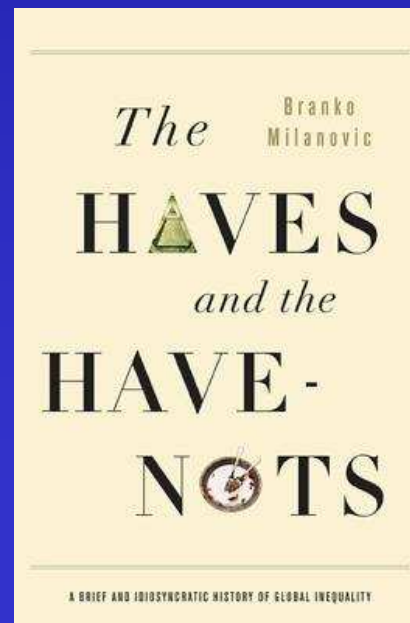
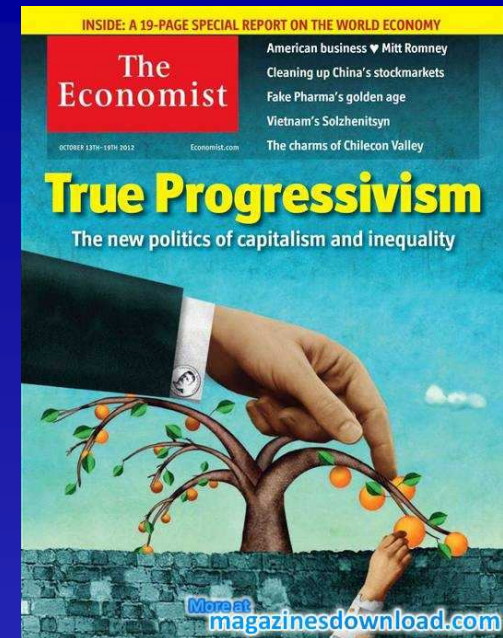
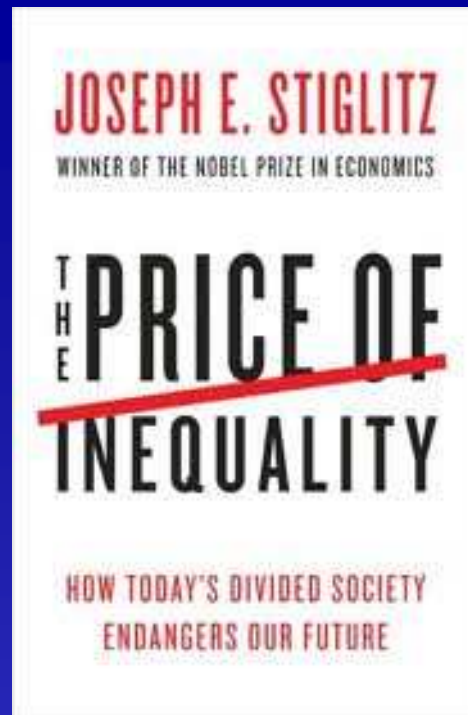
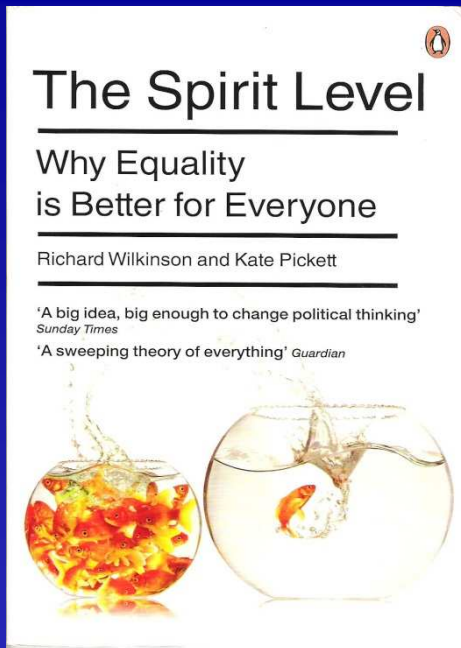


Inequality & Gresham's law:

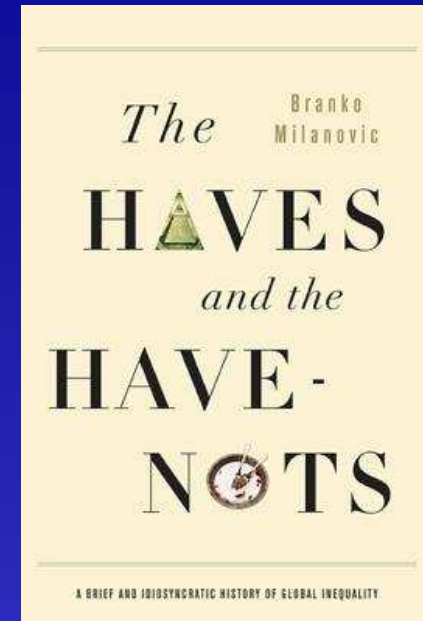
Does the bad drive
out the good?

Jan Vandemoortele



Inequality & cholesterol

- Good inequality: *'needed to create incentives for people to study, work hard, or start risky entrepreneurial projects.'*
- Bad inequality: *'provides the means to preserve acquired positions.'*

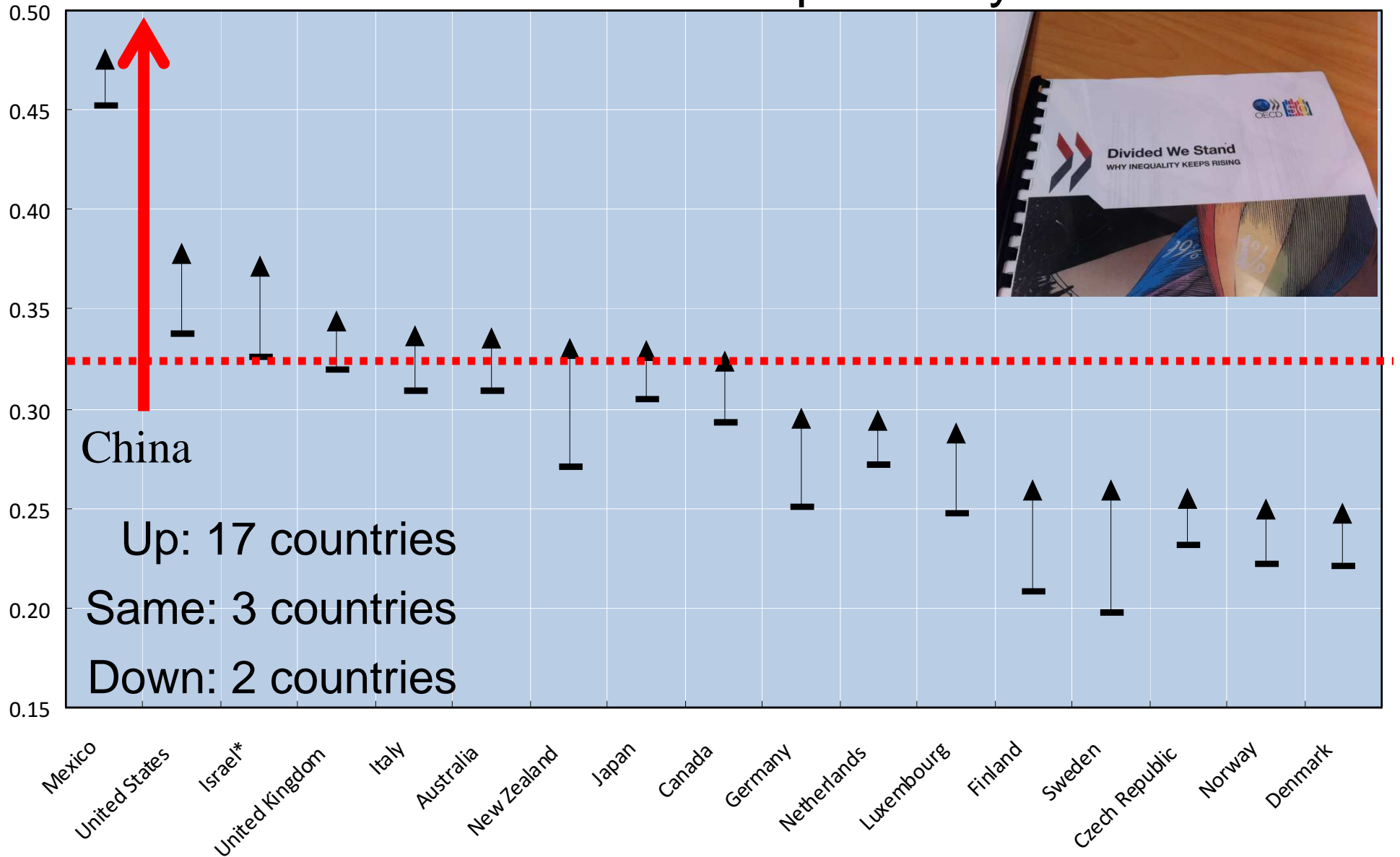




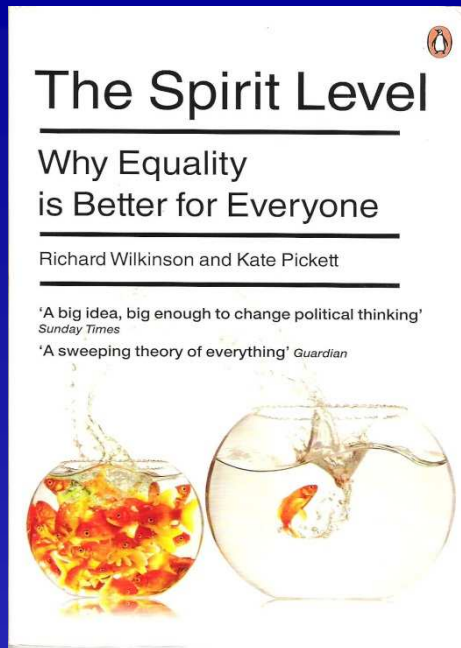
Bad inequalities drive out good inequalities in that high inequalities of outcomes make equality of opportunity virtually impossible.

Inequality in OECD countries

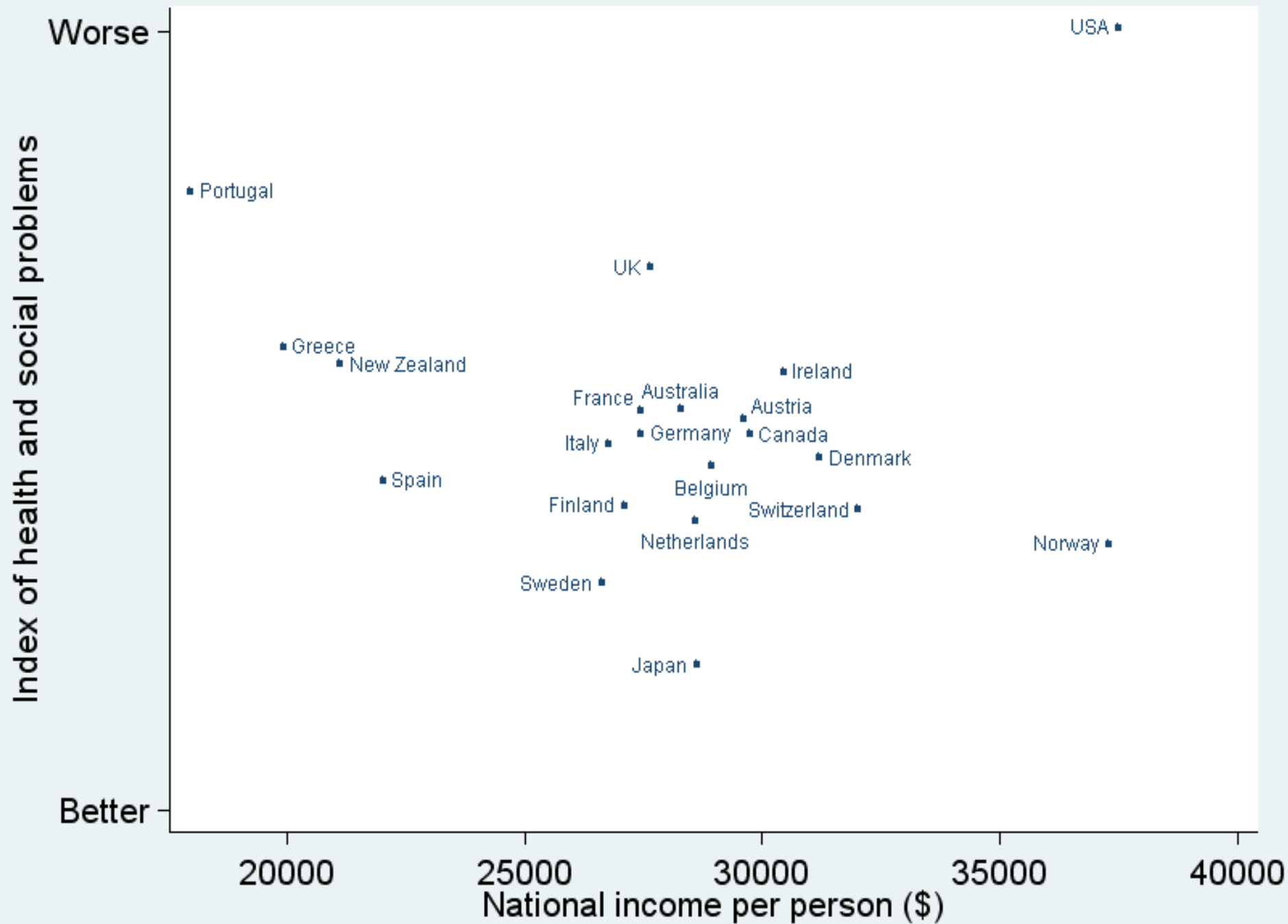
Gini coefficients over past 30 years

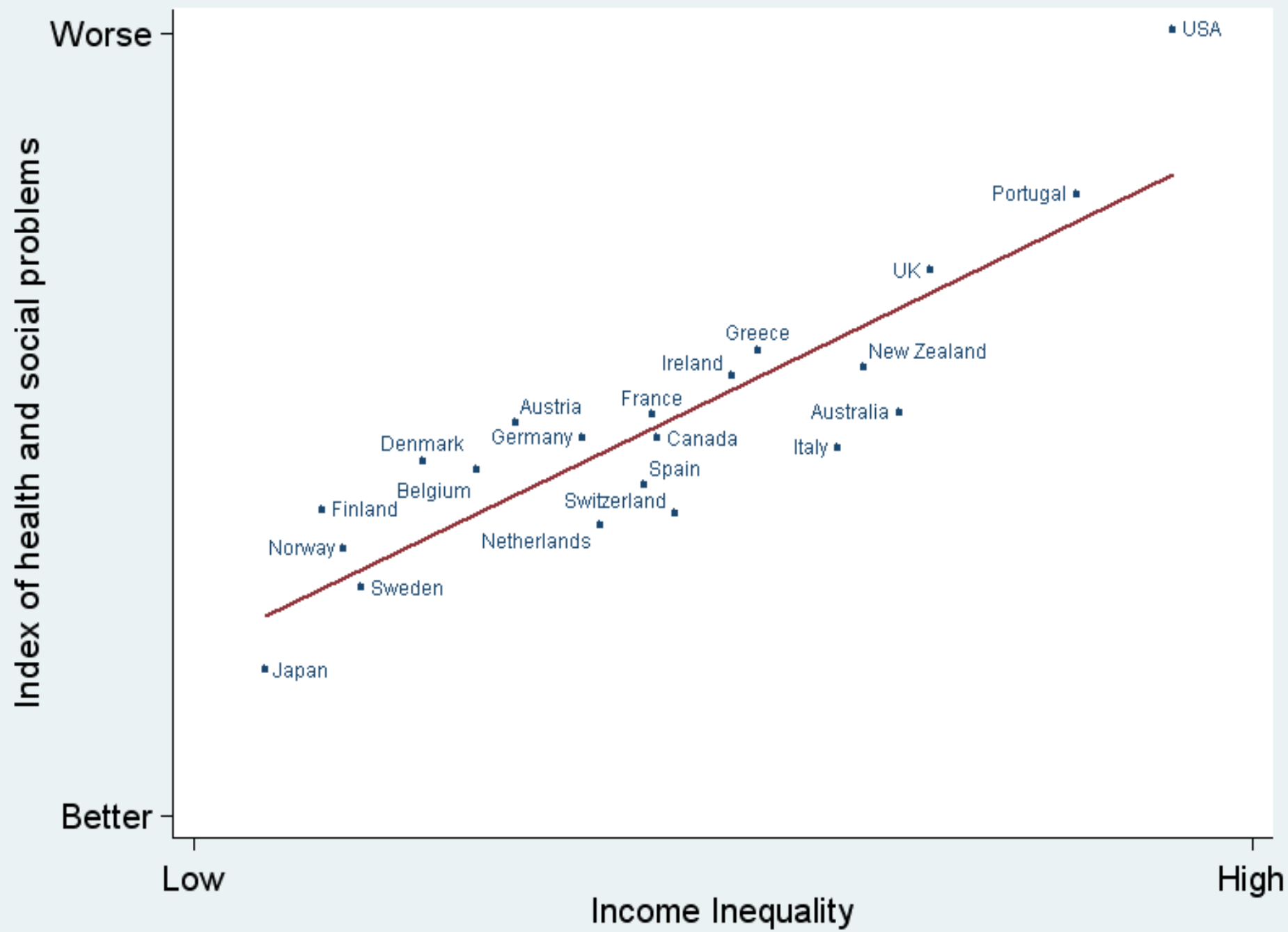


- Top 10%: appropriated 91% of gains in US income between 1989-2006.
- Top 1%: captured nearly 60% of income-growth between 1976-2007.
- Top 0.1%: income share up from 4% to 12% between 1979-2006.
- *‘US managed to increase GDP per capita, from 1980 to 2010 by three-fourths, but most full-time male workers saw their incomes go down.’*
- *‘...US economy did well, except for the people in it.’*



1. Life expectancy
2. Math & Literacy
3. Infant mortality
4. Homicides
5. Imprisonment
6. Teenage births
7. Trust
8. Obesity
9. Mental illness
10. Social mobility



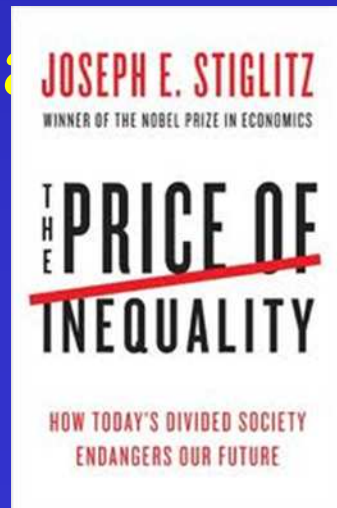


Equity & growth: friend or foe?

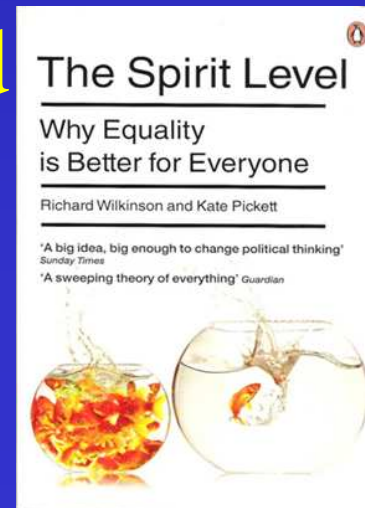
- “*inequality is harmful for growth.*”
(Persson & Tabellini, 1994)
- “*it has become extremely difficult to build a case that inequality is good for growth.*” (Temple, 1999)
- “*greater equality provides a favourable initial condition for rapid and sustainable growth.*” (Dagdeviren, v/d Hoeven & Weeks, 2000)

- *“existing evidence appears to offer more support for the view that inequality is harmful to growth than the opposite view.”* (Ravallion, 2000)
- *“a more equal society has a greater likelihood of sustaining longer-term growth.”* (IMF, 2011)
- *“the pendulum has swung from a rather unambiguous answer that inequality is good for growth to a much more nuanced view that favors the opposite conclusion.”* (Milanovic, 2012)

- High inequalities have a price – *slower growth, more instability, less efficiency*
- They hurt everyone, also those at top.
- Way economic pie is cut has a bearing on its size.
- There is such thing as too much inequality

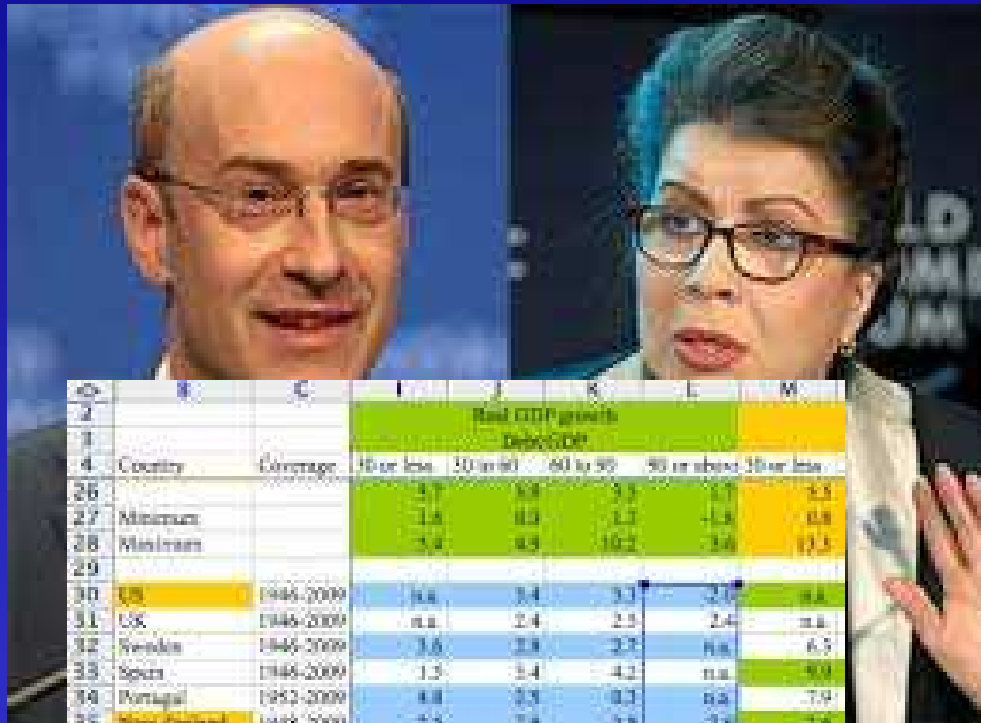


threshold



Does evidence swing debates?

Reinhart-Rogoff controversy



	B	C	F	J	K	L	M
2			Real GDP growth				
3			Debt/GDP				
4	Country	Coverage	10 or less	10 to 20	20 to 30	30 or above	10 or less
26			3.7	6.9	5.3	6.1	2.5
27	Minimum		1.6	11.3	1.7	-1.9	6.8
28	Maximum		-3.2	4.9	10.2	-3.6	12.5
29							
30	US	1946-2009	3.4	3.4	3.3	-2.7	n.a.
31	UK	1946-2009	n.a.	2.4	2.5	2.4	n.a.
32	Sweden	1946-2009	3.6	2.8	2.7	n.a.	6.5
33	Spain	1946-2009	1.3	3.4	4.2	n.a.	9.9
34	Portugal	1952-2009	6.8	2.5	0.3	n.a.	7.9
35	New Zealand	1948-2009	2.3	2.9	1.9	-2.5	-2.6
36	Netherlands	1956-2009	4.1	2.7	1.1	n.a.	6.4
37	Norway	1947-2009	3.4	3.1	n.a.	n.a.	3.4
38	Japan	1946-2009	7.8	4.9	1.8	-6.7	7.0
39	Italy	1951-2009	3.4	2.1	1.8	1.0	3.6
40	Ireland	1948-2009	4.4	4.9	4.0	-2.4	2.9
41	Greece	1970-2009	4.0	11.3	2.7	-2.9	11.1
42	Germany	1946-2009	3.9	11.9	n.a.	n.a.	3.2
43	France	1949-2009	4.9	2.7	3.0	n.a.	5.7
44	Finland	1946-2009	3.8	2.4	3.3	n.a.	3.0
45	Denmark	1959-2009	3.5	1.7	2.4	n.a.	5.8
46	Canada	1951-2009	1.9	3.6	4.1	n.a.	2.2
47	Niuginon	1947-2009	6.4	6.2	3.1	2.8	n.a.
48	Austria	1948-2009	3.2	2.3	-3.8	n.a.	5.7
49	Australia	1951-2009	3.2	4.8	4.0	n.a.	-3.9
50							
51			3.1	2.9	2.8	AVG(ADG)(1946)	



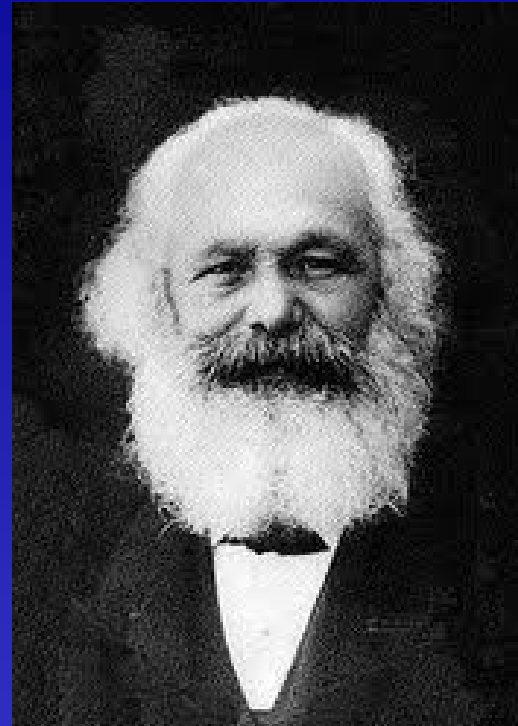
What did philosophers say?



*“To feel for others and little
for ourselves, to restrain our
selfishness and exercise our
benevolent affections,
constitute the perfection of
human nature.”*

Adam Smith (1723-90)

What did philosophers say?



Does the free market corrode moral character?

1. Categorical 'No'

- Rick Santorum – *No.*
- Qinglian He – *No.*
- Jadish Bagwati – *To the contrary.*
- Ayaan Hirsi Ali – *Not at all.*

2. Nuanced 'No'

- Tyler Cowen – *No, on balance.*
- Michael Novak – *No! And, well, yes.*
- Garry Kasparov – *Yes, but...*
- Bernard-Henri Levy – *Certainly. Or does it?*

3. 'It depends'

- John Gray – *It depends.*
- John Bogle – *It all depends.*

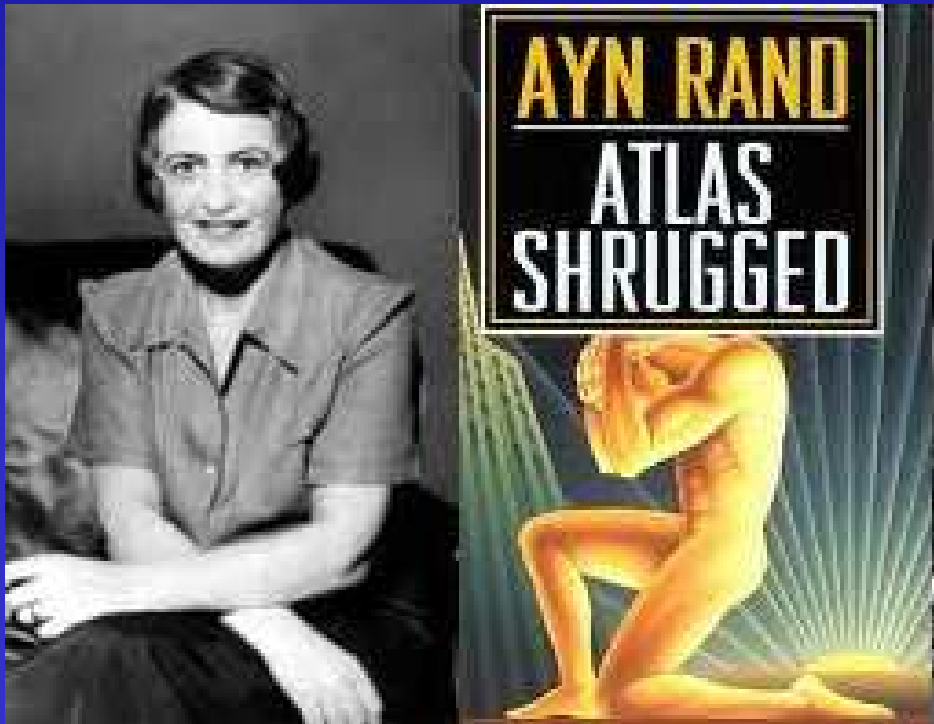
4. 'Yes'

- Kay Hymowitz – *Yes, too often.*
- Michael Walzer – *Of course it does.*
- Robert Reich – *We'd better not know.*

www.templeton.org/markets

“Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution”

Robert Lucas, 2004



“There should exist among the citizens neither extreme poverty nor excessive wealth, for both are productive of great evil.”

Plato (427–347 BC)

“An imbalance between rich and poor is the oldest and most fatal ailment of all republics.”

Plutarch (ca. 45-120)

“If the only advantage of affluence were the ability to buy yachts, sports cars, and fancy vacations, inequalities of income and wealth would not matter very much.”

“But as money comes to buy more and more—political influence, good medical care, a home in a safe neighborhood, access to elite schools—the distribution of income and wealth looms larger and larger.”

Michael Sandel, 2012

Of all the competing ends we might pursue, reducing inequalities must come first, because high inequalities of outcomes turn equality of opportunity into a myth; making all other goals so much harder to achieve.

Precepts of a well-functioning market economy

- Provide assistance when bad luck strikes
- Share lucky windfalls
- Above all, keep a proportional relationship between reward and effort