

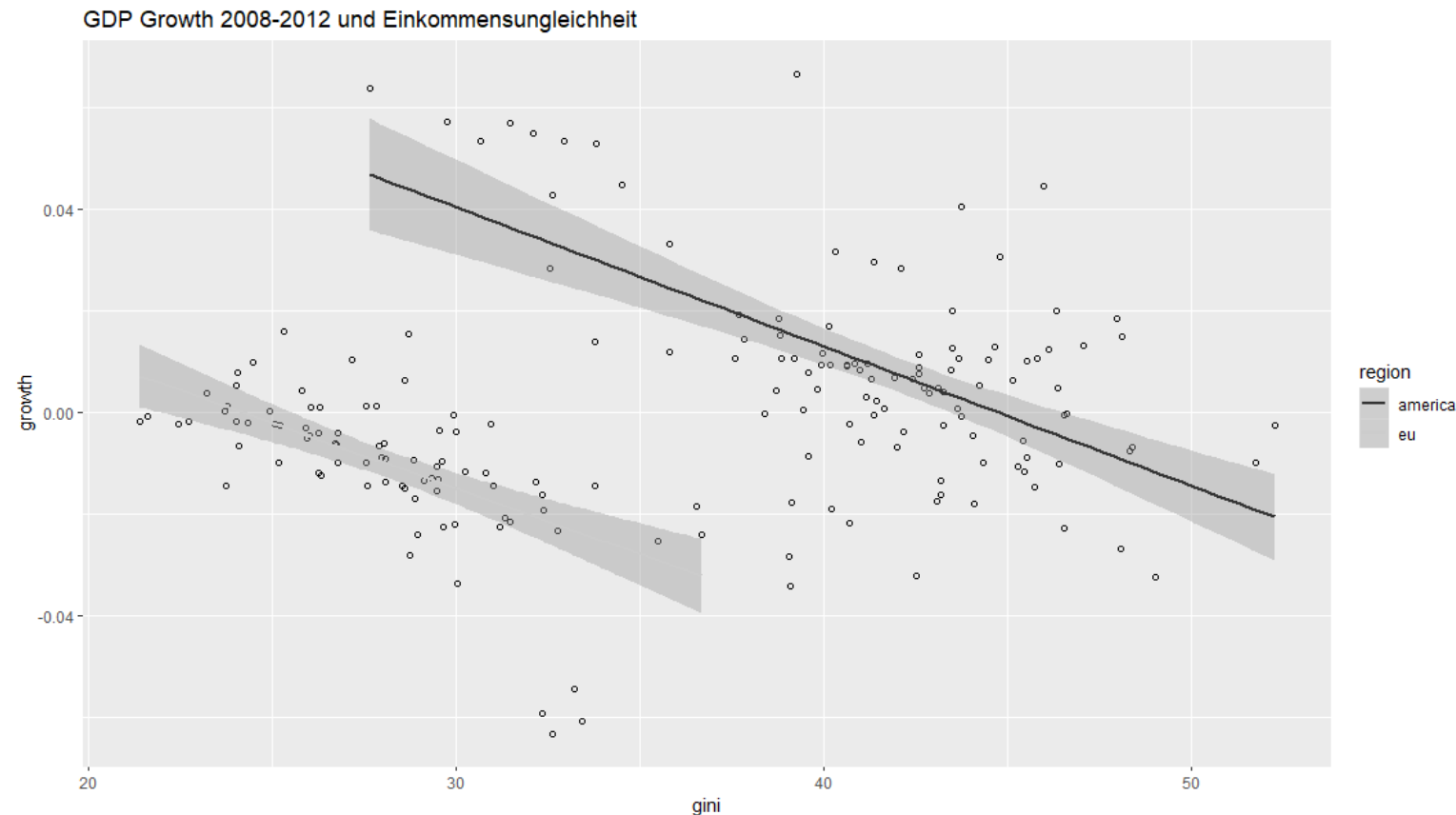
# Income Inequality

Economic and Fiscal Policy

# Why care?

- “Inequality can no longer be treated as an afterthought. We need to focus the debate on how the benefits of growth are distributed.” - Angel Gurría, *Secretary General OECD*
- “We know that excessive inequality hinders growth and hollows out a country’s foundations. It erodes trust within society and institutions. It can fuel populism and political upheaval.” - *Kristalina Georgieva, managing director IMF*

# Why care? - Economics

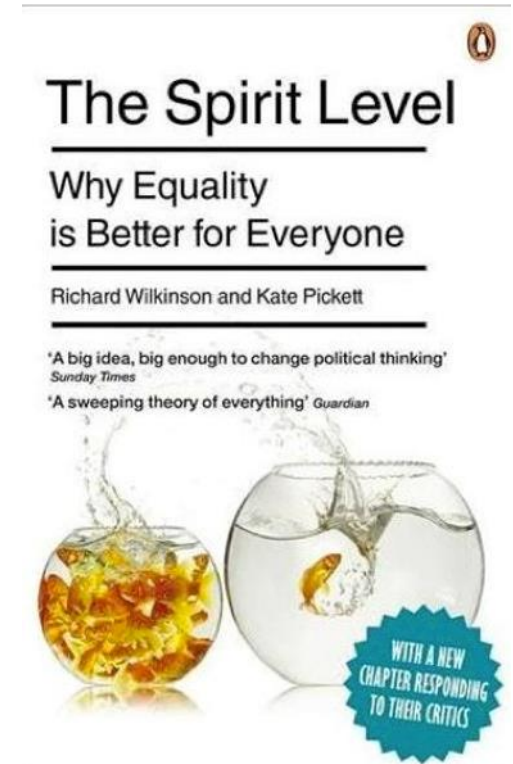


Quelle: <https://www.oecd-ilibrary.org/docserver/9789264235120-en.pdf?expires=1588924212&id=id&acname=ocid177428&checksum=41F7D40B067240E2A3FFCB0C5621D3C1>

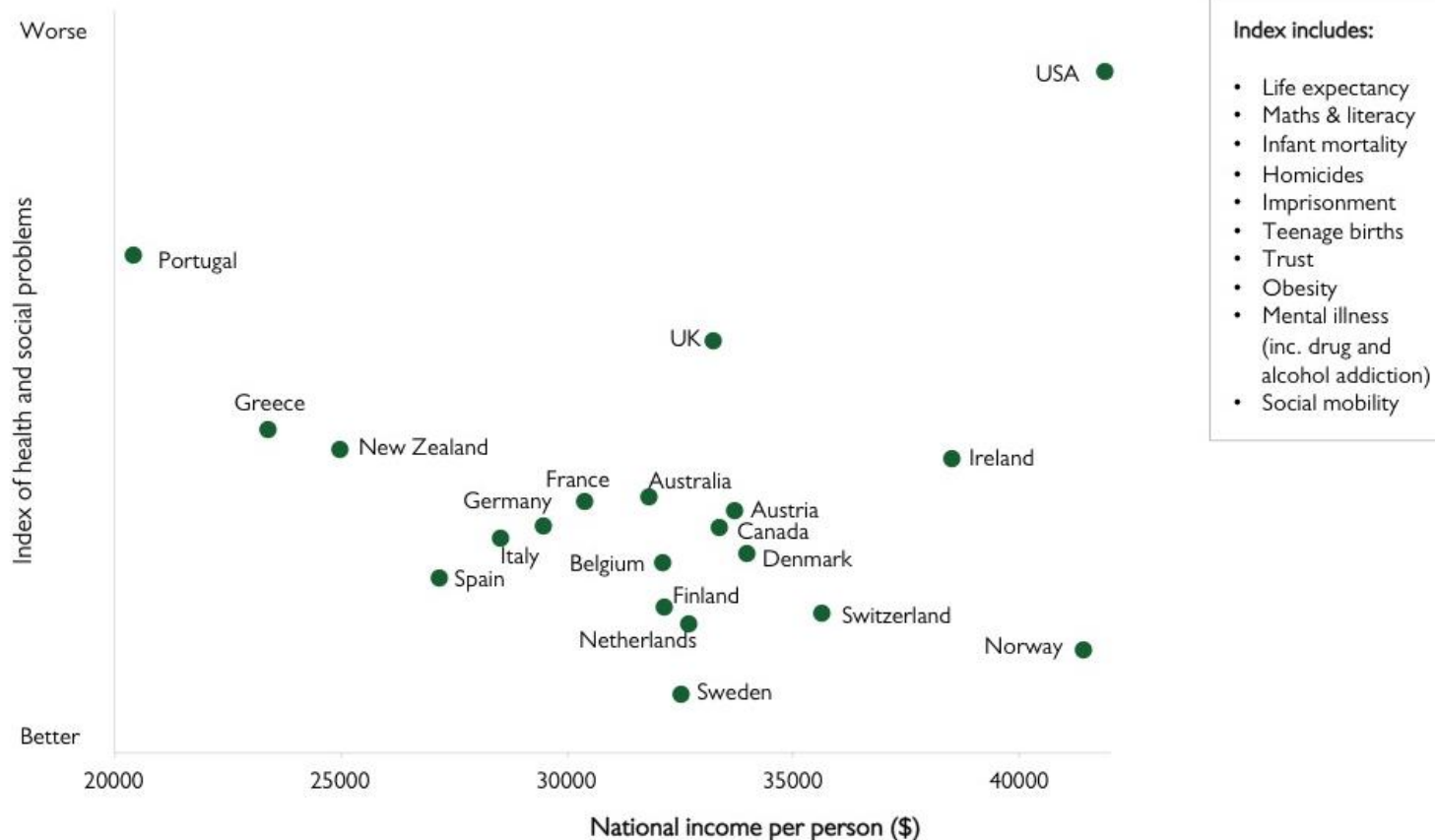
- Is inequality a market failure?
- Does inequality lead to market failure?

# Why care? – Social issues

- Wilkinson, Richard G., and Kate Pickett. *The Spirit Level: Why More Equal Societies Almost Always Do Better*. London: Allen Lane, 2009.
- Many social problems in rich countries are not so much associated with national income and growth, but much rather with inequality

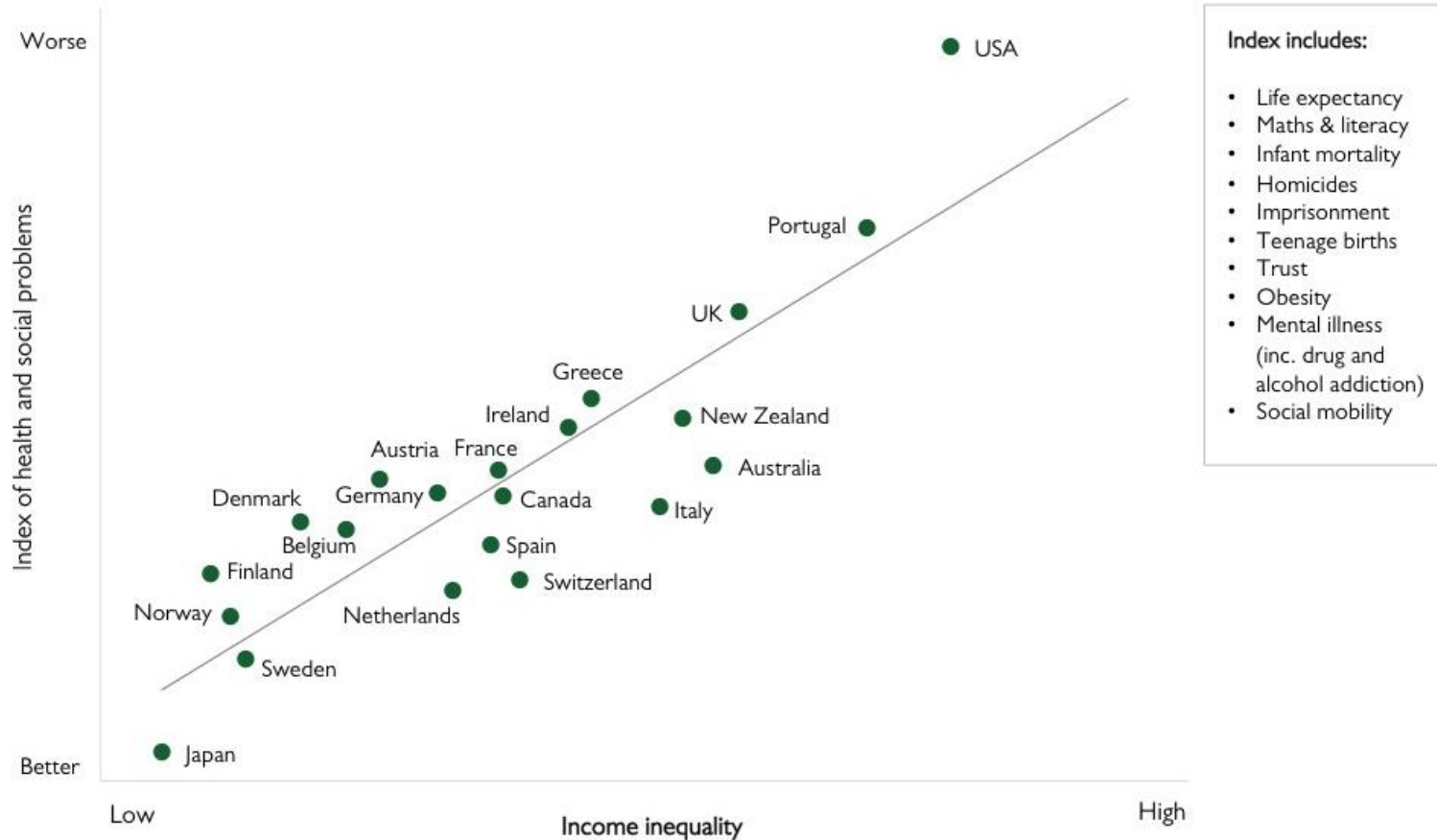


# Why care? – Social issues



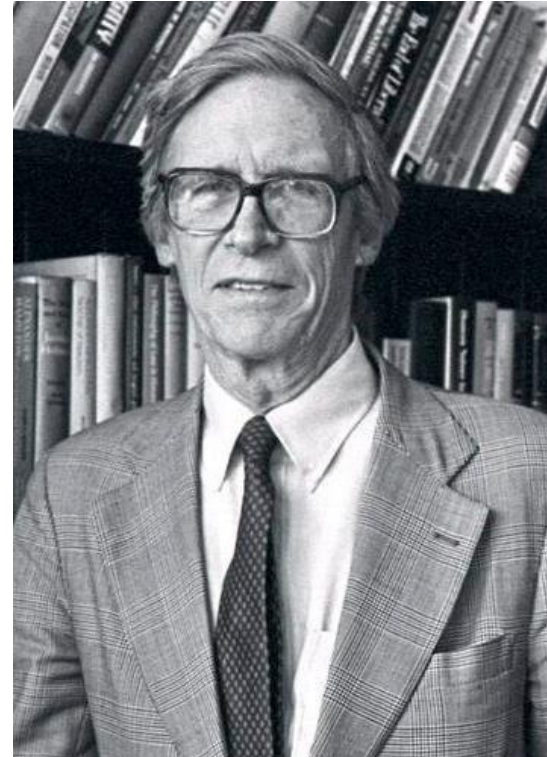
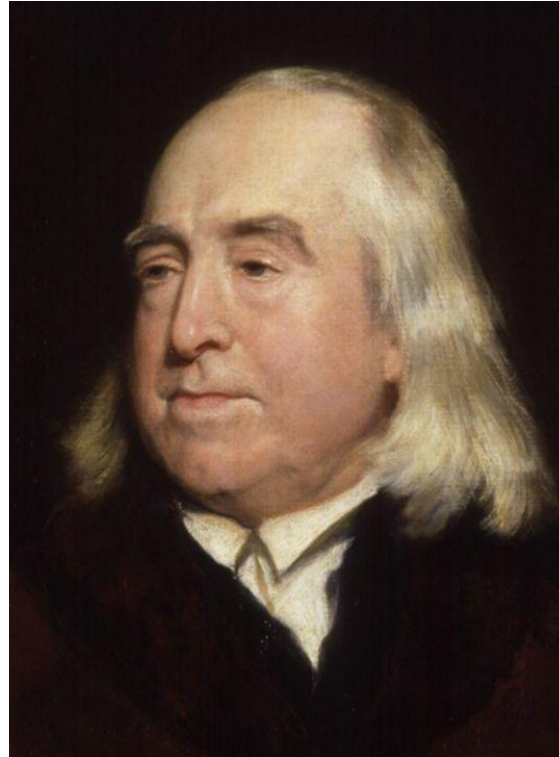
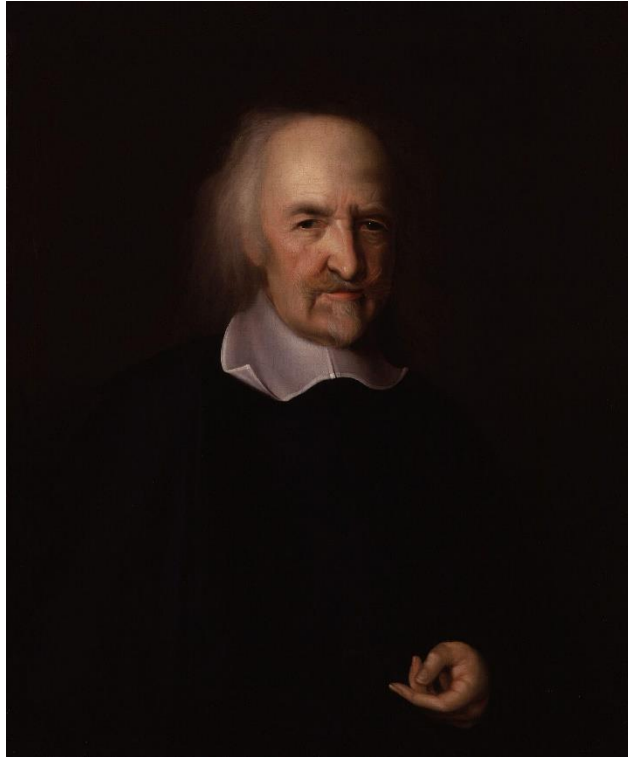
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# Why care? – Social issues

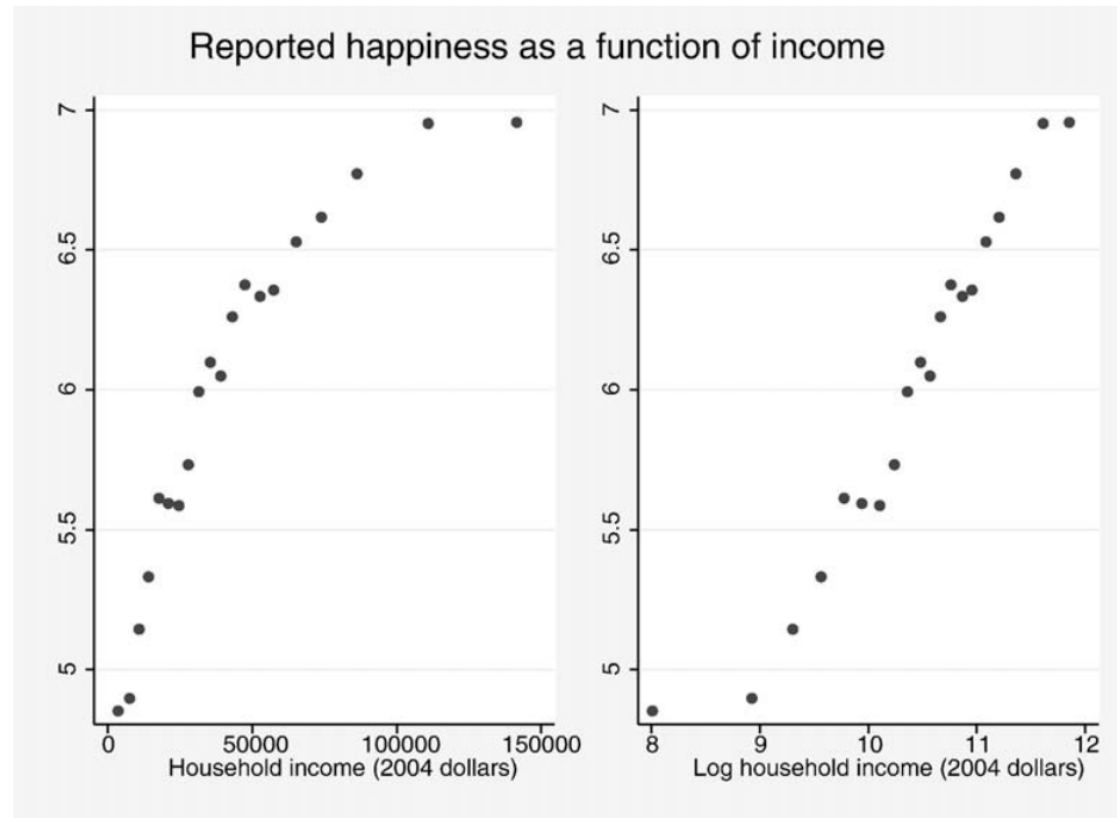


Wilkinson, Richard G., und Kate Pickett. *The Spirit Level: Why More Equal Societies Almost Always Do Better*. London: Allen Lane, 2009.

# Justice

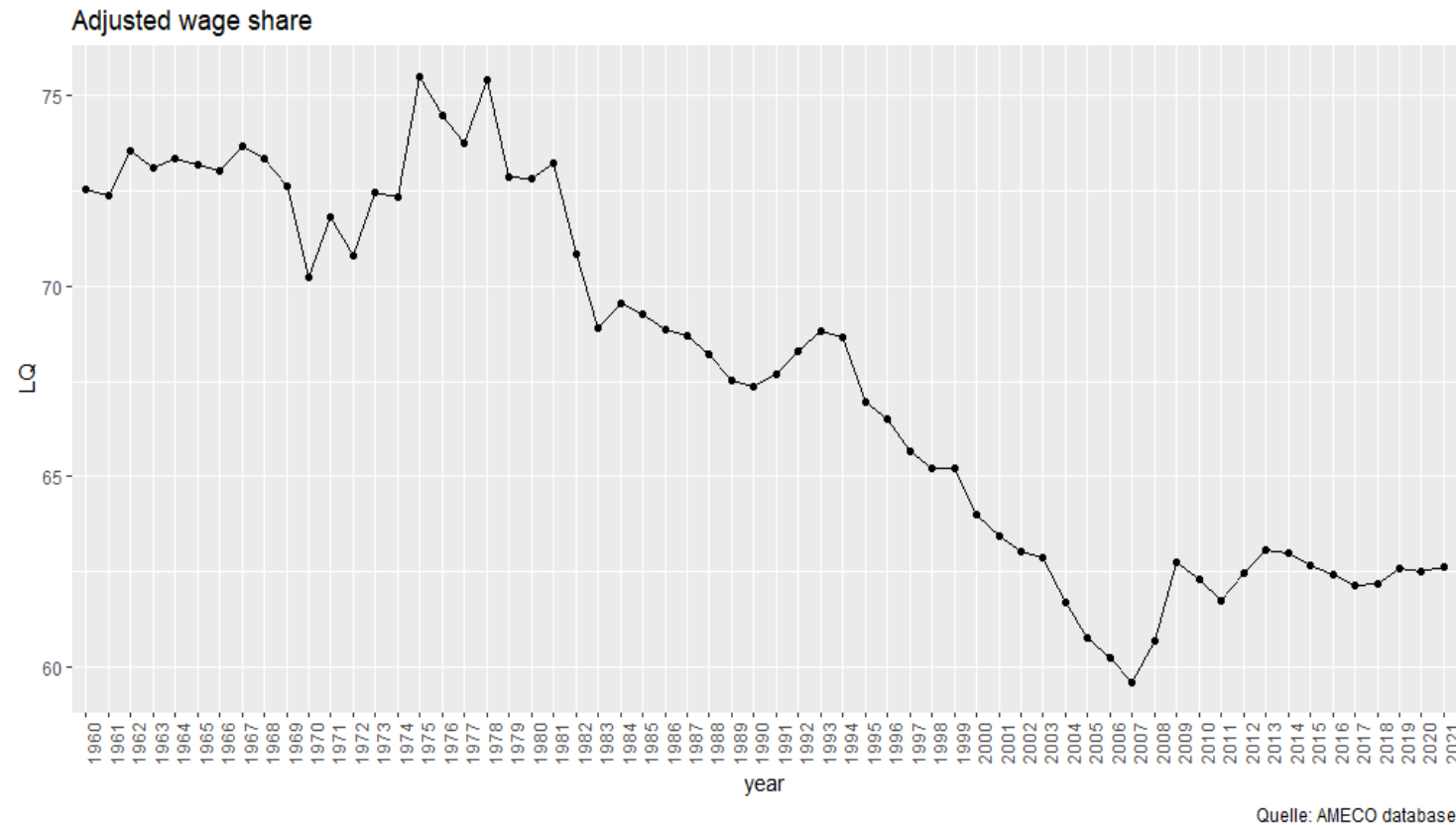


# Justice





# Functional distribution



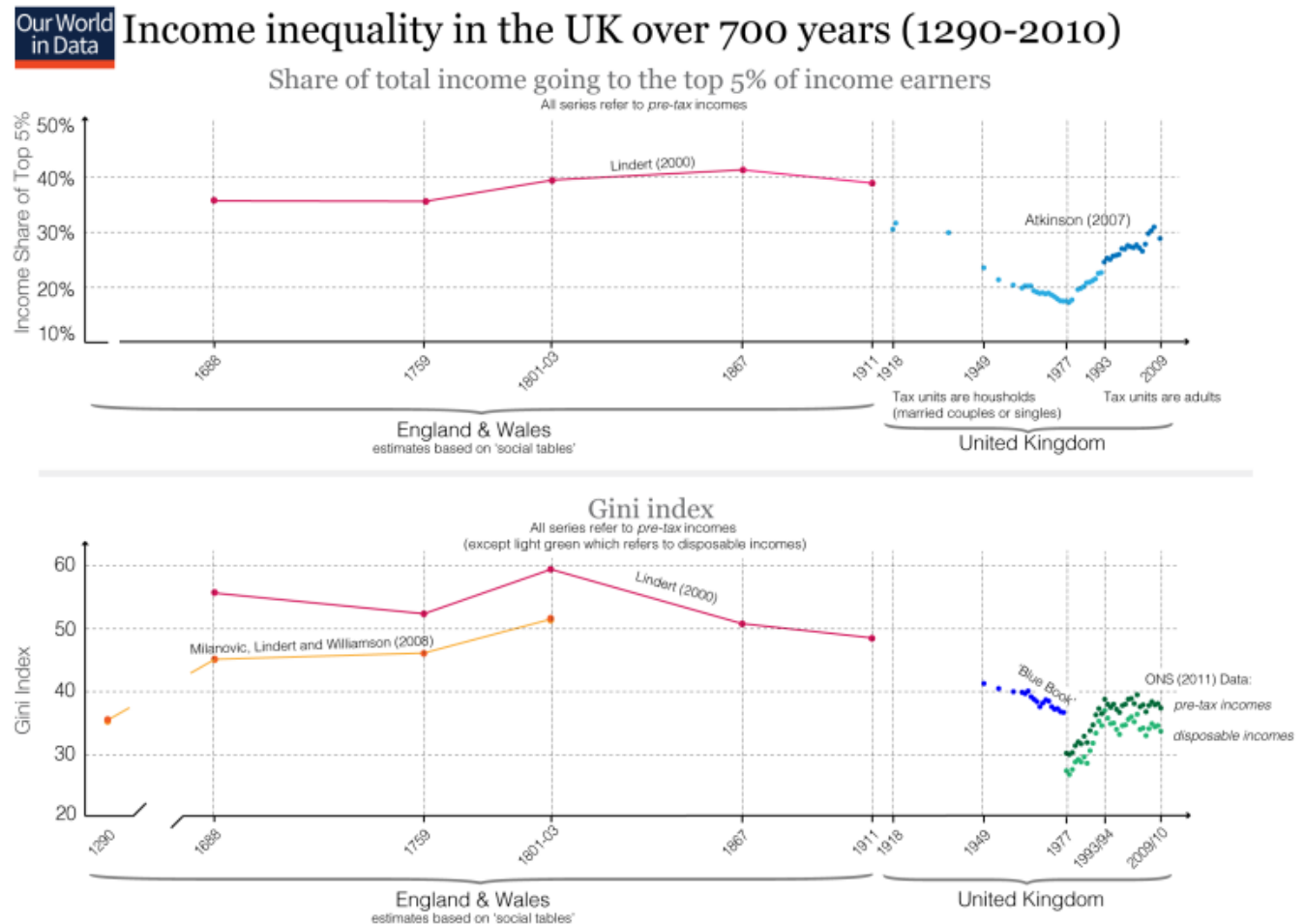
- Factors of production
- Gross national income (GNP – depreciation – subsidies)
- Adjusted/unadjusted

# Personal distribution



# Kuznets

- Vertical – rich vs. poor.
- Top shares, Gini, Theil, Atkinson, ...
- Top share evolution historically – puzzling finding: Kutznets Hypothesis

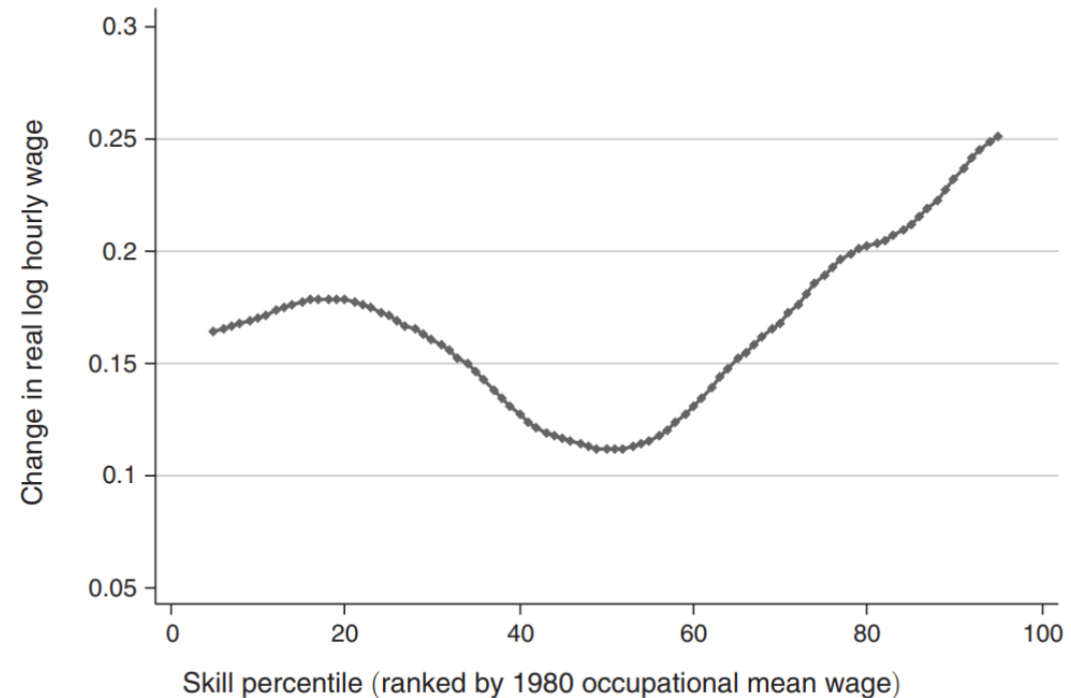


The author Max Roser licensed this visualisation under a CC BY-SA license. You are welcome to share but please refer to its source where you find more information: [www.OurWorldInData.org/data/growth-and-distribution-of-prosperity/income-inequality](http://www.OurWorldInData.org/data/growth-and-distribution-of-prosperity/income-inequality)  
Data sources: Lindert (2000), Atkinson (2007), Milanovic, Lindert and Williamson (2008), and ONS (2011)

# SBTC/RBTC

- Tinbergen (1975): “race” between increased demand for educated workers and the expansion of the educated population.
- advances in (ICT) have displaced low-skilled workers and created demand for those with better education
- Policy conclusions?

Panel B. Smoothed changes in real hourly wages by skill percentile, 1980–2005

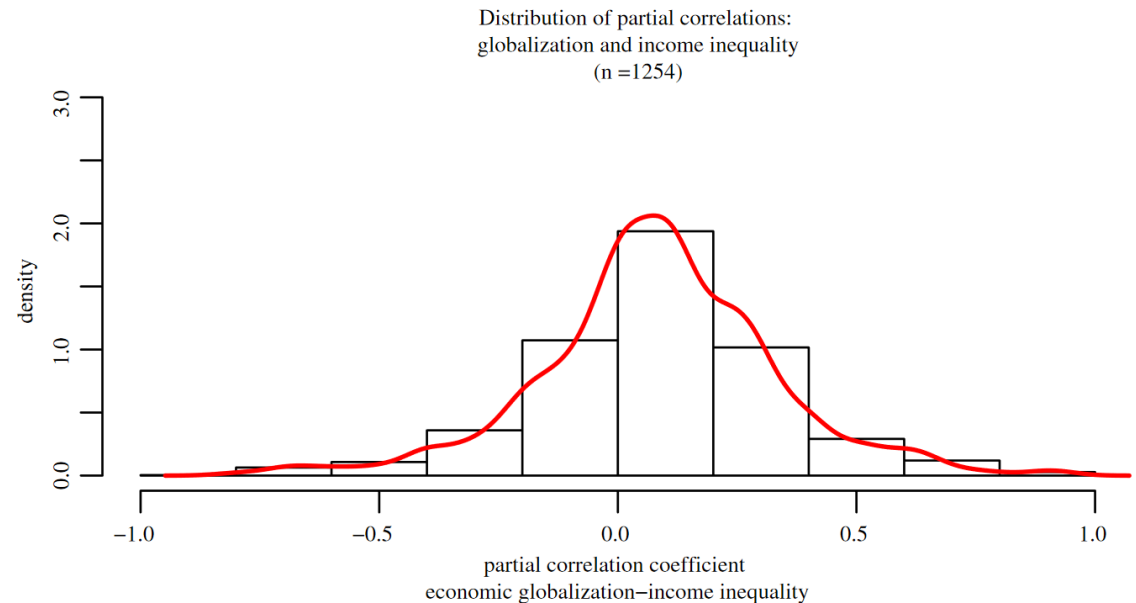


# Globalisation

- Heckscher-Ohlin: skilled and unskilled, are employed in two perfectly competitive economies, each with two sectors of production (advanced manufacturing vs. basic product)
- Trade specialization will favour sectors with abundant factors (comparative advantage).
- In high-income countries (abundant capital): Industries that rely heavily on unskilled workers find it increasingly difficult to compete, and jobs are lost or outsourced to lower-wage countries.
- In low income economies: demand will push up low-skilled workers' wages – falling inequality

# Globalisation

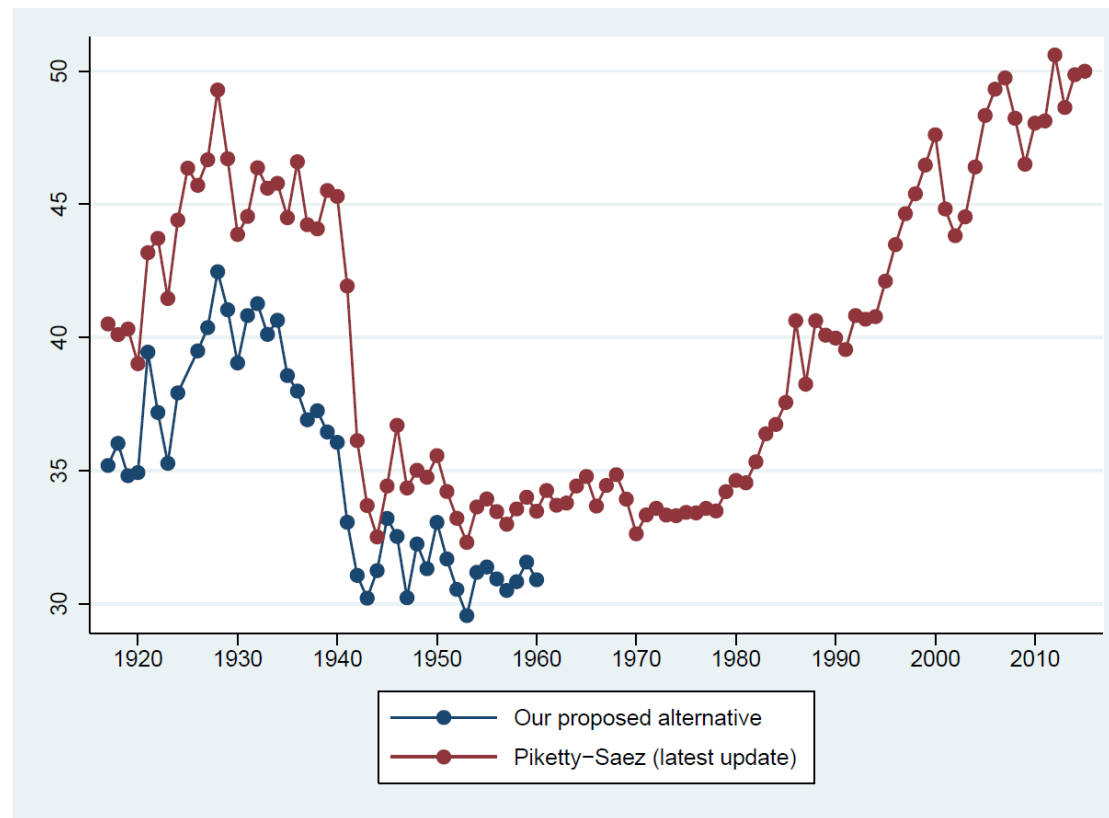
- on average, globalisation has a (small-to-moderate) inequality-increasing effect if we look at the total population of estimates obtained from relevant primary studies
- we do not find econometric evidence that globalisation has, on average, contributed to pushing down income inequality in developing countries - inequality-increasing effect was similar to the impact found for advanced countries



**FIGURE 1** Kernel density estimates of the distribution of partial correlations. *Notes.* The figure plots the kernel density estimates of partial correlations [Colour figure can be viewed at [wileyonlinelibrary.com](https://onlinelibrary.wiley.com)]

Source: Heimberger, P. Does economic globalisation affect income inequality? A meta-analysis. *World Econ.* 2020; 43: 2960– 2982. <https://doi.org/10.1111/twec.13007>

# Measurement



Source: Geloso, Vincent J, Phillip Magness, John Moore, und Philip Schlosser. „How pronounced is the U-curve? Revisiting income inequality in the United States, 1917-1960“. *The Economic Journal*, 8. März 2022, ueac020.  
<https://doi.org/10.1093/ej/ueac020>.

Figure 1. *Proposed corrections to top 10% income share compared with Piketty and Saez (latest update).*

# Universal Explanations

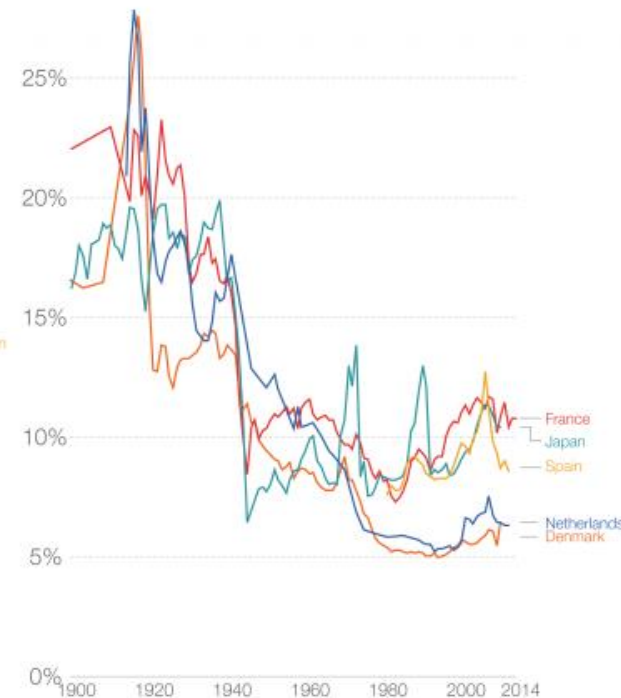
Our World  
in Data

## Share of Total Income going to the Top 1% since 1900

The evolution of inequality in English speaking countries followed a U-shape



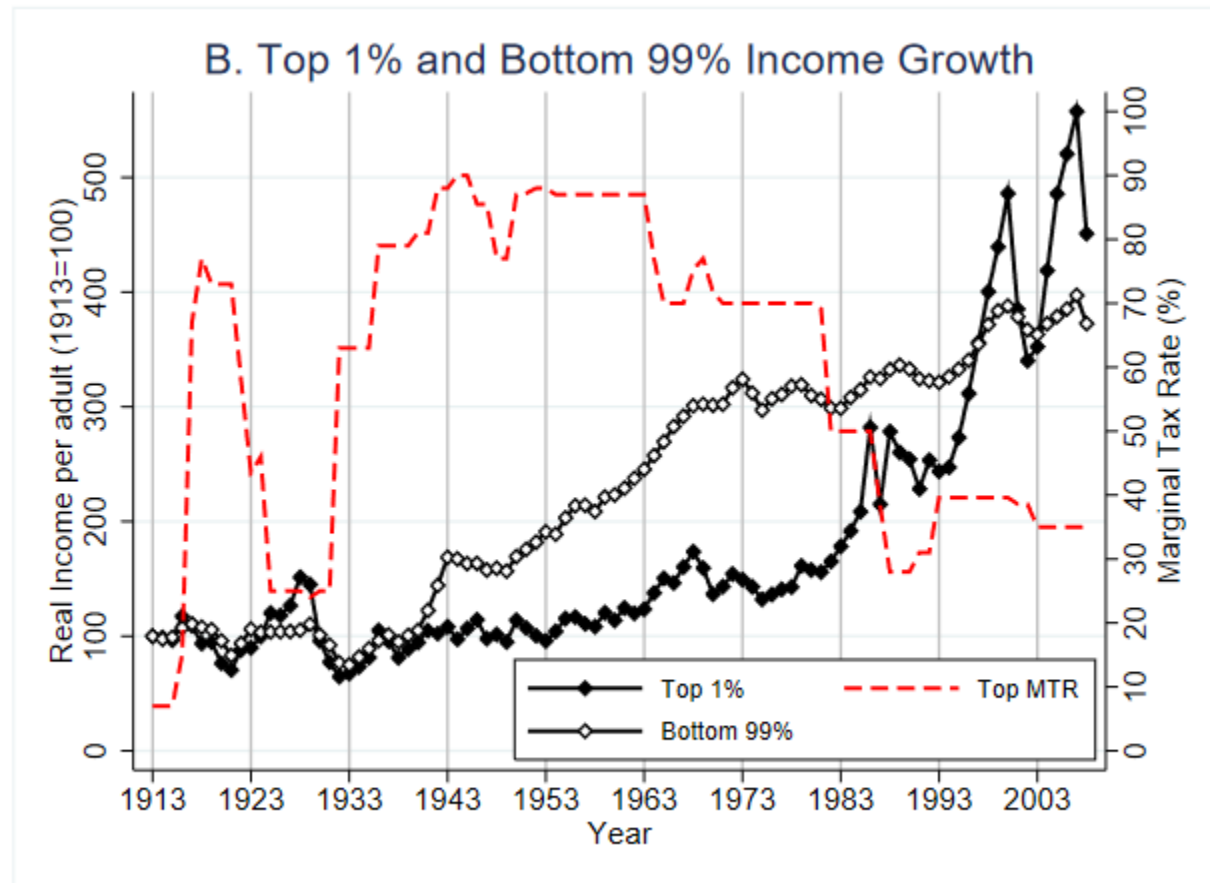
The evolution of inequality in continental Europe and Japan followed an L-shape



Data source: World Wealth and Income Database (2018). This is income before taxes and transfers.  
This data visualisation is available at [OurWorldinData.org](https://OurWorldinData.org). There you find the raw data and more visualisations on inequality and how the world is changing. Licensed under CC-BY-SA by the author Max Roser.



# Taxation

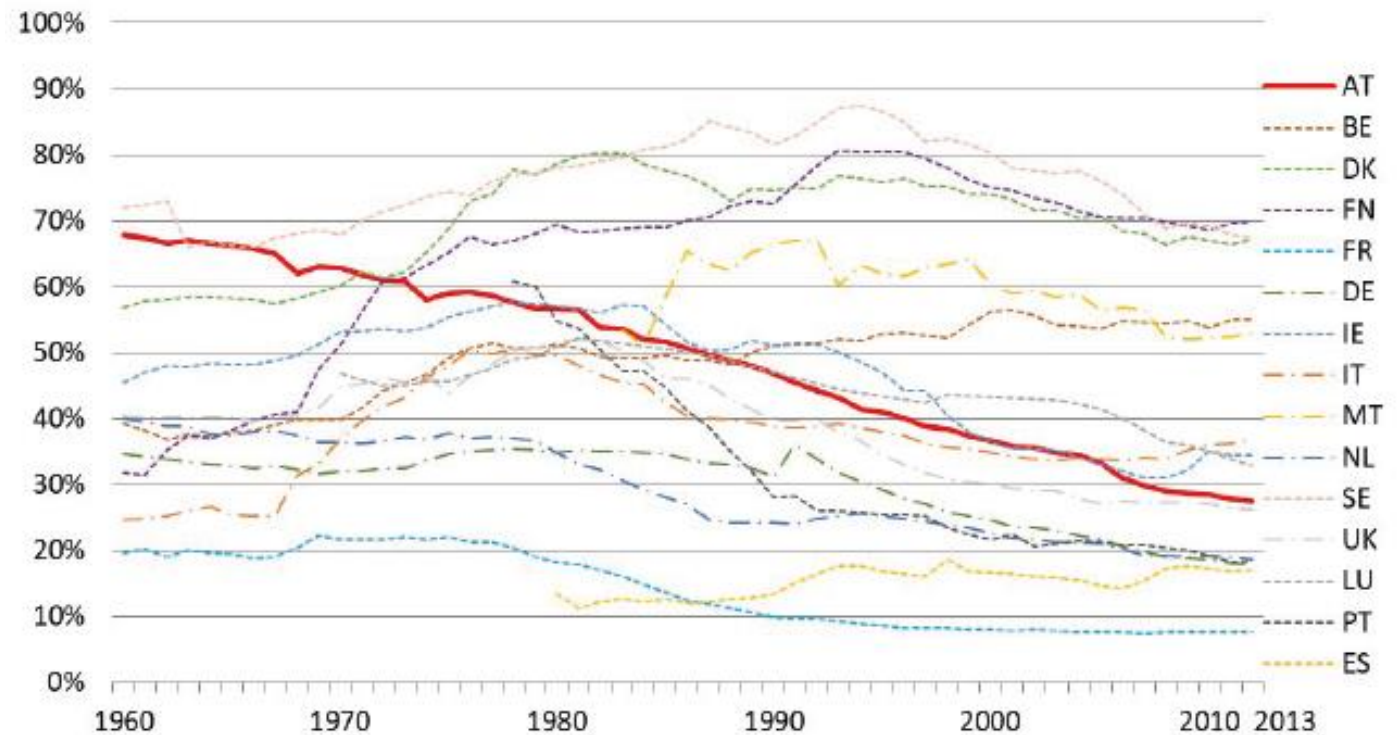


Source: Thomas Piketty & Emmanuel Saez & Stefanie Stantcheva, 2014.  
"[Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities](#),"  
American Economic Journal: Economic Policy, American Economic  
Association, vol. 6(1), pages 230-71,

# Decline in worker power

Among other factors:

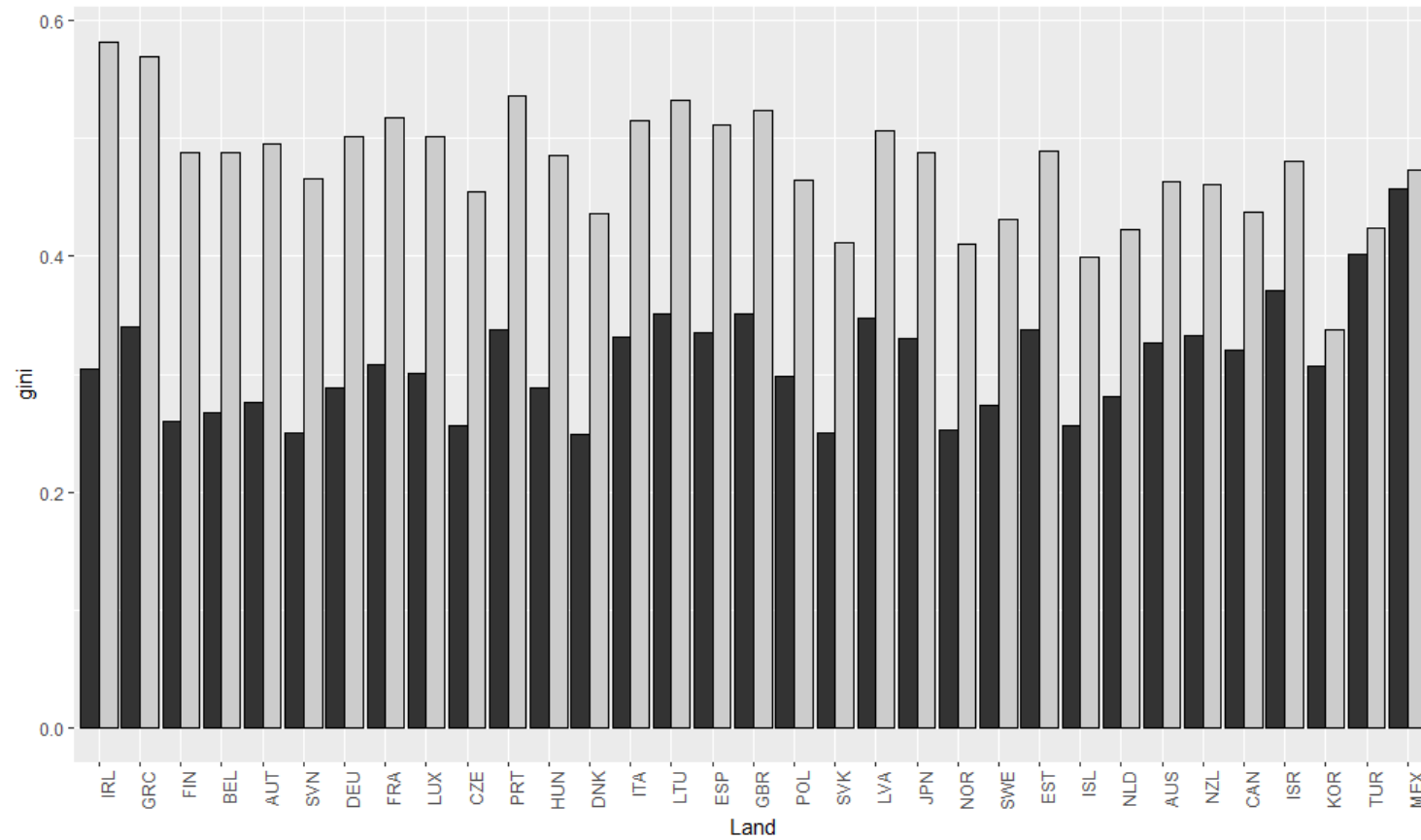
- as private sector unionisation and union power fell
- the real value of minimum wages declined
- shareholder activism increased (shareholder associations, changes in firm governance structures)



Lehner, Lukas. „Eine Umkehr auf dem Pfad der Liberalisierung: Das Wiedererstarken des Neokorporatismus in Österreich seit 2008“. Momentum Quarterly-Zeitschrift für sozialen Fortschritt 6, Nr. 4 (2017): 210–29.

# Welfare state

Einkommensungleichheit Gini Europa Primär- versus Sekundäreinkommen



Quelle: <https://ourworldindata.org/income-inequality>

- Market income inequality (gini\_before) > postgovernment income
- Not considered: Social transfers in kind