Center for Inclusive Growth

Fostering Inclusive Growth Throughout Europe by Democratizing Productivity and Promoting Social Mobility.

by Shamina Singh and Manu Bhardwaj

Income inequality – and how to best curtail it – sits at the top of the agenda in many European countries. Between 2009 and 2013, the number of Europeans at risk of living in poverty grew to 123 million people.[1] Today, the continent is home to at least 342 billionaires.[2] During the last several decades, the United States has seen a drastic increase in income inequality – from 1974 to 2014, the bottom 90% saw their share of income fall from 67.55% to 52.66%.[3]

What explains the inequality between the richest and poorest in Europe and other countries like the United States? What are some possible ways to lessen inequality without sacrificing economic growth?

Based on our research, the Mastercard Center for Inclusive Growth offers two recommendations for tackling income inequality in Europe and throughout the world: democratizing productivity and promoting social mobility.

Step One: Democratize Productivity.[4] Imagine the best surgeon in the world put to work in a rural village in Eastern Europe, without a high-tech operating room and advanced medical devices, cut off from highly-trained specialists and diagnostic laboratory services. Under such circumstances, this extraordinary physician can at best only perform at the level of a general practitioner. Disconnected from vital networks of complementary inputs, her productivity is squelched. This narrative highlights the critical importance of democratizing productivity throughout Europe. In rural and even urban areas in European countries, workers, micro-entrepreneurs, businesses and entire industries are often shackled by low productivity due to the absence of critical conditions or resources necessary to thrive. They don't learn new skills,

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[1] A Europe for the Many, not the Few; available here - https://www.oxfam.org/en/research/europe-many-not-few

[2] Id.

[3] "Visualization of 25 years of US income inequality," available here - https://www.weforum.org/agenda/2016/11/this-visualization-shows-you-35-years-of-us-income-inequality/.

[4] The concept of democratizing productivity has been laid out by the Mastercard Center's Advisory Council Chair Yuwa Hedrick-Wong in a series of publications. See "the new approach to philanthropy harnesses data to spark productivity," available here https://qz.com/796768/the-new-approach-to-philanthropy-harnesses-data-to-spark-productivity/.

have little access to capital and can't pursue better jobs, to name just three debilitating consequences.

However, when these barriers to inclusion are reduced or eliminated, people and businesses thrive. For example, societies have historically seen vast reductions in poverty by improving infrastructure or moving migrant workers to cities, where better jobs enable productivity to triple and even quadruple. Similarly, foreign investment can bring a massive influx of know-how – the skills and expertise to do things.

The "networks" in question take many forms – service networks like finance, education and information; infrastructure networks like clean water, power, affordable transportation and better tools and machinery; plus people-oriented social, professional and cultural networks.

Today's private sector organizations can play a leadership role in promoting access to these critical networks and helping to democratize productivity. In 2015, for example, Mastercard CEO Ajay Banga announced a series of commitments to help increase access to financial institutions, another critical network. Mastercard – in coordination with the World Bank and other government leaders – is helping to increase financial access to 2.5 billion adults around the world without a bank account through digital technology, public-private partnerships, and advocacy.

When accessible or, even better, integrated, financial and other networks enable once-excluded individuals to increase their productivity – in the workplace and beyond.

Step Two: Foster social mobility. Social mobility is whether children born in a particular socioeconomic class can move out of that class when they grow up. Less equal societies have less social mobility; talented and hardworking youth don't have opportunities to progress.

The Center's research with Bruegel, a Brussels-based think tank, has analyzed the importance of social mobility in reducing inequality in European countries.[5] Key highlights include:

- Unemployment among working age young adults is unacceptably high in Europe. Across the EU, particularly in Southern Europe, youth ages 20-29 are about two times more likely to be unemployed than working age adults in their 50s and early 60s. A sizable group is neither employed nor in school. In Sicily, for example, 42% of 18-24 year olds were idle.

[5] This Center-funded research: "An anatomy of inclusive growth in Europe," Bruegel, available here: http://bruegel.org/2016/10/an-anatomy-of-inclusive-growth-in-europe/.

- An intergenerational divide is growing. In wages, income, and economic security, the older generation is less at risk for falling into poverty while the younger generation is more at risk.

  EU citizens are increasingly concerned that today's young people will have fewer opportunities for upward social mobility than their parents' generation. More inclusive growth policies are a path forward. And, more specifically, as the Center's research has shown, education is the engine of social mobility; accordingly, cutting into education and social programs for families threatens to create a greater rift between young and old.

  Fortunately, according to Bruegel, inequality tends to be lower among EU citizens than in other parts of the world. Partly, that's attributable to a strong welfare state that has provided protection and progressive income tax policies of some European nations, particularly in Northern Europe. However, based on their underlying fiscal and educational policies, Bruegel also highlights how income inequality varies in European countries.

  Conclusion. The belief that the economic system has failed them erodes a citizen's trust in government and institutions. Rising inequality only intensifies such a belief among citizens. To empower its citizenry, Europe should turn to a two fold solution: democratize productivity and promote social mobility policies. Both approaches foster inclusive growth and help low-income, low-skilled youth and workers from being left behind.