



THE WORLD BANK

INEQUALITY in FOCUS

Introduction to the Inequality in Focus Series

We will remember 2011 as the year when inequality and equity issues came back into the spotlight. The debate over the growing socioeconomic disparities and their implications for political stability and sustainable growth left the academic seminar rooms to permeate the streets, the popular media, and the blogosphere. From Arab youth clamoring for better job opportunities, to Chilean students protesting for a cheaper university education accessible to all, to Occupy Wall Street, popular demonstrations of frustration with the status quo have made governments and international organizations more attentive to equity, social exclusion, and democracy issues.

It is high time for the World Bank—as a leader on the production and dissemination of knowledge on poverty reduction and equity issues—to engage more broadly

with the global community and help boost and enrich the ongoing debate. While the 2006 World Development Report, Equity and Development, has made an important contribution to the theme, there is renewed demand for the World Bank's leadership in systematizing and disseminating current knowledge.

This is the first issue of a new brief, Inequality in Focus. The overall objective of the series is to inform the public policy debate on equity, inequality of opportunity, and socioeconomic mobility. It will feature articles written by World Bank staff, as well as researchers and policy makers from the broad development community. The language and style will aim to convey the results of recent analysis in an intuitive and accessible manner. We start the series with an overview of global poverty and inequality trends, an analysis of the recent decline in income inequality in Brazil, and an examination of inequality of opportunity.

An Overview of Global Income Inequality Trends

Pedro Olinto and Jaime Saavedra

The world has become considerably less poor in the past three decades (figure 1). In 1981, almost three-fourths of citizens in the developing world lived on less than \$2 a day. This rate has dropped dramatically so now 43 percent are poor. Moreover, despite a 35 percent increase in global population, there are slightly fewer people living on less than \$2 a day today (2.47 billion) than there were three decades ago (2.59 billion). Extreme poverty declined even more. The share of those living on less than \$1.25 a day—the minimum level of consumption needed to meet basic human needs in the poorest countries—has fallen by more than half, from 52 percent in 1981 to 22 percent in 2008. Hence, 1.29 billion people live in abject poverty.

Progress is undeniable, and preliminary estimates for 2010

show that the downward trend of poverty has continued. But 2.5 billion people living in poverty and 1.3 in abject poverty are still extremely high figures. Moreover, does this significant increase in the incomes and consumption of the poor mean that the world has become a more equitable place? Is global income more evenly distributed today than it was 30 years ago?

The answer depends on how we measure disparities in global income. For instance, if we assume that all individuals living in one country earn the same income, an amount equal to that country's average GDP per capita, we can compute what is known as international income inequality. This is what is shown in figure 2. As seen, international income inequality has been dropping steadily since the early 1980s. Initially, this fall was due mainly to rapid growth in China. But since the early 2000s, this decline is observed even without including the East Asian giant. Higher growth rates in almost all developing countries, including in sub-

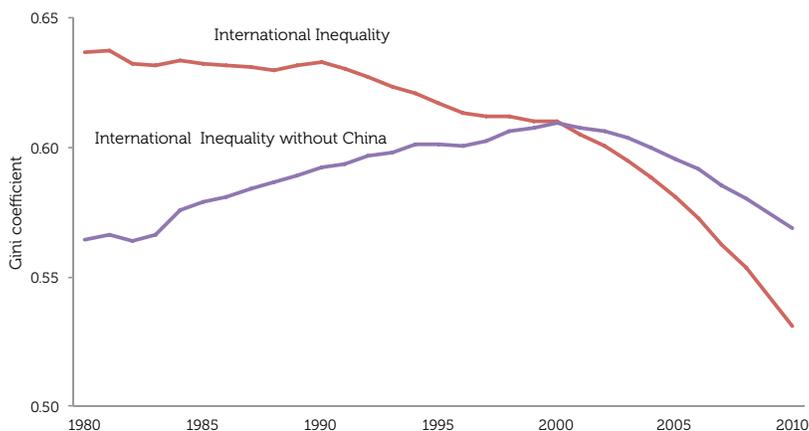
Saharan Africa, have helped accelerate the fall in international income inequality in the first decade of the twenty-first century. The income of an average citizen in a poor country is now a bit closer to the income of the average citizen of a rich country.

But this measure of world inequality fails to capture the dynamics in inequality within each nation. For instance, there is evidence that income inequality within China has increased significantly in the past quarter century, while in Brazil it has decreased in the past 15 years. Just these two countries account for almost 25 percent of the world's population, so failure to understand intra-country inequality may give an incomplete story of income disparity among world citizens. But with the increased availability of household data these disparities can be taken into account. Milanovic (2012) calculates a measure of global income inequality by combining national household surveys from 122 countries, and adjusting individual incomes with the appropriate country-specific Purchasing Power Parity (PPP) adjusted exchange rates. A single world distribution of income and its specific Gini coefficient are then computed. In this measure, all citizens count.

As shown in figure 3, global income inequality increased slightly between the late 1980s and the middle of the last decade. However, the difference between the 2005 and 1988 Gini coefficients, 70.7 and 68.4, respectively, is not statistically significant (Milanovic 2012). Preliminary estimates also show that this indicator did not change much thereafter. This suggests that global income inequality today is about the same as it was in the late 1980s, and it is not falling as international inequality.

How can we reconcile the sharp fall in international income inequality with the relatively stable global inequality figures? We need to look at changes in income disparities within countries. Remember that with international inequality, each citizen is assigned the average income of his or her country of residence. But with global inequality, each individual brings his or her own income to the calculation. While the average per capita GDPs of

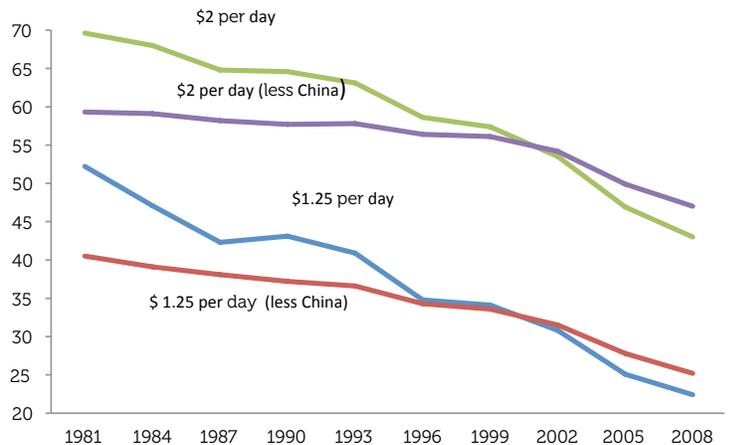
Figure 2 International Income Inequality



Source: Milanovich 2012.

Figure 1 Poverty Rates for the Developing World 1981-2008

Headcount index of poverty (% below poverty line)



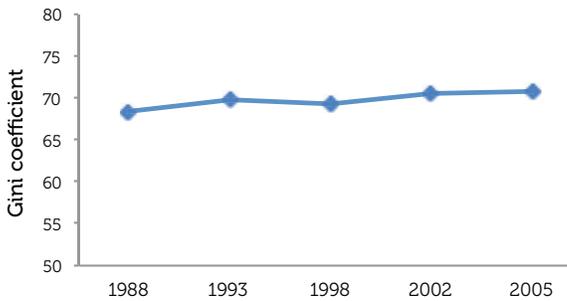
Source: Chen and Ravallion 2012.

developing nations are converging to the level of rich ones, income growth may be uneven within countries. So we may observe a pattern of convergence among countries, but divergence among citizens within them.

So what is happening with income inequality within the different countries in the world? As seen in figure 5, there is no clear pattern among developing countries. In all regions there are almost as many nations where inequality is increasing as there are places where it is decreasing. In East Asia there are small downward trends in inequality in the Philippines and Thailand, and upward movements in China, Indonesia, Mongolia, and Vietnam. The steadiest increase in inequality is observed in China. Its Gini climbed from about 30 in the early 1980s to approximately 45 in 2005 (World Bank 2009; World Bank 2012, "China 2030"). Given the size of its population, China is likely a major contributor to the observed divergence between international and global inequality.

In Eastern and Central Europe, most transition economies have experienced increases in income disparities, particularly after the fall of the communist regimes. But inequality has fallen recently in Armenia, Bulgaria, Kazakhstan, Moldova, and Serbia, among others. In Latin America, the majority of countries have witnessed reductions in inequality (for details on the causes of the drop in inequality in the specific case of Brazil, see the next article in this issue), but a few have become more unequal, including Costa Rica, Guatemala, and Honduras. In some South Asian economies we are seeing inequality decrease, but in India, urban growth has tended to be pro-rich, and the disparities between rural and urban incomes seem to

Figure 3 Global Inequality 1988-2005



Source: Milanovich 2012.

have widened (World Bank 2012).

Changing income dispersions within rich countries also affect the computation of global inequality. A recent study shows that there are far more OECD countries for which inequality has increased than members for which it has decreased. Notable increases in inequality are observed in Finland, Germany, New Zealand, Sweden, the United Kingdom, and the United States (OECD 2011). Small reductions are seen in Greece, Ireland, and Turkey.

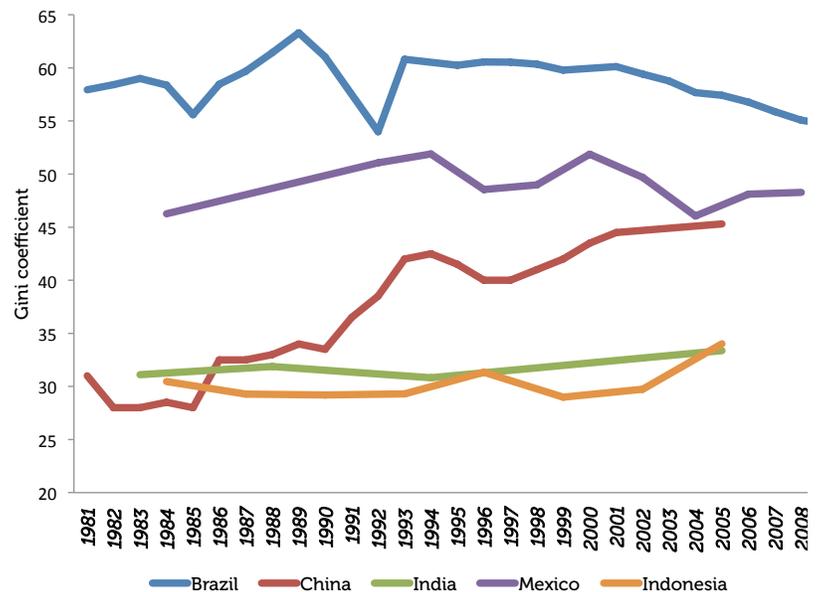
In sum, while world poverty—especially extreme poverty—has been significantly reduced in the past three decades, income disparities among global citizens seem to have remained unchanged, despite a reduction in international (between countries) inequality. More importantly, this widening gap between international and global inequality appears to have come from increased income disparities within countries—notably in large emerging Asian economies such as China, India, and Indonesia, as well as many OECD countries—and not differences among them.

Do We Live in a Better World Today Than The One We Lived in 30 Years Ago?

When economists think about alternative scenarios, they generally start with the principle that a change is good if it makes someone better off without making anyone else worse off. That idea, first suggested by the Italian economist Vilfredo Pareto, is referred to as the Pareto principle. Under this principle, if the world has become less poor and more unequal because some, even if a few, were made better off, and no one is worse off, then—and only then—an economist would say unequivocally that, yes, we live in a better world.

So why should we worry about income inequality if poverty is falling? Citizens and policy makers alike are concerned with growing income disparities. For example, according to the European Union public opinion survey Eurobarometer, 52 percent of people agree that income differences in their countries are too high. Almost 90 percent at least “tend to agree” with that statement. Thus, even if incomes are growing for all, policy makers should

Figure 4 Inequality in Selected Developing Countries



Source: World Bank. World Development Indicators and World Bank 2012. “China 2030.”

be concerned with growing inequality if a pervasive perception of unfairness leads to political instability, thereby undermining growth and overall welfare.

So why is inequality so prominent in the development debate? First, it is very likely that some groups were indeed made worse off or were left behind by global economic processes that led to faster growth and the associated poverty reduction. If this is so, then policy makers should be concerned about the design of policies to compensate those who have lost welfare during such processes. Respecting the Pareto principle implies that winners will compensate losers in such a way that no one is made worse off.

Secondly, even when there is economic growth and no one is made worse off, there might be ways in which growth is achieved even while reducing income inequality. A case in point is Brazil, where poverty reduction was attained to a large extent by a fast increase in labor incomes of the poor. As Ricardo Paes de Barros points out “the incomes of individuals in the lowest decile of the income distribution is growing at Chinese rates, while the income of the richest decile grows at German rates.”

But more importantly for policy design, persistent income inequality may limit the potential for future economic growth, thereby hindering further poverty reduction. Research suggests that it may affect a country’s development prospects in a number of adverse ways. For instance, it may lead to inefficient allocation of resources that reduces the rate of economic growth. Inequality may also have a major impact on access to credit, assets, access to health and education services, basic infrastructure, employment opportunities, and political representation. Furthermore, power

groups may create institutions that perpetuate inequalities in status and wealth, which in turn are bad for investment, innovation, and risk-taking (World Bank 2006). In East Asia, there is a concern that rising inequality (even though it is lower than in Latin America and Africa) might polarize societies, increase social tensions, and undermine growth itself. In Latin America, there is a growing concern with the lack of opportunities for many citizens and the social conflict that high differences in living standards might bring.

While political and ideological differences might preclude reaching a consensus on the importance or desirability of pursuing policies to reduce income inequality directly, few would disagree that leveling the playing field for all, by supporting equal access to opportunities, is a desirable societal goal. Equality of opportunity requires that circumstances such as gender, caste, ethnicity, birthplace, and family background do not influence a person's access to basic services and thus predetermine lifetime chances of success. However, if income inequality in one generation can be linked to unequal opportunity in the next—as some results for the United States suggest (Krueger 2012), or as it might be feared in China, or as it is a clear concern for the policy makers in Latin America and Asia—then interest in policies to mitigate income inequality can be justified on the basis of broadening opportunity and fostering social mobility.

In fact, many countries now are more concerned with policies that foster equal access to opportunities and social mobility (see the third article in this issue) as a key element to provide a fair chance to all. Although specific policy mix to improve equality of opportunity varies by country, common interventions include improvement of access to education and health services, infrastructure, land, and justice with a particular attention to underserved regions and communities. Enhancing the redistributive efficiency of the taxes and transfers structure, building accountable governance institutions and creating rewards for good performance to public and private providers of basic services, and enhancing access of the poor to safety nets and financial services are some of the other important policy measures.

All dollar amounts are U.S. dollars unless otherwise indicated.

Pedro Olinto is Senior Economist, and Jaime Saavedra is Director of the Poverty Reduction and Equity Department, the World Bank.

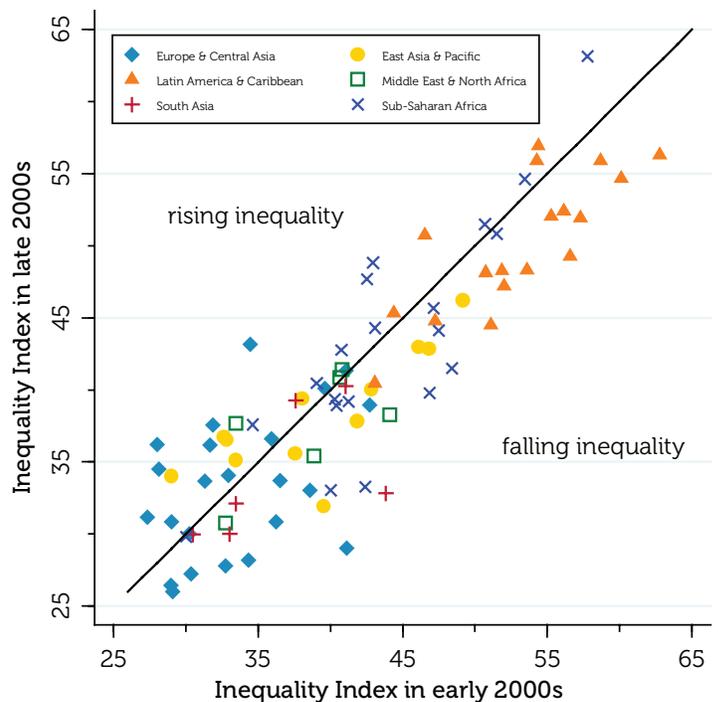
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Figure 5 Changes in Inequality in Developing Countries



Source: World Bank. World Development Indicators and World Bank. 2012. "China 2030"

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Declining Income Inequality in Brazil: The Proud Outlier

Luis F. Lopez-Calva

The most recent data show that global poverty is falling, even as the world has become more unequal. This pattern of mobility out of poverty and higher income concentration repeats in all regions but one: Latin America and the Caribbean (LAC), a region that has shown a positive trend by reducing both poverty and inequality in the past decade, even after the impact of the global crisis. One impressive example in LAC is Brazil, the happy outlier among the BRICS. The mobility out of poverty for millions of Brazilians has been accompanied by a narrowing of the income gap between rich and poor. There those in the bottom 50 percent of the population increased by 15 percent their participation in total income between 2002 and 2009. This trend in terms of inequality changes is the opposite of what is being experienced in Brazil's fellow BRICS countries: Russia, China, India, and South Africa.

Though inequality levels in Brazil are still high by world standards, they have fallen steadily over the past 15 years. The robust rate of decline, which has surpassed the pace of the Latin American region as a whole, befits taking a closer look at some of its main drivers. Macroeconomic stability, educational expansion, and better

social policies have all played a role. There are lessons to be learned.

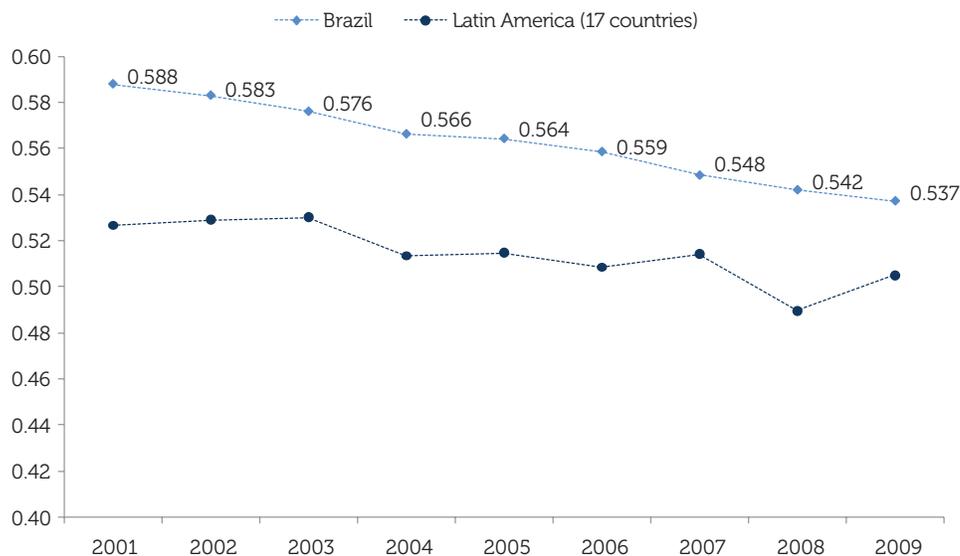
Inequality in Brazil—Past and Present

Brazil has been swimming upstream due to its historical roots and the persistence of income inequality. Income inequality in 1960, already high by international standards as indicated by a Gini coefficient of 0.504, continued to increase in the following decades. It rose during Brazil's period of economic expansion in the 1970s, as well as in the low-growth, high-inflation years of the 1980s (the Gini rose from 0.561 in 1970 to 0.592 in 1980; and reached 0.607 in 1990, according to the income reported in household surveys). High levels of inequality persisted in the mid-1990s, even as Brazil achieved monetary stabilization and attained middle-income status. By the mid-1990s, the poorest 50 percent of the population accounted for the same share of total income as the richest 1 percent (about 13 percent).

Along with a reduction in poverty, over the past 15 years income inequality in Brazil has declined, reaching a Gini coefficient of 0.537 in 2009. Although it is still high, inequality in the country is on the path to converge to the regional average (0.501). Moreover, inequality in Brazil declined at a faster pace than elsewhere in Latin America: After 1997, inequality declined by 0.8 percent per year; from 2001 on, the rate of decline accelerated to 1.07 percent per year, well above the regional pace of 0.63 percent.

Reducing inequality is important in itself, if people care about having a more just society. But lowering inequality also pays off in very concrete ways: It may foster growth and it certainly makes growth friendlier to the poor. If one decomposes the changes in poverty between 2001 and 2009 in order to identify the relative importance of growth versus changes in the distribution of income, it is clear that the decline in inequality has been crucial for poverty reduction, accounting for half of the total change (taking \$4 a day as the poverty line). The result is even stronger for the case of extreme poverty (about 52 percent if one takes a poverty line of \$2.5 per day). Thus, regardless of the poverty line chosen,

Figure 1 Gini Coefficient in Brazil and Latin America (17 countries)



Source: Author's calculations based on data from Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank).

about half of the total change in poverty is due to a less unequal distribution of income (figure 2).

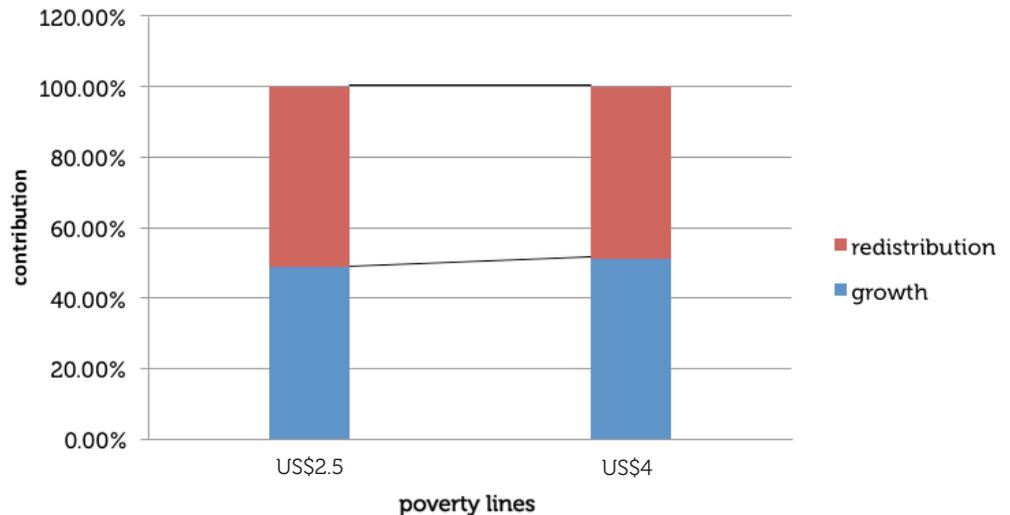
A common tool to illustrate the pro-poor nature of growth is the so-called *growth incidence curve* (GIC), which shows the income change in real terms by income group. Displaying the income growth rate between two points in time at each percentile of the distribution, the downward pattern in the GICs indicate that poorer groups benefited more from growth than the richer ones (figure 3). Between 2001 and 2009, the income growth for the poorest 10 percent of the population was close to 12 percent, whereas the top 10 percent only saw their income grow by less than 2 percent. The average growth in income was 5.91 percent. The curves reinforce the evidence provided by a falling Gini coefficient: Economic growth has had a decisively progressive impact in Brazil over the past decade or more.

What Do We Know About the Sources of Inequality Decline?

Expansion in the provision of education, mainly elementary and secondary, seems to have changed the schooling profile of the labor force, modifying the earnings gaps between different educational levels. In some meaningful way, less educated people have become scarcer, and the wage difference between highly educated people and less educated ones has declined. There is also a large effect of the demand for labor, which has increased significantly due to the economic expansion. These effects combined have resulted in an equalizing trend in labor incomes in Brazil. In addition, social policy has improved by becoming more effective in reaching the poor, mainly—though not exclusively—through cash-transfer programs such as Bolsa Familia (conditional transfer to induce education and health investments in children) and Benefício de Prestação Continuada (noncontributory pensions). A more pro-poor incidence of social spending has also resulted in lower inequality.

There are techniques that allow us to decompose changes in income by source in order to explain the changes in the distribution. This type of exercise is useful as an accounting of the sources of income associated to the observed trends. If the two main sources of income are considered, namely income from labor and income from transfers, the former accounts for the largest share of changes between 1997 and 2009; representing by some estimates more than two-thirds of the reduction in income inequality. On the other hand, although income

Figure 2 Contributions of Growth and Inequality to Poverty Reduction in Brazil, 2001-2009



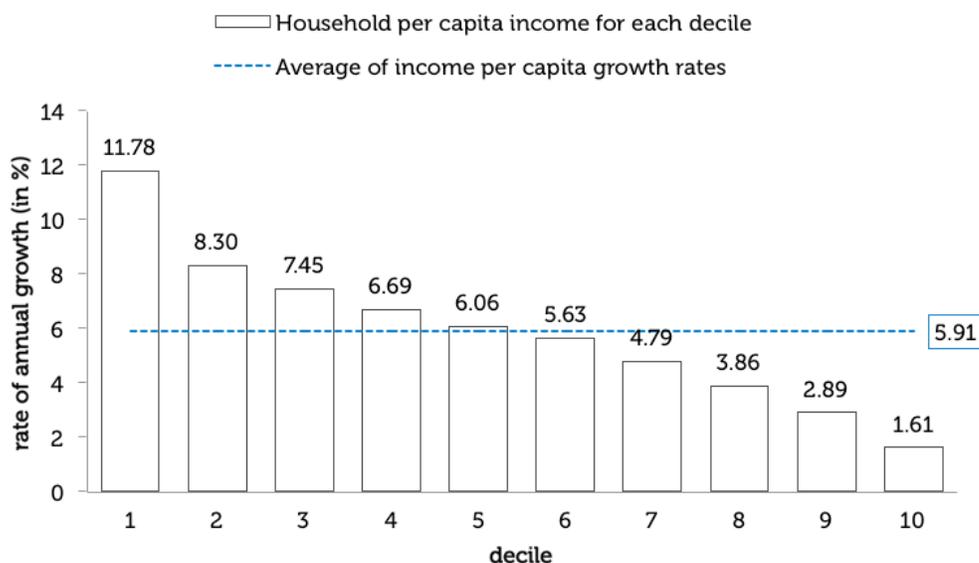
Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank).

from non-labor sources accounts for a relatively modest share of per capita household income, it has had a significant impact on the reduction of income inequality—more than 20 percent of the reduction.

There has been a debate about the role played by active minimum wage policies. Between 1997 and 2009 the real value of the minimum wage increased by 70 percent. This seems to have influenced the reduction in earnings gap between low-education and high-education workers. In addition to its redistributive impact as an index for social security programs, minimum wage increases have acted as a signal for salary renegotiations at the lower end of the earnings spectrum. While there has not been a convincing analysis of the impact of minimum wage policies on employment levels and the function of the labor markets in general, there seems to be an overall positive impact on income distribution. The decomposition analysis mentioned above has shown that the higher income growth rates in the lower income percentiles—enabling continued convergence of labor incomes across earnings groups—have been strongly associated with educational improvements. A thorough analysis of the role of the minimum wage policies would require benchmarking with respect to the functioning of the labor market in the absence of such interventions.

Educational investments seem to have paid off in Brazil, at least in terms of reducing income inequality. Brazil's historical inequality in labor income derived to a large extent from inequity in education. Concerted policy efforts that started in the mid-1990s altered the state of affairs, leading to education improvements that were largely responsible for a more equitable income distribution. To illustrate the changes, in 1993 a

Figure 3 Growth Incidence Curves for Brazil, 2001-2009



Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank).

child of a father with no formal education would complete on average four years of schooling. Currently, Brazilian students complete between nine and 11 years of schooling, regardless of their parents' education. The schooling profile of the labor force has indeed changed drastically, making relatively unskilled labor scarcer, thereby driving down the wage premium earned by more educated workers.

Other factors related to good policy include the macroeconomic and institutional changes that brought about a stable macroeconomic environment that not only enables growth, but also eliminates the inflationary tax on the poor. Macroeconomic stability, following the introduction of the Real Plan in 1994, has provided an environment that enables inequality reduction in Brazil. The poor do not generally have access to financial instruments that protect them from inflation, and they suffer disproportionately from income volatility. Thus, responsible macro management is also pro-poor.

In terms of more specific social policy interventions, it is clear that Brazilian social security and social assistance programs have played an increasingly important role in the reduction of income inequality. Although non-labor sources still account for a relatively low share of total households' income, social policy reforms since 1988 have led to expanded coverage and increases in the value of social security and cash benefits paid out. By some estimates, the increase in contributory and noncontributory government transfers was responsible for about 30 percent of the reduction of the Gini index between 2001 and 2009.

The potential redistributive power of transfers, however, should be analyzed according to its scope and pro-poor incidence. Because of its broad coverage among the poor, Bolsa Família accounted for a much higher share of the reduction in

Brazil's Gini coefficient between 1997 and 2009 than Benefício de Prestação Continuada, in spite of its significantly smaller amounts. Targeted and more generous transfers indexed to the minimum wage, such as the Benefício de Prestação Continuada, have shown positive but more nuanced redistributive effects. On the other hand, generous social security programs associated with the formal sector, including the public servants' pension system, have shown to be highly regressive. The coverage, fiscal sustainability, and potential inequities involved in the system of overall public transfers are, understandably, a matter of policy debate. According to the evidence, Bolsa Família has been the most

cost-effective instrument for reaching the poor and reducing inequality, accounting for less than 1 percent of GDP.

Looking Forward

Sustaining reductions in both poverty and inequality without compromising growth represents a key challenge for Brazil going forward. While the country has made strides in reducing income inequality over the past 15 years, the future pace of transformation could be compromised by the emergence of new dimensions of the problem. Thus, in addition to consolidating the stable macroeconomic environment and continuing to improve the effectiveness of social programs, key policy challenges must be taken seriously if this positive trend is to be sustained.

In terms of education, efforts to date have focused on quantity, ensuring that more students attend and stay in school longer. Equalizing the quality of education services across income groups remains a major challenge. Further reforms of the education system are necessary to ensure that income from labor continues to evolve progressively. The recent establishment of a national evaluation system and the setting of specific goals to be achieved, as well as the distribution of resources to schools based on need and effort, are important steps in the right direction. Innovations to improve quality at the lower end of the socioeconomic ladder, such as teacher performance bonuses and extended school hours, now being piloted in some Brazilian states, should be carefully evaluated and expanded if shown to be effective.

Addressing the fiscal sustainability and the equity of transfer policies also constitutes a key challenge. Brazil's heavy reliance on indirect taxes burdens the poor disproportionately, while the current personal income tax framework does not seem to

have any impact on income inequality whatsoever. Moreover, delinking social transfers from the minimum wage can help minimize potential distortions and free up resources to invest in more efficient pro-poor mechanisms, potentially strengthening more ambitious strategies such as *Brasil sem miseria*.

In terms of social programs, effectively focusing on the most vulnerable groups could improve the equitable distribution of basic services provision, creating a virtuous cycle between greater equality of income and greater equality of opportunity. Promoting conditions to foster the demand of high-skilled labor in high value-added sectors also will help to sustain the falling inequality trend.

Brazil shares the positive trends in terms of growth and poverty reduction with respect to its fellow BRICS countries, and has been a proud outlier in a world of increasing inequality. In order to sustain the trend, new efforts are needed. Recent policies, such as the new strategy called *Brasil sem miseria*, seem to acknowledge the key challenges and face them with specific instruments. There will be more lessons to be learned. The world is watching.

All dollar amounts are U.S. dollars unless otherwise indicated.

Luis F. Lopez-Calva is Lead Economist, the World Bank.

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Inequality of Opportunity Around the World: What Do We Know So Far?

Francisco H. G. Ferreira

Although it is not uncommon nowadays to read about "inequality of opportunity" in World Bank reports, this was not always the case. Even during the early 1990s, when the dominant intellectual narrative at the Bank shifted from a focus on structural adjustment and "getting prices right," toward a longer-term concern with poverty reduction, inequality wasn't a big issue. The emphasis was firmly on helping countries achieve and maintain sustained economic growth—the main driver of long-term poverty reduction.

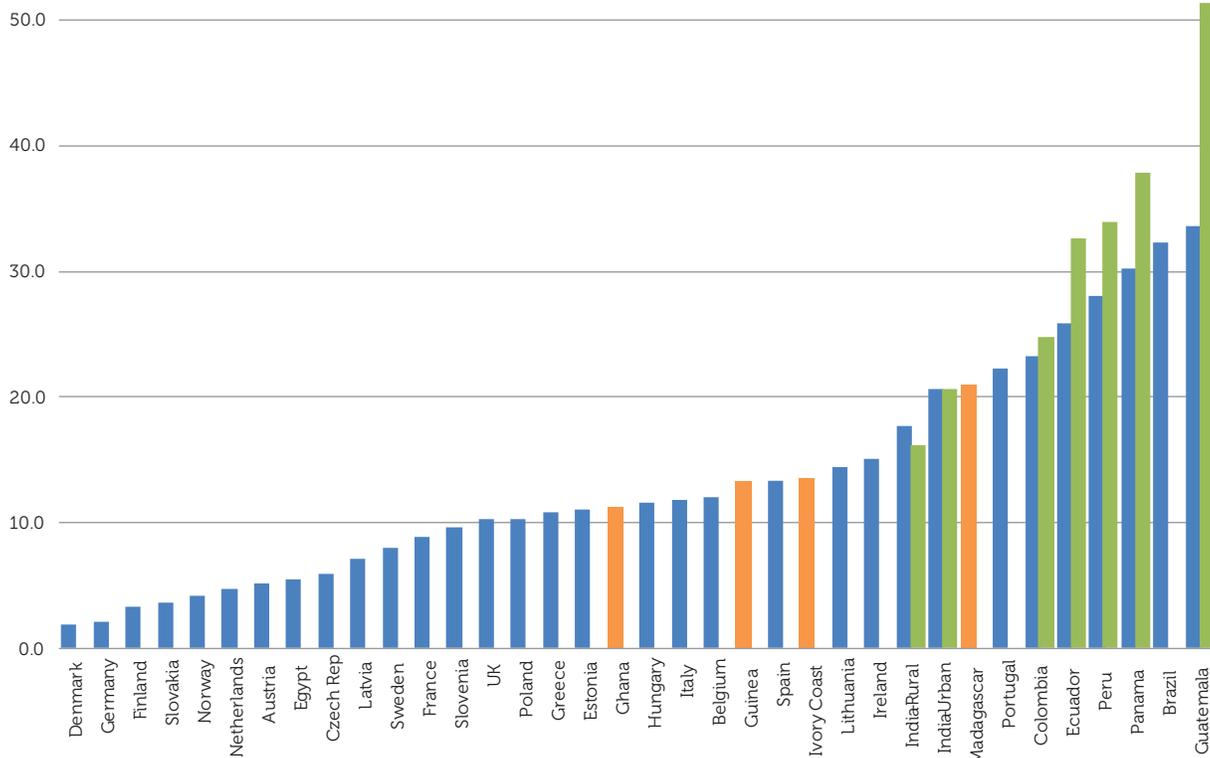
It was not until the late 1990s and early 2000s that inequality started figuring in the World Bank lexicon a little more frequently. It is likely that this reflected, at least in part, a growing perception in the economics profession that the quality of institutions, the nature of governance, and thus the pace of economic growth were themselves affected by egregious inequality. During the 1990s, a process of "bringing income distribution in from the cold" took place in academic circles.¹ Models were written suggesting that high inequality could lead to wasted investment opportunities. Economic historians argued that large initial land and wealth disparities were partly to blame for the development of less democratic and inclu-

sive institutions in South than in North America, and that this was in turn reflected in the former's inferior long-term economic performance in the previous two centuries. Initial results of cross-country econometric analysis of the relationship between inequality and growth hinted at an association between high "initial" inequality and lower subsequent economic growth.

Quite separately from the pursuit of empirical evidence on the causal link between inequality and economic growth, another intellectual trend of the 1990s was taking shape that would later influence thinking at the World Bank and other development institutions. Led by people like John Roemer at Yale University and Dirk van de Gaer, currently at the University of Ghent, economists started to think about this nebulous and rather intangible concept of "inequality of opportunity."²

Moral and political philosophers had been using the term for a while. After John Rawls's *A Theory of Justice* was published in 1971, much ink was spilled over the issue of what the right "space" for equality might be. Among people who cared about normative issues—about what might constitute a fair or just society—there was a widespread desire to move away from the sum-based ethics of utilitarianism, which had long been the "default program" underpinning welfare econom-

Figure 1 Inequality of Opportunity Around the World
 Proportion of Total Inequality Due to Inequality of Opportunities



Sources: Cogneau and Mesple-Soms (2008), Ferreira and Gignoux (2011), Marrero and Rodriguez (2010a), Belhaj-Hassine (2011) and Singh (2012).

Note: Between-group share of inequality measured by the mean-log deviation (Theil -L), except where indicated. Orange and green bars are for consumption, rather than income distributions. Green bars use the Theil-L, whereas orange bars use the Theil-T.

ics.³ People wanted to place a moral value on equality—but equality of what?⁴ Probably not of incomes, or other such desirable outcomes that reflect a great deal of personal effort. After Rawls, agreement was growing that there was an ethical role for personal responsibility. Wise choices and hard work deserved rewards. But, in a just society, outcome inequality (for example, inequality of income, wealth, or even achievement in education) due to differences in efforts or responsibility would be ethically acceptable *only if* people had had access to a common basic starting point—a “level playing field” of sorts. What constituted this common starting point was given different names: “primary goods,” “resources,” and, finally, “opportunities.”

So How Do We Measure Equality of Opportunity?

The extra twist added by Roemer and van de Gaer was a framework that made it passive of measurement, and empirical assessment. The basic insight was to classify all possible determinants of a particular outcome of interest—income, say, or educational achievement—into two mutually ex-

clusive categories: those over which individuals have some control (“efforts”), and those over which they do not (“circumstances”). Whereas efforts might include things like years of study or hours of work, circumstances would include your race, gender, and family background (among other things). In essence, inequality due to differences in “efforts” would be chalked up to individual responsibility, and thus be ethically acceptable, while any inequality associated with “circumstances” would be considered inequality of opportunity—and not be acceptable.

How does this help us measure inequality of opportunity in practice? Well, if we could agree on a set of circumstances that are observed in the data—say race, gender, and some indicators of family background, such as parental education or occupation—we could then separate the population into groups that shared exactly the same circumstances: Black women with uneducated parents, for example, or white men whose parents had university education. Each group, defined exclusively by its circumstances, is what folks in this literature call a “type.” Given such a partition, a key assumption is

that any differences between the group averages is driven by circumstances, while differences within groups is due to effort (or luck, or other circumstances we somehow were not able to observe or measure).

To associate *all* between-group differences with inequality of opportunity is not, as it turns out, an innocuous decision. After all, it is possible that everyone in a particular group—say, the children of highly educated parents—puts in more effort at school and more hours at work than the members of some other group. But such *systematic* differences in average effort across groups likely reflect the indirect effects of circumstances. For instance, certain groups may develop a work ethos that they transmit to their children, whereas in other settings, one instead inherits only low self-esteem and self-confidence, a lack of trust in institutions, even socially constructed low aspirations.⁷ Measures of inequality of opportunity based on differences between groups acknowledge these effects, and treat such *systematic* between-group differences in efforts as caused by differences in circumstances. Only differences in *relative* effort—measured by a person’s rank within a group—are considered ethically acceptable.

One method of computing inequality of opportunity is therefore to compute the share of overall inequality that is associated with these between-group differences. Because groups are perforce defined by a few observed circumstances, but not all, the literature insists that these results yield lower-bound estimates of inequality of opportunity: *At least* this share of overall inequality is ethically unacceptable. Figure 1 summarizes this information for a set of countries that have featured in five such studies.⁶

Although the bars in Figure 1 come from five different studies, the methods employed across them are reasonably comparable.⁷ These measures of inequality of opportunity range from 2 percent of total income inequality in Denmark and Germany, to more than 30 percent in Panama, Brazil, and Guatemala. When the measure is computed for distributions of consumption expenditure, rather than income, it reaches as much as 51 percent of total inequality (in Guatemala). And these are lower bounds . . . The few African and Asian countries for which such measures have been computed rank in an intermediate position between the European and Latin American extremes: Madagascar, rural India, and urban India each reach the 20 percent mark. Egypt, the only country from the Middle East and North Africa region included in Figure 1, has a surprisingly low score, 5.4 percent, between the scores of Austria and the Czech Republic.

So What?

So what, you might ask. Perhaps it is true that equality of opportunity is a more appropriate—and realistic—social objective than strict equality of incomes, or education levels. But does it bring anything concrete to a government’s (or the

Bank’s) work against poverty? Does it add anything to either our understanding of how best to fight poverty, or to our policy dialogue and operations?

While it may be early to make grandiose claims, there is some evidence that inequality of opportunity may be associated with economic growth, for example. A couple of recent papers have suggested that one reason why the results of econometric analysis that tried to estimate the causal effect of levels of inequality on growth are so unstable is that measures of income inequality conflate two fundamentally distinct aspects of social differences: inequality of opportunity and inequality of efforts. Just as there is good and bad cholesterol, there may be two kinds of inequality, one of which is much worse for a country’s health than the other . . . It has been found, for example, that U.S. states with higher levels of inequality of opportunity (but not of income) have lower subsequent economic growth.⁸

That is just one study, and it would certainly be premature to read too much into these early results. But if further evidence emerges that yesterday’s inequality of opportunity is associated with worse economic performance today, then it may be that those two separate research trends from the 1990s—one looking at the causal link between inequality and growth, and the other on defining and measuring inequality of opportunity—end up converging, with interesting implications for development work.

Even pending that particular debate, the concept of equality of opportunity has arguably already influenced our work at the World Bank, through policy analysis and dialogue. After the World Development Report 2006 placed the concept of equal opportunities at the center of its definition of equity, efforts were made to make it more operational and policy-relevant. One key result of these endeavors is the Human Opportunity Index (HOI), which measures an inequality-adjusted rate of access to various basic opportunities. The first applications of the index focused on children’s access to a set of basic opportunities and public services—school attendance, completion of a certain school grade on time, access to electricity, water or sanitation, and the like. Rather than computing simple coverage rates for each of these services, the measure was designed to be sensitive to the degree to which such coverage varied between types: indigenous and Afro-descendant populations; more and less educated parents, poorer and richer households, and so on.

The HOI traces its intellectual origins to both Amartya Sen and John Roemer. By focusing on what its proponents call “basic opportunities,” which generally correspond to certain public services, it also brings the notion of equal opportunities directly to a policy level. In so doing, the HOI has been remarkably successful. Its popularity has expanded well beyond its origins in Latin America and the Caribbean, and it is now used in Africa, the Middle East, and many other places.

The index has attracted attention among outside scholars, too, and it has been reviewed in the professional literature. More importantly, the concept of equality of opportunity as a desirable, quantifiable policy objective appears to have resonated with many policy makers in developing countries, who feel that it is in line with the desires and aspirations of their citizens.

Promoting equality of opportunity is certainly consistent with and instrumental in poverty reduction, but it may also go beyond it. Efforts to measure and assess it empirically, including the widespread use of the Human Opportunity Index, are now an important component of the Bank's engagement with many clients. Time—and well-designed evaluations—will tell how useful they are.

Francisco H.G. Ferreira is Lead Economist, the World Bank, and Research Fellow at the Institute for the Study of Labor.

Notes

1. The expression in quotes is the title of a nice paper by Anthony Atkinson (1997).
2. Key references are Roemer (1998) and van de Gaer (1993).
3. As Sen's (2000) chapter in the *Handbook of Income Distribution* puts it.
4. "Equality of What?" is also a famous title, this time of Amartya Sen's 1979 Tanner Lectures (Sen, 1980).
5. There is a fascinating, separate literature on these effects. See Appadurai (2004) and Hoff and Pandey (2006) for two examples that are close to the work of the World Bank.
6. All estimates in Figure 1 are examples of what is known as the "ex-ante" approach to measuring inequality of opportunity. An alternative method, which focuses on the inequality among people who exert the same degree of relative effort, is referred to as the ex-post approach. See Checchi and Peragine (2010) and Fleurbaey and Peragine (forthcoming).
7. The two main issues of comparability arise with respect to the African studies, which use the Theil-T, rather than the Theil-L as a measure of inequality; and the fact that for seven cases, we also have estimates for consumption.
8. Marrero and Rodriguez (2010b).

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