

Income inequality in historical and comparative perspective

A B Atkinson, Nuffield College,
Oxford and LSE

1. Underlying themes
2. Income inequality over the twentieth century in OECD countries
3. Seeking explanations

Underlying themes:

- Study of inequality should be central to social science;
- Both long-run and comparative perspectives are necessary:
 - Rich source of evidence
 - Living in “unusual times”
 - Countries not all moving in step
- We need to be more serious about data:
 - Not rely on “stylised facts”
 - Consider full range of possible data, varying across time and across countries
 - Data quality not (0,1)

Here focus on a narrow concept of inequality:
money income at a point in time.

Income includes both earnings AND property income and transfers.

MISSING (among other elements)

- Social dimensions of inequality;
- Public goods;
- Life-course and inequality of opportunity.

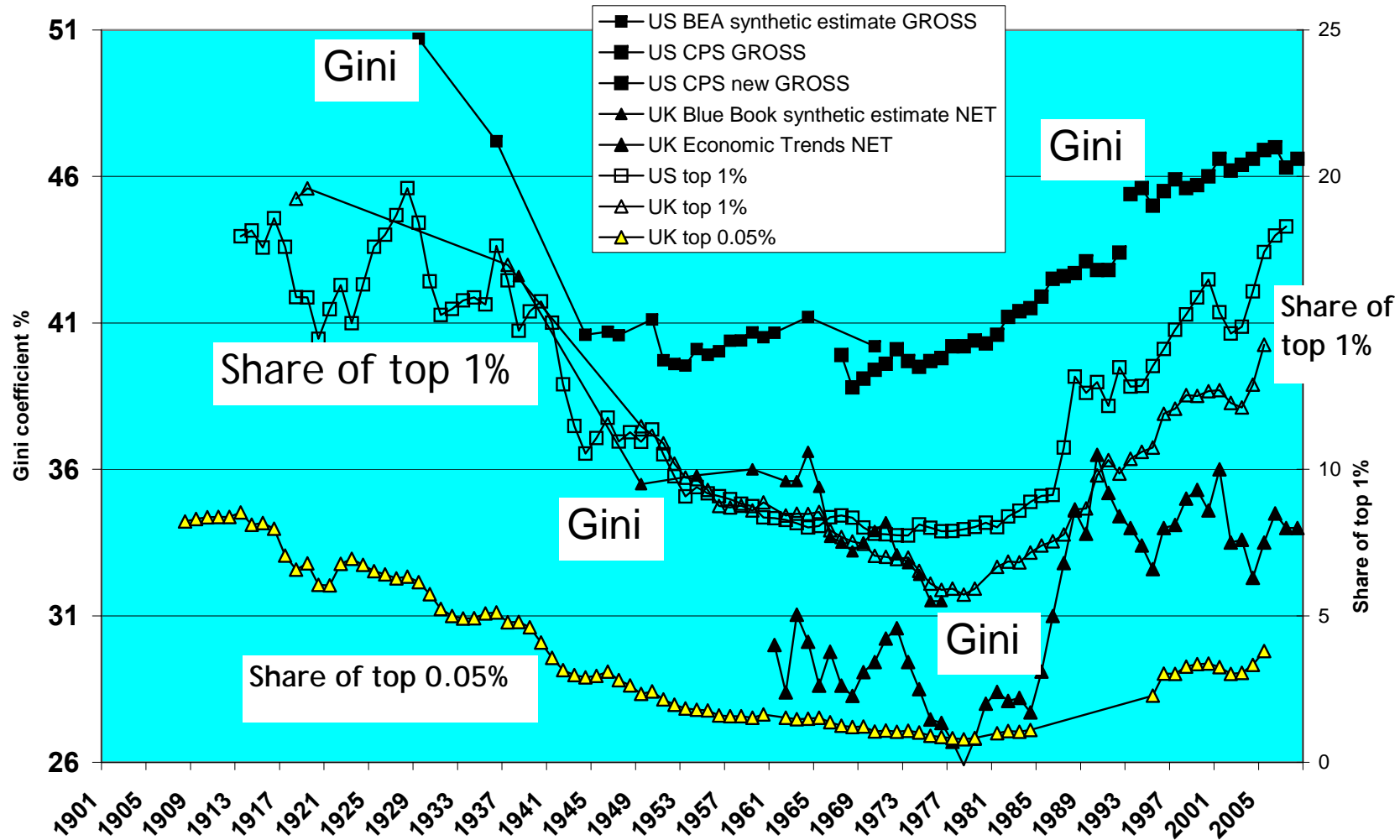
1. Underlying themes

2. Income inequality over the twentieth century in OECD countries



3. Seeking explanations

US and UK: the end of a special relationship?

Figure A Income inequality in UK and US 1908-2008

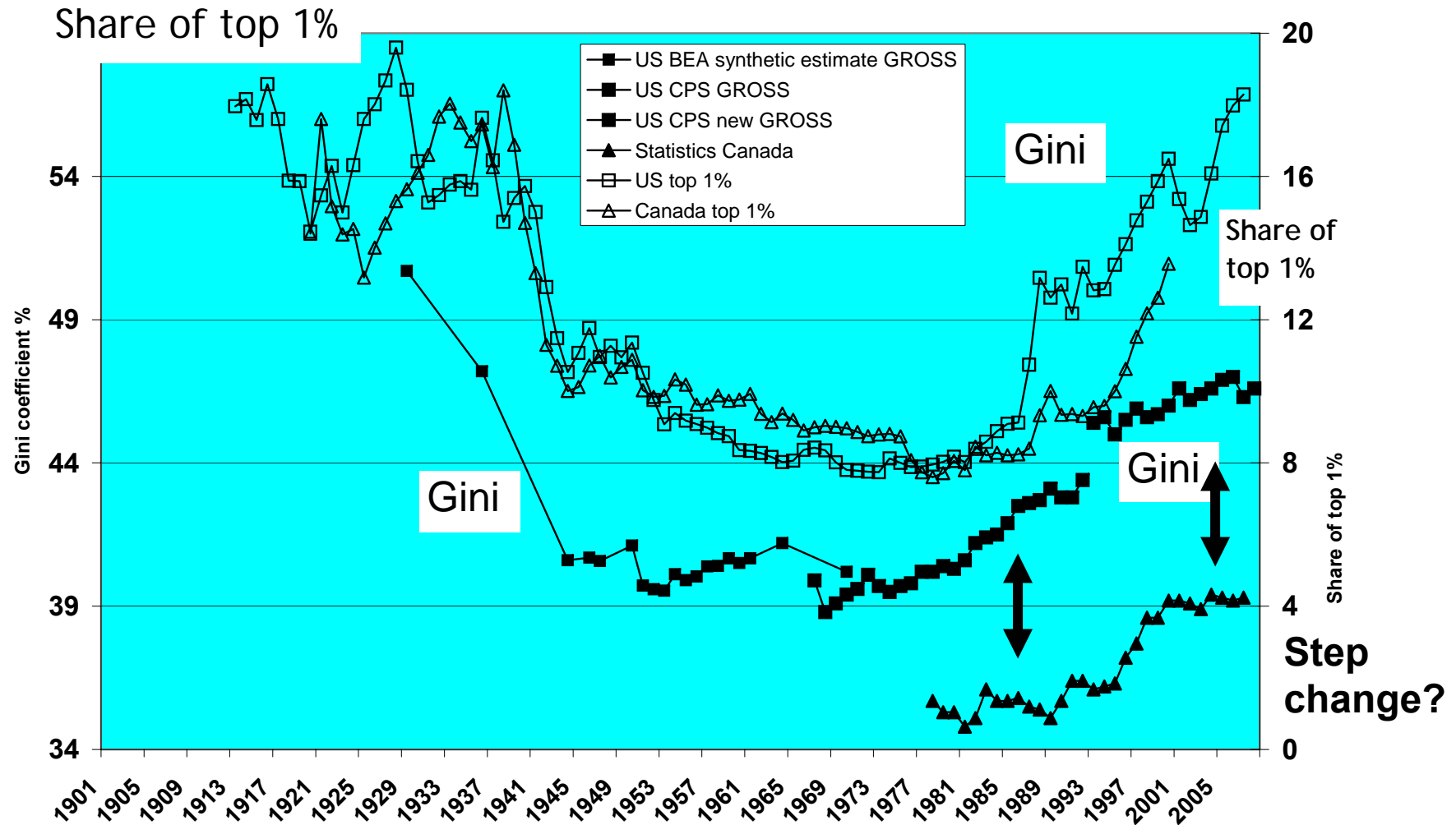


Patchwork of data, but can draw some conclusions: the US and UK are not simple cases of U-Turn

- Similar pre-WW2 but differ afterwards
- US has long plateau from 1945 to 1970s
- US U more like 
- UK had falling inequality from 1945 to late 1970s
- In the UK inequality rose much more in the 1980s than in the US
- In the UK, overall inequality levelled off since 1990, but top shares continued to rise.
- overall inequality in UK more like 

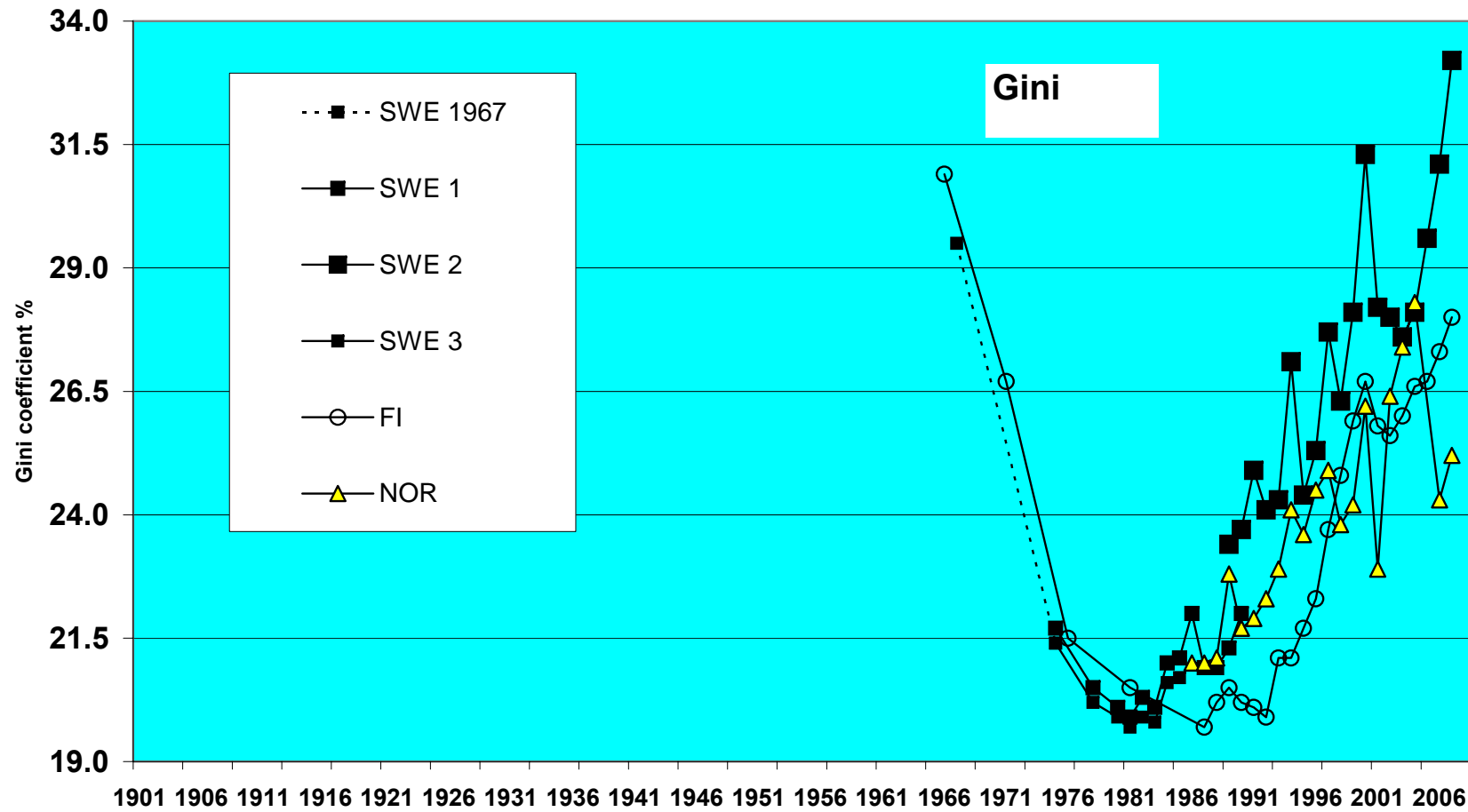
Canada/US more similar, but still differences

Figure F Income inequality in Canada and US 1913-2008



Common experience in the Nordics?

Figure C Three Nordic countries in Detail



Nordic recent trends:

SWEDEN

“Alongside the higher economic standard of households since the mid-1990s, differences in income have also increased. The difference has not been as large since Statistics Sweden began these measurements in 1975” (Statistics Sweden press release May 2009).

NORWAY

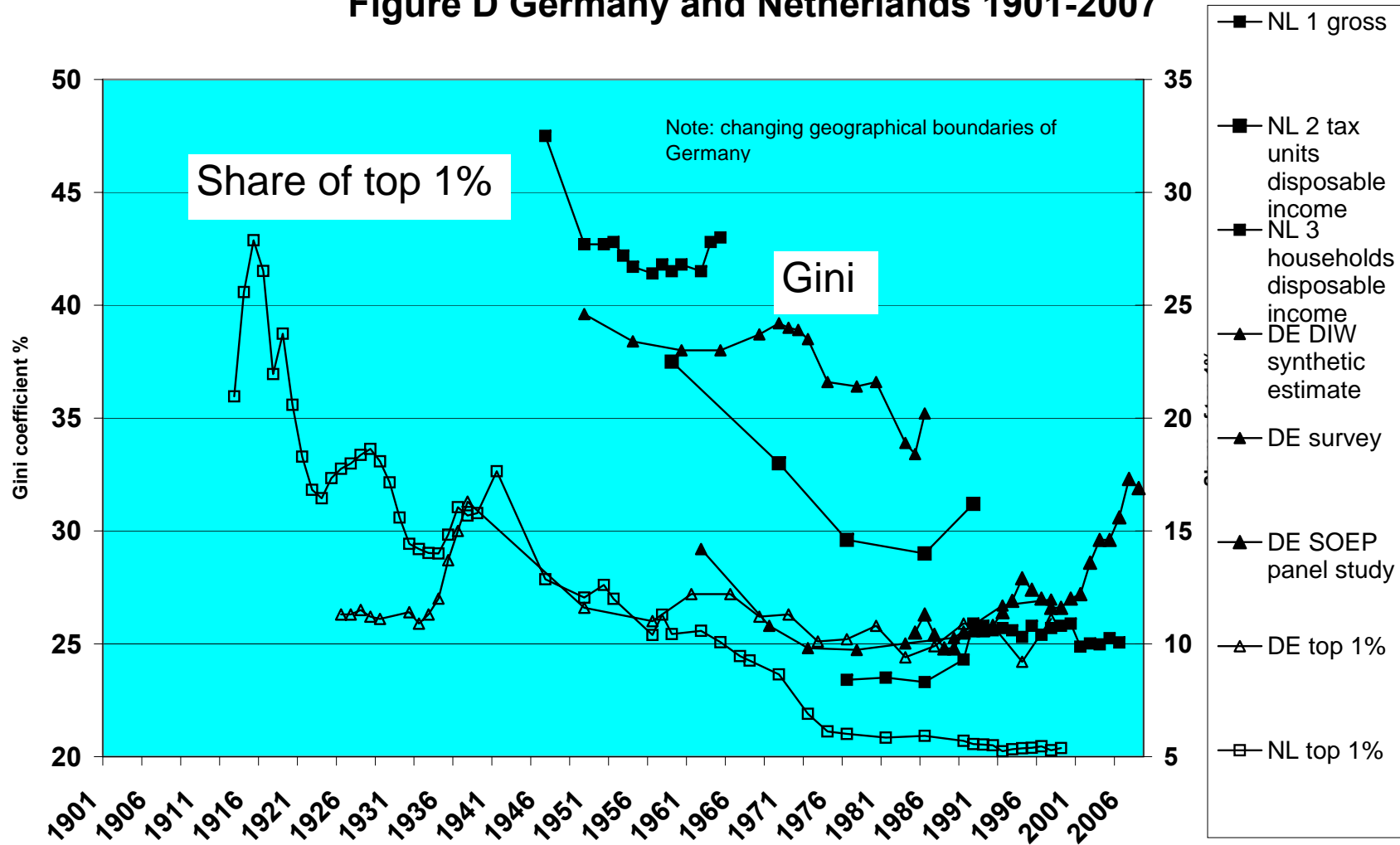
“All income classes enjoyed a strong rise in household income [in 2007]. However, people at the top of the income distribution had the strongest rise” (Statistics Norway press release March 2009).

FINLAND

“Growth of income differentials continued in 2007” (Statistics Finland, May 2009).

Two neighbours

Figure D Germany and Netherlands 1901-2007



Germany Gini ↑ 4-5 percentage points 1999-2007

Summary: 10 OECD countries (not all shown)

- General fall up to 1945 in top income shares and in overall inequality (where evidence available);
- Fall in top shares and overall inequality continued up to 1970s in some countries (UK, Nordics, Netherlands) but was less marked in US and in France top shares not greatly changed while overall inequality fell;
- Rise in top shares post-1980 in US, Canada and UK; rise less obviously continuing in Nordics; rise less steep or non-existent in Continental Europe;
- In nearly all countries Gini is higher today than in 1980 but the extent of the rise varies: if we take the US as a benchmark (+ 5 percentage points), then Canada, Norway and UK are similar, but the increase is larger in Finland and Sweden, followed (recently) by Germany, and is smaller (less than 2 percentage points) or non-existent in France, Italy and the Netherlands;
- It is not evident whether rise in Gini is continuing or was a step change: U or U?
- Differing coverage of capital incomes.

1. Three themes

2. Income inequality over the twentieth century in OECD countries

3. Seeking explanations

Different research strategies

EVIDENCE:

- Examine variation in summary inequality measures (such as Gini) for total income across countries and over time (Panel of Countries approach);
- Examine variation in inequality for total income over time, and compare findings for different countries (not pooled);
- Examine variation in shares of different income groups (such as top 1%, top 5%, bottom 20%) over time and across countries;
- Summarise country distributions by (several) parameter functional forms, and seek to explain differences/changes in these parameters;
- Estimate individual income (earnings) equations from micro-data and then examine their implications for aggregate inequality.

HYPOTHESES:

- Data-driven;
- Model-driven.

Data-suggested hypotheses: (1) Kuznets

Figure A* Income inequality in UK and US

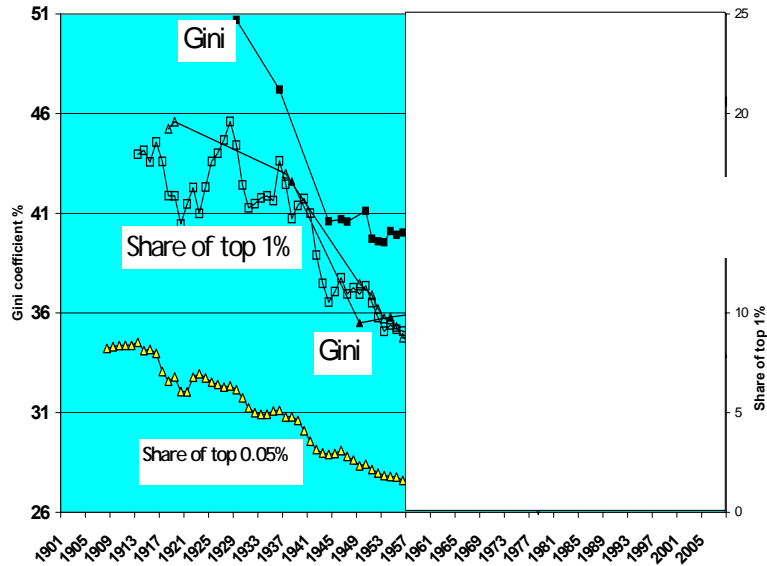


Figure B* Three Nordic countries

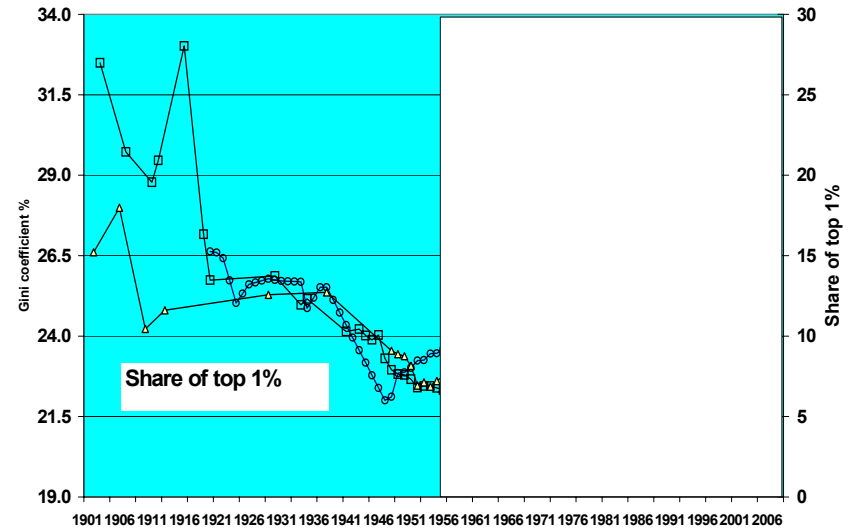


Figure D* Germany and Netherlands

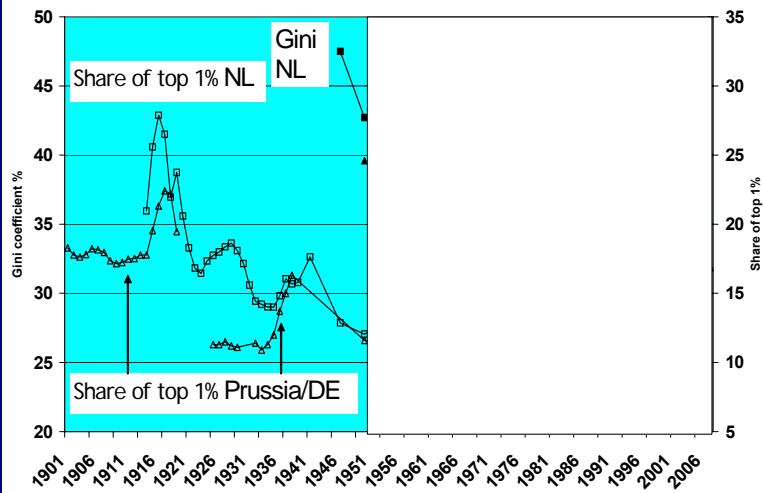
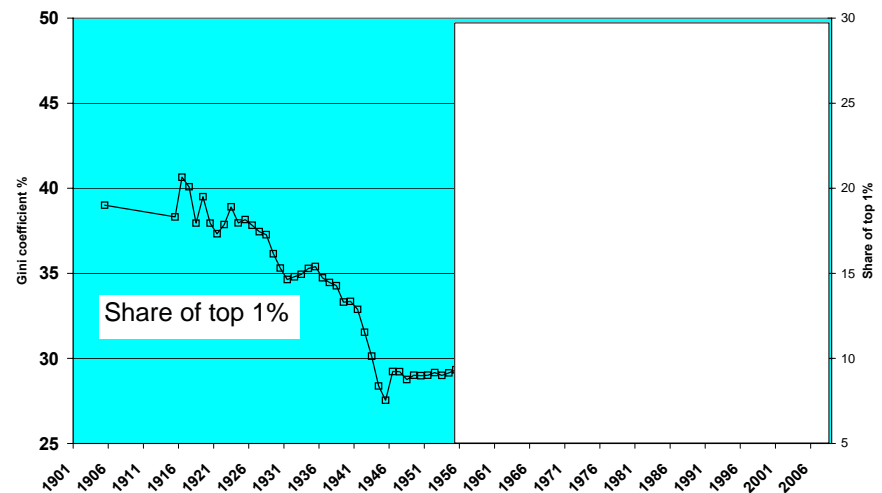
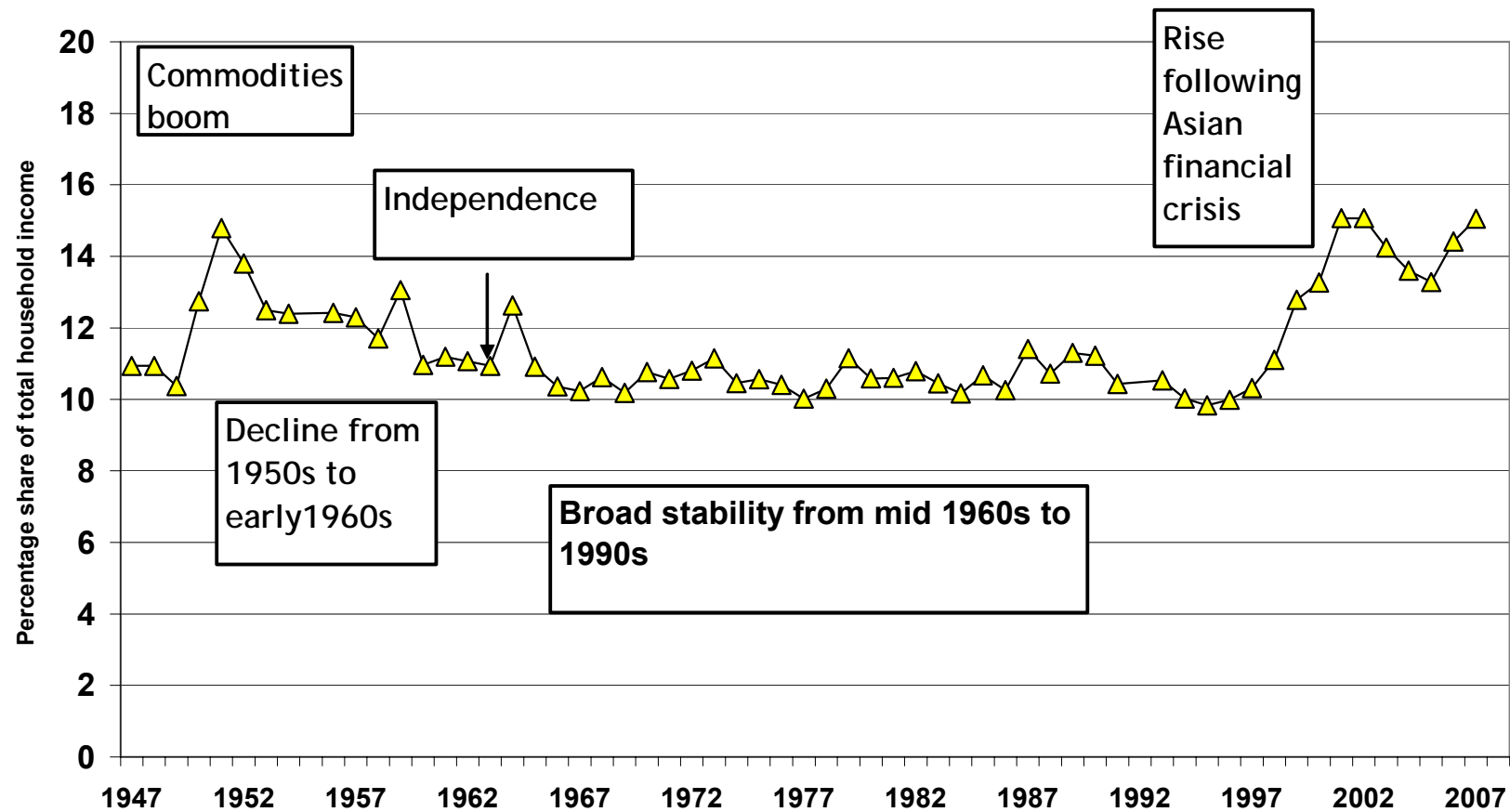


Figure E* France



Data-suggested hypotheses: (2) Financial crises

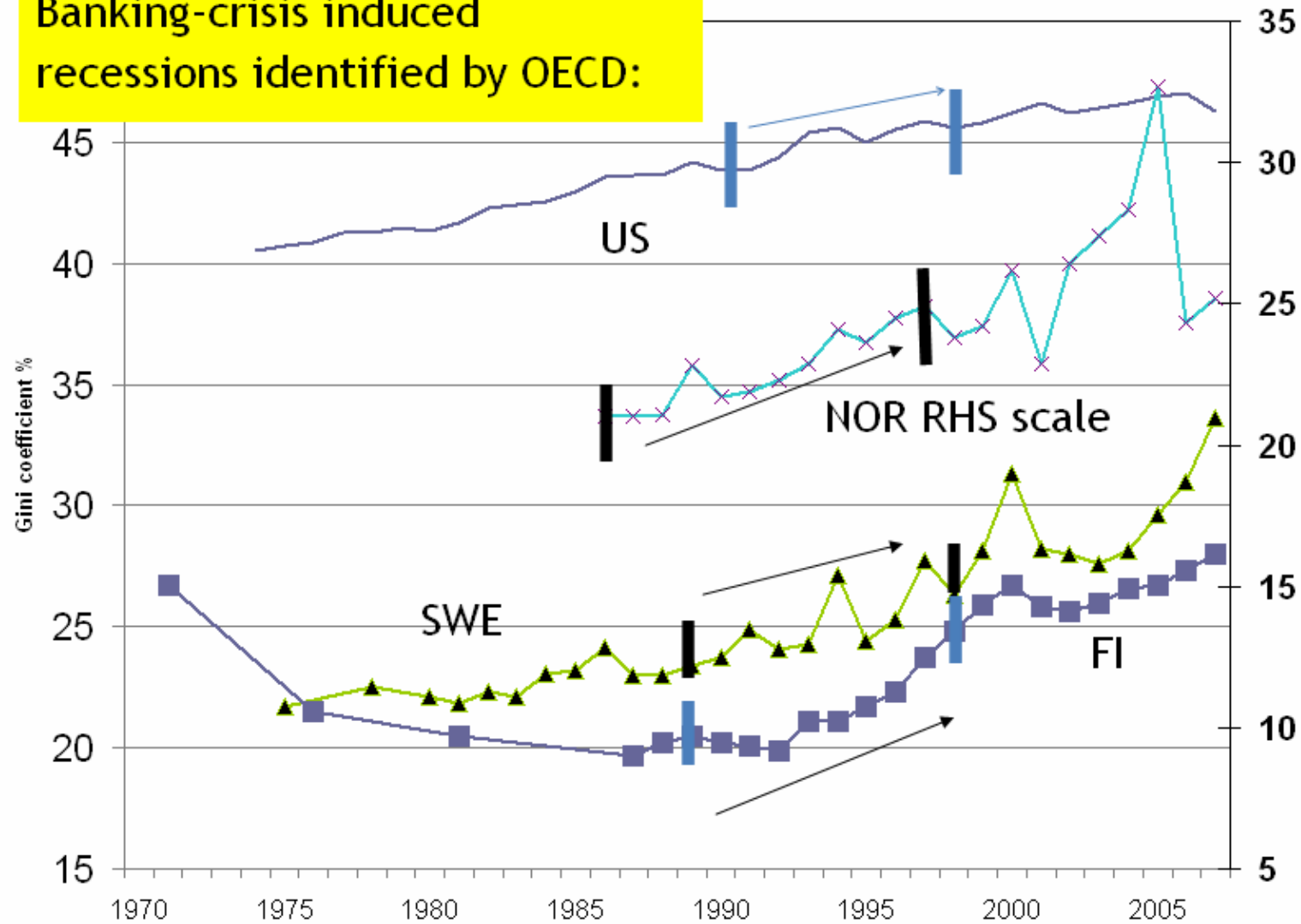
Share of top 1 per cent in Singapore 1947 to 2007



Source: Table 5.1.

Data-suggested hypotheses: (3) Recessions: Gini coefficients

Banking-crisis induced recessions identified by OECD:



Modelling

Components of disposable income

Earnings



(8)

Literature has largely focused on individual earnings distribution.

+

Capital income



(1)

Models of wealth accumulation and transmission = minority interest.

+

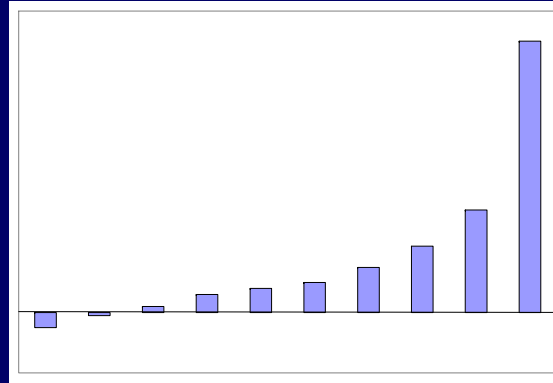
Transfers - Taxes



(2)

Political economy models of welfare state and progressive taxation.

Distribution of property income by decile groups

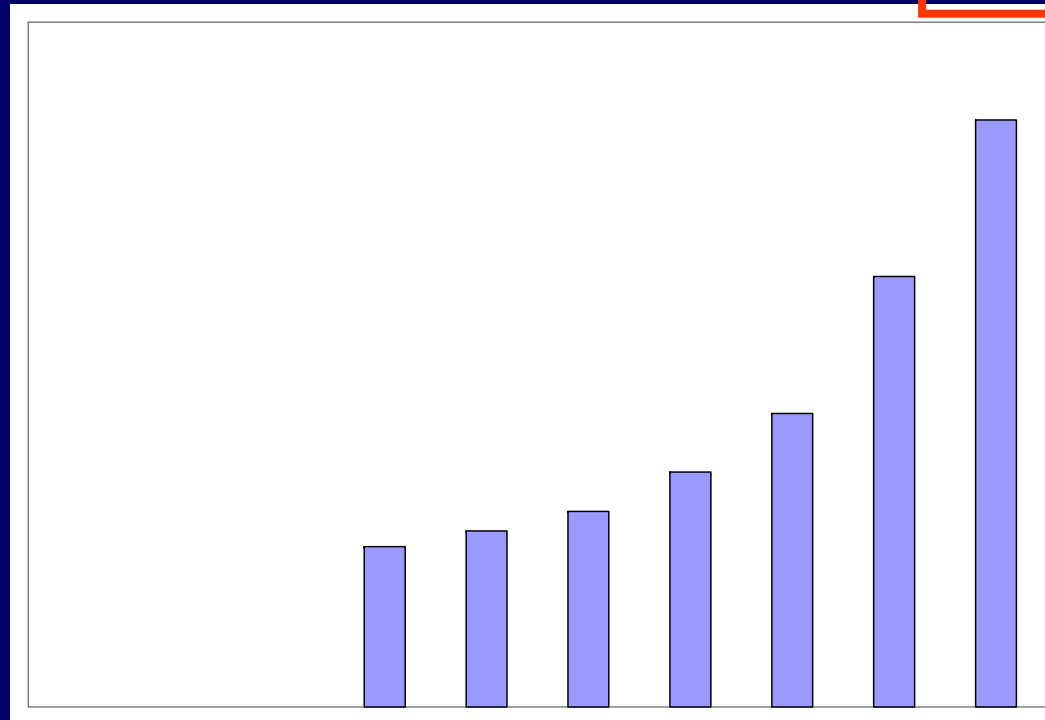


BRINGING THE COMPONENTS TOGETHER

1. FACTOR SHARES

2. RANK CORRELATION (copula)

Distribution of earned income by decile groups (of whole population)



3. INTRODUCE TAXES AND TRANSFERS

Conclusions

- The distribution of income is complex phenomenon, even before we look at wider dimensions of inequality!
- No simple letter (U or V) summary of recent developments in individual OECD countries;
- Differing experience across countries, and between income groups within countries;
- Historical evidence provides perspective, and suggests hypotheses, but cautions against extrapolation;
- Can approach modelling in different ways;
- Useful to consider individual components, and not to forget property income (although measurement problems);
- But essential to bring components together.