

Fiscal Policy and Inequality

3. Inequality: Introduction

Elliott Ash (ashe@ethz.ch)

ETH Zurich

September 24, 2018

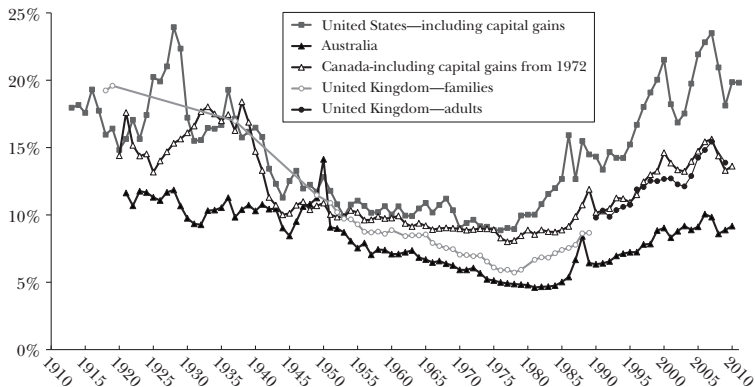
Income Inequality: Long-term Perspective

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

Long-Run Income Inequality

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

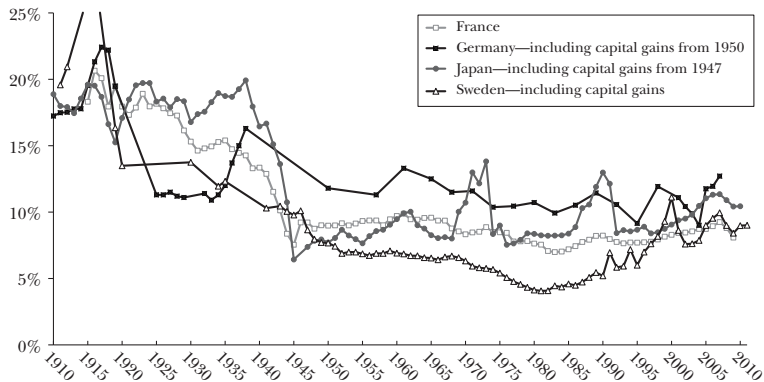
A: Top 1 Percent Income Shares in English-speaking Countries (U-Shape)



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

Long-Run Income Inequality

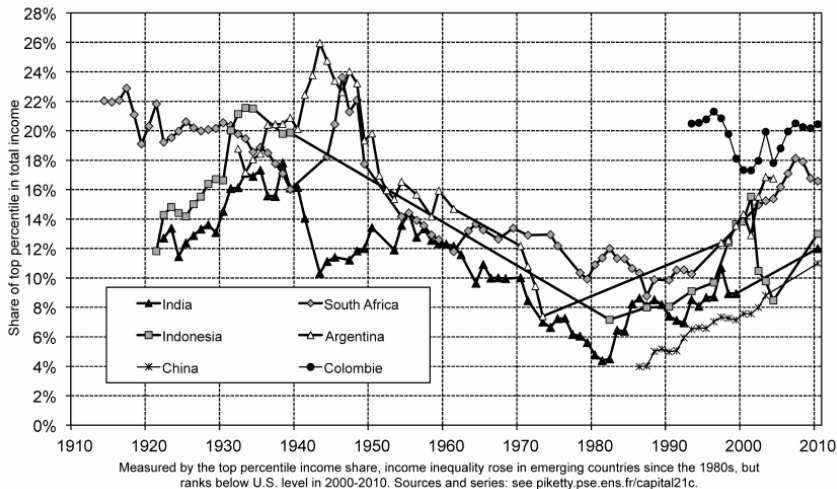
B: Top 1 Percent Income Shares in Continental Europe and Japan (L-Shape)



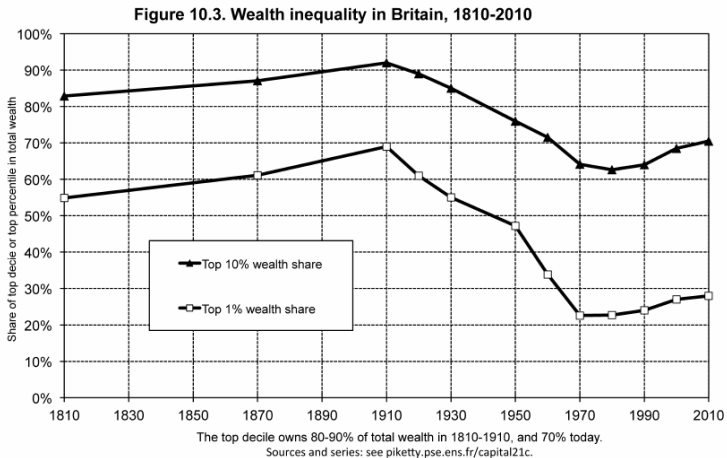
Source: Alvaredo, Atkinson, Piketty and Saez (JEP, 2013)

Long-Run Income Inequality - Developing Countries

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

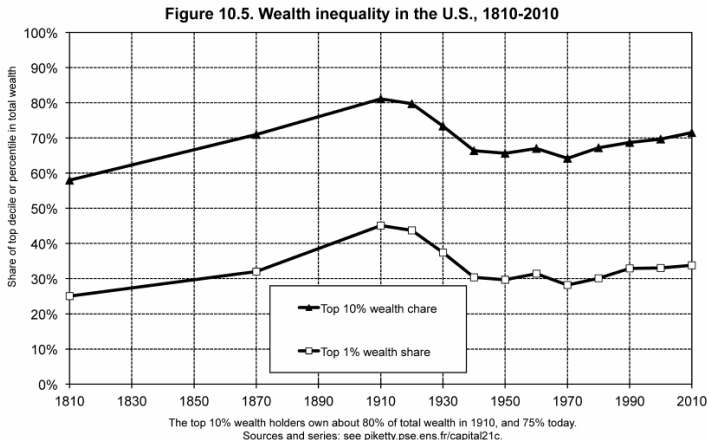


Long-Run Wealth Inequality



Source: Piketty (2014)

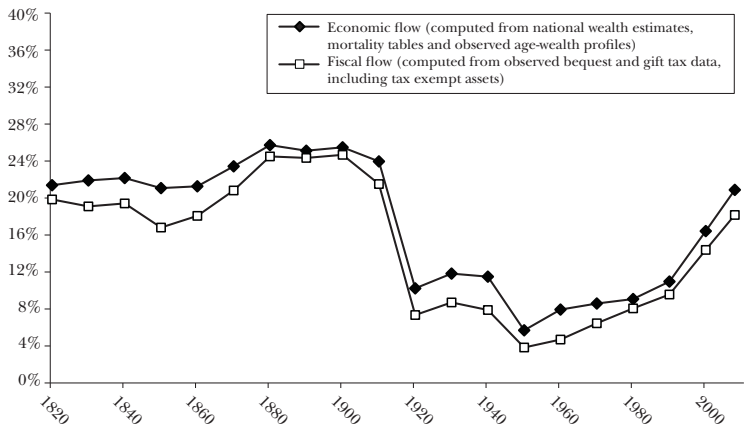
Long-Run Wealth Inequality



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

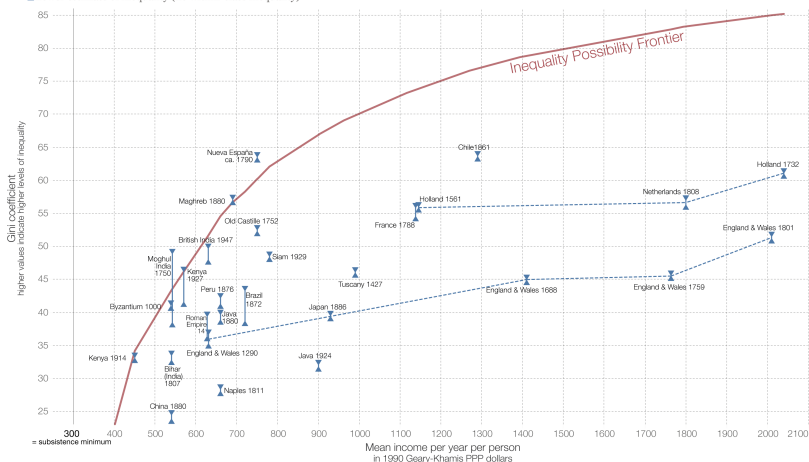
Pre-industrial Inequalities: Gini Coefficients and the 'Inequality Possibility Frontier'

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).

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

- ▶ **Data:** 138 countries, period 1970-2000
- ▶ **Empirical Strategy:** use household surveys to obtain proxies for income distribution in each country
 - ▶ Then use income per capita to build country-level income distributions
 - ▶ 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

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

- ▶ 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

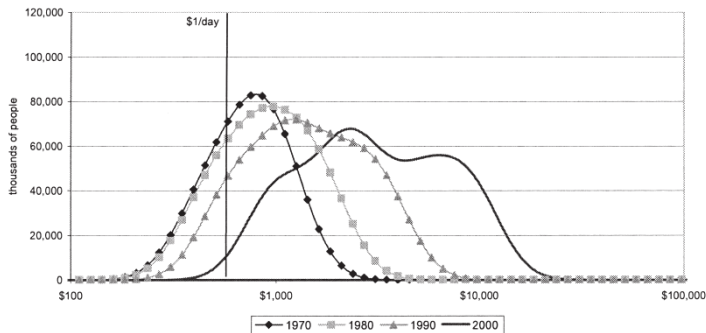


FIGURE IIa
Distribution of Income in China

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

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

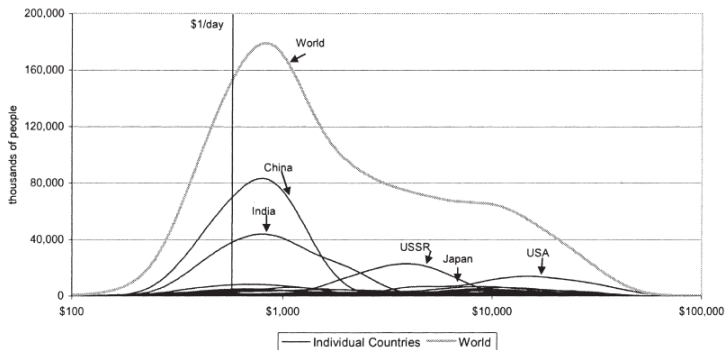


FIGURE IIIa
The WDI and Individual Country Distributions in 1970

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

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

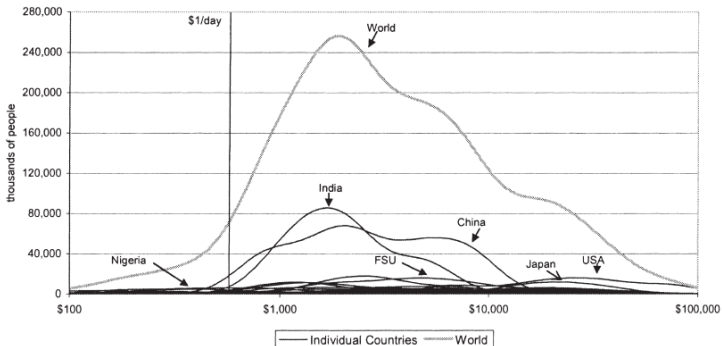


FIGURE IIIb
The WDI and Individual Country Distributions in 2000

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

Evolution of Global Inequality

