



UNIVERSITÀ
DEGLI STUDI
DI TERAMO



The Economics of the Welfare State (2)

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Sustainable Development Goals 2030

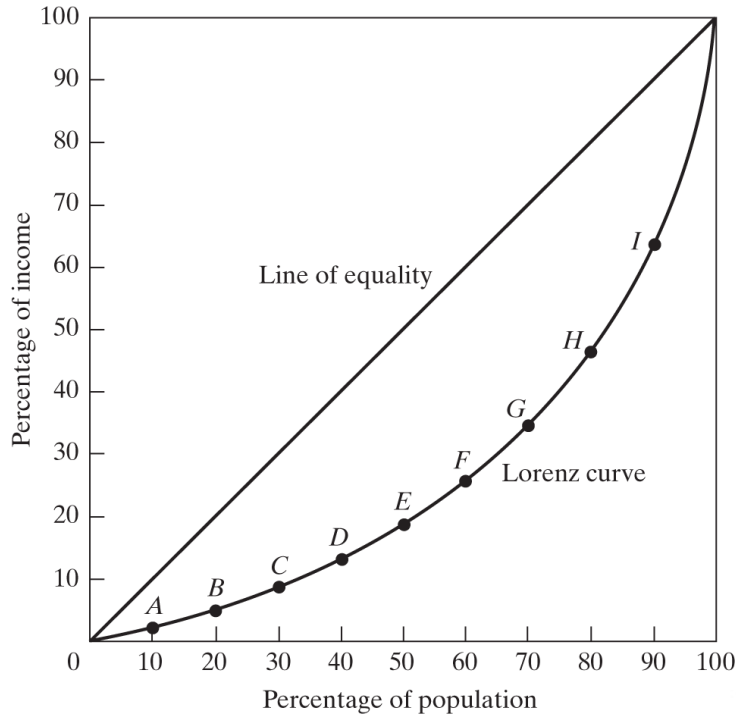


Measures of inequality

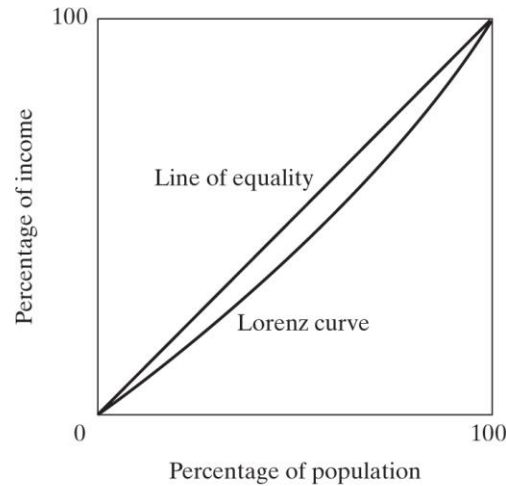
- What does inequality mean?
- Inequality:
 - Being unequal; absence of equality
 - Disproportionate distribution of total national income among households
- Two main measures of income inequality:
 - Lorenz curve
 - Gini index

Measures of inequality

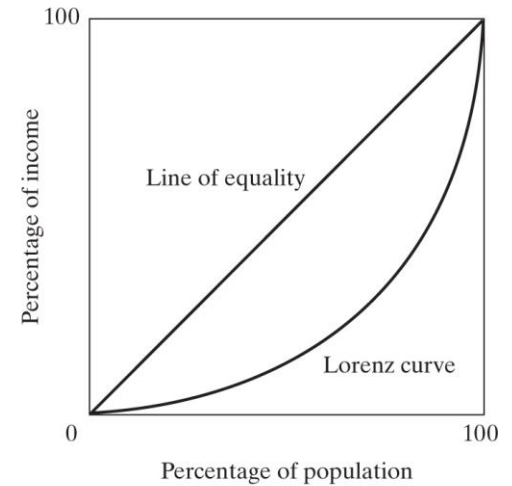
Lorenz Curve



The greater the curvature of the Lorenz curve, the greater the relative degree of inequality

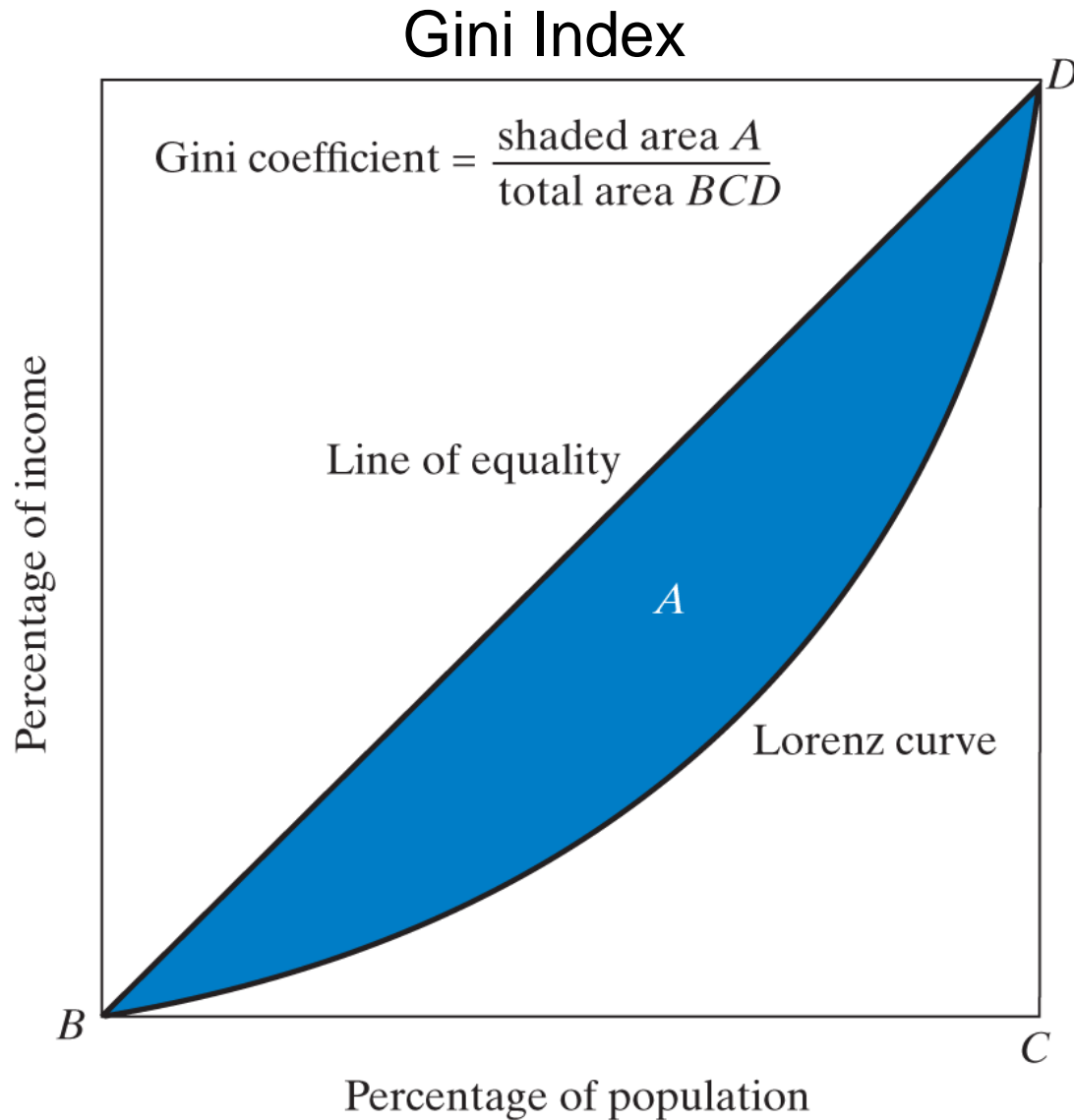


(a) A relatively equal distribution



(b) A relatively unequal distribution

Measures of inequality



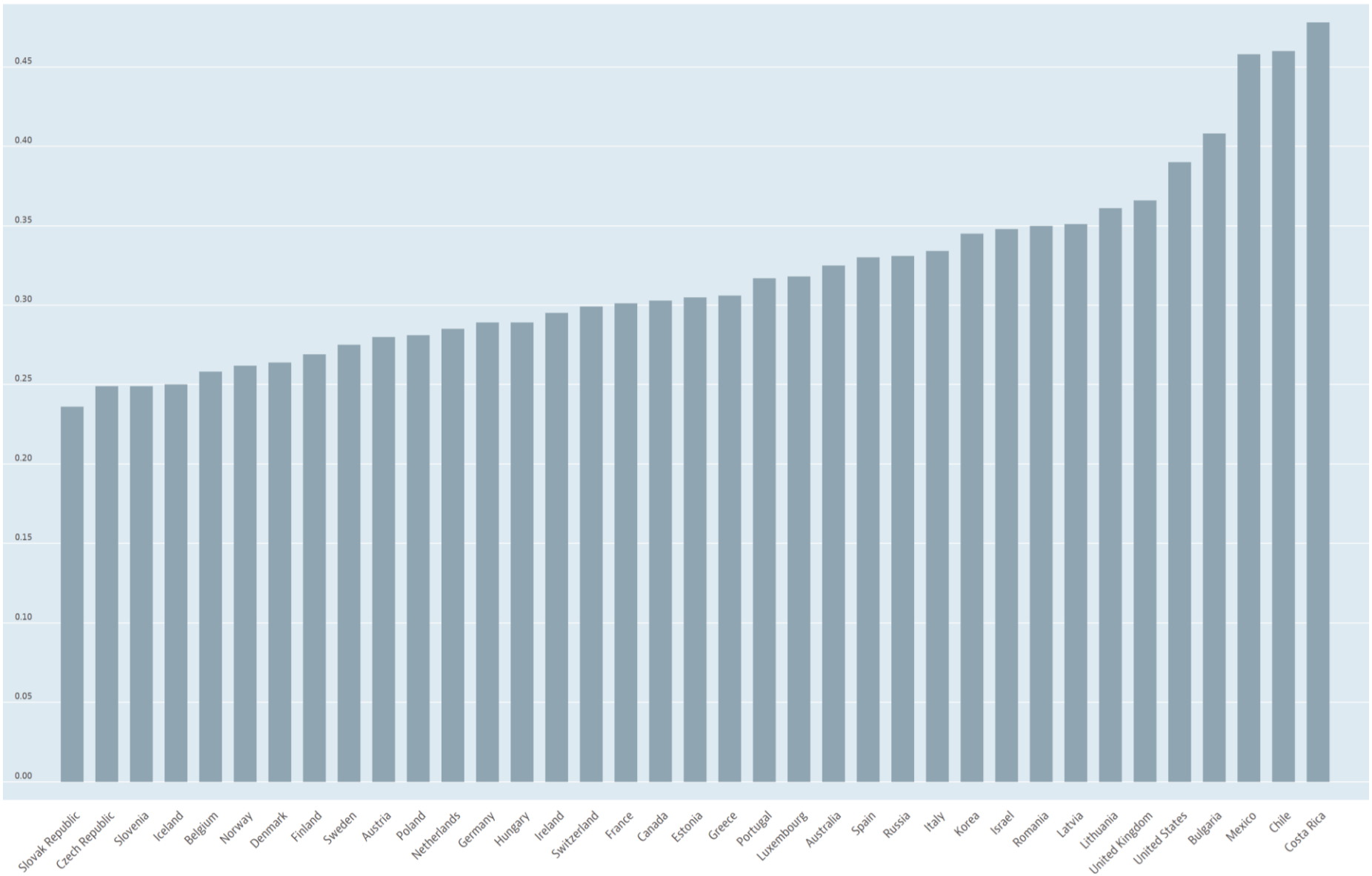
Data on inequality

- World Income Inequality Database

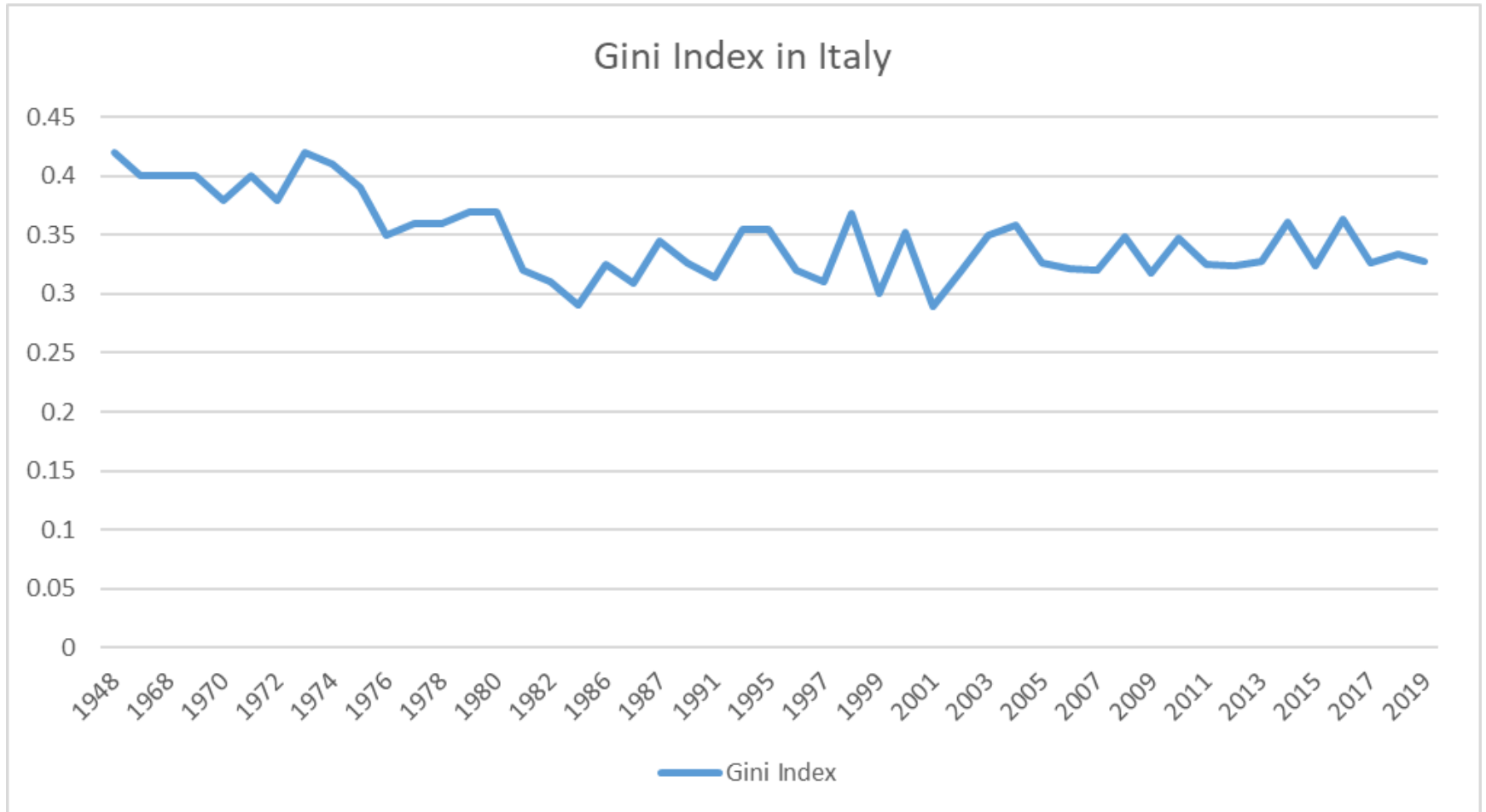
<https://www.wider.unu.edu/database/wiid>

<https://www.wider.unu.edu/project/world-income-inequality-database-wiid>

Data on inequality



Data on inequality



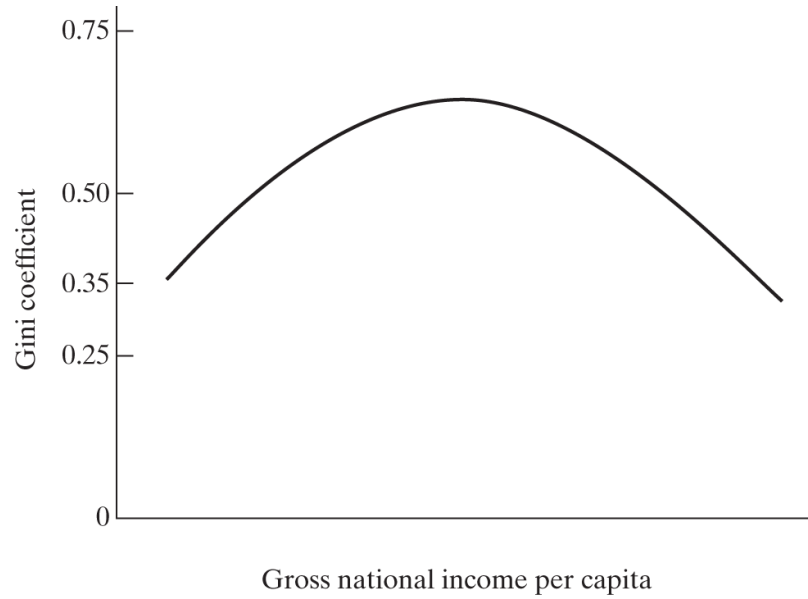
Measures of inequality

Income Inequality

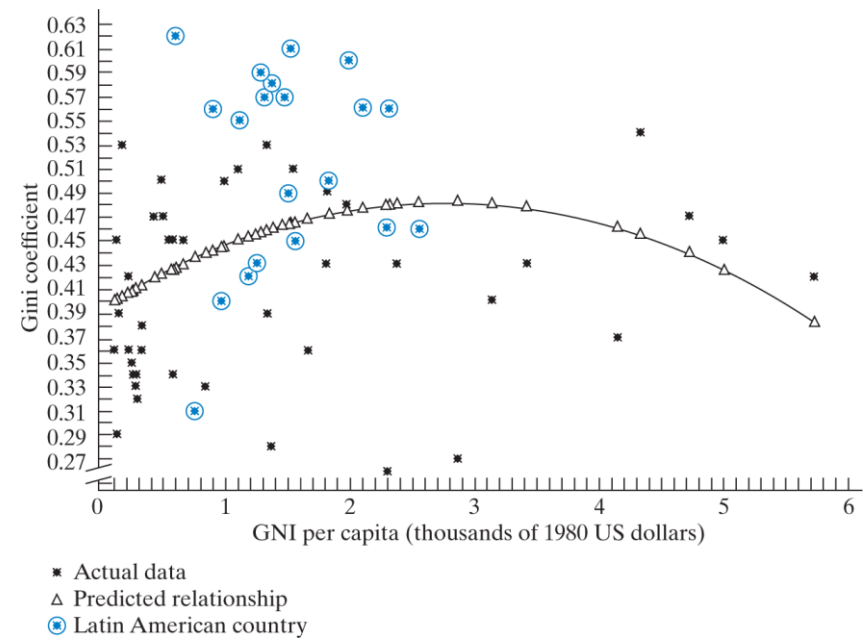
Country	Income per capita	Gini Coefficient (%)	Survey Year
Low Income			
Malawi	320	44.7	2016
Niger	360	34.3	2014
Mozambique	420	54.0	2014
Ethiopia	740	39.1	2015
Lower Middle Income			
Kyrgyz Rep.	1,130	26.8	2016
Honduras	2,250	50.0	2016
Indonesia	3,540	38.6	2016
Tunisia	3,490	32.8	2015
Philippines	3,660	40.1	2015
Upper Middle Income			
Armenia	3,990	32.5	2016
South Africa	5,430	63.0	2014
Thailand	5,950	36.9	2016
Brazil	8,610	53.7	2016
Mexico	8,610	43.4	2016
High Income			
United Kingdom	40,600	33.2	2015
Netherlands	46,910	28.2	2015
United States	59,160	41.5	2016
Norway	76,160	27.5	2015

Relationship between income and inequality

Kuznets Curve



Kuznets curve for Latin America



What is so harmful about income inequality?

- 1) Extreme income inequality leads to economic inefficiency.
 - Smaller fraction of population qualifies for credit, e.g. for business or school
 - Overall rate of saving in the economy tends to be lower: Highest rate of marginal savings usually found among the middle classes.
 - Inequality may lead to an inefficient asset allocation, e.g. overemphasis on higher education at the expense of quality universal primary education
 - High inequality of land ownership is inefficient because most efficient scales for farming are family and medium-size farms.
 - The result can be a lower average income and a lower rate of economic growth when inequality is high.
 - Moreover, these factors in turn often beget still more inequality

What is so harmful about income inequality?

- 2) Extreme disparities undermine social stability and solidarity
 - High inequality strengthens political power of the rich, and thus concentrates economic and social bargaining power

- 3) Finally, extreme inequality is generally viewed as unfair.
 - John Rawls' thought experiment: uncertainty behind the "veil of ignorance."



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