

PSCI 4012

Global Development

Inequality, Redistribution and
Development

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Today's Plan

- Inequality in the past and today
- What causes inequality?
- How does inequality affect overall economic performance?
- Inequality simulation

Inequality facts

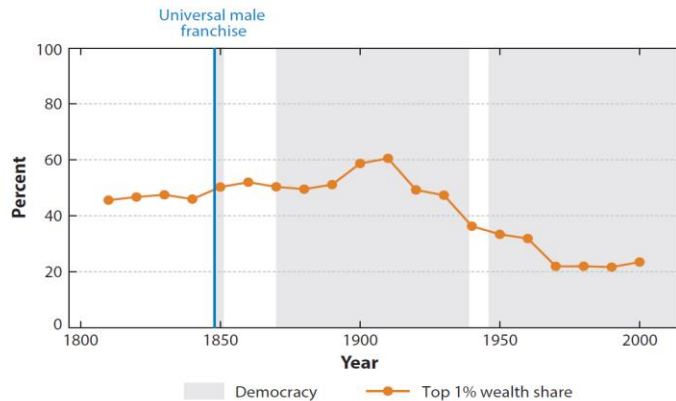
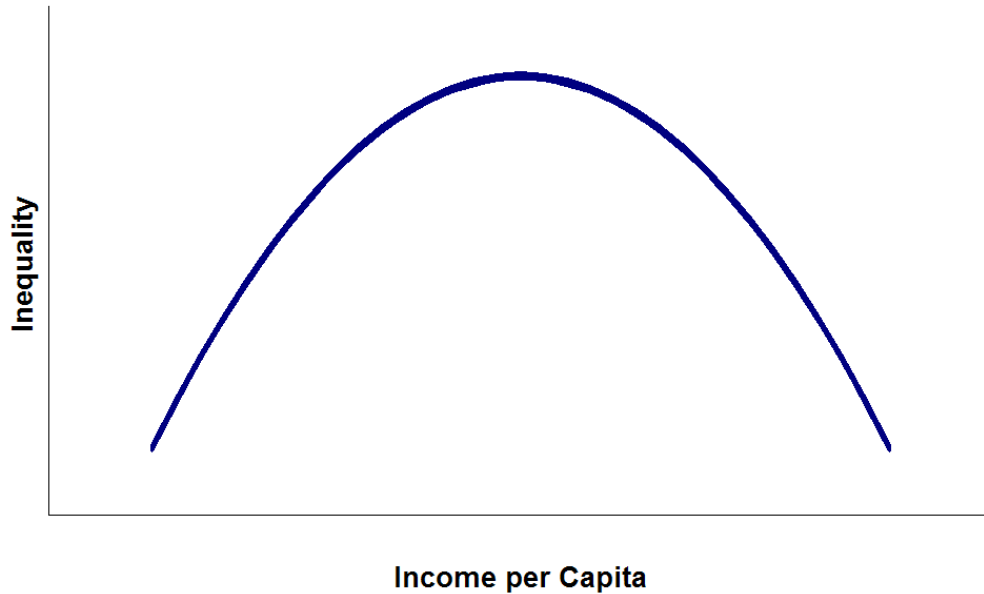


Figure 3

Democracy and top 1% wealth share in France, 1800–2010. Source: Roine & Waldenstrom (2015).

Inequality facts

The Kuznets Curve



Inequality facts



Figure 2: Gini coefficient of income inequality in OECD countries (after-tax and transfer)

Note: income refers to disposable income adjusted for household size.

Source: OECD, *In It Together: Why Less Inequality Benefits All*, OECD, Paris, 2015, p. 24

Inequality facts

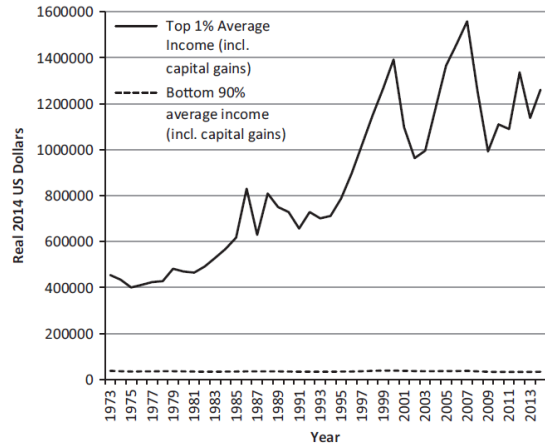
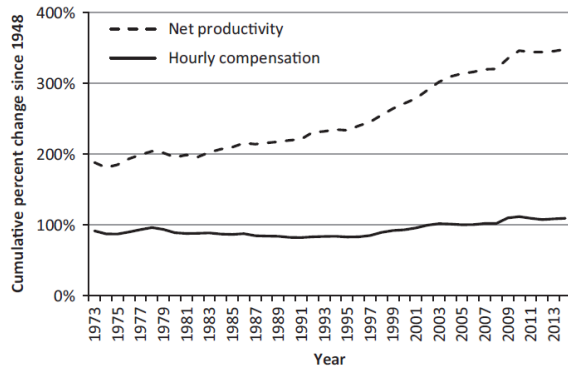


Figure 1: Wages, productivity and average incomes in the US (1973–2014)

What causes inequality?

- Karl Marx: capitalists use their privileged position to exploit workers
- Nassau Senior : rich get richer because they save more than poor
- Neoclassical view: income inequality reflects the inequality of contributions to society

What causes inequality?

- Rent-seeking behavior:
 - rent is the difference between someone's total compensation and the compensation he/she would receive only for the contribution to the total wealth of the society.
- What facilitates rent-seeking behavior?

What causes inequality?

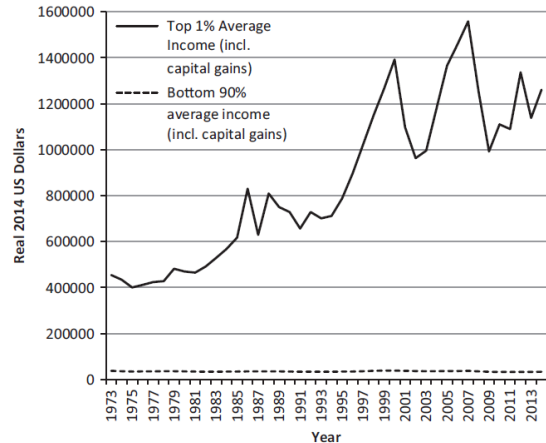
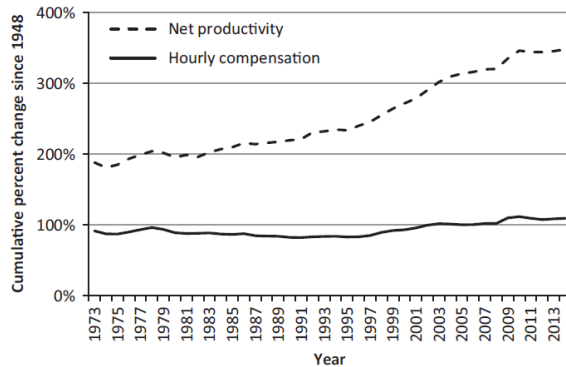


Figure 1: Wages, productivity and average incomes in the US (1973–2014)

What causes inequality?

- What causes inequality?
 - Skill differentials ?
 - Institutions ?
 - Globalization ?

What causes inequality?

- Does democracy reduce inequality?

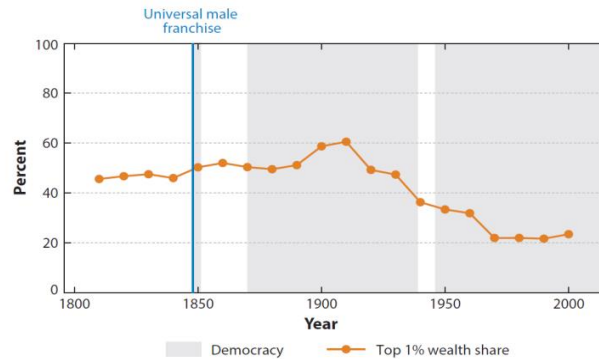


Figure 3

Democracy and top 1% wealth share in France, 1800–2010. Source: Roine & Waldenström (2015).

Inequality and Growth

- Is there a trade-off between equality and overall economic performance?

- Inequality is good for the economy (the Neoclassical view)

- > if the poor gets more than they contribute, then the overall production will be negatively affected

- Inequality is harmful for the economy (Stiglitz, 2015)

- > if poor earns more, they will consume more, and the higher aggregate demand will increase overall production

- > if poor earns more, they will invest more in their human capital, which will improve average productivity

- > societies with less inequality invest more on public infrastructure which improves their production potential

Inequality Simulation

- Game instructions
 - Initially you will get five coins
 - With a partner you will play three rounds of coin flipping game
 - One of you will call out a bet (of one to three coins) on the outcome of each flip. The winner gets the specified number of coins
 - If you lose all your coins, you are out of the game
 - The winner should find a different partner to play with
 - At the end of the three rounds, we will tally the number of people with 0, 1-4, 5-9, 10-15, and 16+ coins
 - We will play three different versions of this game and the total number of coins you earn in the three games will be converted into extra credit (max 2 points out of 100)
 - Source: Renzulli et al (2003)