

Inequality

Inequality has reached acutely high levels. There are certain drawbacks.

1. An important impact of inequality is that the capital and resource allocation decisions are concentrated in the hands of the few. The efficiency of this capitalist, free market, economy, tends to the efficiency of the centrally planned (for example, Soviet) economy.
2. A related theme is that the consumption patterns of the population are distorted by the heavily skewed wealth and income distribution. The needs of the few outweigh the needs of the many.
3. Economic models based on aggregates or averages lose their explanatory and predictive power. Simple adjustments for skew fail to capture the dynamics of income and wealth disparity. Policy designed based on such models obtain unintended outcomes.
4. Inequality results in over saving, which results in a insufficient demand for goods and excess demand for assets.
5. Inequality suppresses interest rates which makes land and capital cheaper and therefore overemployed in production. Labour is forced to compete by restraining wage growth. This is a self-reinforcing feedback loop.
6. A redistribution of wealth from rich to poor would increase the velocity of money and spur economic growth. This is unpopular as it disadvantages the rich and influential and is unlikely to be implemented in a continuous fashion.