CHAPTER 14: ECONOMIC INEQUALITY

During the first two decades of the 2000s global inequality fell as over one billion people were lifted out of extreme poverty, mainly due to economic growth in China and India.[1,2] Then the COVID-19 pandemic hit, which "wiped out years of progress in reducing poverty and caused economic inequality to spike."[3] The World Bank estimates that during 2020 and 2021 the pandemic pushed about 100 million additional people into extreme poverty across the world.[4] During this same time period, the collective wealth of billionaires in the United States increased from $3.4 trillion to $5.3 trillion, driven primarily by significant growth in stock markets. The pandemic also exacerbated pre-existing racial and gender inequalities, particularly as the burden of additional childcare and housework fell disproportionally on women.[5]

In this chapter we discuss economic inequality and examine ways to create a more equal and stable economic system. We start by discussing the measures and trends in inequality, and review the causes and consequences of rising inequality in richer and poorer nations. We focus on the increasing importance of "financialization" as a leading cause of rising inequality. The final section presents policies to address economic inequality and financial instability.

1. DEFINING AND MEASURING ECONOMIC INEQUALITY

Our analysis of inequality here is centered on inequality of income and wealth. But it is important to recognize that inequality extends beyond the realm of money. For example, vast inequalities exist in the quality of health care, which is reflected in differences in life expectancy and incidence of diseases across the world. Life expectancy at birth ranges from the mid-80s in countries such as Australia, Japan, and Switzerland to below 60 in several African countries including Lesotho, Mali, and Nigeria.[6] There is also considerable imbalance in education—while children in high-income countries can expect to receive an average of 17 years of education, the average for children in the sub-Saharan countries of Djibouti, Niger, and Sudan is less than eight years.[7] As we saw in Chapter 8, differences in income and other variables are correlated with significant variation in subjective well-being across countries.

Inequality is also evident in various environmental outcomes. Proponents of "environmental justice" point out that the negative effects of pollution and environmental degradation fall disproportionately on minority and low-income groups, both within nations and globally. A 2020 review of nearly 700 studies concluded that indigenous peoples experience elevated exposure to numerous pollutants including arsenic, asbestos, lead, and various pesticides.[8] Other research finds that climate change has already impacted, and will continue to impact, lower-income countries the hardest, exacerbating global economic inequality.[9]

As our focus in this chapter will be on economic inequality, we need to address how inequality is measured. One approach that is sometimes used is to consider how much of a nation's total income is received by different groups, such as the top 5 percent, top 20 percent, or bottom 10 percent. However, these measures only consider specific points of the income distribution. A commonly used measure is the **Gini coefficient,** which measures how evenly (or unevenly) a society's income is distributed across the entire income spectrum. Gini coefficients are normally measured at the household level, estimating how much of a nation's income is received by different household groups (bottom 10 percent, bottom 20 percent, etc.). While we don't detail how a Gini coefficient is calculated here, it ranges from 0 (all households have the exact same income) to 1 (one household receives all the income). A Gini coefficient can also be calculated based on household wealth instead of income.

Gini coefficient: a measure of inequality that goes from 0 (absolute equality) up to 1 (absolute inequality)

We also need to consider how income is measured. One method is to base inequality measures on pre-tax income and without the monetary value of government programs such as public health care and food assistance. Note that taxes tend to fall disproportionately on higher-income households while the benefits of many government programs tend to be received by lower-income households. Thus, including taxes and the implied value government programs will normally lower a country's Gini coefficient. For example, the 2022 pre-tax Gini coefficient in the United States was 0.49 but it fell to 0.44 after accounting for taxes (but not government programs).[10] The Gini coefficients presented in the next section are based on pre-tax income.

2. INEQUALITY TRENDS AND DATA: UNITED STATES

2.1 INCOME AND WEALTH INEQUALITY

In this section we explore inequality data and trends for the United States. Table 14.1 presents the distribution of household income in the United States in 2022. The data are arranged in order of income, and the share of the total income "pie" that accrues to each twentieth percentile (or quintile) is in the second column. To understand what this table means, imagine dividing up U.S. households into five equal-sized groups, with the lowest-income households all in one group, the next lowest in the next group, and so on.

Table 14.1 Household Income Distribution in the United States, 2022

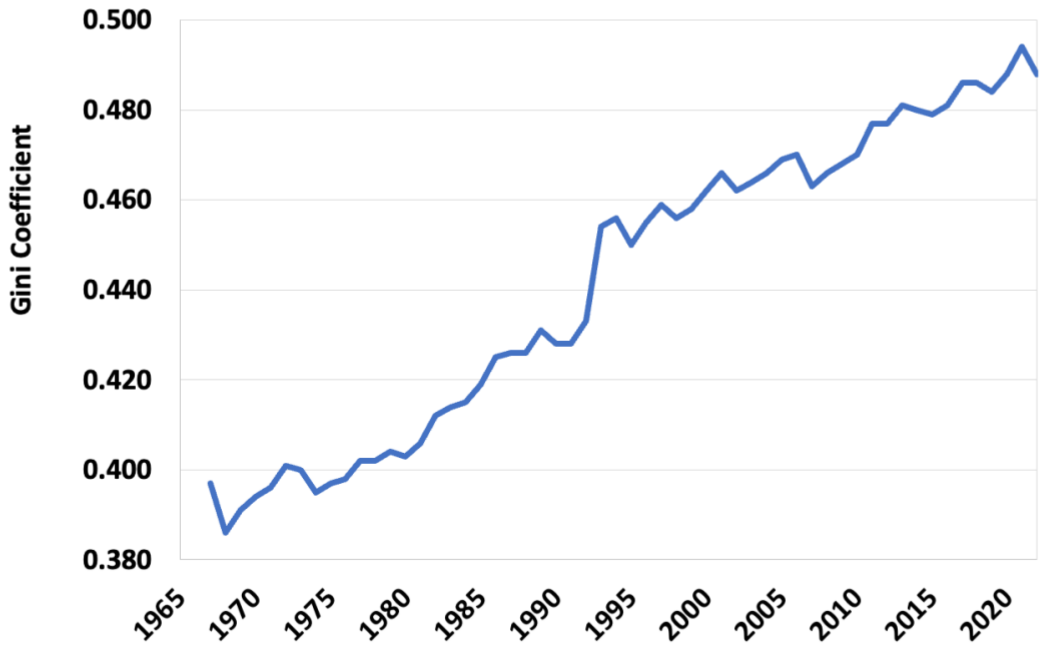
Group of Households	Share of Income (Percent)	Annual Income Range
Bottom 20%	3.0	Below $30,001
Second 20%	8.2	$30,001−$58,020
Third 20%	14.0	$58,021−$94,000
Fourth 20%	22.5	$94,001−$153,000
Top 20%	52.1	Above $153,000

Source: Guzman, Gloria, and Melissa Kollar. 2023. Income in the United States: 2022. U.S. Census Bureau, Current Population Reports, P60-279, September.

The lowest-income quintile, with household incomes below $30,000, received only 3.0 percent of all the household income in the country. The highest-income quintile, those with incomes above $153,000 or more, received 52.1 percent. In other words, more than half of all the income in the country was received by those in the top-income quintile.

Figure 14.1 plots the Gini coefficient in the United States over the last several decades. Income inequality reached a low of 0.386 in 1968 but since then the Gini coefficient increased in 37 out of 54 years. During the last two decades of the twentieth century, rising income inequality was mostly due to relative gains for the wealthy. While real incomes (i.e., adjusted for inflation) slightly increased for the lower- and middle-income groups, their gains failed to keep pace with those of the rich. But starting around 2000, the median U.S. household income stopped increasing while incomes at the top continued to rise—further exacerbating income inequality. We discuss some factors contributing to this shift later in the chapter.

Figure 14.1 Gini Coefficient in the United States, 1967–2022



Source: U.S. Census Bureau, Historical Income Tables: Income Inequality, Table H-4.

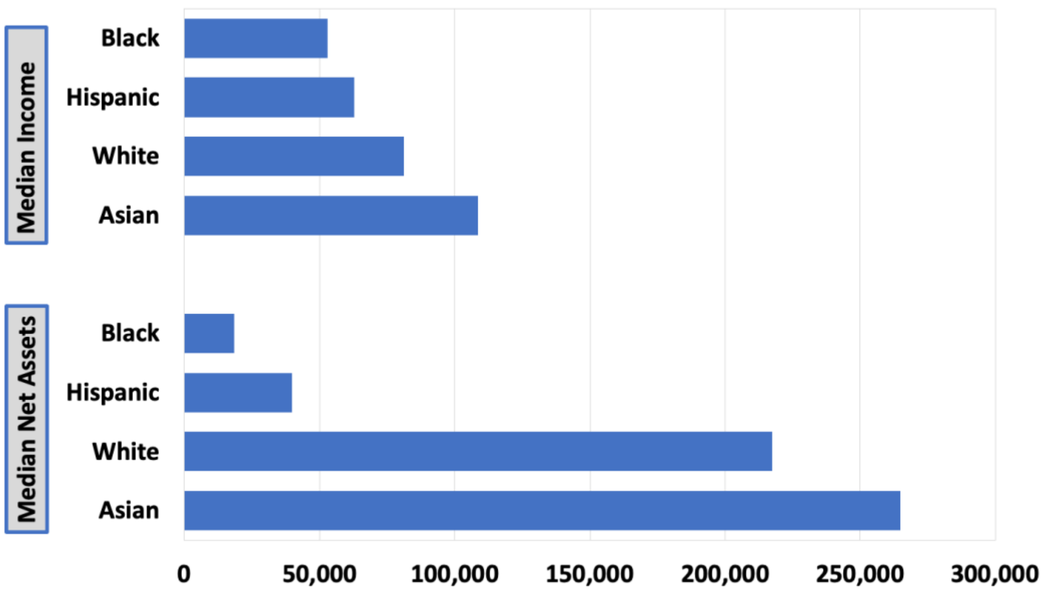
Gini coefficients can also be calculated for the distribution of wealth rather than income. This distribution, which depends on what people own in assets, tends to be even more unequal than income distribution. Many lower-income people have almost no net wealth, and even people with middle-class income levels often have only a relatively small amount of wealth. It is even possible to have *negative* net wealth, when the value of a person's debts (e.g., for a car, house, or credit cards) is higher than the value of their assets.

The distribution of wealth is less frequently and less systematically recorded than the distribution of income—in part because wealth can be hard to measure. While the value of one's financial investments, such as bank accounts or stock holdings, can be known at any given time, other assets such as real estate or valuable antiques tend to only be accurately valued when they are sold. These caveats notwithstanding, the U.S. Gini coefficient for wealth was estimated to be around 0.85 in 2021, significantly higher than the income Gini coefficient of 0.49.[11] In 2023 the top 10 percent of households by wealth owned 69 percent of all wealth in the U.S., with an average net worth of $7 million. Meanwhile, the bottom 50 percent only owned 2.5 percent of all wealth, with an average net worth of $51,000.[12] Similar to income inequality, wealth inequality in the U.S. has also been generally increasing in the last few decades.[13]

2.2 FURTHER PERSPECTIVES ON INEQUALITY IN THE UNITED STATES

Income and wealth inequality in the United States is clearly related to race, age, and other demographic factors. Figure 14.2 illustrates the difference in median household income and median household assets by race. We see that Asian households have the highest median annual income, about $110,000, while black households have the lowest at only $53,000. While white households' incomes are 53 percent higher than the incomes of black households, the assets of white households are nearly 12 times higher than those of black households. Hispanic households also have little in assets, typically only about $40,000.

Figure 14.2 Median Household Income (2022) and Median Value of Household Assets (2020) in the United States by Race



Sources: Guzman, Gloria, and Melissa Kollar. 2023. Income in the United States: 2022. U.S. Census Bureau, Current Population Reports, P60-279, September.; U.S. Census Bureau. 2022. Wealth, Asset Ownership, & Debt of Households Detailed Tables: 2020, August 31.

Education levels also have a significant effect on income and wealth. Households headed by those with a high school degree and no college have a median income of $52,000/year and median assets of $41,000. Households headed by those with a college degree or higher have a median income of $118,000/year and median assets of about $300,000.[14] Inequality is also evident in the United States beyond the categories analyzed by the government. For example, households with one or more disabled members (someone with ambulatory, vision, cognitive, or other difficulties) are more likely than other households to face income poverty and have over 40 percent less in household assets.[15] Similarly, individuals that identify as lesbian, gay, bisexual, or transgender (LGBT) are more likely to face income poverty and have lower assets than those that identify as straight.[16]

2.3 ECONOMIC MOBILITY

Some inequality is to be expected in any society, given that people's incomes and assets tend to increase as they become older and more established in their careers. At any point in time in a country, we are likely to have younger people with relatively low incomes and few assets, middle-aged people with higher incomes and more assets, and retirees who tend to have low incomes but may have significant assets. This possibility for individuals or households to change their economic status over time, for better or worse, is called **economic mobility**. We may be more tolerant of a given level of economic inequality if economic mobility is higher because it implies that many people are able to improve their economic condition.

economic mobility: the potential for an individual or household to change its economic conditions (for better or worse) over time

A common way to measure economic mobility considers how one's income as an adult compares to their parents' income. If the children of higher-income parents tend to also have high incomes, while the children of lower-income parents tend to have low incomes, this would indicate that economic mobility is low. A 2015 study found that U.S. incomes are highly correlated across generations, implying low economic mobility.[17] Another study measuring the correlation between fathers' earnings and sons' earnings across countries found that Norway, Canada, South Korea, and Sweden ranked the highest in economic mobility, while the U.S. ranked 16th out of 24 countries.[18] For more on economic mobility, see Box 14.1.

Box 14.1 Social Mobility and Inequality

In 2020 the World Economic Forum (WEF) created its Social Mobility Index (SMI) to measure country-level performance on 10 social "pillars" that directly affect economic mobility and inequality.[19] These pillars include educational access, social protections, technology access, work opportunities, and healthcare. A country's indexed value for each pillar is determined based on data on four to seven variables, and the scores for each pillar are added to produce a final overall index value.

The WEF calculates the SMI for 82 countries. The top-ranking countries are, in order: Denmark, Norway, and Finland. The United States ranks 27th, performing relatively well on the technology access and work opportunities pillars, but doing poorly on the fair wages and working conditions pillars. The lowest-ranking countries include Bangladesh, Pakistan, Senegal, and Côte d'Ivoire.

The WEF finds a strong relationship between a country's income inequality and its SMI score, stating:

> Low social mobility entrenches historical inequalities and higher income inequalities fuel lower social mobility. Enhancing social mobility can convert this vicious cycle into a virtuous one and has positive benefits on broader economic growth.[20]

The WEF report provides insights on how countries can focus their policy efforts to reduce inequalities, calling for increased taxes on high-income households, corporations, and household wealth to increase public investment on healthcare, education, and social protections. Further, it notes that businesses have both a moral imperative and an economic rationale for expanding opportunities and reducing inequality, stating that "it has been shown that companies putting purpose over profits perform better in the long run."[21]

Discussion Questions

1. What do you think is the minimal amount of annual income that an individual, or a small family, would need to live in *your* community? (Think about the rent or mortgage on a one- or two-bedroom residence, etc.) What does this probably mean about where the average level of income in your community fits into the U.S. income distribution shown in Table 14.1?

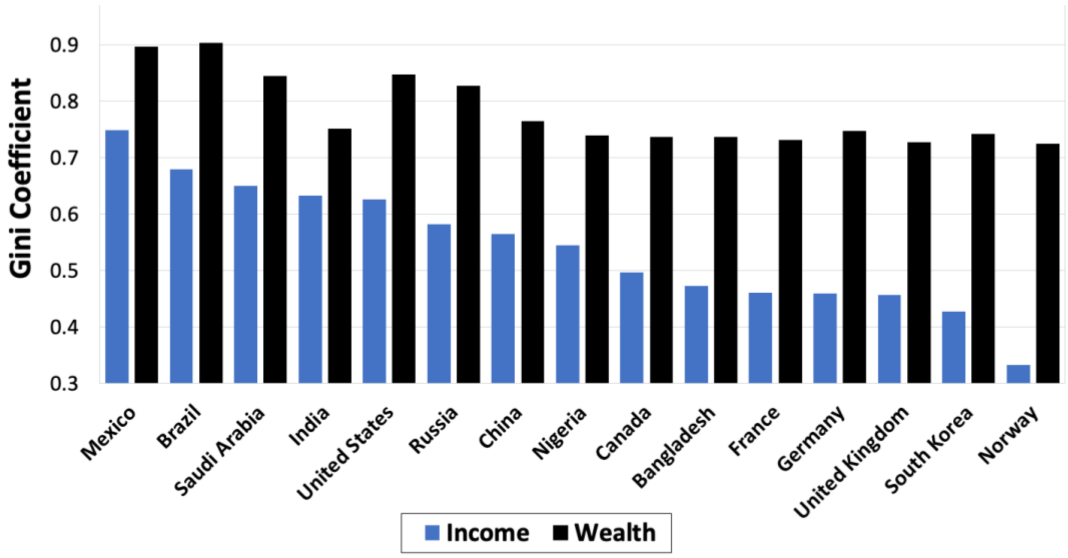
2. What do you think are some government policies that could be instituted to increase economic mobility in the United States (or in your country)?

3. INEQUALITY DATA AND TRENDS: INTERNATIONAL AND GLOBAL

3.1 INTERNATIONAL DATA ON INEQUALITY

We can compare the data on inequality in the U.S. to comparable measures from other countries. The income Gini coefficient for the United States is higher than that of all other major industrialized countries, signifying that the country has a higher degree of income inequality. Figure 14.3 shows the range in income inequality across selected countries, based on data from the World Inequality Database. Among these countries, Mexico has the highest Gini coefficient of 0.75. The U.S. has slightly lower income inequality than India but higher inequality than China. The lowest levels of income inequality are found in the United Kingdom, South Korea, and Norway. While many of the countries with the lowest income inequality are high-income countries, inequality is also relatively low in countries such as Bangladesh where poverty is widespread.

Figure 14.3 Income and Wealth Inequality, Select Countries, 2022



Source: World Inequality Database, WID.world.
Note: The World Inequality Database calculates Gini coefficients using a different methodology than the U.S. Census Bureau. Thus the U.S. income Gini coefficient here (0.63) differs from that in Figure 14.1 (0.49).

Figure 14.3 also presents country-level data on wealth inequality. As we discussed earlier, wealth Gini coefficients tend to be significantly higher than income Gini coefficients. In general, countries with high income inequality tend to also have high wealth inequality. But while there is a large variability in the income Gini coefficients in Figure 14.3, wealth inequality is at least 0.70 in all countries. Even countries with low income inequality, such as South Korea and Norway, have significant wealth inequality. This again demonstrates that few people with low and moderate incomes are able to accumulate substantial wealth.

Income inequality is increasing in most, but not all, countries. A 2023 analysis tracked the Gini coefficients of major countries from 1980 to 2020, finding an increase in inequality in most high- and middle-income countries.[22] The United States, China, Russia, and India were among the countries with the largest increases in inequality. Inequality trends are more mixed in lower-income countries. Inequality levels have overall remained stable in Latin America, Africa, and the Middle East, although inequality was already quite high in most countries in these regions. While inequality has increased in countries such as Indonesia and Rwanda, it has decreased in Brazil, Chile, Kenya, and several other countries.[23] Given that Gini coefficients have been increasing in most countries, particularly the world's five most populous countries (China, India, the United States, Indonesia, and Pakistan), we can conclude that more people are living in countries where inequality has been increasing rather than decreasing.

3.2 GLOBAL INEQUALITY

We next consider global income inequality. Just as a Gini coefficient can be calculated for an individual nation, some economists have estimated the global Gini coefficient for income. Obviously, this requires various assumptions due to a lack of complete data, and different studies have produced slightly different values. A 2023 report by the World Bank estimated the global Gini coefficient to be 0.62 in 2019,[24] while the 2022 World Inequality Report estimated it to be 0.67 in 2020.[25]

Comparing these estimates with the Gini coefficients in Figure 14.3, we notice that the global Gini coefficient is much higher than it is in almost all individual countries. This is because the incomes found in most countries do not cover the full range from the world's poorest to the world's richest. For example, in many high-income countries such as Germany and Switzerland there are virtually no people living below the World Bank's measure of absolute poverty of $2.15 per day. Meanwhile, more than 50 percent of people in some low-income countries live in absolute poverty. When we calculate the global Gini coefficient, we bring together the full diversity of incomes, comparing the 700 billion people living in absolute poverty to the global top 0.1 percent earning more than $1 million per year. This explains why global income inequality is greater than the inequality found in almost any individual country.

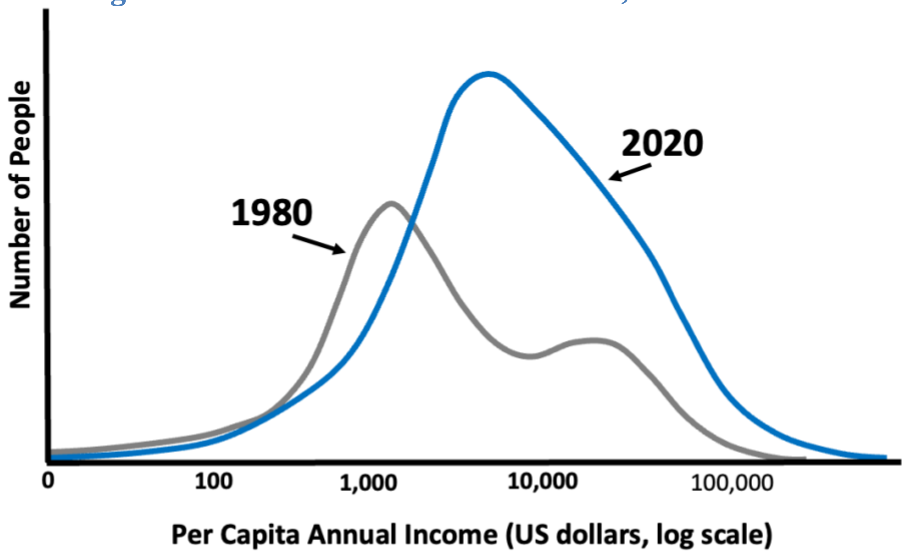
Another way to understand the extremely unequal global income distribution is to consider what income is necessary to reach the top 1 percent in different countries. The threshold for reaching the top 1 percent is an annual income of about $500,000 in the United States, compared to an income of around $220,000 is France, $107,000 in China and $77,000 in India.[26] We can thus see that the country in which one is born largely determines one's economic fate.[27] Some scientists refer to a global "birth lottery," whereby if "you are lucky enough to be born in a wealthy country, you will more likely enjoy the great fortunes and opportunities that come from being a citizen of that country."[28]

As mentioned previously, while income inequality has been increasing in most countries, the global Gini coefficient has generally been declining in recent years. Between 2000 and 2020, the global income Gini coefficient fell from about 0.72 to 0.67.[29] Though global income inequality has likely increased since then due to the disproportionate effects of the COVID-19 pandemic, analysis by Nobel Prize-winning economist Angus Deaton shows that the impact of the pandemic on global inequality has been comparatively small.[30]

How can the global Gini coefficient be declining while the Gini coefficient for most countries is increasing? The explanation is that the global middle class has expanded rapidly, mainly due to economic growth in China and India. Consider that several decades ago nearly all people in China and India—the world's two most populous countries—had very low incomes by global standards. Recent economic growth in these countries has increased national-level inequality, specifically between relatively high incomes in urban areas and the still-low incomes in rural areas. But economic growth in these two countries has led to a surge in the number of people classified in the global middle class, reducing global inequality.

We can see evidence of this shift in Figure 14.4, which shows the global distribution of income in 1980 and 2020. The *y*-axis shows shares of the world's population at various income levels, and the *x*-axis presents income levels using a nonlinear scale. In 1980 we see a distribution with two "peaks": one around $1,000 per person per year and another around $15,000. Thus, there were two large concentrations of people in 1980—those who were very poor and those who were relatively well-off, with comparatively few people in the middle. But in 2020 we see that the percentage of people with incomes between $5,000 and $15,000 per year has grown. This largely represents the emerging global middle class in China, India, and other rapidly developing countries. While relatively few people were considered middle-class by global standards in 1980, now the global middle-class has become the dominant group. This corresponds to a dramatic reduction in the number of people considered poor by global standards—from 44 percent of the world's population in 1980 to less than 10 percent now, according to the World Bank.[31]

Figure 14.4 Global Income Distribution, 1980 and 2020



Source: Chancel, Lucas, Thomas Piketty, Emmanuel Saez, and Gabriel Zucman. 2021. World Inequality Report 2022. World Inequality Lab.
Note: Income adjusted for inflation and purchasing power.

Similar to global income inequality, the evidence indicates that global wealth inequality has generally been declining in recent decades. Over the period 1995 to 2021, the collective wealth of the world's poorest 90 percent has increased by 3.7 percent per year while the wealth owned by the top 10 percent has grown at a lower rate of 3.0 percent per year. However, the growth of wealth has been particularly large at the very top. The wealth of the world's top 0.1 percent has grown by 4 percent per year, and the top 0.01 percent has benefited from growth of 5 percent per year.[32]

Discussion Questions

1. What do you think are the main reasons why economic inequality is low in some countries and high in other countries? Discuss how history, government policies, and other factors can influence inequality levels.
2. What are the main trends in global economic inequality? Do these seem to be positive or negative in terms of human well-being?

3. CAUSES AND CONSEQUENCES OF RISING INEQUALITY

The question of why inequality has been increasing in the United States and many other countries is a source of much debate. The causes of inequality differ somewhat between different countries, as inequality outcomes are determined by the historical, political, and economic contexts of a country. As discussed earlier, rising inequality in some lower-income countries such as China and India is the result of rapid economic growth that has been concentrated in urban areas, leaving rural areas comparatively poor. Meanwhile, in higher-income countries rising inequality is generally the result of stagnating incomes among lower- and middle-class households while incomes at the top have risen. For example, in the United States the incomes of households at the bottom 10 percent have risen by only 19 percent cumulatively from 1980 to 2022, after adjusting for inflation, while the incomes of those at the 50^{th} percentile rose by 32 percent and the incomes of those at the 95^{th} percentile rose by 82 percent.[33] We now consider some of the explanations for rising inequality, noting differences between high-income and low-income countries and recognizing that inequality cannot be attributed to a single cause.

4.1 CAUSES OF RISING INEQUALITY IN HIGHER-INCOME COUNTRIES

We will focus on the role of financialization in increasing inequality in high-income countries in Section 5. In this section, we review five other causes contributing to rising inequality levels:

1. demographic changes
2. globalization and trade
3. technological changes
4. the declining power of labor unions
5. domestic policy changes

Demographic Changes

Some of the increase in inequality in the United States and other industrialized nations is due to changing demographics. As people worldwide live longer on average, the proportion of the population that is elderly increases. Because elderly people tend to have relatively low incomes, this demographic trend pushes incomes down on the low end. The increase in single parenthood has also contributed to an increase in the share of the population with low incomes, as single-parent households are more likely to have low incomes.[34] Another factor separating households is the increase in "assortive mating"—the tendency of people to marry partners who have a similar earning potential to themselves. A 2014 study concluded that the U.S. Gini coefficient would be significantly lower if people married randomly rather than selecting mates who are similar to themselves in terms of earnings potential.[35]

Globalization and Trade

Globalization is hypothesized to contribute to both the stagnation of middle-class wages and the loss of middle-class jobs in higher-income nations. Jobs are lost due to globalization when transnational corporations shift production facilities to lower-income countries to take advantage of low-cost labor. Trade puts downward pressure on middle-class wages when producers in richer countries face greater competition from cheap imports. Competition from imports has indeed eliminated many industrial jobs—in textiles and automobiles, for example—that formerly fell in the middle of the wage distribution in richer countries. The replacement of such jobs by lower-income service and retail jobs has contributed to the increase in inequality, although economists disagree about the extent to which globalization is responsible for rising inequality in higher-income nations.[36]

Recent research suggests globalization is also a major factor in the growth of top incomes in rich countries. A 2017 analysis found that executive compensation in the United States increased at a higher rate in companies more exposed to trade. The researchers point out that this rise in salaries seemed to be related to the executives' ability to take advantage of poor-governance settings in lower-income countries.[37]

Technological Change

The third factor accounting for growing inequality in higher-income countries has been the advent of rapid technological change..[38] New technologies related to computers, biotechnology, and other fields have become more important, increasing the income of skilled workers who understand and use the new techniques and equipment, while leaving behind the less-skilled workers who remain in low-technology occupations. In 1979 those with a college degree in the United States earned 35 percent more than those with just a high school degree. But by 2022 this differential had risen to 68 percent.[39]

The Declining Power of Labor Unions

The fourth cause of rising income inequality in richer nations is the weakening of labor unions. Government policy in many developed countries has become decidedly less supportive of unions and low-wage workers, and the rate of union participation has declined markedly. Labor union membership in the United States declined from a peak of around 35 percent in the 1950s to only about 11 percent today. Labor union membership has also been falling recently in Germany, Japan, Sweden, Australia, the United Kingdom, and most other wealthy nations.[40] A 2015 analysis by the International Monetary Fund finds that weaker unions increase income inequality, primarily by fostering higher incomes at the top rather than depressing wages in the middle.[41] A 2021 study of European labor unions concludes that:

> Workers need strong collective mechanisms and bargaining power to countervail the bargaining power of employers, obtain a fair wage share and limit wage inequality. … And if union density continues to decline in the great majority of EU countries and/or bargaining coverage continues to fall in an important number of them, inequality is bound to continue to increase.[42]

Domestic Policy Changes

The final reason proposed to explain rising inequality in many nations is that policies have been instituted that, intentionally or unintentionally, have led to higher inequality. In the United States there has, for example, been a series of tax cuts—during the 1980s under Ronald Reagan, during the 2000s under George W. Bush, and during the 2010s under Donald Trump—that primarily reduced the tax burden on the wealthiest groups (though some of these tax cuts were reversed during the presidencies of Bill Clinton and Barack Obama). A 2015 study finds that the income share of the top 1 percent increased the most in those countries that lowered their top tax rates by the most percentage points.[43]

Another policy change has been a reduction in support for low-income workers. The federal minimum wage in the United States ($7.25 as of 2024) has fallen significantly behind inflation, lowering the purchasing power of the lowest-income workers. In addition to the negative effect on minimum wage workers, this trend also adversely affects other workers' bargaining power reducing the "floor" against which other wages are set.

Policy choices also affect the impact of other changes such as globalization. According to one analysis the policies on globalization in the United States over the last 30 years have resulted in a form of globalization "that benefits corporations and their owners at the expense of workers and their communities. If we had chosen globalization on different terms, however, economic integration would not have required rising inequality." [44]

4.2 CAUSES OF RISING INEQUALITY IN LOWER-INCOME COUNTRIES

Many of the causes of inequality discussed for developed countries also apply to the case of developing countries. For example, a 2015 study finds that technological progress, rising skill premiums, and declining labor market institutions have generally contributed to rising inequality in developed as well as developing and emerging economies. [45] In addition, the implementation of neoliberal reforms in many developing countries in the 1980s and 90s, which included cuts in social spending that benefit the poor and pro-market policies of deregulation and privatization that weaken workers' bargaining power, have contributed to increasing inequality.[46,47]

The impacts of increased trade and foreign investment on developing economies has, however, been somewhat mixed.[48] While developing countries have benefitted from increased access to new markets, creation of jobs, and higher wages in some industries, there has also been a decline in sectors where an inflow of cheaper imports has destroyed local industries. Also, foreign direct investments flowing into developing countries often go to high-tech sector that benefit skilled workers and can exacerbate inequalities.[49]

In addition to these factors, developing countries face additional challenges. For instance, the economic divide between the urban and rural areas in most developing countries is quite large, with growth being concentrated in urban areas while poverty remains prevalent in rural areas with limited access to healthcare, education, infrastructure, and financial resources. For example, the poverty rate in China is five times higher in rural areas than in urban areas.[50] Similarly, in India, 74 percent of the urban population belong to the top two wealth quintiles while 54 percent of the rural population belong to the bottom two quintiles according to a 2019-21 survey report.[51]

The weaker institutions, higher corruption rates, poorer governance structures, and larger dependence on the informal economy with limited protection for workers in many developing countries also contribute to economic and social inequalities. Additionally, inequality based on demographic characteristics, such as gender, ethnicity, caste, and class are widespread in many developing countries. For example, a World Bank report assessing the sources of inequality in five African countries (Botswana, Namibia, Lesotho, Eswatini, and South Africa) finds that a large part of the inequality in these countries is explained by inherited circumstances such as location, gender, age, parental background, and race.[52]

Finally, climate change is also worsening inequality in developing countries. In Section 2, we noted that the impacts of climate change have fallen more heavily on middle- and low-income countries. It is important to add that within these countries these impacts are felt most severely by the poor and vulnerable populations, thus exacerbating inequality.[53] With disruptions in agricultural production, rising food prices, increasing water insecurity, the impacts of climate change endanger the livelihoods of the poorest who are more reliant on natural resources and who have limited financial resources to cope with climate disasters.[54]

Often rising inequality in poorer countries is not seen as a major concern as long as the economy is growing. This perspective is supported by the **Kuznets curve hypothesis**, which suggests that during the initial stages of economic growth, inequality increases as investment opportunities create a wealthy class, while an influx of rural laborers into cities keeps wages low. Eventually, according to the theory, further industrialization leads to democratization, widespread increases in education, and safety-net policies that lead to lower inequality. [55] Based on this theory, some economists have argued that initial inequality in low-income countries should be tolerated as long as we maintain growth.

Kuznets curve hypothesis: the theory that economic inequality initially increases during the early stages of economic development but then eventually decreases with further economic development

There is, however, a danger in assuming that growth itself is sufficient to ensure the eventual decline in inequality. Achieving greater and more equal access to economic and social resources and building democratic political and social structures need specific policy interventions, as we will discuss in the final section of this chapter. Hence, lower inequality is not an automatic consequence of growth. Moreover, empirical evidence on the Kuznets hypothesis is weak. Many high-income countries have seen rising inequality in recent decades, and some countries, mainly in Latin America, have remained highly unequal even as their per capita incomes increased. In fact, rising inequality during the early stages of industrialization can be limited through pro-poor policies such as public spending on education and health care. Several Asian countries that implemented such policies experienced rapid economic growth toward the end of the 20th century without significant increases in inequality.[56]

4.3 CONSEQUENCES OF ECONOMIC INEQUALITY

Research on the impacts of inequality shows that economic inequalities often relate to inequalities in other aspects of human well-being and lead to various social problems. For example, richer Americans have a life expectancy 10–15 years higher than the poorest Americans. Low-income Americans are more likely to suffer from psychological problems such as anxiety, depression, and attention problems.[57] A 2021 study examining the impact of economic inequality on subjective well-being based on data for 180,000 individuals from 51 countries between 1990-2014 finds a significant tradeoff between life satisfaction, happiness and inequality for both lower-income and higher-income groups.[58] Several studies have also associated greater income gaps with lower social cohesion, weaker morality, reduced social mobility and higher crime rates.[59]

Economic and social inequalities based on race, caste, and ethnicities are often central to explaining civil conflicts in many countries. One study analyzing civil wars globally over the last two centuries finds that relative deprivation is the main driver of civil war onset.[60] Additionally, inequality undermines social justice and human rights and results in consistently worse opportunities for those who are already disadvantaged. Thus, existing inequalities are likely to perpetuate further inequality.[61]

Economic inequality also affects economic growth. A 2014 study published by the International Monetary Fund on the relationship between inequality and economic growth, based on data from 153 countries from 1960 to 2010, finds that high inequality can result in reduced economic growth.[62] A 2019 book by economist Heather Boushey argues that excessive inequality hampers economic growth largely because economic elites use their political power to increase their own wealth rather than supporting policies that foster broad-based growth such as public investments in schools and infrastructure.[63] Further, powerful business interests suppress the wages of ordinary workers, reducing their purchasing power and creating economic instability.

The hypothesis that excessive inequality can allow elites to weaken economic and political institutions to benefit themselves is also explored in a 2012 book *Affluence and Influence*, by Princeton University professor Martin Gilens. He analyzes decades of data on the relationship between the policy preferences of Americans at different income levels (based on opinion surveys) and actual policy outcomes.[64] He concludes that:

> The American government does respond to the public's preferences, but that responsiveness is strongly tilted toward the most affluent citizens. Indeed, under most circumstances, the preferences of the vast majority of Americans appear to have essentially no impact on which policies the government does or doesn't adopt.[65]

Thus economic inequality tends to foster political inequality, which can entrench the power of an elite class. This makes it more difficult to enact pro-democracy policies to counter the concentration of power and reduce inequality.

Discussion Questions

1. In a 1963 speech, President John F. Kennedy stated, "A rising tide lifts all boats," implying that everyone benefits from economic growth. Is this statement still true? Have periods of economic growth been equally beneficial to people from different income groups?
2. If you could address one of the causes of inequality described in this section, which one would you focus on? Why?

5. FINANCIALIZATION AND INEQUALITY

5.1 THE EVOLUTION OF THE FINANCIAL SECTOR IN DEVELOPED ECONOMIES

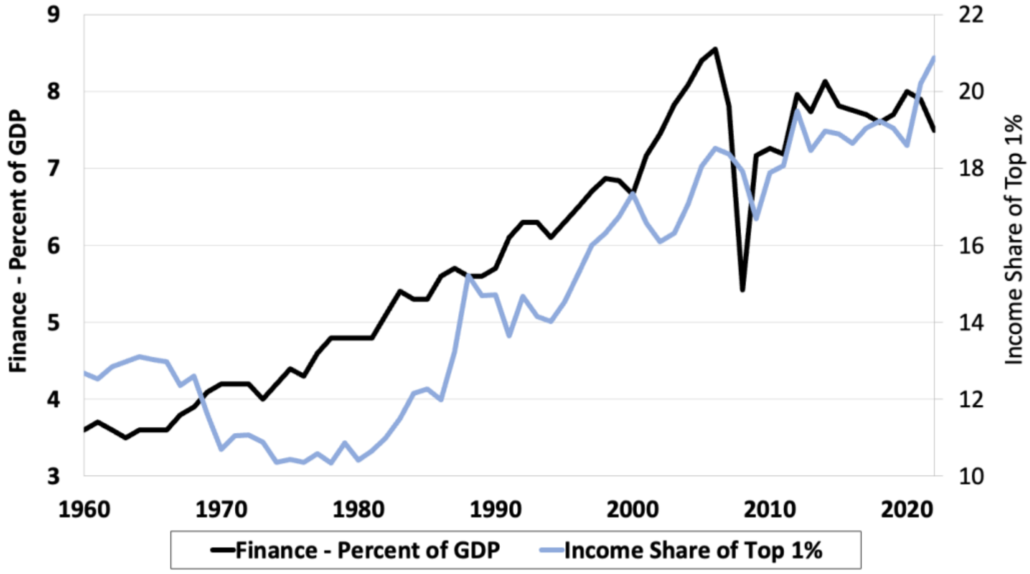
The financial sector includes businesses such as banks, investment firms, and insurance companies. Until the 1960s, the financial sector was mostly limited to facilitating the flow of funds through the economy—primarily by making loans to consumers and businesses—and making investments in financial assets such as corporate stocks, bonds, and insurance policies. However, a changing economic environment in the late 1960s and early 1970s (discussed in Chapter 9) resulted in the economic and political system becoming more responsive to the demands of businesses and wealthy investors. This led to an era of deregulation in the United States, United Kingdom, and many other high-income nations starting in the 1980s, justified by the free-market mantra that financial institutions could be depended on to self-regulate, assuming that profit-seeking enterprises would voluntarily avoid risky practices that might cause them to fail.

The deregulation of the financial sector included policies for loosening restrictions on capital across national borders, allowing banks to measure the riskiness of their own products, and increasing the ability of investment banks to invest using borrowed funds. Another important change in the United States was that the separation between investment and commercial banks, established by the Glass-Steagall Act in 1933, was gradually eroded through the 1980s and 1990s. This Act effectively protected commercial banks, which take in deposits and make loans, from the volatility of financial markets where only investment banks operated. These changes contributed to a surge in bank mergers and creation of "megabanks." Between 1984 and 2023, the share of banking sector assets held by large banks (with more than $10 billion in assets) increased from 28 percent to about 85 percent.[66]

Deregulation of the financial sector encouraged a proliferation of new kinds of financial institutions and instruments. Finance turned away from its traditional role of lending for consumption and investment. Most financial corporations started lending to each other instead of lending to nonfinancial corporations; such within-sector lending increased from 10 percent before 1970 to over 30 percent after 1980.[67] The operation of the financial sector has also expanded through the rise of the "shadow" banking system, consisting of lenders and brokers not subject to standard banking regulations.

The growth of the financial sector since the 1960s in the United States is shown in Figure 14.5. We see that finance was less than 4 percent of U.S. GDP in the 1960s. Since then, finance has approximately doubled its share of the economy except for a brief dip during the global financial crisis. Figure 14.5 also shows the share of U.S. income going to the top one percent of households, which has grown along with expanding share of the finance industry. We will discuss the relationship between finance and inequality in more detail in the next section. The financial sector's share of GDP has been increasing in most other high-income countries, including France, Germany, Japan, and the United Kingdom.[68]

Figure 14.5 Finance as a Share of the United States Economy and Income Share of the Top One Percent, 1960-2022



Sources: U.S. Bureau of Economic Analysis, National Income and Product Accounts.; World Inequality Database.

This process of increasing size and importance of financial markets in the operation of the economy—with the financial sector accounting for a greater share of GDP and acquiring an increased ability to generate and circulate profits—is known as **financialization**.[69] Even nonfinancial corporations have become increasingly involved in investing in financial instruments rather than investing to expand production of goods and services. For example, in 2000, Ford generated more income from selling loans than from selling cars, and GE Capital (GE's financial arm) generated approximately half of GE's total earnings.[70] Today American companies in every sector earn five times more revenue from financial activities, such as investing, hedging, and offering financial services, than they did before 1980.[71]

financialization: a process of increasing size and importance of the financial markets in the operation of the economy—with the financial sector accounting for a greater share of GDP and acquiring an increased ability to generate and circulate profits

Households have also become increasingly dependent on financial markets, relying more on loans to meet their expenses due to the stagnation of real wages. In 1980, for example, U.S. households held an average debt equal to about 60 percent of disposable income; this figure exceeded 110 percent in 2008 and has since fallen to about 90 percent as of 2023.[72] In addition, the proliferation of mutual funds and their increased availability in employee accounts has caused a higher percentage of the population than ever before to have a stake in the financial market. Today, the financial sector has expanded far beyond the provision of the financial intermediation services demanded by the economy; what has grown is not only the demand for credit but the overall volume of trading of financial securities, including speculative and risk-taking activities.

5.2 FINANCIALIZATION, FINANCIAL CRISES AND INEQUALITY

The Relationship between Financialization and Inequality

The increase in inequality in the past few decades in the United States and other high-income countries has occurred concurrently with the growth of the financial sector. As shown in Figure 14.5, financialization has paralleled the growing share of income among the top one percent in the U.S. A recent International Labor Organization (ILO) report examining the causes of inequality finds that about 46 percent of the rise in inequality in developed economies can be attributed to financialization—much greater than the impacts of globalization (19 percent), technological change (10 percent), and other institutional factors (25 percent).[73] How does financialization contribute to inequality?

According to economist Gerald Epstein, as economies become more financialized, a greater share of income generated goes to the owners of financial assets, who tend to be in the upper income brackets in most countries. For instance, direct gains from rising stock prices go to those who own stocks—89 percent of all U.S. stocks are owned the wealthiest 10 percent.[74] Although higher stock prices also increase the value of retirement accounts, only about half of Americans have retirement accounts. Access to stocks and bonds has increased in the last few decades, with about 61 percent of American families now owning stocks directly or through retirement accounts, but stock ownership is much lower among less affluent families.[75] This disparity in ownership of financial assets also explains why the economic gains during the recovery from the 2008 crisis and the 2020 pandemic went mostly to the rich.

One of the other major aspects of financialization that has affected inequality is the shift in focus of corporations from creating wealth by making productive investments to "maximizing shareholder value" by increasing stock prices, often by buying back their own stock. This focus on raising stock prices through buyback is partly motivated by the change in pay structure in large corporations. Until the 1990s, chief executive officers were generally paid a salary. But since then a larger proportion of executive pay has come in the form of stock options and bonuses, which has motivated executives to focus on raising stock prices. In 2021, S&P 500 firms spent a record $882 billion on stock buybacks, up 9 percent from its previous record of $806 billion in 2018.[76] Stock buybacks reached a new record of $1.22 trillion in 2022.[77] As firms spend more of their profits on buying back their own stocks, a smaller proportion of profits goes to investing in employee compensation or new equipment, thus hurting workers and increasing inequality.[78]

A 2020 paper by the International Monetary Fund found that higher inequality in developed countries was associated with a higher degree of financialization.[79] The authors note that at high levels of economic development financialization is associated with an increase in rents captured by the financial sector, higher compensation by financial managers, and an increase in lobbying power by financial interests. The paper also found that financialization in less-developed countries was associated with a reduction in inequality when the financial system was well-managed and inclusive.

Finally, a 2022 paper studied the relationship between financialization and inequality using data from 19 OECD countries over 2000-2017.[80] Measuring financialization using several different metrics, the authors "provide evidence which to a great extent supports the view that the process of financialization has increased income inequality," although not all financialization metrics had a statistically significant relationship with inequality. They conclude that "hyper-concentration" in the financial sector not only increases the risk of economic crises, it also "contributes to the constant transfer of income from the productive sectors of the economies to the finance sector."

Financial Crises and Inequality

Financialization and the proliferation of speculative investments presents the possibility for widespread financial crises when asset bubbles eventually burst. The most severe recent crisis has been the global financial crisis of 2007-2008, precipitated by the bursting of the U.S. housing bubble. (See the online appendix to Chapter 9 for a detailed discussion of the 2007-2008 crisis.) Given that wealthy households tend to benefit the most from financialization, it may seem that such crises primarily hurt high-income households and reduce inequality. However, there is an economic consensus that the 2007-2008 crisis increased inequality in high-income countries. Middle-income households tend to have most of their overall assets in the equity value of their homes, with comparatively little in financial assets such as stocks and bonds.

> When house prices collapsed in 2008, the value of middle-class households' portfolios dropped substantially, while the quick rebound in stock markets boosted wealth at the top. Due to their heavy investment in equities, the top 10% wealthiest households were the main beneficiary from the stock market boom while being at the same time relatively less affected by the drop in residential real estate prices. The consequence of substantial wealth losses at the bottom and in the middle of the distribution coupled with wealth gains at the top produced the largest spike in wealth inequality in postwar American history.[81]

A 2021 paper analyzed the relationship between financial crises and inequality based on data from the 1960s to the 2000s from 66 countries.[82] The authors conclude that financial crises have a statistically significant long-term effect on raising income inequality. They advocate for targeted economic aid packages in the aftermath of financial crises, including increased access to education and progressive taxation. We discuss policies to address the negative impacts of financialization in the next section.

Discussion Questions

1. As discussed in this section, the trend toward financialization has primarily benefited wealthy households. Can you think of any policies that can be implemented to ensure that lower-income households can also benefit from financialization?

2. Have you heard any stories in the news recently related to financialization? Discuss those stories in relation to the material presented in this section.

6. RESPONDING TO INEQUALITY

During the period between 1950 and 1973, sometimes referred to as the "Golden Age of Capitalism", economic growth was steady, inequality generally declined, and the financial sector was relatively stable in the United States. The high government spending during World War II was partly responsible for the economic growth during this period. But the government had also implemented a number of reforms to restore the economy from the damages of the Great Depression and create a more equal and stable economic system. Such reforms included the creation of the welfare state, redistributive taxation, regulation of businesses and financial activities, increase in provision of public goods, emphasis on infrastructure development, and strengthening of labor unions. Since the 1970s, many of the earlier policies and regulations have been reversed. This has contributed to a rise in inequality and financial sector vulnerability. What policies might help to create a more stable financial system and promote equality?

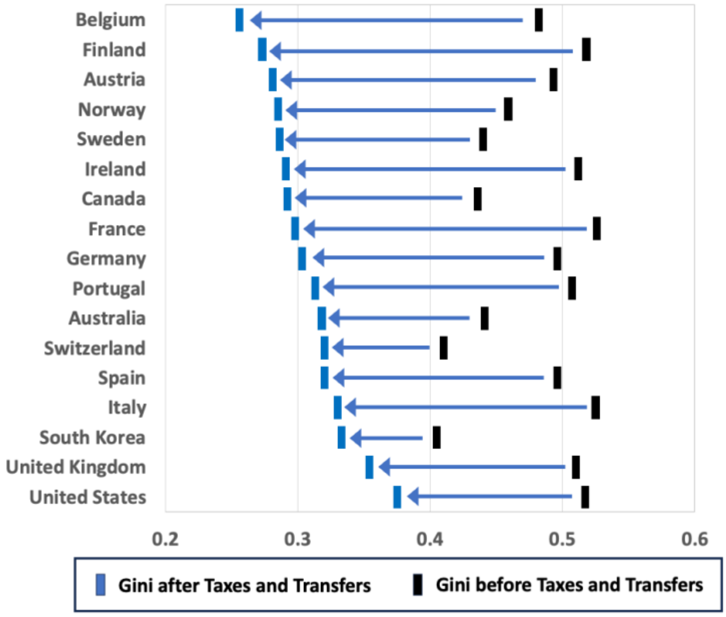
6.1 POLICIES TO REDUCE INEQUALITY

Fiscal policies, such as more progressive tax policies, expansion of transfer systems, and more public investment in areas with wide social benefit could help reduce inequality. Figure 14.6 compares the Gini coefficients for selected countries based on pre-tax incomes and incomes after accounting for taxes and transfer payments. We see that Gini coefficients based on pre-tax income in countries such as Belgium, Finland, France, and Germany are similar to that of the United States.[83] However, once we account for the effect of taxes and transfers, these countries all have significantly lower Gini coefficients than the U.S. (the blue boxes in Figure 14.6), indicating that taxes and transfers play a significant role in reducing inequality in these countries. Given that taxes in the U.S. are more progressive than in other countries in Figure 14.6, it is primarily through a comprehensive system of progressive transfers that many countries in the figure lower inequality.

The rise in inequality in many OECD countries over the last few decades has coincided with a decline in tax progressivity in these countries as documented by a 2018 analysis by International Monetary Fund.[84] Recall from Chapter 10 that progressive taxes include tax systems with increasing marginal taxes and taxes targeted towards wealthy individuals. Research shows that wealth taxes can be particularly effective at reducing inequality.[85] However, wealth taxes are not very common. Only four countries—Colombia, Norway, Spain, and Switzerland—levy annual wealth taxes on high-asset households.[86]

Other proposal for reducing economic inequality focus on public spending priorities. Increased investment in social programs, such as career skills training, housing assistance, or health care, that enhance the well-being and productivity of workers could mitigate inequality. Such policies may be particularly effective at reducing racial economic inequalities. (See Box 14.2.) Research shows that a strong public sector, particularly in the provisioning of public goods such as public transportation and education services, can reduce income inequality.[87] A 2014 study, based on European data, tracked people from primary school over 30 years and found that "educational policies have an impact on the income and earnings distribution".[88] Investments in higher education have also shown to be effective in low-income countries, as shown in a 2016 study of Africa.[89]

Figure 14.6 Gini Coefficients Before and After Accounting for Taxes and Transfers, Select OECD Countries



Source: OCED, OECD.Stat, Income Distribution Database
Note: Data from 2021 or 2020.

Box 14.2. Policy Responses to Racial Economic Inequality in the United States

As we saw in Figure 14.2, racial economic inequality, particularly for wealth, is substantial in the United States. Essentially no progress has been made in reducing the wealth gap between white and black households in the U.S. since the 1950s.[90] The persistence of the gap is explained by current and historical patterns of racial injustice, particularly regarding access to housing loans, employment opportunities, and education.[91] For example, the practice of "redlining" systematically declined government-subsidized mortgages to black and other non-white households during the middle of the 20th century.

No single policy can fully address racial economic inequality in the U.S. An important component would be to reduce educational inequities by investing in public education and ensuring that college is affordable to all. Raising the minimum wage would also reduce racial inequality, as black and Hispanic workers are more likely than white workers to be paid wages at or near the minimum wage.[92] Other proposals include financial assistance for first-time house buyers, universal health care, and student loan forgiveness. These policies will require additional public revenues, which may be generated through progressive taxation aimed at wealthy individuals or by directing money away from the criminal justice system, which has historically discriminated against minorities.

A final proposal to address racial inequities is to provide descendants of slaves with reparations. While reparations could be in the form of funding for public projects and social services, most advocates argue for direct cash payments. According to one analysis, reparations for African Americans would amount to at least $11 trillion.[93] In addition to a moral justification, reparations are found to be the only policy that could fully close the racial wealth gap.[94] A bill (H.R. 40) has been proposed in the U.S. Congress to create a commission to study reparations, yet as of 2024 it has not been voted on. Reparations proposals are also being actively discussed at the state level in California.

Another policy to reduce inequality is to provide direct income support to low-income households through tax credits or rebates. In the United States, the earned income tax credit, which provides a tax benefit to lower-income workers, has proven to be effective in reducing poverty and inequality.[95] Direct cash transfers have also proven to be successful at reducing inequality in Brazil. Brazil's Bolsa Familia program, initiated in 2003, provides families with cash transfers as long as their children are enrolled in school and receive preventative health care. The program has contributed to lowering inequality and increasing school attendance, particularly for girls.

A more radical proposal to address inequality is to institute a universal basic income (UBI) program, providing a periodic cash payment unconditionally to all individuals to help cover their basic expenses. If set at a relatively low level, a guaranteed income for all could provide greater equity without removing incentive to undertake paid work.[96] But such a program is likely to be quite expensive to fund. The World Bank estimates that a comprehensive UBI program set at the national poverty level would cost about 20 percent of GDP in low-income nations and about 5 percent of GDP in upper-middle-income countries.[97] Experiments on UBI have been conducted at regional levels in several countries, including Canada (Ontario), Germany, Netherlands, India, Namibia, Uganda, and Kenya.

Raising the minimum wage is another policy that might reduce income inequality.[98] While some argue that increases in the minimum wage could result in increased unemployment, most real-world evidence indicates that smaller phased increases have little negative impact on overall employment.[99] Data on minimum wage workers in the U.S. shows that the benefits of higher minimum wages do not go primarily to poor households as a significant share of minimum wage workers are younger workers living in non-poor households.[100] In such cases, raising the minimum wage may be more effective at reducing inequality if the benefits are targeted toward low-income adult earners, rather than younger non-poor workers.

Raising minimum wages has shown to be more effective in reducing inequality in some other countries. For example, evidence from China suggests that strong minimum wage laws are highly effective at reducing inequality in the lower end of the income spectrum.[101] Research shows that the higher minimum wages has also lowered inequality in Brazil, where minimum wages have nearly doubled between 2001 and 2020.[102], [103]

Government policies that provide labor unions with more bargaining power may be successful at reducing income inequality. Research by the IMF suggests that stronger labor unions may be able to reduce inequality primarily by restraining the growth of top executive salaries.[104] Also, reducing the gap in job protection between full-time workers and those with temporary or part-time jobs would help reduce inequality. Research by the OECD finds this to be more effective than increasing labor union membership, minimum wages, and educational attainment in addressing inequality.[105] As discussed in Chapter 7, the increase in part-time and temporary workers, who tend to receive lower pay and benefits and have little job stability, has contributed to rising inequality. In Europe, more than half of all new jobs created since 2010 are based on temporary contracts.[106] Some countries, including Norway, France, and Sweden, have laws mandating that employers must provide equal pay and benefits to temporary workers.[107]

Fiscal and monetary policies that prioritize reducing unemployment over lowering inflation, unless inflation is a major concern, will tend to help lower-income households as they are the most likely to be unemployed.[108] Even further, the government could serve as an "employer of last resort" to increase employment levels, directly hiring people to work on infrastructure projects, natural resource conservation, and other public projects. Such investments can provide stable employment and general public benefits that improve the quality of life for all, including low-income workers.

The policies discussed here apply broadly to all countries, though the effectiveness of each policy may be dependent on specific economic, social, political, and historical contexts of a country. Also, there are other policies that might be relevant to countries with specific economic and social structures. For example, land ownership and agriculture policies may be central to determining inequality outcomes in countries where a large proportion of population relies on agriculture for income. A 2019 report on inequality in Africa shows that many of the policies to lower inequality in Africa mimic those proposed for higher-income nations: increase spending on public services, institute progressive taxation, and strengthen labor rights. Additional policies, such as increased government support for small-scale agriculture and strengthening the land rights of poor people to prevent land grabbing by wealthy interests, are also important in the African context.[109]

Other recommendations for addressing inequality in Africa include ending fossil fuel subsidies that primarily benefit the wealthy, increasing access to financial services, and expanding rights for women. In several African countries, including Cameroon, Niger, and Sudan, married women can't start a job without their husband's consent.[110] Gender inequality is also specially high in the Middle East and South Asia—policies aimed at advancing women's rights would be particularly beneficial in reducing inequality in these regions.

6.2 REFORMING THE FINANCIAL SECTOR

In the aftermath of the 2008 financial crisis, better oversight of the financial system and a new set of rules to discourage excessive risk-taking were seen as essential to reforming the system. The 2010 Dodd-Frank Act in the U.S. was a step in this direction. It included provisions to protect vulnerable borrowers and investors, prevent predatory lending, control executive pay, discourage risky financial practices, and impose restrictions on the activities of financial firms. However, the initial reforms have been significantly watered down due to constant attack from the financial sector. Hence, many of the problems in the financial sector that existed during the 2008 crisis remain unresolved. Suggestions on regulating financial systems to make them more resilient, include:

- Giving central banks greater oversight of the financial health of borrowing institutions. This could include requirements for large financial institutions to hold sufficient capital reserves to cover the risks associated with the financial instruments they create.
- Greater oversight and regulation of nonbank institutions in the shadow banking system.
- Reinstituting a version of the Glass-Steagall Act, separating banking and investment functions, promoting the role of smaller and regional banks, and possibly breaking up financial institutions in the "too big to fail" category.
- Blocking the revolving door between finance and politics by instituting requirements that individuals must wait a significant number of years between the time they leave a government position in which they can affect legislation on industry sectors and when they can begin work in those sectors.

One of the criticisms of current financial systems is that they direct too much effort and money toward short-term financial profit-making, while providing insufficient support for productive investment. Policies to reverse this bias might include:

- Promoting regional and community financial institutions, credit unions, and other smaller financial institutions whose main orientation is toward supporting local businesses and homebuyers.

- Instituting a small tax on financial transactions. Both Keynes and the Nobel laureate economist James Tobin supported such a tax as a way of discouraging short-term financial speculation. What has come to be known as a "Tobin tax" could be at a very low rate but would still raise substantial revenues due to the very large volume of financial transactions. In 2014, the European Commission adopted a tax on all stock, bond, and derivative trading in the European Union.
- Restricting companies from stock buybacks and rewarding them through the tax system for investing in their employees, linking executive pay to productive performance of the company instead of share prices, and adding worker representatives on corporate boards so their interests are represented when decisions are made.[111]
- Encouraging the type of cooperative-based organizations discussed in Chapter 7 could also help create a stronger and more equitable economic system. Cooperatives have a motive to invest in the long-term viability of the company and improve the well-being of workers. Worker-owned companies, community development corporations, and credit unions tend to be locally oriented and resilient to economic fluctuations at the national level.

The economy of the future will be different from the economy of the past. But we can learn important lessons from past experiences to understand what policies might work well in what contexts, and how to promote greater stability and equity to avoid future crises. The policy solutions that we have discussed, together with innovative approaches, will be required in the future to achieve an economy that works well for all.

Discussion Questions

1. How do you think a country can determine whether it is doing too little, or too much, to address economic inequality? Do you think the "optimal" level of inequality might differ in different countries?
2. Have you seen anything in the news in recent weeks about the regulation of banking and finance or changes in tax or wage policies? Discuss any relationship between current news on inequality and the material in this chapter.

REVIEW QUESTIONS

1. What is the Gini coefficient (or ratio)? What does a higher value of the coefficient signify?
2. About what share of aggregate income does each quintile of households receive in the United States?
3. What tends to be more unequal—the distribution of income or wealth? Why?
4. How has income inequality in the United States changed in recent decades?
5. How does income and wealth vary by race in the United States?
6. What is economic mobility?
7. How does economic mobility in the United States compare to that in other industrialized countries?
8. How does economic inequality in the United States compare to other countries?
9. What is the global Gini coefficient? How is it that the global Gini coefficient for income is higher than the Gini coefficient for almost any single country?
10. How is it that the global Gini coefficient is declining but the Gini coefficients in most countries are increasing?

11. What are the six main explanations for growing inequality in most higher-income countries?
12. What is the Kuznets curve hypothesis? Does the research generally support the theory?
13. What are some of the consequences of inequality?
14. What do we mean by financialization?
15. How has financialization impacted economic inequality in high-income countries?
16. How can tax and transfer policies be used to reduce inequality?
17. Does economic research generally support the view that increasing the minimum wage will significantly reduce income inequality?
18. How can government spending policies impact inequality?
19. What are some policies that have been effective at reducing income inequality in lower-income countries?
20. What are some of the ways in which we might address the problems of excessive risk taking in the financial market? What policies might help reduce financial instability?

EXERCISES

1. The chapter identifies a series of contributing factors to rising inequality in many nations. Identify the major factors and state which ones you think are most important.
2. Match each concept in Column A with a definition or example in Column B.

Column A	Column B
a. Economic mobility	1. Approximately the level of wealth inequality in the United States
b. Kuznets curve hypothesis	2. Policy providing periodic cash payments
c. A Gini coefficient of 0.5	3. A cause of rising inequality in high-income countries
d. Quintile	4. Approximately the level of income inequality in the United States
e. Universal basic income	5. Approximately the level of income inequality in several Scandinavian countries
f. A Gini coefficient of 0.8	6. A group containing 20 percent of the total
g. Dodd-Frank Act	7. Changes in one's economic status over time
h. A Gini coefficient of 0.3	8. Policy to raise revenue on financial transactions
i. Tobin tax	9. Inequality first increases, then decreases, with development
j. Globalization	10. Policy passed in response to the 2007-2008 financial crisis

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