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Topic of the paper:  
Inequality in Europe and the United States

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## 1. Introductory Overview

The political competition in 2016 and 2017, which culminated in the ~~represent~~ years in Germany and the United States of America, once again demonstrates in an impressive a striking way how the topic of "inequality" and the associated redistribution of financial resources can split/divide societies. While redistribution is to be contained in the United States during the reign of Trump, German politicians are increasingly debating more about the ways in which ~~how~~ existing tax revenues should be invested. The forms of the discussion and the underlying discourse thus seem controversial, but however, the topic is ~~has of a~~ high political relevance both in European states such as the Federal Republic of Germany as well as in the United States.

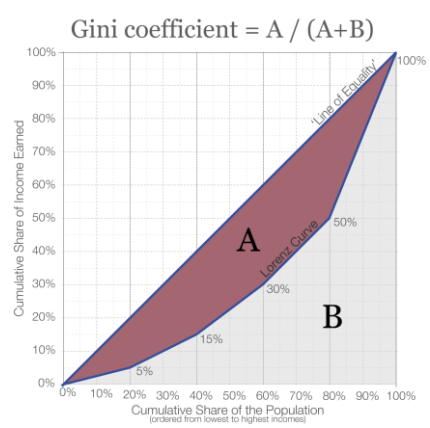
The following workpaper highlights the issue of inequality and the redistribution of financial resources, comparing as case studies "Germany", as a member part of the European Union, and the United States of America. Difference results from different redistribution levels are investigated and in the next step, the reasons for these differences are brought to light. The analysis of the reasons follows refers to the paper by Alberto Alesina, Edward Glaeser, and Bruce Sacerdote named entitled "Why ~~at~~ Does ~~not~~ the United States Have a European-Style Welfare State?" From 2001 (Alberto, Glaeser & Sacerdote; 2001), which analyzes analyses the origin of unequal redistribution from three different perspectives. In the first step, economic factors are examined, followed by political aspects and behavioural aspects. Thereby ~~†~~ The investigated economic factors that are investigated are thereby linked to the models and theories that were part of the lecture "Public Economics and Public Policies". The reason for that This approach is taken in order is to substantiate the arguments by scientific models. The last part of the paper completes the gained knowledge that has been acquired with additional more actual current scientific literature concerning the same topic and discusses ing the roots of inequality. Thereby In doing so, a small brief literature review is given provided and the investigations are compared to with the results compiled by Alesina Alessia, Glaeser and Sacerdote.

**Commented [SH1]:** I am not sure what you mean by 'contained'. It doesn't quite make sense. Do you mean in the sense of 'unable to increase' or 'inhibited'?

## 2. Inequality in Germany and the United States

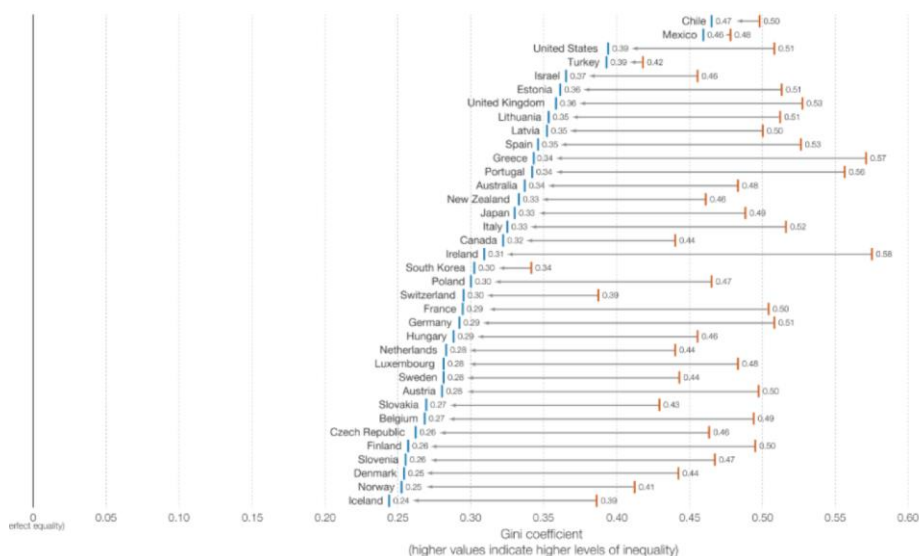
In order to measure inequality and the level of redistribution, it is necessary to measure pre-taxation inequality, and post taxation and redistribution inequality. ~~In this way~~ ~~This means~~ ~~that, both~~ conclusions about the initial situation can be drawn, as well as conclusions about the redistribution level. ~~Thereby~~ ~~Both~~ ~~indices~~ ~~thereby~~ represent important metrics. Pre-taxation inequality indicates how income from labour and capital income is distributed across a society. By contrast, inequality after taxation and redistribution indicates how existing inequalities are diminished by policy measures. ~~This therefore shows~~ ~~So~~ how existing financial inequalities were smoothed out through taxation and redistribution. To measure these indices, the Lorenz curve and the resulting Gini coefficients are used. The Gini coefficient is a measure ~~of that~~ ~~quantifies~~ ~~ying~~ the relative concentration of income distribution (Springer Gabler Verlag, 2014), in this case the income concentration in the United States of America and ~~to~~ ~~in~~ Germany. In the case of maximum equal distribution of income, the Gini coefficient assumes zero. A ~~Gini~~ ~~coeffiz~~ ~~cient~~ with the value zero means that each person earns exactly the same, i.e. the average income. In the other extreme case, the case of a maximum ~~umally~~ unequal income distribution, the Gini coefficient assumes the value ~~of~~ one. In this case, one person receives the entire income and all other people receive no income. The Gini coefficient can be illustrated and determined by the ~~considering~~ Lorenz curve. It corresponds to the area between the 45-degree line and the Lorenz curve determined for the case study in relation to the total area below the 45-degree line (Freie Universität Berlin, 2009). The closer the calculated value is to zero, the more equal ~~is~~ the distribution of income.

**Commented [SH2]:** 'the considering Lorenz curve' does not make sense. Do you mean ... 'determined by the Lorenz curve which will be considered' or '... and determined by considering the Lorenz curve.'



**Figure 1.** Explanation of the Gini coefficient. Adapted from *Our World in Data*, Retrieved from [published on https://ourworldindata.org/income-inequality#how-has-inequality-in-high-income-countries-evolved-over-the-last-century](https://ourworldindata.org/income-inequality#how-has-inequality-in-high-income-countries-evolved-over-the-last-century)

Typically, the pre-taxation Gini coefficient is between 0.4 and 0.6 for most countries. The post taxation and redistribution Gini coefficient is mostly usually lower, since redistribution is supposed to reduce inequality and not reinforce it. This typically ranges between 0.45 and 0.25, with over 0.35 relating to speaking of high-income inequality countries.



**Figure 2.** Pre-taxation and post-taxation Gini coefficients. Adapted from *Our World in Data*, Retrieved from [published on https://ourworldindata.org/income-inequality#how-has-inequality-in-high-income-countries-evolved-over-the-last-century](https://ourworldindata.org/income-inequality#how-has-inequality-in-high-income-countries-evolved-over-the-last-century)

If one compares the aforementioned cases are compared, then it becomes recognizable clear that the USA and Germany have the same Pre-Redistribution Gini coefficient. However, in Germany redistributive actions are stronger so that

the value goes back to 0.29, whereas in the USA it only reaches 0,39. In other words, the inequality of financial resources in the United States of America is much higher, after taxation and redistribution, than in the country of Germany.

Table 1

*Pre-taxation and post-taxation Gini coefficients in Germany and USA*

	Pre taxation Gini coefficient	Post taxation Gini coefficient
USA	0,51	0,39
Germany	0,51	0,29

Spelling of coefficient needs to be corrected in this table. Also, decimals should be written as 0.51 (not 0,51)

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Note: Own visualisation. The data is adapted from "Our World in Data" (2017):

Retrieved published on from <https://ourworldindata.org/income-inequality#how-has-inequality-in-high-income-countries-evolved-over-the-last-century>

### 3. Reasons for different income distributions in Germany and the United States

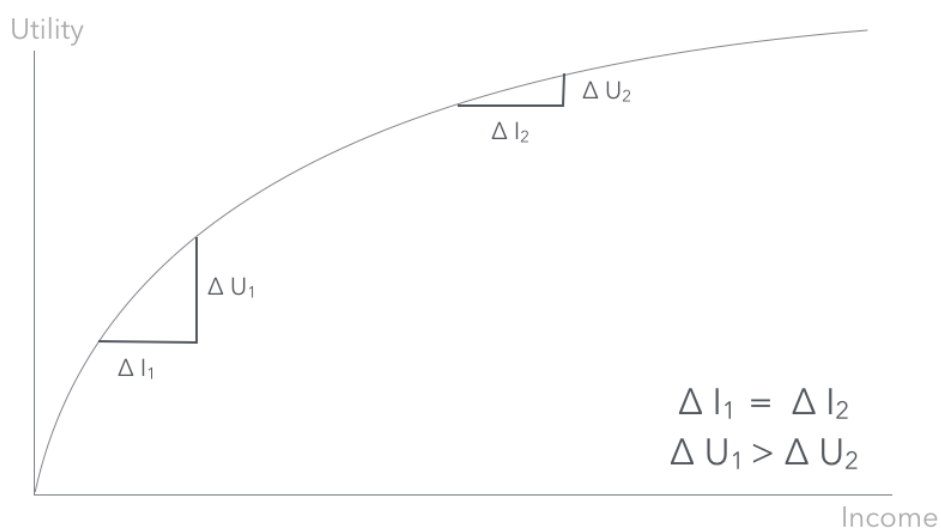
In the next section, the reasons explaining for this deviation are analyzed in more detail. The authors divide these into three different categories: economic aspects, political aspects and behavioural aspects (Alberto, Glaeser, & Sacerdote; 2001). Accordingly, this present work paper will follow the same categorization. The analysis of the economic aspects will be underscored by the contents of the Seminar and will be used as the basis for use them as an explanation.

#### 3.1. Economic factors

explained with the help of public choice theories

Standard economic theories (here public choice theories) provide different ~~sources of explanation ways of explaining for~~ the level of redistribution in a society. The first explanation can be found in the Atkinson Assumptions and the theory of marginal utilities of income.

According to ~~this~~ theory, individuals have different marginal utilities of income which means that one additional dollar of income adds different amounts of utility to different people in one society, depending on the income they already have. Figuratively speaking, this implies that a dollar taken away from a richer person, ~~and~~ given to a poorer person adds more utility to the poorer person than it subtracts from the richer person (Tresch, 2008, p. 90). ~~So~~ Richer people ~~therefore~~ value additional income less than poorer people do. The situation can be shown in the diagram below.



**Figure 3.** Diminishing Marginal Utilities of Income. Own Visualisation.

The diagram compares the additional utility by a person with a low income (on the left side of the diagram) and a person with a high income (on the right side). An additional unit of income is added to the income of both, but the resulting additional utility differs. The additional utility is much higher for the left person on the left than for the person on the right.

If ~~one follows that this~~ assumption ~~is followed~~, the social optimum can only be reached as soon as all private marginal utilities are equal (Tresch, 2008, p.91). This will only appear whenever all individuals earn the same income in every period. As this is a very strong assumption, one could generalize ~~this~~ fact and state, that societies with the same level of inequality should prefer the same level of redistribution.

~~If we To come back return~~ to the cases of Germany and the US, we should expect the outcome, that both societies prefer the same level of redistribution as they are confronted with the same level of pre-taxation inequality. ~~If one looks at the~~ When considering the post taxation and redistribution Gini coefficient, we have to come to the conclusion that the theory of marginal utilities of income ~~does not seems not~~ to be able to explain the ~~investigated~~ phenomenon under investigation, ~~that~~ This assumption also follows the ~~argumentation line of argument that has been adopted by~~ of the authors (Alberto, Glaeser, & Sacerdote; 2001).

The second economic aspect, that will be analyzed is Okun's leaky bucket. Standard economic theories explain, that redistribution should be less, the bigger the leaky bucket, ~~is~~ as redistribution is more costly due to ~~this~~ factor (Tresch, 2008, p.85). ~~So~~ The leaky bucket therefore justifies inequality due to the distortionary and inefficient effects redistribution always has.

Okun's leaky bucket can be explained by one simple quotation: "The money must be carried from the rich to the poor in a leaky bucket. Some of it will simply disappear in transit, so the poor will not receive all the money that is taken from the rich." (Okun, 1975)

~~The~~ leaky bucket is principally ~~mainly~~ generated by three different factors (Public Sector Economics. Example 5.2, 2008).

- The first one ~~is~~ the ~~so-called~~ deadweight loss. As consumers and producers face different prices, taxes become distorted and economies will stay below their possible production thresholds ~~production possibility frontiers~~. Only lump sum taxes are able to solve that problem, ~~but~~ however, as they are impossible to achieve ~~apart from outside of~~ theoretical constructs, deadweight loss cannot be overcome.

**Commented [SH3]:** I am not sure if 'justifies' is the right word. Perhaps, 'gives a reason for' or 'substantiates'.

**Commented [SH4]:** You have to be careful with the word 'so-called'. It can sound like you are not certain about what you are saying or are being sarcastic; almost if you are holding up a word or idea or inspection in a disapproving way. It is best to leave it out or say something like: 'The first factor is what is termed the deadweight loss.'



- Furthermore, the leaky bucket is generated by administrative costs, that can be described by the costs that are set up by the government by administering the tax and ~~transfer~~ implementing the programme.
- Last but not least, compliance costs have to be mentioned. Compliance costs are borne by the ones of taxpayers and transfer recipients who have to comply with the system.

In the next step, it ~~has to be investigated~~ will be determined if the leaky bucket is the same size in Germany and the USA. ~~has the same size~~. The authors state that both countries are comparable due to the factors that cause the leaky bucket and that this theory is not able to explain the different levels of redistribution as the leaky bucket has the same size. ~~However, But it is also possible to~~ one could also state, that compliance costs in Germany are very high as ~~bureaucracy~~ bureaucracy is an hugely significant ~~enormous~~ factor in Germany. ~~However, this~~ But that would mean that a lower level of redistribution could be expected in Germany than in the United States as ~~that~~ is would ~~enlarge~~ increase the size of the ~~g~~ German leaky bucket. ~~So~~ Therefore, even if we consider ~~this~~ at factor, the aforementioned theory is not able to explain the different levels of redistribution. After the analysis of the economic factors, it was determined that standard economic theories are not able to explain the investigated ~~phenomenon~~. ~~Because of that~~ Due to this fact, the authors ~~go on to do~~ test the variable political factors and behavioural factors (Alberto, Glaeser, & Sacerdote; 2001).

### 3.2. Political factors

The first political factor that is under investigation is the political history that both countries ~~have been went~~ through. It is stated, that European ~~N~~ national states, such as Germany evolved much later and due to different societal ~~stimulations~~ stimuli than the United States (Public Sector Economics. Example 5.2, 2008).

They explain ~~in detail~~ ~~they explain~~, that the ~~intention~~ objective of the foundation of the ~~a~~ American ~~N~~ national state mainly was primarily to protect ~~the property rights of~~ its inhabitants' right to own private property. ~~This~~ at motive is a general fundamental element of the ~~a~~ American constitution and is also deeply anchored in ~~the~~ a American society. Due to

thee factor, that the political history of the US has been a very stable one and that the constitution ~~dating out of the year from~~ 1789 (Bundeszentrale für politische Bildung; 2014) has remained the central document (Alberto, Glaeser, & Sacerdote; 2001), the protection of ~~the property the rights to private property effor~~ every person ~~being as a member part of the a~~American society is still an enduring element of the political landscape today.

In contrast to ~~this at~~ European national states, as they exist today evolved much later and due to very different ~~incentives reasons~~. The ~~e~~European continent's national states developed as a result of protest against monarchies and ~~the~~ dissatisfaction with the ruling ~~system classes~~ that ~~resulted in high levels of lead to poverty of poverty among~~ the working classes. -As a consequence of this, the protection of the working class against poverty was ~~in the focus at the heart~~ of the process when ~~building~~ national states ~~were built~~ and ~~this at~~ factor is anchored in the constitutions that evolved ~~in during~~ these times (Public Sector Economics. Example 5.2, 2008). ~~Also Furthermore~~, the German constitution combines elements of the free market with elements of a welfare state. ~~This at~~ concept is called social market economy (soziale Marktwirtschaft) in Germany and was ~~found formulated~~ by Ludwig Erhard and Alfred Müller Armack who defined the aim to link the principle of freedom in the market with that of social compensation (Bundeszentrale für politische Bildung; 2017). The German national state, ~~in a similar way to as~~ many other European states, evolved after ~~World War 2 Two~~. ~~These states and~~ are much younger ~~in comparison with the USA that the comparison case USA~~.

~~To bring the first political factor to a point~~, it can be said that the ~~a~~American national state evolved earlier in history and the reason was to protect the inhabitant's' ~~property right to private property~~. ~~This at~~ intention is reflected in the constitution. In contrast to ~~this that~~ European national states evolved to protect their inhabitants against poverty and this concept is anchored in the younger ~~e~~European constitutions.

~~This at~~ differentiation is one reason that ~~is able to explains~~ why financial redistribution is ~~less not as~~ strong in the US ~~than as~~ in Germany. The political history affects the taxation and redistribution system ~~to this until today~~ (Alberto, Glaeser, & Sacerdote; 2001).

The second- political factor ~~is targeting focuses on~~ the political systems as a whole, ~~and~~ more precisely ~~on~~ the electoral system. The United States of America established a majority electoral system that, as we know, in most cases gives rise to a two-party system. ~~This at~~

**Commented [SH5]:** I am not sure what you mean by, 'To bring the first political factor to a point'. Perhaps, 'To summarise the first political factor, it is important to highlight the fact that the American national state ....'

phenomenon can also be seen in the US, where the alternating leading parties are the Democrats and the Republicans (Aldrich, 1995). In a two-party political system, it is very hard for new parties to come to power and to become established in the political landscape as they will mostly usually not be able to receive gain attention through forming coalitions with the people's parties. ~~Because of that~~ Due to this systematic occurrence, small parties play a subordinate role in the US political system and do not influence the system as a whole.

The German political system ~~is a big~~ contrasts sharply with ~~to~~ the ~~one~~ system that ~~is~~ has been established in the United States. The first ~~manifestation~~ feature that ~~has to~~ should be mentioned is the proportional political system. Such systems commonly lead to a multi-party political system, as ~~it~~ can also be seen in Germany (Alberto, Glaeser, & Sacerdote; 2001). Many parties ~~are~~ ~~with~~ hold seats ~~in~~ in the parliament and the foundation of coalitions is necessary in most ~~leadership periods~~ periods of government. Proportional political systems give small parties the chance ~~easier to~~ reach ~~exert more~~ influence and ~~also to~~ install their ~~shape~~ political ~~idea~~ thinking into the society. ~~Because of that~~ This factor influences the ~~number of~~ newer ~~tendencies~~ trends which are also part of the political system. ~~One~~ very good example is the ~~Green~~ Party in Germany ~~that~~ which became part of ~~won~~ seats in the ~~German~~ parliament in ~~the year of~~ 1983 (Der Deutsche Bundestag; 2013) and influenced the whole parliamentary system, ~~as~~ ~~also~~ ~~big~~ the large parties ~~installed~~ adopted their ideas into their own political programmes. Needless to say, ~~also~~ other political currents ~~se~~ moved into ~~e~~ European parliaments. ~~E~~ examples ~~would be~~ include socialist, communist and social democratic ~~flows~~ movements that influence the social systems of states and lead to a higher level of redistribution.

Synoptically, it can be said, that proportional electoral systems commonly lead to multi-party political systems, which can also be seen in Germany and that these parties' ideas influence the social welfare state and lead to a higher level of redistribution. As the United States ~~do~~ has ~~ve~~ a majority electoral system that ~~lead~~ to the establishment of two big parties, the social welfare state was not influenced by small parties. ~~So~~ ~~the~~ The electoral system is ~~therefore~~ a factor that is also able to explain the phenomenon that is under investigation.

In the next step, the Alberto, Glaeser and Sacerdote study a third group of influential factors, called behavioural factors.

### 3.3. Behavioural factors

Also in this category, two factors are also important to the authors in this category.

The first one is the presumption that “racial prejudice is a real and enduring feature of the American landscape” (Alberto, Glaeser & Sacerdote; 2001, p. 228). To understand why racism does influence the level of taxation and redistribution, it is important to one has to look more closely deeper into the structure of the American society which consists of four major ethnic groups: the Whites, the Asians, the Hispanics and the Black. If one compares the average household incomes of these groups are compared, it is noticeable that the groups comprising of the Black and the Hispanic minorities have a median household income that lies below that of one of the Whites population. The median household income of white people in America was \$65.041\$ in 2016, while the median household income of Hispanics was \$47.675\$ and of the Black only \$39.490\$ for black people in the same period (Statista; 2018 A). This trend continues if one looks at when we examine the unemployment rates of the same major societal groups. While the average unemployment rate in the United States in 2017 was at 4.4%, all majority groups apart from the Asians and the Cubans show higher unemployment rates. 5.1% of the Hispanics were unemployed in 2017 and 7.5% of the black or African Americans (Statista; 2018 B). After looking at examining the structure of income in the American society, it becomes obvious “that redistribution towards the poor goes disproportionately to blacks and Hispanics” (Public Sector Economics, Example 5.2, 2008). In the next step, the authors refer to scientific studies that showed that people behave more altruistically toward individuals who they perceive they are or be similar to. So Therefore, if one individual is of the opinion that social services mostly reach people that are similar to himself, this individual will behave more altruistically. If one links the above analyzed structure of American society analysed above of the American society to the assumption that individuals behave more altruistically towards similar individuals, this behavioural factor has the power to explain why the redistribution level in the American society is low. But However, one factor that has not been investigated by the authors is the Asian minority in the US society which causes throws a spanner into the works trouble for the above-mentioned theory. The Asian society holds populations hold a significantly higher income level than the American

**Commented [SH6]:** Should this be 'minority' group i.e. the ethnic groups that are not dominant?

average and ~~also in comparison with~~ ~~than~~ the white population in America. ~~This group is less likely to be and is less often~~ unemployed. To ~~underline-underscore~~ ~~this~~ statement with some numbers, it can be noted that the Asian median household income is ~~at~~ \$81.431 (Statista; 2018 A) and thereby ~~exceeds~~ the Median income of white households by \$16.390. ~~The~~ Asians are with a rate of 3.2% (Statista; 2018 B) ~~most rarely~~ ~~the least likely group to be~~ unemployed (Statista; 2018 A). ~~But~~ ~~However~~, as racism ~~never~~ is hardly ~~never~~ based on facts but on prejudice, the ~~group of the~~ ~~Asians~~ ~~demographic group~~ does not falsify the whole theory, but ~~is~~ one factor that has to be kept in mind.

The second behavioural factor is directly connected to the spirit and the meaning of the American dream, which is a significant component of ~~the~~ ~~a~~ American society and characterizes “the ideal by which equality of opportunity is available to any American, allowing the highest aspirations and goals to be achieved” (The Oxford Dictionary). Following ~~this~~ statement, the authors ~~come to the point~~ ~~conclude~~ that American’s have a different view on the reasons for inequality and poverty. If one society believes that there ~~is~~ fairness in the sense of equal opportunities, the incentives to redistribute are smaller compared to societies that believe poverty is generated by imperfections in the social system. ~~Also~~ ~~Furthermore~~, ~~in~~ ~~with regard to~~ this point, they refer to different studies that show corresponding results. ~~This is~~ ~~in~~ ~~contrast~~ ~~to~~ ~~the opinion most often held by that the~~ Germans ~~more likely hold the opinion~~ that everyone can lose financial resources due to societal imperfections and that poverty generally can happen to anyone. ~~This explains why~~ ~~Because of that~~ they vote for ~~more~~ ~~greater~~ redistribution towards people with lower incomes, while ~~the~~ ~~a~~ American society ~~is~~ more likely to vote for systems that provide less social security and thereby less redistribution. After analysing the behavioural factors, it can be determined that these factors are able to explain the different levels of redistribution in Germany and the US (Alberto, Glaeser, & Sacerdote; 2001).

After ~~the analysis of~~ ~~analysing~~ the economic factors, the political factors and the behavioural factors ~~after following~~ the logic of the paper ~~written~~ by Iberto Alesina, Edward Glaeser and Bruce Sacerdote, it becomes clear that economic factors were not able to explain the ~~investigated~~ phenomenon ~~under investigation~~ and ~~thereby~~ standard economic theories ~~neither are also not able to provide adequate explanations either~~ (Public Sector Economics. Example 5.2, 2008 and Alberto, Glaeser, & Sacerdote; 2001).

As the authors ~~were mainly primarily used~~ing datasets from the 1990s, this paper will be completed by ~~the look~~examining into a ~~newer~~more recent paper concerning the same topic or more precisely the roots of the topic that ~~were~~analyzed above. ~~Thereby~~†The authors use a more ~~actual~~up-to-date datasets. ~~This~~at analysis will provide more ~~actual~~current information on the roots of inequality and ~~thereby~~will illuminate the topic of inequality from a different perspective and ~~show~~demonstrate ~~the still~~its very high relevance ~~of it~~.

#### 4. The roots of inequality in the United States

As mentioned above, a ~~newer~~more recent ~~D~~data ~~S~~source will be consulted to discuss ~~newer~~more recent trends on the topic of inequality. ~~Therefore~~OurWorldInData.org is an efficient sources that provides a ~~wide~~broad overview ~~about~~of the ~~mentioned~~topic in several regions. Our World in Data is a project that was brought into ~~life~~existence at ~~the~~Oxford University in ~~the year~~2011 and ~~who's aim is~~and has the objective ~~“to~~to give a global overview and to show changes over the very long run, so that we can see where we are coming from and where we are today“ (Our World in Data; 2017 A). The particularity of ~~this~~at website is that it was generated ~~as for the~~a public good so that it ~~is~~it accessible for everyone. Due to ~~this~~at fact, the ~~D~~data and the ~~D~~data visualisations can be downloaded and ~~can be~~used for further research. The article that will mainly be used for ~~the~~ further discussion is ~~called~~entitled „Is globalizszation an engine of economic development?“ (Our World in Data; 2017 B) by the author Esteban Ortiz-Ospina as well as the paper „†The China Syndrome: Local Labor Market Effects of Import Competition in the United States“ by David, Dorn and Hanson (Autor, Dorn & Hanson; 2013). As the second paper is the older one, and both scientific articles discuss the same topic, the Our World in Data article also cites the paper by ~~Auto~~Autor, Dorn and Hanson and discusses their arguments.

##### 4.1. Changes in Gini coefficients over time

~~The~~Pre- and post taxation Gini coefficients were already mentioned while discussing the economic factors for different levels of redistribution in the United States and in Germany. ~~But~~However, the levels of financial inequalities were taken as given and were not considered over time. ~~But~~Yet, if we look at the distributions over time, ~~one~~we can see that especially the Pre-redistribution Index in the USA has risen in the last period from 1980 until 2010.

Table 2

*Pre-taxation and post-taxation Gini coefficients in Germany and the USA.  
Comparison of the years 1980 and 2010.*

Year	Pre taxation Gini coefficient		Post taxation Gini coefficient	
	1980	2010	1980	2010
USA	0,43	0,51	0,31	0,39
Germany	0,44	0,51	0,27	0,29

Spelling of coefficient corrected in this table.  
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Also, decimals should be written as 0.51 (not 0,51)

Note: Own visualisation. The data is adapted from "Our World in Data" (2017).

Retrieved/published on from <https://ourworldindata.org/income-inequality#how-has-inequality-in-high-income-countries-evolved-over-the-last-century>

Because of the rising US wage inequality, and the fact, that globalisation was an economic boom factor in that period, we "h've seen a fruitful debate on the impact of international trade on US labor markets" (Alberto, Glaeser, & Sacerdote; 2001). As this is an interesting and relevant scientific discourse, the main arguments will be ~~comprehended~~ examined in the following section.

#### 4.2. The link between Globalisation and inequality

The main argument in the discussion of globalisation and inequality is that there are winners and losers from globalisation and that the American low paid sector could not profit from globalisation. To come to that conclusion, we first have to ~~notice~~ examine the American trade balance, which showed a trade deficit that started to ~~enlarge~~ rise in the ~~nineteen nineties-1990s~~ and is negative until today.

Following this phenomenon, the authors state, that the trade deficit influenced the wages in the low paid sector in the United States in a negative way due to the fact, that the US imports these goods and services from China. To reinforce the argument, they also ~~bring~~ include the point, that imports from low paid countries historically were low until the period of large imports from China started. As a result of these imports, jobs in the low paid sector

were lost and the bargaining power of the workers in the low paid sector ~~has gotten~~ became weaker-worse. ~~Worse~~ Weaker bargaining power, no matter what factor caused it, leads to declining wages in the corresponding sector. ~~So~~ The authors therefore directly “~~r~~ relate changes in labour-market outcomes from 1990 to 2007 across US local labour markets to changes in exposure to Chinese import competition” (Alberto, Glaeser, & Sacerdote; 2001). They also mention that overall trade with China is a benefit for the US economy but come back to the initial argument that low paid sector workers in the United States are the ones that do not profit from the trade with China. ~~In comparison to that one can~~ By way of contrast, it is possible to argue that the higher paid sectors are the ones that benefit and that the demand for high skilled labour has correspondingly increased accordingly. In a situation of increasing demands and consistent supply, ~~the~~ prices will rise and this ~~what~~ leads to improvements in the high paid sector. After analyzing the effects ~~for~~ on the low paid sector and the higher paid sector, ~~one can bring the arguments~~ it is possible to conclude together and state that high paid sectors in the United States improve their bargaining power, while the bargaining power of the low paid sector has declined. Cumulatively, ~~this~~ at leads to the effect that ~~means that~~ total financial inequality becomes stronger. ~~So~~ it is therefore possible to argue that ~~the argument of~~ Globalisation has the power to explain the rising financial inequality in ~~the~~ United States over time. As analyzed in the first part of ~~this~~ at paper, redistribution is relatively low so that rising Pre-taxation inequality will not be ~~efficiently~~ effectively ~~dammed~~ curbed.

## 5. Conclusion

The ~~intention~~ aim of the first part of this paper was to analyze the reasons for the differences in redistribution in Germany and the United States. ~~Thereby~~ Factors ~~derived from~~ out of three different categories were ~~under observation~~ examined and the conclusion ~~and~~ drawn in the first part of that paper was, that standard economic theories cannot explain the ~~investigated~~ phenomenon under investigation, however, but a combination of political and behavioural factors can.

The second part of the paper ~~went deeper~~ delved more deeply into the ~~mentioned~~ topic and ~~wanted~~ aimed to ~~find out what~~ identify the reasons for the high pre-taxation Gini coefficient, ~~are~~. ~~Thereby~~ The role of globalisation was analyzed in the process and the conclusion has



~~been drawn is~~ that globalisation was a negative factor for the low paid sector in the ~~u~~United States, ~~whilest~~ the high skilled, better paid sector could profit ~~from thise~~ development. Due to ~~better-stronger~~ bargaining power in the high skilled sector, incomes were rising ~~as oppositein contrast~~ to the low paid sector where incomes declined due to ~~worse-weaker~~ bargaining power.

The ~~investiagat~~ion showed ~~that~~ the topic of financial inequality can be framed from different perspectives but is still a relevant and interesting topic and part of the scientific discourse.

## 6. Literature

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### Declaration of Independence

I declare that I have written the seminar paper independently and without outside help, that I have not used sources other than those given, and I have identified the passages taken from the sources used as such.

Hamburg, 20<sup>th</sup> of February 2018

Signature