

Inequality Reduction in four Advanced Countries from 2000 to the late 2010s

Teresa Munzi , (LIS)

Jörg Neuschwender , (LIS)

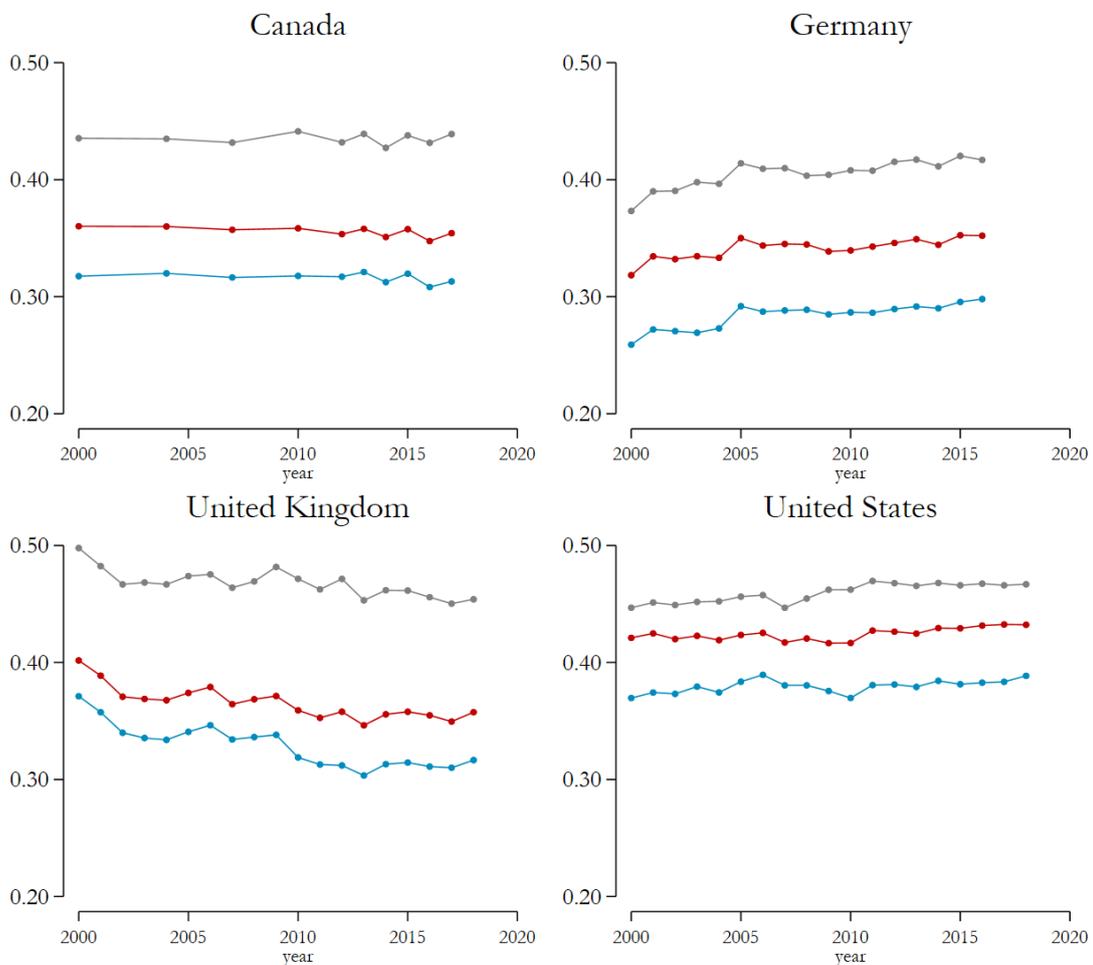
In recent years, advanced societies have been showing inequality increasing trends. As shown by Causa and Hermansen (2018) social transfers are an important source of income support particularly among low-income households, but the authors emphasized that total cash support has declined from 2000 to the mid 2010s. Thus, in this brief, we take a closer look at the changes in the income distribution over this period. For this study, we select four countries from the *Luxembourg Income Study (LIS) Database* that have mostly annual data for the period 2000 to 2018. As of March 2021, the British data became available in an annual series, German and the U.S. data were already annualised before, and the Canadian series contains annual data starting from 2012.

This article is structured as follows. First, we present an overview of Gini Index trends, calculated based on three different definitions: *market* income, *gross* income, and *disposable* income. We hence analyse by how much inequality has been reduced from *market* income to *disposable* income and how this pattern has changed over-

time. In a next section, we look at how incomes have developed at the bottom, at the median, and at the top of the income distribution. In a last section, we focus on the effect of the tax system in inequality reduction for the year 2016. The conclusion seeks to give advice for further studies analysing redistribution.

Inequality of what? This seems a rather simple question, but the answers are manifold. Related to human well-being, the literature focuses mostly on two dimensions, first ‘inequality of *outcomes*’ (such as the level of income or educational attainment) and second ‘inequality of *opportunities*’ (such as unequal access to employment or education) (UNDP, 2013). Here, we focus on income, but various other angles such as wealth, material well-being, or social exclusion ought to be considered if one wanted to get a broader understanding about human well-being in a cross-national perspective. In this article, we take the position that redistribution through state efforts is a crucial pillar for reducing inequality. Two major pathways of social redistribution exist; one is the collection of social contributions and

Fig. 1. Gini Index trends in Canada, Germany, United Kingdom, and the United States



— Disposable income (dhi) — Gross income (hitotal) — Market income

Note: *Market* income is defined here as factor income + contributory pensions + private transfers.

Source: *Luxembourg Income Study (LIS) Database*.

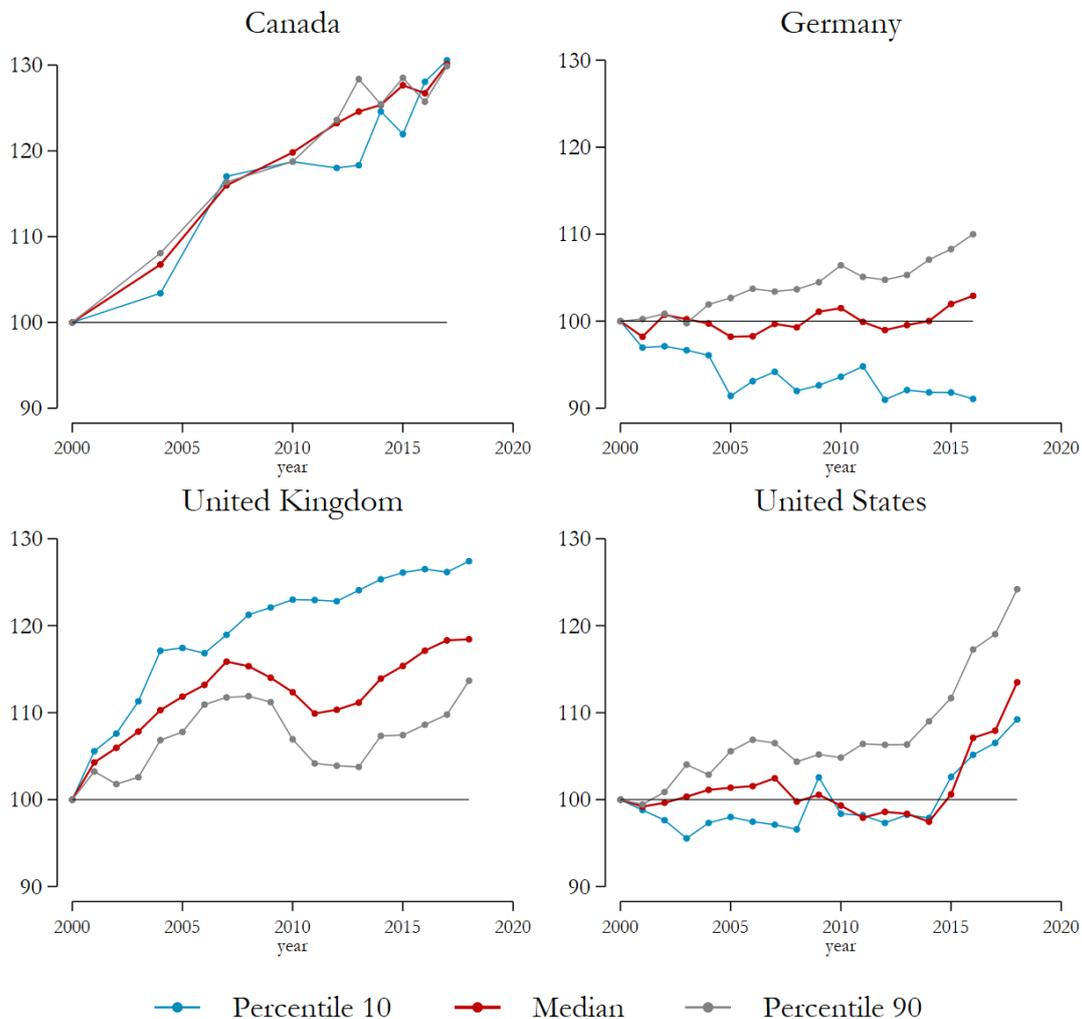
taxes (in progressive tax systems, average tax rates increase with income, and hence reduce inequality), the second is the allocation of benefits, which is mostly in favour of low-income households.

Thus, in the following, the question ‘inequality of what’ is answered by ‘inequality of income’. We apply three definitions of income to show the impact of two stages of redistribution (Figure 1). First, we take a look at *market* income, here defined as labour income plus capital income plus contributory pensions, and plus private transfers. This approach considers contributory state pensions, as well as any private pensions, as intertemporal deferred wage, hence part of *market* income rather than social redistribution. Our second definition, *gross* income, adds transfers received by the state. Thus, the distance between the line *market* income and *gross* income is in the following labelled *social transfers* redistribution. Finally, a last definition looks at *disposable* income, which deducts social contributions and income taxes from *gross* income. The distance between *gross* income and *disposable* income is in the following labelled *tax* redistribution.

Figure 1 exemplifies well that redistribution works rather differently in the four countries, with the US showing clearly the least redistributive effect. When we consider a stepwise approach, to first look at the effect of *social transfers* and then at the effect of *taxes*, we find that in Canada and the United Kingdom redistribution is mostly achieved

through *social transfers*, whereas inequality reduction in Germany and the United States is achieved through both components rather equally. All four countries show that inequality trends are strongly influenced by inequality of *market* income. Since *market* income inequality is slightly reducing over the period 2000 to 2018 in the United Kingdom (and social transfers have been extended since the mid-2000s (Department for Work and Pensions, 2020)), inequality of *disposable* income decreased as well. This stresses the central role of social assistance benefits in redistribution. However, inequality started to increase again in the latest years, mostly due to rising inequality at the top 1% (Bourquin *et al.*, 2020). On the other hand, as *market* income inequality keeps increasing in Germany and the United States (and redistribution is held rather constant over the period), inequality of *disposable* income increased as well. In Germany, three elements lead to a rather substantially lower inequality as compared to the United States: *market* income inequality is lower, *social transfers* redistribution is larger, and *tax* redistribution is also larger. However, German inequality is catching up to yield similar levels, as present in Canada. Inequality on *disposable* income in Canada still slightly exceeds Germany, mostly due to a less redistributive effect in taxes.

Fig. 2. Real growth trends in Canada, Germany, United Kingdom, and the United States



Note: *Market* income is defined here as factor income + contributory pensions + private transfers.
 Source: Luxembourg Income Study (LIS) Database.

While Figure 1 above considered inequality as a whole in the total population (so that a higher inequality could possibly be due uniquely to the worsening of the situation of the poor, the improvement of the situation of the rich, or any combination of the two), in Figure 2, we take a closer look at how incomes have evolved at different points of the distribution. In order to do so, we take *disposable* income at three points of the distribution (the upper threshold of the first decile – percentile 10, the median, and the lower threshold of the highest decile – percentile 90). We plot the increases in real terms (in 2017 PPPs) for each of the three values over the period under consideration. Some rather different patterns emerge for the four countries considered. In Canada, even during the years of the financial crisis, the entire population seems to have benefitted rather equally of the large real growth that occurred between 2000 and 2017 (which, by the end of the period, reached rates of 30% for all three groups of the distribution considered here). The United Kingdom is the only one of the four countries to exhibit clear signs of pro-poor growth, at least until the first half of the 2010s, with increases at the bottom of the population on average twice as large as those at the top. Especially during the financially crisis years, the upper half of the population suffered negative growth, while persons at the bottom experience small growth rates. These findings are well reflected in the figures above that pictured the UK as the only country with slightly decreasing overall inequality, albeit the trend is clearly reversed for the latter part of the period (as also shown in Bourquin et al., 2020). The small distance of the growth lines to the horizontal baseline highlight the absence of growth in Germany as well as in the US until 2014 (except for the top). This is particularly visible in Germany, where the growth rate of the percentile 90 reached a peak of above 10% by 2016. At the same time, the percentile 10 shows a substantial decline in real values over the same period. Also the increasing American inequality seems

to be mostly driven by the large gains at the top, with little difference between the bottom and the median.

Having analysed the over-time dimension, we focus now on further exploring one cross-section, year 2016. Figures 3.1 and 3.2 exemplify how *tax* redistribution (social contributions and income taxes) varies across the income distributions in these four countries. Figure 3.1 displays on the *x-axis* *gross* income equivalised by the square root scale expressed in 2017 PPP amounts. In this way, income amounts can be directly compared across countries. The points shown refer to the distribution of *gross* income divided in 100 percentiles. For each percentile, we calculated a mean tax rate, derived from the difference in *gross* and net amounts.

Thus, each point $(x_{1,100}, y_{1,100})$ refers to the average tax rate for the average *gross* income in the respective percentile. Figure 3.2 slightly adjusts the perspective to evaluate the same numbers. On the *x-axis* we plot the same *gross* income values scaled to the 100 percentiles, on the *y-axis* we show the average amount of taxes paid for each percentile.

In both figures, the bottom three percentiles have been suppressed due to negative values in *gross* income. Respectively the very high amounts of the three percentiles at the upper end are not shown for visual clarity. We explicitly acknowledge the extraordinary importance of the top three percent in the overall impact of the tax budget and redistribution, but we aim to focus here on comparing the overall structure of the tax system and redistribution across the whole distribution.

Figure 3.1 shows that the countries vary considerably with respect to the taxburden at similar levels of income. For example with an amount of 35 000 dollars (approximately the median income in all four countries) the tax burden is the highest in Germany and the lowest in

Fig. 3.1. Mean gross income and average tax rates in 2016

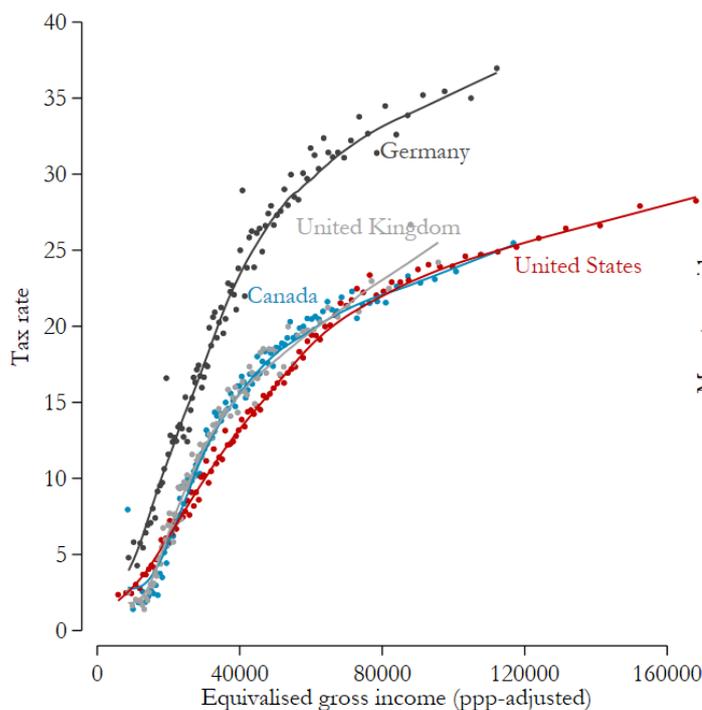
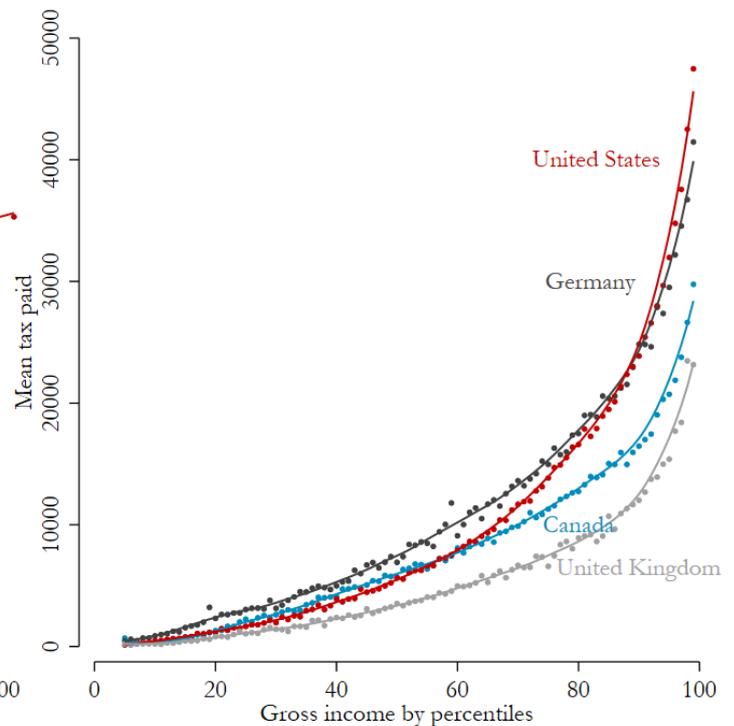


Fig. 3.2. Mean tax paid and gross income by percentiles



Notes: *Gross* income is equivalised by the square root of household members and expressed in 2017 PPPs.

Source: Luxembourg Income Study (LIS) Database.

the United States. This results also in the highest tax amounts paid at the median in this comparison (see Figure 3.2). Showing the progressivity of the tax system, tax rates and income amounts further increase with income in all four countries, but with different patterns. Figure 3.1 mirrors well the high inequality at the top in the United States, in that, although the rich are taxed rather low as compared to the rich in Germany, still results in higher tax amounts paid for the top ten percentiles (Figure 3.2).

Two notes of caution need to be placed here. First, tax information is collected very differently in these four countries. In Canada taxes and contributions are available from tax registers, in Germany and the United States they are simulated from gross income, and in the United Kingdom they are fully collected through survey questions. This leads to rather good representative numbers in the micro data with a view to National Accounts numbers (not shown here) in Canada, Germany, and the United States, whereas in the United Kingdom, taxes are slightly less representative, but particularly social contributions are insufficiently captured. Thus, the curves shown for the United Kingdom might need to be slightly adjusted upwards. A second note of caution refers to the United States. As is shown in the United States, taxation occurs already in the low incomes; this is a snapshot before refunding of tax credits happened; in the LIS data tax credits are considered as income, and are thus included in *gross* income.

Conclusion

In this article, we presented some evidence on the inequality trends and the impact of State redistribution on inequality for four advanced countries over the period 2000 to 2018. The main results for each of the four countries can be summarised as follows.

In Germany, the increase in *market* income inequality (notably due to stagnation of wage income and a modest positive growth limited to the upper half of the distribution) coupled by the absence of substantial efforts in terms of further redistribution (possibly due to the fact that the German welfare system is already among the most redistributive ones) are bringing the historically low levels of German *disposable* income inequality to increase towards the same levels of medium-inequality countries like Canada. On the other hand, the efforts in terms of increased redistributive role of the State at the beginning of the period, and the response to the peaks in inequality preceding the financial crisis, have driven the relatively highly unequal United Kingdom to show slightly decreasing patterns of inequality over the overall period, while at the same time exhibiting substantial growth rates. With stable levels of *market* inequality and redistribution, Canada has managed to achieve the highest growth

over the period, equally benefitting the whole population, hence keeping its inequality stable. Finally, as far as the US are concerned, an increasing *market* income inequality, a modest redistributive effort (if at all), together with an income growth mostly concentrated at the top of the distribution, have implied a further worsening of the inequality situation, leaving the country by far as the most unequal among the advanced economies.

Two notes of caution should be raised here. First, those trends seem to be changing for the very last years of the 2010 decade in the UK and the US, with clear signs of a reversal of the situation in the UK, and of a much higher overall growth in the US. It would thus be important to re-evaluate the situation once more up-to-date data for all four countries are available. Secondly, we acknowledge that our viewpoint is a rather narrow one, which should be complemented by decomposing the analysis for further population subgroups, hence giving a better picture of how inequality affects the different segments of the population.

Finally, we would like to emphasise how, as shown in the last section of the article, the impact on inequality of the different taxation systems deserves special attention. The snapshot presented for 2016 shows how the German taxation system provides tax rates which are way larger than those of the other countries, but the long tail in the US distribution implies that the US collect higher amount of taxes from the rich than Germany. This finding gives food for thought for analysing particularly the redistributive effects of tax systems. Who possibly could and should contribute the most to redistribution? Who benefits from social redistribution? While it is clear that redistributing cash transfers towards the most needy part of the population is a precondition to reduce inequality (“**There’s no substitute for just giving poor people money**”, as claimed by David Brady and Zachary Parolin during a recent interview by the Stone Center on Socio-Economic Inequality on March 11 2021), the debate on taxing the rich needs more evidence-based analysis on its impact on social redistribution for different groups of the population.

References

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**Financial Information and Investment Decisions:
Some Stylized Facts from the United States using the Luxembourg Wealth Study Database**

Piotr Paradowski✉, (LIS & Gdańsk University of Technology)

A sound source of financial information and access to financial services are essential for households to make the right decisions for investing, saving, or borrowing. They affect not only the well-being of households but also the economy as a whole. Due to technological transformation, the last two decades dramatically changed the way households obtain financial information, make decisions, and use the resources in their daily financial routines. Sources of financial information that households profited from to make decisions about saving and investment changed over the years thanks to digitalization, and for sure, they supplied a different form of access to asset accumulation and wealth distribution among different groups in society. However, financial information and the ways of providing financial services are not the only factors that influenced household financial decisions and gave them access to financial instruments or borrowing; households have various objectives and preferences for risk, and differ in endowments and identity.

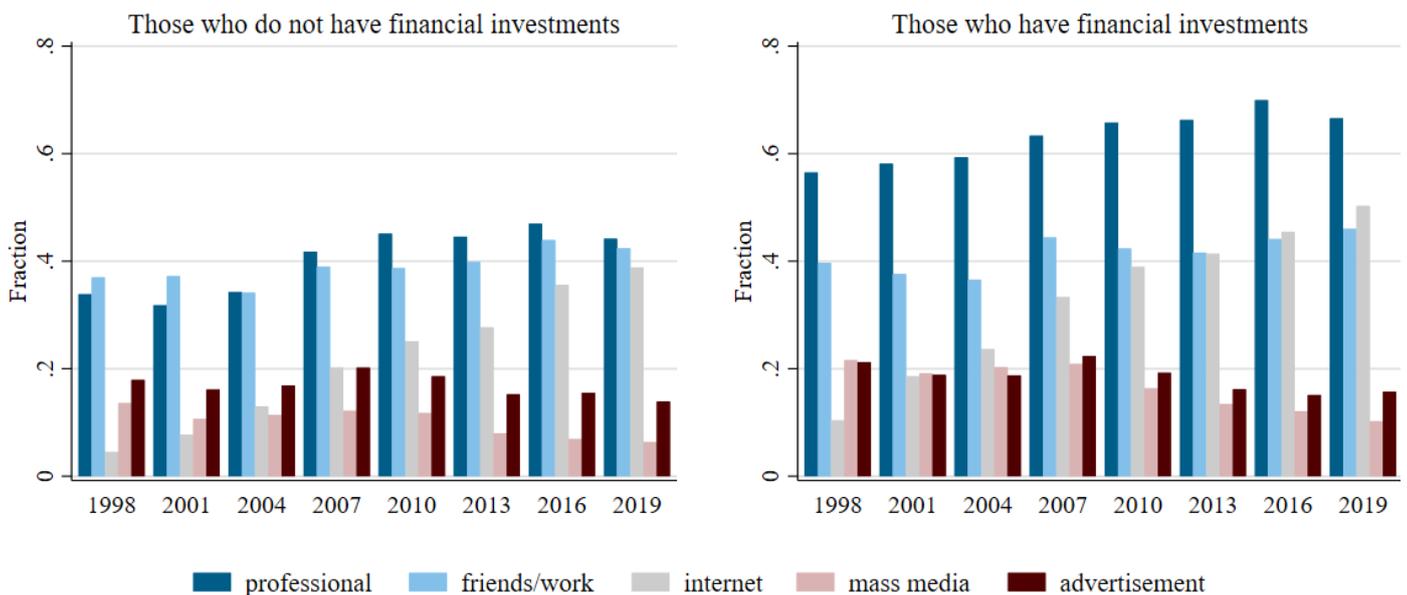
This brief writing aims to examine the sources of information utilized by households for investing decisions. It also assesses to what extent the source of information such as the internet, online financial services, brokers, friends, TV, newspaper, magazines, and advertisement changed over time and whether this correlates with households' decisions about investments. For this purpose, we present several descriptive results by graphing the source of information used by those who possess financial assets invested in private pensions, bonds, stocks, and alternative investments. We also compare these households to those who do not own investment assets. In addition, we employ OLS regression analysis to assess which

sources of information correlate with the stock of financial investments as well as the investments in real assets (defined as real estate that is not considered primary housing, business equity, and other non-financial assets that are not classified as consumer goods). Further, we incorporate financial literacy into the picture of financial information, expecting that more financially knowledgeable persons use more sophisticated financial information protocols.

We exploit the harmonized version of Survey of Consumer Finance (SCF), the US nationally representative survey, available from the Luxembourg Wealth Study (LWS) for the following years: 1998, 2001, 2004, 2007, 2010, 2013, 2016, and 2019. It is worth noting that SCF is a top-notch survey that brings researchers diverse opportunities in household finance research. For our analysis, we employ several LWS harmonized variables that come from the sections of behavioral variables, balance sheet, income, and socio-demographic characteristics of the respondents. Specifically, the variables on financial information provide data on the following sources of information used by the respondent for investing and/or borrowing decisions: (1) lawyer, accountant, financial planner, coded in LWS as a professional source of information (*bafi1_c*); (2) magazines, newspapers, and books, coded in LWS as mass media sources of information (*bafi2_c*); (3) internet (*bafi3_c*); (4) material in mail, TV, radio, advertisements, and telemarketer, coded in LWS as advertisement source of information (*bafi4_c*); (5) friends, relatives, material from work or business contacts (*bafi5_c*). The results presented here utilize only a fraction of the information included in these variables because we are only interested in the source of

Figure 1. Sources of information used when making investment decisions:

Percentage of respondents for two subsamples: those who possess financial investment and those who do not



Source: Luxembourg Wealth Study (LWS) Database.

information used for the investing decisions. Therefore, we created the binary variables from each *baf1/5_c* variable that takes a value one if the respondent mentions a specific source of information and zero otherwise. The variables utilized in the OLS regression analysis as controls contain information on ethnicity (*ethnic_c*), age and gender of the respondent (*age* and *sex*), education (*educ*) as well as household disposable income (*dhi*) transformed using the inverse hyperbolic sine (IHS) function.

Further, using the balance sheet information, we utilized some household financial and non-financial assets to create two subsamples for our analysis. In particular, our subsample of those who invest contains respondents who possess life insurance and voluntary individual pensions (*hasi*), bonds and other debt securities (*hafib*), stocks and other investments (*hafis*), as well as investment funds and alternative investments (*hafii*). The second subsample utilized in the regression analysis contains only respondents who own real estate other than the principal residence (*hanro*), the other non-financial assets (*hanno*) as well as business equity (*hannb*). Finally, we adjust the abovementioned subsamples with the score of objective financial literacy obtained from the variables *baf1_c*, *baf2_c*, *baf3_c* in such a way that we assign value 1 to a respondent who answered all three questions correctly and 0 otherwise. Our dependent variable for the regression analysis is the natural log of financial investments, namely the sum of *hasi*, *hafib*, *hafis*, and *hafii*. We also utilize this variable to create quartiles to assess the frequencies of using particular information sources for those households who invest.

Figures 1 and 2 display the descriptive statistics for the sources of information used when making investment decisions. Figure 1 compares those who do not have any financial investments with those who possess financial investments as defined above. Comparing these two groups of households clearly indicates that financial investment owners rely much more on professional advice from lawyers,

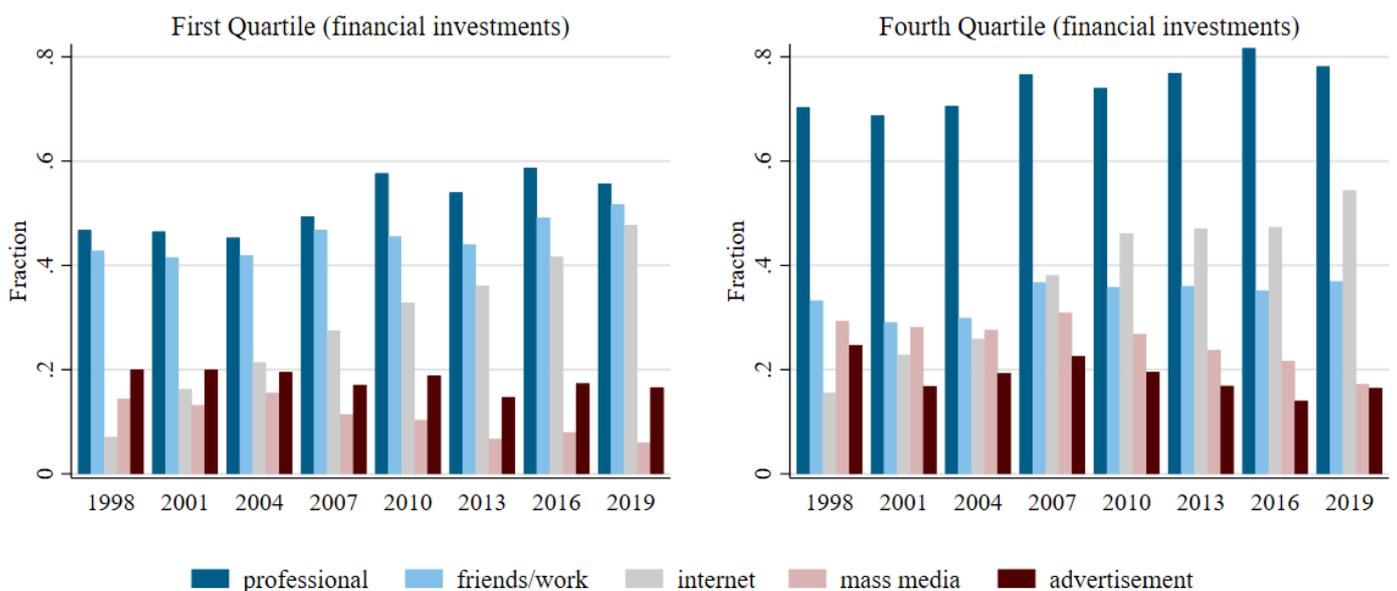
accountants, and financial planners than their counterparts. There is not much difference between these two groups in terms of social network usage (friends, relatives, work) and other information sources. The overtime comparison brings attention to internet usage as a source of investment information. As one would expect, the growth of internet is evident over the last 21 years. The recent decline in getting information from magazines, newspapers, books and advertisements might reflect the increase of the internet as an emerging source of information, starting around the mid-2000s. Social networks' overtime role does not seem to be declining, as this source of information might be easier and cheaper than professional advice and most likely exemplify the personal trust in family, friends, or the work environment.

Figure 2 displays a percentage of respondents from two quartile groups (the bottom and the top) for those who have financial investments. Between-group inequality for those who possess financial investments is extraordinarily high. The mean household financial investments for the group from the first quartile is below \$4 thousand for all analyzed years, while for the group in the fourth quartile, it is above \$2 million in 2019 data. Clearly, there is a difference in particular sources of information by financial investments quartile. Here, too, the data suggests that the professional advice increases dramatically for those in the fourth quartile. The tendency to consult the mass media seems to decline for both groups, but it is more visible for the rich.

Figures 3 and 4 display the regression results for two years, 2001 and 2019, where the dependent variable is financial investments and the real assets investments as defined above. We use the standard procedure for regression estimates to account for the multiply imputed data. Only the coefficients and confidence intervals for financial information are shown for these figures, but the control variables, as mentioned above, are employed in these regressions.

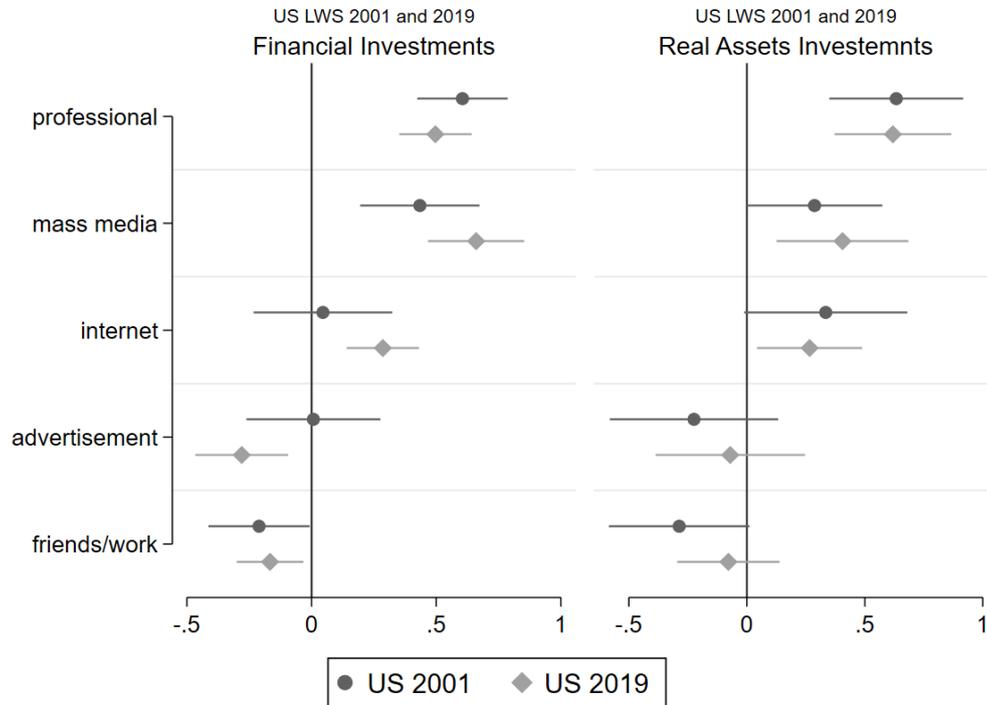
Figure 2. Fraction of respondents reporting various sources of information used for investments

First and fourth quartile



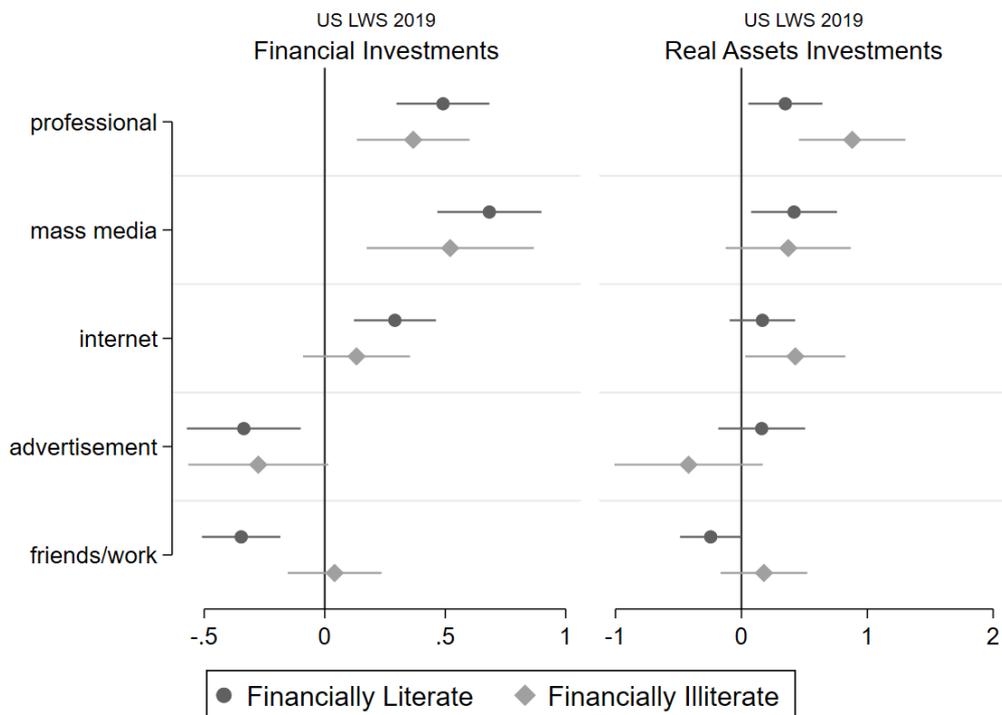
Source: Luxembourg Wealth Study (LWS) Database.

Figure 3. Coefficients and 95% confidence intervals for OLS regression models:
 Dependent variables financial investments (left panel) and real asset investments (right panel)



Source: Luxembourg Wealth Study (LWS) Database.

Figure 4. Coefficients and 95% confidence intervals for OLS regression models:
 Dependent variables financial investments (left panel) and real asset investments (right panel) for accounting for the objective financial knowledge



Source: Luxembourg Wealth Study (LWS) Database.

As shown in Figure 3, both professional advice and mass media play a significant and positive role (the largest coefficients) for the financial and real assets investments for the years 2001 and 2019. Even though there is, on average, a decline in usage of mass media as a source of financial information as presented in Figure 1, its importance to potentially influence financial assets accumulation is increasing over time. Thus, one would argue that respondents might not realize that information taken from newspapers and books can influence financial decisions to accumulate assets more than the information found on the internet. The negative relationship between information used from friends, family, and work and financial investments for both years might be surprising. This relationship is not statistically significant for the real assets investments. The correlation between advertisement and investments is either insignificant or negative. The internet's role for financial investment shows to be necessary for investments in 2019 but insignificant for predicting the financial investments in 2001.

Finally, Figure 4 displays the results for four OLS models, this time only for 2019 due to the lack of financial literacy question in 2001. Again, the dependent variable is either financial investment or real assets investments. The models are estimated for two subsamples, one for those who are financially literate and the second for those who received zero scores on three objective financial literacy questions. The results in Figure 4 indicate that professional services' use is positively correlated with both financial and real assets investments for both subgroups. The financially knowledgeable benefit also from

the information available in mass media, but advertisement and social networks are unbeneficial for the financial capital formation. The relationship is not valid for this group of respondents when we look at real assets investments as the dependent variable. While there are some differences between financially literate and illiterate in terms of information used to invest, one source of information might be good for both, namely professional advice, specifically for those who have trouble understanding basic finance concepts. A relatively cheap source of information, such as a social network or internet, might not necessarily turn out as the best source of information for financial investments for those less knowledgeable. Yet, the internet could help this group of people to make better choices while investing in real assets. By relying on social networks, the financially literate could experience a decrease in investments (*ceteris paribus*).

In conclusion, further research could be performed by the LWS users to investigate the various parts of wealth and income distributions, distinguishing asset and income poor, middle class, and the high income and net worth households, to explore how diverse sources of financial information associated with household investments. Further, the regression analysis could be performed using the various financial information variables as dependent variables, instead of explanatory ones, to establish what factors shape the usage of multiple sources of information for the investment decisions. Clearly, the reverse direction of the relationships could be justifiable, so this short research presentation does not anyway claim a causal relationship between various sources of information when making investment decisions and the stock of financial investments.

Data News / Data Release Schedule



LIS is happy to announce the following data updates:

Israel – Annualisation of the country series from 2002-18 for the LIS Database (11 new datasets and 11 revised)

Norway – **NO16** added to the LIS Database (1 new dataset and 1 revised)

Norway – **NO16** added to the LWS Database (1 new dataset and 2 revised)

Slovakia – Annualisation of the country series from 2014-18 for the LIS Database (5 new datasets and 6 revised)

United Kingdom – Addition of **UK18**, further annualisation backwards in time and revision of the overall series for the LIS Database (4 new datasets and 21 revised)

United States – **US19** added to the LWS Database (1 new dataset and 8 revised)

Czech Republic – The Czech data series in the LIS Database underwent consistency revisions.

Data Releases and Revisions – Luxembourg Income Study (LIS)

Israel

11 new datasets have been added to the LIS Database (**IL02, IL03, IL04, IL06, IL08, IL09, IL11, IL13, IL15, IL17, IL18**). The datasets are based on the respective waves of the **Household Expenditure Survey (HES)** carried out by **Central Bureau of Statistics** and reworked by the National Insurance Institute of Israel. Earlier datasets of the Israeli data series (**IL79, IL86, IL92, IL97, IL01, IL05, IL07, IL10, IL12, IL14, IL16**) were revised for consistency; **IL05** has been fully reharmonised to ensure a better over time comparison with the annual data **IL02-IL18**.

Norway

One new dataset from Norway, **NO16** (Wave X), has been added to the LIS Database. The dataset is derived from the fully register-based Household Income Statistics maintained by **Statistics Norway (SSB)**. In addition, in **NO13** minor revisions to the income blocks *pensions* and *public social benefits* were carried out.

Slovakia

Five new dataset from Slovakia, **SK14** (Wave IX), **SK15** (Wave X), **SK16** (Wave X), **SK17** (Wave X), and **SK18** (Wave XI), have been added to the LIS Database. The datasets are based on the **Survey on Income and Living Conditions (EU-SILC)** carried out by **Statistical Office of Slovakia (ŠÚ SR)**. In addition, the entire LIS series for Slovakia (**SK92, SK96, SK04, SK07, SK10, SK13**) has been revised for consistency.

United Kingdom

Four new datasets, **UK96** (Wave IV), **UK97** (Wave IV), **UK98** (Wave V), **UK18** (Wave XI), have been added to the British series in the LIS Database, which make the series fully annual from UK94 to UK18. For this update, the latest version of the Family Resources Survey (FRS) provided by **Department for Work and Pensions (DWP)** and **Office for National Statistics (ONS)** was used.

Various adjustments were carried out for UK99-UK17:

Labour income and corresponding income taxes and social security contributions have undergone a major revision. As a result of these changes, the consistency between gross and net labour income – and hence the amount of income taxes and social security contributions – has improved considerably. Several public benefits variables (including pensions and non-pension benefits) have been slightly adjusted.

Income taxes and social security contributions, which were available as a unique amount only in *p/hxitsc* before, are now available also separately in variables *p/hxitax* and *p/hxscont*.

A mistake in the calculation of utilities (embedded in variable *hc4* (actual rent and utilities) has been corrected; actual rent (*hc41*) has been revised to include total gross rent (before deduction of housing benefits and other contributions).

Czech Republic

The Czech data series underwent consistency revisions. In **CZ92** *lfs* (labour force status) was corrected, and for the whole series the block of immigration, as well as industry and occupation codes in *ind1_c* and *occ1_c* were reviewed for consistency.

Data Releases – Luxembourg Wealth Study (LWS)

Norway

One new dataset from Norway, **NO16** (Wave X), has been added to the LWS Database. The dataset is derived from the fully register-based Household Income and Wealth Statistics maintained by **Statistics Norway (SSB)**. In addition, in **NO13** minor revisions to the income blocks *pensions* and *public social benefits* were carried out.

United States

One new dataset, **US19** (Wave XI), has been added to the LWS Database. This dataset is based on the 2019 wave of the **Survey of Consumer Finances (SCF)** carried out by **Board of Governors of the Federal Reserve System**. The datasets **US01, US04, US07, US10, US13, and US16** were revised in pension income; private pensions (*hi33*) include now also withdrawals from pension accounts, in order to yield better consistency with the NBER TAXSIM calculator for simulation of income taxes.

LIS/LWS Data Release Schedule

	Summer 2021	Autumn 2021
LIS Database		
Australia		AU16/18
Austria		Annual data AT03-AT18
Canada	CA18/19	
Egypt		EG18
Germany	DE17/18	
Iceland	Annual data IS03-IS17	
Latvia		Annual data LV13-LV18
Lithuania	LT18	
Luxembourg		LU16
Mali	ML14/17/19	
Mexico	MX05/MX06	
Netherlands	NL15/NL16/NL17/NL18	
Russia	RU18	
Vietnam		VN93/98/02/04/06/08/10
Uruguay	Annual data	
LWS Database		
Chile		CL07/12/14/17
Slovenia	SI17	
Spain	ES17	

Working Papers & Publications

Focus on

Drawing a Line: Comparing the Estimation of Top Incomes Between Tax Data and Household Survey Data [↗](#)
LIS WP No.805 by Nishant Yonzan [✉](#), Branko Milanovic [✉](#), Salvatore Morelli [✉](#), and Janet Gornick [✉](#) (Stone Center on Socio-Economic Inequality, The Graduate Center, CUNY)

The paper uses the flexibility of household survey data to align their income categories and recipient units with the income categories and units found in data produced by tax authorities. Our analyses, based on a standardized definition of fiscal income, allow us to locate, for top-income groups, the sources of discrepancy. We find, using the cases of the United States, Germany, and France, that the results from survey-based and tax data correspond extremely well (in terms of total income, mean income, composition of income, and income shares) above the 90th percentile and up to the top 1 percent of the distribution. Information about income composition, available in the US, allows us to investigate the determinants of this gap in the US. About three-fourths of the tax/survey gap is due to differences in nonlabor incomes, especially self-employment (business) income. The gap itself may be due to tax-induced re-classification of income from corporate to personal or/and to lower ability of surveys to capture top 1 percent incomes.

Homoploutia: Top Labor and Capital Incomes in the United States, 1950-2020 [↗](#)

LIS WP No.806 by Yonatan Berman [✉](#), and Branko Milanovic [✉](#) (Stone Center on Socio-Economic Inequality, The Graduate Center, CUNY)

Homoploutia describes the situation in which the same people (homo) are wealthy (ploutia) in the space of capital and labor income in some country. It can be quantified by the share of capital-income rich who are also labor-income rich. In this paper we combine several datasets covering different time periods to document the evolution of homoploutia in the United States from 1950 to 2020. We find that homoploutia was low after World War II, has increased by the early 1960s, and then decreased until the mid-1980s. Since 1985 it has been sharply increasing: In 1985, about 17% of adults in the top decile of capital-income earners were also in the top decile of labor-income earners. In 2018 this indicator was about 30%. This makes the traditional division to capitalists and laborers less relevant today. It makes periods characterized by high interpersonal inequality, high capital-income ratio and high capital share of income in the past fundamentally different from the current situation. High homoploutia has far-reaching implications for social mobility and equality of opportunity. We also study how homoploutia is related to total income inequality. We find that rising homoploutia accounts for about 20% of the increase in total income inequality in the United States since 1986.



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by Deepak Malghan, Hema Swaminathan

News, Events and Updates

Announcement – LIS New Director Appointed!

The LIS board is pleased to announce the appointment of Professor Peter Lanjouw as the new LIS Director starting from September 2021. Peter will succeed Professor Daniele Checchi.

As Director, Peter will lead LIS to further expand its activities to enable, facilitate, promote, and conduct cross-national comparative research. With many years as the head of the research team on poverty and inequality at the World Bank, Peter has a vast experience on both research and data related to income, poverty and inequality. He is an internationally recognized researcher and currently holds the position of Professor of Economics at the University of Amsterdam.

Peter's proven experience in research and policy monitoring in inequality and poverty, together with his long-standing knowledge of LIS, will undoubtedly help him advance LIS' mission and achieve further growth in the future. LIS welcomes him warmly!

Video recordings for the first (LIS)²ER workshop: “The Distributional Effects of Higher-Education Expansion” are now available!

LIS is happy to announce that the video recordings of the first (LIS)²ER workshop on “The Distributional Effects of Higher-Education Expansion” are now available!

The workshop took place virtually from Thursday November 12th through Friday November 13th, and aimed to expand and deepen the understanding of the implications of the mass expansion of higher education for inequality. Six presentations of comparative as well as country-specific studies from different fields in the social sciences dealt with the societal, economic and political causes and consequences of higher education expansion. By discussing how it affects educational and labour market outcomes as well as social mobility, the contributions provided insights on the role of education in fighting (or spurring) inequality.

Video recordings of the workshop session are available [here](#).

Release of a New Book; Inequality in the developing world, edited by Gradín, Leibbrandt, and Tarp

LIS is delighted to announce the publication of the book *Inequality in the Developing World* by Oxford University Press. The book is freely available on full open access. LIS has contributed to the book with Chapter 4 (“Empirical Challenges Comparing Inequality across Countries: The Case of Middle-Income Countries from the LIS Database”), by Daniele Checchi, Andrej Cupak, and Teresa Munzi, in which the development patterns in economic inequality for several middle-income countries are investigated making use of the LIS data.

LIS team participation in conferences

On 11th of March, Josep Espasa Reig has contributed to the 2021 [conference on New Techniques and Technologies for Statistics \(NTTS\)](#) where he made a presentation on “Continuous integration and sharing code in Official Statistics: an example with the ‘lissyrtools’ package”. An abstract of his presented work is available [here](#).

The Stone Center – The Next Five Years

The Stone Center on Socio-Economic Inequality -- home to the US Office of LIS -- has received an immensely generous gift from Jim and Cathy Stone, the Boston-based philanthropists who have funded the center since its inception. By way of brief background, in 2016, the Stones gave a first gift of US\$2,500,000; that enabled Janet Gomick and her team to expand the "LIS Center" (established in 2009) and to relaunch it as the "Stone Center". These initial funds supported the new center for its first five years (2017-2021). Supplemental funds, given during those years, allowed the Stone Center to add a new postdoc program, one that would, in its first phase, support six two-year postdoctoral positions. (The fifth and sixth postdocs will be announced shortly).

On February 25, 2021, the CUNY Graduate Center [announced](#) that Jim and Cathy Stone gave a new gift, in the amount of \$9,500,000. A core gift of \$8,500,000 will fund two components during the center's second five years (2022-2026). First, it will support the operating costs of the center; these funds will be focused on strengthening the center's professional staff, and supporting CUNY Graduate Center students, through research assistantships, stipends, and (continuing a multi-year tradition) financing three students annually to attend the LIS Summer Workshop. Second, it will support ten additional postdoctoral scholars. The Stones also granted the Graduate Center a \$1,000,000 endowment to establish a professorship to be held (in perpetuity) by the Director of the Stone Center.

The Stone Center team is tremendously grateful for this generous support and looks forward to the next five years, including the opportunity to build new and even stronger ties with the LIS team in Luxembourg.