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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Global Context
Two Centuries of Progress

Extreme Poverty

Democracy

Basic Education

Vaccination against diphtheria, pertussis (whooping cough), and tetanus

Literacy

Child Mortality

Source: Cerra, Chapter 1 of How to Achieve Inclusive Growth; and Max Roser, OurWorldInData.org, https://ourworldindata.org/a-history-of-global-living-conditions-in-5-charts
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)

<table>
<thead>
<tr>
<th>Age</th>
<th>Gender</th>
<th>Skill</th>
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</thead>
<tbody>
<tr>
<td>Prime-age</td>
<td>Men</td>
<td>High-skill</td>
</tr>
<tr>
<td>Youth</td>
<td>Women</td>
<td>Low-skill</td>
</tr>
</tbody>
</table>

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
Private Inputs
- Labor
- Capital
- Technology
- Markets

Domestic
- Governance
- Politics
- Macro-stability
- Public services
- Taxes & transfers

Global
- Migration
- Capital Flows
- Trade

Outcomes
- Gender
- Regions
- Generations
- Environment

Pre-fiscal Outcomes
Post-fiscal Outcomes

Domestic Global
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

- **Growth**
  - Employment, business opportunities $\uparrow$
  - Resources for redistribution $\uparrow$
  - Asymmetric growth in different sectors
  - Asymmetric growth in factor payments (capital, skills)

- **Inequality, poverty $\downarrow$**

Source: Cerra, Lama, and Loayza, Chapter 2 of How to Achieve Inclusive Growth
Tradeoffs? Inequality and Poverty $\rightarrow$ Growth

Mild inequality $\rightarrow$ Sign of meritocracy: Factors paid their MP $\rightarrow$ Growth $\uparrow$

Inequality, poverty $\rightarrow$
- Poverty traps, underutilization of $L$
- Crime $\uparrow$, health outcomes $\downarrow$
- Inefficient institutions, policies
- Trust $\downarrow$, collective action $\downarrow$, social conflict $\downarrow$

Growth $\downarrow$

Source: Cerra, Lama, and Loayza, Chapter 2 of How to Achieve Inclusive Growth
Fiscal Policy, Institutions, and Inclusive Growth
Redistributive Impact of Fiscal Policy

Advanced economies

Average market income Gini = 0.43
Average disposable income Gini = 0.29
Total redistribution = 0.14
From transfers = 0.10

Developing countries

Average market income Gini = 0.467
Average disposable income Gini = 0.442
Total redistribution = 0.025
From transfers = 0.015

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

Source: Abdelkader and de Mooij, Chapter 12 of How to Achieve Inclusive Growth.
Fiscal Policy, Poverty, and Inequality

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

- Direct taxes
- Direct transfers

Poverty rate = 23.9%
Poverty rate (after direct transfers and taxes) = 21.6%

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

Source: Ivanyna and Salemo, Chapter 10 of *How to Achieve Inclusive Growth*; and IMF Fiscal Monitor.
Macro Volatility and Inclusive Growth
BOP and banking crises generate persistent output losses

Macroeconomic Instability Leads to Divergence

Stylized Model of Development

Cerra and Saxena, IMF WP 17/250
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

Evolution of the Labor Share of Income

Source: IMF’s World Economic Outlook (WEO) (April 2017), Figure 3.1.

GDP Gains from Reduced Discrimination
(1960=100)

Unemployment Benefit Coverage, 2013
(% of unemployed workers receiving benefits)


Collective Bargaining Coverage Rate
(% of the labor force)

Source: ILO Statistics.
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

Source: Fernandez, Isakova, Luna, and Rambousek, Chapter 16 of How to Achieve Inclusive Growth.
Advances in Technology Have Benefits and Risks for Inclusion

Rising Wage-Skill Premia in the U.S.
(Real Wages of Full Time U.S. Male Workers, 1963=100)

Source: Korinek, Stiglitz, and Schindler, Chapter 5 of How to Achieve Inclusive Growth.
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

Source: Barajas, Beck, Belhaj, and Ben Naceur, Chapter 4 of How to Achieve Inclusive Growth.
Globalization
Trade openness is associated with higher growth

Source: Beaton et al, IMF 2017

Source: Bacchetta, Cerra, Piermartini, and Smeets, Chapter 7 of How to Achieve Inclusive Growth
Trade slightly reduces inequality in the aggregate.

Source: Bacchetta, Cerra, Piermartini, and Smeets, Chapter 7 of *How to Achieve Inclusive Growth*.

Trade provides gains for the poor

Source: Bacchetta, Cerra, Pierrmartini, and Smeets, Chapter 7 of How to Achieve Inclusive Growth
Tariff faced by income decile in agriculture and averaged across all sectors (India)

Source: Bacchetta, Cerra, Piermartini, and Smeets, Chapter 7 of "How to Achieve Inclusive Growth"
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-Ulrich index. Change in Gini and gross capital formation/GDP is shown on the left- and right-hand-side axes, respectively.

Source: Eichengreen, Csonto, and El-Ganainy, Chapter 8 of How to Achieve Inclusive Growth
Financial Globalization, Education, and Inequality

Source: Eichengreen, Csonto, and El-Ganainy, Chapter 8 of How to Achieve Inclusive Growth
Migration

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

Source: Koczan, Peri, Pinat, and Rozhkov, Chapter 9 of *How to Achieve Inclusive Growth*
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

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, Ivunya, 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

Source: Bhattacharya, Ivanyna, Oman, and Stern, Chapter 20 of How to Achieve Inclusive Growth
Broad Policy Package to Enable the Transition

- Eliminate fossil-fuel subsidies, price carbon
- Incentivize sustainable use of natural resources
- Accelerate investment in sustainable and resilient infrastructure
- Provide information and nudges to steer norms and behavior
- Smooth the impact of climate shocks, ensure just transition
- General enabling policies

✓ 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

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

Source: Floerkemeier, Spatafora, and Venables, Chapter 17; and Pouokam, Chapter 19 of How to Achieve Inclusive Growth
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How to Achieve Inclusive Growth
Edited by Valerie Cerra, Barry Eichengreen, Asmaa El-Ganainy, and Martin Schindler

Rising inequality and widespread poverty, social unrest and polarization, gender and ethnic disparities, declining social mobility, economic fragility, imbalanced growth due to technology and globalization, and existential danger from climate change are urgent global concerns of our day. Leading academic economists have partnered with experts from several international institutions to explain the sources and scale of these challenges.

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