

Study shows little earnings inequality gap between North America and Europe

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One year ago today, the Occupy Wall Street movement pushed earnings inequality to the forefront of global politics. With the protest still roaring, most studies suggest that earnings inequality is far greater in North America than in Europe, but is this really the case?

According to new research from Western's CIBC Centre for Human Capital and Productivity, the answer depends on how earnings inequality is defined and the measures used to explore it.

In a policy brief, titled *Think Inequality is Higher in North America than in Europe? Think Again*, CIBC Centre Fellow Audra Bowlus and co-author Jean-Marc Robin, an economics professor at Sciences Po, Paris and University College London, present findings which show by examining a potential earner's lifetime earnings compared to evaluating a single year of his her or her earnings, the inequality [gap](#) between North America and Europe greatly diminishes.

More importantly, the study suggests policy changes aimed at helping unemployed workers find employment more quickly and/or reductions in employment regulation may reduce lifetime earnings inequality in [Continental Europe](#).

Bowlus and Robin specifically compared lifetime versus one-year earnings for workers in Canada, the United States, the United Kingdom, France and Germany.

"There was an [expectation](#) that there was a lot more earnings mobility in North America than there was in Europe and this would allow for a reduction in the differences between the [continents](#) if one took a lifetime measure," explained Bowlus, who also serves as chair of Western's Department of Economics.

"Most cross-country studies use a current year or single-year measure of earnings inequality. We are looking at a lifetime measure, which, for our purposes, is the average of earnings for each individual over their working lifetime. This allows us to incorporate movements in earnings over the lifetime rather than just looking at one year."

Bowlus said one of the strengths of the CIBC research is the inclusion of employment risk.

"In countries like Canada and the U.S., people in all parts of the earnings distribution are subject to employment risk," said Bowlus. "Yes, they can become unemployed, but they tend to be unemployed for short periods of time and they come back into all parts of the distribution, so once you average it out, across their lifetime, it has little effect on inequality.

"By comparison, European countries tend to have more generous unemployment insurance policies than those in North America so workers could be out of employment for up to two years. The difference is when they come back, they return to the bottom of the earnings distribution and this has a very large impact on average earnings over their [lifetime](#) drawing down those earnings in the distribution making inequality grow."

Provided by University of Western Ontario

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