



# *Inclusive growth in OECD countries: challenges and policies*

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**Laurence Boone**  
**OECD Chief Economist**



# Key messages

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## **Most people in many countries have not seen improved standards of living**

- Little or no income growth
- Inequality have increased in various ways
- Redistribution has weakened, so has trust in government
- Social mobility has stalled

## **Reforms can be framed to achieve inclusive growth**

- Going for growth offers a framework to think about structural reforms & has been enriched to take account of the effects of reforms on income distribution
- Labour market reforms are the sources of most of the trade-offs between growth and equity objectives while easing barriers to firm entry and competition in product markets produces GDP gains in the long-term but may have mixed effects in the short term
- Structural reforms are generally good for the middle class but negative trade-offs appear when the focus is on the poorest section of the population

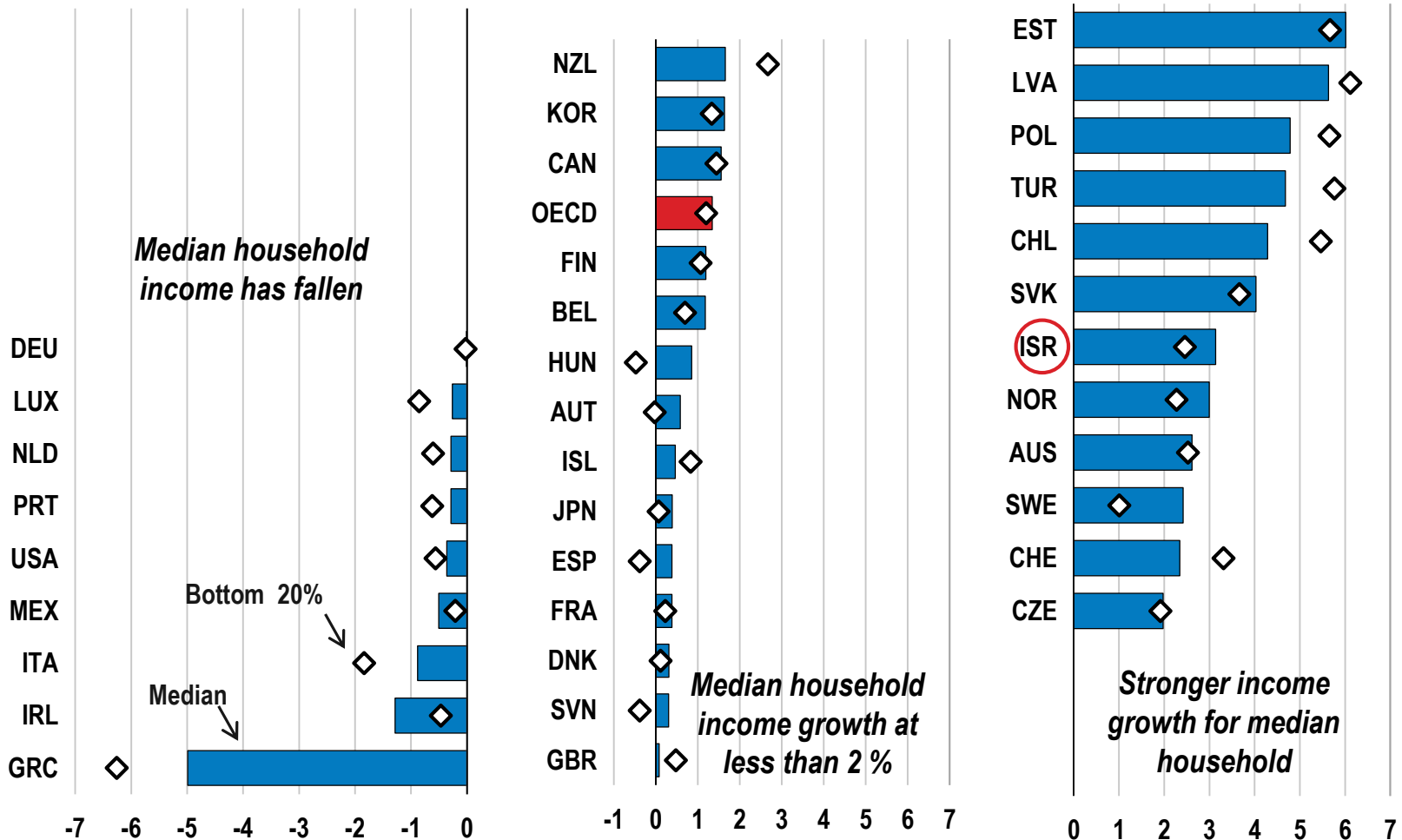
## **Policy conclusions for a more comprehensive IG agenda**

- Expand analysis to a wider set of inclusion metrics and policies
- Better target redistribution



# Most people in many OECD countries have seen little or no income growth for a decade

Growth in household disposable income (average annual rate, mid-2000s to latest year)  
 OECD countries, households at median and bottom 20% income levels



Source: OECD Income Distribution Database.

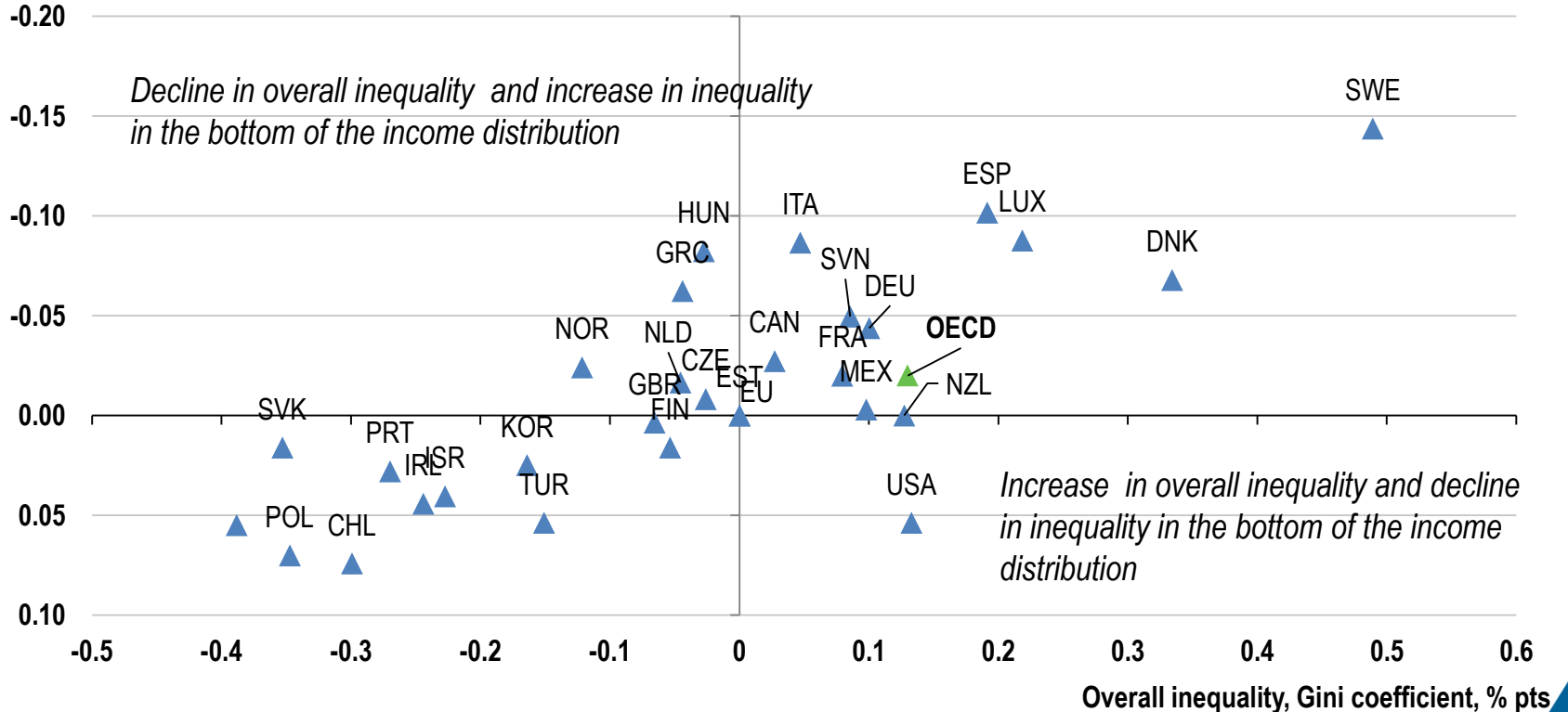


# Inequality has increased especially for the bottom of the distribution

## Gini vs Income share held by bottom 20%

*Average annual change from mid-2000s to latest available year*

Inequality measure with emphasis on the bottom of the income distribution,  
income share of bottom 20 per cent, % pts

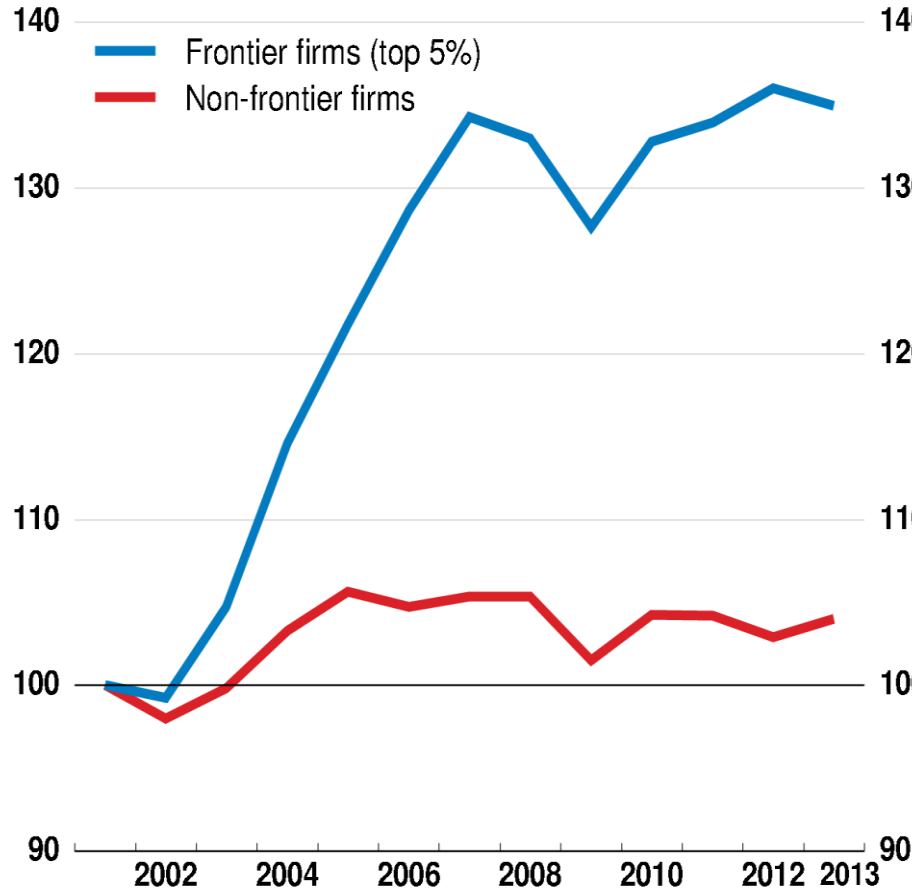




# Productivity gaps have widened, and wage inequality is increasing

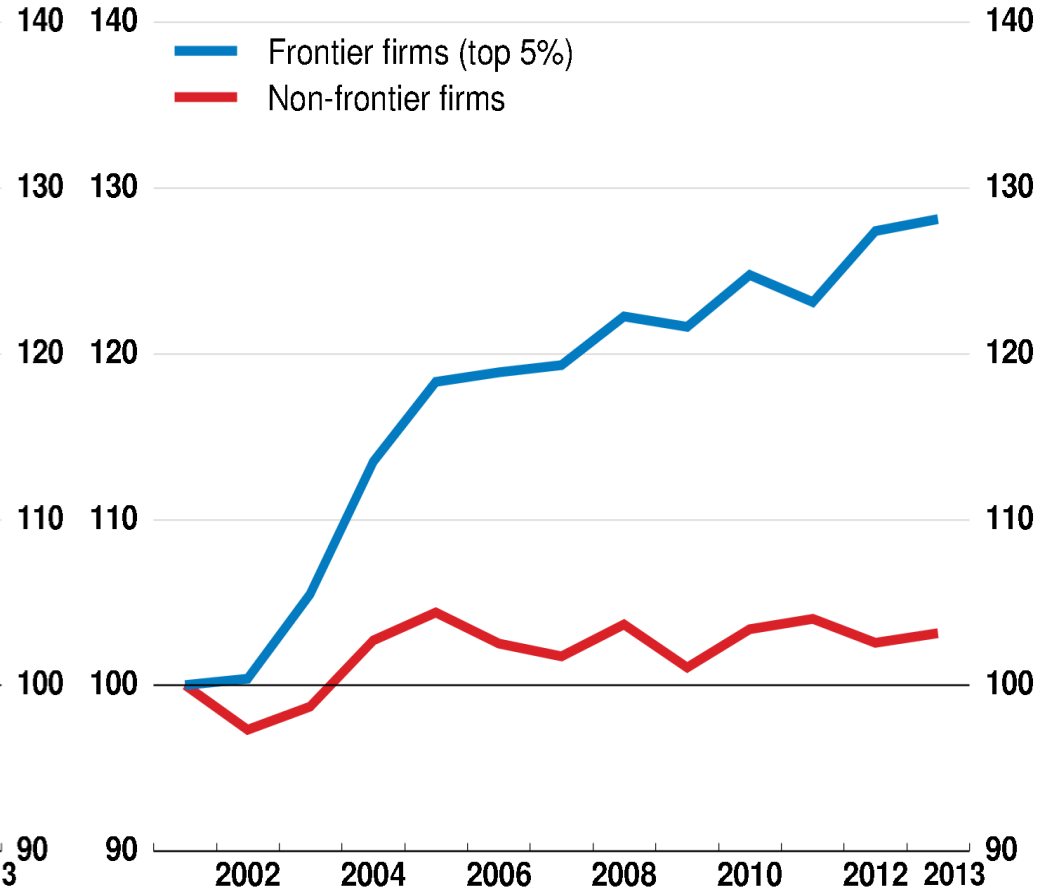
## Labour productivity

Index, 2001 = 100



## Real compensation per worker

Index, 2001 = 100



Note: Frontier firms are the 5% of firms with the highest labour productivity by year and sector. Industries included are manufacturing and business services, excluding the financial sector, for firms with at least 20 employees.

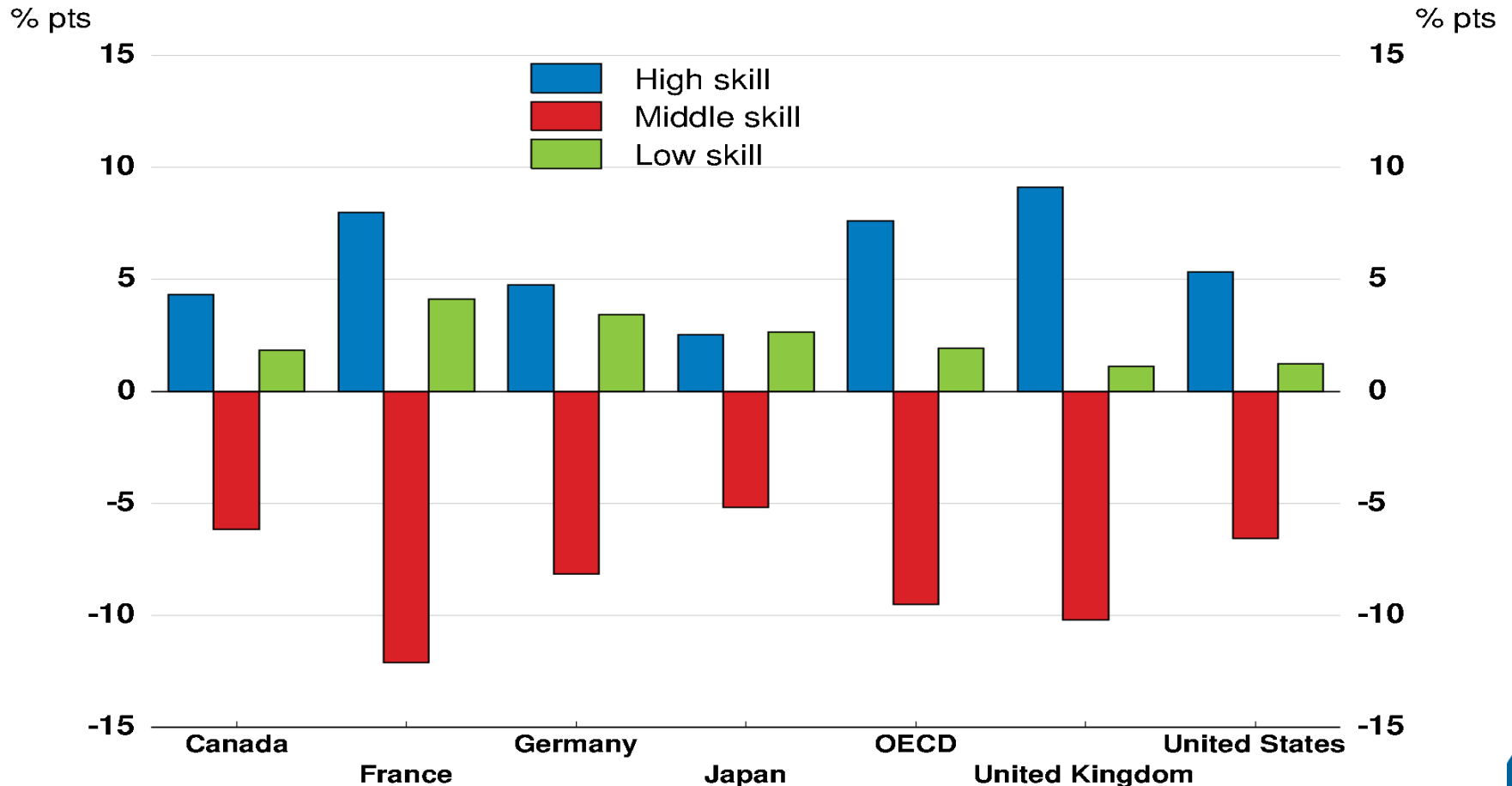
Source: Andrews, D., Criscuolo C., and Gal P. (2016), "The Best versus the Rest: The Global Productivity Slowdown, Divergence across Firms and the Role of Public Policy", OECD Productivity Working Papers, No. 05; Orbis data of Bureau van Dijk; and OECD calculations.



# Middle skill income earners are also painfully affected

## Job polarisation by country

Change in share of total employment by skill level, 1995-2015



Note: OECD is the unweighted average of 24 countries. For Japan 1995-2010.

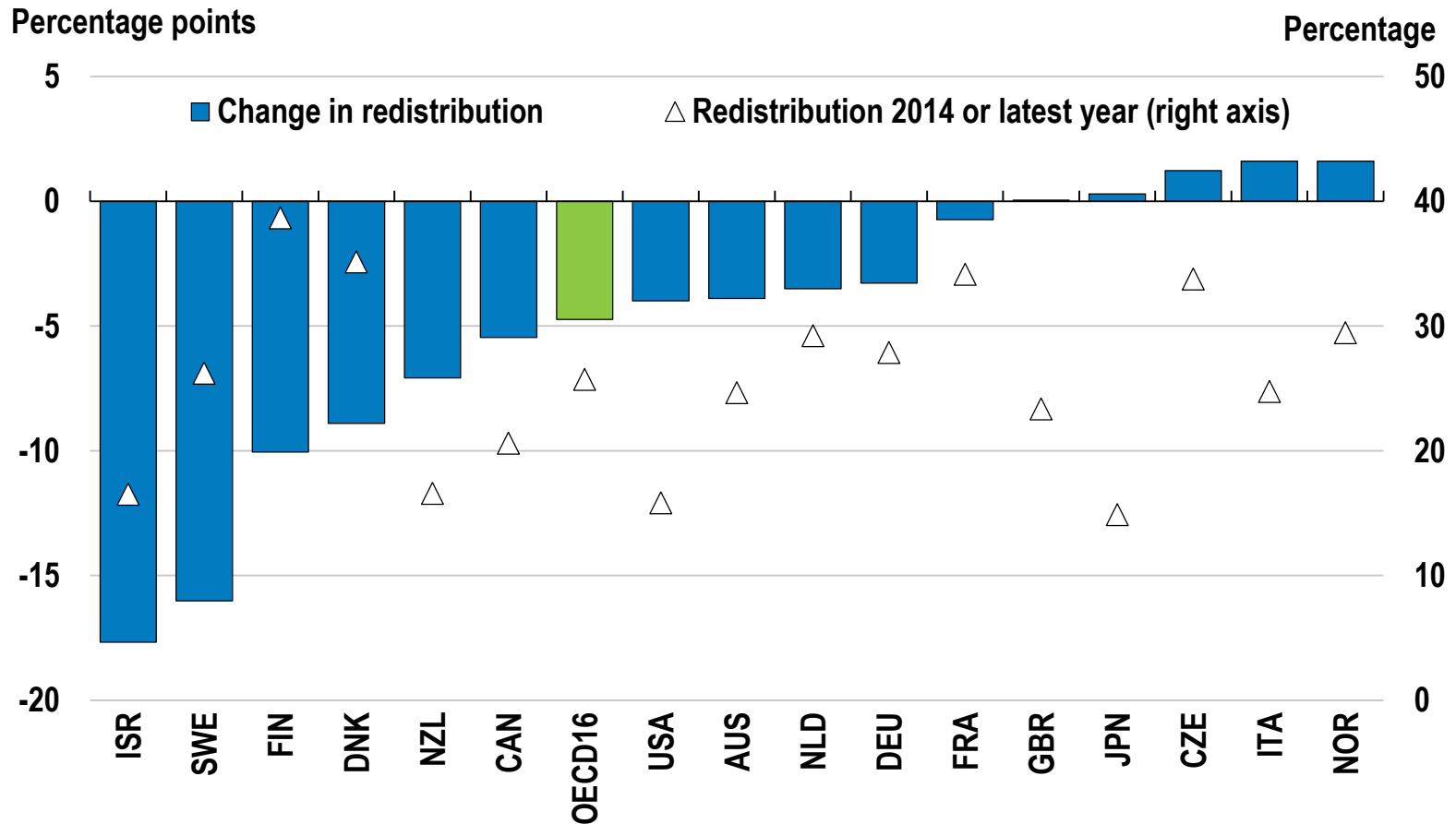
Source: OECD Employment Outlook 2017; European Union Labour Force Survey; Labour force surveys for Canada, Japan and the United States; and OECD calculations.



# Income redistribution has declined

## Change in redistribution for the working-age population

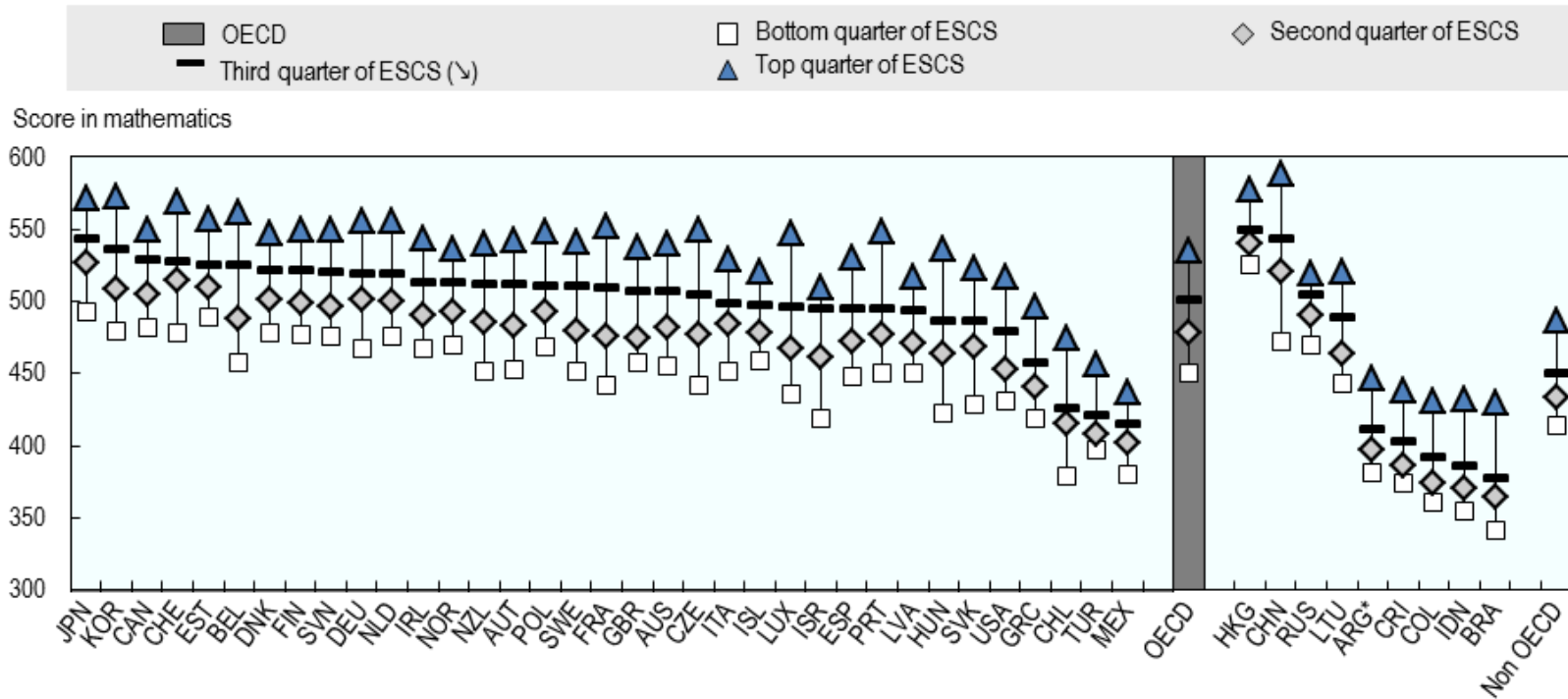
Mid-90s to latest available year





# Social mobility is low

## Educational outcomes largely affected by family background (PISA, 2015)



Source: PISA 2015 Database.

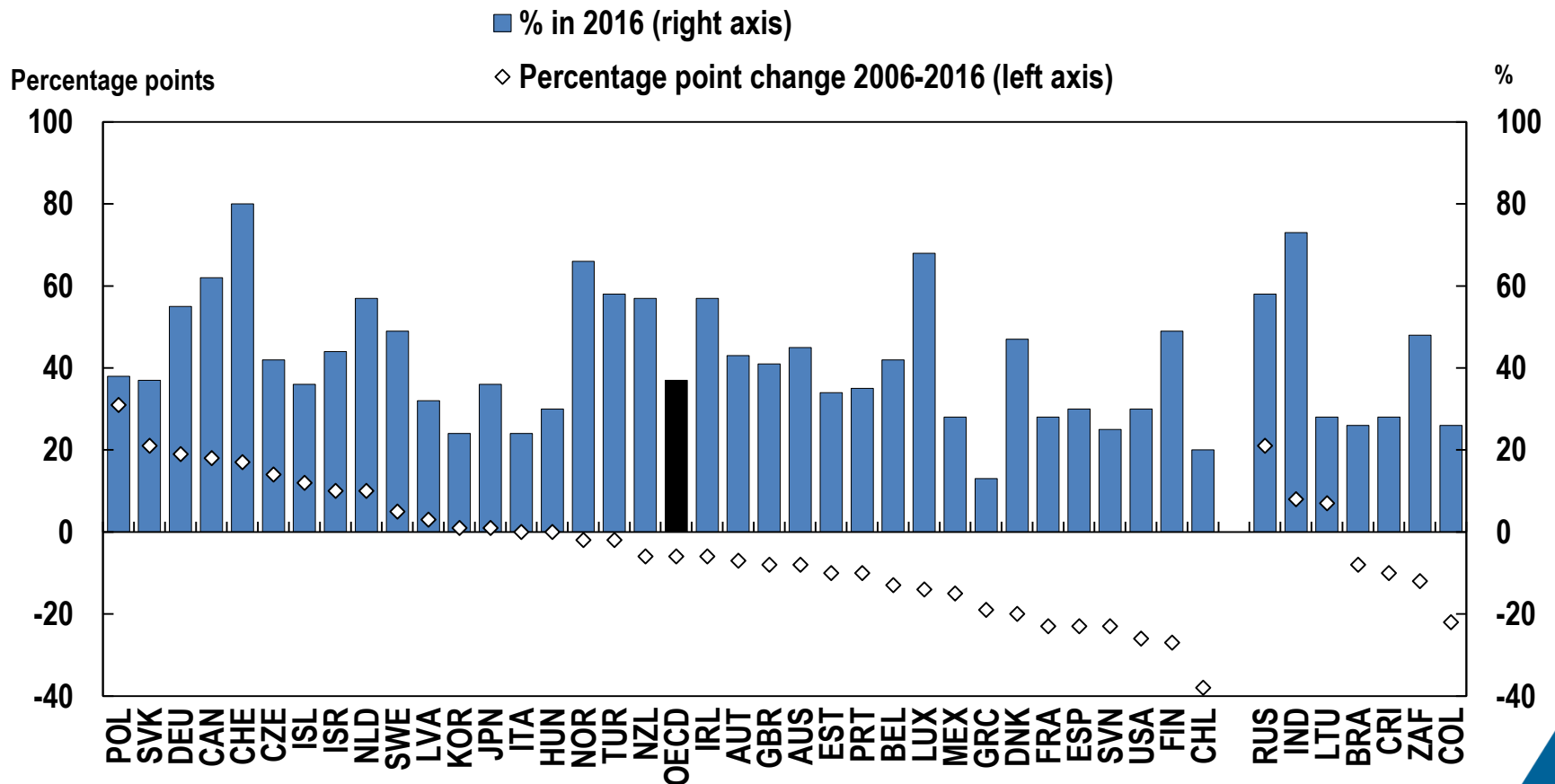




# Trust in government is declining

## Average confidence in national government

2014-16 and change since 2005-07



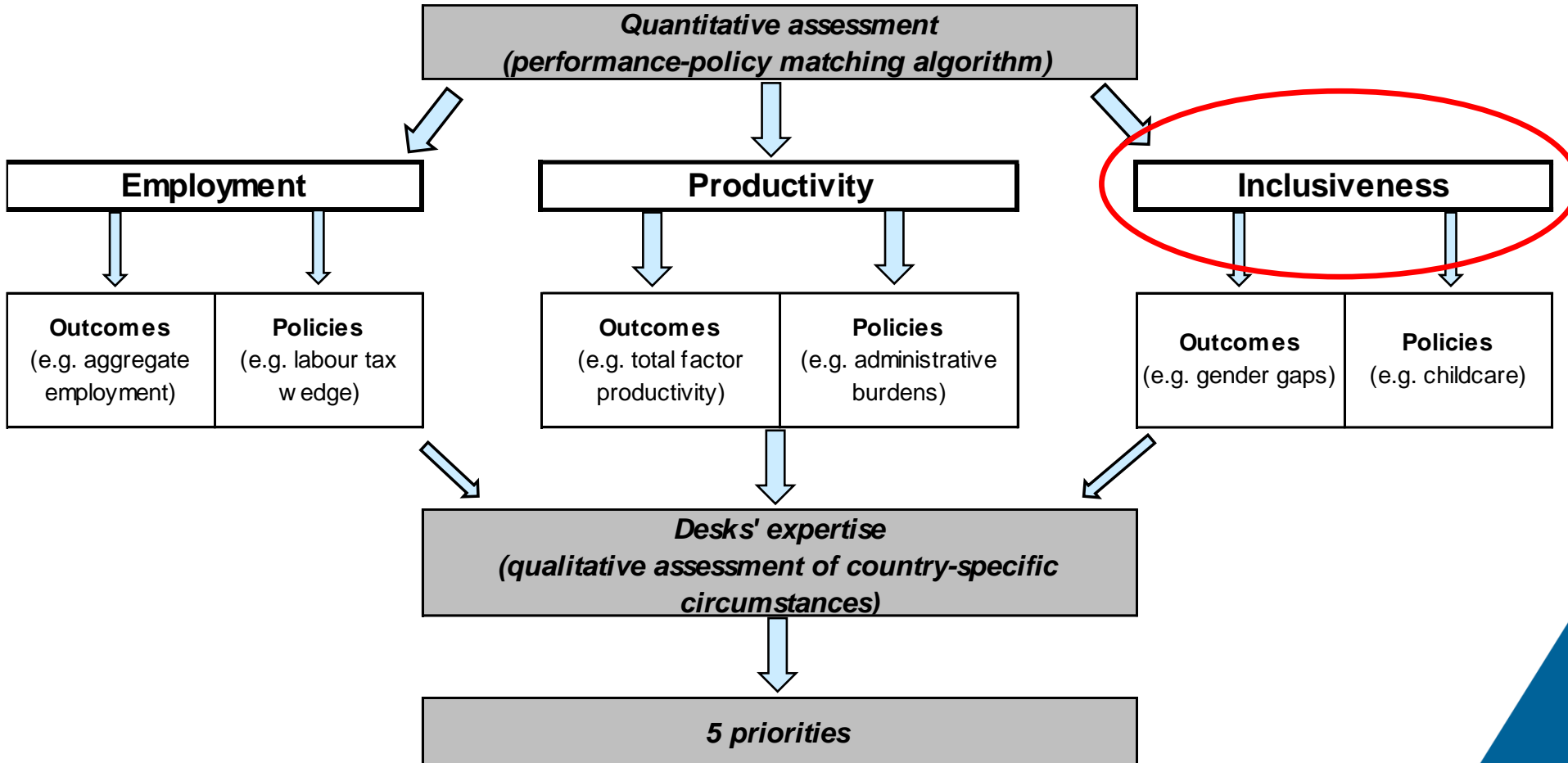


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# **Operationalizing reforms for inclusive growth**



# The OECD Going for Growth framework pillars





# Going beyond economics towards inclusiveness

## Income dimensions

## Non-income dimensions

### Labour market: job quantity & quality

#### Inequality in household disposable income

- Gini coefficient
- Income share bottom 20%

#### Poverty

- Relative poverty rates
  - Total population
  - Working-age population
  - Children
  - Youth
  - Elderly
- Poverty mean gap

#### *Emerging economies*

- Absolute poverty rate
- Absolute poverty gap

#### Top income and wealth shares

- Top 1% income share
- Top 1% wealth share

#### Earnings inequality and quality

- D5/D1 earnings ratio
- D9/D5 earnings ratio
- Earnings quality
- Gender wage gap

#### Labour market insecurity and informality

- Unemployment risk
- Unemployment insurance

#### *Emerging economies*

- Vulnerable employment
- Incidence of informality
- Risk of extreme low pay

#### Labour market inclusiveness

- Female employment gap
- Elderly employment gap
- Youth unemployment gap
- Foreign-born unemployment gap
- Long-term unemployment rate

#### Health outcomes and inequalities

- Female life expectancy
- Male life expectancy
- Self reported good health
- Low-high income health gap

#### *Emerging economies*

- Child mortality
- Access to sanitation

#### Skills and equality of educational opportunities

- Upper-secondary education share
- PISA scores: mean and overall variation
- PIAAC scores: mean and gender gap
- Low-performing students and adults
- Impact of socio-economic background on PISA scores
- NEET share



# Corresponding to 3 broad categories of recommendations

## Firms

*Promote business dynamism and the diffusion of knowledge*

- Barriers to entry, competition, exit, trade and FDI,
- Structure and efficiency of the tax system,
- Legal and physical infrastructure

## Skills

*Unlock skills development and innovation capacity*

- Primary and secondary education
- Higher education and VET
- R&D policies

## Workers

*Help workers benefit from a fast-changing labour market*

- A more inclusive labour market (gender, migrants, low-skilled, etc.)
- ALMPs and social benefits
- Labour mobility and health sector
- Labour market regulation



# Empirical evidence of structural reforms on growth and employment

## The impact of pro-growth policies and structural forces on wage dispersion and employment

	Effect of change on:		
	Wage dispersion	Employment	Overall earnings inequality
<b>Firms</b>			
Technical progress (higher MFP)	+	=	=
Deeper trade integration	=	=	=
Higher FDI openness	=	=	=
Lowering regulatory barriers to entry	+	+	=
<b>Workers</b>			
Lowering minimum wage	+	=	=
Lowering unemployment benefits replacement rate	+	+	=
Strengthening active labour market policies	=	+	-
Increasing female labour force participation	-	+	-
<b>Skills</b>			
Higher R&D intensity	+	=	+
Higher share of skilled workers	-	+	-

Firms

Workers

Skills

Note: “+” represents an increase in the variable whereas. “-“represents a decrease. “=” corresponds to the cases where the net impacts are ambiguous.

Sources: Braconier and Ruiz-Valenzuela (2014); Koske et al. (2012); OECD (2011).



# Structural reforms through the income distribution spectrum, the case for France

Source: OECD

**Long-term impact  
on growth, %**

**Long-term impact on income growth, %**

**GDP per capita  
(5-year horizon)**

**The  
poorest**

**The lower  
middle class**

**Average  
income**

**The upper  
middle class**

**The  
wealthiest**

	<b>Long-term impact on growth, %</b>	<b>Long-term impact on income growth, %</b>				
	<b>GDP per capita (5-year horizon)</b>	<b>The poorest</b>	<b>The lower middle class</b>	<b>Average income</b>	<b>The upper middle class</b>	<b>The wealthiest</b>
<b>Labour markets reforms</b>						
Increased expenditure on vocational training	0.4	0.0	0.6	0.5	-0.3	-0.6
Reduction of automatic extensions of branch agreements	0.4	4.1	3.1	3.6	0.0	0.0
<b>Reforms of the tax system and service markets</b>						
Reduction of the tax wedge	0.2	-0.6	0.7	0.4	0.0	0.0
Reduction of the corporate tax rate	0.2	0.3	0.3	0.3	0.3	0.3
Narrowing the wealth tax to housing wealth	0.3	0.3	0.3	0.5	0.4	0.8
Increase in the earned income credit	0.1	1.1	0.8	0.5	0.4	0.3
Openness to competition of the railway system	0.04	0.2	0.2	0.2	0.2	0.3
<b>Total</b>	<b>1.9</b>	<b>5.0</b>	<b>6.1</b>	<b>6.4</b>	<b>1.8</b>	<b>2.6</b>



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# **Towards a more comprehensive IG agenda**





# Key recommendations to promote inclusive growth

- ***Foster business dynamism***
  - Boost productivity growth and business dynamism, while ensuring adaptation and diffusion of technologies across the board – in particular for small and young firms
  - Optimize natural resource management for sustainable growth
- ***Lift the quantity and quality of jobs and address labour market insecurity and segmentation.***
  - Create more and better jobs by tackling labour market duality and segmentation, including informality.
  - Work to achieve inclusive labour markets (female, foreign-born, elderly, long-term unemployed..)
- ***Ensure broad access to quality education and upskilling.***
  - Address the needs of young people from pre-school to university, so they get the best start in life and the support they need throughout their education.
  - Promote life-long learning and acquisition of skills
- ***Enhance the effectiveness of taxes and transfer systems in reducing income inequality and poverty, balancing equity and efficiency objectives.***

Firms

Workers

Skills



# Conclusion and further research

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## Investing in people and places left behind

- Promoting life-long learning and acquisition of skills
- Increasing social mobility
- Improving health and enhancing access to affordable housing
- Promoting regional catch-up
- Investing in communities' well-being and social capital

## Supporting business dynamism and inclusive labour markets

- Boosting productivity growth and business dynamism, while ensuring adaptation and diffusion of technologies across the board – in particular for small and young firms
- Achieving inclusive labour markets
- Optimising natural resource management for sustainable growth

## Building efficient and responsive governments

- Embedding inclusiveness in policy-making
- Using data and smart technologies to design citizen-centred policies
- Screening policies for inclusiveness and accountability



# More information & references

## OECD Working Papers

Browne, J. and O. Causa (2018), "Income redistribution across OECD countries: main findings and policy implications", OECD Economics department Policy Papers, forthcoming.

Causa, O. and M. Hermansen (2017), "Income redistribution through taxes and transfers across OECD countries", OECD Economics Department Working Papers, No. 1453, OECD Publishing, Paris, <http://dx.doi.org/10.1787/bc7569c6-en>.

Causa, O., A. Vindics and O. Akgun (2018), "An empirical investigation on the drivers of income redistribution across OECD countries", OECD Economics Department Working Papers, No. 1488, OECD Publishing, Paris, <https://doi.org/10.1787/5cb47f33-en>.

Causa, O., M. Hermansen and N. Ruiz (2016), "The Distributional Impact of Structural Reforms", OECD Economics Department Working Papers, No. 1342, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jln041nkpwc-en>.

Hermansen, M., N. Ruiz and O. Causa (2016), "The distribution of the growth dividends", OECD Economics Department Working Papers, No. 1343, OECD Publishing, Paris, <http://dx.doi.org/10.1787/7c8c6cc1-en>.

## Going for Growth

<http://www.oecd.org/eco/going-for-growth.htm>

OECD (2017), "Integrating inclusiveness in the Going for Growth framework", in Economic Policy Reforms 2017: Going for Growth, OECD Publishing, Paris, <http://dx.doi.org/10.1787/growth-2017-5-en>.

## Framework on inclusive growth

OECD (2018), Opportunities for All: A Framework for Policy Action on Inclusive Growth, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264301665-en>



# OECD Economic Surveys on Inclusive Growth

Themes	Countries	Year	Chapter
Education	Chile	2015	<a href="#">Better skills for inclusive growth, Chapter 2</a>
	China	2015	<a href="#">Providing the right skills to all, Chapter 1</a>
Fiscal	Euro area	2016	<a href="#">Making public finances more growth and equity-friendly, Chapter 1</a>
	Sweden	2017	<a href="#">Income, wealth and equal opportunities in Sweden, Chapter 1</a>
Gender	Austria	2015	<a href="#">Austria's separate gender roles model faces tensions, Chapter 1</a>
	Austria	2015	<a href="#">Towards more gender equality, Chapter 2</a>
	Sweden	2017	<a href="#">Fighting gender inequality, Chapter 2</a>
Labour markets	Chile	2015	<a href="#">Bringing all Chileans on board, Chapter 1</a>
	India	2014	<a href="#">Raising the economic participation of women in India – A new growth engine?, Chapter 2</a>
	Korea	2016	<a href="#">Labour market reforms to promote inclusive growth, Chapter 2</a>
Well-being	Germany	2016	<a href="#">Raising well-being in Germany's ageing society, Chapter 2</a>
	Mexico	2016	<a href="#">Towards a more inclusive society, Chapter 1</a>
	United States	2016	<a href="#">Realising and expanding opportunities, Chapter 2</a>
	United States	2014	<a href="#">Improving well-being, Chapter 1</a>