

CONTENTS

Acknowledgments	vii
1	Behind the Discontent 1
2	The Natural Foundations of a Just Society 51
3	Merit-Based Egalitarianism 68
4	The Importance of Equal Access to Public Goods and Markets 99
5	Unequal Access to Education 116
6	The Historical Contingencies of Group Differences in Skills 148
7	Unequal Access to Housing Markets 191
8	How Unequal Access to Housing Perpetuates Group Inequality and Injustice 219
9	Unequal Access to the Buying and Selling of Professional Services 242
10	Creating a Just Society 273
Appendix	295
Notes	317
Index	369

1

Behind the Discontent

“OUR COUNTRY IS IN SERIOUS TROUBLE,” began Donald Trump as he formally announced his candidacy for president of the United States in June 2016. He listed China, Japan, and Mexico as aggressors who are “beating us” and “killing us economically” via bad trade agreements. Mexico, meanwhile, is further harming the United States through immigration, he claimed: “The U.S. has become a dumping ground for everybody else’s problems.”¹

In remarks that would be much quoted and criticized, he said:

When Mexico sends its people, they’re not sending their best. They’re not sending you. They’re not sending you. They’re sending people that have lots of problems, and they’re bringing those problems with us. They’re bringing drugs. They’re bringing crime. They’re rapists. And some, I assume, are good people.

Trump eventually won 46 percent of the vote in the 2016 U.S. presidential election. His victory followed significant gains by nationalist parties in the European Union’s 2014 parliamentary elections, and a shocking vote by the United Kingdom to leave the European Union.² In 2017, Marine Le Pen, representing France’s National Front party, won 21.4 percent of the vote in the first round of France’s presidential election before eventually losing in the second round.³

The nationalists seem to have two things in common: An insistence that their countries are declining, economically and culturally, and the identification of external forces as the reason—with trade and immigration being primary suspects. These views are badly mistaken, but the nationalists have a point about the ill-functioning of the economy, and much of the public shares

their sense that something important is wrong with their country's political leadership.

This chapter lays out what is wrong and why. Rising income inequality and slow economic growth have been two of the most striking patterns in rich countries during the last 35 years. The explanation is not trade or technological innovation; nor is it mass migration or the rise of global superstars. Rather, countries are becoming more inefficient and unequal because services—which are regulated and controlled by elite associations to the benefit of their members—are taking over the economy, and a small group of elite service providers has managed to secure much of the gains for itself via the gradual accumulation of rights and privileges that elevate this group above markets.

VOTES OF NO CONFIDENCE

In most of the world's richest countries, political discontent reigns. Confidence in government is low and has fallen steadily in recent years. In 2006, 43 percent of residents living in Organisation for Economic Co-Operation and Development (OECD) member countries—the world's 35 richest democracies—expressed confidence in their national government, when asked by the Gallup World Poll.⁴ By 2016, that already low share had fallen to just 37 percent of residents. Shockingly, that's lower than the global average of 54 percent.

Confidence has plummeted in a number of countries that have seen a rise in support for nationalist parties or politicians, including Greece, Finland, the United States, Denmark, the United Kingdom, and Austria (figure 1.1).⁵ Confidence, which was already low, also fell in France ahead of a strong second place finish by the far-right National Front in the presidential election. Just 28 percent of French residents expressed confidence in 2016. As of this writing (early 2019), a "yellow jacket" populist movement has upended French politics with massive street protests in response to rising taxes on diesel, and according to reports, rising housing and living expenses.⁶ In the United States, confidence is only slightly higher at 30 percent.

On the other hand, low or declining confidence in national government is not inevitable in rich countries. In the Netherlands, confidence increased from 43 percent to 57 percent. In Switzerland, confidence went from 63 percent to 80 percent. It is also up and relatively high in Canada and Germany. Extreme political parties have not been as successful in these coun-

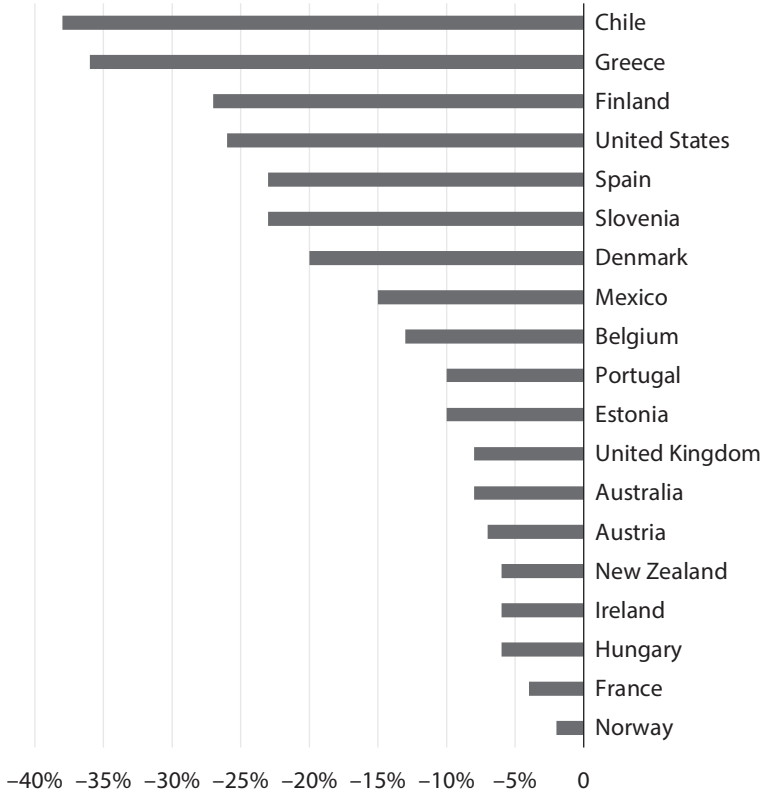


Figure 1.1. OECD countries with declining confidence in national government, 2006–2016

Source: Gallup World Poll, via Gallup Analytics. Chart shows change in the percentage of residents who expressed confidence in their government in 2016 compared to 2006.

tries, with the exception of Germany, where the far-right Alternative for Germany Party (AfD) has gained traction, reportedly, in response to the governing party's acceptance of a large number of refugees.⁷

SLOW ECONOMIC GROWTH, SPREAD LESS EVENLY

Lurking behind the rising discontent has been a major international slowdown in economic growth, or the rate at which living standards increase. The financial crisis that originated in a U.S. housing market bubble certainly

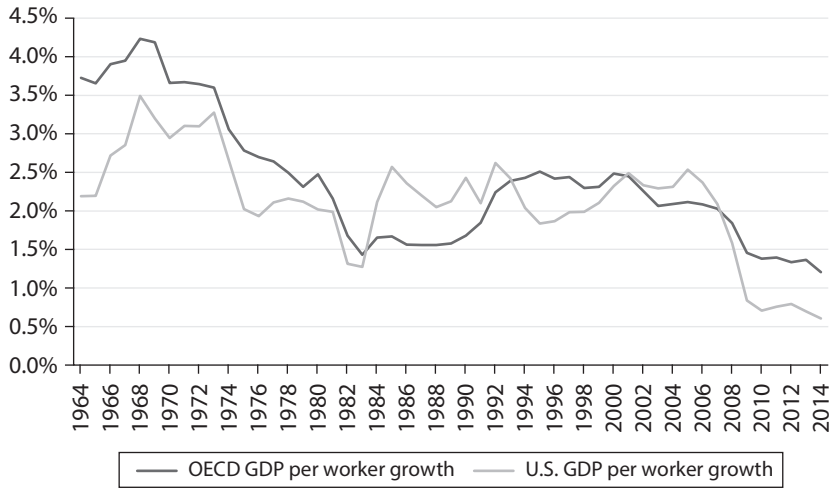


Figure 1.2. The 50-year slowdown in productivity growth in OECD countries compared to the United States, 1964–2014

Source: Penn World Tables 9.0, Real GDP divided by employment, annualized growth over ten-year periods.

had a large negative effect, but the growth slowdown preceded that, and in many ways, the housing bubble can be understood as a desperate attempt to find profitable investments in a low-growth world.

In 28 of the 30 OECD countries with available data, the rate of growth has been slower from 1980 to 2014 than from 1960 to 1980. New Zealand and Sweden were the only rich democracies to avoid this fate. For the average resident of an OECD country, the annual growth rate in gross domestic product (GDP) per capita slowed from 3.8 percent between 1960 and 1980 to 2.1 percent between 1980 and 2014. This can't be attributed to the aging baby boomers dropping out of the labor force. Growth has also slowed on a per worker basis, from 3.5 percent to 1.9 percent (figure 1.2).⁸ From 2008 to 2014, annual growth has been particularly weak, just above 1 percent in either per capita or per worker terms. Productivity growth—the fundamental source of long-run living standards—has slowed.

This means an entire generation has now come of age in a less dynamic society than the one experienced by its parent's generation. Partly because of the Great Recession, growth since 2008 has been particularly weak, but the slowdown started even before then.

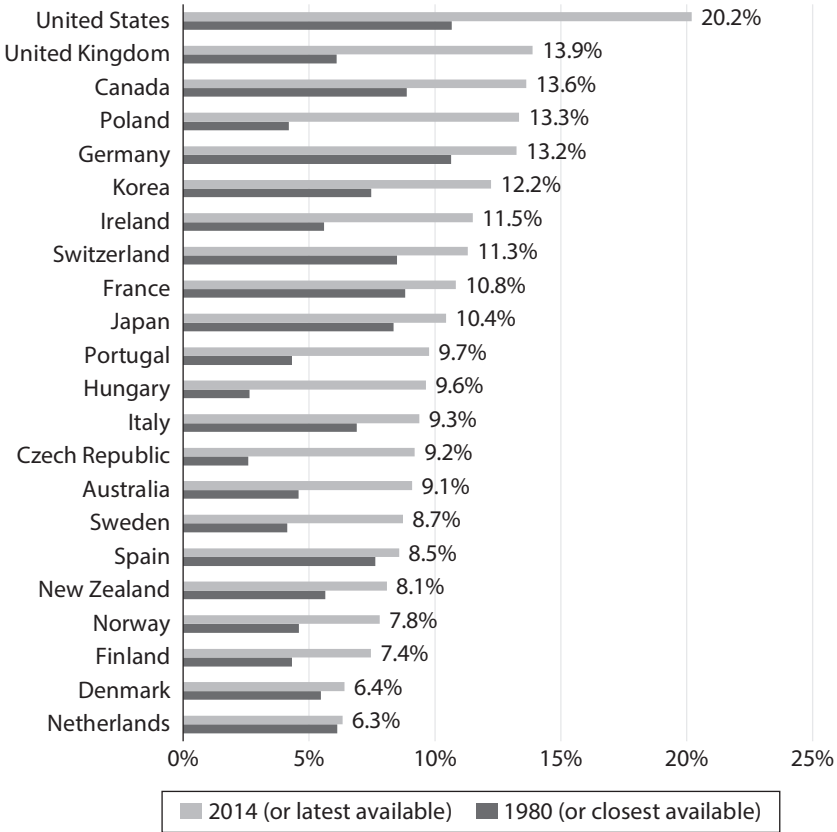


Figure 1.3. Share of national income going to richest one percent in 2014 and 1980
Source: World Inequality Database, accessed October 2018 via STATA program WID.

Slow growth, it must be said, is not a disaster. It is much better than no increase in living standards or, even worse, a decline. For most rich countries, living standards have continued to improve.

Yet, this minimal progress has been undermined by a disturbing trend, famously documented by the French economist Thomas Piketty and his collaborators. The earlier robust round of growth—after World War II—occurred under conditions of falling income inequality, while the latest round has coincided with rising income inequality. From 1980 to 2014, the richest 1 percent of taxpayers took home a larger share of national income in every rich country with comparable data (figure 1.3).

Modest growth, combined with high inequality, results in little to no gains for substantial portions of the population. This can be seen for the United States, which, by all accounts, stands out as one of the most unequal developed countries in the world and has become more unequal over the last 40 years.

The economists Piketty, Saez, and Zucman have used tax records and other public sources to trace where income growth has gone in the United States. From 1980 to 2014, the share of income going to the top one percent doubled from 10 to 20 percent, while the bottom 50 percent of taxpayers (those with taxable income at or below the median) saw their share fall from 20 percent to 13 percent. Average pretax real income for this group increased by only 1 percent from 1980 to 2014.⁹ The middle distribution (those between the 50th and 90th percentiles) saw a 42 percent increase, but most of the gains went to the top 10 percent of income earners.¹⁰

Overall, the weak growth in income for those outside the very top made it difficult to accumulate wealth, according to the data from Piketty and collaborators. In 1980, the bottom half of the distribution had a meager \$3,405 in average wealth (in 2014 USD).¹¹ Wealth for this group peaked in 1992 around \$7,000 and declined thereafter—even turning negative during the Great Recession. As of 2014, average wealth was just \$349 for this group. More recent data from the Survey of Consumer Finances—analyzed by economist Edward Wolff—shows the same pattern: zero increase in wealth for households in the middle of the wealth distribution. For the median U.S. household, wealth was \$78,000 in 2016 compared to \$80,000 in 1983, in inflation-adjusted dollars.¹²

Even as overall income growth stagnated for the bottom half of earners, there were notable changes across income sources. The weak positive growth didn't come from taxable labor income—which is the kind of income that shows up in bank accounts and can be readily used for spending. That fell by nearly 10 percent from 1980 to 2014 for the bottom 50 percent of U.S. adults. These losses were offset by gains in tax-exempt labor income—from healthcare and retirement benefits—with modest growth from capital gains associated with home ownership.¹³ Thomas Piketty, Emanuel Saez, and Gabriel Zucman put it directly: “The bottom half of the adult population has thus been shut off from economic growth for over 40 years, and the modest increase in their post-tax income has been absorbed by increased health spending.”¹⁴

The falling share of income going to this group has important implications for living standards. If their 1980 income share and economic growth had

both been unchanged—a big assumption, no doubt—then the bottom 50 percent of Americans would have earned \$26,000 on average in 2014, instead of only \$16,000.¹⁵

Here's another way to think about the scale of the change in inequality: Divide the U.S. adult population in half. Tell the poorest half that they all need to pay \$10,000 every year to the richest 1 percent of Americans, those with annual taxable incomes of roughly \$300,000 or more. For many reasons, the same people won't be on the top or bottom every year (e.g., income typically rises with age until just before retirement). Still, regardless of who they are in any given year, the rich and poor used to be much closer together, and economic growth used to raise living standards more evenly across income groups. Indeed, Piketty, Saez, and Zucman's data show that income growth was higher for lower income groups than it was for the rich in the decades preceding 1980.

The basic point is simple: Economic growth is less effective at raising the living standards of the masses, when income inequality is high—and a small slice of elites reaps a huge chunk of the gains. That is likely to strike many people as unfair.

Accordingly, levels of confidence in national government could be explained in large part by looking at both growth and income inequality. Between 2006 and 2016, confidence did not increase in any of the 16 OECD countries that score below average on recent growth (figure 1.4). The places with low growth and high inequality saw the largest drop in confidence (15 percentage points on average). The United Kingdom's Brexit vote occurred under slow-growth/high-inequality conditions. However, it was also the case that poor performance on either inequality or growth was generally associated with flagging confidence in government. Thus, confidence fell in France during a period of low growth and low inequality, whereas Donald Trump was elected president of the United States with above average growth and inequality. Meanwhile, confidence in government rose in countries with high growth and low inequality by 5 percentage points. This describes Sweden and Germany.

At the individual level, there is also a very strong correlation between income, financial security, and feelings toward government within OECD countries. When it comes to predicting their confidence in government or approval of national leaders, people's feelings about their income are far more important than their actual income or even rank within society. Gallup World Poll has several items that capture financial anxiety, including whether economic conditions in the respondent's local area are getting better or worse and

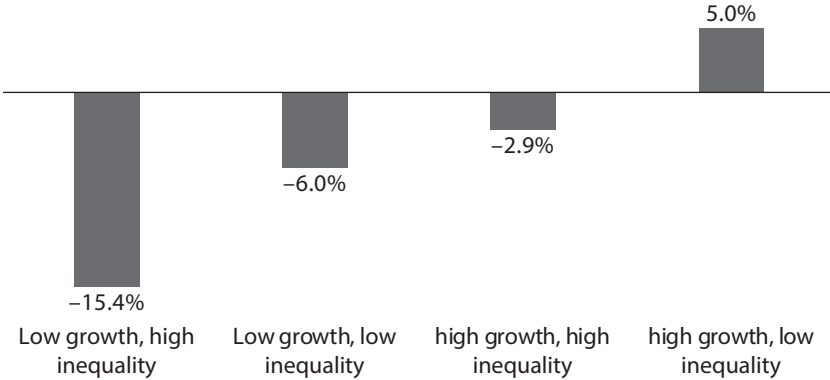


Figure 1.4. Change in confidence in national government, shown by groups of countries defined by levels of economic growth and inequality, 2006–2016

Note: Growth is measured using GDP per capita from 2008 to 2015; inequality uses the most recent measure of income inequality.

Source: Gallup World Poll, via Gallup Analytics, World Bank, and All the Ginis (ATG).

whether or not the respondent is living comfortably off his or her household income or having difficulty making ends meet.

The relative income of an individual's household has a small effect in the expected direction. Lower-income individuals are a bit less satisfied with the national government and its specific leader: top-quintile households hold confidence or approval ratings roughly four percentage points higher than bottom-quintile households. Those with lower education also tend to be somewhat less confident in their governments.

Yet, income and education are incomplete measures of financial security. Subjective judgments pick up nuances that are specific to an individual's life circumstances, including wealth, debts, the strength of supportive family ties, expectations for the near future, and political views that may bias their interpretation of the economy. More-anxious individuals are much less satisfied with government. A standard deviation increase in financial anxiety predicts a 16 and 18 percentage point drop in approval and confidence, respectively.¹⁶

The upshot is that even middle-class and affluent households are likely to turn against a government when they feel their financial conditions are becoming difficult, particularly if others seem to be gaining at their expense and they are dissatisfied with their living standard. Rising inequality and slow growth make that dissatisfaction more likely.

I agree with a number of scholars who have argued that slow growth in an unequal society is corrosive to politics, but the details of the argument are important.¹⁷ Rising inequality in a growing society might come from superstar innovators, entrepreneurs, and performers, and one might argue they deserve to be rich, because their skills generate value for everyone. Yet, while that has happened, it does not accurately describe the last several decades, which have been characterized by low growth. The actual circumstances of weak growth and rising disparity indicate that something is fundamentally out of sorts. It may be that the process that leads to slow growth is making a small elite rich and hindering opportunities for a wide swath of the population.

Thus, figuring out the causes of both slow growth and rising inequality has enormous implications for what, if anything, can be done about them.

THE NATIONALIST EXPLANATIONS: BLAME THE FOREIGNERS

Nationalists on the Right, like Donald Trump, blame trade and immigration for impoverishing the middle class. By nationalists, I mean those who view the world as a conflict between citizens of a national community—usually thought of as those who have ancestral roots going back at least several generations in a country—and everyone else. Trump and some of his allies are also populists in the sense that they view elites—whether in business, culture, or academia—as hostile to common citizens. By contrast, left-wing populists, like U.S. senator Bernie Sanders, evince similar skepticism toward trade and immigration and likewise view elites (capitalists) as acting against the interests of common citizens (workers), but do not suggest the conflict is rooted in ethnic or national identity, and so are not nationalists. I have some sympathy with populist complaints about elite influence on the economy, as the book will discuss, but I believe that both of these perspectives fundamentally misidentify the core problems.

Start with the populists and trade.

Across rich countries, the share of workers employed in the manufacturing sector has declined for two reasons: automation/machines do much of the work once performed by human hands, and much of the work that still is more efficiently done by humans can be done far more cheaply in developing or middle-income countries like China, Poland, Mexico, and Turkey.

Trade is certainly an important contributor to industrial decline in developed countries. By comparing employment changes across counties and networked groups of counties (commuting zones), economists have estimated that trade with China is responsible for roughly one-quarter of the five million net job losses in the U.S. manufacturing sector from 1991 to 2011.¹⁸ These losses also appear to have led to a decline in the incomes of manufacturing workers, as they took pay cuts or worked fewer hours. For the average American manufacturing worker, the best available estimate of the impact of trade competition on individual wages for workers in highly exposed industries is a reduction of just over \$1,000 per year over the period from 1992 to 2007.¹⁹

Yet, the news isn't all bad. Chinese imports, which ramped up dramatically in the 2000s, did not coincide with a reduced risk of unemployment for manufacturing sector workers relative to workers in other industries that were not exposed to import competition but did face intense domestic competition. By some measures—like risk of layoff or short job tenure—it was actually safer to be a manufacturing worker over the last 15 years than a worker in retail, construction, or even professional services.²⁰

More importantly, only about one in 20 Americans work in manufacturing and even fewer in the industries that compete directly with China. The vast majority of working- and middle-class Americans have benefited from cheaper imports, often disproportionately, because Chinese imports tend to compete on the mass market—think Wal-Mart—rather than on the market for luxury goods. On balance, it's likely that imports from China have lowered income inequality by disproportionately boosting the spending power of lower-income Americans, as Christian Brodis and John Romalis concluded after a careful study of consumption data, which proves that trade with China raised the spending power of the U.S. working class—and, to a great extent, all U.S. residents.²¹

The same point can be made by looking at consumption data by income group from the Bureau of Labor Statistics. Families in the middle of the income distribution spent more than their after-tax income, which implies they borrowed money to meet expenses. Meanwhile, families in the 90th percentile saved 24 percent of their after-tax income and so benefited proportionately less than lower-income families from falling prices for goods. It is easy to see how this connects to trade. Middle-income families spend 25 percent of their after-tax income on food, clothing, and automobiles.²² Families in the top 90th percentile spend just 15 percent of their income on these things.

These goods—along with computers and cell phones, which have seen massive price declines—are precisely the industries most exposed to import competition. In this way, mass imports have resulted in a progressive redistribution of purchasing power. Without imports, inequality would be worse.

The economic effects of immigration are more complicated, but there are no logical or empirical grounds for linking immigration to the rising share of income going to the rich.

In general, immigrant labor has probably resulted in lower incomes for people working in the occupations most exposed to immigrant competition—such as construction workers, restaurant workers, cleaners, and childcare workers—though even this finding is disputed with strong empirical evidence from specific cases assembled by Michael Clemens and Jennifer Hunt, for example.²³ In any case, economists tend to agree that most Americans—including most of the middle and working classes—have seen net benefits, and that is the view of a recent comprehensive analysis from a committee of experts at the National Academies.²⁴ The benefits of immigration come primarily from two channels: greater spending from immigrants, which stimulates local demand for goods and services, and lower prices for services provided by immigrant entrepreneurs and workers. Immigrants, of course, also frequently start businesses and contribute to innovation, culture, and scientific advances; there the benefits are harder to quantify but are nonetheless important. In these ways, all but a small segment of America's middle and working classes have been enriched, at least somewhat, through mass immigration. The selective immigration of highly educated workers and entrepreneurs—through student or skills visas, for example—has been an even more obvious benefit to the average American.

The downsides of mass migration are not trivial but are not likely to have led to the rise in top income shares. George Borjas, an economist at Harvard, has assembled evidence over decades of research showing that mass immigration has lowered wages of other immigrants and U.S.-born workers with less than a high school diploma—a small share of the population. That finding has been disputed, but it, at least, has clear logic behind it in that employers can reduce wages when many new workers enter the labor market.²⁵ Even so, the estimated effects are small.²⁶ The large wage gap between elite professional workers or business owners and those with less than a high school diploma cannot be explained by immigration, and most estimates suggest that U.S. workers with moderate levels of education saw long-run wage benefits from mass immigration.

Aside from creating wage pressure on other less educated workers, many immigrant workers with low levels of education consume more in government benefits than they pay in taxes over their lifetimes, creating fiscal budgetary challenges.²⁷ Yet, one could say the same about U.S.-born Americans with low levels of education, as the National Academies report shows.²⁸ The fact is that undereducated immigrants are a lower fiscal burden than undereducated U.S.-born residents. For both populations, the net effect reflects, in part, the fact that the U.S. government typically runs a large budget deficit for political reasons entirely unrelated to immigration. If one makes the reasonable assumption that an additional immigrant does not increase the costs of pure public goods like national defense, then the average immigrant—especially those with higher educational levels—has had a net positive effect on government finances.

The favorable long-term effects of immigration are consistent with the most comprehensive analysis ever of intergenerational mobility. Using data from millions of tax records and the Census, economists from Harvard and the Census Bureau found that Hispanics living in the United States have high rates of relative intergenerational income mobility, such that incomes are converging with non-Hispanic white people.²⁹ The children of Asian immigrants, meanwhile, are earning more as adults than non-Hispanic white children raised with similar family incomes.

Neither an increase in immigrants from Latin America nor an increase in imports from China can explain the rise of incomes at the top. As we will see, people in the manufacturing sector—including the executives who would have benefited the most from offshoring production—make up a tiny fraction of the one percent. Likewise, immigrants lacking college degrees rarely comprise a substantial share of workers at the international corporations that pay top executives, nor at hedge funds, law firms, and physicians' offices.

Data across rich democracies tell the same story: OECD countries that are more exposed to immigration or trade are no more unequal and no more likely to have become more unequal since 1980. Whether one measures exposure to immigration as the foreign-born share of population in 2015 or the change in the foreign-born share from 1990 to 2015, neither is significantly correlated with the level and change in the top one percent's income shares. Trade exposure can be measured in a variety of ways (e.g., average tariff rates, the trade balance as a share of GDP, changes in the trade balance, or a "trade freedom index"), but none of them is even moderately correlated with the level

or change in the top one percent's income shares, except that countries with higher tariff rates—and hence less exposure to globalization—have significantly higher inequality.³⁰

THE CONVENTIONAL LEFT-LEANING VIEW: IT'S CORPORATE GREED

U.S. senator Bernie Sanders ran for president in 2016 and nearly won the Democratic Party primary. As a self-described democratic socialist, Sanders is concerned about income inequality and documents the rise of inequality in the United States on his campaign website.³¹ It's the top issue on his list, and on his list of policy solutions, the first starts as follows: "Demanding that the wealthy and large corporations pay their fair share in taxes." In fact, other than changing trade deals, his primary solutions for reducing inequality seem to focus on three ideas: higher taxes on corporate profits, an increased minimum wage, and encouraging workers to join unions.

At bottom, this view has one explanation in mind for the rise of the top one percent in the United States and other countries: increasing corporate power.

Sanders and his aides are far from alone in embracing this view and these solutions to combating inequality. The argument goes that working people lost considerable bargaining power as unions declined in influence over the last several decades—a decline that coincided with large losses in manufacturing jobs, a fall in income tax rates for the rich and for corporations, and an increasing shift in U.S. income to corporate profits and capital. It follows that unions and the federal government are needed to forcefully combat rising corporate power through taxation, minimum wage requirements, and perhaps other regulations.

In academic circles, the lawyer and former U.S. labor secretary Robert Reich has been influential in embracing this view, and he and others have emphasized what is known as the *labor share of income*.

All rich countries keep national accounts. Using a combination of mandatory surveys and tax records, statistical offices keep track of where the nation's money comes from. GDP can be measured as the sum of the nation's income. Take every resident's salary, wage, business, and investment income and you essentially have GDP.

Since the beginning of the field, economists have been almost obsessed with what share of income is going to labor—by which they mean wage and salary income—versus capital—the income earned from asset ownership. Across most countries, the share of national income coming from wages and salaries has declined, and this has led many economists—such as those mentioned above—to conclude that workers are being exploited by corporations.³² A search of Google Scholar for “labor share of income” finds that there have been 1,480 academic articles discussing the topic since 2000. Writing in the *New York Times*, Jared Bernstein, the left-leaning economist and former aide to Vice President Joe Biden, argues that the underlying cause is a fall in the bargaining power of workers.³³ The International Labor Organization lists technology, globalization, and union power, and, more plausibly, increasing reliance on finance.³⁴

There is a logical and factual basis to this perspective, but there are crucial flaws in the corporate power analyses.

First, the capital share of income is nothing like an index of corporate power and worker exploitation. It can change for many reasons. Older people, for example, rely much more heavily on capital income, because many are no longer working, and most rich countries are seeing an aging population. An increase in the capital share of income follows necessarily from an increase in the share of the population that has retired and now lives, at least partly, off savings accrued during their career. The share of U.S. residents aged 65 and older increased from 9 percent to 11 percent from 1960 to 1980 and reached 13 percent in 2010.³⁵

Many of these retired workers, who often spent their careers in blue-collar jobs, would be baffled to learn that their union pension income qualifies them as “capitalists” by left-wing writers or politicians. The OECD compiled data on the world’s largest pension funds. Many of them were U.S.-based unions. CalPERS manages the retirement accounts of the California state and local government workers. As of 2014, it had \$296 billion in assets under management, because California is a very large state with many retired public employees. The New York State Combined Retirement System had another \$177 billion under management.³⁶ Private sector pension funds can be almost as large. The General Motors pension fund has roughly \$100 billion in assets.³⁷ It would be ironic to conflate the value of union retirement funds with “corporate power.”

Housing is another big source of capital income. Economist Matthew Rognlie has done painstaking work reassessing the claims that the capital

share of income has increased. He concludes: “The long-term increase in capital’s net share of income in large developed countries has consisted entirely of housing. Outside of housing, capital’s rise in recent decades has merely reversed a substantial earlier fall.”³⁸ In every OECD country except Switzerland and Germany, there are more homeowners than renters.³⁹ The rise of housing income is not equally distributed, and rising housing prices are a major problem for the middle class and poor, but this is very different from a rise in capital income resulting from business ownership.

Thoughtful analysis by economists Josh Bivens and Larry Mishel at the left-leaning Economic Policy Institute makes a similar point: “An analysis of income shares tells us little about the bargaining position of labor vis-à-vis owners of capital.”⁴⁰

A second flaw in the corporate power analyses has to do with the fact that the overall contribution of corporations to the U.S. economy has unambiguously declined during the era of rising inequality. Income from corporations was over 60 percent of national income in the 1980s and 1990s. In the twenty-first century, corporate income has accounted for just 56 percent of national income. At the same time, corporate profits went from 9.2 percent of national income in 1980 to 12.5 percent in 2017 (figure 1.5). Roughly one-third of this increase was driven by profits earned by foreign establishments of U.S. corporations.⁴¹ The domestic operations of U.S. corporations increased their share of national income by only two percentage points from 1980 to 2017, and that share is well below the contribution of corporate profits in the 1960s and 1970s, when unionization rates were much higher and the income distribution more equal. Considering that the top 1 percent of income earners increased their share of income by 10 percentage points since 1980, corporate profits—whether foreign or domestic in origin—could not have accounted for more than a third of the increase, even if all the profits went to the top one percent. In fact, 64 percent of income from stocks goes to the top one percent.⁴²

Third, as we will see, the sectors that generate the vast majority of top earners—including finance, healthcare, and professional services—were never meaningfully unionized, so the decline in unionization—largely a manufacturing phenomenon—could not have any direct effect on the incomes of most top earners.

Fourth, while capital income disproportionately goes to the rich and very rich, during the most important period of rising income inequality in the United States—1980 to 2000, when 80 percent of the top one percent’s gains

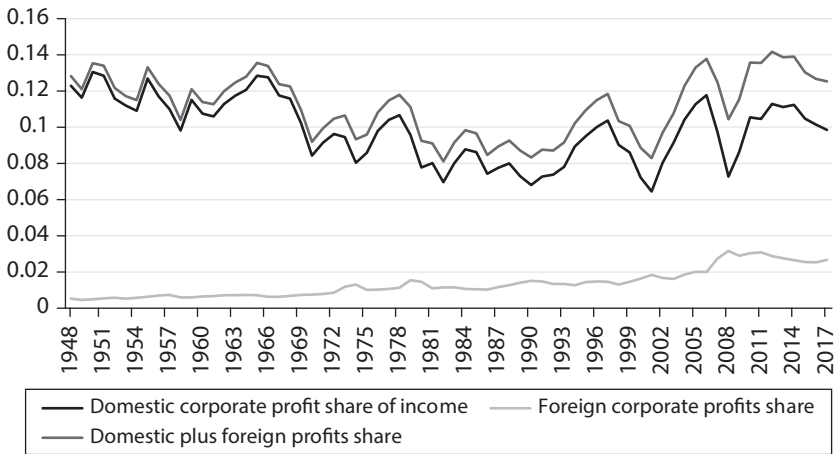


Figure 1.5. Corporate profits by domestic and foreign status as a share of national income, 1948–2017

Source: Author analysis of U.S. Bureau of Economic Analysis, “Table 1.13. National Income by Sector, Legal Form of Organization, and Type of Income,” <https://www.bea.gov/> (accessed June 20, 2019).

occurred—most of the gains to the top one percent (70 percent) came from labor compensation, not capital income, according to evidence compiled by Piketty, Saez, and Zucman.⁴³ While capital income has contributed to rising income shares of the top one percent during the early twenty-first century, it increasingly goes to homeowners and noncorporate businesses, which include entities such as hedge funds, law firms, physician’s offices, and hospitals. While capital income accounts for 56 percent of the income going to the top one percent, just 25 percent of total top one-percent income comes from stocks as of 2014, which is down slightly from 1980.⁴⁴

Fifth, tax policies won’t solve the inequality problem. I agree with Senator Sanders that the rich have seen a decrease in tax rates in recent decades, and I agree with him that increasing the progressivity of tax rates would benefit lower-income groups and be a reasonable way to rebalance federal budget obligations, but it is difficult to find empirical evidence that pretax income inequality rose principally as a result of declining tax rates. Top marginal tax rates on personal income were very high after World War II, but started declining in the 1960s, long before the rise in inequality. It’s true that tax rates fell still further in the 1980s, but they went up again in the 1990s, even as

labor income became more unequally distributed. A progressive income tax is, I believe, a fair way to distribute the burden of paying for government services, but it won't solve the more fundamental issues of differences in economic opportunity and access to markets.⁴⁵

Finally, the corporate power story also risks exaggerating the importance of the mega-rich. To be at the 90th percentile of U.S. income earners in 2014, you needed \$124,000 in total pretax income (taxable plus tax exempt) or \$88,600 to be in the top 10 percent in labor income. To be in the top one percent, you needed \$477,500 in total income or \$268,937 in labor income. To be in the top 0.1 percent, you needed \$2 million in total income or \$0.95 million in labor income. The top ten percent gained 12.8 percentage points of total income from 1980 to 2014. Of all that money 25 percent went to those in the top 90 to 99 percent (so not even the top one percent), 30 percent went to those in the top 99 to 99.9 percent, and 45 percent went to the top 99.9 percent. A large number of elite professionals have salaries that fall in between \$88,600 and \$950,000, and many of them own publicly traded stocks and noncorporate businesses. Most of U.S. income growth since 1980 went to this group.⁴⁶

Don't get me wrong—the mega-rich have contributed greatly to rising income inequality, but so did the upper middle class, as my friend Richard Reeves of The Brookings Institution has argued, and at least some of the mega-rich, like the superstar entrepreneurs, have generated value for large numbers of people.⁴⁷

THE CONVENTIONAL RIGHT-LEANING VIEW: TO EVERYONE WHO HAS, MORE WILL BE GIVEN

A widely accepted view among academic economists is that the top one percent's growing share of income is largely a result of the way skills interact with technology. In one version of the theory, people with high skills have always been paid more because they are more productive, but information technology has magnified the value of complex cognitive skills (meaning job tasks that involve specialized knowledge, creativity, and abstract thinking) and lowered the value of performing routine physical or clerical work. The reason is that workers who perform complex tasks use technology in ways that increase their productivity and make them more attractive to businesses, whereas some subset of workers who perform routine tasks have had to

compete against automated software programs, industrial machines, and user-friendly internet platforms. David Autor has contributed many influential papers to this theory, and in a recent summary of literature, he suggests that the theory is particularly relevant for explaining income differences among the bottom 99 percent of income earners. The evidence for this view includes the well-established fact that the earnings advantage of holding a tertiary degree (at the bachelor's level in the United States) relative to having only a high school diploma grew sharply from 1980 to the present, reaching around 80 percent in 2010 from just over 40 percent in 1980.⁴⁸

A related line of scholarship argues that superstar companies and individuals benefit disproportionately from expanded access to global markets. Information technology has lowered the costs of transmitting information—including ideas and intellectual property—which, in turn, has expanded the market for ideas and enlarged the rewards. A blockbuster book, movie, or architectural design is worth more now than it used to be because content producers can sell around the world to a much greater extent than in earlier decades. This helps explain why certain businesses and individuals can become enormously rich by gaining just a fraction of global market share.⁴⁹

At the heart of this research is the notion that inequality is largely about who does and does not possess valuable skills—or “human capital.” As to where human capital comes from, a large literature in economics holds that human capital comes about through investments in education and is not preordained by one's DNA.⁵⁰ Yet, Harvard economist Greg Mankiw argues that the earnings going to the top one percent are largely a result of their genetic endowment, and thus, he suggests that the large earnings of the rich may be justified by their contribution to society.⁵¹

Yet, what this theory misses is that people with not only identical credentials but also identical traits associated with earning power—such as cognitive and noncognitive skills—often earn wildly different salaries, and not as a result of luck, but as a result of working in a specific industry or occupation that over-rewards or under-rewards pay for what are ultimately political reasons related to how institutions affect competition and rewards in specific markets. For example, the average earnings advantage people get from working in the financial or legal industry compared to working in the restaurant industry is almost as large as the college premium, even after accounting for individual talent.⁵² If pay differences resulting from skill was the only source of earnings differences, then the United States would be far more

egalitarian, as I argue in chapter 3 in detail. For now, I simply want to lay out what evidence we would expect to see if talent alone explained the rise of the one percent and the cross-country and U.S. patterns.

If the theory linking talent to inequality is right, the richest one percent should be largely and increasingly comprised of people who would most benefit from technological change and globalization.

Some of the obvious examples include the founders of massively successful tech start-ups. Certainly, Bill Gates (Microsoft), Steve Jobs (Apple), Marc Andreessen (founder of Netscape and the venture capital firm Andreessen-Horowitz), Mark Zuckerberg (Facebook), Jeff Bezos (Amazon), and Sergey Brin and Larry Page (both Google) are among the richest people in the world, and their companies would not have been possible but for recent scientific and business innovations related to communications technologies. I have no doubt that these founders possess a great deal of skill and talent, and yet there are roughly 1.7 million individuals in the top one percent of the U.S. income distribution. There are less than 4,000 domestic publicly traded companies, a number that has been declining in recent decades, along with the number of start-ups.⁵³

Likewise, globalization has vastly expanded markets for professional entertainers such as superstar actors, actresses, movie directors, models, musicians, writers, and athletes. Beyoncé and Bono sell music around the world and are paid a lot of money to perform internationally. No doubt, they are super-talented. The same could be said about global tennis and soccer stars such as Serena Williams, Roger Federer, and Cristiano Ronaldo.

The implication is that if you add global *individual* superstars to executives, high-level managers, and employees of superstar multinational *companies*, you get the one percent. The theory seems to suggest a merit-based view of income inequality—one that may lead some people to feel better about the situation, or if not, to strongly support policies that create a more egalitarian distribution of skills, which I discuss in later chapters.⁵⁴

The merit-based interpretation that Greg Mankiw drifts toward reminds me of Voltaire's character Dr. Pangloss, who was a spoof of leading intellectuals of his day: "All is for the best in the best of all possible worlds."

Those outside the top one percent don't have to accept this story. The superstar theory is relevant for explaining a small number of people in the one percent, but it fails even to come close to explaining the level of inequality in the United States or the trend toward greater inequality. Trade,

technology, and talent play relatively minor roles in accounting for the extraordinary income inequality observed in the United States. If the rich consisted only of successful entrepreneurs and entertainers, there would be far less inequality.

THE WORK OF THE ONE PERCENT

One simple way to understand why the one percent earn so much is to observe how they earn their money. Work can be classified into either an occupation—what you do—or an industry—what the business (or entity) you work for produces. Both are important for testing the global superstar theory of the one percent.

Let's start with the actual superstars in the United States.

In 2015, just 0.2 percent of U.S. adults (1.9 percent of top earners) worked as athletes, artists, writers, actors, directors, coaches of professional sports teams, news anchors, fashion designers, or any other occupation broadly classified under arts, design, entertainment, sports, and media (table 1.1). Since 1980, there has been very little increase in the share of people in the top one percent who come from these occupations. This analysis is based on the American Community Survey, which surveys 1 percent of the U.S. population, but the figures match administrative tax records analyzed by economists, one of whom works at the Internal Revenue Service.⁵⁵ Accordingly, in 1979 and 2005, people in this broad occupational category comprised 1.4 percent and 1.7 percent, respectively, a trivial increase. This group of people may be super-famous and super-rich, but that is in part because there are very few of them. A key prediction of superstar theory thus fails right out of the gate.

These results are for the United States, but international data suggest that other countries have even fewer entertainment stars among their top earners. Sufficiently detailed data were not available for most OECD countries, but using the Luxembourg Income Study, I found comparable figures for Denmark, Estonia, Germany, France, and Israel.⁵⁶ Of these, Denmark has the highest share of top one-percent earners in arts, entertainment, journalism, and sports-related occupations, and that share is just 0.8 percent. Thus, none of the top earners in these superstar entertainment occupations is in the top one percent in any of these countries.

Table 1.1. Share of employed U.S. residents in the top one percent and probability of being in the top one percent by occupation or occupation and sector, 1980 and 2015

	Share of all workers in 1%		Probability of being in 1%	
	1980	2015	1980	2015
Most likely to be superstars				
Actors, directors, and producers	0.3%	0.4%	5.1%	2.4%
Athletes, sports instructors and officials	0.1%	0.2%	2.7%	1.2%
Writers and authors	0.2%	0.3%	4.1%	1.5%
Chief executives and legislators		12%		14%
Most likely to benefit from globalization (trade agreements and falling transportation costs of goods)				
Executives and managers working in manufacturing, energy, and agriculture	12%	9%	6%	4%
Executives and managers working in communications, transportation, and utilities	2%	3%	3%	3%
Medical scientists	0.3%	0.3%	12.4%	2.1%
Most likely to benefit from information technology				
Computer software developers	0.1%	1.5%	0.2%	1.1%
Computer systems analysts and computer scientists	0.1%	1.1%	0.4%	0.6%
Electrical engineers	0.2%	0.2%	0.7%	0.8%
Chemical engineers	0.1%	0.2%	1.2%	3.0%
Industrial engineers	0.1%	0.1%	0.3%	0.4%
Managers and specialists in marketing, advertising, and public relations	2.8%	2.8%	3.4%	3.0%

Source: IPUMS-USA, using data from the U.S. 1980 Decennial Census and 2015 American Community Survey.

THE UNIMPORTANCE OF TRADABLE SECTORS

The other core prediction of the superstar theory of income inequality is that most is generated by technology-enabled globalization.⁵⁷ For superstar firms in manufacturing and technology—including Apple, Volkswagen, Royal Dutch Shell, British Petroleum, Toyota, and Microsoft—the international market just keeps getting bigger, and global integration has resulted in lower tariffs and greater ease of doing business across borders. There have been

substantial reductions in tariffs over the last 20 years, according to the World Trade Organization, all of which should have created more opportunities for global manufacturing and technology firms.⁵⁸

And yet, if you add up all the executives, managers, scientists, software developers, and other employees in export-oriented sectors such as communications and manufacturing, they amount to a surprisingly small share of the one percent in OECD countries, just 21.6 percent.⁵⁹ All of mining, and manufacturing, yields just 16.8 percent, whereas the sector that includes transportation, warehousing, and communications comprises 4.8 percent of OECD countries' top income earners. Agriculture, which is often export-oriented, employs just 2 percent of top earners.

Stated otherwise, nearly 80 percent of top income earners in rich countries are in sectors that do almost no trading across international borders. Nor, as we saw, are they entertainers, media stars, writers, or athletes.

For those thinking that the rise of the one percent is linked to the small but rich portion of top earners tied to global export markets, the country-specific results put that idea to rest. There is a negative correlation between the share of a country's top one percent in these export and technology-oriented sectors and income inequality. In fact, some of the countries with the largest increases in inequality have a very low percentage of top earners in these sectors. These include the United States and Canada, where just 16 percent and 14 percent of top earners, respectively, are in mining, manufacturing, and communications (plus transportation and storage) (figure 1.6). In the Scandinavian countries, the share is above 25 percent, with a high of 31 percent in egalitarian Finland. Denmark is one of the few countries to experience almost no increase in the share of income going to the top one percent, but a relatively high share of its top earners work in export and tech-oriented sectors.

BIG FISH IN DOMESTIC PONDS

The fact is that the majority of the one percent in rich countries work primarily in domestic industries. These individuals are rarely famous and globalization and information technology have had relatively little effect on their business model or daily activities.

Across OECD countries, just three broad domestic sectors account for the majority—52 percent—of the one percent (table 1.2). These are (1) public administration, education, health, and social work; (2) real estate, renting, and

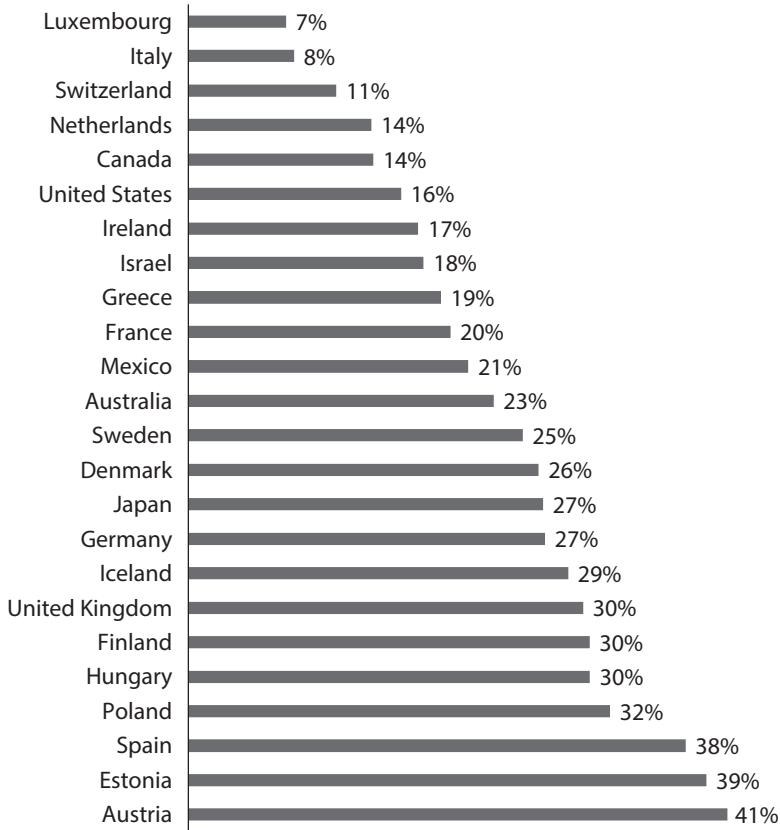


Figure 1.6. Share of top earners in trade-oriented sectors, 2013 or latest available year

Source: Analysis of Luxembourg Income Study. The sectors included are mining, quarrying, manufacturing, transportation, storage, and communications.

business activities—including legal services, and financial intermediation; and (3) finance. Some may argue that financial services are global—and big investment banks certainly have international clients—but exports account for just 8 percent of the U.S. financial sector’s value added—compared with 51 percent for manufacturing.⁶⁰

At the national level, Luxembourg, Ireland, the United States, and Switzerland have the highest percentages of one percenters from these sectors, with over two-thirds of the one percent coming from these industries. Finance is particularly important in Switzerland, Luxembourg, and Ireland, but not as much in the United States and the United Kingdom, despite the internationally famous banking centers in New York and London.

Table 1.2. Share of national top one percent in OECD by sector

Domestic sectors	
Public administration; education; health and social work	23%
Real estate, renting, and business activities	18%
Wholesale and retail trade, repair; hotels and restaurants	12%
Financial intermediation	11%
Construction	6%
Other services	5%

Tradable sectors	
Mining and quarrying; manufacturing; utilities	17%
Transport, storage, and communications	5%
Agriculture, forestry, and fishing	2%

Source: Luxembourg Income Study; 24 countries with data for each sector, covering 85% of the OECD's population. Population data are from Penn World Tables 9.0.

Across OECD countries, but especially in those that are English-speaking, healthcare, education, and public administration are the major occupations for top earners (figure 1.7). In the United States and the United Kingdom, 26 percent of the top one percent come from healthcare, education, and public administration. In Ireland, it's 23 percent, in Canada, 21 percent, and in Australia, 19 percent. So there is a very high correlation between income inequality and the share of the top one percent from these sectors.⁶¹

Denmark, Finland, Iceland, Austria, and Japan are among the countries with relatively low shares of top earners working in these sectors.⁶²

These professional and human services can also account for the extraordinary rise of the one percent in the United States. In 1970, just 47 percent of the nation's top one percent came from these domestic service industries. By 2015, the share had risen to 66 percent. Most of the increase came from finance, real estate, and healthcare, but legal and other professional services also contributed substantially to the rise.⁶³

WHAT TALENT, TECHNOLOGY, AND TRADE GET YOU

Having established that the one percent work primarily in domestic sectors that are relatively sheltered from global competition, I turn now to what they do.

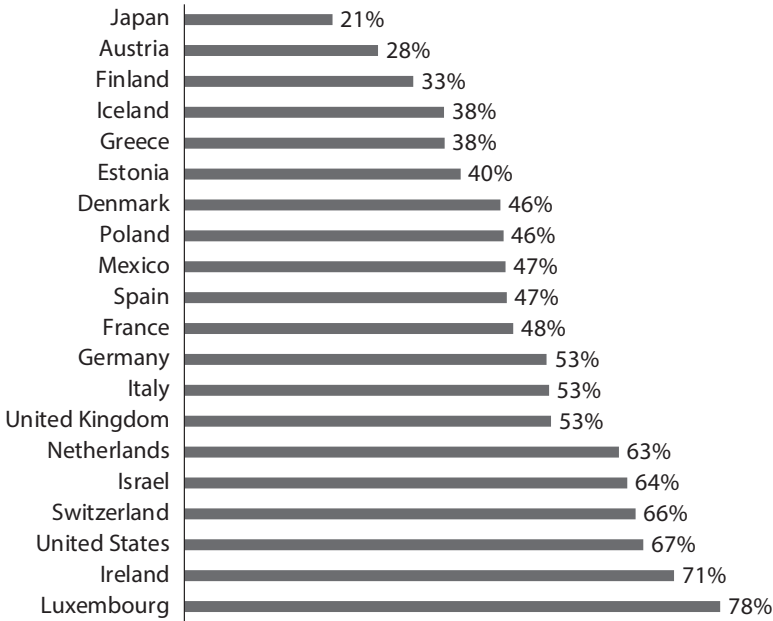


Figure 1.7. Share of country's top 1 percent income earners working in healthcare, education, public administration, finance, real estate, or business services

Source: Analysis of Luxembourg Income Study.

Analysts on the political Left assume that the top one percent are largely executives from publicly traded corporations.⁶⁴ In fact, executives are but a small share of the one percent.

In the United States, executives and legislators comprise just 12 percent of the top 1 percent of income earners, according to data from 2015, the latest available at time of writing.⁶⁵ In other OECD countries, the figures are similar, even higher. In Denmark, 25 percent of the one percent are classified as managing directors and chief executives. In Austria, 17 percent are classified as CEOs, senior officials, and legislators, and 13 percent are in Switzerland and Israel. In Ireland and Finland, 16 percent qualify; in the Netherlands, 11 percent; in France, 6 percent; in Germany, 4 percent; and in Luxembourg, just 3 percent.⁶⁶

The point is that executives are a small minority of top earners in every rich country. The emphasis on executives of publicly traded companies is understandable in that they are highly visible representatives of the elite, but this focus has perpetuated the theory that capitalism itself naturally leads to

massive income inequality, whereas we will see there is nothing natural about it.

To be sure, the share is considerably larger if middle- and lower-level managers—not just executives—are included, as they are very large in number, but this total still amounts to just over one-third of top earners (37 percent) across the OECD countries.⁶⁷ The United States is roughly at the OECD country average on this measure in that 36 percent of its top one percent are legislators, managers, or executives.⁶⁸ In Canada, the comparable figure is on the high end at 48 percent.⁶⁹ Overall, the share of top earners who are managers is negatively correlated with income inequality.

As stated before, most economists and analysts on the political Right assume that talent, technology, and globalization explain the one percent, but that too is contradicted by the occupational data.

In the United States, detailed data on earnings by occupation show that the largest occupational category for top earners is physicians and surgeons, who comprise 14.5 percent of the top one percent. The probability of being in the one percent is also highest for this group. Slightly over one out of every five physicians or surgeons is in the top one percent (21.6 percent) compared with one out of seven for CEOs (13.9 percent).

Under the techno-talent theory of the top one percent, this shouldn't be possible. It would be difficult to think of a professional occupational group less affected by technological change and globalization than physicians. Physicians do not export their services and are so behind in their use of information technology that the U.S. government passed legislation in 2009 to fund and encourage more widespread IT adoption among doctors.⁷⁰

Altogether, health professionals account for 17.7 percent of top earners. Lawyers—who also rarely export their services and make less use of technology than many professionals and blue-collar workers—represent another 8 percent. Another 10 percent work in one of several financial occupations. Combined, one out of every three top earners is either a health, finance, or legal professional.

Workers in STEM occupations—those in science, engineering, and computer programming professions—exhibit higher cognitive scores and are more likely to use sophisticated software technologies compared with health, finance, and legal professionals.⁷¹ Yet, contrary to the predictions of conventional economic theory, only 3 percent of top earners work in computer or mathematical occupations, 2 percent in engineering or architecture, and

Table 1.3. Occupations that represent at least 1 percent of the top one percent, United States, 2015

	Share of total one percent	Probability of being in top one percent
Physicians and surgeons	14.5%	21.6%
Chief executives and legislators	12.0%	13.9%
Miscellaneous managers	9.0%	2.7%
Lawyers, judges, magistrates, and other judicial workers	7.7%	9.5%
Financial managers	4.2%	4.5%
First-line supervisors of nonretail sales workers	2.7%	2.9%
Marketing and sales managers	2.5%	3.3%
Personal financial advisors	2.4%	8.5%
Accountants and auditors	2.2%	1.5%
Securities, commodities, and financial services sales agents	2.1%	11.1%
Sales representatives, wholesale and manufacturing	1.8%	1.7%
Management analysts	1.8%	2.9%
General and operations managers	1.5%	2.1%
Miscellaneous sales representatives	1.5%	2.9%
First-line supervisors of retail sales workers	1.4%	0.6%
Software developers, applications and systems software	1.3%	1.3%
Dentists	1.2%	10.7%
Real estate brokers and sales agents	1.1%	2.0%
Medical and health services managers	1.1%	2.1%
Financial analysts	1.0%	5.2%

Source: Analysis of IPUMS-USA, 2015 American Community Survey.

1 percent in science and social science occupations. So the probability of being in the top one percent is also much lower for STEM professionals than for health, legal, and finance professionals.

Take software development. It is arguably the most in-demand career in the United States, as measured by job vacancy rates, hiring difficulty, and the market value of its skills.⁷² Yet, just 1.3 percent of software developers are in the one percent (table 1.3). A number of unglamorous professions have a higher percentage of workers in the top one percent than software developers: financial clerks (2 percent), financial specialists (4.1 percent), veterinarians (3.2 percent), and insurance agents (1.8 percent).

In fact, there were 1.1 million software developers working in the United States in 2015 and 140,000 dentists, but there were approximately the same number of dentists in the one percent as there were software developers (15,000 dentists versus 15,750 software developers). Tech may be glamorous, but you are 10 times more likely to get rich going into dentistry than software development, and over 20 times more likely to be in the top one percent if you become a physician.

This level of detail is difficult to get for countries outside the United States, but available data from the Luxembourg Income Study suggest that medical and legal professionals comprise an important share of top earners around the world, though usually not to the same extent as in the United States.

In Israel, medical doctors comprise 17 percent of top earners, which is close to the 15 percent figure in the United States, but in more egalitarian countries the total is usually less. In Denmark, specialized and general medical practitioners represent 9 percent of top earners. In Germany, medical doctors comprise 6 percent of top earners. In Luxembourg, it's 6 percent.

Legal, social, and cultural professions—which include lawyers, librarians, and entertainers—comprise 18 percent of top earners in Luxembourg, 14 percent in Spain, roughly 10 percent in the United States, 9 percent in Ireland, 7 percent in Germany, and 5 percent in Finland, the Netherlands, and Switzerland.⁷³ In Denmark and Estonia, lawyers comprise just 2 percent of top earners, versus 5 percent in Russia and 8 percent in the United States and Israel.

Meanwhile, STEM workers represent a somewhat larger share of top earners outside the United States but are still just a small fraction of top earners. Science and engineering professionals comprise 10 percent of top earners in Ireland, 8 percent in Finland and Austria, 5 percent in Switzerland, and 4 percent in the Netherlands, but just 3 percent in Spain and the United States. Engineers comprise 9 percent of top earners in France, and architects and engineers represent 9 percent in Israel, but just 2 percent in the United States.⁷⁴

For those living in rich countries, talent, technology, and trade, as measured by cognitive ability, sophisticated computer use, and work for an export-oriented company, usually lead to well-paying jobs, but rarely get you to the top of the income distribution. For that you need political power, as we shall see.

WHY PRODUCTIVITY GROWTH SLOWED

A conventional explanation for income inequality is that the world's most productive companies in highly competitive industries are generating enormous profits for the “winners” of globalization, while everyone else loses out.⁷⁵

The opposite is closer to the truth. The sectors that contribute the most to the one percent contribute the least to innovation and global productivity growth. Great inventors, innovators, and cultural stars who often become rich while contributing to human prosperity and happiness are rare. Most top earners work in industries that are not objectively innovative.

Over the last 35 years, the least productive sectors of the economy have absorbed an increasing share of productive resources while delivering fewer benefits. That explains the low productivity growth. The most important example is healthcare. In the OECD countries, healthcare spending accounted for 6.1 percent of total national spending in 1980, but 35 years later, it had grown to 10 percent (figure 1.8). In the United States, the healthcare share of national spending doubled from 9 percent to 18 percent over the same period. In other words, residents of the United States, through a combination of tax dollars, business spending on insurance, and personal spending, now allocate 18 out every 100 dollars to healthcare.

This pattern also explains the rise in income inequality. The majority of top income earners work in financial services, real estate, legal services, or healthcare, and these sectors display slow productivity growth. Meanwhile, the highly productive sectors such as information and manufacturing have relatively few top income earners. Even advanced services—such as computer services, software, and engineering—constitute only a small share of top earners.

What Is Productivity Growth?

Conceptually, there are two ways to measure productivity growth. One, which is how most economists think about it, is to compare output to inputs. Output is usually measured as gross value added, which can be thought of as revenue from sales once expenses paid to outside vendors are subtracted. Take a car manufacturer, for example. Its gross value added could be calculated as total vehicle sales less the amount it paid suppliers for metal, glass, tires, and

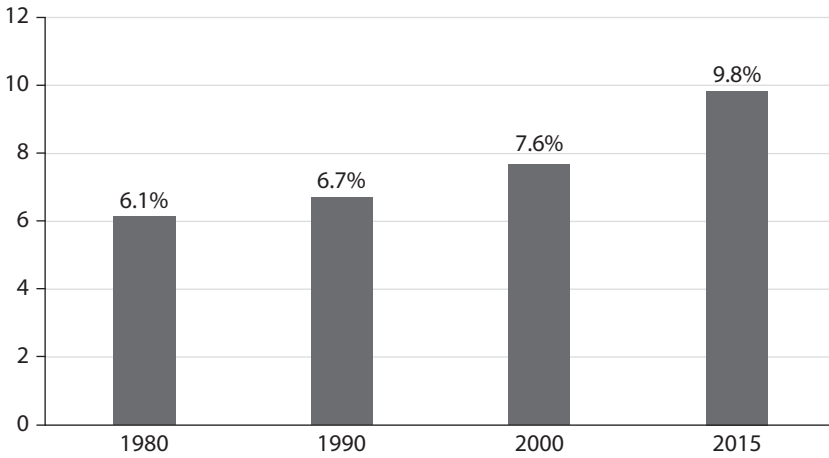


Figure 1.8. Share of national income spent on healthcare in OECD countries, 1980–2015

Source: OECD.STATS. “Health Care Resources: Remuneration of Health Professionals.” <https://stats.oecd.org> (accessed April 3, 2018).

other inputs. The easiest way to calculate productivity is to divide gross value added by the number of workers.⁷⁶

While conceptually simple, this approach depends upon accurate price data. For example, consider a hypothetical scenario in which a new law forbids the construction of new homes in a country with growing demand for housing because of immigration and demographics. House prices would soar, as would hourly incomes of real estate agents who are paid a percentage of the sales price. It would look as if real estate agents had become far more productive, when in fact they had not changed the quality of their services, so the apparent productivity growth would be a mirage. This sort of artificial increase in productivity is generally corrected when government statisticians calculate a price index for the real estate sector that takes this trend into account and adjusts the sector’s gross value added accordingly.

Thus, price changes are fundamental to productivity growth, but any changes to quality need to be included too. If the ratio of quality to price increases, either because prices fall or quality increases, there is productivity growth. Another example from the auto industry is the not-yet-released Tesla Model 3, which is being advertised with a price of \$35,000. Its features—its quality—are only slightly worse than the Model S, which costs \$69,500.⁷⁷ Thus, if every consumer who would have purchased a Model S switched to

(continued...)

INDEX

Page numbers in *italics* refer to figures and tables.

- “Accept No Substitute,” 247
Admati, Anat, 280
adoption, 184–85, 341n68; noncognitive skills and, 88, 90; twin studies of, 141
African Americans and Hispanics: access to markets, 101; educational attainment of, 144; housing barriers for, 191, 201; income inequality of, 45; income mobility of, 221; Industrial Revolution role, 163–67; intellectual achievements of, 291; IQ scores of, 84, 152–53, 173, 178, 283, 284; political inequality and, 274; school readiness of, 186–87. *See also* housing segregation; Jim Crow
Alesina, Alberto, 46–47
Alli, Dee, 190
Alternative for Germany Party (AfD), 3
altruism, 53, 109; genetic basis, 57–58, 69
American Bar Association (ABA), 259–64; African Americans barred from, 101; bar exam deficiencies, 261–62; Model Rules of Professional Conduct, 262; monopolistic practices of, 262; quality information lacking for, 261
American Bar Foundation, 265
American Community Survey (ACS): home values, 301, 324n95; occupational data, 331n20; top earnings, 20, 296–99
American Dental Association, 257–58
American Hospital Association, 251
American Medical Association (AMA), 248–53, 255–57; African Americans barred from, 101; antitrust lawsuit, 253; medical school accreditation and, 251; state licensing role of, 251
antipoverty policies, 106, 109, 226, 288–89
Aristotle, 52, 148–49
Armed-Forces Qualification Test (AFQT), 72–73
Armed Services Vocational Aptitude Battery (ASVAB), 81, 185, 330n10; black-white disparity of, 331n19
Asian American success theories: family size theory, 180; Harvard discrimination suit, 343n18; IQ scores and, 347n89; parents’ education and, 184–85; professions and occupations and, 160–61, 166; test scores of, 152, 154, 175, 177
Atkinson, Robert, 103, 106
Australian Medical Association, 256
Auten, Gerald, 317n9
Autor, David, 18
Avery, Derek, 94
Baker, Henry, 164
Baker, Thomas, 196
Baldwin, James, 51
Bannon, Steve, 48

- Bartles, Larry, 36
basic liberties, 62–63, 99–103
Beauchamp, Jonathan P., 142
Belgium: economic class segregation in, 216; physician compensation in, 244, 358n5; tax advice in, 259
Bell Curve, The (Murray, Herrnstein), 81, 118, 152–53, 175, 180
Benjamin, Miriam, 164
Berliner, Eli, 163
Bernstein, Jared, 14
Berry, Charles, 171
“Big 5” personality traits, 73, 332n34
Bivens, Josh, 15
Blue Cross/Blue Shield, 250
Bogle, John, 269
Boone, Sarah, 164
Borjas, George, 11, 106–7
Botticini, Maristella, 156–58
Bowles, Samuel, 57, 181
Boyd, Marie, 208
Branigan, Amelia, 140
Bratsberg, Bernt, 127
Breitbart, 48
Brexit, 7
Brigham, Carl, 168–69, 171
British Medical Association, 256
Brodus, Christian, 10
Brosnan, Sarah, 54
Bureau of Economic Analysis, 267, 322n60
Bureau of Labor Statistics (BLS), 10, 72, 75, 85, 254

California Medical Association, 249–50
CalPERs, 14
capital income, 14–16, 31, 318n10; corporate profits and, 16, 321n44, 322n60; data analysis, 301, 303
Carver, George Washington, 164
Casciano, Rebecca, 229
Case, Anne, 220
Catholicism, preference option for the poor, 53, 64
Census Bureau, 12, 196, 221, 266, 308, 318n10
Center for Responsive Politics, 251
Chapin, Christy Ford, 252, 254
Chetty, Raj, 127, 222, 226
Chicago Child-Parent Center, 132
China and Chinese companies, 103–4; educational attainment and, 177–78; entrepreneurship and, 104; immigrants from, 175; labor in, 9–10, 41, 105; trade and imports of, 12
Cicero, 53–54, 59, 64, 109, 326n10
Civil Rights Act (1964), 117
Civil Rights movement, 198, 274
CLASS, 128–29, 338nn35, 388n36
Clemens, Michael A., 11
Clinton, Hillary, 39, 121
Coates, Ta-Nehisi, 192
Cochran, Gregory, 155–56, 159, 180
cognitive ability, 73–75, 77–80, 82, 84, 91–92. *See also* IQ
cognitive ability testing, Programme for the International Assessment of Adult Competencies (PIAAC), 76–77, 322n71
cognitive ability test scores, Programme for the International Assessment of Adult Competencies (PIAAC), 177–79
cognitive and personality traits measures. *See* Armed Services Vocational Aptitude Battery (ASVAB); National Longitudinal Survey of Youth (NLSY); Programme for the International Assessment of Adult Competencies (PIAAC); Stanford-Binet test
Coleman, James, 117–20, 336n15
Coleman Report, 117–22, 175, 347n89
Coming Apart (Murray), 119
Community Property Owner’s Protective Association, 198
compensation: low pay and, 71–72, 80; market-based, 68–69; merit pay hypothetical, 75–77; performance-based pay, 70; subjective evaluation, 70–71. *See also* predictors of income
Congress Height Citizens Association, 199
Congressional Regulation Office, 276
conscientiousness, 91–92, 159, 292, 315, 332n34
Consumer Product Safety Commission, 228
Cook, Lisa D., 165

- corporations, 91; domestic and foreign operations of, 15; power of, 13–17; salaries of, 25; taxation of, 13–15
- Cruz, Ted, 39
- culture: definition of, 181; effect of, 181; exposure to, 124; family and, 187, 220; intelligence and, 284–85; learning and, 184; neighborhood exposure and, 220
- Current Population Survey, Voter Supplement, 36
- Davis, Jefferson, 167
- Democrats, racial views, 48, 50
- Denton, Nancy, 202
- Department of Health and Human Services, 237
- Department of Housing and Urban Development, 202, 225
- Detroit Public School District, 171–72
- de Waal, Frans, 54
- Diodorus Siculus, 157
- Douglass, Frederick, 116–17, 167
- drugs, sale or use, 237–41, 357nn48, 51
- DuBois, W. E. B., 182–83
- Durand, Jorge, 111
- Dutch Health Care Authority, 257
- Eckstein, Harry, 256
- Eckstein, Zvi, 156–58
- economic growth: economic slowdown and, 3–5, 7; income inequality and, 5–7, 9, 275–76, 317n9
- Economic Policy Institute, 15
- education, inequality in, 116; administrative costs, 286; career and technical education, 287; cognitive quality, 118, 145–46, 342n82, 342n84; effect on IQ, 123, 127, 132–33; environmental effects, 143–44; family and outside influences, 117–18, 121, 132, 286; income inequality, 342n86; literacy for slaves, 117; race and IQ, 120, 128–32, 144–45, 336n15; Reconstruction era, 183–84; school and teacher quality, 120, 285–87; Southern resistance to educating blacks, 182. *See also* Coleman Report; Flynn effect; genetics; heredity and hereditarians; Project Talent; teachers; twin studies
- Eglin, Ellen, 165
- Einstein, Katherine L., 208
- Eindhoven, Willem, 163
- employee engagement, 92–95, 333nn41, 42, 43
- employment: mass migration effect in, 11; trade, effect on, 10
- entrepreneurship, 96, 137, 274; African Americans during Reconstruction, 167, 285; immigrants and, 11, 108; Marxism and public ownership, 64–65; patent trolls and, 281
- Environmental Protection Agency, 228
- European Social Survey Round 7, 41, 45–47; immigration policy question, 324n96
- Eurostat data, 358n5
- Fair Housing Act of 1968, 202
- fairness: evolutionary reasons for, 57–59; human experiments and, 55–57; innate sense of, 273; market-based inequality and, 113; nonhuman experiments and, 54; Rawls' principles and, 66–67; reciprocity and, 99, 273
- Falconer's formula, 139
- Federal Housing Administration (FHA), 200
- Federal Trade Commission, 258, 276
- Fehr, Ernst, 55–56
- Feldman, Stanley, 49
- Fifth Avenue Association, 206
- financial anxiety or security, 7, 319n16
- Finland: cognitive performance in, 126; government, confidence in, 2; income in, 22, 24–25, 28; legal services in, 259, 362n64
- Fischel, William, 204, 208
- Flanagan, J. C., 172
- Flynn effect, 126–27, 137; in Kenya, 123, 337n23; negative Flynn effects, 125–26
- Foroohar, Rana, 279–80
- Forscher, Patrick S., 48–49
- Fox, Adam, 181

- free market: abuses of, 103–4; definition of, 102; fair competition, 104–5; innovation and, 105–6; international trade and, 104–5; preference to citizens and, 109–10; tariffs and, 103, 105; trade and, 112, 278. *See also* immigrants and immigration
- Freund, David M.P., 206
- Friedman, John, 127
- Fryer, Roland, 132, 236
- Gächter, Simon, 55–56
- Gallup Surveys: Builder Profile, 96; government, confidence in, 35; graduate degrees, 154; Healthways Wellbeing Index, 231, 333n41; high or low income neighborhoods, 193; income class concerns, 37–39; lawyers' honesty and ethics, 263; Minority Rights and Relations poll, 325nn102, 112; Q12, employee engagement, 92–93, 95, 333nn42, 43; racial views, 45; safety and security, 229; view of Trump, 41–42
- Gallup World Poll: Asian test scores, 177; financial well-being questions, 304, 367n9; government, confidence in, 2, 7, 8; housing satisfaction, 210, 353n55; questions asked in, 318n16
- gender: business ownership and, 96; employee engagement and, 92–94; medical profession barriers and, 247; performance evaluations and, 92; women's aptitude and, 86–87. *See also* Project Talent
- General Motors pension fund, 14
- genetics: environmental effects and, 142–43, 146, 283–84; genomic data and, 141–42; nucleotide polymorphisms (SNPs), 140, 142, 144–45, 342n85; polygenic score, 142–46, 342nn82, 85
- Genome-Wide Association Studies, 144
- Germany: far right party of, 3; government, confidence in, 2, 7; home ownership in, 15; immigration and IQ in, 136; IQ of immigrants in, 136; Jews in, 160–61; physician top earners in, 28; zoning laws in, 216, 218
- Gini coefficient, 303, 313, 322n61; pay inequality, 77, 81, 331n16, 336n30
- Gintis, Herbert, 57, 181
- Glaeser, Ed, 204
- Glick, David M., 208
- globalization: expanded markets and, 19; income inequality and, 272–73, 296, 308; labor income and, 13–14; superstar companies and, 21–22, 26, 29
- golden rule, 52–53, 64; nonhuman experiments and, 54–55
- Goldfarb, Michael, 158
- Goldman Sachs, 266–67
- Gordon, Robert, 34, 274
- government, confidence in, 2–3, 7–8, 36; data analysis, 295, 305–8; slow productivity and income inequality, 35–36
- government, lobbying and influence: campaign finance and, 249, 359n23; physicians' organizations and, 247–50, 256–57
- government regulation, 276
- Hamowy, Ronald, 251
- Hardy, Jason, 155–56
- Harpending, Henry, 155–56
- Harris, Geneva, 233–34
- Harris, Isaiah, 233
- Harshbarger, David, 191
- Harvard Opportunity Insights project, 231
- Hayek, Frederick, 66
- healthcare: benefits to society and, 34; dental hygienists limitations and, 257–58; dentists, top earners, 257; efficiency of, 32–34, 279; electronic medical records and, 322n70; entry barriers in, 245; inflation in, 37; nurse midwives in, 246–47; nurse practitioners in, 245–46, 249–50, 359n25; optometrists and, 250; top earners in, 24, 29, 31, 243–45, 255. *See also* physicians and surgeons
- healthcare, global: allied professions and, 256; dentist, quotas of, 257; educational requirements of, 256; national income share in, 30

- healthcare financing: fee-for-service model, 253–55; group medical care model, 252–54, 278–79; insurance and insurers, 250, 251–52; insurance scrutiny in, 254–55; medical coding of, 254, 360–61n44
- Hellwig, Martin, 280
- Hendren, Nathaniel, 222
- heredity and hereditarians, 85; biological dysgenic effects, 126, 180, 337n31; damage from, 291–93; debunked ideas of, 151–53; eugenics movement and, 150; genetic differences, 85, 118–19, 155, 188–89; genetic nurture, 144; Jewish success theories and, 156–63, 166–73, 180; northern European ancestry and, 150–51. *See also* genetics; twin studies
- Herrnstein, Richard, 81, 118, 152–53, 180
- Heywood, Alice, 181
- housing: high or low income neighborhoods and, 193–95; home values and, 302
- housing, worldwide, 210–11
- housing segregation: Asians and, 192; black-white, 192, 201, 350n6; Chicago segregation, 198; exclusionary zoning and, 200, 203–4, 208; government action and, 191–92, 194–95, 282; Hispanics and, 192; income measures and, 209; mortgage terms and, 202–3; red-lining in, 200, 202; rental amounts, 196–97; restrictive covenants in, 198–200; violence and intimidation in, 196–97; Washington D.C. segregation, 199. *See also* Federal Housing Administration (FHA); Jim Crow; lead exposure; zoning laws
- housing segregation, worldwide: French immigrants, 213–14; immigrants and immigration, 212–16, 353n63; inequity, U.S. and UK, 211–16; neighborhood satisfaction, 210–11; U.S. and Europe, 216–18; U.S. and France, 214
- Hoxby, Caroline, 119–20
- Huddy, Leonie, 49, 306
- Hult, Kristopher, 34
- human capital, 18, 97, 163
- Hunt, Jennifer, 11
- hunter-gather societies, 58, 113, 273, 328n31
- Hurst, Erik, 306
- Hyde Park Improvement Association, 198
- Imafidon, Ann Marie, 190
- Imafidon, Chris, 190
- immigrants and immigration: benefits and downsides of, 11–12, 106, 112; border security and, 110–11; documented and undocumented, 110–11; educational attainment of, 176, 334–35n18; effect of quality educational systems, 133–38; effect on income inequality on, 110, 334n19; English national exams, 134–35; high or lesser skilled, 107–8, 111, 334–35n18; limits on, 108–9
- income distribution, 39, 77, 82, 91, 108, 274; equality of, 15; savings, borrowing and, 10; slowdown of, 34; top one percent and, 19
- income distribution, data, 210, 223
- income distribution, global, 28, 259
- income distribution, national, 41, 46
- income growth, 318n10, 318n12, 318n15
- income inequality: access to hedge, private equity and venture capital funds, 280; data analysis, 296–305, 310–15; effect on politics, 36; explanation for, 12, 17–19, 29, 113–15, 273–76, 319n19; group medical care model, 278–79; income from stocks, 320n42; industry-specific reforms, 277; innate differences and, 113; licensing rule changes, 279; market egalitarianism, 289–90; merit-based, 19–20; patent reform and, 281; presidential election and, 37–38; racial diversity and, 45; software developers and, 27–28; STEM workers and, 26–27; trade protectionism and, 278. *See also* top one percent
- Infant Health and Development Program, 132

- innovation, 29, 115, 274–75, 287, 296,
315; African Americans and, 184, 194,
283; blocking of, 35; in financial
services, 31; healthcare, 278; history
of, 124, 163, 165–66; trade and,
103–4, 278
- innovation, global, 105–7
- innovation, Soviet Union, 65
- Institute of Medicine, 246
- insurance model of healthcare, 253–55,
278–79; history of, 252
- intellectual property, 103–4, 106, 281
- International Labor Organization, 14
- IQ: Asian American success and, 153–54,
343n18; biological dysgenic effects,
126–27; crystalized or fluid intelli-
gence, 330n9; early childhood
intervention, 132; education and,
118–19, 122–25; environment and,
88–90; evolutionary ideas and,
149–50; gender and, 86, 332n27;
immigration and, 134–36; income and,
73–74, 77, 79; job performance and,
91–92, 332n34; measurement of,
330n8; merit pay and, 75; military
draftees tested (1919), 168–71; race,
religion and, 81, 85, 129–31, 151–53,
168–75, 292, 338n39. *See also* genetics;
twin studies
- Jaffe, Sonia, 34
- Jardina, Ashley, 48
- Jefferson, Thomas, 148
- Jensen, Arthur, 152–53
- Jewish success theories, 153–58, 344n45,
347n86; discrimination and achieve-
ments and, 154–56, 343n23; family size
theory and, 180; flaws in, 158–60;
genetic argument, 154; IQ scores and,
152, 168–75, 346–47n81; literacy and
education theory and, 156–57; parents’
education and, 184–85; professions and
occupations and, 160–62, 163, 166;
selective breeding theory and, 156;
study habits and, 188
- Jim Crow, 269; African Americans in
northern states, 158, 169, 173;
- coordinated exclusion against black
Americans, 198; government participa-
tion in, 200; housing segregation and,
202, 212; origin of term, 197–98; overt
prejudice of, 43, 51; police encounters
and, 235; realtor’s code of ethics
toward, 202
- Jones, Charles, 306
- Joshua ben Gamla, 157
- justice: Aristotle’s writings, 52; balanced
scales, 326n3
- just society: communist view of, 64–65;
definition of, 99; government, role of,
63; libertarian view of, 65–67, 100;
market access in, 100–102; Plato’s view
of, 59, 61, 66, 328n40; Rawls difference
principle of, 62–64; Rawls’ principles
of, 61–67; in Sparta, 328n40. *See also*
income inequality
- Katz, Larry, 220, 226
- Kemper, D., 196
- Klenow, Peter, 306
- Kong, Augustine, 144
- Kteily, Nour, 48–49
- labor and labor unions: decline of, 13;
pensions of, 14; share of income and, 14,
319n19
- Latimer, Lewis Howard, 164
- Laws* (Plato), 60–61, 63
- lead exposure, 227–28
- Lee, James J., 142, 144
- legal profession: restrictions on, 259; unmet
legal needs in the, 263–64; Washington
State limited practice officers, 264–66.
See also American Bar Association
(ABA)
- legal profession, global, 258–60
- Leibrand, Harry, 199
- Lemley, Mark, 281
- Le Pen, Marine, 1
- Levinson, Boris, 175
- Lewis, William H., 101
- Limited License Legal Technician (LLLT),
265–66
- Lindsey, Brink, 275

- literacy and numeracy: Industrial Revolution and, 181–82; mindset and learning, 189–90; reading to children, 187, 349n115; society-wide forces, 184–86
- Logan, Trevon, 184
- Loos, Clifford, 252
- Luxembourg Income Study (LIS): executive earnings, 322n66; legal professionals, 258, 323n73; medical and legal professionals, 28; STEM workers, 323n74; top one-percent earners global, 20, 296, 301, 303, 313, 321n59, 322n61
- Lynn, Richard, 155, 159, 167–68, 170–72
- Mankiw, Greg, 18–19
- Manning, Alan, 71
- manufacturing: employment in, 9–10, 13, 41; tariffs and, 105; top earners in, 29; top one percent and, 12
- manufacturing, global, 21–23
- Martin, Trayvon, 235
- Marx, Karl, 64
- Massey, Douglas S., 110–11, 192, 202, 221, 229
- Mather, Cotton, 166
- Mazzucato, Mariana, 106
- McCloskey, Deirdre, 181
- McCoy, Elijah, 164
- McDaniel, Michael, 92
- McElwee, Sean, 48
- McKay, Patrick, 92, 94
- Medical Society of the District of Columbia, 253
- Menand, Louis, 149
- Miano, Armando, 47
- Mishel, Larry, 15
- Mokyr, Joel, 163, 166
- monkey experiments, 54–55
- monopolistic practices, 243–44; banks, 268; elite professionals and, 279, 292–93; historical, 100; lawyers, 259, 262, 265; patent rules and, 276
- Montgomery, Benjamin T., 166
- Morrill Act, 182
- Morris, Mark, 94
- Moving to Opportunity (MTO), 225–26
- Murray, Charles, 81, 118–19, 152–53, 155–58, 168, 180
- Musterd, Sako, 216
- National Academies of Sciences, Engineering, and Medicine, 11, 12, 168, 246
- National Assessment of Education Progress, 122
- National Bureau of Asian Research, 103
- National Center for State Courts, 265
- National Front (France), 1–2
- National Inventors Hall of Fame, 163–64
- nationalism, definition of, 9
- nationalist parties or politicians, global, 1–2, 39; racial and cultural differences in, 43–44
- National Longitudinal Survey of Youth (NLSY), 73; black-white disparity, 81, 84–85, 331n19; Family/Home Risk Index, 87–88; health status, 75; IQ and religion, 172; measurements, 330nn8, 10; social status of parents, 185; television and homework time, 187
- National Survey on Drug Use and Health, 238
- neighborhood effect, 221, 223–24
- neighborhoods: crime victimization in, 233–34; effect on health and prosperity, 219; exposure to criminality in, 220; government services in, 219; housing the poor, studies of, 225–27; immigrants and immigration and, 223; Israeli study, 224–25; life outcomes and, 221–23, 229, 355n27; Mount Laurel affordable housing and, 229; police encounters in, 234–36; safety and security in, 229–32; Swedish study, 224; UK public housing study, 226
- Newcomb, Edward J., 199
- Newport, Frank, 42
- news and media sources, 276–77
- New York City Zoning Resolution, 206
- New York State Combined Retirement System, 14
- New York State Mental Deficiency Law, 150
- New York Times*, 14, 196

- Nisbett, Richard, 140
nongcognitive skills, 18, 72, 87, 97, 128, 243, 292
North Carolina Board of Dental Examiners, 258
Northrup, Solomon, 166
Norway: cognitive performance in, 126–27; legal professionals in, 79
Nozick, Robert, 66
nurse practitioners: efficacy of, 246–48; independence for, 249; payments to, 245; restrictions on, 247; training, 245–46
nurse practitioners, Canada, 256
nursing and allied professions, 244–47; maternal care and, 132; political opposition toward, 247–49; salaries of, 97
Nussbaum, Martha, 66

O*NET program, 85, 331n20
Obama, Barack, 42, 276
Oh, In-Sue, 91
Okbay, Aysu, 142
Olson, Mancur, 275
“On Duties” (Cicero), 53, 59
Onesimus, 166
Organisation for Economic Co-Operation and Development (OECD): capital income and, 14–15; economic slowdown, 4; executives and managers, 24–26; global IQ study, 86, 332n26; government confidence, 2–3, 7–8; immigration and trade, effect on, 12; lawyers’ monopoly, 259; nationalist statements in, 43; politics, 43; price indexes, 33; top earners in, 31; top earners job sectors, 22–24. *See also* Programme for International Student Assessment (PISA); Programme for the International Assessment of Adult Competencies (PIAAC)
Organisation for Economic Co-Operation and Development (OECD) countries: gender and education, 332n27; healthcare spending, 29; income inequality, 306, 311, 313; monopolistic practices, 243–44; neighborhood satisfaction, 211; nonlabor income, 303–4; predictors of inequality, 296; teacher salaries, 285; top earners in, 20
Our Kids (Putnam), 117

Page, Benjamin, 36–37
Painter, Nell Irvin, 149
Palmer, Maxwell, 208
parochialism, 58
Parton, Dolly, 187
patents, 124; African Americans and, 163–66; filing fees and, 259; healthcare and, 276; reforms of, 281
Peabody vocabulary IQ test, 338n39
Pendall, Rolf, 203–4
Penn World Table, 303
Perry, Andre, 191
personality assessments, 87, 90, 172
personality development, 88
personality traits, 73–76, 79, 81, 87–88, 91–92, 132, 332n34; entrepreneurship and, 96; genetic advantages and, 113. *See also* cognitive ability; conscientiousness
Pew Research Center, 46
Pharmaceutical Research and Manufacturers Association of America, 251
Philipson, Tomas, 34
Phinney, Paul R., 249
physicians and surgeons, 25–26; educational requirements for, 256; entry barriers in, 245–46; fee setting, 243; as homeowners, 301; insurance scrutiny of, 254–55; Jewish employment of, 160; limitations on practice by, 247–48; overprescription of treatment and tests, 278–79. *See also* American Medical Association (AMA)
Physicians Foundation, 247–48
Piketty, Thomas, 5–7, 16, 296, 299
Pinker, Steven, 155
Piston, Spencer, 48
Plato, 59, 63–64, 66, 99, 106, 145, 148, 157; on education, 60, 157; on wisdom of rulers, 61; on women’s role, 60
Plomin, Robert, 138, 143
Polderman, Tinca, 139, 141

- police: encounters with black men by, 234–36; segregation and, 234–36; stop-and-frisk policy of, 236–37
- political equality, 98–100, 112–14, 117, 167, 182–84, 274, 278, 289, 293
- political Left: pay inequality, 69, 75; suspicion of power, 289
- political Right: distrust of elites, 307; pay inequality, 69, 75
- politics: adult education, 333n1; labor market inequality, 97; political equality, 99–100; presidential election and, 39–42; racial inequality and, 39, 41–43, 324n95; top one percent role and, 36–37
- populism, 9–10
- Practice of Law Board (Washington state), 264–65
- predictors of income, 330n12, 330n13, 330n15; cognitive ability as, 73–75, 77–80, 82, 84, 91–92; educational attainment as, 73, 75, 77; health status as, 73, 75, 77; personality traits as, 73–74, 96
- Pren, Karen, 111
- Princeton University, 101
- productivity: definition of, 69; evaluation of, 69–70
- productivity growth, 4; advanced industries and, 31, 323n79; definition of, 29–31; effect on politics, 36; explanation for slowdown of, 29; innovation and, 105; living standards and, 306; measurement of, 323n78; multifactor productivity, 323n76; real GDP and employment data, 323n81; rising returns to capital, 323n80; slowdown of, 31, 33–35, 37, 274
- professional associations, 242–43
- Programme for International Student Assessment (PISA): Asian test scores, 177–78; country of birth data, 137, 337n31; immigrant test scores, 137; trends in math scores, 126; women's progress, 86–87
- Programme for the International Assessment of Adult Competencies (PIAAC), 79, 84, 330n11, 331n19; cognitive ability testing, 76–77, 322n71; cognitive ability test scores, 177–79; immigration status, 135; IQ of immigrants, 135–36; personality traits in, 77; racial and ethnic differences, 81, 331n17
- Progressive Policy Institute, 276
- Project Manifesto, 43
- Project Talent, 86, 122, 123, 172–73, 180, 347n87
- Putnam, Robert, 117
- Putterman, Louis, 45
- race and ethnicity: business ownership and, 96; employee engagement and, 92–95; eugenics movement and, 150; fair treatment and, 94–96; immigration and, 107–8; noncognitive skills and, 87–88; performance evaluations and, 92; STEM knowledge and, 85; test performances and, 81, 84–85. *See also* education, inequality in; Jewish success theories
- racial diversity, global, 45, 274, 296, 310–14
- racism, 45–47, 315; alt-right and, 49; antiracism and, 281–83; blocked access to markets, 101; colleges blocked African Americans, 101; drugs, sale or use, 237–41, 357nn48, 49; genetic theories and, 149–51; housing and, 200; housing segregation, 196; housing segregation and, 101–2, 192, 194; immigration and, 46–47; inequality and, 274; in South Africa, 211; stop-and-frisk policy and, 236–37; white people's views and, 48–49, 291. *See also* housing segregation
- Ravitch, Diane, 118
- Rawls, John, 61–65, 66–67, 99–100
- reciprocity, 52, 67, 104, 273, 289
- Redbird, Beth, 277
- Reeves, Richard, 17
- regulation reform, 276–77; financial products and, 267–68; housing market and, 274; labor law and, 112; mortgage terms and, 203; quality of goods and, 102. *See also* physicians and surgeons; zoning laws
- Reich, Robert, 13
- religion, employee engagement, 94–95

- Republic, The* (Plato), 60–61, 328n40
- Republicans: middle income voters, 39;
presidential election and, 37; racial bias
of, 42–43; view of Trump, 38
- Rhodes, Jason, 206
- Rice, Thomas Dartmouth, 197–98
- Ricoeur, Paul, 64
- Rietveld, Cornelius, 141–42
- Right and alt-right: economic slowdown
and, 39; principles of, 9, 48–49, 67;
racial bias of, 47; racism of, 48–50, 151;
top one percent theories of, 26; Trump
supporters, 48. *See also* political Right
- Ritchie, Stuart J., 122
- Rockoff, Jonah, 127
- Rogeberg, Ole, 127
- Rognlie, Matthew, 14
- Romalis, John, 10
- Rosenthal, Erich, 170
- Ross, Cody, 236
- Ross, Donald, 252
- Rothstein, Richard, 192
- Royal Dutch Dentistry Association, 257
- Rugh, Jacob, 202
- Rushton, Phillipe, 152–53, 168
- Saez, Emanuel, 6–7, 16, 299
- Sanders, Bernie, 9, 13, 16, 121
- Schmidt, Frank, 91
- Seawright, Jason, 36
- Securities and Exchange Commission
(SEC), 271
- securities and investment industry: access
to hedge, private equity and venture
capital funds, 280; hedge funds and
mutual funds, 269–72; retail banks or
institutional investors, 267–69; top
earners in, 266–67, 364n91
- segregation: anti-market policy and,
197–99; crime victimization and,
233–36; economic, 209–10, 216–17,
222–23, 231; effects of, 187; policy of,
207; racial, 193, 222–23, 282. *See also*
housing segregation; lead exposure;
zoning laws
- segregation, global, 210–16, 310; apartheid
as, 211
- selfish behavior, 54–56, 58
- Sen, Amartya, 66
- service industries, 24, 35, 275, 322n62
- Shadid, Michael, 252–53
- Shaffer, Jonathan, 91
- Sharkey, Patrick, 221
- Shelby v. Kramer* (U.S.), 200
- Sherman Anti-Trust Act, 253
- Sides, John, 43
- single-payer healthcare, 279
- slavery: Aristotle’s theory of, 148–49;
Cicero’s statement against, 326n10
- Smith, Adam, 106
- socially valuable services, 71
- Social Science Genetic Association
Consortium, 143, 189
- Society of American Law Teachers, 261
- Socrates, 60
- Splinter, David, 317n9
- Stancheva, Stephanie, 47
- Stanford-Binet test, 73, 171
- Stevens, Alexander H., 148
- Study of Statewide Early Education
Programs, 128
- Summers, Larry, 86
- Survey of Consumer Finances, 6, 318n12
- Sutherland, George, 206
- sympathy, 9, 42, 105, 273
- Taleb, Nassim, 272
- Tarbell, Ida, 276
- tax policies, inequality and, 13, 16–17,
320n30
- teachers: biases of, 46; exploitation of, 66;
salary inequalities of, 70–71, 97, 285;
value-added quality of, 121, 127–31,
337n16. *See also* CLASS
- technological innovation, 2; communica-
tions and, 19; finance and, 268;
inequality and, 273, 310; minor Jewish
role in, 163; post Industrial Revolution,
34–35; top one percent and, 26
- Teles, Steven, 275
- Tesler, Michael, 43
- Texas Ophthalmologist Association
(TOA), 250
- Toner, Phillip, 287

- top one percent: arts, design, entertainment workers, 20–21; data analysis, 6, 295–305, 308–9; executives and managers, 25–26, 322n67; global income share, 5; Japan, 322n62; job sectors of, 22–24, 26–27, 321n59, 364n90; legal profession, 24, 26, 28; occupation or sector, 21, 27; physicians and surgeons, 25–26, 28, 243–45; STEM workers, 28; trade-oriented sectors, 23–24
- trade: hunter-gather tribes, 328n31; job loss and, 10
- Trounstine, Jessica, 208
- Trump, Donald, 1, 7, 9, 38–39, 41–43, 47–48, 50, 134
- Tucker-Drob, Elliot, 122
- Turkheimer, Eric, 140
- Twelve Years a Slave* (Northrup), 166
- twin studies: educational attainment and, 140; environmental effects and, 141, 341n68; IQ heritability and, 139–40, 340n59. *See also* genetics
- U.S. Constitution: Bill of Rights, 63, 100; Fourteenth Amendment, 167, 200
- Vanguard, 269
- Vavreck, Lynn, 43
- Virginia Bar Association, 262
- Virginia Beach School District, 287–88
- Wade, Nicholas, 155–56, 158
- Walker, C. J., 166
- Wall Street Journal*, 138, 153
- War on Drugs, 239–40
- Washington, Booker T., 183
- Washington Academy of Surgery, 253
- Washington Park Court Improvement Association, 198
- Washington State Bar Association, 264
- Wasserstein, Bernard, 159
- Wedow, Robbee, 142
- Weil, David, 45
- Whitten, Robert, 206
- Wilson, E. O., 58
- Wissenschaftszentrum Berlin für Sozialforschung (WZB), 43
- Wodtke, Geoffrey, 221
- Wolff, Edward, 6
- World Bank, 105, 146, 304, 313, 342n86
- World Income Database, 322n61
- World Inequality Database (WID), 296–98, 301, 303, 313, 321n46
- World Trade Organization, 22
- “yellow jacket” movement, 2
- Yerkes, Robert, 168
- Zimmerman, George, 235
- zoning laws, 204–9, 281–83; Boston actions, 208; New York actions, 206
- Zucman, Gabriel, 6–7, 16, 299