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
Unfair Inequality

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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
• Bring up to the poverty line those below it
• Inequality in fair distribution lower than data, still far from 0
Unfair: Distance between Empirical and Fair

\[ \frac{1}{N} \sum_i \log \left( \frac{y_i^{Fair}}{y_i^{Data}} \right) - \frac{y_i^{Fair} - y_i^{Data}}{y_i^{Fair}} \]

- 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
Poverty Rates in US

• The official poverty rate in 2019 was 10.5 percent, down 1.3 percentage points from 11.8 percent in 2018. This is the fifth consecutive annual decline in poverty. Since 2014, the poverty rate has fallen 4.3 percentage points, from 14.8 percent to 10.5 percent (Figure 7 and Table B-5).

• The 2019 poverty rate of 10.5 percent is the lowest rate observed since estimates were initially published in 1959 (Figure 7 and Table B-5).

• In 2019, there were 34.0 million people in poverty, approximately 4.2 million fewer than in 2018 (Figure 7 and Table B-1).

• For all demographic groups shown in Figure 8 and Table B-1, poverty rates in 2019 were either lower than or not statistically different from those in 2018.

• Between 2018 and 2019, poverty rates declined for all race and Hispanic origin groups shown in Figure 8 and Table B-1. The poverty rate for Whites decreased 1.0 percentage point to 9.1 percent. The poverty rate for Blacks decreased by 2.0 percentage points to 18.8 percent. The poverty rate for Hispanics decreased by 1.8 percentage points to 15.7 percent. The poverty rate for Asians decreased 2.8 percentage points to 7.3 percent (Figure 8 and Tables B-1 and B-5).

• Between 2018 and 2019, poverty rates for people under the age of 18 decreased 1.8 percentage points, from 16.2 percent to 14.4 percent. Poverty rates decreased 1.2 percentage points for people aged 18 to 64, from 10.7 percent to 9.4 percent.

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!