

Inequality of Opportunity and Economic Development

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Plan of the Talk

1. What is (in)equality of opportunity?
2. Some empirical illustrations.
3. Measuring inequality of opportunity.
4. Why does it matter?
5. What does it imply for policy?
6. Conclusions

Note: This presentation draws extensively on work presented in the World Bank's World Development Report 2006: *Equity and Development*, as well as on more recent work with my co-authors François Bourguignon, Jérémie Gignoux and Michael Walton.

1. What is (in)equality of opportunity?

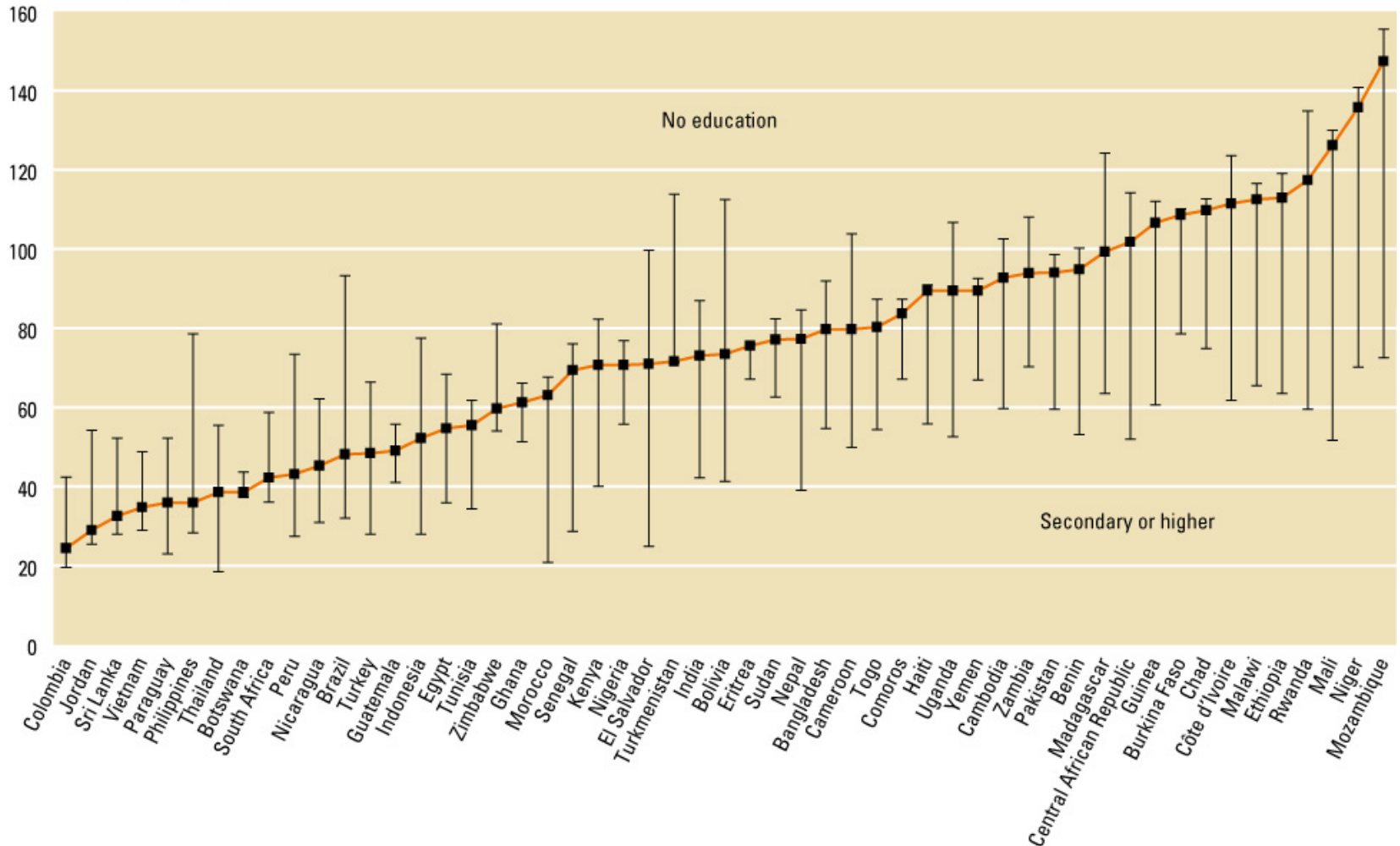
- A prominent concept in political discourse...

"We know that equality of individual ability has never existed and never will, but we do insist that equality of opportunity still must be sought"
(Franklin D. Roosevelt, second inaugural address.)

- ... with a distinguished scholarly parentage in philosophy ever since Rawls (1971) and Sen's "Equality of What?" Tanner Lectures:
 - Dworkin (1981): "What is Equality? Part 1: Equality of Welfare; Part 2: Equality of Resources", *Philos. Public Affairs*, **10**, pp.185-246; 283-345.
 - Arneson (1989): "Equality of Opportunity for Welfare", *Philosophical Studies*, **56**, pp.77-93.
 - Cohen (1989): "On the Currency of Egalitarian Justice", *Ethics*, **99**, pp.906-944.
 - Roemer (1998): *Equality of Opportunity*, (Cambridge, MA: Harvard University Press)
 - Sen (1985): *Commodities and Capabilities*, (Amsterdam: North Holland)
- Essence: The most ethically unacceptable inequalities are not those that reflect different levels of personal responsibility or effort, but those brought about by difference in inherited, pre-determined circumstances.

2. Empirical Illustrations: The opportunity for life among newborns

Infant mortality rate per 1,000 live births

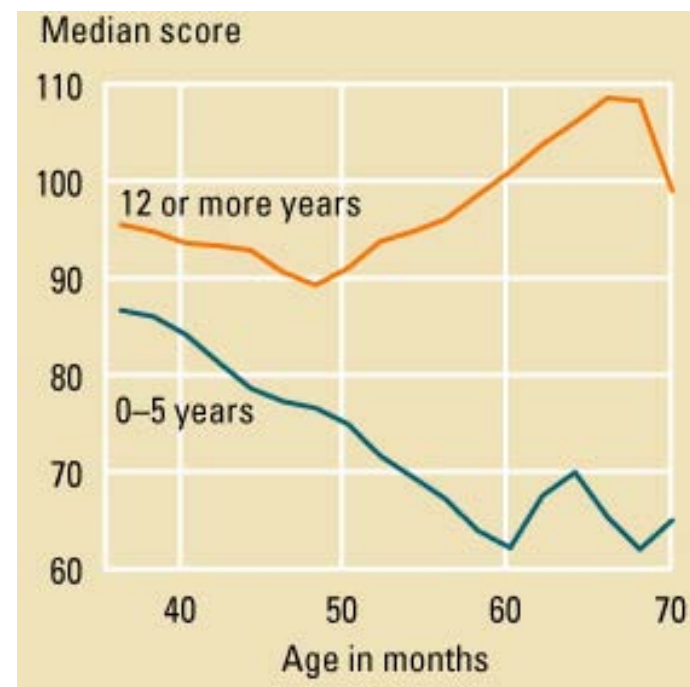


2. Empirical Illustrations: Initial inequalities often persist through life

Cognitive test performance for children in Ecuador



by wealth quartiles

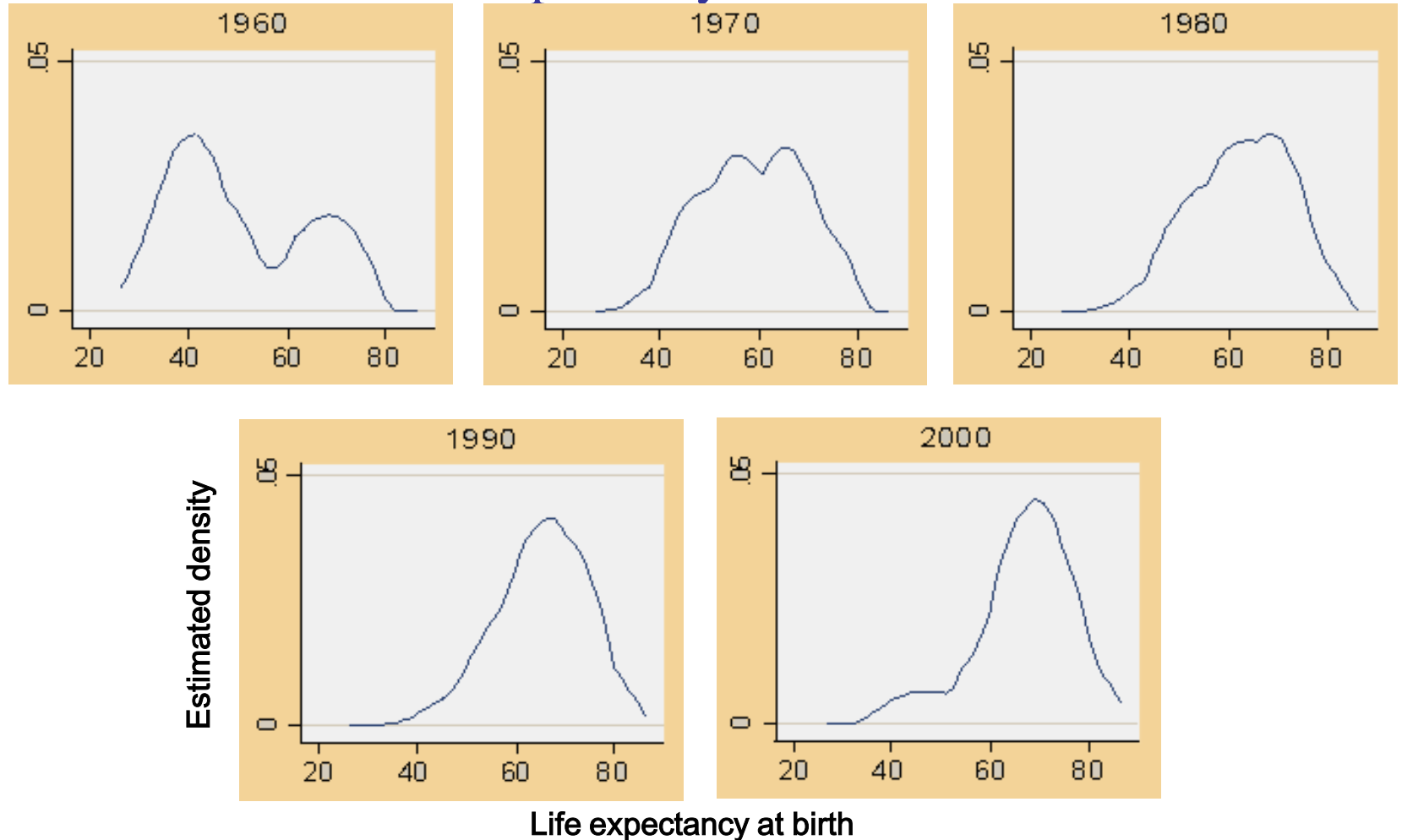


by maternal education

2. Empirical Illustrations:

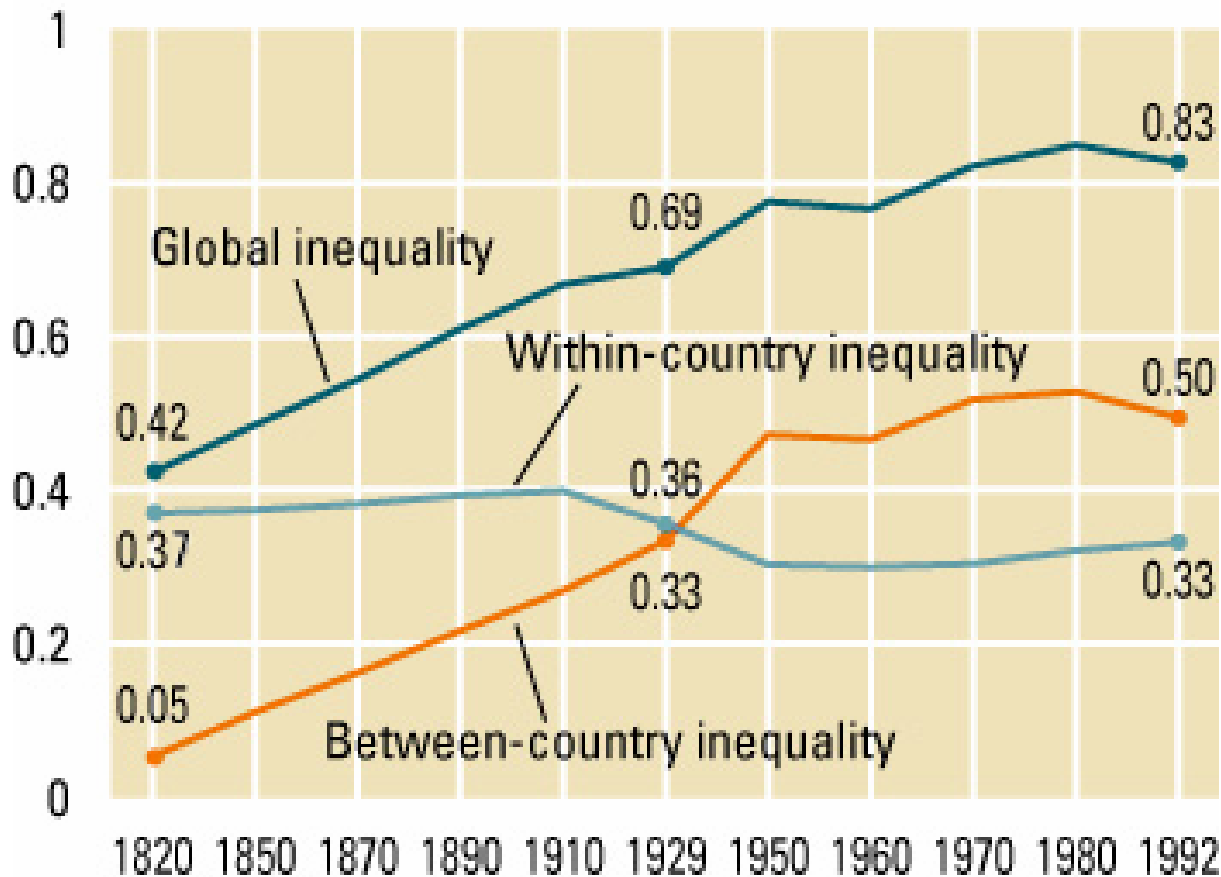
Globally, the opportunity for longevity differs across nationalities.

The distribution of life expectancy across the world, and over time.



2. Empirical Illustrations: Income inequality between countries has grown (from 1820 to 1980).

Mean log deviation



World
inequality:
total and
decomposed

3. Measuring Inequality of Opportunity

- Roemer's definition of equality of opportunity:

“Leveling the playing field means guaranteeing that those who apply equal *degrees* of effort end up with equal achievement, regardless of their circumstances. The centile of the effort distribution of one's type provides a meaningful intertype comparison of the degree of effort expended in the sense that the *level* of effort does not” (Roemer, 1998, p.12)

- Inequality of opportunity is detected when advantage distributions differ across types:

$$F^k(y) \neq F^l(y), \exists l, k | T_k \in \Pi, T_l \in \Pi$$

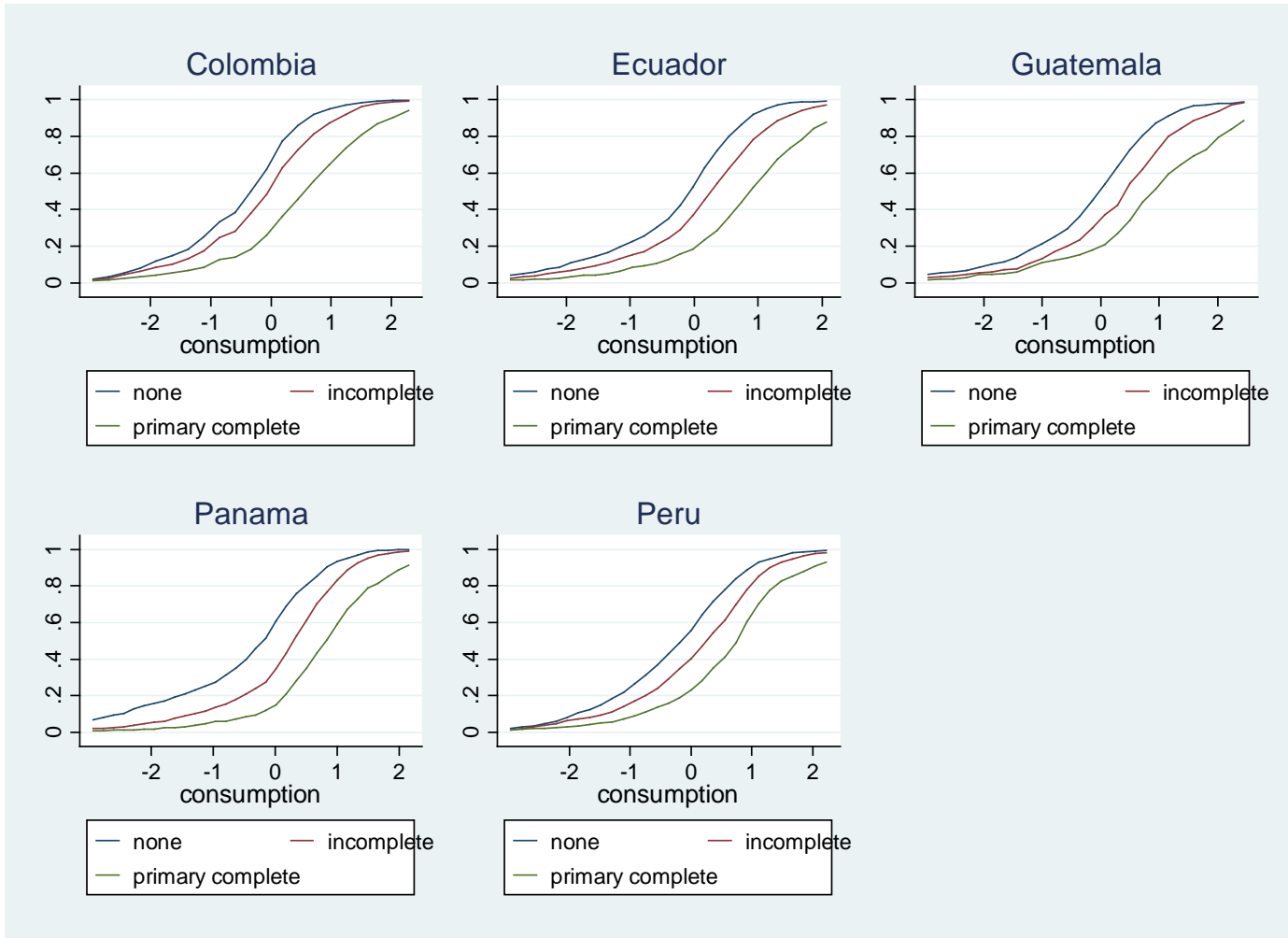
- ... And is measured by the between-type share of inequality:

$$\theta_r = \frac{I(\{\mu_i^k\})}{I(y)}$$

3. Measuring Inequality of Opportunity

- An example of : $F^k(y) \neq F^l(y)$

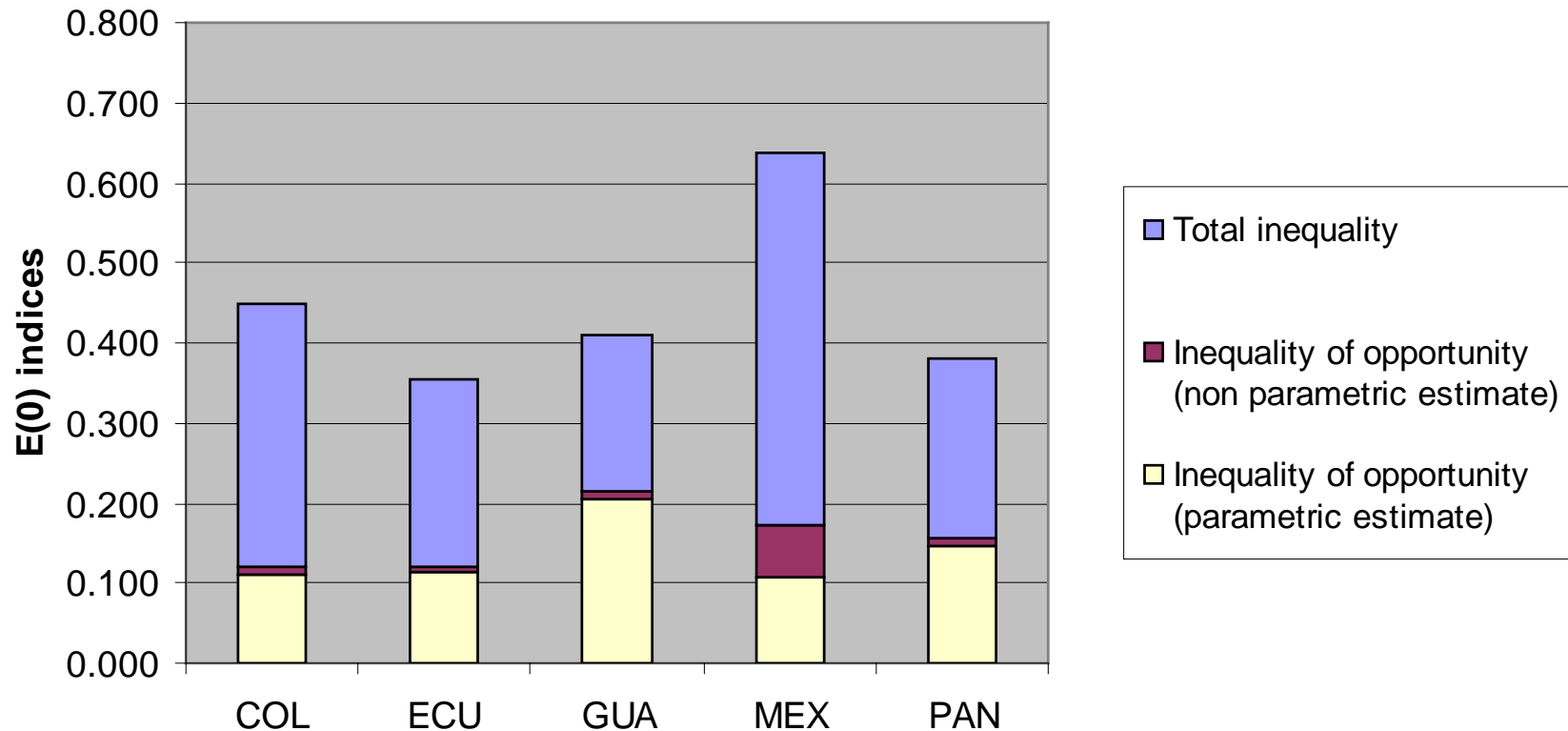
Distribution of p.c.h. consumption conditional on mother's education



3. Measuring inequality of opportunity

An example from six Latin American countries

Per capita household consumption
Total inequality and levels of inequality of opportunity



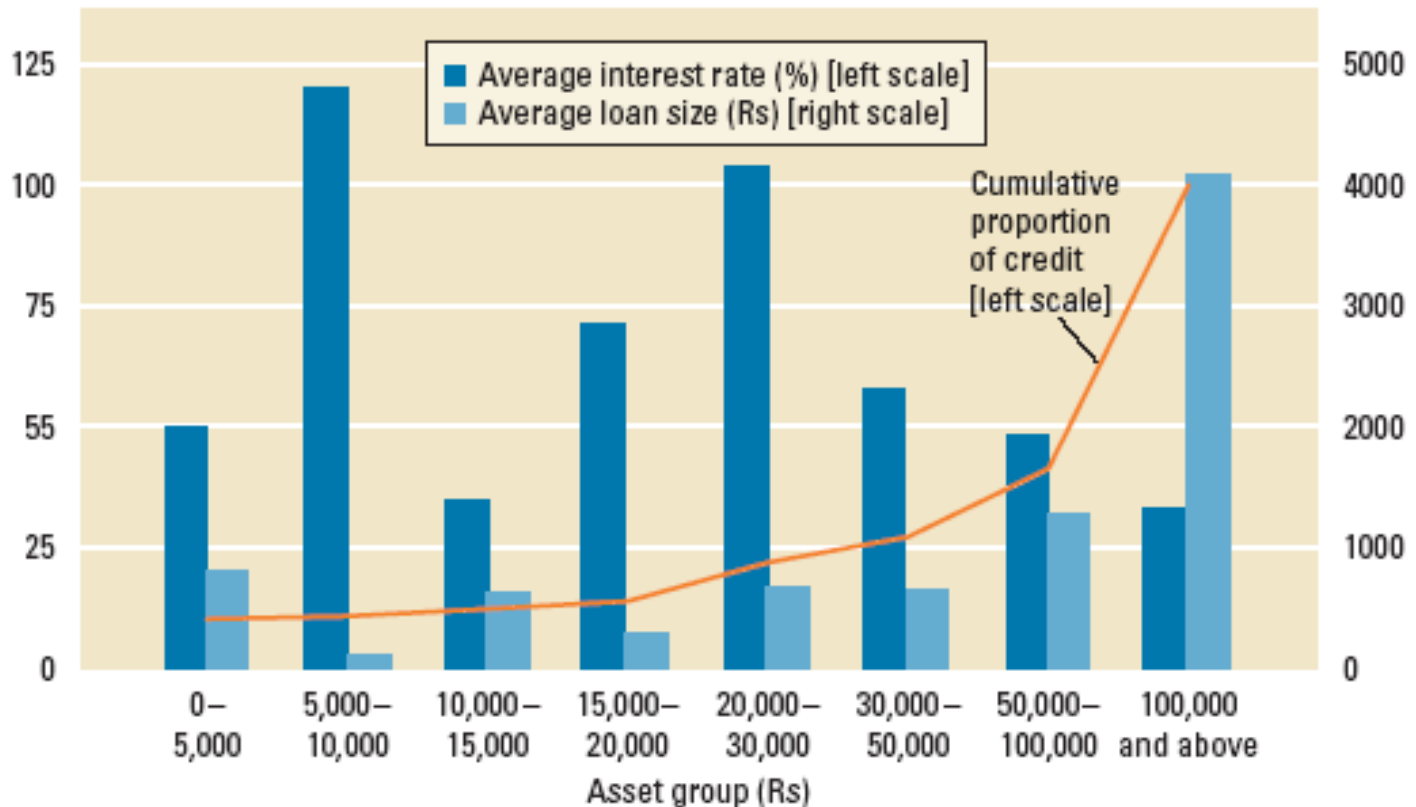
Source: Ferreira and Gignoux, 2008.

4. Why does inequality of opportunity matter?

A. Because it is intrinsically unfair.

B. Inequalities in wealth and power combined with imperfect markets generate inefficiencies. The cost of capital varies across agents...

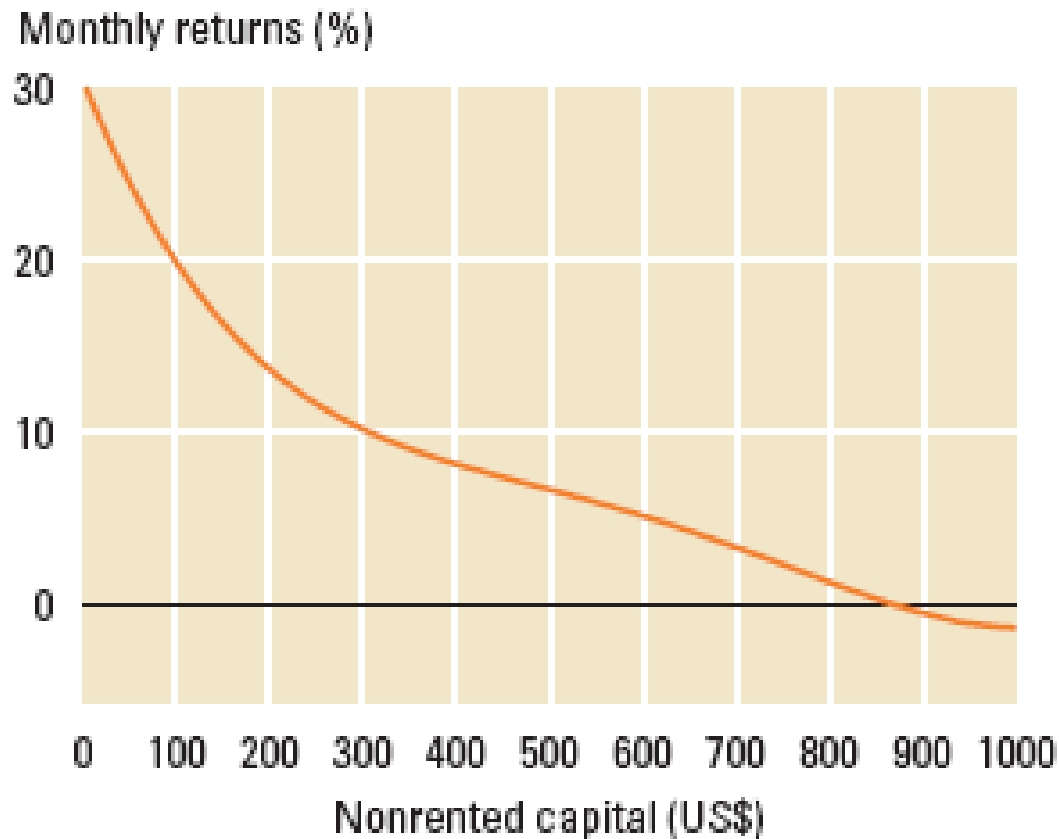
Figure 5.1 In rural Kerala and Tamil Nadu, the rich get most of the credit and pay relatively low rates



Source: Dasgupta, Nayar, and Associates (1989)

...and so, often, do returns to capital.

**Figure 5.3 Returns to capital vary with firm size:
evidence from small Mexican firms**

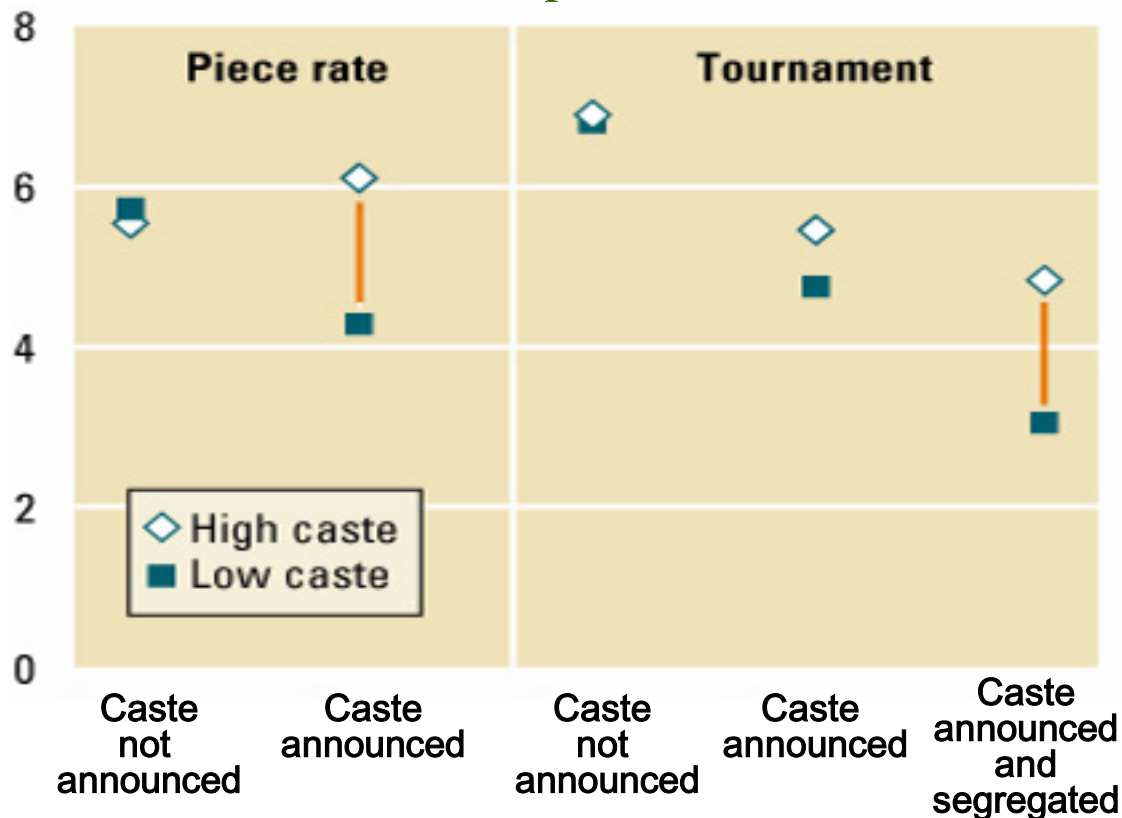


Source: McKenzie and Woodruff (2003).

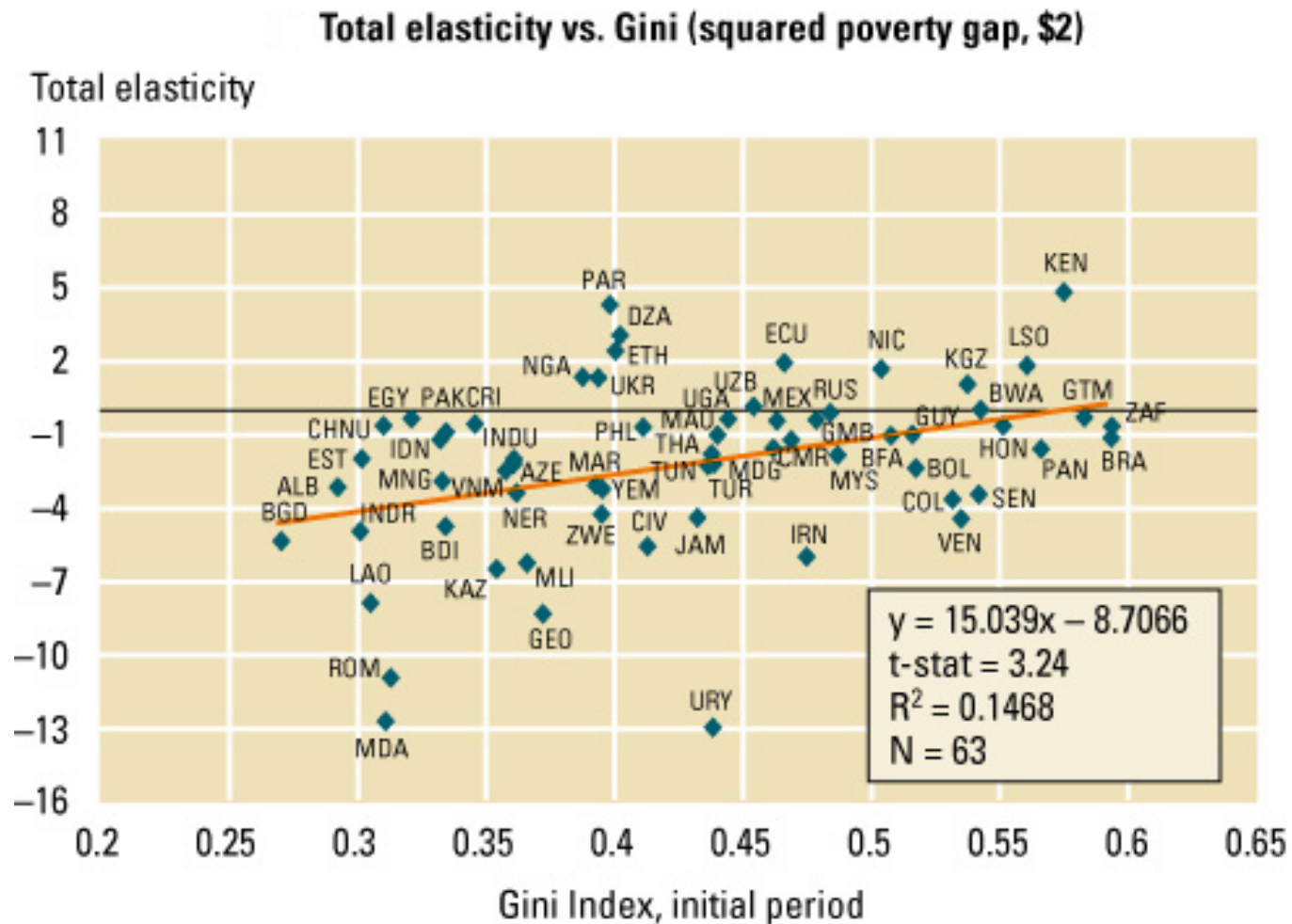
4. Why does inequality of opportunity matter?

C. Inherent inequalities of status may be inefficient

Average number of mazes solved by junior high-school students in rural North India: five experimental treatments.



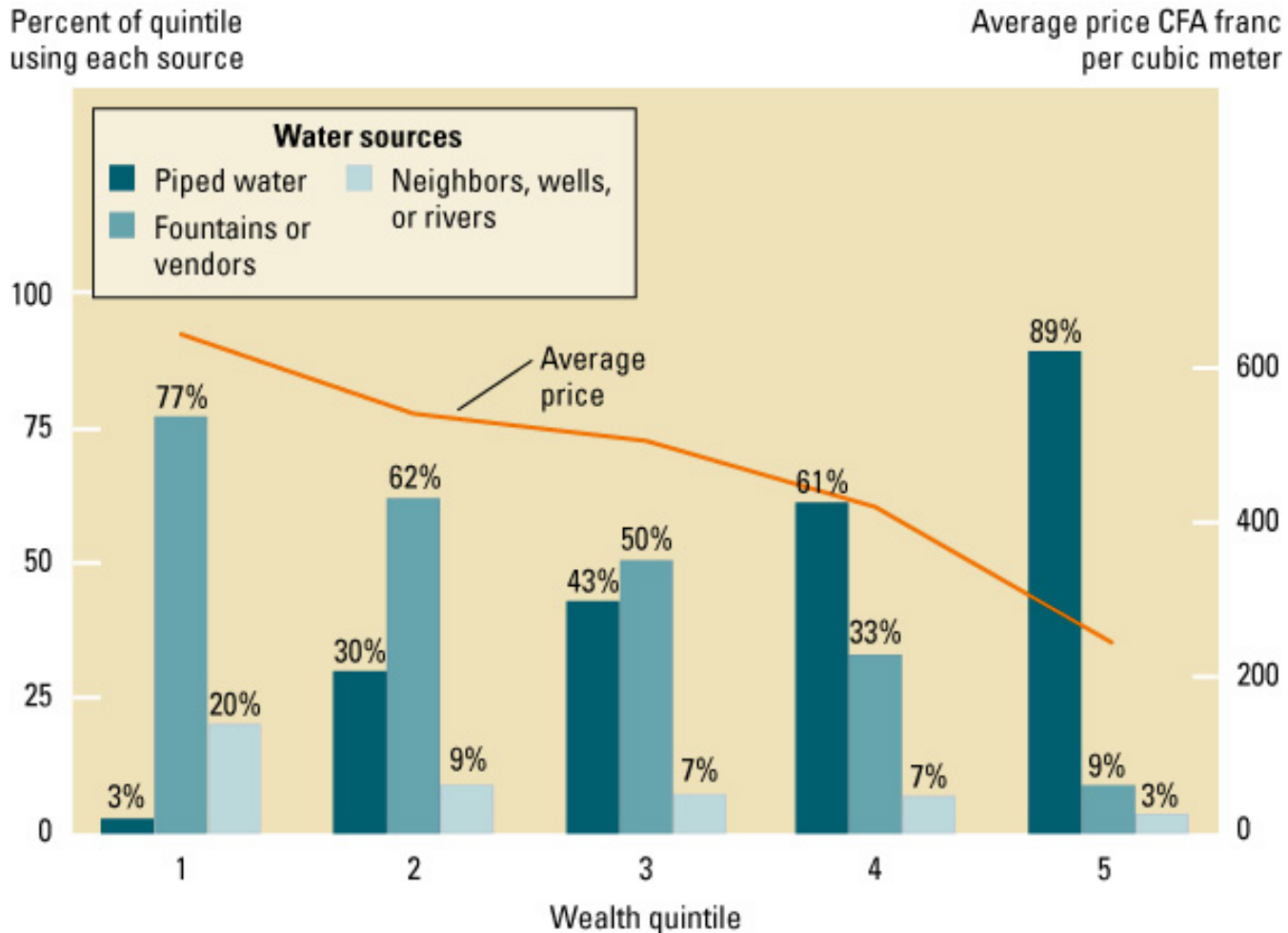
D. To the extent that unequal opportunities contribute to higher outcome inequality, it also reduces the growth elasticity of poverty reduction.



5. What does it imply for policy?

Public services are often skewed towards the demands of dominant groups and classes...

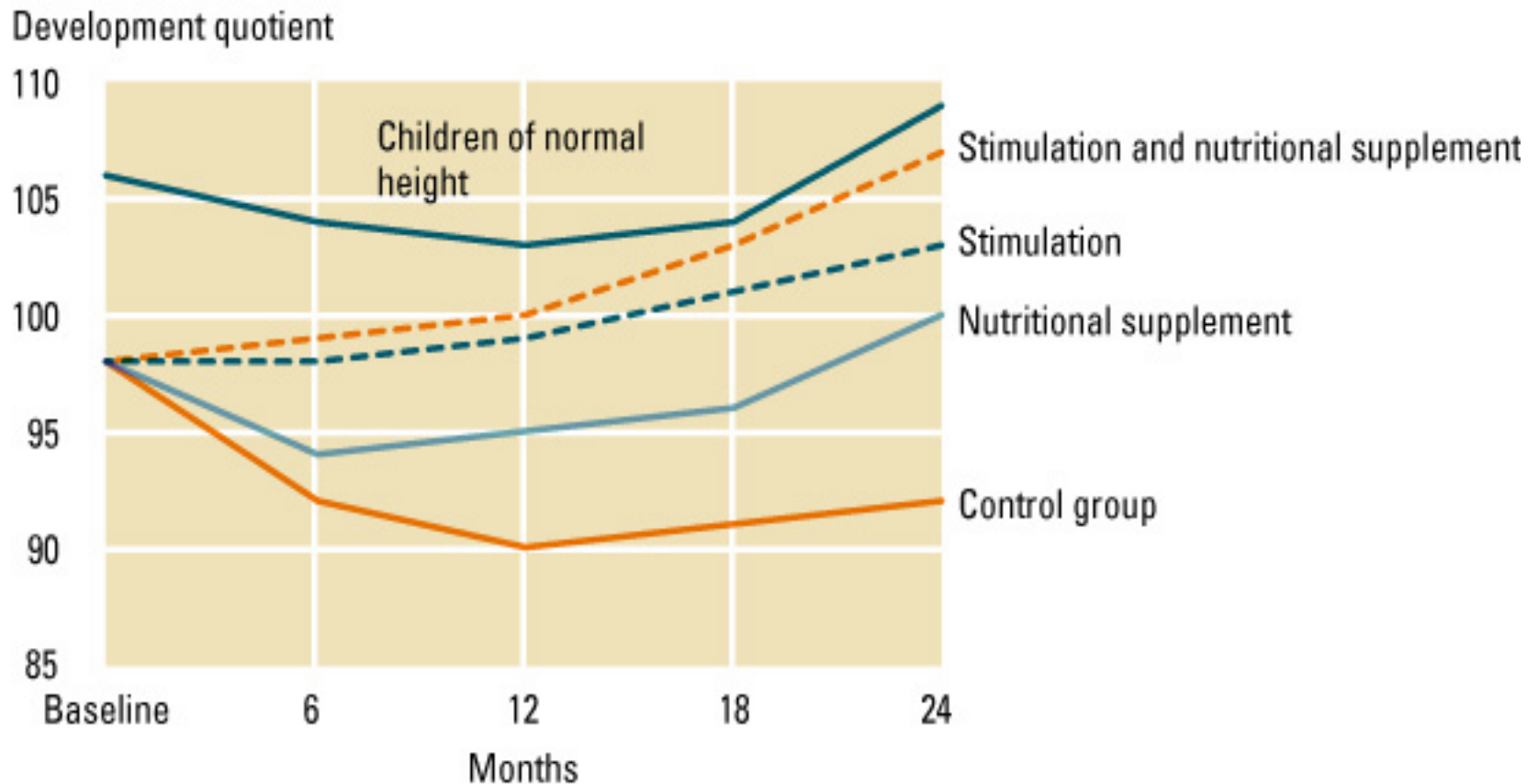
Water sources and water price in Niger



5. What does it imply for policy?

... but re-focusing them on the most under-privileged groups is not only fair; it may also make long-term economic sense.

Mental development of undersized children (low height for age):
The Jamaican Study



Source: Grantham-McGregor et al., 1991.

6. Conclusions

- Even if we accept inequalities attributable to personal responsibility as fair, there remain huge inequalities, both within and between nations, which are due to morally-irrelevant circumstances beyond the control of individuals.
- Such inequalities in opportunity are widely agreed to be unjust. Some of them are also increasingly suspected of being inefficient.
- These considerations provide a case for an important public policy role in leveling the playing field, at both the national and international levels.
 - Such a role begins with monitoring the welfare and the opportunities of the least privileged groups, and with targeting public resources prioritarily to them.