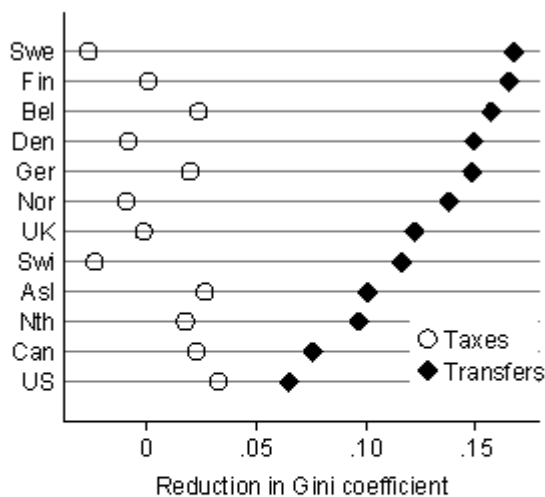


[Matt Yglesias](#)

Sep 13th, 2010 at 3:31 pm

[Europe and America, Before and After Tax and Transfer](#)

Inequality reduction via taxes and via government transfers, early-mid 2000s



Note: Inequality reduction via transfers is calculated as pretransfer-pretax Gini minus posttransfer-pretax Gini. Consumption taxes are not included due to lack of reliable data; including them would reduce the degree of inequality reduction via taxes. Inequality reduction via taxes is calculated as pretransfer-pretax Gini minus pretransfer-posttax Gini. Data source: Kenworthy calculations from Luxembourg Income Study data, www.lisproject.org.

Reihan Salam wades into the inequality waters to make the important point that if looked at [before taxes and transfers](#) then European inequality has increased by a quite a lot during the same period US inequality increased. The reason actual European gini coefficients haven't exploded as much is that European voters have elected politicians who engage in a great deal of income redistribution.

As illustrated by the [Lane Kenworthy chart](#) I've reproduced at the right, low-inequality countries tend to spend large sums of money on

transfer payments that reduce the gini coefficient. I would further add that in many of these countries public services are simply of higher quality, which further diminishes the reality of post-tax inequality.

That said Tyler Cowen's October 2007 post on this subject ended up concluding [that Europe and the United States are pretty different](#) after all (Alderson & Doran [[PDF](#)] "How Has Income Inequality Grown? The Reshaping of the Income Distribution in LIS Countries" offer a detailed analysis of the point):

One very eminent source emailed me and he wishes to stress that the (relatively) **high level of the European Gini stems from higher levels of unemployment, whereas the relatively high level of the American Gini stems from the rich being very rich. He points out that although the final Ginis may be similar, the underlying patterns are very different and it would be misleading to conclude that America and Germany have ended up at the same pre-tax point.** This is absolutely correct, my apologies if the post created a misleading impression.

However you slice it, there are fundamental differences in the labor markets. Corporate executives in the United States (and to a lesser though still noteworthy extent) are simply paid much more than non-Anglophone executives.

The labor market for CEOs remains a somewhat odd beast. Nokia has just this week announced the appointment of its first-ever non-Finnish CEO and he immediately hastened to [identify himself with Finnish values](#) and clarify that he's Canadian, not American, despite having attended US universities and worked for a succession of US firms while living in the United States. In general, the trend seems to be toward increased globalization of the CEO market (at least as pertains to North America and Europe) but this is a process that's been only very imperfectly undertaken at a time when we take for

granted the internationalization of other aspects of corporate operations.

- [Comments](#)
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3 Responses to “Europe and America, Before and After Tax and Transfer”

1. *Steve LaBonne* says:

[September 13th, 2010 at 6:12 pm](#)

I look forward to US CEO salaries being determined by competition among candidates in a global market. 😊

2. *ed* says:

[September 13th, 2010 at 6:59 pm](#)

I'd argue that inequality of the form “I can't find a job” is much, much worse in social terms than the form “some guy on TV is much richer than me.”

Unfortunately, the recession has given us a huge increase in the really bad kind of inequality.

3. *OGT* says:

[September 13th, 2010 at 9:18 pm](#)

The SBTC argument doesn't, and never did, make any sense in regards to the top 1% of the income distribution, which is a really sizable percentage of the change.

There I think it's a combination of rent seeking and market power exploitation along with some people who purely lucky.

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