

Comments on
“Reducing inequalities and strengthening social cohesion
through inclusive growth: a roadmap for action” by Romina Boarini,
Orsetta Causa, Marc Fleurbaey, Gianluca Grimalda and Ingrid Woolard

Kristof Bosmans
Department of Economics, Maastricht University

February 15, 2018

The authors propose a set of policy recommendations to foster inclusive growth in G20 countries. The scope is impressive, with proposals covering a wide range of economic and social domains. It is commendable that, nevertheless, there is little or no sacrifice in terms of detail and concreteness.

Many of the policy proposals are ambitious and one cannot but wonder about their political feasibility. But perhaps political feasibility should not be an immediate concern of papers like this anyway. What we get instead is a paper that sets out beacons and sparks interest and perhaps even goodwill for the many points of progress it advocates. I have enjoyed reading the paper very much.

Here are my comments:

- The concept of inclusive growth is intriguing. It connects growth and equality, two ideals classically thought of as being in fierce conflict. By combining the two ideals into one concept, the resistance to equality promoting policies may be reduced by moving from the gain-loss story of redistribution to the gain-gain story of inclusive growth.

That being said, more concreteness on the objective function underlying the many proposals would be welcome. First, should we see inclusive growth as a means or as an end? The paper seems to suggest that it is both. The question would then become what the other ends are. Second, I wonder where the authors see tradeoffs. Many of the proposals mention several good effects and side-effects. But can we really have it all, or are there choices to be made? For example, will policy measures to better distribute the benefits of technological progress have the effect of diminishing technological progress? Do we sometimes have to choose between achieving growth and achieving inclusiveness?

- The argument in footnote 1 on page 2 that perhaps global inequality is increasing instead of decreasing can further be strengthened. Most studies employ measures of inequality that are relative, thereby leaving out part of the story. For example, if one person's income rises from \$10 to \$12 while another's rises from \$5,000 to \$5,500, then a relative inequality measure registers a reduction in inequality between the two because the former income rises by 20% and the latter only by 10%. Absolute

measures, on the other hand, focus on the actual dollar increments, \$2 for the former and \$500 for the latter, and would register an increase in inequality. The preference of the literature on global inequality for relative over absolute measures is not based on careful theoretical reasoning or explicit normative choices, but rather on habit and convenience. A more complete picture of inequality that also includes absolute measures would yield more evidence in the direction of increasing global inequality.

- It is suggested on page 2 that the failure to achieve inclusive growth causes lower voter turnout and lower trust in governments. But political participation and attitudes toward the government are likely driven also—or perhaps more so—by factors that lie well outside the economic domain. For example, the effect of globalization on people’s (perceived) loss of local identity seems to play a major role in this. It is not easy to see how such considerations could be incorporated.
- What do the authors see as the best way to carry out “key recommendation 1” to share growth more evenly (page 5)? Through taxation and redistribution or rather through investment in education and health (“key recommendation 3”)? The second path runs via the market income distribution and may therefore be more acceptable to those who ideologically oppose redistribution.
- The discussion of the “third pillar” on page 6 mentions that in-group identification is endogenous. The authors, quite positively, state that the identification could in the limit spread to the whole of mankind. A more negative reading would be that there is a constant danger of politicians shaping and shifting these identities for their own political gain. How do we make sure that the positive and not the negative outcome is realized?
- The discussion of the “fourth pillar” on page 6 mentions several negative effects of inequality, including the disintegration of the social fabric and economic and social costs. It would be interesting to be more precise here about how these effects are related to different types of inequality. For example, does avoiding disintegration of the social fabric call for an upper bound on inequality of outcome (which includes inequality due to differential effort) or only on inequality of opportunity (which excludes inequality due to differential effort)? Is the (potential) negative effect of inequality on growth related more to opportunity inequality or to outcome inequality?
- On pages 10 and 11 the authors advocate a reduction of labor taxes. The reduction would be compensated by increases of taxes corresponding to market failures or rent-seeking activities. But are such increases sufficient to compensate for a substantial reduction in labor taxes, given the latter’s importance in total tax revenues? Or is more required? Overall, the authors do not elaborate much on whether and what taxes should be increased.
- On page 11 the authors mention that the inheritance tax acquires a different meaning if it is made to bear on the recipient rather than on the donor: it is then a tax that curbs inequality of opportunity rather than a tax that punishes effort, saving and caring. But is it not too optimistic to suppose that the inheritance tax, which is so strongly disliked

by the public, would become more acceptable simply by a change in how it is framed? Maybe, less-than-ideal measures, such as making the tax steeply progressive—zero or low for the poor and the middle class, and high for the rich—would help to make the inheritance tax more acceptable.

- On page 12 the authors recommend a switch from corporate governance structures that emphasizes shareholders to those that take into account all stakeholders. But how does this work in practice? Is a change in ownership structure needed? How would businesses be convinced to make the switch?
- On page 13 the authors give two recommendations regarding migrants. First, to enhance the integration of migrants in society (including the labor market). Second, to develop educational and awareness campaigns to reduce discrimination against migrants. But perhaps integration would help more to reduce discrimination than do educational and awareness campaigns. Integration would stress the sameness of migrants and non-migrants, whereas campaigns may tend to emphasize the need to accept differences. The former might be more successful.