

REVIEWER 1

Gerasimos Soldatos - article review (January 20, 2018 - 09:17)

This paper presents four interesting ways towards “reducing inequalities and strengthening social cohesion through inclusive growth”; and it does so successfully. Yet, these are ways that do not address the “heart” of the problem of the alarming inequality in the functional distribution of income. This characteristic of them appears to have been predisposed carefully by undermining the significance of the problem in the introductory section. The introduction, entitled “The Challenge”, is one trying to circumvent the documentation of inequality by The World Inequality Lab¹ and the truth of Oxfam’s “99% economy”², thus demotivating the elaboration of policy measures seeking to attack inequality at its roots a la say Rodrik³. Methodologically, the authors of this paper take for granted the presence of inequality and see how its socioeconomic effects can be mitigated; they do not wish to tackle the issue of what to do about the causes of inequality. I think that the authors will have to say something about why their approach is what it is, stated clearly rather than in a populist manner like that by O’Grady⁴.

Notes

1 <https://www.parisschoolofeconomics.eu/en/research/pse-research-centers/the-world-inequality-lab-wil/>

2 https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-economy-for-99-percent-160117-en.pdf

3 https://drodrik.scholar.harvard.edu/files/dani-rodrik/files/populism_and_the_economics_of_globalization.pdf

4 <http://www.independent.co.uk/news/business/news/oxfam-statistic-inequality-truth-eight-richest-people-a7530291.html>

Answer: We thank the reviewer for the insights and the references. We do believe that many of the measures we propose tackle income inequality structurally, not just from the merely redistributive point of view. See in particular the section: “Fourth pillar: Economic inequalities harm well-being, empowerment, and social cohesion”. Since this point did not come across so clearly, we have explicitly stressed it in section “Social investment and the safety net”.

The data we present are the most up-to-date and include the work by the World Inequality Lab (Alvaredo et al., 2018), who show how the share of income accruing to the top 1% is much larger than previously expected. We believe that Oxfam uses the same sources as us, perhaps focusing on wealth rather than income.

We take your point about functional distribution of income – by which we assume you mean differences in income between capital holders and labour suppliers. However, we do not think this is so relevant, because in the past decades inequality has been mainly driven by the staggering increase in income accruing to CEOs and top managers, who are classified as labour suppliers in functional terms. Of course these people are also capital holders because they hold equities as part of their remuneration. We do not deny the importance of capital income

inequality. However, for the sake of space we have not expanded on this specific aspect. Piketty discusses these aspects, by noticing that while in the past the “rentiers” did not provide any labour service, but lived exclusively out of their capital income, today capital rents go hand-in-hand with hefty labour income. For this reason these capital rents may not be perceived as extortionary as in the past.

However, we take your point that our intention may have not come across as neatly as we would have hoped. Therefore we have taken the following actions:

ACTION 1: We have therefore added a couple of sentences in the introduction referring not only to income inequality but also to wealth inequality, citing the Oxfam report and Rodrik’s article (see lines 45-6; .

ACTION 2. We have also stressed explicitly that we intend our policies to tackle inequality structurally. In particular, improving access to education should have the effect of reducing pre-tax income inequality (see lines 273-9).

REVIEWER 2

ANON 1 (February 05, 2018 - 08:18)

1. The paper is concerned with economic inequality in the world economy, defined in a broad sense.

2. PROS: I thought that the statistics on income inequality were adequate (even though they may be well known and understood by experts). I also think that the paper is good at trying to offer a taxonomy of policy measures. This classifications are very adequate to think about the problem.

3. CONS: For an economist, the paper may have too much preaching. Economists try to avoid the holistic view, and want to focus on those measures that would seem more relevant. That is, we need quantitative assessments of all those measures, which are usually obtained by econometric analysis or model simulation. We cannot implement all changes at once. Moreover, some economic measures are good on paper but may lead to perverse incentives.

4. Regarding the pillars on pages 6-7, the last three pillars use similar titles, and hence I got the impression that the discussion was a bit repetitive. As already pointed out, I thought that the roadmap for actions had a cleaner presentation, and hence for the most part each item was dealing with a separate issue.

ANSWER: We are pleased with the reviewer's appreciation of our paper. We are sympathetic with the reviewer's comment that a quantitative assessment of the measures provided would be somehow needed and that the paper comes across as doing too much "preaching". This is however implicit in the nature of a "policy brief" to which the "Global Solution Paper" series belongs. The emphasis is by definition on the policy aspect rather than on the more technical and quantitative aspect. The style of this series is explicitly non-technical and widely accessible to policy-makers, practitioners and the broader public. Other paper in the series may be found here: <http://www.economics-ejournal.org/special-areas/global-solutions-papers>.

Providing a quantitative assessment of the impact of these policies go well beyond the scope of this paper, also considering that policies should differ across countries. Nevertheless, we do not want to give the idea that these policies turn out in massive government deficits. We have therefore included a reference to Atkinson (2015) in the discussion section, who does indeed provide an estimate of the budget impact of his reforms for the UK. He shows that considering together increased expenditures, re-modulation of taxation, and beneficial effects on growth, the overall package is financially sustainable. We also make the point that, given our emphasis on overall well-being ahead of material income, material losses are justified if they lead to increased well-being.

ACTION 3: We make the general point that, although providing an overall assessment of the fiscal impact of our proposed measures goes beyond the scope of the paper, the intervention from the fiscal side seems to largely compensate the intervention from the expenditures side, thus suggesting that the overall impact on budget is balanced. This point is made in the Discussion section (see lines 515-531).

We take your point on pillars 2-4. We believe that the pillars are interconnected but point to different aspects. In particular, pillar 2 stresses the democratic value of participation, and as such

it is not eminently economics-related. Pillar 3 stresses the positive impact of inclusive growth on social cohesion, while Pillar 4 makes the point that inequality should represent an independent target of policy. We agree that Pillar 3 and Pillar 4 may be conflated, but this would come at the cost of missing some important aspects. Considering that other reviewers seemed to be happy with this structure, we have decided not to change it.

REVIEWER 3

Gordon Anderson, University of Toronto – Comments February 14, 2018 - 06:54

Introduction.

This paper articulates a comprehensive collection of inclusive growth promoting policy imperatives to be pursued at National and Global levels that would reduce inequality and strengthen social cohesion. Founded upon 4 objectives of enhanced wellbeing for all, increased participation and empowerment, improved solidarity and trust and finally diminished economic inequalities, the authors proffer a roadmap toward the achievement of these goals at national and international levels. At the nation level these policies include equalizing opportunities through universal access to health care and education, reducing inequities through more effective tax and transfer policies and policies for enhancing democratic governance and engagement in the political process and reducing racial and gender discrimination. At the global level the development of trans-nation dialogue, exchange of good practice and cooperation on issues of global common interest is encouraged along with the enhancement of institutional tools for global rulemaking. They conclude with an acknowledgement of the considerable gap between prevailing institutions and what they propose as desirable and thus implementation will require “A complex coalition of political forces and civil society movements”.

My initial reaction to the paper was “Wow, good luck with all of that!”, nonetheless the authors are to be commended for their thoroughness and optimism in outlining such a comprehensive, appropriate and well founded wish list of economic, political and social action plans, in what can only be likened to writing an instruction manual for the herding of cats by a collection of cats (but the fact is, sometimes cats need and have to be herded!). Implementation of such policies in global and national economic, political and social arenas is a formidable task, especially with regard to what are essentially social and economic justice goals. Atkinson (2012) following Sen (2009) in discussing public policy reform, argued that the objective is to seek progressive reform rather than transcendental optimality, unfortunately the tools for assessing the extent of progress are not very sharp, typically in the case of equality of opportunity for example, they only measure whether the goal has been achieved or not, rather than measuring the degree of progress. Thus I’m in full agreement with the authors concerning the need for improvement in the depth, breadth, timeliness and international comparability of datasets, and the development of statistical instruments and indicators that robustly and unambiguously identify trends in economic political and social outcomes, especially with respect to social cohesion, inclusiveness and other social justice goals.

ANSWER: We are pleased with the reviewer’s appreciation of our paper. We agree that not providing a time-scale or an implementation plan may be seen as a weakness. However, we believe that it is important to inform the policy debate.

I have a few other comments/reactions to the paper.

With regard to the herding of cats, the enhancement of global institutional tools for rule making, governance and implementation will be crucial, which raises questions about the democratic nature and power of such global institutions as they relate to the sovereignty of individual

nations. It's not at all clear which political forces and civil society movements could be called upon to address such issues and more discussion and insight on this point would have been welcomed. For example, I suspect that it would be easier for a nation to yield sovereignty on an issue to a global agency if the power of its voice within said global agency reflected the importance of its reformatory needs. In this regard, given the individualistic nature of notions of inclusivity, cohesiveness and participation being advanced here, perhaps a nation's representation in various global governance institutions should be on the basis of its population size rather than its wealth, income status or one nation one vote type structures as is so often seen in trans national agencies.

ANSWER: This is a very insightful point. We don't have the necessary expertise to address this issue in full, and we believe that the question of finding the optimal voting structure for global institutions lies beyond the scope of our paper. As a first reaction, having a voting based exclusively on population would have the drawback that a coalition by India and China would acquire disproportionate power. We think that a combination of population-based and GDP-based voting power may be appropriate.

We should also add that the debate on global governance in political science seems to put emphasis on the notion of "poly-centricity". This recognizes the participation of multiple actors – including civil society but also different forms of global governance – in fluid and evolving forms.

ACTION 4: We have made a reference to the problem of implementing / reforming democracy in global institutions as an open issue in section "Roadmap for action: international and global policies" (see lines 428-437).

With respect to analysis, I think the discussion would have been aided by a little more clarity as to what types of cohesion, inclusiveness, poorness, inequality and deprivation were being contemplated for remediation. For example, is the equality objective a relative one or an absolute one? Is the objective to be achieved on a global, national basis or both? The distinction has implications for the types of policy that are to be pursued, for the types of analytical instruments that need to be developed and for how we develop our understanding of the instruments currently used in all contexts.

ANSWER: The reviewer is correct in that we should have made some of these aspects clearer. Both national and global objectives are in our view important. In the discussion section we make the point that although national objectives are more easily achievable because of the existence of more developed institutions, global objectives should also receive attention. This is not only the case because some national objectives require international cooperation, but also because of the intrinsic relevance of global objectives. We therefore advocate that relevant global objectives – such as those concerning climate change and those included in the SDGs - should be incorporated into the national policy agenda.

Action 5: We summarise the above point in the Discussion section.

As for the choice of the target variable concerning inequality / inclusiveness, we believe that we have made clear in the section “Fourth pillar: Economic inequalities harm well-being, empowerment, and social cohesion” that we have in mind relative inequality. For the level of generality of this paper, we do not believe that entering into the debate as to whether comprehensive measures of inequality (such as the Gini index) should be preferred to shares indicators of inequality (e.g. the top 10% / bottom 10% ratio of income shares). In more recent part of our work we are trying to conceptualise social cohesion. We will insert a link to this work when available.

For example, the emphasis on Lorenz curves and the Gini coefficient in the introduction suggests that relative gains are sought both globally and nationally. In this regard, it is not surprising that “World Ginis” are generally higher than the highest national Ginis. A simple subgroup decomposition of the Gini coefficient reveals the overall Gini to be a weighted sum of subgroup Ginis plus a measure of between group inequality plus a term which reflects the extent to which lower income groups overlap with higher income groups (Mookherjee and Shorrocks 1982, Anderson, Pittau, Zelli and Thomas 2018). The extent to which one nation’s income distribution differs from any other nations income distribution is not a part of an individual nation’s Gini calculation so they can always be expected to be smaller than the overall Gini for a collection of nations. In very simple and extreme terms, if every nation had complete equality (zero Gini) the global Gini would simply be a function of the extent to which national average incomes differed and inequality would be a global problem. On the other hand, if all nations had common average incomes, global inequality would simply be a function of internal nation inequalities and the extent to which national income distributions overlapped and hence a national rather than a global problem.

ANSWER: We thank the reviewer for these comments. We take the point that the global Gini index will tend to be higher than individual Gini indexes. However, it should be the case that the global Gini may be below the Gini of at least some countries. Suppose that there is a very unequal country and a completely equal country, whose average income is higher than the first. Then the global Gini will be lower than the Gini of the very unequal country.

Action 6: In footnote 2 we have included the considerations above.

What matters for cohesiveness between subgroups is that prosperity (and poorness) are more equally shared amongst those groups, in essence that the respective nation distributions of any attribute become more similar¹. Thus it is possible to have a more cohesive collection of subgroups within the context of increasing overall inequality, for that matter subgroup distributions can become increasingly dissimilar in the context of diminishing overall inequality.

¹ This is really the mantra of the equal opportunity paradigm, that outcome distributions of different circumstance classes become more similar is its singular concern, it matters less that those outcome distributions may each be increasing in their variance, indeed increasing individual variation in outcome distributions may bring about the desired greater similarity amongst them. Thus paradoxically concurrent increases/decreases in overall inequality and subgroup similarities are frequently observed.

Indeed, in an income health and education, three dimensional study related to the Human Development Index of 164 countries from 1990 to 2014, Anderson et al (2017) revealed substantive multi-dimensional absolute growth in a slowly evolving, relatively immobile three group world exhibiting simultaneous increases in equality and polarization with a growing Lower and shrinking Middle and Higher Human Development classes. In other words, all nations were improving in a Pareto sense and becoming more equal overall, yet sub groups of nations were becoming more polarized and less cohesive.

ANSWER: We thank the reviewer. We have incorporated this point.

Action 7: We have inserted this point in in section “Social investment and the safety net” (starting at line 248)-and Discussion section.

On a completely different matter some policies will have an endogenous quality which seems to have been overlooked by the authors. For example, in some situations, growth promotion policies require that very same growth for their implementation. Indeed, in a truly fully participatory, democratic society, growth is an important catalyst in elevating outcomes of those poorly endowed in circumstance. In a no growth scenario, elevation of the outcomes of those poor in circumstance can only be achieved at the expense of diminution of the outcomes of those rich in circumstance. Median voter theorems tell us that such policies have limited electoral viability as compared to a growth scenario wherein Pareto improvements can be contemplated (Anderson and Leo 2014). Thus it is that growth promoting equality of opportunity policies are enabled by the very growth that they hopefully promote (see also Anderson and Leo 2017).

Action 8: in section “Social investment and the safety net” we make the point that some of the reforms we propose may be seen as investment, and therefore they may generate additional growth to repay for them.

In a very interesting paper the authors have indeed given us much to think about and it is to be hoped that these ideas see the light of day in the appropriate Economic, Social and Political fora. References.

Anderson, G.J., Farcomeni, A., Pittau, M.G. and R. Zelli (2018) “Multidimensional Nation Wellbeing, More Equal yet More Polarized: An Analysis of the Progress of Human Development since 1990” Mimeo Toronto University.

Anderson, G.J. and T.W. Leo, (2017) “Quantifying The Progress of Economic and Social Justice: Charting Changes in Equality of Opportunity in the United States 1960-2000” Journal of Human Development and Capabilities, 18(1), 17-45

Anderson, G.J., T.W. Leo and R. Muelhaupt, (2014) “Measuring Advances in Equality of Opportunity: The Changing Gender Gap in Educational Attainment in Canada in the Last Half Century” Social Indicators Research, 2014, 119(1), 73-99

Atkinson, A. B. 2012. “Public Economics after the Idea of Justice.” Journal of Human Development and Capabilities 13 (4): 521–536.

Mookherjee, D. and Shorrocks, A. (1982). “A decomposition analysis of the trend in UK income inequality”. Economic Journal, 92, 368, 886-902.

Sen, A. 2009. The Idea of Justice. Cambridge, MA: Harvard University Press

REVIEWER 4

Kristof Bosmans, Maastricht University - Comments

February 16, 2018 - 07:42

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.

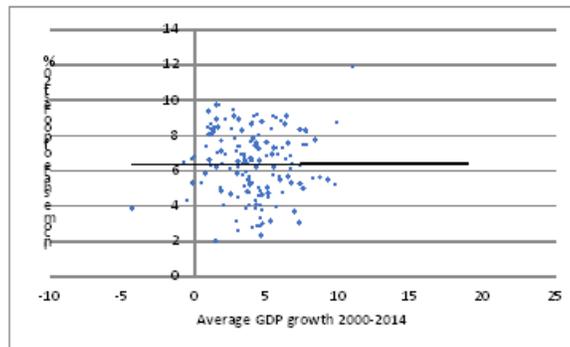
That being said, more concreteness on the objective function underlying the many proposals would be welcome. First, should we see inclusive growth as a means or as an end? The paper seems to suggest that it is both. The question would then become what the other ends are. Second, I wonder where the authors 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?

ANSWER: Thank you for the comment. Our point of view is that, if one takes maximizing well-being, rather than maximizing GDP, as the objective function, then the prospect of a trade-off between growth and inclusiveness is much reduced in comparison to GDP being the main target. It is well-known that inequality negatively affects well-being. Therefore, reducing inequality will have a positive effect on well-being. Of course income is another argument of well-being. Therefore it is possible that attaining equality may bring down GDP by a magnitude that is overall negative for well-being. But here comes our second point. As discussed elsewhere (see Chapter 8 of the International Panel on Social Progress Report), the trade-off between inequality and growth is not empirically proven in general, as shown by the scatterplot below that plots economic growth (a proxy for efficiency) on the horizontal axis and average income share of the poorest 20% of the population (a proxy for equality) on the vertical axis.

More importantly, the effect seems to be different in low-income and high-income countries. In the former, more equality seems to be conducive to more growth. In the latter, the contrary is true, but the effect seems to be small.

In sum, our argument is that the trade-off equality efficient is reduced – though possibly not entirely eliminated – if one takes broadly defined rather than GDP as the main policy target. Hence, it may well be the case that material growth is sometimes sacrificed for the sake of greater overall well-being, but we believe this a price worth being paid.

Relation between average economic growth (GDP average growth) and average income share of the poorest 20% of the population between 2000 and 2014



Source: WDI

- 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.

Action 9: We mention this point and place a reference to Milanovic (2016), who makes a similar point when showing that global inequalities in absolute levels are – not surprisingly – much larger than global inequalities in relative levels. This is done in footnote 3.

- 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.

Action 10: We agree with the reviewer and we have added a brief discussion on the problems associated with trust in governments, especially in an era of social media, in section “Promote social cohesion and fight discrimination” (lines 411-422).

- 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.

Action 11: We see that a combination of both instruments is necessary, although the role of the state as provider of basic assets should be reinforced. In a new policy brief, we make the point that although traditional redistributive policies should not be dismissed, much relevance should be given to “ex-ante redistribution” in education and health. This is now in section “Social investment and the safety net” (starting from line 248).

- 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?

Action 12: The reviewer is absolutely correct. We mention the cosmopolitan view as one possibility, which received support in research. But the so-called “parochial” idea is also a concrete possibility, as current political events leading to populism are showing. We changed the relative section explicitly mentioning the parochial view (see lines 133-7).

- 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?

Action 13: These are very interesting ideas. In a newly added section, we make the point that the extent to which citizens are more concerned with one type of inequality or the other is culture-specific. We mention evidence stating that the US public tends to have stronger beliefs that their society is fair as it concedes opportunities to many, while on the contrary the European public

tends to believe quite the opposite. These beliefs are most likely ideology-driven because they do not find support in actual patterns of mobility. Nonetheless, they are seen as one of the main explanations for the overall lower demand for redistribution in Anglo-Saxon countries than continental European countries (see section starting from line 170).

- 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.

ANSWER: The reviewer is correct that we should discuss the financial feasibility of our proposals. Although providing quantitative estimates goes beyond the scope of this paper, we comment on this aspect in the Discussion section.

- 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.

Action 14: We believe that this proposal is not only a change of framing but also would have substantial effects – think of when different siblings inherit wealth and are taxed according to their individual income as opposed to a single heir receiving the inheritance. But we are certainly sympathetic with the idea of progressivity in the tax, and we have made this point clearer (see paragraph starting from line 306).

- 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?

Action 15: Space limitations prevent us from dealing with this important point in the policy brief. We invite the interested readers to read section 4.4 of Chapter 8 of the IPSP report, where we argue for the necessity of democratising the governance of firms.

- 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

ANSWER: We believe that both aspects are necessary, because stereotypes on migrants are most of the times very difficult to eradicate even when “objective” patterns of integration into labour market are positive. We develop this argument in section “Promote social cohesion and fight discrimination” (starting from line 385).

REVIEWER 5

Anonymous - Comment
February 16, 2018 - 10:54

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.

ANSWER: We are pleased with the reviewer’s general appreciation of our paper. We are sympathetic with the reviewer’s comment that a quantitative assessment of the measures provided would be somehow needed and that the paper comes across as doing too much “preaching”. However, we would like to stress that the paper was submitted in the “Global Solution Paper” series, whose emphasis is by definition on the policy aspect rather than on the more technical and quantitative aspect. The style of this series is explicitly non-technical and widely accessible to policy-makers, practitioners and the broader public. Other paper in the series may be found here: <http://www.economics-ejournal.org/special-areas/global-solutions-papers>. Nevertheless, we have inserted a discussion on the fiscal viability of this package of reforms in the “Discussion section”.

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.

Action 16: We believe that this approach could and should be applied to all countries. Clearly we hasten to clarify that specific measures should take into account country-level specificities. However, we believe that the idea that inclusion conduces to higher well-being can be applied indifferently to high-income and low-income countries. We specify our view in the second point of the “preliminary to roadmap” section (starting from line 184).

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)

Action 17: The reviewer is correct that focusing on income alone is partly in contradiction with our desired focus on overall well-being. And we are very sympathetic with the idea that indicators of well-being such as the Human Development Index has shown steady progress – though very little convergence between high-income and low-income countries. Our focus on income is, we believe, justified, because of the wide availability of data. But the reviewer is correct in that our exclusive focus on income is not consistent with our own approach. We have therefore briefly discussed in the “Challenge section” (starting from line 19) the generally positive trend in objective well-being, although we emphasize the persistence of large number of people “left behind”. In general, we do not focus on consumption inequality.

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 Korea or Indonesia. Measures that may work in one of these countries can be lethal in another one.

Action 18: We have commented the argument that inequality has opposing effect on growth in low-income / high-income countries in footnote 4. We address the concerns on the equality-efficiency trade off in our reply to the first comment by Kristof Bosmans.

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.

Action 19: Space limitations prevent us from dealing with this important topic. We believe that the best way to prevent the dis-incentivising effects of social security is through a universal basic income, as argued in IPSP report, chapter 8, section 4.3.1 (chapter available at: <https://comment.ipsp.org/chapter/chapter-8-social-justice-well-being-and-economic-organization>).

References

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Reviewer 6

Andrea Brandolini - Comments

February 16, 2018 - 18:53

* The views expressed here are solely those of the author and do not necessarily reflect those of the Bank of Italy

The paper by Boarini and co-authors is a brave attempt to distil, in few pages, the crucial elements of an alternative approach to policy making from the wide and sometimes vague debate about going beyond GDP. It contains all crucial keywords of the “inclusive growth” approach: substantive interest for the whole distribution of well-being rather than some “mean” outcome; multidimensionality of well-being; empowerment and participation; attention for the indirect effects of economic inequalities; rejection of the one-size-fits-all agenda; plea for policy coordination at all levels, among government departments as well as among local, national and international actors.

One might quarrel with specific aspects and point to possible internal tensions. For instance, “making sure that the voices of all citizens are heard” might appear at odds with “countering the rising tide of anti-immigration voices”. This hints at two layers of voices, implicitly suggesting a distinction between “informed” and “uninformed” voices – a position which is bound to be criticised as intrinsically paternalistic.

ANSWER: We thank the reviewer for the appreciation of our paper. On this specific point, we have expanded our discussion of immigration policies. We make the point that, since a substantial part of discrimination is due to factually unfounded stereotypes, then we see the diffusion of factually correct information on immigrants’ integration into society as key in changing public opinion (see lines 403-413). We believe that this intervention is not intrinsically “paternalistic”, but rather puts faith in citizens’ autonomy in developing their own judgement, when this is based on correct information. Said this, we are aware – and we do not hide – that the issue of the formation (and manipulation) of public opinion is extremely delicate, and that with the rapid proliferation of social media we are probably still short of the instruments to appropriately deal with the associated problems.

However, all in all, the attempt is successful: the paper’s conceptual pillars and roadmap for action make up a consistent framework.

The crucial point is then feasibility. The authors make no illusions that it is an easy task. In the concluding section they acknowledge that “there is no magic bullet” and that “a complex coalition of political forces and civil society movements appears needed to push for the policies described in this paper”. What the authors fail to recognise, however, is a problem that precedes political consensus: the consensus within the economics profession.

The adoption of the inclusive growth approach sketched in the paper requires a radically different economic thinking. First, most current macroeconomic models (in particular, DSGE models) shy away from studying the welfare of multiple agents by assuming that there is only one of them – the “representative agent”. A policy decision is thus evaluated paying no attention to the fact that there may be losers and winners: what matters is only the aggregate outcome, as captured by the welfare of this fictitious representative agent. Second, the analytically-tractable

and identical utility functions used in macro-modelling do not do justice to the great variety of personal objectives. Third, it is questionable that policy judgements should derive directly from individual preferences over consumption patterns: people's preferences about the destiny of their society – their political views as distinct from their consumption preferences – need not coincide with their own self-interest. The apparently neutral mathematical summation of individual utilities (derived from consumption) is not necessarily the appropriate social welfare function for policy evaluation.

The inclusive growth approach is currently fashionable even within political and economic circles traditionally reluctant to take inequality seriously, but it cannot be implemented unless it is fully embodied in everyday economic modelling and policy making.

Action 20: We truly thank the reviewer for his insights. We have inserted his comments, word-by-word, in footnote 6 of the Discussion section.

Grigoris Zarotiadis, Aristotle University of Thessaloniki, Greece - Short notes
February 22, 2018 - 08:00

The paper "Reducing inequalities and strengthening social cohesion through inclusive growth: a roadmap for action" contributes to a long-lasting and quite widened discussion with respect to the "growing unequal" hypothesis that has been sufficiently empirically confirmed, both in spatial as well as in social terms. The authors start with a descriptive statistical analysis that reveals the stylized facts and proceed to their major contribution, which is the proposal of a certain framework for relevant policies and actions. The four pillars and the specific roadmap for actions they propose – nationally and globally – contributes significantly to the relevant debate, moving the discussion from revealing the problem into providing specific, realistic proposals for removing it.

Anonymous - Comments
February 26, 2018 - 08:14

I like "Our Vision" part of the paper. It nicely summarizes what is inclusive growth and why it is important. By contrast, I do not like Roadmap for Action much. The following comments are mostly on policy proposals discussed in Roadmap for Action.

- What kind of policies are effective for achieving policy goals are often very different in countries with different income level, population size, human resources, and economic, political, and social institutions. Some policy proposals in the paper could be ineffective or even harmful depending on country characteristics. Further, many policy recommendations in the paper are not feasible in developing countries given limited financial and human resources of their policy actors. The paper should narrow target countries for proposals to be more useful.

ANSWER: We are against "one-size-fits-all" policies and we agree that the right mix of policies may be different in different countries (see the "Preliminaries to roadmap" section, lines 196-202). Nonetheless, we defend the idea that the general "pillars" could and should be applied in all countries, regardless of their income levels.

- The authors discuss too many issues in a short paper. I agree that cross-country policy coordinations and global rule-making are important, but given the difficulty of achieving international cooperations and the size of the paper, it would be better to focus only on national policies. Given the size of the paper, policy recommendations in the paper would be too concrete. It would be better to spend more pages discussing what kind of broad policies should be adopted and why they are important for achieving goals.

ANSWER: We take the reviewer's point, but I think it is in the nature of a policy brief to aim to reach a broad audience to touch several aspects without going into technicalities for each of them. In the Discussion section we comment over the necessity to incorporate global objectives into national public policies.

- The fourth pillar on page 7 states that "Economic inequalities harm well-being, empowerment, and social cohesion." The statement would generally be correct, but in many instances, perceptions of unequal opportunities and unfairness rather than economic inequalities seem to be more important. Policies correcting unequal opportunities and unfairness would be more important than policies lowering inequalities per se.

ANSWER: The reviewer is correct, and we have added some sentences that state the need take into account perceptions of fairness, not just actual fairness (see lines 170-183).

- On page 9, the authors correctly argue that the main drivers of economic and social trends, globalization and technical innovation, are influenced by policies on international trade, financial transactions, intellectual property protection etc. How to design these policies could be as critical as social policies and redistributive policies for inequalities, social cohesion, and thus inclusive growth, but Roadmap for Action does not discuss these policies.

ANSWER: We provide general guidelines in the section on “Roadmap for action: international and global policies.