Measuring Unfair Inequality: Reconciling Equality of Opportunity and Freedom from Poverty

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Contributions

- Provide normative measure of inequality, we can safely call 'bad' (or unfair)
- Measure 'bad inequality' in US over time and across countries

My discussion

- Measuring unfair inequality in a toy distribution
- Measuring unfair inequality in US data
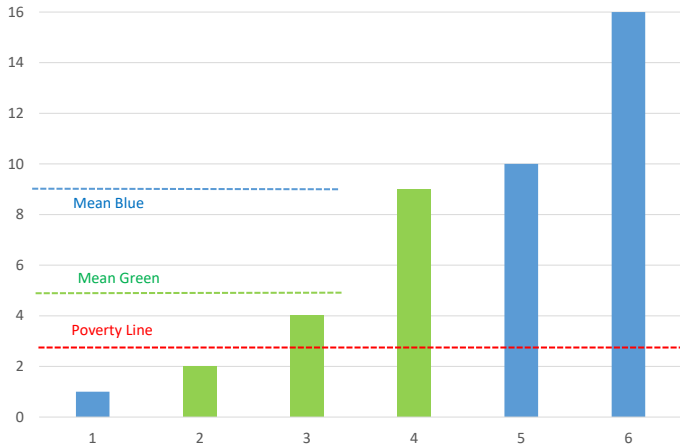- Is a single measure useful?

Unfair Inequality

- Unfair inequality is defined as distance between empirical income distribution and a fair income distribution
- Need:
  - A notion of fair income distribution
  - A notion of distance

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  Consider a toy distribution with 6 people and two colored groups determined at birth
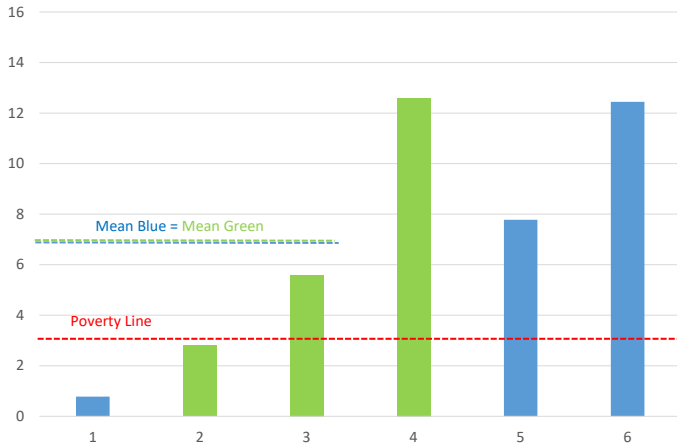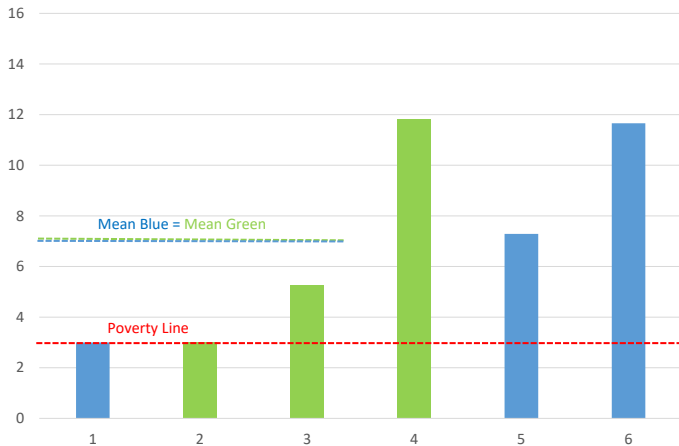
What's fair?

Two dimension of unfairness:
- Persons (1 and 2) below the poverty line (violates FfP)
- Inequality between green and blue groups (violates EOp)

Restoring EoP

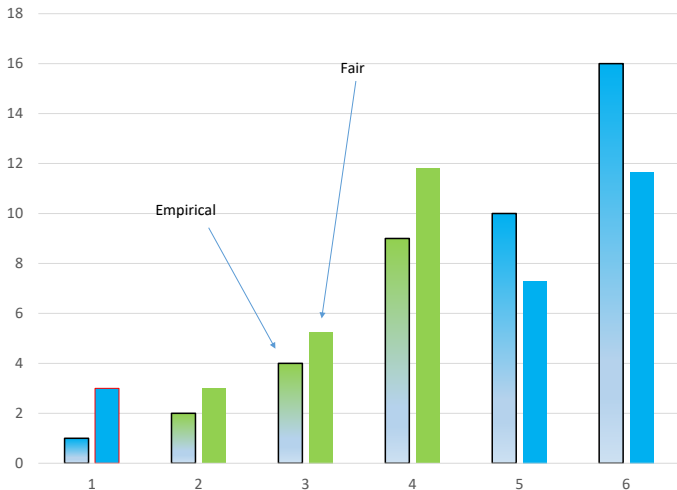- Equalize income across (but not within) groups

Restoring FfP
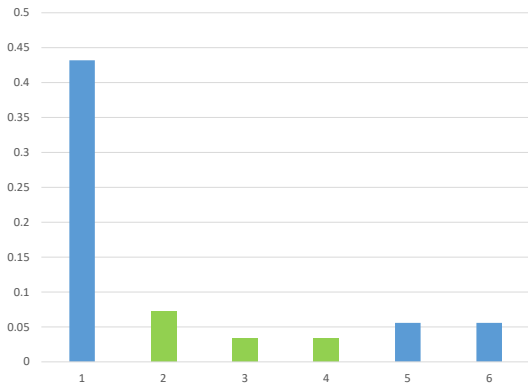

- Bring up to the poverty line those below it

Comparing Empirical and Fair

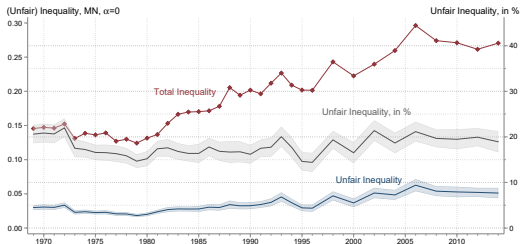- Inequality in fair distribution lower than data, still far from 0

Unfair: Distance between Empirical and Fair

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$$\frac{1}{N} \sum_i \log(\frac{y_i^{Fair}}{y_i^{Data}}) - \frac{y_i^{Fair} - y_i^{Data}}{y_i^{Fair}}$$

- Distance (unfairness) large when y_i^{Data} is low
- Unfair inequality affected by poverty
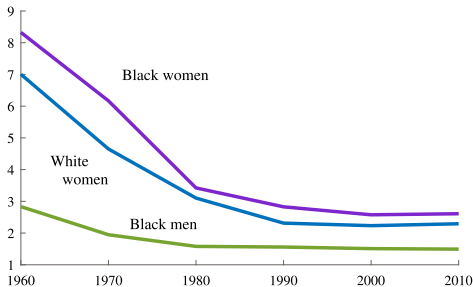
Total and Unfair Inequality in US, 1969-2014

- Unfair inequality increases, but much less than total
- Most notable increase in unfair inequality due to increase in group income of people with educated and rich parents
- Hardest issue is to define what is pre-determined and what is not!
- Two changes in the analysis, might change the findings in opposite directions

Why might unfair inequality be higher and growing faster?

- Part of increase in inequality (especially at the top) is driven by: higher pay for higher education, for executive positions (CEO, manager), and in some cities (SFO,NY)

- Possibly the ability of getting higher education, an executive position and living in a given city are in part pre-determined so these groups might be included in constructing unfair inequality

- Including those groups might yield higher and faster growing unfair inequality

- Worth exploring, as a sensitivity exercise

Can unfair inequality be growing slower (or declining)?

- Evidence from Hsieh et al (2019) suggests for some groups large decline in entry barriers in high pay profession "*In 1960, 94 percent of doctors and lawyers were white men. By 2010, the fraction was just 62 percent.*"
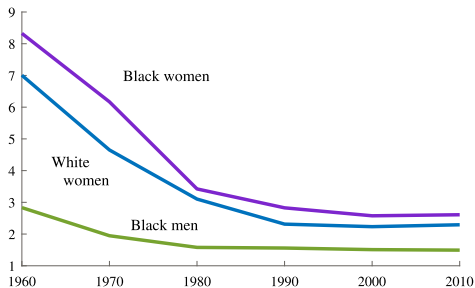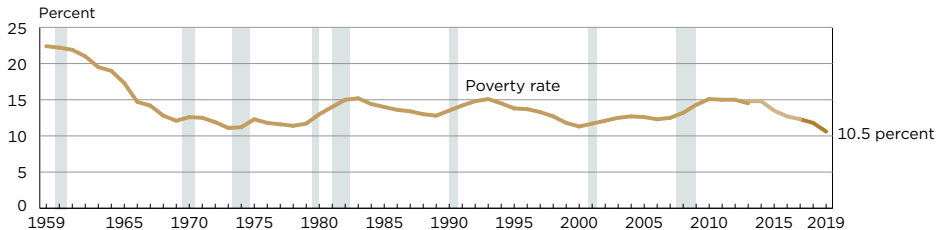
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- Surprisingly declining race barriers do not show up in declining unfair inequality due to race (fig 2)!
- Declining gender barriers do not show up either: maybe because use households (as opposed to individual) income. It might be worth to experiment with measures of inequality more individual based
- Missing the early 60s

11

Poverty Rates in US

Source: Census 2020

- During the early 60s largest decline in poverty and entry barriers

Concluding thoughts

- Very interesting paper
- Intriguing new/more normative measure of inequality and some really important findings (i.e. increasing importance of family of origin in shaping income distributions)
- A general issue (which I always stress when teaching) is that inequality is about distributions and it is hard to capture its dynamics with a single number
- Unfair inequality tries to capture all unfairness in a single number; still I find more valuable to analyze separately the source of unfairness!