

The term “economic divide” is commonly used today. It can refer to several aspects in our economy, such as the economic differences between urban and rural areas, the widening income and wealth differences between high and low income households, and different views on public policy regarding the economy.

I will focus on the last type of economic difference. For decades – including most of the four-plus decades I’ve been a professional economist - economists have largely agreed about key questions involving the economy. Economists believed that private decisions over buying and work decisions, combined with businesses competing for buyers’ dollars and labor, led to several good things, like consumers getting what they wanted at the lowest price, and workers being paid for their skills and capabilities. Also, those willing to take the risk for big rewards would constantly be motivated to improve products and develop better ways of providing what people wanted.

Indeed, since the birth of this “free-market” economic system in the 17th century, the standard of living and the health and well-being of the average person has soared. Even households in the lowest-income categories have experienced better living standards. Supporters of the free-market, including the majority of economists, used these results to – with a few exceptions – argue for limited government involvement in the economy.

Why then, do more economists now support greater government intervention in the economy? Why have many in my profession apparently changed their opinion about the benefits of the free market?

The answer was actually given by a famous economist from almost a century ago, Joseph Schumpeter. Schumpeter clearly saw the benefits of the free market delivering tremendous economic gains for the average person. But he also recognized that every person wouldn’t prosper to the same degree. Some wouldn’t prosper at all. Poverty would exist, and there could be large differences in economic outcomes within the population.

As the economy initially is expanding and improving, Schumpeter argued people would accept these economic differences. But once an economy reached levels of sizable income and wealth, large differences in economic outcomes would become unacceptable to more people – including economists. Also, even though Schumpeter didn’t include them, those living in

wealthy economies are more likely to want to address big issues, like climate change.

If the situation I've described is the one we face today, then an important follow-up question is posed. Should the economic system that developed our prosperity be discarded and replaced with an alternative? Or, should the free-market system be kept but altered in order to address issues like income inequality and environmental pollution?

Before addressing this important question, let me assert that a free-market approach to the economy does not imply no role for government. There are many important functions that only a public body like the government can address. National defense, regulating monopolies (where only one producer exists), providing public safety and a court system, and maintaining competition between companies and preventing collusion are some examples. Also, since the 1930s, there's been some level of a social safety net provided for households.

Many who today want an alternative economic system favor socialism. A socialist economic system moves many – if not most – economic decisions away from individuals and companies to the government. The allocation of resources, the setting of wages and prices, and decisions about what innovations to pursue and fund are handled by the government, especially the national government.

Supporters of socialism argue the system will more equally allocate resources and income, thereby dramatically reducing income inequality. With guaranteed incomes, families will not worry about the needs for them and their children. Economic advantages to those with large incomes and wealth won't exist. The system will be "fair", say backers.

Yet doubters of socialism see big problems. Why should elected officials or government bureaucrats know better how to allocate resources than the millions of decision-makers in a free market? Will politics interfere in these decisions? And what about the rewards to private initiatives that motivate hard work and innovation? Will those be lost in socialism?

Fans of the free market want to keep it, but make changes to the foundation. Renewed efforts and additional resources to make sure everyone has the opportunity to develop their talents is at the top of the list. So too is support for wealth development through broader homeownership programs and other wealth-building methods. A re-examination of the social

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safety net to fix gaps and strengthen support is recommended, yet all the while making sure the help still leaves incentives for self-improvement and financial independence.

So yes, we do have wide differences in ideas about how the economy should operate and what fixes are needed. These differences are apparent in the public discourse and increasingly are reflected among economists. The differences lead to one key question – what kind of economic system do we want? Y

You decide.

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