



Macroeconomics II

Lecture 12

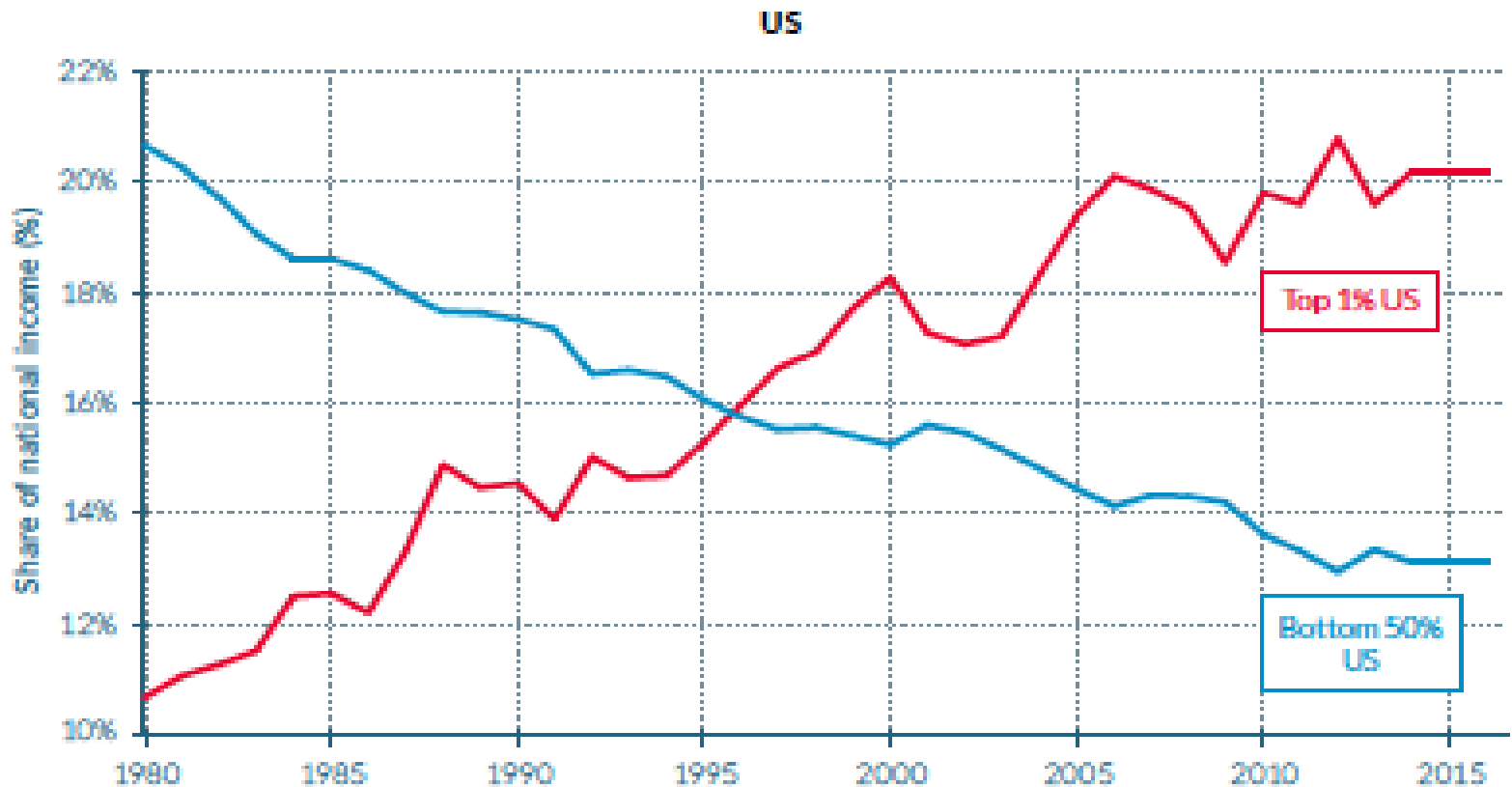
Inequality

The Piketty model

Remember the data on US inequality

Figure E3

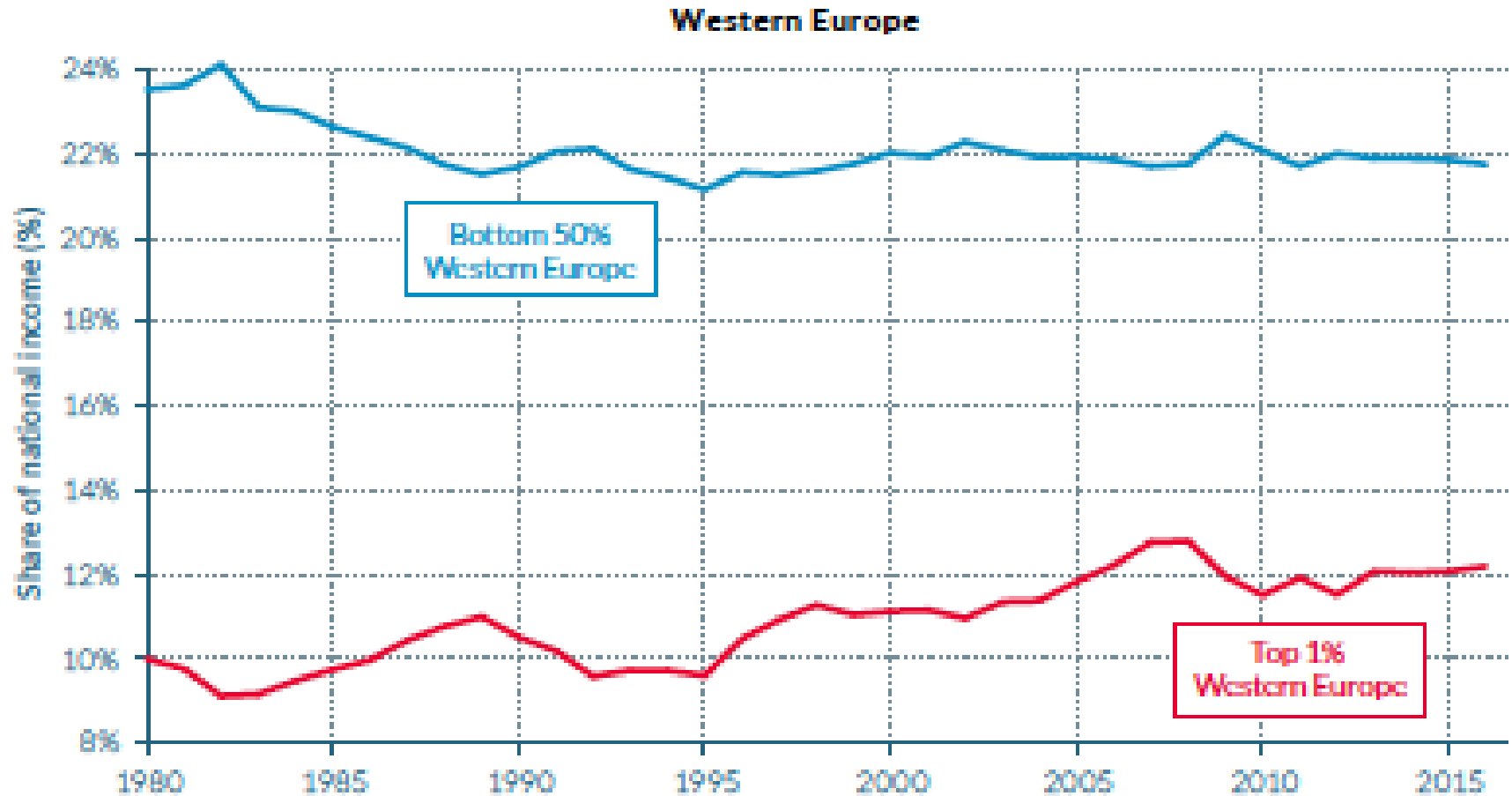
Top 1% vs. Bottom 50% national income shares in the US and Western Europe, 1980-2016:
Diverging income inequality trajectories



Source: WID.world (2017). See [wii2018](#) and [wid.world](#) for data series and notes.

In 2016, 12% of national income was received by the top 1% in Western Europe, compared to 20% in the United States. In 1980, 10% of national income was received by the top 1% in Western Europe, compared to 11% in the United States.

And check Europe

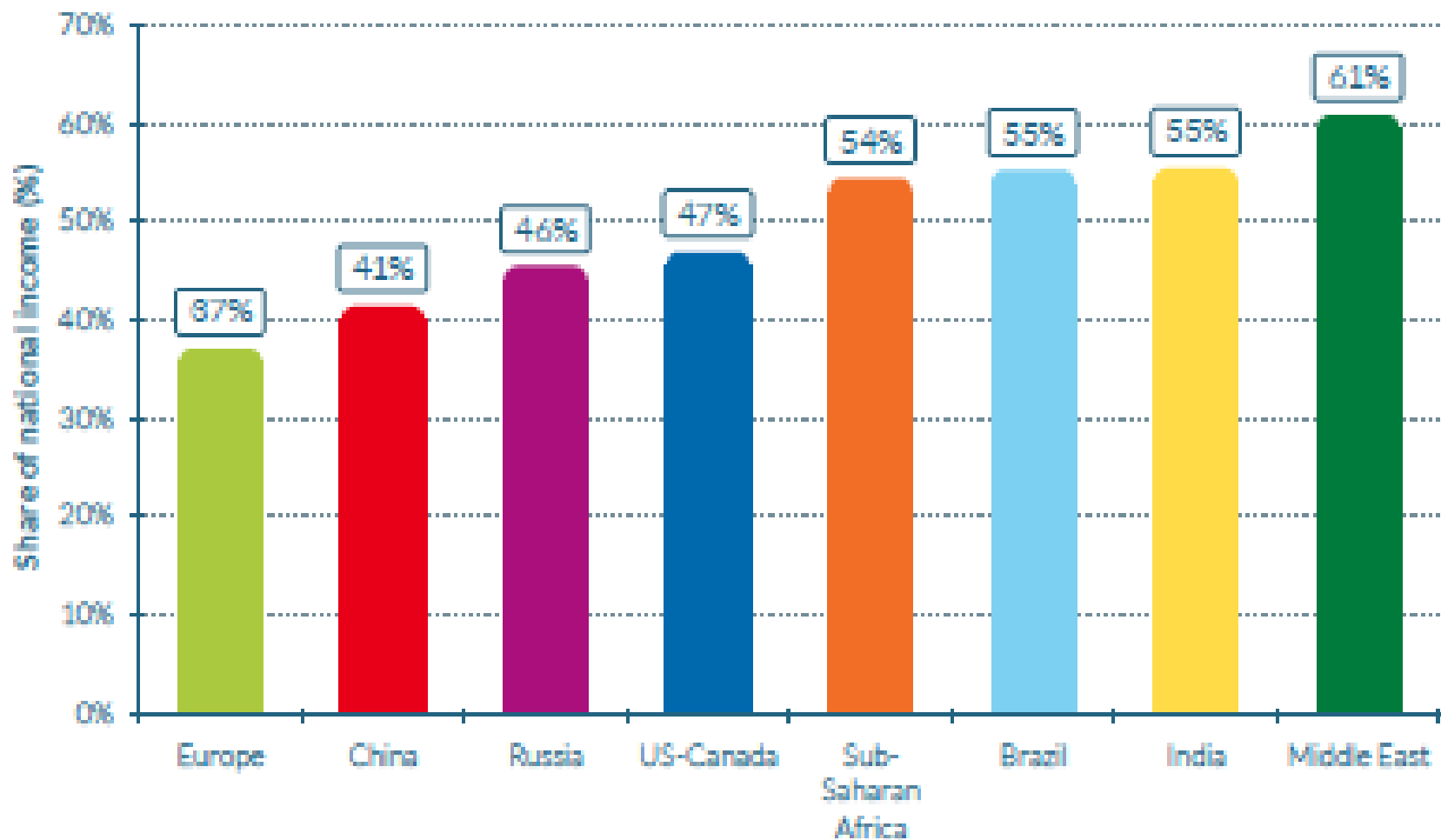


Source: WID.world (2017). See [wii-2018&wid.world](#) for data series and notes.

In 2016, 22% of national income was received by the Bottom 50% in Western Europe.

Figure E1

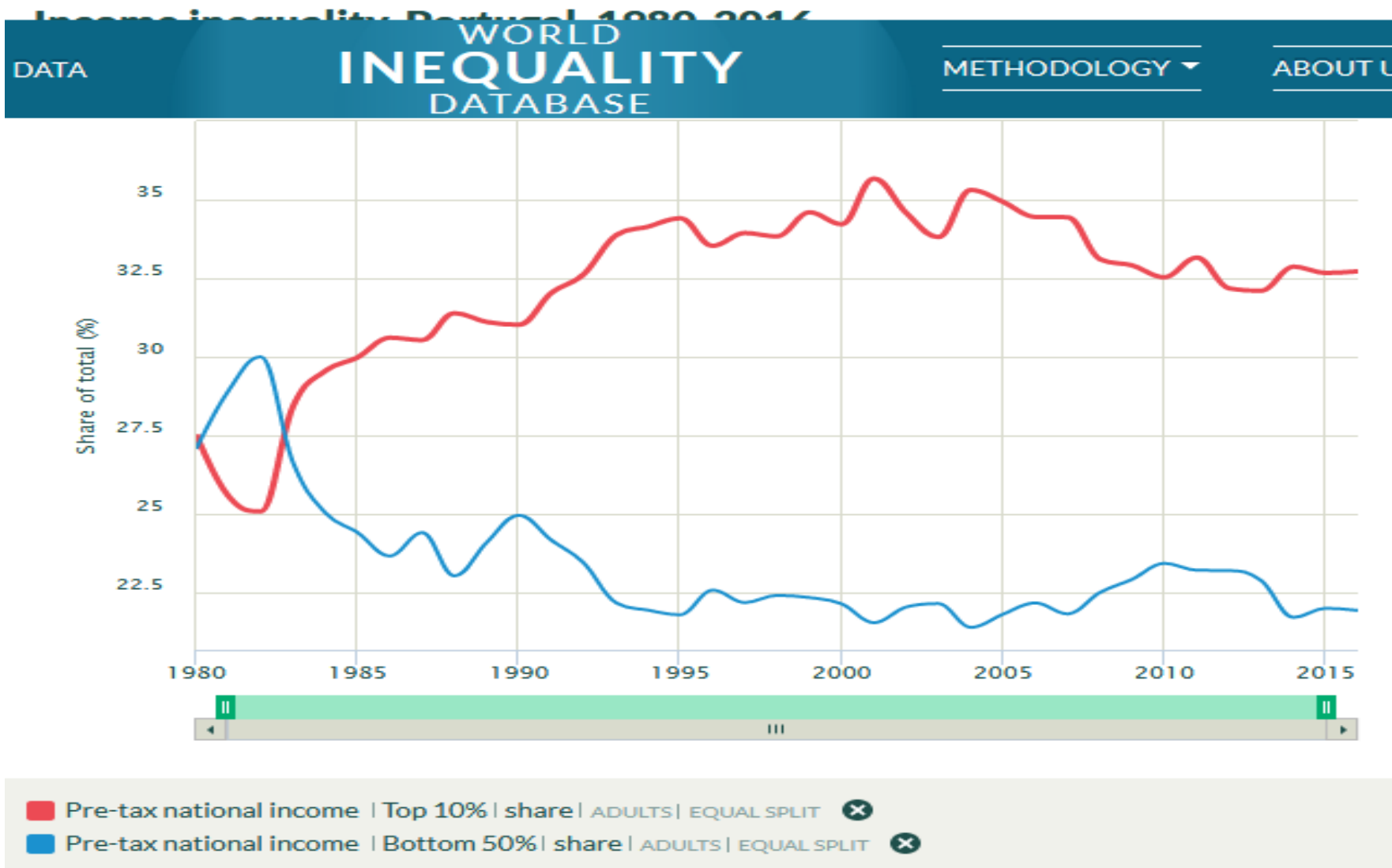
Top 10% national income share across the world, 2016



Source: WID.world (2017). See [wlr2018](#) & [wideworld](#) for data series and notes.

In 2016, 37% of national income was received by the Top 10% in Europe against 61% in the Middle-East.

Portugal: income inequality (top 10% and bottom 50%)



Thomas Piketty

(Paris School
of economics),

author of “Capital in
the 21st Century”, the
best sold bestseller in
the history of
economics



The Piketty model (1/2)

- The case of inequality: the notion of a “human capital” convergence is an illusion, there is a divergence
- Explanation for the divergence:

$$r > g$$

or the **profitability of capital** (profits, dividends, rents, interest etc) **is larger than the rate of growth**



The Piketty model (2/2)

Consequences and interpretation:

1. The **entrepreneur** is replaced by the **rentier** (if $r > g$)
 2. Cumulated wealth and inheritance pursue inequality
- **Solutions:**
 - Taxing the fortunes (cumulated wealth)?

Evidence from the Oxfam 2019 World Report

THE WEALTH OF THE WORLD'S BILLIONAIRES INCREASED \$900 BILLION IN THE LAST YEAR, WHICH IS:

**\$2.5 BILLION
A DAY**¹



EXTREME POVERTY IS INCREASING IN SUB-SAHARAN AFRICA.

This new evidence also shows that **3.4 billion people** (almost half of humanity) have barely escaped extreme poverty and are living on less than

**\$5.50
A DAY**²



MEN OWN 50% MORE OF THE TOTAL WEALTH THAN WOMEN.³



A recent study of 13 developing countries found that:

SPENDING ON EDUCATION AND HEALTH ACCOUNTED FOR 69% OF THE TOTAL REDUCTION OF INEQUALITY.⁴



GETTING THE RICHEST 1% TO PAY JUST 0.5% EXTRA TAX ON THEIR WEALTH COULD RAISE MORE MONEY THAN IT WOULD COST TO:



Educate all the

**262
MILLION**

children out of school...



...and provide healthcare that would save the lives of

**3.3
MILLION**

people.⁵

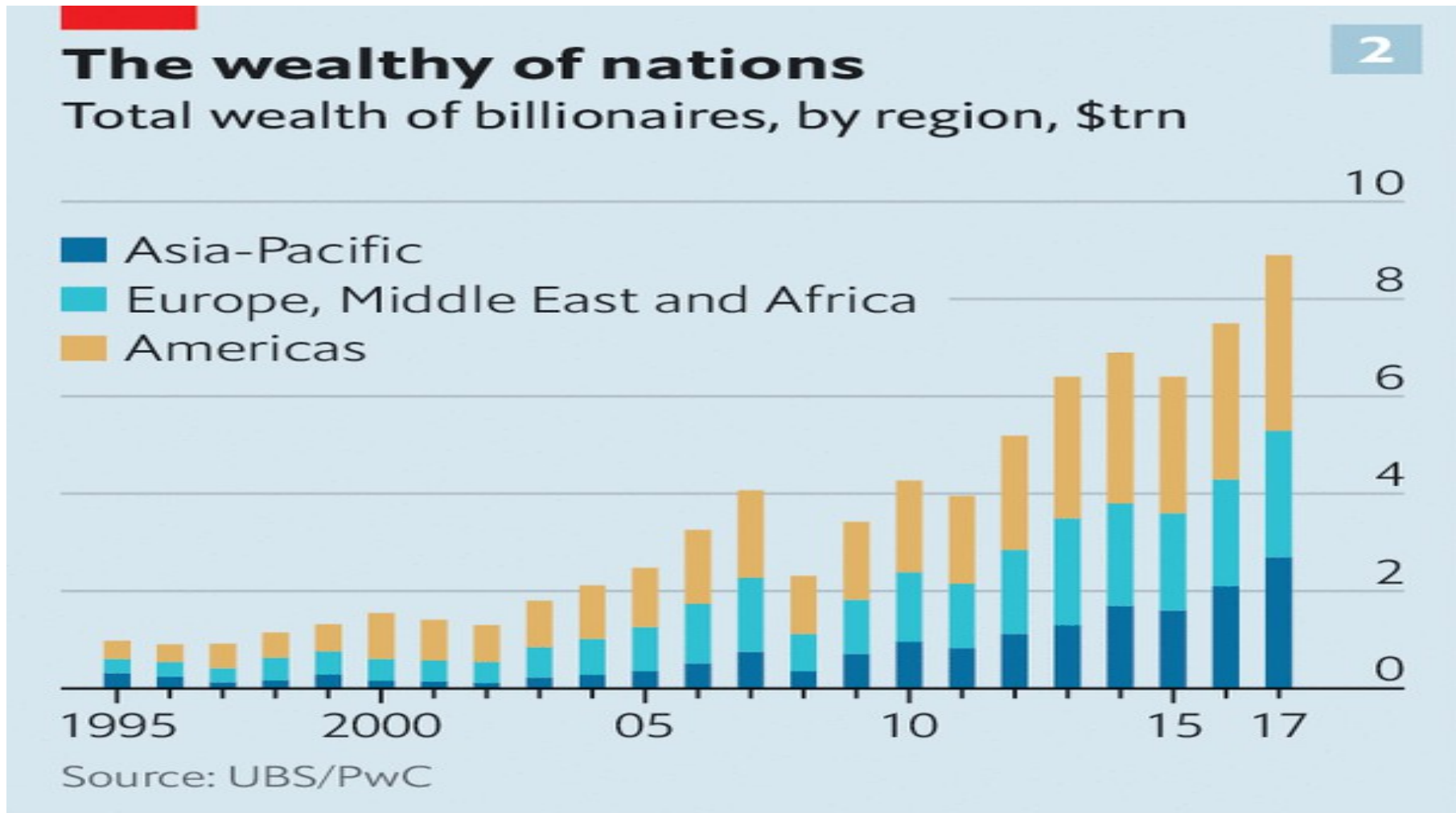


**Estes 26
milionários têm
tanto dinheiro
como 50%
da população
mundial**

// PÁGS. 16-21



Wealth of billionaires by region





Inequality is a form of growth? Is it an obstacle against development?

Conclusion:

- There may be growth with inequality and even with growing inequality
- So, the metaphor of the cake (we need to increase the cake in order to distribute) may be wrong
- Growth and development require fairness and reducing inequality