

THE IMPACT OF A MARGINAL SUBSIDY ON GINI INDICES: COMMENT

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It is very pleasing to see this reopening by Alejandro Corvalan (2013) of the issue, examined in some detail in Lambert and Lanza (2006), of how increasing one income in a distribution affects measured inequality. In that paper, not only the rank-dependent (positional) inequality indices were considered, as here, but also the rank-independent (non-positional) ones, as were leaky transfers from one income unit to another, and the pivotal value was termed the benchmark (a benchmark income value for the rank-independent indices and a benchmark position for the rank-dependent ones).¹ In the present paper, the analysis for rank-dependent indices is extended to include absolute inequality indices, and this is to be welcomed, as it brings with it some interesting comparisons and insights.

An additional insight offered here is that, since an analyst typically selects an inequality measure in terms of assumed ethical preferences, and there is a one-to-one relation between the inequality index and the pivotal value, then, instead of determining inequality aversion by choice of a parameter in the social welfare function, one could instill an appropriate ethical judgment by identifying the pivotal individual: who is the richest individual that we find it just and fair to compensate? The “practical normative choice” suggested by Alejandro Corvalan is to identify this richest individual and to construct an inequality index consistent with this view.²

When analyzing the effects of government policies, for example, the choice of inequality index, equivalently of the social welfare function, is not an inconsequential matter. The new perspective provided by this fascinating paper is that the choice of inequality index can be transmuted into a choice of pivotal individual. This insight can only help analysts to ensure that society’s concern with inequality will be properly addressed and reflected in policy evaluations.

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¹For leaky transfers, it matters whether the leaky transfer is to one side of, or across, this benchmark. In fact, in an earlier paper yet, Hoffman (2001) considers the effect of raising one income in a distribution, primarily for rank-independent indices but also for the Gini coefficient, characterizing the benchmark/pivotal value as a “relative poverty line,” and conducting a thorough analysis.

²This puts one in mind of selecting, for example, an Atkinson index or extended Gini coefficient by asking what size of leak would be tolerated by society in the process of transferring income from richer to poorer—and selecting the relevant parameter accordingly. See Lambert and Lanza (2006) on this.

REFERENCES

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