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

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
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
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.

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