

Research Fellowship Programme – Economic growth perspectives for Europe

Essay(s) on equity and growth in the EU

Background

Mindful of Joe Stiglitz remark that "economic growth may be everything, but it is not the only thing", both analytical and strategic thinking is perhaps usefully framed in terms of how to re-establish Europe's prosperity triangle comprising growth, stability and equity in open and democratic societies. Growth per se is obviously not an end in itself. Although being an essential driver of well-being in society, growth also needs to be stable and sustainable, with the benefits it brings being widely and fairly shared across society. Macro-stability is of course crucial - not in the narrow sense of short-run cyclical consumption smoothing, but in the more fundamental sense of safeguarding against the risk of systemic crises endangering broad standards of living -, even if it may entail some short-run sacrifice in terms of income growth. Equity considerations are indispensable as well, for the growth process cannot enjoy sustained democratic support if its fruits are reaped by just a privileged few.

In this context, the presumed trade-off between equity and efficiency appears to be sometimes overdone. There are many examples of quite inefficient welfare and social protection provisions that actually achieve very little in terms of equity – the well known insider-outsider issue. On the other hand, the experience of several countries suggests that well-designed and administered collective social insurance schemes may be superior to individual market-based arrangements from a societal point of view. In any case, hard choices will have to be made and, in general, the link between growth, structural reforms and the distribution of income and wealth must be carefully assessed, and perhaps occasionally re-assessed. Put simply, policy makers cannot shy away from the question "whose growth is it?"

Aim of the essay and key questions to be tackled

The main objective of the essay under this theme is to reconsider the role of equity issues for economic growth perspectives in Europe in the light of the recent crises and evolving policy challenges. The work should provide food for thought for the ongoing redesign of economic policies fostering social cohesion and supporting the process of further economic integration. To the extent possible, the essay(s) should provide empirical evidence supporting its main conclusions.

Important questions to be addressed include, inter alia:

- What have been the main drivers of the observed trends in the distribution of income and wealth across Europe? What kind of possible interaction patterns between rising inequalities and the build-up of boom-bust cycles could be identified? What are the main lessons to be drawn for the general design of (re-)distributional policies, in particular with respect to the respective role of instruments affecting the distribution of market incomes, disposable incomes, consumption possibilities and the provision of public services? How best to address limitations for such policies at the national level in integrated economic markets?

- What are the implications for the assessment of inter-generational fairness when expectations and aspiration levels regarding increases in average material well-being may

have to be downscaled, with the crisis creating in particular a difficult environment for today's European youth to enter the workforce? Does it mean that more weight should be given to the incomes/consumption of younger cohorts and, in consequence, the balance of the financing of investment necessary to provide for infrastructure and for ageing populations, to facilitate education and the transition into the world of work, and to tackle climate change should be switched towards older cohorts?