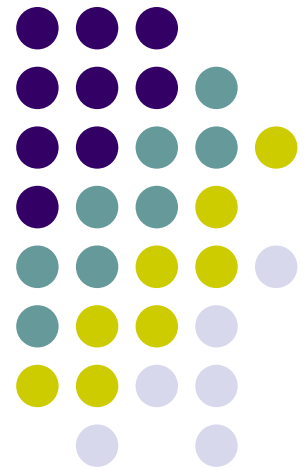
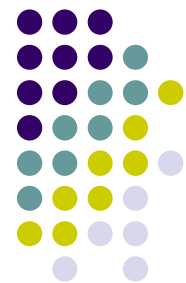


Introduction to Economics of Development

Inequality &
Economic Growth





Measure inequality

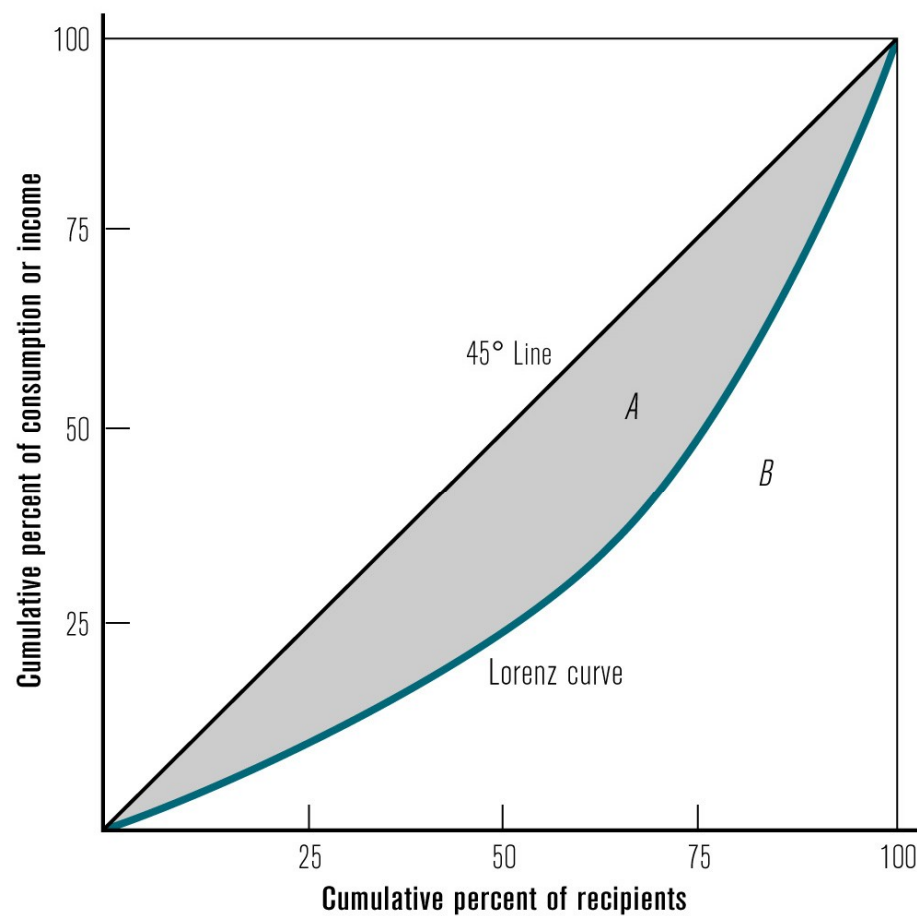
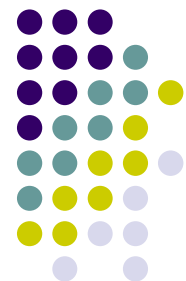
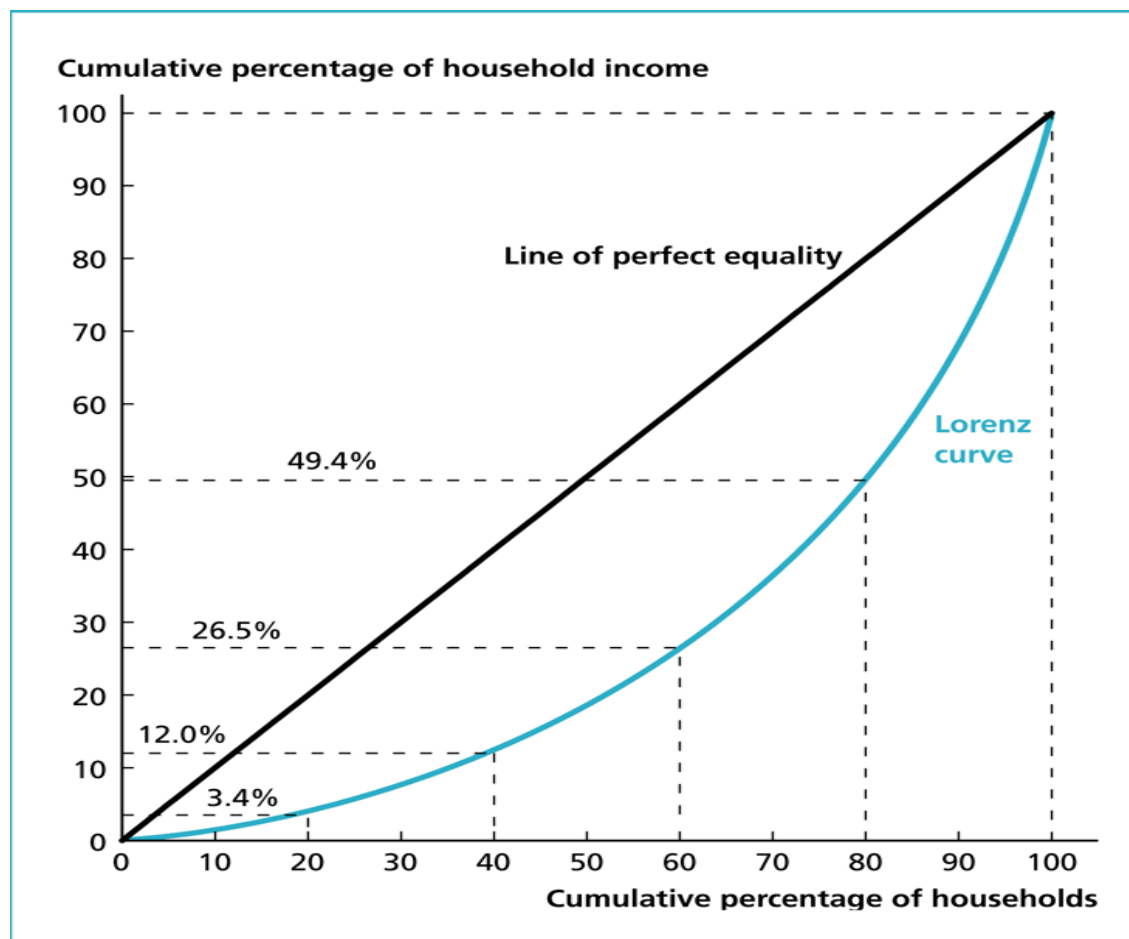


FIGURE 6.2 Lorenz Curve

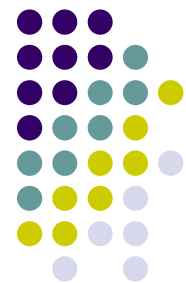
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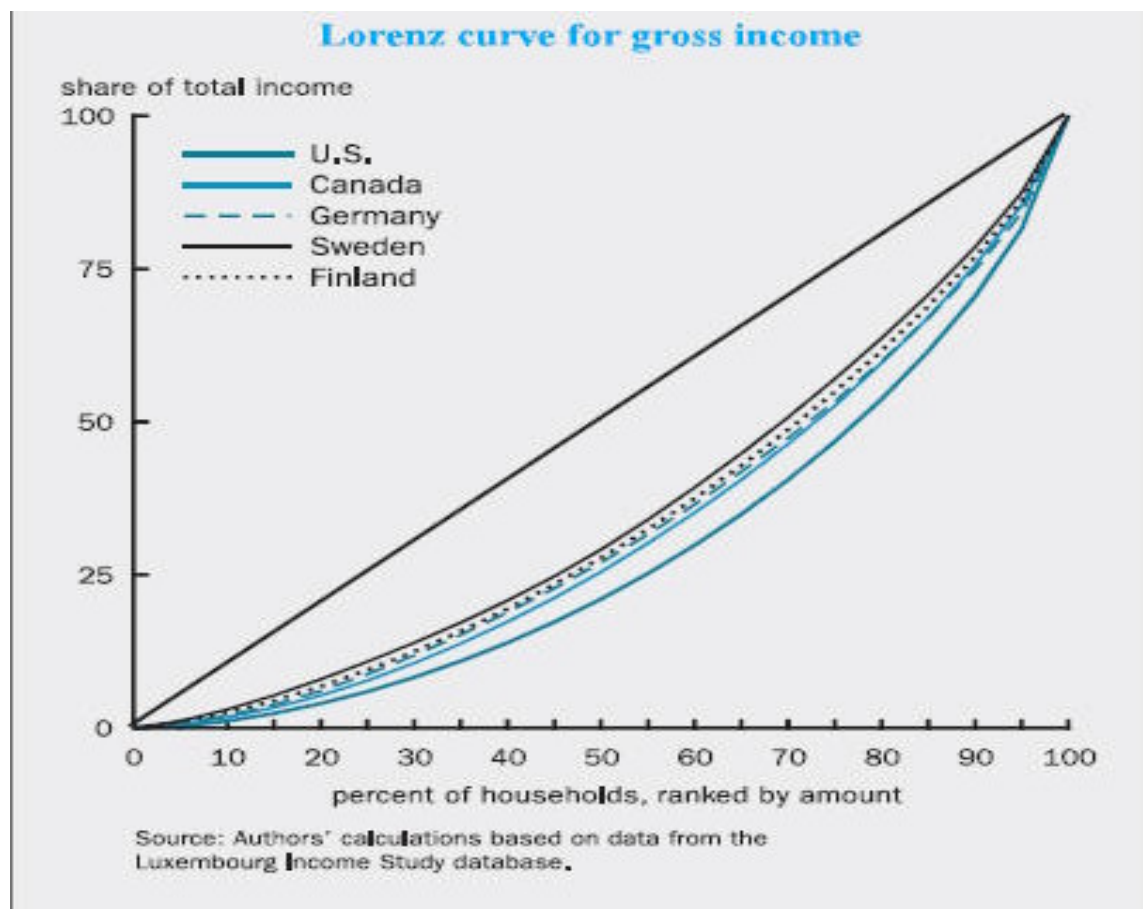
The Lorenz Curve for the United States, 2006

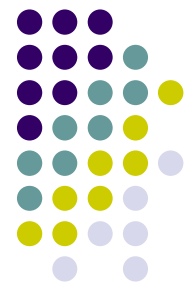


Source: De Navas-Walt, Proctor, and Smith (2007).

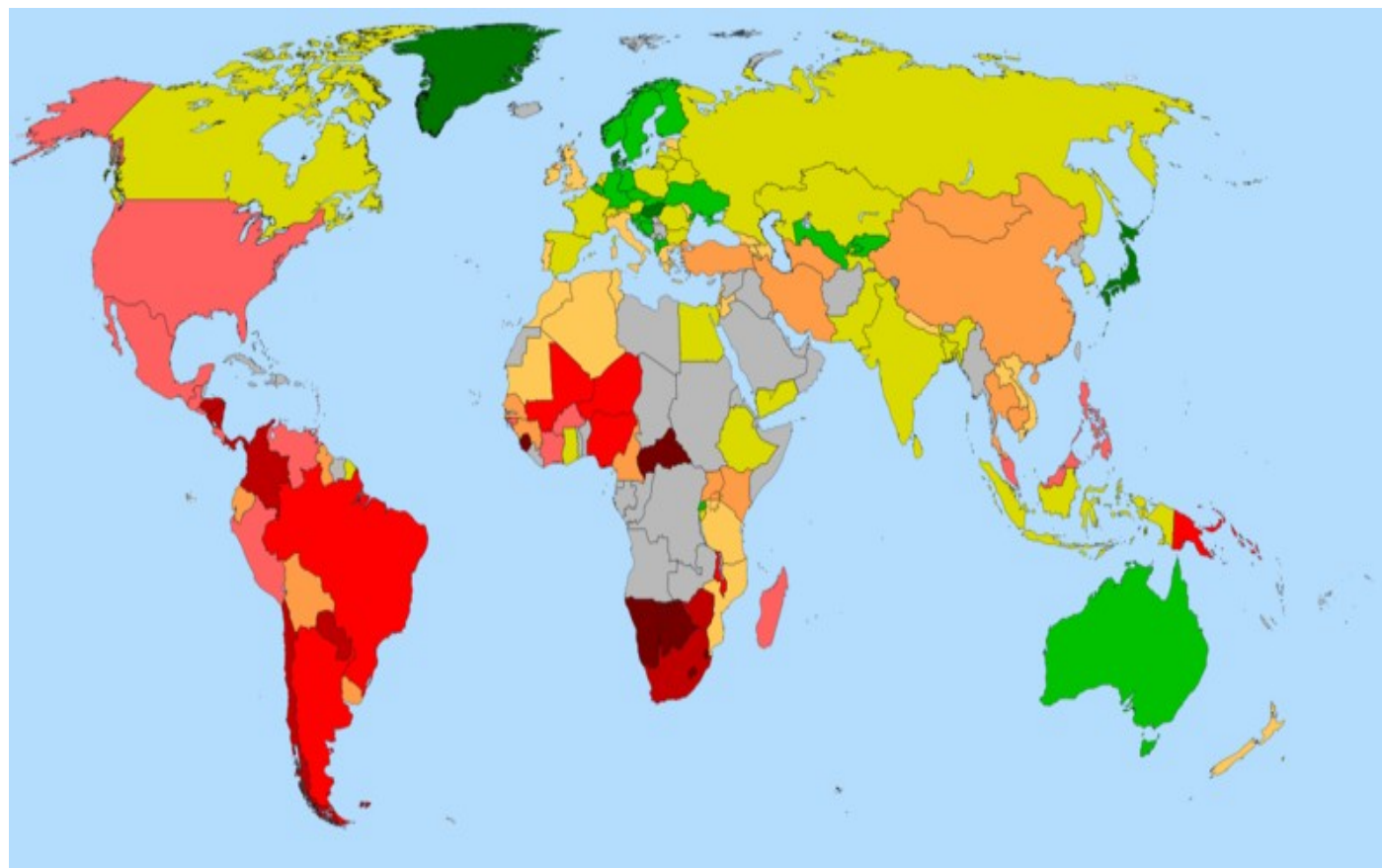


Lorenz Curves across Countries





Inequality around the World



Color	Gini coefficient
■	< 0,25
■	0,25 - 0,29
■	0,30 - 0,34
■	0,35 - 0,39
■	0,40 - 0,44
■	0,45 - 0,49
■	0,50 - 0,54
■	0,55 - 0,59
■	> 0,60
■	NA

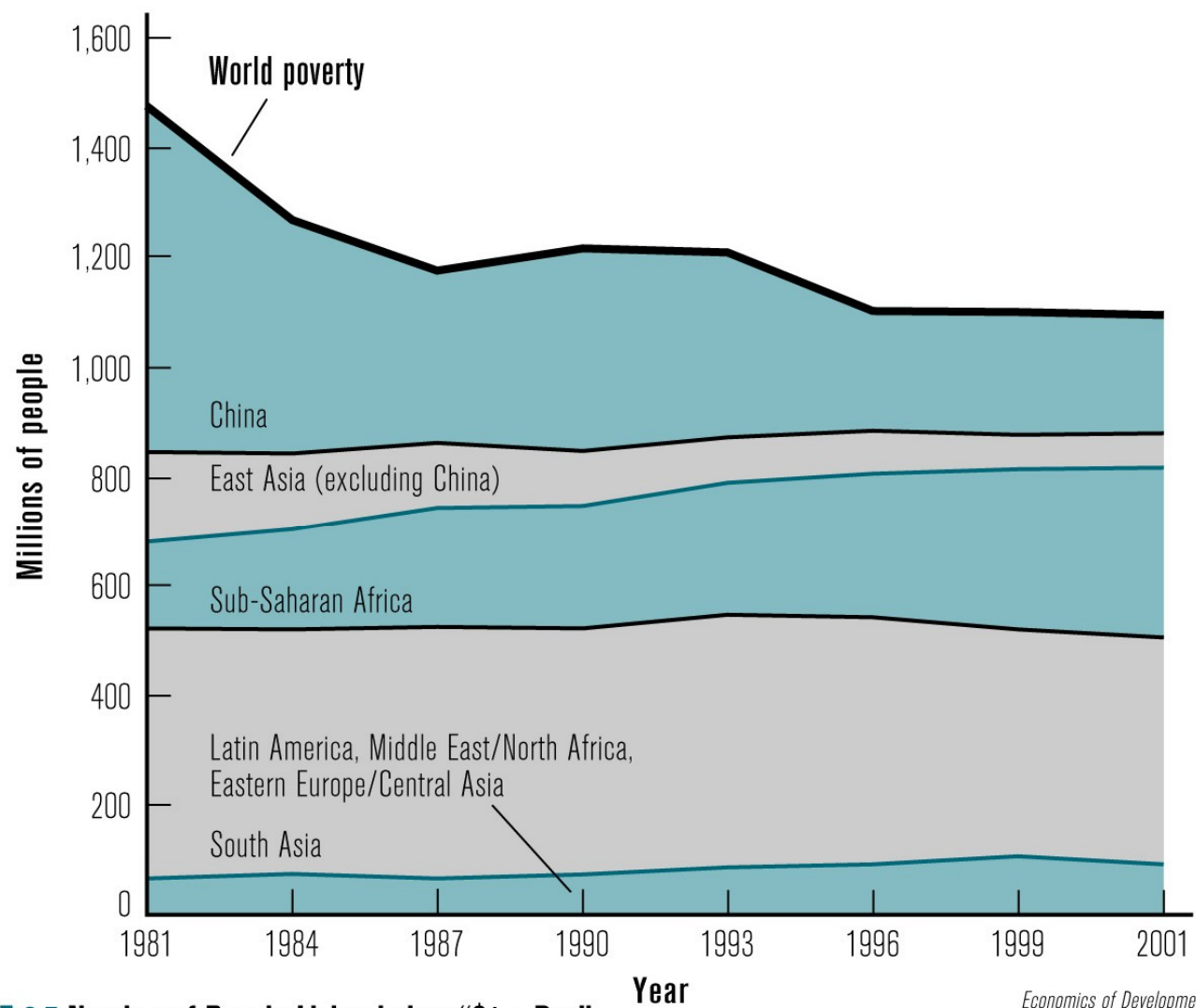


FIGURE 6.5 Number of People Living below “\$1 a Day”

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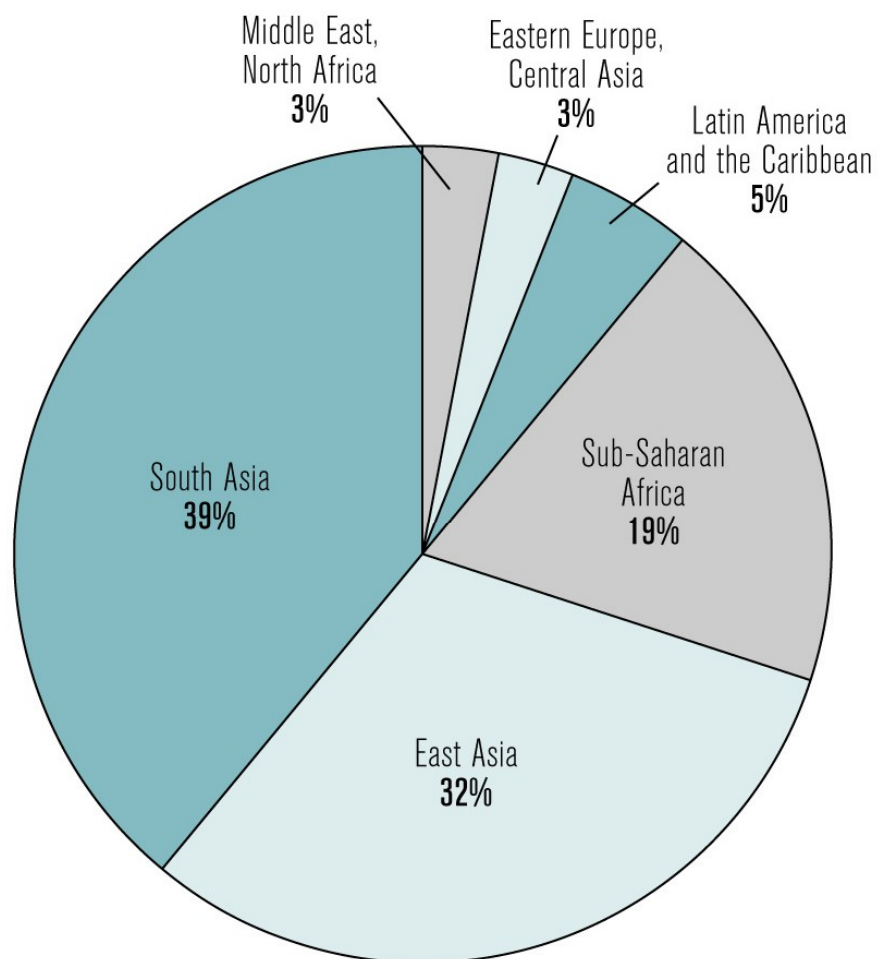
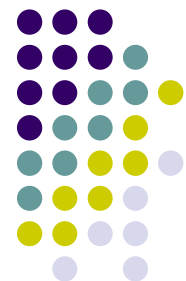
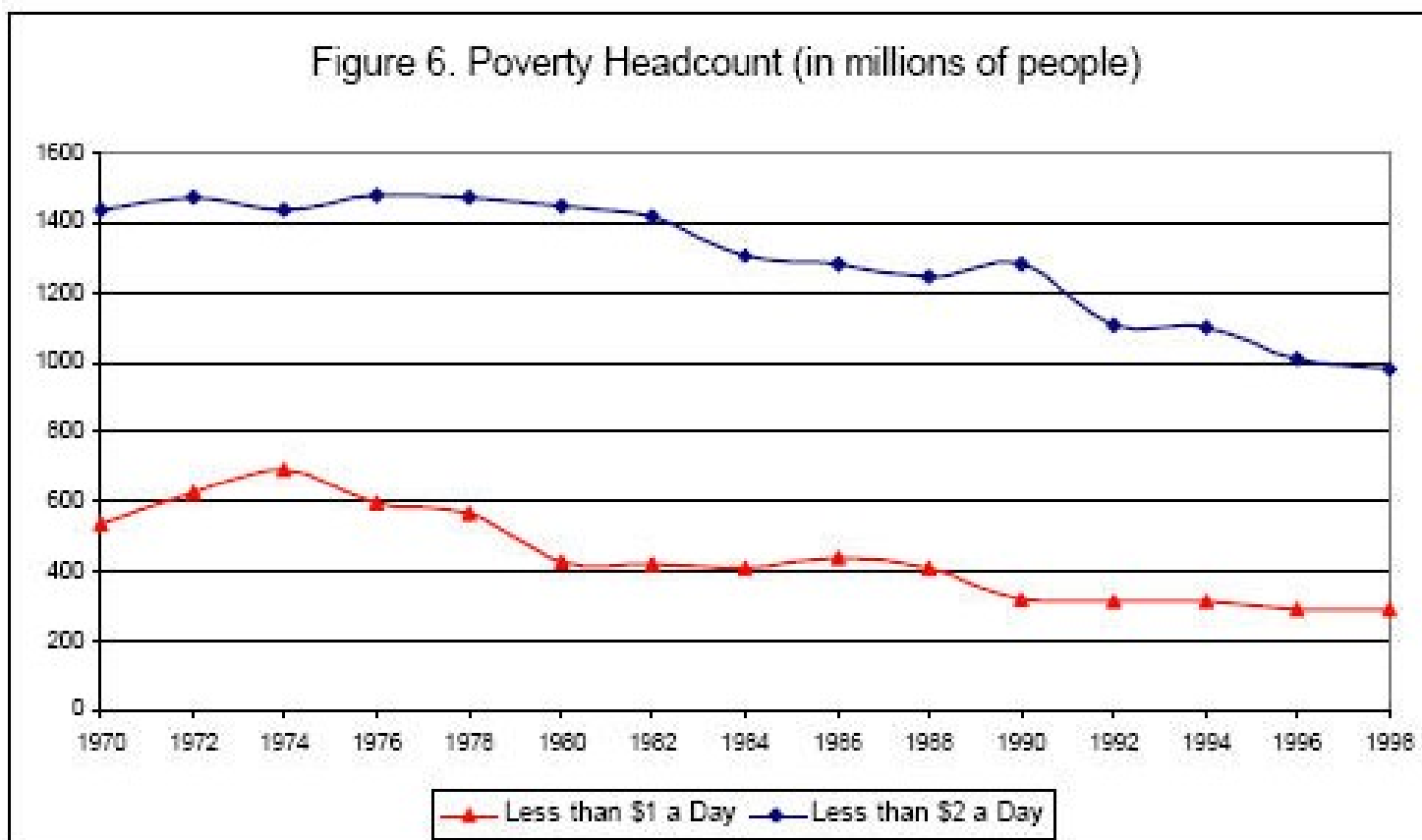


FIGURE 6.6 Regional Distribution of People Living below the “\$2 a Day” Poverty Line, 2001

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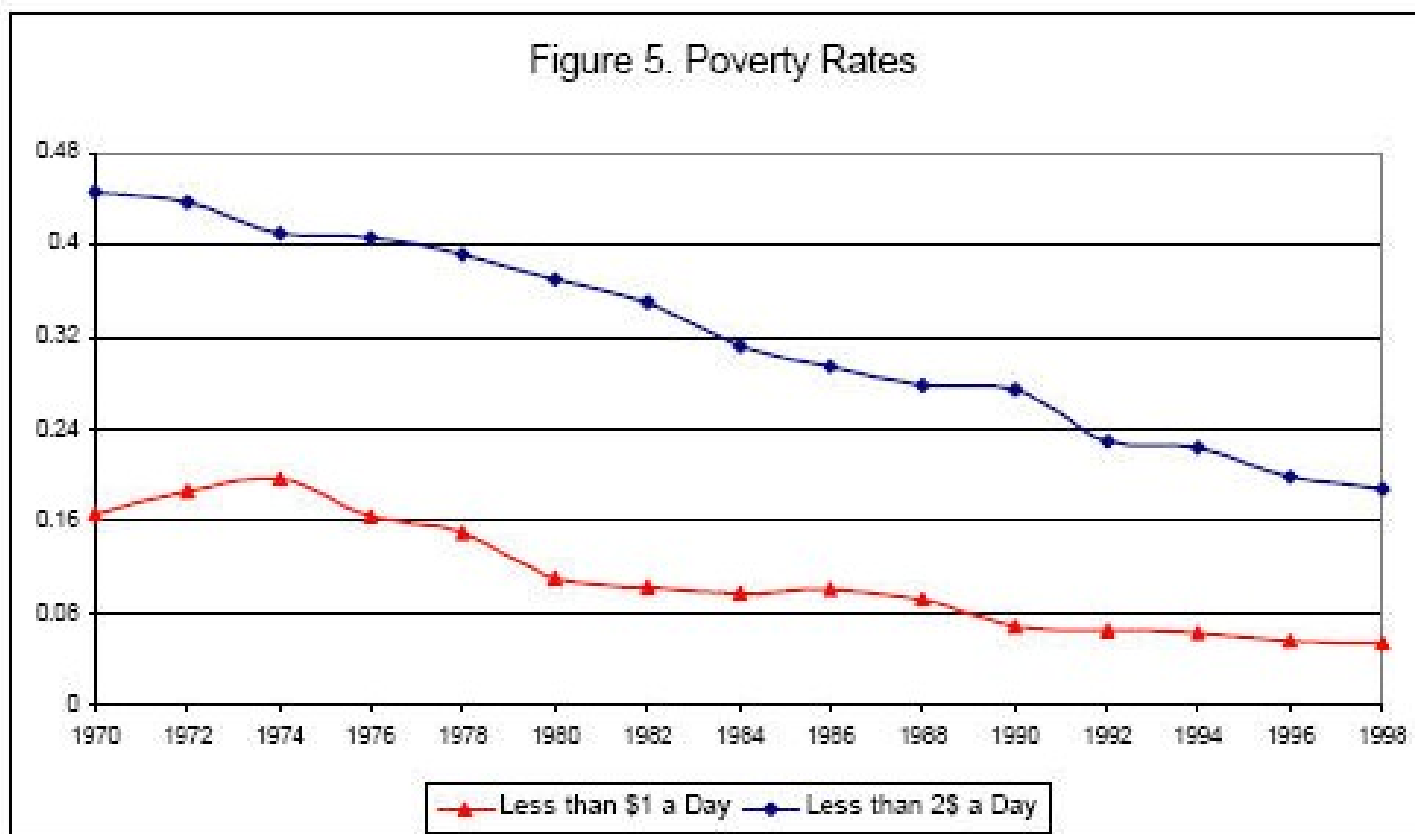


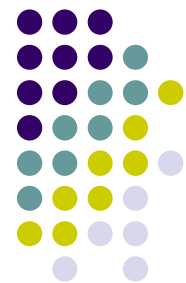
World poverty trend, headcount



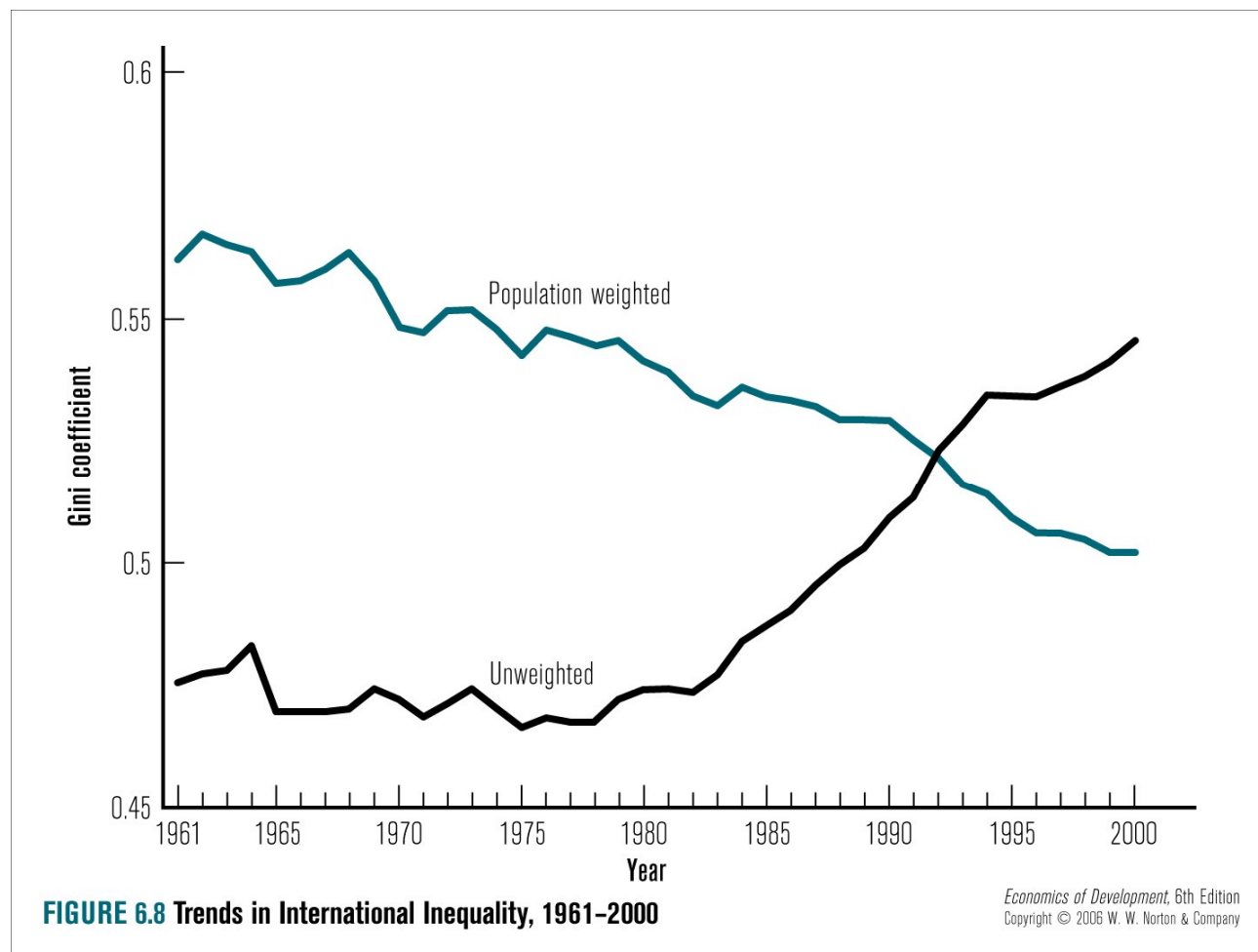


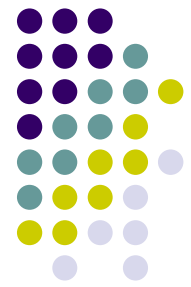
World poverty trend, percentage





Two different measures, two different stories

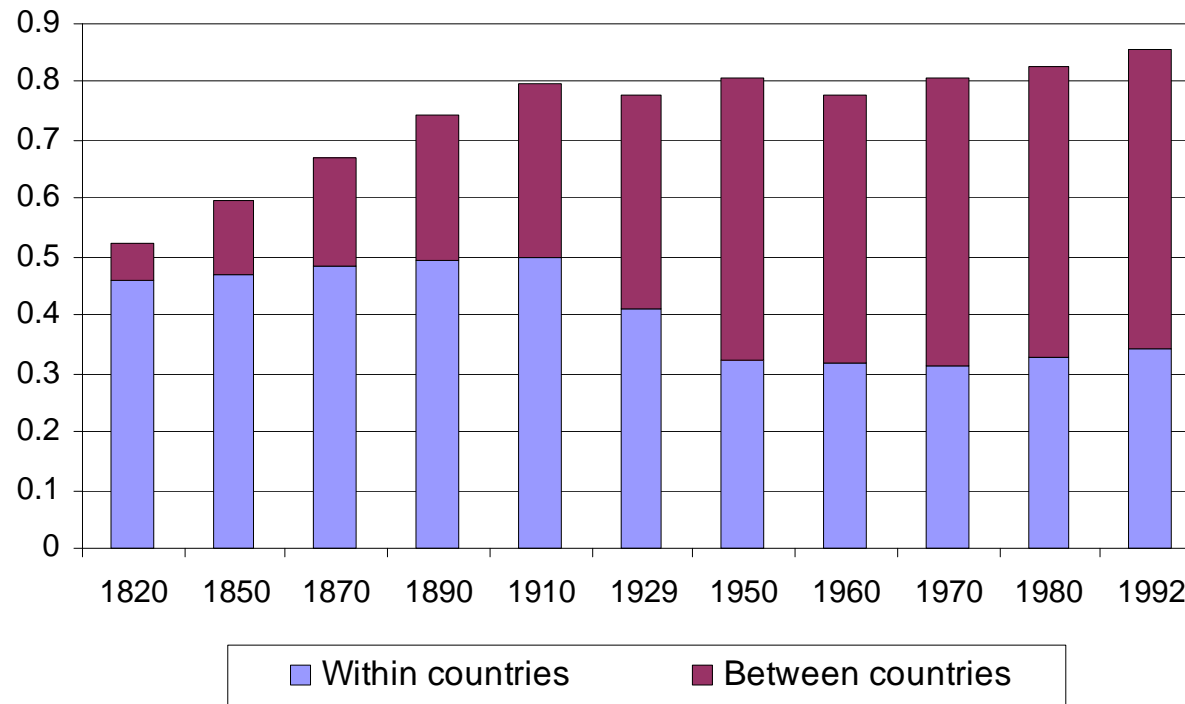


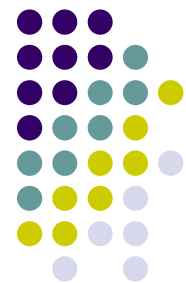


World Inequality Decomposition

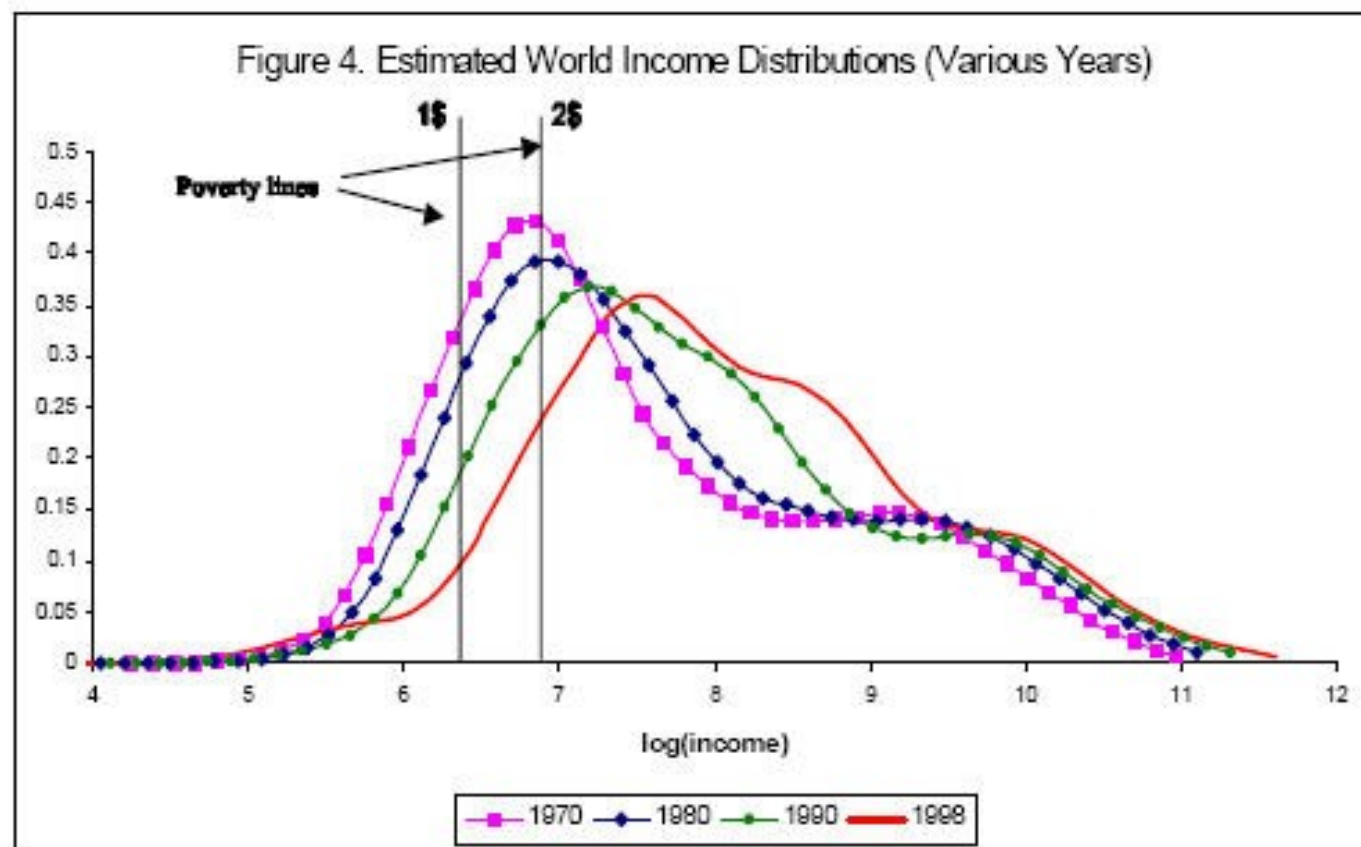
**World Inequality
Theil Index Decomposition**

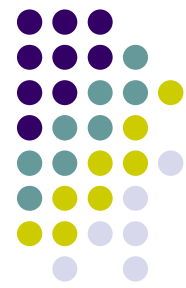
$$T_T = \frac{1}{N} \sum_{i=1}^N \left(\frac{x_i}{\bar{x}} \cdot \ln \frac{x_i}{\bar{x}} \right)$$



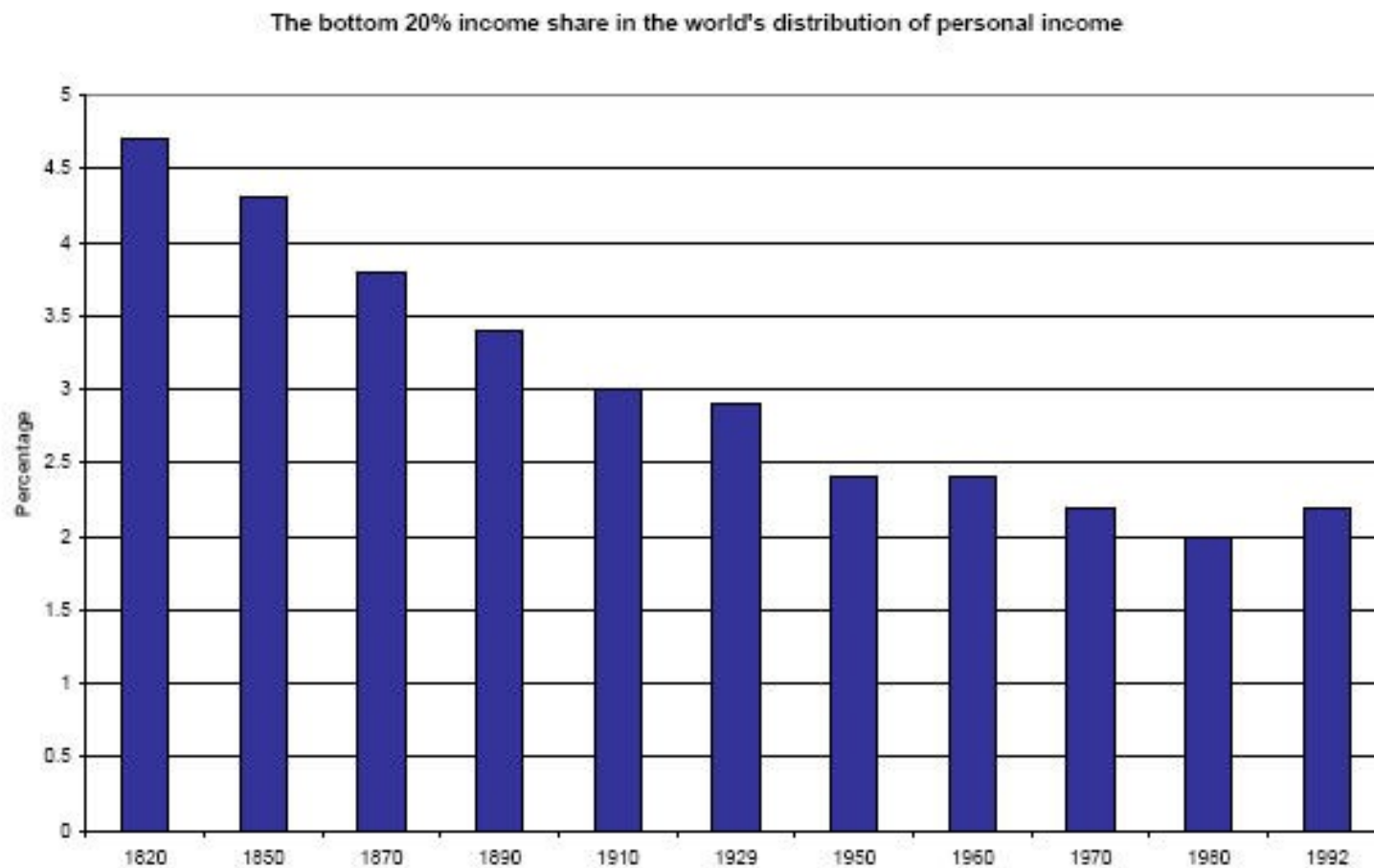


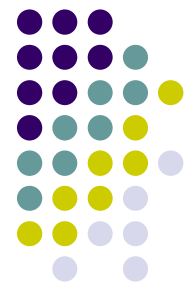
More people moved out of poverty



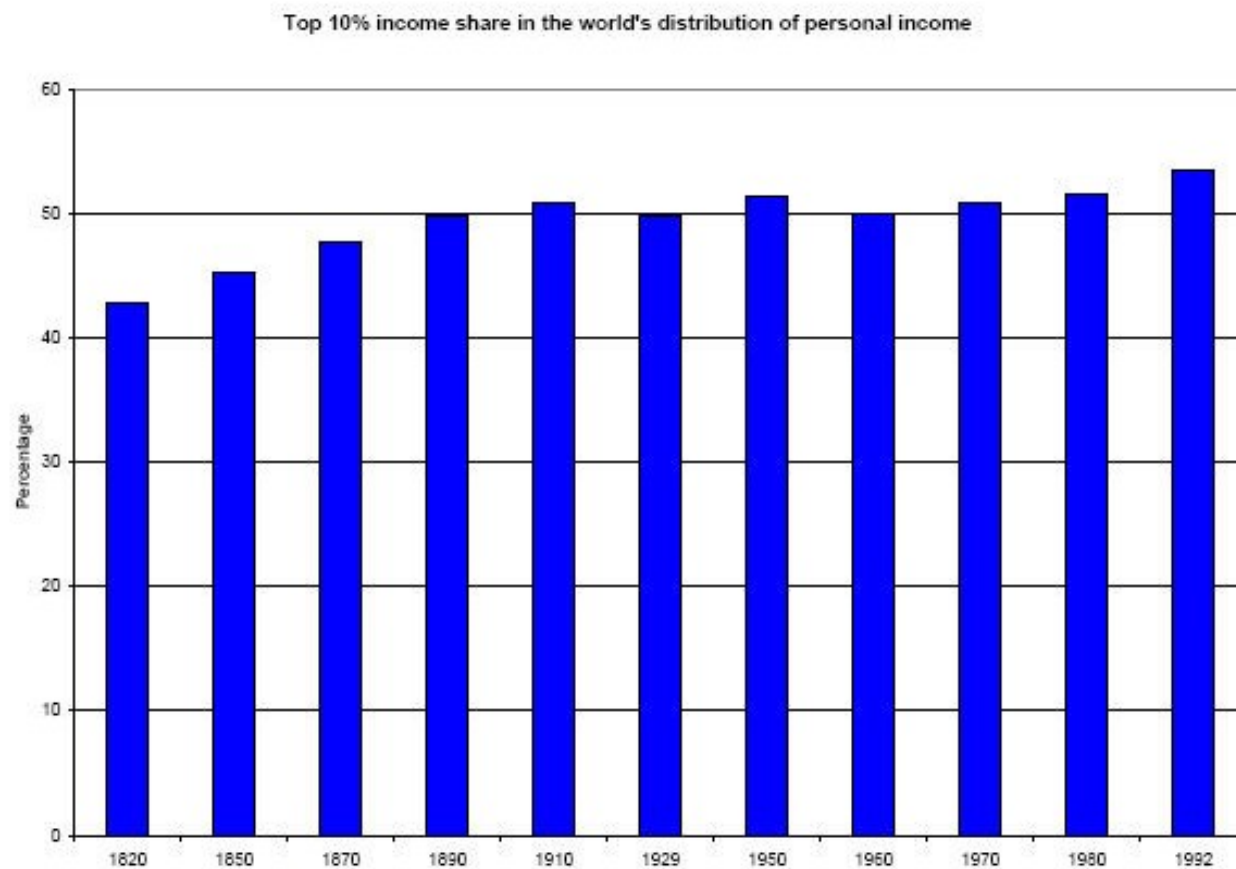


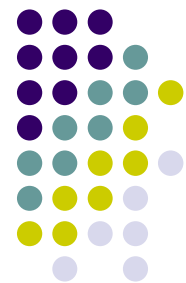
Yet, the income share of the poorest has been declining



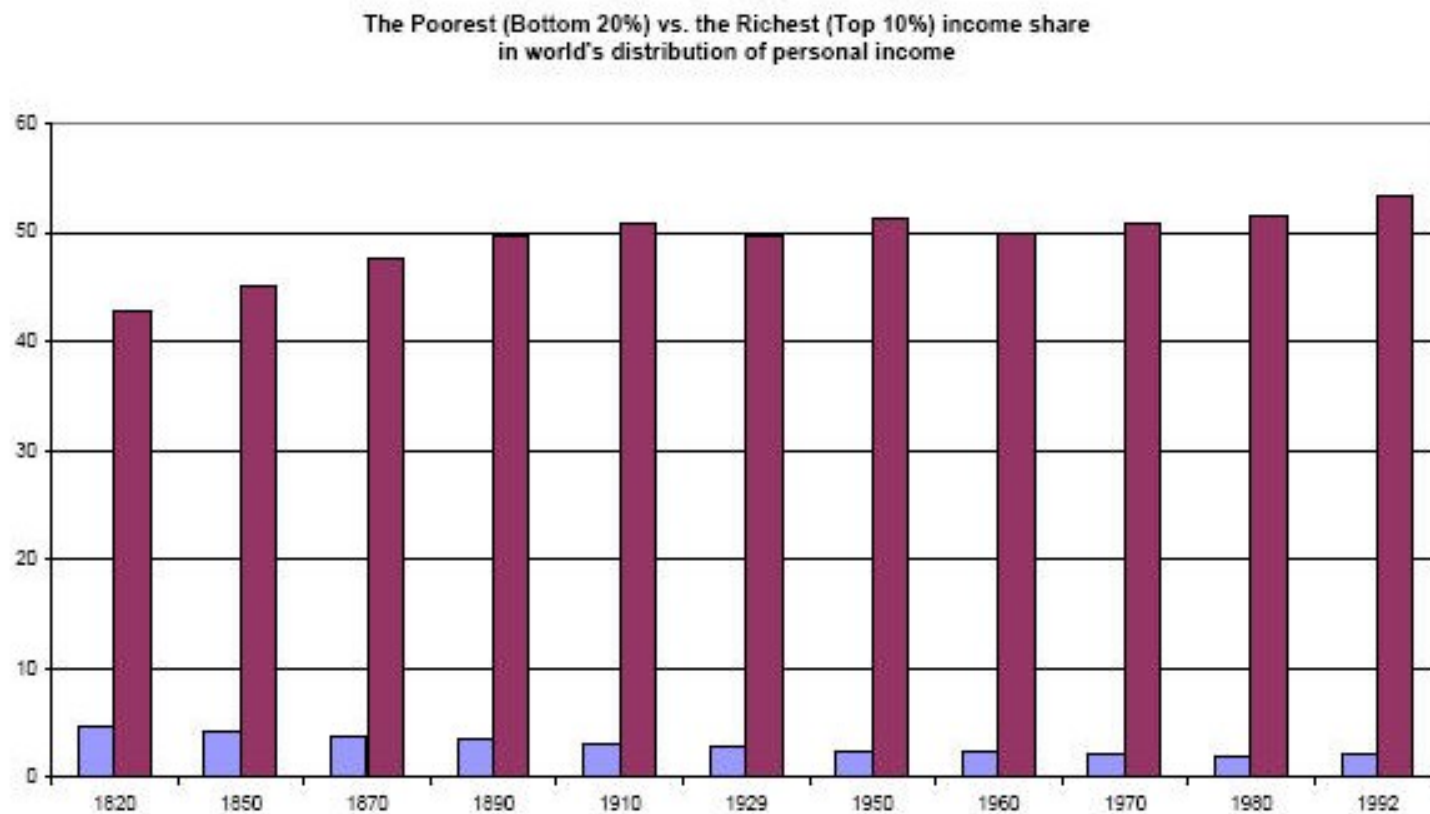


The share of the richest is big and has been steady



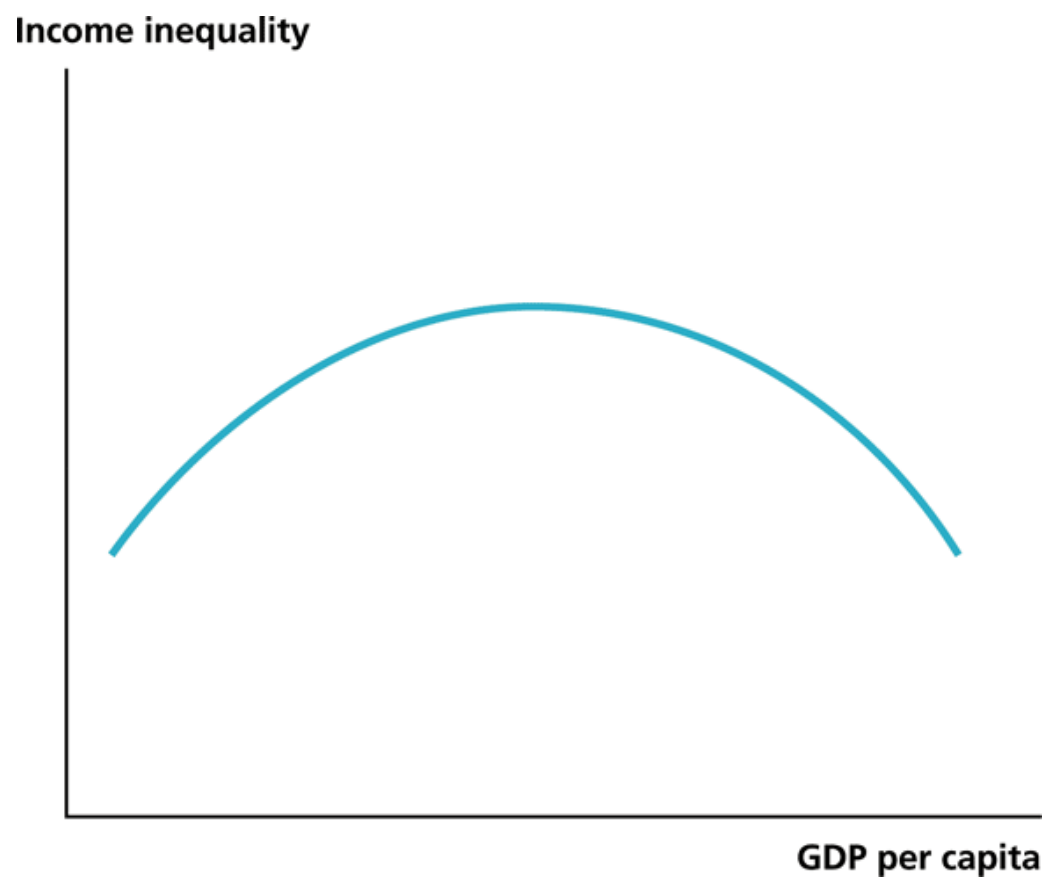


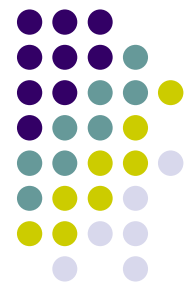
Comparison between the two groups



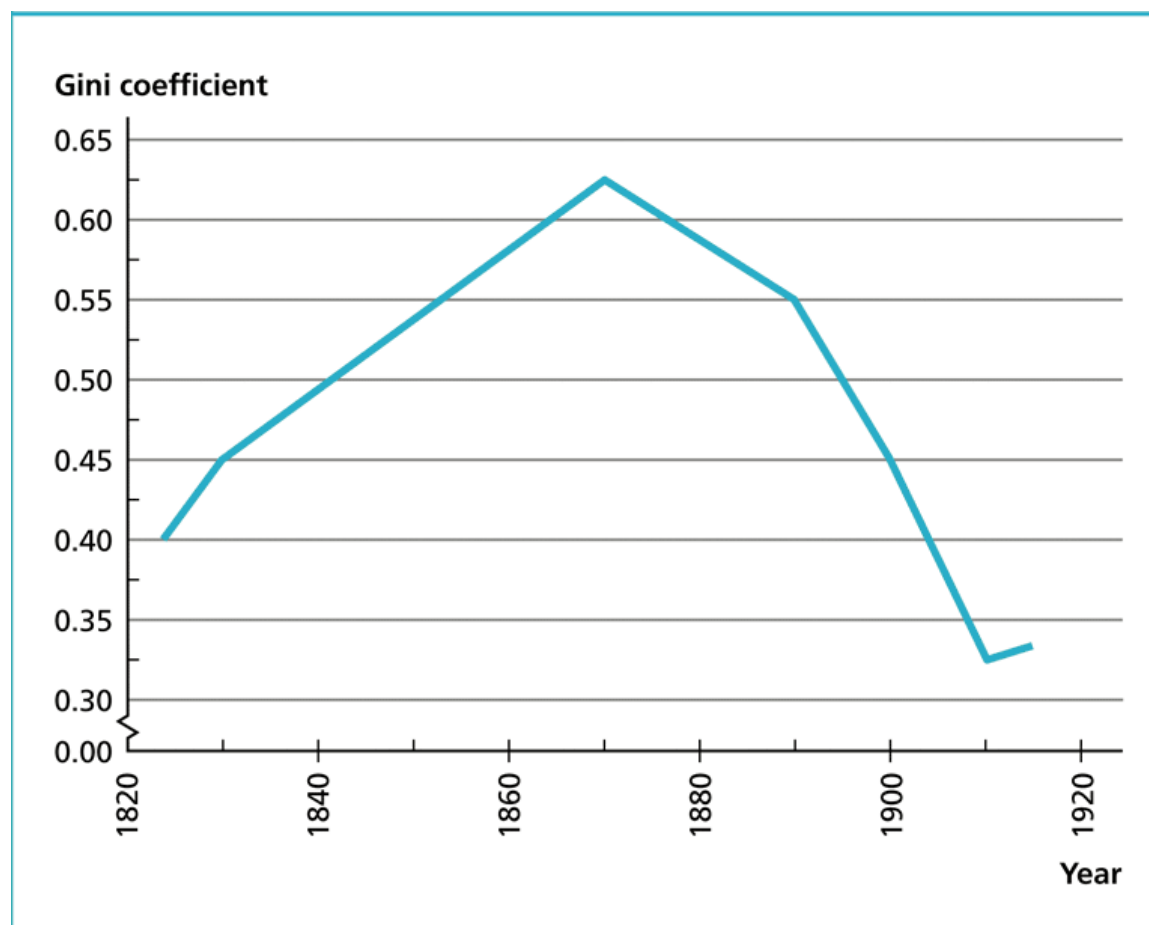


Kuznets Hypothesis (within country)





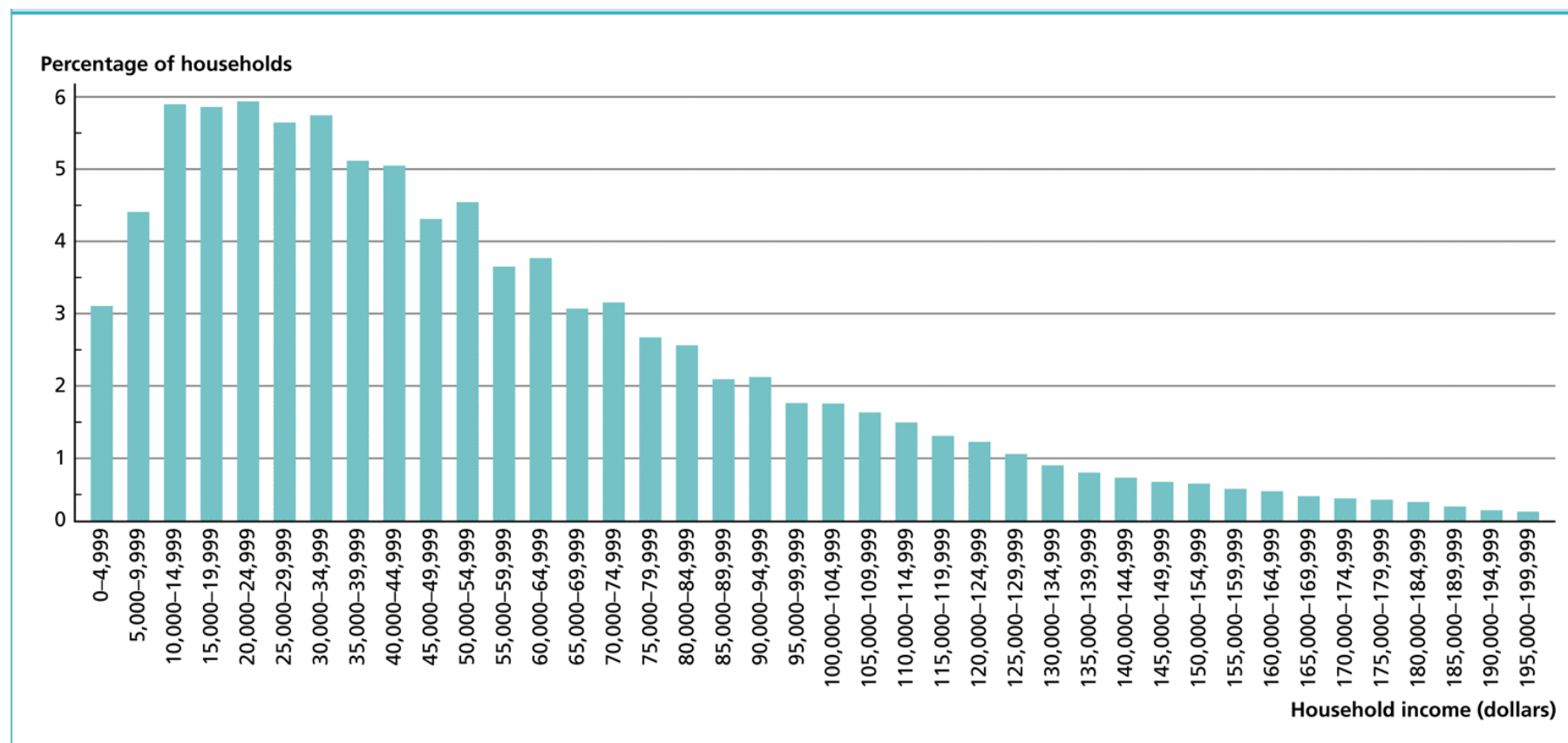
The Kuznets Curve in England and Wales, 1823–1915



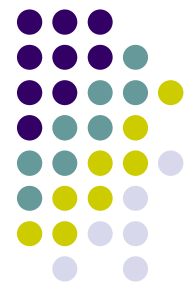
Source: Williamson (1985).



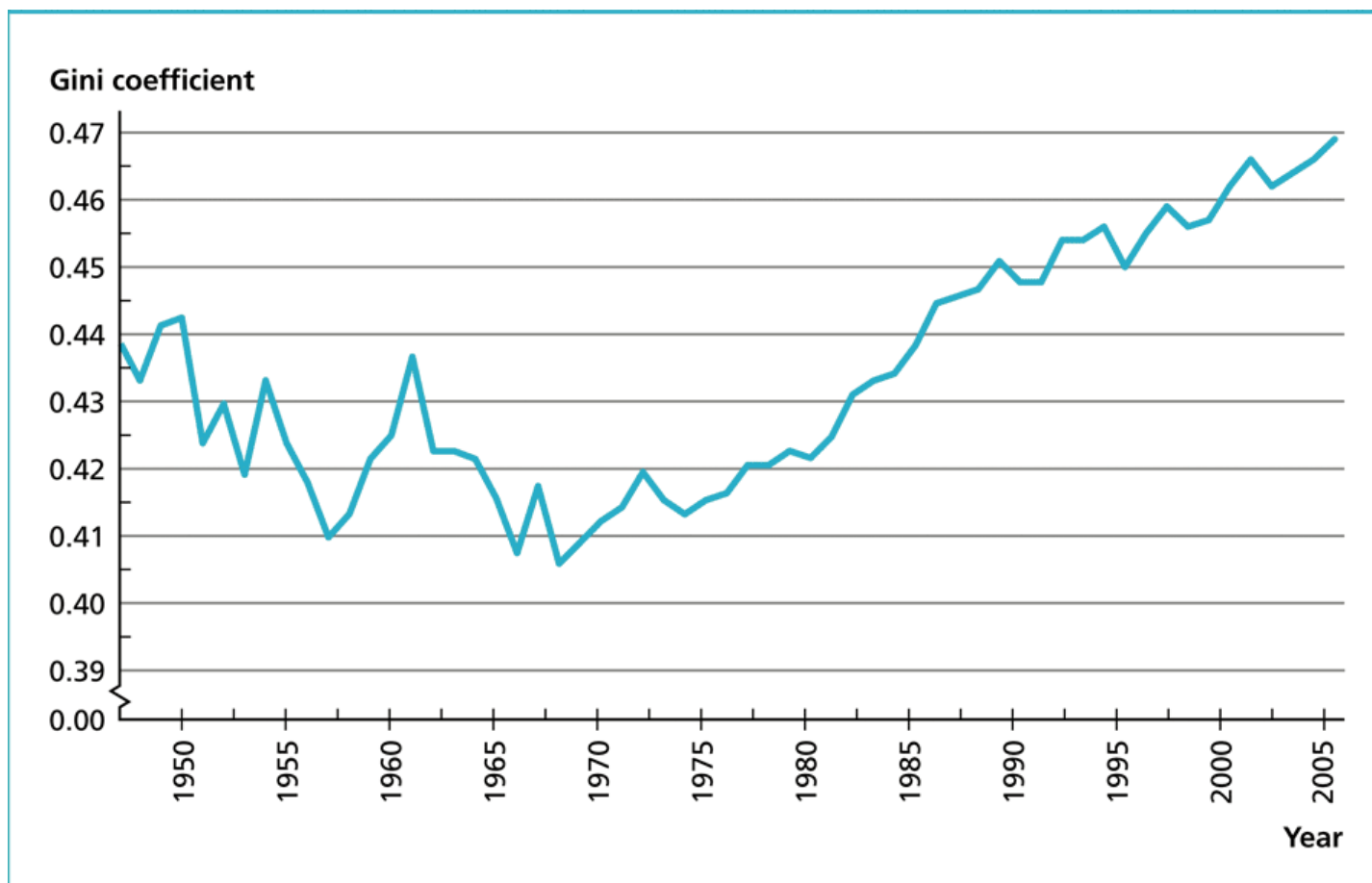
Income Distribution in the United States, 2006



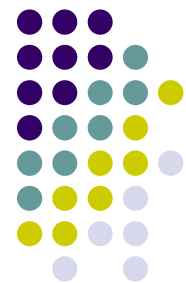
Source: DeNavas-Walt, Proctor, and Smith (2006).



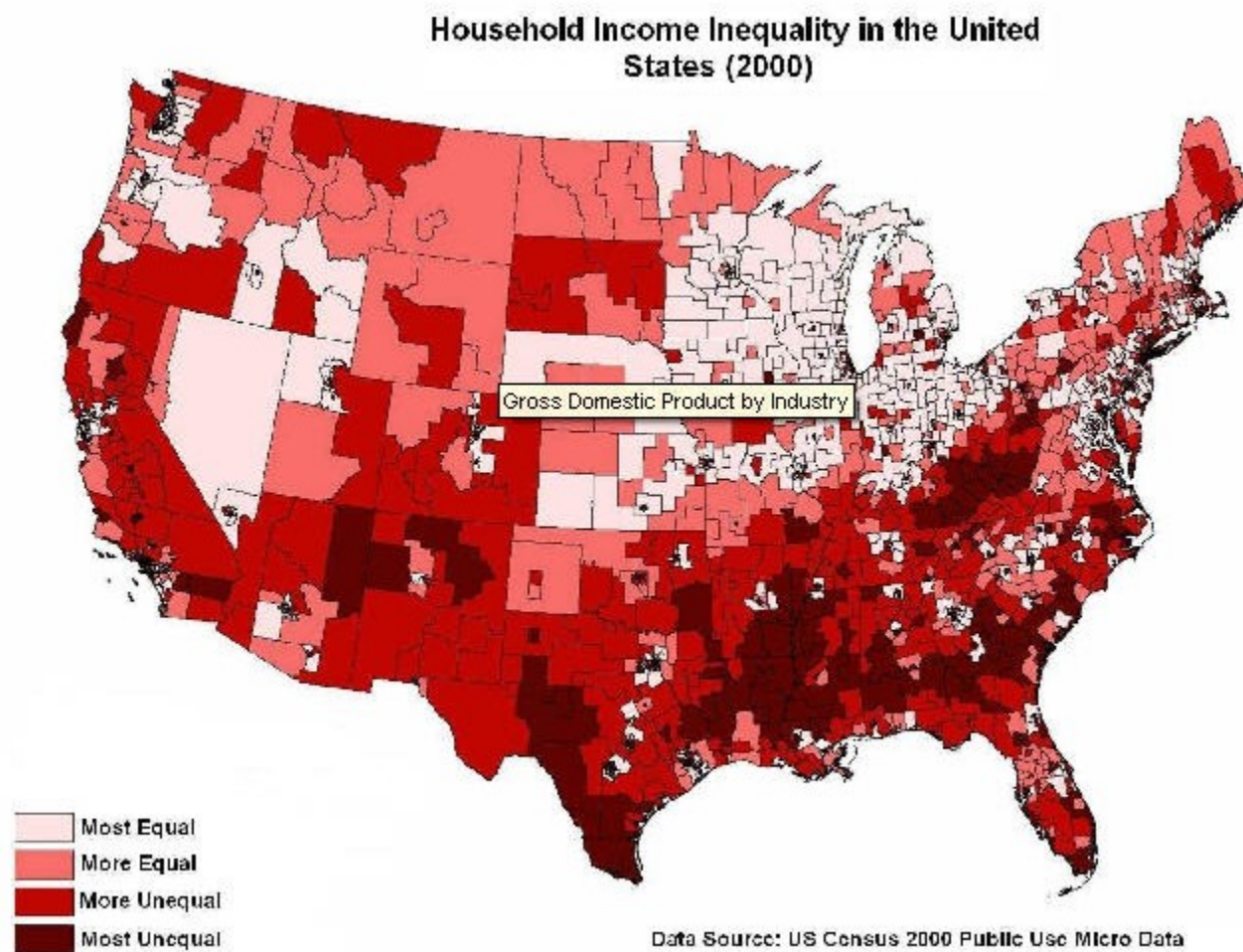
Income Inequality in the United States: 1947–2005

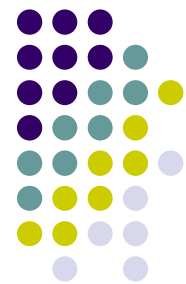


Sources: Weinberg (1996); Jones and Weinberg (2000); DeNavas-Walt, Proctor, and Smith (2007).

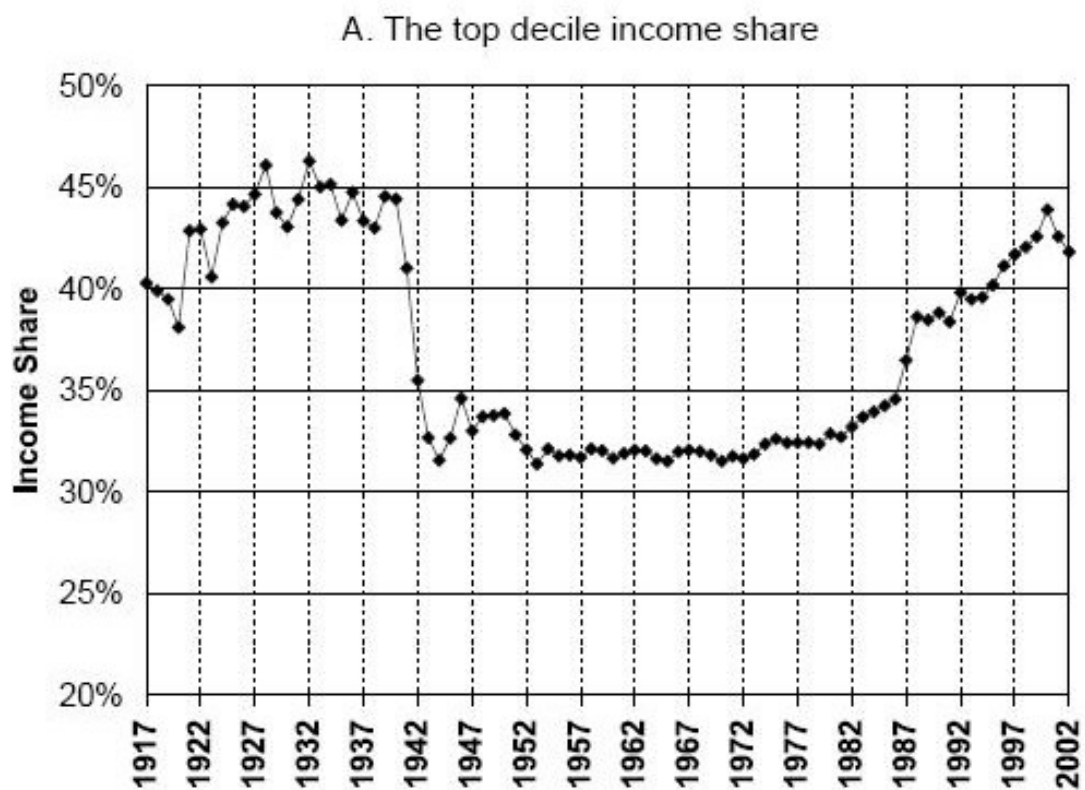


US Inequality across States



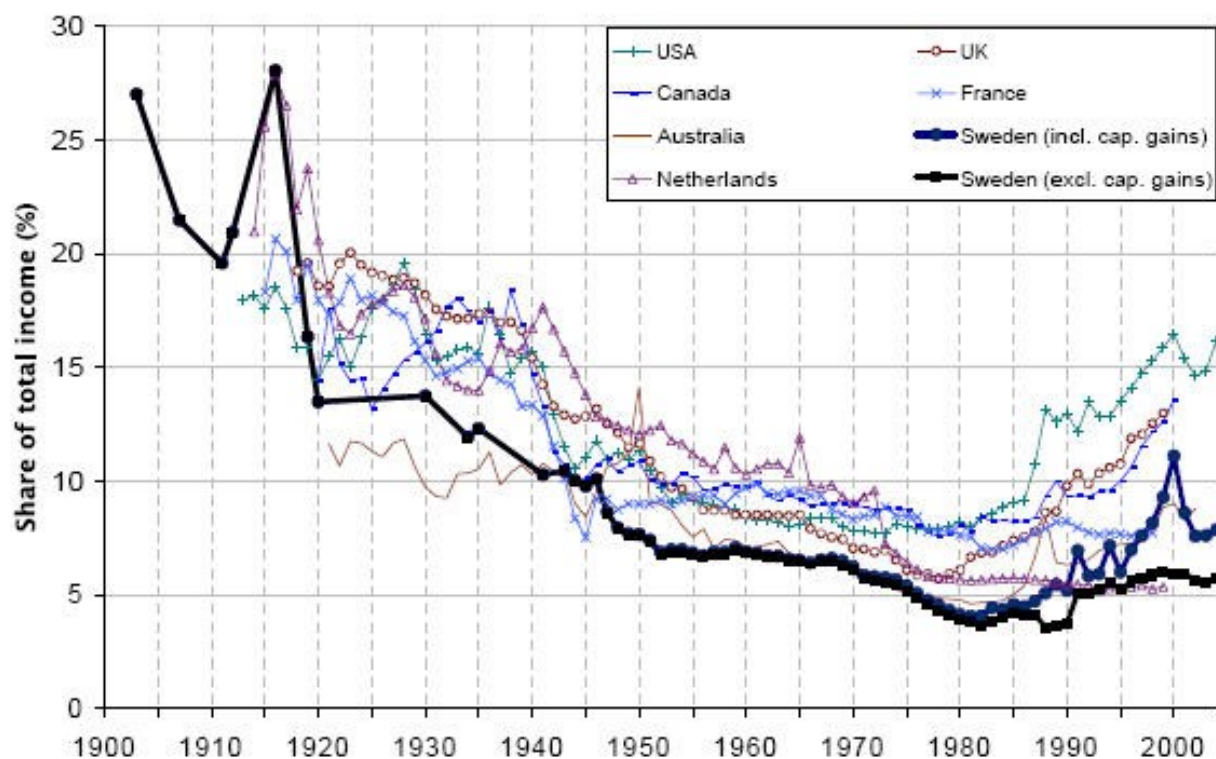


The top 10% in the US, 1917-2002





The top 1% income share across developed economies



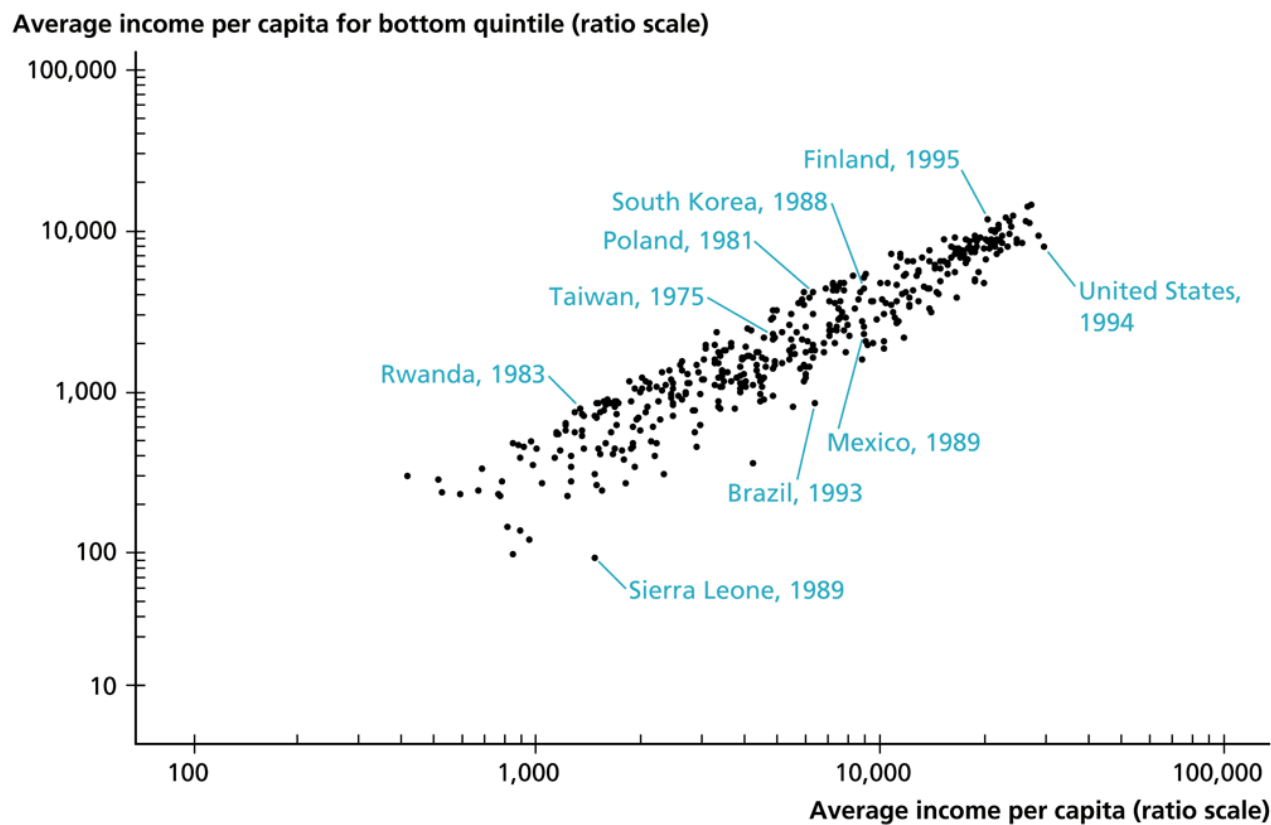
Notes and Sources: Australia (Atkinson and Leigh, 2006), Canada (Saez and Veall, 2005), France (Piketty, 2003), Netherlands and the UK (Atkinson and Salverda, 2005) and the US (Piketty and Saez, 2003).

Figure 12: Income shares of the top percentile in Western countries, 1903–2004.



Economic growth is the best cure for poverty

Income per Capita Versus Income of the Bottom Quintile



Source: Dollar and Kraay (2002).



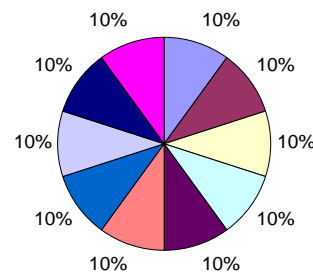
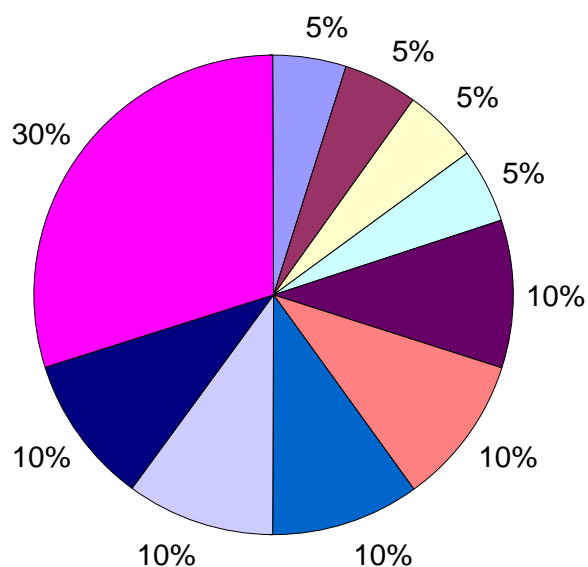
What Causes Inequality

- Good causes
 - Natural-born abilities
 - Better (higher) skills through training, education etc.
 - More entrepreneurial spirit and risk taking
- Bad causes
 - Nepotism, favoritism
 - Corruption or other rent-seeking activities
 - Discrimination (non-equal opportunities: gender, racial)
- Neutral cause: e.g., Inheritance
- Sensible policies are to target inequality with bad causes only



Inequality and growth

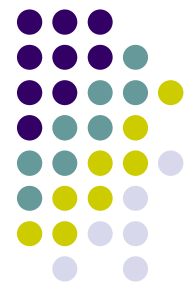
- Arguments that inequality is good for growth
 - “Good” inequality spurs incentives
 - People work more, innovate more, more economic growth
 - Smaller share of big pie >> equal share of small pie



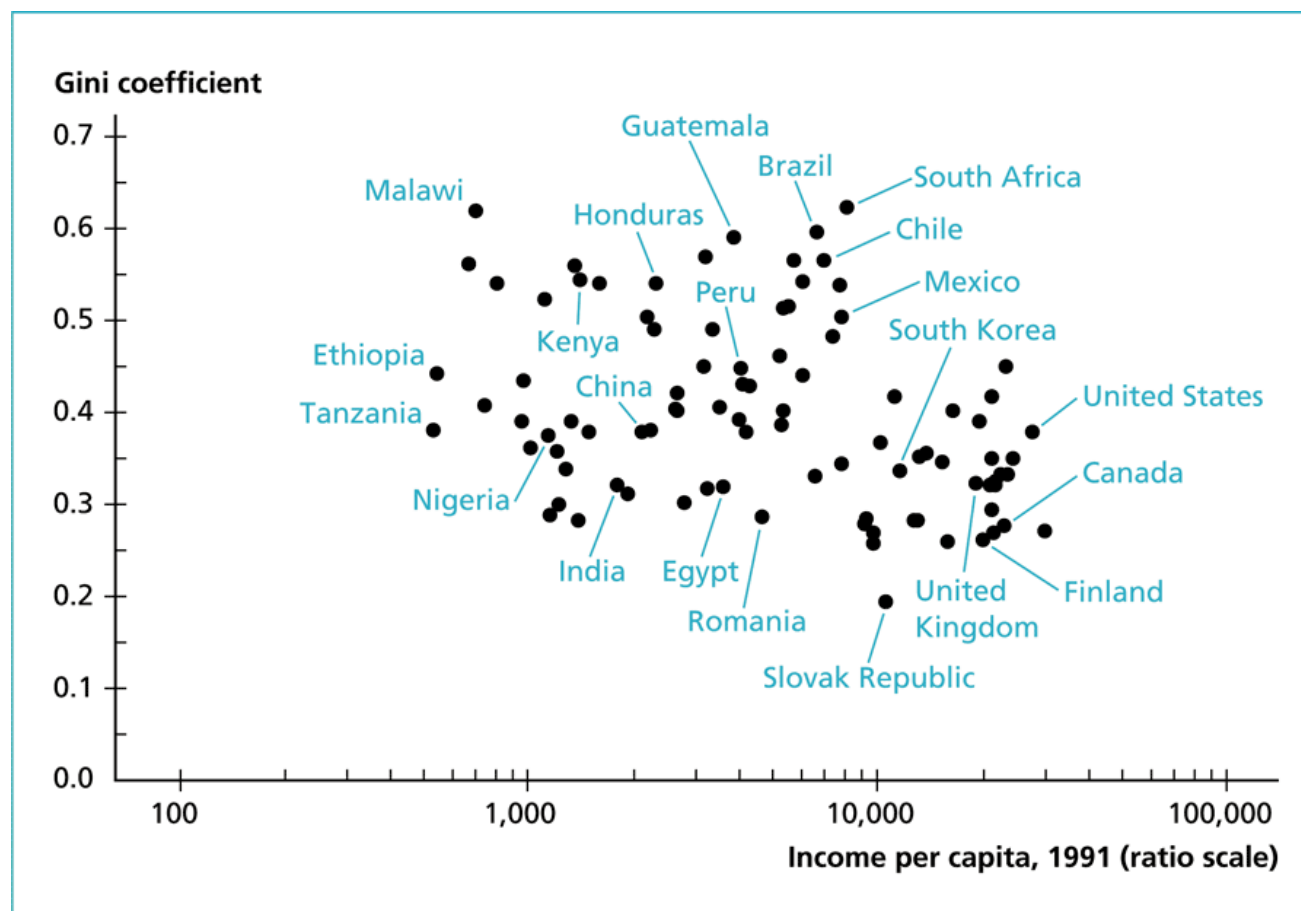


Inequality and growth

- Arguments that inequality is bad for growth
 - Social solidarity, e.g. Germany
 - Equal access? How about Historical unfairness/deposits?
 - Rawl: society should improve the welfare of those who need most or the least privileged
 - Inequality causes instability
 - Inequality hurts growth as middle class votes for higher taxes in a democratic society (Tabellini 1991)



Income per Capita and Inequality: Ambiguous



Source: Deininger and Squire (1996), Heston et al. (2002).



Milton Friedman on equality and freedom

*“A society that puts **equality** - in the sense of **equality** of outcomes - ahead of **freedom** will end up with neither **equality** nor **freedom**...[but] a society that puts **freedom** first will, as a happy by-product, end up with both greater **freedom** and greater **equality**.”*