

# Inequality and Economic Insecurity: A Policy Agenda for Inclusion

Dani Rodrik and Stefanie Stantcheva

October 2022



**S** O C I A L  
**E** C O N O M I C S  
**L** A B

		At what stage of the economy does policy intervene?		
		pre-production stage (1)	production stage (2)	post-production stage (3)
Which income segment do we care about?	bottom incomes			
	middle class			
	top incomes			

		At what stage of the economy does policy intervene?		
		pre-production stage (1)	production stage (2)	post-production stage (3)
Which income segment do we care about?	bottom incomes	primary education and early-childhood programs; vocational training	minimum wage; apprenticeships; reduced social security contributions by firms; in-work benefits	social transfers (housing, family, child benefits); guaranteed minimum income (RSA)
	middle class	public higher education; adult retraining programs	cluster policies (pôles de compétitivité); SME support programs (BPI); EU Structural and Investment Funds; occupational licensing; on-the-job training; collective bargaining & work councils; EU trade policies	unemployment insurance; pensions
	top incomes	inheritance & estate taxes	R&D tax credits (credit d'impôt recherche); EU competition policies	top income tax rates; wealth taxes

		At what stage of the economy does policy intervene?		
		pre-production stage (1)	production stage (2)	post-production stage (3)
Which income segment do we care about?	bottom incomes	primary education and early-childhood programs; vocational training	minimum wage; apprenticeships; reduced social security contributions by firms; in-work benefits	social transfers (housing, family, child benefits); guaranteed minimum income (RSA)
	middle class	public higher education; adult retraining programs	cluster policies (pôles de compétitivité); SME support programs (BPI); EU Structural and Investment Funds; occupational licensing; on-the-job training; collective bargaining & work councils; EU trade policies	unemployment insurance; pensions
	top incomes	inheritance & estate taxes	R&D tax credits (credit d'impôt recherche); EU competition policies	top income tax rates; wealth taxes

## The limits of the welfare state model

- Traditional welfare state model presumes good/middle class jobs are available to all with adequate education, hence focuses on social spending on education, pensions, and social insurance against idiosyncratic risks (unemployment, illness, disability)
  - These are pre-production and post-production policies in terms of the above matrix
- Inequality/insecurity is today a structural problem: inadequacy of good/middle class jobs is driven by secular trends (technology, globalization)
  - When technology (and globalization) hollow out the middle of the employment distribution we have a structural problem that exhibits itself in the form of permanent bad jobs and depressed regional labor markets. Needs a different strategy that tackles good-job creation directly. Traditional welfare state policies are inadequate and address at best symptoms of the problem.

## The “good jobs” welfare-state model

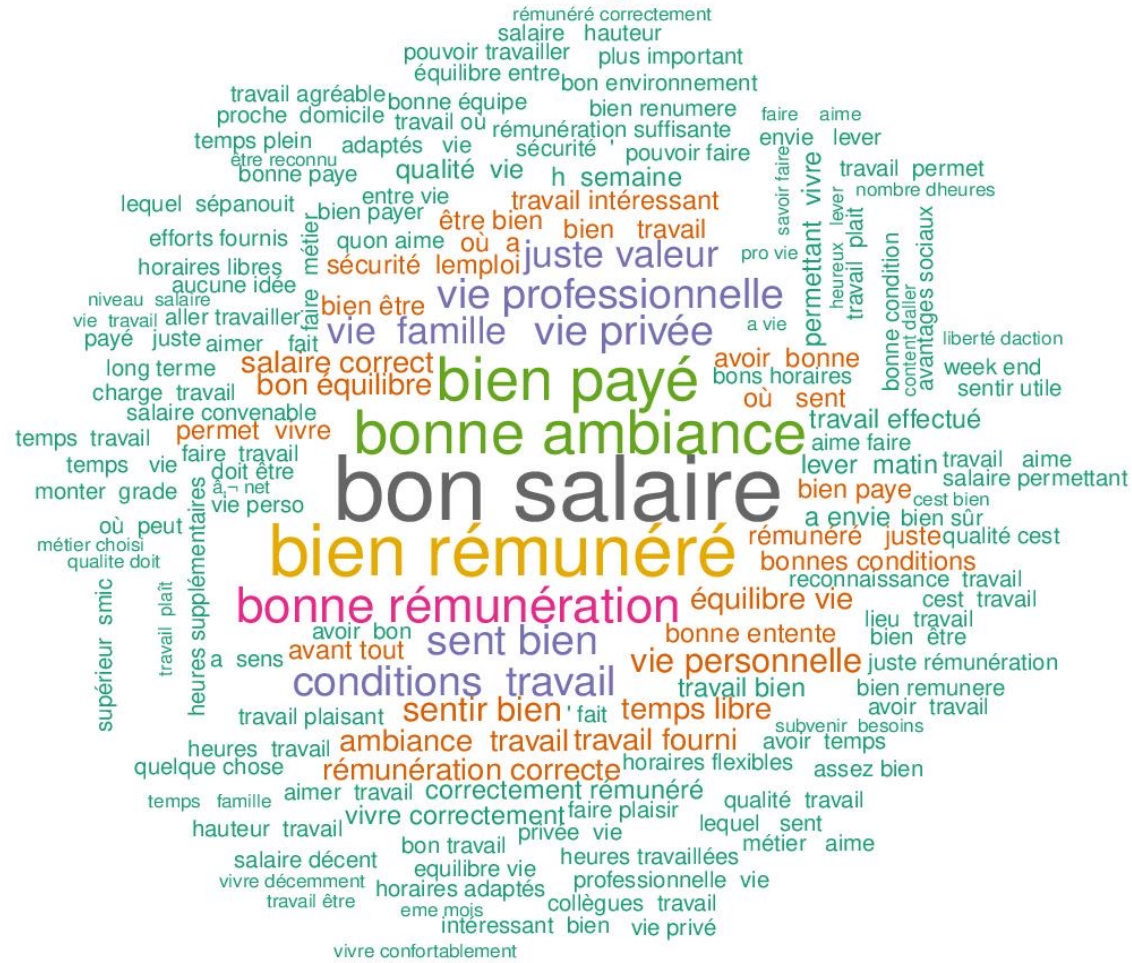
		At what stage of the economy does policy intervene?		
		pre-production stage (1)	production stage (2)	post-production stage (3)
Which income segment do we care about?	bottom incomes	primary education and early-childhood programs; vocational training	minimum wage; apprenticeships; reduced social security contributions by firms; in-work benefits	social transfers (housing, family, child benefits); guaranteed minimum income (RSA)
	middle class	public higher education, adult retraining programs	cluster policies (pôles de compétitivité); SME support programs (BPI); EU Structural and Investment Funds; occupational licensing; on-the-job training; collective bargaining & work councils; EU trade policies	unemployment insurance; pensions
	top incomes	inheritance taxes	R&D tax credits (credit d’impot recherche); EU competition policies	

## Two Surveys

We ran two surveys:

- “2020 Jobs, Inequality and Insecurity Survey”
  - asked about what are good jobs to them, experience of insecurity and in the labor market, ability to get good jobs, views on government policies on jobs, and on social dialogue.
- “2020 Taxes and Policies Survey”
  - asks about i) knowledge; ii) perception and views on; ii) feelings of fairness about all policies we address in report.
  - Report draws on these stats throughout; full results are linked to.

# What is a Good Job to You?







# More Survey Results: Jobs, Inequality and Insecurity Survey

- People like being able to use their skills; think good jobs are obtained with family/network and a good degree; regional divergence in ability to have access to good jobs (between low- and high-density areas); 17-29 years old have less strict criteria for jobs relative to 50-69 years old; 57% think job loss is due to globalization/outsourcing and 26% due to technology (14%: immigrants!)
- People think government has capacities and tools to stimulate good jobs; people favor creating quality jobs, even at the expense of more unemployment (quantity/quality trade-off), tend to support work-study program, better job search assistance (involving local employers, too).
- Lots of people favorable to surveys and more feedback to government, few feel views “of people like them” are taken into account.

# More Survey Results: Jobs, Inequality and Insecurity Survey

- People think tax burden on middle-class especially is too high already. Do support wealth tax, including financial assets (despite over-estimating share of HHs subject to it!) Many people do not understand what wealth tax base includes but believe it's unfair to exclude financial assets and include real estate.
- Inheritance tax deeply disliked; thorny ethical issues depending on whether take perspective of parents or children.
- Corporate taxes: believe foreign companies operating in France, as well as large French companies, do not pay sufficient taxes; SMEs do.
- Think there are many inequality of opportunities, even with similar schooling, based on family background, and that this is a serious issue. Yet, only mildly favorable to increasing overall spending on education (which is already high) or in disadvantaged areas. Want it mostly on primary schools and universities.

## Pillar 1. Inheritance, estate, and gift taxation

- Can reduce persistence of wealth across generations.
- Unpopular taxes, partly due to misunderstandings of how they work and who actually bears them (Stantcheva, 2020).
- Move to a **beneficiary-based regime that is progressive in the cumulative amount received, regardless of timing and donor**
  - Tony Atkinson's proposal,  $\approx$  done in Ireland.
- Could allow for true progressivity, largely exempt the middle class, and address citizens' current concerns.

## Pillar 2: Good jobs policies

- Labor market regulation/standards is important, but not enough
- Absent productivity growth, there is trade-off between better working conditions and employment levels
  - e.g., youth unemployment in France
- Therefore, good jobs for all possible only with wider dissemination of new technologies and innovation
  - i.e., good jobs require good firms
- But good firms do not internalize the social consequences of their employment decisions
  - social benefits of good jobs, problem of so-so technologies
- Hence the need for a quid pro quo between state and firms: provision of public inputs for productivity in exchange for commitments to expand good jobs

## Pillar 2: Key elements of good jobs policies

- Active labor market policies linked to employers
- Industrial/regional policies targeting good jobs
- Innovation policies directed towards labor-friendly technologies
- International economic policies that “protect” domestic labor/social standards

Connected by both a common objective (good jobs) and new form of governance (collaborative, iterative, experimental arrangements between private and state actors)

- a closer coordination of business and innovation incentives with labor market/training policies
- customized business services instead of ex ante tax incentives
- explicit targets for employment and job upgrading (“good jobs”)
- greater room for revision in light of changing circumstances
- more decentralized experimentation
- more intensive evaluation

## Pillar 2. Employer-focused active labor market policies

- Active labor market policies have mixed records: skill training and certification, employment subsidies, public sector work programs, and assistance with job search and matching. Done through Public Employment Services (PES).
- “**Sectoral training programs**” in the U.S. have repeatedly been shown to be quite successful. E.g., Project Quest in San Antonio, TX; Per Scholars in the Bronx, NY; Madison Strategies Group in Tulsa, OK; or Wisconsin Regional training partnerships in Milwaukee, WI.
- Can serve as an inspiration: geared towards local employers’ needs, close cooperation with employers, including on curriculum design, specific training incl. soft skills, track people even post employment, run by community organizations or private agencies.

## Pillar 2. Business incentives focused on “good jobs”

- Many business incentives today take the form of subsidies for physical investment and new technologies.
- Evidence suggests cost per job created is high and may not be the most direct way of helping workers.
- Suggestions by Bartik (2020):
  - Incentives should focus only on areas that are distressed.
  - Policies need to center around sectors or firms that have high potential to actually create jobs.
  - Tax incentives should not be the only/main tool.
  - Rather, the focus should be on specific public services needed by firms, such as customized business services, zoning or infrastructure policies, local amenities, and skills training



## Pillar 2: Innovation policies directed towards labor-friendly technologies

- “Technology is rapidly changing skills needed on the job, and workers need to adjust through increased education and continuous training...”
- Treats technology as exogenous force
- But direction of technology responds to
  - incentives (e.g., taxes on K vs L, R&D subsidies,..)
  - norms (private, and public, embedded in innovation systems and narratives on innovation)
  - relative power (who gets a say in the workplace on what types of technology are developed/adopted and how they are deployed?)
- Requires conscious policies to redirect innovation in a more labor-friendly direction
  - AI and other technologies that augment rather than replace labor and increase the range of tasks less-skilled labor can do

## Pillar 2: International economic policies that “protect” domestic labor/social standards

- Shifting tax base back to capital, and away from labor
  - global information exchange, minimum national taxes, reining in tax havens
- A social anti-dumping clause
  - expanded safeguards clause that allows nations to uphold national social/labor standards when faced with imports from countries that violate fundamental labor or human rights

## Pillar 2: Advantages of the “good jobs” agenda

- Structuralist approach
  - shaping production, innovation, employment incentives and relationships in situ rather than taking them as given
- Breaks through institutional fetishism
  - traditional conceptions/distinctions of “markets,” and “state,” and “regulation” no longer apply
  - collaborative, iterative rule making under extreme, multi-dimensional uncertainty
- Merging of equality/inclusion and economic growth agendas
  - growth possibly only through dissemination of advanced methods throughout rest of economy
- Opening up a path of cumulative institutional reform from gradualist beginnings
  - avoids incrementalism vs. big-break dilemma

## Pillar 3. Exchange of information and tax cooperation

- **On capital.**
  - Major improvements in international cooperation through the Automatic Exchange of Information (AEOI)
  - Renewed opportunities to tax capital more efficiently and improve compliance
- **On people.**
  - People, like capital, can be internationally mobile, especially higher-income professionals with little location-specific human capital.
  - Preferential tax regimes for foreigners — whereby foreigners coming to the country are given tax breaks for a few years — are widespread but are “beggar-thy-neighbor” policies.

## Pillar 3. Reducing fiscal leakages by reducing avoidance and evasion

- **Expanding third-party reporting.** Banks could act as third parties for private businesses and partnerships.
- **Leveraging data analytics to reduce non-compliance.** Predictive algorithms, machine learning, and AI. Make data available to & cooperate with researchers.
- **Giving resources to tax enforcement.** Tax administrations need investment in their technology infrastructure (software and hardware), advanced analytical capacities, and regular staff training.

## Pillar 3. Corporate and multinational taxation

- **Revenue potential & fairness concerns** (exacerbated by crises like the 2008 financial crisis, Covid-19).
- **Base Erosion and Profit Shifting (BEPS)** initiative by the G-20 and the OECD has produced and pushed a set of recommendations to ensure a better taxation of multinationals.
- **Minimum taxes** (e.g., GILTI in the US or BEPS Pillar 2) can lead to a “race to the top,” if implemented (even unilaterally) by a large country or block of countries. See Clausing, Saez, and Zucman (2020).

## Surveys as a key tool for understanding citizens and designing policies

- Large scale surveys could become a continuously used, well-designed, and interactive policy tool.
- Key approach for eliciting perceptions, knowledge, understanding, attitudes, and views.
- Deployed by a variety of issues by researchers, as exemplified by the studies of the **Social Economics Lab** at Harvard ([socialeconomicslab.org](http://socialeconomicslab.org))
- For policy can be a tool for exploration, impact testing in real time, iterative feedback, evaluation.