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An End in Itself and a Means to Good Ends: Why Income Equality is Important

Arthur MacEwan[1]

> *"The social system is not an unchangeable order beyond human control but a pattern of human action."*—John Rawls (1971, p. 102)

In recent years "poverty reduction" has become the watchword in development agencies, in international lending institutions, and among development economists generally. The focus on poverty reduction reached a high point perhaps with the articulation of the Millennium Development Goals (MDGs) and with the extensive analytic work that has accompanied the MDGs.[2] Yet, much of the discussion of poverty reduction and economic development in low and middle income countries has either ignored the issue of income distribution or has tended to view income distribution only in terms of its impact on economic growth.

Poverty and inequality, however, are intimately bound up with one another.[3] Both as an analytic issue and as a policy issue, there are severe limitations in attempting to deal with poverty – or, more broadly, with economic well-being – without also examining income inequality. Indeed, it is questionable that we can even define poverty independently of income distribution.

In this essay, I want to develop the argument that economists and economic policy-makers should focus much greater attention on inequality as measured by the distribution of income (and wealth). The traditional focus simply on absolute levels of income as a measure of poverty and economic well-being is fundamentally flawed. My argument here has thee parts:

- Poverty or, more generally, economic well-being cannot be effectively defined as distinct from income distribution.

[1] Paper to be included in a Festschrift volume in honor of Azizur Rahman Khan. The author is Professor Emeritus, Department of Economics, and Senior Fellow, Center for Social Policy, University of Massachusetts Boston. Contact: arthur.macewan@umb.edu

[2] The most extensive and probably most important analytic work directly connected to the MDGs is the Sachs Report, *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals.* (UN Millennium Project, 2005). As I have emphasized elsewhere, MacEwan (2008), in its examination of poverty, the Sachs report ignores income (and wealth) distribution.

[3] The poverty-inequality connection has been effectively demonstrated in many writings by Azizur Rahman Khan and his collaborators, from his earlier publications – e.g., Khan (1967) and (1972) – through his more recent work – e.g., Khan (2007), Griffin et al (2002), and Khan and Riskin (2001).

- Income distribution is fundamental to our understanding of justice (fairness) and human rights, and relative economic equality has intrinsic value. Especially important, the dichotomy commonly drawn in discussions of societal values between "equality of opportunity" and "equality of outcome" is largely non-existent.

- Greater equality of income distribution tends to bring about other desirable social outcomes – for example, in the realms of health and crime.

The following sections will take up each of these parts of the argument. This list of arguments, I should emphasize, is not exhaustive. Azizur Rahman Khan (2007 and elsewhere), for example, has given attention to the very practical point that the reduction of absolute poverty is more sensitive to changes in the distribution of income than to changes in the average level of income. Moreover, if inequality actually increases as growth takes place, the reduction of absolute poverty will be minimal, and there may be no reduction at all. So an effort to reduce absolute poverty without attention to income distribution may be continually frustrated. Because this point has been well developed by others (Azizur Rahman Khan in particular), I will not dwell on it here – though I will return to this practical point at the end of the essay.[4]

Although relative equality is a widely shared value, policies that would engender greater equality are often opposed on the grounds that they would violate liberty or undermine economic growth or both. I will comment on these objections in the conclusion.

A point of clarification: When I assert that income inequality is a problem and that equalization of the income distribution is desirable, my concern is with a direction of change, not with a particular outcome. In most parts of the world today – to say nothing of the world as a whole – income is very unequally distributed. For reasons I will explain this is highly undesirable. That does not mean, however, that equality in some absolute sense, either in terms of people's incomes or capabilities, should be the goal of societies. To argue for significantly less inequality leaves open the question of what degree of inequality, if any, should be the social goal. I will generally use the term "relative equality" to indicate this direction of change, meaning relative to the widespread high degree of inequality that widely exists.

[4] Parallel to Khan's work, Binayak Sen, David Hulme and their associates (2004), in a broad analysis of poverty in Bangladesh focusing on absolute poverty, give similar attention to the "growth elasticity" and "inequality elasticity" of poverty to evaluate change in recent decades. They point out, in particular, how, with rising inequality in Bangladesh, economic growth has reduced poverty significantly less than otherwise would have been the case. An additional, less technical argument regarding the importance of giving attention to income distribution lies in its political impact. It would be relatively easy to maintain that a high degree of income inequality is in conflict with democracy. That is an argument, however, that I will leave to others.

The Meaning of Poverty[5]

> *"Poverty is not a certain amount of goods, nor is it just a relation between means and ends; above all it is a relation among people. Poverty is a social status."*— Marshall Sahlins (1974, p. 37)

> *"At the risk of oversimplification, I would like to say that poverty is an absolute notion in the space of capabilities but very often it will take a relative form in the space of commodities…"*—Amartya Sen (1983, p 161)

In recent years, as I have noted, there has been an increasing concern among economists and policy makers with poverty in the sense that poverty itself is seen as an important focus of policy. This is true with regard to low-income countries, and it has also been an issue at various times in the relatively high-income countries.

It has not always been this way. With the burgeoning of development economics in the era of decolonization after World War II, attention was almost exclusively focused on economic growth. This approach was based on the assumption that economic growth would – at least in the long run – improve everyone's position, the position of the poor as well as the position of the rich. As it became increasingly clear, however, that economic growth, when it took place, was not relieving the material deprivation of huge numbers of people – or at least not doing so with sufficient speed – it began to become apparent that it would be necessary to address poverty more directly.[6]

As attention then shifted directly to poverty, it became necessary to specify just what poverty meant – or, more generally, what economic well-being meant. Usually, poverty has been defined in terms of some absolute standard, the amount of income needed to provide basic needs. In the United States, for example, the poverty line in 2008 for a family of four was $21,200. For low-income countries, a similar absolute standard, though at a very different level, is generally used. The World Bank's definition, which is widely accepted (though also widely criticized), is set at $2/day, in terms of 1990 purchasing power parity. Dollar inflation since 1990 would make this figure about $3.25 in 2008 prices, or $4,745 annually for a family of four. The Bank defines "extreme poverty" as half of this, or $2,372.50 for a family of four. While there is a great deal of controversy over these numbers and how they are calculated – especially over how the number of people "in poverty" has changed over time – there is little dispute about the

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[5] This section draws heavily on MacEwan (2008), where the argument is developed more fully.

[6] Ironically, poverty became an issue in the United States before it became a central issue for development economics. With the publication of Michael Harrington's *The Other America* (1962) and the subsequent "War On Poverty," economists began to give attention to poverty as an issue separate from economic growth per se. It was more than a decade later, with the formulation of the basic needs concept, that the economics of low-income countries began a re-orientation towards poverty alleviation as not simply a concomitant of economic growth. Also, during the era in which growth was the focus of development economics not only was poverty an issue of subsidiary focus, but income inequality, insofar as it was an issue, was usually seen as a basis for more rapid growth and thus, at least to a degree, desirable.

idea that poverty, or well-being, is defined in terms of some amount of goods and services, the basic needs – or the money it takes to meet those basic needs.[7]

Yet there are several problems with this definition. As Amartya Sen has argued, basic needs are best understood as capabilities, and not all capabilities can be achieved simply with money. The capability to be free from disease, for example, depends upon a broad set of social conditions; the capability to travel depends in part on the public good of a transportation infrastructure; and the capability to be educated also relies heavily on public goods. Sen sees poverty as absolute in terms of these capabilities, but in terms of commodities (income) poverty becomes relative, determined by the standards of the particular society.[8]

The concept of basic needs – the concept generally used to define poverty – when expressed in terms of commodities, is highly socially contingent. This social contingency is clear, for example, in the dramatic difference between the $21,200 that marks the poverty line in the United States and the $4,745 that defines the line in the low-income countries of the world. People's standards, their concept of basic needs, depend on the societies in which they live.

Furthermore, the definition and extent of poverty will depend not only on the level of a society's income, but also on the distribution of income. It seems reasonable to assume that a society's standards, the norm of what is needed, are largely determined by the standard of living of those people in the middle. Then, if we consider two societies in which the bottom segments, say the bottom quintiles, have the same level of income, poverty will be greater in the society where income is more unequally distributed. In the more unequal society, the bottom quintile will be further from the middle and thus further from meeting the standards of that society; the greater the inequality, the less the group at the bottom will be able to meet society's socially determined needs and thus the more will the members of this group be in poverty.

All this is very well, but even in this relative concept of poverty, people's condition, their poverty, is defined as a relation between people and things (the quantity of things represented by the level of income). Yet implicit in the relative concept of poverty is that poverty is a social condition, a relation among people – as stated in the quotation above from Marshall Sahlins. In making his point, Sahlins (1974, p. 37) argues, "The world's most primitive people have few possessions, but they are not poor." When a whole

[7] While such an absolute standard is used in the United States and generally in low-income countries, European Union countries have come to define poverty in relative terms – generally as living on less than half the national average income. In this EU definition, at any level of average income, poverty will be greater the greater is the income inequality (as explained below).

[8] Adam Smith, for example, saw the capability to appear in public without shame as a basic need, the lack of which placed a person in poverty. Smith saw the possession of a linen shirt as a requirement for meeting this need. Referring to Smith's linen shirt example, Sen points out that the capability to appear in public without shame is an absolute capability, but the need for a linen shirt in order to fulfill this capability is a socially determined, relative need. (Sen 1983, p. 161)

society – hunter-gatherer societies, are the case in point – has few possessions, there is no segment of that society that is considered poor. It is only when these peoples are incorporated into larger societies, conceptually and practically, that they become "poor" – failing to meet the standards of basic needs in that larger society. Thus it is their social status, their relation to others in society, that places them in poverty.[9]

The point here is not that people's absolute deprivation is irrelevant to their material well-being. The point is simply that people's relative position is also not irrelevant to their material well-being. We cannot eliminate poverty while the distribution of income remains highly unequal.

Justice, Fairness and Inequality

The Intrinsic Value of Equality

> *"Why is equality a value?... the basic reason it matters to us is because we believe that there is something valuable about human relationships that are – in certain crucial respects at least – unstructured by differences of rank, power, or status."*—Samuel Scheffler (2005, p. 17)

Material equality, or at least the absence of extreme inequality, has intrinsic value and is in some sense a human right. There is a variety of rationales behind this assertion. One follows directly from the observation that basic needs are socially contingent (as argued in the previous section). Andrei Marmor (2003), for example, argues from the assumption that people have a fundamental right to meet their basic needs and that basic needs are socially determined. Therefore with greater inequality the larger will be the group of people who cannot meet those needs, who are being denied by the economic structure this fundamental right. Then, since there is intrinsic value in people having their fundamental rights and, in particular, this right of meeting their basic needs, material equality (at least a good degree of material equality) becomes of intrinsic value.

Within the realm of modern philosophy, it is perhaps the ideas of John Rawls (1971) that are most strongly associated with the concept that a just or fair society is one of relative equality. Rawls argues that reasonable people choosing a social order from behind a "veil of ignorance" – that is, ignorance about where they themselves would be situated in that society – would choose a society with a high degree of material equality. From his basic postulates about fairness, justice, human behavior and needs, he defines his "difference principle" as the guide for judging social policy and social change: "The intuitive idea [of the difference principle] is that the social order is not to establish and

[9] The approach of seeing poverty as a social status is not peculiar to Sahlins, but is more generally the approach of anthropology. See, for example, Green (2006, p. 1109), who comments, "Anthropological perspectives on poverty prioritise poverty not as an absolute measurable condition but as a qualitative social relation. Anthropological accounts of poverty examine how the groups categorised as poor come to be so classified and by whom."

secure the more attractive prospects of those better off unless dong so is to the advantage of those less fortunate."(p. 75).

Yet Rawls is not arguing for equality of outcome (or condition) but stays within the realm of advocating equality of opportunity. He avows (p. 100): "…in order to treat all persons equally, to provide genuine equal opportunity, society must give more attention to those with fewer native assets and to those born into the less favorable social positions." And Rawls takes a relatively broad view of "native assets," arguing that there is no good reason why people should be consigned to a lower economic condition simply because they have less natural skills, intelligence, or innate characteristics of personality that would often (in most circumstance of the real world) contribute to economic success. He argues that society should provide redress for the lack of these traits, and thus rejects the idea of what he calls a "callous meritocratic society." In this sense, the thing of intrinsic value for Rawls is not so much equality itself as fairness or equality of opportunity. Yet the outcome, given his rejection of "callous" meritocracy, would be relative equality of outcome.[10]

There are several other philosophers whose work is associated with valuing equality who develop their argument from postulating the intrinsic value of equality of opportunity – for example, Ronald Dworkin (1981), G.A. Cohen (1989) and John Roemer (1998). These authors, and Rawls, have various outlooks on what constitutes "native assets," some adopting a broader view (e.g., including tastes or personality traits) and some adopting a narrower view (e.g., rejecting the idea that tastes or personality traits are part of an individual's "native assets"). Nonetheless, they – and many other liberal egalitarians – argue from the position that equality of opportunity means that inequalities of outcome are not legitimate if they arise from characteristics for which people themselves are not responsible. Indeed, one might go so far as to argue that conservatives, who give greater emphasis to the difference between equality of opportunity and equality of outcome, differ from the liberals largely in terms of what they view as the individual's responsibility.[11] Conservatives (at least modern conservatives) would tend to include only such characteristics as race, ethnicity and gender as traits for which the individual is not responsible. Conservatives, however, would tend not to advocate redress for these characteristics, but simply advocate that society not use them as a basis for discrimination. The issue of the connection between equality of opportunity and equality of outcome will be given more attention shortly.

[10] There are two problems with Rawls related to the discussion here. First, there is no reason why "trickle-down" approaches to economic policy could not be justified by his difference principle. Indeed, the argument that providing direct benefits to the wealthy helps the poor is exactly the argument that supporters of these sorts of policies put forth. The difference principle would seem consistent with all sorts of disequalizing policies, as long as the absolute level of income of those at the bottom was increased. And this is the second problem: Rawls appears to accept the idea that people are materially better or worse off as a function of their absolute level of income. This is, as argued in the previous section, a problem.

[11] I have been drawn to these points and related exchanges by Scheffler (2005).

The argument, however, that equality of outcome – or, at least, the absence of extreme inequalities – derives from the intrinsic value of equality of opportunity is not the same as claiming that equality of outcome itself has intrinsic value. Fairness as embodied in equal opportunity is good, but it is not all that is good in relation to economic equality. Even leaving aside the argument (noted above) that follows from defining economic well-being and basic needs in relative terms, there are strong reasons to view equality of outcome as having intrinsic value.

This intrinsic value of equality of outcome is well captured in the Scheffler quotation above, that "there is something valuable about human relationships that are …unstructured by differences of rank, power, or status." Scheffler is not directly addressing differences of income and wealth. Yet, while it is conceptually possible to have differences of income and wealth that are not accompanied by differences of "rank, power, or status," this seems highly unlikely, to say the least, in the real world.

A similar idea is expressed by Erik Olin Wright (2000, p. 145): "…income inequality … fractures community, generates envy and resentment, and makes social solidarity more precarious." The pernicious impacts of income inequality that concern Wright depend at least in part on the origins and degree of the inequality. If, for example, the inequality is largely based on race or ethnicity or gender, as is so often the case, then it will be generally perceived as unfair (except, perhaps, by those at top) and generate considerable resentment. Similarly, when inequalities are seen as arising from family privilege, they will tend to be viewed by many people as illegitimate and unfair. Income inequalities that are seen as arising from differences in skills or efforts are less likely to be viewed as illegitimate (the views of Rawls and some other liberal egalitarians notwithstanding). Nonetheless, if inequality is large as it is in much of the world today, it is likely to be viewed as unfair – and thereby undermine social solidarity – because few people would view legitimate bases of inequality (e.g., differences in effort) as generating large inequalities.[12]

Thus the intrinsic value of relative economic equality (of outcome) exists because it is a foundation for the type of social relations that we consider desirable – relations of solidarity, trust, and amiability. In this sense, the value of relative equality can be seen in terms of its role in creating and being part of a democratic social order. The connection between relative equality and the social relations of a democratic social order is so intimate that the equality is really part of those relations, not an instrument that generates their existence. (As we shall see, however, equality and the social relations that go with it are an important instrument for a set of positive social outcomes. Also, but beyond my scope here, they are an instrument as well for the effective operation of political democracy.)

[12] Aside from the question of the intrinsic value of equality, the resentment, envy and lack of social solidarity that can come with inequality might generate social conflict, a phenomenon that is sometimes cited as an explanation for why income inequality may retard economic growth. (Alesina and Rodrik, 1994, and Persson and Tabellini, 1995)

Equality of Opportunity and Equality of Outcome

> *"…more effort should be directed specifically towards exploring the hypothesis that, within the class structure of industrial societies, inequality of opportunity will be the greater, the greater the inequality of condition – as a derivative, that is, of the argument that members of more advantaged and powerful classes will seek to use their superior resources to preserve their own and their families' positions."*—Robert Erikson and John Goldthorpe (1992, p. 396)

> *"A society with highly unequal results is, more of less inevitably, a society with highly unequal opportunity, too"*—Paul Krugman (2007, p. 249)

Yet there remains the continuing dispute over whether we should value equality of opportunity or equality of outcome. Having finally recognized that equity is an issue, the World Bank (2006) has been adamant in arguing (p. 3) that the focus in economic development should be on equality of opportunity and that "the policy aim is not equality in outcomes." The Bank does include in its concept of equity, along with equal opportunity, "that individuals should…be spared from extreme deprivation in outcomes." (p. 2) Yet this seems a very limited qualification of its rejection of equality of outcomes and is far from a push towards economic equality. The problem is that equality of opportunity for one generation is to a large degree dependent on equality of condition (outcome) in the previous generation.

That is, there are strong reasons to believe that there is a large degree of dependence of equal opportunity for generation X on the equality of condition for generation X-1, which is to say that equal opportunity within generation X depends largely on the conditions under which members of generation X spend their childhood. The point can be stated in the most narrow terms of human capital formation. Children's schooling and their healthcare in virtually all societies are highly dependent on the social position and income level of their families. This dependence is somewhat attenuated by the spread of public education and by the existence of national healthcare programs in many advanced industrial countries. But public schools are highly unequal in a way that is associated with income inequality, and, where public schools are less unequal, the upper classes tend to send their children to private schools. Moreover, neither school outcomes nor healthcare outcomes are determined simply by the formal systems of education and healthcare, but also by a broad array of social conditions – inside and outside the family – that are more advantageous for the progeny of the wealthy than for those of the poor.[13] Yet if there is not equality in the formation of these basic aspects of human capital, there can hardly be equality of opportunity. And we might well stretch

[13] Richard Rothstein (2004) provides analysis and numerous particulars of these factors in the U.S. context. Donald Hirsch (2007, p. 5), focusing on the U.K., sums up his study as follows: "Child poverty and unequal educational opportunities are inextricably linked. Children's educational prospects reflect the disadvantages of their families."

the argument to point out that economically important aspects of personality – most notably self-confidence and expectations – are affected to a significant extent by one's childhood social status and thus reinforce the dependence of opportunity upon condition.[14]

Jonathan Schwabish et al (2004) have examined the way these processes operate in the connection between income inequality and social expenditures in a set of fourteen relatively high-income countries (including observations on several of those countries at different times). They work from the hypothesis "that high levels of income inequality reduce public support for redistributive social spending" and summarize their findings as follows: "The results suggest that as the 'rich' become more distant from the middle and lower classes, they find it easier to opt out of public programs and to either self insure or to buy substitutes in the private market… The conclusion is that higher economic inequality produces lower levels of those publicly shared goods which foster greater equality of opportunity, income insurance and greater upward mobility." (pp. 32-33).[15] The power of those with high incomes, they suggest, works through the political process to undermine mobility (very much in accord with the hypothesis suggested by Erikson and Goldthorpe in the quotation above).

To the extent that income inequality (inequality of outcome) is in conflict with equality of opportunity, we would expect a positive association between relative equality in the distribution of income and a higher degree of social or economic mobility, which would tend to indicate a higher degree of equality of opportunity. While the data on these issues are sparse and contested and are even less available for low-income countries than for high income countries, they tend to be consistent with these expectations. For example, Robert Erikson and John Goldthorpe (1992, ch. 11) present results of a multivariate analysis of social mobility across class groupings for a dozen "industrialized countries" showing a significant role for income inequality in reducing mobility. They are, however, cautious about the significance of their results, and (as the quotation above indicates) see the need for more examination of the issue.

Jo Blanden et al (2005, Table 2) report intergenerational partial correlations for eight European and North American countries (Britain, Canada, Denmark, Finland, Norway, Sweden, West Germany, and the United States). Their data cover fathers' and sons' earnings, with data on sons born between 1958 and 1970 (depending on the country). Combining these data with Gini coefficients from the World Bank (2006, Table A2), we obtain the results shown in Figure 1 – that is, a clear simple correlation between mobility and equality. These results, of course, must be taken as only suggestive,

[14] Schools play a role here too. The quality difference between the schools for the poor and those for the rich is not only one along the good-bad dimension. Even "good" schools channel students from different social classes in different directions and affect their expectations and self-confidence. See, for example, the study described by Martin Carnoy and Henry Levin (1985, ch. 5).

[15] Schwabish et al also find, however, find that inequality between the middle and the poor (as measured by the 50/10 percentile ratio) has a positive, though small, impact on social spending.

as there are many problems with the cross-country compatibility of the data, the number of observations is very small, and the figure shows only the simple correlation.[16]

Data for the U.S. at different points of time tend to support the same conclusion. Daniel Aaronson and Bhashkar Mazumder (2008) have calculated the relationship between adult men's log annual earnings and log of annual family income in the previous generation. Their regression coefficients, or intergenerational elasticities (IGEs), describe how much economic differences between families persist. They report (their Table 1) the IGE for forty year olds at the beginning of each decade from 1950 to 2000. These IGE's show the same pattern as do the Gini coefficients for family income for these years – i.e., a decline from 1950 into the 1970s and then a upward movement to 2000. The two sets of data are shown in Figure 2. While the patterns are not identical, they are certainly suggestive of the positive relationship between equality and mobility.[17]

Using a different set of data and different methodology, Katherine Bradbury and Jane Katz (2002) obtain similar results. They present calculations (their Appendix Table A1) showing a notable reduction in mobility across income quintiles for families from the 1970s through the 1990s. For example, they report that in the 1970s 49.4 percent of families in the bottom income quintile were still in the bottom quintile in 1979. For the 1980s and 1990s, the comparable figures were 50.4 percent and 53.3 percent respectively. On the other extreme, while 49.1 percent of those families in the top quintile remained in the top quintile over the 1970s, 50.9 percent remained there in the 1980s and 53.2 percent remained there during the 1990s.[18] The 1970s through the 1990s were of course a period of rising income inequality in the United States, suggesting the inequality-immobility connection. As noted, however, these findings of an equality-mobility connection are not uncontested.[19]

There is one study of a set of African countries that yields some support for the equality-mobility connection. Denis Cogneau and Sandrine Mesplé-Somps (2008)

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[16] d'Addio (2007) presents a virtually identical figure showing the same relationship. While d'Addio has data for 12 countries, the data for a few of the countries are from a variety of sources and it is not clear that they are fully compatible. In any case, the d'Addio study reaches the same conclusion of a substantial positive relationship between income equality and mobility.

[17] Aaronson and Mazumder use data from the Integrated Public Use Microdata Series (IPUMS) of the decennial Censuses. In their abstract, they summarize their method and results as follows: "We estimate trends in intergenerational economic mobility by matching men in the Census to synthetic parents in the prior generation. We find that mobility increased from 1950 to 1980 but has declined sharply since 1980."

[18] Bradbury and Katz base their calculations on the Panel Study of Income Dynamics. Not all the decade-to-decade comparisons show decreasing mobility. For example, whereas 3.3 percent of families rose from the bottom income quintile to the top income quintile in the 1970s, 4.3 percent made this transition in the 1990s.

[19] For example, Tom Hertz (2006), examining the 1990-91 to 2003-2004 period in the United States does not find any general decrease in mobility across income deciles or quintiles. Hertz also uses data from the Panel Study of Income Dynamics, but his method, as well as his years of focus, differs from those of Bradbury and Katz.

examine equal opportunity in terms of social and economic mobility in Ivory Coast, Ghana (at two points in time), Guinea, Madagascar and Uganda. While the results are not strong, the authors conclude (p. 17): "Inequality of opportunity for income seems to correlate with overall income inequality more than with national average income…" These results, however, are confounded by numerous factors, including, for example, substantial regional differences within countries and the difference associated with differences in colonial history. Nonetheless, as with the results noted above for high-income countries, this information is suggestive.[20]

It would be reassuring to have more extensive data that would allow a meaningful test of the hypothesis of an equality-mobility connection and thereby support or undermine the argument that equality of opportunity is dependent on equality of outcome/condition. However, given the implications of the data we do have and the character of the argument for such a connection, there is good basis to reject the idea that we can separate equality of opportunity from equality of outcome.

Relative Equality as a Positive Instrument

> *"Using income inequality as an indicator and determinant of the scale of socioeconomic stratification in a society, we show that many problems associated with relative deprivation are more prevalent in more unequal societies. We summarise previously published evidence suggesting that this may be true of morbidity and mortality, obesity, teenage birth rates, mental illness, homicide, low social capital, hostility, and racism. To these we add new analyses which suggest that this is also true of poor educational performance among school children, the proportion of the population imprisoned, drug overdose mortality and low social mobility."*—Richard Wilkinson and Kate E. Pickett (2007, p. 1965)

Beyond questions of definition and beyond philosophic disputes over the value of relative equality, the distribution of income appears to play some important roles in affecting various social outcomes that are widely valued. In particular, for example, a more equal distribution of income appears to be a causal factor bringing about better health outcomes and a reduction in violent crime. More precisely, a more equal

[20] I am unable to find other studies for low-income countries that would provide systematic treatment of the mobility-equality connection. I would expect, however, that while the distribution of income is important, the rate of growth would also have important impacts on economic and social mobility. The structural change that accompanies rapid growth in the development process would be likely to bring about opportunities and disruptions that, in turn, would bring about a relatively high degree of mobility, all else equal. However, all else is seldom equal. For example, Munshi and Rosenzweig (2005) find that rising income inequality in India during the country's recent period of more rapid growth appears to be associated with greater geographic immobility largely because with rising income inequality households at the bottom of the distribution are less likely to leave the supportive networks of their, largely local, caste support systems. While Munshi and Rosenzweig focus on geographic mobility, there is probably a strong connection to economic and social mobility.

distribution of income is an indicator (a "marker") for and a part of a set of social relations that tends to generate these favorable outcomes. In this sense, income equality has instrumental value as can be shown using the health and crime examples.[21]

Equality and Health Outcomes[22]

No one disputes that absolute poverty is bad for one's health. "Better to be rich and healthy than poor and sick," as the sardonic statement puts the matter. Whether one examines the data within a particular society or across various societies, the correlation between the level of income of an individual or a society and health outcomes of the individual or society (e.g., morbidity or mortality) is fairly clear. In both cases, however, the impact of income on health outcomes appears to be much stronger at lower than at higher levels of income – that is, at low levels of income a small increase of income is associated with a large improvement of health outcomes, but at high levels of income an increase of income has little impact on health outcomes.

Yet it is also true that if we look across societies (leaving aside for the moment how we define "societies," which turns out to be an important issue), there is a negative correlation between the degree of income inequality and health outcomes. More unequal societies tend to have worse health outcomes. This is a controversial statement, as recognized even by its proponents (e.g., Wilkinson and Pickett, 2006, and Subramanian and Kawachi, 2004), and some aspects of the controversy will be taken up shortly. Before I do so, however, it will be useful to consider the reasons why inequality may cause poor health.

First, there is the phenomenon that a change of income makes more difference for health outcomes at low levels of income than at high levels of income. Thus in two societies with the same average level of income we would expect the more equal one to have better health outcomes on average. This would be accomplished, however, at the (small) expense in terms of health outcomes of those at the top; that is, the health outcomes of the more equal society would not be better at every level. (Subramanian and Kawachi, 2004, describe this phenomenon as the "concavity-induced income inequality effect," referring to the shape of the curve relating health outcomes to income. They

[21] As the quotation at the outset of this section from Wilkinson and Pickett (2007) indicates, many other social maladies beyond ill-health and crime might be attributed at least in part to inequality. Beyond their list, a negative impact of inequality on the environment should also be noted. (Boyce, 2007).

[22] In addition to other works cited, the argument here draws heavily upon Wilkinson (2005) and Kawachi and Kennedy (2006). These books and also the reviews by Wilkinson and Pickett (2006) and Subramanian and Kawachi (2004) cover the extensive empirical studies that have been undertaken on this issue. I am grateful to both Richard Wilkinson and Ichiro Kawachi for correspondence that helped me understand these issues – though they are not to blame for any errors in my argument. Deaton (2003) reviews the issue and argues the contrary position – i.e., against the connection between income inequality and poor health outcomes.

distinguish a social "pollution effect" of income inequality as affecting health outcomes at all levels.)[23]

Second, as noted above, more unequal societies appear to spend less on social programs than do more equal societies. Accordingly, we would expect public health services and the provision of health care for the low-income part of the populace to be smaller in the more unequal societies. Thus, again we would expect a more equal society to have better health outcomes on average, but health outcomes would not necessarily be better for those at the upper income levels – or, at least, the impacts would be small at the upper income levels.[24]

Third, more unequal societies tend to generate greater stress levels, and stress can work through psychosocial pathways to generate poor health. Income inequality "pollutes" the social environment (to use Subramanian and Kawachi's term), creating divisions, resentments, and worries at all levels. Those people in subordinate positions tend to be in a chronic state of tension, as they are unable to attain the material standards of the society; those people higher up tend to worry that they may not be able to maintain their position. Fear, it has sometimes been noted, is a powerful motivator; it is also a powerful generator of stress. Stress, it is well recognized, is a factor in a great variety of health outcomes. Perhaps the most important implication of the psychosocial explanation is that it would explain the empirical finding of some studies that health outcomes at *all* levels are better in more equal societies (e.g., Banks et al, 2006)

In many ways the psychosocial explanation of the role of inequality in affecting health is the most compelling, but it is also difficult to establish and controversial (e.g., Lynch et al, 2000). Indeed, the entire argument that health outcomes are significantly affected by income distribution is controversial. In an extensive review, Angus Deaton (2003) maintains that income distribution itself is not a major determinant of population health. When controlled for several other social variables, the relation between income distribution and health, Deaton argues, drops from sight. But it seems that Deaton does not recognize the point that income distribution is a "marker" for a whole set of measures of social-economic differentiation. Controlling for other measures of this differentiation will reduce, if not eliminate the significance of income distribution itself, but the basic

[23] Explaining the "pollution effect," Subramanian and Kawachi state (2004, p. 80): "In addition to the concavity effect…, researchers have posited an additional effect of income inequality on health…This is the hypothesis that the distribution of income in society, over and above individual incomes as well as societal average income, matters for population health such that individuals (regardless of their individual incomes) tend to have worse health in societies that are more unequal. Thus, income inequality per se may be damaging to the public's health by causing a *downward shift* in the income/health curve…[W]e shall refer to the *independent contextual* income inequality effect as the 'pollution effect' of income inequality on health."

[24] However, Deon Filmer and Lant Pritchett (1997) in a cross-sectional analysis of 104 countries, while finding a significant impact of income inequality on child mortality, also find that public spending on health had relatively little impact. Filmer and Pritchett's study demonstrates that most of the variation in child mortality is accounted for by the average income levels of the countries.

connection between the differentiation (for which income distribution is marker) will not be refuted.

Another source of dispute over the role of income distribution in affecting health outcomes arises from the way "society" is defined in various studies. In general, studies that focus on larger social units – countries, states or provinces, and large metropolitan areas – find more empirical support for the connection between inequality and ill-health than do studies where the units of observations are small – e.g., towns or counties. Yet it would seem that the comparisons of hierarchy and status that would affect stress tend to be derived from the larger society in which people live. Social differences measured within the smaller units are less likely, according to the psychosocial argument at least, to have a great impact on health outcomes.[25]

Although the equality-health connection remains controversial, the evidence from a great many studies provides substantial support for the argument that inequality (measured by income distribution or some other indicators of social position) is a significant factor effecting negative health outcomes. The points made by critics, while relevant, are not convincing. At the same time, it is important to keep in mind that income level is still an important factor affecting positive health. This is especially the case in low-income countries, where rising per capita income is strongly associated with improved health outcomes. This does not mean, however, that income distribution is irrelevant for health outcomes in low-income countries. Not only does it appear to have some direct effect outside the high-income countries (e.g., Subramanian et al, 2003), but, in addition, patterns of inequality once established tend to persist. As low-income countries experience economic growth, the impact of inequalities already well-established will tend to have a greater role in health conditions.

Equality and Crime

It seems likely that inequality would increase crime. With a high degree of inequality, people at the bottom would tend to see themselves as especially deprived and also see their position as unfair. They would then be more likely to rationalize and engage in burglary and theft, crimes against property. Moreover, the narrowly economic theories of crime, which see crime as a decision based on a calculation of potential gains relative to potential costs (deriving from Gary Becker, 1968), postulate a positive relation between income inequality and crime based on the larger wealth differences between the rich and the poor – and therefore the greater potential gain from crime.

[25] In this connection, Wilkinson and Pickett (2006, p. 1774) note: "The broad impression is that social class stratification establishes itself primarily as a national social structure, though there are perhaps also some more local civic hierarchies—for instance within cities and US states. But it should go without saying that classes are defined in relation to each other: one is higher because the other is lower, and vice versa. The lower class identity of people in a poor neighbourhood is inevitably defined in relation to a hierarchy which includes a knowledge of the existence of superior classes who may live in other areas some distance away."

Yet, it is the connection between inequality and crimes of violence that is found to be strong in various studies. For example, Morgan Kelly (2000, p. 530) in a study based on data for U.S. counties and cities, finds that, "The behavior of property and violent crime are quite different. Inequality has no effect on property crime but a strong and robust impact on violent crime…By contrast, [absolute] poverty and police activity have significant effects on property crime, but little on violent crime." In a cross-country study of inequality and violent crime, Daniel Lederman et al (2002), using data from 39 countries, more than half of which are low- or moderate-income countries, find a positive causal connection between inequality and violent crime rates. (Both the studies by Kelly and by Lederman et al control for a variety of related variables and use a variety of statistical tests.) Gabriel Demombynes and Berk Ozler (2002) examine the crime-inequality connection in South Africa, focusing on local areas. They find a positive association between inequality and crime for both violent crime and crimes against property.

While the argument based in the narrow economics approach pioneered by Becker may have some relevance to the explanation of the inequality-crime connection, it fails to come to grips with the strong relation between inequality and violent crime. Explanations of the role of income inequality in effecting violent crime tend to focus on the social impact of inequality, the impact of inequality on social solidarity referred to earlier. In a 1982 article that has been a reference point for the crime-distribution connection, Judith Blau and Peter Blau, examining the issue in the United States, find a strong connection between violent crime and racial and economic inequality. They offer as an explanation: "In a society founded on the principle 'that all men are created equal,' economic inequalities rooted in ascribed positions violate the spirit of democracy and are likely to create alienation, despair, and conflict." (Blau and Blau, 1982, p. 126). This argument overlaps with the explanation, offered above, regarding the intrinsic value of economic equality.[26]

Conclusion

Many of the particular arguments I have made may be widely accepted. Yet this does not automatically lead to an acceptance of my general proposition that economists and economic policy makers should focus much greater attention on inequality as measured by the distribution of income (and wealth). While relative equality is a desirable social goal, it is not the only social goal. When other social goals – such as liberty or economic growth – come into conflict with greater equality, many people would choose to meet these other goals rather than the goal of greater equality.

[26] While there is dispute over the relative roles of absolute poverty and income inequality in contributing to crime, there seems to be little disagreement that inequality has a positive impact on crime. A meta-analysis carried out by Ching-Chi Hsieh and M. D. Pugh (1993) found that poverty and income inequality are each associated with violent crime, though they find a good deal of variation among studies in the size of the impacts.

There is no denying the potential for conflict among social goals, and there is no general way to resolve such conflicts prior to their appearance. When policy makers are faced with a conflict, the only legitimate means of resolution is through a democratic process (though of course this may be a problem when democracy itself is undermined by inequality). However, to a large degree the conflict between equality and other social goals is often exaggerated.

Such exaggeration – indeed, actual incorrect characterization – has been the case with the possible conflict between economic growth and a relatively equal distribution of income. For generations and across the ideological spectrum, it was widely accepted that such a conflict existed. In recent decades, however, there have been several empirical studies of the growth-distribution relationship indicating that there is no such general conflict. The work by Alesina and Rodrik (1994) and Persson and Tabellini (1995), both finding no support for a general negative relationship between income equality and the rate of economic growth, can be seen as initiating the challenge to the traditional view. Their results have been disputed by other studies – for example, Forbes (2000) – which, in turn, have been contradicted by the findings of other researchers.[27]

The sum of these empirical studies has made it clear that there it is not reasonable to conclude that a general conflict exists between economic growth and a relatively equal distribution of income. At the same time, one cannot conclude the opposite: that equality automatically yields more rapid growth. There are several cases where countries with more equal income distributions have grown more rapidly than have other countries with more inequality, as there are also cases that support the other side in the dispute. The growth-distribution relationship appears to depend on the way economic growth is organized, the way an economy is structured in terms of the types of institutions and policies that are established. Thus the evidence suggests that instead of being presented with the challenge of a choice between relative equality and growth, societies are presented with the challenge of structuring their economies so as to promote both goals.[28]

As to the assertion that relative equality undermines liberty, here too there is no necessary conflict. The establishment of more extensive social programs that would raise the well-being of the poor, tax the rich more heavily, and generate greater equality does not amount to some incursion on the liberty of the rich. Even extensive land confiscations can hardly be seen as violations of liberty if those lands were obtained, as has sometimes been the case, through some illicit means. The view that any effort at reallocation is an encroachment on liberty is based on the assumption that the existing distribution of income has been created by completely legitimate means, an assumption that would defy credulity. None of this is to say that any reallocation or confiscation is acceptable. It is simply to say that a good deal of economic reorganization in the

[27] For more of the literature on this dispute, see, for example, Banerjee and Duflo (2003), Sukiassyan (2007), Walker (2007), and Bjørnskov (2008).

[28] This it-all-depends interpretation of the relations between income distribution and growth finds some support in Chaudhuri and Ravallion (2006) in their discussion of inequalities that are "good" and "bad" from the growth perspective. My own discussion of these issues is provided in MacEwan (1999, ch. 3)

direction of greater equality is possible without doing offense to liberty. Moreover, one could easily argue that the only way to promote the liberty of those at the bottom of societies' hierarchies is to establish a greater degree of equality.

Ultimately, the matter may come down to a very practical issue, which may outweigh both these arguments about conflicts of goals and the arguments I have developed in this essay. If we want to something about the condition of the poor, we had better pay attention to income distribution. This practical matter lies in arithmetic and has been summed up by Azizur Rahman Khan (2007, p. 5) with the observation:

> *"A crude estimation of the elasticities of headcount rate poverty … shows that the partial elasticity with respect to the Gini ratio of expenditure is higher than the absolute value of the partial elasticity with respect to PPP$ income."*

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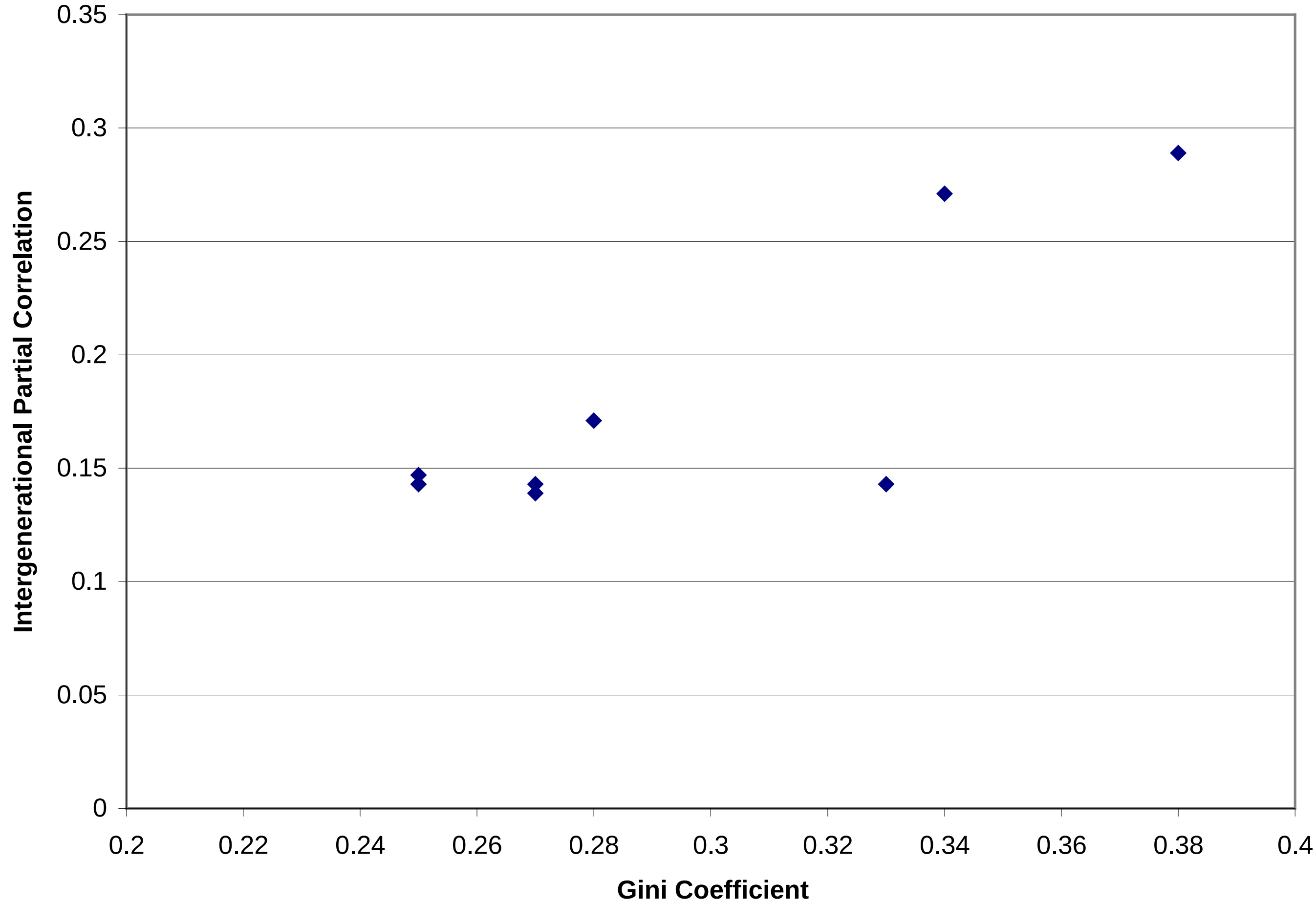
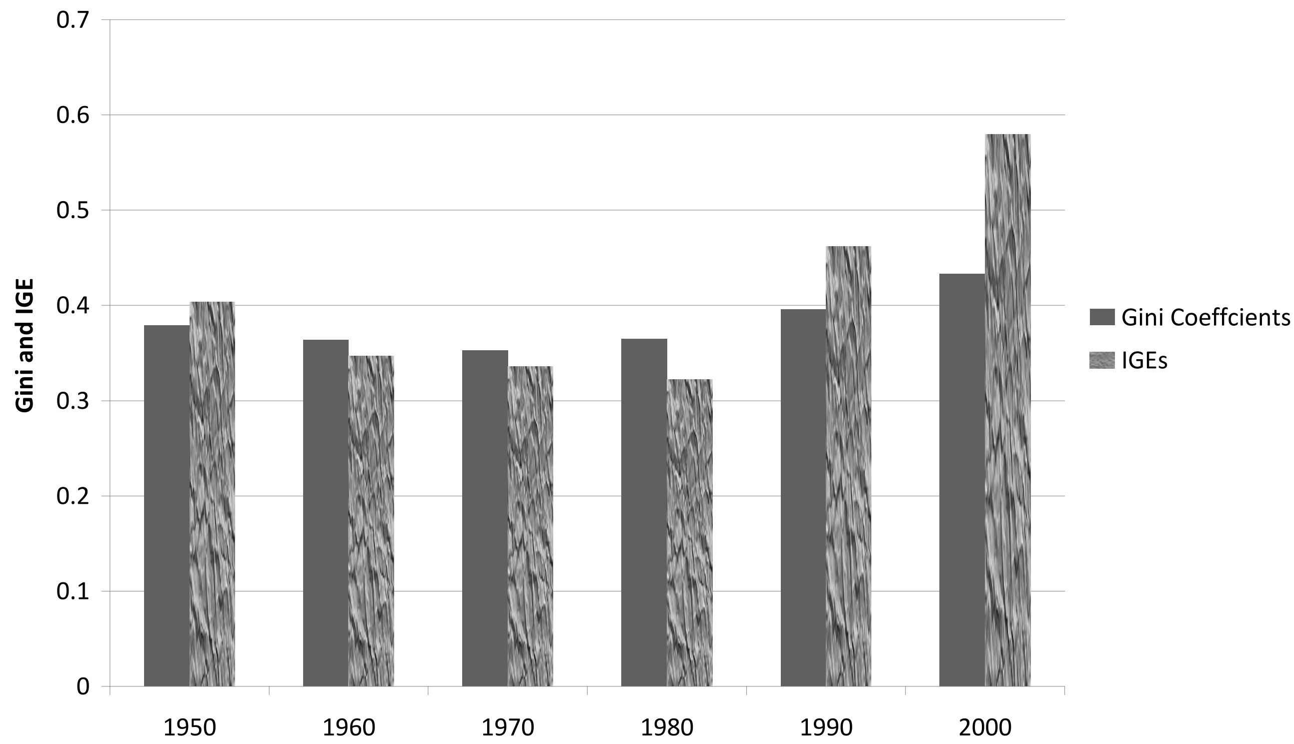
Figure 1: Income Distribution and Intergenerational Mobility Across Countries
(see text for explanation)



Source: Gini Coefficients, World Bank (2006, Table A1); Intergenerational Partial Correlations Coefficients, Blanden et al ((2005, Table 2)

Figure 2: Income Distribution and Intergenerational Mobility in the United States, 1950-2000 (see text for explanation)



Source: Gini Coefficients, U.S Census Bureau, Historical Income Tables – Families, www.census.gov/hhes/www/income/histinc/f04.html; Intergenerational Elasticities, Aaronson and Mazumder (2008, Table 1, column 5).