Increasing Inequality is Unbalanced Growth: Evidence from North America

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Increasing inequality cannot be a long-run steady state – i.e. a trend that can continue indefinitely. Because the bottom 99% and top 1% in the U.S. and Canada have had very different rates of growth of market income among since the 1980s, consumption and savings flows have necessarily changed. If aggregate expenditure is to equal aggregate income, the added savings of the increasingly affluent must be loaned to enable the expenditure of other agents – but increasing indebtedness implies financial fragility, periodic financial crises, greater volatility of aggregate income and, as governments respond to mass unemployment with counter-cyclical fiscal policies, a compounding instability of public finances. In Canada and the United States, *increasing economic instability* is thus a necessary implication of *increasing inequality.*

However, in Mexico the establishment of a large social transfer program, rural out-migration, expansion of primary and secondary enrolment, increased female employment and declining birthrates have helped Mexico reduce inequality (albeit from a high level) in recent years – just as Canada and the U.S. experienced from 1940 to 1975. Stability in market income shares and macro-economic flows requires equalization of income growth rates – either an acceleration of the income growth rate of the bottom 99%, or a decline in income growth of the top 1% would do. There is no evidence that purely economic forces will produce either outcome anytime soon in Canada or the U.S. – any return to stability depends on political economy.

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