PREFACE

Inequality has been rising in many countries over the last decades and the process seems to have accelerated with the Great Recession. Not only is income distribution more unequal today than 40 years ago, but also the transmission of income differences through generations remains substantial. In other words, many countries fail to experience upward economic mobility as was prevalent in the past. This volume contains 11 original papers which deal with the causes and consequences of inequality. The topics covered include the way inequality is measured, the level of equal opportunities across countries, the impact of education, the effect of changing occupational structure, the consequences of changing productivity within the firm, the roles of stagnating average real wages, the decline of union membership, the effect of maternal labor supply on labor market outcomes of their children, and the link between income inequality and health.

In the first paper, Daniele Checchi, Vito Peragine, and Laura Serlenga provide an empirical investigation of income inequality and equality of opportunities in Europe. One of the key messages of the paper is that standard income inequality and equality of opportunities measures do not necessarily provide the same type of country rankings – especially when comparing formerly non-market economies with coordinated market economies, like Nordic ones. The authors also find that equality of opportunity measures do not exhibit significant variation over time, as income inequality measures do, suggesting that they reflect embedded features of national socio-economic systems. Institutions play a role in shaping the varying degrees of equal opportunities across countries, in particular educational systems, labor market institutions, and parental leave opportunities during child rearing.

The interaction of family responsibilities and institutions can also shape inequality. In the second paper, Luca Flabbi, James Mabli, and Mauricio Salazar offer two key perspectives on the issue of income inequality derived from a model of household search. First, by explicitly modeling individual behavior, they distinguish between inequality in income and inequality in welfare over the life cycle. Second, by also modeling the economic interaction of spouses, they identify different sources of inequality. Using their structural model for policy simulations, they show that increasing dispersion of the wage offer distribution affects earnings inequality but not welfare inequality. This suggests that agents may enact behaviors that at least partially neutralize the effects of exogenous shocks to the wage distribution. Also differences in labor supply between men and women result in different patterns of wage inequality.

Using appropriate data also plays a role in understanding inequality, particularly regarding intergenerational changes (how much children's income is associated with the income of their parents). Intergenerational income associations are important measures because they can be informative about the degree of income mobility, with higher intergenerational income association implying lower mobility. In the third paper, Bhashkar Mazumder discusses alternative approaches to the estimation of intergenerational income associations (elasticities vs. rank correlations) casting the discussion in the framework of recent U.S. evidence from tax records, which shows lower estimates of both compared with previous findings, implying more intergenerational income mobility than commonly thought. The author reconciles these discrepancies by showing that the tax records used do not have the right structure which is needed for the estimation of intergenerational associations. These include: a sufficient length of income strings on children and fathers centered around the early 40s, and an age range where life-cycle biases are typically considered negligible. Using longer panel data from household surveys (PSID), the author shows that the data limitations of the tax records used in recent papers can explain a big part of the discrepancies in results. The paper also stresses the conceptual advantages of rank-based measures over elasticities. The main conclusion is that available tax data do not provide the adequate structure of information for estimating intergenerational income associations.

While the bulk of the inequality literature concentrates on incomes or earnings, starting with the late 1990s economists have been interested in exploring also the inequality of consumption and its connection with income inequality. Consumption is a key welfare determinant and its distribution across households may inform about "deep parameters" of the underlining behavioral model. In the fourth paper, Johannes Ludwig revisits the theme focusing on the U.S. case where consumption inequality did not follow the rise of income inequality. Using PSID data up to 2010 and imputing consumption data, the author identifies two main channels which can explain why consumption inequality did not increase. First, increasing income inequality came through the more volatile component of the income process, which can be smoothed away through credit when making consumption plans. Second, an increased ability of households in insuring themselves against any type of income shocks, permanent or transitory, again points to the relevance of financial markets. Nevertheless, despite a household's ability to cushion income shocks in the short run, the causes of income inequality are important to understand long-run consequences. The next six papers deal with potential sources of inequality.

It is well known that wages vary across employers. For example, large establishments typically pay more. Less well known is a new strand of research documenting how increasing inequality between these employers is responsible for greater overall wage inequality. Also less well known is that establishments are becoming more concentrated in occupations as routine occupations are being replaced by technology and an additional number of occupations are being outsourced in order to cut compensation costs. In the next paper, Elizabeth Weber Handwerker and James R. Spletzer utilize new employer–employee linked data to show first the importance of establishment effects in widening the wage distribution, and second the growing divergence of wages between establishments which in part results from an increasing within establishment occupational concentration at least in the 2000–2011 time period. Both bring attention to efficiency changes within establishments related to the overall wage distribution.

In the next paper, Nicole Fortin and Thomas Lemieux examine the link between wage inequality and task prices, which are difficult to measure because changing task prices are often blurred by endogenous selection into tasks. In the model they present, wage levels depend upon tasks and task prices, while tasks depend on workers' skills. This implies that wage inequality depends on both the level and dispersion of task prices. Using detailed data on task contents of jobs, the authors' findings suggest that automation has reduced average wages and increased their dispersion. The study advances the current literature on routine jobs and wage inequality by showing that changes in task prices due to changing content of tasks are an important ingredient of changes in the overall wage distribution.

Differences in labor market outcomes between groups are partly related to the intergenerational transmission of skills. In the next paper, Tsunao Okumura and Emiko Usui investigate the contribution of intergenerational transmission of skills to the black/white earnings gap. The authors first set out a theoretical model that allows for skills, multidimensionality and their transmission across generations. They then take this model to the data drawn from the NLSY79, showing that a large portion of the within-generational earnings gap is in fact coming from the previous generation, being accounted for by the process of skill transmission. However, the intergenerational process cannot explain the whole of the earnings gap within a generation, particularly at the lower end of the earnings distribution.

Secularly, changing skill levels and task prices can affect the college wage premium. In the next paper, Elena Crivellaro offers a cross-country analysis of the college wage premium in Europe. She considers several factors that might affect relative wages, particularly the supply and demand of skilled labor as well as labor market institutions. To address endogeneity of the supply of skills, she proposes an IV strategy based on educational reforms that arguably shifted the supply of college graduates. These reforms together with the evolution of inequality-reducing labor market institutions, such as the minimum wage, contributed to a decline of the college wage premium over time.

The decline of union power may also be a factor. In the next paper, Stephen Machin explores the connection between rising wage inequality, stagnation of average real wages, and the decline of unions. The author shows that the rise of wage inequality observed in many countries (e.g., United States, United Kingdom, Germany) was concurrent with the stagnation of average wages, defined as the absence of real wage growth. This phenomenon is worrying from a welfare perspective especially because stagnation occurred in the bottom and middle quantiles of the wage distribution, but not at the top. This happens in an era of the demise of unions where new workers do not unionize implying a decoupling between average wages and productivity.

Maternal labor supply can also be a factor. In the next paper, Martha H. Stinson and Peter Gottschalk investigate the effect of maternal labor supply on labor market outcomes of their children when they grow up. Answering this question is challenging because of both endogeneity issues and data limitations. Having access to rich longitudinal data, that allows measuring both the parental earnings when the child is very young and the adult earnings of the child, they find no significant effect of maternal labor supply during the first five years of a child's life on earnings, employment, or mobility. However, having a working mother during children's high school years has a positive effect on employment for daughters.

The consequences of rising inequality can be felt far into the future. In the final paper, Richard V. Burkhauser, Markus H. Hahn, Dean R. Lillard, and Roger Wilkins confirm earlier results that income inequality experienced as a child is related to health status many years later when the child becomes an adult. Using the Cross-National Equivalent File (CNEF) data from the United States and Great Britain, they show that men and women are more likely to report poor health if inequality was wide during their first five years of life. Further, for the United States this result remained robust when controlling for demographic characteristics, permanent income, and yearly socioeconomic status. The implication is that the effects of inequality transcend the simple intergenerational transmission usually studied which makes the study of inequality all the more important.

As with past volumes, we aim to focus on important issues and to maintain the highest levels of scholarship. We encourage readers who have prepared manuscripts that meet these stringent standards to submit them to *Research in Labor Economics* (RLE) via the IZA website (http://rle.iza.org) for possible inclusion in future volumes.

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