

# THE FORTNIGHTER

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One of the “hot topics” of economists and the media over the past few years has been income inequality. In a very crude nutshell, the issue is that the “wealthy” are seeing their financial situation improving, the “poor” are remaining poor and the “middle class” are seeing their financial well-being getting worse.

Increasing income inequality has a number of negative consequences – both social and economic. What I wonder, however, is whether these consequences are actually a “symptom” of a mismanaged or corrupt system - as so many (and the media) would imply. What if the issue is simply being looked at the wrong way and there is another explanation? If that’s the case, chances are we are looking at solutions in the wrong place as well.

A good place to start is the old adage “the rich get richer and the poor get poorer” – or its newest iteration “the 1% are the bad guys”. The message is that the problem lies with the “wealthy” (who must be doing something wrong) - and not with some other aspect of society or the economy. A second (implied) message is that today’s situation is abnormal and that we need to return to the way things were in the past.

I believe that both these arguments are wrong. Income inequality is normal and, up to a point, healthy. In addition, it seems to me that it’s the past 50 – 100 years that have been “abnormal” when we look at the distribution of incomes in our economy.

In the last century or so, our “Western” economies have shifted from a largely agrarian focus, through industrialization to being predominantly service-oriented. There was a time, even up until fairly recently, when a person could leave high school (or even sooner) and get a high-paying job in the manufacturing, construction or resource sector. Think auto plants, road-building, forestry, mining, etc. That person could earn a great income, comfortably support a family, own their own home and look forward to a generous pension in retirement.

There’s nothing wrong with this – except the expectation that the situation can continue forever. Economies change and mature and many of these jobs shift to less developed (i.e. cheaper) economies that are at an earlier point in the natural economic cycle. The “window” that our economy enjoyed where people, with basic skills and education, could have a comfortable “middle-class” life has largely gone – moved to another part of the world.

So, is greater income inequality the new reality in our service-oriented economy? It will be if we keep looking in the wrong place for a solution. Employers tell us that there are tens of thousands of unfilled jobs in this country. They require people with the right education, specialized skills and a willingness to re-locate to get them. Not a situation that can be fixed overnight, but a solution none-the-less.



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