

Inequality and ... Inequity

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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)

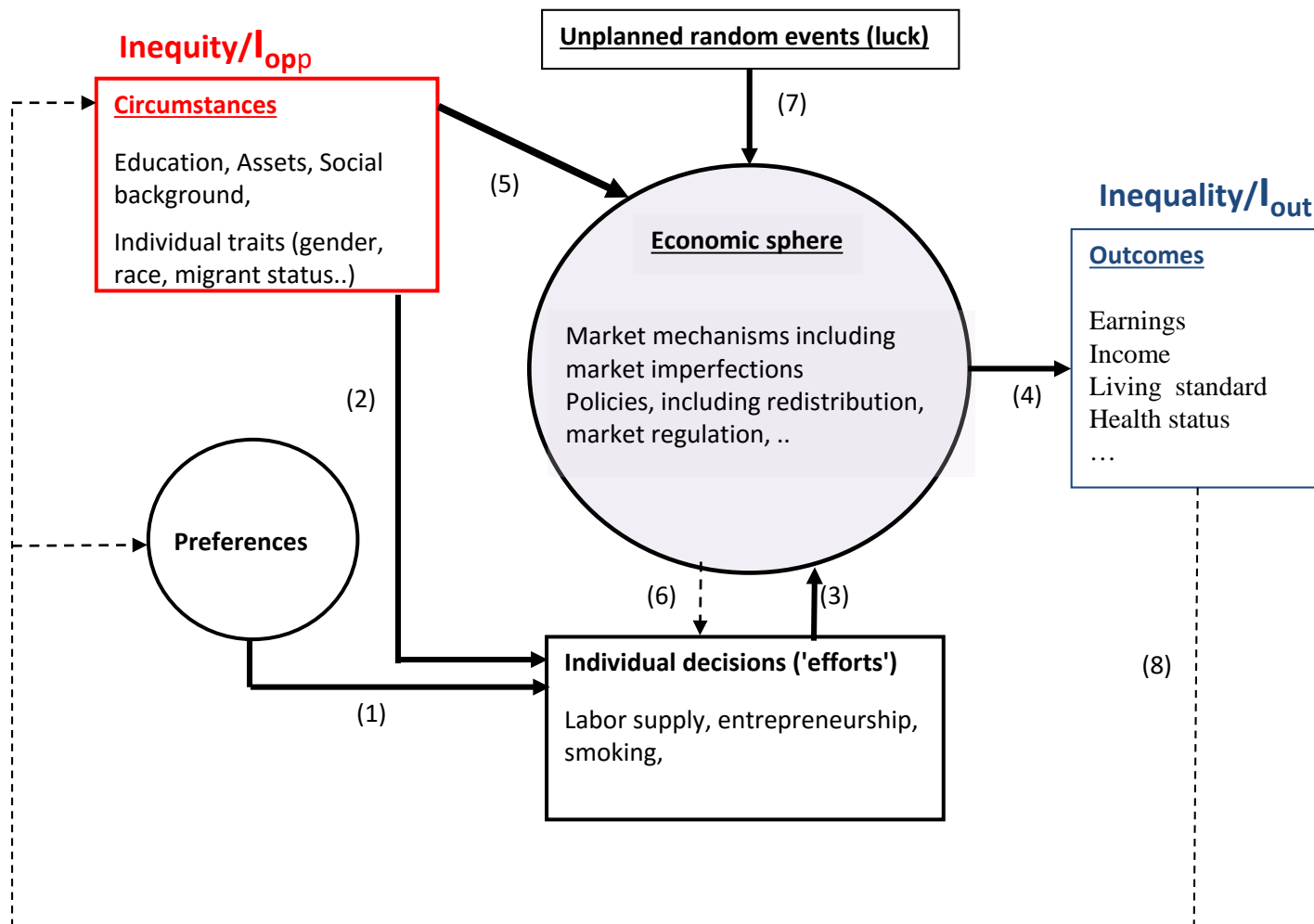
Two views on inequality

- **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

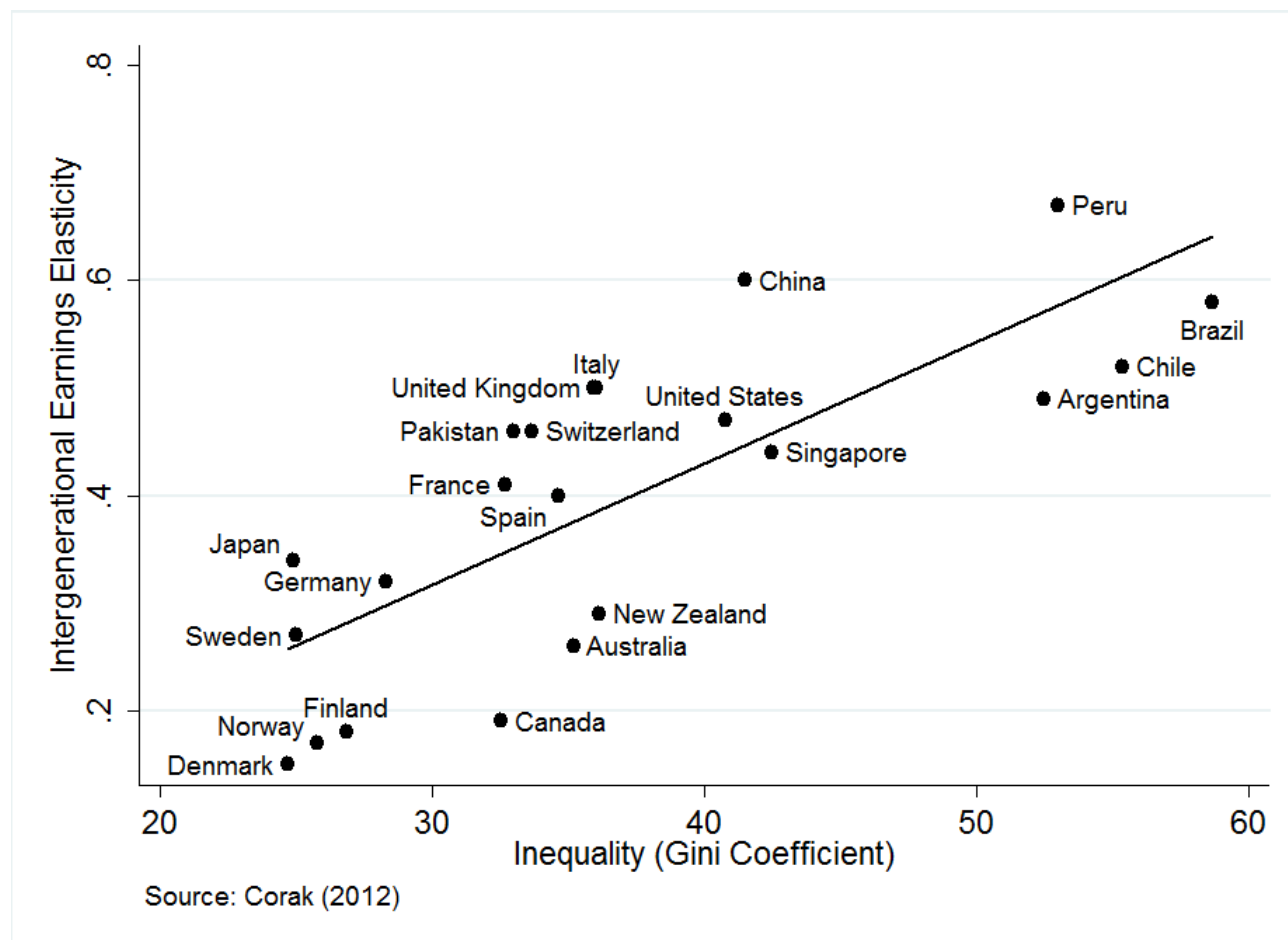
2. Measurement: observability issues

- 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!

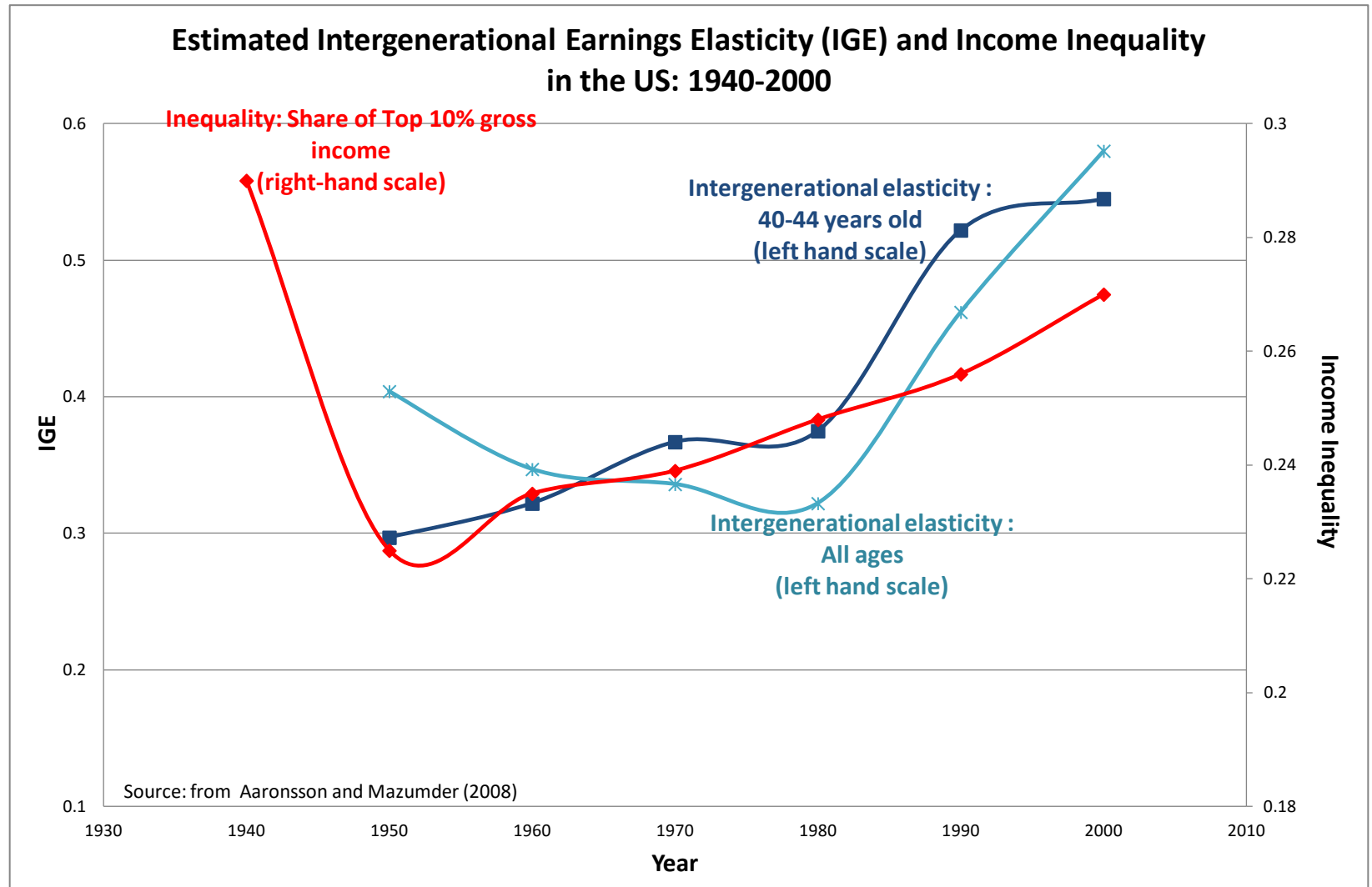
Illustration: The Great Gatsby curve

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

Figure 3. The Great Gatsby curve

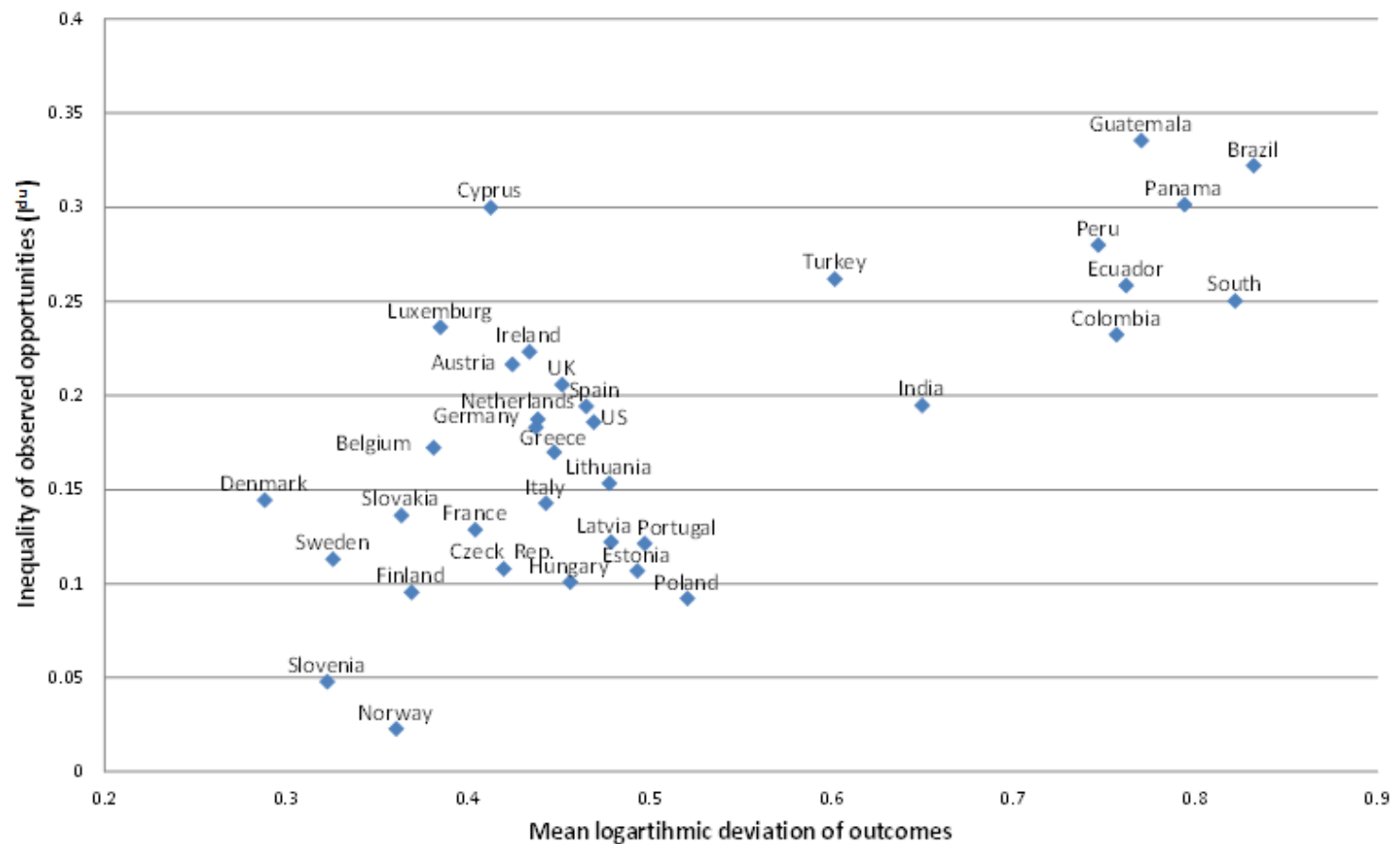


Time variations in inequality and IGE in the US



Generalizing to all observed circumstances

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

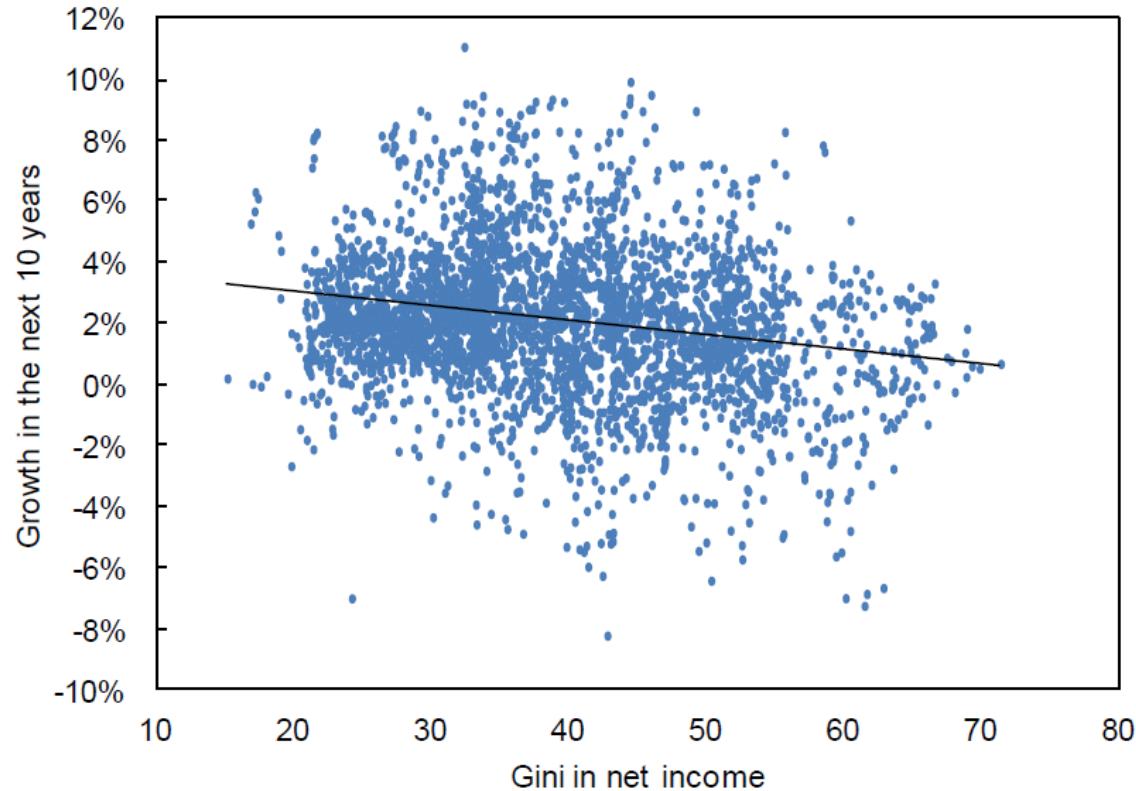


3. Policy issues: Equality vs. Efficiency

- 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