

POL2012 Theories and models in political economy

Economic inequality

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Lessons from term papers

- What is theory?
- The easiest way to deal with a carbon tax
- Less or even no protection would not necessarily spell the end of Norwegian agriculture (be careful with your assumptions).

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Inequality of what?

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- Opportunity?
- Social inequality
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“The rich are getting richer, and the poor are getting poorer”

- The economy is not a zero sum game
- “Everyone” are getting richer, but the rich are getting richer faster and some started with more
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Let's look at the data

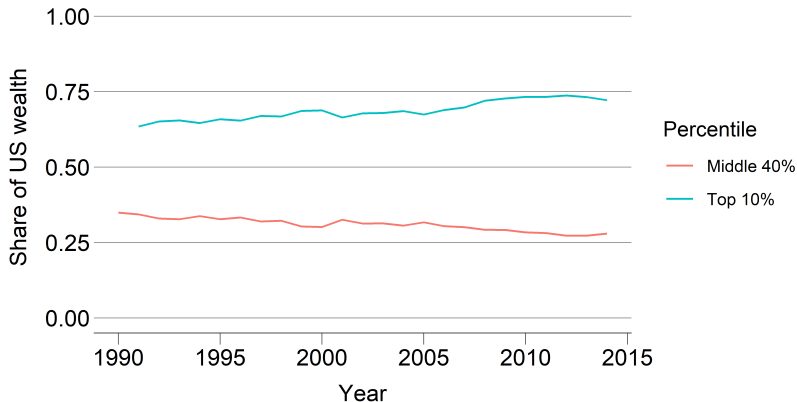


Figure: American Wealth inequality (Source: WID)

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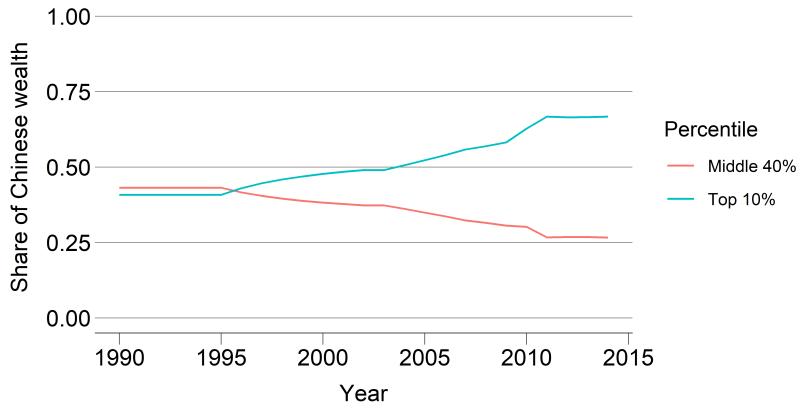


Figure: Chinese Wealth inequality(Source: WID)

Top and bottom

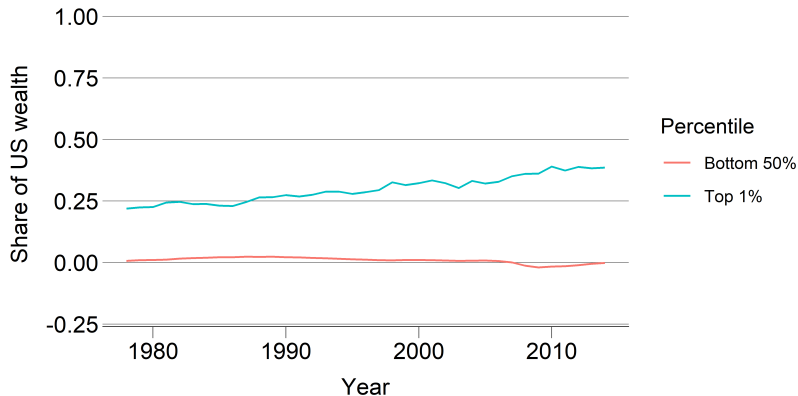


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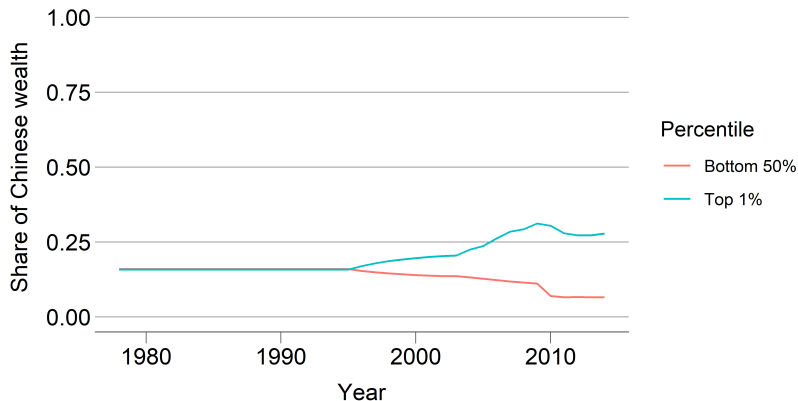


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Top and bottom, Income

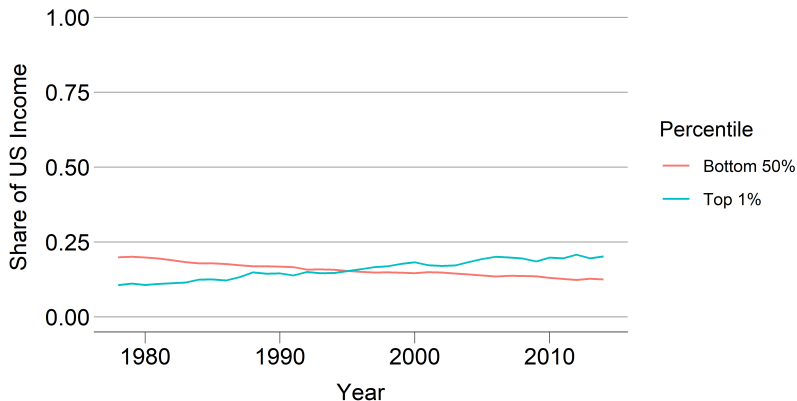


Figure: American Income inequality (Source: WID)

Top and bottom, Income

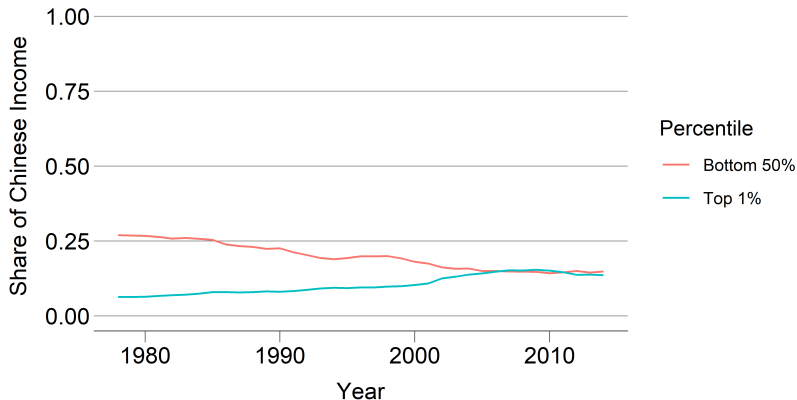
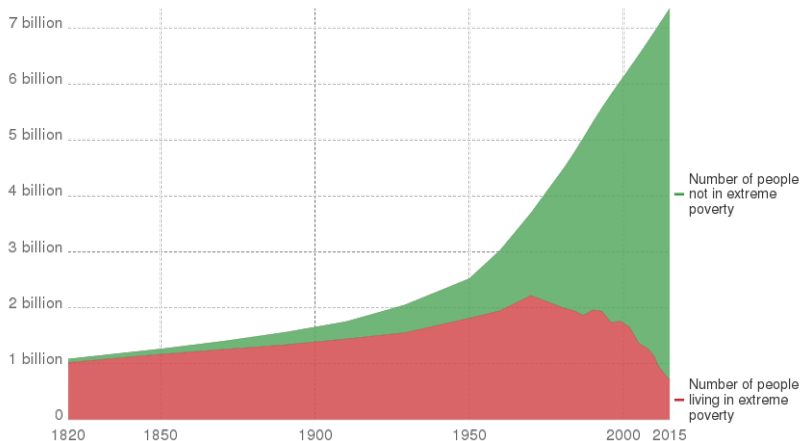


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Poverty

World population living in extreme poverty, 1820-2015

Extreme poverty is defined as living at a consumption (or income) level below 1.90 "international \$" per day. International \$ are adjusted for price differences between countries and for price changes over time (inflation).



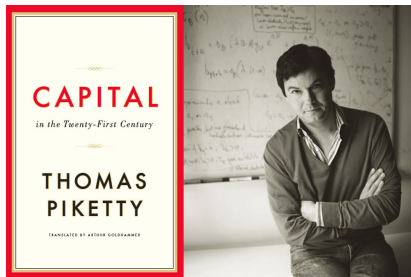
Source: World Poverty in absolute numbers - OWID based on World Bank (2016) and Bourguignon and Morrisson (2002)

What are the consequences of high/increasing economic inequality?

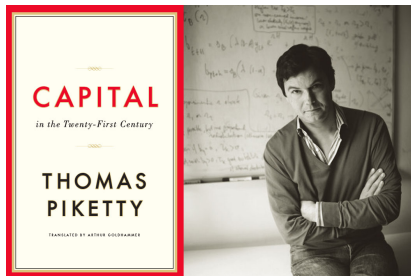
What are the causes?

- $r > g$

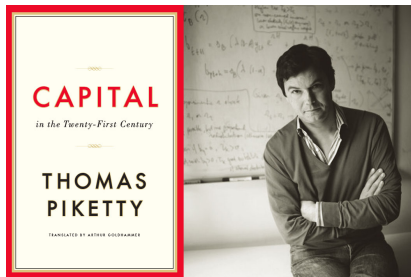
- → income from rents increase more than income from wages (which depend on growth)
- → wealth inequality over time



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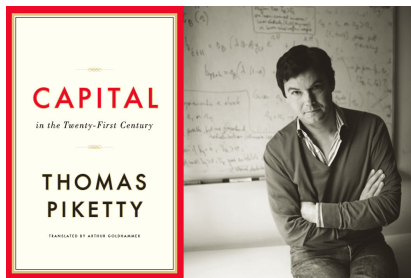


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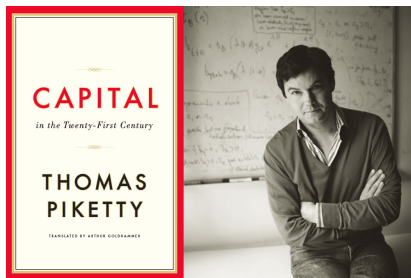
Piketty

- $r > g$
- Goes(2016): Observed increases in income inequality largely uncorrelated with changes in $r - g$.
- Acemoglu & Robinson (2015): Institutions! $r > g$ not unimportant (does lead to more inequality), but many other variables quantitatively more important
- Stiglitz: Two forms of capital



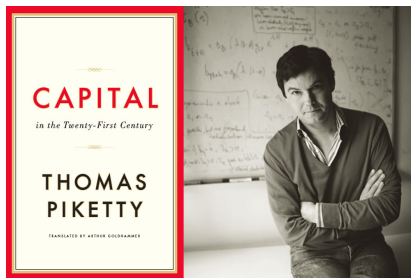
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How do we solve it?

- Expropriation?
- Progressive taxation?
 - Scheidel (2017): Only large scale violence and plague has ever worked
 - Piketty: wars made the necessary policies politically viable
- Public tax records?
- Global cooperation
- Focus on reducing poverty instead?

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