Is High Inequality Offset by Mobility? A Comparison of Germany, Sweden, and the United States

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The United States has a higher level of posttax-posttransfer household income inequality than any other affluent country. It also has the highest level of earnings inequality among individuals employed full-time year-round. But these conclusions are based on single-year snapshots of the population. Many believe that the United States also has more mobility of earnings and income than other countries — that is, individuals move up and down in the distribution to a greater extent and with greater frequency. If this is true, inequality of long-run ("permanent") income in the United States may be comparable to or even less than in other countries.

A number of researchers have examined the degree to which multiple-year inequality differs from single-year inequality. The finding typically has been that inequality measured using average income over a five- or ten-year period is 10% to 30% less than when measured for a single year.

Do countries differ in the degree to which mobility over time reduces inequality? In recent years a handful of studies have examined comparative earnings and/or income inequality over multi-year periods. Each of these studies found little or no alteration of the country rank-ordering when switching from a single-year measure of inequality to a multi-year measure. And all found that, as when measured in single years, inequality measured over multiple years tends to be comparatively high in the United States.

Yet the maximum number of years covered in these studies is ten. This may be too short a time period to fairly evaluate the possibility that inequality of long-run income is no greater in the United States than in other countries. Ideally we would want to examine mobility across the entire working career of a cohort, which would amount to roughly 40 years. Given existing panel data sets, it is not possible to do that. It is, however, possible to examine a period of nearly 20 years for three countries: (West) Germany, Sweden, and the United States. We do so here, using data from the Socio-Economic Panel for Germany (GSOEP), the Level of Living Survey (LNU) coupled with tax register data for Sweden, and the Panel Study of Income Dynamics (PSID) for the United States.

Aggregating income over this longer period, we find no change in the difference in inequality between countries. We explore the policies and institutions responsible for this.