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How to Achieve **INCLUSIVE GROWTH**



How to Achieve Inclusive Growth

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The views expressed are those of the presenter and do not necessarily represent those of the IMF or IMF policy.

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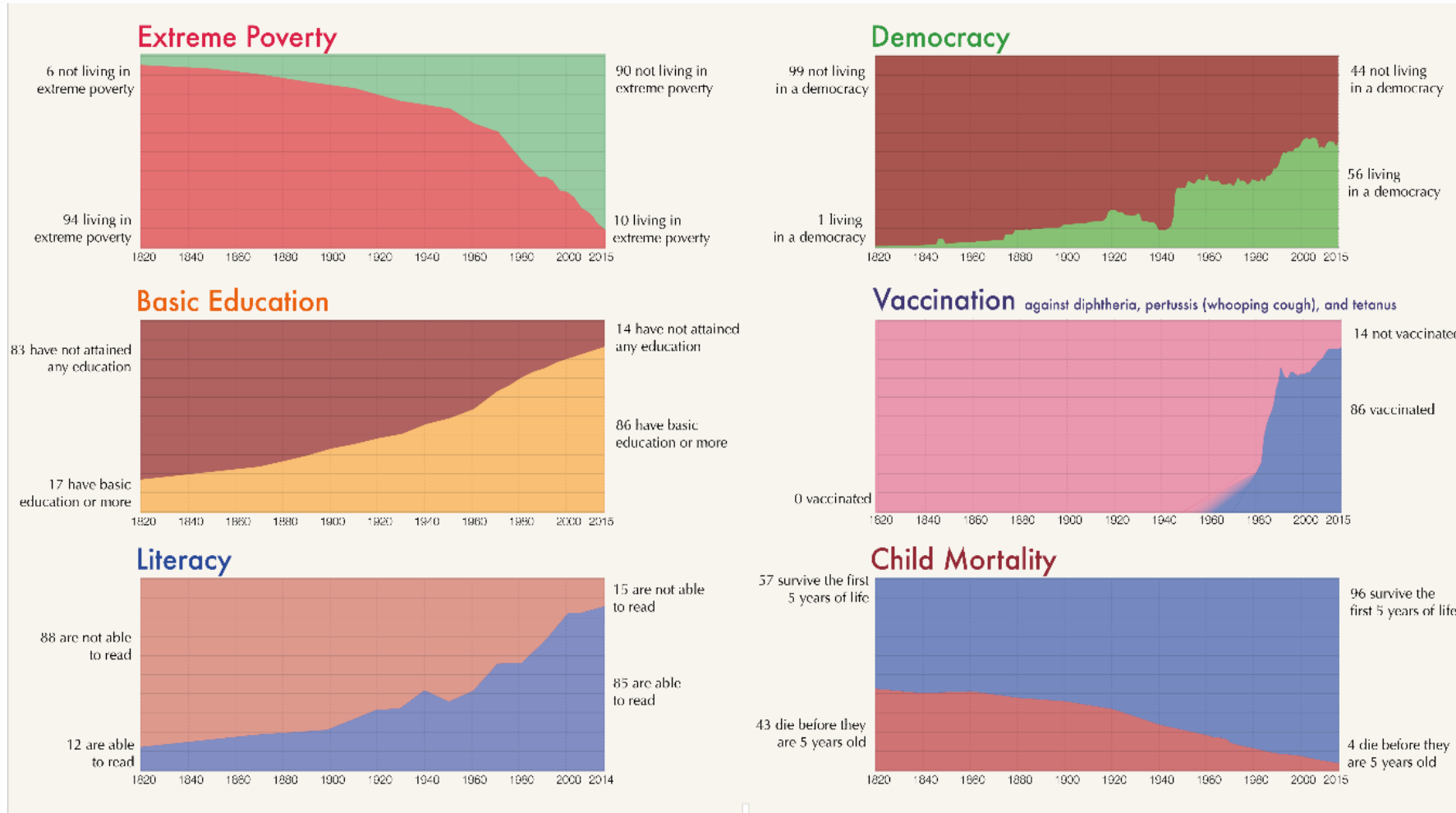
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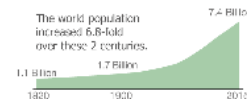
Global Context

Two Centuries of Progress



Data sources:
 Extreme Poverty: Bourguignon & Morrison (2002) up to 1970 – World Bank 1981 and later (2015 is a projection).
 Vaccination: WHO (Global data are available for 1980 to 2015 – the DPT3 vaccination was licensed in 1949).
 Education: OECD for the period 1820 to 1960. IIASA for the time thereafter.
 Literacy: OECD for the period 1820 to 1990. UNESCO for 2004 and later.

Democracy: Polity IV index (own calculation of global population share)
 Colonialism: Wimmer and Min (own calculation of global population share)
 Continent: HYDE database
 Child mortality: up to 1960 own calculations based on Gapminder; World Bank thereafter

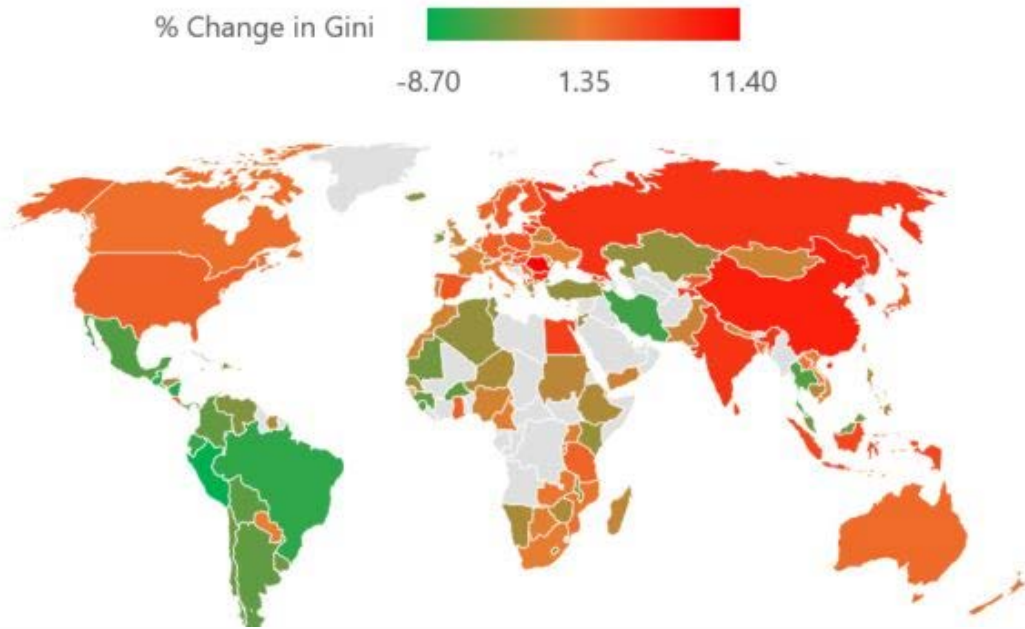


All these visualizations are from OurWorldInData.org an online publication that presents the empirical evidence on how the world is changing.

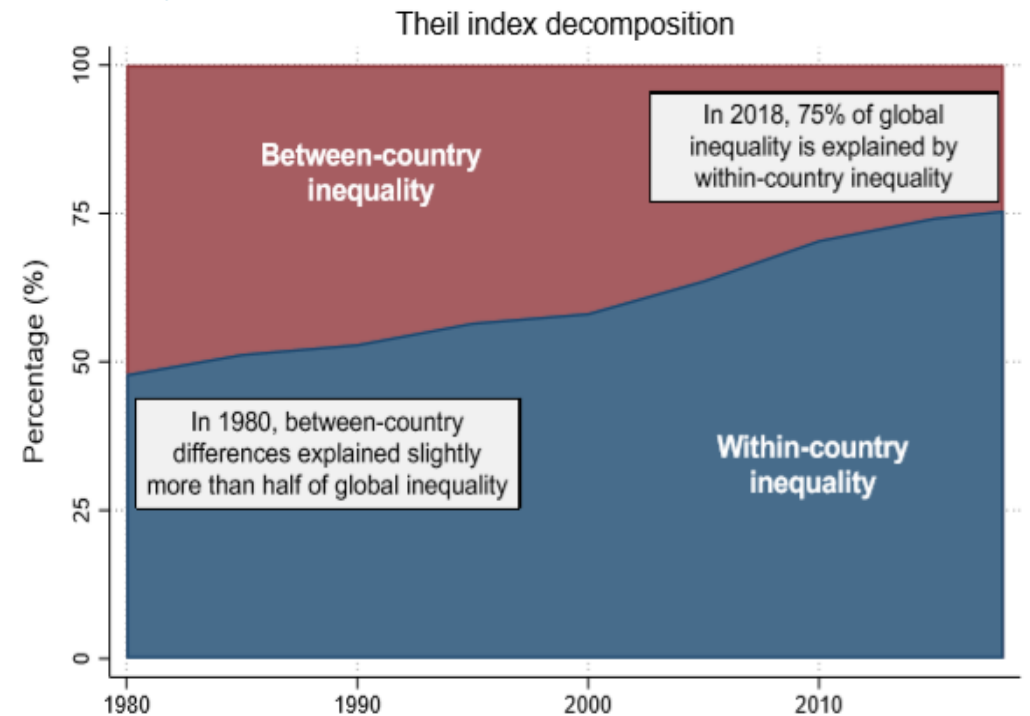
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Rising Inequality Within Countries

Change in Net Gini, 1990s - 2010s

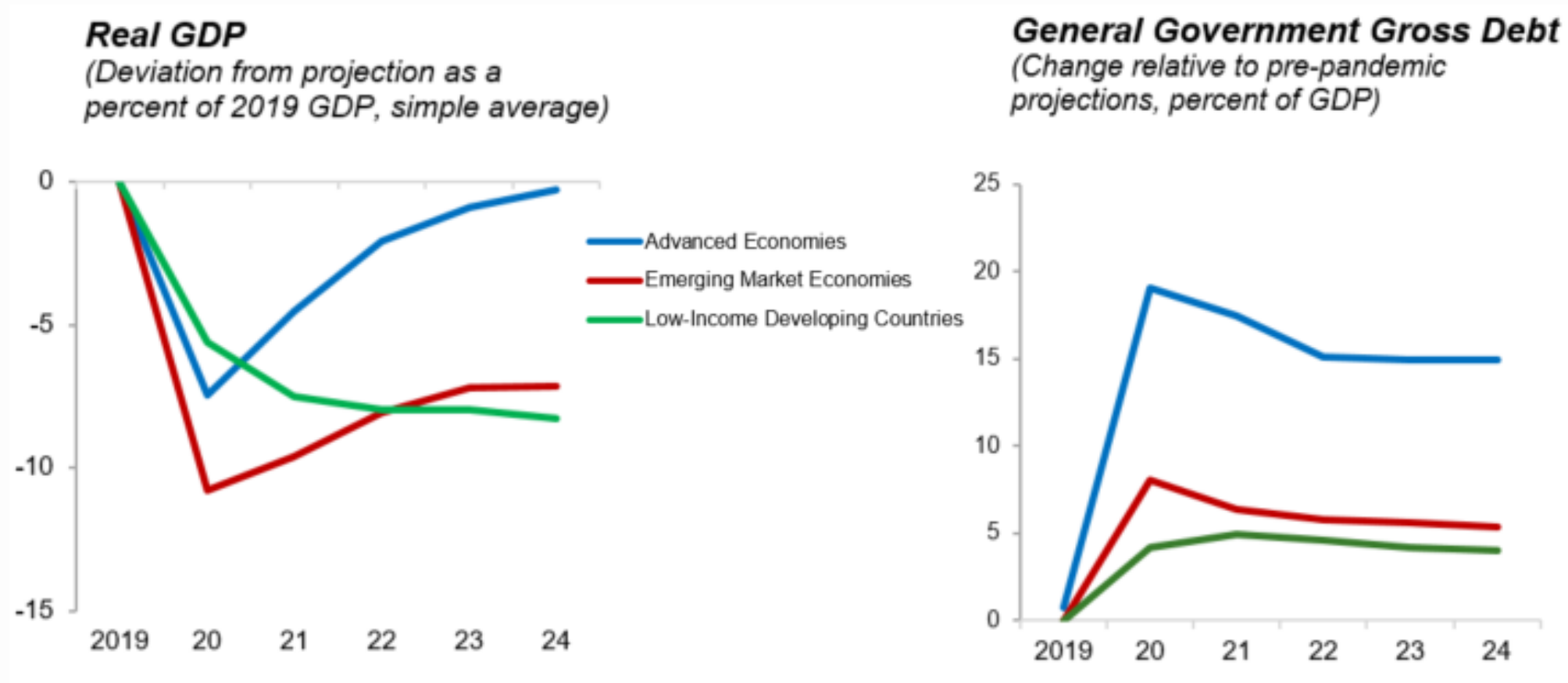


Global Income Inequality: Between vs. Within Country, 1980-2018



Sources: Cerra, Chapter 1 of *How to Achieve Inclusive Growth*; SWIID; and Chancel, in *World Inequality Report 2018*. Note: LH chart: Gray stands for no data. RH chart: Distribution of per adult pretax income measured at PPP.

Effect of COVID-19 Pandemic on Forecasts of GDP and Public Debt

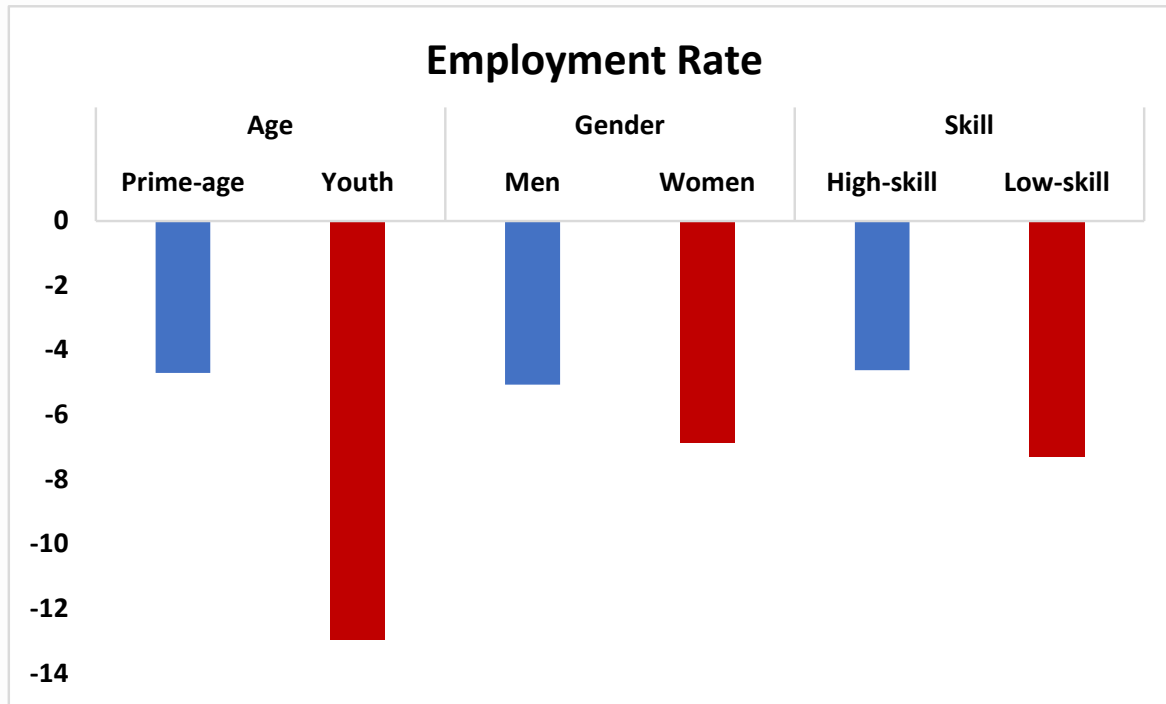


Sources: Fiscal Monitor and IMF World Economic Outlook database, October 2021; and staff estimates.

Pandemic Widens Employment and Educational Gaps

Labor Markets in EMDEs

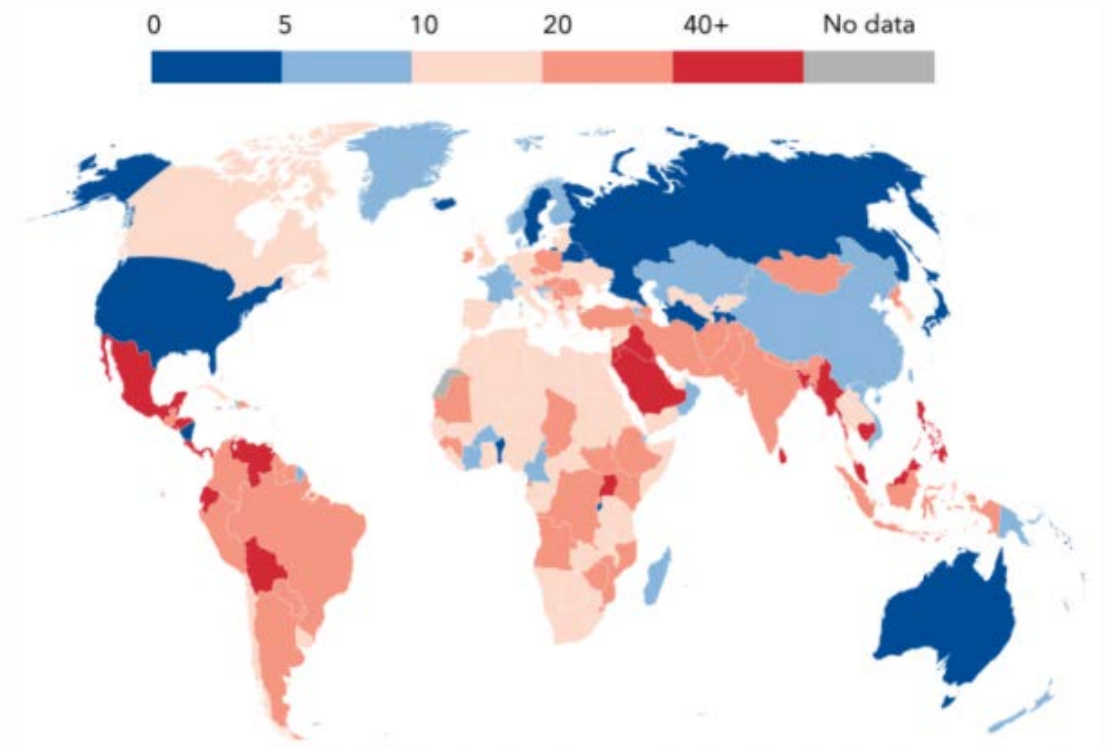
(Average percent difference from 2019:Q4 to 2021:Q1)



Sources: IMF World Economic Outlook, October 2021; International Labor Organization; and IMF staff estimates.

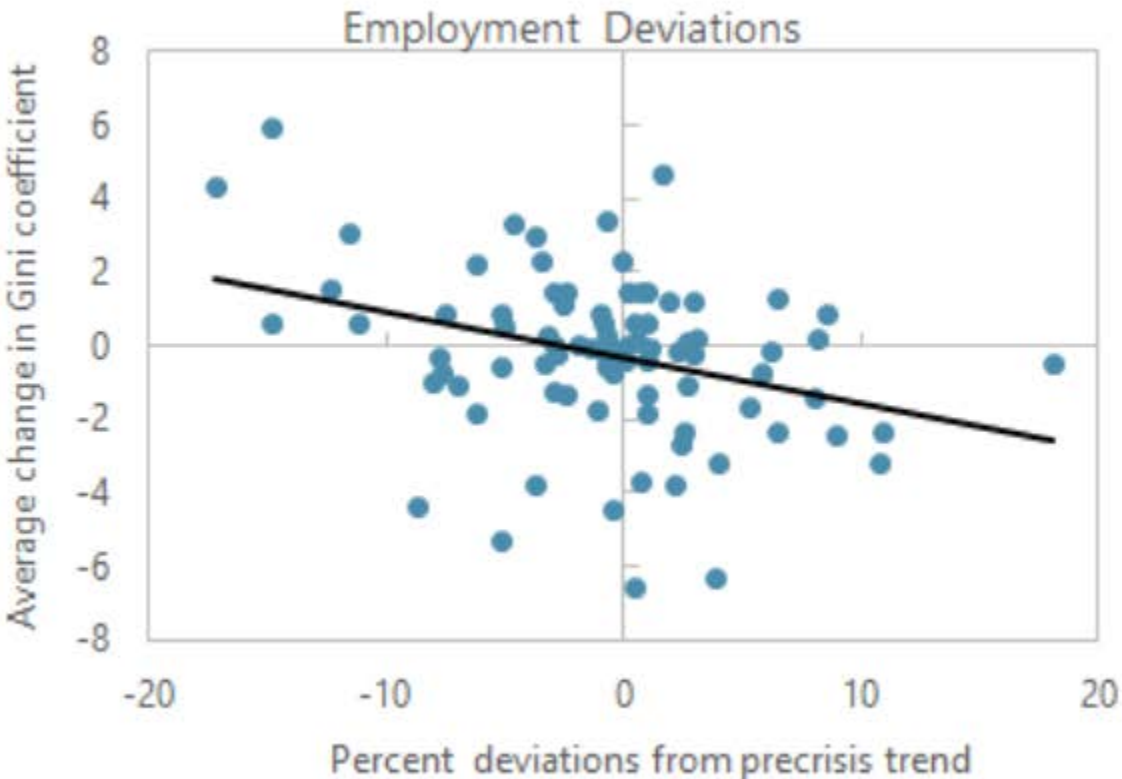
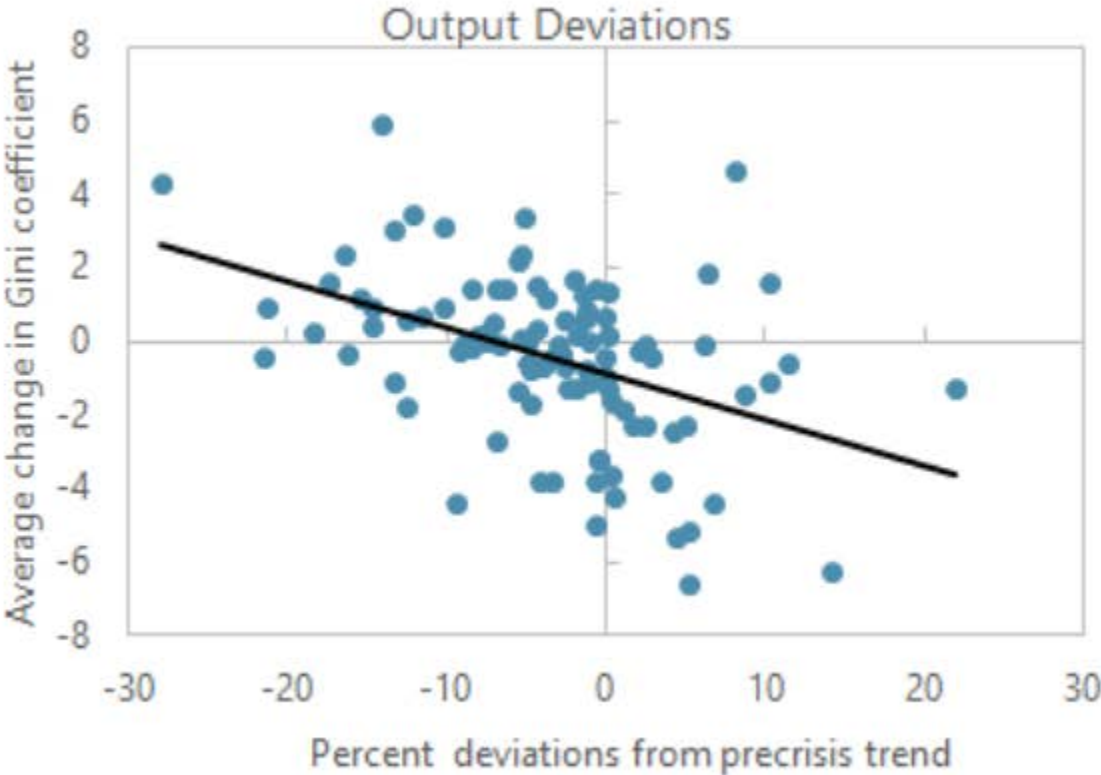
School Closures

(Total duration of full school closures in weeks, 3/2020-10/2021)



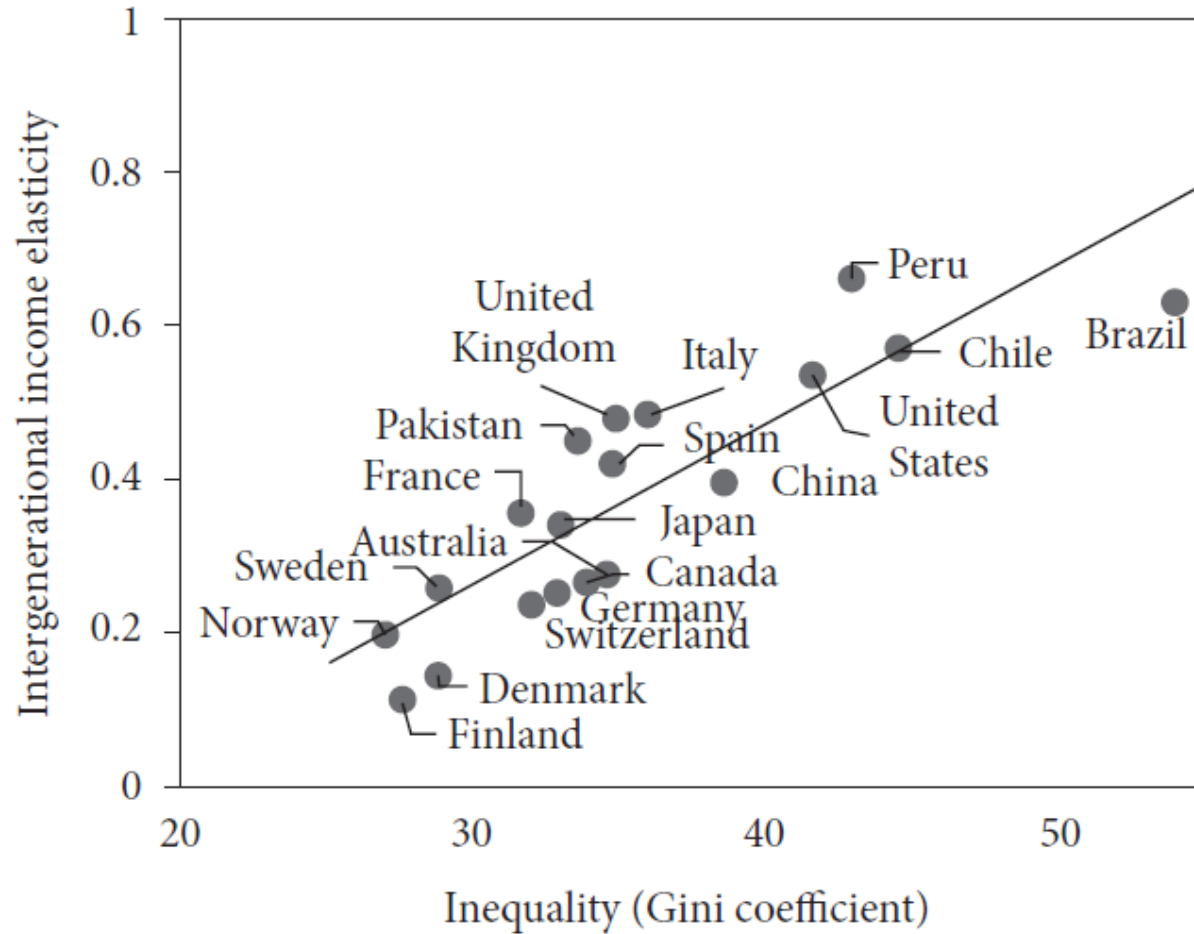
Sources: Ruchir Agarwal, IMF blog Feb 3, 2022; UNESCO global dataset; and IMF staff estimates.

Output and Employment Scarring Lead to Higher Inequality



Source: Davoodi, Montiel, and Ter-Martirosyan, Chapter 11 of *How to Achieve Inclusive Growth; WEO (2018); and Solt (2020)*.

Inequality Exacerbates Poverty Traps and Social Immobility



Source: Baduel, Isakova, and Ter-Martirosyan, Chapter 18 of *How to Achieve Inclusive Growth*; World Bank, WDI and GDIM databases.



A Framework for Inclusive Growth and Sustainable Development



SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD

1 NO POVERTY

2 ZERO HUNGER

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

5 GENDER EQUALITY

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

11 SUSTAINABLE CITIES AND COMMUNITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

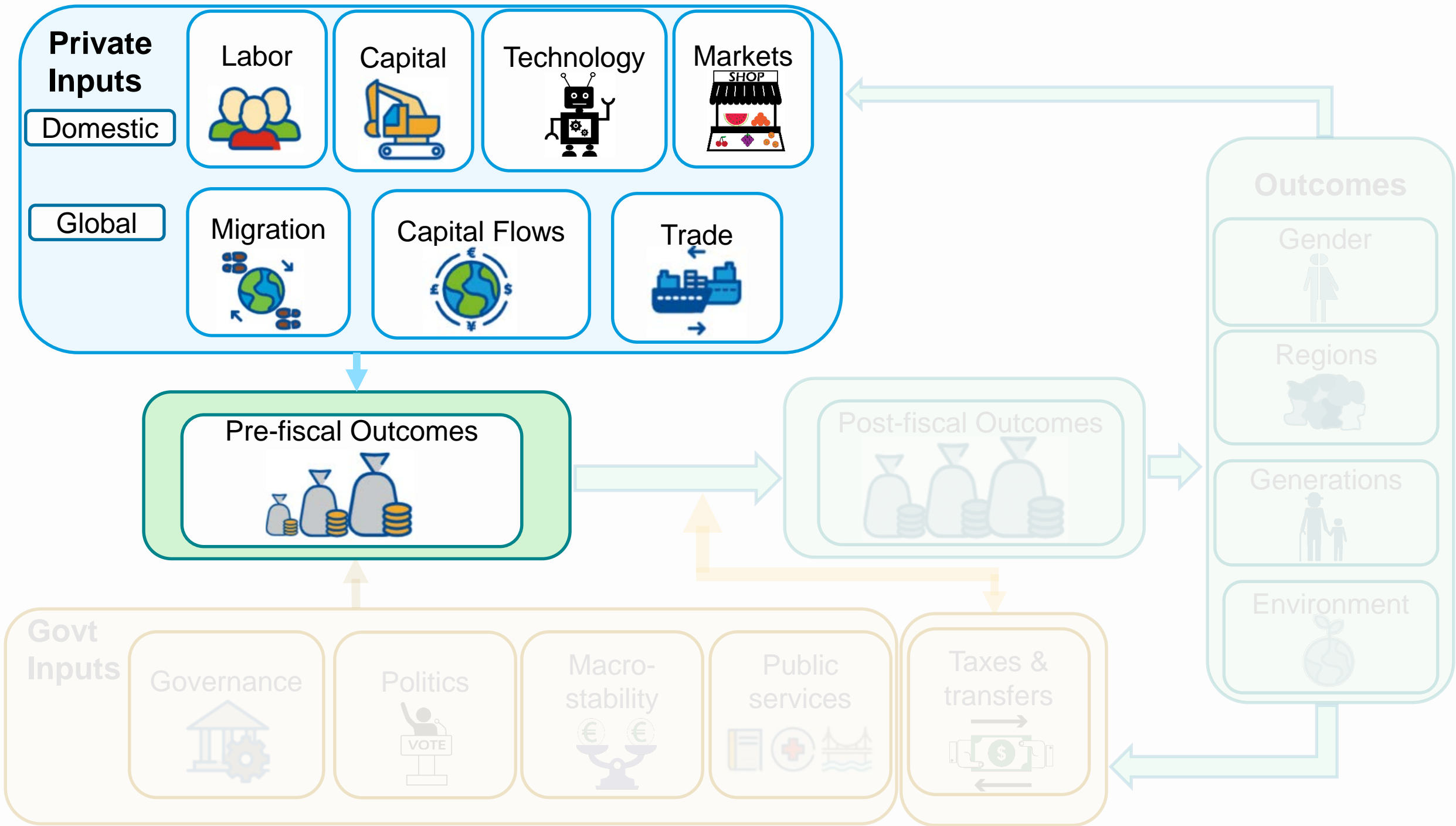
14 LIFE BELOW WATER

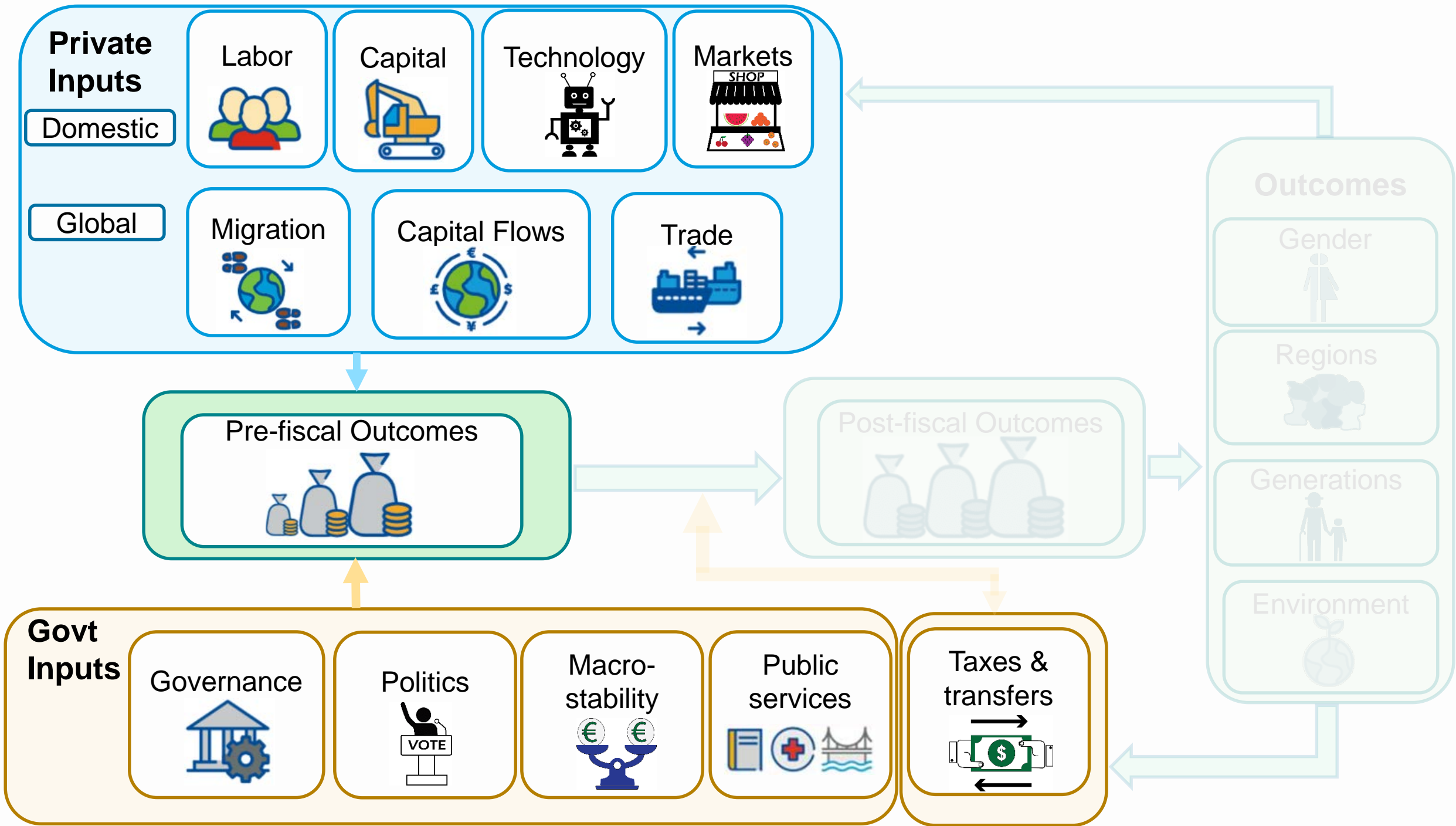
15 LIFE ON LAND

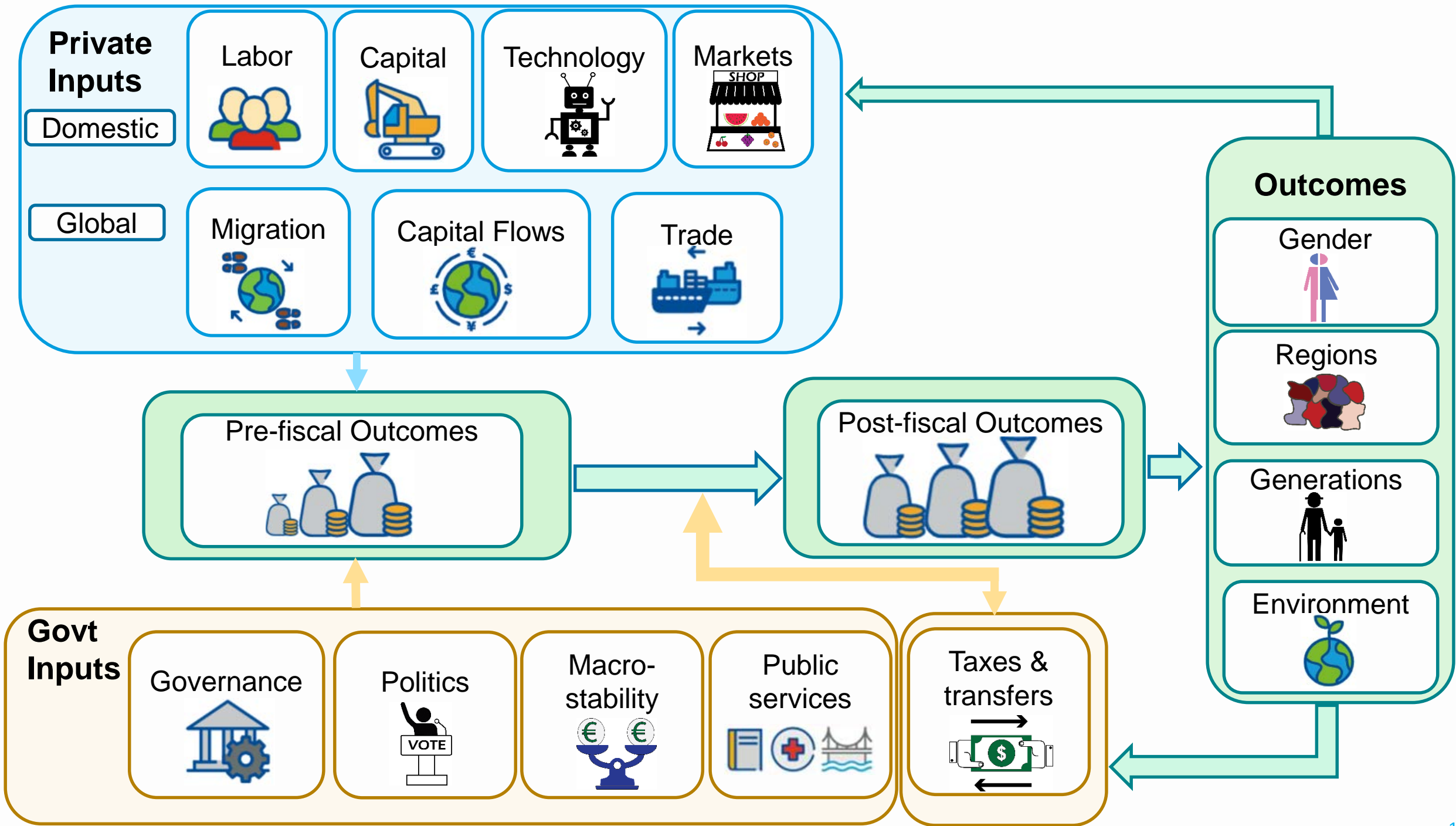
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

17 PARTNERSHIPS FOR THE GOALS

SUSTAINABLE DEVELOPMENT GOALS







IG book chapter topics

Introduction

- An inclusive growth framework
- Links between growth, inequality, and poverty

Factor and product markets

- Labor markets
- Financial inclusion
- AI and technology
- Competitive markets

Globalization

- Trade
- Financial integration
- Migration

Government policies

- Governance
- Macro stability and debt
- Taxation
- Public spending and transfers
- Education and health
- Political reform

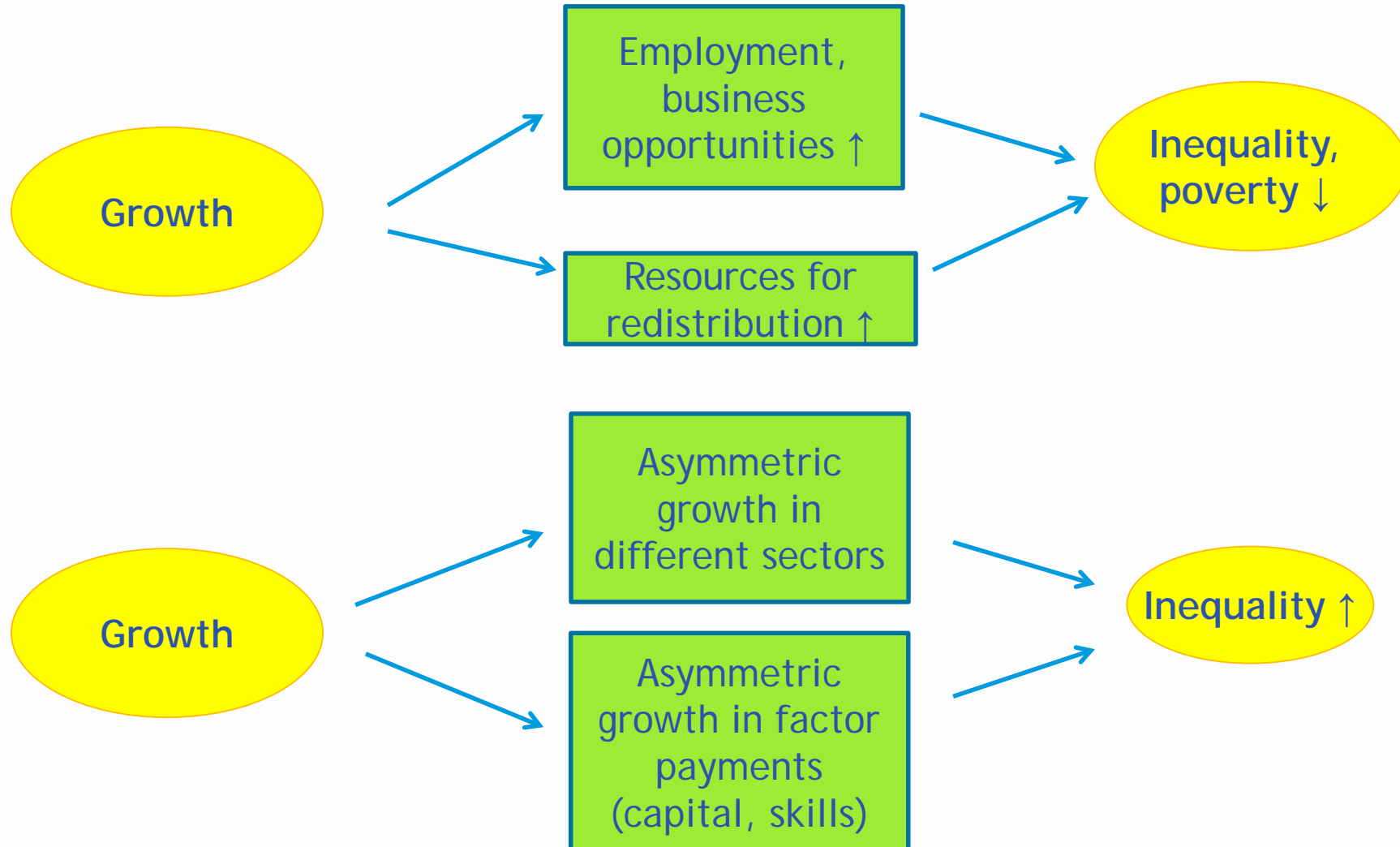
Disparities of outcomes

- Gender equity
- Regional disparities
- Generational equity
- Sharing natural resource wealth
- Climate change

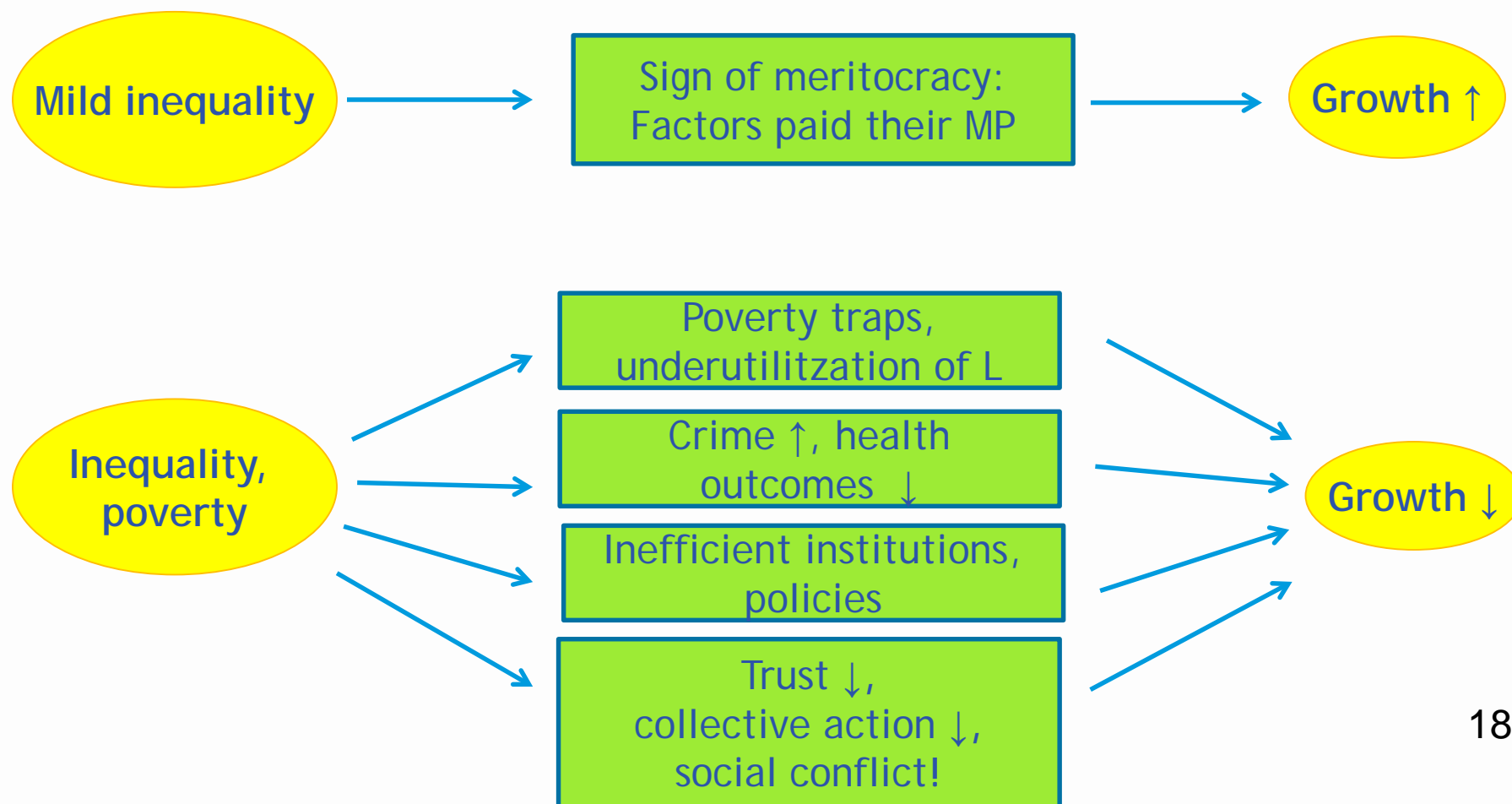
Putting it together

- Country case studies
- Recap and next steps

Tradeoffs? Growth -> Poverty and inequality



Tradeoffs? Inequality and Poverty → Growth

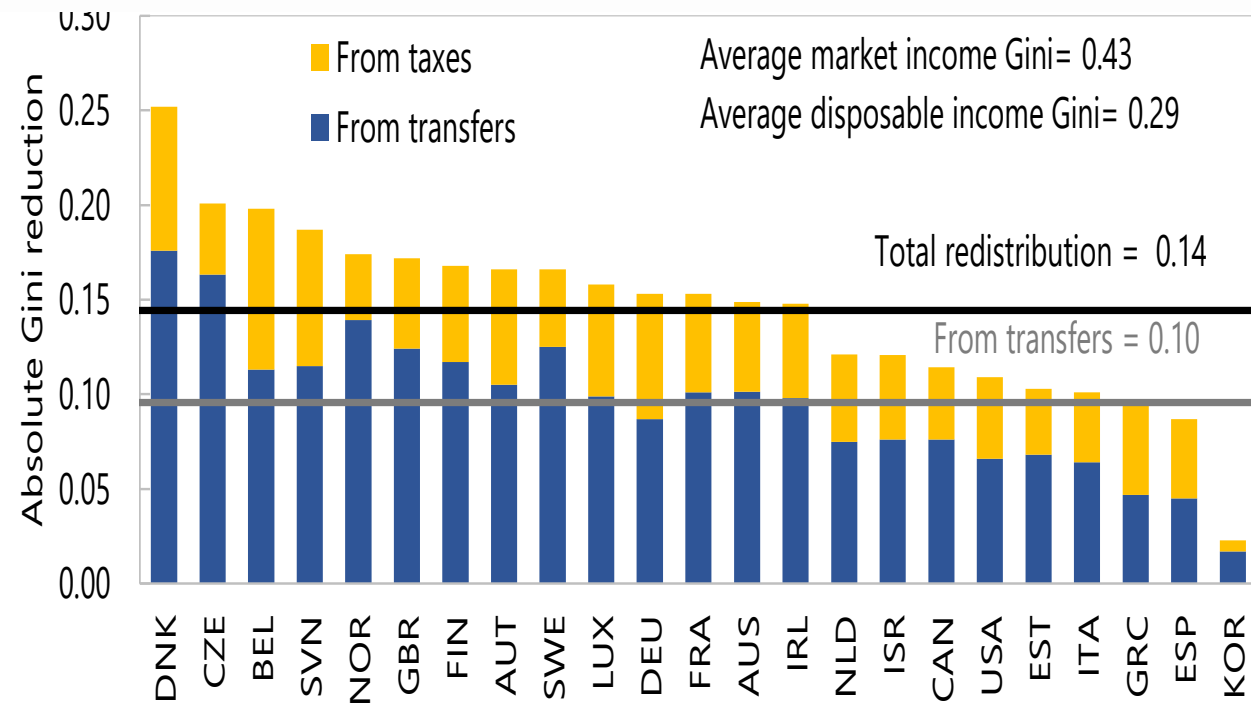




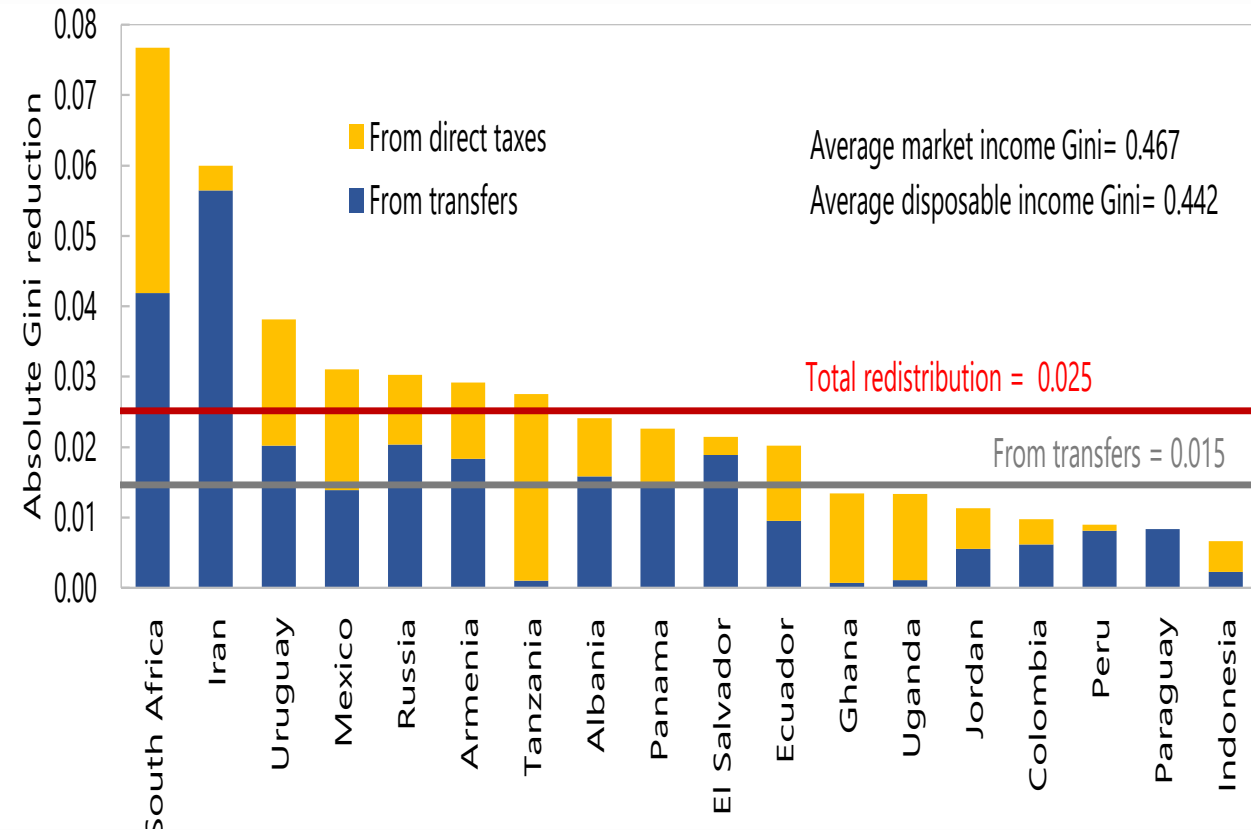
Fiscal Policy, Institutions, and Inclusive Growth

Redistributive Impact of Fiscal Policy

Advanced economies













































Developing countries



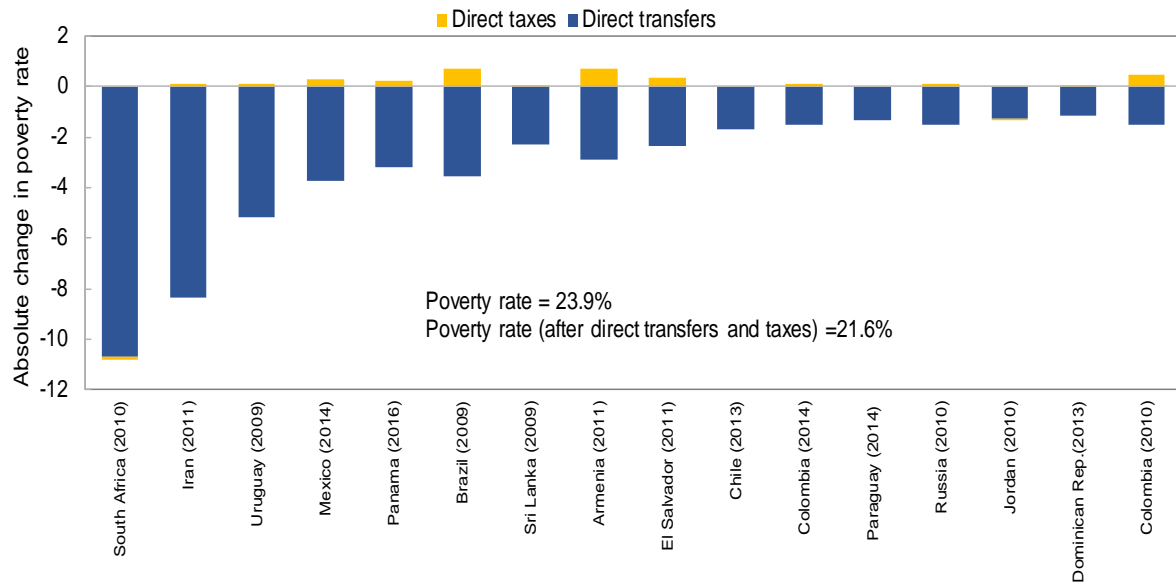
Source: Youhar, Jellema, Lustig, and Trabelsi, Chapter 13 of *How to Achieve Inclusive Growth*; and IMF Fiscal Monitor.

Tax Policy

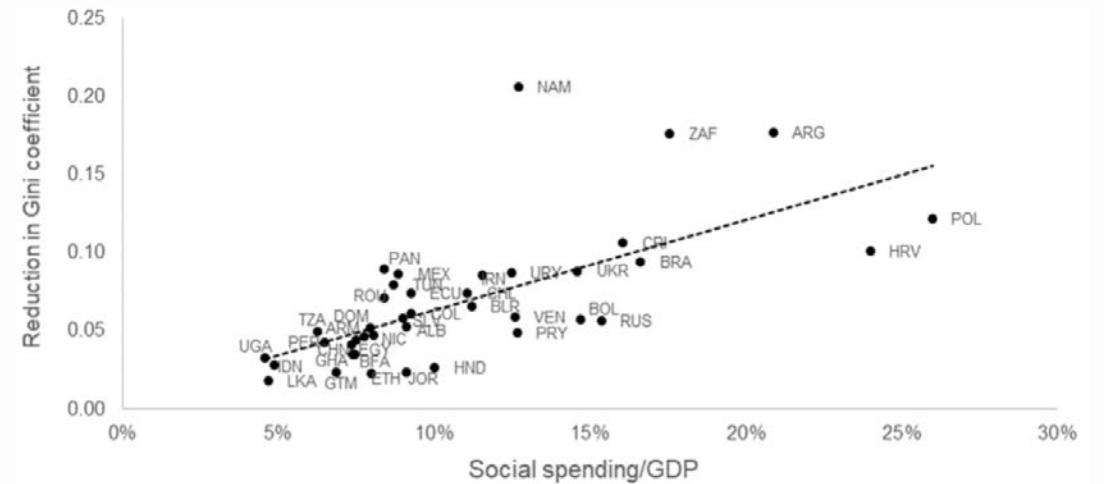
- ✓  12: Tax Policy
 -  I. Introduction
 - ✓  II. Taxation Principles
 -  A. Efficiency
 -  B. Equity
 -  C. Trade-off Between Equity and Efficiency
 -  D. Enforcement
 - ✓  III. Taxation of Labor Income
 -  A. Use Individual Income as the Tax Unit
 -  B. Choose an Appropriate PIT Threshold
 -  C. Provide Relief for Low-income Wage Earners
 -  D. Rationalize Tax Deductions
 -  E. Use a Stepwise Rising PIT Rate Schedule
 -  F. Set the Top PIT Rate at an Appropriate Level
- ✓  IV. Taxation of Capital Income
 -  A. Ensure Neutral Taxation of Entrepreneurial Income
 -  B. Tax Different Types of Investment Income Uniformly
 -  C. Minimize Tax Evasion
- ✓  V. Taxation of Wealth
 -  A. Strengthen Recurrent Property Taxes
 -  B. Consider a Net Wealth Tax (NWT) if other Capital Income Taxes are Hard to Impose
 -  C. Tax Inheritances and Gifts
- ✓  VI. Corporate Income Taxation (CIT)
 -  A. Design the CIT as a Rent Tax
 -  B. Consider Cost-Based Rather than Profit-Based Tax Incentives
 -  C. Adopt Tailored Anti-Tax Avoidance Measures
- ✓  VII. Consumption Taxation
 -  A. Design an Efficient VAT
 -  B. Impose Environmental Taxes
 -  C. Use Specific Excises
- ✓  VIII. How to Make It Happen?
 -  A. Ensure Strong Political Commitment and Leadership
 -  B. Build Consensus and Generate Public Support
 -  C. Develop a Clear and Broad Communication Strategy
 -  D. Emphasize the Joint Impact of Taxes and Expenditures
 -  E. Quantify the Impact of the Reform
 -  F. Sequence Reforms Well
 -  G. Recognize Institutional Constraints
 -  H. Build Effective Administrative Capacity
 -  I. Use Opportunities During Good Times
 -  J. Use Opportunities During Bad Times
-  References

Fiscal Policy, Poverty, and Inequality

Impact of Fiscal Policy on Poverty Rate in Developing Countries,
(2009 or latest available year)

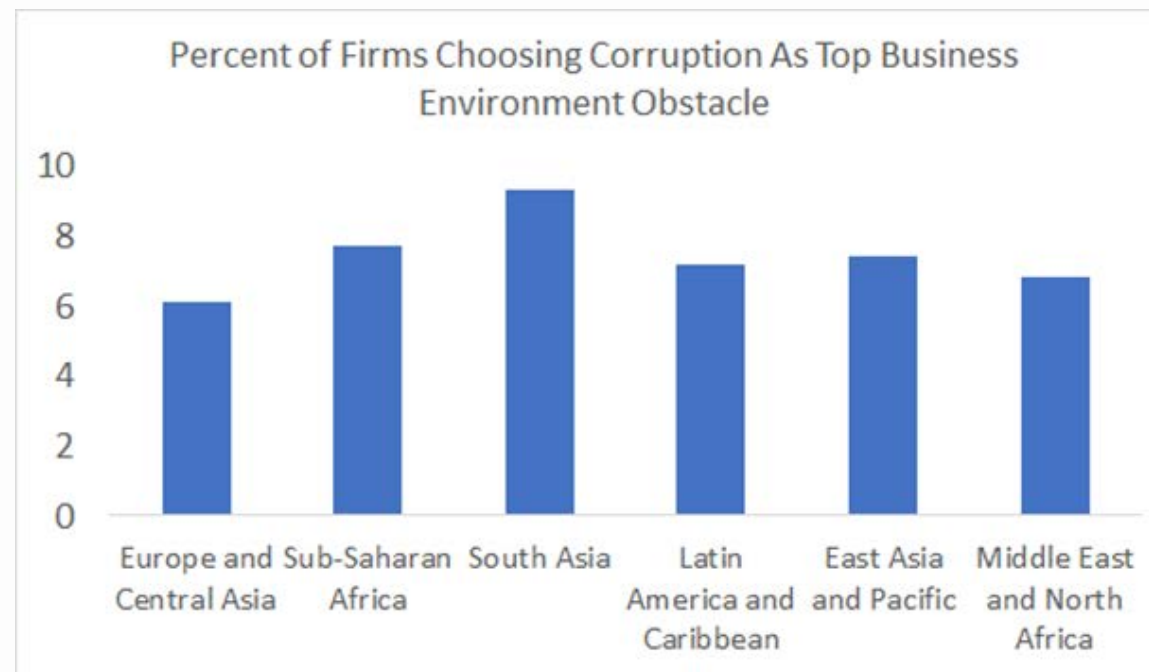


Inequality and Social Spending



Corruption Alone Has Sizeable Macroeconomic Impact

- [IMF, 2016](#): \$1.5-2 trillion annually is paid in bribes
- [TI Global Corruption Barometer 2017](#): 1 in 4 people pay bribes for public services
- Corruption is one of top obstacles to do business across the world:



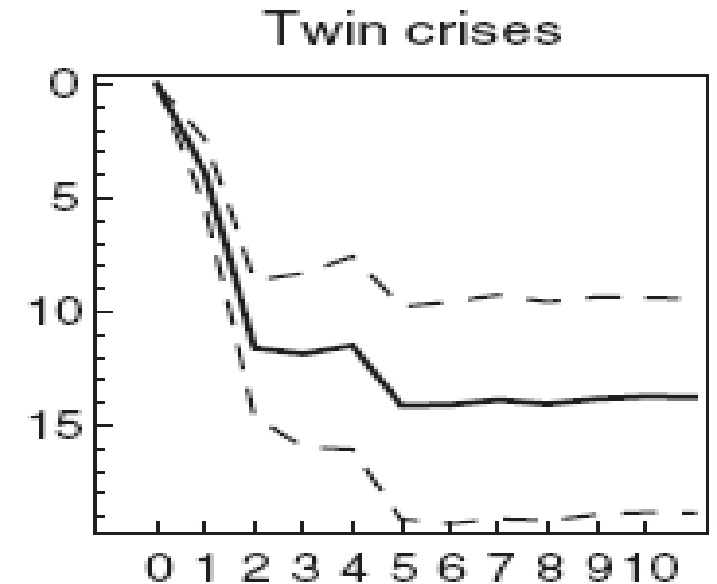
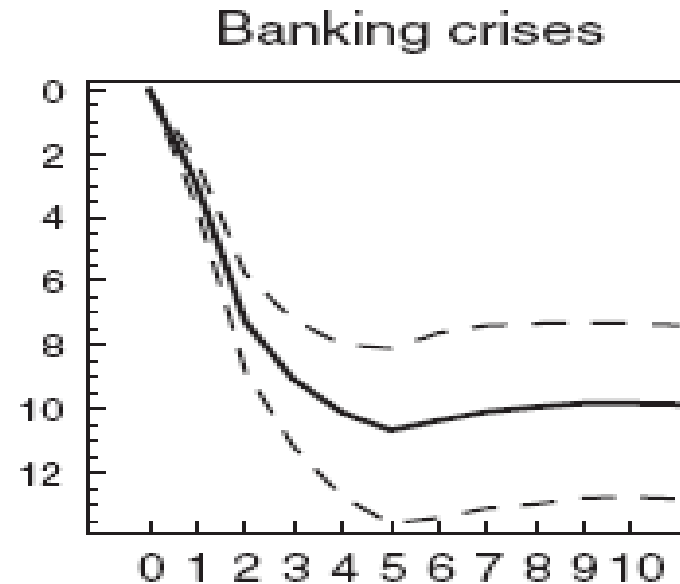
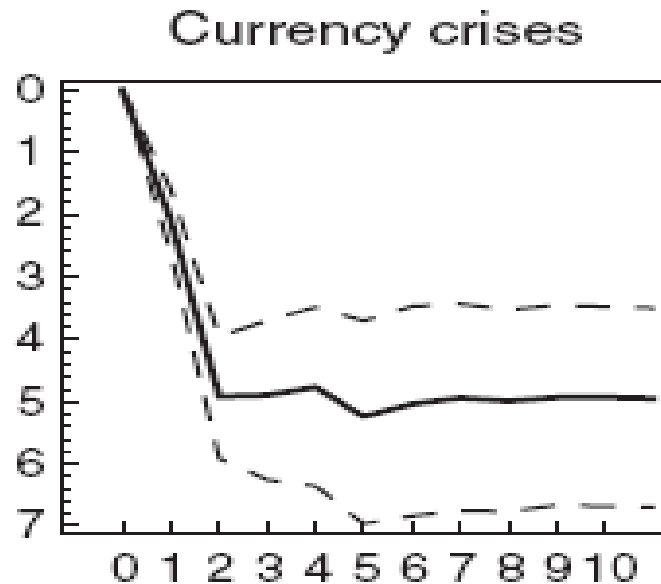
Source: World Bank Enterprise Surveys, average over all surveys in 2009-2019



Macro Volatility and Inclusive Growth

BOP and banking crises generate persistent output losses

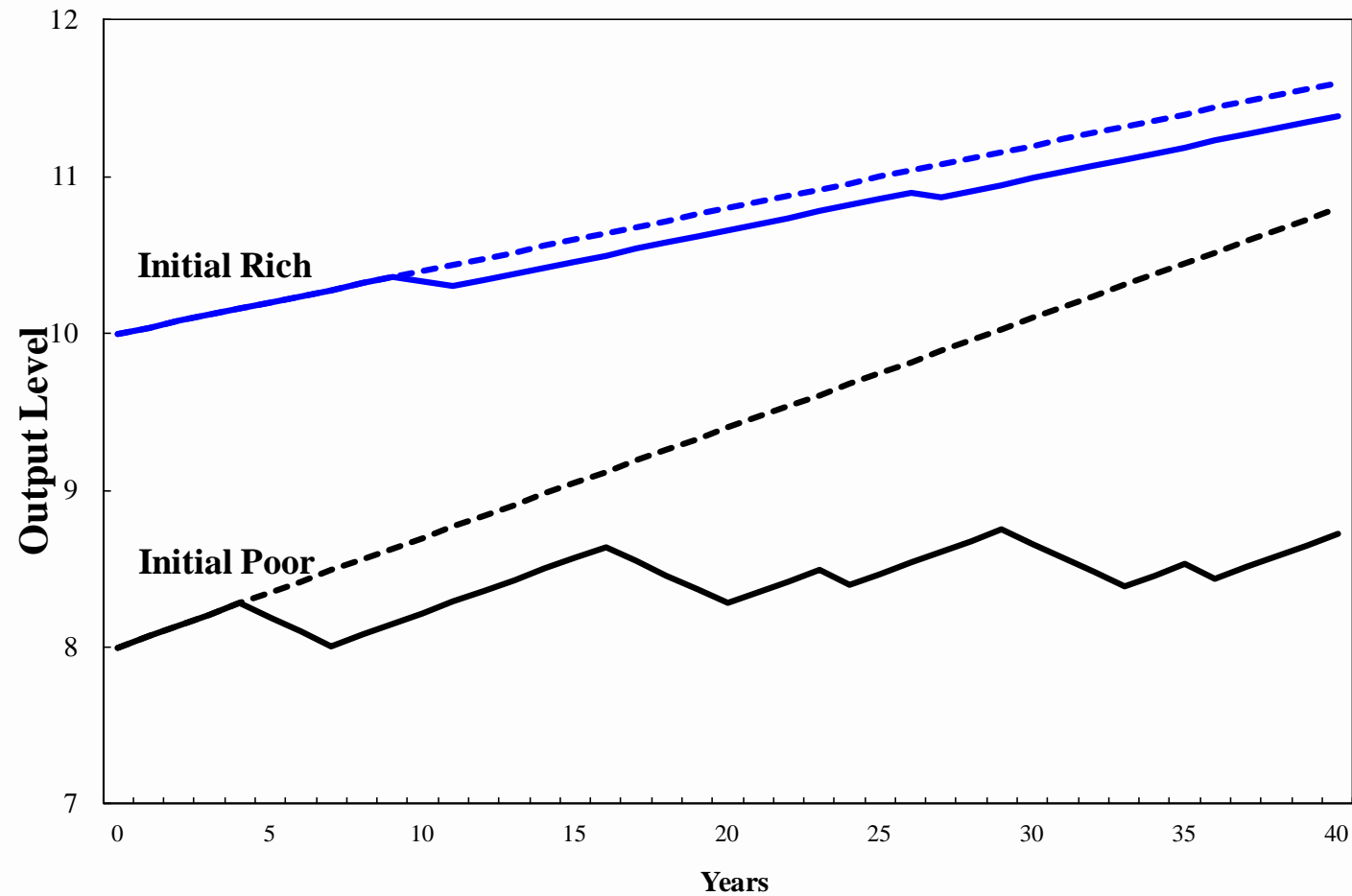
Output relative to baseline



Cerra and Saxena, "Growth Dynamics: The Myth of Economic Recovery,"
American Economic Review, March 2008

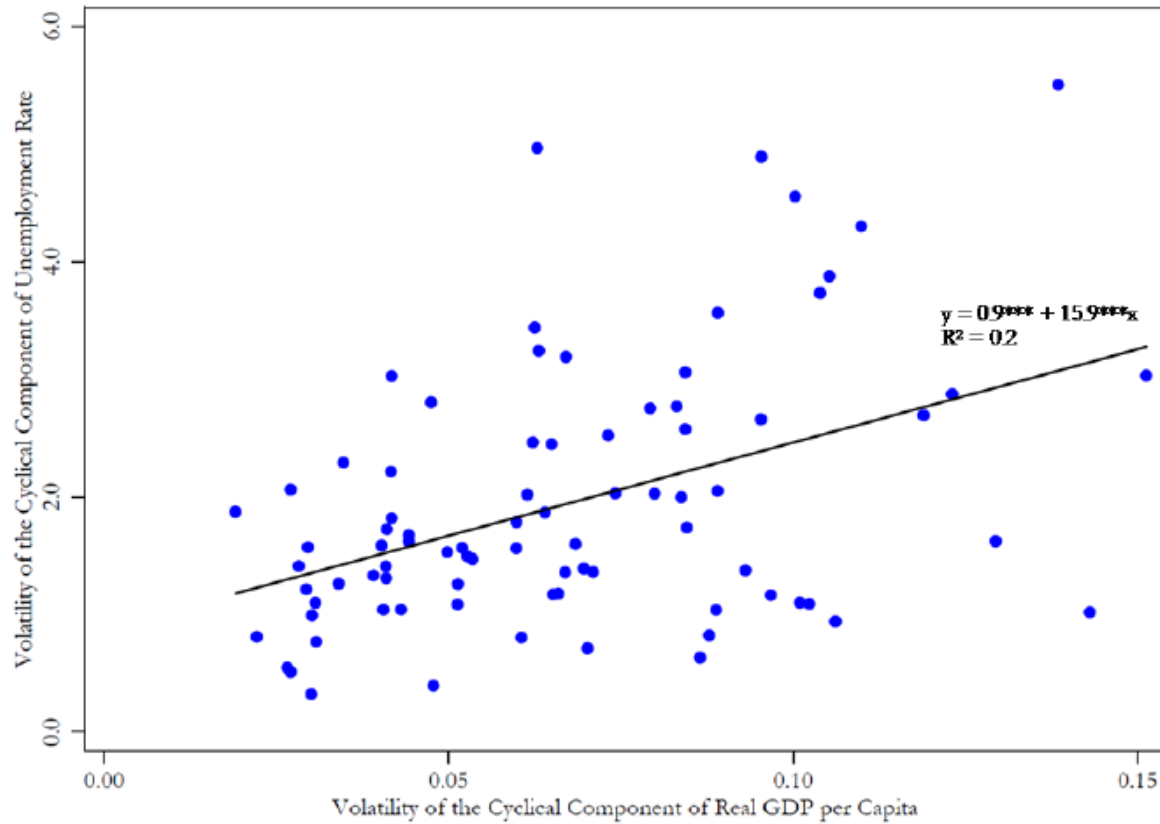
Macroeconomic Instability Leads to Divergence

Stylized Model of Development

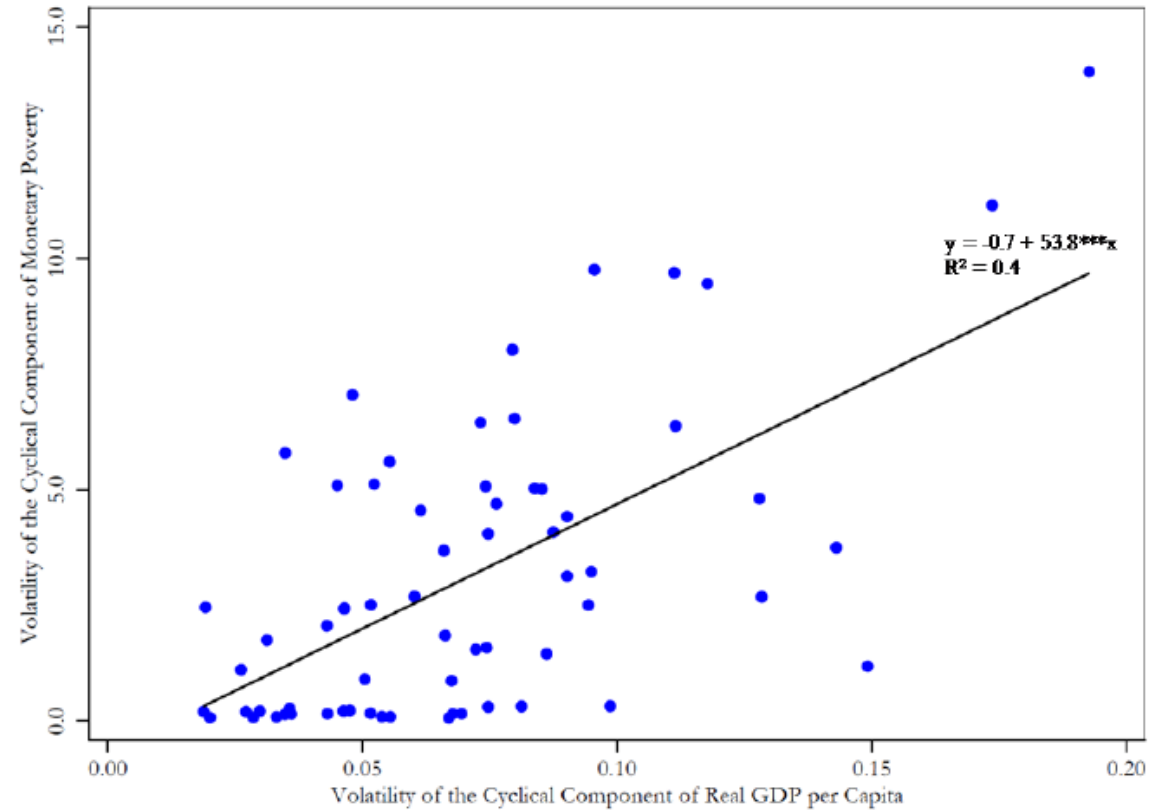


Poverty and unemployment: Highly sensitive to macro volatility

Panel A. Unemployment Rate



Panel C. Monetary Poverty

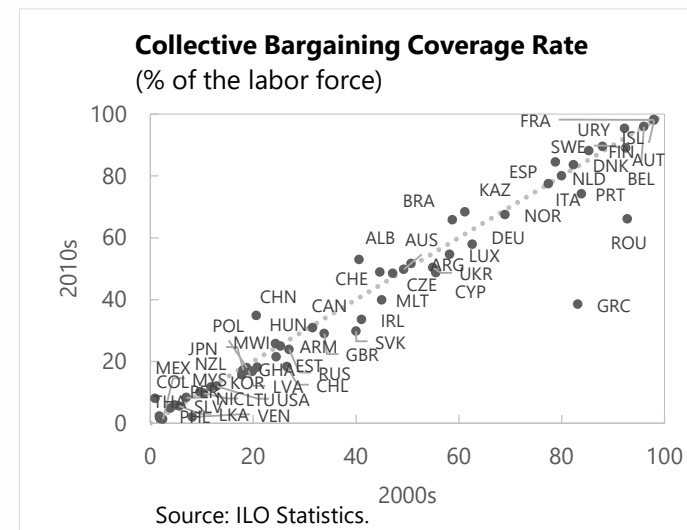
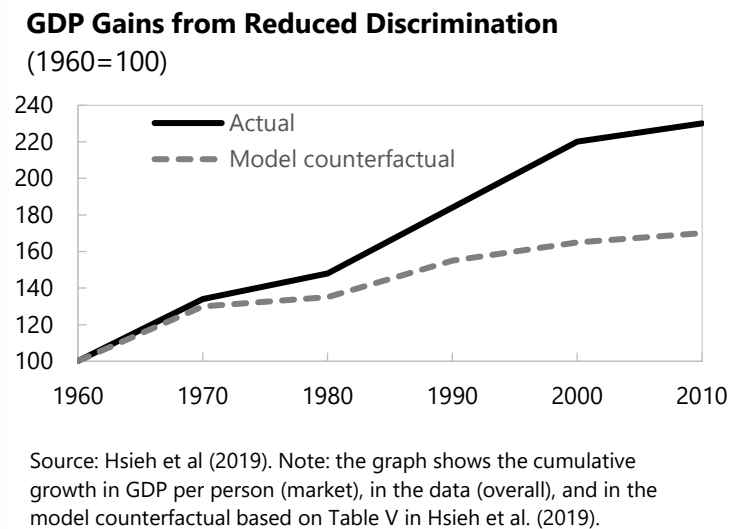
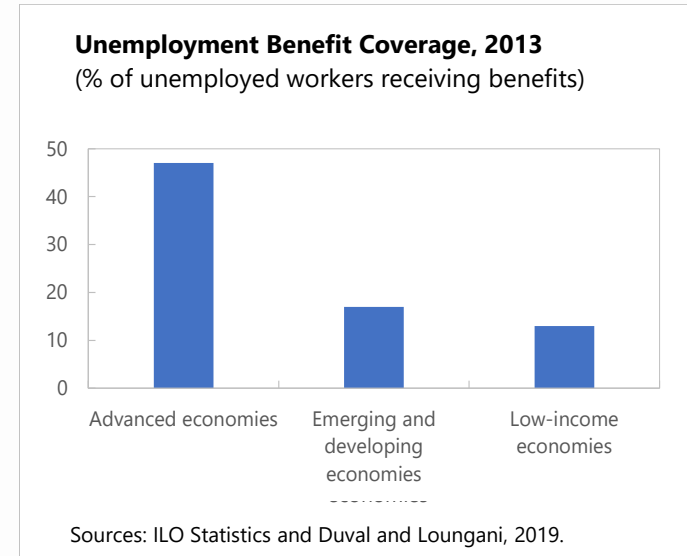
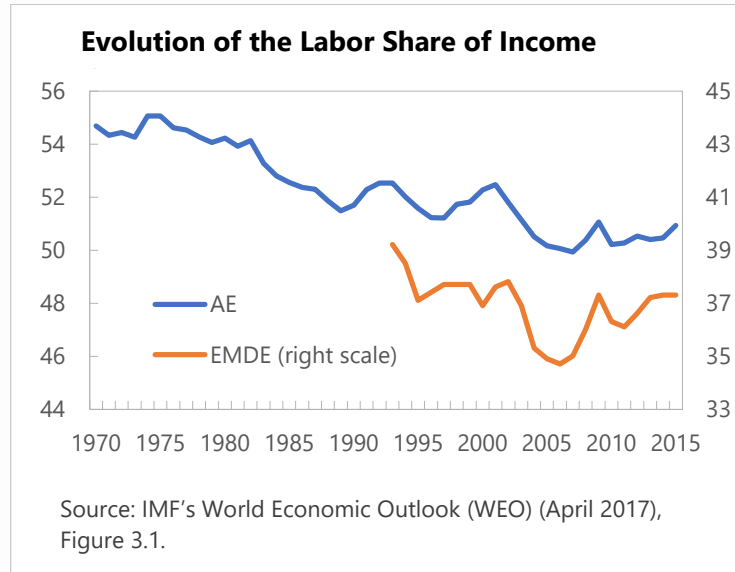


Source: Camarena et al, 2019 "Fooled by the cycle: Permanent vs. cyclical improvements in social indicators" NBER WP



Labor, Gender, Technology, and Finance

Lack of Labor Market Inclusiveness Has Many Dimensions



Gender

Legal Framework

- Eliminate discriminatory laws
- Civil rights (domestic violence, child marriage)
- Property rights (disjoint ownership and equal inheritance rights)
- Access to education
- Design laws to define digital worker's rights

Fiscal

- Review and amend tax code
- Eliminate discriminatory taxes
- Introduce Gender budgeting
- Set up gender-response expenditures
- Invest in child and elder care
- Incentives for women in STEM
- Invest in digital infrastructure accessibility for tele-work

Labor Market

- Subscribe to ILO conventions
- Organize Active LP
- Retraining programs, especially after childbirth
- Financial and digital literacy
- Provide “long” paid and no transferable parental leave to fathers/male partners

Education campaign

- Introduce quotas (political and corporate)
- Anti-discriminatory education: information campaigns against stereotypes. TV programs with educational and entertaining content against stereotypes
- Provide access to contraception and educate to its use

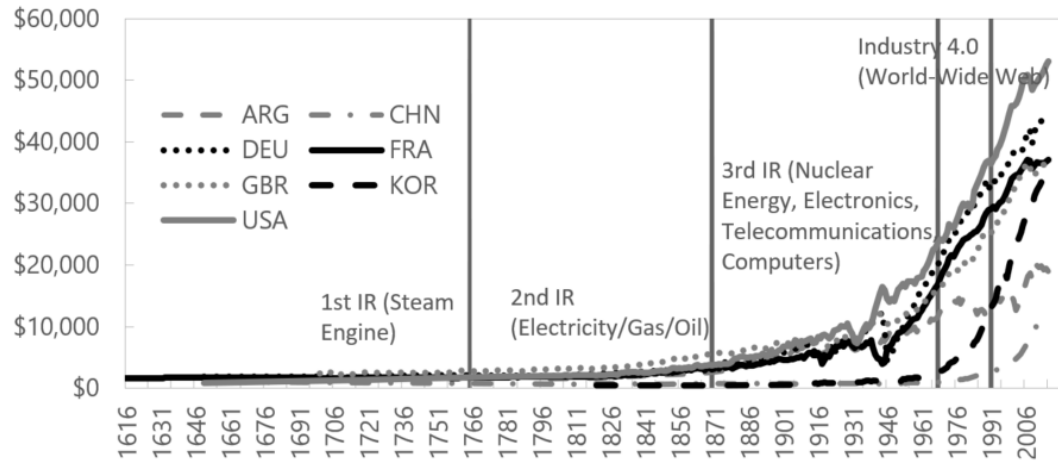
Financial

- Provide incentives to banks to promote financial access for women
- Develop wireless payment systems

Advances in Technology Have Benefits and Risks for Inclusion

GDP Per Capita, 1616 to 2016

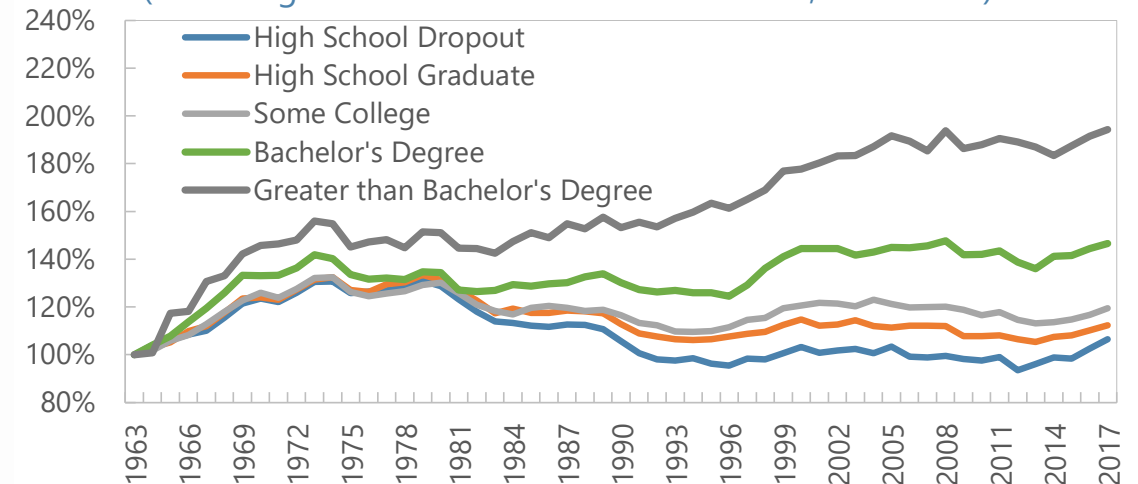
(Adjusted for inflation, in 2011 international- $\text{\$}$)



Source: Maddison Project Database (2018). Note: These series are adjusted for price differences between countries based on only a single benchmark year, in 2011.

Rising Wage-Skill Premia in the U.S.

(Real Wages of Full Time U.S. Male Workers, 1963=100)



Source: Autor, David H., *Work of the Past, Work of the Future* (February 2019). NBER Working Paper No. w25588

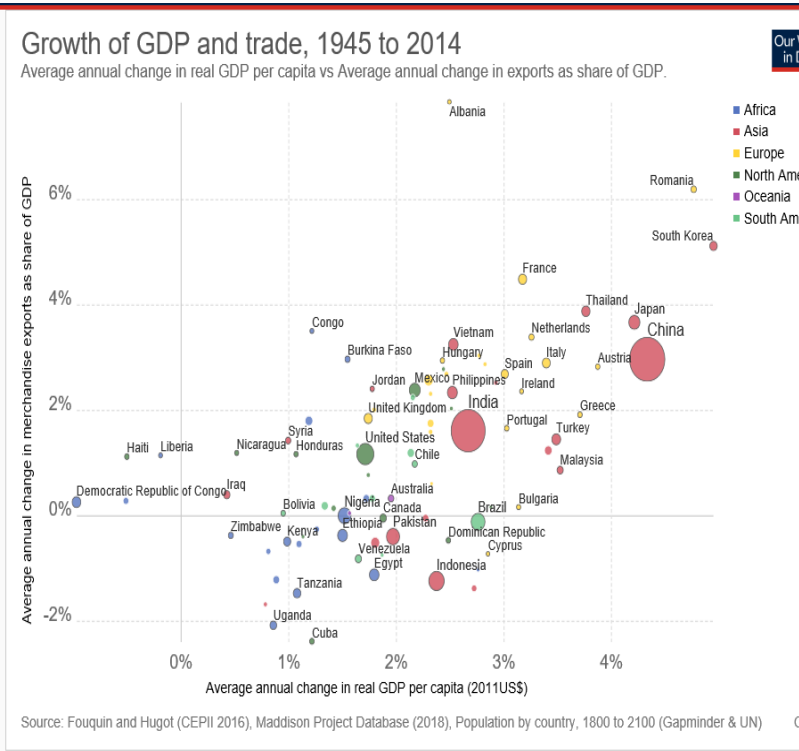
Financial Inclusion

- Functions of finance
- Frictions
 - ▶ Asymmetric information
 - ▶ Moral hazard
 - ▶ Credit access
 - ▶ Collateral constraints
 - ▶ Inefficient intermediation
- Measures for HHs
 - ▶ Simplify documentation
 - ▶ Govt payments
- ▶ IT infrastructure for mobile money
- ▶ Financial literacy
- Measures for MSME
 - ▶ Financial education for entrepreneurs
 - ▶ Information – credit bureaus
 - ▶ Collateral registries

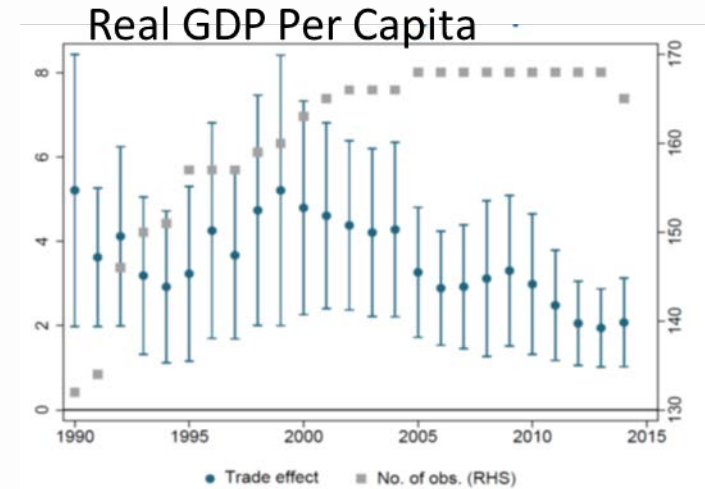


Globalization

Trade openness is associated with higher growth



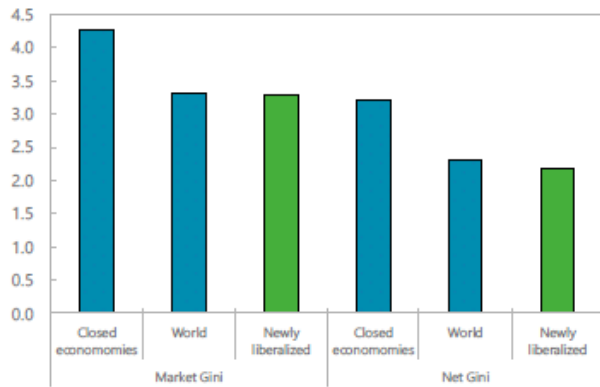
Growth tends to rise after trade is liberalized...



Trade slightly reduces inequality in the aggregate

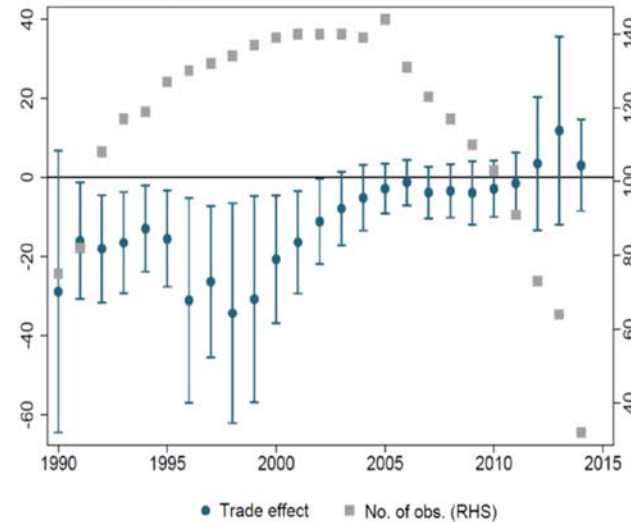
Figure 2. Inequality and Trade Liberalization

(Change in Gini coefficient 10 years before and after trade liberalization)

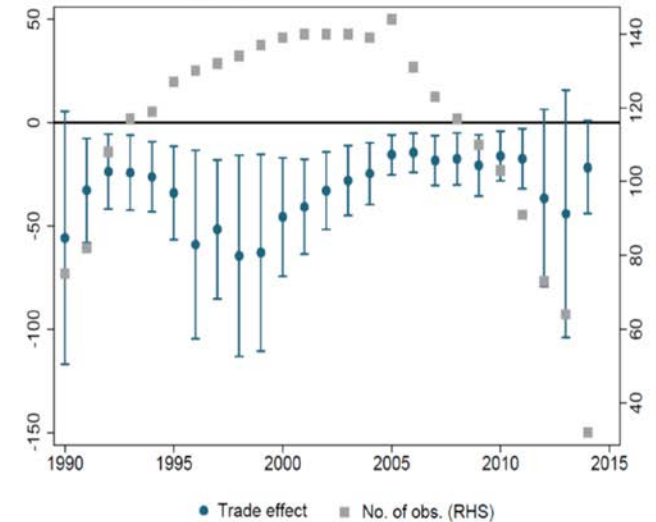


Sources: Beaton, Cebotari, and Komaromi (2017); SWIID, Wacziarg and Welch (2008) and IMF staff calculations.

(c) Market Gini coefficient



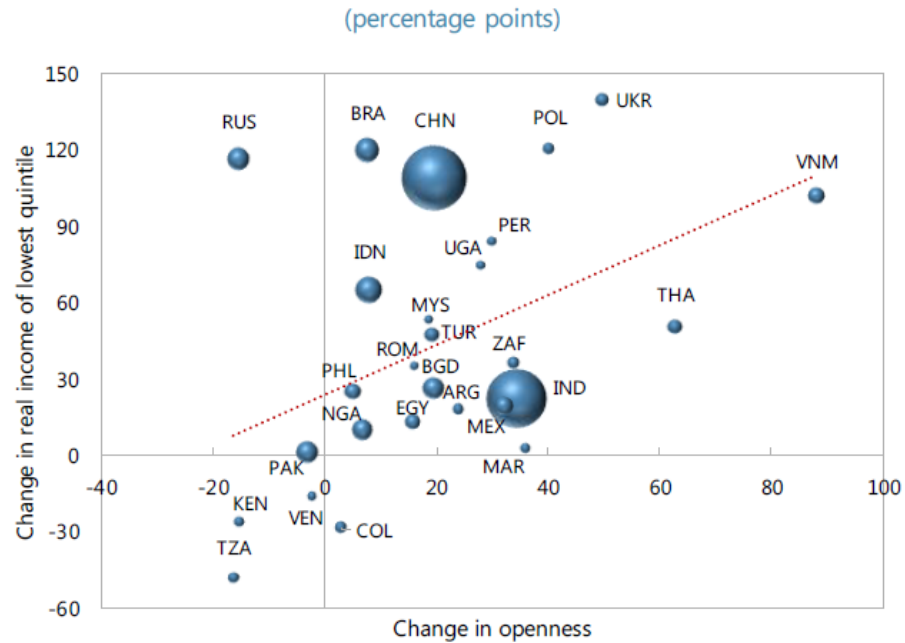
(d) Net Gini coefficient



Source: Cerdeiro and Komaromi, IMF, 2017

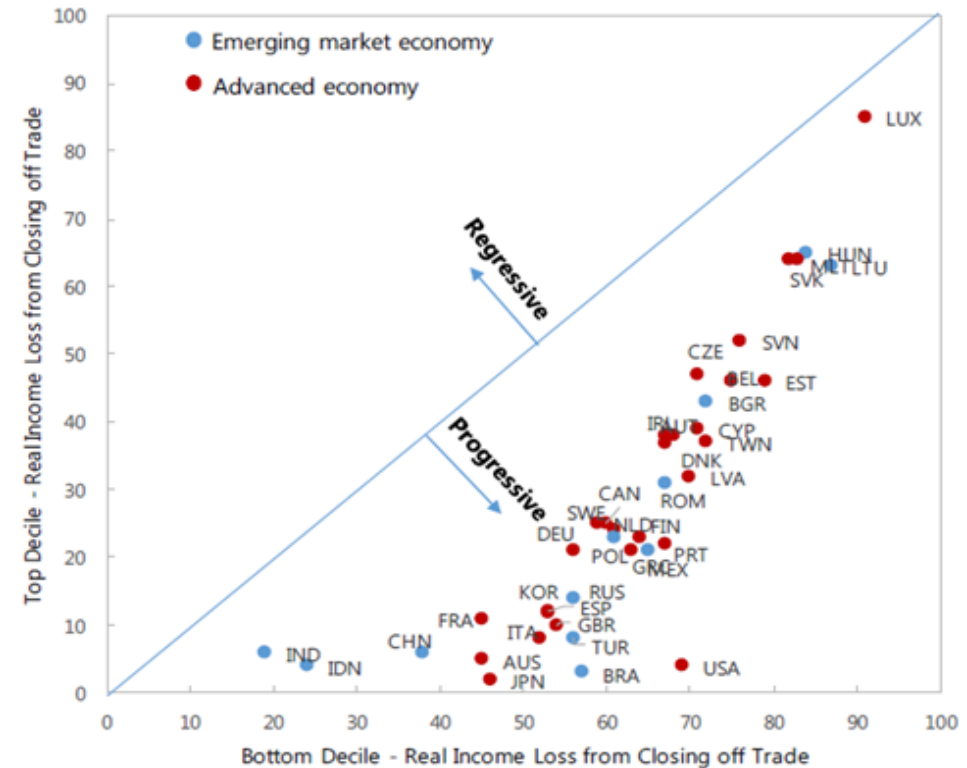
Trade provides gains for the poor

FIGURE A.1. Change in Openness and Income of the Poor, 1993-2008



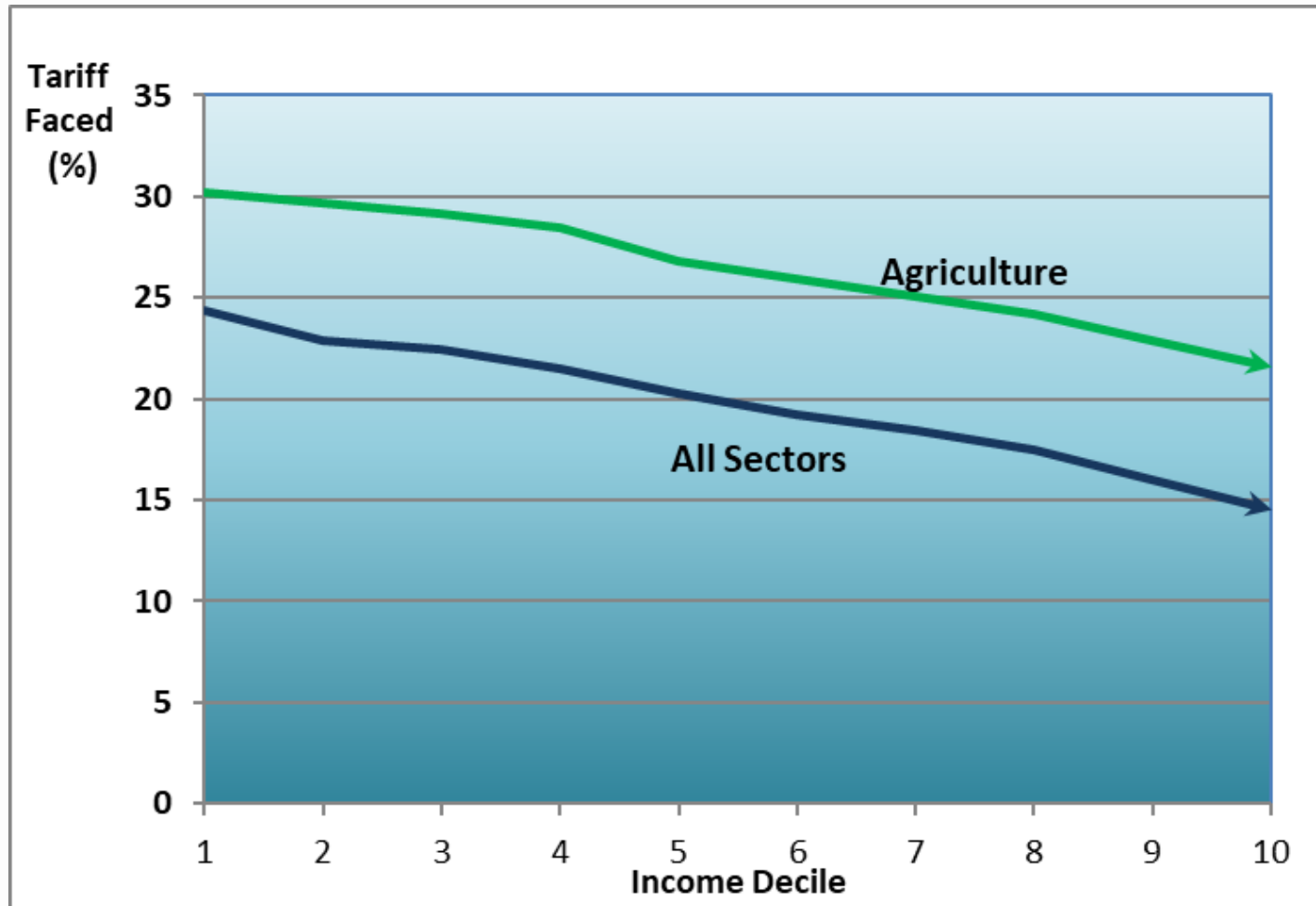
Source: Authors' calculations based on Lakner-Milanovic (2013) World Panel Income Distribution dataset, and World Development Indicators.
 Note: EMDEs with average population greater than 20 million. Dot size is proportional to population.

FIGURE 11. Gains from Trade for Bottom and Top Deciles



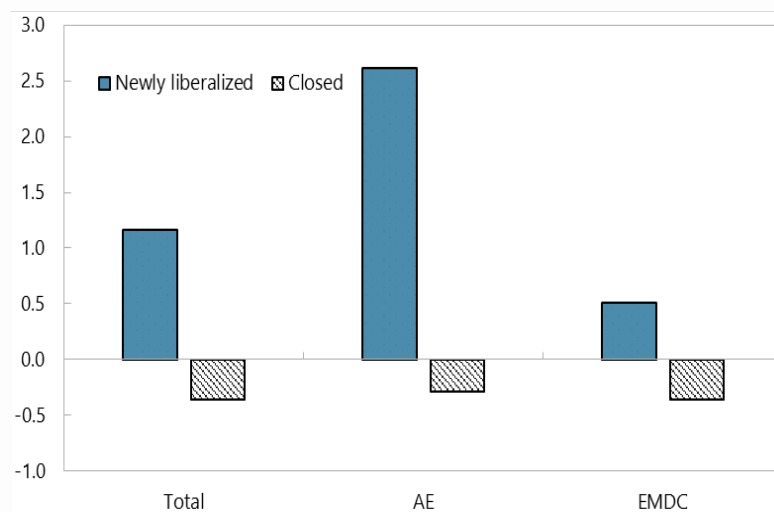
Example: Compared to existing trade patterns, in Germany (DEU) the real income of the poorest 10 percent of the population would be 56 percent lower if no trade was taking place; the gap for the richest 10 percent is far smaller (21 percent).
 Source: Fajgelbaum and Khandelwal (2016, Table V). Country classification is from WEO.

Tariff faced by income decile in agriculture and averaged across all sectors (India)



Financial Globalization and Inequality

Figure 3. Financial Globalization and Inequality
(Change in Gini Index after Capital Account Liberalization, percent)

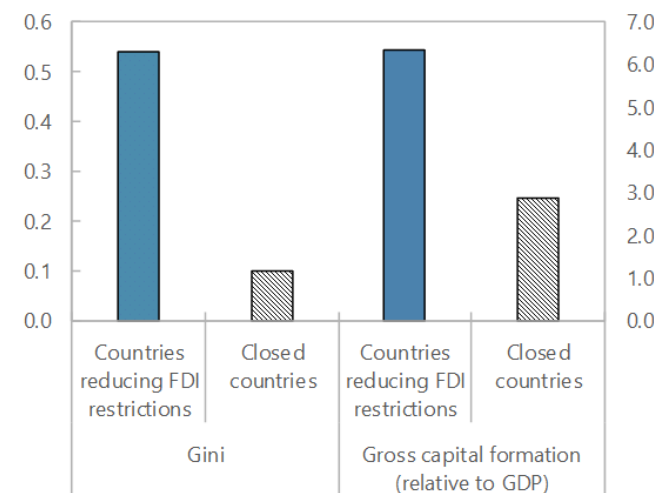


Sources: Chinn-Ito (2006), SWIID, Lane and Milesi-Ferretti (2018), and authors' calculations.

Notes: The figure shows the median change in the average market Gini index during the 10-year periods before and after capital account liberalization. Newly liberalized countries correspond to those liberalizing their capital account according to the methodology described in Figure 1. Closed countries are those with Chinn-Ito Index that is below the lowest value of the index at the time of capital account liberalization across episodes and those that do not liberalize their capital account over the following 10 years.

Figure 4. EMDC: Openness to FDI, Inequality and Investment

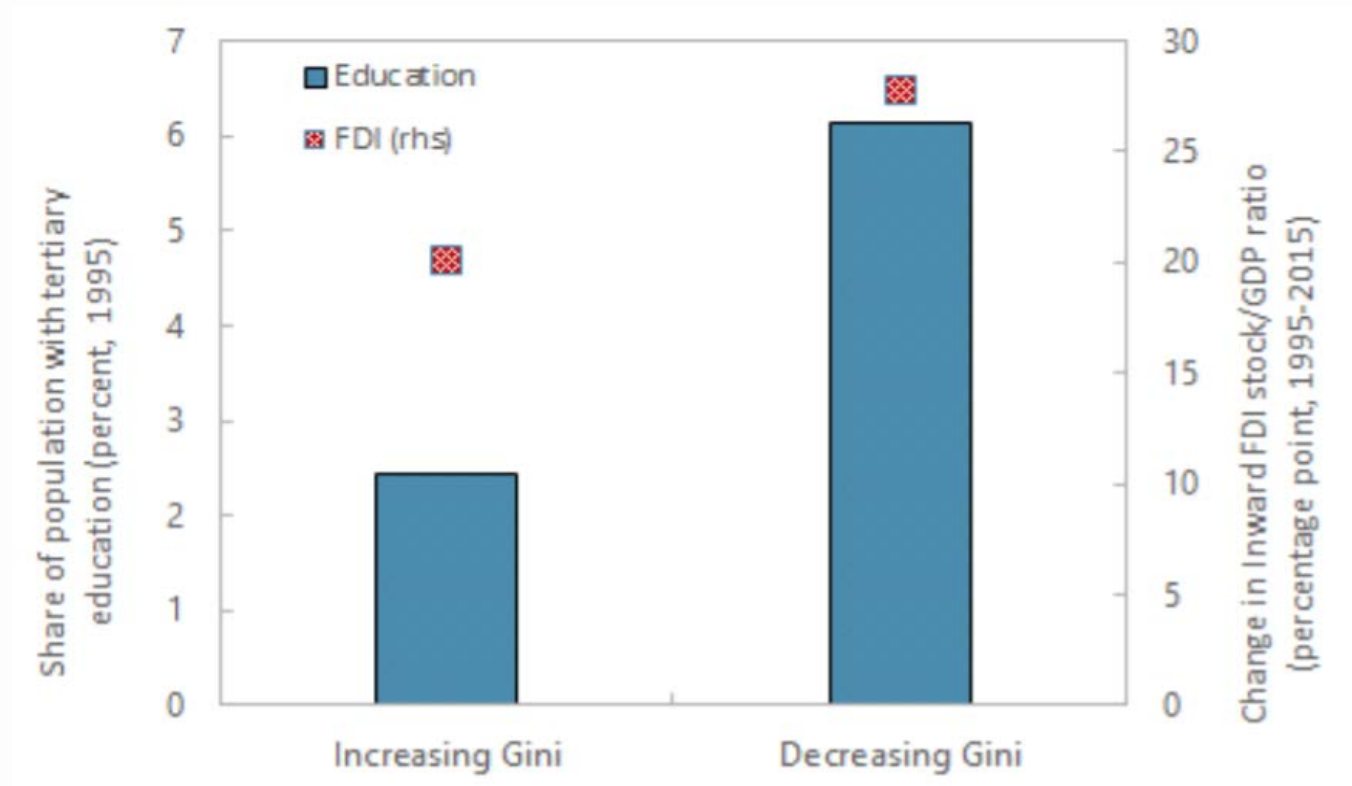
Change in inequality and investments after FDI liberalization (percent) 1/



Source: Fernandez et al (2016), authors' calculations

1/ The figure shows the median change in the average market Gini index and gross capital formation (as share in GDP) during the 10-year periods before and after inward FDI liberalization. Inward FDI liberalization is defined on the basis of a decline in the direct investment inflow restrictions sub-index of the Fernandez-Klein-Rebucci-Schindler-Urbe index. Change in Gini and gross capital formation/GDP is shown on the left- and right-hand-side axis, respectively.

Financial Globalization, Education, and Inequality



Migration

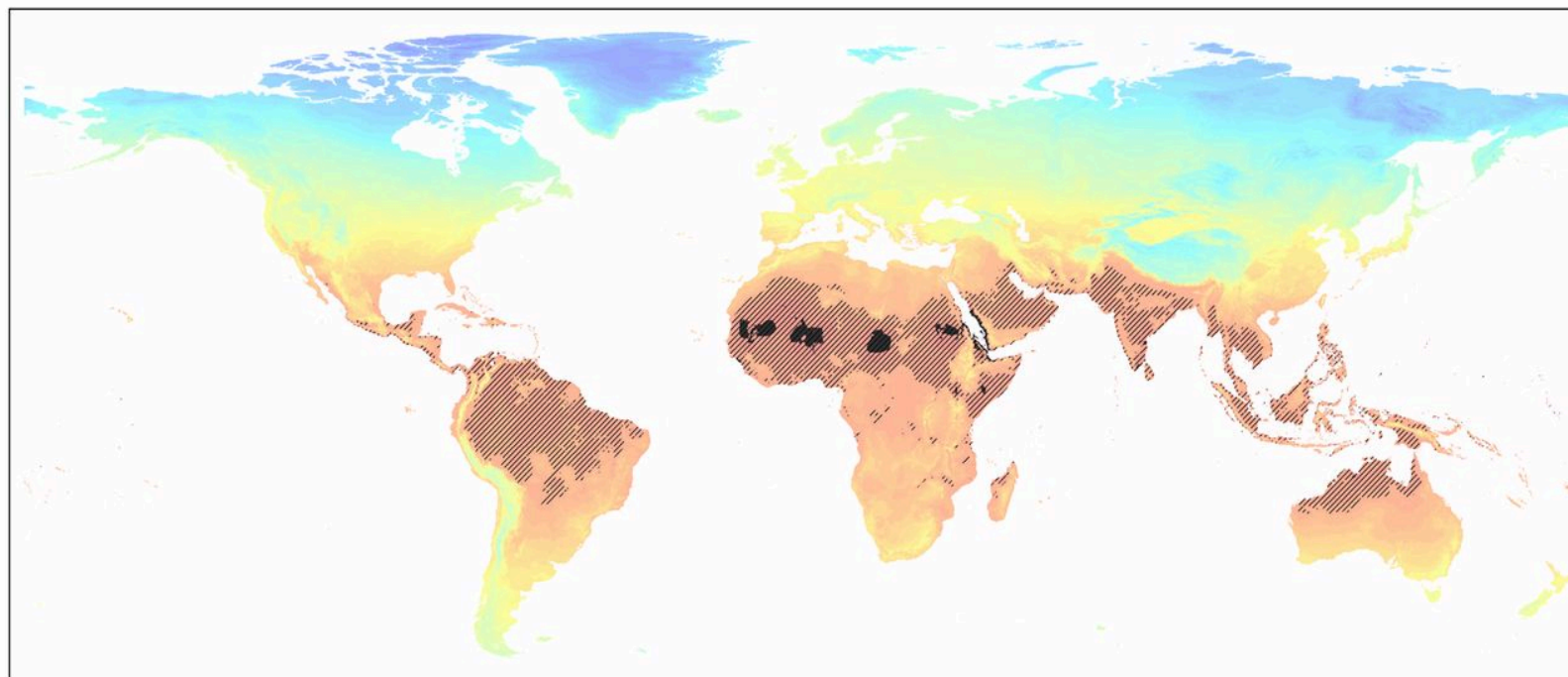
- Impact on migrants
- Impact on destination country
- Impact on origin country
 - ▶ Brain drain
 - ▶ Remittances
 - ▶ Diaspora leading to investment, trade, and technology transfers



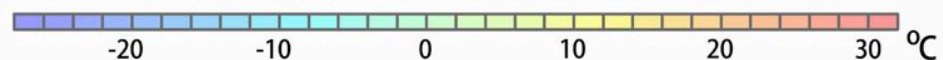
Climate Change

Business-As-Usual Cannot Continue: Climate Action As Insurance Against Catastrophic Risks

BAU: Billions living in areas hotter than 29°C by 2070



Mean annual temperature



Source: reprinted from (Xu, Kohler, Lenton, Svenning, & Scheffler, 2020). Small dark areas are those with mean average temperature (MAT) of over 29°C at present climate. Shaded areas are those with expected MAT of over 29°C by 2070 under RCP8.5 scenario. Background colors represent current MATs.

Source: Bhattacharya, Ivanyna, Oman, and Stern, Chapter 20 of *How to Achieve Inclusive Growth*

Climate Action: Unlocking Inclusive Growth Story of the 21st Century

Sustainability and environmental co-benefits

Development needs



Lower inequality;
decent living
standards for all

Major structural transformation in key economic systems:

Clean energy
systems

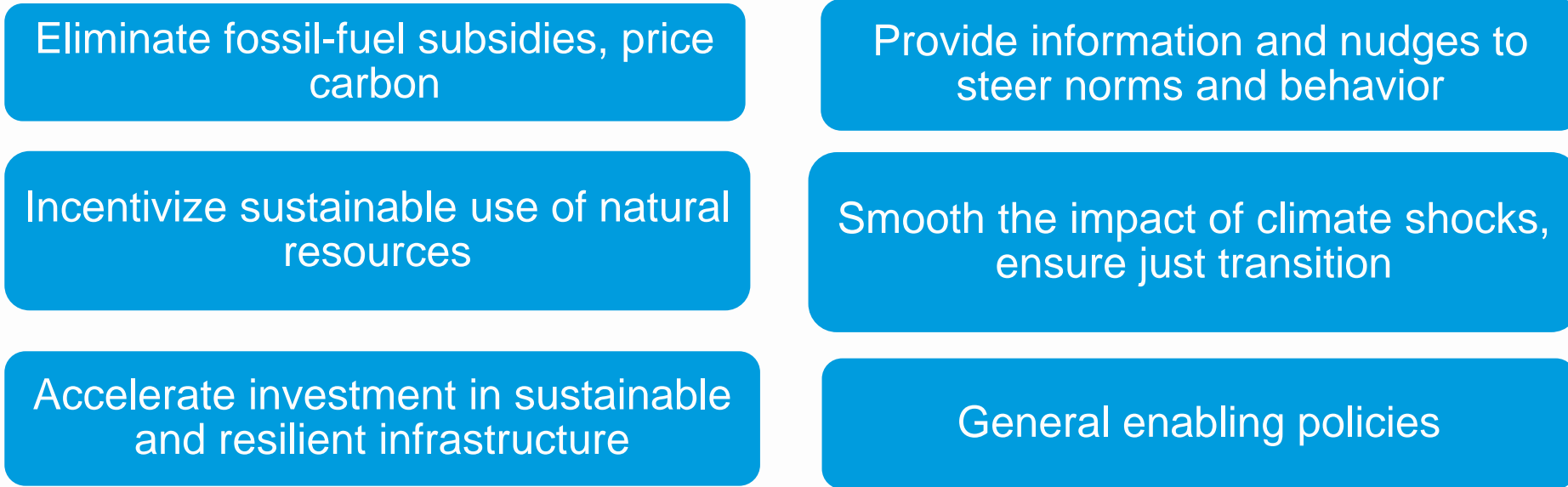
Smarter urban
development

Sustainable
land use

Wise water
management

Circular
economy

Broad Policy Package to Enable the Transition



- ✓ Possible to grow prosperity and protect nature at the same time
 - ✓ Large overlap between mitigation and adaptation policies
 - ✓ Large scope to boost both inclusion and sustainability



Other Issues

Regional Disparities and Natural Resources

- Regional Disparities
 - ▶ Spatially Blind
 - ▶ Spatially Connective
 - ▶ Spatially Targeted
- Resource Wealth and Fragility
 - ▶ Resource curse
 - ▶ Fiscal policy frameworks
 - ▶ Diversification
 - ▶ Conflict and fragility
 - ▶ Governance

Link to Book

<https://global.oup.com/academic/product/how-to-achieve-inclusive-growth-9780192846938?cc=us&lang=en&>

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Overview

Description

Table of Contents

Author Information

Reviews and Awards

How to Achieve Inclusive Growth

Edited by Valerie Cerra, Barry Eichengreen, Asmaa El-Ganainy, and Martin Schindler

- Analyses the paramount economic, social, and environmental policy challenges of our day
- Lays out a comprehensive and integrated framework for designing policies to combat economic disparities for current and future generations across the globe
- Draws on the expertise of top economists from around the world and on the policy experience of experts from leading international institutions
- Provides additional resources for policymakers to help them take next steps and tailor solutions to their specific conditions and needs
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Edited by Valerie Cerra, Barry Eichengreen, Asmaa El-Ganainy, and Martin Schindler



February 2022
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Valerie Cerra is an Assistant Director at the IMF.

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