

**The Gap Between Rich and Poor:  
A Cross-national Perspective for Why  
Inequality Matters and What Policy Can Do  
to Alleviate It**

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# **The Gap Between Rich and Poor: A Cross-national Perspective for Why Inequality Matters and What Policy Can Do to Alleviate It**

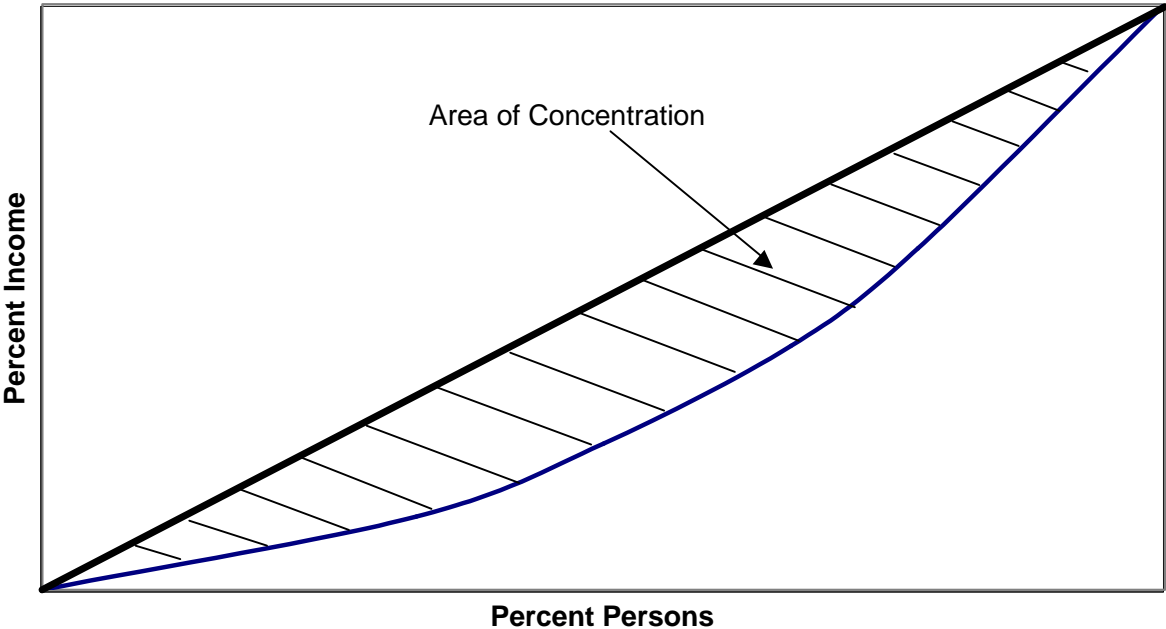
- I. What Can We Learn from Cross-national Research?
- II. Why Do We Care About Increased Economic Inequality?  
[Two Measurement Tools]
- III. Where Do Nations Stand?
  - A. Level: Inequality in 18 plus Nations, Families with Children, and Relative and Absolute Differences
  - B. Trend: Changes Since 1979
  - C. Japan and the United States

- IV. What are the Consequences of High and Rising Inequality?
  - A. Equality of Opportunity and Fairness of Opportunity
  - B. Other Outcomes We Care About: Health, Crime, Literacy
  - C. Bailing Out: Social Distance and Support for Social Goods (e.g., Health Insurance, Educational Spending)
  
- V. What Explains the Level? Need for Bolstering the Bottom of the Distribution
  - A. Low Wages: Market Driven Forces? (Figure X)
  - B. Low Transfers: Government Policy (Figure Y)

## VI. What Can We Do About It?

- A. Market Forces vs. Social Conventions and Norms
- B. Income Packages for Poor and Unemployed Families with Children
- C. Social Goods Provisions for All: Health and Education via Reasonable Minimums for All
- D. Implications for Current Policy Debates: Taxes, Transfers, Population Aging

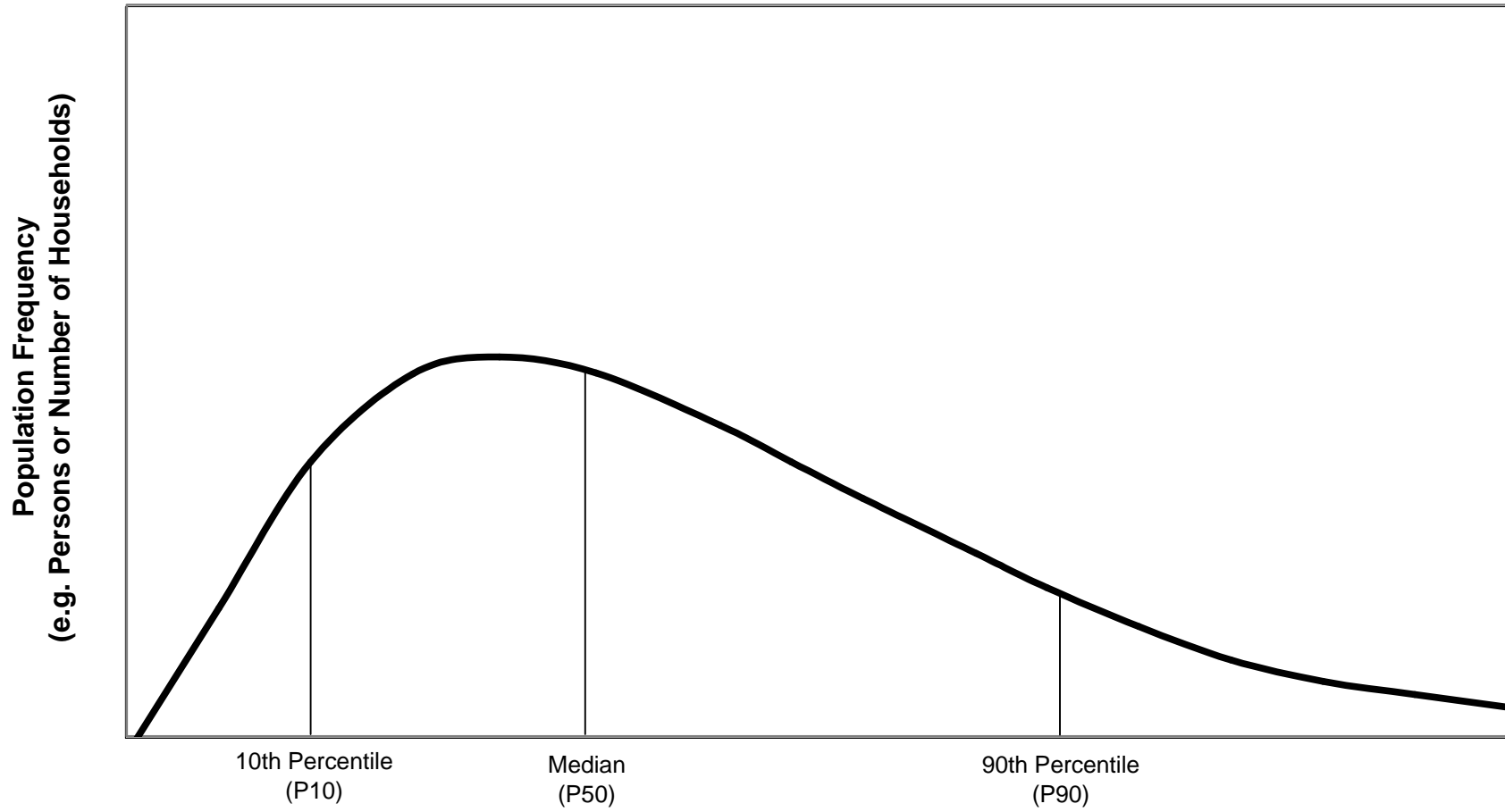
### B. Lorenz Curve and Gini Coefficient



$$\text{Gini} = \frac{\text{Area of Concentration}}{\text{Area of Triangle}}$$

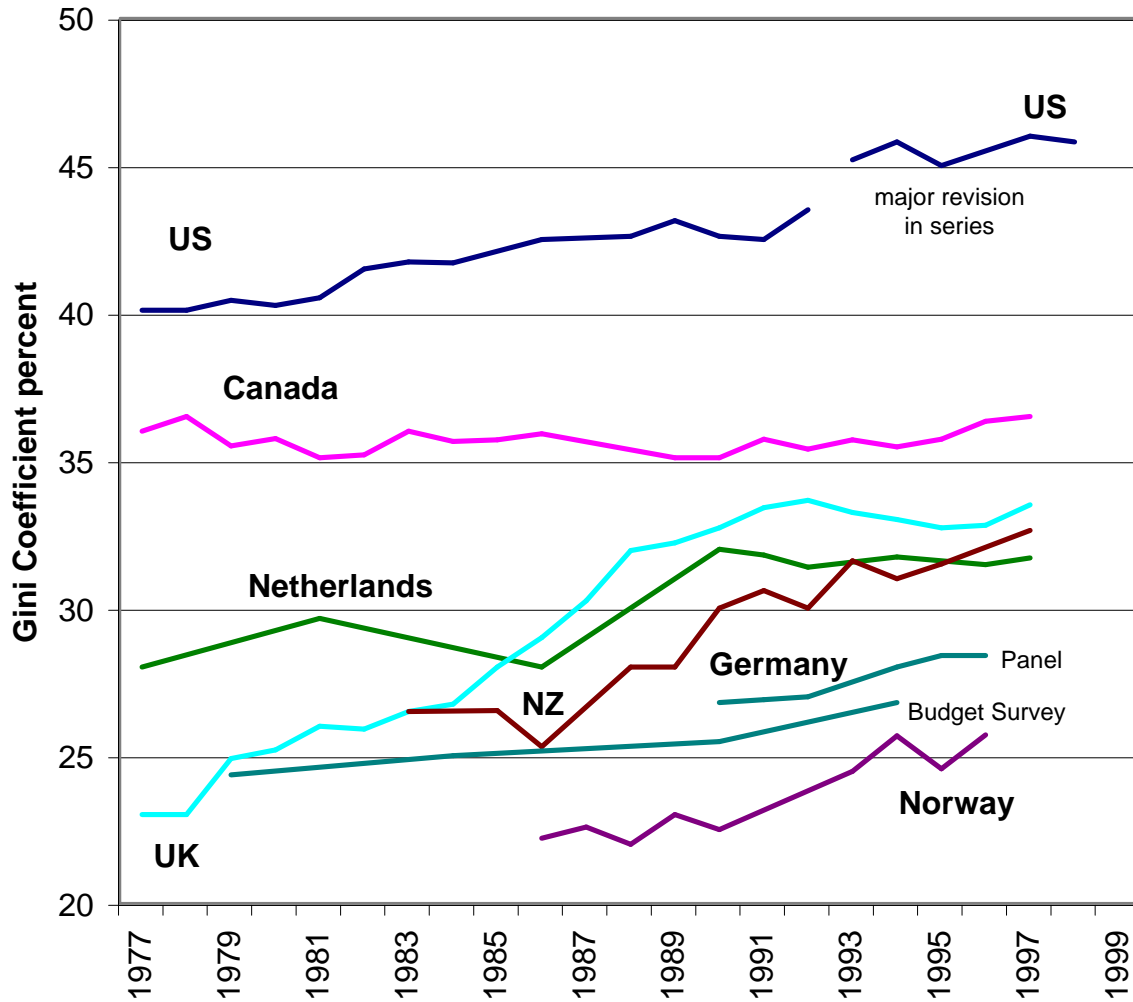
Range      0 = perfect equality  
              1 = perfect inequality

# Measurement Tools



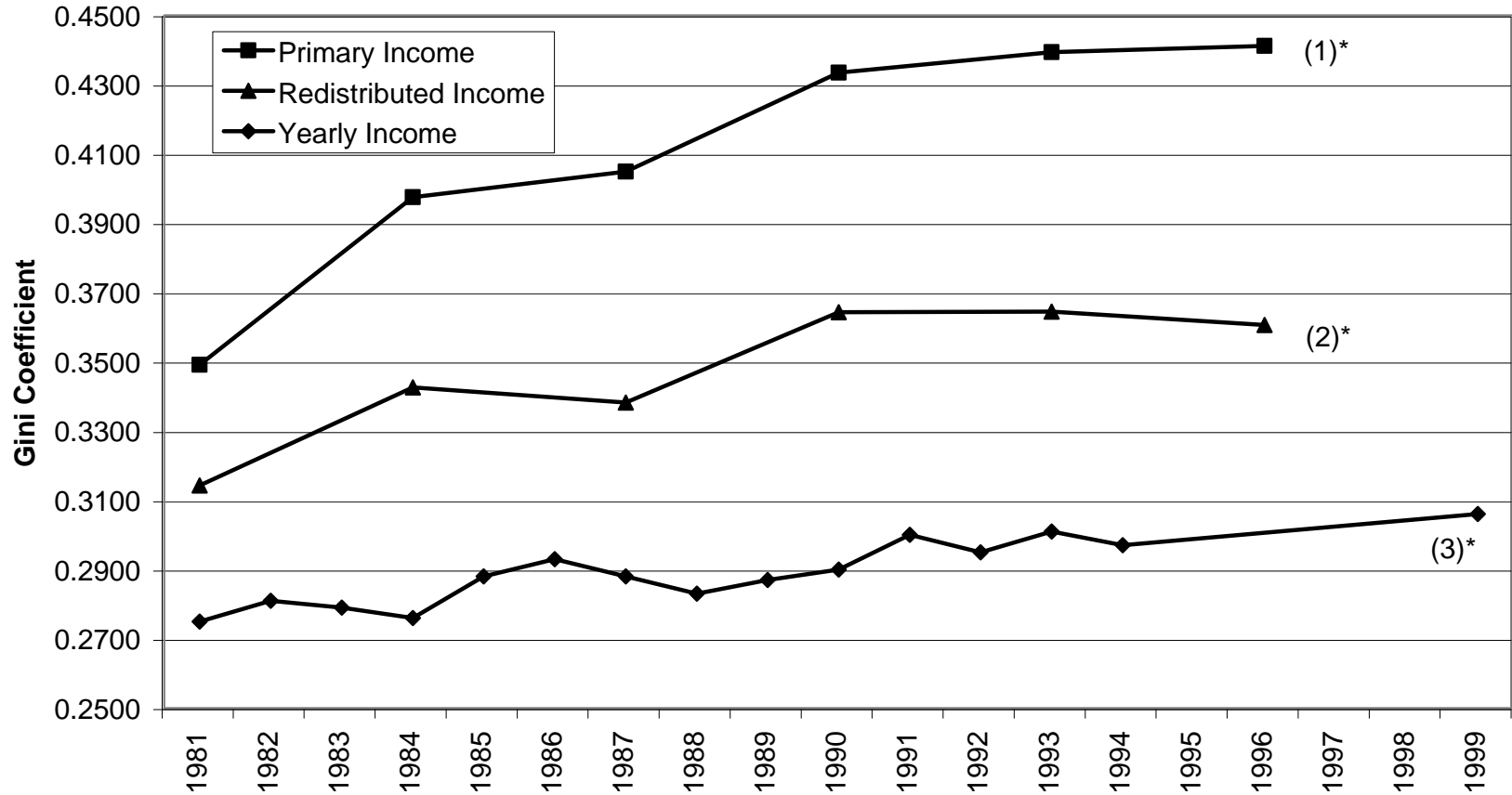
Decile Ratio =  $P90/P10$

**Figure 1.**  
**Changes in Income Inequality**



Sources: Canada, Statistics Canada (1996: Text Table IV) and Statistics Canada (1999 Appendix Table III). France, (1975=100) Atkinson (1997b; Table FR2 Syntheses series). (West) Germany, (1978=100) Becker, (1996: Tabelle 1) and Hauser (1996: Tabelle 1) linked at 1993 using Becker (1998: Tabelle 4). Netherlands, supplied by Central Bureau of Statistics. New Zealand, Statistics New Zealand (1999). Norway, Epland (1998). United Kingdom, up to 1993 from Atkinson (1997b: Table UK3) series constructed by Goodman and Webb (1994); 1994/5-1997/8 from Clark and Taylor (1999: Figure 2 and text). Figures prior to 1993 from Family Expenditure Survey; figures from 1994/5 form Family Resources Survey. United States, US Department of Commerce (1999: Table B-3, B-6).

**Table X. Alternative Trends in Japanese Household Income Distribution  
1981-1994**

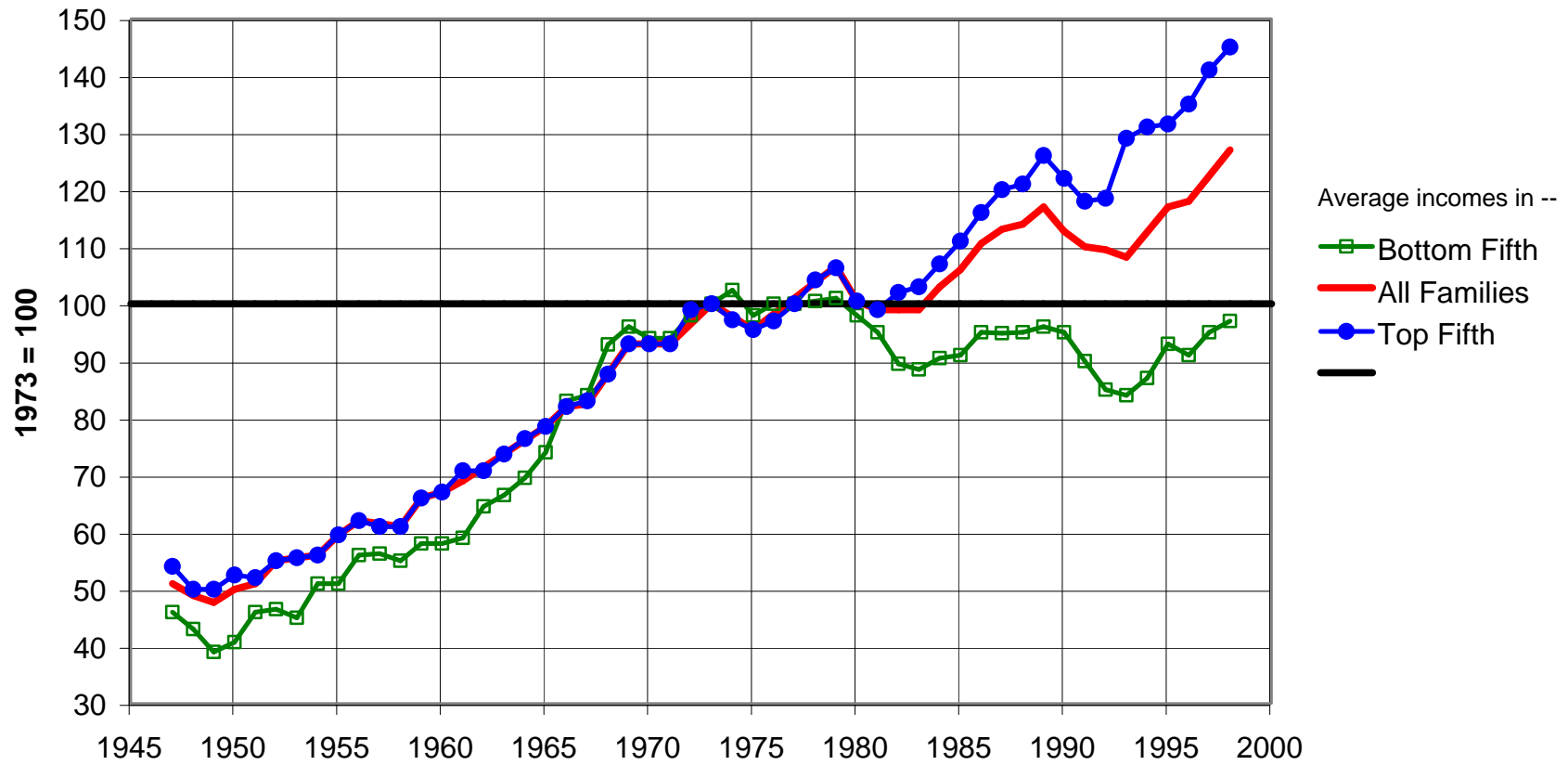


Notes: Line 3: Yearly Income source *Family Income and Expenditure Survey*; Lines 1 and 2: Primary and Redistributed Income source *Survey on Income Redistribution*.

*Percentage Changes	1981-1996	20.9% (1)
since 1981	1981-1996	14.7% (2)
	1981-1999	11.3% (3)

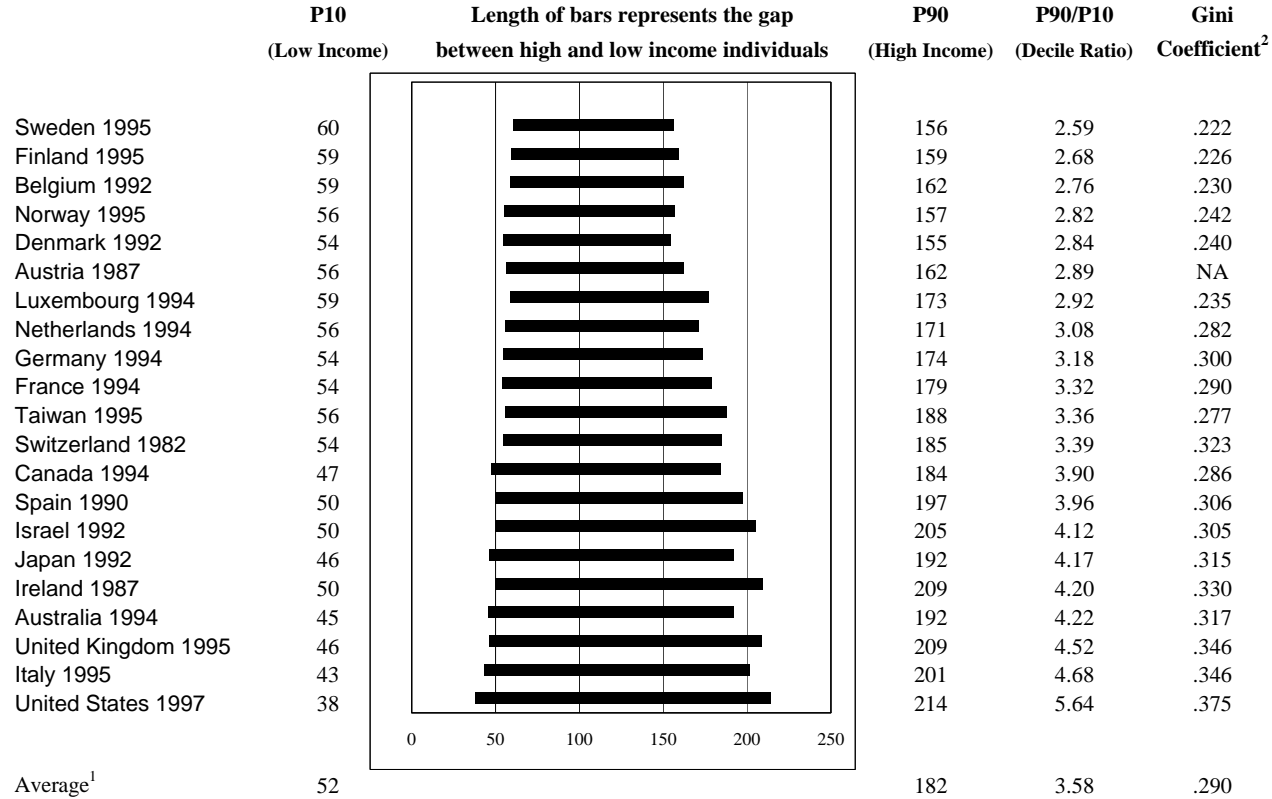
Source: Fukui (1996)

**Figure 1. Trend in Real Average Family Income, by Rank in the Income Distribution, 1947-1998**



Source: U.S. Census Bureau; and Burtless and Smeeding (2000).

**Figure 1. "Social Distance": Relative Income Comparisons Across Nations**  
**(Decile Ratios and Gini Coefficient for Adjusted Disposable Income)**  
 (numbers given are percent of median in each nation and Gini coefficient)



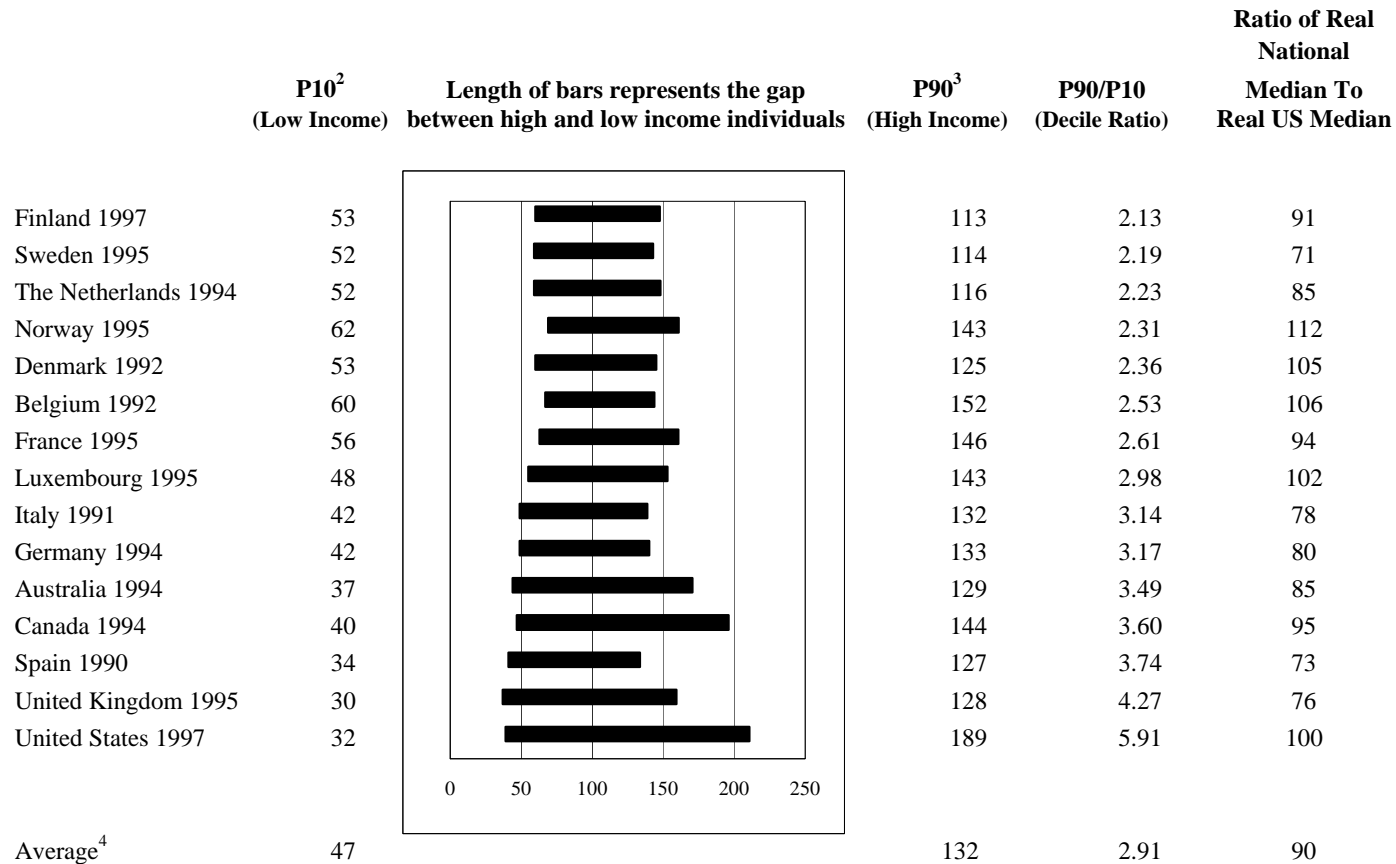
Source: Author's calculations from Luxembourg Income Study.

<sup>1</sup>Simple average.

<sup>2</sup>Gini coefficients are based on incomes which are bottom coded at 1 percent of disposable income and top coded at 10 times the median disposable income.

**Figure 2. The Gap Between Rich and Poor Children for Families with Children  
(Real Income Distribution Comparison for 15 Nations)**

(numbers given are percent of United States median income in 1997 United States dollars)<sup>1</sup>



Source: Author's calculations using the Luxembourg Income Study database.

<sup>1</sup>Unit of aggregation is the household and units are weighted by the number of children in the household. Incomes are adjusted by  $E=0.5$  where adjusted disposable income (DPI)=actual DPI divided by household size (S) to the power E: Adjusted DPI =  $DPI/S^E$ .

<sup>2</sup>Relative income for individuals who are below 90 percent of the individuals in the country and more affluent than 10 percent of the individuals in the country. Numbers give real income (1997 United States dollars) as a percent of the United States median.

<sup>3</sup>Relative income for individuals who are more affluent than 90 percent of the individuals in the country and below 10 percent of the individuals in the country. Numbers give real income (1997 United States dollars) as a percent of the United States median.

<sup>4</sup>Simple average, excluding United States.

**Table 3. Overall Trends in Income Distribution:  
Summary Results from National and Cross-national Studies**

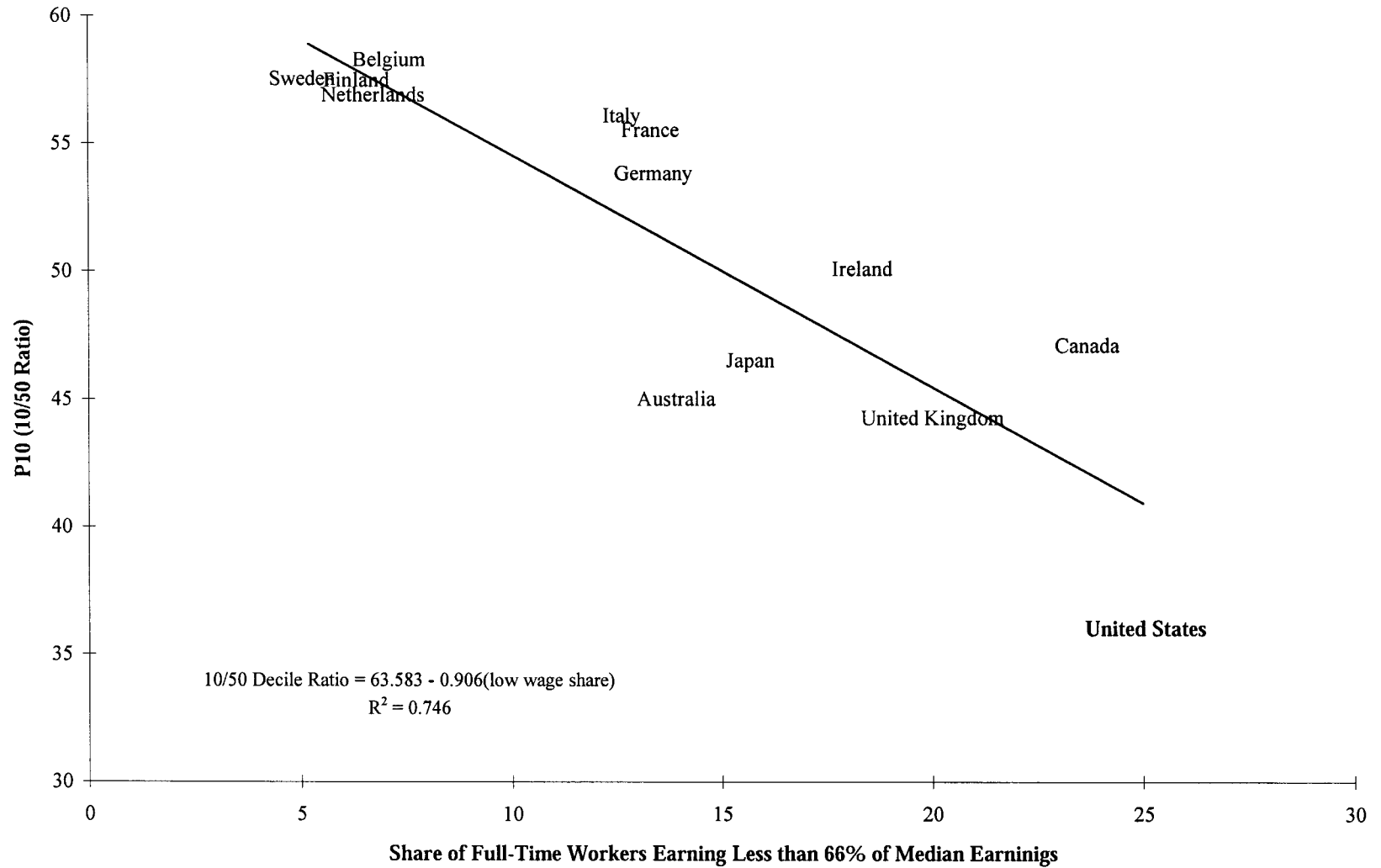
	Mid/Early 1970s to Mid/Late 1980s <sup>1</sup>	OECD Study 1980s ( ) = other estimate <sup>2</sup>	Mid/Late 1980s to Mid/Late 1990s <sup>3</sup>
Australia	0	+	+
Austria	0	0	++
Belgium	0	+	+
Canada	-	0	0
Finland	-	0	+
France	-	0 ( - )	?
Germany	-	+	+
Ireland	-	0	+
Italy	--	-	++
Japan	0	+	++
Netherlands	0	+	++
Norway	0	0	++
Sweden	-	+	+
United Kingdom	++	+++	++
United States	++	++	++
Denmark	na	na	-
New Zealand	0	na ( + )	+++
Switzerland	na	na	+

+++	Significant rise in income inequality (more than 15 percent increase)
++	Rise in income inequality (7 to 15 percent increase)
+	Modest rise in income inequality (1 to 6 percent increase)
0	No change (-1 to +1 percent change)
-	Modest decrease in income inequality (1 to 6 percent decrease)
--	Decrease in income inequality (7 to 15 percent decrease)
---	Significant decrease in income inequality (more than 15 percent decrease)
na	No consistent estimate available.

General Note: The results are based on several income inequality indicators in most countries and reflect the general trends reported in national and comparative studies. However, trends are always sensitive to beginning and ending points as well as to other cautions mentioned in the text.

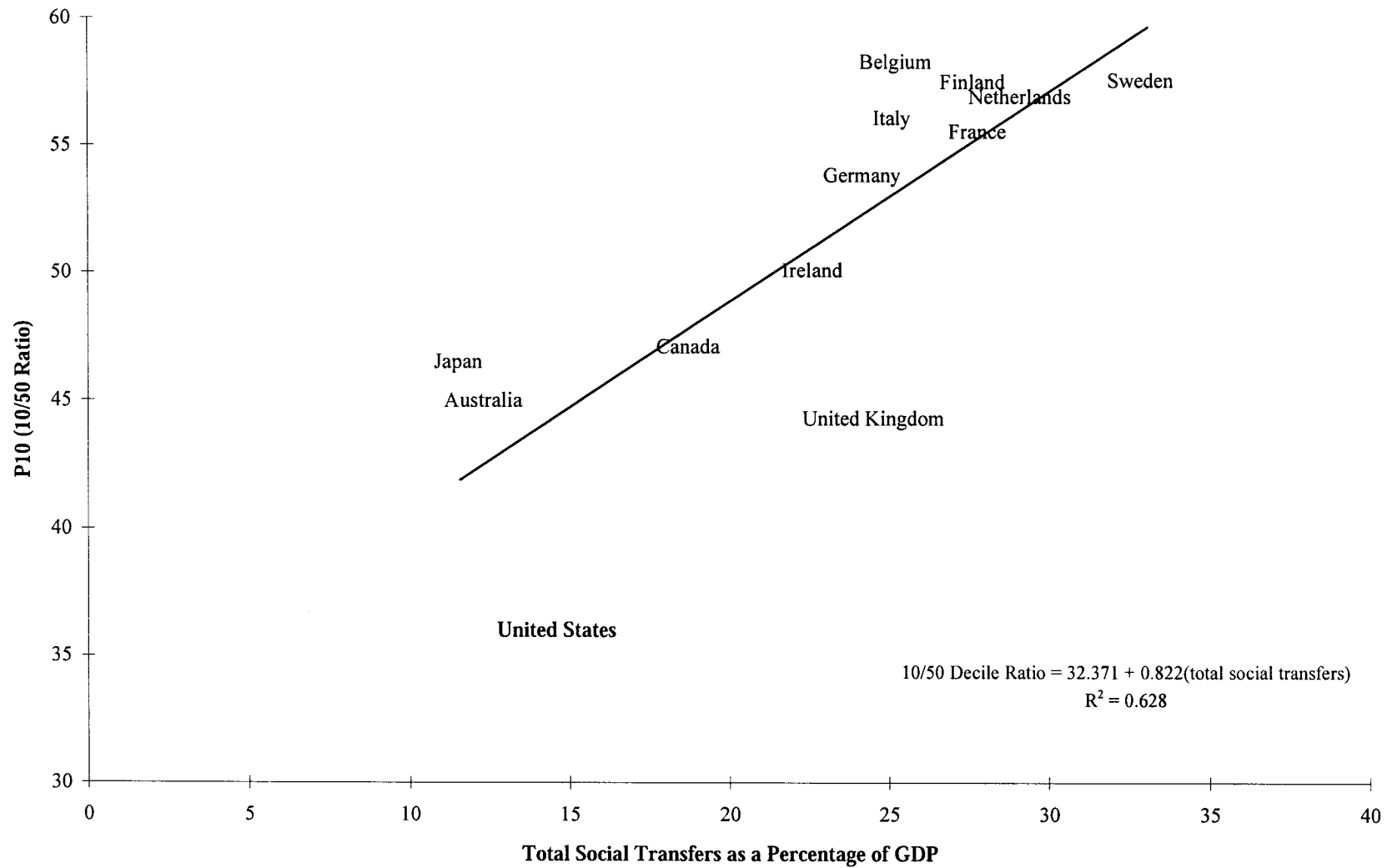
Sources and Notes: OECD (2001); <sup>1</sup> Atkinson, Rainwater and Smeeding (1995); OECD (1999); Gottschalk and Smeeding (1997, 1999) <sup>2</sup> Atkinson, Rainwater and Smeeding (1995) for all but parenthesis which come from alternative sources listed in these references; <sup>3</sup> Atkinson and Brandolini (1999); Gottschalk and Smeeding (1999); Fukui (1996); Atkinson (2000); OECD (1999); Smeeding (2000) and Luxembourg Income Study.

Figure X. P10 (10/50 Ratio) and Low Wage



Sources: OECD (1996), Smeeding (1996), and author's calculations.

Figure Y. P10 (10/50 Ratio) and Total Social Transfers



Source: Smeeding (1996), OECD (1994), Gottschalk and Smeeding (1997a), and author's calculations.