

# Inequality and the (mis)use of talent

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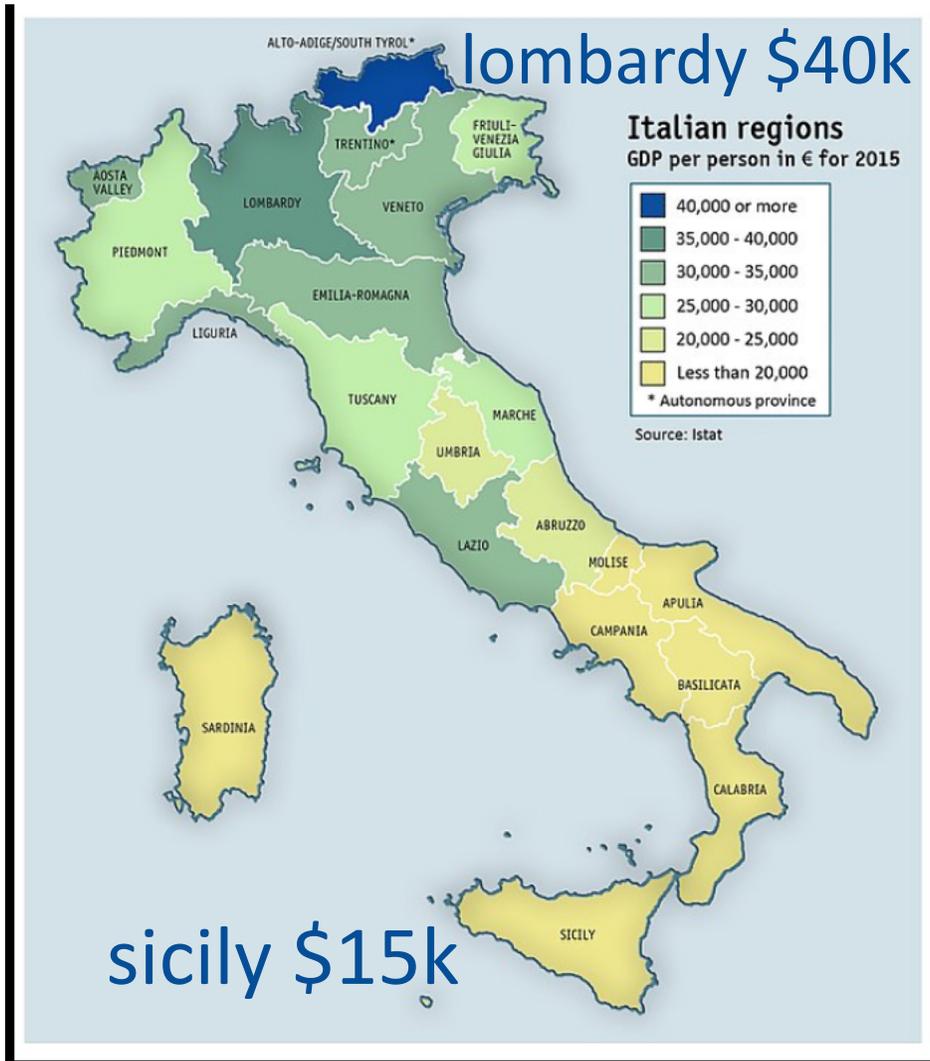
**EIGHTEENTH LUCA d'AGLIANO LECTURE IN DEVELOPMENT ECONOMICS**

**November 27, 2020**

# Living standards vary enormously across and within countries

- Mostly due to differences in labor productivity
- I will discuss how this depends on the organization of labor, that is how people of different talent are allocated to jobs
- And how this depends on inequalities

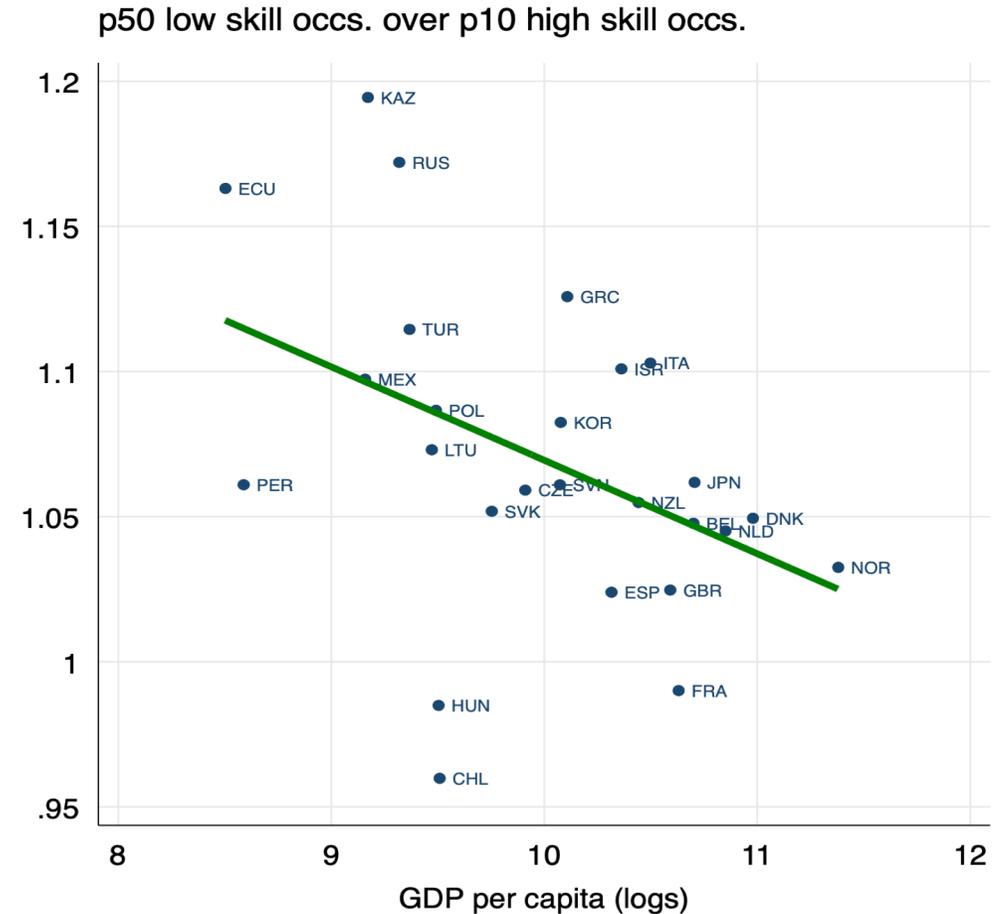
# An anecdote



# A fact

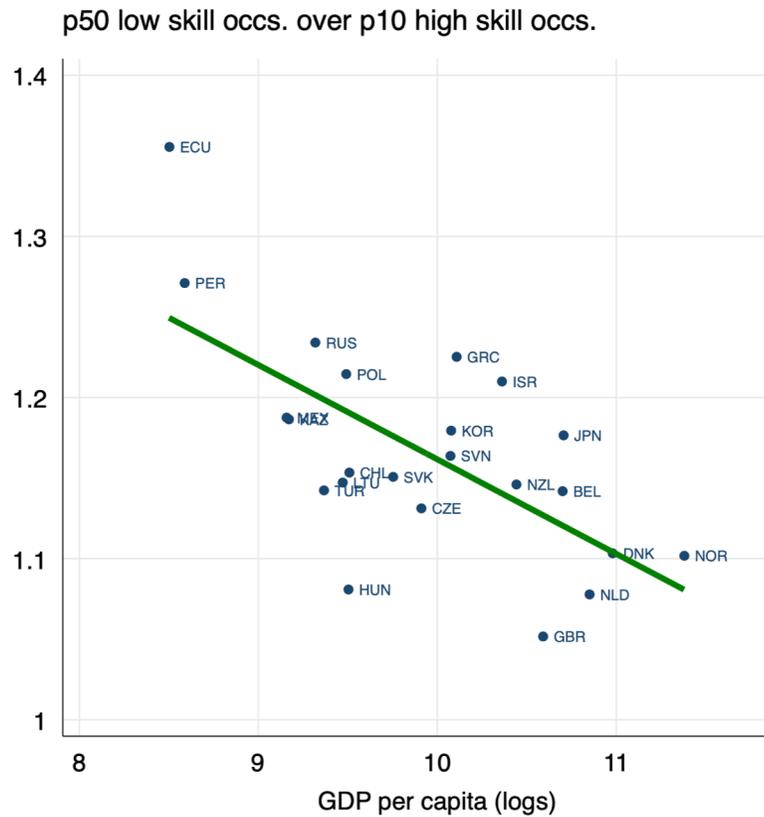
- Ratio  $> 1$  means that half of blue collar workers have better skills than the bottom 10% of managers & professionals
- so 1.2 = median bc worker is 20% better at math than bottom 10<sup>th</sup> pctile manager

## Numeracy

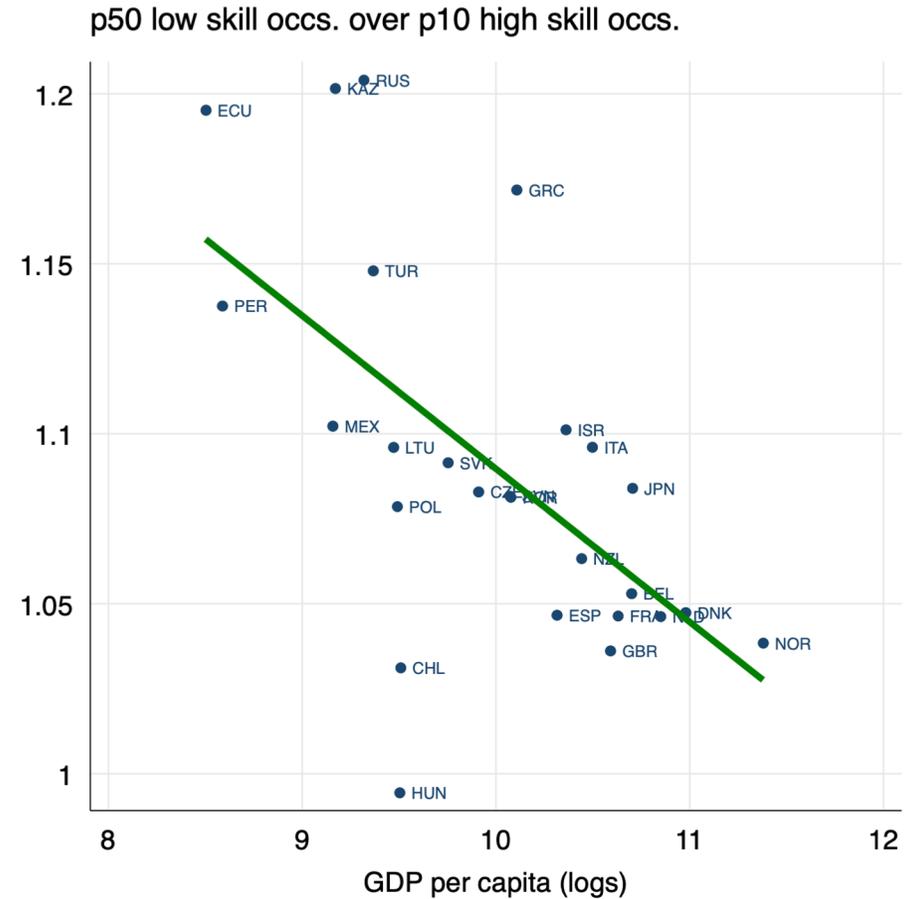


This holds for different types of skills

## ProblemSolving



## Literacy

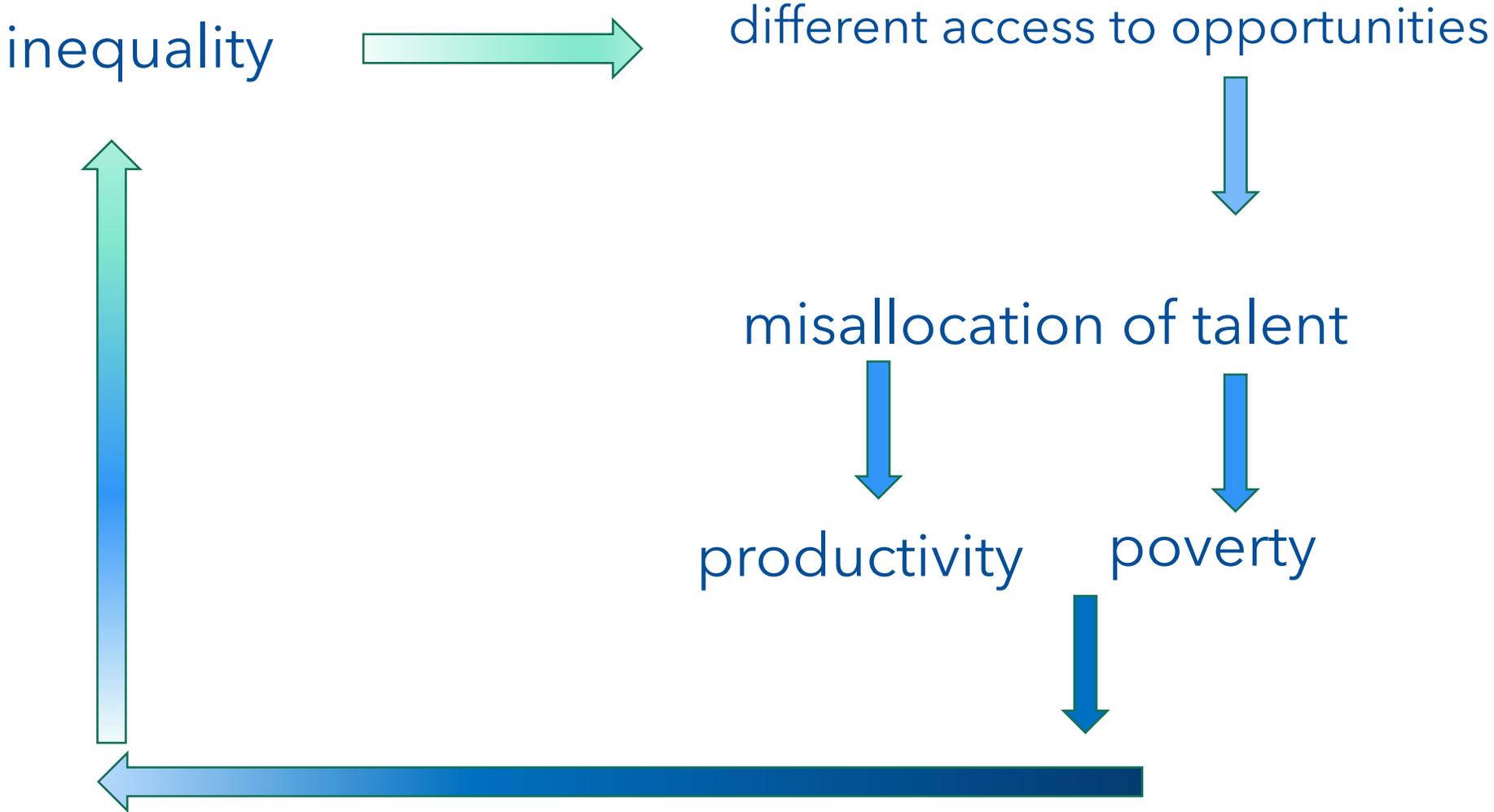


# Why does this matter?

1. managers and professionals have a much larger impact on economic activity → gains from swapping until all managers are more talented than all workers
2. casts doubt on meritocracy as a system of incentives

# Part I: Wealth inequality

# A misallocation loop

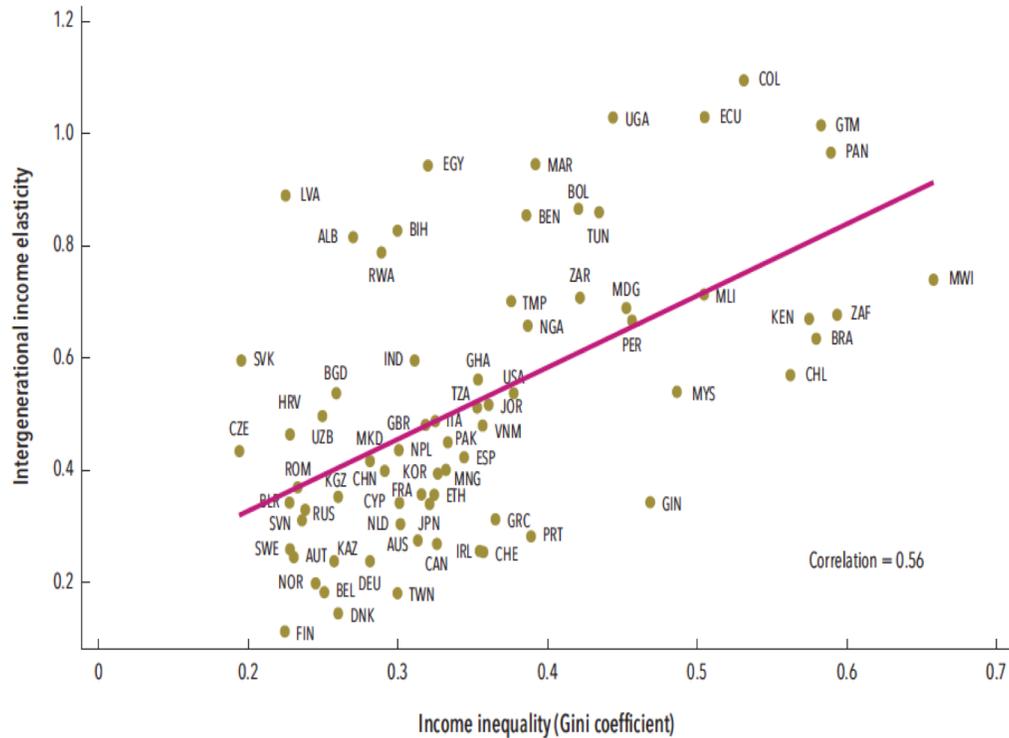


# inequality and opportunities

- more unequal countries have fewer opportunities

- i.e. your job and income is determined by the job and income of your parents

- is this optimal?



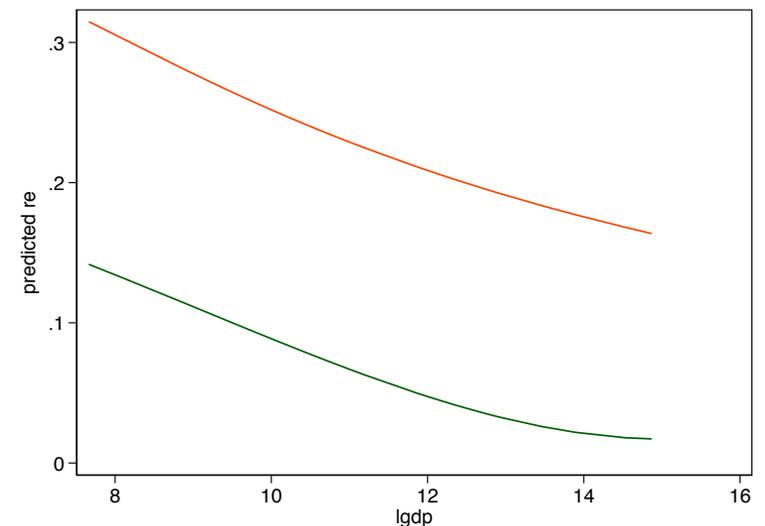
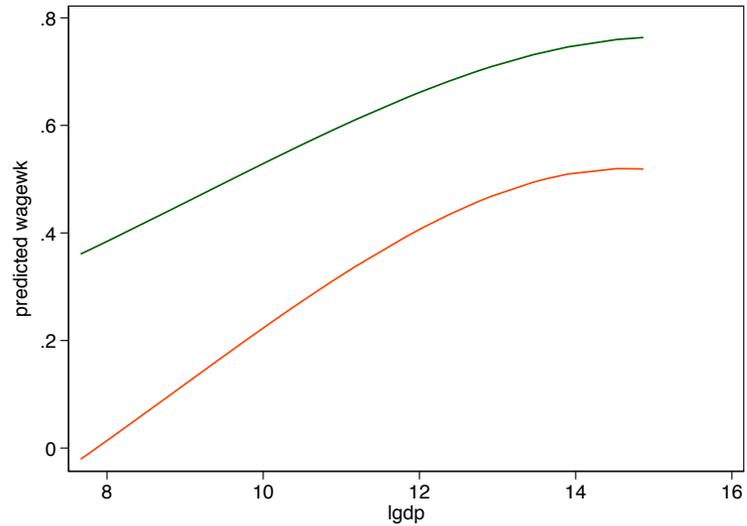
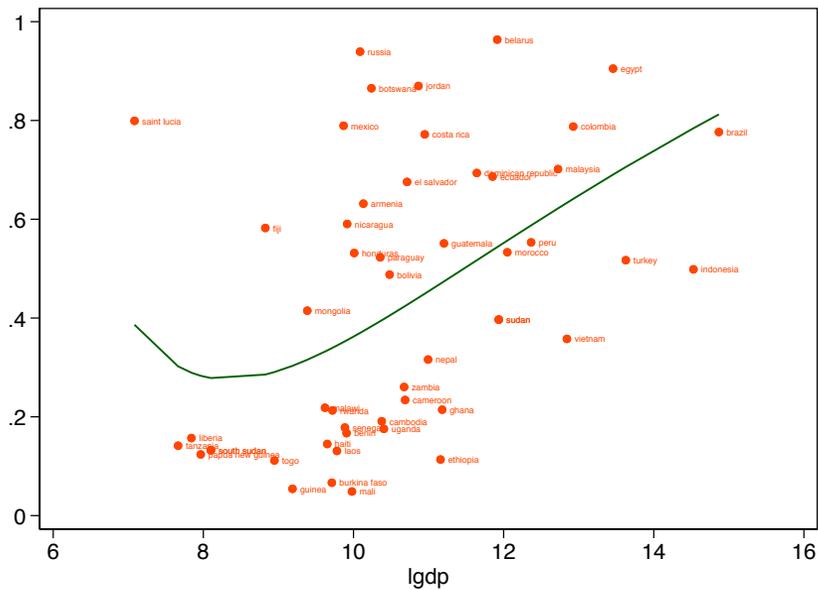
# Jobs and poverty

- Labor is the sole endowment of the poor
- Most of the world's poor work
- But they work in "bad" jobs
  - low pay
  - uncertain
  - irregular

salaries are rare  
in poorer countries

and nearly inaccessible  
to the poorest people

vice-versa for  
casual jobs



from the global job database

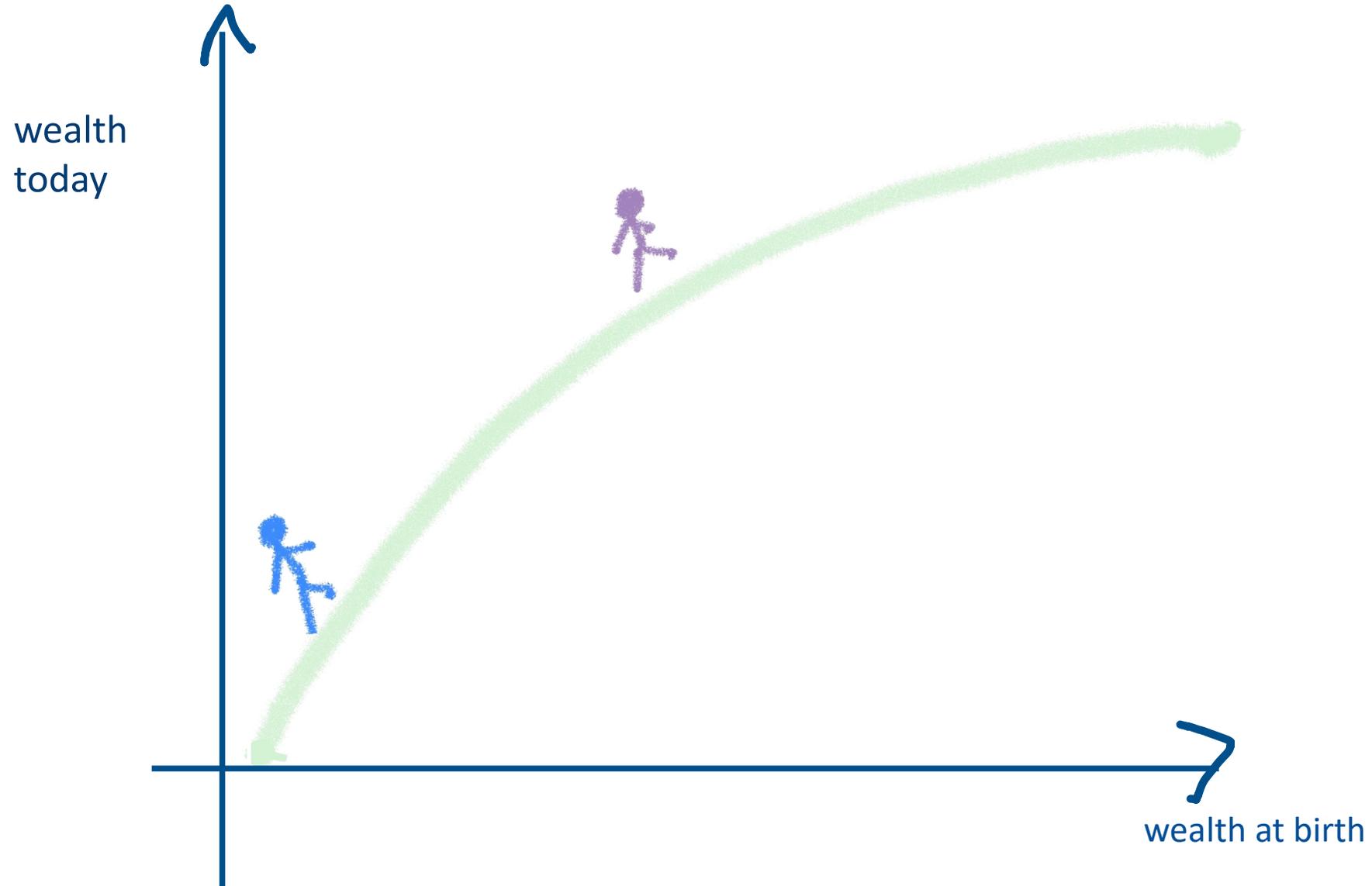
# Two views of poverty

Equal access to opportunity,  
different traits

People have different innate  
traits which make them more  
suitable for stable jobs

→ the poor do bad jobs  
because they do not have the  
talent to do anything else

# View 1: A hill anyone can climb



# The economics behind the hill

- People start from different levels of wealth and access to productive assets:
  - human capital (education, non-cognitive skills)
  - physical capital (businesses, collateralisable assets)
- You get a “hill” if returns are higher when assets are low → each small investment allows you to climb the hill
- All people with the same talent will be able to reach the same point regardless of where they started

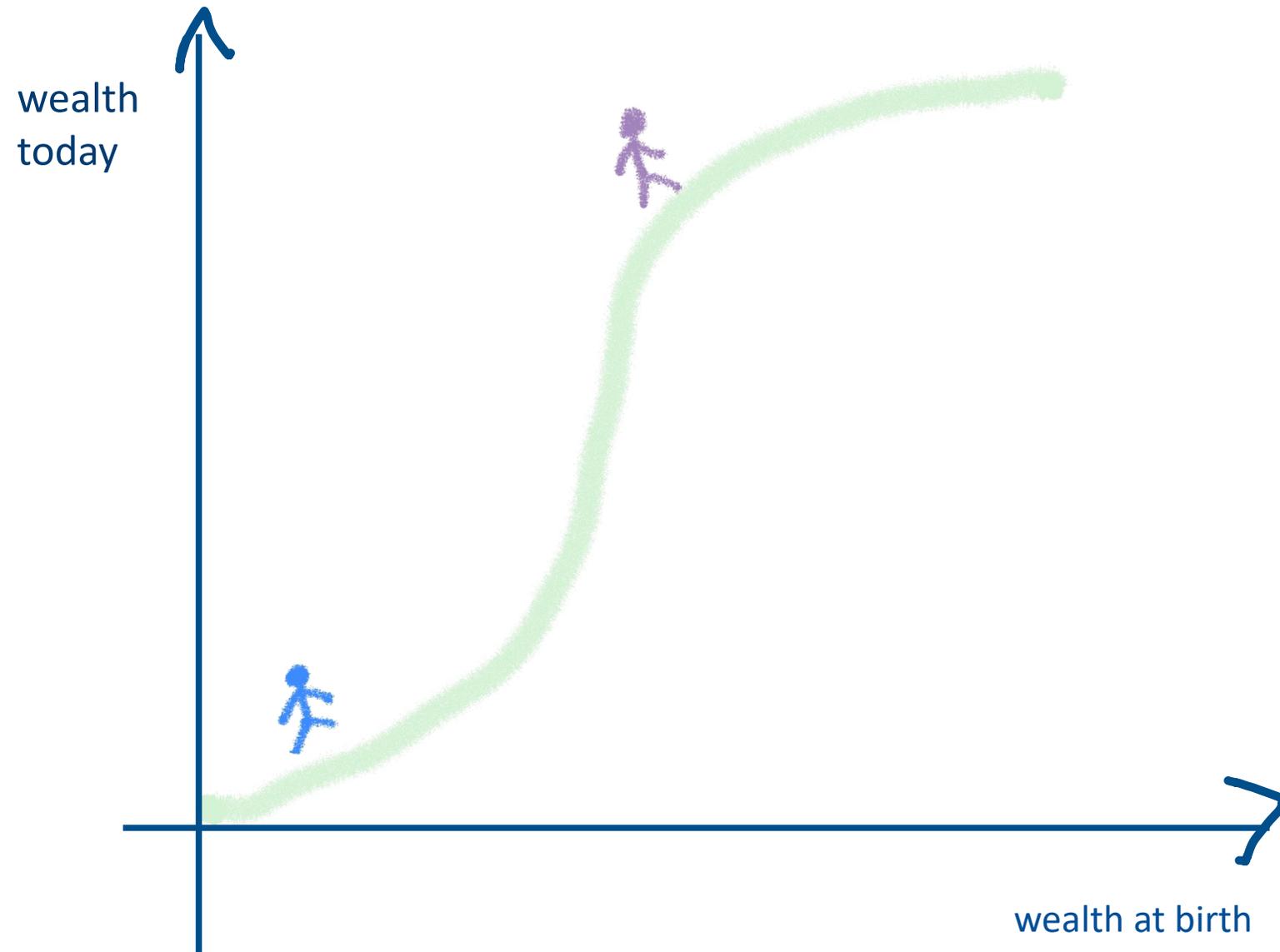
# Two views of poverty

Unequal access to opportunity,  
same traits

People have different access to  
opportunities

→ some of the poor have the  
innate talent to engage in stable  
work but face barriers that prevent  
them from doing so

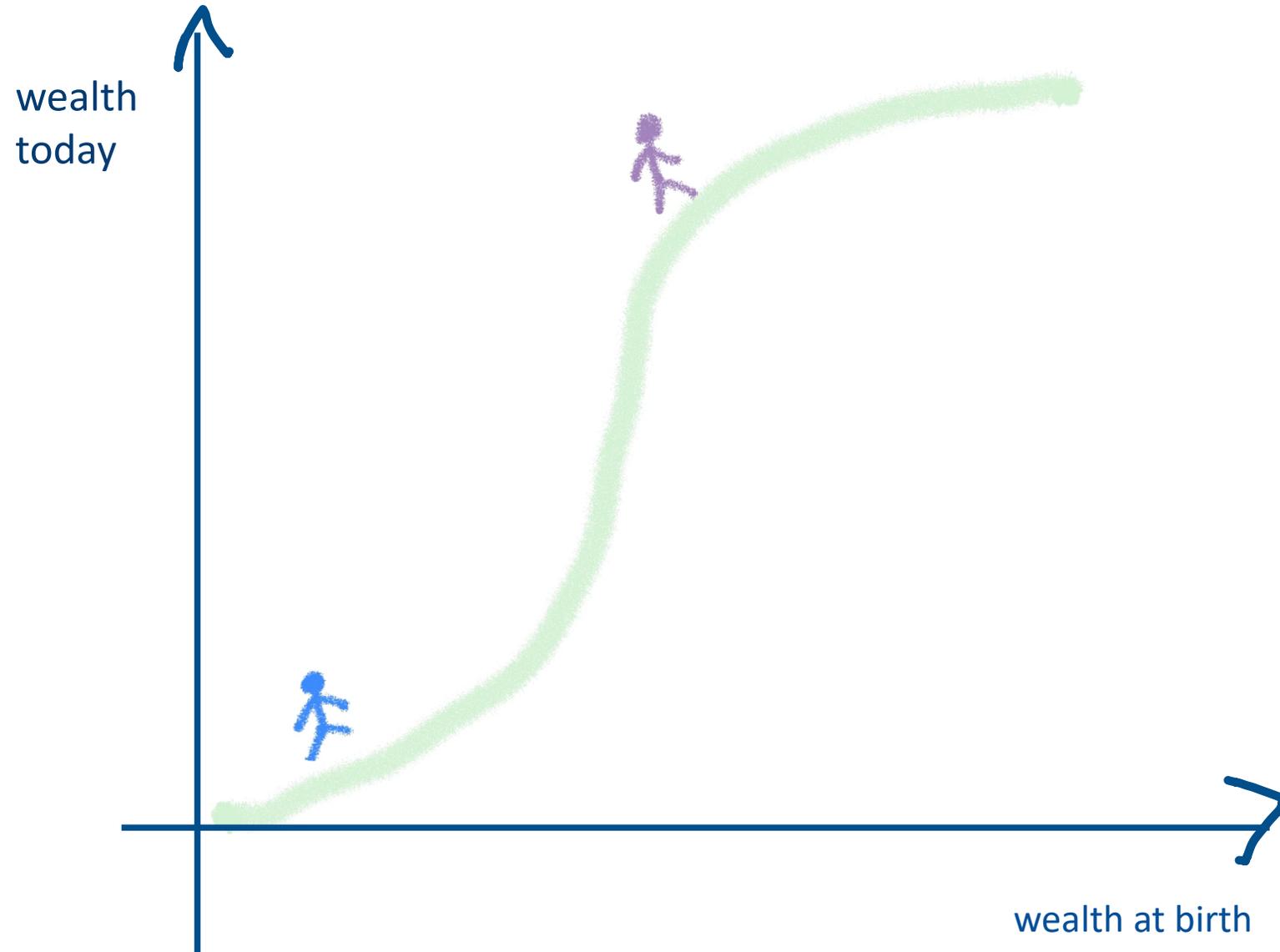
# A steep mountain face



# The economics behind the mountain

- You get a “mountain” if you need a large investment to get high returns
- Hence small investments do not allow you to climb
- Identical people will reach different points depending on where they started
- Hence two people with exactly the same skills, talent, motivation, will end up rich or poor depending on whether they were born that way

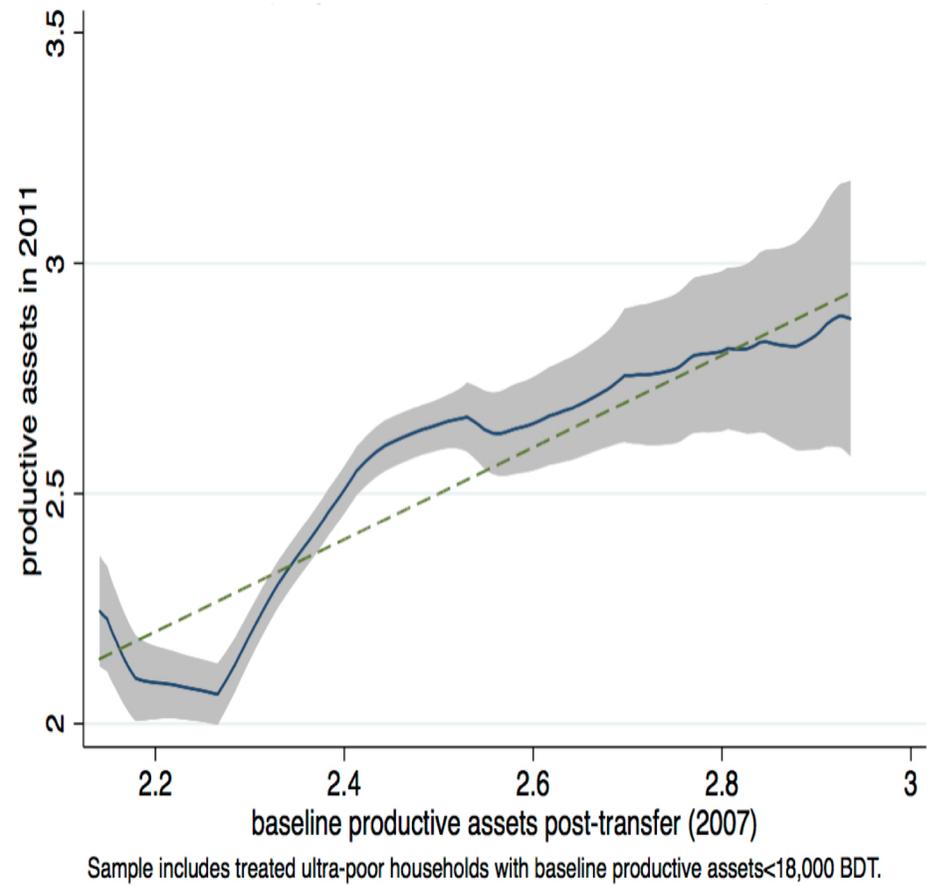
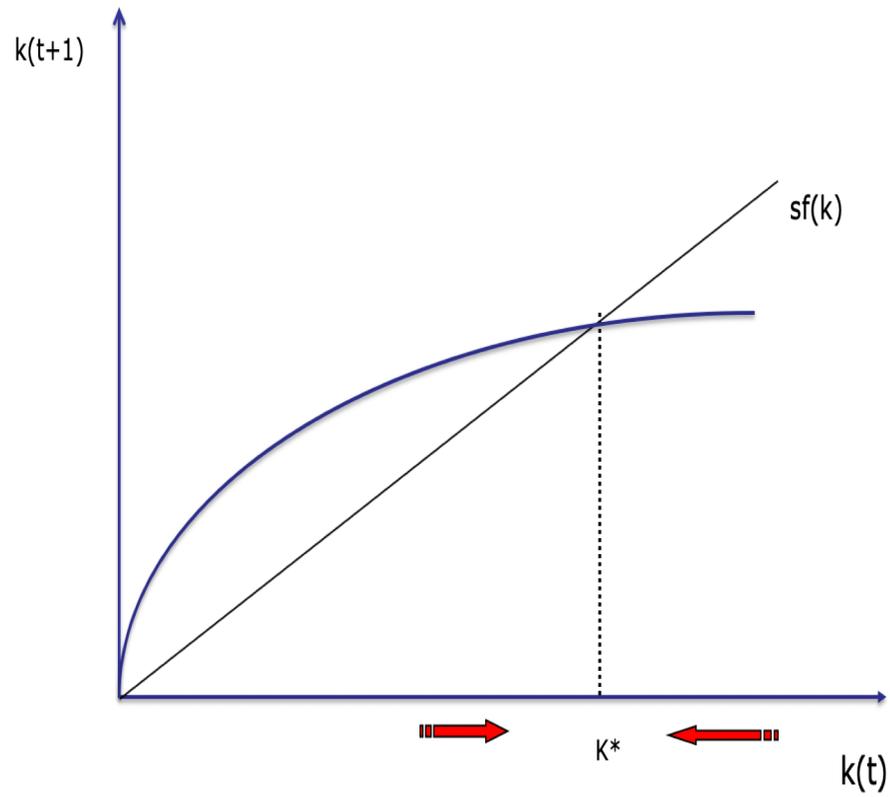
This generates a poverty trap



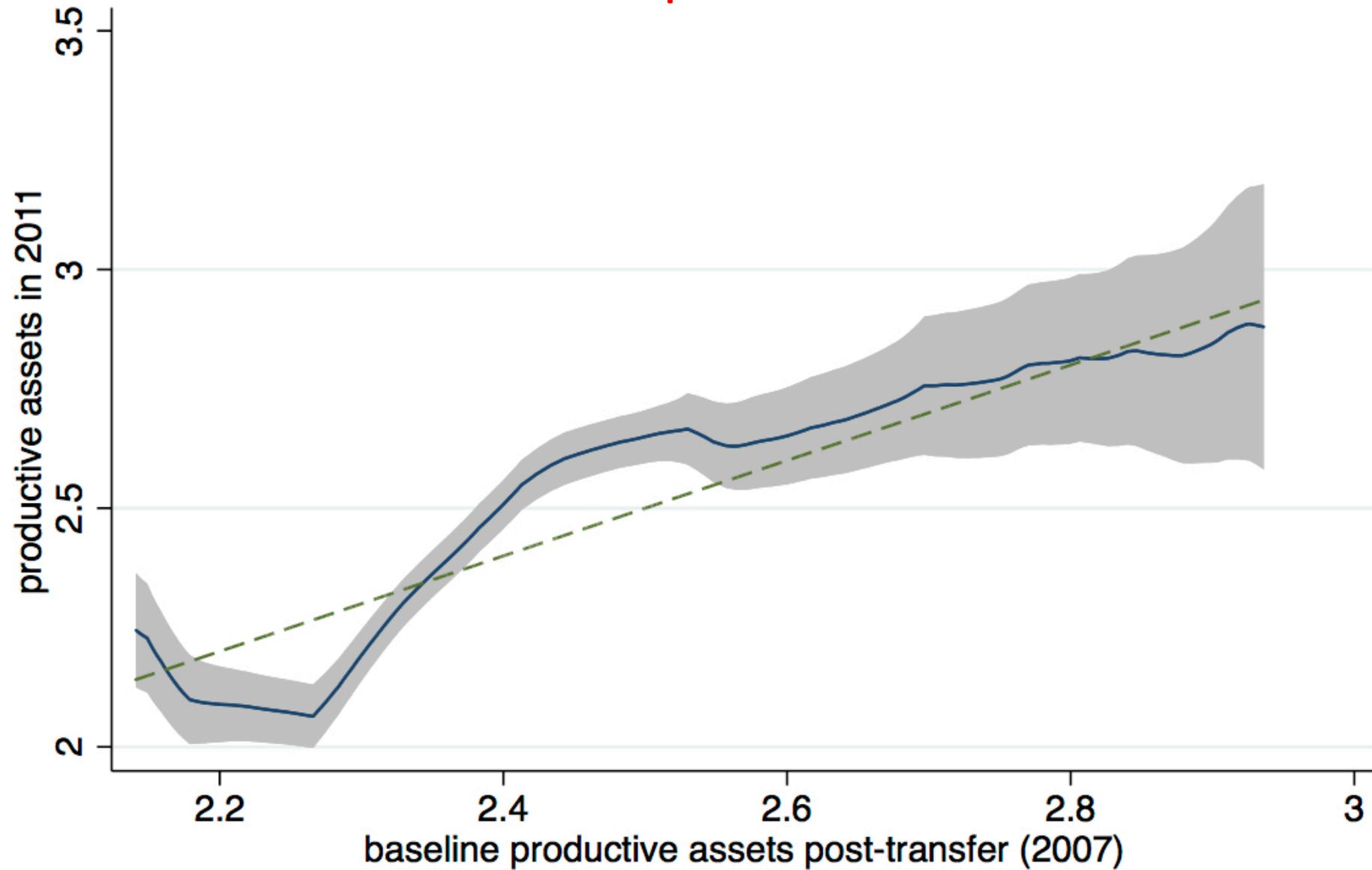
# How we\* test for poverty traps

- We use a large asset transfer program in Bangladesh
- Poorest women have casual jobs, rich women tend cows
- Program gives poor women a cow (worth 1 year of income)
- This effectively pushes them up the hill (or mountain)
- We can compare those who started with nothing to those who started with very little (sample 4k)
- And see if we get a hill, or a mountain

\* Balboni et al (2020) "Why do people stay poor?"

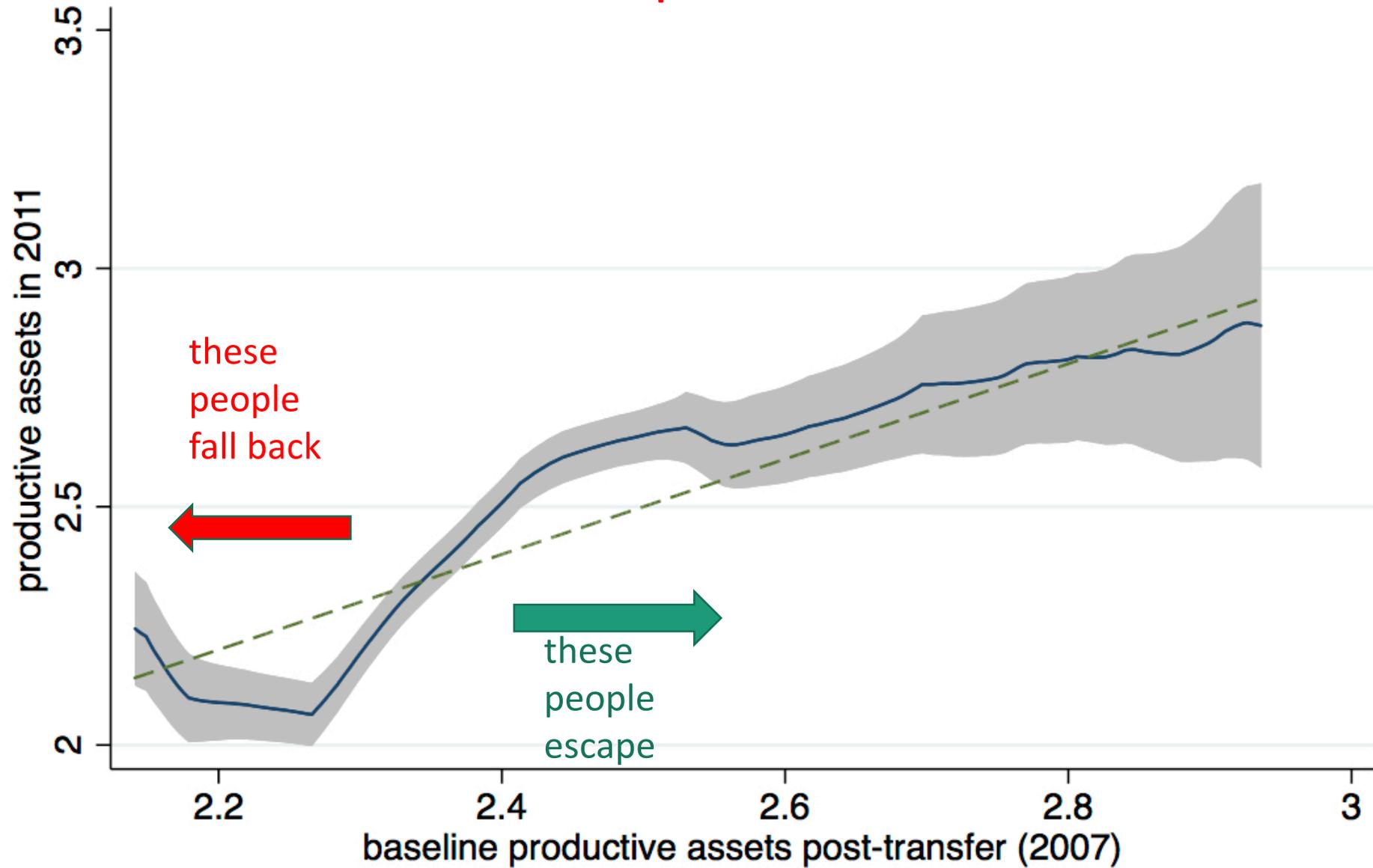


# a steep mountain



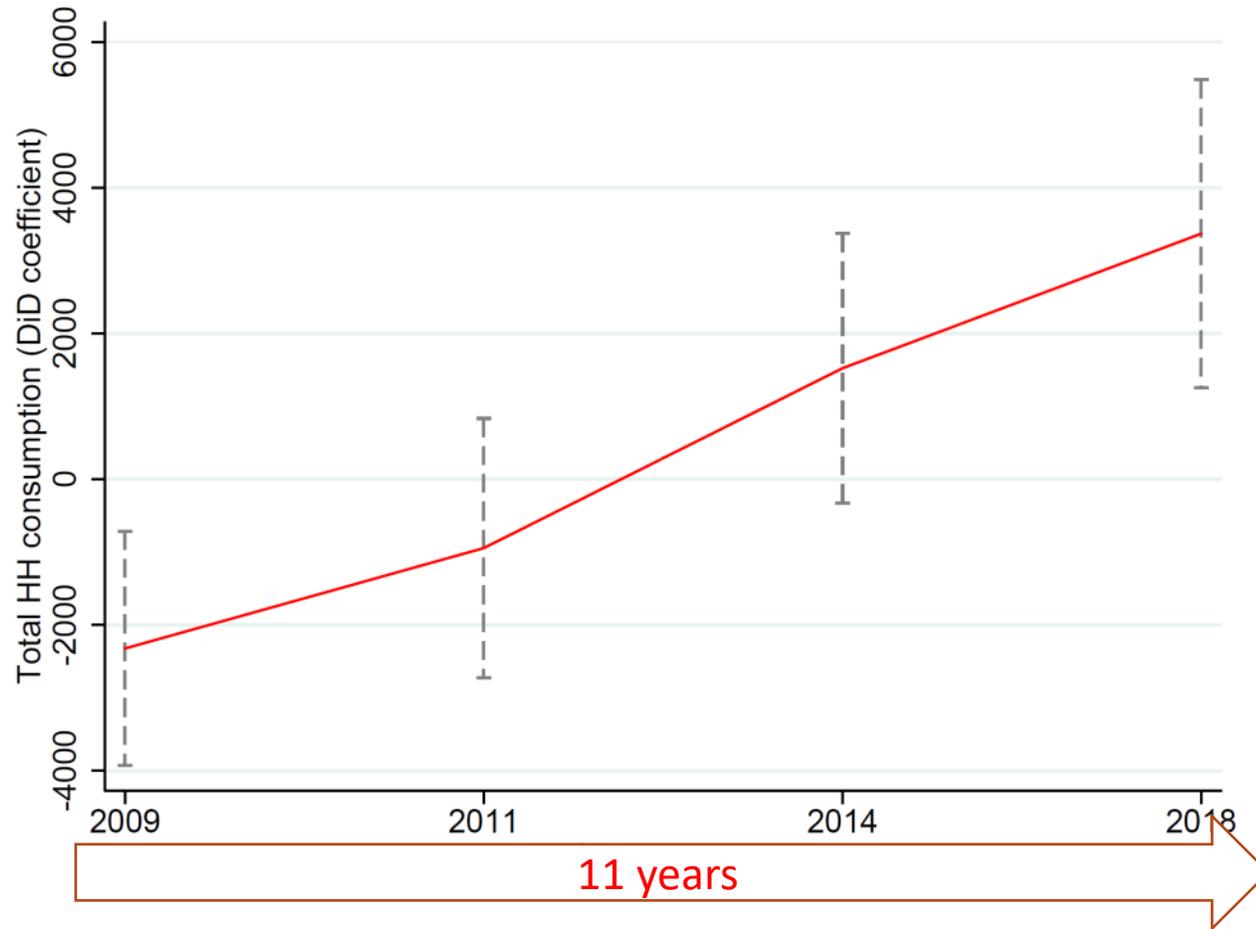
Sample includes treated ultra-poor households with baseline productive assets < 18,000 BDT.

# a steep mountain



Sample includes treated ultra-poor households with baseline productive assets < 18,000 BDT.

the two groups diverge over time



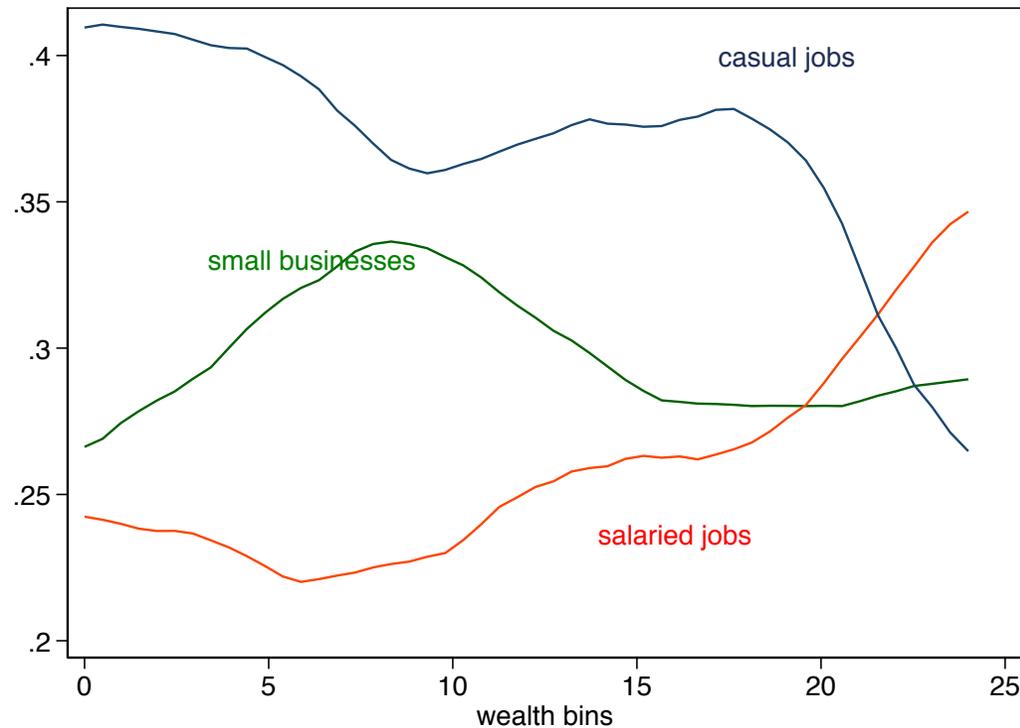
# Poverty traps are unfair and inefficient

- Unfair because two people with the same talent end up with different standards of living because of accidents at birth → poorer person faces higher barrier
- Inefficient because highly talented people who are born poor will not be able to exploit that talent and will be replaced by a less talented, richer, person

# Lessons for policy

- one-off transfers large enough to push people past the threshold will reduce poverty in the long run (but most transfers are well below that amount)
- the same works in reverse: shocks that send people below the threshold will have a permanent effect (this helps us understand the effect of large shocks like COVID)

# Jobs in the time of COVID

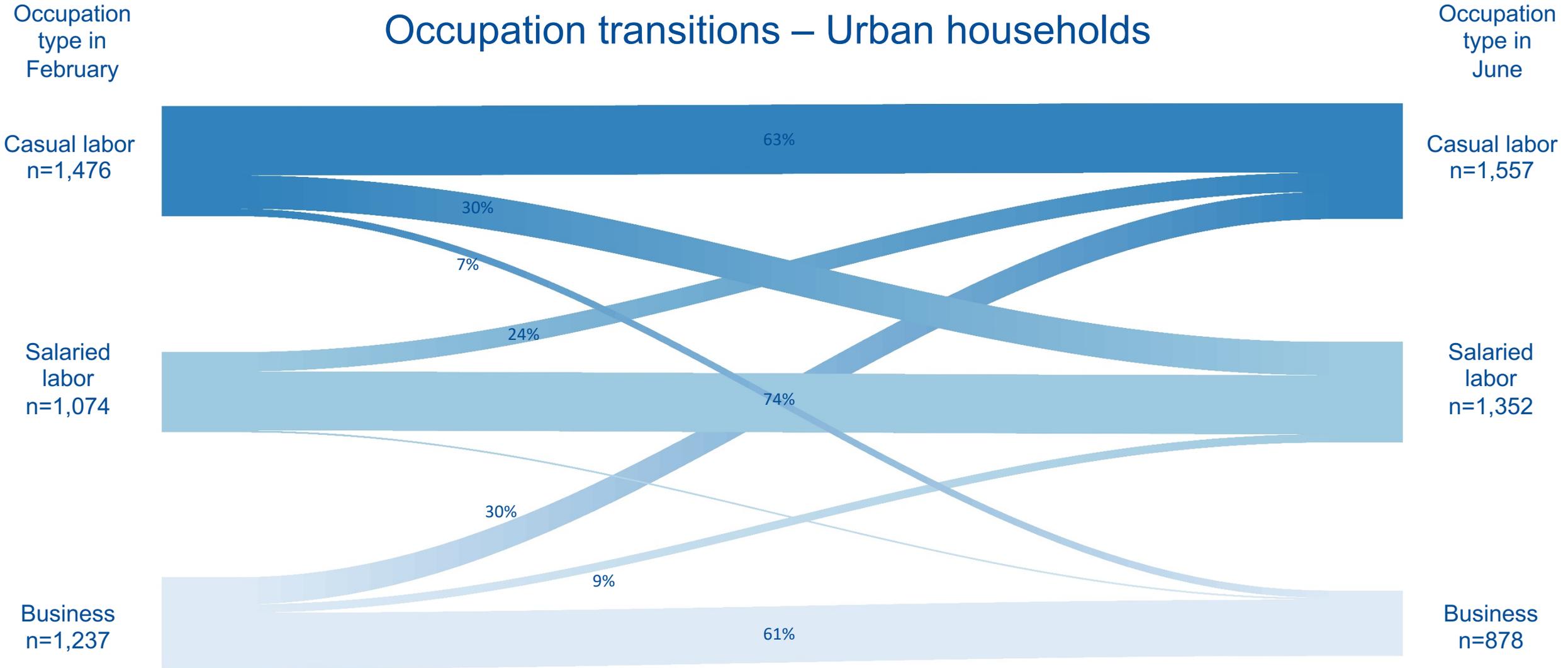


- We\* survey 7k HHs in urban slums and rural areas of Bangladesh to collect information on their jobs before and after lockdown
- At baseline there is a strong correlation between wealth and job type
- Only the wealthiest have salaried jobs

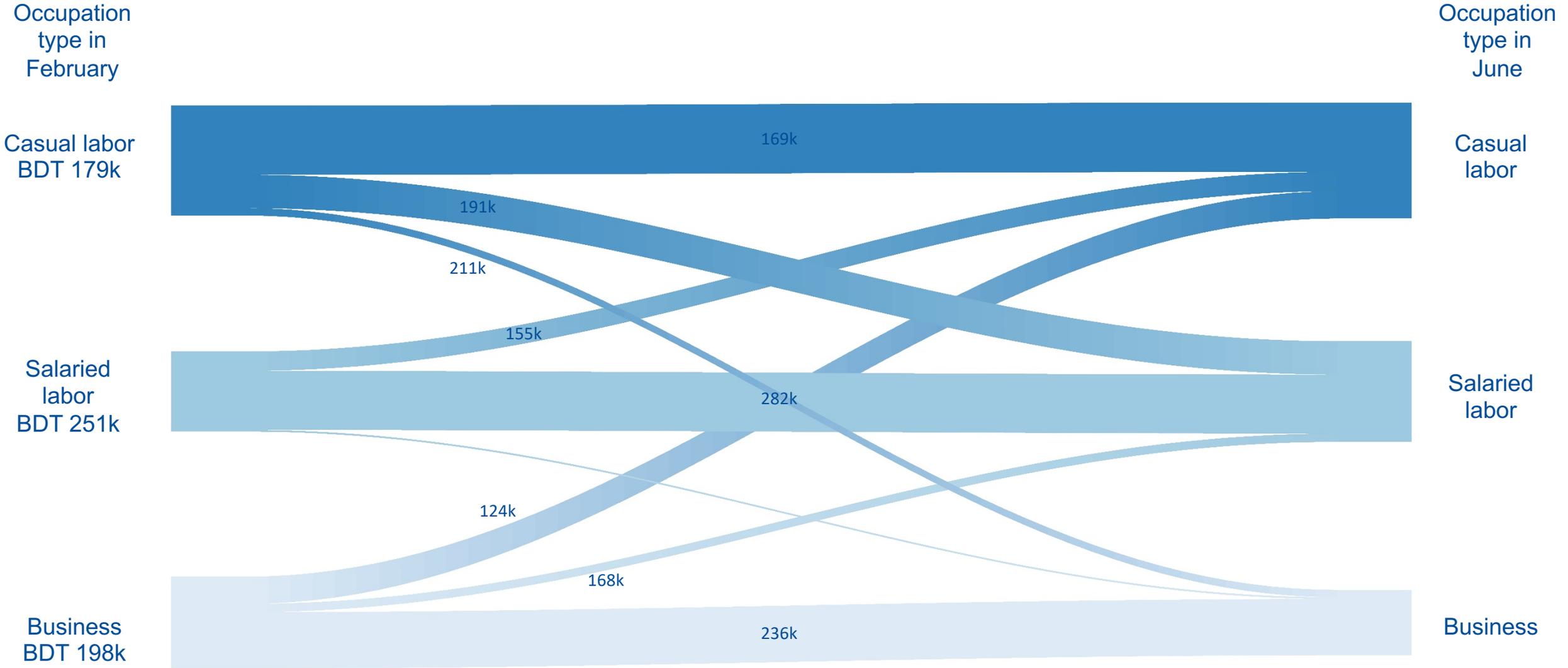
\* Bandiera et al (2020) “Jobs in the time of COVID: evidence from Bangladesh”

# After lockdown many people change jobs

## Occupation transitions – Urban households



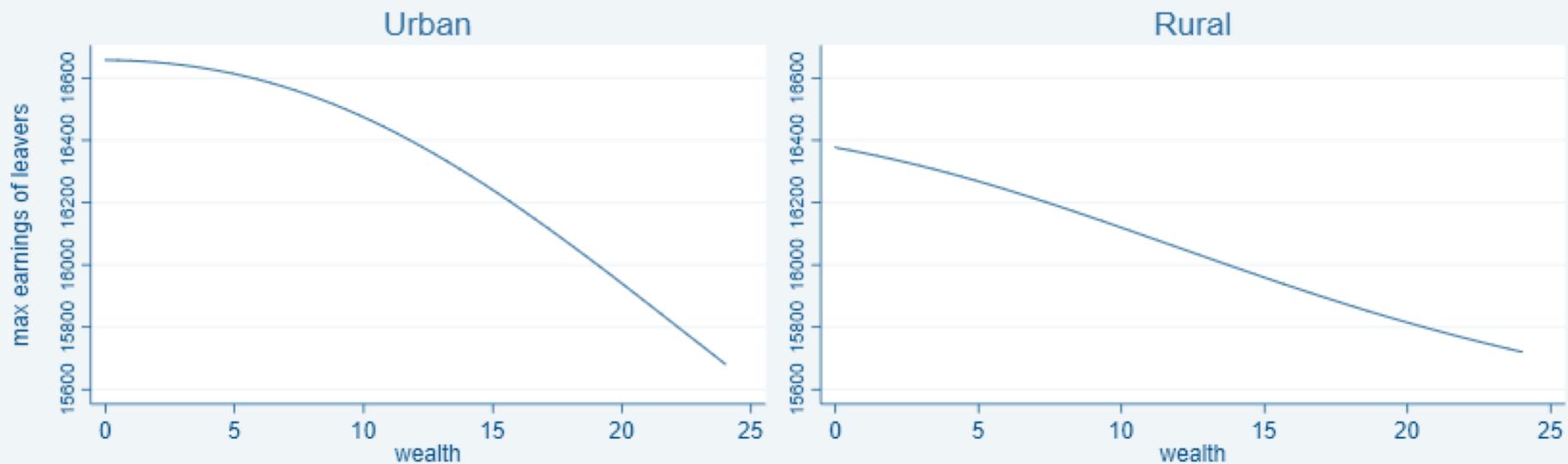
# The wealthiest move to better jobs



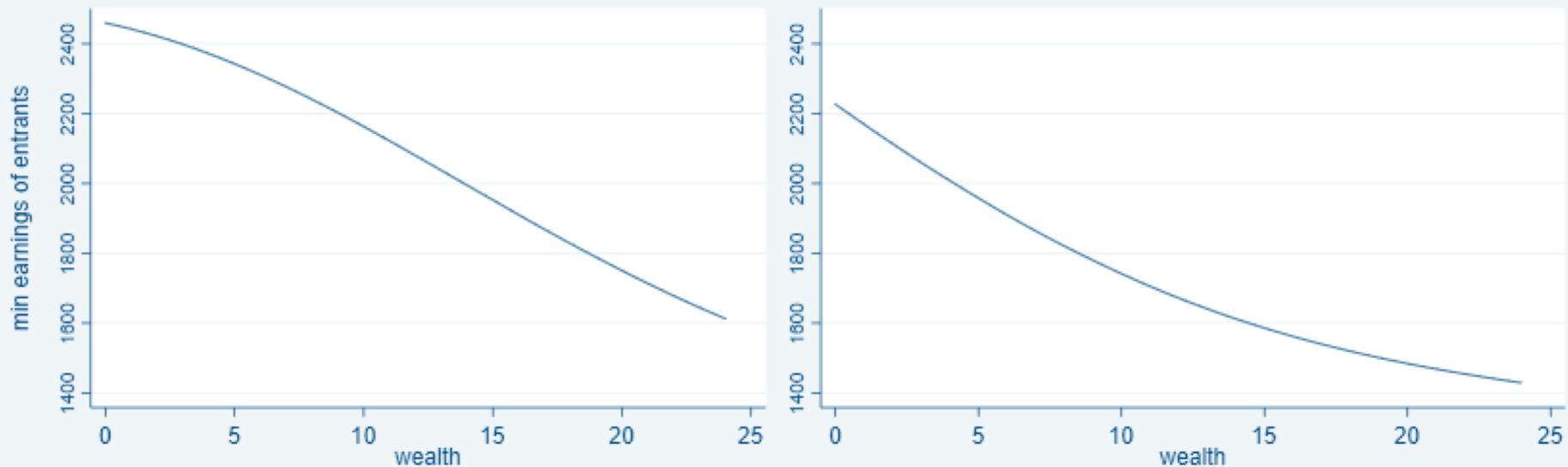
profitable  
businesses  
with poor  
owners are  
replaced by  
less profitable  
businesses  
with wealthier  
owners

# Earnings-Wealth Frontier

## Leavers



## Entrants



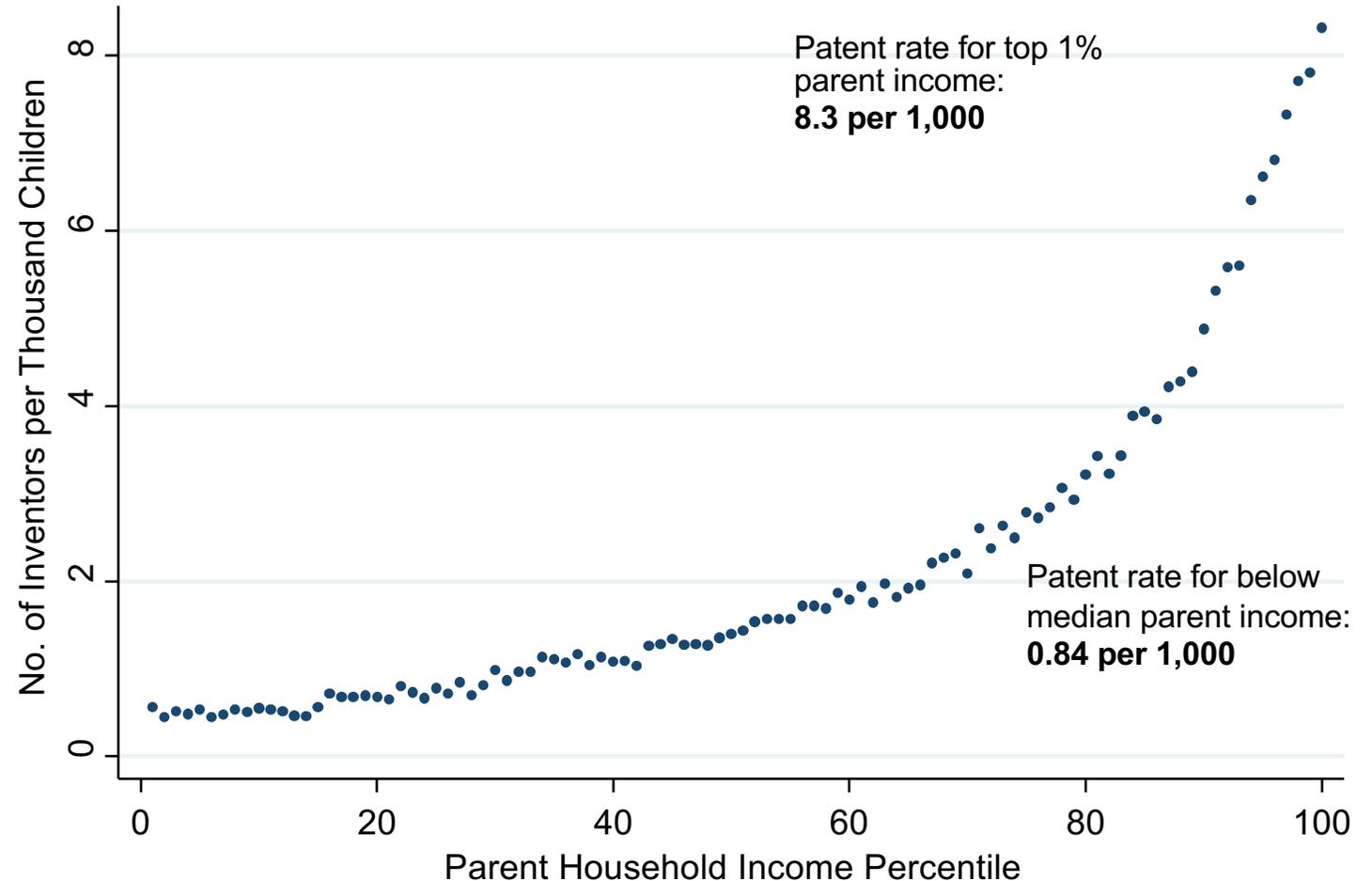
- The effect of COVID depends on job type
- So people change jobs
- Wealthier people get better jobs
- This leads to inequality and misallocation
- The effect of the pandemic will last longer than the pandemic itself

# Not just farmers, not just Bangladesh

## WHO BECOMES AN INVENTOR IN AMERICA? THE IMPORTANCE OF EXPOSURE TO INNOVATION\*

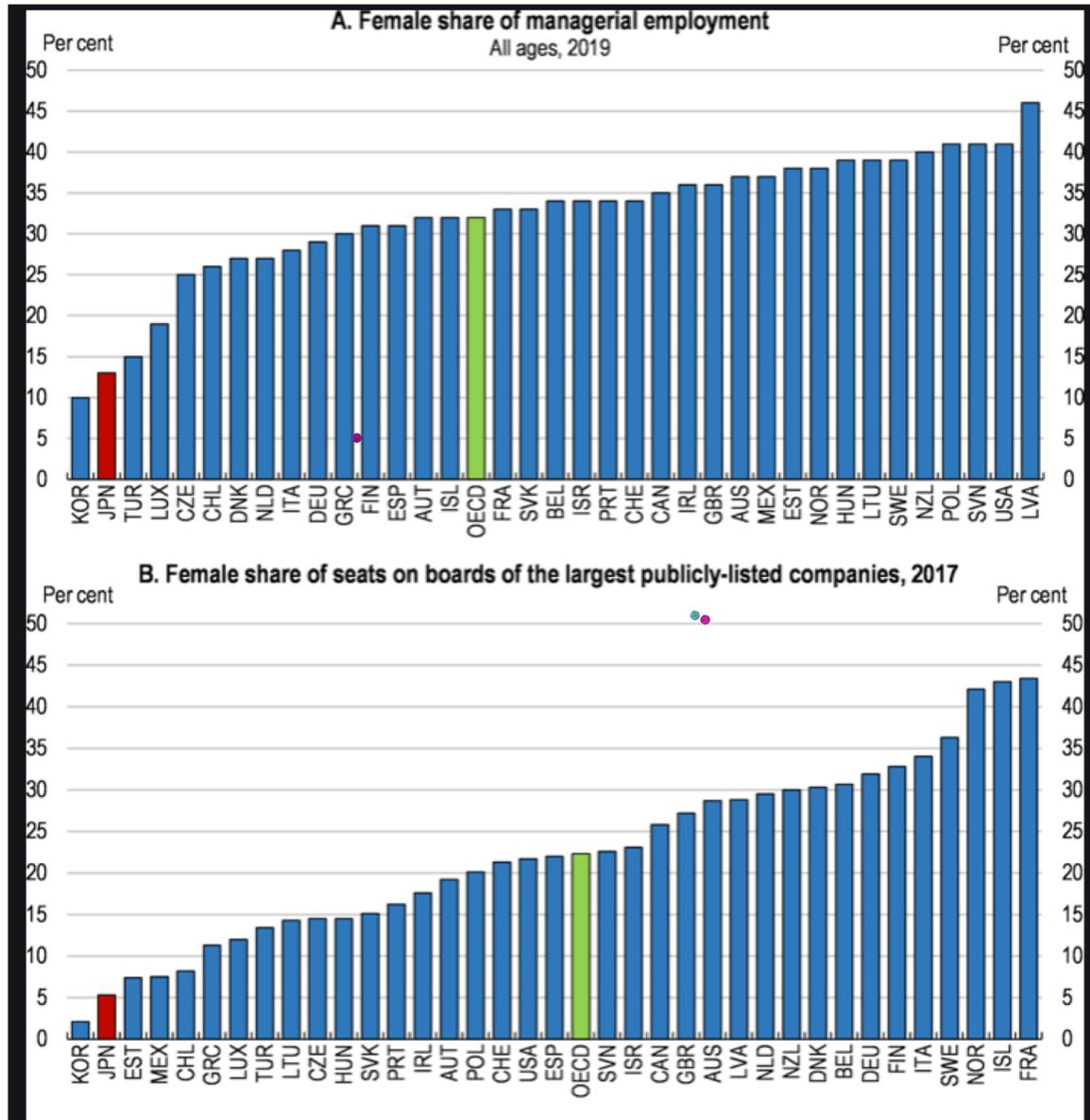
ALEX BELL  
RAJ CHETTY  
XAVIER JARAVEL  
NEVIANA PETKOVA  
JOHN VAN REENEN

We characterize the factors that determine who becomes an inventor in the United States, focusing on the role of inventive ability (“nature”) versus environment (“nurture”). Using deidentified data on 1.2 million inventors from patent records linked to tax records, we first show that children’s chances of becoming inventors vary sharply with characteristics at birth, such as their race, gender, and parents’ socioeconomic class. For example, children from high-income (top 1%) families are 10 times as likely to become inventors as those from below-median income families. These gaps persist even among children with similar math test scores in early childhood—which are highly predictive of innovation rates—suggesting that the gaps may be driven by differences in environment rather than abilities to innovate. We directly establish the importance of environment by showing that exposure to innovation during childhood has significant causal effects on children’s propensities to invent. Children whose families move to a high-innovation area when they are young are more likely to become inventors. These exposure effects are technology class and gender specific. Children who grow up in a neighborhood or family with a high innovation rate in a specific technology class are more likely to patent in exactly the same class. Girls



## Part II: Gender

# Women are underrepresented, especially in top jobs



## THE ALLOCATION OF TALENT AND U.S. ECONOMIC GROWTH

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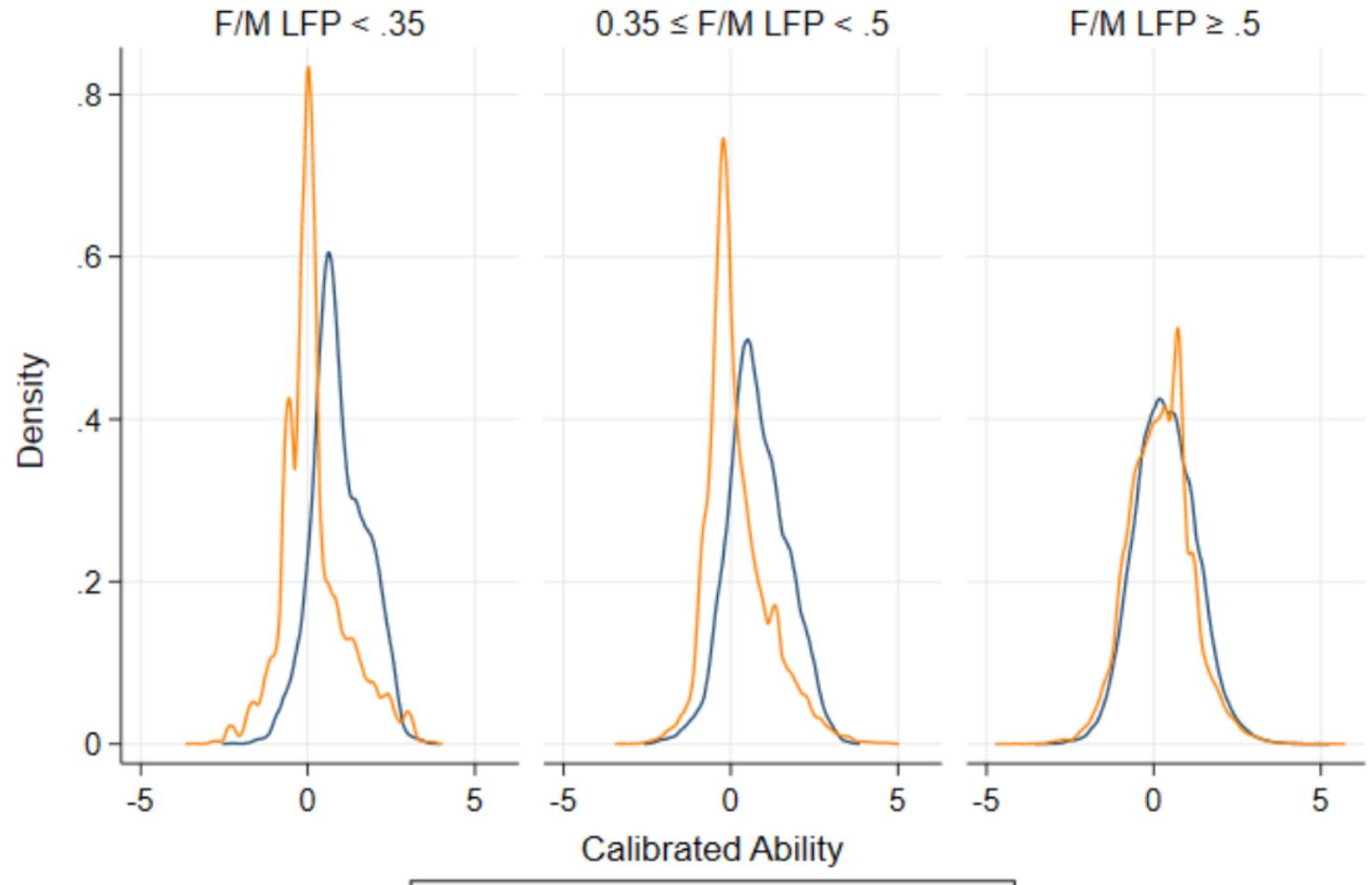
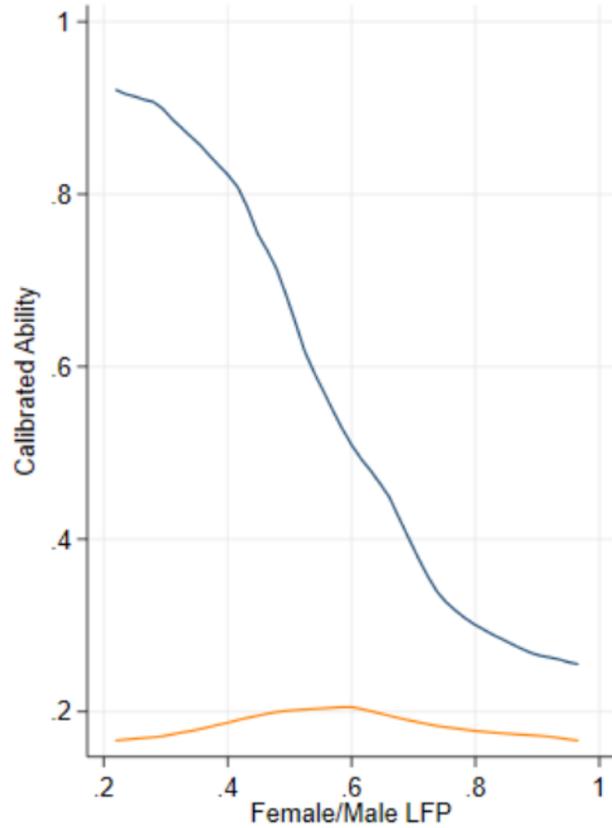
This is bad for  
growth

In 1960, 94 percent of doctors and lawyers were white men. By 2010, the fraction was just 62 percent. Similar changes in other highly-skilled occupations have occurred throughout the U.S. economy during the last 50 years. Given that the innate talent for these professions is unlikely to have changed differently across groups, the change in the occupational distribution since 1960 suggests that a substantial pool of innately talented women and black men in 1960 were not pursuing their comparative advantage. We examine the effect on aggregate productivity of the convergence in the occupational distribution between 1960 and 2010 through the prism of a Roy model. Across our various specifications, between 20% and 40% of growth in aggregate market output per person can be explained by the improved allocation of talent.

# How bad is misallocation of women's talent across the world?

- We\* use personnel data from a MNE combined with LFP across 100+ countries to back out ability of men and women
- Intuition: lower FLFP → higher bar → higher ability
- Estimate a model of pay setting to calibrate pay and the payoff from staying home

results: womens' ability is higher

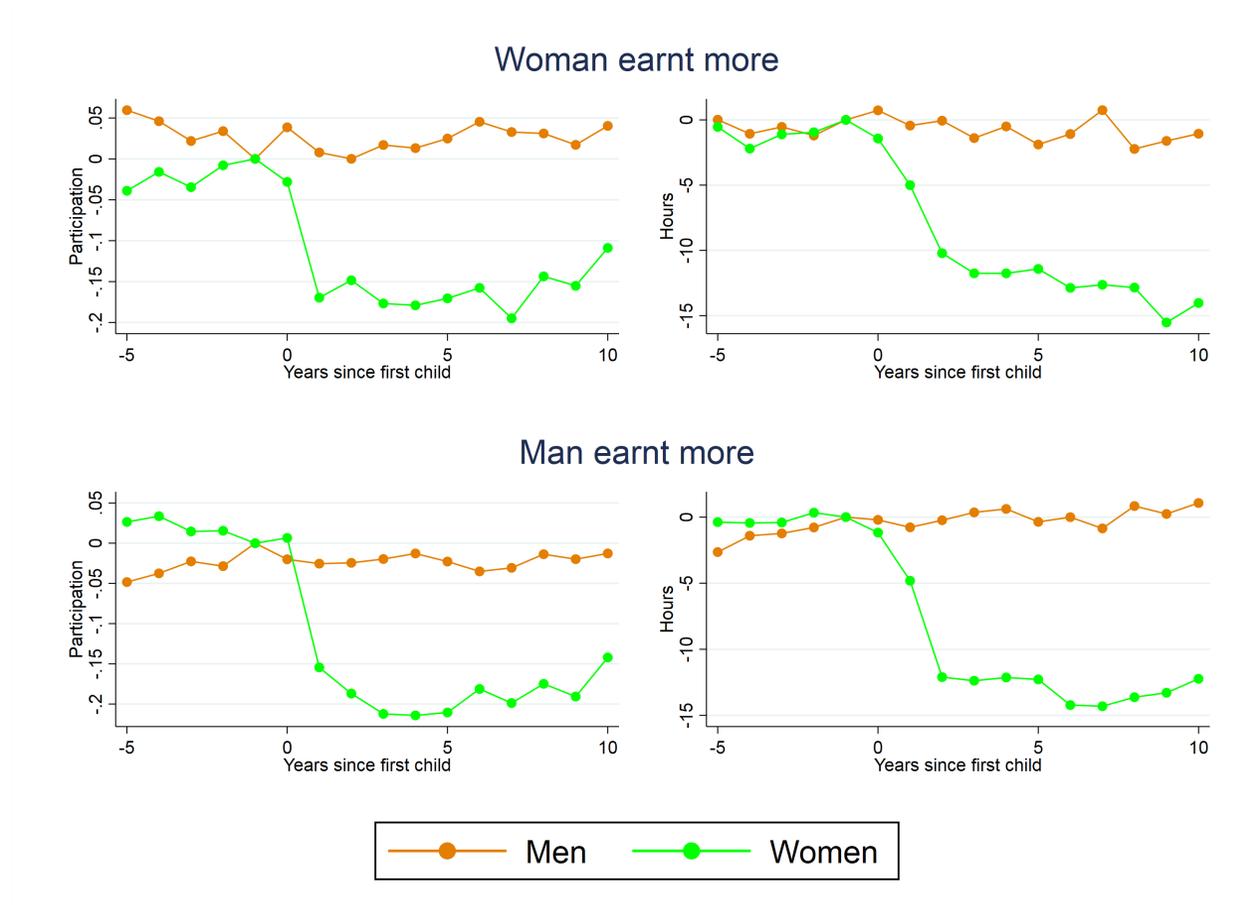




# Two views of gender inequality

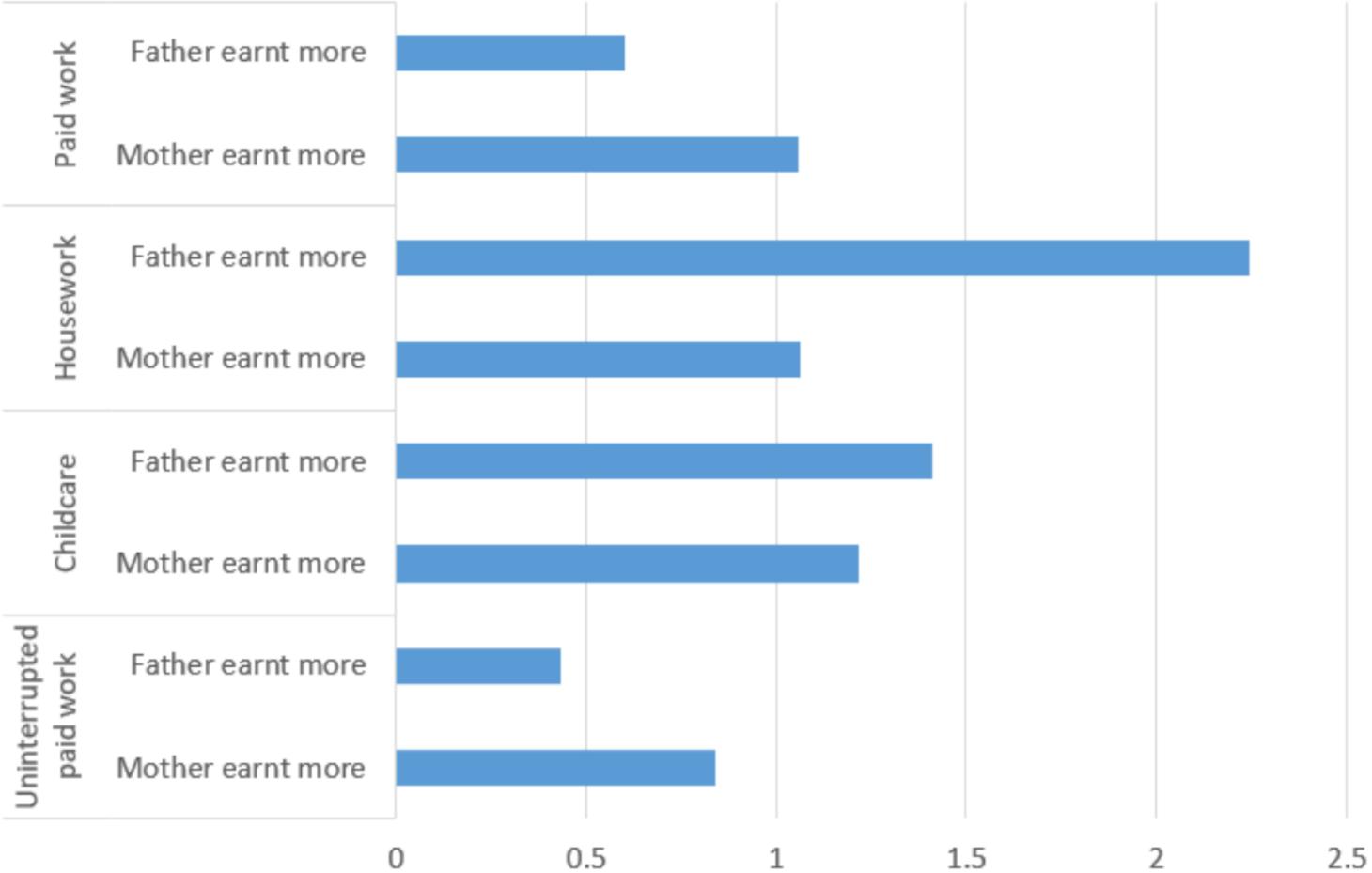
- women have a comparative advantage at housekeeping, and childcare
- compatible with their being equally or more able in the workplace
- women and men have the same skills
- two possible equilibria
- norms lead to coordination on women-at-home equilibrium

# comparative advantage test 1: child penalties



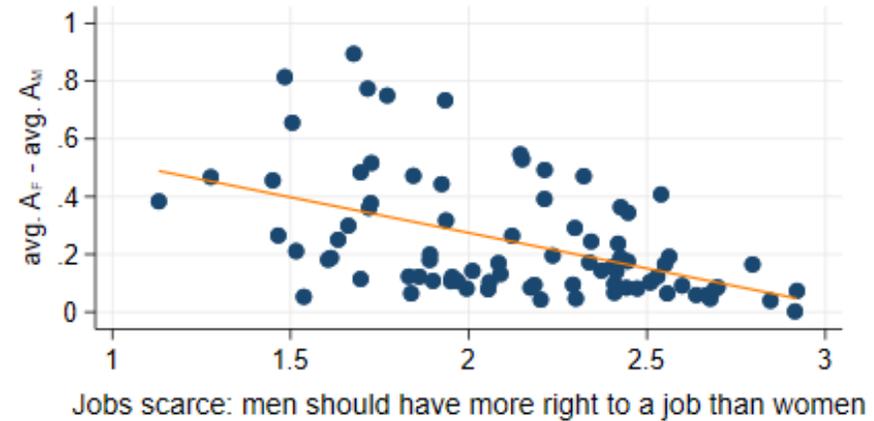
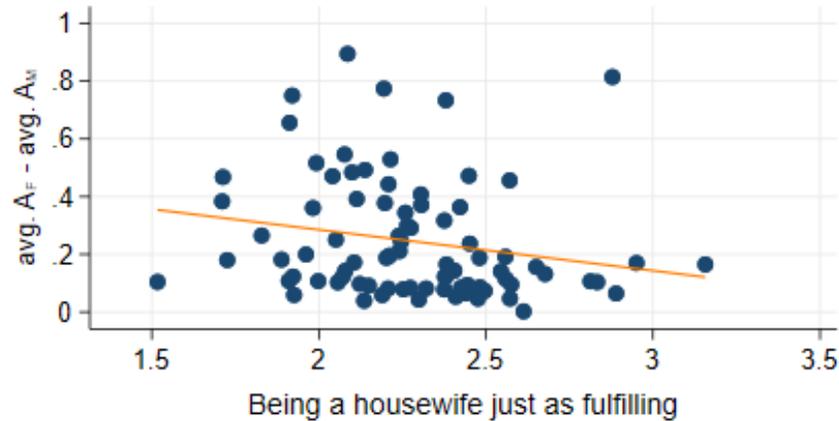
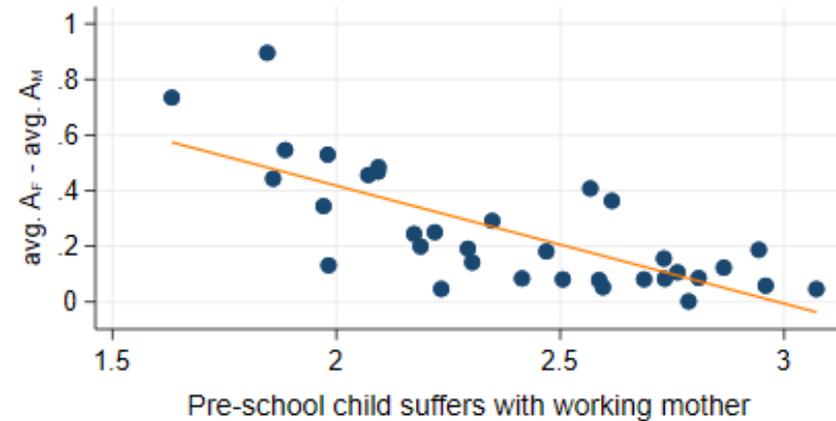
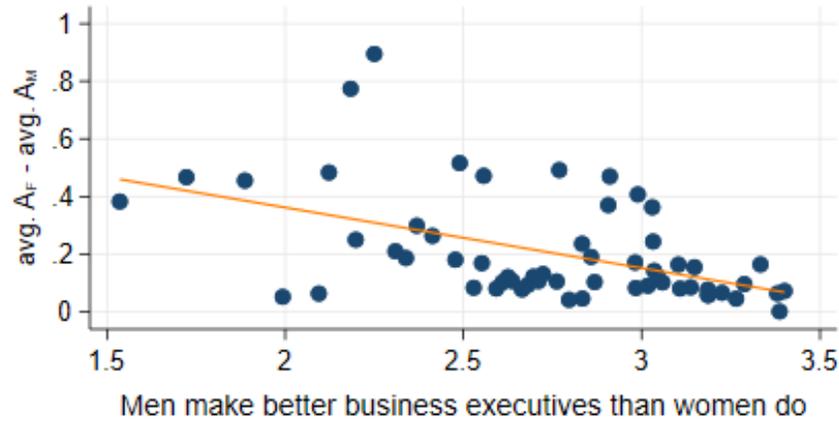
# comparative advantage test 2: covid

mother hours/father hours in the time of covid



Notes: Figure taken from Andrew et al. (2020)

# ability gap correlates with the prevalence of traditional gender norms



Lower values = agree

# in conclusion

- inequalities generate misallocation of talent
- misallocation lowers productivity and fosters more inequality
- this affects how we think of shocks and policies as short run changes can have long term consequences