Commentaire

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Do we have to choose between more growth and less inequality?

In his path-breaking paper on Macroeconomic Policy and Institutions, Jean-Paul Fitoussi puts forward the view that macroeconomic policy in the US has been more proactive and more growth-oriented than in Europe, to compensate for the higher degree of inequality in the US. And that it is the difference in social norms between the US and Europe that explains why tolerance to inequality has grown higher in the US than in Europe since the end of World War 2. At the same time, Jean-Paul Fitoussi points out the fact that despite the evolution of social norms in Europe towards greater tolerance of inequality in recent years – in other words, a partial convergence towards US social norms – the European economic institutions starting with the Maastricht Treaty will make it difficult for European macroeconomic policy to become as pro-active and pro-growth as it is in the US, which in turn will further contribute to the rise of populist movements in Europe.

I agree with most if not all of these statements. In particular, it is a fact that capitalism is more pro-growth and pro-innovation in the US than in Europe. And that it is more egalitarian and protective in Europe than in the US. And it is also a fact that the European Union has become a regulatory giant and a budgetary dwarf, making it difficult to move towards proactive macroeconomic and industrial policies that would be growth-enhancing. Hence the need to reform European institutions, in particular: (i) to reinterpret the Maastricht Treaty so as to better distinguish between recurrent sources of public spending and long-term investments in growth and the environment; (ii) to stop opposing industrial policy and competition policy, and instead to try to reconcile these two engines of innovation-based growth; and (iii) to increase the EU budget beyond its current 1% of EU GDP, and to allow for EU borrowing aimed at innovative investments, particularly in the energy transition and in the AI revolution: without such investments, Europe will be driven out of the world market by the US and China, which both implement forceful innovation-based industrial policies.

My own contribution to this US vs. Europe debate is to challenge the view that we need to choose between more innovation and growth (the US model of capitalism) and less inequality (the European model). According to that view, insofar as innovation at the technological frontier relies on strong monetary incentives, the countries that aim for frontier innovation should forego the goals of insurance and equality: in other words, they should renounce "cuddly capitalism" in favor of a "cutthroat" form of capitalism. As for the countries that have opted for cuddly capitalism, they would have no alternative but to grow by imitating the technologies invented by the frontier countries. The "cuddly" countries provide their citizens with greater equality and insurance, but their growth ultimately depends on the growth of the "cutthroat" countries, which, one might say, work for the benefit of the rest of the world.[1]

What makes us depart from the "either/or" view is, first, the strong belief that capitalism cannot be fully dynamic unless it is inclusive, and it cannot be fully innovative if vested interests prevent the emergence of new talents. Second, there are policies that can help move capitalism *both* towards more innovativeness *and* towards more protection or inclusiveness. We shall focus here on three such policies, namely, labor market policy, education policy and competition policy.

Labor market policy: In their article entitled "Mortality and Morbidity in the 21st Century," Angus Deaton and Anne Case pointed to a fast-rising mortality within the middle-aged (aged 50 to 54), non-Hispanic white population in the United States since the early 2000s. The authors explain this trend reversal by increased job insecurity, one consequence of which is increased family instability. Nothing of the sort happened in Denmark, where Alexandra Roulet (2017)[2], analyzing the effects of job displacement on health there, shows that being laid off does not have a negative impact on health in that country. This finding is all the more important because the introduction of the flexicurity system in Denmark made it not only more protective, but also

1. Acemoglu Daron, James A. Robinson, and Thierry Verdier, "Asymmetric Growth and Institutions in an Interdependent World", *Journal of Political Economy*, 2017, 125(5), 1245–1305.
2. Roulet, Alexandra (2017), "The Causal Effect of Job Loss on Health: The Danish Miracle," in "Essays in Labor Economics", doctoral dissertation, Harvard University.

more innovative by making it easier for Danish workers to move from one job to another, which in turn encouraged more and more efficient creative destruction.

Competition policy: In my own research with Antonin Bergeaud, Timo Boppart, Pete Klenow, and Huiyu Li, we argued that the absence of regulations on mergers and acquisitions allowed superstar firms (the FAMANGs) in the US to grow and expand without limit, thereby discouraging entry and innovation by non-superstar firms in the economy. Reforming competition policy so as to better take into account the impact of mergers and acquisitions on future innovation and entry[3] should both foster innovation-led growth and make growth more inclusive by allowing new innovative entrepreneurs to enter the market.

Education: Recent studies have suggested that parental income and/or parental education affect an individual's probability to become an innovator. This in turn leads to a phenomenon of so-called "lost Einsteins" or "Marie Curies" (Bell *et al.*, 2019): namely, highly talented children who could have become innovators if they were born into wealthy or well-educated parents but fail to innovate if they are born into poor or low-educated families. This in turn suggests that investing in a more inclusive and high-quality education system should both stimulate innovation-led growth *and* make growth more inclusive, simply by allowing more talented individuals to become innovators, i.e., by reducing the number of "lost Einsteins".

Overall, we are not condemned to choose between innovation and inclusion; we can activate forces that will make our economies both more innovative and more inclusive, namely by constantly favoring the entry of new innovative firms and the emergence of new talents.

Commentaire de l'article

Jean-Paul Fitoussi and Francesco Saraceno, 2005

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3. Such reform is advocated by Richard Gilbert in his recent book, *Innovation Matters: Competition Policy for the High-Technology Economy,* 2021, MIT Press.