



Conference on European Economic  
Integration (CEEI) 2017

*A modern take on structural reforms –  
past and future challenges for CESEE  
and Europe at large*

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**THE WINNER TAKES ALL?  
DISTRIBUTIONAL EFFECTS OF  
STRUCTURAL REFORMS**

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# Motivation

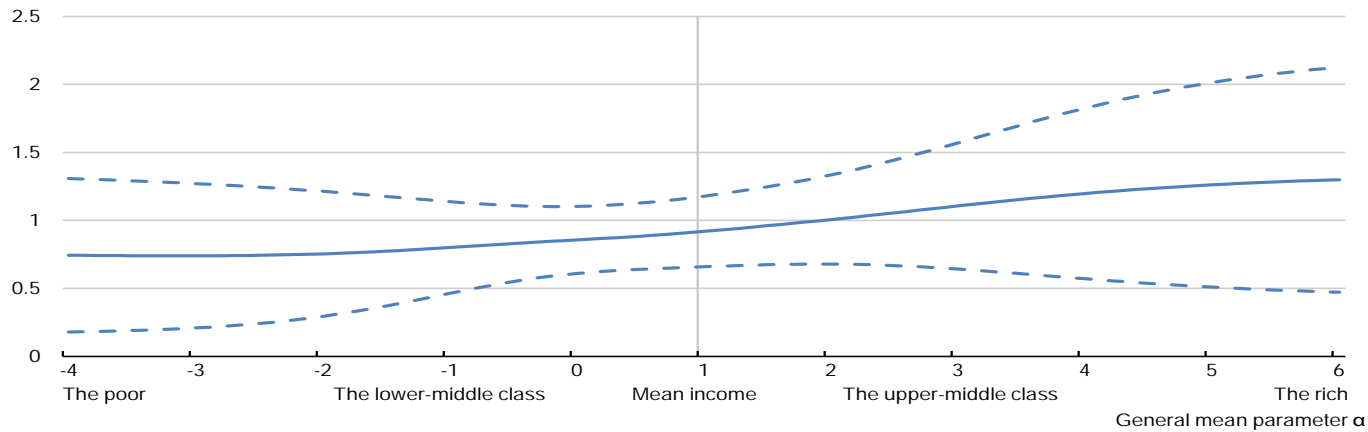
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- Structural reforms, championed by the OECD and other IOs, are primarily targeting macroeconomic growth
- But there is an evident discontent about the **distribution of the growth dividends, including policy-driven**
- Income distribution is no longer at the periphery of policymaking, rather increasingly so at its the core
- We need evidence-based analysis on the **nexus between growth, reforms and income distribution: documenting synergies/trade-offs between growth and equity objectives**
- The OECD has been an “early bird” on producing inequality analysis for advanced economies and increasingly focuses research efforts on **data and policy analysis in this area**
- This presentation summarises latest evidence which takes a **granular approach** to deliver new empirical evidence on growth, reforms and income distribution.



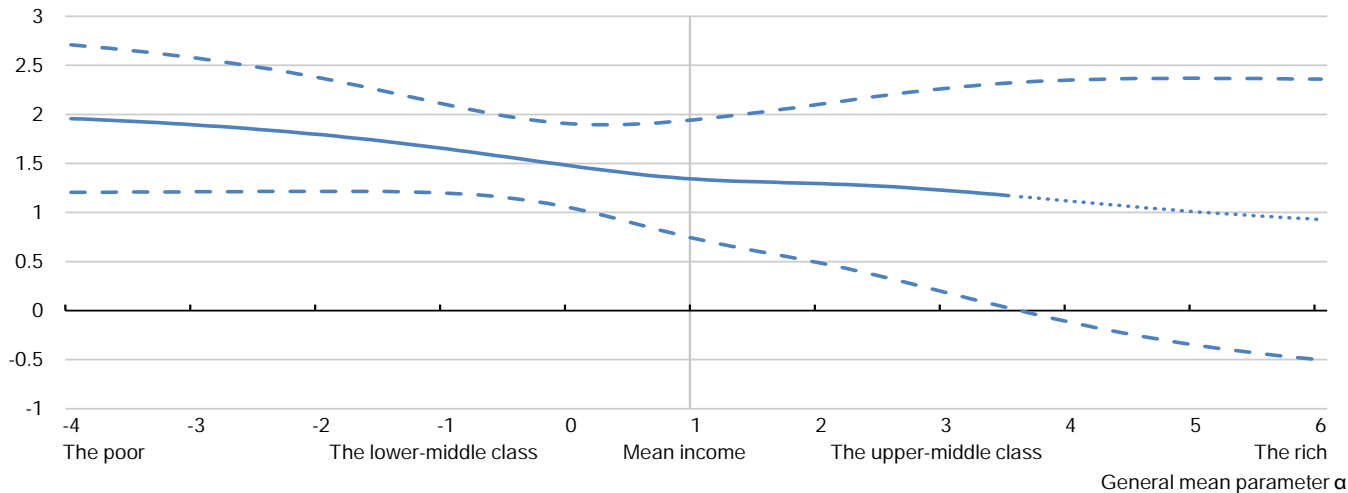
# Going granular on the distribution of the growth dividends: key results

Effect on HHDI at different points of the distribution of an increase in productivity



Higher productivity has been associated with growing inequality

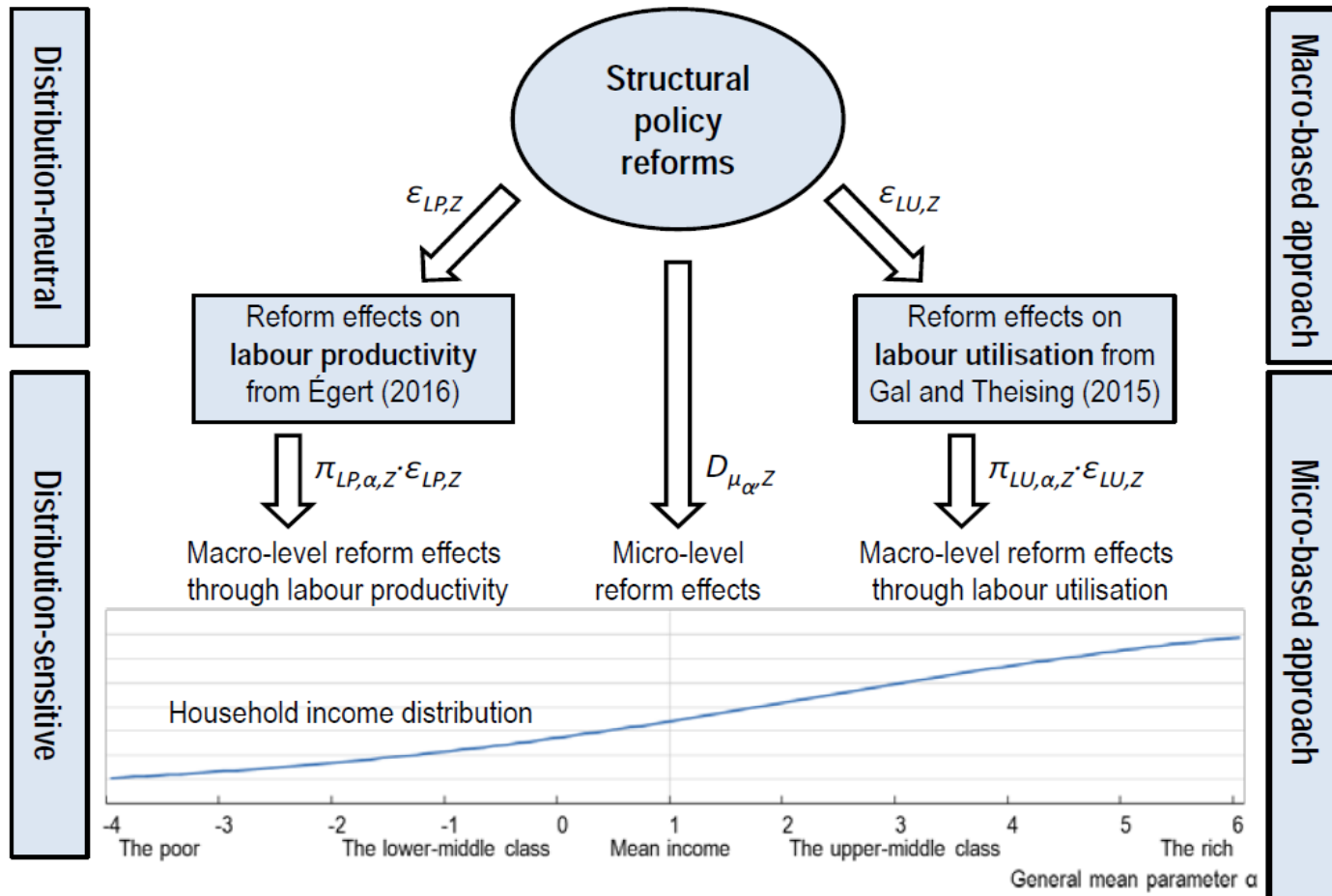
Effect on HHDI at different points of the distribution of an increase in employment



The opposite has been observed in the case of employment



# Going granular on the distribution of *reform-driven* growth dividends: the framework





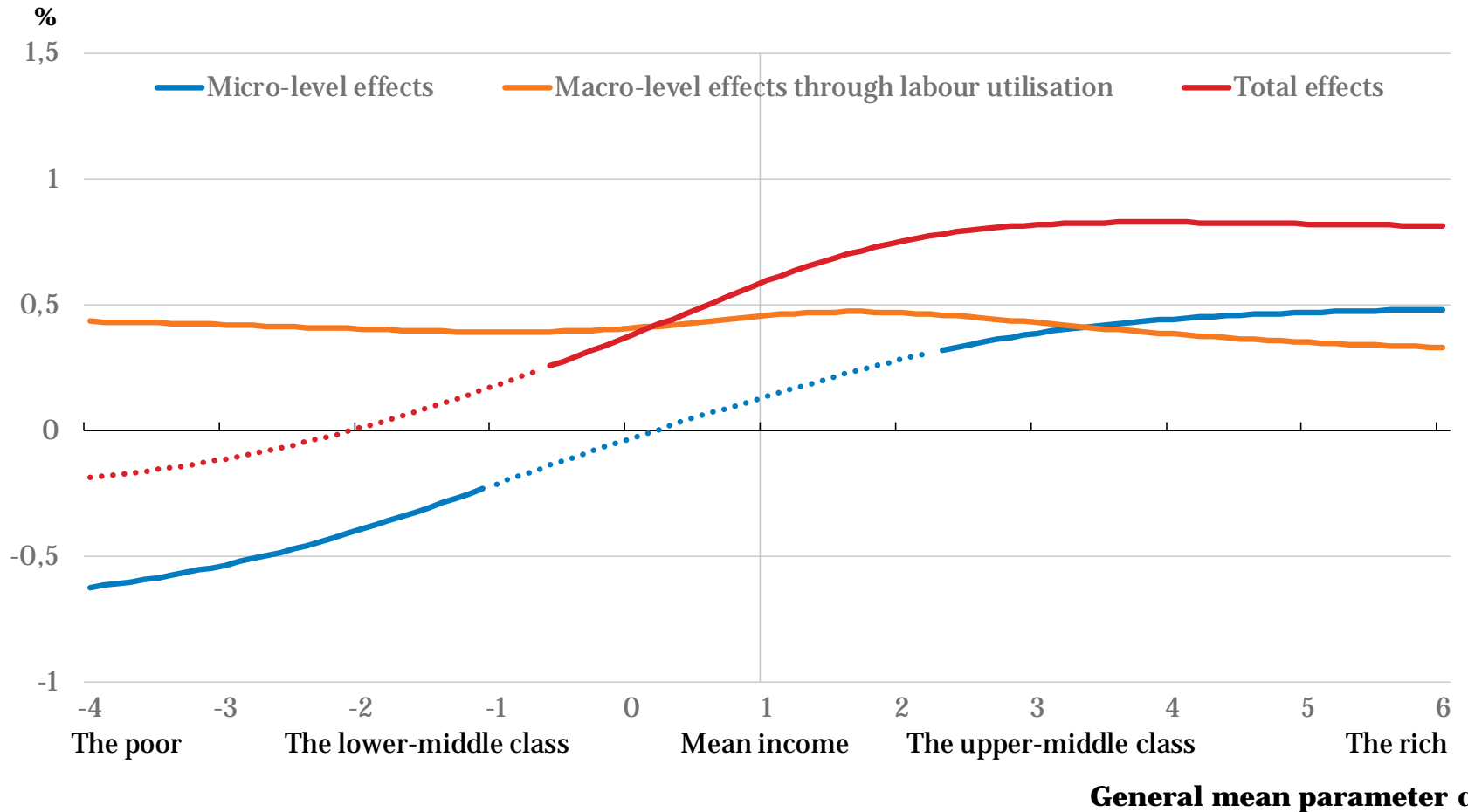
# Going granular on the distribution of reform-driven growth dividends: *interpreting* the results

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- Macro “+” Micro=TOTAL effects
- **Macro effects:**
  - Reform-driven changes in labour productivity and/or labour utilisation which accrue (or not) to household incomes
  - Effect depending on where the household is in the distribution
  - Include distribution-neutral macro effects calibrated from external macro model and distribution-sensitive effects from estimated policy-augmented model
- **Micro effects:**
  - Reform-driven changes in household incomes not channelled through macroeconomic effects
  - Effects operating on top of the macro effects (ex: “mechanical” impact of taxes on top of behavioural impact through e.g. increase in LU).
- **Some examples of results to follow**

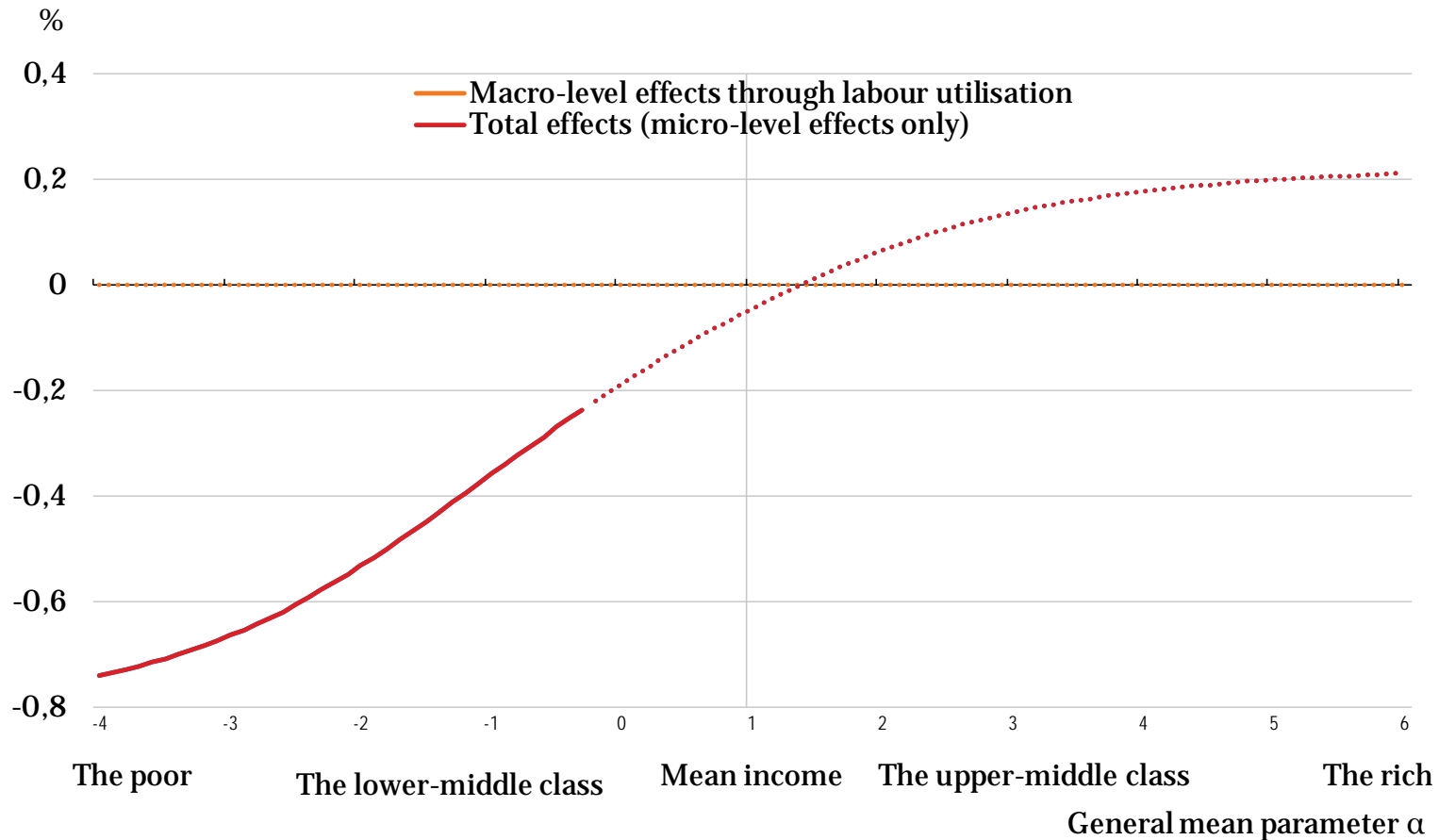


# Reform 1 example: reducing UB for all unemployed



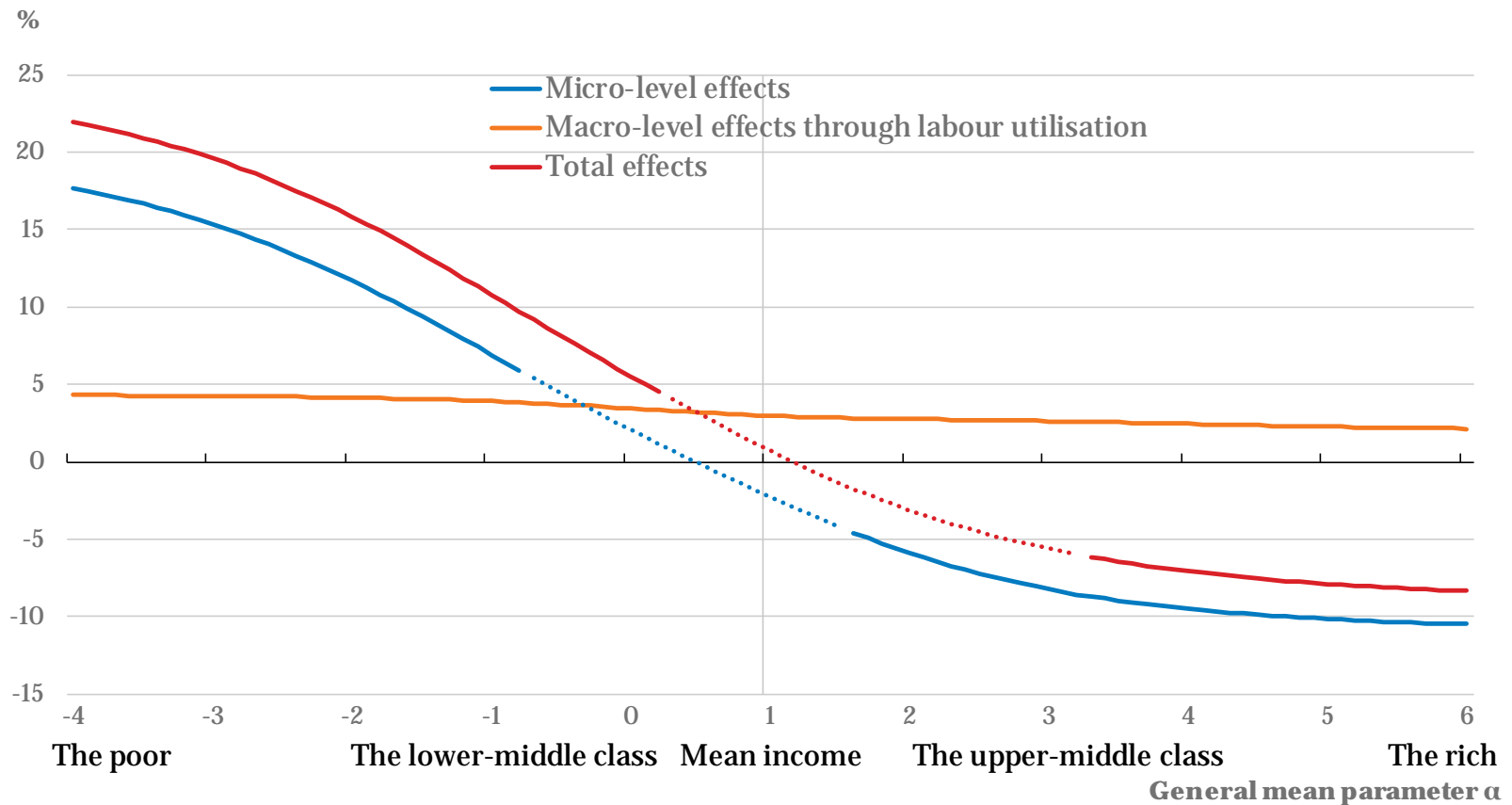
How to read this figure: A reduction in UB average gross replacement rates by 1 percentage point is estimated to increase household disposable income by 0.3-0.8% from the lower-middle class to the most affluent households. This total effect can be decomposed along a micro-level effect and macro-level effect through labour utilization. Non-significant estimates (at the 10% level) are indicated by dots on general mean curves.

# Reform 2 example : reducing UB for the long-term unemployed



How to read this figure: A reduction in UB net replacement rates for long-term unemployed (single, 100% of average earnings, no children, 60th month of benefit receipt) by 1 percentage point is estimated to decrease household disposable incomes by 0.2-0.7% on average among the lower-middle class and the poor. This total effect comprises only the micro-level effect since the macro-level effect on labour utilization is insignificant and thus set to zero.

# Reform 3 example: increasing family in-kind transfers

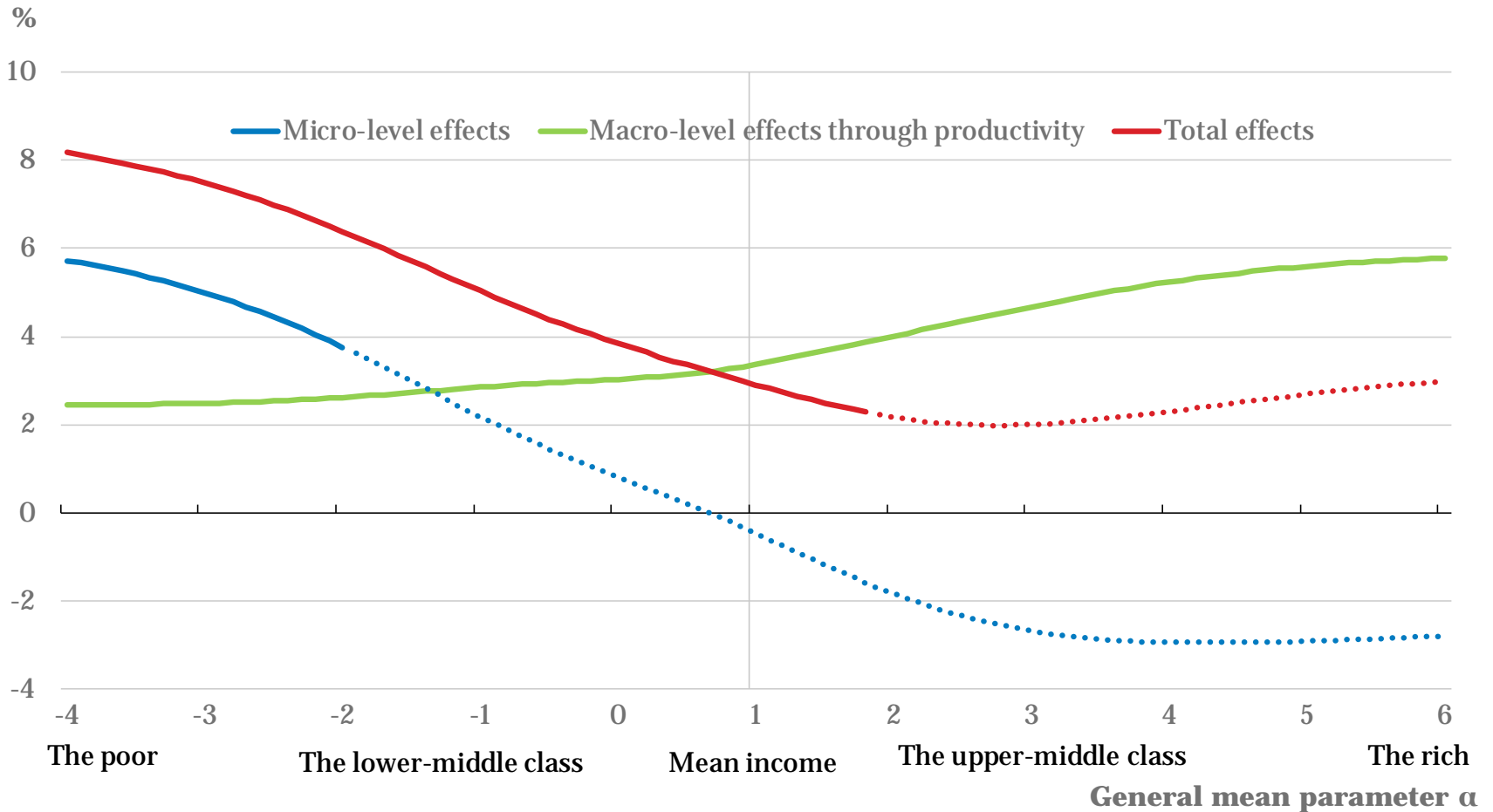


How to read this figure: An increase in family in-kind benefits (measured in per cent of GDP) by 1 percentage point is estimated to increase household disposable incomes by 5-22% on average from the lower-middle class to the poor and decrease incomes by 6-8% from the upper-middle class to the rich. This total effect can be decomposed along a micro-level effect and macro-level effect through labour utilisation.



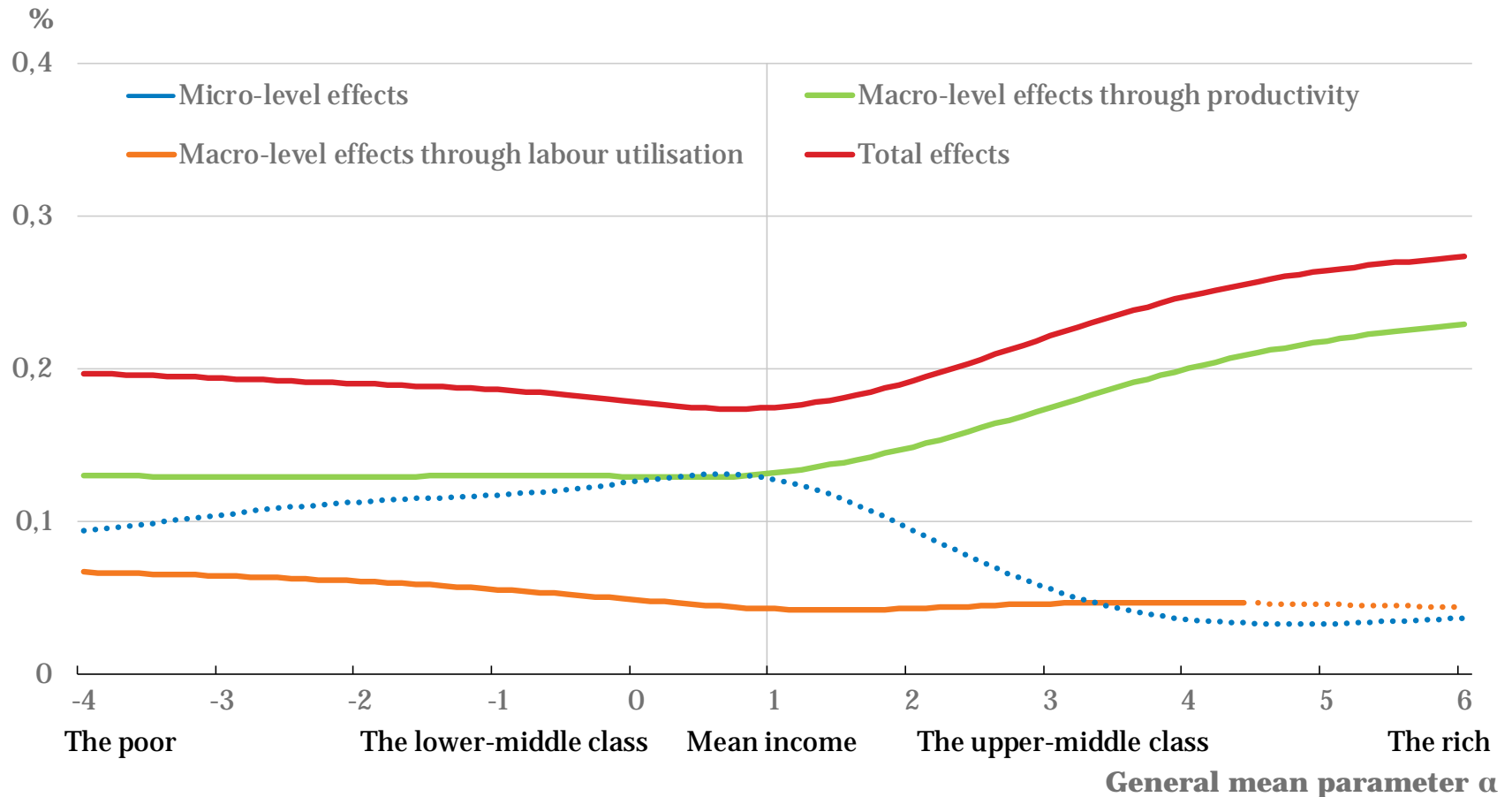


# Reform 4 example: increasing government spending on education



How to read this figure: An increase in government spending on education (in per cent of GDP) by 1 percentage point is estimated to increase household disposable incomes by 2-8% on average from the poor to the middle class. This total effect can be decomposed along a micro-level effect and macro-level effect through labour productivity.

# Reform 5 example: liberalizing network industries



How to read this figure: A reduction in regulation in network industries (ETCR aggregate, index 0-6) by 1% is estimated to increase household disposable incomes by around 0.2% on average across the distribution. This total effect can be decomposed along macro-level effects through labour productivity and labour utilisation. The micro-level effect is insignificant for all income groups and thus not included in the total effect.



# Synergies and tradeoffs...*depending on the degree of inequality aversion*

## Labour market and welfare policies

- Reducing UB replacement rates for all unemployed
- Reducing UB replacement rates for the long-term unemployed (including social assistance)
- Increasing spending on ALMPs
- Increasing the legal retirement age
- Increasing public spending on families with children (in kind family benefits)
- Reducing job protection on regular contracts
- Encouraging a decline in in union density
- Reducing the legal extension of collective agreements
- Encouraging a higher degree of wage bargaining coordination
- Reducing minimum relative to median wage

## Tax policy

- Lowering labour tax wedges (unfinanced)

## Education

- Increasing public spending on education

## Innovation and Technology

- Increasing incentives for R&D spending
- Increasing incentives for patent application

## Product market regulation

- Reducing barriers to competition

*Weak inequality aversion*

*Strong inequality aversion*

	<i>Weak inequality aversion</i>	<i>Strong inequality aversion</i>
	Tradeoff	Tradeoff
	No tradeoff	Tradeoff
	Synergy	No tradeoff
	No tradeoff	Synergy
	No tradeoff	Synergy
	No tradeoff	Tradeoff
	No tradeoff	Tradeoff
	No tradeoff	Synergy
	No tradeoff	Synergy
	No tradeoff	No tradeoff
	No tradeoff	Tradeoff
	No tradeoff	Synergy
	No tradeoff	No tradeoff
	No tradeoff	Tradeoff
	No tradeoff	No tradeoff



# Conclusions

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- Structural reforms are generally **good for the middle class**
- **Trade-offs** appear when the **focus is on the poorest section** of the population
- **Social protection and labour market reforms are the sources of most of the trade-offs** between growth and equity objectives
- Reforms of wage-setting institutions may be good or bad for equity, **depending on reform design**
- **Easing barriers** to firm entry and competition in product markets produces strong macroeconomic gains **without raising trade-offs**



# Some references

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