

How education determine wage inequality

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Abstract: *One of the problems the economy of the past 50 years has been generated by the increase to differences in income between workers with a level of preparedness higher compared to those with a poor level of training.*

There is a view that education can lead to greater inequality of income. Analyzing the current situation of increasing inequalities in most developed societies in which there is a high level of education, with schools that are financed by public funds, we can reach the conclusion that a labor force educated young will be associated with an increase in inequality of income, so education does not reduce social inequality, reducing inequality is necessary for the education of the active population is high but one uniform

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Increasing earnings dispersion and rising returns to education and skill have received a great deal of international attention.

The supply of unskilled labour, on the other hand, fell quite rapidly from the early 1980s as a result of increasing educational participation at second level. As regards labour demand, rising demand for skilled labour occurred throughout the industrialised economies over the 1980s and the 1990s.

Immigration of skilled and experienced workers – particularly returning migrants – became substantial in the mid 1990s and this

may explain the stability or even decline in the return to university education for this group over that period.

Income inequality widened, particularly between urban and rural households after China began its rapid rate of economic development in 1980. At the same time, the fraction of Chinese men, women, and children who live on less than \$2 a day--the World Bank's definition of poverty--greatly fell. Few would argue that the poor in China did not become much better off due to the rapid economic development, even though the gap between

their incomes and those of the middle and richer classes widened by a lot. A similar conclusion would apply to India as the explosion in its general economic development during the past 20 years widened the gap between rich and poor, but raised the income levels of the very poor.

The China and India examples illustrate that whether rising inequality is considered good or bad depends on how it came about. I believe that the foundation of the growth in earnings inequality of Americans has mainly been beneficial and desirable. The basic facts are these. There has been a general trend toward rising gaps between the earnings of more and less skilled persons. With regard to education, real earnings (that is, earnings adjusted for changes in consumer prices) earnings of high school dropouts did not change much. Earnings of high school graduates grew somewhat more rapidly, so that the gap between dropout and graduate earnings expanded over time.

Cognitive skills tend to get developed at very early ages, while non-cognitive skills, such as study habits, getting to appointments on time, and attitudes toward work, get fixed at later, although still relatively young, ages. High school dropouts certainly appear to be seriously deficient in the non-cognitive skills that would enable them to take advantage of the higher rates of return to greater investments in education and other human capital.

Instead of lamenting the increased earnings gap by education, attention should focus on how to raise the fraction of American youth who complete high school, and then go on for a college education. These pose tough challenges since the solutions are not cheap or easy. But it would be a disaster if the focus were on the earnings inequality itself.

For that would lead to attempts to raise taxes and other penalties on higher earnings due to greater skills, which could greatly reduce the productivity of the economy by discouraging investments in human capital.

The main action came in the earnings of college graduates and those with postgraduate education. They both increased at a rapid pace, with the earnings of persons with MBA's, law degrees, and other advanced education growing the most rapidly. All these trends produced a widening of earnings inequality by education level, particularly between those with college education and persons with lesser education.

As the education earnings gap increased, a larger fraction of high school graduates went on to get a college education. This trend toward greater higher education is found among all racial and ethnic groups, and for both men and women, but it is particularly important for women. The growth in the number of women going to and completing college has been so rapid that many more women than men are now enrolled as college students. Women have also shifted toward higher earnings fields, such as business, law, and medicine, and away from traditional occupations of women, such as pre-university teachers and nurses. The greater education achievement of women compared to men is particularly prominent among blacks and Latinos.

The widening earnings gap is mainly due to a growth in the demand for educated and other skilled persons. That the demand for skilled persons has grown rapidly is not surprising, given developments in computers and the Internet, and advances in biotechnology. Also, globalization increased the demand for products and services from the

America and other developed nations produced by college educated and other highly skilled employees. Globalization also encouraged a shift to importing products using relatively low-skilled labor from China and other low wage countries instead of producing them domestically.

Rates of return on college education shot up during the past several decades due to the increased demand for persons with greater knowledge and skills. These higher rates of return induced a larger fraction of high school graduates to get a college education, and increasingly to continue with post-graduate education.

Higher returns to **education** will accelerate growth in living standards as existing investments have a higher return and additional investments in **education** will be made in response to higher returns. Gains from higher returns will not be limited to Gross National Product (GNP) and other measures of economic activity.

Prior research has shown that individuals who have higher **education** not only earn more but also live longer, save a larger fraction of their permanent incomes, and invest more in their children. These characteristics do not offset income **inequality** due to **inequality** in **education**, but reinforce what earnings **inequality** contributes to widening **inequality** in overall welfare.

"More-educated people are better off in almost every dimension," notes Becker. "The **education** process itself leads people away from more harmful activities and toward better habits."

In addition, many more women than men are now enrolled as college students, and women have shifted toward higher earnings fields such as business, law, and medicine.

The greater educational achievement of women versus men is particularly prominent among African-Americans and Latinos.

"Changes in the economy such as technological changes and globalization cannot be undone," says Murphy. "These changes increased the advantage of people with greater human capital."

The key to addressing concerns about growing income **inequality** is designing the right policies and recognizing the connection between growing earnings **inequality** and investments in human capital.

There have generally been two types of policies proposed to reduce **inequality**. One approach is taxation to redistribute income to lower-earners. That approach reduces **inequality**, but doesn't address the issue of what generated the rising **inequality** and the greater reward for people who have more **education**.

An alternative approach would narrow income **inequality** by increasing the number of educated workers, which would change supply and demand conditions. If there are a greater number of educated workers, this will push down wages at the high end of the job spectrum. Having a smaller number of less-educated people will push wages up for low-wage workers.

In the process of narrowing earnings **inequality** through this second method, you take advantage of the high return of **education**, increase income for individuals, and increase the contribution to society as a whole.

"There is much to be done about income **inequality**, but the emphasis has to be getting people to pursue more **education** and training," says Becker. "The gap between the haves and the have-nots is particularly evident in earnings, but **education** and skill are

not God-given and can be affected through the right policies."

Becker and Murphy suggest the answer is that many young people are poorly prepared for college. One underlying problem is the rise of single-parent households and the resulting low skill levels reached by children in broken families. The cognitive skills required for academic success tend to get developed at very early ages, while noncognitive skills such as study habits, getting to appointments on time, and attitudes toward work are fixed at later ages. High school dropouts appear to be seriously deficient in the noncognitive skills that would enable them to take advantage of the higher rates of return to **education** and other benefits of human capital.

"Taking advantage of the returns afforded by higher **education** today requires that you be prepared, and much of that preparation takes place at home," notes Murphy.

Improving the **education** system is one avenue for improvement, as is recognizing that success in school is tied to the home.

"Not everyone needs to pursue advanced degrees, but everyone has the talent to acquire more skills than they have," says Becker. "That the main dilemma we're facing as we move forward in the United States."

In **conclusion** we can say that the forces raising earnings inequality in the America is on the whole beneficial because they were reflected higher returns to investments in education and other human capital. Yet this is not a ground for complacency, for the responses so far to these higher returns is disturbingly limited.

1. More education is generally seen as a good thing, not just for individual enrichment

but also more concretely for advancement in the job market. In some fields this is primarily because more education is tightly linked to a specific skill set (getting an M.D. or being certified as a professional engineer carries widely accepted meaning), while in other fields additional education functions primarily as social signaling, a proxy for "Job status matters to me and I want to move up the ladder in a credential-focused industry."

2. Economic and social research about jobseekers and workers has to simplify educational levels, or we wouldn't be able to say anything interesting. In most of the research I've seen, that leads to a few simple categories, such as: Less than high school, H.S. diploma/GED, some college, bachelor's degree, graduate-level education.

3. The explosive growth of for-profit and online colleges has diluted the amount of shared meaning that existed under the category of "bachelor's degree."

The trend toward larger gaps in earnings between those with only a high school diploma compared to college graduates has contributed significantly to the growth in overall earnings inequality. In recent years, the labor market has placed a greater emphasis on education, as seen in the growing salaries of those with MBA's, law degrees, and other advanced degrees. today.

"Human capital is the foundation of the modern economy," says Becker. "The earnings gap is largely due to the fact that some people have more human capital than others in terms of education and training."

The authors suggest that the foundation of the growth in earnings **inequality** of Americans has mainly been beneficial and desirable.

"Economists focus on incentives and investments," explains Murphy. "The rise in earnings **inequality** in the last several decades has been associated with a significant rise in the payoff of **education**. Individuals and society can take advantage of this payoff by increasing investments in human capital, particularly in the form of **education**."

The growth in wage differences across **education** levels is only one aspect of the growth in income **inequality**. Income **inequality** also has increased within **education** groups, reflecting increased returns to occupation-specific knowledge, on-the-job

training, and quality of schooling. As with **education**, higher returns will increase incentives to invest in these skills and lead to a higher rate of growth in productivity and wages.

The potential growth generated by the higher return on **education** extends to the economy as a whole. The growth in the **education** level of the population has been a significant source of growing wages, productivity, and living standards over the past century. The increase in the return on schooling over the past two decades enhances this opportunity.

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