

What's New About Inequality in Australia, Canada, New Zealand and the United States?

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Overview

Inequality in many OECD countries has risen dramatically since the early 1980s, and particularly in North America and Oceania. After new and updated estimates of inequality from distributional national accounts in Australia, Canada, New Zealand and the United States, this brief will highlight some new findings and long-run trends. First, in the past several years the height of income inequality may have steadied, but it has not abated. Australia and New Zealand remain significantly more equal than their North American counterparts, to judge from pre-tax top income shares. In all four countries we see declining labor compensation as a share of national income, and this decline does not reflect an increase in self-employment. Instead, corporate profits have surged. Without any change in the concentration of capital income, this increase in corporate operating surplus already does much of the work to explain the observed increases in inequality.

Introduction

On the occasion of the 2020 global update of the World Inequality Database—now featuring distributional national accounts (DINA) estimates worldwide—it is useful to highlight some of the recent findings and long-run trends in North America and Oceania.

Australia, Canada and New Zealand are three of the countries now featuring DINA estimates for the first time, while the United States has been the forerunner for these studies.

The purpose of this note is to briefly narrate a set of descriptive statistics on inequality trends in both regions, and to discuss the significance of those results.

Please refer to the [companion technical note](#) for methodological detail on these preliminary estimates in Australia, Canada, and New Zealand, with reference to the established [United States series](#).

Distributional estimates

Figures 1 and 2 show parallel trends in the four countries: Pre-tax inequality has risen dramatically since the early 1980s. The trend has perhaps stabilized in the most recent years, but it has not abated.

Australia and New Zealand remain significantly more equal than their North American counterparts, to judge from pre-tax income shares.

Within North America, inequality in the US began roughly on par with Canada in the 1980s (if slightly more top-heavy toward the top 1 percent), but has accelerated faster since then. Their trajectories diverged most notably during the 1980s, and again after the global financial crisis of 2008.

These figures are striking, but they do not tell the full story. We must consider not only these *pre-tax* income distribution estimates (at right), but also the inequality effects of legislation in general—and redistributive fiscal policy in particular: the tax-and-transfer system of each country's government.¹

Figure 1. Top 10 percent share of national income in Australia, Canada, New Zealand & the US (1980-2019)

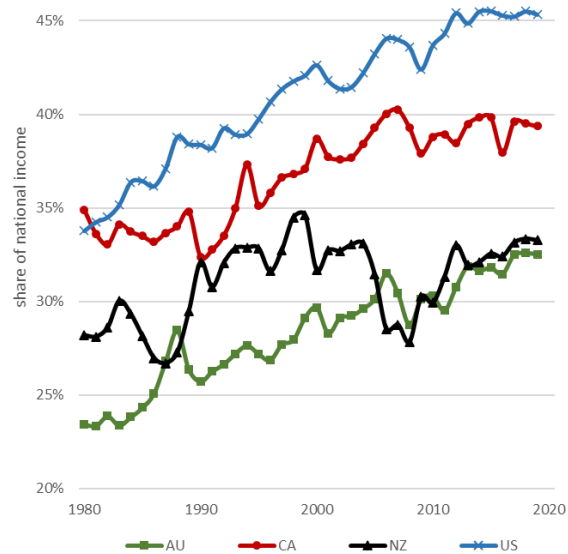


Figure 2. Top 1 percent share of national income in Australia, Canada, New Zealand & the US (1980-2019)

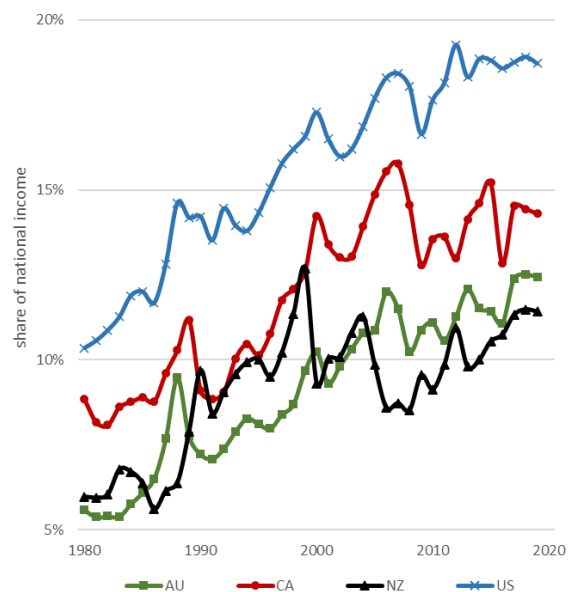
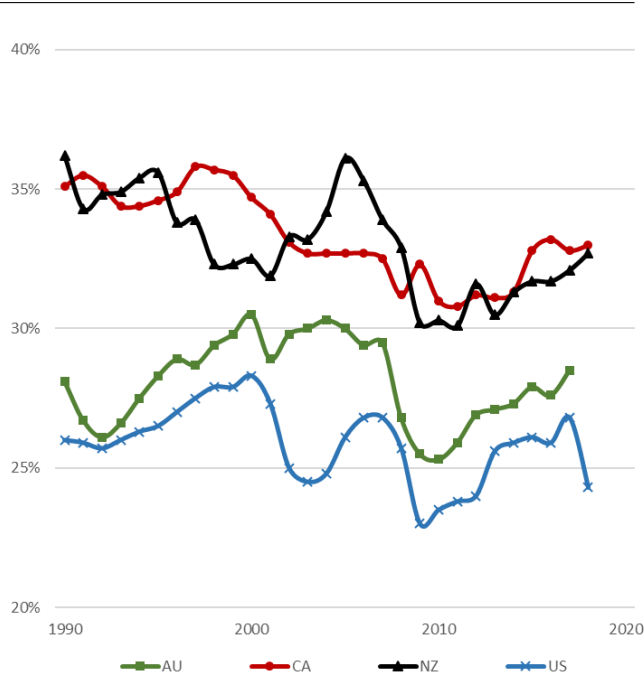


Figure 3. Tax revenue, as percent of GDP, in Australia, Canada, New Zealand & the US (1990-2019)



Source: OECD Revenue Statistics.

Tax revenues have declined since the 1990s

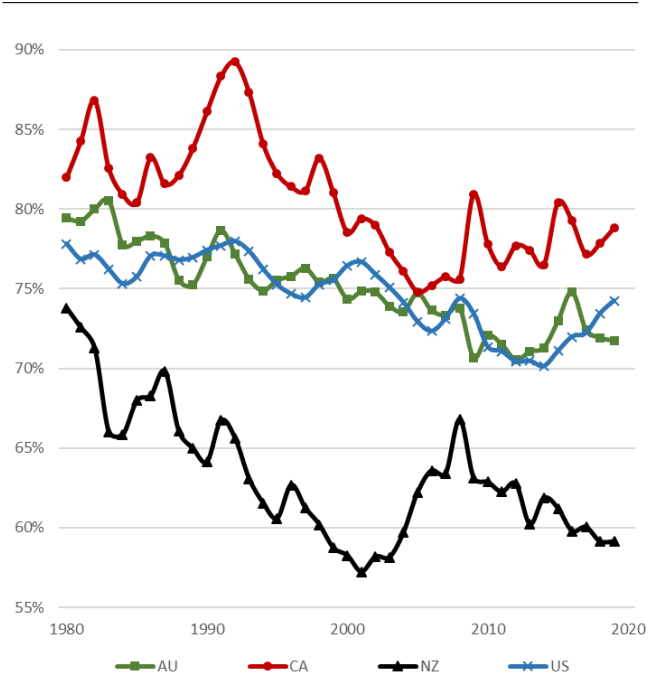
Within North America, Canada surpasses the US on redistribution via fiscal policy (according to [OECD Revenue Statistics](#), accounting for all levels of federal, state and local taxes), as can be seen in [Figure 3](#). Tax revenues have declined in both countries in the long-run, although most recently in Canada they have been rebounding while in the US they were cut further.

In Australia taxes have remained relatively stable as a share of GDP, while in New Zealand they have slightly declined on average. Nonetheless New Zealand still significantly exceeds Australia in the relative extent of its tax-and-transfer system.

Work rewards less and less

We can extend this inequality diagnostic by studying recent and long-run trends even in the aggregate components of national income. First, let us look at the labor share of national income in [Figure 4](#).

Figure 4. Labor share, as percent of national income, in Australia, Canada, New Zealand & the US (1980-2019)



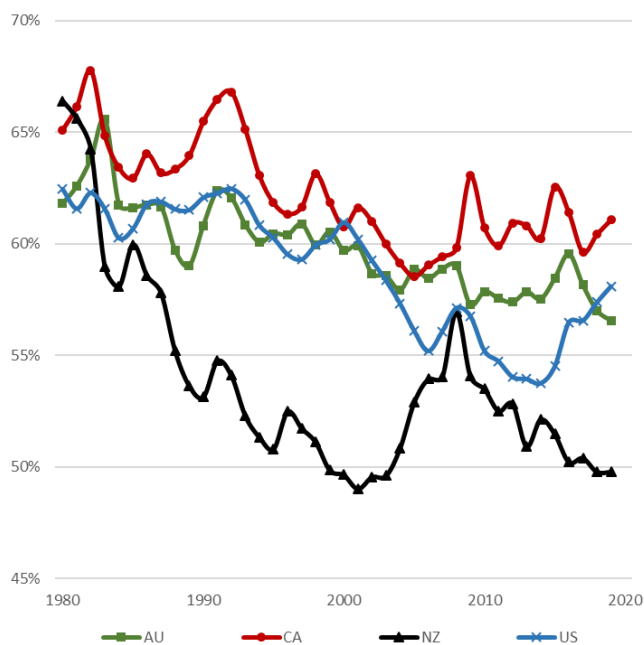
Note: NZ 2019 is a preliminary estimate.

The labor share is the share of employee (and self-employed labor) compensation within national income. The capital share is the residual, essentially corporate operating surplus and imputed rental income of homeowners (plus the capital component of mixed income).²

More important than the levels in these estimates are the trends. The levels are deceptive because official national accounting practices vary across countries. To cite two prominent examples, in Canada net operating surplus of the household sector (imputed rental income of homeowners) is not reported as a headline aggregate; whereas in New Zealand mixed income (self-employed/entrepreneurial income) is not reported. This biases the Canada estimate upward and the New Zealand estimate downward. However, the long-run trends are not affected by within-country measurement differences, which are constant over time.

This downward trend can be seen more clearly in the following [Figure 5](#) on formal 'compensation of employees' in the corporate sector.

Figure 5. Compensation of employees, as percent of national income, in Australia, Canada, New Zealand & the US (1980-2019)



Notes: Adjusted for net foreign labor income. NZ 2019 is a preliminary estimate

In all four countries we see declining formal compensation as a share of national income—and the decline of employee compensation does not reflect any increase in self-employment.

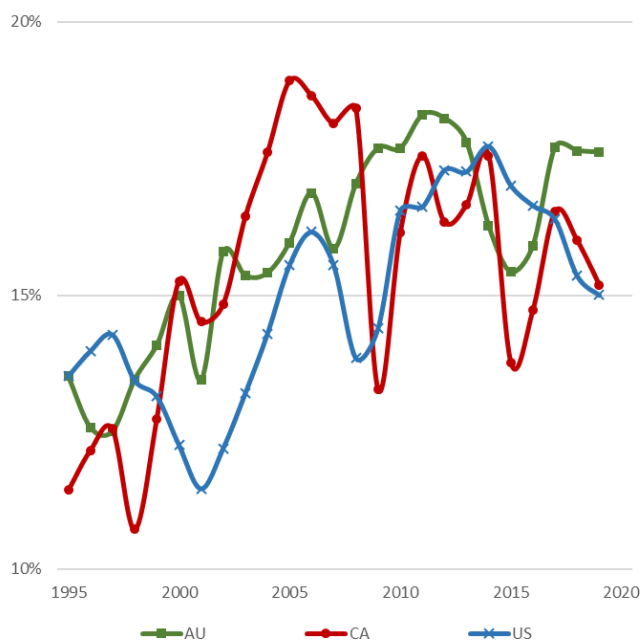
Corporate profits have increased

Rather more telling is [Figure 6](#), showing the share of corporate operating surplus in national income. Corporate operating surplus is a form of income that ultimately accrue to the owners of corporations but are generally missing from standard inequality statistics.

In these three countries,³ we observe significant variation but an unmistakable trend. From 1995 to present, net operating surplus in the corporate sector has increased almost 50 percent.

It is beyond the scope of this brief note to ask whether a larger annual surplus may be more necessary in today's corporate environment than it was in earlier eras (e.g., if there are greater uncertainties or risks).

Figure 6. Corporate operating surplus (net), as percent of national income, in Australia, Canada & the US (1995-2019)



Note: Adjusted for net foreign capital income.

However, corporate operating surplus accrues as income to the owners of corporations, whether distributed as dividends or retained as equity and shares. To the extent that retained earnings substitute for employee compensation, the business owners' gains are the workers' losses.

Without any change in the concentration of capital income, this increase in corporate profits already does much of the work to explain the observed increases in inequality.

Conclusion

Across Australia, Canada, New Zealand and the United States, the labor share of national income is in decline, and fiscal policy has not responded proportionally. The lasting health and economic shocks of 2020 may only intensify these troublesome trends, and clearly compound the challenge to protect society's most vulnerable citizens.

Notes

1. See also [Bozio et al. \(2020\)](#) and [Saez-Zucman \(2019\)](#).
2. See also, *inter alia*, [Gollin \(2002\)](#); [Karabarbounis-Neiman \(2014\)](#); [Piketty-Zucman \(2014\)](#); [Fisher-Post \(2020\)](#); and [Bengtsson-Rubolino-Waldenström \(2020\)](#).
3. We do not include data on 'corporate operating surplus' for New Zealand, as New Zealand's national accounts include mixed income within operating surplus of the corporate sector, rather than within the household sector as in other countries. If we were to make a 'naive' calculation of corporate operating surplus including mixed income, we would overstate the levels—as in Figure 4 above, which underestimates the labor share of national income because it does not include the labor share of mixed income.

About the author

Matthew Fisher-Post is the coordinator for North America and Oceania at the World Inequality Lab, and a research fellow at the Harvard Kennedy School. He gratefully acknowledges research support from the Franco-American Fulbright Commission, the Ford Foundation, the European Research Council (ERC Grant 856455) from the French National Research Agency (EUR Grant ANR-17-EURE-0001), as well as from the United Nations Development Program (Project 00093806).

The World Inequality Lab

The World Inequality Lab aims to promote research on global inequality dynamics. Its core mission is to maintain and expand the World Inequality Database. It also produces inequality reports and working papers addressing substantive and methodological issues. The Lab regroups about twenty research fellows, research assistants and project officers based at the Paris School of Economics. It is supervised by an executive committee composed of 5 co-directors. The World Inequality Lab works in close coordination with the large international network (over one hundred researchers covering nearly seventy countries) contributing to the database.

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