

# RICHARD COOPER

Professor of International Economics at Harvard University

This is a very big topic to cover in the time allotted. I want to make five points. The first is a somewhat technical one concerning measurement of poverty. It has become fashionable to use something called the Gini coefficient to measure inequality. The Gini coefficient is a very clever coefficient, but it is a single number, and inequality is typically much more complicated than can be captured in a single number, which buries much important information.

Two countries may have the same Gini coefficient, which is to say the same degree of inequality measured in that particular way, and yet be very different. For example, one may have traditional inequality by decile of income. The other may have a big urban rural divide, with relatively equal incomes in the urban sector and in the rural sector but the rural sector is sufficiently large that the Gini coefficient is as high as in the first case. I will just give a warning: beware of the measurements that we often use.

My second point: We live in paradoxical times. It could be the case logically and it is almost the case empirically that inequality could be rising in every country and yet declining globally. How can that be? The answer is that really populous poor countries like China and India are growing much more rapidly than the rich countries are. If we take a global view, inequality has declined over the last 30 years, even though, in most individual countries for which we have measurements, inequality has been rising. Which do we care more about? We care about both, as both are of interest and significance. But this paradox suggests that we need some refinement as we think about policy and what our objectives are.

My third point: I have noticed a tendency in public discourse to conflate inequality and poverty. Those are quite different things. By poverty, I mean absolute poverty, using the World Bank measurement of USD 1.25 a day or USD 2 a day at purchasing power parity. I have not encountered anyone who is in favour of poverty. It is something we should all want to eliminate so that people have real choices in life, for themselves and for their children. Inequality is a much more complicated phenomenon than poverty is and we should keep them separate analytically.

My fourth point: Whenever there is a large change in the policy regime in favour of greater growth, an increase in inequality is all but inevitable. Think of the elimination of Communism in Eastern Europe 20 odd years ago, or the radical change in economic policy that took place in China. Why is that? It is because individuals are differently positioned to take advantage of the new opportunities that are now available, which were not available before. They may have more appropriate talent or better political connections or they may just be lucky to be in the right place at the right time.

My expectation would be that whenever you have a great move toward a more market oriented system, inequality will go up. This is not forever, but for a period that could be measured in a decade or more. That is especially the case if the level of inequality was notionally much lower in the initial condition as it was in the Communist countries of Eastern Europe, for example. We all know that the reality was that there was a tremendous amount of privilege in those countries under the Communist regimes, but those special privileges were not captured by our normal measures of inequality.

My final point goes to our values. I am aware that different people have different values when it comes to inequality. Some people believe that inequality per se is a bad thing. I am not such a person. I think that there are some perfectly legitimate reasons for inequality, and there are some quite illegitimate reasons for growth in inequality. I want to distinguish between those two.

In a market oriented system, we have celebrities of various kinds, whether they are movie stars, rock and opera singers, popular writers, or very skilled baseball players. They earn their high incomes in the sense that there are

thousands, sometimes millions, of people who are willing to pay to hear them or watch them or read their works. They have earned their incomes. On the other hand, we have people who have similar income or wealth who got their wealth through political connections, for example in a regulatory system where political favouritism can lead to quite startling accumulations of wealth. This may or may not involve corruption in the narrow sense of the term.

Inheritance can also lead to quite startling inequalities of income. There are thus quite different reasons for inequality; I want to know the reasons and to frame policy, not around inequality per se, but around the illegitimate sources of inequality. For me, the reasons are all important.

**Susan Liautaud, Visiting Scholar at the Stanford Center on Philanthropy and Civil Society, Founder of Susan Liautaud & Associates Limited (SLA)**

Can we drill down a little bit on this question of legitimate and illegitimate reasons? Whatever the classification of the reasons, you still have the negative fallout of inequality, the kinds of things we were just talking about on social order and inclusion. Are you suggesting that as long as we are okay with the balance between legitimate and illegitimate sources, or we have eliminated illegitimate reasons, we should just leave the negative fallout as it is? Or are you suggesting that policy should then turn to addressing the negative fallout?

**Richard Cooper, Professor of International Economics at Harvard University**

Attributing the negative fallout to inequality per se is probably an analytical mistake. I do not want to over-generalise, but in many cases the negative fallout has to do with a sense of unfairness and illegitimacy rather than the presence of inequality per se. I would want to make the distinction in analysing what the consequences are. I suspect that we are attributing some things to inequality, because that is what we measure, whereas the origins are deeper than inequality and go to the notion of fairness, which gets back to legitimacy.