



Growing Inequality:
a Novel Integration of
transformations research

The GI-NI project and the need for new policy to tackle inequality

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GI-NI contributes to an inclusive Europe of shared prosperity by providing a better understanding of the changes and joint impact of three major transformations: technological progress, globalisation and migration; and offering policy and governance solutions to better equip citizens and companies for future challenges, securing more equal opportunities and outcomes. The project team uses a multidisciplinary research approach with international stakeholder engagement throughout the project.

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Key points

- Inequality is increasing and decreasing at the same time. It is increasing within countries globally, but decreasing between countries globally. There is a need for policies to reduce inequality, at the EU and the national levels. The lesson of recent history is that market liberalisation and the reduction of the role of the government do not necessarily improve equality. When inequality becomes too large, it can threaten growth.
- The focus on the relationship between the three transformations (technology, globalisation, migration) and inequality is not a luxury for European policy and national policymakers. Inequality is a multidimensional challenge. One can think of it as inequality in output (income and wealth) and in opportunities (education, health, digital environmental, etc.). All these inequalities have a gender dimension as well as a geographical one (disparities). These inequalities need to be tackled in their entirety by EU and national policymakers. Interactions between the three transformations, and not only developments in international trade, migration, and technological transformation, have to be monitored in the translation to policy.
- The European policy approach towards the three transformations shows a shift over time. Both in the policy paradigms (how people think) and in the policy repertoire (the competencies, strategies and instruments). Strong shifts can be seen as a result of COVID-19 and the crisis in Ukraine. The GI-NI project offers opportunities to renew these policy paradigms further.
- Challenges posed by the twin-transition and the need to put people at the center of the technological transformation imply going beyond the Industry 4.0 paradigm. Industry 5.0, insisting on technological transforming linked to human-centric, sustainable and resilient company policies, offers a new perspective.
- Migration policy has shown limited change over the past few years. Only with new geopolitical realities resulting from the war in Ukraine, Member States have been more willing to review their policies to accommodate European solutions. However, thinking about migration policy has been too limited to regulation the refugee crises. More attention should be given to positive economic impacts of migrants.
- European and national policymakers need to guard that the international component in our actions, especially embedded in the SDG policy, does not fade into the background.
- The way in which the transformations play out in terms of equality and skills should be considered in depth. The project can help to understand inequality as a political choice.

Context: policy paradigms, governance and transformations

The GI-NI project started in April 2021. The first research results are expected in the second year. This means that this Policy Brief is limited to reflecting on our principles and what they mean for European policy related to the three transformations central to the project.

The GI-NI acronym stands for *Growing Inequality: a Novel Integration of transformations research*. The Gini coefficient is a widely recognised measure to represent the income or wealth distribution over a population. It measures inequality, hence the name for our GI-NI project. GI-NI wants to understand better which inequalities are increasing, and to what extent, and what the driving mechanisms are. GI-NI addresses these issues by thoroughly investigating the impact of **three major shocks**: (1) rapid emergence and diffusion of digital technologies, (2) new forms of international trade and foreign investment, including global production networks and fragmentation of production, (3) rapid increases in mobility and migration, on changes in worker skills, the level and distribution of income, and the volume and quality of work.

At this moment, three deliverables (D1.1 (Dekker et al. 2021), D1.2 (Dhondt et al. 2022), D10.1 (Dhondt 2021)) have been produced that describe the concepts and scientific principles of the project, and reflect on the existing European policy aimed at managing the consequences of the three transformations for inequality and skills.

The GI-NI-research is not aimed at visualising inequality itself. There already exist in-depth studies on the subject (see for instance: [wir2022.wid.world](#) for latest figures). Chancel et al. (2021), the ILO (2020), and ETUI and ETUC (2021), for example, have brought together the recent investigations. GI-NI is about the impact of three major transformations on the distribution of opportunities for workers in Europe. The EU is facing important transformations that also have an impact on inequality and the development of skills. It is important for GI-NI to get a clear picture of how this inequality arises and persists. We also need to understand how both the EU as a whole and individual Member States have responded to the transformations. The politics of intervention are important to consider.



These **three transformations are not entirely new**. Perhaps the Fourth Industrial Revolution marked a change in technological transformation, but not every historian is convinced that the current transformation is truly exceptional (Perez and Murray Leach 2021). At the end of the Second World War, more than 15 million people (forcefully) migrated from their place of residence and found work in Europe. Long-term research has shown the positive impacts of high skilled migration (Kerr et al. 2017). Migration is an age-old phenomenon. International trade has existed for hundreds of years. With GI-NI, we first investigate, unpack and deep-dive what drives these transformations, second shed light on effects of the three transformations and provide recommendations on possible future trajectories and policy options.

It is important to investigate the broad EU approach (executive, legislative, judicial) towards the three transformations, its policy repertoire (competencies, strategies and instruments) and the changes in the underlying thinking. We use **policy paradigms for this 'thinking'**. The following table summarises the current dominant policy paradigm, what is changing in that dominant paradigm, and the contribution of the GI-NI project to these paradigms. The GI-NI project focuses on research that sharpens the dominant paradigm ('traditional') but also adds new dimensions to it.

Table 1. EU policy paradigms and GI-NI's contribution to adapting them (own development)

	Current dominant policy paradigm	Contours new policy paradigm	Contribution GI-NI
Technology	Technology substitutes labour. Focus on upskilling of low and unskilled workers.	Digitalisation is centrally linked to climate neutrality. Measures are aimed at young people ('endowed') and work-ing people (adult learning). Skills are a tool for sustainable competitiveness. Tame market concentration reinforced by digital technologies.	<i>Traditional contribution:</i> robots and leading technology. Investments. Test whether 'upskilling' helps against automation risks. <i>New:</i> Internal organisation is also in the picture. Fragmentation of production chains. Market power considerations. Importance of redistributive policies, collective agreements and minimum wages.
Globalisation	International trade is good for economic growth. The aim is to remove barriers to such trade.	Develop an economy resilient to external shocks.	<i>Traditional:</i> Fragmentation of value chains. Specialisation and implications for jobs. <i>New:</i> Impact of fragmentation of value chains at EU-level and impact for inequality.
Migration	Focus on the controlled and regulated influx, with strong border protection ('Fortress Europe').	Exceptions apply to Western refugees, but basic EU rules remain in force. However, new international relations lead to a shift in policy towards African countries (e.g. Spain, Western Sahara and Morocco).	<i>Traditional:</i> integration of migrants; impact of migration on relations between groups. Occupational changes. <i>New:</i> effects of migration on the situation of low skilled; inequality as driver for migration.
Technological transformation, globalisation and migration	No paradigm	Twin transition combines technological transformation with green transition which, in turn, are linked to globalisation and skills.	<i>New:</i> interaction between the three transformations to assess labour market outcomes and impact on inequalities

The table indicates that the reaction to the transformations does not always align and impacts on inequalities may be very different. The stress on traditional European values (Catholicism, nationalism) is also on the rise in several countries. This requires that we also pay attention to the interaction of the transformations. The analyses of the GI-NI project contribute to that new perspective with EU-wide research, research in which we visualise the relations between EU countries.

We have to accentuate the image of those transformations in the GI-NI project. At this moment, we only have some hypotheses on possible outcomes, we do not have concrete results yet. We are not yet able to make recommendations about the content of policy. However, we can already **indicate that the assumptions regarding transformations are shifting** and that the European policy context does not make an unequivocal response to challenges easy. In addition to the policy paradigms, the specific EU governance ensures how solutions are arrived at. The table covers those policy paradigms.

Is a new direction for EU policies visible? The EU's scope for policy in relation to the transformations varies greatly on the topic. **Trade** is regulated at the EU level, as clarified in the table. The main restriction that applies here is (for the time being?) the agreements made in the framework of the World Trade Organisation. In the case of **migration, technology and innovation**, the Member States largely decide themselves. In the **social domain**, the Open Method of Coordination applies. Here, the EU mainly inspires and incentivises. Its grip on the transformations remains necessarily limited, but it has been growing

over time. Multiple polycrises and more recently the COVID-19 pandemic and the war in Ukraine, have pushed the EU towards increasing supranationalisation over the years, and across policy domains (Riddervold, Trondal, and Newsome 2021). Both events seem to provide the rationale for stronger supranational policy frameworks. Member States are willing to accept European solutions in terms of financial support to refugees and the distribution of refugees over countries. However, the underlying institutional and legal framework has not really changed, so in time a 'relapse' to the old agreements remains a possibility.

A second fact that points to a new direction in the policy is that the EU (forced by the populist polarisation within countries and by the transformations?) is **formulating its own values more** explicitly as a starting point for the new policy. This is visible, for instance, in the European Pillar of Social Rights in which the European Social Model becomes more tangible. It is also detected in the operationalisation of the Sustainable Development Goals (SDGs) in European actions. Europe shows continuous progress in the implementation of the SDGs (Lafortune et al. 2021). However, the new major events (COVID-19; war in Ukraine, attention to European resilience) may make Europe less attentive to global issues. Internationally, the EU may lose its impact.

In the analyses of the datasets for the GI-NI project, we will not be able to empirically dig into the implications of COVID-19 pandemic and the war in Ukraine on European policy, however the policy-oriented work packages will translate results to take account for the new global and EU context.

Critique of current policy options

That brings us to current policy options. In the fight against inequality, **the European Social Model** has played an important role. The European policy does not accept the creation of more poverty, inequality and exclusion. The policy aims at convergence and upgrading the living conditions in Europe. However, since the end of the 1980s, the welfare states and the role of the public sector have been under pressure, driven by a broad neoliberal approach, in which the role of the state has been reduced. The global financial crisis, however, represented an important rupture in such a trend. It worked as a watershed, by putting under the spotlight the global financial system, its dominance over the real economy and its fragility, as well as its capacity to create large social impacts. This gradually led to a major shift in the policy and in the political debate. The COVID-19 crisis has reinforced such a shift and marked **the return of the centrality of the welfare state and public interventions, in response to crises**, but also to prepare for crisis (resilient societies). In the EU context, the COVID-19 crisis emphasised the need for EU solidarity – a major change compared to the financial crisis - in the face of major common shocks. The war in Ukraine is reinforcing the need for more of this in other policy areas. From a policy perspective a key question is how such major changes will affect the three transformation and the strategic approach to them, as the political debate and social needs change. In the GI-NI project, we will have to pay attention to these changes, and in particular to what they mean for inequality and skill needs.

We have already indicated that the **EU policy options differ between the policy domains**. Especially for **skills**, the power of the EU is limited. The Member States still regulate their educational as well as labour markets. A new EU **Industrial strategy** has been shaped by the European Commission, but it is still up to the companies to act. There has been little policy that intervenes on the mechanisms in company policies that contribute to greater inequality, especially discrimination in the selection of personnel and underinvestment in development opportunities for personnel. In the future, the Sustainable Finance Disclosure Regulation (2019) and the Taxonomy Regulation (2022), may force companies to change their behaviour (ESMA et al. 2021). In GI-NI, a number of sub-tasks take a central look at the impact of these organisational policies.

As the table indicates, the dominant paradigm about **technological transformation** is driven by the 'substitution' perspective between labour and technology. Policy remains focused on the possibilities of Industry 4.0. Its evolution towards a more human-centric, sustainable and resilient approach, **Industry 5.0**, has been formulated as a policy option (Breque, De Nul, and Petridis 2021) but has not yet found sufficient support among policymakers. Upskilling is also not the only option to deal with technological transformation. Redistributive policies, collective agreements and minimum wages will be needed to deal with the impacts.

Policy recommendations

Income inequality within countries has been rising to very high levels in most countries (Chancel et al. 2021). In some EU-countries it has declined, in several it has increased. Attention to the impact of the three transformations on inequalities is not a luxury for European policy and national policymakers. Inequality is a multidimensional challenge. One can think of it as inequality in output (income and wealth) and in opportunities (education, health, digital environmental, etc). All these inequalities have a gender dimension as well as a geographical one (disparities). These inequalities need to be tackled in their entirety.

The first point also calls for the accentuation of the current perceptions of the three transformations. We have indicated that the dominant EU policy paradigms are shifting towards new topics and themes. These EU policy paradigms should at least include the following themes:

- Challenges posed by the twin-transition and the need to put people at the center of the technological transformation imply going beyond the Industry 4.0 paradigm. Industry 5.0 offers a good alternative. A more prominent formulation of Industry 5.0 as a new strategy.
- How the EU regulates in new ways that have more impact? The policy packages of GI-NI will study this new regulation across policy domains.
- We also need a picture of the interactions. International trade, migration and technological transformation can be examined separately, but in translating them into policy, the interaction will always need to be monitored.

In managing the impact of these transformations on inequality and skills, we will need to refocus on strengthening existing welfare arrangements and possibly devise new ones. Universal Basic Income and further liberalisation do not reduce inequality (Hiilamo 2022). This applies to both European and national policymakers.

European and national policymakers must ensure that the international component in policy actions, especially embedded in the SDG policy, does not fade into the background, given the changed context with COVID-19 and the new geopolitical realities resulting from the war in Ukraine. Not only may the attention not diminish, but we must also be careful not to treat partner countries differently due to the positions taken in the Ukrainian crisis. The view should remain that a reduction in inequality has the potential to positively affect the European economy as a whole.

Conclusions

The GI-NI project focuses on the broad discussion on inequalities and skills development. It produces novel insights into the transformations of technology, globalisation and migration and their effects on inequality and skills development. A better understanding of these transformations, and how they are connected with one another, is crucial to reducing inequality and skills gaps.

While the GI-NI project sheds new light on these issues, we should like to emphasize that how the transformations play out is, first and foremost, a political choice. Yet, wise policy interventions require both robust data and reflexivity as to avoid repeating the mistakes of the past and prevent the negative effect of the unintended consequences accrued to ill informed policy choices.

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Project Identity

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Consortium

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Further reading

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For more information

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