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Economic Development

present a seminar on

Piketty Inequality, Meta-Market Failures and The Role of the State in Properly Functioning Markets

by

Dr. Raul V. Fabella

Professor Emeritus

2 October 2015, Friday

4:00-5:00 p.m. – Room 303

Abstract:

This paper argues that the celebrated Piketty thesis that thriving markets in advanced economies generate an ever increasing income inequality restores policy relevance to the Second Fundamental Theorem of Welfare and restores role of the state in Economics. More telling for this paper is Piketty's claim that this is not due to some market imperfection but is due to the very dynamic that drives market prosperity, namely, the return to capital exceeding the rate of growth of the economy ($r > g$). If market imperfections are eschewed *ab initio*, the state has no role in Microeconomics as the First Fundamental Theorem of Welfare shows. The Second Fundamental Theorem of Welfare in showing how an equity-deficit in the market allocation may be remedied by an initial asset redistribution does suggest a possible role for the state in properly functioning markets but the Kuznets Hypothesis says that this equity-deficit is a temporary inconvenience which will of itself dissipate as income grows. Policies that enhance growth but which are politically less costly may then replace initial asset redistribution in the pursuit of equity. By contrast, in the Picketty economy the progressively rising equity-deficit threatens Capitalism and democracy and must be pushed back directly, that is, by rejiggering initial assets. In properly functioning capitalist markets, the role of the state is to save Capitalism.

About the speaker:

Dr. Raul Fabella is one of the Philippines' National Scientists and a UP Professor Emeritus. He obtained his Ph.D. in Economics at Yale University. He took his master's degree in economics at the University of the Philippines School of Economics where he formerly served as a Dean from 1998 to 2007. His fields of interest are Economic Theory, Agricultural Economics and International Economics.



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