

THE POVERTY AND INEQUALITY REPORT

The Stanford Center on Poverty and Inequality

DAVID B. GRUSKY, MARYBETH J. MATTINGLY,
AND CHARLES E. VARNER

The Stanford Center on Poverty and Inequality (CPI), one of the country's three federally-funded poverty centers, is a nonpartisan organization dedicated to monitoring trends in poverty and inequality, examining what is driving those trends, and developing science-based policy on poverty and inequality. We present here our third annual report examining the “state of the union” on poverty, inequality, and labor market outcomes.

The purpose of establishing this annual series of reports is to ensure that critical facts on poverty and inequality enjoy the same visibility as other indicators of the country's health. There are of course all manner of analyses that take on separately such issues as poverty, employment, income inequality, health inequality, economic mobility, or educational access. This report instead provides a unified analysis that brings together evidence across these and other domains and thus allows for a comprehensive assessment of where the country stands.

4 EXECUTIVE SUMMARY

In prior reports, we have provided this comprehensive assessment by (a) examining the takeoff in U.S. income inequality and other long-term trends in U.S. poverty, inequality, and labor market outcomes (2014 State of the Union), and (b) examining the redistribution, labor market, and economic mobility profiles of the 50 U.S. states (2015 State of the Union). For our 2016 report, we are presenting a cross-national analysis, as doing so allows us to revisit often-parochial debates about U.S. poverty and inequality from an especially revealing comparative standpoint. The key questions in play are accordingly straightforward: Is the U.S. truly an outlier when it comes to poverty and inequality outcomes? Is it instead a standard-issue “liberal regime” with outcomes that are roughly similar to those of other liberal welfare regimes? Are there particular domains in which the U.S. stands out as especially equal or unequal?

For each of the nine domains examined here, some of the world’s leading experts have been asked to take on just such questions, the objective being to crisply characterize the best and most current evidence available. In Table 1, we have listed the indicators used to characterize each country’s poverty and inequality profile, and we have also provided the mean, minimum, and maximum for each indicator. This table neither includes all the indicators or all the countries examined in the chapters themselves. In each of the domains, the authors

were asked to exploit the best available data, and there is accordingly some variability across chapters in the countries covered. For the purposes of this summary, we have selected a core set of countries for which a relatively wide range of indicators are available, thus allowing us to effect a broad summary comparison.

As a further summary of our results, Table 2 ranks each country within each of the six domains in Table 1, with this domain-specific ranking computed by averaging a country’s ranking across the indicators comprising a domain. We have also provided the overall ranking of each country by averaging across the domain-specific rankings. In Tables 3 and 4, an analogous set of results is presented for a wider set of countries, results that are based on the restricted subset of indicators that is available when cross-national coverage is broadened. It bears noting that some of the countries represented in Tables 3 and 4 are substantially less well-off than is the U.S. (e.g., Czech Republic, Estonia, Greece, Italy, Poland, Slovak Republic, Slovenia, Spain).

What, then, are the main conclusions of our report? Although we obviously cannot do justice to the wealth of results reported here, we review below some of the most important ones.

TABLE 1. Poverty and Inequality in 10 Well-Off Countries, 2010

Domain	Measure	Mean	Lowest	Highest	U.S. (rank)
Labor Markets	Prime-Age Employment (percent employed)	78.1	68.9 (ES)	84.8 (DE)	74.6 (8)
	Men	84.2	75.7 (ES)	90.6 (DE)	80.1 (9)
	Women	72.2	60.6 (IT)	80.0 (DE)	69.2 (8)
Poverty	Market Income Poverty w/ Relative Threshold (percent < threshold)	34.9	29.1 (AU)	41.2 (FR)	31.2 (2)
	Disposable Income Poverty w/ Relative Threshold (percent < threshold)	11.4	7.0 (NO)	16.2 (US)	16.2 (10)
	Market Income Poverty w/ Absolute Threshold (percent < threshold)	33.5	25.8 (AU)	42.2 (ES)	26.1 (2)
	Disposable Income Poverty w/ Absolute Threshold (percent < threshold)	9.2	3.4 (NO)	20.3 (ES)	9.2 (8)
Safety Net	Relative Poverty Reduction (percentage points)	23.5	15.1 (US)	32.5 (FR)	15.1 (10)
	Absolute Poverty Reduction (percentage points)	24.4	16.9 (US)	32.6 (FR)	16.9 (10)
Income Inequality	Market Income Inequality (Gini)	0.49	0.41 (NO)	0.52 (FR)	0.51 (9)
	Disposable Income Inequality (Gini)	0.32	0.25 (NO)	0.39 (US)	0.39 (10)
Wealth Inequality	Top Decile’s Share of National Wealth (percent)	51.2	43.5 (ES)	77.2 (US)	77.2 (10)
	Top Percentile’s Share of National Wealth (percent)	19.0	12.4 (FI)	41.8 (US)	41.8 (10)
Economic Mobility	Intergenerational Earnings Elasticity	0.35	0.17 (NO)	0.50 (IT, UK)	0.47 (8)

Note: See the relevant report chapters for a description of sources and operationalizations. The 10 countries are: AU (Australia), CA (Canada), DE (Germany), ES (Spain), FI (Finland), FR (France), IT (Italy), NO (Norway), UK (United Kingdom), and US (United States). In this and all subsequent tables, the labor market and safety net indicators are ranked from high (1) to low (10), while all other indicators are ranked from low (1) to high (10).

Conclusion #1: There is substantial cross-national variation in poverty and inequality.

It may be unsurprising that countries differ substantially in their poverty, inequality, and labor market outcomes. But the extent of this variability *is* perhaps surprising. The simple conclusion: When the stork drops a newborn child into his or her new home, the location of that drop has profound implications for the amount of inequality the child will see and experience. The top percentile's share of national wealth ranges, for example, from a low of 12.4 percent in Finland to a high of 41.8 percent in the U.S. (see Table 1). The rate of disposable income poverty, when measured in relative terms, ranges from a low of 7.0 percent in Norway to a high of 16.2 percent in the U.S. The prime-age employment rate ranges from a low of 68.9 percent in Spain to a high of 84.8 percent in Germany. These results make it clear that, even among the relatively rich countries of Table 1, there are fundamental differences in the type of poverty and inequality regimes that have been established.

This is not to gainsay the equally important point, as stressed in last year's State of the Union report, that there is also much variability in poverty and inequality regimes *within* the U.S. If one compares, for example, the variability in top income shares across U.S. states with the variability across the well-

off countries of North America and Continental Europe, one finds rather more variability within the U.S.¹

Conclusion #2: The U.S. is an outlier.

The first conclusion coming out of Table 1, then, is that one finds vastly different poverty and inequality profiles even among the well-off countries. We are of course especially interested in the position of the U.S. within this wide distribution of profiles. Is the U.S., as many have surmised, indeed an outlier among the well-off countries? Is it even an outlier when one considers countries that are less well-off?

The answers to these questions are likely disappointing for U.S. partisans. As shown in Table 2, the U.S. has the lowest overall ranking among our 10 well-off countries, a result that arises in part because it brings up the rear of the pack in three of the six domains covered here (safety net, income inequality, wealth inequality). Even when the comparison set is expanded to include the less well-off countries, the U.S. still ranks a dismal 18th (out of 21 countries), with only Spain, Estonia, and Greece scoring worse (see Table 4).

It is of course well-known that the liberal welfare regimes found in Anglophone countries (i.e., Australia, Canada, United Kingdom, U.S.) are inequality-producing machines. Can we

TABLE 2. Rankings for 10 Well-Off Countries

Country	Labor Markets	Poverty	Safety Net	Income Inequality	Wealth Inequality	Economic Mobility	Overall
Australia (AU)	5	2	9	4	2	4	3
Canada (CA)	3	4	8	3	6	3	4
Finland (FI)	7	3	3	2	1	2	1
France (FR)	2	7	1	6	7 (tie)	7	6
Germany (DE)	1	8	2	5	9	5	5
Italy (IT)	9	9	5	7	4	9 (tie)	8
Norway (NO)	4	1	4	1	7 (tie)	1	2
Spain (ES)	10	10	7	8	3	6	9
United Kingdom (UK)	6	6	6	9	5	9 (tie)	7
United States (US)	8	5	10	10	10	8	10

Note: The ranks presented here were secured by (a) converting the scores on the indicators in Table 1 to country rankings, (b) averaging across the rankings comprising each domain and converting these averages to domain-specific rankings, and (c) averaging across these domain-specific rankings to produce an overall country ranking.

understand the U.S. profile as simply the expected profile of an Anglophone liberal welfare economy? The simple answer: No. As Tables 1 and 2 make clear, the U.S. occupies an extreme position even relative to the four Anglophone countries, with the implication that the U.S. is a liberal regime “on steroids.” Although the United Kingdom has a poverty and inequality profile that, among the Anglophone countries, comes closest to that of the U.S., even relative to this benchmark the U.S. has a distinctively anemic safety net and a distinctively unequal distribution of wealth (see Table 2).

It is noteworthy that the U.S. performs poorly in domains that have historically been regarded as its strengths. Within the labor market domain, it has long been argued that the U.S. is a great “jobs machine,” indeed the distinctive benefit of its flexible and “unregulated” labor market was supposed to be the jobs that such deregulation delivered. Where, then, are all the jobs? As shown in Table 1, the U.S. ranks eighth in prime-age employment among women (with only Italy and Spain faring worse) and ninth in prime-age employment among men

(with only Spain faring worse). The “highly regulated” labor markets of Germany, Denmark, or Norway would appear, by contrast, to be the real job-delivering machines.

The U.S. likewise fails to deliver on its long-standing commitment to running a high-mobility regime. The stylized story here has long been that, however unequal its income distribution may be, the U.S. at least runs a fair and open competition in which everyone has a legitimate shot at getting ahead. The data presented in Ch. 7 indicate that in fact the birth lottery matters *more* in the U.S. than in most well-off countries. The intergenerational earnings elasticity, which speaks to the payoff that accrues to being born into higher-earning families, is substantially larger in the U.S. than in many countries that are not routinely featured as the “land of opportunity.”

Conclusion #3: There is nonetheless some good news.

This is not to suggest that the U.S. performs equally poorly in all domains. Although there is clearly much that is disappointing in this report, the poverty data also point to a real

TABLE 3. Selected Poverty and Inequality Measures for 21 Countries, 2010

Domain	Measure	Mean	Lowest	Highest	U.S. (rank)
Labor Markets	Prime-Age Employment (percent employed)	77.8	63.6 (IE)	84.8 (DE)	74.6 (17)
	Men	83.3	67.9 (IE)	90.6 (DE)	80.1 (17)
	Women	72.4	56.1 (GR)	80.0 (DE)	69.2 (17)
Poverty	Market Income Poverty w/ Relative Threshold (percent < threshold)	33.9	22.9 (IS)	43.6 (IE)	31.2 (5)
	Disposable Income Poverty w/ Relative Threshold (percent < threshold)	9.7	4.8 (NL)	16.2 (US)	16.2 (21)
	Market Income Poverty w/ Absolute Threshold (percent < threshold)	35.8	19.9 (IS)	59.0 (PL)	26.1 (4)
	Disposable Income Poverty w/ Absolute Threshold (percent < threshold)	12.9	1.5 (LU)	44.1 (EE)	9.2 (13)
Safety Net	Relative Poverty Reduction (percentage points)	24.3	15.1 (US)	34.3 (IE)	15.1 (21)
	Absolute Poverty Reduction (percentage points)	22.9	7.0 (EE)	34.7 (IE)	16.9 (19)
Income Inequality	Market Income Inequality (Gini)	0.48	0.40 (IS)	0.58 (IE)	0.51 (18)
	Disposable Income Inequality (Gini)	0.30	0.25 (DK)	0.39 (US)	0.39 (21)

Note: See the relevant report chapters for a description of sources and operationalizations. The countries appearing in this table are: AU (Australia), CA (Canada), CZ (Czech Republic), DK (Denmark), EE (Estonia), FI (Finland), FR (France), DE (Germany), GR (Greece), IS (Iceland), IE (Ireland), IT (Italy), LU (Luxembourg), NL (Netherlands), NO (Norway), PL (Poland), SK (Slovak Republic), SI (Slovenia), ES (Spain), UK (United Kingdom), and US (United States).

opportunity that could be exploited. In understanding the U.S. poverty data, the usual starting point is of course that the rate of disposable-income poverty, which is the rate that people actually experience after taxes and transfers play out, does *not* cast the U.S. in a very favorable light. The absolute poverty rate for disposable income is higher in the U.S. than in all but two well-off countries (i.e., Spain, Italy). This result, which is discussed at length in Chapter 2, typically provokes much hand-wringing among scholars of U.S. poverty. The good news, however, is that the high U.S. rate is attributable to a very anemic safety net rather than to problems with the market itself. When market income is instead used to calculate the absolute poverty rate, the U.S. in fact has the second *lowest* rate (among the 10 well-off countries in Table 1), with only Australia having a yet lower rate. Because the weak U.S. safety net fails to reduce the market rate by all that much, the U.S. ends up with a disposable-income rate that is very high.

This is a silver-lining result. It means that, at least when it comes to poverty, market performance is arguably not the

most important U.S. problem. The market is in fact delivering adequately (at least by international standards), and the distinctively U.S. problem is an underperforming safety net. Why is this good news? It is good news because in principle it is much easier to ramp up the safety net than to revamp the economy and labor market in ways that deliver higher market incomes. If you have to choose your problem, it is far better in this sense to have a political problem (i.e., an underperforming safety net) than an economic one (i.e., an underperforming labor market). Although no one should underestimate the magnitude of the U.S. political problem, it is encouraging that the requisite reforms are tractable and incremental and hence conceivably ones that many Americans would find attractive. We need not, for example, install a safety net of social democratic proportions. Even if the U.S. safety net were only ramped up to the standard of other liberal economies (especially the United Kingdom), much headway would be made in reducing poverty.

TABLE 4. Rankings for 21 Countries

Country	Labor Markets	Poverty	Safety Net	Income Inequality	Overall
Australia (AU)	10	6	18	11	13
Canada (CA)	6	8	15	9	9 (tie)
Czech Republic (CZ)	7	11	16	6	11
Denmark (DK)	13	5	4	5	4
Estonia (EE)	16	20	21	15	20
Finland (FI)	15	7	6	8	8
France (FR)	5	12	2	14	7
Germany (DE)	1	15	3	12	6
Greece (GR)	20	18	14	21	21
Iceland (IS)	3	1	19	1	2 (tie)
Ireland (IE)	21	16	1	19	15 (tie)
Italy (IT)	18	17	9	16	17
Luxembourg (LU)	4	2	11	13	5
Netherlands (NL)	2	3	5	4	1
Norway (NO)	9	4	8	3	2 (tie)
Poland (PL)	14	21	12	10	15 (tie)
Slovak Republic (SK)	8	14	17	2	12
Slovenia (SI)	11	13	7	7	9 (tie)
Spain (ES)	19	19	13	17	19
United Kingdom (UK)	12	10	10	18	14
United States (US)	17	9	20	20	18

Note: The ranks presented here were secured by (a) converting the scores on the indicators in Table 3 to country rankings, (b) averaging across the rankings comprising each domain and converting these averages to domain-specific rankings, and (c) averaging across these domain-specific rankings to produce an overall country ranking.

Why do all bad things come together?

Despite the foregoing silver lining, one has to be immensely worried that the U.S. has assembled a largely negative bundle of outcomes, indeed the results of Tables 2 and 4 suggest that “all bad things” come together in the U.S. The U.S. ranks dead last in income and wealth inequality (among the 10 relatively rich countries of Table 2); its safety net is likewise dead last when it comes to the core task of poverty relief; the prime-age employment rate for U.S. men, 80.1 percent, is only barely higher than Spain’s dead-last rate of 75.7 percent; and our intergenerational elasticity is the eighth largest (among the 10 relatively rich countries of Table 2) and thus starkly at variance with our reputation as the land of opportunity. Why, it might be asked, do “all bad things” come together in this way?

There are two complementary answers to this question. The first is that, by virtue of running the consummate liberal welfare regime, the U.S. has chosen a set of institutions and commitments that are tailor-made for producing just this constellation of outcomes (see Figure 1). The U.S. tends to default, for example, to the presumption that grossly unequal market outcomes are the result of competitive processes, thus allowing rent-based outcomes at the top (e.g., excessive CEO pay) to flourish unchallenged.² Likewise, because market outcomes are viewed as the legitimate outcome of competitive processes, the U.S. is loath to engage in too much “market-distorting” and incentive-

destroying redistribution. This commitment accounts, for example, for our famously anemic safety net and ongoing political efforts to render it yet more anemic. Finally, because liberalism supports the relentless commodification of everything (e.g., health care, schooling, neighborhood amenities), the poor are not only disadvantaged because they have less money but also because money is increasingly needed to buy goods, services, and even opportunities for their children. In a deeply commodified regime, parents are left to *purchase* high-quality childcare, high-quality primary and secondary schooling (if only by moving into expensive neighborhoods), and high-quality college training, all of which means that opportunity itself has been commodified. But it is not just opportunity that has been commodified. This commitment to commodification also leads to unusually large health disparities (via, for example, the “sale” of health), unusually large income-based disparities in test scores, and many of the other results featured in this report.

The U.S. has, then, a long list of “bad” outcomes because it has wholeheartedly embraced neoliberal institutions that are tailor-made for producing such outcomes and then legitimating them as the invisible hand at work. This institutionalist account, as convincing as it may be, is nonetheless not a full explanation of our poverty and inequality profile. It is very likely that quite powerful feedback loops are also in play (see Figure 2). The following is a simple example of how inequality

FIGURE 1. Stylized Representation of Institutional Account

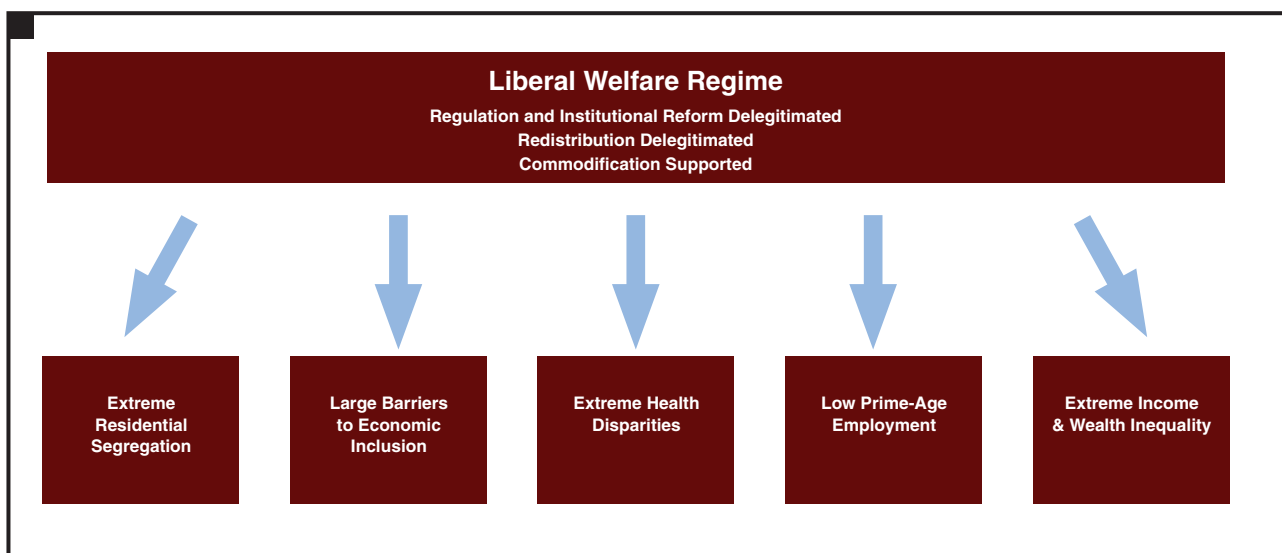
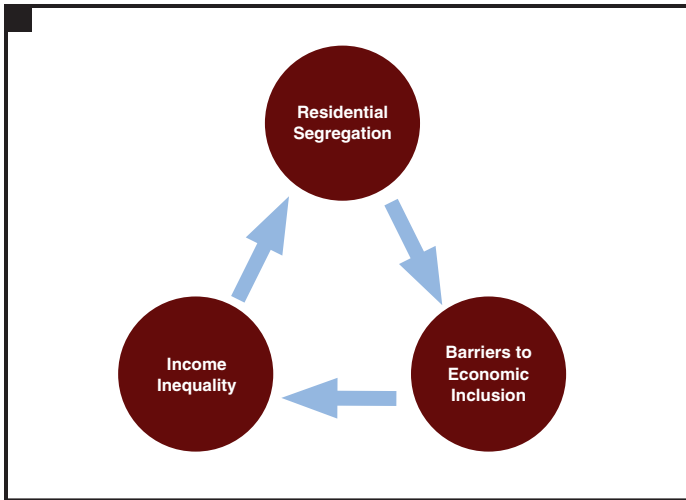


FIGURE 2. Illustrative Feedback Loop



may be self-reproducing: The extreme economic segregation of the U.S. implies that (a) poor children are likely to grow up in poor neighborhoods with relatively poor public schooling, (b) the resulting reduction in demand for college schooling protects well-off children from competition “from below” and accordingly raises the return to schooling, and (c) the associated increase in income inequality then allows for a further ramp-up in economic segregation. This stylized example of a

feedback loop, which of course rests on a host of strong (and unsubstantiated) assumptions, is but one of many possible interactions between different types of inequality. If at least *some* of these feedback loops are in operation, we would expect the many different types of inequality to come into alignment at high levels and to continue to increase.

This account, if on the mark, is worrying because it suggests a dynamic system that is partly beyond our control. In the illustrative feedback loop presented above, it is not as if ever-increasing economic segregation proceeds from some popular commitment to the virtues of running a high-segregation society. It is instead simply the unintended result of forces that, once set in motion, take on a life of their own. The purpose of this report may be understood in this sense as an attempt to wrest back some amount of control over our poverty and inequality profile. If there is indeed popular support for the U.S. profile revealed in this report, then of course the case for intervening is weak. If, however, there is real and abiding public sentiment for change, then it becomes a matter of interceding at some key juncture in the feedback loop and hence turning it against itself. The unappreciated virtue of feedback loops is that, although they typically take us in unintended directions, they also contain within them the engine for converting a destructive loop into a benign one and thus reversing course. ■

NOTES

1. Atkinson, Anthony B., Thomas Piketty, and Emmanuel Saez. 2011. “Top Incomes in the Long Run of History.” *Journal of Economic Literature* 49:1, pp. 3-71.

2. There is of course much debate about whether CEO pay in the U.S. is indeed a case of rent extraction (see, e.g., Saez, Emmanuel. 2013. “The Case for Taxing Away Illicit Inequality.” *Pathways Magazine*. https://web.stanford.edu/group/scspi/_media/pdf/pathways/spring_2013/Pathways_Spring_2013_Grusky_Saez.pdf).