This collection of articles adds greatly to our understanding of the link between economic performance and inequality, combining theory, econometrics, and case studies, and looking at both taxes and expenditures. The questions are investigated in a huge range of circumstances—both developed and developing countries, at the national and subnational levels. The IMF recognizes that its policies can have huge distributive consequences and so this book will be important not only for guiding its own work, but for scholars and policymakers seeking to further enhance our understanding of the determinants of inequality and devising policies that might reduce it.

—Joseph E. Stiglitz
Professor, Columbia University

This volume constitutes a definitive reference for serious students concerned with the redistributive role of the state, particularly in developing countries. Careful technical analyses back new ideas, especially on the tax side, for progressivity with minimal or no trade-off with revenue and growth: the unexploited relevance of income and property compared to indirect taxes, the centrality of such “administrative” issues as tax compliance, the still-minor role of wealth taxes, the risk of bilateral tax treaties for low-income countries. Nor are the authors naïve about the politics. Another terrific IMF contribution on how to tackle inequality within and across countries. I hope IMF operational staff pay heed.

—Nancy Birdsall
President and Co-Founder, Center for Global Development

In this engaging collection, leading experts address the distributional effects of an array of fiscal instruments. The revenue chapters span income, consumption, and property taxation, while the spending chapters tackle means-tested and contributory cash transfers, as well as expenditures on health and education. The authors consider the effects of fiscal policies in countries at diverse levels of economic development, and over a period of decades, with keen attention paid to recent rounds of fiscal consolidation. This vividly detailed yet accessible volume fills a void in the inequality literature, and promises to prompt lively debate about the consequences of fiscal policy.

—Janet C. Gornick
Director, Luxembourg Income Study (LIS) Cross-National Data Center, Luxembourg, and Professor, Graduate Center, City University of New York
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INEQUALITY and FISCAL POLICY

EDITORS
Benedict Clements, Ruud de Mooij, Sanjeev Gupta, and Michael Keen

INTERNATIONAL MONETARY FUND
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Excessive income inequality in many parts of the world is one of the defining issues of our time. Not only is extreme income inequality a moral and political issue, but it has important macroeconomic implications. There is growing evidence that excessive income inequality is detrimental to macroeconomic stability and economic growth.

I strongly believe that economic growth should be more inclusive and therefore more sustainable. This means improving the design of government tax and spending policies; enhancing financial inclusion, so that the poor have access to credit and financial markets; and promoting transparency and good governance, so that the doors of opportunity are open to all.

The topic of excessive inequality is relevant for the IMF in all three of its core activities—lending to support macroeconomic adjustment programs; macroeconomic surveillance, including related policy analysis; and technical assistance to build capacity, especially on government taxation and spending.

Fiscal policy is the government’s most powerful tool to achieve distributional objectives. Tax and spending policies must be designed wisely to minimize any adverse effects on incentives to work, save, and invest. On the revenue side, this implies building wider, more reliable tax bases by reducing exemptions, combating tax evasion, and strengthening administration. On the expenditure side, priorities include expanding access to education and health—which will bolster equality of opportunity—and better targeting of social benefits to the poor.

I hope this book will assist policymakers in designing more equitable fiscal policies that will help generate more equitable growth.

IMF advice has been mindful of the social impact of economic policies. Social spending floors are a key feature of programs supported under the IMF Extended Credit Facility for low-income countries. Measures to protect the most vulnerable have featured in IMF-supported programs with high-income members, including in the euro area. We are also addressing equity and social issues in our regular country-level economic surveillance, whenever they are macro-critical.

This book is designed to help further integrate income inequality issues into the IMF’s policy advice. I hope it will also spark further debate and research on this topic both inside and outside the IMF.

Christine Lagarde
Managing Director
International Monetary Fund

Foreword
Acknowledgments

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