Income Concentration

By Keith Eubanks
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http://www.dynamicforecasting.com/

Response to:
"Wall Street Still Doesn't Get It"
By Steven Rattner
WSJ, June 9, 2010

In his commentary on Wall Street, Mr. Steven Rattner made the point that "30,000 Americans should not command a full 6% of income in this country".

I too would prefer income to be more evenly distributed, but I observe that it is government policy, or rather the policy of the Federal Reserve, to concentrate income in the United States. Not that they are intentionally doing so, but by pursuing a long term policy of inflationism, our national institutions are concentrating income and wealth.

Inflation is not neutral with regards to the distribution of income. First, inflation shifts income, or wealth, from creditors to debtors. At least it does if interest rates do not adequately adjust for inflation. Second, inflation transfers wealth from those at the back of the inflation queue to those in front. As Ludwig Von Misses noted in his "Theory of Money and Credit", inflation alters the distribution of wealth. Those whose prices or wages rise first receive inflated incomes while able to acquire other goods at non-inflated prices. Those whose prices or wages rise last must buy things at inflated prices with non-inflated incomes. The variation in speed with which prices change also affects the distribution of income between wage earners and asset owners. Wages tend to be "sticky" as Mr. Keynes observed. This stickiness means that wages will lag inflation. This lag shifts income toward assets. Those owning assets receive a disproportionate share of the nation's income under an inflationary regime (disproportionate to their contribution to production). Thirty or forty years of inflationism have the potential to significantly alter a nation's distribution of income and wealth.