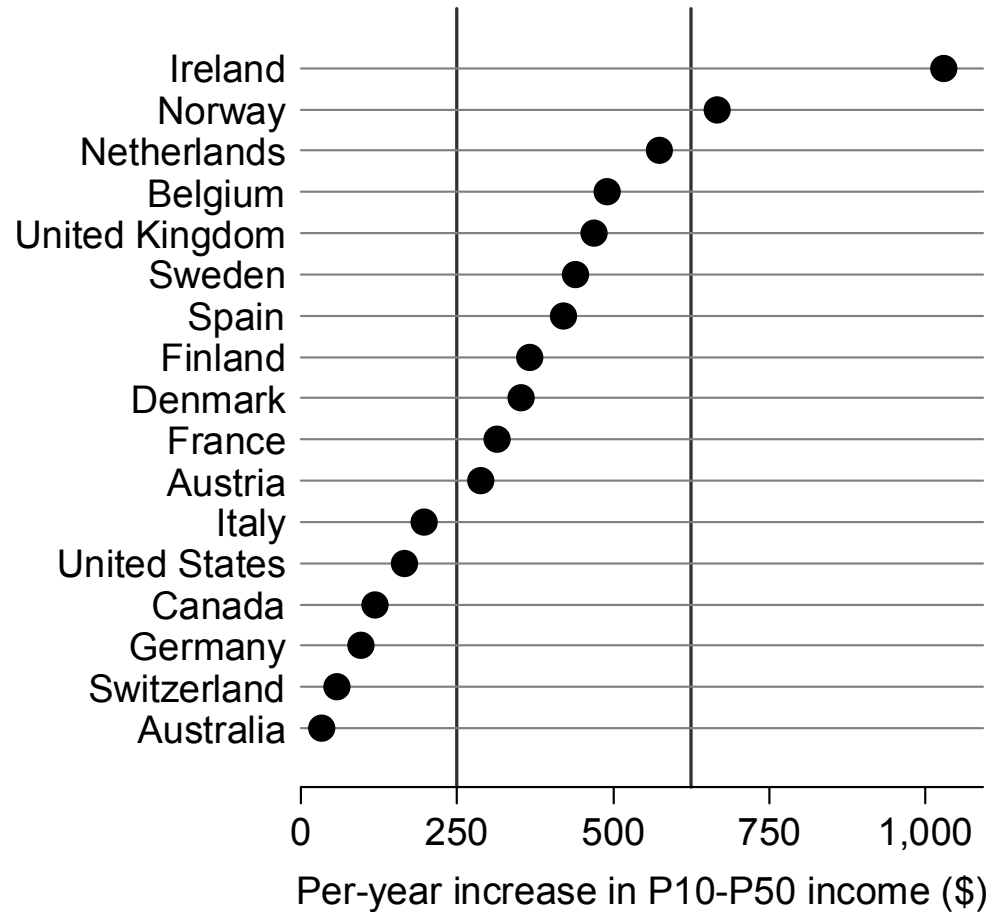


Inequality remedies

Lane Kenworthy

October 28, 2011

Growth of p10-p50 income, 1979-2005



Two components of rising income inequality

1. Soaring incomes at the top
2. Slow income growth in the bottom half

I favor doing something about #1

But I think our main concern should be #2

Slow income growth in the bottom half

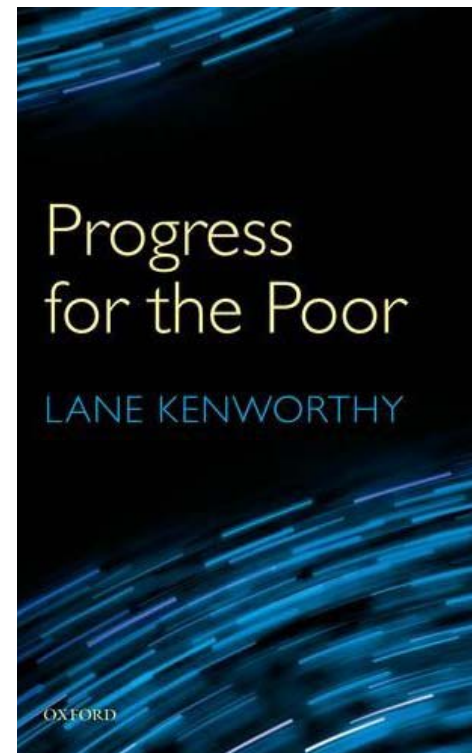
What can be done?

It would help to know why some countries have done better than others in recent decades

Slow income growth in the bottom half

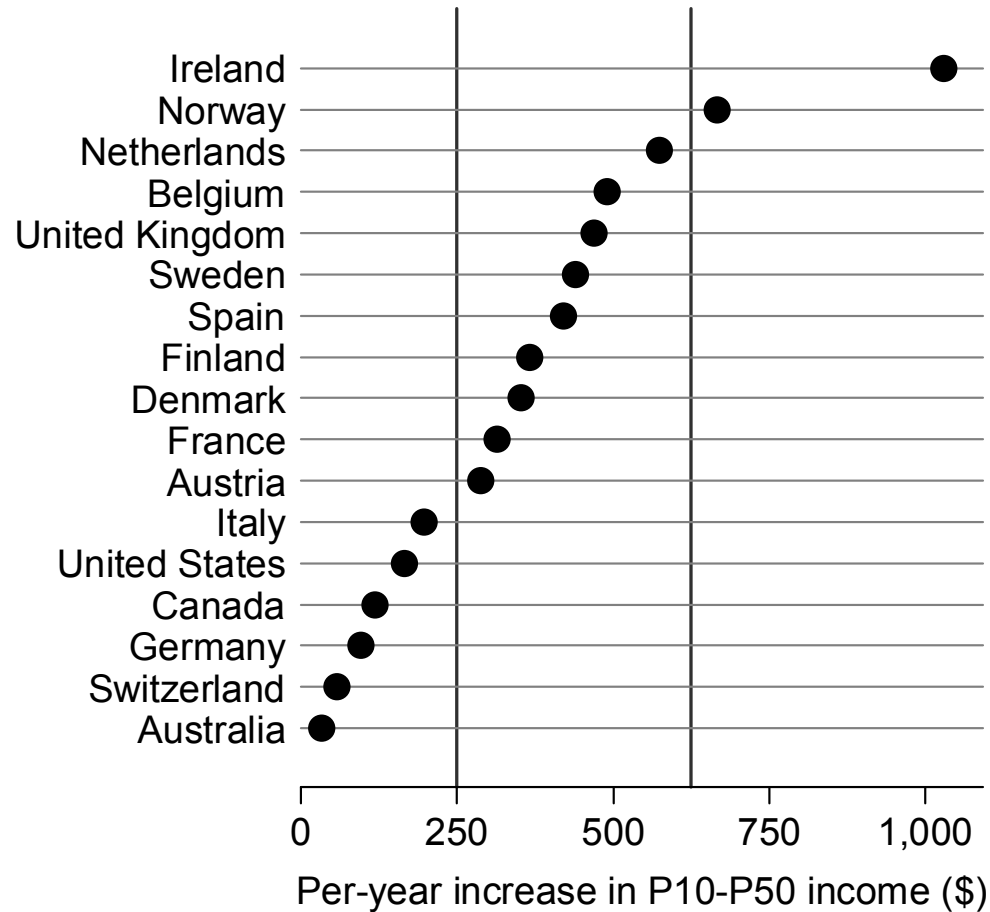
I'll focus here on households between p10 and p50

In a recent book I look at the bottom 10%



**Why have p10-p50 incomes
risen more in some
countries than in others?**

Growth of p10-p50 income, 1979-2005

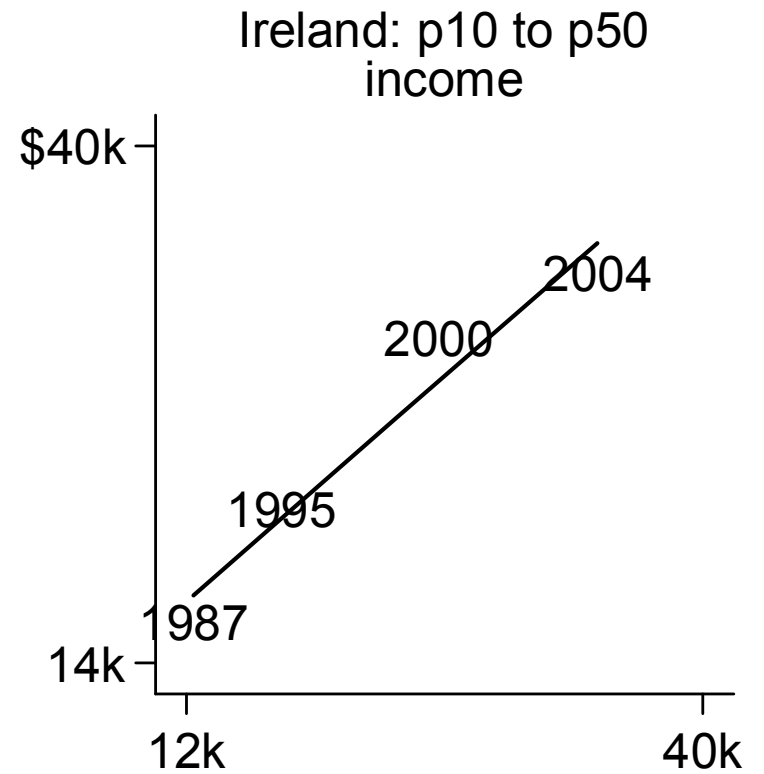
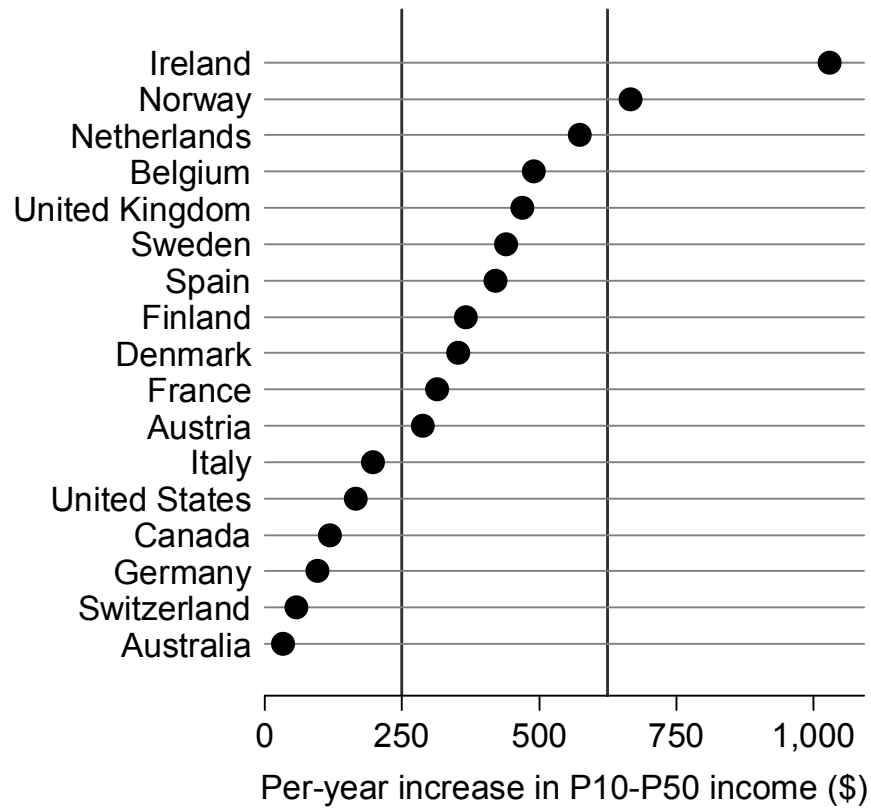


Growth of p10-p50 incomes, 1979-2005

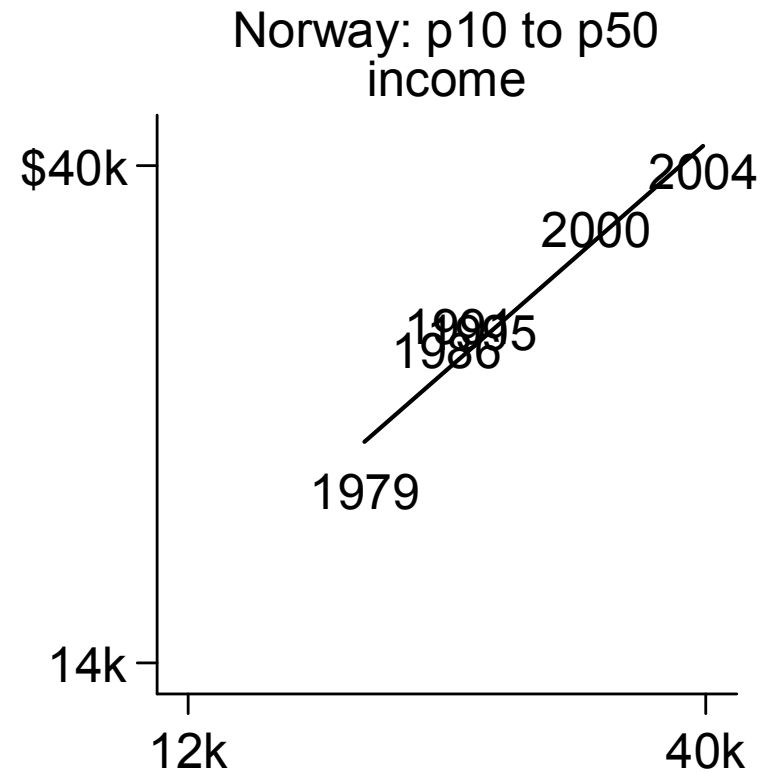
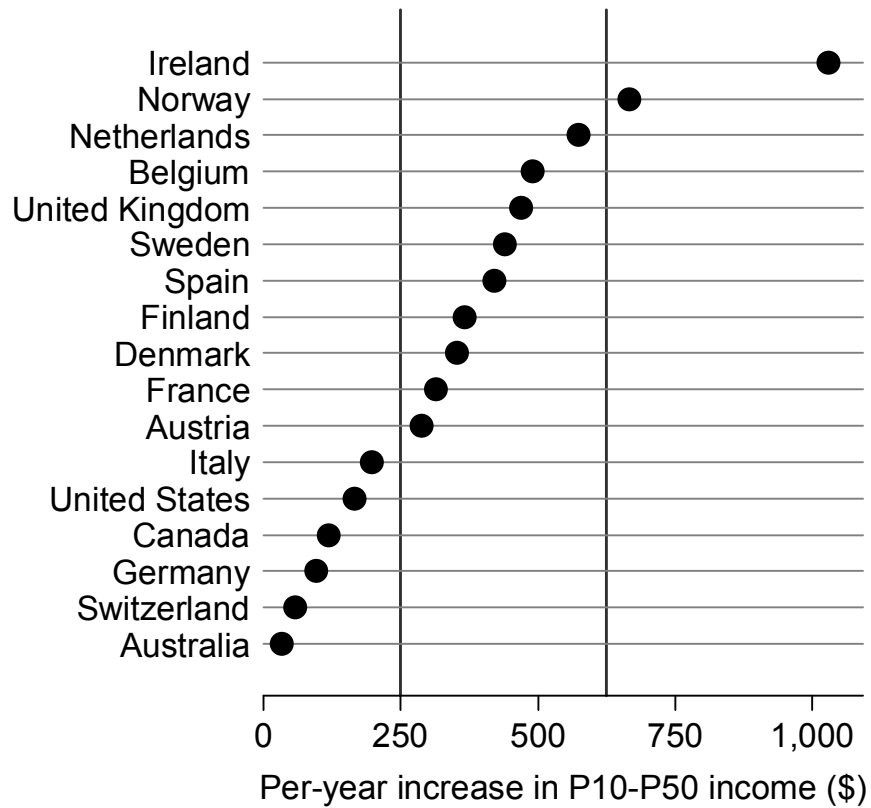
The variation across the countries owes partly to differences in the amount of economic growth

But if we exclude Ireland and Norway (special cases), about two-thirds of the variation stems from ***the degree to which economic growth reaches lower-middle households***

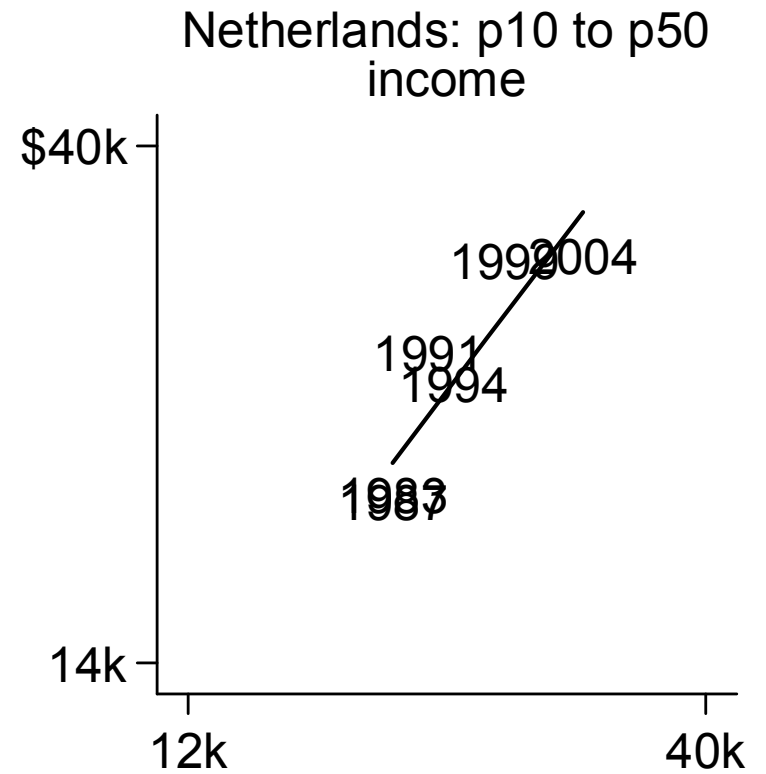
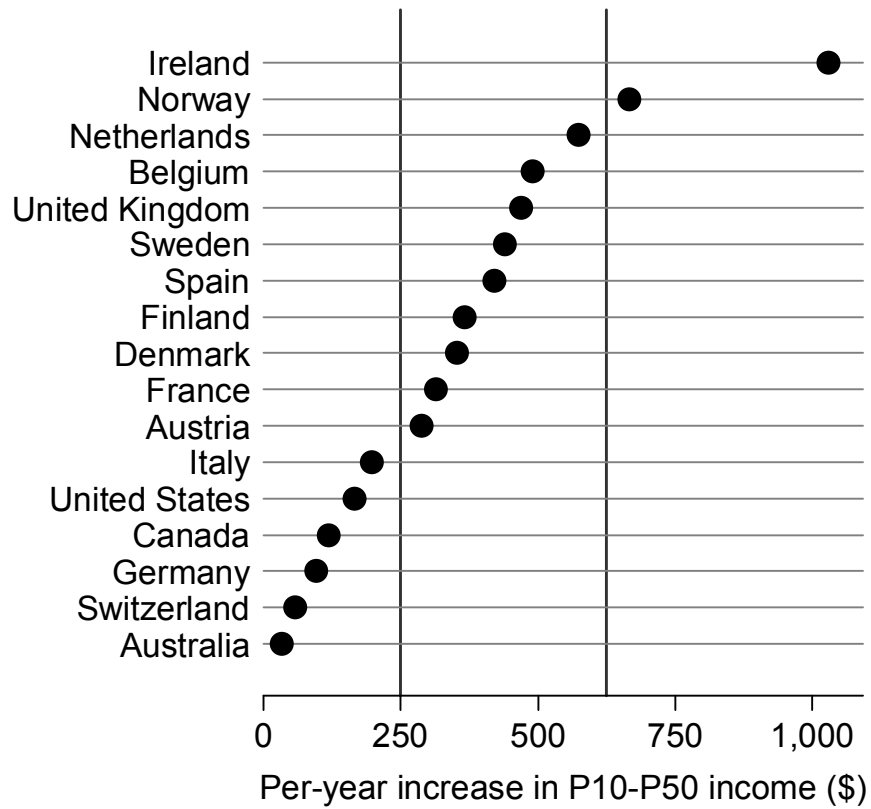
1. Ireland



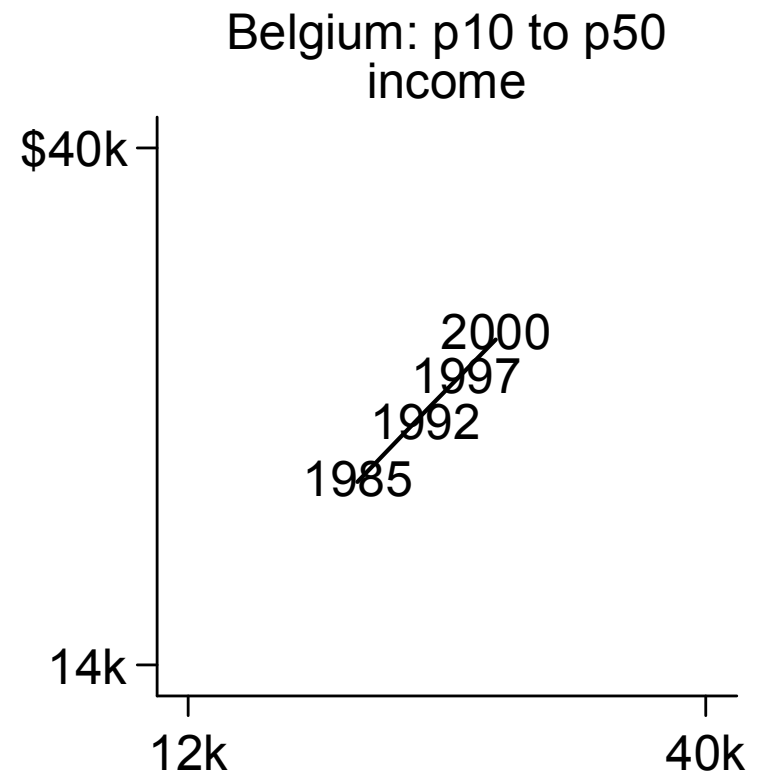
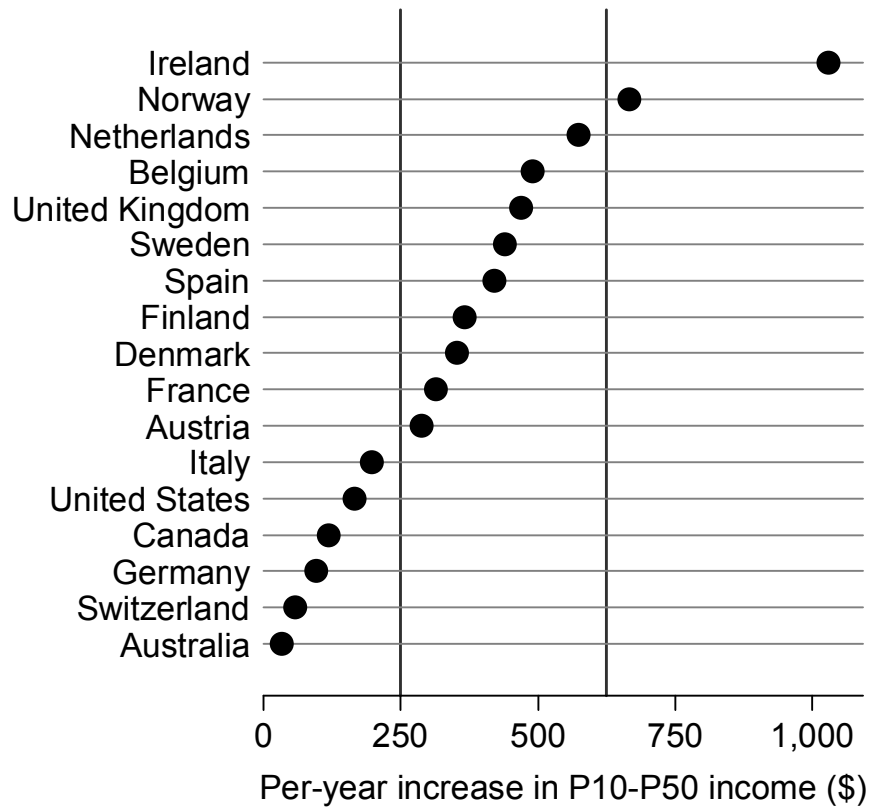
2. Norway



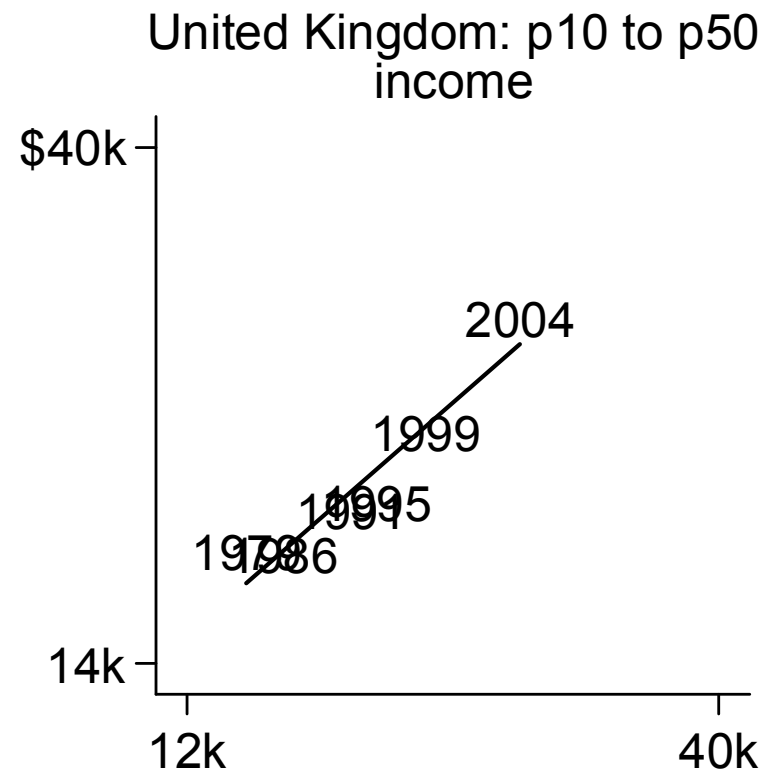
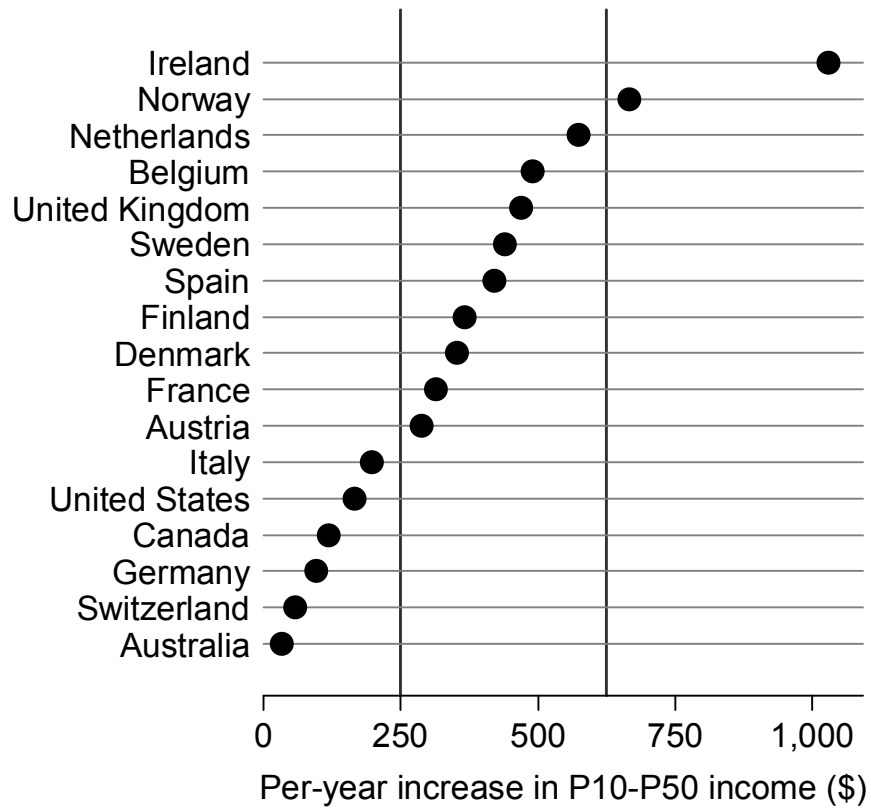
3. Netherlands



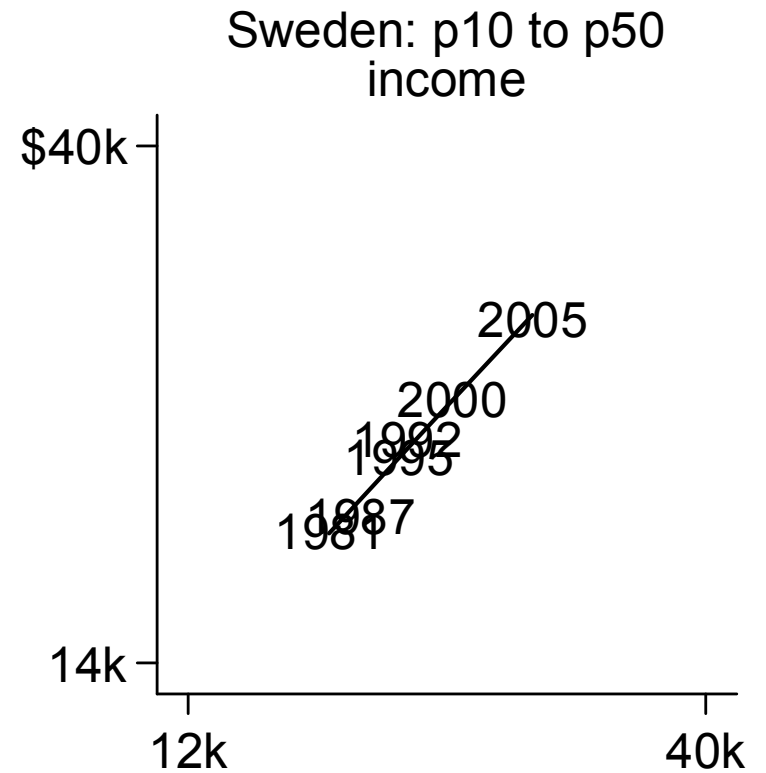
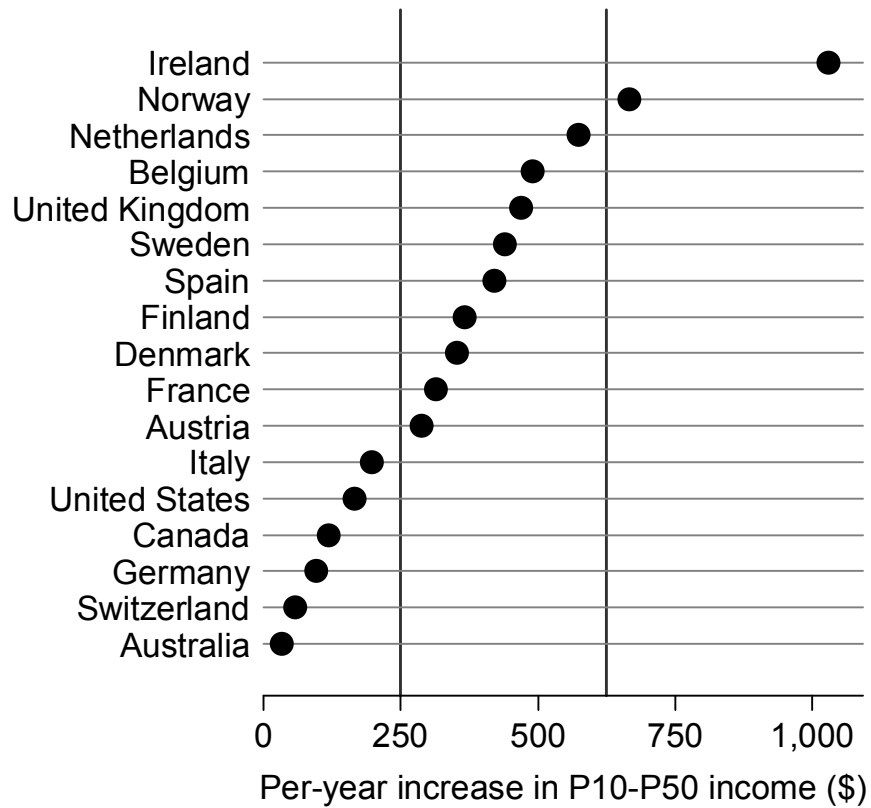
4. Belgium



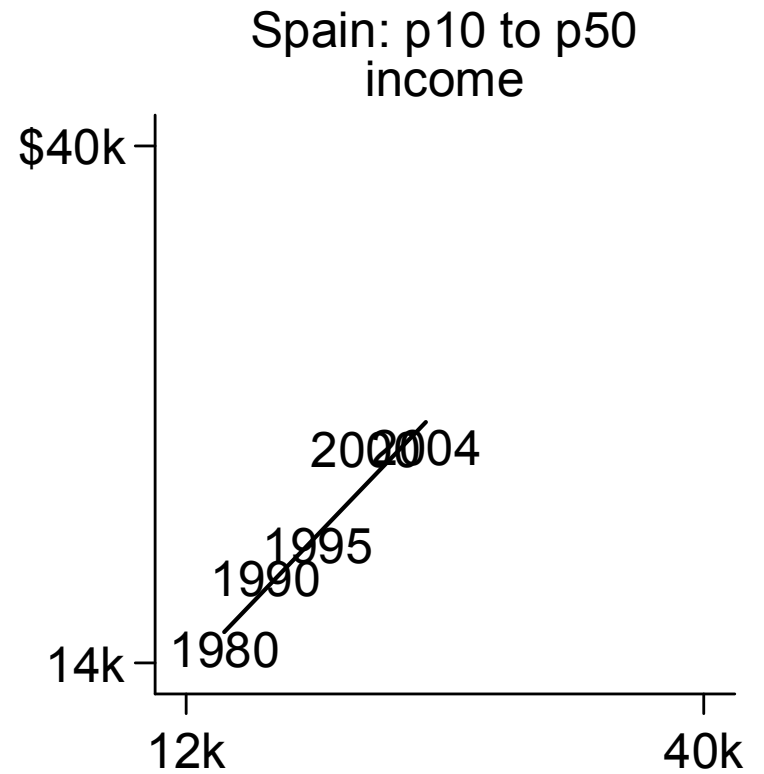
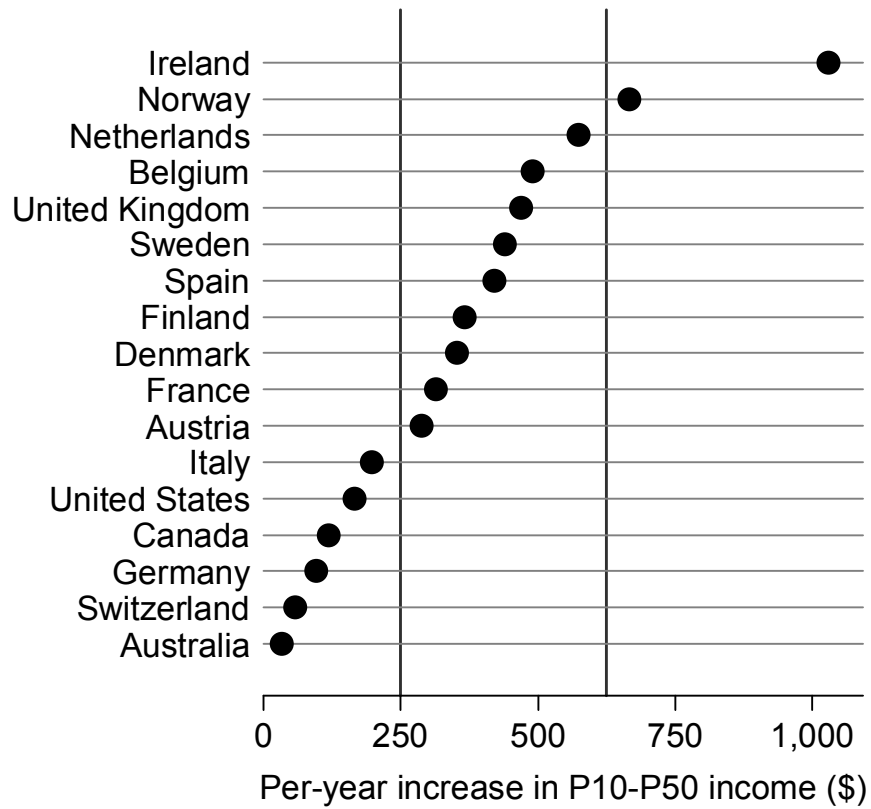
5. United Kingdom



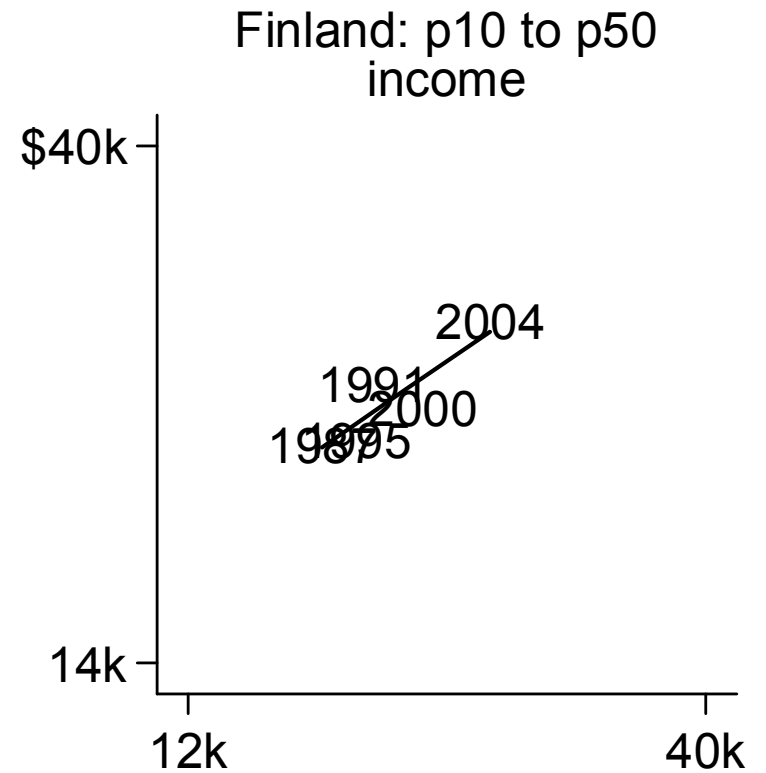
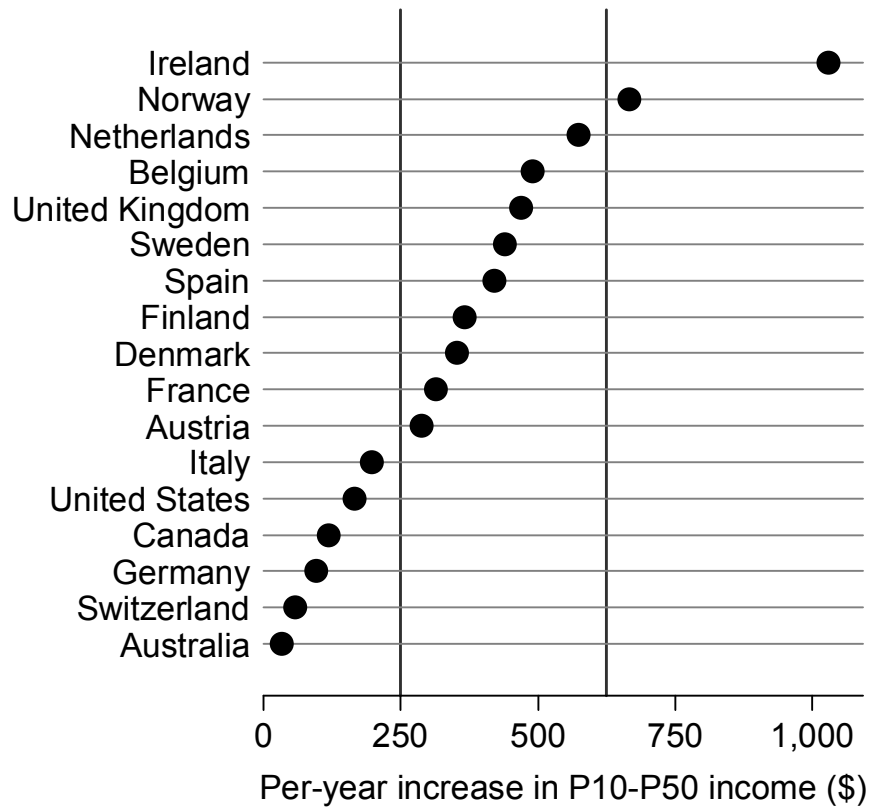
6. Sweden



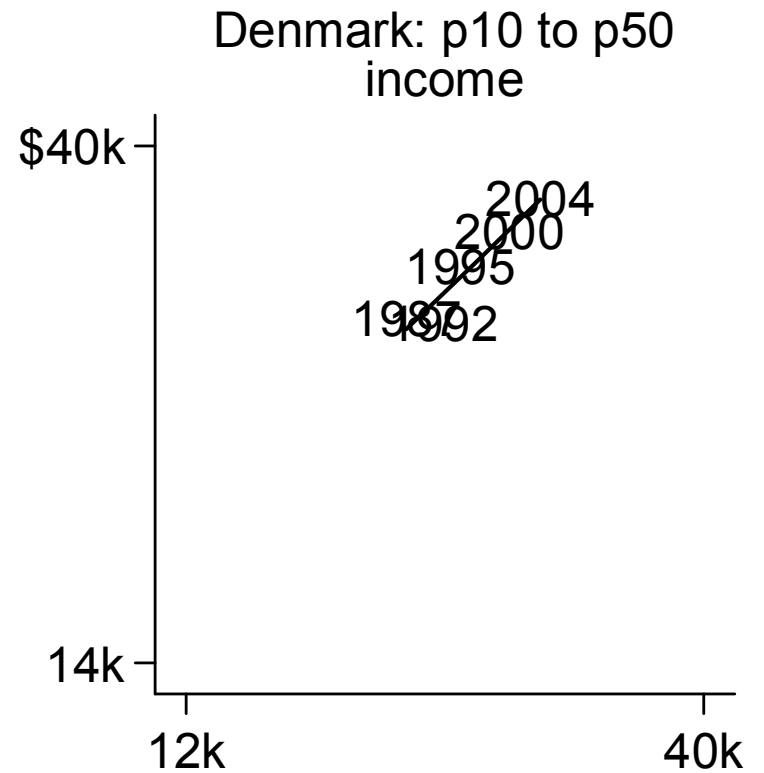
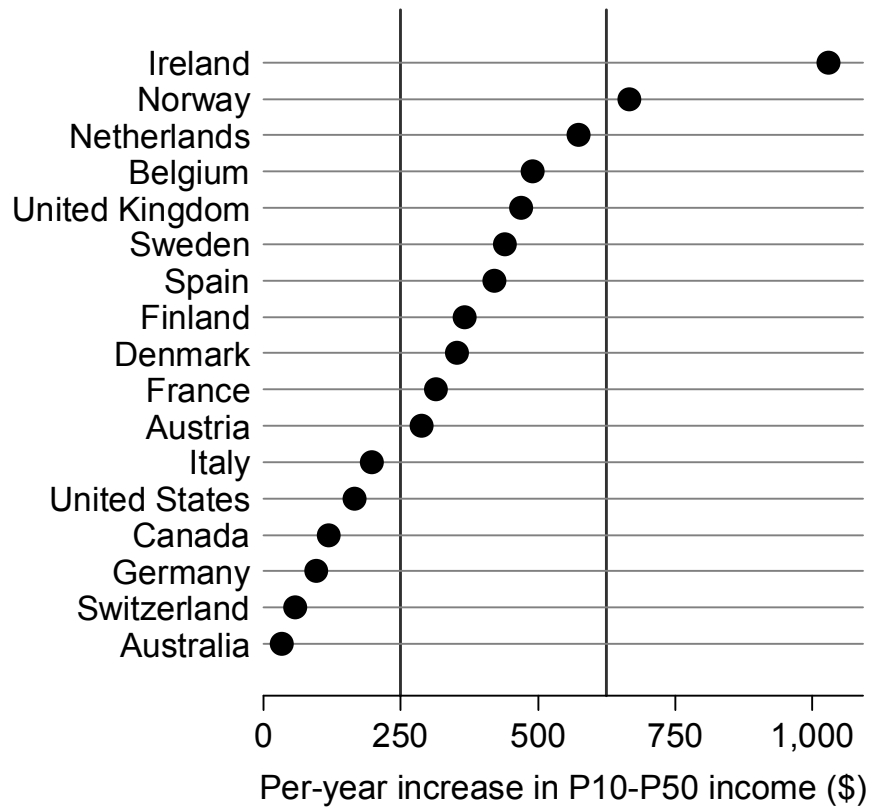
7. Spain



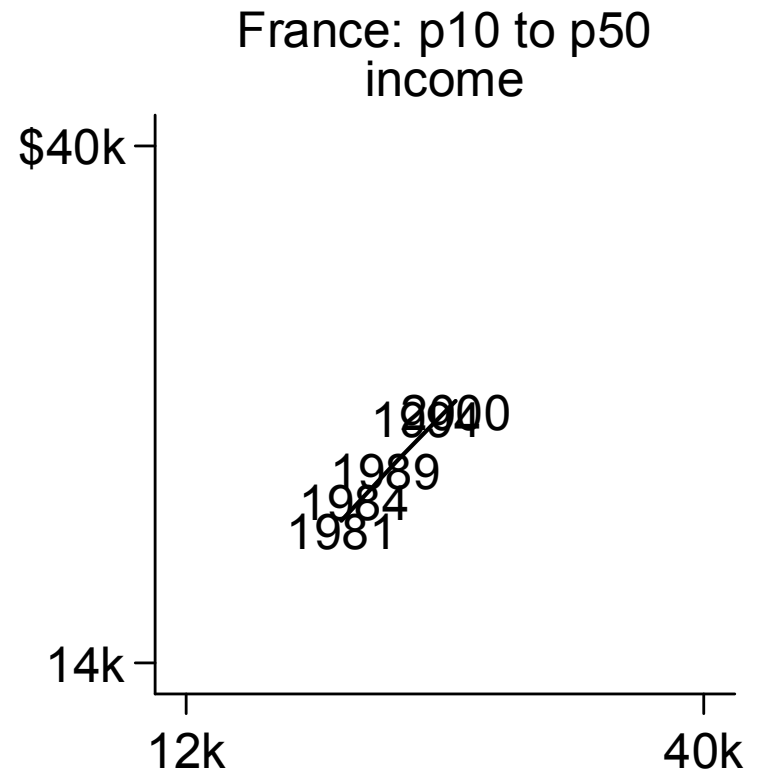
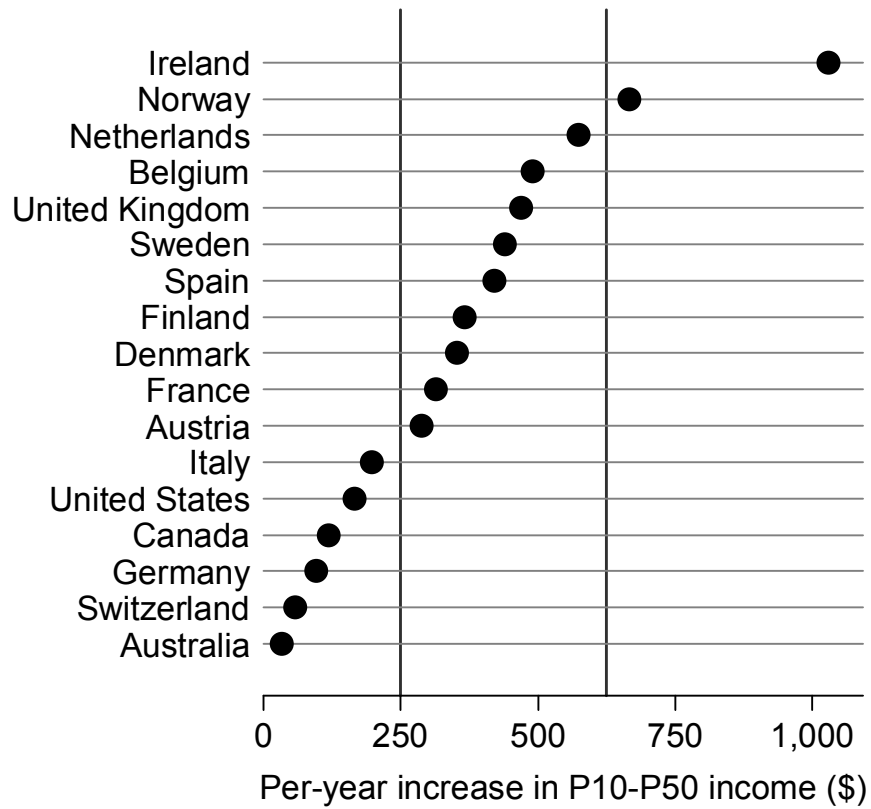
8. Finland



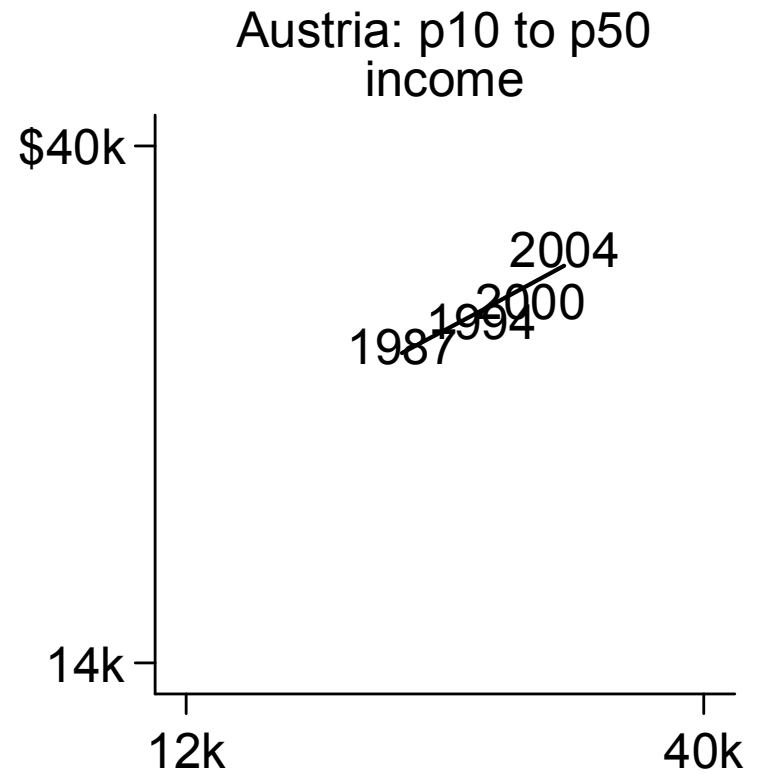
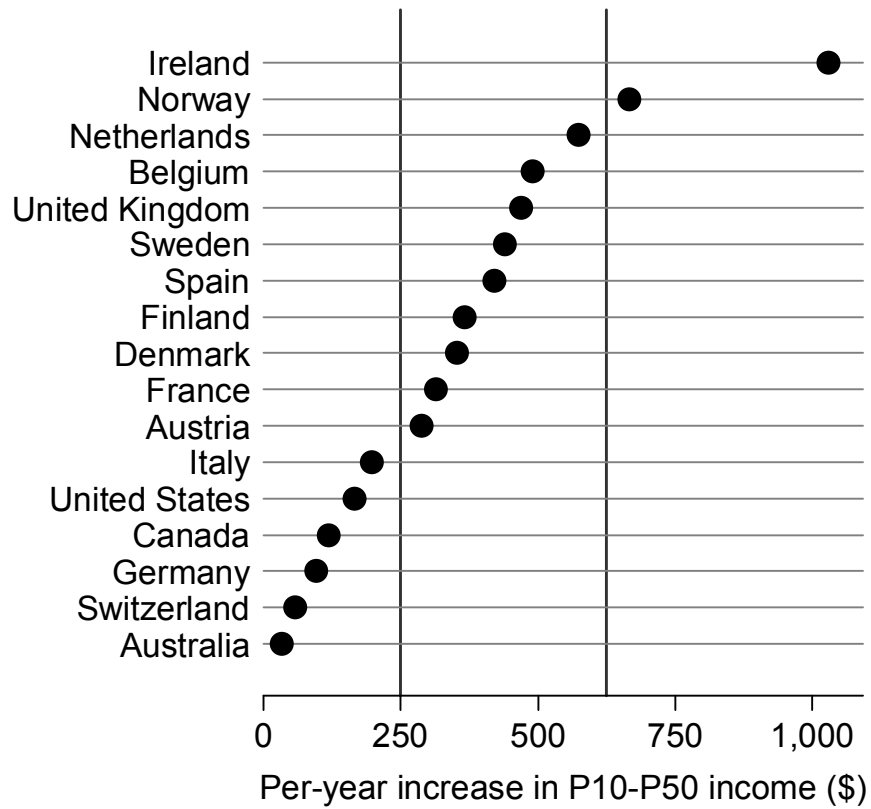
9. Denmark



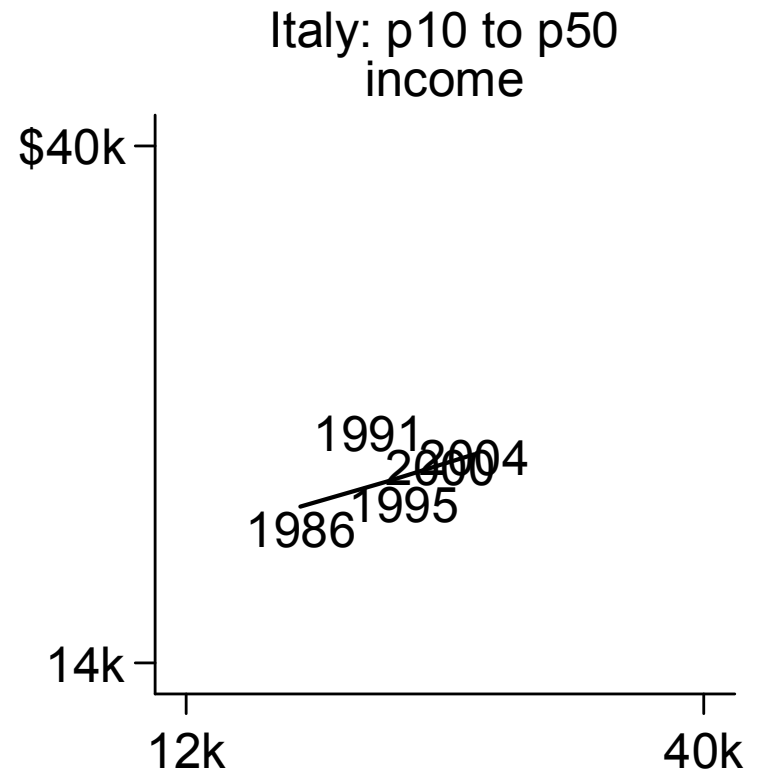
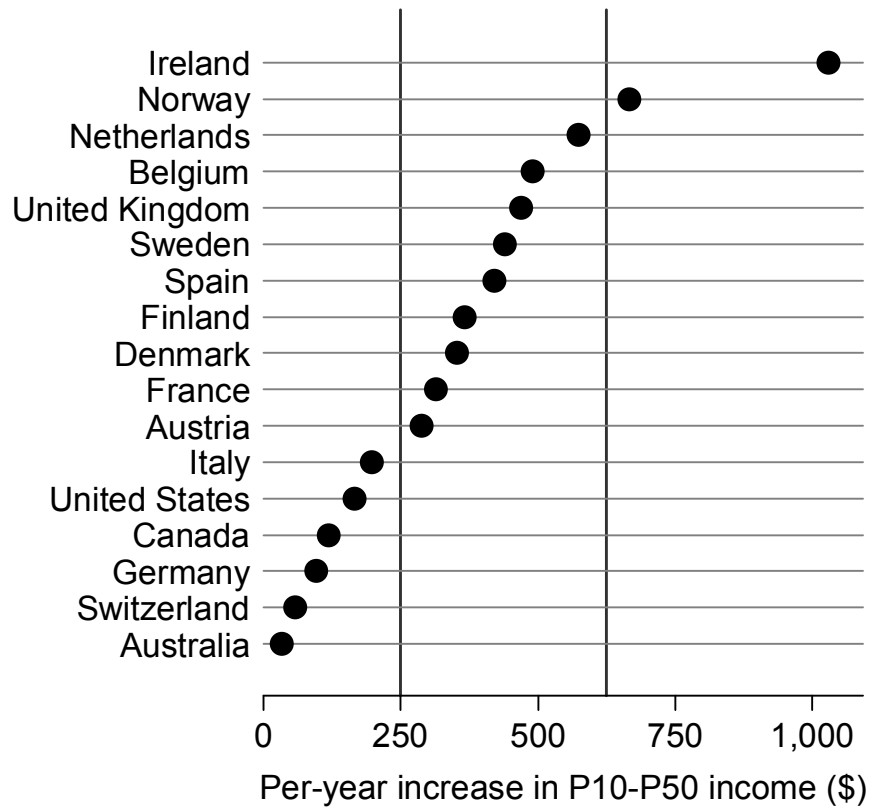
10. France



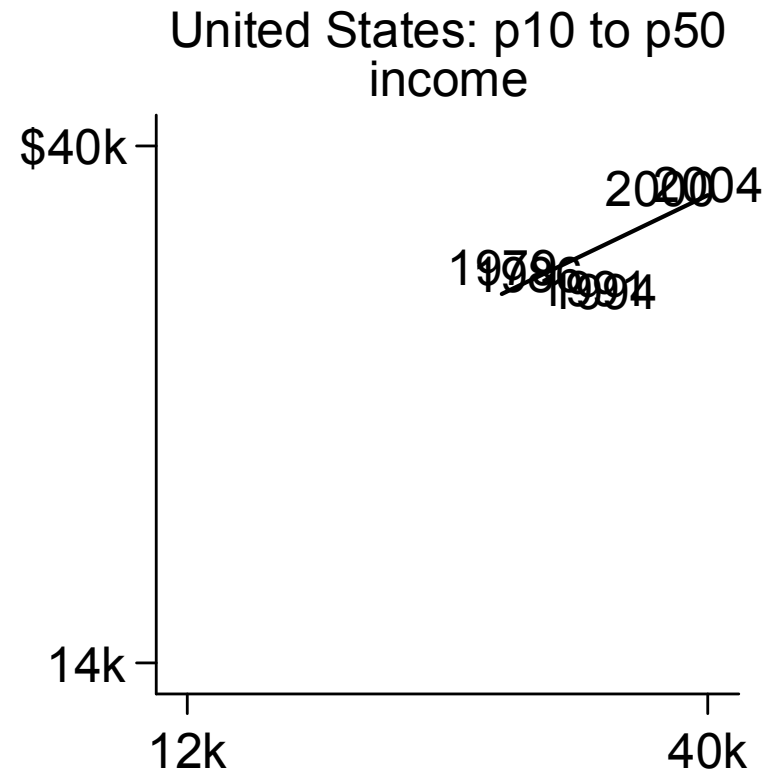
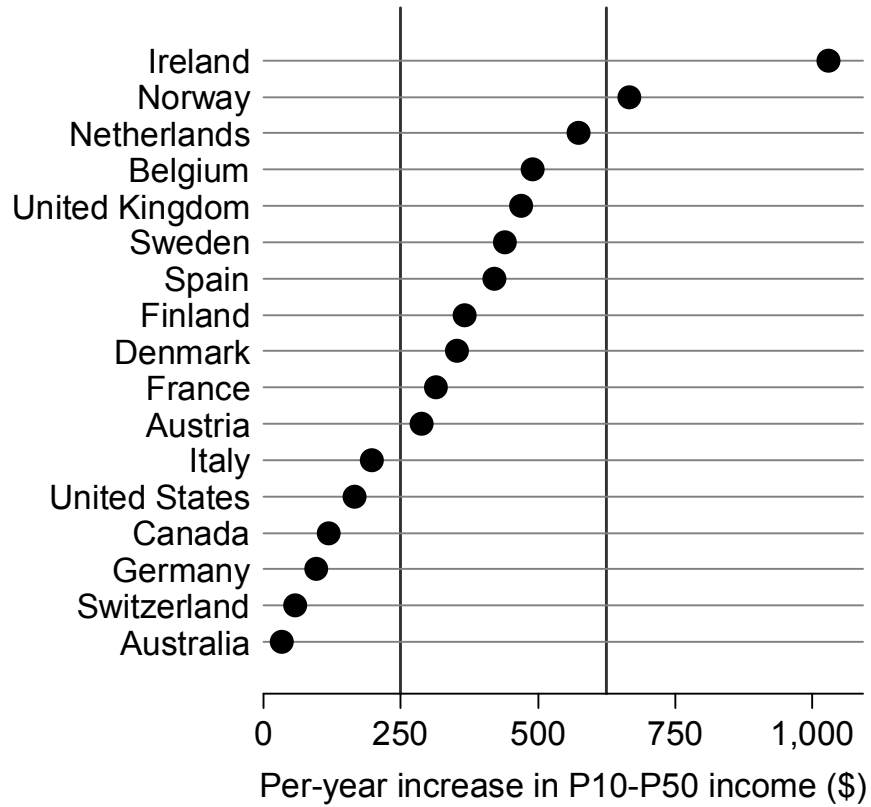
11. Austria



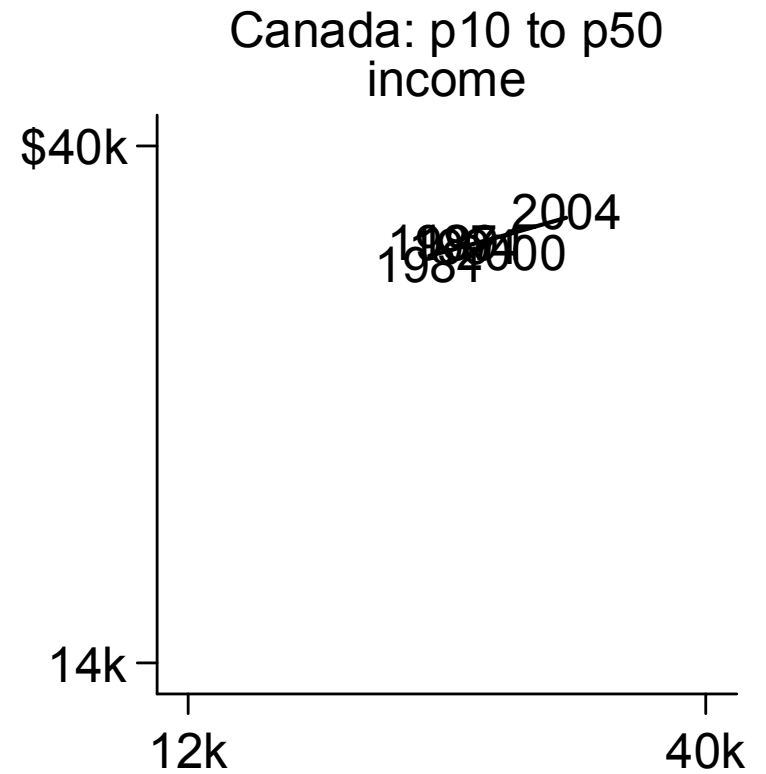
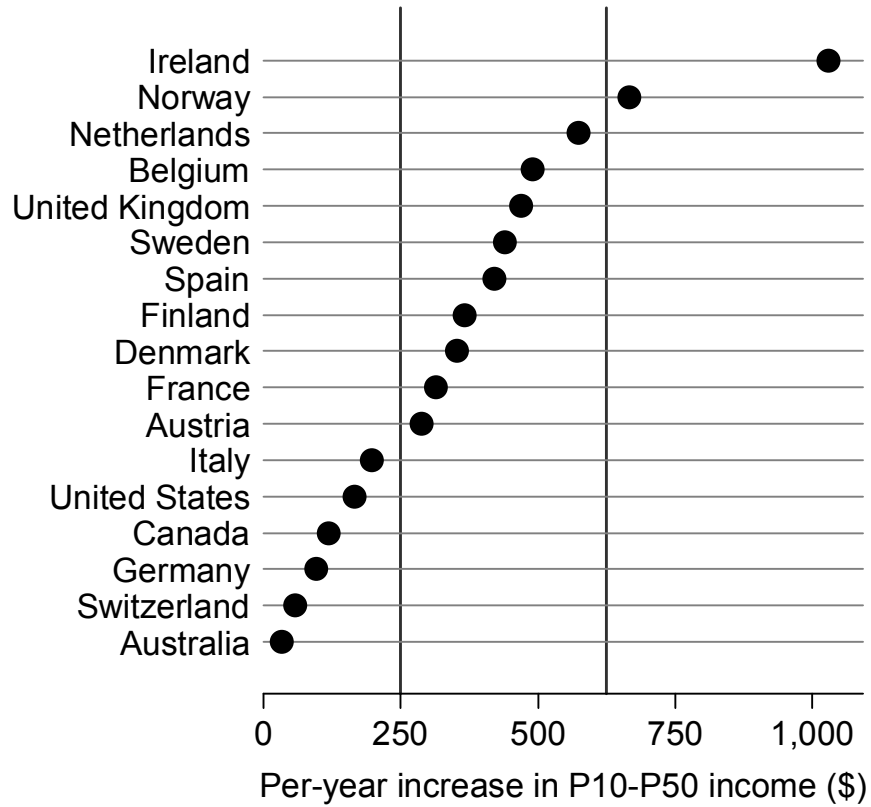
12. Italy



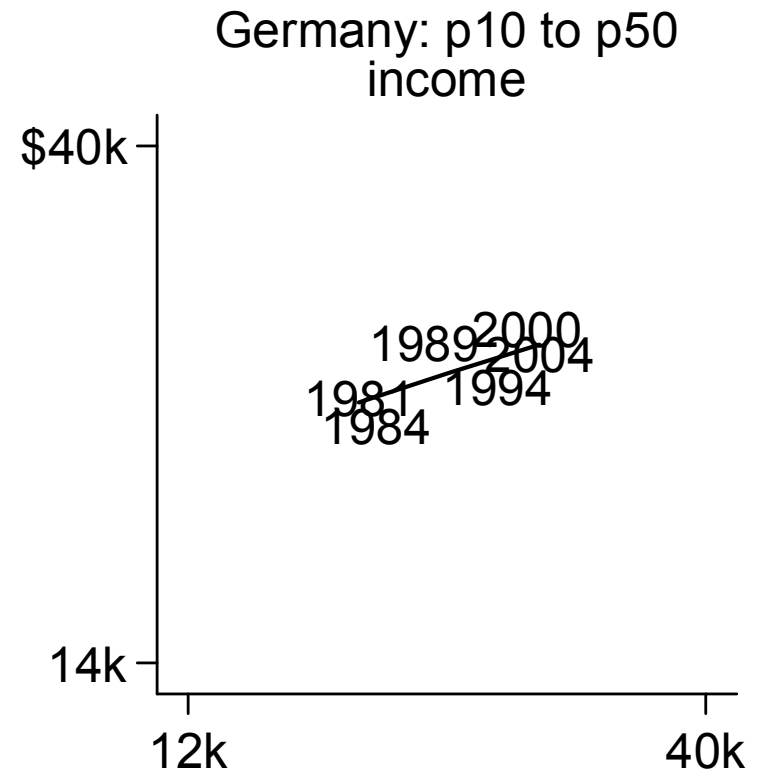
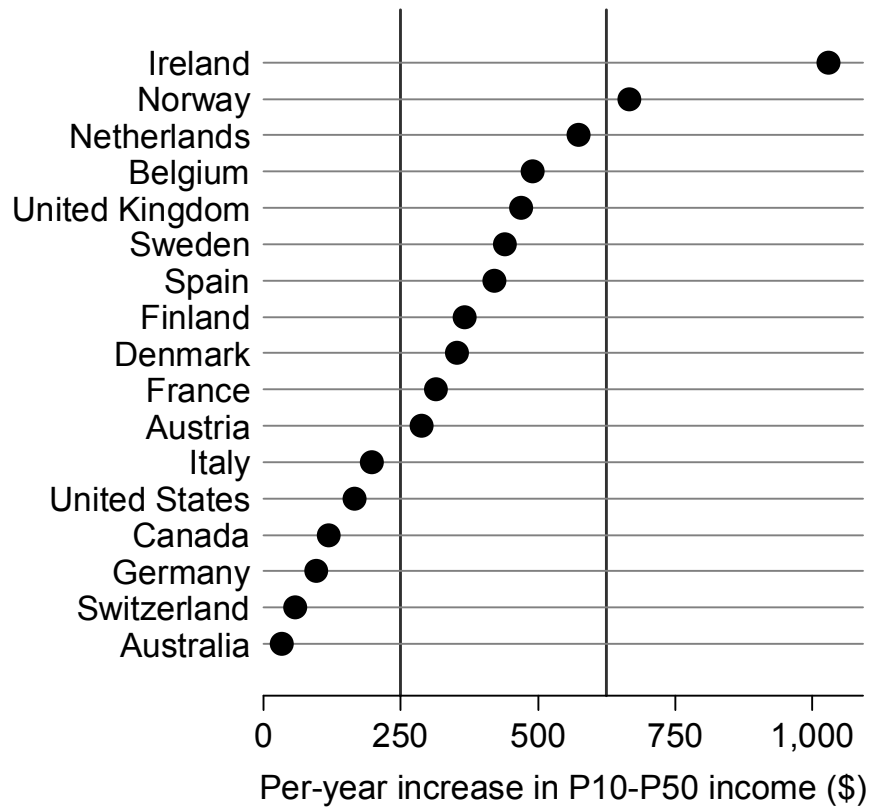
13. United States



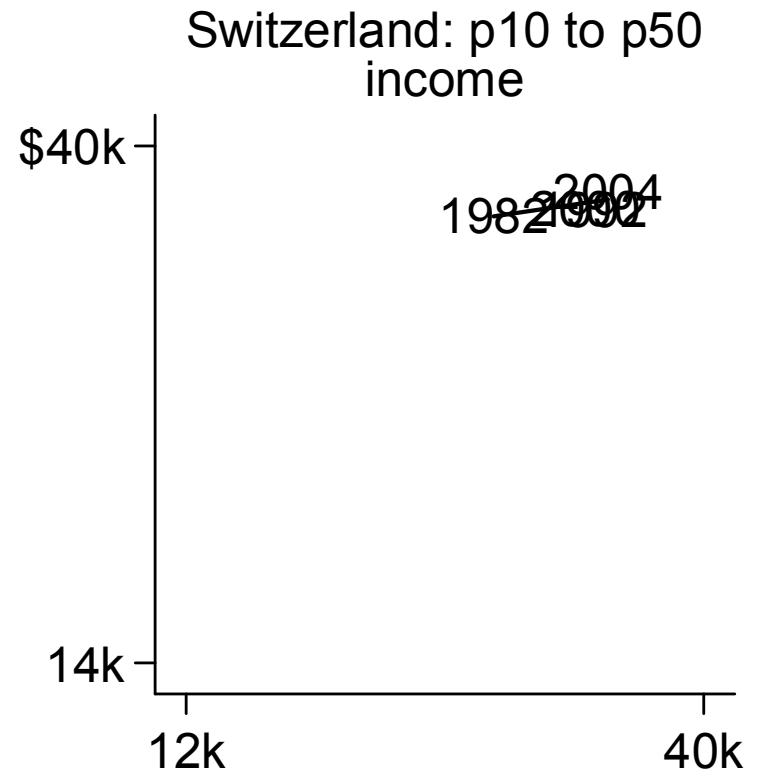
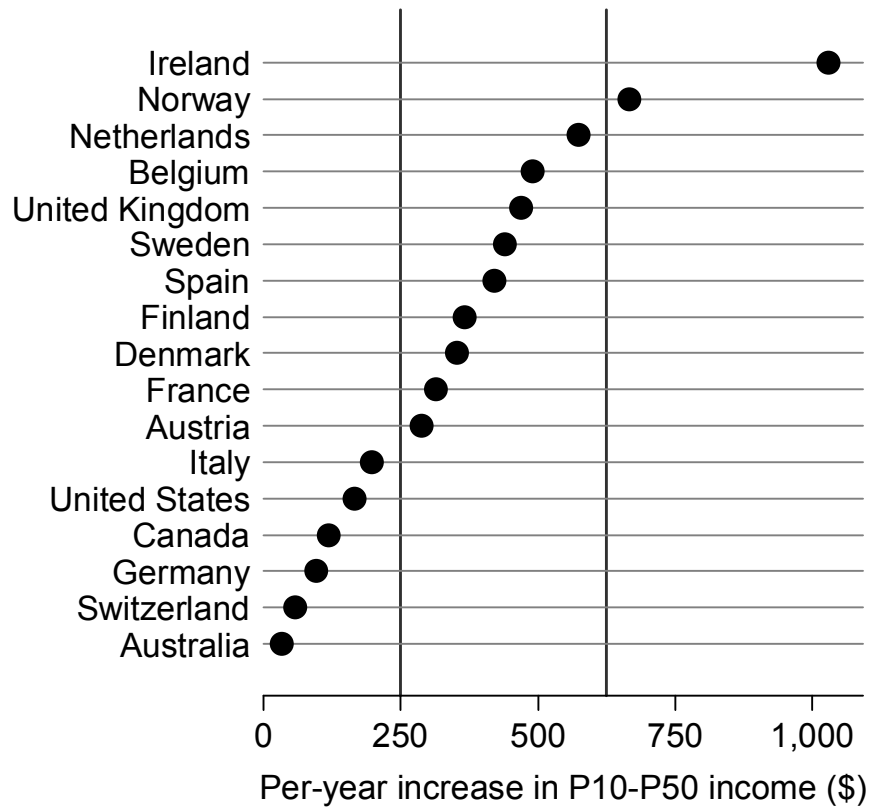
14. Canada



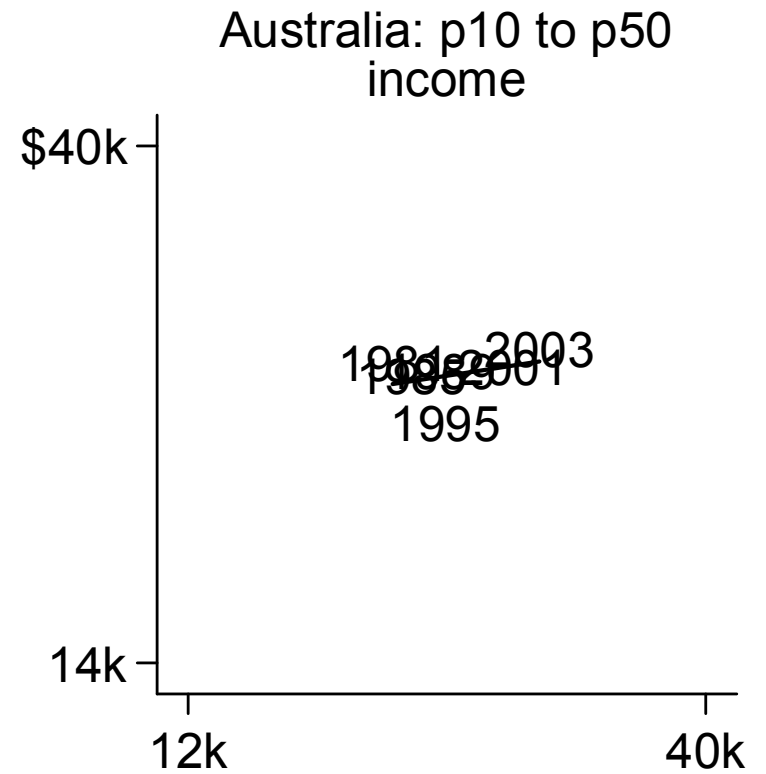
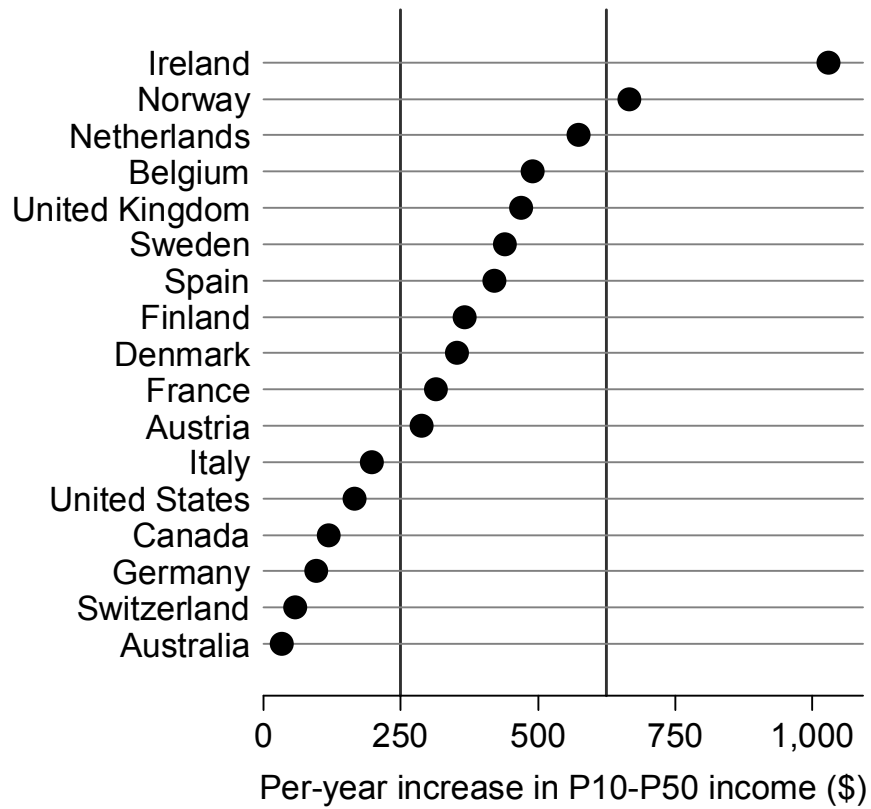
15. Germany



16. Switzerland



17. Australia



Differences in economic growth's payoff

What accounts for the cross-country variation in the degree to which economic growth boosts lower-middle household incomes?

Differences in economic growth's payoff

To get rising household incomes, we need increases in

Earnings

and/or

Net government transfers (transfers minus taxes)

For 12 of these 17 countries, it's possible to separate earnings from net government transfers

I also separate p10-p25 households from p25-p50 households

Differences in economic growth's payoff

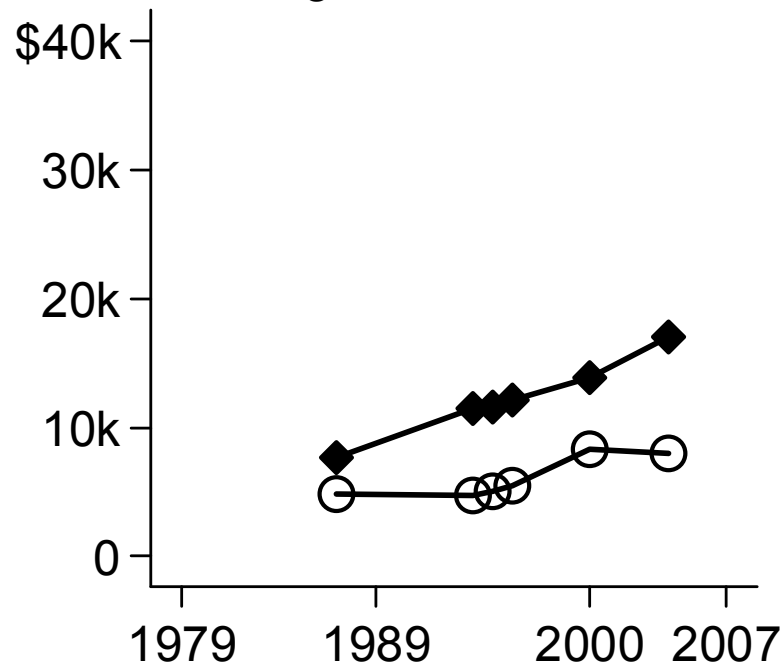
The keys to success have been

p10-p25 households: government transfers

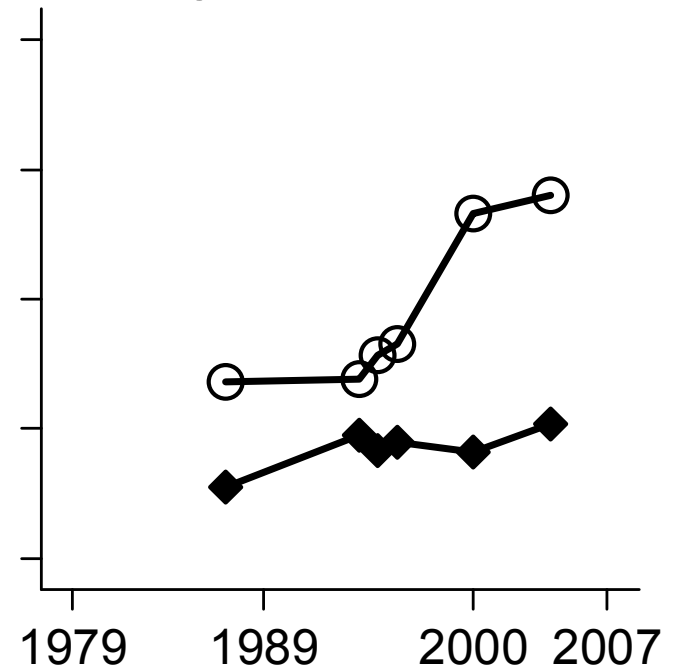
p25-p50 households: earnings

1. Ireland

Ireland: p10 to p25 earnings and net transfers

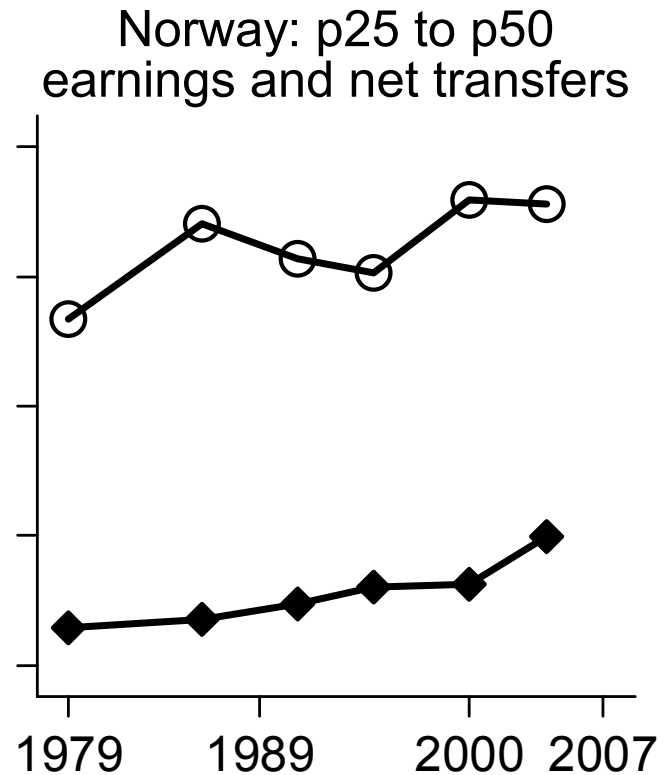
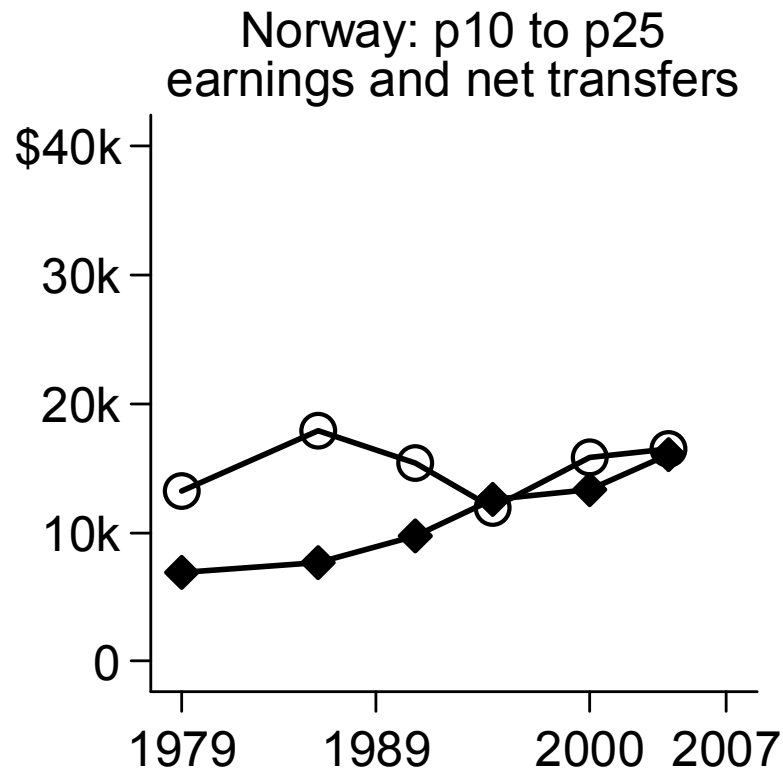


Ireland: p25 to p50 earnings and net transfers



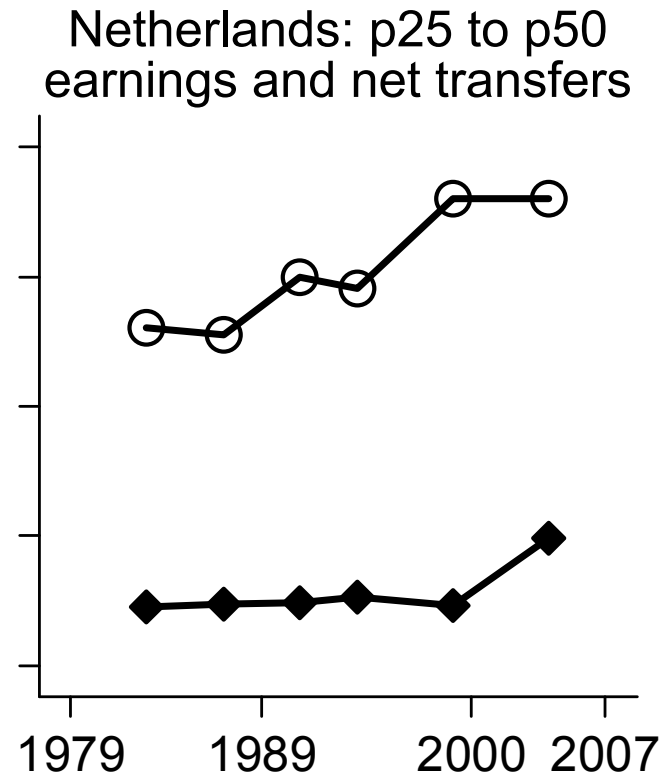
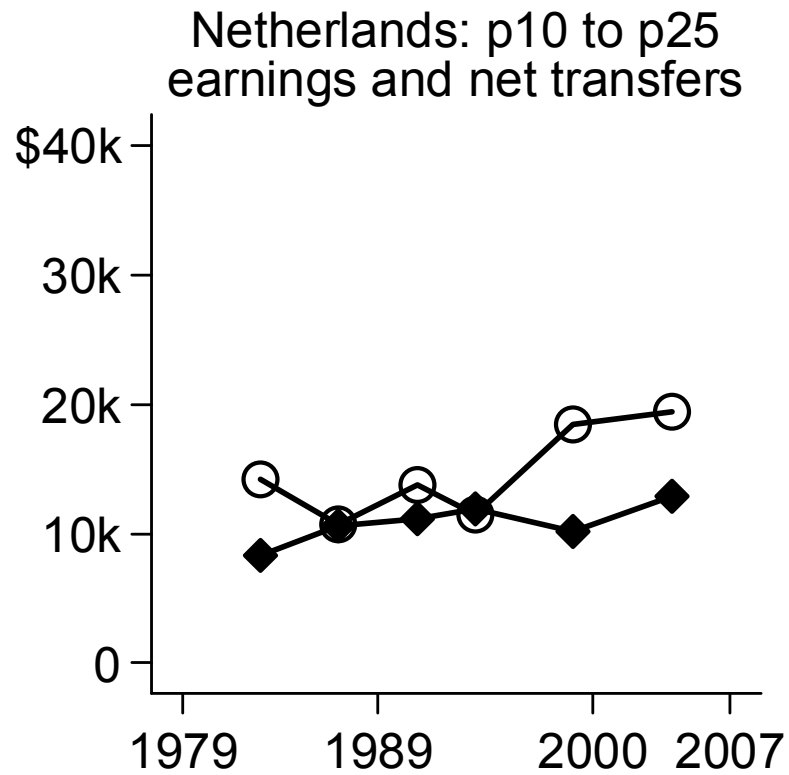
○ earnings ◆ net government transfers

2. Norway



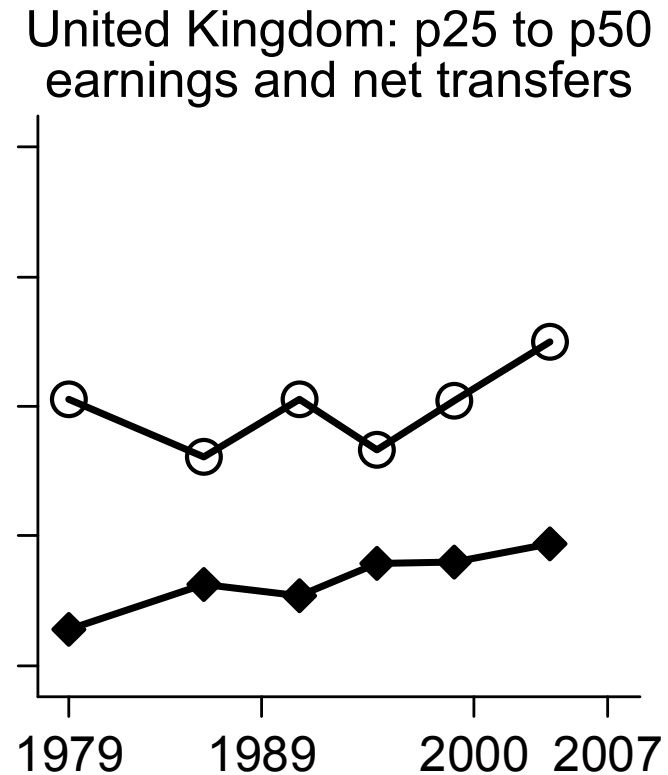
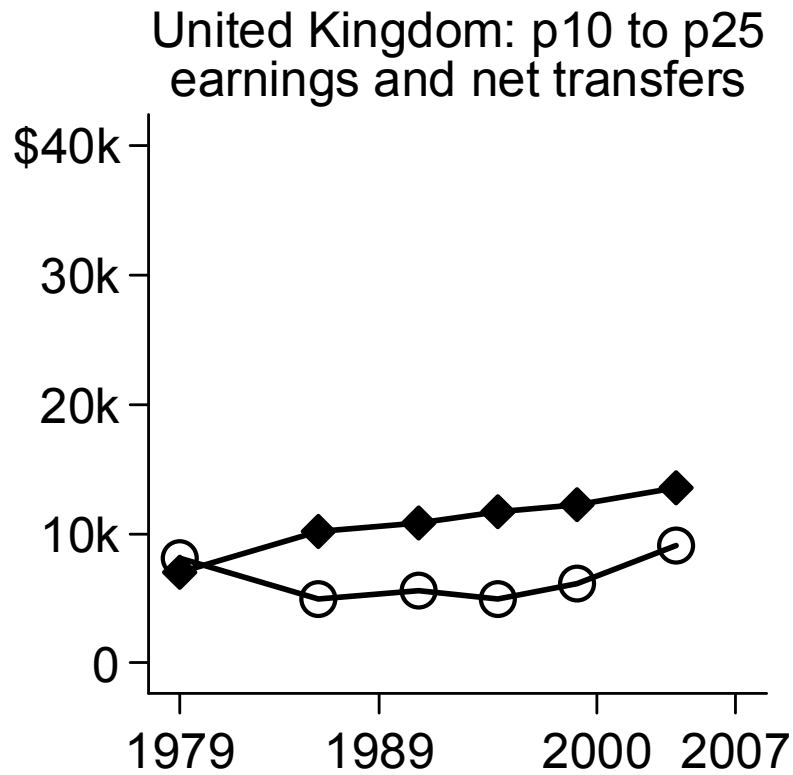
○ earnings ◆ net government transfers

3. Netherlands



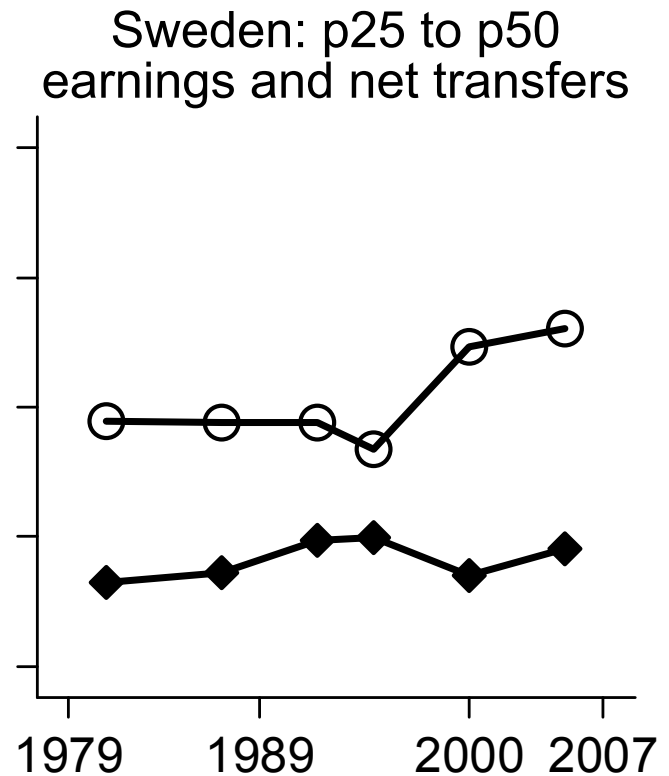
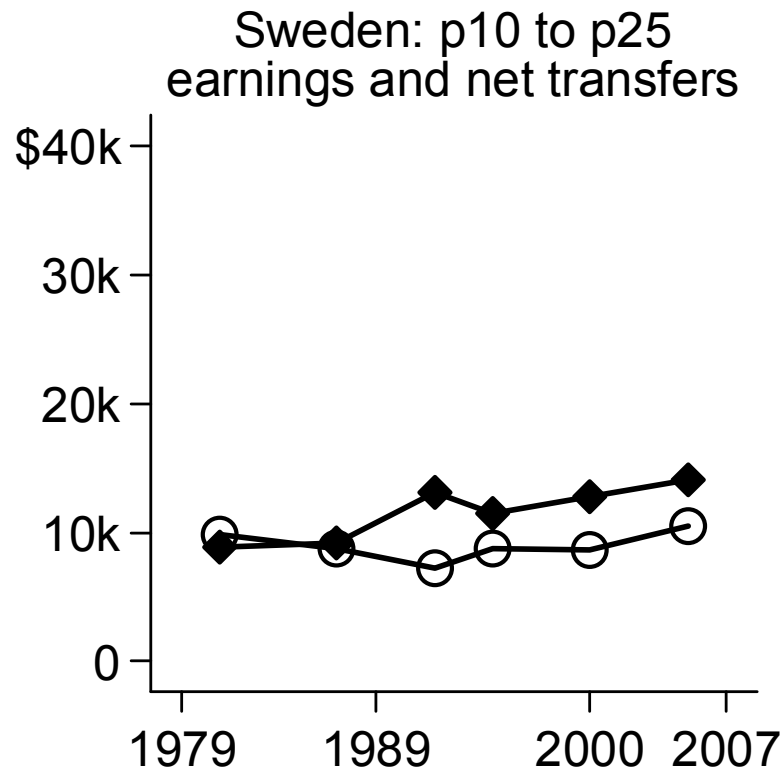
○ earnings ◆ net government transfers

5. United Kingdom



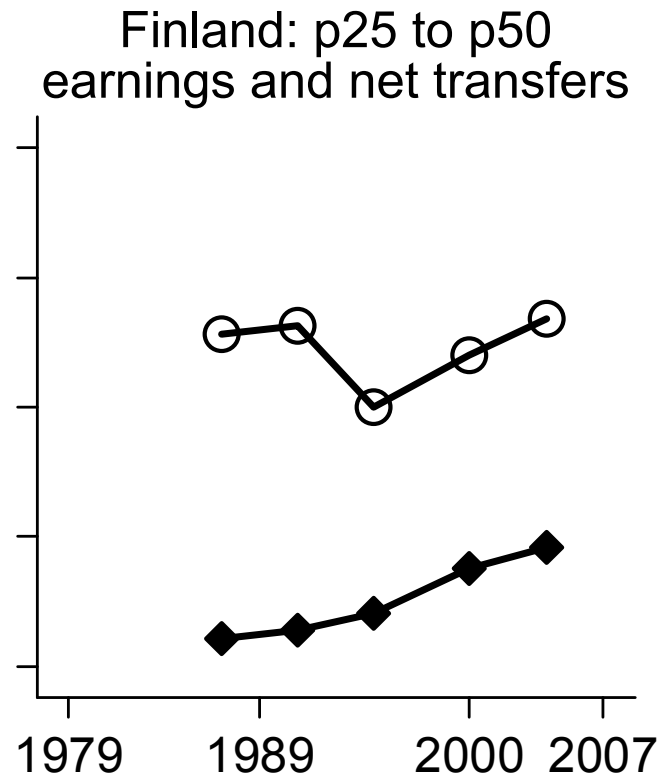
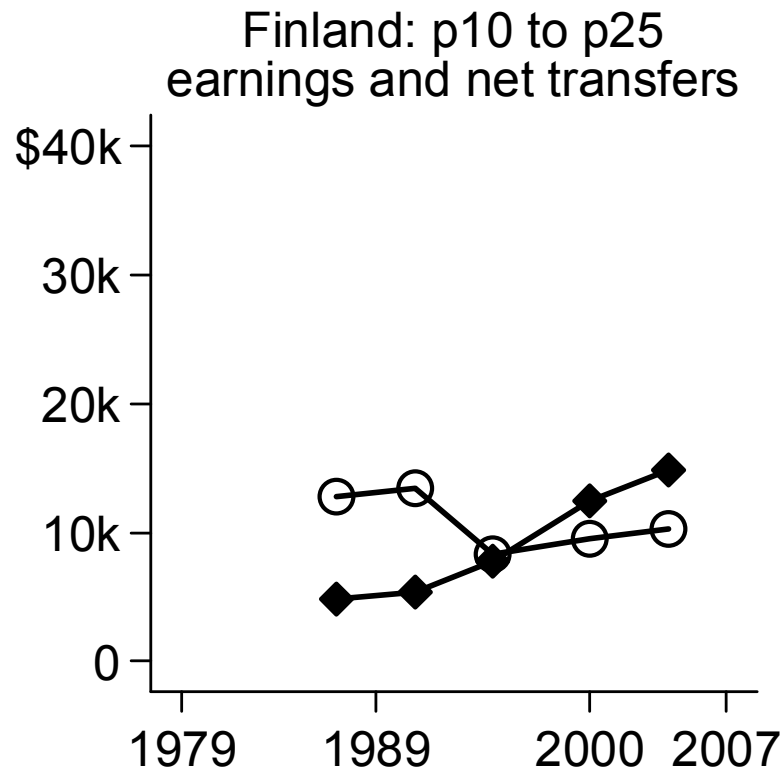
○ earnings ◆ net government transfers

6. Sweden



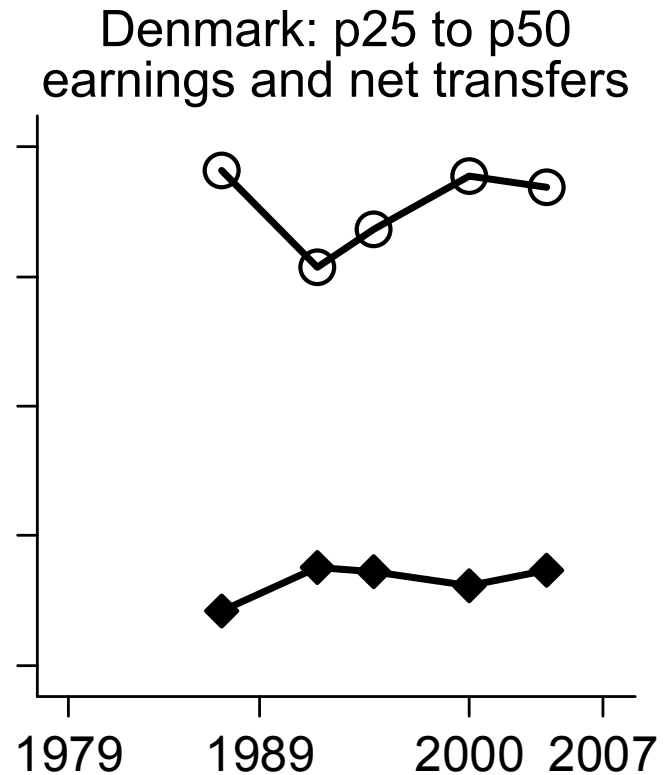
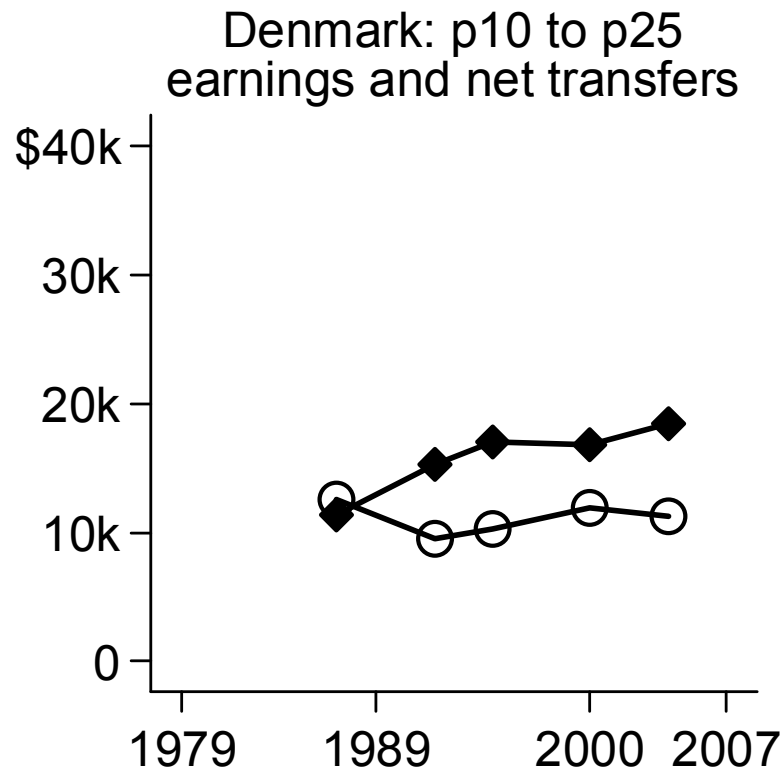
○ earnings ◆ net government transfers

8. Finland



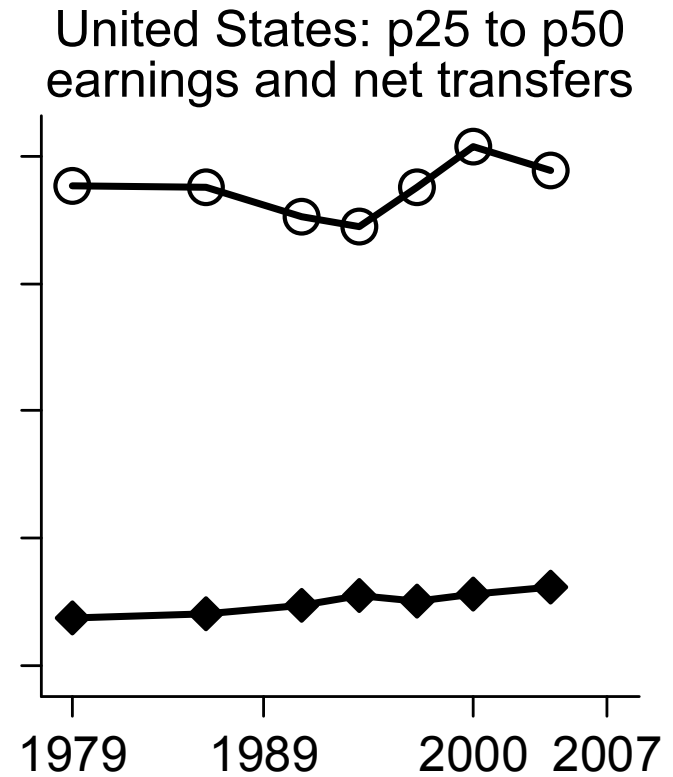
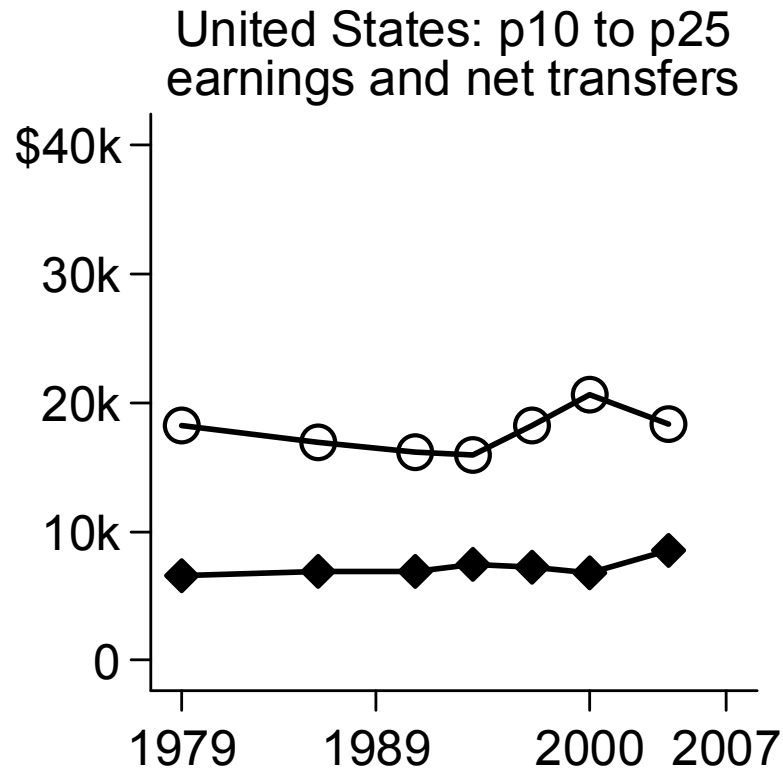
○ earnings ◆ net government transfers

9. Denmark



○ earnings ◆ net government transfers

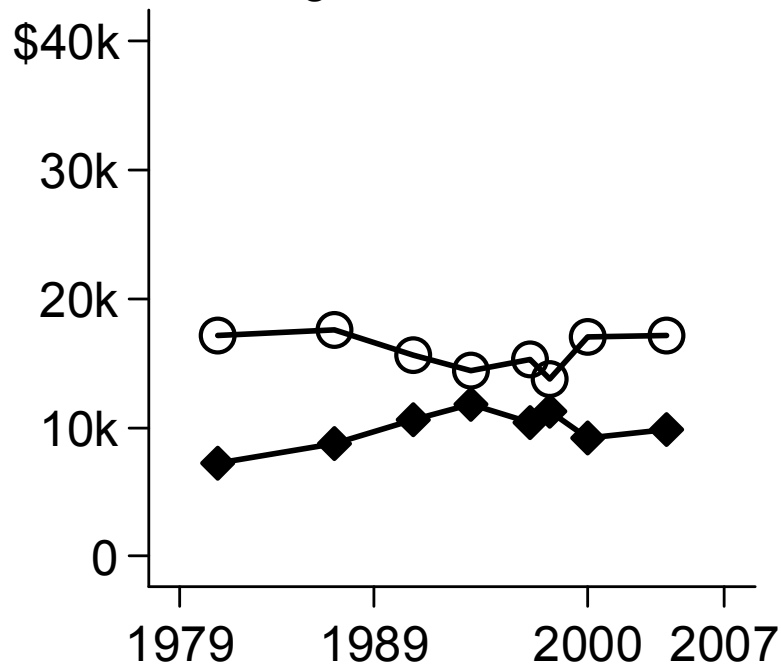
13. United States



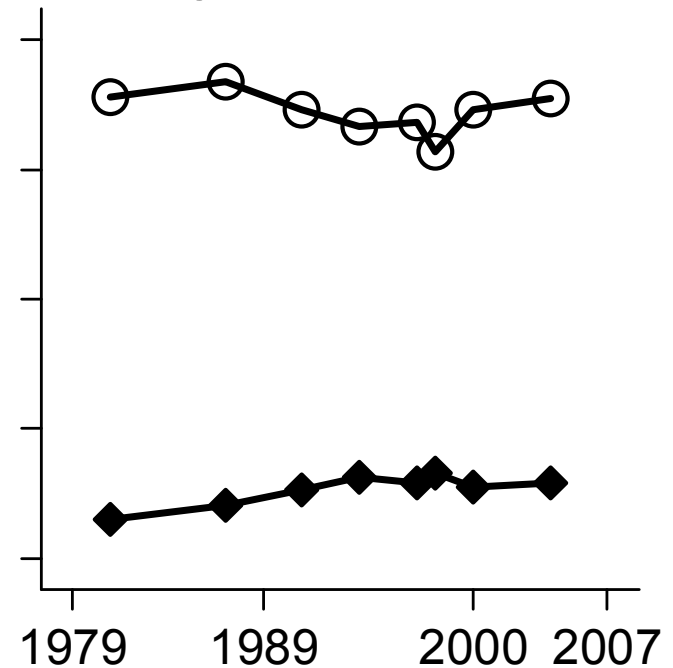
○ earnings ◆ net government transfers

14. Canada

Canada: p10 to p25 earnings and net transfers



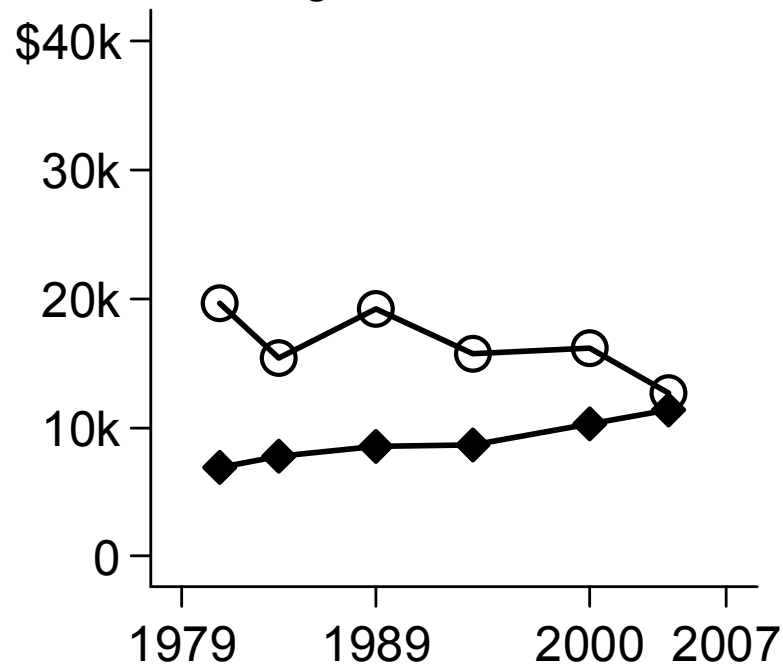
Canada: p25 to p50 earnings and net transfers



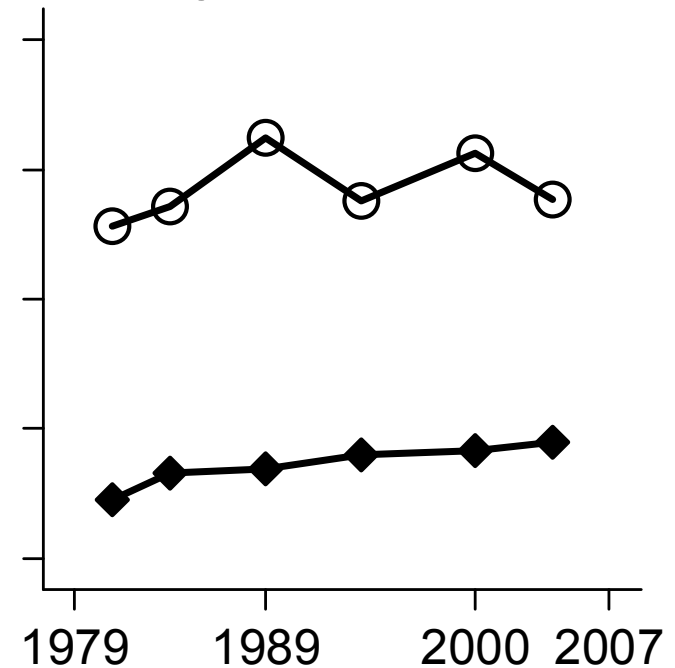
○ earnings ◆ net government transfers

15. Germany

Germany: p10 to p25 earnings and net transfers

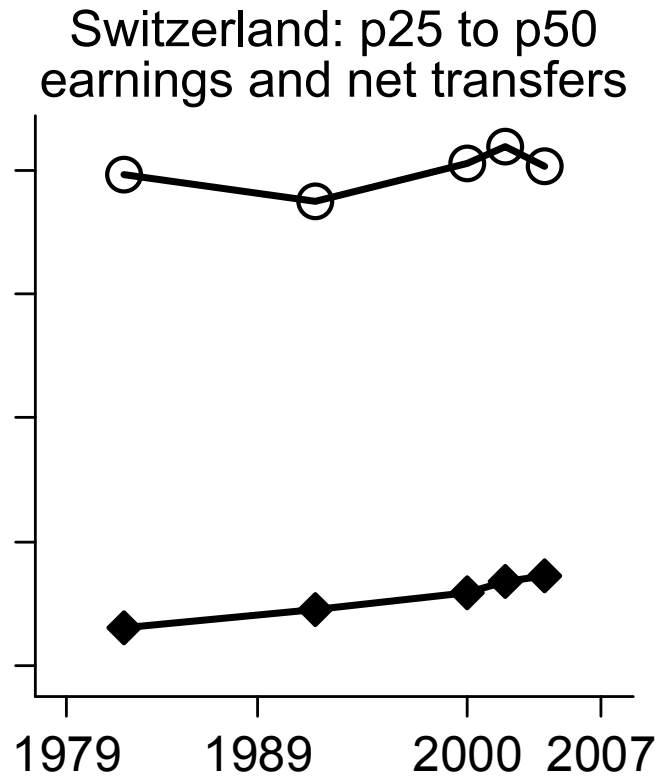
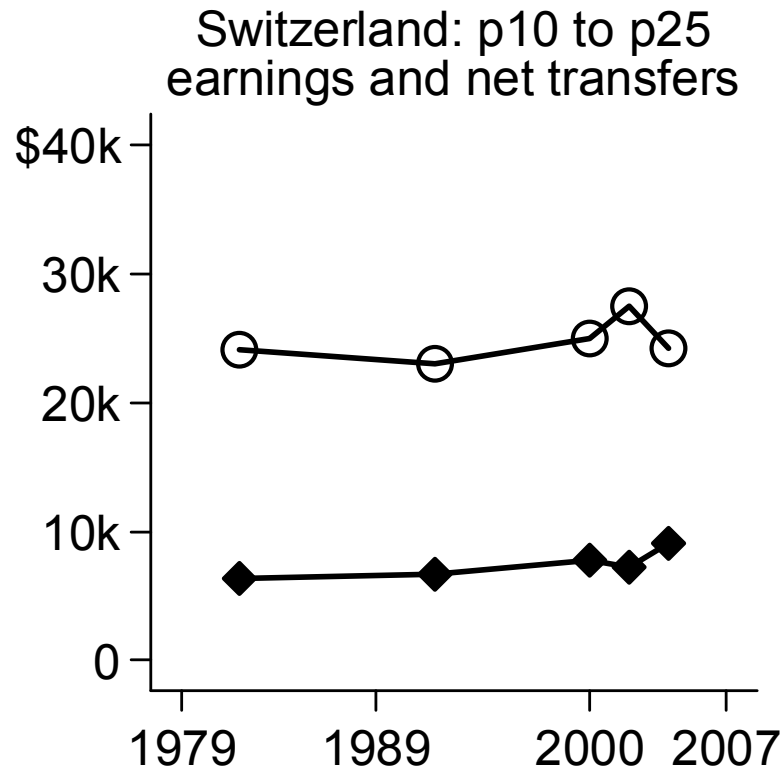


Germany: p25 to p50 earnings and net transfers



○ earnings ◆ net government transfers

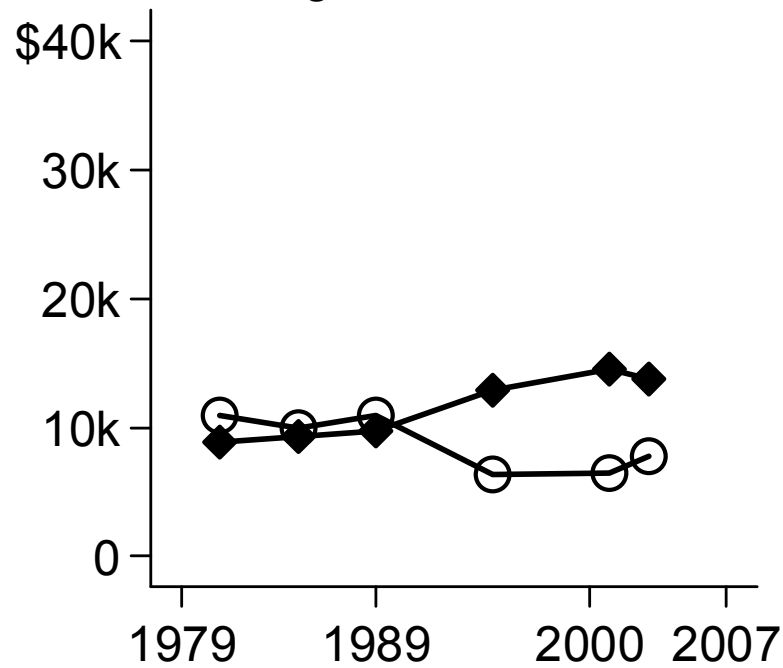
16. Switzerland



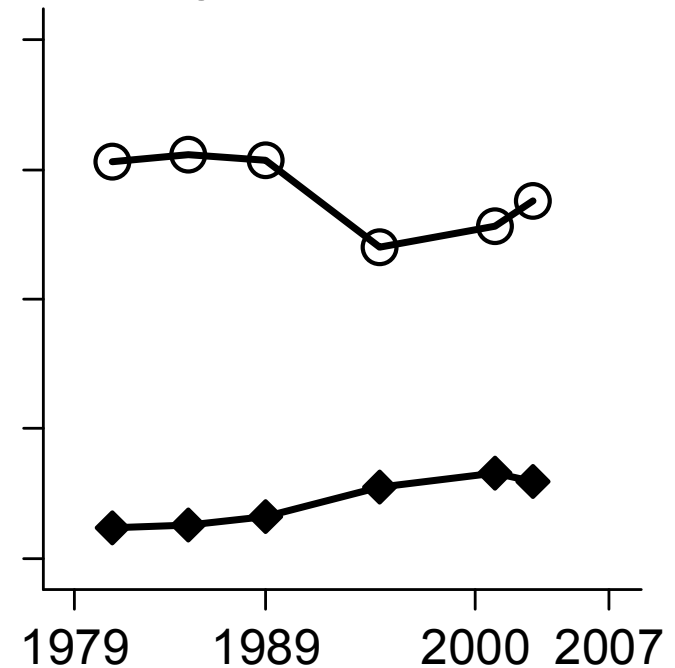
○ earnings ◆ net government transfers

17. Australia

Australia: p10 to p25 earnings and net transfers



Australia: p25 to p50 earnings and net transfers



○ earnings ◆ net government transfers

Differences in economic growth's payoff

The keys to success have been

p10-p25 households: government transfers

p25-p50 households: earnings

What can be done?

P10 to P25 (and the bottom decile too)

Rising net government transfers have been the key to success, except for a few special cases (Ire, Nor, Nth)

How does a country get rising transfers?

Periodic increases in benefit levels or reductions in taxes
and/or

Programs in which the benefit level is indexed to average wages
and/or

Programs in which the benefit is a replacement rate coupled with rising real wages in the bottom half

P25 to P50

Rising household earnings have been the key to success

How does a country get rising earnings?

Rising employment

and/or

Rising wages

P25 to P50: wages or employment?

It's difficult to tell what's worked in recent decades, because we don't have good comparative data on trends in

Real wage levels for persons in below-median-income households

Employment hours in below-median-income households

P25 to P50: wages or employment?

I know the story for two countries

Netherlands: success

Employment increased a lot

Wages were flat

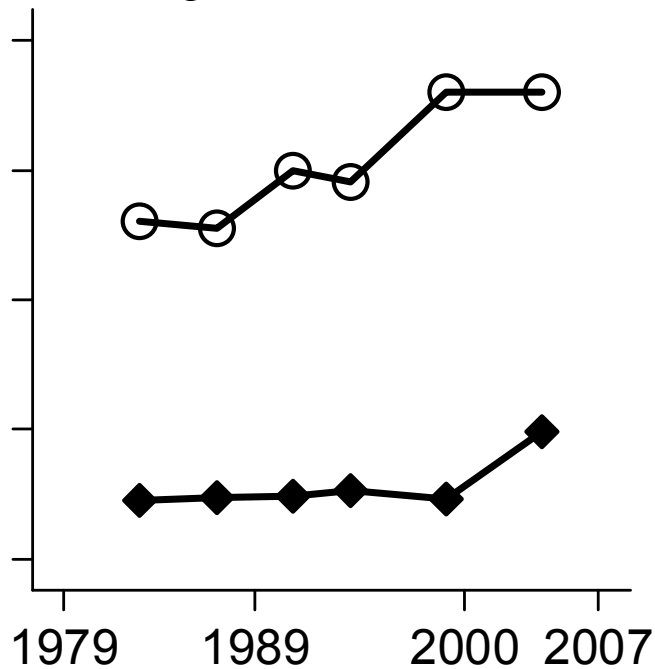
United States: failure, except in the late 1990s

Employment increased a little

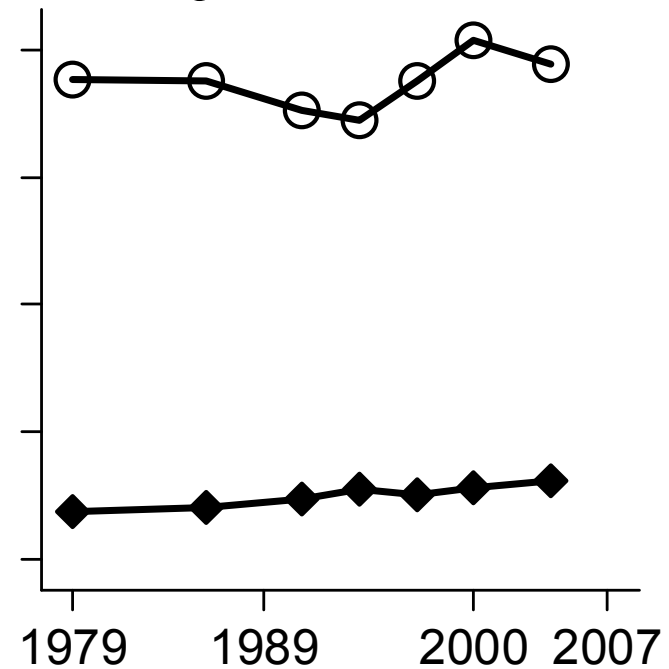
Wages were flat, except in the late 1990s

P25 to P50: wages or employment?

Netherlands: p25 to p50 earnings and net transfers



United States: p25 to p50 earnings and net transfers



○ earnings ◆ net government transfers

P25 to P50: wages or employment?

Many things now push against wage growth

Competition

Computerization

Short-term profit pressure from shareholders

Shift from manufacturing to services

Greater use of "pay for performance"

Absence of tight labor markets

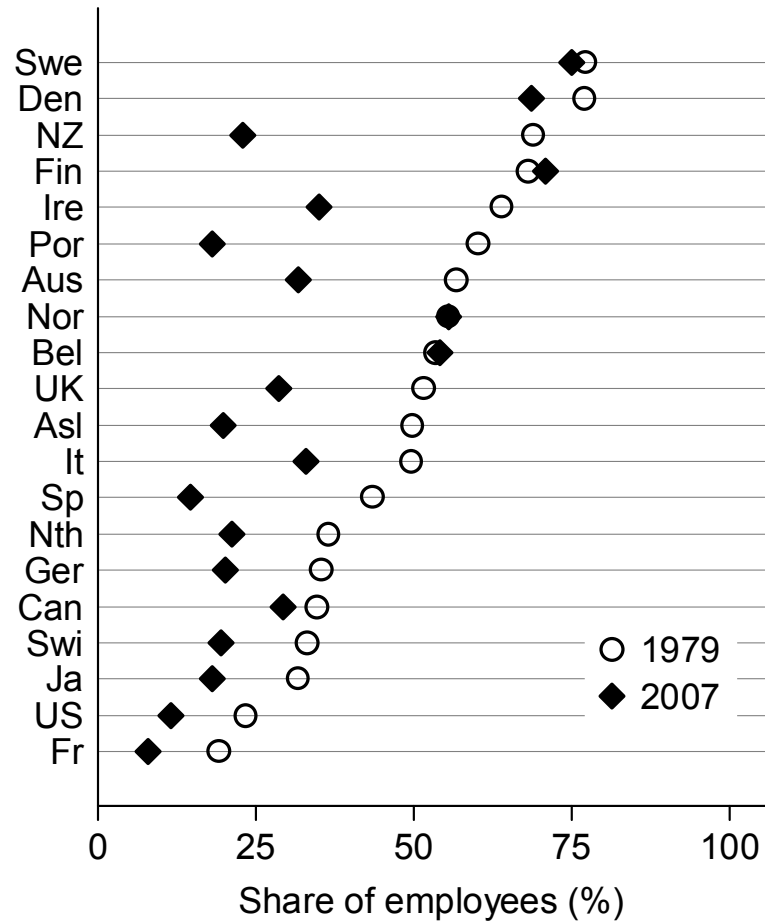
Rise in less-skilled immigration

P25 to P50: wages or employment?

Unions are key to securing wage growth in the face of these pressures

But unionization has been declining virtually everywhere

P25 to P50: wages or employment?



Unionization rates, 1979 and 2007

P25 to P50: wages or employment?

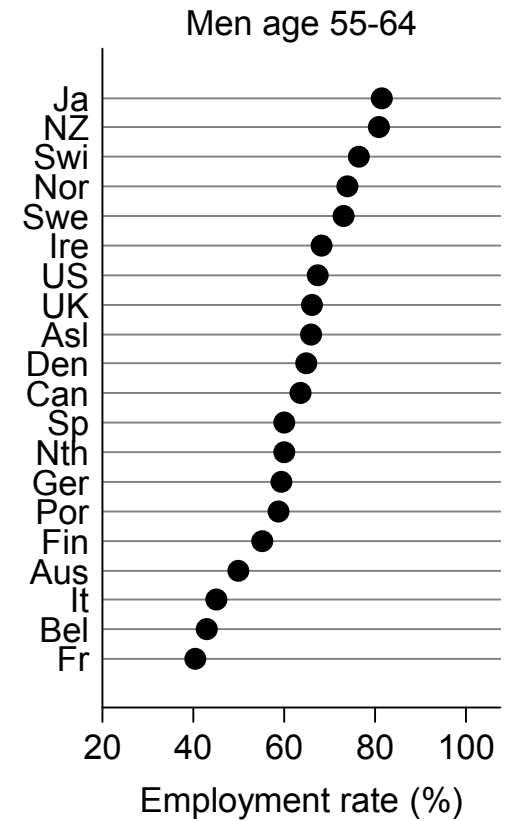
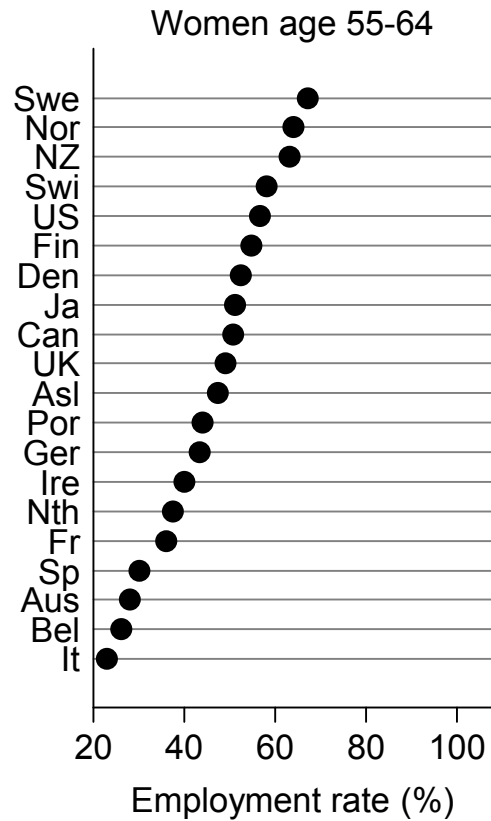
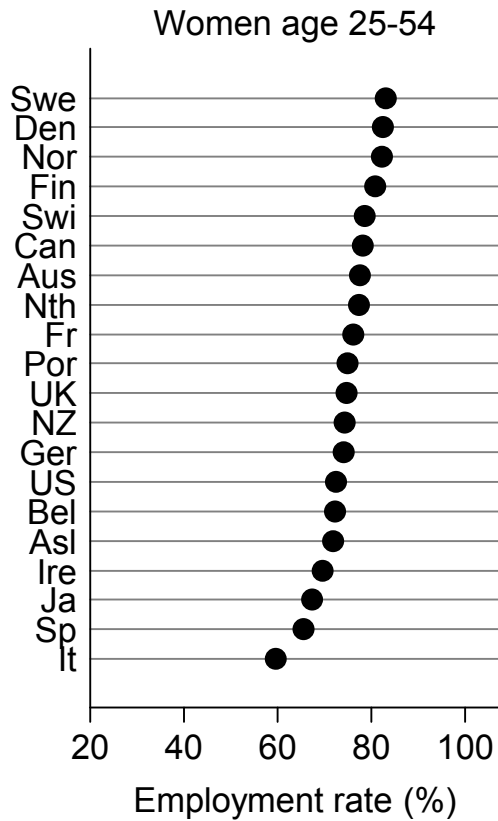
I'm very pessimistic about the likelihood of rising wages

My suggestions for p25-p50

1. Employment

There's a lot of room left for increase, especially in countries such as Italy

My suggestions for p25-p50



My suggestions for p25-p50

2. Public goods and services

Early education

Health care

Infrastructure

Transportation

Public spaces

Etc.

My suggestions for p25-p50

3. Statutory minimum wage

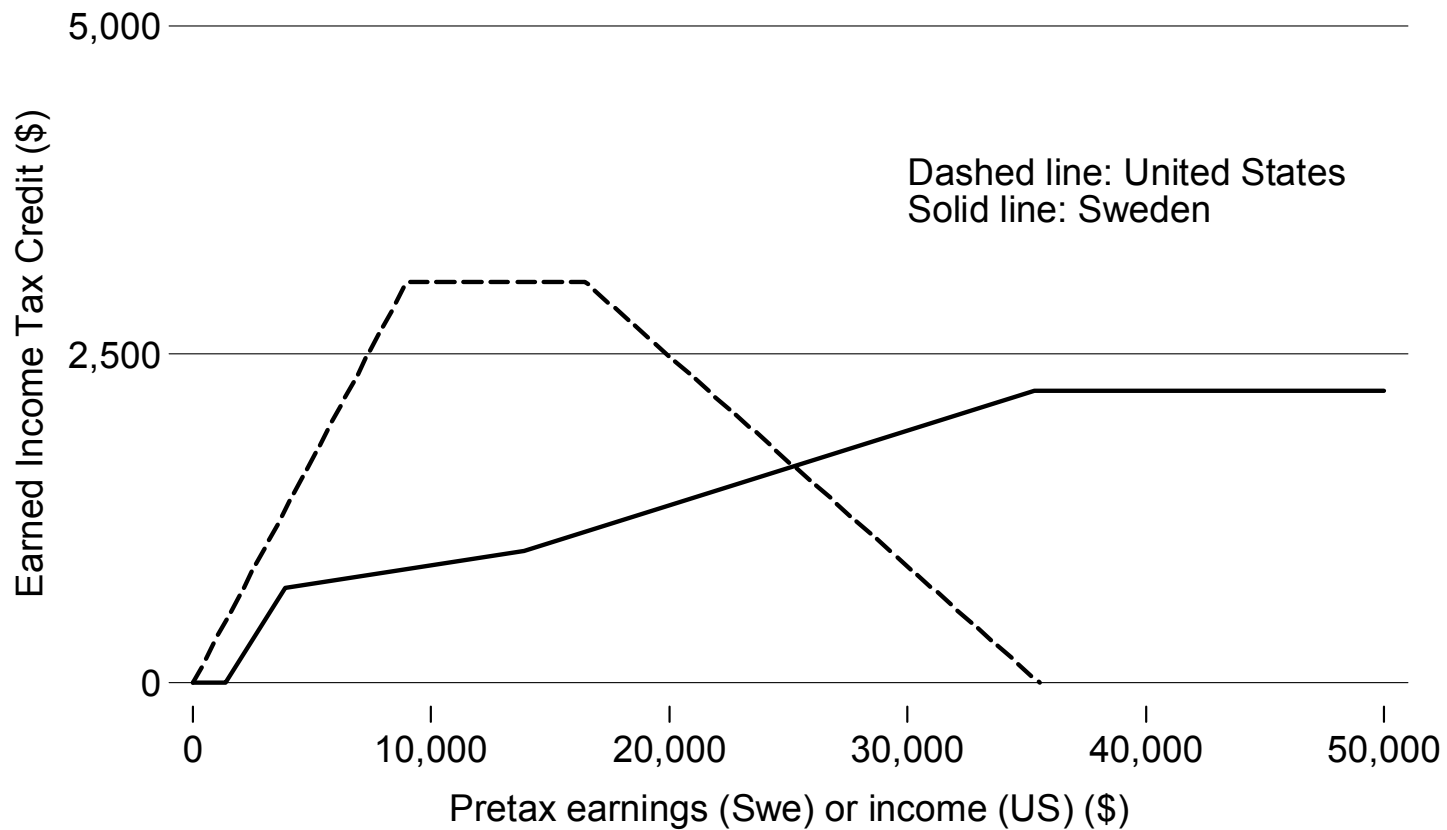
Indexed to prices

and/or

Updated each year by an independent commission

My suggestions for p25-p50

4. Employment-conditional earnings subsidy



My suggestions for p25-p50

4. Employment-conditional earnings subsidy

Expanded to reach the lower-middle class

Indexed to average wages

Think of this as insurance against a new social risk in the age of inequality: stagnant incomes