

Equality of Opportunity

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First of all, let me thank Domingo Sugranyes for inviting me to participate in this event. It is something by which I am doubly thankful. First, and foremost, because of the possibility of listening and discussing with so many distinguished scholars on topics of the maximum interest to me. And second, because of my personal circumstances, this event may help me and my family in this difficult time.

We agreed that I will concentrate my intervention in a topic I have been working on for a long time: the idea of Equality of Opportunity.

Equality of Opportunity is a political ideal related to the principles of Justice and Equity. I will argue nonetheless, that achieving equality of opportunity also helps in improving Efficiency. That is, this is a concept that enhances both equity and efficiency.

Let us concentrate on something very appealing, namely, efficient allocation of talent in a society.

There is a very old joke (maybe appropriated in this audience) that says that Heaven is a place where cooks are French, engineers are German, policemen are British, bankers are Swiss, and lovers are Italian. On the contrary, Hell is a place where cooks are British, policemen are German, engineers are French, bankers are Italian, and lovers a Swiss. Apart from the stereotypes, the message of the joke is that one should perform the job that he/she can do better. If the allocation of activities is made according to talent, the economy is more productive, and moreover, people are happier. A bad allocation of talent produces inefficiencies and a loss of social welfare.

And why talent is not allocated in an efficient way? In general, it is due to **entry barriers**. They could be of different sort. For instance, lack of access to the right education, lack of access to certain positions, lack of access to loans (or in general, to the financial markets). In all those cases, individuals cannot benefit from their talent, and society is wasting those resources.

The lack of access has two effects. On the one hand, the economy is inefficient, since by an adequate allocation of talent it could be more productive. On the other hand, there are important inequalities, since there is a part of the society that have access (those at the top of the income distribution), while the poor are facing all sorts of entry barriers. Thus, this is a case in which equity and efficiency go together. Enhancing Equality of Opportunity has a positive effect in the functioning and growing of the economy.

But, what is the meaning of Equality of Opportunity? We can distinguish two types of equality of opportunity, formal and substantive.

Formal equality of opportunity

A society is *just* in the formal sense of Equality of Opportunity, when

- Positions are *open* to any candidate
- They are adjudicated on the basis of *merit*
- *There are no restrictions in the financial market*
 - Banks provide loans according to expected profits, without collateral

- Firms have access to credit in competitive conditions
- *All individuals have access to education*
- *All individuals have access to health services*
 - There is no discrimination because of gender, race, health status or social status in the access to public services

Substantive Equality of Opportunity

We mentioned that in the formal EO, privileged positions are reached by merit, but *how merit is achieved?*

The income of an individual (or the position achieved) depends on different factors. Some of those factors are under the control of the individual (as the effort they put in achieving formation, or how they invest in human capital), but there are other factors over which he/she has no control (as the socioeconomic origin, gender, race, or where he/she is born). We distinguish between the first type of factors (we coin them under the label **effort**), and the second type that are coded as **circumstances**. The literature on **Equality of Opportunity** emphasizes that justice is not achieved by equalizing outcomes, but by equalizing opportunities, namely, to reduce the effect that circumstances have on the final outcome (income, position, etc.). If all individuals have identical opportunities, inequalities are due to differences in effort, and then they are not only just, but efficient, in the sense that social welfare increases by allowing the individuals to appropriate the benefits derived from their effort and talent, and giving rise to better results for the full society.

We can elaborate a bit on the effect of circumstances in some types of access.

Let's start by the financial markets. Someone with a brilliant idea but without the financial means, will need to convince a bank to provide the money to put it in practice. In general, this is complicated (in some cases impossible), without a collateral. On the other hand, someone with a poor idea, but having the means, can put it in practice under no external financing. At the end, the poor idea is developed, while the brilliant one is not. This happens in many developed countries in which there are difficulties in financing productive ideas, and the banks prefer to devote loans to mortgages on the real estate. Spain is a paradigmatic case of that situation. It also happens that if the incidence of small (and family) firms is important, the access to capital is very unequal, generating inefficiencies.

Let's now talk a bit on the access difficulties to some positions or professions. Some of them have a large corporate component. This happens in particular in some high civil servant positions (judges, magistrates, state tax inspectors, etc). It is remarkable that even at the university level, the absence of women is significant at the level of Full Professor, something to think also about. In some countries the inbreeding at the universities prevents the entry of many talented people, deteriorating the quality of the system.

If your parents are rich, you have a significant advantage if you want to create a firm or make an investment. But it is also crucial in acquiring the adequate education. That is why education policies are crucial in enhancing equality of opportunity. It is normally accepted that free access to education positively affects intergenerational mobility and efficient allocation of talent. But the truth is that the differences in the valuation of education, aspirations and preferences between

poor and rich people have the consequence that the rich group obtain better benefits from public education than poor people, so that the extension of free education at all levels may have negative effects on social mobility and in the efficient allocation of talent.

An additional problem is the matching between people's education and the requests in the job market, in a changing world. The educational system has to provide an answer, and at the same time to level the playing field to everybody, so that anyone may reach the best situation according to his/her talent and effort. And this is a very difficult task.

Can we conclude something out of these reflections?

Can we say something about the role of the governments or about the role of organizations with an ethic conscience?

There are some requests that should be fulfilled if we want to enhance equality of opportunity.

At the education level, it is important (1) to provide with an education free and of quality at the beginning, starting from the nursery and the kindergarten; (2) to prevent scholastic failure (supporting those with difficulties, but at the same time enhancing effort; (3) recover the quality of secondary education; and (4) limit the subsidies at the university level and complement with generous scholarships and conditioned loans.

At the social services level, it is important (1) to prevent social exclusion, either by means of a universal income or by some other imaginative measures; (2) to provide the adequate child care; and (3) to improve and maintain the access to health services.

At the job market level, it is important (1) to fight unemployment or looking for alternatives, and (2) to increase women participation at all levels.