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Inclusive growth : a new societal paradigm ?

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Introduction

As illustrated by the Brexit vote in the UK, the election of Donald Trump in the US or the yellow vest movement in France, populism and popular discontent have been on the rise in advanced economies over recent years. Amongst the various factors regularly put forward to explain these developments is the worsening of income and wealth distribution. While inequality at global level has tended to decline over the last few decades, inequality within countries has actually widened overall, with the well-off seeing their income rising much faster than the rest of the population. Higher inequality has fuelled renewed debate about the pace, the pattern and the distribution of economic growth. Against this background, the late 2000s saw the emergence of the concept of "inclusive growth", which broadly refers to the ideal that everyone should be given the opportunity to contribute to and benefit from increased prosperity. This is precisely the focus of this article.

The first part is dedicated to economic growth and its relationship with inequality. It addresses the relevance of GDP as an indicator of social progress and introduces the concept of inclusive growth. The second part describes and explains some major findings and trends for advanced economies. The conclusion summarises the main results and highlights future challenges.

1. From "going for growth" to "inclusive growth"

Economic growth typically refers to real Gross Domestic Product growth (GDP), which features high amongst the most closely watched economic indicators. This has been the case since the 1950s, when systems of national accounts were gradually being established[1]. Yet, in recent years, economic growth has come under increasing criticism as a policy goal. There have been calls for a shift in emphasis from "economic production" to "people's wellbeing" (Stiglitz *et al.*, 2009) and for growth to be made more inclusive (OECD, 2019).

1.1 The rise and the fall of economic growth

In a historical perspective, economic growth kicked off with the First Industrial Revolution (1750-1830) that ushered in steam engines, cotton-spinning and railroads, and by the general acceptance by institutions of

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1 The American economist Simon Kuznets developed national accounting and the concept of GDP in the 1930s in the United States. The objective was to accurately measure aggregate economic activity in order to identify appropriate stimulus policies to stem the Great Depression. The metric was refined after World War II and the first formal national accounts were published in 1947 by the US Department of Commerce. Many European countries developed their own systems in the 1950s and 1960s.

the principles of free market and private property (as defended by Adam Smith and David Ricardo). It picked up gradually with the Second Industrial Revolution (1870-1900) – which brought in electricity, the internal combustion engine and running water with indoor plumbing – and literally took off in the decades after the Second World War, with mass consumption of electric household appliances and consumer goods. At that time, economic growth also became a major policy objective.

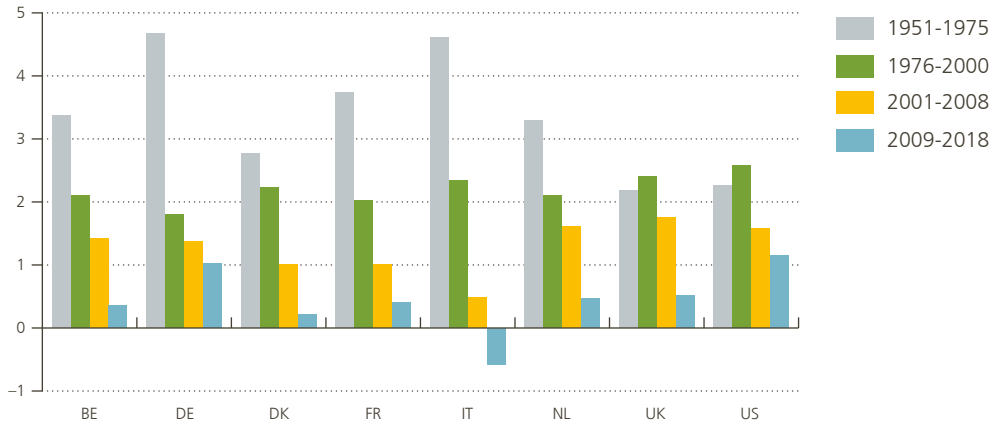
In many industrialised countries, the Great Depression of the 1930s and the Second World War had inflicted severe damage to the economy and caused massive unemployment. The post-war era was then characterised by a strong desire for reconstruction, job creation and material wellbeing. In this context, and following the work carried out by J. M. Keynes, the role of the State in the economy was substantially strengthened. National accounting was then designed as a tool for macroeconomic policy, whose primary goals included fostering economic growth (Cassiers and Thiry, 2014). The latter was designed as the cornerstone of the social pact forged at the time, according to which, workers and employers would share the benefits of higher productivity (*ibid*.).

GDP growth came to be seen as vital to raising living standards, avoiding social unrest and supporting the expansion of the welfare state. It also developed as a symbol of power for nation states and, together with technological progress, was regarded as an essential factor of national security in times of the Cold War (Schwarzer, 2014).

Chart 1

Real GDP per capita

(average annual growth, percentages)



Source: Conference Board.

During the "Glorious Thirty" [1], the post-war boom period running broadly between 1946 and 1975 [2], economic growth was unprecedented. In Europe, as well as in other regions like Japan, labour productivity caught up with US levels. Gains were very substantial and led to a considerable rise in people's standard of living. In parallel, inequality receded, overall. In a context of limited or inexistent ecological concerns, GDP growth became closely associated with greater wellbeing and permanent income growth was widely considered as both possible and desirable.

1 The name was coined in 1979 by the French demographer Jean Fourastié, with the publication of his book "Les Trente Glorieuses".
2 In reality, the "golden age" of economic growth in Europe ran from 1950 to 1973, when the first oil shock struck.

But the 1970s sounded the death knell of the post-war economic miracle and economic growth declined steadily after the first oil shock of 1973. Moreover, from the 1980s onwards, inequality started increasing in most advanced economies and, especially, in the Anglo-Saxon countries. Over the last few decades, GDP growth as an indicator of societal progress has been increasingly called into question, notably due to environmental concerns. At the same time, the unequal distribution of economic growth has also gradually weakened the legitimacy of the process.

1.2 Questioning Gross Domestic Product

The first report that is known for pointing up the limits to material growth was published in 1972 by the Club of Rome[1]: "The Limits to Growth" (Meadows *et al*., 1972). The authors claimed that infinite growth in a finite world was not possible and recommended establishing "a condition of ecological and economic stability that is sustainable far into the future". While the report received considerable attention, the value of its findings was questioned because its predictions about natural resources did not seem to materialise (Kjellén and Wallensteen, 2012). Recent research however confirmed that the global environment is vulnerable to economic growth (IPCC, 2014), notably through climate change, and vice versa (Koubi *et al*., 2011).

Despite its shortcomings and the fact that it was never intended for this role, GDP per capita is still nowadays widely used by economists, policy-makers, institutions and the media as the primary gauge of a nation's wellbeing. After addressing the relevance of GDP, this section briefly discusses some recent initiatives aimed at measuring societal progress and/or people's wellbeing, in order to better inform policy decisions.

What is GDP?

GDP is the sum of the monetary value of all final goods and services that are produced and traded for money within a given period of time, typically a year. Since the value of production in an (closed) economy corresponds to the remuneration of factors of production, GDP also measures the sum of incomes distributed by an economy. And because everything produced must be bought by someone, the value of production must be equal to people's total expenditure.

GDP is a valuable measure of economic activity…

GDP sums up the economic activity of a country and GDP growth tells us about the position of the economy in its cycle. Together with other economic indicators such as inflation and employment statistics, and considering structural parameters such as demography, GDP growth sends signals to policy-makers about the need for cooling down or supporting economic activity.

… but it is not an appropriate gauge of societal progress

At global level, there is correlation between the level of economic development of a country and the average living standard of its population. For instance, countries with higher GDP per capita typically have higher levels of education and longer life expectancy[2]. These two variables are part of the Human Development Index (HDI) and contribute to enhancing people capabilities – i.e. what people are effectively able to do and to be[3]. Undoubtedly, education and health are two important and mutually-reinforcing dimensions of wellbeing. More generally,

1 The Club of Rome was founded in 1968 in Rome. It consists of scientists, economists, businessmen and businesswomen, high level civil servants and former Heads of State from around the globe. Its mission is "*to promote understanding of the global challenges facing humanity and to propose solutions through scientific analysis, communication and advocacy*" (Club of Rome, 2019).

2 Correlation is not causality and the latter could go both ways: higher incomes allow people to invest in education, but a higher level of education also may bring higher income. Higher income allows people to invest more in their health, but better health also contributes to productive capacities. It should also be noted that longer life expectancy may lower average per capita income when population ageing is advanced.

3 Over the last three decades, the capabilities approach to welfare has been developed by Amartya Sen. See Sen (1985).

although "money does not buy happiness", some recent studies have pointed to a robust positive relationship between subjective wellbeing and income across countries and over time, dismissing the idea of a satiation point[1] (Stevenson and Wolfers, 2013).

This rather positive assessment of economic development should nevertheless be qualified. Focusing on health, it appears for instance that the relationship between per capita GDP and life expectancy weakens beyond a certain income level. Looking solely at advanced economies, the relationship becomes non-significant and, at country level, research has shown that rising incomes and personal wellbeing may actually be linked negatively. Ruhm (2000) thus pointed out that, when the US economy is booming, people tend to suffer more medical problems and die sooner, while people tend to live longer when the economy falters. More generally, GDP growth should not be conflated with improved wellbeing or social progress, for several reasons.

(1) Firstly, everything that is included in GDP does not contribute to wellbeing: GDP actually registers as a positive achievement some economic activities that are detrimental to wellbeing and does not account for negative externalities. Typically, exploiting natural resources raises GDP, while it may have a detrimental impact on the environment.

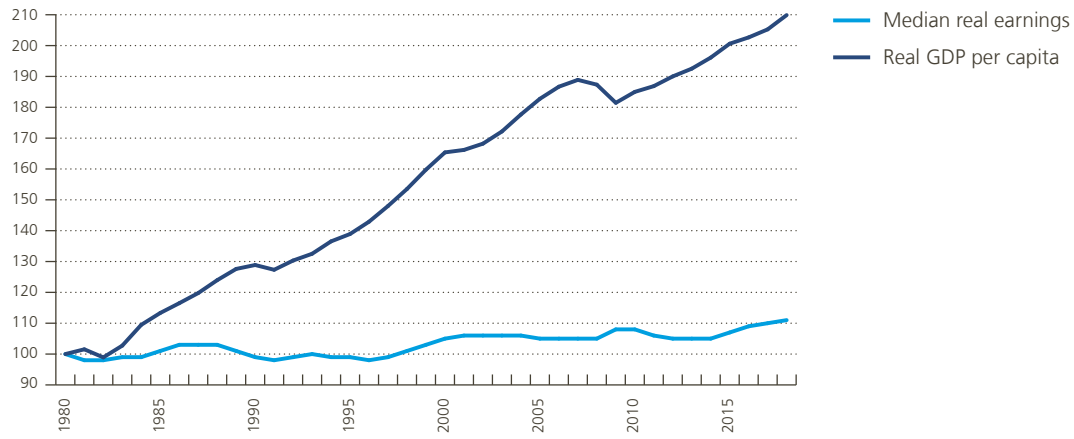
(2) Secondly, GDP does not include many things that contribute to wellbeing: it does not account for leisure time, air quality, levels of health and education, activities conducted outside the market like housework or volunteer work, etc. Increasing working hours contributes to economic growth, but not necessarily to citizens' wellbeing.

(3) Thirdly, GDP does not account for inequalities: GDP per capita corresponds to the average income of the population but income may be very unevenly distributed amongst citizens. Interestingly, real GDP per capita more than doubled in the US between 1980 and 2018. Over the same period, however, median real earnings remained largely stable, meaning economic growth only benefited the better off.

Chart 2

Median real earnings and GDP per capita in the US

(index: 1980 = 100)



Source: Federal Reserve Bank of St Louis.

1 In 1974, American economist Richard Easterlin claimed that increasing average income did not raise average wellbeing. He found that, although subjective wellbeing is positively associated with income within any country at a given point in time, the average level of declared wellbeing for a country changes little when average incomes growth. This is now widely known as the "Easterlin Paradox". More recent research work has argued that this was true only beyond a certain income threshold (Kahneman and Deaton, 2010).

GDP (per capita) may be a relevant economic indicator, but GDP growth cannot be assimilated to societal progress and be the primary goal of policy actions. This is particularly true in rich countries, where material living standards are high and where the emphasis can thus be put on improving non-material dimensions of wellbeing, such as social capital, health, education, environmental quality, public safety, etc.

Measuring wellbeing better

Over the last two decades, a wide range of indicators aimed at (partially) addressing the failure of GDP have been produced. Some indicators are scoreboards, including raw measures of social phenomena like homicide rates or obesity, while other indicators aggregate various welfare dimensions, including inequality, income, health, education, employment, environment, etc[1].

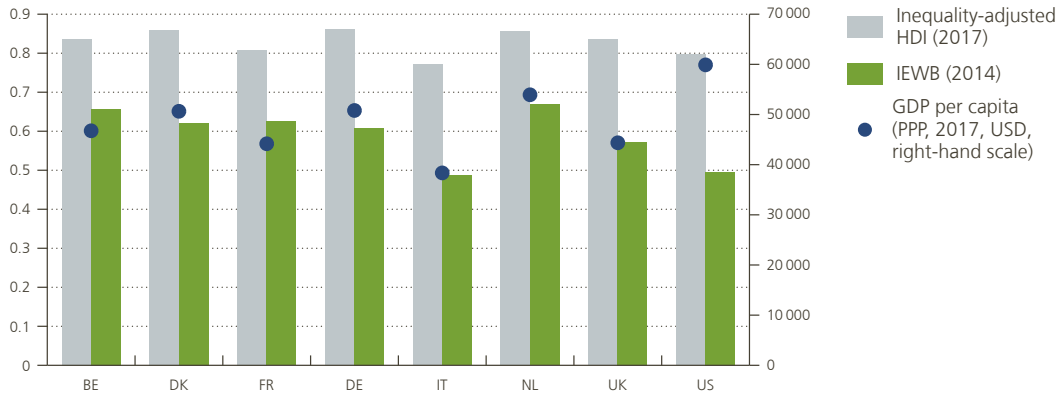
Amongst the most emblematic indicators is the Human Development Index (HDI). The latter was developed in the 1990 by Pakistani economist Mahbub ul Haq for the United Nations Development Programme (UNDP). The HDI is a simple statistic composite index of life expectancy, education and per capita income indicators. It was supplemented in 2010 by an inequality-adjusted HDI[2].

Another prominent indicator developed in 1998 by the Centre for the Study of Living Standards (CSLS) is the Index of Economic Wellbeing (IEWB)[3]. It is based on the premise that wellbeing is multidimensional and depends on various monetary as well as non-monetary factors. It measures consumption, accumulation of productive resources, income distribution and economic security.

Chart 3

HDI, IEWB and GDP per capita

(index unless otherwise stated)



Sources: CSLS, IMF, UNDP.

Looking at these two indicators together with GDP per capita and comparing the relative performance of selected OECD countries illustrates the gap that may emerge between measures of wellbeing and GDP per capita.

1 Each of the indicators recently developed highlights in its own way factors that contribute to prosperity but none of them is aimed at replacing GDP. Most indicators have their own limits and may not be fit for policy purposes.

2 For a more detailed description of the HDI, see UNDP (2016).

3 For a more detailed description of the Index of Economic Wellbeing (IEWB), see Osberg and Sharp (2011).

It is noticeable, for instance, that the US, while having the highest level of GDP per capita, performs relatively badly in terms of the inequality-adjusted HDI and, even more so, when it comes to the IEWB. This is largely due to high inequality and low economic security, comparatively long working hours and a low life expectancy. On the contrary, Belgium performs better in terms of human development and economic wellbeing than in terms of GDP per capita. This relates to low levels of inequality and extensive leisure time, with relatively low average hours worked per employed person.

In 2008, the then French President Nicolas Sarkozy set up a commission tasked with rethinking the measurement of economic performance and social progress. It was chaired by Amartya Sen, Joseph Stiglitz and Jean-Paul Fitoussi and gathered contributions from leading socio-economic thinkers.

The commission's final report was published in 2009 and received considerable attention and a wide stamp of approval. Its main recommendations included: (1) shifting emphasis from measuring economic production to measuring people's wellbeing; (2) using alternatives to GDP such as net national income and household disposable income; (3) taking distribution and inequality into account; (4) complementing GDP with use of objective measures of wellbeing from categories such as employment, health, education, social networks, the environment, insecurity and governance; and (5) taking account of sustainability by calculating stocks of human and physical capital and natural resources (Cordemans *et al.*, 2013).

Initiatives to develop new, alternate or complementary, indicators to GDP received a significant boost after the publication of this report, both at national and international level[1]. Numerous academics, policy-makers, non-profit organisations as well as international institutions have taken up on the challenges. The OECD, the World Bank and the EU have all followed up on the report's recommendations.

At Belgian level, a Law adopted in 2014 made provision for the publication of an annual report on Complementary Indicators to GDP (NAI, 2019). These indicators provide information on social, environmental and economic issues. They are aimed at describing trends in people's wellbeing and the development of Belgian society. The 67 indicators are prepared by the Federal Planning Bureau within the framework of the National Accounts Institute. The annual report has been published since 2016. The Belgian Federal Planning Bureau moreover developed a set of 31 indicators to assess the progress made by Belgium towards the 17 Sustainable Development Goals by 2030, adopted by the UN. It regularly publishes research on wellbeing measurement of the population (see, for instance, Joskin, 2019).

1.3 Making economic growth inclusive

Amongst initiatives and statistical developments aimed at better measuring people's wellbeing, inequality has received particular attention over the most recent years. This renewed interest in one of the oldest economic issues has given rise to the new concept of "inclusive growth".

Several factors have contributed to this development. Firstly, income inequality has widened considerably in many parts of the world since the 1980s and inequality has recently reached unprecedented levels in the post-war period. Secondly, the global economic and financial crisis of 2008-2009 did not weigh equally on all shoulders and affected the less well-off segments of the population more severely. Moreover, in the subsequent years, the bottom of the income distribution suffered most from the removal of anti-crisis measures and fiscal retrenchment (OECD, 2017). As illustrated by the rising discontent in recent years, uncertainty and fears of social decline and exclusion have reached the middle classes in several societies. Thirdly, income and wealth inequality has been better documented lately, notably due to the works of Thomas Piketty, Emmanuel Saez and Gabriel Zucman (see for instance Piketty and Saez, 2003 and Piketty *et al.*, 2018), as well as Branco Milanovic

1 For a review of the main initiatives at national level, see OECD (2008). For a broader review of initiatives and indicators, see, for instance, Cassiers and Thiry (2014).

(see for instance Milanovic, 2016). Fourthly, research work has shed new light on the relationship between inequality and economic growth, with a tentative consensus that it is negative (see below).

For all these reasons, there has been growing recognition that economic growth should be more equally distributed – not only in terms of income, but in the various dimensions that matter for people. Stopping the trend of rising inequality and its adverse economic, social and political consequences has been put high on governments' and institutions' policy agendas.

Why is there cause for concern about inequality?

Some form of inequality provides for incentives: income disparities for instance may induce people to study and/or work harder and/or longer. Rewards for innovation, entrepreneurial activity and job creation in competitive markets may exacerbate inequality, but they tend to have a positive effect on growth. Allowing for a certain level of inequality appears optimal from an efficiency point of view. It contributes to a better allocation of talent across occupations and to higher productivity levels, making everyone in society better off. At the same time, rent-seeking, abuse of market power, and inequality of opportunity can be detrimental to overall welfare. Several arguments can be put forward for containing inequalities and ensuring they are not disproportionately exacerbated.

(1) A first argument simply has to do with social justice. People do not choose many facts about themselves: their fortune in the distribution of assets and abilities, their intelligence, their strength and the like. Caring for social justice would require a fair distribution of social and economic advantages across society.

    This idea has been theorised by John Rawls in "A Theory of Justice" (Rawls, 1971). He argues that people should decide principles of justice behind a "veil of ignorance", without taking account of the bare facts about themselves, including personal characteristics, class position, social status, etc. Ignorance of these details would then lead to principles that are fair to all. Going further, Rawls argues that such a theoretical decision-making process would lead to a strategy that would maximise prospects for the least well-off.

(2) A second, more prosaic, argument relates precisely to the opposite relationship between inequality and economic growth[1]: while the topic is hotly disputed in the literature, there is growing evidence that inequality has a negative impact on growth, at least beyond a certain threshold and, more specifically, in rich countries (Aghion *et. al.*, 1999, Ostry *et al.*, 2014, Cingano, 2014, Brueckner and Lederman, 2018, Aiyar and Ebeke 2019). According to Cingano (2014), what matters most for growth is the gap between low-income households and the rest of the population. On the contrary, no evidence is found that those with high incomes pulling away from the rest of the population harms economic growth.

    On the one hand, poverty and inequality reduce opportunities, with negative consequences for individuals as well as for society at large. As illustrated by the Great Gatsby curve, which links intergenerational earnings elasticity to income inequality, there is clear evidence that higher income inequality is associated with lower social mobility in OECD countries. Inequality of outcomes and inequality of opportunities are therefore intertwined (Durlauf and Seshadri, 2017).

    On the other hand, inequality may lead to social unrest and political instability that can weigh on economic activity. Amongst other factors like anti-immigrant attitudes or the attachment to conservative values, greater inequality and economic insecurity are regularly related to rising populism, popular discontent or demand for protection.

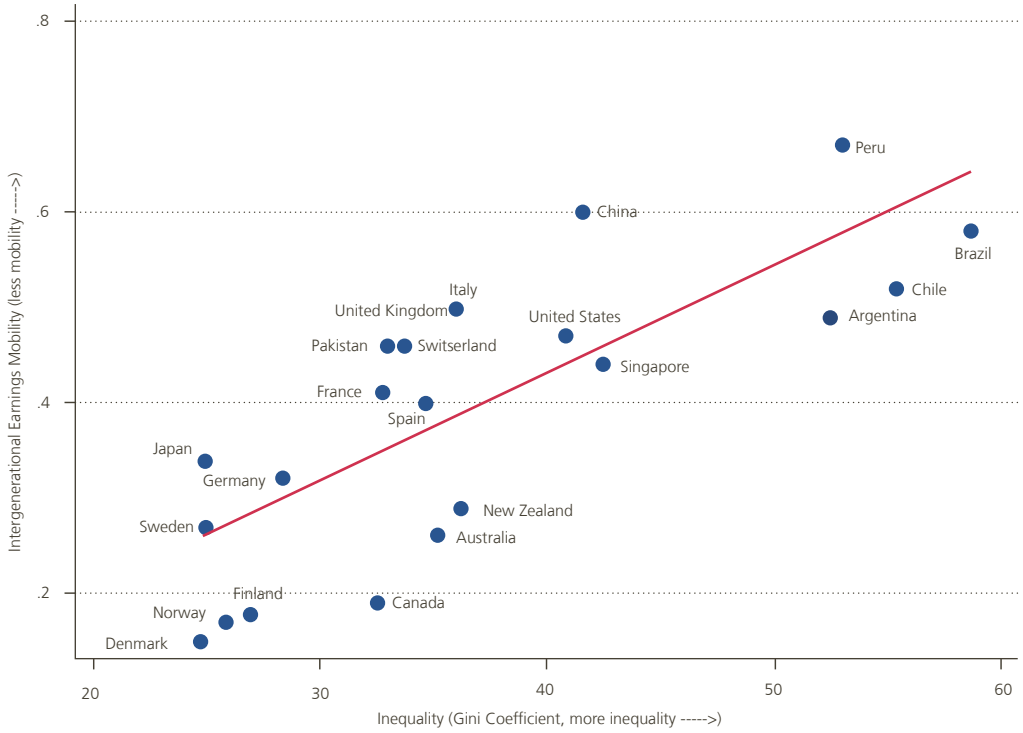
As noted by Ostry *et al.* (2014) a tentative consensus has emerged in the literature on growth, according to which "inequality can undermine progress in health and education, cause investment-reducing political and

1 See, for instance, Arestis (2018) or Darvas and Wolff (2016) for a review of the literature.

economic instability, and undercut the social consensus required to adjust in the face of major shocks, and thus that it tends to reduce the pace and durability of growth". As put by the OECD (2014), "addressing the multidimensional nature of inequality and its impact on different segment of the population matters for sustainable economic growth" [1].

Chart 4

The Great Gatsby curve



Source: Corak (2016). Reproduced with permission.

How to define the concept of inclusive growth?

Given the range of actors who use the term, there is no single definition of "inclusive growth". It may also vary through space and time, depending on the needs and the preferences of the population. The concept broadly refers to the ideal that everyone should be given the opportunity to contribute to and to benefit from increased prosperity.

The notion of inclusiveness encompasses equality of opportunity - in access to education, jobs, finance or the judicial system - and equity in terms of outcome - including income and wealth, but also educational attainment, health status and employment conditions. It covers environmental issues as well as intergenerational fairness.

1 Interestingly, the responsibility of distributional issue in the last global crisis is regularly pointed out, with credit expansion used to paper over poverty or a stagnating purchasing power (see for instance White, 2012 or Darvas and Wolff, 2016). Countries with higher inequality tended to register higher household debt levels, which weighed on economic activity during the crisis, pushing both unemployment and poverty rate higher.

Aspects of inequality are closely intertwined and tend to feed off each other. Unequal outcomes moreover tend to accumulate across the life span, making it harder for disadvantaged people to climb the social ladder.

The concept of "inclusive growth" thus goes beyond income and "material" wellbeing, by including its non-monetary dimensions. Inevitably, a trade-off may appear between inclusiveness and economic growth. The sustainable nature of the latter typically depends on the definition of the former and, for instance, on the extent to which future generations are accounted for.

Initiatives to foster inclusive growth

Over recent years, inclusive growth has been put at the heart of the policy debate in several parts of the world. Prominent institutions have promoted "inclusive growth" to a new policy objective and adopted various initiatives to foster it.

Amongst the pioneers is the World Bank, who established in 2008 a Commission on Growth and Development. The latter published in June 2008 The Growth Report: Strategies for Sustained Growth and Inclusive Development, which "identifies some of the key insights and policy levers to help countries achieve high, sustainable, and inclusive growth" (Commission on Growth and Development, 2008).

In its 2020 strategy, adopted in 2010, the European Commission put forward three mutually-reinforcing priorities, including "inclusive growth", which it regards as "fostering a high-employment economy delivering social and territorial cohesion". The two other priorities are "smart growth: developing an economy based on knowledge and innovation", and "sustainable growth: promoting a more resource efficient, greener and more competitive economy". The European commission also launched in 2016 the Annual Convention for Inclusive Growth (replacing the Convention of the European Platform against Poverty), which brings together civil society organisations and policymakers to discuss how to achieve inclusive growth.

In 2012, the OECD launched its "Inclusive Growth Initiative", in response to the ministerial mandate for a New Approaches to Economic Challenges. It is aimed at developing a strategic policy agenda in line with a new vision of economic growth which puts people's wellbeing centre stage. Extensive work has been done to document wider inequalities and a multidimensional approach to assess, promote and monitor inclusive growth has been adopted. At the OECD Ministerial Council Meeting in June 2016, Ministers adopted a Declaration on Enhancing Productivity for Inclusive Growth.

The IMF has conducted numerous research on the topic and, since 2013, it has offered a course that discusses analytical and operational tools to promote inclusive growth. Finally, the World Economic Forum (WEF) released its "Inclusive Growth and Development Report" in 2017, as part of its Initiative on Economic Growth and Social Inclusion (WEF, 2017).

2. Inclusiveness in advanced economies: state of play

Measurement of inclusive growth ranges across a large spectrum of indicators which reflect the multi-dimension character of wellbeing. Although it does not claim to be exhaustive, this section highlights some major findings and trends for advanced economies. It is based on selected monetary and non-monetary dimensions for which comparable data are available at international level.

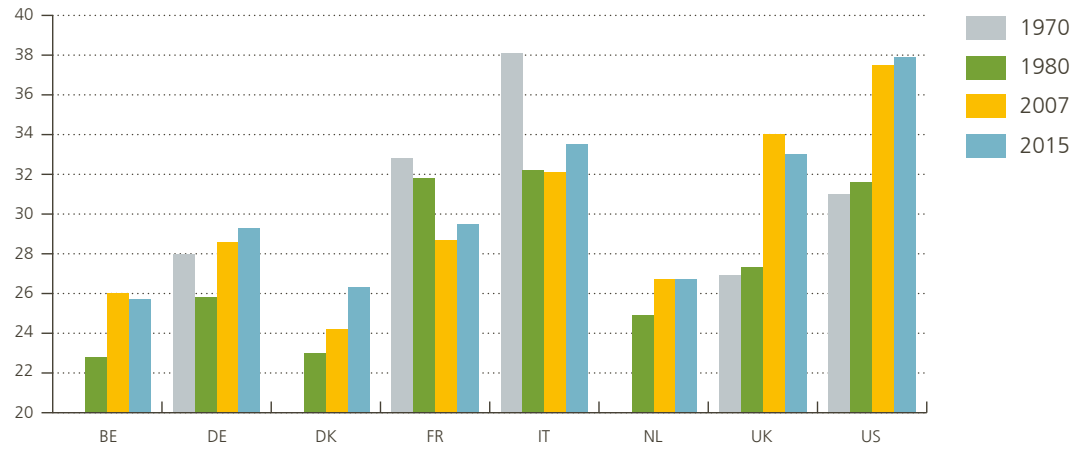
Widening income inequalities

In contrast with the immediate post-war period, income inequality, as measured by the Gini coefficient[1, 2], has widened in most advanced economies over the last couple of decades [3]. However, with varying patterns across countries in terms of both magnitude and timing. For instance, inequalities have risen much more significantly in the UK and the US than in most other rich nations. In France, by contrast, inequalities have tended to decline in comparison to the 1970s while, in Germany, they widened mainly in the 2000s. In Belgium, inequalities rose between 1980 and 1995, but have remained largely stable and comparatively low since then.

Chart 5

Gini index

(disposable income per adult equivalent, 0 = perfect equality & 100 = perfect inequality)



Source: Standardized World Income Inequality Database.

An important element that can be put forward to explain rising income inequality is the decline in the labour income share compared to the share allocated to capital. The median labour share came down from 66.1 % to 61.7 % between the early 1990s and the late 2000s in OECD countries.

Two major developments may have contributed to this trend: firstly, a structural evolution in favour of a more capital-intensive economy and secondly, a decrease in workers' bargaining power (OECD, 2012). The latter decline can be attributed to various factors, including: (1) globalisation, which has boosted competition amongst workers at international level, (2) technological development and the replacement of the workforce by machines, (3) labour market policies that have increased flexibility but lowered worker protection or minimum wage, (4) privatisations in network industries since the 1990, and (5) the decline in both union membership and collective bargaining coverage (*Ibid.*).

1 The Gini coefficient is a broad measure of inequality based on the comparison of cumulative proportions of the population against cumulative proportions of income they receive. It ranges between 0 in the case of perfect equality and 100 in the case of perfect inequality. The Gini coefficient is based here on household disposable income (after taxes and transfers) per adult equivalent.

2 Although they are harmonised, these statistics should be interpreted with caution. The measurement of income (of both labour and capital) is particularly complicated and always imperfect. These data result from surveys and may not reflect the exact situation of individuals. In particular, it is common knowledge that rich people tend to understate their financial situation.

3 It can be underlined that disposable income inequality are significantly lower than market inequality. This is particularly the case in the EU, where social redistribution systems are extensively developed compared to other parts of the world like, for instance, the United States.

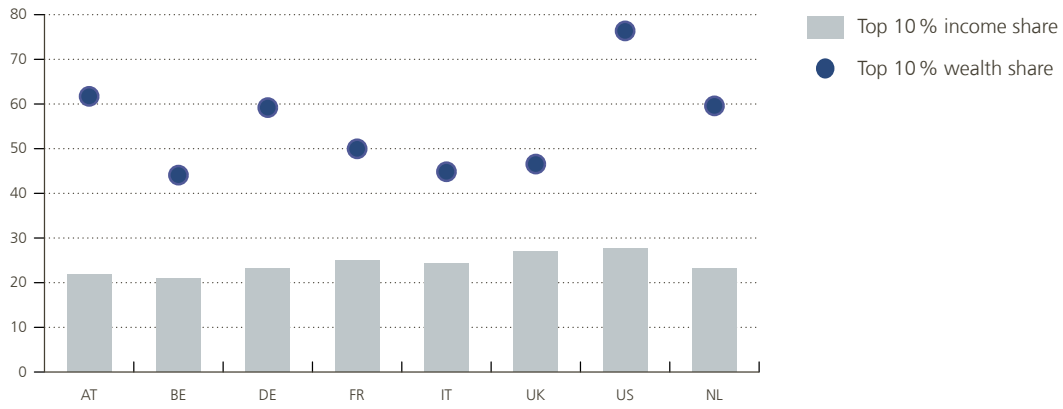
Wealth inequalities are more pronounced

In theory, the relationship between the labour income share and inequality is not obvious, as it depends on various factors, including the distribution of labour and capital endowments across the population, as well as on the effect of taxation and social transfers. For example, a decline in the labour income share may not be accompanied by an increase in income inequality if it goes hand in hand with a lower unemployment rate and/or is offset by income redistribution. In practice, however, evidence points to a close relationship between the decline in the labour income share and income inequality in many advanced economies. This is due notably to highly unequal wealth distribution and thus to the fact that capital incomes tend to be much more concentrated than labour incomes. Because wealth is significantly more unequally distributed than income, unequal outcomes tend to be passed on from generation to generation.

Chart 6

Income share and wealth share of top 10 % [1]

(2012 or latest available year, percentages)



Source: OECD.

1 Income refers to disposable household income and wealth refers to net private household wealth (corrected for household size).

As an illustration of the relatively large wealth disparities, in European countries the 10 % at the top of the wealth distribution usually own around between 40 and 60 % of total country assets. Disparities are even wider in the US, where the richest 10 % own about 80 % of national wealth. Just as in the case of income inequality, wealth inequality is comparatively low in Belgium.

Increased job polarisation

Another significant element to explain rising income inequality is a faster rise in labour compensation at the top than at the bottom of the distribution scale.

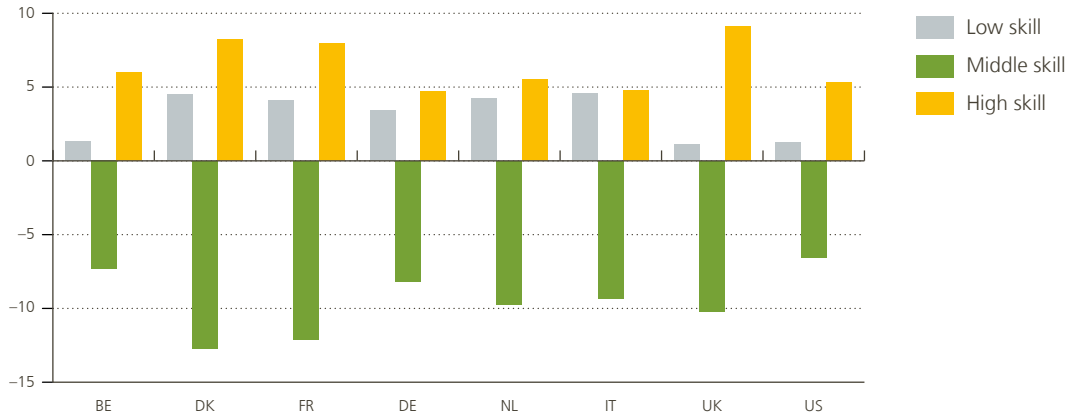
The decline in the labour income share has indeed gone hand in hand with a more polarised distribution of labour incomes, with a bigger share attributed to higher incomes and a decline in the share attributed to lower incomes. Such wage polarisation in advanced economies reflects a shift in labour demand towards more educated and highly-skilled workers. Over the last two decades, demand for highly-skilled workers has increased significantly. At the same time, demand for middle-skilled profile has declined, while demand for low-skilled workers has risen only moderately.

These developments can partly be attributed to both technological developments and globalisation. Technological progress has fostered demand for highly-qualified profiles, while middle-skilled "routine" tasks that were typically performed by workers with moderate education have been automated or offshored to lower-wage countries (Breemersch *et al.*, 2019). Fiercer competition from the latter in the low-tech and middle-tech industries has aggravated pressure on middle-wage jobs, especially after China joined the WTO in 2001. Employment growth in advanced economies has thus tended to polarise into relatively high-skilled, high-wage jobs and low-skilled, low-wage jobs (*Ibid.*).

Chart 7

Change in employment shares by skill content of occupation

(1995-2015, percentage points)



Source: OECD.

Besides, technological progress and, more specifically, the development of information and communication technology (ICT), have given rise to growing productivity and wage dispersion between firms. Since the beginning of the 2000s, firms at the global technology frontier have posted significant productivity gains, comparable to those observed in the past, while laggard firms have generally seen their productivity stagnating.

This diverging trend can be partially attributable to a weakening competitive environment and growing winner-takes-all dynamics (Oulton, 2018). Such dynamics are a particular hallmark of the digital technology sector, where dominant players often grab the lion's share of the market, leading to dominant positions and profits. They may also reflect the obstacles standing in the way of the diffusion of new technologies, notably related to the complexity of these technologies and the outlay and organisational changes that they require.

So, differences in terms of productivity gains have translated into growing divergences in terms of compensation per employee across firms. Highly-productive firms at the technological frontier have notably been able to raise their key employees' salaries to "superstar" levels (Schwellnus *et al.*, 2017).

Concentration at the top

The decline in the labour income share, together with rising labour income disparities have translated into a concentration of income at the top of the distribution. Thus, while the total income share of the top 1 % had declined between 1960 and 1980, it has since then risen. This is particularly the case in the UK and the US, where it has more than doubled, reaching almost 15 % in the former and exceeding 20 % in the latter. On average, at the OECD level, the income of the top 10 % of earners is now around ten times that of the

bottom 10 %, up from seven times three decades ago (OECD, 2016). An increase in the top income share has been observed in almost all rich countries.

It should be noted that financial deregulation and globalisation have contributed to an increase in financial wealth and higher wages in the finance industry, thereby contributing to higher inequality (Dabla-Norris, 2015). Besides globalisation and technological change, competition failures and a decline in the redistributive power of the State, have also been cited as likely factors underlying the increase in inequality in advanced economies (OECD, 2017).

Poverty risk amongst workers has increased

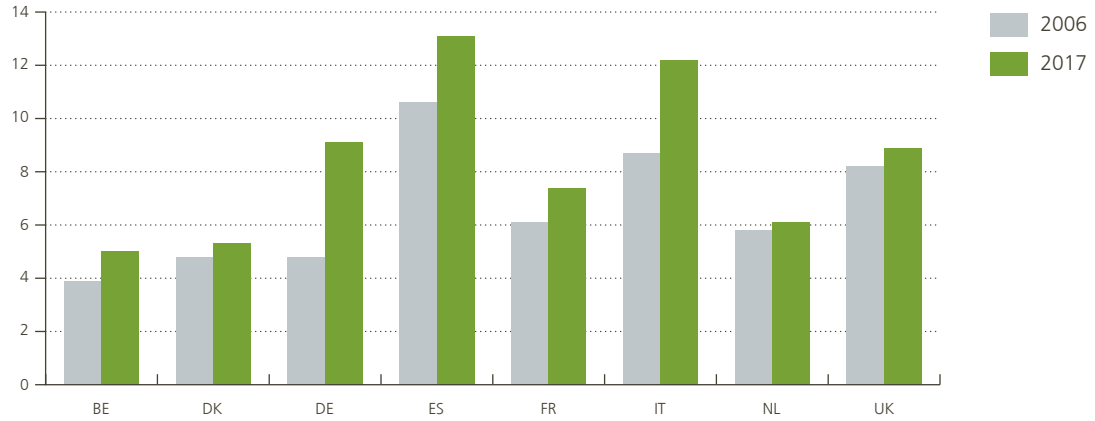
Another striking development over the last few years is the rise in the share of workers at risk of poverty[1]. Most of the rise has taken place after the global and financial crisis of 2008-09. In 2017, nearly one-tenth (9.5 %) of employed people aged between 18 and 64 in the EU27 were at risk of poverty after social transfers, compared to one in twelve (8 %) in 2006. The risk was significantly higher for those working part-time (15.6 %) and for employees with temporary jobs (16.2 %). Is was also slightly higher for men (9.8 %) than for women (9.1 %). Although the pattern is broad-based, magnitude and timing vary widely at country level.

Among the factors that have contributed to the inability of workers to achieve a decent income are labour market reforms, including a reduction in the minimum wage and tighter access to unemployment benefits. The case of Germany is emblematic: greater flexibility of the German labour market supported by the Hartz reforms of the 2000s has accompanied rising rates of low-wage employment. The reforms were made with the objective of boosting employment, legalising forms of informal work and improving incomes of low-paid workers (EC, 2016). At the same time, it appears that they have resulted in many employees working in low-paid, precarious jobs, with few prospects of career development.

Chart 8

Workers at risk of poverty

(share of working people living with less than 60 % of the median income, percentages)



Source: Eurostat.

1 The poverty rate corresponds to the share of working people living with less than 60 % of the household disposable income per adult equivalent.

By contrast, in-work poverty has remained relatively stable and contained in countries like Denmark and Belgium. In Belgium, however, the employment rate is also low compared to most other EU Member States. At the end of 2018, the employment rate was only around 65 %, compared to 69 % at EU28 level and 76.3 % in Germany.

An ever-greater intergenerational divide

The global financial crisis of 2008-09 and the ensuing euro area crisis have weighed more significantly on the young generations, reinforcing an already existing intergenerational divide in terms of both poverty and inequality.

In several EU countries, the economic difficulties of the last decade have reinforced relatively high youth unemployment and the trend towards lower job stability. At the same time, involuntary part-time employment and temporary work contracts have risen the most among young people. These unfavourable labour market developments have led to a higher poverty risk and higher prevalence of in-work poverty. Since 2015, the situation has nevertheless tended to improve.

Chart 9

Poverty risk has increased for the youth and decreased for the elderly

(share of the population living with less than 60 % of the median income, percentages)

Source: Eurostat.

In 2017, the poverty risk for 16-24-year-olds in the EU27 worked out at 22.7 %, up from 19.9 % in 2008. This is a larger increase than for the total population. By contrast, the poverty risk for the elderly has declined substantially, to 14.9 % in 2017, down from 18.9 % in 2008. In Belgium, the decline in the poverty risk for the elderly can be related to several factors, including the increase in the lowest pension benefits, the introduction of guaranteed income for the elderly and higher pension rights for women, due to the higher labour force participation rate of the generation now retiring (Frère, 2016). As for the noticeable increase in the risk of poverty for the younger generations, it is likely related in part to the recent reform of the unemployment benefit scheme and, more specifically, to the cutbacks in integration benefits. The divergent trend as regards the poverty risk for the young and the elderly is expected to continue in future (Dekkers *et al.*, 2019).

More broadly, diverging trends in poverty rates reflect a rise in income inequality across generations in the EU since the mid-2000s (Chen *et al.*, 2018). While the median disposable income of the working-age population – after tax and social transfers – has largely stagnated since the crisis, it has risen by around 10 % for the elderly. More specifically, in most EU countries, the ratio of median net income of the elderly to the youth has risen. As pointed out by Bussolo et al.(2019), beyond disparities across generations, disparities within age cohorts have also widened, with younger cohorts facing higher income inequality at every point of the life cycle than older ones.

Higher joblessness and poverty risk among the young are of particular concern as they not only have adverse and potentially long-lasting consequences for today's youth, but they are also likely to weigh on human capital and productivity gains, and therefore on tomorrow's economic prospects. Moreover, greater inequality across generations erodes social cohesion and polarises political preferences, potentially undermining confidence in political institutions (Chen *et al.*, 2018).

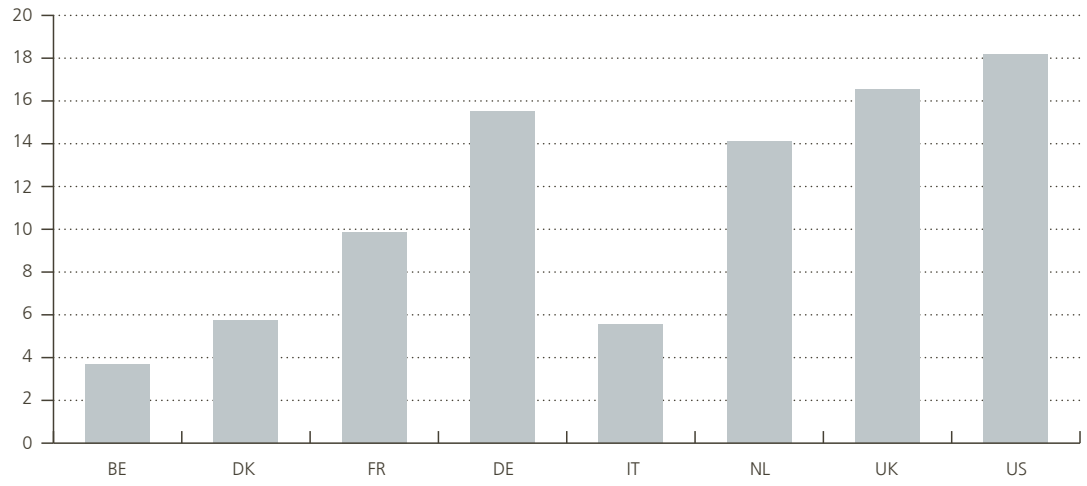
The gender income gap has remained significant

The gender pay gap has tended to decline over the last decade, but it has remained significant in some countries. In 2017, women's gross hourly earnings were on average 16 % below those of men in the EU27. At individual country level, the gender pay gap was relatively high in Germany and in the UK, exceeding 15 %. By contrast, it was low in Belgium, Denmark and in Italy, where it stood at around 5 % or below. In most countries, the gender pay gap is lower for new labour market entrants and tends to widen with age. This is very evident in Belgium where, in 2017, the wage gap was negative for the under-25-year-olds, while it exceeded 15 % for the 55-64-year-olds.

Chart 10

The gender gap in labour income

(difference between median earnings of men and women relative to median earnings of men, full-time employees, 2017 or latest available year, percentages)



Source : OECD.

Foreign-born citizens and their children have fewer opportunities

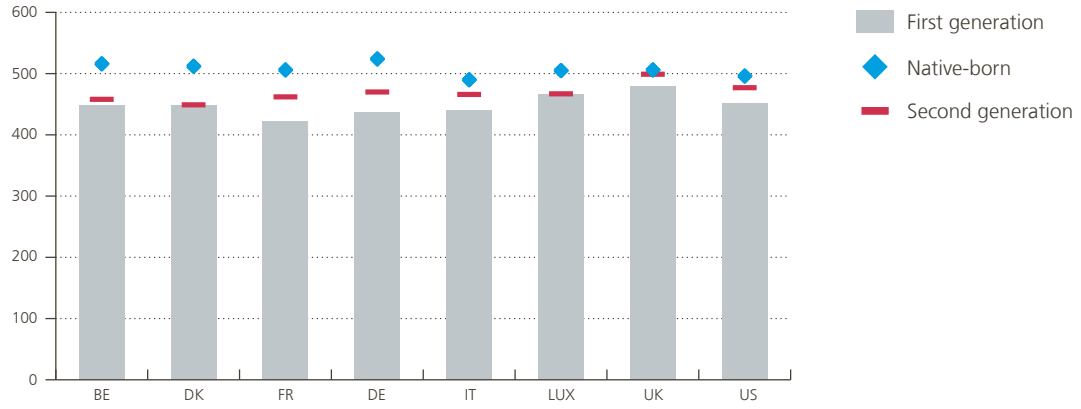
In most OECD countries, immigrants and foreign-born workers are at a disadvantage in education and in the labour market. This is particularly the case in countries with a long migration tradition and a heterogeneous immigrant population.

As far as education is concerned, the OECD PISA study reveals that performance of the first-generation foreign-born is well below those of native-born students. In many countries, performance of second-generation immigrants is also comparatively low. This is particularly the case in Belgium, where the disadvantage of the second generation is larger than in most other OECD countries. This is notably attributable to the unfavourable socio-economic background of the children of immigrants and to the fact that the impact of parental background is greater in Belgium than elsewhere (OECD, 2008).

Chart 11

Students' performance in science, reading and mathematics, by migrant status

(mean combined PISA scores, students aged 15, 2015)



Source: OECD.

Large gaps are also observed on the labour market, where the employment rate among immigrants compared to the native-born is low, while the unemployment rate amongst immigrants is relatively high. Again, gaps here are significantly larger (and more persistent) in Belgium than in other OECD countries, especially for non-EU15 immigrants, and for women in particular. Amongst the explanatory factors is the over-representation of immigrants among those with a very low education level, the existence of discrimination, less developed personal networks as well as information asymmetry (OECD, 2008).

Health gains have been remarkable but unequally shared

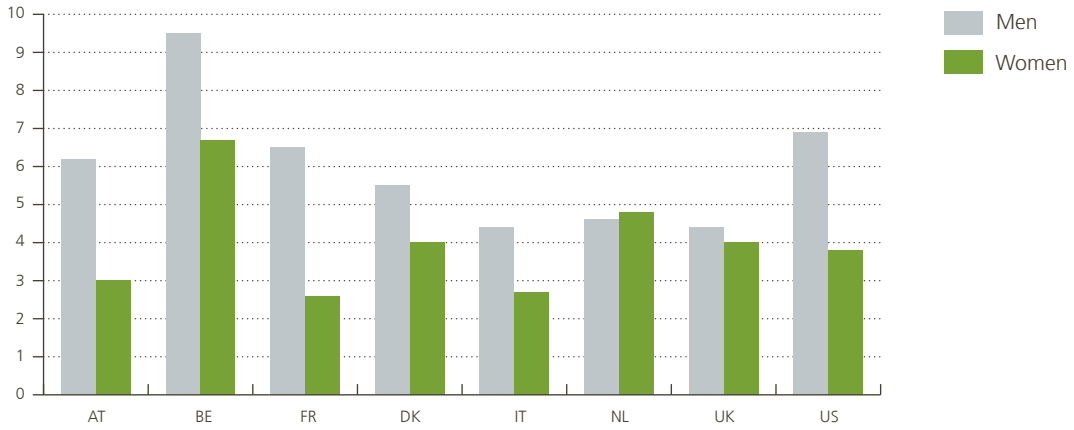
There have been substantial health gains over time, with life expectancy at birth in rich countries on average ten years higher today than it was in 1970. This results notably from improvements in education and living conditions, from a reduction in risk factors like smoking, better quality and accessibility of healthcare systems (OECD, 2017). Thus, in 2016, life expectancy at birth was 80.8 years, on average, across OECD countries, compared to 69.9 years in 1970. This performance nevertheless masks substantial differences across countries, genders as well as socio-economic status.

Focussing on the latter, the gap between people with the highest level of education and those with the lowest level is elevated. In 2015, the former could expect to live around six years longer than people with the lowest level of education at age 30 (53.4 versus 47.8 years) across the OECD. These differences in life expectancy by education level are particularly pronounced for men, with an average gap of seven years. Belgium stands out as a country where the difference in life expectancy on the basis of education is particularly high.

Chart 12

Gap in life expectancy at age 30 between highest and lowest education level

(in years, 2015 or nearest year)



Source: OECD.

Air pollution improved but remained at dangerous level

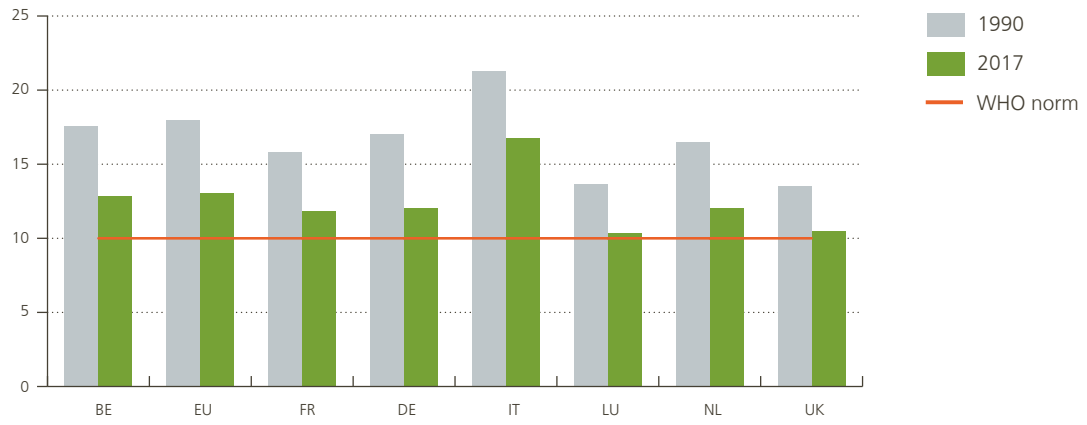
According to the World Health Organisation (WHO), air pollution is a major health problem (WHO, 2019). In particular, exposure to small particulate matter of 2.5 microns or less in diameter, which are capable of penetrating deep into the respiratory tract, is responsible for cardiovascular and respiratory disease, as well as cancers. Because some population are more sensitive (children) or more exposed (urban area), and because of inequality in access to healthcare, not everyone is exposed to the same risk.

The good news is that, over the last three decades, concentrations of suspended particles have dropped in most countries of the world. In rich countries, they have declined about 13.8 % between 1990 and 2017. They have nevertheless remained above the WHO annual norm of 10 micrograms for PM2.5 in many EU countries. This is the case in particular in Belgium, where the share of diesel vehicles in total car population is prominent, although it has declined lately.

Chart 13

Exposure to air pollution

(urban and rural exposure to ambient PM2.5 pollution[1])



Source: World Bank.

1 Population-weighted exposure to ambient PM2.5 pollution is defined as the average level of exposure of a nation's population to concentrations of suspended particles measuring less than 2.5 microns in aerodynamic diameter. Exposure is calculated by weighting mean annual concentrations of PM2.5 by population in both urban and rural areas.

Increased disparities across EU regions

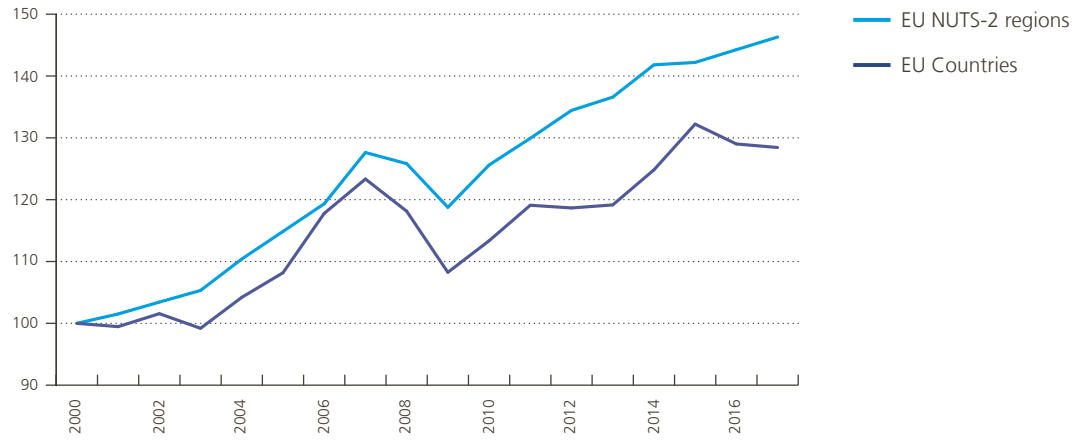
Finally, looking at spatial inequalities at EU level, purchasing power disparities between countries have increased since the beginning of the 2000s. Disparities across EU regions have risen even more, however.

Globally, well-connected metropolitan areas have registered faster economic development than rural or peripheral areas. But urban zones also face higher levels of inequality, especially large cities, which tend to

Chart 14

Purchasing power standard (PPS) per inhabitant

(standard deviation, 2000 = 100)



Source: Eurostat.

attract the most skilled workers and the most productive firms. Obviously, regional disparities are not limited to incomes or purchasing power but include multiple wellbeing dimensions. For instance, in 2018, unemployment rates ranged from 1.3 % in the Prague Region in Czech Republic to over 25 % in the Greek region of Western Macedonia.

Conclusion

Polarisation has tended to increase in advanced economies over the last few years. The decline in the labour income share, together with rising labour income disparities have translated into a concentration of income at the top of the distribution range. At the same time, the share of workers at risk of poverty has risen, especially amongst the young, who paid the highest price for the recent economic and financial crises. On the contrary, the poverty risk among the elderly has declined substantially in most countries. Large gaps persist across populations when it comes to non-monetary dimensions of wellbeing, including education, employment and health. At EU level, regional and, to a lesser extent, cross-country income disparities have also widened over the last two decades.

The main factors behind those developments include globalisation and technological progress, which have fostered competition between workers at global level and shifted labour demand in favour of highly-skilled people in advanced economies. A decline in the redistributive power of the State has also been cited as a driver of the increase in inequality.

Belgium ranks amongst the countries with the lowest level of inequality and the narrowest gender gap in labour income. Poverty risk amongst working people is also low, but employment rate is comparatively weak. By contrast, Belgium stands out as a country where immigrants and their children tend to lack opportunities, where the level of education is a significant determinant of life-expectancy and where air pollution is pretty high.

The multiple dimensions of inequality are closely intertwined and tend to feed off each other. Addressing inequality of opportunity really matters, as it does not just have adverse and potentially long-lasting consequences for people today, but is also likely to weigh on tomorrow's economic prospects. Accessibility and quality of education is key in this regard.

Looking ahead, promoting more inclusive growth faces key challenges. Firstly, innovation and technological change are expected to accelerate with the development of artificial intelligence, digitalisation and automation. While technological advances are key to raising productivity and improving living standards, they can also leave people behind. Secondly, population ageing is a global phenomenon, but is most pronounced in advanced economies. This trend is putting pressure on the working-age population and pushing up the dependency ratio. It is thus expected to weigh on future income growth per capita and may possibly reinforce distributive tensions. Thirdly, while a temporary slowdown cannot be ruled out, global economic integration is not expected to decline structurally. The rapid development of large emerging economies in particular offers many opportunities for advanced economies, but it may also continue to generate costs for various segments of the population. Fourthly, climate change and other environmental concerns require major shifts in production and consumption practices. Appropriate adjustments are generating both opportunities and costs. Ensuring that those are equitably shared across the population is crucial to making the ecological transition successful.

These challenges are very significant and addressing them requires both the approval and cooperation of the whole population. Today's social frustration about the distribution of the benefits of economic growth should be taken seriously to restore public confidence in the capacity of democratic institutions, technological progress and international economic integration to support further social progress and wellbeing for all.

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