Making trade and digitalisation work for all

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For some, the financial crisis was an eye-opener exposing the inequalities in life chances between those with the right skills and those without, between those born and educated in the right places and those who were not. But for many others the growing gap in well-being has been a reality for decades.

Widening inequalities threaten economic growth, undermine trust in government and democracy, and fuel discontent with the multilateral rules-based system of market economies.

Governments can and should seek to reverse the trend towards growing inequality and ensure that economic growth benefits everyone. Making trade and digitalisation work for all is not about idealism: it is about improving people's standard of living, boosting opportunities for inter-generational mobility and ensuring a brighter future for all.

The OECD has developed a whole-of-government approach, built around analysis of policies and strategies to ensure that the fruits of economic growth are better shared across society. We identify comprehensive policy packages that optimise gains in GDP and households incomes, including among the less well off.

There are no one-size-fits-all reform packages, but key principles can guide policy-making for inclusive growth by targeting three broad areas for action: firms, skills and workers.

- Firms: to promote business dynamism and the diffusion of

knowledge by, for instance, lowering barriers to market entry or improving the efficiency of the corporate tax system.
- Skills: by fostering higher quality education and greater innovation and through better-adapted R&D policies so that innovation fosters productivity gains across all types of activities.
- Workers: with policies that ensure workers benefit from a fast-evolving labour market, including those who are most vulnerable to the changing demand for skills and automation, or who have less bargaining power.

The principles build on extensive OECD empirical research into the effects of pro-growth structural policy reforms on household disposable incomes. This research highlights the trade-offs between productivity gains and inequality when they appear, as well as possible synergies between efficiency and equity.

The policies needed to raise equality of opportunity are clear. It is striking that a child whose parents did not graduate from secondary school has only a 15% chance of doing so himself or herself, compared to a 65% chance for more well-off children. Equality of opportunities can foster social mobility: an equal access to education, finance, jobs, health, transport and other public services helps compensate for the environment in which people were born. Good quality education is primordial throughout life – especially early childhood education, but also training at work, which too often benefits those already well educated.

Other reforms have more ambiguous effects on efficiency and equity. Policies which reduce labour costs by lowering unemployment benefits increase employment, but also make the vulnerable more fragile when there is an economic downturn. Meeting the twin objectives of raising employment while mitigating the negative consequences on poor households requires well-targeted active labour market policies to enhance the employability of low-skilled workers, the long-term unemployed and discouraged job seekers.

Some policies have more ambiguous effects: raising the minimum wage reduces inequality, just as stronger unions may strengthen workers' bargaining position. When firms have the option of investing in automation technology, striking the right balance between bargaining power and the economic environment is crucial to preserving employment with appropriate wage gains.

Spurring productivity, by easing barriers to firm entry and competition in product markets, supports GDP growth gains without exacerbating inequality, but only to the extent that the associated job gains are fairly equally shared across households. This requires the distributional effects of higher employment – which tends to benefit the less affluent households disproportionately – to more than offset those of higher labour productivity, which tends to benefit the wealthiest households.

Inclusive growth also requires devoting careful attention to transition. Opening markets to trade or progress in technology inevitably leads to the decline of certain companies and obsolescence of particular skills. Accompanying measures – building on an active partnership between employers and governments, often at the regional level – can help workers and strengthen trust in the protective capacity of governments. Safety net packages and *trampoline policies* for keeping workers in the labour markets are all relevant. For example, in Sweden, job security councils, founded by employers, assist workers whose employment is put at risk when firms restructure. The programmes have enabled 85% of displaced workers to find a new job within a year, a higher rate than any other OECD country. Conversely, the US Trade Adjustment Assistance and the EU Globalisation Adjustment Fund, which lack such partnerships, have barely benefitted those affected by the displacement of economic activities.

It is important to acknowledge that transitional policy responses have limits. This is especially the case for persistent shocks concentrated in specific regions, sectors or skills. When distributional effects are persistent, direct fiscal policy measures may be needed to restore equity and opportunity. These may include well-designed wealth and inheritance taxation, paying particular attention to the progressivity of the tax system, and better targeting social benefits towards those who need those most. Separately at the global level, the international programme to tackle Base Erosion and Profit Shifting (BEPS) and increase information transparency of the tax system will help strengthen the level-playing field and ensure a fair share of firms' revenues is allocated to where value added is produced. This will help stabilise government revenues and ensure redistribution benefits to those who need it most, but perhaps more importantly may help increase trust in multilateral cooperation.

Sustained growth is a pre-condition for improving living standards and job creation, but sustainability depends on an effective and perceived broad sharing of the growth dividends. The OECD has been promoting an inclusive growth framework based on three pillars: equal opportunities, business dynamism and inclusive labour markets, efficient and responsive governments. Implementation needs to start today.

References:

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