Inclusive Growth: redistribution, access, participation

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Draft 1 May 2017

There is growing consensus that growth should be (more) inclusive. Few would disagree with the imperative that "economic growth … creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society", as defined by the OECD. Increasingly, also, voices are heard that inequality in turn can reduce growth potential. And many – including World Bank Chief Economist Kaushik Basu (2017), and Angus Deaton (2016) – fear that political and social orders may be undermined by the growing inequalities.[1]

Calls for inclusion come from both the Left and the populist right, as described for the US for example (Horowitz 2014). They are heard in different political regimes: for example both in India in the mid-2000s (Government of India 2006), and in the Chinese government`s emphasis on the need for a 'harmonious society' to balance its rapid growth.[2] Of course, the meanings attached to inclusion, and views on whether and how governments should respond to this differ. Recent political changes – notably Brexit, election in the US, state election in UP in India, the Arab Spring earlier – seemed to have amplified, and sometimes mystified these differences.

My contribution to the current debate on inclusive growth and this UN DESA session on 'Policies for Shared Prosperity and Inclusive Growth' makes two main points. First, it is critical that debates, policies and measurement move beyond the question of growth *and* inequality / redistribution, and focus on *how* growth is produced (i.e. 'beyond safety nets'). Second, I believe the development debate including that on inclusive growth has paid too little attention to perceptions of inequality, and social dialogue and the institutions that have traditionally mediated redistribution. We need to move beyond generalisations about links between inequalities and social unrest or movements, and deepen the understanding of social contracts and dialogue, including the role the private sector plays in this.

Understanding both market and non-market institutions does not, I will argue in the conclusion, substitute for rights-based advocacy. Nor does the call for understanding perceptions and institutions substitute for good technical assessments of the impact of social policies and progressiveness of funding, but provides an important ingredient for debates on the likelihood of success and sustainability of innovative policies.

[1] Described in the recent OXFAM (2017) report for example; Milanovic (2016); Piketty (2014).
[2] See for example Knight (2012); de Haan (2010) discusses this in the context of responses to the 2007-08 financial crisis.

Redistribution is not inclusion. Or is it?

Debates and measurement of growth have evolved significantly.[3] From earlier narrow assessments of economic outputs, and utilitarian income-focused measures of well-being and poverty, there is now common acceptance of the importance of various domains of well-being, and of multi-dimensional measures such as the Human Development Index.

Since the late 1990s, inequality also has been 'back on the agenda' (Kanbur and Lustig 1999), after a period where the 'growth first' – and before that the stylized idea of a Kuznets U-curve which made growing inequalities seem inevitable – mantra had dominated. With the financial crisis, the Arab Spring, growing protests like the 99%, and increasingly private sector concerns, debates on growth are increasingly incorporating questions of redistribution.

These growing concerns about inequality are mirrored in the debates on gender equality, a theme that is core to our GrOW programme. These have now entered high-level debates including at the IMF, often with emphasis on the business case for addressing gender inequality (while debates on inequalities more generally have tended to be linked more to the instrumental case related to social and political unrest): Christine Lagarde (2016) a focus on women's empowerment an 'economic game changer'.

Across the debates and measurement, inequality can refer to both the domains of outcomes and access or opportunities. Most of the measures, including the multi-dimensional ones refer to 'outcomes', like income GINI coefficients (showing a global decline, increases in many or most countries), income shares of population segments, etc. Equally important but less commonly quantified are inequalities in access or opportunities. For example the World Bank's 'equality of opportunities approach (Ferreira and Gignoux 2008) focuses on characteristics 'beyond an individual's control' that influences well-being outcomes. Also, for example, the Women's Empowerment in Agriculture Index measures the empowerment, agency, and inclusion of women in the agricultural sector (IFPRI 2012).

The interest in measuring inequalities has grown alongside increased attention to social transfers. In Latin America in particular, cash transfers have become a key social policy instrument in most countries, with documented impact on reductions in poverty and inequality.[4] In Asia, such transfers have expanded as well, but somewhat less as government spending remains low, while in many low-income countries in Sub-Sahara Africa are piloting such instruments.

The notion of inclusive growth pushes the debate beyond the question of redistribution. The notion has been defined in various ways (Klasen 2010), and the way it has been used often reflects institutions' priorities, such as the Asian Development Bank's emphasis on using it in its sector investment, and the African Development Bank in response to the Arab Spring. Despite

[3] See de Haan (2015) for a more extensive description, and Figure 1 below for an overview of different approaches to measuring progress.

[4] Also, growing evidence that cash transfers do not need to reduce market incentives, and can enhance productive investments (Veras Soares and Robino 2015). Experimentation in Paraguay is now aiming to leverage the private sector to further scale success of graduation approaches.

these differences, the way the term has been used does push the debate beyond the question of 'benefits from' growth, to questions of how that growth is being generated.

The World Economic Forum (2016) has proposed a new approach to inclusive growth, which it defines as being about both the process and outcomes of growth and the extent to which this growth translates into broad-based improvements in living standards. Its inclusive growth report, first published in 2015 "presents a framework of measurable indicators across seven policy areas, each of which supports broad-based progress in living standards". The Forum's Policy and Institutional Indicators highlight countries scores in terms of (more-commonly used) indicators of education and basic services, but also assets and employment (reflecting economic opportunities), and corruption, financial intermediation, and fiscal transfers including tax codes (representing institutional design and performance). This moves beyond measures of outcomes and also assessing the pathways through which these come about.

This opens up the space for better debate, and need for research, on the different ways in which equalities can arise, inequalities can be addressed, and why there ought not to be a trade-off between reducing inequality and economic growth. To illustrate the importance of this, it is useful to look at the varying ways in which countries (try to) reduce inequalities (see figure 6 of the Forum's 2017 Inclusive Growth Report). Levels of inequality vary greatly across countries, and the impact of public transfers on inequalities can vary as well. East Asian countries continue to have levels of low public transfers, and for example in South Korea continued low inequality is achieved without major (non-market) transfers (apparently creating a distinct pattern compared to earlier welfare states described by Lindert 2004). Germany and Switzerland have similar levels of inequality, but public transfers play a much bigger role in Germany than in Switzerland.

It is also useful to refer to examples from international development practice, that do not always get equal attention in debates on poverty and inequality, and do not have the same clear measurement framework – but potentially present a win-win or inclusive growth. Infrastructure and transport is a good case, including in terms of gender equality: while primarily seen as a mechanism to promote growth and productivity, it can also be a main way for creating conditions for poor people in remote areas, and reduce the time burden of women – while specific and low-cost additional measures can reduce risks particularly for women.

Private sector approaches (not foundations'), almost by their nature also create these potential win-wins. Examples of combining enhancing inclusion with companies' profitability include (see de Haan 2015 for more detail), first, supplier diversity and ethical supply chain initiatives promote access of marginalized groups to economic opportunities that come from global companies desire to diversify supply and be socially responsible (see for example the work of WEConnect). Second, 'inclusive distribution' is seen as a commercially viable and replicable business model, including low-income consumers, retailers, suppliers, or distributors in core operations of large business;

The World Economic Forum argues that there are many alternatives to reduce inequalities, or keep inequality low, both market-based and public, and that this understanding may help in moving beyond some of the polarization in the debate. I would argue that we need to consider the historical reasons behind different approaches – particularly market and non-market, but also different market and non-market mechanisms – to reducing inequalities. Each country has distinct and historically-driven ways of addressing inequalities. This of course is beyond the scope of this essay, but we can move the conceptualisation further by look at differences in perceptions around inequality and desired responses.

<u>Perception matter, are reality, and are real in their consequences</u>

> "…..rising income inequality is a warning bell to policy makers that social cohesion is at risk. Inequality can hamper further growth, breed social resentment, and generate political instability by fuelling populist and protectionist sentiments" (OECD 2012: 94).

With the recent political upheavals of Brexit and the 2016 US elections there has been a great deal of speculation about the link between growing inequalities, and its causes, and the rise of populism. At the risk of simplifying these debates (and there is evidence that cultural values have become more important than economic ones in political differences), it has once again illustrated the need for better understanding of perceptions of inequality, and ideas about government responsibilities.

To start with, there are no simple links between inequality, nor rising inequality and forms of political and social unrest. Research in China for example that rising social unrest was not as strongly related to the rising economic inequalities as many assumed, but that perceptions of justice were critical (Whyte 2010, 2016). Strands of sociology have long held the idea that protests are related to expectations and frames of reference, perhaps more so than levels of well-being (Fields et al.), while political science emphasises the importance of the conditions under which collective actions emerge, and political mobilisation of discontent (which can for example direct resentment to outsiders).

Data from the World Value Survey shows that perceptions of inequality differs strongly across countries.[5] As Figure 2 below for example shows, citizens in India and Egypt in large numbers believe there should be emphasis on reducing inequalities compared to increasing them to enhance incentives, more so than China and South Africa for example – even though levels of measures inequalities are not higher in the first two. The examples in the graph show substantial differences between Germany and the US as well, with the higher inequalities in the US seemingly not linked to a desire to reduce them (the examples also show important differences within Europe).

The World Value Survey also looks for perception about government responsibilities to address inequalities. Again the cross-country differences are remarkable, with again citizens in India having high expectations from the state, and much less so in China and – as commonly expected – in the US.

[5] Ferreira 2012 highlights that the pooed data on this question show a highly bimodal distribution.

The main points that these data suggest – and much more analysis of course is necessary – are three-fold. First, it is not clear there is a relation between 'objective' facts like inequality levels and trends, and people's perceptions, and hence their actions. To bring it back to the inclusive growth debate, what is considered inclusive, varies. Second, there are large variations in the extent to which people consider addressing inequalities an individual or a government responsibility. Third, there seem to be large cross-country variations in this, and it seems essential to better understand the origins of those differences.

It is thus important to consider the forms of social contract that mediate these growth-redistribution relationships. While the Latin American social protection literature highlights the new state-society contract, often as part of the return of democracy (Graham 2002, Barrientos 2008), the way private and public sector interests are brought together is equally important. The welfare states in Europe are not just the result of left or pro-labour advocacy for enhancing social protection, but are embedded in forms of social dialogue (and often built on market- or employment based social security). These have traditionally provided the mechanisms through which the growth and equality sides of the equation have been negotiated, including in times of economic crisis and reforms.[6] The tripartite model symbolized by the ILO provide a critical example as well; and of course the low levels and declining rates of unionisation can be connected to growing inequalities (and need to build non-contributory programs to redress inequalities)

It is outside the scope of this short exploratory essay and the UN DESA discussion to elaborate on the role and examples of how social contracts and dialogue mediate 'inclusive growth'. What is within that scope, however, are the implications for best-fit approaches to reducing inequalities and poverty, to which I turn next.

Conclusion

> The "history of the distribution of wealth has always been deeply political, and it cannot be reduced to purely economic mechanisms" (Piketty 2014: 20)

This essay has argued, first, that it is important to look at both public policy and market-based mechanisms to reduce inequalities, and that an 'inclusive growth' framework seems to provide a good conceptual framework for this purpose. Second, the international development debate has paid little attention to perceptions, and even the

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[6] Such as the 1982 wage agreement in The Netherlands ('akkoord van Wassenaar'). Economic crises in South Korea also led to renewals of social contract , expanding social protection for example, but also promoting the role of small business (Ahn 2016).

cursory look at existing data suggest that perceptions of inequality (and hence potentially political responses) a) do not seem to square easily with inequalities as they are commonly measured, and b) show great diversity across countries.

This does not suggest that strong evidence on what works is not important. Far from it. Latin American experience has shown how important good monitoring of social protection has been to improve implementation, but also to demonstrate their value to others, both within the same country and in other countries.

What the essay does indicate however is that there may be more opportunities to address the inequalities that seem to continue to grow even as the global Gini coefficient has declined. Opposition to public transfers does not necessarily mean opposition to promoting equality in the market sphere, and here is where experimentation with new approaches, and the documentation of experience is so important.

Sustainable approaches to addressing inequality require not only technically sound approaches – and there is growing evidence on what works and what does not. They also are part of, and in turn constitute social contracts. Such contracts are partly expressed in public interventions, and the international community need to continue to strengthen and support these. But they are also embedded in how economic growth itself is produced, and a priority may be to better understand this (for example to see how countries keep inequalities low without large public transfers), and study and promote the practices that are emerging in the market sphere – again not as substitute for but accompanying a rights-based advocacy for reducing inequalities.

Figure1

Measuring progress and inclusion

	Economic	Human capital	Political/governance	Social
Growth (average)	GDP per capita Per capita income	Life expectancy Health Education HDI	Institutional strength (CPIA)	Social cohesion Trust Safety
Redistribution	Gini-coefficient, bottom 20% Pro-poor growth Poverty elasticity	HPI GHDI	Voice	Discrimination Inter-group cohesion
Participation	Labour force participation Good jobs/decent work Entrepreneurship (opportunity vs necessity)	Associational life	Workers unions Organisations of entrepreneurs Competition institutions	Civic activism Associational life

Source: de Haan 2015

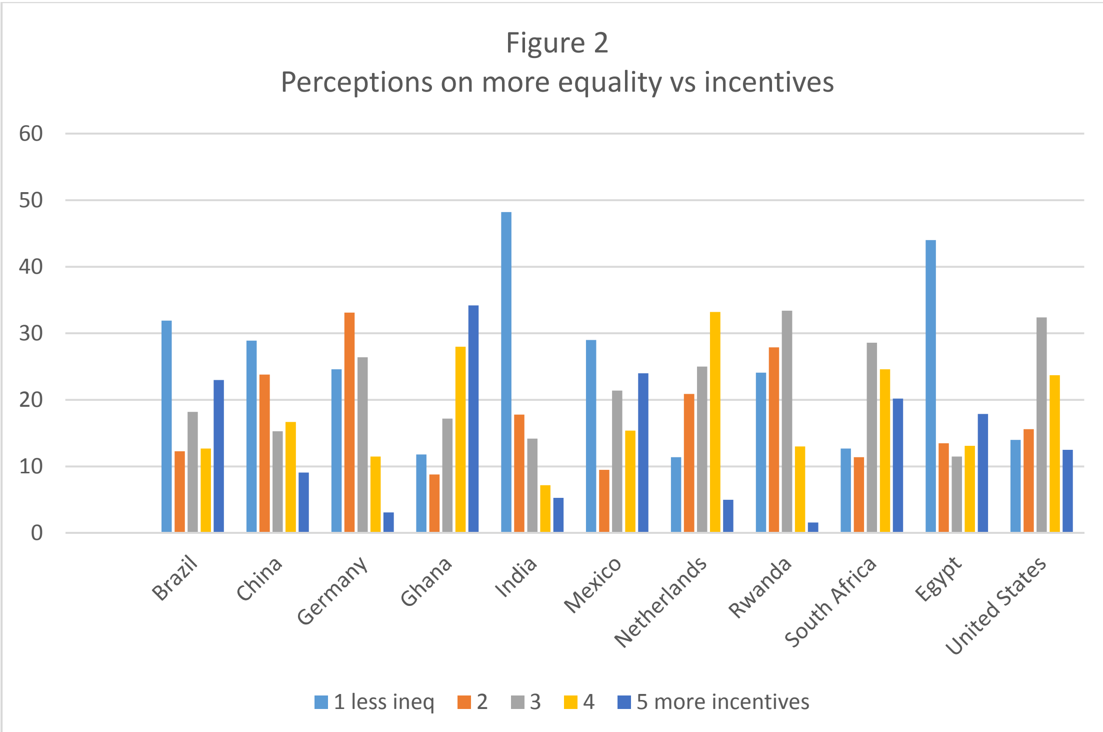
Figure 2
Perceptions on more equality vs incentives
60
50
40
30
20
10
0
Brazil
China
Germany
Ghana
India
Mexico
Netherlands
Rwanda
South Africa
Egypt
United States
1 less ineq
2
3
4
5 more incentives

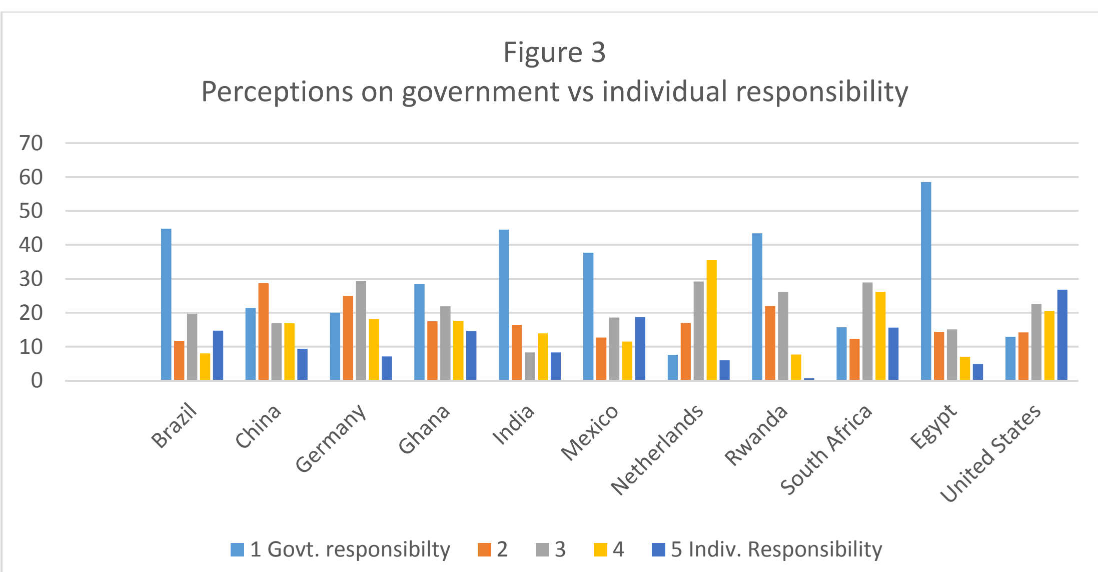
Figure 3
Perceptions on government vs individual responsibility
70
60
50
40
30
20
10
0
Brazil
China
Germany
Ghana
India
Mexico
Netherlands
Rwanda
South Africa
Egypt
United States
1 Govt. responsibilty
2
3
4
5 Indiv. Responsibility

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