Debate over inequality

CONTINUED FROM YESTERDAY
THE ECONOMIST

Admittedly, truly global celebrities are few in number. But they have a penumbra of agents, lawyers and image-makers. As Lionel Robbins, a British economist, once said, "a substantial proportion of the high incomes of the rich are due to the existence of other rich people."

The growth of celebrity rents explains more than just why there may be more rich people around. The point about positional goods -- and of fashion and brands in general -- is their relative attractiveness. Owning the latest gadget or garment is particularly attractive when others don't have it, rather as buildings are valuable because of their location: ie, how desirable they seem to others. With such goods, a rising tide does not lift all boats. You yearn to be not merely richer, but richer than your neighbours. So the more brands, fashion and houses become important, the more relative income and inequality matter.

This would seem to qualify one of the commonest justifications for being relaxed about inequality: that it is not a big concern if the rich are getting richer so long as the poor are doing well too. That view was shared by Margaret Thatcher and Ronald Reagan and more recently by Mr Blair and Ben Bernanke, the Fed chairman. But if positional goods are taking a larger share of people's salaries, then relative income does matter and so do income disparities between rich and poor. Positional goods do not affect material welfare, as do poor schools or substandard housing. But they do affect people's quality of life and well-being. That leads to a second reason for worrying about inequality: its physiological and physical consequences.

In "The Spirit Level", a best-selling book of 2009, Richard Wilkinson and Kate Pickett argue that inequality "gets under the skin" and makes everyone worse off, not just the poor. They mean "gets under the skin" literally. The argument is that inequality causes chronic stress, and makes people secrete too much of a hormone called cortisol. This normally has benign metabolic and other functions. Produced in large quantities it can harm among other things the brain and the immune system. So cortisol may be a direct link between inequality and bad health.

Another is that inequality impairs the production of a second hormone, oxytocin. Sometimes referred to as the "cuddle hormone", this is secreted in childbirth and during breastfeeding, and seems to encourage pair-bonding and trust in others. The claim is that people living in unequal societies secrete less oxytocin, hence they have lower levels of trust. These accounts might be dubbed the medical, as opposed to material, explanations for inequality's bad effects.

The hypothesis is plausible. Humans are social animals and have been refined by evolution to be extremely sensitive to social interactions. Though intuitively attractive, the link is not yet well established. Most studies of hormonal stress markers have focused on particular groups subject to huge, chronic woes, such as carers of patients with Alzheimer's disease. Little research so far has dealt with the general population. A recent review of the scientific literature found little consistent evidence of a link between bio-markers of stress and social or economic status.

Nor is it certain that income inequality is the right problem to focus on. What seems to affect levels of stress hormones is not income, but competition for status, a broader, fuzzier notion. Evolution has primed humans to seek high status. Losers in competitions for esteem may well suffer. Societies with fierce status competition may well be unhealthier and more violent. But it is the disparities of status, not of income, that matter.

Often the two go together: Nordic countries have low income inequality and not too much status competition. But one can also imagine societies with narrow income disparities that are riddled with status conflict. The old Soviet Union is a vivid example. The inverse is conceivable too: countries with large income disparities but less status conflict, perhaps because competition is smoothed by social mobility. Arguably America fitted that description until recently. Overall though, it is true that in most places growing income disparities are a reasonable proxy for growing status competition.

Economists have long argued that inequality is a much less important problem than poverty. The recent research linking inequality to widespread social ills has not decisively overturned that view: the evidence is still mixed, at best.

The claim that inequality now matters more because of brands and status competition may turn out to be more robust. Such concerns could seem peripheral compared with global woes such as poverty. But inequality is local. As Adam Smith also once wrote, "if he was to lose his little finger tomorrow, he would not sleep tonight; but provided he never saw them, he would snore with the most profound security over the ruin of a hundred million of his brethren."

ICT in development

ALI SANWAR

Bangladesh's dreams of emerging as a significant player in the "information world", much like neighbouring India, has hit snags repeatedly although the effort and the desire remains. In the past, it was said that proficiency in English was India's great advantage therefore it should not be difficult for us to replicate them. Obviously the answer is not as simple as the past couple of decades have proved. In fact, even Pakistan's exports of information technology (IT) products and services, at over $2 billion, are much higher than us.

The incumbent government won the last elections on a promise of "digitalising" the country. And although the efforts may not be totally satisfactory for many but the fact is that substantial improvements have occurred. The government embarked on a policy of digitalising much of the administration and the judiciary. Besides, a number of steps are on to improve the IT infrastructure.

Once the second optical fibre is in place, the major complaint of the private sector of disrupted connectivity will have been largely addressed. Continuous connectivity should enable Bangladesh to enter the booming outsourcing industry that has made India a global IT player. The government has also announced to launch a communication satellite this year that should make the network a little more reliable than it used to be.

Bangladesh needs to do many things to reach the international market. But it will not be an easy thing to do for such a late entrant. Already a number of countries are in business and it will not be a cakewalk breaking into their turf. But the major hurdle will be to develop the manpower or in more fashionable jargon, e-HRD, to break into the market.

If Bangladesh is to join the IT revolution, a highly skilled and internationally recognised workforce is the first requirement. Without this, no investment in economic growth activities will have a substantive impact in the country half of which population are aged under 30. ICT workforce would allow Bangladesh, both at home and abroad, to literally bank on one of its most underutilised resources -- its 164 million people.

For the last 20 years, "IT revolution" was one of the talk-of-the-town topics, but now it looks like it was just the warm up. The IT industry saw huge investments in 1990s, and 2000 saw the "dotcom meltdown" as performances failed to meet expectations. The frenzy of the dotcom years has gone.

Bangladesh has an IT industry of around $350 million that is growing at percent a year.

The Indian success story is the dream for other developing countries around the globe. Why is this sector so attractive to those countries struggling to achieve a better future for their people?

Ali Sanwar is an ICT and telecom writer.

Wary Americans lose risk appetite

TERRINE FRIDAY

Call it another by-product of the recession: Americans have lost their risk mojo and are slow to return to financial markets after taking a beating in the 2008-09 recession, according to a risk tolerance January 2011 survey released by TD Ameritrade.

The findings also show Americans would rather forgo an up day in the market than risk losing money in a slight market decline.

"More than half of investors think that being invested in a 10-percent market decline is a worse scenario than missing a 10-percent market increase. That's a real change in attitude," said Stuart Rubinstein, managing director of client engagement for TD Ameritrade.

Of those surveyed, 28 percent reported moving more money into bonds or certificates of deposit in order to avoid exposure to risk in the market while 23 percent moved money into managed investment products like mutual funds.

Baby boomers remain the most wary about returning to the market, while younger investors, who are using cash for emergency funds, savings and large purchases, are returning to the market in larger droves.

Generation Y seems to be rebounding a little bit faster: 34 percent of Gen Y investors surveyed report investing new money in the stock market compared to 14 percent for Gen X and 15 percent from baby boomers. Rubinstein says this could also mean Gen Y investors are "nimbler."

"When we ask older generations the most important financial advice they can give to younger generations, 77 percent said live within your means, 67 percent said start saving for retirement earlier and 47 percent said learn all you can about proper money management," he says.

Two-thirds of respondents reported that their philosophy for investing is a diversified portfolio with products like mutual funds or exchange-traded funds.

Other key findings of the survey:

*Men are taking a conservative approach. Of the 28 percent of respondents who reported moving money into bonds or CDs, 33 percent are men and 21 percent are women. But despite their cautious approach, 20 percent of men reported investing in the market post-recession compared to just 10 percent of women.

*The recession has made investors more mindful. Thirty-two percent of investors are checking their portfolios more frequently while 31 percent are being more selective with the stocks they buy.

*The recession impacted day-to-day life. Fifty-nine percent of those surveyed blame the 2008-09 recession for forcing them to delay lifestyle decisions.

REUTERS

Sixty six year-old Henry Rechatin, French tight rope walker, balances on two back legs of the chair on the roof of the Rossia hotel near the Red Square in Moscow.

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Still, the recession isn't all bad news, Rubinstein says. The aftermath is a great time for parents to teach their children about money management and spendthrift by following the ABCs of investing: automated bi-weekly contributions.

"I think what's important is to always be investing in the market," he said. "The right time is always."

Harris Interactive surveyed 1,088 Americans between the ages of 22 and 80 for this risk assessment survey on behalf of TD Ameritrade.

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