

Is Inequality of Opportunity a Useful Policy Construct?

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Introduction (1)

- Joint papers with Adam Wagstaff.
- But I take full responsibility for this presentation!

Introduction (2)

- “Equality of Opportunity” is the new motherhood and apple pie. It is compared favorably with “Equality of Outcomes.”
- “Equality of Outcomes”: utopian, infeasible, bad for incentives, inequitable and unjust if outcomes depend on individual effort, etc.,.
- “Equality of Opportunity”: leveling the playing field, equal start, making most of inherent talents, etc.,

Introduction (3)

- No question that the label “Equality of Opportunity” is less contentious in the policy discourse. Who could be against it?
- So egalitarians have been drawn to using that label and that packaging in the policy domain to advance an egalitarian agenda.
- In particular, there is now considerable work going on, in the World Bank and elsewhere, to quantify “Inequality of Opportunity.”

Introduction (4)

- But remember that “Equality of Opportunity” was, is, and always will be the battle cry of non-egalitarians opposed to actual redistribution of income and wealth.
- Indeed, one response in the “Post-Piketty” ferment has been that it is not inequality of income or wealth which matters, it is inequality of opportunity.
- So the critique advanced in this paper can be seen as a health warning to egalitarians.
- “Equality of Opportunity—Use With Extreme Caution.”

Some References

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The Concept (1)

- Roemer (1998):
- “separate the influences on the outcome a person experiences into *circumstances* and *effort*: the former are attributes of a person’s environment for which he should not be held responsible, and effort is the choice variable for which he should be held responsible”
- Egalitarian angst on personal responsibility; long philosophical literature eg Dworkin, Cohen, Arneson etc.

The Concept (2)

- “When some of the inequality observed in the outcome of interest can be attributed to exogenous circumstances, such as a person’s gender or family background, it reflects inequality of opportunity in a society.
- In an ideal world, inequality in outcomes should reflect only differences in effort and choices individuals make, as well as luck.” (de Barros et al, 2009).

The Method (1)

- Circumstance Variables actually used in de Barros et. al. (2009):
 - Gender
 - Race/Ethnicity
 - Birthplace
 - Mothers' Education
 - Father's Education
 - Father's Occupation

The Method (2)

- Decompose inequality of the outcome (income or consumption) into within group and between group components.
- “The difference in outcomes *between cells* can be attributed to inequality of opportunity, while the differences *within cells* can be considered the result of effort or luck.” (de Barros et. al. (2009))
- Also, parametric analogs.

The Method (3)

- “Inequality of opportunity” is quantified for labor earnings, household income, and household consumption.
- It is also quantified for outcomes like immunization or school enrollment focusing on children only—although a different technical route is used (the outcome is the logit estimate of the probability of being immunized etc). Leads to Human Opportunity Index.

The Critique (1)

- There is absolutely nothing wrong with empirical assessment of the causes of variations in income or immunization.
- But there is nothing very new about it either.
- The contribution of gender, ethnicity, caste, mother's education, etc etc to outcome variation has been the bread and butter of income distribution analysis for a long time.

The Critique (2)

- What is new is the interpretation, the labeling, and the linking in to the philosophical discourse.
- “The difference in outcomes *between cells* can be attributed to inequality of opportunity, while the differences *within cells* can be considered the result of effort or luck.”
- The between cell component is usually less than 50%, typically much less—around 25%.

The Critique (3)

- This interpretation and its likely use and misuse in policy discourse invites close scrutiny.
- For example, Inequality of Opportunity as measured through the between cell contribution depends on the number of cells ie the number of circumstance variables and the number of categories within them.

The Critique (4)

- If the number of cells differ, the measure is not comparable across countries and over time.
- To achieve comparability across countries, only those circumstance variables for which data exist for all countries will have to be chosen (as is done in De Barros (2009) and in most subsequent cross-country work).
- But then the normative measure of Inequality of Opportunity is determined by casual properties of data availability.

The Critique (5)

- But perhaps more fundamentally, there are two issues of *principle*.
- What happens when luck determines difference between opportunity and outcomes?
- What happens when one person's effort becomes another person's circumstance?

Luck (1)

- “In an ideal world, inequality in outcomes should reflect only differences in effort and choices individuals make, as well as luck.” (De Barros et al 2009)
- “The difference in outcomes *between cells* can be attributed to inequality of opportunity, while the differences *within cells* can be considered the result of effort or luck.” (De Barros et al 2009)

Luck (2)

- “Consider a group of individuals who initially have equal endowments and who agree voluntarily to enter a lottery with very unequal prizes. The resultant inequality of income is surely required to permit the individuals in question to make the most of their initial equality...Much of the inequality of income produced by payment in accordance with the product reflects ‘equalizing’ difference or the satisfaction of men’s tastes for uncertainty...Redistribution of income after the event is equivalent to denying them the opportunity to enter the lottery.” (Milton Friedman, *Capitalism and Freedom*, 1962)

Luck (3)

- Many, many aspects of this discourse on luck and inequality.
- For example, Dworkin's distinction between brute luck and option luck. Luck would belong alongside "effort" if we could eliminate risk from our lives and choose not to do so.
- But we cannot. Much of the risk we are exposed to is linked to activities we have to engage in to get through the day, if not survive. Often the risks involved are not known with certainty by the scientific community; when they are known, they are not always disseminated in an accessible way, and there are commercial pressures to ignore them.
- Diet is a good example. We have to eat to survive. Yet dietary risks account for more deaths worldwide than alcohol and tobacco combined. Commercial pressures encourage a default diet that poses risks to health, and we have to make a conscious and determined effort to eat in a way that lowers health risks.

Luck (4)

- True there are examples of where people unnecessarily and knowingly expose themselves to risk. Shouldn't inequalities in health caused by smoking decisions be classified as just? Not necessarily.
- There is a school of thought that says that people should not be held accountable for bad luck but only for unnecessary fully-informed risky behaviors.
- That might mean taxing tobacco at a rate that generates enough revenue to cover the extra expected health care costs, but making sure that everyone – smokers and nonsmokers – receive whatever health care they need to prolong their life and increase its quality.

Luck (5)

- This takes us to the case of extreme outcomes. Are we OK with destitution if it is the outcome of freely chosen lotteries? Bourguignon, Ferreira and Walton (2007) are not OK with it and apply a two stage hierarchy.
- But the key point is that the measures of inequality of opportunity which are now being churned out at the World Bank and elsewhere in the policy discourse are largely innocent of these considerations.

Luck (6)

- One way to interpret the Roemer and post-Roemer developments is as modifying the sharp setting of the Friedman thought experiment, by saying that individuals are not identical, that there are structural inequalities, and that observed inequalities reflect these structural inequalities.
- BUT this concedes the basic premise, that outcomes as a result of random shocks (even if the lottery is freely chosen) are out of bounds for redistribution. This thin end of the wedge should be blocked by egalitarians.
- And yet: “The difference in outcomes *between cells* can be attributed to inequality of opportunity, while the differences *within cells* can be considered the result of effort or luck.”

Children and Parents (1)

- There is a basic issue with the Human Opportunity Index, a key component of which is again a quantitative attribution of part of the variation in children's outcomes (eg immunization) to the chosen set of circumstance variables.
- But surely for children the question of distinction between circumstance and effort does not arise. Period. All inequality of outcome is inequality of opportunity if one follows the logic of the core argument.
- But the current measure only attributes *part* of this inequality to inequality of opportunity.

Children and Parents (2)

- Further problems.
- What to do when the effort of parent becomes the circumstance of child.
- “Intergenerationalities” (Kanbur, 2010)

Children and Parents (3)

- “for I, the Lord your God, am a jealous God, visiting the iniquity of the fathers on the children, and on the third and the fourth generations of those who hate Me“
- "Fathers shall not be put to death for their sons, nor shall sons be put to death for their fathers; everyone shall be put to death for his own sin."

Children and Parents (4)

- If parents choose to exert little effort and indulge profligate tastes, so they do not have sufficient resources to educate their children, the “circumstances” doctrine would say the education outcome for the children should be corrected.
- But this would surely violate the “effort and tastes” doctrine applied to parents, which would say that the outcomes are fine as they are.
- If our moral intuitions side with the first bullet above, what then is left of the “effort and tastes” component of the distinction between “inequality of opportunity” and “inequality of outcome”?

Children and Parents (5)

- The issue of children and parents also brings us to the question of “talents”. Like luck, talents play a big role in shaping outcomes.
- We can think of ourselves as starting life endowed with innate talents, inherited from our parents, which we can cultivate during our life. The talents we start our life with affect where we end up. We’re unlikely to become an accomplished concert pianist if we start life with no musical talent.
- Since we have no control over our innate talents, by lumping all talent with effort we end up underestimating the true amount of inequality of opportunity.

The Lower Bound Defense (1)

- One defense of the method that has been put forward is that it is a “lower bound.”
- “Inequality of Opportunity is at least 25%”.
- But this is a lower bound of an unknown amount.
- Technically I would be right in saying that Inequality of Opportunity is 70%, or 80%, or even 100%.

The Lower Bound Defense (2)

- If you then say, don't be ridiculous it couldn't be as high as that because the lower bound is 25%, you are really pulling the discourse towards a figure of 25%.
- Indeed, this is what I believe will happen in the policy context. If you put out a figure of 25% it will be treated as a point estimate and the caveat that the actual figure could be much higher will get lost in translation.
- The Lower Bound Defense just doesn't wash.

Conclusion (1)

- There is nothing wrong with attributing variations in outcomes like immunization or income to differences in variables like gender, caste, ethnicity, parental wealth etc.
- There is nothing new in this exercise either. It has been done for a long time.
- What is new is the attempt to get an overall single number packaged under the label of “inequality of opportunity,” linked to a philosophical discourse.

Conclusion (2)

- I welcome attempts to bring old issues of the structural causes of inequality to the table.
- I welcome the resurgence of such analytical work which is now being done under the label of “inequality of opportunity.”
- And if the label “inequality of opportunity” gets egalitarians a seat at the policy discourse table because it is less threatening than just “inequality”, then as a pragmatist I am willing to consider it.

Conclusion (3)

- But there are dangers here which analysts and egalitarians should be cognizant of.
- These dangers range from practical and technical matters such as the normative measure of inequality of opportunity being determined by casual properties of data availability, to deeper conceptual issues such as extreme outcomes, the role of luck in outcomes, or adjudicating between parents' effort and children's circumstance.

Conclusion (4)

- Egalitarians should be vigilant against conceding their egalitarian instincts in the rush to adopt the label of “equality of opportunity” and all that goes with it, simply because this is less contentious than “equality”.
- There is a danger of this happening with the current rush to estimate and quantify “inequality of opportunity.”

Conclusion (5)

- Thus any attempt to separate circumstances from effort, to identify that portion of the inequality of outcomes which is a legitimate target for redistribution, is fraught with empirical and conceptual difficulties.
- Fine-grained distinctions between inequality of opportunity and inequality of outcomes do not hold water in practice, and we are likely to greatly underestimate inequality of opportunity and hence the need for intervention.
- Further, what if one person's effort becomes another person's circumstance, as when income generated through parents' effort provides a better start in life for some children? Or when freely made choices by one group of upper income house purchasers push up prices for others who may have lower incomes? Is it legitimate or is it not legitimate to intervene in this case?

Conclusion (6)

- These arguments support the case for generalized social protection in dimensions such as income, health and education, irrespective of whether the outcomes can be specifically attributed to circumstance or to effort.
- The important questions then relate to what the best available policy instruments are for delivering this social protection, what effects they have on incentives, and how best they can be deployed.
- To be sure, we may make some Type I and Type II errors in doing so: we may penalize effort when we should not, and we may not fully compensate for circumstances when we should.
- But this is preferable to being frozen into perpetually underestimating the need for intervention by a focus on that will o' the wisp, inequality of opportunity.

Conclusion (7)

- So, a health warning:
- “Caution: Equality of Opportunity—
Egalitarians Use With Extreme Caution!”

Thank You!