

Presentation “Inequalities and the European Semester”

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**INEQUALITIES IN THE
EUROPEAN SEMESTER**

Study
Presentation

-

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2020

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Zoom

The context

The European Semester & the debate on inequality

- The ES as a 'harder' instrument for social policy reforms
- Political initiatives on how the European Semester influences inequalities (EU Parliament Resolution on 'Combating inequalities' 2017)
- European Pillar of Social Rights (EPSR): moving away from the idea of social policy as mere productive factor?

Insecurity and inequality before and post-COVID19

Socio-economic insecurity → Euro-scepticism

General Escape Clause, 'Next Generation EU'

How do we address inequalities via the European Semester?

An operational definition and three focus areas

Policy interventions that address **the declining position of the lower & lower-middle segments** both directly (social policies) and indirectly (macroeconomic policies & taxation)

1. Socio-economic issues **beyond** poverty and social exclusion

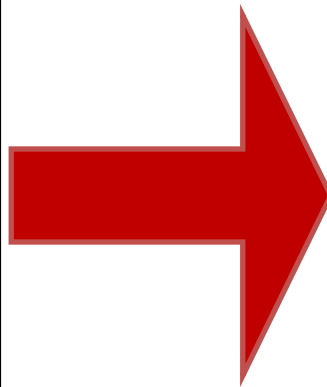
2. **Loop effect** between the 'economic' and the 'social'

3. Net balance between '**paying in**' and '**getting the rewards**'

1. Beyond poverty and social exclusion

Expanding the socio-economic focus

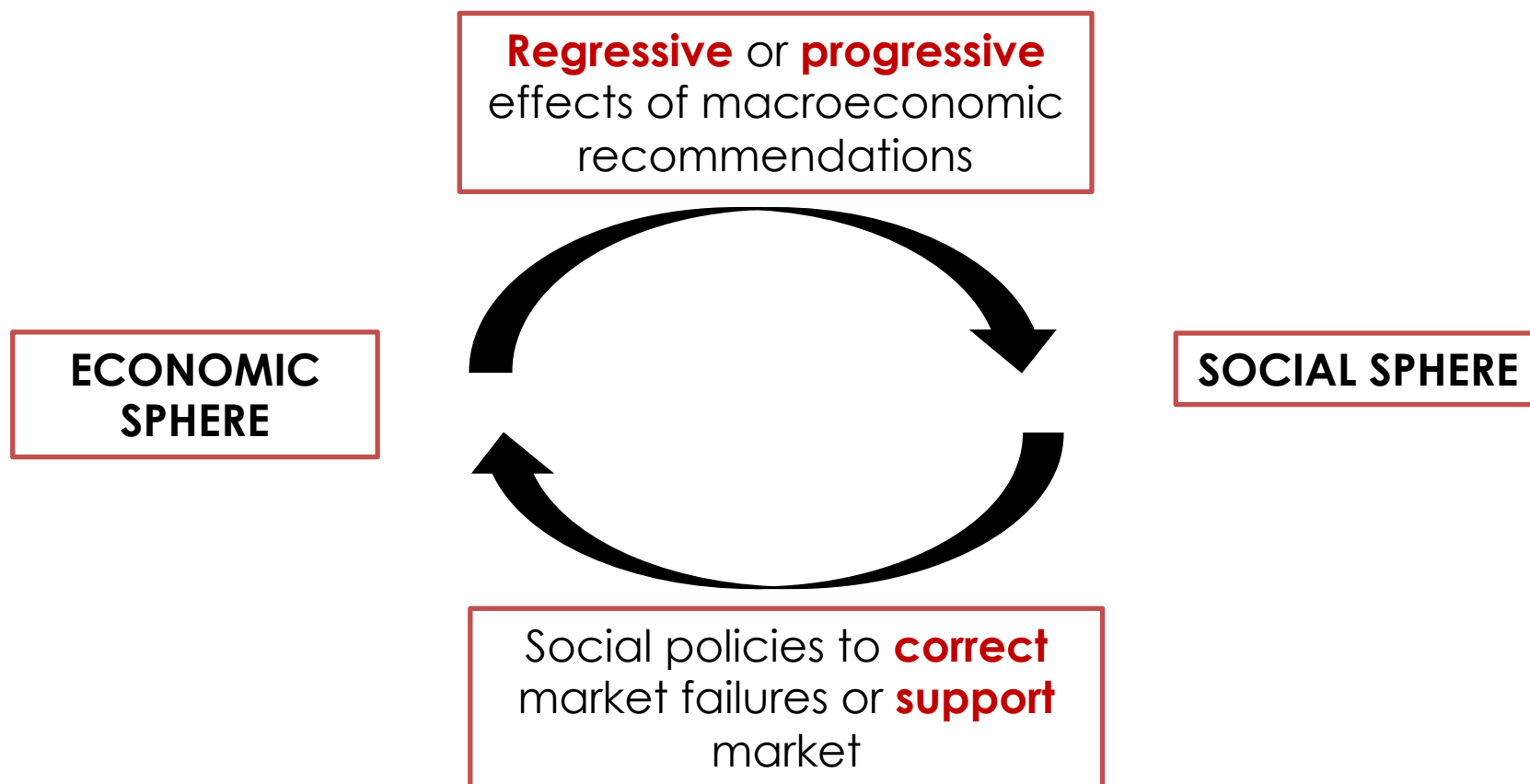
- **Poverty** and **social exclusion** targets
- Equal opportunities & access to services (**less cash transfers**)
- Focus on **labour market outsiders** (vs over-protected workers with permanent contracts, see AGS, 2011). But 'fair working conditions' (EPSR)



- The decline of the 'squeezed middle' / insecurity as a 'majority' issue (**low & middle groups**)
- Job tenure insecurity, but also job status insecurity & decline of job quality of **labour market insiders** + financial vulnerability
- The '**paradox of redistribution**'

2. The loop effect between economic-social

The effect of macro-economic recommendations



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3. Who pays & who gets the rewards

Taxation and inequality in the Semester

Even if there were competitive equality of opportunity, the reward structure is too unequal and ex post inequality needs to be reduced (Atkinson, 2014)

- Net taxation as a tool to redistribute towards **low** and **middle** income groups (major losses and fall of net wages for **bottom 60% in the last 10-15 years**)
- Broad tax revenues ➡ less inequality (but careful to the redistributive effects of new taxes)
- What is progressive taxation? Focus on consumption is regressive; **labour/capital taxation** needs to factor in labour protection; focus on **wealth concentration** rather than wealth taxation



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Beyond poverty and social exclusion

The limits of the Semester

Three policy areas: Education, Labour market and Social protection

Type of social policy recommendations: social retrenchment, social investment (activation and upskilling), social inclusion of disadvantaged groups and addressing inequalities

A problem of indicators:

1. S 80/20 inequality = does not account for middle class inequality
2. Absence of indicators that account for labour market composition, job tenure insecurity, financial insecurity.
3. Absence of a focus on access to services disaggregated by household income.



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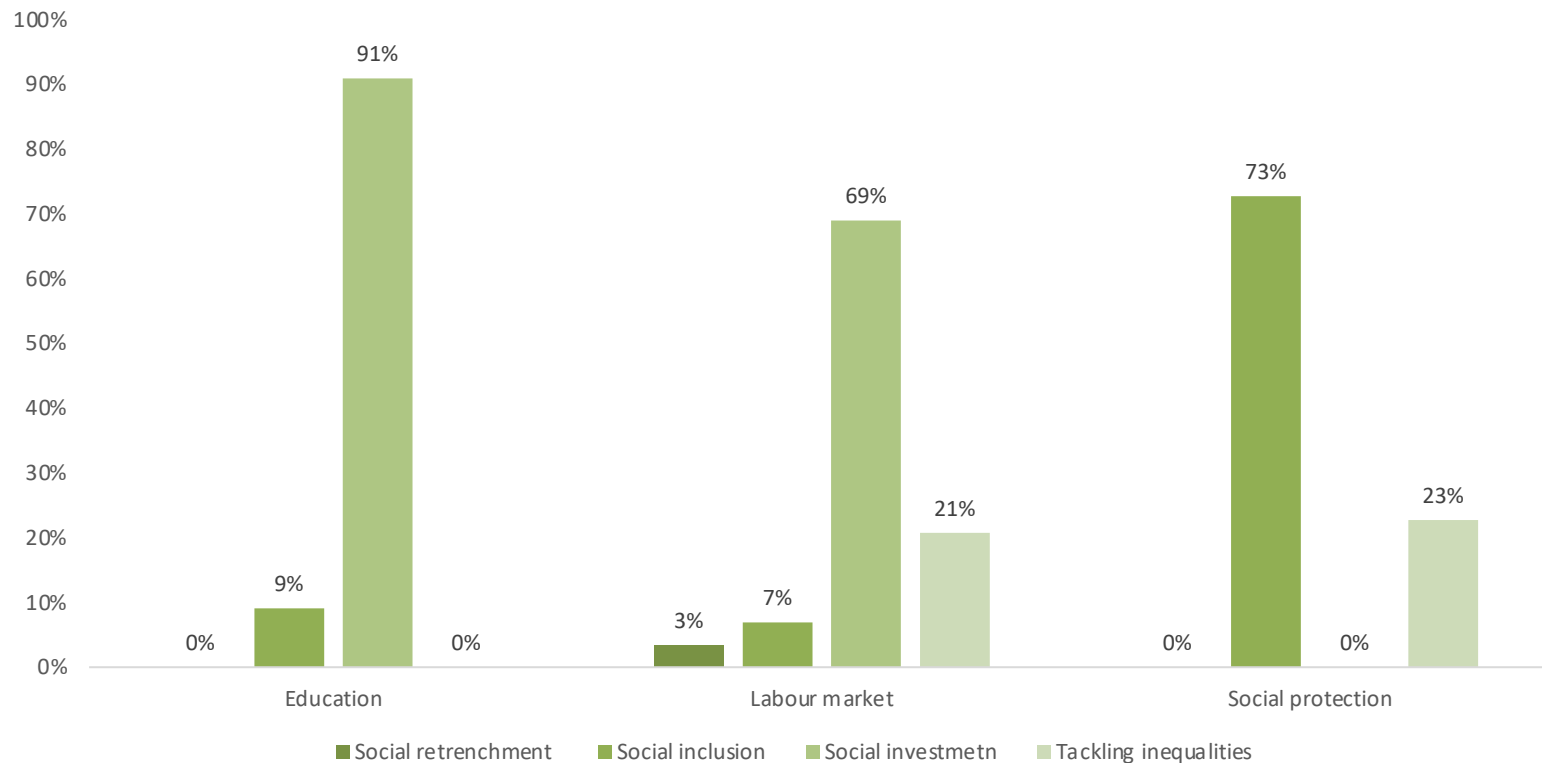
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Beyond poverty and social exclusion

Breakdown of policy areas (2019)

CSRs orientation in different policy areas



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The loop between economic-social Macroeconomic recommendations & inequalities

Policy area: public finance and economic policy (SGP – CSRs)

Caveat: over the years progressive flexibilisation of the European expenditure rules. Lack of focus on inequality is **not** necessarily related to budgetary stability/flexibility. In addition flexibility is discretionary upon Commission decision

A problem of governance:

1. EDP and EIP: sanctioning mechanism and automatic procedures, risk of not taking into account side effect of macroeconomic recommendations
2. Few social indicators in the MIP: e.g. no indicators on household financial fragility
3. Procedure does not involve Labour and Social affairs ministers



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Taxation & inequality

Recommendations in the Semester

Taxation areas in CRs: taxation/GDP, taxation structure (labor, corporate, capital, consumption), tax compliance, environmental taxation.

Type of taxation recommendations: neutral (reconfiguration tax mix); progressive (increasing tax base & tackling inequality); regressive.

A problem of priority:

1. EC identifies taxation policies to tackle inequalities: Wealth transmission, individuals' capital income and property taxation; Progressive income taxation; Targeted taxation for low-income earners to reduce social exclusion and poverty.
2. In the CRs and especially in the CSRs focus is however mostly on efficiency of taxation system, competitiveness, productivity.



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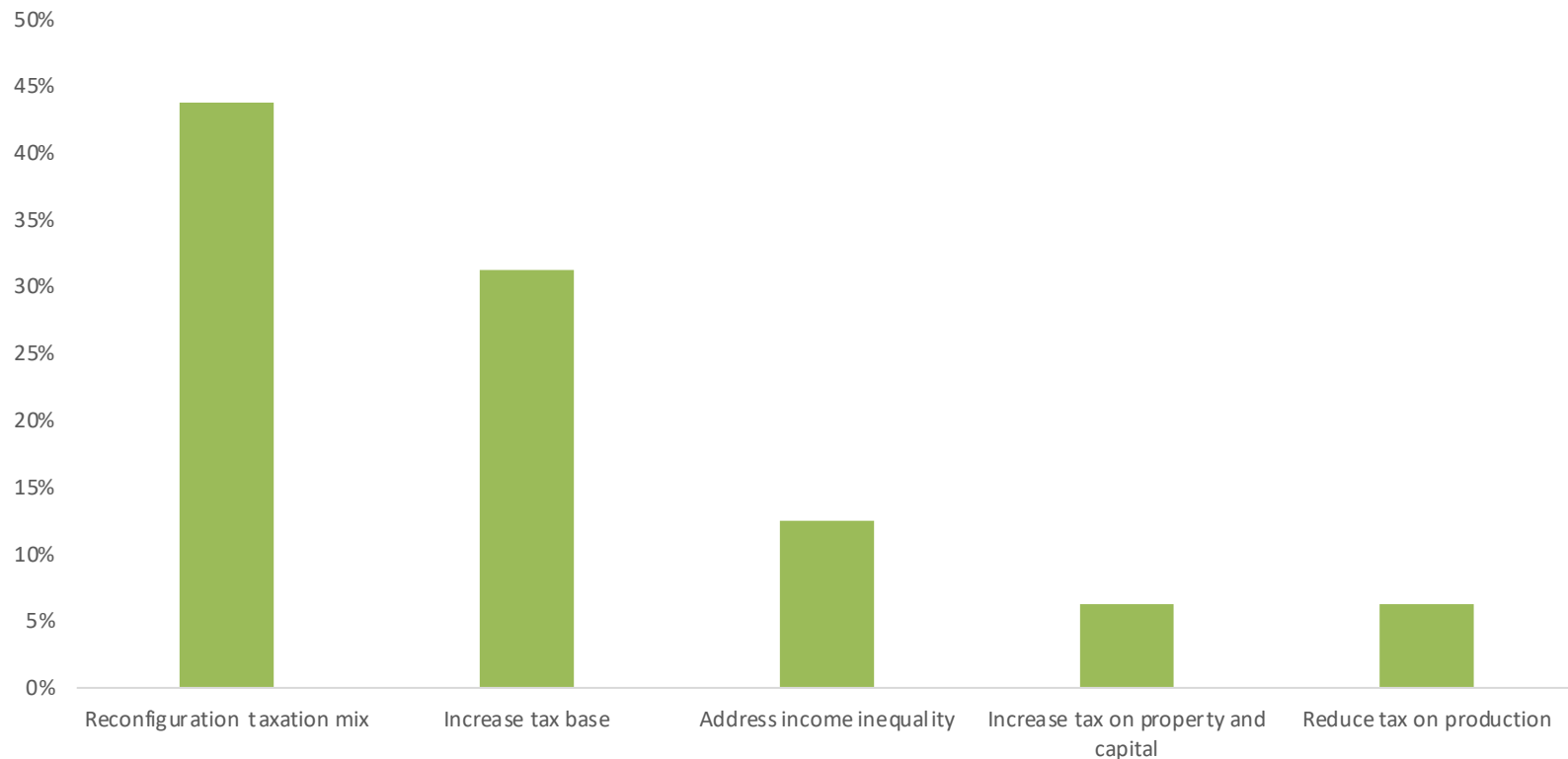


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Taxation & inequality

Taxation recommendations (2019): A problem of priority



First area of recommendations

Social and Employment policies

Include new indicators for the lower and middle segments of the population:

1. Capture the declining **quality of work** among the **majority of workers** with indicators of job-status insecurity, job quality and work representation;
2. Include measures of **financial capability and financial fragility**;
3. Include measures of **income and wealth inequality**.



Second area of recommendations

Public Finance and Macro-economic policies

Consider the effects of macroeconomic policies on social policies:

4. Integrate indicators that consider **household financial fragility** in the Macroeconomic Imbalance Procedure;
5. Rephrase recommendations & revise the EU fiscal framework and the **expenditure rules** of the Stability and Growth Pact;
6. Involve social actors in a **formalised way** in the drafting of the recommendations.



Third area of recommendations

Taxation

Pay more attention to how taxation influences inequality in the Semester by:

7. Making a **consistent use** of progressive taxation recommendations currently used for a minority of countries;
8. Have a coordinated approach to EU **tax erosion and taxation dumping**;
9. **Expand the tax base** (e.g. taxation against climate change), but considering its distributional effects.



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**Thank you
for your
attention**