What Kinds of Inequality Should Economists Address?

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in *Combating Inequality. Rethinking government's role*
(Olivier Blanchard & Dani Rodrik eds.), Cambridge (MA): MIT Press, 2021, pp. 49-57.

“I think that in no country in the civilized world is there less interest in philosophy than in the United States,” Alexis de Tocqueville (1835) wrote in the opening sentence of the second volume of *Democracy in America*. Assuming that this is still the case today, it is a very special honor but also a special responsibility for our little team of philosophers to be invited by our economist colleagues in this unphilosophical yet civilized country to help identify the kind(s) of inequality they should address against the background of robust convictions about why one should care about inequality.

The Criterion: Strict versus Lax

I will respond to this request by addressing three questions in quick succession. First, is it economic inequality as such that is objectionable or is it objectionable because of its consequences? In particular, should we say that economic inequality is objectionable if and only if (a) it does not contribute to or (b) it prevents (1) an increase in the level of material welfare of the worse off, (2) an increase in the overall level of material welfare, or (3) a sufficient level of material welfare for all?¹ In a static context, where total material welfare is given, economic inequalities are unobjectionable under (2b) and also, in circumstances in which all have enough, under (3), while being objectionable under the other criteria.² In a real-life context, the total is not given but is affected by inequalities that, if anticipated, may affect incentives and also affect the distribution of the capacity to invest. It is then the *sustainable* achievement of (1), (2), or (3) that provides the criterion for distinguishing justifiable economic inequalities (if any) from objectionable ones. Philosophers disagree on which version makes the most sense. Against the less egalitarian (2) and (3) and the more egalitarian maximin (a) version of (1), I side with John

Rawls (1971) in opting for its leximin version (1b). This leaves room for justifiable economic inequalities, namely those that do not make the worse off worse off than they could (sustainably) be. Needless to say, conjectures about the short- and long-term consequences of economic inequalities on the situation of the worse off are unavoidably complex and speculative. When assessing whether inequalities are justifiable, it is important to consider not only their impact on material incentives and the distribution of the capacity to invest but also possible effects on the media and on political power. Even more important, neither the individual agents' motives nor the potential for tax evasion and tax competition should be taken as parameters immune to institutional reform. Unlike strict egalitarians, maximin and leximin egalitarians will allow for significant economic inequalities, but far less than a narrow focus on economic incentives would suggest.³

The Scale: Domestic versus Global

Next comes the question of scale. Are the inequalities that economists should address local, national, or global? Some philosophers, such as John Rawls (1999) and Thomas Nagel (2005), hold the view that the demands of egalitarian distributive justice are only triggered within the framework of a nation or a state. Distributive justice between countries is less demanding—in Rawls's approach, it reduces to a duty of assistance to “burdened societies”—and economic inequalities that would be unjustifiable within countries are unobjectionable between countries. Other philosophers, such as Peter Singer (2002) and Simon Caney (2005), maintain that egalitarian distributive justice today must be understood as applying globally, even though many of the instruments to be used in its pursuit operate at the national or even the local level.⁴ However, some of those who hold the latter view—as I do—may be willing to concede that more equality is demanded at the domestic level than at the global level, to the extent that justice is a matter not only of distribution but also of recognition: even if it benefits the worst off in material terms, some level of inequality may damage their self-respect and thereby violate justice as equal dignity if it obtains within a community, while being innocuous if it obtains between people so distant that they will never meet.

The Distribuendum: Snapshot Outcome versus Lifetime Opportunity

Third and less summarily, let us turn to the question of the distribuendum. This is the familiar question “Equality of what?,”⁵ but I want to approach it from an unfamiliar angle. I take as my point of departure what I found the most surprising statement in Lucas Chancel’s (chapter 1, this volume) very instructive background overview. One of the facts he highlights relates to the within- and between-country components of global inequality: “Forty years ago, nationality mattered more than class in accounting for global inequality. Today, class matters more than nationality. The Theil index of pretax national income inequality accounted for slightly more than half of global inequality in the early 1980s and only about a quarter today. Put differently, in order to predict the position of an adult in the global distribution of income, it is more useful to know her income group rather than her nationality.” This claim contrasts sharply with earlier assessments, for example by Branko Milanovic (2016, 133): “It turns out that we can ‘explain’ (in a regression sense) more than two-thirds of the variability in incomes across country-percentiles by only one variable: the country where people live.”

Per Adult Primary or Per Capita Disposable Income?

The difference no doubt results partly from Chancel’s use of more recent and richer data,⁶ but it has two more causes, which provide us with useful food for our reflection on the distribuendum of social justice and hence on what inequalities economists should address and therefore try to measure. First, Chancel’s estimates are formulated on a per adult basis, whereas Milanovic’s are per capita. As many of the poorest countries have a number of children per adult far above the world average, shifting to per capita estimates is bound to increase the contribution of between-country inequality. Second, Milanovic’s estimates are about disposable (posttax, posttransfer) income, not primary income. Because taxation and transfers reduce inequality within countries but hardly at all between countries, shifting from primary to disposable income will again substantially diminish the relative contribution of within-country inequality.⁷ If one were to include in a household’s disposable income the value of education and other public services provided free of charge or at a highly subsidized rate, this relative contribution would shrink even further. Focusing on inequalities in per adult primary income is no doubt useful for various

descriptive and explanatory purposes, but surely the inequalities that may be objectionable in themselves, rather than as proxies or causal factors, must be inequalities in people's actual material welfare and hence in their per capita disposable income rather than in their per adult primary income. However, this is not the end of the story. Even when opting for the former, as Milanovic does, one may still be underestimating the between-country relative share in *objectionable* inequalities — those that should be addressed —, for four reasons.

Nominal Income or Purchasing Power Parity?

First, take the role played by purchasing power parity (PPP). Using this amounts to scaling down between-country inequalities on the grounds that the same income, expressed in nominal terms and using official exchange rates between currencies, can buy more goods and services in countries where the cost of living is lower. However, there are also large differences in housing and other real estate prices, and hence in the cost of living generally, between different parts of the same country. Indeed, the ongoing process of metropolization can be expected to deepen these differences. If PPP is used to correct downward between-country inequalities, does consistency not require that it should also be used to correct downward within-country inequalities? It can legitimately be objected that there is a reason why people choose to live in expensive places when nothing prevents them from moving to cheaper ones. The amenities and opportunities offered by an urban environment are deemed to offset the additional cost. Consequently, it would be wrong to lower the estimates of within-country inequality by using PPP to correct for internal differences in cost of living. But should this conclusion not apply just as much, if not more, to between-country inequality? True, mobility is generally more difficult between countries than within countries. It cannot therefore simply be said that those who continue to live in a country with a high cost of living do so because it is good value for the money. However, the obstacles to free movement are generally much greater in the other direction: for those wanting to move from a poorer country to a richer country. These obstacles prevent those confined to a poor country from sharing the many advantages of living in a richer one. Correcting their incomes upward on the grounds that they can be fed and housed more cheaply where they live is therefore at least as illegitimate as doing so for people who choose to live in a cheaper part of a particular country. So, at the very least, consistency requires that if PPP is not used within countries, it should not be used between countries either.⁸

Snapshot or Lifetime Income?

Suppose next that the income inequality between two parts of a population correlates perfectly with their ages: young people earn less than older people not by virtue of the cohort to which they belong but by virtue of the stage in life they are at. This inequality is no doubt less objectionable than if both parts of the population have the same income at each stage in their lives but the income of one of them is at a higher level than the other's. Because they capture snapshot incomes, not lifetime incomes, inequality indices will yield the same results whether the inequality is of the first or the second type. If, in contrast to within-cohort and between-cohort lifetime inequalities, one regards age-related inequalities as unobjectionable, the component of within-country inequality we should be concerned with is bound to shrink considerably. The component of between-country inequality that should concern us will also be affected. The higher a country's proportion of people who are too young or too old to work, the more its snapshot per capita income underestimates its lifetime per capita income. Because of higher birthrates and lower life expectancies, many poorer countries have a lower proportion of elderly people and a higher proportion of children. The latter difference suggests that between-country inequality in lifetime per capita income will be lower than in snapshot per capita income and closer to inequality in snapshot per adult income. But how should the former difference—following from a shorter average life span—be taken into account? Presumably by trying to approximate not lifetime per capita average *annual* income but rather lifetime per capita *total* income. Being, on average, alive rather than dead when reaching a particular age is no doubt an important component of objectionable economic inequality that is not captured by estimates of snapshot income inequality, and one that is likely to weigh more heavily between countries than within them.

Annual or Hourly Income?

Third, consider a case in which the inequality between the incomes of two parts of a population correlates perfectly with their working time. Some choose to work part-time and others full-time, and incomes vary accordingly. Again, this inequality is bound to be regarded as less objectionable, if at all, than the same level of inequality, however measured, between two groups of people working the same amount of time with one earning double the income of the other.

Hence, bundles of income and leisure, or income per hour worked, would be more appropriate than incomes alone in capturing objectionable inequalities. Within countries, inequality scores will necessarily shrink as a result. Between countries, there are certainly differences in average working time—for example, between the United States and Western Europe—which would neutralize at least part of the inequality in per capita income. But how can one obtain a reliable measure of average working time in countries with a large informal economy. Especially if due attention is paid, as it must, to the voluntariness of leisure and the intensity of work, estimates can only be offered with the greatest caution. While it is clear that objectionable within-country inequality would shrink once working time is taken into account, it is less clear that objectionable between-country inequality would shrink, too, and, if so, whether it would do so more than objectionable within-country inequality.

Outcome or Opportunity?

Fourth and finally, consider two parts of a population that grew up in similar circumstances and went to the same schools. However, one part went for a consultant career and is earning a lot of money, while the other opted for an artistic life and is earning just enough money to get by while working just as many hours. Again, we find this inequality far less objectionable, if at all, than one between two parts of a population that, owing to different social backgrounds, attended different schools, one preparing all its pupils to become well-paid consultants and the other producing future street cleaners with a far lower income for the same amount of work. Inequality indices will detect no difference, but our normative evaluations will differ greatly. Even those most inclined to emphasize the role of unchosen circumstances in causing within-country economic inequalities will need to recognize that individual choice is unavoidably even less significant as a factor in between-country inequality.⁹ Once again, the assessment of the latter's relative share in objectionable worldwide inequality will need to be adjusted upward.

Policy Implications?

What follows from this sequence of considerations? Certainly not that indices of snapshot income inequality—whether primary or disposable, per adult or per capita—are of no use. Rather, their usefulness for the sake of defining a sensible objective and guiding our policies

depends on their being able to track inequalities in lifetime per capita disposable income that cannot be justified by their boosting the opportunities of some of the worse off.¹⁰

To illustrate this, consider just one question: should we choose an immigration policy that favors the entry of highly skilled people in sectors in which there are shortages in the domestic labor market or should we favor the entry of low-skilled people facing poverty in their own country? If we want to improve our Gini index and look good in international comparisons as an egalitarian country, there should be little room for hesitation: we should open our doors to the highly skilled so that they can compete with local professionals in high demand, whose earnings would otherwise skyrocket, while keeping out the low skilled, who would not only push the Gini index upward by virtue of their sheer presence but also keep down the wages of the lower strata of the domestic workforce. Moreover, by attracting some of the better paid, such a policy may well have the unintended effect of reducing inequality in the country of origin. If within-country snapshot income inequality is identified as the inequality economists should address, this is the way to go.

If instead we want to pursue egalitarian justice understood as a global sustainable maximin or leximin of opportunities, welcoming those fleeing from poverty in their own country is at least *prima facie* far more commendable than further contributing to the brain drain, even if this means boosting within-country inequality. There may be decisive reasons for adopting more restrictive and more selective immigration policies, but they cannot be presented as following directly from the objective of “combating inequality” once duly subjected to philosophical scrutiny.

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Notes

- 1 See Scanlon (2018) for a far more comprehensive critical exploration of the many reasons for being, in some sense, an economic egalitarian.
- 2 Assuming that there is no “leaky bucket” effect (i.e., no economic waste in the redistribution process). If there is such an effect, inequalities can also be justified under (2a) and, if it is sufficiently strong, even under (1b). Then only (1a) converges with strict egalitarianism.
- 3 Van Parijs (2003) explores a number of interpretations of Rawls’s difference principle that differ according to their

sensitivity to these various considerations.

4 Van Parijs (2007) provides a systematic overview of the different variants of the “nationalist” and “globalist” views.

⁵ See Dworkin (1981), Sen (1982), Cohen (1989), Anderson (1999).

6 Chancel’s data are from 2017 and Milanovic’s from 2008, and the earlier data already suggested “a decreasing importance of the locational element in the last decade” (Milanovic 2016, 131). Chancel’s data are based not only on household surveys but also on tax records, which are better at tracking very high incomes, and between-country inequality is less pronounced among the rich than among the poor (Milanovic 2016, 134).

7 Taking remittances into account would shrink between-country inequality somewhat, just as taking donations into account would shrink within-country inequalities somewhat. But voluntary transfers are presumably best interpreted as a use one makes of one’s disposable income rather than as a reduction of it, and resources one owes to discretionary generosity should presumably not be given the same status as market earnings or benefits to which one is legally entitled.

8 Here I am leaving out the difficulties raised by many of the assumptions that enter into the construction of PPP coefficients (see the lucid discussion in Deaton 2010) and will not question their use, duly qualified, for the purpose of estimating real GDP per capita and poverty rates, as opposed to between-country inequality.

9 There are no doubt countries whose cultures and institutions are less favorable to material prosperity than others. It could be said that it is up to them to change them, and if they do not, it is their responsibility. But this cannot be said to individual members of these societies, whose opportunities are shaped by a culture and institutions they did not and cannot choose. Normatively relevant global inequality is not between personified societies but rather between individual human beings.

10 Chancel (chapter 1, this volume) also noted: “This finding may have important implications for global inequality policy debates on the relative importance of migration, between-country transfers, and national-level inequality policies.” The underlying suggestion is presumably that one should concentrate policy efforts on the component of inequality, as measured, that is now dominant. Along the same lines, after having shown that three-quarters of overall inequality between European citizens, as they measure it, is explained by within-country inequality, Blanchet, Chancel, and Gethin (2019) conclude that, “this suggests that social and fiscal policies in the European Union (and even more so in the US) seeking to reduce income inequality should primarily focus on within-country (or within-state) measures, rather than by organizing transfers between countries (or states).”