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14 The Mosaic of Inequality

In 1998 the Gallup public opinion research firm asked 5,001 Americans why "some people get ahead and succeed in life and some do not." Respondents were asked to consider twelve possible answers and to rank the answers from "extremely important" to "not at all important." The twelve possible answers were "good luck," "hard work," "inherited money," "connections," "education," "dishonesty," "parents and the family environment," "the talent one is born with," "willingness to take risks," "good looks," "one's race," and "being male or female." There was general agreement among the respondents that education, hard work, one's family environment, connections, and luck were important.

But there were also significant differences. Those who themselves had higher incomes thought that hard work was more important, while those with lower incomes thought that luck, connections, inheritances, dishonesty, and one's sex were more important. Far more than white men did, both women and African Americans thought that one's sex and one's race counted as significant factors in getting ahead. Lower income respondents as well as women and African Americans all ranked education higher than better-off respondents, men, and whites did. Clearly, there are different opinions as to why some people get ahead while others do not.

Interest in what it takes to get ahead has been growing because those who *are* ahead have been gaining ground over the rest. Indeed, there is concern about the fact that although the playing field has never been exactly level, it is increasingly tilted against the less well off. Even the president of the New York Federal Reserve Bank, William McDonough, warned in his commencement address to the 2003 graduating class at Johns Hopkins University School of Advanced International Studies that rampant inequality would tear at the social fabric and was "unsustainable in a democracy."

Is it *fair* that being "good looking" makes it probable that you will have a higher income than the rest of the people who are otherwise similar to you? (It does, by the way, for men as well as for women, and even for those in jobs that do not require a person to be "on display.") If you think this is acceptable, how do you feel about the fact (also true) that obese women earn less and that short men also earn less? Most people think it is a *good* thing that hard work and education pay off. But what about race, sex, or one's parents' wealth? The fact that these things do help one get ahead

(this *is* a fact) strikes many people as unfair. And if a high-quality education is a way to move up the economic ladder (it is), many people think it unfair that educational opportunities are more available to those with well-to-do parents.

Some people have the free time and the income that allow them to make real choices about such things as where to live and what interests to pursue. Others lack either the time, the income, or both. Racial insults, sexual harassment, and hurtful indignities are experienced by some, but not by others. Some lawyers charge well over $1,000 an hour for their services, while kitchen staff at restaurants (working just as hard under less pleasant conditions) typically get less than 1 percent of that amount.

Why do we call some differences "inequalities," find them unacceptable, and advocate policies to eliminate them? And why do we, at the same time, regard other differences as innocuous or possibly even good because they make for "diversity"? The simple answer is easy: unacceptable inequalities are those that are unfair. But deciding *what* is unfair is sometimes difficult.

Deciding what is unfair often requires knowing how differences come about. If a lawyer's high pay is the result of his hard work in school, while the kitchen worker is low paid because she is lazy, the pay difference would seem more acceptable than if the pay difference is the result of racial discrimination or has to do with the fact that the lawyer is a man and the kitchen worker a woman. The key to fairness here is *equality of opportunity*, as discussed in Chapter 3.

Further difficulties arise if we turn from the "inequality of what" issue to ask: inequality *between whom*? Is it fair that the minimum wage kitchen worker in the United States makes five times more in an hour than does the agricultural worker in some other country who tended the crops to produce the food that she is now preparing in the kitchen? Why do we worry about the high-paid lawyer and not about the much lower-paid picker in Mexico or South Africa?

In the previous two chapters we explained how two classes, the capitalist class and the working class, interact in labor markets and firms. The capitalist class is defined by its ownership and control of the capital goods used in production and its power to dispose of the resulting surplus product. The working class is defined by its lack of such ownership and control rights. But when viewed from the standpoint of the economy as a whole, this picture is incomplete. There are large numbers of management personnel who lack substantial wealth but nevertheless have control over the labor of others. As explained in Chapter 7, these managers constitute the new middle class. At the same time there are people who still can be thought of as being in the old middle class because they own the capital goods they need to carry on their work but neither have a boss nor are one.

The class structure, however, is not a set of cubbyholes into which the accumulation process sorts people neatly labeled into four homogeneous types: worker, capitalist, new, and old middle class. Rather, there is a continuum of inequalities of many dimensions: of ownership, of income, and of power, all overlaid with differences between men and women and among races and ethnic groups. Moreover, there are quite a few people who live outside the class system outlined above. They include those who depend on government *transfer payments* such as government social security benefits, unemployment benefits, and assistance to veterans, as well as those who depend on charity, those residing in institutions (like hospitals and prisons), and many of those living by crime.

There are also major differences within the four classes considered in this book. Among employers, there are the owners of the largest firms, employing hundreds of thousands, but there are also farmers, architects, and store owners with just a few

employees. The differences among employees are equally great. The people in the approximately 2 percent of the U.S. labor force who are paid at or below the federal minimum wage eke out livelihoods that, depending on whether they work full time all year or not, and how many dependents they have, can place them below the poverty line. (Those receiving a higher state or city minimum wage above the federal minimum wage are only a little better off.) They are more likely to fall below the poverty line if they are not employed full time all year. In contrast, a few members of the working class make more in a month than minimum wage workers do in a year.

In this chapter we discuss inequalities of income and wealth, not of health, happiness, or other things one might desire. We do this because information on income and wealth is especially detailed and comprehensive, and because the wealth and income data help us to see some inequalities that matter. Having more income and wealth affords more access to goods and services, more personal independence, and more opportunities to attain things like health and happiness. Those with less income and wealth tend to have less of all these things.

This brings us to the title of this chapter. A *mosaic* is an ancient art form in which a picture—for example, an image of a person or animal—is constructed by assembling small, differently colored pieces of tile. Viewed from a distance, the image is clearly recognizable, but up close what you see are only the pieces. Similarly, the many facets of inequality—race, wealth, sex, schooling, and so on—constitute a kind of "mosaic." In this chapter we examine not only the more significant pieces but also the larger picture.

The main ideas of the chapter are: (a) *among the determinants of economic success in the United States, one's race, sex, and parental income are very important,* and (b) *by almost any measure, income inequality rose dramatically in the nearly half-century since the early 1970s and remains high.*

These main ideas are expressed in the following five points:

1. Living standards are not simply a matter of material goods. People's well-being depends on their health, their material comfort, and their access to social and natural environments that contribute to their whole human development. The economy contributes to people's well-being when it provides the goods and services necessary to meet these objectives and when it shapes the kinds of social and natural environments essential to people's well-being.
2. Inequality of both income and wealth increased sharply during the nearly half-century from the early 1970s on, and remains high.
3. The children of families with high incomes are much more likely to have high incomes when they grow up, and the children of poor families are much more likely to have low incomes. The higher levels of schooling (and better quality of schooling, year for year) enjoyed by the children of well-off parents account for some of these differences, but only some.
4. African Americans and women continue to earn less, on average, than men and people of European descent. The significant income gains made by African Americans relative to European Americans from 1939 to 1979 have not continued to the present.
5. Jobs in the U.S. economy remain highly segmented: "women's work" tends to be less well paid, but even in the same jobs, women earn less than men.

Well-Being and Inequality

We often make statements such as "The Hernandez family is better off than the Jones family," "People live better in Sweden than in Mexico," or "My living standard is much higher now than when I was just out of college." What do we mean by *better off, live better*, and *living standard*? These terms refer to all the things that influence a person's well-being.

Influences on Well-Being and the Economy

A major influence on well-being is access to food, shelter, clothing, health care, and other necessities of life. Also important is access to the amenities and luxuries that make it possible to feel that we are living well, or at least not worse than other people around us. Moreover, a person's sense of well-being depends not only on having the respect of others but also on having a sense of belonging to a community, whether it be a family, a neighborhood, a work group, a religious group, or a nation. Without this sense of belonging, life can become meaningless.

Living standards also depend on having enough free time and enough energy left after finishing one's work to enjoy life. The workaholic who makes $120,000 a year but has no free time may not be better off than a person with plenty of free time who earns $40,000 a year. No less important is the ability to make important choices regarding, say, education and other means to the achievement of one's goals in life. The quality of our work experience is also an important influence on our well-being: few things can bring a person down as much as hating to go to work every morning. An additional influence on our well-being is the quality of our natural environment and the extent to which it allows us to experience good health and to enjoy the many pleasures that depend on our natural surroundings. How each of us regards the many influences on our well-being will, of course, differ according to our values. But, however we rank them, the basic components of well-being have to include not only material goods but also such things as health, freedom, respect, and belonging. Thus, living standards depend both on tangible things and on the intangibles that help to determine the quality of life. In Figure 14.1 we sketch some of the factors that can influence a person's well-being.

Obviously our well-being depends critically on the economy. It is through the labor processes that make up the economy that we get the food, clothing, shelter, amenities, and luxuries that make life possible and enjoyable. Less obvious, but no less important, is that the way the economy is organized influences the quality-of-life aspects of well-being: health, freedom, respect, and belonging. This is true for a number of reasons.

First, the organization of the economy affects the health status of the population. Some societies provide adequate health care to all without regard to ability to pay; in other societies adequate health care is available only to those who can pay for it. In any case, there are economies in which workers must work at such a pace that stress is a major health problem; in others the pace of work is more worker-friendly. In a laissez-faire capitalist economy (one allowing the unrestricted pursuit of profits by companies without government regulation) environmental pollution may impair the health of the population.

Second, the structure of the economy also influences how free we are to make or to influence the major decisions affecting our lives. A person's freedom may be curtailed by an economic system—such as that which existed in the former Soviet Union—that determines where a person will work or restricts what a person can do

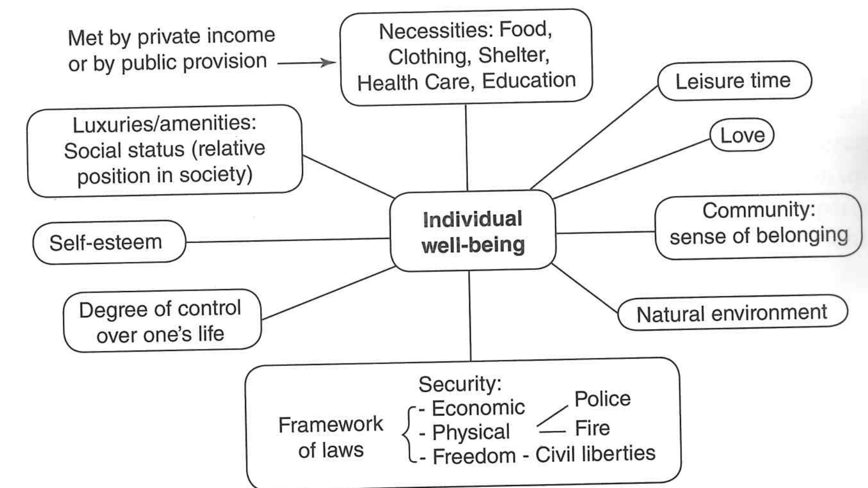


FIGURE 14.1 The determinants of well-being.

Without attempting to be comprehensive or to suggest the relative importance of each determinant, this figure displays in graphic form some of the requirements for well-being in any society.

with his or her property. A person's freedom can also be limited by lack of income, denying any real choices other than those focused on making ends meet.

Third, though the respect we feel for one another can be attributable to many different accomplishments and characteristics, if one is much poorer than others, even if one has access to the necessities of life, it can be difficult to gain respect. For example, a woman who has two children might earn $18,000 a year. In the United States she would be below the poverty line, yet the same woman earning the equivalent of the same income in Bangladesh and supporting two children would be considered reasonably successful (she would be earning twice the average income of a three-person family like her own in that country). The point is not that she could buy more if she were in Bangladesh (in fact, she would find that her dollars would buy more of some things in Bangladesh than in the United States, but less of others) but that she would *feel* better off, because she would compare herself with others less well off, and others would make the same comparison. One's sense of well-being thus depends at least in part on one's income compared to the income of others.

Fourth, closely related to the sense of respect is the sense of belonging to some group. Some economies are organized around very long-lasting neighborhoods and family units. In other economies people move frequently from one place to another in search of or because of work, with the result that neighborhoods are often made up of people who do not even know one another. Sometimes the workplace itself feels like a large community in which one cares about fellow workers and they reciprocate. In other workplaces people may be simply passing acquaintances or perhaps even hostile competitors.

Measuring Living Standards and Inequality

Measuring living standards and comparing them among people, among national averages, or between different time periods is very difficult. Many of the influences on the quality of life are hard to measure even if we could agree on how important each is.

Does a gallon of milk contribute more or less to well-being than, say, a pound of shrimp? The standard economist's answer is that the shrimp is worth more because people are willing to pay $15 for the pound of shrimp but can get a gallon of milk for less than $5.

The most common approach in economics is to measure a person's standard of living by his or her income and to use separate measures to indicate health status, income relative to others, the quality of the natural and social environment, and the like. Similarly, the standard of living in a country is often measured by the total income in the country divided by total population, that is, the per capita income. *Economic growth* is defined as an increase in the per capita income of a country. As an approximation of access to goods and services, measuring by income makes sense. But there are a number of problems with using income as a measure of well-being.

First, by measuring income and not measuring leisure, we fail to take account of one of the main determinants of well-being, free time. By the income standard the workaholic mentioned earlier is better off than someone who works half as hard and makes just a little less money. But by most people's standards the extra sleep, the free time to enjoy one's friends and family, and other such pleasures would make the leisured person with the lower income better off. In Sweden, for example, *income* per employed person increased only a little faster than that in the United States over the last half century (see Figure 15.6 in the next chapter). But the *leisure time* of the average employed Swede grew much more rapidly, as work hours in Sweden were cut back by the equivalent of two months of work time, while the reduction in work hours in the United States was less than half of this. Thus we can see that the income measure by itself understates the Swedes' improvement in well-being relative to that of Americans during this period.

Second, income measures a person's access to commodities, but many important goods and services are not commodities. Examples are home-cooked meals and all other products of household labor (house cleaning, care for one's children, and the like). Other examples of goods and services that are not commodities are public education, police protection, and other government services. Moving to a town with better schools and better police protection undoubtedly is an improvement in one's living standard, even defining this narrowly to mean simply access to goods and services. Yet this move need not be reflected in any change in measured income.

Third, the prices of goods and services often fail to measure their contributions to well-being. For example, a quarter of a pound of shrimp and a gallon of milk might cost the same, but most people would agree that the milk is in some sense more essential to well-being than the shrimp. The reason is that milk is a necessity, and shrimp is a luxury. To the person who pays $15 a pound for shrimp, doing without it would probably be no hardship. For most people, this is most likely not true of milk. Clearly, then, income is an inadequate measure of well-being because the prices that people pay for different goods—$15 for a pound of shrimp, $4 for a gallon of milk, and so on—may not properly value the contribution of each good to well-being.

Because the less well-off tend to spend more of their incomes on necessities and less on luxuries, a given amount of income is likely to contribute more to average well-being in society if more of the income goes to the less well-off. For this reason the average *standard of living* (or well-being) depends on *more than* the average amount of *income* at some point in time or in some country. We also want to know how evenly it is divided. Moreover, we are interested in the distribution of income for what it says about the degree to which economic outcomes are *fair* (see Chapter 3 on fairness).

Measuring inequality in the distribution of income, like measuring income itself, has its difficulties. A commonly used approach is to rank all households or

individuals by their income from the poorest to the richest and then divide them into fifths—or "quintiles"—of the population. We then calculate what percent of total income each fifth of the population receives. According to the most recent data from the U.S. Census Bureau, in 2014 the bottom fifth of the population received 3.1 percent of the nation's total income. The next fifth got 8.2 percent, so the poorest 40 percent received 11.3 percent of the total income, and so on up to the top fifth, which received 51.2 percent of all the income. The richest 5 percent of the population received 22.4 percent of all the income. (The source is cited in the caption for Figure 14.4.)

Growing Inequality

The recent trend toward greater income inequality is especially striking when compared with the previous trend toward greater equality. Figure 14.2 shows the fraction of total income received by the richest 1 percent of the U.S. population over the last century. The decline in the income share of the very rich from before

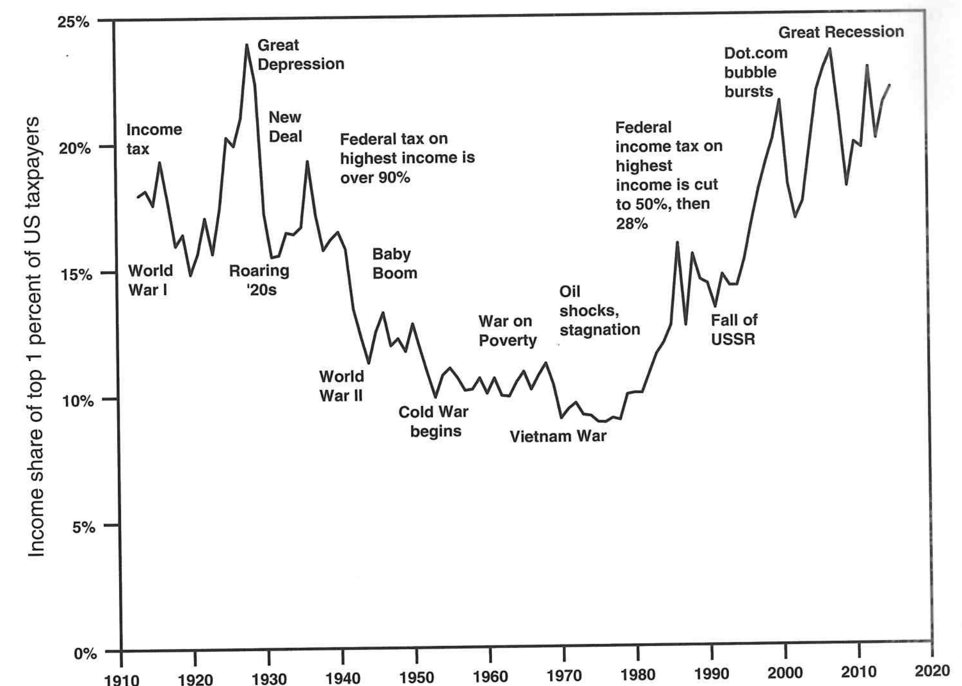


FIGURE 14.2 The lucky few: Income share of the top 1 percent of U.S. taxpayers, 1913–2015.

Share is calculated by dividing the total income of the top 1 percent of taxpayers, including capital gains, by the total income of all income earners, including capital gains. Data from the same source are also available to calculate the share if capital gains are excluded; however, the difference is not large.

Source: Data from Emmanuel Saez, "Income Inequality in the United States, 1913–1998," with Thomas Piketty, *Quarterly Journal of Economics*, 118, no. 1 (2003): 1–39 (Tables and Figures Updated to 2015 in Excel format, June 2016), Table A3: Top fractiles income shares (including capital gains) in the United States, available from https://eml.berkeley.edu/~saez/.

World War I continued with only minor reverses until the 1970s. The 1920s were especially "roaring" if you were very rich, but in the subsequent decades the top income recipients' piece of the pie shrank considerably—probably in large part because the marginal federal income tax rate on the very highest incomes was 63 percent or higher from 1932 to 1981, and was 91 percent or higher from 1944 to 1963. (This tax rate was not on the whole incomes of the very rich, but only on the income above a rather high level.) The fact that the top 1 percent received about 9 percent of the total income in 1970 means that the typical person in this group had an income about 10 times that of the average person's—so the rich person's slice was not all that skimpy. The top 1 percent's share fell from a high of 25 percent in the late 1920s to a low of 9 percent in the late 1970s. It has been rising since President Ronald Reagan took office in 1981 and began cutting taxes on high incomes and deregulating the economy.

Among "the lucky few," of course, are CEOs of large corporations. Figure 14.3 shows changes in the ratio of CEOs' compensation in the United States to an estimate of the average worker's wage in their firms, from 1965 to 2015. The figure shows an increase in this ratio from 20:1 in 1965, to 59:1 in 1989, to 299:1 in 2015.

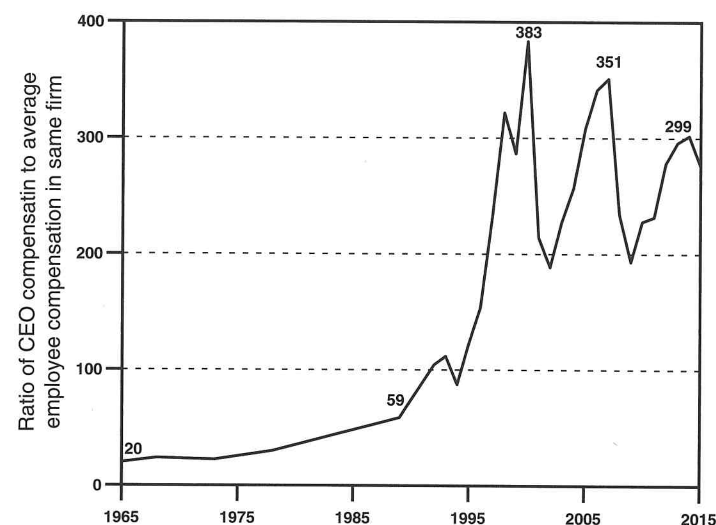


FIGURE 14.3 U.S. CEO pay in relation to the average worker's pay, 1965–2015.

For each corporate CEO, researchers used U.S. Bureau of Labor Statistics and Bureau of Economic Analysis data to estimate the total compensation (wages plus benefits) received by a typical production/nonsupervisory worker in the key industry in which the corporation operated. The CEO compensation was divided by this average worker's estimated total compensation to get the ratio for that corporation. Then for each year, these ratios for specific firms were averaged to obtain the ratio shown.

Source: Lawrence Mishel and Jessica Schieder, "CEO pay remains high relative to the pay of typical workers and high-wage earners," July 26, 2017, available at http://www.epi.org/130554. References to methodology are cited in the paper.

Figure 14.4 presents data on the recent upturn in income inequality in a different way. In this figure one can see that in the first year of the last third of the twentieth century, 1967, the top 20 percent (or top "quintile") of U.S. households received 43.8 percent of the nation's income, while the bottom quintile received 4.0 percent. By 2014, nearly half a century later, the top quintile's share had increased to 51.2 percent, while the share of the bottom quintile had shrunk to 3.1 percent. Also apparent is the fact that the shares received by all the quintiles other than the very top one fell. If "middle income" is defined as the 2nd, 3rd, and 4th quintiles, the combined share of middle-income households shrank from 52.3 to 45.7 percent of total income between 1967 and 2014. Households in the quintile exactly in the middle, the 3rd quintile, saw their income shrink from 17.3 to 14.3 percent of the total.

Figure 14.5 shows that from 1966 to 1979 all family incomes in the various quintiles grew at similar rates, but after 1979 growth rates of income diverged, with the richest enjoying much faster rates of income growth than the poorest. What the figure shows most starkly is that it is not inevitable that inequality increases; in fact, other sources show that there was essentially no increase in income inequality during the period 1947 to 1973, although Figure 14.5 only shows data from 1966 on. High income tax rates on the highest incomes likely were key in preventing inequality from rising during that period. That highest rate was reduced in 1963 to 77 percent, in 1965 to 70 percent, in 1982 to 50 percent, and later even further.

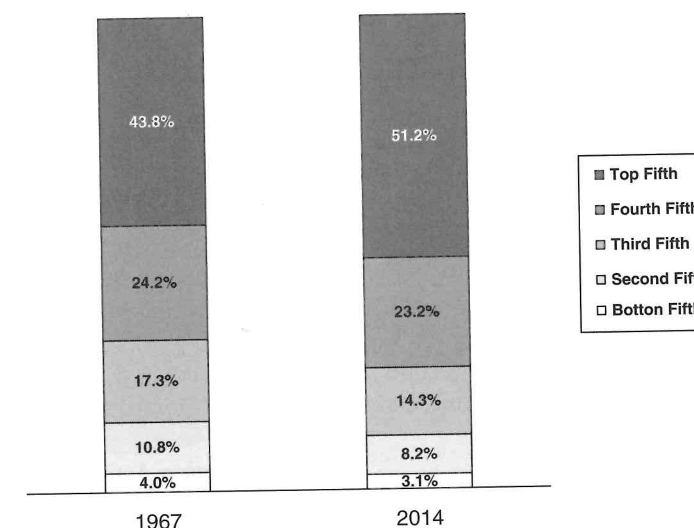


FIGURE 14.4 Income shares by quintile in the U.S., 1967 and 2014.

This figure shows increasing income inequality among U.S. households from 1967 to 2014. For each year, households were ranked by income and then divided into five equal groups (quintiles). In 2014, for example, the poorest quintile received 3.1 percent of total income (less than in 1967), while the richest quintile received 51.2 percent of all income, considerably more than in 1967.

Source: U.S. Census Bureau, *Historical Income Tables—Households. Table H-2:* Share of Aggregate Income Received by Each Fifth and Top 5 Percent of Households, All Races: 1967 to 2014, available at http://www.census.gov/hhes/www/income/data/historical/household/.

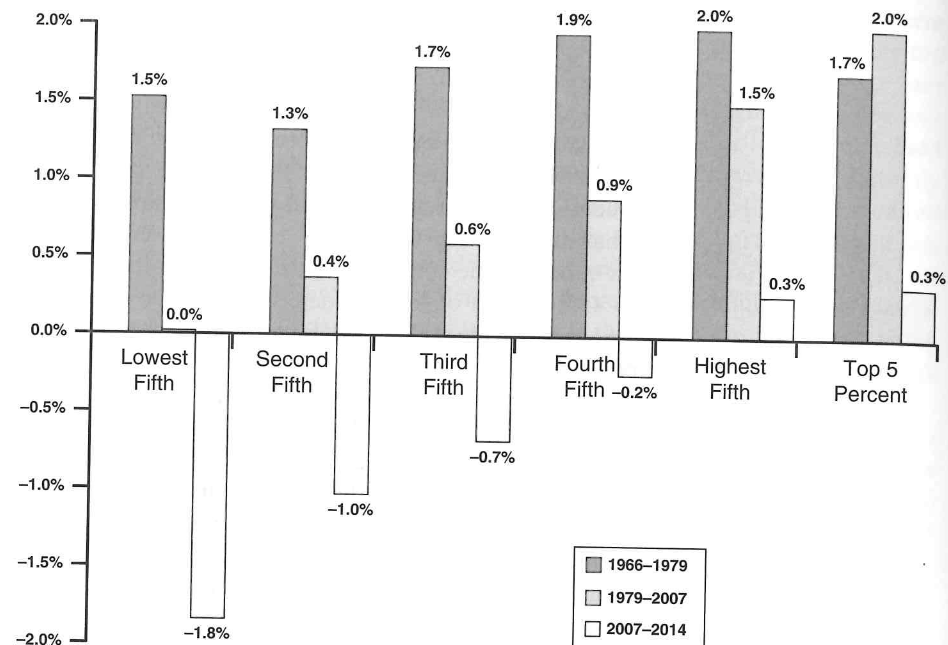


FIGURE 14.5 Growth rate of family income, by quintile, 1966–2014.

This figure shows how rapidly the average family income in each fifth (quintile) of all families grew during three distinct time periods between 1966 and 2014. Although each quintile's income grew at similar rates before 1979, growth rates diverged after that, so that inequality grew, leading to the dramatic changes shown in Figure 14.4.

Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, Table F-3: Mean Income Received by Each Fifth and Top 5 Percent of Families, All Races: 1966 to 2014, available at http://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-families.html.

Wealth Inequality

Wealth (or **net worth**) refers to the total value of a person's assets (what the person owns) minus the total value of the person's outstanding debts, or **liabilities** (what the person owes).

Income is what a person (or household, or family) receives during a certain period of time (such as a week, a month, or a year). It is a *flow* and is measured per unit of time ("I make $3,000 *per month*"). In contrast, **wealth**, or **net worth**, is measured at a point in time, and is what you own (*assets*) minus what you owe (*liabilities*, or debts):

$$Net\ worth = Assets - Liabilities$$

So one could say, "I own assets worth $120,000 and I have total debt of $70,000, so my *net worth* is $120,000 – $70,000 = $50,000." *Wealth* is a *stock*, not a flow. As income flows into your hands, your wealth increases—until you spend it. Think of a stream emptying into a pond: The amount of water passing by someone on the bank of the stream per unit of time is a *flow* and the amount of water in the pond is a *stock*.

What kinds of assets are we talking about owning? There are two main types. The first type is *nonfinancial assets* like land, homes or other buildings (including rental properties), cars, furniture, gems, racehorses, valuable paintings, yachts, and such. The second type is *financial assets* like stocks, bonds, other securities, unincorporated businesses, and intellectual property rights (patents, copyrights,

trademarks). Economists sometimes consider one's skills and state of health to be a kind of wealth called *human capital*, but this comes up mainly in studies of education and its effects; here we always use *wealth* to refer to nonhuman capital only.

Wealth of many kinds generates either a flow of income, or else a flow of services that could be sold to get income. Owning such things as a house and a car yields housing and transportation services that, in their absence, one would have to purchase by renting a dwelling, hiring a taxi, or paying to ride a bus. Ownership of financial assets like bonds often yields income to the owner. Ownership of assets whose value rises at least as fast as inflation (such as land, or stocks during some periods) can be a fairly secure way to hold one's wealth. Ownership of assets can afford economic security, for the owner of a substantial amount of wealth can sell some assets to gain income needed for an emergency or to tide him or her over in bad times.

Figure 14.6 shows that the wealthiest typically hold a different combination of assets than the less wealthy. In 2010, fully 75.9 percent of the wealth of the wealthiest 1 percent of households in the United States was invested in corporate stock or in unincorporated business equity, while only 9.4 percent of it was tied up in residence ownership. But in the same year, households in the middle three-fifths (not the top or the bottom fifth) of the wealth distribution held most of their wealth in the form of ownership of their own residences, with corporate stocks and ownership of businesses amounting on average to only 12.0 percent of their total wealth.

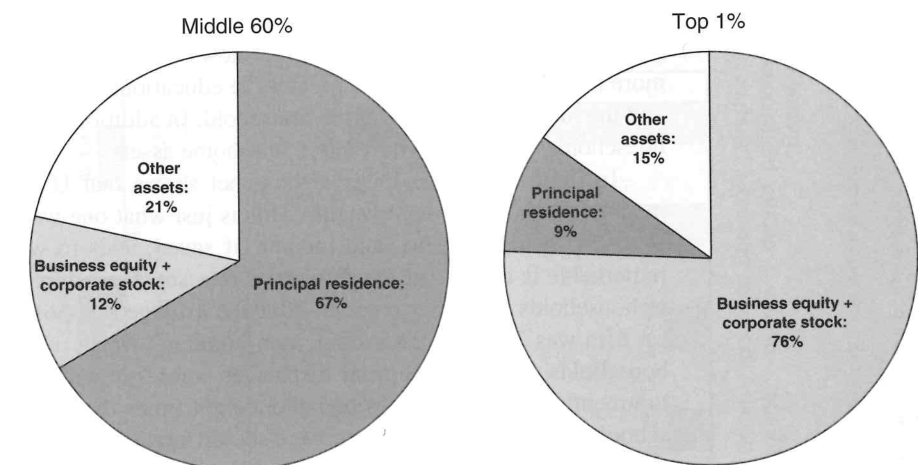


FIGURE 14.6 Composition of wealth holdings at different levels of wealth distribution in the U.S. in 2010.

This figure shows how the middle three-fifths of the wealth distribution as a group held its wealth in 2010 (left pie chart) as compared with how wealth was held by the top 1 percent of the wealth distribution in the same year (right pie chart). The three categories of wealth used in this figure are (1) ownership of a residence; (2) ownership of business equity, corporate stock, financial securities, mutual funds, and personal trusts; and (3) all other kinds of assets, including the value of pension funds, liquid assets (bank deposits, money market funds, and cash surrender value of life insurance), and personal possessions such as automobiles, household furniture, and personal items.

Source: Data from Edward N. Wolff, "The Asset Price Meltdown and the Wealth of the Middle Class," National Bureau of Economics Research (NBER) Working Paper 18559 (2012), Table 5: Composition of Household Wealth by Wealth Class, 2010, available at www.nber.org/papers/w18559.

The composition of the wealth of the rich and the not-so-rich is of considerable economic and social significance. This is due to the obvious fact that owning a home does not, by itself, enable one to be an employer of others or to work for oneself. To be an employer or to be self-employed, one needs to own assets other than one's home. An employer with a small shop employing, say, ten people would probably need to own at least a quarter of a million dollars in assets. This might be enough to buy the equipment needed to employ the workers; no less important, it would increase the employer's chances of being able to borrow additional funds from a bank or some other lending source.

Thus, while home ownership can contribute to one's personal autonomy, it is the ownership of other assets, in particular, ownership of capital goods used in production, that allows for true economic autonomy—the freedom to work for oneself, to employ others, or to choose not to work at all. One way in which a person can establish ownership of capital goods is to own stock issued by corporations and traded in stock markets. Such stock can provide not only income but also, if a sufficient amount of stock is owned, control of a corporation. As explained in Chapters 5 and 10, income from owning corporate stock takes the form of dividends, and corporations can decide whether to pay dividends. If they are paid, the corporation can determine how much will be paid per share of stock. Figure 5.2 shows that corporate stock is mainly owned by the rich: In 2011, the wealthiest 10 percent of U.S. households owned more than 80 percent of the total, while the least wealthy 90 percent of households owned less than 20 percent.

The distribution of non-home assets in the United States in 2011 (that is, counting all assets except ownership of a residence, and all liabilities except a home mortgage loan) is shown in Figure 14.7. It shows that a U.S. household is likely to have more non-home net assets the greater the educational attainment of the householder, and the higher the income of the household. In addition, white households and male households are likely to have more non-home assets.

In Figure 14.7, the lower right panel shows that U.S. households with more income tend to have more wealth. This is just what one would expect, since wealth usually provides income, and income, if saved, adds to wealth. However, what is remarkable is the *size* of the difference in asset ownership between the richest fifth of households and other ones: In 2011 the average non-home net worth of the richest fifth was *21 times* the average non-home net worth of the lowest three-fifths of households combined. Similar disparities were true with respect to educational attainment: College graduates had about eight times the non-home net worth of high school graduates. Also striking were the differences by race and ethnicity. In 2011, white households had over fifteen times the non-home net worth of black households, and over eight times the non-home net worth of Hispanic households. A household consisting of a married couple and possibly others had average non-home net worth over five times that of a single male householder (with or without other family members), and over eight times that of a single female householder (possibly with other family members such as children).

A common way of measuring the distribution of wealth is to look at how much of a country's wealth is owned by different segments of its population. As Figure 14.8 shows, the share of the top 10 percent of households in the United States increased from 68.4 percent to 76.7 percent between 1969 and 2010. During the same period the fraction of total wealth owned by the poorest 60 percent of U.S. households fell from 6.4 percent to 1.7 percent. Overall wealth inequality, in other words, has been growing hand in hand with income inequality.

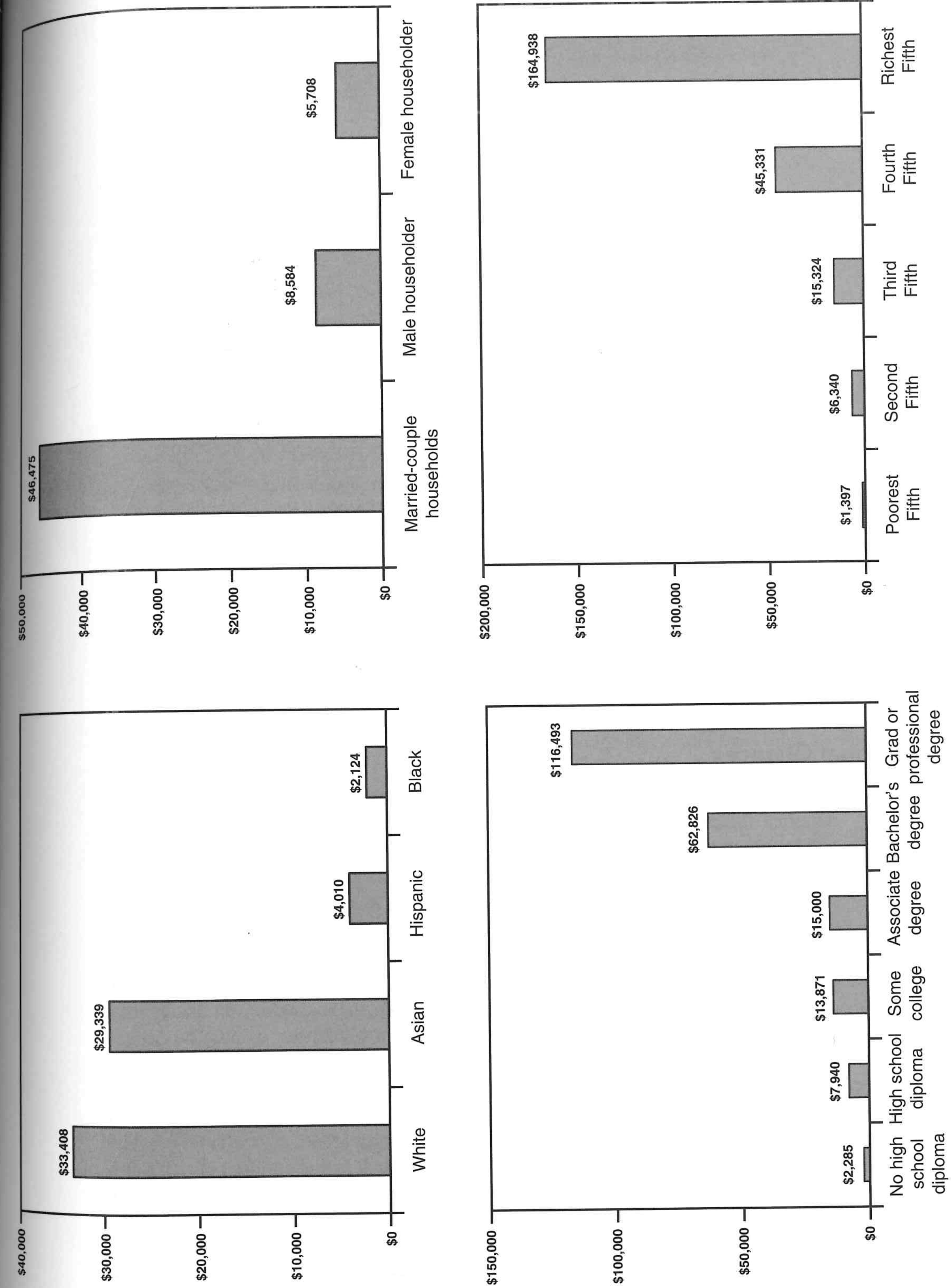


FIGURE 14.7 Distribution of median non-home net worth among U.S. households by race/ethnicity, gender, education, and income, 2011.

This figure shows how net worth, excluding ownership in a residence, was distributed among U.S. households in 2011. A household's *net worth* is the value of the assets the household owns minus the value of the debts it owes. The median is the household in the middle of a category of households that have been ranked by non-home net worth.

Source: U.S. Census Bureau, Wealth, Asset, & Debt of Households Detailed Tables: 2011, Wealth and Asset Ownership by Year, Table 1, Median Value of Assets for Households, by Type of Asset Owned and Selected Characteristics: 2011 (from Survey of Income and Program Participation, 2008 Panel, Wave 10), available at https://www.census.gov/data/tables/2011/demo/wealth/wealth-asset-ownership.html.

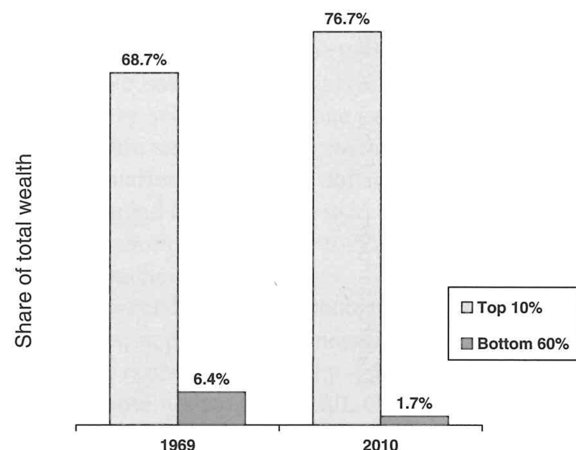


FIGURE 14.8 Increasing concentration of wealth in the U.S. between 1969 and 2010.

The ownership of wealth (net worth, or assets minus debts) among households in the U.S. became more concentrated between 1969 and 2010. The pair of columns on the left show that in 1969 the top 10 percent of American households owned 68.7 percent of the wealth in the U.S., while the bottom 60 percent of households owned 6.4 percent of it. The pair of columns on the right show that by 2010 the share owned by the top 10 percent of households had increased to 76.7 percent, while that of the bottom 60 percent of households had fallen to 1.7 percent.

Source: Data from Edward N. Wolff, "The Asset Price Meltdown and the Wealth of the Middle Class," National Bureau of Economics Research (NBER) Working Paper 18559 (2012), Table 2: The Size Distribution of Wealth and Income, 1962–2010. Available at http://www.nber.org/papers/w18559.

Unequal Chances

Those who responded to the Gallup poll that asked what it takes to get ahead in America ranked parents, good education, connections, and inherited money as a good thing to have if you are looking for economic success. They are not mistaken.

One of the enduring cultural ideals for Americans is that the United States is a "land of opportunity" where fortunes are won and lost from one generation to the next through some combination of ambition, sweat, and luck. The ideal originated during the nineteenth century, when the United States welcomed poor immigrants from the class-divided societies of Europe. Many of them found opportunities for land ownership, entrepreneurship, and schooling for their children on a scale that would have been unimaginable in the countries from which they came. The American dream means that how far you get in life is determined not by who your parents are but rather by your own abilities and by how hard you work.

Research relating the income of parents to the subsequent incomes of their grown children has shown, however, that having rich parents pays off. Figure 14.9 presents data from a study indicating, first, how likely it is that children of rich families in the United States will themselves end up being rich and, second, how likely it is that children of poor families will themselves end up being poor. The details of the study's results are given in the caption under the figure, but the most striking finding is that children whose parents are in the richest 10 percent of the U.S. income distribution have a better than 40 percent chance of ending up in the richest 20 percent of the population, while children of parents in the poorest 10 percent of the income

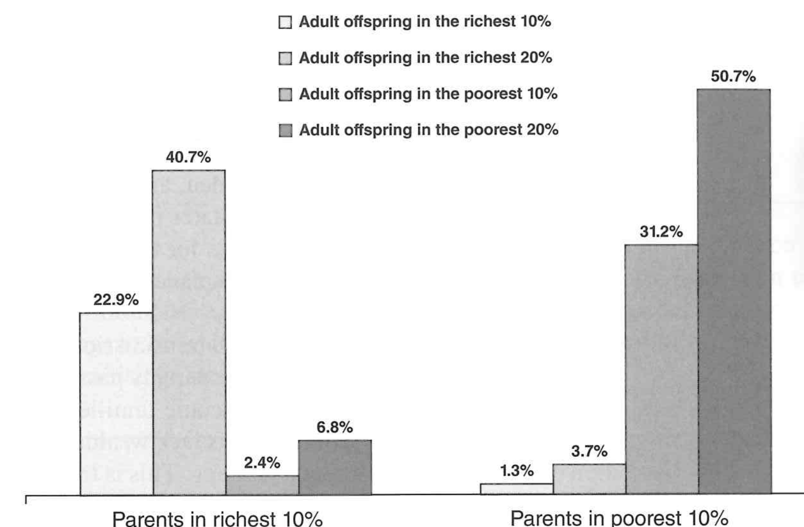


FIGURE 14.9 Unequal chances: Family background and economic success in the U.S.

What percent of the adult offspring of rich parents are poor? What percent of adult offspring of poor parents are rich? This figure uses data collected from a representative sample of individuals and families since 1968 by the University of Michigan Panel Study of Income Dynamics (PSID) to answer these questions.

The four columns grouped on the left side show what happens to the children of parents in the richest 10 percent of the U.S. population. Of these children, 40.7 percent end up, when they are adults, being in the richest 20 percent of the population, with only 2.4 percent ending up in the poorest 10 percent of the population. The four columns grouped on the right side of the figure show that of children who start off life in families in the poorest 10 percent of the population, 31.2 percent end up in the poorest 10 percent of the income distribution as adults; and only 3.7 percent of the children of poor families end up being in the richest 20 percent of the population.

Source: Data from Samuel Bowles and Herbert Gintis, "Intergenerational Inequality," *Journal of Economic Perspectives* 16, no. 3 (Summer 2002): 3–30.

distribution have a greater than 50 percent chance of ending up among the poorest 20 percent of the population.

Figure 14.9 also shows that among children whose parents are in the poorest 10 percent of the income distribution, only 1.3 percent end up as adults in the richest 10 percent of the income distribution. If the playing field were level in the sense that children's incomes were not affected by their parents' income, 10 percent of them would be in the richest 10 percent. Children from the poorest 10 percent have only a 3.7 percent chance of making it into the richest 20 percent of the income distribution. By contrast, among children whose parents are in the richest 10 percent, more than 20 percent (22.9 percent) will have incomes as adults placing them in the top 10 percent, while 40 percent of these offspring of the very rich will be in the top 20 percent of the income distribution. The figure also shows that the children of the rich are very unlikely to wind up poor, while more than half of the children of the poor wind up in the lower 20 percent of the income distribution.

Thus, children from the richest tenth of the population end up as adults in the top 10 percent of the income distribution twenty times more frequently than do children

from the poorest tenth of the population, while children from the poorest tenth of the population are fifteen times more likely than are children from the richest tenth to end up in the bottom 10 percent of the income distribution. While the cards are stacked heavily against the poor in the scramble for financial success, children of rich parents seldom experience downward mobility.

By comparison to Canada, Sweden, and many other nations on which similar research has been done, the United States is far from the "land of opportunity" that many have hoped it is. What accounts for the perpetuation of fortune and hardship from generation to generation? Two explanations are widely believed, but neither one is entirely adequate.

According to one explanation, the transmission of economic success across generations occurs because high-income parents pass on their wealth to their children (recall from Figure 14.7 that high-income families have substantially more wealth than do others). Lower-income parents lack wealth (Figure 14.7 again), so their children have to make do without a nest egg. This is true, and it explains why the grown up children of the very rich also tend to be rich. But it does not explain why the children of the somewhat rich are also very likely to be at least somewhat rich, at least by comparison with the children of the poor. Most people receive no significant inheritance beyond their parents' home. This, too, can be seen from Figure 14.7: it shows that the next-to-the-richest fifth of the population has wealth (other than a home) of only $45,000. Even this amount of wealth could well be used up covering the costs of health care and home care for an aging parent.

According to the second explanation, what counts is the "talent one is born with," in the words of the Gallup poll. It is not a nest egg that high-income parents pass on, but rather their high-income-earning genes. (Poor parents are thought to pass on their "inferior" genes). Of course, there is no such thing as a gene for high income, even though attributes such as intelligence, shrewdness, charisma, stamina, and so on may be, to some extent, passed on genetically, and each of these may have an influence on the income of both the parents and their grown children.

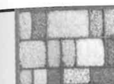
The most commonly suggested candidate for an income-earning trait that is passed on genetically is IQ, meaning how well one scores on an IQ test. Of course, the quality and quantity of schooling, family environment, and a host of other influences affect one's IQ, but nature as well as nurture has an influence. We know this because genetically identical twins are much more similar in IQ than are ordinary siblings (or nonidentical twins). But this explanation is even less valid than the inherited wealth account. The reason is that IQ is not a very important determinant of one's income: things such as the amount and quality of one's schooling and one's wealth are much more important.

What is it, then, that explains intergenerational inequality? The fact that children from higher-income families get more and higher-quality schooling is an important part of the story. It is also likely that successful parents teach their children, either deliberately or by example, the personality traits and behavioral patterns that contributed to their own success. Among these are such things as saving, valuing the future, ways of interacting socially with others, and believing that what one does makes a difference (the opposite of fatalism). Health is another channel: children of lower-income families frequently have health problems that often intensify in their adult years, and these bouts of illness affect incomes. Other important influences derive from the demographic and social groups to which one belongs. People whose parents live in a poor neighborhood or region are themselves likely to remain there,

and this perpetuates their low income. If they belong to a group that suffers discrimination, their children are very likely to belong to the same group. This is especially true when it comes to what is commonly called race.

Race and Inequality

Many Americans—especially white males—speak of racial discrimination in the past tense. There are indeed some selection processes for jobs, admission to educational institutions, and competitions for other valued resources in which it is a disadvantage to be white or male. But the well-publicized cases in which this is true are a misleading guide to what happens in general.



"Race": Biology or History?

"Races" do not exist in the sense that most people mean when they use the word to refer to groups of people differentiated by genetically perpetuated traits. What distinguishes people of African or East Asian or European ancestry when they are classified as "races" are physical markers such as skin color and facial characteristics. These do indeed differ markedly among these groups, and these traits are genetically transmitted.

However, a person who says "whites and blacks are different" usually has in mind something more than the obvious visible traits. They have in mind things such as culture, personality, average incomes, particular talents, and the like. But from a biological standpoint there are very few differences among groups of differing ancestry other than the superficial ones used to define the races. With respect to most of the genetic makeup of people, the members of a "race" are as different one from another as they are from members of a different "race." By a commonly accepted measure, well over 90 percent of genetic differences among people are *within* groups of similar ancestry, while less than 10 percent of the genetic differences are *between* groups.

Some genetic traits thought to be unique to a "race"—sickle cell anemia among people of African decent, for example—are, in fact, associated with particular climates. People of European ancestry from the island of Sardinia, for example, share high levels of sickle cell anemia with Africans. It has nothing to do with Africanness. It is found among people whose ancestors lived in places where malaria was common in the past, including not only Sardinia and West Africa, but parts of India, too.

What makes races distinctive, other than these physical markers, is history: over long periods of time people of different ancestries have lived under different conditions. In the case of African Americans this includes the experience of many of their ancestors having been brought to America in chains and exploited as slaves.

The conclusion we draw from this is not that race does not matter; unfortunately, it most certainly does. It is that race is not a biological fact. It is, rather, a historical outcome of how people of different ancestries have lived and have treated one another. That is why we do not consider tall people a race. Height, like skin color, has an important genetic component and is highly visible. But while the exploitation of the short by the tall may occur in the dating game and on the basketball court, it is not one of the main story lines of history.

Sources: L. Cavalli-Sforza, *Genes, Peoples and Languages* (Berkeley: University of California Press, 2000); Noah Rosenberg, Jonathan Pritchard, James Weber, Howard Cann, Kenneth Kidd, Lev A. Zhivotovsky, and Marcus Feldman, "Genetic Structure of Human Populations," *Science* 298 (2002): 2381–85; Marcus Feldman, R. C. Lewontin, and Mary-Claire King, "Race: A Genetic Melting Pot," *Nature* 424 (July 24, 2003): 374.

Discrimination in Hiring

During 2001 and 2002 an experiment carried out in Chicago and Boston by faculty members at the University of Chicago and the Massachusetts Institute of Technology showed that racial discrimination continues to exist in the labor market. The experimenters began by first downloading a number of resumes from the Internet and then changing some of them—adding experience, certification, and other qualifications, so that some resumes would be of higher quality than others; anything in them that might have identified a specific person was removed. Following this, "white-sounding" and "black-sounding" names were randomly assigned to the resumes. These names were obtained from historical birth records and were chosen according to the frequency with which they occurred in black and white households. The resumes were then sent out to 1,300 potential employers in the Boston and Chicago areas.

Each employer was sent four resumes: one high-quality one with a "white-sounding" name, one high-quality one with a "black-sounding" name, one low-quality one with a "white-sounding" name, and one low-quality one with a "black-sounding" name. It turned out, as shown in Figure 14.10, that one factor alone—whether a resume had a "white-sounding" or a "black-sounding" name on it—accounted for most of the differences in the frequency with which the businesses called back the people who had (supposedly) submitted the resumes, inviting them to come in for interviews. "White-sounding" names, whether male or female, were more likely to get called back for interviews than "black-sounding" names. A "Brad" was five times more likely to be called back for an interview than was a "Rasheed" with comparable qualifications, and a "Kristen" was six times more likely to be called back for an interview than was an "Aisha."

The study whose results are shown in Figure 14.10 was exceptionally well designed. But other studies of race discrimination have been conducted in which otherwise identical white and African-American car buyers, apartment seekers, and loan applicants have been treated differently. A disturbing aspect of the "race-sounding names" experiment is that while qualifications do matter when it comes to opportunities in the labor market, how much they matter is significantly affected by race. Figure 14.11 shows that high-quality resumes with "white-sounding" names are called back 30 percent more frequently than are good resumes with "black-sounding" names. Moreover, high-quality resumes with "black-sounding" names did not elicit many more callbacks than did low-quality resumes with "black-sounding" names. The improvement in the callback ratio due to the quality of the resume was so small that it could have occurred by chance.

Problem of Differential Pay

On top of discrimination in hiring, there is also the very persistent problem of differential pay. Figure 14.12 shows that differences in pay by race and sex have been discouragingly persistent over nearly half a century. Data also exist for earlier periods, and may indicate that there was progress from an earlier period of even greater pay gaps—but the data are not sufficiently comparable for us to be sure of this. That said, there are several historical events that should have narrowed the pay gap between black and white workers and between female and male workers. One was World War

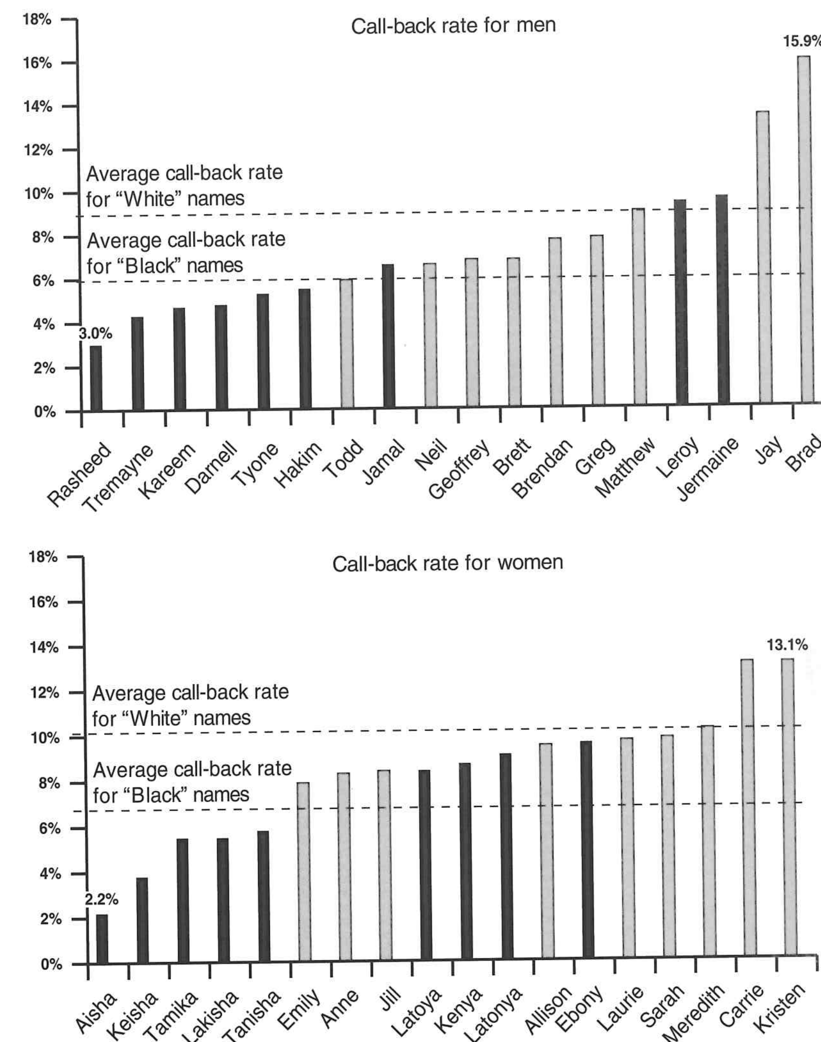


FIGURE 14.10 Racism by any other name: Labor market discrimination in the U.S., 2001–2002.

This figure displays the results of an experiment that was carried out in Chicago and Boston in 2001 and 2002. The two charts here show that for both men and women, a resume with a "white-sounding" name had a much better chance of eliciting a positive response than did a comparable resume with a "black-sounding" name on it. (Please see the text for a fuller description of this experiment.)

Source: Marianne Bertrand and Sendhil Mullainathan, "Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination," *American Economic Review* 94, no. 4 (2003): 991–1013. Available at http://www.jstor.org/stable/3592802.

II, when the war created a shortage of civilian labor, drawing both African Americans and women into the labor force and giving them new skills. Then, in 1964, the Civil Rights Act outlawed discrimination on the basis of race, color, religion, sex, and national origin.

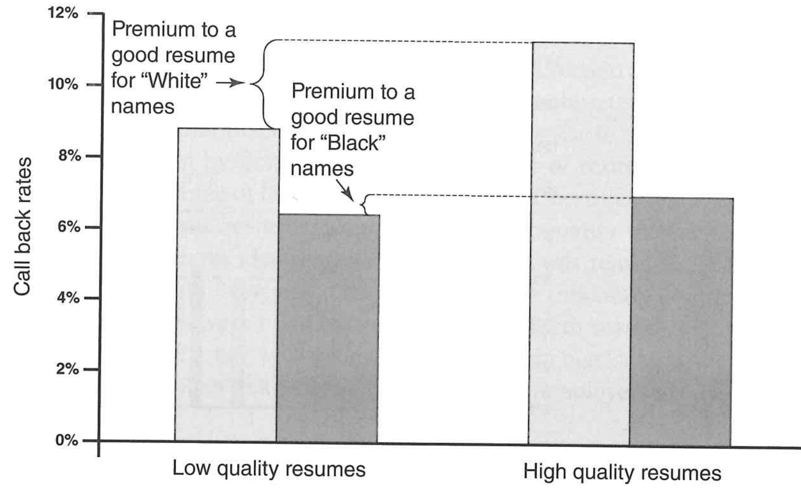


FIGURE 14.11 Good resumes pay off, if your name is OK: Labor market discrimination in the U.S., 2001–2002.

The Bertrand/Mullainathan experiment also showed that while qualifications affect one's opportunities in the labor market, such opportunities are significantly influenced by race. Resumes with "white-sounding" names had callback rates higher by 30 percent if the resumes were of higher quality. For resumes with a "black-sounding" name, having a good resume rather than a bad one did not result in a statistically significant improvement in callback rates.

Source: Marianne Bertrand and Sendhil Mullainathan, "Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination," *American Economic* Review 94, no. 4 (2003): 991–1013. Available at http://www.jstor.org/stable/3592802.

Figure 14.12 tracks progress in eliminating race and sex discrimination from 1971 on. Ratios shown in all four panels are based on median money income of people who worked full time throughout the year, so, for example, it does not reflect the fact that African Americans were and are more likely to be out of work than are whites. (*Earnings* refers to income from work, that is wages, salaries, and other compensation for work.) If progress for lower-paid African-American or women workers happened to take the form of moving from part-week or part-year employment to full-year employment, that progress would not be reflected in Figure 14.12.

The left-hand panels show that the white-black earnings gap for full-time, year-round workers was about the same in 2010–2012 as in 1970–1972 for both men and women, although there were temporary periods of improvement in between. Black women in those two periods earned 85 percent of what white women earned, while the ratio of black men's to white men's earnings was 68 percent in 1970–1972, and just slightly higher at 71 percent in 2010–2012.

In contrast, the right-hand panels show that the male-female earnings gap did narrow substantially between 1970 and 2012 among both African Americans and whites. Among black workers, women earned 72 percent of what men earned in 1970–1972, and this rose to 87 percent by 2010–2012; however, most of this change had already occurred by the early 1990s. Among white workers, women earned only 58 percent of what men earned in 1970–1972, and this rose to 75 percent by

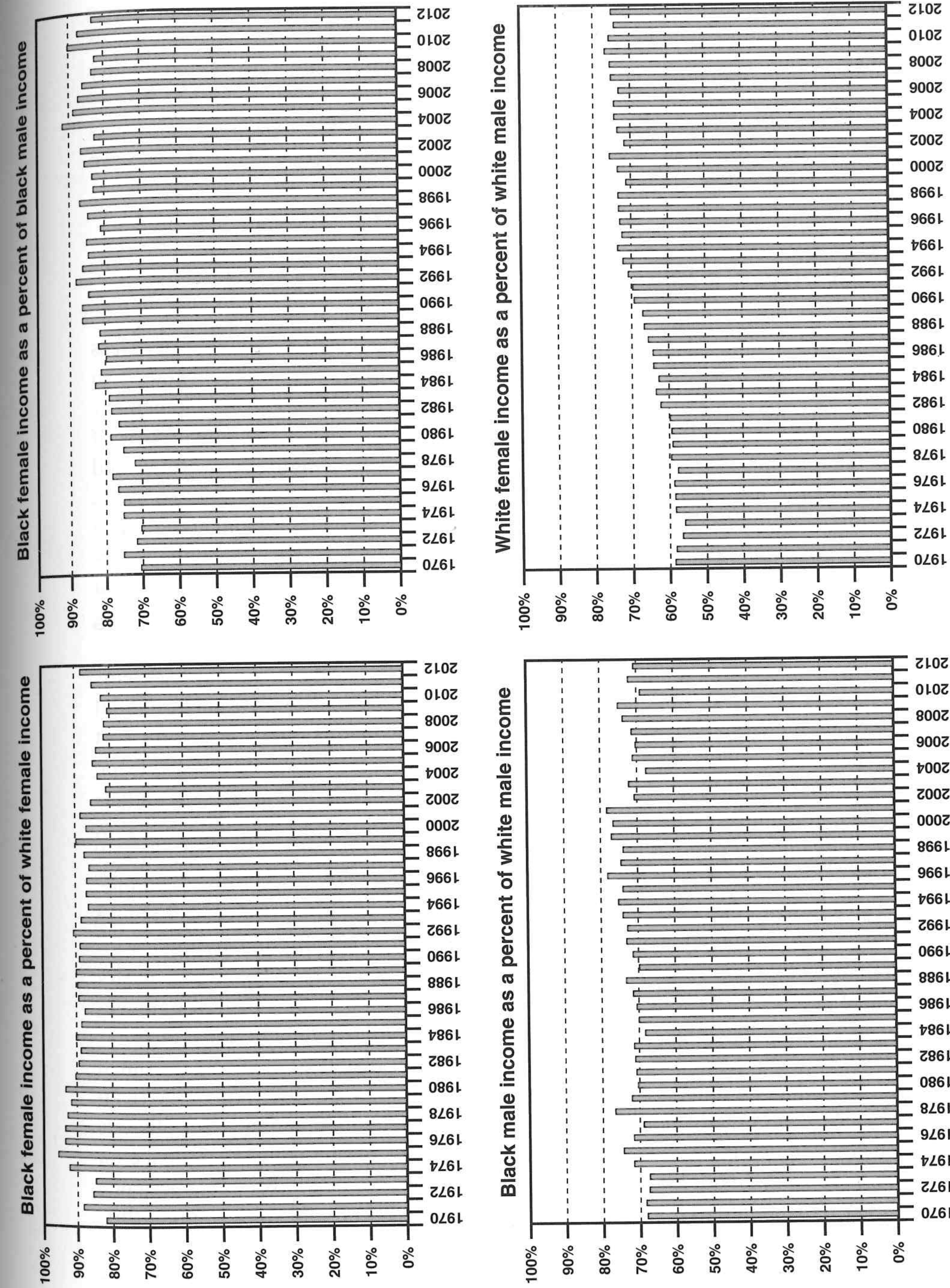


FIGURE 14.12 Slowed progress in the U.S. toward a color-blind and gender-neutral economy, 1971–2011.

This figure shows how the incomes of various groups changed in relation to those of other groups over four decades. All incomes on which ratios are based are the median annual incomes of full-time year-round employees. This helps to correct for any differences in the extent to which the different groups are engaged in full-time or part-time work. However, if the lower income group in any pair actually works on average fewer hours per year, because of working less than thirty-five hours a week or less than fifty weeks a year (or both), then the actual income gaps will be larger than those shown here. Comparable data were evidently not gathered before 1970.

Source: U.S. President's Council of Economic Advisors, *Economic Report of the President (ERP)*, various issues; for 1971: *ERP* 1993, p. 381: Table B-28, available at https://fraser.stlouisfed.org/docs/publications/ERP/1984/ERP_1993.pdf, and available at http://www.gpo.gov/fdsys/browse/collection.action?collectionCode=ERP&browsePath=2013&isCollapsed=false&leafLevelBrowse=false&isDocumentResults=true&ycord=0; for 1981 and 1991: *ERP 1997*, Table B-31, and for 2001: *ERP 2003*, Table B–33, and for 2011: *ERP 2014*, Table B-9: Median money income (in 2012 dollars) and poverty status of families and people, by race, 2003–2012, all available at https://www.gpo.gov/fdsys/browse/collection.action?collectionCode=ERP&browsePath=2014&isCollapsed=false&leafLevelBrowse=false&isDocumentResults=true&ycord=195

2010–2012, also a considerable increase. Again, however, almost all of this change had already taken place by 1994, and there was only minimal progress after that.

While racial discrimination in the labor market is part of the explanation for the racial earnings gaps documented in Figure 14.12, it is far from the entire story. Educational differences also matter. While the average number of years of schooling attained by white and African-American people are similar, the quality of schooling—as measured by expenditures and quality of teachers, for example—differs between the races. Finally, we have seen that having high-income parents contributes to having a higher income oneself, and few African Americans have high-income parents.

Women's Work, Women's Wages

Why do we see such persistent earnings gaps by gender? One reason women earn less than men is *job segregation*. Women tend to work in different kinds of jobs than men do, and women's jobs pay less than men's jobs, on average. Secretaries, elementary school teachers, and nurses, for instance, are usually women, whereas 99 percent of carpenters, 93 percent of mechanical engineers, and 91 percent of aircraft pilots and flight engineers were men in 2015. Mechanical engineers make over $1,500 a week, and pilots and flight engineers make over $1,800 a week, but carpenters—a much broader category with a wide variety of skill levels—have median earnings somewhat less than $700 a week. Figure 14.13 gives other examples of the pay in jobs that mostly women do, and the pay in jobs that mostly men do. Again, we are looking only at full-time year-round workers.

It turns out that in the various kinds of jobs that mostly women hold, there seems to be a lower ceiling on median weekly earnings than is true for jobs a substantial fraction of which are held by men. For both men and women, taking a job of the sort that is held mainly by women tends to guarantee relatively low pay. However, the reverse is not true: Taking a job of the sort that is held mainly by *men* does *not* guarantee relatively *high* pay. Men dominate a number of occupations with quite low pay, such as jobs that are physically demanding, but require little education or training.

Job segregation occurs even within occupations and industries. For example, there are industries in which some firms hire mostly men and other firms hire, in those *same* occupations, mostly women. Even the same firm, especially if it has plants located in different regions of the country, may hire mostly men at one plant and mostly women at another. Pay differences, with men earning more than women, usually accompany such segregation. Some of the differences are illustrated in Figure 14.14.

Why women are paid less than men is a matter of dispute. On average, women do not experience many of the economic disadvantages experienced by African Americans: school quality does not differ among men and women, nor (for obvious reasons) do women have poorer parents than men. One reason is that experience on the job is rewarded with higher pay, and in many jobs women have less experience than men. This is in part due to the time women take off of paid work to raise children or for other family responsibilities less likely to fall on men.

Some people attribute pay differences in the same job to women's lesser physical strength or some other skill. However, jobs requiring physical strength—such as farm workers and stock handlers for example—show relatively little difference in pay between men and women, especially by comparison to lawyers, physicians, and insurance adjusters, jobs in which physical strength is not rewarded. For many,

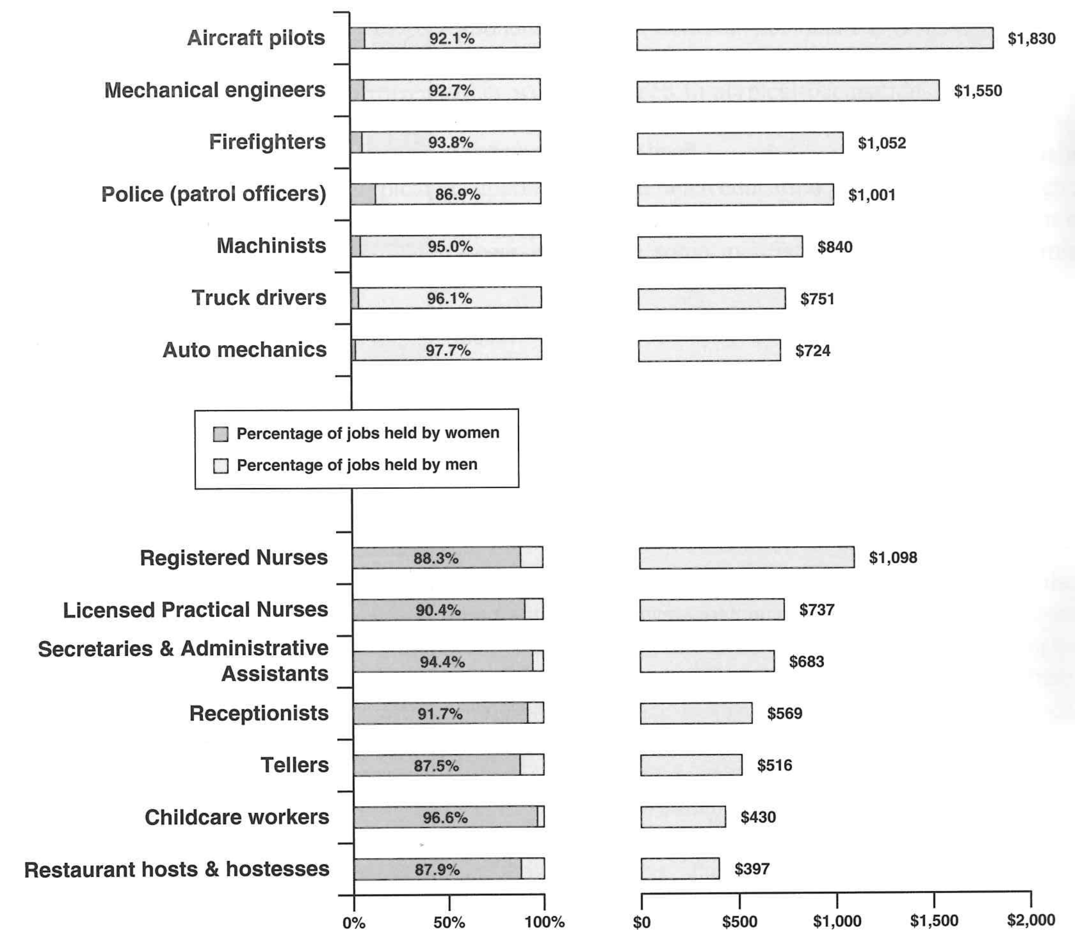


FIGURE 14.13 Women's work, women's wages: Gendered occupations and unequal earnings in the U.S., 2015.

In certain occupations almost all the workers are women, while in certain others almost all are men. The occupations displayed here include some of the most "gendered" occupations. Median weekly earnings are listed for each occupation, for full-time wage and salary workers, for the gender that dominates the occupation. (Data for the other gender were in many cases not reported in the data source.)

Source: U.S. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," Household Data, Annual Averages, Table 39: Median weekly earnings of full-time wage and salary workers by detailed occupation and sex, available at http://www.bls.gov/cps/cpsaat39.htm.

job discrimination increases job segregation by sex and thereby increases the differences in average wages and other disparities between male and female workers.

Social norms about "appropriate" work for women also make a difference. Some economists, including Nancy Folbre of the University of Massachusetts, have argued that there is a "care penalty"—relatively lower pay for jobs that involve taking care of others.

But it is also true that women who take "male" jobs such as truck driving or auto repair are sometimes seen as sexually unattractive. Another "callback" study by Folbre and Lee Badgett (also of the University of Massachusetts) confirmed this.[1]

[1]Nancy Folbre and Lee Badgett, "Job Gendering: Occupational Choice and the Marriage Market," *Industrial Relations* 42(2): 270-298 (2003).

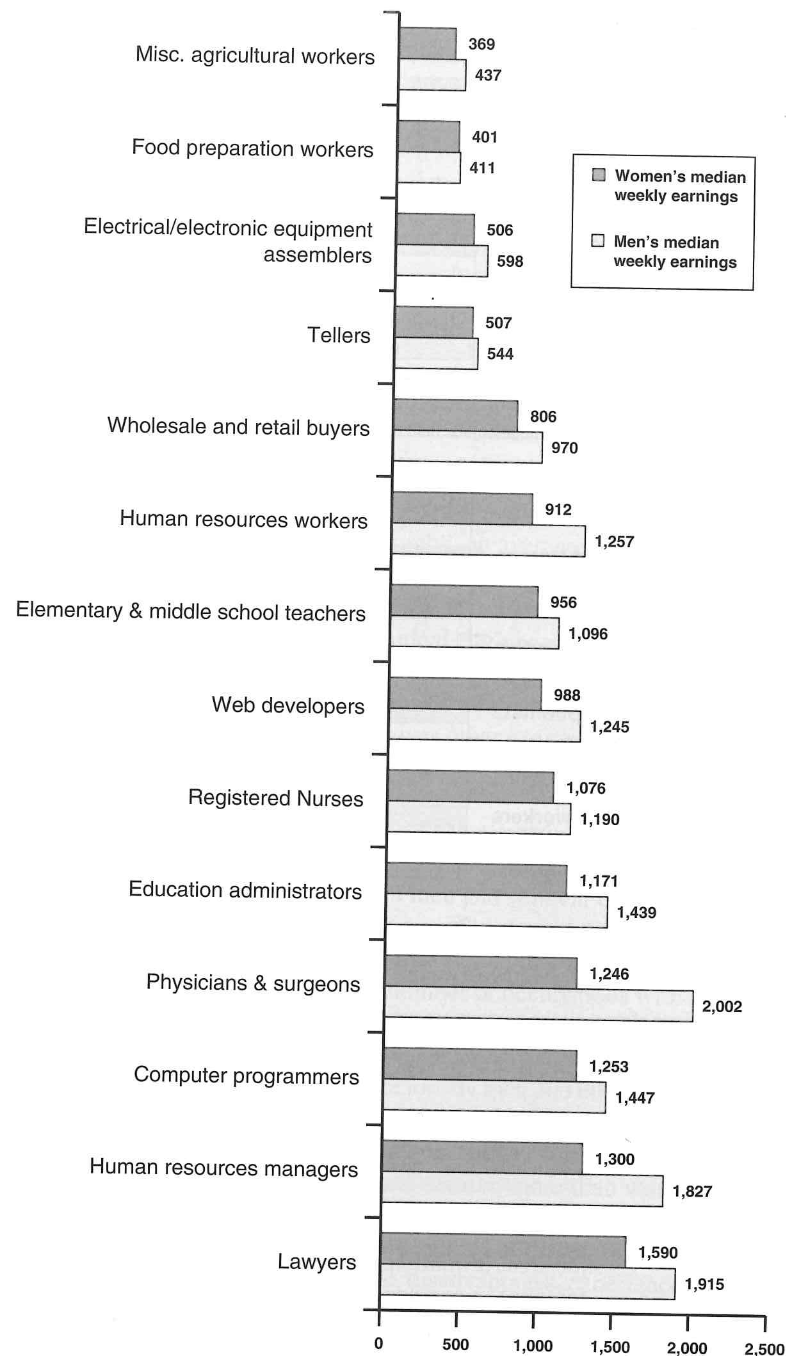
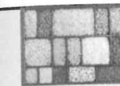


FIGURE 14.14 Men's and women's median weekly earnings in selected occupations in the U.S., 2015.

This figure illustrates the fact that with very few exceptions, in nearly all occupations the median weekly earnings for men exceed those for women. This includes jobs overwhelmingly held by women, such as registered nurses. Note the large gender pay gap for human resource personnel.

Source: U.S. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," Household Data, Annual Averages, Table 39: Median weekly earnings of full-time wage and salary workers by detailed occupation and sex, available at http://www.bls.gov/cps/cpsaat39.htm.

They asked survey respondents to rank fictitious personal ads from women and men seeking dates according to the likely number of positive calls they would receive. Ads that portrayed either women or men in atypical occupations, such as a female electrician or a male nurse, were rated lower than others in more typical jobs who had otherwise similar hobbies, relationship preferences, and physical attributes. Women in atypical occupations without much education paid an especially high price in the "dating market." Such dynamics could discourage some women from entering male-dominated occupations, and some men from entering female-dominated occupations.



Is *She* Well Served if *He's* in Charge?

Women are underrepresented in politics around the world. For example, in 2015 women were just 22 percent of members of the world's national parliamentary bodies like the U.S. Congress. But does the underrepresentation of women in the legislatures of the world result in policies that favor men's interests?

India, the world's most populous democracy, became a laboratory for studying this question after its constitution was amended in 1993 to require that women be the heads of not less than a third of each state's local government councils. In many states the villages that were to be required to elect a woman as *pradhan* (council head) were selected simply by choosing the first village, the fourth, the seventh, and every third village thereafter from a list of all villages in the state.

A detailed study of 261 villages in the states of West Bengal and Rajasthan investigated how policies were affected, if at all, in poor villages with newly elected female *pradhans*, compared to other poor villages. All the villages studied lacked public services. Tap water was available in only one in ten of the Rajasthan villages and one in twenty of the West Bengal villages. Public health facilities were available in less than a tenth of the villages in West Bengal and fewer than half of the villages in Rajasthan.

Researchers studied what issues were raised by men and women in the council meetings. In both states women complained more often than men about the lack of tap water. This is not surprising: Where there is no tap water, women have to carry water in pots on their heads, often for long distances. In West Bengal, where women do most of the paid work of road maintenance, women complained more often than men about the condition of the roads. In Rajasthan, where road maintenance is shared between men and women, men often travel in search of work. Since men there could count on at least half of the road maintenance jobs, they disproportionately favored road improvements.

The councils with newly elected female *pradhans* adopted policies in line with the interests of women. In both West Bengal and Rajasthan they invested more in providing water than did villages not selected to have a woman *pradhan*. In West Bengal, councils headed by female *pradhans* invested more in roads, while in Rajasthan less was invested in road improvements.

The study brings good news about democracy: who gets elected does make a difference (but see the box "Democracy Disconnect" in Chapter 19). So as women achieve representation in legislatures worldwide in proportion to their numbers, so will women's interests—at least—be better served.

Source: Raghabendra Chattopadhyay and Esther Duflo, "Women as Policy Makers: Evidence from a Randomized Policy Experiment in India," *Econometrica* 72, no. 5 (September 2004): 1409–43; United Nations, Millenium Development Goals Chart 2015, available at http://www2.unwomen.org/~/media/headquarters/attachments/sections/library/publications/2016/mdg-gender-chart-2015-for-web.pdf?v=1&d=20160222T174956

Conclusion

Why do some families in the United States have much more income than others? And why do the income differences among families change over time, increasing as they have been for the last three decades of the twentieth century or decreasing as they did for the four decades prior to that?

One way to answer this is to make an analogy between a family and a farmer. The farmer's income will depend on how much of each crop he is able to market and the price he gets for each. The family's income is determined in the same way. Like the farmer and his crops, the family has a set of assets that potentially can earn income: the skills and time of its members and perhaps some land or other capital goods either directly owned or through the ownership of stocks. During a given year the family will put some of these assets on the market: renting the land, putting some of their skills and time at the disposition of an employer in return for wages, and so on. Like the farmer, the family's income depends on what they have to put on the market, how much of each they can sell, and the price that each of their income-earning assets fetches.

SUGGESTED READINGS

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