POLICY VIEWPOINT

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The connection between a slow-down in productivity and growing inequality

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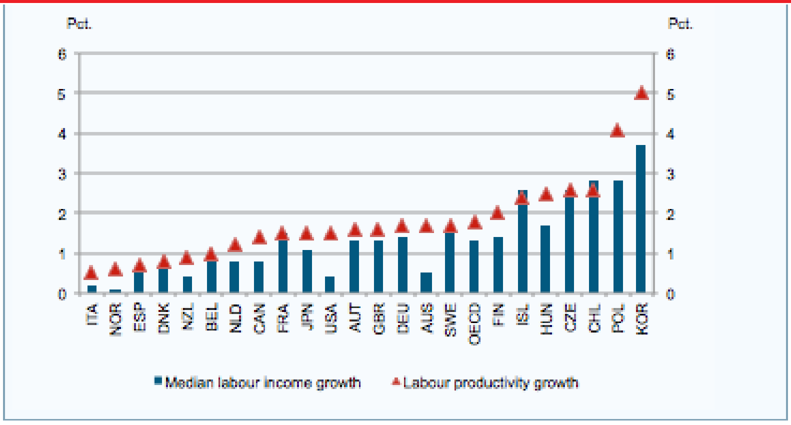
FIGURE 1. GROWTH IN LABOUR PRODUCTIVITY AND MEDIAN INCOME FOR EMPLOYED PERSONS, 1990-2013



Note: Yearly growth rates, per working hour. Data on income is for the full-time employed.

Within the last couple of years, OECD has made several papers about low growth in productivity and ris-ing inequality, respectively. However, in newly published OECD rapports ("The Productivity-Inclusiveness Nexus" and "Economic Outlook 2016"), the focus lies on the connection between growth in productivity and inequality. On one hand, low growth in productivity in some sectors and companies is a contributing factor to the increase in inequality because the workers in low-productivity companies fall behind both regarding productivity and salary. On the other hand, higher inequality means that less people can af-ford education and will therefore end up in low-productivity jobs.

Compared to the 90's, the growth in productivity in the OECD countries in the 00's was not impressive and with the financial crisis, it slowed even further down. During the same period, inequality in income and wealth has increased across member countries. OECD considers low productivity and inequality to be among the biggest challenges facing its member countries currently. Therefore, they look into poli-cies that could help turn things around and increase the economic well-being of workers through higher growth in productivity and lower inequality.

Since 2001, the differences in productivity between different branches, regions and companies have in-creased and this is an explaining factor in the rise of inequality. The least qualified workers are gathered in companies with low productivity, while the companies that are more productive, manage to attract the highly educated and productive workers. These workers are rewarded with higher salaries, which increases the income inequality between persons employed in different companies.

One can worry that the OECD countries are in the middle of a vicious circle, where persons with little or no education are caught in low productivity jobs. They have very limited opportunities of advancing in the job-hierarchy, while workers with a higher level of education cluster in certain more productive companies. Growing productivity in a small number of branches or companies is not enough for the general level of economic well-being in the economy to rise.

Overall, the income of an ordinary worker has not increased as much as productivity since 1990. Figure 1 depicts the growth in labour productivity and median income for employed persons in different coun-tries in the period from 1990 to 2013. The countries below are sorted based on the difference between growth in median income and growth in labour productivity. As the figure shows, almost all countries have experienced a higher growth in labour productivity than in median labour income. OECD claims that the picture looks even worse considering low-income workers, who are expected to have fallen even further behind when it comes to income.

Based on the negative consequences of low productivity and high inequality, OECD points towards a number of political initiatives that can prove beneficial to turn things around. One of these are public investments that can increase demand and growth in the economy and further increase productivity, given that the public investments are made in fields where productivity gains can be achieved. By in-creasing spending on public investments, both growth and productivity can benefit in the long run with-out increasing inequality.

OECD highlights the importance of a flexible labour market and active labor market policies in order to increase both productivity and growth. If the labour market is rigid and regulated it can work as a brake for productivity, namely because the workers cannot move easily to new, highly productive companies. Therefore, less regulation on the labour market will increase the flexibility and thereby labour productiv-ity. Nevertheless, it is uncertain how deregulation of the labour market will affect equality if it is not fol-lowed by policies to support unemployed workers. As an example, a combination of a flexible labor market and active labor market policies focused on helping unemployed persons back to employment, will result in higher levels of productivity, disposable income and equality of income.

Finally, a main element of the recommendations from OECD to ensure productivity, growth and equality evolves around education. Public investments in education is key if productivity is to rise. OECD encour-ages politicians in their member countries to have a more including approach to growth in productivity, where the main focus is education and upgrading of the skills of the entire population. In relation to ed-ucation, it is important to note that there will only be a positive effect from investments in education on equality if the investments are made in primary and secondary education.

While the OECD member countries face big challenges, there are several political initiatives that can help the countries proceed with strengthened productivity and equality.