

The Pope and the President walk into a bar

The Economics of Inequality

In addition to terrorism, discord on immigration and vexing racial tensions, for politicians, public officials, religious leaders, and the media, income and wealth disparities in this country are staples for concern and coverage. And this challenging social, political and economic issue will likely be the front-and-center topic as we inch closer to November 2016.

For the last three decades, incomes in the United States and most other high-income, developed nations have grown more unequal. That fact and its complement – poverty – have attracted worldwide attention from scholars and public intellectuals such as economics Nobel laureate (and Gary, Indiana, native) Joseph Stiglitz and 2015 Nobel winner Angus Deaton; French economist Thomas Piketty; British economist Anthony Atkinson; conservative authors Charles Murray and Thomas Sowell; and New York mayor Bill de Blasio. Pope Francis has even raised the specter of capitalism itself as a culprit.

So, why is inequality increasing globally, and what can we do to respond effectively? Finger-pointing is easy, but also pointless, and likely deleterious.

BY ALLEN R. SANDERSON

With references to generally accepted measures of income distributions, to address wage stagnation and the alleged hollowing-out of our middle class, and to reestablish a “level playing field,” those on the political left advocate tax reform (aka raising taxes on the rich and corporations), boosting minimum wage rates, and restoring power to unions. Opponents chime in about the unintended consequences of such policies, such as disincentives to work, migration of firms, more self-serving sclerosis in labor markets, and higher unemployment rates among unskilled workers.

Those at other stopping points on the political spectrum point to more benign contributing factors: the dearth of human capital among a slice of the population in our high-tech economy, skill-biased technological change, slow economic growth, increased globalization, and disintegration of the traditional family and values. (To the extent that immigrants are putting pressure on some American workers, five percent of their problem is these new arrivals; 95 percent is that they are unskilled.) Not surprisingly, opponents disagree with these assertions.

In addition, there are important, subtle “yeah, but . . .” qualifications one could raise. For example, conventional measures of inequality as usually applied refer to pre-tax earned income and do not subtract out taxes paid nor include what economists label transfer payments: in-kind handouts, food stamps, Social Security benefits, and some offsets (such as our Earned Income Tax Credit program). On average, the richer segment is more likely to pay taxes and the poorer one is more likely to be the recipient of transfers.

These metrics also generally ignore the size and composition of the household. Furthermore, for the country the age distribution affects the observed income distribution. Our current population has more folks in their peak-earning years than it did a couple decades ago. Adding to the complexity in recent years has been the large influx of immigrants; they tend to fall into one income category and thus distort the actual income distribution of native-born citizens. Cities have more inequality than smaller communities, so as we become more urbanized, measured inequality worsens.

An intriguing consideration is “assortative mating,” the tendency of people to marry someone much like themselves in age, educational attainment, and personal attributes. A generation or two ago the wife of a highly educated, highly motivated male was herself highly educated and highly motivated, but she was not in the labor force. Now she is, and thus this family unit has two incomes. At the bottom end, these households tend to be more populated by single individuals, or single moms, without strong formal educations and thus only one – or no – wage earner. (Colleges facilitate assortative mating by bringing together “likes,” who then marry and enter the job market together.)

Recent serious, thoughtful books on these issues across the economic and political spectrum:

- *Inequality: What Can Be Done?* (2015) by Anthony Atkinson
- *The Great Escape: Health, Wealth, and the Origins of Inequality* (2015) by Angus Deaton
- *On Inequality* (2015) by Harry Frankfurt
- *Coming Apart: The State of White America, 1960-2010* (2013) by Charles Murray
- *Capital in the Twenty-First Century* (2014) by Thomas Piketty
- *Our Kids: The American Dream in Crisis* (2015) by Robert Putnam
- *Wealth, Poverty and Politics: An International Perspective* (2015) by Thomas Sowell
- *The Price of Inequality: How Today's Divided Society Endangers Our Future* (2013) by Joseph Stiglitz

Wherever the truth lies in these debates, as we observe religious holidays and make new year's resolutions, may the generosity of our spirit show through as we give more now so that the less fortunate among us will fare far better in the years ahead. □

