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## Abstract

Imagine a society with perfect economic equality. Then, one day, this egalitarian utopia is disturbed by an entrepreneur with an idea for a new product. Think of the entrepreneur as Steve Jobs as he develops the iPod, J. K. Rowling as she writes her Harry Potter books, or Steven Spielberg as he directs his blockbuster movies. The new product makes the entrepreneur much richer than everyone else. How should the entrepreneurial disturbance in this formerly egalitarian outcome alter public policy? Should public policy remain the same, because the situation was initially acceptable and the entrepreneur improved it for everyone? Or should government policymakers deplore the resulting inequality and use their powers to tax and transfer to spread the gains more equally? In my view, this thought experiment captures, in an extreme and stylized way, what has happened to US society over the past several decades. Since the 1970s, average incomes have grown, but the growth has not been uniform across the income distribution. The incomes at the top, especially in the top 1 percent, have grown much faster than average. These high earners have made significant economic contributions, but they have also reaped large gains. The question for public policy is what, if anything, to do about it.



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