Briefing

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EMPLOYMENT AND SOCIAL AFFAIRS

IMPACT OF ECONOMIC INEQUALITIES ON JOB CREATION AND GROWTH

BACKGROUND

A lot has been written on economic inequality in the last decade (see **here** for a brief overview with the most important Q&A on the subject), but since some years, the link between economic inequality and growth, and, to a lesser extent, its impact on job creation has been studied.

Many papers point to a possible link between economic inequality and economic growth in recent years.

Economic inequality affects economic growth rather indirectly through a series of transmitting factors, which will be explained more in detail in the literature review below.

The main transmitting factor seems to be that in highly unequal countries, the bottom 40% of the population are not able to invest into their skills and education, which constitutes a considerable loss of human potential.

Some other interesting factors emerging from the literature are the following:

- Intergenerational earnings mobility is low in highly unequal countries, meaning that social mobility is lower as well, impeding growth.
- It is suspected that high inequality curbs demand in the economy, which leads to the vicious circle that investment rates go down, which in turn leads to less jobs and less demand.
- High inequality is bad for population health, which in turn affects the productivity of an economy.
- High inequality compromises social cohesion and thus political stability, which is one of the main cornerstones of economic stability, investment and growth.

INSIDE

This literature review, prepared by the European Parliament's Policy Department A on Economic and Scientific Policy, provides an overview on the impact of economic inequalities on job creation and growth, and summaries and citations of relevant papers on the subject.

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At the same time, the IMF has established from historical macroeconomic evidence that the usual level of redistribution has not any adverse direct effect on growth, so it is more important to tackle the "disease" inequality than worrying that the "treatment" (redistribution) would be bad for growth.

Directorate General for Internal Policies

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On the other side, **the connection between economic inequalities and job creation has not yet that firmly been established.** In the last years, policy makers have rather, inversely, relied on job creation as a *motor* for reducing inequalities. However, from the results of the literature review below, the following main connecting factors tentatively emerge, where economic inequalities directly impact job creation:

- Poor access to credit for the bottom 40% of a highly unequal society hampers the uptake of an entrepreneurial activity, which would bolster job creation.
- Inequality's impact on the opportunity for quality education - at a time where the opportunity for entrepreneurship requires a higher level of professional qualifications than 20 years ago - mean that the talents of many potential business owners remain dormant and thus do not lead to job creation.

The following summaries and citations of the relevant papers on the subject give an overview of findings currently discussed in the literature.

This literature review is structured according to authorship of the relevant papers, citing first papers of international organisations, then of European institutions, then academics and finally other authors.

PAPERS

International Organisations

Inequalities, employment generation and decent work, Chapter 4, UN report on the World Social Situation 2007: The Employment Imperative

This 2007 report's chapter IV is one of the early works on inequalities and their economic and employment impact.

After tracing the **impact of globalisation on income distribution** (through the wider labour supply which keeps down wages, and the difficulty to tax relatively mobile factors of production such as capital), the report finds that **wage differentials between skilled and unskilled workers partly explains the growth of overall income inequality**.

The report finds that **casualisation** (the shift to more informal jobs like temporary work) and **contractualisation** (the replacement of standard collective contracts by individualised contracts based on individual bargaining between employer and employee, thereby eroding workers' bargaining power, especially at the lower skill level) have been a means to lower social income, and **have further re-enforced wage differentials between workers**. As to combating poverty and income insecurity through **minimum wages**, the report remains skeptical:

> "It does have value, but not too much should be expected of it, particularly as a means of combating poverty and economic insecurity owing to exclusion in terms of coverage and difficulties in enforcement."

The report then looks at the **impact of inequalities on economic growth, including growth of employment**. It first refers to several empirical studies finding that inequality lowers subsequent growth, with negative consequences for employment-creation and decent work. The report also references the effective demand theory:

> "Such inequality-reducing redistributive policies would increase effective demand for goods and services, thus spurring economic growth, especially when domestic investment was not constrained by domestic savings."

It also stresses the **shift in consumption structure if an income change in favour of the poor and the middle class happened:**

> "[This would] open up new consumption possibilities that are more likely to be skewed towards labour-intensive and domestically produced goods and services, compared with the consumption pattern of the rich. This shift in consumption structure would be more favourable to economic growth owing to its stimulating effect on the domestic economy. At the same time, this will have further impact on the redistribution of income, as the new

demand by consumers will set up derived demand for factors of production and create a relative improvement in work opportunities for lower-income groups, thereby setting in motion a virtuous circle of growth and reduced inequality."

The report further cites the **poor access to credit for poor groups as a further factor why inequalities impact growth**:

> "The shift of people to an entrepreneurial activity will raise their income and the income of the remaining workers would rise as well, because of the resulting upward pressure on wages. In other words, the market equilibrium is inefficient under high inequality; there are alternative solutions that can improve the situation of some individuals without hurting anyone else. The lack of access to credit creates inefficiency in the economy as a whole."

The report then turns to look at the **impact of inequalities on human and social capital** as factors impeding economic growth and employment-generation:

- **The level of inequality affects the health of the population and thus the level of productivity**. This is evidenced by the fact that the health of a population affects the level of foreign direct investment - foreign firms are less likely to invest in countries where people have poor health.
- **The level of inequality has an effect on educational outcomes**, as limited labour market opportunities affect children's decision about school enrolment or their propensity to stay in school. The report also finds that "there is some evidence that education is more important in determining occupational attainment for the middle class—which is often small in countries with high income inequality—than for the poor or wealthy. For the poor and the wealthy, intergenerational transfer of occupational status is much more likely."
- **Income inequality can compromise social cohesion and political stability**, which are important for economic stability, investment and growth, and thus ultimately for the health of the labour market and employment opportunities and conditions. In other words, "income inequality contributes to a political and social environment that is not conducive to decent work and full employment."
- **Income inequality is also negatively correlated with measures of social capital such as generalised trust, which is an important factor in economic growth**: uncertainty is linked to lower investment. The report finds that "Where there is less interpersonal trust, individuals are apt to be less likely to enter into the agreements with each other that are essential for economic development. Where there is a high degree of social cohesion, transaction costs are lowered owing to higher levels of trust and social capital, and lowered transaction costs are conducive to thriving economic activity. Income inequality breaks the bonds of trust and therefore lowers social cohesion. Ultimately, lowered social cohesion strains institutions and impedes growth, which negatively impacts labour-market conditions and is likely to further fuel income inequality".

Growing Unequal? : Income Distribution and Poverty in OECD countries, OECD 2008

The first of its kind OECD report on inequalities provides evidence of a fairly generalised increase in income inequality over the past two decades but provides evidence that the timing, intensity and causes of the increase differ from what is typically suggested in the media. Its summary contains, among others, as one lesson learned:

> "**Social mobility is generally higher in countries with lower income inequality, and *vice versa***. This implies that, in practice, achieving greater equality of opportunity goes hand-in-hand with more equitable outcomes."

Divided We Stand: Why Inequality Keeps Rising, OECD 2011

The second of its kind OECD report on inequalities reveals that the gap between rich and poor has widened even further in most countries, with greater inequality in wages and salaries as single most important driver. It concludes that the economic crisis has added urgency to the debate as the social contract is starting to unravel in many countries:

> "Rising income inequality creates economic, social and political challenges. It can jeopardise social mobility: intergenerational earnings mobility is low in countries with high inequality such as Italy, the United Kingdom and the United States, and higher in the Nordic countries, where income is distributed more evenly. **The resulting inequality of opportunities will affect economic performance as a whole. Inequality can also**

fuel protectionist sentiments. People will no longer support open trade and free markets if they feel that they are losing out while a small group of winners is getting richer and richer."

In It Together - Why Less Inequality Benefits All, OECD 2015

The third of its kind OECD report finds that the **long-term rise in income inequality has put a significant brake on long-term growth**: the inequality rise of 2 Gini points on average between 1985 and 2005 is estimated to have knocked 4.7 percentage points off cumulative growth between 1990 and 2010. At the same time, its econometric analyses show that redistribution efforts in the form of taxes and benefits do not lead to slower growth.

The biggest factor contributing to dampening growth due to inequality is the growing gap between lower income households (i.e. the bottom 40%) and the rest of the population, so **the question is not one of poverty but one of inequality curbing opportunities for the poor and lower middle classes**. Not surprisingly, people from low socio-economic groups do less well in education, skills and employment, but what is striking is that outcomes for those 40% decline still further as inequality rises:

> "The data show that even when poorer people spend the *same* amount of time in education as their better-off peers they do *worse*. [...] Finally, the impact of higher levels of income inequality is also clearly visible in employment patterns. As inequality rises, people from poorer families face much weaker job prospects while there is little change for those from better-off families."

The **main connector between inequality and growth** is thus the fact that rising income inequality reduces the capacity of the bottom 40% of a society to invest in their skills and education. Therefore, it is the inequality at the bottom 40% which hampers growth:

> "Focusing exclusively on growth and assuming that its benefits will automatically trickle down to the different segments of the population may undermine growth in the long run inasmuch as inequality actually increases. On the other hand it indicates that policies that help limiting or – ideally – reversing the long-run rise in inequality would not only make societies less unfair, but also richer. [...] Policy makers need to be concerned about the bottom 40% more generally – including the vulnerable lower-middle classes at risk of failing to benefit from the recovery and future growth. Anti-poverty programmes will not be enough."

Inequality and Unsustainable Growth: Two Sides of the Same Coin? Berg/Ostry, IMF 2011

The authors focus on the question distinguishing the "good performers" on economic growth from the "laggards", namely **not through looking at the ability to initiate economic growth, but on the ability to sustain growth**.

They find that **longer growth spells are robustly associated with more equality in the income distribution**, even when taking into account other determinants of growth duration (external shocks, initial income etc.). They conclude:

> "[This] analysis [...] does perhaps tilt the balance towards the notion that attention to inequality can bring significant longer-run benefits for growth. Over longer horizons, reduced inequality and sustained growth may thus be two sides of the same coin."

Redistribution, Inequality and Growth, Ostry/Berg/Tsangarides, IMF 2014

The authors recall the indirect connection between inequality and growth tentatively recognised in the literature, namely that

> "inequality can undermine progress in health and education, can cause investment-reducing political and economic instability and undercut the social consensus required to adjust in the face of shocks, and thus that it rends to reduce the pace and durability of growth."

The authors then proceed to setting out their findings about the relationship between inequality, redistribution and growth according to the historical macroeconomic evidence:

- "First, **more unequal societies tend to redistribute more** ... [...] such that there is almost no overall correlation between net and market inequality. It is thus important to distinguish between market and net inequality in trying to understand the growth-inequality nexus and to separately control for redistribution in growth-inequality work.

- Second, **lower net inequality seems to drive faster and more durable growth** for a given level of redistribution. [...]
- Third, **redistribution appears generally benign in its impact on growth**; only in extreme cases is there some evidence that it may have direct negative effects on growth. Thus the combined direct and indirect effects of redistribution—including the growth effects of the resulting lower inequality—are, on average, pro-growth."

The authors conclude:

> "Inequality continues to be a robust and powerful determinant both of the pace of medium-term growth and of the duration of growth spells, even controlling for the size of redistributive transfers. [...] It would still be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable. [...] But **for non-extreme redistributions, there is no evidence of any adverse direct effect.** The average redistribution, and the associated reduction in inequality, is thus associated with higher and more durable growth. [...]
>
> Extreme caution about redistribution—and thus inaction—is unlikely to be appropriate in many cases. On average, across countries and over time, the things that governments have typically done to redistribute do not seem to have led to bad growth outcomes, unless they were extreme. And **the resulting narrowing of inequality helped support faster and more durable growth, apart from ethical, political, or broader social considerations**."

World of Work Report 2013: Repairing the economic and social fabric, Snapshot of the United States, ILO 2013

After finding that inequality has grown on many fronts between 2011-2013 after a brief respite in 2010, the report highlights the **vicious circle impeding long-term growth**:

> "The US economy is caught in a vicious spiral of weak aggregate demand and lack of productive investment. Stagnating wages are adversely affecting demand, which in turn is dampening real investment, leading to poor job creation – reinforcing weak demand and so on. The result is persistent uncertainty, weak GDP growth and widening inequality."

The report recommends, among other measures, to stimulate wage growth, including through the use of minimum wages, and to ensure that gains of growth are more evenly distributed.

European Institutions

European Economic Forecast Spring 2016, Institutional Papers 25, European Commission

The European Commission paper under the slogan "Staying the course amid high risks" looks at the modest growth in the euro area and factors affecting it. It finds that **growth is exposed to considerable risk from different sides, among which distributional factors.** After looking at the income share of labour and the impact of technological changes, the report finds that private consumption has closely followed households' disposable incomes, and that the personal distribution of incomes has become more unequal in the euro area. It then looks at how changes in income inequality affect growth:

> "Changes in income inequality affect growth via a number of channels. Households on the losing side of rising inequality may have a stronger preference for redistribution (endogenous fiscal policy argument), which could impact negatively on the profitability of investment projects and impact negatively on investment. Households with lower incomes could also respond by lowering investment in their human capital (less education and training); financial market imperfections could make such a development more severe (human capital accumulation argument). An increased number of low-income households could become a drag on domestic demand, hampering the adoption of advanced technology. By contrast, increased inequality could strengthen incentives to strive harder to earn high incomes, for instance by taking more risks and working harder."

However, the report also finds that assessments of the impact of changes in inequality in the context of a short-term forecast are complicated as the impact of higher inequality may differ in the short and longer term. The report also finds that the **wealth effects on economic growth mainly originate from financial wealth** and less so from housing wealth, except for the UK where housing wealth has strong effects.

Academic papers

Social Inequalities in Europe: Facing the challenge, Allmendinger/von den Driesch 2014

The discussion paper finds that a European social union, even at a small scale, is still out of sight as the EU institutions can only "encourage" Member States to adapt their social policies - thus the impact of such EU efforts remains limited unless these policies are in fact adopted and implemented at Member State level. It then raises the question whether the EU and Member States have rather been thinking mostly in economic terms in the hope that this would fix all social problems at the same time. However, the authors hold that negation of the importance of social issues is paramount to undermining the foundations of the EU:

> "Many politicians and economists believe, and would like us to believe, that economic growth replaces or diminishes the need for social policies. But, as this Review will demonstrate, growth in Europe over the last decades has been accompanied by an increase in inequalities in many European countries as very well illustrated for instance by the European research project GINI (Salverda et al., 2014). **Inequalities threaten social cohesion and they threaten growth**. As Stiglitz (2013) has noted, an unequal distribution of income reduces aggregate demand and limits economic growth. Poor people have too little money to consume and rich people have too much money to make up for poor people's low consumption rates. What is more, there is scientific evidence that in countries with a high degree of social inequality, many people do not have access to **key resources such as education and employment**, even though these people could be highly productive. **By denying these resources to them, valuable human capital, and hence growth, is destroyed.** Furthermore, countries with a high degree of social inequality need much higher growth rates than countries with low levels of inequality to be able to reduce poverty in the first place. Or put conversely, the lower the degree of material inequality in a country, the better is the chance that economic growth will benefit everyone."

The authors conclude:

> "The only way for Europe to meet these challenges is not only to strengthen economic growth policies through a broad-based economic programme promoting marketisation but also by resolutely pushing for the expansion of a Social Union which has always been part of the European model, but not so strongly in recent years. **A modern and successful Europe must resist the call for short term economic growth solutions to acute social problems like inequalities.** As this Review has shown extensively, increasing selection at an early age in educational systems, cutting back on government benefits, deregulating labour markets and pretending to ignore that the number of working poor develop, allowing wealth accumulation without adequate EU taxation, ignoring the political exclusion of people at the bottom of societies because of weak policies in favour of active citizenship, definitely increase inequalities and weaken Europe as a continent for social progress. [...] The Scandinavian countries, for example, boast an extraordinarily strong profile in that regard, combining a high level of educational attainment reached by most citizens and a high level of social security to protect against unemployment, illness and old age. If their cultural environment is different from other EU countries, their achievement cannot be ignored or assessed as irrelevant since these countries show that inequalities are not a fate but a series of policies. "

Europe's Social Problem and its Implications for Economic Growth, Darvas/Wolff, Brueghel 2014

The policy brief finds that unemployment, poverty and inequality are linked by a complex relationship with long- and short-term economic growth. It finds the following contributing factors for dampening growth:

- **Long-term unemployment, which undermines productivity in the long-term**: "First, unemployed people do not contribute to the current productive process, thereby increasing the pressure on those working to provide all the resources needed. Second, the unemployed consume less and thereby domestic demand is weaker in countries with higher unemployment rates. Third, the longer unemployment persists, the more work-related skills are lost and the more difficult re-integration into the active labour market becomes. Unemployment among young people, which is at record high in a number of EU countries, is especially alarming because a long period of unemployment after graduation, when a worker should acquire the first skills in the workplace, can undermine whole careers – creating a lost generation and also having trickle-down effects on fertility rates and child support. When children grow up in families in which parents do not work for long periods or work

irregularly, their opportunities are curtailed compared to children whose parents work. Unemployment therefore increases income inequality for those directly affected and it might also have lasting effects on income inequality for the next generation."

- **Income inequality has led to excessive borrowing by low-income households, which became unsustainable**. After the bursting of the bubble, this led to weaker consumption trends, slowing down the recovery: "Therefore, one cannot exclude the hypothesis that large increases in borrowing in a number of EU countries was related to the higher levels of inequality, and that this inequality contributed to the build-up of the problems of today."

The Policy Response: Boosting Employment and Social Inclusion, Marx/Verbist in: Salverda et al., Changing Inequalities in Rich Countries - Analytical and Comparative Perspectives, Oxford 2014

The authors start with a closer look at the employment growth from 1993-2008 and hold that this growth in itself did not produce the expected social improvements, as increases in employment rates had gone hand-in-hand with stagnating or even rising relative poverty rates, while income inequality had mostly increased, thereby **begging the question whether job growth alone suffices to make sure that everybody gets her share of prosperity**.

They then introduce the idea that

> "high levels of non-subsidized employment can in present-day economic circumstances only be achieved at the cost of a large low-paid (service) sector and increased, though perhaps temporary, 'poverty in work'",

recognising that increasingly strong cognitive skills and professional qualifications are required to have access not just to any job but to a quality job. They thus find that **the main beneficiaries of employment growth tend to be people that do not live in poverty in the first place**.

The authors then give a closer look to the reasons why the increase in employment has not been reflected in a corresponding decrease in income inequality or relative poverty rate:

- First, **the highest poverty rate can be found in jobless households, where most tax and benefits systems have a disincentivising effect**: if a household depends on benefits and one person finds a job, the other household members are penalised, leading to the finding that employment growth did not produce commensurate drops in workless household rates. In addition, the relative income position of these households deteriorated even further because of the general erosion of minimum income protection.
- **Second, even when an unemployed finds a job, this job not necessarily pays enough to escape poverty, resulting in 'in-work poverty'**, i.e. it is not enough to get people out of dependency, thus paying them a bit more than they would have on the benefit, but to make work pay sufficiently to make them move from poverty to an adequate living standard.
- Third, **median income shifted upwards during job growth periods, thereby also raising relative poverty thresholds**:

> "Everything depends on where in the overall income distribution the newly created jobs end up, and in th epast that has not always predominantly been in the bottom half of the distribution. If employment growth results in rising median living standards, but not in rising living standards in the lower segment of the distribution, the effect may well be a rise in relative income poverty."

Conclusions: Inequality, Impacts, and Policies, Salverda et al., in: Salverda et al., Changing Inequalities in Rich Countries - Analytical and Comparative Perspectives, Oxford 2014

Basing itself on the findings of the relevant chapter on employment and social inclusion in the same book, the authors hold that **policy makers should not be under the illusion to improve the situation of poor people through active labour market policies alone**, which appear to have their limits:

> "There are simply no examples of countries that achieve low poverty just by having well-functioning labour markets without extensive direct income redistribution mechanisms. The Nordic countries stand out in having high employment rates in combination with low poverty rates and overall inequality levels. It should not be forgotten that precisely the same countries also spend heavily on direct income transfers, including towards those already in work."

Economic Aspects of Fighting Inequality, Eißel, in: Eißel et al., Welfare State at Risk - Rising Inequality in Europe, Springer 2014

The author **summarises the Keynesian perspective on inequality as a hindrance to economic growth**: A too wide distribution gap would result in the rich further saving up their income instead of investing it, while the poor do not have sufficient income to consume. Therefore, the general demand for investment and consumer goods would decline and growth be limited. In turn, in the face of relative declining demand and unfavourable future prospects, future entrepreneurs would not be willing to invest, leading to a vicious circle. In Keynes' perspective, the crisis could thus only be successfully overcome if the inclination to consume is stimulated through drastic measures on income redistribution or otherwise.

The author also makes reference to Friedman and von Hayek who hold that the poor should not be supported because **the rich being visibly better off would set into motion a 'process of evolution'** where the poor would try to economically improve their life to also gain wealth. Greater equality would therefore not only rob the rich but also hit the poor.

The author, however, finds that such market-dogmatic views have increasingly been criticised, including by **researchers of the IMF who found that changes in fiscal policy to reduce budget deficits had negative results for prospective economic conditions**. Their results suggest that fiscal consolidation had contradictory effects on private domestic demand and GDP.

The author recalls that societal goals such as good health, education, roads etc. require high taxes to pay for these public services, and cites the case of Sweden as one of the countries with the highest per capital income which nevertheless has a welfare state supporting an 'innovative society', citing Stiglitz (2010, Freefall. Free markets and the sinking of the global economy, p. 197): "Better social protection combined with good education and job retraining meant, that their economy could be more flexible and adjust to shocks more quickly, receiving higher levels of employment."

The Long-Term Impact of Inequality on Entrepreneurship and Job Creation, Gutiérrez Romero/Méndez Errico, Barcelona 2015

The authors test an assumption in the literature suggesting that initial wealth distribution can affect entrepreneurship - and thus job creation - over time, in so far as credit constraints are such as to prevent poor individuals from investing in profitable entrepreneurial activities.

They find that initial inequality (understood as the inequality prevailing in the 1700s and 1800s), after taking into account current regulation in the credit market, has a persistent and detrimental effect on the creation and survival of firms as well as job creation over time:

> "Countries that started with a high ratio of rich to poor people during the 1700s or 1800s are currently less likely to open new firms, and of these to survive and create more jobs over time. [...] Our results suggest that **high levels of inequality prevent people from taking up business thereby affecting job creation and development in the long-run**".

Further, they find that **in countries with less accessibility to credit, it is less likely that firms will be created**, survive and create jobs over time.

The authors therefore suggest that

> "to foster the creation of businesses and jobs, policies should focus on addressing longstanding differences in wealth within countries as well as reducing credit constraints."

A Firm-Level Perspective on the Role of Rents in the Rise in Inequality, Furman/Orszag 2015

The authors showcase emerging evidence that much of the **rise in earnings inequality represent the increased dispersion of earnings *between* firms rather than *within* firms, leading to reduced labour mobility, which in turn could impede growth**. Recent research on the issue which finds that the wage gap between the highest-paid employee and the average employees *within* firms explains almost none of the rise in overall inequality. The authors therefore assume that especially firms in the technology and financial sector could generate consistently high supernormal returns, so that workers at these firms share in these returns through higher wages than they could get elsewhere. This could then lead to reduced labour mobility by discouraging workers from leaving those firms.

This reduced dynamism may be due to firm efforts for better job matching and reduction of employee turnover, but it could also deter employees from realising wage gains when switching jobs, thereby reducing overall labour productivity. In addition, labour markets that are more fluid may be better equipped to deal with cyclical shocks, or recover faster after a recession.

How Does Middle-Class Financial Health Affect Entrepreneurship in America? Mondragón-Velez 2015

The report's main message is that **business creation is closely related to the financial health of the middle class**, and the increasing economic inequality of the last decades has been squeezing this middle class, thereby inhibiting the development of the entrepreneurial sector.

The symptoms for the decline in business ownership in the 2000s as compared to the 1990s in the US are:

- stalling business creation rates;
- increasing rates of business failure.

Setting up a business has got out of reach for many people in the last decade, as the middle class is under increasing financial stress: Starting a business nowadays requires 2-3 times more wealth than comparable peers' median income as compared to 1.7-2 times more in the 1980s and 1990s, and finally, it takes new entrepreneurs 7 years more nowadays to start their business:

> "All of this reinforces the idea that capital constraints for middle-class families are concentrating entrepreneurship among the older, better-educated, and higher-earning households. In other words, limited wealth accumulation capacity has been gradually making entrepreneurship in America a luxury type of good, mainly available to individuals with high incomes and a high net worth."

The author finds as one main transmission mechanism of **inequality** its **impact on opportunities for quality education, so that the abilities and talents of many potential business owners remain dormant.** In addition, **education cannot play its role of breaking the cycle** of trapping children in the same socio-economic class as their parents, thereby reducing the inequality of opportunity:

> "The link between entrepreneurship and education implies that the opportunity of entrepreneurship has become more concentrated among those with higher education at a time when rising inequality tightens educational constraints, thereby putting the choice of entrepreneurship out of some people's reach. Furthermore, **restricted access to entrepreneurship constrains upward social mobility opportunities for middle-class families across the United States**."

The report concludes:

> "In sum, policies focused on strengthening the financial health of the middle class will ultimately foster a vibrant and dynamic entrepreneurial economy in the United States."

Getting serious about inequality, Leicht, The Sociological Quarterly 2016, p. 211-231

This Illinois sociologist in a speech to the Midwest Sociological Society takes issue with the "typical" sociological approach to ascribe inequality to differential treatment due to gender or race. He rather decries that the frame of reference as to whether one group is discriminated against as compared to another is not fixed any more: "somebody keeps moving the goalpost." **Inequality has that much changed the position of the middle class that approaches to reduce differential treatment between racial or gender groups are rendered rather meaningless as compared to the fundamental shifts even the "majority group" is going through**.

Although his speech does not address economic growth and job creation directly, there are some interesting points to be retained because they imply that without tackling economic inequalities, a society cannot be upward socially mobile, which will in turn harm the competitiveness of the country.

The author denunciates that inequalities in income and wealth are intergenerationally transmitted:

> "Combine intergenerational transmission with rising inequalities and you end up with a system where those without rewards lose any legitimate means of getting them. Social mobility plummets. The basic legitimacy of the market system is eroded as the relationship between what you *do* and what you *get* becomes more indirect and obscure."

Besides, the author denounces that **inequality creates two serious deadweight losses for society**, namely a **massive loss of human potential** "because people are not in the right place, with the right parents, with the right connections", and a **financial deadweight loss from the money which has to be spent to deal with the consequences of inequality** (as building more and more prisons, employing more police officers, more and more drug and alcohol treatments etc.) instead of fixing inequality in the first place. All this money spent is not spent productively on something else.

The author also recalls that pushing education alone or diversifying a relatively elite group of people will not reduce inequality very much, if at all, due to the total social exclusion of increasing parts of the population the more economic inequality grows.

The author therefore advocates the **need to make the goal posts stand still, meaning inequality has to be halted**. In his view, **fighting inequality is about fighting about jobs and money**:

> "People with steady jobs who make good money tend to be able to construct the identities they want to have, get the educations they and their children need, [...] and can think about the world beyond where their next rent payment is going to come from."

He therefore calls for **institutional changes creating labour market stability and making sure that all working people are treated decently**, e.g. through paying them more when productivity rises instead of having the CEOs and investors bag the extra revenue, or through "un-rigging the tax system so that the poor are not supported by taxes extracted from the near poor."

And he concludes that we need to pay more attention to the gap between the wealthy and the poor:

> "Fighting inequality is ultimately about... fighting inequality! Directly and at its source. It is amazing how respected people who have money feel. It is amazing how unrespected and unincluded people feel when they don't."

Other authors

Sorry, Folks, Rich People Actually Don't 'Create The Jobs', Blodget, Businessinsider 2013

The author exposes what he conceives as a misconception that rich people create the jobs:

> "This statement is usually invoked to justify cutting taxes on entrepreneurs and investors. If only we reduce those taxes and regulations, the story goes, entrepreneurs and investors can be incented to build more companies and create more jobs."

Instead, in his view, **a healthy economic ecosystem — one in which most participants (especially the middle class) have plenty of money to spend - creates jobs**, and all starts with a company's *customers*:

> "Ultimately, whether a new company continues growing and creates self-sustaining jobs is a function of the company's customers' ability and willingness to pay for the company's products, not the entrepreneur or the investor capital."

He then proceeds to ask:

> "Who are these customers? And what can we do to make sure these customers have more money to spend to create demand and, thus, jobs?"

He profiles the middle class as customers of most companies, who nowadays take home a much smaller share of national income than they did 30 years ago, partly by:

- tax policies which reward the upper 1% at the expense of everyone else (although in his view the "trickling down" of their higher shares to the middle class has so far not taken place: "America's companies are currently being managed to share the least possible amount of their income with the employees who help create it. Corporate profit margins are at all-time highs, while wages are at an all-time low"),
- and partly by globalisation and technology improvements, with its skills premium.

Finally, the author explains in detail what happens with money that America's richest entrepreneurs, investors, and companies can't possibly all spend. So instead of getting pumped back into the economy, thus creating revenue and wages, this cash just remains in investment accounts. Had these millions gone to several thousand families instead of

being deposited into one person's investment accounts, it would almost certainly have been pumped right back into the economy via consumption (i.e., demand). And, in so doing, it would have created more jobs:

> "Hanauer estimates that, if most American families were taking home the same share of the national income that they were taking home 30 years ago, every family would have another $10,000 of disposable income to spend. That, Hanauer points out, would have a huge impact on demand — and, thereby job creation."

The author concludes:

> "So, if nothing else, it's time we stopped perpetuating the fiction that "rich people create the jobs." **Rich people don't create the jobs. Our economy creates jobs.** We're all in this together. And until we understand that, our economy is going to go nowhere."

America's Missing Entrepreneurs - How rising U.S. inequality gets in the way of business creation, Brodwin, usnews.com 2015

Brodwin's opinion piece on Mondragón-Velez's 2015 study gives the gist of the debate about the impact of inequalities on growth and job creation in a few sentences:

> "It's well established that the economy suffers when rising inequality cuts into consumer discretionary spending capacity and consumer confidence. And when rising inequality cuts into people's ability to obtain relevant education, they are less productive on the job. They earn less, and their employers don't do as well. Now, with this latest study we are beginning to understand the impact of inequality on entrepreneurship and company formation.
>
> Some degree of inequality is inevitable, even desirable in an economy, to encourage a strong work ethic. But this latest study adds to the evidence that **past a certain point, inequality hurts – and not just those at the bottom**."

A Business Case for a Wealth Tax, Hopkins 2016

The author makes a case for stopping from **shielding wealth from direct taxation**. His main argument is that this **would be distorting investment incentives**:

> "If the productive deployment of capital serves as a key driver of economic growth and prosperity, then our policies should carefully aim at encouraging productive domestic investment. But by taxing investment profits, while shielding wealth itself from any direct assessment, we are subsidizing unproductive capital."He is especially concerned by the differential treatment of consumption and earned income as compared to wealth:
>
> "By taxing productive capital more heavily than unproductive capital, we encourage income sheltering and suppression and overburden the kind of job-creating productive domestic investments that create a growing and healthy economy. [...]
>
> Our contemporary economists and politicians claim that the structural tax preferences we offer to our investment class drive economic growth and job creation. But our increasingly unstable economy and rising inequality stand as a stark indictment against their myopia. Our leaders today blindly ignore structural misincentives embedded in our tax code that divert capital from productive deployment while simultaneously depleting our treasury of needed revenues."

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