Equality of Opportunity: Circumstance, Effort and Luck

Presentation at Conference in Honour of Richard Jolly
IDS, November 18, 2011

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Outline

• The Paes de Barros et. al. (2009) Measurement of Inequality of Opportunity, following from World Development Report (2005) and Roemer’s (1998) distinction between “circumstance” and “effort”.

• P de B (2009) is fine in practice. Policy prescriptions look great to egalitarians. Method used is standard. BUT, two issues of principle.

• What happens when one person’s effort becomes another person’s circumstance?

• What happens when luck determines difference between opportunity and outcomes?
The Method (1)

• “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.” (Paes de Barros et al, 2009).
The Method (2)

• This follows Roemer (1998). “Circumstance” versus “Effort”.

• More on “Luck” later.
The Method (3)

• Circumstance Variables actually used in Paes de Barros et. al. (2009):
  – Gender
  – Race/Ethnicity
  – Birthplace
  – Mothers’ Education
  – Father’s Education
  – Father’s Occupation
The Method (4)

• 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.”
The Method (5)

• “Inequality of opportunity” was assessed for labor earnings, household income, and household consumption.
• It was estimated to account for between one-fifth and one half of overall inequality in the seven Latin American countries reviewed.
Results (1)

• Policy Conclusions:
  – Inequality of Opportunity is important (one fifth to one half, and this is a lower bound).
  – Major policy strategy to reduce it is to address discrimination between genders, ethnicities, locations etc. across a range of interventions.
Results (2)

• So, policy conclusions look good to egalitarians.
• Methods look good to inequality economists. In fact we have been using them for decades.
• Inequality decompositions across gender, ethnicities, region etc are bread and butter fare by now.
• New interpretations of between group component have also been attempted eg Kanbur-Zhang (2001) have interpreted it as “polarization.” Also, Kanbur (2006).
Two Issues of Principle

• “In an ideal world, inequality in outcomes should reflect only differences in effort and choices individuals make, as well as luck.” (Paes de Barros, 2009).

• Is this right? Two issues:
  • What if one person’s effort leads to another person’s circumstance?
  • Is inequality brought about by luck justifiable, ie not a legitimate object for policy intervention?
Circumstance and Effort (1)

- “Intergenerationalities” (Kanbur, 2010)
- “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."
Circumstance and Effort (2)

• 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, 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”? 
“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 (2)

- So, consider two individuals, A and B, absolutely identical in every respect. (Kanbur, 1987).
- There is a cake. Instead of dividing it equally they decide to toss for it. A wins, B loses.
- There is equality ex ante, inequality ex post.
- Is the ex post inequality a justifiable argument for redistribution?
- If you say yes, you are an “outcomes” person. If you say no you are an “opportunities” person.
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.
Conclusion

• P de B is fine in practice. Policy prescriptions look great to egalitarians. Method used is standard. BUT, two issues of principle.

• What happens when one person’s effort becomes another person’s circumstance?

• What happens when luck determines difference between opportunity and outcomes?
Some References


