

**Fairness and prosperity:
Fostering inclusive growth in the EU**

**Discussion of papers by T. Atkinson and S. Scarpetta, ARC 2011 Conference,
DG EcFin,
Brussels, 21 November 2011**

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Remarks on Prosperity and fairness, Tony Atkinson

Rich and wide-ranging paper that raises and also combines a number of critical issues (growth-welfare link, sustainable development, inequality across various dimensions, fairness across various dimensions, policy implications)

Very largely in agreement with approach, normative perspective and policy conclusions.

Some issues and questions

Some issues and questions – GDP and incomes

GDP income to HH income graph somewhat misleading.

- Employee compensation and mixed income also go into 'state'
- Larger role of the public sector

Gap btwn GDP and real HH income in boom and bust

- Reflected in huge build-up of public debt
- Promise of decade of austerity
- Key distributional issues will be here (who pays)
- Results so far not encouraging

Q: Where does private debt/saving fit into your framework?

Some issues and questions – growth and sustainable development

Argue for slower but more stable and sustainable HH income growth while GDP growth continues

- Austerity means this will happen
- Stability is key: argument for automatic stabilisers and 'traditional' welfare state policies even if they (disputed) affect growth, in addition to financial market regulation
- 'responsible stewardship': key though is the composition of HH spending (dematerialisation, decarbonisation → change relative prices, public investment, regulation, 'just transition') in addition to the level
- Restraining income growth in 'rich' countries politically contingent on greater equality

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Intergenerational equity: missing a discussion of (lack of, declining) intergenerational mobility, especially in

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Remarks on growing inequality and policy options, S. Sarpetta

Based on crucial and influential OECD work Growing Unequal and follow-up project on causes (TUAC)

Attempt to disentangle globalisation, technical change and regulatory reform as causes of rising inequality

- In a nutshell: no, yes, ambiguous

Opens up a discussion about the value of certain regulations and institutions which had previously been considered only in terms of their 'job-killing' effect

HH compositional effects not as important as often portrayed

Importance of education for (in)equality (EU/US)

Some issues and questions – disentangling causal factors

Limits to econometrics' ability to disentangle closely interrelated trends

- Mention link between technology and globalisation, but also regulatory 'reform' program and globalisation went hand in hand (Thatcher)
- Surprising finding that financialisation not a significant causal factor. Other work (Stockhammer) does find an effect on the wage share, and anecdotally (US, UK etc.) counter-intuitive. Explanation?
- Indirect effect of globalisation 'locational competition' (not well proxied by trade shares) in reducing redistributive and regulatory capacity (tax competition)

Declining progressivity of tax system (EU27)

Top rate of personal income tax

1995: 47.3%

2010: 37.5%

Top rate of corporation tax

1995: 35.3%

2010: 23.2%

Implicit tax rate on consumption

1995: 19.4%

2010: 19.1%

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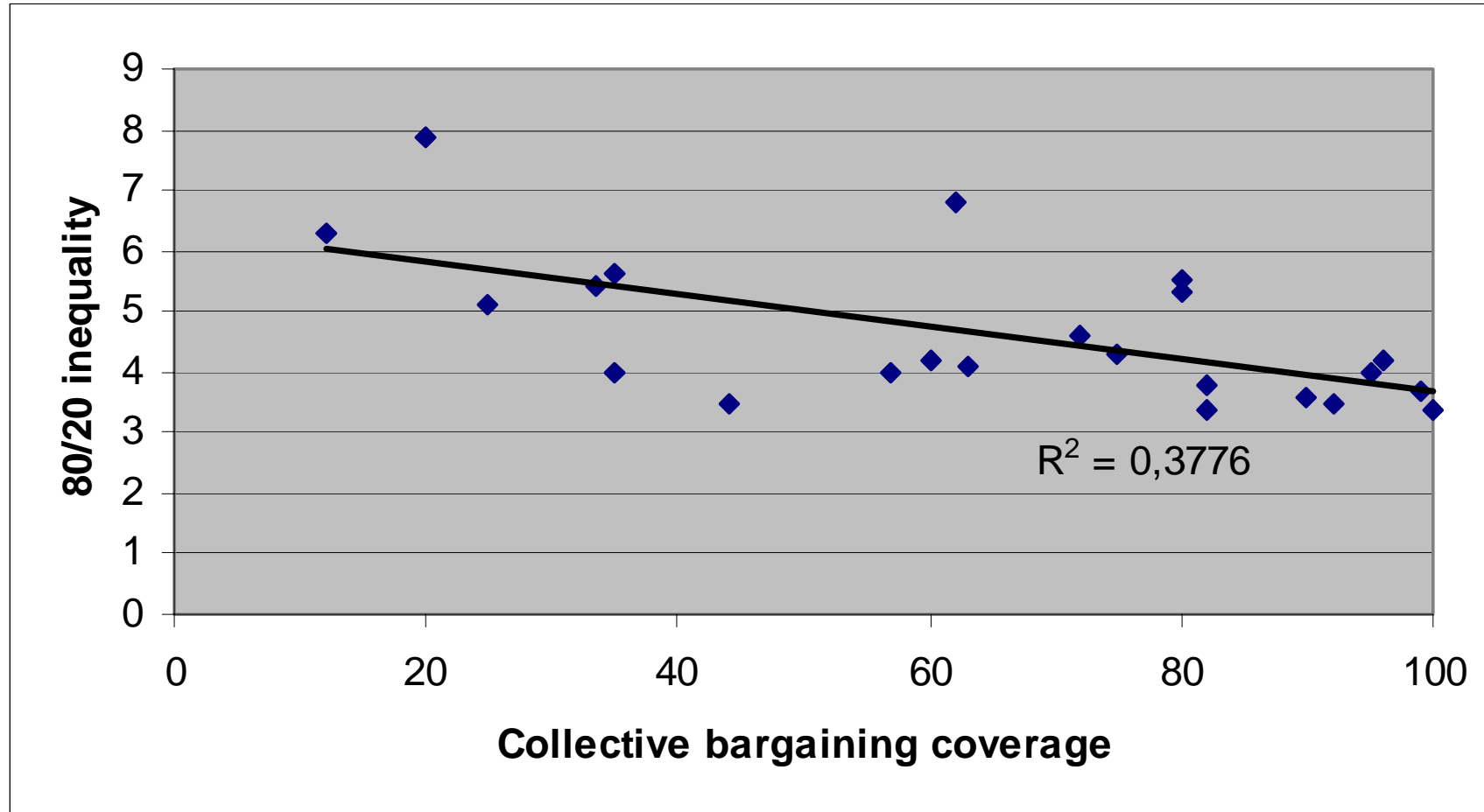
Source: EU Commission: Taxation in Europe **etui.**010

Some issues and questions – inequality/employment trade-off

A number of institutional features are posited to have a negative effect on wage equality but a positive effect on employment

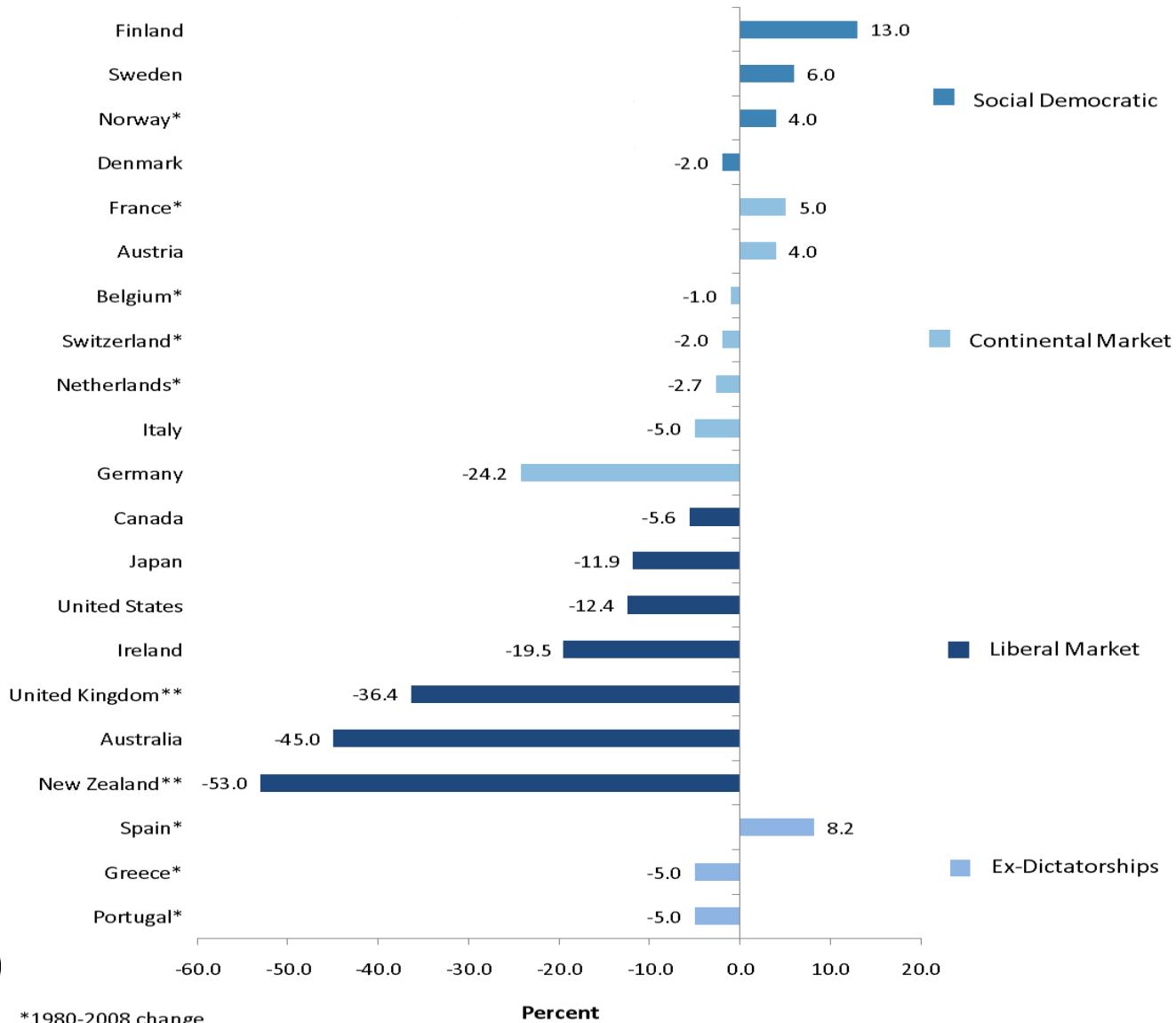
- How to balance these effects?
- Union coverage? Theory and empirics not clear that bad for employment

Some additional points: trade unions and equality!



O'Farrell/Watt, 2009
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Politics matter – CB coverage (Schmitt/Mitukiewicz 2011)



Andrev
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*1980-2008 change
**1979-2007 change

A bigger picture – Europe 2020, the crisis and inclusive growth

Pre-crisis growth model based on rising inequality

At least there was increasing intra-EU convergence at MS level – now reversed (social breakdown in EMU periphery?)

Crisis has not (yet) led to a re-orientation of 'rules of the game'

Missed opportunity of stimulus packages and austerity measures to reduce inequality

Europe 2020 strategy focused on relative poverty/inclusive growth

- But slow economic growth
- Austerity policies focused on spending side
- Liberal, supply side agenda in AGS but demand-side

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- Shrinking and marketisation of WS

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