

Rising Inequality in OECD Countries: How Does the Middle Class Fare?

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Abstract:

The recent widespread debate about increasing income inequality has focused predominantly on the increasing share of income going to those at the very top of the income distribution, seen in a number of affluent countries since the late 1970s. What has received less attention is the implications of increasing inequality for the living standards of those in the middle or lower parts of the distribution. Various channels have been identified through which high/increasing inequality could reduce economic growth and the capacity to generate increasing real incomes for middle and lower income households, but much of the debate has been based on the experience of the USA and the patterns observed empirically over time and how these vary across rich countries are not well understood. This paper uses data from the key comparative distributional data sources available for the rich countries over a substantial period of time to examine how inequality and living standards have evolved from the late 1970s through the Great Recession. Drawing on data from the Luxembourg Income Study, the OECD Income Distribution Database and the World Top Income Database, it investigates the extent to which increasing inequality has been associated with “middle class squeeze”, in the sense of stagnating real incomes for the middle and lower parts of the distribution, across 30 rich countries. In examining the extent to which the USA is a representative case versus an outlier, the changing composition of income for middle and lower income households and the drivers of income growth where it has been strong are also explored.