INEQUALITY, TAXATION AND INTERGENERATIONAL TRANSMISSION

Edited by John A. Bishop
and Juan Gabriel Rodríguez

RESEARCH ON
ECONOMIC INEQUALITY

VOLUME 26

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INTRODUCTION

Research on Economic Inequality, Volume 26, Inequality, Taxation, and Intergenerational Transmission, primarily comprises papers presented at the 8th Economic Inequality Society meeting in New York City (July 2017). The volume contains 11 papers on a wide range of topics of interest to inequality, poverty, and taxation researchers.

Chapters 1 and 2 address issues of taxation and inequality. Frank Cowell, Dirk Van de gaer, and Chang He address the important topic of inheritance taxation. Abolitionists of estate taxation often point to the small amount of revenue collected and thus argue that inheritance taxes have but modest effects on the distribution of wealth. Cowell and his co-authors argue that it is the long-run effect on the "pre-distribution" that matters most. In the presence of inheritance taxes, work, leisure, and saving rates all change in ways that reduce wealth inequality. Their simulation results imply that a modest wealth tax can "indeed be a powerful engine of long run change" in the wealth distribution.

Claudio Zoli investigates the relationship between inequality and progressive taxation under a general definition of inequality equivalence. He proposes a two-parameter generalization of inequality equivalence that includes as special cases the path-independent and unit-consistent criterion, and the intermediate concept of inequality. For the former concept, a non-decreasing average tax rate is a necessary and sufficient condition to guarantee that taxes reduce inequality for all the inequality views in between the absolute and the relative.

Capital in the Twenty-First Century by Piketty (2014) has generated a large debate on the prospects of the evolution of wealth inequality, being the effect of economic growth (g) on wealth, one of the main controversies. Thus, it has been claimed that a decrease in g increases the difference with respect to the rate of return on capital (r), $r - g$, which in turn increases wealth inequality. In Chapter 3, Mauro Patrão presents a neoclassical growth model with heterogeneous agents that generalizes and improves the models in Piketty and Zucman (2015) and Aoki and Nirei (2016). He shows that under this more general framework, the above prediction is more ambiguous.

In the Chapter 4, Elena Barcena-Martin and Jacques Silber apply their newly developed decomposition method of the Foster-Wolfson bipolarization index to the determinants of wage bipolarization. The authors remind us that the difference between inequality and bipolarization is that a decrease in within-group homogeneity lowers inequality but raises bipolarization.

Using the European SILC data and highlighting Portugal, they find that educational differences, gender and working in the public sector are important determinants of bipolarization. For comparison, the authors also examine the main sources of wage inequality.

Chapter 5 (Miri Endeweld and Jacques Silber) is entitled, "The Counting Approach to Multidimensional Food Security Measurement: The Case of Israel." In this chapter, the authors apply the tools of multidimensional poverty measurement, along with alternative counting methods, to allow a more in-depth examination of food insecurity. For example, the authors are able to distinguish between real and nominal food insecurity as well as between basic and non-basic food insecurity. Various subpopulations are examined to determine the relative levels of food insecurity.

Claudia Samano-Robles, in her chapter, entitled, "The Impact of Education on Income Inequality in Latin America Between 2000 and 2010" address the question of the "paradox of (educational) progress." This "paradox" postulates that the expansion of educational opportunities tends to increase inequality. Her study of 18 Latin American countries confirms this notion if we examine years of schooling alone. However, if we also recognize changes in the rate of return to schooling she finds that greater schooling reduces inequality in six countries and increases inequality in four countries. In countries where inequality fell, it was due to declining returns to education at the top of the distribution.

Chapters 6–8 focus on the transmission between generations. Ana Suárez and Ana Jesús López assess the changes over time in inequality of opportunity for 26 European countries. Using the wide variety of personal harmonized circumstances in the EU-SILC database, the authors measure the significance of changes in inequality of opportunity by estimating the confidence intervals (instead of the standard errors) without imposing any functional form to the data.

In "Macroeconomic Determinants of Cross-Country Differences in Intergenerational Transmission of Economic Disadvantage," Maria A. Davia and Nuria Legazpe identify the differential risk of living in poverty for adults raised in poor households. In particular, the authors test how macroeconomic and institutional features shape the intergenerational transmission of economic disadvantage (ITED). Using the EU-SILC 2011 module on *ITED,* they find that past income inequality is positively correlated with current ITED intensity and that social protection for families with children and unemployment benefits are negatively correlated with later ITED levels. In addition, educational expansion is found to be correlated with lower ITED, which shows that public investments in education could be a proper way to reduce inequality of opportunity.

In Chapter 9 on intergenerational transmission, "Long-Run Factors Influencing Intergenerational Perceived Job Status Mobility," John A. Bishop, Haiyong Liu, and Juan Gabriel Rodríguez examine whether higher income inequality hurts economic performance by decreasing future intergenerational mobility. They find a robust negative (positive) association of lagged income inequality with upward (downward) intergenerational job status mobility. Moreover, the quality of political institutions and religious fractionalization are found to contribute positively to job status mobility. On the contrary, higher levels of past GDP result in less upward job status mobility.

The final two chapters are concerned with the inequality perceptions and preferences. In Chapter 10, Aboozar Hadavand addresses the question of why the perception of inequality and objective inequality often differ. He writes that most observers credit this discrepancy to a misperception of the respondents – he suggests that it may also be an issue of mismeasurement. Hadavand introduces a measure of "closeness between distributions" and finds that in most countries a significant share of respondents chose the closest distribution to the actual distribution in their society. Factors such as education level and income are found to affect the correctness of the respondents.

Chapter 11 by Bishop and Liu examine the role of governance in the expression of equality preferences. Their claim is that in a "well-functioning" democracy redistributive preferences should be clustered around acceptance of the current level of inequality. Using data from the World Values survey and a series of political indicator variables they find that individuals in democracies are more "content" with the current level of inequality.