Project Syndicate

Inequality and the Macron Commission

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CAMBRIDGE – The advanced economies will bounce back more quickly from the COVID-19 pandemic than low-income countries. Still, they face an important and interconnected set of challenges in the years ahead: climate change, inequality, new technologies, demographic aging, and immigration. Business as usual will not do in any of these areas, and new approaches are required in each.
Just as the pandemic was gathering pace in early 2020, French President Emmanuel Macron set up an international commission of economists to assess these longer-term challenges and make policy proposals. Headed by the former International Monetary Fund chief economist Olivier Blanchard and the Nobel laureate economist Jean Tirole, the commission debated each of these issues over the course of several months. Interesting proposals emerged from the three reports produced by a subgroup of authors and released at the end of June.

We prepared the report on inequality and economic insecurity. France is an interesting case, because it is one of the few major economies that did not experience an increase in overall inequality, measured by conventional indicators such as the Gini index. Yet, socioeconomic gaps across different strata have not closed, many regions lag behind in creating good jobs and economic opportunity, youth unemployment is very high, and social mobility remains low. Attitudinal surveys reveal high levels of economic insecurity, a significant sense of unfairness regarding existing economic arrangements, and a great deal of support for more active government policies to counter these trends.

One way to enhance fairness and social mobility is to ensure that people are not disadvantaged simply because they come from poorer families. Our report proposes a unified inheritance and gifts tax that is beneficiary-based and progressive in the cumulative amount received. Instead of taxing wealth transfers at each death, the new system would tax the total transfers received by the heir, so that those who receive more would be taxed at higher rates.

Another important strategy is to reduce gaps in educational quality and achievement. This issue has been part of national debates, in France and elsewhere, for some time, and progress has been made in recent years. But much remains to be done. Our proposals focus on better access to schooling for children from low socioeconomic backgrounds; improving outcomes for lower-quality schools in lagging regions; rethinking the teaching profession and making it more attractive; giving more responsibilities and autonomy to school administrations; boosting vocational and dual vocational-academic tracks; and improving the transition from school to the labor market.

One reason France has been able to avoid a rise in overall inequality is the country's high levels of social benefits and minimum wages. But these create their own problems. Absent a commensurate rise in productivity, government-mandated increases in wages at the bottom can create a trade-off between incomes and employment, especially for those just entering the labor market. France's excessively high youth unemployment rate, nearly 20%, is indicative of this tension.
An increase in the supply of good, well-paying jobs for those at the bottom of the income distribution requires a commensurate increase in productivity. Good jobs and good firms go hand in hand. While training and education are important, they are not enough in the absence of productive firms that create good jobs. Social policy and growth policy are complementary and need to be designed accordingly.

With this in mind, we propose a set of remedies that link labor-market policies with industrial, regional, and innovation policies. This good-jobs strategy includes active labor-market policies that are more closely coordinated with employers and provide broader services to job seekers. At the same time, it reorients existing industrial and regional policies away from tax subsidies and cash incentives and toward customized public services for firms targeted specifically on good-job creation. And it rethinks prevailing innovation incentives to stimulate explicitly worker-friendly technologies that enhance rather than replace middle-skill jobs in manufacturing and services.

Policymakers must also address the legitimate concern that globalization and international outsourcing have undermined equity and good jobs. Interestingly, when asked about the lack of good jobs, French respondents blame globalization and outsourcing twice as frequently as they do technology (57% versus 28%). While trade policy cannot on its own create good jobs, it can prevent domestic good-job policies from being undermined through an international race to the bottom in labor standards and regulations.

To that end, we propose a social safeguard mechanism that would extend countries' right to uphold their own rules – as in product safety, environmental safety, or taxation – to the domain of labor-market regulation. Under our proposal, it would be possible – after an appropriately deliberative and broadly participatory domestic process – to restrict imports that are produced under conditions that violate labor rights abroad and threaten jobs or working conditions at home. We argue that such a “social antidumping” mechanism would help restore the legitimacy of international competition, by acting as a safety valve.

While some of our recommendations are specific to France, many (if not most) are relevant to other advanced economies as well. Along with the recommendations on climate change and demography contained in the other two reports, they provide an opportunity for these countries to tackle the most important economic challenges of the years ahead.

DANI RODRIK

Dani Rodrik, Professor of International Political Economy at Harvard University’s John F. Kennedy School of Government, is the author of *Straight Talk on Trade: Ideas for a Sane World Economy*.

STEFANIE STANTCHEVA

Stefanie Stantcheva is Professor of Economics at Harvard University.

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