

Is It All About the Tails?

The Palma measure of inequality

'Filling the Gap: Inequality Indicators for Post-2015'

CGD: Washington, 16 September 2013

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Pop quiz

If x and y are (tail) points in a distribution, which measure would you prefer?

$$P = y/x$$

$$G = 0.581y - 1.195x + 0.419$$

Three points

- For post-2015, need measures of inequality which are **intuitively clear** to support accountability.
- **Inequality is in the tails** - stability of 'middle' deciles (5-9) – hence Palma; while Gini is inappropriate in theory.
- **Gini is inappropriate in practice**: reflects same two points of distribution as Palma, but with much less clarity.

The Palma

What is the Palma?

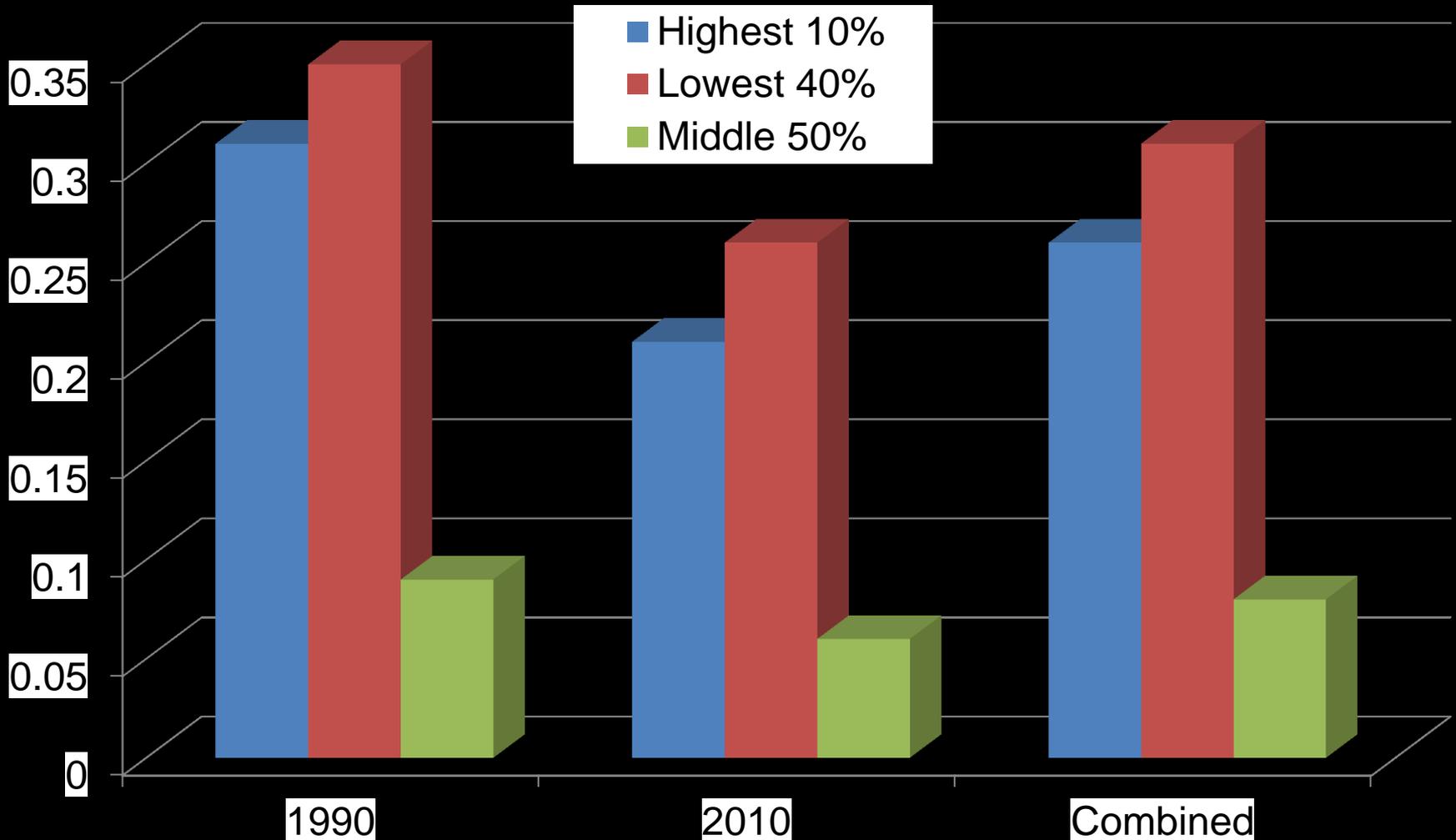
- Ratio of national income shares:
top 10% to bottom 40%
- Rests on Gabriel Palma finding:
stability of 'middle' deciles (5-9)
- 'Basically, it seems that a schoolteacher, a junior or mid-level civil servant, a young professional (other than economics graduates working in financial markets), a skilled worker, middle-manager or a taxi driver who owns his or her own car, all tend to earn the same income across the world — as long as their incomes are normalized by income per capita of respective country.'

The Palma

Country	Palma	Gini	Year	
	<i>Most unequal on the Palma</i>			
Jamaica	14.67	0.66	2002	
South Africa	7.05	0.63	2008	
Namibia	6.69	0.64	2003	
	<i>Least unequal on the Palma</i>			
Ukraine	1.05	0.29	1999	
Bulgaria	1.00	0.28	2007	
Romania	0.95	0.27	2011	

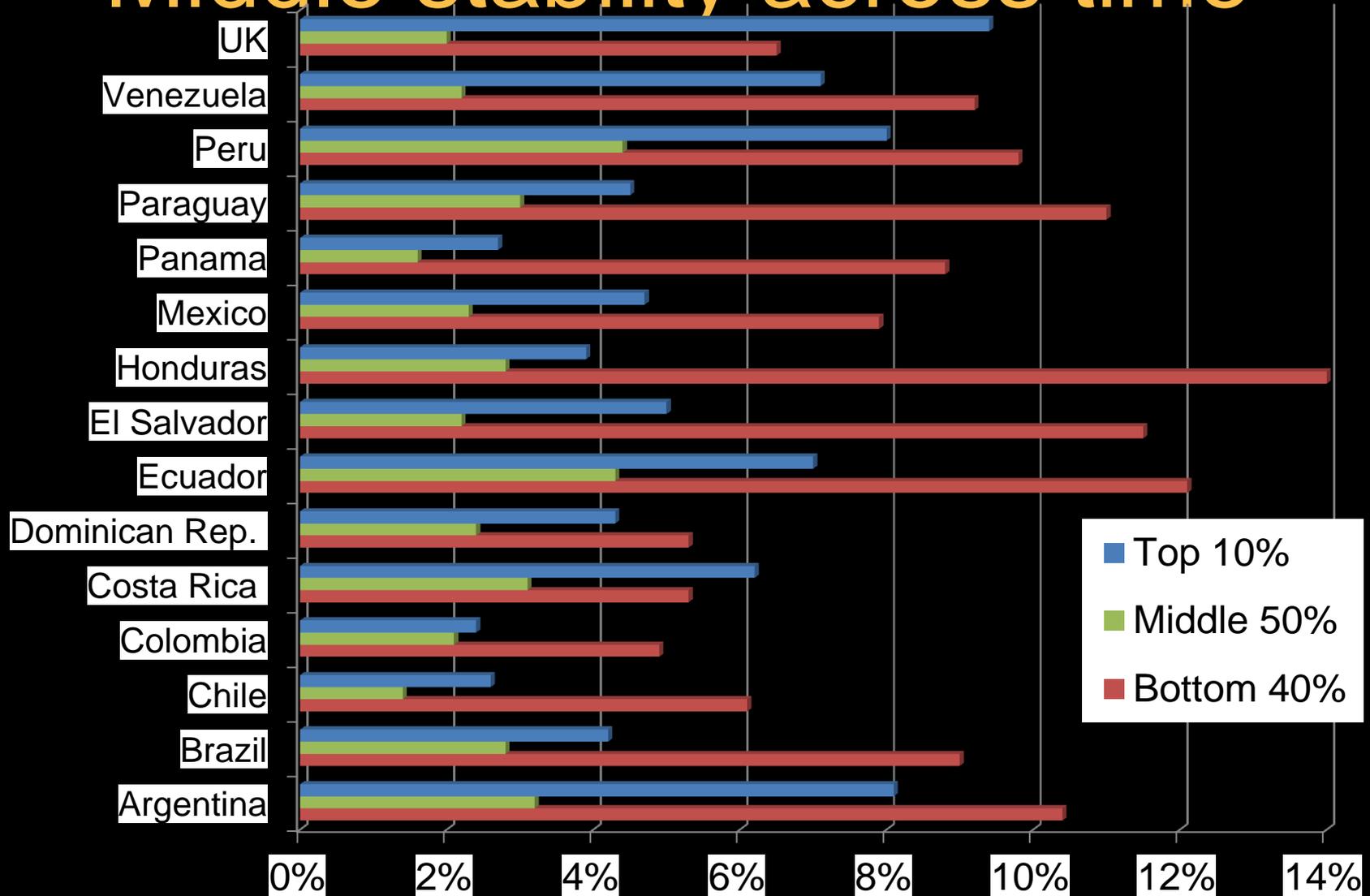
Inequality in the tails

Middle stability across countries



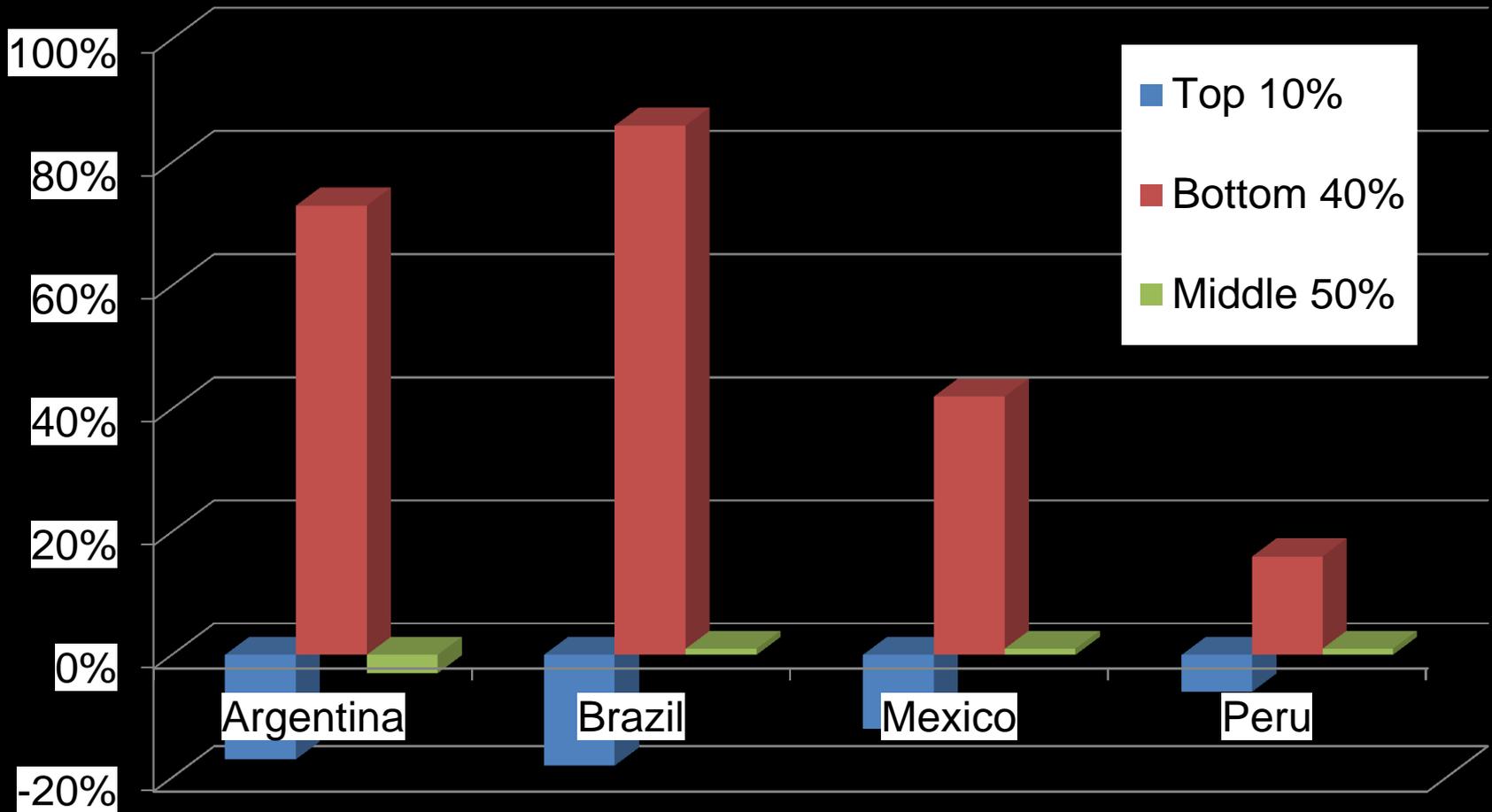
Inequality in the tails

Middle stability across time



Inequality in the tails

Stability across income stages



Gini in practice

Data source:	PovCal	PovCal	PovCal	WIDER	WIDER	WIDER
Survey type	All	Income	Cons'n	All	Income	Cons'n
Bottom 40%	-1.195***	-1.196***	-1.184***	-1.205***	-1.202***	-1.246***
	(-336.60)	(-148.17)	(-592.51)	(-312.88)	(-289.30)	(-159.49)
Top 10%	0.581***	0.576***	0.585***	0.565***	0.566***	0.543***
	(267.68)	(118.50)	(491.03)	(235.25)	(218.30)	(112.93)
Constant	0.419***	0.421***	0.415***	0.425***	0.425***	0.439***
	(328.71)	(147.42)	(588.11)	(309.24)	(286.03)	(157.42)
Obs	826	309	517	1293	1139	154
Adjusted R-Squared	1.000	1.000	1.000	1.000	0.999	1.000

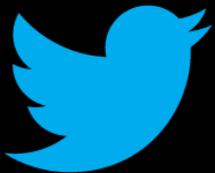
Pop quiz

Which inequality measure do you prefer?

$$P = y/x$$

$$G = 0.581y - 1.195x + 0.419$$

Thank you
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