INEQUALITY, WELFARE, POVERTY AND REDISTRIBUTION
Peter J. Lambert

In this course, we examine the measurement theory and inherent value judgements used to make inequality, welfare and poverty comparisons between income distributions, and to assess the extent and nature of the redistribution which is implicit or explicit in the tax system. The course draws on recent literature from the distinct traditions of welfare economics, social policy analysis and public finance, using a consistent and simple mathematical approach. By the end of the course you should be able to read widely in a quite specialist measurement literature, and know enough to structure and undertake empirical investigations into distributional questions.

The course is taught by means of two weekly meetings. In weeks 1-4 there will be lecture presentations and directed reading. The lectures will be delivered using OHP slides containing material that you can also download from my web page as printed handouts. You could annotate these as we go along if you wish. Occasionally I may use a powerpoint demonstration to supplement lecture material. For each of the meetings in weeks 5-10, you will have read a few journal articles that I have suggested (choosing them from a list I will provide), and you will make presentations to the class addressing the relevant topics, explaining the approaches taken by the various authors and telling us what you think of them (the topics/articles, not the authors).

The course text is Lambert, P.J. (2001) The Distribution and Redistribution of Income. Manchester University Press. This is the 3rd edition of the book, and it should be available both new and second-hand. Earlier editions lacked a chapter on poverty. Also, vertical and horizontal equity, two issues concerning the design and implementation of income taxes, were not well covered in the earlier editions. The book proceeds by a build-up of core material, and the drawing in of technical insights and additional strands of literature by means of inter-linked and cross-referenced “exercises”. Some of these “exercises” will point you towards literature that may be relevant for your presentations.

The outline overleaf describes the lecture content, lecture by lecture. It also specifies a few selected readings most relevant to each lecture’s topic, and indicates the location in Lambert (2001) of the following lecture’s material. All of this should help you to prepare yourself for the lectures. As for the assessment of the course, I’m planning to have each of you choose a (different) topic, probably related to a presentation or discussion we have had, but not necessarily, and write an in-depth term paper, critically evaluating the relevant literature and going deeper and/or wider than we did in class. **There will be a non-negotiable last-day-of-term (Friday 5th December 2014, week 10) deadline for completing and handing in the term paper,** which will be graded. Your overall grade for the course will take into account also your performance in the presentations – how well you relate the purpose & motivation & agenda & findings of the papers you will present, whether you do a good job in casting stuff into a notation consistent with lecture material, and on your judgment as shown by your success in cutting through technicalities to the essence.

Approximate course contents: see overleaf

(A) the lectures
(B) the presentations
(C) the term paper
(A) THE LECTURES

Lecture 1: fundamentals
Income and wealth. The income unit: individual, household, tax unit. Differences in needs. Comparing income distributions

Wider reading:

Next lecture:
Lambert §2.3, §2.4, §2.5

Lecture 2: inequality and the Lorenz curve.
Inequality and its depiction using the Lorenz curve. Complete equality: to be desired?

Wider reading:
Kakwani, N.C. 1986: Analysing Redistribution Policies: A Study Using Australian Data. CUP, Chapter 4

Next lecture:
Lambert §3.1, §3.2, §3.3, §4.1

Lecture 3: Lorenz and generalized Lorenz dominance
Social welfare functions and the Atkinson theorem. The veil of ignorance, social decision-making and mathematical social choice theory. Generalized Lorenz dominance and the Shorrocks theorem. Inequality aversion. The Rawlsian inequality and welfare criteria.

Wider reading:

Next lecture:
Lambert §3.4, §3.5, §3.6

Lecture 4: differences in needs
Equivalence scales and “equivalent adults”. Sequential dominance tests.

Wider reading:

**Next lecture:**
Lambert §5.1 - §5.4

**Lecture 5: inequality and welfare indices**

**Wider reading:**

**Next lecture:**
Lambert §6.1 to §6.4 inclusive

**Lecture 6: poverty**

**Wider reading:**

**Next lecture:**
Lambert, §7.1, §8.1, §8.3, §8.4

**Lecture 7: a progressive income tax schedule**
Income taxation, redistributive effect and progressivity

**Wider reading:**

**Next lecture:**
Lambert §7.2, §7.3, §10.1, §10.2, §10.3
Lecture 8: real-world income taxes: horizontal and vertical equity

Differences in income tax treatment: horizontal inequity and reranking.

Wider reading:
Lambert, P.J. 1993a: Inequality reduction through the income tax. *Economica*.

(B) THE PRESENTATIONS

Tuesdays and Thursdays, weeks 5 onwards, 12pm – 1:50pm

I will be giving out a document in which a large number of recent journal articles are grouped into topics. The idea is that in self-selected teams, for each meeting you choose paper(s) within a topic to make presentations to the class. Individual presentations should be of about 15-20 minutes. We don’t have to cover all topics, and certainly not all papers; two teams could coordinate in tackling different subsets of papers within the same topic, in any given meeting. Not everyone needs to speak in each meeting, or even each week, but each of you must have made at least 4 presentations by the time term ends. Let’s deal with the topics approximately in sequence. Please have a team member email me prior to each meeting to tell me which topic and papers the team will cover – you will need to coordinate – two teams can work on the same topic as long as the papers covered are not the same!

Note that there will be no class on Thursday November 27th (week 9), which is Thanksgiving Day

(C) THE TERM PAPER

For the assessment of *EC 607 Seminar in Public Economics*, each of you will choose a (different) topic, probably related to lecture material or a presentation somebody made (but not necessarily very closely), and write an in-depth paper. For example, you could write a literature review, critically evaluating the relevant journal articles and going deeper than we did in class. Or you could do something with an empirical angle, e.g. something related to your main research interest, or your country. The only criterion is that you should bring into your paper, in a substantive way, some kind of distributional concern and be able thereby to show, by your approach, and by the critical views you express, or the results you achieve, that this course gave you some new skills. I do not want to assign a topic for anybody; I want each of you to follow your own inclinations and interests in choosing a topic; but I shall provide an extended bibliography delineating possible topics and relevant literature, to help you if you need it. Please feel free to come individually to see me, at any point, to talk about an idea you may have. About half-way through the course, I will want each of you to have emailed me an indication of your proposed topic.

Peter Lambert, May 2014