

What Is Social Inequality and Why Does it Matter? Evidence from Central and Eastern Europe

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Summary. — As distinct from income or wealth inequality, ‘social inequality’ is currently poorly understood and, at best, unevenly measured. We conceptualize social inequality as the relative position of individuals along a number of dimensions that measure achieved outcomes and, innovatively, expectations about future outcomes. Using data from 12 Central and Eastern European countries, we find that cross-national patterns of social inequality differ significantly from patterns derived from income inequality measures. Moreover, our measure of social inequality is much better correlated than income inequality with other country differences such as higher levels of economic performance and human development, and stronger political institutions.

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1. INTRODUCTION

A crucial question in the study of inequality is “inequality of what” (Sen, 1992) or, in other words, which inequality matters? A substantial body of work has converged on the notion that measuring inequality in several dimensions better informs our understanding of the influence of inequality on both individuals and societies. Inequalities in different dimensions tend to move together and reinforce each other. In the large literature on multidimensional inequality a commonly used label for such inequalities is ‘social inequality’. While the term is sometimes used to refer to multiple disparities in material wealth in society, little attention has been given to its character and specificities (Bollen & Jackman, 1985; Milanovic, 2005). That is, this term is used mostly as a catch-all concept rather than as a distinct and coherent concept.¹

Social inequality remains a vague concept compared with work on inequality in individual dimensions such as in income (Atkinson, 1999; Milanovic, 1998), wealth (Cagetti & De Nardi, 2008), labor market segmentation, gender and ethnicity (Schrover, Van der Leun, & Quispel, 2007), welfare status (Layte & Whelan, 2003), skills and training (Devroye & Freeman, 2002), health (Marmot & Wilkinson, 1999), and housing (Morris & Winn, 1990), to name but a few. Given this, our aim here is to develop a framework to better conceptualize and measure social inequality. In doing so, we face two primary constraints, one theoretical and one methodological. The former constraint is the choice of dimensions to measure social inequality while the latter constraint is aggregating these necessary dimensions without introducing intractable complexity.

We address the theoretical question of the choice of dimensions by conceptualizing social inequality using Amartya Sen’s capability approach in which individuals’ wellbeing depends on their “effective freedom to achieve” their life goals and full potential (1992, 1999). We argue that reaching this full potential depends both on having achieved fundamental outcomes such as sufficient income, education, and health as the recognized minimum number of dimensions to measure wellbeing in the Human Development Index, as well as on being able to

achieve – and crucially to have expectations of access to the means of achieving – these outcomes in the future. As a consequence, a measure of inequality in the “effective freedom to achieve” will have to take into account disparities both in actual income, education, and health, and in their future expected equivalents. Therefore, we conceptualize social inequality as a measure of disparities along a set of minimally required dimensions in actually achieved and expected future outcomes.

In response to the methodological constraint, we propose to aggregate the dimensions into one single index by computing a simple average of inequality measures across the chosen dimensions. We have chosen to aggregate the dimensions into one index rather than presenting a dashboard of individual indicators in order to produce one single index of multi-dimensional inequality, which we will be able both to decompose and to directly correlate with relevant aggregate indicators of political and socio-economic development.

The findings provide several potential, if ambitious, contributions to the thinking about inequality. We propose a framework that allows us to measure ‘social inequality’ as a single index that captures disparities in both actual achievements and the means to achieve outcomes in the future. The main results show that social inequality defined in this way delivers a better conceptualization than alternatives, particularly measures of income inequality, of the disparities that matter to individuals and their societies. Our social inequality index correlates strongly with cross-national variation in economic

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and political conditions as well as in human development, while income inequality fails to correlate with any relevant macro aggregate.

2. CONSTRUCTING A MULTI-DIMENSIONAL INEQUALITY INDEX

(a) *Choice of dimensions*

Despite the lack of a framework to conceptualize and measure social inequality, there is a consensus that social inequality is an intrinsically multi-dimensional concept, which captures disparities along a number of dimensions that matter for the lives of individuals and the societies where they live. Theoretically, the multi-dimensional measurement of inequality is motivated by Amartya Sen's "capabilities/functionings" approach, which is based on the core concept that wellbeing depends on individuals' "effective freedom to achieve" their life goals and full potential (Sen, 1985, 1992, 1999). Empirically, a number of important contributions (e.g., Alkire, 2011; Anand *et al.*, 2009), as well as an extensive empirical literature on the economics of happiness (e.g., Carbonell & Frijters, 2004; Oswald, 1997), have established that a prerequisite for the fulfillment of individuals' subjective wellbeing is achieving outcomes in several dimensions. Simply, wellbeing is intrinsically multi-dimensional and therefore inequality should as well be consistently measured along a number of dimensions.

Our innovation to the multi-dimensional thinking and measuring of inequality is arguing that individuals' wellbeing and effective freedom to achieve depend not only on what a person has actually achieved, but also, and as importantly, on what a person expects to be able to achieve in the future. Actual and future achievements are related as future achievements depend on what has been already achieved as well as on how actual achievements will allow achieving outcomes in the future. That is, the capabilities approach rests on two related notions. One, having choices or the ability to choose among alternative life trajectories – more than mere material wealth – is the indicator of individual freedom; and two, individuals' future expectations – what individuals expect from their future – have significant behavioral consequences now.

In particular, considering how expectations might relate to important potential outcomes in the future, we see the power of expectations as a means to relieve or minimize the impact of (future) uncertainty. Being able to rely on or dismiss future alternatives allows individuals to better construct plans and thus choices about future activities. Even in the probabilistic sense, the mere (un)likelihood of future opportunities changes individuals' choices in the present.

Therefore, we argue that a measure of inequality in the effective freedom to achieve should measure disparities in people's abilities to achieve their desired – even if only potential – goals taking into account individuals' present situation and expectations about their future. Consistently, we define social inequality as a capability-based index of inequality that measures disparities both in actual and in potential future outcomes. We further propose to do so along the minimum number of dimensions that have been recognized as fundamental to measure wellbeing, namely, individuals' income, health, and education as included in the Human Development Index (HDI).²

While the importance of individuals' levels of income, education, and health is self-evident, the challenge is how to measure potential future outcomes along these dimensions. The ideal type of data to elicit information on future outcomes are quantitative expectations data, which collect information

on future expected outcomes together with their associated expected probabilities of realization (Manski, 2004). For a given outcome of interest, respondents are asked to provide the expected minimum and maximum value that the outcome can take together with the expected probabilities of different quantiles of its distribution, which allows constructing the entire subjective distribution of future realizations in different scenarios to fully capture the role of uncertainty that individuals face when forming expectations.

Unfortunately, to the best of our knowledge, there is no publically available dataset that contains individual-level information on future expected income, education, and health. However, we argue that what we can expect of our future outcomes depends on what we expect or perceive to have access to, and that a crucial role is played by perceived access to health care and education that are essential to all future outcomes that an individual can expect to achieve. While there is evidence that individuals' perceptions matter for capabilities and empowerment (e.g., Trommlerová, Klasen, & Leßmann, 2015; Welzel, 2014), we emphasize the crucial role of perceptions of access to basic services. In particular, the perceived level of access to health care and education are manifestly instrumental and a fundamental prerequisite to the effective achievement of potential outcomes in the future, among which the desired (future) levels of health, education, and income. Access to education, for example, is often perceived to be low in a country where education policies tend to favor the elite by 'tilting' public spending toward higher education, particularly in developing countries (Lloyd & Kosack, 2014). Therefore, while we do not equate a perceived gap in access to services to a gap in future expected outcomes, we argue that perceived access is instrumental to the achievement of future expected outcomes since individuals' perceptions of their access to services is one of the factors that drives their current behavior and therefore the outcomes that they expect to achieve in the future.

Thus, we define social inequality as an index that captures disparities in actual and in potential future outcomes along three core dimensions (income, education, and health): the current level of income, health status, and level of education account for actual outcomes, and the perceived access to health care and to education account for future expected outcomes. The importance of perceived access to services is paramount since it reflects the access that individuals have to fundamental services and public goods: inequality in any given dimension is much more problematic in a society that is characterized by a skewed distribution of access to health care and education than in a society where access to services is more widely available.

(b) *Aggregation method*

Having identified the dimensions to include in the index, an important question is how to aggregate the data on the different dimensions into one single index. There is an extensive literature on the multi-dimensional measurement of inequality. At one end, there are authors who draw conclusions on the overall evolution of inequality by comparing changes in inequality in separate dimensions (e.g., Easterlin, 2000; Hobijn & Franses, 2001; Neumayer, 2003; Slottje, Scully, Hirschberg, & Hayes, 1991). A disadvantage of this approach is that it makes it difficult to formulate an overall conclusion on the extent of inequality if inequality in one dimension evolves differently from inequality in another dimension. At the other end, there are approaches that first construct a composite multi-dimensional index and then measure the inequality in that index (e.g., Becker, Philipson,

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