Reading Group on Inequalities

Syllabus

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I. Background and Aim

Inequality is one of the most debated and challenging issues of our time. Recent decades have witnessed rising interests in the measurement of social welfare and social justice with the twin notions of "desideratum" and "equalisandum" being at the heart of the philosophical and policy debates (Brighouse and Robeyns 2010). This interest has culminated into considerable methodological developments to analyze inequalities with the aim of better quantifying inequalities and limiting its consequences for economic and human development (cf. e.g., Roemer and Trannoy 2015; Eyal et al. 2013; Fleurbaey and Schokkaert 2012; Cowell 2011; Marshall, Olkin, and Arnold 2011; Sen 2011; Brighouse and Robeyns 2010; Marmot et al. 2009; O'Donnell et al. 2008; Roemer 1998). Despite such progress, the tools for analysis and understanding the drivers and consequences of inequality remain, however, under improvement. An important evolution that has recently is the shift of interest from the univariate *ex-post* metric of inequalities to *ex-ante* approaches that focus on human's rights and liberties, capabilities and opportunities. Such views have appeared in the pioneering contributions of Dworkin (1981), Sen (1985), Roemer (1998), Cohen (2009), Fleurbaey and Schokkaert (2009), Fleurbaey and Maniquet (2011), and Roemer and Trannoy (2015.

Among the alternative ex-ante frameworks, the equality of opportunity (EOp) one has gained greater support in the last two decades: significant progress has being made both from a theoretical standpoint (Roemer and Trannoy 2015), and in its application to different fields; e.g., living conditions, health, education, labor market. The EOp framework provides workable definitions that appear to be amenable to measurement and from which policy implications can be drawn (Ferreira and Peragine 2015; Wagstaff and Kanbur 2015). It entails drawing a distinctive line between factors for which individuals may be held responsible (*eg.* efforts, choices and option luck) and those that are beyond the realm of their direct control (*eg.* circumstances and brute luck) – a literature broadly referred to as responsibility-sensitive egalitarianism.[1] The above approach thus aims at assessing the extent to which people do have ex-ante equal opportunities to achieve their full potentials and to live a long and healthy life they have reason to value (Sen 2002).

While this may advocate for an *ex-ante* metric (opportunities), it remains unclear how can we explicitly measure the complex interplay between efforts and circumstances, particularly in the context of resource-constrained settings where individuals' efforts, choices and

[1] For recent comprehensive reviews and discussion of various theoretical and empirical issues involved in the EOp framework and responsibility-sensitive egalitarianism, cf. Roemer and Trannoy (2015) and Fleurbaey and Schokkaert (2012).

autonomy can be severely constrained by the adverse circumstances.[2] Furthermore, the exogeneity of opportunities with respect to observed outcomes is still under debate. When framing policy responses, it remains unclear whether policy-makers ought to focus on circumstances or outcomes. This is of particular importance when discussing the link between inequality and poverty. These are only some of the questions we aim at reviewing and assessing during this reading group.

II. Structure of the reading group

Given the vivid debate around the topic, analysing and understanding the philosophical thinking underlying the inequality literature can help us shed some light on more recent questions; and to identify important theoretical pilasters that are at the basis of economic models of inequality. Thus, the first session of this reading group will be devoted to the core texts on normative theories, from the 'classics', as Rawls and Sen, to more recent developments such as the theories of justice. In the second session we will focus on the methodological challenges for inequality measurements and how data availability over time and space, together with different data sources have improved statistics and estimates on inequality. The third and fourth sessions will mostly focus on empirical studies that look at inequality from different perspectives (inter-groups and social inequality, inequality of opportunity, macro-economic policies and inequalities) and that face more recent inequality-related topics which are contributing to the debate providing new tools of analyses and findings (i.e. the literature on behavioral economics and preferences for redistribution, the literature on spatial inequality, and the one on human capital inequality).

III. Logistics and practical information

The course will be articulated in four different sessions, lasting three hours each. Every session will host two presentations on two different topics (each unit of the sessions correspond to a topic). More than two topics are proposed in some sessions, therefore not all the topics will be necessarily covered. Each exponent or group of exponents is invited to start the discussion presenting two or three of the papers suggested in the lists below. Each presentation ies expected to last up to 40 minutes, after which a 45 minutes discussion will follow. An open and participative discussion is warmly encouraged. Between each presentation there will be a break of ten minutes.

The Reading Group is mainly aimed at PhD students at the AMSE, although the entire faculty is encouraged to participate. The course will account for 12 hours of economics formation for PhD students in their first or second year. We remind that PhD students can validate formation hours from one reading group at most per year, though they may participate in more than one.

[2] This suggests that distinguishing between constrained choices and free-choices may thus be particularly of interest.

1st SESSION: Normative theories of inequality and recent trends

The aim of this first session is to introduce comparative perspectives to interpret different economic inequalities both from normative theories of justice. While the emphasis of this reading group is on the recent advances in the literature, the magnitude of some of these advances may only be understood from a comparative perspective with more foundational texts on the subject, such as those by Sen and Rawls. The second aim is to overview some of the recent empirical trends, both from a macro- and microeconomic perspective, in income inequality across different regions of the globe as an introduction to the general dynamics in the most widely studied type of economic inequality.

a. Normative theories of justice

i. Sen, A. (1980). "Equality of What?" in McMurrin (ed.), *Tanner Lectures on Human Values*. Cambridge University Press.
ii. Nussbaum, M. C. (2001). *Women and human development: The capabilities approach* (Vol. 3). Cambridge University Press. Introduction sections II & III, Chapter 1 sections I, IV, & V.
iii. Rawls, J. (2001). *Justice as fairness*. Harvard University Press. II. Principles of justice, 39-77.
iv. Caney, S. (2006). *Justice beyond borders: A global political theory*. Oxford University Press. Chapter 1
v. Roemer, J. E., & Trannoy, A. (2016). Equality of opportunity: Theory and measurement. *Journal of Economic Literature*, *54*(4), 1288-1332.
vi. Tan, K. C. (2011). Luck, institutions, and global distributive justice: A defence of global luck egalitarianism. *European Journal of Political Theory*, *10*(3), 394-421.
vii. Satz, Debra. "Equality, adequacy, and education for citizenship." *Ethics* 117.4 (2007): 623-648.

b. Recent trends (Within vs between countries, Global vs national inequalities)

i. Ravallion, M. (2018). Inequality and globalization: A review essay. *Journal of Economic Literature*, *56*(2), 620-42.
ii. García-Peñalosa, Cecilia. "Inequality in macroeconomic models." *Revue de l'OFCE* 3 (2018): 93-115.
iii. Jäntti, Markus, and Stephen P. Jenkins. "The impact of macroeconomic conditions on income inequality." *The journal of economic inequality* 8.2 (2010): 221-240.
iv. Anand, S., & Segal, P. (2008). What do we know about global income inequality?. *Journal of Economic Literature*, *46*(1), 57-94.
v. Rodrik, D. (2017). Is global equality the enemy of national equality?. HKS RWP17-003. Harvard University.
vi. Niño-Zarazúa, M., Roope, L., & Tarp, F. (2017). Global inequality: Relatively lower, absolutely higher. *Review of Income and Wealth*, *63*(4), 661-684.

vii. Morelli, Salvatore, Timothy Smeeding, and Jeffrey Thompson. "Post-1970 trends in within-country inequality and poverty: rich and middle-income countries." *Handbook of income distribution*. Vol. 2. Elsevier, 2015. 593-696.

2nd SESSION: Methodological advancements and data availability in inequality

The second session seeks to cover the recent state-of-the-art of the theoretical and the empirical tools used in the study of economic inequalities, along with an analysis of the recent core contributions and methodological challenges pending. The first unit concerns the particular issue of measuring different types of economic inequalities, covering conventional and more recent inequality and poverty indices from uni- and multi-dimensional perspectives with a discussion of their implied normative views. The focus of the second unit is to cover recent developments and applications of new data sources to study economic inequalities, a longtime limitant of the study of these phenomena. Presentations on this second unit should therefore be centered on the nature and contributions of the data exploited in the papers above all the rest. Finally, the third unit concerns the recently trending topic of measurement errors on the upper tail of very asymmetrically distributed economic variables such as individual income or wealth.

c. **Measurements: Indicators of inequality and poverty, Uni- vs Multi-dimensional inequality, statistical vs theoretical based indexes, estimation methods, ML**

i. Cowell, Frank A., and Emmanuel Flachaire. "Statistical methods for distributional analysis." *Handbook of income distribution*. Vol. 2. Elsevier, 2015. 359-465.
ii. Aaberge, Rolf, and Andrea Brandolini. "Multidimensional poverty and inequality." *Handbook of income distribution*. Vol. 2. Elsevier, 2015. 141-216.
iii. Chakravarty, Satya R., and Maria Ana Lugo. "Multidimensional indicators of inequality and poverty." *Poverty, Social Exclusion and Stochastic Dominance*. Springer, Singapore, 2019. 223-259
iv. Brunori, Paolo, and Guido Neidhöfer. "The evolution of inequality of opportunity in Germany: A machine learning approach." *ZEW-Centre for European Economic Research Discussion Paper* 20-013 (2020).
v. Ravallion, M. (2019). Global inequality when unequal countries create unequal people. *European Economic Review*, *111*, 85-97.
vi. Suel, Esra, et al. "Measuring social, environmental and health inequalities using deep learning and street imagery." *Scientific reports* 9.1 (2019): 1-10.
vii. Ranaldi, Marco. "Income Composition Inequality." (2020).
viii. Kobus, Martyna, Marek Kapera, and Vito Peragine. "Measuring multidimensional inequality of opportunity." (2020).

ix. Tsui, Kai-Yuen. "Multidimensional generalizations of the relative and absolute inequality indices: the Atkinson-Kolm-Sen approach." Journal of Economic Theory 67.1 (1995): 251-265.
x. Parente, Francesca. "A multidimensional analysis of the EU regional inequalities." Social Indicators Research 143.3 (2019): 1017-1044.

d. Data sources: historical data, big data, administrative and survey data

i. Stone, Chad, et al. "A guide to statistics on historical trends in income inequality." *Center on Budget and Policy Priorities* 26 (2015).
ii. Suel, Esra, et al. "Measuring social, environmental and health inequalities using deep learning and street imagery." *Scientific reports* 9.1 (2019): 1-10.
iii. Meyer, Bruce D., and Nikolas Mittag. "Using linked survey and administrative data to better measure income: Implications for poverty, program effectiveness, and holes in the safety net." *American Economic Journal: Applied Economics* 11.2 (2019): 176-204.
iv. Zucman, Gabriel. "Global wealth inequality." *Annual Review of Economics* 11 (2019): 109-138.
v. Poppitz, Philipp. "Can Subjective Data Improve the Measurement of Inequality? A Multidimensional Index of Economic Inequality." Social Indicators Research 146.3 (2019): 511-531.
vi. Chetty, Raj, et al. The opportunity atlas: Mapping the childhood roots of social mobility. No. w25147. National Bureau of Economic Research, 2018.
vii. Blanchet, Thomas, Lucas Chancel, and Amory Gethin. "How Unequal Is Europe? Evidence from Distributional National Accounts, 1980-2017." WID. world Working Paper 6 (2019).

e. Top-incomes & top wealth

i. Leigh, A. (2009). Top incomes. *The Oxford handbook of economic inequality*, 150-176.
ii. Lustig, N. (2020). *The missing rich in household surveys: Causes and correction approaches* (No. 75). Tulane University, Department of Economics.
iii. Cowell, F., Nolan, B., Olivera, J., & Van Kerm, P. (2017). Wealth, top incomes and inequality. *National wealth: What is missing, why it matters*, 175-204.
iv. Vermeulen, Philip. "How fat is the top tail of the wealth distribution?." *Review of Income and Wealth* 64.2 (2018): 357-387.
v. Aghion, Philippe, et al. "Innovation and top income inequality." *The Review of Economic Studies* 86.1 (2019): 1-45.

vi. Bricker, Jesse, et al. "Measuring income and wealth at the top using administrative and survey data." *Brookings Papers on Economic Activity* 2016.1 (2016): 261-331.
vii. A.B. Atkinson, T. Piketty, E. Saez, Top incomes in the long run of history, Journal of economic literature, vol. 49, no 1, 2011, p. 3-71.
viii. T. Piketty, Top incomes over the twentieth century : a summary of main findings [chap. 1], In : Top incomes over the twentieth century : a contrast between continental European and English-speaking countries, Oxford : Oxford university press, 2007, p. 1-17.

3rd SESSION: Empirical studies on inequalities

After having explored the philosophical roots of inequality concepts and the tools to measure inequality, we will now turn to the empirical literature. In particular, we will focus on empirical research studying inequalities between social groups: male/female, native/migrants, white/black; then, we will focus on the empirics of inequality of opportunities which, as already stated, is a (relatively) new and promising perspective for explaining causes and consequences of inequalities. Finally, we will go through some recent studies about macroeconomic drivers of inequality to better understand how fiscal and monetary policies can lead to unequal outcomes and what central banks can do to shape more even societies.

f. Inequalities between social groups

i. Goldin, Claudia, et al. "The expanding gender earnings gap: Evidence from the LEHD-2000 Census." *American Economic Review* 107.5 (2017): 110-14.
ii. Chetty, Raj, et al. "Income segregation and intergenerational mobility across colleges in the united states." *The Quarterly Journal of Economics* 135.3 (2020): 1567-1633.
iii. Abramitzky, Ran, et al. *Intergenerational Mobility of Immigrants in the US over Two Centuries*. No. w26408. National Bureau of Economic Research, 2019.
iv. Gallipoli, Giovanni, Hamish Low, and Aruni Mitra. "Consumption and Income Inequality across Generations." (2019).
v. Oka, Tatsushi, and Ken Yamada. "Heterogeneous Impact of the Minimum Wage: Implications for Changes in Between-and Within-group Inequality." *arXiv preprint arXiv:1903.03925* (2019).
vi. Bayer, Patrick, and Kerwin Kofi Charles. "Divergent paths: A new perspective on earnings differences between black and white men since 1940." *The Quarterly Journal of Economics* 133.3 (2018): 1459-1501.

g. **inequality of opportunities**

i. Aiyar, Shekhar S., and Christian Ebeke. "Inequality of opportunity, inequality of income and economic growth." (2019).
ii. Palomino, Juan C., Gustavo A. Marrero, and Juan G. Rodríguez. "Channels of inequality of opportunity: The role of education and occupation in Europe." *Social Indicators Research* 143.3 (2019): 1045-1074.
iii. Brunori, Paolo, and Guido Neidhöfer. "The evolution of inequality of opportunity in Germany: A machine learning approach." *ZEW-Centre for European Economic Research Discussion Paper* 20-013 (2020).
iv. Aaberge, Rolf, Magne Mogstad, and Vito Peragine. "Measuring long-term inequality of opportunity." *Journal of Public Economics* 95.3-4 (2011): 193-204
v. Lefranc, Arnaud, Nicolas Pistolesi, and Alain Trannoy. "Inequality of opportunities vs. inequality of outcomes: Are Western societies all alike?." *Review of income and wealth* 54.4 (2008): 513-546.

h. **Inequalities and macro-economic policy**

i. Palagi, Elisa, et al. "Inequality, redistributive policies and multiplier dynamics in an agent-based model with credit rationing." *Italian Economic Journal* 3.3 (2017): 367-387.
ii. Dolado, Juan, Gergo Motyovszki, and Evi Pappa. "Monetary policy and inequality under labor market frictions and capital-skill complementarity." (2018).
iii. Colciago, Andrea, Anna Samarina, and Jakob de Haan. "Central bank policies and income and wealth inequality: A survey." *Journal of Economic Surveys* 33.4 (2019): 1199-1231.
iv. Martínez-Toledano, Clara. "House Price Cycles, Wealth Inequality and Portfolio Reshuffling." *Working Paper*. 2019.
v. T. Piketty, E. Saez, A theory of optimal inheritance taxation, Econometrica, vol.81, n.5, 2013, p.1851-1886.
vi. T. Piketty, E. Saez, S. Stancheva, Optimal taxation of top labor incomes: a tale of three elasticites, American economic journal: economic policy, vol.6, n.1, 2014, p.230-271.
vii. Akcigit, Ufuk, and Stefanie Stantcheva. Taxation and Innovation: What Do We Know?. No. w27109. National Bureau of Economic Research, 2020.
viii. Saez, Emmanuel, and Stefanie Stantcheva. "A simpler theory of optimal capital taxation." Journal of Public Economics 162 (2018): 120-142.

4th SESSION: Other topics in the inequality literature

In this last section, we want to focus on three topics that stem from current policy debates. First, research on preferences for redistribution, analyzed with the tools of behavioral economics, shed more light on what people perceive as fair/just and what their real preferences for less unequal societies are and, in this sense, inform policy makers on which taxation system or welfare state better fits their preferences.

The second topic we want to discuss is the one of spatial inequality. As Milanovic (2016) stressed out in his work, inequalities have a class dimension, but also a spatial dimension: individuals and economic activities are spatially concentrated and a few percentage of cities, nowadays, produce the most part of the worldly GDP. At the same time, areas which lag behind are often economically deprived from both human and physical capital. Why is this the case? And what are the consequences for growth and development in the long run? Which place-based policies should be adopted to mitigate huge migratory flows to big cities? Is concentration or dispersion of people, economic activity, and its gains a better outcome? According to which different economic theories?

Thirdly, education and health systems play a central role in assuring the normal working status of the economy and in granting individuals well-being and safety. Unfortunately, not all the individuals have access to the high quality education and health systems, and some of them not even to basic health services. How can we study human capital inequality with the tools of economics?

i. Behavioral and preferences for redistribution

i. Cruces, G., Perez-Truglia, R., & Tetaz, M. (2013). Biased perceptions of income distribution and preferences for redistribution: Evidence from a survey experiment. *Journal of Public Economics*, *98*, 100-112.

ii. Reeskens, T., & Van Oorschot, W. (2013). Equity, equality, or need? A study of popular preferences for welfare redistribution principles across 24 European countries. *Journal of European Public Policy*, *20*(8), 1174-1195.

iii. Hauser, O. P., & Norton, M. I. (2017). (Mis) perceptions of inequality. *Current Opinion in Psychology*, *18*, 21-25.

iv. Fehr, D., Mollerstrom, J., & Perez-Truglia, R. (2019). *Your Place in the World: The Demand for National and Global Redistribution* (No. w26555). National Bureau of Economic Research

v. Payne, B. Keith, Jazmin L. Brown-Iannuzzi, and Jason W. Hannay. "Economic inequality increases risk taking." *Proceedings of the National Academy of Sciences* 114.18 (2017): 4643-4648.

j. Spatial Inequality

i. Glaeser, Edward L., and Joshua D. Gottlieb. "The wealth of cities: Agglomeration economies and spatial equilibrium in the United States." *Journal of economic literature* 47.4 (2009): 983-1028.

ii. Santamarıa, Clara. "Small Teams in Big Cities: Inequality, City Size, and the Organization of Production." (2018).
iii. Burzynski, Michal, Christoph Deuster, and Frédéric Docquier. "Geography of skills and global inequality." *Journal of Development Economics* 142 (2020): 102333.
iv. Fogli, Alessandra, and Veronica Guerrieri. *The end of the american dream? inequality and segregation in us cities*. No. w26143. National Bureau of Economic Research, 2019.
v. Combes, Pierre-Philippe, Gilles Duranton, and Laurent Gobillon. "Spatial wage disparities: Sorting matters!." *Journal of urban economics* 63.2 (2008): 723-742.
vi. Krugman, Paul. "The role of geography in development." International regional science review 22.2 (1999): 142-161.

k. Health and human capital related inequalities

i. Ruger JP. Ethics and governance of global health inequalities. *J Epidemiol Community Health*. 2006;60(11):998-1003. doi:10.1136/jech.2005.041947
ii. van Doorslaer, E., & O'Donnell, O. (2008). Measurement and explanation of inequality in health and health care in low-income settings. WIDER Discussion Paper. UNUWIDER.
iii. Huber, H. (2008). Decomposing the causes of inequalities in health care use: a micro-simulations approach. Journal of Health Economics, 27(2008), 1605e1613.
iv. Abu-Zaineh M, Mataria A, Moatti J-P, Ventelou B. Measuring and decomposing socioeconomic inequality in healthcare delivery: A microsimulation approach with application to the Palestinian conflict-affected fragile setting. Social Science & Medicine. 2011;72:133–41.
v. Global Burden of Disease Health Financing Collaborator Network. Trends in future health financing and coverage: future health spending and universal health coverage in 188 countries, 2016-40 [published correction appears in Lancet. 2018 May 5;391(10132):1774]. *Lancet*. 2018;391(10132):1783-1798. doi:10.1016/S0140-6736(18)30697-4
vi. De Nardi, Mariacristina, Svetlana Pashchenko, and Ponpoje Porapakkarm. *The lifetime costs of bad health*. No. w23963. National Bureau of Economic Research, 2017.
vii. Gordon, Nora E. High School Graduation in the Context of Changing Elementary and Secondary Education Policy and Income Inequality: The Last Half Century. No. w19049. National Bureau of Economic Research, 2013.
viii. Currie, Janet. "Inequality at birth: Some causes and consequences." American Economic Review 101.3 (2011): 1-22.
ix. Brown, Caitlin, Martin Ravallion, and Dominique van de Walle. "Most of Africa's Nutritionally Deprived Women and Children are Not Found in

Poor Households." Review of Economics and Statistics 101.4 (2019): 631-644.
x. Heckman, "The Economics, Technology and Neuroscience of Human Capability Formation," Proceedings of the National Academy of Sciences, 104(33): 13250-13255, (2007).
xi. Heckman, "The Economics and Psychology of Inequality and Human Development," (with F. Cunha). Journal of the European Economic Association, 7(2-3): 320-364, (2009)
xii. Heckman, "Early Childhood Education and Life-cycle Health," (with J.-L. Garcıa). Forthcoming, Health Economics. (2020).