# Chapter 1. Main trends

## The global upswing provides an opportunity to set the foundations for sustainable growth that benefits all

The global economy is recovering and moving back to cruising speed. The upswing in the global economic outlook creates significant opportunities to consolidate the global economic recovery ten years after the crisis, while providing the basis to address inequalities. The recovery has yet to translate fully into income gains for all groups as market insecurity and the low-income rate remain high in several OECD countries compared with their levels before the 2008 crisis (OECD, 2018f). The poverty risk has also increased in most OECD countries over the period between the mid-2000s-2015 (OECD, 2017b). Considering that the decade before the crisis has seen high levels of growth, but also increased inequalities in some countries, it is important to ensure that the return of economic dynamism benefits all.

Some countries have made progress in addressing inequalities, but more efforts are needed. Inequalities deepened by the financial crisis in several OECD countries have left large segments of the population with reduced opportunities to improve their economic conditions and well-being for them and their children. The global upswing provides the opportunity to make economies more resilient, and seize on the potential created by technological developments and greater global interconnectedness to strengthen governments' capacity to promote equal well-being opportunities. However, concerted action is required.

## Opportunities for low-income groups are worsening

Affluent households have seen their living standards and wealth increase faster than those of the poorest and the middle class. Contrary to those at the top, households at the bottom of the income distribution have experienced stagnant wages and low income growth. In terms of real disposable household income, the poorest 20% earned one fifth of the income of the richest 20% in OECD countries in 2014. Real wages of the richest 1% increased by 45% between 1995 and 2011 – three times higher than the growth in real median wages in the OECD countries. The richest 5% held on average more than one third of the total wealth; and the richest 1% nearly one fifth.

OECD work on inequalities and growth shows that the accumulation of disadvantages for certain income groups can have detrimental effects on the prosperity and well-being of all. Large degrees of inequality weigh on the potential for future economic and productivity growth. While stronger growth can benefit all members of society, some groups may fall well short of their potential if they start off from a position of disadvantage. Social background continues to determine the life chances of people in many OECD countries. Overall, a child whose father earned twice the average income will go on to earn 40% more than a child whose father earned the average income. In many countries, policies have not been able to break the influence of socio-economic status on children's education outcomes: performance between students in the top quarter and students in the bottom quarter of ESCS reached on average 88 PISA points more in OECD countries, more than a year of schooling in educational terms (OECD, 2015f). Children at the bottom quarter of the PISA index of economic, social and cultural status have an 18% chance of pursuing a career in science – against a 32% chance for children from the top quarter. These effects are exacerbated for children of migrants, with a large performance gap compared to non-immigrant students (OECD, 2015f).

Social mobility is hampered by limited access to quality healthcare services, education and transportation services that are poorer for low-income groups and those living in lagging regions. Lack of access to affordable quality housing is another source of vulnerability for low-income groups. Many households in OECD countries are overburdened by housing costs: the median housing cost burden for mortgage payers is about 18% of disposable income and 23% for tenants. The cost burden is much higher for low-income households and, on average, represents more than one-third of disposable income. Housing conditions, the neighbourhood and environment in which they grow up in are essential factors that contribute to children's well-being and their future ability to thrive.

## There is scope to improve business dynamism

The global economy is undergoing significant changes in the rate and composition of productivity growth, business dynamism and employment gains since the financial crisis in the context of digitalisation, globalisation, demographic and climate change. There is a potential for large economic gains. The reallocation of activity between firms, sectors and countries can help to ensure that these gains are shared in a way that supports long-term economic growth that is beneficial to all.

A dynamic business environment is a crucial condition for realising this potential. Young firms that represent 17% of employment have been the primary source of job creation (42% of total job creation) over the period 2001-2011 across a sample of 18 OECD and non-OECD countries (Criscuolo, Gal and Menon, 2014). However, business dynamism has slowed in many OECD countries. The firm population is ageing. Firms manage to survive without adopting improved practices to increase productivity growth. The uptake of new technologies is uneven and particularly low for small and medium enterprises (SMEs).

In addition, the gap between high-productivity firms and lagging firms has increased at the global level, but also within many countries and within industries. The OECD *Productivity-Inclusiveness Nexus* (OECD, 2017i) suggests that there might be a 'sorting' effect which increasingly separates frontier firms, able to access the best technologies and skills, from those that are less productive and fail to compete on the same grounds. The Next Production Revolution and the transition to the digital economy are exacerbating these trends. Only a quarter of businesses use cloud computing services, while on average 27% of the adults have reported no experience in using computers in 2012 across OECD countries (OECD, 2013).

The 'Great Divergence' in productivity has contributed to a divergence of wages between firms. However, wage inequality is also accounted for by growing wage inequality within firms, amid a declining wage premium for low-skilled workers in large firms and a growing wage premium for corporate executives and professionals. The latter may partly explain the decoupling observed between real median wage growth and aggregate labour productivity growth in the last two decades. This decoupling suggests that productivity gains are not always delivering wage gains for all workers (OECD, 2018f).

## Digitalisation has not yet materialised into a broad-based productivity growth

The potential benefits of the digital transformation are many. In order to realise those benefits digitalisation should be broad-based, it should open access to market opportunities and support fast technology diffusion. This is not always the case as the digital economy features network effects and large economies of scale, potentially creating winner-takes-most dynamics in some industries. Concentration has increased in both manufacturing and services sectors in many OECD countries. New technologies have enabled "superstar firms" to expand their share in the economy. Some of these firms are achieving large market shares with a relatively small workforce, meaning they are able to attain "scale without mass" particularly in services. OECD research confirms that global frontier firms in the information and communications technology (ICT) services sector have significantly widened the gap in terms of multi-factor productivity not only with regard to non-frontier firms, but even within the group of global frontier firms – where differences between the very top firms (top 2%) and other frontier firms have grown.

These trends may be reinforced by the growing importance of concentration in ownership and access to data; for example, major providers of precision technologies (e.g. in the agriculture or transport sectors) generate large volumes of data that are considered an important data source for other companies (e.g. for biotech companies that optimise genetically modified crops or crop insurance companies in the agriculture sector) (OECD, 2017o).

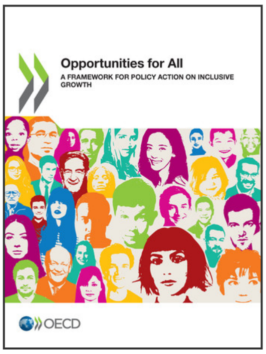
Globalisation and technological change have contributed to job creation, but also to a considerable restructuring of labour markets. Most OECD countries have experienced an increase in the share of employment in high-skilled (and to some extent in low-skilled) jobs and a decrease in the share of employment in middle-skilled jobs. Digital technologies have facilitated non-standard forms of work. These trends provide opportunities for greater flexibility and can help overcome barriers to labour market participation. On the other hand, there is high variation in job quality among non-standard forms of work, in terms of job insecurity, pay, job strain and access to social protection and training.

## High levels of inequality have negatively affected confidence in markets, and could further weigh on long-term growth and macroeconomic stability

To realise the gains of global interconnectedness, it is important to rebuild shared confidence in open trade and markets. Support for open trade and markets, for instance, has been negatively impacted by increasing regional inequality within countries. Territorial variation in job opportunities is important, but not the only factor. Confidence may vary from region to region depending on the industrial structure, distance to markets, resources to support innovation, availability of skills in the regional labour market, and access to public services for households; among others. Capital city regions and remote rural regions with natural resources are facing different challenges in terms of productivity growth and inclusion.

High levels of inequality may increase the risk that narrow interest groups could influence the policy-making process and "capture" its benefits, especially if not counter-balanced by well-designed regulation on lobbying and campaign finance. By undermining trust in government and institutions, high levels of inequality may reduce the political space for reform and may feed a backlash against globalisation and openness, as observed in some OECD countries over recent years with the rise of populist movements (OECD, 2017t; OECD, 2017u).

High inequality can result in lower economic growth as it undermines the ability of the bottom 40% to invest in education, affecting their opportunities and productivity, as well as those of their children. In the absence of broad-based insurance mechanisms that can help vulnerable segments of the labour market cope with the risk of unemployment, unequal societies may be less resilient and could suffer higher welfare costs from economic shocks. The rise in inequality during 1985-2005 in 19 OECD countries is estimated to have knocked 4.7 percentage points off cumulative growth between 1990 and 2010 (OECD, 2015e). Socio-economic background influences the access and use of suitable health services alongside permitting to benefit from better quality employment (OECD, 2017n). This translates in lower tax revenues and higher social protection expenditures. At the same time, the large increases in public debt observed since the early 1990s reduce the fiscal space available to implement inclusive growth policies.

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