

Roots of Inequality

Abstract

Why does inequality vary across societies? We advance the hypothesis that in a market economy, where earning differentials reflect variations in productive traits among individuals, a significant component of the differences in inequality across societies can be attributed to variation in societal interpersonal diversity, shaped by the prehistorical out-of-Africa migration. Exploring the roots of inequality within the US population, we find supporting evidence for our hypothesis: variation in the inequality across groups of individuals originating from different ancestral backgrounds can be traced to the degree of diversity of their ancestral populations. This effect is sizable: a move from the lowest to the highest level of diversity in the sample is associated with an increase in the Gini index from the median to the 75th percentile of the inequality distribution