

Lionel Robbins Memorial Lectures

Economic Growth, Human Welfare and Inequality

Lord Turner

Chairman of the Financial Services Authority, the Climate Change Committee and the Overseas Development Institute

Lord Layard

Chair, LSE

LSE events



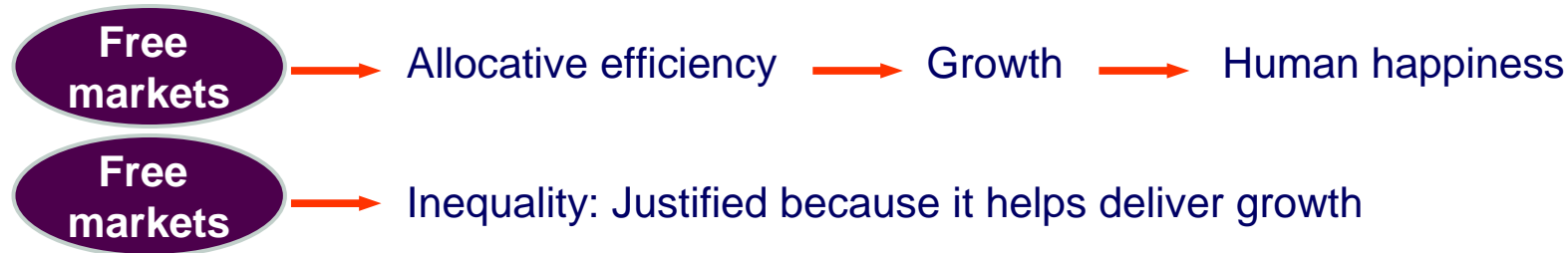
Lionel Robbins Memorial Lectures
Objectives and means: Economics after the crisis

Lecture I
Economic Growth, Human Welfare and Inequality

Adair Turner

London School of Economics
11 October 2010

Starting Point: The Instrumental Conventional Wisdom



Lecture I:

Objectives: Why growth should not be the objective in rich countries

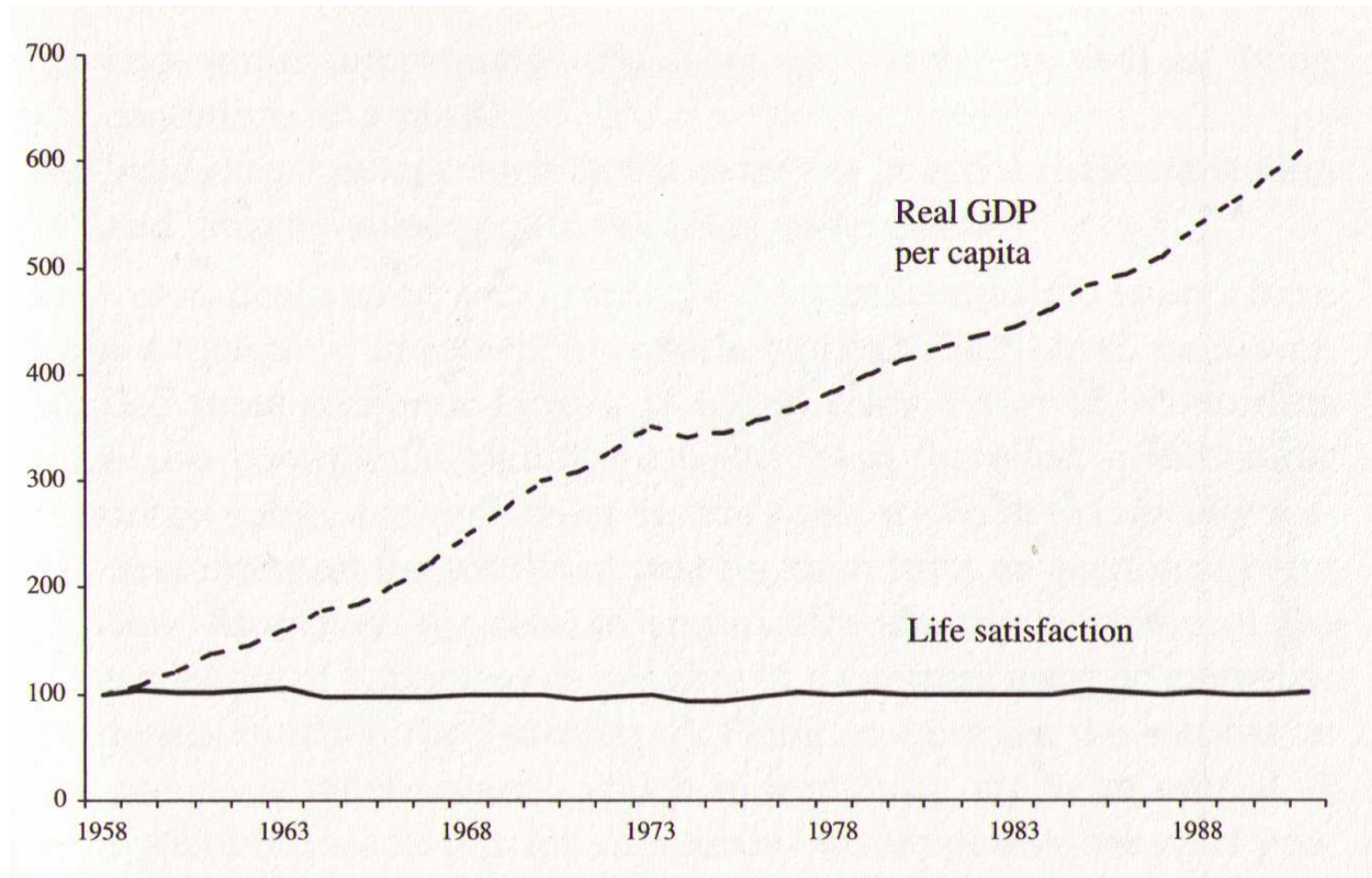
Lecture II:

Means: Do free financial markets maximise efficiency, growth, or other objectives?

Lecture III:

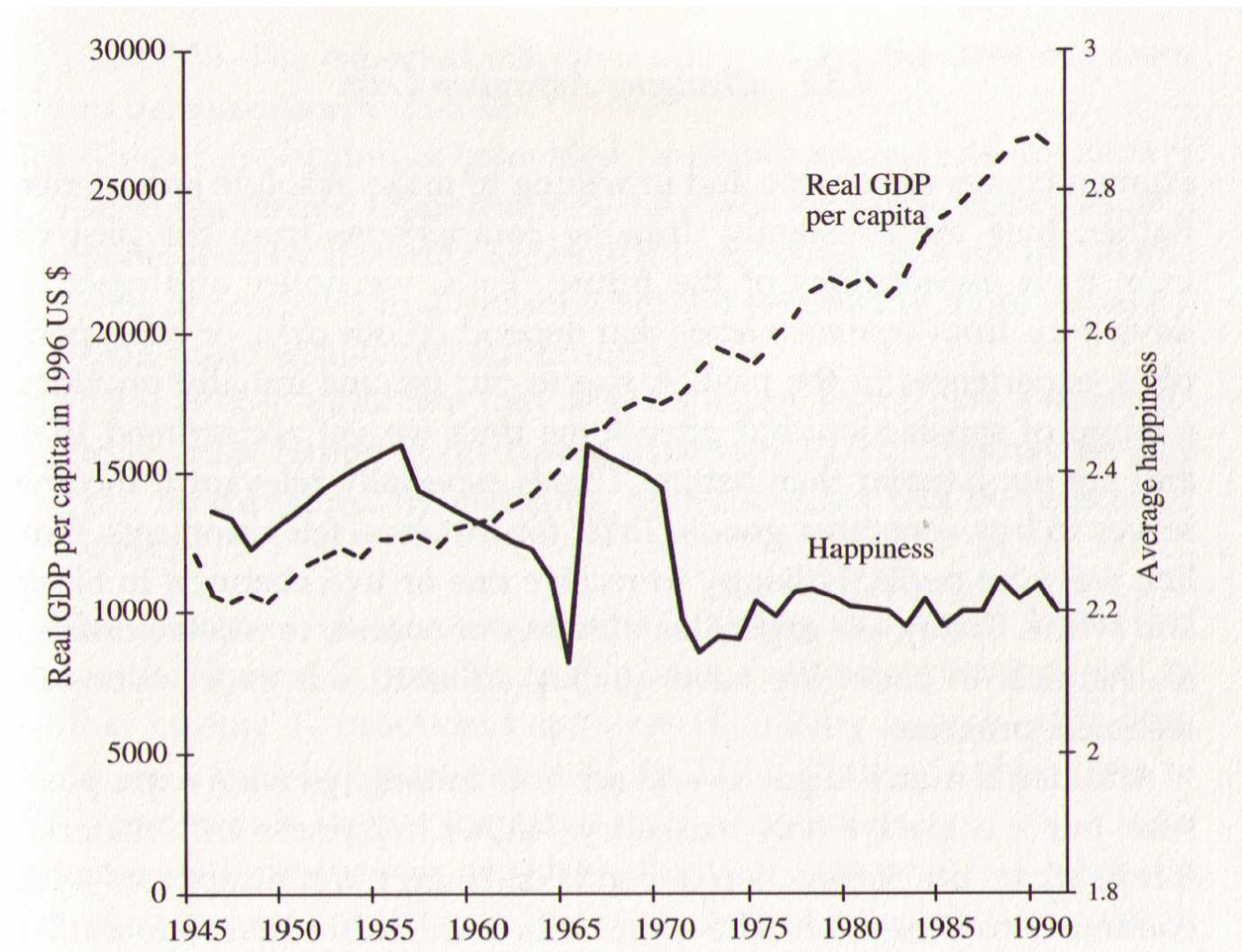
The case for economic freedom: implications for public policy: and for the discipline of economics

Satisfaction with life and growth of income in Japan



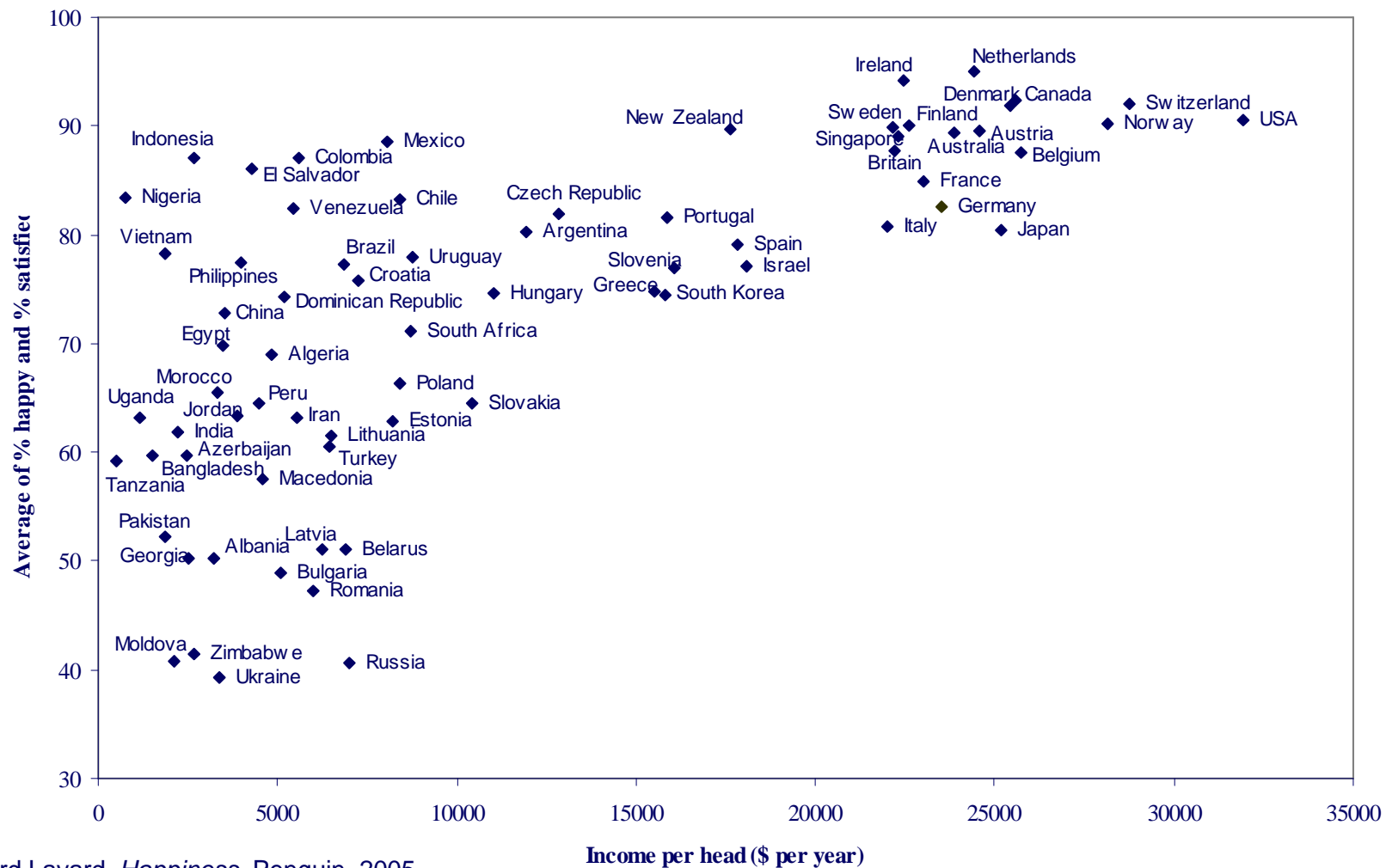
Source: Bruno Frey & Alois Stutzer, *Happiness and Economics*, Princeton University Press, 2002

Happiness and income per capita in the USA



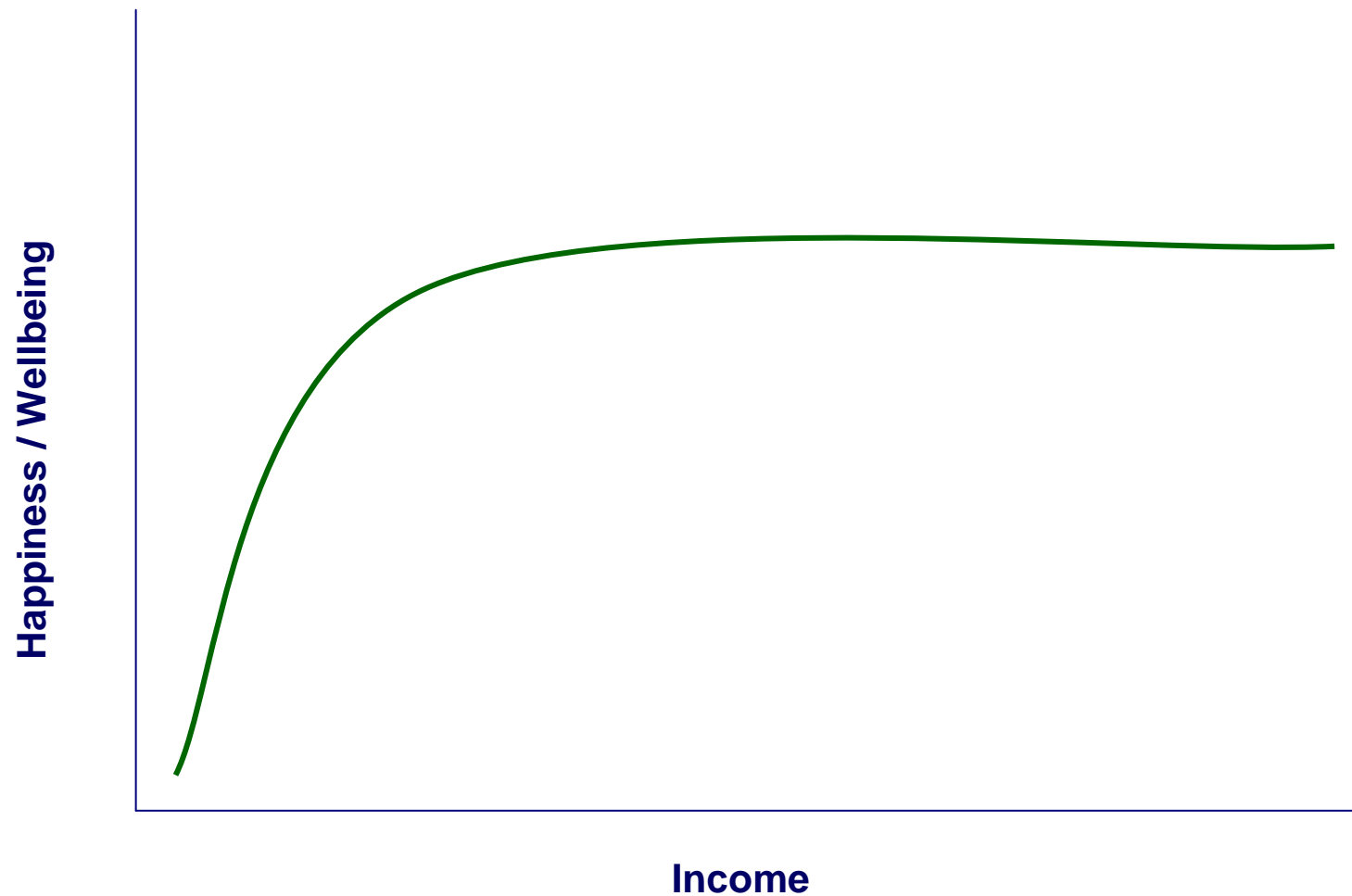
Source: Bruno Frey & Alois Stutzer, *Happiness and Economics*, Princeton University Press, 2002

Income and happiness: Comparing countries



Source: Richard Layard, *Happiness*, Penguin, 2005

Average Income and Human Contentment: Possible stylised pattern

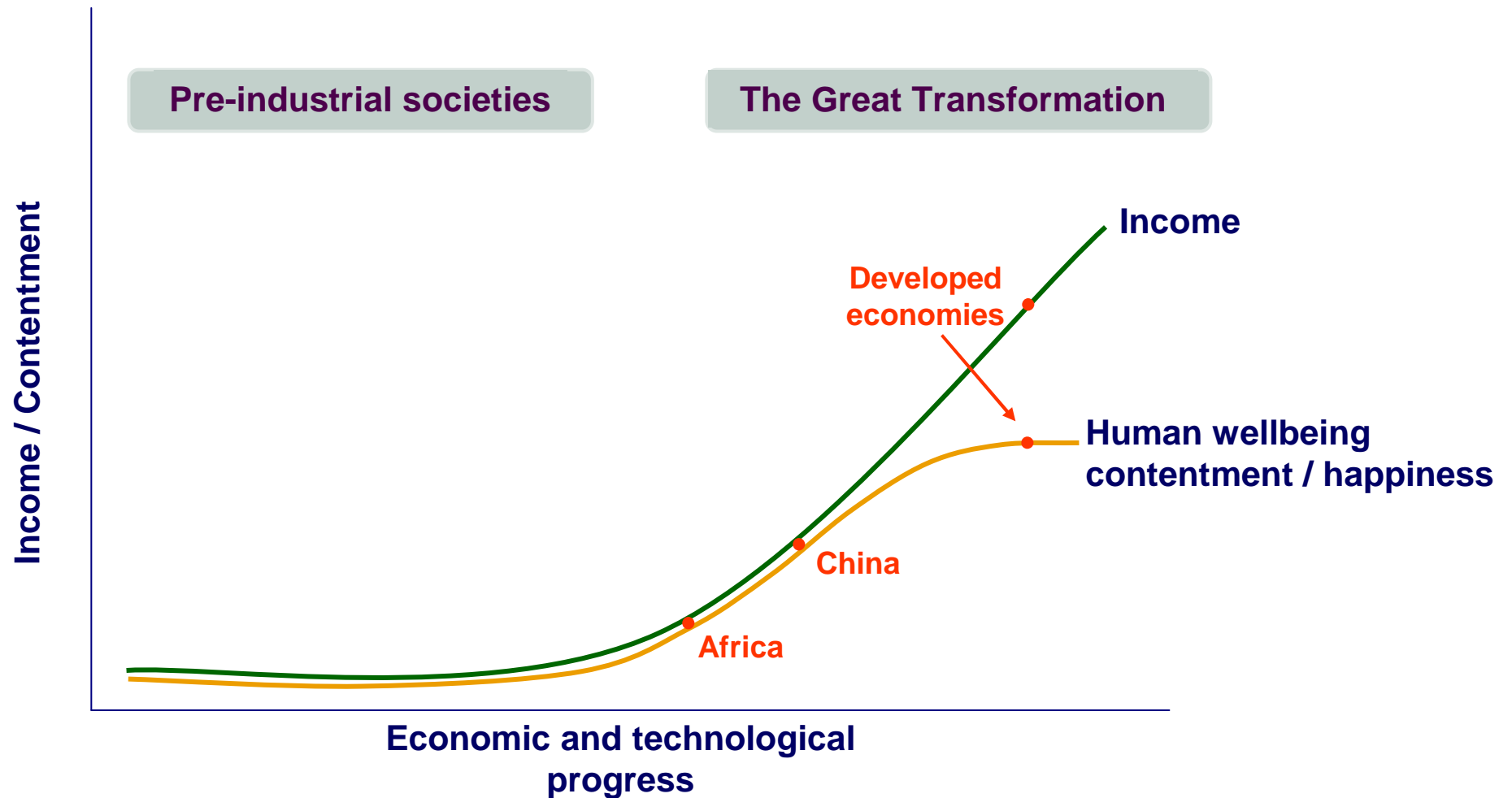


Global Living Standards: A Millennial Perspective

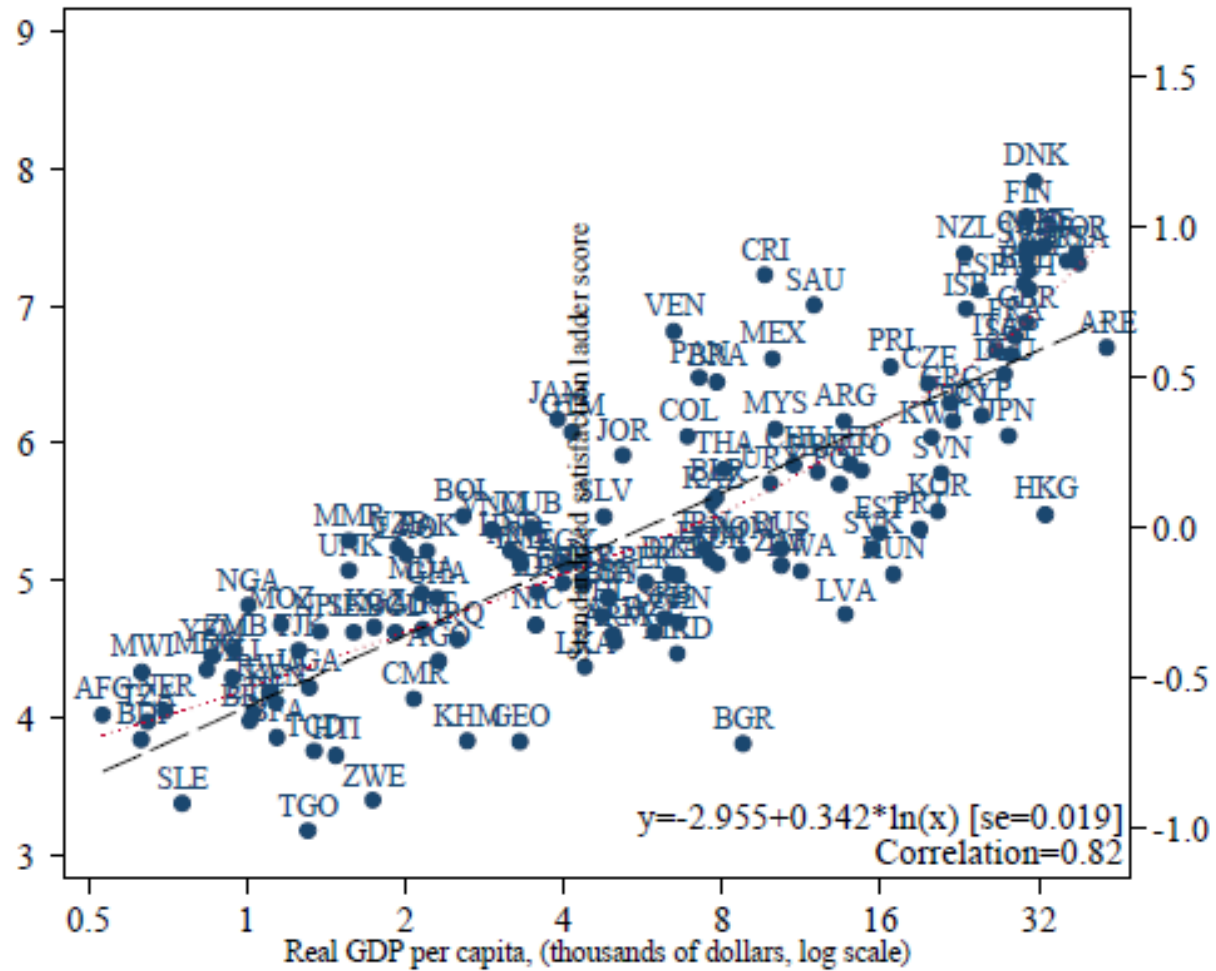
	Average per capita GDP (in 1990 \$)			
	1000 AD	1500	1870	1998
Western Europe	400	775	1200	18000
Western off-shoots	400	400	1200	26000
Japan	420	500	670	20000
Asia (excl. Japan)	450	570	575	3000
Africa	400	400	400	1400

Source: Angus Maddison, *The World Economy: A Millennial Perspective*, OECD 2006

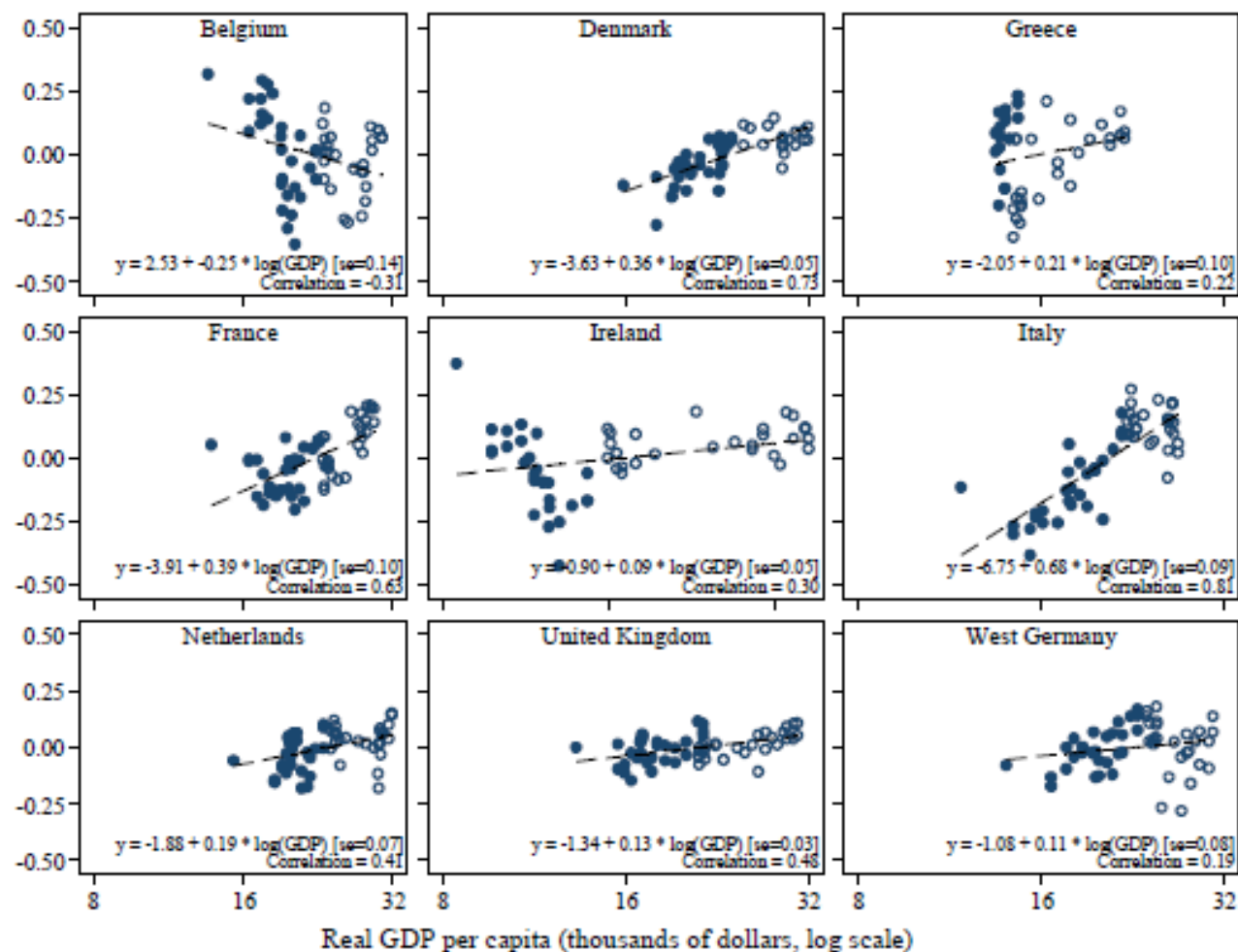
Income and Human Contentment: Possible stylised pattern over time



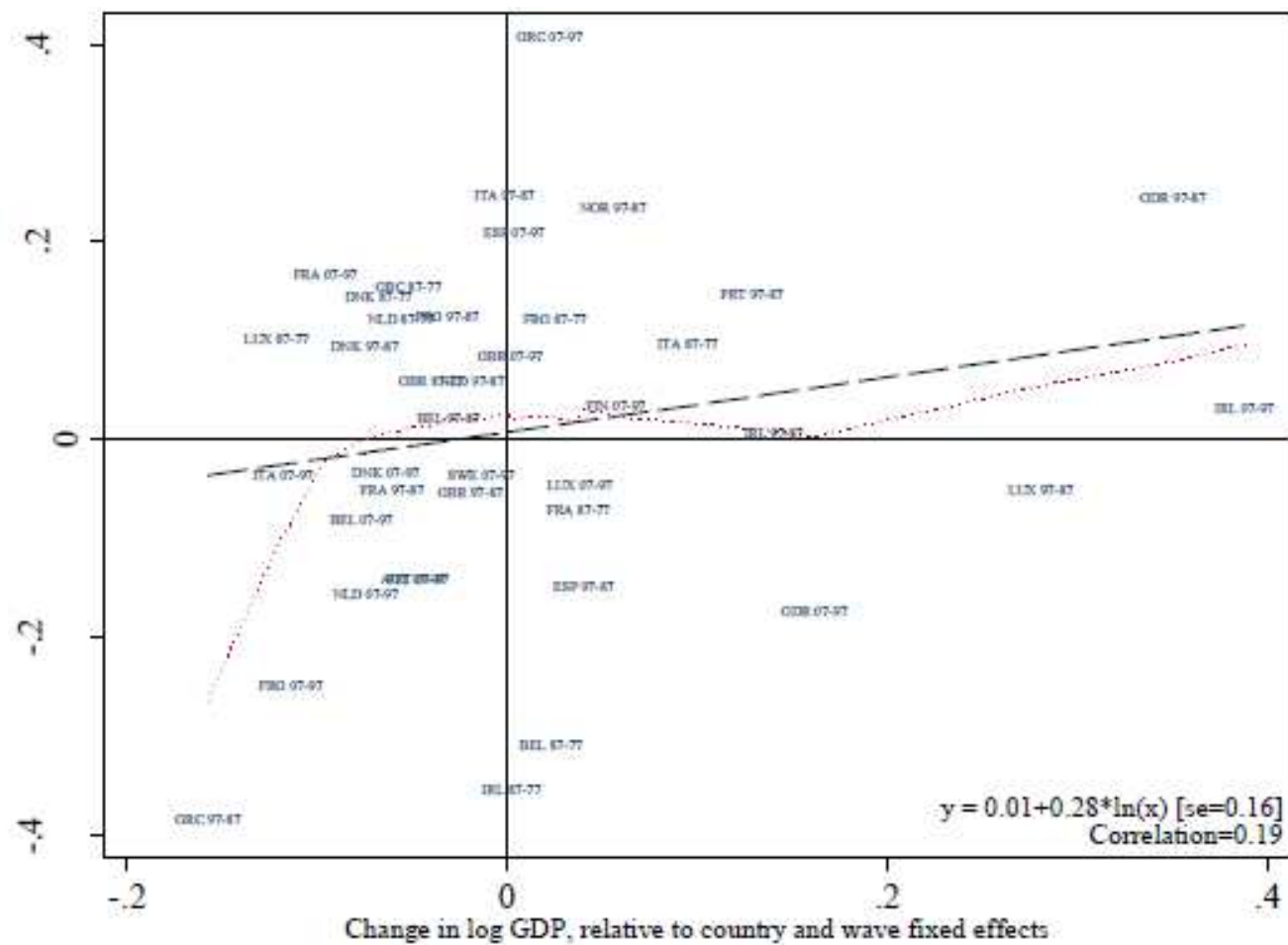
Life satisfaction and real GDP per capita



Changes in life satisfaction and economic growth in Europe



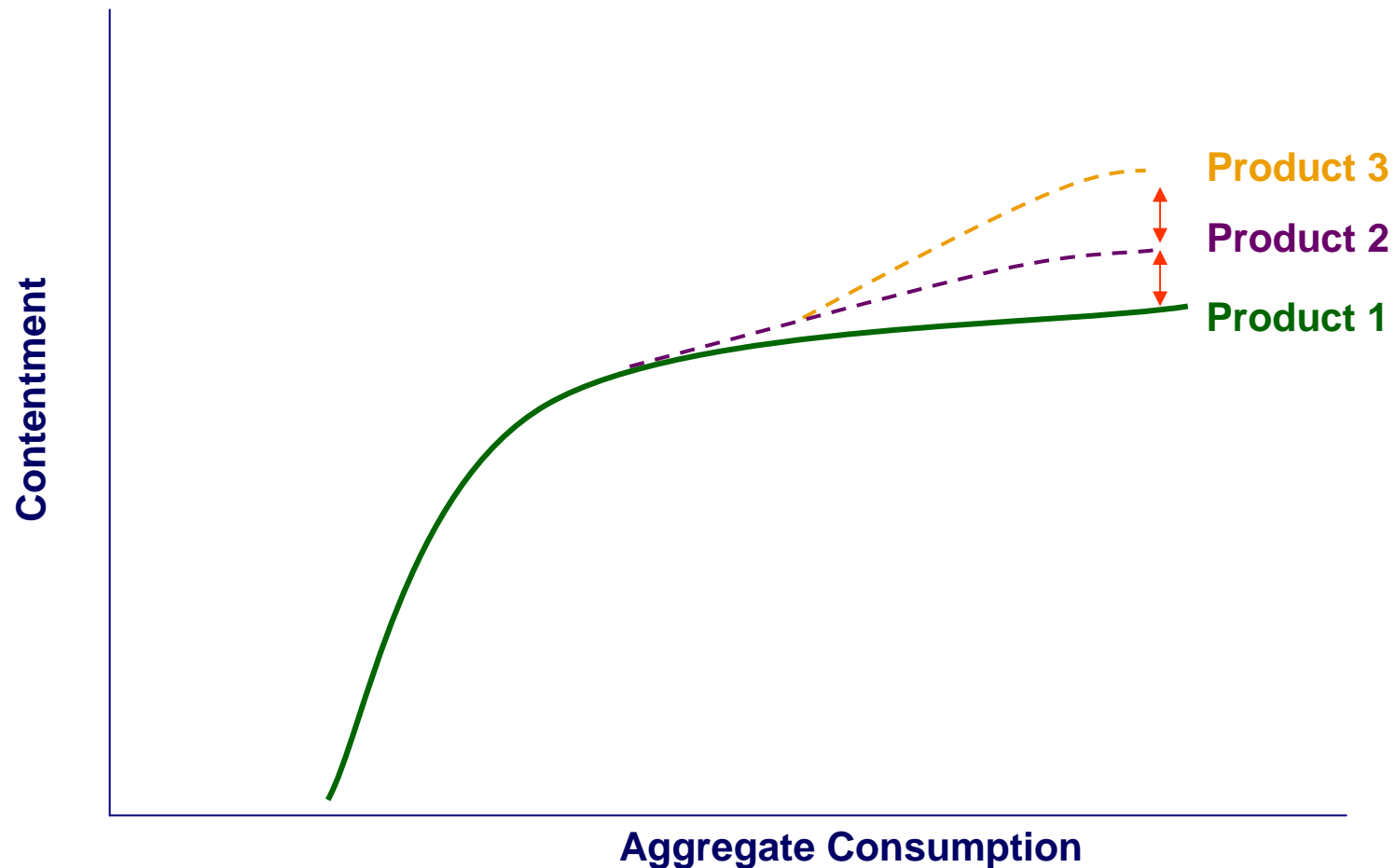
Decadal differences in life satisfaction and log GDP



Diminishing Marginal Utility

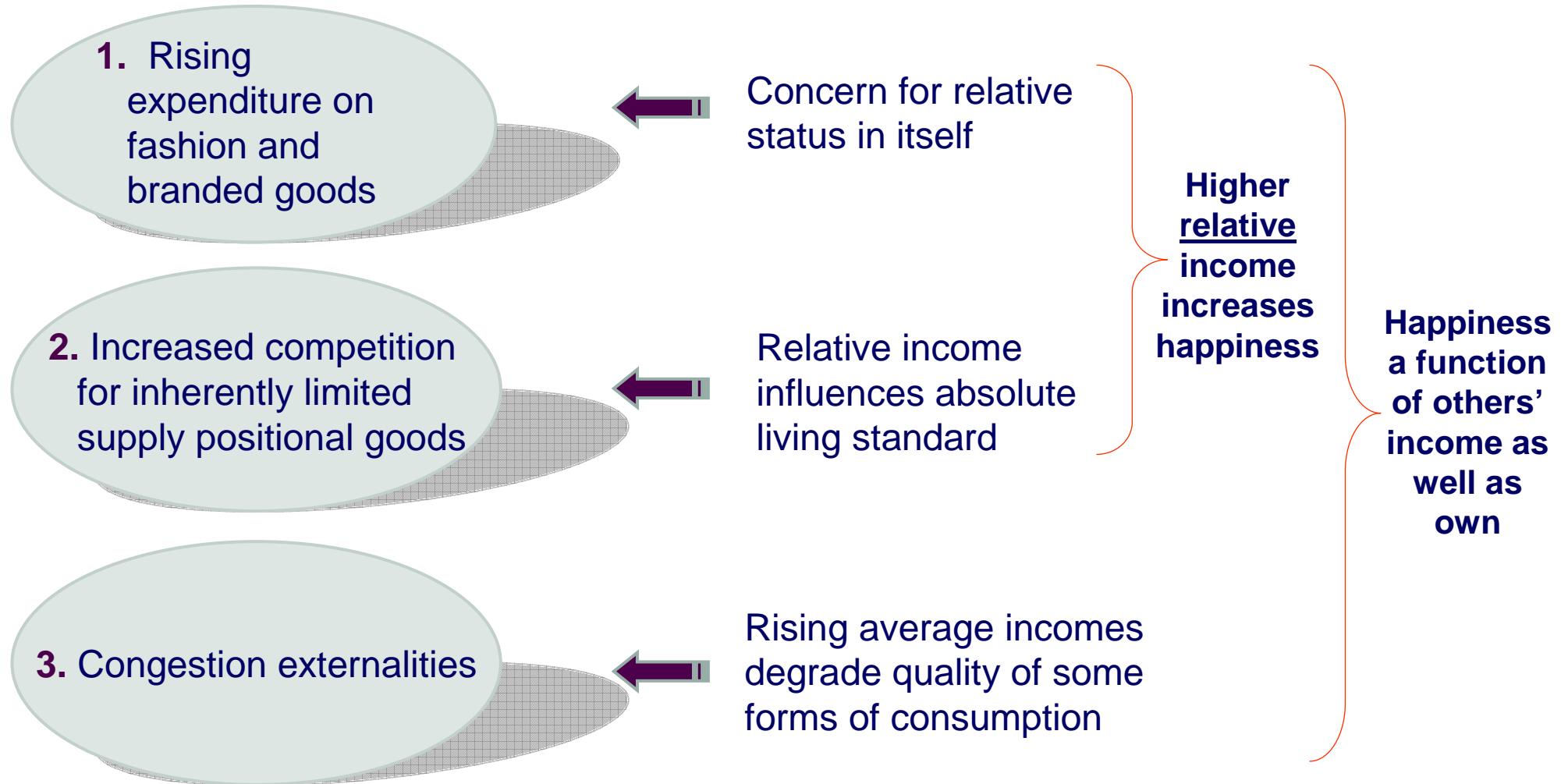


Utility/Contentment and Aggregate Consumption: The impact of new products and services

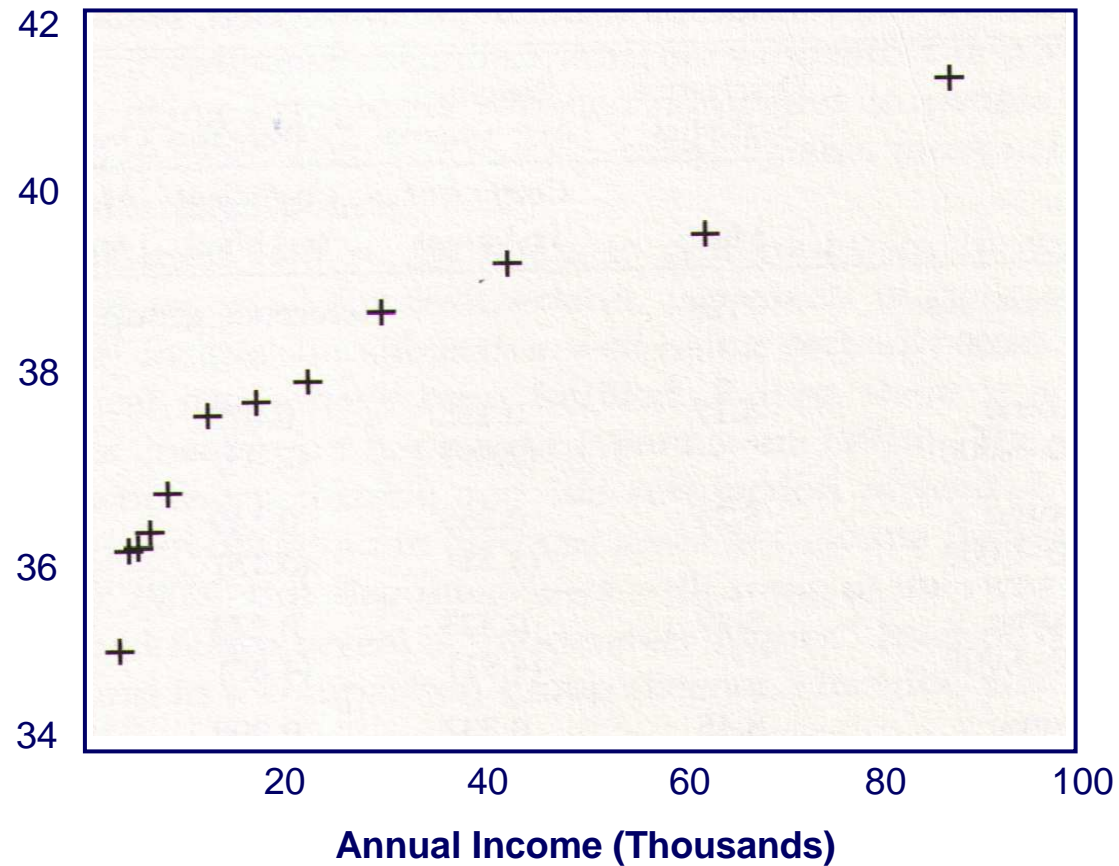




Three distinct reasons why relative income matters



Income and wellbeing in the USA (1981-84)



Source: Bruno Frey and Alois Stutzer, *Happiness and Economics*, Princeton 2002

“Distributive” versus “creative” activities

❖ “Creative”

Increasing the net real income available for consumption

❖ “Distributive”

Winning increasing income at expense of others

Two dimensions to rising inequality

- ❖ Fall in lowest decile income relative to median – particularly in the US

- ❖ Rise in top decile income relative to median
 - And top 1% relative to rest of top decile
 - And top 0.1%...
 - And top 0.01%...

Four Factors driving inequality at top end

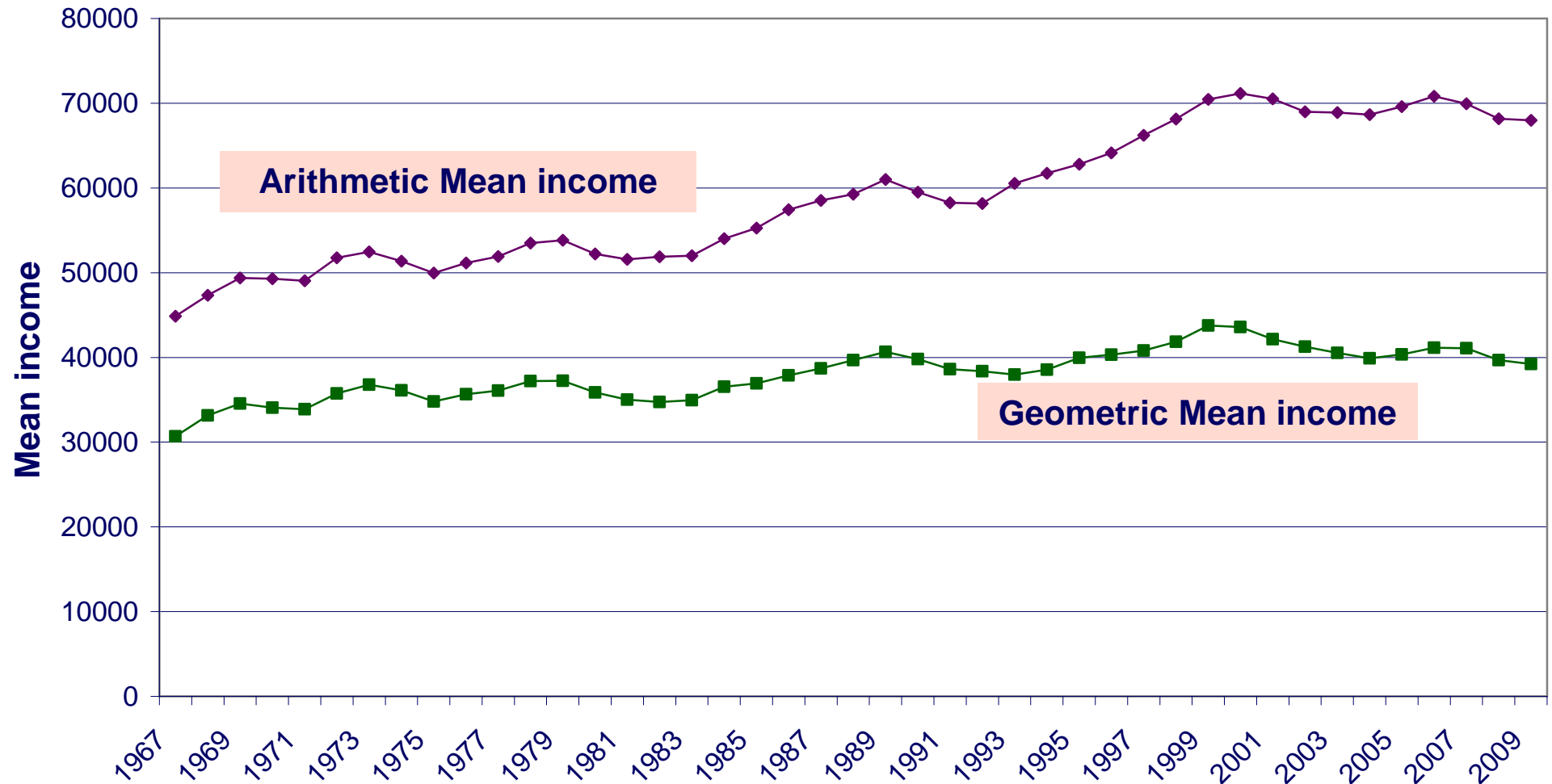
1. Celebrity rents
2. Increasing potential for rapid private value creation
3. Highly remunerated “distributive” activities
4. Cross-comparisons, changing social attitudes, and the role of agents



Inherent factors driven by changing patterns

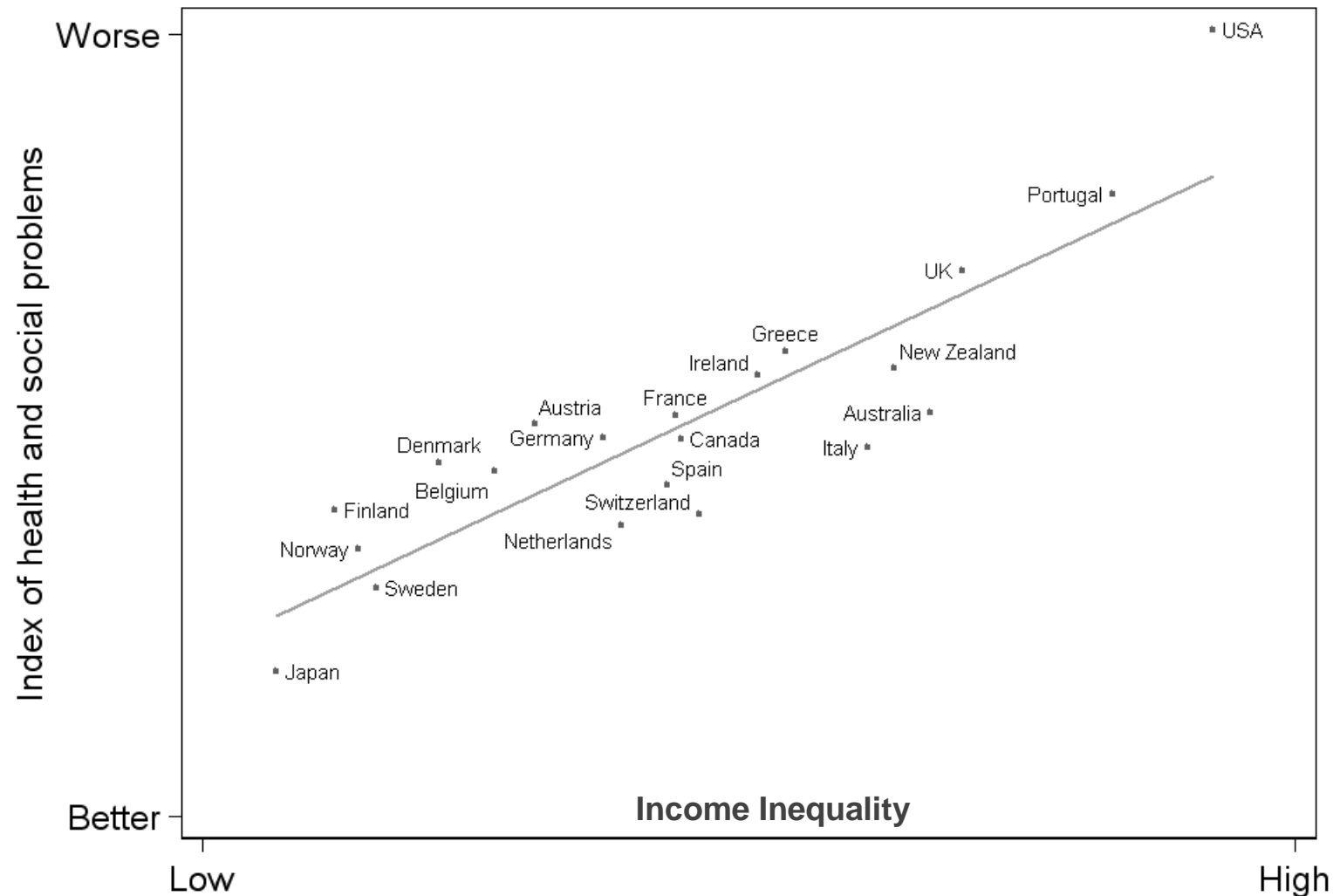
Sociological / political processes – but influenced by inherent factors

Two different perspectives on the growth of average US income



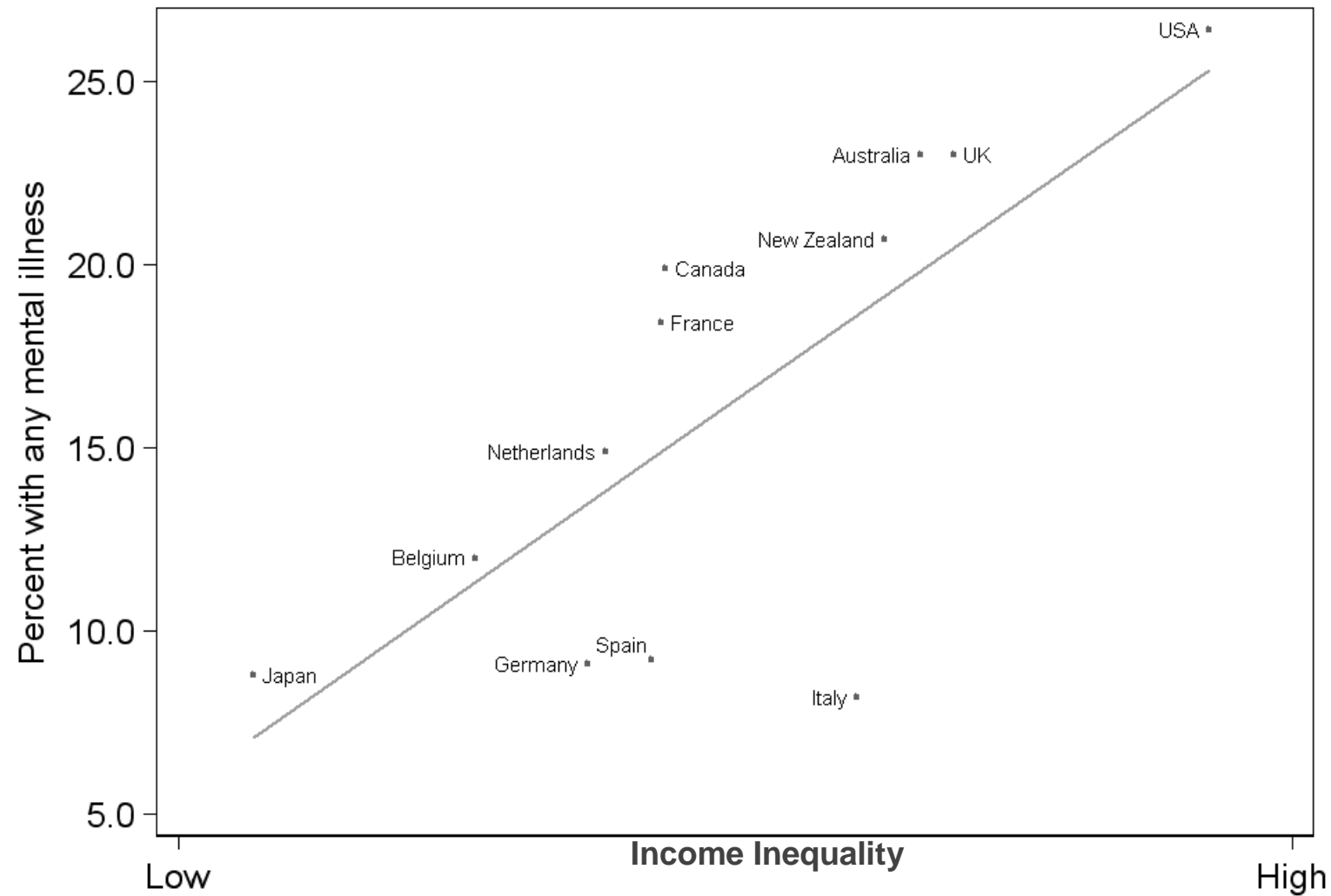
Source: Tony Atkinson's essay *Economics as a moral science*, Oxford University 2009

Health and social problems



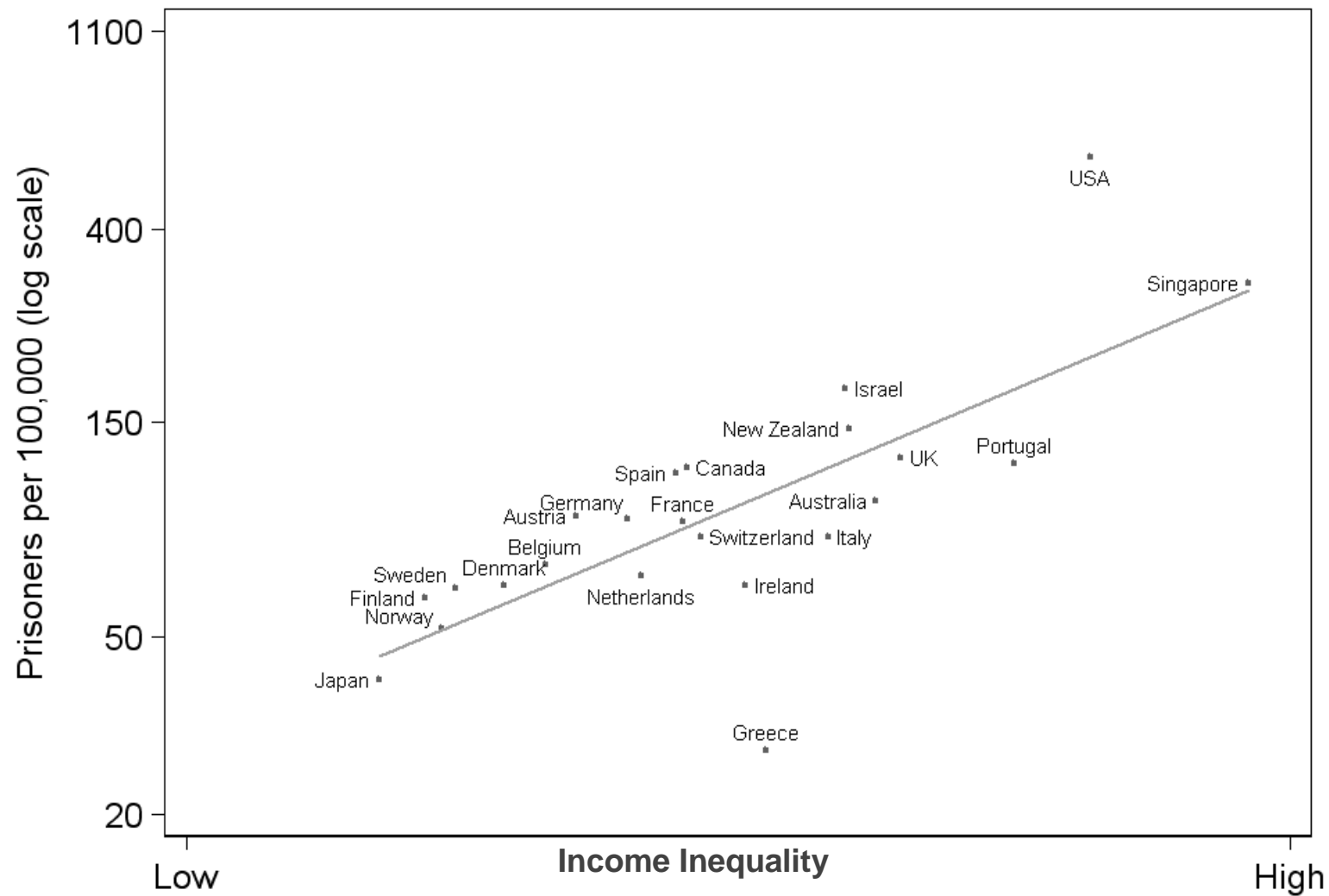
Source: Wilkinson & Pickett, *The Spirit Level*, Penguin 2009

Mental health and inequality



Source: Wilkinson & Pickett, *The Spirit Level*, Penguin 2009

Imprisonment and inequality



Source: Wilkinson & Pickett, *The Spirit Level*, Penguin 2009

Most people can be trusted



Source: Wilkinson & Pickett, *The Spirit Level*, Penguin 2009

David Cameron, Hugo Young Lecture

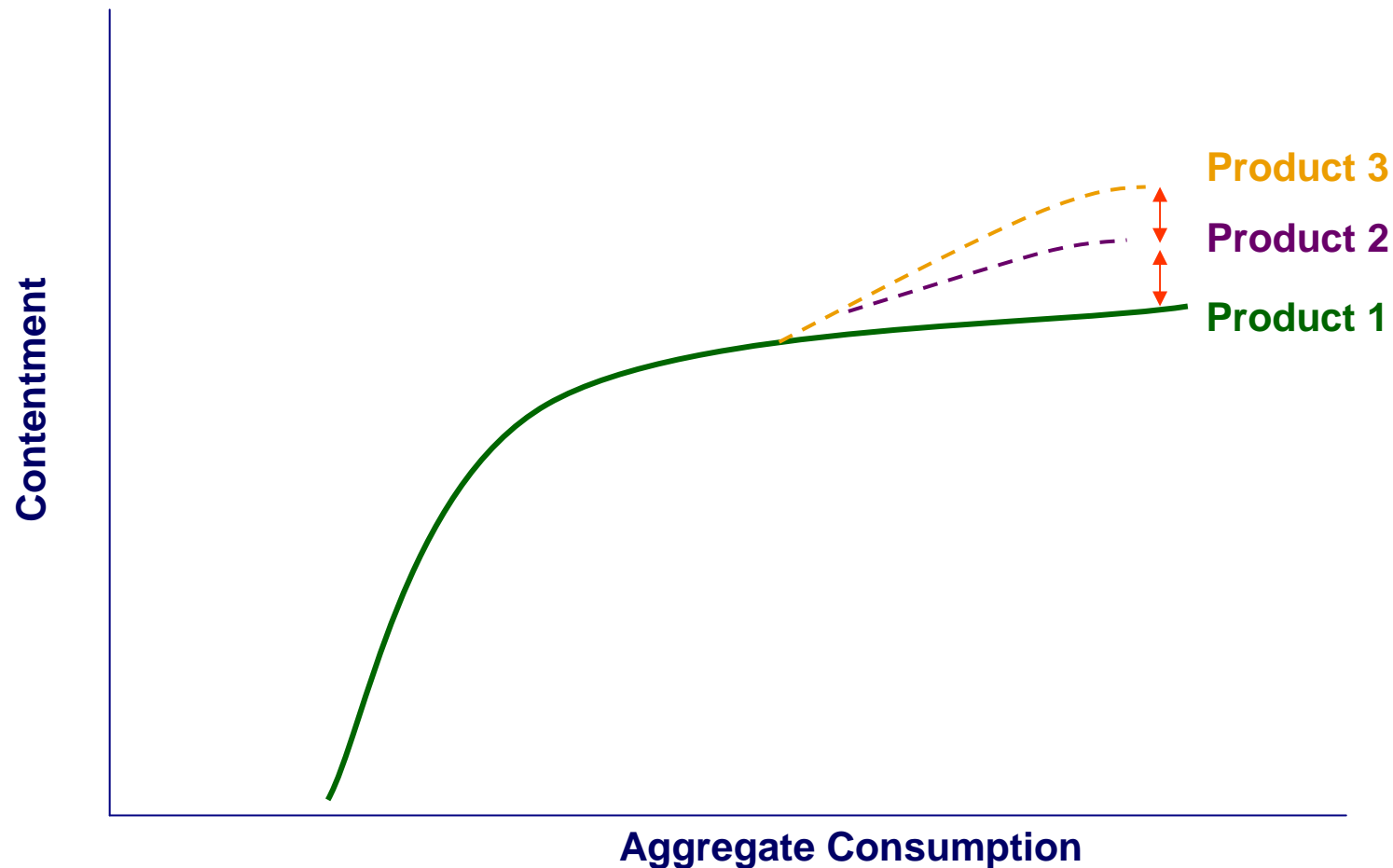
“Research by Richard Wilkinson and Kate Pickett has shown that among the richest countries, it’s the more unequal ones that do worse according to almost every quality of life indicator. In “The Spirit Level”, they show that per capita GDP is much less significant to a country’s life expectancy, crime levels, literacy and health than the size of the gaps between the richest and poorest in the population. So the best indicator of a country’s rank on these measures of general wellbeing is not the difference in wealth between them, but the difference in wealth within them”

(November 2009)

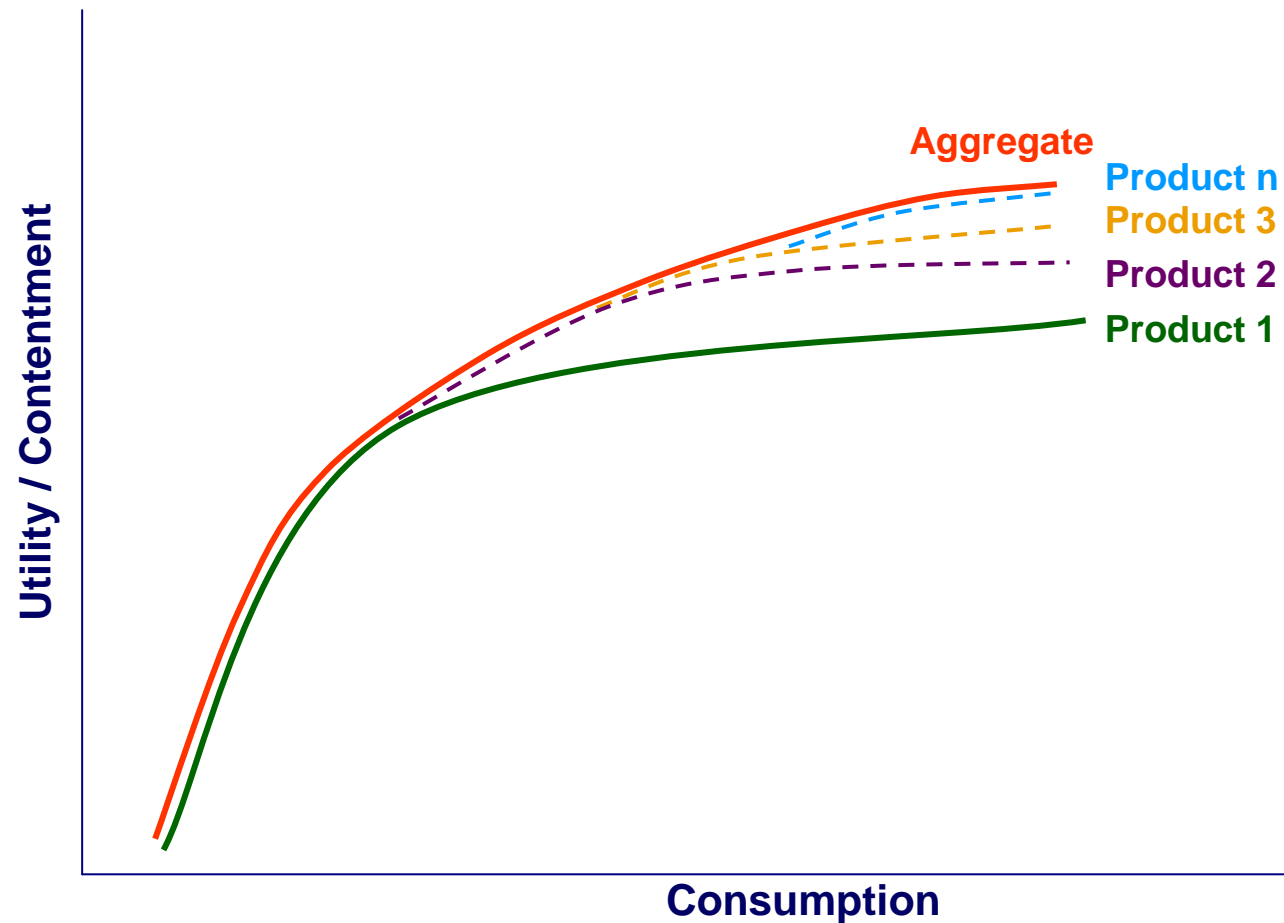
Diminishing Marginal Utility



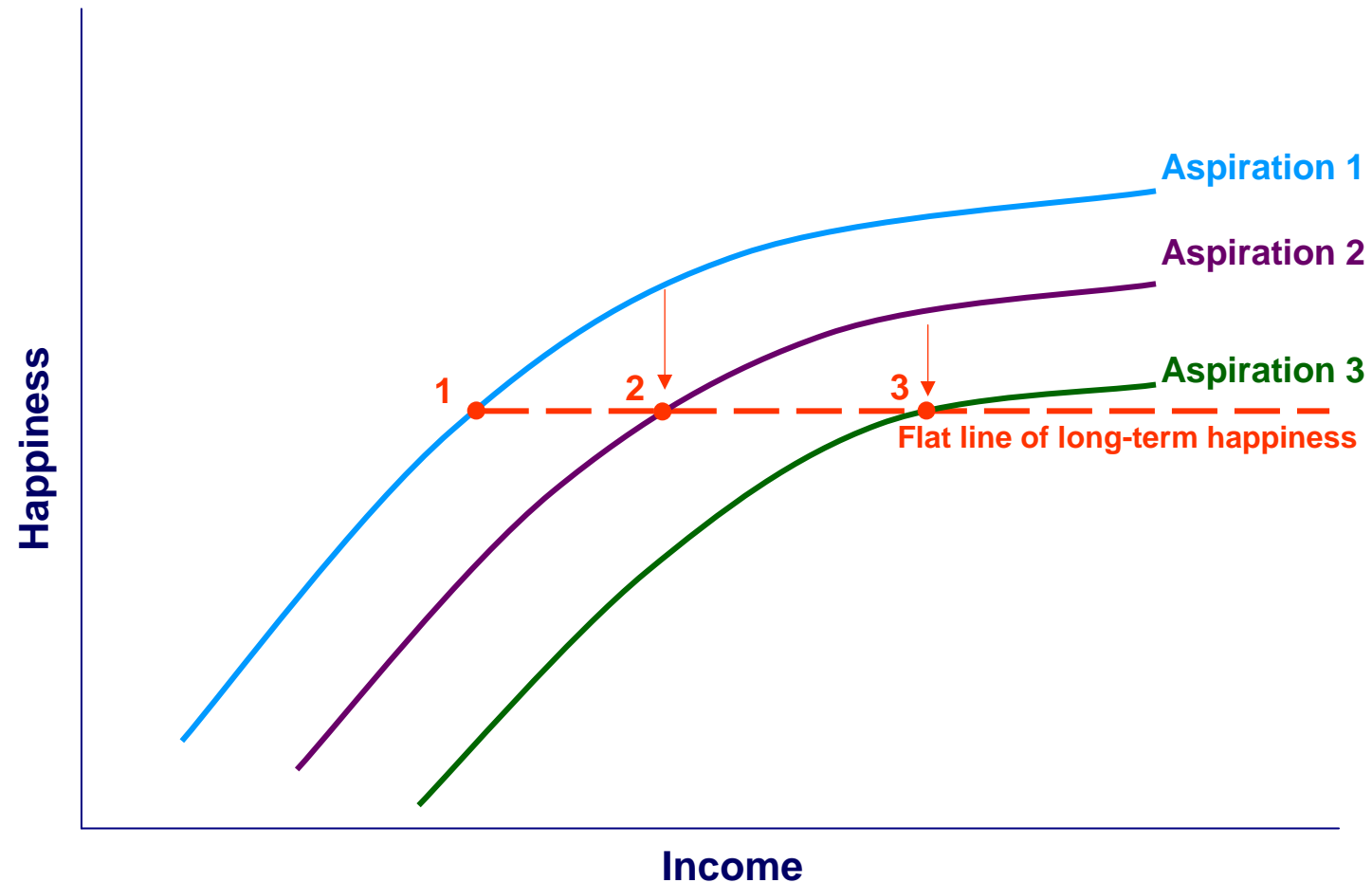
Utility/contentment and Aggregate Consumption: The impact of new products and services



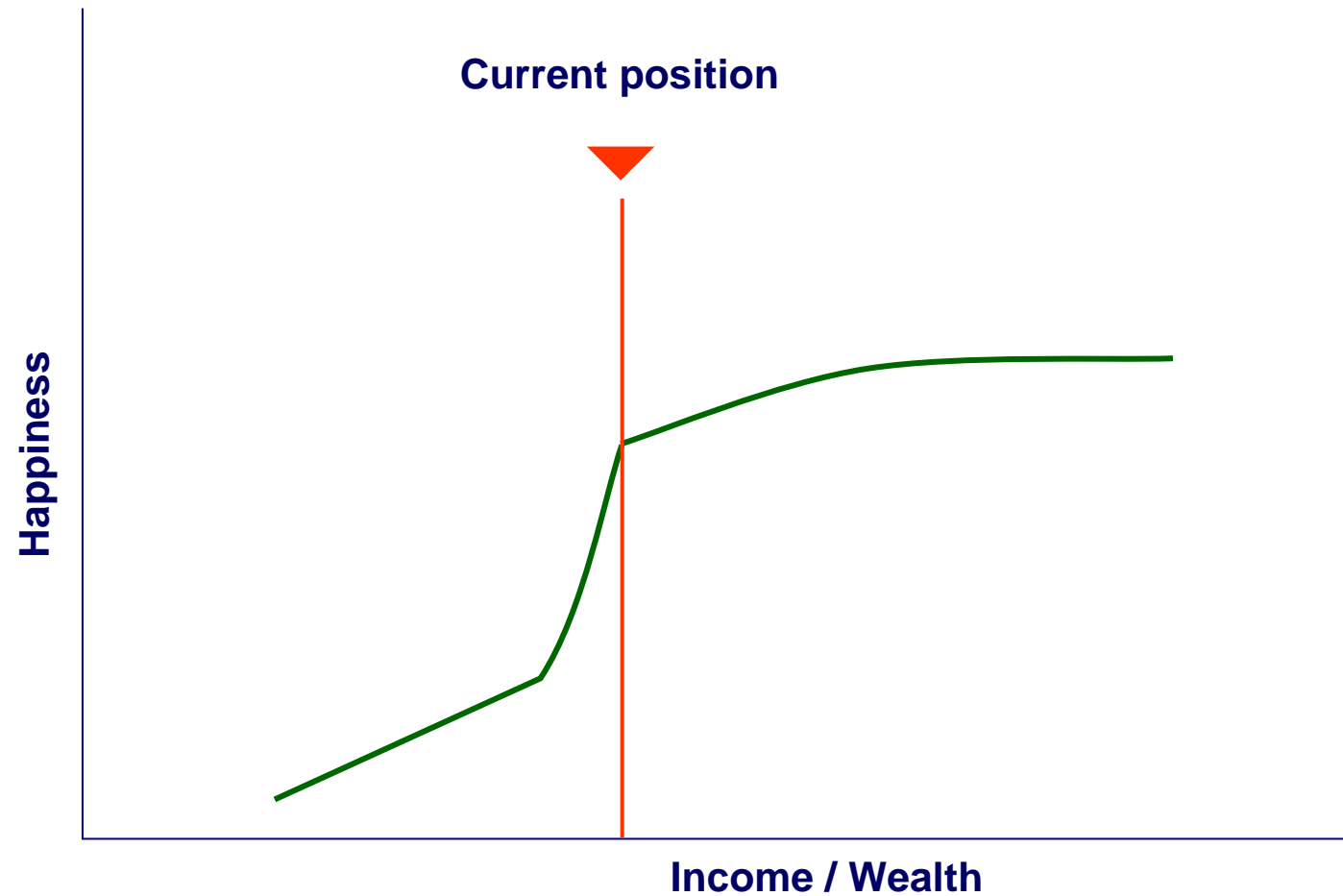
Aggregate diminishing marginal utility – driven by aggregate satiation



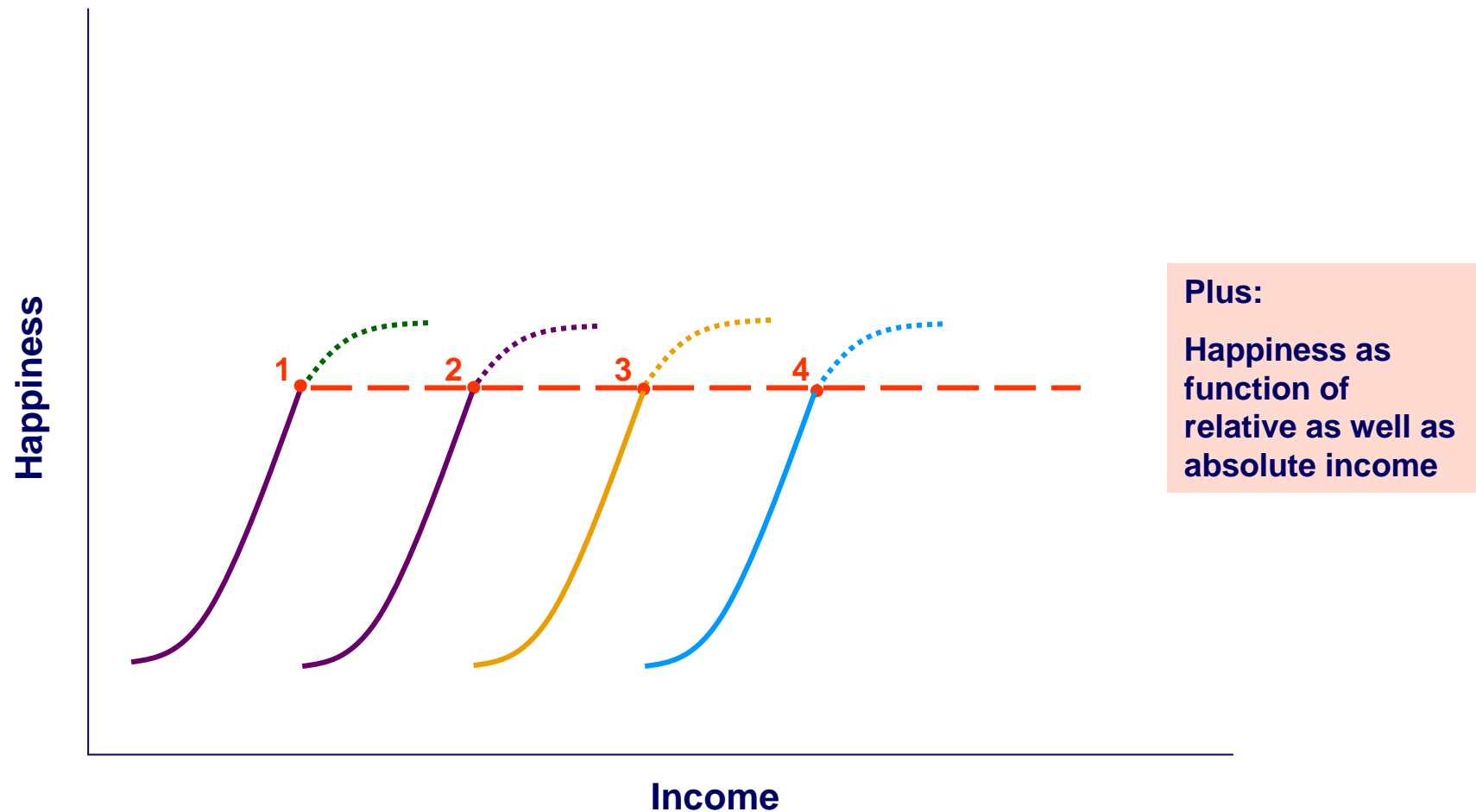
Happiness, income and changing aspirations



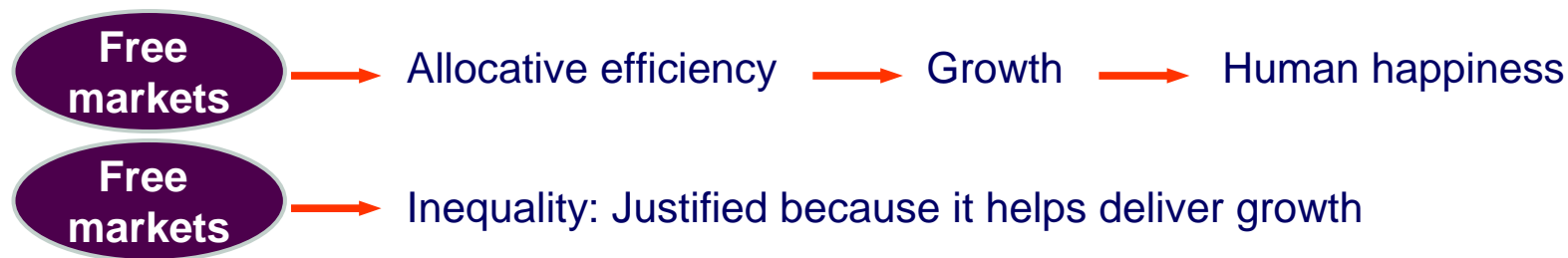
Happiness and already achieved income/wealth



Happiness, already achieved income, and changing aspirations

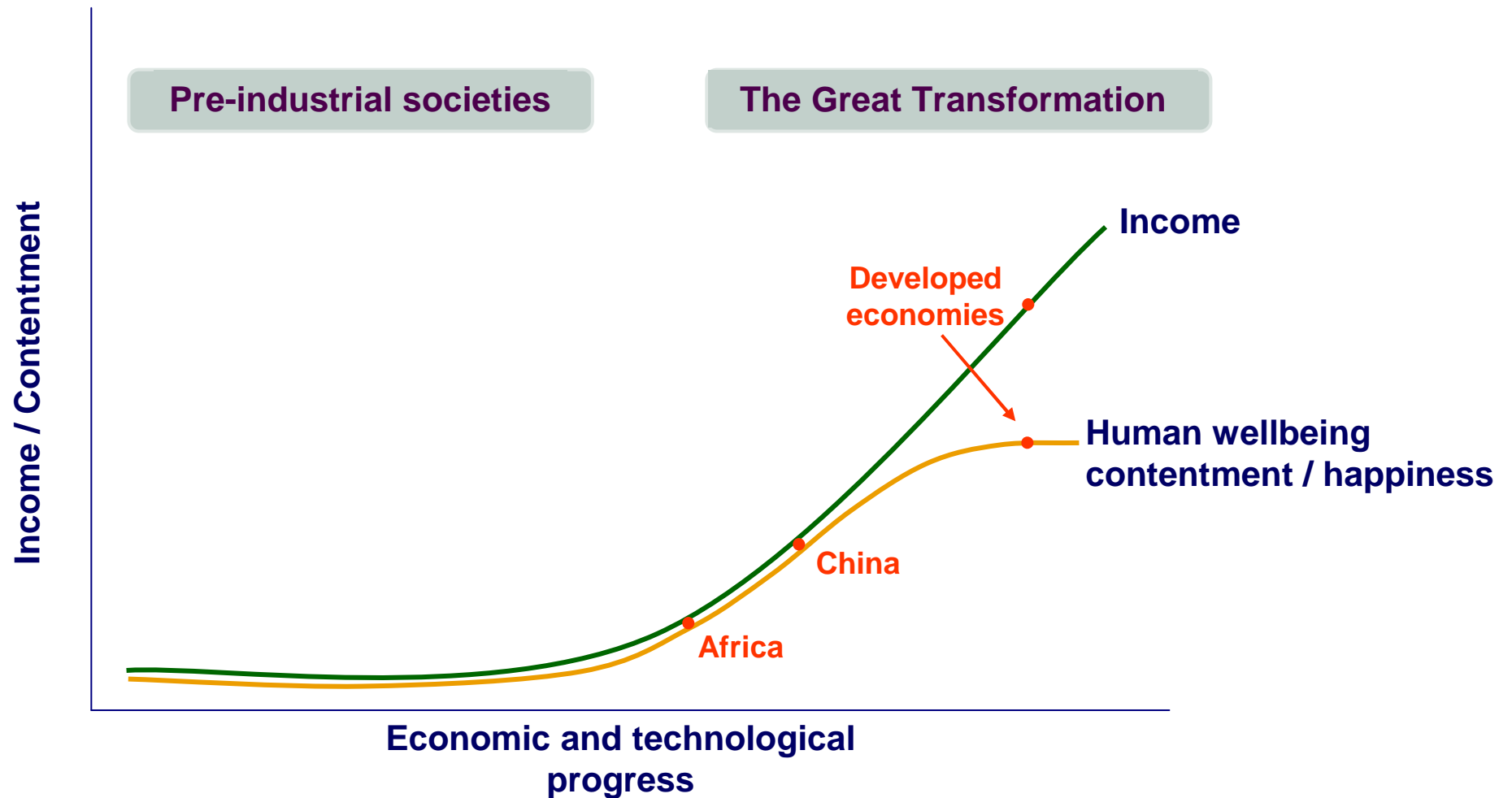


Starting Point: The Instrumental Conventional Wisdom

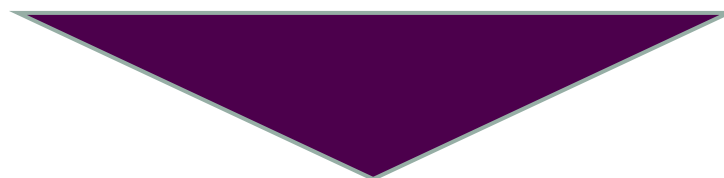
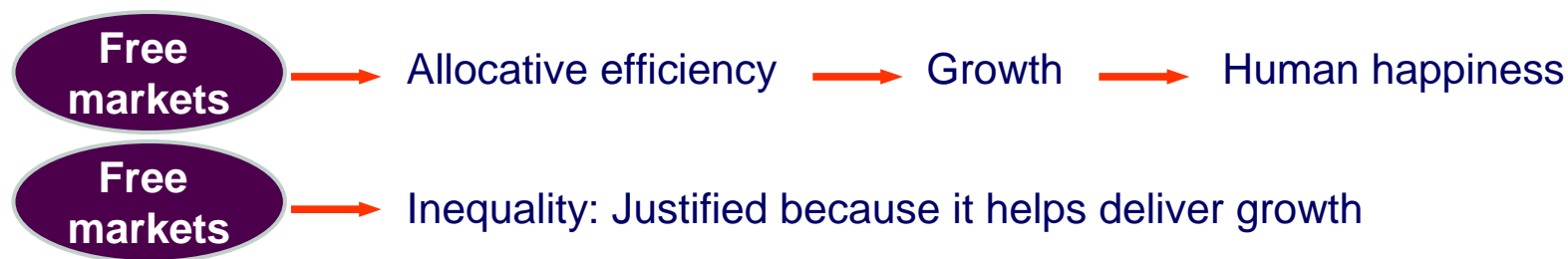


- ❖ The journey matters, not the destination
- ❖ Economic freedom as an end in itself

Income and Human Contentment: Possible stylised pattern over time



Starting Point: The Instrumental Conventional Wisdom



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