

Beyond the Gini: Assessing Inequality with Model-Based Clustering

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For students of social and economic inequality, the most widely used measure is no other than the Gini coefficient. Whereas the alternative measures of inequality have certain characteristics that may be useful, such as the straightforward decomposability of the generalized entropy measures, the Gini coefficient has remained the most popular, at least in part due to its ease for interpretation. However, the Gini coefficient has some a serious limitation in measuring inequality that has not been previously discussed. It is less sensitive to how the distribution is stratified than to how individual values differ. The twin purposes of this paper are to explain the limitation and to propose an alternative, model-based method—latent class/clustering analysis for understanding and measuring inequality. The latent variable approach has the major advantages of identifying potential “classes” of individuals who share similar income (or other attribute) levels and of assessing the fit of this model to the empirical data.