

Economic Inequality

Miquel Pellicer

Department of Economics,
Maynooth University

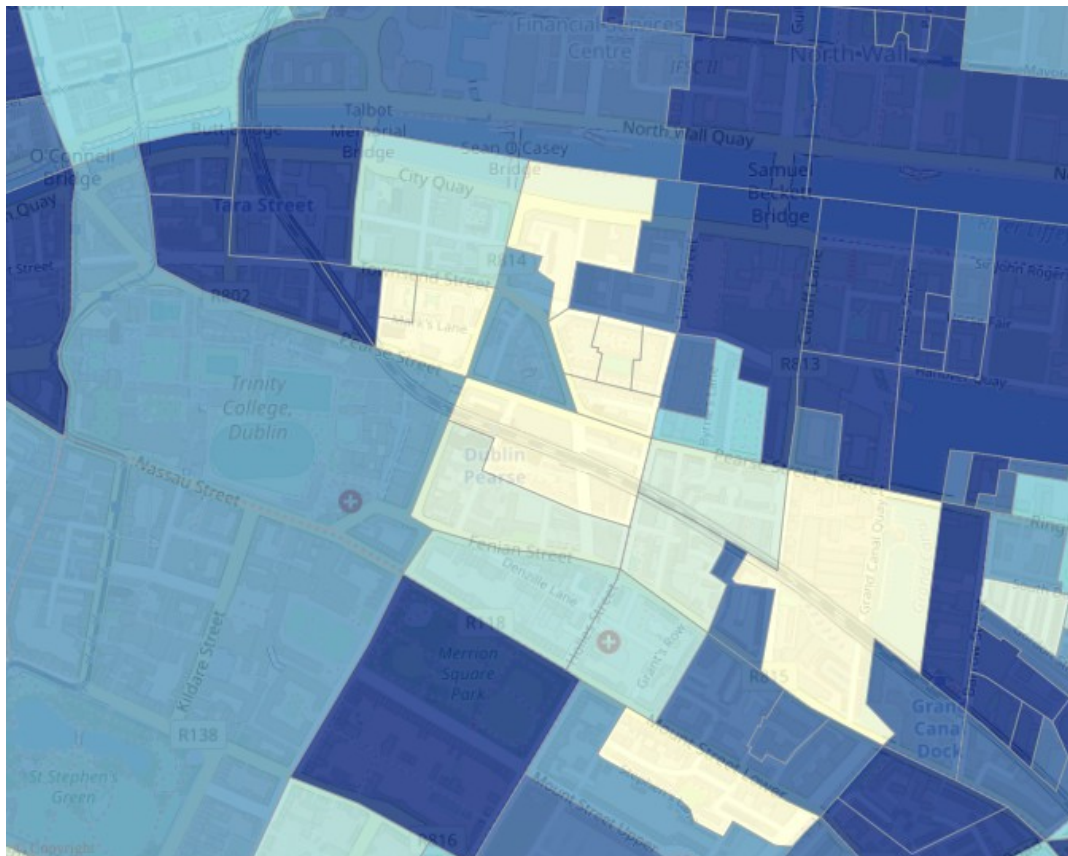
Different lives side by side → South Africa



Picture: Johnny Miller

Closer to home: Dublin

- Ownership of a computers around the Grand Canal:
 - around 40% in social housing area and around 90% in the grand canal fancy area

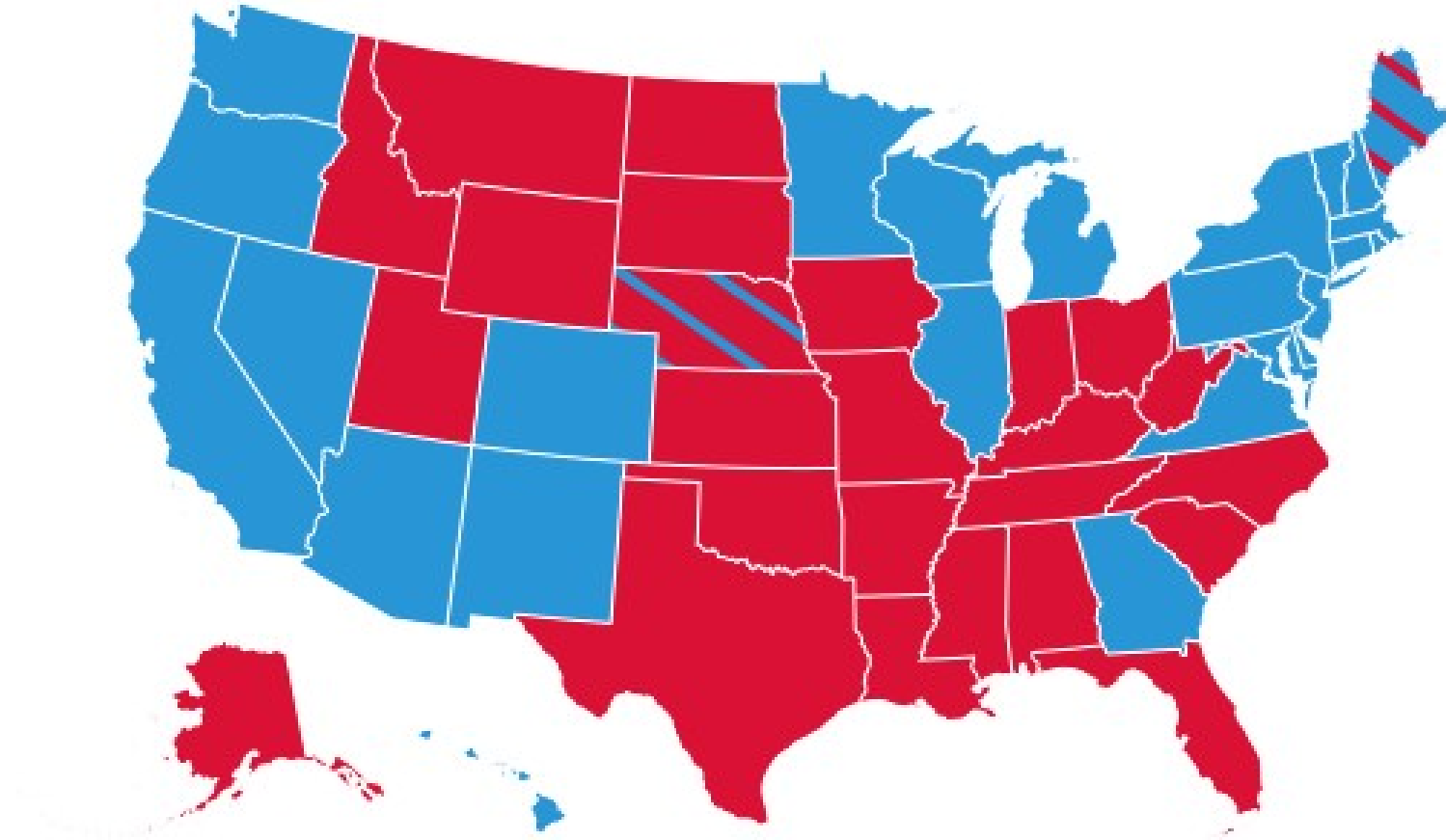


Questions

- Is inequality fair or unfair?
- How has inequality evolved?
- What drives Inequality? → Group inequality and discrimination

Is inequality unfair?

Is inequality unfair?



- Extreme polarization about fairness of inequality: Why? Can something be done about it?

Is inequality unfair?

- Is inequality in our society unfair?
- The answer has two different components:
 1. How would economic inequality be in a fair society
 - normative/ philosophical question
 2. How is close to that ideal is the economic inequality in the society we live in
 - empirical question

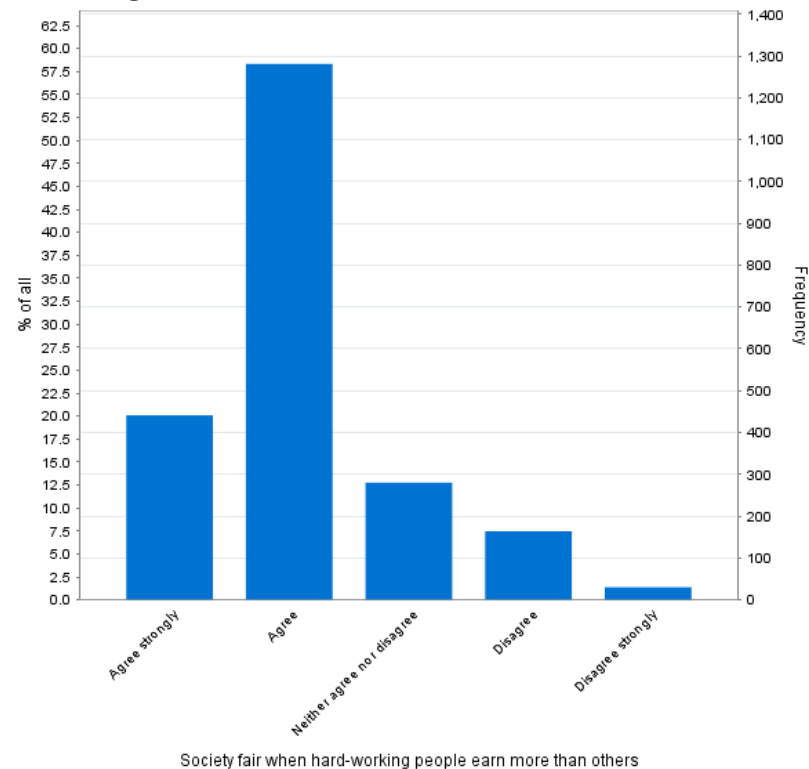
Normative Approaches

- Three views on Distributive Justice and inequality
 - **Libertarian** → Inequality does not matter if rights and freedoms are respected
 - **Utilitarian** → Maximize total well-being in the society
 - Inequality of well-being does not matter
 - But inequality of income is bad → income is worth more for the poor than for the rich
 - **Equality of Opportunity**
 - Everyone should have the opportunity to carry out their life plan
 - But personal responsibility is also important
- Inequalities from circumstances/ privilege are unfair, but those from effort are ok

Agreement about Equality of Opportunity

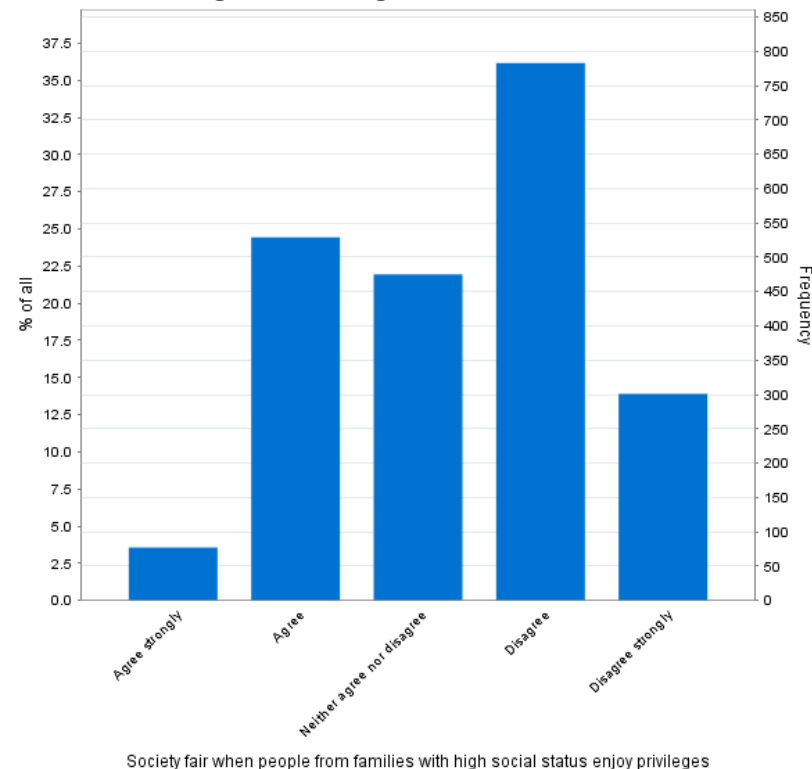
- Attitudes towards what makes inq fair in Ireland

Earning more if hard work fair



Society fair when hard-working people earn more than others

Privileges of high-status fair

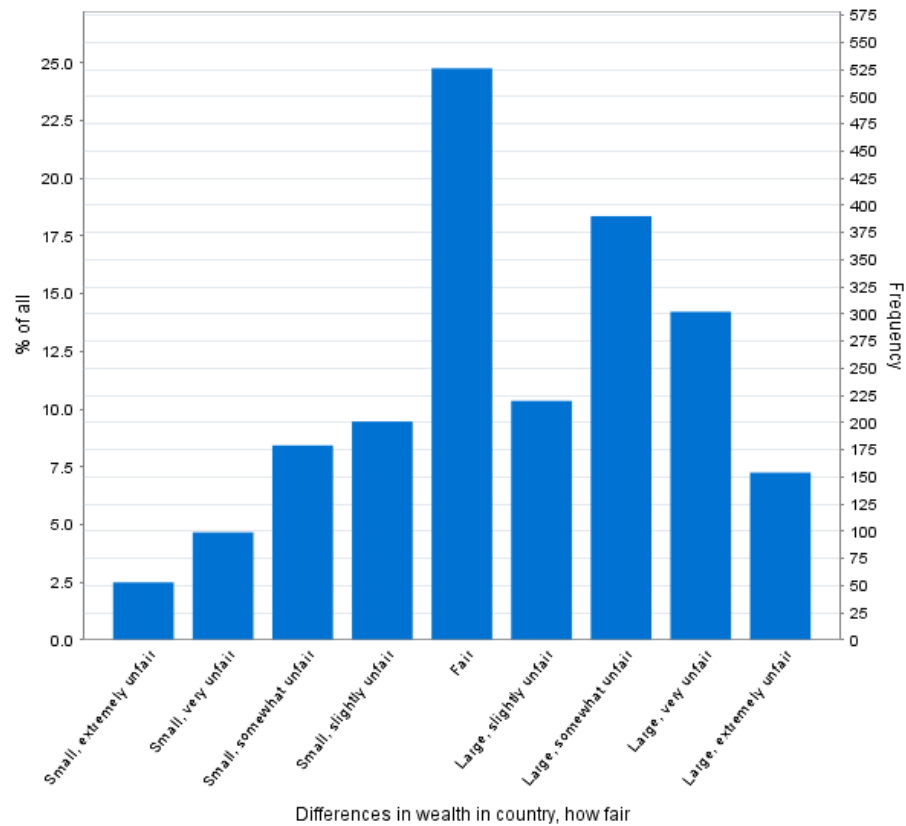


Society fair when people from families with high social status enjoy privileges

→ Quite a lot of agreement on equality of opportunity (Ireland)

Agreement about Equality of Opportunity

- Attitudes towards how fair is the actual wealth distribution in Ireland



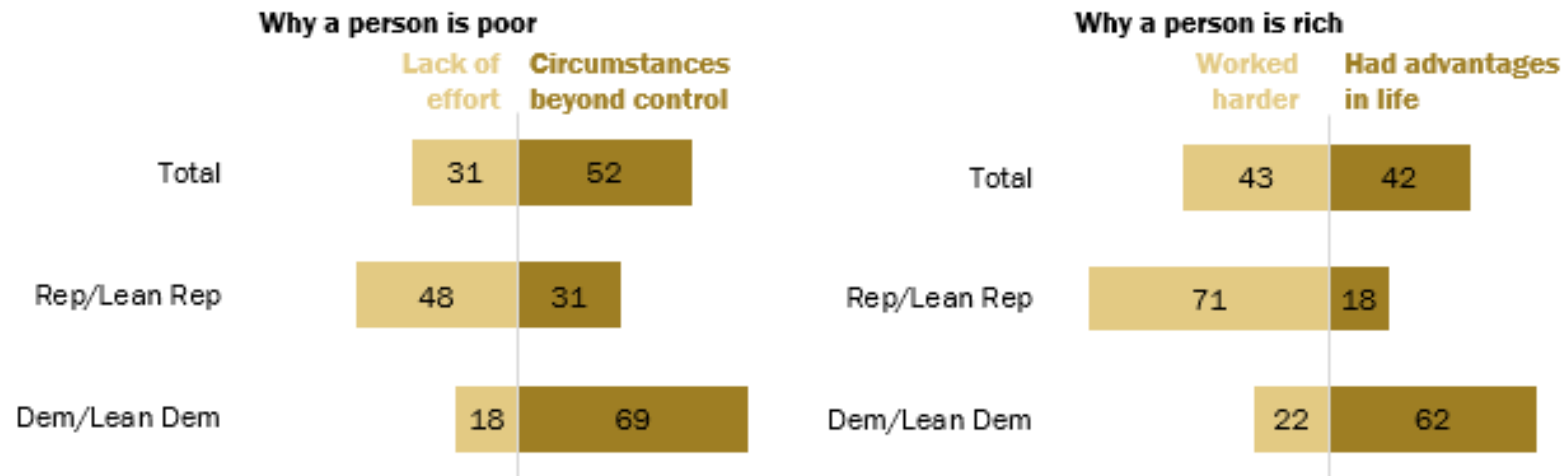
→ Much more disagreement on whether the actual distribution is fair?

Agreement about Equality of Opportunity

- How fair is actual inequality in the US + political polarization

Republicans are far more likely than Democrats to say people are rich because they worked harder – and that people are poor due to a lack of effort

In your opinion, which generally has more to do with ... (%)



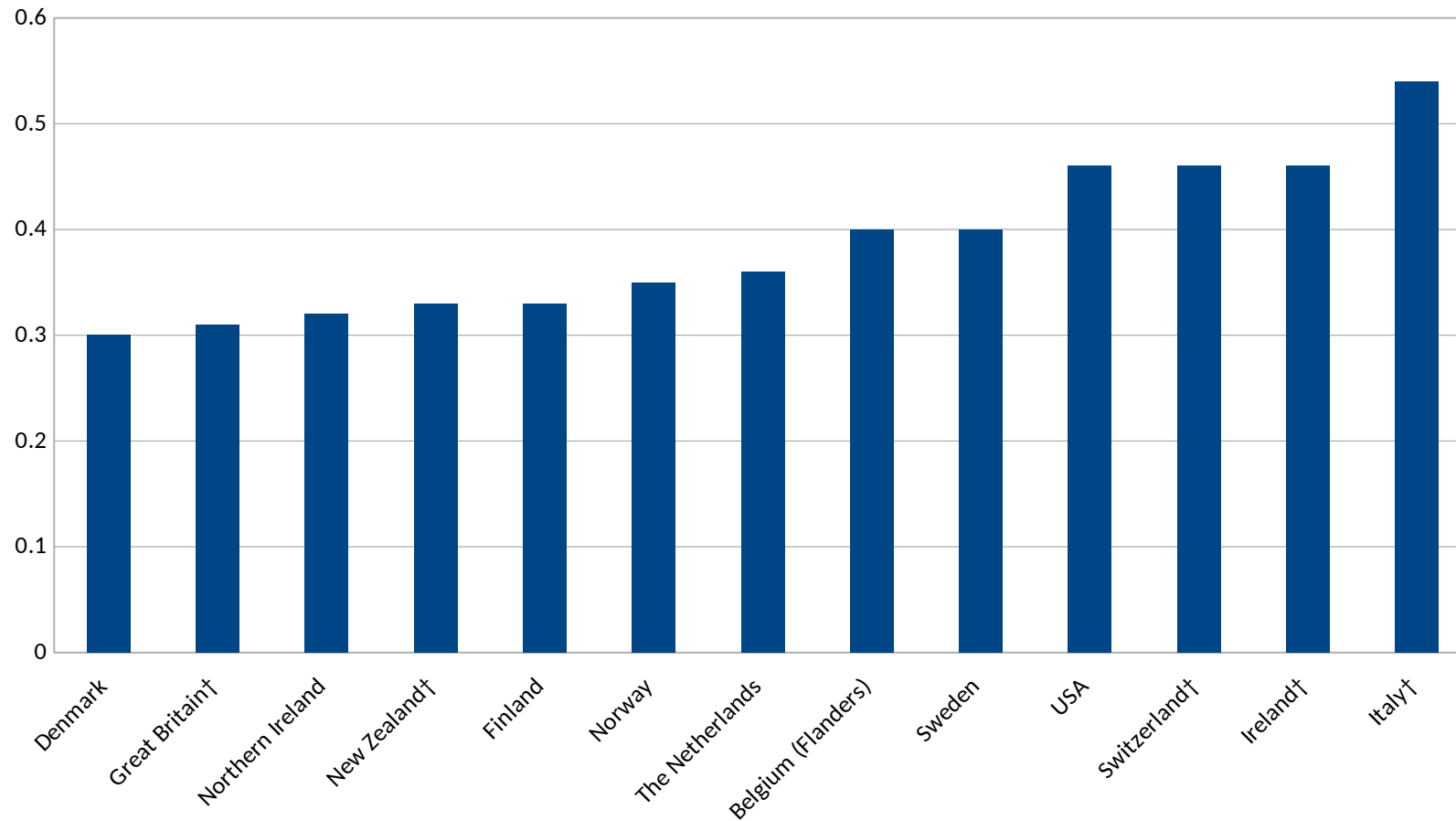
Note: Don't know responses not shown.

Source: Survey of U.S. adults conducted Sept. 18-24, 2018.

PEW RESEARCH CENTER

Evidence on Inequality of Opportunity

- In Ireland? → Correlation of education between fathers and sons



Is inequality unfair?

- Why do people disagree about
 - Distributive justice judgments?
 - Whether inq Ireland is due to effort or others?
- Do people change their political opinions when they learn about actual inq of opportunity?
- We actually know little about the extent of inequality of opportunity, particularly in Ireland

Is inequality unfair?

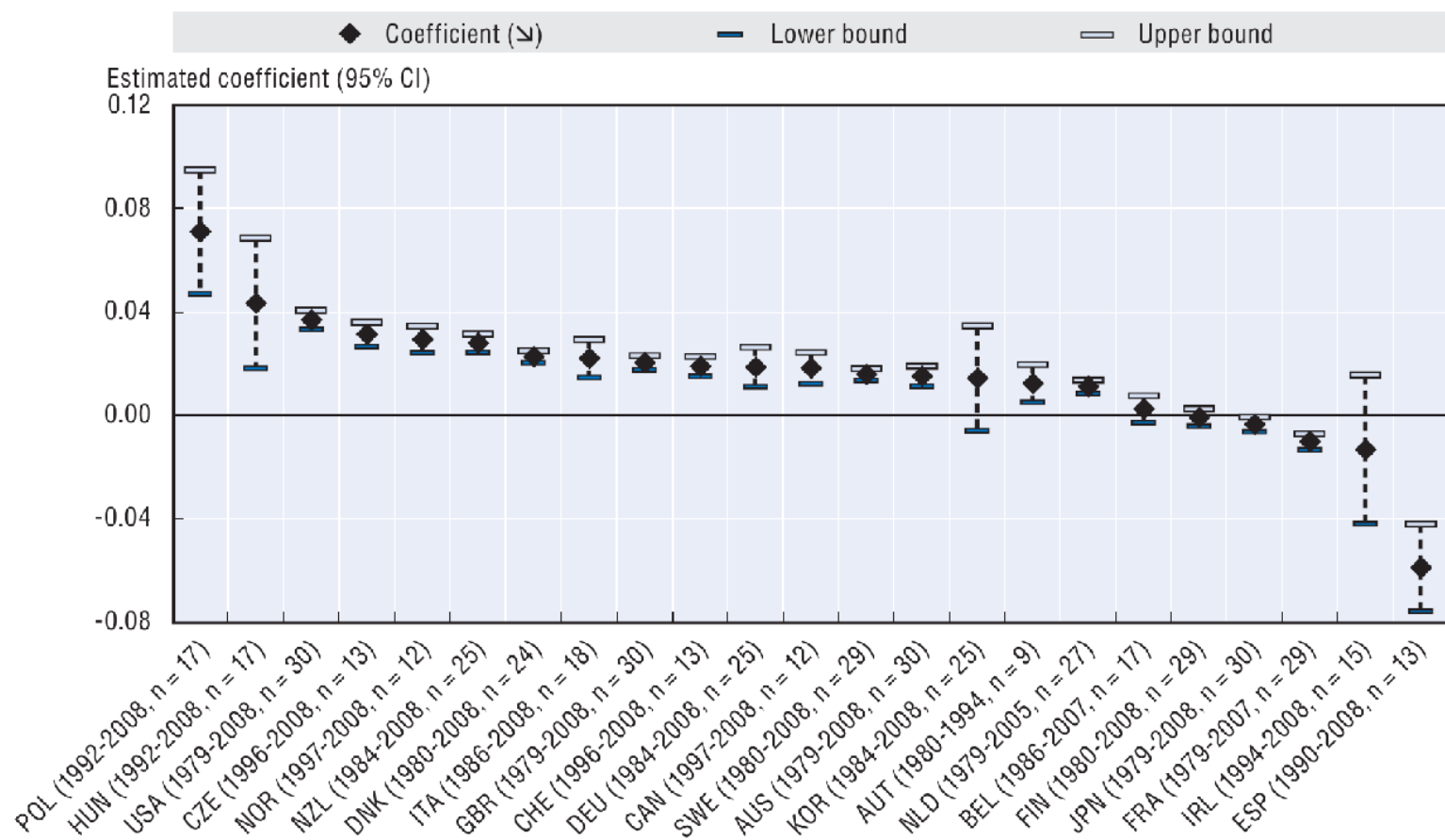
- Some suggested readings
 - Sen, Amartya. "Social justice and the distribution of income." *Handbook of income distribution* 1 (2000): 59-85.
 - Roemer, John E., and Alain Trannoy. "Equality of opportunity." *Handbook of income distribution*. Vol. 2. Elsevier, 2015. 217-300.
 - Alesina, Alberto, and Paola Giuliano. "Preferences for redistribution." *Handbook of social economics*. Vol. 1. North-Holland, 2011. 93-131.
 - Hertz, Tom, et al. "The inheritance of educational inequality: International comparisons and fifty-year trends." *The BE Journal of Economic Analysis & Policy* 7.2 (2008).
 - Reforms, Economic Policy. "A family affair: intergenerational social mobility across OECD countries." *Economic Policy Reforms* 1 (2010): 166-183.
- Dataset
 - European Social Survey: <https://www.europeansocialsurvey.org/>

Evolution of Inequality: The rich are getting richer...?

Evolution wage inequality in recent decades

- From the 1970s/ 1980s → Change in wage inequality in OECD countries

Figure 1.2. **Country-specific regression of wage inequality (D9/D1) on time trend (years indicated)**

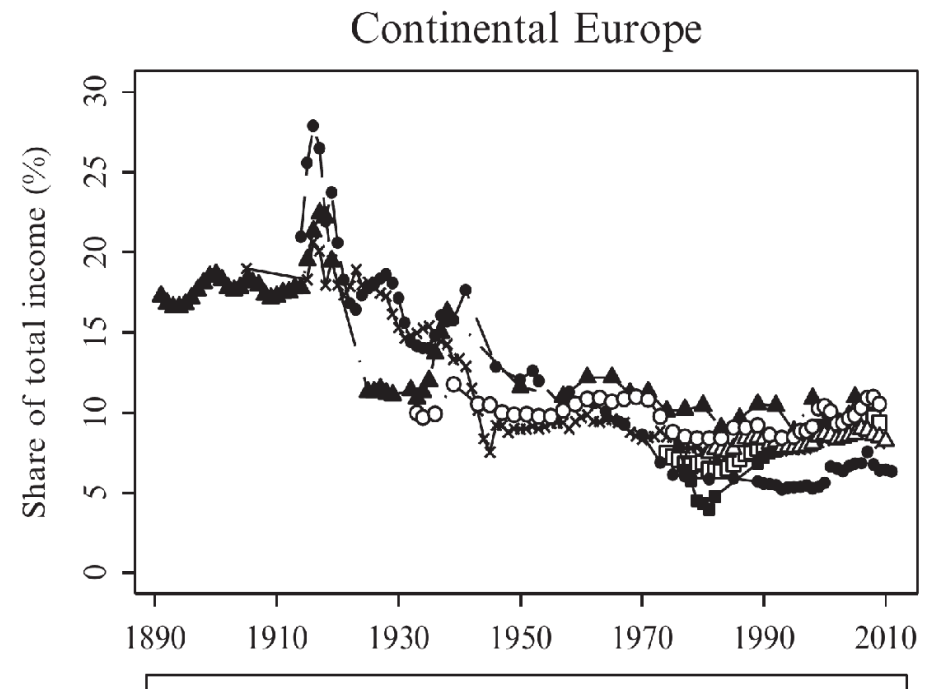
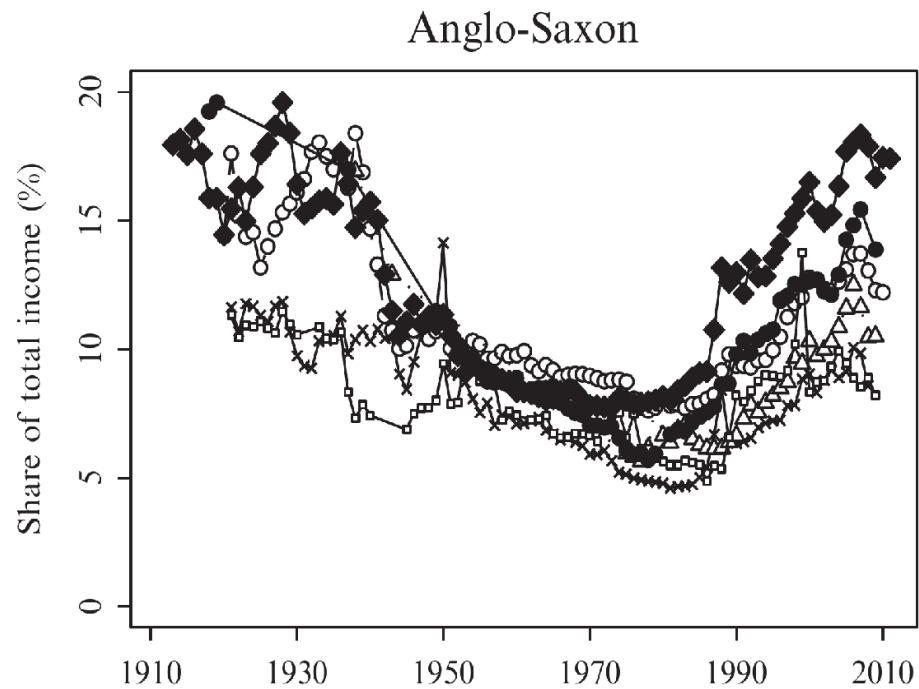


Evolution wage inequality in recent decades

- Why has inequality increased in recent decades in OECD?
 - Changes related to “markets” → Increased demand for skills
 - Globalization
 - Skill Biased Technological Change
 - Changes related to “Institutions”
 - Declining unionization
 - Social norms

Evolution of Inequality over the long run

- Long Run perspective: Share of pre-tax income of top 1%



Evolution of Inequality over the long run

- Why did inequality fall so dramatically in the first half of the XXth century?
 - Decrease was a capital (not wage) issue → Big fortunes disappeared and didn't recover
 - Destruction of capital in the World Wars and great depression
 - High top taxes after WWII → Lower return to capital
 - Increase in Anglosaxon countries from the 1980s not about capital income, but wages

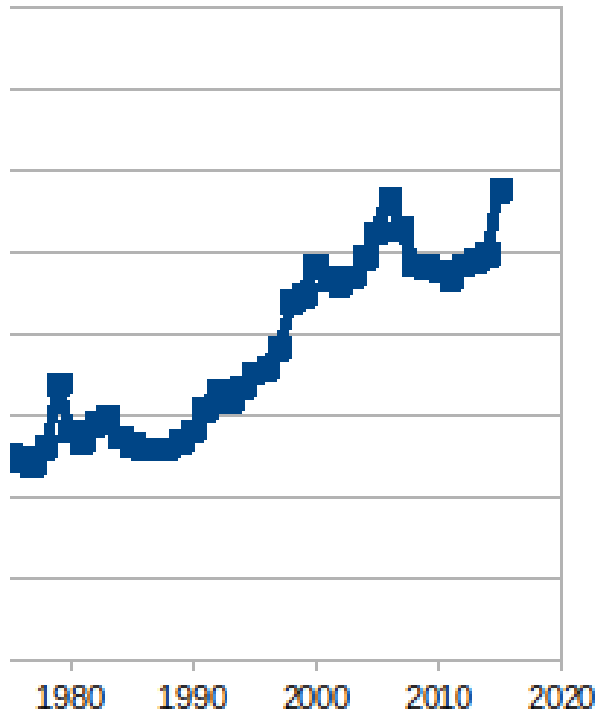
Inequality and crises

- What happens to inequality during crises?

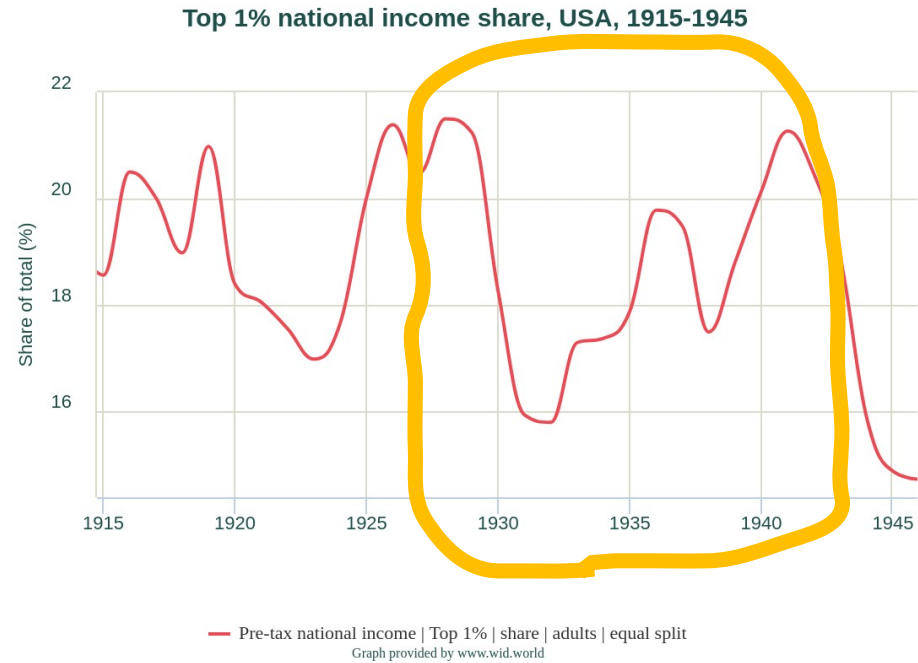
Inequality and crises

- What happens to inequality during crises?

Ireland top 1%



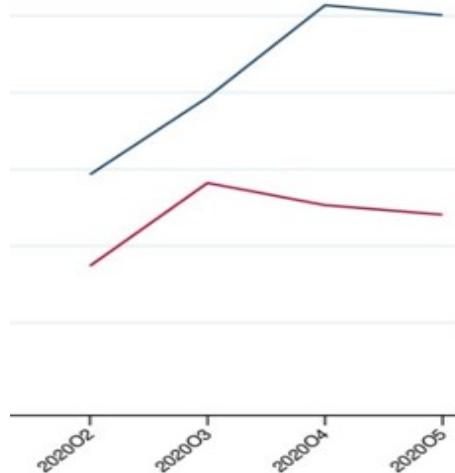
US great depression top 1%



Inequality and crises

- What has happen to inequality during the Covid crisis?
 - Too early to tell with confidence, but...

Gini Coefficient Spain during Covid



→ Covid seems to have increased inequality as lockdown affected more low wage earners

Evolution of Inequality: The rich are getting richer...?

- Lots of research on measuring inequality and its changes
- Also lots of work on why inequality has changed
- Interesting questions about inequality during crises:
 - Do people hold inaccurate perceptions about inq during crises, why?
 - Covid crisis?
 - Differences from previous crises?
 - Collect data to dig into it

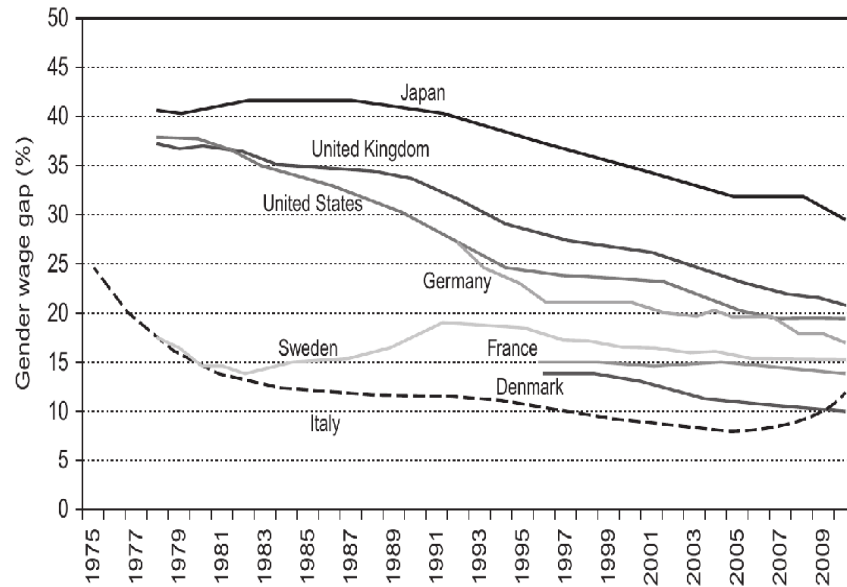
Evolution of Inequality: The rich are getting richer...?

- Some suggested readings
 - Stand, Divided We, and Why Inequality Keeps Rising. "An overview of growing income inequalities in OECD countries: main findings." Divided we stand: Why inequality keeps rising (2011).
 - Roine, Jesper, and Daniel Waldenström. "Long-run trends in the distribution of income and wealth." Handbook of income distribution. Vol. 2. Elsevier, 2015. 469-592.
 - Holton, Niamh, and Donal O'Neill. "The changing nature of Irish wage inequality from boom to bust." The Economic and Social Review 48.1, Spring (2017): 1-26.
 - Aspachs, Oriol, et al. "Real-Time inequality and the welfare state in motion: Evidence from COVID-19 in Spain." (2020).
- Databases on inequality
 - Top incomes: <https://wid.world/>
 - UNU WIDER: <https://www.wider.unu.edu/project/wiid-%E2%80%93-world-income-inequality-database>

Group Inequality and Discrimination

Group Inequality

Gender wage gap



Race wage gap in the US

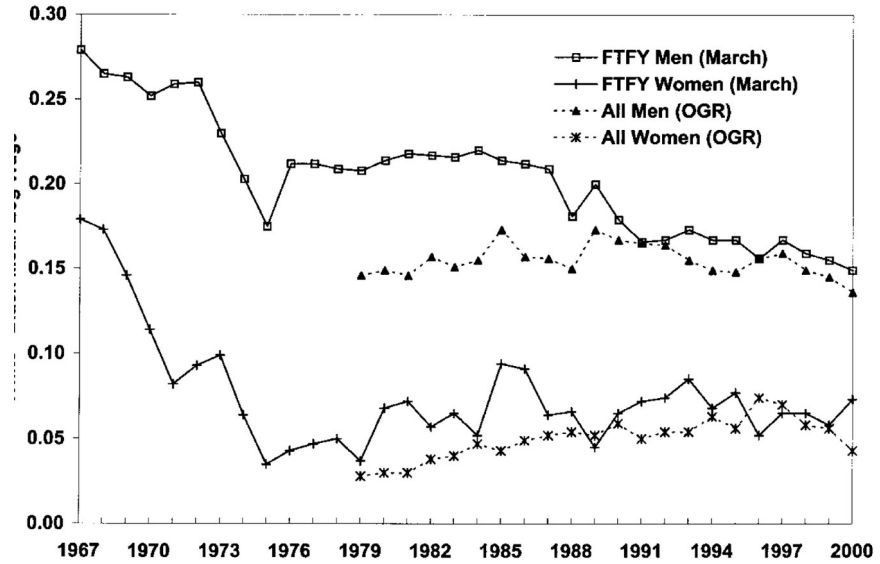


FIG. 13.—White-black wage gaps

Group Inequality and Discrimination

- What explains these big differences?
 - Investment/ labor market choices
 - Gender: Education type (STEM) + Career breaks
 - Race: Education
 - Labor Market Discrimination → Being treated differently at the labor market
 - But also: Discrimination → Investment/ labor market choices!


Labor Market Discrimination

- Recent evidence on discrimination: CV studies
 - Bertrand and Mullainathan 2004
 - Send CVs to vacancies, where everything is the same... except race-cuing name
 - White sounding names get 1 per 10 callback
 - African-american sounding names get 1 per 15 callback → get 50% lower callback rate!
 - Since then... evidence of labor market discrimination against:
 - Being indigenous in Peru (vs. white)
 - Turkish in Germany, Arab in Netherlands
 - Sexual orientation

Implicit Prejudice

- Implicit prejudice
 - People may hold unconscious prejudices that matter for behavior
 - Implicit Attention Test (IAT)
 - Measure implicit prejudice by how slow you are to associate categories (ex. Black and good)

Press "E" for	Press "I" for
Bad	Good
or	or
Black people	White people



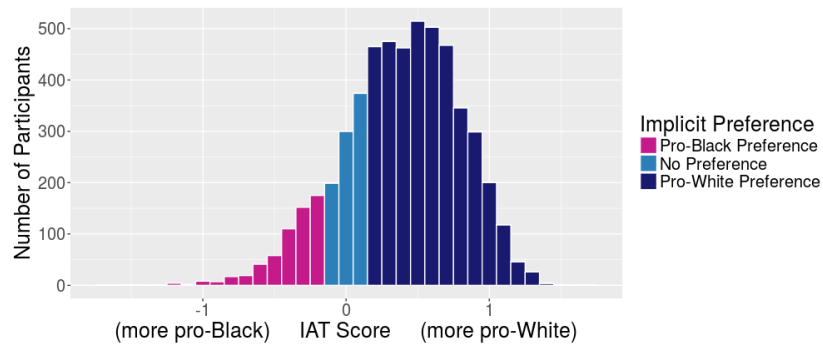
If you make a mistake, a red X will appear. Press the other key to continue.

- Can be used for general prejudice or for stereotypes (math vs. arts for male vs. female)

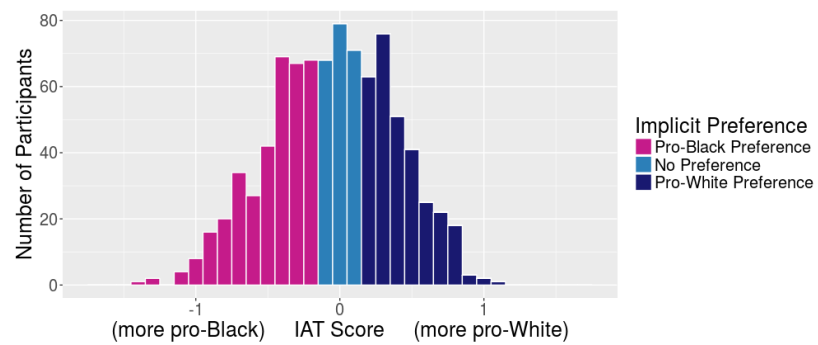
Implicit Prejudice

- Results IAT for racial prejudice and gender science stereotypes
 - Race prejudice

White respondents

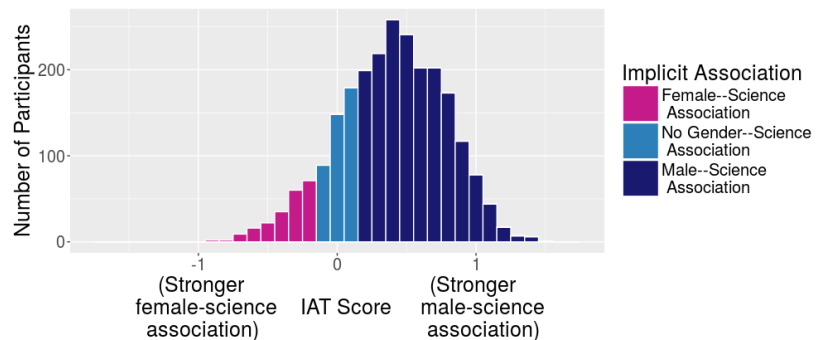


Black respondents

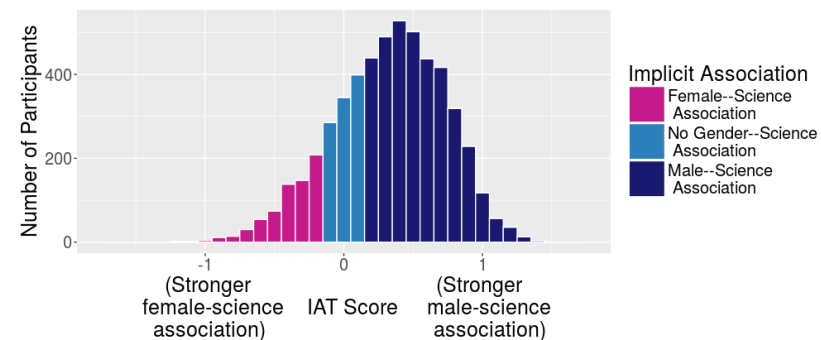


- Gender science stereotypes

Male respondents



Female respondents



Consequences of Discrimination

- Stereotype threat
 - Discrimination → productivity
 - Stereotyping a group negatively (ex. as “unproductive”), makes group more unproductive
 - Why? → Negative stereotype creates anxiety → disrupts cognitive performance
 - Evidence
 - Race and test performance
 - Women math stereotypes

Table 1. *Mean accuracy by condition in Study 1 and Study 2*

Study	Condition		
	Asian identity salient	No identity salient	Female identity salient
1: United States	.54 (0.17)	.49 (0.20)	.43 (0.16)

Group Inequality and Discrimination

- Discrimination in the context of Ireland? Which groups? → Which gender stereotypes?
→ Measure implicit attitudes in different population groups (ex. Young vs. old)
- Relate implicit attitudes to positions towards policy (ex. Affirmative action, gender-equality relevant policies)
- Readings and resources
 - Bertrand, Marianne, and Esther Duflo. "Field experiments on discrimination." Handbook of economic field experiments. Vol. 1. North-Holland, 2017. 309-393.
 - Kurdi, Benedek, et al. "Relationship between the Implicit Association Test and intergroup behavior: A meta-analysis." American psychologist 74.5 (2019): 569.
 - Spencer, Steven J., Christine Logel, and Paul G. Davies. "Stereotype threat." Annual review of psychology 67 (2016): 415-437.
 - To take the IAT → <https://implicit.harvard.edu/implicit/>

Conclusions

- Distributive Justice
 - How much inequality of opportunity is there in Ireland?
 - Can research inequality of opportunity reduce polarization?
- Changes in inequality
 - Already a lot of research on why inequality has changed
 - Why perception of people often clashes with data? (rich getting richer, crisis, etc.)
 - Inequality impact of covid
- Group inequality and discrimination
 - Trace evolution of implicit attitudes (ex. Gender attitudes in Ireland)
 - Relate implicit attitudes to positions towards policy (ex. Affirmative action, gender-equality relevant policies)