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| MEP Javier Lopez is drafting a report about inequalities for the European Parliament.

## INEQUALITIES, GROWTH AND THE FUTURE OF LIBERAL DEMOCRACIES

by Javi Lopez

Waves of suffering in the form of unemployment and destruction of wealth have transformed the social cartography of the Western world and have led to a true geopolitical recession. The coordinates of the political agenda are shifting, old conflicts are emerging and new cleavages are opening up. Once again, the distribution of wealth, inequality and their effects are at the centre of public debate. Javier Lopez looks into the reasons for this.

**W**e are currently reproducing the aberrant levels of inequality of the golden age before World War I and the subsequent Great Depression. Equity and social mobility are linked through equality of opportunities: in more equal societies, people can more easily change their social category regardless of the resources of their household. The truth is that, if you want to "live the American Dream" you should go to Denmark. Unfortunately income inequality and gender inequality are developing in parallel. Equality works as a social glue by creating bonds of mutual trust. There are strong arguments that allow us to argue that more equitable societies have better social outcomes and are healthier, more peaceful and cooperative. Large swathes of academic literature links growth problems with current levels of inequality. A major problem is that inequality distorts demand and favours over-indebtedness. Only

inclusive and equitable growth strategies will ensure the recovery of the economies of industrialised democracies.

At the same time, inequality erodes democracy. The decline of the middle class undermines the political order and damages traditional politics. Income polarisation is contributing to political polarisation and weakening support for inclusive democratic and economic institutions.

Moreover, various economic trends have generated profits but these have been unequally distributed. Without adequate compensation mechanisms, our societies are tearing themselves apart, as we have seen in many cases.

Globalisation and market liberalisation have been working in this direction. On the one hand, hundreds of millions of people have been lifted out of poverty in the last few decades, especially in Asia. But, on the other hand, many of the middle and working classes in the First World did not benefit. The digitalisation and robotisation of the economy acts in a similar way. Both create new opportunities in the labour market but large numbers of the current workers do not have the necessary skills to seize them.

At the same time, the urban/rural division is very present in the political conflict. Many urban centres have been incorporated into the value chain of globalisation, in front of rural or punished by deindustrialization peripheries. This is fertile ground for resentment and

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identity withdrawal. From this emerges a new logic, the logic of 'globalism against nationalism'.

To rebuild a progressive electoral base, we need to put in place a programme of redistribution to counter inequality. The XXIst century's solutions were as follows: Keynesian management

of demand, economic policies, state industrial planning, preservation of collective bargaining and fiscal redistribution through taxes and social welfare systems. This roadmap is valid but must adapt to a different context: the particularities of the euro area, internationally connected economies and markets and changes in social structures.

We need to build new tax systems and programmes of public and regulatory spending that redistribute more efficiently and promote a fairer distribution of wealth. All this should be done whilst taking account of factors such as the concentration of people in cities, ageing populations and climate change. The lever to use to start rebuilding the social pact should be the political threats that haunt Europe, such as those that haunted Europe between 1945 and 1975, because without a threat there is no incentive to act. The reality is that inequality explains, at least in part, the breaking up of the pillars that have sustained the developed world: economic growth, middle classes, liberal democracy and the American order.

The idea at the core of my European Parliament report on "combating inequalities as a lever to boost economic growth" is to make inequality one of the major priorities to be monitored and addressed by the European institutions. This should be done by following cohesion and investment tools such as the co-ordination of social policies with regard to combating poverty and social exclusion and improving

living and working conditions. Moreover, we include an innovative approach in order to face new challenges, as we are very much need to protect workers who are at a disadvantage in the face of technological change. We must strengthen and modernise our welfare states, fight poverty, especially among young people and children, address the gender gap and combat fraud.

Like all Herculean tasks, the fight against inequality requires a narrative that supports and shapes it. We need a new narrative of equality in defense of economic growth, the protection of democracy and the deeper meaning of freedom: autonomy and dignity.



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