

## CHAPTER FOURTEEN

**THE MOSAIC OF INEQUALITY**

Two centuries ago, the aristocratic members of the British House of Lords were almost half a foot taller, on average, than the mostly poor young men being recruited into the British Navy. British naval officers, recruited from the aristocracy, stood 4 inches taller than the sailors. However the British aristocrats of the day, though much richer than the average citizen, did not live any longer than most people. This was because they spent more of their time in cities—and cities in those days were very unhealthy places to live.

In the United States today, the probability that an African American woman will survive to the age of 65 is ten percentage points less than it is for women of European ancestry, and the longevity differences for male African and European Americans are even greater. When European Americans and African Americans are asked how satisfied they are with their lives, African Americans report significantly less satisfaction **than people who are unemployed, divorced, separated, or widowed.**

In 1998, the Gallup public opinion research firm asked 5001 Americans why “some people get ahead and succeed in life and some do not.” Respondents were asked to consider 12 possible answers and to rank the answers from “extremely important” to “not at all important.” The 12 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 gender were more important. Both women and African Americans thought that one’s gender and one’s race counted for more in getting ahead than white males **did**. Lower income respondents as well as women and African Americans all ranked education higher than better off people, males, 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. 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—we should all be so lucky—how do you feel about the fact (also true) that obese women earn less and that short men 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 are paid \$1000 an hour for their services, while kitchen staff at restaurants (working just as hard under less pleasant conditions) get one-half of one-hundredth 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.

**[Jinx would eliminate this paragraph. It is confusing and not necessary.] Often the difficulty of deciding what is unfair is exaggerated, however. People who would like to get the whole issue of fairness brushed under the rug most often exaggerate the difficulty. In the examples above, most observers would have little difficulty identifying what additional information they would need in order to decide if the differences mentioned were unfair. And we suspect that, with the information at hand, there would not be wide disagreements among the readers of this book about what counts as unfair.**

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 2.

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 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 and working classes, 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 8, 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 neither have a boss nor are one.

The class structure 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.

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 storeowners with just a few employees. The differences among employees are equally great. The people in the tenth of the U.S. labor force who are paid **at or below** the federal minimum wage eke out livelihoods that place them well below the poverty line. They fall even farther below this line if they are not employed full time, all year. In contrast, some 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 desired goods. We do this because the 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 less or more income and wealth provides individuals with less or more access to **commodities**, less or more personal independence, and less or more of a chance to attain such other desired goods as health and happiness.

This brings us to the title of this chapter. A *mosaic* is an ancient art form in which a picture—commonly a portrait, often of a saint or the Madonna—is constructed by assembling small, differently colored, separate pieces. Viewed from a distance, the face and other features are clearly recognizable, but up close, what you see are only the pieces. We think that all the many facets of inequality—race, wealth, gender, schooling and so on—comprise a “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 U.S., one’s race, sex, and parental income are very important*, and (b) *by almost any measure, income inequality rose dramatically between the early 1970s and the early 2000s.*

These main ideas are expressed in the following \_\_\_ points:

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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 environments which contribute to their whole human development. The economy contributes to people's well-being both by providing (or failing to provide) the goods and services necessary to meet these objectives and by shaping the kinds of social and natural environments essential to people's well-being.

2. ....

3, 4, 5, etc. [to be filled in]  
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## MEASURING 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 of those things that influence a person's well-being.

### 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 which make it possible to feel that one is living well. In addition, a person's sense of well-being depends on having the respect of others and on having a sense of belonging to a community—whether it be a family, a neighborhood, a work group, a religion, 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 \$90,000 a year but has no free time may not be better off than a person with plenty of free time who earns \$50,000 a year. No less important is the ability to make important choices **concerning** one's goals **in** life—involving education or some other project of human development. The quality of our work experience is also an important influence on our wellbeing: Few things bring us down so much as hating to go to work every morning.

Lastly, our well-being depends on the quality of our natural environment and on the extent to which it allows us both good health and other pleasures.

How each of us values these influences on well-being differs according to our values, of course. But however we value them, the components of well-being generally include such things as **health, freedom, respect, and belonging, as well as material goods. The important point is that living standards depend on intangible things often summarized under the heading "the quality of life."**

**Obviously**, our well-being depends critically on the economy. **It** is through the labor processes which make up the economy that we get the food, clothing, shelter, amenities, and luxuries which 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 wellbeing: 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 economies provide adequate health care to all without regard to ability to pay; **in other**

**economies adequate health care is available only to those who can pay for it.** Some economies require workers to work at such a pace that stress is a major health problem; in others, the pace of work is more worker-friendly. A laissez-faire capitalist economy (one allowing the unrestricted pursuit of profits by companies without government regulation) is likely to face a serious problem of environmental pollution and the resulting deterioration of the health status 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 that determines** where a person will work or **restricts** what a person can do 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 \$10,000 a year. In the United States she would be regarded as poor, yet the same woman earning the same income in Bangladesh would be considered quite successful (she would be earning ten times the average family income of the country). The point is not that she could buy more if she were in Bangladesh (**in fact would find that her dollars would buy more of some things in Bangladesh than in the U.S., 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 each other. 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 or 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 was. And measuring the total amount of goods and services is not simple because it requires valuing how much each good contributes to well-being. Does a gallon of milk contribute more or less to well-being than, say, a pound of cooked cocktail shrimp? The standard economist's answer is that the shrimp is worth more because people are willing to pay \$10 for the pound of shrimp and only \$2.50 for the gallon of milk.

The most common approach in economics is to measure a person's access to goods and services by their income, and to use separate measures to indicate their health status, their income relative

to others, the quality of their natural and social environment, and the like. Using income as a measure of access to goods and services implies that the prices **which people are willing to pay**—the \$10 pound of shrimp, the \$2.50 gallon of milk—are the right way to value each good.

Likewise the average access to goods and services in a country is often measured by the total income in the country divided by total population, or per capita income. *Economic growth* is defined as an increase in the per capita income of a country over a number of years.

As an approximation of access to goods and services, measure by income makes sense. But there are a number of problems. 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.

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 which are not commodities are public education, police protection, and other government services. Moving to a town with good schools and good 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.

And third, the price of goods and services often fails to measure their contribution 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 important than the shrimp. The reason is that milk is a necessity and the shrimp is a luxury. The person who paid \$10 a pound for the shrimp may be quite well off; doing without the shrimp would be no hardship. This is most likely not true of the milk.

To see the importance of this point, imagine a society with equal numbers of people in two income groups. The rich eat shrimp (and **of other things**, too), while the poor have a calcium deficiency resulting from an inadequate diet due to their low incomes. If the rich were taxed \$2.50 each and gave up eating a quarter of a pound of shrimp, and the poor were given \$2.50 each which they spent on milk, we would probably conclude that on average the living standards of the population had risen. Our conclusion is based on the fact that what the rich gave up—a luxury—was less important than what the poor got—a necessity. But the average income of the society did not change.

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 the average well-being in the society if the income goes to the less well-off. For this reason the average standard of living depends on more than the average amount of income at some point in time or in some country. We also want

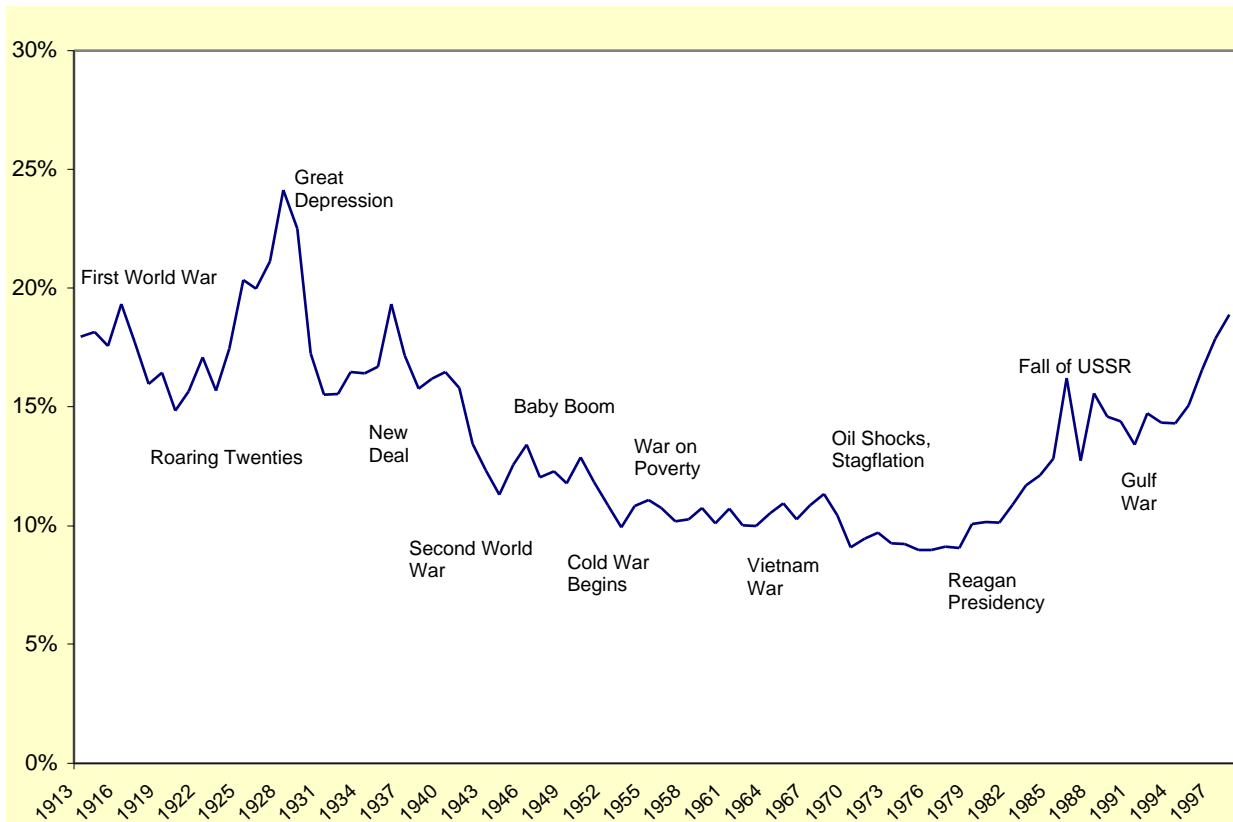
to know whether it is distributed evenly or unequally. **In turn**, we are interested in the distribution of income for what it says about the degree to which economic outcomes are fair.

Measuring inequality in the distribution of income, like measuring income itself, is difficult. Think of a statement about inequality, such as "Mr. Brown makes fifty times more money than his cook." This phrase gives us some idea of inequality, but it fails to take account of the whole population—including middle-income recipients like Mr. Brown's **business** assistant, perhaps. The most commonly used approach is to rank all families or individuals by their income from the poorest to the richest and then divide them into fifths—or “quintiles”—of the population. We then take the total amount of income and calculate what percentage of it is received by each fifth of the population. According to the most recent data from the U.S. Census Bureau, in 2001 the bottom fifth of the population received 3.5 percent of the nation’s total income. The next fifth got 8.7 percent, so the poorest forty percent received 12.2 percent of the total income. And so on up to the top fifth, which received more than half of all the income. The richest five percent of the population received 22.4 percent of all the income. (See source of data cited in Figure 14. 2 in this chapter.)

## **GROWING INEQUALITY**

The recent trend toward greater income inequality is especially striking when compared with the longer-term trend towards greater equality. Figure 14.1 shows the fraction of total income received by the richest one percent of the U.S population over a period of almost a century. The decline in the income share of the very rich from before the First World War continued with only minor reverses until the 1970s. The twenties were especially “roaring” if you were very rich, but in the subsequent decades—which included the great depression, the Second World War, and President Lyndon Johnson’s mid-1960s war on poverty—the top income recipients’ piece of the pie shrank considerably. The fact that the top one percent received about ten percent of the total income in 1970 means that the typical person in this group had an income ten times that of the average person’s—so the slice of the rich person was not all that skimpy. Nevertheless, the share of the top one percent had fallen by more than a half from its peak in the 1920s.

**INSERT Figure 14.1 The Lucky Few** approximately here



**Figure 14.1 The lucky few: the income share of the top 1 percent of the U.S. population, 1913-1998.** This figure shows the share of total U.S. income, in percentage terms, that was received by the top one percent of the U.S. population over the years between 1913 and 1998. This share fell from its high of 25 percent in the late 1920s to a low of 9 percent in the late 1970s, and it has been rising again since the election of Ronald Reagan as President of the United States in 1980.

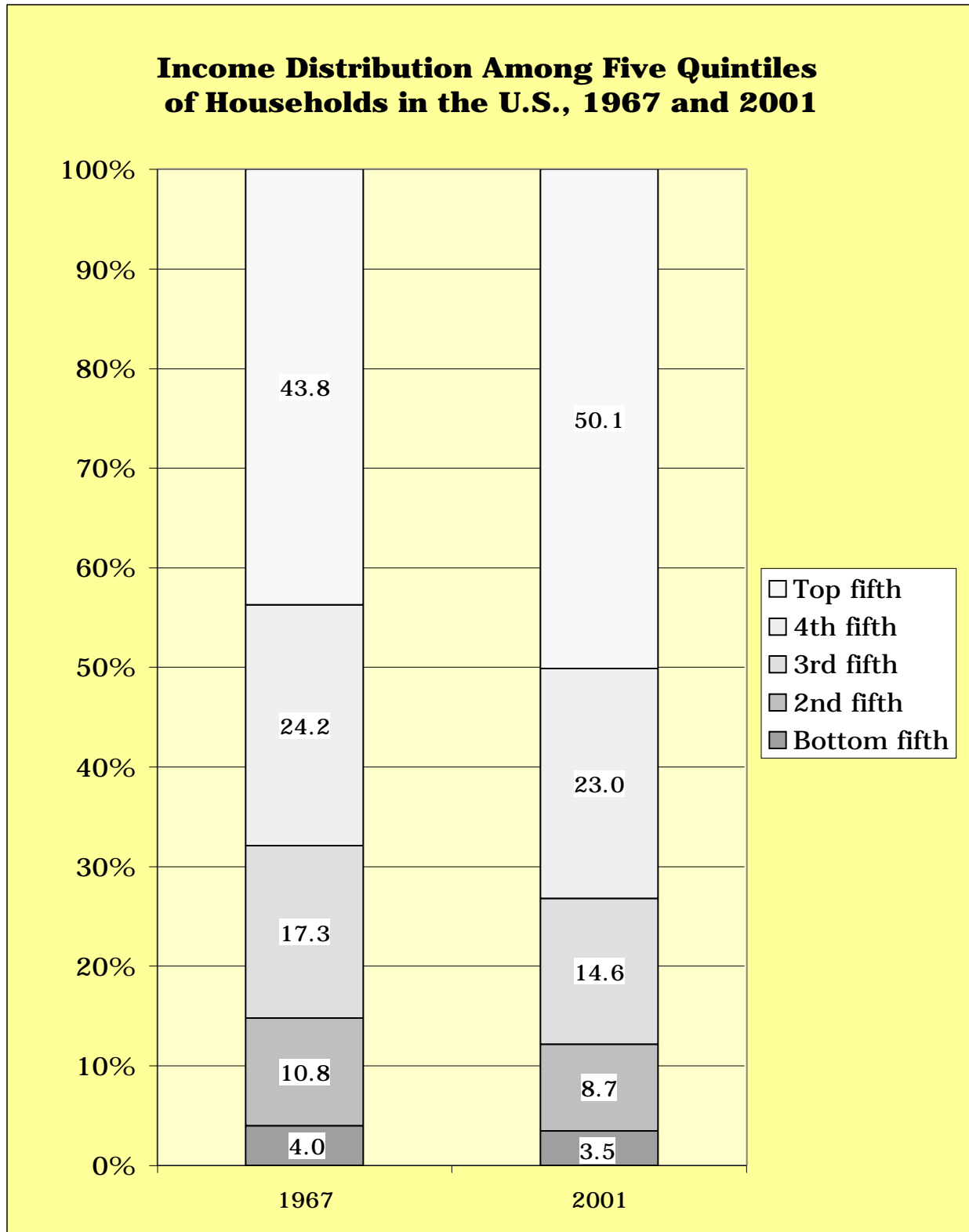
Source: Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics*, Vol. 118, No. 1, 2003, pp. 1-39.

Figure 14.2 shows the recent upturn in income inequality from a different perspective. In this figure one can see that in the first year of the last third of the 20th 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 percent. By the beginning of the 21st century—2001—the top quintile’s share had increased to 50 percent while the share of the bottom quintile had shrunk to 3.5 percent. Also apparent is the fact that the shares received by all of 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 46.3 percent of total income between 1967 and 2001. Households in the quintile exactly in the middle—the 3rd quintile—saw their income shrink from 17.3 to 14.6 percent of the total.

**INSERT Figure 14.2 Shares of income received in the U.S.—1967 and 2001**  
approximately here with the following caption below it.



**Figure 14.2 Shares of income received in the U.S.—1967 and 2001.** This figure shows how income was distributed among American households in 1967 and 2001. The total number of

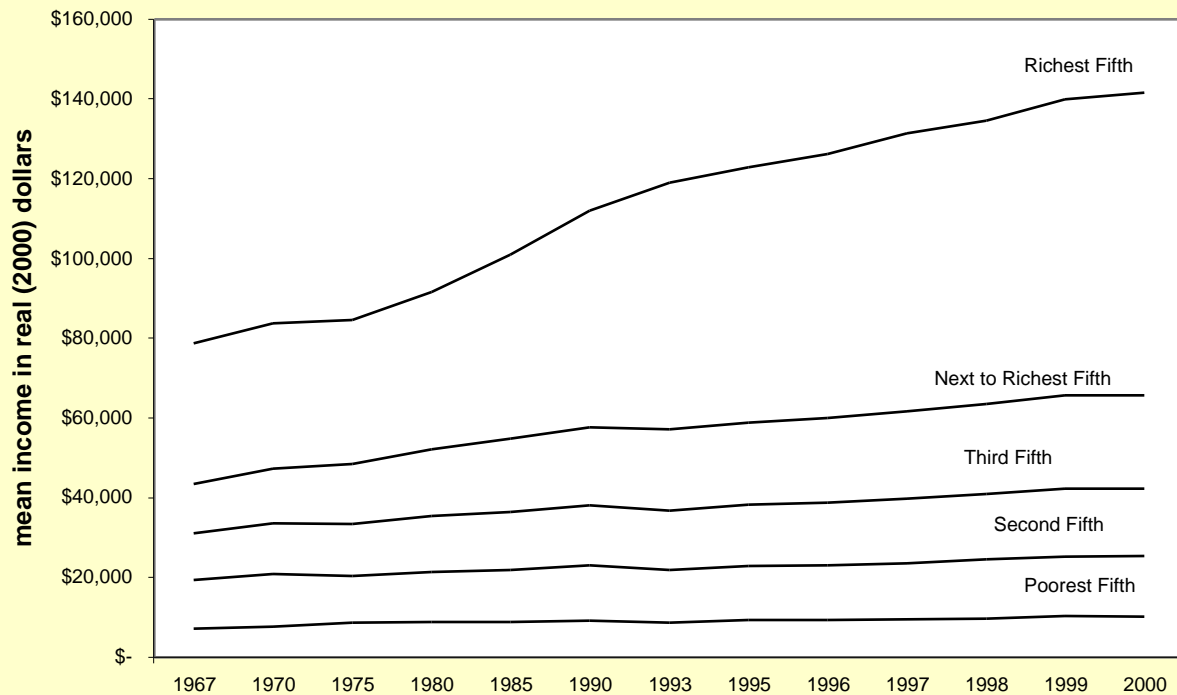
households in the U.S. in those particular years—61 million in 1967 and 109 million in 2001—was divided into five equal groups (“quintiles”) based on the amount of income they received, with the highest-income households in the top quintile, the next-highest-income households in the 4th quintile, and so on. The numbers inserted in each section of the bars indicate, for each of the two years, the percent of the nation’s total income that was received by all the households in each quintile.

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 2001;” published 30 September 2002; <<http://www.census.gov/hhes/income/histinc/h02.html>>

------(end of caption to be placed under Figure 14.2)-----

The increasing inequality shown in Figure 14.2 may be seen not only with reference to the share of total income received but also with reference to the actual amounts of income received, on average, by households in each quintile of the population. Figure 14.3 shows how much income was received, on average, by households in the five quintiles of the U.S. population over the same span of years covered in Figure 14.2. It shows that the amounts of money received grew only modestly for households in the lowest four quintiles, whereas the incomes of those in the top quintile rose by a significant amount. Thus we arrive at a conclusion similar to—but going beyond—the one we reached on the basis of the information displayed in Figure 14.2: the distribution of income has become more unequal, with people in the top quintile of the income distribution pulling away from those in the other four quintiles—not only in terms of the shares of the pie but also with regard to the sizes of the slices of the pie.

**INSERT Figure 14.3 Unequal growth of incomes in the United States, 1967-2001** approximately here.



**Figure 14.3 Unequal growth of incomes in the United States, 1967-2001.** This figure shows the growth of "real" income of adult persons [check "adult"], on average, in each fifth of the U.S. population between 1967 and 2001. "Real" means that actual amounts of income received (income in "current" dollars) have been adjusted for inflation and are measured as if no price-inflation occurred before or after the year 2000. Thus we can say that the amounts of income shown in this chart are in "real 2000 dollars." The term "mean" on the vertical axis indicates that the amounts of income shown are for a person receiving the average amount of income in each quintile of the population.

Source: Carmen DeNavas-Walt and Robert Cleveland, *Money Income in the United States: 2001*, U.S. Census Bureau, Current Population Reports, P60-218 (Washington, DC: U.S. Government Printing Office, 2002). Available at: <http://www.census.gov/prod/2002pubs/p60-218.pdf>

## WEALTH INEQUALITY

[frank, the figures mentioned in this section are new ones. I'll mail them to you but you should ask arjun for the most recent versions along with the captions]

*Wealth* is a measure of income-earning assets – such as land, shares of companies, rental properties, patents, and the like -- that a person or family owns. *Income*, by contrast, is how much **money a person or a family receives** over a given period of time. Income is called a *flow* and wealth a *stock* to stress this difference. (How much water is coming out of the faucet per minute is a flow, how much water is in the tub is a stock). Housing is counted as wealth, even if it is the owner's residence, **since** it is said to provide a flow of "housing services". (Cars are also considered wealth: they provide transportation services.) Sometimes one's skills and state of health are also considered to be wealth – called human capital – because they contribute to one's income. But when we refer to "wealth" we **mean** the conventional (non human) forms of wealth.

As we have seen in Chapter 8, ownership of corporate stock is highly unequal. **The** wealthiest 1 percent own more than two-fifths of the total, while the least wealthy 90 percent of the population own less than a quarter. **Frank is this fact still current? NO. Have we updated the 1998 figure? NO. We should. I AGREE. There is 2001 data. We have to do this when ed wolff does his new analysis. YES, I'LL RE-DO THAT NIFTY BAR CHART IN CHAPTER 8 (Figure 8.2) BETWEEN NOW AND NOVEMBER.** A broader measure of wealth is called net worth, which is all of the wealth one owns minus one's outstanding debts. The distribution of net worth not including one's home is shown in figure 14.4.

[figure 14.4. the distribution of non home net worth] – I'll have to ask Arjun for this.—F

As expected, higher income people have much more wealth than lower income people (one of the reasons they have high incomes is their wealth), but the extent of the difference is impressive. The non home net worth of the richest fifth in the population is 15 times the average of the bottom three fifths. The same kind of disparities show up when people are grouped by level of education attained: college graduates have four times the non-home net worth as high school graduates. Even more striking are the differences by sex and race. Households headed by a man have five times the wealth as those headed by a woman. And while the average white net worth exceeds \$100,000, the African Americans and Hispanics are on the average net debtors, excepting the value of their homes. These differences in wealth are proportionally far greater than the corresponding differences in income, and they are probably a better measure of the quality of life and the kinds of freedom enjoyed by the people in these groups.

Two different kinds of wealth may be distinguished: (1) ownership of a house and car, and (2), other assets, including ownership of corporate stocks, direct ownership of companies, and the like. Both kinds of wealth contribute to the living standards and security of the owner. Owning a house and car, as we have just noted, yields housing and transportation services **that are** available to others only at a cost. Ownership of other assets—land, stocks, rental properties—typically yields income to the owner. Ownership of both types of assets affords 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.x shows that well over two-thirds of the wealth of the wealthiest families takes the form of corporate stock and the ownership of business, with less than 10 percent of the total being in the form of one's residence. But families in the middle (not in the top or the bottom 20% of wealth holders) hold most of their wealth in the form of their own housing, with corporate stocks and ownership of businesses being only one seventh of their total wealth.

Wealth, we have stressed, is a source of security, a cushion to fall back on in hard times. One way to understand the extent of wealth inequalities in the U.S. is to ask: if your income from all sources (including income from your wealth) for some reason came to an end, how long could you live simply by spending down your wealth? Figure 14.y gives these figures for the wealthiest fifth of the population and for each of the other fifths of the wealth distribution. Take the case of the median wealth **older**? among the wealthiest fifth (there are an equal number *in the top fifth* with more wealth than this family and with less wealth than this family). In 1983 this typical wealthy person could have lived for 64 months consuming at the level of twenty-five percent above the officially designated poverty level. The middle fifth would have lasted less than 6 months. By 1998 the typical family among richest fifth would have lasted 102 months while the middle fifth would have run out of money after just 130 days. The typical family among the least **wealthy** 40 percent of the population would have run out in just a couple of days. In 1998, the person holding the average level of wealth in the top 1 percent (not shown in the figure) could have lasted longer than the adults in the family would live, that is 88 years without a single penny of income coming in.

These data show not only that wealth is very unequally distributed, but also that the inequality is increasing. Another way to measure this is to look at the fraction of all wealth owned by the top 1 percent of wealth holders. This increased from 33.8 percent in 1983 to 38.1 percent in 1998. Over the same period the fraction owned by the poorest 40% of families **decreased from** just under one per cent to one fifth of one percent. *[frank you may want to include the figure of this, which I am including, or maybe not.. I think not, as this chapter is pretty figure packed already.]*  
LAGREE.

The levels of wealth owned by the rich and the not so rich are only part of the story. The type of wealth held also makes a difference. Owning a home and a car does not generally make the owner an employer of others or even someone who can work on his or her own. To become an employer or to be self-employed, one needs to own assets other than a home and a car. An employer with a small shop employing, say, ten people, might need to own a quarter of a million dollars in assets. This would be enough to buy some of the equipment needed to employ the workers, and no less important, it would make it possible to borrow additional funds.

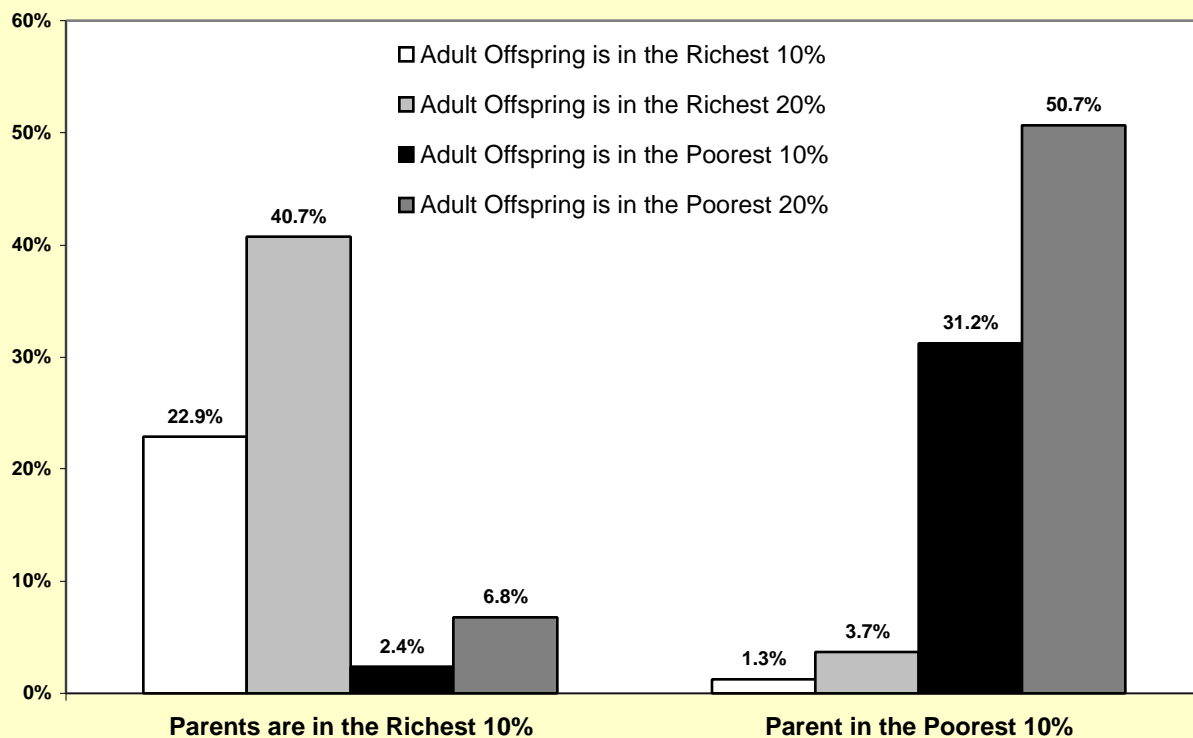
Thus, while the ownership of a home and a car contribute to our personal autonomy, it is the ownership of other assets—in particular, ownership of the capital goods used in production—which gives true economic autonomy: the freedom to work for oneself, to employ others, or to choose not to work at all.

## INTERGENERATIONAL INEQUALITY

Those responding 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 the ‘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 19<sup>th</sup> century when the U.S. 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 your life circumstances are not dictated by who your parents are but rather by your own abilities and work. **Recent research connecting the income of parents to the subsequent incomes of their grown children has shown, however, that that having rich parents does pay off handsomely.** Figure 14.5 presents data from a recent study.

[Figure 14.5: American Dreams (and nightmares) about here]



**Figure 14.5 American Dreams (and nightmares).** The figures above are from the University of Michigan Panel Study of Income Dynamics, (PSID), a survey which has been ongoing from 1968 of a representative sample of US individuals and the families in which they reside. Among other things, this data is used to measure the intergenerational income mobility of individuals in the U.S. The figures suggest that a child of parents who were in the poorest tenth of the income distribution got into the richest tenth about 1.3% of the time, and into the richest fifth about 3.7% of the time as an adult. A child whose parents were in the richest tenth remained in the richest tenth more than a quarter of the time (26.7%) and was at least in the top fifth about 40% of the time. In other words, a child whose parents were in the richest tenth of the population is in the top 10 percent of the income distribution as an adult 20 times more often as the child of parents who were in the poorest tenth of the population. While ‘making it’ is stacked heavily against the poor, it’s also true that children of rich parents seldom lost their status. The bottom panel shows that children whose parents were in the richest tenth of the population ended in the bottom fifth and the bottom tenth of the income distribution about 7% and 2% of the time respectively. The corresponding percentages for children born of poor parents were 50% and 31% respectively. In other words, the child of poor parents as adults were in the bottom 10% of the income distribution (‘scraping by’) about 15 times more often than the child of parents in the top 10% of the income distribution.

Source: Samuel Bowles and Herbert Gintis, “Intergenerational Inequality,” *Journal of Economic Perspectives*, Vol. 16, No. 3, Summer 2002, pp. 3-30.

The figure shows that among children whose parents are in the poorest tenth of the income distribution only 1.3 percent end up as adults in the richest tenth of the income distribution. If the



playing field were level in the sense that that their income were not affected by their parents income, *ten* percent of them would be in the richest tenth. Children from the poorest tenth have only a 3.7% chance of making it into the richest fifth of the income distribution. By contrast, among children whose parents are in the richest tenth, more than a fifth (22.9%) will have incomes as adults placing them in the top ten per cent; while two fifths of these offspring of the very rich will be in the top fifth of the income distribution. The figure also shows that the children of the rich are very unlikely to wind up poor, while over half of the children of the poor wind up in the lower fifth of the income distribution.

By comparison to Canada, Sweden and many other nations on which similar research has been done, the U.S. is far from the Land of Opportunity that it once aspired to be.

What accounts for the perpetuation of fortune and hardship from generation to generation? Two explanations are widely believed, but are not entirely adequate.

According to the first **explanation**, the transmission of economic success across generations occurs because high-income parents pass on their wealth to their children (recall from figure 14.4 that high income families have substantially more wealth than others). Lower income parents lack wealth (figure 14.4 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 parent's home. This can be seen from figure 14.4 which shows that even the next to the richest fifth of the population has wealth other than their home of only \$90,000, and even this wealth is often dissipated by **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, but **attributes** like height, good looks, a predisposition to obesity or poor health, and the physical characteristics which we call race are all 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 a lot more similar in IQ than are ordinary siblings (or non identical 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 like 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 behavioural 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 often have health problems, often intensifying 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, and especially people who resemble the authors of this book—white males—speak of racial discrimination in the past tense. There are many 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.

**INSERT** as a shaded box **“Race”: Biology or History?**  
approximately here.

## **“Race”: Biology or History?**

Races do not exist in the sense that most people mean when they use the word, namely groups of people, the main differences among which are perpetuated genetically. What distinguishes people of African or East Asian or European ancestry when they are classified as “races” are physical markers like 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 between 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 different ancestry, less than ten percent of the genetic differences are between groups.

Some genetic traits thought to be unique to a “race”—sickle cell anaemia 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 African-ness. 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.

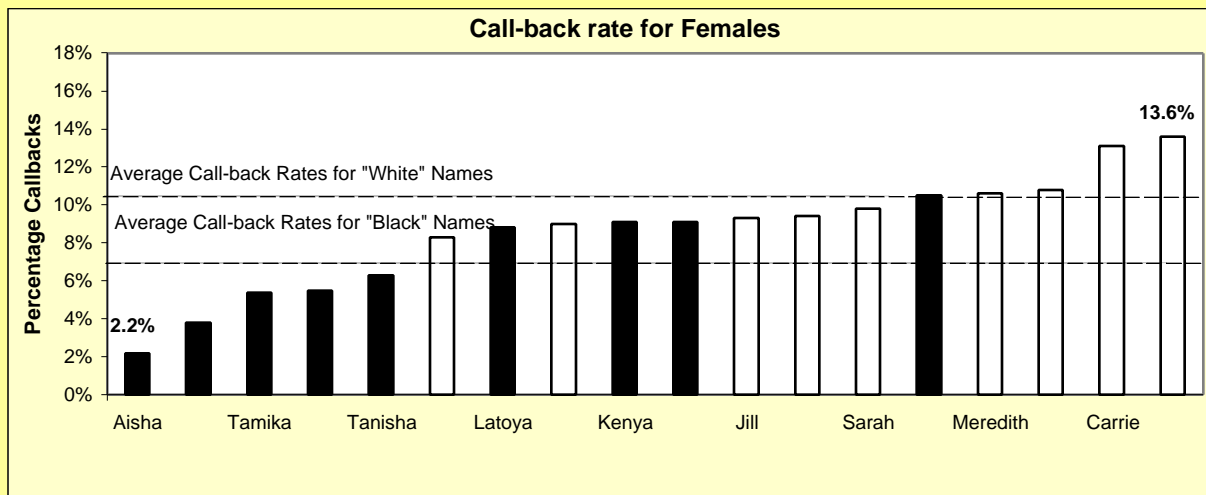
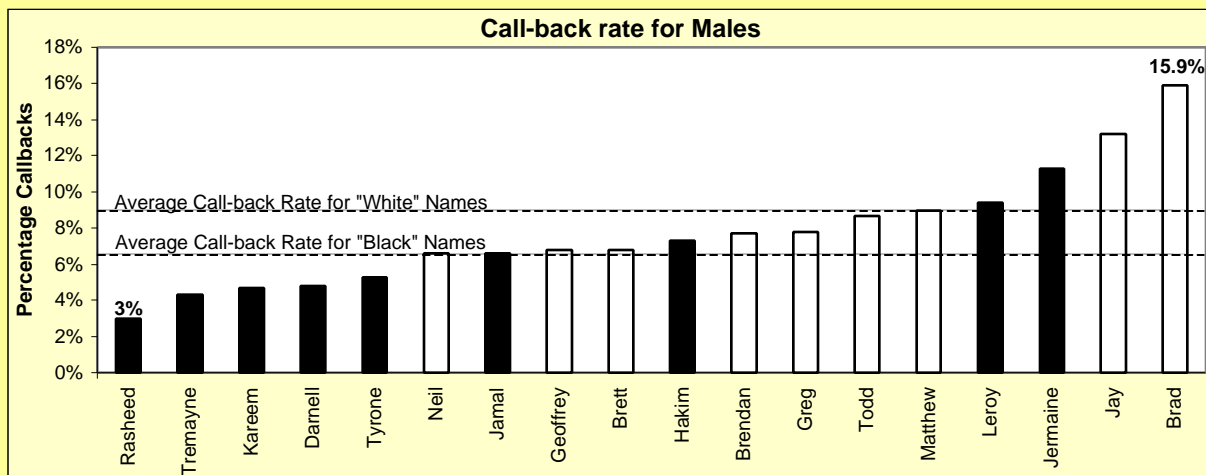
The conclusion we draw from this is not that race does matter; unfortunately it most certainly does. It is that race is not a biological fact. It is, rather, a historical outcome of how people of different ancestries have lived and have treated one another. That is why we do not consider tall people 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: Cavalli-Sforza, L. 2000. *Genes, Peoples and Languages*. Berkeley: University of California Press; Rosenberg, Noah, Jonathan Pritchard, James Weber, Howard Cann, Kenneth Kidd, Lev A. Zhivotovsky, and Marcus Feldman. 2002. "Genetic Structure of Human Populations." *Science*, 298, pp. 2381-[?]; Feldman, Marcus, R.C. Lewontin, and Mary-Claire King. 2003. "A genetic melting pot." *Nature*, 424:24 July, pp. 374-[?].

An ingenious recent experiment by Marianne Bertrand of the University of Chicago and Sendhil Mullainathan of the Massachusetts Institute of Technology shows that racial discrimination continues to exist in the labor market. The authors started with a collection of peoples' resumes that they downloaded from the Internet. They then manipulated these resumes so that some resumes were higher quality than others (i.e. they had more experience, more certification and so on). Following this, they removed anything in the resume that would identify the person who it originally referred to. Finally they randomly assigned either a "white-sounding" or a "black-sounding" name to each resume. These names were obtained from historical birth records, and were based on the relative frequencies of names in black and white households.

They then sent out these resumes to about 1300 potential employers in the Boston and Chicago areas in 2001-2002, typically four resumes to each (**one** "white-sounding" with a good resume, **one** "black-sounding" with a good resume, **one** "white-sounding" with a poor resume, **one** "black-sounding" with a poor resume). The figure shows that the single distinction between people's names led to a very wide racial gap in the number of people called back for interviews. Resumes with "black-sounding" names, whether male or female, were significantly less likely to be called back for interviews than those with "white-sounding" names. A "Brad" was 5 times more likely to be called back for an interview than a "Rasheed." and a "Kristen" was 6 times more likely to be called back for an interview than an "Aisha."

[figure 14.6 : Racism by any other name]



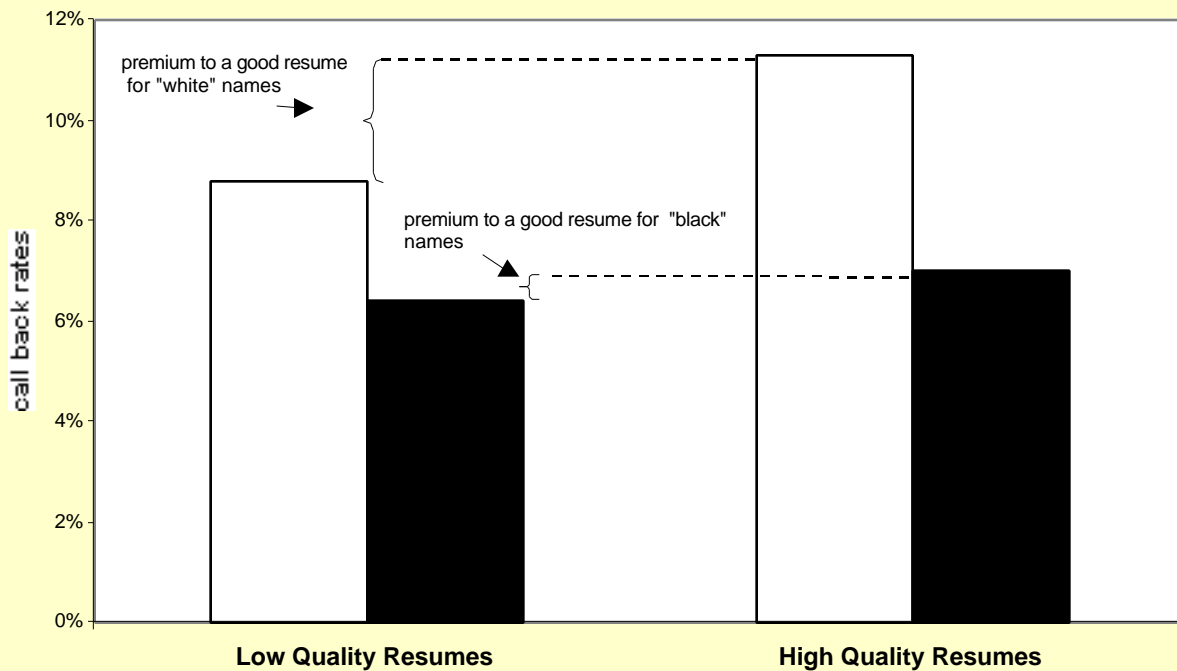
**Figure 14.6 Racism by any other name...** An ingenious recent experiment by Marianne Bertrand of the University of Chicago and Sendhil Mullainathan of the Massachusetts Institute of Technology shows that racial discrimination continues to exist in the labor market. The authors started with a collection of resumes that they downloaded from the Internet. They then manipulated these resumes so that some resumes were higher quality than others (i.e. they had more experience, more certification and so on). Following this, they randomly assigned either a "white-sounding" or a "black-sounding" name to each resume. These names were obtained from historical birth records, and were based on the relative frequencies of names in black and white households. Finally, they then sent out these resumes to about 1300 potential employers in the Boston and Chicago areas in 2001-2002, typically four resumes to each ("white-sounding" with a good resume, "black-sounding" with a good resume, white-sounding" with a poor resume, "black-sounding" with a poor resume). The figure shows that the single distinction between people's names led to a very wide gap in the number of people called back for interviews by race. Resumes with 'black-sounding' names, whether male or female were significantly less likely to be called back for interviews than those with 'white-sounding' names. A 'Brad' was 5 times more likely to be called back for an interview than a 'Rasheed', and a 'Kristen' was 6 times more likely to be called back for an interview than an 'Aisha'.

Source: Bertrand, Marianne and Sendhil Mullainathan, 2003. "Are Emily and Brendan More Employable than Lakisha and Jamal?: A Field Experiment on Labor Market Discrimination", mimeo, University of Chicago and MIT.

We emphasize this study because it is one of the recent (and best designed) of similar studies: in other investigations, paired otherwise identical white and African American car buyers,

apartment seekers, and loan applicants have been treated differently. A particularly 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 determined significantly** by race. Figure 14.6 shows that resumes with “white-sounding” names improved the call back rates by 30% if they had a good resume rather than a bad one. For resumes with a “Black-sounding” name, the improvement in callbacks from having a good resume rather than a bad one was so small that it could have occurred by chance.

[figure 14.7: Good resumes pay off (if your name is ok)]



**Figure 14.7 Good resumes pay off (if your name is OK).** The experiment by Marianne Bertrand of the University of Chicago and Sendhil Mullainathan of the Massachusetts Institute of Technology mentioned above ( page xx) also shows that while your qualifications matter to your opportunities in the labor market, they differ significantly by race. Resumes with “white-sounding” names improved their call back rates by 30% if they had a good resume rather than a bad one. 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 callbacks.

Source: Bertrand, Marianne and Sendhil Mullainathan, 2003. "Are Emily and Brendan More Employable than Lakisha and Jamal?: A Field Experiment on Labor Market Discrimination," mimeo, University of Chicago and MIT.

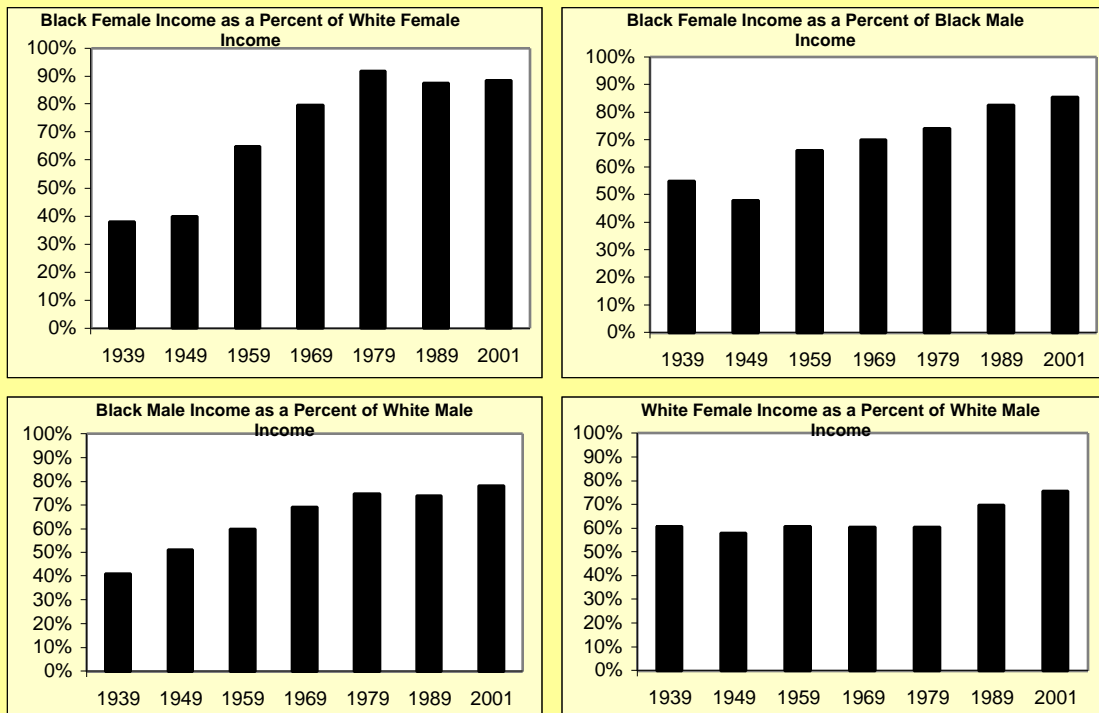
Did the Civil Rights Movement of the 1960s early 1970s fail? It might be more accurate to say that it ended. Figure 14.8 gives the long term trend in the incomes of African American and

white men and women since before the Second World War. The figures show the median annual earnings of people who worked full time throughout the year, so it does not reflect the fact that African Americans are more likely to be out of work than are whites. (Earnings refer to income from work, that is wages, salaries and other compensation for work). The two left hand panels make it clear that until 1979 the economy was moving towards racial parity, and at a quite rapid rate. Notice the dramatic progress from the outbreak of Second World War through the end of the 1950s, as well as the continuing improvement during the decade of the Civil Rights movement and the 1970s. The passage (and aggressive enforcement of) legislation making racial discrimination in hiring illegal as well as affirmative action program seeking to redress racial imbalances in employment contributed to the reduction in the racial earnings gaps during this period. The increase in the fraction of the workforce employed by the government also helped, **since** the public sector offered relatively more good jobs at more equal pay than the private sector. African Americans made few gains in relative earnings since the end of the 1970s.

While racial discrimination in the labor market is part of the explanation of the racial earnings gaps documented in figure 14.8 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 or 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.

[figure 14.8: Halting progress toward a color blind economy]





**Figure 14.8 Halting progress towards a color-blind economy.** The figures here are the median annual income of full time year round employees. As such, any racial and gender differences in employment over the year is accounted for. The bars measure the ratio of black to white and female to male incomes.

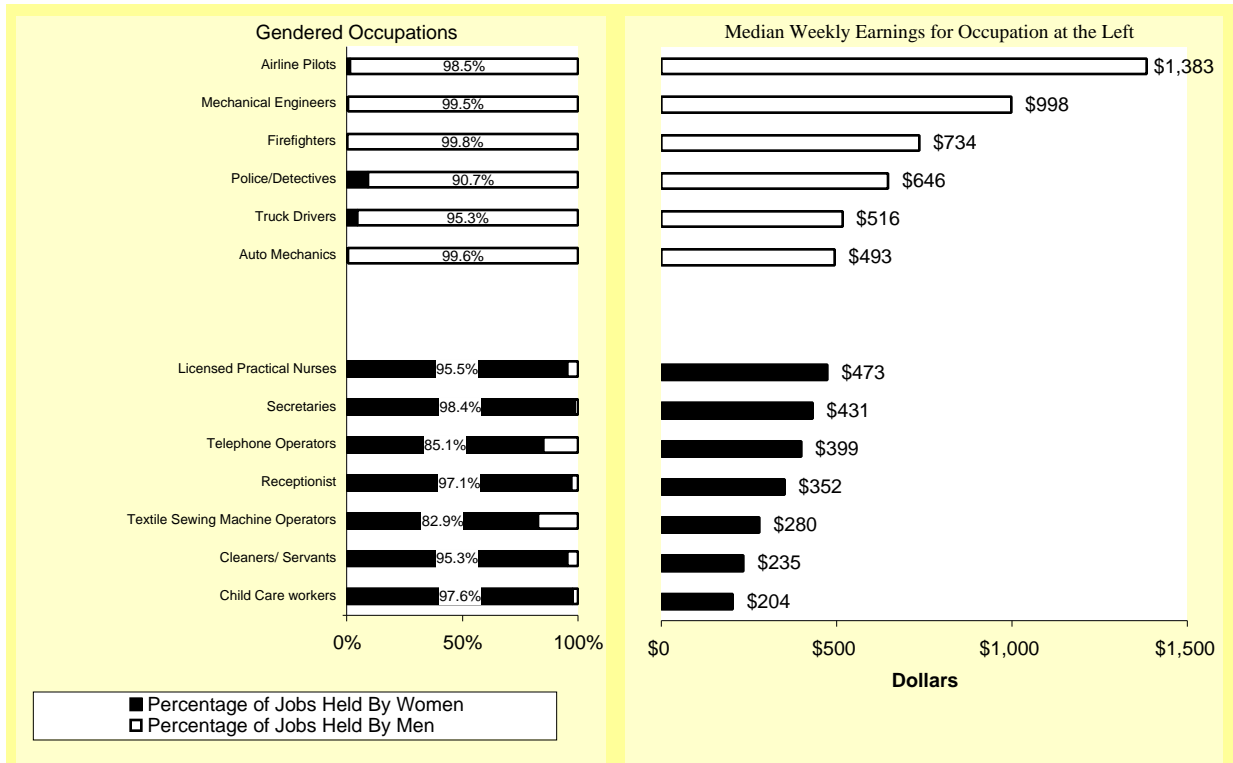
Source: *Economic Report of the President, 1991 and 2003*, U.S. Government Printing Office, Washington, 2003. Available at <http://www.bls.gov/cps/cpswom99.pdf>

## WOMEN'S WORK, WOMEN'S WAGES

The **two panels on the right** in figure 14.8 compare women's and men's median annual earnings for both whites and African Americans. Like the **panels on the left**, the data are for full time year round workers, so differences in the typical number of weeks worked between men and women do not account for the gender gap in pay that we see in these data. While African American women have made very substantial gains compared to African American men, women of European ancestry have made little progress in catching up with white men, despite some improvement over the last two decades of the previous century.

The principal reason women earn less than men is *job segregation*. Women tend to work in different kinds of jobs from men, and women's jobs pay less than men's jobs, on average. Secretaries, elementary school teachers, and nurses, for instance, are usually women, whereas carpenters, mechanical engineers, and airplane pilots are almost always men. Figure 14.9 shows how the sex segregation of jobs results in lower pay for women workers.

[figure 14.9 Womens work; womens wages]



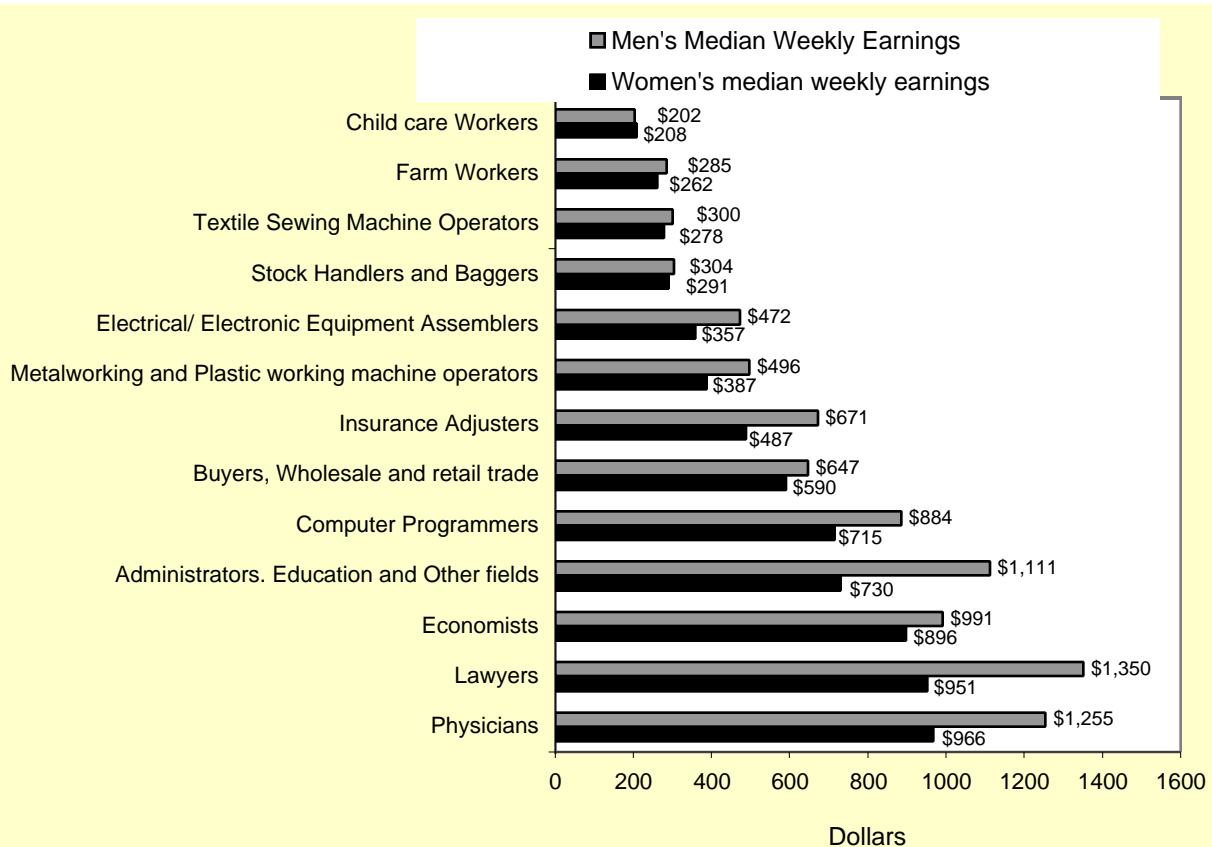
**Figure 14.9 Women's work, womens wages.** Occupations are often gendered. That is, for some jobs, the vast majority of workers are women and for others, the vast majority are men. The figures above show some of the most gendered occupations and also list the median weekly earning in each of them. 'Men's jobs' tend to be better paid than 'Women's jobs'

Source: Bureau of Labor Statistics, 2000. *Report 943: Highlights of Women's Earnings in 1999*, U.S. Department of Labor, 2000.  
 Available at <http://www.bls.gov/cps/cpswom99.pdf>

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 14.10.

[Figure 14.10: Unequal pay for women]



**Figure 14.10 Unequal Pay for Women.** The figure here shows the median women's weekly earnings in different industries to that of men in real 1999 dollars.

Source: Bureau of Labor Statistics, 2000. *Report 943: Highlights of Women's Earnings in 1999*, U.S. Department of Labor, 2000.  
Available at <http://www.bls.gov/cps/cpswom99.pdf>

Why women are paid less than men is a matter of dispute. **On the 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. Notice however that jobs requiring physical strength—farm workers and stock handlers in figure 14.10, for example—show relatively little difference in pay between men and women, especially by comparison to lawyers, physicians, and insurance adjusters, jobs where physical strength is not rewarded. For many jobs, 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. Women who take “male” jobs such as truck driving or auto repair are sometimes seen as sexually unattractive. Another “callback” study, by Lee Badgett and Nancy Folbre of the University of Massachusetts, confirmed this. 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 woman 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.”

## CONCLUSION: EXPLAINING THE MOSAIC OF INEQUALITY

Why do some families have much more income than others? And why do the income differences between families change over time, increasing as they have been for the past three decades, or decreasing as they did for the three 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 potentially income-earning assets: the skills and time of its members, 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.

Take two hypothetical couples (we'll ignore the kids) Brad and Carrie and Tyrone and Latoya (yes the choice of names is deliberate). Brad and Carrie both graduated from college: Brad is a computer programmer working full time and Carrie works half time as a substitute teacher. Both make \$20 an hour. Tyrone and Latoya did not go beyond high school and both work full time, Tyrone as a machinist at a unionized firm and Latoya as a waitress. Tyrone makes \$15 an hour and Latoya \$9. Brad and Carrie have \$200,000 invested in the stock market, while Tyrone and

Latoya own their home and car but have no other wealth. You should check the figures above to see if these hypothetical couples' economic situations are realistic.

Now lets do the numbers. If Tyrone and Latoya both work full time all year (1750 hours) their income will be \$42,000. Brad and Carrie will make \$52,500 in wages. Their wealth, if it makes a rate of return of 5 percent per year, will add another \$10,000, so their total income is \$62,500.

Now consider the two couples in a later year. Brad and Carrie have managed to save, so their wealth is now \$250,000 (and the rate of return on their wealth is now 10%) and Carrie is now teaching full time. Assume that their wages remained the same. Latoya is still waitressing at \$9 but the machine shop where Tyrone worked closed (the firm that owned the shop opened a new plant in Germany). After a year searching for work he found a full time job working in a grocery store at \$10 an hour. Before he was laid off, Tyrone and Latoya had saved some towards Latoya going to college nights, but they ran through their savings and went into debt during his unemployment. They owe \$10,000 to various creditors.

The numbers look a lot different now. Latoya and Tyrone make \$33,250 in wages and pay twenty percent interest on their debt (totaling \$2000), giving them an income of \$31,250. Carrie and Brad now have a wage income of \$70,000 and the returns on their wealth add another \$25,000, giving them an income of \$95,000. Both couples are working hard; neither is rich by American standards. But between the two years, Brad and Carrie went from earning 50% more than Tyrone and Latoya to earning three times as much.

The couples are fictitious. But is this a realistic picture of the changes in the distribution of income in the U.S. over the past few decades? Yes. The differences between the two couples, and the reasons why their fortunes diverged **are realistic** in light of the data on the U.S. economy you have seen (and other data you can look up.) The keys to the divergence have all been at work in the U.S. economy. Tyrone and Latoya faced job insecurity to a greater extent than Brad and Carrie; **they also lacked ownership of stock—the rate of return of which** increased considerably over the period. The cost to Tyrone of losing his job was huge (a year without a job followed by a new job at much less pay). Had Brad or Carrie lost their jobs, their re-employment prospects would have been much better, as their skills are in demand. And Brad and Carrie greatly increased their income when Carrie went to full time work.

Of course we **have** left a lot out of our story. For example it would have been realistic to add that after Tyrone lost his job at the machine shop, **he and Latoya** did not have medical insurance, and so they now pay \$10,000 per year for private insurance. Brad and Carrie would most likely both be covered by health insurance at work, especially after Carrie went to work full time. Notice that Tyrone's experience is similar to those described in the **box on p. xx [frank this is the globalization box in chapter 9]** whose plant closed. In the second year all four members of our hypothetical couples worked in the service sector of the economy, but in contrast to manufacturing, service sector jobs tend to be of two types: high end jobs with job security, health insurance and good pay and low end jobs with none of these features.

What lies behind the trend towards greater inequality in the U.S is a much-debated topic. A few contributing factors are widely agreed upon.

- The assets that high-income people have a lot of—education and wealth—have become more highly remunerated. The higher pay going to the better educated may be the result of newer technologies requiring more skill (so called skill biased technical change.)
- Wealth has become more unequally held.
- More than in the past, high-income men are married to high-income women. This is because today **more than in the past** high-income men tend to be married to highly *educated* women who today are much more likely to work for pay than before. (Less educated women also tend to work for pay, but not more so than in the past.)
- The decline in the strength of trade unions (**see figure xx**) has reduced the bargaining power of workers.
- Generally accepted norms of fair pay seem to have eroded, allowing extremely high pay to CEOs (**see figure xx**) and very low pay in many sectors of the economy to co-exist without effective protest.
- The decline in the minimum wage (**see figure xx**) has allowed low wages to fall.
- The shrinkage of the manufacturing sector of the economy (**see figure xx**) has destroyed many well paying skilled jobs.
- The growth of the service and sales sectors of the economy has generated a “twin peaks” distribution of jobs with both “good” and “bad” jobs proliferating, but with little in the middle.
- More than before, workers in the U.S. are competing with workers in the rest of the world (**see figure xx**). While many of our trading competitors pay higher wages than the U.S., some do not. This plus recent immigration of people willing to work at low wages and who are not in a position to bargain aggressively with their employers due to their lack of citizenship and often illegal status have put downward pressure on wages.

While it seems likely that all of these influences have been at work, there is little agreement about the importance of each.

**INSERT** as a shaded box **A Living Wage?**  
approximately here.



## A Living Wage?

In the early hours of the morning of February 27, 2003, after weeks of heated debate, the City Council of Santa Fe, New Mexico voted 7-1 to pass an ordinance requiring all employers with more than 25 workers to pay a minimum wage of \$8.50. At the time, the New Mexico minimum wage – \$4.25 per hour – was below the federal minimum wage, the latter therefore being the legally binding effective rate.

Proponents of the measure claimed that the increase would dramatically change the living standards of the thousands of hotel cleaners and restaurant kitchen and wait staff – many recent immigrants from Mexico and many without health insurance who play a central role in the city’s tourist industry. They also pointed out that the value of the federal minimum wage adjusted for inflation had fallen by more than a third in the previous two decades. Opponents argued that hotels and restaurants would lay off staff, and that tourists would vacation elsewhere and that it was unwarranted interference in their right to run their businesses as they choose. (One restaurant owner called it “socialistic.”)

Both sides marshaled economic studies. Proponents buttressed their case with findings from a study of an earlier increase in New Jersey’s minimum wage, showing that it had had no adverse effect on employment in the fast food industry. Opponents used a study financed by the restaurant industry, attempting to counter these findings. After weeks of public testimony from unions, businesses, affected workers, and other citizens (including one of the authors), the council members concluded that the adverse effects on jobs – if they materialized – would probably be outweighed by the increased pay to Santa Fe’s poorest workers. (They also amended the ordinance to include a study of its effects.)

In other cities – New Orleans, Santa Monica, CA., Boston, and elsewhere – proponents of the Living Wage Campaign have attempted to pass similar ordinances, though none as far reaching as Santa Fe’s. Opponents of the ‘living wage’ in Santa Fe did not take their loss lying down: they introduced a bill in the state legislature that would deny cities and towns the right to regulate minimum wages. And they challenged the ordinance in court as unconstitutional.

Sources: David Card and Alan B. Krueger, *Myth and Measurement The New Economics of the Minimum Wage* (Princeton, NJ: Princeton University Press, 1995); David Neumark and William Wascher, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Comment." *American Economic Review*, Vol. 90, No. 5, 2000, pp. 1362-96.

For more information about living wages see <http://www.umass.edu/peri/>. The restaurant lobby and research group can be found at <http://www.epionline.org/>

## Suggested Readings

- Badgett, Lee and Nancy Folbre. 2003. "Job Gendering: Occupational Choice and the Labor Market." *Industrial Relations*, 42:2, pp. 270-98.
- Bowles, Samuel, Herbert Gintis, and Melissa Osborne. 2002. "The Determinants of Earnings: A Behavioral Approach." *Journal of Economic Literature*.
- Bowles, Samuel and Herbert Gintis. 2002. "The Inheritance of Inequality." *Journal of Economic Perspectives*, 16:3, pp. 3-30.
- Bowles, Samuel, Herbert Gintis, and Melissa Osborne eds. 2004. *Unequal Chances: Family Background and Economic* Princeton: Princeton University Press.
- Ehrenreich, Barbara, *Nicked and Dimed*
- Frank, Robert. 1999. *Luxury Fever: Why money fails to satisfy in an era of excess*. New York: The Free Press.
- Newman, Katherine, *No Shame in My Game*
- Edward Wolff, *Top Heavy* (or anything more recent)
- Arthur F. Jones Jr. and Daniel H. Weinberg "The Changing Shape of the Nation's Income Distribution, 1947-1998," *Current Population Reports*, P60-204, Issued June 2000.