
THE ROLE OF EQUITY IN DEVELOPMENT

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"A pie shrinks when more equally divided." True False

- ❑ The old debate between growth and distribution in development
- ❑ Poverty depends on mean level of welfare and inequality of welfare distribution in the population
- ❑ Development strategy often seen as a choice between distribution and growth...

But what is the relationship between them?

Equity and development

- ❑ Equity and growth are complementary in the long-run.
- ❑ Promoting equity at the lowest economic cost as a key element of medium-run development strategies
- ❑ “Equity and Development” : WDR06

Outline

1. Defining 'equity'
2. Why equity matters for development
3. Policy instruments and the cost of promoting equity

1. Defining "equity"

Equity is a *normative* concept of which component principles include:

- **Equality of opportunities** (equality of endowments, process fairness, merit-based rewards, ...)
- Aversion to **consumption deprivation**

It is almost never the same as *equality (in outcomes)*

In effect, some inequality in outcomes is fully consistent with the concept of equity.

This **concept of equity** is **borrowed** from moral and economic philosophers like A. Sen, J. Romer, A. Dworkin, J. Rawls, ...

Opportunities

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graph TD; Opportunities[Opportunities] --> Endowments[Endowments: Wealth, land, culture, social background, ...]; Opportunities --> Process[Process: labor market, investment, schooling, voice]; Endowments --> Process; IndividualTraits[Individual traits and preferences: taste for efforts, acquired talent, ...] --> Process; Process --> Outcomes[Outcomes: income, consumption, health, environment, ...];
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Endowments:

Wealth, land,
culture, social
background,...

Individual traits

and preferences :
taste for efforts,
acquired talent,...

Process :

labor
market,
investment,
schooling,
voice

Outcomes :

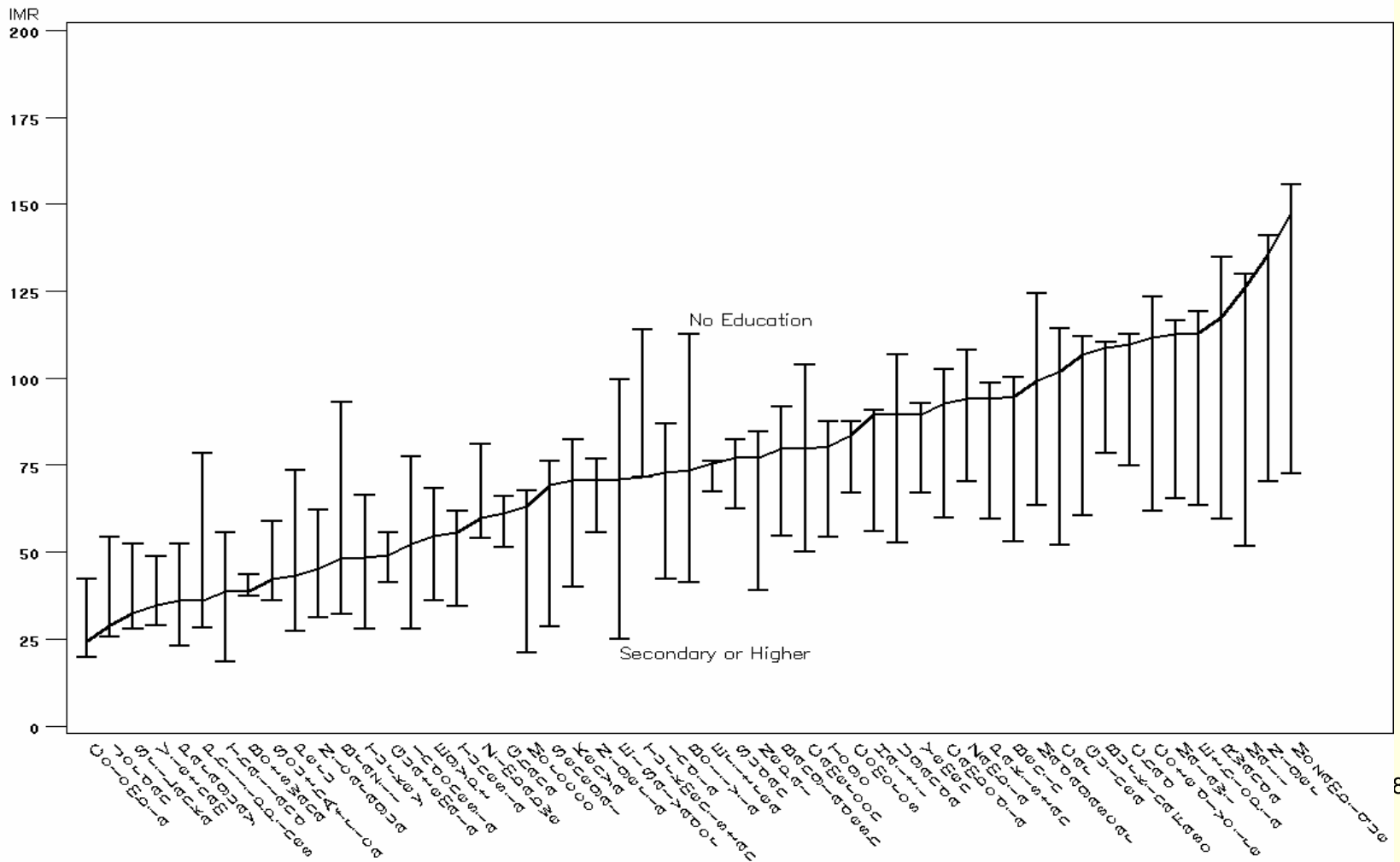
income,
consumption,
health,
environment,
...

Relationship between concepts and measures of inequality and inequity

- Inequality usually refers to outcomes (welfare, education, health,..) rather than opportunities
- A society with some significant inequality may be “equitable”. However, a very unequal society is likely to be inequitable.
(Income “Gini” coefficient as a “marker”)
- Inequality at the top vs. inequality at the bottom (poverty)
- The difficulty of measuring inequity

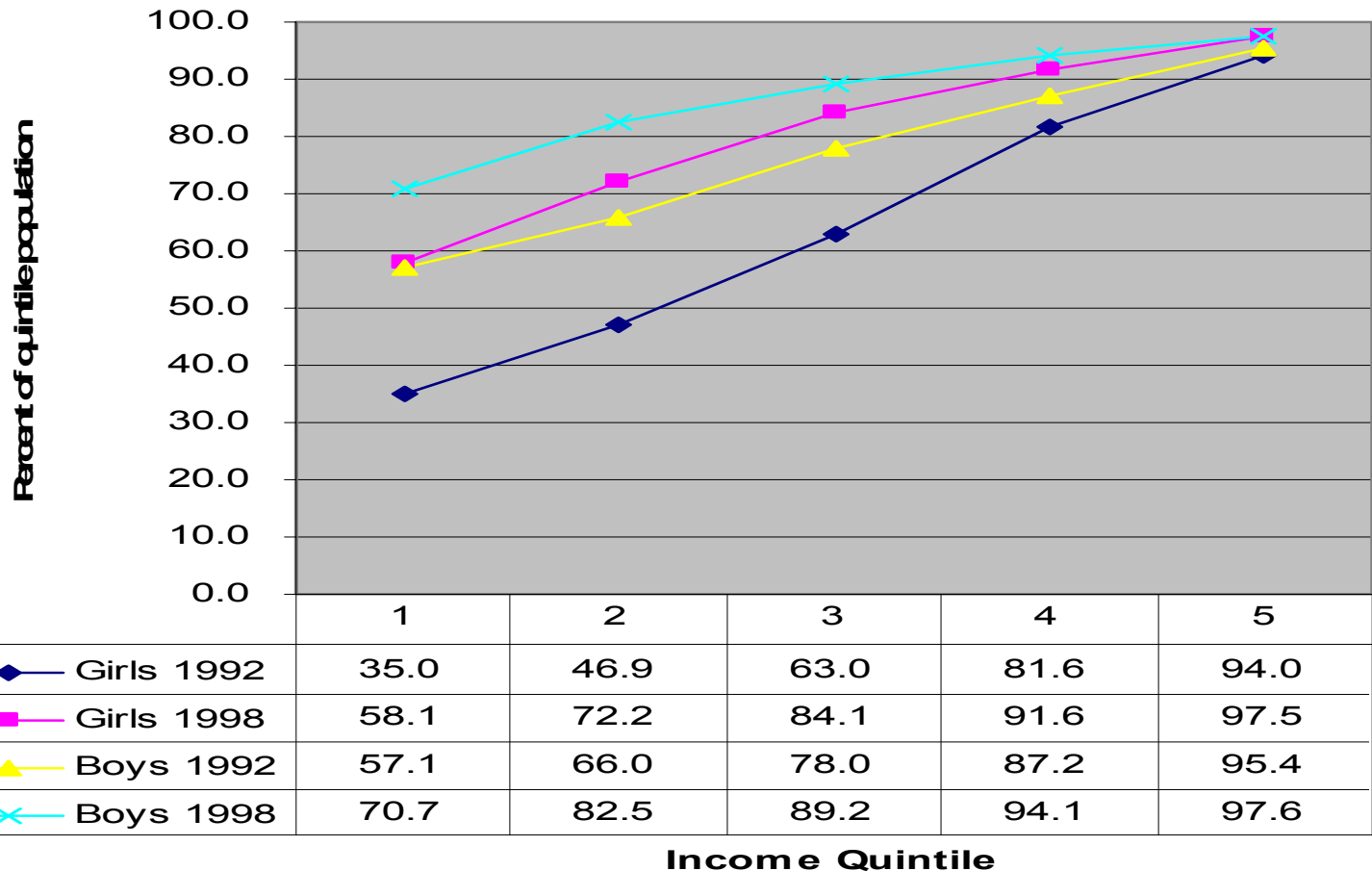
Example (1): Infant Mortality Rate and Mother's Education

Unequal Infant Mortality Rates (IMR) By Mothers Education
Overall IMR Compared to IMR When Mother has Secondary or Higher Education and When Mother is Uneducated



Example (2): Enrollment Rates in India by income quintile of parents

India Education: Children Currently Enrolled

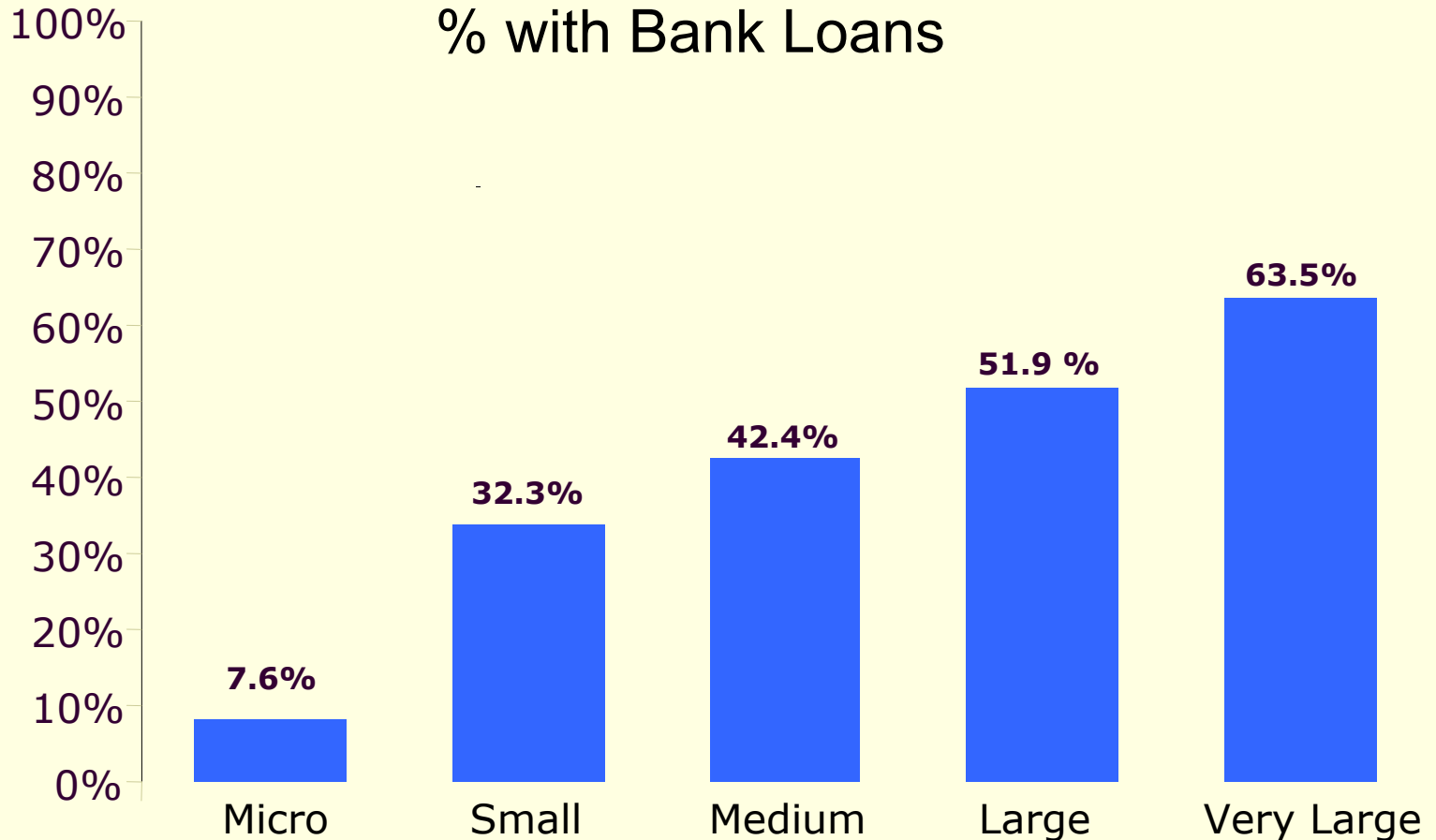


Example (3): International comparison of inequality of opportunities: share of the variance of economic status explained by parents characteristics ^{a)}

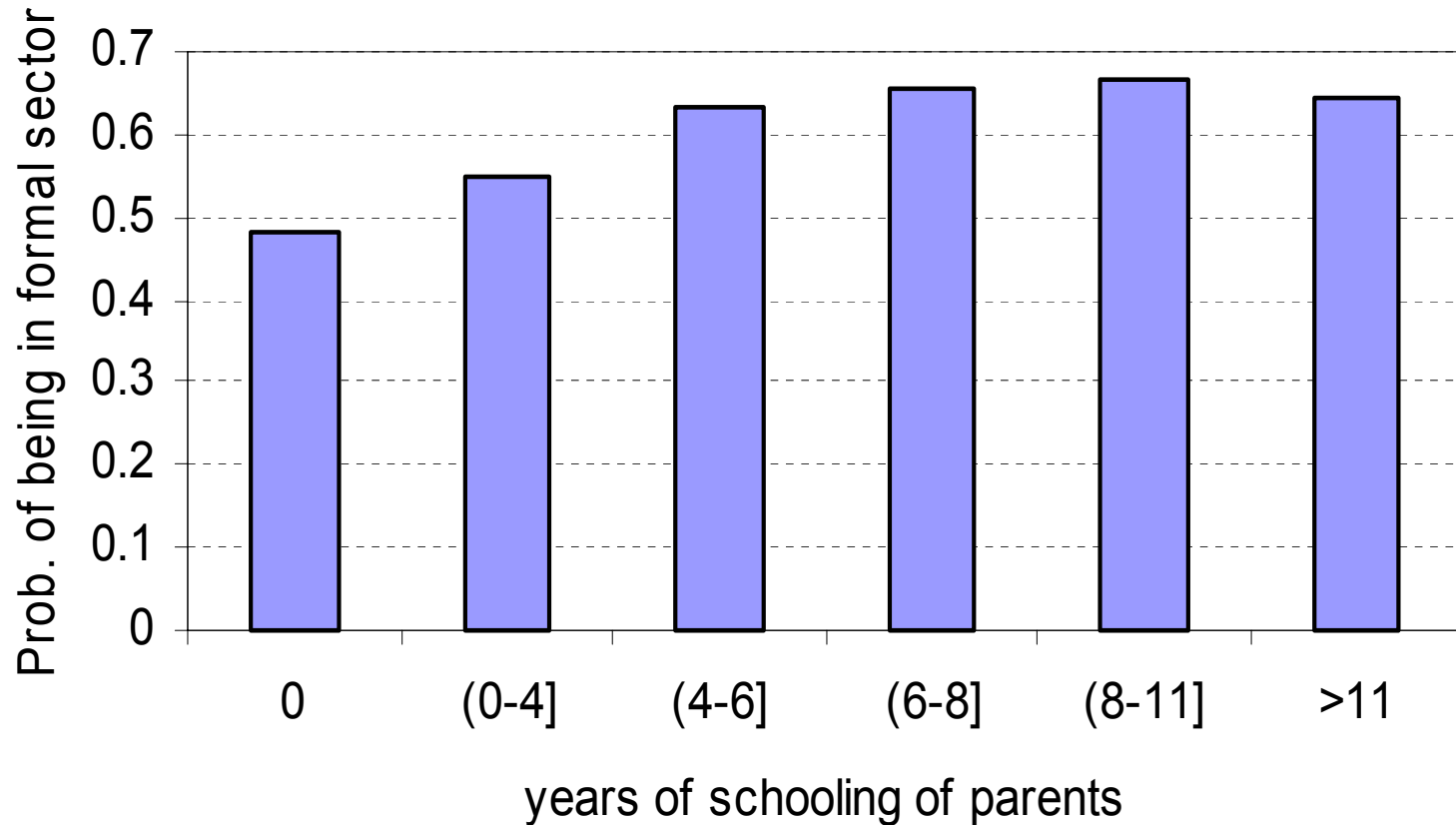
Source	Definition of study and economic status	Number of studies	Range of R ²
Solon (1999)	Log wages, US studies based on (PSID)	11	.02 -.28
Mulligan (1999)	Years of schooling (various developed countries)	8	.02 - .20
BFM(2005)	Years of schooling (Brazil) ^{b)}	6 cohorts/men-women	.37 -.50
	Log earning rate (Brazil)	6 cohorts/men-women	.48 -.63

Example (4): Access to Credit

Large firms are more likely to have bank loans



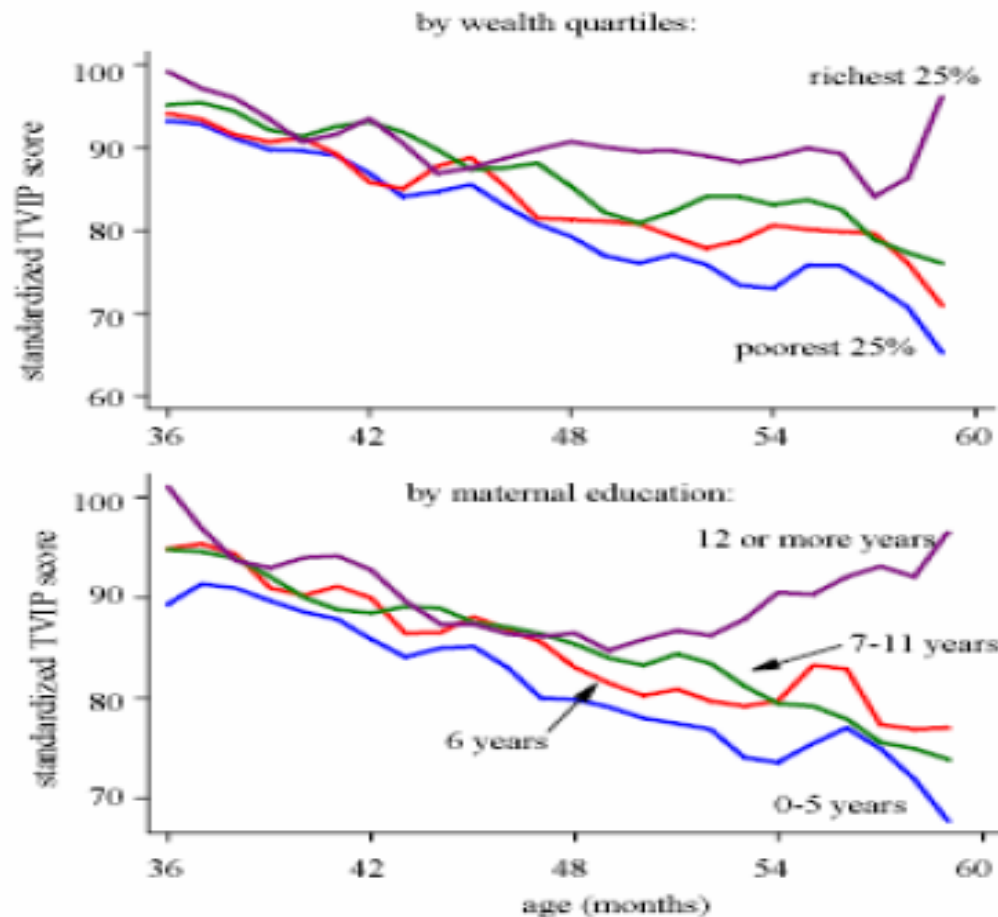
Example (5): how access to formal jobs depends on parental education in Brazil



* Source: Bourguignon, Ferreira and Menendez (2005)

Example (6) Opportunities in health are important especially at an early stage in life

El Salvador study on Early Childhood Development



2. Why equity matters for development

- **General principle 1.** Unequal access to processes that facilitate certain outcomes implies an inefficient allocation of resources (some profitable investments are not undertaken whereas average or mediocre projects are implemented)
- Note : Unequal access to markets like credit or insurance result from a combination of market imperfection (asymmetric information) and inequality in endowments.

2. Why equity matters for development

(cont'd)

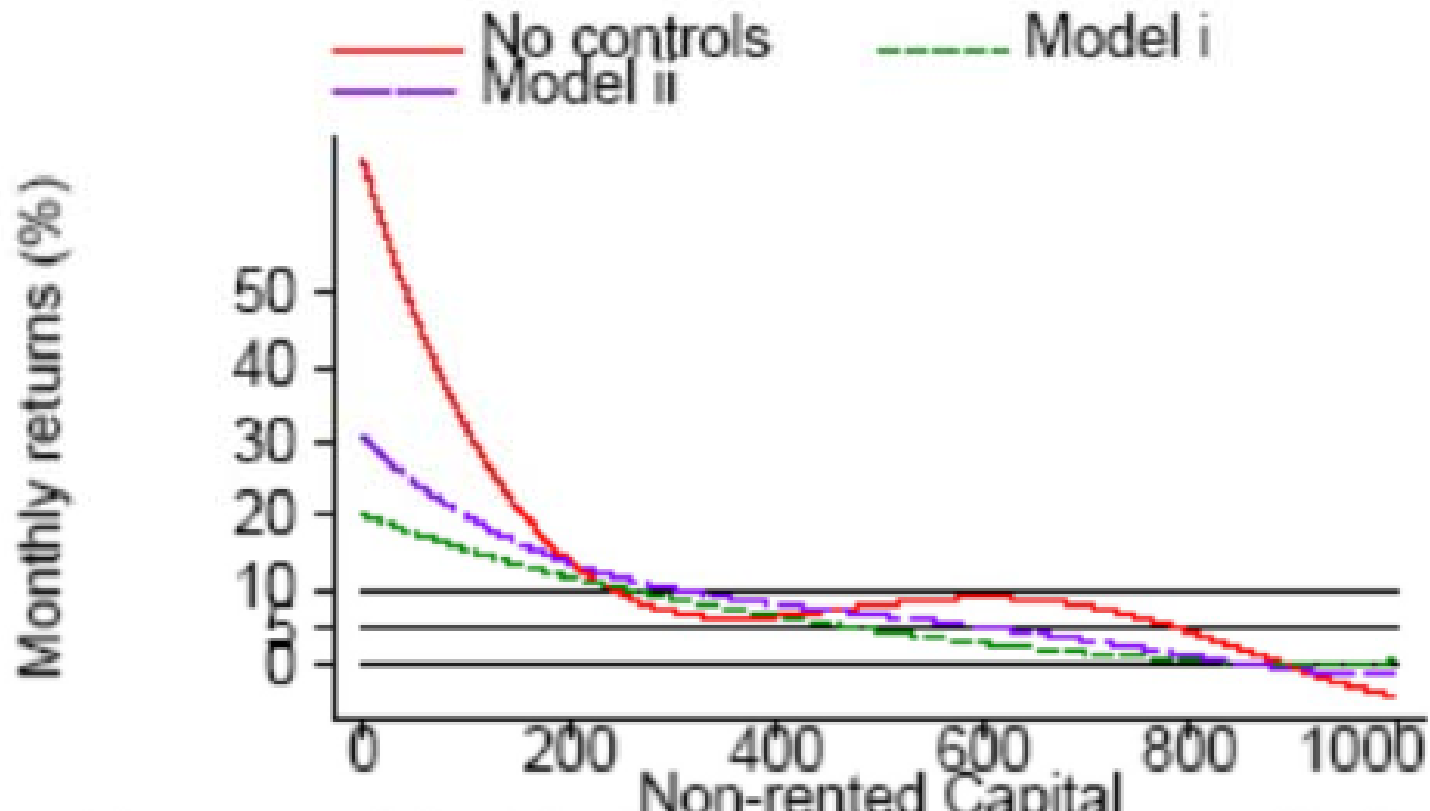
- **General principle 2.** Unequal protection of property rights and unequal political rights suppress incentives to investment and enterprise, and to reform of bad governance
- **General principle 3.** Excessive inequity and weak institutions may be the motive of crime, violence, political instability and conflicts, all deterrent of economic growth

Empirical support

- Problem of the measure of equity
- Limits of cross country analysis of “inequality and growth”
- Endogeneity problem
- The “Microeconomic” approach

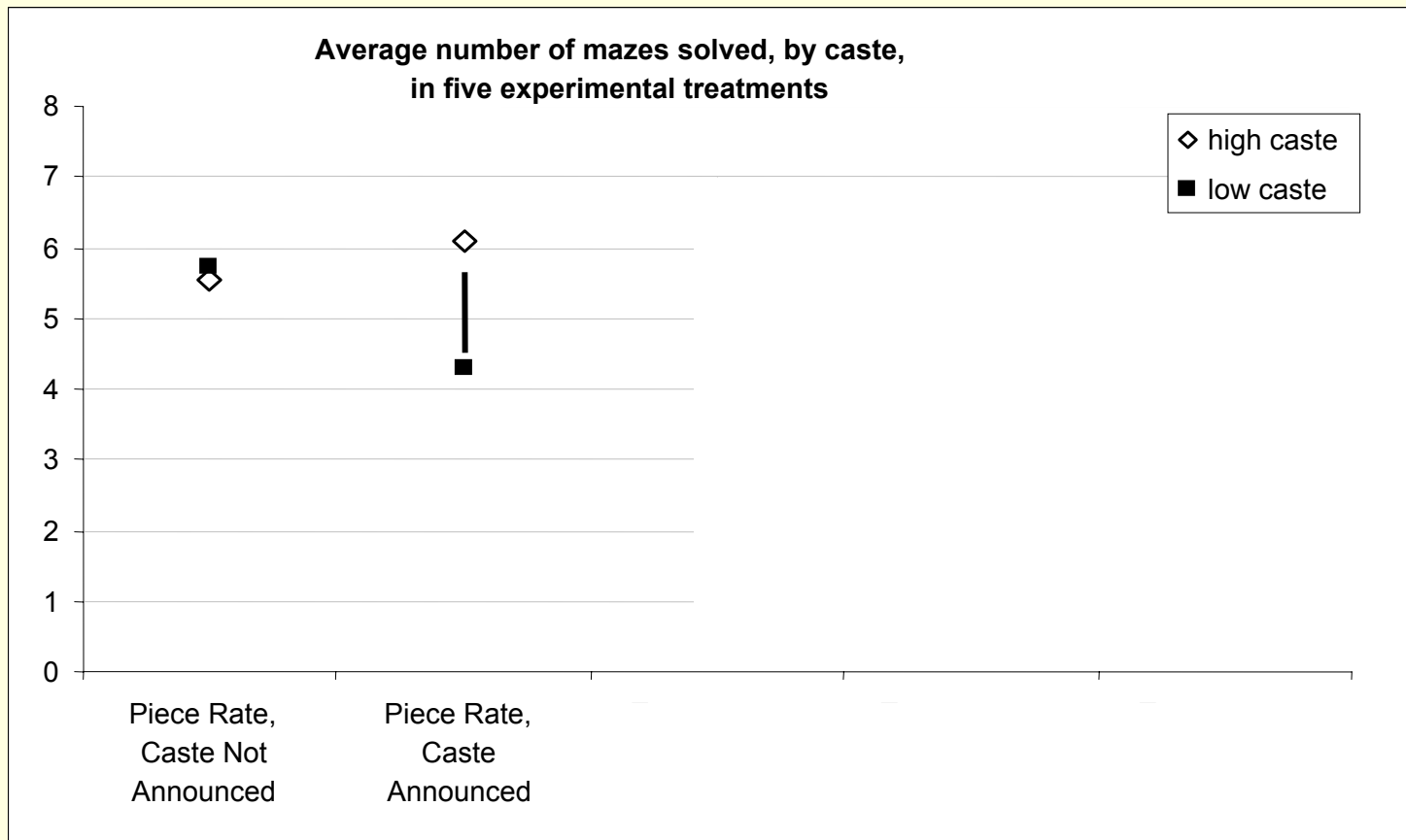
Example (1): Inefficiency of capital distribution in Mexico

Differential Returns on Own Capital



Example (2): Social Inequality & Instilled Inefficiency in India

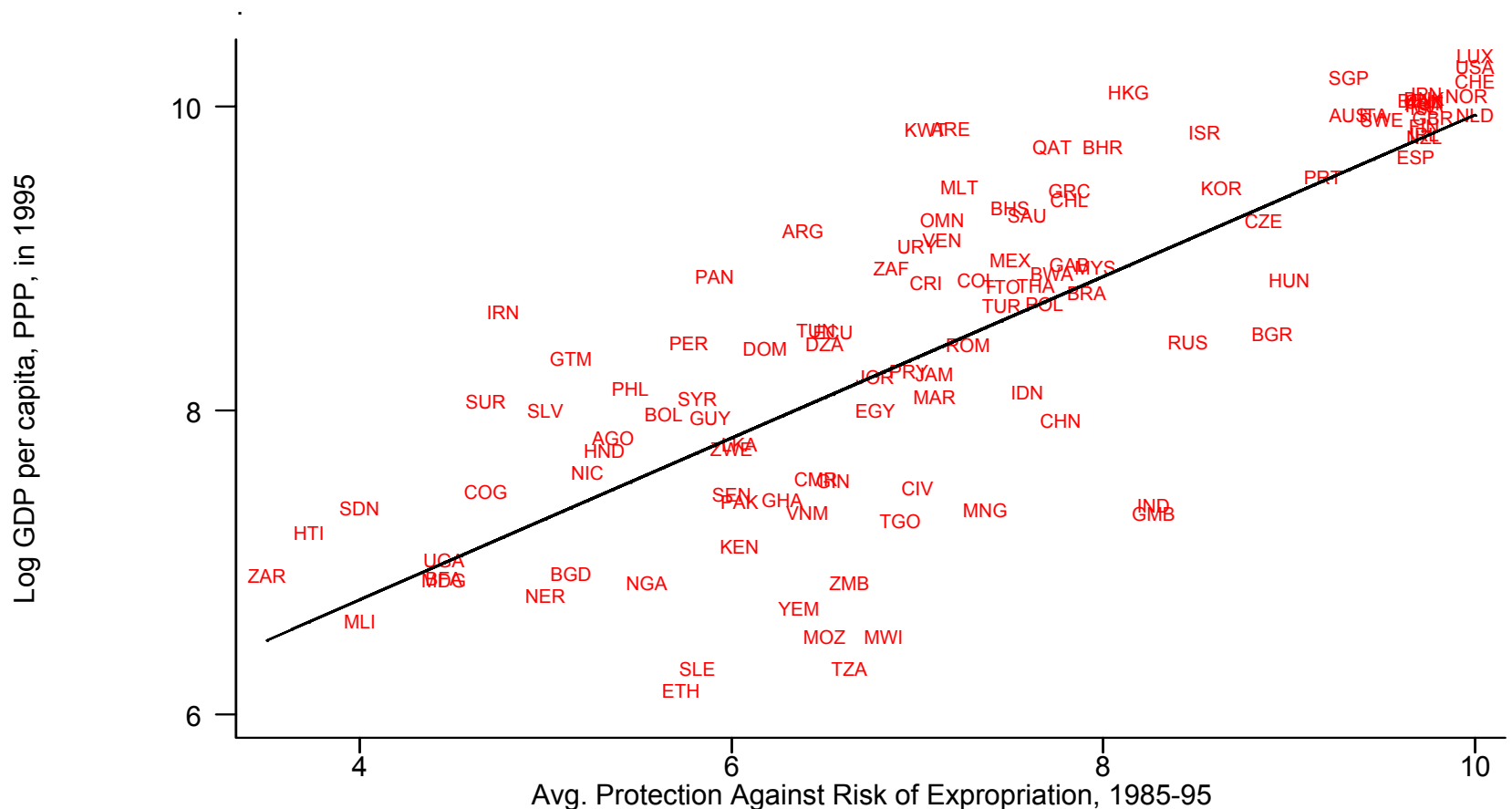
Differential Performance when Caste is Made Salient



Source: Hoff and Pandey, 2004

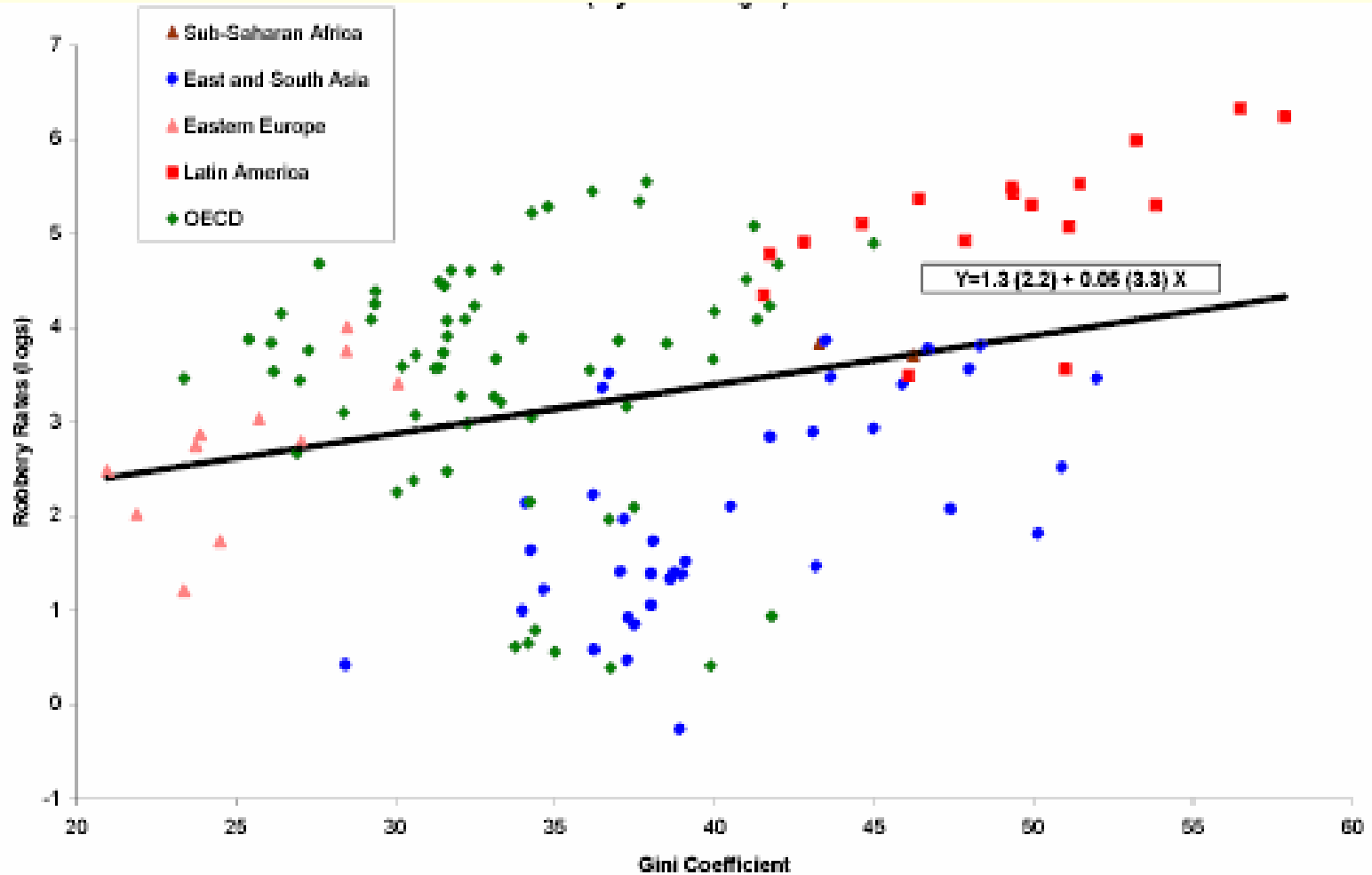
Example (3) : Good economic institutions are associated with prosperity

Association between economic prosperity and protection against risk of expropriation.



Example (4) : Crime and Inequality [as a proxy for inequity]

Income Distribution & Robbery Rates 1970-1994 (5-year-averages)



Source: Fajnzylber, Lederman, and Loayza (2002).

2. Why equity matters for development (end)

- Equity and efficiency or growth are complementary in some fundamental dimensions of development.
- But short term trade-offs between equity and efficiency may be necessary
- Excessive inequity of results may lead to future major obstacles to development

The example of education

A more uniform access to education today will permit exploiting presently unused talents and will foster growth in the future.

But... promoting education today requires more resources to be dedicated to building schools, paying teachers and subsidizing parents.

- Will the cost of these resources, including distortions that may reduce future growth rates be recouped by future gains in income? Presumably yes (based on estimates of returns to education)
- Will those who will bear today the cost of more education be compensated in the future by higher levels of income?

3. Implications for Policy (abridged)

- Equitable accumulation: **access** to education, health, land, infrastructure, ...
- Market **fairness**: labor market (discrimination, migration), credit (SME, micro credit), land (property rights), goods (regulation)
- Full **political participation**
- Reduce absolute poverty (safety nets)
- Reduce excessive inequality (taxes, public management, macro-economics)

"A pie shrinks when more equally divided." True False

- A pie can expand *in the long-run* if it is more « equally » distributed.
- But ... it may shrink in the short-run.

- Unifying the two pillars of the World Bank strategy for poverty reduction : "Investment climate" and "Empowerment".

- The example of China



END