

Human Capital and Income Inequality: New Facts and Some Explanations^{†*}

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January, 2019

Abstract

Using an updated data set on human capital inequality for 146 countries from 1950 to 2010, this paper documents several facts regarding the evolution of income and human capital inequality. In spite of a large reduction in human capital inequality around the world, the inequality in the distribution of income has hardly changed. In order to find explanations for this puzzle, we first compute the distribution of wages using recent estimates of rates of return to schooling. We find a non-linear relationship between the Gini coefficient of years of schooling and the Gini coefficient of wages, which can be explained by a composition effect due to the fall in the share of population with no schooling, but with significant differences across countries. Whereas convex returns to schooling do not affect significantly the distribution of wages, skill-biased technological progress have partially off-set the effects of the fall in education inequality. Nevertheless, the estimated average contribution of wage inequality to income inequality is statistically significant, relatively stable from 1980 onwards and economically relevant. Each point of change in the Gini coefficient of wages contributes on average to a half-point change in the Gini coefficient for income, which is also affected by the changes of other important factors, such as changes in the distribution of other sources of income and the impact of fiscal redistribution policies.

Keywords: education inequality, wage inequality, income inequality.

JEL Classification: I24, O11, O15, O5.

[†]: This document is an update of WP 12/28 published in October 2012.

* We are grateful for the comments received at seminars, at the 2014 Royal Economic Society Conference, and at the 31st Annual Meeting of the European Economic Association. A. Castelló would like to thank the Spanish Ministry of Economy and Competitiveness for financial support through ECO2015-65263-P project. R. Doménech thanks the Ministry of Economy and Competitiveness, ECO2017-84632, and Generalitat Valenciana, PROMETEO2016-097, for their financial support. Contact: amparo.castello@uv.es
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