

Comments on the paper “Reducing inequalities and strengthening social cohesion through inclusive growth: a roadmap for action”.

This paper suggest four main principles that should inform future policies in order to fight inequality and bring about a more inclusive economic growth, and describes a road map with more concrete measure both at the national and international level.

The paper provides a thorough overall picture of the potential remedies, and comes up with interesting ideas and proposals in this regard.

Main comments

In my view, the paper is perhaps too ambitious in its scope. This is an advantage from the point of view of providing an ample set of policies to implement, but has also a drawback: it prevents the authors from going deeper in some (or most) of the issues covered. This is important because many of the mechanisms addressed in the paper are very complex; hence the remedies proposed in many cases could have undesirable side effects or even lack efficacy in order to reach the goals they are supposed to.

In this regards, I understand this paper as a compilation of potential aspects that should be tackled; each of them, however, should be analysed, studied and assessed in depth before becoming a formal proposal.

More detailed suggestions

1. It is not clear to me **what the geographical scope of the paper is**. What are the countries that constitute the subject matter of the article? To whom are the proposals addressed to? Some clarification in this regard would improve the paper immensely, not only in terms of clarity but also making the proposals more specific and less general. The abstract talks about G20 countries, yet the introduction devotes some time to examining global inequality on the one hand, and OECD inequality on the other. This point is not in the least trivial, since the both the evolution of inequality, the way the economy works and the appropriate measures to achieve inclusive growth are very different across groups of countries.
 - a. In connection with point 1 above, the paper claims that “The middle classes in the developed world have seen, on average, no significant income gain” (first page, third paragraph). This claim is debatable. It could be valid if we are talking only of nominal income, but if we consider consumption or **well being**, as the authors propose as the first pillar, then things are not so simple. Public health services have experienced remarkable advances over the past 30 in many countries, especially in Europe, precisely because of the size and consolidation of the welfare state in the area (at this point I am not judging if this model is desirable or not or if it should be taken as a reference) . The same can be said about education. Life expectancy has increased. Quality of life of the average citizen in many countries also. Opportunities to enjoy different aspects of culture, leisure, entertainment are now widespread at affordable prices. In sum, if we take into account the quality of the public services offered in many developed countries, then it is not so evident that there are no gains. Something similar could be said of the innumerable possibilities that are now affordable to many because of the internet, the TICs and the low cost business models (trips, vacations, free courses on line, clothing, mobile phones, gadgets,

entertainment, sports, personal care). If nominal income were to be adjusted for these two variables, then results would be different. Of course this is a difficult task, beyond the scope of the paper and not devoid of some controversy as well, but it would be useful to make at least a reference to this issue (for the analysis of consumption inequality a classical reference is Krueger and Perri, 2006)

- b.** Another caveat associated to the somehow ambiguous geographical scope of the paper is related to the **complex, multifaceted connection between inequality and growth**. It is difficult to summarize this point in a few lines, but broadly speaking there is some consensus in the literature about the following: **The impact of inequality on growth depends on the degree of development of the correspondent countries.**
 - i. For less developed countries, reducing inequality may enhance growth, since the socio-political unrest associated with large income differences is detrimental for growth. In addition, an improvement in the wellbeing and education of the population will bring about increases in productivity, more entrepreneurial activity, better management of the existing firms, attraction of foreign direct investment...
 - ii. When the degree of inequality is low, however, further efforts towards redistribution via transfers may harm growth. The mechanism is simple: these transfers have to be financed by taxes, and those taxes will exert a crowding out effect on the private sector thus reducing labor supply, investment and ultimately GDP growth. In addition, they will be frequently associated to an increase in the number of public servants, with the subsequent enlargement of bureaucracy and opportunities for fraud, rent seeking and corruption.
 - iii. It follows that it is reasonable to assume that the connection between equality and growth is hump shaped. This quadratic function has a maximum, a threshold, beyond which actions to increase equality and reduce inequality may also reduce growth (see Bengoa and Sanchez-Robles, 2005)
 - iv. For the particular category of the G 20, the present scenario regarding inequality, its features, consequences and solutions is completely different in UK or USA, France, Italy and Germany, the emerging BRICs economies, Latin American countries as Argentina and Mexico, or Asean economies such as Corea or Indonesia. Measures that may work in one of these countries can be lethal in another one.
2. Some caution is also in order regarding **the proposal of the extension of the social security net** (p. 10). Extending unemployment benefits, for example, is precisely the kind of policy that can backfire and caused undesirable effects: it desincentivates job search and its extremely costly not only because of the amounts of the transfers given to beneficiaries but also because of the bureaucracy necessary to design, implement and monitor the benefits. There is ample experience in this regard in developed countries, especially from Europe. Just to quote an example, the UK has started a few years ago a complete upheaval of its benefits system, which has desincentivated job searching while facilitating rent seeking activities and even fraud. Before the reform, an individual could receive 26.000 pounds per year in benefits and thus live quite comfortably without working.

References

Bengoa, M and Sanchez-Robles, Blanca, 2004, "Economic Growth and Inequality in Latin-American Countries: Some Empirical Findings". Available at SSRN: <https://ssrn.com/abstract=525882> or <http://dx.doi.org/10.2139/ssrn.525882>

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Krueger, D. and Fabrizio Perri, F, 2006, "Does income inequality lead to consumption inequality? Evidence and theory." *The Review of Economic Studies* 73, 1, 163-193.