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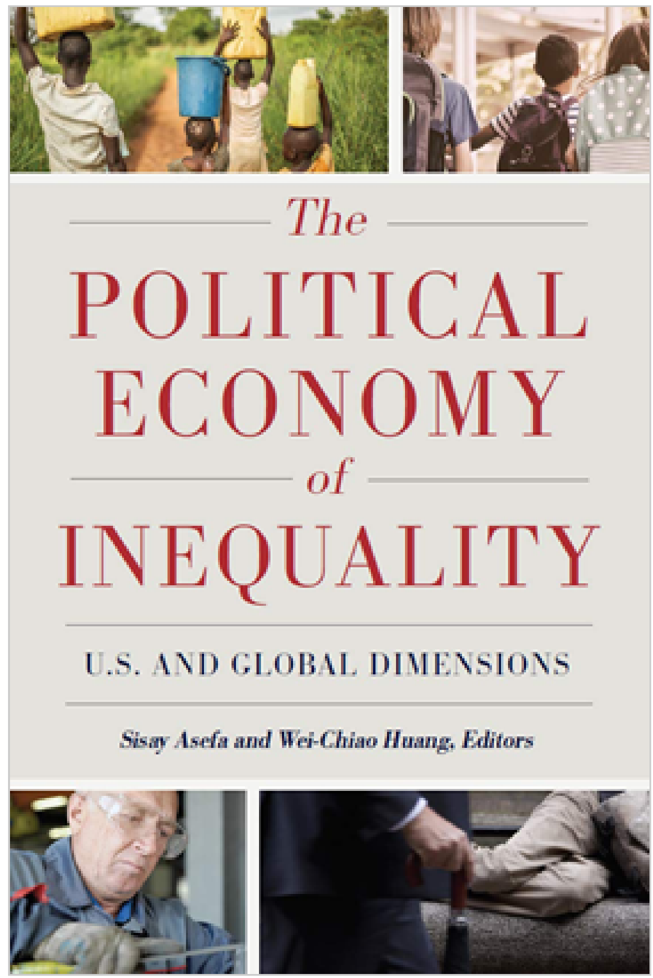
Inequality in the United States and abroad: sources and paths forward

Income and wealth inequality are topics of many impassioned debates, both in the United States and abroad. As income and wealth distributions have become more unequal in recent decades, people are asking, (1) Why is inequality rising? and (2) What can we do to reverse that rise?



Monica Angelotti
angelotti.monica@bls.gov

Monica Angelotti is an economist in the Office of Employment and Unemployment Statistics, U.S. Bureau of Labor Statistics.

If you are interested in these questions, you may want to read *The Political Economy of Inequality: U.S. and Global Dimensions.* Edited by Sisay Asefa and Wei-Chiao Huang, the book features contributions from six authors, each discussing a different aspect of inequality. The authors use a mix of economic and political theory, as well as economic data, to substantiate their analyses. While some chapters are accessible to a wider audience, others are tailored toward readers with a deeper understanding of statistics. Chapters 2–4 and 7 deal with topics of inequality in the United States, whereas chapters 5 and 6 discuss inequality abroad, in low-income countries. Because the chapters cover distinct topics and follow no specific order, this review groups them geographically, opening the discussion with chapters focusing on the United States.

Chapter 3, by Charles L. Ballard, provides a good overview of the history of income inequality in the United States, categorizing the main stages of that history as the Great Convergence and the Great Divergence. The Great Convergence, generally the period from the 1920s to the 1970s, was characterized by a decreasing share of total income received by the very top income stratum, indicating more equality. After the 1970s, however, the United States saw a gradual “disequalization” of income, entering the period of the Great Divergence, with the income distribution becoming increasingly top heavy. Ballard lists the political and economic factors that hastened the shift from the Great Convergence to the Great Divergence. Among these are the waning strength of labor unions, the deregulation of the financial services industry, and the stagnation of the minimum wage. Ballard also argues that voters often vote for candidates on the basis of social issues, ending up electing officials with economic policies that increase inequality and thus hurt most voters’ self-interest.

While Ballard’s chapter focuses more on income inequality at the broader societal level, chapter 4, penned by Mary E. Corcoran, zeroes in on inequality among children, examining how parental income affects children’s future earnings and educational attainment. Corcoran argues that parental income influences a child’s adult income through (1) investment in the child’s education and (2) factors independent of education, such as direct income transfers, professional connections, and social networks. Looking at father–son intergenerational income elasticities for the United States and a sample of Western European countries, Corcoran finds that elasticities are highest in the United States—that is, parental income more accurately predicts a child’s adult income in the United States than in other sampled countries. Therefore, the likelihood of a child going from “rags to rags” is higher in the United States than in other sampled countries, and the likelihood of a child going from “rags to riches” is lower in the United States than in other sampled countries.

But what factors are responsible for these patterns, and why has the strength of the relationship between children’s economic fortunes and those of their parents grown over time? Corcoran asserts that opportunity hoarding (i.e., growing gaps in background advantages between high-income and middle-to-low-income families), increased association between parental income and children’s educational outcomes, and growing returns to having a college degree are the major obstacles to achieving a “level playing field” for children raised in the United States. Corcoran suggests ways to reverse these trends, including prison sentencing reforms and prisoner reentry programs. These programs would help ensure that children are more likely to grow up in a household with two incomes instead of one, because incarcerated parents cannot provide financial support for their children and often have limited earning prospects after prison. Corcoran is also a proponent of increased availability of free or income-based public preschool programs, which would ensure that early educational opportunities are not determined by a child’s family income. The chapter ends by highlighting two scholarship programs in Michigan as examples of private initiatives to slow the growth of the opportunity gap—a location-based program available for students who reside in a specific city and a statewide program based on income. Although these programs are promising models of localized, privatized solutions to the problem, the authors could have also offered some examples of public, policy-based solutions whose impact on communities may be broader than that of individual scholarship programs.

Looking at the other end of the age distribution, chapter 4, written by Teresa Ghilarducci, addresses inequality in the distribution of retirement time among elderly populations in member countries of the Organisation for Economic Co-operation and Development (OECD). Ghilarducci reports a distributional shift in retirement time—a shift she calls "the new inequality"—and shows that, over time, people’s longevity has increased while their retirement income has decreased, leading to higher working ages and higher poverty rates for elderly populations in OECD countries. While increased longevity contributes to people working longer, Ghilarducci argues that changes in retirement systems also play a hand in the growth of the elderly workforce. Specifically, she identifies the financialization of pensions, or the increased reliance of pension funds on financial assets rather than social insurance programs, as a major reason why labor supply and poverty among the elderly have grown. Because pensions and retirement programs have become more individually directed and financialized, retirement income is less secure. Those who have little pension wealth are more likely to either work past their retirement age or retire into poverty. Although Ghilarducci does not specifically call on policymakers to reform the retirement system, she does appear to believe that greater reliance on social insurance and reduced pension financialization would lower elder poverty and allow retirees to live comfortably without needing to work.

Chapter 7, authored by James R. Hines Jr., approaches the U.S. inequality issue from a tax perspective. Hines argues that an ideal progressive tax system can address distributional concerns without sacrificing economic growth. To evaluate such a system, the author asks two questions. Firstly, does the system impose burdens on taxpayers on the basis of their ability to pay? And secondly, does it guarantee adequate funding for necessary and appropriate government programs? Given these questions, readers might expect Hines to argue for a reduction in tax expenditures, such as tax cuts and exemptions, for high-income earners, because he defends a tax system that imposes burdens on the basis of taxpayers’ ability to pay. Instead, however, Hines argues that, although the benefits of tax expenditures are concentrated among high-income earners, it is preferable to have plenty of tax expenditures, both for high- and low-income earners. In other words, the author argues for tax differentiation, or different tax exemptions for households in different situations, aiming to make the system more progressive. While Hines provides plenty of data on tax expenditures, tax rates, and other indicators broken out by income group, his chapter may be more suitable for readers with deeper knowledge of tax policy.

Chapters 5 and 6 focus on inequality in “developing countries” and sub-Saharan Africa, respectively. Although these chapters shift the book’s geographical focus, their themes are similar to those of other chapters.

In chapter 5, author David Lam asks the question, “Why has income inequality increased while education inequality has decreased in many developing countries?” Focusing on selected countries in sub-Saharan Africa, Southeast Asia, and Latin America, Lam conducts an empirical analysis to determine the relationship between education inequality and income inequality. Because education is a strong predictor of income, one might expect that, in theory, a more equal distribution of education within a country would translate into a more equal distribution of income. However, Lam’s analysis shows that, as mean schooling in the sampled countries rose between 1980 and 2010, earnings inequality also increased. Arriving at a conclusion akin to that reached in chapter 4 about opportunity gaps, Lam finds that increasing returns to higher education partly explain why higher mean schooling does not necessarily translate into income equality. This chapter could be valuable for anyone interested in studying education or income inequality in developing economies, especially given that many scholars and policymakers have pointed out that education is key to economic development. However, it would be useful for readers to have some knowledge of statistical methods in order to fully understand Lam’s analysis.

In chapter 6, author Howard Stein examines inequality trends in developing countries, focusing on sub-Saharan Africa. Stein takes a theoretical, historical approach in discussing the causes of and potential solutions to inequality in the region. Like other authors in the book, Stein looks at the Gini coefficient, a widely used measure of inequality, to gauge wealth and consumption inequality, showing that inequality has worsened over time in most countries of sub-Saharan Africa. The author demonstrates that, contrary to the mainstream theory of distribution, which attributes inequality to a lack of equality in the factors of production and technology, inequality stems from endogenous issues such as governance, institutions, and policy change. Specifically, Stein argues that the legacy of colonialism, followed by neoliberal development policies such as those set forth in World Bank and International Monetary Fund structural adjustment programs in the 1980s, were the real factors perpetuating inequality in sub-Saharan Africa. The author further argues that, today, the main cause of inequality in the region is the expansion of global value chains and their exploitative nature with respect to African countries. Although Stein’s chapter focuses less on data analysis and dives into sub-Saharan Africa’s economic history, it could be important for anyone interested in economic development in Africa or development theory in general.

It is easy to write off inequality as a characteristic of a free-market economy, but as it has worsened in the United States and elsewhere, its impact on ordinary lives has become increasingly clear. *The Political Economy of Inequality: U.S. and Global Dimensions* helps readers understand the causes, consequences, and potential solutions to inequality in its various forms. People interested in domestic and international economic policy, as well as international development, would benefit from reading this book. Those with specific interests in tax policy or education would benefit from reading individual chapters.