# Income Inequality: Long Run Trends Overseas Departments of France & Mauritius

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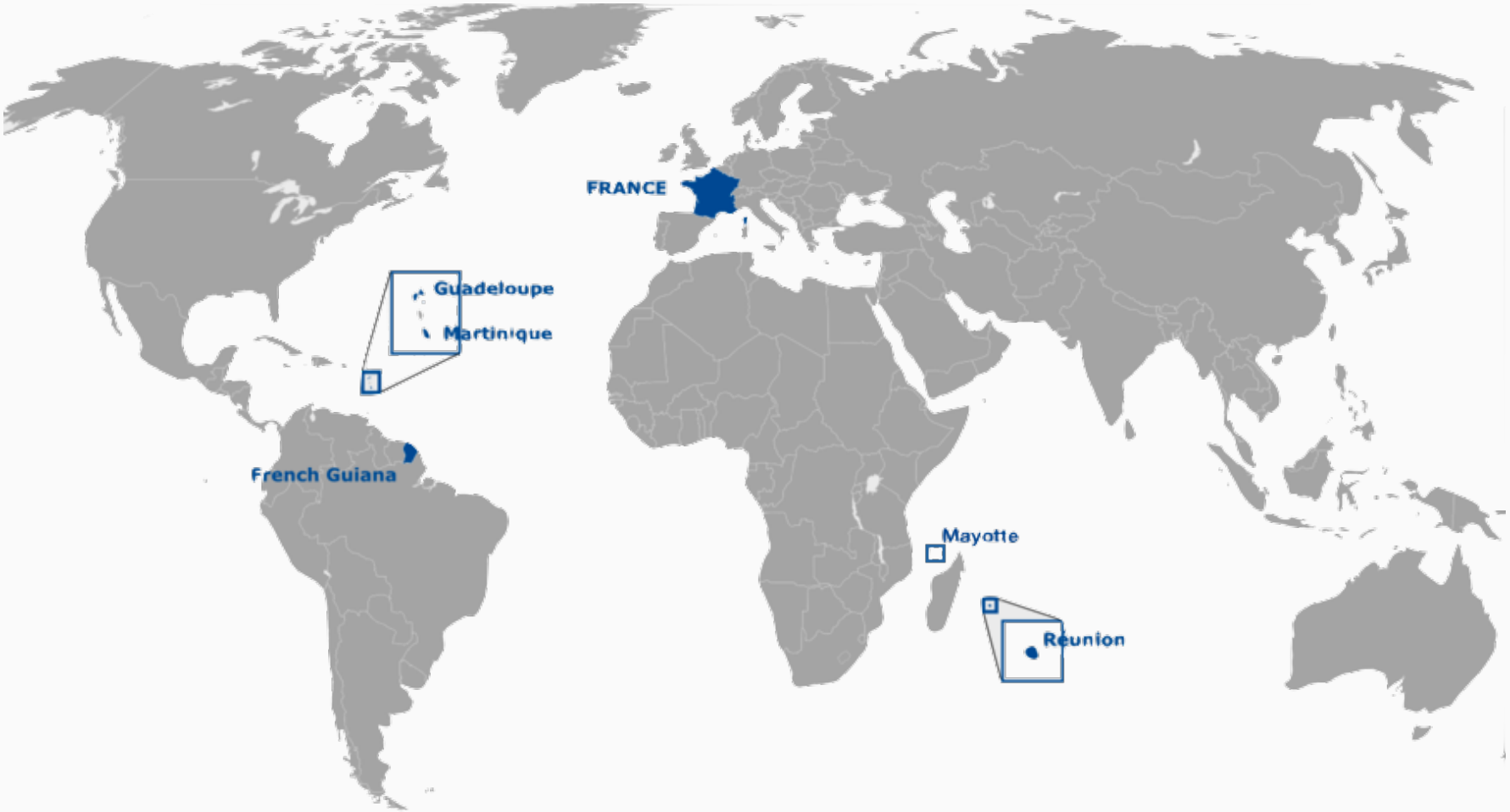
# Overseas Departments of France



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Intriguing cases: Developing context within a highly developed nation

- Colonial history (Since $17^{th}$ century) $\rightarrow$ Departmentalisation (1946)
- Ethnic Mix: White metropolitans, African ex-slaves, Indian labourers, Autochtones
- Economic and Social Division
- High relevance for France: historically, economically & politically
- DOM- Most unequal departments of France (INSEE)

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" *...In 1945, all the inhabitants of the former empire wanted to become citizens and stop being subjects...[Departmentalisation] meant the* **end of arbitrary rule**, **access to European salaries and social security**... *By departmentalisation, what was sought, naively probably, but sincerely, was* **equality of rights**. *But France remained reluctant to enforce what it had voted for. I then realized that we had made a fool's deal, and that departmentalisation was nothing but a* **new form of domination**. "

—Aimé Césaire (1981)

# Contribution & Results

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$\rightarrow$ Collecting & building a database for DOM

$\rightarrow$ Long run trend of income inequality

$\rightarrow$ Comparative study: Martinique, Guadeloupe & La Réunion since the mid-1980s

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→ Long run trend of income inequality

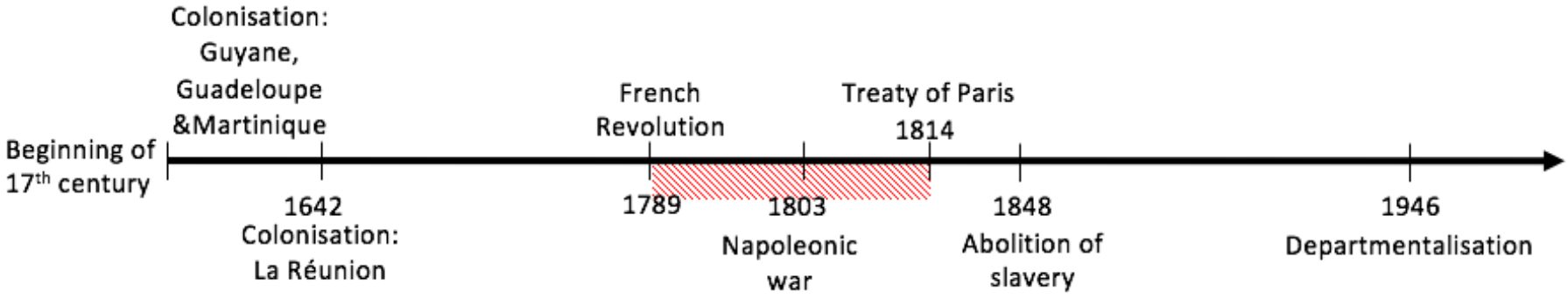
→ Comparative study: Martinique, Guadeloupe & La Réunion since the mid-1980s

**Results**

- Significant gap between the average income in Metropolitan France and the DOM and reduction over the period but still significant today
- Top Income Shares: Much higher top 10% shares but no significant difference in top 1% between France and DOM
- Lower bottom 50% shares

# Context

# Historical Context

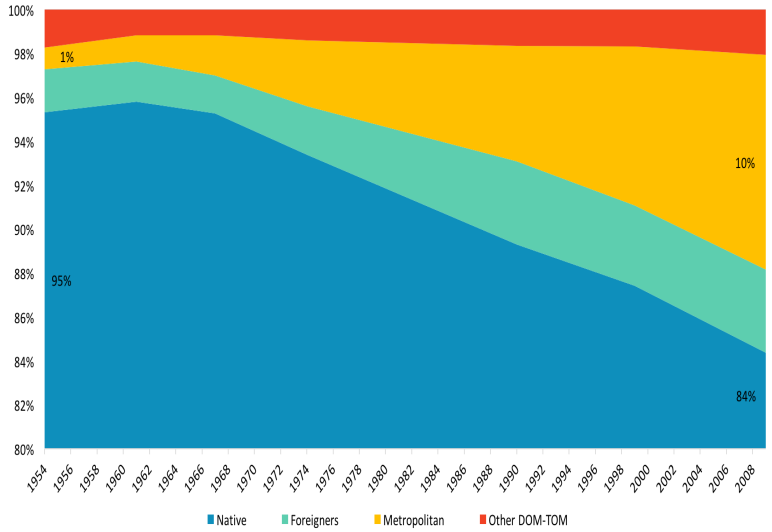



Post-departmentalisation:

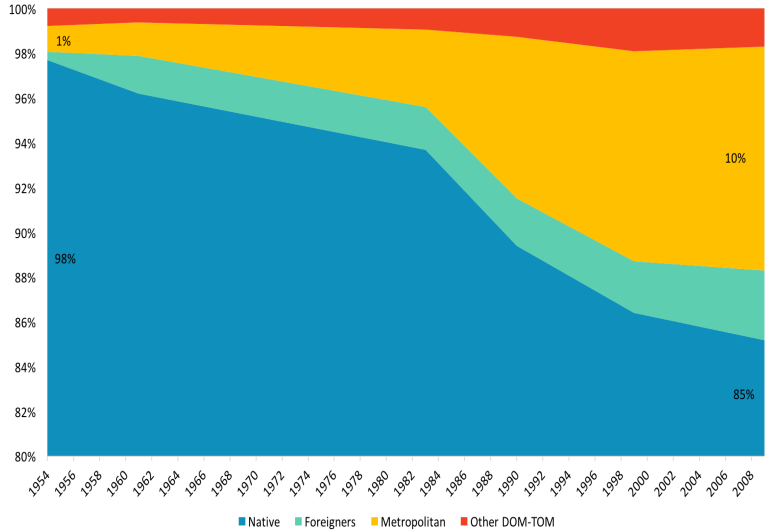
- Phases of Socio-economic development:
  1. **1950s - 1960s:** Addressing urgent sanitary and social situations
  2. **1960s - 1980s:** More focus on DOM-specificities & increased creation of public jobs
  3. **1980s-2000:** Increased effort to bring equality
     - Decentralisation of power: Regional Council in each DOM
     - Wider coverage of social benefits
     - Alignment of benefits to Metropolitan France: RMI, SMIC
- Public Wage Premium: sur-rémunérations: premium of 53.6% in La Réunion & 40% in Guadeloupe, Martinique and Guyane

# Population

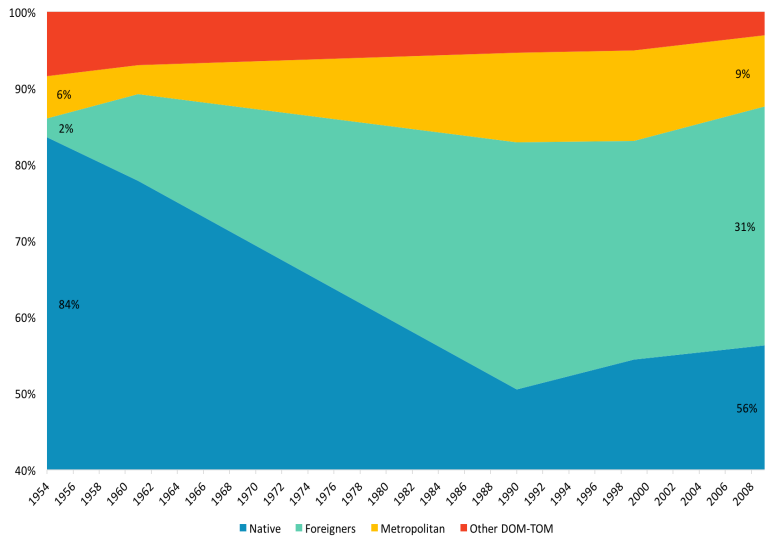
## Guadeloupe



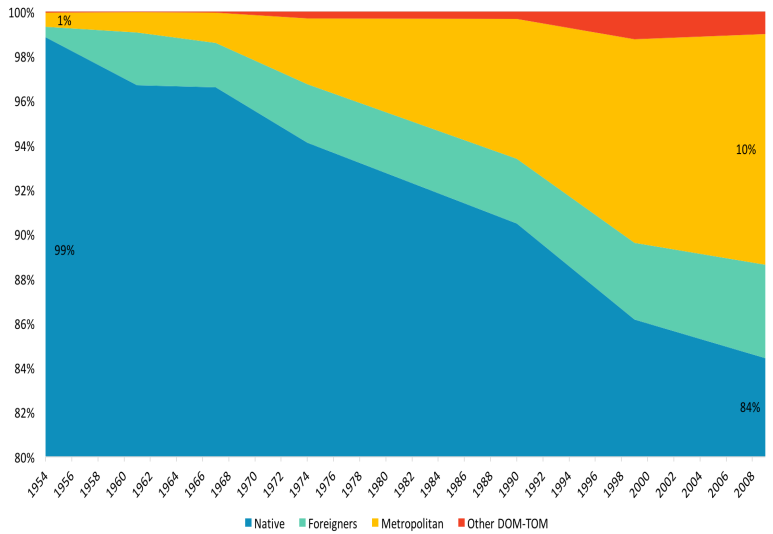

## Martinique




## Guyane




## Réunion



# Current Situation

- High Unemployment Rate Unemp Rate

| | Metropolitan France | DOM |
|---|---|---|
| **Unemployment Rate** | 10% | 20 - 30% |
| **Youth Unemployment Rate (15-24 years)** | 25% | Above 50% |

- Lower HDI than Metropolitan France HDI

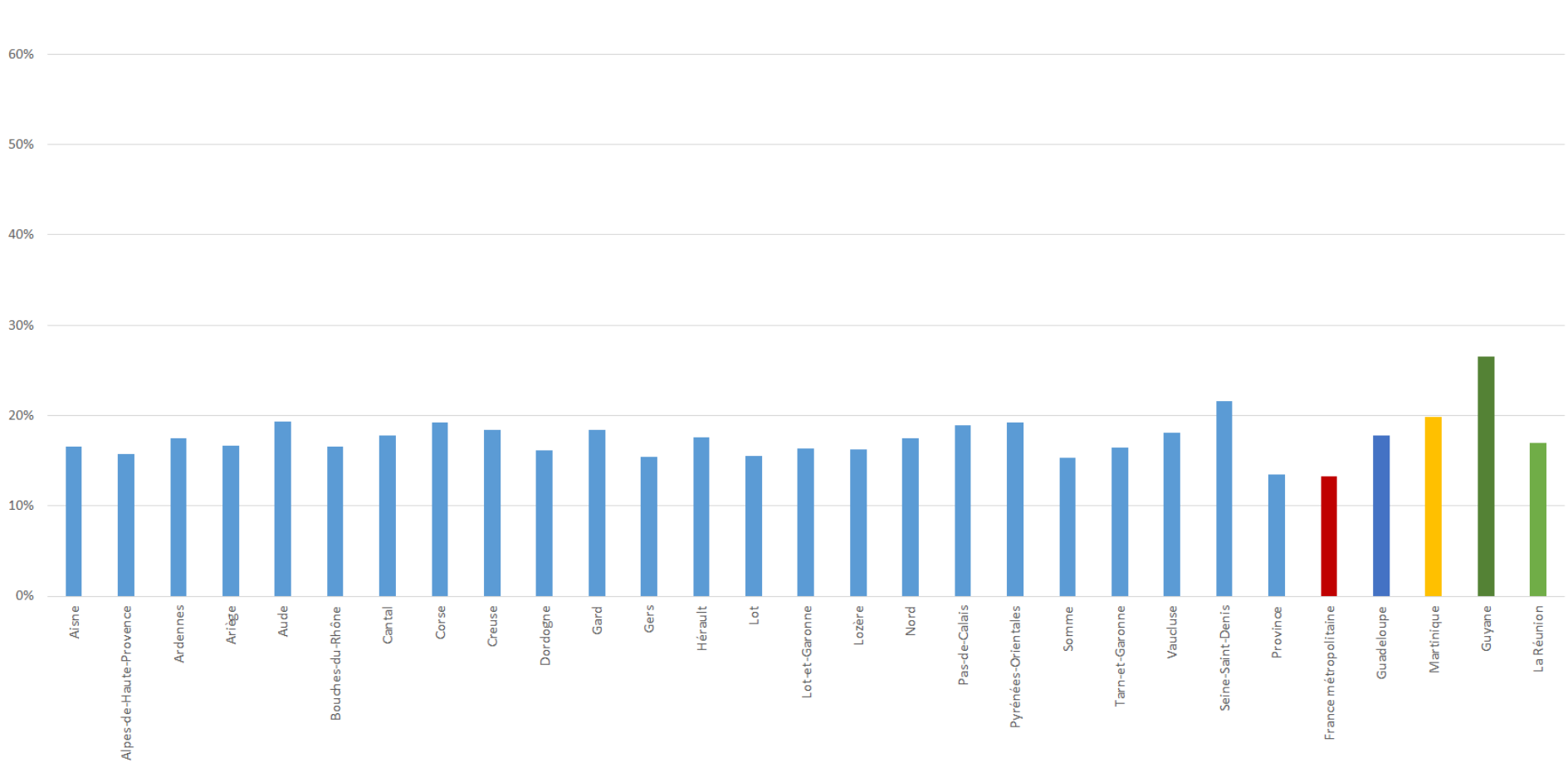
| DOM (2010) | HDI Level |
|---|---|
| **La Réunion** | Same as France 1990 |
| **Guadeloupe & Martinique** | Below France 2000 |
| **Guyane** | Below France 1990 |

- High Poverty Rates

# Current Situation

## Poverty Rate

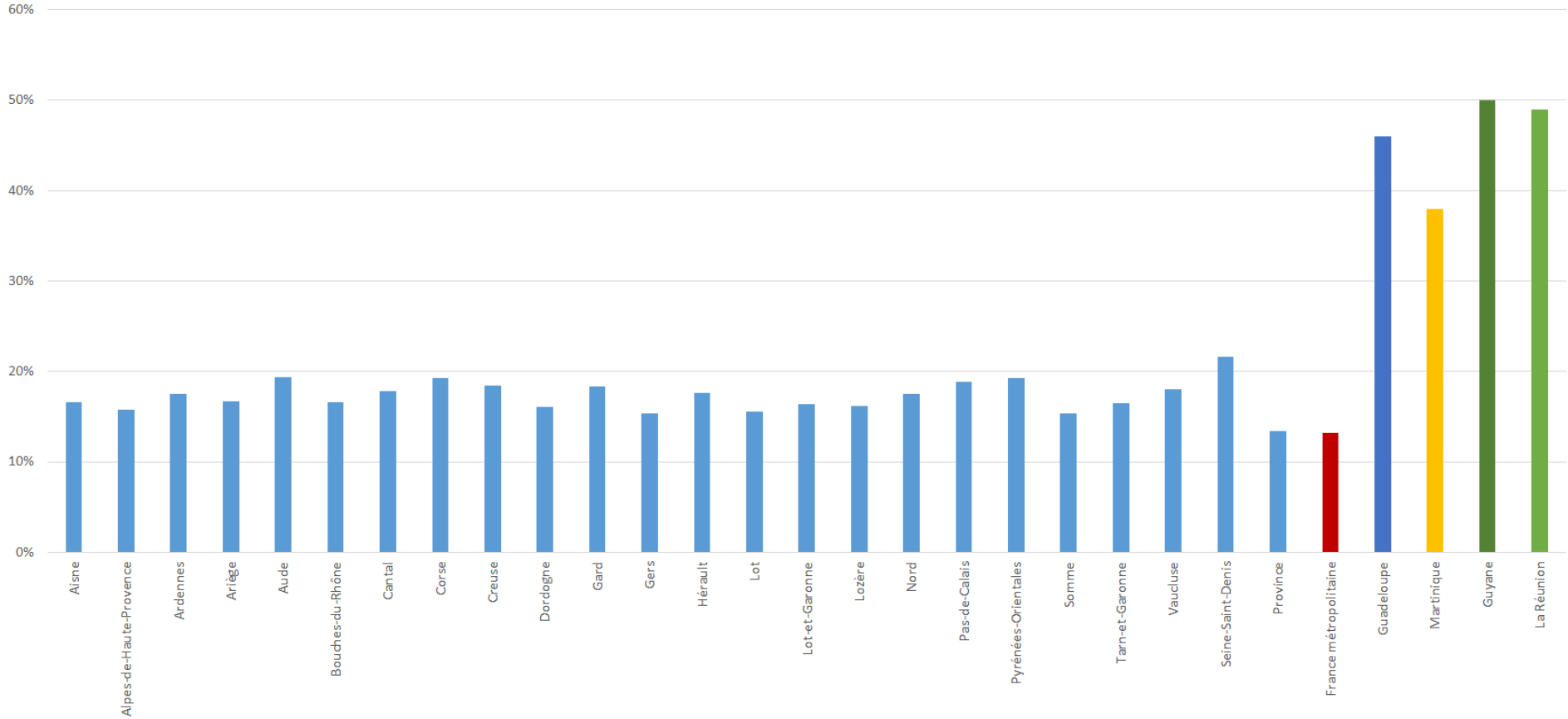
Poverty Rate (Based on Local Poverty Threshold for DOM)




Source: INSEE

Using National Poverty Threshold: Extreme Poverty level All dept

Poverty Rate (2006)




Source: INSEE, Senat (INSEE, ISEE, ISPF, AFD)

# Data & Methodology

# Data

## Population Data

RP1954 - RP2014

## Income Data

| Year | Source |
|---|---|
| 1970 - 1994 | INSEE (1997) |
| 1990 - 2014 | INSEE Online Database |

## Taxation Data

| Year | Source |
|---|---|
| 1986 - 1998 | Etats 1921 (Centre des Archives Economiques et Financières) |
| 2000 - 2014 | Direction Général des Finances Publiques (DGFiP) |

# Methodology

- **Generalised Pareto Interpolation Technique**- Blanchet et al., (2017) as used in Garbinti et al., (2017)

- **Control Total for Population and Income**
  The total population and income if all tax units declared their income

**i) Control Total for Population**

Control Population = Adult Population - Number of married couples

**ii) Control Total for Income**

Taxable Income = GDP - Non-household Income - Non-taxable items

# Methodology

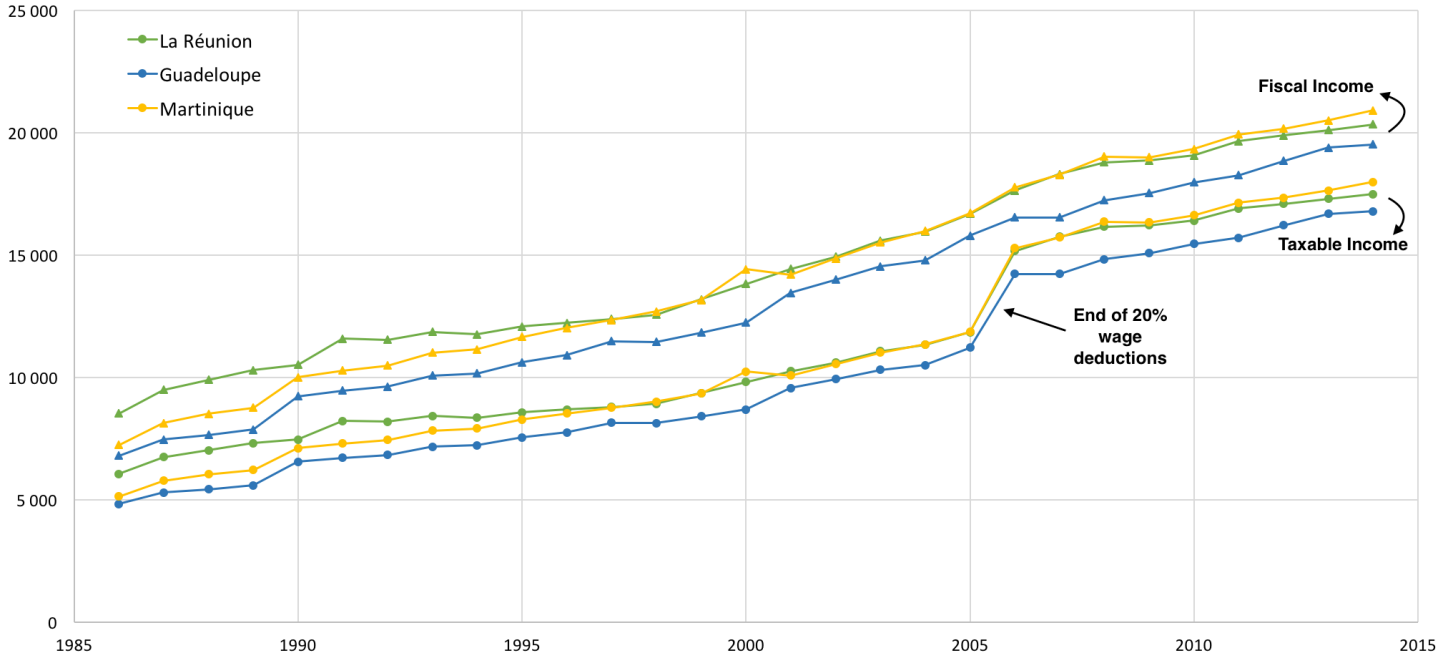
## Control Total for Income

**Taxable Income** $\rightarrow$ **Fiscal Income**: See Garbinti et al., (2017)

i) 10% Lump-sum on professional expenses of wage earners

ii) Additional 20% deduction on wage income (repealed in 2006)

iii) Capital Gains



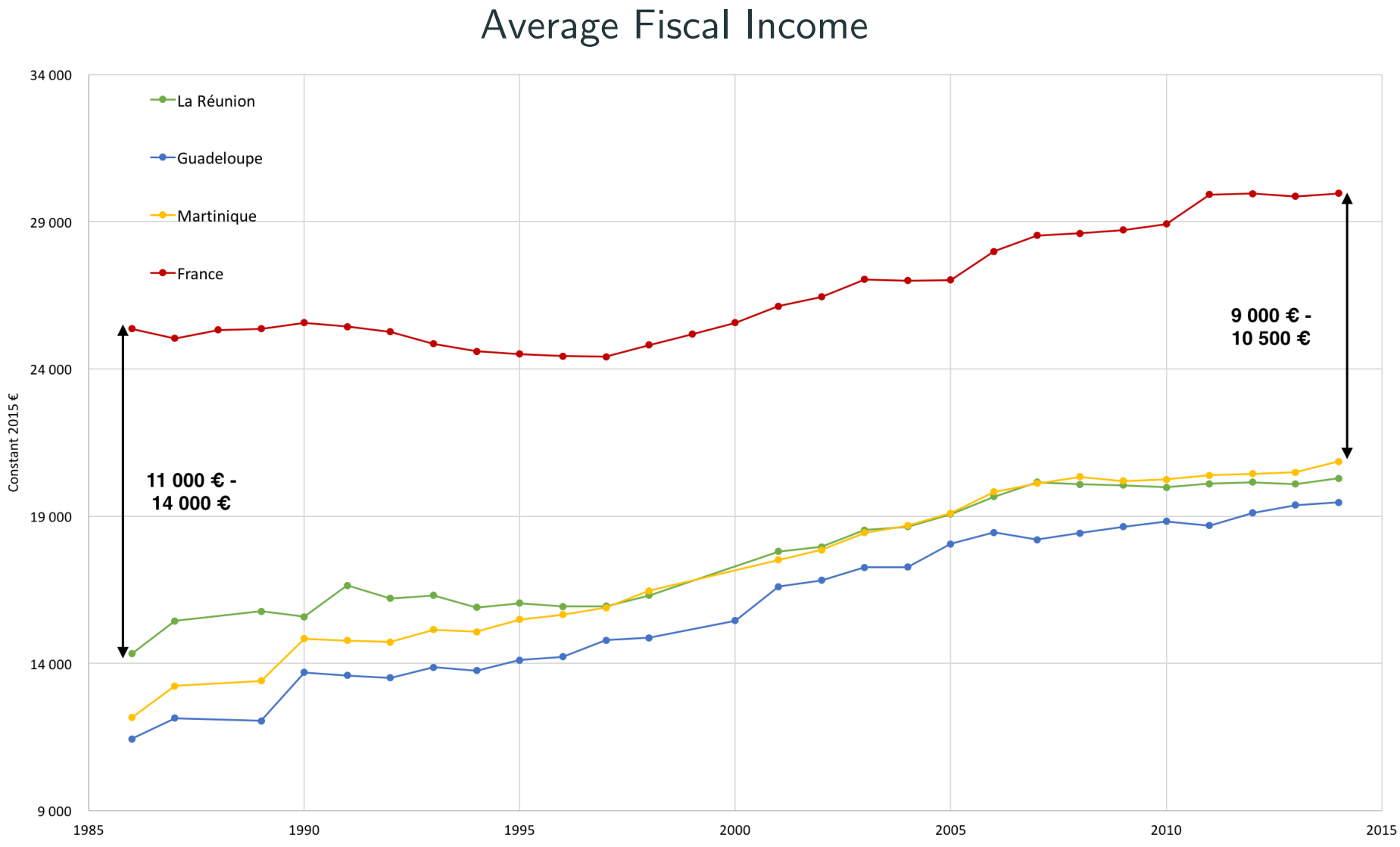

Source: Own estimations based on DGFiP data

Hence, unit of analysis is **Fiscal Income** & **Tax Units**

# Results

# Results

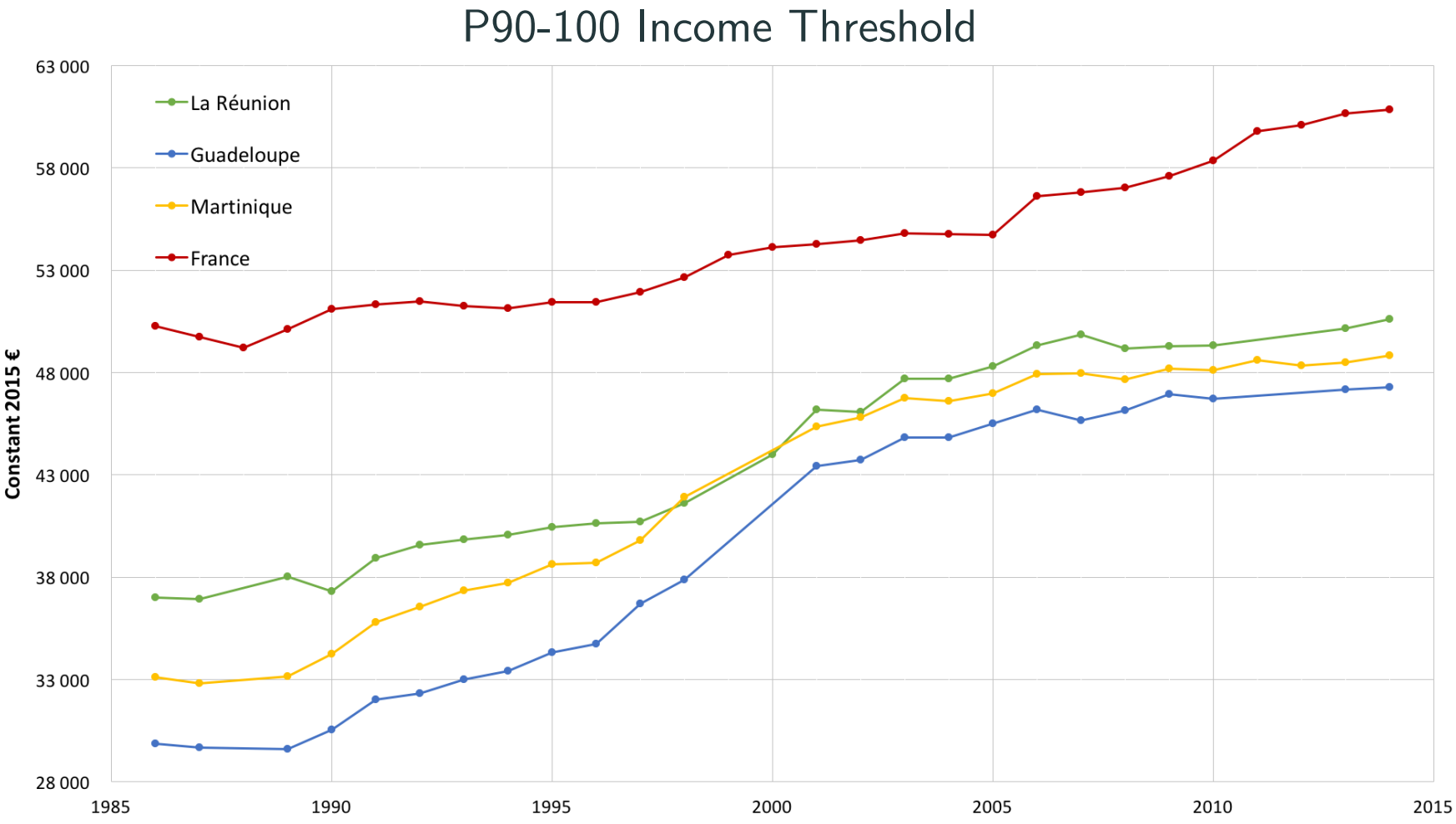
## Average Fiscal Income




Source: Own estimations based on National Income data (INSEE) and Garbinti et al (2017) for France

# Results

## P90-100 Threshold




Source: Own estimations based on DGFiP data and Garbinti et al (2017) for France

# Results

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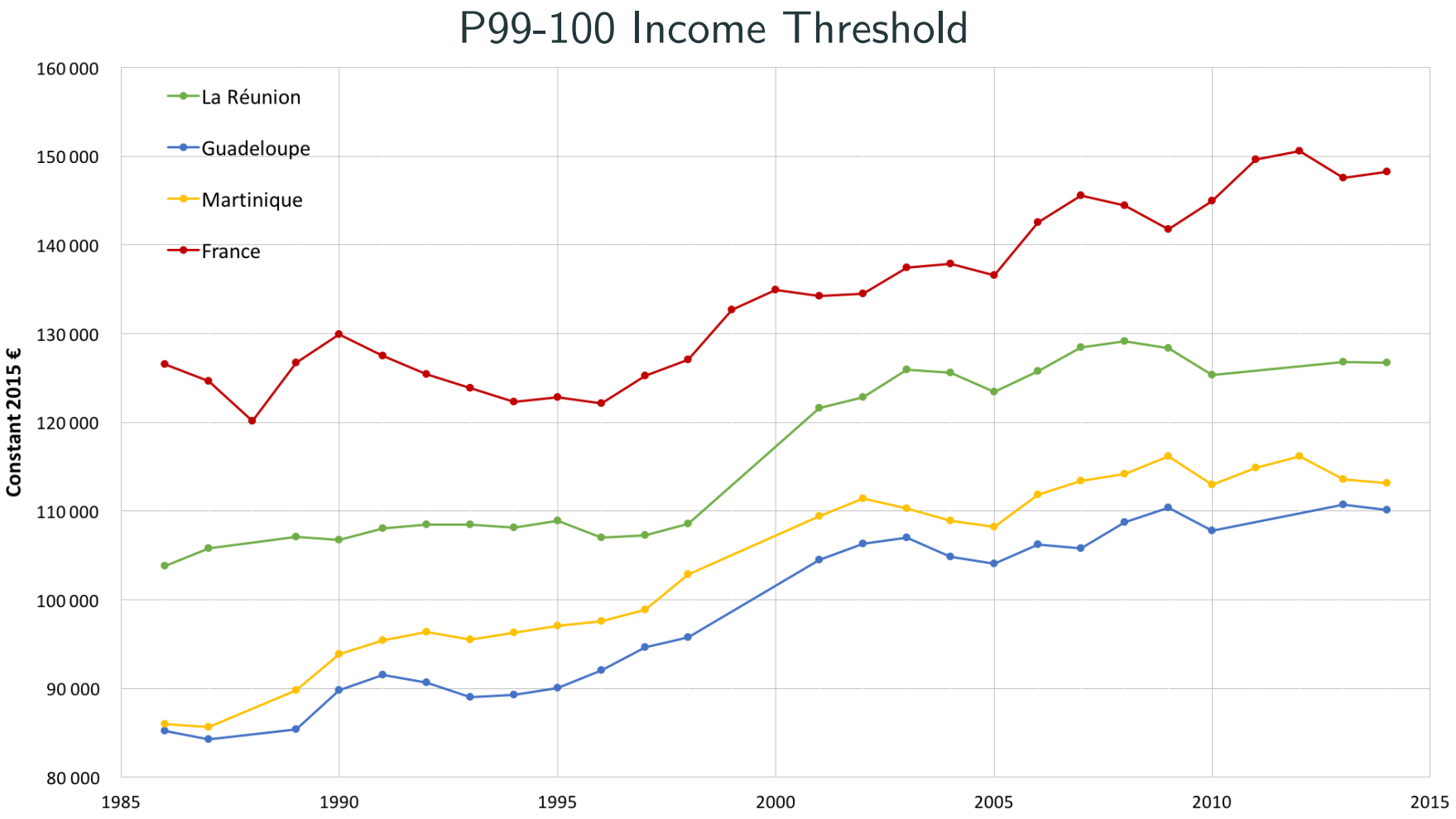


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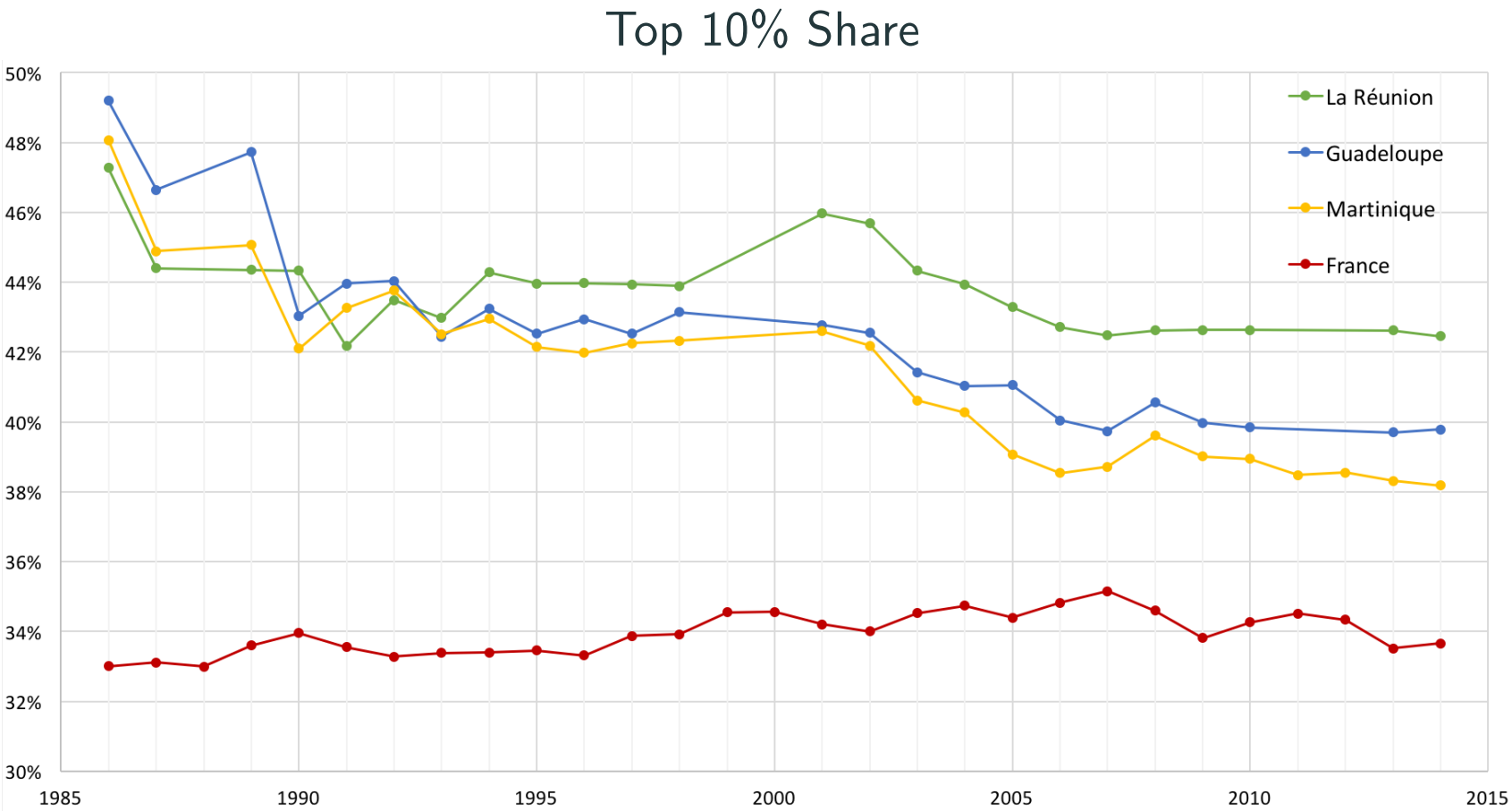
# Main Results

## Top Income Shares

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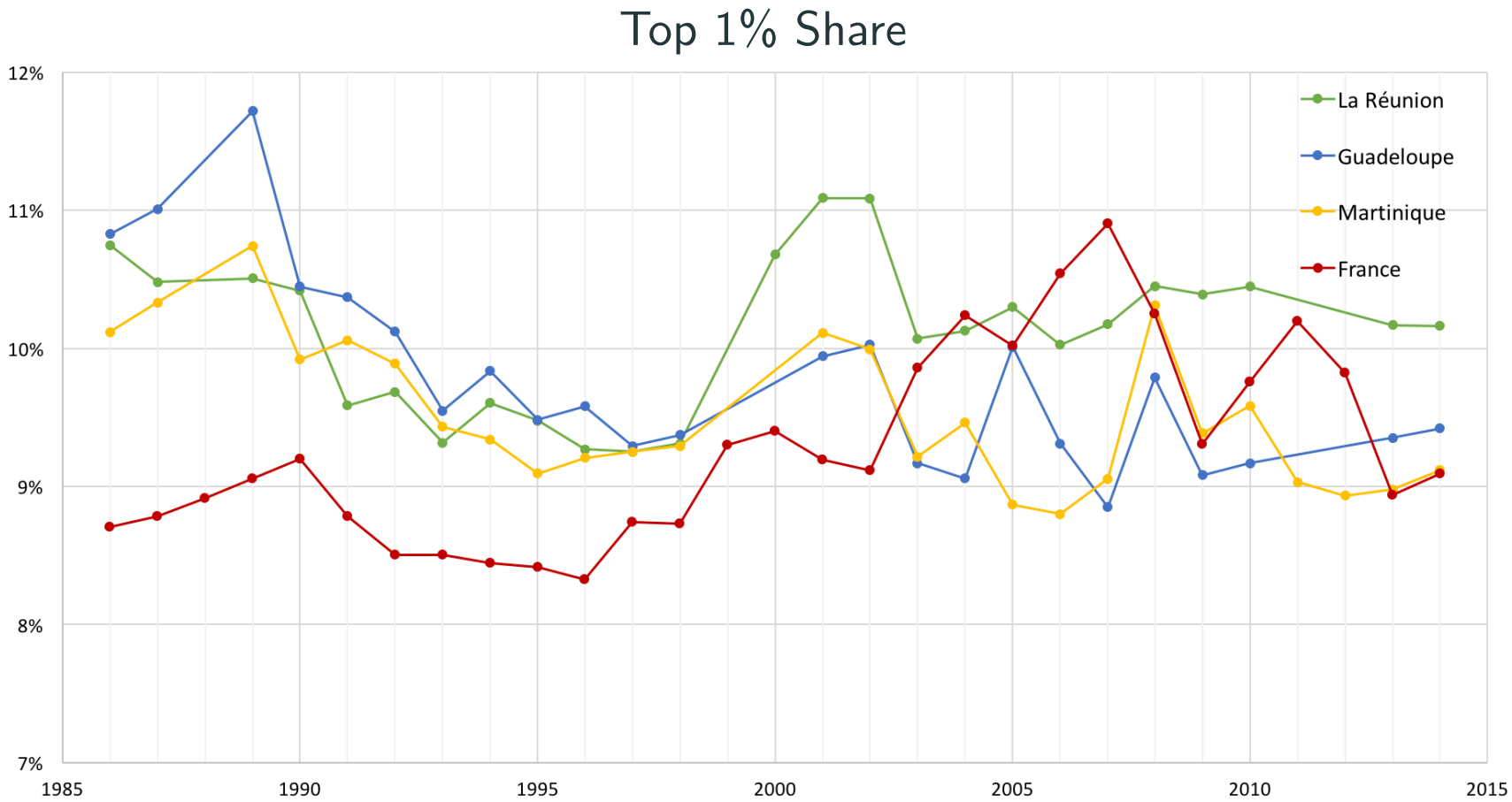


Source: Own estimations based on DGFiP data and Garbinti et al (2017) for France

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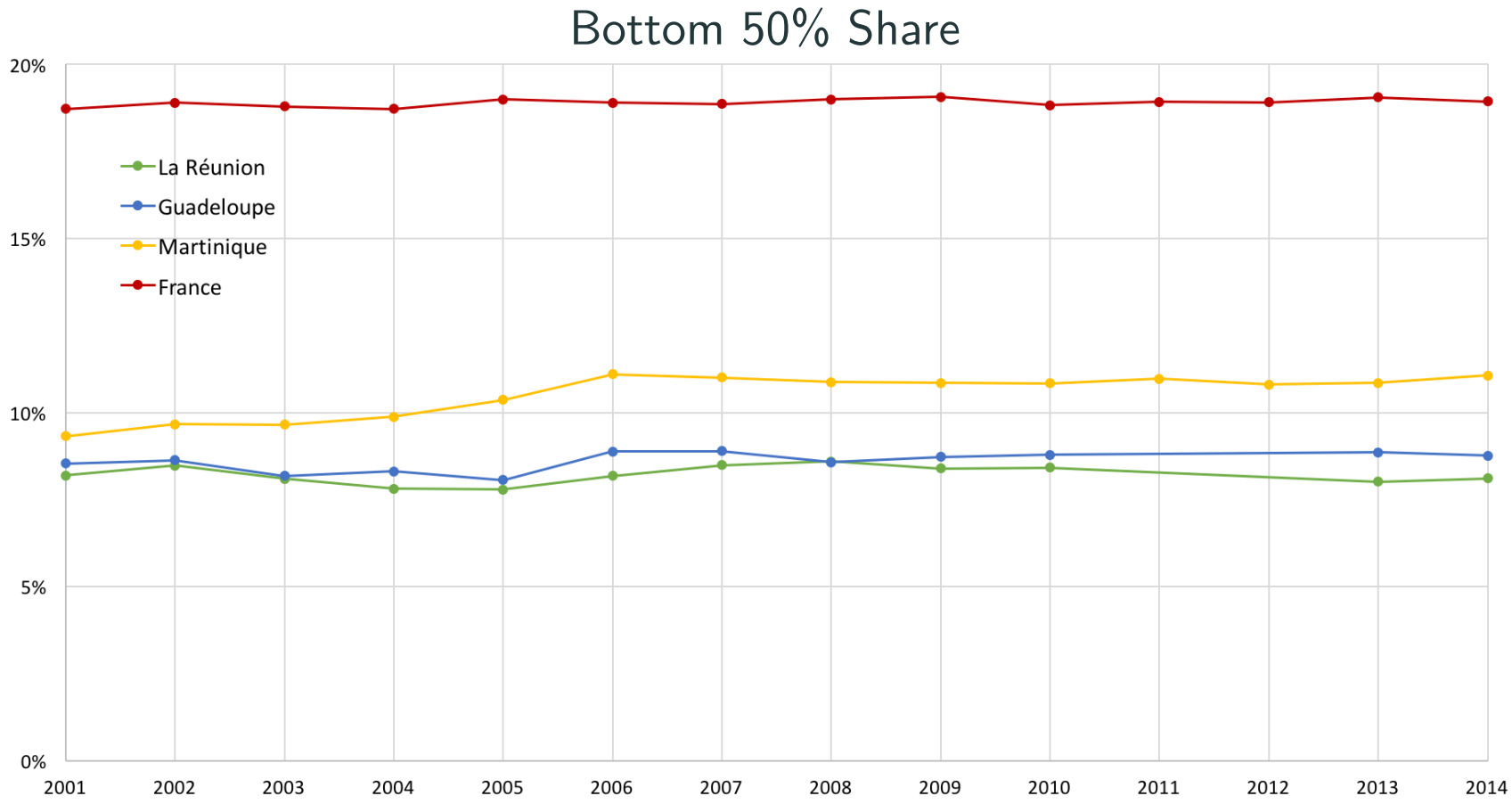
## Bottom Income Shares




Source: Own estimations based on DGFiP data and Garbinti et al (2017) for France

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# Plausible Explanation

### Bottom of the distribution

- High unemployment rate: 20 - 30%
- Lower minimum wage than Metropolitan France prior to 1996

### Upper end of the distribution

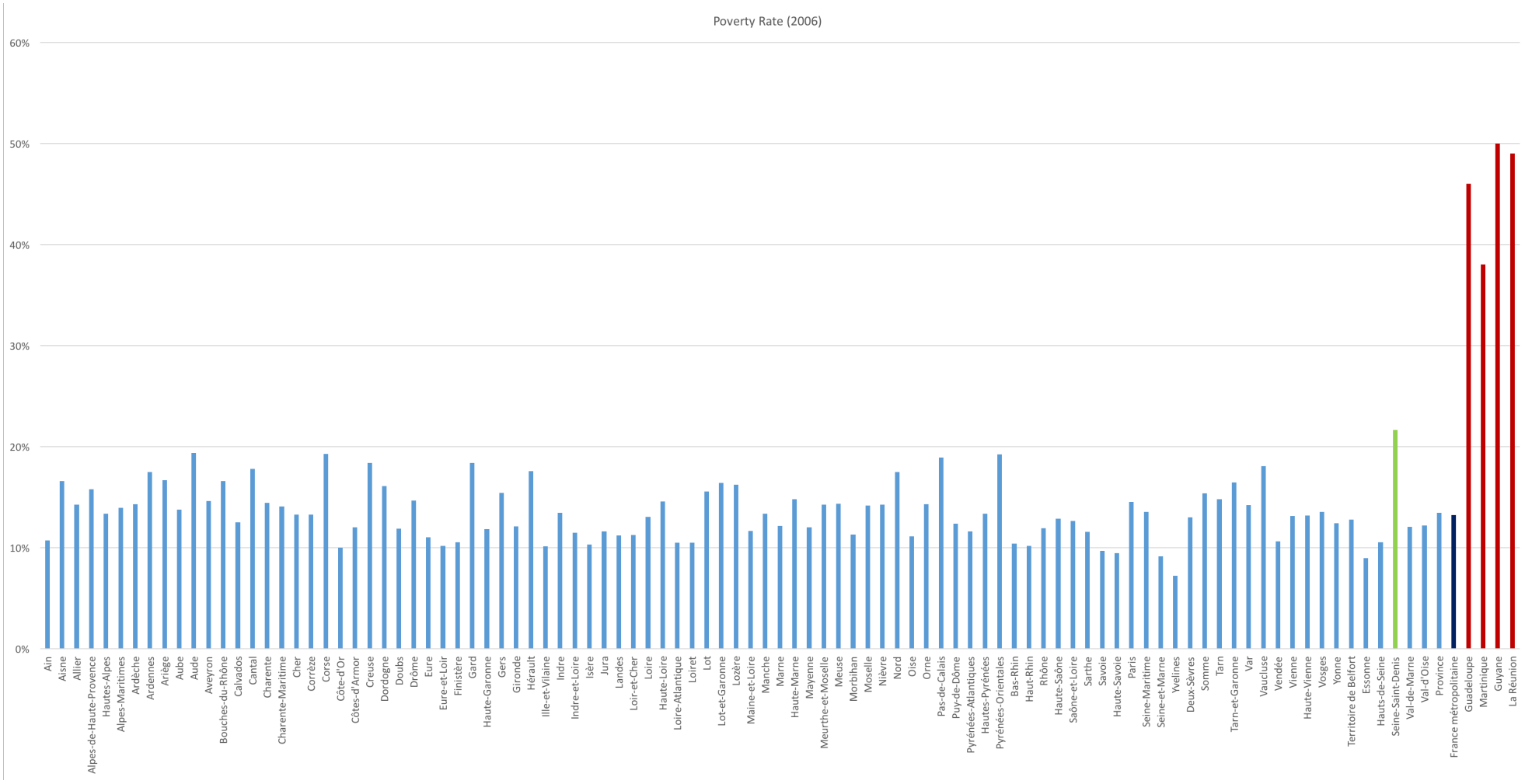
- Civil servants wages + Premium
- Private sector high-income earners

# Conclusion

# Appendix

# Poverty Rates

## Poverty Rate (2006)




Source: INSEE

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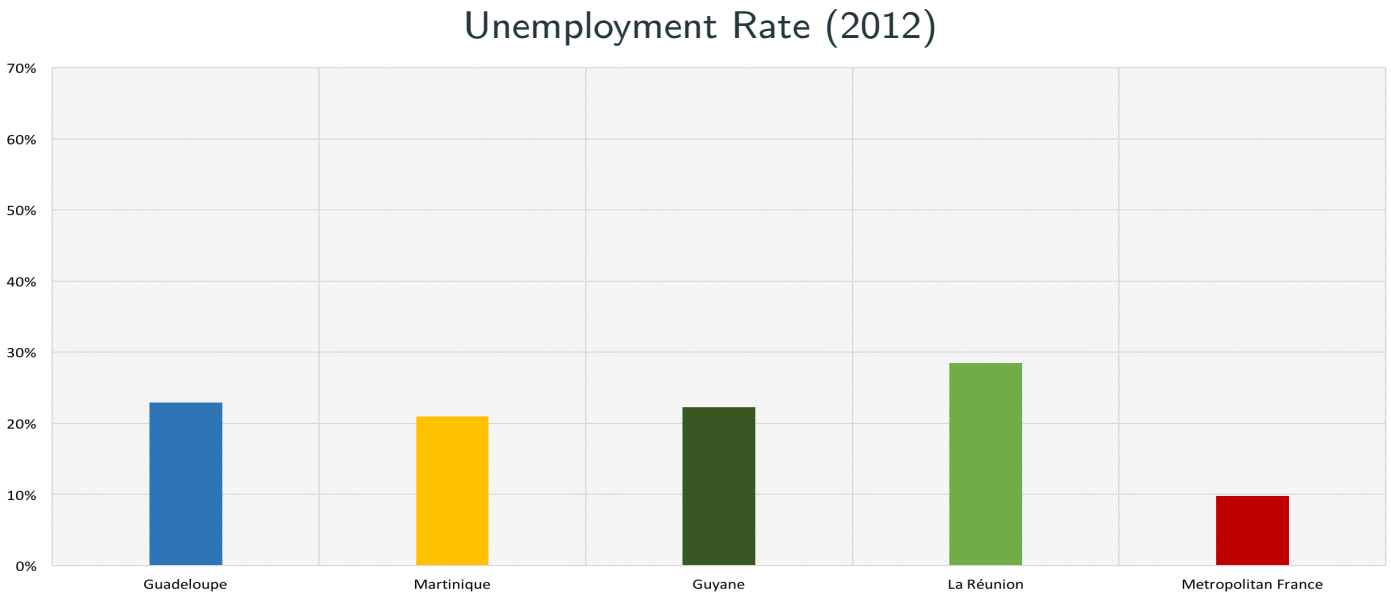
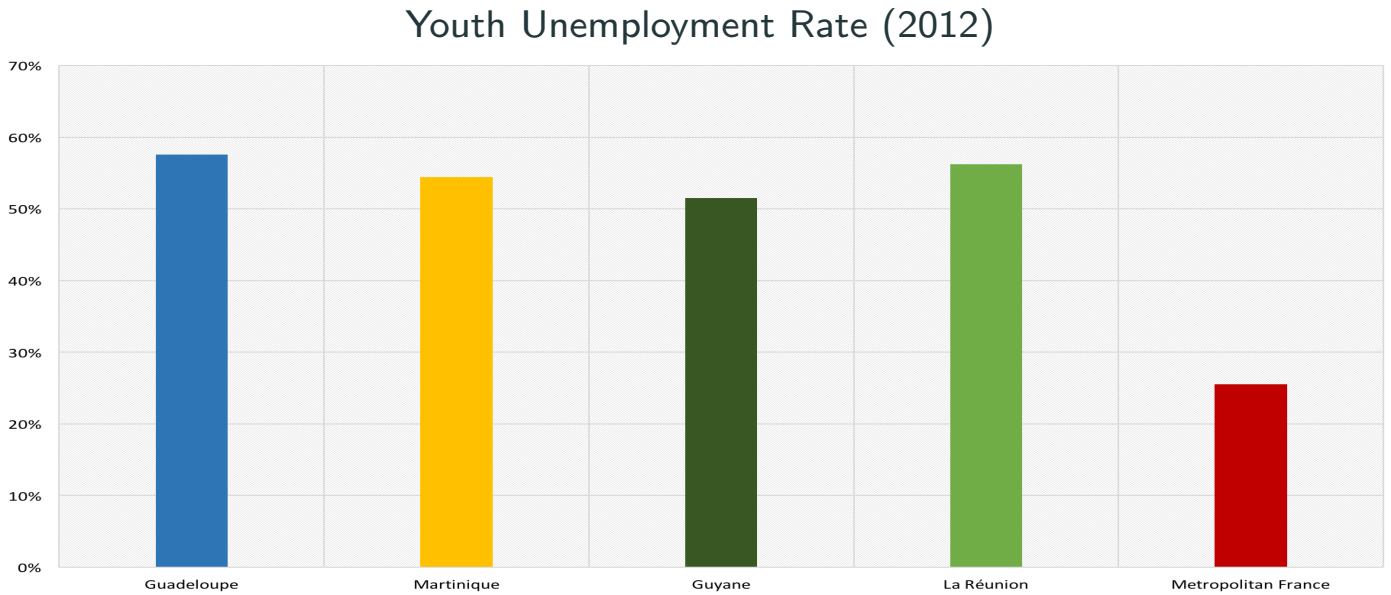
# Current Situation

## Unemployment Rate

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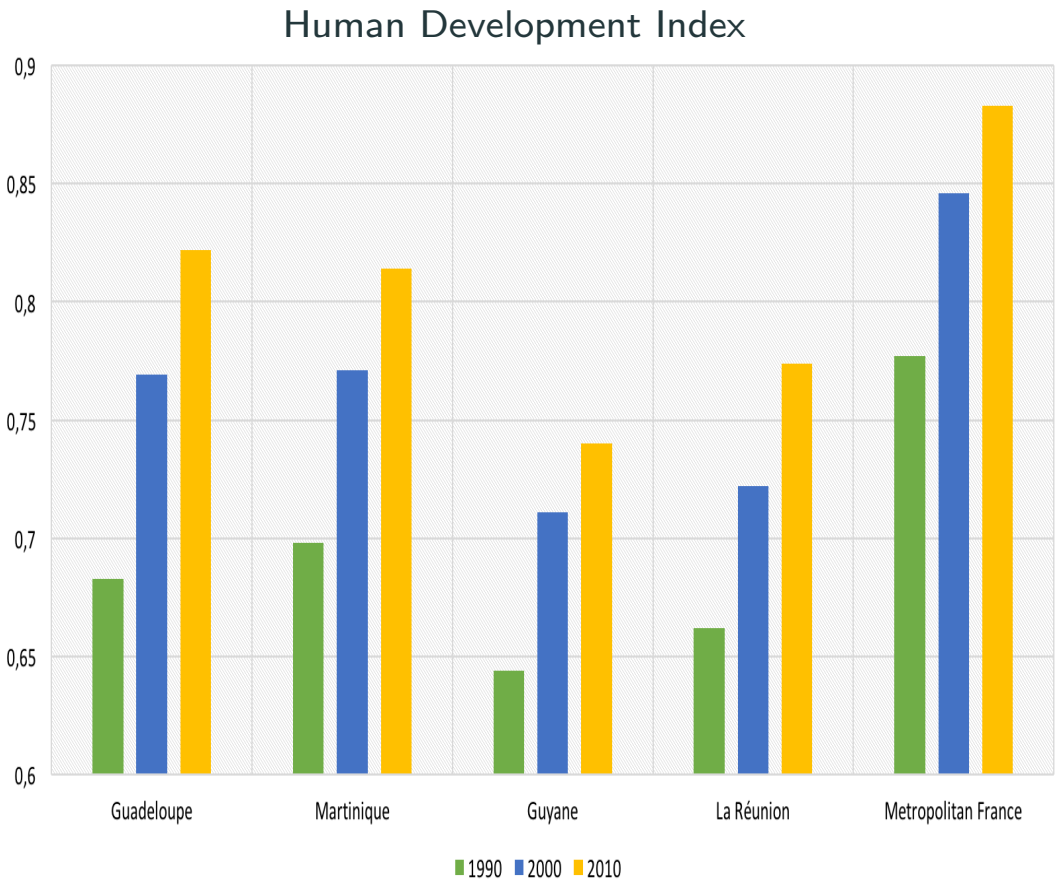
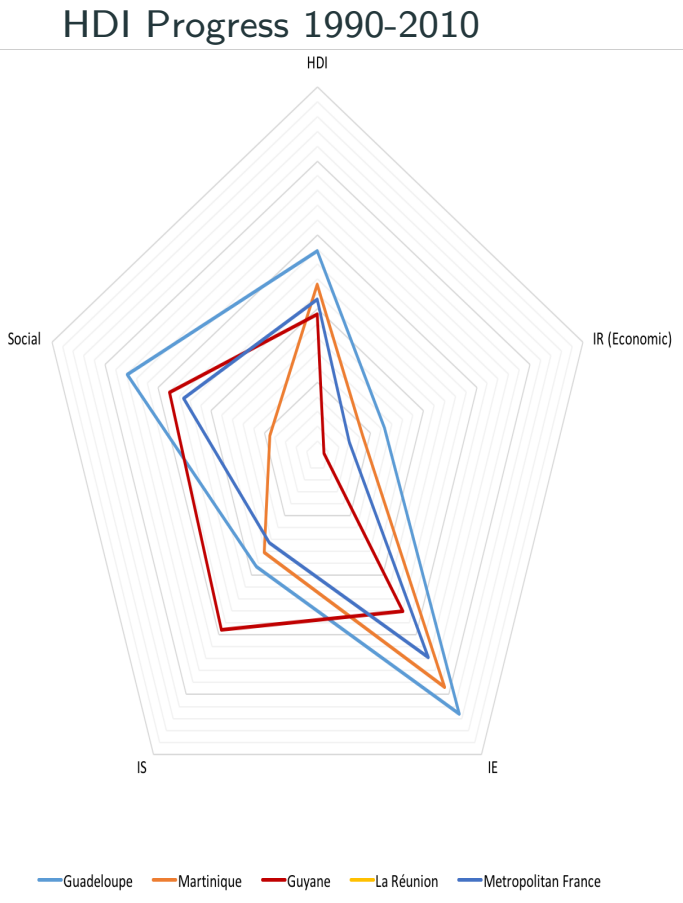
# Current Situation

## Human Development Index




Source: AFD (2012)




Source: Own estimation based on AFD (2012)

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