A policy framework to help guide the G20 in its development of policy options to foster more inclusive growth

July 2017

Rising or high income inequality in many G20 economies is a major challenge to achieving the G20 objective of strong, sustainable and balanced growth. This note sets out a policy framework of options to achieve more inclusive growth, based on the research of the OECD and the World Bank.

- While differences in living standards across countries have narrowed, income inequality within countries has increased in many G20 economies since the mid-1990s. In part, this reflects the stagnant income growth for many people in advanced economies and the rapidly rising rewards to improved skills and education in both advanced and emerging countries. Poverty has declined substantially in developing countries.

- Income inequality affects well-being and future opportunities in all areas of life. There is increasing evidence that higher inequality may be linked via a number of channels to slower productivity growth, including through underinvestment in human capital, while political tensions may arise when economic gains are not widely shared.

- Government policies can help make growth more inclusive. For instance, the higher inequality that results from skill-biased technological progress and the resulting reallocation of labour can be addressed through cross-cutting policy packages targeting investment in skills, efficient support for job mobility and through taxes, transfers and the social safety net.

- Structural reforms boost productivity and employment, raising incomes overall but impacting the distribution of income. Some policies are win-win for growth and inequality, for example removing barriers to employment or formal jobs for the low-skilled, but some other pro-growth policies have an ambiguous effect on inequality.

- Key policy priorities across the G20 include measures to: strengthen women's participation in economic life; promote employment and good-quality jobs; improve access to finance; improve the opportunities for doing business, especially the competitive environment to create a level playing field for companies; upgrade skills and education, especially for those from disadvantaged backgrounds; strengthen connectivity to underdeveloped regions; and improve tax and transfer systems, including by raising progressivity. Expanding the social safety net without hampering incentives to work and invest is important for emerging economies.

Section 1 summarises developments in inequality in G20 members. Section 2 sets out a framework for inclusive growth. Section 3 identifies some key policy options to achieve more inclusive growth.

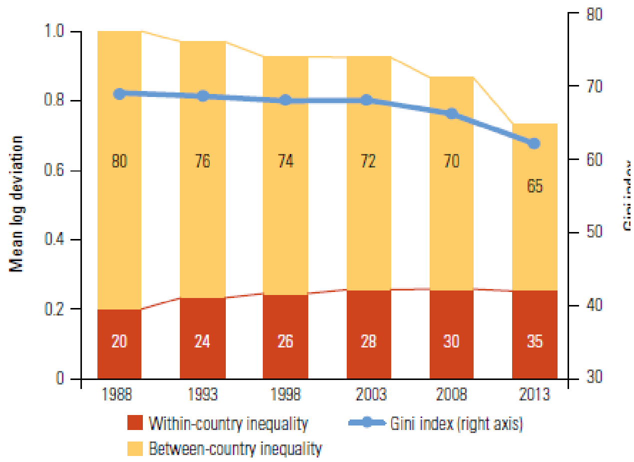
The ***Annex*** summarises existing OECD and World Bank country-specific policy advice to G20 countries aimed at reducing inequality and achieving inclusive growth.

1. Differences in incomes between countries have narrowed, but income inequality within most G20 countries has increased since the mid-1990s.

Economic growth over recent decades has led to a convergence in living standards around the world, which has driven an unprecedented decline in between-country inequality globally and for the G20, particularly due to the fast growth in China and India (Figure 1). However, progress in average living standards has been accompanied by an increase in inequality within many advanced economies and high levels of income inequality in emerging economies, although absolute poverty has decreased considerably (OECD, 2017a; World Bank).

Figure 1. The decline in global inequality is largely due to lower inequality between countries

Global Inequality, 1988-2013



Source: World Bank

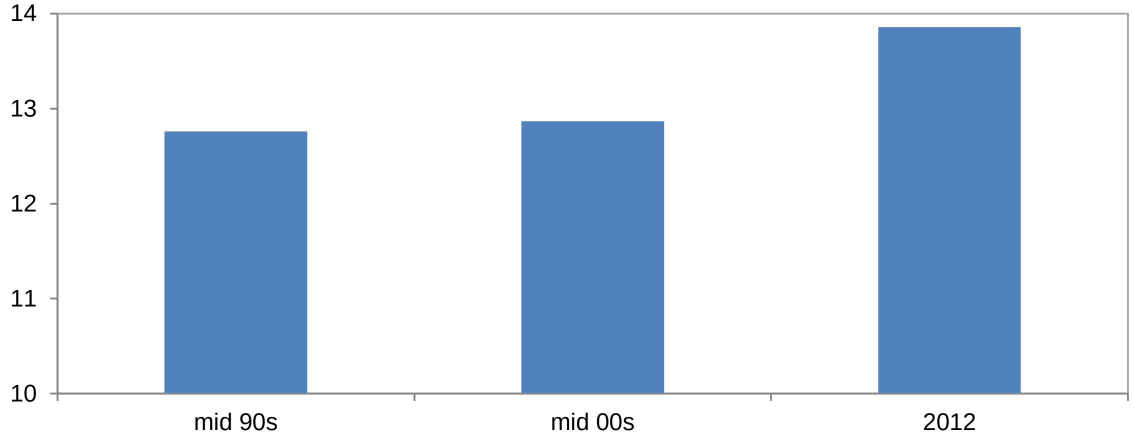
The dispersion of household income can be measured using the Gini coefficient, which is one indicator used in the G20 Enhanced Structural Reform Agenda (ESRA).[1] This shows an increase in inequality in most G20 countries since the mid-1990s (Figure 2, Panel C). While there are some issues of data comparability, income inequality is generally much higher in emerging than in advanced G20 economies. Inequality increased since the mid-1990s most notably in Canada, China, Germany, India, Indonesia, Russia, South Africa and the United States, while it declined in Brazil and Turkey. Inequality in the G20 on a population-weighted average has increased since the mid-1990s when comparing incomes at the top and bottom of the income distribution (Figure 2, Panel A).

Since the 2008-09 crisis, inequality trends have been more mixed. Growth of the average income or consumption of the bottom 40 percent of the distribution has exceeded the average for about half of the G20 countries for which such data is available since the crisis.

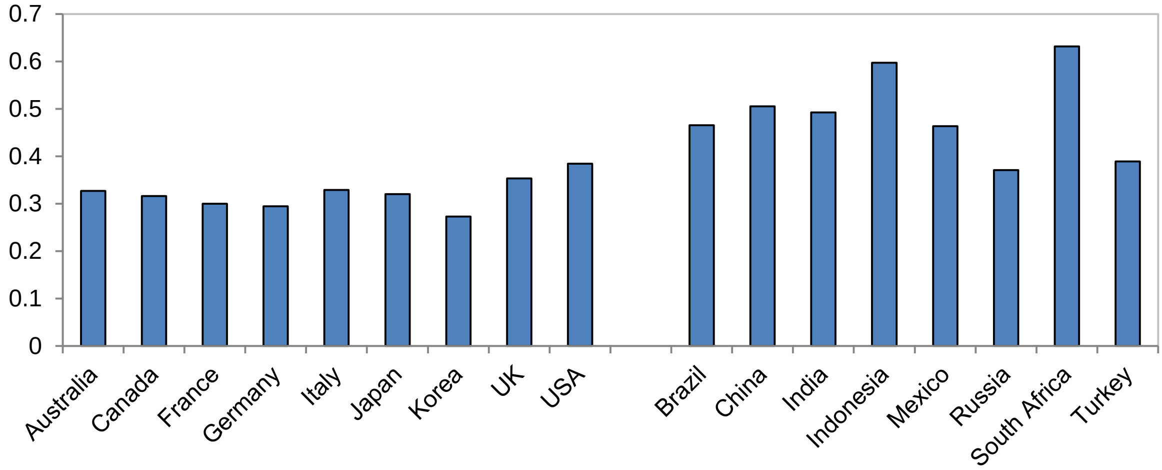
[1] G20 Enhanced Structural Reform Agenda, Prepared by the G20 Framework Working Group, September 2016.

Figure 2. High and rising inequality

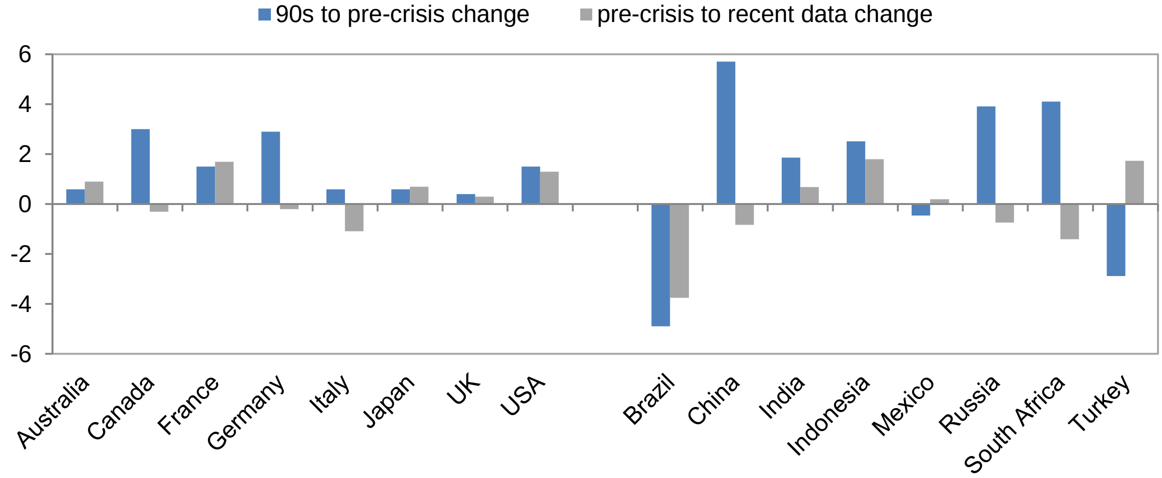
*Panel A. The 90/10 income share ratio for G20 OECD countries, weighted average by population**



*Panel B. Disposable-income GINI coefficient, most recent data***



*Panel C. Change in the net GINI coefficient, between mid-90s and most recent data****



* Source: OECD Income Distribution Database, www.oecd.org/els/soc/income-distribution-database.htm. The countries included in the calculation are: Australia, Canada, France, Germany, Italy, Japan, Mexico, Turkey, UK, USA.
** Source: OECD Income Distribution Database and preliminary data from the OECD/Ford project.
*** Source: for advanced countries – OECD Income Distribution Database; for emerging countries – World Bank Group data (from WIID). Due to methodological differences, the GINI coefficients for non-OECD countries are not comparable to OECD countries.

Among the emerging G20 countries, inequality has risen most rapidly in those countries with the lowest Gini coefficients among the emerging G20s in the early 1990s. Globalisation, skill-biased technological change, and rising rewards to education and entrepreneurship have contributed to raise inequality in market incomes. In Argentina, Brazil and Mexico, by contrast, government tax and transfer policies and increased opportunities for those at the bottom of the income distribution have helped reduce some of the highest inequalities in the world since the early 1990s.

The distribution and evolution of income and wealth have a number of other important features. Many countries have seen the greatest incomes gains at the very top of the income distribution with a rising share in income of the top 1% of earners in many countries. Equally, the interaction of weak aggregate income growth and rising inequality has led to reduction or little growth in real disposable income for the median household in advanced G20 economies since the mid-2000s (OECD, 2017a). This is also reflected in a stagnation of wider measures of well-being and living standards (OECD, 2017b). Regional income inequalities remain high within many countries, including urban-rural divides in many emerging economies. At the same time, there are indications that trends to higher income inequality are mirrored in rising concentration of wealth, which is more unequally distributed than income. The bottom 40% owns only 3% of total household wealth in the 18 OECD countries for which comparable data are available, whereas their share of total household income is 20%. Since the crisis, there are indications that wealth inequality has deepened in some OECD countries (OECD, 2015a).

Income inequality contributes to differences in future opportunities and social mobility. Children with lower-educated parents are 4 times less likely to complete tertiary education than those with at least one parent who has graduated from university. Social mobility from one-generation to another varies widely across countries, but appears to have declined in many countries over recent decades.

The rising inequality in some advanced countries reflects a widening of the dispersion of market income, unequal opportunities and less effective redistribution through the tax and transfer system. The rise in inequality has origins in the widening gap between the earnings of the highly skilled and the less skilled (OECD, 2011; OECD 2015c), as well as a widening dispersion of outcomes across firms. Rapid technological progress has generated a relative shift in labour demand in favour of highly skilled workers (Denk and Cournède, 2015). Globalisation and digitalisation are associated with an increase in between-firm wage inequality, consistent with a widening gap in productivity between frontier firms and others, that strengthens the link between wages and productivity at the firm level and contributes to higher inequality (Berlingieri et al., 2017).

The structural shift towards more temporary, part-time work, and self-employment has likely also contributed to market income inequality growth, together with changes in collective bargaining arrangements. These trends are compounded in many countries by slower growth of disposable household income compared to GDP per capita, resulting in declining labour shares in national income. This may reflect developments in income flows between the domestic and the external sector, changing prices of consumption relative to output, in particular in the terms of trade (Causa et al., 2015). At the same time, tax-transfer systems have become less effective at reducing inequality prior to the crisis, partly as the result of policy changes that reduced some welfare payments and as tax transfer systems have at times failed to keep pace with the widening dispersion of market incomes. More emphasis needs to be placed on strengthening education, creating more opportunities and levelling the playing field for enterprises, areas where governments can be more effective.

2. Why achieving strong, sustainable, balanced and inclusive growth matters

The G20 has committed "to ensuring that our economic growth serves the needs of everyone and benefits all countries and all people including in particular women, youth and disadvantaged groups, generating more quality jobs, addressing inequalities and eradicating poverty so that no one is left behind".[2] Furthermore, the G20 Enhanced Structural Reform Agenda (ESRA) sets "promoting inclusive growth" as one of the nine priority areas.

Tackling inequality and poverty is a key requirement to increase well-being and reduce economic hardship for those at the lower end or the middle of the income distribution. Income inequality affects opportunities and well-being outcomes in many dimensions. Poorer households have more restricted access to education and healthcare than the better off, and this in turn prevents them from fulfilling their potential. Children from poorer households are more likely not to complete compulsory education and less likely to pursue higher education. Lower education is in turn associated with shorter and less healthy lives. Evidence from OECD countries suggests a 30-year old person with tertiary education can expect to live, on average, 6 years longer than someone without upper secondary education.

There is growing evidence that rising income inequality in itself is hampering growth (World Bank 2004 and 2006; OECD, 2015, Cingano, 2014; Ostry et al, 2014; Dabla-Norris et al, 2015). A key channel through which income inequality affects growth is by hampering equality of opportunity and curbing investment in education by those in the lower part of the income distribution (Cingano, 2014). Income inequality is also associated with some aspects of weak labour market performance. Low labour force participation, unemployment, underemployment or low-quality jobs contribute to inequality. In emerging economies, those at the bottom of the income distribution are likely to work in the informal labour market with low qualifications, and will not find the opportunities to improve their skills and often face considerable difficulties in shifting to a formal job (OECD, 2015c). Those in the informal sector are often not covered by core labour laws and social insurance programmes for pensions, health and work injuries and thus they are hit harder in case of economic downturns and adverse personal events. In advanced economies, slowing income growth for both those at the lower and the middle part of the income distribution equally results in underinvestment in education, skills, and business creation. This exclusion results in sizable social cost that keeps poverty higher than otherwise possible and prosperity more constrained.

Inequality raises political challenges because it breeds social resentment and generates political instability. When large groups in the population gain little from economic growth or only benefit from a small share, the social fabric frays and trust in institutions is weakened. Combined with low income growth since the crisis, high inequality has helped to fuel populist, protectionist, and anti-globalisation sentiments with many people feeling that they are losing out to a small group of winners.

[2] G20 Leaders' Communique Hangzhou Summit, 5 September 2016.

Box A. The World Bank Shared Prosperity Framework

The World Bank has a set of twin goals: reducing extreme poverty – that is, reducing the population living on less than $1.9 per day to no more than 3 percent by 2030; and boosting shared prosperity – that is, strengthening the income/consumption growth of the bottom 40 percent of the population in every country. The sustainability of achieving these goals is a primary concern.

A sustainable path of development and poverty reduction would be one that: i) manages the resources of our planet for future generations, (ii) ensures social inclusion, and (iii) adopts fiscally responsible policies that limit future debt burden.

The framework combines macro and micro approaches. Macroeconomic drivers (aggregate growth, factor returns, and relative prices) and microeconomic characteristics (individual assets) both matter for shared prosperity.

The framework also links the growth and equity poles by shifting away from an agenda of maximising growth without attention to who contributes to it or who benefits from it. The emphasis is on growth that benefits all. The framework also shifts away from redistribution that overlooks incentives.

The shared prosperity premium (SPP) is a measure of shared prosperity that has been used extensively. The premium is the difference between the growth of income or consumption of the bottom 40 percent of the distribution and the growth of average income or consumption. [3]

High inequality can erode economic institutions and the fabric of society by favouring vested interests, those with more influence and opportunities. Inequitable institutions, in turn, result in inequitable regulations and a flow of fiscal resources that favours particular groups. This is an additional social cost that is borne by those in the lower part of the income distribution as "economic, political, and social inequalities tend to reproduce themselves over time and across generations." [4] This is one reason why inequality matters for development. In most emerging countries and some advanced economies, there are major market failures, missing or incomplete markets. With such market imperfections, the distribution of income, wealth, power and opportunities affects economic outcomes.

While each country may have its own preferences between limiting income inequality and other objectives, it is widely accepted that – for any given rate of growth of average incomes – it is more sustainable and balanced if all incomes are rising than if a sizeable part of the population is experiencing stagnation or decline in living standards. Equality of opportunity is seen as an important objective beyond its contribution to growth and reducing life-time inequalities.

[3] See the World Bank's Global Database on Shared Prosperity for available country data http://www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity.
[4] Equity and Development, 2006, World Development Report, World Bank.

The OECD and the World Bank have developed frameworks to assess inclusive growth (Boxes A and B). Common features of these frameworks are that they are multidimensional, take into account inequality, and are evidence-based. While social preferences around these different dimensions and inequality will vary, the frameworks do not explicitly weigh different objectives but take into account the specific challenges facing each country and revealed societal preferences. The framework of empirical analysis linking inequality to its drivers and policies remains a work in progress with understanding largely still focused on income inequality, but a growing recognition of the interaction with other factors.

Box B. The OECD's Inclusive Growth framework

The OECD's Inclusive Growth framework starts from the recognition that increased income prosperity does not necessarily lead to generalised gains in wellbeing and that economic growth is not sufficient for society's progress if not widely shared (OECD, 2014). It recognises that GDP growth itself may be undermined by rising inequality.

It is based on a three-pronged approach:

- ***Multi-dimensional** – **which growth?***
  The approach accounts for income and non-income related outcomes, specifically through a measure of Multidimensional Living Standards (MLS) that focuses on income, employment and life expectancy.

- ***Distributional** – **whose growth?***
  It considers groups of households like the middle class or the bottom 10, 20, 40 %, as well as other segments of the population, such as women, children and the elderly.

- ***Policy relevant** – **what drivers?***
  It establishes quantitative links between each outcome and key policy variables to allow policy makers to identify synergies and trade-offs. The country-specific policy recommendations are based on analysis of the performance, the structural policy settings and a qualitative assessment.

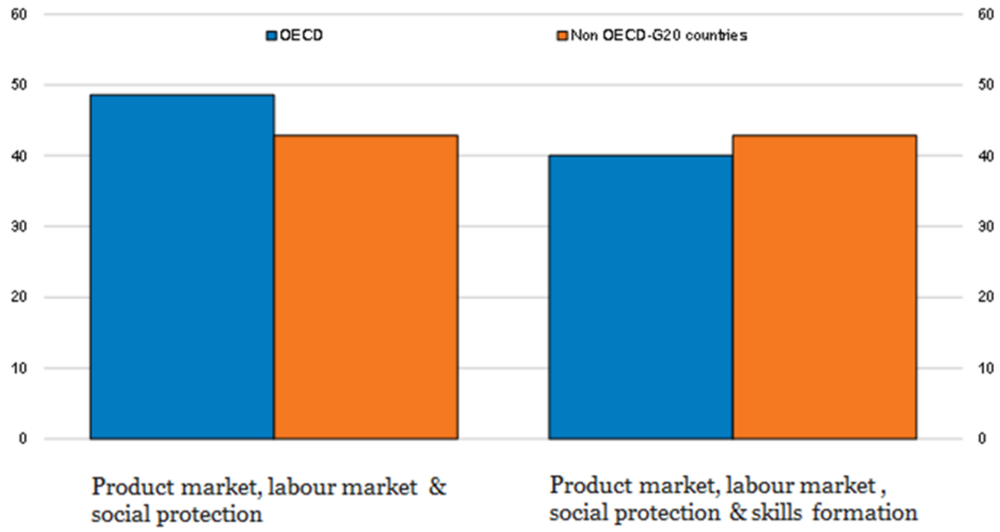
The framework is based on a solid understanding of the key drivers of the well-being and inequality outcomes, including explicit analysis of main policy trade-offs and synergies. This includes robust identification of empirical relationships between living standards and policies. It focuses on the amenability of multi-dimensional outcomes to policy instruments. This framework and its empirical underpinnings continue to be developed.

3. How to achieve more inclusive growth?

Policy makers have a range of structural options to boost growth, reduce inequality and promote opportunities for all. Some structural reforms, for instance supporting upskilling of the lowest educated, both boost growth, by raising productivity and labour utilisation, but also reduce inequality. However, some measures that contribute to achieving productivity improvements, such as support for innovation, can lead to higher inequality – at least for a period – by increasing the demand for skilled labour and raising the wages of higher earners. Policies that reduce inequality can also support growth, such as boosting female labour market participation, but other policies to reduce inequality also reduce growth, for example by increasing the tax wedge on higher earners and thereby reducing work incentives.

Many G20 countries could implement policy packages that exploit the synergies between the pursuit of growth and inclusiveness, while being careful to minimise negative side effects on income distribution. Including measures in the package to invest in skills, provide support for job mobility and mobilise efficient taxes and transfers can help to achieve more inclusive growth. The OECD's *Going for Growth* report shows that around 40% of countries in advanced and emerging economies included in the exercise have scope to prioritise pro-competition policy together with reforms to labour markets, social protection and skills to achieve a package that is the most beneficial from an inclusive growth perspective (Figure 3).

Figure 3. Share of countries with joint priorities in areas with potentially strong synergies



Source: OECD *Going for Growth,* (OECD, 2017a).

There is, however, no single best model or policy mix to adopt. Each country faces different challenges lying behind inequalities in opportunities and outcomes, and will have instruments available to address them. Countries also vary in their degree of aversion to inequality. Nevertheless, there are some policy responses that are relevant across groups of countries.

"Win-win" policies, where there are synergies in achieving growth and equity outcomes, are by definition the policies that promote inclusive growth. Such policies include improving education, bolstering investment in skills and training, reductions in labour market duality, and changes to the tax-benefit system that create strong incentives to work and boost incomes in low-income households.

Removing barriers to formal employment can raise income, investment and job quality, while also reducing inequality.

By contrast, there is a clearer trade-off between GDP and income distribution with some other policies. This includes policies that work through channels that increase demand for high-skilled labour, such as innovation policy or other productivity-enhancing reforms, and therefore may widen the wage distribution in the short term. More equal opportunities would help alleviate such distribution impacts and help also those in the bottom and middle of the income distribution. At the same time, such policies can also lead to displacement of workers in specific firms or sectors, requiring potentially difficult reallocation to new activities. Again, to facilitate such reallocations, policies – including delivered jointly with the private sector – have to strengthen training and reskilling opportunities. Reducing the level or duration of unemployment benefits increases incentives to work and reduces the number of unemployed people, but also lowers the welfare of those who remain out of work due to health or other reasons and potentially depresses wages at the bottom end of the income distribution. In cases where such trade-offs exist, supporting measures to offset or mitigate the impact on inequality may be helpful, including active labour market policies and investments in re-skilling. In the longer term, these trade-offs may be less acute as the economy and the supply of skills adjust to the new policy environment and relative returns to skilled workers decline, although this may take a very long time and requires opportunities for people to acquire these skills.

The consequences of pro-growth labour reforms on earnings inequality depend on their employment and wage effects (Table 1). In many cases, measures increase employment but have an offsetting effect through widening the wage dispersion (OECD, 2011). The effects on overall inequality are therefore ambiguous and depend on the exact nature of the reform and the size of the two impacts.

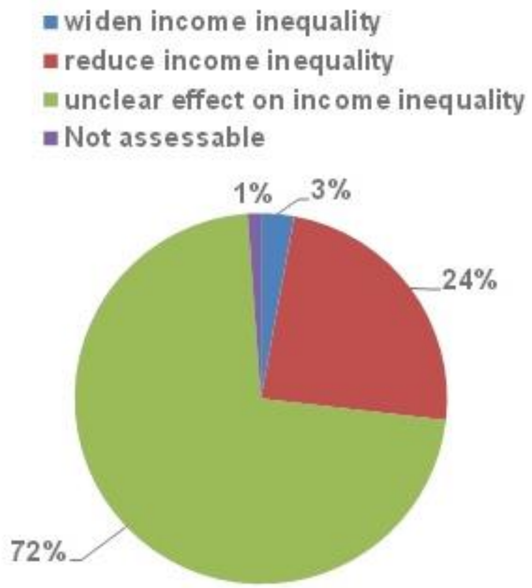
Table 1. The impact of pro-growth policies and structural forces on wage dispersion and employment

A pro-growth change in:	Effect of change on:		
	Wage dispersion	Employment	Overall earnings inequality
Labour market policies			
Lowering minimum wage	+	=	=
Lowering unemployment benefits replacement rate	+	+	=
Strengthening active labour market policies (ALMPs)	=	+	-
Increasing female labour force participation	-	+	-
Innovation and technology			
Technical progress (higher MFP)	+	=	+
Higher R&D intensity	+	=	+
Globalization			
Deeper trade integration	=	=	=
Higher FDI openness	=	=	=
Education/human capital			
Higher share of skilled workers	-	+	-
Product market competition			
Lowering regulatory barriers to entry	+	+	=

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).

Many of the commitments already made in G20 Growth Strategies have contributed to achieving stronger and more inclusive growth. A qualitative assessment by the OECD of the inequality impact of the pro-growth G20 Brisbane Key Commitments structural reform measures shows that just under a quarter of measures would reduce inequality with a smaller number increasing income inequality. Most measures have an ambiguous effect on inequality, reflecting a high share of measures of ease product market regulations (Figure 4).

Figure 4. Impact on income inequality of G20 Growth Strategy growth-enhancing structural reforms



Given the scale of the inclusive growth challenge, the needed policy response is likely to include specific policies to tackle inequality and its causes, while doing so in a growth-friendly way. The most favourable approach is to tackle inequalities *ex ante* at their origins rather than *ex post* through taxes and transfers. This includes improving opportunities by tackling impediments that lower-income households face in acquiring skills, including unequal access to education and training, and being supported by institutions necessary to maintaining high employment and quality jobs. Over time, investment in education and skills – including ensuring that those from lower income households have access on an equal footing – can help to address the root causes of inequality in lifetime incomes.

Nevertheless, social transfers and redistribution are often needed to reduce income inequality, support households facing difficult economic transitions, and reduce the risk that households will fall in poverty or inequality traps. In emerging economies, a large part of the poor remain outside social safety nets despite sizable scale-ups in recent decades. Therefore, there is a need to scale up social safety nets by increasing their scope, the amount of benefits the poor receive, and without jeopardising fiscal sustainability. Safety nets should be designed in a growth-friendly way to minimise any trade-off with formal employment and growth, as well as to improve employment outcomes. Redistribution strategies based on transfers and taxes alone may not necessarily be effective or financially sustainable.

What policy levers would help to achieve inclusive growth and improve opportunities?

This section assesses in more detail major elements of effective strategies to achieve inclusive growth, drawing on extensive OECD and World Bank research on the drivers of growth and income inequality since *Growing Unequal* (OECD, 2008), *Divided We Stand* (OECD, 2011), *In It Together* (OECD, 2015a) and *Going for Growth* (OECD, 2017a).

It focuses on a small number of priority areas that emerge strongly from research and the assessment of the policy priorities for G20 countries. These areas are judged to be complementary to existing G20 policy commitments, including policy areas covered by the G20 Guiding Principles in the ESRA, and focus on areas where there are synergies between growth and inequality objectives or where trade-offs are limited.

Priority areas include:

- Strengthening women's participation in economic life.
- Promoting employment and good-quality jobs, especially for those from disadvantaged backgrounds.
- Improving skills and education.
- Strengthening tax-and-transfer systems for efficient redistribution and improving social safety nets.

However, achieving inclusive growth should draw on a wider range of policy areas. Especially in emerging G20 economies, key areas include improving access to finance; improving the opportunities for doing business, especially the competitive environment to create a level playing field for companies; and strengthening connectivity to underdeveloped regions. Provision of infrastructure, health care, conditional cash transfers, poverty reduction initiatives and public administration reforms can play a critical role in reducing inequality. In all countries, it is important that access and provision of public services reaches those who need it most.

Reducing gender gaps by raising women's participation in economic life

Women often earn lower wages and face a poorer labour market situation. Policies to improve women's outcomes in the labour market and to remove barriers to female employment and career progression would help to overcome these issues.

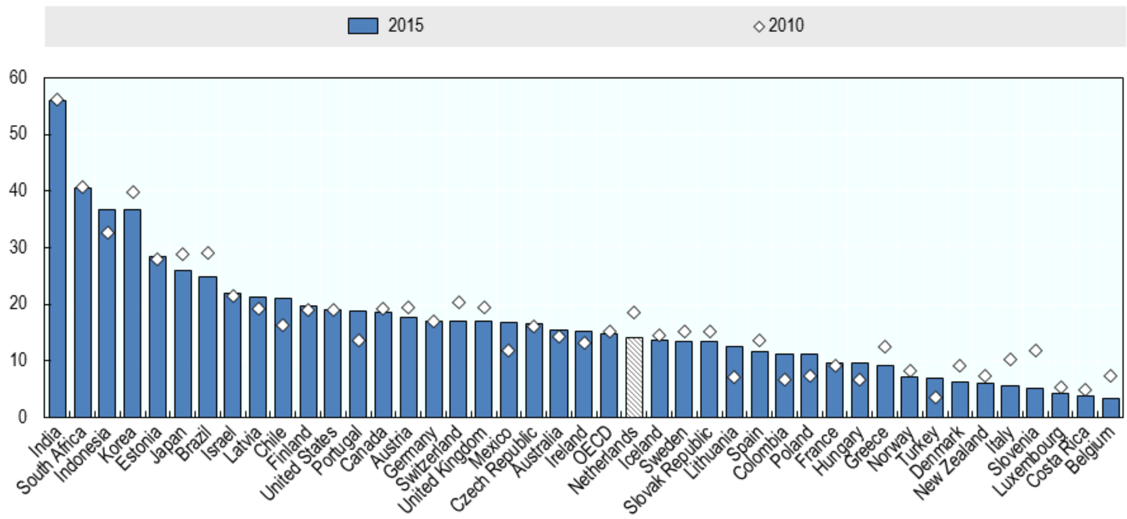
G20 members committed in 2014 to reducing the gender gap in labour force participation by 25% by 2025 and endorsed a set of policy principles to achieve this,[5] including:

- Support lifelong access to education and training.
- Provide access to affordable and quality child care, paid parental leave, family-friendly work opportunities and conditions, and support for elderly care.
- Widen access to services for women (in the formal or informal economies), including tailored employment services, active labour market programmes and skills development opportunities.
- Address legal, regulatory and behavioural barriers to employment for women.
- Promote non-discriminatory practices at the workplace, including on pay and career progression.

[5] See G20 Labour and Employment Ministerial Declaration, Melbourne, 10-11 September 2014.

- Extend social protections, especially to those in poor households or those working in the informal economy, including in regard to work safety, health services and income security.
- Improve work incentives, income support, other transfer payments and related forms of social security.

Figure 5. Median monthly gender pay gap for full-time employees, 2010 and 2015



Note: The gender pay gap is defined as the difference between male and female median monthly earnings divided by male median monthly earnings for full-time employees. Data refer to weekly earnings for Australia, Canada, India, Ireland, United Kingdom and United States. They refer to hourly wages for Denmark, Greece, Iceland, New Zealand, Portugal and Spain. Data refer to 2014, instead of 2015 for Australia, Austria, Belgium, Brazil, Denmark, Estonia, Finland, Germany, Greece, Iceland, Indonesia, Ireland, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, the Netherlands, New Zealand, Poland, Portugal, Slovenia, Spain, Switzerland and Turkey. Instead of 2010, data refer to 2011 for Brazil, Chile, Costa Rica, to 2007 for Israel.

Source: Employment Outlook 2017 for OECD countries; Encuesta Permanente de Hogares for Argentina; Pesquisa Nacional por Amostra de Domicílio for Brazil; Gran Encuesta Integrada de Hogares for Colombia, Encuesta Continua de Empleo for Costa Rica, National Sample Survey for India, National Labour Force Survey (Sakernas) for Indonesia, General Household Survey for South Africa.

Promoting employment and good-quality jobs

Labour income is the main determinant of income and a highly unequal distribution of labour income can reflect low participation in (formal) labour markets, unemployment or under-employment, as well as differences in wages. In recent decades, widening dispersion in wages has been a driver of rising inequality in many countries. Job quality, employment that offers career and investment possibilities with good working conditions, also varies across individuals. Policies can play an important role in improving both the quantity and quality of jobs.

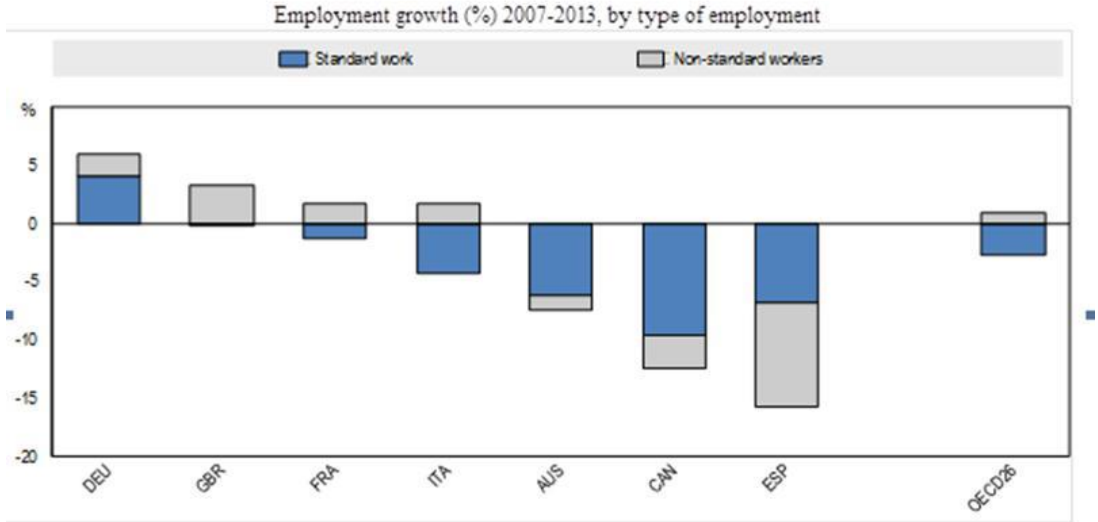
Access to employment for some groups, such as youths, older workers, women and migrants is relatively low in many economies. This reflects different combinations of challenges including low skills, but also a range of other factors including regulatory barriers to entry and competition in sectors with large market potential, and the effects of tax-benefit systems. Activation policies, which effectively help and encourage the unemployed to find jobs, and different training and skill-enhancing policies, are particularly important.

However, the creation of new jobs, including for the lower-skilled workers, should reflect good quality employment. Job creation in advanced economies over past decades has relied heavily on lower quality "non-standard jobs" (Figure 6). More broadly, the G20 Job Quality Framework (G20,

2015) outlines policies to boost job quality along three key dimensions: earnings quality; labour market security; and the quality of the work environment.

Figure 6. Job quality

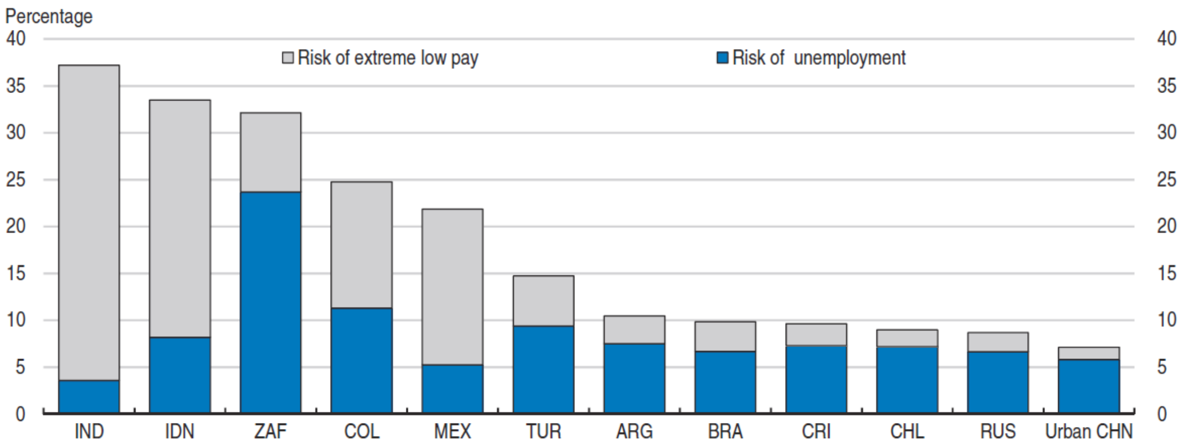
Panel A. Changes in non-standard jobs play an important role in employment growth



Note: Working-age (15-64) workers, excluding employers as well as students working part-time. Non-standard workers include workers with a temporary contract, part-timers and own-account self-employed.

Source: European Union Labour Force Survey (EU-LFS), Labour Force Survey for Canada, Household, Income and Labour Dynamics in Australia (HILDA) for Australia.

Panel B. Labour market insecurity in emerging economies



Source: OECD (2015a).

Rates of in-work poverty have been rising in many countries. Labour market segmentation with "dual labour markets" between those with protected jobs with good conditions and those on less protected contracts are a major economic social issue in several advanced G20 economies. In many advanced countries, there is an increasing divide in hours worked between higher- and lower-wage earners. Labour market regulations contribute to achieving higher quality jobs by supporting good employment conditions. However, they can reduce employment for specific groups by creating obstacles to employment (Bassanini and Duval, 2009). Achieving an appropriate balance between employment and social protection rules for permanent and temporary workers is needed to avoid labour market dualism. Labour regulations can also have a positive impact on employment of lower-skilled households through rules that support childcare and female participation.

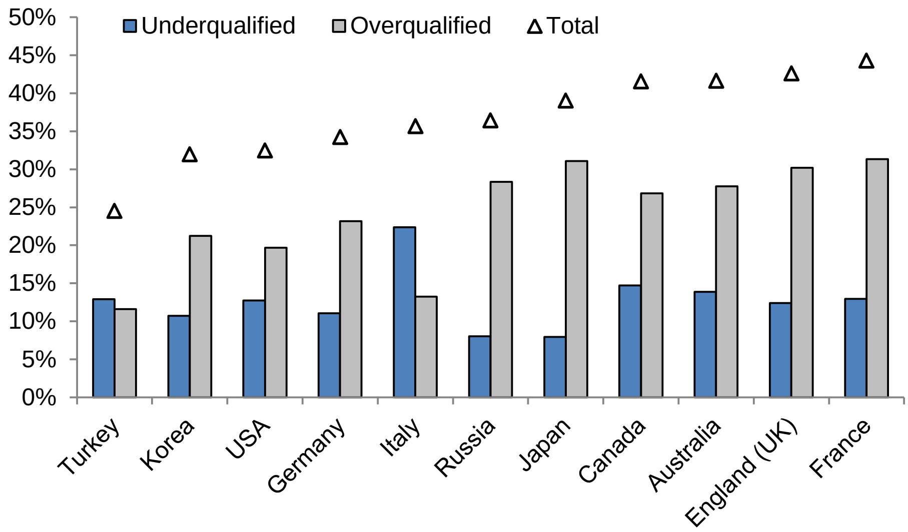
Minimum wages can contribute to reducing wage inequality at the lower end of the income redistribution (OECD, 2015c). However, excessively high minimum wages can also harm employment, particularly among youth and the low-skilled. Some advanced G20 countries have scope to introduce or raise minimum wages. The interaction with other policies, including tax-transfer systems, needs to be carefully considered and the impact carefully assessed in setting its level. For instance, in some countries, increases in minimum wages are substantially clawed back through higher taxes and reductions in benefits. In-work benefits can serve to ensure a more effective reduction in in-work poverty while keeping the minimum wage at a modest level to avoid job losses.

Countries with large informal sectors, notably in emerging economies, should address this matter with urgency. Shifting the emphasis from protecting jobs to enhancing employability could lead to more hiring in the formal sector and to the creation of better quality jobs. Labour market policies should complement policy measures in other areas to expand the size of the formal sector, for example in the tax and competition areas. The costs of formalising jobs should also be reduced for both employers and workers in terms of administrative and tax burdens.

Skills and education

Skills and education are key to improving workers' productivity and wages and can help to raise the incomes of lower-skilled workers, as well as increase their chances of being in employment (OECD, 2016a). Policy that encourages completion of secondary education may contribute to lower income inequality (Fournier and Johansson, 2016) as part of efforts to ensure more equal access to educational opportunities. Better job-related training and education for the low-skilled, including through on-the-job training and active labour market policies would help to boost future earnings and is needed to help displaced workers and to ensure that people are able to upskill or reskill. This requires measures to ensure that training performs better, as well as ensuring sufficient incentives for both workers and firms to invest more in on-the-job training. Mismatches between the qualifications and skills of workers and demands of employers prevail in many advanced G20 countries (Figure 7), with over-qualification, and thus earnings below potential, being the main issue in many advanced economies. Recent evidence suggests that wage inequality is lower in countries that are better at meeting the demand for skills, especially in the upper half of the wage distributions (OECD, 2015c). More efficient allocation of labour resources may thus both raise labour productivity and reduce earnings inequality. To compensate for mobility (staff turnover), corporate tax policies that encourage employers to make additional investments in the human capital of their employees may be warranted, for example through increased deductibility of training expenses as business costs (Torres, 2012). These principles are reflected in the G20 Skills Strategy adopted by G20 countries as part of their commitment to support development and Inclusive Growth (G20, 2015).

Figure 7. Percentage of workers with qualifications mismatch



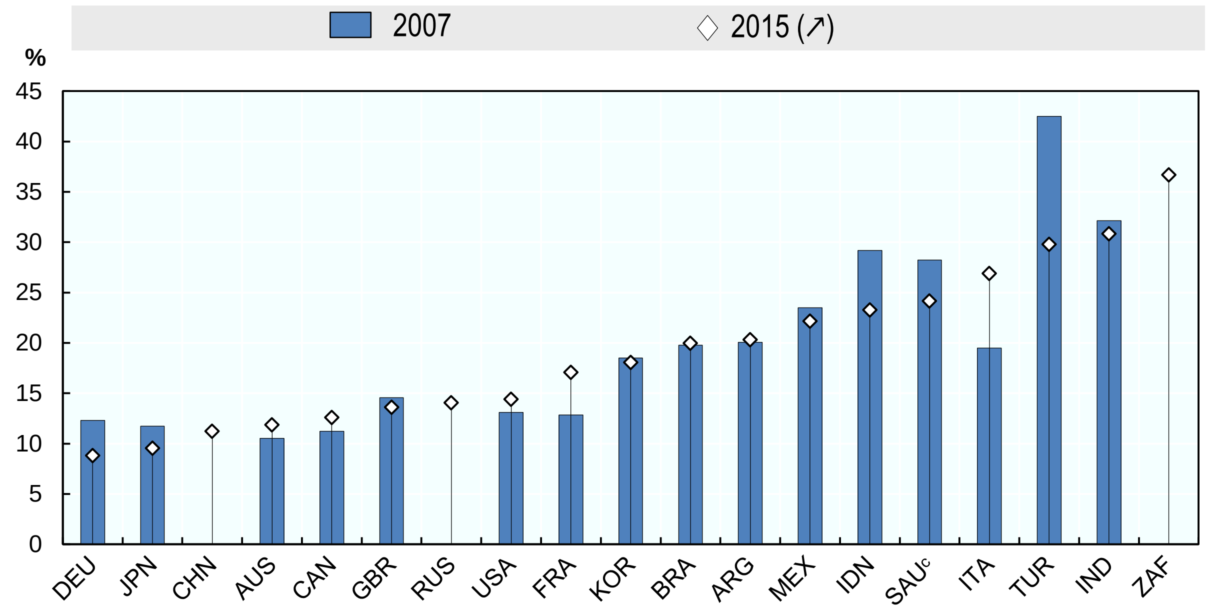
Note: Based on OECD calculations using OECD Survey of Adult Skills (2012). The data for the Russian Federation does not include the population of the Moscow municipal area.

Investment in early childcare education is one of the most effective means to ensure that children from a disadvantaged family background overcome their learning gaps relative to their more fortunate peers, and that they do not drop out of school early. In emerging economies, further increasing participation in education for children from poorer households would help to improve social mobility. Improving the quality of education will also be important for some emerging economies.

Active labour market policies contribute to improving the skills of those out of work. This can be especially important in tackling low income in specific groups with low skills and weak employability. Youth unemployment is high in many countries, while in many others many young people are neither in Employment, Education or Training (NEETs). This can have long-term consequences on life-time earnings if not addressed. Thus it will be important that action is taken to implement the objective set by the G20 Labour and Employment Ministers to reduce the share of young people most at risk of being left behind in the labour market by 15% by 2025.[6]

[6] G20 Labour and Employment Ministerial Declaration, Ankara, 3-4 September 2015.

Figure 8. Share of individuals aged 15-29 that are not in employment, nor in education and training



Note: Data not available for China, the Russian Federation and South Africa; 2005-06 for India; and 2008 for Korea. Source: OECD Employment Outlook 2016. For China the NEET rate has been estimated and may include unemployed persons who are studying. For Argentina the calculation is based on selected urban areas only.

A focus on the early years, as well as on the needs of families with school children, would have a powerful effect on socio-economic differences in education outcomes. The emphasis should be put on quality education, besides ensuring universal access. More should be done to provide youth with the skills they need to get a good start in the labour market. With a rapidly evolving economy, further efforts, with the close involvement of business and unions, should be made in promoting a continuous up-grading of skills during the working life.[7]

Access to tertiary education is important for improving the prospects and living standards of lower-skilled people and giving individuals the opportunity to acquire the skills needed in the labour market. Student support, including loans and grants, can be a means to help achieve this objective (OECD, 2005), but tax incentives need to be designed in such a way that they do not disproportionally benefit higher-wage earners.

Tax-and-transfer policies

Tax and benefits policies can have important, powerful and direct effects on growth and inequality. Taxes and transfers give governments the means to achieve redistribution of income to reduce inequality, as well as to reshape incentives along the income distribution. Among advanced economies, there is typically a large difference between inequality in market incomes and disposable incomes, i.e. incomes after direct taxes and cash transfers. For emerging economies where data is available, redistribution typically has much less impact as a result of lower levels of social spending and taxation. In addition, tax and benefit policies also have large effects on labour market outcomes

[7] These are all elements of the G20 Skills Strategy which has been proposed by the Turkish Presidency.

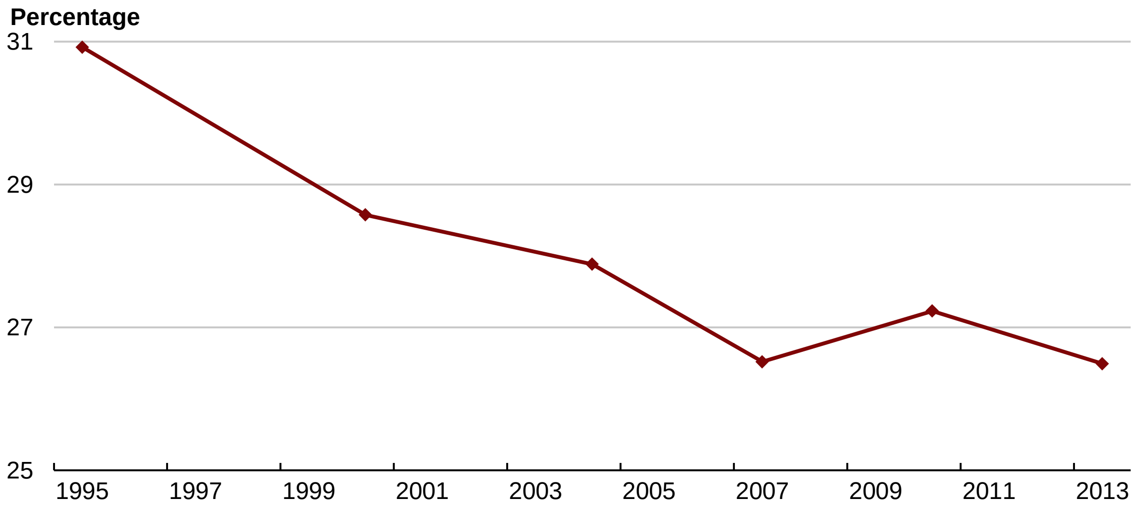
via their impact on the incentives for individuals to participate in the labour market and for firms to hire, train and adjust the mix of capital and labour in the production process.

Taxes and social benefits have played an important role for inequality trends. Between the mid- to late 1990s and up to the global financial crisis, falling tax-benefit redistribution was a factor driving the rise of inequality of disposable income (OECD, 2011). In the first years after the crisis, higher tax-benefit redistribution cushioned the steep rise in market income inequality (Figure 9). In later years, as some entitlements to social benefits expired and most governments implemented fiscal consolidation programmes, income inequality increased once again (OECD, 2015a; OECD, 2016b)

The weakening of the redistributive effect of the tax-transfer system in advanced economies can be explained by a number of factors, some of which are policy-driven (Causa and Hermansen, 2017 forthcoming). However, it appears to be partly driven by reductions in the real value of benefits, in part as working-age benefits did not keep pace with real wages. An increase in non-standard forms of work and the changing nature of work has reduced coverage of social insurance. At the same time, changes in the numbers of unemployed and reforms to benefit eligibility criteria appear to have played a role, whereas benefit targeting seems to have played less of a role (OECD, 2011). However, much of this increase in some countries was linked to a sharp increase in disability benefits without work requirements. While adequate social protection is important, poorly-designed disability benefits can exclude people from the economic and other benefits of integration into the workforce, often more-or-less permanently.

Figure 9. Aggregate redistribution in 16 OECD economies

Percentage difference between inequality (Gini coefficient) of gross market income and inequality of disposable income



Source: Causa and Hermansen, 2017 forthcoming. The series is based on an un-weighted average of the following countries: Australia, Canada, Czech Republic, Denmark, Finland, France, Germany, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, United Kingdom and the United States and relates to the working age population.

Over past decades, taxation in many advanced economies has not compensated for the rise in inequality of market incomes, contributing to widening inequality in post-tax income. Overall, trends to lower income tax rates have typically offset efforts to make the tax system more progressive by reducing taxes for lower earners. Social security contributions have done little to reduce inequality due to their relatively flat-rate structure. It may be necessary to review whether existing tax provisions are still optimal in light of equity considerations and current revenue requirements, including by making stronger the progressivity of the tax system through changes to marginal tax trade at different points of the income distribution, earned income tax credits, increasing the effectiveness of capital income taxation and by broadening tax bases to remove tax expenditures that disproportionately benefit higher earnings; as well as strengthen the taxation of capital income, inheritances, property, and other forms of wealth (OECD, 2017c). This is especially the case where the share of the overall tax burden borne by high-income groups has declined. A number of countries have already in recent years increased top rates of personal income tax and introduced tax cuts or tax credits for low-income workers. Potential trade-offs in the design of tax instruments between economic efficiency and equity need to be carefully managed. More generally, basic design aspects of each tax can be improved to better achieve inclusive growth (Brys et. al., 2016). Tax administration and collection should also be strengthened.

Public social spending is on average much lower in emerging economies, although redistribution policies have been strengthened in many of them, with several countries making their cash transfers more generous and others aiming at widening their coverage of unemployment benefits and health insurance, and expanding educational opportunities. At the same time, taxation is still relatively low. General consumption taxes (VAT and sales tax) account for the bulk of tax revenue. High levels of self-employment and sizeable informal sectors have up to now been limiting the capacity of the tax authorities to verify tax payers' declared income and there have been administrative bottlenecks in tax collection on personal income. The policy priorities that can address inequality in many emerging G20 economies include:

- Developing effective and efficient protection systems such as unemployment insurance, ensuring that programmes also encourage formal employment and tackle poverty.
- Conditional cash transfers that are particularly well-suited to reducing inequality and promoting social mobility as they combine income support with the requirement to maintain investments in human capital.
- Reducing reliance on product-based subsidies – such as oil, food and fertilisers in emerging economies, which tend to be more regressive than direct cash transfers.
- Investment in human capital and child health.
- Enhancing the distributive capacity of the tax system may require an emphasis on improving revenue collection procedures and strengthening of administrative capacity, compliance and tax morale.
- Strengthening social welfare programmes to better target individuals most in need, together with promoting mechanisms of in-work benefits.

Among advanced economies, there also is scope to increase the redistributive impact of taxation and social and other government spending, in particular to help poorer families:

- Prioritise support for vulnerable population groups at all points in the economic cycle.
- Limit economic and social costs of targeting strategies, by means such as benefits that are conditional on employment.
- Ensure that business taxes and subsidies provide a level playing field for all firms.
- Enhance tax progressivity, including by maintaining the progressive taxation of personal income, through more effective taxation of capital income, by removing regressive tax expenditures, by targeting support to low-income households.
- Raise financial incentives and opportunities to work, especially for women and those with children.

- Reduce the labour tax wedge on low-income households through in-work tax credits and other income-conditional tax allowances.
- Improving the effectiveness of social spending, particularly for enabling access of lower-income groups to higher education and good quality health services.
- Raise the effective retirement age in line with increased life expectancy, including by raising pension ages, while ensuring adequate provisions for the poor whose life expectancy is on average shorter.
- Limit regressive nature of indirect taxes by removing tax expenditures that disproportionately benefit those on higher incomes such as reduced VAT rates for hotels and restaurants, combined with compensatory transfers to low-income groups. Increase the share of taxes on property and energy, and increase the focus of taxation on inheritance.
- Increase investment in education and skills.

Tax policies need to reduce tax evasion and tax avoidance in the international tax system to ensure that all individuals and firms are paying their taxes and making a contribution to government revenues. To that end, implementation of the OECD/G20 work on Base Erosion and Profit Shifting (BEPS) and the Automatic Exchange of Financial Account Information for Tax Purposes (AEOI) is essential.

Priority areas for G20 countries

Individual G20 economies face different challenges in achieving inclusive growth with a wide range of outcomes, existing policies, national circumstances and preferences. The Annex to this document provides an **overview of country-specific policy recommendations for G20 countries** that would contribute most strongly to inclusive growth based on the existing policy advice of the OECD and World Bank. These are based on cross-country evidence and judgements by country experts. For the OECD, these are drawn from selected initiatives under the OECD Inclusive Growth initiative, namely OECD *Going for Growth* assessments and key recommendations in *Economic Surveys* covering almost all G20 countries.[8] For the World Bank, these are inputs from country economists working on the emerging G20 countries, reflecting recently produced Systematic Country Diagnostics (SCDs) and other analytical work. While this does not provide a comprehensive assessment of inequality challenges and policy gaps, it should nevertheless provide some guidance for G20 countries.

A wide-range of measures is relevant in different economies (Figure 10). Improving skills and education is the dominant need across both advanced and emerging economies. Policies to promote employment and good-quality jobs, which include measures that would strengthen women's participation in economic life, and reforms to tax-and-transfer system and social safety nets are also key priorities. A range of other policies are also priorities in some countries, particularly emerging economies.

Investment in skills and education are the most common priorities. Training and active labour market programmes are needed especially in advanced economies to put those with lower skills in a stronger position in the labour market. In advanced schools, ensuring that young people leave with the skills necessary to find good jobs and avoiding poor education in disadvantaged groups are high priorities. This includes ensuring that educational resources are targeted towards students from poorer

[8] The analysis does not cover Argentina or Saudi Arabia.

backgrounds. In emerging economies, needs are more likely to focus on primary education, supporting high school completion and supporting wider access to higher education.

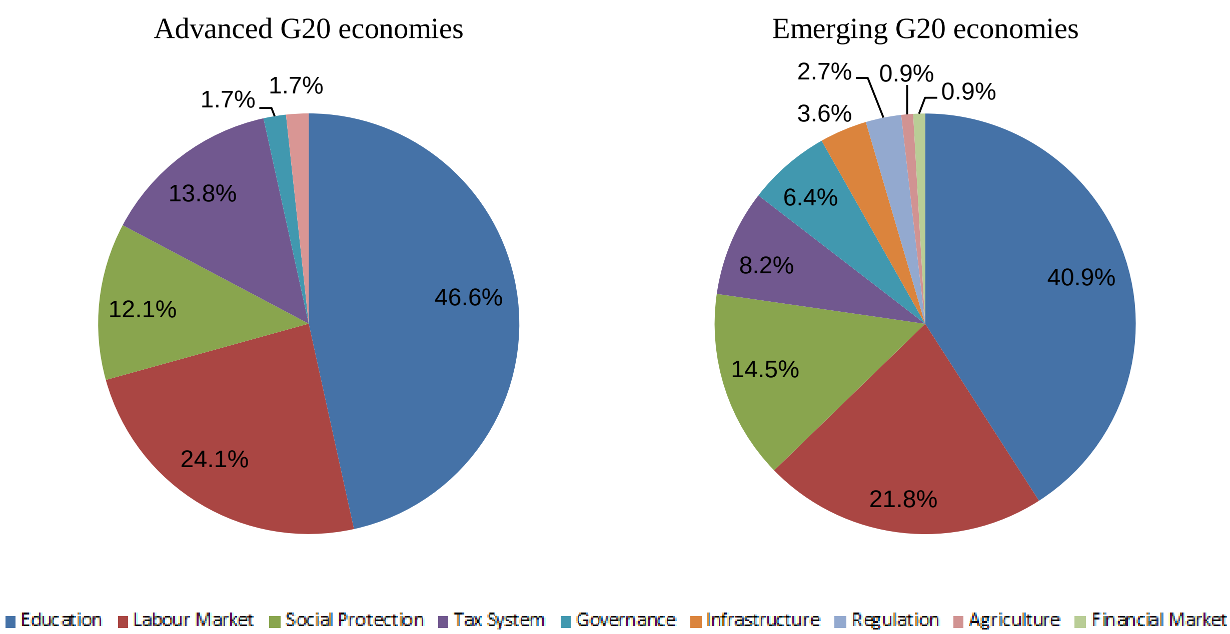
Policy recommendations on labour market policy largely focus on increasing labour market formality in emerging economies and reducing labour market dualism where it exists in advanced economies. Many of these measures would facilitate female participation in the labour market. A small number of countries should introduce or raise minimum wages.

The tax-transfer system, investment in skills and labour market policies are the most commonly identified policy needs. Expanding the social safety net is a widespread need in emerging economies.

Within tax-transfer systems, common policy priorities include reforming tax systems to reduce the tax burden on low earners and increasing incentives for female participation. It would be helpful to broaden tax bases to reduce inequality, including by eliminating regressive tax expenditures and increased taxes on property. In advanced economies, improving in-work benefits through better targeting and design would help to improve the income distribution and employment of the low-skilled. In many emerging economies, removing disincentives to formal employment would improve jobs quality. This would support increasing the scope and generosity of the social safety net, including through cash transfers. In advanced economies, more affordable childcare is needed in many countries.

A common theme across many countries and policies is the need to target public support more on those with the greatest needs, including in terms of the social safety net, a progressive tax system and ensuring access to services such as health, education and training.

Figure 10. Priority policy areas to reduce in equality in G20 economies



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Annex. Selected recommendations to G20 members relating to inequality and inclusive growth

This Annex provides an overview of key recommendations from recent OECD publications (*Economic Surveys* and *Going for Growth*) and recent World Bank Group policy advice with high relevance for reducing inequality and promoting inclusive growth. This Annex is not a fully-updated in-depth integrated assessment of the policy requirements to tackle inequality in each country or a comparison of policy needs across countries. The number of recommendations captured in this Annex and their nature may vary partly depending on the focus on recent analysis for the OECD and WBG, as well as the specific needs of countries.[9]

Country	Recommendation
Argentina	Invest more in early childhood education by improving access to quality childcare for children under 3 years of age to reduce the gap generated by family environments early in life.
	Reshape teacher careers, ensuring that teacher preparation programmes select and train candidates carefully and purposefully. Invest in new teachers by supporting their professional growth early on.
	Strengthen vocational education and training and promote the participation of more women in the fields of engineering and computer science.
	Improve educational outcomes by reducing the prevalence of school dropouts.
	Strengthen public investment on active labour market policies to help improve skills and promote employment opportunities for women.
	Promote gender diversity in leadership positions in public sector and private companies, notably by establishing gender goals in management.
	Bring gender issues into the public debate through information campaigns and introduce policies to modify gender roles so as to raise female labour market participation.
	Reform the tax system, especially its most distortive parts.
	Improve the liveability of its urban spaces and help make cities drivers of growth and job creation.
	Plan pension reforms to ensure equitable coverage is sustained. Update the cash transfers targeting children and close the remaining coverage gaps.
Australia	Intensify assessment of current measures and the options for alternative approaches as part of commitment to a more rapid narrowing of gaps in socioeconomic opportunities and outcomes for indigenous communities.
	Press on with the multi-year schooling reform.
	Work further towards childcare that target lower-income households and facilitate combining work and family life.
	Avoid freezing welfare pay outs as part of fiscal restraint so as not to comprise inclusiveness
	Continue developing an investment approach to welfare policy that focuses on vulnerable groups where the returns to policy are greatest
Brazil	Focus on improving the quality of education through better teacher pay, in-service training and stronger performance incentives.
	Ensure full-day schooling nationwide and build more schools where needed.
	Further expand tertiary vocational and professional training programmes to address skill shortages and reduce drop-out rates
	Enhance the effectiveness of public transfers by redirecting spending towards well targeted social benefits such as conditional cash transfers and consolidating various programs into a single well targeted social assistance program. In tandem, raise retirement ages, sever the indexation of minimum pensions to the minimum wage (which is above the middle of the income distribution) and

[9] Given that the World Bank covers only emerging economies, this may result in a greater number of recommendations than for advanced economies.

	reassess the effectiveness of other benefits indexed to the minimum wage, including the Abono Salarial.
	Bolster outlays on early childhood development, improve the quality of education at all levels, and strengthen public investments in connectivity.
	Reform the tax system by making it more progressive, harmonsing tax rates and cutting exemptions.
	Reduce the segmentation of financial markets and promote financial inclusion.
Canada	Work with provinces and territories to harmonise training and certification requirements for all apprenticeship programmes, thereby facilitating access to post-secondary qualifications for disadvantaged groups
	Complement income-contingent loans with need-based grants to improve access for students from disadvantaged backgrounds
	Reduce regressive and distortive income-tax expenditures to further lower statutory corporate and/or personal income tax rates.
China	Ensure equal education for all, regardless of registration status.
	Unify healthcare insurance at the national level so that services can be obtained countrywide.
	Boost spending on education, including by increasing teacher compensation to improve education quality.
	Establish a countrywide workplace training-based vocational education system; enhance career guidance and better disseminate information on jobs.
	Improve access to pre-school education by extending social assistance to a wider range of people and providing vouchers for use at private facilities.
	Finance compulsory education from the central budget and ensure minimum quality across the country. Direct more funds to the populous provinces in Central China.
	Open up public schools to children of internal migrants, or, where such schools are not available, provide vouchers to enable them to attend private schools.
	Give certificates to all rural households detailing their land-use rights and improve enforceability.
	Universally introduce resident permits for migrant workers that allow access to public services, while protecting land entitlements at their origin.
	Better target assistance to the poor, who may now be more dispersed and harder to reach. Improving the understanding of urban poverty, particularly among migrants.
	Promote equality of opportunity by increasing the quality of public services available to rural residents and those in poorer interior provinces.
	Healthcare system, including rural primary care, is too hospital-centric and fragmented and the health insurance scheme provides insufficient coverage of out-of-pocket expenses by poor and rural households.
	Develop a robust, fiscally sustainable, and coherent social protection system.
	Reverse the decline in agricultural productivity growth to further increase rural incomes and close the rural-urban gap.
European Union	Improve the portability of supplementary pension rights and of other social benefits. Develop common rules for an EU-wide treatment of double taxation issues related to pensions, incomes of cross-border commuters and posted workers. Provide publicly-funded language training tailored to mobile workers. Further open public sector employment to all EU citizens.
	Speed up administrative decisions on asylum applications and ease labour market access for recognised refugees.
	Reduce agricultural subsidies and move further away from unconditional income support and market measures. Reduce barriers to market access for non-EU countries.
	Carefully monitor performance of cohesion policies and ensure transparency. Attach ex ante conditions to the use of cohesion funds without creating an additional layer of bureaucracy, while further lower administrative burdens associated with cohesion funds for countries and regions.
France	boost incentives to attract high-quality teachers in disadvantaged schools
	Combat school failure at an early stage, limit grade repetition drastically, and

	develop individualised instruction
	Improve teachers' training by focusing on knowledge transmission and creativity
	In secondary vocational education provide highly qualified teachers and more individualised support for students lacking basic skills.
	Lower social security contributions further by shifting the financing of benefits that accrue to society at large, such as those for families, to less distortive taxes
	Tackle the low-take up of the Revenu de solidarité active (RSA) among working families
	Increase the progressivity of social benefits, e.g. by reforming high benefit ceilings in the unemployment insurance
Germany	Continue expanding the supply of full-day childcare. Raise the staff-to-children ratio in accredited childcare facilities, further improve professionals' qualifications and better integrate education.
	In the taxation of 2-earner couples, lower the tax burden on the second earner, for example by introducing a separate tax-free allowance for the second earner.
	Provide more full-day primary education and resources to schools with a high share of pupils with weak socio-economic background.
	Integrate refugee children in mainstream schooling while providing language support.
	Strengthen lifelong learning and improve general skills of graduates of vocational education.
	Encourage refugees to make use of childcare.
	Improve training for new immigrants and the recognition of their skills.
	Lower social security contributions, especially for low-pay workers.
	Strengthen life-long learning opportunities especially to provide general skills for graduates of vocational education.
India	Reduce barriers to formal employment further by introducing a simpler and more flexible labour law which does not discriminate by size of enterprise and by gender.
	Continue efforts to improve access to core public services for all.
	Invest more in rural infrastructure, such as roads connecting villages to market towns, crop storage infrastructure and access to sustainable irrigation technologies such as drip irrigation.
	Continue improving access to education at the secondary level and improve the quality of education
	Reduce barriers to formal employment further by introducing a simpler and more flexible labour law which does not discriminate by size of enterprise
	Take further steps towards sustainable and inclusive urbanization by: (i) improving urban infrastructure, especially housing, transport and sanitation; and (ii) increasing the resources and capacity of municipal governments, including through increased collections of property taxes.
	Build human capital through massive interventions to improve nutrition, early childhood education, and improved quality of basic education
Indonesia	Continue stepping-up spending in education.
	Encourage higher enrolment and quality at primary and secondary levels through regular teacher assessment and professional development.
	Continue to phase out fuel and electricity subsidies, which will allow a reprioritisation of government spending programmes. Compensate the poor through existing targeted schemes, including the conditional transfer scheme.
	Assist sub-national governments in meeting education quality targets.
	Focus on improving education quality with more controls on teachers' activities and on school management. Provide teachers with lifelong training, and review the certification programme.
	Improve health infrastructure, especially in Java. Encourage private-sector participation, but avoid creating a two-tier health system by requiring private hospitals to treat patients from the public scheme.
	Streamline social assistance and integrate social security payments with the income tax system. Boost funding for the most efficient measures, such as

	conditional cash transfers. Continue efforts to create a unified database of beneficiaries. Envisage a unique ID system to facilitate its management and updates.
	Close Indonesia's skills gap by: (i) improving access to and quality of early childhood and basic education; (ii) improving the relevance of feeders into the labour market (technical and vocational education, and tertiary education); and (iii) upgrading the skills of the existing workforce.
Italy	Implement the new system of active labour market policies. Establish an evaluation system to assess the effectiveness of active measures and job centres on a regular basis. Build strong partnership between ANPAL and private job agencies and fully exploit market incentives to increase the offer and improve quality of employment and training services.
	Permanently lower social security contributions, especially for low-wage jobs and shift taxation towards immovable property based on updated cadastral values.
	Develop digital skills at all levels of education and training.
	Implement a systematic assessment of the labour market impact of activation programmes to focus funding on those that are performing well.
	Establish a national body on VET, involving all the key stakeholders to ensure strategic coherence and coordination in the VET system.
	Target the low skilled in lifelong learning by facilitating integration into formal education through part-time programmes in post-secondary education and vocational training.
	Target transfers more effectively, improve means testing criteria and set a nation-wide benchmark for minimum levels of social services across the country, as envisaged by the Constitution, to further improve the effectiveness of the anti-poverty programme
Japan	Encourage women's labour force participation through a comprehensive approach that includes further increasing the availability of affordable, high-quality childcare, reducing labour supply distortions in the tax and transfer system and breaking down labour market dualism.
	Further expand social protection for non-regular workers and upgrade training programmes for them.
	Improve the targeting of public social spending and introduce an earned income tax credit for low-income workers.
	Break down labour market dualism by increasing the coverage of social insurance and upgrading training programmes for non-regular workers and reducing effective employment protection for regular workers, in particular by increasing transparency.
Korea	Break down labour market dualism by relaxing employment protection for regular workers, in particular by simplifying and accelerating the remedy procedure for unfair dismissal and making it more transparent, by increasing the minimum wage and expanding social insurance coverage and training for non-regular workers.
	Enhance childcare quality by making accreditation mandatory and strengthening competition. Increase the take-up of maternity and parental leave systems by enforcing compliance and raising the benefit level for parental leave.
	Gradually raise tax rates to finance rising social spending, focusing on taxes with a less negative impact on growth, such as the VAT and environment-related taxes. In addition, higher taxes on property would reduce inequality.
	Accelerate the adoption of the wage peak system and expand education for older persons with low skills to extend their careers at companies.
	Expand the coverage of the National Pension Scheme to reduce poverty in the long run.
	Focus the Basic Pension on the elderly with the lowest incomes to reduce the high rate of poverty among those over age 65.
	Reduce labour market mismatch for young people by expanding Meister vocational schools and the Work-Study Dual System, thereby enhancing links between schools and firms, and basing curriculum on the National Competency Standards. Reduce labour market mismatch for young people by expanding

	Meister vocational schools and the Work-Study Dual System, thereby enhancing links between schools and firms, and basing curriculum on the National Competency Standards.
	Increase the coverage and the generosity of the Earned Income Tax Credit to reduce poverty and strengthen work incentives.
Mexico	Improve both equity and efficiency by refocusing spending on pre-primary, primary and secondary education and reducing drop-out rates.
	Increase professionalization of the education system, through teacher training programmes and merit-based organisational schemes, as a way to improve the quality of education.
	Better enforce the constitutional provision on gender discrimination, particularly in the workplace, boardrooms and credit markets.
	Establish voluntary gender targets to get more women into boardrooms.
	Expand public early childcare and pre-school coverage.
	Strengthen awareness of in-work subsidies for formal workers. Focus enforcement on large formal firms employing informal workers.
	Improve the equity and efficiency of education spending by refocusing such spending on pre-primary, primary and secondary education. Concentrate on the quality of teaching.
	Encourage more women to join the formal labour force by improving access to quality child-care for children under three years of age, and extend active labour market policies
	Approve draft legislation for unemployment insurance and universal pension to protect job seekers and old-age people against the risk of income losses, and reduce inequality.
	Enhance labour market formality and female labour participation, including by further strengthening the coordination between the social security and tax collection agencies. Strengthen active labour market and productive inclusion programs.
	Reform the health system including by moving away from the currently highly fragmented health insurance and delivery system whose activities are determined by historical and institutional legacies and in which health care financing and entitlement are largely linked to employment status to one that is responsive to the changing needs of individuals across the life course.
	Strengthen expenditures on eradicating extreme poverty and simplify the administrative procedure for accessing cash transfers, including of the social pension program. Increase the coverage and replacement rate in the mandatory funded old-age pension systems by, inter alia, increasing the contribution rate while reducing the contribution to the housing provident fund.
	Improve financial inclusion/access further.
Russia	Increase the share of spending on education and infrastructure.
	Shift the tax burden from business to immovable property and consider making income taxation more progressive.
	Raise temporary income support to unemployed to allow them devoting more resources to job search.
	Reduce premature mortality and bad health
	Improve the quality of and access to education
	Improve the effectiveness and efficiency of the social protection system by increasing the consistency of its objectives and instruments, consolidating overlapping programs, and better targeting.
	Reduce the rigidity of labour market institutions and curtail social security contribution exemptions to decrease informality and increase social security revenues.
	Support labour mobility by developing housing markets and transportation networks, reducing barriers to the movement of labour, and assisting individuals with high job search/ moving costs.
The Kingdom of Saudi Arabia	Develop a new growth framework to focus on increasing private sector contribution to the Saudi economy, boosting domestic value-added, and promoting emergence of new industries. The key areas of action could include

	developing a comprehensive Privatization and Public-Private Partnership (PPP) program, promoting small business development and entrepreneurship, developing an entrepreneurial ecosystem including financial and non-financial services to entrepreneurs and young businesses.
	Transforming the education system to support entrepreneurship culture and build modern skills that ensure productive contributions of Saudi citizens to their economy.
	Encouraging increased female participation in the private sector.
	Reduce transmission of oil price fluctuations into the non-oil economy by de-linking hydrocarbon revenues from fiscal expenditures; support forward-looking policies and reform initiatives with reliable estimates of potential macro-fiscal outcomes; develop a fiscal strategy, based on a complete, contingent, and rule-based plan on how public spending and revenue collection would be amended under different economic scenarios going forward.
	Adopt of a new investment strategy to attract and retain FDI investors in various sectors while developing the investment appeal of the Saudi economy, open FDI opportunities to more sectors such as education, real estate, full ownership, ease of entry and exit.
	Enhance the competition policy framework and capacity to enforce market surveillance and actions against anti-competitive behaviour.
	Remove major constraints to building human capital, reduce the relatively high wage premium in the public sector, which creates disincentives for citizens to seek jobs in the private sector and develop the right skills for it, link the salary increase in public sector to inflation.
	Reform the education system to deliver high quality outcomes and appropriate technical skills for jobs.
	Finalise removal of subsidies, strengthen social safety net, and enhance the efficiency of service delivery; build these reforms on firm grounds in effective communication strategies and consider political economy constraints. In addition, refine the foundations of the welfare system, and move towards direct distribution mechanisms by implementing best practices from advanced economies (e.g. the Alaska model) or see to expand the currently implemented cash transfer program.
South Africa	Improve teacher training, enhance accountability and increase monitoring of school leadership.
	Teach English as a second language earlier, while maintaining mother-tongue instruction for longer.
	Upgrade education infrastructure.
	Gradually phase out school fees in the public primary school system.
	Expand vocational education and training.
	Expand placement assistance for young job-seekers and support for young entrepreneurs focused on management training.
	Establish a public employment service as a one-stop shop for job seekers to lower the cost of job search and hiring costs for employers, which would improve the matching of workers to jobs.
	Strengthen education quality and access. Focus on fluency in reading and mathematics by grade 3, and on foundational skills and aptitudes.
Spain	Further reduce the labour tax wedge on low-wage workers on both permanent and temporary contracts.
	Broaden the tax base by narrowing exemptions to the income, corporate, VAT and environmental taxes. Enhance the efficiency of the tax system by: Abolishing poorly-targeted personal income tax exemptions.
	Improve student performance by improving the quality of teaching through adequate university training for teachers and on-the-job training.
	Continue the development and modernisation of VET, expand dual VET and ensure greater role of employers in designing curricula and training students.
	Increase university specialisation.
	Do not reduce average university grants until other financing alternatives, such as loans with income-contingent repayments, are available.

	Continue boosting resources and efforts to improve the efficiency of public employment services to effectively improve the delivery of activation policies. Make effective the 2015 reform of the training system for the unemployed, introduce systematic evaluation of training schemes and evaluate wage subsidies. Reskill the long-term unemployed via the VET system and second-chance schools.
	Pursue greater convergence of termination costs between permanent contracts and temporary contracts.
	Increase the amount and coverage of the regional minimum income support programmes and of cash benefits for families with children.
	Reduce employer social security contributions for low-wage workers on permanent contracts.
Turkey	Reduce the wide quality gaps persisting among schools, school types and universities, by granting them more autonomy and resources per student, against greater performance accountability.
	Further develop pre-school education.
	Continue to strengthen vocational education in co-operation with the business sector and evaluate the outcomes of the many recent initiatives in this area.
	Grant further social contribution cuts for low-skilled workers in the entire country, financing them by widening the tax base.
	Improve the social safety net for displaced workers by making public support for retraining and job search more reliable for those out-of-work.
	Reduce labour tax wedges and employment costs for the low-skilled.
	Upgrade child care facilities throughout the country.
	Reduce the segmentation of labour markets between formal and informal sectors. Policy should aim at enhancing labour flexibility, upgrading the skills of workers to facilitate their employment in formal sectors, reducing the cost of labor, increasing coverage of unemployment benefits and restructuring severance pay.
	Increase education enrolment rates at all levels. There is a need to enhance access of poor families to pre-school education, which would also encourage the participation of women in the labour market. To combat the increase in dropout rates in upper secondary education, support needs to be provided to groups at risk. Efforts are needed to improve enrolment rates in the East, especially by promoting the attendance of girls.
	Improve the quality of education and life-long learning and the skills of the labour force. Embed ongoing quality assessment into the system. Support effective on the job-training and skills upgrading to meet changing skill needs and reduce skill mismatches.
	Enhance the relevance of school curricula for the labour market.
	Address the educational and social needs of Syrian refugees. To enhance the integration into the labour market, refugees should be provided with access to training and active labour market programs, in order to overcome barriers related to language, education and skills.
	Improve the effectiveness of social assistance programs including to further increase the amount and improve the targeting of social assistance to mitigate vulnerability in the face of macroeconomic shocks.
United Kingdom	Encourage the expansion of high quality postsecondary vocational programmes.
	Support lifelong learning of low-skilled workers to ensure that their productivity can adjust to planned raises in the National Living Wage.
	Increase spending on active labour market policies and improve their efficiency by fostering competition among contracted providers, better profiling customers and developing a performance measurement system.
	Further reduce the cost of childcare to increase work incentives for parents.
	Monitor the impact of previous reforms such as the Education Act 2011 on the average quality of education outcomes and equity across social groups.
United States	Expand funding for reskilling, building upon programmes that, in the past, have shown effectiveness in facilitating reemployment.
	Use targeted federal funding to reduce disparities in student opportunities and

	encourage States to be ambitious in lifting educational attainment
	Expand the Earned Income tax Credit and raise the minimum wage.
	Reduce pre-screening for employment on criminal records.
	Consider additional policy measures to encourage workers with children to remain in jobs that best utilise their skills, such as by boosting support for maternal leave and childcare or by establishing a national social insurance programme.
	Require paid parental leave and improve access to quality childcare to help reduce wage gaps and improve career prospects.