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Yes, there really is a trade off [1]

Written by **Tim Worstall** [2] | Thursday 3 April 2008

One of the dividing lines in the political debate is between the egalitarians and those more like myself who worry more about absolute living standards. On the one side those who say that inequality is a problem which we must use tax and redistribution to resolve, on my side those who say, well, perhaps, but that taxation carries a deadweight cost and thus lowers the wealth of all.

We all also tend to assume that there is a trade off between these two: we can't reduce inequality without reducing total wealth but it's worth it: or not perhaps, dependent upon your *a priori* assumptions.

As it turns out I've been wrong on this as this interesting paper [3] (.pdf) shows. Economic freedom produces a higher overall rate of growth, this is true. Economic growth does indeed increase inequality and redistribution (note, redistribution, not necessary spending upon public goods) does indeed reduce the growth rate leading, in time, to less wealth for everyone. So far then the debate has indeed been framed correctly and it depends upon which you value more, equality or total wealth. However, there's one stinger in it:

> *Freer economies are more equal economies; economic freedom reduces inequality by increasing the share of market income going to the poor and lowering the share going to the rich.*

This effect overpowers the inequality produced by economic growth. So economic freedom actually produces lower inequality as well as higher growth: and, of course, over time, higher incomes for the poor on an absolute basis.

So our trade off has actually changed: we can be more free, more equal and richer, or less free, less equal and poorer.

At which point I'm left rather wondering: who would choose the latter of those two options?

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