Government at a Glance 2015

Chapter 1

Inclusive government for a more inclusive society

Introduction

Inclusive growth is crucial not only for a fairer society but also for a stronger economy. Income gaps between rich and the poor have widened, and these inequalities undermine economic growth and strain the relationship between government and citizens. Countries are searching for new ways to improve living standards, while sharing the benefits of growth more evenly across all groups in society. In responding to the challenge of inclusive growth, the public sector has an important role to play, with respect to the inclusiveness of the public sector itself, the inclusiveness of policy-making processes, and the inclusiveness of the outcomes that governments seek to promote.

First, we ask whether the public sector, a major employer in the economy, is representative of the society it serves, whether it should aspire to being an "inclusive employer" and, if so, what that would entail. For example, *Government at a Glance* data show that while women are well represented – even over-represented – in the public sector workforce as a whole, the "glass ceiling" is still in place in the public sector as well: the higher the level of responsibility, the fewer women hold positions. The results presented here also illustrate the data gaps: additional breakdowns by ethnic and religious minorities, disabled people, immigrants or indigenous populations are not available, as no internationally comparative data exist about their representation in public employment in OECD countries.

Second, promoting inclusive growth requires strong, inclusive processes and institutions to counteract the forces that produce inequality. In the last three decades, efficiency became one of the most important guiding principles of how governments operate and how services are delivered in OECD countries, often putting equity or fairness considerations on the back burner. In pursuing inclusive public policies and practices, efficiency and equity are not viewed as mutually exclusive; rather, inclusiveness becomes a key dimension of effectiveness. In an inclusive approach to public policies, equity and fairness considerations are introduced by looking at the impact of various policy options on different groups in society. Inclusive government processes also allow civil society and the wider public to be involved in policy making, regulation and service delivery. By gathering more input from citizens about their needs and the impact of policies on them, open government makes public policies more effective and public services more user friendly and user driven.

Finally, and perhaps most importantly, the test of an effective policy of inclusive growth is whether public policies achieve their wider societal goals, from increasing access to education and educational attainment across society to reducing disparities in life expectancy and other key health indicators and lowering income inequality through better-targeted tax policies. Inclusiveness – reflected in access (financial and geographical) to public services such as education, health care and justice – in turn shapes the growth potential of economies and the level of societal well-being.

Exploring the role of government in fostering inclusive growth requires a new look at what we know about government performance, one that goes beyond traditional parameters of efficiency and effectiveness. The working hypothesis of this approach is that a more inclusive approach to policy making will play a key role in achieving inclusive growth, and that inclusive growth, in turn, represents a more sustainable economic model for our societies. OECD countries have made progress in some areas – governments are becoming more open, consultative, gender-aware, and so on – but there is much work still to do. This chapter provides a preliminary overview, drawing on data from various editions of *Government at a Glance*, to launch the debate. Over time, the reflection on how governments and the policies and services they deliver can be organised better in the interest of more inclusive societies will undoubtedly entail a deeper review of how we assess the performance of government and the indicators that we use to measure it.

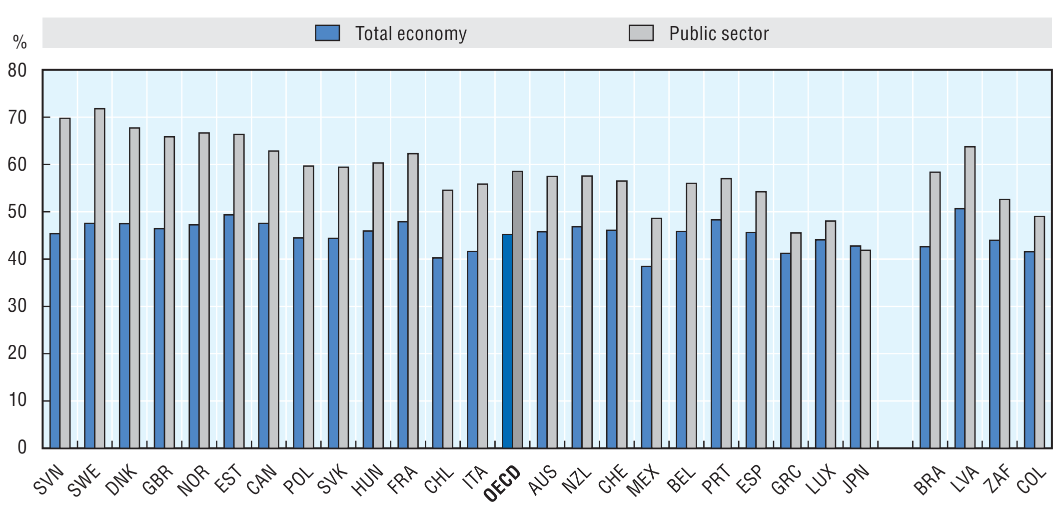
Towards an inclusive public sector: The importance of gender and age

Governments are increasingly concerned about the importance of diversity in public institutions, to ensure that the needs, aspirations and experiences of a diverse range of citizens are reflected in the decision-making process (OECD, 2011b; OECD, 2014f). To achieve that goal, governments in OECD countries have worked over the last decades to establish public sector employment frameworks that guarantee attention to fundamental values such as fairness, equality, justice and social cohesion (OECD, 2008b).

Depending on the policy area or sector, a more representative public administration can better access previously overlooked knowledge, networks and perspectives for improved policy development and implementation. The notion of which groups should be represented in the public administration has expanded over the years (Pitts and Wise, 2010), and now includes a range of dimensions such as women; racial, ethnic and religious minorities; the poor; the elderly; the disabled; and other minority groups such as indigenous populations.

Of all these groups, internationally comparable data are available mainly on the representation of women in the public sector. Women are overall well represented in the public sector workforce but still face important barriers in reaching senior leadership positions. In 2013, on average, 59% of the OECD public sector workforce was female (Figure 1.1). Many public sector occupations such as nurses or teachers are female-dominated. Some may offer

Figure 1.1. **Share of women in the public sector and total economy, 2013**



Note: Data for Austria, Czech Republic, Finland, Ireland, Iceland, Israel, Korea, the Netherlands, Turkey and the United States are not available. Data for New Zealand are expressed in full-time equivalents (FTEs). Data for Australia, Greece, Hungary and Slovenia are for 2012 rather than 2013. Data for Denmark, Luxembourg and New Zealand are for 2011 rather than 2013.
Source: International Labour Organization (ILO), *ILOSTAT Database*.

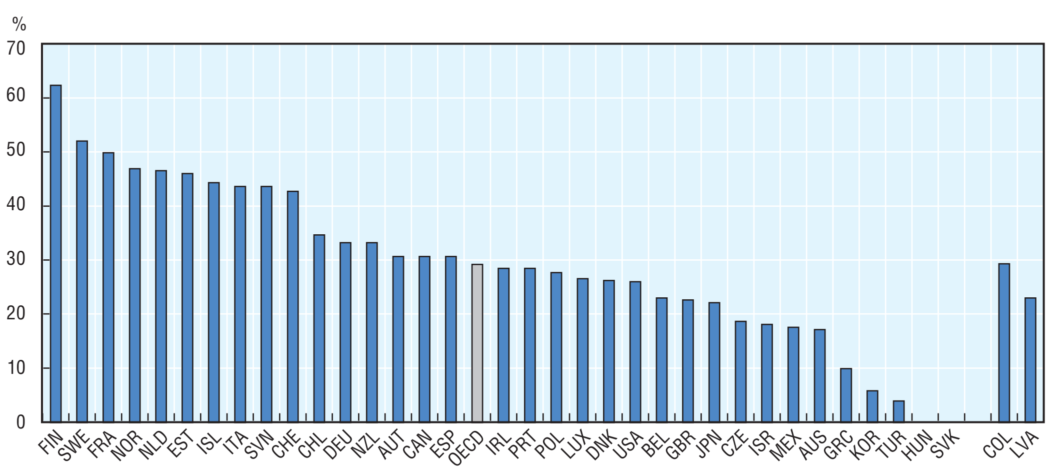
StatLink http://dx.doi.org/10.1787/888933247964 more flexible working conditions, better work and family life balance and greater benefits than private sector occupations. Still, there are important variations in the representation of women in public sectors across OECD countries. In Sweden, Slovenia and Denmark, women represent more than 67% of the public sector workforce, while in Mexico, Luxembourg, Greece and Japan, the share of women in the public sector workforce is below 50%, which may also reflect a different range of public sector functions in those countries.

The public sector has, on average, a higher share of women in the labour force than the total economy (Figure 1.1). Japan is the only OECD country that displays a smaller share of women working in the public sector than in the total economy.

However, the gender imbalance found in senior levels of central government considerably limits the role of women in the decision-making process. According to OECD (2013a), in 2010 only 29% of the top manager positions in the central government were occupied by women across OECD countries. Similarly, in 2010 only 29% of seats for first and second instance court presidents were filled by women (OECD, 2013a). Another illustration of this gender imbalance can be seen in terms of political representation. In 2014, on average, women held 26.9% of ministerial positions (Figure 1.2). The extent to which women hold ministerial positions varies considerably among OECD countries. The Swedish and Finnish governments were the only ones where women are equally represented. The largest gaps between women and men in ministerial positions can be found in the Czech Republic, the Slovak Republic, Greece and Turkey, where fewer than 10% of ministerial positions are occupied by women.

Figure 1.2. **Share of women ministers**

2015



Note: Deputy prime ministers and ministers are included. Prime ministers/heads of government were also included when they held ministerial portfolios. Vice-presidents and heads of governmental or public agencies have not been included.
Source: Inter-Parliamentary Union (2015), "Women in Politics".

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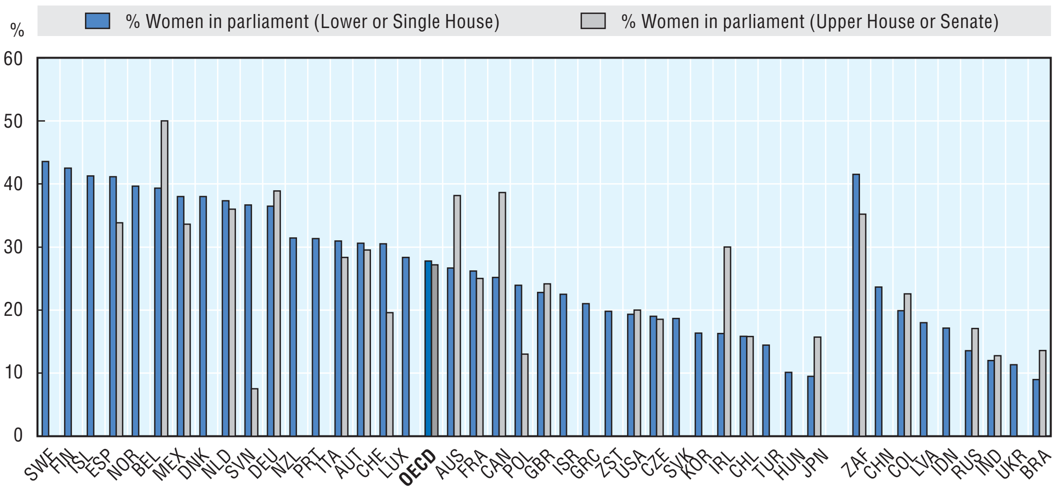
A similar trend can be found in the parliaments of OECD countries. In 2014, the composition of these assemblies, elected by citizens to take decisions that affect every aspect of their lives, did not reflect gender equality. On average, fewer than 30% of seats in the lower and upper parliamentary houses of OECD countries were filled by women (Figure 1.3). Those that came closest to gender balance were the lower parliamentary houses of Sweden, Finland and Belgium and the higher parliamentary houses of Australia, Canada and Belgium.

Figure 1.3. **Share of women in parliament, 2015**



Note: South Africa: The figures on the distribution of seats in the Upper House do not include the 36 special rotating delegates appointed on an *ad hoc* basis, and all percentages given are therefore calculated on the basis of the 54 permanent seats. United States of America: Total refers to all voting members of the House.
Source: Inter-Parliamentary Union (2015), "Women in Politics".

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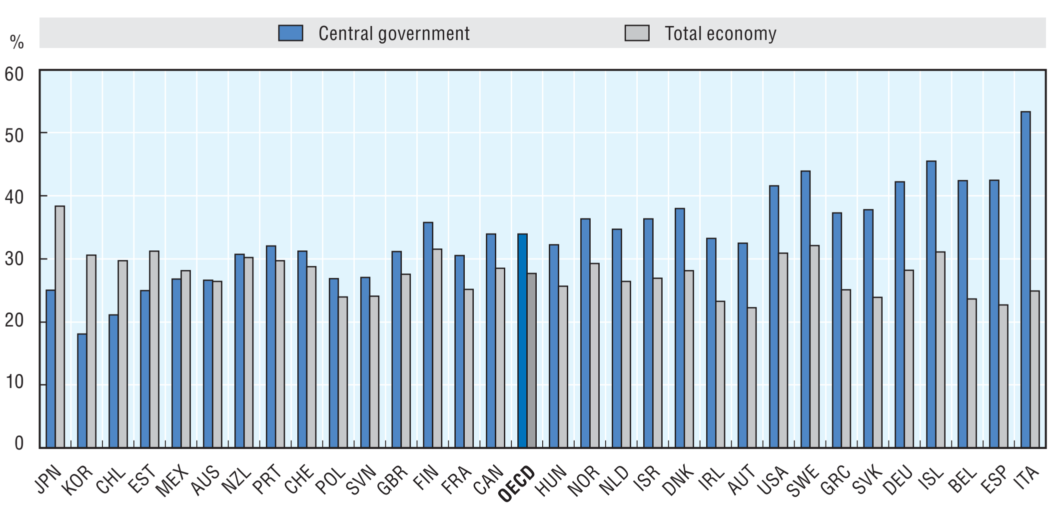
Governments also are seeking to respond to the demographic challenges that are currently facing OECD countries. The changing demands of an ageing society, for example, lead to increasing employment in health and elderly care services. Moreover, the government workforce itself is also ageing. According to previous results, (OECD, 2009a) central government workforces are ageing more rapidly than the rest of the society. On average, a very large proportion (33.9%) of the central government workforce was over 50 years old in 2009. This percentage is 6.2 percentage points higher than the share of elderly working in the total economy (Figure 1.4). Nonetheless, the share of elderly people in the central government workforce varies considerably across OECD countries. Japan,

Figure 1.4. **Percentage of workers 50 years or older in central government and the total economy, 2009**



Note: Data for the Czech Republic, Turkey and Luxembourg are not available.
Source: OECD (2010), *2010 OECD Survey on Strategic HRM in Central/Federal Government*, OECD, Paris; and International Labour Organization (ILO), *ILOSTAT Database*. Data for Spain were provided by national authorities.

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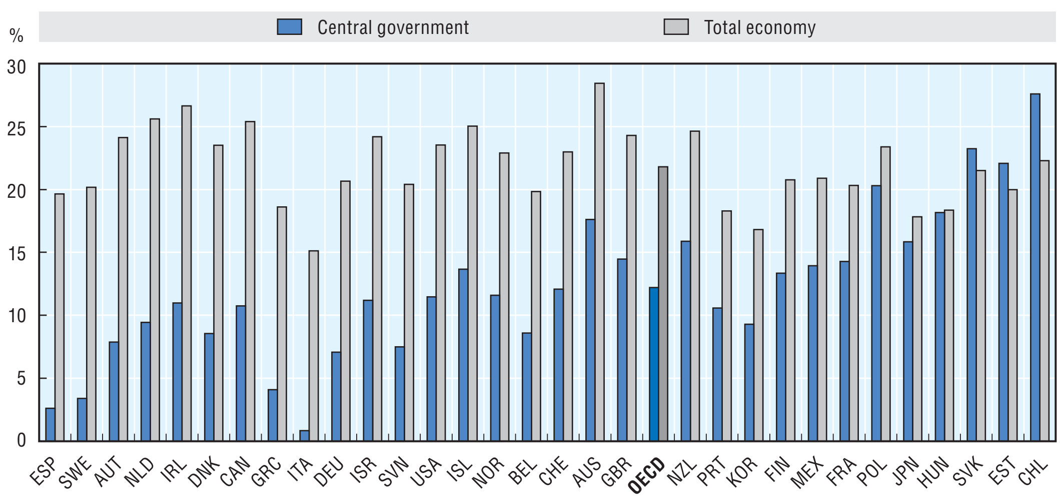
Korea, Chile, Estonia and Mexico displayed a lower share of elderly in the workforce in the central government than in the total economy. On the other hand, Belgium, Spain and Italy had a considerably greater share of elderly in the central government than in the total economy (difference of 18 p.p.).

Population ageing creates challenges for governments but also opportunities. Indeed, the large share of the central government workforce who will retire over a relatively short period of time creates an opportunity to bring staff with new skills into government. In many OECD countries, the share of youth in the central government workforce is lower than their share in the total economy. On average, in 2009 only 12.2% of the workforce in the central government was under 30 years old, which is 9.6 percentage points lower than the share of this age group in the total economy (Figure 1.5).

Figure 1.5. **Percentage of workers 30 years or younger in central government and the total economy, 2009**



Note: Data for the Czech Republic, Turkey and Luxembourg are not available.
Source: OECD (2010), *2010 OECD Survey on Strategic HRM in Central/Federal Government*, OECD, Paris; and International Labour Organization (ILO), *ILOSTAT Database*. Data for Spain were provided by national authorities.
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In an effort to improve diversity in their government workforces, many OECD countries have launched specific programmes to foster the recruitment of under-represented and minority groups. For instance, in October 2010 the United Kingdom implemented the *Equality Act*, which requires public bodies with over 250 employees to publish data on the composition of their workforce. It also encourages them to share details of policies and programmes that address diversity, such as recruitment, equal pay, flexible working and development. Similarly, the *Gender Equality and Anti-Discrimination Ombudsman* was established by the Norwegian government in 2006 to promote equality and combat discrimination on the basis of gender, ethnic origin, sexual orientation, disability and age. In Canada, the Public Service Employment Act was enacted in 2005 to increase the representation of minority groups in the public service for women, people with disabilities, indigenous populations and visible minorities.

The empirical evidence on the representation of minority groups in the public sector workforce is limited. There has been a growing debate about the need to collect this type of information to ensure diversity and equality in the public sector. Personal data protection laws sometimes prohibit the collection of these data for sensitive categories such as ethnicity, race and religion. Census and official surveys as well as administrative data are the main sources of sensitive personal data; however, even their reliability could be questioned (Simon, 2007). Despite all these difficulties, the United Kingdom, based on its Labour Force Survey, observed that minority ethnic groups were somewhat under-represented in the public workforce. In 2010, the representation of black, Asian and other ethnic minority groups in the public workforce was 8.8%, compared to 9.7% in the private workforce (Local Government Group, 2010). Collecting further information about the composition of the public sector workforce in an internationally comparative way would be a key way to help countries rethink the inclusiveness of their public sectors.

Inclusive policy-making processes

Why are inclusive processes relevant?

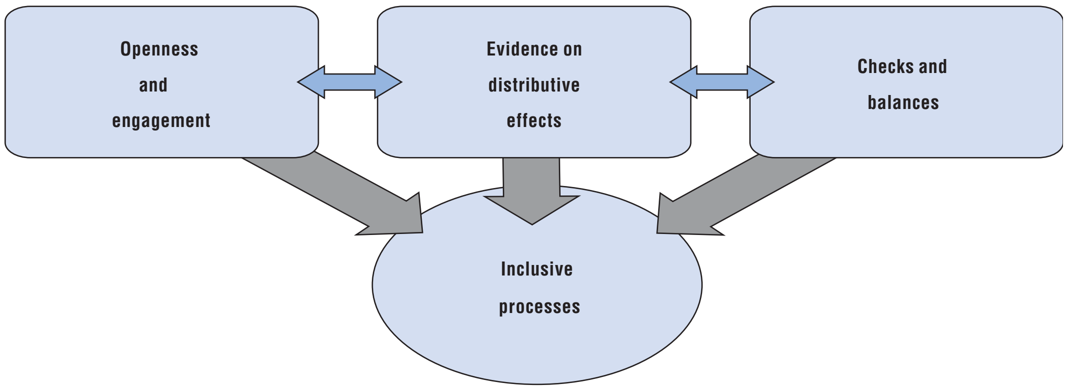
The transformation of inputs into outputs and outcomes takes place through government processes and institutions. The public management and governance processes measured in *Government at a Glance* reflect the day-to-day working methods of central governments and are the mechanisms that shape public policies. Channelling and administering resources in different ways can affect the quality of outputs and outcomes; therefore, processes influence both the effectiveness of public administrations as well as the inclusiveness of their outcomes.

Inclusive processes are important to give all segments of society access to government decision making in order to better reflect their needs and aspirations, both in policy making and in service delivery. While their impact on an outcome as complex as inclusive growth is certainly not simple or predictable, inclusive processes increase awareness across the policy cycle and help to orient institutions in support of inclusive outcomes. They can be instrumental in preventing capture by powerful special interest groups as well as the dominance of informal and often illegal processes (e.g. corruption) over formal and open ones. Bringing citizens actively on board in the design and implementation of policies could also increase their legitimacy and effectiveness, and create the feeling of ownership by citizens. Citizen and stakeholder engagement helps to access knowledge about needs, solutions and impacts that could otherwise be overlooked. All in all, inclusive processes could help to address, across the policy-making cycle, the differential impacts of various policies on outcomes for different segments of society and their likely effects on growth and well-being.

How to make inclusive processes work in practice?

Inclusive policy making relies on inclusive processes, evidence and structures to ensure that policies and their implementation reflect and integrate the perspectives of diverse stakeholders. This is supported by public transparency, openness and engagement mechanisms that inform citizens about government's intentions and actions and that provide them with ways to express their opinions. Inclusive policy making depends also on evidence that includes information on the distributional consequences of policy decisions, and the appropriate institutional structures for collecting, exchanging and incorporating that information into decision making. Finally, a strong system of checks and balances helps achieve better-balanced, more accountable government action, including through independent institutions and administrative control tools and mechanisms to curb undue influence and boost transparency. Processes, evidence and structures for greater inclusiveness are mutually supportive, further strengthening the case for ensuring their alignment to better reinforce the factors of inclusive policy making (Figure 1.6). The following sections present in detail each of the mechanisms mentioned above, as well as corresponding pieces of evidence provided by the different editions of *Government at a Glance*.

Figure 1.6. **Towards inclusive policy-making processes**



Openness and engagement

Many OECD and non-member countries are designing and implementing public sector reforms inspired by the open government principles of transparency, accountability and citizen engagement. Several mechanisms have been developed with the objective of enhancing citizens' participation in the policy-making process. These mechanisms range from innovative public governance processes, such as participatory budgeting at the local level, to the use of social media for real-time interaction. More openness could create opportunities for citizens as well as governments to produce better policies and services. In turn, this may enable the development of collaborative and better-tailored channels of service delivery, two-way engagement and co-production of public services.

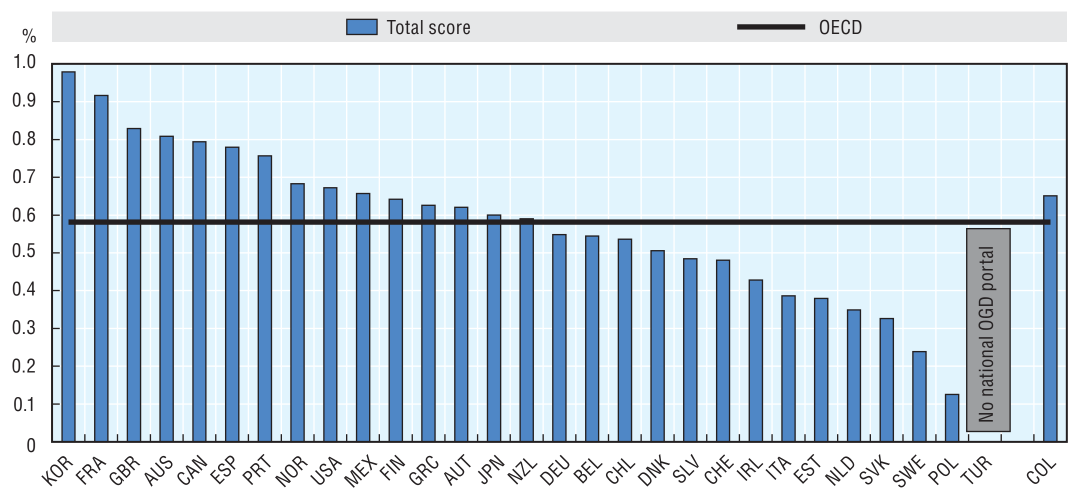
The variety of mechanisms for including and engaging citizens in a continuous and constructive dialogue is today greater than ever. Still, the availability of these mechanisms is a necessary, but not sufficient, condition for strengthening inclusiveness. More and better co-ordination at the policy design and implementation stages as well as the identification of synergies between the different tools may be required to fully reap the benefits of inclusive policy processes.

From access to information to Open, Useful, Reusable data

Inclusive processes require access to information. "Freedom of information" (FOI) laws led the way by creating a framework of legal rights for citizens to request public sector information. By 2011, almost all OECD countries had a FOI law in place, although there were differences in the breadth and depth of these laws, as well as in their implementation mechanisms (see OECD, 2011c). The rise of open government has seen a shift from the passive dissemination of information (mainly upon request, e.g. FOI) to the proactive government dissemination of information – in particular public data that can be massively analysed and reused on a large scale. This opens the way for innovative uses of public data to generate both public (e.g. better services, greater transparency and accountability) and private (economic growth through the creation of new business lines) value, for example through the proliferation of mobile phone applications using geospatial data. Further pursuing this joint value creation provides citizens with the information resources to proactively participate (directly or indirectly) in policy making.

A clear example of how inclusiveness could be strengthened through proactive access to information stems from open government data (OGD) that provides new opportunities to empower a new generation of citizens, businesses and civil society organisations through the reuse of these data and increased transparency. The OECD *OURdata* Index measures government efforts to implement the G8 Open Data charter based on the availability, accessibility and government support to promote the reuse of data, focusing on the central OGD portal in each country (see Figure 1.7 and two-pager on open data). While many countries are well advanced in the process of implementing the Charter, especially regarding availability and access to data, there are still large variations in the extent to which governments provide active support for the reuse of the data through specific events, incentives and training programmes both out- and inside public administrations. Given the speed of developments, some countries are already implementing important reforms to their central open government data (OGD) programmes and portals, which could lead to rapid improvements on this indicator in the coming years.

Figure 1.7. ***OURdata* Index: Open, Useful, Reusable Government data, 2014**



Source: 2014 OECD Survey on Open Government Data.

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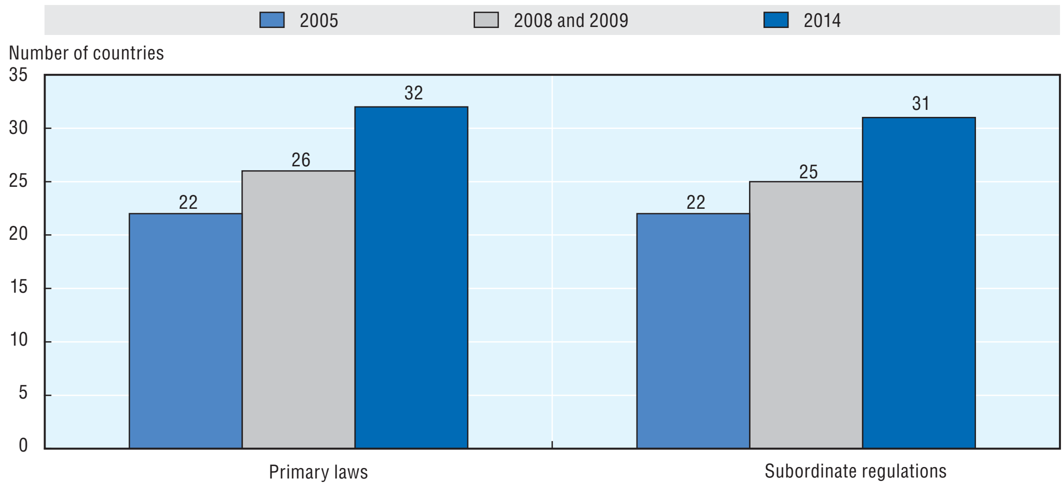
From one-way consultation to two-way collaboration across the policy-making process

Meaningful citizen engagement is at the heart of inclusive policy making. Engagement implies giving citizens a greater role in decisions that affect their quality of life, not only through consultation, but through collaboration and joint deliberation, so that policies reflect and integrate the perspectives of those affected by them. Overall, enhanced public engagement could increase trust in public institutions and contribute to closing the gaps between citizens' expectations and government responses, therefore resulting in better public policies. Still, achieving meaningful engagement relies on strong leadership, and requires creating and developing adequate communication channels, effective guidance and proper incentives to facilitate both governments and citizens' involvement.

Most OECD countries are still at the early stages of this public engagement, although in some areas progress has been important, such as regulatory policy. The OECD Recommendation on Regulatory Policy and Governance encourages governments to "actively engage […] all relevant stakeholders during the regulation-making process and design […] in consultation processes to maximise the quality of the information received and its effectiveness" (OECD, 2012b). According to the OECD regulatory indicators survey, a majority of OECD countries engage stakeholders in developing both primary laws and subordinate regulations. Figure 1.8 presents the trend in the number of countries that have incorporated mandatory public consultation mechanisms as part of developing new draft

Figure 1.8. **Number of countries in which mandatory consultation with parties affected by regulations is part of developing new draft regulations, 2005, 2008-09 and 2014**



Note: Based on preliminary data from 34 countries and the European Commission Chile, Estonia, Israel and Slovenia were not members of the OECD in 2005 and so were not included in that year's survey.

Source: OECD *Regulatory Management Systems' Indicators Survey* 2005 and 2008/09, *www.oecd.org/gov/regulatory-policy/Indicators-RMS.htm*; *OECD Regulatory Policy Outlook* (forthcoming) based on the preliminary 2014 *OECD Regulatory Indicators Survey*.

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regulations. In 2014, all but two and three countries, respectively, had incorporated such consultations in primary laws and subordinate regulations.

Still challenges remain. Even when stakeholder engagement is mandatory it is not always required that the general public be consulted. Eleven countries out of thirty-five in the survey reported always or frequently publishing consultations online with an invitation to comment, and eighteen countries reported using this method only occasionally (see two-pager on stakeholder engagement). Simply granting access to public consultations may not automatically lead to real citizen engagement. Additional barriers (e.g. distance, time, language, and access) could hamper the effective participation of citizens. Therefore, governments should also try both to make sure that citizens are truly able to participate and make participation initiatives more accessible, targeted, relevant and appealing.

In many OECD countries, consultation mechanisms have been created and enriched by new ICTs; however, there is no conclusive evidence showing that these technologies have significantly increased the level of citizen engagement in policy making. For example, many countries publish draft regulations on government websites or experiment with more innovative tools such as social media, crowdsourcing or wiki-based tools; however the extent to which these developments would have a lasting impact on engagement practices is still uncertain. Moreover, stakeholders are still rarely engaged in the final delivery stage of the regulatory governance cycle – implementation and monitoring (see *OECD Regulatory Policy Outlook*, forthcoming). Although the mechanisms of engagement have changed, the nature of the process has remained essentially the same as in the pre-digital era. On their own, ICTs could be considered as a necessary, but not sufficient, condition for attaining a high level of participation and aligning and incorporating the interests of different stakeholders (see two-pager on stakeholder engagement).

Social media practices by governments reveal similar results. While the use of social media platforms is widespread, there is a lack of effective measurement and benchmarking frameworks. This hampers our understanding of institutional social media use (see two-pager on the use of social media by governments). The OECD Recommendation on Digital Government Strategies acknowledges that it is necessary to "encourage the engagement and participation of public, private and civil society stakeholders in policy making and service delivery" through several different mechanisms such as the development of institutional capacities and the development of a digital government "ecosystem" (see OECD , 2014a).

Generating evidence on distributive effects for decision making

Mechanisms to involve stakeholders both benefit from and contribute to evidence on the possible distributive effects of policy. This evidence helps inform the decision-making process, allowing policy makers to better understand impacts and to adjust policy. This includes generating relevant information and using methodologies such as cost-benefit analysis (CBA) to select investment projects, or regulatory impact assessment (RIA) to assess the effects of regulatory policies (see two-pagers on Cost-Benefit Analysis and Regulatory Impact Assessment). If properly designed, such mechanisms can also show the distributional effects of different policy options across different stakeholders. More recently, a new generation of assessment tools allow governments to better understand distributive implications in terms of environmental impacts (EIA), poverty impacts (PIA) or gender (gender-responsive budgeting).

When considering public investment opportunities, OECD countries recognise that CBA is an important tool for deciding the merits of investment projects. Furthermore, many countries (France, the United Kingdom and Canada) have been able to extend the use of CBA beyond the infrastructure projects for which it was originally developed. Such a shift has been triggered by evolving demands from citizens in areas such as environmental protection, technological development and innovation, scientific research and culture and leisure. However, in other countries (Italy, Sweden), CBA remains restricted to large infrastructure projects. As technical problems are often similar across countries, a pool of evidence is thus available for countries seeking to expand the application of CBA to other projects and policies.

While a common core methodological framework for economic appraisal of investment through CBA is generally well developed, certain aspects of it are still under-developed, notably risk analysis (more developed in the United Kingdom, Sweden, Canada, Germany and the Netherlands), or virtually absent, such as the distribution of project outcomes across different groups (available in the United Kingdom only, although some qualitative stakeholder analysis is indicated for Canada) and regional distribution analysis (apparently unknown or only episodically carried out). Generating more and better CBA information and generalising the use of distributional analysis would help improve the understanding of the effects on inclusiveness of a given policy or project (Box 1.1).

In the regulatory area, OECD countries tend to assess the distributional effects of regulation through RIA. However, in the majority of cases this assessment focuses on large groups (i.e. government, business, community) without going into specific population subgroups and without targeting inequality *per se*. Some OECD countries also use RIA to monitor a number of impacts, such as those on: i) disadvantaged social groups; ii) gender equality; iii) poverty; and iv) job creation. However, this practice remains relatively limited and is fraught with methodological issues. Critical challenges involve gathering the relevant information and developing standard models and tools to measure social impacts, quantify the qualitative impacts and tackle the lack of adequate skills and resources within ministries. As a result, broadening the application of impact assessment methodologies to other groups or other areas will require a proportionate approach as promoted in the

Box 1.1. **The use of CBA in the United Kingdom**

CBA has a long intellectual tradition for the evaluation of public investment projects. Under this methodology the desirability of a project is achieved when the total benefits of an intervention, to whomever might occur, exceed the cost of that intervention. Benefits are defined as increases in human well-being (utility) and the trade-offs involved in choosing among different policy options are clearly identified. The United Kingdom has one of the most solid traditions in project appraisal to select investments under budget constraints. The *Green Book* is a reference document for how policies, programmes and projects must be evaluated. Currently, there is no legal requirement for the application of CBA. However, the use of the methods and frameworks set out in the *Green Book* is mandatory for all policies, programmes and projects benefiting from central government support. All proposals involving regulation, spending or public assets are covered and should be based on clear and objective evidence supporting their social value. The peculiarity of the *Green Book* is that it does not define rigid procedures to be followed. Instead, it provides a general and flexible approach for an analytical methodology conducive to objective and transparent decision-making for public investments and for other socio-economic proposals. Instructions are not binding; rather, they are intended as guidelines that reflect the moral suasion that comes from the strong position of the Treasury in the system of financial delegation to spending departments.

The logical sequence of the appraisal process, as pointed out in the latest edition of the *Green Book*, is the following:

- clearly define the objectives of the policy, programme or project under assessment;
- identify a shortlist by systematically considering a long list of options to achieve the identified actions;
- applying social CBA or Cost Effectiveness Analysis (CEA), if appropriate, to the shortlist in order to select the preferred option;
- developing and implementing the solution, which is the selected option;
- paying attention to consultations throughout the preparation of the proposal; and
- using *ex post* CBA as a policy learning tool.

Recommendation of the Council on Regulatory Policy and Governance. For instance, the use of specific assessment tools or criteria for the impact assessment would be triggered once the effects of regulation in a specific field (social, environmental) reach a certain level.

Rebalancing policy processes to give a voice to all groups: the example of gender-responsive budgeting

Another argument for involving key stakeholders in the policy-making process stems from historical and cultural patterns of discrimination affecting specific groups such as women, ethnic minorities and immigrants. These groups have often been excluded from the policy-making process and as a result have experienced the results of systematically biased policy outcomes. In order to redress such patterns, it is important to incorporate balancing mechanisms at all stages of the policy design and implementation process. Gender-responsive budgeting (GRB) is such a mechanism as it incorporates a gender perspective at all stages of the budgetary process. The idea behind GRB is to analyse whether allocations contribute to gender equality. In 2011, the OECD collected data on the extent to which member countries were applying GRB (see OECD, 2013a). At that time, only ten countries reported using GRB.

Implementing GRB would require important changes to how standard processes are carried out as well as the type of information generated. In the first phase, GRB requires building the capacity and sensitivity of key stakeholders and guaranteeing the involvement of civil society as a crucial channel for raising awareness. The analysis by relevant stakeholders of the implementation of policies and the associated outcomes are key to assessing the inequalities generated by policies as well as actions to address those inequalities.

Furthermore, governments have a crucial role in generating the information required to analyse the gender effects of budget proposals. Such information entails that the demand for a given service must be broken down between men and women. Without this information, it is difficult to compare women's demand for the service with the supply budgeted for, and therefore assess the neutrality of budgetary proposals. Finally, GRB should be accompanied by mechanisms guaranteeing the accountability of agencies. All in all, GRB is an example of a process that requires raising awareness and involving relevant stakeholders while generating information to evaluate the effects of public policies on different groups.

The contribution of performance management

Integrating inclusiveness objectives into government performance frameworks can help raise awareness of the impact of resource allocation and implementation decisions in different sectors and for different groups. To be effective, performance budgeting and management should be aligned with high-level, politically agreed key national indicators that focus on the outcomes that matter most to citizens. Implementing enhanced performance management frameworks requires monitoring and co-ordination across government with a strong role from the central budget agency or centre of government to ensure that cross-sectoral dimensions are taken into account.

Performance information is also a key tool for governments seeking to improve transparency and public accountability. In addition to good reporting practices by governments, supreme audit institutions (SAIs), which have traditionally provided important financial accountability and compliance checks, are increasingly conducting performance audits (see two-pager on performance-related budgeting and supreme audit institutions). SAIs taking up this challenge can improve government accountability for major performance objectives, including distributive impacts.

Anchoring inclusive policy making through checks and balances

A strong system of checks and balances is essential for the legitimacy, but also the inclusiveness, of policy making, from problem definition to accurate evaluation. Checks and balances underpin inclusive governance by interpreting and enforcing regulation equally for all, protecting the vulnerable, providing independent, evidence-based inputs and curbing the risks of undue influence and corruption. Increasingly, the challenge is how to not only set up effective structures and mechanisms of checks and balances, but to create an "ecosystem" where these institutions and mechanisms, within their respective functions, reinforce and complement each other.

The role of independent institutions in fostering transparency

Independent bodies have an important role in supporting transparency in a variety of areas. They can be either temporary or permanent. They may include bodies such as productivity commissions or independent fiscal institutions (IFIs). In essence, these institutions can provide an external expert view on the likely effects of policy options and inform the public debate. (see OECD, 2013a). By doing so, they raise awareness among the general public and relevant stakeholders about the consequences of government action.

Public transparency and accountability

Making the decision-making process inclusive requires recognising that it is vulnerable to capture by vested interests. Efforts to make processes inclusive will not work in practice if the access and influence of a powerful few are not averted. The growing inequality in societies and the increasing concentration of resources in the hands of a few creates a vicious circle by which those that hold the resources capture the design and implementation of policies in their favour, further concentrating resources and exacerbating inequality.

Practice has shown that OECD countries are not immune to the risk of policy capture at the expense of the public interest. The 2008 crisis showed the extent of capture of financial policies, although the risk is present to different degrees in countries. The main forms of capture can be averted by managing conflict of interest, enhancing integrity and transparency in lobbying practices and ensuring balanced political finance. The OECD has advanced understanding on each of the elements of the policy-making process and has developed a "better policy-making framework" to mitigate the risks of policy capture at both individual and institutional levels.

Individual resilience against capture and corruption is strengthened through measures to manage conflict of interest, including private interest disclosure by decision makers, follow-up of disclosures, and enforcement in case of non-compliance. The *OECD Guidelines for Managing Conflict of Interest* (OECD, 2003) set core principles for public officials to identify and manage conflict-of-interest situations: serving the public interest, supporting transparency, promoting individual responsibility and creating an organisational culture that resists undue influence and policy capture. Yet, attention is needed on emerging concerns, such as the unbalanced representation in government advisory groups and the "revolving door" phenomenon.

Vested interest groups wield influence through lobbying and providing financial resources to political parties and campaigns. To level the playing field among all stakeholders in the policy-making process, the OECD adopted in 2010 the Recommendation on Transparency and Integrity in Lobbying, aiming at mitigating lobbying-related risks of corruption and undue influence. While lobbying is receiving increasing attention in OECD countries, and recent years have seen an acceleration of regulations to promote transparency, political finance remains a weak point. Money in politics is a double-edged sword. It is a necessary component of the democratic processes, enabling representation and facilitating democratic competition. Yet, if the financing of political parties and election campaigns is not adequately regulated, money may also be a means for undue influence. The OECD has developed a Framework on Financing Democracy that maps relevant risk areas and provides policy options to promote a level playing field, transparency and integrity in the financing of political parties and electoral campaigns to avert policy capture.

The combination of these policy measures, together with effective measures that promote a culture of integrity in the public and private sectors, will curb the risks of capture within the policy-making process and lay a solid foundation for inclusive policy making and growth.

Inclusive policies and results

The context

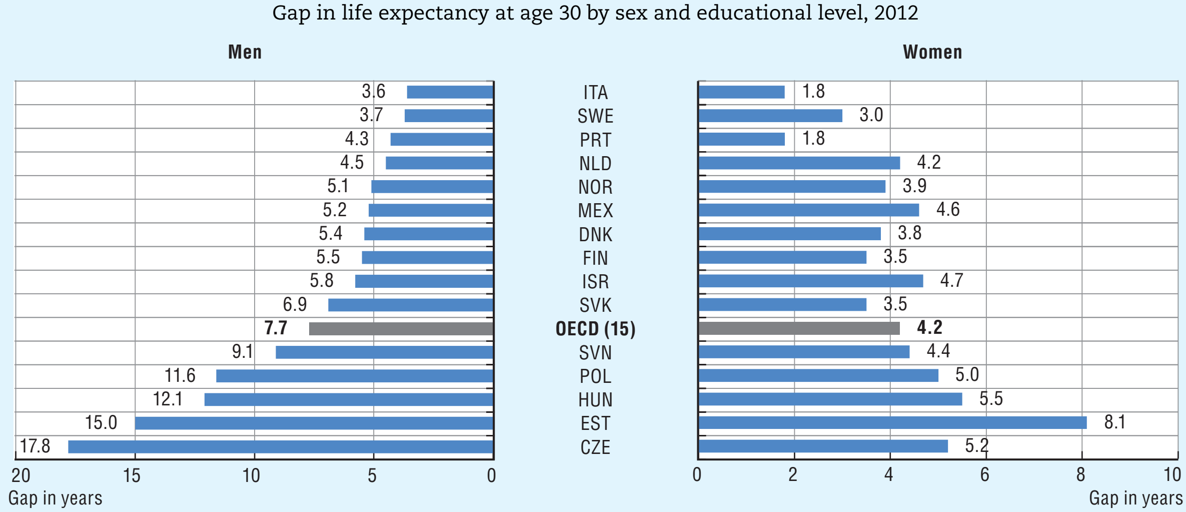
Inclusive processes create better circumstances for making informed public policy decisions, but they do not guarantee inclusive policy results. There is growing recognition that inclusiveness of policy outcomes is a multidimensional concept, affecting not only material living standards but also well-being. This is important, because some population groups tend to accumulate different types of inequalities, hampering government's ability to provide equal opportunities to the entire citizenry. Income and non-income inequalities mutually reinforce each other, possibly perpetuating a vicious cycle of exclusion and inequality. For example, being born in a disadvantaged family still has an impact on a student's performance and access to tertiary education, which, in turn, has an impact on earnings, employment status and life expectancy (Box 1.2). Indeed, recent evidence suggests that income and non-income inequality have a detrimental impact on economic activity, social cohesion and on the functioning of democracies and political fairness (Cingano, 2014; OECD, 2015c; OECD, 2015d).

Box 1.2. **The cumulative nature of inequalities**

Income level, educational attainment, employability and health status are all linked. For instance, the inability to access good higher education for financial reasons can lead to a higher level of unemployment (or more difficult and unstable employment conditions), more stress and more physical and mental health problems. Furthermore, people from low-income groups are more likely to report unmet health care needs than higher-income people, which may further increase health inequalities. One of the most striking inequalities among people from different socio-economic groups relates to their life expectancy. Across 15 OECD countries, people with better education live on average 6 years longer at age 30 than people with the lowest level of education (Figure 1.9). Taking actions to reduce income and non-income inequalities may have a multiplier effect and significantly increase people's well-being.

Figure 1.9. **People with higher education are more likely to earn more and live longer**

Gap in life expectancy at age 30 by sex and educational level, 2012



Note: The figures show the gap in the expected years of life remaining at age 30 between adults with the highest level (tertiary education) and the lowest level (below upper secondary education) of education. Data for the Netherlands are for 2011.

Source: *Eurostat Database*, complemented with national data collected by the *OECD Health statistics* for Israel, Mexico and the Netherlands.

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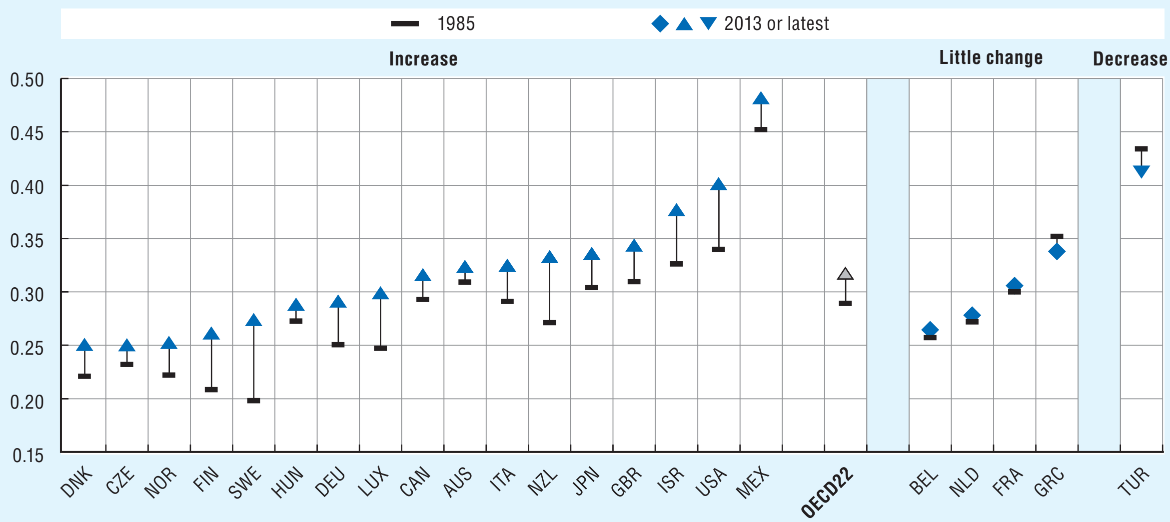
Since the 1980s, income and non-income inequalities have risen sharply in most OECD countries, and even more so if detailed evidence on the top 1% is included (Box 1.3). Even during the recent financial crisis, the highest income group increased its income more (or lost less) on average than people at the bottom of the income distribution. Evidence also suggests that there might be persistent issues of access and equity in service delivery (such as in health care and education) for certain population groups.

Box 1.3. **Medium-term trends in income inequalities in OECD countries**

Income inequalities have reached, in the aftermath of the Great Recession, levels that we have not seen since the end of the 19th century. Evidence shows that, in developed countries, income inequalities have reached almost unprecedented level in recent years. The GINI coefficient increased from 0.29 in the mid-1980s to 0.32 in 2013 on average in OECD countries, with a value of one equalling the highest level of inequality possible (Figure 1.10) (OECD, 2015c). This increase affected nearly all countries, including those that used to have relatively low levels of inequality (e.g. Nordic countries). Countries that already had high levels of inequality in the mid-1980s have also seen an increase (Mexico, the United States, Israel, and United Kingdom).

Figure 1.10. **Income inequality increased in most OECD countries between 1985 and 2013**

Gini coefficients of income inequality, mid-1980s and 2013, or latest year available



Note: Little change in inequality refers to changes of less than 1.5 percentage points. Data year for 2013 (or latest year).

Source: OECD Income Distribution Database (IDD), 2015, *www.oecd.org/social/income-distribution-database.htm.*

StatLink http://dx.doi.org/10.1787/888933248026

Another way to measure income inequality is to look at the evolution of earnings at the top (1%, 10% or 20%) and at the bottom. A recent OECD study shows that the share of the richest 1% in total pre-tax income has increased in most OECD countries in the past three decades (OECD, 2015d). Moreover, in 2010, the average income of the richest 10% of the population was equivalent to 9.5 times the income of the poorest, up from 7 times twenty-five years ago (OECD, 2011a; OECD2015d) – similar to levels in the late 19th century (Piketty, 2014).

During the recent financial and economic crisis, the gap between the richest and the poorest has continued to widen. On average in OECD countries, between 2007 and 2011, people in the top 10% of the income scale suffered a smaller decrease in relative income than people in the bottom 10% (see chapter 11: Core government results – Income redistribution).

The income gap and a greater concentration of income and wealth at the top may undermine political fairness and participation in the political process. Concentrated wealth may increase the risk of policy capture by the wealthiest individuals and large corporations. It can translate into a greater ability to shape election results, legislative priorities and favourable regulations (Glaeser, Scheinkman, and Schleifer, 2002; You and Khagram, 2005). In addition, when people have the feeling that economic gains inevitably go to the wealthiest, this may lead to disillusionment with politics and lower turnouts at elections, thereby further increasing the power of the wealthiest to influence public decisions (Reich, 2013b). In the words attributed to Louis Brandeis (former United States Supreme Court Justice): "[…] we may have a democracy, or we may have great wealth concentrated in the hands of a few, but we cannot have both" (Dilliard, 1941).

Increased inequality affects perceived fairness, with risks for real fraud and corruption and reduced confidence of citizens in public authorities. Rising income inequalities and unequal access to key services such as education and health may foster greater public dissatisfaction and greater polarisation of political opinions, possibly leading to higher social instability (OECD, 2015d). Greater inequality in income and wealth leads people to feel less constrained about cheating others (Mauro, 1998) and about evading taxes (Oswiak, 2003; Uslaner, 2003). Using evidence from the *World Values Survey* and the World Bank measures of corruption, You and Khagram (2005) found that inequalities have the same negative impact on perceived and real corruption as the level of development of a country.

In addition to its impact on the good functioning of democracies, rising inequalities may also affect economic growth (Box 1.4). Governments possess a range of policy levers to prevent the rise of inequalities and also to reduce them (notably through income redistribution and in-kind transfers), but evaluating the trade-offs and synergies among different policy options can help to better deliver the expected results.

Box 1.4. **Exploring the impact of inequalities on economic growth**

Some studies have pointed to possible negative effects of rising income inequalities on economic growth in developed countries. A recent OECD study estimated that lowering inequality by 1 Gini coefficient point (the main measure of income inequalities) could translate into an increase in cumulative growth of 0.8 percentage points of GDP in the following 5 years (or 0.15 points per year) (Cingano, 2014). This study also suggests that lowering inequality by increasing the income of people at the bottom of the income distribution has a greater overall positive impact on economic performance, because this category of people tend to consume a greater proportion of their disposable income, than reducing the income of those at the top of the income scale. Inequalities can have a detrimental impact on domestic demand, productivity (less investment in human capital from low-income people) and investment (Cingano, 2014; OECD, 2015c).

New evidence also suggests that greater income redistribution and transfer payments have no negative impact on economic growth, especially in countries with already high levels of income inequalities. A recent study carried out by the International Monetary Fund found no evidence of a trade-off between redistribution and economic growth in OECD countries (Ostry et al., 2014). On the contrary, greater redistribution has a direct and indirect (through lower inequalities) positive effect on economic growth. These results were obtained by using a measure of redistribution that captures only direct taxes and transfers, without looking at the redistributive effects of in-kind government provision for health and education, which, in theory, would further strengthen this conclusion.

Policy levers to reduce income and non-income inequalities

Governments have a range of tools for reducing income and non-income inequalities, including:

1. tax and social transfer policies (in the form of unemployment insurance, social assistance, wage subsidies, family benefits and pension benefits, tax credits, etc.);
2. employment policies and policies affecting the wage-bargaining process;
3. in-kind benefits through public services and spending for education, health and other important services, either delivered publicly or privately;
4. regulatory levers such as reducing barriers to accessing economic opportunity; and

5. more broadly, strengthening the rule of law, reducing special status or loopholes, and ensuring inclusive policy development processes and effective policy implementation (see section on inclusive policy-making processes).

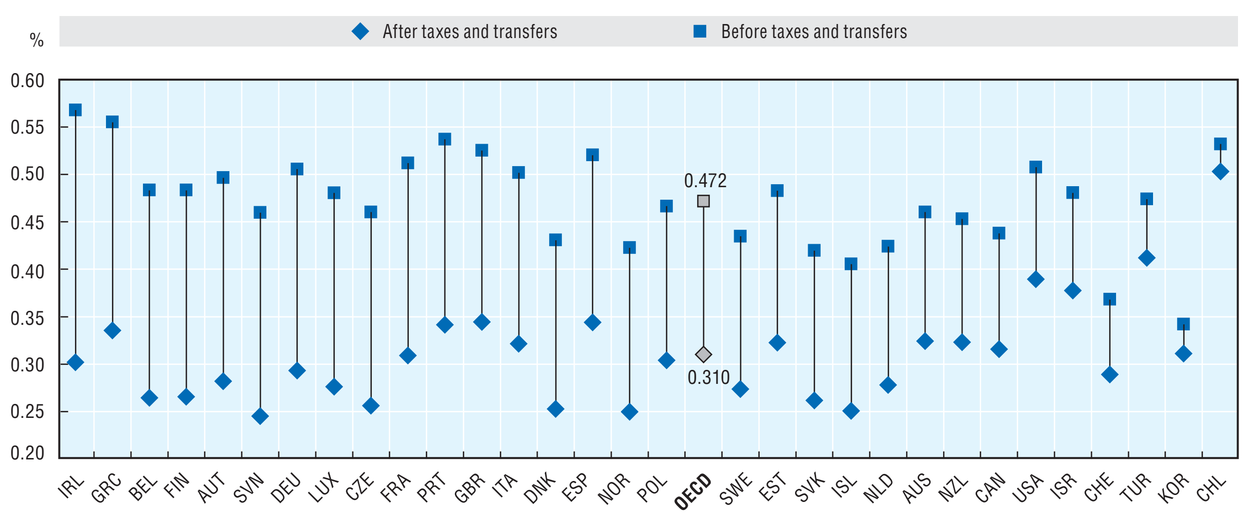
As many observers have pointed out, reducing inequalities cannot be done through taxes and government transfers alone; a broader and multidimensional approach is most likely required for greater impact, including public services such as employment, education and health care policies combined with effective policy design and implementation (Reich, 2008; 2013; Piketty, 2014; OECD, 2008a; 2012; 2015d). Assessing the trade-offs, synergies and complementarities between these different policy levers is crucial.

Designing tax-and-transfer systems for efficient redistribution

Government can redistribute income through tax and social transfer policies. When adequately designed, public cash transfers, as well as income taxes and social security contributions, can play a significant role in reducing market income inequality (Figure 1.11). The effects of a government's income redistribution policy can be measured by comparing the Gini coefficient before and after taxes and transfers. In 2011, most OECD countries were able to achieve a sizeable reduction in market income inequalities through taxes and transfers, with the exception of Chile and Korea (however, in Korea, the market income inequality before taxes and transfers was much lower than in other countries). The largest reductions that could be attributed to government intervention by taxes and transfers took place in Ireland (26 p.p.) and Greece (22 p.p.), both severely affected by the global financial and economic crisis.

Figure 1.11. **Differences in income inequality pre and post-tax and government transfers**

2011



Note: Data for Belgium are for 2010 rather than 2011. Data for Australia and the Netherlands are for 2012 rather than 2011.
Source: OECD, *Income Distribution Database.*

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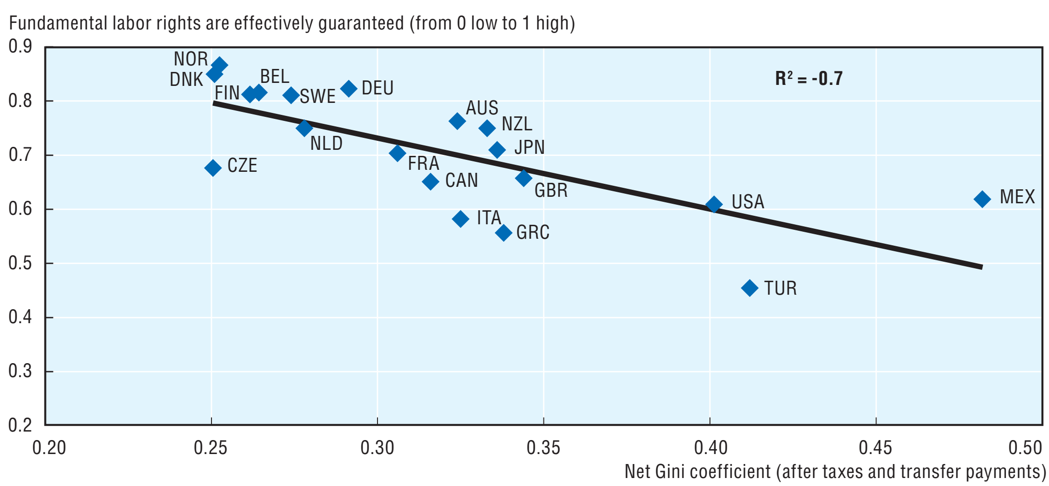
However, compared with the 1980s, the tax and transfer systems in many OECD countries have become less redistributive, while market income inequalities were rising. The rapid increase of market income inequality from the 1980s to the late 2000s has not been counterbalanced by more redistributive fiscal policies in most OECD countries. Market income inequality continued to rise, but the stabilising effect of taxes and transfer payments on household income inequality has mostly declined, especially since the mid-1990s. Moreover, despite the large gains of high-income earners in some countries, income taxes played a relatively minor role in moderating trends towards higher inequality due notably to tax rates for high earners which have come down considerably over time (OECD, 2012a). Changes in the number of unemployed and reforms to benefits eligibility criteria also appear to have had a major impact on the evolution of net income inequality in some OECD countries (OECD, 2011a).

The role of labour market arrangements

Protecting workers' rights may also be an important lever for both reducing market income inequalities and more redistributive tax and social transfer policies. Some evidence suggests that the loss of power and influence of labour unions over the past few decades might have been one factor explaining growing income inequalities before and after tax (Reich, 2013b). As a result, employers have been under less pressure to increase wages over time. The protection of labour rights, including the right of workers to bargain collectively, is a fundamental part of the rule of law and guarantees that their voice is effectively heard. Generally, using data from the World Justice Project and from the *OECD Income Distribution Database*, countries where the fundamental rights of labour unions are highly respected tend to report lower levels of income inequalities (Figure 1.12). Court rulings and labour legislation have historically been influenced by government actions playing the role of mediator in any negotiations and conflicts between employers and labour unions.

Figure 1.12. **Searching for evidence... Can better protection of labour rights help reduce income inequalities?**

Correlation between effective protection of labour rights (composite) and net income inequalities



Note: Data from the Rule of Law Index is for 2014. Data for the Net GINI coefficient is for 2013.
Source: World Justice Project; OECD *Income Distribution Database*.

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Employment policies and higher minimum wage can have multiple effects on inequalities (but trade-offs and synergies should be assessed carefully). A key challenge for policy makers is to facilitate and encourage access to employment for under-represented groups (OECD, 2011a). Governments can encourage policies to increase the employment rate of populations with an immigrant background, those from lower socio-economic groups and young people. In addition, helping women better reconcile their work and family lives is key to creating an economy where everyone can be involved and contribute to economic activities. Also, as discussed in previous sections, focusing on the evolution of income at the bottom of the income distribution is crucial to combat inequalities effectively (OECD, 2015d). One way to raise the income for those on low wages is to raise minimum wages. However, trade-offs needs to be assessed very carefully and the effectiveness of such policies may vary across countries. Higher minimum wages may further cut people from work and may lead to a growing informal sector. Recent evidence suggests, however, that in some countries a relatively high minimum wage might be very effective in narrowing the distribution of labour income (OECD, 2012a).

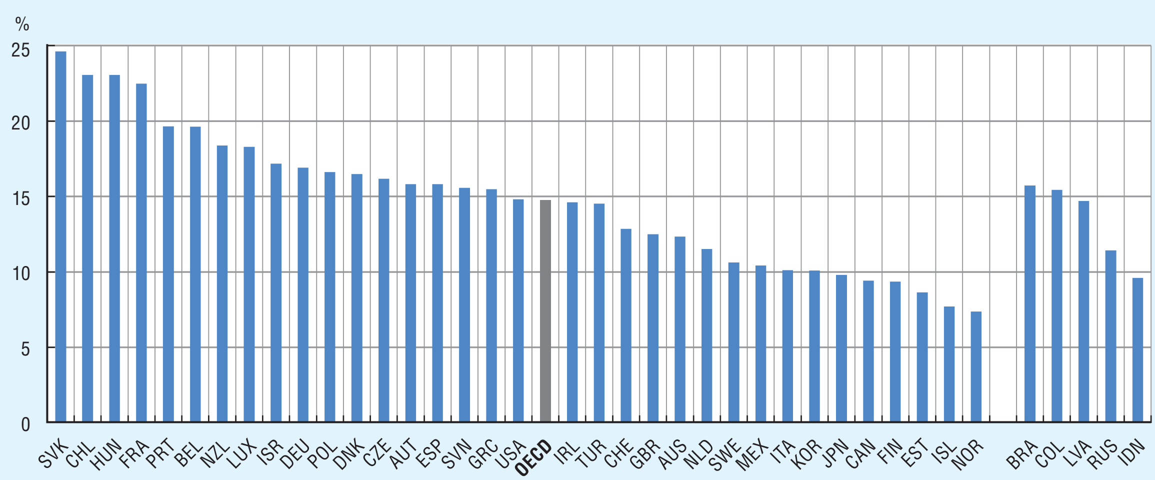
Investing in human capital and ensuring equal access to education

Government support for education and skills development, especially among vulnerable groups, is crucial in the long run to fight income and non-income inequalities. Evidence suggests that students from lower socio-economic backgrounds still perform below their peers and are less likely to enter and complete tertiary education (Box 1.5).

Box 1.5. **The persistent performance gap of students coming from a lower socio-economic background may have an impact on their ability to access tertiary education and the labour market**

Access to higher education depends at least partly on how well students perform in elementary and secondary school. Socio-economic background remains a good predictor of students' performance in school. On average across OECD countries, about 15% of the variation in students' performance in mathematics can be explained by their socio-economic background (OECD, 2014b) (see Chapter 12: Serving Citizens) (Figure 1.13). Moreover, growing up in a disadvantaged family where the parents have low levels of education also often means having fewer financial resources for pursuing higher education. This situation is aggravated if the education system does not provide sufficient support for students from disadvantaged backgrounds to equalise opportunities to access higher education.

Figure 1.13. **Percentage of variance in PISA mathematics score explained by socio-economic background, 2012**



Source: OECD (2014), PISA, *What Students Know and Can Do* (revised edition), OECD, Paris.

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The socio-economic background of students significantly influences their access to tertiary education and their future income levels in most OECD countries. Despite significant improvement in access to education over the past fifty years, in 2013, more than 50% of students enrolled in tertiary education had at least one parent with that level of education, whereas only 10% of children whose parents have not completed their secondary education are enrolled in university. Parents' level of education and socio-economic background also have a strong impact on the employment status and earnings of their children. In some countries, the wage "premium" associated with growing up in a better-educated family is more than 20% (OECD, 2010a).

Studies carried out at the OECD demonstrate that more educated people earn more, are less likely to be unemployed over their lifetime, are in better health, trust other people more and participate more actively in social activities (OECD, 2015d). Therefore, improving access to early childhood education, ensuring the equitable distribution of instructional resources, raising the quality of the teaching workforce through lifelong learning programmes and increasing access and financial support to tertiary education students may help foster a more equal society. Many countries have introduced significant cuts between 2007 and 2013 in spending in education as part of broader austerity programmes, which may have an impact on their ability to compete and prosper in an increasingly knowledge-based economy and exacerbate inequalities over the medium and long run.

Ensuring financial and geographic access to health care

Ensuring access to health care for all the population, regardless of their ability to pay and geographic location, improves people's opportunities to participate in the labour market and to benefit from economic and employment growth. In all OECD-EU countries low income people are more likely to report unmet care needs due to financial barriers (Box 1.6). Governments can improve access to needed health services by reducing financial barriers. In contrast to publicly funded care, which in theory is based on need, direct out-of-pocket (OOP) payments by households rely on people's ability to pay. If the financing of health care becomes more dependent on OOP payments, the burden shifts, in theory, towards those who use services more and possibly from high- to low-income households that often have greater health care needs. In 2012, about 3% of total household consumption was dedicated to medical spending on average in OECD countries (see Chapter 12: Serving citizens). In some countries that have been hit particularly hard by the crisis and where public coverage for certain health services and goods has been reduced, the share of OOP spending has increased in recent years.

Access to medical care also requires an adequate number and proper distribution of physicians in all parts of the country. In OECD countries, the density of physicians is consistently greater in urban regions, reflecting the concentration of specialised services such as surgery and physicians' preferences to practice in urban settings. In many OECD countries, different types of policy tools have been used to attract and retain physicians in underserved areas. These include the provision of financial incentives such as one-time subsidies to help them set up a practice and recurrent payments such as income guarantees and bonus payments (OECD, 2013b).

Fostering a whole-of-government approach to regulatory policies for greater impact

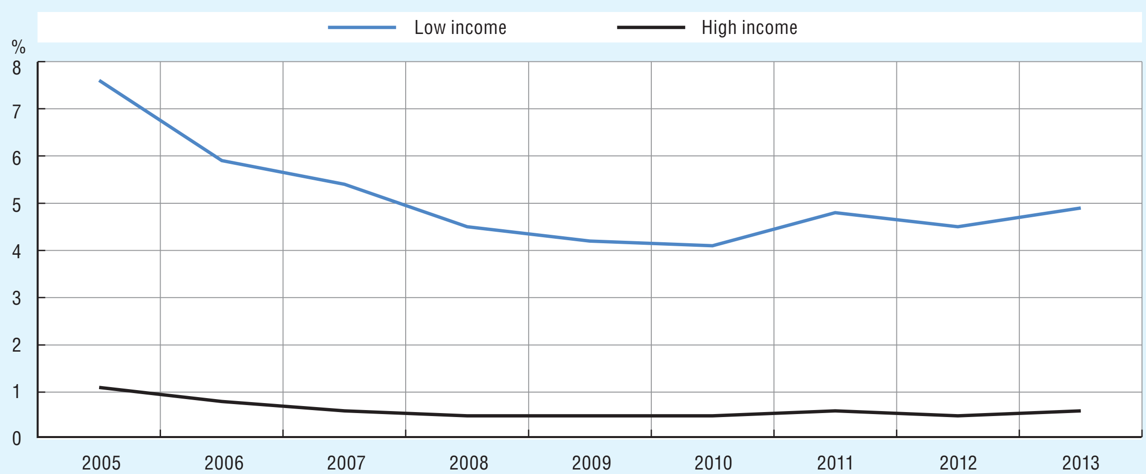
Regulatory policies in a wide range of areas such as the labour market, product markets, education and health are powerful tools for governments to foster more equal economic opportunities and reduce discrimination. The financial and economic crisis of 2008 has reinforced the need for and importance of a well-functioning regulatory framework for transparent and efficient markets with the right incentives. Fair, transparent and clear regulatory frameworks are also a basic condition for dealing effectively with a society's economic and social challenges. For instance, evidence suggests that quality regulations can have a significant positive impact on reducing race and gender discrimination in the labour market by introducing specific favourable measures for these population groups (OECD, 2014f). In addition, regulatory policies can also influence income distribution directly, e.g. through deregulation in product markets, changes in social

Box 1.6. **After years of improvement, self-reported unmet care needs for low-income people have increased in EU countries between 2010 and 2013**

Financial access to health care deteriorated in several OECD countries during the Great Recession. While nearly all OECD countries have achieved and maintained universal coverage for health care, many have reduced the level of coverage for different services and pharmaceutical drugs, thereby increasing the burden of direct out-of-pocket (OOP) spending by households. This may create barriers to health care, particularly for low-income groups which must pay a higher share of their disposable income on health care when direct OOP payments increase. In all European countries, people with low income were more likely in 2013 to report unmet care needs than people with high income (Figure 1.14). The gap was particularly large in Hungary, Italy and Greece. The most common reason reported by low-income people for unmet health care needs is cost. On average across EU countries, people with low incomes are eight times more likely to report unmet care needs for financial reasons than people from high-income groups in 2013.

Figure 1.14. **On average across EU countries, people with low incomes are eight times more likely to report unmet care needs for financial reasons**

Unmet care needs for financial reasons by income level (EU27 average) (2005-13)



Source: *EU Survey on Income and Living Conditions* (EU-SILC), 2013.

StatLink http://dx.doi.org/10.1787/888933248049

Health systems in OECD countries differ in the degree of coverage for health services and goods. In most countries, public coverage is higher for hospital care and doctor consultations, while direct OOP payments are higher for pharmaceuticals, dental care and eye care (glasses), resulting in a relatively greater proportion of people reporting unmet care needs for the latter group of health services and goods.

transfers, wage-setting mechanisms, or workers' bargaining power (OECD, 2015d). Connecting various regulations together and ensuring that their distributive effects are assessed rigorously and systematically is key to fostering more inclusive growth and more inclusive societies.

Strengthening the rule of law and ensuring effective policy enforcement

Designing inclusive public policies taking into account their distributional effects is important, but may end up having little impact if the policies are not enforced effectively. For example, raising the top income and capital tax rates without improving compliance mechanisms and combatting tax evasion may not reduce income inequalities.

Conclusion

Creating conditions for inclusive growth has many implications for governments. For example, this could involve building a government workforce that is more representative of society. It could also mean developing policies in new ways that are based more on evidence, constructive dialogue and the participation of citizens, and that promote increased transparency and accountability. Governments could also try to increase inclusiveness by ensuring that the distributional effects of each policy and decision on income and non-income inequalities are systematically and rigorously evaluated. Traditionally, governments look at the effects of a given policy on particular outcomes in isolation. However, addressing inequality requires a more integrated, "whole-of-government" approach that measures the multi-dimensional impacts, trade-offs and synergies of public policies. For instance, fiscal policies may affect environmental, health and education outcomes. Higher public health spending can have potentially positive effects on employment and incomes, but may also imply higher taxation and hence less material consumption. Moreover, the emphasis of these distributional impact assessments should probably be on the distribution points (i.e. the median income) rather than the mean. The release of the OECD multi-dimensional living standard focusing on median household income and on three well-being dimensions (unemployment, household income and life expectancy) goes in that direction (OECD, 2014).

The evidence on the available strategies and tools is incomplete, and more data is needed to better chart the relationship between government action and inclusive growth. Awareness of the stakes for rebuilding citizen trust and improving policy effectiveness, however, is a starting point. Improving access to public services and strengthening the quality and effectiveness of those services, for example, not only have a direct impact on outcomes such as life expectancy and education attainment, but also seem to improve social inclusiveness in other ways such as strengthening labour market access and participation, reducing gender gaps and improving overall life opportunities and social mobility. These are desirable outcomes in and of themselves, but are also increasingly proving to be necessary ingredients to overall improvements in growth and well-being. In order to achieve a better understanding of the public sector's impact on inclusive growth, governments need to continue searching in this direction, while collecting the evidence necessary to inform better inform their efforts.

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