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# *Four Questions About Economic Inequalities*



# Four Questions about Inequality

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1. **Descriptive questions:** How much inequality is there? What types of inequalities are there? Wealth inequality? Income inequality? Inequality of opportunities? What else?
2. **Etiological questions:** What are the forces that explain or cause inequalities in society?
3. **Normative questions:** Should inequality be avoided? Is inequality morally bad? Is it unjust?
4. **Policy questions:** If we wanted to reduce inequality, how could inequality be contained? Through income taxation? Through inheritance taxes? Through wealth expropriation? What policy measure would be appropriate?

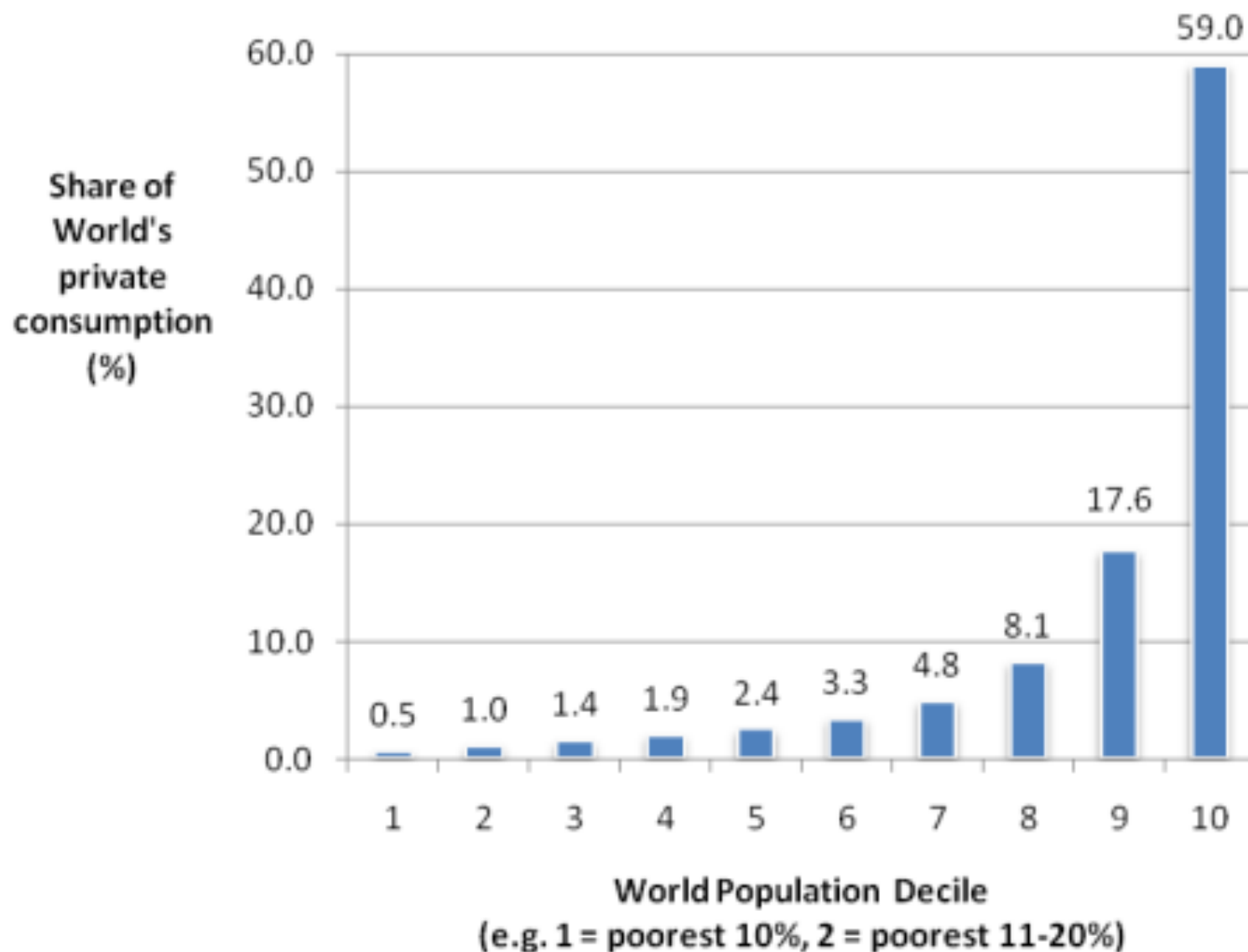


# 1. *Descriptive Questions*

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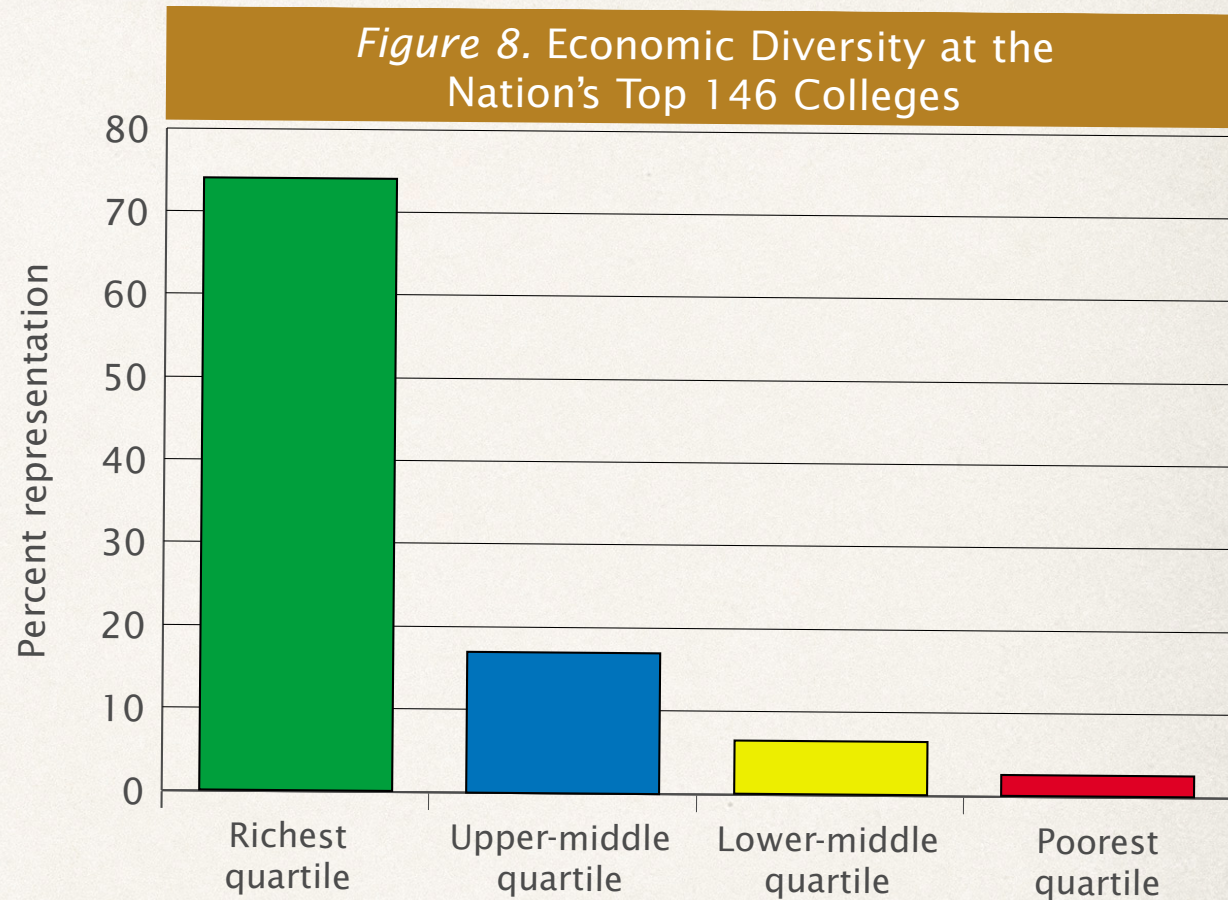
## Inequality of Consumption, 2005



Source: World Bank Development Indicators 2008



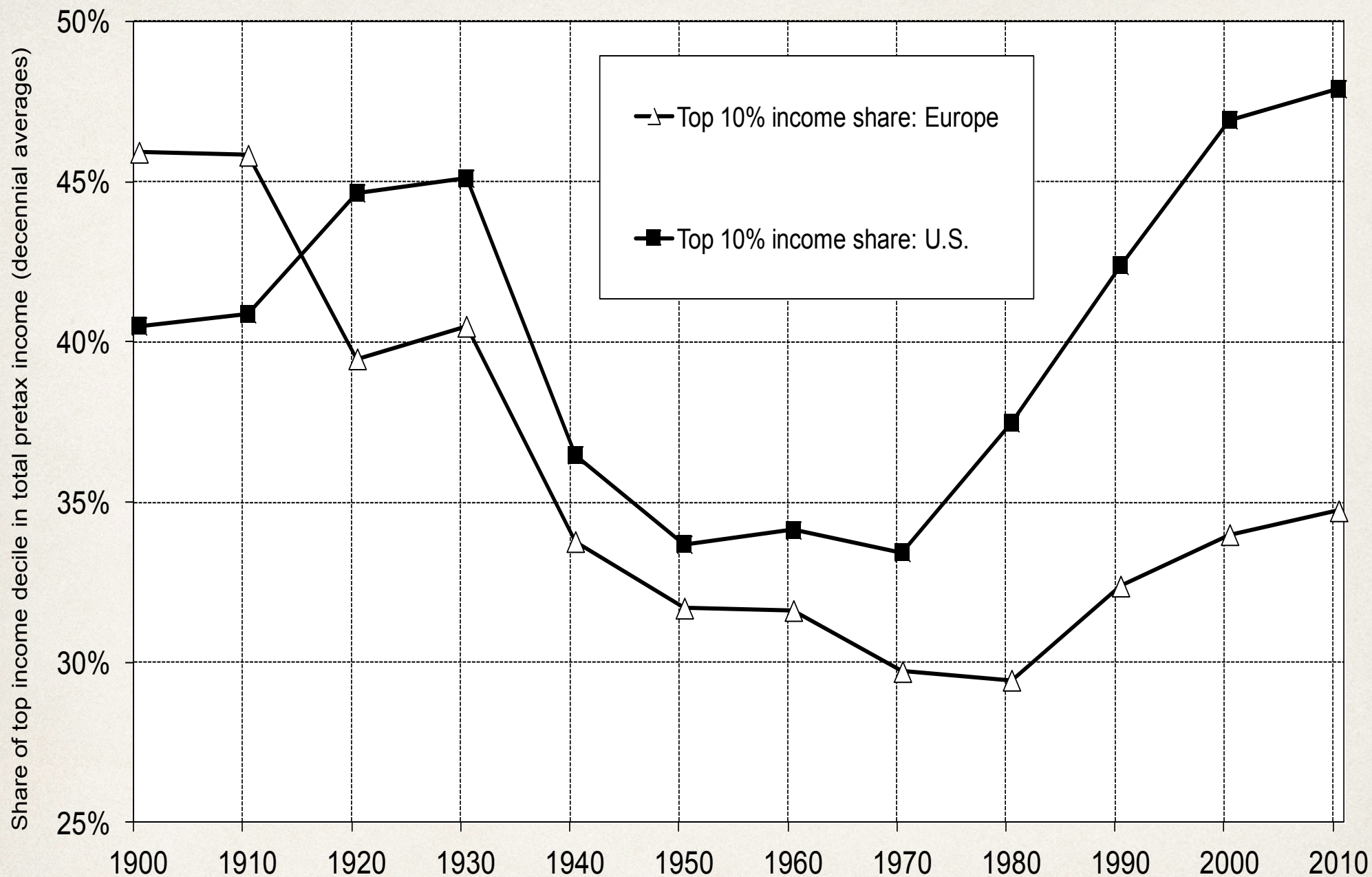
# Inequality of Opportunity: One's Family Economic Background Matters for One's Educational Opportunities



*Source:* Anthony P. Carnevale and Stephen J. Rose, "Socio-economic Status, Race/Ethnicity, and Selective College Admissions," in Richard D. Kahlenberg, ed., *America's Untapped Resource: Low-Income Students in Higher Education* (New York: Century Foundation Press, 2004), Table 3.1, p. 106.

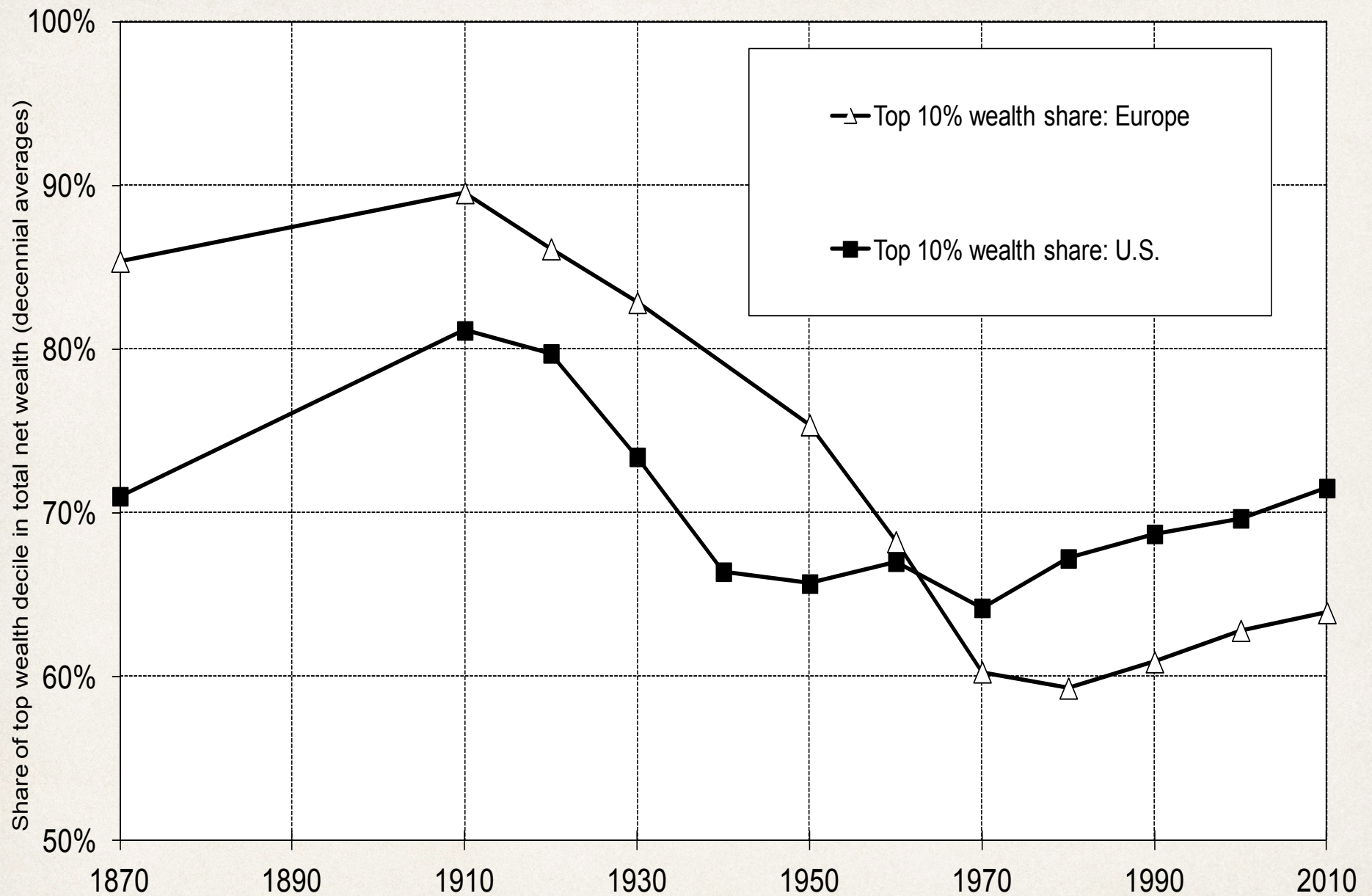


**Figure 1. Income inequality: Europe and the U.S., 1900-2010**



The share of total income accruing to top decile income holders was higher in Europe than in the U.S. around 1900-1910; it is a lot higher in the U.S. than in Europe around 2000-2010. Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c)

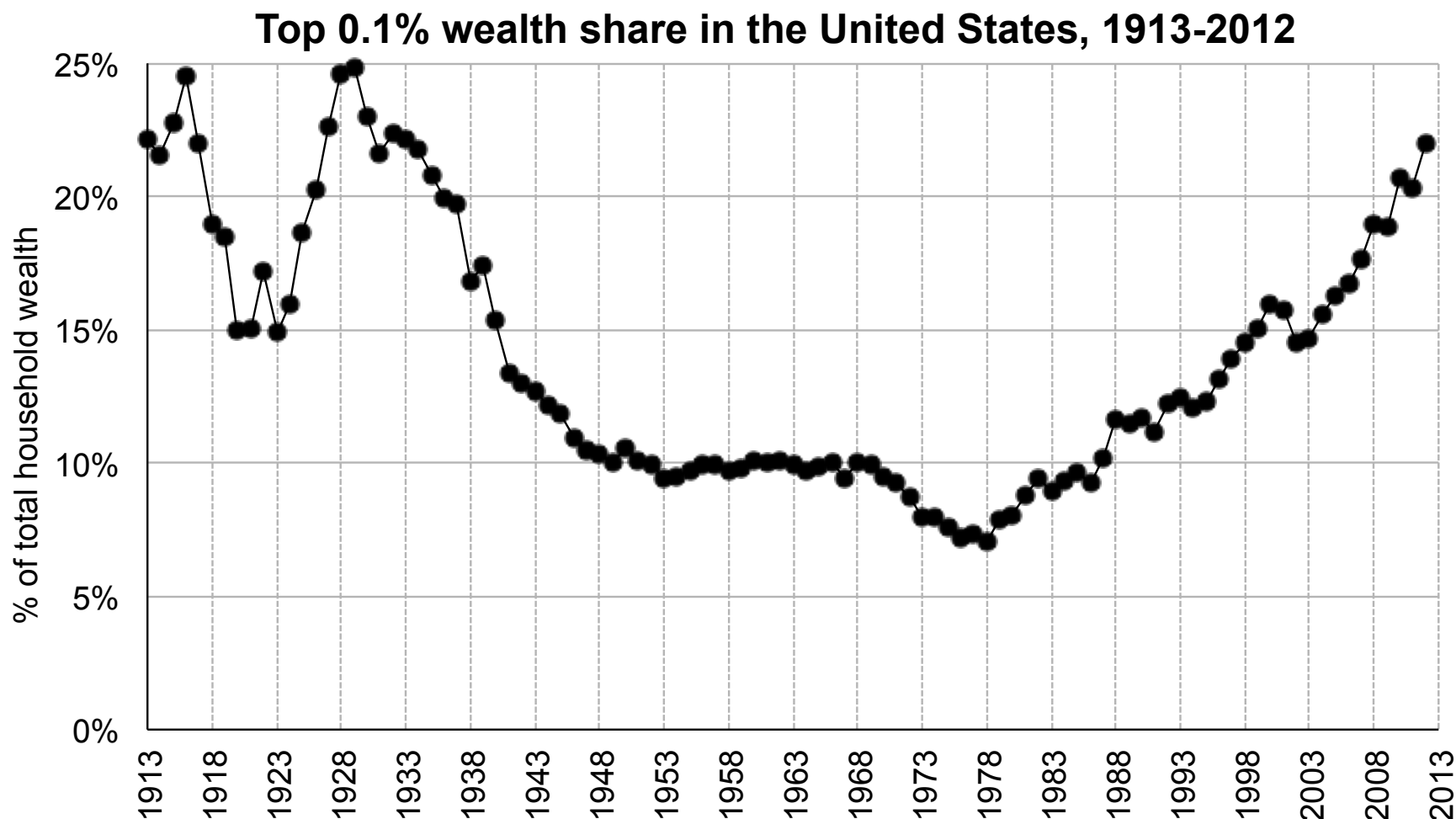
**Figure 2. Wealth inequality: Europe and the U.S., 1870-2010**



The share of total net wealth belonging to top decile wealth holders has become higher in the US than in Europe over the course of the 20<sup>th</sup> century. But it is still smaller than what it was in Europe before World War 1.

Sources and series: see piketty.ps

# U-Shaped Wealth Concentration



This figure depicts the share of total household wealth held by the 0.1% richest families, as estimated by capitalizing income tax returns. In 2012, the top 0.1% includes about 160,000 families with net wealth above \$20.6 million. Source: Appendix Table B1.

**Data are from Saez & Zucman (2014)**

[gabriel-zucman.eu/files/SaezZucman2014Slides.pdf](http://gabriel-zucman.eu/files/SaezZucman2014Slides.pdf)



## 2. *Etiological Questions*: What Caused Economic Inequality to Rise in the US?

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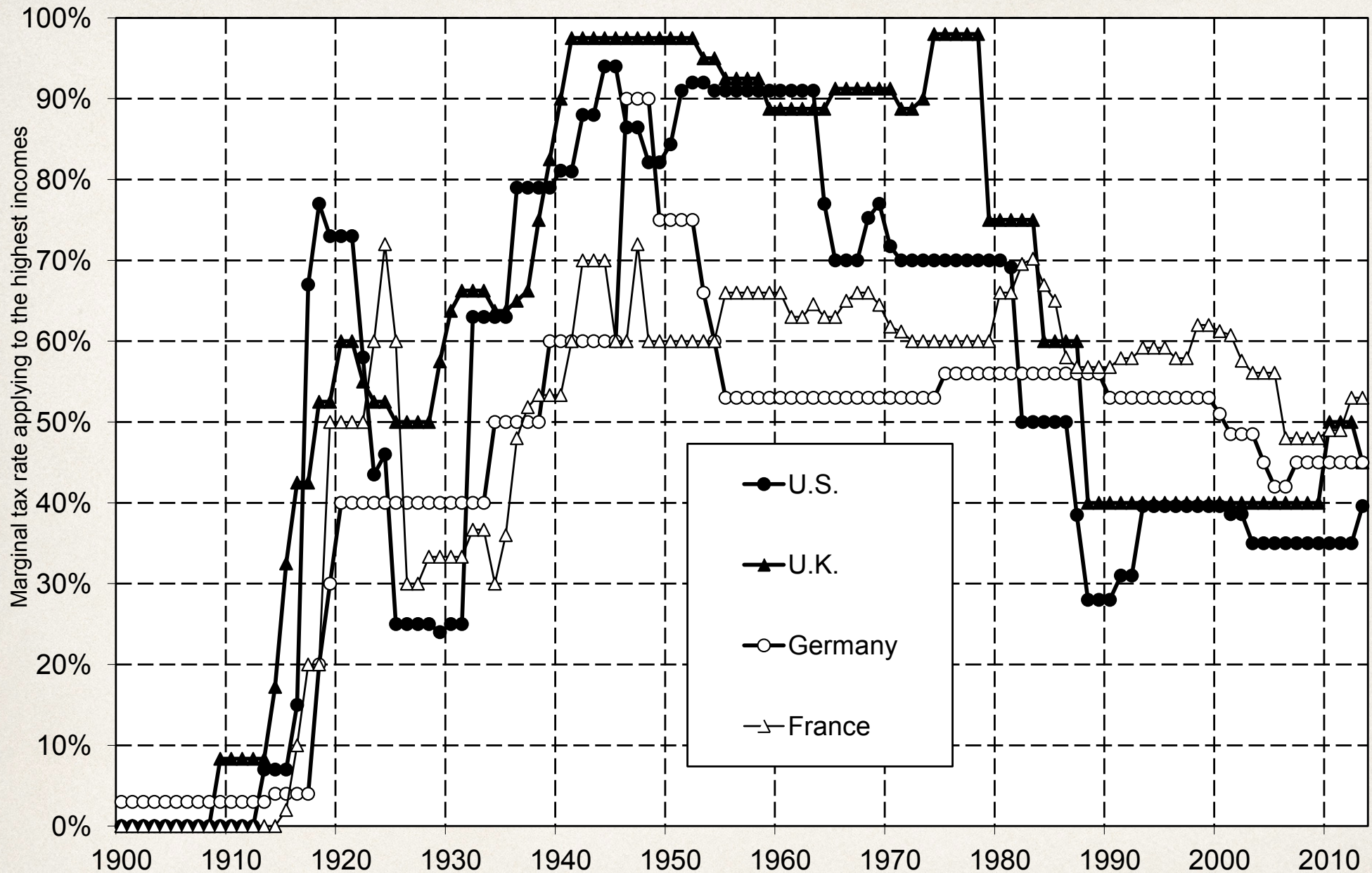


# Is Low Taxation of Top Incomes the Cause of Rising Inequalities in the US?

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**Figure 6. Top income tax rates, 1900-2013**



The top marginal tax rate of the income tax (applying to the highest incomes) has been higher historically in Anglo-saxon countries than in Continental Europ. In the U.S. it dropped from 70% in 1980 to 28% in 1988.

Sources and series: see [piketty.pse.ens](http://piketty.pse.ens).

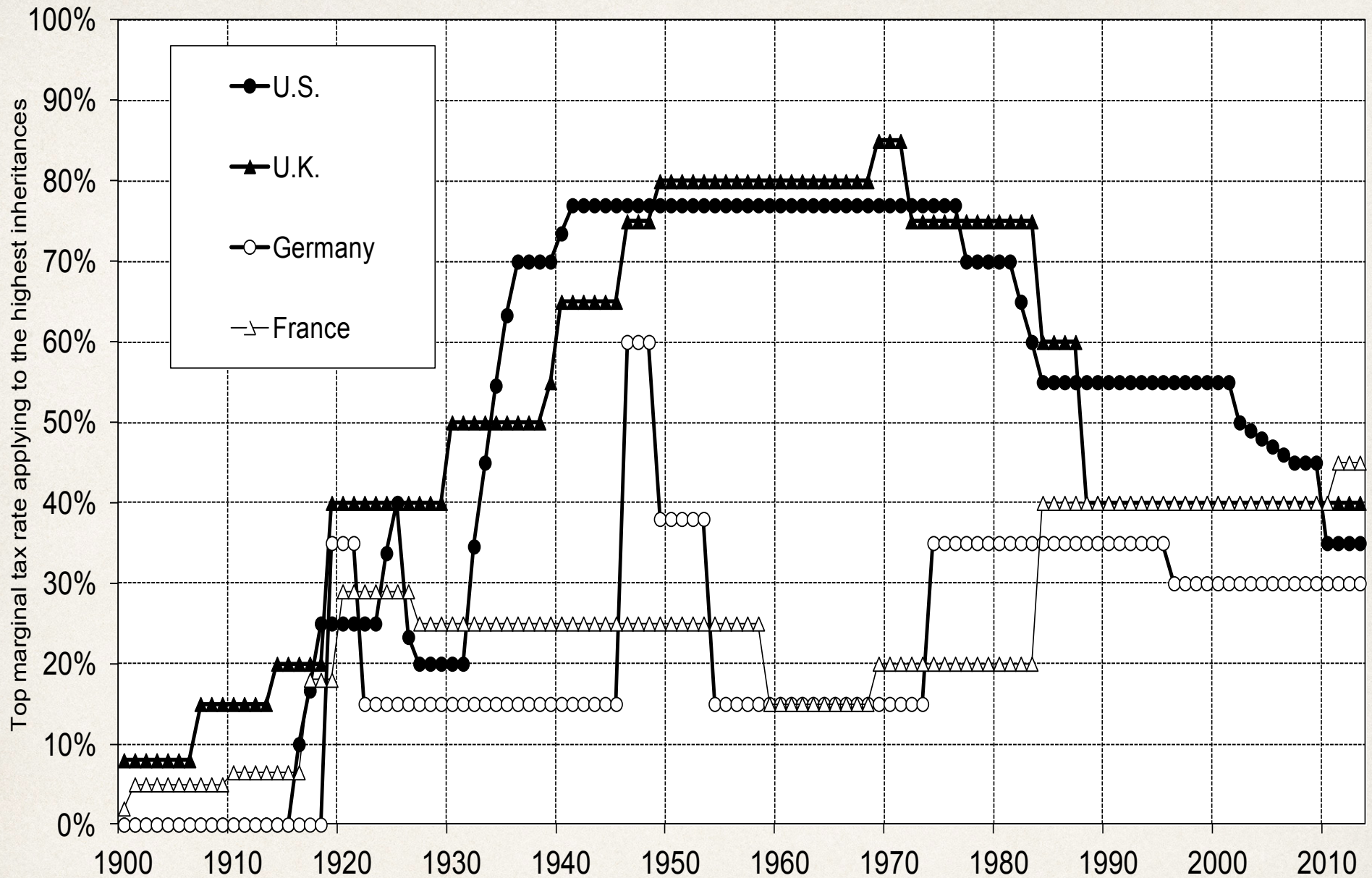


# Is Inherited Wealth the Cause of Rising Inequalities in the US?

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**Figure 7. Top inheritance tax rates, 1900-2013**



The top marginal tax rate of the inheritance tax (applying to the highest inheritances) has been higher historically in Anglo-saxon countries than in Continental Europe. In the U.S. it dropped from 70% in 1980 to 35% in 2013.

Sources and series: see pike



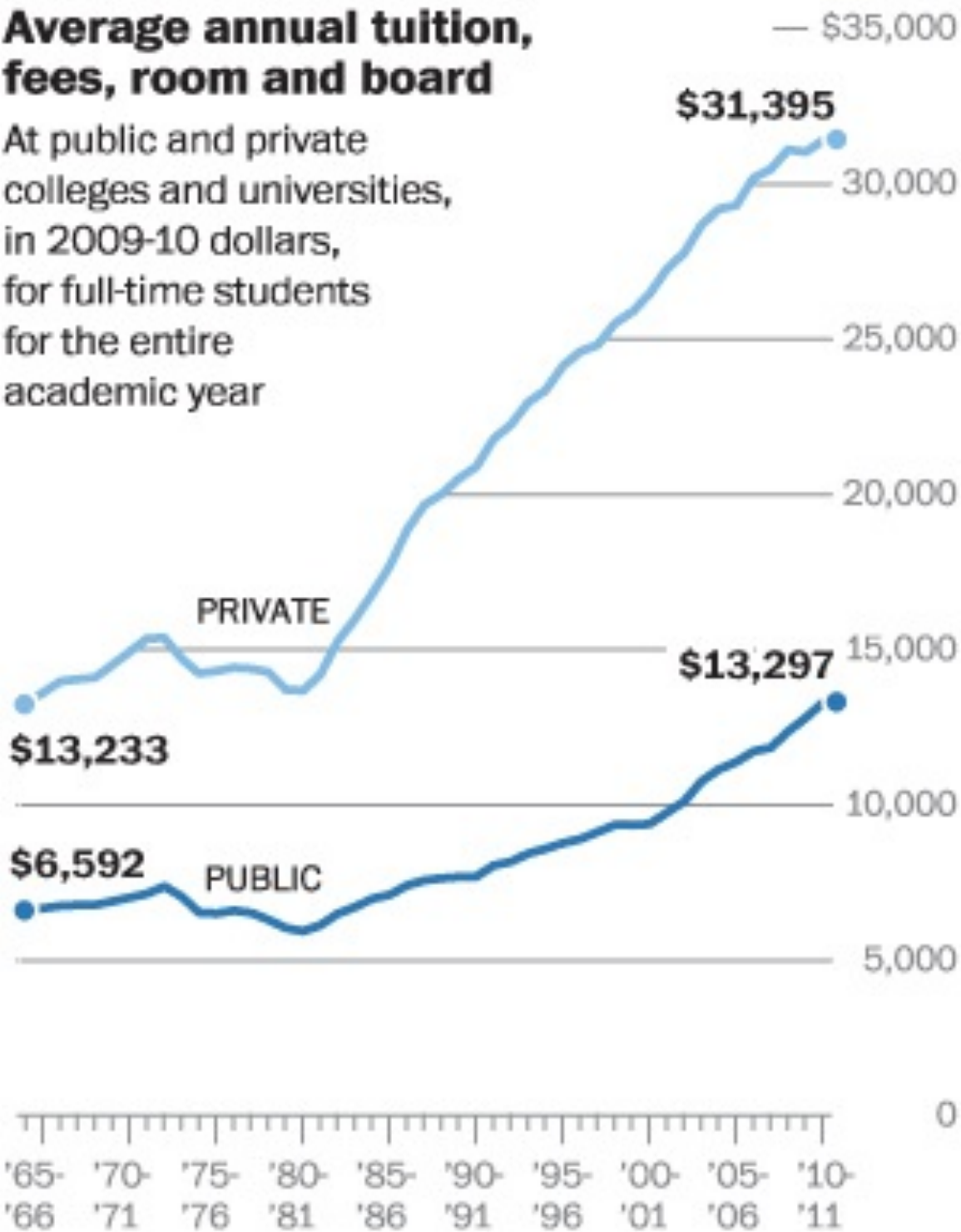
# Are College Tuitions Hikes the Cause of Rising Inequalities in the US?

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# Average annual tuition, fees, room and board

At public and private colleges and universities, in 2009-10 dollars, for full-time students for the entire academic year



Detailed historical data are available on the website of the *National Center of Education Statistics*

[http://nces.ed.gov/programs/digest/d13/tables/dt13\\_330.10.asp](http://nces.ed.gov/programs/digest/d13/tables/dt13_330.10.asp)



# Is the Gap Between Skilled and Unskilled Labor the Cause of Rising Inequalities in the US?

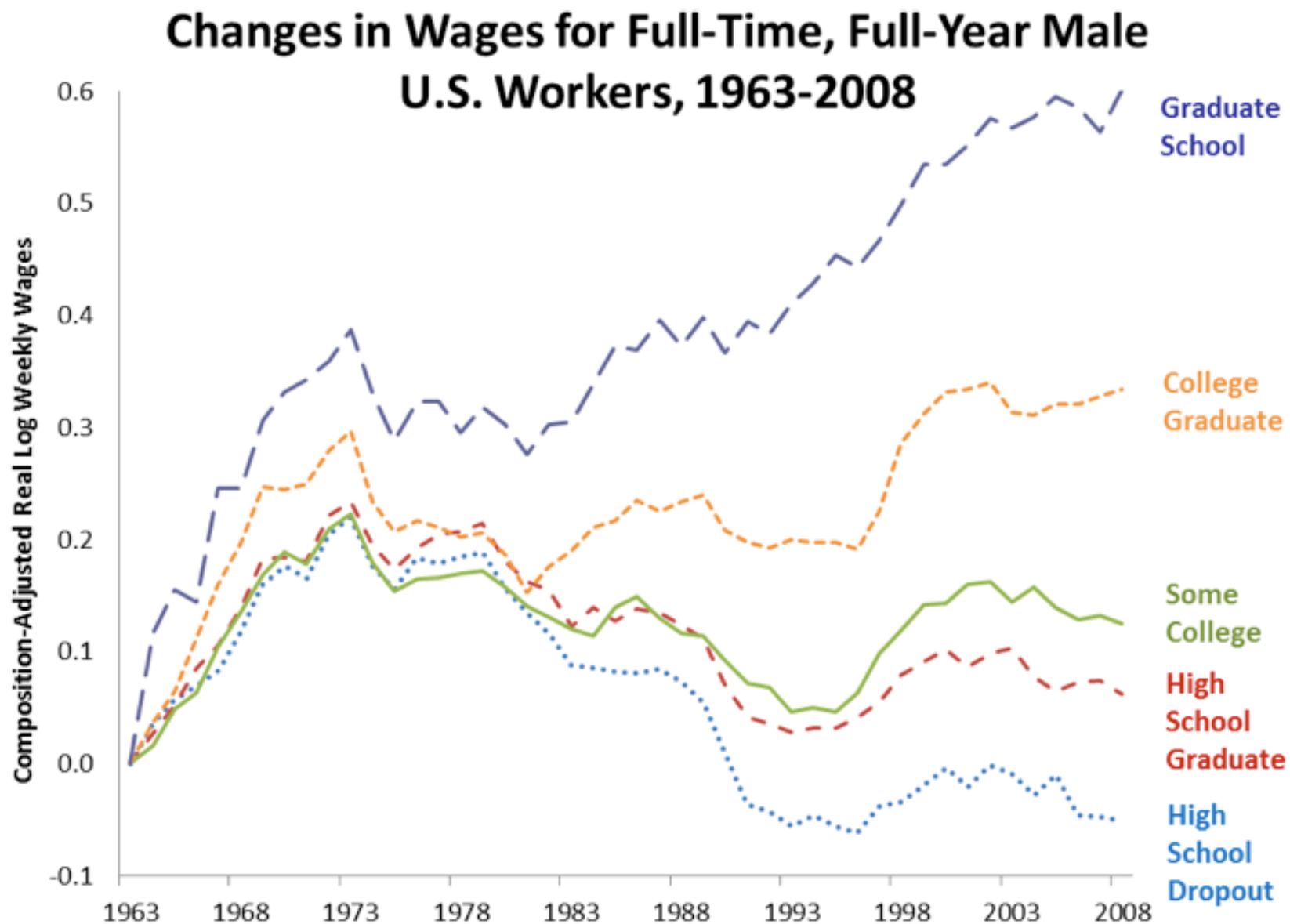
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Claudia Goldin and Lawrence Katz (2008) in their book *The Race between Education and Technology* argue that skill-based technological change continually increases the demand for skilled labor. By itself, this force tends to increase the earnings gap between skilled and unskilled workers, thereby increasing inequality.

Society can offset the effect of this demand shift by increasing the supply of skilled labor at an even faster pace, as it did in the 1950s and 1960s. In this case, the earnings gap need not rise and, indeed, can even decline, as in fact occurred. But when the pace of educational advance slows down, as it did in the 1970s, the increasing demand for skilled labor will naturally cause inequality to rise.

*From Mankiw, "Defending the One Percent", Journal of Economic Perspectives (2013), p. 23.*





**Figure 3.5: Wages have increased for those with the most education, while falling for those with the least.** Source: [Acemoglu and Autor](#) analysis of the Current Population Survey for 1963-2008.

Acemoglu & Autor (2010), *Skills, Task and Technology: The Implications for Employment and Earnings*, NBER Working Paper Series

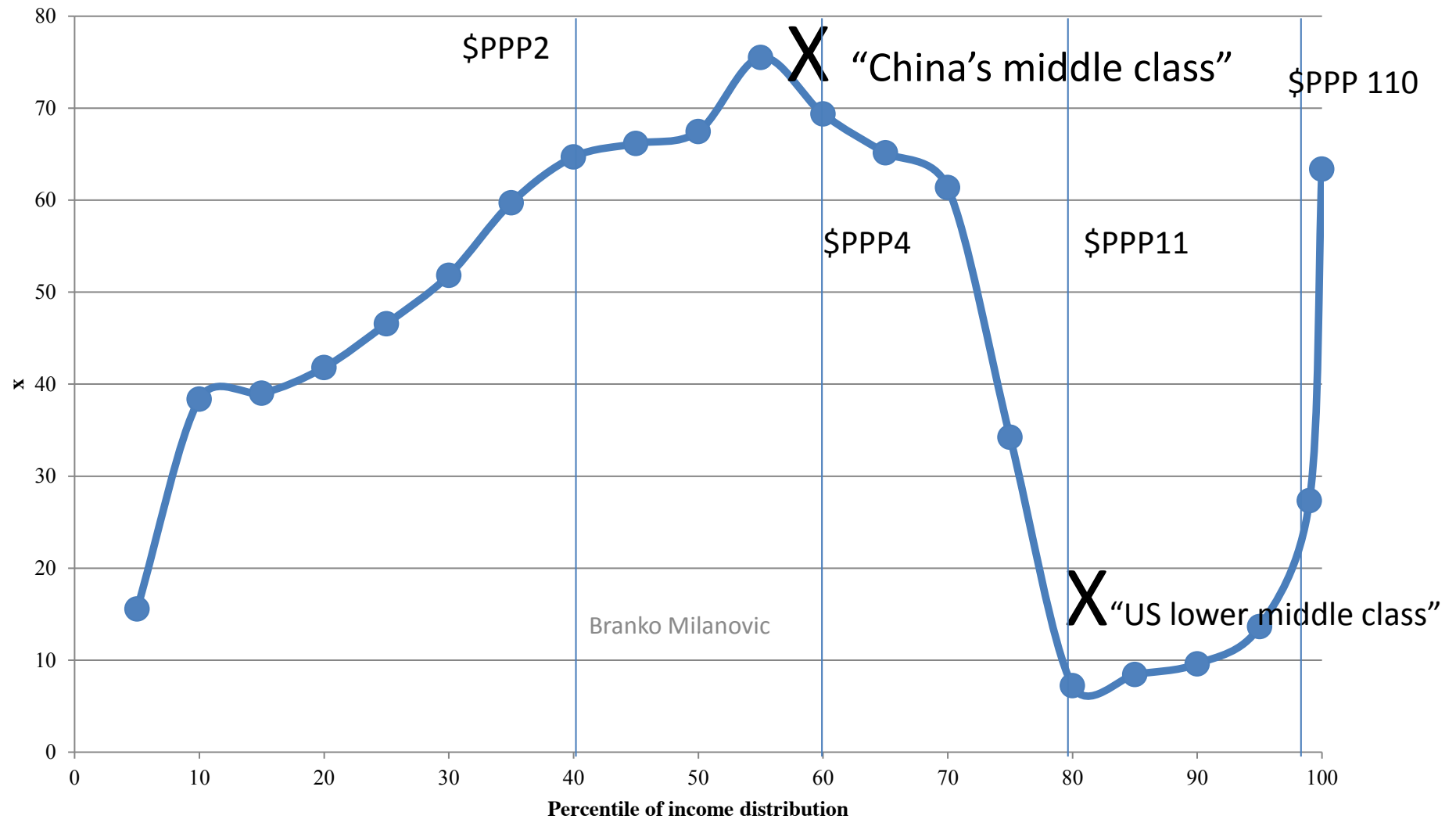


# Are Emerging Countries the Cause of Rising Inequalities in the US?

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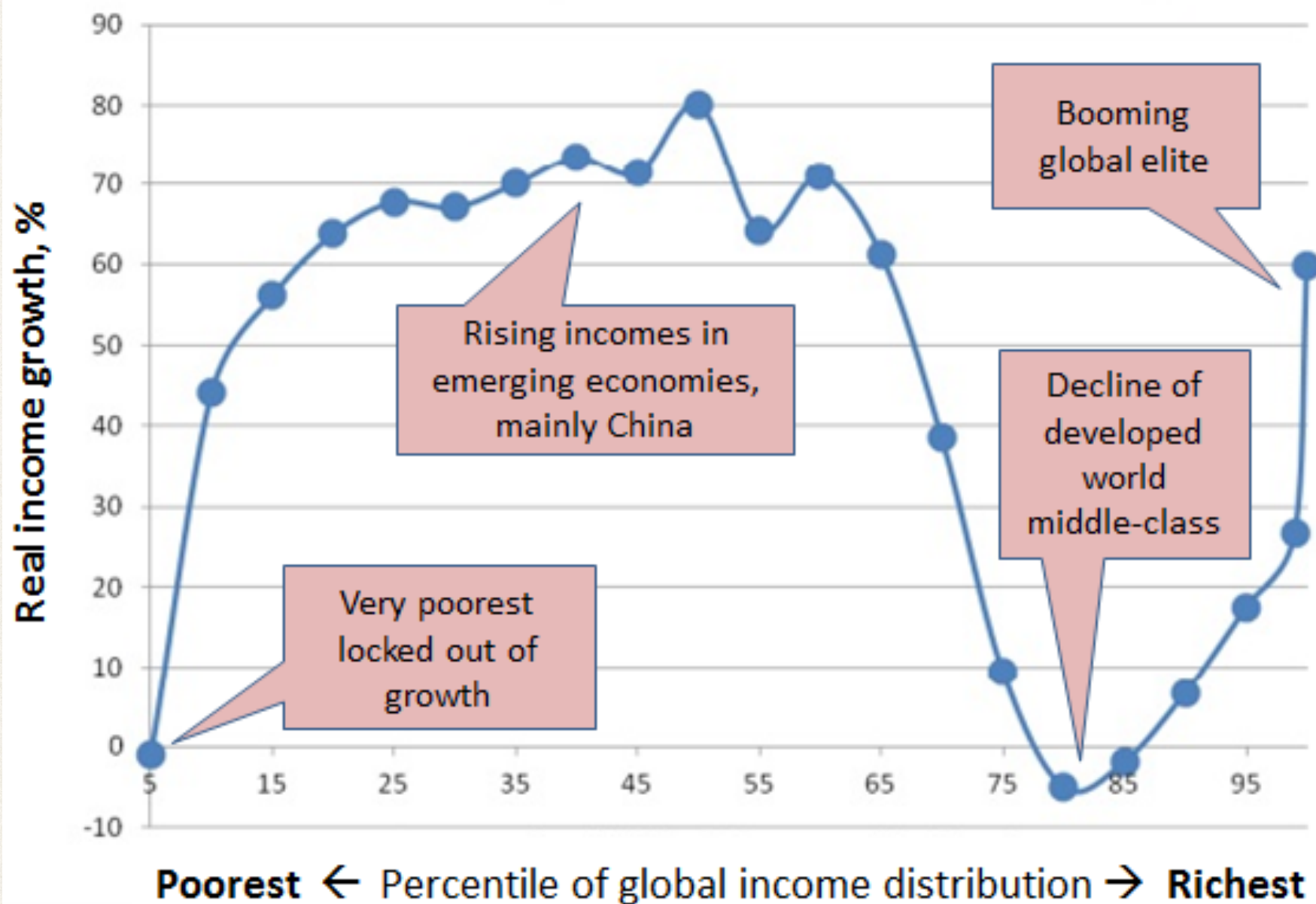


# Real income growth at various percentiles of global income distribution, 1988-2008 (in 2005 PPPs)





## Global income growth from 1988 to 2008



Data from Branko Milanovic,

former lead economist at the World Bank, now senior scholar at CUNY



Do You Wonder What the Income  
Distribution Looks Like in the US?

*...Not a Normal Distribution!*

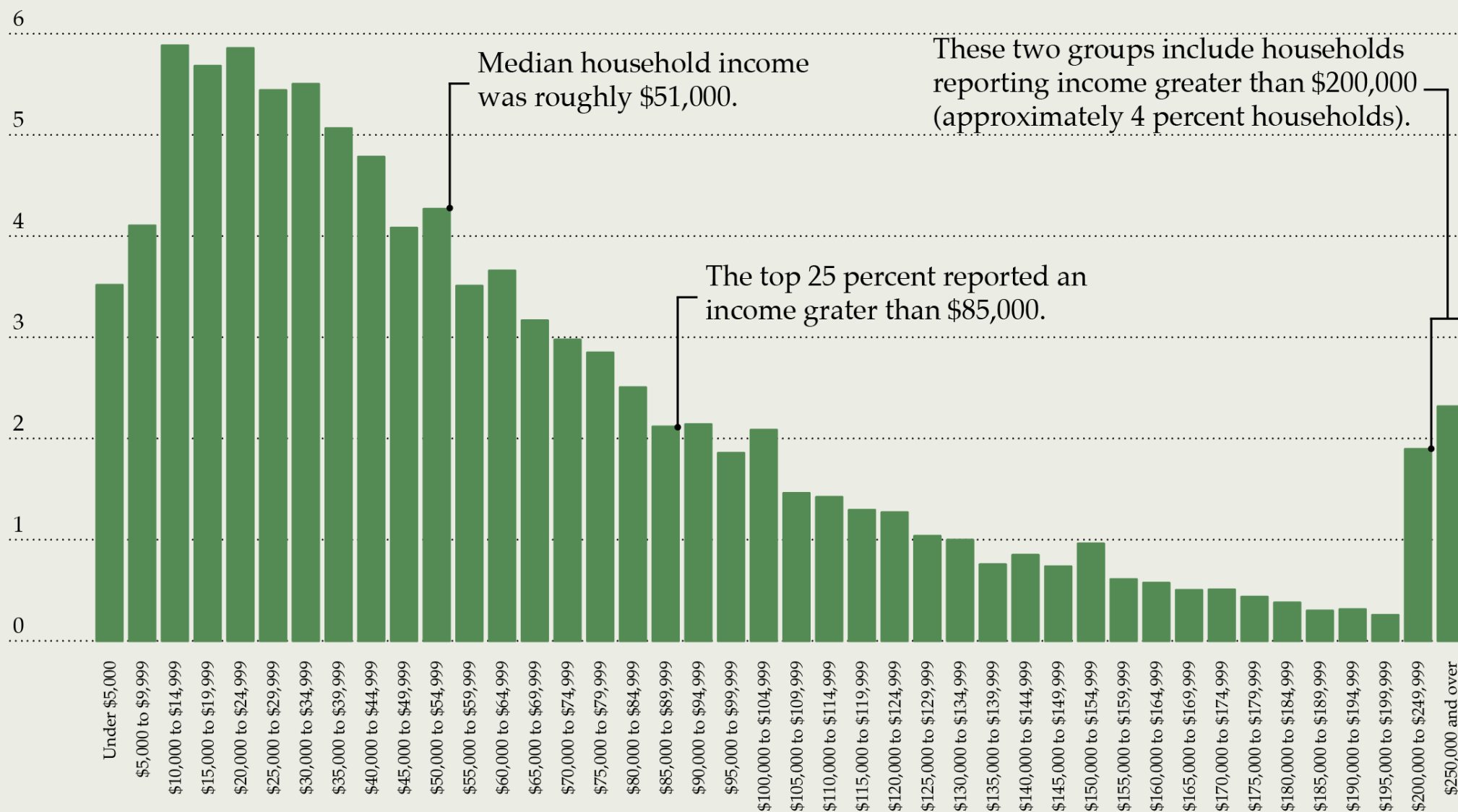
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# Distribution of annual household income in the United States

(2012 estimate)

percent of households



Source: U.S. Census Bureau, Current Population Survey, 2012 Annual Social and Economic Supplement



# There are Correlations Between...

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- ... tax cuts for top incomes and inequalities
- ... lower inheritance tax rates and rising inequalities
- ... higher college tuitions and rising inequalities
- ... higher level of education and higher income
- ... income increase for middle class in developing economies and income stagnation for US middle class



...But *Correlation* is **NOT** *Causation*

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# 3. Normative Questions

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# Is There Anything Bad With the Economic Inequalities Created by the Free Market?

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<http://thecolbertreport.cc.com/videos/2p2ijk/michael-sandel>



## **A challenge to Margaret Thatcher in the British Parliament in 1990**

“...during her 11 years as Prime Minister, the gap between the richest 10 per cent and the poorest 10 per cent in this country has widened substantially. At the end of her chapter of British politics, how can she say that she can justify the fact that many people ... are relatively much poorer, much less well housed and much less well provided for than they were in 1979? ... that is not a record that she or any Prime Minister can be proud of.”

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<https://www.youtube.com/watch?v=rv5t6rC6yvg>



# What is Thatcher's Response to the Challenge that Inequalities Widened While She Was Prime Minister?



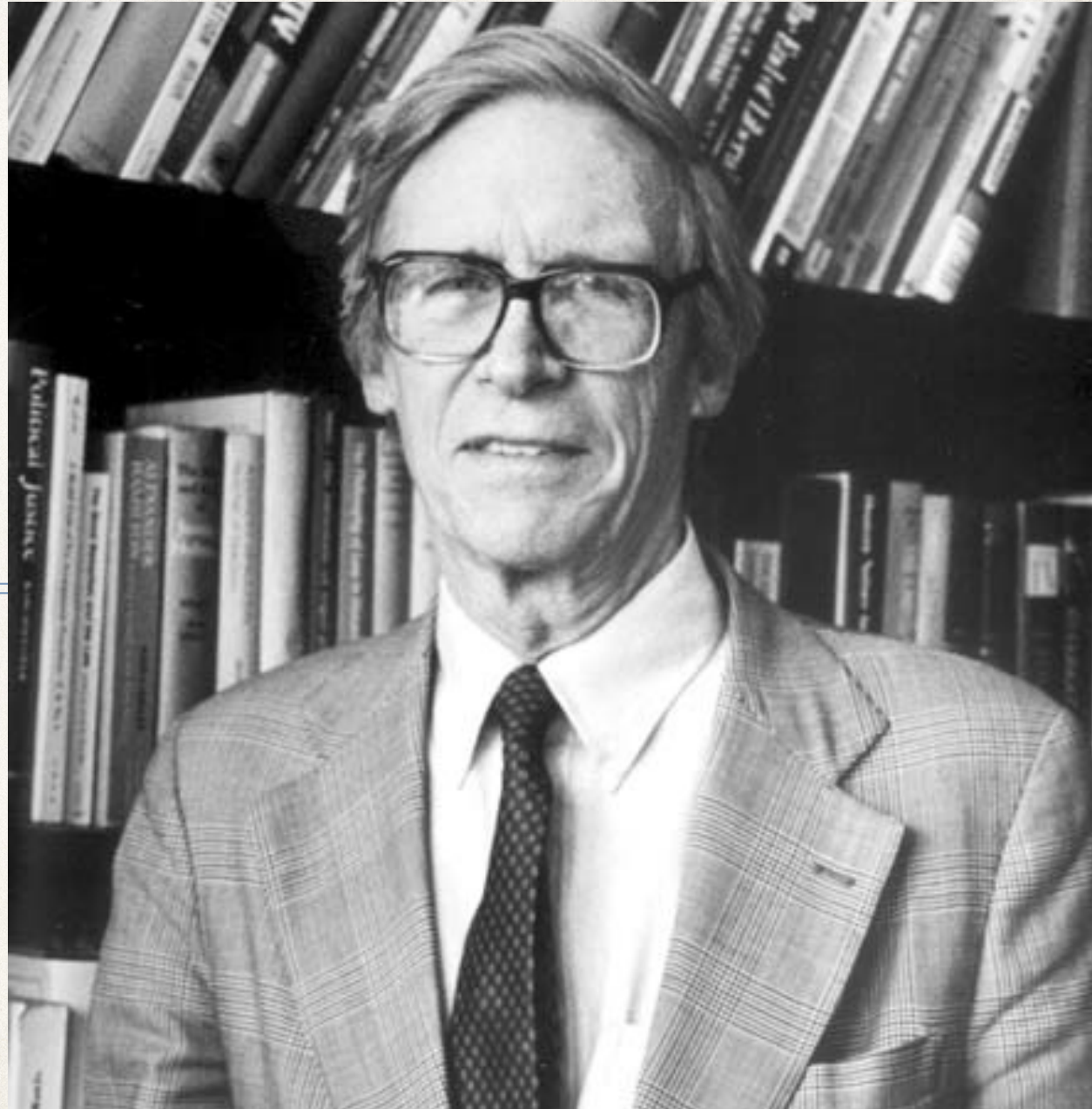
Economic inequalities are justified because (1) they create incentives in a free market economy and (2) they make the poor richer although the gap between rich and poor might widen



# John Rawls

(1921-2002)

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# Rawls' Difference Principle

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Social and economic inequalities are justified *provided they benefit those who are the least advantaged in society.*



# Which Society Better Conforms With Rawls' Difference Principles?

Social and economic inequalities are justified *provided they benefit those who are the least advantaged in society.*

	A	B	C	D
<i>Richest</i>	805	750	66000	400
<i>Poorest</i>	500	450	600	400

The numbers here are a generic measure of income and wealth attached to individuals

In society C, inequalities benefit the least advantaged the most



# Which Principle Is Best?

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- Social and economic inequalities are justified *provided they derive from how the free market distributes wealth and money.*
- Social and economic inequalities are justified *provided they derive from how hard people worked to get what they have.*
- Social and economic inequalities are justified *provided they benefit those who are the least advantaged in society.*
- Social and economic inequalities are justified *provided everybody is guaranteed a minim income.*



## 4. Policy Questions

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