Decomposing Trends in Inequality in Earnings into Forecastable and Uncertain Components

Author:
Flávio Cunha,
James Heckman

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A substantial empirical literature documents the rise in wage inequality in the American economy. It is silent on whether the increase in inequality is due to components of earnings that are predictable by agents or whether it is due to greater uncertainty facing them. These two sources of variability have different consequences for both aggregate and individual welfare. Using data on two cohorts of American males, we find that a large component of the rise in inequality for less skilled workers is due to uncertainty. For skilled workers, the rise is less pronounced.

Reference Information

Link:
http://www.journals.uchicago.edu/doi/abs/10.1086/684121 [1]