

Marcello Di Bello

Lehman College
CUNY

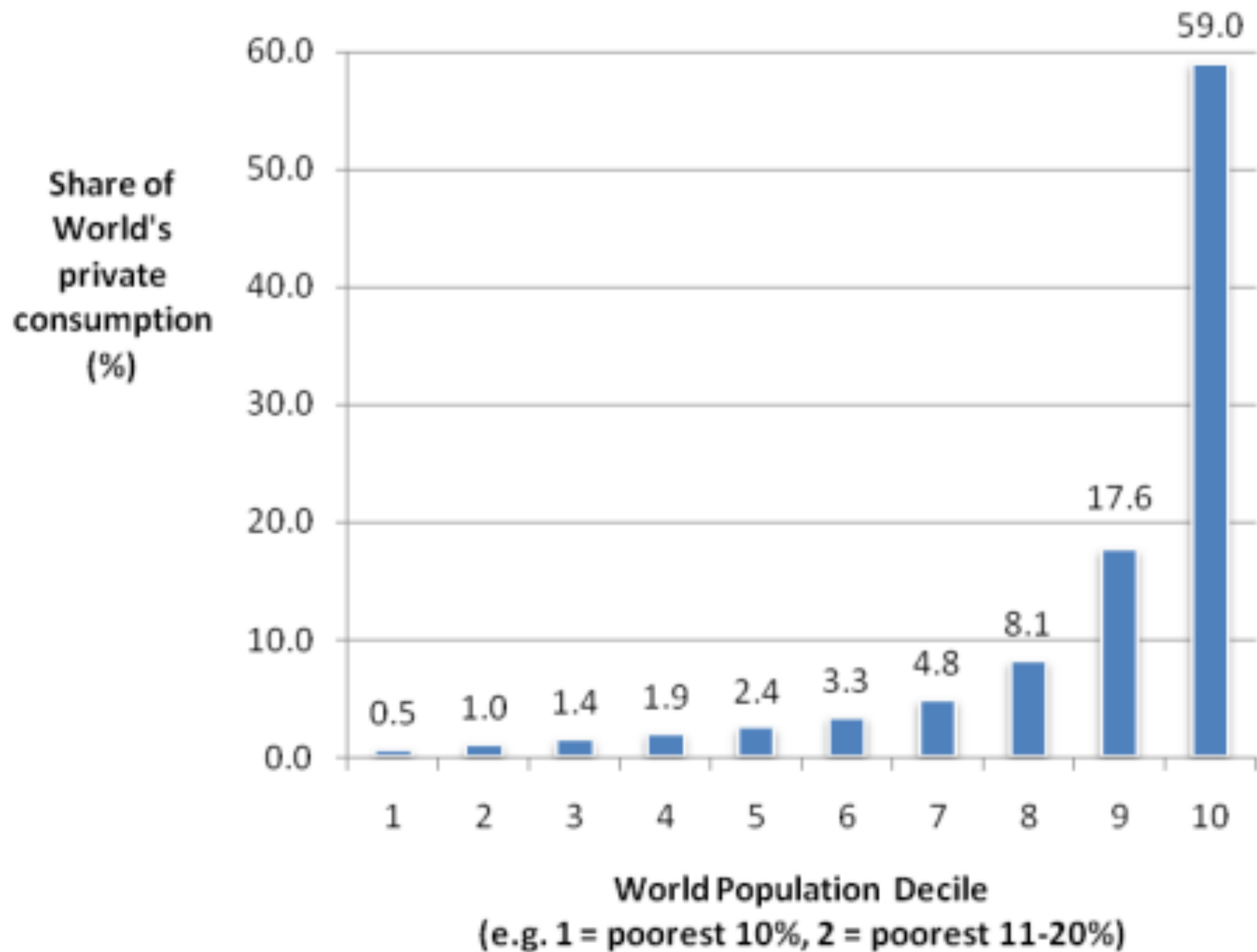
Different Questions to Ask About Economic Inequalities

Questions on Economic Inequality

1. **Question about definitions:** What is inequality? What types of inequalities are there? Wealth inequality? Income inequality? Inequality of opportunities?
2. **Questions about what, when, where, how:** How much inequality is there in the US in the second half of the 20th century? Did it increase or decrease?
3. **Cause/effect questions:** What are the forces that cause inequalities in society?
4. **Moral (normative) questions:** Is inequality bad? Is it unjust?
5. **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?

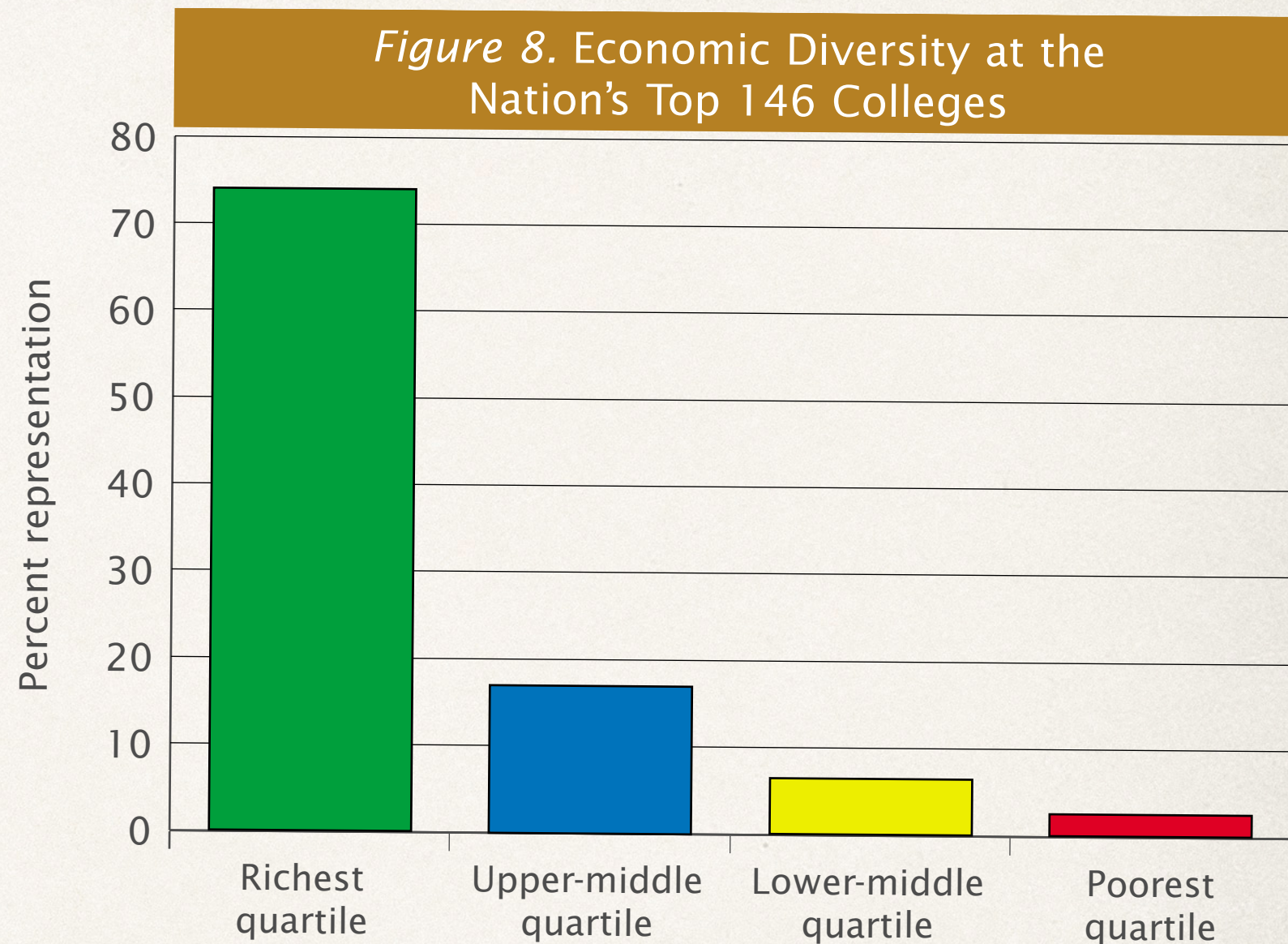
1. Definitional Questions and Questions about What, When, Where

Inequality of Consumption, 2005



Source: World Bank Development Indicators 2008

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



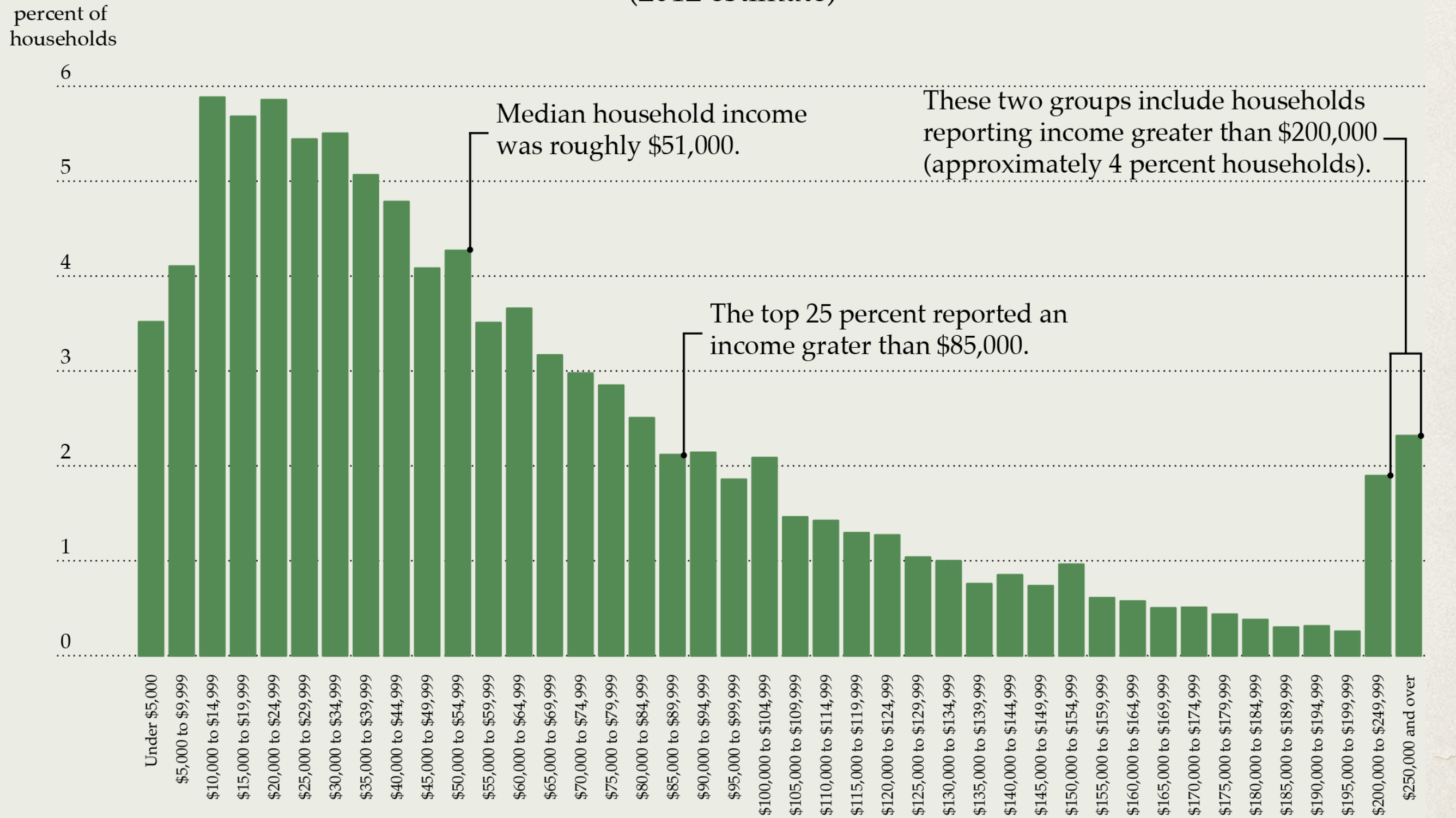
Source: Anthony P. Carnevale and Stephen J. Rose, "Socio-economic Status, Race/Ethnicity, and Selective College Admissions," in Richard D. Kahlenberg, ed., *America's Untapped Resource: Low-Income Students in Higher Education* (New York: Century Foundation Press, 2004), Table 3.1, p. 106.

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

...Not a Normal Distribution!

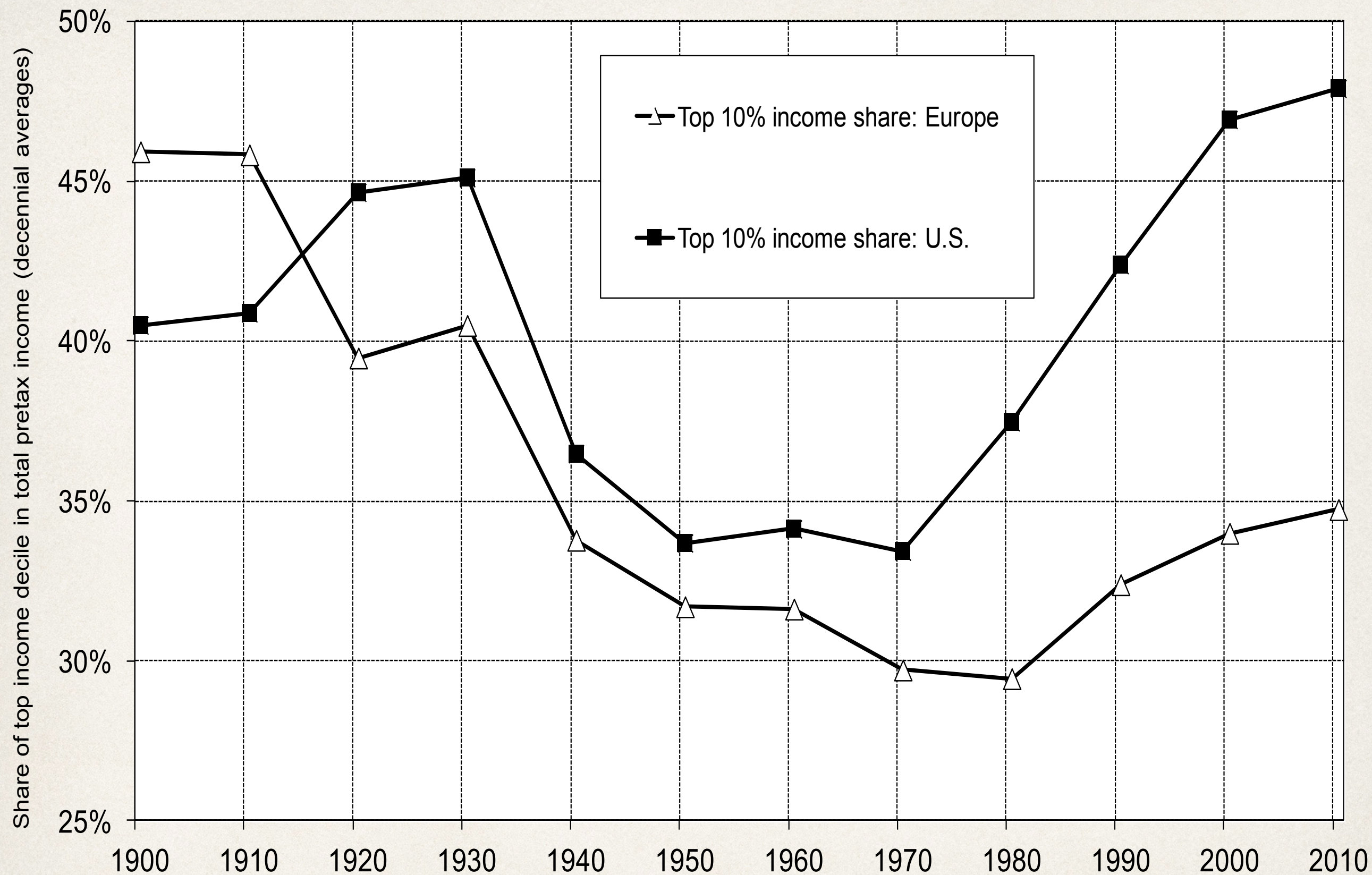
Distribution of annual household income in the United States

(2012 estimate)



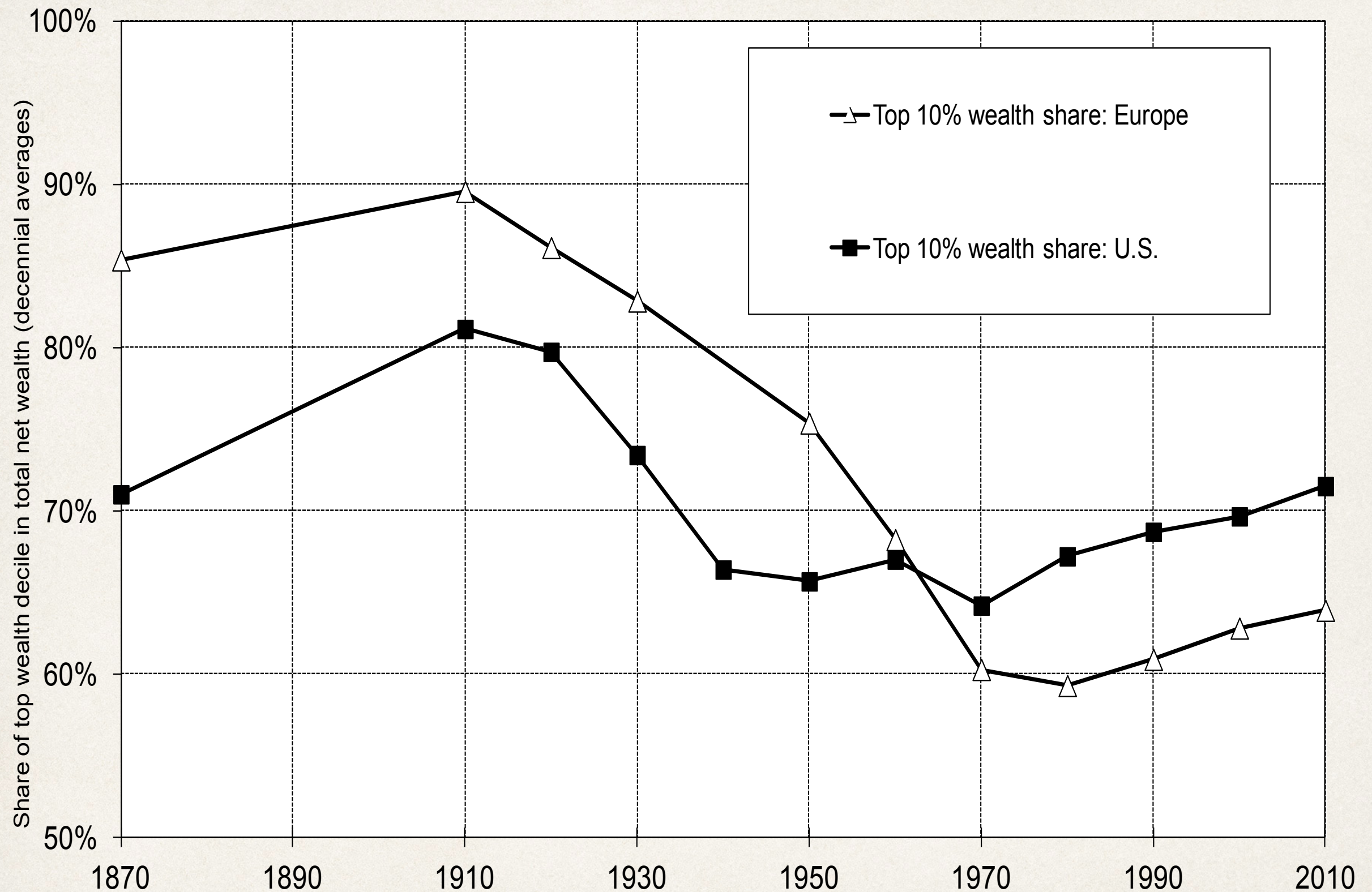
Source: U.S. Census Bureau, Current Population Survey, 2012 Annual Social and Economic Supplement

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

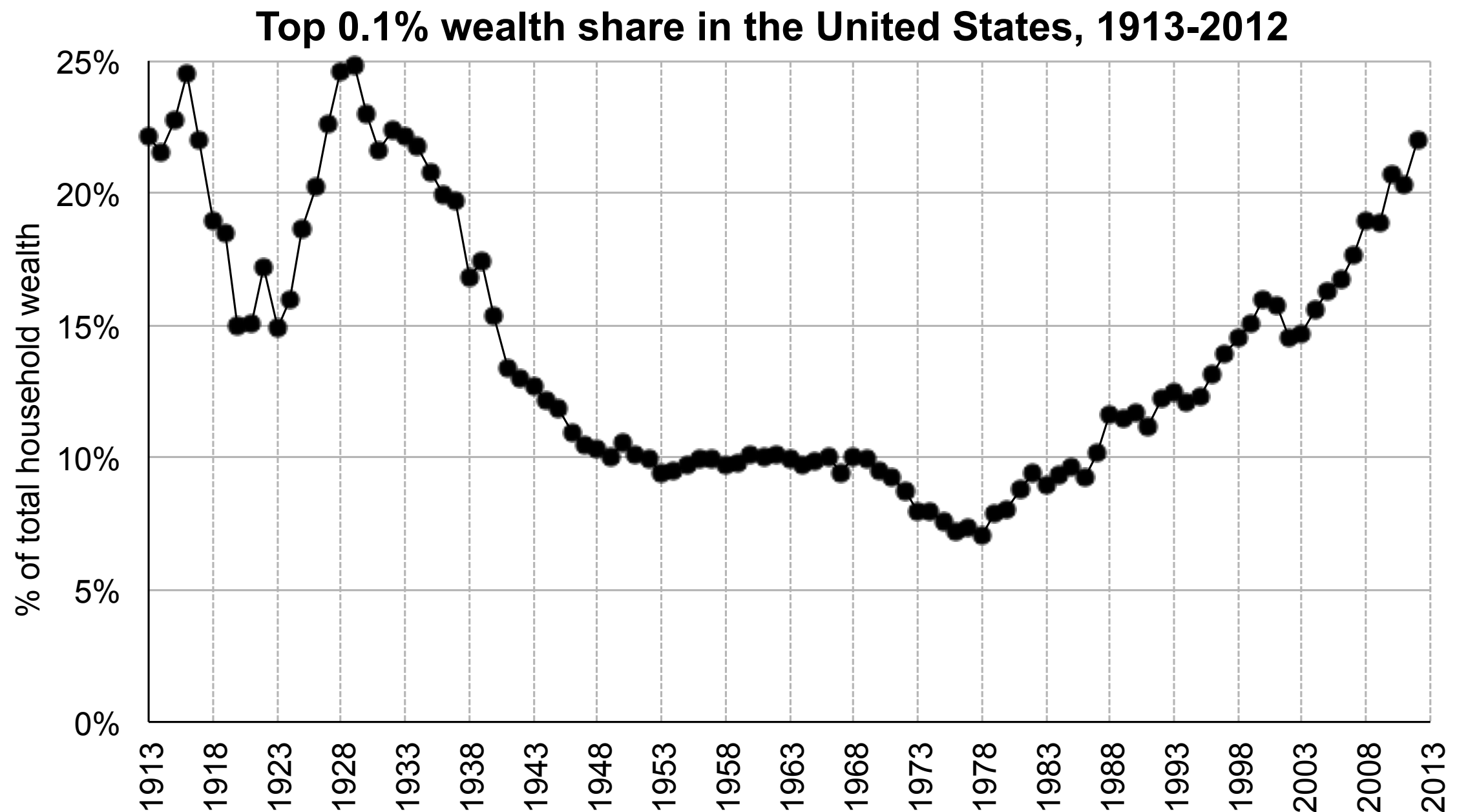
Figure 2. Wealth inequality: Europe and the U.S., 1870-2010



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 20th 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.

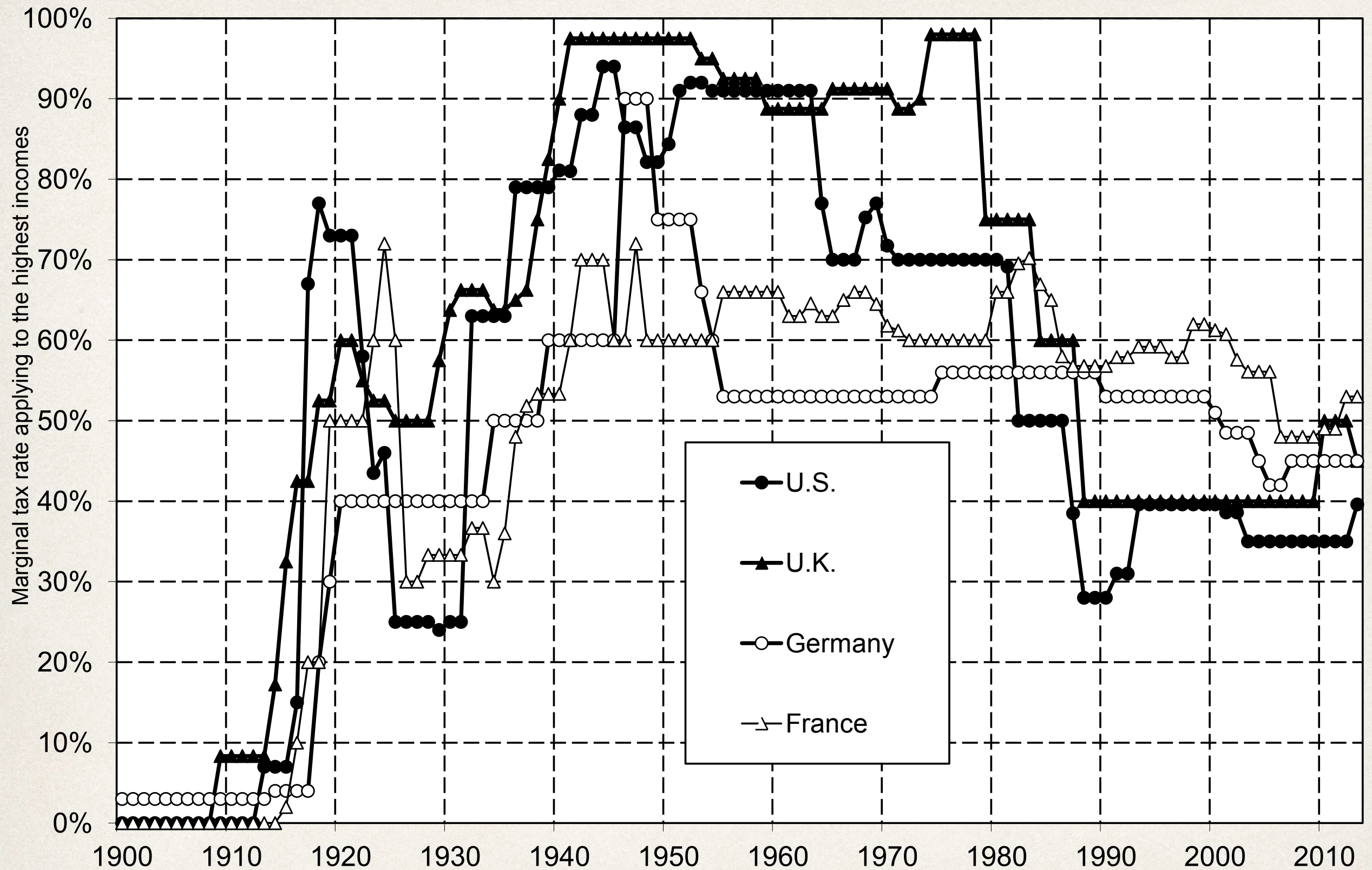
Data are from Saez & Zucman (2014)

gabriel-zucman.eu/files/SaezZucman2014Slides.pdf

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

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

Figure 6. Top income tax rates, 1900-2013

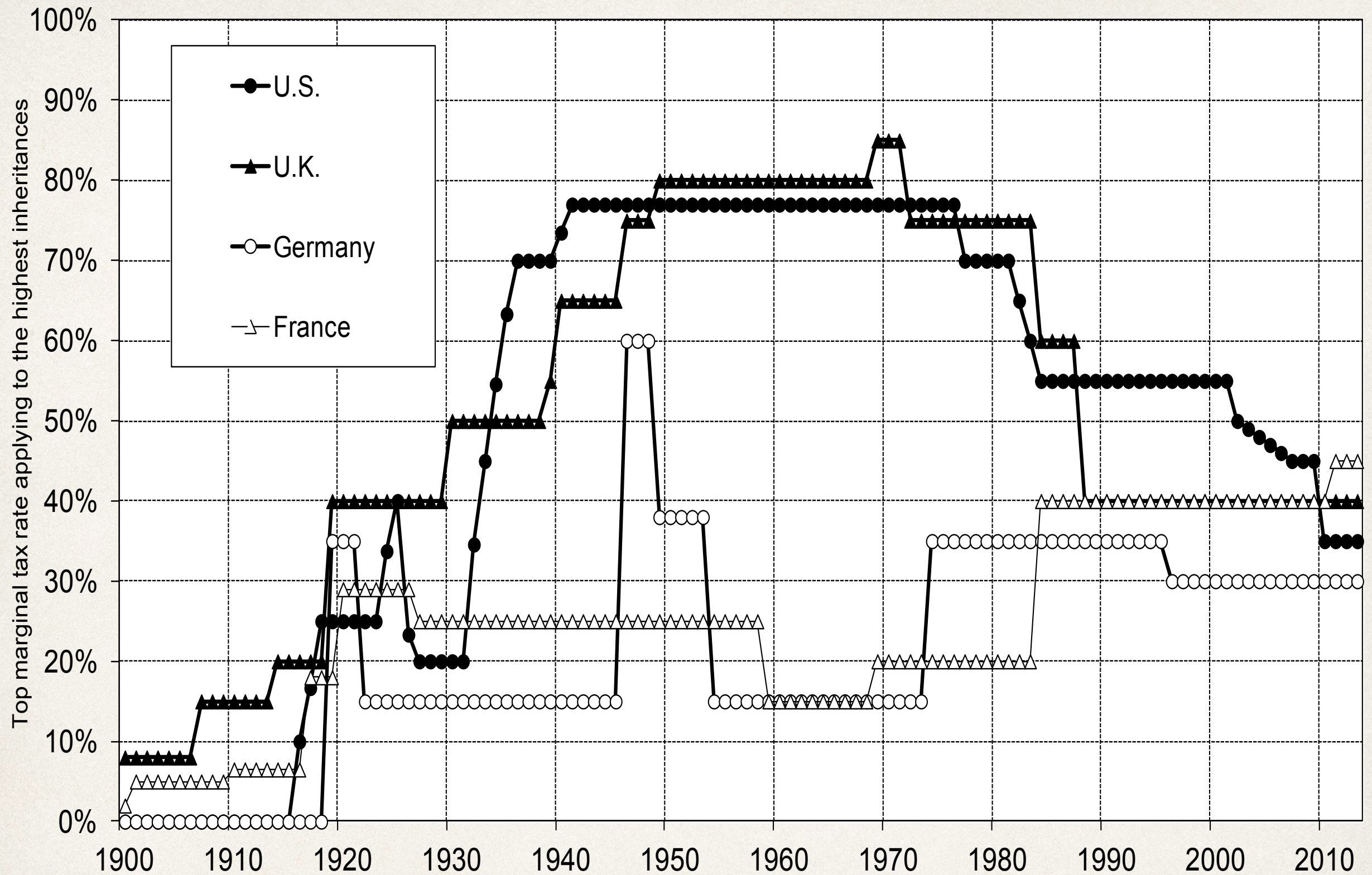


The top marginal tax rate of the income tax (applying to the highest incomes) has been higher historically in Anglo-saxon countries than in Continental Europe. In the U.S. it dropped from 70% in 1980 to 28% in 1988.

Sources and series: see piketty.pse.ens.

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

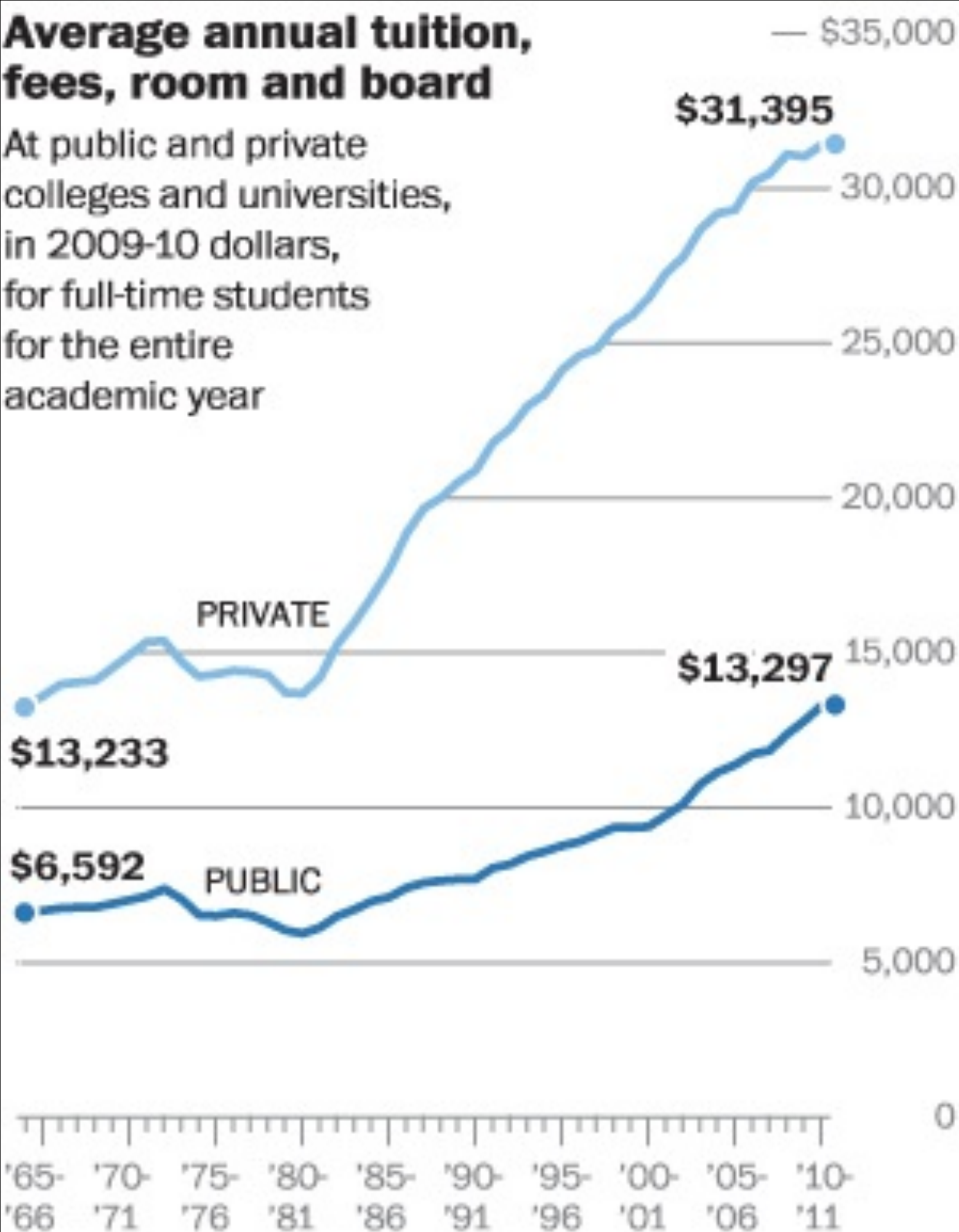
Figure 7. Top inheritance tax rates, 1900-2013



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?



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

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?

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.

Changes in Wages for Full-Time, Full-Year Male U.S. Workers, 1963-2008

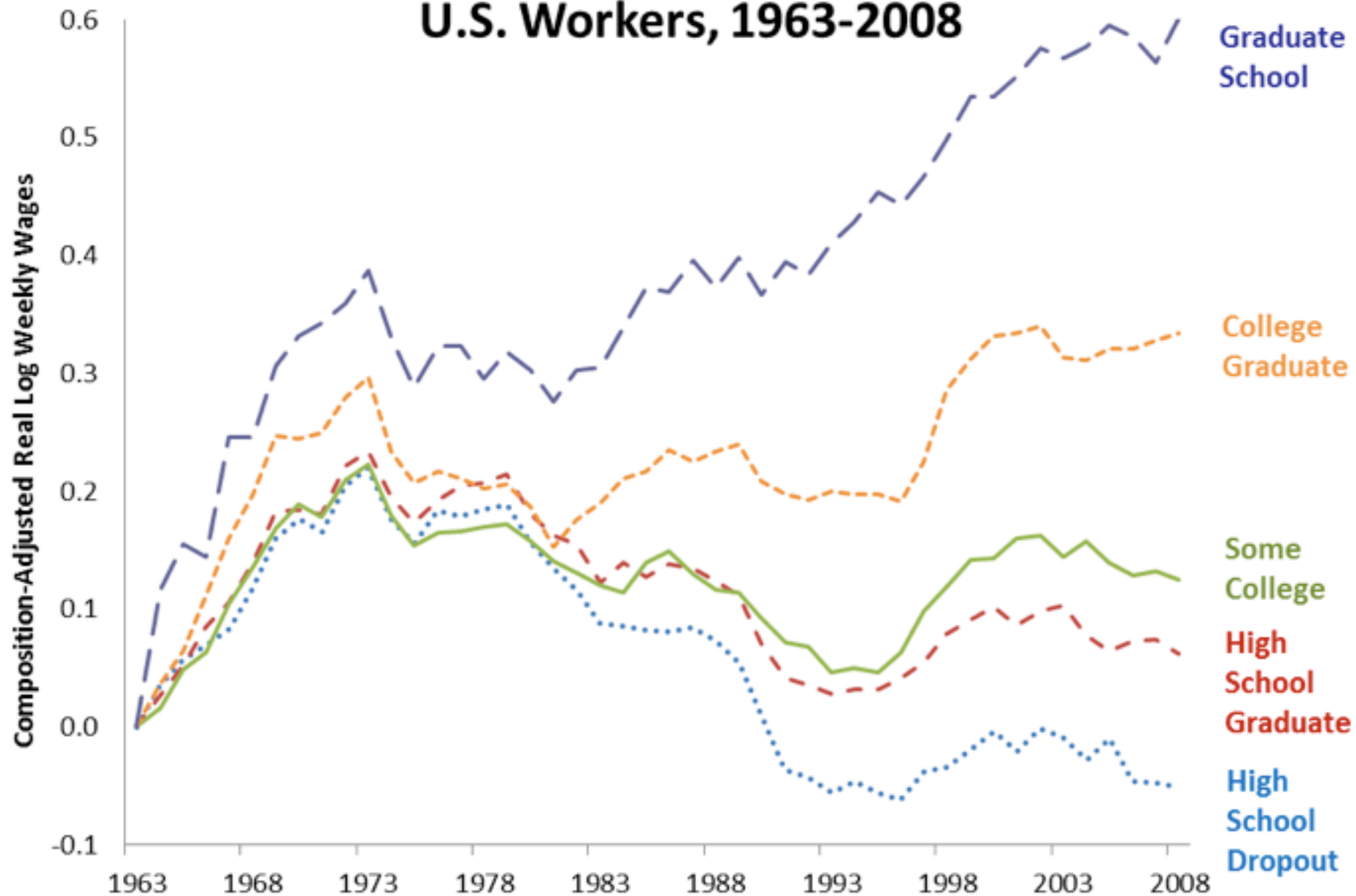
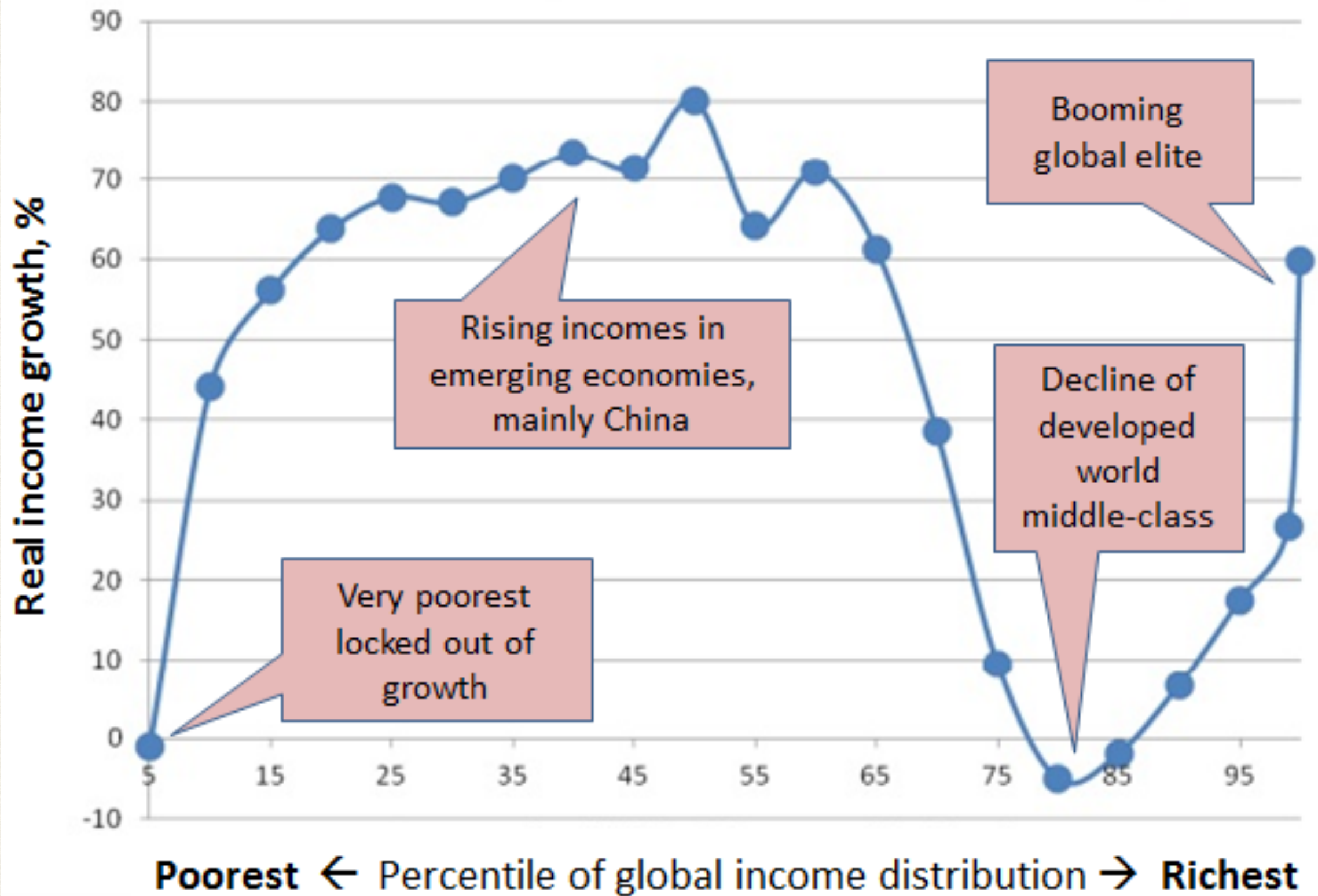


Figure 3.5: Wages have increased for those with the most education, while falling for those with the least. Source: [Acemoglu and Autor](#) analysis of the Current Population Survey for 1963-2008.

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?

Global income growth from 1988 to 2008



Data from Branko Milanovic,
former lead economist at the World Bank, now senior scholar at CUNY

There are Correlations Between...

- ... 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*
