Turning the tide towards inclusiveness

by

Stefano Scarpetta,
Director of the OECD Employment, Labour and Social Affairs Directorate
A rising tide lifts all boats, or so many used to think. But the evidence suggests that over the past three decades in a large number of advanced and emerging countries economic growth has disproportionally benefited people who are already relatively well-off, leaving the lower middle-class lagging behind.

Today the average income of the richest 10% of the population across the OECD is almost ten times that of the poorest 10%. We observe also a worrying pattern: in each of the past three decades the gap has increased by one factor – it was 7:1 in the 1980s, 8:1 in the 1990s and 9:1 in the 2000s.

These averages hide large differences across countries, from a ratio to 6:1 in Nordic countries, to 19:1 in the United States, almost 30:1 in Mexico and Chile and beyond 50:1 in South Africa and other emerging economies. But over the past decades we have observed a convergence towards higher levels of income inequality (although some emerging economies have managed to reduce income inequality, albeit from very high levels). The situation is even worse when we look at the distribution of household wealth. Comparable data collected for the first time by the OECD for 18 OECD countries show that the top 10% of households owned half of all total household wealth in 2012, while the bottom 40% owned a meagre 3%.

Not only do high levels of income inequality challenge social cohesion, they also tend to reproduce themselves from one generation to the next. This happens largely because they hinder the opportunities of the lower middle-class to access the same education and health opportunities as their better-off counterparts. The gap in educational outcomes between individuals from a low socioeconomic background and those with median and high socioeconomic backgrounds increases dramatically as one moves from a more egalitarian to more unequal country. Similarly, a new set of OECD data shows that at age 25, men with university education can expect to live almost 10 years longer than men with primary education. Surely we can agree that people’s life chances should not essentially boil down to their wealth, age, gender, or place of residence.

The risks posed by such lopsided growth are evident. Our recent publication In it Together revealed that economies grow more slowly
when lower earners get left behind – and we are talking about as much as 40% of the population. The rise in inequality observed between 1985 and 2005 in 19 OECD countries knocked 4.7 percentage points off their cumulative growth between 1990 and 2010.

The implication is that if we want to achieve our full growth potential, we need to promote equality of opportunities rather than just relying on redistribution of income and wealth. In all countries, and particularly in advanced ones, redistribution still greatly reduces income inequality – typically through taxes and transfers such as unemployment and other social benefits. Yet, in recent decades, the effectiveness of redistribution has weakened in many countries. It is important to put a renewed focus on it, through effective and well-targeted transfers as well as by making sure that the rich and the very rich in particular pay their fair share of taxes.

But policies also need to do more to address inequalities at their roots, ensuring that people can access high-quality education and health services while having a reasonable prospect of finding good quality jobs, regardless of their social backgrounds.

Improving access to pre-school care and education – and its quality – for children and youth in lower-income households is a key first step in all countries. Too many young people are leaving education without basic skills, even in some of the richest countries. The proportion is put at 24% in the United States, 22% in Norway and 14% in Switzerland.

But promoting equality of opportunities is not just about education. It is also important to promote inclusion in the labour market for under-represented groups, like women and youth. Concerning women, for example, we need to stop talking about equal pay for equal work and just make it happen. We also need to better support families in areas like parental leave and childcare to ensure that both parents can balance their work-life commitments.

The situation of young people in labour markets has become a growing cause of concern since the financial crisis struck. In 2014, 14% of youth were not working, studying or in training in the OECD, but this share reaches 25% in Italy and Greece and even higher in some
emerging economies. To avoid scarring effects on their long-term employment prospects, and for the sake of intergenerational justice and social stability, our societies need to offer our young people a better deal, especially those with low skills and from migrant families. To tackle high youth unemployment, we need to be ambitious and use well-targeted activation strategies and measures to encourage firms to provide high-quality apprenticeships, internship programmes and training opportunities.

Moreover, only focusing on increasing the number of jobs is not enough. To make sure that growth is inclusive, countries need to ensure that good education is rewarded by access to productive and rewarding jobs; jobs that offer career and investment possibilities; jobs that are stepping stones rather than dead ends. There is a lot that labour market policies can and should do to address labour market segmentation, improve working conditions and foster skills recognition and a better match of wages with productivity.

Inevitably, policy mixes will vary between countries, responding to their individual economic and political circumstances. There are a number of win-win policies – good for growth and inclusiveness. But, equally inevitably, countries may also face trade-offs between policies to boost growth in the short-run and those to improve the distribution of growth dividends. However, given the scale of the inequality challenges we face and its impact on long-term growth, we need to exploit synergies and complementarities of policy in different areas, while addressing possible short-term trade-offs, for a better and more inclusive future.

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