

In the 1970s, the American economist Arthur Okun laid out the idea of a “big trade-off” between equity and efficiency. He argued that at any given point in time, society can only reduce inequality at the cost of reducing aggregate efficiency due to the deadweight loss of taxation and administration (“the leaky bucket”) from redistribution of income.



But this leaves open the possibility that society can increase both equity and efficiency by expanding equality of opportunity and raising human potential by investing in public goods such as education and health care, thus increasing overall productivity without sacrificing equity.