



# *Inclusive growth: challenges and policies*

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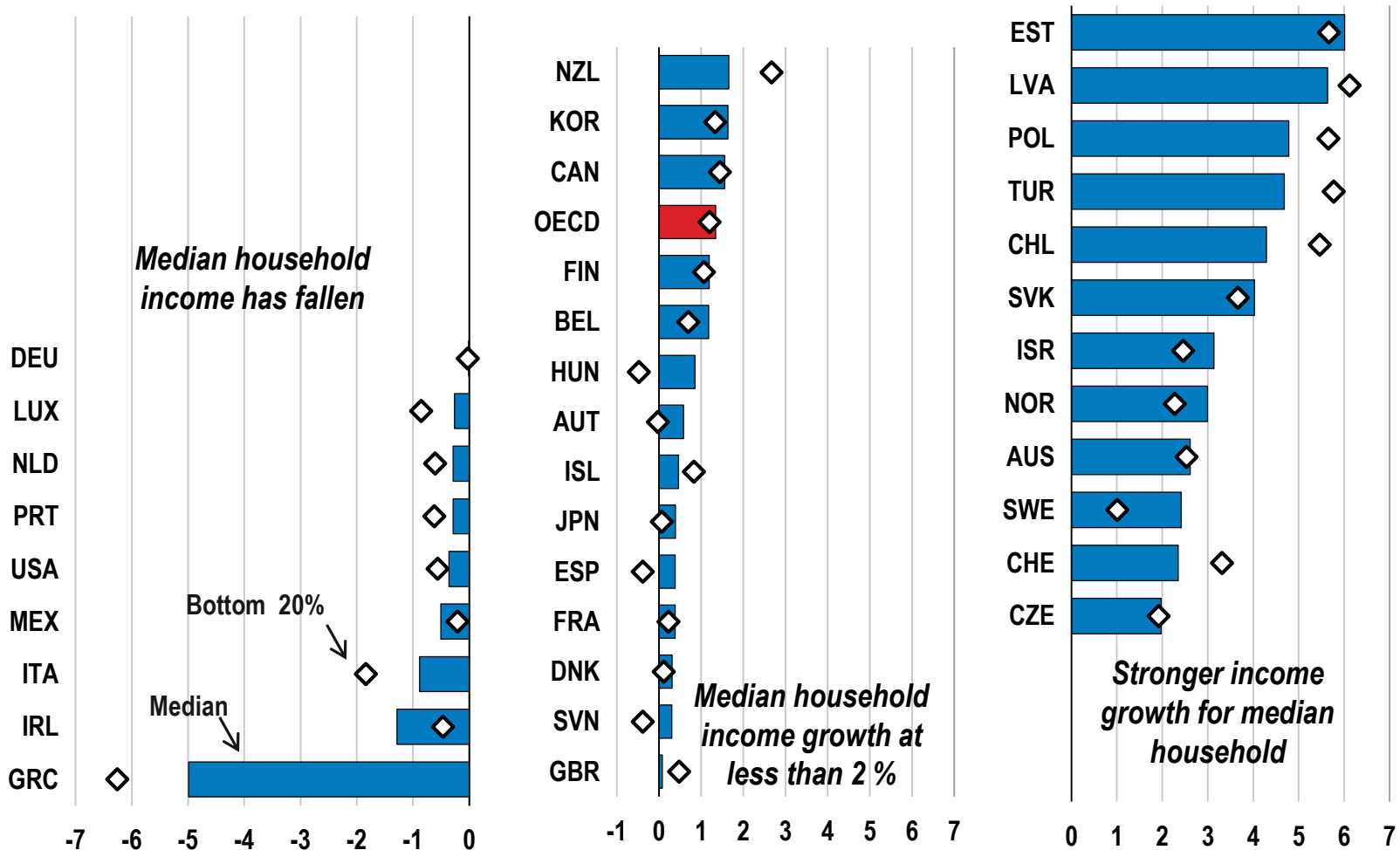


# CHALLENGES FOR INCLUSIVE GROWTH



# Most people in many OECD countries have seen little or no income growth for a decade

Growth in household disposable income (average annual rate, mid-2000s to latest year)  
 OECD countries, households at median and bottom 20% income levels



Source: OECD Income Distribution Database.

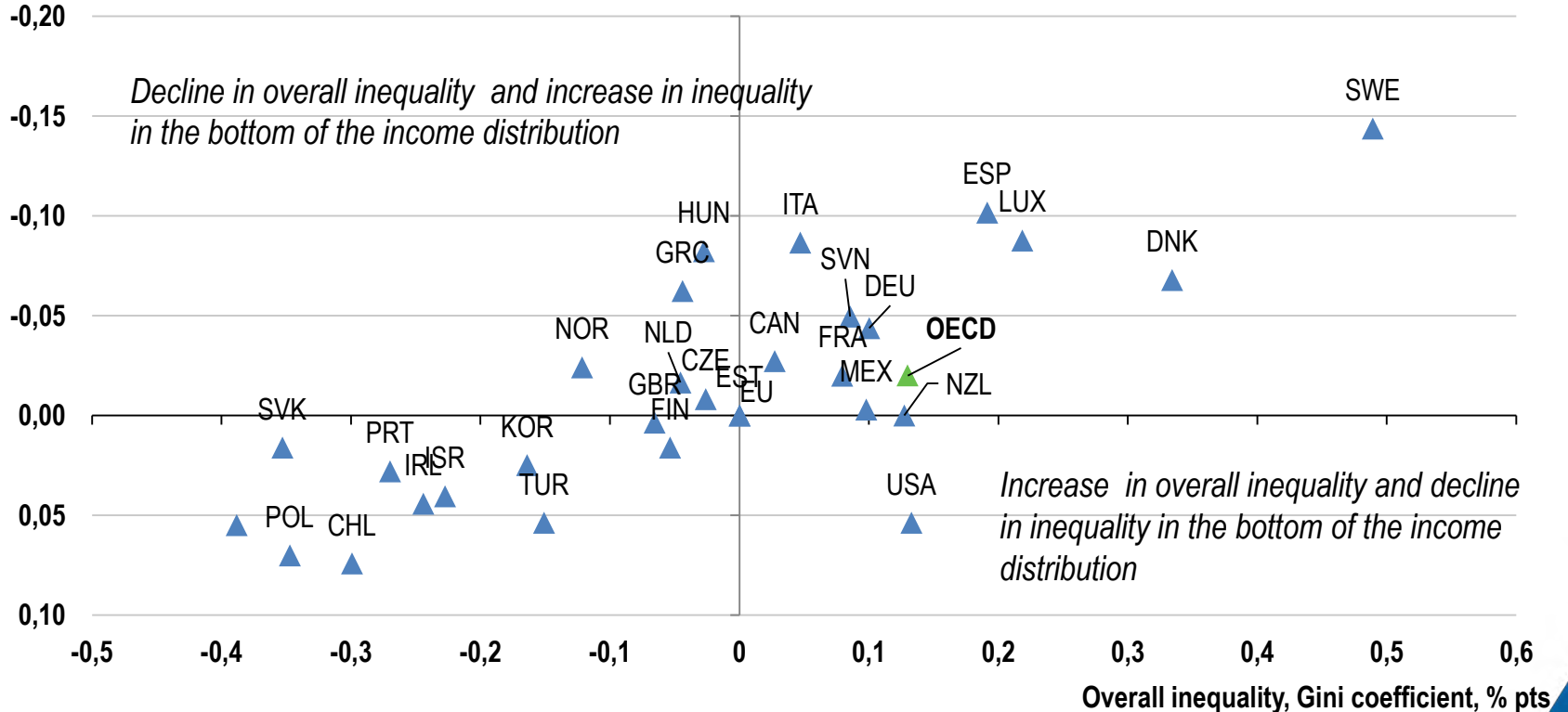


# Inequality has increased especially at the bottom of the distribution

## Gini vs Income share held by bottom 20%

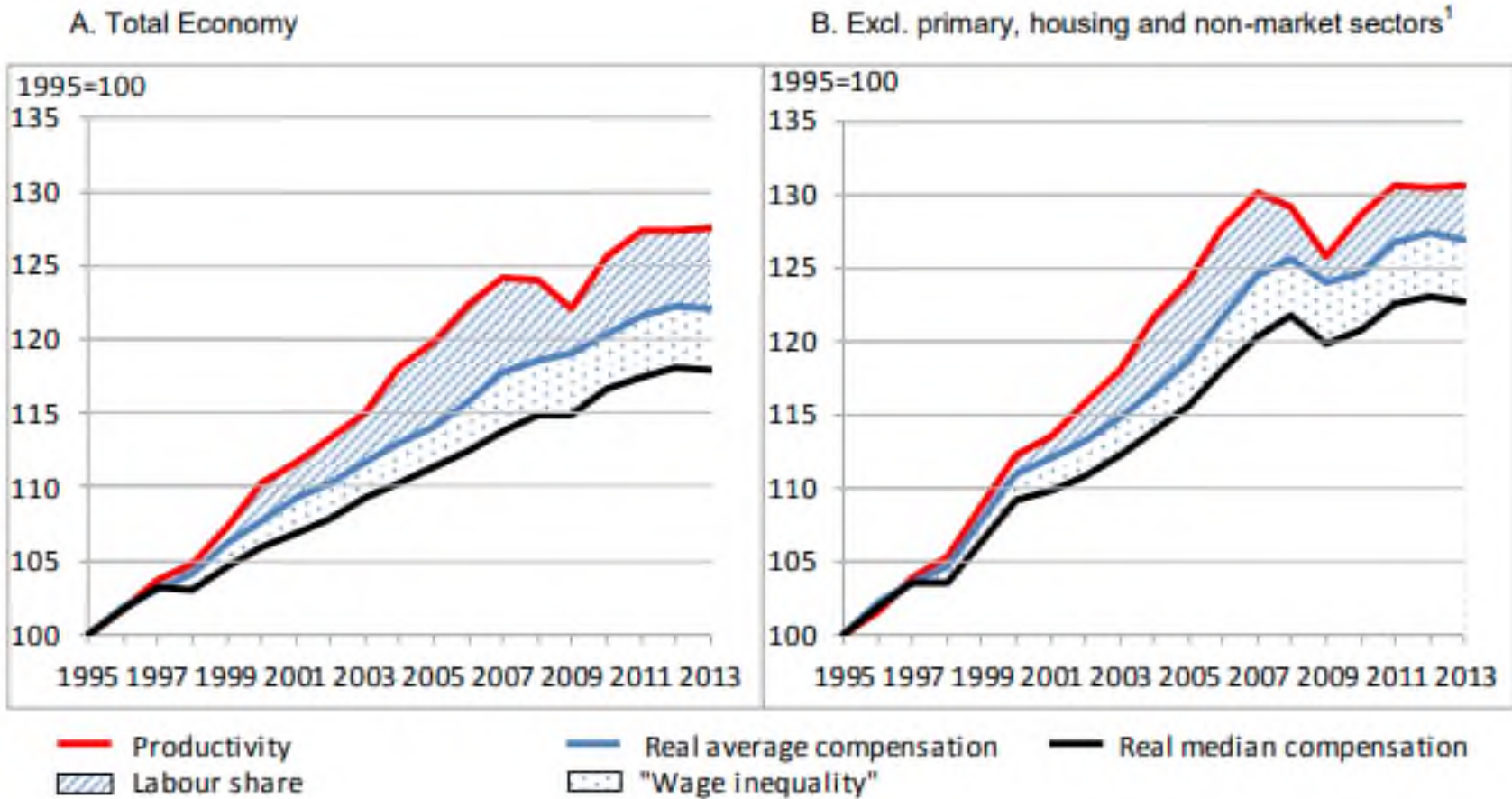
Average annual change from mid-2000s to latest available year

Inequality measure with emphasis on the bottom of the income distribution,  
income share of bottom 20 per cent, % pts





# The labour share has declined

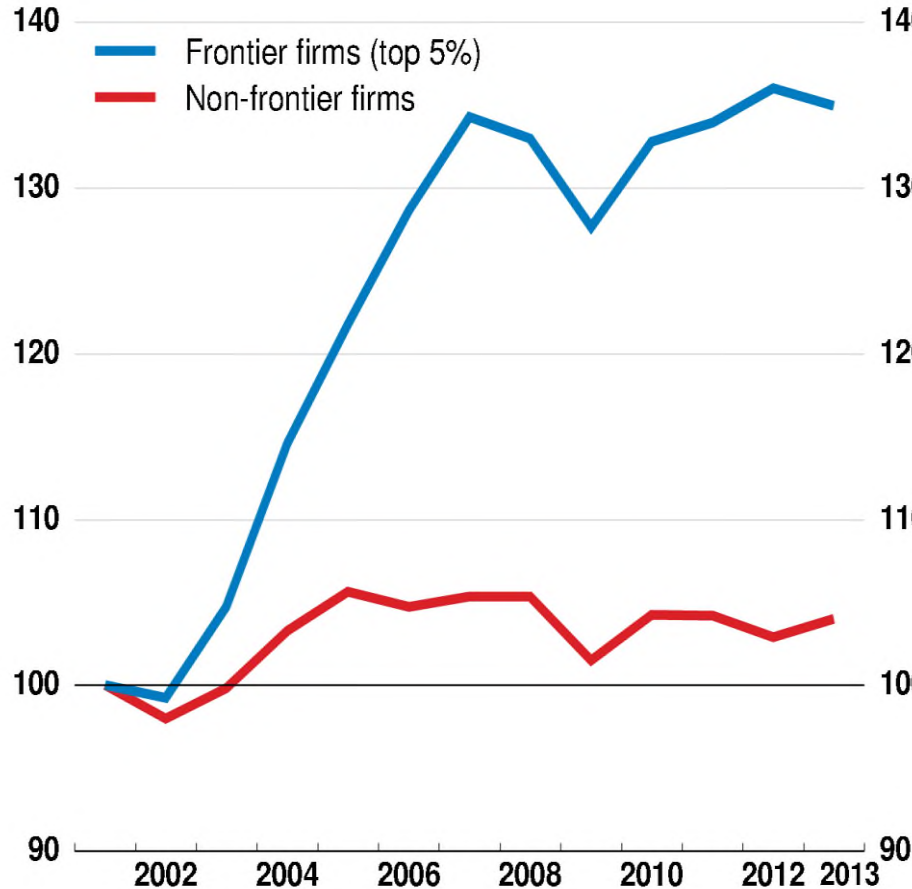




# Productivity gaps have widened, and wage inequality is increasing

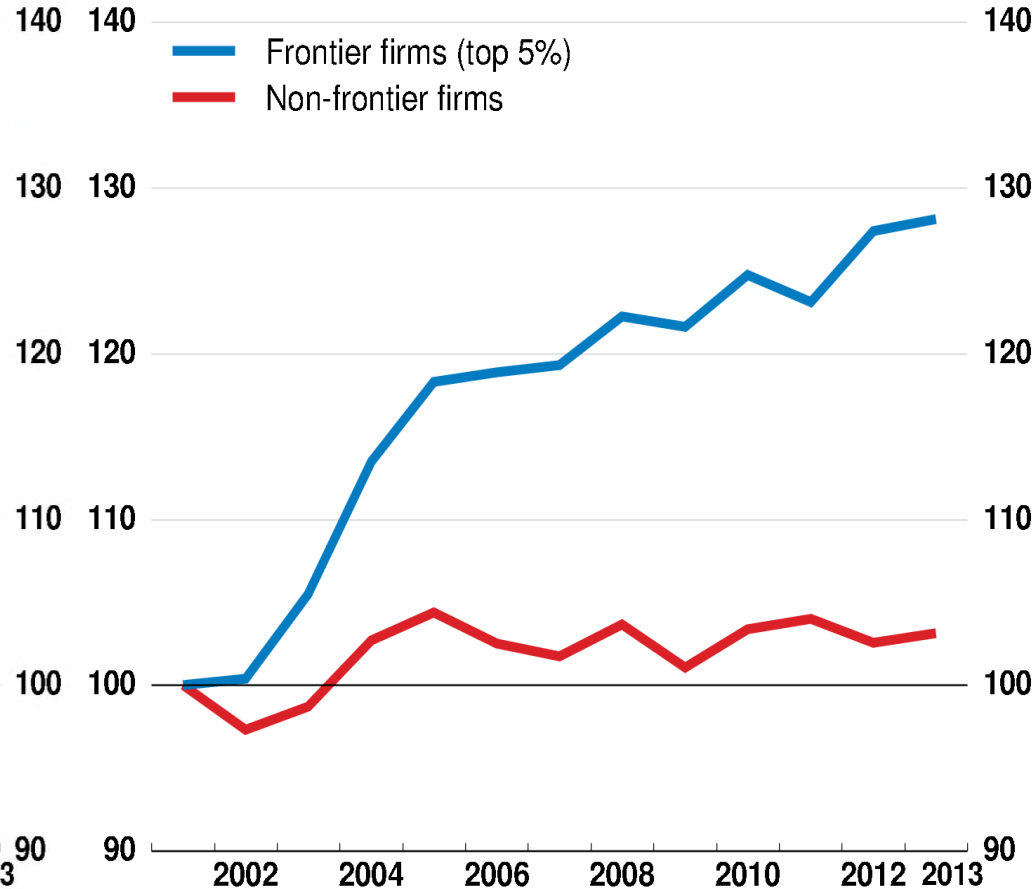
## Labour productivity

Index, 2001 = 100



## Real compensation per worker

Index, 2001 = 100



Note: Frontier firms are the 5% of firms with the highest labour productivity by year and sector. Industries included are manufacturing and business services, excluding the financial sector, for firms with at least 20 employees.

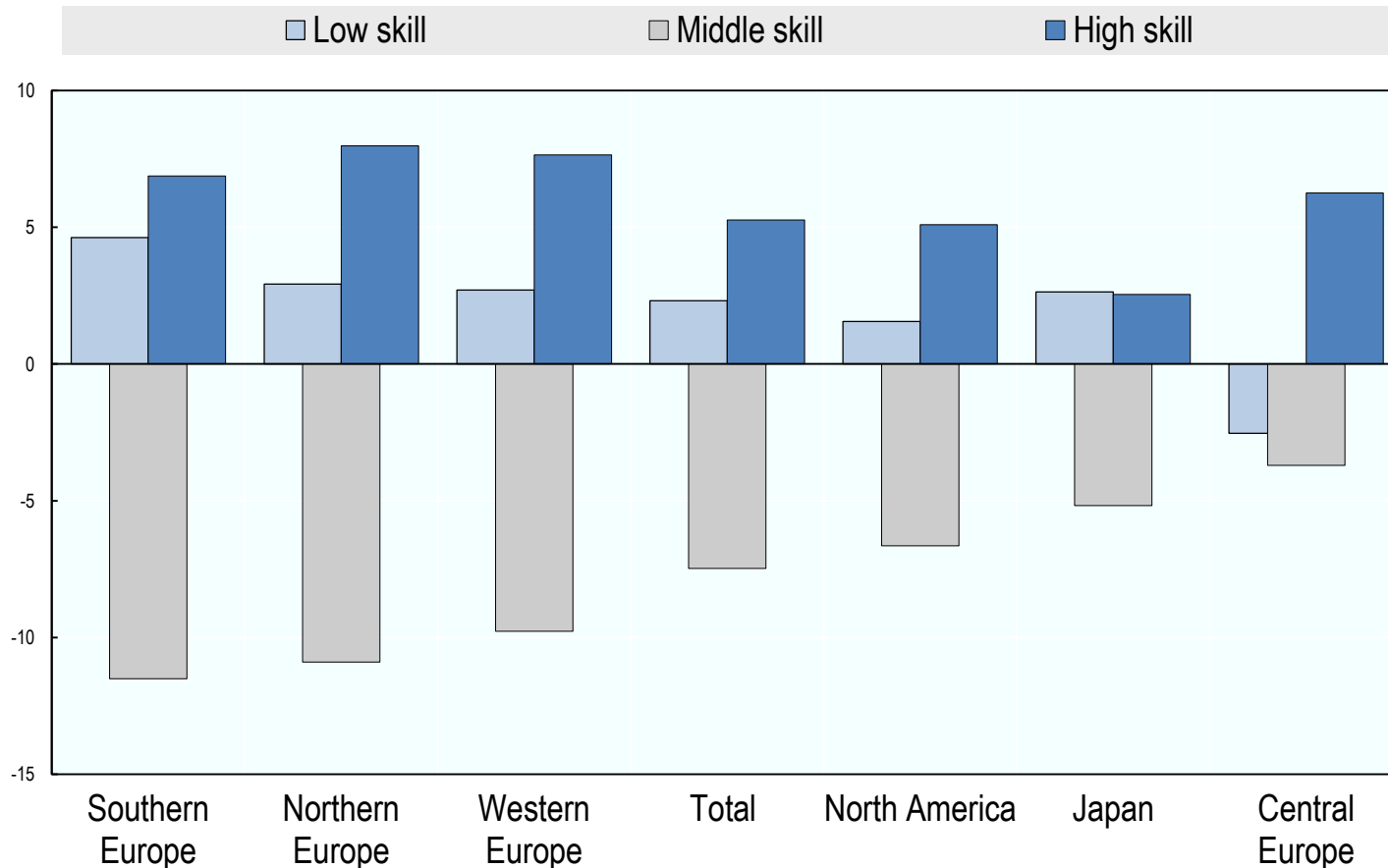
Source: Andrews, D., Criscuolo C., and Gal P. (2016), "The Best versus the Rest: The Global Productivity Slowdown, Divergence across Firms and the Role of Public Policy", OECD Productivity Working Papers, No. 05; Orbis data of Bureau van Dijk; and OECD calculations.



# Middle skill income earners have been painfully affected

## Job polarisation by country

*Change in share of total employment by skill level, 1995-2015*



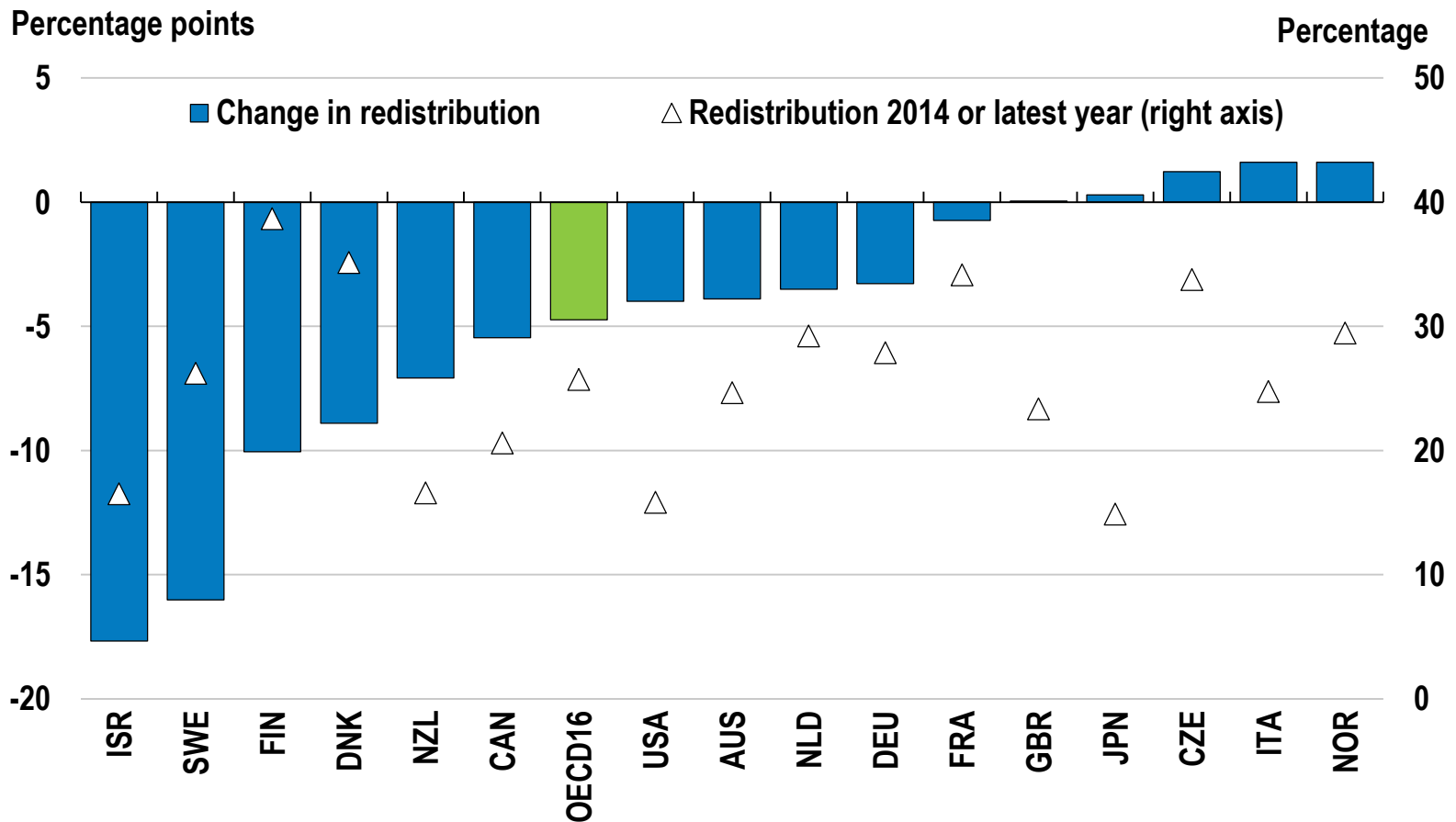
Source: OECD Employment Outlook 2017; European Union Labour Force Survey; Labour force surveys for Canada, Japan and the United States; and OECD calculations.



# Income redistribution has declined

## Change in redistribution for the working-age population

Mid-90s to latest available year

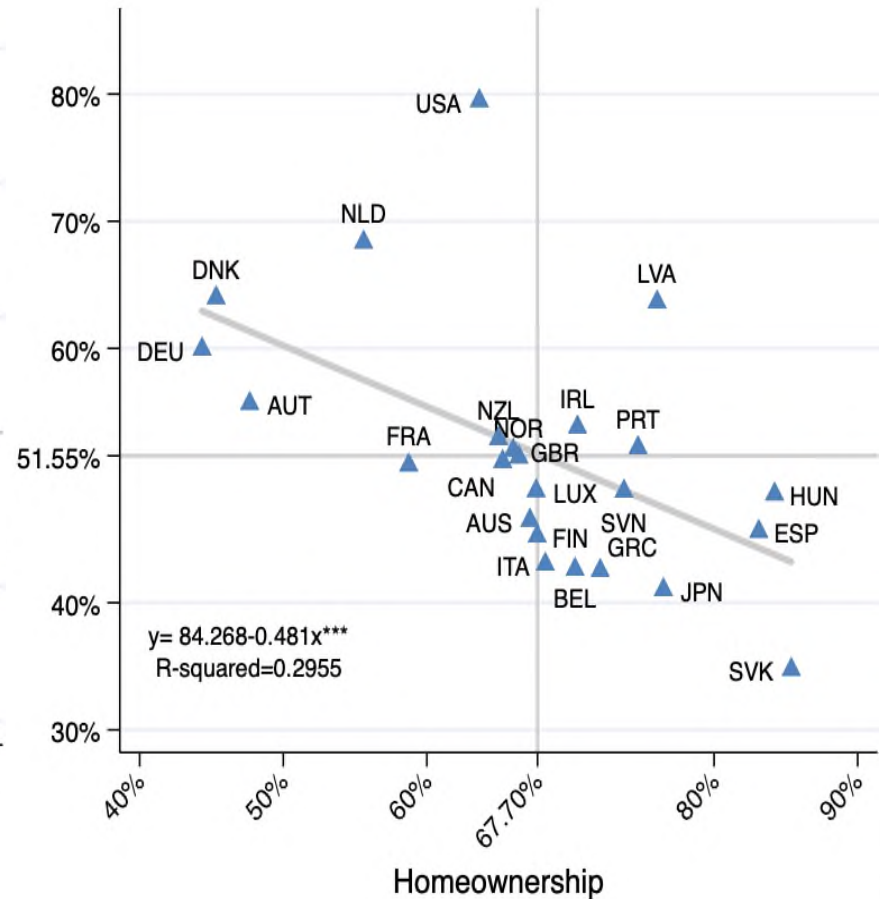
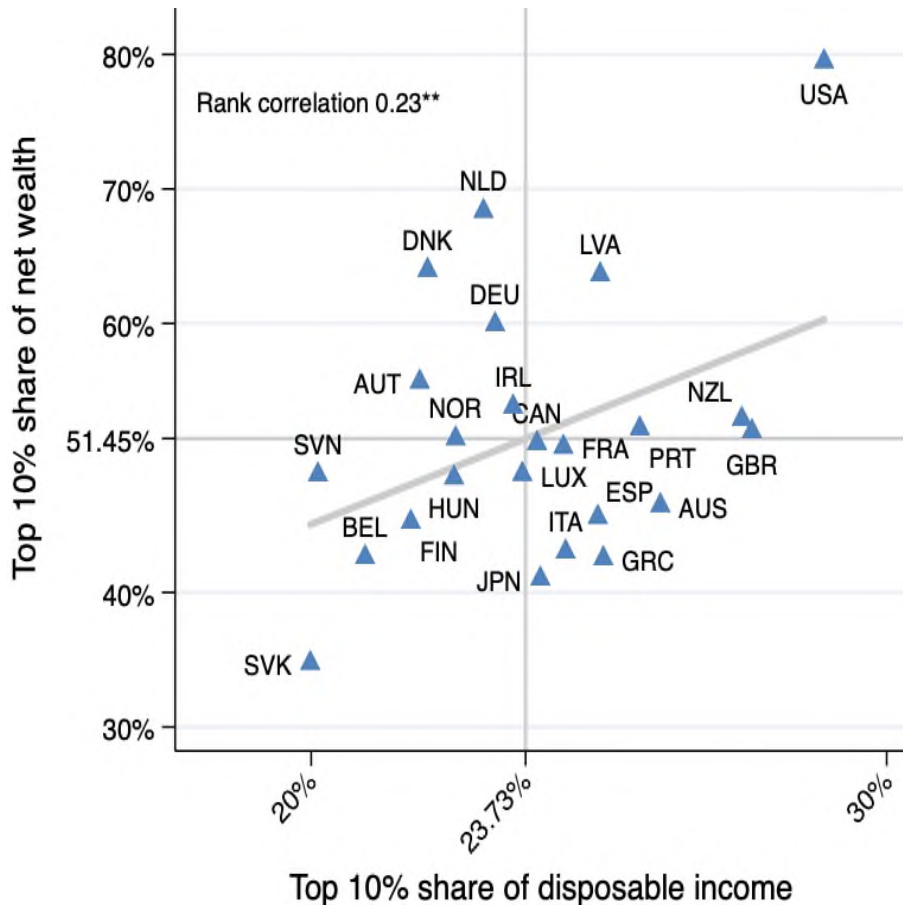






# Wealth inequality

**Wealth inequality is much higher than income inequality and strongly depends on homeownership.**

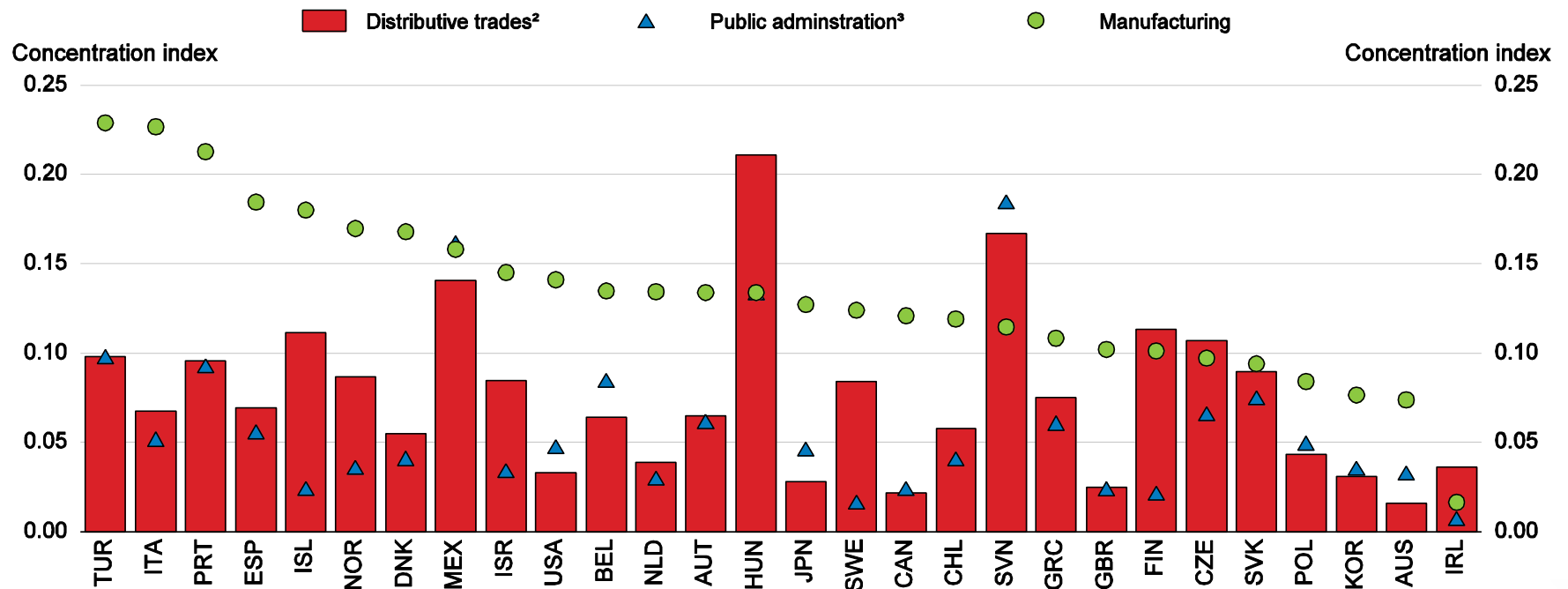


Source: Causa O., Woloszko N., Leite D., "Housing, wealth accumulation and wealth distribution", 2019, OECD Economics Department Working Paper ; OECD Wealth Distribution Database (oe.cd/wealth).



# The geographical aspect of inequalities

## Employment in manufacturing is more regionally concentrated than services

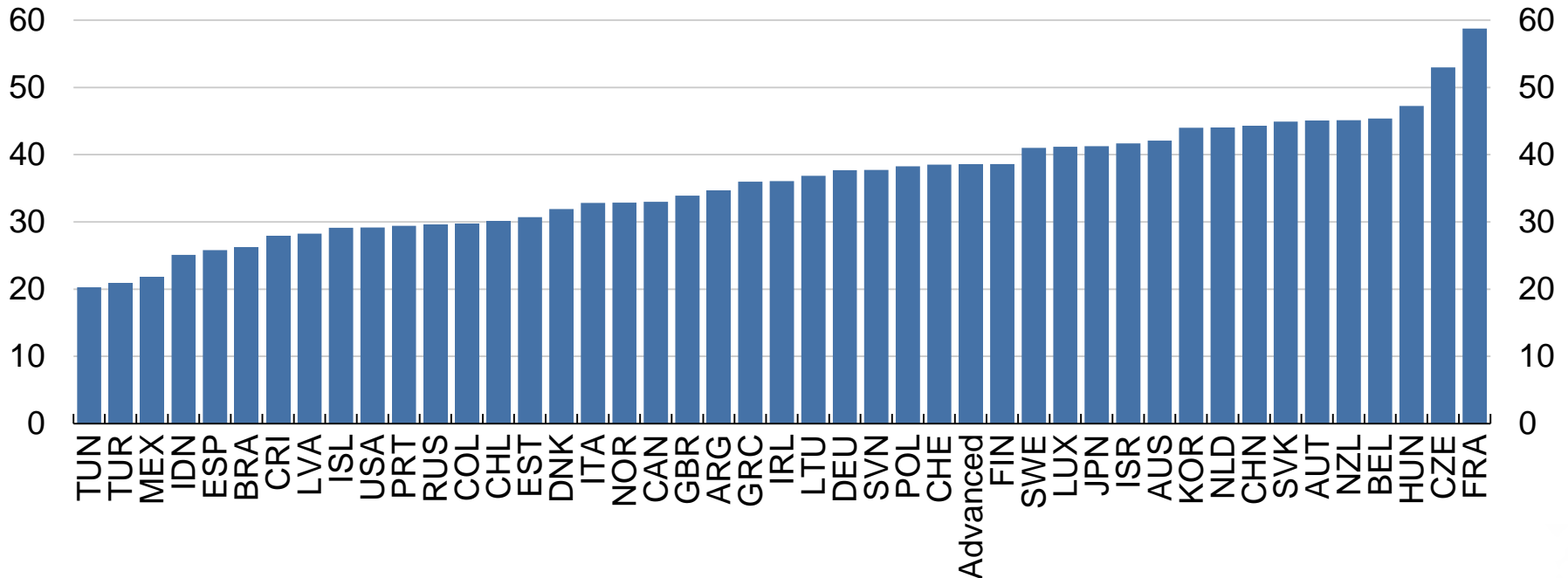


Source: OECD calculations, see OECD (2003), 'Geographic Concentration and Territorial Disparity in OECD Countries' for details of the calculation.



# Inequality of opportunities are likely to matter most for people sense of ‘fairness’

Educational outcomes largely affected by family background (impact of family socioeconomic status on PISA score)



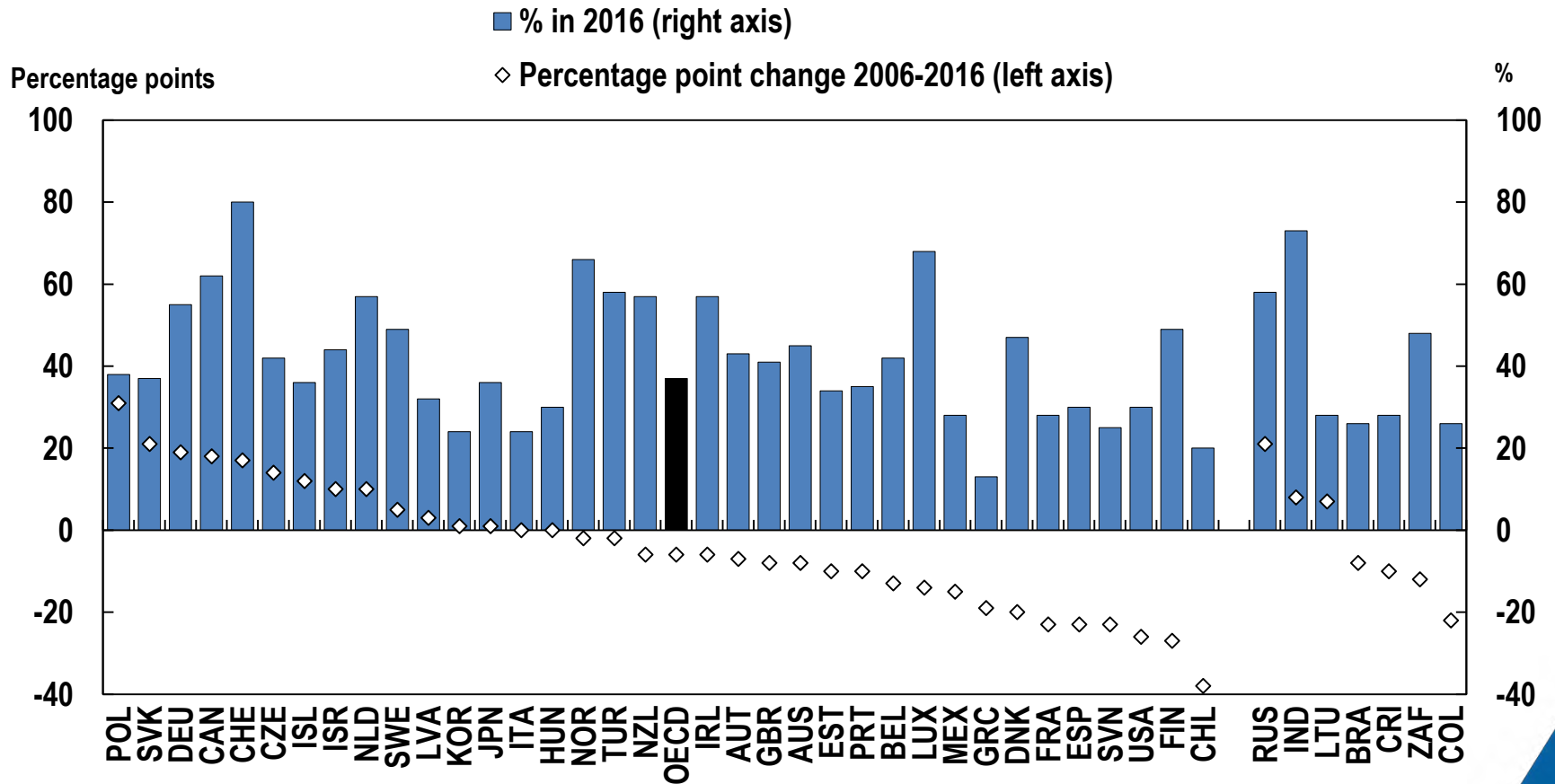
Source: PISA Database.



# Trust in government is declining

## Average confidence in national government

2014-16 and change since 2005-07





# GOING FOR GROWTH: A POLICY FRAMEWORK FOR INCLUSIVE GROWTH



# Going for Growth in a nutshell

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## **Purpose:**

- Identifying coherent structural reform strategies across a broad range of policy areas

## **Principles:**

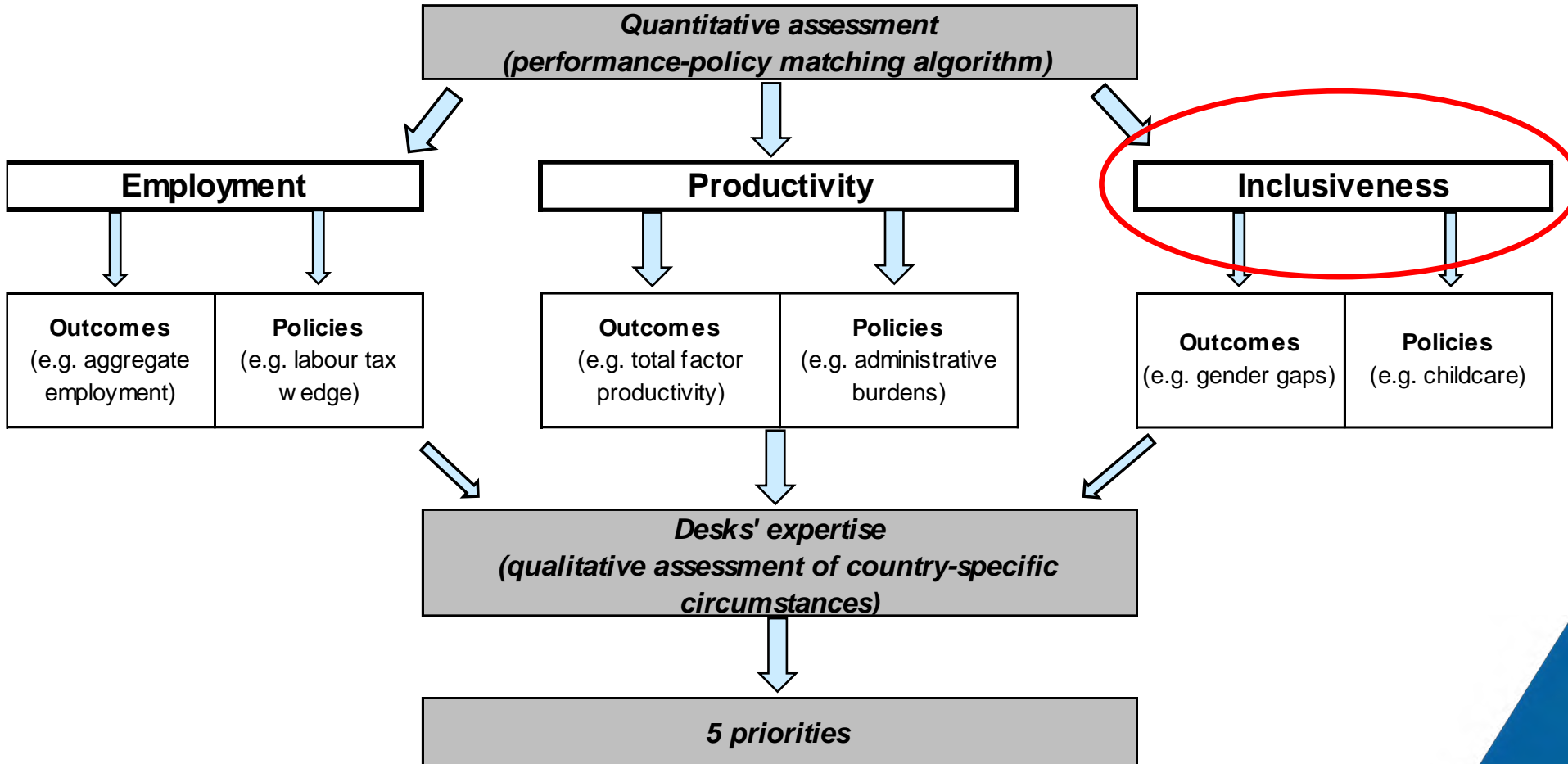
- Every 2 years, selection of five policy priority areas using a systematic monitoring of policies with a proven link to outcomes (productivity, employment and inclusiveness)

**Mixed approach:** quantitative + qualitative (expertise provided by country desks) to formulate country-specific recommendations

***Formal integration of inclusiveness as a policy objective in 2017***



# The OECD Going for Growth framework pillars





# Going beyond economics towards inclusiveness

## Income dimensions

## Non-income dimensions

### Labour market: job quantity & quality

#### Inequality in household disposable income

- Gini coefficient
- Income share bottom 20%

#### Poverty

- Relative poverty rates
  - Total population
  - Working-age population
  - Children
  - Youth
  - Elderly
- Poverty mean gap

#### *Emerging economies*

- Absolute poverty rate
- Absolute poverty gap

#### Top income and wealth shares

- Top 1% income share
- Top 1% wealth share

#### Earnings inequality and quality

- D5/D1 earnings ratio
- D9/D5 earnings ratio
- Earnings quality
- Gender wage gap

#### Labour market insecurity and informality

- Unemployment risk
- Unemployment insurance

#### *Emerging economies*

- Vulnerable employment
- Incidence of informality
- Risk of extreme low pay

#### Labour market inclusiveness

- Female employment gap
- Elderly employment gap
- Youth unemployment gap
- Foreign-born unemployment gap
- Long-term unemployment rate

#### Health outcomes and inequalities

- Female life expectancy
- Male life expectancy
- Self reported good health
- Low-high income health gap

#### *Emerging economies*

- Child mortality
- Access to sanitation

#### Skills and equality of educational opportunities

- Upper-secondary education share
- PISA scores: mean and overall variation
- PIAAC scores: mean and gender gap
- Low-performing students and adults
- Impact of socio-economic background on PISA scores
- NEET share





# REFORMS FOR INCLUSIVE GROWTH



# Corresponding to 3 broad categories of recommendations

## Firms

*Promote business dynamism and the diffusion of knowledge*

- Barriers to entry, competition, exit, trade and FDI,
- Structure and efficiency of the tax system,
- Legal and physical infrastructure

## Skills

*Unlock skills development and innovation capacity*

- Primary and secondary education
- Higher education and VET
- R&D policies

## Workers

*Help workers benefit from a fast-changing labour market*

- A more inclusive labour market (gender, migrants, low-skilled, etc.)
- ALMPs and social benefits
- Labour mobility and health sector
- Labour market regulation



# Key recommendations to promote inclusive growth

- ***Foster business dynamism***
  - Boost productivity growth and business dynamism, while ensuring adaptation and diffusion of technologies across the board – in particular for small and young firms
  - Optimize natural resource management for sustainable growth
- ***Lift the quantity and quality of jobs and address labour market insecurity and segmentation.***
  - Create more and better jobs by tackling labour market duality and segmentation, including informality.
  - Work to achieve inclusive labour markets (female, foreign-born, elderly, long-term unemployed..)
- ***Ensure broad access to quality education and upskilling.***
  - Address the needs of young people from pre-school to university, so they get the best start in life and the support they need throughout their education.
  - Promote life-long learning and acquisition of skills
- ***Enhance the effectiveness of taxes and transfer systems in reducing income inequality and poverty, balancing equity and efficiency objectives.***

Firms

Workers

Skills



# Policy priorities in Lithuania

- **Reducing productivity dispersion and thus wage dispersion.**
  - removing barriers to investment,
  - enhancing the performance of state-owned enterprises,
  - boosting business dynamics through wider financing options,
  - easing insolvency procedures in order to help “zombie” firms exit the market quicker,
  - strengthening innovation capacity by fostering digitization and enhancing research-business collaboration, as well as improving infrastructure.
- **Increasing social transfers and social assistance while maintaining strong work incentives.**
  - the maximum duration period of unemployment benefit, currently at nine months, could be further extended.
  - social benefits could also be better targeted at combating child poverty.
  - stronger fiscal support to low-income families could be in part financed by a higher property taxation.
- **Making the labour market more inclusive.**
  - a high tax wage makes low-skilled workers less attractive to employers → reducing social security contributions
  - activation programs (currently 0.22% of GDP)
  - ensuring relevant skills with more and better targeted vocational training
  - skill mismatch could be addressed by pursuing the reform of the education system at all levels



## More information & references

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### Going for Growth

- <http://www.oecd.org/eco/going-for-growth.htm>
- OECD (2017), "Integrating inclusiveness in the Going for Growth framework", in Economic Policy Reforms 2017: Going for Growth, OECD Publishing, Paris, <http://dx.doi.org/10.1787/growth-2017-5-en>.

### OECD Inclusive Growth Initiative

- OECD (2018), Opportunities for All: A Framework for Policy Action on Inclusive Growth, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264301665-en>

### Selected OECD papers

- Causa, O., M. Hermansen and N. Ruiz (2016), "The Distributional Impact of Structural Reforms", OECD Economics Department Working Papers, No. 1342, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jl041nkpwc-en>.
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