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Inequality, technology and growth: some reflections

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The stakes are high: inequality and growth

In recent years, the growing focus on economic inequality among different sections of the population¹ (Figure 1) has been calling for innovation of the traditional economic and political systems with a view to interpreting, supporting and regulating change in a fair and sustainable manner.

The general perception of what politicians can do about this inequality has become uncertain, also due to a strong employment crisis in many economic sectors, both **in Italy** and in the rest of the world. The impact of the crisis on working conditions generates strong social conflicts and both economic and political instability, thus broadening the consensus on **populist and sovereigntist** agendas.

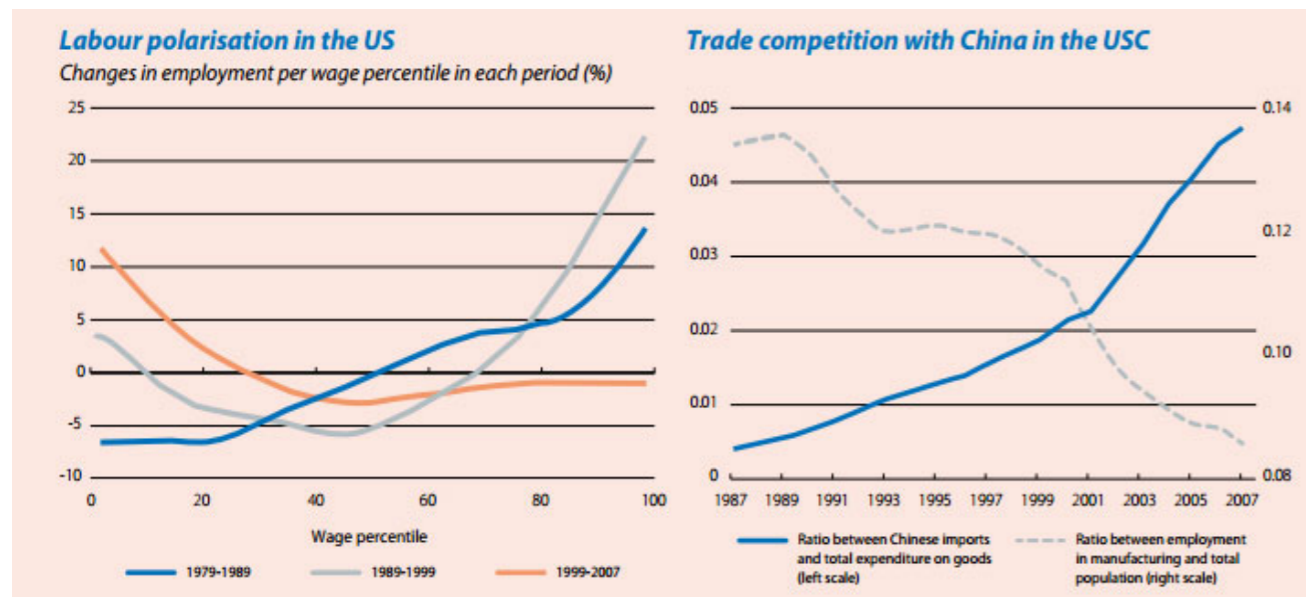
In **“The price of inequality”** (2013), **Joseph E. Stiglitz** argued that the vested interests of a small part of the population (the so-called “1%”) have over-ruled those of the majority of the population (the “99%”), stifling dynamic capitalism and **increasing the social gap** in the population.

In his essay, the Nobel Prize winner for Economics argues that the growth in inequality is mainly a result of the actions of governments, economic players, and national/supranational institutions, and certainly not a result of the laws of nature. About a third of a century ago, the rules of the market economy had started to be rewritten based on a simple idea: that lowering taxes would liberalise and encourage the economy,

and that giving people more chances to express their creativity would generate rapid economic growth. Nobody at that time though that such a decision would lead to greater inequality; in fact, the general belief was that growth would be so high that even the poorer end of the population would benefit. This was the idea behind the decision; however, it did not produce the desired effects. Indeed, growth slowed and inequality increased.

The good news - according to Stiglitz - is that, if **inequality is the result of our actions**, then we can **reverse course by changing the rules**. We can restructure our economy so as to restore more equitable conditions and govern the Fourth Industrial Revolution in a more sustainable manner, distributing - or redistributing - the benefits of technology, and avoiding a further increase in inequality.

Figure 1



Source: caixabankresearch.com

¹Almost every country across the planet has recorded an increase in inequality over the last 30 years, but in some countries this inequality has increased more than in others. Fondazione Giangiacomo Feltrinelli, 10 idee per convivere con il lavoro che cambia, page 78, 2017.



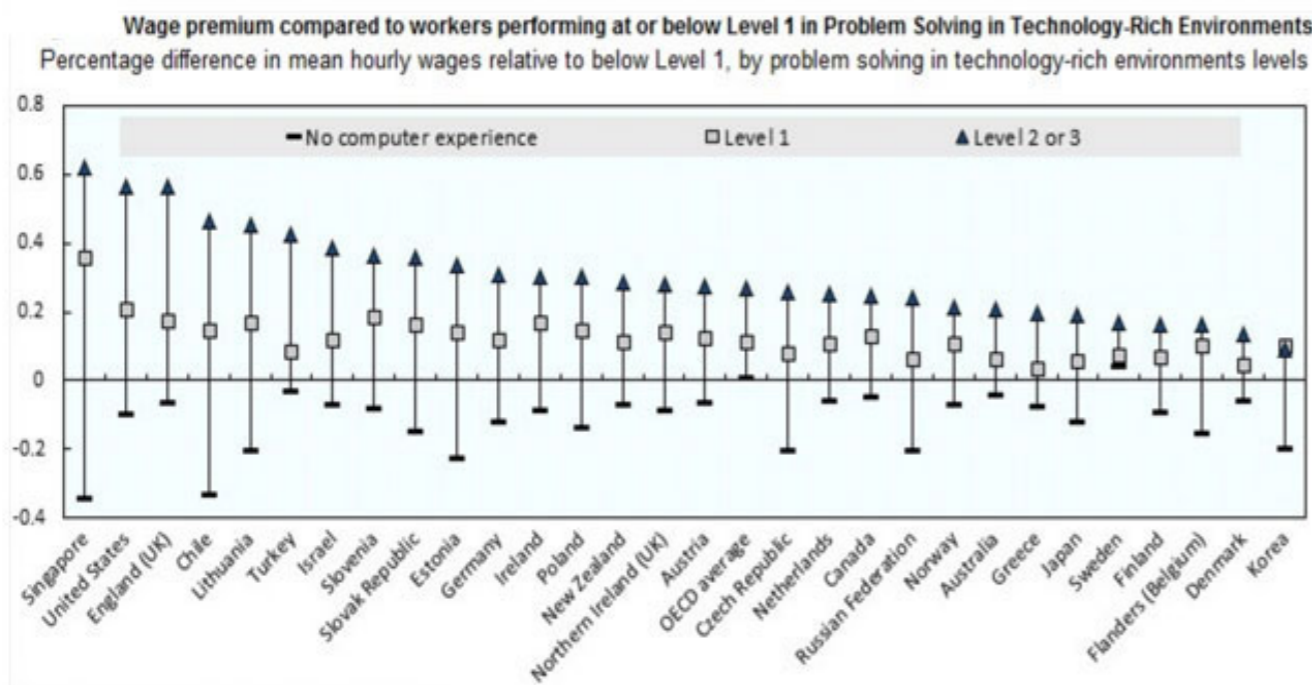
The impact of technology on inequality

Among the various forms of unfairness that we can observe today (inequality in income, wealth, health services and opportunities) there are also those induced and fed by **technological evolution**.

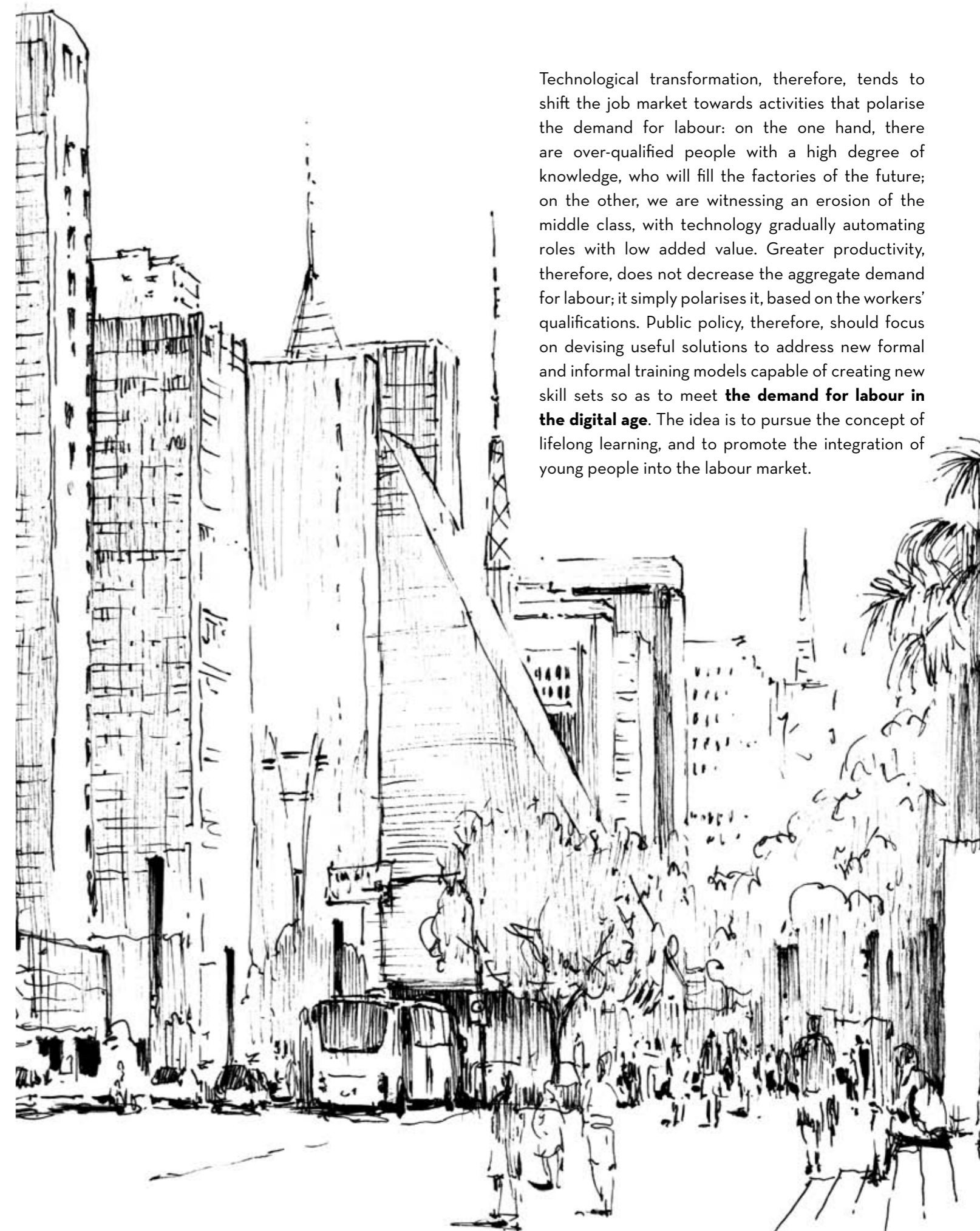
“Technological capital” is not just a matter of hardware (finance, infrastructure, machinery); above all, it is a matter of the software (skills, languages, meanings) needed to face the labour challenges of the future. If, one day, **machines were to produce everything we need**, then the skills needed to make them operate would be the capital on which institutions would have to invest, so as to redistribute the benefits

and reduce inequality. From an economic point of view, technological innovations already generate wage differentials and contribute to **polarise the labour market**. High value-added professional roles requiring specialised technical skills are associated with far higher salaries than jobs with a low knowledge content (source: OECD; figure 2).

Figure 2



Source: Oecdskillsandwork.wordpress.com



Technological transformation, therefore, tends to shift the job market towards activities that polarise the demand for labour: on the one hand, there are over-qualified people with a high degree of knowledge, who will fill the factories of the future; on the other, we are witnessing an erosion of the middle class, with technology gradually automating roles with low added value. Greater productivity, therefore, does not decrease the aggregate demand for labour; it simply polarises it, based on the workers' qualifications. Public policy, therefore, should focus on devising useful solutions to address new formal and informal training models capable of creating new skill sets so as to meet **the demand for labour in the digital age**. The idea is to pursue the concept of lifelong learning, and to promote the integration of young people into the labour market.

How can we win the challenge posed by inequality?

“Of course, people at the lower end of society do not choose to be poor; that is a political choice. The political system, on both sides of the Atlantic, has revealed a deficit in democracy. Our actions have not only lead to greater inequality, but also to lower growth, greater instability and lower economic performance.”

Joseph E. Stiglitz

Taking Stiglitz's reflections as a starting point, we should attempt to rewrite the rules of the market economy, in particular as regards three fundamental aspects.

The first is the labour market, which forces its main players to keep in step with the latest innovations and with the developments and changes affecting society. The **training system** is also called upon to rethink its method of operation, because learning models based exclusively on the passage of information are no longer sufficient to deal with the market's complexity. We need training paths capable, on the one side, of bridging the gap with the labour market, and on the other, of teaching young people to become adults in a highly complex society. The educational system should be reviewed at the same time as the labour market, so as to generate a market capable of producing the necessary employment, above all with a view to fighting youth unemployment.

The second aspect concerns **social innovations** that start from below and that are capable of facing up to the political vacuum or to the inability of the market to respond to the needs of a multitude of citizens: forms of social entrepreneurship; communities of citizens that pool together to meet new and old needs, optimise the use of resources (both human and natural), attain social improvement,

and achieve a more satisfactory outcome for their values and aspirations, working actively to contain economic and social inequality by encouraging the development of local communities. The added value of such social innovation practices lies in the fact that they not only respond innovatively to certain specific needs, but they also propose new ways of making decision and taking action. In particular, they aim to tackle complex, horizontal problems through widespread interventions, adopting the whole range of instruments available and using **forms of coordination and collaboration** rather than vertical forms of control.

These features increase the capacity for action of the community, which rallies round, creates new roles and relationships between the players involved, and leads to a widespread activism capable of multiplying energies and initiatives at the service of social improvement.

Lastly, it is worth saying a few words about the institutions and the roles of government. As we mentioned earlier, we need to **rewrite the rules** for the twenty-first century society. This means reviewing the rules that define the functioning of the institutions (such as the central banks) and the political world, to make the system more democratic: “less sensitive to money” - always according to Stiglitz - “but

more sensitive to human rights”. It should be clear that inequality gives rise to serious economic and political consequences that undermine the concept of democracy, breaking up society and damaging the economy itself.

Building a new society is not a spontaneous process, but a responsibility that we are all called upon to take on. We need collective actions that enable us to achieve an acceptable standard of living for most people, granting room for political innovation as regards common goods and services, and government facilities through which to deliver these goods and services. As Stiglitz says, “various alternatives and strategies may be adopted to structure our society in a different manner. Many of the changes made to the rules so far have exacerbated the situation, and this is made even more complex by technological

progress, globalisation and the modern-day social attitude. And yet, despite all this, it is possible to **reformulate our society** and build a world in which the economy performs better for everyone, or at least for the majority of citizens”.





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