Economic Growth: Inclusive for Whom?

Polly Sculpher
Department of Politics, University of Sheffield

Media Centre- G20 Summit. In 2015, GDP growth of countries across the world slowed to its lowest point since the financial crisis, and is predicted to slow further. As a result, growth was high on the agenda at the G20 Summit 2015 in Antalya, Turkey. The Turkish Presidency announced it would focus the 2015 Summit on 'inclusive and robust growth through collective action' through the three I's, investment, inclusiveness and implementation.

At the previous G20 Summit in Brisbane in 2014, a series of pledges were made in order to increase GDP growth by 2% by 2018, estimating to bring $2 trillion US dollars into the global economy. A further pledge was made to decrease the gender gap in the labour market by 25%. The summit produced the Brisbane Action Plan, which attempted to create the biggest potential gains to growth through increased investment, trade, employment and competition.

But who benefits from this growth? The aim of the 2015 Summit was to implement the Brisbane Action Plan and create inclusive growth. 'Inclusivity' was one of the 'three I's' of the Turkish G20 Presidency, as they advocated that the benefits of growth must be felt by all segments of society. The Turkish Presidency also emphasized gender equality, youth unemployment and issues of the small and medium sized enterprises (SMEs) within this area. But what is missing from the Turkish 'inclusive' growth agenda is tackling the issue of the high, and still increasing, levels of income inequality within countries; 'inclusivity' for more than just the top 20% within society.

Income inequality within countries

There is no doubting the importance of the issue of income inequality. Barack Obama said, 'income inequality is a defining challenge of our time', and in 2015 is at its highest level in decades. The Organisation for Economic Cooperation and Development (OECD) deemed inequality to have reached "unacceptable heights" in the last 30 years as the average incomes of the top 10% was 9.5 times higher than that of the bottom 10% in most OECD countries. Furthermore, the reduction in inequality within countries is one of the UN's 17 Sustainable Development Goals created in September this year.

This focus on inequality reflects the severity of problems it poses for the global economy and society. Income inequality is likely to increase conflict and crises within nations. Pranab Bardhan wrote in his 2005 study that social cohesion within a country can be destabilised by income inequality as disputes become difficult to resolve with unequal partners. Furthermore, as the IMF notes, the opportunity cost of joining violent groups decreases with higher inequality. The 2015 G20 summit focused almost exclusively on terrorism and ways to combat it, and should have better linked the topic of reducing inequality as a meaningful way to combat terrorism.

Inequality also reduces social mobility as it can become a barrier to the goal of 'equality of opportunity'. As well as this being damaging to the fairness within a society, it also undermines economic growth as it can discourage individual effort which would hinder productivity. As the International Labour Organisation (ILO) wrote 'high levels of inequality can adversely affect wellbeing and social cohesion as well as reducing medium- and long term economic growth.' Poor social mobility caused by under-investment in education can lead to an unequal education for poorer children, also pushing labour productivity below its natural level. The IMF wrote in its 2015 report that 'higher inequality lowers growth by depriving the ability of lower-income households to stay healthy and accumulate physical and human capital.' Addressing this issue would help to repair social and political tensions, as well as further fuelling economic growth.

In order to tackle high levels of income inequality, reforms need to be created and implemented that tackle poor wage growth. Inequality and stagnant wages make it difficult for those on lower incomes to accumulate wealth through saving or investment. Low wage growth for those on low incomes reduces consumer spending and investment needed for growth. Those on high incomes have lower propensity to consume, reducing the economic growth desired by the G20 countries. Policy makers at the G20 could do more to improve wage growth and further address what Pope Francis called the '[economy of exclusion]'.

G20 Agreements

At the 2015 Summit, leaders of civil society organizations came together to engage with current critical issues as the Civil 20 (C20). Despite calls from the C20 to G20 leaders to 'systematically track the income growth rates of the poorest 40% against the richest 10% and modify growth accordingly', little has been done to directly address income inequality. The policy that was created came in the form of the G20 Policy Priorities on Labour Income Share and Inequalities and the G20 Framework on Promoting Quality Jobs. Neither of these agreements were addressed at the Summit.

The G20 leaders agreed to 6 policy actions within the Policy Priorities on Labour Income Share and Inequalities. These policy actions encouraged focus on obvious policy tools to combat inequality, appropriate to national circumstances. These policy actions were: strengthening labour market institutions, increased participation on training and education, reducing wage inequality, providing universal social protection to the unemployed and underemployed, improving employment outcomes for all sections of society, and improving job quality by transitioning workers from to the formal economy. All of these are suitable steps towards reducing inequality and increasing growth. However, this policy agreement crucially did not detail the length of time a country has to improve on these issues, or how much inequality should be decreased within this time. It is an agreement to a range of vague policy options without any binding commitment.

Within the Framework on Promoting Quality Jobs, the G20 members agreed they were determined to promote the quality of earnings, reduce labour market insecurity and promote good working conditions and healthy work places. Again, little has been addressed on the Turkish 'I' of implementation. It is easy to agree to improve inequality, but ensuring how these improvements occur and how to measure them is crucial to addressing the problem.

However, improvements have been made indirectly through attempts to include women and young people in the labour market. At the 2014 Summit, leaders agreed to reduce the gender gap in the labour market by 25%. At the 2015 Summit, a further commitment has been made, focusing on reducing the number of young people in long-term unemployment by 15% by 2025. The OECD has predicted that the inclusion of women within the labour market will significantly increase growth; 'On average, among OECD countries full convergence is projected to additionally increase by 0.6 percentage points the annual growth rate of GDP per capita'. These are ambitious commitments with detailed suggestions on implementation, which should be extended to policy on income and wage inequality. Yet women and young people are among the societal groups that are plagued by income inequality and low wages. Increased income equality would encourage those to join the workforce as well as promoting growth.

This year, the G20 countries reaffirmed their commitment to increase global GDP by 2% by 2018. But simply boosting growth has potential to increase inequality further. The OECD urged that the G20 prioritise growth that reduces inequality rather than simply increasing global GDP. It also claims that the current G20 growth plan has had a negative effect on income inequality. As a result, if meaningful change is to be advanced toward the normative aim of equal growth for all, then more effort needs to be made in how this growth is distributed throughout society.

Why so little action about income inequality?

A Pew Research Center survey wrote that the general public globally rated income inequality as a major problem. In all European countries, over 50% of people rated inequality as a 'very big problem'. Even with public pressure as well as series of expert economic organisations raising this issue in 2015 as a significant global problem with potential damaging consequences, it has been left off the main agenda of the G20 Summit. Why?

One reason may be that there is no 'one size fits all' solution to inequality; policy must be multidimensional and will differ within each country. The Secretary of the OECD said that changes in this area are 'hard to enact'. They require a range of complementary policies and thus the benefits of individual policy changes may not be seen quickly. Furthermore, improving the equality and scale of education as well as improving social protection all requires a significant amount of government spending. In a time of slow growth, this may be a proposal that is difficult to sell to the public.

Furthermore, the G20 was focused on the growth of business, be that the growth of businesses through the promotion of policies for competitiveness or investment in SMEs. The influence of big business was seen through the inclusion of the recommendations of the Business 20 group (B20) such as the creation and funding of the World SME forum. It is therefore expected that the G20 will be reluctant to promote policies often disliked by big business, such as an increase in the minimum wage, methods for the empowerment of labour market institutions, and collective agreements.

Although inequality is important, like most economic issues at the Summit, it is not a time-dependent issue. Terrorism, the refugee crisis and climate change are pressing matters that require immediate focus and leadership. However, income inequality is an important problem, which needs to become a high priority for the G20 countries.

Although the issue of income inequality has been the focus of a lot of media attention, not enough has been done to address it. Within the 2015 G20 Summit, the commitment to a 2% rise in global GDP is a distraction from the real issue of unequal growth. Inequality of income causes social and economic instability and hampers growth further. Agreements to measures within the G20 Policy Priorities on Labour Income Share and Inequalities and the Framework on Promoting Quality Jobs must be written with concrete commitments and detailed plans for evaluation.

Although important steps were taken at the G20 to increase the participation of women and young people in the labour market more needs to be done to decrease the level of income inequality. It is an issue that demands leadership as well as a significant commitment to impose often unpopular reforms, for the good of the world economy.

Polly Sculpher is a Researcher in the Department of Politics, University of Sheffield.