THE EQUALITY MULTIPLIER: HOW WAGE COMPRESSION AND WELFARE EMPOWERMENT INTERACT

Erling Barth
Institute for Social Research

Karl Ove Moene
University of Oslo

Abstract
We explore how more wage equality fuels the generosity of the welfare state via political competition in elections, and how a more generous welfare state fuels wage equality via empowerment of weak groups in the labor market. Together the two mechanism may generate a cumulative process that explains how equality multiplies, and why countries with more equal distributions of market outcomes also have stronger welfare states. The complementarity between wage setting and welfare spending can explain why almost equally rich countries differ so much in economic and social equality among their citizens. (JEL: H53, I31, J31)

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E-mail: eba@socialresearch.no (Barth); k.o.moene@econ.uio.no (Moene)