

# **Diversity and Global Policy: Why do we study diversity?**

**Germain Gauthier**

**Bocconi University**

# A Few Dictionary Definitions

“the fact of there being people of many different groups in society, within an organization, etc.”

*Source: Cambridge Dictionary [HR, Social Responsibility]*

“the idea that all people should have equal rights and treatment and be welcomed and included, so that they do not experience any disadvantage because of belonging to a particular group, and that each person should be given the same opportunities as others according to their needs”

*Source: Cambridge Dictionary [Business, Education]*

“the practice or quality of including or involving people from a range of different social and ethnic backgrounds and of different genders, sexual orientations, etc.”

*Source: Oxford Languages*

Diversity recognizes that many different groups exist in society and organizations.

⇒ can be studied at the **macro and micro levels**

Diversity is the idea that people should be treated fairly.

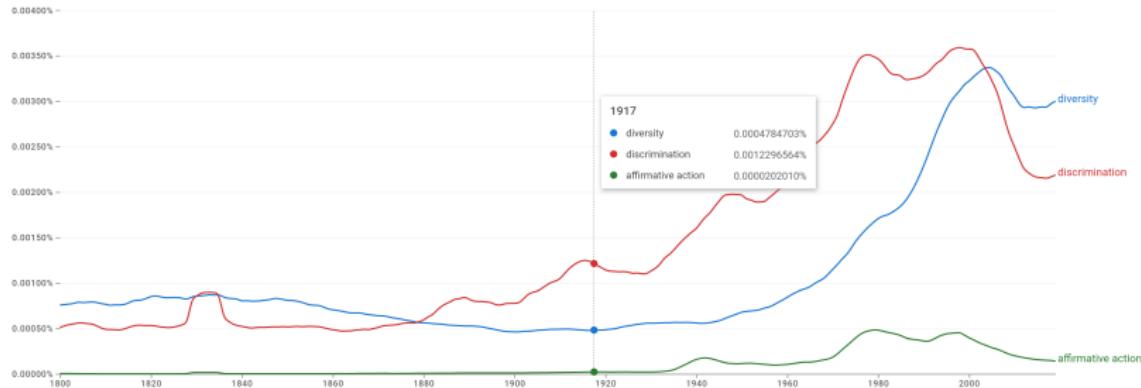
⇒ tied to **normative concerns**, such as equal rights, equal treatment, and equality of opportunity

Diversity may require actions to achieve these normative goals.

⇒ implies **public and private policies** to correct for inequality

# A Timely Topic

## Google N-Gram Normalized Counts



# A Timely Topic (ctd)

Widespread violence on second night of protests over French police shooting of teen driver, Nahel

June 30

Issued on: 29/06/2023 - 10:15 Modified: 29/06/2023 - 10:51

## Affirmative Action Ruling May Upend Hiring Policies, Too

The Supreme Court decision on college admissions could alter recruitment and promotion practices.

By Noam Scheiber

May 30, 2020

## George Floyd Protests: A Timeline

At least six people have been killed in violence connected to the protests started after Mr. Floyd died in police custody.

Taylor

July 4

### OPINION

## On Race and Academia

After the Supreme Court's ruling on affirmative action, I have some experiences to share.

By John McWhorter

#MeToo has got men quaking in the corridors of power. That's something to celebrate

Polly Toynbee



# But why do we care about diversity?

VIDEO: Professor Katherine Phillips on Diversity

VIDEO: The OECD on Opportunity and Equality For All

## 1. Diversity can impact important outcomes.

e.g., *economic performance, quality of governance, well-being*

⇒ Raises issues related to **efficiency**

## 2. There is inequality between groups.

e.g., *earnings gap, educational attainment, political representation*

⇒ Raises issues related to **fairness**

Let's look at a few examples to make things concrete...

# Women and Politics

(Chattopadhyay and Duflo, 2004)

*Econometrica*, Vol. 72, No. 5 (September, 2004), 1409–1443

## WOMEN AS POLICY MAKERS: EVIDENCE FROM A RANDOMIZED POLICY EXPERIMENT IN INDIA

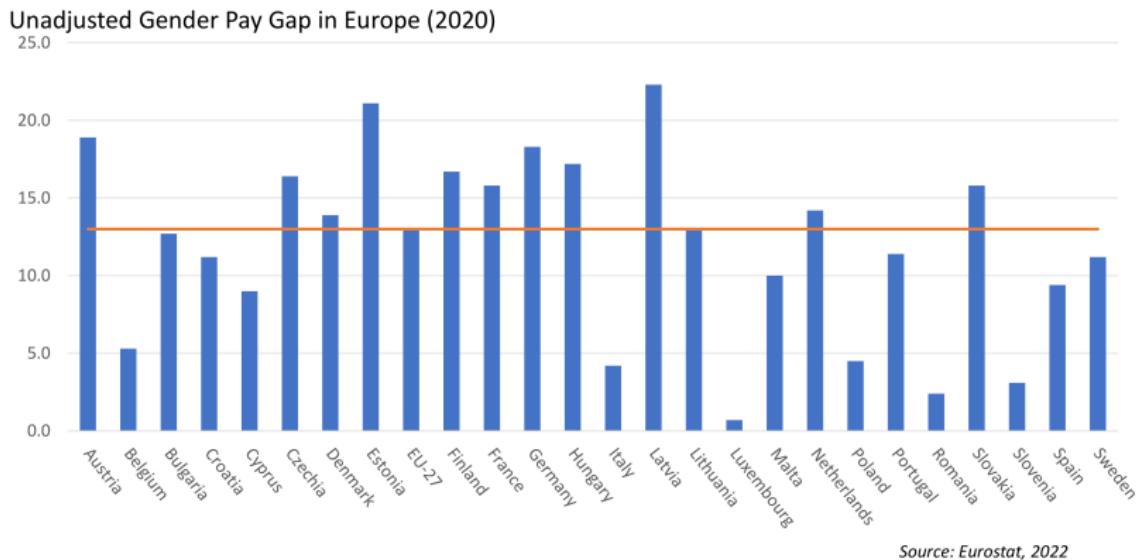
BY RAGHABENDRA CHATTOPADHYAY AND ESTHER DUFL<sup>O</sup><sup>1</sup>

This paper uses political reservations for women in India to study the impact of women's leadership on policy decisions. Since the mid-1990's, one third of Village Council head positions in India have been randomly reserved for a woman: In these councils only women could be elected to the position of head. Village Councils are responsible for the provision of many local public goods in rural areas. Using a dataset we collected on 265 Village Councils in West Bengal and Rajasthan, we compare the type of public goods provided in reserved and unreserved Village Councils. We show that the reservation of a council seat affects the types of public goods provided. Specifically, leaders invest more in infrastructure that is directly relevant to the needs of their own genders.

KEYWORDS: Gender, decentralization, affirmative action, political economy.

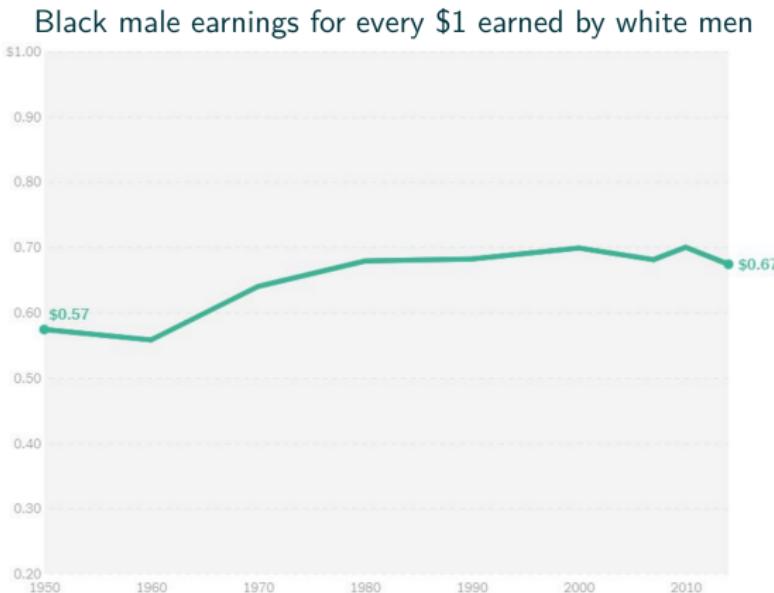
Women and men do not make the same policy decisions, suggesting more political opportunities for women could benefit society.

# The Unadjusted Gender Wage Gap



On average, women earn much less than men worldwide, suggesting economic opportunities are unequally distributed between the sexes.

# The Unadjusted Racial Wage Gap



Source: Leonard, *The New York Times*, June 25, 2020.

The same can be said of black males in the United States.

Studying diversity mobilizes tools from **positive economics** and **normative economics**.

We are interested in understanding **how the world works.**

- We can answer **descriptive questions:**
  - e.g., *Are black males discriminated against in the labor market?*
  - e.g., *How large is the gender wage gap and why?*
  - e.g., *Is it decreasing over time?*
- We can assess **the impact of policies:**
  - e.g., *Does increasing female politicians improve policy-making?*
  - e.g., *Can reparations reduce racial inequality in the US?*
  - e.g., *Do gender quotas on executive boards affect firm performance?*

But these results are meaningless if they are not linked to **fundamental normative questions**:

- We need to know **when inequality is morally acceptable.**
  - e.g., *Is inequality due to race or gender acceptable?*
  - e.g., *Due to the unequal distribution of talents?*
  - e.g., *Due to differential effort put into work?*
- We need to know **what justifies policy interventions.**
  - e.g., *Are affirmative action and other “corrective” policies warranted?*
  - e.g., *Should we prefer “upstream/structural” policies?*
  - e.g., *Should these policies be targeted or universal?*

# The Utilitarian Tradition

Utilitarianism is a philosophical tradition dating back to Jeremy Bentham in the 18<sup>th</sup> century.

*"it is the greatest happiness of the greatest number that is the measure of right and wrong"* (Jeremy Bentham)

The fundamental principle of utilitarianism is that **society should attempt to maximize the average well-being of its individuals.**

For  $n$  individuals indexed by  $i$ , and a set of policies  $\Phi$ , the utilitarian social welfare objective (SWF) is:

$$\max_{\phi \in \Phi} \sum_{i=1}^n u_i(\phi).$$

Utilitarianism **focuses only on welfare information** – i.e., outcomes. How and why the outcomes came about is largely irrelevant.

Some major limitations of this approach:

- It fails to hold people responsible for their choices (i.e., no merit-based argument).
- Unequal treatment (e.g., *discrimination*) and other actions that are generally considered “immoral” are not an issue as long as they maximize average welfare in society.

In other words, utilitarianism only values diversity in that it improves average welfare.

*e.g., if discrimination is inefficient because it hinders organizations from recruiting the best talent, we should do something about it*

# Quiz

In what sense is utilitarianism egalitarian?

In what sense is utilitarianism not egalitarian?

Can you come up with a classical country metric inspired by its SWF?

Can you think of a generalization of its SWF?

Several philosophers sought to replace **equality of outcomes** (à la Bentham) with **equality of opportunity**.

They inserted **individual rights** and **personal responsibility** into discussions of what kind of inequality was ethically desirable.

A particularly influential thought experiment has been the **veil of ignorance** (also known as the “original position”).

# Rawl's Theory of Justice

In his fundamental piece (Rawls, 1971), John Rawls suggested the following thought experiment:

- Souls, representing persons-to-be in the real world, decide on the rules of their society behind a veil of ignorance.
- They are deprived of knowledge about their own morally arbitrary circumstances in the world (e.g., intelligence, socio-economic background, sex, etc.).
- They are fully rational and have a perfect understanding of the laws of economics.
  - Forces them to draw impartial conclusions of distributive justice.

He draws from this exercise two main principles:

1. *"Each person is to have an equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberty for all."*
2. *"Social and economic inequalities are to be arranged so that they are both:*
  - to the greatest benefit of the least advantaged [...], and*
  - attached to offices and positions open to all under conditions of fair equality of opportunity."*

Inequalities are morally justifiable if they improve the lot of the worst off in society. – i.e., the difference or maximin principle. The social welfare objective is:

$$\max_{\phi \in \Phi} \left( \min\{u_1(\phi), \dots, u_n(\phi)\} \right).$$

But some argue Rawls built his veil too thickly!

Some limitations:

- If the souls are fully rational and have a perfect understanding of the laws of economics, **they should know the distribution of morally arbitrary circumstances** in society.
- Life plans and personal decisions are not morally arbitrary, so **the souls should know those** before conceiving institutions.
- If life plans are not morally arbitrary, **people should be held responsible for their decisions** (i.e., merit-based argument).

Several philosophers have attempted to solve the problems in the Rawlsian argument (e.g., Ronald Dworkin).

# Quiz

Do you think that Rawls' approach successfully solves some of the limitations of utilitarianism?

Does it leave any space for rewarding merit (i.e., for meritocracy)?

Can you come up with any other limitations?

Rawls' thought experiment is conceptually useful but lacks actionable recommendations for policy-makers.

Rawls wants to understand the foundations of a fully just society. **He is developing an “ideal” theory.**

In practice, **we live in a non-ideal world** that is already unjust and has a history of injustice.

*“ideal thinkers who want to have some impact on reality should pay more attention to issues of transition” (Jonathan Wolff)*

Economists have proposed theories of equal opportunity that “dodge” ideal theory and instead **offer practical developments for policy.**

# Sen's Capability Approach

One such theory is Sen's capability approach:

- Focuses on what people are effectively able to do and be – i.e., their capabilities to “function”
- Functionings include working, resting, being literate, being healthy, being part of a community, being respected, and so forth.
  - Policies should **maximize people's capabilities** to lead the kind of lives they want to lead, to do what they want to do, and be the person they want to be.

It has notably led to the development of a wealth of alternative indicators to GDP/capita – e.g., *human development index (HDI) (1990)*, *human freedom index (1991)*, *gender empowerment measure (1995)*, *human poverty index (1997) (UNDP 1990-2003)*, etc.

# Roemer's Pragmatic Model

Roemer and Trannoy (2015, 2016) propose an alternative framework.

In their model, outcomes arise from a combination of **circumstances** (that individuals cannot be held responsible for) and **actions** (which individuals are responsible for).

Equality of opportunity (henceforth EO) seeks to **offset differences in outcomes attributable to circumstances** but not those differences in outcomes for which individuals are responsible.

They care about policies that **nullify the effect of circumstances** on outcomes to the greatest extent possible but still **allow outcomes to be sensitive to actions**.

# Some Notations

Population partitioned in a certain number of types  $\mathbf{T} = \{1, 2, \dots, T\}$ .

$f^t$  is the population fraction of type  $t$  (e.g., *high/low social background*).

There is a desirable outcome whose value  $u^t(e, \phi)$  is determined by effort  $e \geq 0$  (e.g., *years of education*) and a policy  $\phi \in \Phi$ .

$u^t(e, \phi)$  is the average outcome among type  $t$  (e.g., *income*), with  $u^t$  strictly increasing and monotone in  $e$ .

$G_\phi^t(\cdot)$  is the distribution of effort in type  $t$ .

The data for the social-planning problem thus consists of:

$$\{\mathbf{T}, G_\phi^t, f^t, u^t, \Phi\}.$$

# Distinguishing Raw and Accountable Effort

Obviously, types and efforts are rarely disconnected.

For instance, years of education is a measure of effort, but it is influenced by social circumstances (e.g., *first-generation students*).

⇒ We need a measure of **accountable effort**.

Roemer proposed to measure accountable effort as the rank of an individual in the effort distribution of his/her type.

If  $G_\phi^t(e) = \pi$ , we say the individual expended the *degree* of effort  $\pi$ , as opposed to the *level* of effort  $e$ .

# A Measure of Equality of Opportunity

Define  $v^t(\pi, \phi) = u^t(e^t(\pi), \phi)$  where  $e^t(\pi)$  is the level of effort at the  $\pi^{th}$  quantile of the distribution  $G_\phi^t(e)$ .

Inequality of opportunity holds when the quantile functions  $\{v^t | t \in T\}$  are not identical.

Since we are treating persons at a given rank  $\pi$ , across types, as being equally accountable with respect to the choice of effort, **the difference between the functions  $\{v^t(\cdot, \phi)\}$  is a measure of inequality of opportunity.**

# Income Distributions for Danish Male Workers

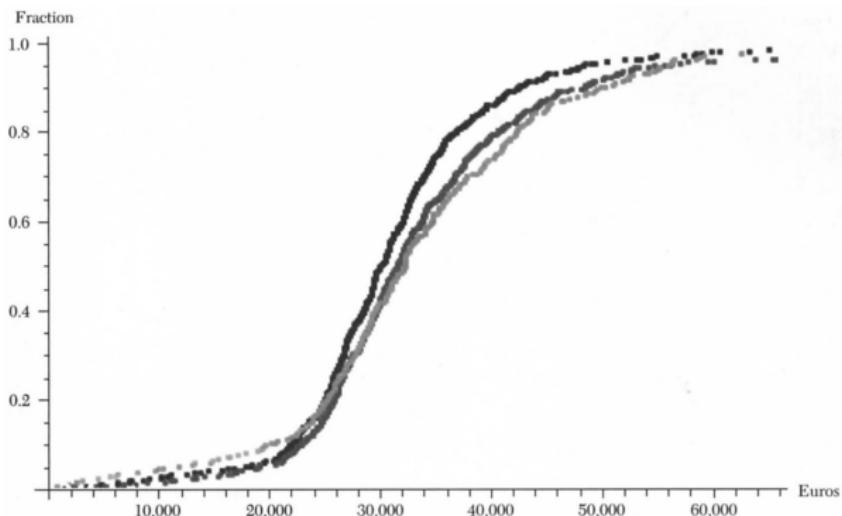


Figure 1a. Three Income Distribution Functions for Danish Male Workers,  
According the Circumstance of Parental Education

Note: Darkest hue are from least educated backgrounds.

Source: Roemer (2015).

# Income Distributions for Hungarian Male Workers

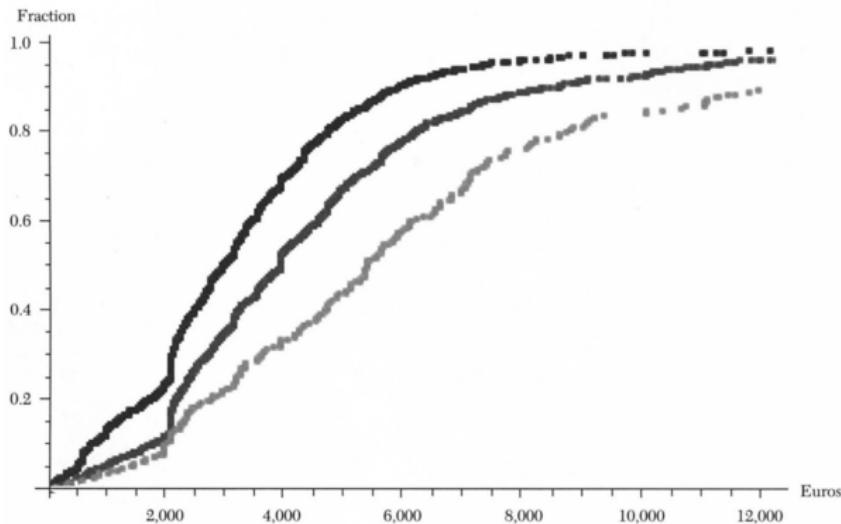


Figure 1b. Three Income Distribution Functions for Hungarian Male Workers.  
According the Circumstance of Parental Education

Note: Darkest hue are from least educated backgrounds.

Source: Roemer (2015).

# The Optimal Policy

What policy is optimal, given this conception of EO<sub>P</sub>?

An intuitive solution is to maximize the area below the lowest function  $v^t$ :

$$\max_{\phi \in \Phi} \int_0^1 \min_{t \in T} v^t(\pi, \phi) d\pi$$

The solution to this program is the **opportunity-equalizing policy**,  $\phi^{EOp}$ .

In practice, if there is an unambiguously disadvantaged type, we maximize the average value of the outcome for this type.

⇒ Under  $\phi^{EOp}$ , two individuals with identical degrees of effort have the same level of outcome – i.e., respects the **principle of compensation**.

# How much should effort be rewarded?

While  $\phi^{EOp}$  successfully eliminates inequalities due to circumstances, the permission to allow differential outcomes due to differential effort is vague.

How much reward does effort merit?

$$\max_{\phi \in \Phi} \left( \int_0^1 (\min_{t \in T} v^t(\pi, \phi))^p d\pi \right)^{\frac{1}{p}} \text{ for } -\infty \leq p \leq 1$$

As  $p$  becomes smaller, we implement more aversion to inequalities due to effort. As  $p$  approaches minus infinity, reward to effort is progressively no longer acceptable (i.e., back to the Rawlsian principle).

# How does this differ from utilitarianism?

Recall that the utilitarian objective function is

$$\max_{\phi \in \Phi} \sum_i u_i(e, \phi).$$

There is a clear focus on **inequality of outcomes** rather than **inequality of opportunity**.

The objective ignores the fact that there are potentially different groups in society, that are advantaged/disadvantaged relative to others.

# How does this differ from utilitarianism?

Contrary to utilitarianism, the EO approach is both **non-welfarist** and **non-consequentialist**.

The analysis builds on distinctions between circumstances and distributions of effort across those types – i.e., **non-welfare information**.

Consequentialism only considers the final results of policies (outcomes) and not the determinants of those consequences. In the EO approach, **the causes of outcomes have different moral statuses**.

# Quiz

The model assumes society clearly understands **individual responsibility**, notably the distinction between circumstances and accountable effort.

The model assumes society **knows how much it wants to reward accountable effort** – i.e., the value of  $p$ .

The model assumes society **knows the types in the population**.

What do you think of these assumptions?

What do you think is the answer to these three dimensions?

# Dimensions of Diversity

Regarding types in the population, humans are obviously different along many dimensions:

- skin color
- gender
- ethnicity
- sexual orientation
- religion
- socio-economic background, personality, age, beauty, strength, intelligence, ...

**Which characteristics should we focus on?**

# Dimensions of Diversity

The choice of the dimensions of diversity is always somewhat arbitrary, political, and evolving. We will focus on three salient dimensions/groups:

- **Socio-economic background**

Parents' income and location are extremely strong predictors for one's future educational attainment and income.

- **Race and ethnicity**

A history of slavery, institutional persecution, and racism makes it a natural choice.

- **Gender**

Women represent half of the world population and have historically been underprivileged.

The course has a strong methodological focus. The methods we will discuss are rarely specific to these three dimensions.

# What We Will Cover Next

## **Block 1: Measuring Racial, Gender, and Income Inequality**

We will start with basic facts on gender, racial, and income inequality.

i.e., earnings and wealth gaps, exposure to violence, lack of political representation, lack of access to top leadership positions

## **Block 2: Diversity and Efficiency**

Given these discrepancies, can changing the status quo improve socio-economic outcomes?

Diversity has an ambiguous impact on economic performance, well-being, and governance, with some clear positive effects.

# What We Will Cover Next (ctd)

## **Block 3: The Determinants of Racial, Gender, and Income Inequality**

But to implement relevant policies, we first need to understand the determinants of racial, gender, and income inequality.

i.e., psychological factors, culture, institutions, discrimination

## **Block 4: Corrective Policies: What Works, What Doesn't**

We now have everything we need to discuss corrective policies/interventions.

i.e., redistributive public policies, affirmative action, family policies, firm policies, social movements

Chattopadhyay, R. and Duflo, E. (2004). Women as policy makers: Evidence from a randomized policy experiment in india. *Econometrica*, 72(5):1409–1443.

Rawls, J. (1971). *A Theory of Justice*.

Roemer, J. E. and Trannoy, A. (2015). Equality of opportunity. In *Handbook of income distribution*, volume 2, pages 217–300. Elsevier.

Roemer, J. E. and Trannoy, A. (2016). Equality of opportunity: Theory and measurement. *Journal of Economic Literature*, 54(4):1288–1332.

# Tips for the Exam

Understand why it is essential to study diversity.

Understand the basic thought experiments that have been proposed in the egalitarian political philosophy literature.

Understand the Roemer model's inner workings and main assumptions/limitations.

Make sure you can solve such a model numerically. The two papers of Roemer in the bibliography contain helpful numerical examples.