

Inequality and ... Inequity

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Luxembourg, January 2017

Inequality at center stage

- Inequality issues at center stage
 - The general increase in inequality
 - The US case
 - An explanation of recent surprise voting results (Brexit, Trump, ...)?
- What issues ?
 - Perception of inequality (Brookings/Jean Jaurès 2010 survey)
 - "Some are more unequal than others": deserving and undeserving rich (Leslie Mc Call)
 - Did Trump swing voters vote against income inequality?
 - A disappearing middle class?
 - The concern about future generation
- Inequality of WHAT? (Sen)

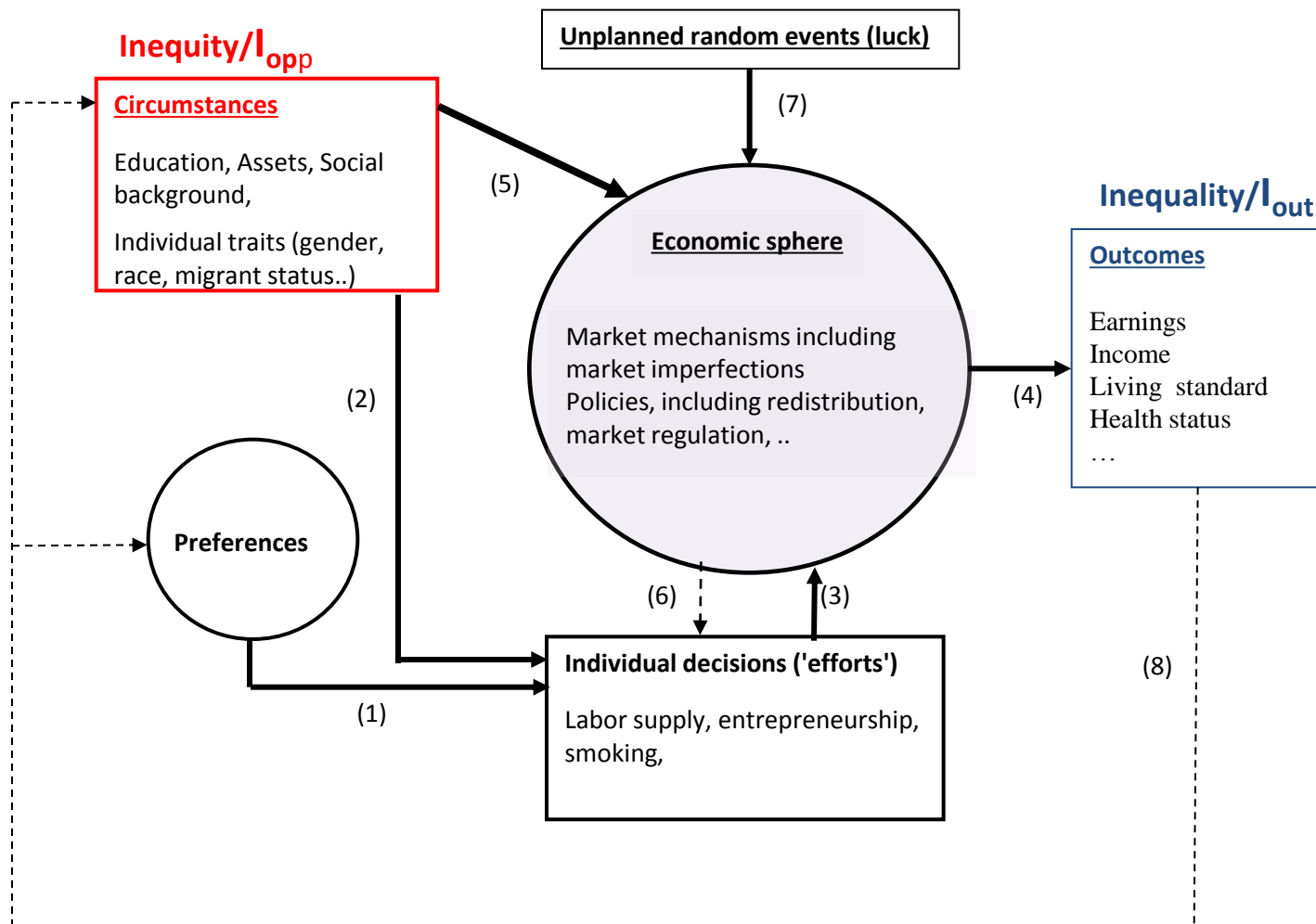
Two views on inequality

- **Inequality** of economic 'outcomes' (earnings, income, standard of living, welfare..): I_{Out}
- **Inequity**, or inequality of opportunity ("inégalité des chances"): 'assets' an individual is endowed with and that directly or indirectly generate economic outcomes (I_{Opp})
- Two concepts strongly linked ($I_{Opp} \rightarrow I_{Out}$) but not identical
- The Marathon race illustration (with handicaps)
- *Which inequality concept should be used for policy making, within both a social justice and economic efficiency perspective?*

Outline

1. Definition issues
2. Measurement: observability issues
 - Intergenerational earnings mobility as an example
3. Policy issues: Equality vs. Efficiency
 - The inequality and growth conundrum
4. Why I_{opp} and I_{out} are the two faces of the same coin pointing to complementary policies

1. Definition issues: Equity (I_{opp}) vs. inequality (I_{out})



Libertarians vs. Egalitarians/Utilitarians

Libertarians:

- Only that part of inequality that is not under individual responsibility – i.e. **circumstances** - should matter
- Inequality in circumstances should be compensated

Egalitarians/Utilitarians:

- Only the inequality of **outcome** matters and should be minimized ...
- ... while taking into account the need to preserve economic incentives

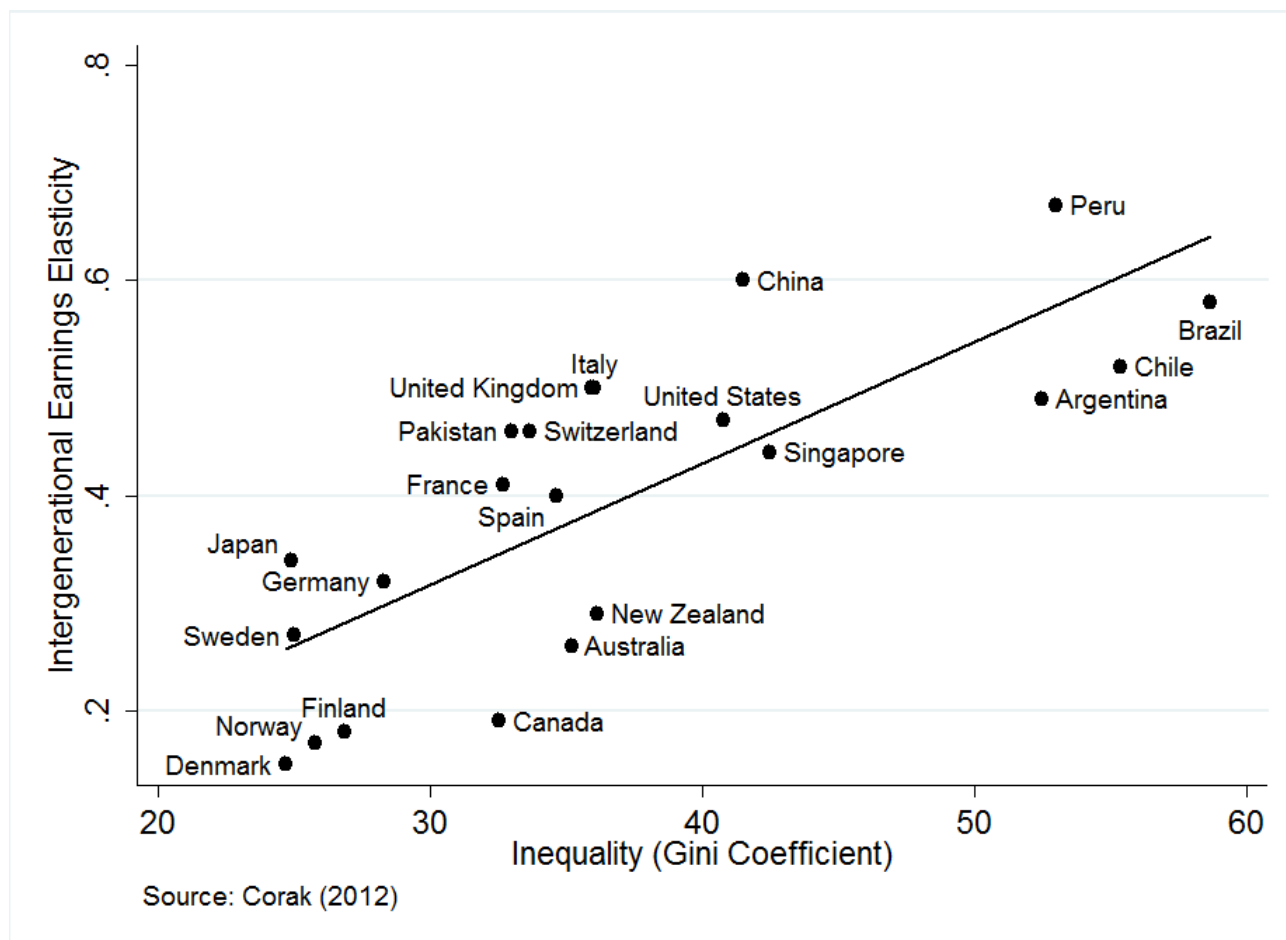
2. Measurement: observability issues

- Are people 'responsible' for their preferences and 'efforts'?
 - 'Efforts' highly dependent on 'circumstances'
 - At the same time, many 'circumstances' are essentially unobservable – e.g. family culture.
- ***Not possible to go beyond determining how much I_{out} is due to observed I_{opp}***
- Only a lower bound of actual I_{opp} can be estimated
- *But extremely useful to know whether the share of I_{out} coming from observed I_{opp} is going up or down*
... and how other components of I_{out} behave!

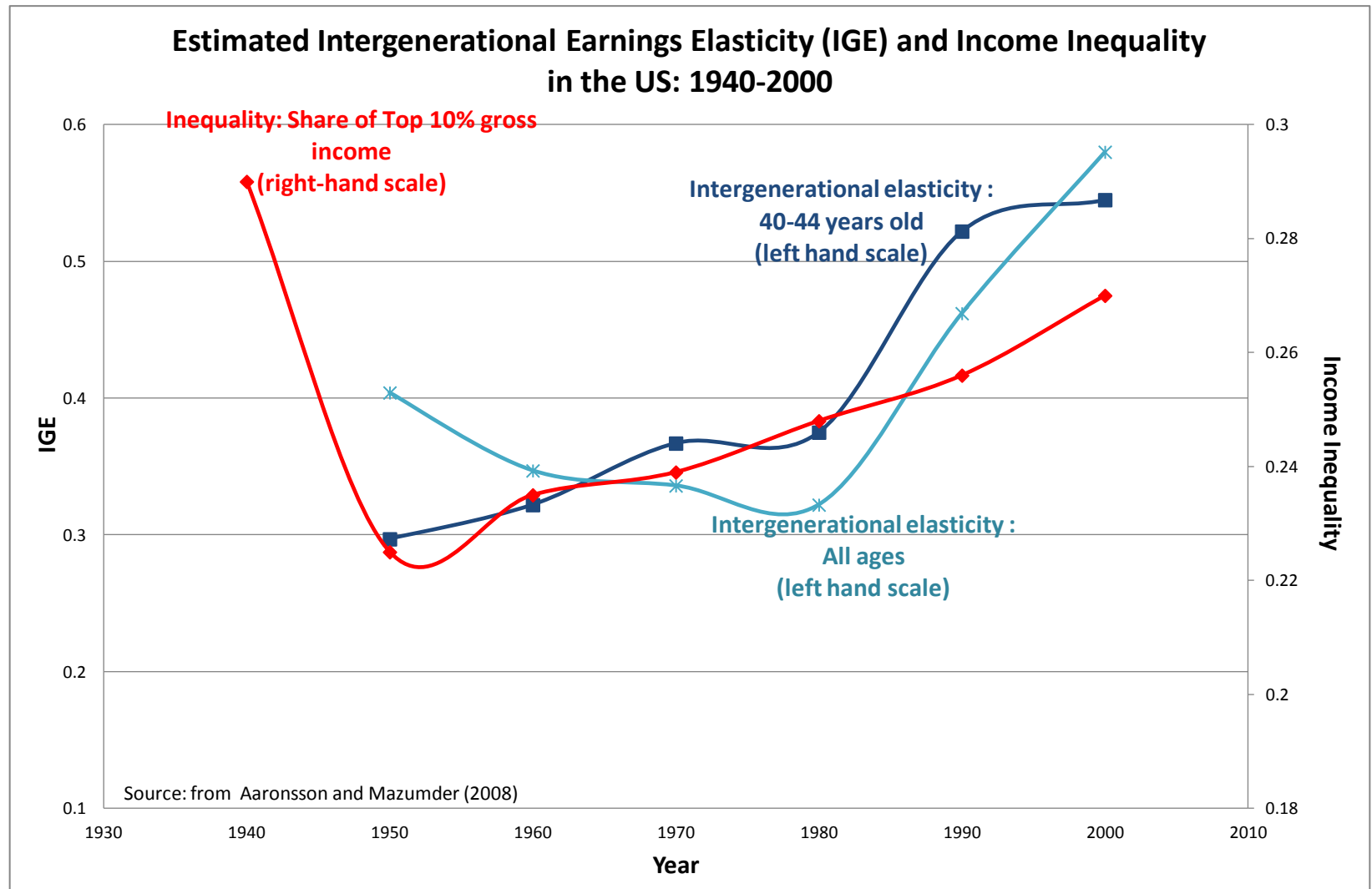
Illustration: The Great Gatsby curve

- IGE = intergenerational elasticity of earnings (fathers/sons) = square root of share of inequality explained by parents earnings

Figure 3. The Great Gatsby curve

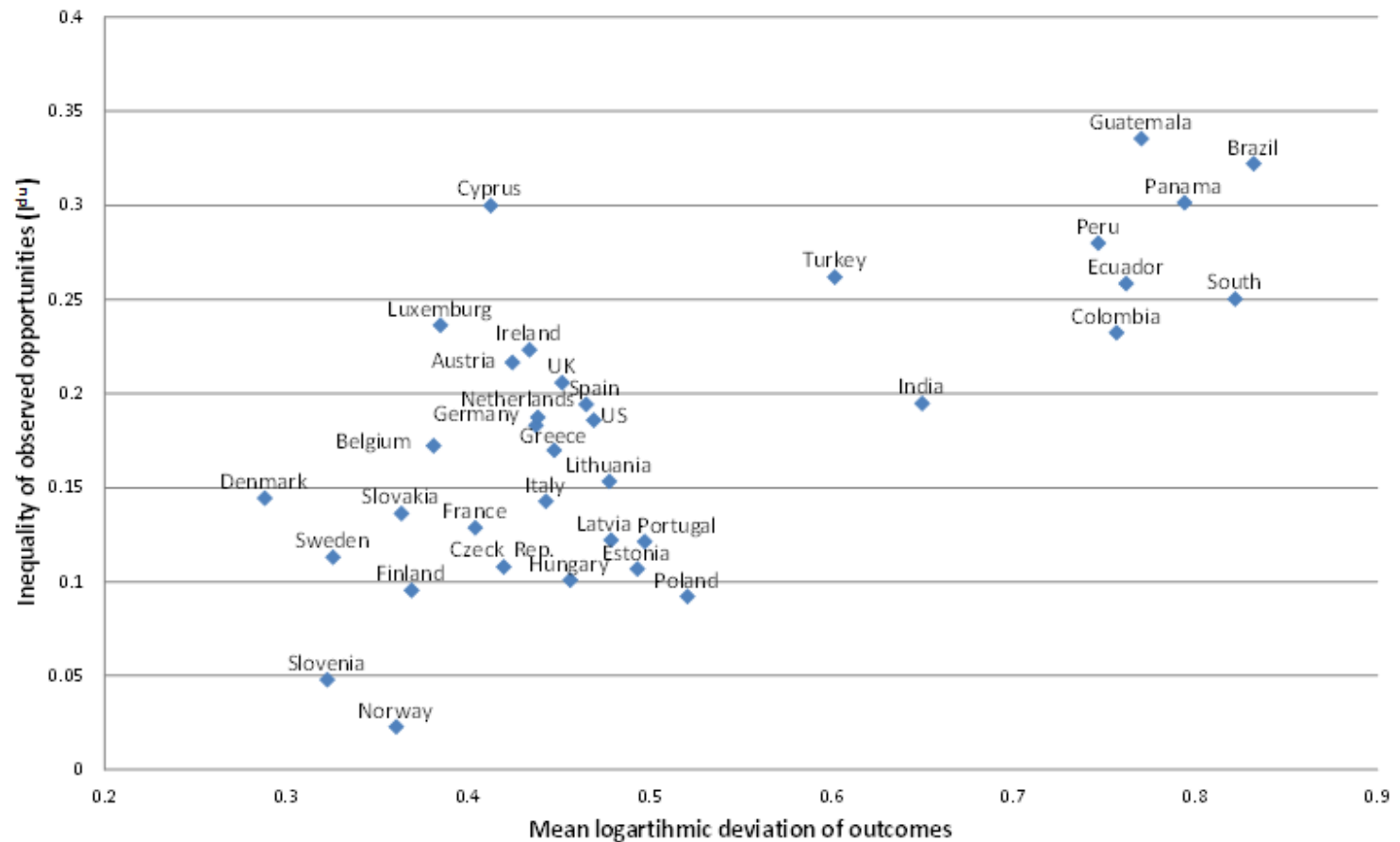


Time variations in inequality and IGE in the US



Generalizing to all observed circumstances

**Figure 5. Inequality of outcomes and overall inequality of observed opportunities in selected countries circa 2005
(Mean logarithmic deviation)**

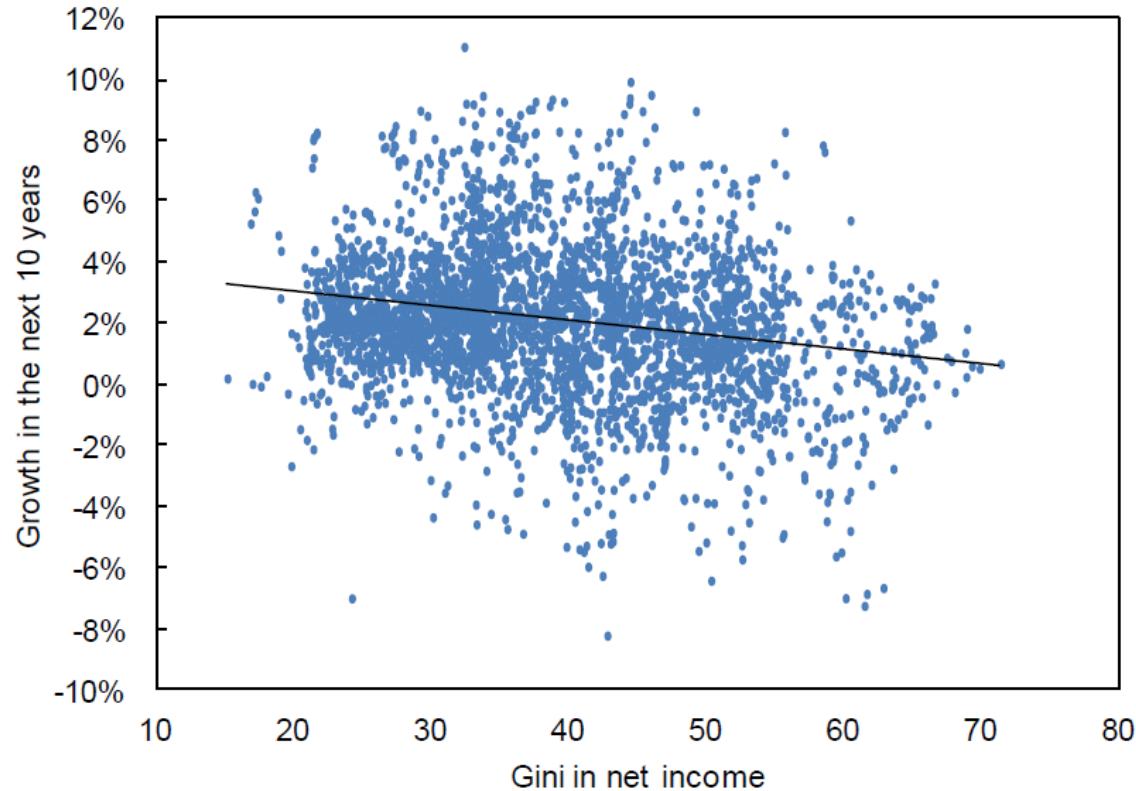


3. Policy issues: Equality vs. Efficiency

- Preceding argument abstracts from economic (in)efficiency issues
- Is it the case that a less inegalitarian or inequitable society is performs better in aggregate economic terms ?
- Bu then, what does matter ? Equity or inequality?

The growth-inequality conundrum

Growth and inequality in a sample of growth spells



Economic growth and inequality

- Would reducing outcome inequality accelerate growth?
Probably not.
- The inequality of opportunity through market imperfections entails both slower growth and more income inequality
- The role of market imperfections
 - Capital markets
 - Inequality in access to quality education, decent job (discrimination), justice
 - Inequality in distribution of political power
 - Endogenous redistribution slowing down growth
- *Overall, inequity may matter as much for efficiency than inequality*

4. But... the inequality of income matters too

- Demand side of the economy (the US crisis)
- Income inequality creates inequality of opportunity for the next generation (China example)
- Hence what is the optimal policy?
- Policy of equalizing opportunities and redistribution through taxes:
 - To generate revenues allowing for the equalizing of opportunities
 - To prevent the intergenerational transmission
 - But this has a cost in terms of growth

5. Conclusion

- No duality and no choice to be made:
Fighting inequality for social justice and economic efficiency requires attacking it on its two fronts, outcome and opportunity!
- Many unknowns: 'optimal inequality', 'perception vs. reality', 'sensitivity', ...but huge progress made in the understanding of inequality policy
- Be prepared to face future inequality implications of technical change

THANK YOU