

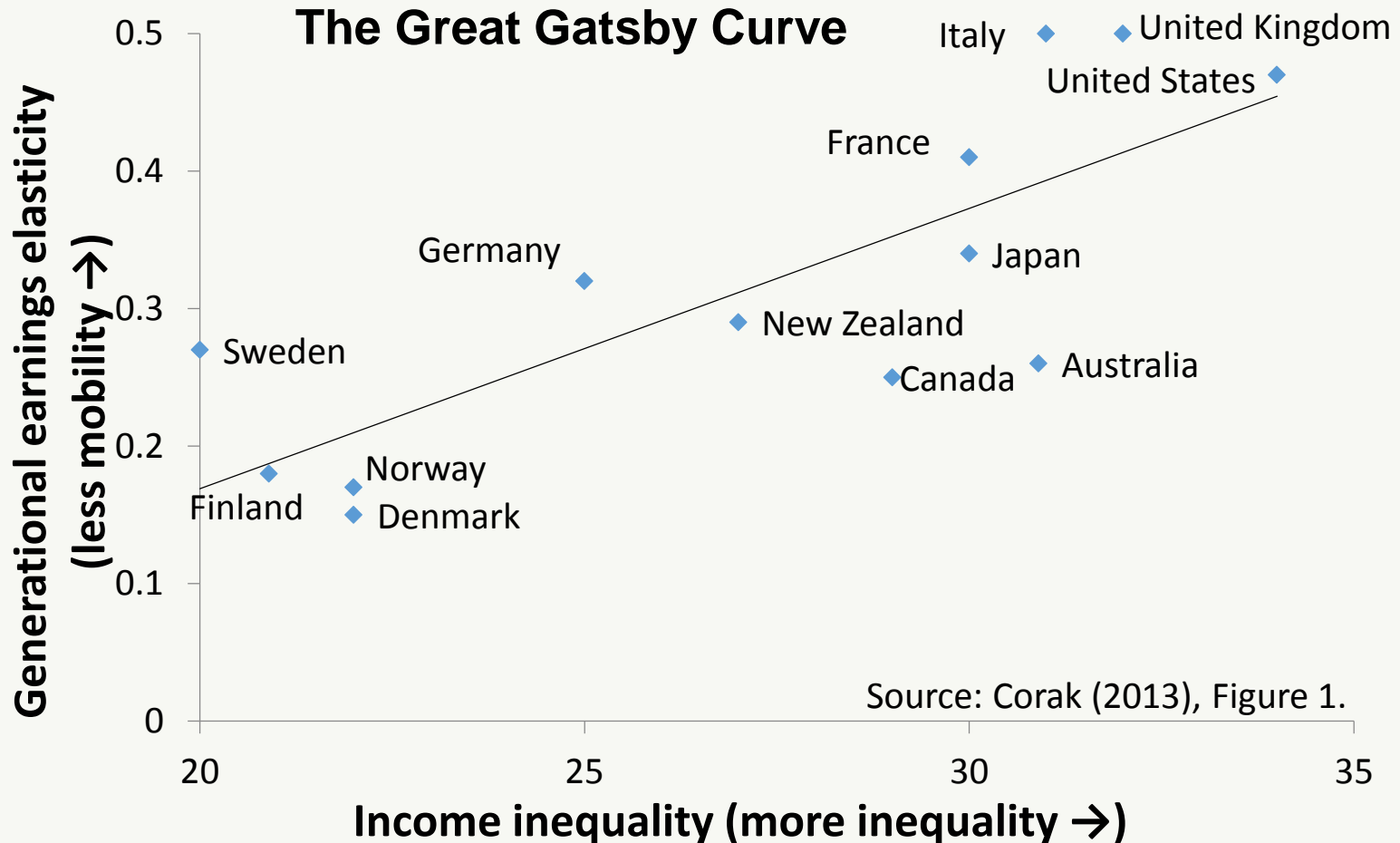
# **EBRD 2016 Transition report presentation**

## **Some additional lessons from the EU**

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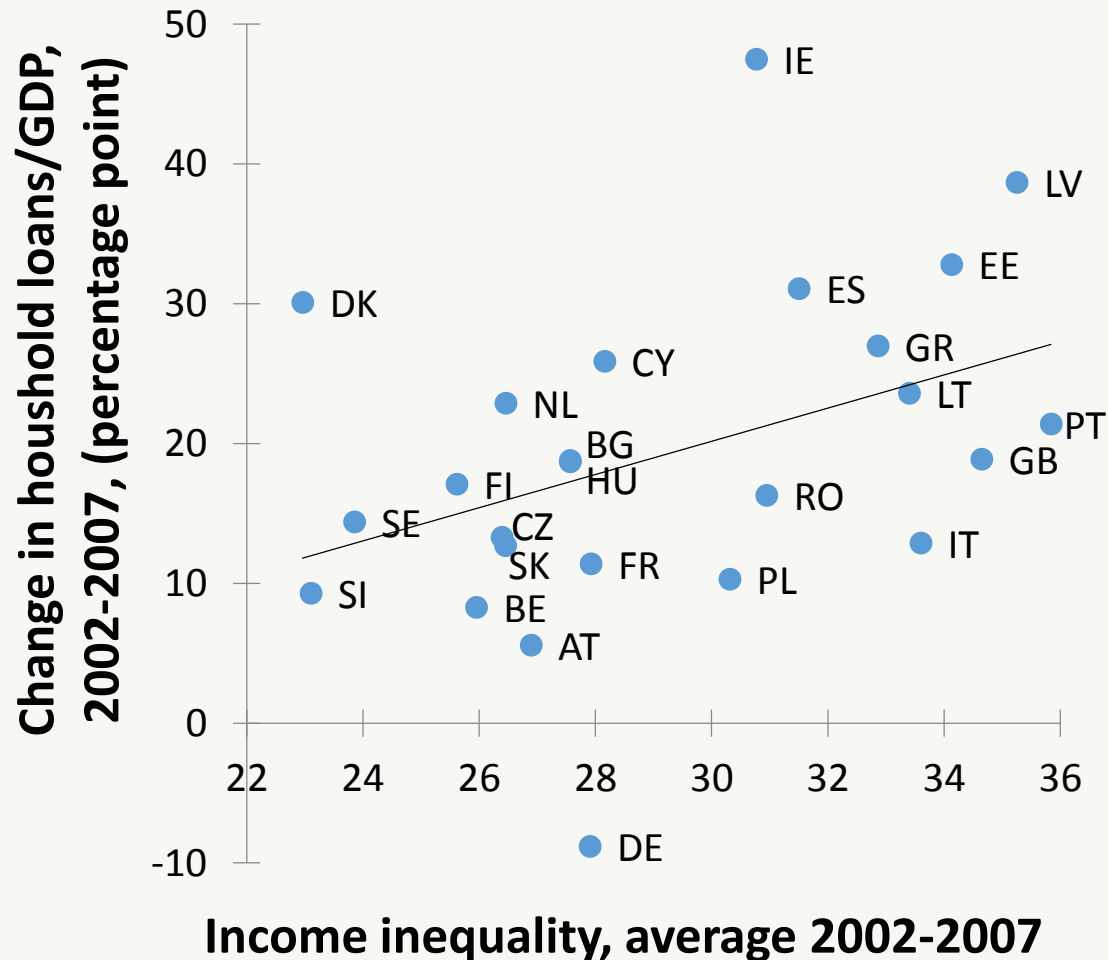
# Social (or intergenerational) mobility: more inequality is associated with less mobility across generations



**When inequality is high: the children of poor families tend to stay poor, while the children of rich families tend to stay rich**

# Pre-crisis, household debt increased more in more unequal EU countries

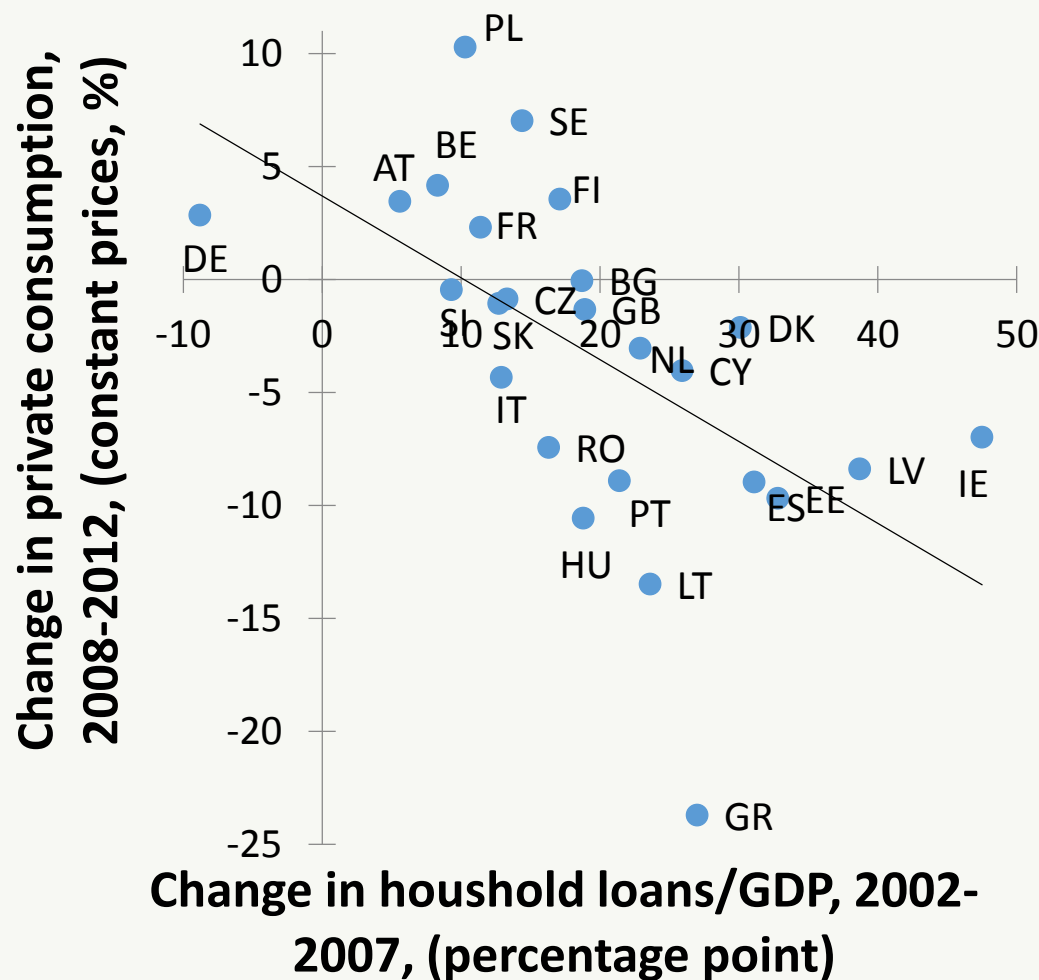
Pre crisis: higher inequality → higher household borrowing



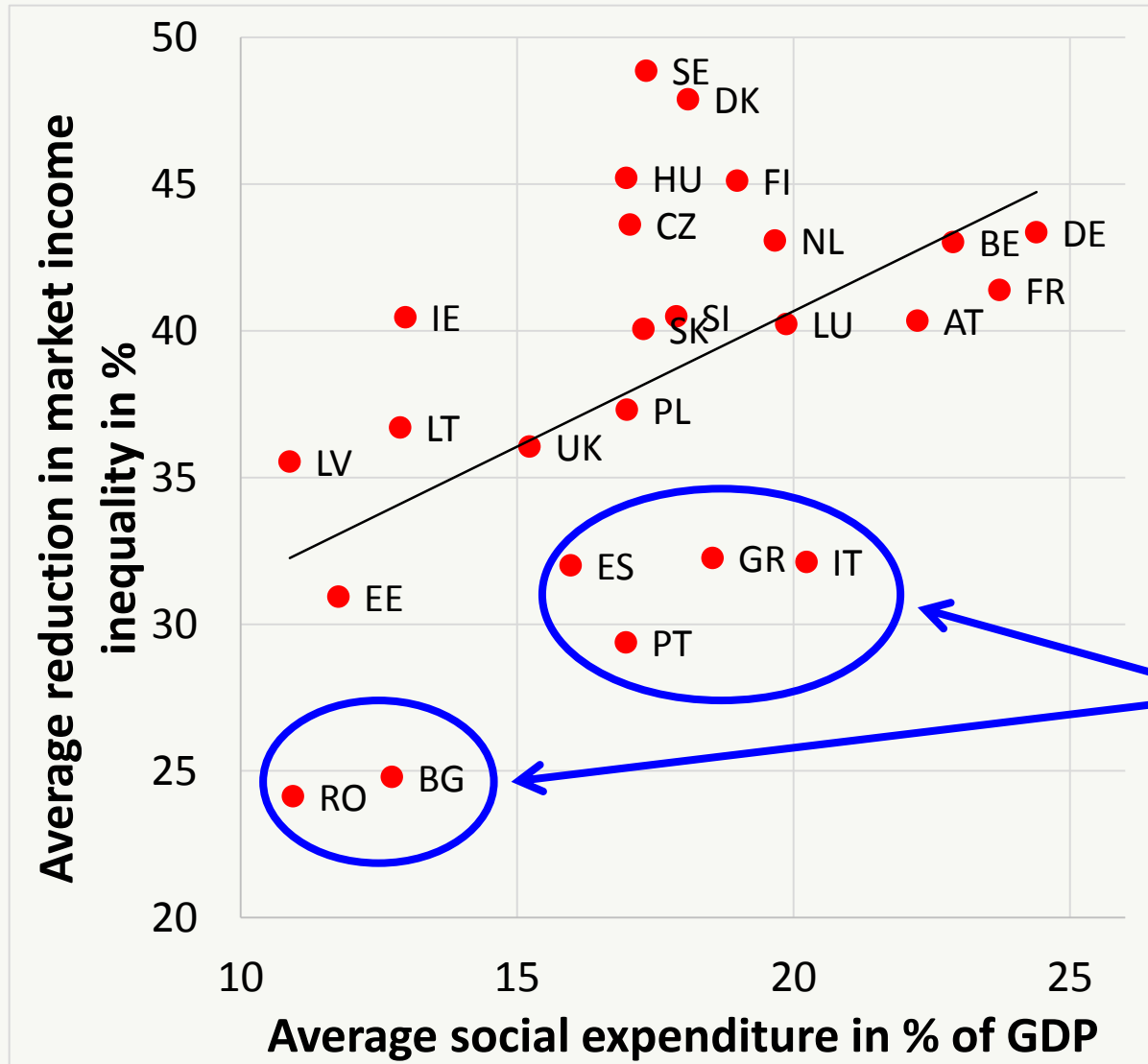
# During the crisis, household indebtedness increased output contraction

Higher pre-crisis household borrowing

→ Larger contraction of consumption during the crisis



# The reduction of market income inequality vs. social spending per GDP, 2000-14



Inefficient social redistribution

# During the crisis, spending on education, family and children was cut, while spending on elderly preserved

## Fiscal cuts during the crisis

	Share EU24	Percent change in current prices, 2009-2012					
		EU24	Greece, Ireland, Portugal	Italy, Spain	9 other EU15	Baltics 3	7 other NMS
Total general government expenditures	100	4	-12	1	6	-3	7
Interest payments	5	23	14	32	19	164	22
Broad services	17	-2	-12	-11	2	-15	-1
Economic affairs	9	-5	-45	5	-6	-20	-4
Environment protection	2	-5	-26	-8	-4	-6	21
Health, recreation	17	4	-20	-7	8	-6	12
Education	11	2	-14	-10	5	-7	8
Old age	20	10	0	8	10	15	13
Family and children	4	0	-19	-10	3	-14	1
Housing	1	12	-30	6	13	23	20
Unemployment	4	0	11	14	-5	13	-11
Sickness and disability	6	7	-7	-1	9	-5	12
Other social protection	5	7	-11	5	9	26	8
<i>Memorandum: inflation</i>		8	6	8	7	12	10

Source: Bruegel using Eurostat's 'General government expenditure by function' (COFOG) database. Note: Belgium, Croatia, Slovakia and Romania are not included because of lack of data; we report data for the aggregate of the remaining 24 countries of the EU (EU24). For the Baltic States, the 2008-12 period is shown, because fiscal consolidation started earlier in these countries. The aggregates for countries with different currencies were calculated using constant exchange rates (the average of 2009-13) and therefore exchange rate fluctuations do not affect the values shown. Broad services include: general public services except interest payments, defence, public order and safety and community amenities.

# National policies for fostering inclusive growth

- **Tax policy, social policy, labour laws or education policies are almost exclusively national competences in the EU**
- Key issues:
  1. Adequacy of national policies for fostering social mobility (e.g. education: early childhood education, tertiary education, challenges by robotisation)
  2. Efficiency of national redistribution systems
  3. Extent of redistribution and progressiveness of tax systems
  4. Protection of different sectors
  5. Fiscal adjustment strategies
  6. Addressing unemployment

# EU policies for fostering inclusive growth

- **Lack of decisive instruments: limited scope for EU action**
- Key issues:
  1. EU social targets with few direct instruments to achieve them → could backfire and lead to a backlash against the EU, if citizens perceive that promises are not being kept
  2. Highlight best practices and apply peer pressure to member states
  3. Greater role in tax policies
  4. Regulatory power in setting certain social standards
  5. Advise on macroeconomic policies, with feedback on social developments
  6. Better EU-wide investment programme



# Related Bruegel works

Darvas, Zsolt and Guntram B. Wolff (2016) 'An anatomy of inclusive growth in Europe', October 2016, Bruegel Blueprint Volume XXIV.

<http://bruegel.org/2016/10/an-anatomy-of-inclusive-growth-in-europe/>

Darvas, Zsolt, and Guntram B. Wolff (2014), 'Europe's social problem and its implications for economic growth', April, Bruegel Policy Brief 2014/03

<http://bruegel.org/2014/03/europes-social-problem-and-its-implications-for-economic-growth/>

Darvas, Zsolt (2016), 'Some are more equal than others: new estimates of global and regional inequality', November, Bruegel Working Paper 2016/08

<http://bruegel.org/2016/11/some-are-more-equal-than-others-new-estimates-of-global-and-regional-inequality/>