THE POLITICS OF MEASURING INEQUALITY

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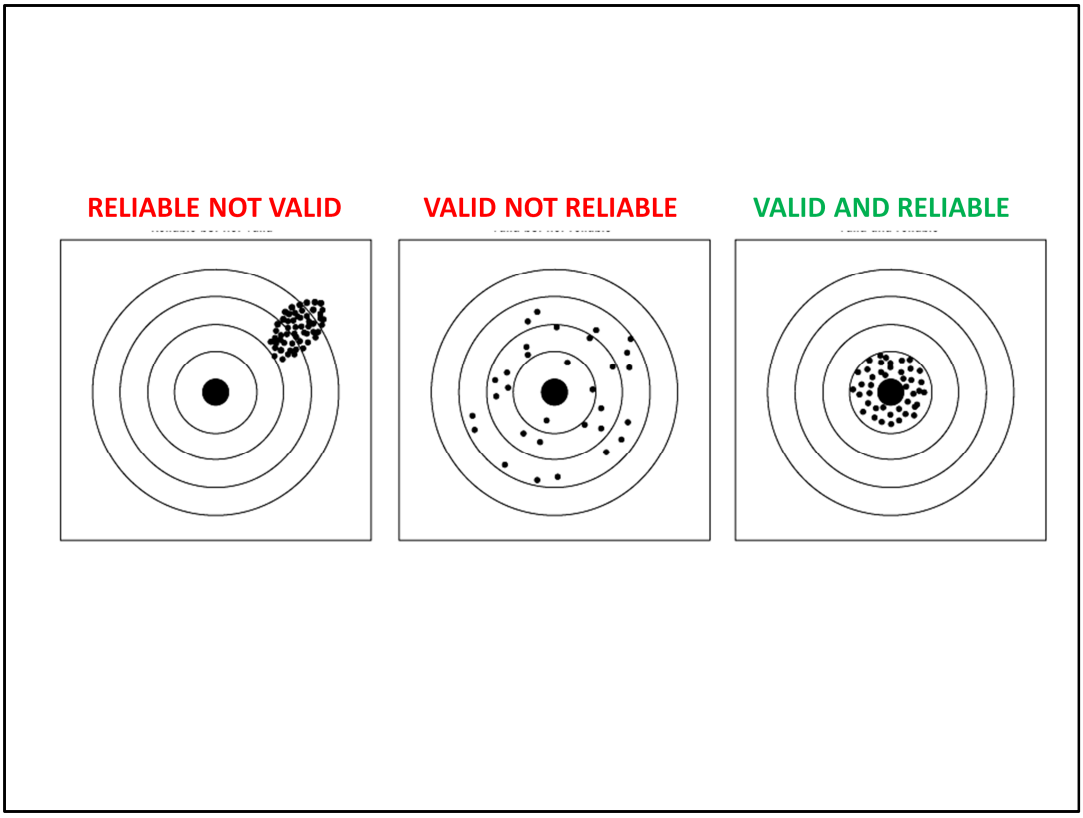
•At Oxfam for the past two years we have a global campaign to end extreme and rising inequality, because of how we understand if hurts our mission to end poverty and injustice.

•Franziska and I are in the research team at Oxfam and often draw on inequality data to understand levels and trends within and between countries.

•An important aspect to this research has been unpacking what data and indicators of inequality within and between countries are actually measuring.



•Rarely in the areas of development, economic or other social sciences is there an unambiguous and objective 'right' way to measure something.

•There can of course be an un objectively 'wrong' way to measure something – what we would say in statistics was inaccurate, with a bias and led us to a false conclusion, or something which is so imprecise that we fail to understand what is really going on. Plenty of statisticians and fact checkers work to identify when measures are wrong.

•But what we are more interested in in our paper are different ways to measure inequality – that are not necessarily technically wrong (although we do touch on that a little) but that each tell us something different and can often give us a different answer to the question 'how unequal?'.

•In the first part of our paper we present the differences from an objective and technical point of view and show how different measures can lead to fundamentally different conclusions about the same country. Because of the differences between indicators – it is clear that the choice of which one to use therefore requires a value judgement of which aspects of inequality you want to measure

•The main part of our paper then discusses these value judgements, or the politics of measurement: who chooses to use which measures and why.

•Instinctively we expect some actors to prefer one conclusion over another because the debate around inequality has a clear political dimension to it – right leaning politics is far more comfortable with inequalities than left leaning politics. But the politics of measuring inequality go beyond a left/right narrative particularly in the context of development and developing countries.

1. Inequality in a development context

- Horizontal inequalities and discrimination
- Inequality of opportunity
- Inequality of outcomes
  - Social
  - Political
  - Economic

•Inequality in the broader sense can capture many difference aspects of difference, or distance from full equality.

•In the development context, horizontal inequalities - that is differences between groups - often due to the characteristics of that group - are particularly relevant. Do people have different experiences because of their gender? Age or ethnicity? Are different groups of people systematically excluded or discriminated against? Here there is a clear social justice argument to identify horizontal inequalities and seek to reduce them, particularly when they affect people's wellbeing.

•Inequality of opportunity is also easy to reconcile with a development agenda, linked to human rights and a rights based approach to development, equal access to education and health care, there are certain services and opportunities that each citizen is entitled to and any deviation from equal opportunity is something necessary to address.

•Inequality of outcomes, be they social, political or economic are less well established as principles in the development context, when not presented in the context of horizontal or opportunity inequalities. That is largely due to established theories on the importance of growth for development, the rising tide lifts all boats and that there may be some inequality necessary for growth. A belief in the value of meritocracy would suggest that some people should be rewarded more than others. From a poverty perspective, the extreme poverty line is fixed at an absaloute level now of the $ppp 1.90, it's about meeting basic needs – not distance from the average or the top consumption level.

•However, as I said at the very beginning, we recognise that inequality IS important for development, for poverty reduction and social cohesion. And it's due to these different opinions on the relevance of inequality of outcomes that this makes for a particularly interesting politics of measurement discussion and hence it is inequality of economic outcomes in the development context that we discuss in this paper.

2. Common measures for economic inequality

- **Income (gross/net)**
  - Gini
  - Palma
  - Share of top 1%
- **Wages**
  - earning dispersion
  - capital vs. labour share
- **Wealth**

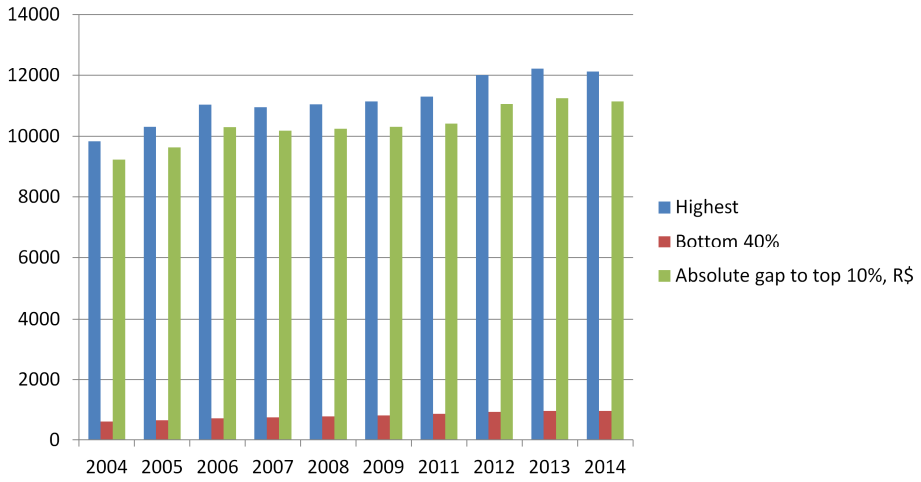
Even if we stick to the economic side of things, there is no „one“ measure of inequality.

- Income inequality is the go-to measure and the one that has gotten most traction.
  - Incomes have different definitions – e.g. market incomes and after redistributive policies (taxes, benefits). These can lie quite far apart – Sweden is an extremely high inequality country by market income distribution, but after taxes and a transfers – is one of the lowest in the world.
  - Within any definition of income, there are multiple ways to cut the data. You can choose to use the Gini , the Palma or the share of income of the top 1% for example, which have different emphasis on different parts of the distribution and can present different results.
- Wages are doubly important in inequality terms.
  - They tell us the dispersion of earnings between how much those at the top and those at the bottom get – the highest and lowest earners in society
  - We can also analyse how much national income is generated by wages, versus capital.
- Analysing the wealth distribution tells us who owns what assets, financial, non financial (like property) and debts. Wealth inequality is more unequal than incomes and can again reveal a different story in an economy.

3. What the different measures tell us about inequality in Brazil

Absolute gap in real incomes, highest income decile versus average income of bottom 40%, Brazilian survey microdata

Brazilian bureau of statistics microdata, R$



Now into a case study of income inequality specifically.

We look at Brazil a well known success story in the past decade: incomes of the poor growing faster than those of the rich, poverty falling, inequality by most relative measures falling.

But the story is more complex. What this table shown is: it's the absolute gap in real incomes, of highest income decile versus average income of bottom 40% in Brazillian Reals.

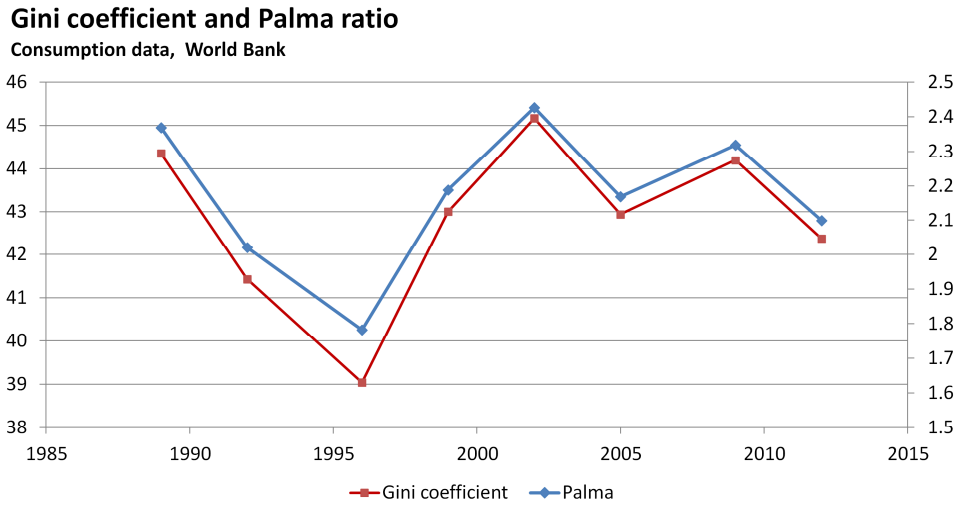
Look at the red bars. This is the story of the poor getting better off. The red bar grows over time – income of the poorest increases. But look at how tiny the red bar still is – the starting level is low.

Now look the blue bar. Those are the richest – and that's likely less than what they really earn. The incomes of the richest 10% have also been increasing – but because their incomes were so high to begin with, the % growth rates are lower, but in Real terms – their incomes have been increasing by larger amount.

This means that he absolute difference – the green bar – has been steadily growing**. This shows a less talked about type of income inequality and the values associated with it – absolute inequality.**

All the while, data on top incomes are still incredibly sparse and researchers go through all kinds of effort to estimate them. The same goes for wealth. Credit Suisse estimated the top 1% held 48% of wealth in 2015.

3. What the different measures tell us about inequality in Uganda



A second case study we looked at was Uganda.

Here there is a less clear narrative on the inequality story and even more patchy data.

We compared income inequality data produced by the Ugandan Bureau of Statistics with the inequality data produced by the World bank. World bank data shown here uses consumption data and is based on World Bank surveys conducted every few years. The last survey in 2012 calculated a gini of 42.

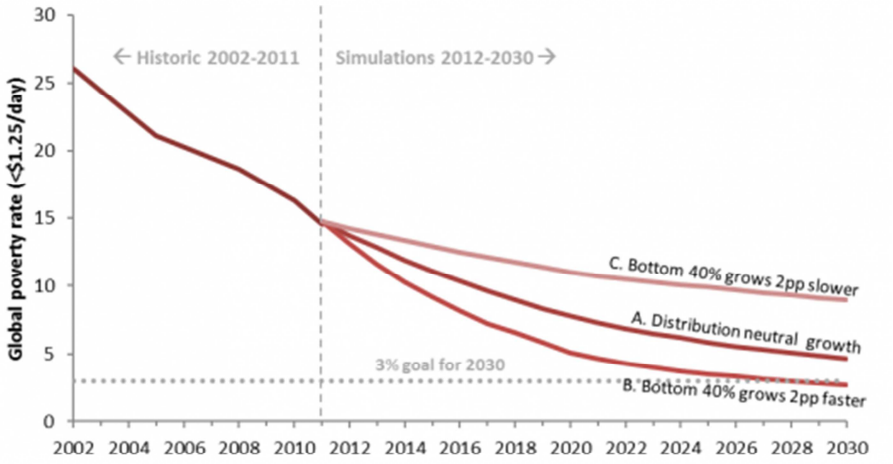
In contrast, the data collected by the Ugandan Bureau of statistics estimated the gini at 39.5 in 2012/13. The different data sources give different estimates of inequality, which make a material difference, particularly when comparing between countries.

The choice of data source make a far bigger difference than the choice of indicator. Here we compare the gini coefficient with the Palma, the gini is an estimate of inequality in the whole of the income distribution, whilst the Palma explicitly compares the income of the tails – the riches 10% with the bottom 40%. As you can see, regardless of the income measure, the inequality trend presented is exactly the same.

4. Which organisations use which measures and why?

SDG: Eradicating poverty by 2030 requires progressive growth

World Bank analysis and data



Source: Global Monitoring report 2015/16, World Bank

So we know the choice of indicators makes a big difference – so why so some agencies select soem indicators over others?

The UN SDG Goal 10 is to reduce inequality within countries. This is set within the overall SDG goal to eliminate extreme poverty by 2030, as measures by the $1.90 a day poverty line.

The headline indicator proposed to measure this, is the growth of the incomes of the bottom 40% compared with the average. When incomes of the bottom 40% grow father than the average, the incomes of the poorest catch up with the average and relative inequality falls.

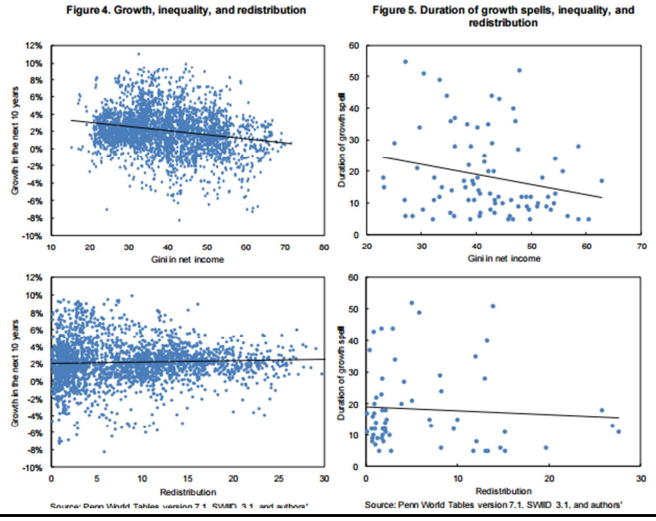
This has been selected because – as modelled here by the world bank, this can be directly linked to the goal of eliminating extreme income poverty. Last year the World Bank found that the bottom 40% needed to see their incomes grow by at least 2 pp faster than the average in order to eliminate poverty by 2030. It is also dependent on data that is already being collected by the World Bank, such that it is realistic to imagine that this data would be available for all countries.

Two important limitations to this measure – it doesn't include any measure of what is going on at the top of the distribution, where we know the vast majority of income growth has occurred. It also ignores the starting level of inequality, so treats a country with a high level of inequality where the incomes of the bottom are significantly lower those at the top the same as one where incomes are much more equal.

4. Which organisations use which measures and why?

IMF: Inequality hurts growth and redistribution has no effect

IMF analysis and SWIID data



The IMF Research department have recently published a number of papers that examine inequality – a research topic which was somewhat surprising.

Their paper which found that inequality hurts the longevity and robustness of growth was based on world income distribution dataset and the paper which found that redistribution had no impact on growth was based on an analysis of the gini coefficient, found in the Standardized income inequality dataset.

This has been selected because the IMF have a mandate to look out for macroeconomic stability and growth and so macro level indicators, like the gini, which provide a general measure at the national level facilitate these macro level analysis. As economists seeking to use econometric methods, they also seek data sets with as many observations as possible, in the hope that this will give them enough power to find statistically significant results. The standardised inequality dataset provides this, but imputing and extrapolating values for every country, for every year, for both gross and net income inequality.

Two important limitations to this – given the number of imputed data points, the standardised dataset can be criticised for being highly dependent on imputation methods, as opposed to real data. Secondly the gini, as a national general measure of the income distribution tells you nothing about who is left behind and who is racing ahead, making it very difficult to identify causes and solutions to inequality.

4. Which organisations use which measures and why?

Oxfam: 62 Individuals have the same amount of wealth as the bottom half of the planet

Oxfam analysis and Credit Suisse, Forbes data

In the past three years, the Oxfam Research department have published an analysis of wealth inequality, which has included the 62 statistic.

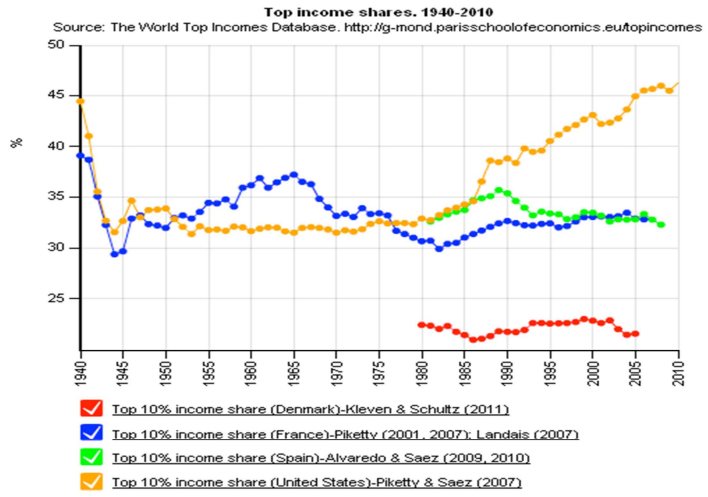
This is based on data from Credit Suisse which provide data on the wealth distribution in every country in the world, as well as an estimate fro global shares by decile, and Forbes which provide a list of the richest people with an estimate of their net wealth.

This has been selected because Oxfam recognise the importance of wealth inequality in the poverty and injustice story - because wealth accumulation at the top of the distribution is not benign and that with wealth comes power and influence over politics and institutions whilst lack of wealth reduces people's ability to react to financial shocks, such as poor harvest of medical bill. As a campaigning organsiating, we also see data and statistics that will have impact, that will make people think and react. The extreme levels of wealth inequality captured by the richest highlights this obscene disparity.

Two important limitations to this – data on wealth, particularly in poor countries is patchy and wealth itself hard to define as it can come in such diverse forms, from cows to share holdings. Wealth poverty is also not the same as income poverty, as the common anecdote of a harvard graduate with a six figure salary but still paying off his student debt has less wealth than an unemployed person with $10 under a mattress.

4. Which organisations use which measures and why?

Piketty, Saez and the World Top Income Distribution database:
A systematic effort to capture what happens at the top using tax data



It is a necessary step to get a more precise picture of the income distribution. Academics - Piketty and colleagues have been at the forefront of this effort – a particularly fascinating empirical challenge to be able to measure something which existing survey methods struggle with.

Classically, we construct the income distribution from what samples of people disclose in surveys. Surveys are known to underrepresent top incomes. The Piketty database (give name) brings on a big methodological innovation, and that's estimating top incomes based on historical tax data. It acknowledges the need to systematically assess what happens at the top of the distribution when analysis inequality.

Estimating inequality from tax data has its own problems of course (examples: Poor data countries, tax complience and coverage), but reflects efforts to adjust what we know from surveys alone on those at the top.

Tax data often paints a worse picture of income inequality. In the case of Brazil for instance – and that's not even a country with especially good tax records or high tax compliance – the share of the top held by the top 1% can be 10% higher than what is found in surveys. Reference in paper. Refer to Egypt paper if there is time.

4. Conclusion

- Choice of underlying data political
- Choice of measure political
- Choice of how you interpret it political