Income Distribution and Consumption Patterns in Classical Economics

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Abstract

In a multisectoral economy in which commodities are produced by different technologies, interpersonal distribution of wealth and consumption patterns affect both the possibility of industrialization and the rate of long-run growth. We elaborate a model to analyze this relationship and we trace out its classical origins, paying particular attention to Smith's and Malthus' contributions. We show that in the first stage of development, when the economy is still in its agricultural stage, the interpersonal distribution of wealth and the level of expenditure out of rents are the key variables which determine the level of demand for commodities produced by manufactures, the increasing returns sectors of the economy. At a later stage, when the economy is already industrialized, expenditure out of wages may become the crucial variable to sustain long-run growth.

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