

Development Policy
Lecture 12

Does Inequality Matter?



Fairness and reciprocity

- “The Ultimatum Game” (Fehr and Schmidt 1999)
- Proposer given an award, but he or she must offer part of it to the responder
 - If the responder rejects the offer, neither receives anything
 - If the responder accepts, the both get a share
- A “rational” responder would accept any offer, since all are Pareto optimal. But they typically reject offers less than 30%

Wilkinson and Pickett 2009

- Social problems appear more often in unequal societies.
- The rich as well as the poor suffer from these problems
- Among rich countries, these problems are not associated with per capital income.

The Spirit Level

Why Equality is Better for Everyone

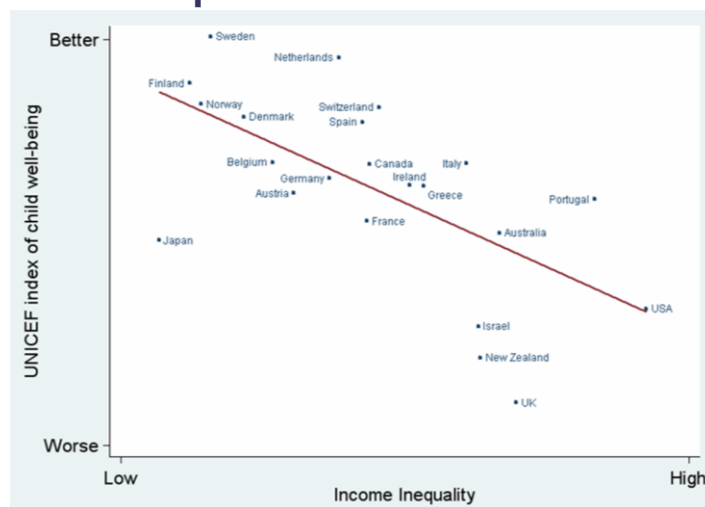
Richard Wilkinson and Kate Pickett

'A big idea, big enough to change political thinking'
Sunday Times

'A sweeping theory of everything' *Guardian*

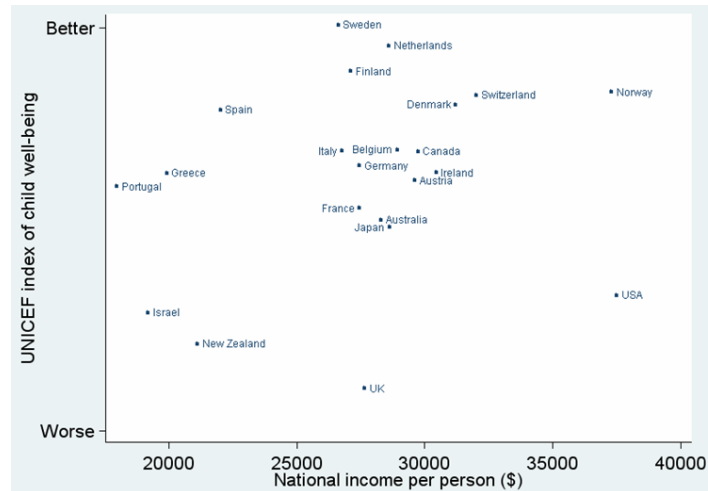


Child welfare is better in more equal rich countries



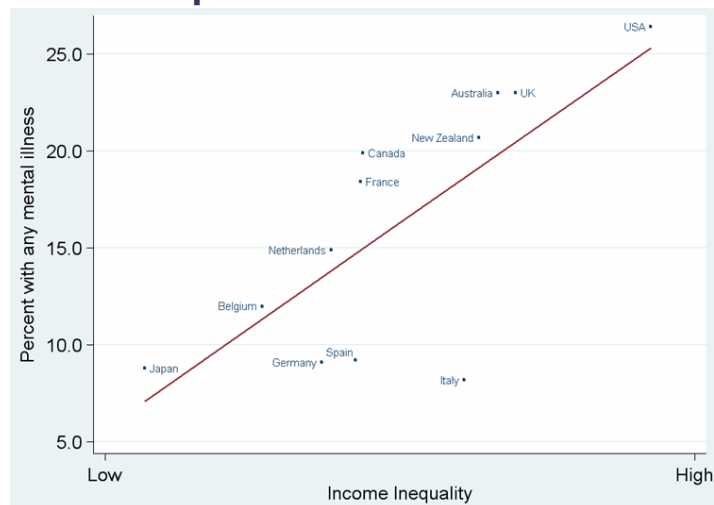
Source: Wilkinson and Pickett 2009

Child welfare not related to income in rich countries



Source: Wilkinson and Pickett 2009

Mental illness more prevalent in less equal rich countries



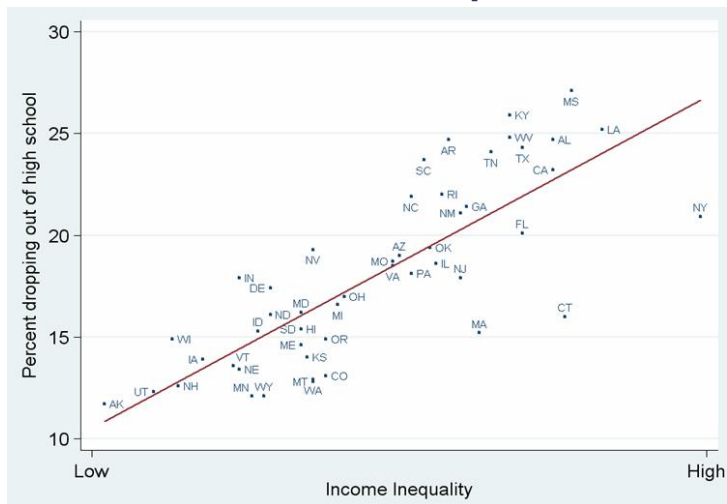
Source: Wilkinson and Pickett 2009

Life expectancy longer is more equal rich countries



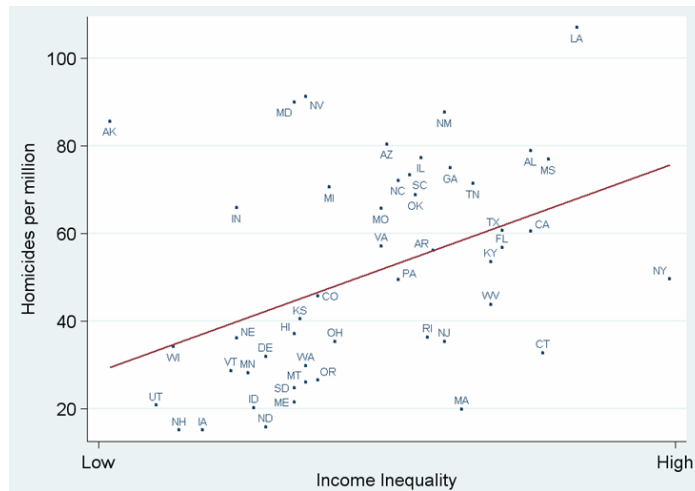
Source: Wilkinson and Pickett 2009

Children drop out of high school more often in less equal US states



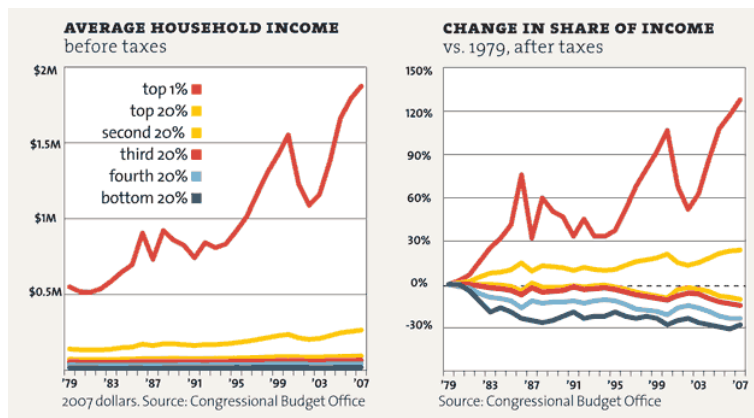
Source: Wilkinson and Pickett 2009

Homicide rates higher in less equal American states



Source: Wilkinson and Pickett 2009

The rise of the 1% in the USA



THE GREAT DIVIDE | January 19, 2013, 6:47 pm | 722 Comments

Inequality Is Holding Back the Recovery

By JOSEPH E. STIGLITZ



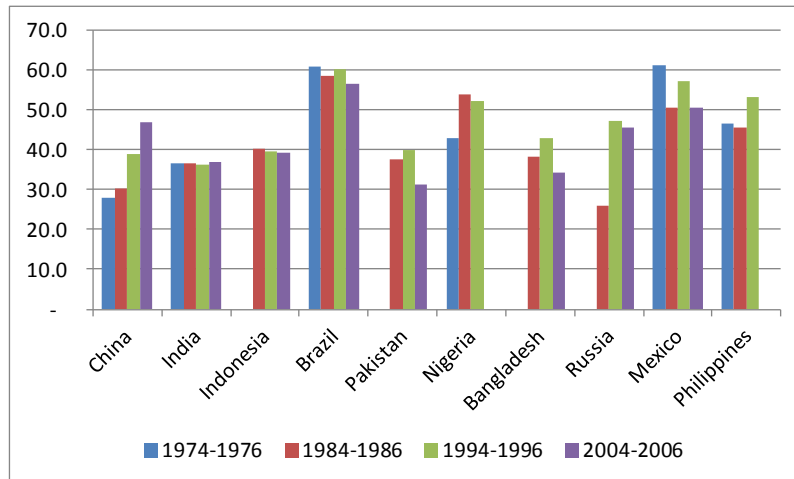
The Great Divide
is a series about
inequality.

TAGS:

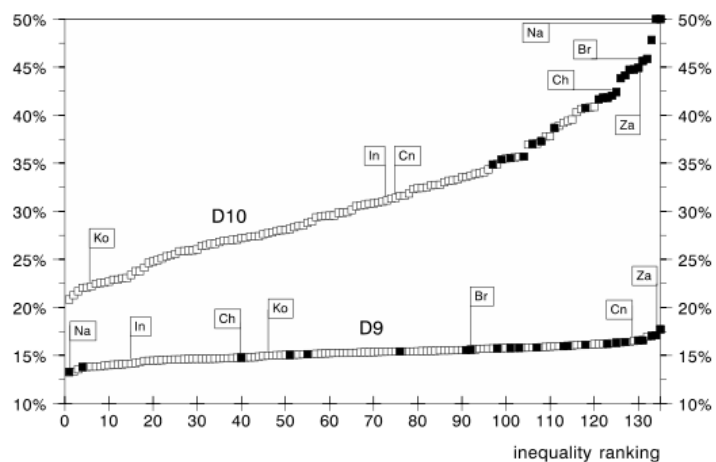
BANKING AND FINANCIAL
INSTITUTIONS, INCOME
INEQUALITY, INCOME TAX,
OBAMA, BARACK, RECESSION
AND DEPRESSION, UNITED
STATES ECONOMY

The re-election of President Obama was like a Rorschach test, subject to many interpretations. In this election, each side debated issues that deeply worry me: the long malaise into which the economy seems to be settling, and the growing divide between the 1 percent and the rest — an inequality not only of outcomes but also of opportunity. To me, these problems are two sides of the same coin: with inequality at its highest level since before the Depression, a robust recovery will be difficult in the short term, and the American dream — a good life in exchange for hard work — is slowly dying.

Gini coefficients in ten largest developing and transition countries

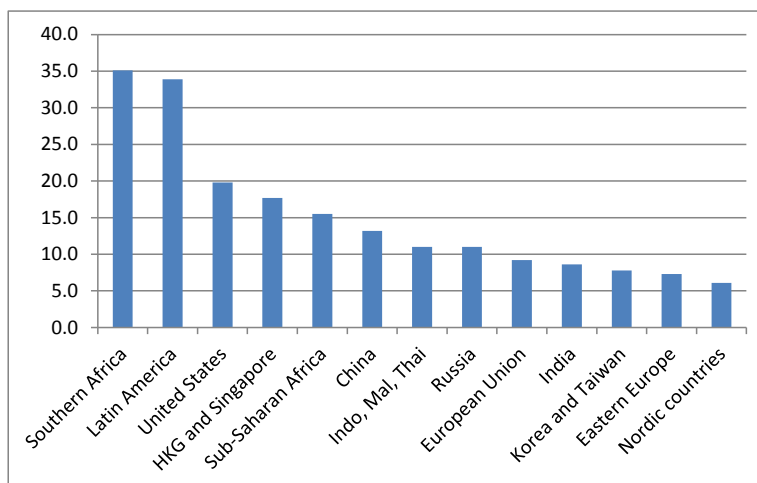


Shares of income deciles 9-10

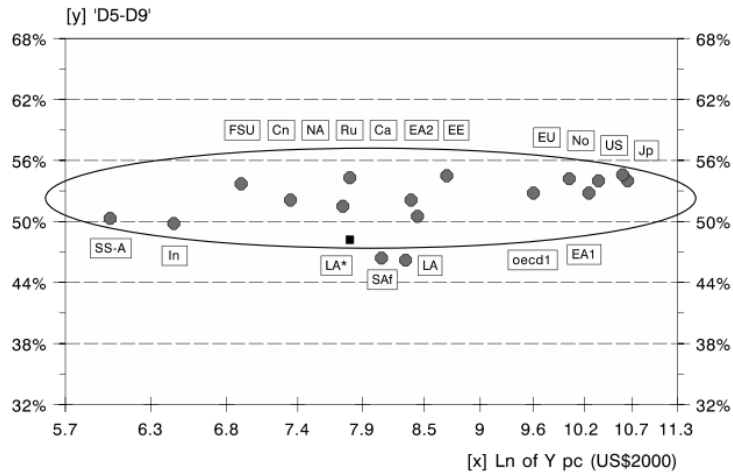


Source: Palma 2011

10th/1st income decile income shares (2005)

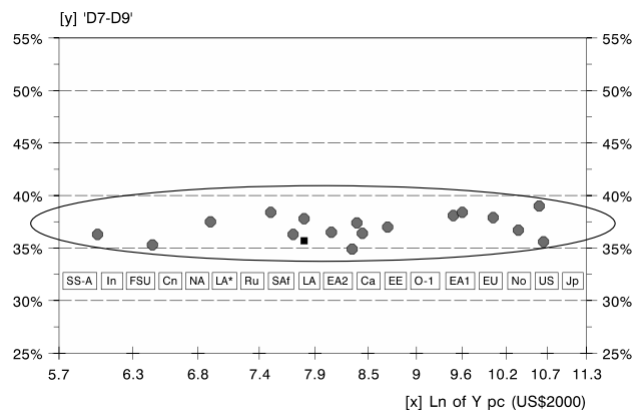


Income share 5-9



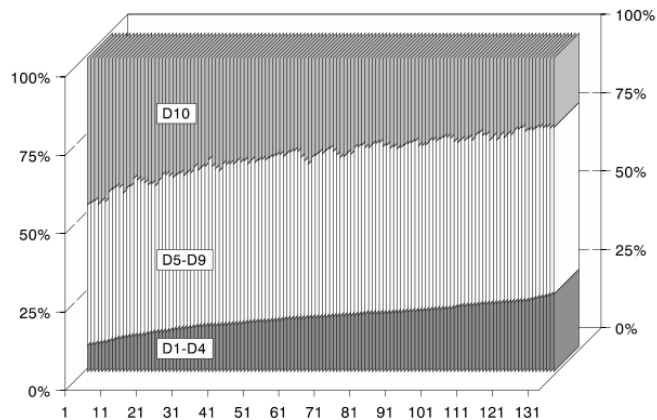
Source: Palma 2011

Income shares 7-9



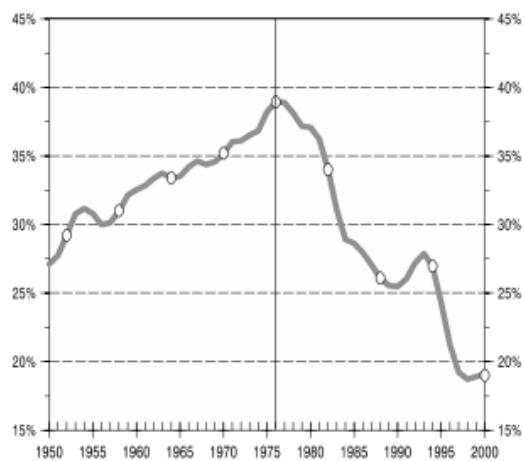
Source: Palma 2011

Income shares, most unequal to most equal countries



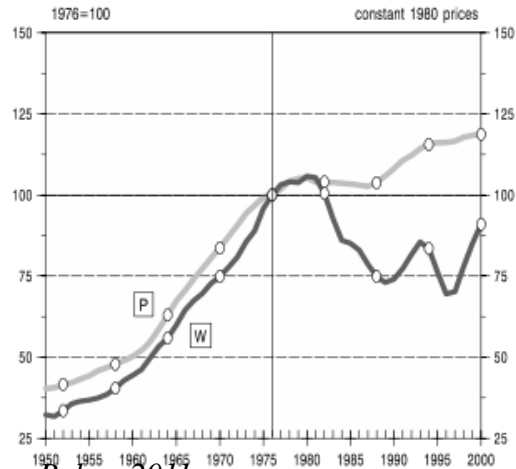
Source: Palma 2011

Mexico: Wages and salaries as share of GDP, 1950-2000



Source: Palma 2011

Mexico: Real wages and productivity, 1950-2000



Source: Palma 2011



Carlos Slim Helu & family

Net Worth **\$73 B** As of March 2013

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At a Glance

Honorary Chairman, América Móvil

Age: 73

Source of Wealth: **telecom, self-made**

Country of Citizenship: **Mexico**

Education: **Bachelor of Arts / Science, Universidad Nacional Autónoma de Mexico**

Marital Status: **Widowed**

Children: 6

Forbes Lists

#1 Forbes Billionaires

| **#1 in Mexico**

#11 Powerful People