American Exceptionalism in Market Income Inequality: Inequality across Household Types [1]

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A substantial body of cross-national research has established that the US has an exceptionally high level of inequality of disposable household income, where disposable household income refers to income after accounting for taxes and transfers. Among working-age households, the US's high level of disposable income inequality is driven upward by the combination of a high degree of inequality in market income – i.e., income before taxes and transfers – and a moderate degree of redistribution[2].

In the proposed paper, we will look more deeply at market income inequality, focusing on its main component – labor income – across a group of 24 OECD countries. Our primary analytic strategy is to disaggregate working-age households (in which all members are below age 60), in the US and in our comparison countries, into household subgroups. These subgroups are distinguished by the number and gender of earners in the household, and (subsequently) by the partnership and parenting status of the household. Households' labor income is, of course, shaped by their numbers of earners. The logic of further disaggregating by gender, partnership, and parenting is rooted in the labor economics literature, which has long established that workers' earnings (gross and net of other worker- and job-level characteristics) are affected by their gender, and whether or not they have partners and/or children.

Using the Gini coefficient of household-level market income as our main outcome measure, we will assess inequality that exists both within and between various household types, and compare the results for the US with those in other OECD countries. Our objective is to establish whether the greater underlying US market income inequality is the result of (a) higher earnings inequality within each of the relevant groups, (b) an unusual composition (for example, a high share of groups where earnings inequality is either high or low), or (c) large gaps between groups in mean earnings.

To carry out our analyses, we will use microdata, based on household surveys, from the Luxembourg Income Study (LIS) Database. We include 24 countries Australia, Canada, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Iceland, Ireland, Israel, Italy, Luxembourg, Netherlands, Norway, Poland, Russia, Slovakia, Slovenia, Spain, the UK, and the US.

In work completed so far, we find that that within-group inequality of market incomes, in all of these subgroups, is high in the US, by OECD standards. E.g., Figure 1 reports inequality across six of our subgroups (based on the number and gender of household earners). As this figure reveals, within each

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[1] Our proposed paper will update and expand an unpublished 2017 paper: *"American Exceptionalism in Market Income Inequality: An Analysis Based on Microdata from the Luxembourg Income Study (LIS) Database*", by Janet Gornick, Branko Milanovic, and Nathaniel Johnson (Luxembourg Income Study Working Paper #692). We will update the main analyses in our earlier paper, shifting from 2010 data to 2016 data, add further empirical components, and expand our policy analyses.

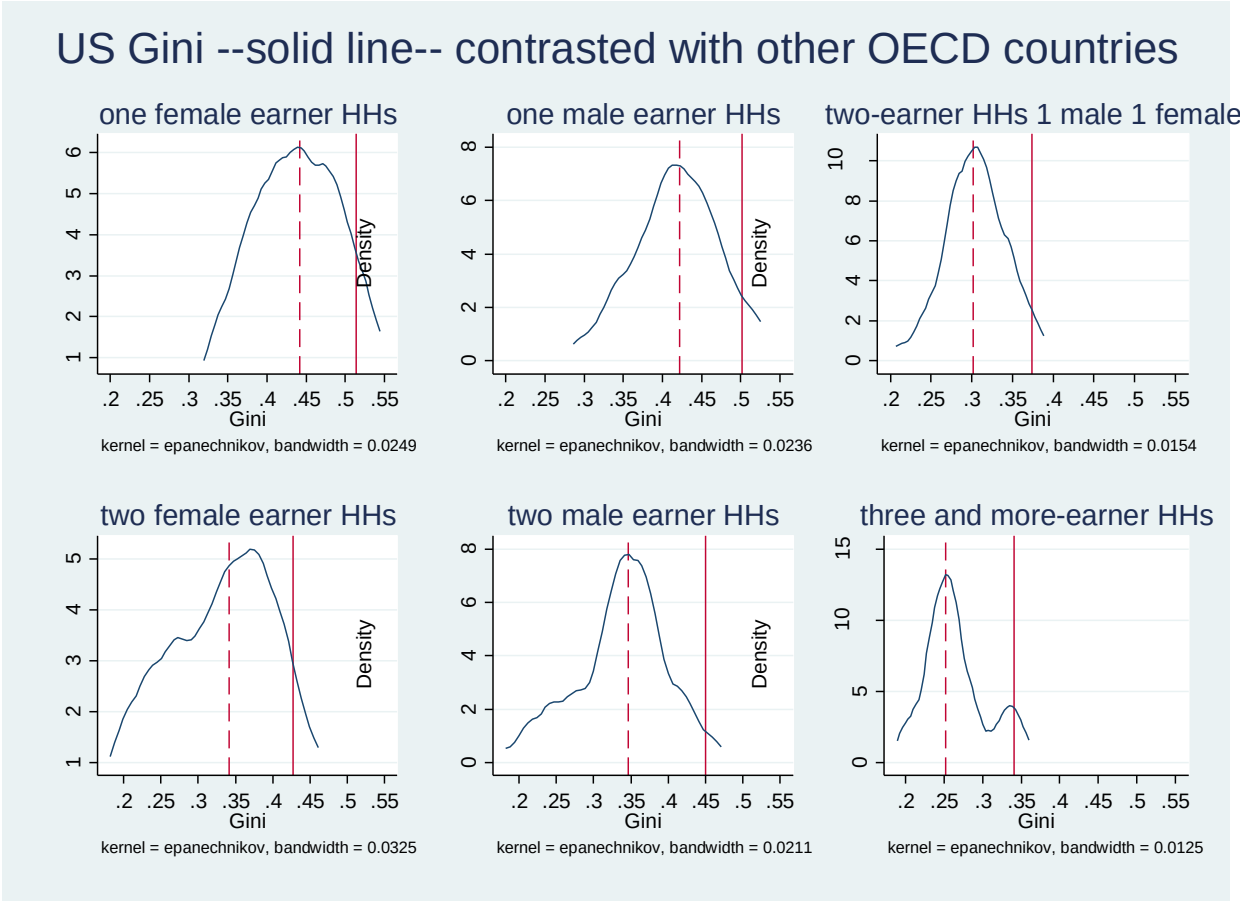
[2] See Gornick, Janet, and Branko Milanovic. 2015. "*Income Inequality in the United States in Cross-National Perspective: Redistribution Revisited*." LIS Center Research Brief (1/2015).

of these six groups, market income inequality in the US exceeds the OECD average – and often by a substantial margin. In subsequent sections of the proposed paper, we will assess a finer set of subgroups – introducing the components of partnership and parenting status. We will also report our cross-national findings at multiple points in time, to assess whether our results about US exceptionalism are robust over time.

We will close our empirical work with a multivariate analysis. To tease out the specificity of US inequality, we will estimate regressions in which the Gini coefficient for each country/subgroup is regressed on groups' relative mean income (i.e., relative to the mean of that country), and dummy variables for the subgroups (N=15) and countries (N=24). We will use two specifications: an unweighted regression and a weighted regression where each group is weighted by its share in the population of a given country. The latter adjusts for differing household compositions across countries.

In a final section, we will discuss the policy implications of our findings, drawing on the growing literature focused on "predistribution" policies which are designed to mitigate market income inequality.

Figure 1



Note: Each graph shows the distribution of Gini coefficients for a given household type across 24 OECD countries. The distribution (density) function is a smoothed histogram. The unweighted country median Gini for 24 countries is shown by the dashed line. US Gini is shown by the solid line. The interpretation is as follows: if the US line is to the right of the dashed line, this means that the US displays (for that particular household type) higher inequality than is usual for OECD countries. The more the US line is to the right the higher US inequality is compared to the rest of the comparison countries. The opposite, of course, would be true if the US line were to the left of the dashed line.