

# Inequality

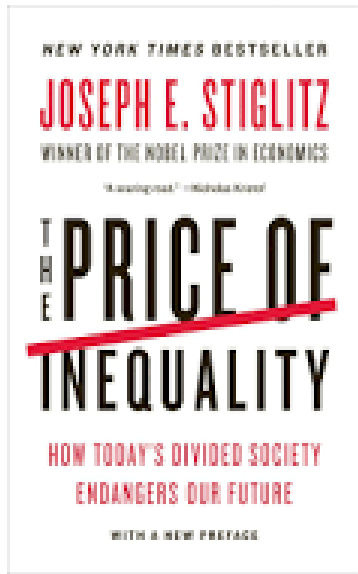
## Introductory remarks

Maurizio Bussolo

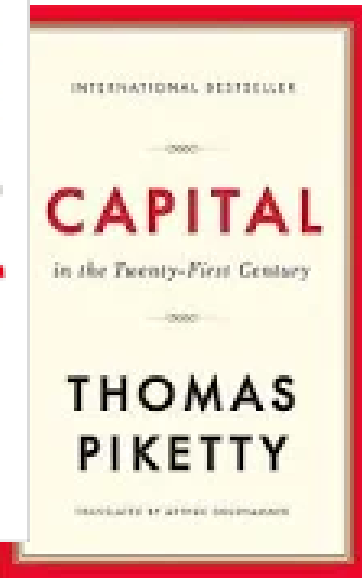
World Bank

**10<sup>th</sup> OEET Workshop**  
**Turin, Italy, Nov 27-28, 2024**

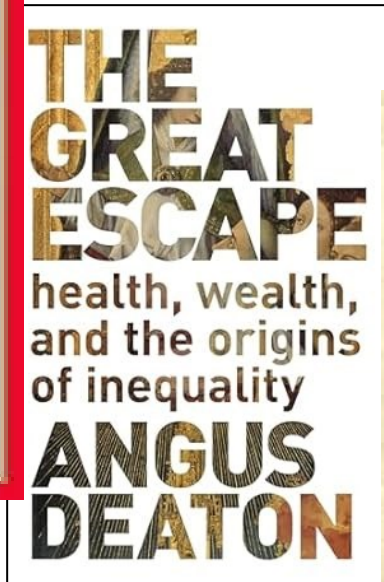
# Most influential studies of the last 10(ish) years\*



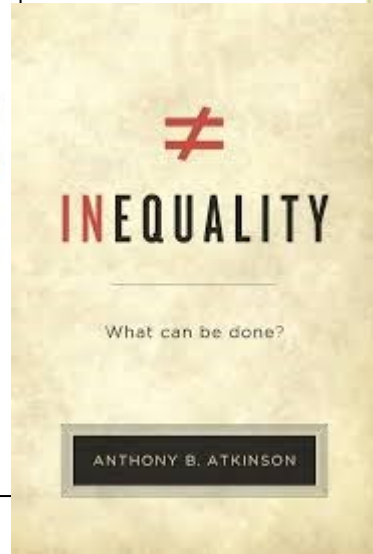
Stiglitz 2012



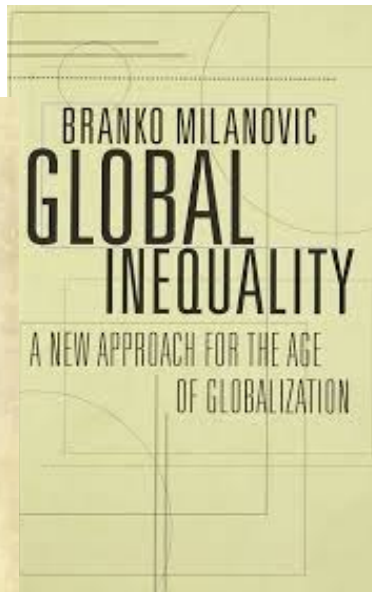
Piketty 2013



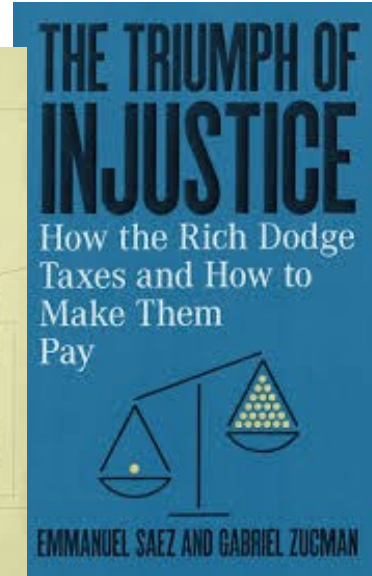
Deaton 2013



Atkinson 2015



Milanovic 2016



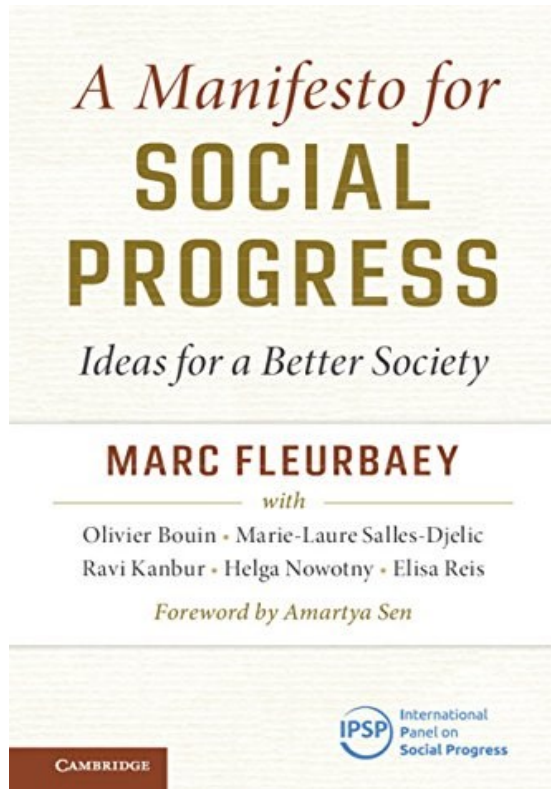
Saez & Zucman 2019



Chetty 2017

\* According to ChatGPT 4

# Some other studies



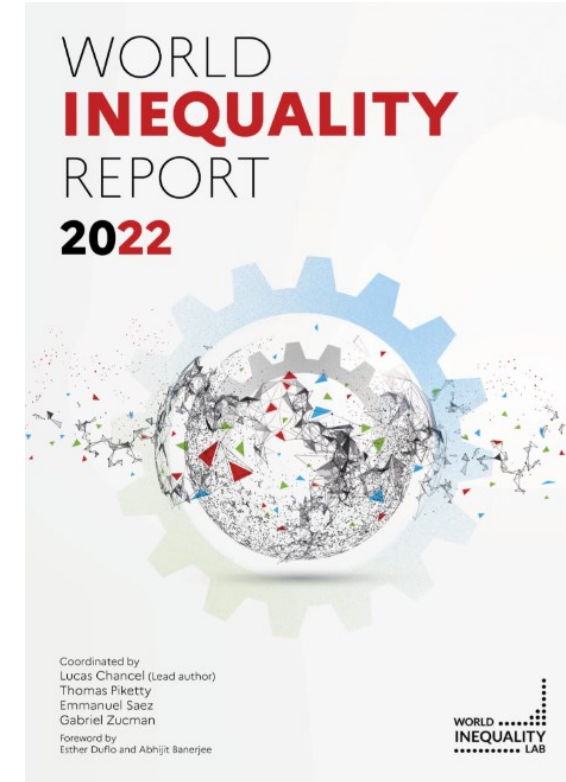
The International panel on Social Progress 2018



World Bank report on social contract in ECA 2018



World Bank global study on economic mobility 2018



World Inequality Lab report 2022

# A bird's eye view of the evolution of thinking about inequality

1. Inequality of outcomes (incomes, wealth, other variables) and inequality of opportunities and intergenerational mobility
2. Impact(s) of inequality
3. Global inequality
4. Political economy of inequality and “beyond economics”

# Inequality of outcomes and Inequality of Opportunities and Mobility

- Inequality of incomes and wealth is still at the center of interest of a large literature (new WB corporate scorecard: # of countries with Gini>40)
  - Large uncertainty on levels, less so on trends: see “Inequality Bands: Seventy-five years of measuring income inequality in Latin America” by Alvaredo, Bourguignon, Ferreira, and Lustig. Forthcoming in Oxford Open Economics.
    - Measurements issues for the incomes of the rich and consistency with national accounts
- Inequality of opportunity and Mobility
  - Equality of opportunity: “the outcomes people reach in life – incomes, education, wealth – should not depend on circumstances over which they have no control or which they cannot choose.”
    - Measurement initiatives: Global Estimates of Opportunity and Mobility [www.geom.ecineq.org](http://www.geom.ecineq.org)

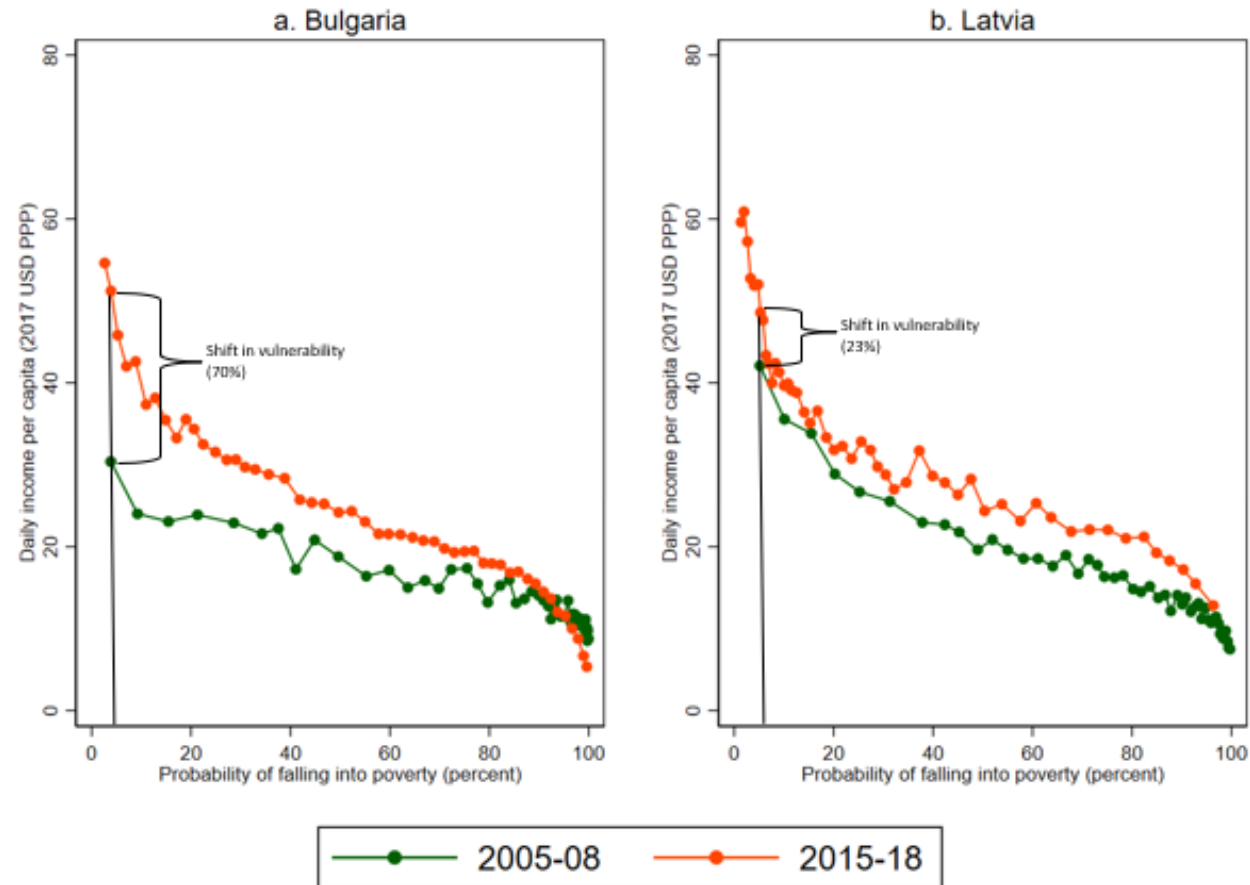
# Inequality measurement: top incomes

- An often-used approach is to use tax records data (World Inequality Lab at PSE use these extensively, yet there are issues)
- Alternative: using house prices (as predictor of household incomes) as in van der Weide et al. (2018)
  - The Gini coefficient of household consumption expenditure for urban Egypt increases from 0.36 to 0.47 after correcting for the missing top tail (an increase larger than the difference between US and Sweden inequality).

# Impacts of inequality

- Radhicka Kapoor (Indian Council for Research on International Economic Relations) argues that “Gender inequality has become macro-critical”
  - Beyond the trade off between equity and growth
- Expanding set of concerns of negative impact of inequality:
  - IOp and detrimental effect on incentives
    - Ferreira et al 2017, however difficult to pin down at the micro level as Brock and Bussolo 2024, Card et al 2012.
  - Misallocation argument
    - Hsieh et al 2019, Marrero and Rodriguez, 2013.
  - Reduced impact of growth on poverty
    - Bourguignon, 2003.
  - Social cohesion – mobility
    - Great Gatsby curve, Corak 2012, Krueger 2012.
  - Insecurity – Crisis of the middle class
    - Bardhan 2022, Bussolo et al 2024

# Impact(s): Insecurity



Source: Bussolo et al (2024) with data from the EU-SILC UDB-L.

Note: This graph plots the household daily per capita income in USD at PPP 2017 (vertical axis) associated to a given probability of falling into poverty over a four-year period (horizontal axis) in 2005-08 (green line) and 2015-18 (orange line) for Bulgaria (left) and Latvia (right panel).



# Global inequality

## Why it matters, two sets of arguments

### (a) Globalization

- Even if there is no global government, globalization increases awareness of others' incomes
- International transfers (climate change, aid). Many poor people live in non poor (on average) countries (Kanbur 2012)

### (b) Social welfare – Theories of Justice

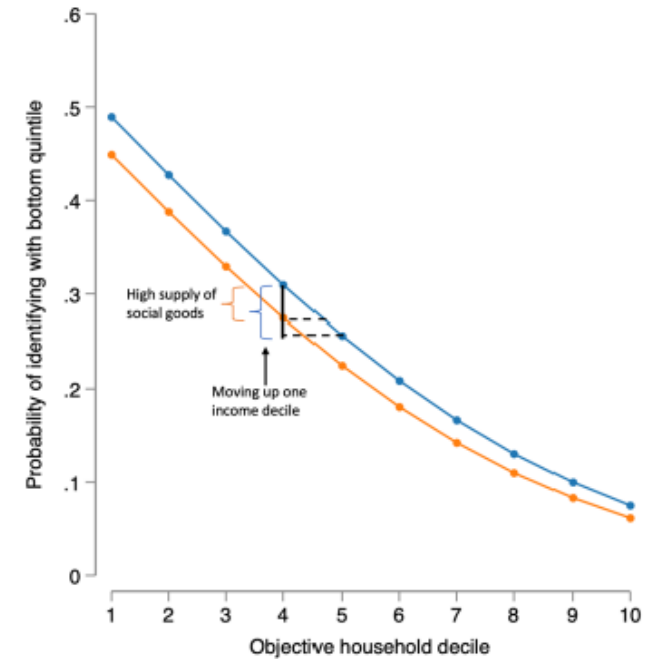
- Utilitarianism: social welfare = sum of utilities. At a given mean income, with decreasing marginal utility of income, (global) welfare decreases with increasing inequality.
  - Place of birth accounts for a lot of global inequality: “Global Rawlsianism”
- 
- A connection with recent work on neighborhoods and mobility by Chetty

# Political economy of inequality

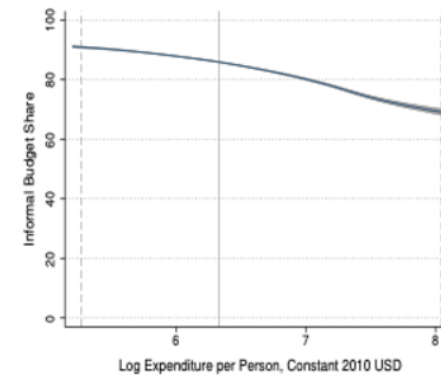
- The Meltzer and Richard (1981) model: elegant yet being extensively expanded
  - Perceptions of inequality influence demand for redistribution
    - Alesina and Glaeser, 2004 and many refs in the last 10 years
  - De jure vs de facto control over government policies/institutions
    - Acemoglu, Robinson et al, 2013
  - Informal systems of redistribution (and insurance)
- The emergence of new divides over identity replacing or overlapping class-based conflict

# Inequality and Informality

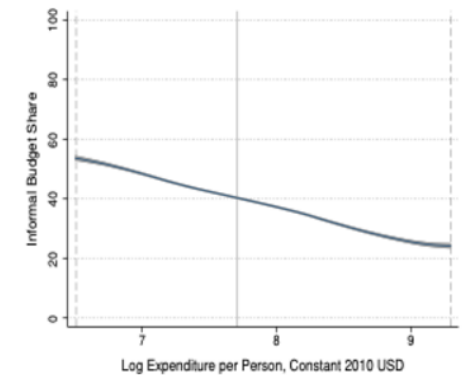
- Patrilocality (Rosenzweig & Stark 1989)
- Informal redistribution via group-specific public goods
  - Bussolo Dixit (2023)
- Bachas et al on the impact of consumption (indirect) taxes when there is a large informal segment



(a) Rwanda



(b) Mexico



# Gender inequality

- A prime example of horizontal inequality (or inequality depending on circumstance/identity)
- Promise of large impacts on growth
- Social norms are needed to explain its persistence (Fernandez 2013)
- Global dimensions
  - Hillary doctrine (Hudson and Liedl, 2012)
  - GGR act and maternal mortality (Balhotra et al 2021)
    - Global Gag Rule is a pro-life policy (Reagan 1984) that prohibits aid to overseas non-governmental organisations offering abortion-related information or services
    - Switch related with 8% increase maternal mortality (or 20% erosion of progress since 1990)

# The future

- Further cross-fertilization with other fields (psychology, sociology, political science, geography)
- Technology (AI, robots) and inequality (Acemoglu, Restrepo 2016, 2017, Bandiera et al 2022)
  - Automation (-) vs the creation of new complex tasks (+)
- Climate change and other shocks (COVID) and inequality
- The Afterlife of data (Öhman 2024)