

**ECFIN Workshop 'Inequality and
Structural Reforms:
Methodological Concerns'**
16 May 2017
CC A. Borschette Room 0.B

SPEAKING NOTE

- Dear speakers, dear participants, it is my pleasure to welcome you to DG ECFIN's workshop on “Inequality and Structural Reforms: Methodological Concerns”. In the context of the rising importance of income inequality in the academic and policy debates, this workshop aims at improving our methodological knowledge of the theoretical and empirical tools to assess the impact of structural reforms on income inequality. This knowledge will help us to understand how policy can be better designed to enhance equality.
- Allow me to briefly explain the political relevance of inequality and of the some policy instruments to tackle it, to provide some facts and figures about the development of inequality and to introduce the rationale of the workshop and the structure of today sessions.
- **As far as the importance of inequality in the EC political agenda is concerned**, since the beginning of his mandate in November 2014, the President of the European Commission, Jean-Claude Juncker, has on several occasions stressed the importance of tackling income inequality in the context of the European Pillar of Social Rights. Contrast inequality is a political imperative for the EU, both to gain social fairness and economic efficiency. End of April the Commission’s proposal for a European Pillar of Social Rights has been adopted, together with a reflection paper on the future of the EU’s social dimension. As expected, income inequality is very relevant in this document. The distribution of income is particularly

important also in the context of the European Semester (both in the Country Reports and in the Country Specific Recommendations). In this context, DG ECFIN is further developing supporting analysis, inter alia, on the effects of structural reforms on income inequality and on the effects of income inequality on economic performance.

- **Regarding the development of income inequality**, in the wake of the crisis, inequality became an important concern for governments. Although Europe is home to the most equal societies in the world significant disparities still exist between households.

On average, in the EU the wealthiest 20% of households earn 5 times more than the poorest 20%. Furthermore, inequalities have been on a long-term increase. For the EU the gap between the 20 % of the population with the highest income and the 20% of the lowest income (the so-called income quintile share ratio) has increased over the past decade. In 2006 it was 4.9, it reached 5 in 2013 and 5.2 in 2014. Of course we always need to recall that different indicators may highlight different perspectives and tell different stories.

- **The workshop seeks to improve the analytical tools to assess the impact of structural reforms on income inequality in the context of enhancing economic performance.** Our aim is that of analysing the impact of structural reforms on income inequality as income inequality may affect economic performance. On the one hand, although the effect of income inequality on growth is controversial, recent publications by international organizations such as the OECD, the World Bank, The International Labour Organization and the International Monetary Fund confirm that income inequality may have a long-term negative impact on potential growth by consolidating and reinforcing existing inequalities opportunities, limiting skills development and hampering social and occupational mobility. On the other hand,

structural reforms, such as those increasing the progressivity of tax and transfer systems, can reduce income inequality. The same can be said for well-designed labour and product market reforms.

- As a starting point for this workshop, there are two observations as regards the literature on the topic. First, the literature focussing exclusively on the impact of structural reforms on income inequality is rather limited. Of course this relationship, both in theoretical and in empirical works, is nested in a more complex framework involving other variables and multiple causality channels. Second, the results as regards the impact of structural reforms on income inequality are sometimes controversial, in particular as to whether the impact is positive or negative.
- This workshop aims at reflecting the state of art literature regarding the theoretical and the empirical methodologies analysing the effect of structural reforms on income inequality and presenting a selection of the most recent work of experts in the field. Divided into two parts, the first one focusses on the analysis of the labour and product market reforms, principally from a theoretical model angle but also with some econometric results. The second one is devoted to the empirical analysis of tax reforms with the focus being on the microsimulation models.
- The results of the presentations and the panel discussions will help us to inform our analytical work in the European Semester or, more in general, the policy assessment of the structural reform which already is at work especially as the taxation field is concerned. We expect to learn much, but also to open new possible strands of research, synergies across model and to improve, whether possible, the collection of the relevant data.

- **Conclusions**

To conclude, I would like to recall that following the workshop, proceedings will be prepared in the form of an ECFIN publication and a webpage will be set up that will include the presentations made by the speakers.

- Again: I would like to thank you all for being here today and I look forward to an interesting and fruitful discussions.

Background information

- The participants are researchers and scholars from academia and think tanks, some colleagues from ECB, the European Parliament Research Services and those from JRC in Ispra and Seville, DG TAXUD, DG EMPL and DG ECFIN.
- President Juncker referred to the importance of inequality for example in the “The Five President's Report: Completing Europe's Economic and Monetary Union” – 2015; “Speech at the Press Conference on the Launch of the OECD Flagship Report on Income Inequality” – 2015.
- In the European Pillar of Social Rights is written e.g. "A gap between alleged "winners" and "losers" of economic and technological change may result in new patterns of inequality, with a persistent risk of poverty coinciding with new forms of exclusion. In a modern and cohesive society, everyone should be able to contribute fully and have access to new "ladders of opportunity" at different stages of their lifetime. This is a matter of social justice and social cohesion.
- Some additional information about the S80/S20 indicator at <http://ec.europa.eu/eurostat/web/gdp-and-beyond/quality-of-life/s80s20-income-quintile>. Inequalities have been on a long-term increase. For the EU [S80/S20] the gap between the 20 % of the population with the highest income and the 20% of the lowest income ("the income quintile share ratio") has increased since 2006, although it stabilised as of 2007 and even declined between 2007 and 2009. Starting in 2013 a new increase appeared reaching 5.2 that remained stable for 2014 and 2015.

Information on speakers and discussants

Chair: Jan in't Veld is an Economist and a Head of Sector at the European Commission, DG Economic and Financial Affairs. He holds degrees from the Free University in Amsterdam, the London School of Economics and obtained his PhD in economics from Birkbeck College (University of London). Before joining the European Commission, he worked at the National Institute of Economic and Social Research (NIESR) in London. His research interests are in the areas of macro modelling, fiscal policy and structural reforms.

Speaker: Jean-Olivier Hairault is Professor of Economics at Université Paris 1 Panthéon-Sorbonne and Associate Chair at Paris School of Economics as well as Research Fellow at "Centre d'Economie de la Sorbonne" and IZA. His main research interest lie in work, employment and social policies, macroeconomic dynamics, monetary and fiscal Policy and labour markets.

Speaker: Giovanni Dosi is Professor of Economics and Director of the Institute of Economics at the Scuola Superiore Sant'Anna Pisa, Co-Director of the task forces “Industrial Policy” and “Intellectual Property Rights”, IPD - Initiative for Policy Dialogue at Columbia University, Continental European Editor of Industrial and Corporate Change. Included in “ISI Highly Cited Researchers” and Corresponding Member of the “Accademia Nazionale dei Lincei”. His major research areas include Economics of Innovation and Technological Change, Industrial Economics, Evolutionary Theory, Economic Growth and Development, Organizational Studies.

Speaker: Orsetta Causa is Senior Economist at the Ireland/Portugal Desk of the Organisation for Economic Co-operation and Development (OECD). She is responsible for the OECD publications on the Going for Growth structural policies. Her research focuses mainly on structural policies, inequality and more generally on issues such as inter-generational social mobility, wealth and growth.

Speaker: Mikkel Hermansen is Economist at the Structural Surveillance Division of the Organisation for Economic Co-operation and Development (OECD). His research focuses mainly on economic resilience, structural policies and inequality.

Discussant: Zsolt Darvas is Senior Fellow at Bruegel since September 2013. He is also Research Fellow at the Institute of Economics of the Hungarian Academy of Sciences and Associate Professor at the Corvinus University of Budapest. From 2005 to 2008, he was the Research Advisor of the

Argenta Financial Research Group in Budapest. Before that, he worked at the research unit of the Central Bank of Hungary, where he served as Deputy Head. His research interests include macroeconomics, international economics, central banking and time series analysis.

Chair: Salvador Barrios is Team Leader at the Fiscal Policy Analysis team of the Joint Research Centre, European Commission. His research focuses on public finances, taxation and growth. He has previously worked as Fiscal Policy Analyst at the Directorate General for Economic and Financial Affairs of the European Commission. Before joining the European Commission he held teaching and research positions in several universities in the UK, Spain, Ireland and Belgium.

Speaker: Andreas Peichl is head of ZEW's Research Group "International Distribution and Redistribution" and Professor of Empirical Public Economics at the University of Mannheim. He is also Research Associate at the Institute for Social and Economic Research (ISER), University of Essex, UK, and Research Affiliate at the Center for Economic Studies (CESifo) of the University of Munich, Germany. His current research interests include (empirical) public economics, labour economics, and welfare economics with particular reference to optimal taxation, tax reforms and their empirical evaluation, tax benefit microsimulation, and the analysis of income distributions. His research has been published in various academic journals.

Speaker: Daniel Waldenström is Professor in the Economics Department at Uppsala University. He received his Ph.D. in Economics from the Stockholm School of Economics in 2003 and was thereafter visiting assistant professor at UCLA and Global Fellow at UCLA International Institute 2003-2004. In 2009 Waldenström gained his second Ph.D., in economic history, at Lund University. Waldenström's research concerns income and wealth distribution, intergenerational mobility and taxation. He has published papers on the evolution of top income shares and wealth concentration in several countries. His recent work deals with intergenerational transmission and tax progressivity in Sweden.

Discussant: Elvire Guillaud is Associate Professor of Economics at Université Paris 1 Panthéon-Sorbonne. Her research focuses mainly on inequalities, redistributive policies, social mobility, preference heterogeneity, institutional change, model of capitalism, econometrics of qualitative variables, econometrics of panel data.