Stat Watch

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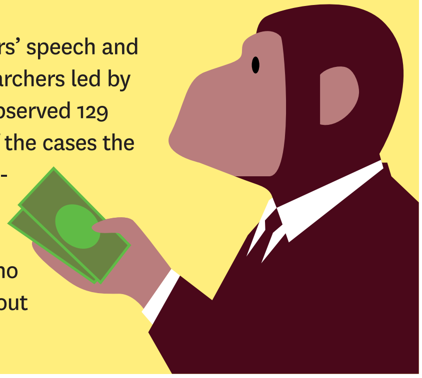
MONKEY SEE, MONKEY BUY



17% Retail salespeople who subtly mirror customers' speech and behavior are more likely to make a sale. Researchers led by **Céline Jacob,** of the Université de Bretagne-Sud, observed 129 customers who asked for information about an MP3 player. In half the cases the employee had been told to mimic the customer. Some 79% of customers who interacted with a mimic bought an MP3; just 62% of those who interacted with a nonmimic did—a difference of 17 percentage points. Those who were mimicked were also more apt to take advice about models and to rate the employee and the store favorably.

POLICY *by Fuad Hasanov and Oded Izraeli*

How Much Inequality Is Necessary for Growth?

As the Occupy Wall Street protesters have pointed out, the strong global economic growth of the past few decades (not counting the Great Recession) left a lot of people behind. For example, the U.S. Congressional Budget Office recently reported that from 1979 to 2007 the top 1% of earners more than doubled their share of the nation's after-tax income.

For decades economists have wondered whether inequality is bad or good for long-term growth. On one hand, entrenched inequality threatens to create an underclass whose members' inadequate education and low skills leave them with poor prospects for full participation in the economy as earners or consumers. It can cause political instability and thus poses risks to investment and growth. On the other hand, some argue that because inequality puts more resources into the hands of capitalists (as opposed to workers), it promotes savings and investment and catalyzes growth.

To try to answer this question, we examined economic data from 48 U.S. states for the census years from 1960 to 2000. We discovered new evidence that inequality and growth are entwined in complex ways and found that overall, both high and low levels of inequality diminish growth.

We looked at the data through a number of lenses, each based on a different statistical model. Using one lens, we found a hump-shaped relationship between inequality and growth. Raise inequality above the average level in 2000, and growth declines; lower it, and the same thing happens. According to this analysis, inequality at that time was at a sort of optimum level, for lack of a better word.

Using another lens, we found a similarly hump-shaped relationship, but with the hump in a different place. From this perspective, the 2000 level of inequality is good for growth, but a higher level would, to a certain degree, be even better: A moderate rise in inequality—by one standard deviation—would increase annual growth by about 0.6 percentage points.

What are the long-term implications? The gains from rises in inequality are murky: Although our findings suggest that modest increases can generate growth, other data indicate that heightened inequality shortens growth spells and may halt growth. Reducing inequality, though, has clear benefits over time: It strengthens people's sense that society is fair, improves social cohesion and mobility, and broadens support for growth initiatives. Policies that aim for growth but ignore inequality may ultimately be self-defeating, then, whereas policies that decrease inequality by, say, boosting employment and education have beneficial effects on the human capital that modern economies increasingly need. ⛉

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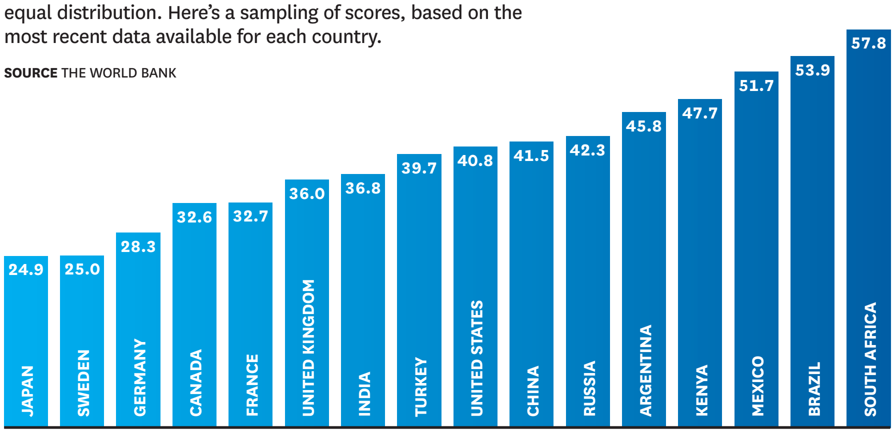
INEQUALITY COUNTRY BY COUNTRY

The Gini coefficient measures income or consumption inequality on a scale from zero to 100, with zero representing a perfectly equal distribution. Here's a sampling of scores, based on the most recent data available for each country.

SOURCE THE WORLD BANK



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