MARI KIVINIEMI

Deputy Secretary General of OECD; former Prime Minister of Finland

Thank you for inviting me to this very important panel and I am very happy that we are discussing this theme at this conference. This is a very important and, unfortunately, growing issue. I am also glad to see that this hot topic has been increasingly studied and taken on by a broad range of actors, as the Chair already referred to. When it comes to the OECD, the need to tackle inequalities has been at the top of the OECD agenda for a long time. In 2008, we made the first wake up call with a study named “Growing Unequal?”. In 2011, we published “Divided We Stand: Why Inequality Keeps Rising”.

Tomorrow, we are about to launch a new working paper, entitled “Focus on Inequality and Growth: Does Income Inequality Hurt Economic Growth?” This survey and paper provides evidence that inequality is not only rising, but that it also has an economic cost and affects growth. Income inequality in OECD countries is at its highest level for the past half-century. The average income of the richest 10% is now 9.5 times that of the poorest 10%, up from seven times as high 25 years ago.

That is the average. When you look at particular countries among the OECD like Mexico, the ratio is 27:1, and when you go to the Nordic countries, the ratio is approximately seven or 6:1. Then when you go to G20 countries like Brazil, it is also declining and the ratio is 50:1, while in South Africa, it is 100:1. Inequality also rises in more egalitarian countries, like Northern European ones. Some of the most vulnerable groups such as youth and the poor continue to fall far behind everywhere.

The gap between rich and poor has widened further since the crisis, largely because of large income losses suffered by the unemployed and under employed. In fact, more than six years after the onset of the global financial crisis, the world still faces a large and persistent jobs gap. An estimated 102 million people remain unemployed in the G20 and many more are unemployed and under employed, in low paid and precarious jobs around the world. Among the OECD countries, we still have almost 12 million more unemployed people altogether than before the crisis.

Inequality in household income increased by as much in the three years following the crisis as in the previous 12 years. OECD analysis also reveals great inequalities in other dimensions of wellbeing. There were large gaps between people from different socio economic backgrounds in health, education, strength of social connections, political engagement and sense of personal security. The result is an uneven economic patchwork, where some social groups and regions within countries prosper while others fall further behind.

What are the consequences? Growing inequality comes at an economic cost. Our research shows that when income inequality rises, economic growth falls. Inequality is not only bad socially, ethically and on a human level, it is also bad economically. The analysis shows that if inequality increases at the same rate as for the last 30 years in the OECD, which is 10%, this suggests a reduction of 7.5% in GDP per capita. This is compared with a base line scenario in OECD countries in the long run, over the next 25 years.

Another important finding we had is that income disparities do hold back economic growth, particularly in the bottom 40% of the income ladder. The main mechanism through which inequality affects growth is that it limits the ability of young people from poor socio economic backgrounds to invest in human capital and skills. It lowers their social mobility and hampers skills development, leaving aside the potential of this group to contribute to society and the economy.

Indeed, as the title of today’s session suggests, globalisation is usually pinpointed as the usual suspect when it comes to inequality. However, globalisation itself does not directly influence inequality. Skillbiaised technological changes, changes in employment patterns and working conditions and weaker redistribution via tax and benefits systems are actually the main culprits. However, when setting the scene, the question is this: how can we address this situation? What should be done? The answer is that we should deliver inclusive growth.

I would like to name some of the policy avenues that we at the OECD see as key in fighting inequality. First, investing in education and in human capital is fundamental. Governments should make sure to grant access to education for all, including children with the most disadvantaged socio economic backgrounds. The same applies for job related training and lifelong learning. These should also include low skilled workers, the long term unemployed and the needs of young people in the so called Not in Education, Employment or Training category. Educational policies must be inclusive. Upskilling of the workforce, better training and education for the low skilled and lifelong learning should also be promoted. With the help of this, we should be able to meet the challenges of globalisation.

Secondly, governments should look at some other public policies. Reforming tax and benefit systems and government transfers have a particularly important role to play in safeguarding low income households. Anti poverty programmes will not be enough and other priorities should aim at improving efficiency and access to public services such as healthcare, to create greater equality of opportunities. Finally, Governments should promote employment opportunities, and this is why a broader economic recovery is crucial.

Susan Liautaud, Visiting Scholar at the Stanford Center on Philanthropy and Civil Society, Founder of Susan Liautaud & Associates Limited (SLA)

Just before we go on, could you comment a little bit more? You have used the terms social connectedness, political engagement and ability to contribute to society. Could you take it one step further and talk about the impact on social order? This could be anything from what we have seen in Venezuela to the Occupy movements and, for that matter, what we are seeing in Ferguson, Missouri now.

Mari Kiviniemi, Deputy Secretary General of OECD; former Prime Minister of Finland

Yes. Those are signs of inequality, when society is not able to provide the same opportunities to everyone. This also includes young children and young adults whose backgrounds are not the best possible. That is the number one recipe to make sure that everybody has access to education.