OECD WORKSHOP ON INCLUSIVE GROWTH

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Session Notes

OECD
BETTER POLICIES FOR BETTER LIVES

FORDFOUNDATION

INTRODUCTION

A NEW VISION FOR GROWTH

"Rising unemployment and increasing inequalities have been around since long before the global economic crisis generated deep social concerns. It is time to change this reality and make better policies to achieve Inclusive Growth". ***Angel Gurría, OECD Secretary-General***

"If we are serious about creating lasting prosperity and security, we need a smarter and more sustainable approach to growth—one that taps the potential of everyone to contribute to society and build a better future". ***Luis Ubiñas, President, Ford Foundation***

The OECD is a multi-disciplinary international institution that produces independent evidence-based analysis. It is building on its recent work on growth, inequalities and well-being, to develop a policy framework for Inclusive Growth that combines strong economic performance with improvements in living standards and outcomes that matter for people's quality of life (*e.g.* good health, jobs and skills, clean environment, efficient institutions).

The Organisation offers new ways of thinking to approach global challenges and helps governments in their efforts to find sustainable solutions to their problems. It brings policy makers together and uses evidence-based analysis to identify what works and what does not, to adapt existing tools to new challenges, and to build consensus on instruments, best practices and standards to help governments design and implement "Better Policies for Better Lives". Investment in people underlies the OECD's "go social" principle of economic and governance reforms, while systemic public policy changes align with the Organisation's "go structural" principle. Far-sighted consideration of environmental implications to growth embodies the OECD's "go green" imperative.

Launched with the support of the Ford Foundation, the Inclusive Growth project is part of the recent OECD initiative on "New Approaches to Economic Challenges" (NAEC), which seeks to upgrade and strengthen the analytical frameworks that underpin OECD analysis and policy advice **(Box 1)**. NAEC's objective is to develop a strategic policy agenda for sustainable, inclusive growth. The financial and economic crisis was the key motivating factor behind NAEC. It also aims to identify policy options to address global challenges, such as slow growth, high unemployment and increasing inequality, as well as the rise in interconnectedness and complexity of the world economy.

A CONSULTATIVE PROCESS

The Inclusive Growth project contributes to the debate on how to define and measure the concept and seeks to improve our understanding of the tradeoffs and complementarities that exist between pro-growth and pro-inclusiveness policies.

This first *OECD Workshop on Inclusive Growth* will engage a diverse group of OECD and international experts, senior government officials and policy makers, corporate and philanthropic foundations, non-governmental organisations, and representatives from civil society, international institutions and regional banks to discuss the concept of Inclusive Growth and its measurement challenges. The *Workshop* will also provide an opportunity for participants to reflect on the elements of a policy framework for Inclusive Growth and the potential obstacles to the design and implementation of policies to deliver Inclusive Growth.

A second Workshop is planned for late 2013 or early 2014 and will build on the insights and lessons learned from the first Workshop. It will focus on specific issues related to Inclusive Growth policies and options for mainstreaming them in policy design and implementation.

Box 1. New Approaches to Economic Challenges

New Approaches to Economic Challenges (NAEC) aims at continuously improve OECD analytical frameworks and policy advice. The global financial and economic crisis was the key motivating factor for NAEC, but the reflection process also provides the OECD with an opportunity to adapt OECD analyses and policy advice to evolving policy challenges and developments.

NAEC is pursued at a time when OECD member and partner countries are confronted with several interlinked policy challenges related to the hesitant recovery of the global economy, persistent joblessness and fragile public finances in most advanced economies, persistent poverty in developing countries, and growing inequality almost everywhere. New sources of growth are necessary to put economies back on a strong, inclusive and sustainable growth path to support the well-being of citizens. The need to upgrade the regulatory capacities of governments and to restore confidence in markets and institutions further adds to current policy challenges.

NAEC seeks to address these and other issues in a horizontal manner. It will draw lessons from the crisis, examine the potential for mainstreaming new economic tools and approaches in OECD analysis and advice, improve our understanding of policy tradeoffs and complementarities, and develop recommendations to help governments identify, prioritise and implement reforms. In doing so, it will draw on the expertise of the OECD, as well as the accumulated experience of its member and partner countries in various interconnected policy areas.

CONTEXT: WHY INCLUSIVE GROWTH?

THE GLOBAL CRISIS: A WAKE-UP CALL

Society continues to feel the effects of the global crisis. There are more than 200 million people worldwide who are out of work, 15 million more people in OECD countries who are unemployed today than when the crisis began in 2008, and millions more in developing countries who have fallen into poverty. Weak prospects for global growth are expected to push unemployment beyond today's already high levels, leaving an additional 5.1 million unemployed in 2013 and 2.9 million in 2014.[1] The risk of entrenched unemployment – a condition that further aggravates poverty and inequality – is high in many countries.

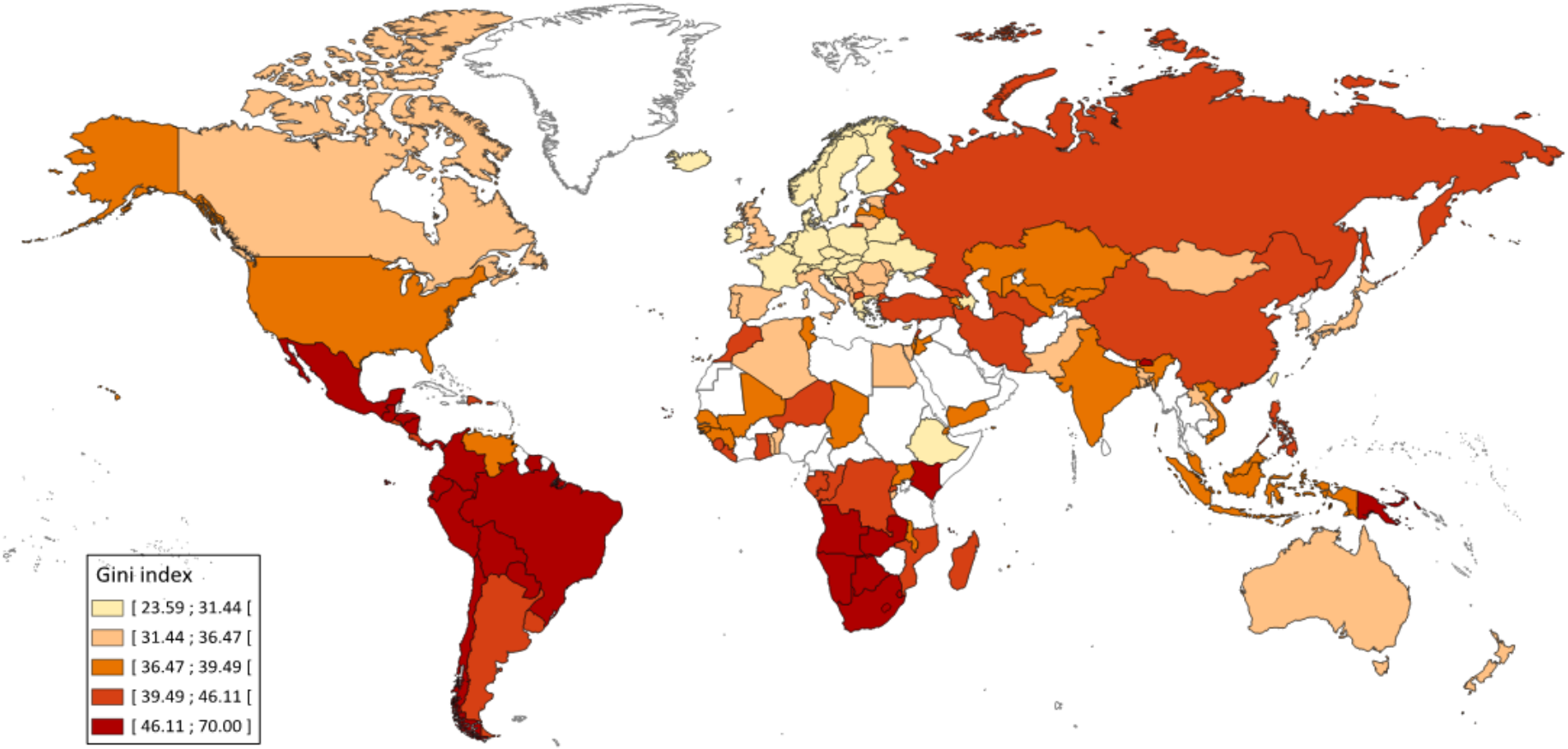
The global crisis and its tragic human legacy followed a long period of global prosperity, the so-called "Great Moderation". During this time, sustained economic growth led to a substantial increase in average living standards worldwide and a reduction in extreme poverty in the developing world. The first Millennium Development Goal (MDG) target of halving the 1990 poverty rate by 2015 was attained.[2] During the same period, despite a rise in the world population of more than 2 billion, the number of people living in extreme poverty decreased by 650 million to 1.3 billion.

GROWING UNEQUAL AMID RISING PROSPERITY

Income inequality differs greatly across countries (**Figure 1**). Over the past 15 years, the benefits of sustained economic growth have not been distributed evenly, and in OECD countries the gap between rich and poor has reached its highest level in 30 years: the average income of the richest 10% of the population is now about 9 times that of the poorest 10%.[3] Some countries are more unequal than others, but most have experienced an increase in income inequality, even traditionally egalitarian countries, such as Germany, Denmark and Sweden (**Figure 2**). Income inequalities have also increased in emerging economies and developing countries, except in Brazil, Chile and Mexico, where it has decreased over the past 15 years. Despite this reduction, these countries still remain among the most unequal societies in the world.

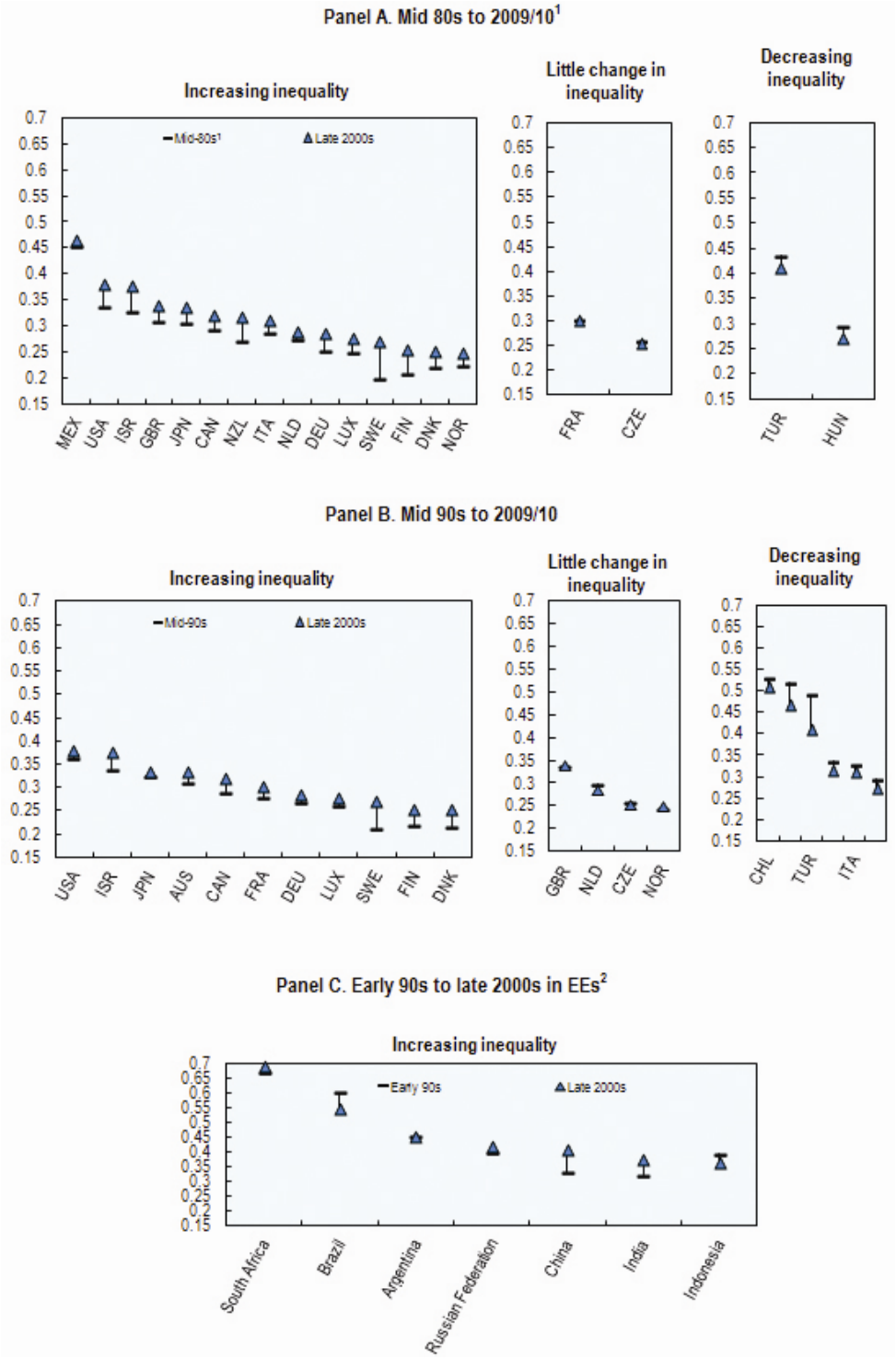
Figure 1. The state of income inequality in the world

GINI Coefficient (Mid to end 2000)



Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map. Gini coefficients for OECD countries are from the OECD Database on Income Distribution and are based on equivalised disposable household income for 2008 or latest date available. Gini coefficients for BRIICs countries are from *Divided We Stand* (special focus: inequality in emerging economies) and are based on per-capita income or consumption (China). Gini coefficients for remaining countries and territories are from Standardised World Income Inequality Database (SWIID) for 2005-10 and are based a variety of sources and concepts, standardised to come close to household disposable income. As sources and methods are not strictly comparable across all countries, figures should be interpreted with caution.

Figure 2. Income inequality has increased in most OECD countries



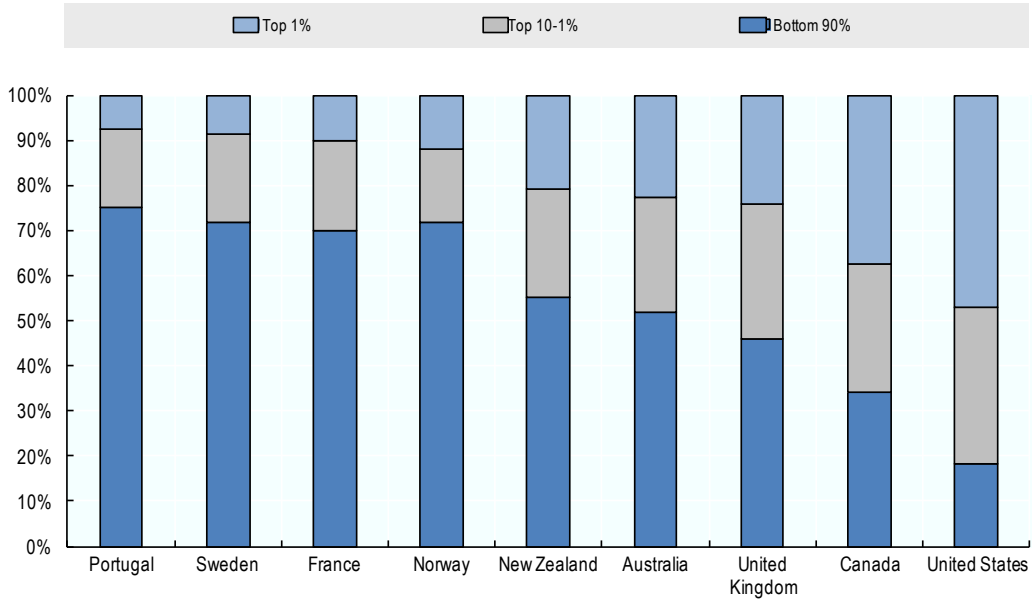
Note: Panel A. and B, for OECD countries, income inequality is measured by the Gini coefficient based on equivalised household disposable income, after taxes and transfers. These standardised indicators may therefore differ from the estimates shown in Figure 1. In Panel A, data refer to 1992 for the Czech Republic and to 1991 for Hungary. Panel C. Figures for BRIIC countries for the early 1990s generally refer to 1993, whereas figures for the late 2000s generally refer to 2008. Gini coefficients are based on per capita income, except for India and Indonesia, which is based on per capita consumption; therefore the data are not strictly comparable.

Source: OECD Income Distribution Database, OECD (2011): "Special Focus: Inequality in Emerging Economies", in OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing; World Bank, World Development Indicators (WDI) Database

An increasing concentration of income among the top-income earners has contributed to rising inequality in some OECD countries. The largest gains were reaped by the top 1% of the population, and in some countries by an even smaller group: the top 0.1% of earners.[4] In the United States, the top 1% of the population received 18% of pre-tax income in 2008, up from 8% in 1980, a share that mirrors the high levels seen in 1913 before the onset of the Great Depression (**Figure 3**).[5] The income share accruing to the top percentile is well above 10% in Northern America, Ireland and in the United-Kingdom, while concentration of income is less pronounced in the rest of Europe.

Figure 3. Who is coming out on top?

Share of growth captured by income groups in selected OECD countries from 1976 to 2007



Note: France (1976-2005), Portugal (1977-2005), Spain (1981-2007).

Source: OECD (2013), *Top incomes*, forthcoming.

POVERTY HAS BEEN REDUCED BUT NOT ELIMINATED

Although extreme poverty has fallen at the global level, it still remains high in many countries. In Sub-Saharan Africa, almost half of the population still lives on less than USD 1.25 a day. Extreme poverty also remains severe in South Asia, and India is home to one-third of the world's poor. Despite some gains, nearly a billion people still go to bed hungry, and one out seven people in the world is starving.[6] In contrast, some fast-growing and highly populated countries like China have a seen a significant reduction in the share of the population living on less than USD 1.25 a day.

In more prosperous societies, the problem is one of "relative poverty".[7] The risk of relative poverty has risen on average across OECD countries over the past two decades, from 9% to 11% of the population. It makes up around 20% of the population in Israel, Mexico and Turkey and more than 15% in the United States, Spain, Japan and Korea.[8] In emerging economies, relative poverty is increasingly becoming an issue. In China, despite an overall decline in absolute poverty, relative poverty has increased by 85% since 1980 and now affects 15% of the total population.[9]

WHAT DRIVES INCOME INEQUALITIES?

The single most important culprit for rising income inequality in OECD countries has been greater dispersion in wages and salaries, as earnings account for roughly three-quarters of household income among the working-age population. Globalisation, measured in terms of increased foreign trade and investment, has had very little direct impact on wage inequality and employment trends in OECD countries.

Rising wage disparities have been caused by a multitude of factors; one of which is linked to skill-biased technological progress, especially in new information and communication technology. Inequality has also been driven by increased competition in the markets for goods and services and greater flexibility in the labour market. These, brought many people back to employment but also widened distribution of wages. Significant changes in working conditions in OECD countries, such as increased part-time work, atypical labour contracts and reduced coverage of collective-bargaining arrangements have been observed. Household income inequality has increased because tax and benefit systems have become less redistributive in many countries since the mid-1990s, and capital income inequality has increased more than earnings inequality in two-thirds of OECD countries.

There are additional driving forces of income inequality in emerging market economies and developing countries, in particular the increase in the weight of the informal sector in the economy. Today, more than 50% of all jobs in the non-agricultural sector worldwide are informal.[10] Informal workers generally have low-paid, low-productivity jobs and frequently are excluded from formal social protection schemes. They also work in small, unregistered businesses with limited opportunity for expansion, which creates a vicious circle between exclusion, low productivity and growth. While informal employment has decreased significantly in Brazil since the mid-1990s, it has increased in China, India, Indonesia and South Africa. In India, for instance, more than 90% workers are employed in the informal sector primarily due to the lack of job creation but also in part due to rigid labour laws. In most Sub-Saharan African countries, informal sector employment, in particular self-employment, remains dominant.[11]

In the developing world, the benefit and tax systems, play a lesser role than in the OECD countries at easing market-driven disparities in earnings, and social protection remains at its infancy in many developing countries. Sixty years after the adoption of the Universal Declaration of Human Rights, which states that "everyone, as a member of society, has the right to social security", more than 80% of the global population lack basic protection in the event of "unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control".[12]

INEQUALITY IS MULTIDIMENSIONAL AND GOES BEYOND INCOME

Some population groups, particularly the less educated and low-income individuals, live shorter lives, are less active in political activities, have greater health problems and children with lower performance at school. Disadvantaged population groups are more exposed to insecurity, crime and environmental degradation.[13] Inequality goes far beyond income disparities!

Adult literacy stands at more than 80% worldwide as a result of significant progress made in this area by some large countries, especially China. This level of achievement is not seen everywhere: in Sub-Saharan Africa illiteracy can reach up to 50% of the population.[14] In OECD countries, educational attainment can drop significantly in distressed urban areas. Gender gaps in education are also an issue, especially in Southern Asia and Sub-Saharan Africa. In developing countries, poor people, in particular in rural areas, have lower access to education and tend to be detached from the education system at an early stage. In OECD countries, the gap in average reading scores between the top- and low-income groups is particularly high in Hungary, France, Unites States and Germany.[15] In this sense, inequality is not only about income, but also about opportunity and access to quality public services (e.g. education or health care).

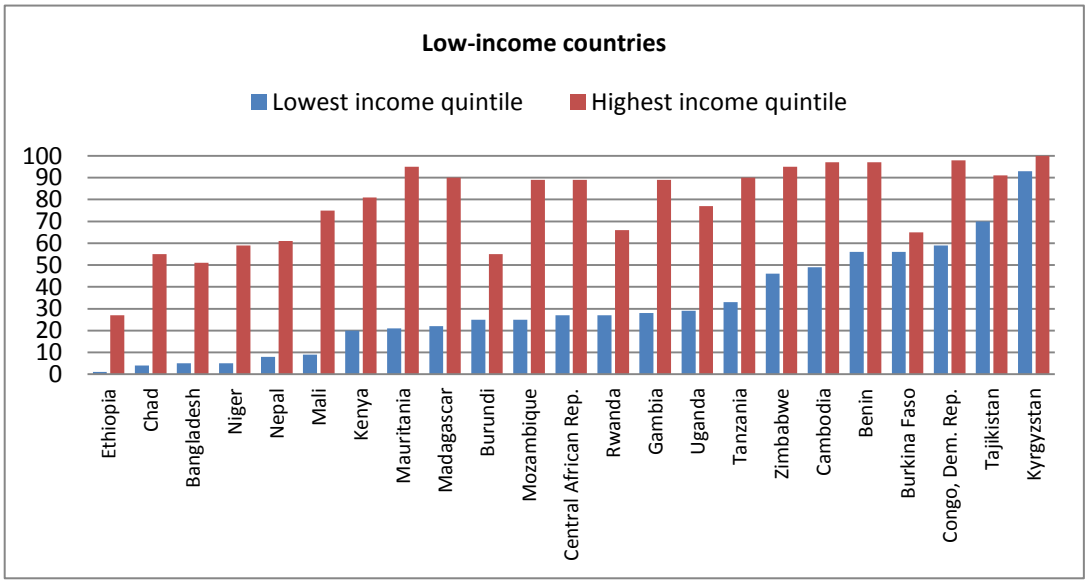
Health outcomes are also profoundly unequal. There have been huge gains in life expectancy over the past few decades in all OECD countries, and in emerging economies like Brazil, China, Indonesia and India, where life expectancy is converging rapidly towards OECD levels.[16] Many developing countries have also witnessed an increased in this area, although a gap still persists, especially in low-income countries, where infant and child mortality rates and higher infectious diseases impact the most vulnerable.[17]

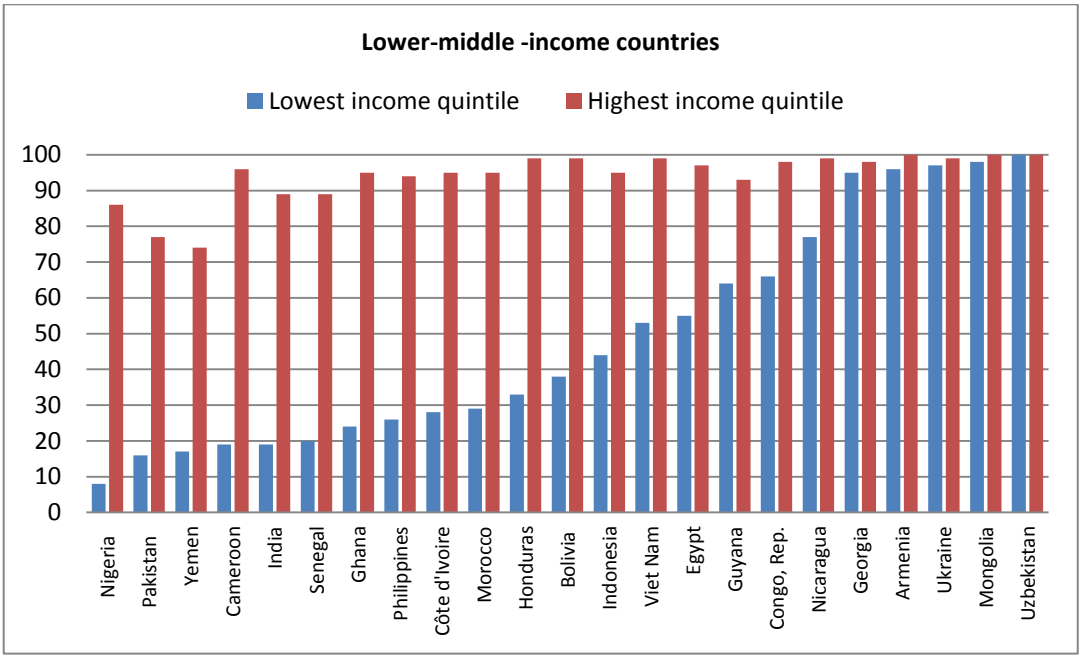
Everywhere, the richest and the most skilled are in better health.[18] Access to health services continues to be out of reach to much of the low-income population, either for financial reasons or because it is simply unavailable **(Figure 4)**. In the developing world, nearly 50% of women still give birth without the aid of a trained midwife, nurse, doctor or other skilled birth attendant.[19] In many cases, the poor pay out of pocket for health services due to a lack of insurance coverage, which puts them at a further disadvantage.

Environmental poverty is a reality. Air pollution in OECD countries remains above the WHO target level of 20 μg/m3 and is increasing to dramatic levels in emerging countries, especially in large Asian cities.[20] In advanced economies, workers who live or work in large cities close to cheaper, unattractive and polluted industrial areas are potentially more vulnerable than the rest of the population. In lower-income countries, the poor suffer from indoor air pollution as a result of solid fuel use and communicable diseases due to unsafe water, scarce hygiene and poor sanitation. Poor water supply and hygiene practices are the cause of 1.8 million deaths a year from diarrheal diseases: 90% of the victims are children under the age of 5.[21]

Figure 4. Most women from low-income groups in developing countries are still giving birth without skilled health personnel

(in selected low-income and lower-middle income countries)





Note: Data *available* from 2000-10. Low-income economies (USD 1 025 or less), lower-middle-income economies (USD 1 026 to USD 4 035).

Source: OECD based on WHO database.

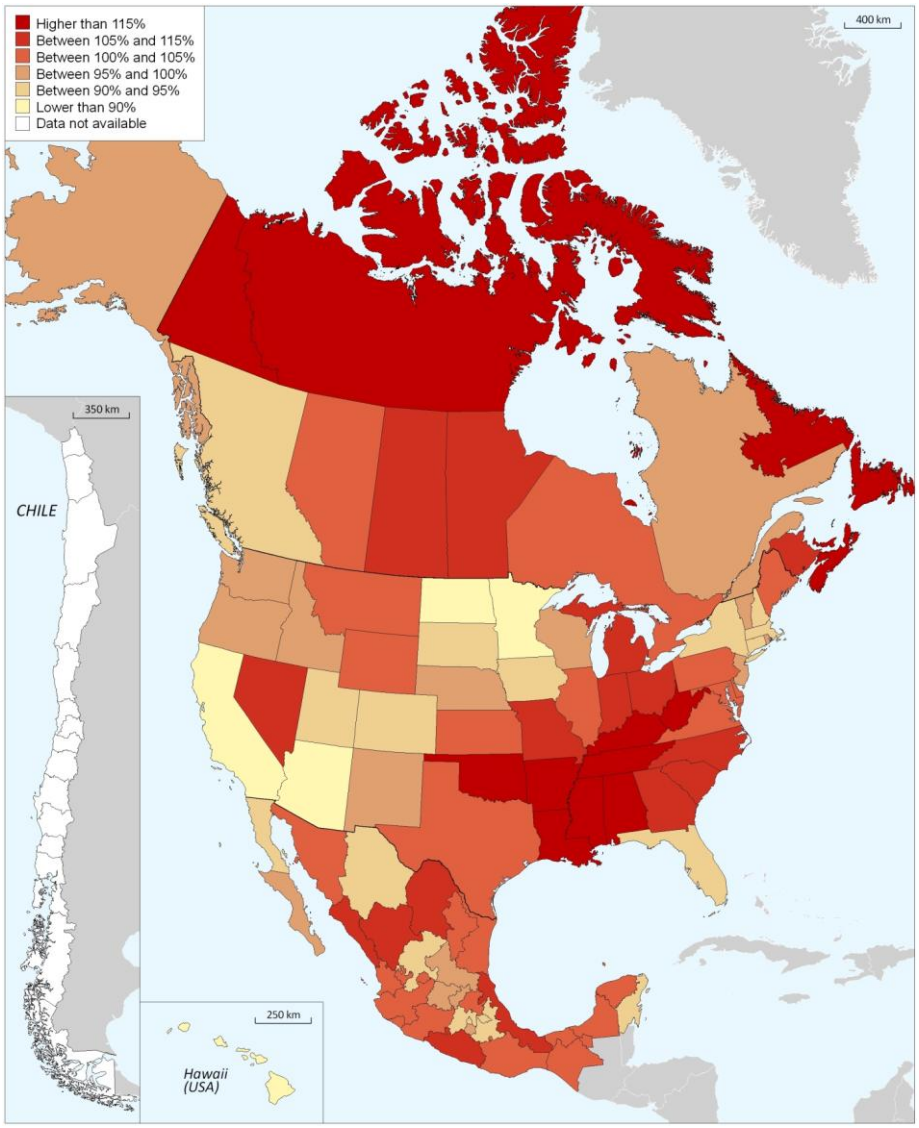
Poor populations living in both rich and poor countries are the most vulnerable to climate change and other environmental hazards, because they tend to settle in sub-standard housing and in more vulnerable areas and they lack the resources to protect themselves from extreme weather patterns and shifting climatic conditions.[22] As demonstrated by Hurricane Katrina in the United States, the poor tend to be hardest hit even when a disaster hits a wealthy nation.

Inequality is also linked to where people live and work (**Figure 5**). The spatial concentration of income inequality has been increasing everywhere. In advanced economies, income inequality appears to be higher in larger cities than in other areas. In the developing world, the "urban advantage" remains strong: many children still die before the age of 5 in rural areas due to lack of access to basic health care and poorly educated mothers. However, with the acceleration of

urbanisation in the developing world, the scale of inequality within urban areas can sometimes equal or exceed that of rural areas. Cities tend to grow unequally across the board.

Figure 5. Mortality is 20% higher in the Northern Territories, Mississippi, Oklahoma and West Virginia than in the US and Canada

Regional age-adjusted mortality rates, as a percentage of country average



Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map. Source of administrative boundaries: National Statistical Offices and FAO Global Administrative Unit Layers (GAUL).

Source: OECD (2011), *OECD Regions at a Glance*, OECD publishing.

YOUTH, WOMEN AND IMMIGRANTS: THE JILTED CAPITAL[23]

Over the past two decades, poverty shifted away from retirees towards children and youth in the OECD area.

The poverty the youth are confronting today is linked to rising unemployment. In OECD countries, there are nearly 8 million youth who are neither employed nor enrolled in education or training. Youth employment is also of particular concern in developing and emerging economies, where 90% of the youth global labour force is concentrated. In Africa, the youth represent around 40% of the working-age population and constitute 60% of the unemployed. High youth unemployment worldwide has led young people to play a prominent role in recent social movements.

Women also face higher levels of poverty, and they are at more at risk of falling into poverty than men, particularly in old age (**Box 2**). Their looser attachment to the labour force, the type of jobs they typically have – more part-time than full-time jobs – and their lower earnings contribute to this. Immigrants also face higher risk of poverty than the native-born population in OECD countries.

JOBS EXPAND HORIZONS: SOMETIMES

Employment remains a strong antidote for poverty, but in some cases it is not enough; in-work poverty affects 8% of the population in OECD countries and can go up to 12% in Greece, Israel, Japan, Spain and the United States **(Figure 7)**. Employment in non-standard work arrangements – own-account self-employed work, part-time jobs or temporary work – can also work against poverty gains. The number of people employed in this type of work has increased between 1995 and 2010 and is quite sizeable in OECD countries where it accounts for 40% of employment today .[24] In Africa, an estimated 40 million young people are currently under-employed or in poor employment.

Is informal employment good for alleviating poverty and social hardship? In a sense, yes, it is: it helps to absorb economic shocks, it acts as a safety valve for the labour market, and it employs workers who cannot find a job in the formal sector. But working informally can also exacerbate inequalities, because it excludes workers from formal social protection schemes and puts them at a social disadvantage, in particular those who hold 3D jobs (dirty, dangerous and demeaning).[25] Further, informal workers confront a lack of finance, access to credit and job training, which perpetuates the vicious circle of low productivity jobs and poverty.

Perceived job strain, *i.e.* increased psychological demand with minimal decision-making power, has increased for many workers[26]. Around 30-40% of workers in the Anglo-Saxon countries and in the Mediterranean basin have seen a larger increase in job strain. Similar issues exist in emerging economies and developing countries where the low quality of jobs has been among the main drivers of higher inequalities.

BOX 2. GENDER EQUALITY

Gender equality is not just about economic empowerment, it is about fairness and equity, and it includes many political, social and cultural dimensions. Many countries have made significant progress towards gender equality, but there is still much room for improvement. The OECD Social Institutions and Gender Index, which measures discrimination against women across non-OECD countries, shows that Sub-Saharan countries have the highest level of discrimination (Figure 6). However, there is great variation in the region with countries such as South Africa, Namibia and Rwanda standing apart with strong laws and policies to address discrimination.

In developing countries, investment in gender equality yields the highest returns of all development initiatives. With many countries mandating schooling from around the age of six, primary school enrolment is nearly universal, except for in Sub-Saharan Africa. In most developing countries, however, girls are still less likely than boys to enrol in secondary education and have lower rates of participation in the formal labour market.

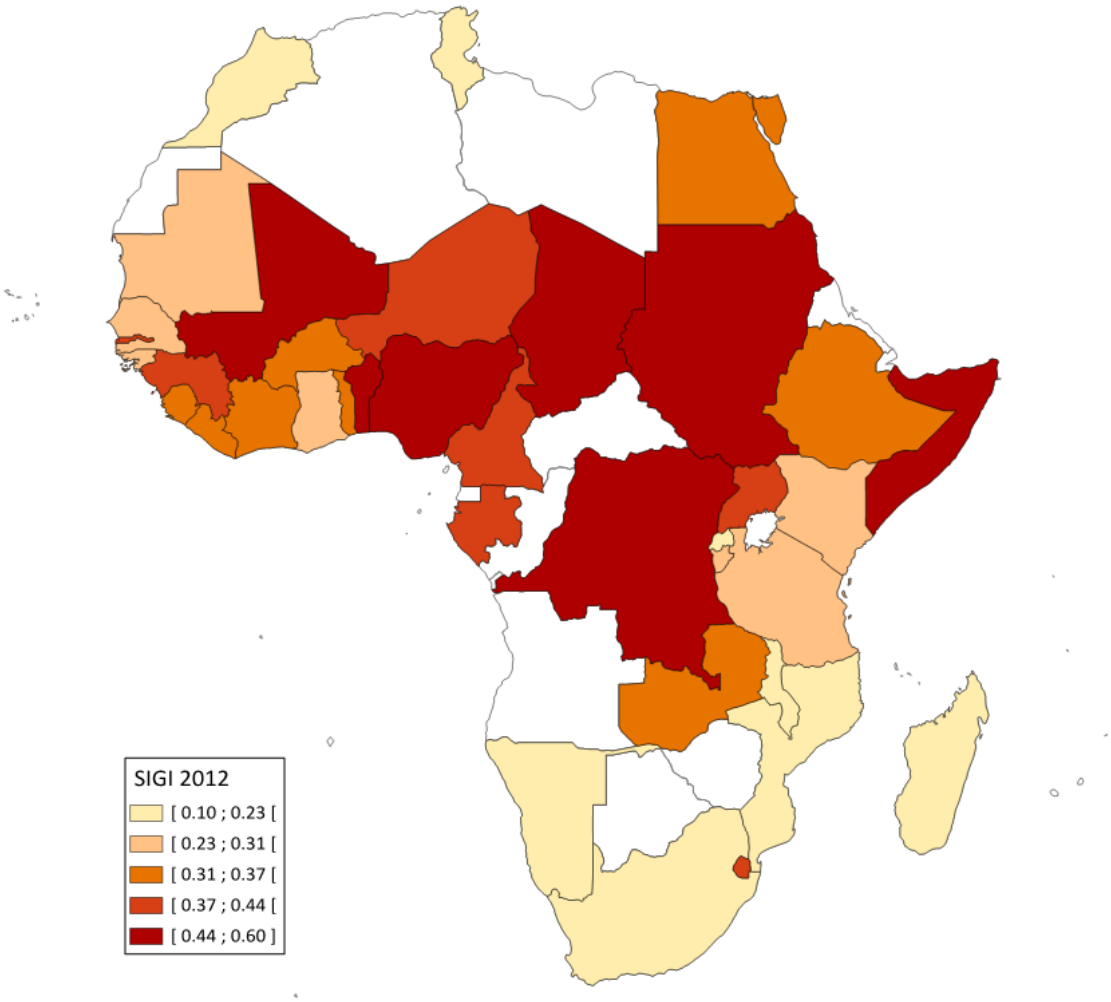
Average patterns of women's labour force participation in developing countries are mixed, ranging from a low of 21% in the Middle East and North Africa in 2010, to a high of 71% in East Asia and the Pacific region. The gender gaps in labour force participation are also highest in the Middle East and North Africa and in South Asia, where men's participation rates exceed women's rates by over 50 percentage points.

Gender equality is also an issue in developed countries. Although girls are outperforming boys in some areas of education and are less likely to drop out of school, the glass is still only half-full: women continue to earn less than men, are less likely to make it to the top of the career ladder, and are more likely to spend their final years in poverty. Women in OECD countries earn on average 16% less than men, female top-earners are paid 21% less than their male counterparts. The so-called "glass ceiling" is real: women are disadvantaged when it comes to decision-making responsibilities and senior management positions; by the time they get to the boardroom, there is only one of them for every 10 men.

Source: OECD (2012), Closing the Gender Gaps: Act Now, OECD Publishing.

Figure 6. Discrimination against women is the highest in Sub-Saharan countries

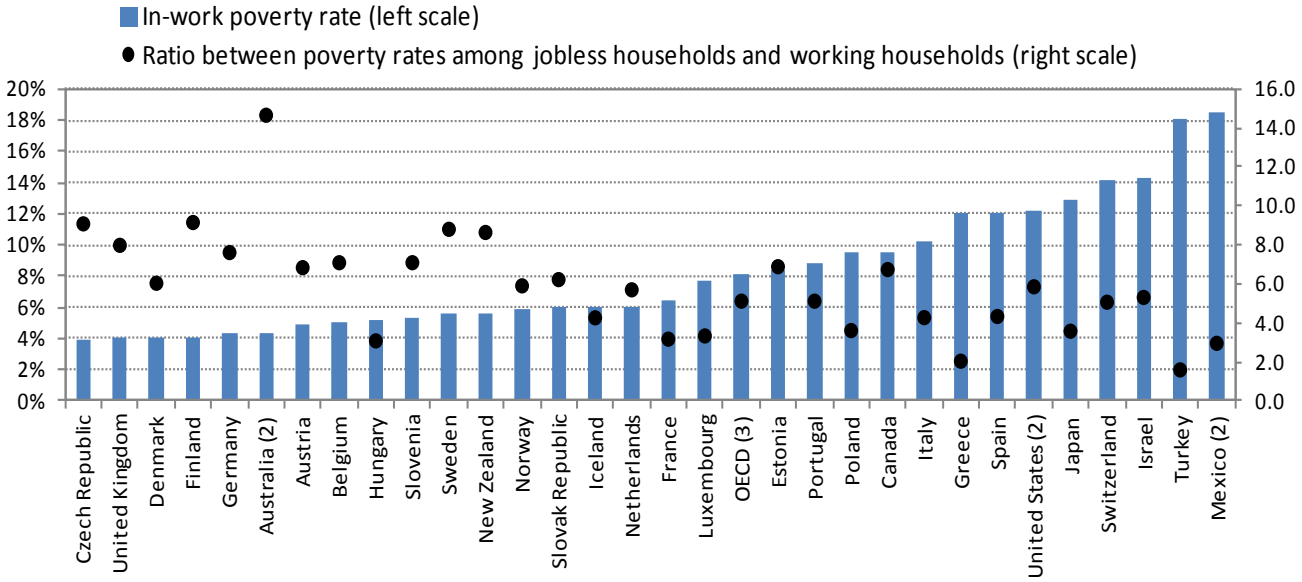
OECD Social Institutions and Gender Index (SIGI)[27] (2012)



Note: The map ranks 37 African countries according to 2012 SIGI. The shades represent quintiles of the SIGI scores for the region: the darkest shades represent the highest level of discrimination. Each country has an overall SIGI score between 0 (low discrimination) and 1 (high discrimination). Countries are not scored if they are missing data for one or more variables.

Source: OECD 2012 Gender, Institutions and Development Database

Figure 7. In-work poverty in OECD countries (2009)



Notes:

1) Definition of poverty rates: percentage of individual living in households whose disposable income falls under half the median value of disposable incomes in their country. Poverty rates are calculated for all persons living in a household with a working-age head and at least on worker (in-work poverty rate), and for all persons living in a household with a working-age head and no workers (poverty rate among jobless households).

2) Poverty rates refer to 2010 for Australia, Mexico and the United States.

3) OECD unweighted average.

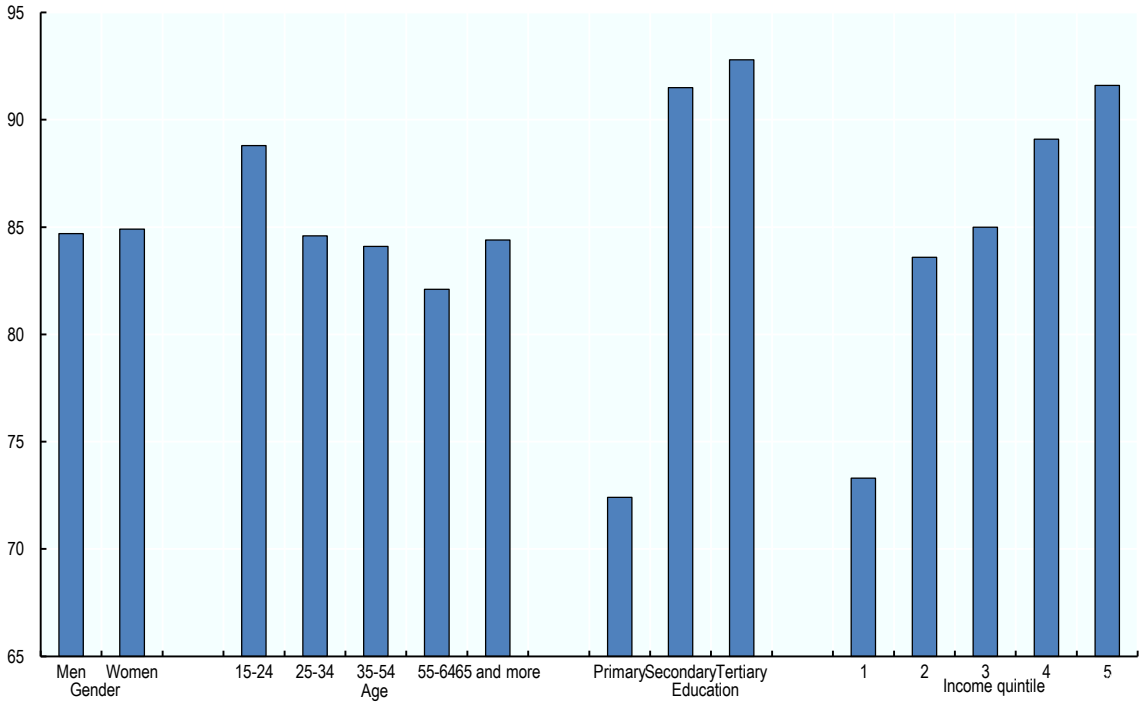
Source: OECD Income Distribution Database.

Social Connections, Civic engagement and institutions

Social support networks that impact on individuals' economic, social and health status tend to be weaker among the most disadvantaged social groups. OECD work on well-being shows that the elderly, the poor and the less educated have weaker social support networks. A survey by Gallup World Poll finds that 72% of people with only primary education report having someone to count on for help in times of need, compared to over 90% of those with secondary and tertiary education (**Figure 8**).[28] In very low-income countries, social and family networks play a stronger role among poor communities, serving as a social safety net, than in OECD countries.

Figure 8. In OECD and BRIICS countries, the low educated and the poor have weaker social support

Self-reported voter turnout by selected socio-economic characteristics, ratios relative to different groups (2010)



Source: OECD (2011), How is Life? Measuring Well-Being, OECD publishing.

Note: OECD calculations based on Gallup World Poll. Social connections vary substantially across OECD countries. They are measured by the perceived social network support in case of need.

There are also large disparities in terms of people's capacity to influence public policies through civic engagement and institutions. A growing body of literature highlights the relationship between economic and political inequality. Specifically, governance and political institutions, which determine the distribution of power in society and have a strong impact on the economic position of individuals.[29] In OECD countries, even if all citizens enjoy fundamental civic rights, they do not necessarily exercise them effectively through voting, particularly in the case of the poor, the less educated and the youth.[30]

In developing countries, women's civic participation is often confined to the community level or informal channels, as well as community-based networks and associations. Therefore, women tend to play a less active role at the formal and institutional level . Restriction on women's access to the public space and freedom of movement further prevent them from being fully involved in civic participation.[31]

IT IS TIME TO OPERATIONALISE INCLUSIVE GROWTH

Social tensions are visible across the globe. Citizens throughout the world are taking to the streets to voice their concerns and demands: from the initial "flash-point" social movements in the Arab countries, Los Indignados in Spain, Occupy Wall Street-London-Davos, labour protests in South-East Asia, student protests in Santiago de Chile and Montreal, to political demonstrations across Europe. The root and essence of each movement might be different, but they all share a common concern: inequitable growth.

It is imperative, therefore, to find solutions that foster economic growth in a more inclusive manner, where the gaps between the rich and the poor – not only in terms of income, but also in terms of other dimensions that matter for people – are less pronounced, and opportunities, as well as the "growth dividend", are shared more equally. Finding alternative growth models that are more inclusive and sustainable has become a concern in public policy circles. Both the hesitant recovery and the persistent social crisis demand decisive policy action.

FURTHER READING

- OECD (2009), Is Informal Normal? Towards More and Better Jobs in Developing Countries, OECD Publishing.
- OECD (2010), PISA (2009) Results: Overcoming Social Background – Equity in Learning Opportunities and Outcomes (Volume II), OECD Publishing.
- OECD (2011), Divided We Stand, Why Inequality Keeps Rising, OECD Publishing.
- OECD (2012), *African Economic Outlook 2012: Promoting Youth Employment*, OECD/ADB/UNDP/UNECA, Paris, OECD Publishing.
- OECD (2012), Closing the Gender Gaps: Act now, OECD Publishing.
- OECD (2013), Splitting the Bill: How Income is being Distributed during the Crisis?, forthcoming, OECD Publishing.

SESSION 1. DEFINING AND MEASURING INCLUSIVE GROWTH

Inclusive Growth is in high demand, but despite extensive use by analysts and practitioners the concept remains vague and lacks a widely accepted definition. Therefore, it is critical to seek a common understanding of the main elements of Inclusive Growth and the conditions under which growth can be inclusive. This will allow for the relevant policies and institutions to be put in place to pave an inclusive way forward.

HOW COULD INCLUSIVE GROWTH BE DEFINED?

Inclusive Growth refers to economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society.

A RICH DIVERSITY OF APPROACHES

There has been extensive debate on the definition of Inclusive Growth, which for many calls for growth that combines increased prosperity and equity. Today, governments are putting the concept at the core of many policy strategies, as seen in India with its 12th Five Year Plan and in Europe with the Europe 2020 Strategy, where Inclusive Growth is presented as an emerging model for growth.

Scholars and international organisations are also working on the definition and measurement of Inclusive Growth. The approaches that are emerging establish a link between economic growth and social inclusion, broadly defined, but differ in the way this link is established. Some of the approaches focus on productive employment, so that economic growth can generate the jobs needed to absorb growing populations, meet the demands of the private sector for skills and competencies, and ensure that workers reap the benefits of rising productivity.

Other approaches emphasise options for making growth pro-poor, in a manner that delivers higher income gains for the poor than for the rest of the population and, in doing so, helps to reduce growing inequalities in living standards. There are still other approaches that focus on the economic and non-economic opportunities generated by economic growth and on sharing the benefits of growth in terms of the quality of jobs, the health and education status of the population and/or the skills of the labour force. The diversity of approaches is rich, but a unifying concept remains elusive.

WHAT COULD A NEW APPROACH LOOK LIKE?

Based on different streams of OECD work, a unifying concept of Inclusive Growth could follow a *three-pronged approach*:

Multidimensionality. There is widespread recognition that gross domestic product (GDP) only captures part of economic welfare and excludes other dimensions, such as education, health, security and the environment, which also matter for people and society. A multidimensional approach to Inclusive Growth would aim for simultaneously improving material living standards and achieving broad-based progress along other dimensions that matter for people and for society. This type of approach is consistent with OECD work on *well-being*, which emphasises a set of key outcomes that are essential for the development of people's capabilities and well-being and to allow them to participate in both the economy and society. A pre-condition to ensure the relevance of the Inclusive Growth concept for all countries is to take into consideration their level of development when selecting Inclusive Growth dimensions. *Perspectives on Global Development: Social Cohesion in a Shifting World* provides a good understanding on the relationships between long-term economic growth and inequalities in developing countries.

Distribution-orientation. Inclusive Growth means that people, independent of their socio-economic background, gender, place of residence or ethnic origin, should have *fair opportunities* to contribute to growth (*i.e.* they are part of the growth *process*), and that their contribution should yield *equitable benefits* (*i.e.* they benefit from the *outcomes* of the process). The OECD work on income inequality, including its publication *Divided We Stand* (OECD, 2011), provides a framework for understanding the drivers of income distribution. This framework can be extended to include drivers of the distribution of non-monetary dimensions of progress. OECD work on education and skills (*Education at a Glance*), gender (*Closing the Gender Gap: Act Now*), health (*Health at a Glance*) and the environment (*Environmental Outlook*), also shed light on the distributional aspects of growth along the other non-monetary dimensions that matter for Inclusive Growth.

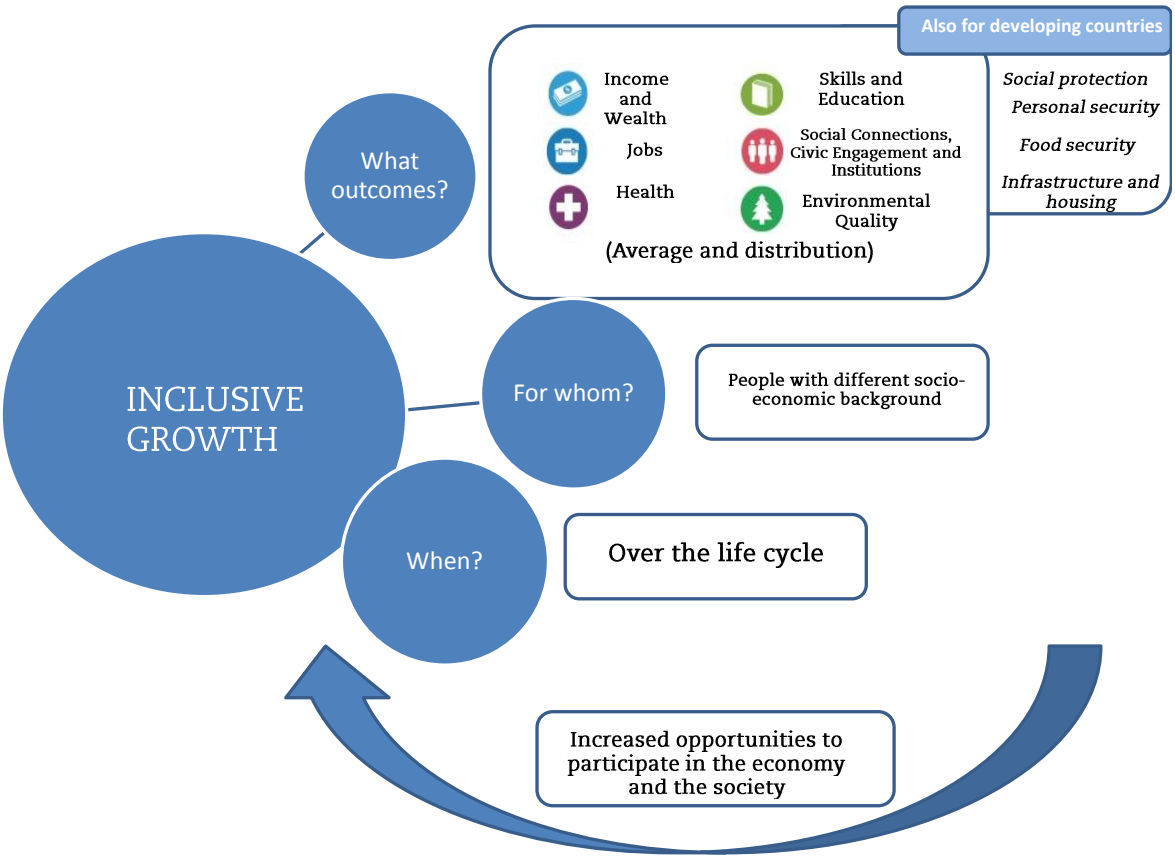
Policy relevance. The concept of Inclusive Growth should be policy-actionable. It must therefore make a link between policy instruments and the selected monetary and non-monetary dimensions. Throughout *Going for Growth*, the OECD has developed a framework for mapping structural policies – in areas as diverse as regulation of product and labour markets; education, skills and innovation; health care; and the environment – to aggregate economic performance (such as measured by GDP per capita) and has more recently explored some of the impacts of those policies on income inequality. An enhanced version of this framework to consider the non-monetary dimensions of prosperity could provide a starting point for assessing the impact of structural policies on the different non-monetary dimensions, as well as the trade-offs and complementarities that are expected to exist between pro-growth and pro-inclusiveness policies. This undertaking would also be informed by OECD work on different sectoral policies that affect performance along the non-monetary dimensions that matter for Inclusive Growth.

WHICH DIMENSIONS MATTER FOR INCLUSIVE GROWTH?

The *OECD Well-Being Framework* proposes a set of eleven monetary and non-monetary dimensions that are essential to people's lives. A set of dimensions could be selected from this framework to define Inclusive Growth (**Figure 9**). For instance, they could include the following variables:

- **Income and wealth**, which measures people's ability to satisfy their basic needs and demands. Economic growth has a strong impact on (household) income because the main share of people's income is derived from wages and profits earned in labour markets.
- **Jobs**, including the quality and the monetary benefits drawn from them. Economic growth affects job quantity and job quality.
- **Skills and education**, which conditions people's capacity to contribute to growth under many forms (working, innovating, etc). Economic growth has a direct impact on people's skills because people learn on the job and the broad working environment shapes a range of skills.
- **Health status**, which enhances people's opportunities to find jobs and to work productively. Economic growth can impact the health of workers via the quality of jobs and workplace and by affecting the quality of the environment (built and natural).
- **Social connections, civic engagement and institutions**, including personal and professional networks and citizens' influence on collective decisions as well as in trust in public institutions. Economic growth affects social connections by shaping people's opportunities to meet and socialise in workplaces (*e.g.* through hours worked, atypical workers, etc.) but also in the broader community, (*e.g.* through migration, longer commuting times). Weak economic growth can bring a decline in trust in public institutions.
- **Environmental quality**, which refers to the health of the physical and natural environment where people live. Economic growth is one of the main drivers of pollution and environmental degradation, typically through increased road transport, power generation and waste disposal.

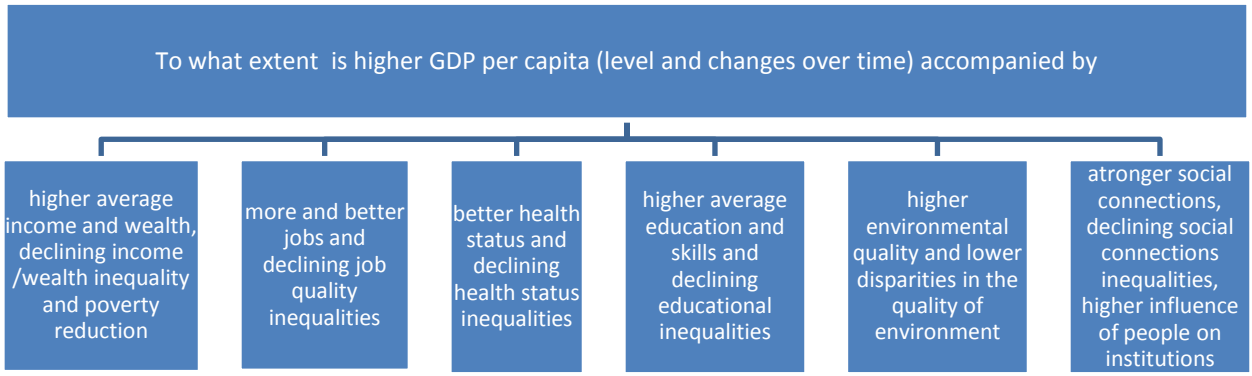
Figure 9. The Dimensions of Inclusive Growth



These dimensions may vary across countries depending on their level of development and specific conditions and circumstances. For example, other dimensions may be relevant for developing countries, such as *personal security*, including safety in conflict and post-conflict situations, violence against women and children, or criminality, which impact on economic growth and human development. *Infrastructure and housing*, including access to decent housing, sanitation, safe water, transport and other basic infrastructures, could also be relevant to emerging economies and developing countries. This is also the case for *social protection*, including the availability of and access by the population to services, such as social security and assistance programmes, and unemployment insurance, which tend to be more developed in more advanced societies. Moreover, *food security*, including livelihoods threatened by climate change and efforts to deal with biodiversity, is a particular challenge for a large number of developing countries where agriculture remains the single most important sector. People may lack access to sufficient, safe and nutritious food to meet their basic needs for a healthy and productive life.

Inclusive Growth is also about assessing which monetary and non-monetary dimensions that matter for people and society are related to economic growth at the national level, over the life cycles and across socio-economic groups **(Figure 10)**. Work in this area is important not only to improve our understanding of the linkages that exist between growth and the different dimensions, but also to inform the choice of policies that would be most supportive of Inclusive Growth. While statistically demanding, the analysis can rely on OECD work on the collection and improvement of comparable, high-quality data on different indicators that matter for measuring progress along the various monetary and non-monetary dimensions.

Figure 10. Is Growth Inclusive?



MEASURING INCLUSIVE GROWTH

To make the Inclusive Growth framework relevant for policy design and implementation, indicators will need to be selected to "measure" each of the dimensions discussed, *i.e.* income and wealth, jobs, etc. These indicators may vary across developed and developing countries to better reflect the context and the specific policy challenges of these various countries. Possible indicators could include:

- **Income and Wealth**: Household adjusted disposable income and net financial wealth.
- **Jobs**: Labour market participation, personal earnings, job tenure, share of workers with temporary contracts, in-work poverty, time-poverty.
- **Health Status**: Life expectancy, self-reported health status and mental health.
- **Skills**: Learning and educational attainment.
- **Social connections, civic engagement and governance**: Perceived social network support, interpersonal trust, confidence in institutions.
- **Environmental quality**: Air quality, water quality, access to green spaces.
- **Personal security**: Homicides rates, self-reported victimisation rates, crime against property.
- **Social protection**: Social protection programmes (access to, spending), resilience tools to withstand external shocks.
- **Infrastructure and housing**: Access to infrastructure (water, electricity, transports, roads, information telecommunication, financial services), distance from infrastructure (water, transport, roads, telecommunication, financial services), road safety.
- **Food security**: Access to sufficient food, livelihoods/areas threatened by climate change and biodiversity.

To understand how countries can combine growth and inclusiveness, it might be useful to analyse joint patterns of economic, social, institutional and environmental performance. Once the various dimensions are measured with specific indicators, it could be interesting to see how countries perform along the various dimensions. This can be done in many ways, but one simple method is to carry out standard multivariate analysis, such as clustering or principal component analysis, to identify similarities across countries in terms of "successes" and "failures". Another approach, which is well grounded in economic theory, is to estimate an aggregate multidimensional objective function by aggregating individual utilities over the monetary and non-monetary dimensions (*e.g.* health, education, etc.) (**Box 3**).

BOX 3. MEASURING INCLUSIVE GROWTH THROUGH A WELFARE FUNCTION

The estimation of a multidimensional function requires the computation of prices that could be assigned to the non-monetary dimensions to make it possible to express all the monetary and non-monetary dimensions in the same monetary unit. There are many techniques for computing these prices, ranging from the estimation of the determinants of subjective well-being, the computation of hedonic prices or by extracting revealed preferences on well-being. Previous and ongoing OECD work on well-being provides interesting insights into how this can be done.

Once this aggregate multidimensional function is estimated, it can be used to assess the distributional underpinnings of Inclusive Growth. In particular, the multidimensional function can be broken into three main components: average income, average outcomes in non-material dimensions and an index of dispersion of equivalent income that will summarise the joint distribution of inequalities in the material and non-material dimensions. In practice, these three components can be compared across countries and over time to see how welfare evolves and why. Inclusive Growth can then be measured as growth of the aggregate multidimensional objective function expressed as the sum of economic growth, growth in non-monetary dimensions and changes in multidimensional inequalities.

ISSUES FOR DISCUSSION

- How should Inclusive Growth be defined? Is there a common ground among the different concepts discussed among academics, practitioners, civil society and international organisations? Is the proposed three-pronged approach appropriate for dealing with all the complexities associated with Inclusive Growth?
- What are the key non-monetary dimensions that need to be taken into account when defining Inclusive Growth? Does the relevance of the different dimensions vary across countries and over time? What indicators could be used to measure the different monetary and non-monetary dimensions?
- What are the best approaches to understand how the different dimensions of Inclusive Growth affect each other? What are the difficulties of estimating a welfare function? What are the best multidimensional measures? Does it make sense to define a composite indicator of Inclusive Growth? How can the interconnectedness of the different dimensions be reflected in the framework?

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- OECD (2011), How is life? Measuring Well-being, OECD publishing.
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SESSION 2: TOWARDS A ROADMAP FOR INCLUSIVE GROWTH POLICIES

The legacies of the global crisis underscore the need going forward to revisit the traditional growth models that do not take into account distributional considerations. Income inequality was on the rise almost everywhere well before the global crisis, suggesting that strong growth does not necessarily lead to a more even distribution of the benefits of increased prosperity. In fact, certain pro-growth policies even actually aggravate inequalities, rather than mitigate them. A shift in thinking is therefore imperative to advance towards Inclusive Growth. Looking ahead, actionable policies should be considered in areas that impact *both* growth and inclusiveness. Recent OECD work establishes links between structural policies, growth and income distribution, and provides a first step towards multiple-target policy design.

A comprehensive strategy for Inclusive Growth is needed to take into account possible trade-offs and complementarities between policies to promote growth and jobs and those that can achieve a better distribution of the benefits of growth. This needs to be done not only for income but also for the other dimensions that matter for Inclusive Growth. A tall order, undoubtedly, but one that has enormous potential for enriching policy makers' toolkits. This mapping of policies to outcomes and their synergies and trade-offs can be achieved by building on OECD work on the effects of structural reform on economic performance.

REVISITING PRO-GROWTH STRUCTURAL POLICIES

Structural policies are at the heart of Inclusive Growth. Actions in the different policy domains hold promise for creating an enabling environment that foster growth by boosting labour utilisation and productivity, but in certain cases their impacts on inequality have been negative.

LABOUR MARKET AND SOCIAL POLICIES

In terms of pro-growth structural reforms, labour market policies and institutions should be assessed on the basis of their ability to remove impediments to labour utilisation (labour force participation and hours worked), promote labour productivity, and prevent or mitigate duality and segmentation between precarious/informal jobs and more stable jobs. For instance:

- Unemployment benefits help to mitigate income losses and contain income inequalities. Therefore, a decline in unemployment protection for low-wage workers can lead to an increase in wage dispersion. However, in some cases, there is a need to reduce duration and replacement rates, as well as to strengthen job-search incentives for the unemployed to make unemployment benefits more conducive to labour force participation.
- In some countries, a reduction in the level of protection of permanent jobs helps to reduce labour market duality, which disproportionally affects low-wage earners. In others, easing restrictions on temporary contracts can facilitate job creation. However, weakening employment protection for temporary contracts has been shown to widen wage dispersion and to have an overall disequalising effect without having a significant impact on employment.
- Reducing the legal extension of collective wage agreements might lower labour costs and promote employment, which is good for growth. But it might also contribute to widening wage distribution, which is undesirable from the point of view of inclusiveness.
- The appropriate level of minimum wage depends on how it compares with the median wage. A relatively high minimum wage narrows the distribution of labour income. But if set too high it may reduce opportunities for youth and low-skilled workers, which thwarts the inequality-reducing effect of minimum wage legislation. In developing countries, even

though minimum wages can encourage informal work, they are often a useful tool against in-work poverty.

- When targeted towards individual groups, the promotion of access to quality, preferably formal, jobs is the most effective way for labour market policies to promote growth and reduce inequality. For instance, measures to improve employment prospects for youth include effective counselling, job-search assistance and temporary hiring subsidies for low-skilled youth.

Labour market reforms can also impact the equity aspects of other non-income dimensions that matter for Inclusive Growth. For instance, an increase in non-standard employment, such as involuntary part-time or temporary jobs, can lower job quality, in particular for low-skilled workers. It can also increase job strain, adversely impact mental health, and reduce worker capacity to connect to social and professional networks.

Social policies are crucial for tackling inequalities and can promote growth at the same time. In order to trigger Inclusive Growth, it is critical to focus social policies on, for example, early childhood education, social benefits that are employment-related, or pension reforms that raise effective retirement ages and are accompanied by measures to promote the employment of older worker. Some policies may have short-term costs but potentially attractive future pay-offs. This is the case of active labour market policies, especially for youth, and programmes that help reconcile work and family life. Measures that safeguard child well-being, especially during the formative years of early childhood, are also important for Inclusive Growth. Publicly provided services or goods are an integral part of balanced support for vulnerable groups, such as children, job-seekers, individuals with health problems or groups facing extreme economic hardship (*e.g.* the homeless). Public services are especially important for Inclusive Growth when widespread poverty makes access to market-based services difficult for many people.

Boosting human capital for growth and equity

Evidence suggests that increased growth and employment rates are linked to the level of education. Measures that improve both growth and inclusiveness include, for example, increasing the quality and extending the provision of compulsory education, especially at the upper-secondary and post-secondary levels, raising tertiary educational attainment where upper-secondary attainment is already high, facilitating access to education by underprivileged groups, and expanding vocational and professional education training (VET). Other factors that affect educational attainment, such as the introduction of tuition fees in tertiary education, may well have a negative impact on disadvantaged groups, but these unintended effects can be offset through means-tested grants and income-contingent repayment schemes for student loans.

Cross-sectoral effects also exist between education and other dimensions of Inclusive Growth, such as health and social connections. For instance, educational attainment tends to improve among children with better health status at birth – a state that depends on access to and the quality of public health insurance coverage.[32] The distributional impact of these effects, however, merits further investigation.

How can tax-benefit systems be friendly to both growth and inclusiveness?

Although less redistributive than in the past, tax and transfer systems still play an important role in mitigating earnings inequality in OECD countries. In the late 2000s, income inequality among the working-age population was on average 25% lower after taxes and transfers than before taxes and transfers (**Figure 11**).[33] The redistributive effect of tax-benefit systems is particularly low in Latin America and in other emerging markets and developing countries because their tax systems are less progressive and typically and poorly target transfers to individuals and households. This suggests that the trade-offs and complementarities among redistributive and growth-friendly policies need to be well understood. For example, shifting

the tax structure away from direct taxes (labour and corporate income taxes) towards consumption, environment and property provides incentives to work and can encourage employment. Curbing tax expenditures that benefit higher-income groups, such as poorly targeted fossil fuel subsidies and exemptions, can also make the tax-benefit system more redistributive.

COMPETITION POLICIES AND ENABLING BUSINESS ENVIRONMENT

The growth benefits of structural reforms to foster competition in product markets are fairly well known. By unleashing opportunity for investment in sheltered sectors, and facilitating the adoption and diffusion of new technologies, reforms to render product market regulations more conducive to competition can generate productivity gains and remove obstacles to effective labour utilisation. The impact on inequality is, however, mixed. For instance:

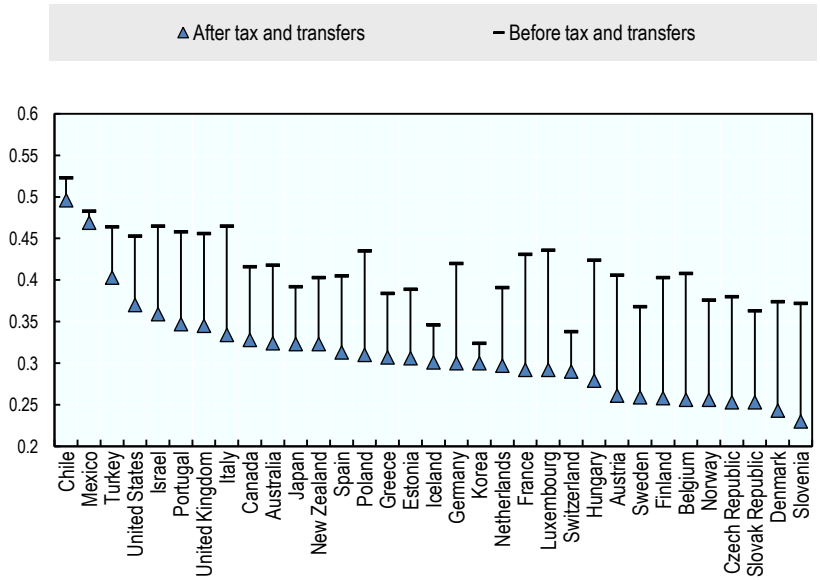
- Relaxing anti-competitive product market regulations can increase wage dispersion to the extent that it tends to reduce the bargaining power of workers.
- Greater competition in product markets can do much to encourage innovation and entrepreneurship, but it can also raise inequality to the extent that technological progress favours high-skilled workers (**Box 4**).
- Lowering barriers to trade and FDI can exacerbate inequality, but it can also entail some redistribution to the extent that it reduces the price of goods that are consumed predominantly by low-income groups.

Certain subsidies are often motivated by equity considerations, but they can undermine both growth, because they distort economic activity and equity as result of poor targeting and benefit the better-off disproportionately. For example, reducing support to agriculture benefits low-income households insofar as it lowers food prices. Reduction or suppression of energy subsidies, in particular fossil fuel subsidies, which are typically regressive, contributes to environmental protection and preserves equity, as long as compensation is directly provided to the poor.

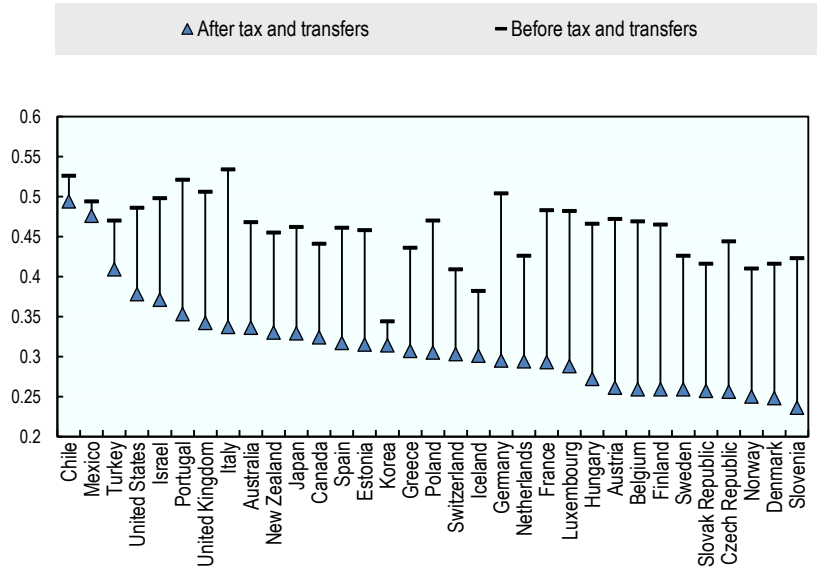
Figure 11. Tax and benefit systems have a sizeable redistributive impact in OECD countries

Gini coefficients before and after income taxes and cash transfers, around 2009

A. Working age population: 18 - 65



B. Total population



Note: . Income inequality is measured by the Gini coefficient based on equivalised household disposable income.

1. Data refer to before transfers but after taxes.

2. Information on data for Israel: http://dx.doi.org/10.1787/888932315602
The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD Income distribution and Poverty Database, Preliminary data (www.oecd.org/social/inequality-database.htm)

Box 4. Innovation and Entrepreneurship for Growth: Who Benefits?

Innovation is a key source of growth and can accentuate income disparities to the extent that technological change opens up opportunities for high-skilled individuals. The *OECD Innovation Strategy* stresses the importance of finding a balance between approaches aimed at supporting first "islands of excellence" and the benefits of the wider development of innovative capacities.

Innovation policies should also not be biased towards the development of high-tech activities to the detriment of other sectors in the economy. In developing countries and emerging economies, novel approaches labelled under the term "inclusive innovation" address innovation in the areas of food, health and basic livelihood. These "grassroots innovations", or innovations by the poor, have great potential for benefiting low–income communities.

Entrepreneurship policies can also become more inclusive when targeting the unemployed, youth, migrants and ethnic minorities, women, seniors and people with disabilities. Available policy responses include improvements to institutions, such as simplified regimes for business start-ups and the introduction of a "welfare bridge" to reduce the initial loss of income for entrepreneurs who start businesses from unemployment, as well as entrepreneurship training and mentoring, and provision of micro finance.

Access to finance and other essential business services are necessary to spur innovation and entrepreneurship, especially for small and young firms. Facilitating access to credit for the underserved population, such as small enterprises and the self-employed, can do much for inclusiveness but also for growth, by removing obstacles to the expansion of businesses and the formalisation of labour relations. However, the allocation of credit by non-price mechanisms, which is usually motivated by pro-poor considerations, often ends up favouring politically connected groups, rather than underserved population, and creating distortions and inefficiencies that are ultimately harmful to growth.

Improving access: the role of public services and infrastructure

Access to efficient infrastructure is crucial to economic growth. By raising labour productivity and lowering production and transaction costs, economic infrastructure –transport, energy, information and communication technology, and drinking water, sanitation and irrigation – enhances economic activity and contributes to growth, which is essential for poverty reduction. Indeed, bridging the "infrastructure gap" is a major challenge in developing countries: in 2009, there were about 1 billion people without easy access to all-weather roads, about 1.5 billion people living without electricity, 800 million without access to safe drinking water and 4.7 billion people without access to the Internet. Public services also play a critical role in creating prosperous and inclusive societies by creating the conditions for social and economic development (*e.g.* empowering individuals and communities, improving health conditions, increasing educational attainment).

To improve access to *health care*, a large number of developed and developing countries endorsed, in December 2012, a UN Resolution on universal health coverage – access to key promotive, preventive, curative and rehabilitative health interventions for all at an affordable cost – and committed to achieving this goal (United Nations, 2012; WHO, 2005).[34] In OECD countries, the measurement and improvement of quality of care and patient safety have become crucial elements of health system governance, and this is also becoming the case in emerging countries in Asia and other regions (OECD and WHO, 2012).[35] Significant progress has been achieved in OECD countries in reducing mortality after a heart attack or stroke over the past decade, and also in increasing survival rates for different types of cancer because of earlier detection and better treatments. This is not the case, however, among low-income households. There is also evidence that many hospital admissions for complications of chronic conditions could be avoided through better primary care for all. In all countries, there is a need to strengthen access to high-quality primary care for all the population.

Infrastructure gaps and lack of access to efficient and effective public services tend to affect disproportionally the poorest, who often live in the most disadvantaged locations (*e.g.* remote rural areas, distressed neighbourhoods in large cities). Differences in places, and their populations' needs and preferences, call for different mixes of public services adapted to local characteristics. Therefore, equity in access to infrastructure and public services can be addressed through place-based strategies. The case of education is particularly relevant: the location of schools matters for student performance, even when taking into account their socio-economic backgrounds.[36] In the OECD area, students in city schools outperform those living in rural areas by more than 20 score points in OECD PISA tests, or the equivalent of almost one year of education.[37]

BREAKING NEW GROUND ON POLICY DRIVERS OF INCLUSIVE GROWTH

OECD analysis has helped to shed light on the empirical links between structural policy settings, and the level and distribution of income within and across countries. But to go beyond income and to gauge the effects of policies on outcomes along the different dimensions that matter for Inclusive Growth, a more comprehensive framework is needed. Linking policies to the key drivers of outcomes in a multidimensional setting makes it possible to gauge – through evidence-based analysis – the trade-offs and complementarities that may exist between pro-growth and pro-inclusiveness policies. And this needs to be done not only for income but also for the other dimensions that matter for Inclusive Growth.

Previous OECD analysis provides a good starting point. Building on empirical studies and OECD work, such as *Going for Growth*, it is possible to quantify the effects of structural policies – for example to strengthen competition in product markets or to encourage innovation – on total factor productivity, labour force participation and capital accumulation. The net effect of each of these policies on income, through the various channels mentioned above, can then be calculated, and policy simulations can be carried out to find out if there are policy trade-offs and synergies among the different pro-growth policy interventions.

Although the focus of the analysis has so far been essentially on monetary (average) income, which is just one of the dimensions that matter for Inclusive Growth, estimation of the growth equations could also provide inputs for the estimation of the welfare functions described in Session 1. For example, by improving policy makers' understanding of how a given policy package affects the level of income and its distribution – and through which channels – it is be possible to extend the analysis to the combination of pro-growth structural policies that can raise overall welfare.

The same can be done for the different non-monetary dimensions that matter for Inclusive Growth. For that, however, more work will need to be done to map the different structural policies to average outcomes along all those dimensions, as well as to estimate the joint distribution of inequalities along the monetary and non-monetary dimensions. The methodological hurdles that will need to be overcome to carry out the analysis in a multidimensional setting should not be underestimated, suggesting that a step-by-step approach may be warranted. However, this approach has enormous potential for advancing the policy agenda on how to make pro-growth policies also pro-inclusiveness.

Much can also be learned by focusing on the policy experiences of countries and their outcomes in terms of growth and inclusiveness. The idea of clustering countries, as described in Session 1, and examining whether those clusters can be explained by similar types of institutions and policies would complement the regression-based analysis.

ISSUES FOR DISCUSSION

- How can policies to promote Inclusive Growth be identified? What tools, statistical or not, are available to assist policy makers in this process? Do case studies provide replicable policy examples? Is clustering analysis a useful way to understand what policies are behind Inclusive Growth?
- Which pro-growth policies are most effective in promoting inclusiveness? Which policy areas should be prioritised? How can structural policies be designed to have a positive influence on non-monetary outcomes?
- What are the main policy drivers of Inclusive Growth? How do they interact? What are the key trade-offs and complementarities among pro-growth and pro-inclusiveness interventions?
- How should the process of designing an OECD indicator of inclusive growth proceed? Starting with a small number of indicators and gradually scaling-up or identify a larger set of variables to include upfront?

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SESSION 3. IMPLEMENTING CHANGE AND ENSURING BUY-IN

Implementation is the ultimate test of policies for Inclusive Growth. In many cases, effective follow through is undermined by capacity constraints, given the diversity of actors that are responsible for implementation within the different agencies and levels of administration. In other cases, reaching consensus among the different constituencies, in particular among interest groups that benefit from the status quo, is a major obstacle to reform and change. A lack of effective institutions and governance can also be an obstacle to change. Therefore, it is important to raise awareness about the scope for Inclusive Growth within government and beyond, involving key stakeholders, such as civil society at large, the private sector, etc., from the design to the implementation of Inclusive Growth reforms. Political economy matters!

INCLUSIVE INSTITUTIONS – INCLUSIVE POLITICAL PROCESSES

Sustained pursuit of an Inclusive Growth agenda is likely to prove impossible in many countries without significant changes in institutions and political processes, as political and economic inequalities have a strong tendency to reinforce one another. For example, evidence shows that poor people with less education are less able to influence policy and institutions (**Figure 12**). Institutions, understood broadly as "the rules of the game", whether formal or unwritten, define the incentives and constraints within which individual and collective action take place.

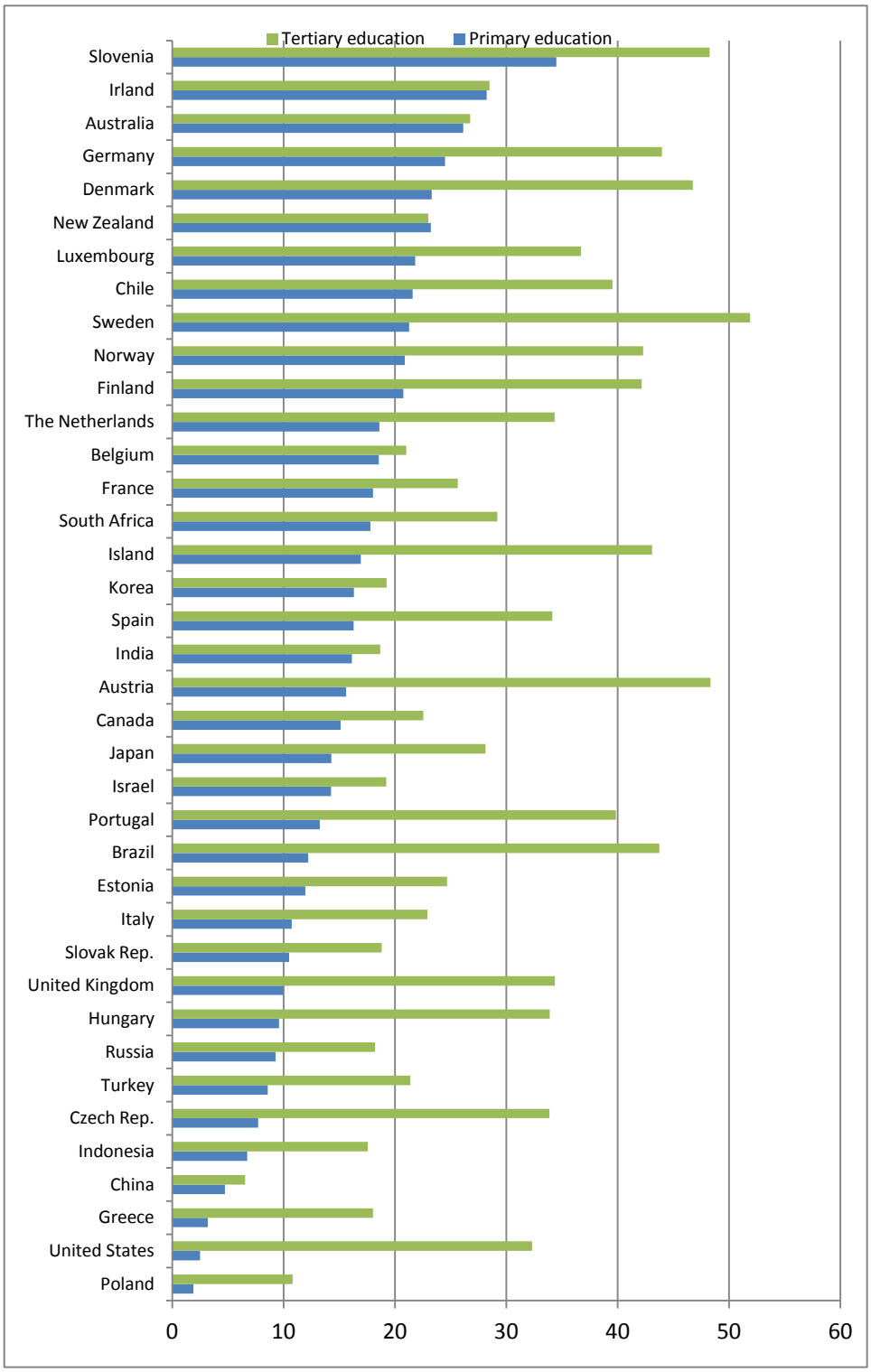
- When it comes to politics and policy, the rules of the game can empower some, while marginalising others – as, for example, when lobbying allows privileged access to decision-making processes for those with greater organisational and financial resources.
- In the economic sphere, they influence the resources and opportunities that individuals and groups can access in seeking to improve their lives. Where the "rules of the game" are more exclusive to begin with, promoting inclusion is likely to be more difficult. Variations in access to, or the quality of, public education available to different groups, for example, affect access to further educational and labour-market opportunities.

The quality of the rule-making processes has considerable impact on how the rules of the game are defined, how they affect society and, ultimately, on their effective implementation. For example, open government, including transparency and participation in the regulatory process, is an important pre-requisite to ensure that regulation serves the public interest and is informed by the legitimate needs of those interested in, and affected by, regulation. This goes hand in hand with impact assessments that combine *ex ante* and *ex post* evaluations of possible social and environmental effects of changes in regulation. If used more systematically these tools provide strong levers for governments to promote both inclusive political processes and to ensure that issues of inclusiveness are mainstreamed in rule-making.

The relationship between institutional quality and social cohesion runs both ways: factors such as income inequality, socio-economic or ethnic fragmentation contribute to poor institutional quality and poor policy choices, as well as being aggravated by them.[38] Moreover, since institutions usually evolve slowly, they often reflect past distributions of power and wealth, offering limited access to emerging or marginalised social groups. This applies not just to public bodies but also to other social institutions: business organisations, for example, represent incumbent (usually large) firms, and trade unions typically represent those already in employment, particularly older workers on regular contracts.[39]

That is one reason why reforms promoting more Inclusive Growth can be hardest where they are most needed! The intended beneficiaries of such policies may well be, by definition, under-represented in the policy process and in the political life. They are "outsiders" or at risk of becoming such. They thus lack the organisational, political and financial resources enjoyed by the beneficiaries of the status quo.

Figure 12. Level of education is linked to individual participation in public policy (2010)



Note: The ability to influence policy and institutions is measured through the variable "Voicing her own opinion to a public official during the month preceding the survey".

Source: OECD calculations based on Gallup World Poll.

This points to the limits of "social concertation" and reform strategies based on "stakeholder engagement": stakeholders hold stakes in the status quo. While concertation can often facilitate the creation of a reform consensus, and it is necessary for policy makers to work with interest groups that will be affected by reform, it is also critical that elected leaders recognise their responsibility for representing the needs of those who might otherwise find it difficult to make themselves heard.

These considerations are also important when it comes to effective policy implementation, because policy effectiveness depends in part on social acceptance. The issue then is whether yesterday's institutions and processes are "fit for purpose" when it comes to pursuing an Inclusive Growth agenda in today's socio-economic context.

Co-ordination with non-public institutions also raises issues of political economy and should therefore not be overlooked. In some countries, non-public institutions, including foundations, NGOs, and community organisations, play a leading role in bridging the gap between policy makers and the intended beneficiaries of policy changes, who may be underrepresented in the policy making process, for a variety of pressing social issues (public health, inequality, education). They can also help to put important issues on the policy agenda. Because some non-public institutions can have narrow, and sometimes self-interested, perspectives, it is important to address issues of transparency and accountability, particularly where non-public bodies speak on behalf of groups or individuals to which they are not directly accountable.

Informal institutions, or rules that are not enforced by formal agencies, also play a role. They take on a more significant role in developing countries, where formal mechanisms of political representation are more likely to be missing. Frequently, these informal institutions are created through habits, customs, cultures and values that can act like formal institutions. These institutions have power and can influence buy-in and implementation of reform by rallying support in one direction or another.

The OECD work on inclusive institutions can help to identify specific parameters for measuring effectiveness and inclusiveness of governance. Specifically, it will explore the link between inclusive institutions, national well-being and inequality and identify key elements of inclusiveness of public institutions, policy benchmarks and country examples of transforming institutions towards greater inclusiveness. The OECD work on integrity and open government will address implementation gaps in areas as critical to accountability as conflict of interest, regulation, lobbying, openness, access to information or citizen engagement. More specifically, the work on transparency of lobbying will address the issues of how to provide a fair and equitable access to the policy process to all stakeholders, thereby contributing to policy inclusiveness. It will also focus on addressing the risks related to pre-and post- public employment (revolving doors).

BUILDING TRUST - INCLUSIVE POLITICS

Building trust in public institutions and policy processes is crucial, and never more so than in the present context where trust has been damaged in many countries hit by the crisis.

Substantial regulatory and governance failures, financial scandals and the evident weaknesses of lobbying and transparency regimes have contributed to a "trust deficit" in many countries. Yet, even if the demand for a new kind of politics is growing in many countries, the current economic conjuncture may complicate progress in practice. First, citizens already alienated from politics are cynical about politicians' ability and willingness to engage with reformed institutions. Second, a prolonged period of subdued growth or contraction will sharpen distributional conflicts and may make change even more threatening to vested interests than in better times. For example, the literature on "endowment effects" and "loss aversion" suggests that, given equal resources and similar positions, potential losers from reform will mobilise faster than potential winners. And, research on the relationship between trust, social cohesion and institutions suggests that progress in building more inclusive processes and institutions may depend in part on existing levels of trust and social cohesion.

Elections matter. It is important to have an electoral mandate for reform. This is one of the strongest findings that emerged from recent OECD work on "making reform happen". It is not enough to win an election or command a parliamentary majority, though; it also matters a great deal if the government has made the case for reform to the voters ahead of an election. Moreover, the electoral process is (or should be) the most effective mechanism available for mobilising and giving voice to "outsiders", who lack organisational and financial resources. Giving voice to outsiders is critical to building the political momentum for greater inclusion.

Citizens' participation in public matters should however go beyond electoral terms. Civil society can play a critical role in stimulating the "demand side" of sound governance by strengthening direct accountability of public officials for specific actions (including between elections) through 1) fostering active citizenship and strengthening voice and capacity of various groups of citizens to demand accountability and responsiveness from public officials; 2) providing scrutiny of public actions and inactions and 3) strengthening citizen's ability to engage with policy makers in a more informed, and constructive manner. In addition, civil society has the potential to influence public action for more inclusive provision of public goods and improved public service delivery and to bring to the attention of policy makers gaps in the current policy framework, contributing to more informed policy design and more effective and inclusive policies.

POLICY CO-ORDINATION

Given the multi-faceted character of Inclusive Growth, effective administration and co-ordinated action across multiple policy domains and levels of government are crucial. For example, the distributional consequences of environmental policies, as well as their implications for performance in other areas, like skills development, need to be considered and addressed in parallel with environmental policy reforms, not afterwards. Another example concerns changes in tax and benefit systems, which are too often undertaken in isolation to achieve specific ends. These objectives need to be considered in the context of the entire system of taxes and benefits that shapes individual incentives and distributive outcomes, confronting individuals with abrupt changes in, *e.g.* marginal tax rates, or producing outcomes where individuals with very similar characteristics are treated very differently. This is a major challenge!

The OECD has long stressed the need for such co-ordination, emphasising "whole-of-government" approaches or "joined-up government". In practice, however, this has proven difficult, and many policies continue to be made in sectoral "silos". There are two main challenges in this area:

- To identify the policy interactions that matter most in terms of the "knock-on effects" of one policy on other policies. For example, many aspects of transport and infrastructure policy have profound implications for land-use planning, environmental protection and even labour-market policies. Shedding light on these complementarities is an important objective of the framework proposed in Session 2.
- To identify the governance mechanisms, such as for inter-governmental consultations, for example, that can be used to ensure that co-ordination takes place, in the interest of both avoiding policy incoherence and, wherever possible, realising potential complementarities among different strands of policy.

Improved co-ordination at the policy level may well help to resolve the political economy challenges associated with Inclusive Growth. Bundling reforms together in cross-sectoral packages may make it easier to reach agreement on reforms, as the costs and benefits of policy initiatives can be more widely distributed, and those threatened by one measure may benefit from another.[40] Moreover, as discussed in Sessions 1 and 2, the identification of policy complementarities may make it possible to generate better outcomes in terms of overall performance – combining growth and inclusion rather than trading them off against each other.

3 Cs - Communication, Consultation and Consensus

Clear communication of the long-term objectives of reform is particularly important, especially during a crisis. However, communication should not be confined to "marketing"! Real communication with societal actors involves listening to their concerns and may result in some modification of reform proposals. This can improve their quality, as well as prospects for their adoption. Key stakeholders, even if defending their own interests, may raise legitimate concerns or offer critiques based on superior technical knowledge. In such cases, taking their criticisms into account may increase trust, reduce opposition and improve the proposal all at once.

Inclusive, consultative policy processes pay dividends over time. They are no guarantee against conflict, but they seem to contribute to greater trust among the parties involved. OECD work on "making reform happen" also points to the importance of strong leadership, by an individual or an institution in charge of carrying out a reform. However, this should not be read as endorsing a top-down approach or a preference for unilateral action. OECD experience suggests that successful leadership is often about winning consensus, rather than overcoming opposition or securing compliance.

Issues for discussion

- What are the most effective steps governments can take to implement Inclusive Growth reforms? Which additional demands on policy makers do Inclusive Growth policies make compared to "traditional" pro-growth policies? How can those alienated from politics and policy processes be drawn into active participation in the design and implementation of Inclusive Growth policies?
- Is there a need for a new multidimensional policy framework that breaks the typical "silo" approach to policy making? In what ways can institutions contribute to Inclusive Growth? What role can civil society play in promoting more inclusive policies and shaping more inclusive institutions?
- How can policy makers muster sufficient support and ensure buy-in from relevant stakeholders (*e.g.* lending institutions, private sector, non-governmental organisations, local-level decision-makers, community-based organisations, etc.)? How can resistance from interest groups that benefit from the status quo be softened or overcome?

Further reading

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15 OECD (2010b), PISA 2009 Results: Overcoming Social Background – Equity in Learning Opportunities and Outcomes (Volume II), OECD Publishing.

16 WHO (World Health Organization) (2012), *Mortality and Global Burden of Disease, Global Health Observatory*, http://www.who.int/gho/mortality_burden_disease/en/, accessed 13 February 2013.

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20 OECD (2008), *Environmental Outlook to 2030*, OECD publishing.

21 WHO (2004), "Water, Sanitation, Hygiene Links to Health: Facts and Figures", , WHO Library Cataloguing-in-Publication Data, Geneva, http://www.who.int/water_sanitation_health/publications/facts2004/en/.

22 OECD (2010),Cities and Climate Change (2010), OECD publishing.

23 The "jilted generation" is taking from the name of the book of Ed Howker and Shiv Malik, two young journalists arguing that in stark contrast to their parents' generation, millions of young Britons today face the most uncertain future since the early 1930s. Radical, angry and passionate, Jilted Generation takes a closer look at who's to blame for locking out Britain's youth - and leaving our country not just broken but broke.

24 OECD (2013a), *Jobs, Wage and Inequality*, OECD publishing (forthcoming). The data for non-standard work arrangements refers to the broadest definition of "non-standard work", including self-employed and all part-timers and temporary jobs (whether involuntary or not). For instance, around 70% of all part-timers define themselves as voluntary part-timers.

25 OECD (2009), Is Informal Normal? Towards More and BetterJjobs in Developing Countries, OECD Publishing.

26 Job strain refers to jobs which are psychologically demanding but leave limited decision latitude. It is assumed that work-related stress and job strain primarily arise from structural/organisational aspects of the work environment (Karasek, 1979). More specifically, it is argued that different kinds of jobs introduce different levels of work stress due to three main factors: the amount of work needed to be done (known as job demands); the degree of decision-making authority an individual has; and the extent to which an individual can choose to employ his or her skills (the sum of the latter two are known as decision latitude).

[27] The Social Institutions and Gender Index (SIGI) is a composite measure of discrimination against women for non-OECD countries. While common gender indices measure outcomes such as education and employment, the SIGI instead captures laws, social norms and practices such as early marriage, violence against women and restricted property rights. As such, the SIGI brings to light dimensions of gender inequality that are often invisible. The SIGI contains 14 variables grouped into five dimensions: Discriminatory Family Code, Restricted Physical Integrity, Son Bias, Restricted Resources and Entitlements and Restricted Civil Liberties. The first edition of the SIGI was launched in 2009 and the index was subsequently updated in 2012. More information at www.genderindex.org.

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[35] OECD and WHO (2012), *Health at a Glance: Asia/Pacific 2012*, OECD Publishing.

[36] OECD PISA 2009 Results: Annex B2 - Results for regions within countries.

[37] OECD (2011c), Regions at a Glance, OECD Publishing.

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[39] See data on union membership in Visser (2006), which shows that unionisation rates fall with age and tend to be very low among those on casual, temporary or part-time contracts. Of course, this is not merely a question of unions' choices: some of these groups are particularly difficult to organise and mobilise. Full reference for the note: Jelle Visser (2006), "Union Membership Statistics in 24 Countries", Monthly Labor Review, January.

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