

Collegio Carlo Alberto

UNIVERSITÀ DEGLI STUDI DI TORINO

18th Luca d'Agliano Lecture

“Inequality and the (mis)use of Talent”

by Oriana Bandiera

Sir Anthony Atkinson Chair in Economics, LSE

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An account of the event by Gregory Viscusi

“After Covid, we will wake up to a more unequal and more inefficient world.”

That’s the alarming conclusion of Oriana Bandiera, Sir Anthony Atkinson Chair in Economics, London School of Economics, in the Luca d'Agliano lecture at the Collegio Carlo Alberto on Nov. 27th entitled “Inequality and the Misuse of Talent.” This is a joint initiative of the Centro Studi Luca d'Agliano and the Collegio Carlo Alberto.

The pandemic didn’t just push millions below the poverty threshold and throw millions of women out of the labor force, but drawing on six studies across dozens of countries Bandiera showed that those stuck in poverty or forced into the informal economy face often insurmountable obstacles to return to their previous status.

It’s not just the direct victims who will pay the price. By barring potentially talented employees from progressing, it depresses growth by hurting the economy’s productivity.

Bandiera told a personal experience. At 17 she moved from her home in Sicily to study in Milan. While her new hometown was three times richer than her native one, she didn’t find the residents any smarter. She said her father always insisted the smartest man he knew was the local sandwich vendor back home in Sicily. She pointed to studies that show that half of blue collar workers have better math, literacy, and problem solving skills than the bottom 10% of management and professional workers.

It’s a misallocation loop resulting from how people of different qualities are allocated jobs, and that is often based on inequality. Poorer kids get less chance to go to good schools and to stay for long, which entraps them in poverty. And the loop reduces productivity because lower quality people end up in better jobs.

“Inequality generates misallocation of talent, misallocation leads to lower productivity and creates more inequality,” she said.

A recent study looked at 7,000 Bangladeshi during the Covid lockdowns. About 40% of business owners lost their businesses, mostly ending up in casual labor. Among salaried workers, only one-quarter lost their jobs.

In both cases, the wealth of those who kept their businesses or salaried jobs was twice as high as those who lost them.

“This leads to the conclusion that the effect of the pandemic will last longer than the pandemic,” Bandiera said. “These feedback mechanisms are pushing people beyond the poverty threshold into newly formed poverty traps.”

The cost of inequality is measurable. In 1960, 94% of doctors and lawyers in America were white men. That ratio was down to 62% by 2010, which explains 40% of growth over the period, according to one study.

Discrimination can be tackled through laws. But what’s the solution for poverty traps? Often, simple but massive transfers work best, she says.

Another 11-year study in Bangladesh showed that providing a cow to poor women had a lasting impact in lifting them out of poverty. The cow provided enough income to live on, but its purchase price was well beyond what they could afford even with micro-finance.

Transfers are also easy. “Everyone has a mobile phone,” she said. “It’s not cheap, but it’s cheaper in the long run.”

Government support measures in Western countries did help mitigate the worst impacts of Covid, but even they might have perpetuated inequalities because they were mostly aimed at employees of big companies.

“In a frictionless market, we’d wake up and go back to where we were because the economy shut down so it should reopen as if we’d been in hibernation,” Bandiera said. “But because it pushed people below the poverty threshold and put many people out of the labor force, we will wake up to much more unequal and less efficient world.”

Gregory Viscusi is a freelance writer and television commentator who has reported on European politics and economics for three decades for leading U.S. media such as Bloomberg News, Dow Jones, and France24.