Inclusive Growth: An opportunity to put growth on a socially sustainable footing

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The crisis left many a nation teetering on the edge of financial and economic catastrophe. Thankfully, governments managed to pull us back from the brink. Yet, as we have stabilised our economies, the gaping chasm between our societies’ “haves” and “have-nots” has come into sharp relief.

In the last seven years, in a context of prolonged fiscal retrenchment, we have watched as OECD unemployment levels hit a peak unseen in a generation and as precarious work has boomed. We have also seen inequalities of income and wealth rise to their highest levels in some 30 years. In 2012, the average income of the top 10% of earners in the OECD grew to just under ten times that of the bottom 10%, up from around seven times in the mid-1980s. In terms of assets, the top 10% controlled half of total household wealth in 2012, with the bottom 40% owning only 3%, in the 18 OECD countries with comparable data.

To be sure, these problems did not originate with the crisis. The economic seeds of the inequality we are reaping today were sown over many years. Structural changes in the labour market, the forward march of technology, integration into global value chains, and the decline of unionisation all contributed to growing wage dispersion between high- and low-skilled workers.

But it was not just bad luck that this occurred at the very moment that the traditional redistributive mechanisms of the state began to weaken, in a climate of growing fiscal pressures and increased tax competition. Specific policy choices meant some people losing out. Prior to the crisis we relied on growth to paper over the cracks. We can no longer. Yet for want of a better alternative many individuals, companies, and countries have simply returned to business as usual.

With our economies going nowhere fast, we need to take this opportunity to fundamentally re-think how we grow and who benefits from that growth. Taking its lead from the New Approaches to Economic Challenges (NAEC) project, this is precisely what the OECD’s All on Board for Inclusive Growth initiative sets out to do.
The OECD’s work on Inclusive Growth understands that GDP growth is important to improving everyone’s living standards, but it also recognises that it is not the be all and end all. We cannot continue to blindly pursue growth at all costs without a thought to who benefits from it, or to how socially sustainable it is. That is why our approach to Inclusive Growth moves beyond money alone to look at how people are faring in other areas of life that matter to their well-being like their health, jobs and disposable household income. That is also why we look past the statistically constructed ‘average person’ to get a real and clear picture of how each part of the income distribution is doing.

Our work on Inclusive Growth has made it clear that over the long-run growth will neither reach its potential, nor be sustainable if it is not inclusive. In many ways this is self-evident. Growth built on an ever smaller base, like a building built on shrinking foundations, will be gradually undermined and ultimately collapse. Whilst from a political perspective, a public growing weary of the worst excesses of inequalities will likely not tolerate them indefinitely.

These dawning realisations have led to the issue of inequality gaining increasing political traction. Many citizens are concerned about the implications of increasingly unequal societies and many governments have started to talk about the issue. Much of that talk has been about promoting equality of opportunity. Such talk is to be welcomed, but talking about opportunity is not enough. We also need to focus on outcomes.

Inequalities of opportunity and of outcome are two sides of the same coin. The unequal outcomes of one generation tend to become the inequality of opportunity of the next. Simply giving a child from a poor background access to the same opportunities as a wealthy counterpart will not suffice. The balance of life chances is stacked against children from lower-income backgrounds. Children born into poorer families suffer from any number of disadvantages in relation to their richer peers: they are likely to have poorer diets, more likely to be bullied in school, have parents with shorter formal education and to live in workless households. Overcoming these obstacles can be nigh on impossible.
Dealing with this calls for a much more comprehensive approach to Inclusive Growth that does not only give people equal opportunities, but also bestows them with the ability to make the most of those opportunities. The OECD’s Framework for Inclusive Growth aims to help policy makers do just that, setting out to assess the effects of policies on income and non-income outcomes simultaneously. The Framework seeks to enhance policy makers’ understanding of the trade-offs and synergies that exist between pro-inclusiveness and growth-friendly policies.

In practice, pursuing Inclusive Growth calls for an approach that promotes the creation of high-quality jobs. An approach that understands the benefits of flexibility for employers and employees, but also grasps the importance of ensuring that a workforce is properly protected and supported by a strong social safety net, and activation policies to help people back into work. It calls for an approach that recognises the importance of increasing skills and improving education, but also sees that such efforts will be of little value if investment is not forthcoming to create skilled jobs in sufficient numbers. It also calls for an approach that underlines the value of progressive taxation to make sure no one is left behind.

Of course, each country has different goals and priorities, and distinct preferences as far as inequality is concerned. But we also need to have critical awareness about where country preferences come from. In many instances there is a clear danger of elites, who have an important role in setting national preferences, determining the political direction of travel for their own ends. Transparent and accountable government and well-structured institutions are key to avoiding that risk.

By pursuing Inclusive Growth we can empower individuals, ensuring that everyone benefits from growth, and that everyone has the chance to contribute to growth in the future. Businesses stand to gain just as much from this. Companies rely on healthy, well-educated, productive workforces to succeed, and they rely on effective labour market policies to help supply them. Inclusive Growth means more and better resources for businesses to draw on.
Now governments need to move this agenda forward. With the Crisis fresh in the memory and inequality grabbing the world’s attention we have a golden opportunity to put growth on a socially sustainable footing, and turn greater inclusiveness into a strong driver of economic growth. We cannot afford to let this chance go to waste.

Useful links


OECD Centre for Equality and Opportunity: http://oe.cd/cope
