



# THE POLITICAL ECONOMY OF INEQUALITY

Edited by  
Frank Ackerman,  
Neva R. Goodwin,  
Laurie Dougherty,  
and Kevin Gallagher

Foreword by  
Derek Bok



**FRONTIER ISSUES IN  
ECONOMIC THOUGHT**  
NEVA R. GOODWIN, SERIES EDITOR

# The Political Economy of Inequality

GIFT OF THE ASIA FOUNDATION  
NOT FOR RE-SALE  
QUÀ TẶNG CỦA QUỸ CHÂU Á  
KHÔNG ĐƯỢC BÁN LẠI

Edited by  
Frank Ackerman,  
Neva R. Goodwin,  
Laurie Dougherty,  
and Kevin Gallagher



---

The Global Development  
And Environment Institute  
Tufts University

---

**ISLAND PRESS**

Washington, D.C. ■ Covelo, California



Copyright © 2000 by Island Press

All rights reserved under International and Pan-American Copyright Conventions. No part of this book may be reproduced in any form or by any means without permission in writing from the publisher: Island Press, 1718 Connecticut Avenue, N.W., Suite 300, Washington, DC 20009.

ISLAND PRESS is a trademark of The Center for Resource Economics.

Library of Congress Cataloging-in-Publication Data

The political economy of inequality / edited by Frank Ackerman . . . [et al.].

p. cm. — (Frontier issues in economic thought ; v. 5)

A literature survey of books and articles, with summaries of 70–90 selections, and introductory essays by the editors.

Includes bibliographical references and indexes.


ISBN 1-55963-797-8 (cloth) — ISBN 1-55963-798-6 (pbk.)

1. Economics—Moral and ethical aspects. 2. International trade—Moral and ethical aspects. 3. Income distribution. 4. Distributive justice. 5. Welfare economics. I. Ackerman, Frank. II. Series

HB72 .P62 2000

330—dc21

99-048264

Printed on recycled, acid-free paper 

Printed in Canada

10 9 8 7 6 5 4 3 2 1

# Contents

|   |       |
|---|-------|
| <i>Authors of Original Articles</i>                           | xix   |
| <i>Foreword by Derek Bok</i>                                  | xxiii |
| <i>Acknowledgments</i>  | xxvii |
| <i>Volume Introduction by Neva Goodwin and Frank Ackerman</i> | xxix  |

## PART I

### Unequal Earnings: Theory versus Reality

|  |    |
|--|----|
| Overview Essay<br><i>Frank Ackerman</i>  | 1  |
| Bringing Income Distribution In from the Cold<br><i>Anthony B. Atkinson</i>  | 10 |
| Wage Polarization in the U.S. and the "Flexibility" Debate<br><i>Bennett Harrison and Barry Bluestone</i>          | 14 |
| Wielding the Stick<br><i>David M. Gordon</i>   | 18 |
| Rising Wage Inequality: The U.S. versus Other Advanced Countries<br><i>Richard B. Freeman and Lawrence F. Katz</i> | 21 |
| Inequality, Unemployment, Inflation, and Growth<br><i>James K. Galbraith</i>                                       | 25 |
| Trends in the Level and Distribution of U.S. Living Standards:<br>1973-1993<br><i>Gary Burtless</i>                | 29 |

## PART II

### The Distribution of Wealth and Power

|   |    |
|---|----|
| Overview Essay<br><i>Frank Ackerman</i>   | 33 |
| International Comparisons of Wealth Inequality<br><i>Edward N. Wolff</i>                            | 42 |
| Long-Term Trends in American Wealth Inequality<br><i>Jeffrey G. Williamson and Peter H. Lindert</i> | 45 |



|  |    |
|--|----|
| A Story of Two Nations: Race and Wealth<br><i>Melvin L. Oliver and Thomas M. Shapiro</i> | 48 |
| The Corporate Community and the Upper Class<br><i>G. William Domhoff</i>                 | 52 |
| Structures of Corporate Control<br><i>John Scott</i>                                     | 56 |

### PART III

#### New Paths to the Top: CEO and Celebrity Compensation

|  |    |
|--|----|
| Overview Essay<br><i>Frank Ackerman</i>  | 61 |
| How Winner-Take-All Markets Arise <i>and</i> The Growth of<br>Winner-Take-All Markets<br><i>Robert H. Frank and Philip J. Cook</i> | 77 |
| The Cost of Talent: Summing Up<br><i>Derek Bok</i>   | 80 |
| Management Compensation Plans—Panacea or Placebo?<br><i>Michael T. Jacobs</i>  | 84 |
| Top Executive Pay: Tournament or Teamwork?<br><i>Brian G. M. Main, Charles A. O'Reilly III, and James Wade</i>                     | 88 |
| Why Do Pro Athletes Make So Much Money?<br><i>James Quirk and Rodney D. Fort</i>   | 91 |
| Marginal Revenue and Labor Strife in Major League Baseball<br><i>Dale R. Oorlog</i>  | 95 |

### PART IV

#### Corporate Power: Why Does It Matter?

|   |     |
|---|-----|
| Overview Essay<br><i>Neva Goodwin</i>   | 99  |
| Economy: The Political Foundations of Production and Exchange<br><i>Samuel Bowles and Herbert Gintis</i>        | 112 |
| Business Unity, Business Power<br><i>Dan Clawson, Alan Neustadt, and Denise Scott</i>                           | 116 |
| Bigness and Social Efficiency: A Case Study of the U.S. Auto Industry<br><i>Walter Adams and James W. Brock</i> | 119 |

|   |     |
|---|-----|
| The Dark Side of Flexible Production<br><i>Bennett Harrison</i>   | 123 |
| Power, Accumulation, and Crisis: The Rise and Demise of the<br>Postwar Social Structure of Accumulation<br><i>David M. Gordon, Thomas E. Weisskopf, and Samuel Bowles</i> | 127 |
| The Mobilization of Corporate Conservatism<br><i>Jerome L. Himmelstein</i>  | 130 |
| Markets and Politics<br><i>Robert Kuttner</i>   | 134 |
| The Solution: A Better Scorecard <i>and</i> What the Scorecard<br>Should Contain<br><i>Ralph Estes</i>  | 138 |

## PART V

**Poverty, Inequality, and Power**

|   |     |
|---|-----|
| Overview Essay<br><i>Frank Ackerman</i>   | 143 |
| Income, Deprivation, and Poverty <i>and</i> Implications for<br>Conceptualizing and Measuring Poverty<br><i>Brian Nolan and Christopher T. Whelan</i> | 151 |
| The Age of Extremes: Concentrated Affluence and Poverty in<br>the Twenty-First Century<br><i>Douglas S. Massey</i>                                    | 155 |
| Social Exclusion: Toward an Analytical and Operational Framework<br><i>Ajit S. Bhalla and Frédéric Lapeyre</i>  | 158 |
| Poor Relief and the Dramaturgy of Work<br><i>Frances Fox Piven and Richard Cloward</i>  | 162 |
| Not Markets Alone: Enriching the Discussion of Income<br>Distribution<br><i>Chris Tilly and Randy Albelda</i>   | 166 |

## PART VI

**Intrahousehold Dynamics and Changing Household  
Composition**

|   |     |
|---|-----|
| Overview Essay<br><i>Laurie Dougherty</i> | 171 |
|---|-----|



|  |     |
|--|-----|
| Trade, Merger, and Employment: Economic Theory on Marriage<br><i>Elaine McCrate</i>  | 182 |
| Gender Coalitions: Extrafamily Influences in Intrafamily Inequality<br><i>Nancy Folbre</i>   | 186 |
| Renegotiating the Marital Contract: Intrahousehold Patterns of<br>Money Allocation and Women's Subordination Among Domestic<br>Outworkers in Mexico City<br><i>Martha Roldan</i> | 190 |
| Incomes, Expenditures, and Health Outcomes: Evidence on<br>Intrahousehold Resource Allocation<br><i>Duncan Thomas</i>  | 194 |
| The Marginalization of Black Men: Impact on Family Structure<br><i>William A. Darity, Jr., and Samuel L. Myers, Jr.</i>  | 197 |
| Single Mothers in Sweden: Why Is Poverty Less Severe?<br><i>Siv Gustafsson</i>   | 201 |

## PART VII

### Technology, Skills, and Education

|  |     |
|--|-----|
| Overview Essay<br><i>Laurie Dougherty</i>  | 205 |
| Institutional Failure and the American Worker: The Collapse of<br>Low-Skill Wages<br><i>David R. Howell</i>  | 214 |
| Technology and Changes in Skill Structure: Evidence from an<br>International Panel of Industries<br><i>Stephen Machin, Annette Ryan, and John Van Reenan</i> | 217 |
| The "Skill-oriented" Strategies of German Trade Unions:<br>Their Impact on Efficiency and Equality Objectives<br><i>Birgit Mahnkopf</i>                      | 221 |
| Access to Education<br><i>Ajit S. Bhalla</i>   | 224 |
| The Economics of Justice in Education<br><i>Henry M. Levin</i>   | 228 |
| Making the Grade: Educational Stratification in the United States,<br>1925-1989<br><i>Michael Hout, Adrian E. Raftery, and Eleanor O. Bell</i>               | 231 |

## PART VIII

**Categorical Inequality**

|   |     |
|---|-----|
| Overview Essay<br><i>Laurie Dougherty</i>   | 235 |
| Race and Gender Wage Gaps in the Market for Recent College Graduates<br><i>Catherine J. Weinberger</i>                        | 249 |
| Intergroup Disparity: Economic Theory and Social Science Evidence<br><i>William A. Darity, Jr.</i>                            | 252 |
| What's Fairness Got To Do With It? Environmental Justice and the Siting of Locally Undesirable Land Uses<br><i>Vicki Been</i> | 255 |
| Tracking Racial Bias<br><i>Jerome G. Miller</i>   | 259 |
| The Impact of Economic Change on Minorities and Migrants in Western Europe<br><i>Ian Gordon</i>                               | 262 |
| The Political Economy of Gender <i>and</i> Economic Progress and Gender Equality<br><i>Claudia Goldin</i>                     | 266 |
| The Gender Pay Gap<br><i>Francine D. Blau</i>   | 270 |
| Social Construction of Skill: Gender, Power, and Comparable Worth<br><i>Ronnie J. Steinberg</i>                               | 274 |
| Racial Antagonisms and Race-Based Social Policy<br><i>William Julius Wilson</i>   | 277 |
| The Future of Affirmative Action: Reclaiming the Innovative Ideal<br><i>Susan Sturm and Lani Guinier</i>                      | 281 |

## PART IX

**World Income Inequality and the Poverty of Nations**

|  |     |
|--|-----|
| Overview Essay<br><i>Kevin Gallagher</i> | 287 |
|--|-----|



|   |     |
|---|-----|
| Divergence, Big Time<br><i>Lant Pritchett</i>   | 299 |
| Globalization and Inequality, Past and Present<br><i>Jeffrey G. Williamson</i>  | 303 |
| Income Distribution and Poverty: An Interregional Comparison<br><i>Kwan S. Kim</i>  | 306 |
| Income Inequality and Development: The 1970s and 1980s<br>Compared<br><i>Irma Adelman and Nobuhiko Fuwa</i>                                   | 309 |
| The Relationship Between Wage Inequality and International Trade<br><i>George J. Borjas and Valerie A. Ramey</i>                              | 313 |
| Openness and Wage Inequality in Developing Countries: The Latin<br>American Challenge to East Asian Conventional Wisdom<br><i>Adrian Wood</i> | 316 |
| The Distributional Impact of Privatization in Developing Countries<br><i>Paul Cook and Colin Kirkpatrick</i>                                  | 320 |
| Income Distribution in Developing Economies: Conceptual, Data,<br>and Policy Issues in Broad-Based Growth<br><i>Gary Fields</i>               | 323 |
| <br><b>PART X</b>   |     |
| <b>Responses to Inequality: The Welfare State</b>   |     |
| Overview Essay<br><i>Frank Ackerman</i>   | 327 |
| Is There an Explanation? Alternative Models of the Labor Market<br>and the Minimum Wage<br><i>David Card and Alan B. Krueger</i>              | 339 |
| Generating Equality and Eliminating Poverty, the Swedish Way<br><i>Anders Bjorklund and Richard B. Freeman</i>                                | 343 |
| How Social Democracy Worked: Labor-Market Institutions<br><i>Karl Ove Moene and Michael Wallerstein</i>                                       | 347 |
| The American Paradox: High Income and High Child Poverty<br><i>Sheldon Danziger, Sandra Danziger, and Jonathan Stern</i>                      | 351 |
| Who Paid for the Canadian Welfare State during 1955–1988?<br><i>Ardeshir Sepehri and Robert Chernomas</i>                                     | 354 |

|  |     |
|--|-----|
| On Targeting and Family Benefits<br><i>Anthony B. Atkinson</i> | 357 |
| <i>Bibliography</i>  | 361 |
| <i>Subject Index</i>   | 377 |
| <i>Name Index</i>  | 401 |