Inequality is No Sufficient Statistic

Danny Quah

Mon 27 Feb 2023

Annual Hicks Lecture, Oxford University

NUS National University of Singapore

Lee Kuan Yew School of Public Policy

Calibration

Complete using one of 1.-4. to follow.

- "My priority is to be able to:"
- "Everyone, no matter their socioeconomic background, should be able to:"

Choose one.:

1. become richer than currently;
2. become richer than the parents;
3. get to an income percentile in society higher than currently;
4. live in a society where the gap between the richest and poorest (x%) is smaller than currently.

(Instead of "become richer" and "income percentile", can instead say "have greater control over one's destiny" and "socioeconomic class", or yet other alternatives.)

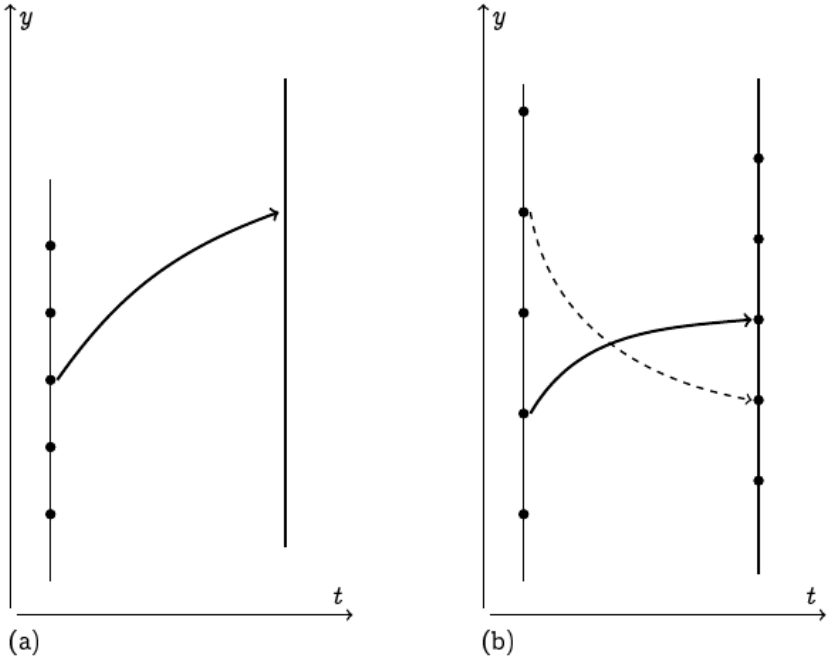

Figure 4. Income Mobility and Social Mobility. Each of the left and right panels—societies (a) and (b) respectively—shows a distribution of income y changing through time t. Each small circle represents 20% of the group whose income distribution is depicted. The left panel, that for society (a), sees an increase in average income, but leaves unrestricted who goes where in the income distribution. When (a) is confined to the bottom 50% in society, this change in average income is what the text refers to as income mobility. The right panel, that for society (b), shows the group originally in the 21st–40th percentile, (i.e., the second 20%) experiencing upward social mobility in transitioning to the third 20%: they rise in society. For this to happen, however, some group originally in the top 60% must fall into the bottom 40%, thereby experiencing downward social mobility. Put directly, if previously you had 60% of the population richer than you but now only 40%, then one-fifth of the population, somewhere, must have fallen in the process. Upward social mobility is impossible without, at the same time, equal and opposite downward social mobility. Social mobility is a zero-sum proposition.

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Inequality concerns

The one large empirical fact

Ways forwards: Bubbles and Text

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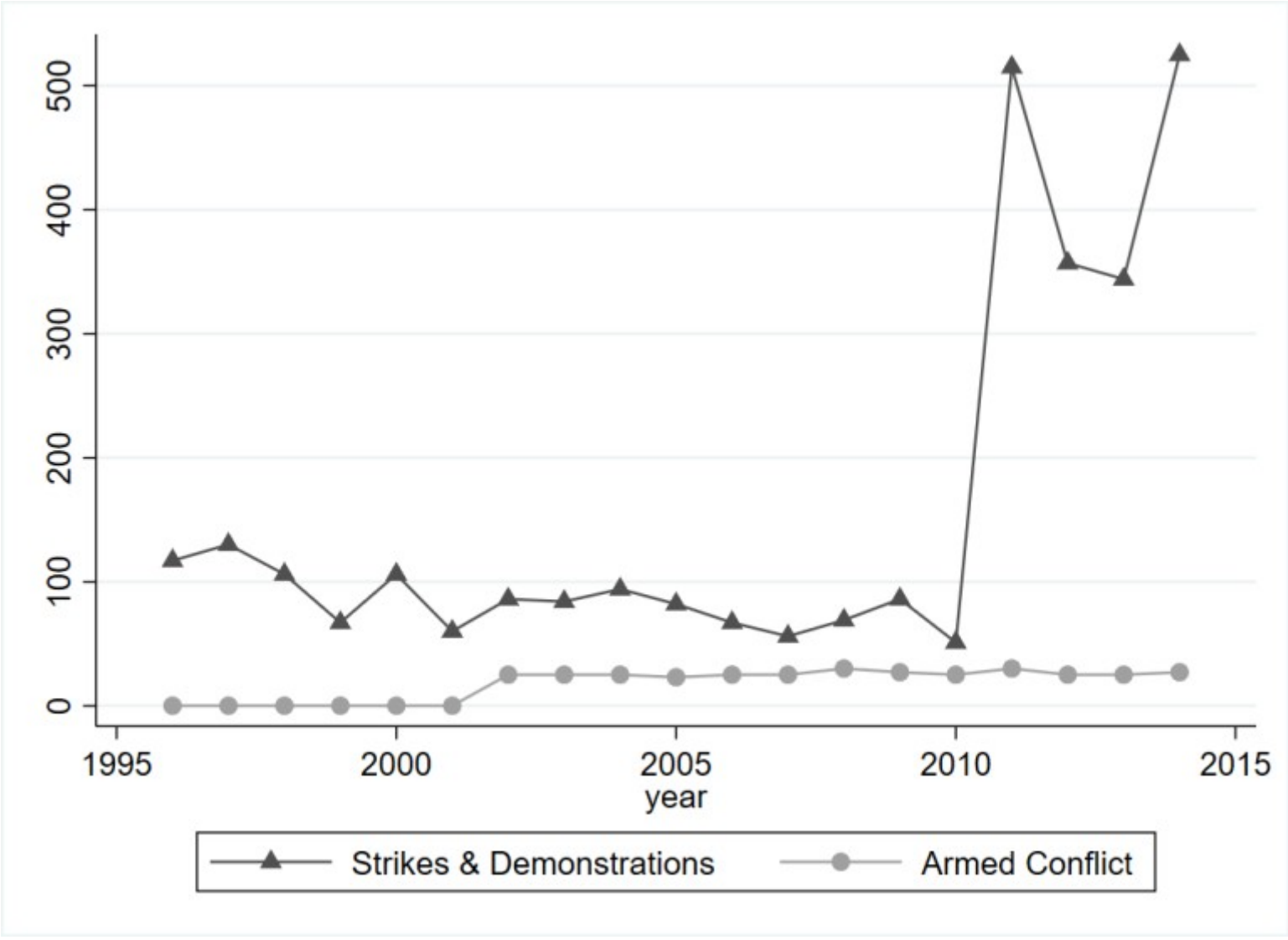
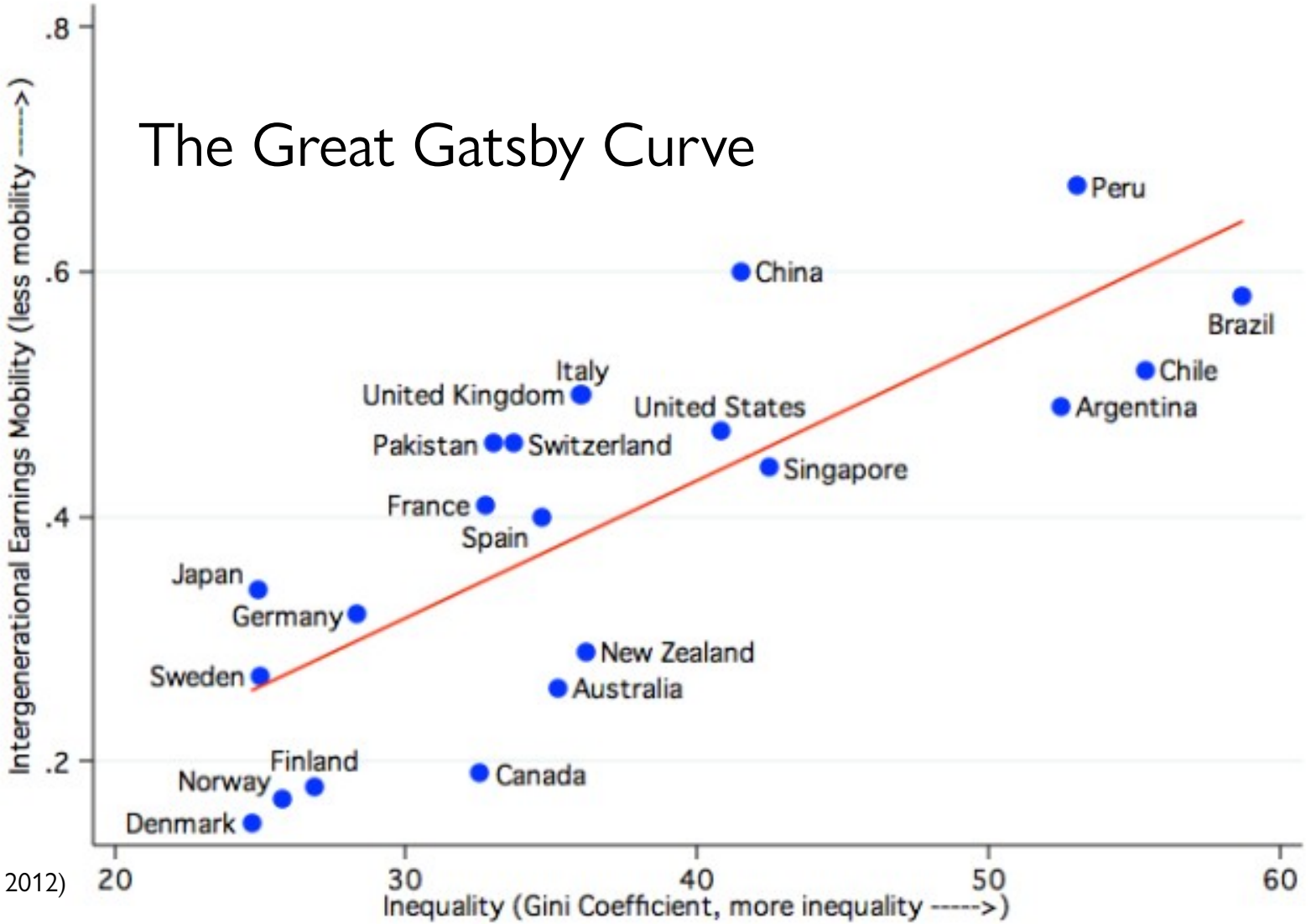


Source: C. Witte et al (2020)

The Great Gatsby Curve



(Source: M. Corak 2012)

Unanimity

"Inequality is the root of social evil"

(Pope Francis, 2014)

"不患寡而患不均" "Disturbing is not scarcity but inequality"

(Confucius)

The greatest obstacle in "the defining challenge of our time"

(Barack Obama, 2013)

"共同富裕" and "共同繁荣"

Common Prosperity

Channels of Concern

"Globalisation and technological change have polarised society into a small elite with highly paid, secure jobs on one side, and on the other side are growing numbers of people, including an increasingly squeezed middle class, in insecure, poorly-paid work."

Growing inequality has resulted in "erosion of solidarity, social trust and faith" in society's institutions.

"An unbalanced division of opportunity puts at risk national prosperity."

"It gets harder and harder to climb the ladder of opportunity when that ladder's rungs grow further and further apart."

Inequality hypotheses

"Inequality immiserises the disadvantaged in society and, through obstructing social mobility, frustrates expectations of a better life. All these cause social discord."

"Inequality-driven social discord produces political upheaval."

Sufficient statistic and spillovers

"Around the world, the effects of alarmingly high economic inequality are spilling over into politics and society. Economic insecurity is a driving force behind violent conflicts in the Middle East and the rise of fascist elements in some European countries, not least Hungary and Poland. Even in older democracies such as the United States, economic marginalization has led to a strengthening of chauvinist and supremacist identities and other social problems such as the opioid epidemic."

Beyond globalization: "Changes in technology, rise of winner-take-all markets, erosion of labour-market protections, and decline of norms restricting pay differentials have all played their part."

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Resource-Inadequacy vs Disparity

"In every country many people have little prospect for a better future. Lacking hope, purpose, or dignity, they watch from society's sidelines as they see others pull ahead to ever greater prosperity. Worldwide many have escaped extreme poverty but even more have neither the opportunities nor the resources to control their lives."

(HDR 2019)

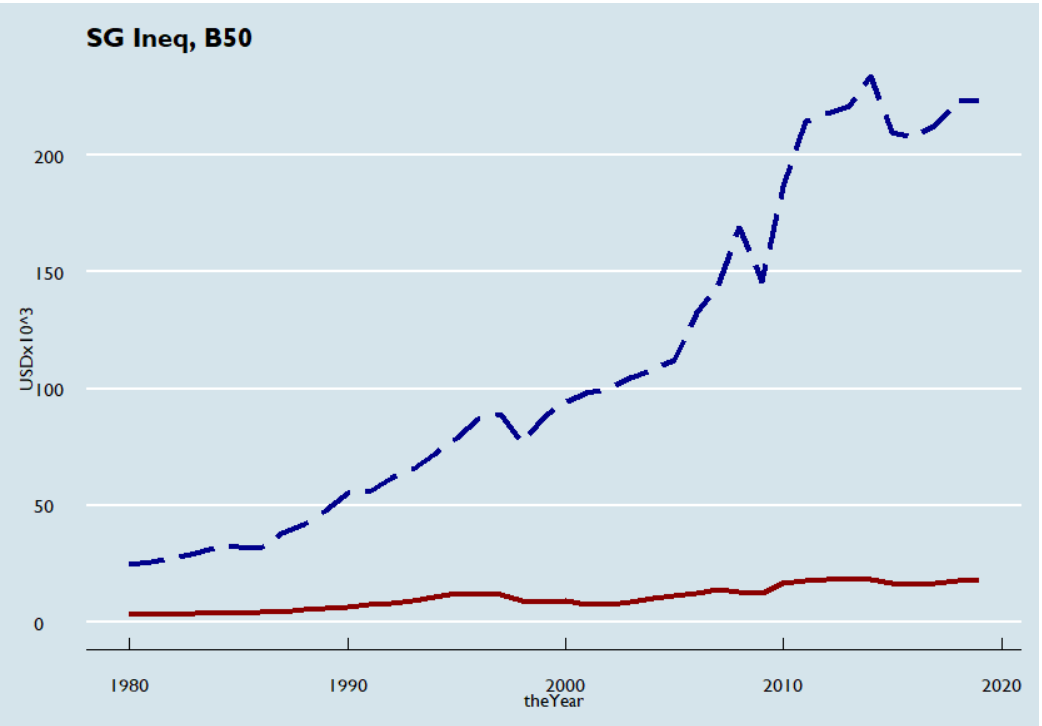
But what will repair this? Reducing inequality? Or allowing poor people resources and opportunity?

Resource-Inadequacy vs Disparity

Starvation, child hunger, and inter-generational recidivism are problems of poverty and immobility, not inequality: Individual characteristics, not group traits

What makes for enabled, meaningful, and satisfying lives?

Singapore


SG Ineq, B50
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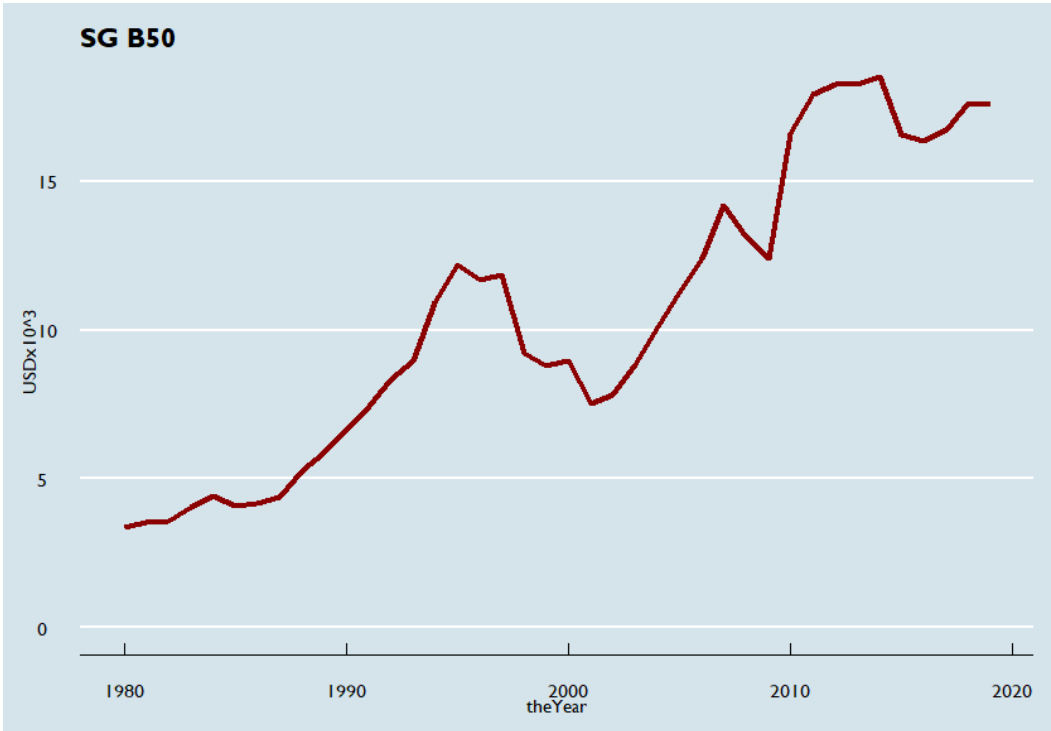
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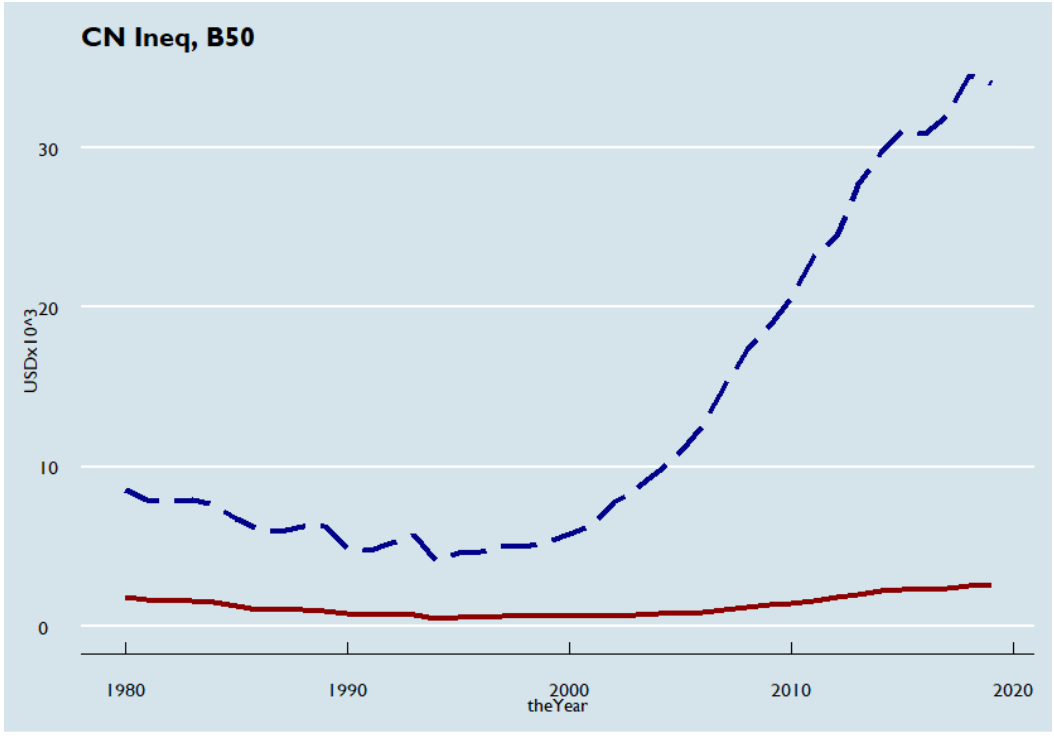
China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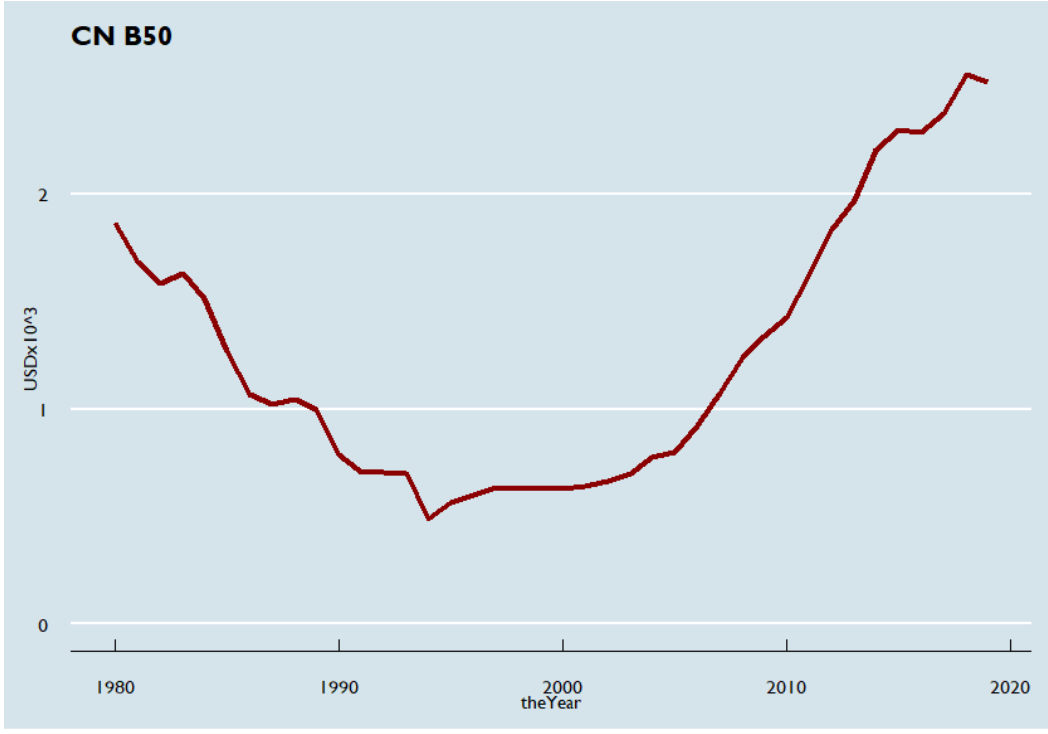
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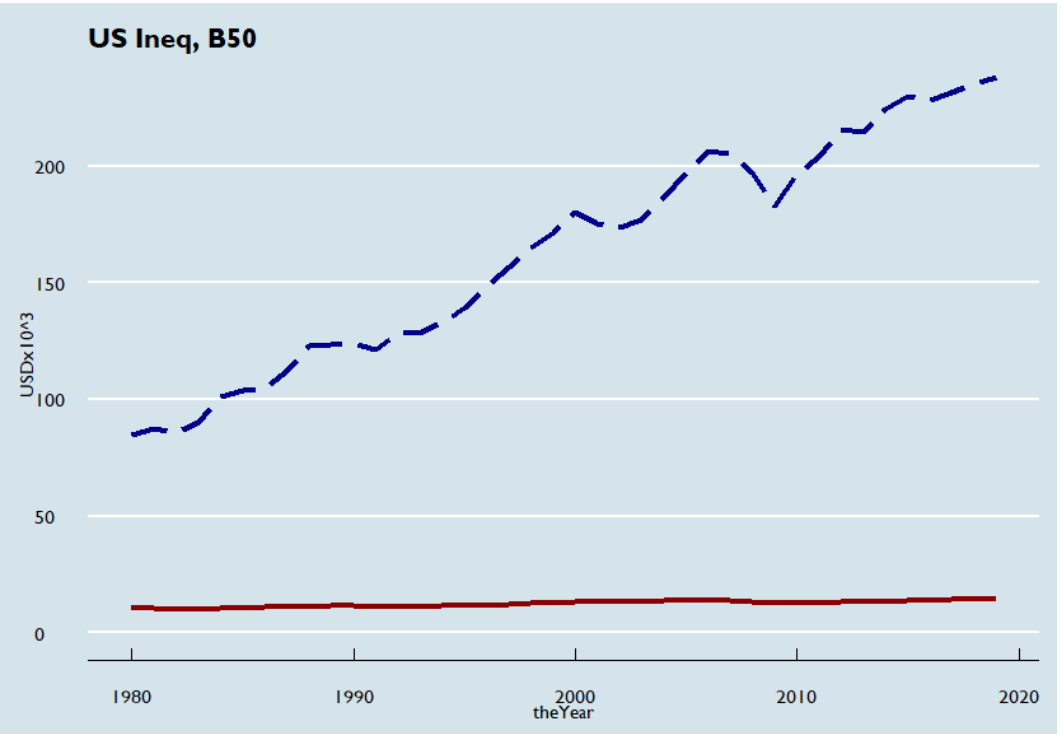
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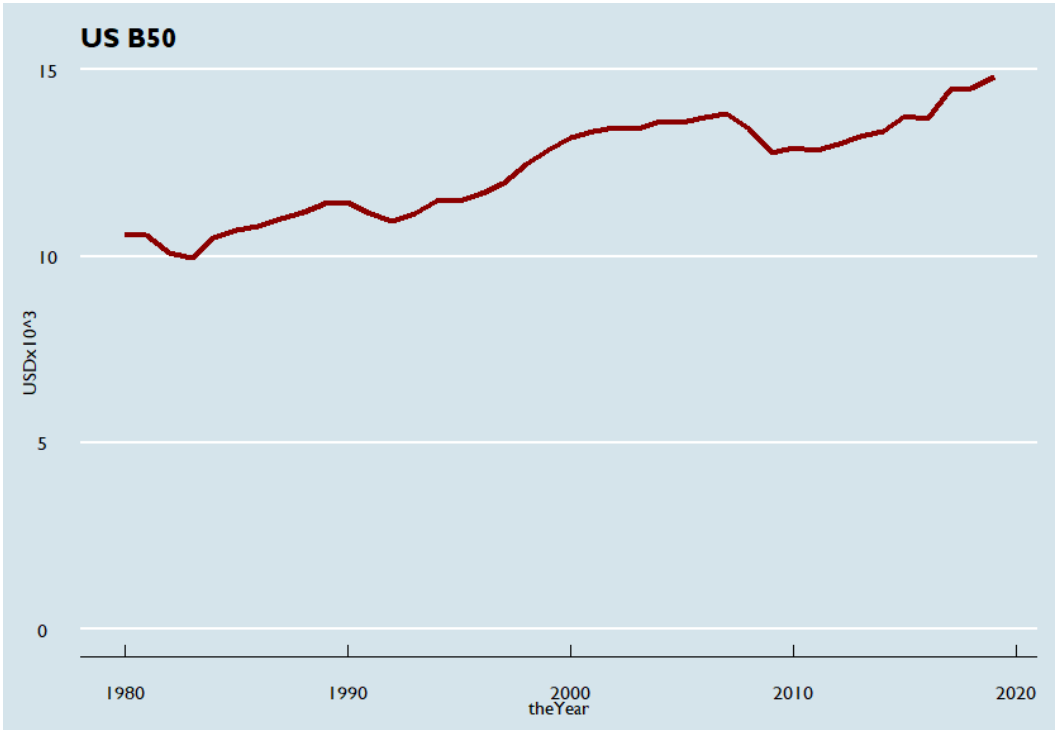
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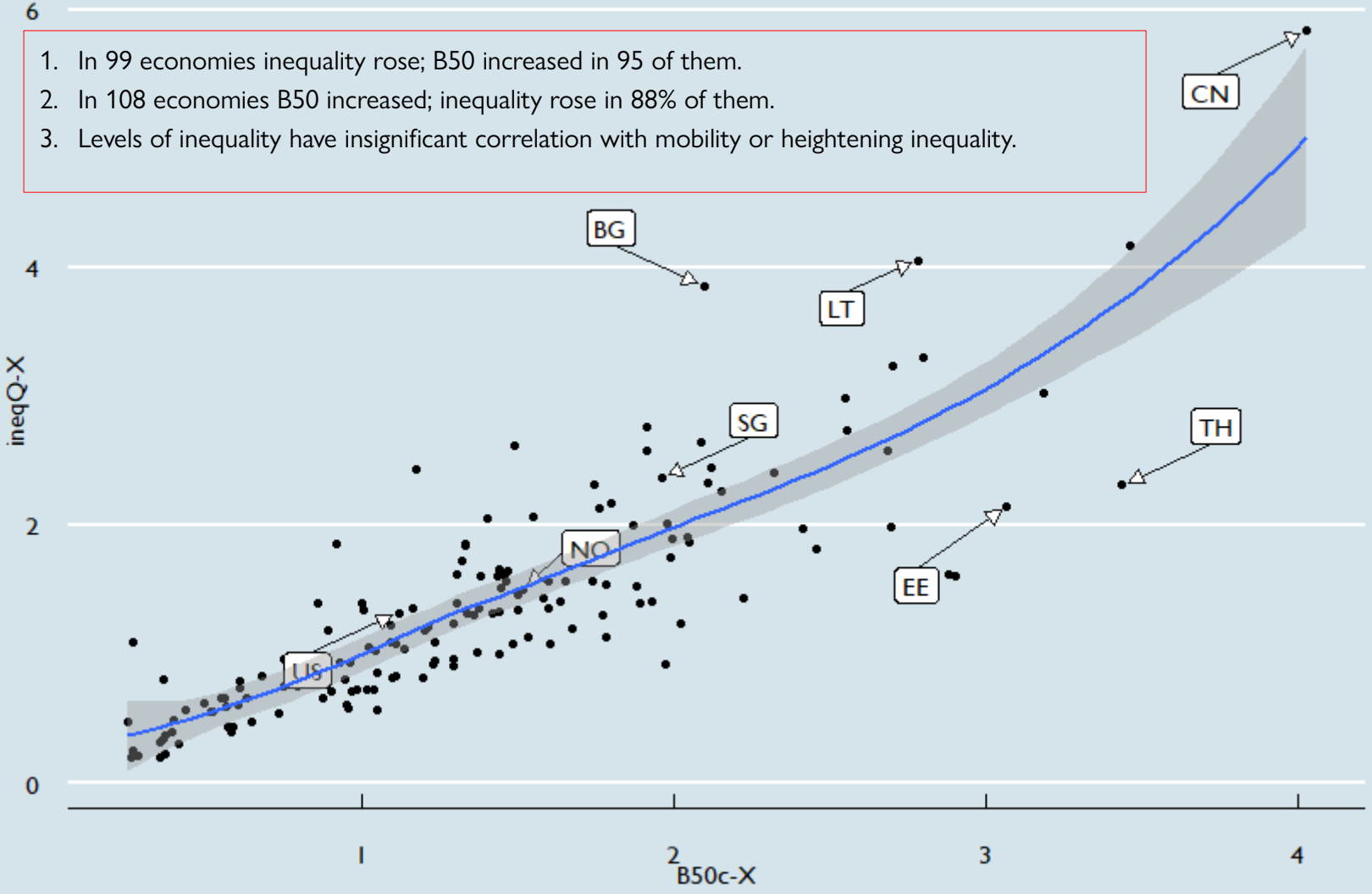
2000-2019 When the bottom 50% rise, so too inequality

1. In 99 economies inequality rose; B50 increased in 95 of them.
2. In 108 economies B50 increased; inequality rose in 88% of them.
3. Levels of inequality have insignificant correlation with mobility or heightening inequality.



Correlation

		Correlation	95% Confidence Interval	t(154)
Income Mobility	**Inequality Rise**	0.84	(0.79, 0.88)	19.45
Income Mobility	**Inequality Level**	-0.03	(-0.19, 0.13)	-0.40
Inequality Rise	**Inequality Level**	0.01	(-0.15, 0.17)	0.14

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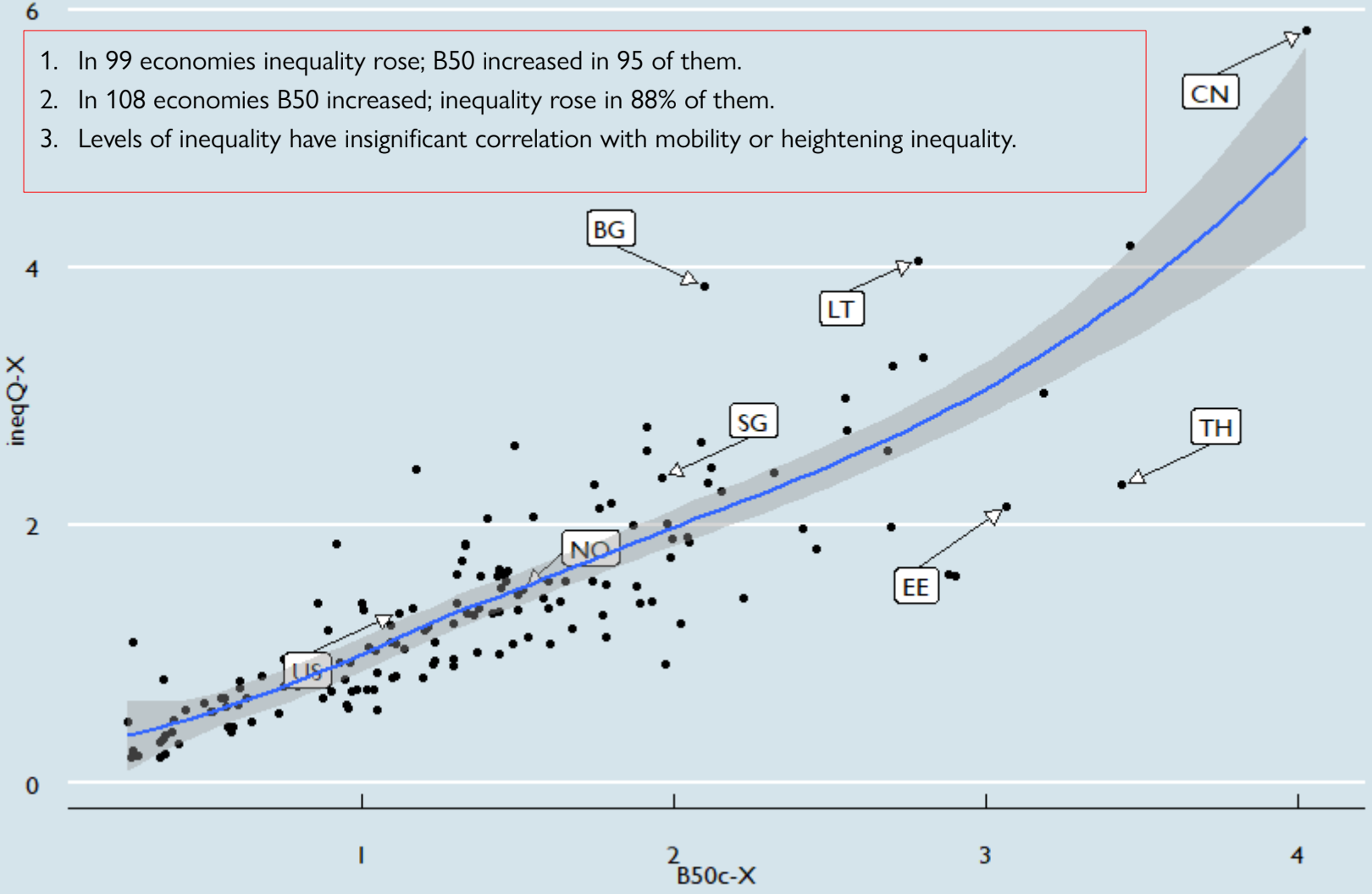
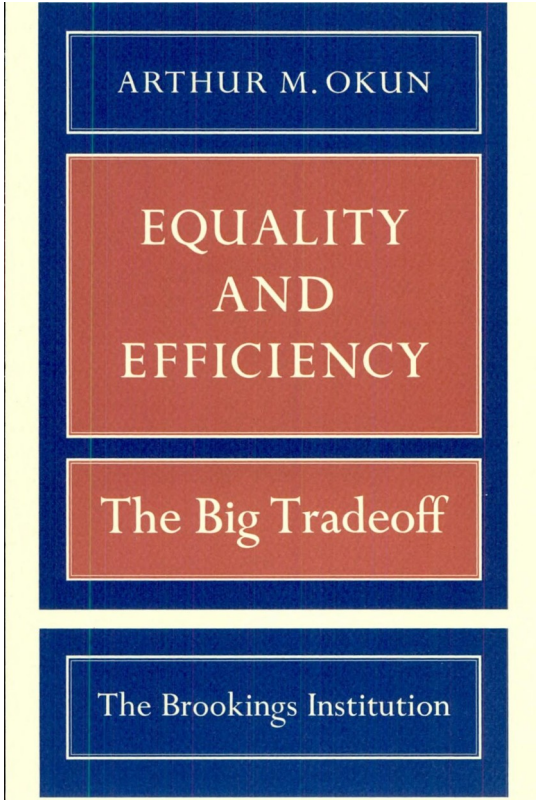


Supply and Demand for Inequality



What societies are willing to pay

The first step to combat inequality is to understand it

Promoting the study of economics enables citizens to understand why inequities are generated and how equity and social mobility can be promoted. *Interview.* ***Español*** ***Português***

Manuel Serrano

João Pedro Santos

4 February 2020

Recife, the Brazilian capital of social inequality. | Wikimedia Commons. Public Domain

Tackling Inequality Is a Political Choice

Jul 15, 2019 | MAHMOUD MOHIELDIN CAROLINA SÁNCHEZ-PÁRAMO

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Global inequality reveals policy failings

Political will is inexcusably weak, and mere statistics are failing to prod governments beyond election-year soundbites and platitudes.

WED, JUN 06, 2018 - 5:50 AM

India ranks bottom of Oxfam world inequality index

LONDON: India has been ranked among the bottom 11 countries in a new worldwide index on the commitment of different nations to reduce inequalities in their populations.

Posted: Oct 10, 2018 05:28 PM **Updated:** 1 year ago

India has been racked 147th among 157 countries analysed.

n agriculture is declining without a commensurate rise in urban manufacturing
P

BREAKING

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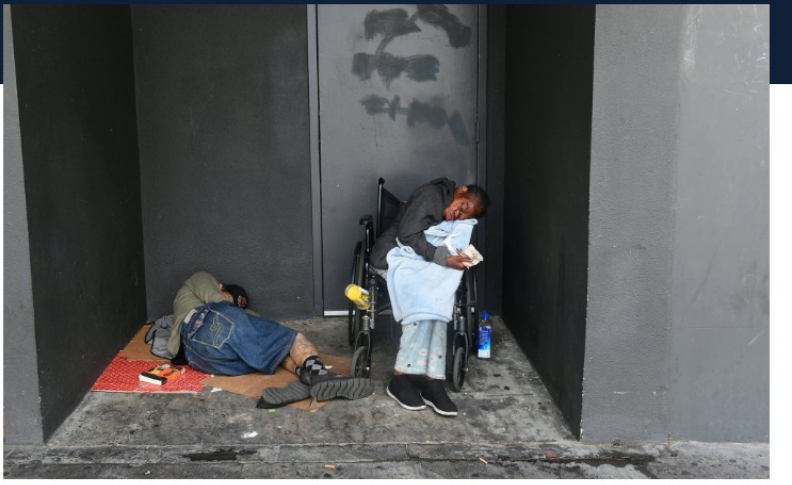
U.S. income inequality at highest level in 50 years, economic gap growing in heartland

Six states with the biggest yearly gains in inequality were primarily in the heartland – Alabama, Arkansas, Kansas, Nebraska, New Hampshire and New Mexico.



Homeless sleeping on the streets on Sept. 20, 2019, in downtown Los Angeles, California, the state with the largest homeless population in America. Frederic J. Brown / AFP - Getty Images

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Left to own devices?

Kids from different families have uneven access to space, tech support and help with schoolwork. **Venessa Lee** and **Stephanie Yeo** examine how home-based learning shows up the digital divide between the haves and have-nots. **C4&5**

(Left) Housewife Salmiah Salam, 37, and her four kids, aged nine to 14; (Right) Dentist Justin Stewart Saga, 43, and sleep trainer Zoe Chu, 40, with their children, aged three to 13.

 Straits Times, Apr 18 2020

DESIGN: SALLY LAM PHOTOS: ALPHONSUS CHERN, MARK CHEONG, COURTESY OF ANGELINA TAN, LIAN

Fail

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Why then the focus on inequality?

"Concern for relativities is not unnatural".

But then:

- Corrosiveness?
- Politics of envy?
- What basis is this for public policy?

"Hasad" vs "Rushk", "Lipta"

- Gender inequality
- Climate inequality
- Pandemic inequality

Certainly corrosive, yes...

"It is not enough that I succeed. Others must fail."

"Us vs them". Identity politics. Tribal affiliation and resentment.

Zero-sum game in political and economic life

Sufficient statistic and spillovers

"Around the world, the effects of alarmingly high economic inequality are spilling over into politics and society. Economic insecurity is a driving force behind violent conflicts in the Middle East and the rise of fascist elements in some European countries, not least Hungary and Poland. Even in older democracies such as the United States, economic marginalization has led to a strengthening of chauvinist and supremacist identities and other social problems such as the opioid epidemic."

Beyond globalization: "Changes in technology, rise of winner-take-all markets, erosion of labour-market protections, and decline of norms restricting pay differentials have all played their part."

... but also need greater clarity?

"New analysis ... showing that 14mn people live in poverty highlights just how unequal a society the UK has become."

"The poorer half of the population are as poor today as they were in the past, with barely 5 percent of total wealth in 2010, just as in 1910."

US Wealth Inequality 2005	Survey estimate share	Actual share
Top 20%	59%	84%
Bottom 40%	10%	0.3%

Source: Norton and Ariely 2011

SMF – Social Mobility Foundation

Working to Improve Social Mobility and Cohesion Through Applying Scientific Evidence to Better Inform Policy

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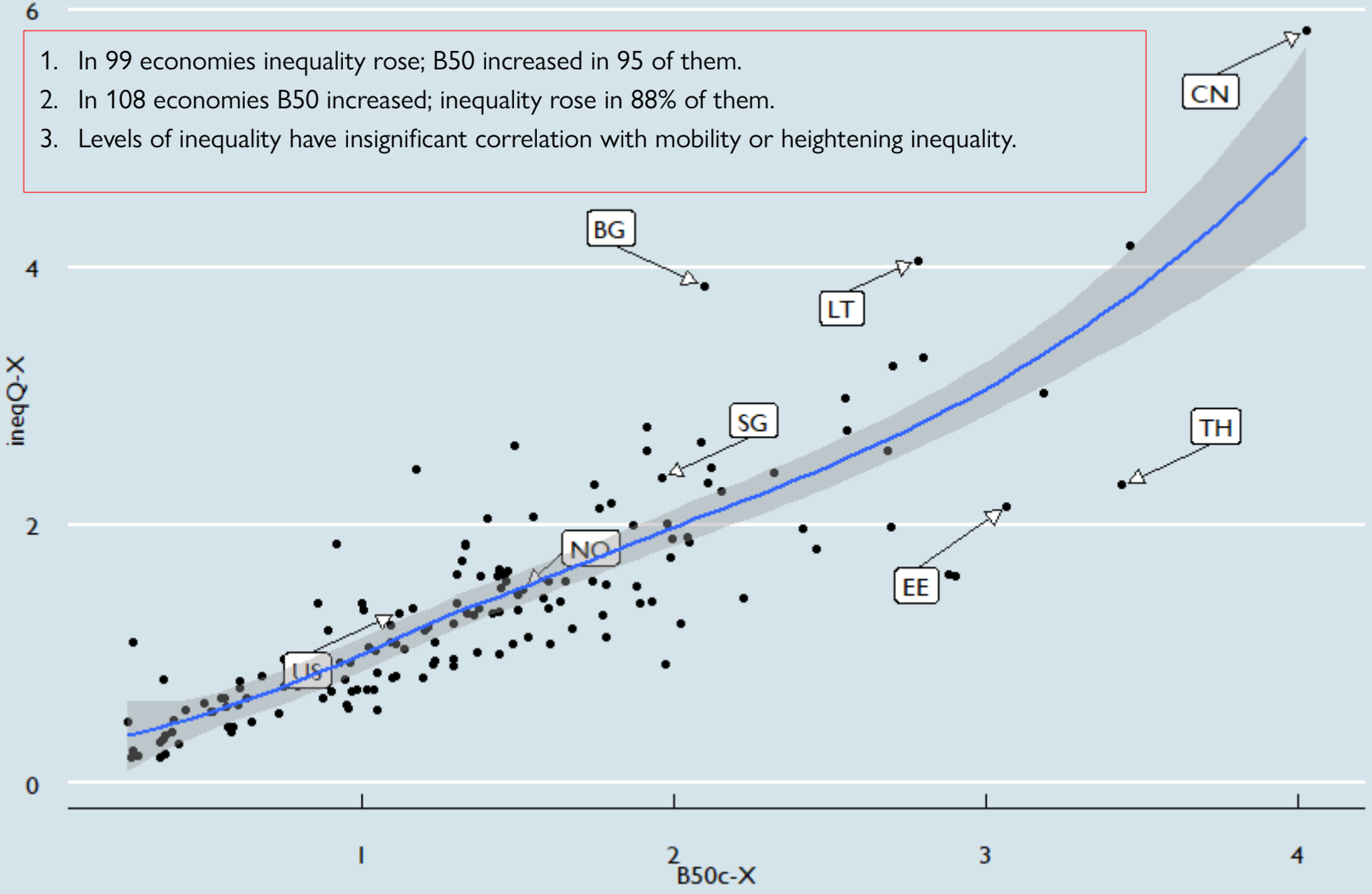

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