# Radical Ideas 1 (4/25/2012) Econ 390-001

**Principles**

- Cellphones in Kenya
  - June Arunga provides a case study of the failure of government regulation and the success of entrepreneurship.
  - In Kenya a combination of factors made running a business difficult:
    - very expensive cars
      - prohibitively high tariff
      - import substitution
      - transportion costs very high
    - no addresses
      - mail sent/received at P.O. box
      - advertising location was very hard
    - no phonebooks
    - nearly impossible to get a landline telephone
      - # about constant at 30,000 over 30 year period
      - telecom company state owned
      - most employees never came to work
        - hang a coat or a sweater over their chairs
      - installation queues very long
        - bribes required (exceeding the average yearly income)
      - lack of phones dramatically increased transaction costs
  - Kenya's president licensed a cellphone company.
  - Cellphones were completely free of government regulation (unlike government landlines).
  - Cellphone use exploded: from 0 to over 5 million in less than 10 years.
  - With per capita income so low, one might expect that few citizens could afford a cellphone.
  - Cellphones so drastically lowered transaction costs that they had to have a cellphone.
    - Instead of making very expensive car trips for business meetings and to arrange supplies, business people could just call one another.
  - The effect on entrepreneurship was even more dramatic.
    - Advertising businesses became much easier. Cardboard signs started appearing hanging up everywhere with messages like "plumber: 555-3456".
    - This overcame both the lack of address problem and the lack of phonebook problem.
  - With the explosion of cellphones and businesses, standard of living began increasing dramatically as well.

- Save place to save
  - Only 50% of the world population has access to bank accounts.
  - Much of the world lives on less than $2 a day, but daily wages are highly variable.
    - On a good day they might make $3.15.
    - On a bad day they might make $1.50.
    - Saving would help even out income fluctuations.
  - Possible saving strategies
    - hide money around the house
      - vulnerable to theifs (including family members)
    - rotating savings group
      - useless for sudden emergencies
      - can only withdraw at fixed times (your week)
    - buy physical asset
      - assets are often indivisible
      - sudden needs may result in fire sale loss prices
  - people living on less than $2 a day
    - young and elderly: 1 billion
    - working age: 1.6 billion
      - small-holder farmers: 610 million
      - casual laborers: 370 million
      - low-wage salaried: 300 million
      - micro-entrepreneurs: 180 million
      - unemployed: 100 million
      - fisherman/pastoralists: 80 million
  - Microcredit/microfinancing only applies to micro-entrepreneurs: 180 million of the 2.6 billion.
  - Many people escape the $2 a day threshold in a given 5 year period, then fall back.
    - Lapses due to an inability to accumulate savings.
  - In Nigeria 75% of the population have never banked.
  - The traditional banking system doesn't work for small amounts.
    - Transaction costs would be high relative to the amounts deposited / withdrawn by those who make $2 a day or less, making those customers unattractive to banks.
    - Even in the absence of bank fees, transaction costs would be high for poor customers.
      - Often the nearest bank would be 8-10 km away.
      - The opportunity cost in terms of lost wages from the hours traveled and fees for transportation could be as much as ¼ or ½ of daily wages.
  - The solution Ignacio Mas proposes is using cellphones to deposit, withdraw, and spend money.
    - 1 billion people have a cellphone but no bank account.
    - 40% of Africans have cellphones.
    - Nearby kiosk better than faraway bank.
    - Cellphone SIM card more convenient than ATM card.
  - This solution has already been implemented in a few countries.
    - 40% of the adult population of Kenya are using their cellphones to make deposits and withdrawals (60% of cellphone users in Kenya).

- Ideas trump crises
    - Alex Tabarrok (of GMU) talked about how ideas can make everyone better off.
    - Ideas are non-rivalrous: you using an idea doesn't mean there is less for everyone else.
    - Because ideas are non-rivalrous, we want demand and supply to expand.
    - We should embrace other countries becoming wealthier.
        - greater demand for ideas
            - larger market of consumers
                - e.g., larger market for cancer drugs
                - thus more cancer research
        - greater supply of ideas
            - more educated people
                - e.g., more scientists, engineers, geniuses
    - Tabarrok's predictions
        - world GDP per capita
            - $200k in 2100
        - U.S. GDP per capita
            - $1 million in 2100
    - Why? Economic growth rates.
    - Once you start thinking about economic growth it is hard to think about anything else.
        - Growth can wipe away temporary blips declining GDP such as recessions and depressions.
        - Conversely, focusing on preventing or mitigating recessions and depressions can have horrible consequences for growth.
    - Example
        - begin w/ $3,000 average income
        - country A
            - 6% growth rate
            - 50 years later: $55,260 income
        - country B
            - 2% growth rate
            - 50 years later: $8,075 income
        - 6.8x higher standard of living in A
    - Growth policies
        - U.S.: government policies of taxes, regulation, and uncertainty cause lower growth rates
        - Developing countries: lack of a sound money as well as disrespect for property rights and the rule of law cause lower growth rates.

- Haves and have nots
  - This chart graphs world ventiles (20 groupings of 5% income classes) on the vertical axis and country ventiles (20 groupings of 5% income classes) on the horizontal axis.
    - It adjusts for purchasing power.
  - Internationally the whole U.S. is relatively elite.
    - The 10th ventile in the U.S. (median income) intersects the world axis at around 93%.
    - Median U.S. income (around $42,000) is better off than 93% of world population.
  - The U.S. income distribution is very bunched up at the top by world standards.
    - The bottom ventile in the U.S. is richer than the top ventile in a country like India.
    - In contrast Brazil spans the income distribution.
      - Its poorest ventile is among the poorest ventile in the world.
      - Its richest ventile is among the richest ventile in the world (on par with U.S.).
  - Economists often refer to the Gini coefficient, which measures income or wealth inequality.
    - 0 = everyone equal
    - 1 = one person has everything
  - Really absolute income or wealth is more important.
    - Income inequality can be minimized if everyone in a country earned a dollar a day.
    - Better to have large inequalities, but high absolute incomes for the poor.
      - This is the U.S. situation.

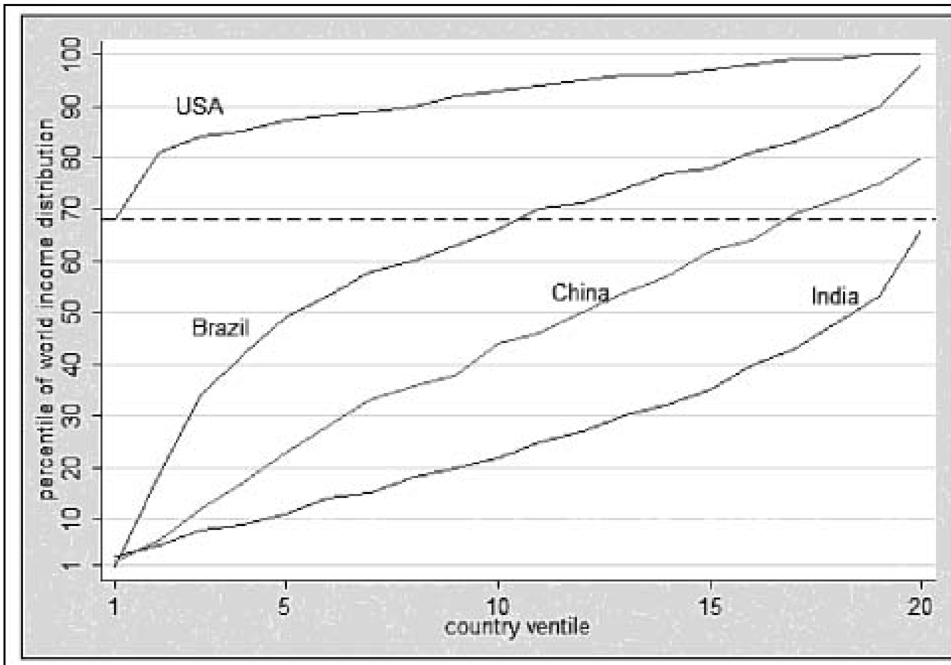


FIGURE 3 Inequality in the world, by country and income class