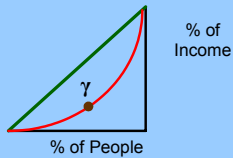


Shifting the Lorenz Curve



An Example

- 1,000 people earn \$150,000
- 9,000 people earn \$10,000
- The top 10% earns 15 times as much as the lower 90%
- Government costs \$10,000,000 to run

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$$\frac{\$10,000,000}{1,000} = \$10,000$$

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- Government costs \$10,000,000 to run
- Impose the entire tax burden on the top 1,000.
- Their earnings drop to \$140,000 and the ratio is 14:1.

Going with the Flow

- 1,000 people earn \$150,000
- 9,000 people earn \$10,000
- The top 10% earns 15 times as much as the lower 90%
- Government costs \$10,000,000 to run
- Tax the top 1,000 \$100,000 each, & give everyone \$9,000.

Taxpayers	1,000
Total Revenue	\$100,000,000 (=1,000 X \$100,000)
Gov't Spending	\$10,000,000
Net	\$90,000,000
Per Capita	\$9,000

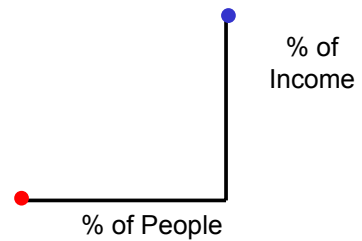
An Example

- 1,000 people earn \$150,000
- 9,000 people earn \$10,000
- The top 10% earns 15 times as much as the lower 90%
- Government costs \$10,000,000 to run
- The top 10% now earns
 $\$150,000 - \$100,000 + \$9,000 = \$59,000$
- The bottom 90% now earns
 $\$10,000 + \$9,000 = \$19,000$

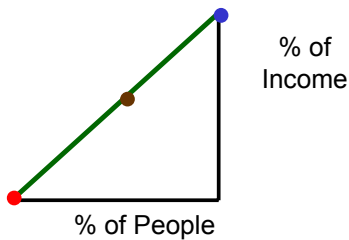
An Example

- 1,000 people earn \$150,000
 - 9,000 people earn \$10,000
 - The top 10% earns 15 times as much as the lower 90%
 - Government costs \$10,000,000 to run
- The income ratio is $\cong 3:1$
(Actually 59:19)

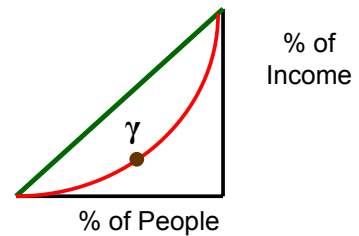
The Lorenz Curve



The Lorenz Curve

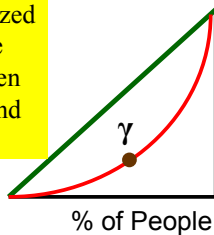


The Lorenz Curve



The Gini Coefficient

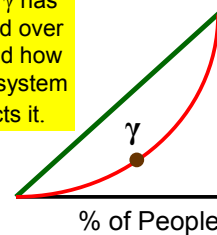
γ is normalized to lie between zero and one.



$\gamma = 0$ means uniform income distribution;
 $\gamma = 1$ means one guy has it all.

The Gini Coefficient over Time

Lots of studies of how γ has changed over time and how US tax system impacts it.



% of Income

Few Answers.

End

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