CROSS-NATIONAL INEQUALITY TRENDS USING HISTORICAL TAX RETURN DATA


Over the past decade the editors of this book, Anthony Atkinson and Thomas Piketty, along with Emmanuel Saez, have sparked a renewed interest in top-end income inequality through their innovative use of tax return data. This research has redefined the way we describe inequality, both among economists and among the general public. While most previous inequality studies focused on survey data, Atkinson and Piketty note that surveys are generally limited to recent years and thinly sample the top end of the income distribution. In contrast, the tax records explored in this volume allow for research over a longer time-frame and for a higher income population. Based on such analyses, the authors can provide historical context to the inequality debate that was not previously possible through the use of traditional survey data.

As the tax return based inequality literature grows, this volume offers a valuable reference guide for the latest research findings around the world. In an earlier book by Atkinson and Piketty (2007), the authors compiled the tax return based research on European and English speaking countries. In this new book, they expand their analysis beyond their first book by considering Asian and Nordic countries along with additional southern European countries. This expansion to include non-European countries in the volume is a welcome addition to the results from mostly English speaking countries explored previously in their first book. Given the rapid growth and interest in the tax return based top-income share research in recent years, it will be beneficial to many inequality scholars to have the comprehensive collection of top tax return based research that is provided in Atkinson and Piketty’s two books.

The appealing aspect of this volume is the extent to which it simultaneously tells both local stories of inequality along with the global story of inequality. Globally, it is interesting to note that despite the dramatically different historical and cultural issues facing the countries in this volume, there are strong similarities in the trends in top income shares. As noted by Atkinson, Piketty, and Saez in Chapter 13, the historical trend of top incomes in the countries examined generally follows either a “U-shape” pattern, where the top centile income share declined through the 1950s or 1960s but has increased in recent years, or an “L-shape” pattern, where the top centile income share declined through the 1950s or 1960s but has been relatively stable over the past 40 years. In many respects, it is a

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remarkable result that countries as diverse as Japan, Sweden, and Spain appear to exhibit quite similar top income share trends. But for readers interested in the global comparison, the results also presents a puzzle of why there is the recent divergence in trends between the “L-shape” and “U-shape” countries that had illustrated similar top income share declines in the first half of the twentieth century but are now taking different paths. This book will not solve this puzzle, but does help advance the question by adding additional data points to the comparison.

While the global perspective provided by this book is important and will certainly appeal to many readers, the major contribution of the research in this volume is the extent to which it allows the reader to delve into regional or country-specific issues that impact the timing or magnitude of shifts in income concentration. For example, in Chapter 3, Moriguchi and Saez start by illustrating the similarities in the top-income shares for Japan, France, and the United States through the early 1970s. But they then offer the readers a more nuanced discussion of the timing of falling top income shares in Japan, discussing how World War II and the occupational reforms imposed on Japan after the war separately influenced the observed inequality trends in the country.

It is through this type of detailed discussion of country trends that the book excels. Since few readers will have intimate knowledge of all 12 countries explored in this book (along with the ten discussed in the previous volume), it provides a fascinating perspective on country-specific historical events. Each chapter then provides some insights into the relationship between these historical events and the long-run path of top-income shares in the country. As such, while there are almost certainly global influences to the levels and trends of inequality observed in each country, the chapters of this book allow readers to look beyond the headline graphs and begin to consider the question of why certain countries deviate from global patterns of top income shares.

While the results in the book were extremely informative regarding inequality trends in the countries considered, readers should not come to this book expecting to leave with all the answers. Since the long-run tax return based inequality literature is still relatively young, in many cases the researchers’ objective is primarily to describe the inequality trends rather than explain them. In many cases, the efforts required to explain these trends are substantial given the limited availability of tax return data. In China (Chapter 2), for example, the progressive income tax was not even implemented until 1980 so the Chinese results are focused on more recent years. Even within those years the chapter authors note that “[t]here do not even seem to be any reliable statistics on the number of income tax payers in China” (p. 54), much less reliable estimates of the taxable income distribution. In other chapters, such as that for Indonesia (Chapter 4), there are gaps in the data spanning several decades, and the authors deem tax return data unreliable for some years, forcing them instead rely on survey data when presenting results. Given these challenges, simply documenting inequality trends for countries and time-periods where very little data exists is a substantial undertaking on its own, and the authors make great strides in enhancing our knowledge of inequality in countries and years where very little knowledge previously existed.

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However, while the research in this book is enlightening and offers major advancements in our understanding of inequality around the world, it occasionally struggles under the weight of its ambitious agenda to provide clear inequality comparisons across geographic and politically diverse countries. As noted in the preface, the volume “is an unusual one in that it has no formal status and did not originate in a carefully planned research proposal.” Each chapter is interesting standing alone, providing insights into country-specific trends. But, perhaps due to a combination of the informal roots of the project described by the editors and the difficult data used for the project, it seems to fall short of the goal of allowing readers to truly compare the inequality trends across the countries considered. In order to compare top income shares across countries, one would like to have as much uniformity in the definitions and methodologies in each study as possible. Failing that, at least a clear and concise description of the relevant differences and their expected impacts would be beneficial. But instead, it is easy for readers to make comparisons across countries or over time within countries without being clear on the validity of such comparisons.

These concerns of cross-national comparability are certainly not new, nor are the concerns over the intertemporal reliability of datasets. Survey based inequality researchers have spent significant resources building datasets like the Luxembourg Income Study (LIS) and the Cross National Equivalency File (CNEF). These datasets attempt to harmonize income measures and other data elements in survey data across countries to allow for more accurate comparisons across countries (see Burkhauser and Lillard, 2005, for an overview of such data harmonization efforts). The tax return based research in this volume attempts to dramatically simplify the process of cross-national comparisons through the use of tax return data. However, while tax return data offer a valuable supplement to endeavors such as the LIS and the CNEF by providing additional historical context, it should not be forgotten that tax return data are themselves imperfect and are not directly comparable across countries. Similarly, the tax return data are not always comparable within the same country over time as countries pass new tax legislation. Perhaps some of the differences in income definitions could have been accounted for by using clear data harmonization approaches on the historical tax data. However, many differences, such as whether countries tax individuals, families, or households, cannot be remedied ex-post and produce a natural limit on the ability of volumes such as this one to reach the goal of comparable results using just tax return data.

Atkinson and Piketty recognize these data limitations and attempt to address them in their concluding chapter, stating that the way in which tax data are collected “causes particular difficulties for comparisons across countries, but also for time-series analysis where there have been substantial changes in the tax system” (p. 668). They later caution readers that “[t]he data are rich but need to be used with due circumspection, particularly with respect to incomes from capital” (p. 678). As such, it is a testament to the quality of the editors that they are clear in laying out these important limitations for their readers. Similarly, they are upfront about other data concerns, such as tax evasion and tax avoidance, which may be of particular concern as the tax return based research examines developing countries with less sophisticated tax collection systems. So while it is unfortunate
that these limitations cannot truly be resolved, the editors attempt to provide full information regarding the data so that readers can make an honest evaluation of the findings.

Nevertheless, despite this overview discussion of the data limitations by Atkinson and Piketty discussed above, one area in which the book was lacking was a discussion within each chapter of important data-collection changes over time. One particularly valuable approach was that of Jantti et al. in their discussion of Finland’s top income shares in Chapter 8. The authors of this chapter provided a clear description of Finland’s taxable income definition, along with a detailed table outlining the major changes to taxable income rules in Finland during the period of analysis. I expect that readers who have limited knowledge of Finland’s tax regimes will find such a table to be a useful reference when evaluating the results in the chapter, and I feel that readers of the other chapters would have benefitted greatly from similar tables and descriptions for the other countries analyzed. Given the extensive discussion of historical events in each chapter, which were remarkably insightful for understanding the actual changes in top income shares, further evidence in each chapter on changes to the tax codes in countries would have been equally insightful for helping to isolate any potential artificial changes that appear in the observed inequality trends.

Although there are certainly limitations to the use of tax-records for understanding inequality trends, Atkinson and Piketty have done a remarkable job of compiling a collection of excellent research. The research in this book certainly represents the best available results for historical inequality trends across a wide range of countries. Additionally, as their top-incomes database (Alvaredo et al., 2013) expands to include additional countries around the world, the increased ability for international comparisons will further enhance the value of this research. The work of the editors and authors in this book will undoubtedly form the basis of the top income share literature for years to come and I will look forward to seeing the continued expansion of their analysis to additional countries in subsequent books in the series.

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REFERENCES


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Historical top income inequality estimates are reconstructed from income tax records, and for many countries these estimates give us insights into the evolution of inequality over more than 100 years. This is much longer than other estimates of income inequality allow (as is the case with estimates that rely on income survey data). The fact that income shares are measured through tax records implies that these estimates measure inequality before redistribution through taxes and transfers. What we can learn from this long-term perspective is summarized in this visualization. As the tax return based inequality literature grows, this volume offers a valuable reference guide for the latest research findings around the world. In an earlier book by Atkinson and Piketty (2007), the authors compiled the tax return based research on European and English speaking countries. These concerns of cross-national comparability are certainly not new, nor are the concerns over the intertemporal reliability of datasets. Although there are certainly limitations to the use of tax-records for understanding inequality trends, Atkinson and Piketty have done a remarkable job of compiling a collection of excellent research. The research in this book certainly represents the best available results for historical inequality trends across a wide range of countries. Tax evasion and inequality. Annette Alstadsæter Niels Johannesen Gabriel Zucman. Working Paper 23772 http://www.nber.org/papers/w23772. NATIONAL BUREAU OF ECONOMIC RESEARCH 1050 Massachusetts Avenue Cambridge, MA 02138 September 2017. Tax Evasion and Inequality Annette Alstadsæter, Niels Johannesen, and Gabriel Zucman NBER Working Paper No. 23772 September 2017 JEL No. E21,H26. ABSTRACT. The key data source in this literature is stratified random audits, such as the National Research Program (NRP) in the United States. Based on the NRP, the Internal Revenue Service (2016) estimates that the tax gap for all federal taxes amounts to 16.3% percent of actual (paid plus unpaid) tax liability in 2008–2010. methods that use tax data only. those that combine survey and administrative data in some way. In the first of these approaches, income estimates are calculated directly from the survey data, for all but the very richest. Sources such as World Inequality Database (WID.world) do not use survey data at all for their UK estimates, making use of HM Revenue and Customs data about personal incomes subject to tax, supported by population and income control totals from the mid-year population estimates and national accounts respectively (see UK Estimates of Top Income Shares 2012 to 2013: Note on Methods). re-estimate income tax and national insurance contributions based on new levels of individual gross (pre-tax) income. These cross-national inequality databases are being used by researchers, with increasing frequency, to document global or regional trends (e.g. Atkinson and Bourguignon, 2014; Atkinson, 2015; Bourguignon, 2015; and Piketty, 2014), as well as by scholars interested in including inequality measures in cross-country regression analyses, either as dependent or independent variables (e.g. Acemoglu et al., 2015; and Ostry. et al., 2014). Three sources of cross-national inequality statistics that are different in focus from those reviewed in this issue are nevertheless worth mentioning. Unlike the other data sets, WTID uses information from tax returns (mainly) to estimate