PLENARY SESSION // CAPITALISTS ARISE: PETER GEORGESCU, EMERITUS CHAIRMAN, YOUNG & RUBICAM

Futures of Work Conference

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Introduction

- Good morning everyone. I am pleased to be here to moderate this session with my dear friend, Mr. Peter Georgescu.
- I want to thank Peter Creticos and the Institute for Work and the Economy for the kind invitation to participate in this important conference.
- Peter will address one of the defining challenges of our time: rising inequalities.
- As the United States know well, growing inequality not only has implications for individuals, families and communities, but also has contributed to the growing backlash against our broader political and economic systems.
• A lot has been written on this topic, but Peter comes at it from a unique perspective, from the business sector.

• Before I more formally introduce Mr. Georgescu and pass the floor to him, I want to provide a broad overview of how this issue is being discussed globally, as it is not just an issue impacting the United States. This is a question that is driving policy debates all over the globe.
Introduction to the OECD

- But first, to introduce myself, my name is Lamia Kamal-Chaoui. I am the Director of the Centre for Entrepreneurship, SMEs, Local Development and Tourism of the OECD – which stands for Organisation for Economic Cooperation and Development.

- You may not know the OECD by name, but I am sure many of you are familiar with our work. When you pick up a newspaper and read how the United States ranks worldwide in terms of the skills of young people, corporate tax rates, or international comparisons on healthcare spending, you are in fact often reading OECD statistics.
• The OECD has its origins in the Marshall Fund Aid following World War II. The US architects of the Marshall Plan insisted that European Countries cooperate economically by joining the OEEC as a condition of aid.

• The OECD grew out of this entity, expanding to the 35 Member countries that it now serves [membership – US, Canada Europe, Japan, etc.].

• Today, the OECD has positioned itself as a unique, global forum for governments to work together to collectively address the economic, social and governance challenges of global integration.

• The OECD is well known for its internationally comparable economic and social statistics, policy benchmarking tools, and well-respected economic forecasts.
• With these tools as a basis, it provides a framework for countries to come together to **compare policy experiences**, **identify best practices**, and **coordinate domestic and international policies**.

• It also helps countries set **international standards, guidelines, and agreements** in areas ranging from anti-bribery, to base erosion and profit shifting (BEPS) tax avoidance strategies, to chemical production.

• The United States helped found the OECD and remains an active member.

• **More than 2 000 US Delegates** come to the OECD each year to participate in more than 200 committees and working groups that guide the organisation’s work.

**Inclusive Growth at the OECD**
Let me now say a few words about the rise of inequalities at the global level.

The OECD has been documenting rising inequalities for decades, long before the topic captured headlines. But the crisis provided the impetus to take this work to the next level.

Already in 2008, we published Growing Unequal. In 2011, we published Divided We Stand, and in 2012, we formally launched our Inclusive Growth initiative.

This initiative brings together our policy experts across the house to gather internationally comparable data and evidence, and identify policy responses to address the challenge of growing inequalities.
I’d like to take a few minutes to share some insights from this work with you, making some linkages with some of the themes Mr. Georgescu will pick up in his discussion.
What does the data tell us?

• First, what does OECD data tell us?
• Most developed countries have seen a constant increase in inequalities over the last thirty years: the ratio of the income of the top 10% to the bottom 10% has gone from 7 to 1 in the 70’s to nearly 10 to1 today.
• The ratio is nearly double for the US.
• As measured by the Gini coefficient, the United States has the fourth highest rate of income inequality in the OECD – preceded only by Mexico, Chile and Turkey.
• Of course, inequality is **not just about income**, but also wealth and other dimensions of well-being such as health, education, and housing.

  • The picture is not great here either -- **the richest 10% in the OECD now own half of all household assets, whilst the bottom 40% owns barely 3%**. In the US, the top 10% in the US owns 70% of wealth.

  • And the OECD has also collected indicators that demonstrate an increase of **inequalities of opportunities in terms of access to jobs, education and skills, health status, etc.**
• So what I am saying is that the rise in inequalities is widespread, and is particularly pronounced here in the US, it is also being felt in more traditionally egalitarian countries like Germany and the Nordic Countries.
• That’s not just an outcome of the crisis – the crisis just exacerbated a trend that has been decades in the making.
Why high rates of inequalities are bad

- Peter, you once told me that you’ve had business leaders ask why high rates of inequality are bad.
- What is wrong with inequality?
- Of course, we can always make a moral or social argument, but we also have evidence that we should be concerned from an economic standpoint.
- For instance, OECD research suggests that high rates of inequality actually impede growth.
- On average, an increase in income inequality by 1 Gini point lowers yearly GDP per capita growth by around 0.2 percentage points.
• This is the case because income disparities simply limit the ability of young people from poor socio-economic backgrounds to invest in their human capital and skills.

• Productivity gains are a key driver of long-term improvements in societal living standards, but we are seeing a slowdown in productivity growth across the OECD, including here in the US.

• OECD research suggests a link between the two trends - growing inequality and declining productivity growth.
In particular, we published last year a report called the \textit{Productivity-Inequality Nexus} that shows that \textit{widening productivity dispersion across firms has contributed to widening of the wage distribution}. 
What are the policy domains that matter?

- At the OECD, we have worked intensively to identify the public policy domains that matter for addressing these challenges – recognising that specific policy responses will have to be adapted to each of our Member country’s economic and social context.
  - After all, Sweden’s focus on equalities in outcomes requires a different set of policy responses than the US’s focus on equalities in opportunities.
  - Let me briefly touch on a few of these domains, and will leave it with Peter to dive into these a bit more.
(1) The first is **education and training**, one of the best tools we have for addressing inequality – the great equaliser!

i. Here in the United States, however, it is not merely a question of investing *more* in our young people: *students in the Slovak Republic perform roughly at the same level as those in the United States, despite the fact that the US spends more than twice as much per student per year*: 115 000 dollars per year compared to 53 000 dollars per year in the Slovak Republic.
ii. Rather, it’s a question of how we can invest smarter and to build a system that remediates, rather than reproduces inequalities.

- (2) Peter, I believe you will also discuss the issue of taxes which is often the first argument advanced by businesses
  
i. OECD work shows that a greater focus on redistribution in our tax-benefit systems needs not be bad for growth if properly targeted and implemented, and designed in a way that promotes “activation” for employment purposes.
ii. Additionally, we need to address the growing market and political power of large companies, and their ability to bend domestic and international rules – including in the area of taxes – to their advantage.

1. The OECD is doing exactly this through the BEPS Initiative (Base Erosion and Profit Shifting) which has brought together over 90 countries around the world to tackle tax avoidance.

   a. Tax avoidance is estimated to cost 100 billion to 240 billion USD in tax revenues annually!
b. Close to $80 billion has been collected under the OECD's Common Reporting Standard, with the U.S. alone collecting almost $10 billion of this additional, unplanned revenue.

• (3) Of course, the success of our societies rests, in part, on the success of our businesses. And businesses, in turn, depend on a well-functioning and competitive market environment to thrive. That’s why the third key issue is whether the “rules of the game” are being bent to the point of breaking!
i. For one, we are seeing a **rise in short-term thinking** and the so-called **tyranny of shareholder value**. Peter, I know this is a topic you are particularly passionate about, so we look forward to hearing your views.

ii. Rent capture by frontier firms, sub-optimal resource allocation, and the breakdown of the innovation diffusion machine are also **limiting productivity gains while entrenching inequalities of incomes**, not least by trapping workers in low quality jobs.

1. **Small and medium sized firms** are often the most impacted. The OECD’s new publication, **Small**,
Medium, Strong shows that, due to internal constraints, SMEs are disproportionately affected by the barriers and inefficiencies in the business environment and market failures in the economy.iii

2. As SMEs are part of my portfolio at the OECD, this is an issue of special concern for me. Peter, I’m pleased to offer you this book, and I hope you can say a word about small firms in your remarks.

- (4) Minimum wages are another one of the so called rules of the game that matter particularly for low-income workers. Peter, I know you have some particular thoughts on this as well.
Introduction of Peter Georgescu

- Peter, we look forward to your thoughts on these topics from the perspective of the business sector and more.
- Ladies and gentlemen, I am deeply honoured to introduce Peter Georgescu.
- Peter is the Chairman emeritus of Young & Rubicam and author.
- His books ‘The Source of Success’ and ‘The Constant Choice’ explore a new standard of leadership that focuses on the relationship between the informed customer and the creative employee – a relationship, he stresses, that must be built with honesty and integrity.
• He also recounts his life’s journey from childhood captivity in a Romanian labour camp to his role as CEO and how he came to the conviction that goodness is not inherent; it evolves from daily choice.
• Today Peter will talk to us about his newest book: “Capitalists Arise”, of which you all have copies.
• Peter, the floor is yours.

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i This compares to a high of 31:1 in Mexico, to a low of 5.2 in Demark (other countries: 10.5 in the UK, 7.4 in France, and 6.6 in Germany).
ii In the US, income taxes and cash transfers reduce inequality among the working age population by about 20%, compared to a 26% average across the OECD and 30% in places like France and Germany.]
iii For example those imposed by the regulatory environment, or the barriers to entry and foreign investment in the services sector, notably in professional services, which are dominated by SMEs.