THE COMPLEX NATURE OF THE CONNECTION BETWEEN ECONOMIC GROWTH AND INCOME INEQUALITIES

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Abstract - Economic growth is one of the basic and most talked about phenomenon of economics, possibly because it aggregates the absolute expected future progress of a country into a simple, easily compareable number. However, progression and development are pretty complex concepts, and there is a growing consensus, that income inequalities should be seriously taken into consideration, when one is assessing the economic performance of a country or a region. Of course, when it comes to inequality, different approaches have somewhat different concerns, depending on what they identify as their key issue: poverty or inequality in general. This paper is trying to give an overview on the complicated connection between growth and inequalities in three main chapters. At first, I'm going to discuss the nature of income inequalities by presenting the most important income concepts, inequality shaping policies, inequality measurement techniques, and the present dispersion of income across countries, while giving a historical perspective on inequalities. Secondly, I will examine the phenomenons of poverty and wealth by applying a critical approach, especially for the role and the effect on inequalities of capital in modern economies. In the third chapter, I'm going to focus directly on the main topic, the effect of development and growth on the level of inequalities. Finally, I will summarize the conclusions and try to answer the main question of the topic: is it possible to reduce income inequality and boosting economic growth at the same time? Key words: social rights, institutionalized, welfare, social responsibility.

Key words - Labour income, Poverty, Household, Welfare distribution

I. INTRODUCTION

Before talkingabout inequalities, first we need to clarify what is meant under the term „income", since it isa very broad concept with many different levels for potential interpretation. On thisbasis we find individual labour income, which reflects both the wage dispersion for full-time employees andthe labour income dispersion of other groups such as part time workers, self-employed and unemployed people. The next concept is household labour income, which issimply assessed by adding together the incomes of people living under the same roof.Household market income is almost the same as the latter, except thatcapital incomes - for example interest revenues - are included in the mix. Moving to the next level indicates a bigger step because household disposable incomeincludes all household income sources after the redistribution process (taxes and transfers). The most comprehensive income concept however is household adjusted disposable income that has been adjusted for publicly-provided in-kind (indirect) transfers such as public spending on education and health care. Needless to say, that if we want to compare the inequalitycharacteristics of different countries, we have use the same income concepts.

II. THE NATURE OF INEQUALITIES

But how do we measure inequalities in economics? Well, one of the most commonly used methods is the Gini index, which is a measure of statistical dispersion intended to represent the income distribution of a nation's residents. The Gini coefficientranges from zero to one, with zerorepresenting perfect equalityand onea hypothetical situation, where individuals receive all earnings. Although being highly informative, the Gini index only deals with the actual level of inequality, but doesn't really say anything about the level of inequality that the given society could potentially bear under oppression oreven enslavement. The concept of Maximum feasible inequalityanswers this question by calculating the potential maximum of the Gini index. To do that, we just have to assume that a small privileged group receives all income above the subsistence level.These two different Gini coefficientsalloweconomist to be able to calculate the ratio of actual relative to maximum Ginicoefficients. Beyond the actual inequalities, this ratio also strongly depends on the difference between the average income and the subsistence income. In fact, in a very poor economy income distribution cannot be very unequal. Only in case the average income increases above subsistence, can inequality as measure by the Gini coefficient, increase.

Another way to measure inequality is to look at the ratio between different income percentiles. The ratio between incomes at the top of the distribution (the 90th percentile) and at the bottom (the 10th percentile) is abbreviated as the 90/10 ratio, where a fall in the 90/10 ratio means that inequality is falling. On a world scale, the poor in poor nations are usually muchpoorer than the poor in rich nations, while the rich in poor nations are almostas rich as the rich in rich nations, although less numerous. Talking about inequalities in general, it is really worth a paragraph taking a look at a few different historical periods and examining the unfolding inequality patterns and their

backgrounds.It is pretty consensual that pre-agricultural hunter-gatherer economies before the transition to agriculture some 12,000 years ago were the most egalitarian societies, at least in the sense of the so-calledincome inequalities. On the one hand, these groups lacked a pronounced social stratification, and had common access to resources. On the other hand,however, they were so occupied by their short-term survival,that there was simply neither an above-subsistence income nor an insulated elite, both of which are necessary for inequality to emerge.The need for both the actual Gini index and the Maximum feasible inequality becomes understandable when trying to compare the level of inequality in the ancient Roman empire in year 14 and the USA in year 2000. Although the actual Gini coefficientin both periods is about the same with 0.4, they cannot be simplylumped together when it comes to inequality. The application of the previously-mentioned ratio of the actual and the maximum Gini coefficientshelp understandthe reasons for it. Ifwe take their Gini indexes as a proportion of the maximum inequality permitted by the per capita income, it turns out that Rome was almost as unequal as it possibly could be with its maximum Gini coefficient around 0.55, while the Maximum feasible inequalityfor the USA was 0.98. The visualization of the cumulative distribution functions, most often used to represent income distributions, is called the Lorenz curve. It plots the cumulative percentages of income received by individuals or households, ranked in terms of income. Inequality, as a result of disproportional income distribution, is shaped by several different, but in most cases strongly connected factors, which can be sorted into either the policy driven or the non-policy driven groups.

The non-policy driven factors connected to income inequalities are rather global background processes which influence the different economies by giving a constantly altering operational framework with new challenges and opportunities. Globalisation for instance may widen inequality, and this positive link is supported by a growing body of studies, though it is difficult to establish a robust link at the aggregate level. Globalisation may affectinequality through the relocation of non-skill-intensive tasks from rich countries by companies, which happen to be still skill-intensive from the perspective of the poorer ones;therefore, labour demand becomes more skill-intensive in both places and inequality increases.Another example for the role of globalisation is that it also widens inequalities between domestic high- and low-productivity firms, assuming that the latter employs most of the low-income workers, and that these companies are also more vulnerable to the import competition. Therefore, trade may increase labourincome inequality by reducing employment or the relative earnings of low-income workers.Another non-policy driven factor is the technological advance, which is more beneficial for high-skilled workers than others, since low-skilled employers have to focus on routine tasks that can also be accomplished by computers or machinery over time. Therefore, the demand for such workers will drop in the long run, andin the meantime their wages decrease as well, thus enhancing the polarisation and widening the salary gap between high- and low-skilled employees.

On the other hand, there are numerous policy-driven factors as well. Structural policies in the areas of labour, product markets, and education (by affecting the skill distribution of the workforce) influence labour income inequalityby having an impact on the employment rate and the dispersion of earnings.In some cases, the role of a policy-driven factor on income inequalities is pretty clear. For instance, promoting both secondary and tertiary education always tends to lower income inequalities in the long run by reducing the dispersion of earnings. By contrast,the impact of many labour market policies, such as the delicate balancing process of determining the level of the minimum wage, is more complicated, as they usually affect both the dispersion of earnings and the level of employment in sometimes conflicting ways. Policies fighting discrimination by promoting equal opportunities for various subgroups (immigrants or other minorities, but also for different genders) in the given society could also have a great effect on the potential state of inequalities.The redistribution process also plays a key role in reducing overall income inequality, although the relative effect of its two major components (the transfer and the tax system) may differ. While cash transfers such as pensions, unemployment and child benefits account for more than three quarters of the overall redistributive impact, taxes account for only one quarter. Although both vary greatly across OECD countries, there are similar tendencies for the increasing progressivity of labour taxes, and the large relative share of the - in fact less redistributive - old age transfers.

Before specifying the fundamental principles behind the progressive and regressive tax systems, I think I should briefly introduce the famous Laffer curve. The Laffer Curve is one possible representation of the relationship between rates of taxation and the hypothetical resulting levels of government revenue, which illustrates the concept of taxable income elasticity. Although the exact shape of the curve is widely disputed and pretty uncertain, economists agree that it is a graph with an inverted-U shape,which starts at 0% tax with zero revenue, rises to a maximum rate of revenue at an intermediate rate of taxation, and then falls again to zero revenue at a 100% tax rate. However, applying this basic connection for the actual tax rate and the expected tax revenue does not really tell us much about the

taxation system itself, especially with regard to inequality concerns. The only exception is the proportional tax system, which assesses the same tax rate to taxpayers, regardless of income or wealth, following the egalitarian principle only by name. Instead of flat taxes, most governments use progressive taxes, where the proportion of tax liability rises as an individual or entity's income increases, therefore burdens are more of an imposition to wealthy, high-income earners than they are to low- or middle-class individuals. On the other hand,a regressive tax is imposed in such manner, that the tax rate decreases as the amount subject to taxation increases, therefore in terms of individual income and wealth, a regressive tax imposes a greater burden on the poor than on the rich,thus representing a kind of an anti-egalitarian approach. For example, a sales tax of a specified percentage, although being the same for every individual or entity, has a greater burden on lower-income earners than it does on the wealthy, because the ability to pay is not taken into consideration.

The complex nature of the connection between policy- and non-policy driven factors can be demonstrated by the example of the family taxation system.One would probably say that family formation and the number of children are rather non-policy-driven questions, sincepersonal goals and the effect of the given subculture seem to dominate these kinds of decisions. However, whenapplying a personal income taxation system thatclearly favours households with two or more children, the administration can intervene effectively in the long-term processes of demographic development. After reviewing the major factors connected in different ways - closely or loosely - to income inequalities, four different factors seem to emerge, driving the level of household labour income dispersion, at least in the short term: the dispersion of hourly earnings, the share of part-time workers, the non-employment rate, and household formation. Of course, labour income inequalities vary widely across countries, also depending on the population group considered. As for the role and importance of the previously mentioned redistribution system, inequality in income after taxes and transfers was about 25%, while poverty (see in the next chapter) was 55% lower than before taxes and transfers in the OECD countries in the late 2000's. Moving forward to the concrete inequality measures of countries in the same period, the Gini index ranged from below 0,25 in Slovenia (winning the fictional title of the most egalitarian country in the OECD) to 0,5 in Chile with the highest inequality. As for the 90/10 ratio, the income of the richest percentile of households was three times higher than the income of the poorest for several Eastern European and Nordic countries, while it exceeded 6 for Chile, Israel, Mexico and Turkey. Looking at the very peak of the top earners (the 99th centile) and examining their share of the total income for different countries, the ratios cover a very wide range from 4.5% in Sweden to above 18% in the USA. We can find five groups among these countries with more or less similar inequality patterns. The first, and the most egalitarian arethe Nordic countries (Denmark, Iceland, Norway, Sweden) and Switzerland. With below-average inequality and the little wage dispersion and poverty rate, these countries can be characterised by high employment rate, universal cash transfers and not highly progressive taxes. In the next group of 8 European countries (Belgium, the Czech Republic, Estonia, Finland, France, Italy, Slovakia, Slovenia) wages are a little more dispersed and the employment rate is low. Although there is a high concentration of self-employment and capital income, the size of the – still not highly progressive - tax and cash transfer system takes a large share of the GDP, therefore the household disposable income inequality is reduced to OECD average or a little below it.

The continental European countries (plus Japan and Korea) share an OECD average inequality or an inequality above the average, because the individual labour income is concentrated, and the employment rate is low.The redistributive system of these countries is less effective, since cash transfers are small in size or largely insurance-based, and taxes are not highly progressive as well. The (most) Anglo-Saxon countries (Australia, Canada, Ireland, NewZeland, the United Kingdom and the Netherlands)belong to the first group, where we find really progressive taxes and targeted - although small - cash transfers, with an overall sizeable redistributive impact. In spite of that, household disposable income inequality -driven mostly by the large share of part-time compared to the full-time employment- is above the OECD average.

The next group, just as the previous,also consists of pretty dispersed countries as for their geographical position on the globe, with an addition of probably the greatest linguistic and cultural variability of all the five groups compared. These countries (the United States, Chile, Israel, Mexico, Portugal and Turkey) can be characterised bya high concentration of labour, capital and self-employment income, and low employment rate, generating a wide wage dispersion and great inequality, with the poverty rate well above the OECD average. Since their cash transfers are small in size and largely insurance-based, and since the size of taxesalso tend to be small in most of these countries, their redistributive systems have little impact on inequalities.

III. POVERTY VERSUS WEALTH: A CRITICAL APPROACH

Poverty, as an extreme form of inequality at the lower end of the scale, is a multifaced concept, which

includes different social and political-economic elements. It can be defined as a general scarcity or dearth, or the state of one who lacks a certain amount of material possessions or money. Just like inequalities in general, poverty is also shaped by a broad set of factors, such as the economic development, the employment level, the changing demand for labour with different skills, the skill distribution itself, and the dynamics of domestic policy and a number of country-specific variables. Looking at the correlations between productivity and the poverty rates, we can find thatthere is a relatively strong and negative relation to GDP per capita both for the EU15 countries and the new Member States, in spite of the large difference between the levels of economic development of the two groups.Although the same negative correlation applies for income inequalities in general, the pattern of variation for poverty across countries is somewhat different, with the emergence of four different groups. The first group contains the countries following the so-called Scandinavian model with conservative social welfare regimes, relatively low overall risk of poverty, and high GDP per capita. The second group, the Mediterranean and liberal welfare regimes, can be characterised by high risk of poverty and a wider range of GDP per capita. Finally, the new Member states can be divided into two different subgroups, depending on their relatively lower or higher poverty levels.

Regarding the connection between employment rates and poverty levels, the picture seems to be more complicated especially in the new Member states, where simply no correlation can be identified. Since the same is true for inequality as well, it is pretty safe to assume that one should add other factors into the mix, perhaps by breaking down poverty-inequality and employment into more specified variables in order to reveal their complex nature. Since income inequality is often shaped - beyond the previously mentioned factors -by the concentration of income at the top end, and since the share of total income of the top earners has risen in most OECD countries, we cannot avoid considering the arising question: why is this happening? Why do top earners get a growing share of the cake?First of all, it is pretty simple to admit that the new informational technologies and the effects of globalisation benefit mostly the skilled and highly-educated by widening the market and boosting top incomes for such stars. The requirements and responsibilities of these top managers have become more complex on the one hand, while their outside options have also improved on the other hand. In addition to this, there is a tendency for large multi-national companies to raise executive salaries according to the rise of the company size, thus creating enormous pay-outs (salaries and bonuses) for managers at the top of the hierarchy. If we look at the share of the top 1% of the top earners in taxable income in 1980 and 2008,we can detect more than a sizeable rise in almost every OECD countries, with the Anglo-Saxon countries (the United States, the United Kingdom, Canada, Australia, NewZeland) at the head (with the addition of Finland and Portugal).
One of the important reasons behind this process is the taxation taxation. Tax rates for high earners have decreased considerably over time, probably with the intention of boosting declared income. Although the social fairness of such an action is highly doubtable from an egalitarian point of view, the motivation of the government is somewhat understandable consideringthe shape of the Laffer curve. This issue however, also sheds light on the polarizationof societiesas regards skills and opportunities - and probably pure will as well – with the aim of hiding taxable income from the authorities. Whenspeaking about the highest amounts of revenues to analyse these tax policies, the governments cannot really be accused with irrational behaviour – at least not for the short-term effects of the process. In the long run however, I believe that this kind of approach is,and will be highly responsible for the previously mentioned polarisation itself, creatinga spiral, and probably leading to asocial disaster in one of the next decades.

Regarding the term income, I haven not really clarified what types of income we are speaking about here. However, such differentiation is crucial to understand the underlying nature of inequalities, especially from a critical perspective. Although we could see the highly different levels of labour income, some economists say that extreme inequalities and the polarization of societies are mainly the results of the concentration of capital and capital income. They buttress the argument with the fact that the top percentile with the highest labour income possesses about 25-30% of the overall income, while the top centile with the most assets possesses more than 50% of the overall assets – which rate could even exceed 90% in some countries. On the other hand, however, others have different arguments, saying that capital income is not a major determinant of total household market income dispersion, since labour market income accounts for around 75% of the dispersion on average in the OECD, versus just 25% for self-employment and capital income combined. Whatever the case may be, it is worth mentioning that the Gini index mixes labour and capital inequalities, therefore it is almost impossible to differentiate between the multiple dimensions of inequalities and the mechanisms affecting them. Coming to what I was saying before in connection with the tax systems, it has to be emphasized that capital gains are often taxed at a lower rate than other income, and in a few countries,they are not taxed at all. Stock options also benefit from preferential tax treatment in many OECD countries, and the same is likely to apply for carried interest arrangements. Since the taxation of

capital income, wealth, and inheritance has been reduced in many countries, the redistributive impact of tax systems has decreased as well, benefiting the individuals with higher income, where capital income and wealth areheavily concentrated.

Although the primary goal of this essay is to give a brief overview and a general understanding about the complex nature of the link between growth and inequality (and also poverty) itself within nations, in the next paragraph I will give a different approach to the issue in order to broaden the perspective. At international level,the extreme differences between rich and poor nationsassume historical reasons, especially from a critical point of view. In other words, we may ask questions like that until what point can we hold poor nations responsible for their own situation, and where does the responsibility of wealthy nations begin? Many poor nations have been subject to colonial rule and it is often argued that their poverty has its roots in this colonial past. Colonial heritage has been really harmful, since colonized regions lacked strong local governments;therefore, it was easy for colonial corporations to exploit them in terms of property rights, land or mineral resources or with trade agreementsbenefiting the two partners highly unequally, as we could see in the case of many African countries. Of course, we do not have to go too far to find other examples: Eastern European countries such as Hungaryhad to bear the socialist regime as a form of Russian occupation for about 40 years, although it could hardly be mentioned as colonisation. Speaking about Russia however, we should mention the fact that oppression and anation's fall backas a consequence, is not necessarilyconnected to the presence of an outer power. Whatever the case may be, it is often argued that poor nations remain poor because they lack the ability, in terms of institutions and education, to exploit modern technology. Although it has to be admitted that foreign investors have been and are exploiting many countries with weak or corrupt local governments, the major cause of poverty is connected to the fact that very poor nations attract neither foreign investment nor much trade. It seems to be a downward spiral, because poverty itself, in fact, is a major barrier to the escape from poverty, since the resources needed to invest in education and infrastructure are really hard to mobilize. Of course, the high rate of corruption and the usually poor quality of governance typically related to poverty do not really help either.

IV. THE EFFECT OF DEVELOPMENT AND GROWTH ON INEQUALITIES

Despite the long-standing theoretical dispute, the empirical evidence does not allow economists to draw a unanimous conclusion as for the nature of the connection between inequality and growth. Recent empirical studies investigating cross-country relationships between the two factors conclude that growth tends to be distribution-neutral on average, or in other words, there is simply no relationship between inequality and growth at all. If we look at the results of these studies illustrated on a coordinate system, where the position of certain OECD member countries is defined by the growth of their real GDP per capita on the „x" axis, and their level of inequality in household disposable income measured by the Gini index on the „y" axis, no linear connection emerges indeed. On the one hand, we can find countries with high GDP growth and low inequality like Slovakia (below 5% and about 0.25), but then there are others with still relatively high GDP growth and a very high rate of inequality like Chile (almost 4% and a little below 0.5). On the other hand, there are countries like Japan with very low GDP growth and a moderate rate of inequality (below 1% and above 0.3), but then again, there are others with still very low GDP growth and also a very low inequality rate like Denmark (below 2% and below 0.25).A possible and pretty safeconclusion is that when it comes to inequalities, the current GDP per capita is probably of higher importance thanthe rate of GDP growth, which has, in fact, already been proven by other studies. The relatively strongrelationship between the currentGDP per capita and poverty,whichwas already mentioned in the previous chapter, also exists between the currentGDP and income inequalities, and needless to say, that the graph of the relationship has anegative slopefor the EU15 countries and the new Member States as well.However, there is a big difference between poverty and income inequalities, because, despite its neutral effect on income dispersion, the absolute poverty-reducing impact of growth seems to be convincingly demonstrated by many other studies.

After having described the indistinct relationship between economic growth and income inequalities, a possible explanation is offered by the famous Kuznets curve. Kuznets concluded in his classical study that the effect of growth on inequality is likely to be different at different levels of development: at the initial stages, inequality rises with growth, then at later stages, inequality starts to decrease with further expansion of the economy. The rising of inequality in the beginning, as Kuznets argued, is a result of the expansion of the high-income modern sector of the economy at the expense of the low-income traditional sector.However, the latter is able to close up over time, and after a certain point, further expansion of the high-income sector will reduce inequality, therefore the whole process results in an inequality curve of an inverted-U shape.Despite its persuasive argument and reasonable logic, some authors criticise the inevitability of the process, while others question the direction of the causation. However,it can be assumed that many analysts probably oversimplified

Kuznet's results and neglected the fact that the development of countries is not necessarily linear. A careful analysis with longitudinal data for each and every country would possibly clarify the underlying correspondence.

Looking at the measures adopted by the reigning governments mainlyin order to enhance economic growth, 3 different groups can be identified based on their actual effect on income inequalities. First and foremost, there are a lot of different policy reforms which are likely to reduce income inequalities while boosting the GDP per capita, creating an absolute win-win situation. One of the most important of these is the improvement of the quality and reach of education. While analyses generally agree that a rise in the share of workers with upper secondary education is associated with a decline in labour earnings inequality, the role of tertiary education seems to be a little more ambiguous, although new research suggests that its positive effect exceeds the potential negative ones. Promoting equity in education (for example by postponing early tracking, strengthening links between school and home, providing early childhood care and basic schooling for all, etc.) is an inherent part of the latter process, since an important factor of raising social mobility is to make educational outcomes less dependent on personal and social circumstances.

Another critical step is to reform the taxation system in a way that allows equitable growth, since taxes do not only affect the distribution of income, but they also affect GDP per capita byinfluencing labour use and productivity, or both.Two possible reforms emerge from the lots of options here, which tend to improve growth prospects while narrowing the distribution of income in the same time, without any trade-offs. One of them is cutting back tax expenditures that benefit mainly high-income groups (for instance the tax relief on mortgage interests), while the other is reducing distortions in taxing capital income (like the tax breaks for stock options and carried interests). Raising such taxes would not just increase equity, but it would also allow a growth-enhancing cut in marginal labour income taxes.

Empirical evidence suggests that spending more money on active labour market policies has a fair chance of limiting the incentive-reducing effects of high social benefits for work and employment, by helping job seekers find jobs with matchtheir skills better. Needless to say, that such drop in the unemployment rate is an important step towards equality, while it also really benefits the economy. Last but not least, the role of discrimination has to be highlighted, since it has a significant negative effect on both growth and inequality. Discrimination could appear in different forms against different kinds of social groups, like minorities, immigrants, or even women. Integrating immigrants into the labour market with more success shall be performed on the basis of targeted policies like language courses, and transparent systems of recognising foreign qualifications. The issue of improving labour market outcomes for women is much more complicated, since gender inequalitiesare very deeply embedded into the culture, in spite of being almost invisible in many aspects in the western civilization. What I mean by that for example, is that traditional job options and occupational strategies endorsed by social conventions direct women into low-paid occupations, and a large part of the gender gap was and is still due to the fact that men and women are concentrated in different occupations: women are more numerous in low-paid sectors and in low-paid functions in high-wage sectors. Of course, when comparing pay gap between equally qualified men and women in the same sector, the inequality pattern becomes pretty visible. A possible initial step could be the application of policies which improve the availability of formal care for children and the elderly, thus helping to reduce gender differences in working hours.

After reviewing policies which tend to have a positive effect on both economic growth and on the reduction of inequalities, the second group of growth-enhancing reforms includes such steps that are likely to raise income inequalities in the short run and the long run as well. Increasing the flexibility of wage determination should increase the competition among jobseekers and employees, which boosts productivity,but raises labour dispersion. As regards the taxation system, shifting the tax mix from personal and corporate taxes towards real estate and consumption taxes should also have a positive effect on the GDP per capita, since personal and corporate income taxes have a sizable adverse impact on labour use and productivity. In the meantime, a trade-off shall be realized in relation to the income distribution objective, since income taxes tend to be progressive while real estate and consumption taxes are in most cases regressive or neutral.

Finally, there is a group of growth-enhancing policy reforms whichexperts could not agree on their probable effects. It is obvious that liberalising product markets boosts productivity and generally raises employment, but many economists assume that it also creates wider wage dispersion, thereby offsetting the latter. Reducing minimum wages could benefit the employment by making young and low-skilled people able to find jobs, but studies suggest that a fall in the minimum wage risks the widening of the dispersion of labour income at the bottom of the distribution among those who are already employed. Avoiding too high and long-lasting unemployment benefits has a positive effect on the job-search incentives, thus increasing the employment rate. However,a measure of this kind probably generates a higher level of

inequality and risks that many of the unemployed fall into poverty.
At last, there is a taxation alternative which focuses on wealth and inheritance taxes instead of income, but since all these three tend to be progressive, the effect on inequalities would depend on the relative progressivity of each one.

CONCLUSIONS

In this essay I tried to unravel the complex nature of the relationship between economic growth and income inequalities by presenting the major factors related to the issue. Answering the question raisedin the introduction of this paper, as we saw, there are various methods to reduce income inequality and boost economic growth at the same time. However, if I had to choose only one of them, arbitrary as it is, I would definitely go with education. Not only education lies behind the historical march towards a less unequal society asthe initiation of mass education in the twentieth century suggest, but it is also the only factor where the development of a country is based on the – professional as well as intellectual – development of its citizens, the people as individual agents, rather than on some secondary effect of outer rulings.

Although this essay focused mainly on within-country inequalities, if we change the perspective turning to global inequalities, what the future holds depends on the answers given to the following questions:
Firstly, will all nations eventually enter a phase of modern economic growth or will a significant fraction of nations remain in a state of stagnation?
Secondly, will latecomers initially grow much faster than the rich economies until they finally settle at the steady rate of the mature economies?
And thirdly, will the newly industrialized nations follow the pattern of Europe and North-America and become less unequal after the initial phase of increasing domestic inequality?

If the answer is „no” to any one of these questions, it is not possible to make an unambiguous prediction about the future trends in global income inequality. However, it has to be noted, that income is an imperfect guide to welfare distribution, because some very important aspects of welfare (such as child mortality, life expectancy, health and childcare, schooling, the access to cultural sites, etc.) are only vaguely linked to income.

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