

POLICY AREA:

Global inequalities and social cohesion

Reducing inequalities and strengthening social cohesion through Inclusive Growth: a roadmap for action

Romina Boarini (OECD)

Orsetta Causa (OECD)

Marc Fleurbaey (Princeton University)

Gianluca Grimalda (IfW)

Ingrid Woolard (Cape Town University)

March 24, 2017

Abstract

We propose a policy compact to achieve more inclusive growth in G20 countries so that economic growth regains the ultimate sense of improving all people's lives. Guiding principles are: 1) social cohesion is not just about income but about all relevant dimensions of well-being and determinants of social status; 2) it is also about including people in participatory decision-making to enhance their dignity and control over their lives; 3) integrated policy approaches are needed, across policy domains and between national and global actions, including migrations. Concrete policy actions are described that span education, labor, fiscal instruments, public and private governance.

Challenge

Income inequality has risen within many countries, especially among the advanced G20 economies, since the 90's. Global income inequality has decreased as a consequence of convergence from fast-growing economies, but remains high by all standards. This process of growth has been uneven. More than a billion people have been lifted out of extreme poverty, but the world's poorest and the middle classes in the developed world have seen, on average, no significant income gain over the past 25 years. Conversely, people at the top of the world income distribution have amassed even larger incomes. Those who are left behind are confronted with insecurity, while lacking means and skills to adapt to a changing economy and fast technological change. They perceive not to have benefitted from globalization and are calling into question economic openness. A backlash against globalization and global economic integration may turn out to further hurt the least advantaged. The global nature of these processes makes national policies less effective. This may jeopardize the whole social contract and the political stability that stems from it. Pursuing inclusive growth, as recommended by the 2016 G20, is a major global challenge that requires both national and international efforts. Inclusive growth is the process of creating shared prosperity in many well-being dimensions, not just economic ones.

Key recommendations

1. Share the benefits of increased prosperity and globalization more evenly across social groups.
 2. Devise policies that consider the multidimensional nature of prosperity and how the various well-being outcomes are distributed in the population.
 3. Ensure that all individuals are equipped to fulfil their productive potential with adequate investment in skills and health and good opportunities for quality jobs to keep pace with an increasingly globalized and digitalized world.
 4. Make sure that the voices of all citizens are heard by promoting wide participation to political and economic decisions in particular from less engaged groups. Foster transparency in decision-making processes and prevent capture by special interest groups, at all levels.
 5. Counter the rising tide of anti-immigration voices by developing effective migration and integration policies and by explaining the benefits from immigration. Step-up international cooperation to manage migration flows at the global level.
 6. Making inclusive growth happen requires evidence-based reasoning. More timely data are needed to understand the conditions under which economic growth translates into higher well-being outcomes.
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Proposal

Our Vision

1. **Inclusion is not just about income but all aspects of people's well-being, including the capacity to shape political decisions:**

Inclusive Growth is about enhancing well-being for all:

Inclusive growth is not just about ensuring income adequacy or economic security for different income groups. It is about improving a wide range of outcomes that matter for well-being such as employment prospects, job satisfaction, health and educational outcomes. Many of those outcomes are heavily conditioned by peoples' opportunities which are themselves heavily affected by peoples' socioeconomic status. The most disadvantaged often live shorter lives and find it difficult to break away from a vicious circle of educational underachievement, low skills and poor employment prospects. Vulnerable social groups are also affected disproportionately by pollution and are often ill-equipped to cope with environmental degradation. Within countries, some regions, and even neighborhoods within cities, prosper while others lag behind.

Policies for Inclusive Growth require an integrated approach:

Addressing the multidimensional nature of inequalities and lifting outcomes and opportunities for those that cumulate disadvantages effectively requires an integrated approach to policymaking, in contrast with a traditional siloed approach. For instance, conditional cash transfers may be more effective if designed and implemented to span multiple dimensions of well-being such as children education, health care and more broadly household consumption expenditures. This requires coordination across multiple ministries for the implementation of the programs which can prove challenging especially for emerging economies. There are however successful examples of coordinated policies even in those countries: for instance, Brazil's Bolsa Familia and Mexico's Prospera program that combine several policies into an integrated package have proved effective at reducing income inequalities (World Bank, 2016).

Inclusive Growth requires a strong involvement of people in collective and political decisions:

Inclusive growth is not only about outcomes and opportunities but also about processes. It requires making citizens feel respected and able to participate in the decisions that affect their lives. At the

current juncture, there is a clear perceived lack of legitimacy in the way that globalization has been taken forward. Critics of the process portray it as having been captured by powerful corporations and financial institutions, and beset by insufficient transparency and accountability to citizens. Anti-establishment protests (in votes or in the streets) reflect a widespread perception that selfish and greedy elites have broken the social contract by creating a situation in which many decisions are taken without sufficient accountability and without consulting the affected populations. The strong desire of people to be respected and in control of their conditions seems universal: for instance, surveys among the most destitute populations show that, even in cases in which economic deprivation seems the obvious priority, the prime concern of these populations is not just about their economic condition but about dignity, respect, and participation (ATD Fourth World 2013, 2015).

2. Promoting new narratives to fully integrate migrants and shape global identities

In the political debate migrants are often portrayed as undeservingly claiming benefits from the recipient country without having contributed to the common good. This adds to the perception that the redistribution system is overall unfair, because it does not reward people equitably (Gilens, 1999; Alesina and Glaeser, 2004; Fong et al., 2005). Governments need to take action to address this growing dissatisfaction with the “social contract” in the presence of migrants. New narratives should be developed, which project migrants as integral members of the societies, contributing net wealth to the economy and increasing the skills endowment and the innovation potential on which a society can rely upon (Ottaviano and Peri, 2005; 2012). Increasing the perception that migrants are legitimate actors in the society may help to considerably reduce natives’ sense of dissatisfaction with it. Effort should be spent on encouraging the construction of social identities that are transnational in character. Psychological research has explored and tried to typify the “cosmopolitan” personality, showing that cosmopolitan people are generally more prepared to act for the common good (Buchan et al., 2009; McFarland, 2011; Buchan et al., 2012; McFarland et al., 2012; Reese et al., 2012). This is the case not just at the global level, but also at the national and local level, in comparison to others. Contrary to the idea that cosmopolitans would lose loyalty to local and national communities, they instead seem to be willing to act to their benefit.

Policy pillars of Inclusive Growth

The building blocks of inclusive growth policies: in seeking to make growth more inclusive, governments should focus on the following broad policy areas (see OECD 2017, chapter 2):

- *Ensuring broad access to quality education and upskilling.* Education shapes each individual’s life chances and is closely related to skills and training which in turn increasingly determine people’s ability to earn a decent living; education also provides dignity and enables citizens to fully participate in society. Policy reforms should address the needs of young people from pre-school to university, so that they get the best start in life and the support they need throughout their education. The focus is on enhancing civic and cultural capabilities, equality of opportunities, and securing adaptability of the work force to increasingly rapid transformations in jobs and changing demand for skills.
- *Lifting the quantity and the quality of jobs and addressing labour market insecurity and segmentation.* Policy reforms should aim at creating quality jobs while integrating specific socio-demographic groups that are underrepresented in the workforce, most notably young people and women, and preserving the inclusion of senior workers. Governments must minimise the risk that vulnerable youth – such as early school leavers who are neither employed nor in education or training – will be permanently left behind in the labour market. Creating more and better jobs also requires tackling labour market duality and segmentation, including informality in the case of emerging economies. Social policies toward families and children can play a key role toward women’s participation, and contribute to gender equality.

- *Enhancing the effectiveness of taxes and transfer systems in reducing income inequality and poverty.* Many countries have room for making their tax and transfer systems more equitable and at the same time more efficient. This includes designing social transfers with a view to protecting individuals and families who need it while ensuring that work pays for those at the low-end of the income distribution and for women, as well to limiting tax breaks and allowances that disproportionately benefit high-income households.

A roadmap to Inclusive Growth: National level

We propose the following means to achieve the general goals set out above. Their relative emphasis and combination will depend on country-specific challenges, context and social preferences:

- Ensuring universal access to quality public goods and services, in terms of health and good quality education as well as good quality infrastructure, with an emphasis on electrification and improved water and sanitation services in emerging economies.
- Expanding the social protection net by reducing unequal access between regular (formal) and non-regular (informal) workers, including workers of the sharing economy and of similar precarious status; hence extending unemployment benefits coverage and increasing generosity in countries where these are low; as well as well-designed minimum wages to address in-work poverty and risk of excessively low pay, for instance in emerging economies.
- Introducing or stepping-up conditional cash transfers in emerging economies, focusing on efficient beneficiary targeting and precise evaluation of transfer effectiveness.
- Making the tax system more equitable by: i) reducing tax breaks that disproportionately benefit the rich, such as for owner-occupied housing or retirement savings, and ii) making more use of inheritance taxation by levying it at the receiver level (see Atkinson 2015 for a discussion) so as to curb wealth inequality and its transmission across generations.
- Promoting job creation and labor-friendly technical innovation by reducing the reliance on distortive taxation of labor and shifting toward less distortive taxation such as environment-related and immobile-capital taxation, whilst addressing potential adverse distributional effects by income compensation mechanisms targeted at low-income groups, particularly from an energy affordability perspective.
- Establishing country-level coordinated systems of wage bargaining that counter undesired increases in the dispersion of wage and productivity in the context of slowing productivity (OECD, 2016a); as the experience of Scandinavian countries shows, a “social contract” based on a more equitable distribution of market incomes and strong R&D investment can combine equity, inclusiveness and fast technological change, hence reviving productivity while ensuring a better distribution of its dividends (Agell and Lommerud, 1993; Moene and Wallerstein 1997; Barth et al., 2014; 2015; Atkinson, 2015).
- Enhancing social dialogue between the private sector, civil society, trade unions and business associations, and other relevant stakeholders to promote an inclusive education system, which expands opportunities for people of all ages and backgrounds to develop their human capital, acquire relevant skills and improve their employment and overall life prospects; as well as an inclusive labour market, in which women, youth, seniors, immigrants, people with disabilities, and people of all social and ethnic backgrounds have access to quality employment opportunities.
- Incorporating inclusive growth commitments into daily business practice and the adoption of responsible business conduct: encouraging good corporate governance practices that are inclusive and improve the well-being of all stakeholders including workers, suppliers, customers, and local communities.
- Combating gender inequality under all its forms, in income and non-income dimensions; this includes removing policy barriers that prevent women from participating in the labour market at their full potential hence enhancing the provision of good quality childcare, addressing

horizontal inequities in taxation, and fostering anti-discrimination measures; tackling the remaining gaps in education and access to capital; and, last but not least, fighting gender discrimination and violence against women.

- Enhancing migrants' integration in society, for instance in the labour market: lowering barriers to employability, focusing on better recognition of skills acquired abroad and expansion of language courses; as well as ALMPs and coaching to address potential information hurdles beyond language barriers.
- Developing educational and awareness campaigns to reduce discrimination against migrants, demonstrating their long-run net benefits to the economy and to the society.
- Introducing mechanisms to monitor campaign and party funding, as well as funding and governance of the media, in order to avoid political capture by wealthy elites and the disenfranchisement of ordinary citizens.
- Supporting a social and no-profit solidarity sector that generates positive social externalities and enhances civic participation.

The details of policy packages that deliver inclusive growth will depend on each country's specific circumstances, governance and institutional settings. This means recalibrating 'silo' policies to address these challenges. Indeed, in all countries, designing and implementing these policy packages requires a renewed approach to policy making where different government departments, agencies and ministries work together to deliver joined-up solutions and where the regional and spatial dimensions of policies are taken into account. Mechanisms to strengthen public governance, including a whole-of-government approach, and reinforce public institutions and avoid rent seeking and corruption are especially important.

A roadmap to Inclusive Growth: Global level

Given the global nature of the IG challenges in an increasingly interconnected world (see Ortega et al., 2017), deepening international collaboration and co-ordination will be required in a number of areas, underpinning the following recommendations:

- Increased cross-country coordination and global rule-making, particularly within the G20, is needed to spread the benefits of globalisation more inclusively worldwide. This is needed in many areas including taxation, product market regulation, innovation and intellectual property rights. Fair global governance requires advanced countries and emerging economies to interact with each other on an equal footing. Nonetheless, some countries may need capacity-building to facilitate policy implementation and reporting.
- Pursuing international cooperation in the area of automatic exchange information to address tax avoidance and evasion and shut down offshore tax havens; and in the area of corporate taxation through implementation of the measures agreed to as part of the OECD/G20 Action Plan on Base Erosion and Profit Shifting (OECD, 2013).
- Implementing climate policies at a global scale; policies such as introducing carbon pricing and removal of fuel subsidies would make growth sustainable and improve health. A possible regressive effects of such policies may be avoided through suitably designed redistribution policies (Thang Dao Nguyen et al., 2017).
- Enhancing policy coherence between different areas of policy intervention and objectives, for instance re-examining the relationship between trade agreements and both labor and environmental standards.
- Opening a global dialogue and spreading international standards in areas such as corporate governance, competition policy, responsible business conduct, environmental protection and anti-corruption practices. Enhancing the role of international organisations in global governance, by greater focus on stakeholder engagement and implementation in standard-setting and through engagement with the G20 and other international fora.

- Reinforcing WTO multilateral trade sanctions mechanism as penalty for lack of responsible business conduct in particular over labour and environmental standards.
- Facilitating the exchange of good practices among networks of civil society, for instances among city governments and other key stakeholders on effective policies to achieve inclusive growth in cities (OECD, 2016b).

Data for tracking progress and spurring action for IG: Notable progress has been achieved over the recent past in measuring income inequality and assessing its policy drivers. Unfortunately, non-income dimensions of well-being, such as health and its distribution across income groups, are not yet well covered by the various Inclusive Growth frameworks. Overcoming data constraints is key to identifying robust empirical relationships between multidimensional living standards and policies, as well as to ensure the responsiveness of outcomes to policy intervention. Against this background, two major recommendations stand out:

- Improving the depth, breadth, timeliness and international comparability of datasets and statistical instruments underpinning the measurement of Inclusive Growth;
- Developing analytical capacity to measure IG patterns and understand its policy drivers, especially among G20 emerging economies.

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Implementation Overview

Significant progress has been made in devising and implementing Inclusive Growth strategies at both national and cross-national levels over the last few years. Such progress is corroborated by major international conventions that create a level playing field on tax policy. These empower countries to exert control over tax revenues and reinvest them in expenditures raising well-being for the neediest. Commitment to foster shared prosperity more broadly is further signaled by the strong emphasis on leaving no one behind in the 2030 Agenda. The implementation of country-specific policy packages is further needed to foster inclusive growth dynamics on a structural basis.

Existing Agreements

Sustainable Development Goals – Goal 10 “Reduce Inequality within and among countries”

Goal 10 explicitly states that “...Economic Growth is not sufficient to reduce poverty if it is not inclusive and if it does involve the three dimensions of sustainable development – economic, social and environmental.

Europe 2020 strategy

It was adopted by the European Council in June 2010. It aims at establishing a smart, sustainable and inclusive economy with high levels of employment, productivity and social cohesion, for the decade 2010-2010.

Existing Policies and Monitoring

OECD/G20 Base Erosion and Profit Shifting (BEPS) package.

The proposal for broadening participation in the OECD/G20 BEPS Project was endorsed by the G20 Finance Ministers at their meeting on 26-27/2/2016 in Shanghai and was welcomed by the G20 Finance Ministers and Central Bank Governors at their meeting on 14-15/4/ 2016 in Washington D.C. 86 countries have so far committed.

<https://www.oecd.org/g20/topics/taxation/beps.htm>

OECD Anti-Bribery Convention;

The OECD Anti-Bribery Convention establishes legally binding standards to criminalise bribery of foreign public officials in international business transactions and provides for a host of related measures that make this effective.

<http://www.oecd.org/corruption/oecdantibriberyconvention.htm>

OECD Guidelines for Multinational Enterprises.

They offer governments' recommendations to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct. They are the only multilaterally agreed code of responsible business conduct that governments have committed to promoting. 42 governments had agreed, as of 2011.

<http://www.oecd.org/daf/inv/mne/48004323.pdf>

OECD's standard on exchange of information.

It aims at the implementation of international standards on tax transparency. It ensures that these high standards of transparency and exchange of information for tax purposes are in place around the world through its monitoring and peer review activities. Over 130 jurisdictions have agreed.

<http://www.oecd.org/tax/exchange-of-tax-information/>

OECD Inclusive Growth Initiative

In 2012 the OECD launched its Inclusive Growth Initiative, a novel approach to analyze and address rising inequalities, monitor material living standards and broader well-being, and design underlying policy packages. OECD Ministers endorsed the Inclusive Growth agenda and called for its advancement. They stressed that inequalities are multidimensional and that better access to employment opportunities, health and education services, is needed to tackle them. They mentioned the need to link pro-growth policies with equity objectives, highlighting policies to boost productivity, ensure fair competition, promote efficient labor and product markets, address tax evasion and avoidance, and stimulate investment, innovation and entrepreneurship.

<http://www.oecd.org/inclusive-growth/>

Data and analysis

OECD reports

Several **OECD reports** specify the notion of Inclusive Growth, clarify its theoretical underpinnings, define its measurement, and map the progress towards achieving it.

- Boarini, R. et al. (2016), “Multi-dimensional Living Standards: A Welfare Measure Based on Preferences”, OECD Statistics Working Papers, 2016/05, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5jlpq7qvxc6f-en>
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- Veneri, P. and F. Murtin (2016), “Where is inclusive growth happening? Mapping multi-dimensional living standards in OECD regions”, OECD Statistics Working Papers, 2016/01, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5jm3nptzwsxq-en>
- OECD (2017), Going for Growth, Paris: OECD Publishing

Progress towards the Sustainable Development Goals Report of the UN Secretary-General, 3 June 2016.

Points 72 through 77 of the report details aggregate progress towards Goal 10 of the Sustainable Development Goals for 94 countries.

http://www.un.org/ga/search/view_doc.asp?symbol=E/2016/75&Lang=E

Report of the International Panel on Social Progress

The International Panel on Social Progress brings together several hundred experts from different academic disciplines and from all around the world to offer science-based assessment of the state of social progress around the world. The range of topics covered includes democracy and citizenship, poverty, inequality and well-Being, global risks and resources, the labor market, global health, gender, urbanization, education and communication.

The first draft of the report is available at: <https://comment.ipsp.org>

OECD (2016). “The Productivity-Inclusiveness Nexus”, Paris: OECD Publishing.

This report gathers empirical evidence on the factors behind slowing productivity gains and rising inequality; it suggests possible linkages between these two trends; it draws preliminary conclusions on the type of policy packages that are needed and on the implications for policy making.

<https://www.oecd.org/global-forum-productivity/library/The-Productivity-Inclusiveness-Nexus-Preliminary.pdf>

Eurostat (2016). “Smarter, greener, more inclusive? Indicators to support the Europe 2020 strategy”

It supports the Europe 2020 strategy by monitoring progress towards the targets and goals defined under the three mutually reinforcing priorities of smart, sustainable and inclusive growth.

<http://ec.europa.eu/eurostat/web/products-statistical-books/-/KS-EZ-16-001>