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Managing Development and Public Policy A Personal View

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It is a great honour for me to be invited to address this conference, which concerns topics that have been my major interests for my entire career, ever since I was first in this part of the world as a volunteer mathematics teacher in Saratok, Sarawak (or North Kalimantan if you prefer) during Konfrontasi fifty years ago. At that time, I became intrigued by why it should be that some societies were so much more economically successful than others, and what were among the key factors in making life better for those with very few assets other than their minds and muscles. Although I have tried to study these questions, and to teach about them, I still feel I'm not sure of the answers. But I don't really worry about that, because I also feel that anyone who professes to have all the answers to questions of economic growth, development, or income and wealth distribution, is fooling either themselves or their listeners. What I think economists can try to do is clarify why the questions are important, and the usually obvious simple pieces of understanding relevant to thinking about them. This audience knows why these questions are important, so I will talk about how I think about them, not why they matter.

Back 50 years ago when I was in Sarawak, a local State assemblyman, an Iban, asked my opinion about a Japanese proposal to mine coal for export from a coastal location that was Iban customary land[1]. That became one of my specific interests among development questions, under what conditions it was sensible to exploit a mineral deposit for export.

[1] It is interesting to note that coal exports from Kalimantan can still be controversial 50 years later; e.g. Toumbourou (2014).

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Several other issues that I first encountered then have remained with me, and have turned out to be important issues that many better minds have grappled with. One is the question of what the determinants of migration from rural areas to urban ones or other countries are, and whether urbanization can be in some sense 'too fast.' Those are issues I will not talk about today, because I only have so much time and they are complex questions, although very relevant here in Indonesia. I do want to talk about the role of education in development, and whether it is possible to meaningfully 'overinvest' in education. That last is a many-faceted issue, which has been the main focus of my work the last decade or so, and one where some of my views are often considered heretical. Two other interests that developed somewhat later, but which I will try to touch on today, are the pros and cons of regional trade arrangements and economic integration, and the determinants and consequences of inequality of opportunity, income, and wealth.

That is still a very large agenda for one talk, but I hope I will touch on a few issues of interest to most of you. Let me be clear, I do not intend to speak to these issues in technical terms or with reference to fancy econometric results. I am of a generation that was taught that if you cannot explain what you mean in words, you do not know what you mean; and which had available to it much more sparse and crude data and processing capacity than nowadays we all can access with a smartphone or a notebook computer. I'm also firmly of the belief that if the ideas you assert do not sound plausible to those with some knowledge of the real world, they are quite likely wrong. I want to talk about what I think of as the conventional wisdom on some of these matters, why it may sometimes be wrong, and what simple conclusions, however banal, seem very likely to be true.

The *Economist* magazine recently had an article entitled 'The Headwinds Return,' which discussed the fifteen year spurt of growth in 'emerging markets' between 2000 and 2014[2]. Using Angus Maddison's division of the world into the "West" and the "Rest,"[3] between 1950 and 2001 real GDP per person nearly quadrupled in the "West," but barely tripled in the "Rest." So the "Rest" was basically still falling behind relative to more developed

[2] Briefing: Economic Convergence, *The Economist*, 13 September 2014, pp. 29-31.

[3] Western Europe, US and Canada, Japan, Australia, and New Zealand, are his "West," everybody else his "Rest"; Maddison (2005).

economies, largely because of poor overall performance in sub-Saharan Africa, Latin America, and parts of South Asia, although obviously that was not true of East Asia. The *Economist*'s article, using recent ICP data, shows how the 'emerging market' economies had a tremendous burst of catch-up between 2000 and 2014. The *Economist* argues this is unlikely to continue at that sort of pace, and discusses the sources of growth and explanations for it. This is a useful and accessible summary of conventional wisdom over the last fifty years or so, and arguably conventional wisdom of current prospects. Interestingly, it does not address income inequality within developing countries or 'inclusive development,' nor mention 'sustainability,' which are, I believe, extremely important and relevant issues, which probably can have quite strong feedbacks on overall economic growth.

That article reviews very quickly the difficulties economics had in explaining divergence in growth rates between countries over much of the half century between 1950 and 2000, and managed to do that without even mentioning demographic aspects, which have been, and are likely to continue to be, important driving forces behind what happens to both average incomes and income inequality. Surely in most parts of the world the relative slowness of growth in income per person in the early part of that period were in part due to the unprecedented accelerations in population growth that followed the post 1950 improvements in public health in the developing world, just as some of the later surges in economic growth owe much to slowdowns in fertility and subsequent demographic dividends as the age structure of populations changed, often simultaneously with expansions of schooling, as so dramatically in countries such as Indonesia[4].

But let us turn to the conventional wisdom of what explains differences in growth rates between countries. *The Economist* article cited above considered the main causes of the spurt in growth after the late 1990s to be 'good governance' and 'market reforms' coupled with 'a benign macroeconomic environment,' 'high commodity prices,' and 'rapid growth of international trade,' the last driven in part by the cumulative effects of trade liberalization and the WTO, accompanied by cheaper shipping and communications costs allowing longer and more complex supply chains. Now the problem with those journalistic turns of phrase is

[4] Just to illustrate how long I've held that view, let me cite Boediono and Cobbe, (1993).

that they are not very precise, are sufficiently vague to be hard to argue with, and can mean many different things to different people. More fundamentally, they address why the spurt in growth in the 'emerging markets,' not the underlying determinants of growth rates in the broad range of different countries.

'Good governance' has been the mantra of many rich country governments giving advice to aid recipients for at least a couple of decades now. But what does it actually mean? The way rich country governments often appear to interpret it, one might think it has much more political content than content directly relevant to economic concerns. When non-ideological economists use it, I think what they tend to mean is a relatively low incidence of corruption, and reasonable certainty about the basis on which legal and administrative decisions will be made, i.e. the ability to predict outcomes of such decisions with some confidence. Notice I don't say 'rule of law,' a condition where the State and its agencies and courts always act in accordance with publicly stated rules and the evidence, because I don't believe that actually matters much for economic outcomes so long as how the police, prosecutors, courts, and bureaucrats, will act is reasonably predictable, regardless of what the **basis** for those decisions is. I hold this view in part because I've spent a lot of time in Viet Nam, but I think more generally rapid growth in East Asia often occurred in conditions that came nowhere close to what Westerners think of as the 'rule of law.' I think 'equal treatment before the law' and 'adherence to publicly available criteria and procedures and evidence' are admirable and very desirable objectives to strive for in governments, and are extremely helpful for ensuring fairness and more equitable distributions of outcomes; but I do not think they are necessary preconditions for rapid economic growth – as reflection on both recent and more distant history amply demonstrates.

'Market reforms' generally is taken to mean a shift toward less government intervention in markets, including more relative freedom for sellers to set the prices at which they are willing to sell, reduction or removal of barriers to entry, and often reduction in the size of direct government ownership of enterprise and engagement in economic activity. Movement in this direction tends to be strongly advocated by US-trained economists and by the international development organizations such as the World Bank. International NGOs, residents of developing countries, and many governments, tend to hold far more nuanced views, with

widespread belief that some intervention is appropriate and desirable[5]. All governments intervene in some markets to some extent; to give extreme examples, slavery is illegal everywhere, and all governments ban some drugs and regulate many markets. At the same time, there can be little disagreement about the eventual serious negative consequences of large-scale interference with the fundamental operation of markets for many goods, services, and inputs, such as in the former Soviet Union, or many African, Asian, and Latin American countries in the 1960s and 70s. However, it is far less obvious that there are *inevitably* serious negative consequences of *particular* interventions in *particular* markets, designed to promote *particular* economic, social, or political consequences. Again, to give a very simple example, cheap fertilizer may be a very good idea; but controls on the maximum price of fertilizer without subsidies are likely to be either ineffective or have counter-productive results, such as severe shortages, as demonstrated in several countries that have tried it. The issue in general is always whether a particular intervention will achieve its intended objective and at what cost, in terms of unintended consequences and foregone opportunities – not only in terms of efficiency but also in terms of equity, i.e. what the distributional consequences are. This is a prime example of managing development, figuring out what the consequences – both intended and desired and unintended and maybe undesired – of an action or policy are likely to be. That can be a very difficult practical applied economics question, and the people most likely to get close to the 'right' answer are likely to be professionals well trained in standard market analysis but also with considerable local knowledge; unfortunately, not all politicians will always listen to them; worse, freely offered advice of any origin is often pursuing a self-interested motive, whether solicited or not, and foreign advice is often either ideological or wholly lacking in local knowledge and sensitivity.

Note that I am arguing that the classic criteria for judging economic policies or outcomes, efficiency and equity, are all we need. Efficiency is about how much we get for what it costs us, in terms of output. Equity refers to the distributional consequences, but those consequences should include not only the 'horizontal distribution' effects (i.e. between individuals or families now), but also 'vertical distribution' effects (i.e. between generations

[5] This view is very widely held by the public in high income as well as lower income countries, and in practice is always true of actual policy in all countries; the differences between countries concern degree, type, and amount of intervention.

over time, or ‘sustainability’), and equity of opportunity (i.e. ‘inclusiveness’). So in my view, consideration of equity as well as efficiency implies that we are considering not just current distributional consequences, but also sustainability and inclusiveness. When I was a student in the UK half a century ago, what we were taught was that economic analysis of the real world should normally include both efficiency and equity, but then the choice of the ‘best’ policy was not up to the economist, it was up to some decision mechanism, typically labeled ‘politics.’ The most the economists should do is explain as clearly as possible the alternatives and their best forecast of the consequences of different choices. It is regrettable, in my view, that in the last thirty years or so, so much emphasis has been given to growth, i.e. efficiency, to the neglect of explicit discussion of alternatives and outcomes in terms of equity, although the renewed interest in high income countries in inequality, and in the world as a whole in the reduction of poverty, may herald a change in that.

Of course, these concerns have at least in part produced the new emphases on issues such as sustainability and inclusion, but also the argument that the most effective way to reduce poverty is to accelerate growth, a recurring mantra of the World Bank (e.g., 2015). Experience does seem to suggest strongly that rapid growth can and does reduce poverty rather successfully, and more successfully than most actually implemented alternatives, but the argument that the best policy is therefore always to concentrate solely on accelerating growth ignores several issues that are clearly important. These are the broader distributional issues: growth may reduce numbers in poverty, but that does not necessarily mean that distribution has become more equal, or fairer, or more inclusive, or more sustainable – and there are examples from all parts of the world to support the conclusion that rapid growth can be highly inequitable, unfair, and unsustainable. It has, of course, been an article of faith among many of us since the 1960s that it is possible to have growth without development (Clower et al, 1966), although equally it is probably impossible to have development without growth on a sustained basis.

Returning to our proximate causes of the growth spurt, ‘Benign macroeconomic environment’ is a euphemistic way of expressing one of the mantras of economic orthodoxy, namely fiscal and monetary stability, maintaining internal and external balance and relative stability of price level and exchange rates. It is wholly obvious that for primary product

exporters, 'high' commodity prices and rapid growth of international trade can assist both such stability and economic growth. What are far less obvious is whether this will assist countries such as Indonesia to escape from the so-called 'middle income trap,' and what impact orthodoxy will have on income distribution and the prospects of inclusive development. The cited article couples it, for the period of rapid growth, with high commodity prices and rapid growth of international trade. If the slow down in China's growth continues, and the growth performance of Europe and North America continues to disappoint, producing continued speculation about secular stagnation (e.g. Gordon 2012), rapid growth of trade on a world basis and high commodity prices seem unlikely in the near future.

In this situation, Gustav Papanek and his Indonesian collaborators have proposed policies for Indonesia that can be argued to represent absolutely the 'conventional Western neoclassical economics' policies for growth and poverty reduction. (Papanek, 2014; Papanek, Pardede, and Nazara, 2014). In brief, their strategy is to capture some of the manufactured export markets that China is likely to lose as a result of rising costs there. The policy steps they propose have as their intent reducing the export offered price of manufactures from Indonesia via three major components: reducing labor costs while maintaining worker consumption levels (by devaluing the currency while redirecting subsidies), greatly increasing infrastructure investment while initially concentrating it in manufacturing centers, and unleashing better governance via reduced bureaucratic discretion and greater transparency. They suggest this could greatly accelerate economic growth, and it certainly is a very good bet that it would do that in the medium term, the five years of the Presidential term being the focus of their proposals. Whether that alone would be enough to produce continuing growth, sustainable and inclusive growth, and an escape from the middle income trap is, however, a somewhat different question.

Focusing on the longer term requires thinking hard about what determines different rates of growth in a more fundamental way. One way to approach this is to think of it as a question with two parts: what determines the rate of growth of the inputs available to produce output, both in terms of quantity and of quality; and what determines the efficiency with which those inputs are used to produce output. This approach shows how complicated the answers must

be. A simplistic view would suggest that if we think of inputs as the three traditional economic factors of production, natural resources such as land, climate, and minerals are a given; labor depends on demographics; and capital depends on savings. But this only begins to show how complicated things really are.

The productivity of land depends on its use, how it is cared for, its environment in terms of both climate and the characteristics of the soil, and its location relative to infrastructure and other activity; climate is unchangeable in the short run, but human action does affect it in the longer run; 'minerals' sounds fixed, but not in an economic sense – the value of a deposit depends on technology of exploitation and use, and quantity also depends on knowledge, i.e. technology and knowledge, itself the result of exploration and its technology. The physical productivity of labor depends on the health and nutrition of the individuals involved, their education, training, and experience, and the cooperating inputs labor has to work with, including other members of the labor force. The productivity of capital depends on its age, design, technology it incorporates, skill of its operators, intensity with which it is used, maintenance, and the quality characteristics of the intermediate inputs it works on. Making things even more complex is the highly suggestive evidence that the interaction between many of these individual variables also has effects, probably in non-linear and perhaps non-continuous ways.[6]

When it comes to how efficiently the inputs are used, after the extremely important question of technology used, with little doubt conventional wisdom now leans toward arguing that the keys are to have well-functioning markets for both outputs and inputs, and appropriate regulation in those markets where the consensus agrees that either market failure is likely to be serious, or unregulated markets are liable to produce socially or politically unacceptable results. Examples of the latter are labor markets (e.g. restrictions on child labor or working hours for pilots or heavy vehicle drivers); of the former, markets that are natural monopolies (very high fixed costs and average variable costs very low compared to average total costs) or production processes that generate large negative externalities (e.g. use of inappropriate technologies producing toxic byproducts, or inappropriate disposal of such byproducts, or

[6] E.g. suggestive evidence that the impact of mean years of education of the labor force on overall labor productivity is small until it crosses some threshold.

inappropriate natural resource exploitation). This is coupled with widespread recognition that regulatory failure (sometimes referred to as government failure or governance failure) can be at least as serious as market failure, and that therefore regulation should be transparent and carefully analyzed.[7]

To what extent does this provide any guide to action for countries such as Indonesia? It is doubtful that it allows us to say very much in detail. There are a few basics that I would argue for that one can be somewhat confident of. The first is that infrastructure, broadly interpreted, is very important. Broad infrastructure to me means not only transport infrastructure (roads, ports, airports, navigation systems and controls), but the overall structure and availability of inputs subject to natural monopoly tendencies and necessary for modern production processes – power, especially electricity, water, communications, and the social infrastructure needed for urban life (public health systems, policing, waste disposal, sanitation). Indonesia is in a difficult situation because provision of good infrastructure throughout the archipelago is obviously inevitably going to be more expensive than in countries consisting of contiguous land masses. But infrastructure is clearly very important: it is widely agreed that China's massive investments in infrastructure greatly assisted the growth of its manufactured exports. And one can make a very simple argument for why this should be so: to the extent that overall labor costs are lower in a particular location, the supply cost of manufactured goods for those subject to established technical production processes will be lower, but exports will not be profitable unless the infrastructure exists to allow inputs and outputs to reach their markets at prices that make production in that location profitable.[8]

So I agree with Papanek et al that if growth is the first priority, given limited resources available for investment in infrastructure, concentrating it initially in areas with established manufacturing capacity may make sense, because that will lower production costs for existing firms and also attract more capacity to take advantage of both the agglomeration

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[7] Award of the 2014 Nobel Memorial Prize to Jean Tirole, well known for his contributions to the theory of regulation to counter market failure in concentrated markets, but also for his view that regulation should not be attempted when regulation itself is likely to make things worse, could be said to endorse this position.

[8] David Western was perhaps the first to make this argument systematically to help explain the 'East Asian Miracle' (Western 2000)

economies from the existing activity and the better infrastructure. But this clearly does not lead to inclusive development in a geographic sense, and may well accelerate migration. Inclusive growth on a geographic basis is a particularly difficult issue, because it is clear empirically that there are persistent differences in regional measured income levels even in very well developed economies with long histories of well-functioning markets (the US, UK, Germany, France, Italy, Japan – pick your example, all have persistent, long-standing strong regional economic differences). This is an empirical question, and a political one – how much regional difference will society tolerate, and to what extent should such differences be addressed by compensatory policies? Outsiders cannot answer that question, but one thing that is surely correct is that such differences are far less acceptable if there are restrictions on movement or residence, because it will always be true that at least some of the young will be willing to migrate to gain better income or opportunity, and if they are prevented from doing so there is greater loss of well-being than if they are allowed to. Free movement of persons should maximize output as conventionally measured, although we should recognize that it also imposes costs (including costs not registering in purely economic terms) on both those who migrate and those who remain behind.[9] So in the longer run, how investment in infrastructure is distributed geographically is a political decision, and permitting full freedom of movement for people allows for distribution more supportive of economic growth than what one should expect if such movement is restricted, even though it may raise the possibility of imposing indirect costs via the 'too fast' urban growth previously alluded to.

There are perhaps just two other things that governments can do that are likely to have some impact on longer term economic prospects and perhaps increase the chance of escaping the middle income trap. The first is being supportive of well-functioning markets, which sounds uninspiring and is not that easy to operationalize. Two aspects of market function support are perhaps worth mentioning. One has to do with regulation and governance; licensing and controls on at least some types of production and markets are necessary, but should be as simple, low cost, and transparent as feasible. This goes back to 'good governance' and management of development; not easy to do, not easy to reform or improve, but clearly

[9] One of the fundamental problems of both economic growth and development is that it is highly unusual for there to be no individuals or groups for whom losses are involved, especially if we broaden 'losses' to include damage to pre-existing ways of life. An example of clear illustration of this point is Wallman 1977.

important. The second is information: the functioning of markets depends on information, so the cheaper and easier it is to obtain relevant, accurate, and timely information the better markets are likely to function. Broadcasting and access to the internet are huge aids to making information cheaper and easier, but ensuring accuracy is obviously problematic. It is desirable to have some mechanism for punishing those who mislead deliberately or with intention to defraud, but also to ensure that those (such as journalists) who investigate and denounce bad behavior are protected. This is a very difficult balance to achieve, which it is not clear any country has mastered.

The second and probably most important area where government can do a lot to improve prospects in the long run is, of course, education. This is as much a 'conventional wisdom' as anything: everybody seems to agree that education is important to development, to economic growth, to escaping the middle income trap, and to equity, and governments should support and expand it. However, I suspect that there are dangers here that are very easy for people to be confused about. The type and level of education that probably produces the greatest return, and has the greatest impact on equalizing opportunity and improving inclusion, is what is known as 'Early Childhood Education,' i.e. in the very earliest years of childhood, when until recently most children were entirely at home with their families. There is very strong evidence that good early childhood education, especially for the poor, greatly improves performance later in primary and secondary school. On the other hand, I personally believe that at the other end of organized formal education, in higher education, it is very easy for societies to permit and even encourage over-investment in University education, and in particular in quantity rather than quality, often responding to public demand. This is not something I can prove, but the situation in many countries in Asia and Africa where substantial proportions of recent university graduates are employed in jobs that until recently were adequately performed by individuals with lesser qualifications make it seem plausible. Those graduates may be more productive in those jobs than workers with lesser qualifications, but the differential is likely to be small in most cases. The individual in such a case benefits, because they do have a 'job,' but it is not clear that society got a good return on the costs of that university education.

My belief is that from the point of view of society as a whole, once a decision has been made as to how much formal schooling should be available to all, it is much more important to worry about the quality of education than about the quantity. Although one can have doubts about the validity of even the best international comparisons such as PISA, the evidence is convincing to most that the quality of schooling in most low and middle income countries is not nearly as good as in most OECD countries and in the East Asian leaders. This matters, because it seems unlikely that a country has much of a chance of escaping the middle income trap unless the quality of its labor force is close to that of those that have done so. This, together with deliberate steering of the economy toward the appropriate activities in which it can develop comparative advantage through education, training, and limited strategic public investment looks to me like the best route to escape the middle income trap (Lin 2009, 2012a, b).

There are two other problems with allowing or encouraging the expansion of tertiary education without limit, or nearly without limit. First, in practice this tends to exacerbate the persistence of inequality. A consequence of expansion of tertiary education tends to be greater variation of quality and mission between institutions. That is not necessarily a problem in itself, and is in fact desirable and appropriate as enrolment in higher education reaches mass levels; what does tend to become a problem is that the best, 'elite' institutions (and those perceived as such) tend to draw their students disproportionately from the upper reaches of society, while the children coming from less well-off families have to make do with less well-perceived (and often, in reality, less 'good') institutions. This tends to perpetuate the pre-existing inequality, at least to some extent. It is a world-wide phenomenon now, essentially everywhere the children of the well-off are disproportionately found in the best institutions (or overseas), and it is difficult to counter. Second, in many countries to reduce the burden of education on state resources, large or growing proportions of enrollment in secondary and tertiary institutions is permitted or encouraged in private institutions, with or without subsidy. Here the problems concern quality assurance and information. By definition, a student has no legitimate basis for assessing the true quality of a course of study before embarking on it; only indirect indicators (such as qualifications of the instructor or availability of supporting resources or past examination results) can be evaluated by an individual without the requisite knowledge. So if students are to be less

likely to make bad choices, they need help with information on quality and with likely consequences of taking the course. This requires public, i.e. government, regulation of quality assurance and information provision; most governments are concerned with this, but it is unclear that many, if any, do it well as yet.[10] It would seem unreasonable to limit tertiary education if families are willing to spend their own money on it, but it is irresponsible for governments to allow them to do so without reliable information about what they are buying, and both reckless and unfair to subsidize all students who reach a level of education that only a minority of their age group does. Governments should provide financial assistance to talented individuals who could not otherwise undertake higher education if they pursue courses which government approves of, but there is no justification for subsidizing students who are neither from poor families nor especially talented. If most of your age cohort does not get higher education, you should view it as an investment and only undertake it if, paying for it yourself, you believe it will be worth it.

The objection to that is always that it will make it harder to ensure equality of opportunity, because those with middling aptitude but wealthy families will get higher education whereas those with poor parents won't. That is true, but it is hard to see how it can be fully avoided, although a system of income-contingent-repayment loans for higher education would greatly mitigate it. Unfortunately, if such a system was introduced with no limit on enrollment, it would be likely to lead to over-investment in higher education in the sense suggested before, because although the incomes of graduates have a very large range, no student believes *ex ante* they will end up at the low end of that range.

I have probably talked too long already, but I did say I would say something about economic integration and inequality. So, very quickly. The argument that economic integration will, after adjustment, lead to greater output are well known and do not need me to repeat them. However, it is important to emphasize two things: first, the phrase 'after adjustment' is important; adjustment is usually very painful for some groups and communities, and can take a long time – there are small rural communities where I live in North Florida which still have some long-term unemployed as a result of NAFTA, which was came into force over 20 years

[10] From personal experience, I assure you that the US system of university accreditation is almost useless, and gives no information on relative quality of different institutions, which is what I argue is needed.

ago. Having carefully managed resources available to assist groups damaged by economic integration is probably a good idea. Second, so-called 'free trade areas' are almost always not really free trade areas. As the old saying goes, the devil is in the details, and there are almost always a lot of details. A true free trade area would require a very short treaty – some simple rules of origin and the abolition of all trade barriers. But most agreements establishing trade areas or customs unions are actually very long documents, with lots of complex provisions covering all sorts of exceptions, qualifications, exclusions, special provisions, and the like. So simple arguments are typically almost irrelevant; such agreements need careful detailed analysis, and also intelligent (and well supported professionally) negotiation.

Lastly, inequality. The obvious observations are that one cannot abolish it without abolishing incentives for efficiency and innovation; but that on the other hand, 'too much' or worsening inequality is likely to have negative social and political consequences, and there is growing evidence that it can also damage economic growth. Even such bodies as the IMF have become very interested in potential interactions with growth and how to mitigate inequality using fiscal policy (Berg and Ostry 2011; IMF 2014;Brückner et al 2014). Whether or not one agrees with Piketty's analysis (2014), market capitalism as a system obviously depends on the existence of some degree of inequality to provide incentives for entrepreneurs and innovation and hard work. There are arguments that can be made that there are no reasons to object to inequality as such so long as all income groups are improving their situation and poverty is being reduced. There is no time to discuss that point of view, particularly since in actually existing societies that is not the situation that necessarily exists. Just about everybody coming out of a Western tradition believes that although perfect equality of income is not a good idea, equality of opportunity is something that is highly desirable. Unfortunately, true equality of opportunity is also something that is very hard to achieve, and perhaps much harder to achieve in a low-income society than in a high income one, despite the shining example of some high-visibility successes.

It is highly plausible to me that worsening inequality, especially in societies with low average incomes, is a very bad thing for all kinds of reasons, even if there is some income growth at all points of the distribution and poverty is being reduced. Marked and increasing

concentration of income and wealth at the top of the distribution tends to be accompanied by greater inequality of influence and power, even in the most open and democratic societies, and by increased inequality of opportunity and reduced social solidarity. That tendencies toward such concentration should deeply concern such luminaries of high income societies as Janet Yellen[11] suggests that worry about growing inequality is legitimate everywhere. The social pathologies that result from severe and worsening inequality may differ between high and lower income societies, but they are present in both. It is not enough for everybody to feel they have some chance of bettering themselves; inclusive growth must surely mean that those at the bottom have at least as good a chance as those at the top, and worsening inequality strongly suggests they do not. Thank you for your attention and I hope that I have given you at least a few things to think about.

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