The Consequences of Economic Inequality for Economic Performance

Columbia University, December 2-3, 2014
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There is a developing consensus that excessive inequality and the way that much of the inequality is generated undermines economic performance, broadly understood. The purpose of the conference is to assess the state of the art: What does economic theory say about how inequality should affect economic performance? What is the macro-economic evidence on the effects of inequality on economic performance? What are the microeconomic channels through which the effects are exercised? Are there distinct effects associated with inequality as opposed to income declines or increases in poverty? How might policy make growth more inclusive?

We are casting the net widely with respect to both of the key concepts: economic performance and inequality. We do not just mean GDP. We want to assess, for instance, the effects on sustainability (stability), median income, productivity, or any other aspects of economic performance that deserve attention. Different aspects of economic performance and different channels suggest a focus on different aspects of inequality. Can we disentangle the effects of inequality of income from inequality of wealth? Should we differentiate inequality of outcomes from inequality of opportunity? Can we identify specific welfare consequences arising from inequalities affecting particular groups?

The failure of some studies, using one metric of inequality, to identify an adverse effect of inequality (say on stability) may be because the focus was on the wrong metric. The Gini coefficient may be relevant for some purposes, but in order to capture major differences amongst countries (especially within the developing world) the Palma ratio, may be a better measure.

The conference will focus on the causal link between inequality and economic performance in both developed and developing countries; and it will explore the possibility that there may be some important differences in causal links. A better understanding of these links would enable us to give middle-income countries sufficient advance warning the challenges they may face in this realm.

Our ultimate interest is in policy and setting a research agenda. Are there some policies, which can both strengthen economic performance and reduce inequality? What are the big lacunae in our knowledge? How should limited research budgets be allocated? How can policy choices be better informed?

The conference is being held under Chatham House Rule.
The following is a partial list of the channels that have been identified in the literature:

a) **Rent seeking**—which distorts and weakens the economy (including leading to more instability and inequality). Premature financial and capital market liberalization in developing countries that can be the cause of crises and a source of inequality, and low growth. And excessive financialization of the economy that is also associated with rent seeking and instability. Diversion of corporate resources available for investment in presence of equity and credit rationing to payments to corporate officers if it leads to resource misallocation can lower long-term potential growth.

b) **Lack of opportunity** (including lack of opportunity in education, inadequate public transport, and unequal healthcare) can result in an inefficient use of human resources. It also discriminates against portions of societies and perpetuates inequality. The key link is between inequality of outcomes and inequality of opportunity. In many societies, this entraps people in poverty.

c) **Political economy arguments**—inequality leads to less public investment in infrastructure, technology, and education (reinforcing point b) and it creates an environment conducive to rent-seeking (reinforcing point a), including that associated with instability (financial sector deregulation) and the resource curse. By perverting the rules of the game, extremes of wealth and income inequality lead almost inevitably to political inequality.

d) **Macro-economic arguments**—clearly, inequality leads to lack of aggregate demand (the problem in the U.S. today) as uncertainty about job loss, diminished value of personal assets and increasing indebtedness take their toll. There are additional consequences for policy, e.g., compensating for effects of inequality through an increased reliance on monetary policy can lead to instability, which is detrimental for economies everywhere.

e) **A Societal argument**—inequality undermines trust, has adverse efficiency wage effects and can lead to social exclusion (slightly different from lack of opportunity effects). Health and other dimensions—some forms/aspects of inequality have particularly adverse effects on economic performance via nutrition or environmental impacts, for example. Moreover, a combination of the above elements can precipitate economic polarization, social and political strife, which by eroding the security of property rights can weaken the foundations of a market economy.

The purpose of the conference is not to be either alarmist or ideological, but rather to identify what we know and do not know about the exact channels by which inequality and related aspects have important implications for economic policy and economic performance. We hope that the exchange of views will sharpen our arguments, inform policy, and help shape a richer research agenda going forward.
CONFERENCE AGENDA

Tuesday, December 2, 2014
Venue: Columbia University, Faculty House, Presidential Room, Third Floor

8:30-9:00 Registration and Coffee

9:00-9.30 Opening and Welcome
Prof. Joseph Stiglitz, Initiative for Policy Dialogue, Columbia University, and Chief Economist and Senior Fellow, Roosevelt Institute
Prof. Jan Svejnar, Center on Global Economic Governance, Columbia University
Prof. Danny Leipziger, Growth Dialogue, George Washington University

9:30-10:45 Session I: Overview
Chair: Joseph Stiglitz An overview of the issues initiated by Paul Krugman, William Easterly, Jared Bernstein and Dani Rodrik with brief remarks followed by an open discussion.

10:45-11:30 Session II: Theory and Empirics of Overall Macroeconomic Channels
Chair: Joseph Stiglitz. This session will focus on the channels linking inequality with macroeconomic performance. The speakers will include: Andrew Berg, Larry Mishel, Beth Ann Bovino, and Jonathan Ostry.

11:30-11:45 Coffee/tea

11:45-1:15 Session III: The Finance Channel
This session will examine the links via the financial sector. Speakers will include: Salvatore Morelli, Steven Fazzari, Atif Mian, Josh Mason, and Mike Konczal.

1:15-2:15 Lunch (Faculty House)

2:15-3:30 Session IV: Theory and Empirics with a Focus on Globalization and Related Issues
Chair: Jan Svejnar. Participants will provide their views on the empirical realities that are driving global inequality and on evidence that links these patterns to altered economic outcomes and their transmission. Speakers: Branko Milanovic, Dani Rodrik, Ed Wolff, Hamid Rashid and Alex Cobham. This will be followed by a roundtable discussion.

3:30-5:30 Session V: Theory and Empirics with a focus on Politics, Socio-economic Opportunity, Trust and Social Exclusion
Chair: Jan Svejnar. This session will delve into a number of socio-economic and political factors that can reinforce the effect of inequality on longer-term growth potential. The speakers include: Robert Triest, Jacob Hacker, Jody Heymann, Arjun Jayadev, Juan Rodriguez and Janet Gornick. This will be followed by a roundtable discussion. (With a break between 4.15 and 4.30.)

6:00-7:00 Keynote Address by Prof. Paul Krugman (introduced by Danny Leipziger)
Venue: Faculty House, Ivy Lounge, First Floor

8:00-10:00 Conference Dinner
Scaletta Ristorante, 50 West 77th Street
Wednesday, December 3, 2014  
Venue: Columbia University, International Affairs Building, 15th Floor

8:30-8:45  **Arrival and Breakfast**

8:45-8:55  **Welcoming Remarks and Introduction of Lord Adair Turner**  
Merit Janow, Dean, School of International and Public Affairs, Columbia University

8:55-9:30  **Breakfast and Keynote Address by Lord Adair Turner**

9:30-11:00  **Session VI: Country and Regional Perspectives**  
Chair: Danny Leipziger. Turning to the situation outside the U.S., we will ask whether the pattern of distribution that is seen in other countries, including emerging and developing economies, mirrors that in the US on the one hand or more like those of Scandinavia on the other and what the existing pattern implies for future economic performance.

We will ask lead intervenors to again provide the essence of their arguments and/or findings in 10 minutes. Francisco Ferreira, Nora Lustig, Kalle Moene and Sanjay Reddy. This is to be followed by a roundtable discussion.

11:00-12:30  **Session VII: Policy Outlook and Research Priorities**  
Chair: Danny Leipziger. There are numerous implications for economic and social policies that follow from a pattern where inequality is worsening and it is worth examining whether these policies are actually attempting to alter the disparities or whether they are simply altering the impact of policies or the selection of policy interventions. To lead this conversation, we will call upon a few initial commentators and then open it up to the roundtable for discussion. The initial list includes Roland Benabou, Robert Johnson, Heather Boushey and Damon Silvers.

Participants will also be asked to share their views on how to attack issues that require further investigation as well as the ways that can help improve policy options. Rather than a conclusion session, we imagine that this sets an agenda for further work to increase our knowledge on the links between inequality and economic performance.

12:30-1:15  **Wrapping Up and Next Steps**  
Final Observations from the Conference Co-chairs  
Prof. Joseph Stiglitz, Prof. Danny Leipziger, Prof. Jan Svejnar
SPEAKERS

Roland Benabou, Princeton University
Andrew Berg, International Monetary Fund
Jared Bernstein, Economic Policy Institute
Heather Boushey, Washington Center for Equitable Growth
Beth Ann Bovino, Standard & Poor’s
Alex Cobham, Center for Global Development
Kemal Dervis, Brookings Institution
William Easterly, New York University
Steven Fazzari, Washington University in St. Louis
Francisco Ferreira, World Bank
Janet Gornick, The Graduate Center, City University of New York
Jacob Hacker, Yale University
Jody Heymann, UCLA Fielding School of Public Health
John Huber, Columbia University
Merit Janow, Columbia | SIPA
Arjun Jayadev, University of Massachusetts Boston
Robert Johnson, Institute for New Economic Thinking
Mike Konczal, Roosevelt Institute
Paul Krugman, The Graduate Center, City University of New York
Nora Lustig, Tulane University
Joshua Mason, Roosevelt University
Atif Mian, Princeton University
Branko Milanovic, The Graduate Center, City University of New York
Larry Mishel, Economic Policy Institute
Kalle Moene, University of Oslo
Salvatore Morelli, Center for Studies in Economics and Finance, University of Naples and INET Oxford
Akbar Noman, Columbia University
Jonathan Ostry, International Monetary Fund
Hamid Rashid, United Nations Department for Economic and Social Affairs
Sanjay Reddy, The New School  
Juan Gabriel Rodriguez, Universidad Complutense de Madrid  
Dani Rodrik, Institute for Advanced Study  
Damon A. Silvers, AFL-CIO  
Joseph Stiglitz, Columbia University and Roosevelt Institute  
Jan Svejnar, Center on Global Economic Governance, Columbia | SIPA  
Robert Triest, Federal Reserve Bank of Boston  
Lord Adair Turner, Institute for New Economic Thinking  
Edward Wolff, New York University  

OBSERVERS

Nellie Abernathy, Roosevelt Institute  
Masi Asare, Columbia Business School  
Katharine Bradbury, Federal Reserve Bank of Boston  
Natalie Gomez, Columbia | SIPA  
Martin Guzman, Columbia University  
Deborah Hardoon, Oxfam GB  
James Healy, Capra Ibex Advisors  
Sue Holmberg, Roosevelt Institute  
Tara Magner, MacArthur Foundation  
Benjamin Moll, Princeton University  
Charles Muckenfuss, Roosevelt Institute  
Alex Ortolani, Standard & Poor's  
Dave Palmer, Roosevelt Institute  
Michael Roberts, Citigroup  
Jonathan Rothschild, Canadian Government World Bank  
Hector Saez, Washington State University  
Go Shimada, Japan International Cooperation Agency  
Ernst Stetter, Foundation for European Progressive Studies  
Felicia Wong, Roosevelt Institute