Inclusive Growth

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Dear Colleagues,

I greatly appreciate the opportunity to talk to you today about inclusive growth, as there are many things that can be said about what it means, what it implies, and how it relates to economic growth as a whole.

Let me first say a few words about the various concepts of Inclusive Growth:

As economies continue to bear the social consequences of the 2008-09 global economic crisis, the **concept of inclusive growth, and particularly income inequality**, is seizing public attention.

The OECD has been increasingly vocal on the issue through landmark reports such as *Growing Unequal?* in 2008, *Divided We Stand* in 2011, and *All on Board: Making Inclusive Growth Happen* 2014.

The ongoing *New Approaches to Economic Challenges* (or NAEC process) is another initiative where inclusiveness and income inequalities have become prominent themes.

It is important to consider the possible impacts of policies on growth, inequality, and other factors. However, we are aware that this signals a **move towards increasingly complex, and possibly less manageable, "multi-disciplinary" policy responses**.

It also prompts us to raise some questions: **what is "fair" distribution, how should prosperity be measured, is it absolute or relative, what is the time perspective, which specific well-being objectives should policymakers emphasize over others, how do different policy responses interact, how much state intervention is appropriate**, and so on.

Definitions also matter. For instance, the World Bank's notion of inclusiveness refers more narrowly to equality of opportunity in access **to markets, resources, and unbiased regulatory conditions for businesses and individuals**. Meanwhile, the definition of inclusive growth in the Europe 2020 Strategy focuses more specifically on **skills and jobs**.

In the absence of a clear debate based on internationally-agreed definitions and evidence, there is a risk that public opinion becomes misinformed.

A recent study[1] shows that **public perceptions of inequality are already disconnected from the facts** in some countries: on the one hand, many people in Europe perceive income distribution in their countries as being far more unequal than is actually the case. On the other hand, in the United States the middle class is truly smaller and the lower income group considerably more numerous than its citizens suppose.

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[1] See Niehues, J. (2014) "Subjective Perceptions of Inequality and Redistributive Preferences: An International Comparison", Cologne Institute for Economic Research (IW). According to this study, Europeans – notably in Germany and France – were found to significantly underestimate the proportion of middle-income earners and overestimate the proportion of the poor.

Such misconceptions matter: they influence the politics and policies that impact upon our economies and societies.

Also, research findings on the subject of inclusive growth are often incomparable. The OECD report *Divided We Stand* (2011) notes that "**the empirical evidence as to the key drivers of inequality remains largely inconclusive** and is made more so by a lack of precise definitions and concepts used in different studies".

Conclusions depend highly on the definitions used, reference populations, and time periods.

To put it simply, **there tends to be far too little common agreement on what inclusive growth really means, how it matters, how it should be measured, and which policies should be adopted**.

Generalizations and a "one-size-fits-all" policy response should be avoided.

Let me give you an example. A recent IMF Staff Discussion Note[2] concludes that "**redistribution appears generally benign in terms of its impact on growth**" and "**only in extreme cases is there some evidence that [redistribution] may have direct negative effects on growth**". So which are these "extreme cases"? A close look at the data shows that around a third of OECD countries may fall into the "extreme case" category: they **redistribute to such an extent that they seem to cause a dampening effect on their growth**.

A much more nuanced country-by-country analysis is therefore critically important in the inclusive growth debate.

My remarks are intended to help us examine and better understand the inclusive growth debate. If the concept of inclusive growth should lead to sound policy advice, there is an **urgent need for greater clarity and understanding**.

In my view:

- ***Policymakers should explicitly recognize that productive societies and strong economic growth are fundamental for inclusive growth.***
- ***Effective implementation of structural reforms in product and labor markets is vital, and should promote equal opportunities in our economies, and***
- ***Inclusive growth requires improving employment opportunities to all segments of the society, providing an environment whereby affordable products are available for all, and an enabling environment for all to have access to both public services and to be able to contribute to public decision making.***

Given the **prominent role of productivity for the success of our economies**, it is important to ensure that the **underlying sources of economic growth** should be well understood in the public debate on inclusive growth.

[2] Ostry, J. Berg, A., and Tsangarides, C. (2014) "Redistribution, Inequality, and Growth", IMF Staff Discussion Note, p4.

We should make clear that reforms promoting economic growth do not necessarily have negative impacts on equality. In fact, quite the opposite can be true. Finding the right synergies and using the right mix of policies is key.

So let me make a point on regulatory reform in support of inclusive growth:

Recent research by the OECD finds that many structural reforms have little or no impact on income inequality, because they have offsetting employment effects:

- ***reforms that reduce regulatory barriers to domestic competition, trade and FDI;***
- ***reforms that increase job-search support and activation program; and***
- ***reforms that tighten unemployment benefits for all categories of jobseekers***

are found to deliver stronger income gains for low-income households. They help to narrow inequality in disposable incomes.

Worryingly, however, the pace of policy actions for growth across both product and labor markets in OECD countries has slowed over the past two years and has been largely piecemeal.

The business community similarly perceives a deficit in implementing reforms: ***the BIAC Economic Policy Survey 2014 finds that only 4% of the OECD's 2013 "Going for Growth" country-specific recommendations were fully implemented a year later, and 35% not implemented at all***.

One important factor for increasing the implementation of proposed reforms would be to ***improve the effectiveness of the regulatory consultation process***. Effective regulatory consultation processes contribute to improve the design of new regulations and help to ensure key stakeholder support their implementation.

- ***In order to increase the quality of consultations, many governments need to allow greater time for consultation. They need to explain how the information provided during consultations will be used, and to make documents for consultation more easily accessible.*** In particular, tools such as
    - ***Socio-economic development maps***
    - ***Public expenditure analyses***
    - ***Public Service satisfaction surveys*** provide objective input into public consultations and improve the quality of the consultation process[3]
- ***Another important factor for ensuring the successful introduction of new reforms is to carry out regulatory impact assessments (RIAs), social impact assessments (SIAs), and environmental impact assessments (EIAs).*** Unfortunately, business in over a third of OECD countries seems to consider that partial RIAs/SIAs/EIAs are rarely or never carried out, and business in two-thirds of OECD countries consider that complete RIAs/SIAs/EIAs are rarely or never carried out. Furthermore, there is evidence that there is a tendency to utilize such studies as legitimization of administrative actions after the fact, rather than as inputs into the decision making processes.

  There is therefore significant room for improvement in governments' efforts to carry out RIAs/SIAs/EIAs.

[3] Tesev (2008), 'Good Governance: Improving Quality of Life'

- Policymakers should also recognize that ***businesses operate globally, there should be greater alignment of regulations internationally in order to enable companies to operate more efficiently and effectively across borders.*** This calls for improved international regulatory co-operation. The OECD has a significant role to play in this area and the use of its instruments should be expanded, including ***the OECD 2012 Recommendation of the Council on Regulatory Policy and Governance.***

In summary, **good governance is the key for inclusiveness, effective implementation, and increasing growth.**

Therefore, G20 governments need to focus on creating a regulatory environment where transparency in the public and private sectors is the norm by advocating the adoption of principled business practices*, such as those advanced by the United Nations Global Compact, and actions towards the achievement of the United Nations Sustainable Development Goals. Governments should also embrace Integrated Reporting across the economy as the most effective way of improving transparency and building trust, in order to achieve inclusive and sustainable development.*

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