

# Fiscal Policy and Inequality

## 3. Inequality: Introduction

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# Outline

Introduction

Time Series Evidence

Sala-i-Martin (QJE 2006)

# Income Inequality: Long-term Perspective

- ▶ Inequality has increased over the last four decades... hasn't it?

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    - ▶ Distinguish: between-country vs. within-country inequality
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# Income Inequality: Long-term Perspective

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  - ▶ Measurement issues:
    - ▶ Distinguish: between-country vs. within-country inequality
    - ▶ Alternative ways of measuring inequality: Gini coefficient vs. top 1% income share
- ▶ Potential causes behind long-term trends:
  - ▶ Globalization
  - ▶ Skill-biased technical change
  - ▶ Tax policies

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Introduction

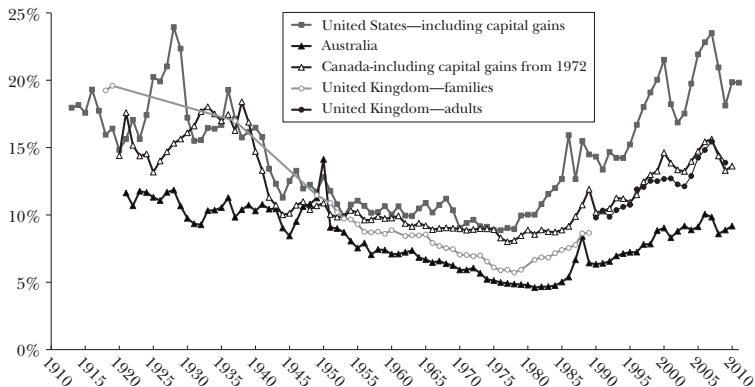
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# Long-Run Income Inequality

## The Evolution of the Shares of the Top 1 Percent in Different Countries

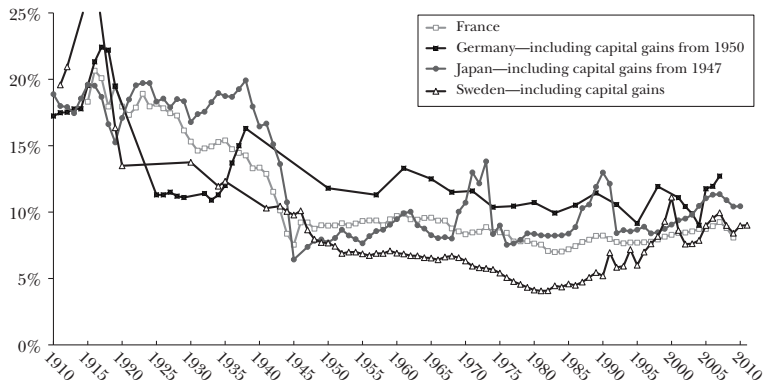
A: Top 1 Percent Income Shares in English-speaking Countries (U-Shape)



Source: Alvaredo, Atkinson, Piketty and Saez (JEP, 2013)

# Long-Run Income Inequality

B: Top 1 Percent Income Shares in Continental Europe and Japan (L-Shape)

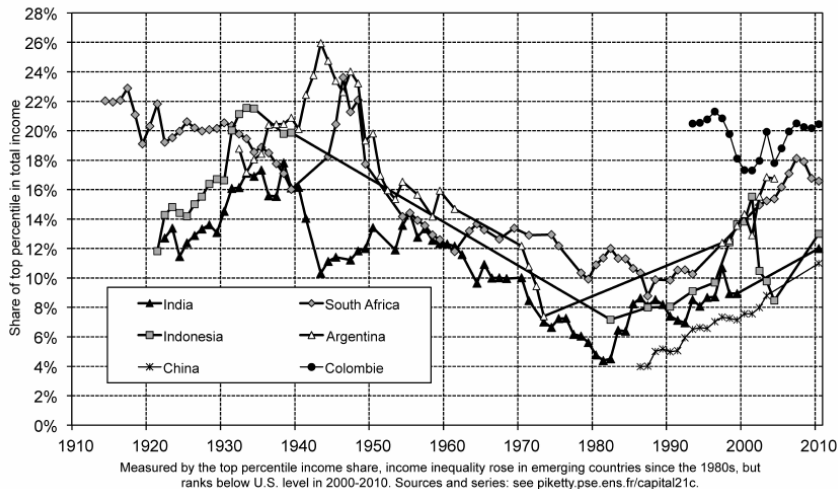


Source: Alvaredo, Atkinson, Piketty and Saez (JEP, 2013)

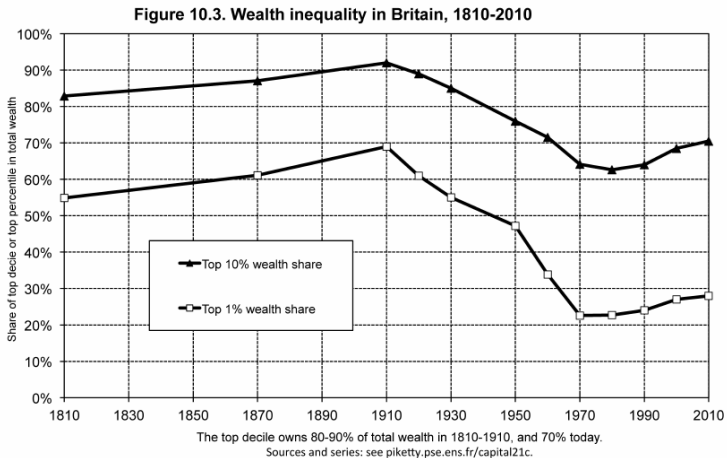


# Long-Run Income Inequality - Developing Countries

Figure 9.9. Income inequality in emerging countries, 1910-2010

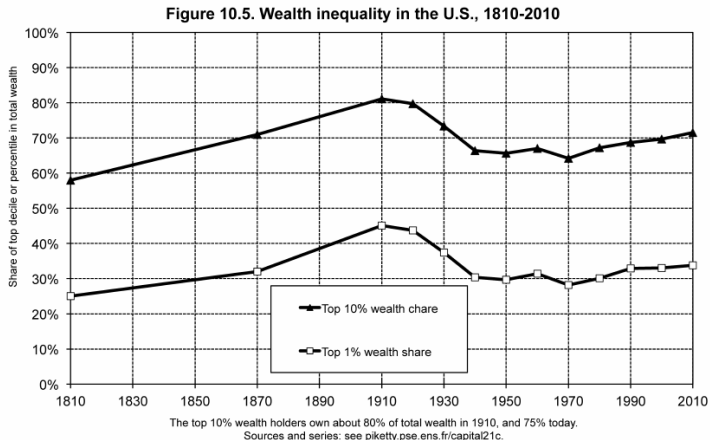


# Long-Run Wealth Inequality



Source: Piketty (2014)

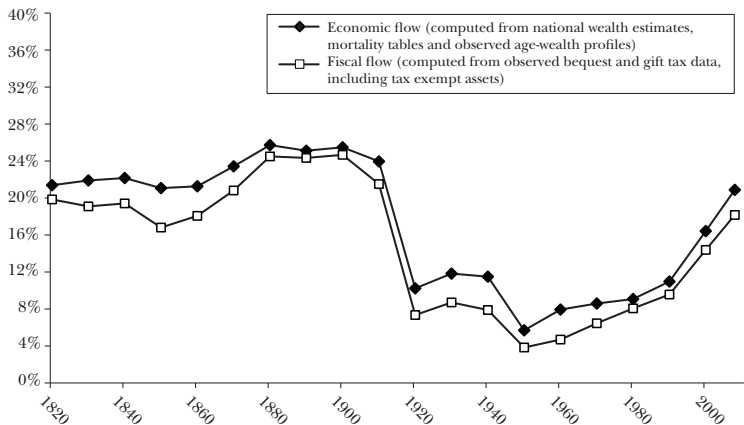
# Long-Run Wealth Inequality



Source: Piketty (2014)

# Inheritance as a Share of Income

Annual Inheritance Flow as a Fraction of Disposable Income, France 1820–2008



Source: Alvaredo, Atkinson, Piketty and Saez (JEP, 2013)

# Pre-Industrial Inequality

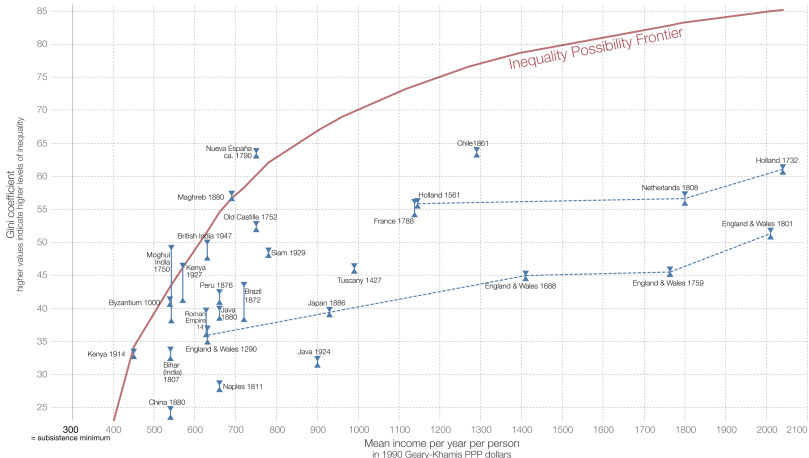
## Pre-industrial Inequalities: Gini Coefficients and the 'Inequality Possibility Frontier'

OurWorld  
in Data

In poor societies there is an upper limit to the level of inequality that cannot be exceeded since the poorest would otherwise fall below the subsistence minimum. The maximum attainable level of inequality is an increasing function of mean overall income and this idea is captured in the Inequality Possibility Frontier.

▲ Upper estimate of inequality (maximum within-class inequality)

▼ Lower estimate of inequality (no within-class inequality)



Data source: Milanovic, Lindert and Williamson (2008) – Ancient Inequality. In The Economic Journal. Volume 121, Issue 551, pages 255–272.

The interactive data visualization is available at [OurWorldinData.org](https://ourworldindata.org). There you find the raw data and more visualizations on this topic.

Licensed under CC-BY-SA by the author Max Roser.

Source: Milanovic et al (2008).

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# Sala-i-Martin (QJE, 2006): World Income Distribution

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  - ▶ Add all distributions to obtain world income distribution (WDI)
  - ▶ To deal with missing data, imputes values of neighbors
- ▶ **Main result:** world distribution of income has become *less* unequal, mostly due to growth in China and India

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- ▶ Critique to inequality literature: why put more weight on a Senegalese farmer than on a Chinese peasant?
  - ▶ This is what cross-country regressions do
- ▶ To evaluate worldwide inequality trends, need to consider *individuals*, not countries
- ▶ Increasing inequality *across* and *within* countries is compatible with **decreasing** inequality worldwide across *people*

# Sala-i-Martin (QJE, 2006): Chinese Income Distribution

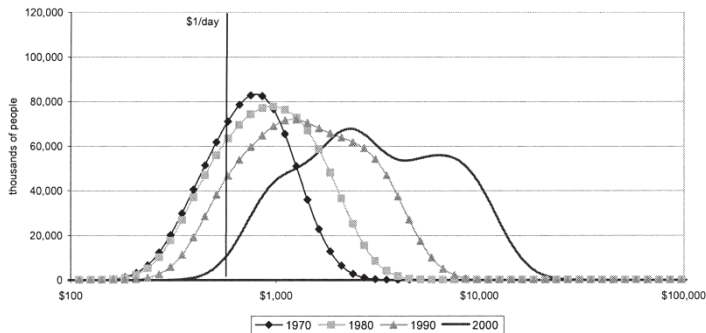


FIGURE IIa  
Distribution of Income in China

Source: Sala-i-Martin (QJE, 2006)

# Sala-i-Martin (QJE, 2006): World Income Distribution

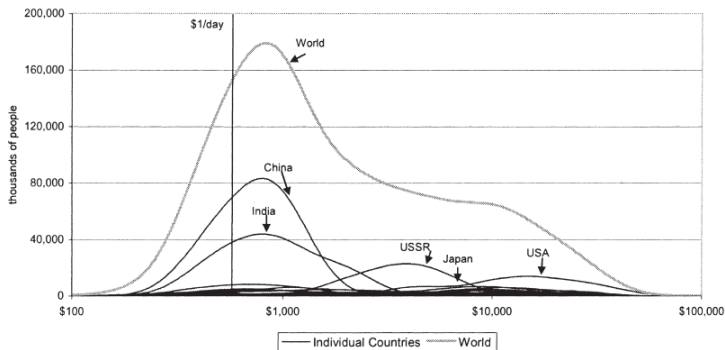


FIGURE IIIa  
The WDI and Individual Country Distributions in 1970

Source: Sala-i-Martin (QJE, 2006)

# Sala-i-Martin (QJE, 2006): World Income Distribution

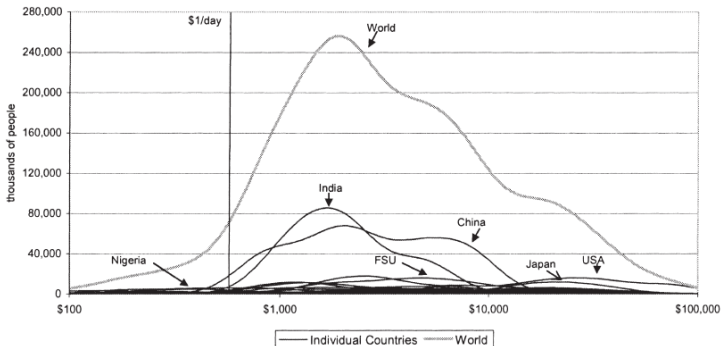


FIGURE IIIb  
The WDI and Individual Country Distributions in 2000

Source: Sala-i-Martin (QJE, 2006)

# Evolution of Global Inequality

