

Why does equity matter?

PART II

IN THE FIRST PART OF THIS REPORT, WE SUMMARIZED some of the evidence on inequalities in several dimensions. In addition to affecting well-being directly, such dimensions as health, education, income, voice, and access to services shape the opportunities people face for future progress and achievement. We emphasized the interconnections between these various dimensions. Not only is there inequality in the distributions of income, health status, and educational attainment, but—even more important—these indicators tend to be correlated. The rich tend to be both healthier and better educated than others. The poorest of the poor tend to have the lowest attainment in years of schooling and some of the worst health indicators. These correlations generally also extend to public services, with the poor gaining access to infrastructure, electricity, water, sanitation, and garbage disposal much later than others, if at all.

Because education and wealth help a person gain influence in society, voice and political power are also generally thought to be correlated with economic well-being. The interaction between these mutually reinforcing economic, social, and political inequalities perpetuates them across generations. Chapter 2 discussed evidence indicating that a 10 percent difference in economic status between two families in one generation tends to imply, on average, a 4 percent to 7 percent difference in the next generation, depending on the country and measurement details. Opportunities clearly are not independent from social and family background, or from group identity.

Do such disparities matter? Are people concerned with the large observed differences in access to education and health, and in economic opportunities, or merely with the fact that some people have low absolute levels of income, years of schooling, and access to services? Should policymakers worry about the unequal opportunities



THE WORLD BANK

that arise from discrimination, unequal access to justice or other unfair processes? Should an institution like the World Bank, whose primary objective is to assist its client countries in eradicating extreme poverty, care about inequalities—in opportunities, outcomes, and processes—at all?

Opinions on these questions are wide-ranging. Support for equal opportunities has long been a theme in domestic policy in the United States, for instance. Franklin D. Roosevelt once said that “We know that equality of individual ability has never existed and never will, but we do insist that equality of opportunity still must be sought.”¹ Some participants in the consultations for this report were even offended that the question “Does inequality matter?” was asked at all, because they considered its answer to be “Obviously, yes.” One participant felt that the very question indicated that “we are suffering [from] a terrible tolerance to horror.”²

The next three chapters in this report address the following question: should good development policy be concerned with equity? Equity, as discussed in chapter 1, is understood here as the pursuit of equal opportunities and the avoidance of severe deprivation. Equity is *not* the same as equality in incomes, or in health status, or in any other specific outcome. It is the quest for a situation in which personal effort, preferences, and initiative—rather than family background, caste, race, or gender—account for the differences among people’s economic achievements. A situation in which all institutions are color-blind and nonmarket institutions are equally responsive to the rich and the poor. In which personal and property rights are enforced equally for all. And in which all have access to the public services and the infrastructure to leverage their productivity and their chances of success in the markets.

The evidence we review here has been assembled in disciplines ranging from economics and history to sociology and anthropology. On balance, this evidence suggests that the pursuit of sustainable, long-term prosperity is inseparable from a broadening of economic opportunities and

political voice to most or all of society. One set of reasons for this arises from failures in capital, land, and labor markets. Those failures imply that productive opportunities are not necessarily seized by those with the highest potential returns on their talents or ideas, but instead by those with greater wealth, better connections, or larger land parcels. This would not happen if markets worked perfectly, as resources would flow to those with the most productive investment projects. But given that markets are not perfect, scope arises for efficient redistribution schemes.

Chapter 5 documents cases in which aggregate efficiency could be improved by redistributing wealth or power toward poorer or marginal groups. Sometimes, the evidence of inefficiency is seen in differences in marginal products of capital across firms. We know that smaller entrepreneurs pay interest rates much higher than the marginal product of capital accruing to other firms. We know that some farmers allocate effort between plots in a way that is not socially efficient, because they own one plot and sharecrop in another. We have experimental evidence suggesting that groups discriminated against perform below their own capacity, either because they internalize the stereotype or because they expect to be treated unfairly. Each of these pieces of carefully researched empirical evidence, and others discussed in chapter 5, provide reasons why more equitable economies would, in most cases, also be more efficient.³

Chapter 6 complements this picture by looking at historical evidence, suggesting that large inequalities in political rights and power give rise to exclusionary institutions that generally impair development processes. Greater political equality, by contrast, establishes limits on predation by the most powerful in each society. This tends to lead to institutions that level the playing field and provide opportunities for advancement and mobility to those from underprivileged backgrounds.

Such institutions seem to be associated with more sustained growth. One example comes from contrasting the exploitative

labor practices of the Spanish *conquistadores* in the mining centers of their American colonies from the sixteenth to the eighteenth century, with the greater freedom and opportunity afforded to early settlers in North America. Another example of inequitable treatment of citizens by the state, which was also enormously costly for efficiency, was the very high taxation of poor African farmers by state-owned or parastatal agricultural marketing boards in Ghana, Nigeria, and Zambia, which prevailed a few decades ago.

Equity and fairness matter not only because they are complementary to long-term prosperity. It is evident that many people—if not most—care about equity for its own sake. Some see equal opportunities and fair processes as matters of social justice and thus as an intrinsic part of the objective of development. In chapter 4, we briefly review arguments and evidence suggesting that most societies exhibit a pervasive and long-standing concern for equity.