Introduction: Shared understanding for better cooperation

Ambassadors to the OECD are busy people. They need to be! Because the Organization is live and very active: almost every week new publications, substantive committees meetings and other events. Ambassadors need to be present, to listen, to evaluate importance, to select, to take initiative and to act.

Yet, among these hectic activities ambassadors need also to step back and reflect on the Organization, its works, its impact on their countries and on their own roles. Since the OECD works to offer good policy guidance in a complex World, ambassadors need to interact among them to better understand the role of the Organization and to guide its works.

Unlike universal international organizations the OECD is composed of a relatively small number of like-minded states. This is a group of deeply like-minded countries, because to fully benefit from the Organization member states need to display similarities in many dimensions and especially with regard to the role of law and to the freedom of private enterprise. In addition, membe states need to apply similar administrative principles and to be able to design public policies democratically and increasingly participatively. Only when such conditions are met learning from peers, and being reviewed by them – the Organization’s dominant mode of functioning, can be effective and efficient. If OECD membership increases a country’s resilience to external shocks or domestic political turbulences, the Organization takes pride of this and
its member states influence the external World by the examples of good, worth being imitated, practices.

In a multilateral organization like the OECD ambassadors are not only diligent executors of the instructions sent from their capitals, but also in a way they are representatives and “faces” of the Organization in their own countries. In order to increase the potential impact of the OECD on domestic policies, the works of the Organization need to be known, read and thought over. Permanent representations to the OECD function as a kind of transmission belt that acts both ways.

Not all ambassadors are trained as economists or public policy specialists, but all need to understand the overall economic and social policy line of the OECD, which, built on evidence and rigorous thinking, is to help develop policies that offer better lives to the current and next generations. This general policy principle is called in OECD documents as “inclusive growth”. The concept of inclusive growth has been present for several years, but it needs to be contextualized in order to support countries wanting to counter increased inequalities.

Thinking that ambassadors would benefit from the discussion about this central to the OECD’s works concept, I approached Ms. Gabriela Ramos, the OECD Chief of Staff, in June 2018 informing that I would organize “L’Atelier des Ambassadeurs” and asking for a paper by the Secretariat of the Organization on this topic. Such a paper was written and then discussed among ambassadors on 15 January 2019 during first L’Atelier des Ambassadeurs” hosted by the Polish Delegation to the OECD.

This Cahier de l’Atelier des Ambassadeurs contains the summary of the discussion and the paper which inspired it.

I am grateful to the OECD Secretariat and especially to Ms. Gabriela Ramos, Romina Boarini, Silvia Da Rin Panetto and Neil Martin for their efforts in preparation of the paper. I would like to thank ambassadors: Anna Brandt of Sweden, Guido Biessen of the Netherlands and Chris Sharrock of the UK which commented on the paper as lead discussants.

The engagement of Lukasz Błoński, the economic counsellor of the Polish Delegation, cannot also pass unnoticed.

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References:
1) The Conceptual Foundations of People-Centred Growth

Background

At the most basic level, economic growth can be defined as the increase in goods and services produced by an economy over a given period of time. From a supply perspective, growth reflects either a quantitative expansion of the economy, with a larger amount of inputs leading to higher output, or a qualitative improvement in production allowing the same amount of inputs to be combined with greater efficiency. From a demand and a welfare perspective, economic growth constitutes progress to the extent that people’s well-being is determined by the amount of goods and services consumed or the income accruing to the factors of production.

Some of the standard narratives on economic growth have tended to assume furthermore that, provided markets are perfectly competitive, the distributional aspects of growth will not matter much as “a rising tide lifts all boats”. Taken literally, this idea implies that the objective of public policy should consist first and foremost in promoting economic growth and intervening only in a second stage to redistribute its benefits as necessary in light of the conditions, social preferences and political priorities specific to national contexts. A similar idea holds that economic growth “trickles down” and will eventually feed through to the whole of society, including the poorest, thereby producing better living standards for all. This perspective further mitigates the need for active intervention by suggesting that redistribution will take place spontaneously.

Neither of these narratives matches the evidence over the past two decades or more, as amply documented by the OECD and others. What we have seen instead is a widening of inequality, with the dividends of growth in terms of income, wealth and opportunities being unevenly shared among the population and the richest groups gaining the most. While this trend

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2 For instance, across the OECD, the average disposable income of the richest 10% of the population has risen from 7 times that of the poorest decile 25 years ago to 9.5 times today. Furthermore, at current levels of social mobility, it would take 4 to 5 generations in OECD countries for the offspring of a family from the poorest decile to reach the average level of income, and even longer in many non-OECD countries (OECD 2018b). More troubling still, disadvantages tend to compound across the different dimensions of well-being (income, education, employment prospects, health, even longevity) and across time. For example, calculations based on 2012 and 2015 PIAAC data show that, across the OECD, children whose parents did not complete secondary school have only a 15% chance of making it to university – compared to a 60% chance for children whose family background
pre-dates the 2008 crisis, the latter has brought it into greater focus by undermining confidence in the effectiveness of the analytical tools and models used to guide policy, as well as in the ability of policy-makers to deliver a fair share both of the benefits of growth and the costs of reform. In doing so, the crisis has highlighted the need for an economy that can fully deliver for citizens in terms of improving present outcomes for all, investing in future opportunities for the next generations and ensuring that chances in life are primarily shaped by individual choices and collective responsibility rather than inherited circumstances. These principles play a key and guiding role in the Secretary-General’s 21 for 21 Agenda for “putting people at the centre of policy” and restoring trust in the action of government.

The first section of this paper will seek to better define what a people-centred approach to growth consists in and what conceptual bases it draws on, highlighting notably the implications of this approach for our understanding of individual decision-making and well-being. The second section will discuss the type of policies that can help promote people-centre growth and how governments and business can act in complementary fashion to achieve this objective, focusing notably on the problems created by the gaps in productivity performance between frontier and lagging firms. The final section will provide an overview of OECD recommendations, based on the Framework for Policy Action on Inclusive Growth, and potential support to countries in their efforts to promote people-centre growth.

How does people-centred growth differ from standard narratives on economic growth?

Putting people at the centre of policy has several important implications. First of all, it means taking greater account of the distributional aspects of economic growth and recognising that differences in individuals’ conditions affect their ability to

includes at least one parent with tertiary education (OECD 2018b). Similarly, the gap in life expectancy at age 25 between the low and highly educated is of 7.7 years for men and 4.6 years for women, with educational attainment accounting for around 10% of overall differences in longevity (Murtin et al. 2017).

See Romer (2016) for a criticism of macroeconomics as a policy tool and the response made in Reis (2018). See also Blanchard (2016) for a much-commented discussion of dynamic stochastic general equilibrium (DSGE) models and their limits.

4 On average only 42% of OECD countries’ citizens expressed trust in their national governments in 2016, a 3% decline from the level of trust measured in 2007. This decline covers wide disparities, with some countries experiencing positive change over the period while most OECD countries have seen falling levels of trust (sometimes by more than 20 percentage points), however the overall figure of 42% represents a record low for this measure (OECD 2017a).
act both as contributors to and beneficiaries of growth. A people-centred approach to growth must look at the way in which the benefits of economic growth are shared across the population and gauge the extent to which they translate into improved outcomes for all. It is “people-centred” therefore in the sense that it goes beyond aggregate measures (such as GDP or employment) and mean values (such as average income) to consider the effects of economic growth throughout the population and what this implies for the present cohesion and future prosperity of society.

Policy-makers can choose to pay attention to the distributional aspects of growth, to a greater or lesser degree, based on normative grounds (a concern for fairness, social cohesion, the idea of “leaving no-one behind”...). Importantly, however, OECD work on the Productivity-Inclusiveness Nexus shows that they need to take account of these aspects on grounds of economic efficiency as well, in light of the common foundations and linkages between slowing productivity growth and rising inequality\(^5\). Increased interest in and use of complexity-based tools and models has further strengthened the case for a people-centred approach by facilitating the analysis of these distributional aspects and by underlining the importance they have in determining the path and outcomes of long-term processes, such as economic growth\(^6\). A key insight to remember here is that in a complex system (like the global economy, a national economy, or even a single market) there is no simple passage from the individual to the aggregate or from the aggregate to the individual\(^7\). As a result,

\(^5\) OECD (2016a) provides an analysis of the main factors affecting these two trends, drawing on recent empirical evidence. Its key message consists in highlighting the need for a broader, more inclusive approach to productivity growth that can expand the productive base of the economy while ensuring that economic growth translates into improved living standards and opportunities for all parts of society. Investing in the skills of people and creating an environment where all firms have a fair chance to succeed, including in disadvantaged regions, are two of the main levers it identifies for achieving this dual objective. A central argument here is that greater equality can help promote the development of human capital and increase potential productivity gains for the economy as a whole by creating more and better opportunities for the greatest number to invest in their skills and education (OECD 2015a). This argument is particularly important in a context of skill-biased technological change, a rapidly evolving world of work and an increasing gap between frontier and lagging firms in terms of productivity and wages (OECD 2016a).

\(^6\) On this last point, see for instance the case study in Acemoglu et al. (2007), though it puts greater emphasis on the distribution of political power and its institutional effects, rather than economic inequality per se, as a determining factor in long-term economic growth.

\(^7\) This insight is particularly well captured in Schelling (1978) and Kirman (2010). It simultaneously highlights the problem of social aggregation (meaning that aggregate outcomes cannot be derived in linear fashion from independent individual actions) and the problem of heterogeneity (which holds that distributions matter and that individual actions cannot be reduced to that of a “representative agent” following a single general logic of behaviour). In this respect, the “whole” is more than simply the sum of its parts in a complex system and the “parts” are more than simply an average or the whole writ small. Both of these problems (heterogeneity and
critical change may be driven by underlying distributional dynamics (regarding risk, preferences, information...) that are not reflected in the aggregate. This can be seen, for example, in the well-known phenomenon of “tipping points”, where highly stable systems undergo abrupt transitions towards new states or phases once a variable (often secondary and hitherto overlooked) reaches a particular threshold.

The notion of complexity suggests therefore that people play an active role in fostering and sustaining economic growth. As with OECD work on the Productivity-Inclusiveness Nexus, this conclusion argues for a view of people as fundamental drivers in the process of economic growth, not simply as inputs. In this perspective, improving on standard approaches to growth will require us to develop a better understanding of the behaviour of individuals, of the way in which their decisions interact, as well as of the systems in which these decisions and interactions take place. On the technical side, the development of new instruments, such as agent-based modelling (ABM), can help fulfil this ambition. It can also contribute to address some of the challenges associated with the measurement of income and wealth inequality, notably by enabling the development of new indicators. On the substantive side, a people-centred approach to economic growth can help promote a more realistic conception of human behaviour through its focus on the well-being of individuals as the main objective for policy.

Extending our understanding of well-being beyond consumption and material living standards also has significant implications. It means first of all that the metric for economic growth must be broadened beyond income and better aligned with the multidimensional nature of well-being by incorporating a wider set of components, as highlighted by the OECD Well-Being Framework (OECD 2011b) and OECD research on multidimensional living standards (OECD 2015b). The idea put forward by the OECD of “Better Lives” as a conceptual horizon for the notion of well-being raises deeper questions regarding the nature of human motivation and goals, what constitutes a “meaningful life” and consumption inequality to complement measures on income inequality and produce a clearer picture of living standards. The measurement of household wealth inequality tends to present even more significant challenges, reflecting the difficulties involved in valuing certain types of assets (notably land) and in obtaining comparable data, particularly at the top of the distribution. On this issue, see for instance the discussion in Balestra & Tonkin (2018).

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On the challenges relating to the measurement of income inequality, see for instance the discussion in OECD (2018a) which highlights (i) discrepancies between micro and macro data; (ii) the need to better integrate household surveys and administrative data; and (iii) the difficulties involved in establishing harmonised comparable data on household wealth inequality to complement measures on income inequality and produce a clearer picture of living standards. The measurement of household wealth inequality tends to present even more significant challenges, reflecting the difficulties involved in valuing certain types of assets (notably land) and in obtaining comparable data, particularly at the top of the distribution. On this issue, see for instance the discussion in Balestra & Tonkin (2018).
how policy-makers can best empower individuals with the resources, skills, attitudes and opportunities necessary for them to pursue it. A people-centred approach makes space therefore for the notion of “purpose” and seeks to engage with the ethical aspects of economic growth by considering more fully the diversity of goods (material and non-material; market and non-market…) that matter to people and the ways in which they individually and collectively reconcile differing goals and values⁹.

In conclusion, a people-centred approach to growth reflects a broad vision of economics as a human and social science. This is not a new ambition for economics, as broad interdisciplinary perspectives (from David Hume to Herbert Simon) and interest in distributional and ethical questions (from Adam Smith to Amartya Sen – through Pareto, Maynard Keynes and a substantial part of the tradition in Welfare Economics) have been part of the field from its very origins¹⁰. Whether this broad vision of economics has been in the mainstream or more at the margins of the discipline has depended on the period, the nature of the object studied (pure or applied…) and the style of economics (mathematical or empirical…).

As highlighted by NAEC, the conceptual foundations for this type of approach exist and current research in economics has notably benefited from two sources in this regard: (i) advances in the behavioural sciences; and (ii) the interdisciplinary dialogue around the study and modelling of complex adaptive systems. How much of a departure this represents from the standard conception of rationality in economics or from methodological individualism is another question that needs to be addressed.

What model of human nature should a people-centred approach to economic growth be built on?

One of the defining traits of economics as a human and social science is that it takes individual choice as its fundamental “event” and the basis for explanation. Schelling (1978) illustrates this point by arguing that, throughout its different areas of investigation, the discipline has two essential objects: (i) at the micro-level, it studies choice behaviour (ie. the way in which individuals make decisions); (ii) while at the macro-level, it deals with social aggregation (ie. the way in which these decisions combine to produce aggregate outcomes)¹¹. The focus

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⁹ For an introduction to these questions, see for instance Bruni & Porta (2005). See also Kolm (1984), Gui & Sugden (2005) and Phelps (2007).


¹¹ To the extent that the notion of “choice” implies the need to arbitrate (between different options,
on individual choice helps explain the central role that methodological individualism plays in economics and clarify what distinguishes it from other disciplines, notably sociology\textsuperscript{12}. Sociology does not take as its starting-point the \textit{individual}, but the context and processes the individual is immersed in. Similarly, it does not focus on \textit{choices} when explaining action and behaviour, but looks instead at the social and cultural forces that are exerted on individuals within a given context or process.

Duesenberry (1960) famously summed up this distinction in a pithy formula: \textit{“Economics is all about how people make choices, sociology is all about how they arrange themselves so that they have no choices to make.”} Taken along these lines, \textit{homo economicus} can be seen as a rational maximiser for whom choice constitutes a fundamental activity, whereas \textit{homo sociologicus} is guided by his environment in his choices and relies on internal or external constraints (including social objects, such as norms and conventions, which are often internalised in the individual’s behaviour) to identify available options and reduce them to a manageable set\textsuperscript{13}. Taking a people-centred approach does not imply that we need to prioritise one model of human nature over the other or adopt a strictly mono-disciplinary perspective. On the contrary, it underlines the importance of bridging this analytical gap in an effort to think the individual within his/her socio-cultural environment, better understand the relation between choice and context, and provide a finer-grained picture of what constitutes well-being.

Slow but tangible progress has been made towards building a richer, more realistic model of human nature that can support these objectives. This progress has been facilitated by interdisciplinary dialogue and significant cross-over between economics and sociology in terms of the objects studied and the tools used\textsuperscript{14}. It has also benefited from the increasing

\textsuperscript{12} For an in-depth discussion on the role of methodological individualism in social science, see notably Udehn (2001) and Lagueux (2010).

\textsuperscript{13} This distinction can also be seen in the contrast between the notion of “preference” as traditionally used in microeconomics and the notion of “habitus” as used by French sociologist Pierre Bourdieu and his followers. The former is a spontaneous and personal characteristic, while the latter is conceived as an internally structured disposition which reflects the influence of the social environment.

\textsuperscript{14} For instance, rational choice theory has a long tradition in sociology, as highlighted by Hedström & Stern (2008). Similarly, economic thinking has been applied to subjective and external constraints and the role they play in individual choice, notably in the literature on bargaining and strategic commitment (Schelling 1960), on addiction and self-control (Elster 1979; Schelling 1984), and in organisational behaviour (Simon 1997).
use of notions of rationality which allow a substantial role for social objects and context in the decision-making process (as with *homo sociologicus*), alongside the type of maximising choice behaviour associated with *homo economicus*. In economics, the research programme on “bounded rationality” has been particularly influential in this regard. A central insight from this programme has been to show (i) how real individuals use heuristics (or simple rules of thumb) that are often context-dependent and reliant on elements from the environment when making decisions; and (ii) that this can allow them to compensate for their limitations in terms of cognitive and information-processing capacity and achieve outcomes that may be as, if not more, efficient than those predicted by standard theory.

This insight has two important implications that should be underlined here. First of all, adopting a more realistic model of human nature does not imply giving up on a meaningful conception of rationality, on economic efficiency as an objective for policy, or on the established results of economic theory. On the contrary, as stated in the introduction of Sunstein & Thaler (2008), the aim of behavioural economics and its associated research programmes is to rebuild these results on more solid empirical and psychological grounds. It is interesting to note that economics has probably benefited from its methodological individualism here, to the extent that the latter has pushed the discipline to pay attention to the micro-foundations of individual choice and in doing so has strengthened its ties with experimental psychology. Conversely, as noted in both Udehn (2001) and Lagueux (2010), the search for greater realism implies the adoption of a weaker version of methodological individualism that accepts social and contextual phenomena as part of the explanation.

Secondly, greater realism can help resolve some of the problems encountered by standard analysis and models in areas that are important for understanding economic growth. Greater realism can notably provide a way forward in the study of *coordination*, where standard models fail to satisfactorily explain how agents form the sets of mutually concordant expectations which enable collective action and underpin important social phenomena.

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15 Elster (1989a) provides an example of this type of approach in sociology with a model combining rational choice with the role of psychological elements (emotions...) and that of social norms.

16 Key contributions to this research programme include Simon (1957), Gigerenzer & Selten (2001) and Kahneman (2011).
such as conventions\textsuperscript{17}. This is also the case for the study of cooperation, where standard models struggle to explain the processes through which mutual expectations focus on social optima/cooperative outcomes or fail to do so, as well as the nature and role of trust\textsuperscript{18}. Both of these issues – coordination and cooperation – are essential for understanding the notion of social contract, how it may vary across national contexts and the different ways in which governments can strengthen social cohesion in a context of deep transformational change.

Equally important to highlight here, a more precise study of social behaviour, and in particular cooperative behaviour, provides us with a clearer picture of the role that moral motives, including altruism, play in economic decision-making and the different ways in which institutions and context can support and leverage these motives to promote optimal collective outcomes (Elster 1989b; Smith 2008). In this respect, the search for greater realism in economic analysis continues a line of questioning opened by Adam Smith and seeks to address a significant analytical challenge: designing a model that can reconcile the type of self-interested instrumental behaviour central to Smith’s argument in \textit{The Wealth of Nations} with the moral dimension of human nature studied in \textit{The Theory of Moral Sentiment}\textsuperscript{19}.

\textit{Does people-centred growth imply a rethinking of the notion of human needs?}

As argued above, one of the main challenges in building a people-centred approach to economic growth consists in being able to operationalise and measure individual well-being. The OECD has contributed substantially to this agenda and helped embed well-being into policy-making through the development of the \textit{OECD Well-Being Framework} and its application in the \textit{Better Life Initiative}. The \textit{Better Life Initiative} has notably extended research on the notion of well-being in two directions: (i) by broadening its definition and metrics; and (ii) by exploring how it can be adapted to different contexts.

\textsuperscript{17} On the importance of coordination for economic growth, see notably Myerson (2009). On the limits of standard economic models for analysing coordination, see Dupuy (1989) and Walliser (2003). Dupuy (1989) notably compares economic approaches where coordination is based purely on the inferences that rational individuals can make about the choices of others and sociological approaches where coordination relies on social objects. In doing so, Dupuy (1989) underlines problems with both these approaches, pointing in turn to the need for models that can take account of both choice and context.

\textsuperscript{18} On the limits of standard economic models in the analysis of cooperation and the benefits of greater realism, see Elster (1989b) and Smith (2008).

\textsuperscript{19} On this question, which has sometimes been dubbed the “Adam Smith Problem”, see notably Kolm (1981) and Sugden (2002).
The Better Life Initiative is driven by the view that people are the best judges of how their lives are going and what constitutes well-being. In this perspective, the Better Life Initiative argues that well-being should be defined both by the satisfaction of objective needs and wants and by the quality of life experienced by people (OECD 2011b). It takes account of people’s subjective assessments when evaluating life satisfaction. Furthermore, it recognises that people’s objective needs and wants change across time (notably over the life-cycle), vary between individuals and are partly shaped by contextual elements which can be material and economic in nature (such as the level of development...), but also social and perceptual (relating to status, dignity and recognition, the positional aspects of consumption...). As a result, the Better Life Initiative also takes the view that human needs and wants cannot be set prescriptively and should not be organised into a fixed hierarchy along which progress can be measured.

The people-centred approach defended in the Better Life Initiative raises deeper ethical questions regarding the extent to which the notion of human needs can sufficiently capture the dimensions of activity and empowerment which our moral intuitions tend to spontaneously associate with well-being and the idea of a “meaningful life”. In this respect, the Better Life Initiative shares common ground with a Kantian perspective in which humanity is defined not simply “by a natural community of needs, [but also] by a rational community of ends” (Herman 1984). This perspective implies that emphasis must be given to the capabilities of individuals as the conditions necessary for the pursuit of a “meaningful life” defined according to their own objectives and values (Sen 1999; Nussbaum 2001; Boarini et al. 2014). Increasing well-being, in this perspective, means expanding the opportunities that people have to exercise their capabilities and actively pursue the objectives they have freely chosen for themselves20 (Boarini & Mira d’Ercole 2013). It implies furthermore that we pay attention to the notion of communication as a condition necessary for validating individual ends and collectively defining their common horizon – a point highlighted most notably by the Kantian moral tradition (Korsgaard 1996) and by the school of “discourse ethics” (Habermas...)

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20 The capabilities approach differs in this respect from welfarist approaches. Where welfarist approaches focus solely on the outcomes achieved and their content in terms of well-being, the capabilities approach recognises the importance of the conditions and manner under which outcomes are achieved (i.e. the set of opportunities given to each person to achieve those outcomes and respect for their ability to set their own goals as free individual agents).
1984). Boarini et al. (2014) notes along these lines that consultative processes have an important role to play, including on methodological issues such as defining the most adequate metrics for well-being, setting priorities or identifying and solving trade-offs.

Adapting the measurement of well-being in a way that better reflects the concerns of people and the influence of contextual elements, as well as the availability of data, does not mean abandoning the idea that well-being and “better lives” have a universal basis. Boarini et al. (2014) proposes to illustrate the relevance of the OECD’s conception of well-being in different developmental contexts\textsuperscript{21}, an approach which OECD (2018c) also seeks to apply to the principle of “leaving no-one behind”. One of Boarini et al. (2014)’s main conclusions in this regard is that the notion of individual well-being remains relevant for countries at all levels of development on a twofold basis. First, from a normative perspective, a large body of research shows that societies share a similar set of needs and aspirations, regardless of their level of economic advancement. Second, from a positive perspective, investing in people’s well-being through four key types of asset (economic, natural, social and human), including by reducing disparities in their access and use, does result in sustained and balanced economic growth and development. The reasons for doing so are tied to the significant positive spillover effects that investment in human capital can have on innovation and productivity (through increased skills), on institutions (through demand for greater accountability and better governance) and on social and economic stability (through a broadening of the tax base and reduced social unrest)\textsuperscript{22}.

2) The Role of Public Policy and of Business in achieving People-Centred Growth

Which public policies are needed to foster people-centred growth?

Redistribution through the tax and transfer system has traditionally provided the main policy lever for reducing inequalities in income and wealth. This approach has worked up to a point, but recent trends suggest tax and transfer

\textsuperscript{21} Boarini et al. (2014, p10): “The challenge is to universalise the framework for understanding well-being so that it is relevant for people in countries at all points on the development continuum, and then to define appropriate indicators that can capture and measure the multi-dimensional aspects of well-being in specific economic, cultural and social contexts.”

\textsuperscript{22} Further evidence in support of this argument can notably be found in Acemoglu et al. (2014) and OECD (2018a), where it constitutes a key element in the Framework for Policy Action on Inclusive Growth.
systems in many OECD countries have tended to become less redistributive over the past two decades, reflecting changes in both the rates and structure of taxes and the level and composition of social spending (Causa & Hermansen 2017). The recent decline in redistribution partly reflects fiscal consolidation programmes and the phasing-out of fiscal benefits granted to households over the initial period of the crisis. Moreover, tax and transfer systems are likely to come under increasing pressure in the future due to a range of factors, placing further constraints on the size and scope of redistribution. Some of these factors are structural and concern the distributional implications of ageing populations and changes in family structures, high levels of public debt in some countries, and the risk of tax competition in a globalised economy (Causa, Vindics & Akgun 2018), while some are socio-political in nature and concern divergent preferences and support for redistribution (Ashok, Kuziemko & Washington 2015; Alesina, Stantcheva & Teso 2017).

In this context, efforts to rethink and adapt the role of the welfare state may imply a shift towards policies that actively build on the links between equity and efficiency and can thereby replace redistributive measures with measures that help people fulfil their full potential when there are obstacles preventing them from doing so in various areas, such as limited opportunities to invest in education or lack of competition in particular markets. This notably includes distributive measures that aim to address inequalities in market outcomes directly, rather than correcting them ex-post, and pre-distributive measures that aim to expand the opportunities available to all citizens (Fleurbaey et al. 2018). Both of these types of measure contribute to a people-centred approach to economic growth. As argued above, OECD work on the Productivity-Inclusiveness Nexus supports the idea according to which measures that invest in people by empowering them (both inside and outside the workplace) and measures that promote social mobility and greater opportunities for all provide the most solid basis for inclusive and sustainable economic growth.

The policy levers through which this type of people-centred growth can be pursued are numerous. The OECD Framework for Policy Action on Inclusive Growth (see below) seeks to marshal evidence and organise policy

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23 As documented in OECD (2015a), the trend towards less redistributive tax and transfer policies was temporarily reversed during the first period of the crisis, reflecting the cushioning impact of automatic stabilisers and discretionary fiscal measures.
recommendations into coherent packages by focusing on (i) investing in people and places left behind; (ii) supporting business dynamism and inclusive labour markets; (iii) promoting more inclusive forms of policy-making. In doing so, the Framework aims to foster growth, inclusion and greater well-being for all citizens by putting emphasis on pre-distributive measures to expand human capital, capabilities and opportunities, for instance through education and training policies (with a particular focus on lifelong learning and on early childhood education and care).

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24 OECD data show that the link between socio-economic background and children's educational outcomes remains strong in many countries and that better policies will be needed in this area to ensure a fairer distribution of opportunities. For example, across the OECD, students in the top quarter of the PISA index of economic, social and cultural status (ESCS) scored on average 88 PISA points more than students in the bottom quarter, over a year of schooling's difference in educational terms. Children in the bottom quarter of ESCS have an 18% chance of pursuing a career in science compared to a 32% chance for children in the top quarter. These effects are exacerbated for children of migrants, with a large performance gap compared to non-migrant students (OECD 2015c).

25 OECD analysis shows that health conditions remain unevenly distributed across the population and that socio-economic background has an influence on access to and use of suitable health services. For example, among the 10 OECD countries with comparable data surveyed in OECD (2017b), unmet care needs were substantially higher among low income adults, with 25% of them reporting unmet care needs due to cost compared to 14% for other adults.

26 OECD analysis highlights the lack of access to affordable quality housing as a significant source of vulnerability for low-income groups, as well as the importance of housing conditions and environmental quality of life (neighbourhood, access to nature...) for children’s well-being and their ability to thrive in the future. 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 (OECD 2018a).

27 OECD analysis highlights the potential of digital technology for expanding people’s opportunities and improving their outcomes in terms of well-being, as well as the potential risks it carries of deepening inequalities unless policies and social protection systems are properly recalibrated to accompany the digital transition. Recent OECD research has found for instance that around one-half of all people across the OECD have accessed public services or health information online and that digitalisation is enabling one-fourth of all workers in the OECD to work remotely (OECD 2019). On the downside, various vulnerable groups risk being left behind or marginalised by the increasing use of technology-driven solutions unless digital divides are addressed, notably women and the elderly. The OECD’s Survey of Adult Skills (PIAAC) has found for instance that more than half of adults on average in 28 OECD countries have either no ICT Skills or only very basic skills, with young people much better prepared for problem-solving in a digital environment than older people (OECD 2015d). Digital gender divides are also an issue, with gender stereotyping often discouraging women from pursuing careers in the digital sector. For example in 2016, 5.5% of male workers in OECD countries were ICT specialists compared to only 1.4% of female workers (OECD 2016b).
market participation and the creation of quality jobs, as well as through the promotion of effective social dialogue.

The OECD has long recognised that investing in people also means investing in places, particularly when it comes to disadvantaged regions and poor neighbourhoods in large cities where whole communities can feel left behind and unable to fulfil their productive potential (OECD 1996; OECD 2011c; OECD 2018a). Regional policies and strategies for local economic development therefore represent another crucial component in the pursuit of people-centred growth. These types of policies are particularly important in a context where territorial disparities remain at a high level throughout OECD countries, despite different trends; where the gap between frontier and lagging firms is growing in terms of productivity and wages; and where labour mobility remains limited. Measures that increase labour mobility by improving connectivity and investing in infrastructure or by reducing various barriers (linked to regulation and policy, to the limited access to affordable quality housing in many of the most dynamic urban areas...) have a significant role to play in promoting economic growth and social inclusion. However, a people-centred approach also implies that strong emphasis must be given to the territorial dimension of growth and development, in light of people’s choices in terms of place and quality of life and of their attachment to their community and locality.

Similarly, investing in people does not simply mean investing in individuals and attention must also be paid to the effects that public policy has on the choices, outcomes and well-being of households and families. Here again, governments can rely on a number of different policy levers. Public policies that directly improve health and education will sometimes have additional benefits that spill over to households, in addition to the effects they have on the well-being and inclusion of individuals. The promotion of financial literacy offers a good case in point, as it can act both as a tool for increasing financial stability by reducing overall household indebtedness and a tool for greater inclusion by helping vulnerable populations (such as low-income families) increase their savings and gain a better understanding of and access to financial products.

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28 OECD (2016c) identifies widespread over-reliance on credit, high household indebtedness and a lack of understanding of the implications of changes in economic policy as significant threats to or constraints on economic and financial stability. Similarly, OECD (2017c) shows that, across 30 countries surveyed in 2016, two in five respondents had not saved in the last 12 months and more than one in five had had to borrow to make ends meet. Through its International Network on Financial
Other levers are more specifically targeted at households. For example, the tax treatment of second earners has clear and immediate consequences for household choices in terms of their supply of labour. Taxing on an individual income basis is likely to promote labour-force participation, whereas taxing on a joint income basis is likely to reduce the work effort and labour supply by second earners. Similarly, public policies directed towards providing affordable quality childcare can support female labour participation, which in turn contributes to more inclusive growth by narrowing gender gaps, raising family income and reducing the risk of poverty and exclusion for women.29 Measures designed to extend parental leave to both mothers and fathers, notably through father-specific or fully individualised paid parental leave, can also help to increase female labour participation, may encourage higher fertility and can lead to a more equal distribution of caring and household responsibilities – provided parental leave is shared between mothers and fathers.30

Policies that promote well-designed parental leave (ie. sufficiently generous, broadly shared and flexible) have a strong potential for improving the well-being of households. Some recent research suggests furthermore that paternal leave and greater involvement by fathers in caring and household activities during early years may have a positive impact on the educational outcomes and aspirations of children, with a particularly marked effect for girls (Croft et al. 2014). However, having the right policies and incentives in place may not always be sufficient to effectively change well-established patterns of behaviour and men’s uptake of parental leave still lags far behind that of women, even in countries where they are eligible for father-specific

Education (INFE), the OECD has established a toolkit for the measurement of financial inclusion and financial literacy which was endorsed by G20 leaders at the 2013 St Petersburg Summit. Building on this toolkit, the OECD has set a series of minimum target scores for financial knowledge and attitudes – both overall and by gender.

29 Across OECD countries, the average labour force participation rate stood at 69% for men against less than 52% for women in 2016 (OECD Gender Data Portal). The potential for more inclusive growth is clear: it is estimated that even for the Nordic countries – which are among the best OECD performers, with female participation rates ranging from 68% to 83% – cutting the gender gap in participation and working hours by 2040 could help boost future GDP per capita growth by as much as 15-30% (OECD 2018d). On this issue, the OECD has helped set the G20 25 by 25 target, adopted in 2014 under the Australian presidency, which commits countries to reduce their labour force participation gap by 25% by 2025.

30 OECD data show that countries with the highest fertility rates also tend to be among those with the highest female employment rates. The gender gap in terms of caring and household responsibilities remains significant: across the OECD, women between the age of 15 and 64 performed on average 4h24 of daily unpaid work in 2015 compared to 2h15 for men (OECD Gender Data Portal).
leave. As will be argued below, in the case of parental leave as on many other issues, business has a significant role to play in supporting policy and enabling beneficial change in individual behaviour and household choices through the practices and attitudes it promotes in the workplace.

Beyond the range and type of policies needed to foster people-centred growth, a number of more general conclusions can be drawn. First of all, people-centred growth requires a comprehensive and “holistic” approach to policy-making, with coherent and integrated policy packages as well as coordinated “whole-of-government” efforts to implement them. Secondly, people-centred growth requires a forward-looking and anticipatory approach to policy-making which takes account of the impacts that greater inclusion and social cohesion have on long-term economic growth, rather than treating them as side-effects to be corrected at a later stage. In this respect, the integrated policy packages necessary for people-centred growth must be designed with due consideration given to the effects of policies on well-being and to their distributional impact. Lastly, people-centred growth requires a participatory approach to policy-making which includes citizens throughout the policy cycle (design; implementation; monitoring; evaluation) and takes account of their views and input in the formulation of policy, regulation and indicators.

*What tools and forms of public action can best enable people-centred growth?*

Governments and public administrations have a wide range of different tools at their disposal for implementing policy. The choice of tools may vary, depending on the specific issue at stake as well as the particular economic, social and institutional contexts in which these tools are to be applied. The tools at governments’ disposal evolve as theoretical advances and technical innovation give rise to new levers for action. This can be seen for example in the recent use of behavioural insights drawn from experimental psychology and the neuro-sciences to achieve public policy outcomes. Korea has seen its rate of male uptake rise more than threefold (from a very low level of 4.5%) following the introduction of father-specific entitlements in 2007.

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31 A majority of OECD countries now provide fathers with specific paid leave entitlements in one form or another. However, even in pioneering countries such as Iceland and Sweden, fathers still use less than 30% of all paid leave days. Recent reforms in Korea and Japan instituting individualised parental leave and generous statutory leave periods for fathers (of 53 and 52 weeks respectively, the highest in the OECD) provide a good illustration of the challenges involved in changing behaviour and of the slow (but real) pace of progress. For example, Korea has seen its rate of male uptake rise more than threefold (from a very low level of 4.5%) following the introduction of father-specific entitlements in 2007.

32 This idea has notably been highlighted by the “new governance” approach to public action, which has helped shift analysis away from a singular focus on administrative and institutional processes. Salamon (2001) expresses this central intuition as follows: “the choice of tools significantly structures the implementation process and results of policy”.

objectives. Broadly speaking, however, the tools of public action can be classified into three main categories which go from the indicative to the prescriptive: communication (information campaigns to raise public awareness or the visibility of particular issues...), the provision of incentives and public goods (taxes and credits, subsidies and fines, social protection and defence...) and regulation (the setting of rules and standards, bans and mandates, the enactment of laws...).

Implementing a people-centred approach to economic growth may have implications in terms of the role that governments should play, within their own specific national conditions and contexts, to promote improved outcomes, broader opportunities and greater well-being for their citizens, as well as the means of action that are most adapted to these goals. In some instances, lighter forms of intervention can achieve policy objectives or solve problems by “nudging” individuals’ behaviour without impairing their freedom of choice rather than relying on more prescriptive regulatory, fiscal and legal instruments (such as bans, taxes or fines).

It should be noted however that taxes, fines and even the banning or mandating of activities are not necessarily incompatible with a people-centred approach to policy. For example, properly designed “sin taxes” can help individuals overcome problems of self-control and achieve their preferred objectives by providing them with an added incentive to act in their own interest. Furthermore, as pointed out in Schelling (1978), bans and mandates may be needed to solve problems of collective action when individuals’ preferences are conditional on the behaviour of others – in which case the public problem has a social component and is no longer simply linked to individual decision-making. In this context, even an informal and unenforced ban may help coordinate individuals’ actions on the outcome they all collectively prefer (but will not pursue unless others do) by acting as a common signal or by providing them with a justifiable motivation to act in their own interest.

33 See notably Sunstein & Thaler (2008) or Mullainathan & Shafir (2013) for prominent examples.

34 On the ethical dimensions of “nudging”, see for instance the discussion on the notion of “libertarian paternalism” in Sunstein & Thaler (2008) and Hansen (2013). As part of its BASIC framework (Behaviour, Analysis, Strategy, Intervention, Change), the OECD has been developing a toolkit for the application of behavioural insights, as well as ethical guidelines for their use in public policy. It is also interesting to note that the draft for the BASIC framework was opened to online consultation (OECD 2018e).

35 Among many striking examples used to illustrate this point in Schelling (1978), we can mention the mandate on wearing ice hockey helmets (introduced notably by the NHL for new players in 1979) – a measure which provides players with the cover they need to protect themselves without appearing “soft”; or the ban on casual clothing at high school prom balls, which can provide students with the cover they need to dress up without fear of “sticking out”.
A similar argument can be made in favour of tools and means of action that empower citizens, notably by facilitating greater proximity and more targeted policies. Measures to promote decentralisation and de-concentration of power, regulatory federalism and the use of place-based policies can therefore be justified on the grounds that they contribute to better address the specific needs and circumstances of citizens, while also facilitating accountability and buy-in. However, a number of institutional conditions must be in place if people-centred growth is to be considered as a shared responsibility between national and sub-national governments.

Most notably, effective multi-level governance is needed to ensure that policy and regulatory frameworks remain coherent, while also accommodating the specific needs and conditions of people and territories. Similarly, greater flexibility in terms of policy responses implies a larger degree of horizontal coordination between the policies pursued by different territorial governments in order to limit potential negative spillovers and harmful forms of competition between them. Furthermore, gaps in human, administrative and financial capacity need to be addressed in order to guarantee equal treatment and access to quality public services for citizens across territories. In practice, therefore, enabling people-centred growth in a way that minimises the risk to citizens will require multi-level partnerships in which the resources and capacity of national administrations can be combined with local modes of risk-management and grassroots initiatives to produce flexible responses and policies that are adapted to local conditions (OECD 2014).

Another issue to consider is that the extension of government activity into a larger range of domains and the need to deliver services at the local level may imply that elements of public authority be shared with non-governmental actors. The emergence of increasingly complex systems of collaborative governance carries potential risks with regard to the effectiveness and accountability of public action (Salamon 2001). As a growing number of diverse partners become involved in public action or the delivery of public goods and services, governments will need to find ways to monitor outcomes, ensure that there are adequate skills and capacity across the system and that these multi-partner forms of action are sufficiently transparent and coherent for the public to make sense of.
What is the role of business in promoting people-centred growth? Can competition and the profit motive contribute to the goals of inclusion and well-being?

Many firms are already pursuing activities that contribute to more people-centred forms of growth (see for instance OECD 2015e) and a growing number of firms are re-organising their business models in order to generate profit and deliver on their social responsibilities at the same time (Deloitte 2018; Morgan Stanley 2018). There are at least three main channels through which they can do so. First of all, firms pay attention to ethical considerations relating to social inclusion and well-being – as witnessed by the large variety of initiatives on Corporate Social Responsibility and Responsible Business Conduct. These initiatives include measures to reduce income inequalities through the voluntary adoption of a living wage or of ethical sourcing standards for contractors and contingent workers; measures to reduce wealth inequalities through financial education, profit-sharing and retirement programmes for employees.

Corporate Social Responsibility and Responsible Business Conduct sometimes go beyond issues of socio-economic inclusion and allow firms to demonstrate their commitment to human rights, notably through respect for and implementation of core labour standards (Global Deal 2018). Firms have also adopted programmes that focus on reducing exclusion and enhancing social mobility by fostering greater diversity and inclusion through their hiring and promotion policies, and the targeting of opportunities towards youth from disadvantaged backgrounds (including through measures that require all company internships to be paid). Similarly, there are examples of programmes that seek to bridge territorial divides by developing opportunities for remote work, providing commuter assistance to employees in areas without access to public transport, and “rural sourcing” programmes aimed at remote areas.

Secondly, people work in firms, which are a driving force behind innovation and productivity growth. Technology can displace or destroy jobs through the substitution of machines, robots or AI for workers, but it also contributes to the creation of new goods and services, and with them new jobs. Given the skill-biased nature of technological change, firms have an important role to play in ensuring that all workers, and not just the highly skilled, benefit from the effects of digital transformation. They can do so by including workers in decisions regarding the adoption of new technologies and their use in the workplace, as well as by providing their workforce with
opportunities for training and skills upgrading which will help them adapt to changing labour demands (OECD 2018f; Global Deal 2018).

The third main route through which firms contribute to people-centred growth is by promoting greater well-being in the workplace. In order to do so, they can act on the different dimensions relating to the quality of the working environment (Cazes et al. 2015; OECD 2015f). This includes facilitating better work-life choices (notably through more family-friendly policies and working environments), reducing job strain and stress at work, and promoting greater gender equality in the workplace. Many firms have adopted programmes that aim to enhance well-being through better social dialogue or greater access to paid leave and other fringe benefits for low-wage and contingent workers.

The OECD’s *Business for Inclusive Growth* platform proposes to highlight the different practices through which firms contribute to people-centred growth and encourage broader voluntary uptake. These practices can be enhanced by (i) identifying why firms adopt them; (ii) understanding the “business case” for these practices and which factors influence uptake; (iii) encouraging the sharing of experiences and dissemination of best practices; and (iv) determining the role that public policy can play in encouraging greater uptake of best practices.

Public policy has a complementary role to play in supporting and facilitating the initiatives of business to promote more people-centred growth. Governments can notably affect the way in which people and firms adapt to the changing nature of work by shaping the legal and regulatory environment in which they make decisions, as well as through adequate reskilling and upskilling policies and better access to digital technology. The former objective could be promoted by labour market policies and institutions that strengthen workers’ bargaining position, especially for low-wage workers, and enable a wider sharing of the gains from productivity growth. The means for doing so include minimum and living wage policies, as well as collective bargaining arrangements that are based on well-organised dialogue between representative social partners. More broadly speaking, social dialogue can be an effective mechanism for coordinating responses, sharing and managing risk in the context of structural changes, as well as for devising public-private solutions on issues including skill policies and the reform of social protection systems.

Gender equality in the access to employment and job quality is another area in which public policy can help catalyse the action of business. The OECD’s
2013 *Gender Recommendation* and the 2015 *Recommendation on Gender in Public Life* highlight a number of channels through which this can be achieved, including legislation, monitoring and information campaigns. Paid maternity leave is offered nationally in almost all OECD countries, while paternity leave and (shareable) parental leave are increasingly common (OECD 2016d). As discussed above, father-specific leave plays an important role in ensuring that equal and balanced caregiving patterns are set at an early stage, in helping mothers return to work, and in reducing employer discrimination against women (who are currently much more likely to take leave or work part-time than men). Ensuring access to high-quality and affordable childcare is a key driver of female employment. About two-thirds of OECD countries have introduced new policies aimed at gender pay equality since the adoption of the 2013 OECD *Gender Recommendation*. Pay transparency legislation exists in at least seven countries, where companies are required to share the gender disaggregation of wages in their workforce with employees, auditors or the public. Other strategies include the introduction of pay gap calculators, often available online, which help employees compare their salary to the average received in their job, sector and locality. In some countries, government also deliver certification of good practice in terms of equal pay.

*How can governments shape the business environment in a way that provides incentives for both frontier and lagging firms to promote people-centred growth?*

Slowing productivity gains have been a major challenge for advanced economies over the past two decades and addressing the links between this trend and rising inequality will be key to achieving more people-centred growth, as highlighted by the work on the *Productivity-Inclusiveness Nexus*. An important aspect of the slowdown in overall productivity growth has been the growing dispersion in performance between frontier and lagging firms36. In this context, OECD analysis shows that there is scope for introducing regulatory reforms that can enhance business dynamism and increase the productivity of all types of firms. Adalet McGowan et al. (2017) notes in this respect that regulatory reforms can reinvigorate productivity growth by: (i) making it more likely that weak firms exit the market or are successfully

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36 For instance, in the manufacturing sector, labour productivity has increased by an average annual rate of 3.5% since 2000 for firms at the global technological frontier compared to a rate of only 0.5% for non-frontier firms. The productivity gap is even more pronounced in the services sector (OECD 2016a).
restructured; (ii) reducing the share of capital tied up in lagging firms; and (iii) spurring productivity-enhancing capital reallocation. For example, aligning insolvency regimes with OECD best practice would reduce the share of industry capital absorbed in lagging firms by around one-half in Belgium and Italy, which is significant given that the capital share of all of these firms in 2013 was relatively high at 14% and 19% respectively in each country. This analysis suggests that lower regulatory barriers to entry and stronger rule of law and environmental protection may also produce the same effect, in situations where markets are well-functioning.

Another important factor to consider is that established small and medium-sized enterprises (SMEs) tend to lag behind large firms in terms of productivity (OECD 2016a). Policies targeted at the particular challenges encountered by SMEs can therefore help reduce the productivity gap with leading firms. Measures of this kind include the promotion of business development services aimed at upgrading managerial practices and business models, in-house workforce training and facilitating the adoption of information and communication technology (ICT). Policies targeted at SMEs need to be designed carefully and focus on tackling market and institutional failures.

Market concentration may also be contributing to widen the gap between frontier and lagging firms in terms of productivity, potentially slowing the diffusion of innovation. Considerable evidence points to the fact that market concentration is increasing across a large number of sectors, including but not limited to the digital economy. This phenomenon carries the risk that a small number of companies may be able to exert excessive market power with both visible and hidden costs for economies in terms of productivity growth, investment and inclusion (Autor et. al. 2017; Ennis et al. 2017; Furman & Orszag 2018). It also carries the risk that different forms of capital (tangible and intangible, including talent) may become more concentrated in specific locations, thereby increasing territorial disparities as large and highly connected urban areas stand likely to benefit most due to agglomeration effects.

OECD analysis suggests that poorly-designed regulatory frameworks have a disproportionate impact on young and small firms, limiting their opportunities for growth and reducing overall business dynamism. Calvino et al. (2016) finds, for example, that less favourable access to finance, strict bankruptcy regulation, weak contract enforcement and civil justice efficiency have a larger effect on the growth dynamics of entrants than on those
of incumbents. The negative effect of these policy failures on start-up performance is particularly strong in highly dynamic sectors. Reflecting this, governments in a number of countries have taken initiatives to improve the design of product market regulations and make them friendlier to young and small firms.

Firms also need adequate access to finance. Bank credit remains the main source of external finance for most small businesses, meaning that efforts should be pursued to make it easier for banks to lend to young firms and SMEs. Efforts of this kind may include measures to improve risk mitigation which make use of new technologies for underwriting risks, including credit-scoring models. This should also entail a push for effective and predictable insolvency regimes to ensure creditor rights are respected and greater transparency for credit risk assessment. Similarly, more needs to be done to foster the development of non-traditional forms of financing. For instance, initiatives such as crowdfunding and business angel activities still represent only a small proportion of overall lending, but have become increasingly significant and hold further untapped potential. Hybrid instruments, which combine debt and equity features, have also grown in prominence. These instruments can provide young and established companies (particularly those that do not seek or are not suitable for public listing) with alternative means to expand capital. In each case, making full use of these instruments will require that policy-makers focus on the supply of new financing methods, but also on fostering demand through concerted efforts to raise young firms and SMEs’ awareness and understanding of alternative financing instruments.

Certain aspects of business taxation and subsidy systems in OECD countries may unintentionally inhibit a level-playing field between firms. In particular, compliance costs, the asymmetric treatment of profits and losses, the distribution of taxation between capital and labour income and the design of R&D tax credits and incentives can all have distortive effects. These distortions may act as a drag on growth by impeding the entry and development of new innovative firms, reducing competition and diverting resources away from their most productive and innovative uses. They may also discourage the formalisation of small businesses, an important driver of inclusion, and reduce returns to lower paid workers and owners in small businesses. Tax preferences and simplification measures targeted at SMEs can help address these distortions, but here again they should be carefully targeted to ensure
that they meet their policy objectives in a cost-effective way and do not create further distortions or unnecessary complexity.

3) OECD Research and Advice on People-Centred Growth

How does the OECD Framework for Policy Action on Inclusive Growth contribute to the objective of people-centred growth? What examples are there of this approach in action and how do they align with other multidimensional policy frameworks such as the SDGs?

The OECD’s Inclusive Growth Initiative and the idea of a people-centred approach to economic growth put forward in the 21 for 21 Agenda are mutually supportive in their aim to reduce inequalities, consolidate the economic recovery and upgrade the structure of the economy in a context of deep transformation driven by megatrends such as globalisation, digitalisation and climate change. It is no surprise therefore that the main principles of a people-centred approach to economic growth – for example, investing in human capital through measures to reduce child poverty and gender disparity; strengthening business dynamism through greater coordination between labour and product market policies; or fostering more inclusive labour markets through enhanced social dialogue – are also central to the OECD Framework for Policy Action on Inclusive Growth. In this respect, the Framework addresses the core challenges raised in the first part of this paper and proposes effective and operational recommendations that leverage OECD research on the links between economic growth and social inclusion in order to promote a more people-centred approach to public policy. This includes the key traits associated with this type of approach, as identified above: the focus on individual well-being; attention to the distributional aspects of economic growth; and, to a lesser extent, to the ethical implications of the notion of “better lives”.

The Framework for Policy Action on Inclusive Growth builds on the OECD Framework for Measuring Well-Being and Progress. Since the launch of the Better Life Initiative, the OECD has published a comprehensive biennial report (How’s Life?) which compiles data on all OECD countries and partners. Countries have not only been using this data to inform their policies and strategies, many of them, including both members and non-members, have developed well-being frameworks of their own informed by the OECD indicators, as well as supporting tools to mainstream the use of these indicators,
as is already the case in the United Kingdom, France, Slovenia, Italy, New Zealand and many more. Both the OECD Well-being Framework and the Framework for Policy Action on Inclusive Growth have as a core recommendation that governments should invest in the full spectrum of fundamental assets which foster growth and prosperity over time (ie. human, social, natural and economic capital) and they also underline the importance of accumulating these assets more evenly.

The notion that growth and development are multidimensional in nature is at the heart of the Sustainable Development Goals (SDGs) and has been strongly highlighted by a large body of literature (for a review, see the 2009 Stiglitz-Sen-Fitoussi Commission Report, its follow up Report on the Measurement of Economic Performance and Social Progress unveiled at the recent OECD 6th World Forum on Statistics, Knowledge and Policy and the Report by the International Panel on Social Progress, also released in 2018). The Framework for Policy Action on Inclusive Growth complements a number of key targets set out in the SDGs (most notably SDG 8 on Economic Growth and Decent Work and SDG 10 on Reducing Inequalities, but also SDG 5 on Gender Equality) and seeks to operationalise the stated principle of the UN 2030 Agenda to leave no-one behind.

The UN 2030 Agenda sets ambitious targets on climate change and for the transition to a low-carbon economy. This is another area where the Framework for Policy Action can provide useful guidance, notably by highlighting the importance of taking distributional considerations into account when designing structural reforms that support the development of new economic models. Indeed, countries cannot make sufficient

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37 For example, the share of young adults with at least an upper secondary education rose from 79% to 81% in OECD countries over the 2013-16 period, but there is a steep social gradient in educational outcomes and human capital accumulation (OECD 2018b). The volume of produced fixed assets, the value of intellectual property assets and the share of GDP invested in R&D have all increased over the last decade, but they tend to be concentrated in large firms. A mere 10% of households in OECD countries own more than half of all household wealth on average, while the bottom 40% barely own 3%. Average life expectancy at birth is 81 years in OECD, but the least educated can expect to live 7 years less than the most educated. Similarly, even in OECD countries, the starting point on the income ladder still tends to have a significant influence on income mobility over the course of an individual’s life, with persistence effects at the top (40% of sons born to fathers in the top quartile remain in the top quartile of earnings across OECD) and at the bottom of the income distribution (31% of sons born to fathers in the bottom quartile remain in the bottom quartile), as well as significant risk for middle income households to fall into poverty (one in seven households in the second to fourth quintile for income slid into the bottom quintile over a 4 year period) with signs that these risks have increased over the past two decades (OECD 2018b). There is scope therefore for policies to free people from sticky floors, lessen the effects of sticky ceilings on social mobility and enhance the opportunities of middle income households while better protecting them from the risk of severe income loss due to unexpected life events, such as prolonged unemployment or family break-up.
progress on the transition towards a more prosperous, greener economy unless they address the possible negative impacts of climate change on competitiveness, jobs, and household budgets and devise more inclusive solutions to these challenges. Specifically, solutions are needed to address two aspects of the transition: (i) jobs and skills, and (ii) the distributional impact of policies, identifying those who are likely to be adversely affected and exploring how best to accompany the workers, firms and regions throughout the transition.

For example, OECD (2017d) highlights the need for a “just transition” for carbon-intensive sectors, such as fossil energy and heavy industry (e.g. coal mining and steel), especially in regions where a high share of the workforce is concentrated in these so-called “brown” sectors. There is growing evidence that these sectors can transition successfully. For instance, in Germany, the Netherlands and the US, coal miners and automobile engineers have been re-trained as windmill engineers and found jobs in the renewable energy sector. Further analysis of these cases by the OECD could help countries to learn from examples of best practices (and failures) and better understand the role that governments have played in past and current industrial transitions for worker re-skilling/vocational training, re-allocation and compensation in the event of lay-offs. Education and training systems that prepare workers for future labour demand and skills needs are especially important to smooth the transition. The 2018 OECD Green Growth and Sustainable Development Forum (GGSD), which focused on the theme of “Inclusive solutions for the green transition: Competitiveness, labour and social dimensions”, provides one example of how the OECD contributes to the global agenda: (i) by addressing the perceived trade-offs between growth, inclusiveness and the environment; (ii) by identifying knowledge gaps; and (iii) by strengthening the policy dialogue between government, labour, business, civil society and academia.

What benefits can countries draw from applying the Framework for Policy Action on Inclusive Growth? How can it be practically implemented and what conditions are needed for the Framework to provide effective results?

The Framework for Policy Action on Inclusive Growth is not a prescriptive instrument and does not propose a “one-size-fits-all” model. The value of specific policy options will be context-driven and may change with countries’ circumstances and priorities. The Framework is meant to help countries assess their policy settings against their ability to promote equal opportunities and enable them to deploy
the OECD Productivity-Inclusiveness Nexus. It can also help governments take a more forward-looking and anticipatory approach by integrating inequality and distributional issues upfront in their policy design. In turn, the OECD can help governments implement policies for growth and inclusiveness, delivered through an appropriate governance system that takes into account the level of complementarity between policy instruments at a granular level – as opposed to an aggregate level that may mask those complementarities.

The OECD can support governments with a thorough analysis of the policy and non-policy determinants of inclusive growth and how these determinants intersect, as policies affect more than one outcome at a time and vice versa as the outcomes result from the combination of several policies. Trade-offs between growth and equity may, for example, arise in the case of some tax and benefit reforms, such as shifting from direct to indirect taxes or reducing marginal income tax rates. But there are numerous opportunities for win-win solutions, for instance by investing in skills and pro-competition policies that can spur productivity and reduce prices, thereby increasing consumers’ welfare.

To help governments exploit these opportunities and better address the trade-offs, the OECD is now setting up specific country reviews that will (i) allow members to diagnose the key challenges they face in terms of inclusion and growth and (ii) provide them with concrete policy recommendations for enhancing their outcomes along both these dimensions. These Inclusive Growth reviews are designed to help countries assess overall trends using the Inclusive Growth Dashboard of Indicators and the key dynamics highlighted by the framework. They offer in-depth analysis of labour and product market issues that will affect people, firms and regions in relation to the future of work, the future of production or business dynamism. The aim of these reviews is to assist governments in identifying measures and policy packages that can strengthen economic growth and ensure that it benefits all citizens. Inclusive growth reviews would be:

- Country- and context-specific, tailored to the particular needs and realities facing countries;
- Geared towards assessing the trends and main drivers of slow and unequal growth;
- Forward-looking, considering the opportunities and challenges of digitalisation and providing innovative examples and case studies highlighting instances where emerging technologies have been leveraged to create more
inclusive and stronger economic growth;

- Complementary and linked to other policy reviews and projects carried out in the country and throughout the OECD.

The Framework defines a number of key principles aimed at improving the implementation of national strategies for inclusive growth. The country reviews will seek to put these principles into practice, in collaboration with governments and associated stakeholders, in order to deliver more effective results. This includes emphasising the importance of having horizontal coordination mechanisms in place within governments to ensure greater coherence between the objectives of their national strategies, and accompanying countries’ efforts to develop whole-of-government responses to the challenges they face in terms of growth and inclusion. Budgetary frameworks could notably be used as a regular and structural mechanism for setting policy priorities on inclusive growth, based on the expected impact that policies will have on the specific outcomes targeted as part of the national strategy.

Effective implementation of national strategies will also depend on the ability to foster, from the outset, a shared vision of the inclusive growth agenda and goals with all of the relevant stakeholders. This can be facilitated by adopting an approach that is both anticipatory, focusing on the long-term foundations of economic growth, and participatory, identifying critical points for engagement with stakeholders and creating space for government, business and civil society to coordinate their policies and initiatives in favour of inclusive growth. Doing so can enable them to develop the mutual trust and experience needed to steer their respective actions towards cooperative and collectively optimal outcomes. Adapted and reinvigorated forms of social dialogue may for instance allow government, business, workers and civil society to develop concerted solutions and adjust more effectively to challenges – notably those relating to the Future of Work. Furthermore, associating stakeholders as partners in the implementation of national strategies for inclusive growth can also help entrench these strategies beyond electoral or policy cycles and thereby increase their potential effectiveness by facilitating continuity and buy-in from public administrations and citizens, as well as by enabling a focus on long-term solutions.

Last of all, the inclusive growth country reviews aim to highlight the role that factors relating to political economy can play as enabling and constraining conditions for policy and take better
account of the impact they can have on the effectiveness of these policies. In this perspective, it may be important to assess not only the extent to which policies are supported and accepted by public opinion, but also the way in which they are perceived and the signals they send with regard to the modes of interaction between government and citizens and the degree of trust they imply by government towards citizens. Strategies for inclusive growth are likely to be more effective therefore when they reflect peoples’ preferences regarding the scope of redistribution, the role of the state in providing public services and the balance between individual rights and collective responsibility, not simply when they are participatory in the immediate sense that they are co-produced and co-designed with citizens.

These factors are particularly important to consider in the context of digital transformation. In this respect, realising digital technology’s potential to enhance societal well-being and help rebuild trust in government will require that the right policies be put in place to bridge digital divides in terms of access and skills and ensure that the risks and opportunities created by digitalisation be effectively shared, notably with regard to the impact of digitalisation on labour market outcomes or the cost of healthcare. It will also require that governments be able to understand what are the risks and public goods that matter to citizens in the digital age, how their needs and expectations are evolving and how public policy can best address them. This means looking at the political economy dimensions of digital transformation – i.e. the different ways in which it is contributing to reshape the perceptions, beliefs, values and norms which bind societies together and underpin support for tax and transfer systems.
References:


Sugden, R. (2002), *Beyond Sympathy and Empathy: Adam Smith’s concept of fellow-feeling*, Economics and Philosophy Vol.18, pp.63-87 [https://www.cambridge.org/core/services/aop-cambridge-core/content/view/S0266267102001086](https://www.cambridge.org/core/services/aop-cambridge-core/content/view/S0266267102001086)


Summary and photo gallery

The event was well attended, with over 20 delegations represented by their current or acting ambassadors. It gave rise to an open and constructive discussion around the concepts of people-centred growth and inclusive growth, how they are understood by members and how OECD can help countries translate these concepts and frameworks into policies that are both effective and adapted to specific national contexts.

The aim of the workshop is to allow ambassadors to get a clear presentation of key OECD concepts and engage in a common reflection on how these concepts can be applied by members. The ambassadors present seemed satisfied with the outcome of this first workshop and many of them expressed the hope that further ateliers would be organised in the future. The Secretariat signalled that it would be interested in pursuing the conversation, as appropriate and requested.

The workshop was organised as follows:

- Ambassador Surdej gave a short introduction, explaining the origins and rationale of the initiative and thanking Gabriela Ramos for the support she has brought to it.
- The lead discussants (Ambs. Anna Brandt, Chris Sharrock and Guido Biessen) provided comments on the paper, developing the view on people-centred growth from a Nordic perspective, from a UK perspective and from a Dutch perspective.
- The discussion was opened up to the floor, with the other ambassadors present providing reactions or questions for the lead discussants.
- The Secretariat wrapped up the discussion and concluded the workshop with short remarks.
Among the main points discussed during the workshop:

- The paper was well-received, with the discussants noting its depth, rigour and scope. Given the importance and complexity of the topic, they suggested that a number of narrower questions could be drawn from the paper and be addressed at greater length during future sessions of the Atelier des Ambassadeurs.

- People-centred growth was presented as an object of broad consensus among OECD countries and a largely bipartisan agenda. The key aspects (focus on well-being and on the distributional aspects of growth) and policy levers (notably education, housing and healthcare) identified in the paper were recognised as essential parts in all of the economic models discussed and there was broad agreement with the recommendations made in the paper. Anna Brandt emphasised the natural fit between the Nordic model and the framework and policies presented in the paper, noting that the experience of the Nordic countries provides evidence that this type of approach works in practice. Chris Sharrock argued that increasing well-being and reducing inequalities both between people and between places have been consistent policy objectives for UK governments over the past century and enjoy broad public support. Guido Biessen cited the influence of Jan Tinbergen on economic thinking and policy in the Netherlands to highlight (i) the continuity between the people-centred approach and a long tradition in welfare economics and (ii) the importance of well-being, a broader approach to growth than GDP and a fair distribution of income as fundamental goals in the Dutch model.

- The discussants agreed that people-centred growth can be pursued through different strategies, highlighting some of the characteristics of their respective models. Anna Brandt defined some of the key principles and institutions which the Nordic model relies on, noting furthermore (i) that the Nordic model is not a given, but the result of policy choices and of a continuous process of consensus building, and (ii) that an economic policy based on openness, competitiveness and fiscal stability is a necessary
counterpart to the relatively high levels of public expenditure presupposed by this model. Chris Sharrock and Guido Biessen argued that different forms of inequality (income, wealth, opportunity, exposure to risk...) and different policies or tools could be prioritised according to national contexts, challenges and preferences. Skills and education policies were highlighted as the key lever for promoting equality of opportunity in the Nordic and Dutch models (with income support through the tax and transfer system being presented as a lever of last resort in the Dutch case).

- The discussants identified (i) the impact of digital transformation on outcomes and policy and (ii) the role of political economy factors in determining public support for reform as key issues to take into consideration. In particular, they suggested that developing reform programmes that can be effectively implemented in specific national contexts would require a better understanding of factors including social preferences (notably with regard to optimal taxation or the preferred size and role of the state) and perceptions of inequality...

Citing Dutch consultative initiatives on the design of climate change policies, Guido Biessen highlighted inclusive participatory processes as a means of increasing public acceptance for reform. The Secretariat informed a number of the ambassadors of upcoming work by the IG Unit on both of these issues and that the Productivity-Inclusiveness Nexus provided a good basis for framing the relation between equity and efficiency in different national contexts.

- The discussants acknowledged the clear conceptual links between people-centred growth and inclusive growth. They also expressed their preference for using only the term inclusive growth, arguing that it is better established and should not be seen as controversial. The discussants also suggested the paper could strengthen its argument in favour of inclusive growth by providing more links to work by other international organisations (notably official publications by the IMF and WB).

L’Atelier ended with Chopin’s music performed by renowned Polish pianist Ewa Osińska.
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The first meeting L’Atelier des Ambassadeurs was organized on 15 January 2019 at the initiative of the Permanent Representation of the Republic of Poland to the OECD.