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How We Can Fight Inequality With Innovation

By Stefano Scarpetta

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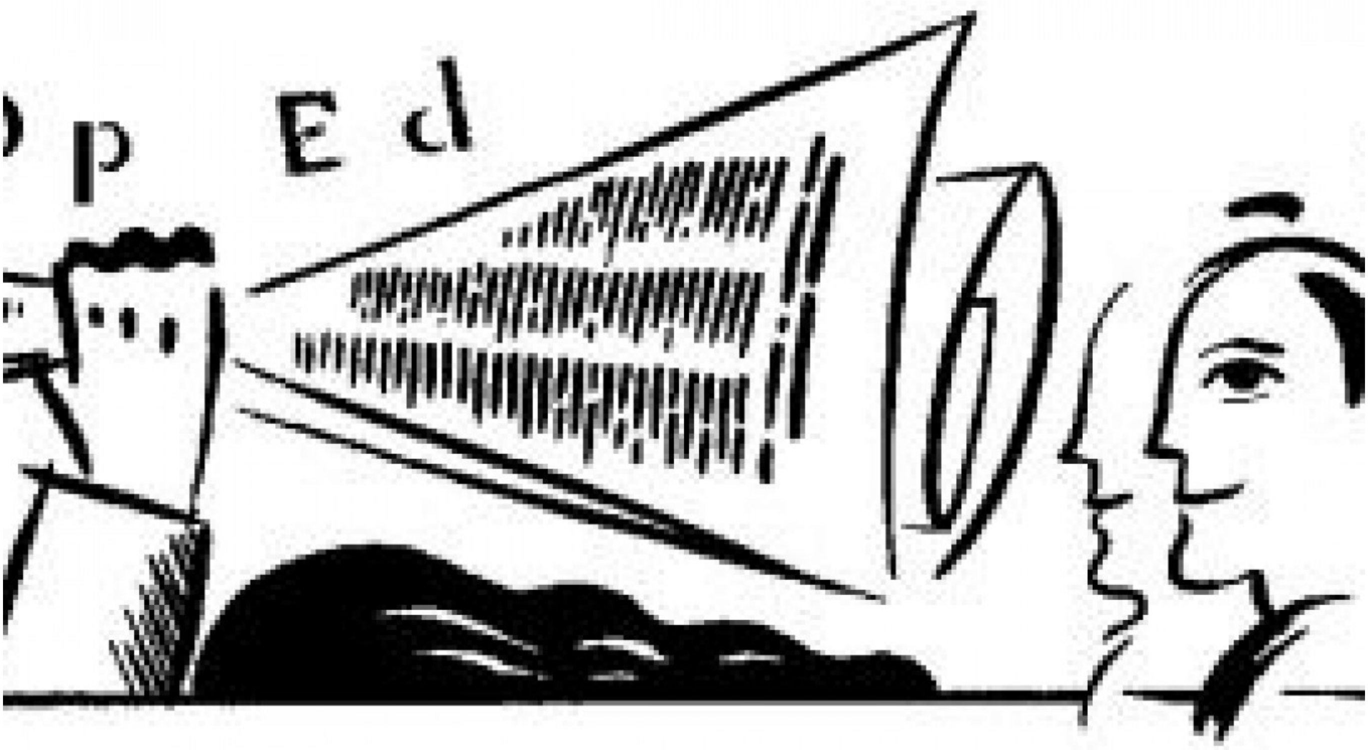

When the benefits of economic growth are distributed very unequally, social bonds fray. Those losing ground, especially the young, may well grow disaffected, then resentful. This was a key factor behind the Arab Spring revolts. As protests in Chile, Brazil, Israel, Turkey and India have shown, social tensions stemming from inequality are mounting around the globe.

To be sure, income inequality has been increasing worldwide for decades. Even while many developing and emerging economies lifted millions of people out of extreme poverty, the perception that growth meant greater inequality was always bubbling below the surface. But now increasingly persistent unemployment and underemployment are giving new impetus to the rise in inequality, as the Organization for Economic Cooperation and Development reported to the Group of 20 in July.

Indeed, in the wake of the 2008 financial crisis, youth unemployment now averages 16 percent in advanced countries, and it exceeds 40 percent in some European countries.

As a result, the challenge of inclusive growth has moved to the top of the global economic policy agenda. According to the World Economic Forum's Global Agenda Outlook, widening income disparities will be the second most important world trend in 2014, behind only tensions in the Middle East.

Income gaps are growing for many reasons, ranging from "skill-biased" technological progress to corruption. But, whatever its causes, putting people back to work at productive, rewarding jobs can help a great deal, and this demands the best efforts of governments, employers and civil society groups on many fronts.

For starters, it means providing populations with access to quality schooling and health care: a healthy, educated person is an employable person. In many countries, this remains a major challenge. But the large strides already made in some low-income countries reveal great potential.

Consider Brazil, which enjoyed a long boom in the 2000s, when income inequality actually declined. One contributing factor was the bolsa familia, or family grant, now a decade old. This monthly cash payment goes directly to mothers, provided that they keep their children in school and send them for regular medical checkups.

This innovative program is not only a human-capital investment in millions of children, it also allows mothers to work. Such well-designed subsidies for socially useful behavior can lift millions out of poverty.

But education and health are just the first step. For practical and political reasons, redistributive programs, while essential, are not enough to ensure inclusive growth by themselves.

It is often said, with good reason, that the widening income gap largely reflects technological change, which has drained many economies of blue- and even white-collar jobs, while channeling the fruits of improved productivity to highly skilled elites. But the digital revolution can also enable inclusive growth. Internet applications and other advances in communication are spreading knowledge and information to millions of people in poor circumstances.

Consider Babajob.com, started by a Microsoft researcher in India to bring better job opportunities to the country's informal sector by connecting employers and job seekers via the Internet, mobile apps, SMS and voice services. Likewise, as cellphones became widespread in Kenya, network operators introduced M-pesa, by which anyone with a mobile phone can transfer money quickly and cheaply — a boon for the smallest enterprises in particular.

Both of these examples, and there are many others, originated not from government but from the private sector. And that points to another piece of the solution: improved labor-market efficiency. In many countries with high jobless rates, employers cannot find people with the right qualifications. The solution is twofold: better market information and better connections between the world of education and the world of work.

Specialized online job-search sites are facilitating employment. But a successful school-to-work transition should start when tomorrow's workers are young. Early childhood education is critical but must lead to high-quality schools that provide ample career-related guidance and counseling. The evidence is clear; countries that invest in these areas have better results than countries that move more slowly.

While most countries aspire to move toward a "knowledge society," this should not mean downplaying technical and vocational education. On the contrary, advanced economies need many skills, and high-quality technical education, especially if followed by effective apprenticeship programs, can create smooth transitions from school to work. Germany, Austria, Switzerland and other developed countries are rightly praised for this. Germany's youth unemployment rate is under 8 percent, and a steady supply of skilled labor helps to sustain the country's success as an exporter.

To be sure, this model cannot be adopted in every country — for one thing, it requires a high degree of trust between labor and management. But some practices can be modified for use elsewhere. The G20 countries have recently adopted comprehensive guidelines for quality apprenticeships; each member country should adopt the most appropriate strategy within this broad framework.

Virtual training programs, for example, allow students to practice using expensive machinery without interfering with actual production and with no risk of damaging the equipment. Similarly, massive open online courses, or MOOCs, which are another fast-growing approach to training, enable delivery of top-notch teaching to a broad public at a low unit cost.

There are many innovative approaches to sharing growth more equally, and more are emerging all the time. But they all point to a fundamental truth: If young people and the disadvantaged are to find satisfying and rewarding jobs, governments, employers, educational institutions and civil-society groups all have an important role to play. Our economies' long⊠term sustainability depend on it.

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