DESA Working Paper No. 6
ST/ESA/2005/DWP/6

October 2005

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John Weeks

Abstract

This paper argues that income inequality has increased in several, but not all, developed countries over the last twenty years. The increase in some countries supports the conclusion that the deregulation of markets, resulting in the concentration of economic power, is the fundamental cause as well as the gross manifestation of inequality of both income and wealth.

JEL classification: D30 (General); D31 (Personal Income, Wealth and their Distributions); D33 (Factor Income Distribution).

Keywords: income distribution, inequality, unemployment, developed countries.

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John Weeks

The current discourse on inequality within countries, and especially within the developed market economies of the Organization for Economic Cooperation and Development (OECD), must be placed in historical context. A long period of the growth of international trade within a laissez-faire framework and colonial expansion characterized the second half of the nineteenth century, with the United Kingdom the dominant country, being overtaken by a group of later developers, principally the United States of America, Germany, and France. This period of relative peace *among the advanced countries* came to an end in 1914, with the outbreak of the First World War (or, 'the Great War', as it was called at the time).

The thirty years that followed brought a series of disasters to the developed world: hyper-inflation in Germany, the Great Depression, and a second global war. Almost without exception, the leadership of the mainstream parties in the developed countries, from Christian Democrats through the various Socialist parties, concluded that these disasters resulted from instabilities inherent in market economies. In particular, there arose a consensus that the two great authoritarian political systems of the century, fascism and communism, had in no small part arisen from the consequences of those instabilities.

In the academic literature, the prominent British economist K. W. Rothschild made this connection in what was perhaps the profession's leading periodical, the *Economic Journal* (Rothschild, 1947). Discussing the tendency towards concentration of economic power in major international markets, Rothschild referred to "the most violent aspect of the oligopolistic struggle, the attempts of the biggest oligopolistic groupings to regroup their forces on a world scale" (Rothschild, 1947: 318). He argued that a characteristic of this regrouping on a world scale was the anti-social effect of oligopolistic competition: "there is no fundamental difference between 'economic activities like cut-throat pricing' and 'modern wars and armed interventions'" (Rothschild, 1947: 317). He went on to conclude, "that Fascism…has been largely brought into power by [the] struggle…of the most powerful oligopolists to strengthen through political action, their position in the labour market and vis-à-vis their smaller competitors, and finally to strike out in order to change the world market situation in their favour" (Rothschild, 1947: 318).

At the beginning of the twenty-first century, it is startling to read such strong political conclusions anywhere, much less in a major economics journal. That such views would be held by a mainstream economist, and published in a leading technical journal, reflects the generally accepted view of the time that two wars, a disastrous depression, and the rise of two authoritarian systems were evidence of something fundamentally amiss with competitive capitalism that was insufficiently regulated and contained fundamental problems that went well beyond 'market failures'. Many of the institutions established in the last years of the Second World War, in San Francisco, Washington, D.C. and Bretton Woods, were designed to limit the working of markets mechanisms at the international level.

In 1944, the Declaration of the International Labour Organization had affirmed, with more hope than likelihood, that 'labour is not a commodity'. In 1945, the International Monetary Fund was created with two main purposes that seem quite extraordinary at the beginning of the twenty-first century: main-

taining economic prosperity among countries and strictly limiting the market in currencies through a fixed exchange rate system. Fixed exchange rates, based on a US dollar with a fixed gold price, was designed to end 'competitive devaluations' ('beggar thy neighbour' devaluations), the purpose of which was to 'export unemployment'. So far is current thinking from the concerns of sixty years ago that these phrases, which to contemporaries encapsulated the lessons of catastrophic experience, seem quaint and absurd.

The commitment of post-war leaders to preventing the international rise of uncontrollable corporate power had its domestic aspect, which was pursued with even greater zeal. Along with the concern that the rise of corporate power was a threat to democratic institutions went the closely linked view that excessive concentrations of private income and wealth was a manifestation of that threat at the household and individual levels. The broad political support for policies to restrict the concentration of wealth and income came from strong trade union movements in most of the countries, which, again, at the beginning of the twenty-first century seems an anachronism. The growing international rivalry between the United States and the then Soviet Union reinforced the political commitment in the 'free world' to policies of limiting inequality, with the political leadership in Washington recognizing a need to demonstrate the superiority of the market system in providing for the welfare of its citizens.

It is the argument of this paper that income inequality has increased in several, but not all, developed countries over the last twenty years. The increase in some countries supports the conclusion that the deregulation of markets, resulting in the concentration of economic power, is the fundamental cause as well as the gross manifestation of inequality of both income and wealth. The argument is developed as follows. The next section presents the abstract analytics of income distribution, to demonstrate that theoretical inconsistencies in the neoclassical framework lead to the conclusion that the functional distribution of income, and, therefore, the size distribution, is indeterminate without considering bargaining power. The following section reviews the movements in income inequality in seventeen OECD countries, which produces a clear distinction between 'the Anglo-Saxon four' and the other thirteen. The penultimate section considers causation, using a simple statistical exercise to support the argument that where income inequality has increased, it resulted from the imbalance in bargaining power resulting from the deregulation of markets. The concluding section proposes a change in the economic and political agendas in which the central task of policy is to reverse the measures which have caused the imbalance in bargaining power.

Analytical framework

The orthodox argument against interventions to reduce inequality derives from an analysis that concludes that income distribution arises from the production technology of an economy, and that the resulting distribution is technically determined, economically efficient, and unique given that technology. It follows, therefore, that inequality reflects the distribution of assets, including so-called human capital,[1] and the efficient return to those assets. In the context of globalization, this argument is extended to maintain that if it is the case that globalization has been associated within increased inequality, this results from irresistible technological and demographic factors that cannot be countered; or, if attempts are made to counter them, the result is to foster inefficiency and undermine competitiveness.

1 So-called because the concept lacks one of the central characteristics of capital: vendibility. 'Human capital' refers to the enhancement of the skills of a person, usually acquired through education of some sort. While the labouring time of the skilled person can be sold, the asset in question, being skilled, cannot be sold, except in a slave society. An asset which cannot be bought and sold is not capital.

However, this argument, that distribution is technically determined, is logically flawed. It derives from an analysis based upon the concept of a unique aggregate production function that dictates aggregate distribution, whose validity was refuted in the famous Cambridge Controversy (Robinson, 1969; Harcourt, 1972). The refutation begins with a simple two-commodity economy in which there is one output, one input, and the input is completely used in each period (capital has a lifespan of one period). To produce the commodities, there is a range of methods with fixed coefficients, and capitalists choose the most profitable given the factor prices that they face. The combined methods for the two commodities, one an input into the other, constitute the technology of the economy. The production conditions for the economy using a technology designated as A, with 1 standing for the output and 2 for the input, can be written as follows (for greater detail, see Weeks, 1989):

$$(\text{unit capital cost})_1 + (\textit{unit labour cost})_1 + (\textit{unit profit})_1 = (\text{price})_1$$

$$(\text{unit capital cost})_2 + (\textit{unit labour cost})_2 + (\textit{unit profit})_2 = (\text{price})_2$$

The terms in italics sum to the aggregate value added of the economy. In more detail, this can be written as:

$$p_{(a2)}k_{(a1)} + p_{(a1)}wl_{(a1)} + (\text{profit})_{(a1)} = p_{(a1)}$$

$$p_{(a2)}k_{(a2)} + p_{(a1)}wl_{(a2)} + (\text{profit})_{(a2)} = p_{(a2)}$$

Where the p's are prices, k's are the unit capital inputs, w is the amount of the output workers consume, and the l's are unit labour inputs, for technology A. If we omit the technology symbols, set the prices of the output to unity (so that $p = p_2/p_1$), and define r as the profit rate on capital, we obtain:

$$[1 + r]pk_1 + wl_1 = 1$$

$$[1 + r]pk_2 + wl_2 = 1$$

These two equations can be solved simultaneously for the profit rate. This allows the profit rate to be expressed as follows, as function of the wage rate and technical parameters:

$$r = [1 - wl_1] \div [k_2 + w(k_2l_1 - k_1l_2)]$$

The neoclassical term for this equation is 'factor price frontier' (FPF). It gives the profit rate implied by any real wage. If it is a straight line (linear), then the real wage and profits are determinate when one adds a neoclassical labour market: equilibrium in the labour market determines w,[2] and w implies r. When the wage rises, capitals switch to a more capital intensive technique, and when the wage falls, to a more labour intensive one. However, inspection of the equation shows that the factor price frontier will be a straight line if and only if $k_2l_1 = k_1l_2$;[3] that is, if the input and the output have the same factor intensity. In general, the factor price frontier will be convex (input more capital intensive) or concave (output more capital intensive). If the factor price frontier is non-linear, it implies that FPFs for different technologies can intersect twice. This analysis results in an extremely important theoretical prediction: when the real

2 More precisely, equilibrium in the labour market produces the money wage, p_1wl_1, as part of a general equilibrium system in which prices, outputs and the real wage are determined simultaneously.

3 In this special case, the equation becomes r = 1 - w(l/k).

wage goes up, prompting a capitalist to change technology, he/she may find it profitable to choose a more *labour* intensive one, and vice versa. In other words, clearing of the labour market no longer produces a unique profit rate, even if technological possibilities remain constant.

We can now summarize the practical implications of this apparently arcane analysis. The labour market does not produce a unique distribution between wages and profits on the basis of technical parameters, because there are many possible market-clearing wage and profit combinations. It is a trivial extension of this analysis to include additional factors of production, such as labour of different skills, and convert the discussion from the functional to the size distribution of income. Which general equilibrium is realized, and its associated distribution, will be determined in part by the relative bargaining power of the various economic agents. Economic theory concludes that within a broad range of outcomes, distribution results from relative bargaining power. This is the analytical framework we use to consider actual changes in distribution, after reviewing the empirical evidence.

Trends in inequality

In anticipation of the presentation of the empirical evidence, a brief discussion of measures of inequality is necessary. Many measures are used in empirical work, and our presentation restricts itself to the Gini coefficient, not because of its superiority over other calculations of inequality, but because of the frequency of its use. It assigns diminishing weights as incomes rise, which can be seen as an advantage if one is inequality-averse. Its major drawback is that it is relatively insensitive to changes in the middle range of a distribution. As a result, two distributions can yield the same index, though their income frequencies differ —a special case of the general problem of Lorenz curves crossing.

In this section we review the changes in inequality in the major industrial countries, with the purpose, first, of identifying trends, and, second, of drawing conclusions about the major forces underlying those changes. In the previous section it was demonstrated that income distribution cannot be determined technically, even in the abstract. However, this conclusion need not in itself undermine the apologies for globalization-driven inequality, which can be defended by various ad hoc arguments. In particular, we inspect the hypothesis that increases in inequality reflect characteristics of the economic forces determining growth in the late twentieth century, forces allegedly inherent in that growth, beyond the power of policy to influence or arrest. In other words, increases in equality represent an irresistible development driven by fundamental technological and demographic forces. This is not a difficult hypothesis to test. Were it true, one would expect a general tendency across countries, manifest in varying degrees, for inequality to increase.

With this hypothesis in mind, we can inspect Table 1, which shows the average Gini coefficients for seventeen developed OECD countries for four decades (see also Figures 1-3). The countries divide into three groups: 1) those with a rising trend in inequality, all of which, except Canada, are so-called Anglo-Saxon countries (four: Australia, New Zealand, the United Kingdom, and the United States); 2) those with a falling trend (again, four: Canada, Italy, Norway and Spain); and 3) those showing no trend (nine: Austria, Belgium, Denmark, Finland, France, Germany, Japan, Netherlands and Sweden).[4]

4 For discussions of inequality in some of these countries, see Atkinson (1995, comparison of the United States and European countries), Becker and Hauser (2002, Germany), Burniaux and others (1998, OECD countries), Cornia (2004, developed countries), Cornia, Addison and Kiiski (2004, developed countries), Jantti (1997, US and European), Piketty (2001, France), and Saunders (2003, Australia).

Table 1:
Gini coefficients by decade, 17 OECD countries

		1960s	*1970s*	*1980s*	*1990s*	*Last year*	*Coef var.*	*Trend*
1	Australia	32.0	37.3	37.3	41.7	1990	.097	rising
	n=	1	4	5	1	11		
2	Austria	na	25.3	25.5	26.1	1991	/031	none
	n=		8	10	2	20		
3	Belgium	na	28.3	26.3	27.1	1995	.031	none
	n=		1	3	2	6		
4	Canada	31.5	31.6	31.5	28.9	1994	.053	falling
	n=	4	6	9	3	22		
5	Denmark	na	31.0	32.0	33.0	1992	.039	none
	n=		1	2	2	5		
6	Finland	na	28.7	25.5	26.1	1996	.059	none
	n=		2	5	8	15		
7	France	na	36.2	37.2	36.0	1994	.041	none
	n=		2	2	3	8		
8	Germany	30.9	31.3	30.6	28.2	1994	.066	none
	n=	2	2	4	3	11		
9	Italy	na	37.4	33.4	33.3	1993	.072	falling
	n=		6	8	2	16		
10	Japan	35.2	34.1	35.2	35.0	1990	.038	none
	n=	3	10	5	1	19		
11	Netherlands	na	28.4	28.6	29.4	1991	.033	none
	n=		3	8	1	12		
12	New Zealand	na	30.7	35.3	40.2	1990	.084	rising
	n=		4	7	1	12		
13	Norway	36.0	37.4	31.6	33.3	1992	.083	falling
	n=	1	2	4	1	8		
14	Spain	na	37.1	25.7	32.5	1990	.159	falling
	n=		1	6	1	8		
15	Sweden	33.4	31.6	31.6	32.1	1993	.046	none
	n=	1	2	9	3	15		
16	UK	25.0	24.3	27.3	32.5	1990	.115	rising
	n=	9	10	10	1	30		
17	USA	35.7	35.8	38.5	41.4	1996	.061	rising
	n=	10	10	10	7	37		
Number of countries, highest value		2	7	1	7			
Lowest average		25.0	24.3	25.5	26.1	*Trends:*		
	country	UK	UK	Finland	Austria	rising		4
Highest average		35.7	37.4	38.5	41.7	falling		4
	country	USA	Italy	USA	Australia	none		9

Sources: Austria: Gusenleitner, Winter-Ebmer & Zweimuller (1996); Germany: Becker & Hauser (2002); All others: Dollar & Kraay or WIDER.

Notes: na = not available or not consistent with other years; n = number of observations per decade, with total under 'last year'; boxed = by country, highest average for the four decades; coef var = coefficient of variation (standard deviation divided by the average); Earlier decades – Canada: 1950s, 32.3 (1951 & 1957); USA: 1940s, 37.5 (1947-49); 1950s, 36.3 (all years).

High-income OECD countries not included: Greece, Luxembourg, Portugal, and Switzerland.

While there are some variations in definitions among the countries, with few exceptions the measures are for gross personal income before taxes.

Figure 1:
Gini coefficients for the United States, Canada and the United Kingdom, 1940s through 1990s

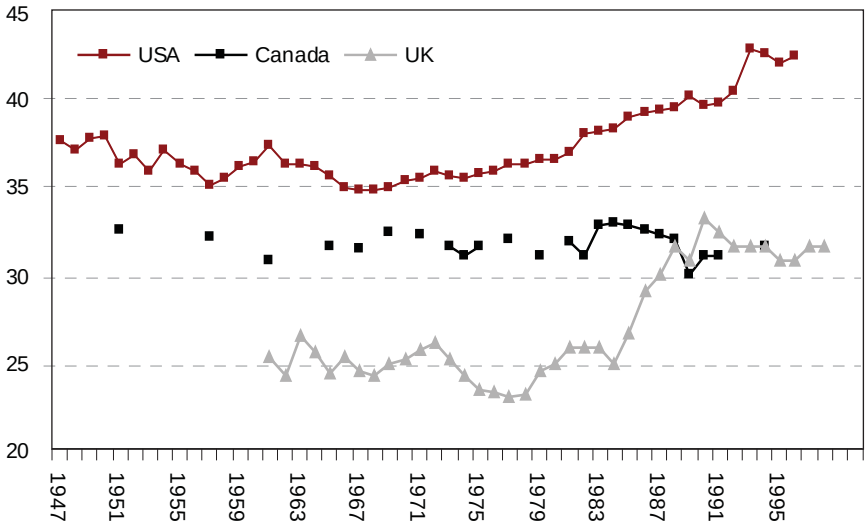
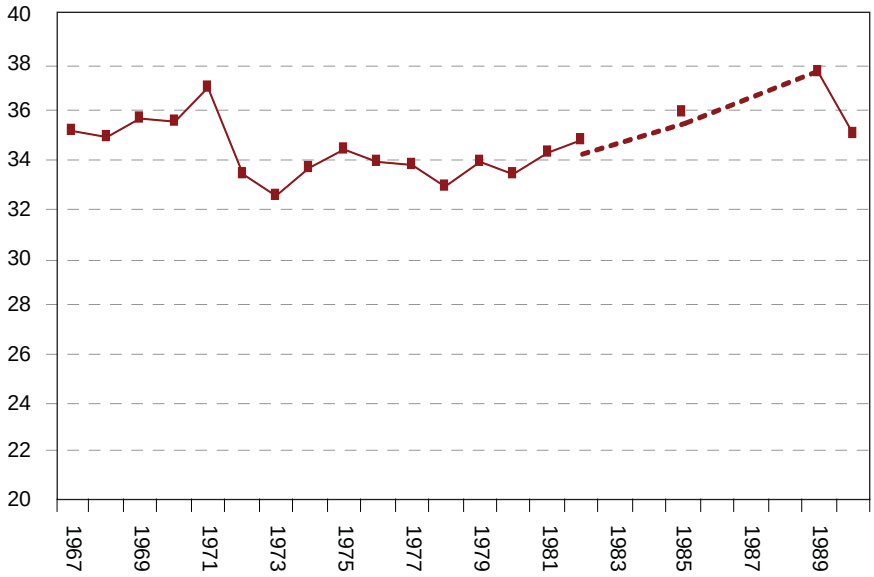


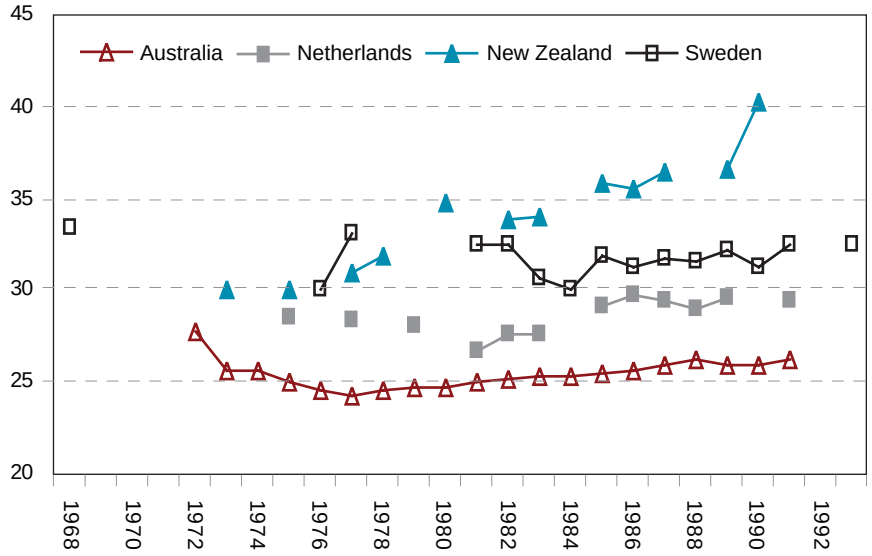
Figure 2:
Gini coefficients for Japan, 1960s through 1990



The absence of a global pattern is strong prima facie evidence that trends and non-trends reflect policies, not inexorable forces beyond the influence of governments. First, it should not be controversial that the four countries with trends towards greater inequality are those which pursued a broadly similar policy programme that has come to be called 'neoliberal'.[5] Second, without exception, the rising inequality manifested itself in the four countries during the years when that broadly similar policy agenda was pursued most vigorously, especially the 1980s, but also the 1990s. In each of these countries, the decade average inequality for the 1980s and 1990s was higher than in the pre-liberalization 1960s and 1970s. Finally,

5 For a theoretical model of why inequality differs across countries, see Benabou (2000).

Figure 3:
Gini coefficients for Australia, the Netherlands, New Zealand and Sweden, 1960s through 1990s



while the Governments of the other thirteen countries introduced policy changes that may have reduced the social protection associated with the welfare state, none consistently pursued neoliberal policies.

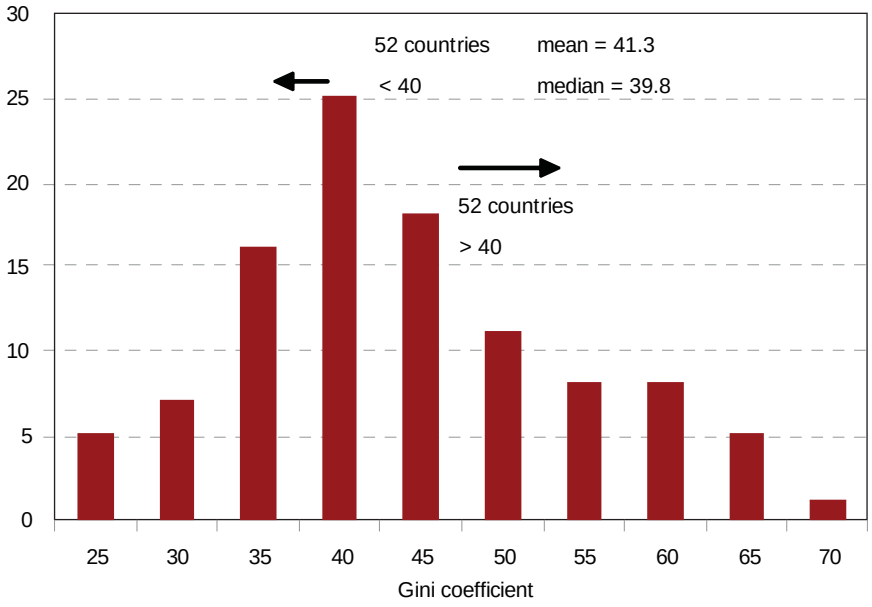
Thus, two conclusions derive from Table 1, which are beyond challenge. First, in the vast majority of countries there was no trend increase in inequality. This alone prompts one to reject the hypothesis that inherent in the global economy in the last decades of the twentieth century were inequality increasing forces. Second, the small number of countries that exhibit significant increases in inequality followed broadly similar economic and social policies, with labour market deregulation perhaps being the most important.

The increases in inequality for the Anglo-Saxon 'neoliberal four' are striking for the dramatic and historical change that they represent. In the 1950s, Simon Kuznets famously argued that income inequality, across countries and over time in most countries, follows an inverted 'U' pattern with respect to per capita income: after an initial tendency for inequality to rise at low levels of per capita income, this tendency would reverse itself (Kuznets, 1955). This hypothesis implies that the inequality indices of the high-income countries would be found well below the medium value for all countries (since most countries with distributional data are middle-income).

However, for the 1990s, all of the 'liberalizing four' had Gini coefficients that were not significantly different from the mean for the 104 countries included in Figure 4. The rise in inequality in the four 'neoliberal' countries would seem to refute the basic premise of the Kuznets hypothesis, which had been accepted as virtually a fundamental law governing the relationship between growth and inequality. In other words, policy-driven inequality in these four countries reversed the 'fundamental law' that developed countries tend to have more equal distributions than developing countries.

Looking across the OECD countries, the hypothesis that a general increase in inequality occurred in the 1980s and 1990s is not sustained. Rather, a statistically significant increase in inequality occurred

Figure 4:
Distribution of Gini coefficients, 104 countries, 1990s



in those countries that pursued a specific policy agenda. Indeed, one might say that inequality increased in those countries whose governments pursued an agenda that included as a principal component the concentration of wealth and income at the top of the distribution.

Accounting for the changes

In the four OECD countries in which inequality significantly increased, the proximate causes are clear. Reference to demographic changes, changes in the sectoral composition of output, and technological impact on skilling have their place in a longer-term analysis, but the sudden and dramatic increase in inequality in these countries has less subtle and more obvious causes.

- Reduction in the progressivity of national tax structures, including a shift from direct to indirect taxes (from corporate and personal income taxes to sales, or VAT, taxes), a fall in the average income tax rates by reducing taxes at the top of the distribution, and reduction in corporate taxes and taxes on unearned income;
- Reductions in expenditures on universal social programmes (e.g., unemployment compensation and old age pensions), resulting in declines in transfers from the public budget to low-income households;
- Increasing unemployment, which overwhelmingly affects those at the lower end of the income distribution;
- Elimination of the basic elements of the regulation of the financial sector, generating a shift in the distribution of national income from profits to revenues and rents derived from financial speculation; and
- Declines in the strength of trade unions, especially in the United Kingdom and the United States, leading to a fall in the share of national income going to labour.

The last effect, a fall in labour's share, represents, as in the case of the Kuznets hypothesis, a change in what previously had been considered a fundamental parameter of developed countries, the distribution of factor shares.[6]

As listed above, the major instruments for restricting the accumulation of wealth and income in a few hands were progressive taxation, universal entitlement programmes (i.e., not targeted), and collective bargaining (especially when it was conducted at a national level). These instruments mediated the link between labour and product market competition and the distribution of income, such that measures of inequality varied relatively little during the 1950s and 1960s. Collective bargaining established a wage structure within industries such that relative wages and salaries remained relatively unchanged as the general level of income rose. This system came to be described in various terms, such as 'social contract' or, by left wing 'regulationist' writers as 'the system of capitalist regulation', with the latter based on what they called 'Fordism' (Aglietta, 1976).

Following from the theoretic analysis in the second section, we argue that the basis causal mechanism for all of these proximate causes is the relative bargaining power of capital and labour, which, with the technical and social parameters of a country, determines the functional distribution of income. On the basis of this theory, we construct a simple model and apply it empirically. Increasing inequality works through long-term and short-term mechanisms. The major long-term mechanism is the net distributional impact of the public sector. While the trade movement working through the political process is an important factor influencing progressive distributional policies, this occurs with a lag determined by country-specific conditions and the specificity of the redistributive mechanisms. The introduction of progressive mechanisms may occur only after a long period of union pressure, and persist in legislation after that pressure has waned. Therefore, this long-term mechanism will enter the model in its proximate form rather than as a function of its underlying cause. On the basis of the distinction between long and short-run factors, we specify inequality to be the result of the progressiveness of the public budget and the bargaining power of non-capitalists:

$$G_t = G_t (\Delta_t, B_t)$$

Where:

G_t = inequality, measured by the Gini coefficient

Δ_t = progressive distributional effect of government expenditure and taxation

B_t = bargaining power of trade unions

Due to lack of data on the net incidence of taxation and expenditure, the share of current expenditure in gross domestic product (GDP) serves as a proxy variable for the progressiveness of the public budget. There are two aspects to this proxy. If the net progressive impact of all budgets were the same, then the share of expenditure would be an exact proxy were budgets always balanced, or the deficit or surplus did not change. This is unlikely, either within or across countries. However, cross-country and intra-country experience suggests that the larger public expenditure is in GDP, the more progressive the net impact

6 On what was then an apparent long-term stability in income distribution in the United States, see Kravis (1959; 1960), and Goldsmith and others (1954).

of the budget. This is because important categories of public expenditure that have little or no distributional impact are viewed as irreducible—military expenditure being an example. More straightforward is the bargaining power of organized labour, measured by the share of wage employees that are in trade unions, mediated by the unemployment rates, which indicates the 'tightness' of the labour market.

$\Delta_t = \Delta_t(E_t)$

$B_t = B_t(U_t, TU_t)$

E_t = the share of government current expenditure in GDP

U_t = the national unemployment rate

TU_t = share of wage employees in trade unions, 'union density'

The relationship is assumed to take a multiplicative form. Substituting and using logarithms, the estimating equation becomes:

$$\ln[G_t] = a_0 + a_1\ln[U_t] + a_2\ln[E_t] + a_3\ln[TU_t] + a_4C_1 + \ldots + a_nC_n + \varepsilon$$

This is an equilibrium model, in that it assumes that inequality in each year completely adjusts to the value implied by the behavioural variables. The terms $C_1 \ldots C_n$ are dummy variables accounting for so-called fixed affects across countries. The coefficient on the unemployment variable is predicted to be positive, because it reduces the bargaining power of organized labour. Also, there is a direct distributional effect because involuntary cyclical and structural unemployment is suffered disproportionately by the lower and middle classes, and hardly at all by the wealthy. The government expenditure variable is predicted to be negative, because of 'entitlement' programmes in current budget outlays. Trade union density is predicted negative, for reasons discussed above.

The model is tested with data from seven countries: Australia, Canada, Germany, Japan, Sweden, the United Kingdom and the United States, for 1980-1998. The results of the cross-section, time series estimation are shown in Table 2. Because the Gini coefficient is a summary measure of inequality, it is difficult to interpret the absolute value of the coefficients on the behavioural variables, except to note that they all have their predicted signs and are statistically significant at less than a 5 per cent level of the probability that their true value is zero. The model accounts for almost 90 per cent of the variation in Gini coefficients over time and across countries. It should be noted that the most statistically significant variable is trade union membership.

Because cross-country regression should always be treated sceptically, we also apply this model to two countries for which there are sufficient annual data, the United Kingdom and the United States. It is unfortunately the case that consistent data on trade union membership dates from the 1980s, providing a rather short time series. Nonetheless, the results for both countries support our argument that organized labour played a major role in reducing inequality. The results of the two country estimations are shown in Table 3. For the United Kingdom, the longer time series that omits trade union membership yields the predicted signs for unemployment and government expenditure, with both highly significant. For the shorter time series that includes trade union membership, unemployment and government expenditure are

Table 2:
Cross-country, time series estimation of the Gini coefficient of inequality, seven countries, 1980-1998

	Coeff	*Std Error*	*t value*	*Sig.*
(Constant)	5.234	.232	22.57	.000
ln(unemp)t	.067	.023	2.06	.044
ln(GovCurrExp)t	-.356	.199	-2.99	.004
ln(TUD)t	-.236	.032	-7.24	.000
1. Australia	.274	.031	8.88	.000
2. Germany	-.198	.037	-5.35	.000
3. Sweden	.427	.057	7.42	.000
4. UK	-.036	.020	-1.82	.074
Summary:	Adj R Sq = .870 F Stat = 52.75 sig @ .000 DF = 47			

Sources: See Table 1 for Gini coefficients; other variables, *World Development Indicators 2003*, ILO, *International Labour Statistics* (website).

Notes: For fixed effects, the USA is the omitted country. Coefficients for Canada and Japan were non-significant and are not included. Years of coverage (total 61):

1. Australia: 1981, 1984, 1986, 1988, 1990, 1992, 1994, 1996-98 (10)
2. Canada: 1981-91, 1994 (12)
3. Germany: 1994, 1998 (2)
4. Japan: 1980, 1982, 1985, 1989-90 (5)
5. Sweden: 1989, 1991, 1993 (3)
6. UK: 1982, 1985-98 (15)
7. USA: 1983-96 (14)

intercorrelated, and neither significant. However, trade union membership is significant, at the .04 level of probability (see Figure 5). In the case of the United States, unemployment and trade union membership are intercorrelated, and the former was omitted. When this was done, trade union density and government expenditure proved to be significant at lower than 1 per cent probability (see Figure 6).

In summary, statistical evidence supports the view that in countries in which inequality increased, this was primarily the result of the decline in the importance and bargaining power of organized labour, aggravated by unemployment and reductions in government expenditure. In the long run, the three are closely related, because organized labour has historically pressed for full employment policies and a comprehensive welfare state. At the risk of oversimplification, it can be concluded that in the OECD countries, rising inequality results from a growing imbalance in the economic and political power of capital and labour.

Redefining the inequality and poverty agenda

The empirical evidence presented in this paper has shown dramatic increases in inequality in four OECD countries, with little change or decline in thirteen others. The evidence strongly suggests that increases in inequality have been the result of policies, most importantly, policies that have weakened the power of organized labour. Reductions in government social expenditure and abandoning full employment as a policy goal have also played a substantial role.

Table 3:
United Kingdom and United States:
Time series estimation of the Gini coefficient of inequality

	United Kingdom		*United States*
Statistics	(1971-98)	(1980-98)	(1960-96)
[constant]	7.256 (.000)	4.583 (.000)	4.775 (.000)
ln(unemployment)t	.208 (.000)	.190 (nsgn)	
ln(TU density, prv)t		-.235 (.040)	-.130 (.000)
ln(Gov Curr Exp)t	-1.443 (.000)		-.268 (.002)
Adjusted R Square =	.594	.572	.899
F-Statistic =	20.79 (.000)	11.71 (.000)	162.78 (.000)
Durb-Wat =	1.468	1.520	1.800
DF =	25	14	34

Note: Numbers in parenthesis are the probabilities associated with the T-statistics (probability that the coefficient is zero).

Figure 5:
Trade union density and the Gini coefficient,
United Kingdom, 1980-1998

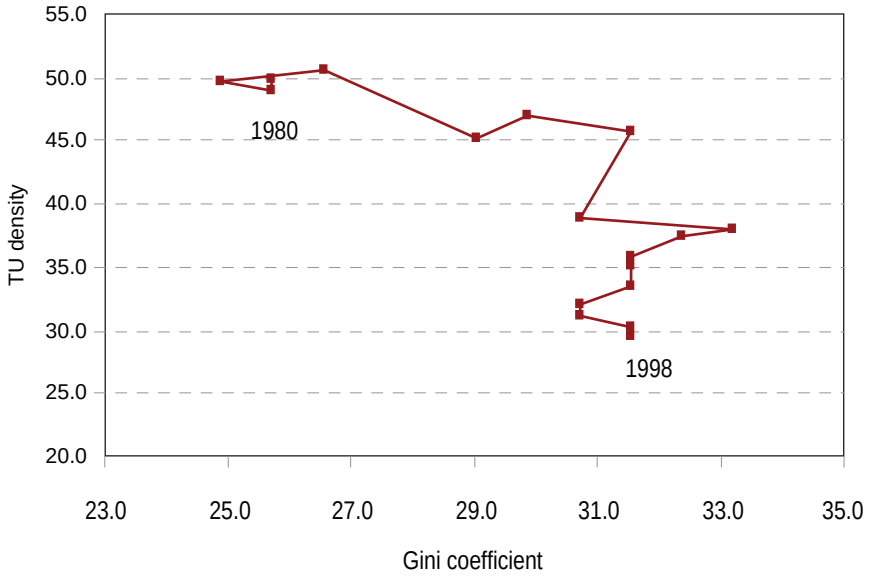
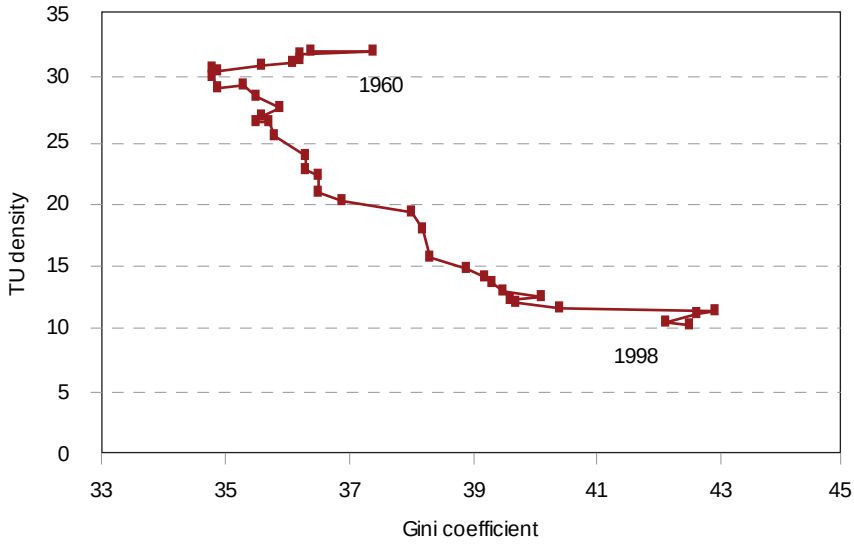


Figure 6:
Trade union density and the Gini coefficient, United States, 1960-1998



Thus, the policy challenge is to redefine or relocate the policy debate within a discourse of the equitable distribution of society's wealth. While this would require a serious discussion of the concentration of private economic power in the developed countries, it is not a radical agenda. On the contrary, the social judgement that inequality not justified by allocative criteria is unfair and dysfunctional for society was the national consensus in virtually all advanced market economies for thirty years after the Second World War. One does not need to 'reinvent' arguments for an equitable distribution of society's wealth, but merely to invoke that consensus in the context of a globalizing world.

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