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2 **Reducing inequalities and strengthening social cohesion through inclusive growth:**

3 **A roadmap for action**

4 **Authors:**

5 Romina Boarini (OECD)

6 Orsetta Causa (OECD)

7 Marc Fleurbaey (Princeton University and International Panel on Social Progress (IPSP))

8 Gianluca Grimalda (IfW and IPSP)

9 Ingrid Woolard (Cape Town University and IPSP)

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11 *We propose a policy compact to achieve more inclusive growth in G20 countries so that economic growth*
12 *regains the ultimate sense of improving all people's lives. Guiding principles are: 1) prosperity is not just about*
13 *income but about all relevant outcomes of well-being and capabilities to overcome the initial social*
14 *disadvantage; 2) it is also about including people in participatory decision-making to enhance their dignity and*
15 *control over their lives; 3) excluding people from reaping the benefits of growth will thwart social cohesion and*
16 *well-being; 4) integrated policy approaches are needed to achieve inclusive growth, across policy domains and*
17 *between national and global actions, including responsible management of migratory movements. Concrete*
18 *policy actions are described that span education, labor, fiscal instruments, public and private governance.*

19 **1. The Challenge**

20 Income inequality has risen within many countries, especially among the advanced G20 economies,
21 since the 1990s. According to some aggregate indicators, global income inequality has decreased as a
22 consequence of convergence from fast-growing economies. In particular, Hellebrandt and Mauro (2015)
23 show a shift in the Lorenz curve computed for the world income distribution that led to a decrease in
24 global inequality between 2003 and 2013 (see Figure 1).

Figure 1: Lorenz curve of the world distribution of household per capita disposable income in 2003 and 2013.

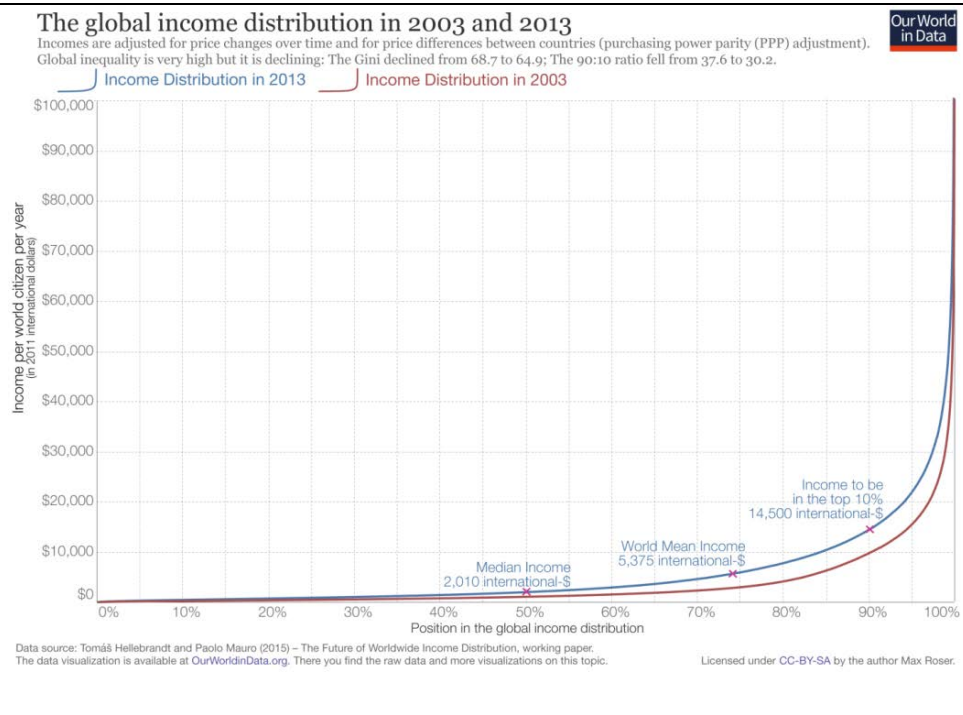
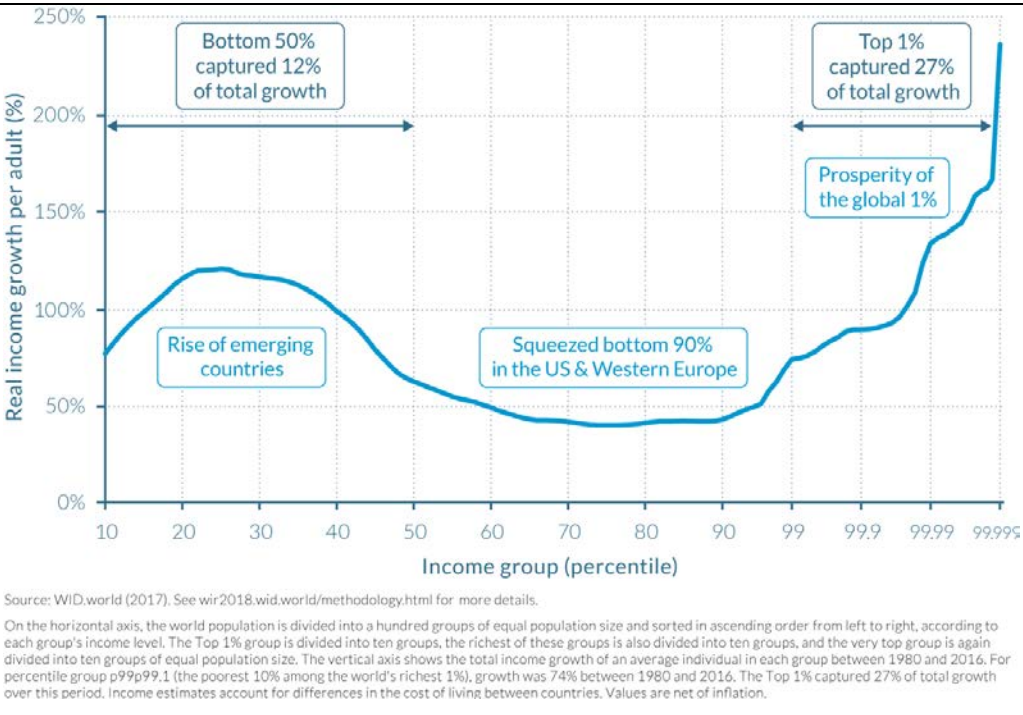


Figure 2: Total real income growth per adult per income brackets of world distribution (1980-2016)



26 Lakner and Milanovic (2016) also show a reduction in the global Gini index during the 2000's. In spite of
27 this reduction, global inequality remains high by all standards. Studies may differ according to
28 methodology and data, but concur in estimating the current global Gini coefficient at values around
29 70%. Worldwide income inequality is thus higher than inequality in even the most unequal countries in
30 the world (see Klasen et al., 2018, for an extensive discussion).

31 Moreover, the process of economic growth worldwide has been uneven. More than a billion people
32 have been lifted out of extreme poverty, but the world's poorest and the middle classes in the
33 developed world have seen, on average, no significant income gain over the past 30 years. Conversely,
34 people at the top of the world income distribution have reaped a high share of the income growth.
35 Alvaredo et al. (2018), combining different data sources, estimate the concentration of world income to
36 be even higher than previously estimated (Milanovic, 2016). People occupying the top 1% of the world
37 income distribution appropriated 27% of total growth between 1980 and 2016, while the entire bottom
38 half only captured 12% of total growth (see Figure 2)^{1 2}. The same process of income concentration has
39 characterized OECD countries over the period 2007-2014, as shown in Figure 3. People in the bottom
40 10% of the distribution in OECD countries lost disproportionately in 2007-2010 and recovered little in
41 2010-2014, so their gap from the mean national income widened. Conversely, people in the top 10% of
42 the income distribution earned well above the mean income in 2010-2014.

43 Global inequality appears even starker if one looks at wealth rather than income (OECD, 2017). The
44 observation that the eight wealthiest individuals in the world own as much as the entire poorest half of
45 the world population shows in glaring detail the extent of worldwide wealth inequalities (Oxfam,
46 2018).³The rise of inequality has not prevented many aspects of individual well-being to improve

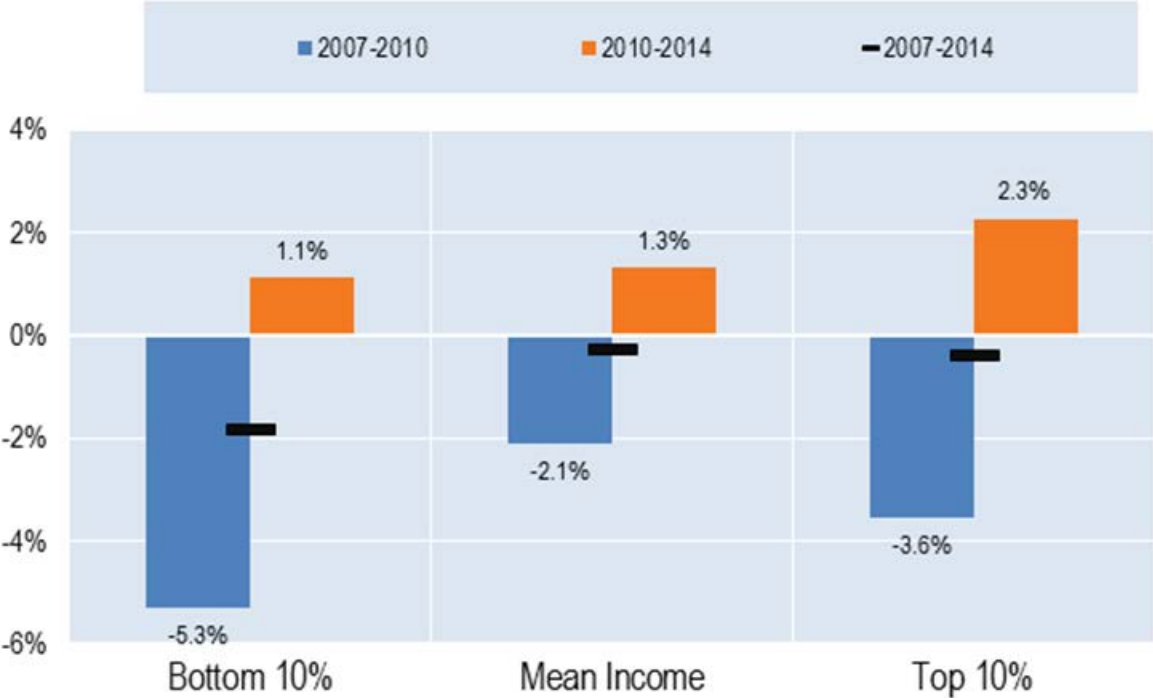
¹ The rising share of income accruing to the top 1% is in principle consistent with a decrease of the global Gini index, because the emergence of a global middle class may counterbalance the rise in income share by the top 1%. It has to be stressed, though, that the datasets used to estimate the global Gini coefficient have typically been based on household surveys, and these most likely underestimate the magnitude of top incomes (Milanovic, 2016).

² A reviewer notes that the overall Gini index may be seen as 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). When the overlap between country's income is small, as is arguably the case for the real world distribution, the global index will tend to be higher than individual country-level indexes.

³ We note that the inequalities measures we are using only consider differences in relative terms rather than in absolute terms. Relative measures somehow "compress" inequality more than absolute measures. This is the case because, given the lower level of income of relatively poor people compared to rich people, the same increase in income will appear larger for low-income people than high-income people when relative measures are used. As shown by Milanovic (2016) for the global distribution of income, this appears as much more unequal if one uses absolute measures than relative measures.

47 throughout the world. The Human Development Index, which takes into account life expectancy (as a
48 measure of health) and education, in addition to income, has shown steady progress in all groups of
49 countries, albeit with little convergence across high-income and low-income countries (IPSP, chapter 8).
50 Poverty rates have decreased throughout the world. In our view, the success in these indicators does
51 not make the current situation less worrying. Firstly, even if progress has on average been made, large
52 numbers of people have been left behind. In particular, the absolute number of people being poor in
53 Africa has increased in the last decades, in spite of a drop in relative poverty. Secondly, an even faster
54 progress may be desirable. Thirdly, the current trend in increasing inequality poses serious concerns that
55 even these positive achievements that we observed in the last decades may soon be reversed.

56 **Figure 3: Variation in mean absolute income for top and bottom 10% of income distribution**
57 **and mean income in OECD countries (2007-2014)**



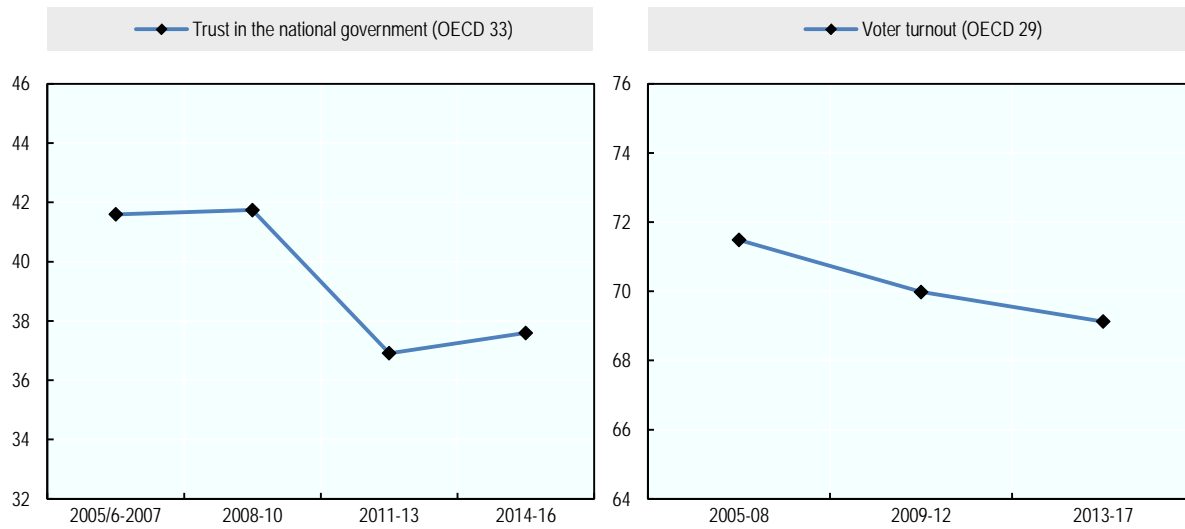
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59 **Sources:** OECD Statistics. All OECD countries have been included.

60 Those who are left behind are confronted with economic insecurity, while lacking the means and skills to
61 adapt to a changing economy and fast technological change. In their own perception, they have not
62 benefitted from globalization and are calling economic openness into question. As shown in Figure 4,
63 trust in national governments has decreased in the last decade in a sample of OECD countries, and so

64 has voter turnout. A backlash against globalization and global economic integration and a rise in
65 populism may turn out to further hurt the least advantaged (see also Rodrik, 2018).

66

67 **Figure 4: Evolution of trust in national government and voter turnout**



68

69 **Note:** For trust in the national government, the OECD average is population-weighted and excludes
70 Iceland and Luxembourg, due to an incomplete time series. For voter turnout, the OECD average has
71 been calculated across four-year periods. This required excluding Austria, Finland, Italy, Luxembourg and
72 Mexico. Chile is also excluded since compulsory voting was dropped in 2012, introducing a break in the
73 series.

74 **Sources:** For trust in the national government: OECD calculations based on Gallup World Poll,
75 www.gallup.com/services/170945/world-poll.aspx. For voter turnout: International Institute for
76 Democracy and Electoral Assistance (IDEA) (2017), www.idea.int, the register of the Supreme Electoral
77 Tribunal for Costa Rica, and the Federal Statistical Office (FSO) of Switzerland.

78

79 The global nature of these processes makes national policies less effective. This may jeopardize the
80 whole social contract and the political stability that stems from it. Pursuing inclusive growth, as
81 recommended by the 2016 and 2017 G20 summits, is a major global challenge that requires both
82 national and international efforts. Inclusive growth is the process of creating shared prosperity in many
83 well-being dimensions, not just economic ones.

84

Key recommendations

1. Share the benefits of increased prosperity and globalization more evenly across social groups.
2. Devise policies that consider the multidimensional nature of prosperity and how the various sources of well-being are distributed in the population.
3. Ensure that all individuals are equipped to fulfil their productive potential with adequate investment in skills and health and good opportunities for quality jobs to keep pace with an increasingly globalized and digitalized world.
4. Make sure that the voices of all citizens are heard by promoting wide participation to political and economic decisions in particular from less engaged groups. Foster transparency in decision-making processes and prevent capture by special interest groups, at all levels.
5. Counter the rising tide of anti-immigration voices by developing effective migration and integration policies and by explaining the benefits from immigration. Step-up international cooperation to manage migration flows at the global level.
6. Making inclusive growth happen requires evidence-based reasoning. More timely data are needed to understand the conditions under which economic growth translates into higher well-being, to monitor the distribution of the components of well-being in the population, and to evaluate their impact on social cohesion.

85

86 Our Vision

87 Our vision of inclusive growth involves four pillars. It is consistent with the general approach of the
88 Agenda 2030 that has inspired the Sustainable Development Goals (SDG). This approach revolves around
89 the idea of a “life of dignity” and the imperative of “leaving no one behind.” However, the Agenda 2030
90 specifies only to a limited extent the policies and institutions that help achieve the Goals, partly because
91 the Agenda recognizes that countries need to own and develop specific policy solutions that fit their
92 needs. The present paper builds on the assumption that a process of inclusive growth is necessary to
93 leave no one behind and to enable all to live a life of dignity. To this effect it suggests a complete policy
94 package that can inform national solutions and be implemented fully or in part, depending on the local
95 context and circumstances.

96 *First pillar: Inclusive growth is about enhancing well-being for all.*

97 Inclusive growth is not just about ensuring income adequacy or economic security for different income
98 groups. It is about improving a wide range of outcomes that matter for well-being such as employment
99 prospects, job satisfaction, health and educational outcomes, as well as the quality of social relations
100 and social cohesion. Many of those outcomes are heavily conditioned by individuals' opportunities
101 which are in general heavily affected by socioeconomic status. The most disadvantaged often live
102 shorter lives and find it difficult to break away from a vicious circle of educational underachievement,
103 low skills, poor employment prospects and social alienation. Vulnerable social groups are also affected
104 disproportionately by pollution and are often ill-equipped to cope with environmental degradation.
105 Within countries, some regions, and even neighborhoods within cities, prosper while others lag behind.

106 *Second pillar: Inclusive growth is also about empowerment and participation*

107 Inclusive growth is not only about outcomes and opportunities but also about processes. It requires
108 making citizens feel respected and able to participate in the decisions that affect their lives. At the
109 current juncture, there is clearly a perceived lack of legitimacy in the way globalization has been taken
110 forward. Critics of the process portray it as having been captured by powerful corporations and financial
111 institutions, and beset by insufficient transparency and accountability to citizens. Anti-establishment
112 protests (in votes or in the streets) reflect a widespread perception that selfish and greedy elites have
113 broken the social contract by creating a situation in which many decisions are taken without sufficient
114 accountability and without consulting the affected populations. The strong desire of people to be
115 respected and in control of their conditions seems universal: for instance, surveys among the most
116 destitute populations show that, even in cases in which economic deprivation seems the obvious
117 priority, the prime concern of these populations is not just about their economic condition but about
118 dignity, respect, and participation (ATD Fourth World 2013, 2015, World Bank 2000).

119 *Third pillar: Inclusive growth has positive repercussions on social cohesion, solidarity, belonging,*
120 *and trust*

121 Social cohesion involves the existence of strong social bonds among members of a society. This includes
122 willingness to help and cooperate with each other, and psychological perceptions of being included in
123 the society (Roca and Helbing, 2011; Bertelsmann Foundation and Eurofund, 2014; Grimalda and Tänzer,
124 2018). Dense social relationships, trust in other people and in institutions buttress social cohesion, as
125 emphasized by the research on social capital (Putnam, 2000).

126 Inclusive growth permits stronger bonding relationships between citizens and thus fosters social
127 cohesion. This meets fundamental needs of human beings, whose nature is fundamentally social.
128 Evolution seems to have developed a strong disposition to in-group bonding and cooperation as well as
129 distrust or hostility toward outsiders. But the delineation of the groups to which people affiliate
130 themselves is endogenous and can be influenced by policies and institutions. This is sometimes
131 described as the process of identity formation (Akerlof and Kranton 2000). At the limit, the identity of
132 human beings or even simply living beings can take over and foster a universal positive attitude, as
133 posited by Giddens (1991). To be sure, the alternative process – with individuals retrenching into
134 parochial attachment to traditional loyalties and to their ethnic or national group – is also possible,
135 especially if these sentiments are stirred by political leaders. Whether cosmopolitan values or parochial
136 values will prevail in the future, or whether they will interact dialectically, is at the moment impossible
137 to say. This is for sure a matter of concern for the reformist agenda.

138 The attitude toward migrants and minorities is in particular very sensitive to prevailing narratives about
139 their origins, differences, and contribution to the country and community. Another aspect of social
140 cohesion is the ability for people to experience and express feelings of solidarity, care and altruism.
141 Giving people the possibility to develop such solidarity bonds beyond their immediate circle of relatives
142 importantly enhances their life and gives it additional purpose and meaning. Trust (Putnam 2000; 2007)
143 is a closely related form of mutual recognition that is quite important to fluid social and economic
144 relations, and can also be influenced by policies and institutions.

145 *Fourth pillar: Economic inequalities harm well-being, empowerment, and social cohesion.*

146 While we emphasize the importance of conceiving inclusive growth by going beyond a strictly economic
147 outlook, as developed through the first three pillars, economic inequalities should not be neglected as a
148 specific policy target. This is the case for several reasons. First, while it is sometimes argued that growth
149 is satisfactory when everyone benefits from it, with a reference to Rawls' difference principle, it is now
150 recognized that when economic inequalities become excessive (even if the poor benefit from growth),
151 the social fabric is vulnerable to disintegration. This may lead to a weakening of participative decision
152 processes, making the disadvantaged populations feel disenfranchised and disempowered, and to a
153 dilution of social bonds between rich and poor, generating distrust, loss of empathy, and exacerbated
154 feelings of hostility (Alesina and La Ferrara, 2000; 2002; Rothstein and Uslaner, 2005). In extreme cases,
155 this can lead to protest and sometimes violent social conflict (Klasen et al., 2018). Such disintegration is

156 directly harmful to well-being, harming not only the worst-off but also the middle class as well as the
157 best-off since the enjoyment of community feelings vanishes for most social groups.

158 Moreover, economic inequalities, when excessive, also bring about a broad array of economic and social
159 costs. While data limitations and methodological issues have prevented reaching consensus on the idea
160 that income inequality hinders economic growth,⁴ it is well-established that inequality exacerbates
161 poverty both directly and by decreasing the poverty-reducing effect of economic growth (Bourguignon,
162 2003). Moreover, economic inequality tends to lead to large inequalities in health and education and is
163 negatively associated with intergenerational mobility (Corak 2013, Klasen et al., 2018). This makes for a
164 less productive workforce and for increasing gaps in productivity across jobs and firms, and may hinder
165 innovation. Similarly, greater inequalities tend to be linked to greater inequalities in access to funding,
166 reducing the opportunities of innovators and entrepreneurs from a modest background. Economic
167 inequalities, when entrenched in steep (e.g. winner take all) reward processes, may also imply greater
168 risks in economic activities, reducing incentives to invest and innovate, especially if the provision of a
169 safety net is undermined by social divisions between entrenched elites and the rest of the population.

170 In practice, inequality of initial opportunities or inequality in final outcomes are closely correlated.
171 However, understanding people's opinions about whether one type of inequality matters more than the
172 other may serve better policy design. There is scant empirical evidence on this issue. Generally speaking,
173 citizens of so-called "liberal welfare states" - typically in Anglo-Saxon countries - tend to have more
174 optimistic views on the possibility of social mobility in their society. For this reason, they are typically
175 more concerned with equality of opportunity and therefore their demand for ex post redistribution is
176 lower than elsewhere (Alesina and Glaeser, 2004; Alesina and Angeletos, 2005; Benabou and Tirole,
177 2005). Conversely, European citizens tend to attach more importance to equality of outcomes, because
178 significantly fewer citizens than in Anglo-Saxon countries see their societies as guaranteeing sufficient
179 opportunities (Corneo and Gruner, 2002). These are of course general tendencies and many citizens do

⁴ A view that has attracted some consensus is that the impact of inequality on economic growth is opposite in low-income and high-income countries. In the former the effect would be positive, because removing inequality would overcome credit constraints and reduce criminality. In the latter the effect would be negative because of the efficiency losses associated with taxation. In IPSP (2018, Ch. 3), a review of the literature shows that multiple results on various data sets and with various methods have been found. We believe that the link depends on the nature of inequality, for example if inequality reflects rent-seeking behavior and entrenchment of privilege or if it reflects the remuneration of talent and innovation (Aghion et al 2016). While some policies, for example in the area of taxes, may discourage work and innovation, other policies, for example in the area of in human capital or coordination between social partners (as in Scandinavia) may enhance efficiency and productivity (IPSP 2018, Ch. 8).

180 not easily fall into one category or another (Grimalda et al., 2018; Anderson and Leo, 2017). What this
181 evidence points to, nevertheless, is the existence of a strong cultural component into which type of
182 inequality is more concerning for people, and how much inequality may be considered fair. This cultural
183 variability is certainly something that policy-makers should take into account.

184 Roadmap for action: preliminaries

185 Before laying out the concrete policy items we propose in this paper, a few general remarks are in order.

186 First, addressing the multidimensional nature of inequalities and lifting outcomes and opportunities for
187 those that cumulate disadvantages effectively requires an integrated approach to policymaking, in
188 contrast with a traditional silo approach. For instance, conditional cash transfers may be more effective
189 if designed and implemented to span multiple dimensions of well-being such as children education,
190 health care and more broadly household consumption expenditures. This requires coordination across
191 multiple ministries for the implementation of the programs which can prove challenging especially for
192 emerging economies. There are however successful examples of coordinated policies even in those
193 countries: for instance, Brazil's *Bolsa Familia* and Mexico's *Prospera* program that combine several
194 policies into an integrated package have proved effective at reducing income inequalities (World Bank,
195 2016).

196 Second, countries and regions of the world vary significantly, in their economic situation, their social
197 structure, their policy traditions, their political history, and their environmental outlook. It is impossible
198 to advance a one-size-fits-all agenda, and adaptation to the local context is key to successful reforms.
199 We stress that we believe that the reforms we propose could and should be applied, suitably adapted,
200 to any country in the world. Although country's needs and preferences may be very different, the
201 general principle that policy-makers should be concerned with their citizens' well-being, broadly
202 defined, and that growth should be made inclusive, may be applied universally.

203 Third, however, policy coordination across countries can greatly enhance national actions. Indeed, in the
204 context of global competition, some tax and transfer or regulation policies can influence localization and
205 outsourcing decisions by firms, and governments may be put under pressure to outcompete other
206 countries in terms of attractiveness for investors, even if this may clash with their social goals. While it is
207 in principle possible to adjust trade and corporate tax policy to protect some local policies from external

208 competition, the best configuration is obviously coordination between governments so as to release
209 some of the pressure from investors.

210 Fourth, while national and local governments are key players in the implementation of the measures
211 proposed in this paper, civil society can also make important contributions, both by putting pressure on
212 public authorities to enact the desired measures, but also by initiating change in their own capacity and
213 in their local area.

214 Fifth, policy design and evaluation requires reliable data. Notable progress has been achieved over the
215 recent past in measuring income inequality and assessing its policy drivers. Unfortunately, non-income
216 dimensions of well-being, such as health and its distribution across income groups, are not yet well
217 covered by the various Inclusive Growth frameworks. Overcoming data constraints is key to identifying
218 robust empirical relationships between multidimensional living standards and policies, as well as to
219 ensure the responsiveness of outcomes to policy intervention. Indicators of social cohesion are possibly
220 even more in short supply, partly because of the under-theorization of the concept, and partly for lack
221 of empirical measurement (for an exception, see Bertelsmann Foundation and Eurofund, 2014). Against
222 this background, it appears highly desirable to improve the depth, breadth, timeliness and international
223 comparability of datasets and statistical instruments underpinning the measurement of social and
224 economic indicators; and to develop analytical capacity to measure both inclusive growth and social
225 cohesion patterns and understand their policy drivers, especially among G20 emerging economies.

226 Finally, we would like to add two remarks about the policy context created by globalization and
227 technical change.

228 First, while globalization and technical innovation are the main underlying drivers of economic and social
229 trends, it would be a mistake to take them as given exogenous constraints to which policymakers can
230 only try to react. In fact, both drivers are influenced by policies (IPSP 2018, chapters 3, 7; Fleurbaey et
231 al., 2018). Globalization is influenced by trade arrangements, monetary policies and financial
232 regulations, by product norms and intellectual property laws, as well as by foreign investment regulation
233 and dispute resolution mechanisms. Technical innovation is influenced by taxes and subsidies, by patent
234 regulations and intellectual property, by competition policy and the governance of organizations that
235 conceive, diffuse or adopt innovations. In other words, globalization and innovation can be addressed
236 not only by compensating those who stand to lose from their impacts on the economy, but also by
237 orienting their momentum in a more universally beneficial direction.

238 Second, a related point about technical change, is that while many routine jobs will be shed by
239 digitalization, continued income growth will make it possible to create new jobs addressing needs that
240 remain imperfectly met in the current economy. In particular, the caring economy as well as services to
241 the elderly and jobs dedicated to social bonding can be developed in more affluent societies and meet
242 an important demand provided that the beneficiaries of such services can be given sufficient means and
243 be incentivized to contribute when public good effects are present.

244 Roadmap for action: national policies

245 As explained in the previous section, coordination of national policies can play an important role in
246 enhancing the capacity of governments to achieve inclusive growth, and it is therefore useful here to
247 examine the policy options at the national level, before considering the international level.

248 *1) Social investment and the safety net:*

249 Before listing concrete policy options, three general remarks are in order about the safety net and the
250 notion of social investment.

251 First, many public policies are treated as expenses but should actually be considered investments, in
252 particular those that invest in human capital, at the individual level as well as at the group level. Those
253 include health care, education, and security. This means in particular that such policies may generate
254 additional growth that may be sufficient to repay for the associated costs (see also Anderson and Leo,
255 2017).

256 Second, a great majority of safety net measures are like reinvestments helping to preserve and expand
257 human capital. And the very same services (in particular health care) provide initial and continued
258 investment in the same facilities and without any distinction. For education, one can of course
259 distinguish initial education from continued training or re-training, but again, there is no reason why
260 some coordination of the providers should be avoided.

261 Third, a successful tenet of inclusive growth policies in the North of Europe is that they seek to protect
262 individuals, not jobs or industries. This enhances the efficiency of the economy, by making the decision-
263 makers and stakeholders more willing to adapt to changing economic conditions, while preserving
264 inclusion and dignity of the workers.

265 Against this background the policies proposed under the heading of social investment and safety net
266 are:

- 267 **1.** Ensuring universal access to quality public goods and services, in terms of health and good
268 quality education as well as good quality infrastructure, with an emphasis on electrification and
269 improved water and sanitation services in emerging economies. While universality is financially
270 challenging and may be out of reach at early stages of development, it appears ultimately
271 beneficial by increasing the acceptance of the services by the general population, and reducing
272 the symbolic exclusion and stigma endured by the beneficiaries of targeted support (IPSP 2018,
273 chapter 8). We stress that these policies will have a direct effect in reducing pre-tax income
274 inequality (or so-called market income inequality). In particular, enlarging the access to
275 education and improving the equality will improve the skills of prospective employees, thus
276 increasing their market wages. This is an “ex ante” form of redistribution that reduces the need
277 to implement “ex post” income redistribution through tax and transfers, as proven by countries
278 providing broad and high-quality education to its citizens, such as Scandinavian countries, South
279 Korea and Japan. We believe that it is important to enforce the role of the state as a provider of
280 assets that individuals hold before entering the labor market – in particular both vocational and
281 general skills and qualifications, as well as their physical capabilities (see key recommendation
282 3), although the role of the state in ex-post redistribution should not be discontinued (Causa et
283 al., 2018). .
- 284 **2.** Expanding the social protection net by reducing unequal access between regular (formal) and
285 non-regular (informal) workers, including workers of the sharing economy and of similar
286 precarious status; hence extending unemployment benefits coverage and increasing generosity
287 in countries where these are low; as well as well-designed minimum wages to address in-work
288 poverty and the risk of excessively low pay, for instance in emerging economies. Minimum
289 wages enhance productivity by incentivizing firms to adopt technologies that can justify the
290 required wage level, and therefore contribute to accelerating the modernization of the
291 economy.
- 292 **3.** Introducing or stepping-up conditional cash transfers in emerging economies, focusing on
293 efficient beneficiary targeting and precise evaluation of transfer effectiveness. The
294 conditionality of transfer has to be implemented in a way that avoids intrusiveness and
295 undignified treatment of the beneficiaries, but when it is well conceived it encourages
296 households to make decisions that benefit them (and especially their offspring) in the long run.

297

298 *2) Enhance the equity and effectiveness of taxes and transfers:*

299 Many countries can improve their tax and transfer system both in terms of efficiency and equity. In
300 particular, efficiency can be improved by seeking new tax bases that correspond either to inefficiencies
301 due to market failures that need to be tackled, or to rent situations and rent-seeking behaviors that
302 divert resources away from productive purposes; and reducing the traditionally heavy tax burden on
303 labor, which tends to make the labor market sluggish and to encourage labor-saving decisions in the
304 productive sector, including in technical innovations.

305 The two main types of reforms proposed here are the following:

- 306 • Making the tax system more equitable by: i) reducing tax breaks that disproportionately benefit
307 the rich, such as for owner-occupied housing or retirement contributions, and ii) making more
308 use of inheritance taxation by levying it at the receiver level so as to curb wealth inequality and
309 its transmission across generations. Inheritance taxation has become very unpopular, because
310 when it bears on bequests on the donor's side it seems to punish effort and saving, as well as
311 family caring. But applied to the receiver's side, it acquires a totally different meaning, since it
312 penalizes the accumulation of inherited advantage that undermines equal opportunity (Atkinson
313 2015). The same bequest shared among many beneficiaries should be taxed much less than
314 when a single heir receives it in full. Empirical evidence on the contribution of inherited wealth
315 to wealth inequality and wealth persistence is not univocally conclusive⁵, but can be viewed as
316 supporting the case for progressive inheritance taxes, which would involve taxing large
317 inheritances but not taxing or taxing at very low rates small inheritances received by poor
318 taxpayers, to ensure that the potential equalising effect of inheritances is not offset by
319 inheritance taxes. It makes sense to have an exemption level that avoids taxing the majority of

⁵ While some studies have found that inheritances tend to increase wealth inequality (Leitner, 2016, Humer et al 2016), others have found the opposite (Elinder et al 2015, Wollff and Gittleman 2015). This lack of consistency reflects the fact that while richer households tend to receive greater inheritance (and other wealth transfers) than poorer households, wealth transfers are actually greater for the poorer as a proportion of their current wealth holdings.

320 people who leave small inheritances. This reduces the number of people subject to tax without
321 losing much of the potential revenue.

322 1. An element of progressivity in the tax rate should also be introduced, both to improve the
323 perception of the fairness of this tax and to avoid penalizing the transmission of savings among
324 less wealthy families (Wolff, Waldenstorm).

325 2. Promoting job creation and labor-friendly technical innovation by reducing the reliance on
326 distortionary taxation of labor and shifting toward efficiency-promoting taxation such as
327 environment-related and rent taxes (IPSP 2018, chapter 4), designed to curb negative
328 externalities and unproductive advantages, including anti-competitive behaviors. There are
329 legitimate concerns about the adverse distributional effects of measures such as the repeal of
330 fossil fuel subsidies, which can raise the price of energy for poor households. These adverse
331 effects can be alleviated by income compensation mechanisms targeted at low-income groups,
332 particularly from an energy affordability perspective (Schwerhoff et al., 2017). It should be
333 emphasized that a more labor-friendly tax system would not stop technical progress, but it
334 would make it more compatible with the goal of empowering people, and combined with the
335 governance measures of the next paragraph, it would be compatible with upskilling and raising
336 the productivity of the work force.

337 *3) Improve governance in the economic, political and social spheres, strengthen social dialogue and*
338 *foster strong alliances between the public and the private sectors :*

339 Governance is essential in ensuring the implementation of an empowerment policy package (World
340 Bank 2017). The last decades have seen a dilution of local and national state power, as well as
341 absorption of many small and medium-size firms into larger units, giving both citizens and workers a
342 sense of disempowerment. While it is impossible to turn the clock back and downsize the scope of many
343 decision processes, it should be possible to restore some accountability and transparency by adapting
344 the rules of participation of stakeholders to the new globalized context, and ideally one can even hope
345 to improve the fairness of decision processes compared to the old status quo, which often lacked the
346 desired level of participation.

347 1. Establishing country-level coordinated systems of wage bargaining that counter undesired
348 increases in the dispersion of wage and productivity in the context of slowing productivity
349 (OECD, 2016a); as the experience of Scandinavian countries shows, a “social contract” based on

350 a more equitable distribution of market incomes and strong R&D investment can combine
351 equity, inclusiveness and fast technological modernization, hence reviving productivity while
352 ensuring a better distribution of its dividends (Agell and Lommerud, 1993; Moene and
353 Wallerstein 1997; Barth et al., 2014; 2015; Atkinson, 2015; IPSP 2018, chapter 8).

354 **2.** Enhancing social dialogue between the private sector, civil society, trade unions and business
355 associations, and other relevant stakeholders to promote an inclusive education system, which
356 expands opportunities for people of all ages and backgrounds to develop their human capital,
357 acquire relevant skills and improve their employment and overall life prospects; as well as an
358 inclusive labor market, in which women, youth, seniors, immigrants, people with disabilities, and
359 people of all social and ethnic backgrounds have access to quality employment opportunities.

360 **3.** Incorporating inclusive growth commitments into daily business practice and the adoption of
361 responsible business conduct; encouraging good corporate governance practices that are
362 inclusive and improve the well-being of all stakeholders including workers, suppliers, customers,
363 and local communities. The traditional doctrine by which firms should maximize shareholder
364 value while the other stakeholders, especially workers, should be treated as mere contractors,
365 has proved inadequate as it ignores the important investments in specific know-how made by
366 workers and the key role of trust and information flows in successful organizations. Modern
367 management seems to tend toward a horizontal model in which all contributors are treated as
368 partners and their specific information and specific needs are considered with due respect,
369 enhancing the quality of their contribution. This model is also much more credible in delivering
370 socially and environmentally responsible business conduct (IPSP 2018, chapters 6 and 8).

371 **4.** Introducing mechanisms to monitor campaign and party funding, as well as funding and
372 governance of the media, in order to avoid political capture by wealthy elites and the
373 disenfranchisement of ordinary citizens (IPSP 2018, chapters 13, 14). The frontier between
374 lobbying and corruption is blurred by mechanisms such as revolving doors between public
375 positions and private jobs, and more stringent transparency and cooling-period regulations
376 would contribute to restoring public confidence in institutions (IPSP 2018, chapter 6). The
377 influence of money in politics and in the media varies a lot between countries, and while legal
378 constraints on the formal involvement of money in political activities are insufficient to insulate
379 public debates from the pressure of well-funded interests, they can exert a positive influence.

380 **5.** Supporting a social and solidarity sector that generates positive social externalities and
381 enhances civic participation (UNRISD 2016). There are many different forms of social

382 entrepreneurship and they make a variety of contributions to social cohesion. Governments may
383 want to compare the social returns obtained by subsidizing such activities with directly
384 supporting the costs induced by their absence.

385 *4) Promote social cohesion and fight discrimination:*

386 While the measures listed up to now would contribute to including the average person into the benefits
387 of growth, they need to be supplemented with specific policies targeting groups which are
388 disadvantaged only by prejudice or dubious legal and conventional restrictions. Women and migrants, in
389 particular, can benefit from special efforts to promote their socio-economic inclusion.

- 390 1. Combating gender inequality under all its forms, in income and non-income dimensions; this
391 includes removing policy barriers that prevent women from participating in the labour market at
392 their full potential hence enhancing the provision of good quality childcare, addressing
393 horizontal inequities in taxation, and fostering anti-discrimination measures; tackling the
394 remaining gaps in education and access to capital; and, last but not least, fighting gender
395 discrimination and violence against women.
- 396 2. Enhancing migrants' integration in society, for instance in the labour market: lowering barriers
397 to employability, focusing on better recognition of skills acquired abroad and expansion of
398 language courses; as well as ALMPs and coaching to address potential information hurdles
399 beyond language barriers.
- 400 3. Developing educational and awareness campaigns to reduce discrimination against migrants,
401 demonstrating their long-run net benefits to the economy and to society.

402
403 We are aware that discrimination against different ethnic groups may be hard to eradicate, and
404 be driven by different factors. The studies on the topic distinguish between so called taste-based
405 discrimination, which consists of unconditional aversion to migrants, and statistical discrimination,
406 which is based on specific beliefs that come to be associated with people from different ethnicities. For
407 instance, people from other ethnic groups may be perceived as not sharing the same work ethic as
408 people from the ethnic majority, or as performing inappropriate behavior. These beliefs are often based
409 on factually unfounded stereotypes, which are stirred either by factious media (Gilens, 1999) or
410 politicians (Glaeser, 2005). While taste-based discrimination can be tackled effectively through long-
411 term educational programs (Putnam, 2007), there is more scope to intervene rapidly on statistical

412 discrimination. Our proposal is to diffuse factually founded information on immigrants contribution,
413 thus removing unfounded stereotypes with truthful information.

414 It is also important to stress that trust in governments is an important component of social
415 cohesion. Trust in government may also be subject to unfounded stereotypes, or simply to the fact that
416 voters' preferences and opinions may change sometimes rather flimsily (Hirschmann, 2002). We are
417 confident that our proposals leading to greater inclusiveness will also help restore trust in governments.
418 Nonetheless, we acknowledge that with the diffusion of social media public opinion may shift more
419 rapidly and unpredictably than in the past, and it may lead to polarization of political stances by the
420 public. This requires both the exploration of new communication strategies by governments and more
421 action by non-governmental-organizations and civil society for "fact-checking" initiatives and diffusion
422 of truthful information (IPSP 2018, Ch. 13).

423 Roadmap for action: international and global policies

424 Increased cross-country coordination and global rule-making, particularly within the G20, is needed to
425 spread the benefits of globalization more inclusively worldwide. This is needed in many areas including
426 taxation, product market regulation, innovation and intellectual property rights. Fair global
427 governance requires advanced countries and emerging economies to interact with each other on an
428 equal footing. This may imply a rethinking of the voting rules in international organizations to give
429 individuals around the world greater recognition of being represented and included in global decision-
430 making. This objective might imply that a country's weight in the voting should depend on its population
431 size more than on its GDP level. It has to be stressed, nonetheless, that some countries may need
432 capacity-building to facilitate policy implementation, reporting, and to take full advantage of the
433 opportunities provided by global governance. It also has to be stressed that, according to many political
434 scientists, world governance is becoming more and more "polycentric". New centers of governance
435 emerge in fluid and transformative ways, without following the standard rules defining the actions of
436 established institutions. This polycentricism may add both further room for action but also greater
437 unpredictability to the way global governance manifests itself.

438 *1) Develop global dialogue and exchange of good practices:*

439 A lot of coordination can operate through simple circulation of information about experiences of
440 different countries or regions, inspiring imitation or creative adaptation to different contexts. The key

441 measures we propose are as follows, with one focusing on civil society and the other on standard
442 setting.

- 443 1. Facilitating the exchange of good practices among networks of civil society, for instance among
444 city governments and other key stakeholders on effective policies to achieve inclusive growth in
445 cities (OECD, 2016b).
- 446 2. Opening a global dialogue and encouraging international standards in areas such as corporate
447 governance, competition policy, responsible business conduct, environmental protection and
448 anti-corruption practices.

449 *2) Enhance the institutional tools for global rule-making and implementation:*

450 The need for integrated packages applies not just in the national but also in the international context.
451 There are valuable tools and organizations that can be harnessed in a more consistent way to promote
452 the relevant goals. This suggests the following policy ideas:

- 453 1. Enhancing policy coherence between different areas of policy intervention and objectives, for
454 instance by re-examining the relationship between trade agreements and both labor
455 and environmental standards.
- 456 2. Reinforcing WTO multilateral trade sanctions mechanism as penalty for lack of responsible
457 business conduct in particular over labor and environmental standards.
- 458 3. Enhancing the role of international organizations in global governance, by greater focus on
459 stakeholder engagement and implementation in standard-setting and through engagement with
460 the G20 and other international fora. The United Nations and the G20 can play complementary
461 roles, the former having laid a general framework and set of goals while the latter can focus on
462 coordination and cooperation on concrete measures.

463 *3) Pursue cooperation on issues of global common interest:*

464 There are common goods and global issues that cannot readily be tackled without international
465 cooperation. The three most cited nowadays are tax evasion, climate change mitigation, and migrations.
466 We would like to add a fourth one.

- 467 1. Pursuing international cooperation in the area of automatic exchange of information to address
468 tax avoidance and evasion and shut down offshore tax havens; and in in the area of corporate
469 taxation through implementation of the measures agreed to as part of the OECD/G20 Action
470 Plan on Base Erosion and Profit Shifting (OECD, 2013).

- 471 **2.** Implementing climate policies at a global scale; policies such as introducing carbon pricing and
472 eliminating fossil fuel subsidies would make growth sustainable and improve health. As already
473 mentioned earlier, the possible regressive effects of such policies may be avoided through
474 suitably designed redistribution policies (Schwerhoff et al., 2017). There are important
475 differences between developed and developing countries. While carbon pricing is regressive in
476 developed countries, it is progressive in developing countries, but may nevertheless worsen
477 poverty, since the poor may consume less energy than the rich, but still depend on fuel subsidies
478 in a more important way.
- 479 **3.** Establish international coordination mechanisms to tackle migration flows. Migrations away
480 from economically deprived areas and from war zones have surged in recent years and have
481 generated a set of cooperation issues. The question of the distribution of refugees among host
482 countries, the funding of shelters in host countries near the conflict zones, and the prevention of
483 migrations at the source through economic and social policies all test the capacity of countries
484 to initiate joint action aiming at improving the situation of migrants and potential migrants. One
485 should not forget that the most deprived populations are often unable to migrate and would
486 deserve even more attention than the migrants.
- 487 **4.** Develop security cooperation linked to development cooperation and social cohesion. Conflicts
488 and resentments generate violent movements, such as the recent wave of Sunni terrorism in the
489 Middle East, South-East Asia, Africa, and in the West. While cooperation on intelligence and
490 surveillance of suspect movements is ongoing, deepening the links between development policy
491 and security considerations, in order to prevent the economic and social destabilization of areas
492 that creates fertile ground for violent rebellion, could improve the long-term outlook of this
493 crisis.

494 Discussion and Conclusion

495 Guided by the well-being, empowerment, and social cohesion pillars, this paper proposes a set of
496 policies tackling economic and social inequalities and disintegration both by improving the mechanisms
497 of redistribution and by improving the mechanisms that create primary incomes and social positions.

498 The vision proposed in this paper is not a utopian depiction of a perfect society, but a set of realistic
499 policies and reforms that would move us toward a more inclusive growth path. In this approach, we
500 follow Atkinson (2015) and Sen (2009) who argue that finding the direction of progress is more
501 constructive than outlining a “transcendental” objective. These considerations explain the important
502 role of national policy in this paper. Given that national governance is substantially more developed
503 than global governance, it is unavoidable to see national objectives as more easily attainable and as such
504 deserving priority over global objectives. Nevertheless, this does not mean that global objectives should
505 be neglected. In some cases, global objectives of great relevance should be given priority over national
506 objectives. An obvious example is climate change. It is obvious that a country may pursue greater
507 growth, possibly accompanied by equality and inclusiveness, disregarding the global objectives of
508 preventing climate change. In such cases, global objectives should be incorporated into the national
509 policy agenda. The same holds for the other relevant global objectives, such as those included in the
510 Sustainable Development Goals. Many of these objectives entail a net transfer of resources from high-
511 income countries toward low-income countries. As such, they imply a cost for high-income countries
512 that, strictly speaking, may hinder the achievement of national objectives, at least in the short run. In
513 the long run, however, there is a strong common interest in achieving convergence of living standards
514 over the world in order to construct a peaceful, cooperative and flourishing global society.

515 Some skeptics of our roadmap to action will question the overall financial viability of the package of
516 reforms we propose. Providing a detailed assessment of the fiscal impact of our proposed measures
517 goes well beyond the scope of this paper, especially considering the necessary and broad-ranging
518 adjustments that are needed when implementing our vision in different countries. We nonetheless want
519 to stress that we have strived to provide ideas for both increased public expenditures and for increased
520 fiscal revenues. Although we cannot guarantee that the overall package will come at no cost for a
521 country, we remain confident that the possible financial costs are less sizable than what is commonly
522 argued. In fact, Atkinson (2015) proposes a package of reforms to reduce inequality in the UK that
523 shares many similarities with those illustrated in the present paper. He provides an estimation of the
524 fiscal impact of his overall package, showing that it could be achieved at no great cost.

525 The question of the political feasibility⁶ of the package proposed in this paper goes beyond the scope of
526 this analysis. While the whole package may appear ambitious, particular components of it are being
527 implemented or discussed in various countries. Our goal is merely to offer ideas for the public debate
528 and for policy-makers. At a time when exclusionary values of authoritarianism, nationalism, racism,
529 religious conflicts and xenophobia appear on the rise again, many countries and the world itself are at a
530 crossroads. Our responsibility as scholars and experts is to show that there are ways toward inclusion
531 and peace.

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⁶ As argued by one reviewer, there is also another domain that would require a radical change in approach, and this is in the methodology of Economics. 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. 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.

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619

Existing initiatives and analyses

620 **Implementation Overview:**

621

622 Significant progress has been made in devising and implementing Inclusive Growth strategies at both
623 national and cross-national levels over the last few years. Such progress is corroborated by major
624 international conventions that create a level playing field on tax policy. These empower countries to
625 exert control over tax revenues and reinvest them in expenditures raising well-being for the neediest.
626 Commitment to foster shared prosperity more broadly is further signaled by the strong emphasis on
627 leaving no one behind in the 2030 Agenda. The implementation of country-specific policy packages is
628 further needed to foster inclusive growth dynamics on a structural basis.

629

630 **Existing Agreements:**

631

632 ➤ Sustainable Development Goals – Goal 10 “Reduce Inequality within and among countries”

633

634 Goal 10 explicitly states that “...Economic Growth is not sufficient to reduce poverty if it is not inclusive
635 and if it does involve the three dimensions of sustainable development – economic, social and
636 environmental.

637

638

639 ➤ Europe 2020 strategy

640

641 It was adopted by the European Council in June 2010. It aims at establishing a smart, sustainable and
642 inclusive economy with high levels of employment, productivity and social cohesion, for the decade
643 2010-2020.

644

645

646 **Existing Conventions and Policy Platforms:**

647

648 ➤ OECD/G20 Base Erosion and Profit Shifting (BEPS) package.

649

650 The proposal for broadening participation in the OECD/G20 BEPS Project was endorsed by the G20
651 Finance Ministers at their meeting on 26-27/2/2016 in Shanghai and was welcomed by the G20 Finance
652 Ministers and Central Bank Governors at their meeting on 14-15/4/ 2016 in Washington D.C. 86
653 countries have so far committed.

654

655 <https://www.oecd.org/g20/topics/taxation/beps.htm>

656

657

658 ➤ OECD Anti-Bribery Convention;

659

660 The OECD Anti-Bribery Convention establishes legally binding standards to criminalise bribery of foreign
661 public officials in international business transactions and provides for a host of related measures that
662 make this effective.

663

664 <http://www.oecd.org/corruption/oecdantibriberyconvention.htm>

665

666 ➤ OECD Guidelines for Multinational Enterprises.

667

668 They offer governments' recommendations to multinational enterprises operating in or from adhering
669 countries. They provide non-binding principles and standards for responsible business conduct. They are
670 the only multilaterally agreed code of responsible business conduct that governments have committed
671 to promoting. 42 governments had agreed, as of 2011.

672

673 <http://www.oecd.org/daf/inv/mne/48004323.pdf>

674

675

676 ➤ OECD's standard on exchange of information.

677

678 It aims at the implementation of international standards on tax transparency. It ensures that these high
679 standards of transparency and exchange of information for tax purposes are in place around the world
680 through its monitoring and peer review activities. Over 130 jurisdictions have agreed.

681

682 <http://www.oecd.org/tax/exchange-of-tax-information/>

683

684

685 ➤ OECD Inclusive Growth Initiative

686

687 In 2012 the OECD launched its Inclusive Growth Initiative, a novel approach to analyze and address rising
688 inequalities, monitor material living standards and broader well-being, and design underlying policy
689 packages. OECD Ministers endorsed the Inclusive Growth agenda and called for its advancement. They
690 stressed that inequalities are multidimensional and that better access to employment opportunities,
691 health and education services, is needed to tackle them. They mentioned the need to link pro-growth
692 policies with equity objectives, highlighting policies to boost productivity, ensure fair competition,
693 promote efficient labor and product markets, address tax evasion and avoidance, and stimulate
694 investment, innovation and entrepreneurship.

695

696 <http://www.oecd.org/inclusive-growth/>

697

698

699 **Analysis and Data:**

700

701 ➤ Several OECD reports specify the notion of Inclusive Growth, clarify its theoretical
702 underpinnings, define its measurement, and map the progress towards achieving it.

703

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721
722 Points 72 through 77 of the report details aggregate progress towards Goal 10 of the Sustainable
723 Development Goals for 94 countries.

724
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726
727
728 ➤ *Report of the International Panel on Social Progress, Rethinking Society for the 21st Century*; and
729 Fleurbaey et al., *A Manifesto for Social Progress. Ideas For A Better Society*, both at Cambridge
730 University Press, 2018.

731
732 The International Panel on Social Progress brings together several hundred experts from different
733 academic disciplines and from all around the world to offer science-based assessment of the state of
734 social progress around the world. The range of topics covered includes democracy and citizenship,
735 poverty, inequality and well-Being, global risks and resources, the labor market, global health, gender,
736 urbanization, education and communication.

737
738 The draft of the report is available at: <https://www.ipsp.org>

739
740
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742
743 This report gathers empirical evidence on the factors behind slowing productivity gains and rising
744 inequality; it suggests possible linkages between these two trends; it draws preliminary conclusions
745 on the type of policy packages that are needed and on the implications for policy making.

746 [https://www.oecd.org/global-forum-productivity/library/The-Productivity-Inclusiveness-Nexus-](https://www.oecd.org/global-forum-productivity/library/The-Productivity-Inclusiveness-Nexus-Preliminary.pdf)
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748
749 ➤ Eurostat (2016). “Smarter, greener, more inclusive? Indicators to support the Europe 2020
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751
752 It supports the Europe 2020 strategy by monitoring progress towards the targets and goals defined
753 under the three mutually reinforcing priorities of smart, sustainable and inclusive growth.

754

755 <http://ec.europa.eu/eurostat/web/products-statistical-books/-/KS-EZ-16-001>