PRODUCTIVITY TO TACKLE INEQUALITY

THE NEXUS BETWEEN PRODUCTIVITY AND EQUALITY

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PRODUCTIVITY AND EQUALITY NEXUS

Productivity growth has slowed since the economic crisis and inequality of income and opportunity has been getting worse. Could they be impacting each other? The linkages between the productivity and inequality challenges we face are still to be fully explored. Ultimately, each challenge may have its own solution, but the nexus of relationships that exists between productivity and inequality policies and outcomes means that there is also increasingly good reason to think that our efforts would benefit from a common approach.

OECD research has found that high levels of inequality may impact growth negatively by causing a lack of investment in human capital among low income families. This could also affect productivity growth in our economies. At the same time, weak competition frameworks in the digital and knowledge-based economies may unleash "winner takes all" dynamics, or worse still, persistent rent-seeking behavior on the part of incumbents. Our analysis also suggests that wage dispersion between firms, which reflects diverging rates of productivity growth, has in many cases contributed to rising inequality of incomes between workers. On top of this, the 'financialisation' of our economies may have created incentives for short-term profit maximization , at the expense of adequately channeling resourced to the more productive activities.

MALAYSIA'S LONG RACE TO COMPETITIVENESS

Have you ever felt like you are in a race and each time you pass another competitor, more keep showing up ahead on the race track in an endless marathon? Well countries striving to be competitive face similar predicament. No matter how they try to improve their competitiveness, cut the red tape and reduce burdensome regulations, other countries are doing the same, but even quicker. Malaysia is already a very competitive country. Yet, its ambition is to become more competitive. Malaysia has long recognized that a concerted cross-ministerial and public-private collaboration is needed to do just that. Testament to its success was Malaysia's surge to 6th position in the 2014 Doing Business, up from 12th place in 2013 and 18th in 2012, placing it in the same league as Singapore, HongKong, and the United States. But since then, Malaysia has been challenged to keep up with the rapid pace of business reforms across the globe.

Reducing Inequality To Promote Growth

ADDRESSING INEQUALITY

Growth strategy that addresses inequality amounts to five policy elements that need to be instituted as a package namely High-quality education for the poor, Progressive taxation, A social safety net, Anti-monopoly policies and Labour market reforms to promote the employment of low-skilled people. Good quality education for the poor is the surest way to increase social mobility and to ensure that workers can benefit from improvements in their productivity.

DEBATING FACTOR

There is considerable theoretical and empirical evidence to support the assertion that inequality is bad for growth. It is debatable. It is often believed with higher economic growth, countries will reach the point of declining inequality quicker; that growth is critical to raising incomes and living standards as well as fixed investment. Economist like Kuben Naidoo begs to differ through his article, Reducing Inequality to Promote Growth: A Proposed Policy Package dated 30 January 2016.

He says it does not necessarily be the case where productivity growth leads to equality. Economic growth can lead to either rising or falling inequality depending on the circumstances and the nature of that growth. China's rapid economic growth has coincided with rising inequality while Brazil's growth acceleration has led to declining inequality. Angola's resource boom has led to rising inequality while Vietnam's agriculture boom has led to falling inequality.

It is often thought that in a competitive and effective government, progressive taxation makes sense, and that tax morality can be sustained, only if the money is spent wisely. This can be argued too. The UK has one of the most capable bureaucracies in the world, but inequality has risen steadily. Brazil has quite a poor track record in delivering education or safety in poor neighbourhoods, yet inequality has fallen. The three countries in the world with the fastest rise in inequality (the US, UK and China) all have fairly competent governments. Good quality education for the poor is the surest way to increase social mobility and to ensure that workers can benefit from improvements in their productivity. To tackle inequality, we also need a progressive tax system. The more unequal the country, the more steeply progressive the income tax system should be. Taxation can make a rich person poor but cannot make a poor person rich. Progressive taxation is an effective instrument to reduce inequality and thereby promote economic growth because less inequality makes it easier to build respect for the instructions critical to growth.

Social security net is necessary both to protect the vulnerable against life's uncertainties and to make the labour market more efficient. Elements of such a safety net are unemployment insurance, disability benefits, retirement benefits and health insurance. ensuring that no one lives below a certain living standard, a well-designed social safety net enables the labour market to be more flexible and efficient. Employees can freely look for opportunities and employers can get rid of non-performers at a lower cost to the firm. Anti-monopoly policies are essential to reduce economic concentration over the longer term. In terms of labour market reforms, it is aided at promoting the employment of people with low or medium skills. If many more people were employed, even in relatively low-paying and low-productivity jobs, inequality would fall. Once people have entered the workplace, they can improve their livelihoods through growth in their productivity and resultant higher earnings. Much more needs to be done to enable the entry of unskilled people into low-productivity jobs.

CONCLUSION

As part of any growth strategy, policymakers have to confront the level of inequality which stunts growth, threatens stability and undermines long-term investment. five proposals is intended to reduce the distorting effects that inequality has on economic dynamism and to raise social mobility through employment and rising productivity. Tackling inequality sensibly will help to boost growth and to change the incentives for long-term investment.