

The distribution and redistribution of income

Third Edition

Peter J. Lambert

Manchester University Press
Manchester and New York

Distributed exclusively in the USA by Palgrave

Contents

| | |
|---|----------------|
| Preface to the third edition | <i>page</i> xi |
| Preface to the second edition | xiii |
| Preface to the first edition | xv |
| Notation | xvii |
| 1 Introduction and summary | 1 |
| 1.1 Introduction | 1 |
| 1.2 How to use this book | 3 |
| 1.3 Chapter summaries | 5 |
| 1.4 Prerequisites | 9 |
| Appendix: Some basic analytical concepts and results | 10 |
| 2 The size distribution of income | 13 |
| 2.1 Data and data manipulations | 14 |
| • 2.2 Mathematical representation | 19 |
| 2.3 Inequality of income | 23 |
| 2.4 Lorenz curves mathematically | 30 |
| 2.5 Income tax, the concept of redistribution and reranking | 37 |
| 3 Lorenz curves and welfare comparisons | 44 |
| 3.1 Comparing Lorenz curves | 45 |
| 3.2 Generalized Lorenz dominance and social welfare | 49 |
| 3.3 Generalized Lorenz curve configuration and attitude to inequality | 57 |
| 3.4 Social welfare when generalized Lorenz curves cross | 62 |
| 3.5 Using equivalence scales | 69 |
| 3.6 Sequential dominance criteria | 72 |
| 4 Social welfare and inequality aversion | 84 |
| 4.1 The veil of ignorance | 84 |
| 4.2 Some general considerations | 87 |
| 4.3 Lerner's probabilistic social welfare function | 91 |

viii Contents

| | | | |
|-----------|--|----|------------|
| 4.4 | Differences in need | | 92 |
| 4.5 | Measuring inequality aversion | | 94 |
| 4.6 | Constant inequality aversion and Rawlsian leximin | | 97 |
| 4.7 | Generalized Lorenz curve configurations again | | 102 |
| 5 | Abbreviated social welfare functions and inequality indices | | 106 |
| 5.1 | Abbreviating the social welfare function | | 107 |
| 5.2 | Indices of relative inequality | | 110 |
| 5.3 | Social welfare and the (extended) Gini coefficient | | 120 |
| 5.4 | Social welfare and the Atkinson index | | 127 |
| 6 | Poverty | | 133 |
| 6.1 | Who is poor and what is poverty? | | 133 |
| 6.2 | Poverty, inequality and welfare | | 140 |
| 6.3 | Indices of poverty | | 144 |
| 6.4 | Poverty dominance criteria | | 153 |
| 6.5 | Sequential poverty dominance criteria | | 166 |
| 7 | The income tax | | 174 |
| 7.1 | Progression: justifications and objectives | ** | 174 |
| 7.2 | The typical income tax | | 179 |
| 7.3 | Horizontal and vertical equity | | 183 |
| 8 | A progressive income tax schedule | | 187 |
| 8.1 | Distributive and welfare effects | | 188 |
| 8.2 | The degree of progression | | 196 |
| 8.3 | Departure from proportionality | | 199 |
| 8.4 | Redistributive effect | | 206 |
| 8.5 | Base and rate effect decompositions | | 214 |
| 9 | Income tax reform and social welfare | | 219 |
| 9.1 | A tax cut/hike for everyone | | 220 |
| 9.2 | Single-crossing tax reform | | 224 |
| 9.3 | Double-crossing tax reform | | 231 |
| 10 | Differences in income tax treatment | | 237 |
| 10.1 | Living standards, inequality and reranking | | 238 |
| 10.2 | Vertical equity considerations | | 243 |
| 10.3 | Progressivity and classical horizontal inequity | | 248 |
| 10.4 | Horizontal inequity as disassociation | | 256 |
| 11 | The net fiscal system | | 263 |
| 11.1 | Attributing benefits to income units | | 264 |
| 11.2 | The regressivity of benefits | | 268 |

| | | |
|------|--|-----|
| 11.3 | The progressivity of net taxes | 274 |
| 11.4 | Net fiscal incidence and horizontal inequity | 280 |
| | Bibliography | 284 |
| | Index | 306 |