

Easier access to education reduces inequality between genders but increases inequality within gender.

From Plato and Marx to Piketty's recent 'Capital in the 21st Century', scholars have always been worried about growing inequality. Even though most studies focus on the vicious consequences of rising economic inequality, the recent experience is more perplexing, as inequality has not increased in all dimensions. In particular, over the past four decades increasing U.S. wage inequality within gender has coincided with narrowing inequality between genders, while at the same time access to higher education has become more equal. Theodore Koutmeridis provides an explanation for the combination of these seemingly contradictory facts. He shows that equality of educational opportunity in the US has decreased wage inequality between genders, while at the same time it has increased wage inequality within gender, by boosting the education and experience wage premium.



A famous puzzle for policymakers is that US wage inequality *increases* sharply between groups with different levels of education and labor market experience, while at the same time the wage gap between men and women *decreases* significantly. Existing studies explain some of these inequality trends in isolation but they fail to provide a *unified justification* of all three – education, experience and gender wage premia – at the same time. This recent research provides a new explanation for the combination of these puzzles, suggesting that gender gaps make borrowing costlier for women, due to credit rationing. In particular, lenders realize that women are less likely to repay their loans, as they get lower wages compared to men with similar observable characteristics.

However, when the gender gap narrows, due to falling discrimination, credit constraints relax not only for women but moderately for men too, as a result of positive externalities – banks cannot distinguish perfectly the loan repayments of women to those of men. This allows talented men and primarily gifted women to acquire skills and leave the uneducated pool. In turn, it decreases unskilled-inexperienced wages, boosts the education and the experience premium, while it lowers further the gender wage gap, generating a positive feedback loop of more equal opportunities, lower inequality between genders and higher inequality within gender.

A distinguishing feature of this study compared with related research is that it approaches inequality in a unified way. Some patterns of changing wage inequality, such as the rise in the education premium or the decline in the gender wage gap, are well reported. However, some other aspects of rising inequality, such as the growing experience premium, are less well documented, if not entirely absent from most existing studies. Additionally, previous studies cannot explain the puzzling coexistence of decreasing inequality between genders and increasing inequality within gender, as both the education and the experience premium grow. This paper provides a unified explanation that fits the following key facts:

- 1) The education premium (the wage ratio of college graduates to lower educated workers) increases more for inexperienced men and women (Figure 1a), while it rises only moderately for experienced workers (Figure 1b).

Figure 1a – Education Premium for Inexperienced Men and Women, U.S.

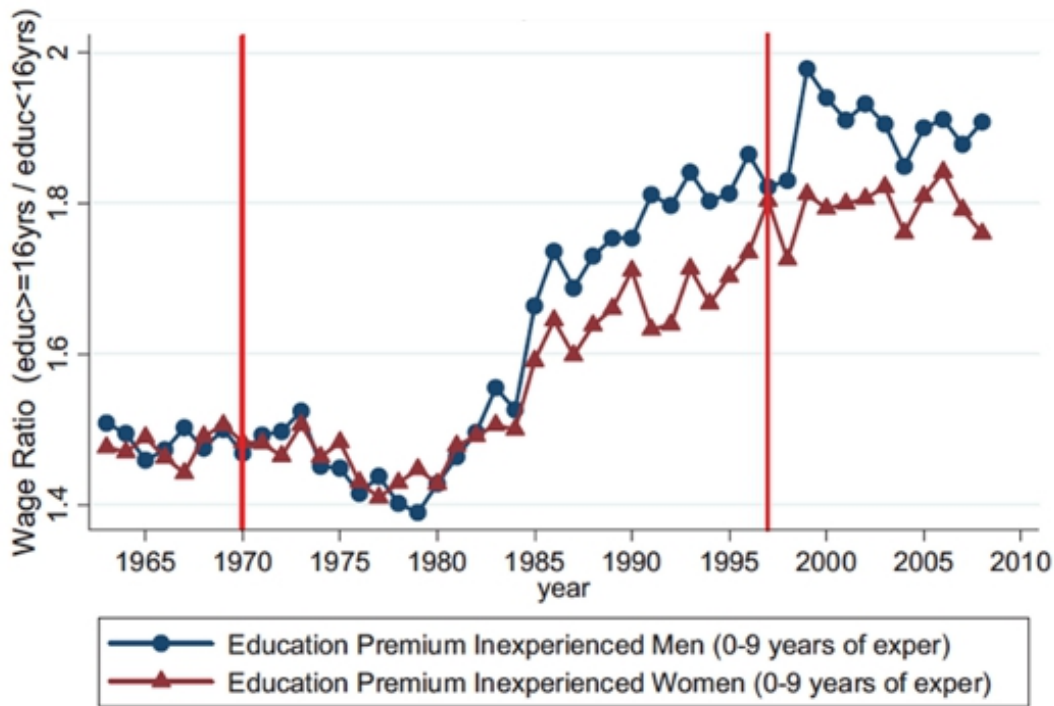
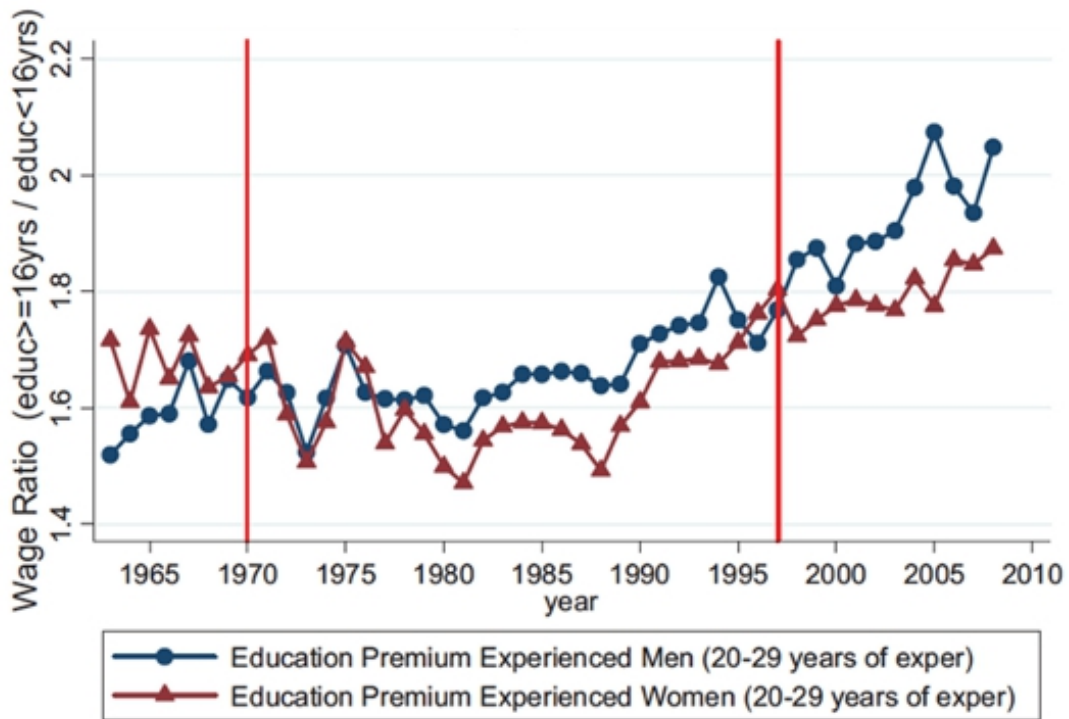


Figure 1b – Education Premium for Experienced Men and Women, U.S.



2) The experience premium (wage ratio of workers with 20-29 years of potential experience to those with 0-9) increases only for low-educated men and women (Figure 2a), while it remains almost constant for highly educated labor (Figure 2b).

Figure 2a – Experience Premium for Uneducated Men and Women, U.S.

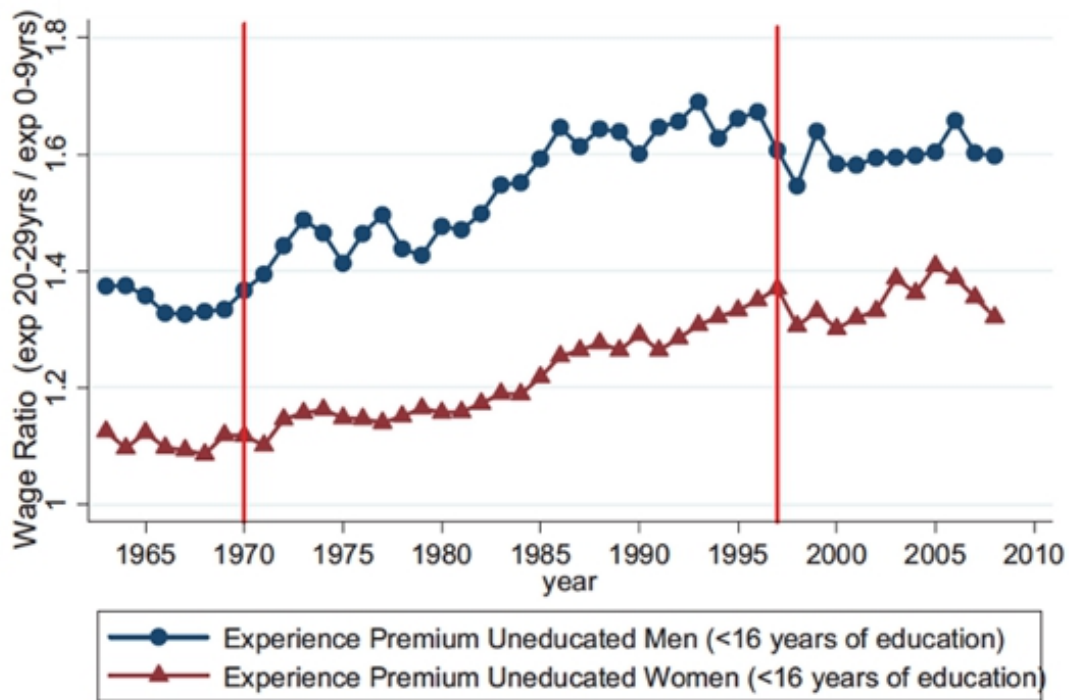
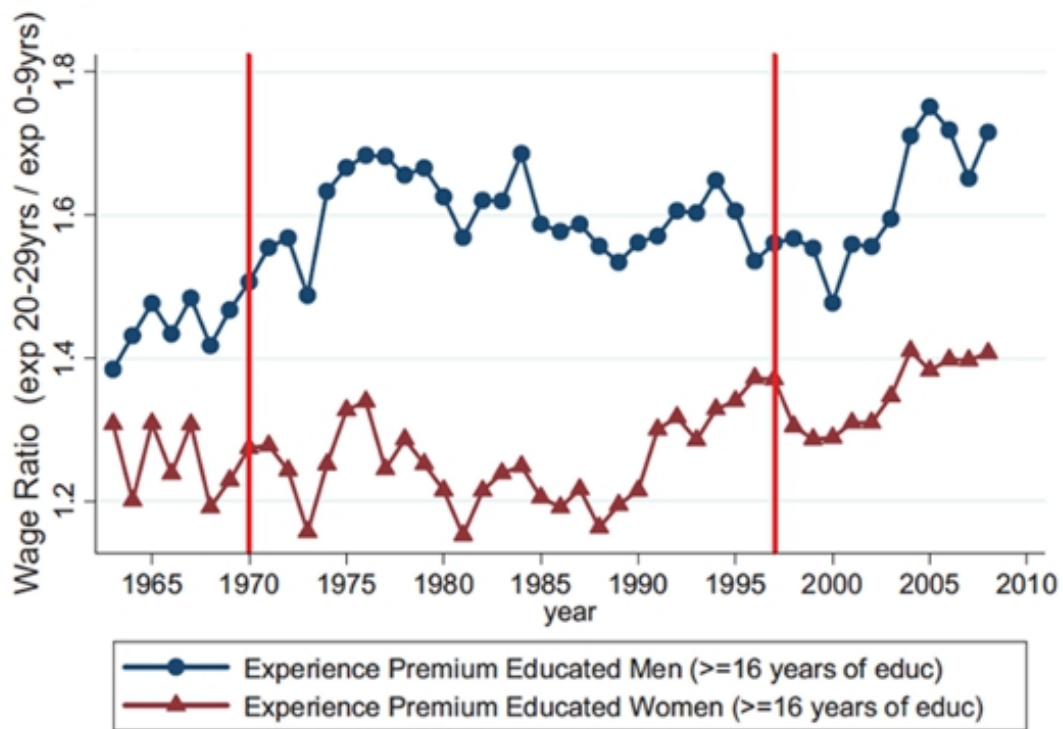


Figure 2b – Experience Premium for Educated Men and Women, U.S.



3) The gender wage gap (wages ratio of men to women) declines for all highly educated, low-educated, experienced and inexperienced workers (Figures 3a and 3b).

Figure 3a – Gender Premium for Experienced and Inexperienced Workers, U.S.

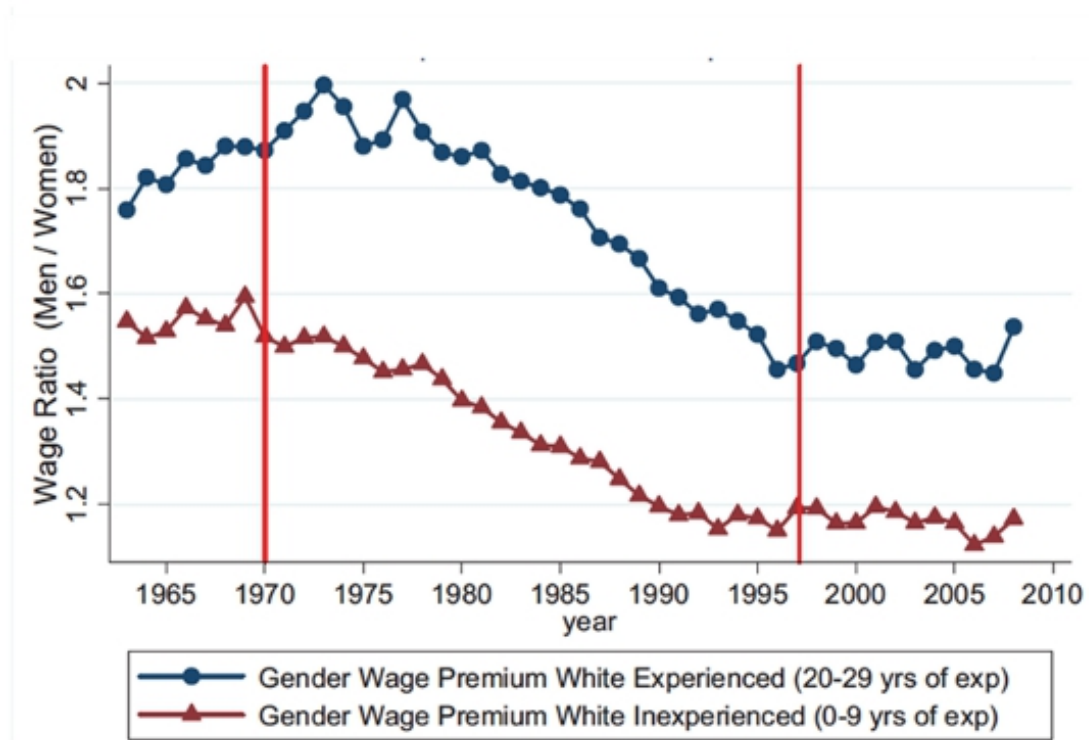
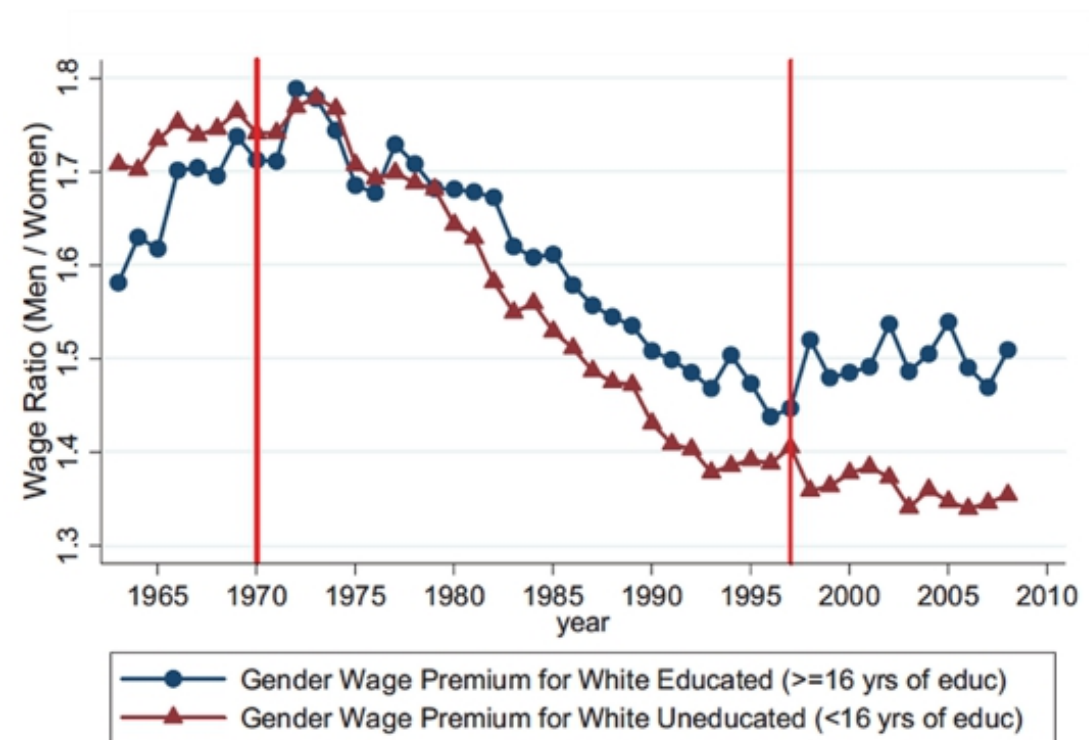


Figure 3b – Gender Premium for Educated and Uneducated Workers, U.S.



Source: Current Population Survey, 1963-2008, USA. Sample: real weekly earnings for white men and women, who work full-time (35-plus hours per week), full-year (40-plus weeks per year) and who are not self-employed.

The first two of the abovementioned facts show that inequality increases within gender, as both the education and the experience premium rise. The third fact indicates that at the same time inequality decreases between genders. This explanation is also coherent with evidence revealing that the expansion of credit for higher education boosts the supply of skills for both males and females but the rise is larger for the latter.

This research shows that there are several factors that decrease the gender wage gap, such as falling gender discrimination and the better allocation of ability in education. Additionally, apart from accounting for the puzzling coexistence of growing inequality within gender and the falling inequality between genders, this paper explains the evolution of wage inequality for each education-experience-gender group. One important prediction of this research is that wages for unskilled and inexperienced workers decline sharply and this generates the increase in wage inequality. This theory is consistent with U.S. data between 1970 and 2000.

An interesting policy implication is that equalizing borrowing opportunities for men and women, decreases inequality between genders, while it also increases inequality within gender by boosting the wage gap between different education and experience groups for both sexes. This conclusion alerts policy-makers to the complex nature of inequality and the inability to achieve multiple targets through a single policy.

This article is based on recent research, '**Sorting Inequality with Gender-Specific Credit Constraints**'.

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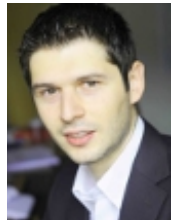
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