

## Don't listen to the rich: inequality is bad for everyone

Written by The Conversation

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Having only a few people with most of the wealth, motivates others. This theory is actually wrong according to research. Aakkosia sosialistien lapsille (1912)/Flickr, [CC BY-SA](#)

A world where a few people have most of the wealth [motivates others](#) who are poor to strive to earn more. And when they do, they'll [invest](#) in businesses and other areas of the economy. That's the argument for inequality. But it's wrong.

[Our study](#) of 21 OECD countries over more than a 100 years shows income inequality actually restricts people from earning more, educating themselves and becoming entrepreneurs. That flows on to businesses who in turn invest less in things like plant and equipment.

Inequality makes it harder for economies to benefit from innovation. However, if people have access to credit or the money to move up, it can offset this effect.

We measured the impact of this by looking at the number of patents for new inventions and then also looking at the Gini coefficient and the income share of the top 10%. The Gini coefficient is a measure of the distribution of income or wealth within a nation.

### How inequality reduces innovation

From 1870 to 1977, inequality measured by the Gini coefficient fell by about 40%. During this time people actually got more innovative and productivity increased, incomes also increased.

But inequality has increased in recent decades and it's having the opposite effect.

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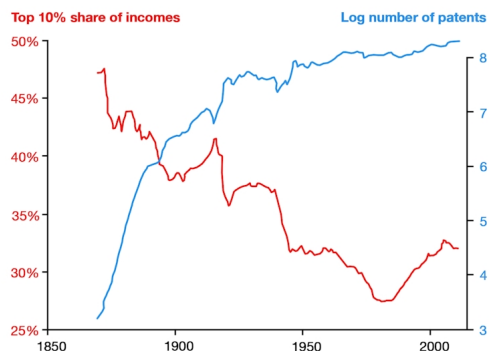
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## Inequality and innovation

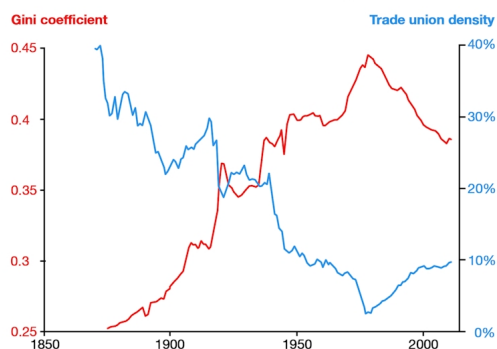
Share of income versus patent applications over time, OECD average



Source: Author provided

## Trade union membership and inequality

Trade union density versus Gini coefficient, OECD average



Source: Author provided

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## Giving people access to credit could change this

Most countries have much higher levels of inequality than the OECD average. This combination of high inequality and low financial development is a major obstacle to economic prosperity.

When [financial markets work well](#), everyone gets access to the amount of credit they can afford and can invest as much as they need. We found that for a nation with a credit-to-GDP ratio of more than 108%, low income earners are less discouraged by not having a share of the wealth. There's less of a dampening affect on innovation.

Unfortunately, most countries (including many in the OECD) are far from this threshold. In 2016, the credit-to-GDP ratio averaged 56% across all countries, and only [28% for the least developed](#). Until 2005, Australia was also below this threshold.

This means governments should look at providing more people with more access to credit,

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especially to the poor, to stimulate growth.

For financially developed nations like Australia, increased inequality actually has less of an effect on innovation and growth. So tackling inequality might not be as easy as increasing access to credit.

Spending and taxing are already historically high and growing inequality makes it [harder to further raise taxes](#)

. Countries like Australia are not unequal societies in the sense of having significant barriers to people improving their income.

Australia is a relatively egalitarian nation. In 2016, [the top 1%](#) owned 22% of the wealth in Australia, compared to 42% in the USA, and 74% in Russia.

Governments in more developed nations can instead try to maintain a stable financial sector to improve growth or by [training](#) and education.

*One of the co-authors of the cited research, Jakob B. Madsen, received financial support from the Australian Research Council (DP150100061 and DP170100339).*

**Read more** <http://theconversation.com/dont-listen-to-the-rich-inequality-is-bad-for-everyone-81952>