

Equality, Efficiency and the Skill Gap

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Abstract: *A model is constructed in which (i) an individual's human capital depends on her parents' human capital and her schooling time, and (ii) both skilled and unskilled labour are necessary for production. The model determines a continuum of Pareto-optimal steady states, one of which is efficient in terms of net income per capita. When the proportion of skilled workers at the steady state is below this efficient value (Skill Gap), a skill-enhancing educational policy can increase both equality and efficiency. This policy requires that the less educated families receive more educational services from the State than the more educated ones.*

Key words: Efficiency, Education, Inequality, Skill gap.

JEL classification: J24, J31, J62