

Working Paper

The Debate on Distributive Justice Revisited: The Political Philosophy and The Economic Perspectives on Economic (In)equality

by

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Abstract

This paper reviews the broad literature on the concept of socio-economic inequality. It presents the debate between the political philosophers and economists in the economic history perspective. In political philosophy, the concept of distributive justice is a normative principle (although not identical) is the most related to economic inequality or income distribution in economics (and political economy). Originating in the 17th century, the study traces the evolution of the debate between *egalitarianists* and *utilitarians* to the modern times. It then continues to propose the alternative theories of capabilities and a reconciliatory theory of inequality of opportunity, reviewing a total of eight theories. Moreover, it continues to review the side of the debate from the economic perspective, exploring twelve theories ranging from Malthusian cycles to global inequality, the institutional perspective, economic insecurity, income polarization and others. The debate concludes that while economic theories are almost exclusively utilitarian and positive (as opposed to normative economics), political philosophy theories mostly contain normative aspects and are concerned with what is fair, which is not suitable for cross-national and time-variant research.

Keywords: economic inequality, distributive justice, political economy, political philosophy

1. Introduction

The academic literature on the causes (Gornick and Jäntti, 2014), consequences (Blank, 2001; Western, 2006; Corak, 2004; 2013; Clark et al., 2008; Pickett and Wilkinson, 2009; Stiglitz, 2012; Chauvel, 2014; Chauvel & Schröder, 2015; Krieger, 2016; Hertel-Fernandez, 2019) as well as innovations in measurements of economic inequality (Atkinson, 2019; Brunori and Neidhöfer, 2017) is burgeoning. However, robust empirical work often requires a step back and careful reassessment of the main debates on the concepts and the history of ideas on economic inequality. This work looks back at the evolution of the debates on economic inequality and distributive justice in the historical perspective.

A central theme of this review is that there is a striking disconnect between tackling the issue of (in)equality from different disciplines for three main reasons.

First, in political philosophy, the evolution over the debate of the concept of *distributive justice* (although not identical) is the most related to *economic inequality* or *income distribution* in economics (and political economy). Political philosophers argue over distributive justice primarily along the *utilitarian* and *egalitarian* axis, bringing in *ex ante* theories of *inequality of opportunity* as well as *capabilities*. The debate among the economists is focused on the issues of measurement, the existence of the efficiency/inequality trade-off as well as the endogeneity of inequality. The two disciplines rarely communicate between themselves: economic theories aim to be almost exclusively *utilitarian* and *positive* (as opposed to normative economics), the theories of political philosophy mostly contain normative aspects and are concerned with what is fair, often not suitable for cross-national research.

Second, as pointed out by Kaufman (2020), the two views on the issue of equality are based on two different principles. Economists base their concepts on the maximin criterion, which is concerned with maximizing the share of primary goods of the least advantaged. This is achieved through policies of redistribution via closing the gap between those on the bottom of the income (or wealth) distribution with those who are better off. Some of the political philosophers base their ideas on the *difference principle*, which, being opposite to the maximin criterion, focus on the *ex ante* inequality as well as taking into account needs and claims. This is being done by ensuring the worth of liberty, real equal opportunity and fairness in the distribution of goods, burdens and benefits.

Third, the interdisciplinary discussion over equality (or inequality – as the lack of equality), can take place, only if recognizing them as normative concepts. While certain levels of inequality in a society might be tolerable, the theories of distributive justice as well as economic inequality have an inherent political justification for its existence. Such justifications are always behind a specific policy solution or a goal, which aims for the betterment of society – making everyone more equal. If both conceptualizations agree

on the same goal, the key disagreement between the economists and political philosophers remains solely about the tools, the need and the weight of different aspects of the problem of inequality.

This review is structured as follows. The next section introduces the evolution of the debate on distributive inequality from the political philosophy perspective, while the following section introduces the debate on economic inequality by the economists. The final section then discusses the results and concludes.

2. Political philosophers on equality (distributive justice)

Although most of the work done in the field of political philosophy of distributive justice, has been completed in the 20th century, it stays relevant in modern research as well. Earlier works of Plato and Aristotle to John Locke, Jeremy Bentham and Karl Marx have all referred to it throughout time. Evidently, modern political philosophers picked up where their antecedents left it off, drawing influences which are hard to trace exactly. Figure 1 presents a comprehensive overview of the main political philosophy theories of inequality.

Figure 1. Summary of political philosophy theories of inequality (distributive justice)

N	Theories of Inequality/Distributive Justice	Authors	School of Thought	Main Thesis	Connection to Other Theories /Criticism
1	Utilitarianism (Welfarism, <i>welfarist</i> component of the theory)	Bentham, Mill and Sidgwick (18-19 th century)	Utilitarian	<i>the greatest happiness for the greatest number</i>	by Roemer (1998): <i>individual utility is a measure of pleasure – subjective</i> ; by Dworkin (1981): <i>welfare – pleasure and avoidance of pain</i> (p.193)
2	Fair Equality of Opportunity	Rawls <i>Theory of Justice</i> (1971)	Egalitarianism/ Liberalism	dualistic structure: (i) equal right to the system of basic liberties, (ii) social welfare of society based on the welfare of the least well-off individual	Criticizes utilitarianism on the principle of <i>universal</i> liberty and moral pluralism
3	Equality of Resources	Dworkin (1981a;1981b)	Resource Egalitarianism	introducing the issue of <i>responsibility</i> as well as the duality of <i>resources</i> and <i>welfare</i>	Conflicting with <i>welfarism</i> , builds up on Rawls
4	Justice and Equality	Cohen (1989, 2008)	Egalitarianism/ Liberalism	Justice requires equality. Ideal society to be characterized by communal reciprocity. Although equality is a baseline, self-interest can be pursued to a reasonable extent, freedom of occupational choice	Criticizes Rawls for limitations of the two principles. Rawlsian principles of justice apply not directly to the actions of individuals, but rather to the basic structure of society
5	Theory of Distributive Justice	Nozick (1974)	Right-libertarianism	Related to the notion of <i>entitlement</i> , justice in the sense of equal property rights	Builds up on Rawls (1971), adds up Lockean arguments

					on minimal involvement of the state
6	Capabilities Approach	Sen (1980, 1992)	Sociological (roots in Utilitarianism, Marxism, Adam Smith and Aristotle)	<i>basic capability</i> – a set of <i>functionings</i> needed for sufficiently decent life.	Criticizes <i>utilitarianism</i> and <i>egalitarianism</i> . by Roemer (1998): happiness of the relationship between primary goods and the achievement of life plans is not always present. by Bourguignon (2019): a normative concept to define poverty
7	Horizontal Inequalities	Stewart (2009)	Sociological Approach (related to Sen's Capabilities Approach)	<i>capability inequality trap</i> (as well as their transmissibility throughout generations) as well as <i>capital inequality trap</i> , which includes interactions among different types of capitals (human, cultural, social and physical).	Focused on poverty and conflict
8	Equality of Opportunity	Roemer (1998, 1999)	Reconciliatory Theory: a combination of <i>Rawlsianism</i> and <i>utilitarianism</i>	5 elements: <i>circumstance</i> (similar to Dworkin (1981), a person is not being held responsible), <i>type</i> , <i>effort</i> (the person is being held responsible), <i>objective</i> and <i>policy</i> .	Opposite to the Inequality of Outcome and ex post theories of inequality

Utilitarianism

The main philosophical idea which relates to the economic inequality is *utilitarianism*, represented by the 19th century philosophers – John Stuart Mill, Henry Sidgwick and Jeremy Bentham. While paraphrasing Bentham's (1822) definition of *utility* in the late 17th (edited in early 18th century), it is a property of something to produce benefit, advantage, pleasure, good or happiness, or to prevent losses for the happiness of a community (or an individual) (p.6). Following the logic of the greatest happiness for the greatest number, the core idea is that happiness or utility can be quantified using the arithmetical difference between those who are *better-off* and those who are *worse-off*. As a result of the calculations, an average amount of happiness of the whole population is computed (average utilitarianism). Alternatively, the total amount of happiness of a particular population is the sum of the individual happiness of each members (total utilitarianism).

Evidently, *utilitarian* theory raises multiple questions of moral grounds. The criticism over the utility calculus (Adams, 1976), the debate whether happiness of the worse-off should be maximized (or struggles minimized) (Popper, 1945) and whether actions should be chosen based on their likely results, are all important pieces of the ethical theory (Brandt and Hooker, 1994).

Focusing on the inequality aspect of utilitarianism, the theory itself, can be decomposed into *consequentialism* (rightness of actions) and *welfarism* (well-being in the value of outcomes) (Bykvist, 2010)

p.19). *Consequentialism* is the main normative component of the theory, that focuses on the consequences of one's conduct and the ultimate judgement on the righteousness of a particular action. However, if consequentialism is to be omitted and *welfarism* is analyzed instead, it is comparable with the egalitarian notion of distributive justice¹.

Egalitarianism

The main criticism of *welfarism* comes on two questions. First, some individuals might have expensive taste or a different sense of happiness, depending on circumstances or personal preferences. Second, the problem of comparability persists. Since a common ground for comparison of happiness between individuals, groups or societies is hard to find, how do you compare inequality between populations? As a result, a separate group of philosophers- *egalitarianists* (Rawls, Dworkin, Roemer and others) emerged opposing the simplified definition by the *utilitarians*. For them, maximization of happiness as a direct redistribution for the greatest happiness for the greatest number of people *without* any conditions simply does not work.

John Rawls was among the first ones who questioned whether distributional equality might not require deviations from an equal base when this is in the interest of the worst-off group. In *A Theory of Justice* (1971), he summarizes his thesis on inequality in the first two of his *four principles*:

First: Each person is to have an equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberty for all.

Second: Social and economic inequalities are to be arranged so that they are both: (a) to the greatest benefit of the least advantaged, consistent with the just savings principle, and (b) attached to offices and positions open to all under conditions of fair equality of opportunity (p.53).

Inequality in Rawlsian theoretical framework is foremost *universal* and is tied to the principles of *universal* liberty. In addition to presenting it as *justice as fairness* (1985), he considers certain *primary social goods* that a person is entitled to for a fair existence, regardless of what their conception of the good is. Under such condition, these (primary social goods) construct a firm base for comparison among individuals, societies, and other heterogeneous groups. Rawls measures the social welfare of society based on the welfare of the least well-off individual member of society, appealing to the moral pluralism of inequality.

¹ *Welfarism* is used throughout the text referring to as the theory, while *utilitarians* are referred to as a group of thinkers.

Dworkin (1981) claims that individuals should be only compensated for the aspect of their circumstances outside of their control. While heavily criticizing Rawls, he integrates the issue of *responsibility* into the *distributive justice* theory as well as introduces the concept of *equality of resources* as a stand-alone concept of economic inequality. All in all, Dworkin perceives equal treatment of individuals in two dimensions: resources (i) and welfare (ii), the equality of the former representing the true meaning of *distributive justice* for him. In Dworkin's understanding, the equality of resources does not necessarily mean actual physical commodities, but instruments that people use to achieve success or realize life goals. The emphasis on the incomparability of welfare, a focus on *resources*, having a vague measurement unit, cannot be compared, let alone measured empirically.

Cohen (2009) critiques the very core of Rawls's difference principle, claiming it to be *insufficiently egalitarian*. He criticizes Rawls's account of justice on the grounds that the relative scarcity of different skills and natural abilities (already debated by Smith, Ferguson, Marx and Durkheim) is permitted according to the difference principle. Instead, he argues that a just society must enable incentives to induce individuals to use their talents for the mutual benefit of a society. Besides objections on philosophical ground, Cohen (1989) provides a political justification and states that it is not enough for equality to be cemented via an institutional design, but it must also be an imperative for individuals. However, as pointed out by Moon (2015), Rawls's theory is constructed to accommodate moral pluralism (the idea that there can be conflicting moral views that are each worthy of respect) that characterizes democratic societies, while Cohen's argument fails to tackle such pluralism.

The theoretical intellectual debate in the realm of political philosophy continues with Robert Nozick, and more importantly in his argument with Rawls in his *Anarchy, State, and Utopia* (1974) book. His view contrasts sharply with the ones proposed by Rawls, and his argument bases around the notion of legitimacy. In his version of the theory, the concept of *distributive justice* is not compatible with rights of individuals, but is directly related to the notion of entitlement, while justice is understood in the sense of equal property rights. Nozick (1974) proposes three principles of justice that refer to the notion of entitlement and regulate the distribution of property:

First: a person who acquires a holding in accordance with justice in acquisition is entitled to that holding.

Second: a person who acquires a holding in accordance with the principle of justice in transfer from someone else entitled to the holding is entitled to the holding.

Third: no one is entitled to a holding except by (repeated) applications of the first and second principles.

In addition, he argues for the introduction of a minimal state, which is represent the function of the state of guaranteeing individual liberties before other rights. This seems to be mirroring is the main argument of the libertarianism/liberalism (Locke, 1690) that the rights of individual must be shown unconditional respect and go against the distribution within the welfare state.

Capabilities Approach

Although *the capability approach* by Amartya Sen (1992) participates in the theoretical discussion on the concept of inequality through its emphasis of the difference in *functionings* between people. The main argument of the approach is that the measurement of poverty is not reflected by reference to the income distribution in the lower percentiles. Instead, it is referred to a level of *deprivation*, meaning literacy, good health, political participation and all other factors which would make a person more productive to earn higher income. Sen illustrates his argument on a simple example of showing the difference between someone on a hunger strike and a starving person. By the end of the day both have neither eaten, nor earned wage. The main difference between the two is that someone on a hunger strike has the *capability* to return to work the next day and has a place to stay, when a starving person is deprived of it. Therefore, in Sen's reasoning, the starving person does not have the same *functionings* as the one on a hunger strike. In Sen's framework, a set of *functionings* available to people are called *capabilities*. His concept of fair justice is when such *capabilities* are equalized at the highest possible level over all economic regimes in order *functionings* to be freely available for all people. Such an approach partially echoes both Rawls' and Dworkin's theories of *basic goods* and *resources*, emphasizing that not only goods by themselves are important for people, but what they are able to accomplish by using them (Sen, 1992; Roemer, 1998, p.164).

Although insightful and innovative with the focus on the initial conditions that determine poverty for an individual or a group of individuals, *capabilities approach* is not directly linked to economic inequality. It is rather related to poverty, which is often associated with those in the lower part of the income or wealth distribution. Larger inequality does not necessarily mean higher poverty, and vice versa. Moreover, poverty can be thought of as an inequality measure focused on the bottom of the distribution and there is no *spontaneous, general and unidirectional relationship between growth, inequality, and poverty* (Bourguignon & Atkinson, 2001, p.218).

A modern take on capabilities, presents *horizontal inequality* as a concept describing inequality among groups of individuals over a range of capabilities, rather than among individuals (*vertical inequality*) (Stewart, 2009). While building up on the social capital concept of Putnam (2000, 2001), *horizontal inequalities* is defined as the one among culturally determined groups, that have salience for their members and/or others in society, among races, ethnic groups, religions, regions and so on. In Stewart's (2009) version, Sen's *capabilities* are related to *participation* of individuals, rather than to *power*.

In addition, two main poverty traps are introduced: *capability inequality trap* (as well as their transmissibility throughout generations) as well as *capital inequality trap*, which includes interactions among different types of capitals (human, cultural, social and physical). In addition, she points there is a high rate of interaction between the two, but both lead to different asymmetries: in social capital, in attitudes (or cultural capital), discrimination as well as political powerlessness, each having long-term effects and intergenerational consequences. All in all, Stewart's arguments represent a legitimate and rigorous framework of alternative analysis of socio-economic inequalities.

However, the main problem with the approach is the fact the approach is focused on finding the link to poverty and conflict, rather than the consequences of inequality. The lines between the divisions of different groups are arbitrary, with some being more salient than others.

A Reconciliatory Theory?

Roemer (1998) proposes a new theory of *equality of opportunity* lying between the extremes of *rawlsianism* and *utilitarianism*. While *rawlsianism* considers that behavior is attributed to effort and none to circumstance, *utilitarianism* posits and that *all* behavior is taken to be explained by circumstance and none by autonomous choice. Roemer (1993, 1998) presents the middle ground by suggesting five categories to be considered in his theory: *circumstance* (similar to Dworkin, a person is not being held responsible), *type*, *effort* (the person is being held responsible), *objective* and *policy*. *Leveling the playing field* for him means guaranteeing that those who apply equal degrees of effort towards their own objectives end up with equal achievement, regardless of their circumstances. *Inequality of opportunity* is essentially an *ex ante* concept concerned with the equal starting point, whereas much redistribution is related to the *ex post* outcomes (Atkinson, 2015).

Although building a rather multidimensional theory, Roemer does not consider the dynamics of inequalities (*distributive justice*) after the opportunities have been equalized. Educational achievement, wealth, employment status, income, utility or welfare are all various outcomes of inequality, but all of them seem to be dynamic concepts. As it stands right now, John Roemer's equality of opportunity is most comprehensive attempt at creating a reconciliatory theory between the *capabilities approach*, *utilitarianism* as well as some elements of *resource egalitarianists*. However, Roemer's theory, although concrete and multidimensional, must be used in the application rigorous empirical models, in order to fully contain the exploratory power.

3. Economic inequality: an economics' perspective

While the main criticism of *egalitarians* is that *utilitarians* are not concerned about how well-being is distributed across individuals and as far as it is maximally distributed, the economic thinking argues on three dimensions: the trade-off between the inequality and efficiency, whether inequality is endogenous as

well as for the applicability and measurability of the models. As hinted in the previous section, economic theories are almost exclusively *utilitarian* and positive (as opposed to normative economics). Similarly to the previous section on distributive justice, Figure 2 presents a summary table of all economic theories of inequality in a relatively chronological order.

Figure 2. Summary of economic theories of inequality

No.	Theories of Economic Inequality	Authors	School of Thought	Main Thesis	Criticism	Empirical Evidence
1	Malthusian Cycles (trap)	Malthus (1798)	Demographic	differences in exponential growth of population versus linear growth of production of the means of substance produces inequality	includes only demographic factors as the driving forces of social stratification and inequality, omitting multiple other variables	Historical examples of Babylonia, Classical Athens and 19 th century England
2	Supply-Demand Labor Theory (Heckscher - Ohlin Model)	Heckscher & Ohlin (1952)	Mainstream Economics	when borders open up for trade, high-skilled workers earning an even more premium pay at the expense of the lower-qualified workers, who find it hard to adapt to the new requirements dictated by the demand for qualified labor	does not include institutional as well as political factors; capital and labor are not easily substitutable	Cross-country, a minimal theoretical model, working under assumptions of full labor and capital mobility
3	Inverted U-shaped Cycles of Inequality	Kuznets (1955)	Mainstream Economics	as countries industrialize and average incomes grow, inequality will first increase and then decrease, resulting in an inverted U-shaped curve	Piketty, Atkinson, Milanović: theory of the past, modern empirical evidence contradicts the theory	Evidence supported on global scale until 1970's (the end of industrialization)
4	Global Rise of Economic Inequality	Piketty (2014, 2015)	Political Economy	the tendency of returns on capital to exceed the rate of economic growth ($r > g$)	Milanović: Both Piketty and Kuznets are correct, but for different time periods	data from twenty countries – 20 th , 21 st century (the US and France are the most vivid examples)
5	The Four Horsemen of Leveling of Inequality	Scheidel (2018)	Economic History	mass mobilization warfare (i), transformative revolution (ii), famine and state failure (iii) as well as lethal pandemics (iv) as the only historically proven cases when long-term inequality statistically decreased	complimentary with the theory of <i>malign</i> forces of Milanović	Mainly historical data from pre-historic times, estimating GINI coefficient using tax returns
6	Global Inequality	Milanović (2016), Bourguignon (2017)	Political Economy; Globalization-focused Theory	two Kuznets curves, currently in the second one of global inequality; income inequality among the citizens of the world, factored by population and globalization	the effect of global economic crisis on economic inequality is undermined	Evidence from Large-N Household Surveys Assumption of full mobility of capital
7	Measurement-driven. <i>Real</i>	Atkinson (1975, 2015)	Applied Economics	a holistic understanding of what economic inequality consists of, includes: capital gains (accrued gains mainly for the top earners at	communicates well with Amartya Sen's and John Roemer. Equality of opportunity as <i>ex ante</i>	Luxembourg Income Study (LIS) which coordinates a vast

	distribution of wealth			the expense of middle-income groups), imputed rent (homeowners-top and bottom groups), fringe benefits and home production (non-capital);	and inequality of outcome as <i>ex post</i> – intergenerational accumulation of wealth.	cross-country household income survey, also combining administrative (tax filing) data
8	Welfare State	Stiglitz (2017)	Political Economy	no trade-off between economic performance (growth, efficiency, stability) and equality; Equal access to labor markets is at the core of his argument	policy-driven take on welfare-state; empirical examples are country-specific	The 20 th and 21 st century United States
9	<i>Functional</i> aspects of inequality	Ray (1998)	Development Economics; Mainstream Economics	inequality in incomes may be compatible with overall equality (in the system) because a society might display a high degree of mobility; the question of how income is earned has just as much social value as how much is earned. Trade-off between efficiency and inequality	adds facets to the mainstream economic thought on inequality Okun (1975)	Theoretical model
10	Institutionalism	Acemoglu & Robinson (2005, 2013)	Institutionalist Approach	synergy between <i>inclusive</i> economic and political institutions that induces economic development	does not explicitly consider economic inequality as the dependent variable. Milanović (2016): concentrated political power, does not necessarily entail concentrated economic power	Various case studies. South/North Korea as well as a city divided by a border between Mexico and the US
11	Economic Insecurity	Anderson & Pontusson, (2007); Bossert & D'Ambrosio (2013); Gallie et al. (2016); Osberg, (2015)	Modern Economic Thought; Welfare Economics	Related to past and present wealth levels, people's subjective anxieties and job insecurity	relatively new concept <i>deeply interwoven</i> and related to economic inequality.	Evidence from Large-N Household Surveys
12	Income Polarization	Levy & Murnane, (1992); Wolfson (1994); Esteban & Ray (1994)	Modern Economic Thought;	<i>polarization in which observations move from the middle of the distribution to both tails; shrinkage of the middle class</i>	relatively new aspect of economic inequality, deals with changes throughout time	Evidence from Large-N Household Surveys

One of the first economic theories that has started to tackle issues related to economic inequality is *Malthusian cycles*, described in the one of the most influential works by Thomas Malthus in 1798. It focuses on the differences in exponential growth of population versus linear growth of production of the means of substance, triggering inequalities, along other consequences. According to the theory, with the passing of time, higher mean income and lower inequality triggers a population increase among the poor,

reducing their wages; thus, pushing inequality up with the further population growth. However, this theory includes only demographic factors as the driving forces of social stratification and inequality, omitting multiple other variables. It is also known as the theory of the past, drawing empirical examples to time of the past Babylonia, Classical Athens and 18th century England, making it almost inapplicable especially for the period of industrial revolution, where other factors besides demographic ones came into play.

The economic thinking of mid-20th century modernization produced the main mainstream economic explanation of economic inequality, focusing on the supply and demand logic. Assuming the mobility of capital and labor, presents economic inequality in the form of a simple ratio of wages of skilled over unskilled workers. As demand increases for highly skilled specialists, their wages increase at a higher pace, as compared to the wages of the low-skilled workers, who are lagging. In the context of a globalized world, where capital mobility is at unprecedented levels and labor can be substituted with capital (neoclassical economics) inequality rises simply as the result of globalization. More precisely, a simple Heckscher & Ohlin (1952) model is at play here: two perfectly competitive markets with highly skilled workers earning a premium on their wage as well as low skilled worker in a labor-intensive system. These two markets are isolated from each other; however, when borders open for trade because of globalization, the markets converge into one with high-skilled workers earning an even more premium pay at the expense of the lower-qualified workers, who find it hard to adapt to the new requirements driven by the demand for qualified labor. In addition, technological innovations also affect mainly low-skilled workers, creating demand for those with better education, making those who are left behind not able to profit from the new system. Nevertheless, such a model and the view are quite static, which does not consider evident externalities and shortages, barriers to mobility of factors of production as well as the fact that in the real world, capital and labor are not easily substitutable. Although quite advanced as compared to the previous attempts at creating a model of inequality, it remains overly simplistic, with institutional as well as political factors excluded from it.

Around the same time, Kuznets (1955) presented the relationship between growth and inequality as an inverted U-shaped curve, being one of the first authors specifically focusing on economic inequality. The logic behind the curve is simple: as countries industrialize and average incomes grow, economic inequality will first increase and then decrease, resulting in an inverted U-shaped curve. For Kuznets (1955), rising inequality is the product of various economic forces and a gradual end of structured transformation. Empirical studies point that the distribution of inequality follows such a shape, however, mostly in the historical periods of the 18th- the first half of the 20th century. Simon Kuznets's contribution to the field, although not comprehensive, is the first one to focus on economic inequality as the dependent variable for research, however its explanatory power in other time periods is not universal.

In fact, Kuznets' waves/cycles have been accepted and never challenged empirically, for almost the half of a century, when Piketty (2014) was able to provide empirical evidence to disprove them. He constructed his argument on the fact that due to the tendency of returns on capital to exceed the rate of economic growth, the long-term economic inequality has been constantly on the rise in the 20th and 21st centuries in the Western World. In addition, he has showed it empirically on the example of time-series of tax returns data from twenty countries (the US and France are the most vivid examples). This goes against the previously proven Kuznets inverted U-shape curve, which, although empirically proven for the earlier time period, could not explain the rise of inequality from 1980s onwards. According to Piketty, in 1980s new technological revolution caused the rise of inequalities, as new technologies strongly rewarded more highly skilled labor, driving up the share/return on capital, with capital became harder to tax in the globalized world.

In the debate of who is right and wrong, Milanović (2015) showed empirically that both Piketty and Kuznets are correct in their assessment: while Kuznets cycle explain the long-term rise and decrease of inequality in the -early 20th century, Piketty provided evidence for the increase of inequality in the 20th - 21st centuries. Moreover, going even forward, he reconciles the two opposing views by the economists, changing the context: instead of one long-term Kuznets cycle, he proposes to have two, ending the first Kuznets cycle of decreasing inequality at the end of 1980s, and drawing another one from 1980s until now, meaning that current times of rising national inequalities is the beginning of the second cycle.

Scheidel (2018) introduces historical perspectives into discussion on economic inequality. He concentrates on cycles of *compression* - narrowing the gap between the rich and poor and *leveling* - minimizing the GINI coefficient, tracing both back to the prehistoric times. While focusing on distribution of material resources within societies, rather than in-between different countries, Scheidel identifies *The Four Horsemen of leveling*: mass mobilization warfare (i), transformative revolution (ii), famine and state failure (iii) as well as lethal pandemics (iv) as the only historically proven cases when long-term inequality statistically decreased. The core of his argument is that to level out equality, an event needs to be violent, thus belonging to one of the above-mentioned *horsemen*. He continues that peaceful leveling used to be an extremely rare phenomenon, as inequality in the distribution of (disposable) income cannot rise forever. Assuming that concentration of capital in the twentieth century was not massively dislocated, any further leveling would not be reversed by *disequalizing* forces. Scheidel (2018) also points to Piketty's (2014) weakness in the oversimplification of the effects of the war on inequality through generalization of the experience of France as the case study example, and application of it to a wider group of countries. A historical perspective, although highly insightful, does not provide the tools of analysis in the cross-country context.

Global Inequality

With the rise of global mobility of capital and the increase of mobility of labor, Milanović (2016) and Bourguignon (2017) introduce the importance of *global* inequality. Defined as income inequality among the citizens of the world, they present it as a sum of all national inequalities plus the sum of all gaps in mean incomes among countries. They are mostly concerned with the factors that influence inequality, rather than the consequences of the rising economic inequality, allowing for the effect to go both directions:

the study of economic inequalities for the last two centuries allows us to see how the world has changed, often in fundamental ways. Shifts in global inequality reflect the economic (and frequently political) rise, stagnation, and decline of countries, changes in inequality levels within countries, and transitions from one social system or political regime to another (p.2, 2016).

Milanović (2016) theorizes that there are two kinds of forces that drive inequality down: *malign* forces: wars, natural catastrophes, epidemics (in-line with Scheidel (2018) and *benign* forces: education, increased social transfers and progressive. The inclusion of other factors (including political) underlines the fact that while *benign* economic forces are the most important, social as well as political factors are crucial in terms of their effect on inequality. In his words, once political limitations disappear (the effects of predatory regimes, institutions, etc.), economic factors create a favorable environment for the mobility of capital. Referring to the historical perspective, he identifies the Industrial Revolution as a critical juncture that has turned the course of development of global (*in-between* countries) as well *within* countries inequality around, turning them downward, as in Kuznets cycles. Concomitantly, Milanović (2016) undermines the effect of global economic crisis as having the same potential effect on economic inequality. This can be explained by data limitations, as well as a lack of comprehensive studies focusing on the equalizing effect of the years of the global financial crisis of 2008 as well during the post-crisis years of recovery.

Bourguignon's (2017) take on global inequality is in identifying two main forces which affect it: potential for growth in emerging markets (i) and the process of globalization (ii) (which in his empirical examples has increased inequality within nations, decreasing it between nations). He builds up his argumentation on the mainstream economic theory of a trade-off between economic inefficiency and economic inequality, invoking a microeconomic argument that inequality creates disparities in the access of credit for individuals. Similarly to Milanović (2016), he admits that inequality is not exogenous, but a product of an exogenous global economic phenomenon in addition to economic policies or institutional reforms of a particular country. He also points to the inevitability of inequality under the current capitalist system. In case economic progress in a state is appropriated exclusively by a small elite, it undermines the stability of societies eventually. Reiterating the importance of political variables in the analysis, he

introduces the discussion on the role of top income earners and the influence they have in the state. All in all, François Bourguignon's addition to the debate is an innovative one, bringing the concept closer to the institutionalist and political economic point of view and opening the debate on the effect growing inequality might have on other factors.

Different types of economic inequality?

The complexity of measuring economic inequality as well as innovations related to it are the focus for Anthony Atkinson in his earlier book *The Economics of Inequality* (1975). The definition of inequality for Atkinson is broad and complex, as it encompasses, not only differences in income, but also resources and *needs* (needs of a single person versus a family of four), *tastes* and *choice* (preferences), *age* and *the life cycle*, *opportunity* and *outcome*. In addition, he highlights inaccurate reporting (top and bottom groups), tax evasion and illegal income, capital gains (accrued gains mainly for the top earners at the expense of middle income groups), imputed rent (home owners- top and bottom groups), fringe benefits and home production (non-market services) as the main problems official statistics and administrative tax data are not able to tackle.

In his later book *Inequality. What can be done?* (2015) he disaggregates the concept of economic inequality in two: *equality of opportunity* and *inequality of outcome*. He refers to the works of Sen and Roemer, for the former and to the most standard measures of wealth, income or consumption in the latter. In addition, he relates the two features – *inequality of opportunity* as *ex ante* costs and *inequality of outcome* as *ex post* (transaction) costs, (referring to Williamson (1981) and North (1992)). Furthermore, Atkinson provides a thorough criticism of focusing exclusively on the inequality of outcome (usually by easily retrievable statistical data on income, wealth or consumption) highlighting three main problems: one cannot ignore those for whom the outcome is hardship (i); competitive versus noncompetitive equality of opportunity (iii), as well as equality of opportunity for the next generation (intergenerational inequality) (iv). Additionally, he expands on the (iv), connecting today's (t) *ex-post outcomes* with tomorrow's (t+1) *ex ante* playing field: the beneficiaries of inequality of outcome today can transmit an unfair advantage to their children tomorrow (Atkinson, 2015, p.11). As inheritance accounts for a sizeable fraction of the wealth of the group of top-income earners, there is observed *inequality of opportunity* as well and should be taken into consideration when attempting to analyze holistically. Additional factors which might have a connection with the distribution of income: institutions of the labor market (trade unions themselves), employers and government (including bargaining power of trade unions on the internal labor market) as well as the development of institutions, especially pension funds, which stand between the productive sector of the economy and the household sector. In terms of the topic of economic inequality in the modern theoretical debate, he concludes that issues of redistribution are outside of the interests of main economic

thought, as most mainstream economists mention focus on the three components of income - rent, profit and wages, but rarely take them all into account comprehensively².

Joseph Stiglitz is another author who has been theorizing about economic inequality. In his seminal book *The Welfare State in the Twenty-First Century* (2017) he states: *the safety net is just something to prevent citizens from starving, but it is not designed to enable them to live a life with dignity or to give them the capabilities to be more self-supporting* (p.9). By generalizing that large groups in societies suffer from significant deprivation – youth, the elderly and the poor of working age - on the example of the US, he vouches in for the introduction of a welfare state. Equal access to labor markets is at the core of his argument, since unemployment and not employment is the real characteristic of the poor and raising the minimum wage will not necessarily have a big impact on poverty (2017 p.157). While insisting that there is no trade-off between economic performance (growth, efficiency, stability) and equality, Stiglitz takes a stance opposing the mainstream economic thought, vouching for the idea of widening the safety net, especially in countries with minimal welfare state.

Coming back to the mainstream understanding of economic inequality through equality-efficiency dilemma (Okun, 1975), Debraj Ray (1998) adds several concepts to the model. He states that inequality in incomes may be compatible with overall equality (in the system) because a society might display a high degree of mobility: movement of people from one income class to another (contradicting Corak's findings (2004, 2013)). For Ray (1998), *functional* rather than personal distribution of income is the key to understand how people earn income and how much social value does it bring. Moreover, he states that: *inequality has a built-in tendency to beget inefficiency, because it does not permit people at the lower end of the wealth or income scale to fully exploit their capabilities* (Ray, 1998, p.237). As a conclusion, he identifies the four criteria for inequality measurement: (1) the anonymity principle (names do not matter), (2) the population principle (composition does not matter if the composition of different income classes stay the same in percentage terms), (3) the relative income principle (only relative incomes matter from a relatively poor to a relatively rich person, the inequality – increase). This is the view which was built up based on the mainstream economic theory basis, considering factors of social mobility and stratification, however, still missing the institutional, political and/or perception variables. The main success of this theory is that it realizes that the measurement unit at the core of the economic inequality problem is household or individual, thus sharpening the focus from macro to the micro level of research. This allows for

² Anthony Atkinson (2015) briefly mentions *inequality of consumption* as a possible alternative measure for economic inequality. However, it has various limitations when measured due to certain inherent differences in patterns of consumptions across households, regions and countries.

a level of disaggregation of tax data coming from national or regional accounts into a more fine-grained analysis at the level of an individual, usually retrieved through a combination of tax information and survey data.

Institutionalism

Institutional accounts analyze inequality through the prism of democratization (Meltzer & Richard, 1981; Acemoglu and Robinson, 2000) which, if effective, is found to likely lead to increased taxation and redistribution (decreasing inequality). This is due to changing nature of the *median* voter, who, in the context of the rise of the middle class has become the most decisive and interested in widening the spread of the distribution. Other, more recent works (Acemoglu, Naidu, Restrepo and Robinson, 2015) have used advanced panel data methods and found the relation to be negative – with democratization increasing government taxation and revenue as fractions of GDP, arguing that *political reforms can be viewed as strategic decisions by the political elite to prevent widespread social unrest and revolution*. Furthermore (Acemoglu & Robinson, 2008; 2015; Acemoglu, Naidu, Restrepo and Robinson, 2015) point to the endogeneity in the relation between different aspects of democracies and economic inequality (also economic growth) and generally conclude that the impact of the political system on distribution depends on the laws, institutions, and policies enacted by the system. Earlier works by Acemoglu & Robinson (2008) also introduces different dimensions of analysis: *democratization* and *consolidation* (of democracy) emphasizing both political institutions (universal suffrage) as well as economic institutions (policy concessions, taxation systems, etc.) in the role of different paths towards democratization in a historical and cross-national perspective. While democratization is a credible commitment to future redistribution and as inequality increases, democracy becomes costlier to the elites, but *consolidation* might not be the case and not go hand-in hand with the early stages of democratization (Acemoglu and Robinson, 2008).

Acemoglu & Robinson (2015), emphasize the synergy between *inclusive* economic and political institutions that induces economic development and lowers economic inequality. This is opposed to *extractive* institutions which concentrate wealth among the narrow strata of population, creating inequalities of different kind. By eliminating the cultural arguments (geography, culture and others), Acemoglu & Robinson (2015) demonstrate the dynamic and the interaction between the two types of institutions and how *extractive* economic and political institutions become *inclusive* from neatly picked comparative cross-country historical examples. Referring to the ideas put forward by institutionalists, the endogeneity in the interaction between economic inequality and institutions (democratization) is the key innovation, as the direction going both ways.

However, the role of institutions has its critics as well. The lack of economic inequality can be artificially sustained even in the regimes where political inequality exists and is built around extractive institutions. Milanović (2016) states that in some political regimes, such as the Soviet Union, concentrated political power, does not necessarily entail concentrated economic power (p.102). However, such a counter-argument is based on a unique country case, and would not prove robustness checks on a cross-country basis. However, it is not the institutions themselves which are the only affecting force in driving inequality down, but the difference between *inclusive* and *extractive* ones (country specific as well), which work towards economic prosperity of an individual, household or a particular region.

Economic Insecurity

Economic inequality and economic insecurity are *deeply interwoven* concepts; however, they are not the same (Hacker, 2019, p.2). While the former may stir up envy of those at the top or resentment from at the bottom (of the income or wealth distribution), the prospect of the latter – of suffering a considering drawback - *being laid off, or losing health coverage, or having a serious illness befall a family member* – stirs up *anxiety* (Hacker, 2019, p.7). Anderson & Pontusson (2007) state that economic insecurity is often being used as an *umbrella term for different manifestations of material well-being ranging from a general sense of material well-being to job-related anxieties or individuals' assessments of recent changes in their personal financial situation* (p.212). Such a definition summarizes different approaches, ranging from worries about one's job (Anderson & Pontusson, 2007; Gallie et al., 2016), past and present wealth levels (Bossert & D'Ambrosio (2013) as well as *people's subjective anxieties with respect to different types of hazards* (Osberg, 2015). Another group of theories embeds economic insecurity with the concepts of risk and uncertainty. Their definitions include *exposure of individuals, communities and countries to adverse events, and from their inability to cope with and recover from the costly consequences of those events* as well as *economic insecurity - the intersection between perceived and actual downside risk* (Jacobs, 2007). Stiglitz et al. (2009, p. 198) state that economic insecurity may be defined as *uncertainty about the material conditions that may prevail in the future*, as it generates stress and anxiety, as well as creates impediments for household investments in housing and education. For Hacker (2019), economic insecurity – *psychologically mediated experience of the prospect of hardship –causing economic losses*.

A different approach comes from Bossert & D'Ambrosio (2013), who relate the concept of economic insecurity to current and past wealth levels. Their definition is straightforward: *economic insecurity is the anxiety produced by the possible exposure to adverse economic events and by the anticipation of the difficulty to recover from them* (p.1018). This definition allows for including the effect of economic crisis as well as recovery on multilevel basis: from individuals to households, regions and countries. The temporal basis is also involved, with both past, present and future wealth levels considered. All in all, in order to fully grasp economic insecurity, its measurement should incorporate all three elements highlighted

above: job insecurity (Anderson & Pontusson (2007)), wealth (at time-1) (Bossert & D'Ambrosio (2013)) as well as feeling of being insecure (Inglehart & Norris, 2016; Guiso et al., 2017).

Income Polarization

Income polarization is another aspect of economic inequality, which is defined as *polarization in which observations move from the middle of the income distribution to both tails* (Levy & Murnane, 1992). There are two main concepts which gave birth to modern usage of the term. Wolfson (1994, 1997) conceptualizes polarization as *shrinkage of the middle class* (also Levy & Murnane, 1992; Chakravarty & D'Ambrosio, 2010) through hollowing out of the middle-class incomes, whether due to job loss, inability to recover from the economic downturn or inability to move up across income mobility spectrum. The second, a more complicated axiomatic approach to income polarization, comes from Esteban & Ray (1994) which regards polarization as *clustering around local means* of the distribution, depending where they are located on the income scale (p.821). While introducing the two different approaches, Chakravarty & D'Ambrosio (2010) present the former as a *situation of bipolarization*, and the latter a more generalized version of it. However, in terms of its applicability and possible connections to the phenomenon of populism, Wolfson's approach (1994, 1997) as well as further developments (Wang & Tsui, 2002; Duclos et al., 2004) provide the possibility to connect the measure to median voter as well as general frustrations with the status quo in the economy and offering economic voting as the result. Since a simple GINI measure cannot fully grasp the full extent of the phenomenon of polarization, some authors have used quintile income shares (as data is presented in the World Income Database), while others have used the fraction of the population in various income ranges defined in terms of the mean or median income. Wolfson's approach (1994) compares standard measures of economic inequality and income percentiles (quintile income shares), empirically showing the difference between the two proving duality or complementarity between polarization and inequality.

4. Conclusion

This study reviews the broad literature on the concept of socio-economic inequality. It presents the debate between the political philosophers and economists in the economic history perspective. In political philosophy, the concept of distributive justice is a normative principle (although not identical) is the most related to economic inequality or income distribution in economics (and political economy). Originating in the 17th century, the review traces the evolution of the debate between *egalitarianists* and *utilitarians* to the modern times. It then continues to propose the alternative theories of capabilities and a reconciliatory theory of inequality of opportunity, reviewing a total of eight theories. Moreover, it continues to review the side of the debate from the economic perspective, exploring thirteen theories ranging from Malthusian cycles to global inequality, economic insecurity, income polarization and others. The debate concludes that

while economic theories are almost exclusively *utilitarian* and positive (as opposed to normative economics), political philosophy theories mostly contain normative aspects and are concerned with what is *fair*, which is not suitable for cross-national and time-variant research.

Three main conclusions can be made on the comparison between the theories of (in)equality put forward by political philosophers and economists. First, the concepts are very different in its core and are not the same between the disciplines. In terms of conceptualization, most political philosophers use *distributive justice* as the closest term to equality. While it is concerned with the fair distribution, it sometimes includes the reference to the economic side of it, but most of the time does not. Economic inequality is a concept, which is mostly linked to the measurement of socio-economic at the present time, (initial conditions at time minus one, or future income might also be considered) which in most times does not include fairness or institutional guarantees of liberty, equal opportunity or fairness in distribution.

Second, as pointed out by Kaufman (2020) the two views on the issue of equality are based on two competing principles. The *difference principle*, as proposed by Rawls (1985) is concerned with the creation of guarantees for all: focusing on social cooperation among diverse persons with competing needs and claims. This is being done by ensuring the worth of liberty, real equal opportunity and fairness in the distribution of goods, burdens and benefits. In addition, creating social conditions in which basic social institutions (formal and informal) provide for such equalizations represents the key focus. Economists base their concepts on the maximin criterion, which is concerned with maximizing the share of primary goods of the least advantaged. This is achieved through policies of redistribution via closing the gap between those on the bottom of the income (or wealth) distribution with those who are better off.

Finally, the discussion over equality (or inequality – as the lack of equality), can take place, only if recognizing them as normative concepts. The strive for equality is a goal for both conceptualizations, only if inequality is recognized as a problem. If both conceptualizations agree on the same goal, the key disagreement between the economists and political philosophers remains solely about the tools, the need and the weight of different aspects of the problem of inequality. While certain levels of inequality in a society might be tolerable, the theories of distributive justice as well as economic inequality have an inherent political justification for its existence. Such justifications are always behind a specific policy solution or a goal, which aims for the betterment of society – making everyone more equal.

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