

# The Consequences of Economic Inequality for Economic Performance

Columbia University, December 2-3, 2014

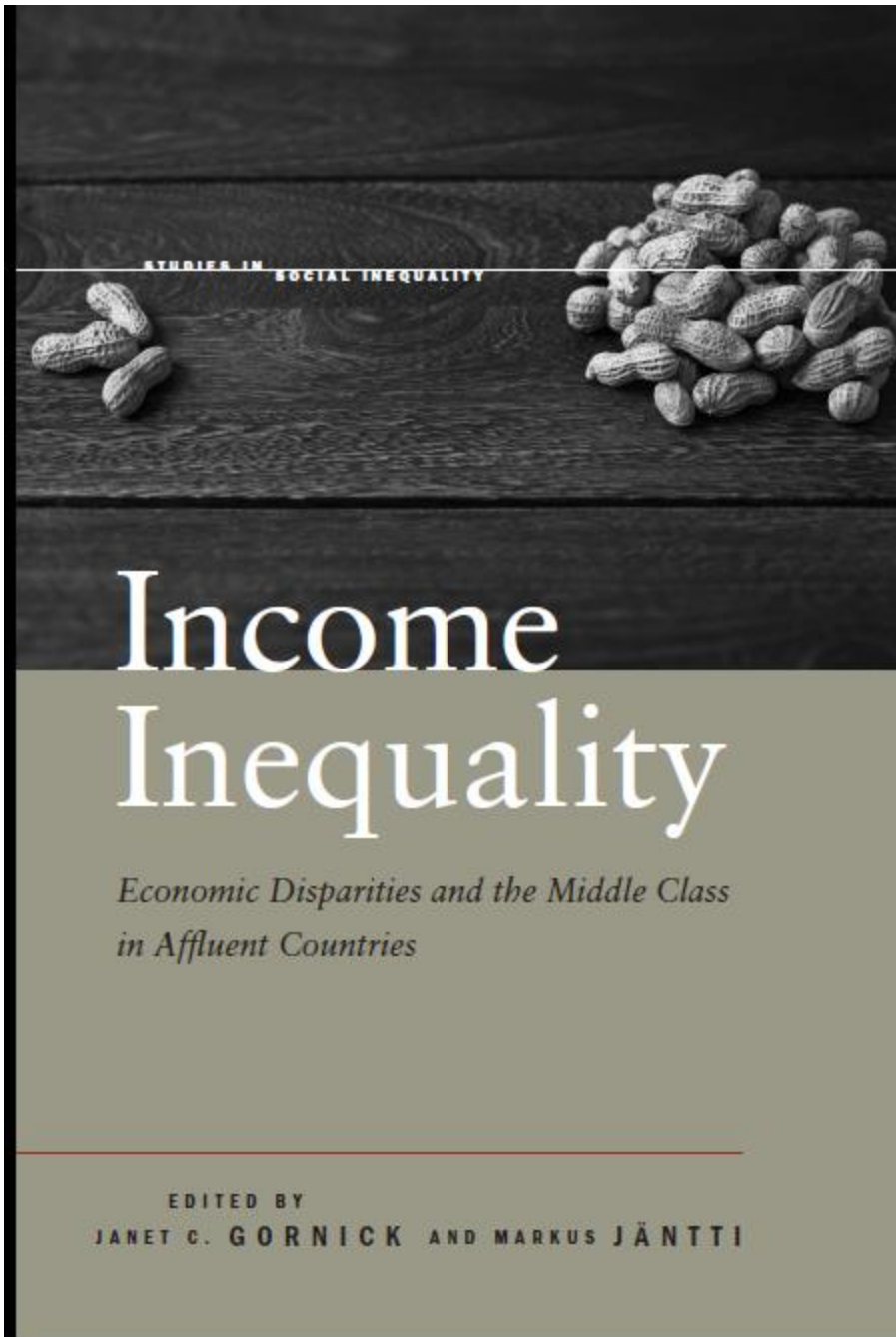
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## Income Inequality: Economic Disparities and The Middle Class in Affluent Countries

Edited by

Janet C. Gornick  
and Markus Jäntti

Stanford University Press,  
Social Inequality Series.

2013  
paperback 2014



# “Introduction”

## Janet Gornick and Markus Jäntti

in Gornick and Jäntti (2013)

“Although inequality scholarship has given relatively short shrift to the status of the middle class, there is in fact a large literature that concerns the importance of having a strong and stable middle class, and that literature addresses countries at all income levels. Estache and Leipziger (2009), in the introduction to their book *Stuck in the Middle*, observed that the “essential role of the middle class has been recognized by politicians in many regions. It is a recurring theme in the United States [and] in Europe, but it is also an essential concern in many developing regions”. In their article “Why You Should Care about the Threatened Middle Class,” Littrell and colleagues (2010) emphasized two claims that are widespread in this Literature: a strong middle class is a prerequisite for a well-functioning democracy, and a secure middle class is vital for economic growth. Birdsall (2010) argued that the links between the middle-class strength and both democracy and growth operate in both directions; she describes both links as “virtuous circles.” Focusing on developing countries, Ravallion (2010) observed that there are intrinsic and instrumental reasons to be concerned with the status of the middle class.”



# “On the Identification of the Middle Class”

## Anthony B. Atkinson and Andrea Brandolini

chapter 2 in Gornick and Jäntti (2013)

“Economists often stress the importance of having a large middle class for economic growth, either for its consumption patterns or for its propensity to accumulate human and physical capital, as well as for democracy and the political stability of a society.”



# Overview of the book

Part I	<b>INCOME</b>	Trends in Household Income Inequality
Part II	<b>THE MIDDLE CLASS</b>	The Middle Class in the Income Distribution
Part III	<b>POLITICS</b>	Inequality, Political Behavior, and Public Opinion
Part IV	<b>EMPLOYMENT</b>	Women's Work, Inequality, and the Economic Status of Families
Part V	<b>WEALTH</b>	The Distribution of Assets and Debt
Part VI	<b>COUNTRY CASES</b>	Inequality in Japan, Iceland, India and South Africa



# “On the Identification of the Middle Class”

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chapter 2 in Gornick and Jantti (2013)

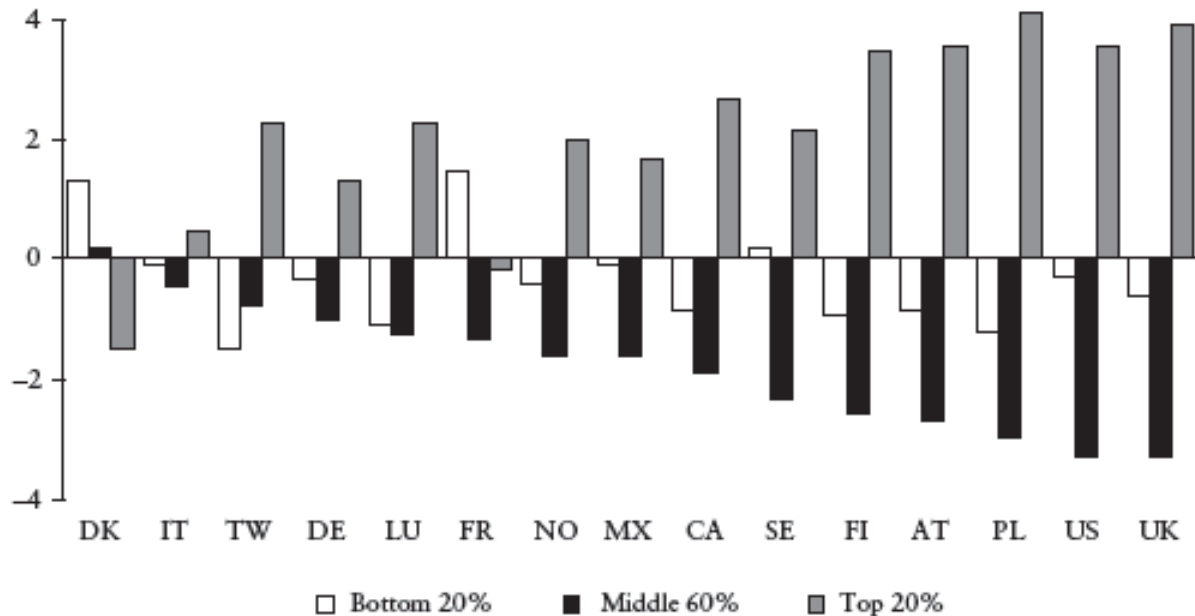


Figure 2.1. Change in the income share of the bottom, middle, and top income groups in selected LIS countries between around 1985 and around 2004 (percentage points)

SOURCE: Authors' calculations from the LIS Database.



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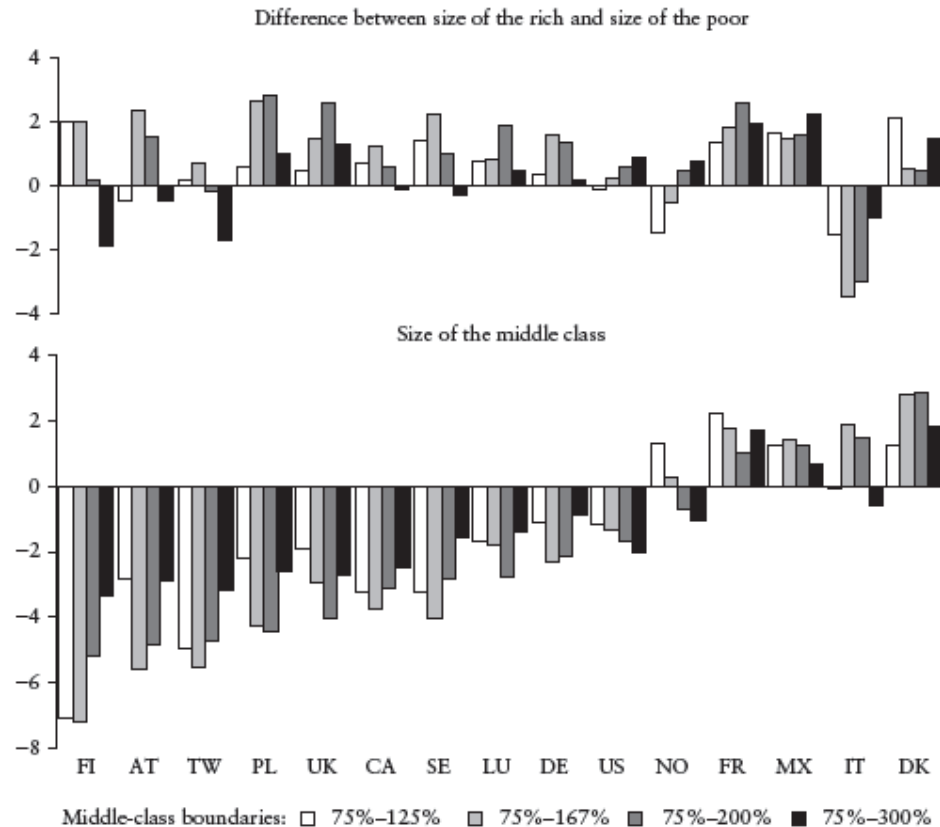


Figure 2.4. Change in population shares for different income cutoffs in selected LIS countries between around 1985 and around 2004 (percentage points)

SOURCE: Authors' calculations from the LIS Database.



# Has Rising Inequality Reduced Middle-Class Income Growth?

## Income Growth?

Lane Kenworthy

chapter 3 in Gornick and Jantti (2013)

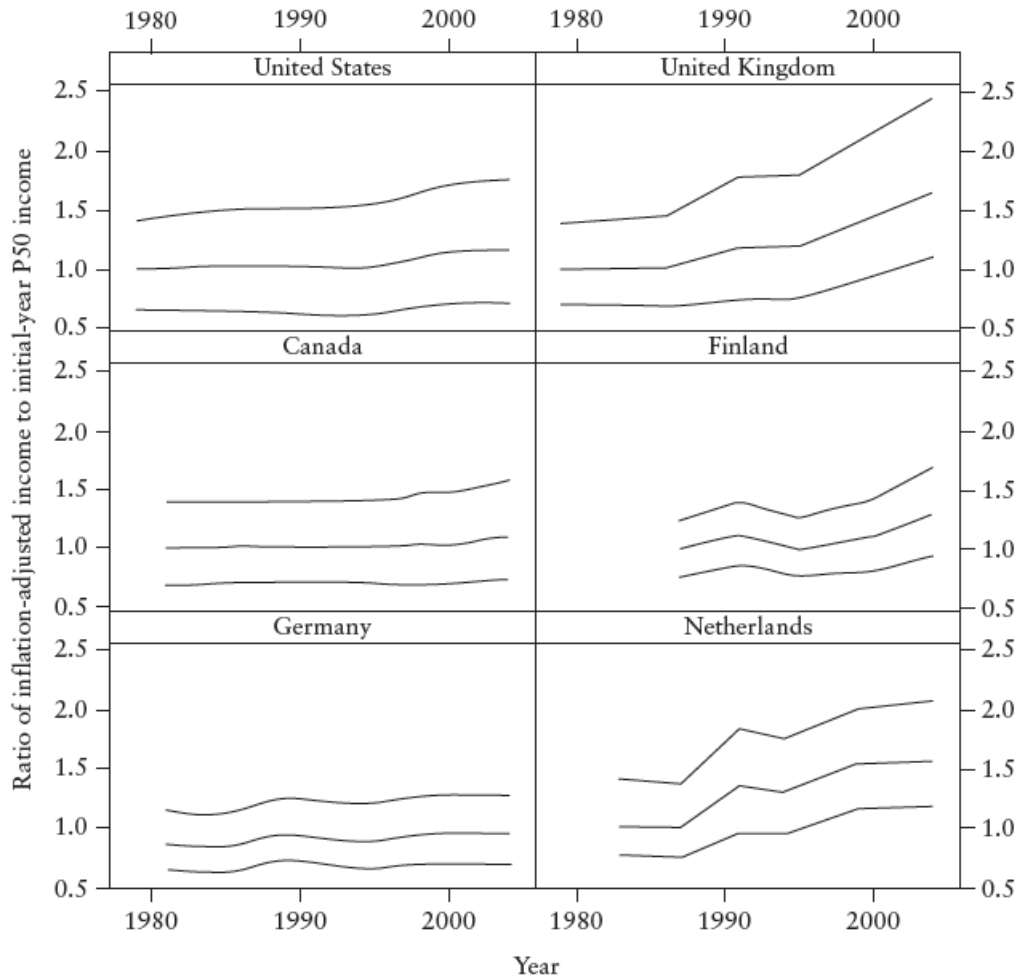


Figure 3.2. Trends in real incomes of middle-income (25th, 50th, and 75th percentiles) households, six countries, late 1970s to mid-2000s

SOURCE: Author's calculations from the LIS Database, Waves I to VI, and the OECD.

NOTE: Lower lines: 25th percentile; middle lines: 50th percentile; top lines: 75th percentile. Post-tax and post-transfer income adjusted for household size.





# The Upshot / New York Times

## April 2014

Americans between the ages of 55 and 65 have literacy, numeracy and technology skills that are above average relative to 55- to 65-year-olds in rest of the industrialized world, according to a recent study by the Organization for Economic Cooperation and Development, an international group. Younger Americans, though, are not keeping pace: Those between 16 and 24 rank near the bottom among rich countries, well behind their counterparts in Canada, Australia, Japan and Scandinavia and close to those in Italy and Spain.

A second factor is that companies in the United States economy distribute a smaller share of their bounty to the middle class and poor than similar companies elsewhere. Top executives make substantially more money in the United States than in other wealthy countries. The minimum wage is lower. Labor unions are weaker.

And because the total bounty produced by the American economy has not been growing substantially faster here in recent decades than in Canada or Western Europe, most American workers are left receiving meager raises.

### American Incomes Are Losing Their Edge, Except at the Top

Inflation-adjusted, after-tax income over time

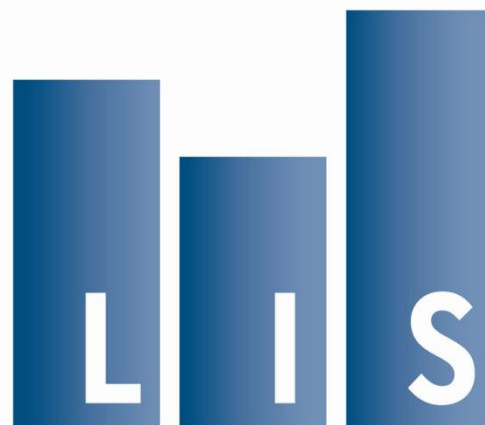
Remove smoothing



In 2014 dollars

Source: New York Times/Luxembourg Income Study analysis





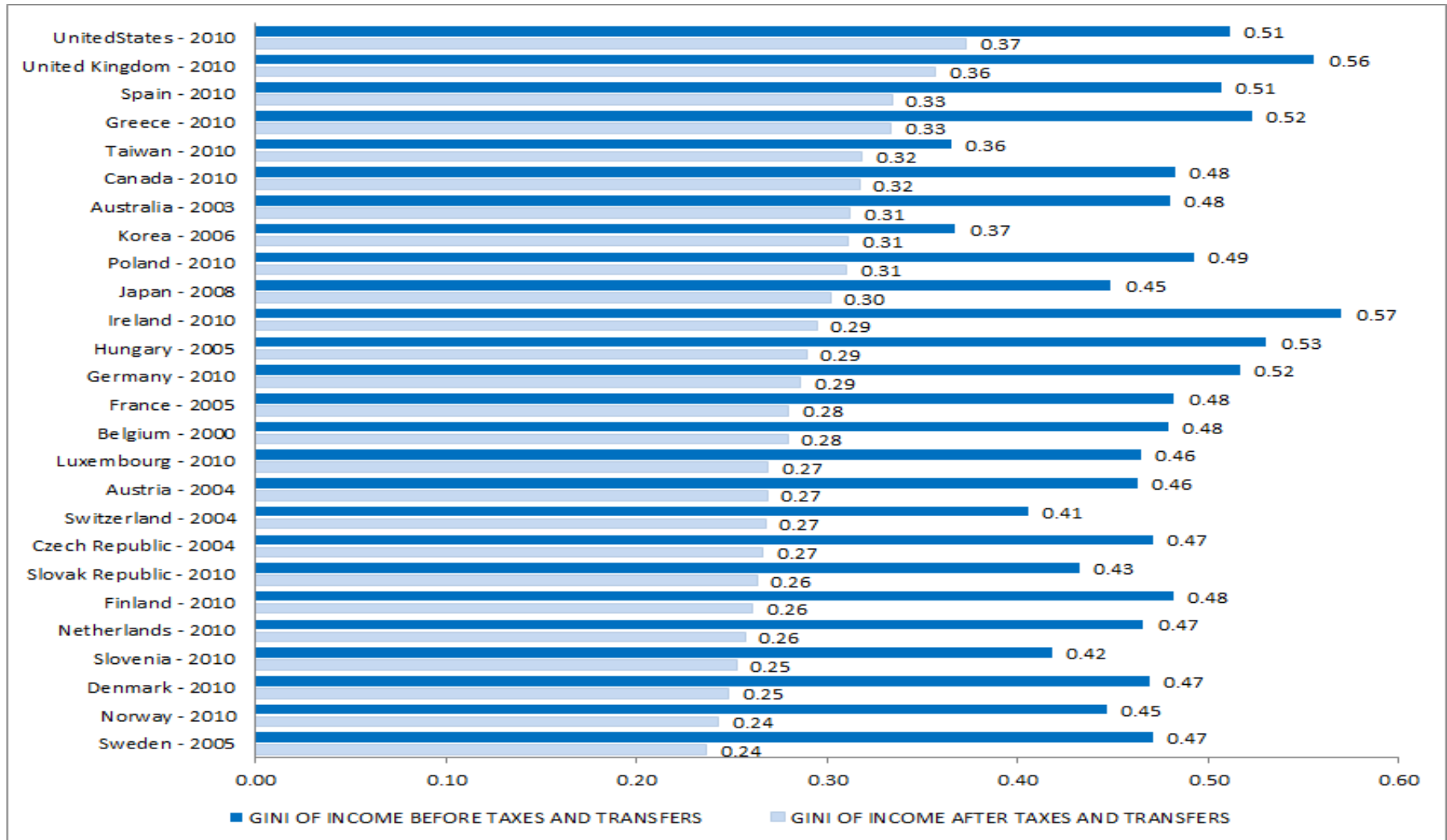
CROSS-NATIONAL  
DATA CENTER  
*in Luxembourg*

*Thank You*

Janet Gornick

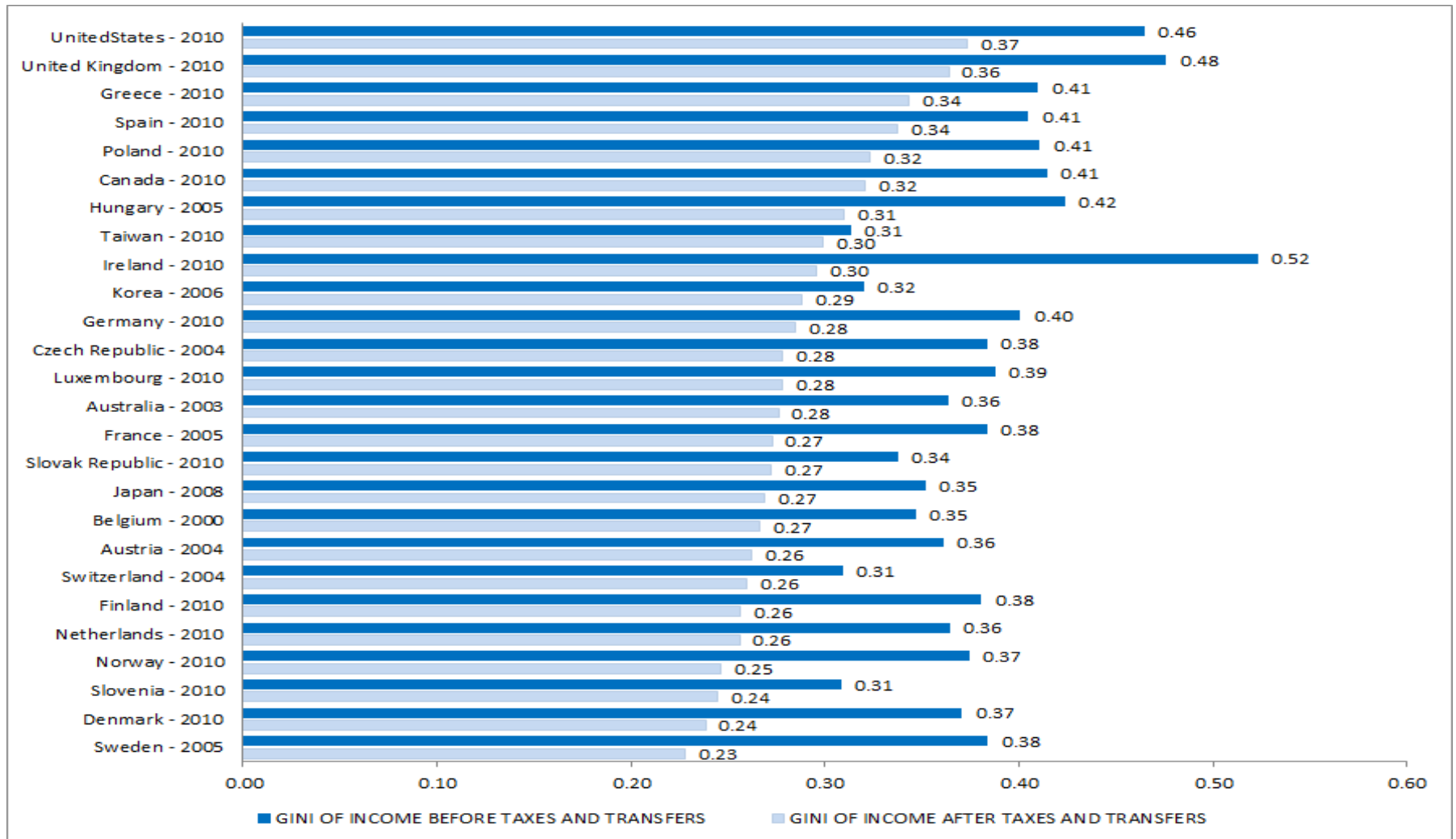
# Contemporary cross-national portrait

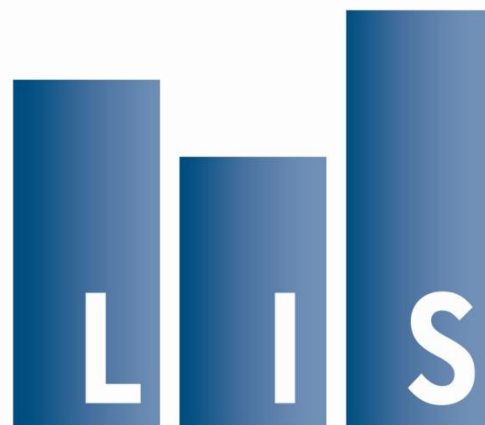
What about redistribution through taxes and transfers? **all ages** (LIS)



# Contemporary cross-national portrait

What about redistribution through taxes and transfers? **under age 60 (LIS)**





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*in Luxembourg*

*Thank You*

Janet Gornick