Promoting Inclusive Growth: Challenges and Policies

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Washington, DC, 8 May 2012
Inclusiveness is at the core of the growth policy debate

• “Rising inequality calls for heightened consideration of more inclusive models of growth. We must deliver tangible improvements in material living standards and greater social cohesion” (‘call to action’ by leaders of World Bank, OECD, IMF, WTO, WHO & 6 other institutions, January 20, 2012)

• “We reaffirm the G20 role in advancing measures to promote inclusive growth, job creation and overcoming global imbalances” (Brazil President Rousseff and US President Obama, April 9, 2012)

• “Without inclusion, social and economic, the very sustainability of our growth processes come under question...” (Indian Prime Minister Manmohan Singh, April 21, 2012)
Growing demand for inclusiveness: Exhibit #1

Rising inequality in OECD in general and also among many of the dynamic emerging-market economies

For OECD countries, income of top 10% has risen to 9 times that of the bottom 10% in 30 years

Source: OECD-EU Database on Emerging Economies and World Bank Development Indicators Database.
Growing demand for inclusiveness: Exhibit #2

Unemployment remains stubbornly high in many advanced economies.

Long-term and youth unemployment have also risen in the recession.

For most developing countries, underemployment in the informal sector is also an important issue.

Source: OECD Main Economic Indicators database.
Growing demand for inclusiveness: Exhibit #3

Increased material wealth does not necessarily imply better life satisfaction, even in fast-growing economies.

Income growth and life satisfaction
(% change during 2006-10)

Growing demand for inclusiveness: the voice of the streets

Tahrir Square

Los Indignados

Occupy Wall Street

... and many other movements....
What is inclusive growth?
How do we deal with it in this volume?

1. Inclusiveness is a **multi-dimensional** concept; it goes beyond poverty and income distribution, it is about social cohesion and wellbeing as well

2. Inclusive growth has a **geographical** dimension; it is about providing opportunities for individuals to better deal with regional disparities

3. Inclusiveness is also about ensuring that growth is more **appropriately balanced** across activities: domestic vs external demand, tradables vs non-tradables, financial sector and the real economy, etc.

Inclusive growth puts structural reform at the core of the debate
Pro-growth reforms can also foster inclusiveness

<table>
<thead>
<tr>
<th>An increase in:</th>
<th>leads to...</th>
<th>Employment rate</th>
<th>Earnings equality</th>
<th>Total labour income equality</th>
<th>GDP per capita</th>
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<tbody>
<tr>
<td>The tertiary education graduation rate</td>
<td>~</td>
<td>+</td>
<td>+</td>
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<tr>
<td>The upper-secondary graduation rate</td>
<td>~</td>
<td>+</td>
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<td>Equity in education</td>
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<td>+</td>
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<tr>
<td>The minimum wage (as share of the median wage)</td>
<td>0/-</td>
<td>+</td>
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<td>0/-</td>
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<td>Unionisation</td>
<td>~</td>
<td>+</td>
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<tr>
<td>Legal extensions of collective wage agreements</td>
<td>-</td>
<td>~</td>
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<tr>
<td>The overall level of employment protection legislation (EPL)</td>
<td>0/-</td>
<td>+</td>
<td>~</td>
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<td>The gap between EPL on regular versus temporary work</td>
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<td>The replacement rate and duration of unemployment benefits</td>
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<td>+</td>
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<tr>
<td>Spending on active labour market policies</td>
<td>0/+</td>
<td>~</td>
<td>+</td>
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<tr>
<td>Anti-competitive product market regulation</td>
<td>-</td>
<td>0/+</td>
<td>~</td>
<td>-</td>
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<tr>
<td>The integration of immigrants</td>
<td>+</td>
<td>+</td>
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<td>+</td>
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<td>Anti-discrimination initiatives</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
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<tr>
<td>Female labour force participation</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
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</tbody>
</table>

**Note:** Note: A plus symbol (+) denotes a significant rise in the variable, a minus symbol (−) a significant fall and a zero (0) no impact; 0/+ and 0/− mean that research is contradictory.

**Source:** Selected OECD studies.
8 papers provide insights into the HOW of structural reforms – to spur debate on what works

- Explicitly address the political economy of inclusiveness (as powerful segments of society may seek exclusive growth)

  1. Mushtaq Khan on *strategies for the prevailing “political settlement”*
     - the political power of groups that affect the distribution of benefits in society must be explicitly taken into account when devising policies & institutions for competitiveness in new sectors for more employment-generating growth. So political judgments are an important input

  2. Gene Steuerle on *fiscal democracy*
     - fiscal choices made in the past --involving entitlements (permanent programs without annual appropriations) and interest on the debt-- constrain the available fiscal space to conduct future counter-cyclical policies and promote more inclusive growth. So fewer attempts to control the future are desirable
Providing insights into the HOW of structural reforms, to spur debate on what works (cont.)

• Continue pro-competition regulatory reforms

3. Ross Levine on financial regulations
   – regulatory agencies --that foster competition among private financial institutions, promote transparency throughout the financial system, and reform policies that distort the incentives of private institutions-- encourage more inclusive growth

4. Mark Dutz, Yannis Kessides, Steve O’Connell and Robert Willig on competition and innovation-driven growth
   - based on over 26,000 firms across 71 countries, innovation-driven growth is found to be inclusive in its creation of unskilled jobs
   - countries with a more competitive business environment (measured by DB variables which are interpreted as reflecting access to key essential business services, esp. access to credit and to registering property) are associated with more inclusive-type job creation
Providing insights into the HOW of structural reforms, to spur debate on what works (cont.)

- **Customize the provision of support services**

5. Charles Sabel on *individualized social service provision*
   - the example of the Finnish special education system shows the benefits of explicitly including organizational innovation in reform strategies – in this case, by authorizing front-line workers to search for new solutions, with the requirement that they explain and justify their decisions to peers

6. Sjak Smulders on *making green sources of growth more inclusive*
   - inclusive green growth requires burden-sharing between richer and poorer countries, and burden-sharing within countries so that the poor do not bear a large share of the costs of national environmental policies
Customize the provision of support services (cont.)

7. Morris Teubal and Yevgeny Kuznetsov on *sequenced interventions to support techno-entrepreneurship*

- the example of Israeli support for high-tech innovation shows the risk of biased R&D support to specific high-tech industries (high growth in the targeted sectors, lower growth elsewhere), and the benefits of a more sequenced evolutionary approach that emphasizes adaptive learning

Institutionalize inclusiveness in growth policy discussions

8. William White on a *summary of debated issues*

- there are more reasons to be optimistic than pessimistic moving forward, a key reason being the realization of the need to give inclusiveness and distributional issues higher priority in growth policy discussions
Thank you for your attention!

www.worldbank.org/debt

http://www.oecd.org/document/13/0,3746,en_2649_37425_50161037_1_1_1_37425,00.html