

Second OECD/Ford Foundation Workshop

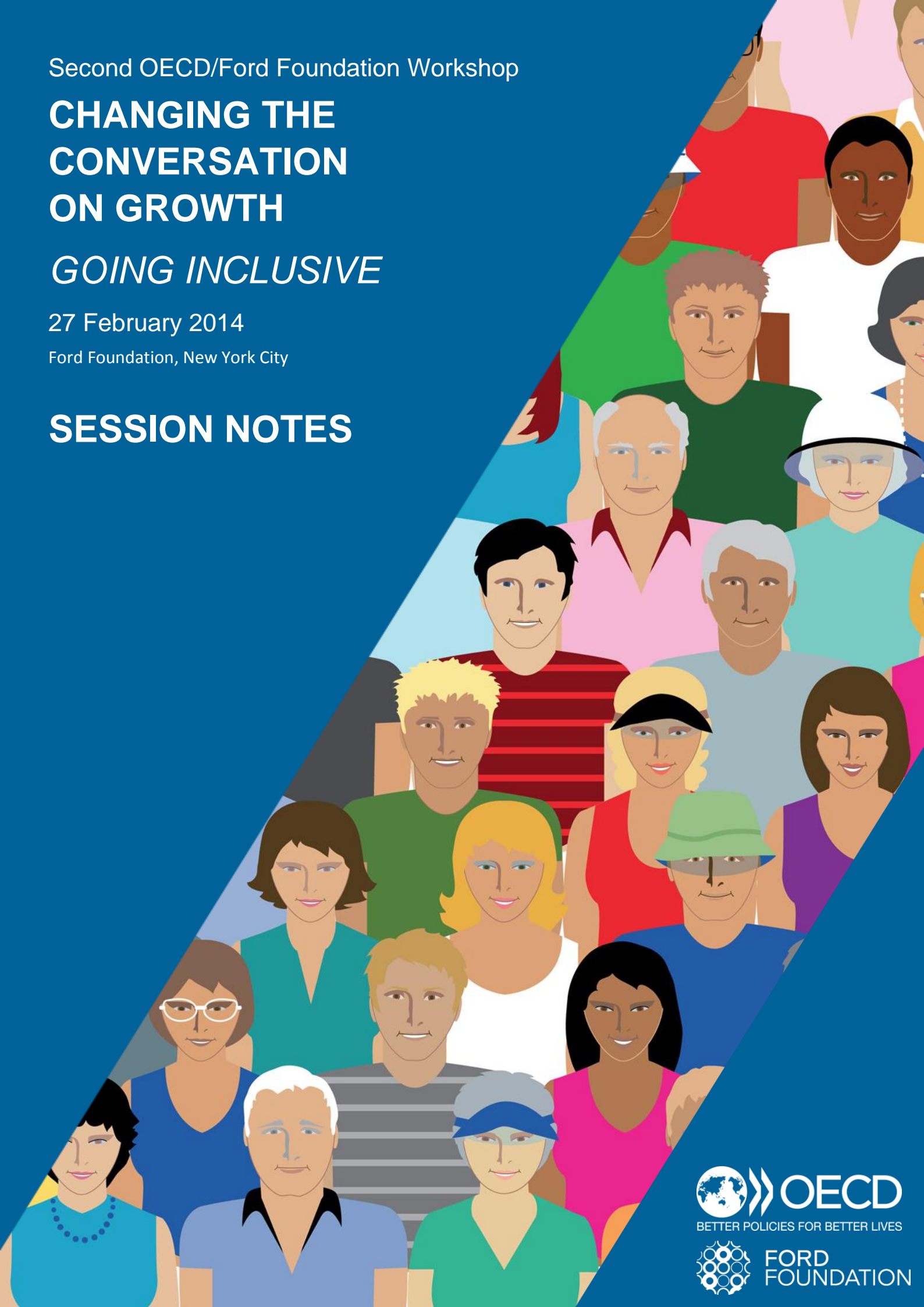
CHANGING THE CONVERSATION ON GROWTH

GOING INCLUSIVE

27 February 2014

Ford Foundation, New York City

SESSION NOTES



SECOND OECD/FORD FOUNDATION WORKSHOP

CHANGING THE CONVERSATION ON GROWTH *GOING INCLUSIVE*

Ford Foundation Headquarters, East River Room

*320 East 43rd Street
New York, N.Y. 10017
USA*

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*Economic growth should deliver better living standards for all, and increased prosperity must be accompanied by better social outcomes and well-being. Therefore, the benefits of stronger growth should be shared more evenly in society. Together, with the right tools and policies, we can make it happen. - **Angel Gurría, OECD Secretary-General***

*Leaders from across the world are searching for proven, evidenced-based approaches to rising poverty and inequality, and we hope this project can help point the way toward promising solutions. By working together, we can build a smarter approach to growth that taps the potential of everyone to contribute to society and share more equitably in its gains. That will strengthen all of us. - **Darren Walker, President, Ford Foundation***

CONTEXTUAL BACKGROUND

WHY INCLUSIVE GROWTH?

There are more than 200 million people out of work worldwide, and poverty continues to affect millions more. In many countries, the gap between rich and poor is widening and youth unemployment is soaring, while in others granting access to basic services to all remains a challenge. Countless numbers of people are experiencing low levels of life satisfaction, and are missing out on opportunities to start a fulfilling and prosperous life. They are also losing confidence in the ability of policy makers to respond to their needs and demands.

The socio-economic fallout from the financial crisis has exacerbated many of these trends, showing that “how”, not only “by how much” countries grow, and whether this growth translates into tangible benefits for citizens today and in the future, are important policy questions. This calls for *changing the conversation on growth* focussing on the drivers and policy levers to make growth more inclusive.

Supported by the Ford Foundation, the **OECD Inclusive Growth Initiative** was launched in response to rising inequalities and persistent unemployment, which can threaten long-term growth, political and economic stability, and weaken social contracts and welfare. Its ultimate objective is to inform policy making, by identifying trade-offs and synergies among the various policy instruments that can be deployed for Inclusive Growth. It will reflect the needs, special conditions and experiences of advanced, emerging-market and developing economies by engaging decision makers and stakeholders at national, regional and city levels.

This Workshop “**Changing the Conversation on Growth: Going Inclusive**” will shed further light on the growth-inequality nexus, discuss policy instruments to simultaneously drive growth and inclusiveness, and address implementation challenges by looking at the role of cities as crucial actors of change. The workshop will seek to build on the first OECD/Ford Workshop, *Inclusive Growth for Shared Prosperity*, which took place on the 3 April 2013 in Paris and focused on the key elements of a policy-relevant concept of Inclusive Growth.

SESSION 1: WHY INCLUSIVENESS MATTERS FOR GROWTH

This session will discuss the importance of putting inclusiveness at the centre of the policy debate on growth, building on the OECD Inclusive Growth Initiative and gleaning insight from recent examples in Latin America, Asia and North Africa.

The Costs of Growing Unequal

- **Increasing income disparities.** Average income of the richest 10% is now almost 10 times that of the poorest 10% on average in OECD countries, up from 7 times 25 years ago.ⁱ
- **Income inequality is also increasing in traditionally egalitarian countries.** In Germany, Norway and Sweden, the gap between rich and poor has expanded from less than 5 to 1 in the 1980s, to more than 6 to 1 today.ⁱⁱ
- **Income inequality is falling, albeit from very high levels, in some parts of the world, including in Latin America.** This is the case in Mexico and Chile, but the ratio between the richest 10% and poorest 10% still stands at approximately 27:1. Brazil considerably reduced the gap but it is still 50:1. And in South Africa, inequality has continued to rise and now it is over 100:1.ⁱⁱⁱ
- **Income gains have accrued to top earners.** Over 1976-2007 the top 1% has benefitted disproportionately from greater income growth. In the United States 47% of total income growth over 1976-2007 went to the top 1%, in Canada it was 37%, and the figure stood at around 20% in New Zealand, Australia and the United Kingdom.^{iv}
- **Better educated people live longer.** Data from 15 OECD countries show that on average people with better education live 6 years longer than their poorly educated peers.^v
- **Access to jobs is also unequal, perpetuating income discrepancies.** Non-standard work arrangements make up 33% of total employment across OECD countries.^{vi} **In-work poverty** now affects 8% of the workforce in OECD countries.^{vii}
- **Growing unequally may ultimately mean growing less!** Mounting evidence suggests that over the longer term inequality can diminish growth returns.

The global crisis has motivated a debate about the costs of growing unequal. Rising inequalities, not only in terms of income but also other aspects of life that matter for well-being, thwart opportunity and alienate individuals and vulnerable social groups from economic life. This, in turn, stifles economic growth in the long term, as societies fail to use their human capital to its full potential. Rising inequality is often accompanied by increased polarisation, which undermines social cohesion, fosters discontent, and saps trust in policy and institutions.

The good news is that while many countries have witnessed an increase in income disparities, in spite of sustained growth prior to the crisis, others have managed to grow strongly and at the same time narrow the income gap between rich and poor. These contrasting experiences show that there may not be a trade-off between equity and growth, and that specific circumstances and policy settings allow societies to share the benefits of increased prosperity without undercutting economic performance. Understanding the costs associated with rising inequalities and the policy instruments that can be used to mitigate them is crucially important for Inclusive Growth strategies.

Equally important is the question of whether or not greater inclusiveness may be a driver of sustained growth. The key policy challenge is therefore not simply to avoid potential equity-growth trade-offs but instead to use pro-inclusiveness tools as levers of

sustained growth. In other words, by seeking synergies between pro-inclusiveness and growth-friendly policies, Inclusive Growth strategies can deliver superior outcomes, leading to greater well-being for the population as a whole.

The OECD Inclusive Growth Framework proposes solutions to these challenges (**Box**). It calls for identifying the dimensions that matter for well-being and for “mapping” policies to outcomes along the different dimensions, while taking into account country-specific preferences, needs and circumstances.

The OECD Inclusive Growth Framework

The OECD is working on an Inclusive Growth Framework to assist policy makers in designing and implementing Inclusive Growth strategies. The Framework is evidence-based and seeks to enhance policy makers’ understanding of the trade-offs and synergies that exist between pro-inclusiveness and growth-friendly policies, the adverse effects of rising inequality on growth and the instruments that can be used to mitigate these costs, while turning inclusiveness into a driver of strong economic performance and growth.

The OECD Framework is three-pronged:

1) It is multidimensional, allowing for the assessment of the benefits of economic growth on both monetary and non-monetary outcomes, and how they are distributed among social groups. A multidimensional approach to Inclusive growth aims to simultaneously improve material living standards and achieve broad-based progress along other dimensions that matter for people’s well-being, taking into consideration countries’ levels of development.

2) It focuses on distribution, so that the effects of policies can be gauged not only from the perspective of a “representative” or average individual or household, which is the focus of conventional growth analysis, but also for different social groups, such as the poor, the near-poor or the “median”.

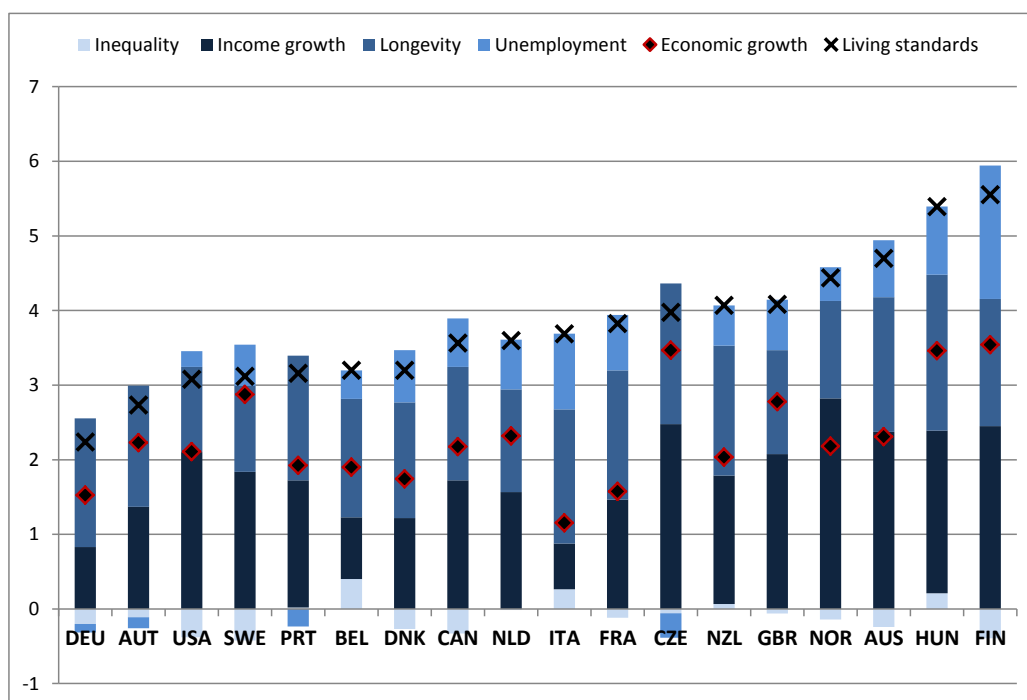
3) It is policy relevant, making it possible to identify trade-offs and complementarities among policies in different domains and institutional settings and provide policy makers with a toolkit for designing and implementing Inclusive Growth strategies.

The OECD Inclusive Growth Framework builds on the Organisation’s work on the policy drivers of growth, income inequality, well-being and development to identify and better understand the policies that can deliver improvements in living standards and outcomes that matter for people’s quality of life.

Using the OECD Inclusive Growth Framework it is possible to compare growth in income and in “living standards”, when non-income dimensions that matter for wellbeing, such as jobs and health conditions are taken into account. For example, living standards grew faster than income in most OECD countries before the crisis, reflecting falling unemployment and improvements in health conditions that led to increases in longevity. In the United States, income per capita grew by about 2% per year during 1995-2007, whereas living standards of the middle-class rose by just over 3% per year over the same period.^{viii} However, growth in living standards was held back in some countries by rising income inequality.

Growth in income and in living standards in OECD countries before the crisis (1995-2007)

How to read this chart: Before the crisis, living standards (a combined measure of median and real household income, life expectancy and jobs) grew faster than GDP per capita in most OECD countries due to falling unemployment and rising longevity. This is despite rising income inequality in some countries, which had a negative effect on growth in living standards.



Source: OECD calculations based on OECD Annual National Accounts, OECD Income Distribution Database and OECD Health Data Base.

Inclusive Growth is particularly useful for emerging-market economies and developing countries, where it can play an essential role in poverty reduction. In those countries, Inclusive Growth can also launch a virtuous growth circle, where increased inclusiveness unleashes opportunities for social development and stronger economic performance.

Issues for discussion

- Why is inclusiveness important for growth? How should the costs of unequal growth be assessed and where should their limits be drawn?
- Can inclusion enhance performance and deliver better outcomes than conventional policies that ignore the distributive aspects of growth?
- What are the key aspects of well-being that can be placed at the centre of a multidimensional strategy for Inclusive Growth?
- How can Inclusive Growth strategies be tailored for emerging-market economies and developing countries?
- Some countries have experienced growth and reduction in inequalities whilst others have grown more unequal. What are the key policy elements that account for these differences?

SESSION 2: WIN-WIN POLICIES FOR EQUITY AND GROWTH

This session will address policy trade-offs between growth and inclusiveness with the objective of defining win-win strategies where complementarities between both objectives can be operationalised.

Managing Trade-offs & Fostering Synergies

- **Reforming tax systems is essential to promote equity without hampering growth.** Introducing more progressive tax schedules, increasing taxes on capital and on immovable property, whilst combating tax avoidance and evasion will help us grow more inclusively.
- **Increased labour market flexibility is a double edged sword.** It is good for economic and employment growth, but also tends to widen wage inequalities harming the most vulnerable. Activation of vulnerable and under-represented socio-economic groups and measures to fight in-work poverty are growth-friendly pathways to inclusiveness in the labour market.
- **Innovation and entrepreneurship are key drivers of growth** but can also accentuate income disparities when opening up opportunities mainly for high-skilled individuals. Inclusive innovation policies include supports to small firms, simplified regimes for business start-ups, and access to finance and other essential business services.
- **Reaching excellence through equity.** Investing in education and skills of people at the bottom of the distribution will pay long-term dividends for the economy, enhance individual wellbeing and secure the future of our shared prosperity.

Economic theory provides much guidance on the policies that can strengthen economic performance and ultimately long-term growth. On the one hand, reforms to tax-benefit systems, unemployment insurance and active labour market policies, as well as pension and health care systems, for example, can do much to remove obstacles to greater labour utilisation and disincentives to the participation of groups with weak attachment to the labour force, such as migrants, youth and women. On the other hand, policies in the areas of education and skills, innovation, and product market regulation are central to efforts to raise labour productivity and the overall efficiency of the economy. Efforts to improve the business environment, by reducing red tape and opening up protected sectors to competition, have the advantage of unlocking opportunities for investment and improving the overall efficiency of the economy.

Equally important is the recognition that pro-growth structural policies may also foster inclusiveness. In other words, by affecting the utilisation and productivity of labour, supply-side policies are likely to influence the way in which the benefits and rewards of growth are shared among the different social groups. For example, initiatives aimed primarily at enhancing the performance of students and facilitating their transition from school to work allow them to compete for better paying jobs and, depending on how they affect disadvantaged groups, may have an impact on the distribution of labour income. Reforms to tax-benefit systems can help to remove obstacles to labour force participation (*e.g.* reducing the tax burden on the income of second earners), which is supportive of growth, and improve the earnings prospects of otherwise discouraged workers.

Of course, there may be trade-offs between pro-growth and pro-inclusiveness policies, which need to be considered. For instance, a reduction in the level of protection of permanent jobs helps to reduce labour market duality but can disproportionately affect low-wage earners. Also, reducing the legal extension of collective wage agreements might lower labour costs and promote employment, which is good for growth, but it might also contribute to widening wage dispersion, which is undesirable from the point of view of inclusiveness. Moreover, shifting the tax structure away from direct taxes (labour and corporate income taxes) towards consumption, environment and property provides incentives to work and can encourage employment but may raise equity concerns at the same time. Greater competition in product markets can do much to encourage innovation and entrepreneurship, but it can also raise inequality to the extent that technological progress favours high-skilled workers.

In a number of areas, there is clear evidence that policies designed to reduce inequality can also boost growth. The clearest example is education. In OECD countries, there are signs that the completion of secondary and tertiary education can actually boost income. Addressing inequalities in both access to, and quality of, education can be expected to help lower inequality in labour income. Policies that address impediments to labour market participation, for instance by improvements in the access to childcare for women, or those that ensure a smooth transition from school to work, could lead to more equal labour market outcomes while boosting long-run growth.

Pro-growth structural reforms can also impact the equity aspects of other non-income dimensions that matter for Inclusive Growth, including skills and education, jobs quality, health or environment. For instance, an increase in non-standard employment, such as involuntary part-time or temporary jobs, can lower job quality, in particular for low-skilled workers. It can also increase job strain, adversely impact mental health, and reduce worker capacity to connect to social and professional networks. These trade-offs are also important to address as inequality goes far beyond income disparities. Some population groups, particularly those with lower levels of education and income, are less active in political activities, have greater health problems and children with lower performance at school. Disadvantaged population groups are also more exposed to insecurity, crime and environmental degradation.

Issues for discussion

- How do macroeconomic fundamentals affect Inclusive Growth? What should be done to protect or enhance the redistributive role of fiscal policies in a period of fiscal constraint? What are the redistributive effects of monetary policy?
- What policies can make labour markets more dynamic whilst simultaneously encouraging workers to participate in the labour force and become more efficient?
- Are there any trade-offs in education and skills-related policies aimed at fostering Inclusive Growth?
- What is the right mix of policies to maximise the contribution of innovation and ICT policies to Inclusive Growth? How to mitigate the possible unintended consequences of innovation-based pro-growth policies on inclusiveness?
- How to ensure that credit flows do not mainly benefit the wealthy and politically well connected? How can the banking sector business model be improved to produce better social outcomes? Which reforms are needed to get the corporate governance rules right?

SESSION 3: CITIES AS ACTORS FOR INCLUSIVE GROWTH

This session will look at the potential of cities to foster Inclusive Growth, identifying implementation challenges and areas for strengthening inter-governmental co-ordination.

Spatially Concentrated Inequalities

- **More of us are living in cities.** 2008 marked the first time in which more than half of the world's population lived in towns and cities. It is projected that by 2050, the total urban population will have almost doubled from 3.4 billion in 2009 to 6.4 billion in 2050.^{ix}
- **Income disparities are more prominent within urban areas.** In 2009, 17 of the top 25 US metropolitan areas had estimated Gini coefficients above the US national average.^x
- **Harder on the fringes.** People living in distressed neighbourhoods typically lack access to quality housing and public transport and are more exposed to high costs of living. Comprehensive investment in public transit can open up new employment and training opportunities for the most disadvantaged, promoting both growth and equity objectives.
- **The main driver of urban inequalities is the skills gap.** There are more skilled workers in urban areas than in non-urban areas, but their presence also attracts the presence of a high number of unskilled workers to service them.
- **Educational disparities are large within metropolitan regions.** In the Chicago region, for instance, school districts record high school graduation rates that range from 57% in the city of Chicago to over 95% in suburban areas.^{xi}
- **Urban Air pollution is a growing problem.** Only 2% of the global urban population are currently living below the WHO Air Quality Guideline of 20µg/m³. The poorest are the most exposed.^{xii}
- **Cities on the frontline.** Proximity to citizens means that cities can take the lead in promoting inclusive growth, by pursuing innovative education, healthcare and transport policies, boosting the quality and quantity of the housing stock and engaging in urban regeneration.

Local governments have an important role to play in the design and implementation of Inclusive Growth strategies. Many of the key policies that can be put in place to foster growth and inclusiveness are under the remit of local governments. While arrangements differ across countries, local governments are key actors in the delivery of education and health care services, and are taking on increasing responsibilities for social protection, labour training and employment. Local governments are also often at the forefront of pro-growth policy making, including in essential areas such as the provision of infrastructure and the regulation of business operations. Indeed, in the OECD, about two-thirds of government investment is carried out by local governments.

Local governments also face “place-based” challenges that have a bearing on Inclusive Growth. For example, while cities and local communities are sources of innovation and economic dynamism, they also need to deal with challenges related to increased inequalities and social segregation in economically depressed areas, which is accompanied by a concentration of unemployment and crime, as well as the costs of congestion, which weigh on economic performance and the quality of life of residents. Large cities also often have higher costs of living, particularly regarding housing, which reduces the purchasing power of low skilled workers. Low-income groups therefore tend to live in more distressed areas with limited access to public transport, good schools and job opportunities. Innovative approaches are therefore needed to address

these challenges, creating a lot of room for an Inclusive Growth agenda at the local level. For instance, to ensure a better distribution of opportunities without undermining urban growth prospects, urban policy makers need to upgrade the skills of the local workforce, targeting the low skilled, regenerate distressed neighbourhoods, and ensure affordable housing options for low-income groups.

Local governments are close to the people! By virtue of their proximity to the population, local government policy makers are often better placed than their counterparts at higher levels of administration to “extract” information about the needs, demands and expectations of citizens. They can therefore play an essential role in the design of Inclusive Growth strategies, which need to reflect social preferences and be implemented in an efficient and accountable manner. Indeed, good governance is key: if institutions are weak and local governments can be captured by local interest groups, then growth may occur to the detriment of inclusiveness.

Advancing Inclusive Growth at the urban level will require the modification of the “competitive cities” paradigm that has prevailed in many places. Above all policies have emphasised the need to create business-friendly conditions to attract footloose investors. In many places there has been a tendency to favour highly visible investments in physical infrastructure and discrete “development projects” rather than softer, less glamorous investments in human capital, essential services and quality housing. Investing in the latter might have done more to enhance both the quality of life and the productivity of disadvantaged populations. Cities need to attract inward investment and highly skilled human capital, but the competitive cities paradigm has often led to policy choices which have done this at the expense of already disadvantaged groups.

Policy makers must not only pay more attention to potential complementarities and trade-offs among policy choices, but they must also think more seriously about integrated strategies for cities, rather than about discrete interventions that address the needs of specific constituencies. Realising the potential of such approaches will require improved co-ordination across sectoral policies, to better manage trade-offs among competing goals and, where possible, to realise potential synergies among them. There is also a need to deal with administrative fragmentation in policy design and service delivery, which often prevents cities from meeting their full potential for growth whilst simultaneously addressing inequalities.

Issues for discussion

- There is much evidence that urbanization has helped reduce extreme poverty, in some places dramatically. But the rapid growth of cities has also been accompanied by proliferating problems with slum housing conditions, crime, pollution, and inequality. Is this inevitable or have some cities been able to address these challenges proactively?
- What cities have been most successful in reducing poverty and/or inequality? How did they do it? Which policies and practices have been effective in achieving less poverty and social inequity in cities, and did this strengthen or hinder economic growth?
- Many countries have experienced serious urban unrest in recent years, some because of perceived corruption amid poor economic conditions, such as the lack of jobs and inadequate basic services. To reduce tensions, what is more important: addressing the lack of transparency and accountability in government or attending to economic performance and service delivery?
- At the local level, which distributive measures have proven to be most effective in the pursuit of more Inclusive Growth? Can they keep pace with rapid urbanization? Have some cities been able to harness large investments in urban development to achieve more social inclusion? Can those investments also shape peoples' access to opportunities through better location of housing, improved transportation, and greater economic integration in communities?

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^{viii} OECD (2014), Inclusive Growth - Concepts, Methods, and Work Ahead: A Background Note. OECD Publishing, Paris, forthcoming.

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^{xi} OECD (2012) OECD Territorial Reviews: The Chicago tri-State Metropolitan Area, OECD Publishing, Paris

^{xii} OECD (2012) Environmental Outlook to 2050, OECD Publishing, Paris