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The Benefits of Unequal Wealth

This material was originally from an essay on wealth, concentration of wealth, and managing wealth for the greater benefit.

Poor, lower class, working middle class, and other middle class people, all tend to think that an even division of wealth, so that every adult owns exactly equal shares, leads to the greatest public welfare, prosperity, security, and freedom. That belief is somewhat true but not fully true, and the extent to which it is not true is really important.

(A) Big differences in wealth definitely hurt general welfare. America is verging on differences big enough to cause serious damage, and we need to avoid this end.

(B) Absolutely equal distribution of wealth can lead to greatest welfare if the economy never changed and the world never changed. Economists can prove this mathematically; I don't go into that here; but you should know it. Economists and non-economist lay persons do not have the same thing in mind when they talk about equal wealth and about equal wealth leading to the best end. Economists have in mind mathematical conditions (for example, interpersonal comparisons of utility) while lay people have in mind ideas of personhood, power, and justice. Because in the real world we don't get close enough to really equal wealth distribution, I don't go into this case more here. What we need to keep in mind is that a condition of nearly equal wealth can be useful under the right conditions; nearly equal wealth is better than seriously unequal wealth; one of the conditions in which equality is best is that the world never changes; we can't achieve total equality of wealth; we don't always want it; still we can work toward more of it as an ideal, especially when wealth currently is distributed so badly as to cause harm; we should work toward more of it when we do want more of it; and we can keep it in mind all the time as an ideal worth working toward as long as we also know that we should not try to fully reach it.

(C) When the world does change, to use change, we need concentrations of wealth. When everybody has the same wealth, then usually people can't get together to amass the concentrations in wealth that are needed to take advantage of change. If the economy has some people who own larger than average wealth, then they can adopt change, and so benefit themselves and others. Without some inequality of wealth, the economy could not change much, and so would not achieve greatest welfare over the long run. In particular, we could not implement the big interesting changes in technology that have brought about our modern world, including democracy. Without some unequal wealth, America would not have railroads, newspapers, electricity, TV, radio, most schools, movies, Broadway musicals, computers, old land-line telephones, cell phones, cable, cars, the Internet, and modern guns. Look up these items on the Internet to see how they came to be in America. The story of J.P. Morgan and electricity, and the

stories of Smith, Wesson, Colt, Browning, and guns, are well worth time on the Internet. The history channel sometimes has series that explain these people and events.

(D) Although moderate concentration of wealth aids change and progress, too much concentration of wealth acts against change and progress. The best examples are from old wealthy agrarian nations with lords, such as Europe before capitalism and the industrial revolution, India from about 500 CE (AD) to recently, and China during the same time. Centrist regimes such as dictatorships (Syria) and communist countries (North Korea) are also cases in point. Wealth is power. Changes in wealth also change power. To resist change in power, already-powerful people resist change including economic change. One fear of concentrating wealth in America is that we will act like this.

(E) One aspect of change is big projects. For example, now, a cell phone network does not really involve any new technology but it is a big project, and it creates a lot of change when it is new in an area. A cell phone network requires a lot of capital. It is unlikely a cell phone network could be set up if everybody had equal wealth. In the past, a similar example would be a sewer system, a garbage collection system, a dam, a small road network, or a railroad. So, I include big projects under “change” even if no new technology is needed.

How much inequality in wealth is the right inequality so we benefit from general equality of wealth, and benefit from the right amount of concentration needed to take advantage of change, but do not have so much concentration as to hurt overall welfare? How do we get there from here? Those are among the great topics in economics, and they don’t have a general answer. They can’t have a general answer because we can’t predict change and can’t predict how much wealth concentration is needed to take best advantage of change.

Suppose we have total equality in private wealth, and we rely on the state to produce the big chunks of wealth that are needed to implement change. As a matter of practical fact, this arrangement does not work. I don’t explain why; see any right wing or Libertarian website. The state does a much better job than right wing critics usually allow but the state still does not do the job of responding to change nearly as well as private wealth and not nearly as well as we need. The state is still needed for some really big projects such as the highway system, projects that impact nature such as pipelines and managing the national forests, and projects that impact a large geographical area such as dams; and the state is needed for large systems that are “utilities” such as managing electric grids. Otherwise, we have to rely on private citizens getting the capital.

Suppose we have total equality in private wealth, and we rely on banks to amass the chunks of capital that are needed to implement change by using a little bit from the savings of very many average Joes and Janes. In fact, this is largely what happens already. But it is not the job of banks to actually carry out particular projects such as building a cell phone grid. If banks had that expertise, they would not have the expertise to be banks. Instead, banks choose particular individuals and firms with the expertise to carry out projects. Also, sometimes even this method is not enough when a person with a good idea can’t convince the bank to amass all the capital and take a risk. That is why shows such as “Shark Tank”

are popular. This is why we need venture capitalists who will take a chance on somebody with a good idea and expertise. Which result brings us back to private enterprise capitalism and concentrations of wealth in private hands.

And brings us back to: What is the ideal distribution of equal wealth and unequal wealth so as to have the benefits of both? How do we get there from here? Again, nobody can say for sure.

Different countries have come up with their own solutions. We can study what they have done, and adopt their success if their success exceeds ours. For many reasons, the American balance of equal wealth, unequal wealth, banks, venture capitalists, and state wealth, seems pretty good – or was good until about 1981. Most other nations copy us. The American balance includes not just a distribution of wealth but also big doses of imagination and proper education.

Two counter forces are at work, making it harder to find the balance. On the one hand, modern projects can take a LOT of capital. To be ready for modern projects, the economy needs a fair number of richer-than-average people, and it needs some individually to own a lot of capital. On the other hand, a lot of capital is available in general without the need for rich people because the middle class is fairly well off and has a lot of disposable income-wealth, at least when the economy is running well and the middle class is getting a big portion of the income and wealth. The better off the middle class is (the more even the distribution of wealth and income) the more free capital is around, the better the economy can run, and the better of the middle class will be. With the help of banks that are able to focus the wealth of the middle class, it is not hard for somebody who has had a little success to get capital and run with an idea. When almost all average people are comfortable, they give (deposit) a lot of money in banks, and it is easy for the banks to collect that money for an entrepreneur. This is how Google, Microsoft, Apple, Dell, etc. got going from a shoestring to mega-companies.

A guess: 90% of the people should own 60-70% of the wealth, and 10% of the people should own 30-40% of the wealth. More importantly, 90% of the people should get 60-70% of new wealth (income) while 10% of the people should get 30-40% of new wealth (income). Since 1981, this has not been the case in America. The pattern in America now is not healthy, especially because it has carried on for over 30 years.