The Economic Debate on Inequality: Past, Present and Future

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Abstract

The 2006 World Development Report Equity and Development included a shift in the raison d'etre of the World Bank. No longer simply satisfied with reducing poverty and working towards the establishment of economic environments fostering growth, the Bank firmly identified the importance of equity in the development process. It did this in two ways: 1) directly linking equity to poverty reduction, and 2) placing primary emphasis on the equality of opportunities over the equality of outcomes. This paper presents a historical review of inequality literature in the economic sphere in order to examine the evidence supporting the World Bank's changed approach. It articulates the important shifts that have occurred over time and highlights ongoing debates within the economic professions concerning the importance of equality for development and economic growth. It also identifies the debate which followed the Report's release and assesses the impact for future research directions.

Keywords: Inequality, equity, equality of opportunity, World Bank, World Development Report, development economics

1. Introduction

When the World Bank released its annual World Development Report for 2006, it consciously presented a renewed focus for the Bank in its operations. Up to this point, or at least since the early 1970s following a short-lived debate which included inequality (see Arndt 1987, for example, on the influence of Robert McNamara), the World Bank had adopted as its stated mission the improvement of investment climates globally and the reduction of poverty experienced throughout the developing and developed worlds alike. With the release of the 2006 Report in September 2005, a subtle (though perhaps seismic) shift occurred in the Bank's stated raison d'etre. No longer simply satisfied with reducing poverty and working towards the establishment of economic environments fostering growth, the Bank firmly identified the importance of equity in the development process. How it did so is telling in the broader consideration of equity (and by definition inequality) in the field of development economics. Firstly, the Bank made a clear definitional connection between its stated mission of poverty reduction and the improvement in global equity. Secondly, it made specific that the Bank's interest in equity was one of access to opportunities, rather than outcomes.

Both of these are important points when considering the 2006 Report in light of literature in this area. It would be expected that in taking such a position, the World Bank would seek to represent the broad-based, mainstream position within economic circles regarding equity and development. Additionally, it would be expected that the Bank would seek to articulate its policy agenda with a theoretical economic framework. It is arguable whether the Bank has fulfilled either of these criteria in its approach. Rather than being the culmination of an academic debate within development economics and a final determination on the importance of equity in the economic growth process, it is possible to conceive of the 2006 Report as a starting point, an ambitious attempt at agenda setting that is at best vaguely, and at worst not, supported by either theory or empirical evidence. It is the purpose of this paper to attempt to consider these issues within a delimited review of the debate surrounding inequality in the field of economics, economic history and development economics, and to map likely future research directions. Practically, what has the disparate research in the field suggested and to what end?

2. Narrow Vision: Outcomes and Incomes

In a seminal work on economic growth and income inequality, Kuznets (1955) outlines the practical implications of the economic growth process on the equality of income distributions within a country. The observations made, that income disparities within populations are generally low in less developed countries, expand during the industrialization process, and finally can be expected to reduce, gave rise to what was later depicted graphically as the Kuznets Curve.

Perhaps surprisingly for the man known as a leading forefather of econometrics, Kuznets' 1955 paper includes very little by way of empirical data, with references made primarily to the United States, the United Kingdom and Germany. In fact, the key findings of the paper were articulated using a theoretical example. Kuznets' work gave rise to many followers, aided in significant part by the contemporaneous work of Lewis (1954) in describing the theoretical process of growth in a dual sector economy, and the detailed nature of these subsequent works continued to increase as data collections techniques and econometric methods developed. It is arguable however that much of what followed became increasingly focused on numerical results, rather than how such results can guide us in responding to the needs of developing economies. Indeed, it is easy to consider that one of Kuznets' central comments has been lost in the rush to analysis:

> "If we are to deal adequately with the processes of economic growth, processes of long-term change in which the very technological, demographic, and social frameworks are also changing...it is inevitable that we venture into fields beyond those recognized in recent decades as economics proper...Effective work in this field necessarily calls for a shift from market economics to political and social economy." (Kuznets 1955)

Despite this warning, it appears that a key outcome of Kuznets' findings was to establish in the minds of the profession what economic inequality is, how it operates within a society and how it might be measured. Economic inequality is equivalent to income disparities measurable across percentile bands of a society, disparities which historical experience suggest are theoretically expected to be a consequence of a successful industrialization and development process.

Thus, the measurement of income inequalities became the norm, first with a focus on specific countries and increasingly with respect to attempting to measure global inequalities in income distribution. Much of this work has been undertaken amidst the backdrop of globalization, the forces of which are often considered through an ideological lens, in which both those that believe in the benefits of globalization for reducing poverty and improving socioeconomic outcomes, and those who consider that such forces have detrimental effects on large proportions of the world's population, rely all too often on selective anecdotes.

Within these economic studies, debate turned upon determining the level of global inequality and changes over time. In such circumstances, the detailed issues of measurement techniques becomes paramount, as evidenced in a review of global income inequality studies by Milanovic (2006). Here, three differing concepts of income inequality measurement are articulated, and conveniently dubbed Concepts 1, 2 and 3. Concepts 1 and 2 are more traditional approaches and deal with the divergence and convergence of countries' incomes, the first in absolute terms and the second using population-weighted averages with a view to incorporating more information about potential global impacts with respect to changes in a single country. Introducing Concept 3, Milanovic (2006) discusses the combination of within and between country inequalities, in which the between country inequalities form by far the greater share of total global inequality. Concept 2 reflects only between country inequality, assuming in calculations that all citizens of a country have the same per capita income (Milanovic 2006). By combining the use of Gini coefficients or some other form of internal income inequality measure with the information within Concept 2, Concept 3 studies are able to generate world-wide income distributions.

With these concepts established, and with a focus on Concept 3 studies indicated, Milanovic determines that notwithstanding a variety of differing data sources and estimation techniques (adopting both relatively simple and advanced econometric techniques), nine independent estimates of global income inequality in the 1990s were for the most part very consistent. The trends identified by the same authors did however differ, with a number indicating that global inequality has declined, others finding a rise and Milanovic himself determining a zig-zag pattern (Milanovic 2006). The reason for these varying results has much to do with the nature of such measurements, which involve assumption-laden estimations based on aggregated, extrapolated and at times purely estimated data. It is however difficult to determine to what end these studies are carried out. While levels of income inequality outcomes are of some interest in themselves, studies presenting such results, particularly on a global scale, tend to demonstrate the problem rather than identify the underlying causes of and potential solutions for identified inequalities.

While global inequality measures may in themselves tell us little about the causes of such inequality, their component parts may, and particular attention has been paid to the links between globalization and both within and between country inequality.

Again, Milanovic (2006) surveys the field, highlighting a range of studies which present conflicting results with regard to the role globalization (as commonly proxied for estimation purposes by trade openness) plays on income inequalities. Between countries, most authors indicate a positive relationship between mean income growth and trade openness, though the effect on poor and rich countries varies (resulting in inconclusive or contradictory results when looking at impacts on a global scale) (Milanovic 2006). Meanwhile, some within countries studies identify increasing inequality in poor countries and decreased inequality in rich countries in response to increased trade openness, while at least one study indicates no systematic relationship at all.

This last study, by Dollar and Kraay (2002), is interesting and its overall philosophical and theoretical approach is worthy of further consideration as an example of a particular approach to income inequality studies. The article's title, Growth is Good for the Poor, tells us much about what to expect from the authors' research endeavors. Essentially, the authors present findings which suggest that in a large sample of countries over an extended period of up to four decades, the within country income levels of the lowest quintile (20%) of the population have risen proportionally with mean income levels. In doing so, Dollar and Kraay (2002) incorporate a series of policy and institutional settings within their regression framework, with a view to investigating their impact on income inequality across the period and countries considered. The authors find no systematic effect from a series of long-supported pro-growth macroeconomic settings, including trade openness, on the share of income accruing to the lowest quintile.

At the same time, Dollar and Kraay (2002) investigate a series of policy settings considered to be within the framework of 'pro-poor growth'. Like many concepts in the field of inequality, there is no clear and distinct understanding of what pro-poor growth is. The World Bank has indicated that there exists two broad schools in relation to pro-poor growth studies – the first using an absolute definition in which pro-poor growth is described as growth which results in an absolute improvement in the incomes of the poor, and a second, relative definition in which pro-poor growth is seen as incorporating not only absolute improvements in incomes for the poor, but also in improvements in the equity of income distribution (World Bank 2004). In presenting these definitions, the Bank stresses a preference towards the absolute definition as the best means of supporting its poverty reduction program, though it is noteworthy that the majority of work listed under this area within the Bank's own website predates the 2006 World Development Report (World Bank 2004).

The four pro-poor policy areas for which effects are estimated in Dollar and Kraay (2002) include primary education, public spending on health and education, labor productivity in agriculture, and formal democratic institutions. None of these are found to have a systematic impact on raising the income share of the poorest in society, though the authors indicate that despite the lack of systematic evidence, these are likely to have some positive effect on the lives of the poor (Dollar and Kraay 2002).

Perhaps of most concern is the manner in which conclusions are drawn from this study. Here, the lack of systematic evidence from both pro-poor and pro-growth strategies in positively impacting the income share held by the lowest fifth of the population is presented as evidence that policies should therefore focus on increasing average incomes, because by doing so, the authors' suggest the incomes of the poor will rise proportionally. It is with a similar logic that Dollar (2001) approaches the question of globalization and its impact on health. Global integration induces growth, increases income and reduces poverty – therefore health outcomes will improve. Despite attentive reading, it is hard to determine the evidence and causal links being utilized in drawing these conclusions. Yet such conclusions appear symptomatic of a broader view that inequality (and income inequality in particular) does not matter, and that focus should be placed on the economic growth process more generally – essentially, why does inequality matter if the floor is being raised for everyone (see Feldstein 1999).

Much of this may have its genesis in a (mis)understanding of Kuznets' key findings regarding income distribution, in which rather more store than appropriate is placed in the theory of the Kuznets Curve, and where inequality somehow begins to be considered not only as a potential by-product of the economic growth process, but an inevitable part of it. What is certain about such growth is good analysis is that it occurs clearly within the dominant paradigm of mainstream economic theory, and aligns closely with the style of policy prescription detailed within the Washington Consensus. Those favoring alternative approaches can be less evident with respect to their fundamental theoretic foundation, and this has may have an impact on the ability of such approaches to gain widespread acceptance. A number of writers utilize a similar methodology as those estimating and commenting upon global income inequalities, but present very different conclusions.

These authors can be considered to be operating within the primary intellectual paradigm. In a discussion about globalization, poverty and inequality, Basu (2006) rails against those who support globalization at all costs, and in doing so alludes to the reasoning behind such support:

> "The potential benefits created by the easier flow of goods, services, software products, and labor are enormous and to stop these would be a gross error. At the same time, the fear of these getting stopped must not lead us to praise all aspects of globalization." (Basu 2006)

Taking a longer-term view to the development of global incomes inequalities, Basu (2006) seeks to cut through the debate surrounding calculation by suggesting that regardless of the incremental changes in either direction, the magnitude of the inequality gap remains significant, and that this in itself should drive appropriate policy action. In doing so, a distinction is drawn between trade-offs of growth and inequality, and inequality and poverty, introducing a suggested quintile axiom for policy setting. Here, the goal of policy makers should shift from a focus on increasing average incomes (per capita GDP or per capita consumption) to a focus on the income of the lowest quintile of the population (the poorest 20 percent). A moving target with natural dynamism, such a goal has the potential to overcome problems associated with the absolute measures often attached to poverty reduction, while at the same time removing the potentially problematic assumption adopted by the growth is good school (and arguably evidenced in Dollar and Kraay (2002)) that average income improvement will filter down to the poorest in society. Importantly, focusing on improving the incomes of the poor does not necessitate the ignoring of pro-growth policies (Basu 2006).

Milanovic (2006) also seeks to operate within the predominant economic theoretic framework in reviewing global income inequality research. Elsewhere, he adopts a more philosophical approach to explaining why income inequality as an issue is relevant. Importantly, this is also undertaken within an economic theoretic framework, in this instance utility maximization theory (Milanovic 2007). Adopting the utility maximization theory, Milanovic (2007) argues that an emphasis on equality is important, because how individuals value their utility and their income level within this is dependent on the income levels of their peer group – that regardless of an increase in an individual's income, the impact on that individual's utility function will depend on how that increase compares with that of the individual's peers. Thus, social welfare (even in its consideration of income) is not solely attributable to individual income, but also considerations of justice and fairness with regard to distribution (Milanovic 2007). Two additional points follow from this analysis. Firstly, that increasing globalization increases information flow and therefore increases the peer group to which individuals can and do compare their income levels. Secondly, it is not appropriate to focus solely on poverty reduction by raising the floor for everyone – the equality of distribution matters (Milanovic 2007). Milanovic (2007) also suggests that arguments that inequality does not matter are self-interested, with the rich wishing to avoid investigations of whether inequalities exist, as well as explorations regarding whether the level of inequality that does exist is acceptable.

Complicating the views of those in opposition to the growth is good school are some of the solutions proposed in response to global income inequalities. These are often attempts at agenda-setting and the stimulation of debate, primarily with respect to suggestions that global problems require some form of global solutions. Basu (2006) for example proposes international transfers to workers dislocated by globalizing forces, paid via percentage of corporation profits. Milanovic (2006) meanwhile proposes global income transfers at the national level, in which between and within country inequalities are taken into account to ensure the poorest in relative rich countries are not responsible for transfers to those richer than themselves in poorer countries.

Both of these responses call for increased taxation, either at the corporate or individual level, and the creation of appropriate international bureaucracies to manage and oversee the system. While it is arguable that these proposals are aimed only at stimulating debate, the inability to structure solutions within the current national and international economic institutions and the necessity to rely on taxation and transfer systems from rich to the poor, are likely to be detrimental when in the debate about global inequality these options are compared to more empirically palatable pro-growth policies. This debate, touched on only briefly here, remains centered on two particular issues. Foremost, discussion centers on income in its analysis of global inequalities (consistent with much economic theory that income enables the purchase of welfare), and at the same time, the focus is on inequality of outcomes. A focus on income presents a restricted view of individual welfare, ignoring other aspects of equality associated with standards of living, such as life expectancy, literacy and infant mortality – the type of indicators considered as part of the United Nations Human Development Indicators.

Such a focus thus presents a very economic view, rather than a broader developmental view, something acknowledged by a number of authors. While often acknowledged, the ease with which income data can be sourced and investigated, not to mention potential ideological motives, ensures that this element continues to dominate economics and economic history research. Some however, have made more than passing reference to other factors. Examples include the consideration of life expectancy by Bourguignon and Morrison (2002) while investigating income inequality among world citizens, and the introduction of an asset (land) inequality measure by Deininger and Squire (1998) to complement investigations on the role of initial and contemporaneous inequality in predicting economic growth. Yet even here, analyses focus primarily on the outcomes of inequality.

3. Widening the Lens: Opportunity

If a focus on income outcomes of global citizens is not an entirely appropriate means of evaluating inequalities, what other options present themselves? In a shift that can be seen to be moving somewhat beyond the comfortable reach of economic theory, the concept of equality of opportunity is introduced. In a conceptual paper developed for a review of socioeconomic inequality in the United Kingdom, Burchardt (2006) outlines three means by which to respond to the question of equality of what? In doing so, distinction is made between equality of process, equality of outcome and equality of opportunity. For the purposes of this paper, the analysis of equality of process is unnecessary, and it is sufficient to indicate that this concept relates to potential discrimination in individual’s access to, and treatment by, institutions (Burchardt 2006). More important is the distinction between, and descriptions of, equality of outcome and equality of opportunity. Perhaps not surprisingly, in view of the economics literature outlined above, Burchardt (2006) notes that differences in income distribution are often seen as being synonymous with inequality in outcome. Yet, it is stressed that other outcomes should also been seen as critical to considerations of equality, including education and health. Additionally, Burchardt suggests that a traditional reliance on equality of outcome stems from the ease of observation and measurement.

Further, in the analysis of Burchardt (2006), measures of outcomes in their absolute form fail to address a series of three key aspects of equity concerning variations in need, differences in values and preferences, and individual agency and responsibility. In short, individuals have different needs in obtaining the same standard of living, do not all share the same preferences with respect to increasing their welfare, and may prefer to maximize their own agency in determining that welfare, rather than be presented with a predetermined ‘equitable outcome’. The impact of these descriptive and philosophical aspects of welfare lead Burchardt (2006) to conclude that a goal of equality of opportunity is the most appropriate focus for policy makers, and in doing so preferences a capability approach focused on generating an equality in substantive freedom. Following the work of Sen (1999), an individual’s substantive freedom, “what people are able to do or be in their lives”, may be limited by their personal resources and social, economic, geographic and political context, and that by reducing the impact of these limitations, inequalities in opportunities can be reduced (Burchardt 2006).

As an ideal, the concept of equality of opportunity appears sound. But hurdles arise almost immediately with regard to measurement, and later and perhaps more fundamentally with the problem of causation. In considering the first of these issues, two concerns arise: what to measure with respect to opportunities; and, once determined, addressing the fact that while opportunity is the focus, what is measureable is outcomes and in many if not most cases, indications of opportunity will be approximated by, or at least interacted with, outcome measures (Burchardt 2006).

Despite these potential reservations, the World Bank embraced the concept of equality of opportunity in its 2006 World Development Report:

> “By equity we mean that individuals should have equal opportunities to pursue a life of their choosing and be spared from extreme deprivation in outcomes.” (World Bank 2005)

Discussing the leveling of the playing field, the Bank’s justification for adopting this view appears disjointed and fundamentally weak. Where its evidence for the existence of global inequities is indisputable, the evidence with respect to how these inequities actually impact on the growth process is absent. Rather than focusing on how inequalities reduce growth, the Bank adopts a form of deductive reverse causation, seeking to explain how improved equity will enhance the development process. In doing so, and with a view to connecting the equity agenda with the Bank’s own mission in reducing poverty, the concept of the double dividend is articulated.

This double dividend suggests that the poor benefit in two ways when societies become more equitable: firstly through an increase in opportunities directly for the poor, and secondly through an acceleration in the development process itself, if and when increased equity leads to better institutions (and therefore improved use of productive resources) (World Bank 2005). Moreover, the Bank suggests through use of some illustrative examples that the lack of equity in opportunity will result in a perpetuation of poverty through generations. Despite these expectations being inherently logical, and amply supported by anecdotal evidence, the Bank fails to adequately address the need for an economic theoretic framework in which the causality of responding to, and improving, equity outcomes can translate into improvements in the economic growth process. Of particular importance in considering the World Bank's approach is the primacy given to institutions and the role of institutional change in delivering upon the dual pillars of economic growth and improving equity. Tellingly here, when the Bank addresses the leveling of the playing field, it does so with respect to both the economic and political playing fields, indicating the strong link that exists between the operations of the two spheres. In this, one is reminded of Kuznets' call for a broader political and social economy approach to inequality.

It is not however, that this approach has been entirely ignored in the (in)equality debate. Williamson (1997), in a consideration of rising global inequality in historical perspective, indicated the important role of the political sphere in shaping policy settings and responding to social pressure. In the study, the modern phase of globalization is compared with that which occurred in the late 19th and early 20th centuries, with reductions in trade barriers and, at least in the earlier case, relatively high mobility of labor. Both these periods of increased globalization, and corresponding increased global income inequalities, are reflected against the intervening period, which saw the political system respond to social unease with rising income inequalities through the creation of barriers to the mobility of labor, capital and goods (Williamson 1997).

The relationship between the political and economic spheres has been articulated in differing ways, as indicated in two key studies addressing the growth experience of East Asia. In an early attempt at considering equity in development, Adelman (1975) identified key elements of an equity-oriented development in the growth of five countries, all but one of which was located in East Asia (Taiwan, Korea Republic, Japan, Singapore and Israel). Written in stark contrast to the type of analyses resulting from the growth is good school, Adelman stresses the role of equity in the initial stages of development as a key component in the successful growth of these countries, and the direct role played by government in this process. In this regard, the political climate is imperative because of a specific need for redistributive efforts to stimulate the growth process. Such redistributive actions include both asset redistribution (land reforms were an important part of stimulating economic growth in four of the five countries identified) and increasing access to education, both of which have the potential to impede growth in the short term (Adelman 1975).

Following a period of human capital accumulation and improved efficiency of productive factors, high and relatively sustainable growth at an equitable level can proceed. With the potential for such attempts to be seen to be a short term imposition on growth, symmetry must exist between the political and economic spheres, similar to the developmental states of East Asia in which economic growth and national development was a long-term goal of government. Twenty years later, and in seeming isolation, Birdsall et al (1995) also approach the concept of growth with equity using the East Asia example, this time augmented with information from the more recent success stories of Malaysia, Indonesia, Thailand and Hong Kong. In doing so, the authors highlight the important equity-enhancing policy of education, identifying two "virtuous circles" – the first in which education stimulates growth and growth stimulates education, and the second in which education lowers inequality which stimulates investment in education (Birdsall et al 1995).

The authors suggest that the results of their econometric analyses point to how public policy adopted in East Asia (high investment in broad-based education, rural infrastructure investment, political and macroeconomic stability) enabled these economies to counteract and weaken the Kuznets income inequality effects associated with high growth. Perhaps importantly, while the authors' results suggest that there is not necessarily an inevitable link between economic growth and high income inequality, they neither prove that the opposite is true (Birdsall et al 1995). In their conclusions, the authors stress that policies for reducing inequality should focus on enhancing the productivity of the poor and reducing consumption subsidies for the rich, and strikingly, rejecting the notion of income transfers (Birdsall et al 1995).

Before moving on, it is important to note that the almost universal understanding of the East Asian growth experience as being one in which equity and equitable distribution played a considerable part is not without critics, and Sequino (2000) suggests that the decomposition of wages growth by gender indicates that general income improvement was built upon and stimulated by increased female labor force participation and associated suppressed wages growth for this segment of the working population.

The conclusions of Birdsall et al (1995) again demonstrate the close connections between the political and economic spheres in addressing issues of equity in the development process, an increasingly common approach in the field of economic history - Engerman and Sokoloff (2002) and Acemoglu, Johnson and Robinson (2002) are oft cited examples, neatly summarized summarized by Cogneau (2009), while historical comparisons of inequality are provided by Lindert and Williamson (2003). Much of this work centers on the importance or otherwise of initial conditions to the long-term development of inequality (and therefore growth), linking such factors as colonial heritage, factor endowments and geographical location to the development of equity-enhancing or depressing political, social and economic institutions. It is beyond the scope of this paper to investigate at length the nature of these debates, and it is suffice to indicate at this stage that in general, inequality measures have focused on land and income GINI.

What does all this suggest with respect to the role of political and economic spheres in improving inequality outcomes? It is anticipated that the duality of this relationship can play a critical role in analyzing inequalities in development to date and potential policy solutions into the future for the likes of Africa and Latin America. Latin America is recognized as having a significant concentration of power in both its political and economic spheres, the two of which can be seen to be mutually reinforcing. Africa meanwhile, can be seen to be made up of relatively more equitable societies, in which income and socioeconomic inequality is low because a vast proportion of the population experiences poverty conditions. At the same time, equality in the political sphere is very low, with significant concentration of power in a small minority. Limited economic advancement has the potential to preclude the creation of pressure for political change, with the likely result of an ongoing imbalance between the economic and political spheres.

4. Magnifying Opportunities

The apparently inconclusive direction of the 2006 World Development Report is perhaps best represented by the reviews and clarifying works published in its immediate wake. Soon after the Report was released, it was reviewed by one of those whose intellectual work underpinned the concepts employed by the Bank (Roemer 2006). In this review, and despite a general appreciation of the direction taken by the Bank in addressing equity and an apparent restatement of the importance of 'political philosophy for welfare economics', Roemer suggests the authors fail to appropriately formulate the argument that equitable growth and utility maximization are synonymous. That there exist discrete and limited situations in which both GDP per capita growth and improvements in advantage for the worse off occur are, in Roemer's view, taken by the Bank as a generalized phenomenon, when this is very unlikely to be the case, theoretically or otherwise (Roemer 2006). At the same time, Roemer implicitly criticizes the Bank for lacking the courage to support moves which may in fact have short term consequences on GDP per capita growth, while also providing examples of where the wording of the goal for equalizing opportunities is even further watered down (in Roemer's view likely to have resulted from a desire to placate less supportive elements within the Bank).

A more critical response was delivered by Wade (2005), though these comments were less directed towards the Report's contents than to its role in stoking the flames of the ongoing debate about whether inequality matters. Interestingly, he sees the reintroduction of equality issues in the development debate as driven primarily by the rise of a number of developing countries, and the concomitant increasing power block at trade negotiations since the 2001 Doha round represented by the G20+, and especially what have since been labeled the BRICs. Published simultaneously with the report itself, Wade focuses almost entirely on a determined critique of what he describes as the 'liberal argument' regarding inequality – that inequality is best addressed through strengthening property rights and liberalizing markets, as well as reforming certain institutions - and what he sees as the disingenuous introduction of the equality of opportunity concept to justify a continuation of the status quo. Focusing on income, he suggests that the distinction between income opportunities and income outcomes is unviable - that the negative effects of inequality stem from outcomes and not only opportunities – and that in many instances, some redistribution of income via the taxation system (to change outcomes) will be essential in improving equality of opportunities.

Two additional important points are raised. The first links the ongoing debate about inequality to forms of capitalism – that the apparent disregard for equality issues within the wider economics profession (just as inequality is increasing) can be traced to the rise of Anglo-American capitalist norms, and the increasing dominance of these over the previously competing and now fast-dissolving German/Japanese corporate norms. The second introduces the concept of social mobility into considerations of inequality. In a similar vein to the aforementioned links between the economic and political spheres, Wade (2005) suggests that inequalities, and in particular income inequalities, are likely to be increasingly damaging the lower the level of social mobility within the society, as measured by intergenerational income patterns. Where social mobility is potentially high, the consequences of high income inequality are arguably reduced. Despite its differing terminology, this concept reflects in many respects the Bank agenda and ultimately, Wade's conclusions do not appear so far from the position presented in the 2006 World Development Report. Indeed, in conclusion, Wade provides an accurate, though perhaps not particularly empirically helpful, description of what an appropriate level of inequality may look like, which seems not so far removed from the liberal argument that he criticizes so readily:

> "In the abstract, one can say little more that that the acceptable degree of inequality should be one that gives sufficient income incentive to take sufficient risk to generate sufficient economic growth to provide sufficient opportunities for the poorer to become less poor – but not so much difference in income outcomes that the rich can translate their income differential into a political oligarchy that sets rules that continuously fortify these differentials and keeps social mobility at low levels." (Wade 2005)

Perhaps even more telling on the Report's lack of clarity was the fact that within some 12 months of its release, key authors published a research agenda arising 'from unanswered questions and unresolved issues' considered in the Report (Bourguignon, Ferreira and Walton 2007). In doing so, the authors seek to justify the Report's lack of empirical and theoretical evidence by way of explanation about the purpose and function of World Development Reports as 'synthesis' and 'message-driven' documents that 'draw selectively on various literatures…to illustrate and document' key messages of Bank staff. In doing so, they succinctly summarize (importantly, doing so from the Bank's perspective) the central message of the Report: "greater equality of opportunity combined with the avoidance of extreme deprivation in the space of outcomes" (Bourguignon, Ferreira and Walton 2007). In keeping with the Bank's past, and to ensure that the previous poverty-reduction orientation is not lost, the authors express the view that the Report represents an evolution in development thinking, in moving "poverty reduction from an objective to a constraint". This does not, the authors suggest, reduce the priority of poverty reduction but, as it remains a constraint upon action, simply extends policy aims beyond it (Bourguignon et al 2007).

Commencing with detailed definitions and theoretical proofs of what they mean by equity (as expressed above), and efficiency (in response to Roemer's observations they link the concept to the maximization of advantage given a production possibility set), the article focuses on the concept of inequality traps. Also dealt with in the Report, this article brings inequality traps to the forefront of a proposed research agenda, with such inequality traps existing where distribution is stable in an inequitable way, as a result of various dimensions that prevent the rich from downward mobility and the poor from upward mobility (Bourguignon et al 2007). Thus, inequality traps persist and become a problem when conditions lead to permanent non-convergence for one or more social groups. Importantly, given the Bank's traditional focus on poverty alleviation and the central tenets of the growth is good school, the authors are at pains to differentiate inequality traps from poverty traps – the latter more concretely focused on the lack of absolute change within the target social group, while the former allows for absolute increase in the level of a social group but is increasingly concerned with relativities between groups. This links closely to the questions of social mobility raised by Wade (2005).

On this basis, the authors set out an ambitious research agenda calling for empirical and theoretical work to determine whether inequality traps provide a useful means of considering inequality issues. It is perhaps telling that this is a question remaining unanswered, despite the prominence given to the inequality trap concept. Fundamentally, the authors note the continued lack of empirical measures of inequality of opportunity – a lack of coherence in measuring elements not directly income or earnings related – as well as the appropriate means to diagnose the existence of inequality traps (Bourguignon et al 2007). In addition to measurement concerns, research on causal mechanisms (at both the theoretical and empirical level) is called for, and notwithstanding the concerns regarding measurement, such research requires a determined shift away from a reliance on socioeconomic indicators alone, and greater consideration of power and historical relations and the links between the economic and political spheres.

Finalizing the breakdown of the proposed research agenda is the call for further work on identifying the costs of such inequality, once identified, and how all such information can be best utilized in a policy-setting framework. In essentially underlining the still ill-defined nature of the task, and in doing so perhaps further emphasizing the agenda-setting tone of the Report itself, the authors call for a combination of research methods in addressing the problems of inequality. Here, it is considered great value could be had by relating ex ante impact evaluation, ex post impact evaluation and cost-benefits analysis techniques, as well as combining within each technique the combination of quantitative and qualitative methods (Bourguignon et al 2007).

Despite this seemingly increased blurring of the Bank's aims, motivations and expectations for an 'equality of opportunity agenda', the final and arguably most important post-Report contribution to the debate comes from the Bank itself, in its Measuring Inequality of Opportunities in Latin America and the Caribbean (World Bank 2009). Here, the Bank articulately introduces the Human Opportunity Index, in a clear homage to the now broadly accepted Human Development Index (HDI). That the Bank is able to present a clear formula to numerically represent comparative levels of 'opportunities' between countries is commendable, but in doing so the feeling remains that it has actually failed to answer many of the questions that arise in the equality of opportunity debate, and despite the readily accessible numbers, one is left with the echo of Sen's initial rejection of the HDI concept – that the numbers cannot tell the true story.

The intention of the Human Opportunity Index is to track the availability and distribution of a range of basic services available to children in a specific country. The services covered are fivefold, including education-related services (completion of sixth grade on time, school attendance between ages 10-14) and housing conditions (sanitation, access to clean water, and electricity). Access to these things are considered to be basic opportunities, which (at least for children) are considered to be entirely exogenous. Additionally, they are considered to be critical for the development of an individual, are expected to exert influence on future outcomes, and might be unfairly influenced by circumstances (World Bank 2009). In summarizing the aims of the Human Opportunity Index, the authors suggest:

> "One specific purpose of the Human Opportunity Index is helping countries focus not simply on unequal outcomes, which are not easy to redress, but also on inequality of basic opportunities, which most people agree is unfair…As a whole, societies with greater inequality of basic opportunities among children are more likely to show inequalities later in the life cycle, despite individuals who beat the odds through their effort, talent, and luck." (World Bank 2009)

This last links to the specific distinction also made, arguably directed at the extreme elements of both pro- and anti-equality of opportunity supporters, between the concepts of equality of opportunity and meritocracy. Drawing on Roemer (1998) and in particular the political philosophy aspects of his work, this discussion focuses on when and where the 'leveling of the playing field' should take place – before the competition to allow all competitors the same potential with differences only based on their personal endeavor, or at the starting gate such that entry to the race is non-discriminatory. For Roemer (1998), the choice is a societal not a moral one, such that once a society has chosen an appropriate course, relevant public policy can be easily determined. In Measuring Inequality, the distinction is made by the authors and the notion of relying purely on a meritocratic approach rejected (World Bank 2009).

Interestingly, it is a distinction rejected by Easterly (2007), who while agreeing with the negative developmental impacts of inequality, rejects the delineation between equality of outcomes and opportunities as missing the key issue. Rather, he makes a distinction between structural and market inequality – the former representing the type of historical events characterized by scholars of Latin American inequality in particular, and the latter linking more closely to market mechanisms and incentive effects. He surmises that "[o]nly structural inequality is unambiguously bad for subsequent development in theory; market inequality has ambiguous effects…", particularly with reference to market-based incentive effects which result in inequalities across regions and inevitably and unavoidably to inequality of opportunities (Easterly 2007).

These distinctions play themselves out more broadly in the second half of Measuring Inequality, which attempts to consider the more difficult question of quantifying the share of unequal opportunity that can be found in unequal outcomes. Here, the authors seek to effectively quarantine those elements of unequal outcomes that result from the talent, drive, choices and luck of individuals and those that result from limited early life opportunities.

Again presented clearly and articulately, these methods take six exogenous socioeconomic characteristics of the population (gender, ethnicity, birthplace or urban/rural, mother's education attainment, father's education attainment and father's occupation) to form cells of individuals displaying the identical characteristics. The method then supposes that differences in educational and economic outcomes between cells can be linked to differing levels of opportunity, while differences within cells can be linked to effort or luck (World Bank 2009). Again, the concept of social mobility is critical to the analysis here. Despite these clear analyses and the data presented, particularly with respect to the ability to repeat the measurements into the future and provide some form of benchmarking process – for both inter-country and inter-temporal comparisons - one is left with the thought that the problem first considered is being redefined and definitions changed for the purpose of utilizing readily available data. Measuring and defining opportunity has always been a critical yet elusive element of the inequality debate. In Measuring Inequality, the authors essentially redefine opportunity to be the same, or at least proxied by, childhood outcomes, and seemingly seek to rely on inter-temporal analyses to create a dynamic sense of changing opportunity.

In this, one is reminded of the views of Burchardt (2006) about the need to identify appropriate interacted variables to approximate opportunity, as well as the views of some critics of the Bank's approach who argue against the ability to neatly divide outcomes from opportunities - that the dichotomy is a false one. What is perhaps indisputable is the choice of critical indicators – the five key elements of childhood well-being chosen linking closely with the long-standing and empirically supported view of the importance of health and education to individual and economic development. And in creating such indicators, perhaps the authors of Measuring Inequality have created a 'best worst result', in which the more vague elements of the political philosophical debate around equality of opportunity are for all intents and purposes disregarded in preference for a measurable quantity that can in some way hope to drive forward the inequality debate at the intergovernmental level, in a similar vein to the Human Development Index which came before it. The question then becomes whether such measures can, and will, have such an impact.

5. Final Remarks

This paper identifies recent trends in the analysis of (in)equality in the field of development economics. Clearly, as forecast by Kuznets over half a century ago, the ability to analyze this issue is heavily reliant on the availability of relevant data. Yet at the same time, it could be argued that sufficient evidence has now been presented that global inequalities do exist, and that the time for measurement is over. In this, one is reminded of Milanovic's survey of nine studies of global inequalities adopting different data sets and methodologies in measurement, only to arrive at very similar conclusions. It is perhaps with this in mind that the World Bank published its 2006 World Development Report, highlighting a new emphasis on equality, and equality of opportunity in particular, without the type of theoretical or empirical evidence often expected of the Bank.

The Report's agenda setting nature brought into question the methods and subject matter of much previous academic work on global inequalities, and challenged the field to develop new means with which to respond to the socioeconomic problems faced by a significant proportion of the world's population. The challenge has been taken up, not least by the Bank itself, and the first attempts at systematically considering equality of opportunity with empirical means have been undertaken. Whether these have been successful is another question.

What is clear is that the challenge of translating the moral and ethical dimensions of the question of Why does equality matter? into more concrete economic and theoretical ones remains unmet. The continued prominence of the growth is good school suggests that this is likely to be a necessary condition before the full weight of influential academia and assorted policy organs falls in behind this issue, regardless of the scope and quality of information generated in reports such as Measuring Inequality. In fact, it is likely that even in the light of such evidence being presented the debate will continue, as two theories compete for acceptance, rather than the situation today in which neoclassical theory is pitted against seemingly abstract concepts of equality of opportunity. A critical decision for those who support equality of opportunity, including those in the World Bank who have accepted and published this position, will be where to focus attention in the coming years – to addressing the problems of inequality evident in the developed and developing world or to addressing the critics and the theoretical absence within the approach. It seems doubtful that both can be successfully addressed simultaneously.

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