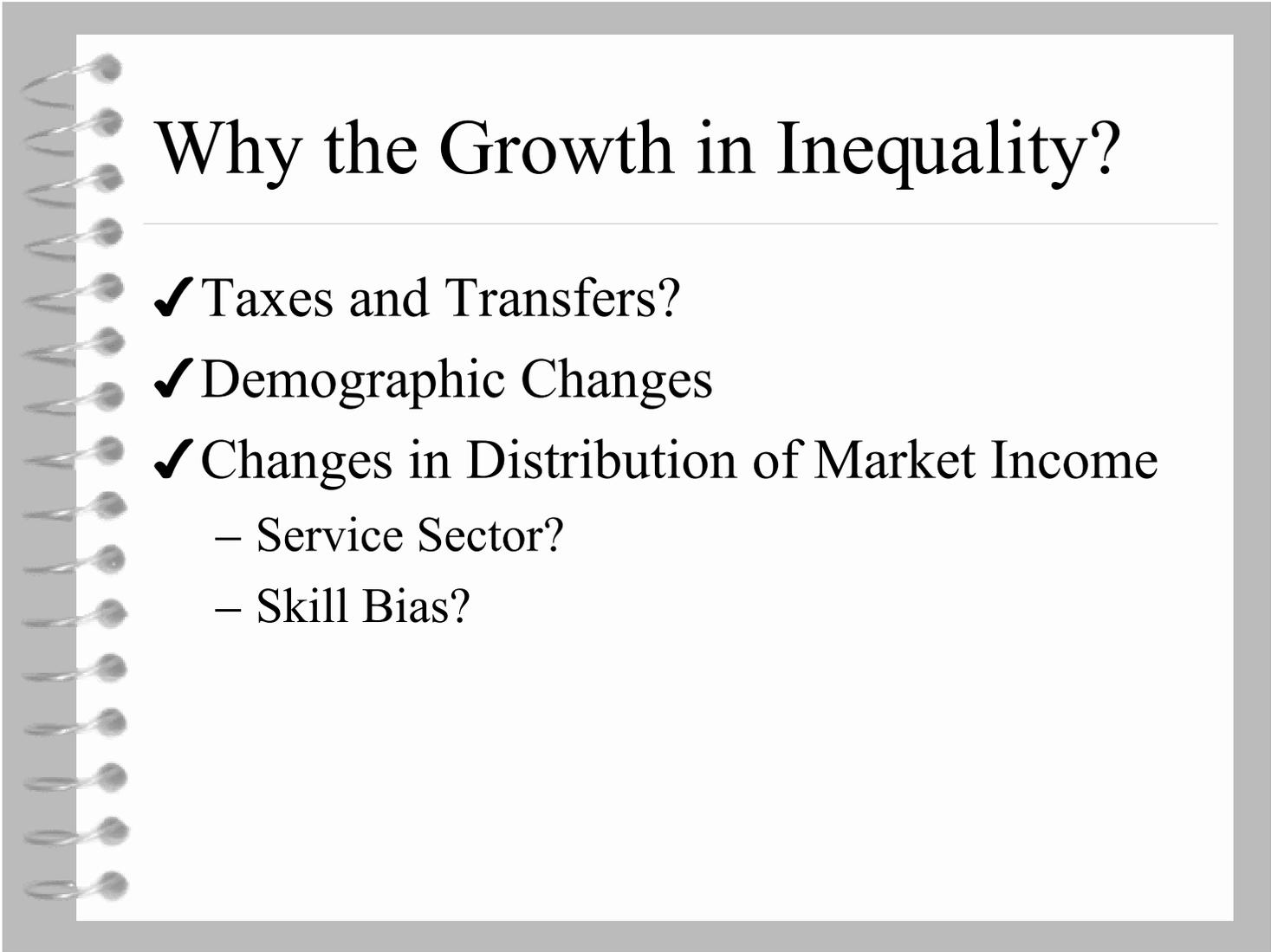
A graphic of a spiral-bound notebook with a grey cover and a white page. The spiral binding is on the left side. The text "Why the Growth in Inequality?" is written in the center of the page in a black serif font.

Why the Growth in Inequality?

A graphic of a spiral-bound notebook with a grey cover and a white page. The spiral binding is on the left side. The text is written on the page.

Why the Growth in Inequality?

- ✓ Taxes and Transfers?
- ✓ Demographic Changes
- ✓ Changes in Distribution of Market Income
 - Service Sector?
 - Skill Bias?

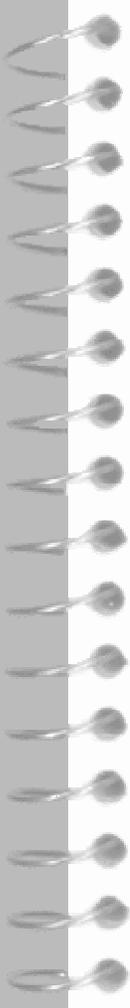
Redistributive Effects of Taxes and Transfers Smaller

Year	Pre-Tax Pre- Transfer Income	Pre-Tax Post Transfer Income	Reduction due to Transfers	Post Tax Post Transfer Income	Reduction Due to Taxes
1980	.473	.424	.049	.395	.029
1985	.513	.468	.045	.453	.015
1990	.523	.482	.041	.463	.019

Source: Gramlich et al, "Growing Inequality in the 1980s: The Role of Federal Taxes and Cash Transfers, in *Uneven Tides: Rising Inequality in America*, edited by Danziger and Gottschalk, 1993.

Changes in Tax Policy

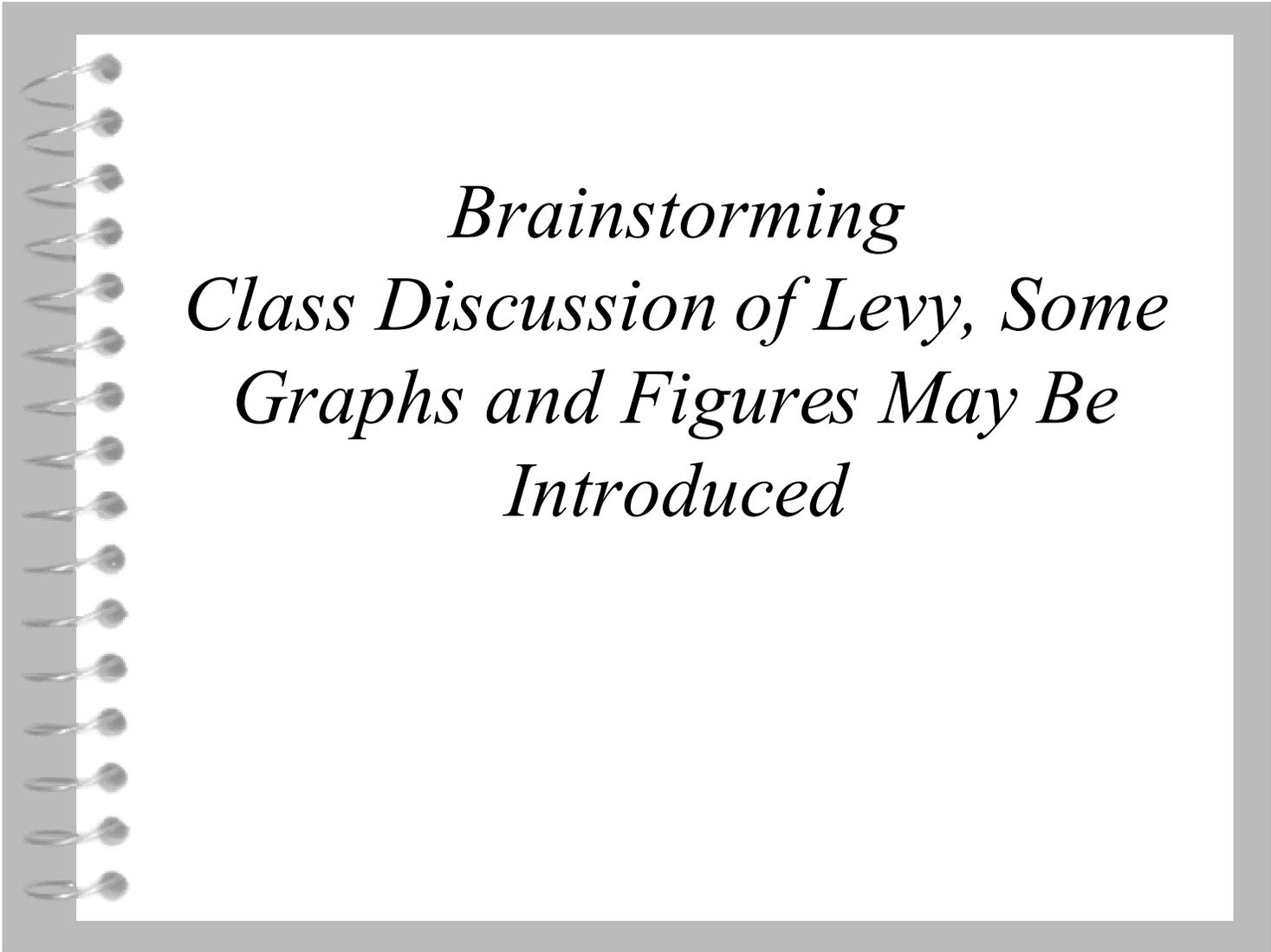
- ✓ Cuts in marginal tax rates for highest brackets relative to other brackets.
- ✓ Increases in Social Security taxes
- ✓ Increase in federal excise tax rates, but real receipts constant
- ✓ AFDC and Unemployment Insurance did not keep pace with inflation



The Education Premium

Year	Premium
1940	70%
1950	27%
1960	30%
1979	9%
1985	32%

Source: Levy, Frank, *The New Dollars and Dreams*

A graphic of a spiral-bound notebook with a grey cover and a white page. The spiral binding is on the left side. The text is centered on the page in a black, italicized serif font.

*Brainstorming
Class Discussion of Levy, Some
Graphs and Figures May Be
Introduced*

Explaining the Education Premium

- ✓ Simple model
- ✓ Determinants of wages -- labor supply and demand
- ✓ Human capital investment decision
- ✓ Efficiency, equity and the wage premium
- ✓ Unions, monopsony, job queues and efficiency wages (again)