



Measuring What Matters—Inequality Measurements and Policy Implications

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Outline



- **Importance**
 - Immediate physical wellbeing
 - Some link to economic growth, happiness
 - Social Justice and Welfare—Long-term well-being
- **Measures of Inequality—How and What**
- **Equality of Opportunity**
- **Fairness Concept**
- **Economic Mobility**
- **Research Proposal**
- **Conclusion**



Importance



- **Immediate Physical Wellbeing**
 - Inequality has undertone of poverty
 - Some link to economic growth
 - Barro (2000)—slight negative relationship
 - Banerjee, Duflo (2003)—inverted U-shape relationship
 - ... and happiness
 - Alesina, et al (2004)—negative relationship
 - Dylan & Ravina (2007)—happiness depends on relative position to the average



Importance



- **Social Justice and Welfare—Long-Term**
- Scanlon, via TED (2014)
 - Power of rich over poor—not nice
 - Fairness of political institutions
 - Fairness of economic system
 - Cooperation and fair share
- Happiness



Inequality vs. Fairness



- **Inequality per se does not cause any of the above concerns**
 - If we're talking about outcomes
 - Only pity or jealousy—no justification for policy intervention
- **Manage what we measure--3**
- **Question: Are we measuring what we want to manage?**
 - Short answer—Not all of it.



Measuring inequality—how and what

- **Gini, Hoover, Theil—The how**
 - Measures deviation from “perfect equality”
 - Variations may assign weights to different parts of the income distribution, i.e. poverty hurts
- **The above used for measuring “outcomes” inequality, mostly**
 - Income, Consumption, Wealth widely applied
- **But inequality of outcomes does not deal with fairness or social well-being**
 - Need measures that reflect fairness



Equality of Opportunity

- **People may care about how outcomes are achieved**
 - **KKU Study**—same overall income gain and distribution, reduced happiness in unfair game.
 - **Example (live)**
- **Equality of Opportunity**
 - **Roemer & Trannoy (2016)**—Measures inequality of “outcome” distribution due to “opportunity” variables only
 - **Results mirror income inequality**—Scandinavian more equal, USA and Southern Europe less equal



Equality of Opportunity—Issues

- **Outcome or Opportunity—health, education, parents' wealth and income**
- **Opportunity vs. Effort—control variables, econometric issues (e.g. hours of work)**
- **Extensive vs Intensive access to “opportunity”**
 - **Years of Schooling vs. Quality of Education**
- **“Success” function not yet well understood.**
 - **Human capital, labor economics**



Fairness



- **Piketty (2015), JEP**
 - **Distribution is a political and social process, not economic**
 - **Institutions, norms, views, power balance, matter**
- **Further debate is needed to pin down details of what constitutes “fair distribution”**
- **We tend to focus what is measured, so need to be careful.**



Economic Mobility



- **To address “equality of opportunity”, we might start with measuring “economic mobility.”**
 - **How often do we see people move up economically?**
 - **Lumps all aspects of “opportunity” into 1 measure**
 - **Not perfect but a great start**



Economic Mobility



- **Solon (2002) JEP reviews the literature.**
- **“Benchmark”—U.S. studies using national panel data (PSID) to explore father’s and son’s income correlation (5-year averages)**
 - **About 0.25 – 0.5 intergenerational elasticity for studies in the 90s.**



Economic Mobility



- **Repeated in other countries, in many studies using different data sets.**
 - **Range from 0.13 in Sweden and Finland (2000, 2001, respectively) to 0.57 in Great Britain (1997)**
 - **Malaysia about 0.26 (1995)**
- **Techniques may differ due to data circumstances.**
- **Do we consider these “high” or “low”?**



Research Proposal



- **Final Aim: Collect data at national level for Thailand to institute an official measure.**
- **Immediate goal—develop intergenerational income correlation measure**
- **Questionnaire**
 - **Demographics, economic variables of self and parents**
- **Correlation**
 - **Good data—Income correlation between parents and offsprings**
 - **Poor data—Impute incomes from demographics, then correlation**



Variations



- **Probability of “upward” mobility**
 - **Lowest to highest, to second highest, etc.**
- **Mobility from different starting income levels**



Variations



- **Ex: (Made up Numbers) Probability of Reaching an income level, starting from the lowest level (1 lowest, 5 highest)**

Income Level	Prob
1	0.70
2	0.20
3	0.07
4	0.02
5	0.01



Uses



- **Summary of opportunity for upward mobility**
- **Determine which income group to focus policy.**
 - **Helps to pinpoint actual variables to address**
- **Important to study “success function” concurrently, being sensitive to context.**
 - **Human capital, labor economics**



Conclusion



- **Measure to manage—opportunity equality should complement outcome equality**
- **Issues still remain as to what constitutes “opportunity”, both theoretical and econometric**
- **This presentation suggests using mobility as measure of opportunity.**



Thank you!

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