

# INCOME INEQUALITY

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INTRODUCTION TO INTERNATIONAL DEVELOPMENT

FALL 2014

# Last class' questions...

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In the Duflo and Banerjee reading, was there anything that you found surprising about how the poor live? If so, why did you find it surprising?

Why do you think consumption patterns vary so widely across the poor of different countries?

- Describe how they vary
- Give your hypotheses

How does this observation about the varied patterns of consumption of the poor challenge the main theoretical underpinnings of the concept of extreme and moderate poverty lines? What drawbacks does it suggest about using these lines as measures of poverty?

# Agenda

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- 1. GDP/capita and poverty: Some critiques**
2. Inequality as an alternative measurement of development
3. GDP/capita, poverty and inequality

# Drawback of GDP and GDP/capita: silent on distribution of income

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# Problems with the concept of absolute poverty

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Who gets what in society?

Social and political exclusion: an oligarchy?



# Problems with the measurements of poverty: obscuring variation

Some important variations across countries in:

- Consumer product availability
- Diets, consumption preferences
- Government provision of goods and services

Why the poor vary in their patterns of behavior



# Agenda

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1. GDP/capita and poverty: Some critiques
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# Income inequality

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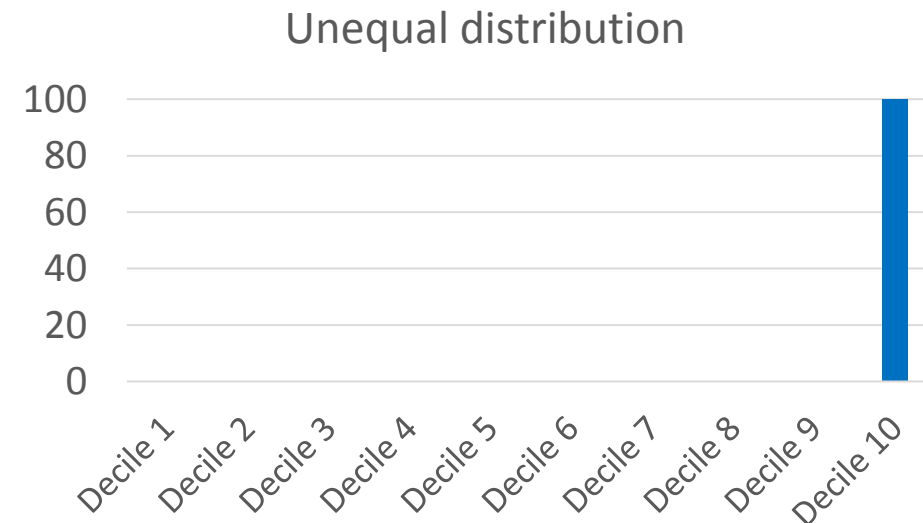
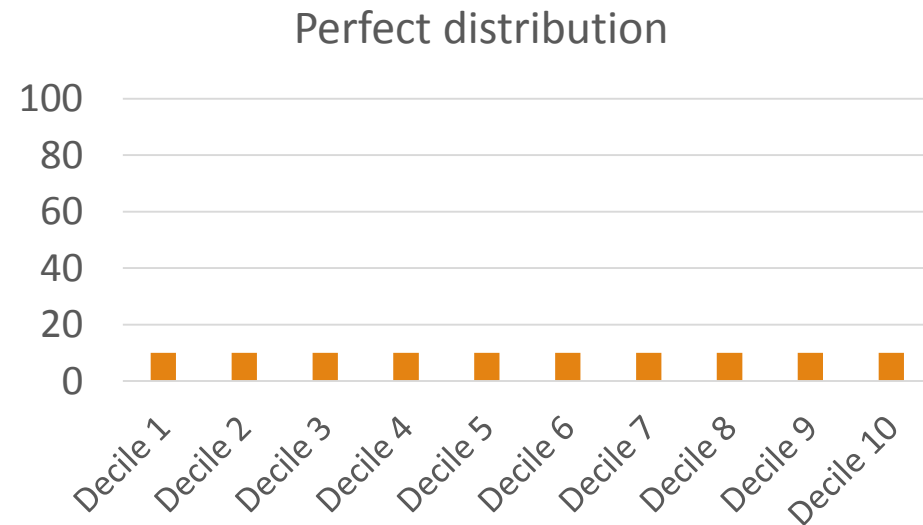




# Two ways to measure inequality

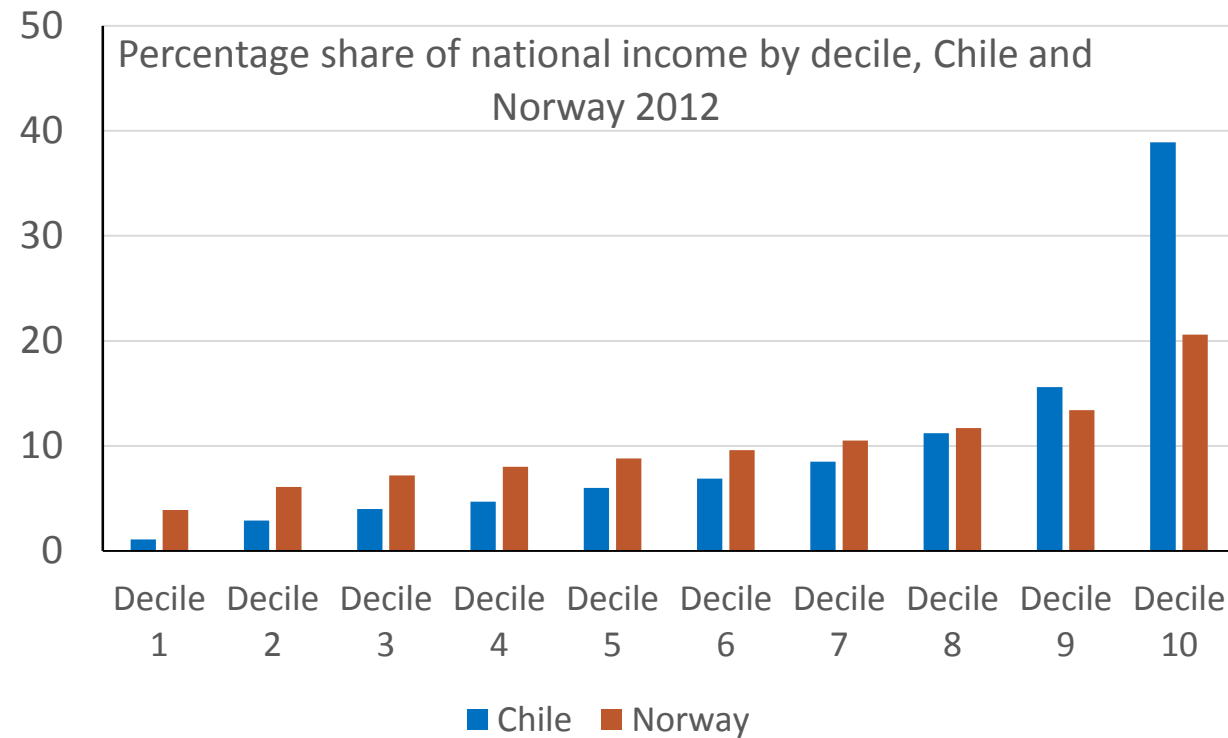
## Quintiles or Deciles

- Divide population into five or ten strata (quintiles or deciles) ordered by incomes – each strata contains the same number of individuals
- Calculate the share of total income that each strata earns



# Two ways to measure inequality

## Quintiles or Deciles



Sources:

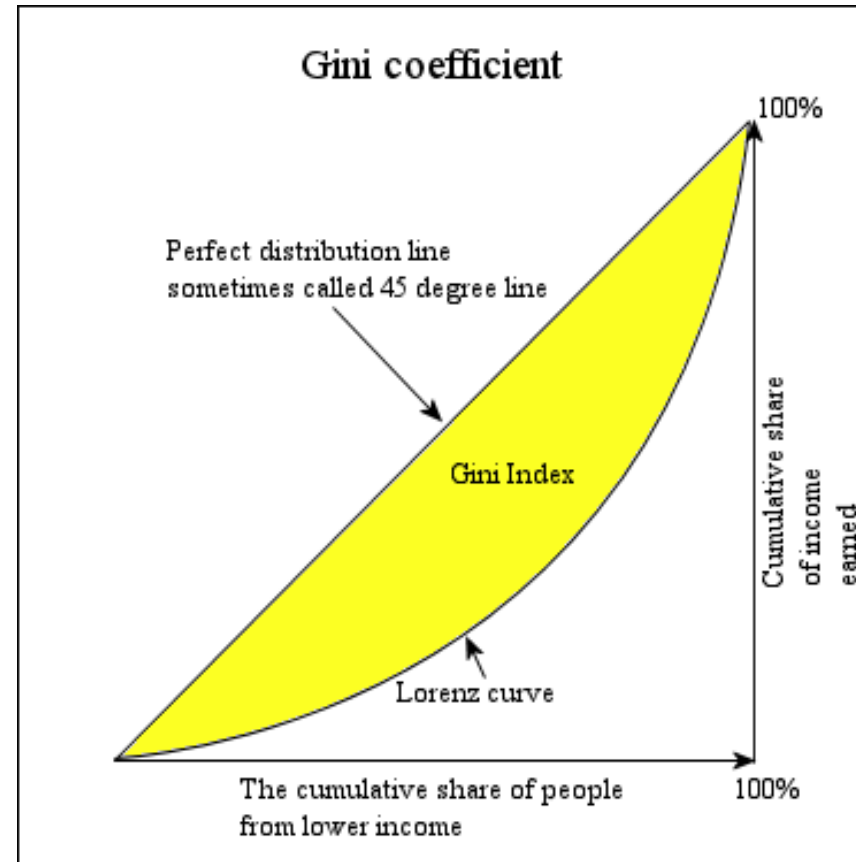
<https://www.ssb.no/statistikkbanken;>

Ministerio de Desarrollo Social de Chile  
2011

# Two ways to measure income inequality

## Gini coefficient

- Measures how far the actual distribution of income deviates from a perfectly equal distribution
- It measures the area between the perfect distribution and the Lorenz curve
- A number between 0 and 1 – the closer to 1, the more unequal – usually presented as a **percentage**



# Two ways to measure income inequality

## Gini coefficient in the Global South

- On this list, which country has the lowest income inequality?
- On this list, which country has the highest income inequality?

Country	GINI Coefficient (Year)
Colombia	0.55 (2010)
Egypt	0.34 (2008)
El Salvador	0.48 (2009)
Kazakhstan	0.29 (2009)
Mali	0.33 (2010)
Senegal	0.40 (2011)
South Africa	0.63 (2009)
Uganda	0.44 (2009)

Source: World Bank, 2014

# Two ways to measure inequality

Figure 5.1 Income distributed by population quintile in Brazil and Hungary

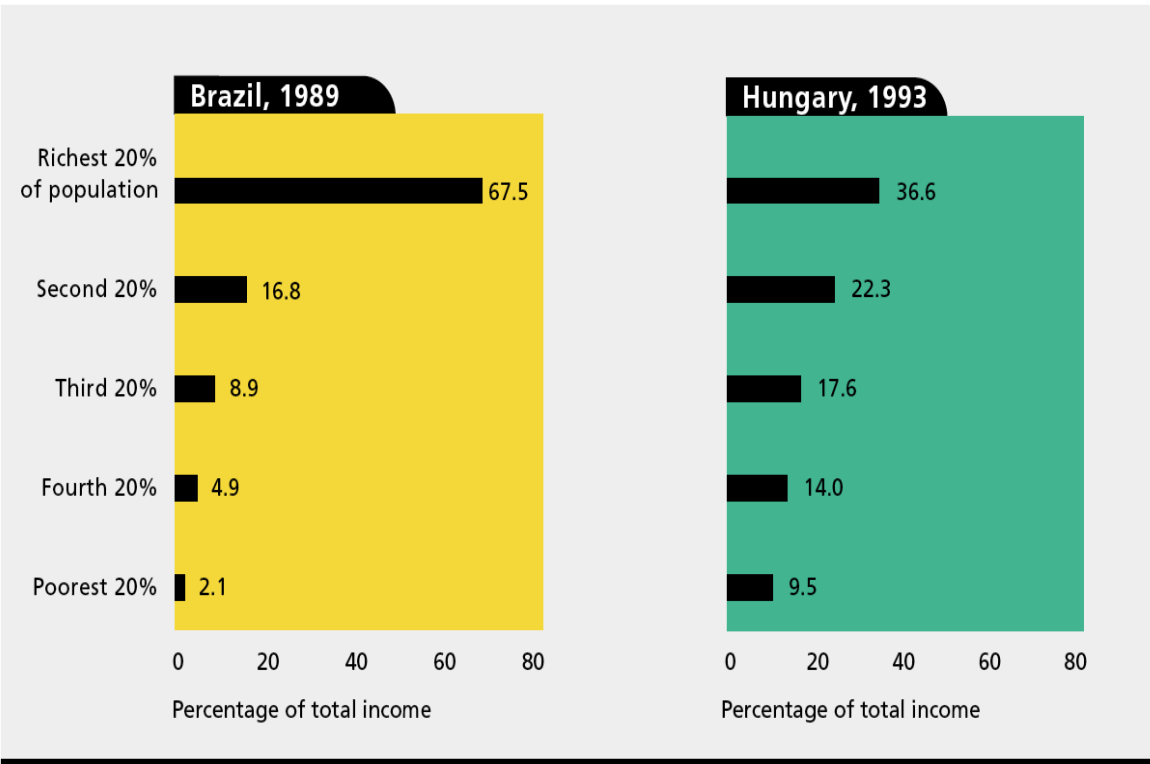
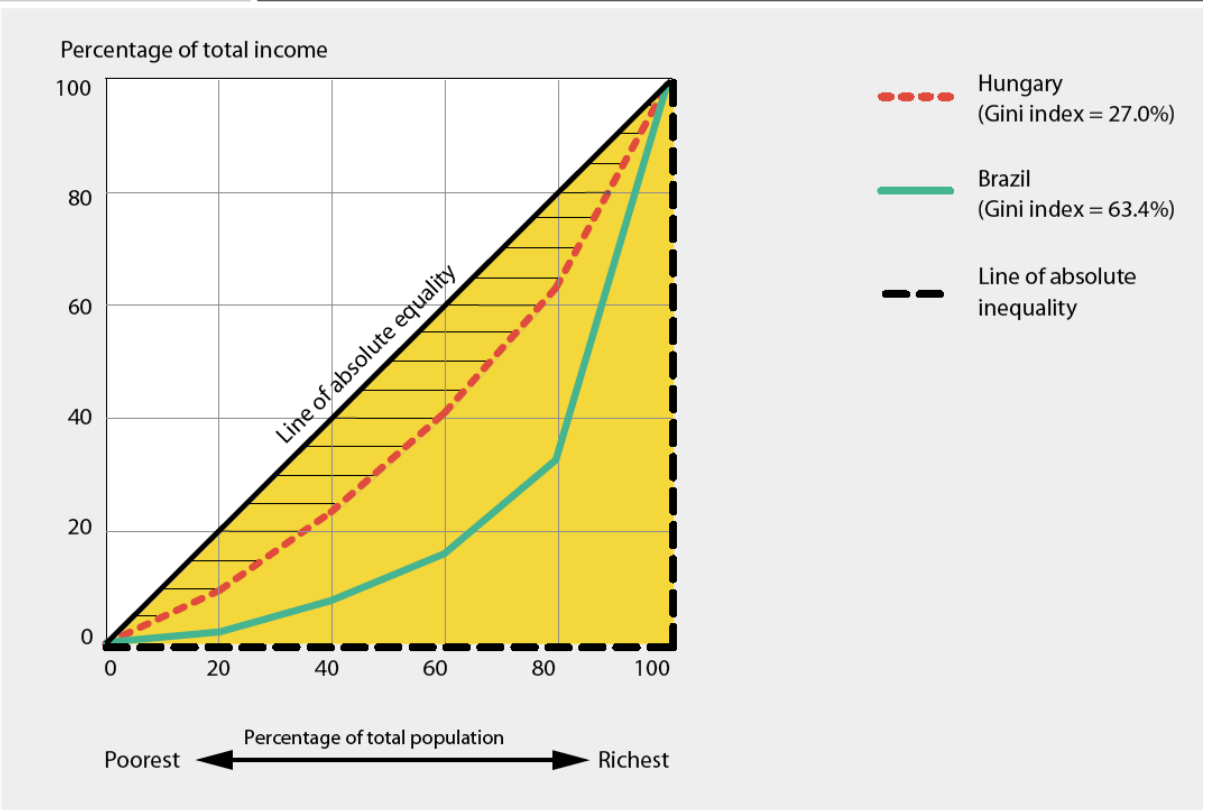
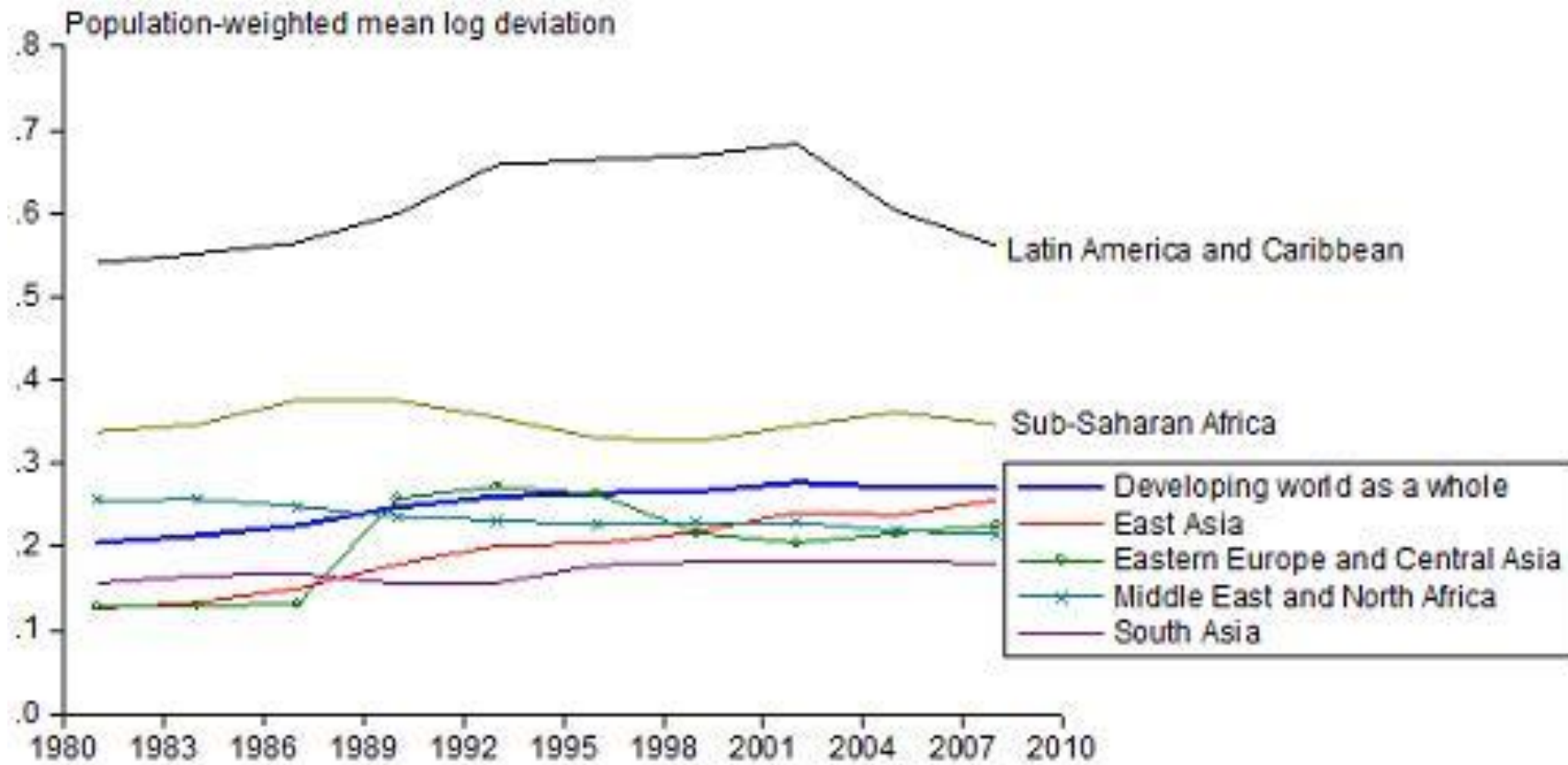


Figure 5.2 Lorenz curves and Gini indexes for Brazil and Hungary



# Trends in income inequality



Source: Ravallion and Shen 2012

# Agenda

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1. Is poverty a sufficient measure of development? Some critiques
2. Inequality as an alternative measurement of development
3. **Hands-on activity: GDP/capita, poverty and inequality**

# Hands-on activity

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Work individually, turn in your own sheet

Follow instructions of the sheet



# For next class...

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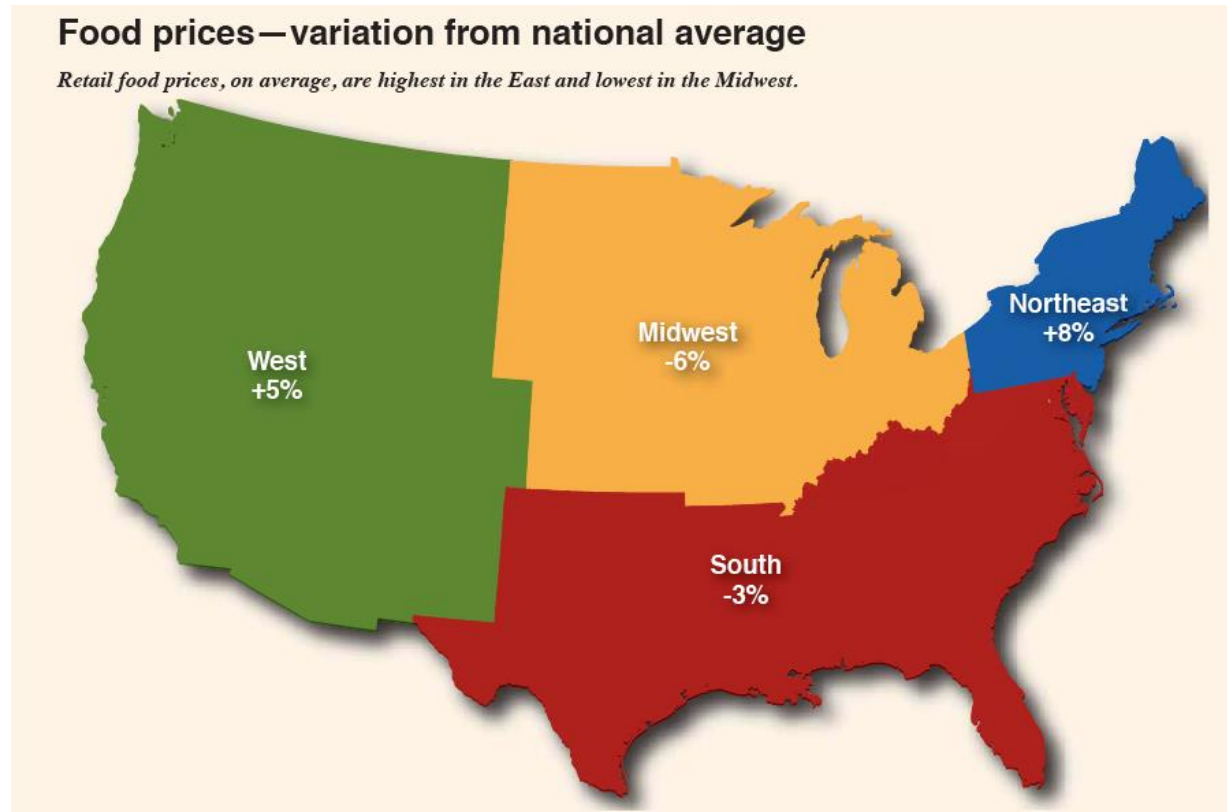
Describe Ul-Haq's critique of GDP/capita as a measure of development

What does Ul-Haq propose as an alternative? What are the main characteristics of this alternative?

# Problems with the measurements of poverty: obscuring variation

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## Within-country variation



Do you think we should care about reducing income inequality? Why or why not?

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# Why we shouldn't care...

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Rewards harder workers

Allows individuals at the top to have sufficient \$ to invest more

Incentives for people to work harder (discipline and initiative)



**HI  
I DON'T CARE  
THANKS**

# Why we should care...

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Undermines meritocratic values of society

Adds instability to the economy and the political system

Linked to other inequalities (health, life expectancy, education)

Infinite accumulation – decreasing benefits for the majority

I care ~~about~~  
by sharing.

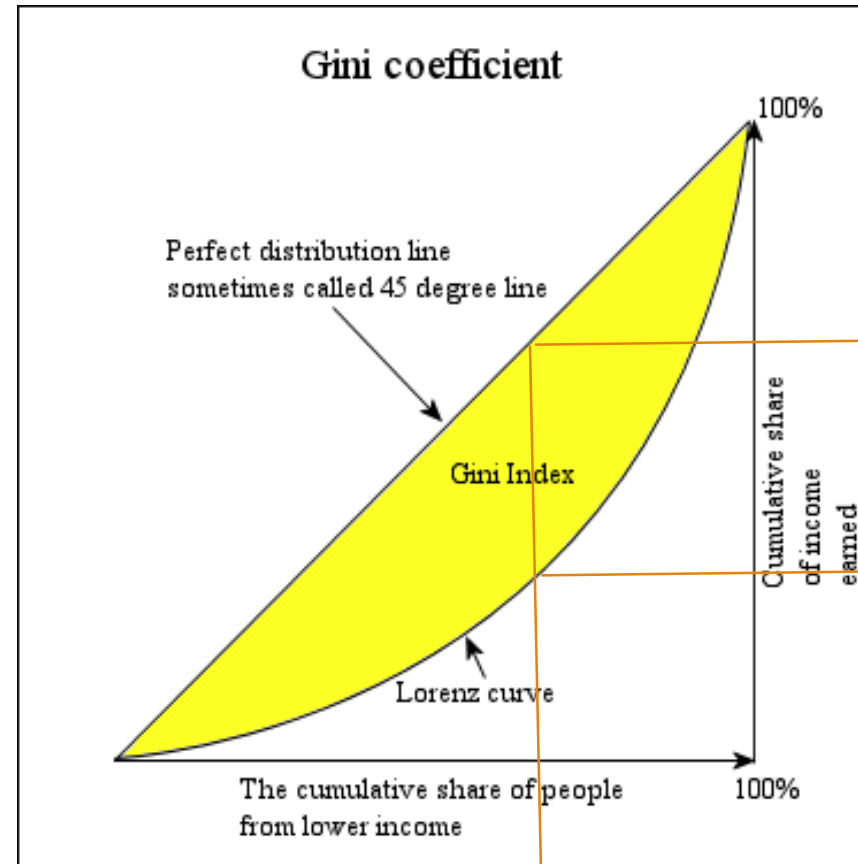
# Estimating the GINI coefficient

Looking for the difference between the perfect distribution and a country's actual distribution of income

Area in yellow is that difference

X-axis: The cumulative share of people, starting from lower income

Y-axis: The cumulative share of income earned



This is the percentage of GDP that the poorest half would obtain under perfectly equal distribution

This is the percentage of GDP that about the poorest half obtain

Up to this point, we have about half of the population, the poorest half