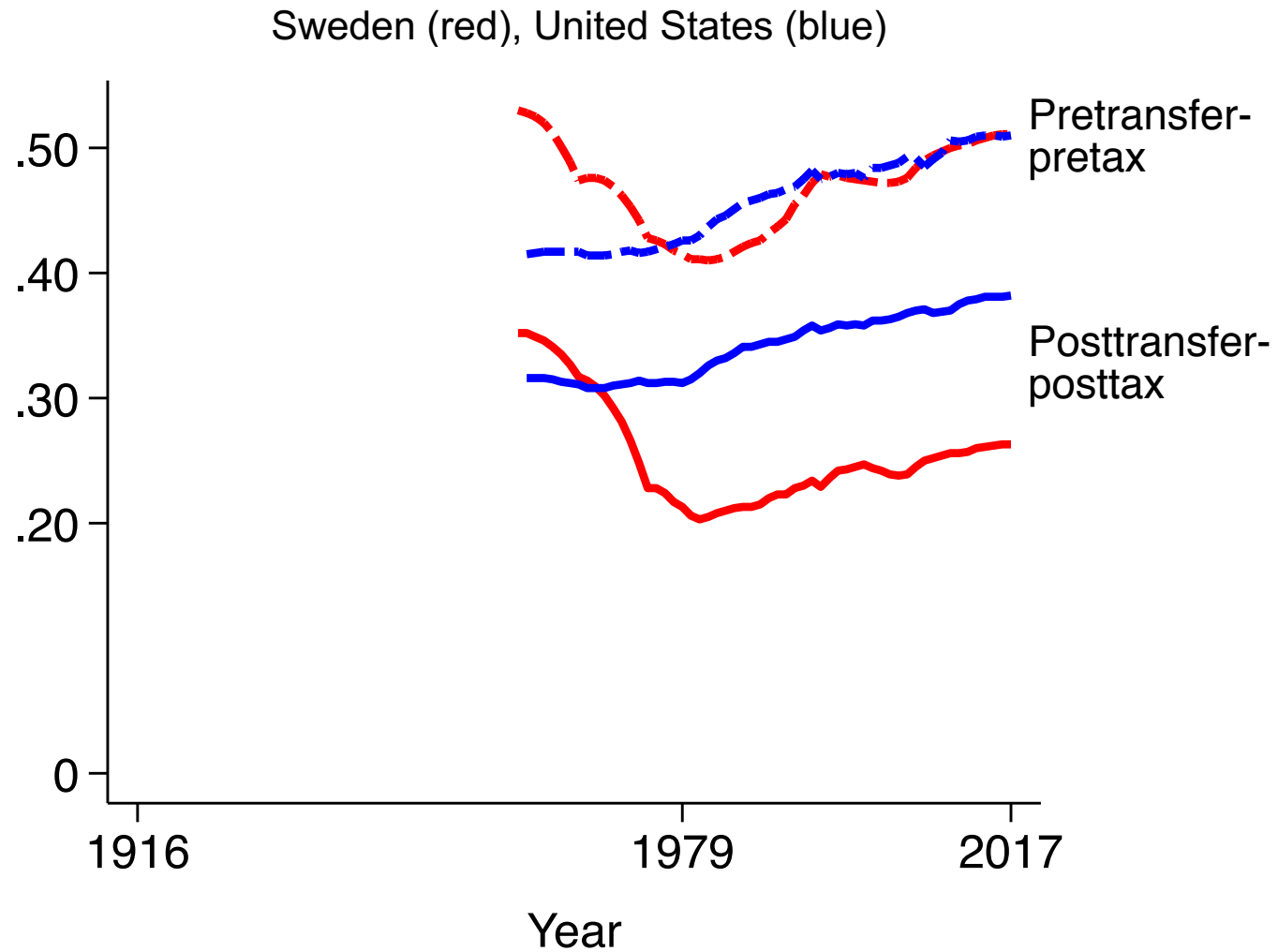
Reductions in top tax rates

Gini within the bottom 99%



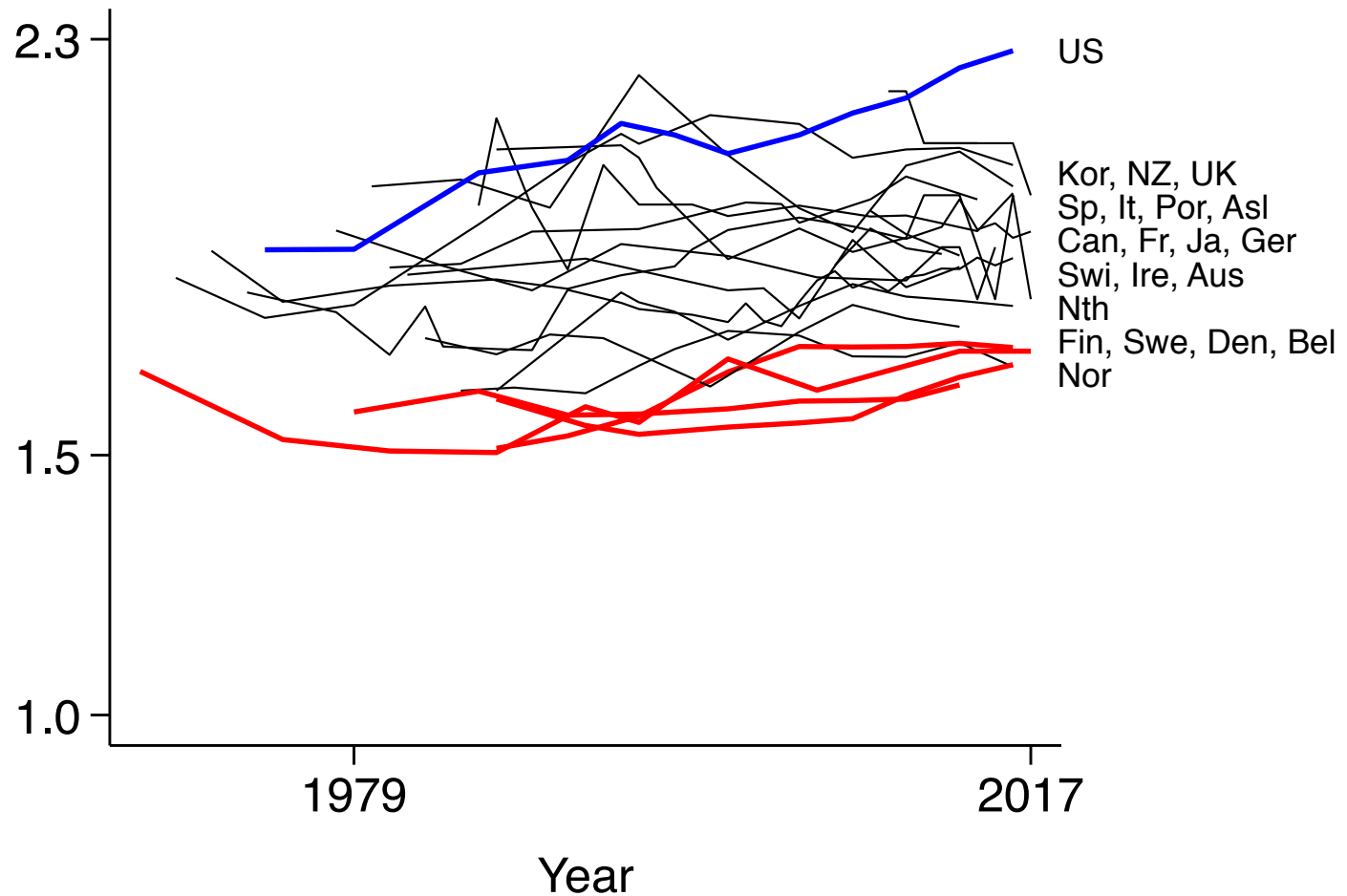
Gini coefficient. Posttransfer-posttax income, adjusted for household size. The vertical axis doesn't begin at zero. Data source: Frederick Solt, Standardized World Income Inequality Database, version 8.3, 2020, using Luxembourg Income Study, OECD, and other data. Red: Den, Fin, Nor, Swe. Blue: US. "Asl" is Australia; "Aus" is Austria.

Gini within the bottom 99%



Gini coefficient. Income adjusted for household size. The vertical axis doesn't begin at zero. Data source: Frederick Solt, Standardized World Income Inequality Database, version 8.3, 2020, using Luxembourg Income Study, OECD, and other data.

P90/P50 income ratio



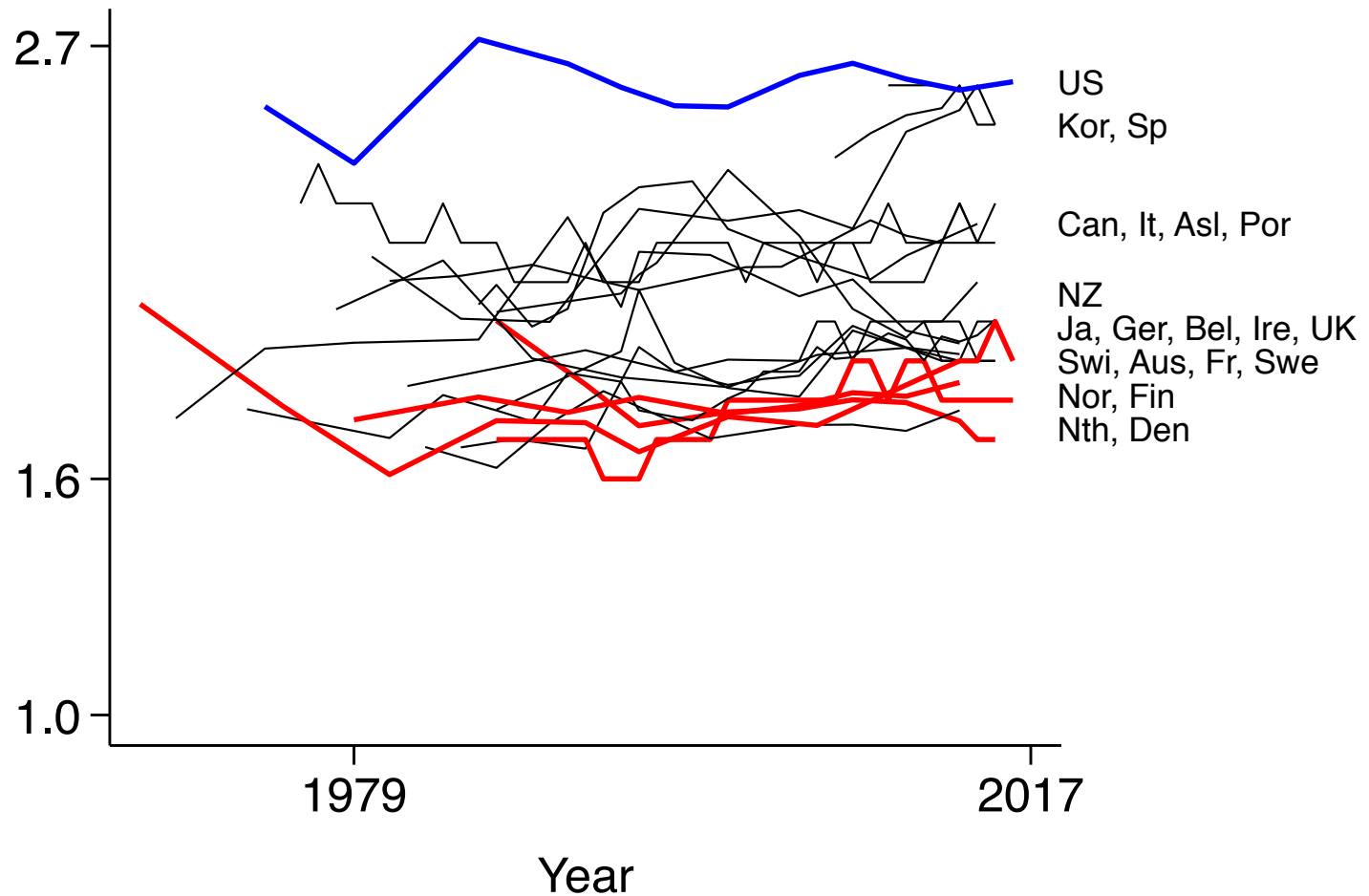
Ratio of income at the 90th percentile to income at the 50th percentile. Posttransfer-posttax income, adjusted for household size. Data sources: Luxembourg Income Study, Inequality and Poverty Key Figures; OECD Income Distribution Database. Red: Den, Fin, Nor, Swe. Blue: US. "Asl" is Australia; "Aus" is Austria.

Causes: p90/p50

Wage inequality

Employment and household structure (single-adult households, marital homogamy)

P50/P10 income ratio



Ratio of income at the 50th percentile to income at the 10th percentile. Posttransfer-posttax income, adjusted for household size. Data sources: Luxembourg Income Study, Inequality and Poverty Key Figures; OECD Income Distribution Database. Red: Den, Fin, Nor, Swe. Blue: US. "Asl" is Australia; "Aus" is Austria.

Causes: p50/p10

Wage inequality

Employment and household structure

Government benefits

Trends and causes: summary

In most nations, declining income inequality from 1916 (or at least the 1930s) to circa 1979, followed by rising inequality

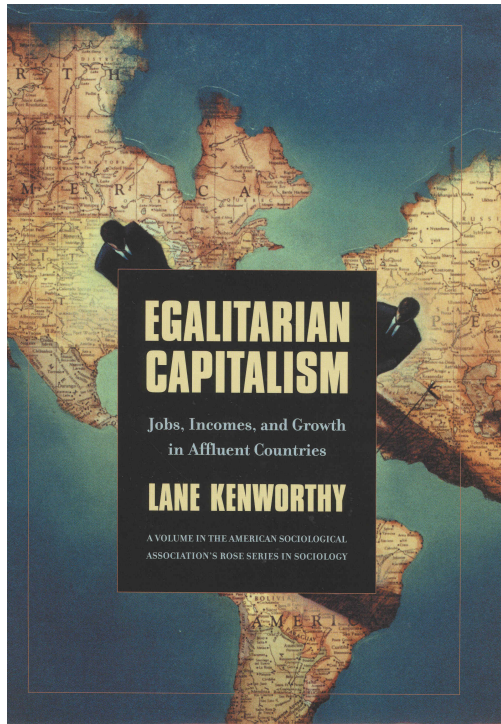
Considerable cross-country variation in levels, and some variation in trends

Multiple causes

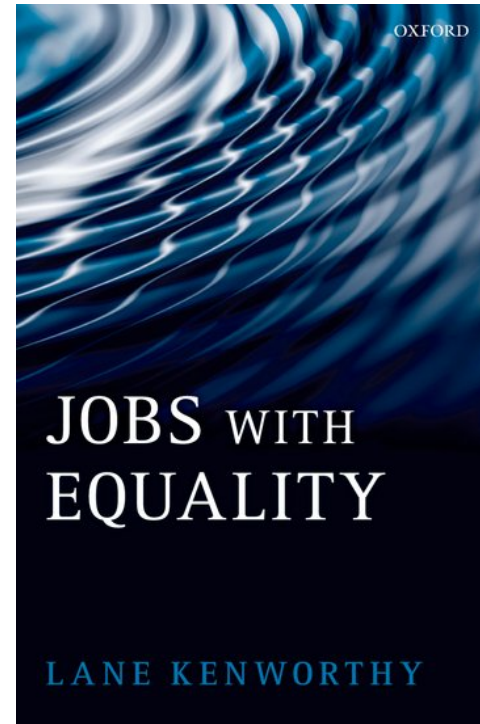
Lots of interesting country-specific (or group-specific) stories

Should reducing income inequality
be a high priority?

I've tended to think yes



2004



2008

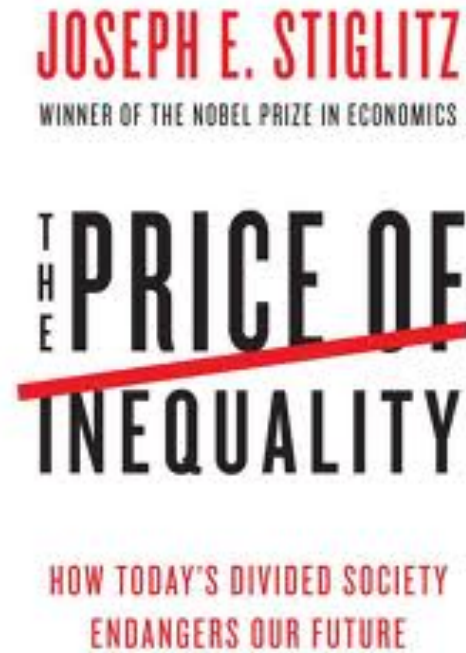
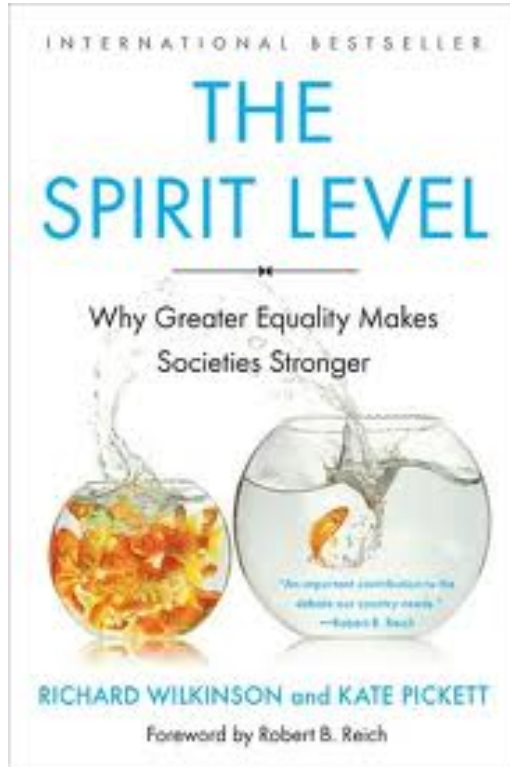
Fairness considerations

The moral argument for not-too-high income inequality

Luck plays a huge role in determining the income people end up with — genetics, parents, schools, discipline, persistence, timing, etc.

Much of the disparity in incomes is therefore undeserved

Is income inequality harmful?



Is income inequality harmful?

My assessment of the evidence

In the US it has reduced middle-class income growth; increased disparities in education, health, family formation, family stability, and happiness; and reduced residential mixing

Other hypotheses — it's bad for economic growth, health, education, democracy — either aren't supported or we lack sufficient evidence to draw a conclusion

What can we learn from the Nordics?

The Nordic countries have excelled at achieving many of the things we want in a good society

Economic security

High living standards for the least well-off

Equality of opportunity

Freedom (both "negative" and "positive")

Innovation

Work-family-leisure balance

Happiness (including among immigrants)

What can we learn from the Nordics?

Low inequality

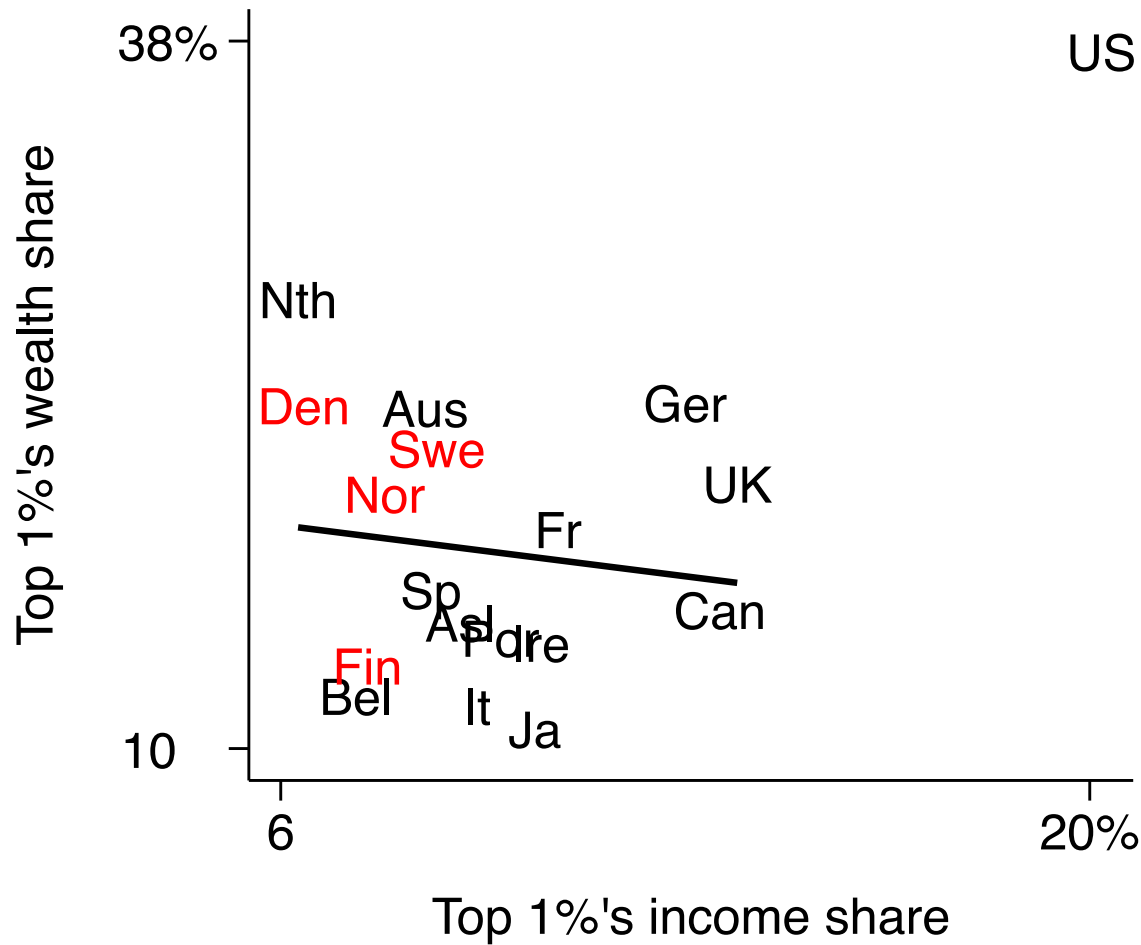
Income inequality within the bottom 99%: low but rising

Not-so-low inequality

Top 1% income share: now similar to the US level at its low point in 1979

Top 1% wealth share: among the highest.
(Sweden and Norway have more billionaires per capita than the US.)

What can we learn from the Nordics?



2014 or nearest available year. Wealth = assets minus liabilities. The estimate for Sweden is imputed using top 5% wealth share data. Data source: OECD Wealth Distribution Database. Income inequality: income is pretax, excluding capital gains. Data source: World Inequality Database. "Asl" = Australia; "Aus" is Austria. The line is a linear regression line, calculated with the US excluded.

So how vital is reducing income inequality?

I'm not sure

I do think it would be better if the US had less income and wealth inequality, but even here there are at least 10 things I would put ahead of inequality reduction on a priority list for policy makers

If you want to read more

"Income Distribution," lanekenworthy.net/income-inequality

"Wealth Distribution," lanekenworthy.net/income-inequality

"Is Income Inequality Harmful?," lanekenworthy.net/is-income-inequality-harmful

Egalitarian Capitalism

Jobs with Equality

Social Democratic Capitalism