

Political Economy of Inequality

Session 7: How to study inequality? Research design and working with data

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Welcome back!

What we will focus on today:

- ▶ How to study inequality?
- ▶ Methodological approaches and databases
- ▶ Practical suggestions
- ▶ Discuss assignment

Overview and conceptualization

Conceptualization

Inequality in outcomes \neq inequality in opportunities

Functional distribution of income, the factors of production:

- ▶ Land (rent)
- ▶ Capital (profits)
- ▶ Labor (wages)

Personal distribution of income: How income is distributed across households

Multidimensional inequality: Human development index

The wage share

Figure 3: Wage Shares of GDP in Large European Economies

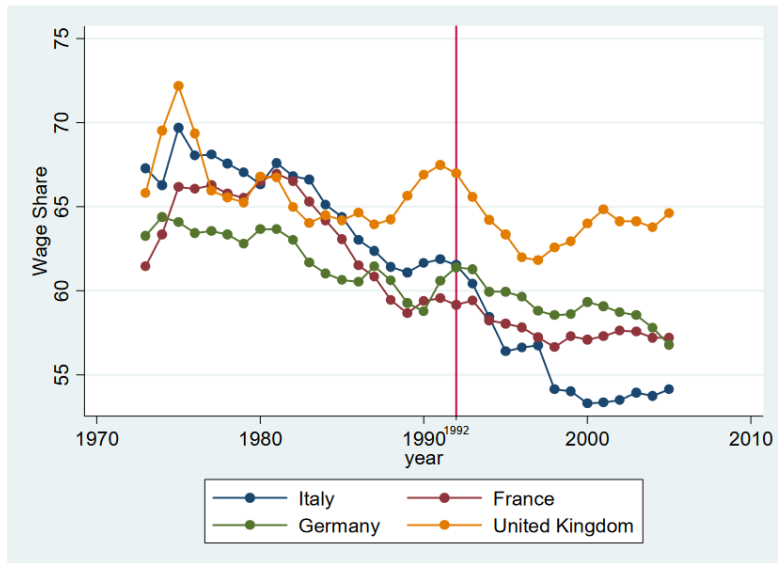


Figure 1: Baccaro and Pulignano (2020)

Different types of income

- ▶ Labor earnings (wages, bonuses)
- ▶ Capital income from dividends
- ▶ Interests on savings account
- ▶ Rent from real estate
- ▶ Social transfers
- ▶ Pensions

Income vs. Wealth

A flow vs. a stock

- ▶ Bonds and stocks
- ▶ Property
- ▶ Savings

Questions

- ▶ To what an extent are income and wealth correlated?
- ▶ Why is it more difficult to measure wealth inequality than income inequality?
- ▶ Policies to address wealth inequality?

Other things to consider

- ▶ Individual \neq Household (income pooling)
 - ▶ Equivalized disposable income
 - ▶ Assortative mating
- ▶ Pre-tax (Market inequality) vs. Post-tax (with redistribution)
- ▶ Informal sector?
- ▶ Consumption vs. Income \rightarrow Data availability and self-employed people in developing countries, marginal propensities to consume and underestimating inequality
- ▶ Market vs. Imputed price (e.g. real estate)
- ▶ Cross-sectional vs. Longitudinal data
- ▶ Data availability and comparability

The offshore world (Zucman 2015)

The
**Hidden
Wealth**
of
NATIONS

* * *

The Scourge of Tax Havens

Gabriel Zucman

TRANSLATED BY TERESA LAVENDER FAGAN

with a foreword by
THOMAS PIKETTY

"Zucman's work on tax havens is the
first serious economic research in this area....

The conclusions are powerful."

THOMAS PIKETTY, author of
Capital in the Twenty-First Century

The hidden wealth of nations

	Offshore wealth (\$ bn)	Share of financial wealth held offshore	Tax revenue loss (\$ bn)
Europe	2,600	10%	75
USA	1,200	4%	36
Asia	1,300	4%	35
Latin America	700	22%	21
Africa	500	30%	15
Canada	300	9%	6
Russia	200	50%	1
Gulf countries	800	57%	0
Total	7,600	8.0%	190

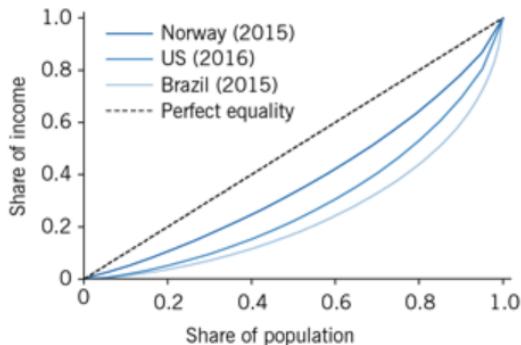
Figure 2: Gabriel Zucman, 'The Hidden Wealth of Nations'

Research design

- ▶ Descriptive statistics, metrics (Gini coefficient, Lorenz curve, Decile/Percentile ratios, inter-decile ratios)
- ▶ Income dynamics and mobility analysis: Intergenerational mobility, Life-course studies
- ▶ Panel data and regression analysis: Determinants of inequality
- ▶ Policy simulation: Effects of taxation and welfare policies on income distribution (EUROMOD)
- ▶ Experiments: Perception of fairness and redistribution
- ▶ Field experiments: Job guarantee and universal basic income
- ▶ Historical institutional analysis

Lorenz curve

Lorenz curves show income inequality is higher in Brazil than the US and Norway



Source: Author's own compilation based on data from PovcalNet. Online at: <http://iresearch.worldbank.org/PovcalNet/home.aspx>

IZA
World of Labor

Figure 3: Trapeznikova, 'Measuring Income Inequality', IZA World of Labor (2019)

Different types of data

- ▶ Surveys
- ▶ Administrative data
- ▶ National accounts

Surveys

- ▶ Usually annually, face-to-face interviews
- ▶ Information on income as well as socio-demographic/socio-economic individual data (religion, gender, education)

Surveys

- ▶ Usually annually, face-to-face interviews
- ▶ Information on income as well as socio-demographic/socio-economic individual data (religion, gender, education)
- ▶ Survey weights and imputation
- ▶ Unit non-response and item non-response
- ▶ Problems:
 - ▶ Sample size
 - ▶ How can one sample very rich people?
 - ▶ Attrition
 - ▶ Self-reported information: Under-reporting and non-reporting
 - ▶ Different definitions across countries and time
 - ▶ Unit of analysis: individual or household

Quality assurance: Sampling error

- ▶ Can be estimated mathematically: Difference between sample estimate and true value of the population
- ▶ Standard error can be estimated by using the variance of the sample units
- ▶ Standard error as a measure of the variation in values obtained from repeated samples.
- ▶ A small standard error indicates that the variation in values from repeated samples is small and therefore the chance of a 'bad' sample is small
- ▶ Standard errors and confidence intervals

Non-sampling error

- ▶ Unrepresentative of the target population
- ▶ Non-response bias: Unit non-response or item non-response
- ▶ Respondent bias → Respondents unsure how to interpret questions
- ▶ False answers
- ▶ Over or under-coverage (e.g. illegal immigrants, people moving)

Administrative data

- ▶ Tax data on income and wealth
- ▶ Problem of tax evasion?
- ▶ Coverage limitations, e.g. people with low levels of income and tax
- ▶ Different concepts and definitions
- ▶ Self-employment vs. Employees
- ▶ Socio-demographic information might be missing (e.g. information on family relationship)

National accounts

- ▶ Standardized system of national accounts (SNA) → Definitions may align, but data quality could be an issue
- ▶ Aggregate information does not help targeted policy approaches

Some databases

Inequality

- ▶ World Bank's PovcalNet Database (now Poverty and Inequality Platform)
 - ▶ Good database to measure poverty especially in developing countries
- ▶ Luxembourg Income Study (LIS)
 - ▶ Harmonized survey on income & wealth in 50 countries, but micro data access limitation
- ▶ EU Survey of Income and Living Conditions (EU-SILC)
 - ▶ Longitudinal data also socio-demographic information, e.g. household composition, education and labor variables, health status
- ▶ OECD data, Different measures of inequality
- ▶ World inequality database, long time series
- ▶ Standardized World Income Inequality Database (standardized across different regions)

Independent variables: Labor market institutions

- ▶ Legislation, employment protection legislation (EPL)
- ▶ Collective bargaining, trade union
- ▶ Wage-setting coordination/centralization
- ▶ Minimum wage regulations

Source: OECD, ICTWSS, ILOSTAT

Independent variables: Partisanship

- ▶ Partisanship of the incumbent
- ▶ Cabinet seats

Source: ParlGov, Comparative Political Data Set

Independent variables: The economy

- ▶ Inflation
- ▶ GDP
- ▶ Unemployment rate
- ▶ Import penetration
- ▶ Stock market capitalization

Source: World Bank, IMF, OECD, Eurostat

Independent variables: Human capital

- ▶ Education: Levels
- ▶ Education: Spending
- ▶ Human development index
- ▶ R & D
- ▶ Think about the possible uses of different denominators

Source: World Bank, IMF, OECD, Eurostat

References I

Baccaro, Lucio, and Valeria Pulignano. 2020. “Employment Relations in Italy.” In *International and Comparative Employment Relations*, 126–52. Routledge.

Zucman, Gabriel. 2015. *The Hidden Wealth of Nations: The Scourge of Tax Havens*. University of Chicago Press.