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INCOME DISTRIBUTION: MAIN TRENDS AND PROBLEMS

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ABSTRACT

Income inequality refers to differences in how economic resources are distributed among the population. In this context, household disposable income is measured for a particular year and includes earnings from employment and self-employment, capital returns, and public cash transfers. However, taxes and social security contributions paid by households are deducted. Inequality is also described as the gap between the rich and the poor, differences in economic well-being, wealth disparity, or the wealth gap (OECD). In recent years, inequality has become an important issue for policymakers and researchers, as high levels of disparity are associated with social unrest, political polarization, and mistrust. Most research in this area focuses on disparities arising from the distribution of resources generated within the economy and how these resources are allocated among households. This article examines recent trends in inequality by analyzing its causes and consequences, the main factors driving its growth, and some of its broader implications. Several key factors contributing to rising inequality can be identified, including technological progress, trade globalization, capital concentration, the cyclical nature of production, and demographic and social factors. Inequality has a number of negative social and economic consequences. In particular, it can reduce the size of the middle class and undermine political and social stability. In most countries, disparities have generally been increasing, raising concerns about the sustainability of economic growth. The possibility of achieving inclusive growth has also been called into question.

KEYWORDS

Economic Inequalities, Labor Share, Income Distribution, Capital Income

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Introduction

One of the main points of common interest among economists and financial researchers is whether the middle class is disappearing, given the evidence of a widening gap between the rich and the poor in terms of socioeconomic status. Income distribution is an important topic in finance that warrants further attention. One of the main challenges in this field is achieving a more equitable, or more equal, distribution of income. Consensus may be difficult to reach until there is agreement on the underlying factors that determine workers' wages. It should be pointed out that there are some important tools available to analysts seeking to understand and describe, in a quantifiable manner, trends and international differences in income distribution. This article presents some methods and statistics that can be used to compare Europe, the United States, and other countries, with the aim of achieving a better understanding of income distribution and the complexities of redistributive policies.

Methodology

The research materials used in this study include educational and scientific-methodological literature, articles published in periodicals, and materials from relevant websites. Within the framework of the research, various methods of scientific inquiry were used, including comparative and descriptive methods, as well as methods of generalization, analysis, and synthesis. The analysis is based on an examination of official documents, reports from government and international organizations, and policy papers. The synthesis is based on integrating findings from academic studies, institutional evaluations, and expert commentary in order to formulate a coherent assessment. The research also relies on official data, including publications from the World Bank, OECD, IMF, and official reports from Georgia.

Results and Discussion

In the 21st century, the distribution of income between labor and capital began to shift rapidly in favor of capital. The situation has changed most significantly in the United States. Since the United States is a leader in scientific, technological, and economic development, we can expect the impact of these shifts in income distribution to intensify in other countries in the foreseeable future. We are now seeing a fundamental reversal of development trends in advanced countries compared with the late 20th century, when the share of labor income in GDP increased, contributing to a more equal distribution of personal income and the growth of the middle class, while also being accompanied by record-high rates of economic growth. Since the beginning of the 21st century, these trends have been reversed.

In the United States, the share of income earned by labor (wages and salaries and supplements to wages and salaries) has generally remained around 50–60%, while capital (proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal income receipts on assets, and personal current transfer receipts) accounts for the remainder. Recent data indicate a shift, with the labor share declining from 57.0% in 1973 to 51.6% in 2024, reaching a record low of 51.2% in 2023.

Historically, the labor share remained relatively steady at approximately 60% from 1950 to 1973. Since the early 2000s, it has experienced a downward trend, declining by roughly 3.0–3.5 percentage points by 2024.

Capital income, which includes proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal income receipts on assets, and personal current transfer receipts, has increased its share of national income as the labor share has declined. Recent trends show that the labor share of income has fallen, while the capital share has increased from 28.3% in 1973 to 39.6% in 2024, reaching a record high of 44.4% in 2020. For more information, see Table 1.

Table 1.

Sources of personal income, U S A

(Billions of dollars)

	1973	2004	2007	2008	2011	2014	2019	2020	2021	2022	2023	2024*
Personal income	1140.8	10015.9	11932.1	12425.7	13309.6	**14784.1**	**18363.2**	**19620.1**	**21419.5**	**22088.9**	**23402.5**	**24556.0**
Wages and salaries	708.8	5421.0	6396.4	6534.1	6626.2	7476.3	9325.1	9465.7	10315.6	11123.1	11725.2	12350.5
Supplements to wages and salaries	103.9	1298.5	1482.1	1522.7	1600.0	1773.9	2121.5	2130.8	2241.4	2313.6	2464.9	2603.7
Compensation of employees	**812.7**	**6719.5**	**7878.5**	**8056.8**	**8226.2**	**9250.2**	**11446.6**	**11596.4**	**12557.0**	**13436.7**	**14190.2**	**14954.2**
Proprietors' income with inventory valuation and capital consumption adjustments	112.5	962.9	995.4	960.3	1228.3	1370.0	1555.8	1594.0	1815.3	1873.6	1949.0	1994.6
Rental income of persons with capital consumption adjustment	23.1	242.8	186.3	290.3	506.5	598.5	688.4	738.1	772.3	870.3	989.1	1051.7
Personal income receipts on assets	155.4	1498.7	2105.3	2151.5	1906.5	2177.4	2950.0	2912.4	3180.7	3474.0	3822.9	3942.6
Personal current transfer receipts	112.6	1421.2	1728.1	1955.1	2358.7	2541.6	3147.1	4228.8	4653.7	4139.2	4268.0	4505.3
Less: Contributions for government social insurance, domestic	-75.5	-829.2	-961.4	-988.4	-916.7	-1153.6	-1424.8	-1449.7	-1559.5	-1704.8	-1816.6	-1892.6
Income from capital	**403.6**	**4125.6**	**5015.1**	**5357.2**	**6000.0**	**6687.5**	**8341.3**	**9473.3**	**10422.0**	**10357.1**	**11029.0**	**11494.2**
G D P	1425.4	12217.2	14474.2	14769.9	15599.7	17608.1	21540.0	21354.1	23681.2	26006.9	27720.7	28998.4
Labor income to GDP, %	57.0	55.0	54.4	54.5	52.7	52.5	53.1	54.3	53.0	51.7	51.2	51.6
Capital income to GDP, %	28.3	33.8	34.6	36.3	38.5	38.0	38.7	44.4	44.0	39.8	39.8	39.6

* 3Quatore

Source: compiled by the author based on the materials of the Economic Report of the President of the United State of America. 2025

https://www.govinfo.gov/content/pkg/ERP-2025/pdf/ERP-2025.pdf

A different trend can be observed in the European Union. Specifically, in 2024, the share of income earned through labor, or employee compensation (wages and employer social contributions), accounted for approximately 50% of GDP in the EU. It was the largest income component in the European Union, accounting for 47.9% of GDP. This figure increased by 0.9 percentage points (pp) compared with 2023 and by 1.3 percentage points compared with 2004. Taxes on production and imports (less subsidies) increased by 0.4 pp in the EU compared with 2023, but decreased by 0.4 percentage points compared with 2004. They accounted for 11.2% of GDP in 2024, compared with 11.6% in 2004. Finally, gross operating surplus and mixed income accounted for 40.9% of GDP in the EU, decreasing by 1.3 pp compared with 2023 and by 0.9 pp compared with 2004.

We can see that the labor share has increased. For example, in 2004, it accounted for 46.6% of GDP, while in 2024 it accounted for 47.9%. At the same time, the capital share, which includes gross operating surplus and mixed income, as well as taxes on production and imports less subsidies, has declined. Specifically, in 2004, it accounted for 53.4% of GDP, compared with 52.1% in 2024. Recent trends in the EU show that the labor share of income in GDP has increased, while the capital share has decreased. For more information, see Table 2.

Table №2.

Evolution of income components in the EU *(% of GDP, 2004 - 2024)*											
	2004	**2007**	**2008**	**2011**	**2014**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Employers' social contributions	10.3	9.9	10.0	10.1	10.2	9.8	10.2	9.9	9.6	9.6	9.7
Wages and salaries	36.3	35.6	36.3	36.7	36.9	37.7	38.5	37.6	37.1	37.4	38.2
Compensation of employees (labour income)	***46.6***	***45.5***	***46.3***	***46.8***	***47.1***	***47.5***	***48.7***	***47.5***	***46.7***	***47.0***	***47.9***
Gross operating surplus and mixed income	41.8	42.7	42.2	41.6	41.0	40.4	40.9	41.6	42.2	42.2	40.9
Taxes on production and imports less subsidies	11.6	11.8	11.4	11.5	11.8	12.0	10.4	10.8	11.1	10.8	11.2
Capital income	***53.4***	***54.5***	***53.6***	***53.1***	***52.8***	***52.4***	***51.3***	***52.4***	***53.3***	***53.0***	***52.1***
Source: *compiled by the author based on the materials of Eurostat.*											

https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Annual_national_accounts_volution_of_the_income_components_of_GDP#Changes_over_the_last_20_years

Based on a comparison of key indicators for the United States and the European Union (Tables 1 and 2), it can be assumed that a certain divergence between labor and capital is developing in these two centers of the global economy. It is means, the labor share is falling in the US while it is rising in the EU. This could further lead to increased economic competition.

The situation is also uneven across the European Union. Among EU countries, the share of employee compensation (employers' social contributions and wages and salaries) in GDP was highest in Latvia (55.4%), Germany (54.5%), and Austria (52.9%), while the lowest rates were recorded in Ireland (28.5%), Greece (35.0%), and Italy (39.5%).

At the same time, wages and salaries accounted for the highest share of GDP in Lithuania (49.0%), Denmark (46.9%), and Luxembourg (46.1%), while the lowest figures were recorded in Ireland (24.2%), Greece (27.6%), and Italy (29.0%). The highest shares of employers' social contributions as a percentage of GDP were observed in France (13.5%), Estonia (12.5%), and Belgium (12.3%), while the lowest figures were recorded in Lithuania and Romania (both 1.8%) and Malta (3.2%). [6.]

It should be noted that, in relation to the long-term trend, during the period 2004 – 2024, the largest changes in the share of GDP accounted for by wages and salaries occurred in Lithuania (17.18%), Latvia (12.39%), and Bulgaria (10.56%). The smallest changes occurred in Belgium (-0.09%), Norway (-0.47%), and Portugal (0.04%). The largest changes in employers' social contributions as a share of GDP were observed in Iceland (4.05%), Latvia (3.18%), and Slovakia (2.22%), while the smallest changes occurred in Lithuania (-6.29%), Hungary (-5.53%), and Romania (-4.65%).

It should also be noted that the changes in the labor share of GDP across the EU are uneven. For example, between 2015 and 2025, it increased in Austria, Belgium, the Czech Republic, Hungary, Latvia, Lithuania, Poland, and other countries, while it decreased in others, including France, Germany, Finland, the Netherlands, Ireland, Greece, and Bulgaria. [12.]

The distribution of labor income at the macroeconomic level depends on the availability of labor resources in the production sector, both nationally and globally. In some countries, the labor force continues to play a crucial role in economic development. In countries such as India, Mexico, Turkey, the Philippines, and several others, the labor share as a percentage of GDP increased between 2016 and 2025. [8.]

At the same time, in most countries, capital income predominates in the structure of GDP. Capital and mixed income are distributed very unequally, which may have a positive impact on the savings rate but may have a negative impact on the social situation. The inequality of income distribution tends to decrease as the capital-labor ratio increases. The decline in the labor share is often attributed to technological changes and globalization. [8.]

In conclusion, it can be noted that the United States and the European Union are experiencing opposing trends. Specifically, labor income is declining in the United States and growing slightly in the European Union. However, it should be noted that in some EU countries it is growing, while in others it is declining. Meanwhile, capital income is growing in the United States and declining in the European Union. A deepening of this trend could lead to certain shifts in the investment landscape. In particular, some EU countries may become less attractive for investment, especially in innovative and technological sectors.

The labor income share as a percentage of Georgia's GDP increased slightly over the past 10 years (2016–2026), reaching 52.1%. This figure, however, is high compared with other countries in the region. In 2026, it was 44.2% in Armenia, 48.3% in Azerbaijan, 48.3% in Russia, and 41.1% in Türkiye. The dynamics of this indicator for selected countries are shown in Table 3.

Table №3.

Labour income Share as a percent of GDP (%)

	Country / Years	2016	2020	2022	2023	2024	2025	2026	trend
1	**Georgia**	51.8	53.6	51.8	55.3	51.3	51.8	52.1	↑
2	**Armenia**	47.2	45.7	39.9	43.9	44.1	44.2	44.2	↓
3	**Azerbaijan**	46.7	45.3	48.1	48.4	48.1	48.2	48.3	↑
4	**Turkey**	40.2	35.6	28.6	35.1	41.2	41.1	41.1	↑
5	**Russian**	52.1	51.1	48.7	47.6	47.5	48.3	48.3	↓
6	**Bulgaria**	52.6	53.4	49.9	50.7	50.8	50.7	50.7	↓
7	**Romania**	41.9	44.2	40.5	41.2	44.6	44.5	44.5	↑
8	**Ukraine**	44.8	53.6	-	-	-	-	-	
9	**India**	58.5	62.6	62.0	61.1	61.9	61.8	61.9	↑
10	**Mexico**	31.6	33.8	35.5	36.4	37.8	38.0	37.9	↑
11	**Philipines**	42.6	43.6	46.0	44.7	45.6	45.6	45.6	↑
12	**China**	51.5	51.8	51.6	51.1	51.2	51.2	51.3	↓
13	**France**	62.0	60.8	60.6	59.7	60.0	60.0	59.9	↓
14	**Germany**	61.4	63.0	60.1	60.5	62.0	63.1	62.9	↑
15	**UK**	56.2	59.6	55.7	55.9	56.4	57.7	57.7	↑
16	**Italy**	60.2	56.7	54.3	56.7	57.8	58.5	58.4	↓
17	**Japan**	52.9	56.3	56.3	54.4	54.8	54.4	54.5	↑
18	**Canada**	60.9	61.6	56.7	58.5	59.0	58.7	58.6	↓
19	**USA**	58.4	59.1	56.2	55.4	55.5	55.8	55.8	↓

Source: compiled by the author based on the materials of International Labor Organization

The growth of innovative technologies increases the demand for skilled and highly qualified workers. In developed countries, this process intensified particularly in the early 21st century. Labor costs began to rise, and labor income also increased. Developed countries began to export capital and import labor. As a result, the share of labor income in GDP increased, while the share of capital income declined.

The Main Causes of Shifts in Income Distribution

Shifts in income distribution are driven by both objective and subjective factors. Objective factors include the cyclical nature of economic processes and increased competition between countries. Subjective factors include the need for periodic changes in economic policy.

The emergence of new industries increased the demand for labor and capital resources. Labor mobility was lower than capital mobility, leading to a decrease in unemployment and an increase in the number of workers involved in economic processes. The growth of labor income outpaced the growth of capital income. The increasing share of labor income in the economy contributed to a reduction in income inequality. In developed countries, the share of the middle class increased.

At the beginning of the 21st century, new industries and products began to emerge in the market. Price competition gave way to competition based on product novelty and quality. This competition was supported by innovative developments in microelectronics and digital technologies.

Improvements in production technology led to increased demand for highly skilled labor. The different mobility of these resources created an advantage for capital. Capital was exported to developing countries, where investment returns were higher. In developed countries, the demand for skilled labor increased further. Consequently, the share of labor income in the GDP of developed countries increased, while the share of property income decreased.

Many governments granted greater leeway to large corporations due to growing competition between countries and declining returns on capital. Corporations were granted tax breaks and exempted from some restrictive measures. For example, corporate tax cuts began during the Reagan administration in the United States. Subsequent Republican presidents pursued policies aimed at reducing tax progressivity, while Democratic presidents generally increased tax rates.

Reducing income tax rates can help accelerate economic growth by stimulating entrepreneurial activity and labor participation. It is important that the portion of profits retained by corporations be used for capital investment and job creation.

The removal of various legal restrictions on entrepreneurial activity also contributed to increased efficiency in the United States. For example, in the banking sector, deregulation included changes to the separation between commercial and investment banking. Commercial and investment banks have different areas of activity and strategies. Commercial banks focus on lending, and their deposits primarily come from middle-income households. They generally pursue a more conservative policy and avoid high risks. Investment banks are engaged in the purchase and sale of securities and in managing the money of wealthy individuals who are willing to take higher risks in exchange for the opportunity to earn higher returns.

In this regard, it should also be noted that the US Federal Reserve pursued a policy of lowering discount rates to stimulate entrepreneurial activity. This was especially evident during the COVID-19 pandemic. The large financial corporations enjoy a monopoly position. There are also some shortcomings in legislation regulating corporate governance. All of that allows the management of huge financial institutions to use a large portion of their revenues to pay bonuses and increase wages. All this also decreases labor income share as percent of GDP.

Some Consequences of Changes in Income Distribution

According to the World Bank, in 2023, the share of low-income countries has fallen to 12%, while the share of high-income countries has increased to 40%. The scale and direction of these shifts, however, varies a great deal between world regions. Here are some regional highlights:

100% of **South Asian countries** were classified as low-income countries in 1987, whereas this share has fallen to just 13% in 2023.

In the **Middle East and North Africa** there is a higher share of low-income countries in 2023 (10%) than in 1987, when no countries were classified to this category.

In **Latin America and the Caribbean**, the share of high-income countries has climbed from 9% in 1987 to 44% in 2023.

Europe and Central Asia has a slightly lower share of high-income countries in 2023 (69%) than it did in 1987 (71%). [11.]

However, despite global output increasing, the income share of the poorest half of humanity has remained virtually unchanged. Inequality has not decreased. It undermines economic progress, which in turn leads to widening social gaps resulting from inequality. Inequalities persist both within and between countries, based on income, geography, gender, age, ethnicity, disability, sexual orientation, class, and religion, affecting access to benefits, as well as opportunities. In some regions of the world, these gaps are becoming increasingly noticeable. At the same time, gaps in the coverage of new services such as the internet and mobile technologies are emerging.

Today, inequality remains at very high levels. According to the World Inequality Report 2026, the top 10% of global income earners receive more income than the remaining 90% of the population, while the poorest half of the global population receives less than 10% of total global income. Wealth is even more concentrated: the top 10% own three-quarters of global wealth, while the bottom half owns only 2%.

In developed countries, inequality in income distribution has not improved significantly. In some respects, it is even getting worse. For example, Nobel laureate J. Stiglitz notes: “The upper 1 percent of Americans are now taking in nearly a quarter of the nation’s income every year. In terms of wealth rather than income, the top 1 percent control 40 percent. Their lot in life has improved considerably. Twenty-five years ago, the corresponding figures were 12 percent and 33 percent” (Stiglitz, 2015, p. 74).

Overall, it should be noted that changes in income distribution continue to contribute to inequality. “The worry is that our ersatz capitalism—socializing losses while we privatize gains—and our imperfect democracy—closer to a system of one dollar one vote than to one person one vote—will interact to produce disappointment in both the economic and the political spheres” (Stiglitz, 2015, p. 73).

Conclusions

Income and wealth inequality remain high. In the absence of policies to counter recent trends, inequality could rise to even higher levels. High and rising inequality has adverse economic, social, and political consequences.

It can be said that when labor incomes were at high levels, as was the case in the last quarter of the 20th century, this had a positive impact on the fair distribution of personal income, the growth of the middle class, and sustainable economic development.

In the coming years, economic growth and the composition of GDP will depend not only on consumer spending and services but also, to a large extent, on innovation. It is important that wages remain a significant and stable component of GDP during this period. In this regard, it is necessary to implement measures that stimulate economic activity, especially in innovative areas. State efforts should focus on funding science, infrastructure and innovative projects, as well as education and healthcare.

Georgia needs to improve its income distribution statistics. Greater attention must be paid to changes in income distribution in the digital age, and the forces driving these changes should be harnessed to ensure more inclusive prosperity.

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