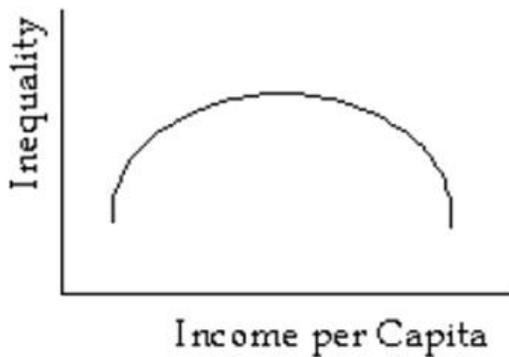


# Path breaking Ideas in Economics:

## Idea 2 # Inverted U curve hypothesis

Simon Kuznets' seminal work '*Economic Growth and Income Inequality*' in 1955 can be termed as one of the path breaking ideas in Economics. It had a profound impact on our understanding of the growth process, significantly influenced policy making and it kindled academic interest in this sphere.

Figure1: Inverted U Curve



Kuznets work highlighted that inequality of income distribution rises in the initial stages of economic growth but declines in the more advanced stages. This proposition came to be known as '*inverted U curve hypotheses*'. It led to a wider belief that there exists a trade-off between efficiency and equity, at least, in the early stages of economic growth. Despite Kuznets finding is still controversial and contestable, it is so plausible that it has acquired a status of stylized fact in

the study of income distribution. Its foremost contribution has been to bring the issue of inequality at the center of development debate. Following phrase effectively encapsulate the importance of Inverted U curve hypothesis-

*"Inequality is unlikely to go back out into cold periphery of economic analysis anytime in the foreseeable future"*. (Atkinson, 1997)

Inverted U curve hypothesis lay emphasis on role of saving behaviour, impact of technological advancement and entrepreneurship, which together serve as analytical backbone of the hypothesis. It also opened up a variety of policy options available to the countries from growth orientation, at one hand, to equity orientation, on the other. Role of '*trickle-down effect*' in addressing the issue of equity, led to a fundamental shift in our understanding of the entire growth process. It highlights the need for reforms in economic, political, social and institutional spheres that allows resource reallocation in the desired direction to make trickle-down more effective. It allowed academicians and policy makers to fine tune growth strategies which tends to bring desired harmony between the two seemingly conflicting objectives of development. Drive towards inclusive growth is a reflection of enrichment in the so called dismal science of economics. Kuznets hypothesis not only raised an important issue but also provided mechanics to address the stated trade off effectively.

### Bibliography

Atkinson, A. B. (1997). Bringing Income Distribution in from the Cold. *Economic Journal*, 107, 291-321.

~Sanjeev Mehta  
Professor

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## REES Editorial Team

Pema Choden  
Email- ablepema@gmail.com

Purna Maya Gurung  
Email- 102566pur@rtc.bt

Purna Bdr. Subba  
Email- 102792pur@rtc.bt

Rishabh Mehta  
rishmeh50@gmail.com

## ECONFLUENCE (25TH-26TH OCTOBER, 2016)

Reported by– Purna Maya Gurung and Pema Choden  
BA Eco Evs, Final year

Theme: *“Interact and Explore Knowledge Collectively”*

### Panel Discussion on *“Macroeconomic Policy Making issues and Challenges”*



The confluence was hosted by Rational Expectations Economics Society (REES) at Royal Thimphu College on 25<sup>th</sup> and 26<sup>th</sup> of October where all the undergraduates of economics in Bhutan were welcomed. ECONFLUENCE main objective was to provide platform for interaction, enhance wider knowledge and exchange ideas. The events for the ECONFLUENCE are panel discussion on *“Macroeconomic policy making: issues and challenges”*, ice breaking session, quiz, treasure hunt, debate, excel economist and budding researchers.

Keynote address by Dasho Peljor, The Governor of RMA *“Governor stated about the financial inclusion in Bhutan by 2017 in the 12<sup>th</sup> FYP where the policy will focus on “Fair, just and equitable society”*. The significance of pegging the currency (Rupee to Nu.) acts as a parameter for measuring the sovereignty of the country, avoids volatility and the confidence that depend on the reserve”.

The discussion of panel was on the topic *“Macroeconomic policy: issues and challenges”*. First question of the trade policies was whether trade policy takes in to consideration of the issues of the poverty and inequality because as the growth proceeds many people suffer from inequality and marginalization of the poor. Some of the other issues highlighted are private sector development issues, fiscal policy issues such as difficulty in converting currency, lack of information to agencies, coordination.

As per the Governor the issues is mainly driven by hydropower project in Bhutan along with employment issues and inflation issues and finally stated that financial inclusion will stimulate the growth process.



## ECONFLUENCE (25TH-26TH OCTOBER, 2016)

### *Eco Quiz*

The quiz was to test the knowledge of the economics where the members were divided into 3 groups, each consisting of 3 members. There were 5 rounds of the quiz.

*A. Microeconomics*

*B. Macroeconomics*

*C. Development Economics*

*D. Picture Round*

*E. The Bhutanese Economy*

It was an interesting event where the participants not only get to test their skills of knowledge but also the ability to cope up with the team mates.

**1st Position**



**2nd Position**



### **Excel Economist**

In this event a team of students were given the data on Microsoft excel and were asked to analyse the information. The analysis were to be displayed through charts and tables. Each team also had to answer to the questions from the audience and judges. Each college consist of three students to participate in this event.



## **ECONFLUENCE (25TH-26TH OCTOBER, 2016)**

### **Debate: “Inequality is a Choice not a Destiny”**

**For the motion.** - *Moritz Bleif, BA Development Economics.*

The question of today's debate, if *inequality is a choice* or a destiny, is relevant on personal, national and global levels. At my home, at your home, in New York, Beijing, Delhi, Malaysia, South Africa and also Bhutan. The question is important, because inequality *unquestionably exists*. But we are not discussing causes today. Our debate's objective is if we are helplessly suppressed by this state or if we can change our position. I wholeheartedly believe that the latter is true, that inequality is a choice.

Let me start by saying that I in no way want to endorse a society where *everyone is forced to be the same*. Human beings are different by nature! History taught us that trying to ignore this, has led to horrible consequences in the societies that arbitrarily enforced socialism and communism on its people.

It is right, I believe, that different activities are *valued differently*. For example, it is justified that a police officer, who risks her/his life, earns more than a person who cleans the streets. So, why are we having this debate in the first place? Because you can buy *toilet paper* which has literal gold on it in my home country that is worth more than peoples year's salary in other places on the world. Some persons who work in the *same company* and do the same job get paid unequally. *Mothers* who have lost their husbands have to work in two full time jobs to feed their kids because one does not pay enough. And finally, the *distribution* of wealth has reached an *unacceptable* level on the global scale. The 99% vs. the 1% debate is often popularized. But let us look at some figures. The *German National Bank* recently gave a statistic that the lowest 50% only earn about 2.5% of the wealth in Germany. This is similar in most so called developed countries. *Oxfam*, a global charity organization, published a report in 2015, stating that 1% of the world population owns approximately 50% of wealth. These examples continue.

One reason that these inequalities arose, is payment. Somehow, this happened. *Governments have the power* to fight wars, to build schools and roads and they also have the power to introduce taxation systems that are equal – or, unequal. They also have the power to pass minimum wages – or maximum wages for that matter. They even have the power to demand that every person who owns more than 1 million US\$ shall pay 10% of their wealth and use this money to fight poverty, build schools, hospitals etc. These rich people certainly would not starve. Inequality also arises on a *personal level*. If your parents are wealthy you are much more likely to get a college degree. This however, is not a natural law. There are people from quite poor families that worked hard, were admitted in high school and finally made their college degree. So these people did not give up and just accepted their fate – they chose to work hard. And again, politics can provide an education system where the socio-economic background matters less.

To summarize, inequality has reached a horrifically high level, but it can be tackled. Nations can choose to allow inequalities or they can fight it. Persons can give in to their fate or they can work hard to progress. We have inequalities on these two, if not more levels, but it is not set in stone - it can be changed.

# ECONFLUENCE (25TH-26TH OCTOBER, 2016)

## Against the motion: - *Bhim Prashad, Sherubtse College*

According to Aristotle, I quote: *"The worst form of inequality is to try to make unequal things equal"* I unquote, .According to the definition by Cambridge Dictionary *"the unfair situation in society when some people have more opportunities, money, etc. than other people"*. Nobody in the world choose to be in equal but our faith and destiny has made us in equal. Therefore, in my opinion inequality is a destiny and it is not a choice.

Franklin Roosevelt, in 1937, said, I quote: *"The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little"* I unquote. Sadly, even after nearly 2 centuries, we are still debating on *'inequality'*. If it was a *'choice'* we would not be debating on this theme today, and the problem is not limited to inequality of income, but gender, social, class, political, and the list goes on and on.

Was it not inequality that led Martin Luther King Jr. and Mahatma Gandhi to fight for freedom? They are considered as the greatest heroes of freedom fighters, who fought not with weapons, but through non-violent means. Yet, *'inequality'* is still a major concern in the **US** and **India** too. It is estimated that America's 400 richest billionaires have as much wealth as the nation's entire African-American population, which constitutes over 14 million households, while the schedule castes and certain minority communities in India are still struggling to be treated as equals in their own soil. Is this not proof that inequality is a destiny and not a choice?

History reveals that countries which were colonized by western power like Africa, Latin America and Asia have all been exploited by their colonial powers and introduced to slavery, apartheid, social discrimination and other forms of suppression that led to gross socio-economic inequality in those countries. The opponent might think that the choice of colonial rulers to be powerful and rich. Sure enough! They did make the right choice and made *'inequality'* the destiny of the poor and simple people of the then underdeveloped world.

Inequality exists in nature itself. For example some countries are endowed with abundant of resources where as others are deprived of it. The oil and gold producing countries are bound to be rich because of their natural resource endowment. But nature has not given these facilities to all the nations. In this way when inequalities exist in nature itself, how can we – mere humans say that inequality is a choice and not a destiny?

Inequality is destined from birth itself. Inequality begets inequality, and it is transmitted across generations as they have no choice of birth. The question is, Do we really have a choice to decide in which family we were to be born? It is a destiny that some are born with a silver spoon in their mouth, while others carry a begging bowl from the womb itself. The irony is that very few people can change their destiny even after making a choice to be equal.

Liberal theorists proclaim their belief in equal opportunity. But positions in the social hierarchy tend to be inherited. We can predict that the child of professional parents is likely to occupy a higher position as an adult than the child of high-school dropouts.

Better-educated parents also make for healthier as well as better-educated children. Studies conducted in Britain reveal that children has that are born into disadvantaged households are likely to remain disadvantaged themselves. Thus inequality exists between the rich and the poor and the gap between them is ever increasing. Inequality is also Gender specific. It is true that women unemployment today equals to that of men, yet on an average, women are paid 20 percent less than man even though they may be employed in the same type of jobs.

If inequality is a choice and not a destiny, I assume it is the women who are saying **"Pay me less than men for we are not equal"**?The fact is that women are often downgraded.

The idea of Marxist Feminism gender discrimination is caused by social arrangement which considers women as weaker emotional and sensitive, resulting in inequality due to the existence of separate public and private sphere. In its annual State of the World's Children report, UNICEF says 121 million children worldwide do not attend school - 9 million more girls than boys. The report says an estimated 65 million girls are being denied basic education, increasing the likelihood they will live in poverty or die young. Is this not gender inequality?

Though Globalization and economic liberalization have created billions of employment and investment opportunities, these two recent trends have exacerbated inequality in almost every country where it has been pursued.

Thus, nature, birth, race, religion, nationality, and many other conditions make inequality a destiny and not a choice.

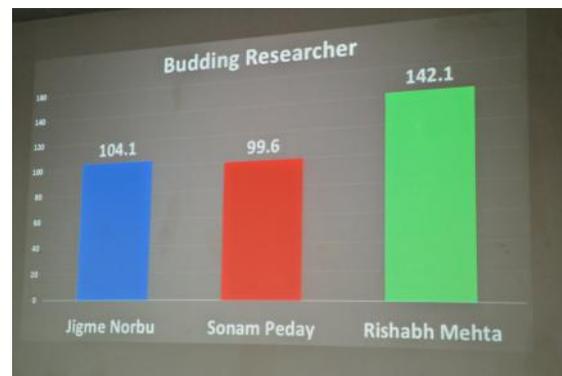
Let us, therefore not try to make unequal things equal, but strive to make our destiny better by following example from great figures like Nelson Mandela who once said, I quote: *"As long as poverty, injustice and gross inequality persist in our world, none of us can truly rest"*.

*"If you're happy in a dream, does that count?"*  
—Arundhati Roy, The God of Small Things

## ECONFLUENCE (25TH-26TH OCTOBER, 2016)

### Budding Economist

Financial Inclusion is a critical bottleneck to the inclusive growth. From each college, two students were to develop a Bhutan specific case study/ research paper on the issues pertaining to financial inclusion. We provided a suggestive framework for the study- Extent and pattern of financial exclusion, bottlenecks study covering supply or demand side's issues, role and significance of informal access to credit, micro finance, and micro credit. Papers were based on small sample studies (they can also work with large samples too if resources permit) using real time data. Each college were to send at least one student to participate in this event.



### Ice Breaker to know each other



## ECONFLUENCE (25TH-26TH OCTOBER, 2016)

### *Treasure hunt*

It was a surprise event and students were told about this event at the time when the event started. This was a test of multiple skills. Each college were to send one student to participate in this event.



1st winner Kinzang Gyeltshen  
2nd winner Sonam Peday



### *Picture from the events*



## Event Reports

### Visitor Speaker Series

On September 15, 2016 REES hosted officials from the World Trade Organisation - Mr. Gerardo T. Thielen and Ms. Juneyoung Lee. Mr. Thielen is a Counsellor, WTO's Institute for Training and Technical Cooperation, Ms. Lee is a Legal Affairs Officer, Accession Division of WTO.

Mr. Thielen talk was focused on the possible benefits of joining WTO, capacity building assistance that is provided by the WTO to an accessing country and the significance of Bhutan's accession to WTO before it gets a middle income country status.

Mr. Thielen conveyed that 168 countries and 98% of the global population is part of WTO. A majority of the countries which are not member states, like South Sudan, North Korea and Syria are either failed states or rogue states.



Ms. Lee discussed the issue related to freedom to member countries to make free trade agreement and its coherency with the MFN principle of WTO, options available for a member country to relinquish its membership ( based on a the experience of Brexit) and what Bhutan needs to do to speed up the accession process.

Mr. Gerardo T Thielen

### Inter- Programme Declamation: *His Majesty, the Fifth Druk Gyalpo's First Decade on the Golden Throne*

On the 16th of October, 2016, Royal Thimphu College held its Inter-Programme Declamation celebrating *His Majesty, the Fifth Druk Gyalpo's First Decade on the Golden Throne*. There were 10 participants in total and all were exceptionally well. We learned a lot from the participants and REES would like to congratulate all the participants for the well delivered speeches and RTC cultural group for entertaining the audience. The top three title winners are:

1st position- Tashi Dorji

2nd position- Tsheten Wangmo Moriyan Wangchuk

3rd position- Sonam Pakhi



REES would further like to give our heartfelt gratitude to Tsheten Wangmo Moriyan Wangchuk of BA Development Economics, First year for keeping up the name of the Economic Department.

*"Appreciation is a wonderful thing: It makes what is excellent in others belong to us as well"*

— Voltaire

### The Winners for the ECONFLUENCE are:

1-Eco- Quiz:Team A: RTC (Tshering Buthri, Pema Lhamo and Tandin Zam)

2-Debate: Namgay Tenzin, BA Eco Evs, 2nd year: RTC

Bhim Prashad, Eco Geo, Final year: Sherubtse College

3.- Excel Economist: Kinga Choden, BA Eco Evs, Final year: RTC

Tshering Yangki, Final year: Sherubtse College

Pratima Pradhan ,BA Development Economics, 1st year: RTC

4. Treasure Hunt: -Kinzang Gyeltshen, BA Eco Evs, 2nd year: RTC

5- Budding Researcher

I) Rishabh Mehta,  
BA Development Economics,  
1st year: RTC

II) Jigme Norbu, Economics Honors  
Sherubtse College