

Political Economy of Inequality

Session 1: The historical trajectory of inequality in the 20th
and 21st centuries

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Introduction & Overview

Welcome!

Welcome to the Political Economy of Inequality course!

About me

- ▶ Dr. Joshua Cova, postdoctoral researcher next door at the Max Planck Institute for the Study of Societies (cj@mpifg.de)
- ▶ Background in finance and public policy, but found my calling in academia
- ▶ Research interests (broadly): Comparative political economy, industrial relations, party politics, quantitative research methods and text-as-data
- ▶ And what about you? What brings you here? And what would you like to cover?

About this course

- ▶ Focus on the **political economy** of inequality.
- ▶ A few disclaimers:
 - ▶ A big topic, with countless different ways of approaching it.
 - ▶ Direction is influenced by: 1. Personal expertise, 2. Availability of data, 3. Existing research, 4. Time constraints
 - ▶ Focus on theory as well as empirics
- ▶ How this course will be structured:
 - ▶ Readings
 - ▶ Discussion of new topics in class
 - ▶ Guest seminars
- ▶ Assessment:
 - ▶ Essay (70%) and data analysis exercise (30%)

Overview

1. Historical trajectory of inequality (today)
2. Types of capitalism and different inequality outcomes (14.10)
3. Labour markets I: The role of trade unions (21.10)
4. Labour markets II: Neoliberalism, dualization and inequality (28.10)
5. The politics of inequality (18.11)
6. Skills, education and the transition to the knowledge economy (25.11)
7. How to study inequality? Research design and working with data (02.12)
8. Gender and intersectionality (09.12)

Inequality: The basics

A tale of two pictures: the U-shaped countries...

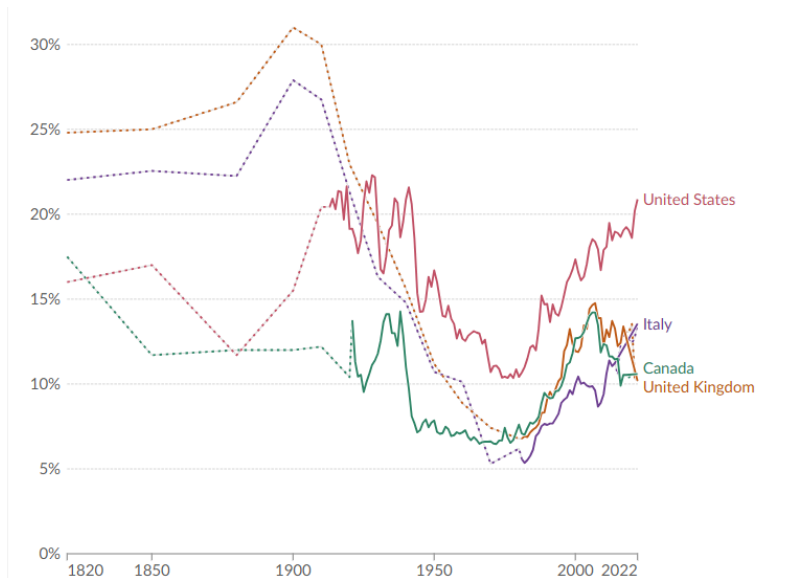


Figure 1: Before-tax income of the richest 1% (Our World in Data)

... And the L-shaped countries

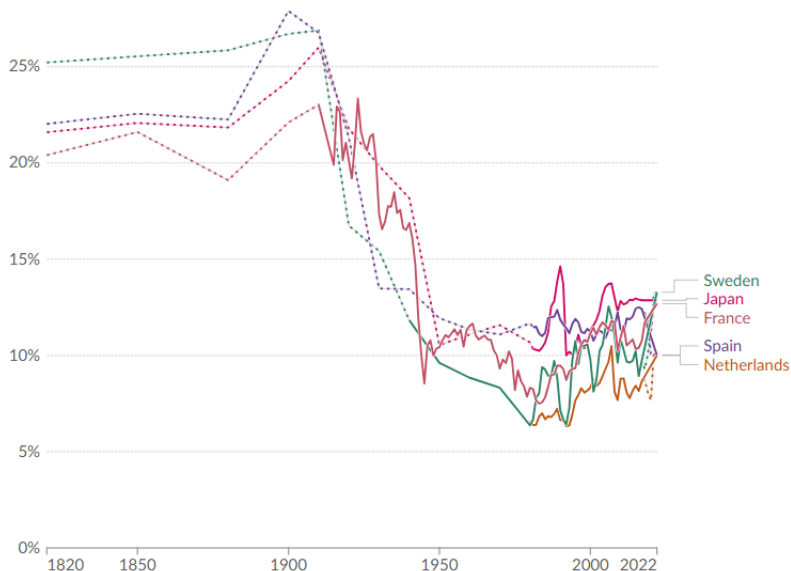


Figure 2: Before-tax income of the richest 1% (Our World in Data)

But before talking about inequality, let us think about political economy



David Ricardo, *On the Principles of Political Economy and Taxation* (1817):

“The ‘principal problem’ of political economy is to ‘determine the laws that regulate the distribution of the produce of the earth’”

Focus of this course

Political economy: How do actors/institutions compete for resources and outcomes across different types of market economies?

Focus on inequality: Inequality as the **dependent/outcome variable**.

Key question: What factors/variables are connected to different inequality outcomes?

We will see again and again that across advanced capitalist democracies income inequality varies substantially even though these countries are quite similar to each other in many respects

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 - ▶ Side note: Kuznets vs. Piketty (post-war US)

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 - ▶ Side note: Kuznets vs. Piketty (post-war US)
- ▶ Inequality can fuel social divisions, which can lead to political polarization and increased socio-economic problems

What is driving inequality?

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Factors affecting most countries:

- ▶ Technology and skilled-biased technological change (Acemoglu 1998; Autor, Katz, and Kearney 2008)
- ▶ Globalization (international trade, off-shoring)
- ▶ Demographic changes (inter-generational mobility)
- ▶ Rentier capitalism: $r > g$

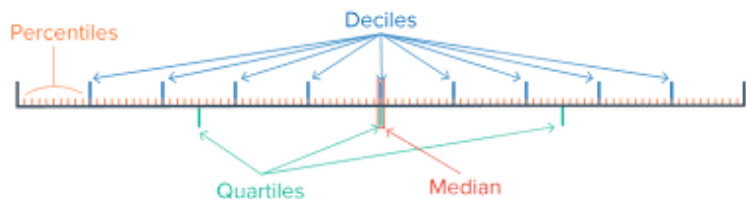
But , as we will see, government and labor market institutions play a key role: *Focus on policies, actors and institutions*

Some key terms & concepts

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- ▶ Gini coefficient: ranging from 0 (perfect equality) to 1 (perfect inequality) & Lorenz curve
- ▶ Percentile/decile/quintile
- ▶ Poverty measures and absolute and relative poverty
- ▶ Multidimensional poverty index (MPI): Health, education and standard of living (sanitation, drinking water, cooking fuel)
- ▶ HDI: life expectancy, education and GNI per capita
- ▶ Gender pay gap and ethnic disparity indices

Measuring inequality: Percentiles, deciles, quartiles



Measuring inequality: The trajectories of the Gini coefficient

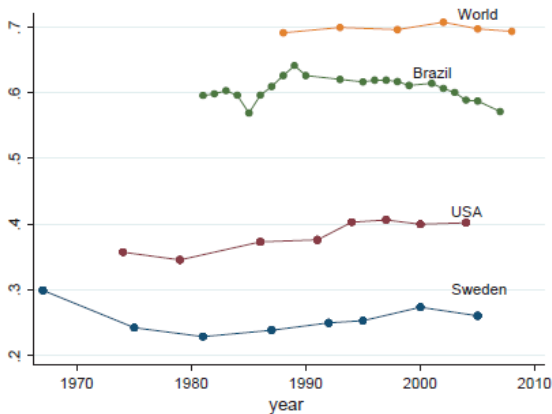
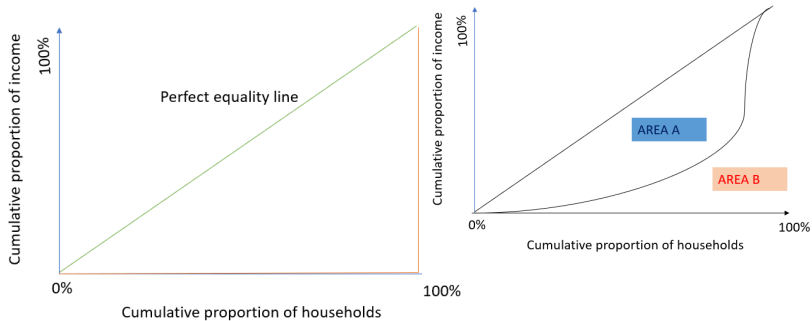


Figure 3: Our World in Data

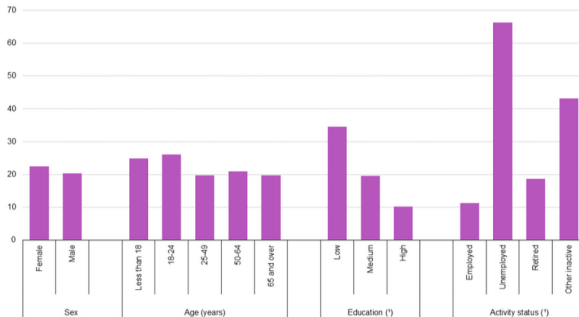
Gini coefficient and the Lorenz curve



Other conceptualizations/measurements of inequality

- ▶ Risk of poverty
- ▶ Material or social deprivation
- ▶ Low work intensity

Share of people at risk of poverty or social exclusion, analysed by socio-economic characteristics, EU, 2023
(%)



(*) Population aged 18 years and over.

Source: Eurostat (online data codes: ilc_peps01n, ilc_peps02n, ilc_peps04n)

Data

- ▶ International comparisons might be tricky: differences in equivalence scales, household income definition and coverage
 - ▶ Where to we get the data from? Labor force surveys and the 'missing rich' problem (Lustig et al. 2020); tax data

Today's reading

Global income inequality in numbers: In history and now (Milanovic 2013)

- ▶ Between and within-country inequality
- ▶ With increased globalization, does it make sense to look at only within-country inequality?
 - ▶ Inequality 1: Between countries (not weighed by population)
 - ▶ Inequality 2: Between countries (weighed by population)
 - ▶ Inequality 3: Global inequality
- ▶ Most difficult to measure global inequality because of data and methodology concerns
- ▶ Measurement: Nominal, real or purchasing power parity?
- ▶ Argument → Most important determinant of inequality is location, no longer class (a non-Marxian world).

The 'mother of all inequality disputes'

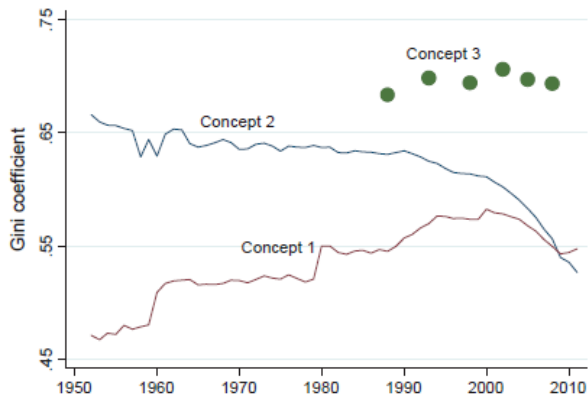
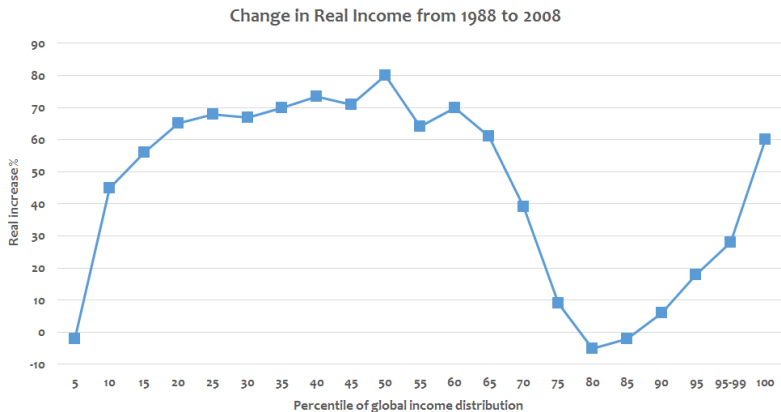


Figure 4: Milanovic (2013)

The elephant chart



A non-Marxian world

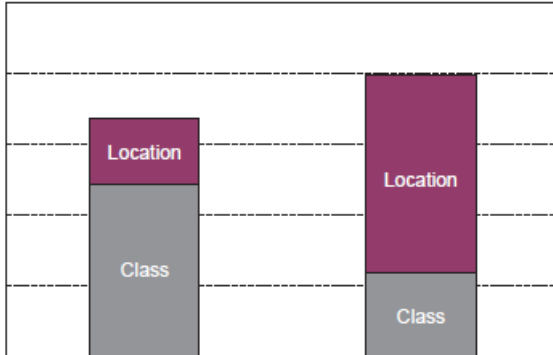
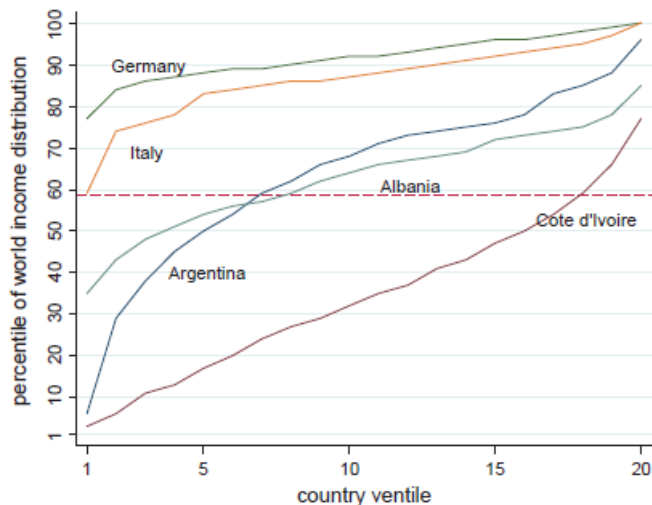


Figure 5: Milanovic (2013)

Advanced economies in a comparative perspective



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- Alesina, Alberto, and Dani Rodrik. 1992. "Distribution, Political Conflict, and Economic Growth: A Simple Theory and Some Empirical Evidence." *Political Economy, Growth, and Business Cycles* 23: 50.
- Autor, David H, Lawrence F Katz, and Melissa S Kearney. 2008. "Trends in US Wage Inequality: Revising the Revisionists." *The Review of Economics and Statistics* 90 (2): 300–323.
- Lustig, Nora et al. 2020. *The "Missing Rich" in Household Surveys: Causes and Correction Approaches*. Vol. 520. ECINEQ, Society for the Study of Economic Inequality.

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- Milanovic, Branko. 2013. "Global Income Inequality in Numbers: In History and Now." *Global Policy* 4 (2): 198–208.
- Stiglitz, Joseph E. 2016. "Inequality and Economic Growth." *The Political Quarterly* 86 (S1): 134–55.