Flash Economics

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The concentration of wealth is indeed responsible for underinvestment

The concentration of wealth is very high in the United States. It is noticeable that this concentration has come along underinvestment by firms, with the investment rate relative to GDP stagnating, and declining relative to stock market capitalisation.

This provides an argument in favour of a tax system that redistributes part of overall wealth to prevent excessive concentration.

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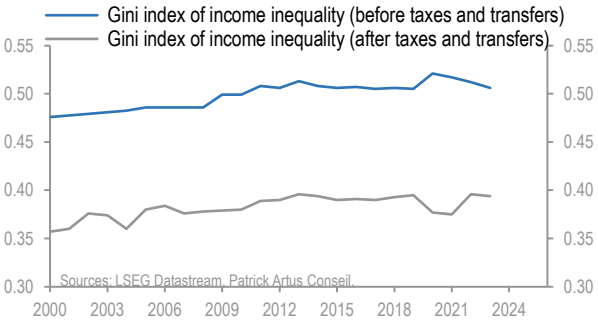
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High concentration of wealth in the United States

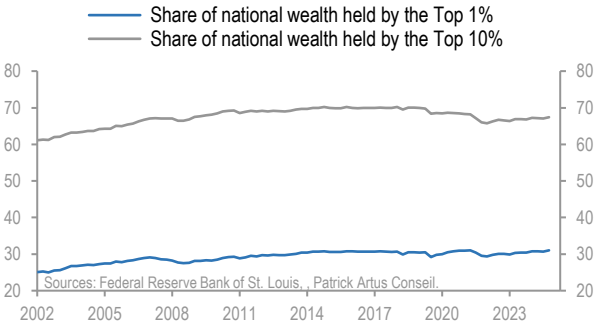
Analysis of **Gini indices** for income inequality (**Chart 1**) shows that income inequality is particularly high in the United States.

Chart 1
United States : Gini indices of income inequality (before and after taxes and transfers)



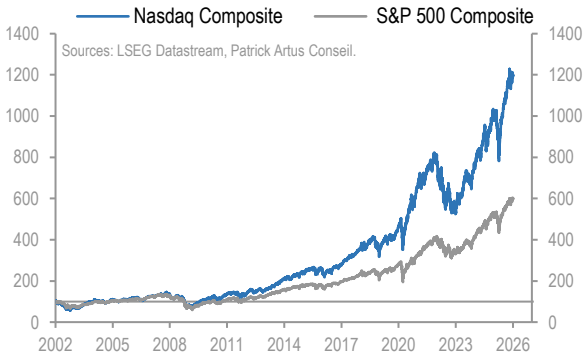
Analysis of the **share of total wealth held by the richest 1% and 10% of Americans** (**Chart 2**) **shows that wealth inequality is even higher**.

Chart 2
United States: Share of national wealth held by the 1% and the 10% of individuals with the highest wealth (as %)



It is noticeable that wealth inequality in the United States is not only high but also increasing, which can especially be linked to the rise in stock market indices (**Chart 3**).

Chart 3
United States: Stock market indices (01.01.2002 = 100)



Yet firms invest little

When looking at **the rate of non-residential investment relative to GDP** (**Chart 4A**), or relative to stock market capitalisation (**Chart 4B**), and at **the ratio between the capital stock and stock market capitalisation** (**Chart 4C**), we observe:

Chart 4A
United States: Non-residential private investment (as % of nominal GDP)

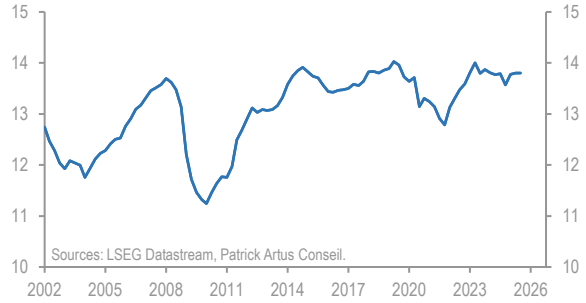


Chart 4B
United States: Non-residential private investment (as % of S&P 1500 market capitalization)

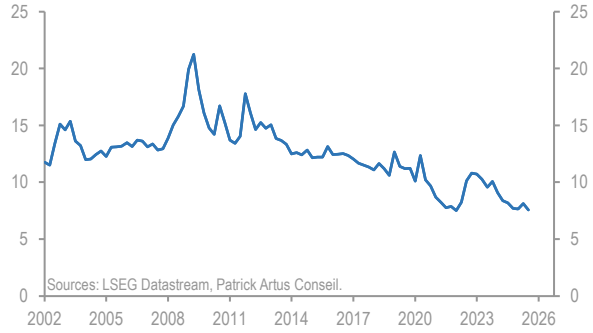
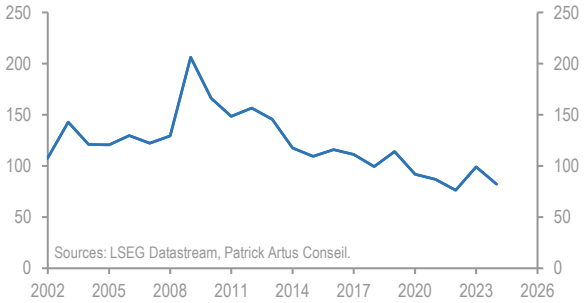


Chart 4C
United States: Non-residential private fixed assets (as % of S&P 1500 market capitalization)



- That the investment rate measured as a percentage of GDP has not increased since 2008 and has declined when measured as a percentage of stock market capitalisation;
- That US firms invest significantly less than what is suggested by Tobin's Q theory, which states that the economic value of capital follows the stock market value of firms.

This underinvestment by US firms has been increasing since 2008.

Summary: an argument in favour of wealth redistribution

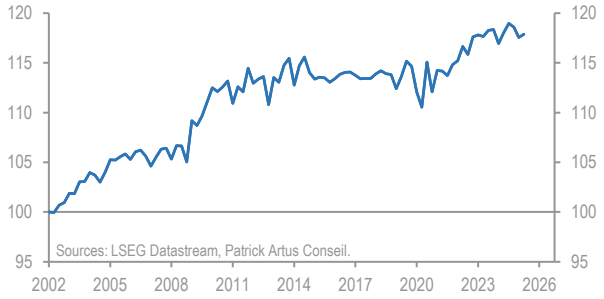
It appears that the concentration of wealth in the United States has not prevented the existence of chronic underinvestment.

This may stem from several causes:

- The accumulation, by the wealthiest individuals, of assets derived from rents (real estate) or unproductive assets (works of art);

- The fact that wealth growth originates in monopoly rents delivered by US firms, as shown by the rise in the profit margin (**Chart 5**), and that firms in monopoly positions generally underinvest.

Chart 5
United States: Ratio between GDP deflator and unit labour cost (2002.Q1 = 100)



- The fact that a high concentration of wealth deprives the majority of the population of the resources that would enable them to invest and to create businesses.

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