Equality or Prosperity?

Time to Rethink Priorities

European Policy Information Center

Diego Sánchez de la Cruz

Head of Research at Instituto Juan de Mariana

19 March 2025

Summary

- Economic inequality has become a central issue in European policymaking, often used to justify increased state intervention.
- However, a careful analysis of historical trends and empirical data suggests that economic freedom, rather than redistribution, plays a more significant role in reducing poverty and improving prosperity.
- This briefing examines inequality trends across the European Union, evaluates common misconceptions about wealth concentration, and demonstrates that countries with greater economic freedom experience higher income mobility and overall well-being.
- While many policymakers advocate for higher taxation and extensive redistribution, evidence suggests that fostering market-friendly policies leads to a more prosperous and equitable society.

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The Juan de Mariana Institute (IJM) is a Spanish think tank dedicated to advancing individual liberty and free-market principles. Founded in 2005, this influential organisation promotes liberal economic policies through rigorous research, training programs, and public outreach initiatives. Drawing inspiration from the Spanish scholar Juan de Mariana, IJM has established itself as a leading voice for liberty in the Spanish-speaking world, reaching millions through its publications, media appearances, and educational efforts.

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Introduction

Since the 1990s, the decline of "real socialism" has led the radical left to reinvent its political rhetoric, embracing new narratives such as the "fight against inequality." This has been uncritically adopted by many, placing economic inequality at the heart of political discourse in Europe and shifting focus away from economic growth and wealth creation. Unsurprisingly, the more the debate has centred on "fighting inequality," the less economic dynamism we have witnessed. Most policies aimed at reducing income or wealth disparities often result in less economic freedom, ultimately hindering prosperity.

Equality is not synonymous with progress. More inequality does not necessarily mean less prosperity. Countries such as Norway, the Netherlands, Moldova, and Belarus have similar Gini index scores, indicating similar levels of income equality. However, income levels in Norway (€88,336 per capita) and the Netherlands (€49,670 per capita) are significantly higher than those in Moldova (€18,700 per capita) and Belarus (€6,675 per capita). These real-world examples illustrate why equality alone should not be considered a proxy for higher prosperity and well-being.

Moreover, economies with greater economic freedom tend to have significantly higher income levels—approximately ten times higher than the most socialist and interventionist models. Interestingly, the income inequality levels in these freer economies are lower, with an average Gini index of 32.4 compared to 37.5 in more interventionist models. As Milton Friedman famously stated, "A society that puts equality before freedom will get neither. A society that puts freedom before equality will get a high degree of both."

New Findings on Wealth and Income Inequality

In terms of average wealth, the net worth of citizens in France, Germany, Spain, Sweden, the United States, and the United Kingdom has increased sevenfold over the last half-century. This growth is primarily due to increased homeownership rates and the expansion of financial savings for retirement, as Daniel Waldenström demonstrates in his recent book, *Richer and More Equal*.

According to Waldenström’s extensive research, the top 10% of the population owned 75% of gross national wealth at the beginning of the 20th century, whereas their share today is around 25%. Meanwhile, the wealth held by the remaining 90% has tripled over the same period. This indicates that wealth has expanded for all, and economic inequality has not risen but declined. Policymakers and commentators should reconsider outdated views based on Thomas Piketty's misleading narrative of ever-increasing inequality. The data clearly points in the opposite direction.

What About Income Inequality?

A deeper analysis of income inequality reveals important insights. For example, Spain's spike in income inequality during the Great Recession was largely due to unemployment, which accounted for 80-90% of the increase. The rich did not get richer; in fact, the share of national income earned by the top percentile fell from 26% to 19%. Instead, an excessively rigid labour market led to a massive rise in unemployment, peaking at 25%, which in turn exacerbated income inequality.

Furthermore, income distribution is far more dynamic than many assume. Comparing today's *Forbes* list of the world's richest individuals with its first edition from the 1980s reveals that more than 80% of those at the top have been replaced. Similarly, in Spain, only 9 of the 50 wealthiest people or families from 1978 remain on the list today, highlighting significant economic mobility.

Public sector compensation is another key factor often overlooked in discussions on income inequality. In Spain, public sector workers earn 15-20% more than their private sector counterparts, whereas in the U.S., public servants earn roughly 20% less. Expanding the public workforce in Spain exacerbates inequality, yet those advocating for more public jobs often fail to acknowledge this contradiction.

Moreover, analysing lifetime earnings rather than single-year data provides a more accurate picture. In Spain, considering lifetime earnings reduces measured income inequality by around 25%.

Finally, income inequality statistics rarely account for purchasing power. The affordability of essential goods—such as food, energy, and digital services—has improved significantly. The average European today can purchase 3 to 15 times more of these goods than in the 1960s. Additionally, many digital services we rely on daily (e.g., search engines, streaming platforms, digital maps, messaging apps) are either free or very inexpensive.

Over-taxing the Rich? A Misguided Approach

The dominant narrative asserts that inequality is rising and that heavy taxation is needed to address it. However, as demonstrated, economic disparities have not increased. Furthermore, taxing the rich excessively often leads to unintended consequences.

A recent study on Spain shows that income tax reduces inequality by a mere 4%, while wealth taxes are actually regressive, slightly increasing wage inequality. In contrast, 95% of the reduction in market income inequality comes from targeted government transfers. This suggests that a focus on economic growth—rather than punitive taxation—yields better results.

Instead of overtaxing wealth, policymakers should implement growth-enhancing measures that increase government revenues by fostering greater economic activity. Heavy taxation dampens economic performance and reduces opportunities to implement effective spending policies that alleviate inequality, such as targeted welfare programmes and public services. Sustainable reductions in inequality stem from employment and productivity growth, underscoring the need to reinvigorate economic dynamism in Europe.

Policy Implications and Recommendations

The evidence suggests that inequality is best addressed through economic freedom rather than punitive taxation. EU policymakers should consider the following recommendations:

1. Prioritise growth over redistribution. Instead of excessive taxation, the EU should promote pro-business policies that drive investment and job creation.

2. Increase labour market flexibility. Overregulation creates barriers to employment, particularly for young workers. Spain's rigid labour laws have exacerbated unemployment and income disparities.

3. Encourage financial inclusion. Policies that promote homeownership, stock market participation, and private pensions enable individuals to build long-term wealth.

4. Avoid punitive taxes. High taxation discourages entrepreneurship and investment, ultimately harming economic prosperity.

5. Resist populist narratives. Policymakers should challenge misleading claims that economic growth inherently exacerbates inequality and instead emphasise the benefits of market-driven prosperity

Conclusion

The European inequality debate must move beyond simplistic redistributive policies. Market-driven economic freedom has proven to be the most effective means of raising living standards and reducing poverty. Countries that embrace economic liberalisation, such as Estonia and Ireland, experience greater social mobility and prosperity. In contrast, nations relying on high taxation and intervention, such as Spain and France, struggle to sustain economic growth. To ensure long-term well-being for all citizens, the EU must prioritise policies that enhance economic freedom and growth.

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