G-24 Special Workshop on Growth and Reducing Inequality
Geneva, September 5-6, 2017

HIGHLIGHTS

General and Regional Trends and Perspectives

Income inequality among countries has been decreasing in recent decades due to strong growth in emerging market and developing countries (EMDCs), but global inequality – between world citizens -- and inequalities within countries have been rising.

There has been a decline in extreme poverty from 35 percent to 10.7 percent of the world's population between 1990 and 2013. Without improving income distribution at a faster rate, however, poverty cannot be ended by 2030.

Cross-country evidence associates growing inequality with lower growth and shorter growth spurts, but does not support the hypothesis that growing inequality is a necessary feature of accelerating economic growth.

Employment elasticity of growth has been declining between 1985 and 2014, and in many developing countries the share of low-skilled and high-skilled jobs in total employment has risen while the share of medium-skilled jobs has fallen.

In Asia, high growth achieved large reductions in poverty but was also accompanied with rising income inequality in the past 25 years. Rising inequality is attributed to technological progress and globalization leading to patterns of growth that favored capital over labor, skilled over unskilled workers and cities/coastal towns over rural/inland areas; social exclusion that led to unequal access to opportunity; and increase in wealth inequality.

In Latin America/Caribbean, income inequality went down during the 2000s. This was in part due to a reduction in hourly wage inequality, which was driven by the supply of skilled labor outpacing demand for it, leading to a reduction in education premia. In addition, progressive government transfers further contributed to lower income inequality. The labor share of income, lower than in developed countries, remained unchanged thus not being a contributor to lower income inequality. Recent findings based on data from returns on financial assets show that household surveys tend to understate inequality. Wealth inequality is, in fact, more entrenched than income inequality.

In Sub-Saharan Africa (SSA) half the population continues to live under the poverty line, and the growth elasticity of poverty is lower than in the rest of the world, underscoring the importance of addressing inequality. SSA faces an employment challenge, with a labor force that keeps growing as a share of the world's working age population, and the dominant source of employment being self-employment in agriculture. It also features unusually high rates of vulnerable employment and working poor – which amount to 8 times the number of those unemployed. Addressing this challenge requires managing resource-led growth, manufacturing malaise and informality.

Trade, Technology and Labor Markets

Technological progress and trade have improved productivity and growth overall, but their impacts on distribution and employment are mixed and hard to disaggregate.

Technology is now a dominant factor in investment globally, with amazing progress on automation, artificial intelligence and analytics. Many developing countries are in a steeply accelerating phase of digital adoption. Notable initiatives, such as those that improve primary health care systems and the delivery of quality education, among others, are supportive of inclusive growth. Other dynamics driven by technology exacerbate exclusionary trends.

Automation (and wider use of industrial robots) has a high potential for certain routine tasks (both high and low wage). In developing countries, for the moment, adoption of such technology may be slow, and may not pose an immediate threat to jobs, due to lower economic feasibility. However, increased technological content in production is expected to widen the divide between countries that have and do not have access to the new technology.

Developing countries will need to be prepared with policies to capture more opportunities from quality jobs and manage the impact of technological developments, as well as increased trade integration, on job losses. Among these are measures to improve education and skill acquisition and rethinking social safety nets. Reducing barriers to labor mobility, which are much higher in developing than in developed countries, will be important to reduce friction in labor adjustment. So will be complementary policies on gender, infrastructure, agricultural development, and strengthening labor market institutions to enhance workers' bargaining power. Boosting the competitiveness of small and medium enterprises can create better jobs. There is a need to better understand informality dimensions of policy interventions in developing countries. Support from international financial institutions, the World Trade Organization and International Labour Organization to countries to undertake these measures will also be needed.

Finally, the slowdown in global trade is well documented but the evidence also suggests a less supportive environment for exports from developing countries. These trends call for boosting global demand and strengthening the multilateral trade regime.

Finance and Monetary Policies

Evidence shows that financial openness policies are associated with increased income inequality. They also have had less positive effects on growth and poverty reduction than trade openness. Financial openness policies need to be implemented with caution, require a threshold of financial and institutional development and need to be complemented by redistributive measures.

Financial inclusion in Africa is shown to have had poverty and inequality reduction impacts, and positive effects on growth and on female participation in the labor force.

Conventional monetary policy in advanced countries has well-defined impacts on income inequality with contractionary and expansionary policies increasing and decreasing inequality, respectively.

In developing countries, research is less conclusive but evidence shows that achieving a competitive real exchange rate is positively correlated with long-term growth and employment creation.

Research from a project covering seven country case studies shows National Development Banks (NDBs) playing an important role in providing patient long term finance for structural transformation, counter-cyclical finance, deepening and improving financial markets for development-friendly instruments, supporting greater inclusion and financing global public goods. NDBs tend to work well when surrounded by good macroeconomic and financial policies, a clear development strategy and policy mandates that remain broadly stable over time.

Fiscal Policies

While fiscal policy is the main tool for governments to affect income distribution, many EMDCs face the challenge of fiscal consolidation but little is known about its effects in EMDCs.

In a new IMF study of 103 EMDCs on the distributional effects of government spending shocks on inequality, evidence shows that contractionary (expansionary) government spending increases (reduces) inequality, and the effect is quite large and long-lasting. The effect is larger for government consumption than for public investments. However, both lead to improvements for the poor when expansionary.

Tax-based consolidations – fiscal consolidations in which tax hikes are larger than spending cuts, reduce inequality but at a cost of lower output and employment, based on a study of 16 OECD countries.

Over the past two decades, in Latin America, an increase in tax-to-GDP and the increased contribution of direct taxes over indirect taxes have led to lower inequality, though the effect is limited to the narrowing of the incomes at the higher end of the income distribution.

Tobacco taxation is key to financing the achievement of the Sustainable Development Goals. Tobacco taxes not only reduce tobacco consumption-related deaths and health risks, especially among lower-income households, but are also effective in increasing revenue without harming growth.

Finally, a presentation by the IMF discussed its engagement on inequality through analytical work, policy advice and capacity development. The focus on inequality in the Fund’s policy and operational work has been driven by a number of factors, including the effect of high levels of inequality on the sustainability of growth, the impact of growth- and stabilization-centric macroeconomic and structural policies on inequality and a growing interest on the subject from the Fund’s member countries.