

Distribution of Income and Wealth

Every economy has a distribution of income; some people MAKE more money than others. And every economy has a bigger distribution of wealth, because some people HAVE more money than others.

There is a lot of debate about what the distribution should be, based on fairness and efficiency. Here's a very simplified example. Most people are close to average. In real life, the distribution is not going to be so symmetric, but this is a first approximation.

A few people have major disabilities, so they earn very little, if anything.

We have a workaholics and a few exceptional innovators, who earn much more than average.

Now, if we fit that distribution to the U.S. economy during the post-War boom, then today the curve will look much more spread out, with a lot more money going to the richest. We have fewer people who qualify for the current middle class, and more in the low-income area. Which is better?

The narrow distribution is better for most people, while the wide distribution is better for rich people, especially the super rich who have access to so much more money.

But the rich people tell us the wide distribution is actually better for the long term, because it allows for more innovation.

Can we check this out? Economic experiments are extremely difficult, because they require a lot of people and a lot of money. So for the most part we have to look for historical examples to give us data.

In the Middle Ages, a few rich people had almost all the money. Medieval economies made very slow progress because they had so little innovation. That does not look good for the wide distribution.

In the U.S. economy of the 1950's and 60's, we had a more narrow distribution of both income and wealth, and we had a post-War Boom. Again, the narrow distribution looks better for economic growth.

I'm sure a lot of rich people will not agree with me. OK, here's a challenge: show me some data supporting the opposite conclusion.