The issue of inequality

All democratic societies decide, to some extent, what degree of inequality they wish to live with. To this end they use policies that promote equal opportunities and help to achieve minimally acceptable living conditions for all citizens. Education, healthcare, pensions, progressive taxes, unemployment subsidies and mandatory minimum wages are all examples of measures with a decisive impact on the distribution of wealth and social welfare. After three decades of increasing inequality in most advanced economies, and with the entailed risk of creating social division and a potential breeding ground for populist ideologies, discussion regarding how to put a stop to growing inequality has been gaining in both strength and substance.

Although it is true that most of this decline in equality was concentrated in the 1980s and 90s and the change has been greater in certain countries such as the US, the overall trend in developed countries has been towards more inequality. A trend that reflects a faster rate of growth in wages (after tax and transfers) within the top income deciles compared with the middle and especially the bottom deciles. In turn, this increasing dispersion in wealth results from the uneven evolution of earnings: essentially the wages of higher-paid workers have grown faster than those of lower-paid workers.

Although there are many different causes, two stand out in particular: technological changes and economic globalisation. On the one hand, technological changes, for instance associated with the digital revolution, have favoured more highly educated workers and their earnings, which were already among the highest at the outset. For many years the demand for qualified labour has grown at a faster rate than the availability of this type of worker (what has been described as a «race between education and technology»), creating what is known as the education premium. On the other hand, economic globalisation has affected the distribution of wealth in advanced economies by reducing the demand for less qualified workers who compete directly (via relocations) or indirectly (via imports) with workers from emerging economies. At the same time, economic globalisation has increased market size and thereby pushed up the wages of more highly qualified workers as their productivity has grown (for example, the revenue produced by big football stars for their teams).

Other factors which may have also had an impact on the development of inequality, although the evidence is less conclusive, include lower minimum wages and the liberalisation of some sectors which, when they were protected from competition, used to generate monopolistic rents and could afford to pay higher wages. On the other hand, public policies do not seem to have lessened their efforts to redistribute wealth over the last 30 years, so they do not appear to be responsible for the rise in inequality.

Policies aimed at curtailing the rise in inequality must take into account the reasons underlying this trend. In this respect, given the relevance of technological changes and globalisation, policies related to education and to the labour market are of the utmost importance, such as encouraging continued training and programmes to supplement the lowest wages or support those workers hardest hit by globalisation. All this does not necessarily mean more spending; in many cases it is enough to spend better.

Neither should we ignore the usefulness of public policies that encourage economic growth and generate wealth and employment. In short, policies that determine the size of the cake to be shared out. The goal should not be for everyone to be equally poor or to redistribute poverty but to achieve, as far as possible, greater upward equality.

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