

10. Is there a ‘new consensus’ on inequality?

Francisco H. G. Ferreira

Thirty years after the Washington Consensus, is there a new policy consensus that addresses the problem of inequality? There is widespread acceptance that multiple, interrelated, and mutually reinforcing inequalities exist – in income, wealth, education, health, power, and recognition – and that these inequalities are generally ‘too high’. There has also been a significant shift towards a shared view that these inequalities matter, both intrinsically and because of their detrimental effects on economic efficiency and political institutions. There is much less consensus, perhaps surprisingly, on what the actual levels of income inequality are, and there are common misperceptions about their trends. In policy terms, there is something approaching a consensus regarding the desirability of various ‘pre-distribution’ policies, ranging from early childhood development to investment in better teaching. In certain quarters, there is also agreement that sharper antitrust regulation, freer labour unions, and more progressive taxation is needed in most countries. But much less is known about how to provide the poor with genuine opportunities to break the cycle of intergenerational transmission of disadvantage in a durable way.

I. Introduction

The word ‘inequality’ does not appear – even once – in ‘What Washington Means by Policy Reform’, the 1989 book chapter where John Williamson laid out the 10 topics that he saw as defining a ‘Washington Consensus’ for policy reform following the Latin American debt crisis.¹ ‘Poverty’ appears once in the 5,806-word document. Some 30 years later, it is difficult to imagine the same being true of any attempt to summarise a set of policy instruments needed to

How to cite this book chapter:

Francisco, H. G. Ferreira (2025) ‘Is there a ‘new consensus’ on inequality?’, in: Besley, Tim, Bucelli, Irene and Velasco, Andrés (eds) *The London Consensus: Economic Principles for the 21st Century*, London: LSE Press, pp. 313–350
<https://doi.org/10.31389/lsepress.tlc.j>

address current problems, in Latin America or anywhere else. Indeed, in the present attempt 'to build a *London Consensus* around which new ideas can coalesce, and which can become a 'user's guide' for leaders and policy makers [...]'² an entire chapter – one of only 16 – was commissioned on the topic.

The 1980s probably marked the nadir of attention to distributional issues in both mainstream economics and development policy. The pressing global issues of the day were quintessentially macroeconomic: how to adjust to the dramatic terms of trade shocks arising from the oil price shocks of 1973 and 1979, and the subsequent stagflation in richer countries and debt crises in poorer ones. In the United States and the United Kingdom, Ronald Reagan and Margaret Thatcher held sway. The (first?) Cold War was approaching its conclusion, and inequality had been a concern identified squarely with the losing side. There were individual exceptions in the Western mainstream, of course, but the broad 'consensuses' of the day decidedly did not include a preoccupation with inequality.

This began to change gradually in the 1990s,³ but it was the Global Financial Crisis of 2007–09 and the rise of the 'Occupy' movements in the US that changed the discourse in the leading Anglophone countries, which, for better or worse, largely set the intellectual and policy agendas in economics. Popular books by leading mainstream economists became major bestsellers.⁴ The leading International Financial Institutions, which had played a major role in shaping the Washington Consensus, also incorporated inequality into their discourse: the World Bank's *World Development Report 2006* highlighted the extent and costs of inequality and argued that it was a drag on development. A decade later, the International Monetary Fund (IMF) agreed.⁵

Does any of this mean that there is a new consensus on inequality that could now be summarised, be it in London or elsewhere? In what follows, I briefly examine some of what we now know about the nature, levels, and trends in inequality (section I); the current thinking on whether it matters at all (section II); and some prominent ideas on policy responses (section III). I argue that there is a rising, if as yet incomplete, consensus that inequality matters and that it is a legitimate concern for analysts and policymakers alike. Perhaps surprisingly, there is actually no consensus on many of the basic facts about inequality, largely because different data sources tell different stories and are seldom easy to combine.

In the policy space, I briefly describe three broad policy domains with documented potential in reducing inequalities: pre-distribution (investing in children and youth before they enter the labour market); market regulation (with applications in the product, labour, and capital markets); and redistribution (taxing richer people to redistribute cash or opportunities to poorer ones). I argue that policies in all these areas have important roles to play, and probably more is needed in most countries. But I also suggest that, when one contemplates the depth and intergenerational durability of deprivation around the world, even this rich menu seems vastly inadequate, and that more research and innovation is needed to find truly transformational interventions.

II. The nature, levels and changes in inequality

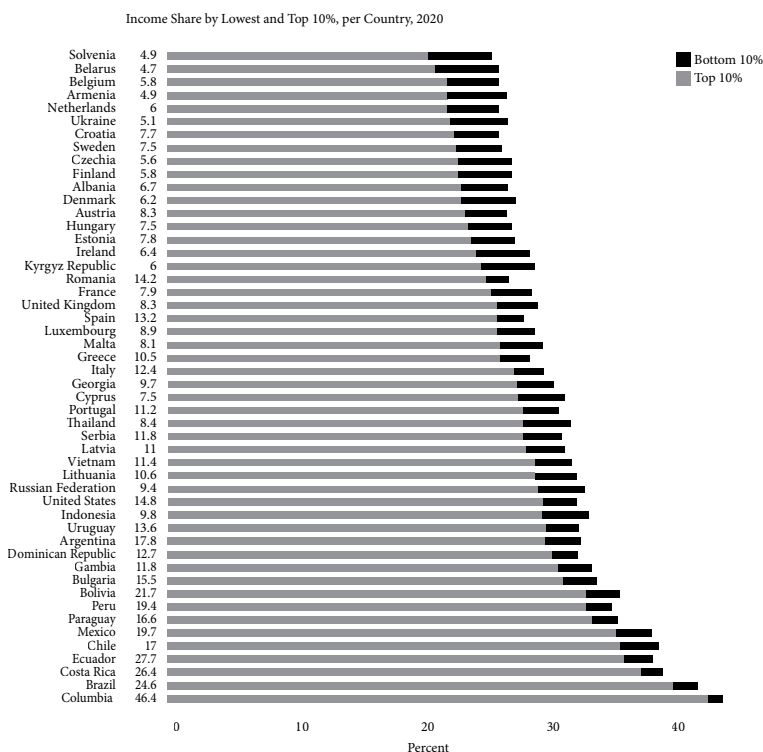
One thing there is broad agreement on is that inequality is neither a unique nor a unidimensional concept. While most of the discussion focuses on inequality of incomes, there is also inequality in wealth; in educational achievements; and in health outcomes. There are inequalities in political power and participation; in agency and social recognition; and in opportunities for future achievement. These multiple inequalities are interconnected in complex ways, and matter for different reasons. While it is impossible to do justice to that entire landscape here, below are some basic facts on which there is broad agreement – and some issues on which there are not. Specifically, I list three points on which I argue there is a measure of consensus, and two areas where the facts themselves remain contested.

First, there is broad agreement that, with rare exceptions, inequalities in income and wealth are judged to be high in all but a handful of countries. [Figure 10.1](#), drawn from the World Bank's World Development Indicators as captured in 2023, shows the income shares of the richest and poorest deciles of the distribution of income (or consumptions expenditure) for the 50 countries for which data was available.⁶ The column of numbers to the right of the country names presents the ratio of one to the other, ranging from 4.7–4.9 in Armenia, Belarus, and Slovenia to 46.4 in Colombia.

Analogous measures for wealth distribution are even more extreme. In a study of 15 advanced economies using data from the Luxembourg Wealth Study, Pfeffer and Waitkus report top 5% net wealth shares ranging from 23% (in Slovakia) to 70% (in the US).⁷ The corresponding Gini coefficients⁸ are 0.49 and 0.90. The median wealth share was 39%, for Luxembourg, with a Gini of 0.66.

Second, income and wealth inequality do not come alone. They are associated with pronounced inequalities in other life domains, such as education and health. Perhaps the most prominent such association is the so-called wealth gradient of health, which depicts associations between better health outcomes and higher income or wealth. In 1980, for example, the life expectancy of men in the top 5% of the US family income distribution was 25% greater than for those in the bottom 5%.⁹ In Latin America, infant mortality is strongly associated with household wealth across various countries.¹⁰

Educational outcomes are also associated with family background. In 2018, the OECD's Programme of International Student Assessment (PISA) published comparable test results for 15-year-olds from 79 countries. The scores are standardised so that distributions have a mean of 500 and a standard deviation of 100 (for the OECD). In the PISA 2018 dataset, the difference in mathematics test scores between children with at least one parent who completed tertiary education and for children for whom neither parent had completed at least upper secondary school was as high as 79 in Korea, 74 in Peru, 73 in Chile, and 66 in the US.¹¹

Figure 10.1: Top and bottom decile income shares for 50 countries in 2020

Source: databank.worldbank.org/source/world-development-indicators. Data reproduced from World Bank under a CC BY 4.0 licence.

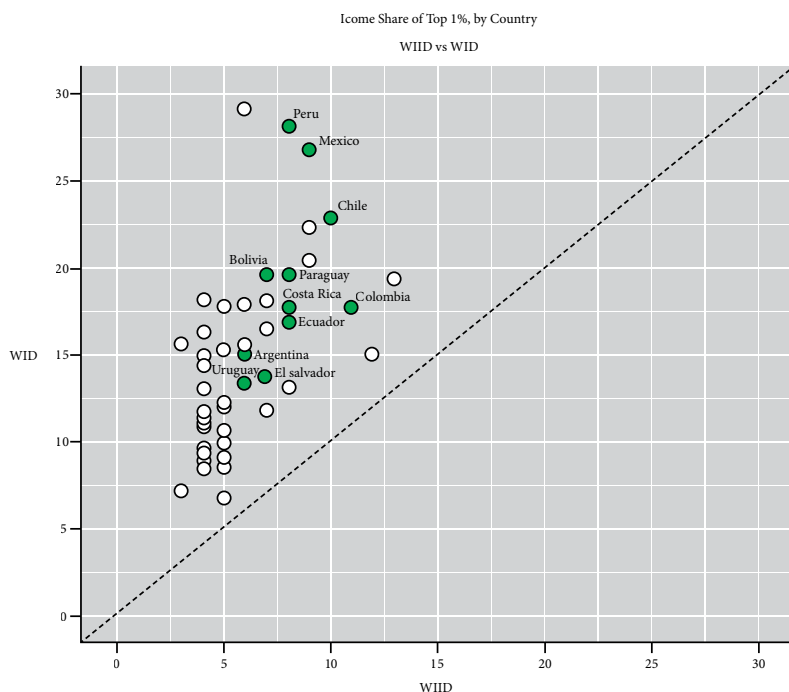
Less tangible but equally important dimensions of a person's agency and wellbeing are also unequally distributed and correlated with economic status. This is easiest to document for measures of political power and activity, such as voting behaviour. In the United States, voter turnout is strongly associated with family income: in the 2016 presidential election, for example, turnout was 48% for those living in households with annual incomes less than US\$5,000 and 86% for those earning more than US\$150,000, with the relationship largely monotonic in between.¹² When additional sources of political power, such as the ability to contribute to campaign finance, are taken into account, the association between political and economic power becomes even greater.

Third, it is also widely accepted that some inequalities are more salient than others, such as those between men and women, across different racial groups, or different caste or religious groups. Gender inequalities remain pervasive, although not always in the ways one expects. Across most – if not all – countries, men continue to command a wage premium over women, both unconditionally and conditionally on observed characteristics. In the richer

economies of the West, this remains true despite remarkable progress in recent decades, and appears to be increasingly explained by child penalties.¹³ In education, on the other hand, the picture is considerably more mixed. In most rich countries – and in many others – access to and completion of tertiary education are now considerably higher for women than for men, and this reflects superior achievement by females in secondary schools as well. This is true in general, despite the fact that boys and men remain overrepresented in science, technology, engineering, and mathematics subjects.¹⁴ Racial inequalities also abound, particularly but not exclusively in countries that experienced long histories of slavery, such as the US, Brazil, or Haiti. As with the broader societal inequalities discussed above, this is true not only for wages and incomes, but also in terms of educational attainment, health outcomes, political participation, incarceration rates, etc. These between-group – or horizontal – inequalities are important because membership in these groups is salient in the formation of individual identity.

Let us now turn to two areas where there is less agreement, and certainly no consensus. Perhaps surprisingly, the first of these concerns the exact levels of income inequality in almost any country. Although I argued earlier that

Figure 10.2: Income share of top 1%, WID vs WIID, by country



Source: author's elaboration from: World Income Inequality Database (WIID), World Institute for Development Economics Research at the United Nations University (UNU-WIDER) and World Inequality Database (WID), World Inequality Lab (WIL) at the Paris School of Economics.¹⁵

there is broad agreement that these levels are high, it turns out that different authors and institutions will report different – and sometimes substantially different – indicators of inequality for the same country–year combinations. To illustrate these stark differences, [Figure 10.2](#) plots the income share of the richest 1% of the population for 53 countries in 2020. On the horizontal axis is the share reported in the World Income Inequality Database (WIID) of United Nations University World Institute for Development Economics Research (UNU-WIDER) (in their preferred ‘WIID companion’ series) while the vertical axis captures the share reported by the WID of the World Inequality Lab at the Paris School of Economics. These are all the countries for which data were available in both series. Green circles denote Latin American countries.

There is a clear and systematic pattern of lower shares for the richest 1% from the WIID than from the WID. The average share of the top 1% reported in the WIID is 5.9, whereas in the WID it is 14.3. For Peru, the WIID sees the top 1% earning 8% of total income, whereas the WID sees the same group earning 28%. These dramatic differences are due largely to the sources from which the original data is obtained. Whereas most of the observations in the WIID come from household surveys of one kind or another, most of the data reported by the WID comes from administrative tax data, although some of it is for tax data combined with survey data. Most importantly, most of the WID data attempts to further incorporate income imputations to match national account aggregates.

The key challenge is that there is no general agreement that one source or method is unambiguously superior to another. Reliance on administrative tax data, pioneered by Piketty and Saez has a number of advantages: (i) it is much better than surveys at capturing very high incomes; (ii) datasets are typically much larger; and (iii) in some countries, the data goes back a long way, permitting long time coverage.¹⁶ But it also has disadvantages: (i) the unit of observation is the tax unit rather than the individual or the household, which are usually the more economically meaningful units; (ii) fewer covariates are present in the data, which is a problem for many kinds of analysis; and, perhaps most importantly, (iii) it is only informative of the subset of the population that declares income taxes.

For many rich countries, with well-developed tax and statistical systems with near-universal coverage, this third disadvantage is not particularly binding, and the advantages of fiscal data over surveys may outweigh the disadvantages – at least in pure measurement work where covariates are less important. In most countries, however, tax reporting is far from universal and highly selective. Across Latin America, Africa, and developing economies in Asia, informal sectors are large, often employing more workers than the formal, tax-paying sector. In these countries, fiscal data alone cannot provide a representative picture of the income distribution or measures of inequality.

Recognising this, researchers have sought to combine information from tax and survey data in order to deliver a more integrated and comprehensive

picture.¹⁷ This is ingenious and important work, but it is far from assumption-free. Inequality estimates thus generated come with substantial uncertainty, which is difficult to quantify. This uncertainty only grows when researchers seek to impute income so that survey aggregates (using expansion factors) match those of either the household account or the national income estimates from the system of national accounts, as additional assumptions must then inevitably be made to distribute incomes that are not observationally attached to any household. To be clear, both the expanded use of tax data and attempts to construct distributional national accounts are important innovations that have transformed the field of inequality measurement over the last two decades or so. But, for most countries and certainly those in the developing world, they have not yet reached a point where one can be completely confident of the summary inequality estimates that they generate. On the other hand, these innovations have highlighted serious shortcomings of standard household surveys, particularly on the measurement of top incomes. The result, in these countries, is one of increased uncertainty: We now know that we probably underestimate inequality by looking only at surveys, but may or may not overestimate it through the various incremental assumptions made when combining survey and other kinds of data. The result is a world of 'inequality bands', where it is tempting to take survey-based estimates as lower-bounds, and Distributional National Accounts guidelines-based estimates as (plausible) 'upper bounds', with 'true' inequality somewhere in between.

There is a second, rather unrelated, reason for uncertainty about the actual levels of inequality in our societies, namely the persistent neglect of intra-household inequality in most reported statistics. The reason for this neglect is clear: most household surveys and administrative data sources contain information on individual incomes and/or aggregate household consumption, but information on individually disaggregated consumption is exceedingly rare, leading to the frequent assumption of perfect sharing within households. Although that assumption underpins virtually all national-level statistics mentioned previously, when tested, it has been found to be entirely inadequate. Using one of those rare surveys that collect individual-level information – in this case on food intake in the Philippines – Haddad and Kanbur found that ignoring intra-household differences could lead to underestimates of overall inequality by as much as 30%.¹⁸ Using a collective household model, Lise and Seitz find that overall inequality in the UK could be underestimated by between 25% and 50% if inequality within households is ignored.¹⁹ These are large differences and their frequent omission from the public debate adds to our uncertainty about the true levels of inequality.

A second area where there is perhaps less agreement than meets the eye is the popular assessment of recent inequality trends, particularly within countries. There is, of course, a consensus that inequality has (massively) increased in the US, regardless of the data source. According to the latest WIID estimates (which themselves come from harmonised household survey data from the Luxembourg Income Study), the US Gini coefficient for pre-tax

household per capita income has risen from 0.375 to 0.415 between 1987 and 2020. The latest estimates from the WID indicate an increase in the pre-tax national income share of the top 1% from 13% to 18% over the same period. The indicators differ – as would the levels for the same indicator – but the direction is clear. Agreement on trends also holds for most developed countries, whether inequality has recently been rising (as in the UK until 2000–02) or not (as in France). Indeed, if one takes an average across developed countries, inequality has generally been on the rise over the last 30–40 years.

The problem arises when, as often happens, the press and others generalise from this important, but small, set of countries to the rest of the world. Among developing countries, there is much greater heterogeneity in terms of inequality trends, particularly in the 2000s. Of course, inequality rose in a number of poor countries too, but on average, '[t]he available evidence suggests that [...] the levels of national income inequality in the developing world increased in the 1980s and 1990s, and declined in the 2000s'.²⁰ This was particularly true in Latin America,²¹ but not exclusively: looking at 87 countries between 2000 and 2015 and using household survey-based inequality estimates, the World Bank found that inequality rose (by more than one percentage point) in 22 countries and fell (by more than one percentage point) in 45 countries.²² You would not have guessed this nuanced picture from the inequality coverage in the US and UK press, which frequently extrapolates from the experience of their own countries to the world as a whole.²³

III. Does inequality matter?

Does any of this matter, whether inequality is high or low, has gone up or down, is measured one way or another? After all, as recently as in 2004, in a much-quoted passage, Robert Lucas, a Nobel Laureate in Economics, wrote that '[of] all the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution'.²⁴ It is in the answer to this question that the consensus has shifted the most since the 1980s. While there are always outliers, the dominant view in economics (and among policymakers) today is that excessive inequality is 'a bad thing', for at least three reasons.

First, inequality – and some forms of inequality in particular – matter directly and intrinsically to people. This became clear even to the most hard-nosed economists through the lab experiments on preferences for fairness, conducted by various authors in the 1990s and 2000s. The experiments used games, such as the Ultimatum Game, in which one player is randomly selected for the role of Proposer while a second is the Responder. The players are allocated a sum (S) of (real) money. The Proposer suggests a division of the sum, and the Responder can only accept or reject the offer. If the offer is rejected, both payoffs are zero. If it is accepted, the division is implemented and players keep the payoffs. Players do not know each other's real identities and are told that the game will not be repeated.

The single Nash equilibrium of this game, where each player's strategy is optimal given the decisions of other players, is for the Proposer to suggest a sum that is positive but as small as possible and for the Responder to accept. Yet, several studies found a substantial share of offers far above the minimal amount and, even more importantly, a number of low offers that were rejected. Such rejections are interpreted as 'altruistic punishment', whereby one player gives up real financial resources in order to punish the other for unfair behaviour.²⁵ Variations of this behaviour have been documented across both 'advanced' and 'traditional' societies.²⁶ Other studies found that certain animals, such as capuchin monkeys, are also prepared to forgo food that they would normally consume to protest against what they perceive as an unfair allocation by the experimenter.²⁷ Subsequent work that attempted to distinguish between different sources of inequality – such as luck versus effort – finds that people are likelier to offer compensation for inequalities for which people cannot be held responsible (such as a randomly allocated wage rate), as opposed to those they can control (such as the number of words typed correctly or how long somebody chooses to work on a task).²⁸

Second, there is much evidence to suggest that inequality – when combined with various market imperfections – implies that some efficient investment projects are not undertaken, reducing allocative efficiency and, most likely, economic growth. While I would not claim that there is a 'consensus' about this relationship between inequality and investment, I argue that this is now the preponderant view in the profession. The original theoretical arguments go back to Stiglitz²⁹ and Loury.³⁰ In the 1990s, a set of influential papers included Galor and Zeira,³¹ Banerjee and Newman,³² and Aghion and Bolton.³³ Hsieh et al. provide convincing empirical support, arguing that the expansion of professional opportunities for women and ethnic minority men in the medical and legal professions in the US accounted for a substantial share of productivity growth in those industries.³⁴ The argument that inequality in productive opportunities is particularly detrimental to efficiency and growth is also consistent with the finding that inequality of opportunity was negatively associated with economic growth across 26 US states between 1970 and 2000.³⁵

Third, there is growing acceptance that high inequality may also hurt a society by lowering the quality of its political institutions – which matter both intrinsically and because of the effects of those institutions on economic outcomes. The basic idea that high wealth inequality may lead to capture of the state and its institutions by a small elite, whose interests may not be aligned with those of the majority and who may, therefore, choose policies that are not optimal from the viewpoint of society more broadly, goes back all the way to Plato's *Republic*. In modern economics, theoretical models linking economic inequality, political inequality, and worse economic outcomes have been put forward by Alesina and Rodrik,³⁶ Persson and Tabellini,³⁷ Bénabou,³⁸ Bourguignon and Verdier,³⁹ and Acemoglu and Robinson,⁴⁰ to name a few. Economic historians, such as Engerman and Sokoloff,⁴¹ have argued that this

mechanism underpins the different political and economic outcomes of North and South America: initial factor endowments shaped different degrees of 'initial' wealth inequality, which in turn affected political institutions through, e.g., different paths for the expansion of education and the franchise, and these in turn led to different qualities of economic governance.

IV. What is to be done?

1. *The family curse*

To productively discuss 'policies that address inequality', it is essential first to understand the inequality-perpetuating forces that such policies are up against. After all, if people prefer fairness and inequality can hold societies back and prevent them from reaching their full economic potential, why is inequality nevertheless as ubiquitous as described in section I?

One answer, of course, is the aforementioned interaction between economic and political inequalities. The models discussed by Bourguignon and Verdier⁴² and Bénabou⁴³ are all about stable high-inequality equilibria that will persist, despite the possibility of richer and more egalitarian alternatives. In essence, they are stories of power built on wealth, which are then used to choose policies that preserve such unequal distributions of wealth, even if the potential gains to others in alternative equilibria might exceed the losses of the powerful.

But there is another, possibly even deeper reason why inequality is so persistent or, in Charles Tilly's words, 'durable', and that is the remarkable degree to which families are able to transmit advantage – or disadvantage – across generations.⁴⁴ Parents bequeath their genes, so that high-ability parents may be more likely to beget high-ability children. Parents also bequeath human capital directly, during childhood and possibly beyond. At the critical early-childhood phase, between the ages of 0 and 5, families are either the sole or the principal source of human interaction for infants, providing both the nutritional and the stimulation inputs we now know are critical for future brain development.⁴⁵ The children of more educated parents develop larger vocabularies and other measures of cognitive skill development earlier than those of their less educated peers.⁴⁶

Given the early advantage conferred upon children by better-off families, one might look to school as the great equaliser, from age 6 or 7 onward. Yet, school quality differs markedly within most countries and, once again, richer families are typically better able to send their children to the best schools, with the best teachers and peers, than poorer families. This mechanism can differ across settings: in the US, it operates through local financing for public schools and residential sorting, whereby house prices rise in the vicinity of better schools, concentrating richer families in the neighbourhood and further raising school funding from local property taxes.⁴⁷ In Latin America, it often operates through a Tiebout-style opting out of public services. Rich

families are prepared to pay for better private schools, while poor families must send their children to lower-quality public schools. Richer and more powerful families are then less inclined to support higher taxes to fund better quality public education, and the cycle persists.⁴⁸

The cumulative build-up of advantage in the production of both cognitive and socio-emotional skills throughout childhood and adolescence, life's primary formative phases, would likely be sufficient to ensure a great deal of intergenerational transmission of inequality. Yet, it is plainly not the only mechanism at work. Beyond the advantages that superior education affords in the labour market, parents are also able to intervene directly in the job matching process. Richer families will typically have high-value professional networks that facilitate recommendations, internships, and other entryways to employment. Corak and Piraino⁴⁹ even document the existence of intergenerational transmission of employers.

So far, this discussion has focused on human capital, perhaps the kind where the advantage of the rich might be expected to be lowest. Through inter-vivo transfers or bequests, the rich are able to transmit a great deal of their wealth to their children as well, perpetuating inequality in that domain. Finally, there is overwhelming evidence that families are often able to bequeath political power to their descendants too. This is true not only in the obvious case of (old and present-day) monarchies. It is also true of great political dynasties, such as the Kennedys or the Bushes in the US, or the Trudeaus in Canada. And the persistence is often very long-lived: Stone⁵⁰ documents that 31 presidents and 285 members of parliament in Costa Rica descend directly from Don Juan Vázquez de Coronado y Anaya, born in 1523, who was Spain's main conqueror of the part of Central America that is now Costa Rica.

These mutually reinforcing channels for intergenerational transmission of advantage can be summarised in rather dry intergenerational mobility or inequality of opportunity statistics. Using rank-based measures, Chetty et al.⁵¹ found that a 10 percentile increase in parental income is associated with a 3.4 percentile increase in a child's adult income, a 6.7 percentage point increase in college attendance rates and a 3 percentage point reduction in teenage pregnancies (leading to birth) for girls. Brunori et al.⁵² found that 59% of income inequality in a child's generation in Brazil can be accounted for by inherited circumstances such as race, gender, place of birth, and family background.

There is a multitude of such estimates for many countries, which I will not review here. Taken together, though, they point to two facts. First, the various mechanisms previously outlined have a clear and measurable effect on income and wealth: on average, the children of richer and more educated families are themselves richer and more educated than their peers. Second, when one looks at the pattern across a large number of countries, there is a strong positive association between income inequality (measured, say, by the Gini coefficient) and intergenerational persistence (measured, say, by the intergenerational income elasticity). This association, first documented

The array of potentially relevant policies is vast since, in general, any policy affecting some people's incomes differently from other's, will affect inequality. It would be impossible to do justice to all of the policy options here. In what follows, I try merely to provide a heroically brief summary of some of the current thinking about policies that might successfully reduce inequality, at low or no efficiency costs. In broad terms, and without any hope of being exhaustive, one could divide the policy space into three large sub-spaces: first, policies that affect people's earning potential before they enter the labour market; second, policies that affect the way product, labour, and capital markets work; and third, policies that redistribute incomes – or wealth – *ex-post*.

My reading is that there is a greater measure of consensus about the first group, often described as '*pre-distribution*' policies. Pre-distribution refers to public investments intended to enhance the human capital accumulation of the least advantaged – in part, to make up for the greater private investments of better-off families discussed earlier. The need is not trivial: in a *Lancet* article, Grantham-McGregor et al.⁵⁷ estimate that over 200 million children in developing countries were not reaching their development potential, owing to four main causes; stunting, iron deficiency, iodine deficiency, and lack of cognitive and social-emotional stimulation. Pre-distribution policies focus largely – although not exclusively – on education, health, and early childhood development.

Early childhood interventions range from simple nutritional programmes, such as the INCAP programme in Guatemala in the 1970s⁵⁸ to centre-based stimulation and intellectual development programmes, such as the Perry Pre-School project in Ypsilanti, Michigan and the Abecedarian programme in North Carolina. Sometimes, they combine both a nutritional and a stimulation component, as in the well-known Jamaican Study of Grantham-McGregor et al.,⁵⁹ where stunted children were divided into one control and three treatment groups, all of which were benchmarked against a comparison group of normal-weight children at baseline. One of the treatment arms received only a nutritional supplement, while another one received a stimulation treatment. The third received both the supplement and the stimulation treatment. The latter group almost caught up with the comparison group in terms of cognitive measures 24 months later. Even more impressively, perhaps, their wages were significantly higher than those of the control group, and statistically indistinguishable from the comparison group, 20 years later.⁶⁰

Beyond early childhood, there are innumerable pro-poor education interventions, from busing⁶¹ in the US and school vouchers in Chile or Colombia, to targeted interventions to provide anything from school uniforms to computers and tablets to under-privileged students in Africa. In a comprehensive survey of such interventions in the developing world, Kremer et al. found that complementary input provision interventions had a mixed record at best, and were generally less successful than programmes

aimed at improving teaching and pedagogical methods.⁶² There is support for the primacy of teaching as the key input into the school-based learning production function from Chetty et al.⁶³ for the US, and Araujo et al.⁶⁴ for Ecuador. If there is an overarching policy message on pre-distribution policies, it is that they *can* work and, when they do, they can make a real difference to the children who benefit from them. However, as is often the case, they are not guaranteed to work, and the details of design and delivery matter a great deal.

There is rather less agreement about the second broad policy category, which consists of interventions directly intended to change the ways markets work.⁶⁵ Examples include antitrust regulation, policies towards unions, and minimum wages. Regulation aimed at preventing the excessive concentration of market power has always been important for a well-functioning market economy, but probably never as important as it is now. There is credible evidence that some of the increase in the capital shares of national income that we have observed in recent decades, particularly in developed countries⁶⁶ is attributable to a marked rise in pure economic profits arising from market power.⁶⁷ This reflects rising monopoly power, particularly among very large firms, which enables them to extract markups above the hypothetical competitive market price. De Loecker et al., for example, estimate that aggregate markups in the US have risen from 21% above marginal cost in 1980, to 61% more recently.⁶⁸

In addition, it seems that market power by dominant firms is not restricted to product markets. Markdowns in wages have been detected increasingly frequently, just as have markups in prices. These markdowns manifest when wages fall below the marginal productivity of workers and reflect the presence of monopsony power in local labour markets. One way to offset such imbalances between large employers and individual employees is to permit or even support the work of labour unions, which have a longstanding record of success in defending the labour share in the economy as a whole.⁶⁹ Minimum wages can also support workers' bargaining power by providing an effective floor and, when set at an adequate level, can help reduce inequality. See Engbom and Moser for an analysis of the rise in Brazilian minimum wages between 1996 and 2018.⁷⁰

Finally, the third broad category of anti-inequality policies concerns redistribution through the fiscal system, using taxes, subsidies, and transfers as the main instruments. Such policies have a long history, going back at least to Bismarck and Beveridge in the early- and mid-20th century, respectively.⁷¹ Their fiscal reforms gave rise to the so-called 'welfare states' said to characterise much of Europe today. Countries so described generally have rates of income taxation sufficient to finance not only public schooling but also to subsidise (partially or fully) the costs of healthcare, provide basic old-age pensions, and a variety of other income supplements to those unable to derive sufficient income from employment, either temporarily or more permanently. In addition to public pensions and unemployment insurance, these programmes include child and family benefits, earned income tax credits, food stamps,

subsidised school meals, and many others. It would be impossible to do them justice here, and indeed there is an entire chapter in this volume dedicated to the welfare state.⁷²

When welfare states have been generous and also succeeded in providing high-quality public schooling, as in Finland and Scandinavia, they have certainly contributed to keeping inequality levels lower than elsewhere. Denmark, Finland, Iceland, and Norway form a cluster of countries closest to the origin in Figure 10.3, with income Gini coefficients below 0.3, and less than 20% of that associated with inequality of opportunity. Just 'North' of them in the graph, the Netherlands, the Czech Republic, Slovakia, and Slovenia, which have similar levels of income inequality but slightly higher measures of inequality of opportunity, also have actively redistributive fiscal systems.

Even in developing countries, where inequality is typically greater and redistribution typically weaker, social protection programmes have contributed to reductions in poverty and inequality, at least during the last 50 years or so.⁷³ The late 1980s saw the introduction of some non-contributory pension schemes with a greater reach into the informal sectors, such as the *Aposentadorias Rurais* in Brazil. In Asia, public work and food transfer schemes were more common. From the 1990s onward all of these were complemented, in many countries, by conditional cash transfer programmes, which were targeted to the poorest households and provided small payments on condition that children were enrolled in and attending school.⁷⁴ These targeted cash transfers often replaced subsidies on specific goods, such as basic foodstuffs or fuel, which were typically both less redistributive and more distortionary.

Obviously, this short discussion does not cover every policy within those three broad areas, nor are the three areas themselves exhaustive. Where should we list agricultural extension services aimed at raising the productivity of poor farmers? Or investments in public transport, which can create new job opportunities for people living far from city centres? Or the supply of solar energy to remote off-grid villages, where children study by candlelight and women collect firewood for cooking? The scope of policies that can help reduce inequality is truly vast, and highly context-dependent.

Nor is it necessarily the case that the policies discussed are those on which there is greater consensus. One can certainly find economists who would argue against minimum wages or any kind of government regulation. But these are at least some of the policies which are (a) potentially quite important, and (b) for which there is growing support in the modern scholarly literature. There is, as previously mentioned, broad agreement that pre-distribution policies, such as early childhood development programmes and investment in better teaching, are socially desirable. The sense is that the combination of the aggregate productivity gains obtained from the additional human capital formed among recipients with whatever value one places in greater equity is likely to outweigh any incentive costs incurred in raising and spending the cash that these programmes cost. There is also growing acceptance, at

least in some quarters, that higher and more progressive taxation may have to be part of the solution in large parts of the world, including the US and most of Western Europe. Saez and Zucman,⁷⁵ among others, have noted that income tax rates are now considerably less progressive than they were in the 1950s, 1960s, and 1970s, and suggested that a return to higher rates would be advantageous.

Yet, when considering not only the egregious wealth at the top, but also the depth of deprivation at the bottom of the distribution, it is hard to avoid the sense that even this rich policy menu is inadequate. Among the (formerly) coal mining communities of the Appalachians or in the poorest counties of Mississippi (in the US), or among isolated indigenous communities in the Bolivian Andes or the Afro-descendants at Colombia's Pacific Coast, or along Nigeria's northern border with Niger, or among the Adivasi in Jharkhand, the poor and deprived number in the billions. By and large, their predecessors have been in similar positions for generations.

In these places, early childhood stimulation campaigns and new teaching methods financed by higher taxes on the rich will be welcome. But it seems unlikely that they will make a serious dent on the systematic deprivations – relative and absolute – that they live with, within a couple of generations. Unlike those who would fight inequality merely by bringing down the billionaires, those who would also like to see the world's poor raised to a life with dignity and opportunity must do more than raise taxes or train better teachers. There are some promising leads, in remote corners of the public policy space. There is evidence that the so-called Graduation or Ultra-Poor Programmes, sponsored by BRAC in Bangladesh and other poor countries, succeeded not only in raising the incomes of very poor rural self-employed people, but that they raised them above some critical poverty trap, enabling them to access more profitable occupations, so that the gains persisted many years after the programme transfers ended.⁷⁶

More such transformational programmes are needed, but not only in isolated rural settings in the world's poorest countries – where some meaningful progress can arguably be achieved at a relatively low cost; they are needed everywhere else where poverty persists across generations. What would be the equivalent to Graduation programmes that might work in the *villas miseria* around Greater Buenos Aires; in the banlieues of Paris; in inner-city Baltimore; or the poor neighbourhoods of Jakarta or Manila? Even after we have succeeded in returning income tax rates to the levels of the 1960s, or in persuading voters that inheritance taxes are a good idea, how should we spend those resources to break the intergenerational transmission of disadvantage at the bottom of the distribution? I see no consensus – and too little research – on that.

Acknowledgements

I am grateful to Oriana Bandiera, Tim Besley, Raquel Fernández, Ravi Kanbur, Nora Lustig, Barbara Petrongolo, Andrés Velasco, and participants of a workshop at LSE for comments on an earlier draft. I am also grateful to Hillary Vipond for excellent research assistance. All remaining errors are my own.

Notes

- ¹ Williamson (1989).
- ² This is an excerpt from the letter by Besley and Velasco introducing the project to invited participants, in 2022.
- ³ Pfeffer and Waitkus (2021).
- ⁴ Stiglitz (2012; 2015); Piketty (2014).
- ⁵ World Bank (2005); Berg et al. (2018); Ostry et al. (2019).
- ⁶ I follow the common (mis)usage of the word decile, to mean 'tenth' of the distribution.
- ⁷ Pfeffer and Waitkus (2021).
- ⁸ The Gini coefficient is a common measure of inequality that is based on an (adjusted) aggregation of all income differences in society. It ranges from zero, when all incomes are the same, to one, when all the income is held by a single person.
- ⁹ Rogot et al. (1992); Deaton (2002).
- ¹⁰ As shown by Bancalari et al. (2023).
- ¹¹ Fernández et al. (2023).
- ¹² Akee (2019). See also, Leighley and Nagler (2014) for a more detailed analysis, which confirms that, despite closures in the race and gender voting gaps, the income gradient in voting in the US has persisted at least since the 1970s.
- ¹³ Kleven et al. (2019).
- ¹⁴ Reeves (2022).
- ¹⁵ WIID (2020); WID (2020).
- ¹⁶ Piketty (2003); Piketty and Saez (2003).
- ¹⁷ For instance, Blanchet et al. (2022).
- ¹⁸ Haddad and Kanbur (1990).
- ¹⁹ Lise and Seitz (2011).

- ²⁰ Gasparini and Alvaredo (2015).
- ²¹ On the decline in inequality in Latin America in the 2000s, see López-Calva and Lustig (2010).
- ²² It changed by less than one percentage point (up or down) in the remaining countries (World Bank, 2016).
- ²³ Nor would you necessarily guess from the broader public debate that global inequality – between all individuals in the world (but still assuming perfect sharing within households) – declined between the 1990s and at least the mid-2010s, although there is relatively little disagreement in the scholarly literature. We have no space to explore that literature in this paper but see Lakner and Milanovic (2016) for a prominent example.
- ²⁴ Lucas (2004).
- ²⁵ Hoffman et al. (1996); Fehr and Fischbacher (2003).
- ²⁶ Henrich et al. (2004).
- ²⁷ Brosnan and De Waal (2003).
- ²⁸ See Cappelen et al. (2010). There is also plenty of more observational, survey-based evidence that inequality and wellbeing are inversely related, e.g., Alesina et al. (2004) or Luttmer (2005). Yet another research strand argues that certain goods – such as houses or cars – are ‘positional’, in the sense that there are negative externalities from their consumption simply from direct comparisons (Frank, 2005). Under fairly weak assumptions, such negative externalities tend to rise with inequality.
- ²⁹ Stiglitz (1969).
- ³⁰ Loury (1981).
- ³¹ Galor and Zeira (1993).
- ³² Banerjee and Newman (1993).
- ³³ Aghion and Bolton (1997).
- ³⁴ Hsieh et al. (2019).
- ³⁵ Marrero and Rodriguez (2013).
- ³⁶ Alesina and Rodrik (1994).
- ³⁷ Persson and Tabellini (1994).
- ³⁸ Bénabou (2000).
- ³⁹ Bourguignon and Verdier (2000).
- ⁴⁰ Acemoglu and Robinson (2000).

- ⁴¹ Engerman and Sokoloff (1997).
- ⁴² Bourguignon and Verdier (2000).
- ⁴³ Bénabou (2000).
- ⁴⁴ See Tilly (1998). See also Haveman and Wolfe (1995) for a review of the various paths through which child achievements are influenced by parental characteristics.
- ⁴⁵ See Cunha and Heckman (2007) for an influential model of the production function of human capital, which emphasises inter-temporal complementarities and the role of early childhood.
- ⁴⁶ Paxson and Schady (2007).
- ⁴⁷ Fernández and Rogerson (1998).
- ⁴⁸ Ferreira (2001); De la O et al. (2023).
- ⁴⁹ Corak and Piraino (2011).
- ⁵⁰ Stone (1975).
- ⁵¹ Chetty et al. (2014b).
- ⁵² Brunori et al. (2013).
- ⁵³ Corak (2013).
- ⁵⁴ Brunori et al. (2013).
- ⁵⁵ Markets can, of course, reinforce inequalities, e.g., by providing high and increasing (i.e., convex) returns to education, or higher financial returns to larger investments. They can also reduce inequalities, e.g., by eliminating monopoly profits through competition.
- ⁵⁶ As shown by Heckman and Landersø's (2021) comparison of social mobility in Denmark and the United States.
- ⁵⁷ Grantham-McGregor et al. (2007).
- ⁵⁸ Maluccio et al. (2009).
- ⁵⁹ Grantham-McGregor et al. (1991).
- ⁶⁰ Gertler et al. (2014).
- ⁶¹ 'Busing', in the United States, is the practice of transporting students to schools within or outside their local school districts as a means of rectifying racial segregation.
- ⁶² Kremer et al. (2013).
- ⁶³ Chetty et al. (2014a).
- ⁶⁴ Araujo et al. (2016).

- ⁶⁵ Of course, taxes, subsidies, and transfers also affect the ways markets work, but I will consider the bulk of taxation and redistribution under the third category below.
- ⁶⁶ Karabarbounis and Neiman (2013).
- ⁶⁷ Barkai (2020).
- ⁶⁸ De Loecker et al. (2020).
- ⁶⁹ Young and Zuleta (2018).
- ⁷⁰ Engbom and Moser (2022).
- ⁷¹ Incipient precursors go back much further, and include, for example, the Poor Laws in England in the early 1600s.
- ⁷² See Barr in this volume (Ch. 11).
- ⁷³ See, e.g., Ferreira and Robalino (2011) for the case of Latin America.
- ⁷⁴ The exact nature, extent, and enforcement of conditions varied across countries, but the school enrolment ones were the most common. See Fiszbein and Schady (2009).
- ⁷⁵ Saez and Zucman (2019).
- ⁷⁶ Bandiera et al. (2017).

References

- Acemoglu, D. and Robinson, J. (2000) 'Why Did the West Extend the Franchise? Democracy, Inequality and Growth in Historical Perspective', *The Quarterly Journal of Economics*, 115: 1167–1199. <https://doi.org/10.1162/003355300555042>
- Aghion, P. and Bolton, P. (1997) 'A Trickle-Down Theory of Growth and Development with Debt Overhang', *The Review of Economic Studies*, 64(2): 151–172. <https://doi.org/10.2307/2971707>
- Akee, R. (2019) 'Voting and Income', *Econofact Blog Series*. <https://econofact.org/voting-and-income>
- Alesina, A. and Rodrik, D. (1994) 'Distributive Politics and Economic Growth', *The Quarterly Journal of Economics*, 109: 465–490. <https://doi.org/10.2307/2118470>
- Alesina, A., di Tella, R. and MacCulloch, R. (2004) 'Inequality and Happiness: Are Europeans and Americans Different?', *Journal of Public Economics*, 88: 2009–42.

- Araujo, M. C., Carneiro, P., Cruz-Aguayo, Y. and Schady, N. (2016) 'Teacher Quality and Learning Outcomes in Kindergarten', *The Quarterly Journal of Economics*, 131(3): 1415–1453. <https://doi.org/10.1093/qje/qjw016>
- Bancalari, A., Berlinski, S., Buitrago, G., Vera-Hernández, M. and De la Mata, D. (2023) 'Health Inequalities in Latin America', Processed, *Latin American and Caribbean Inequality Review*. <https://doi.org/10.18235/0005243>
- Bandiera, O., Burgess, R., Das, N., Gulesci, S., Rasul, I. and Sulaiman, M. (2017) 'Labor Markets and Poverty in Village Economies', *The Quarterly Journal of Economics*: 811–870. <https://doi.org/10.1093/qje/qjx003>
- Banerjee, A. and Newman, A. (1993) 'Occupational Choice and the Process of Development', *Journal of Political Economy*, 101: 274–298. <https://doi.org/10.1086/261876>
- Barkai, S. (2020) 'Declining Labor and Capital Shares', *The Journal of Finance* LXXV(5): 2421–2463. <https://doi.org/10.1111/jofi.12909>
- Barr, N. (2025) 'Welfare State', in Besley, T., Bucelli, I. and Velasco, A. (eds) *The London Consensus: Economic Principles for the 21st Century*, London: LSE Press.
- Bénabou, R. (2000) 'Unequal Societies: Income Distribution and the Social Contract', *American Economic Review*, 90(1): 96–129. <https://doi.org/10.1257/aer.90.1.96>
- Berg, A., Ostry, J., Tsangarides, C. and Yakhshilikov, Y. (2018) 'Redistribution, Inequality, and Growth: New Evidence', *Journal of Economic Growth*, 23: 259–305. <https://doi.org/10.1007/s10887-017-9150-2>
- Blanchet, T., Flores, I. and Morgan, M. (2022) 'The Weight of the Rich: Improving Surveys Using Tax Data', *The Journal of Economic Inequality*, 20. <https://doi.org/10.1007/s10888-021-09509-3>
- Bourguignon, F. and Verdier, T. (2000) 'Oligarchy, Democracy, Inequality and Growth', *Journal of Development Economics*, 62(2): 285–313. [https://doi.org/10.1016/S0304-3878\(00\)00086-9](https://doi.org/10.1016/S0304-3878(00)00086-9)
- Brosnan, S. F. and De Waal, F. B. M. (2003) 'Monkeys Reject Unequal Pay' *Nature*, 25(6955): 297–99. <https://doi.org/10.1038/nature01963>
- Brunori, P., Ferreira F. and Peragine, V. (2013) 'Inequality of Opportunity, Income Inequality, and Economic Mobility: Some International Comparisons', in Paus, E. (ed) *Getting Development Right*, New York: Palgrave Macmillan. <https://doi.org/10.1596/1813-9450-6304>

- Cappelen, A., Sorensen, E. and Tungodden, B. (2010) 'Responsibility for What? Fairness and Individual Responsibility', *European Economic Review* 54(3): 429–441. <https://doi.org/10.1016/j.euroecorev.2009.08.005>
- Chetty, R., Friedman, J. and Rockoff, J. (2014a) 'Measuring the Impact of Teachers II: Teacher Value-Added and Student Outcomes in Adulthood', *American Economic Review*, 104: 2633–2679. <https://doi.org/10.1257/aer.104.9.2633>
- Chetty, R., Hendren, N., Kline, P. and Saez, E. (2014b) 'Where Is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States', *The Quarterly Journal of Economics* 129(4): 1553–1623. <https://doi.org/10.1093/qje/qju022>
- Corak, M. (2013) 'Inequality from Generation to Generation: the United States in Comparison', in Rycroft, R. (ed) *The Economics of Inequality, Poverty and Discrimination in the 21st Century*, Santa Barbara, CA: ABC-CLIO.
- Corak, M. and Piraino, P. (2011) 'The Intergenerational Transmission of Employers', *Journal of Labor Economics* 29(1): 37–68. <https://doi.org/10.2139/ssrn.1575852>
- Cunha, F. and Heckman, J. (2007) 'The Technology of Skill Formation', *American Economic Review*, 97: 31–47. <https://doi.org/10.3386/w12840>
- Deaton, A. (2002) 'Policy Implications of the Gradient of Health and Wealth', *Health Affairs* 21(2): 13–30. <https://doi.org/10.1377/hlthaff.21.2.13>
- De la O, A., Rossel, C. and Manzi, P. (2023) 'The Political Economy of Opting Out from Public Services in Latin America', Processed, *Latin American and Caribbean Inequality Review*. <https://doi.org/10.18235/0005329>
- De Loecker, J., Eeckhout, J. and Unger, G. (2020) 'The Rise of Market Power and the Macroeconomic Implications', *The Quarterly Journal of Economics*, 135(2): 561–644. <https://doi.org/10.1093/qje/qjz041>
- Engbom, N. and Moser, C. (2022) 'Earnings Inequality and the Minimum Wage: Evidence from Brazil', *American Economic Review*, 112(12): 3803–3847. <https://doi.org/10.1257/aer.20181506>
- Engerman, S. and Sokoloff, K. (1997) 'Factor Endowments, Institutions and Differential Paths of Growth among New World Economies: A view from Economic Historians of the United States', in Haber, S. H. (ed) *How Latin America Fell Behind*. Stanford, CA: Stanford University Press. <https://doi.org/10.1515/9781503622500-013>
- Fehr, E. and Fischbacher, U. (2003) 'The Nature of Human Altruism', *Nature*, 425: 785–91. <https://doi.org/10.1038/nature02043>

- Fernández, R. and Rogerson, R. (1998) Public Education and Income Distribution: A Dynamic Quantitative Evaluation of Education-Finance Reform, *American Economic Review*, 88(4): 813–833.
- Fernández, R., Székely, M. and Acevedo, I. (2023) 'Education Inequalities in Latin America', Processed, *Latin American and Caribbean Inequality Review*. <https://doi.org/10.2139/ssrn.4716691>
- Ferreira, F. (2001) Education for the Masses? The Interaction between Wealth, Educational and Political Inequalities, *Economics of Transition*, 9(2): 533–552. <https://doi.org/10.1111/1468-0351.00087>
- Ferreira, F. and Robalino, D. (2011) 'Social Protection in Latin America: Achievements and Limitations', in Ocampo, J. A. and Ros, J. (eds) *Oxford Handbook on Latin American Economics*, Oxford: Oxford University Press. <https://doi.org/10.1093/oxfordhpb/9780199571048.013.0033>
- Fiszbein, A. and Schady, N. (2009) 'Conditional Cash Transfers: Reducing Present and Future Poverty', Washington, DC: World Bank. <https://doi.org/10.1596/978-0-8213-7352-1>
- Frank, R. (2005) 'Positional Externalities Cause Large and Preventable Welfare Losses', *American Economic Review*, 95(2): 137–141. <https://doi.org/10.1257/000282805774670392>
- Galor, O. and Zeira, J. (1993) 'Income Distribution and Macroeconomics', *The Review of Economic Studies*. 60: 35–52. <https://doi.org/10.2307/2297811>
- Gasparini, L. and Alvaredo, F. (2015) 'Recent Trends in Inequality and Poverty in Developing Countries', in Atkinson, A. B. and Bourguignon, F. (eds) *Handbook of Income Distribution*, chapter 9: 697–805. North Holland. <https://doi.org/10.1016/B978-0-444-59428-0.00010-2>
- Gertler, P., Heckman, J., Pinto, R., Zanolini, A., Vermeersch, C., Walker, S., Chang, S. M. and Grantham-McGregor, S. (2014) 'Labor Market Returns to an Early Childhood Stimulation Intervention in Jamaica', *Science*, 344 (6187): 998–1001. <https://doi.org/10.1126/science.1251178>
- Grantham-McGregor, S. M., Powell, C., Walker, S. P. and Himes, J. H. (1991) 'Nutritional Supplementation, Psychosocial Stimulation, and Mental Development of Stunted Children: The Jamaican Study', *The Lancet*, 338(8758): 1-5. [https://doi.org/10.1016/0140-6736\(91\)90001-6](https://doi.org/10.1016/0140-6736(91)90001-6)
- Grantham-McGregor, S. M., Cheung, Y. B., Cueto, S., Glewwe, P., Richter, L. M. and Strupp, B. J. (2007) 'Developmental Potential in the First 5 Years for Children in Developing Countries', *The Lancet*, 369: 60–70. [https://doi.org/10.1016/S0140-6736\(07\)60032-4](https://doi.org/10.1016/S0140-6736(07)60032-4)

- Haddad, L. and Kanbur, R. (1990) 'How Serious Is the Neglect of Intra-household Inequality?', *The Economic Journal*, 100: 866–881. <https://doi.org/10.2307/2233663>
- Haveman, R. and Wolfe, B. (1995) 'The Determinants of Children's Attainments: A Review of Methods and Findings', *Journal of Economic Literature* 33(4): 1829–78.
- Heckman, J. and Landersø, R. (2021) 'Lessons from Denmark about Inequality and Social Mobility', NBER Working Paper 28543. <https://doi.org/10.3386/w28543>
- Henrich, J., Boyd, R., Bowles, S., Camerer, C., Fehr, E. and Gintis, H. (2004) *Foundations of Human Society: Economic Experiments and Ethnographic Evidence from Fifteen Small-scale Societies*. New York: Oxford University Press. <https://doi.org/10.1093/0199262055.001.0001>
- Hoffman, E., McCabe, K. A. and Smith, V. L. (1996) 'On Expectations and Monetary Stakes in Ultimatum Games', *International Journal of Game Theory*, 25(3): 289–301. <https://doi.org/10.1007/BF02425259>
- Hsieh, C., Hurst, E., Jones, C. and Klenow, P. (2019) 'The Allocation of Talent and U.S. Economic Growth', *Econometrica*, 87(5): 1439–1474. <https://doi.org/10.3982/ECTA11427>
- Karabarbounis, L. and Neiman, B. (2013) 'The Global Decline of the Labor Share', *The Quarterly Journal of Economics*, 129: 61–103. <https://doi.org/10.1093/qje/qjt032>
- Kleven, H., Landais, C. and Sogaard, J. (2019) 'Children and Gender Inequality: Evidence from Denmark', *American Economic Journal: Applied Economics*, 11(4): 181–209. <https://doi.org/10.1257/app.2018.0010>
- Kremer, M., Brannen, C. and Glennerster, R. (2013) 'The Challenge of Education and Learning in the Developing World', *Science*, 340: 297–300. <https://doi.org/10.1126/science.1235350>
- Lakner, C. and Milanovic, B. (2016) 'Global Income Distribution from the Fall of the Berlin Wall to the Great Recession', *World Bank Economic Review*, 30(2): 203–232. <https://doi.org/10.1093/wber/lhv039>
- Leighley, J. and Nagler, J. (2014) *Who Votes Now? Demographics, Issues, Inequality, and Turnout in the United States*, Princeton, NJ: Princeton University Press. <https://doi.org/10.1515/9781400848621>
- Lise, J. and Seitz, S. (2011) 'Consumption Inequality and Intrahousehold Allocations', *The Review of Economic Studies*, 78(1): 328–355. <https://doi.org/10.1093/restud/rdq003>

- López-Calva, L. F., and Lustig, N. (2010) *Declining Inequality in Latin America: A Decade of Progress?* Washington, DC: Brookings Institution and UNDP.
- Loury, G. (1981) 'Intergenerational Transfers and the Distribution of Earnings', *Econometrica*, 49(4): 843–867. <https://doi.org/10.2307/1912506>
- Lucas, R. (2004) 'The Industrial Revolution: Past and Future', The Region: Annual Report of the Federal Reserve Bank of Minneapolis: 5–20. <https://www.minneapolisfed.org/article/2004/the-industrial-revolution-past-and-future>
- Luttmer, E. F. P. (2005) 'Neighbors as Negatives: Relative Earnings and Wellbeing', *The Quarterly Journal of Economics*, 963–1002. <https://doi.org/10.1093/qje/120.3.963>
- Maluccio, J., Hoddinott, J., Behrman, J. R., Martorell, R., Quisumbing, A., and Stein, A. (2009) 'The Impact of Improving Nutrition During Early Childhood on Education Among Guatemalan Adults', *The Economic Journal*, 119(April): 734–763. <https://doi.org/10.1111/j.1468-0297.2009.02220.x>
- Marrero, G. and Rodriguez, J. G. (2013) 'Inequality of Opportunity and Growth', *Journal of Development Economics*, 104: 107–122. <https://doi.org/10.1016/j.jdeveco.2013.05.004>
- Ostry, J., Loungani, P. and Berg, A. (2019) *Confronting Inequality: How Societies Can Choose Inclusive Growth*, New York: Columbia University Press. <https://doi.org/10.7312/ostr17468>
- Paxson, C. and Schady, N. (2007) 'Cognitive Development among Young Children in Ecuador: The Roles of Wealth, Health, and Parenting', *The Journal of Human Resources*, 42(1): 49–84. <https://doi.org/10.3368/jhr.XLII.1.49>
- Persson, T. and Tabellini, G. (1994) 'Is Inequality Harmful for Growth?', *American Economic Review*, 84(3): 600–621.
- Pfeffer, F. and Waitkus, N. (2021) 'The Wealth Inequality of Nations', *American Sociological Review*, 86(4): 567–602. <https://doi.org/10.1177/00031224211027800>
- Piketty, T. (2003) 'Income Inequality in France, 1901–1998', *Journal of Political Economy*, 111(5): 1004–1042. <https://doi.org/10.1086/376955>
- Piketty, T. (2014) *Capital in the Twenty-First Century*, Cambridge, MA: Harvard University Press. <https://doi.org/10.4159/9780674369542>

- Piketty, T. and Saez, E. (2003) 'Income Inequality in the United States, 1913–1998', *The Quarterly Journal of Economics*, 118(1): 1–41. <https://doi.org/10.1162/00335530360535135>
- Reeves, R. (2022) *Of Men and Boys: Why the Modern Male Is Struggling, Why It Matters, and What to Do about It*, Washington, DC: Brookings Institution Press.
- Rogot, E. Sorlie, P. D., Johnson, N. J. and Schmitt, C. (eds) (1992) 'A Mortality Study of 1.3 Million Persons by Demographic, Social, and Economic Factors: 1979–1985 Follow-up'. Bethesda, MD: National Institutes of Health.
- Saez, E. and Zucman, G. (2019) *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay*, New York: W.W. Norton & Company.
- Stiglitz, J. (1969) 'Distribution of Income and Wealth Among Individuals', *Econometrica*, 37(3): 382–397. <https://doi.org/10.2307/1912788>
- Stiglitz, J. (2012) *The Price of Inequality: How Today's Divided Society Endangers Our Future*, New York: W.W. Norton & Company.
- Stiglitz, J. (2015) *The Great Divide: Unequal Societies and What We Can Do about Them*, New York: W.W. Norton & Company.
- Stone, S. (1975) 'La dinastía de los conquistadores: la crisis del poder en la Costa Rica contemporánea', San José: Editorial Universitaria Centroamericana.
- Tilly, C. (1998) *Durable Inequality*, University of California Press. <https://doi.org/10.1525/9780520924222>
- Williamson, J. (1989) 'What Washington Means by Policy Reform', in Williamson, J. (ed) *Latin American Readjustment: How much Has Happened*, Washington, DC: Peterson Institute for International Economics.
- World Bank (2005) 'World Development Report 2006: Equity and Development', Washington, DC: The World Bank and Oxford University Press. <https://doi.org/10.1596/978-0-8213-6249-5>
- World Bank (2016) 'Poverty and Shared Prosperity Report 2016: Taking on Inequality', Washington, DC: The World Bank. <https://www.worldbank.org/en/publication/poverty-and-shared-prosperity-2016>
- World Inequality Database (WID) (2020) Database. World Inequality Lab, Paris School of Economics. <https://wid.world/data/>
- World Income Inequality Database (WIID) (2020) Dataset. World Institute for Development Economics Research at the United Nations University (UNU-WIDER). <https://www.wider.unu.edu/project/wiid-world-income-inequality-database>

- Young, A. and Zuleta, H. (2018) 'Do Unions Increase Labor Shares? Evidence from US Industry-Level Data', *Eastern Economic Journal*, 44: 558–575. <https://doi.org/10.1057/s41302-016-0086-6>

Response to Francisco H. G. Ferreira by Ravi Kanbur

Resisting the drift away from income redistribution

I welcome Francisco H. G. Ferreira's attempt to identify the elements of consensus in the inequality literature and discourse over the past three decades. I agree with him that inequality has gained salience and that the patterns and trends of inequality are more nuanced and open to empirical debate than might appear at first glance from headlines in popular media.^{1;2;3}

There are two areas that I believe he could have emphasised more. First, the general neglect of intra-household inequality in our headline numbers on inequality and poverty. In my writings, I have argued that this neglect leads to a significant understatement of inequality and poverty (in the magnitude of about 25%) as well as an overstatement of the growth elasticity of poverty reduction (meaning the responsiveness of poverty to changes in economic growth). Furthermore, it is crucial to consider intra-household inequalities in policy discussions, such as the distributional impact of minimum wages and the targeting of anti-poverty expenditures.⁴ Second, I have argued elsewhere that the philosophical and operational implications of the evolution of inequality at the global level, with a decline in between-country inequality greater than the rise in within-country inequality, also requires further exploration and reflection.^{5;6}

The focus of my commentary here, however, is an assessment of what I consider a major feature of the discourse on inequality of the last three decades, namely a drift away from directly redistributing income through taxes and transfers towards what has been termed 'pre-distribution' in attempts to reduce the inequality of market incomes even before redistribution takes hold. Paradoxically, I see this emerging consensus in Ferreira's concluding paragraph on a lack of consensus:

Even after we have succeeded in returning income tax rates to the levels of the 1960s, or in persuading voters that inheritance taxes are a good idea after all, how should we spend those resources to break the intergenerational transmission of disadvantage at the bottom of the distribution? I see no consensus – and too little research – on that.

In this summary of a lack of consensus, Ferreira is in effect reporting a consensus that has emerged, perhaps crept up on us somewhat unthinkingly. A consensus that direct and simple redistribution of income and wealth is not anywhere near enough to address what Ferreira says are 'multiple inequalities interconnected in complex ways'. This is a turn away from what we might call the 'social democratic consensus' of the first four post-war decades, that a direct and vigorous policy of income and wealth redistribution must be at the heart of any strategy for addressing inequalities.

The arguments of the last few decades have steadily eroded this consensus on income and wealth distribution, propelled primarily by anti-egalitarian sentiment, but I would also argue that strands of egalitarian thinking have aided and abetted, perhaps unwittingly, this shift in thinking. Incentive effects, multidimensionality, capability, equality of opportunity, pre-distribution, political economy, etc., are the terms that have frequently been used when arguing for the move away from direct redistribution of market outcomes in income and wealth to addressing inequalities through other means and in other dimensions. These terms, separately or in combination, are underpinned by three types of arguments: (1) that redistribution of income is associated with technical and economic issues, (2) that redistribution can be challenged on moral philosophical grounds, and (3) that political economy has turned against redistribution in favour of pre-distribution.

Before diving into each of these arguments, let me clarify the scope of what we are discussing here. First, what we are discussing is a continuum, not a strict division between two clear-cut policy options. We are observing a drift towards one end of the spectrum, namely a focus on pre-distribution solutions. Second, income redistribution refers not just to direct taxation, but to the full gamut of tax and transfer regimes. It is the combined effect of all of these policy options that we should be discussing. Third, there are indeed incentive effects with income redistribution that we need to take into account.

Let us start then with the argument that redistributing income may not be the best way of, well, redistributing income. Even if redistributing income is the objective, it may be better to aim for a more equal distribution of education, for example. The technical and economic challenges associated with income redistribution through taxes and transfers are well developed in economic analysis and well publicised in policy debates. The framework of the Nobel Prize-winning economic analysis of James Mirrlees, highlights the balance between incentive effects and redistribution in assessing the progressivity of taxation. Economists' focus on incentive effects of progressive taxation have influenced policy and politicians. Atkinson highlights this through an example from the United Kingdom:

These research findings were factored into the influential review of UK taxation carried out by the Institute for Fiscal Studies and chaired by Sir James Mirrlees. The conclusion of the Mirrlees

review in turn influenced the UK Chancellor of the Exchequer, George Osborne, when he announced that the top income tax rate in the UK would be cut from 50 percent to 45 percent beginning in 2013...⁷

Atkinson went on to counter the arguments for lowering the top income tax rate on technical grounds. It is worth noting that there is no comparable assessment or discussion of incentive effects on 'redistributing education'. These effects may be smaller or greater. We do not know because such issues have not been researched to the same extent and are not brought to the fore in the public discourse. The incentive effects of income redistribution remain the main focus of academic and popular debates on inequality.

Ferreira recognises and emphasises the role of informational problems and cultural factors in changing educational preferences of parents. However, these considerations are not brought into commensurate comparison with the informational and other challenges associated with income redistribution, which often receive greater attention and focus in policy discussions. Consider the following assessment from Ferreira:

My reading is that there is a greater measure of consensus about the first group, often described as '*pre-distribution*' policies [than the second and third groups of policies, namely how product, labour and capital markets work, and policies that redistribute incomes – or wealth – *ex-post*]. Pre-distribution refers to public investments intended to enhance the human capital accumulation of the least advantaged – in part to make up for the greater private investments of better-off families...

The irony in this statement needs to be appreciated. The reason for the move from redistribution of income to pre-distribution of education, with its attendant difficulties of 'getting inside the family' as Ferreira highlights, is to make up for inequality of income, which is contributing to inequality of education. Why not just redistribute income?^{8;9}

The second argument is that redistribution of income is not a legitimate normative target, at least not to the fullest extent. Income is the result of effort and choice and the portion of the inequality of this outcome, which is not the result of inequality of 'circumstances' or 'opportunity', should not be a target for policy. Over the last four decades even scholars from the egalitarian end of the political spectrum have developed this argument. Marxist philosopher Gerry Cohen lauded Ronald Dworkin for helping egalitarianism by 'incorporating within it the most powerful idea in the arsenal of the anti-egalitarian right: the idea of choice and responsibility'.¹⁰ According to Roemer and Trannoy:

In the welfarist tradition of social-choice theory, egalitarianism means equality of welfare or utility. Conservative critics of egalitarianism rightly protest that it is highly questionable that this kind of equality is ethically desirable, as it fails to hold persons responsible for their choices, or for their preferences...¹¹

I, as many others, have criticised the opportunity perspective on conceptual, empirical, and policy grounds.¹² This is not the occasion to rehearse these arguments (see, for example, Sypnowich's work and the accompanying commentaries in the *Boston Review* symposium).¹³ In my view, the steady march of the opportunity perspective partly explains the turn away from income redistribution in the post-Washington Consensus.

Finally, consider the third argument in favour of the drift away from focusing on income redistribution – that it is supported by the population at large and thus by politicians. This argument from analysts like Claude Fischer and Leah Gordon is stated and then countered by Sypnowich as follows:

....Claude Fischer and to a lesser degree Leah Gordon, reflecting on the inhospitable American scene past and present, provide sobering counsel that a focus on outcomes could be political suicide. Given the popular appeal of ideas like merit, private property, and social mobility, it is only prudent for egalitarians to adopt modest goals and focus on equality of opportunity...In my view, if we heed the realists' advice, we risk capitulating to a grudging outlook that is unwilling to remedy disadvantage that, though ostensibly the result of free choices, is mired in unchosen and unjust social conditions.^{14;15;16}

It is not clear to what extent and in what precise sense the public supports or does not support equality of outcomes. Hufe et al. argue that evidence supports interventions to redress extreme outcomes like poverty.¹⁷ Kanbur and Levy contend that the social acceptability of tax and transfer schemes is a subtle and nuanced matter, contingent upon various contextual factors and timing.¹⁸ But the fact remains that conceding the case for income redistribution on these grounds right from the outset diminishes the negotiating power of egalitarians in the rough and tumble of policy and political discourse.

Let me conclude by saying that the drift away from income redistribution identified by Francisco H. G. Ferreira, which is definitely part of the current consensus, needs to be challenged. I very much hope that it will not remain, even unthinkingly, as part of any new consensus to replace the Washington Consensus.

Notes

- ¹ Kanbur (2019).
- ² Kanbur et al. (2021).
- ³ Kanbur and Sumner (2012).
- ⁴ Kanbur (2018b).
- ⁵ Kanbur (2019).
- ⁶ Kanbur (2018a).
- ⁷ Atkinson (2015).
- ⁸ Haaparanta et al. (2022).
- ⁹ Tuomala et al. (2022).
- ¹⁰ Cohen (1989).
- ¹¹ Roemer and Trannoy (2016).
- ¹² Hufe et al. (2022).
- ¹³ Sypnowich (2023b).
- ¹⁴ Sypnowich (2023a).
- ¹⁵ Fischer (2023).
- ¹⁶ Gordon (2023).
- ¹⁷ Hufe et al. (2022).
- ¹⁸ Kanbur and Levy (2022).

References

- Atkinson, A. B. (2015) *Inequality: What Can Be Done?*, Cambridge, MA and London, England: Harvard University Press. <https://doi.org/10.4159/9780674287013>
- Cohen, G. A. (1989) 'On the Currency of Egalitarian Justice', *Ethics*, 99(4): 906–944. <https://doi.org/10.1086/293126>
- Fischer, C. S. (2023) 'Public Opinion Doesn't Support Equal Outcomes', https://www.bostonreview.net/forum_response/the-american-way/
- Gordon, L. (2023) 'History Shows the Risks of a Focus on Outcomes', *Boston Review*. https://www.bostonreview.net/forum_response/equality-of-resu-lts-revisited/

- Haaparanta, P., Kanbur, R., Paukkeri, T., Pirttilä, J. and Tuomala, M. (2022) 'Promoting Education Under Distortionary Taxation: Equality of Opportunity Versus Welfarism', *Journal of Economic Inequality*, 20: 281–297. <https://doi.org/10.1007/s10888-021-09492-9>
- Hufe, P., Kanbur, R. and Peichl, A. (2022) 'Measuring Unfair Inequality: Reconciling Equality of Opportunity and Freedom from Poverty', *Review of Economic Studies*, 89(6): 3345–3380. <https://doi.org/10.1093/restud/rdab101>
- Kanbur, R. (2018a) 'Citizenship, Migration and Opportunity', *Journal of Human Development and Capabilities*, 18(4): 429–441. <https://doi.org/10.1080/19452829.2017.1349088>
- Kanbur, R. (2018b) 'Intrahousehold Inequality and Overall Inequality', in Ocampo, J. A. and Stiglitz J. E. (eds), *The Welfare State Revisited*, Columbia University Press. <https://doi.org/10.7312/ocam18544-009>
- Kanbur, R. (2019) 'Inequality in a Global Perspective', *Oxford Review of Economic Policy*, 35(3): 431–444. <https://doi.org/10.1093/oxrep/grz010>
- Kanbur, R. and Levy, S. (2022) 'Social Acceptability of Tax and Transfer Schemes', *LSE Public Policy Review*, 2(4): 3, 1–10. <https://doi.org/10.31389/lseppr.66>
- Kanbur, R. and Sumner, A. (2012) 'Poor Countries or Poor People? Development Assistance and the New Geography of Global Poverty', *Journal of International Development*, 24(6): 686–95. <https://doi.org/10.1002/jid.2861>
- Kanbur, R., Wang, Y. and Zhang, X. (2021) 'The Great Chinese Inequality Turnaround', *Journal of Comparative Economics*, 49(2): 467–482. <https://doi.org/10.1016/j.jce.2020.10.001>
- Roemer, J. and Trannoy, A. (2016) 'Equality of Opportunity', in Atkinson, A. and Bourguignon, F. (eds), *Handbook of Income Distribution*, 2A, Amsterdam: Elsevier North-Holland. <https://doi.org/10.1016/B978-0-444-59428-0.00005-9>
- Sypnowich, C. (2023a) 'Equality Matters', *Boston Review*. https://www.bostonreview.net/forum_response/equality-matters/
- Sypnowich, C. (2023b) 'Is Equal Opportunity Enough?', *Boston Review*. <https://www.bostonreview.net/forum/is-equal-opportunity-enough/>
- Tuomala, M., Pirttilä, J., Kanbur, R., Paukkeri, T. and Haaparanta, P. (2022) 'Pre-Distribution Requires Redistribution', CEPR, VoxEU. [14 Dec] <https://cepr.org/voxeu/columns/pre-distribution-requires-redistribution>

Response to Francisco H. G. Ferreira by Nora Lustig

The mistakes that should not be repeated: what can we learn from the Washington Consensus on the inequality front?

The conception and application of the Washington Consensus policies took place in a highly unequal context.¹ The debt crisis that precipitated their emergence stemmed from both the over-lending practices of European and US banks and the over-borrowing of many countries in the developing world. Yet, the borrowing countries bore the brunt of the costs. By controlling access to resources, the governments in rich countries controlled the process. They used their leverage in multilateral organisations – the IMF and the World Bank in particular – to put pressure on debtor countries to generate fiscal and foreign exchange surpluses that were large enough to ensure servicing of their debt, even if this often happened at the expense of the wellbeing of the general population in developing countries, especially among the poor.

Governments in rich countries also used this leverage to make debtor countries implement market-oriented reforms that would presumably result in more efficient productive systems and higher growth rates in the longer run. These policies were part and parcel of the IMF stabilisation packages and the World Bank structural adjustment loans. During the 1980s at least 40 countries had IMF stabilisation programmes each year. Most of them were in Latin America and Sub-Saharan Africa. Access to loans was conditional on following the Washington Consensus policies, which asked countries for drastic devaluations of their currency, sharp reductions in their fiscal deficit, fast-paced trade liberalisation, deregulation of markets, and privatisation of state-owned companies. These policies were not necessarily wrong per se. Fiscal prudence and eliminating egregiously inefficient state interventions were desirable goals. In fact, failure to correct unsound macroeconomic policies proved to be very costly as well.

However, the conditions attached to stabilisation programmes often resulted in overadjustment. Sharp cuts on the fiscal front resulted in larger-than-expected recessions, which in turn led to higher fiscal deficits down the road, ultimately defeating the purpose of the initial austerity measures. The magnitude, speed, and zealotry with which fiscal deficits were forced to adjust, and the economies forced to open up to external competition, had lasting costs on the countries that implemented them. If the burden of the

debt overhang had been shared more equally between lending and borrowing countries and market-oriented reforms had been introduced more gradually, the so-called lost decade of the 1980s – a period in which many countries especially in Latin America and Africa experienced sharp declines in living standards, leaving behind persistent scars – could have been avoided.

During the debt crisis, the IMF-led stabilisation programmes were largely insensitive to the social costs. The general view by governments in creditor countries, multilateral organisations, and mainstream academics (especially in the US and Europe) was that these costs were primarily the consequence of mismanagement within the borrowing countries, and not of the adjustment policies designed to fix the self-inflicted imbalances. Regardless, the multilateral organisations should have prioritised shielding the poor. They did not. As it has been well documented, poverty rates rose significantly in the affected countries.² The human costs, however, went beyond low-income groups. The human capital of the next generation was damaged.

In 'Adjustment with a Human Face', Richard Jolly, UNICEF's deputy executive director at the time, was among the most influential voices in the global arena to sound the alarm bells, pointing out the human costs in terms of unemployment, child malnutrition, and setbacks in education and health.³ At the time, rising malnutrition was recorded in Bolivia, Brazil, Chile, Jamaica, the Philippines, Sri Lanka, and in ten African countries.⁴ In Latin America, infant mortality rates improved at a slower pace than in the 1970s.⁵ After improving systematically in the 1970s, the proportion of low-birthweight infants and undernourished children increased in Chile and infant and preschool mortality caused by nutritional deficiency rose in Mexico throughout the 1980s. School attendance and literacy also took a hit. In Mexico, the proportion of each graduating class that entered the subsequent educational level declined after 1982, particularly for junior high school and high school students. The percentage of children entering primary school out of the total number of children in the relevant age cohort declined. In Venezuela, the literacy rate for people aged 15 to 19 fell in the 1980s.⁶

The slowdown in educational attainment and rise in child malnutrition during the lost decade of the 1980s trapped children in poverty, exacerbated inequality of opportunities, and contributed to the rise in earnings inequality during the 1990s, when the supply of low-skilled workers grew relatively more than the demand for them.⁷ Furthermore, to the extent that human capital contributes to economic growth, these setbacks in education, health, and nutrition affected overall welfare as well. But this is not the end of the story. In some countries the Washington Consensus policies were also linked to severe macroeconomic crises down the road. This was the case in Mexico, for example, where a botched privatisation of the banking system was one of the underlying causes of the economic crisis in 1995.⁸

Another disturbing fact is that safety nets were broadly absent from the 1980s stabilisation and structural adjustment programmes and, when

implemented, they were (oddly) ill-conceived. While in the aftermath of the debt crisis there was a widespread perception that social investment funds had been created to cushion the impact of the stabilisation policies on the poor, a closer examination revealed that this was not the case. Even though social investment funds may have helped poor workers and communities, they were not designed to create employment opportunities for those hurt by the policies. For instance, when Bolivia created an emergency social fund in the 1980s, only 10% of the workers who benefited from the fund were ex-miners affected by privatisation. And this 10% represented just over 1% of all the miners that had been let go.⁹

The Washington Consensus exacerbated inequality because fiscal cuts did not exempt pro-poor spending or investment in human capital more broadly; compensatory safety nets were absent for the most part; trade liberalisation and other market-oriented reforms frequently resulted in higher demand for skilled workers; and in many countries privatisation of state-owned enterprises produced a new generation of powerful rent-seekers and new forms of crony capitalism.

The fundamentalist nature that characterised Washington-Consensus thinking in many quarters meant that more heterodox approaches to correcting macroeconomic disequilibria and fighting inflation were not given a fair chance for long. The next consensus should not be a consensus that is only crafted among the powerful. Rather, it should keep an open mind regarding which policies can be adopted and it should contemplate ways of protecting the poor and vulnerable in the face of shocks such as crises, natural disasters, and pandemics, as well as policy-induced shocks.

The green agenda is a case in point. Decarbonising societies requires changes in many areas from transportation to home energy use, industrial restructuring, electricity generation, dietary habits, land use regulations, and alternative energy uses. Many of these changes impose a cost or burden that is relatively higher for some groups in society than others, resulting in policies that have a positive impact on the environment, but that are distributionally regressive. Poorer people, for instance, spend a higher share of their income on home energy and tend to use dirtier fuels than richer households. This has an impact both on greenhouse gas emissions and on local air quality in terms of smog and acid rain. Fiscal policies, such as carbon taxes and the elimination or reduction of energy subsidies, have a disproportional impact on poorer households. The green agenda risks hurting the poor disproportionately if the costs of carbon-reducing policies, such as carbon taxes or eliminating electricity and fuel subsidies, are not accompanied by compensatory policies to protect the poor during the transition to cleaner energy.

Notes

- ¹ The term, Washington Consensus, was first used in 1989 by English economist John Williamson in the context of a conference on Latin American adjustment. See Irwin and Ward (2021). The conference proceedings were published as Williamson (1990).
- ² For Latin America see, for example, Lustig (1995) and Lustig (2000).
- ³ Jolly (1991). See also Cornia et al. (1987).
- ⁴ Stewart (1988).
- ⁵ Lustig (2000).
- ⁶ Lustig (2000).
- ⁷ Lustig (1995).
- ⁸ Lustig (1998).
- ⁹ Newman et al. (1991).

References

- Cornia, A., Jolly, R. and Stewart, F. (1987) *Adjustment with a Human Face, Volumes 1 and 2*, Oxford: Oxford University Press.
- Irwin, D. A. and Ward, O. (2021) 'What Is the "Washington Consensus?"', Realtime Economics Blog, Peterson Institute for International Economics. <https://www.piie.com/blogs/realtime-economic-issues-watch/what-washington-consensus>.
- Jolly, R. (1991) 'Adjustment with a Human Face: A UNICEF Record and Perspective on the 1980s', *World Development*, 19(12): 1807–1821. [https://doi.org/10.1016/0305-750X\(91\)90026-E](https://doi.org/10.1016/0305-750X(91)90026-E)
- Lustig, N. (ed) (1995) *Coping with Austerity: Poverty and Inequality in Latin America*, Washington DC: Brookings Institution Press.
- Lustig, N. (1998) *Mexico: The Remaking of an Economy*, Washington, DC: The Brookings Institution Press.
- Lustig, N. (2000) 'Crises and the Poor: Socially Responsible Macroeconomics', *Economía: The Journal of the Latin American and Caribbean Economic Association*, 1(1), 1–45. Fall 2000. LACEA's Presidential Address. <https://doi.org/10.1353/eco.2000.0009>
- Newman, J., Jorgensen, S. and Pradham, M. (1991) 'Workers' Benefits from Bolivia's Emergency Social Fund', Living Standards Measurement Study. Working Paper 77. Washington: World Bank. <https://documents1.worldbank.org/curated/en/332861468740706175/pdf/multi-page.pdf>

- Stewart, F. (1988) 'Adjustment with a Human Face: The Role of Food Aid', *Food Policy*, 13(1): 18–26. [https://doi.org/10.1016/0306-9192\(88\)90004-8](https://doi.org/10.1016/0306-9192(88)90004-8)
- Williamson, J. (1990) 'What Washington Means by Policy Reform', Chapter 2 from Williamson, J. (ed) *Latin American Adjustment: How Much Has Happened?* Institute for International Economics.