OECD/EUROPEAN UNION HIGH-LEVEL CONFERENCE

Inequality in Emerging Economies: What Role for Labour Market and Social Policies?

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INTRODUCTORY REMARKS

by

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Ladies and gentlemen,

On behalf of the OECD, it is my pleasure together with Lenia Samuel, Deputy Director General (DG Employment, Social Affairs and Equal Opportunities), to welcome you here today to this high-level conference on inequality in emerging economies. This event is the highlight of our joint project with the European Commission looking at the determinants of, and policy options to reduce, inequality in Brazil, China, India and South Africa. The project is an extension and complement of the work we have done for the OECD countries which resulted in our 2008 publication *"Growing Unequal?".* It is also an integral part of increasing the OECD's dialogue and cooperation with emerging economies, a process through which the Organisation would like to enhance engagement with the new global players.

I am delighted that we have brought together for this conference experts and policy-makers from the emerging economies, delegates from the OECD and the European Commission, as well as representatives from the World Bank, the ILO and from the social partners.

The topic of this conference -- the role for labour market and social policies in tackling inequality -- is of great importance for OECD and non-OECD countries alike. As documented in *Growing Unequal?,* inequality has been on the rise in many countries over the past decades, confronting policy makers with a formidable challenge. The global economic crisis has only added to this challenge and has made policy action more urgent.

Globalisation and growing interdependence of countries in economic relations have the potential for improving people's lives all over the world. Trade and investment flows grew very rapidly over the past decade in the four countries we are discussing today. This has spurred trade and financial markets integration and increased these countries' weights in the world economy. China and India grew at annual rates which reached two-digit levels in the years prior to the crisis. Economic growth in Brazil and South Africa was more volatile during the past decade but still impressive. As a result, all four countries have experienced substantial increases in GDP per capita, reducing the gap with OECD countries. However, despite the impressive growth spurts, convergence in GDP per capita with OECD countries is still a distant target. In India, GDP per capita is still only 8% of the OECD average, in China it is 16%, while in Brazil and South Africa it is about 25%.

But economic growth is only part of the story. Globalisation has also generated imbalances, both between and within countries. Strong economic growth has helped to reduce extreme poverty significantly in China, India and Brazil, and to a lesser extent in South Africa. But inequalities in income and consumption have increased since the early 1990s, even though Brazil has been very successful in reducing income inequality over the past 10 years and, more recently, China has also seen a decrease of inequality.

Much of the increase in income inequality in emerging economies is linked to the fact that workers do not have equal access to productive job opportunities and thus do not benefit evenly from economic development. Many people with low skills, in particular, remain trapped in precarious jobs, often in the informal and un-regulated economy. In such jobs, even full-time employment tends to be insufficient to lift households out of poverty. Thus, creating accessible, productive and rewarding jobs is key to escaping poverty and reducing inequality – a message that is true for emerging economies and OECD countries alike.

Let me now turn to the possible roles of labour market and social policies in tackling inequality.

Increasing inequality is not inevitable. From our analysis of OECD countries' experiences, we know that governments can play an important role in countering inequality trends. Providing income support to job losers and helping them enhance their human capital and regain employment are examples of what governments can do and have been doing, especially during the current crisis. Tax and benefit systems and other social policies are tools that help reduce poverty risks among households with low earnings. If well-designed, these measures will also preserve the incentives for people of working-age to seek employment opportunities.

But in many emerging economies, labour market and social policies have a limited reach because of the large share of the informal sector which by definition excludes workers and their families from access to most social benefits and services. The first and foremost task for policy makers in these economies is thus to make labour markets more inclusive and to create incentives to reduce informality. This message was an important theme at the first G20 Labour and Employment ministerial in Washington in April 2010. Informal workers need to have the necessary legal, financial, and educational means to access formal sector employment. Higher formal sector employment also requires better incentives for firms to become formal. Often, measures such as simplification of the tax system and a reduction of the often burdensome product market regulation will help encourage employers to move into the formal sector.

Another limiting factor for extensive and effective social safety nets in many emerging economies is the limited availability of resources competing with many other important demands, for example education, infrastructure or health, to mention just a few. This is a challenge which not only emerging economies are facing. In a major fallout from the recent recession, OECD countries too are struggling with how to make these hard decisions and direct resources into the most efficient uses as they move from a period of fiscal stimulus towards fiscal consolidation and the imperative need to cut public debt. In this task, it will be important to ensure that cuts in public spending and any increases in taxes do not have major negative repercussions on inequality.

As we will see during the course of this conference, Brazil, China, India and South Africa have different labour market and social policies in place. All four countries have experimented with new and innovative programmes to reach out to the most vulnerable groups in their societies, such as the Brazilian *Bolsa Familia*, a highly successful conditional cash transfer programme, the Indian rural employment scheme which contributes to the development of local infrastructure, the South African universal old-age pension as well as the child grants which play an important role in poverty reduction, and the dibao social assistance programme and the recently introduced rural pension in China. These new approaches and their implementation offer interesting lessons both for emerging economies and OECD countries and will hopefully show how beneficial policy dialogue across countries can be.

As we finalise this important joint project, we are looking forward to hearing your views and experiences to better understand what drives inequality in four major emerging economies, and learn more about which policy responses work to promote more balanced growth and equal opportunity for all.