But what is...?

The Gini Coefficient is a common measure of inequality that calculates the distribution of income.

Incentives motivate an individual to perform an action. What motivates a person to work or pursue a university degree? What helps an employer hire more workers?

Disincentives arise when economic policies have undesirable effects (e.g. if high taxes which are required to pay for social welfare systems end up discouraging people from looking for work, and businesses from investing).

Social mobility broadly refers to the movement of individuals or households between different income levels in a society. High social mobility means that people of low income status have a higher probability of moving into a higher income status in their lives and vice versa. Equal education and health care access are examples of policies that are believed to improve social mobility.

Globalization refers to the increasing global integration of economies and increasing exchanges of goods, services, people, and capital. Technological change may have helped to accelerate this process. But international trade, investment and migration have been occurring for centuries.

Inequality and Social Mobility

After World War II, many EU countries adopted policies aimed at reducing poverty and inequality by providing universal social welfare benefits like health care, education, unemployment insurance, and more. For a time these programs succeeded as people enjoyed both rising living standards and higher social mobility. But in recent years, inequality has become an issue in a number of EU countries, because wage growth has been stagnant for a significant share of the population and they perceive a relative decline in economic prospects. Meanwhile, the recent financial crisis raised concerns about the affordability of welfare programs, and many European countries had to introduce ‘austerity’ measures to reduce their budget deficits. How should euro area countries reduce inequality? How can they ensure that there is fair economic opportunity in their societies and that no groups are excluded from rising overall prosperity? What impact might the recent austerity measures have on policies to reduce inequality?

1. How is wealth distributed in your chosen country? Identify the direction of income inequality in your country over “X” years? What effect might income inequality have on growth?

2. What is a social welfare system? How do unemployment benefits, public education, and health care promote (or constrain) social welfare and mobility? What does the social welfare system look like in your chosen country?

3. What are some of the pros and cons of universal versus targeted welfare systems, and generous versus less generous social welfare?

4. Explain whether or not your country should consider programs such as universal basic income as an alternative or an addition to current social welfare programs that are intended to reduce inequality and increase social mobility?

5. How does your country pay for its social welfare system? What kind of taxes can help to improve equality and growth and how?

6. What is the relationship between globalization and inequality? What effect has globalization had on wages and economic opportunities for different groups in your country?

7. How can entrepreneurship be rewarded without endangering the social contract? What does economic openness mean for your country’s ability to redistribute revenues from businesses and capital?

8. What role does the Europe 2020 strategy play in terms of social policy and inequality in your country? How could the EU help to reduce inequality in your chosen country?