



Globalization and Inequality: Implications for European Integration

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"Our early beliefs"

Expectations two decades ago

What we thought would happen

- Globalisation of capital, not labour
- Low-skilled priced out
- Sharing monetary sovereignty leads to social convergence, eventually
- Stability and efficiency for the EU, redistribution and stabilisation for the MS

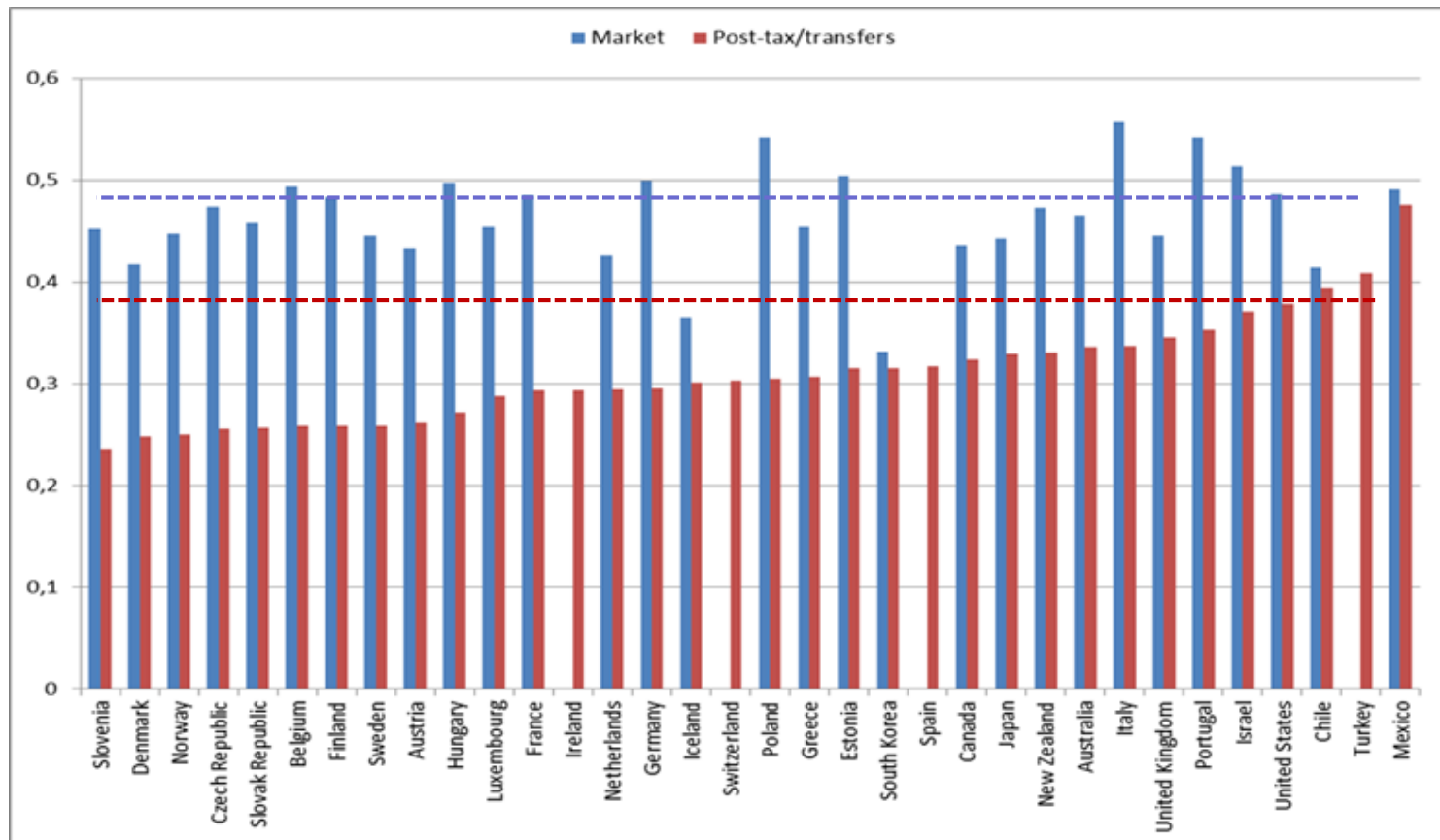
What happened instead

- Immigration perceived as a threat
- Yes, but also stagnation of median incomes
- Divergence in economic structures and social preferences
- The harsh face of Europe is not politically sustainable

Challenges for Europe

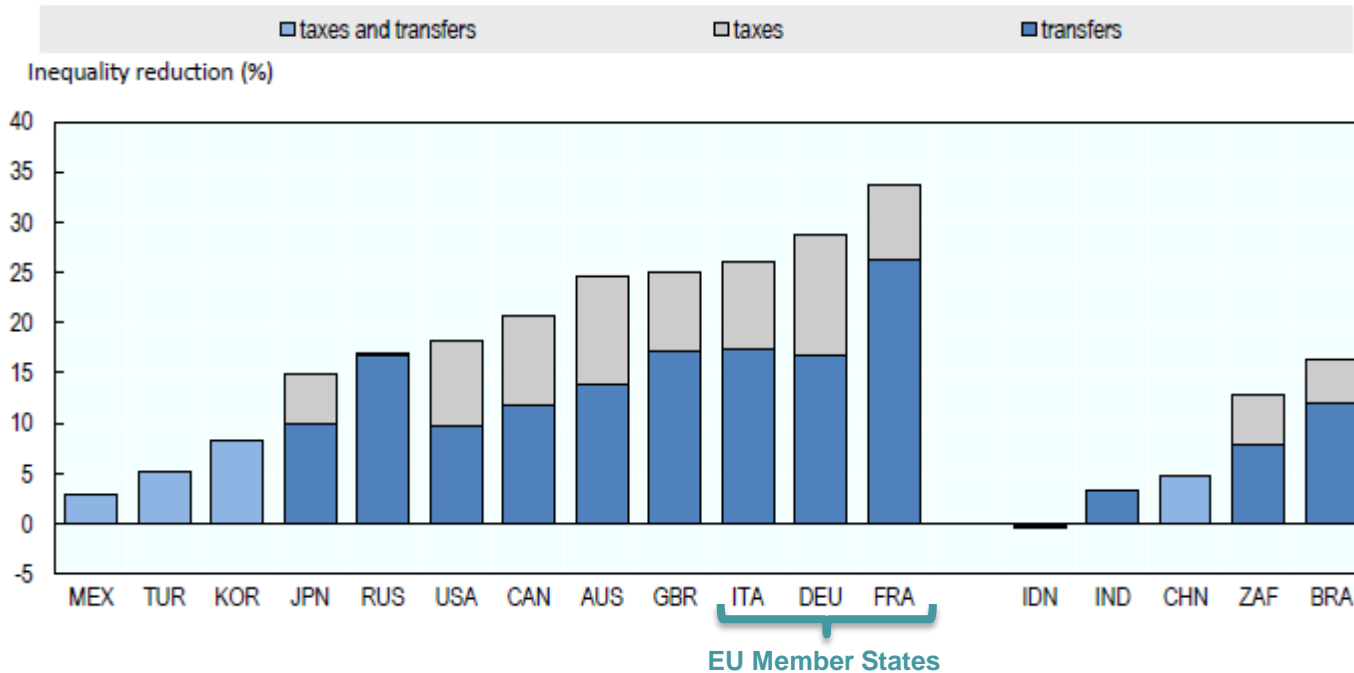
- *Migration and free movement of people cause insecurity*
- *Low productivity growth strains the European social model*
- *New model of convergence wanted*
- *The "Maastricht" policy assignment is under question*

Does the European social model protect?



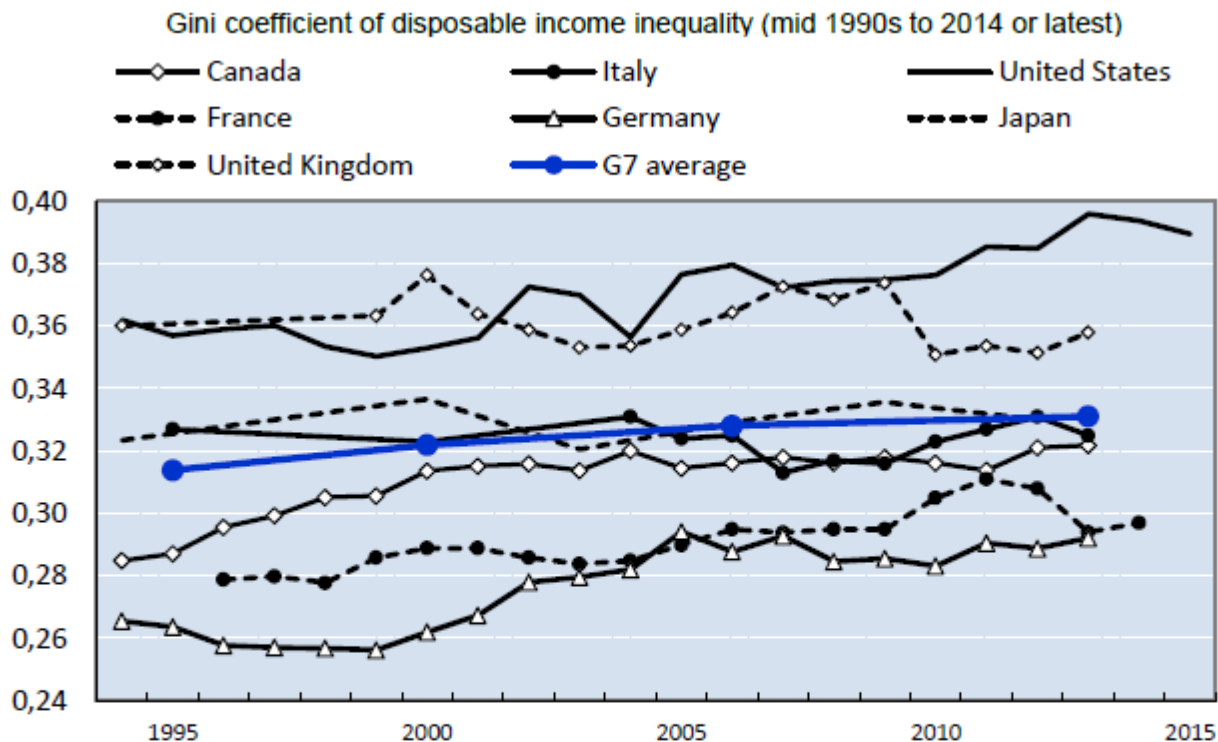
Does the European social model protect? (continued 1)

Redistributive effect of income taxes and cash transfers, 2014/15 (or latest year available)



Source: OECD IDD (<http://www.oecd.org/els/soc/income-distribution-database.htm>) and provisional data from OECD/Ford joint project. Some of the OECD joint project data is not final and subject to future change.

Does the European social model protect? (continued 2)



1. Note: Data for USA (2015) and France (2014) are provisional.

Source: OECD Income Distribution Database (IDD), www.oecd.org/social/income-distribution-database.htm, as at 17-January 2017. Secretariat calculations.

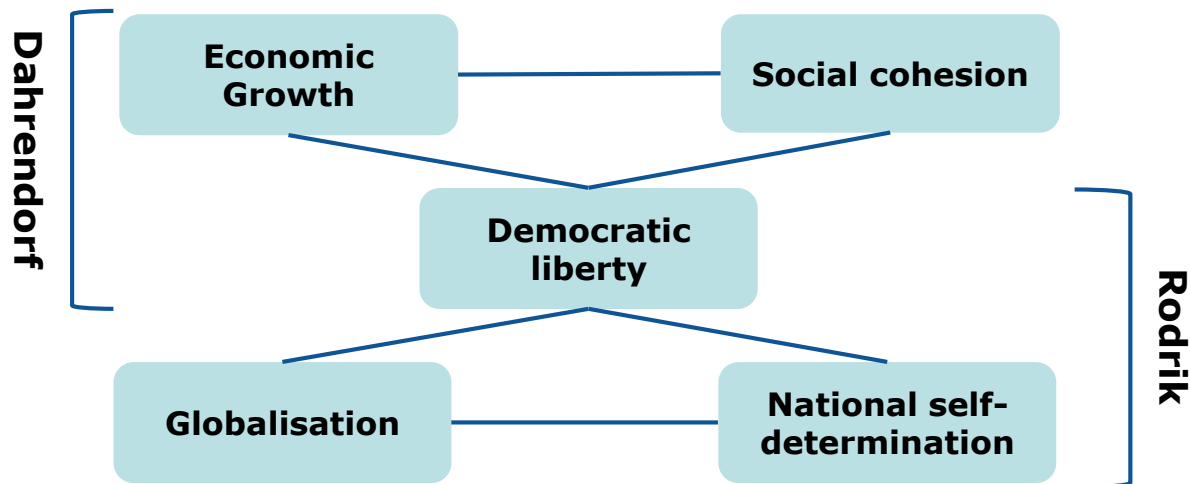
The impact of integration

➤ Beneficial for the economy, but not Pareto-optimal

- It affects relative scarcities of production factors
 - Free (embedded) factor flows in integrated markets, favouring mobile factors
- It propagates (skill-biased) technical progress
 - A globalisation/digital divide, favouring capital and high-skilled labour
- It enhances dynamic agglomeration effects
 - Increasing/high/persistent regional disparities
- It increases competitive pressures/enforces higher market flexibility
 - May negatively affect fair working conditions/protection in the market
 - May undermine rent seeking/rent sharing arrangements
- It limits the room for re-distributional manoeuvre at local level
 - Reduction of enforcement and discriminatory power
 - Enhanced systems competition effects
 - Perception of fiscal rules as a "straightjacket"

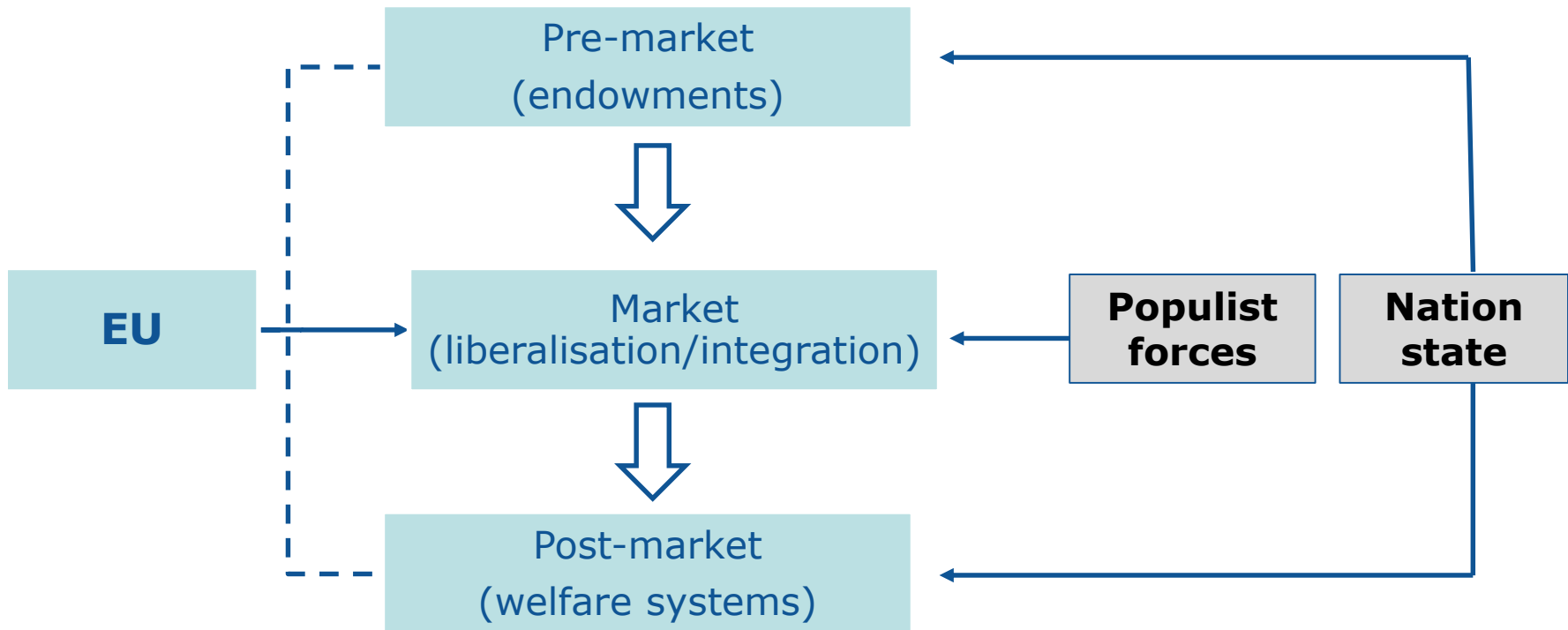
➤ Consistent with predictions of an "augmented" Heckscher-Ohlin model

Rodrik-Dahrendorf quandary



- If globalisation \equiv economic growth \Rightarrow risk of loss of social cohesion and national self-determination
- Two views on European integration:
 - (A) Regional globalisation OR
 - (B) Joint response to globalisation
- How to make (B) prevail?

Aligning social pressures and policy responses



Pre-market perspective

- The distribution of endowments:
 - Equip people with the resources and skills to succeed in life
 - Access to child care, education and training, health, housing
- Basic principles:
 - Equal opportunities
 - Non-discriminatory
 - Intergenerational fairness (incl. the environment)

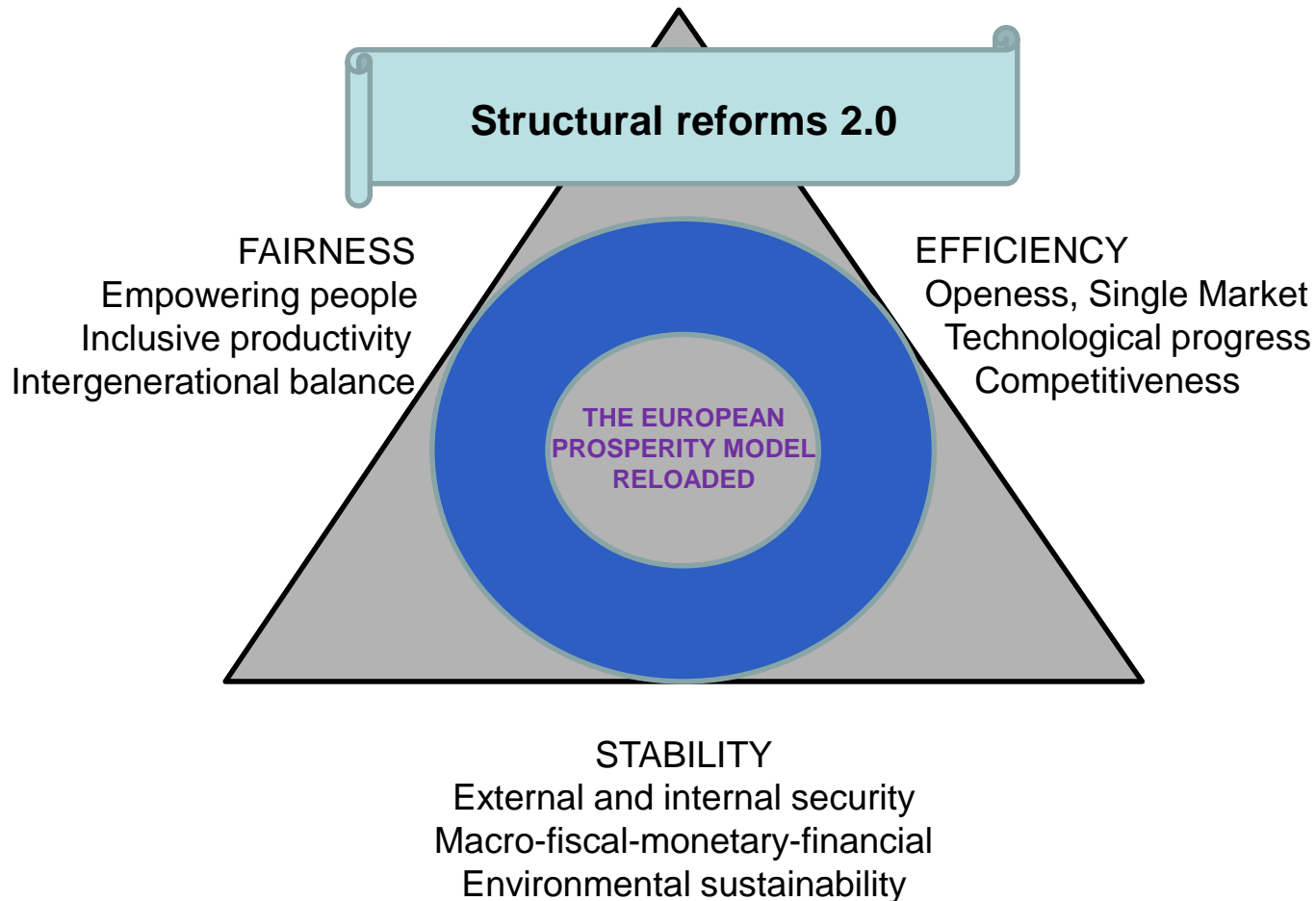
Market perspective

- Labour market compact
 - Social protection in the marketplace – "Securiflex"
 - Minimum standards – decent job conditions for all types of work
 - Collective rights
- Don't forget the role of product and financial markets

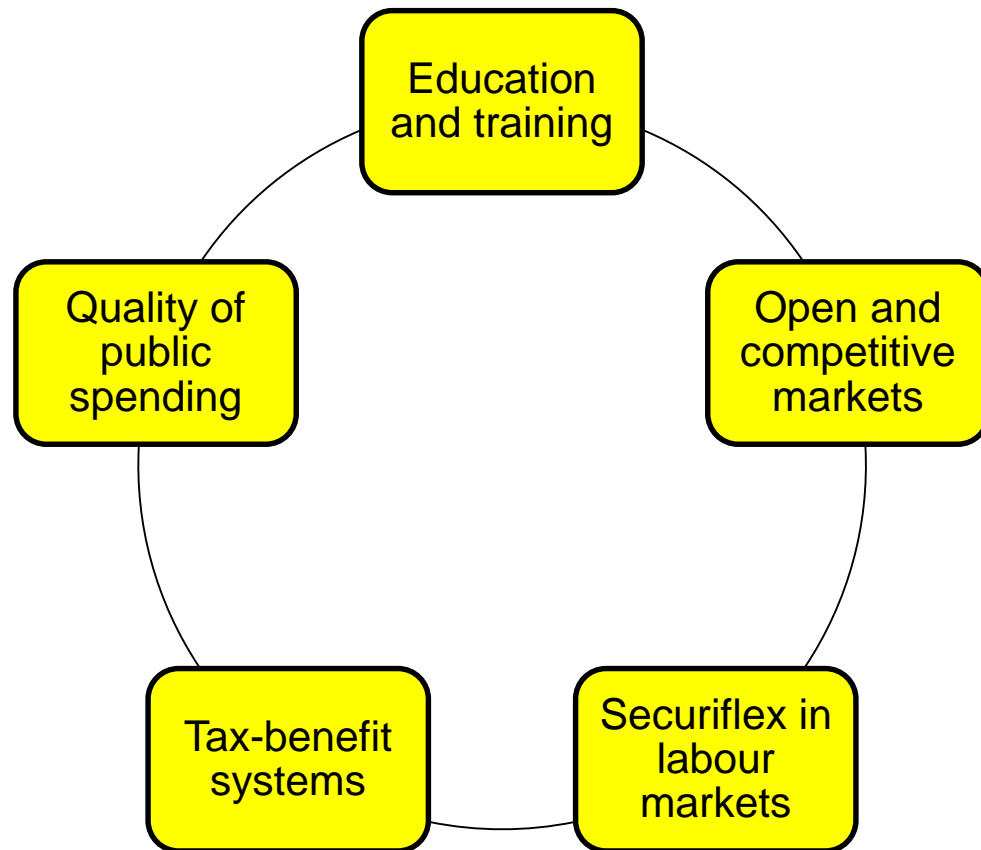
Post-market perspective

- Redistribution via the tax-benefit system and the provision of public goods – "fairness principles"
- "Efficient" welfare systems and social safety nets
- Collective insurance against the "big risks"
 - Unemployment
 - Health
 - Old-age

THE EUROPEAN PROSPERITY MODEL



The 5 main levers of structural reforms 2.0





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PRIORITY AREA	SETS OF ACTION
Fostering investment in people and ideas	<ul style="list-style-type: none">• Strengthen activation and inclusion policies offering lifelong training and re-employment services• Prioritise education and training , including early childhood intervention; reduce drop-outs• Foster innovation systems, R&D and the smooth diffusion of technological progress• Ensure universal and fair access to health care
Adjustment and adaptability for inclusive growth	<ul style="list-style-type: none">• Strengthen industrial relations and collective bargaining structures internalising negative external effects and promoting work-place productivity• Embrace open markets and the reallocation of factors of production towards its most productive use• Support adaptation and address displacement costs related to globalisation and technological change• Tackle labour market segmentation, establish better social protection for non-standard employment
More efficient and inclusive tax-benefit systems	<ul style="list-style-type: none">• Establish/optimize inclusive minimum income schemes• Use tax policy to impact market income distribution• Shift taxation away from labour, broaden tax bases, increase the progressivity of taxation structures• Optimise tax incentives for labour market participation and productivity growth• Ensure fair and sustainable pension systems in view of a changing world of work

Where more Europe and where less

1) *Complete EMU*

- **The core of the core cannot remain half-baked: 28-1=19**

2) *Focus EU budget on new European public goods*

- **Common migration, securing external borders, TFP-enhancing policies**

3) *Ensure vertical consistency between EU and national budgets*

- **Pre-market and post-market consistency**

4) *Mainstream distributional considerations into EU policies*

- **Not only the harsh face of Europe**