About Wealth and Income

by Anne Emerson

Much is lost in war-time. Much is lost in natural disasters like hurricanes, floods, or fires. Today – July 22, 2026 – many nations are divided or at war, and the news is filled with natural disasters. Some of us must figure what we lose by being at war, and when or whether we may get it back. This essay will explore "wealth" versus "income," because wealth can be destroyed (be set back many years) while income can just stop.

"Wealth" is the idea that we own a lot of stuff. I met a man at a party who told me he was independently wealthy. What he meant was that he would never have to work again; he had earned so much money working in the Middle East that his assets (his investments; the things he owned) would keep him in style and comfort for the rest of his life, even if he never took a paying job again.

"Income" is the idea that we earn money. We receive "income" in return for work that we do. If we are a CEO, here in the U.S.A., we might earn anywhere from $600,000 per year to many millions of dollars per year in return for running a corporation. A part-time worker may earn minimum wage of $15 per hour. This could be as much as $30,000 per year.

When we call someone rich, we refer to both ideas, and they are indeed related. Yet wealth is a "stock" concept, and income is a "flow" concept. Some people might think of the stock market in this context, so let me explain. Stocks and flows are mathematically precise ideas, not everyday business chat. A "stock" is like a store-house. It is static (stays put). You might have, for example, a stock of hay in your shed, or a stock of water in your lake, or a stock of supplies for a rainy day. A "flow" is dynamic. A river flows; air flows; money flows – that is, it moves around. It is here one day; elsewhere the next. Migrants "flow" – they are here one day, and somewhere else the next. "Income" flows – from your employer to you; from you to grocery stores and doctors, etcetera; from them to their suppliers; and so on.

Water, rivers, lakes, and reservoirs may serve to illustrate. Elsewhere on this website, I reference a fountain to explain "dynamic equilibrium." The same water analogy can illustrate interactions among stocks and flows so that we can picture them; then we can apply that understanding to changes in wealth and incomes, which interact in a manner that is a little more abstract.

A lake or a reservoir is a "stock" of water – it is a fixed volume that may change only slowly. A river comes into a lake or reservoir at one end, and leaves at the other. If the amount coming in matches the amount going out, we have a sustainable situation – the "stock" is not depleted. But as soon as there is an imbalance – more departs (or is taken out) at the downriver end of the lake or reservoir than enters at the upriver end, then the stock WILL be depleted. This is not sustainable, long term. (An even simpler example is a bathtub – water enters from the faucet or tap, and leaves down the drain. The water level in the bath may rise, fall, or stay the same depending on these different flows.)

If "too much" water enters at the upriver end of a lake or reservoir, it can put pressure on systems that control the flow of water through the "container" – the lake or reservoir basin. This can overwhelm a dam, or breach the sides of the water basin, and so on. (A bathtub may eventually overflow, if "too much" enters while "too little" leaves. Then we have to clean up the floor.)

I hope many of you can appreciate that this is what happens in a "water" system. I trust that you may believe me that it happens in a financial system as well. When "too much" money flows into one part of a financial system, things break from an excess of bounty (analogous to what happens when there is too much water in a water system). We like money (or water) other things equal, but too much is too much. When "too little" money flows into part of a financial system, things break from insufficient funds to do the job properly, analogous to what happens when there is too little water to, say, nurture the crops. (Or, a bathtub becomes empty, and we cannot wash anything.)

I hope that many of you may believe that something is broken in our global financial system. It is not for me to know the details of what goes on everywhere in the world. What I think I can do is show you why it matters for each of you to think about your own little part in this global system. For example, if you put your money into something that is broken or breaking, you may contribute to breaking it worse. If you consider carefully what you do with your money, you may help in some small way to turn the whole global behemoth around. If you don't think money is the answer, then you should stop believing that you MUST buy things in order to keep "the economy" going.

What I think some people aren't told is that, if you buy a product that comes from overseas, or from the big city, you are sending money overseas or to the big city. That is, you are sending it OUT of your local community. The "theory" is that what goes around comes around, and the foreign country will buy something from your local community, and the big city will do likewise. So, they get from you what you do best, and you get from them what they do best. Etcetera.

This theory is not entirely wrong. It has helped the world grow richer for a long time. What it forgets is this thing called "the balance of trade." If we send more money out of our local area (or our nation) than we receive in return, we will eventually go into debt. (Our financial "lake" will be depleted, then dry up; we borrow from elsewhere.) If nothing happens to turn this around, we get into financial trouble. We can't pay our debts; we go bankrupt; our debtors get annoyed and punish us. If we never had money of our own in the first place, we may feel that something isn't right.

I hope you are now interested in how we measure stocks and flows, as we assess damage, for example. If we measure them incorrectly, we will get wrong information. One measure of income is called "national income accounting" and it measures GDP (gross domestic product, or everything a nation makes in a year). It counts dollars spent, whether they are spent on something new and exciting, or whether on reconstruction after a flood, or on curing a disease that could have been prevented. One measure of wealth is the "capital stock." (All the buildings, plant, and equipment in our country.) Zoning rules affect the commercial value of land. Is land any different when we suddenly change the rules? Not right away, but soon there will be buildings on it…

I am trying to stick to two pages, so here's one more thing – IF an earthquake or a war destroys buildings and pollutes land, air, and water, haven't we lost wealth? HOW will we get it back? And I haven't even mentioned the loss of people! They have skills, knowledge, relatives, and friends. Perhaps we lose not only their skills; perhaps we lose the trust of their relatives and friends; perhaps a child stops believing the world is safe.