TABLE OF CONTENTS*

CONSEQUENCES AND CAUSES OF UNEQUAL DISTRIBUTION OF WEALTH

INTRODUCTION

0.1	The WealthTransaction Cost Hypothesis and the	1
	wealth-ratare-orientation hypothesis	
0.2	Some Major Implications ^A	3
	Complete Model of Distribution of Wealth and Income,	
	Including Human Capital	3
	Stability and Dualistic Form of Unequal Distribution	3
	Prediction that Extreme Inequality Hinders Development	4
	Redistribution"Equity" Need Not Conflict with "Efficiency"	4
	Higher ROI of Poorer People Compensates for Lower Saving	5
	Wealth Determines Comparative Advantage in	
	Location & Occupation	5
	Social Class a Result of Comparative Advantage	6
	Prediction that Work Rises with Wealth	6
	Wealth Trans Cost Makes Firm Size Determinate	7
	Utility-Maximizing Managerial Behavior Explained	7
0.3	The Wealth-Transaction Cost Hypothesis in the LiteratureA	8
0.0	Promerty Rights Theory	8
	Property Rights and the Wealth-Transaction Cost Hypothesis	10
	The Upalth_Transaction Cost Hunsthesis in the literature	12
	The meater-fransaction cost hypothesis in the Literature	14
0.4	The WealthFuture-Orientation Hypothesis in the Literature $^{ m A}$	15

CHAPTER 1

EFFECT OF WEALTH OR FIRM SIZE, WITH AND WITHOUT TRANSACTIONS COSTS

1.1	SummaryA	16
1.2	Plan of Chapter 1 ^B	23
1.3	Assumptions of the Models ^C	24
1.4	The Consumer-Laborer ^C	30
1.5	The Self-Sufficient Farmer ^C	36

*Explanation of Superscripts A, B, C, D

A: Non-technical summary and discussion of results and implications

B: Chapter outlines

C: Principal mathematical arguments

D: Technical details

1.6 T	The Peasant: The Landowner Who Works for Hire ^C	48
1.7 T	The Small Landlord: The Landowner Who Works Himself on his Land, and Hires and Supervises Additional Labor ^C	51
1.8 1	The Large Landlord: The Landowner Who Only Supervises Hired Labor ^C	58
	Tables:	
1.1 E	Effect of Increased Land Size, or Increased Supervision Rate	18
1.2 N	Notation for Chapter 1	25
1.3 0	Consumer-Laborer Model: Effect of Increased Wage or Profit	35
1.4 E	Effect of Increased Land Size, T, on Landowner and Firm	38
1.5 E	Effect of an Increase in Land, T, or Wage, v	50
1.6 E	Effect of an Increase in Land, T, or Wage, v, or Supervision Rate, k (Small Landlord)	54
1.7 E	Effect of an Increase in Land, T, or Wage, v, or Supervision Rate, k (Large Landlord)	59

iv

Figures:

1.1	Isoquant: Output as a function of labor and land	28
1.2	Labor as a function of income, holding wage constant	33
1.3	Labor as a function of wage, holding income constant	33
1.4	Labor as a function of wage, holding profit constant	34
1.5	Labor as a function of land size: L(T)	40
1.6	Ratio of labor to land as a function of land size	40
1.7	Wage and net marginal product of labor as a fn of land size	42
1.8	Marginal physical product of land, net marginal product of land and ordinary marginal product of land, as fn of land size	42
1.9	Output as a function of land size; labor cost as a function of land size	45
1.10	O Profit as a function of land size	45

v

DISTRIBUTION OF FIRM SIZE, ECONOMIC CLASSES, AND OTHER CONSEQUENCES

OF INEQUALITY, WITH AND WITHOUT TRANSACTIONS COSTS

2.1	Summary ^A	62
2.2	Determination of Firm Size and Economic Class ^A	68
2.3	Natural Ability, With and Without Transactions Costs ^C	70
2.4	Education, With and Without Transactions Costs ^C	73
2.5	Performance and Transactions Costs ^C	7.8
2.6	Skill and Wages of Employees, With and Without Transactions Costs ^C	80
2.7	Rental and Leverage, With and Without Transactions $Costs^{C}$	83
2.8	Rental and Parcel Size, With Transactions Costs ^C	89
2.9	Wealth, Natural Ability, and Firm Size ^C	. 92

CHAPTER 3

WEALTH AND COMPARATIVE ADVANTAGE; INDUSTRY SPECIALIZATION;

LOCATION; SOCIAL CLASS; MONOPOLY

3.1	Summa ry ^A	95
3.2	Broader Implications of Comparative Advantage ^A Behavior of Richer & Poorer, Larger & Smaller Firms	- 98 - 98
	Social Class	99
	Monopoly and Comparative Advantage	100
	Location and Land Use	1 02
3.3	Wealth and Comparative Advantage ^C	103
3.4	Wealth and Location ^C	112
3.5	Wealth and Supervision Costs ^C	120
3.6	Appendix 1: Marginal Product of Land and Comparative Advantage ^D	122

3.7 Appendix 2: Properties of Functions in Two Variables; Homogeneous Functions; Linear Homogeneous Functions^D 125

Tables:

3.1	Profit per acre as a function of distance, R, from center, for fruit, grain, and horses	115
3.2	Labor share of output as a function of distance R, the sawtooth curve	115
3.3	Labor share of output as a function of distance R, alternative pattern	115

CHAPTER 4

EFFECT OF GREATER WEALTH IN A MULTI-PERIOD ECONOMY

4.0	Introduction ^A	129
4.1	Summa ry ^A	1 30
4.2	Broader Implications ^A Discount Rate, Wealth and Firm Size Wealth and Future-Orientation	1 31 1 31 1 33
4.3	The Consumer-Investor ^C	1 3 5
4.4	The Farmer and His Firm Over Time ^C	142

Tables:

4.1	Effect of Increased Land Size, T, in a Multi-Period Model	1 32
4.2	Notation for Sections 4.3 and 4.4 of Chapter 4	135
	Figures:	
4.1	Present consumption and future wealth as functions of initial wealth and the given discount rate	139

	wealth and the given discount rate	1 3 9
4.2	Indifference curves between present consumption and future wealth, assuming time preferences remain constant as initial wealth increases	141
4.3	Indifference curves between future wealth and present consumption assuming future-orientation increases with initial wealth	141

4.4 The farmer's firm maximizes present value, V, given the "price line" constraining the relative price of present and future profit.

CHAPTER 5

DIFFERENCES BETWEEN LARGE AND SMALL, GIVEN APPRECIATING AND DEPRECIATING

CAPITAL, AND VARIATIONS IN LAND QUALITY

٨

5.1	The Tree and Building Models ^A	149
	Principal Results for Seventeen Economic Measures	1 51
5.2	Broader Implications ^A Applications of the Tree Model for Appreciating Assets Applications of the Building Model for Depreciating Assets	156 156 157
	A Comment on Mining	128
5.3	Derivation of the Tree Model (the Faustmann Formula) ^C	161
5.4	Derivation of the Building Model ^C	170
5.5	Comparative Advantage and Cycle Length ^C	179
5.6	Table 3, Tree Model, and Notes to Table 3 ^D	181
5.7	Table 4, Building Model, and Notes to Table 4^{D}	194
	Tables:	
5.1	Summary of Results	155
5.2	Notation for Tree and Building Models	160
5.3	Summary of Derivatives for Tree Model	1 81

Figures:

5.4 Summary of Derivatives for Building Model

5.1	Tree model. Characteristics of typical production function	162
5.2	Optimal cycle length, z, tree model. Profit-maximizing.	163
5.3	Optimal cycle length, z, tree model. Present value max.	163
5.4	Patterns of service flow from a durable asset.	171
5.5	Pseudo solution to building maximization	175

148

194

5.6 0	utput/c	ycle,	discount	ed,	, building model.		175
5.7 0	ptimal	cycle	length,	z,	building model.	Profit-max	176
5.8 0	ptimal	cycle	length,	z,	building model.	Present value max.	176

WEALTH, FIRM SIZE AND RISK

6.1	Predictions ^A	211
6.2	Wealth, Firm Size and Risk Aversion ^A	213
6.3	Implications of Previous Chapters for Consumption of Security A	218
6.4!	Riskiness and Proportional Third Moment ^C	225
6.5	Discount Rate and Perceived Riskiness, PTM, and PV ^C	22 9
6.6	Leverage, Wealth and Riskiness ^C	234
6.7	Riskiness and Risk Premium ^C	236

Figures:

6.1	Changes	in price and quantity of non-market goods, assuming	
	demand	always shifts outwards with wealth or firm size, but	
	supply	may shift in or out or not at all	214

CHAPTER 7

GENERAL EQUILIBRIUM EFFECTS OF MORE INEQUALITY OR SUPERVISION COSTS

7.1	Summa ry ^A	238
	Greater Inequality at a Zero Supervision Rate	239
	Greater Inequality, Given a Supervision Requirement	242
7.2	Further Implications ^A	244
	Greater Inequality Spreads Out Land Uses	244
	Communist Revolutions	244
7.3	Distribution and Boundary Conditions ^C	246
7.4	Phase I: The Landlor d Does Not Hire the Peasant ^C	251

	ix
7.5 Phase II and Phase III with No Supervision Costs ^C	260
7.6 Phase II and III with Supervision Costs ^C	272
7.7 Effect of Increased Supervision Costs ^C	282

Tables:

7.1 Effect of Increased Inequality with Supervision Cost; Effect of Increased Supervision Cost, Given Inequality	240
7.2 Effect of Increased Inequality with No Supervision Cost	271
7.3 Effect of Increased Inequality with Supervision Cost	280
7.4 Effect of Increased Supervision Cost. Given Inequality	284

Figures:

7.1 Landlord's, peasant's and total labor as fn of distribution	252
7.2 Landlord's, peasant's and simple average wage & MP labor as fn of distribution	254
7.3 Landlord's, peasant's, and total output as fn of distribution	256
7.4 Landlord's, peasant's, and simple average MP land and rent as fn of distribution	257
7.5 Applied labor as a function of land size at 4 different wages	261
7.6 Landowner's personal labor supply as a function of land size, at 4 different wages	261
7.7 Applied and personal labor supply at v _o	263
7.8 Hired labor supply and demand at wage v_0	263
7.9 Hired labor supply and demand at wage v _o	265
7.10 Applied and personal labor as a function of land size for a number of wages both higher and lower than v _o	266
7.11 Hired labor supply and demand as a function of land size for a number of wages both higher and lower than v _o	266
7.12 Landlord's demand for hired labor as a function of land size at 4 wages	267
7.13 Peasant's supply of hired labor as a function of land size at 4 wages	267

7.14	Hired labor demand and supply curves combined	268
7.15	Actual hired labor as a function of distribution for $k = 0$ (no supervision costs)	268
7.16	Peasant's supply curve for hired labor at wages above and below the wage at which the landlord starts to hire	273
7.17	Landlord's demand curves for hired labor with supervision	273
7.18	Landlord's demand for hired labor with supervision	274
7.19	Actual hired labor as a function of distribution, with supervision costs	274
7.20	Actual hired labor as a function of distribution for 4 levels of supervision costs	278
7.21	Effect of transferring x acres of land from peasant to landlord, holding wage constant, when landlord has a lower ratio of applied labor to land	278

х

CHAPTER 8

DYNAMIC EQUILIBRIUM DISTRIBUTION IN A SIMPLE ECONOMY

8.0 The Characteristics of Unequal Distribution ^A	286
8.1 Results and Further Implications of Chp. 8 Models	287
Equal and Dual Distribution in a Simple Economy	287
Causes and Consequences of Greater Inequality	288
Growth and the Path to Dynamic Equilibrium	291
Future-Orientation and Redistribution	293
8.2 Summary of Sections in Chp. 8^{B}	295
8.3 Individual and General Dynamic Equilibrium ^C	297
8.4 Landlord and Peasant: Two-Person General Dynamic Equilibrium ^C	3 06
8.5 A Computer Simulation of Dynamic Equilibrium ^C	314
8.6 Dynamic Equilibrium with Many Persons ^C	322

Tables:

Dynamic Equilibrium	290
8.2 Changes as Distribution Moves from Equal to Unequal Dynamic Equilibrium (in more detail)	311

Figures:

8.1	Number of persons plotted against size of landholding in stable unequal distribution	289
8.2	Consequences of growth. Oscillatory shift to new dynamic equilibrium due to improved technology	292
8.3	The farmer maximizes his utility	300
8.4	Dynamic equilibrium no-sale price as a function of land size	305
8.5	Two-person dynamic equilibrium	30 9
8.6	Dynamic equilibrium no-sale price as a function of land size	323

CHAPTER 9

DISTRIBUTION AND INHERITANCE OF WEALTH

9.1	Wealth in the Real World	328
9.2	Some Statistics on Wealth Distribution	329
9.3	Origin of Wealth: Exogenous or Endogenous?	330
9.4	Life-Cycle, Luck, and Inheritance	331
9.5	Inheritance of Material Wealth	334
9.6	Inheritance, Life-Cycle and Luck	336

Figures:

9.1	Flow	chart of cau costs	sation for a	a richer	male with tra	insactions	337
9.2	Flow	chart of cau costs	sation for a	a richer	male without	transactions	338
9.3	Flow	chart of cau hypothesis	sation for a	a richer	malethe li:	fe cycle	339

WEALTH AND ABILITY: INTELLIGENCE AS HUMAN CAPITAL

10.1	The Nature and Heritability of Intelligence	341
10.2	Intelligence as a Learned Skill	342
10.3	Intelligence and the WealthTransaction Cost Hypothesis	343

CHAPTER 11

WEALTH, EDUCATION, AND DISTRIBUTION OF EARNINGS

11.1 Demand and Supply of Education	- 346
11.2 Education and the WealthNo Transaction Cost Hypothesis	348
11.3 Distribution of Earnings	351
11.4 Education and Wage	351

CHAPTER 12

WEALTH, LABOR SUPPLY, AND WORKING CONDITIONS

12.1 Hours of Labor, With and Without Transactions Cos	its 353
12.2 Evidence on Hours of Labor	353
12.3 The Evidence and the Theory	356
12.4 Conditions of Labor	357

CHAPTER 13

WEALTH, MANAGEMENT AND CHOICE OF ASSETS

13.1 Management of Assets	359
13.2 Literature and Empirical Evidence on Management of Assets	362
13.3 Agricultural Data	363
13.4 Urban Data	367

13.5	Security of Assets	368
13.6	General Patterns of Personal Asset Holding	370

xiii

Tables:

13.1	Differences in Management for Seventeen Economic Measures	361
13.2	Farm Size and Workers for Seven Latin American Countries	364
13.3	Average Portfolio Allocation to Bonds and Cash for Different Estate Sizes (Male)	369
13.4	Distribution of Assets, 1969	371

Figures:

	13.1	Output	per	hectare	and	farm	size	for	eight	countries	36	5
--	------	--------	-----	---------	-----	------	------	-----	-------	-----------	----	---

CHAPTER 14

SOCIAL CLASS AND THE WEALTH--TRANSACTION COST HYPOTHESIS

14.1	Social	Class	Due	to Comparative Advantage	372
14.2	Social	Class	and	Social MobilitySome Evidence	374

CHAPTER 15

RETURN ON INVESTMENT, SAVINGS AND GROWTH

15.1 Get Spectacular Returns on Investment: Be Poor!	378
15.2 Evidence on Differences in Return on Investment	382
15.3 Investment and Growth	383

-

THE WEALTH--FUTURE-ORIENTATION HIPOTHESIS

16.1 Testing the WealthFuture-Orientation Hypothesis	387
16.2 Wealth and Time Attitudes	389
16.3 Environment vs. Background	391
16.4 Wealth and Causes of Time Orientation	397

CHAPTER 17

SIZE AND BEHAVIOR OF FIRMS

17.1	The Case of the Coal Industry	401
17.2	Wages and Firm Size	403
17.3	Assets and Sales per Employee, Capital Turnover, Profitability, Return on Investment	408
17.4	Riskiness and Firm Size	412
17.5	Negligence and Profusion	414

Tables:

17.1 1979 Fortune 1000, Ranked by Sales	408
17.2 Employees per \$1 Million Assets	408
17.3 Reserve-Output Ratios and Other Data, Steel Industry, 1948, 1955, 1963	410
17.4 Net Income as Percentage of Receipts for Different Size Corporations	411

BIBLIOGRAPHY

417