

# E504: International Trade and Tax Policy Analysis - Problem Set 2

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## Question 1

## Question 2

a)

Figure ?? shows a replication of the two panels of Figure 2 in Alvaredo et al. (2013). First of all, one can see that the general trends of income inequality are the same as in Alvaredo et al., namely, anglo-saxon countries experience a U-shaped course while for European states and Japan the curve behaves more like an L. Hence, the broad trends are replicated quite easily. However, note that a decomposition as is presented in Alvaredo et al. is not possible. There is no data available that differentiates between adults and families when looking at the UK while shares only with respect to labor income or capital are also not available. Moreover, our plot does not draw lines across the gap when there are periods missing, which visualizes quite well that even for industrialized nations such as Germany long-run data is not fully available.

Our replication includes data up to 2019, which is the latest date available. Compared to the original figure from the paper, we therefore plot 9 additional periods. However, one can see that the broad trends that have been in development in the previous years are continuing. Namely, the countries in Panel A are experiencing further increase in the top 1 % income shares, while for countries in Panel B the curve stays rather constant and flat. This shows that the dip in shares after the Great Recession in 2008 as it is visible at the end of the figure in Alvaredo et al. has not led to any reversal in the trend leading up to the crisis.

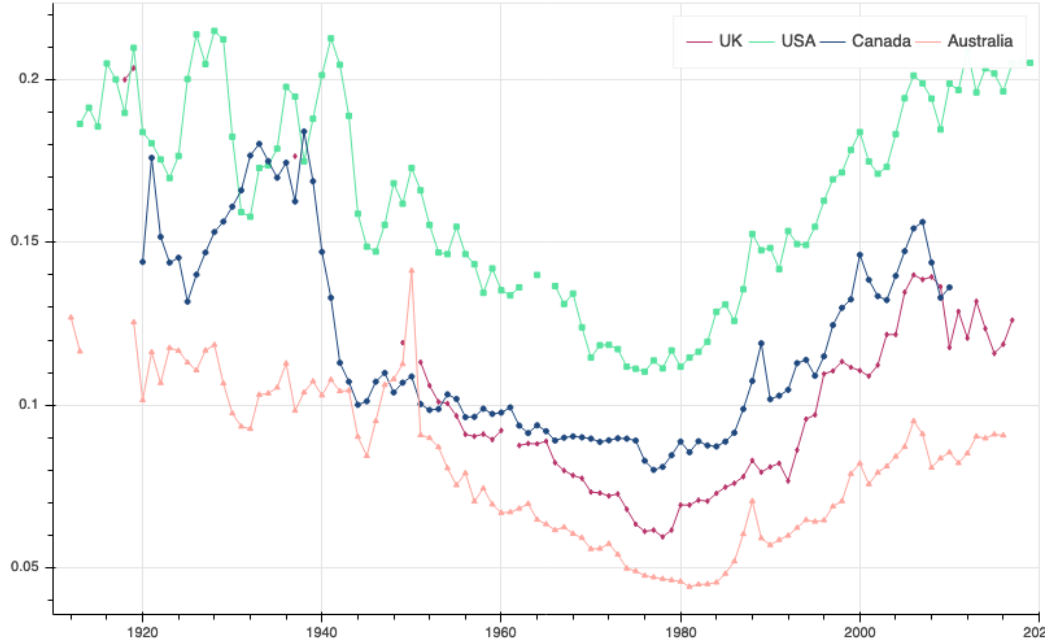


Figure 1: Replication of Figure 2 Panel A, Alvaredo et al. (2013)

b)

We choose to look into the top 1% income share for the following new Asian countries: China, India, Korea, Singapore. Figure 3 shows these and additionally also depicts Japan again. This is for comparison reasons as well as Japan being part of the region we investigate.

First of all, note that data availability deteriorates sharply when choosing other countries than the ones shown in Figure ???. Thus, the choice of Asian countries is rather limited as for most other countries data is not available long enough to discuss any trends.

Taking a closer look at Figure 3 it becomes evident that the trend in the last 40 years is quite similar to the one in Anglo-Saxon countries in Panel A of Figure ???. More precisely, one can see a sharp increase in the top 1% income share starting in the 1980s for all countries - except Japan. India - with the longest period of data available of the new countries - shows the same U-shape development as do the Anglo-Saxon countries. Possible reasons for the initial decline are India's independence and the vanishing of a British upper class, while the strong increase accompanies India's strong growth in the last decades. Similarly, in Singapore the share curve forms a quite flat but still a U-like shape. As there is no data available pre-1940s we cannot assess whether it experienced a decline in inequality but the evolution starting in the 1960s is again similar to Anglo-Saxon countries although less pronounced. Lastly, China and Korea have the shortest period of data available. Both, but especially China started at a very low level compared to all other countries but have risen sharply since the 1980s.

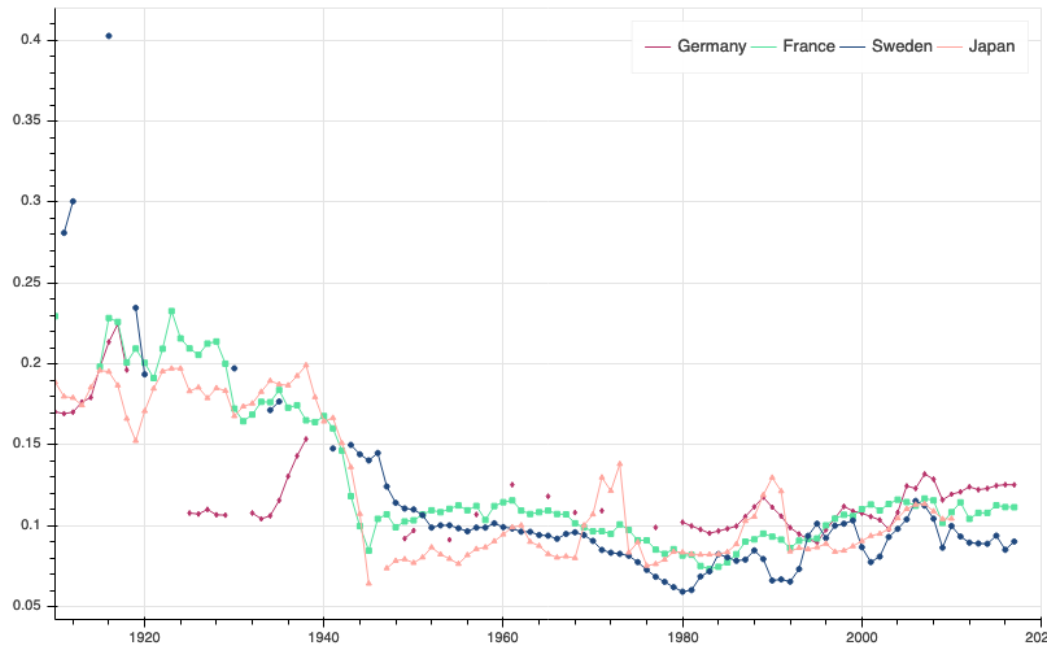


Figure 2: Replication of Figure 2 Panel B, Alvaredo et al. (2013)



Figure 3: Top 1 % income share in Asian countries