### Inequality and Instability

What we learned and why it matters

James K. Galbraith and Béatrice Halbach with Aleksandra Malinowska, Amin Shams and Wenjie Zhang

UNU-WIDER Conference on Inequality— Measurement, trends, impacts and policies Helsinki, Finland September 5-6, 2014

### A Brief Summary

The EHII data set is a panel of *estimated* Gini coefficients for gross household income, derived from *measures* of cross-sector industrial pay inequality, known as UTIP-UNIDO, which are computed using the between-groups component of Theil's Tstatistic.

### Extending EHII

EHII is calculated by regressing the original Deininger Squire "High Quality" data set against UTIP-UNIDO, with controls for the share of manufacturing in total employment and dummies for the various income/expenditure concepts present in the DS data set. The coefficient estimates are then used to generate the EHII values. Here is the new regression underlying EHII 2013.

Source Model Residual	55 13.765956 10.682956	df 5 424	2.75	MS 5319121 5195651		Number of obs F( 5, 424) Prob > F R-squared Adj R-squared		430 109.27 0.0000 0.5630 0.5579
Ingini	24.448912 Coef.	Std.	Err.	t	P> t	[95% Conf.	In	terval]
income household gross lnfinal mfgpop _cons	1505793 0787191 0613036 .1035329 -2.838951 4.205874	.0328 .016 .0197 .011 .2419 .0449	891 985 218 978 652 676	-4.58 -4.63 -3.11 8.64 -11.73 93.53	0.000 0.000 0.002 0.000 0.000 0.000	2152253 1121043 1000683 .0799894 -3.314552 4.117487		0859333 0453338 0225388 1270765 -2.36335 .294261

# The new EHII panel has 3871 estimates for 149 countries, over the years 1963-2008

### **Coverage and Estimates**

By Decade Averages











# The charts following compare EHII with other measures for various countries.

They were compiled by ransacking the literature for Gini coefficients, and color-coding the results.

## **Color Coding**

Black: EHII Green: Market Income Blue: Gross Income Red: Net Income Yellow: Consumption Purple: Not clearly distinguished in the source documents

\*Light dotted entries represent the Solt SWIID estimates

# Estimates Consistent with the Literature











































### **Problematic Estimates**











### Maximum, Mean, Minimum



### Global Mean Values EHII Gini Coefficients



### **Brief Conclusions**

The literature on inequality measurement is very messy. In advanced countries the difference between market, gross and net income inequality is typically very large. EHII appears to provide reasonable estimates for gross household income inequality, and a basis for comparisons. It does not capture capital-based incomes well, but this is a problem in only a few countries.

#### UNIVERSITY OF TEXAS INEQUALITY PROJECT

#### http://utip.gov.utexas.edu

Calculations and Charts by

Beatrice Halbach Aleksandra Malinowska Amin Shams Wenjie Zhang

Support from INET gratefully acknowledged.