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# IMF Working Paper

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## Is There a One-Size-Fits-All Approach to Inclusive Growth? A Case Study Analysis

by Sriram Balasubramanian, Lahcen Bounader, Jana Bricco, and Dmitry Vasilyev

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I N T E R N A T I O N A L M O N E T A R Y F U N D



**IMF Working Paper**

Institute for Capacity Development

**Is there a one-size-fits-all approach to inclusive growth? A case study analysis<sup>1</sup>****Prepared by Sriram Balasubramanian, Lahcen Bounader,  
Jana Bricco, and Dmitry Vasilyev****Authorized for distribution by Valerie Cerra**

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**Abstract**

Is there a one-size-fits-all approach to inclusive growth? We look at four key case studies across advanced and emerging markets—the Nordics, India, Brazil, and Egypt—to try to answer this question. We highlight qualitatively in these countries the key components of inclusive growth models, outcomes from these models, and the road ahead in the respective countries. Some of the analysis focuses on co-operative labor markets in the Nordics, direct benefit transfers in India, the role of social assistance and commodity boom in Brazil, and the inequality puzzle in Egypt. The paper finds that there is a lack of homogeneity among the approaches by these countries and identifies the need for customized solutions to inclusive growth. A one-size-fits-all approach doesn't seem to work. The more customized the inclusive growth model, the better the overall outcome.

**JEL Classification Numbers:** E65, I32, I38, J48.**Keywords:** employment, inclusive growth, inequality, macroeconomic policy, macro-structural policies, poverty, social assistance.**Authors E-Mail Addresses:** [SBalasubramanian@imf.org](mailto:SBalasubramanian@imf.org); [LBounader@imf.org](mailto:LBounader@imf.org); [JBricco@imf.org](mailto:JBricco@imf.org); [DVasilyev@imf.org](mailto:DVasilyev@imf.org)


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## I. INTRODUCTION

**Countries' success in ensuring strong, sustainable, and inclusive growth has varied considerably.** In general, the share of the population that has access to basic services such as health, education, infrastructure, and finance is correlated with per capita income (Cerra, forthcoming). The level of development is associated with a range of other policies and outcomes too, such as the ability to raise tax revenue and use it effectively for social safety nets and initiatives to strengthen the business environment. However, correlation is not determination, and at every development level, countries' performances differ. In addition, countries may do well on some dimensions but fall short on others.

**Achieving inclusive growth requires policy actions across many fronts.** How have countries fared along different dimensions of inclusive growth? What have been countries' experiences with implementing reforms to improve it? This paper aims to take a holistic review of policies and actions that were effective in making growth inclusive. The paper reviews some case studies in countries' experiences, with examples drawn from different regions and levels of development.

**We begin these case studies with the example of the Nordic countries, which are typically among the top performers on nearly every dimension of well-being.** For example, the Nordic countries regularly rank at or near the top of the World Happiness Report and score first in other cross-country rankings of quality of life (e.g., the OECD better lives index). We examine the key features of the policy framework that has driven these successes.

**Emerging and developing economies face stiff challenges.** At lower levels of development, countries have to make difficult choices in prioritizing the use of their limited resources. They face an array of hurdles such as poor infrastructure, a legacy of weak governance, less diversified economies, and a large share of the population in poverty or located in hard-to-reach rural areas. Even so, while it may be difficult to replicate the broad successes of the Nordic countries, EMDEs made progress along some dimensions.

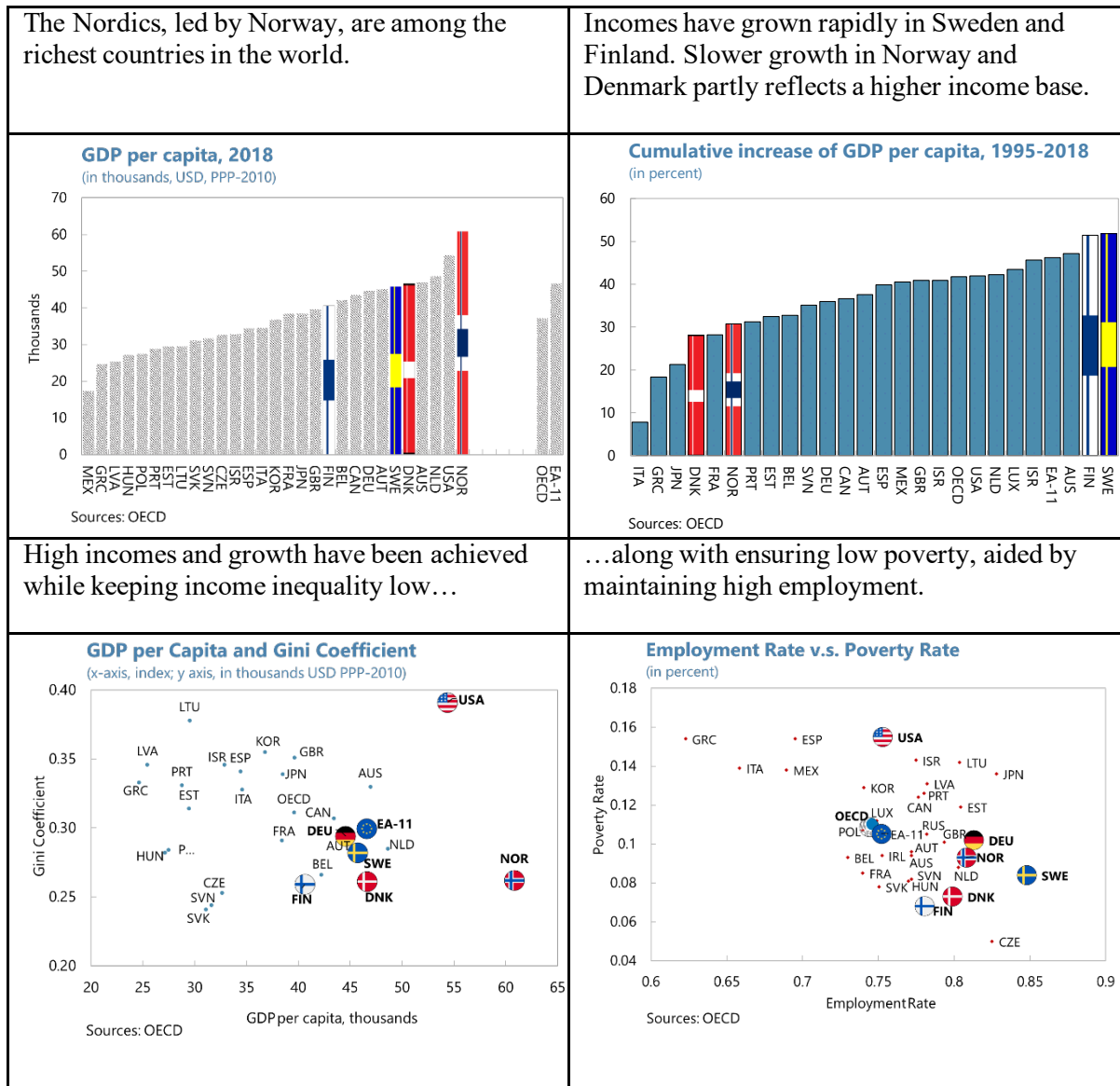
**Following the discussion of the Nordic model, we next present case studies of select EMDE countries.** The countries of India, Brazil, and Egypt—representing three different regions—have faced different challenges and headwinds based on their circumstances. In many dimensions of inclusive growth, they still have scope for considerable improvements. Even so, they have undertaken successful reforms in some areas, providing hope that a commitment to reform can bear fruit. Their experiences can provide lessons for other countries, especially for other EMDEs with similar resource constraints and challenges.



## II. THE NORDIC MODEL OF INCLUSIVE GROWTH

The Nordics are widely seen as being successful in achieving inclusive growth, although they still face challenges in some areas (Figure 1). For this paper, the Nordics comprise Denmark, Finland, Norway, and Sweden. These countries share some common features in their policy frameworks, often referred to as the “Nordic model,” but there are significant policy differences among this group, and their policy frameworks have evolved over time.

**Figure 1. Economic Developments and Inequality in OECD countries**



### A. Main Features of the Nordic Model

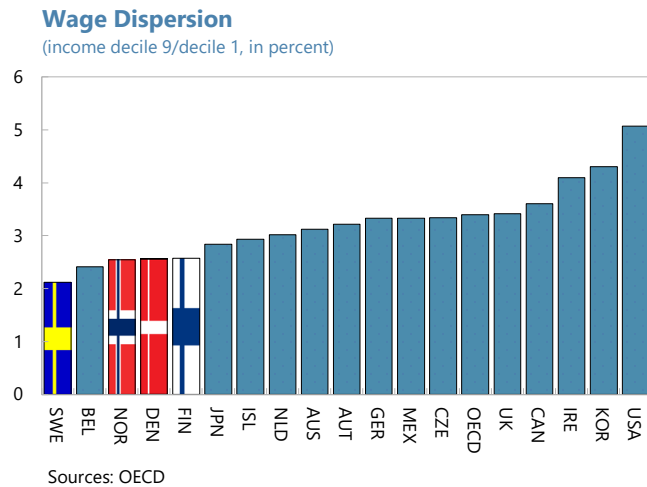
The foundation of the Nordic model is a strong economy, with high levels of employment and productivity, which generates the resources needed to support strong social services. A central theme of the model is maintaining the flexibility to adapt to developments in trade and technology.



Key elements of the Nordic model include:

- Cooperative labor markets:** enterprises and unions seek sustainable wages and conditions, providing an environment conducive for investment and training. Flexibility to adopt new technology or changes to improve efficiency is enabled, such as by employers and unions providing re-employment support for those losing jobs as seen in Sweden. Wage dispersion is low (Figure 2), reflecting the bargaining priorities of unions to protect low-income workers.

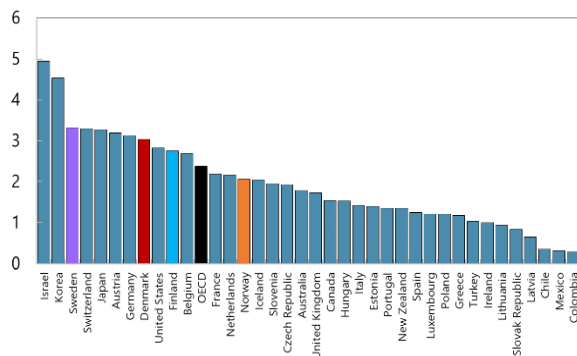
**Figure 2. Wage Dispersion**



- Competitive markets and innovation:** productivity is likely promoted by high openness to trade and sound regulation of goods, services, and network industries that limits entry/exit barriers which in turn promote competition and innovation. R&D spending and intangible investment are relatively high and digitalization amongst firms is one of the highest in the OECD. (Figure 3)

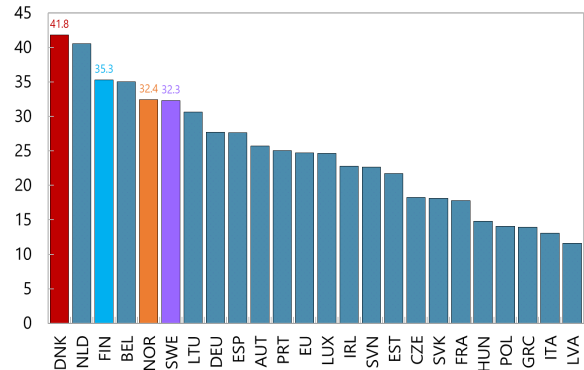
**Figure 3. Factors of Innovation: Spending on R&D and Firm-Level Digitalization**

**Gross Domestic Spending on R&D, latest available**  
(Percent of GDP)



Notes: Data of Australia, New Zealand and Switzerland are from 2017, Austria and Colombia from 2019, and the others from 2018.  
Sources: OECD.

**Firms with High Level of Digital Intensity**  
(Percent)



Sources: European Commission, Digital Scoreboard 2017.

- Strong social services and welfare are underpinned by sound fiscal policy:** Investment in public education and health services supports high-quality human capital, while universal social welfare limits poverty, together with promoting social inclusion.

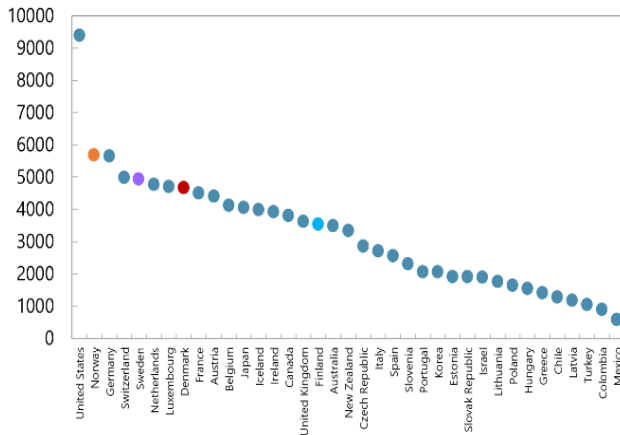


As a result, government spending is high relative to GDP (Figure 4), especially in Finland and Denmark (2<sup>nd</sup> and 3<sup>rd</sup> in the OECD at around 55 percent of GDP).<sup>2</sup>

**Figure 4. Social Services: Public Spending on Health and Education**

**Health Spending, 2019**

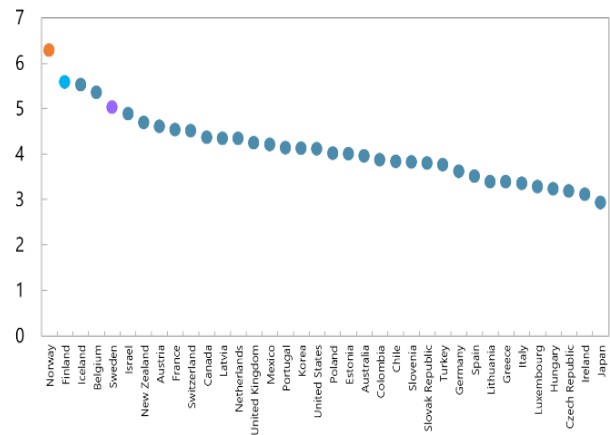
(US dollars per capita)



Sources: OECD.

**Public Spending on Education, 2016 or latest available**

(Percent of GDP; Primary to tertiary)



Notes: The latest available data for Chile and Colombia are 2016. The others are 2015.  
Sources: OECD.

- Tax burdens are relatively high**, but the tax system seeks to limit the impact on potential growth, by relying to a relatively large extent on income and consumption taxation. In particular, personal income taxes are among the highest in the OECD, yet the labor tax wedge (including social security and payroll taxes) is contained, helping to protect employment (Figure 5).<sup>34</sup> Corporate income tax revenue is modestly below OECD average, limiting drag on investment and productivity. Taxes on goods and services are relatively high, yet these have less impact on growth. The prudent medium-term fiscal policy supports moderate public debt, providing fiscal space to cushion shocks, and underpinning public confidence in the ability of the government to sustain strong services and welfare support, which helps make high taxes more acceptable. Kleven (2014) finds that the high tax levels in the Nordic countries are supported by broad tax bases and substantial third-party reporting, which discourage tax avoidance and tax evasion, and the subsidization and public provision of goods that are complementary to working, which encourages a high labor supply.<sup>5</sup>

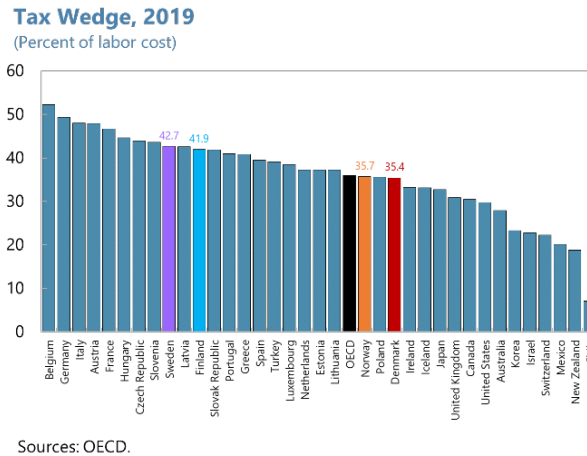
<sup>2</sup> OECD statistics: <https://data.oecd.org/gga/general-government-spending.htm>

<sup>3</sup> OECD statistics on income revenues: <https://data.oecd.org/tax/tax-revenue.htm#indicator-chart>

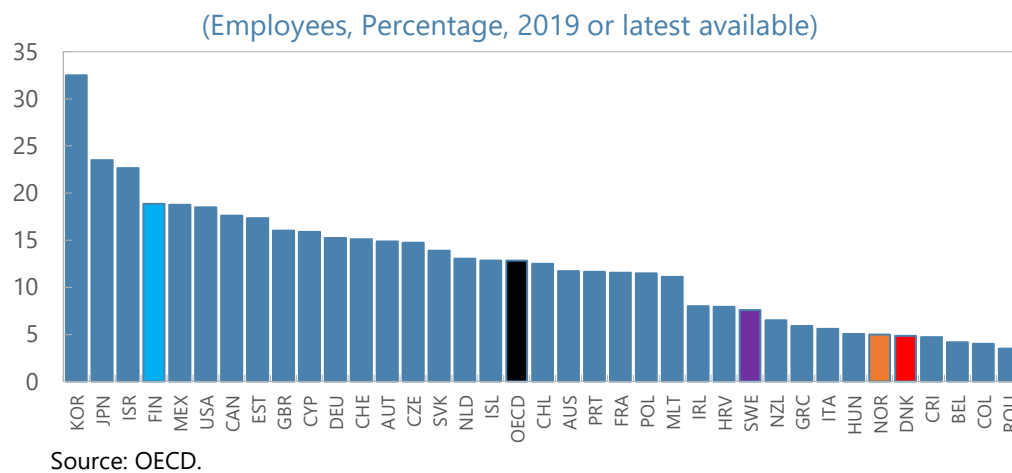
<sup>4</sup> OECD statistics on labor tax wedge: <https://data.oecd.org/tax/tax-wedge.htm#indicator-chart>

<sup>5</sup> Kleven (2014) also considers social and cultural influences and finds that correlations are quite striking and favor the notion that the Nordics are more socially motivated, but that the evidence is difficult to interpret.



**Figure 5. Tax Wedge**

- **Gender equity:** High female labor participation is promoted through policies including parental leave, subsidized childcare, and scope for shorter working hours for those with young families which made it easier for women to enter the workforce and return following childbirth. Gender wage gaps are among the smallest across OECD countries (Figure 6).

**Figure 6. Gender Wage Gap, 2019**

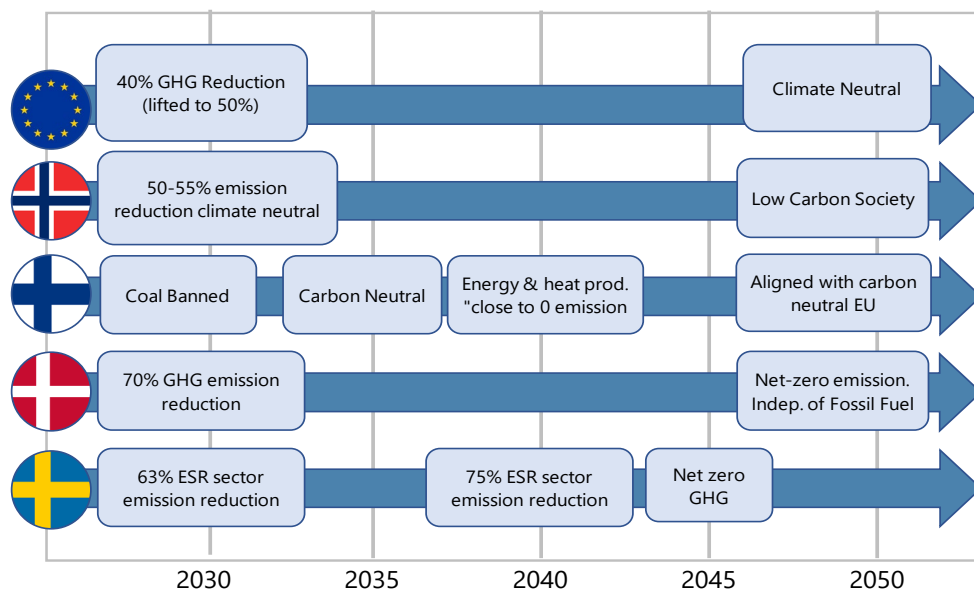
- **Climate change:** The Nordics also have some of the most ambitious climate targets in the world and invest a considerable amount into climate change mitigation making them leaders in this area as well (Figure 7). Most Nordic countries implemented their climate targets into domestic law binding future ruling parties to abide by these reduction goals in the next years to come. Sweden is currently topping the Climate Change Performance Index ([CCPI](#)) and Denmark has announced to end all oil and gas activities in the North Sea by 2050. However, challenges remain, while the Nordics are on track to meet their EU climate targets, current annual rates of reductions are below what is required to meet their own targets. Also, investment needs for climate change adaptation in terms of



safeguarding coastal areas against rising sea levels will require additional investments as well (Figure 8).<sup>6</sup>

**Figure 7. Nordic Climate Change Targets and Ambitions**

(Compared with 1990 levels)

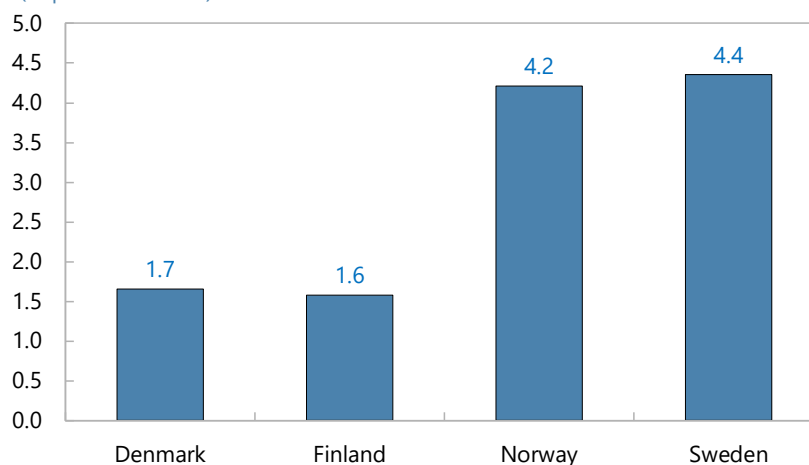


Source: Danske Bank; Danish Ministry of Climate; Energy and Utilities; Finnish Ministry of the Environment; Norwegian Ministry of Climate and Environment; Swedish Ministry of the Environment.

Notes: GHG=Greenhouse Gas; ESR=European Effort Sharing Regulation

**Figure 8. Estimates of the Annual Costs to Improve Public Infrastructure for Climate Change Adaptation**

(in percent of GDP)



Source: IMF Fiscal Monitor October 2020.

<sup>6</sup> A deeper discussion on how climate-related policies impact inclusive growth is provided in the fiscal, climate and to some extent also the technology chapters in forthcoming book "How to Achieve Inclusive Growth", edited by V. Cerra, B. Eichengreen, A. El-Ganainy, and M. Schindler due for publication in 2021.



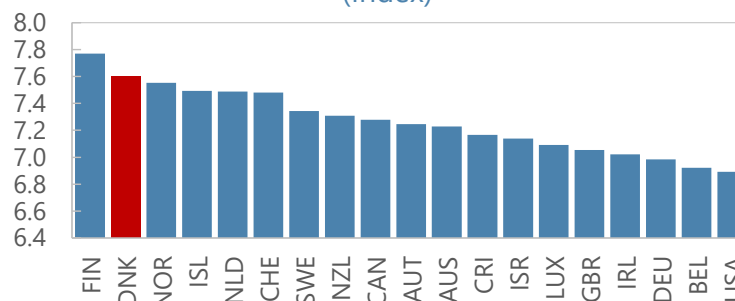
## B. Inclusive Growth Policies in Nordic Countries

The following sections highlight key aspects of the policy frameworks in Denmark and Sweden as an example.

### Denmark

**Denmark enjoys one of the world's highest standards of living.** Strong institutions combined with sound economic and social policies have delivered robust economic performance and high social inclusion. The business climate ranks among the best in the world and education levels are high. Measures of well-being suggest Danes are among the happiest people in the world, as in other Nordic countries (Figure 9).

**Figure 9. Happiness Score**  
(Index)



Sources: World Happiness Report 2019, UN Sustainable Development Solutions Network.

Note: Higher numbers mean more happiness. Caution is needed in interpreting scores for any individual country as the quality of underlying data can vary.

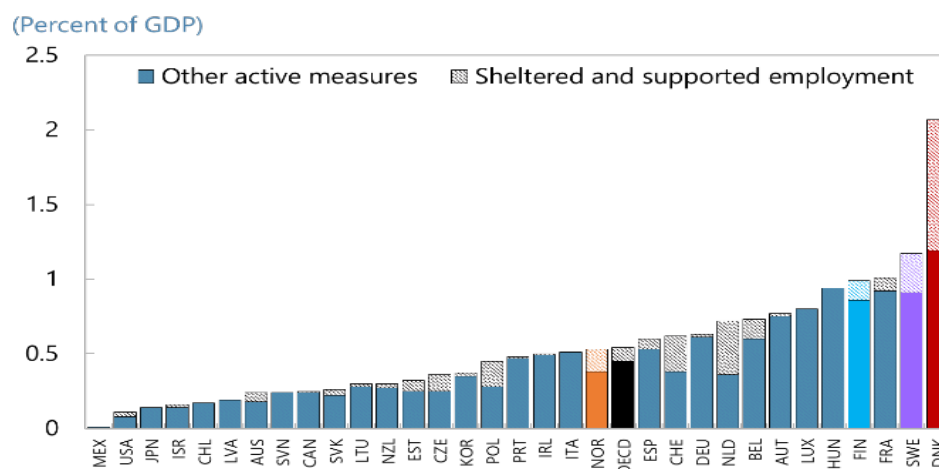
**Inequality effects of new policies are usually analyzed reflecting the importance attached to equality by Danish society.** If policies are estimated to lead to sizable negative impacts on equality their political feasibility is questionable. While this approach is not enshrined in law it is a common practice when new policies are discussed in parliament.<sup>7</sup>

**The “flexicurity” labor market model has fostered high employment and incomes with low-income inequality.** Denmark’s labor market model combines flexibility for businesses with security for its citizens through active labor market policies (ALPMs), high mobility, and a comprehensive income safety net (Figure 10). Despite high union and collective bargaining coverage, Danish employers can hire and fire employees without large costs, so they can quickly adapt to changing market conditions. In return, laid-off workers are supported for up to two years through an unemployment insurance fund with high replacement rates for low-income groups (up to 90 percent of previous earnings). In addition, they receive extensive job search services and educational training that is matched with current skill shortages, and employers that hire the unemployed or unskilled workers can receive subsidies. Nonetheless, the very high ALMP spending does not translate in higher employment for the low-skilled when compared with countries that spend much less on ALMPs.

<sup>7</sup> According to Danish officials, before policies are enshrined in law, there are opportunities to discuss their impact on inequality during parliamentary debates. However, “inequality impact studies” are not mandatory.



**Figure 10. Public Spending on Active Labor Market Policies (ALMPs)  
2016 or latest available year**



Sources: OECD Economic Survey Denmark 2019.

**Recent reforms have succeeded in boosting labor participation rates and reducing long-term unemployment, but challenges remain.** Policies have been designed to keep people in employment longer, incentivize labor participation, avoid inactivity traps, upgrade skills, and improve migrant integration. For example, the 2011 pension reform raised the employment rate of older workers by linking the statutory retirement age to life expectancy. More recent initiatives include the 2018 tax reform that increased deductions for pension contributions. Nonetheless, youth inactivity has risen since the crisis due to the high skills needed to enter the Danish labor market. Moreover, skill shortages are increasing and access to skilled foreign labor remains cumbersome.

### *Sweden*

**Strong employment has contributed to enhanced well-being and reduced poverty in Sweden.** Sweden is a knowledge-based economy, well-integrated in global value chains, which ensures high standards of living, well-being, income, and gender equality, as well as high environmental quality to its inhabitants.

**The policy framework in Sweden, the so-called “Swedish model” puts inclusive growth at its core and is based on three pillars.** In particular, it aims to “increase prosperity to the benefit of all, while safeguarding the autonomy and independence of citizens” and is based on three pillars: (i) a flexible labor market, (ii) a universal welfare system, and (iii) an economic framework that promotes openness and stability.<sup>8</sup> To ensure the effective functioning of these pillars, a number of prerequisites are present in Sweden: strong public finances, trust in the system, high employment, and strong social partners.

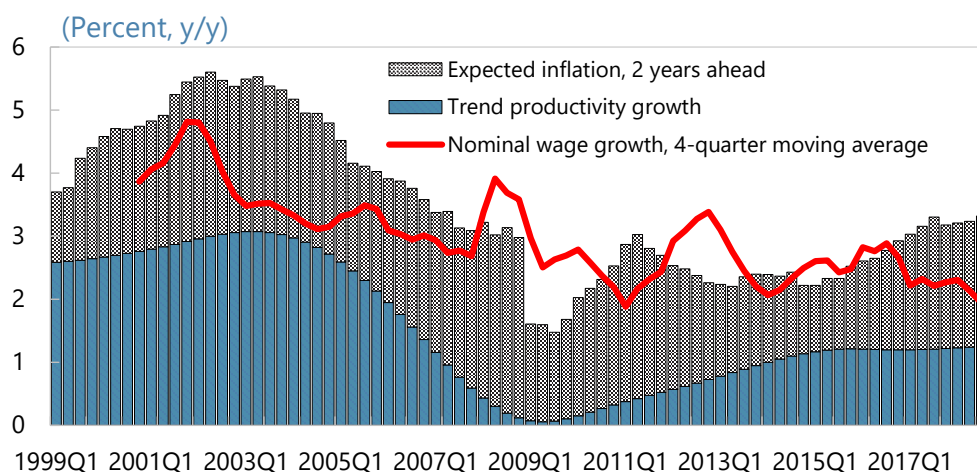
**The first pillar is a flexible labor market that supports adaptation to new developments and technologies.** The characteristics of the Swedish labor market are coordinated wage formation, an active labor market policy including employer-financed “job-security councils”, and generous unemployment benefits. Wages in Sweden are set through collective

<sup>8</sup> Government Offices of Sweden (2017) “The Swedish Model”



agreements between the unions and employers rather than through state interventions and laws. For instance, there are no statutory minimum wages in Sweden. In the past, unions have been usually constructive and embraced transformation in return for income security and active labor support measures. This framework resulted in steady real wage growth that has been in line with productivity advancements (Figure 11).

**Figure 11. Underlying Drivers of Nominal Wage Growth**



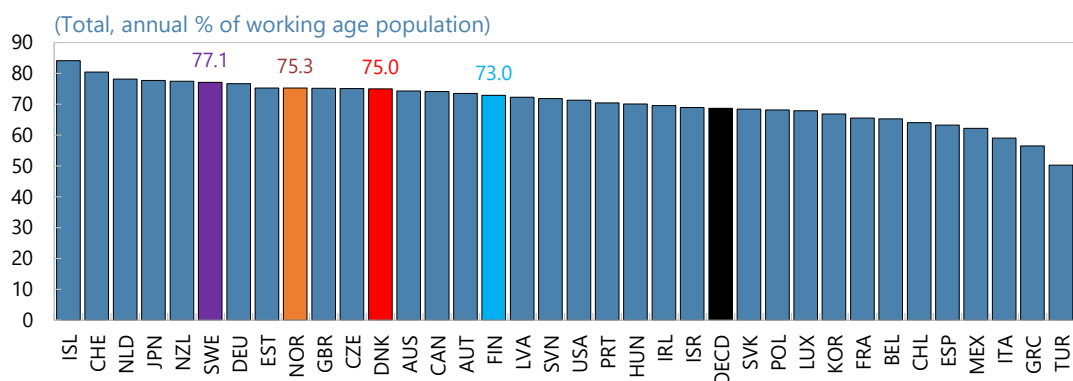
Sources: Eurostat and TNS Prospera.

Three active labor market policies support mobility in the labor market by (i) providing training to laid-off workers, (ii) providing subsidies to employers that hire unemployed people, and (iii) matching unemployed people with jobs. A unique feature of the Swedish model is job-security councils. These are funded by employers and actively help laid-off workers to find a job as soon as possible through financial support and job counseling. By “not protecting the job but the worker” this active labor market policy is enabling Sweden to support structural economic change. Lastly, generous unemployment benefits provide income security but are made conditional upon active job search or participation in training to incentives work.

**The second pillar is a generous welfare policy that aims to achieve high and equitably distributed prosperity while promoting high employment and competitiveness.** Swedish welfare policy can be distinguished by a high degree of universality, i.e. public services and transfers are designed as social rights that cover the entire population and not only disadvantaged groups. This approach avoids costly needs-testing and enhances the efficiency of the system.<sup>9</sup> This covers welfare services such as childcare, schools, and healthcare, social transfer systems such as social insurance, parental leave insurance, and unemployment insurance. These services support a high employment rate among women and the highest employment rate in the EU (Figure 12).

<sup>9</sup> While need-tested services also exist in Sweden, there are intended to work as the last social safety net when the rights-based system is insufficient.



**Figure 12. Employment Rates, 2019 or latest available**

Source: OECD Economic Survey Sweden 2019.

**The third pillar is the orientation of economic policies towards a stable economy while promoting openness and competition.** The mandate of shielding the economy against major fluctuations is with the central bank. The Riksbank is tasked with attaining a two percent inflation target and supporting sustainable growth and a high level of employment. Fiscal policy aims to contribute to prosperity and equitable distribution of prosperity gains while stabilizing the economy through unemployment insurance and fiscal support in severe economic situations. An important prerequisite for this is Sweden's large fiscal buffers.

**Sweden has adopted labor market reforms in recent years, but challenges remain.**

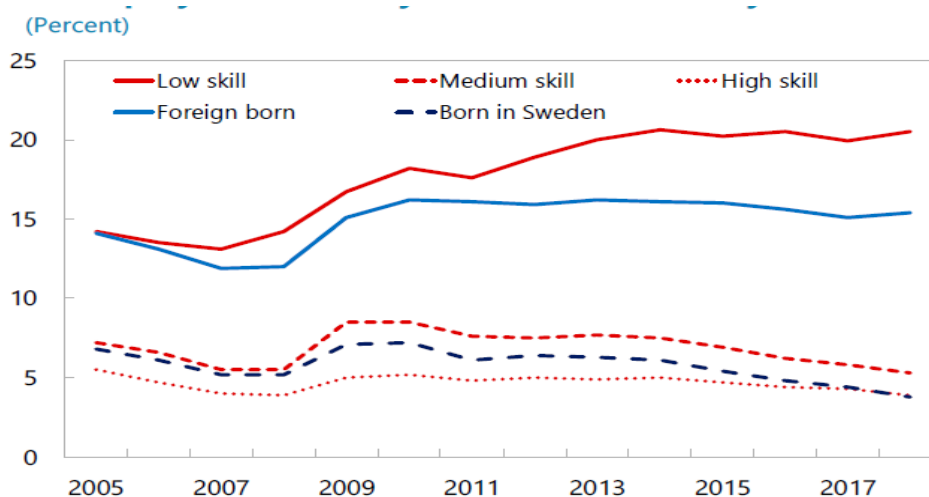
Seeking to raise employment of the low-skilled and migrants, the budget for 2018 boosted resources for education and streamlined active labor market policies with the aim of increasing employer participation. Nonetheless, unemployment rates of the foreign-born and low-skilled much exceed that of natives (Figure 13), partly reflecting bargained high de-facto minimum wages which do not allow for a wage adjustment for lower-skilled.<sup>10 11</sup> Further reforms, including employment protection and public employment services, should support the employment of the low-skilled and migrants, aided by enhanced education and training. Sweden also has a long history of highly concentrated wealth, high regional inequality and has experienced one of the fastest increases in inequality in recent years.<sup>12</sup>

<sup>10</sup> Legally there are no minimum wages in Sweden.

<sup>11</sup> Ljungqvist and Sargent (2008) show how unemployment dynamics depend upon a country's labor market policies through their effect on job separation and finding rates, which depend on the interaction of policies and shocks.

<sup>12</sup> <https://nordregio.org/nordregio-magazine/issues/state-of-the-nordic-region-2020/sweden-inequality-in-sweden-grows-much-faster-than-in-the-nordics-overall/>



**Figure 13. Unemployment Rate by Skill and Nationality**

Source: Statistics Sweden.

**The Nordic model may not be easily replicated in a wholesale manner, but it may provide inspiration for policies other countries may consider for improving inclusive growth.** The sustainability of the Nordic model hinges on a high level of social trust and responsibility, including strong social norms to be working despite the availability of social supports. These social conditions including a more ethnically and culturally homogeneous population have facilitated high levels of trust and cooperation and high tax compliance. As a result, Nordic policies and institutions cannot be easily exported to other countries that are more heterogeneous or very large. Nonetheless, it is still important to learn from it and adapt parts of it that are transferable.<sup>13</sup> For instance, in 2008 the European Council adopted the common principles of flexicurity and called on the Member States to take them into account when drawing up and implementing "national flexicurity pathways".<sup>14</sup> To help assess progress made in the implementation of the flexicurity principles, the [Employment Committee](#) agreed in 2012 on a set of monitoring indicators. These indicators are used in the annual [Joint Employment Report](#) on employment developments in the EU.

### III. INDIA: ECONOMIC REFORMS FOR INCLUSION, 1990-2020

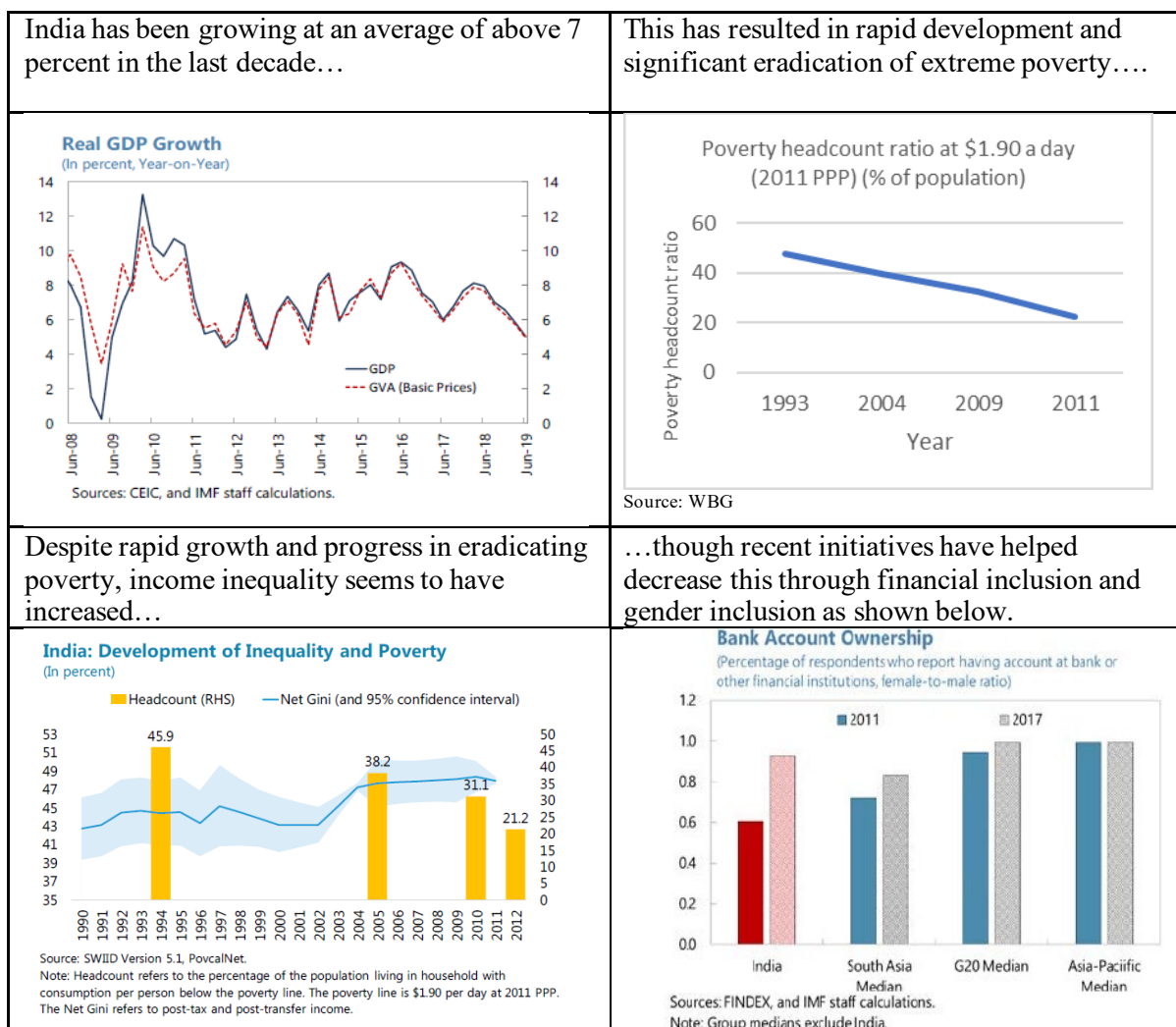
#### A. Introduction

**India has been one of the fastest-growing emerging market economies over the last few decades.** The country's rapid growth combined with a large population, demographics, and abundant natural resources makes it an interesting case study to understand inclusive growth and its challenges (Figure 14).

<sup>13</sup> <https://theconversation.com/what-the-world-can-learn-about-equality-from-the-nordic-model-99797>

<sup>14</sup> <http://ec.europa.eu/social/BlobServlet?docId=1515&langId=en>



**Figure 14. Macroeconomic, Poverty and Inequality Indicators for India 1993-2019**

## B. Main features of the Indian model

The main features of the Indian growth model have been a combination of high growth driven by economic reforms, improved macro-economic stability, and welfare schemes for the poor. All of these have contributed to enormous growth and poverty reduction.

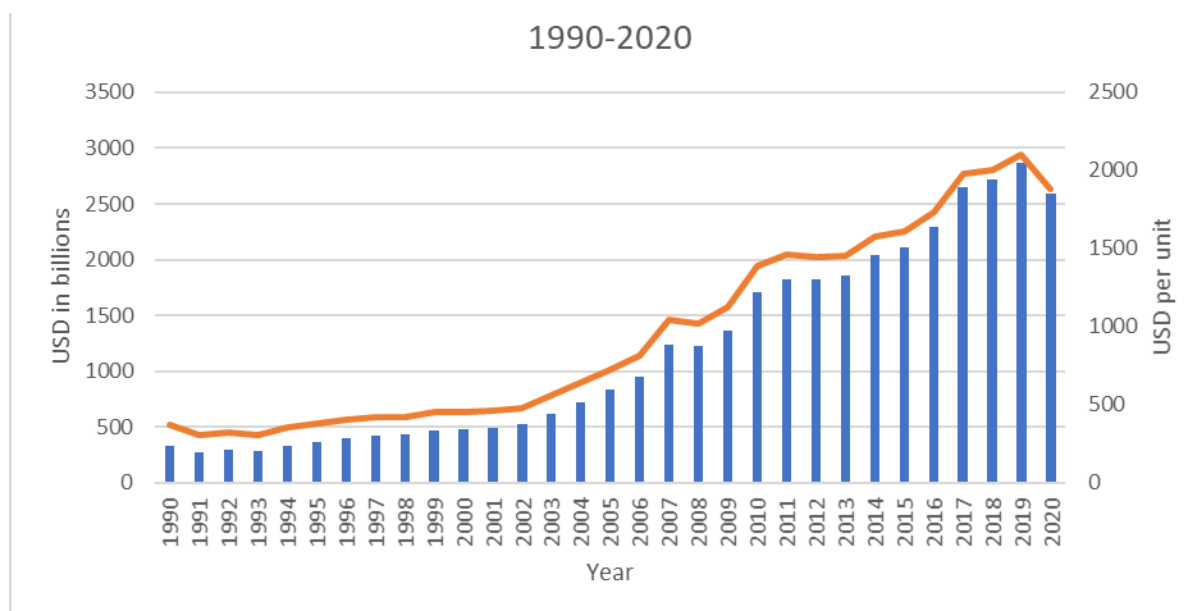
### *High growth through economic reforms*

**GDP has grown almost 5 fold since the 1990s and the per capita income has increased by 4 times over the same time period** (Figure 15). This increase in growth was kick-started by the liberalization reforms in the 1990s and subsequent structural reforms over the years (Ahluwalia M. S., 2019). These reforms include dismantling of the ‘license-raj’ (industrial licensing), opening up of Foreign Direct Investment (FDI) in many sectors, and liberalization of trade policies. While some of these reforms have taken some time, they have been pursued by various administrations. Recently, the introduction of pro-poor agricultural marketing



reforms<sup>15</sup> announced by the National Democratic Alliance (NDA) government is expected to boost growth. Many policymakers consider this rapid growth to be central to the poverty reduction story (Bhalla, 2003).

**Figure 15. GDP and GDP per capita**



Source: WEO October 2020

The increase in growth is noteworthy when compared with other countries during similar time-periods (Table 1).

**Table 1. Growth rates for country classifications 1980-2023**

	1980–1991	1992–2002	2003–2017	2018–2023
Advanced economies	3.0	2.7	1.7	1.9
All EMDEs	3.4	3.8	6.0	5.0
India	5.2	5.8	7.6	7.9
China	9.2	10.2	9.4	6.1
ASEAN-10	6.1	4.6	5.4	5.0
All EMDEs excl. India and China	2.6	2.6	4.3	3.7

Source: IMF and (Ahluwalia M. S., 2019)

### ***Macro-economic stability***

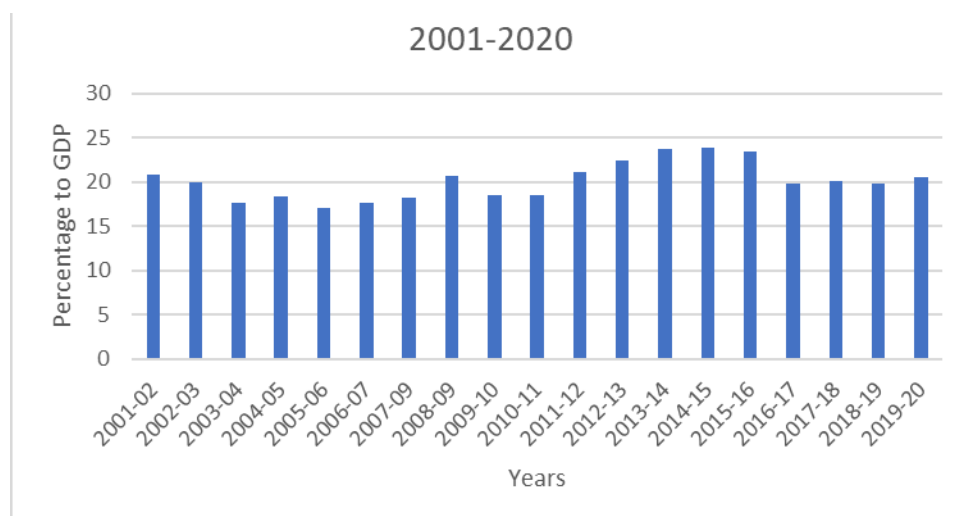
**India's focus on macro-economic stability in recent decades has been pivotal to its growth story.** The continuity of economic policies aimed at fiscal prudence along with the Reserve Bank of India's (RBI) monetary policies has provided a good platform for sustained growth. In addition, much of this growth has been accomplished with a sustainable level of government debt. That is, even though the average ratio of public debt to GDP has been high, much of India's debt profile is consistent with debt sustainability given that it has been

<sup>15</sup> <https://www.ifpri.org/blog/covid-19-crisis-opportunity-long-delayed-agricultural-reforms-india>



largely held by residents, denominated in domestic currency, and with a relatively long maturity.<sup>16</sup> The ratio of external debt to GDP has been relatively low (Figure 16).

**Figure 16. Ratio of External Debt to GDP**



Source: Reserve Bank of India

Recent policies such as the Goods and Services Tax (GST) and the Insolvency and Bankruptcy Code (IBC) have further provided a stable environment for investors. Furthermore, the introduction<sup>17</sup> of inflation targeting in 2016 by the Reserve Bank of India (RBI) helped to reduce fiscal dominance in the economy and the influence of inflation in reducing real incomes of India's poor.

### ***Redistribution through welfare policies***

**The welfare policies of successive administrations in the country were major drivers of poverty reduction besides economic growth.** Overall, India has a very thin benefit system. Since there is no social security system, welfare benefits are focused on providing income support to the poorest of the poor and comprise mainly of food price subsidies and subsidies for heating oil and fuel. The previous administration (from 2004-2014) focused on food subsidies and cash transfers but this resulted in large leakages in the system (due to corruption) including food wastages. The Mahatma Gandhi Rural Employment Guarantee Scheme (MGNREGS) was one such initiative that was started in 2005. It was one of the world's largest employment guarantee schemes that provided direct cash to the poor. This accounted for an average of 2.3 percent of GDP in 2008 (Ahmad, 2013). The employment scheme helped pioneer cash transfers in India until 2014. However, there were leakages in the system that led to the NDA government using digitization and the Direct Benefits Transfer (DBT) system (discussed below) to improve efficiency.

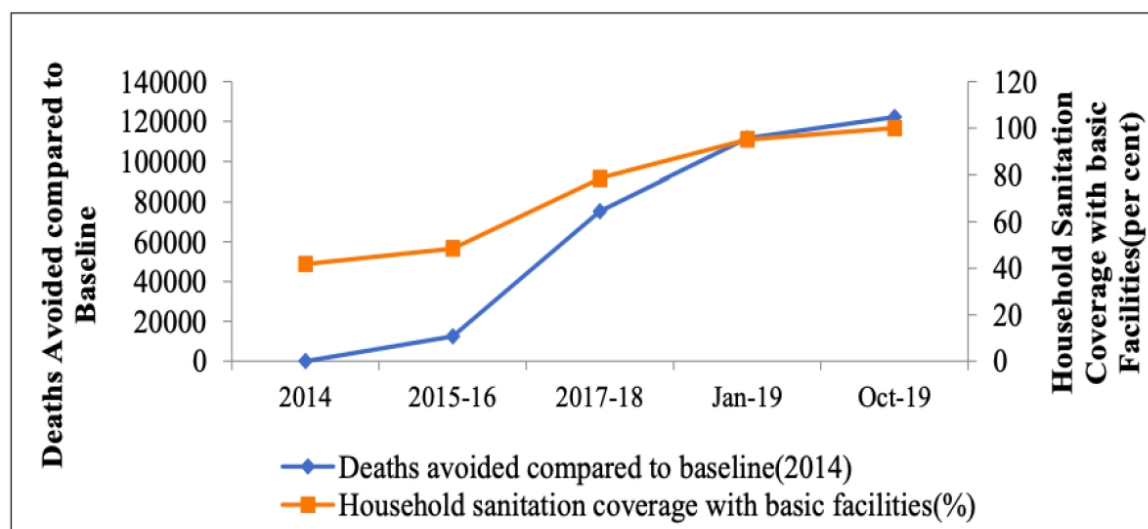
<sup>16</sup> <https://www.imf.org/en/News/Articles/2019/12/23/pr19488-india-imf-executive-board-concludes-2019-article-iv-consultation>

<sup>17</sup> <https://economictimes.indiatimes.com/news/economy/indicators/india-adopts-inflation-target-of-4-for-next-five-years-under-monetary-policy-framework/articleshow/53564923.cms>



Since 2014, a variety of other schemes have also been introduced to reduce leakages through digitization, and also improve sanitation and health care among the poor. The Swachh Bharat initiative<sup>18</sup>, which was started with the goal of universal sanitation coverage for all Indians, has improved the lives of poor Indians significantly. The scheme helped to improve the coverage of sanitation in the country from less than 50 percent in 2014 to almost 100 percent in 2019 (Figure 17).<sup>19</sup>

**Figure 17. Household sanitation coverage and deaths avoided compared to baseline in India 2014-2019**



Source: WHO<sup>20</sup>

### C. Inclusive growth in India

**Inequality in India has been increasing in recent years** driven largely by urban inequality (Balasubramanian, Kumar, & Loungani, 2021). As seen in Figure 18, the net Gini coefficient for consumption has been gradually been increasing in the last few decades. Compared to other countries such as China and Indonesia, the increase in inequality is not as large.<sup>21</sup>

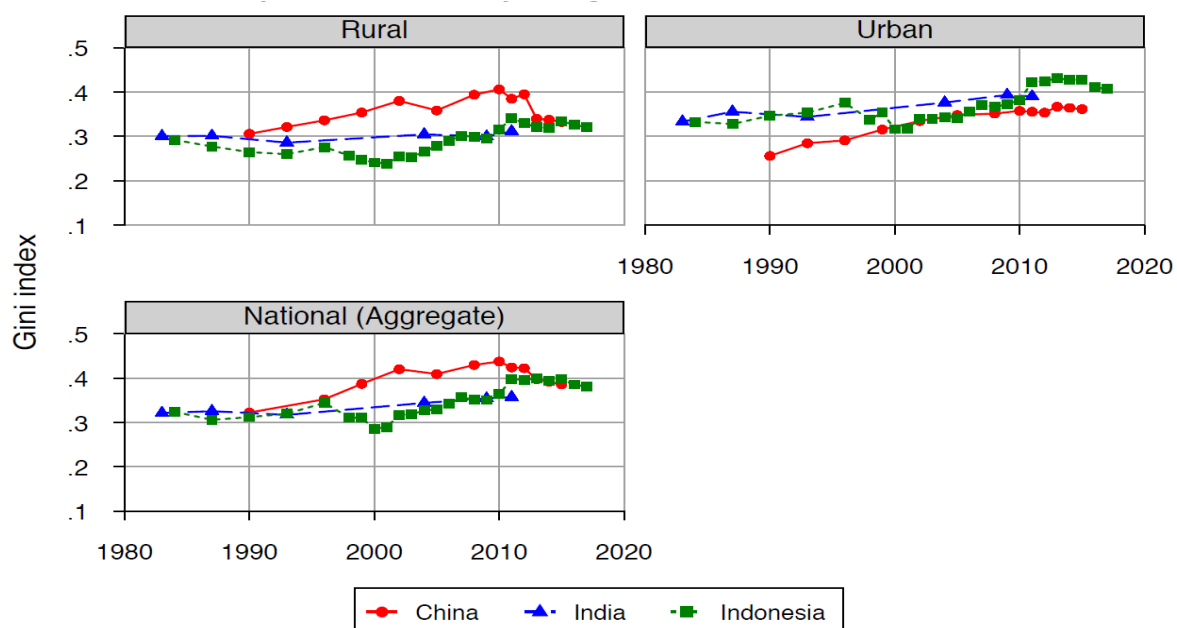
<sup>18</sup> The initiative “aimed at eliminating open defecation in rural areas during the period 2014 to 2019 through mass behavior change, construction of household-owned and community-owned toilets and establishing mechanisms for monitoring toilet construction and usage.”  
<https://swachhbharatmission.gov.in/SBMCMS/about-us.htm>

<sup>19</sup> These and other key structural reforms, and their contribution to enhancing gender and income equality, are described in recent IMF India Article IV Staff Reports and India Selected Issues papers (see IMF, India: 2017 Article IV Consultation Staff Report. IMF Country Report No. 17/54, 2017a, (IMF, India: 2017 Selected Issues. IMF Country Report No. 17/55, 2017b)) and the references contained therein.

<sup>20</sup> [https://jalshakti-ddws.gov.in/sites/default/files/WHO\\_study\\_on\\_lives\\_saved.pdf](https://jalshakti-ddws.gov.in/sites/default/files/WHO_study_on_lives_saved.pdf)

<sup>21</sup> It’s important to use this as a benchmark but the Gini on its own has many shortcomings. An important caveat here is that all the countries have consumption survey data so the comparison is relevant.



**Figure 18. Comparative consumption gini: China, India, and Indonesia**

Graphs by Coverage

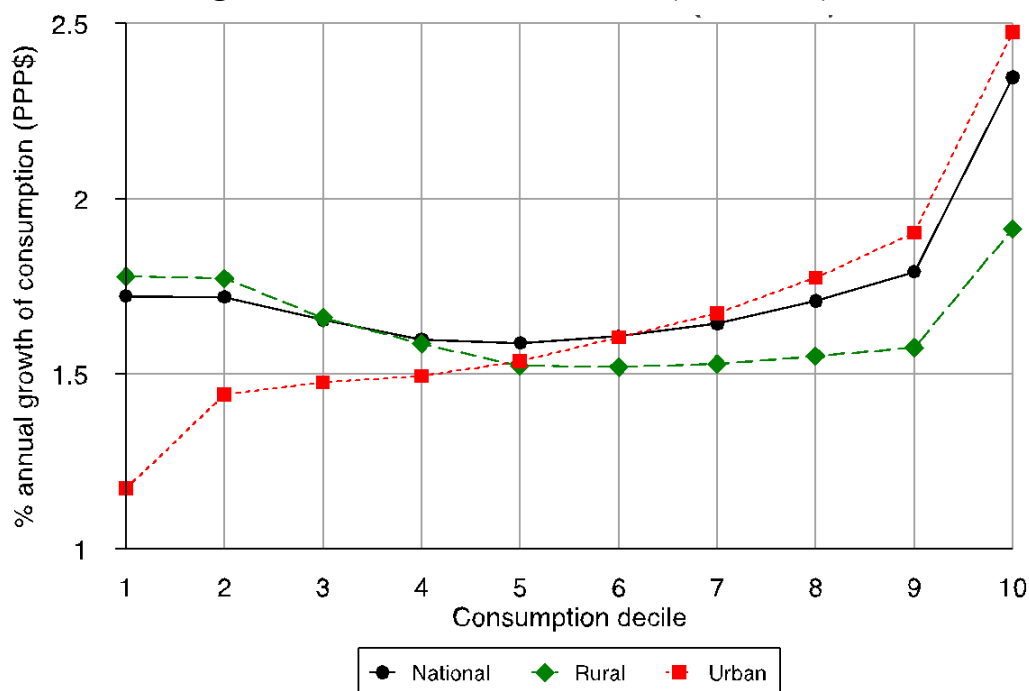
Source: (Balasubramanian, Kumar, & Loungani, 2021)

**One can also measure inequality through the Growth Incidence Curves (GIC).** The GIC could be represented in terms of growth rate in incomes for a percentile of the income distribution (Ravallion & Chen, 2003) or by using the mean income in the quantile group for a percentile of the income distribution as in (Lakner & Milanovic, 2016). As shown in Figure 19, we use the mean income in the quantile group similar to (Lakner & Milanovic, 2016).<sup>22</sup> For every decile of the population and subpopulation (rural, urban) we compute annual consumption growth rates in 2011 PPP dollars. An upward sloping GIC indicates higher growth among relatively richer groups (more unequal) while if all growth is equally shared by all quantiles of the population, then the GIC should be flat. As seen in Figure 19<sup>23</sup>, for the national aggregate, the 1<sup>st</sup> decile bottom 10 percent grew by only 1.7 percent whereas the 10<sup>th</sup> decile (topmost decile) top 10 percent grew by almost 2.38 percent from 1983-2011. Similarly, for the rural areas, the 1<sup>st</sup> decile bottom 10 percent grew by 1.75 percent whereas the 10<sup>th</sup> decile top 10 percent grew by almost 1.95 percent. Unsurprisingly, much of the inequality seems to be in the urban areas with the 1<sup>st</sup> decile bottom 10 percent growing by 1.25 percent (lesser than the rural bottom 10 percent 1<sup>st</sup> decile) and the 10<sup>th</sup> decile top 10 percent growing by 2.5 percent (much higher than the rural top 10 percent 10<sup>th</sup> decile) respectively. This further corroborates that much of the Indian inequality story is driven by urban inequality than anything else.

<sup>22</sup> Note that this GIC is anonymous and that we are not accounting for movement of individuals between deciles over time.

<sup>23</sup> The decile levels arrange the data in order from lowest to highest and are done on a scale of one to ten where each successive number corresponds to an increase of 10 percentage points. In the case of GIC, the 1<sup>st</sup> decile represents the 10<sup>th</sup> percentile of the consumption distribution whereas the 10<sup>th</sup> decile value represents the 100<sup>th</sup> percentile of the consumption distribution.



**Figure 19. Growth incidence curve (1983-2011)**

Source: WBG Povcalnet database and authors analysis

**Poverty reduction in India has been achieved through a combination of rapid growth and redistributive welfare policies in the country.** Even though many efforts have been done to eradicate poverty, approximately 270 million people are still considered to be poor.

**Economic growth has played an important role in eradicating poverty.** Besides improving the quality of life in the upper and middle classes, rapid growth has also reduced poverty significantly. Table 2 below highlights the impact economic growth had on poverty in the last few decades:

**Table 2. Annual GDP (%) and population in poverty for India 1993-2012**

	Annual growth of GDP (%)		Population in poverty	
	Economy	Agriculture	% in poverty	Millions
1993–1994	—	—	45.3	403.7
2004–2005	6.2	2.9	37.2	407.1
2011–2012	8.5	3.5	21.9	269.8

Note: The annual averages are for the period preceding the year indicated. Thus, 6.2% is the annual average growth of GSP from 1993–1994 to 2004–2005.

Source: Central Statistics Office (2014) and Rangarajan (2014).

As seen in the table, the percentage of the population in poverty fell from 403.7 million (45.3 percent) to 269.8 million (21.9 percent) people within the span of two decades. Much of this



correlation can be attributed to the vast set of opportunities that opened up for the poor as a result of rapid growth during this time. It was also during this phase that education and health indicators for the poor improved significantly. Besides growth, redistribution policies mentioned earlier also helped achieve inclusive growth.

**One of the main recent re-distribution initiatives has been the Direct Benefit Transfers (DBT) to the lowest income people in India.** With the aim of improving the efficiency of welfare schemes to improve targeting of beneficiaries, de-duplication, and reduction of fraud, the DBT was formally announced as a flagship initiative in 2013 (Narayanan, 2013).<sup>24</sup> The JAM trinity (Economic Survey, 2015/2016)---Jan Dhan, Aadhar, and Mobile<sup>25</sup>---has further improved the efficiency of the DBT scheme. The Aadhar initiative has ensured that over a billion Indians have a digital ID and there has been an equal number of mobile connections in the country. Both of these have been integrated with the Pradhan Mantri Jan Dhan Yojana scheme (Today, 2019) which has created more than 410 million bank accounts for Indians who are poor. One of the biggest advantages of the DBT scheme is that the transfers are targeted to persons with incomes below the poverty line, i.e the 10<sup>th</sup> and 20<sup>th</sup> decile levels in the GIC shown earlier. While there are still data challenges in terms of micro-data, general trends seem to indicate substantive progress in uplifting the poor.

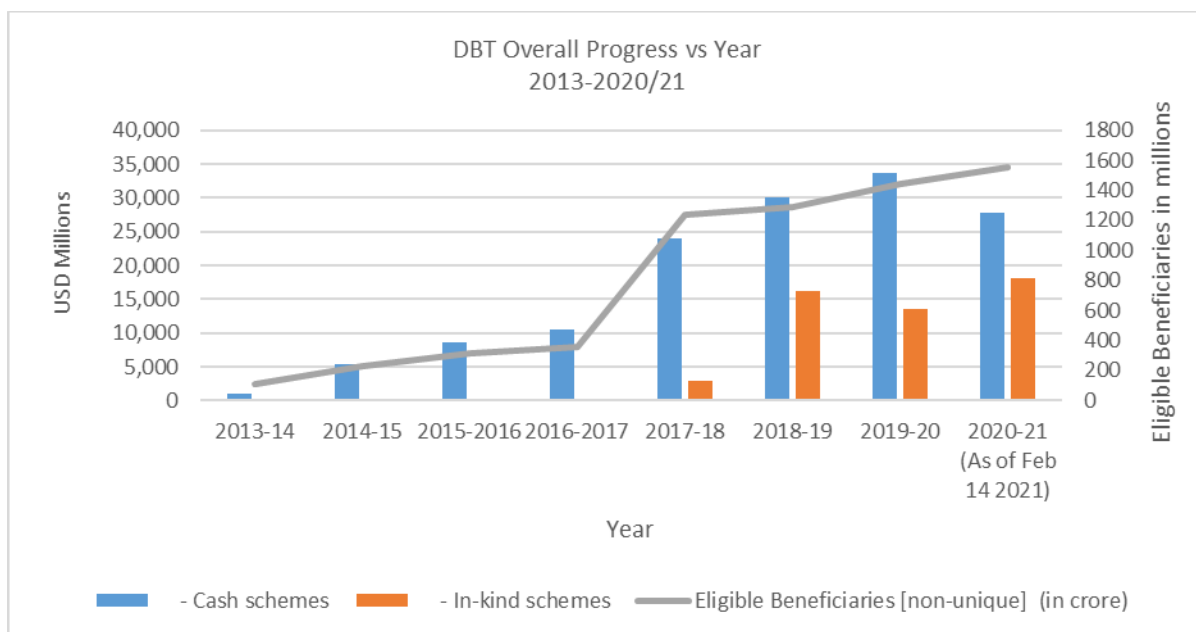
**The evolution of DBT in recent years has improved the efficiency of direct transfers significantly.** Figure 20 below shows the evolution of DBT transfers from 2013 onwards until early 2021. The DBT transfers have increased from almost 1,034 million USD in 2013/14 to almost 33,660 million USD in 2018 (approximately 1.3 percent of India's GDP) followed by approximately further 27,757 million USD till early-2021. There has been a more than 50 percent increase in transfers since data was first shared in 2013. The integration of the JAM Trinity has accelerated significantly and the resulting improvements in efficiency have further improved the outcomes especially in the context of identification of fake accounts and reduction of corruption due to the elimination of middlemen in many of these transactions. (Kumar, 2019)

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<sup>24</sup> See IMF, India: 2017 Article IV Consultation Staff Report. IMF Country Report No. 17/54., 2017a.

<sup>25</sup> Pradhan Mantri Jandhan Yojana (PMJY) is the flagship scheme to open bank accounts for the poor. Aadhar is the world's largest bio-metric exercise which has created more than a billion digital IDs for residents in India. Mobile refers to more than 700 million mobile phones in India. The JAM trinity integrates all these three features to enable DBT transfers.



**Figure 20. DBT Overall Progress vs Year**

Source: Government of India DBT data

**There are many plausible scenarios through which this could impact inequality in India.** Since the DBT scheme is targeted at the lower decile levels, i.e. the transfers are directly transferred to the 10<sup>th</sup> and 20<sup>th</sup> decile of the population, if all of the efficiency gains are transferred back to the DBT schemes, it could result in strong income growth of the poor and could reduce inequality between the lower and top decile levels. If the efficiency gains were used elsewhere other than the DBT schemes, the reduction in inequality could be lower. Lastly, if the expansion of DBT continues for the next 5-10 years, there could be substantial growth in incomes for the 10<sup>th</sup> and 20<sup>th</sup> decile levels, further reducing inequality between the lower and the top decile levels.

**There are also challenges within the DBT system that needs to be met to sustain outcomes.** These include the need for greater penetration of the JAM trinity among the remaining population, more tracing and elimination of fake recipients, and improvements in the infrastructure to sustain these transfers at a larger scale. Data privacy concerns, and as a consequence, access to micro-data for researchers also need to be addressed as India ramps up these initiatives.

**In retrospect, the Indian inclusive growth model provides an important perspective in addressing inequality.** While it is still a work in progress, it provides a large enough case study for other countries to learn from, especially on the impact efficacy of the welfare schemes mentioned above. A combination of rapid growth, macro-economic stability, and targeted welfare schemes can promote inclusive growth as shown in India.



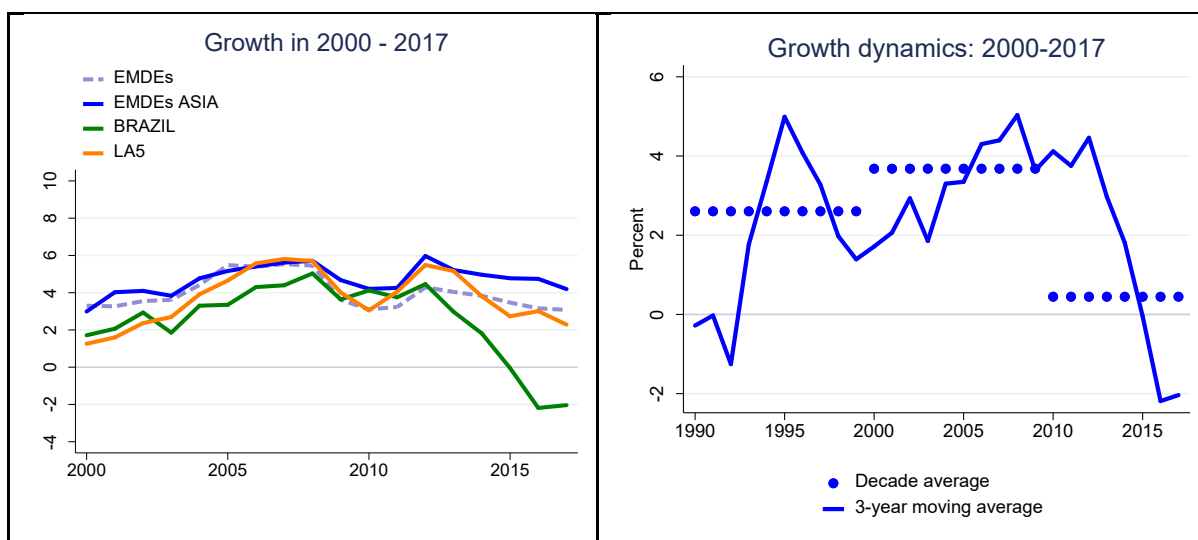
## IV. GROWTH AND EQUITY IN BRAZIL

**Brazil has been striving to strengthen its inclusive growth since the early 2000s.** The commodity boom of 2000 to 2014 and social policies of the 2000s improved GDP growth and equity and reduced both informality and poverty. At the same time, growth in Brazil was still lower than that of its peers. The 2015-2016 crisis and subsequent slowdown once again reinforced the need for Brazil to improve its inclusive growth. The case of Brazil allows us to explore how long-standing growth constraints and successful macroeconomic and social reforms affect development.

### A. Growth dynamics

**Since 2000, growth in Brazil, on average, underperformed average growth in EMDEs and emerging Asian economies (Figure 21, left chart).** Albeit slower than in its peers, growth had been accelerating in the 1990-the 2000s, supported by the commodity boom and increasing external demand, (Figure 1, right chart). However, in 2015-2016, large macroeconomic imbalances, a loss of investors' and consumers' confidence, lower commodity prices, and tight financing conditions triggered a deep recession.

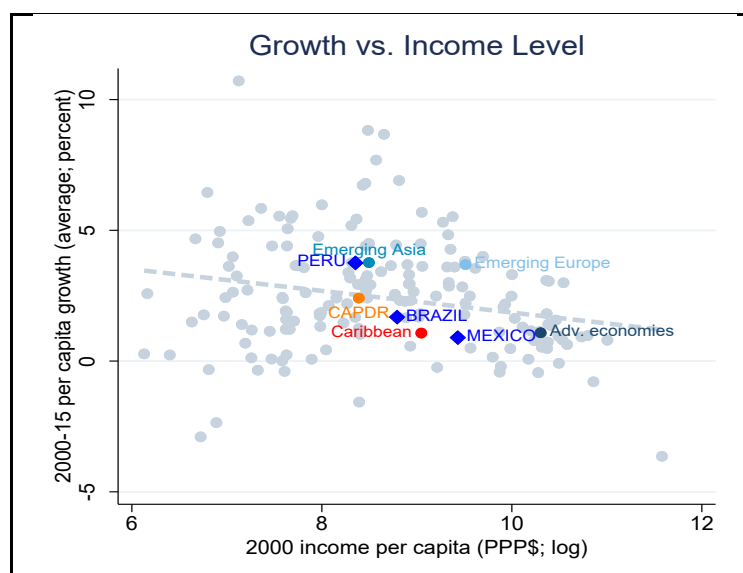
**Figure 21. Growth dynamics**



Sources: World Bank, World Development Indicators; and IMF staff estimates.

**Brazil grew slower than its peers with similar income per capita.** Figure 22 illustrates a standard growth theory idea that countries at a higher income level grow slower. Since per capita GDP in Brazil in 2000 was above that of Emerging Asian economies, the theory predicts that Brazil should have grown slower than them in the years that followed. Slower convergence with advanced economies and slower growth would, in this model, be explained by the smaller gap between Brazil and advanced economies. However, between 2000 and 2015, Brazil grew even slower than most economies with similar income per capita due to country-specific growth constraints (Figure 22 accordingly shows that economies with income per capita broadly similar to Brazil grew faster, as indicated by their position above Brazil).



**Figure 22. Growth vs GDP per capita level**

Sources: World Bank, World Development Indicators; and IMF staff estimates.

**Hausmann et al. (2005) and Arnold (2011) found that low domestic savings and high cost of finance were binding constraints for growth.** Hausmann et al. (2005) noted that both saving and investment rates were low<sup>26</sup>. At the same time, Brazil actively borrowed abroad and was limited by external borrowing constraints. Brazil also had high real interest rates and loan-deposit interest spreads. These high-interest rates and accumulating external debt indicated that Brazil's growth constraint stemmed from low domestic savings<sup>27</sup> rather than low return on investment. Entrepreneurs wanted to invest despite a weak business environment, high taxes, inadequate infrastructure, and insufficient human capital but were limited by Brazil's constrained financial resources.

**Accumulated fiscal imbalances contributed to the 2015-16 recession and became an important constraint on subsequent growth.** Unsustainable public finances and a governance crisis caused large macroeconomic and policy uncertainty. As of 2018, Brazil had higher debt and taxes, and a weaker business environment relative to its peers (Table 3). Given its relatively young population, public pension spending in Brazil is high, amounting to about 14 percent of GDP in 2018. Large pension expenditure stemmed from low retirement age (54 vs 64 years in the OECD economies), generous benefits relative to earnings (70 vs 53 percent in the OECD), and special regimes for civil servants and armed forces (IMF 2019c). High-skilled workers and public employees benefited from the pension system more than the low-skilled and those in rural areas, as (the present discounted value of) the difference between lifetime pension benefits and contributions were higher (IMF 2019c). Reducing pension and other current expenditures became a key near-term task.

<sup>26</sup> Gross national saving and total investment averaged 18-19 percent of GDP in the 2010s and declined by 1-2 percent of GDP in the 2010s.

<sup>27</sup> **Capital inflows could not compensate for low domestic savings and provide enough financing for investment.** In emerging market economies, domestic saving is positively correlated with investment—the empirical puzzle named after Feldstein and Horioka (FH). Using panel data analysis, David et al. (2020) show that lower domestic saving causes lower investment, particularly in emerging market economies.



**Table 3. The indicators of government performance**

	Brazil compared to:				
	LAC6	EDEs LAC	Income group	EDEs	EDEs Asia
<b>Government performance</b>					
Public debt					
Taxation					
Labor tax and contributions					
Trade tariff					
Institutions (GCI)					
Bureaucracy (WGI)					
Regulations (WGI)					
Rule of law (WGI)					
Doing business					
Starting a business (DB)					
Construction permits (DB)					
Getting electricity (DB)					
Registering property (DB)					
Protecting minority investors (DB)					
Paying taxes (DB)					
Trading across borders (DB)					
Enforcing contracts (DB)					
Resolving insolvency (DB)					

Source: Barro-Lee 2013 data set; IMF, Diversification database; IMF, World Economic Outlook; Institute for Employment Research, brain-drain dataset; Penn World Table; World Bank, Ease of Doing Business Index; World Bank, Enterprise Survey; World Bank, World Development Indicators; World Bank, World Governance Indicators; and World Economic Forum, Global Competitiveness Index.

**Note:** Red = less favorable ranking; green = more favorable ranking.

**LAC6:** Brazil, Chile, Colombia, Mexico, Peru, Uruguay.

**Income group:** GDP per capita + 50 percent.

**Between 2016 and 2019, Brazil passed several important laws improving fiscal sustainability.** It introduced a fiscal rule imposing a ceiling on current expenditure. The landmark pension law, approved in October 2019, was expected to reduce spending by 11 percent of GDP over ten years relative to the counterfactual without this reform. The new pension law was also intended to improve domestic savings and address an important growth constraint.

## **B. Inclusive policies**

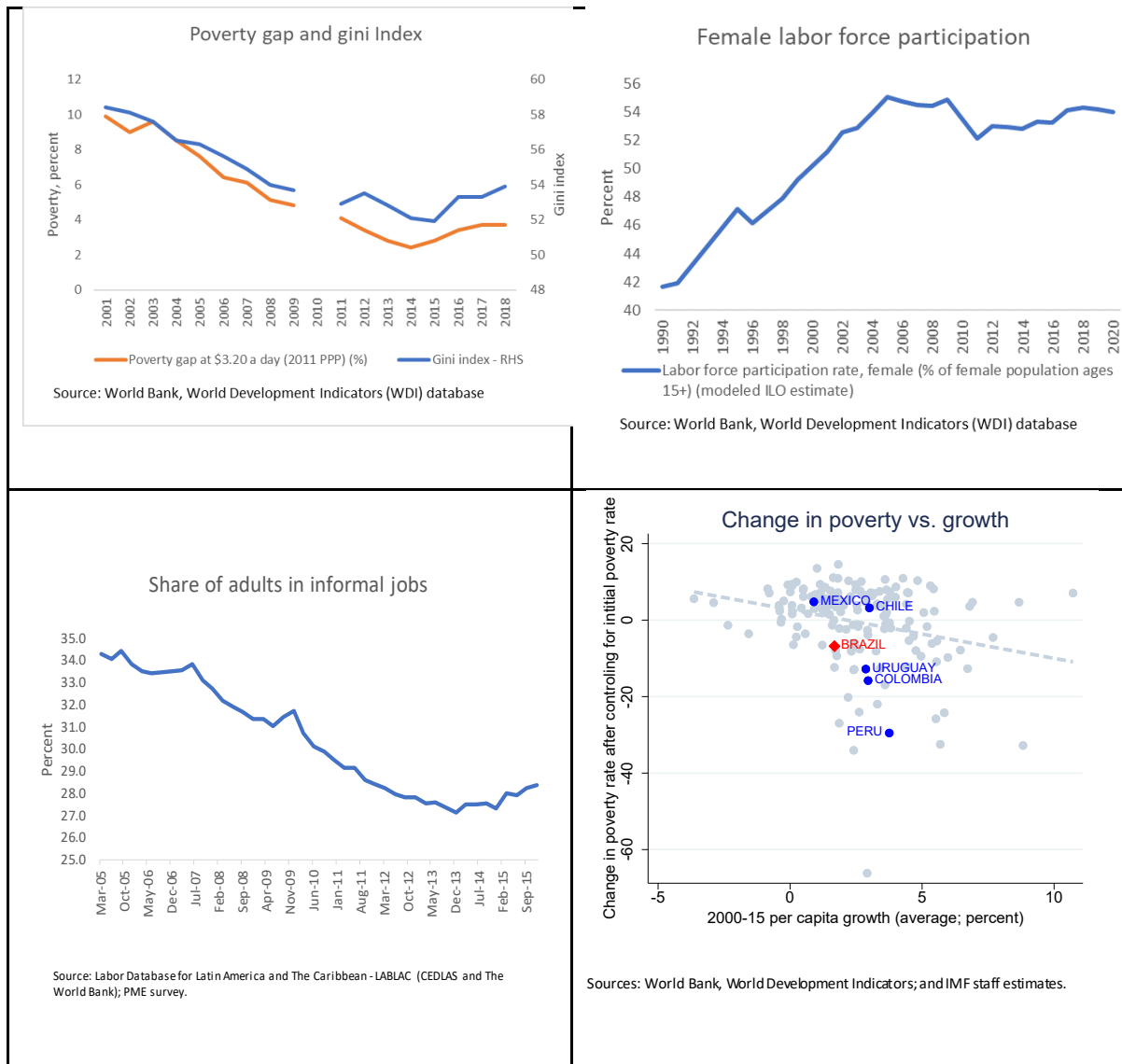
**With the growth in 2000 to 2014 being higher than in the 1990s, Brazil achieved significant progress in the reduction of poverty and informality before the recent recession of 2015-2016.** Between 2000-2014, the poverty rate declined from 9.9 to 2.4 percent but somewhat increased during the 2015-2016 recession (Figure 2 upper-left chart). The female labor force participation rate continued its rising trend in the early 2000s and



stabilized around 55 percent after 2004. Available survey data shows a decline in informality<sup>28</sup> from 34 to 28 percent of adults between 2005 and 2015.

**Brazil was able to reduce its poverty rate more than many other countries with similar GDP growth rates and initial poverty rates (Figure 23, bottom-right chart).** The 2003-2013 commodity boom that drove GDP growth was particularly helpful in reducing poverty rates, as it created a demand for a low-skilled labor force. In addition, innovations in social assistance contributed to poverty reduction in Brazil.

**Figure 23. Inequality, poverty, and informality**



**The 2000-2014 commodity boom reduced poverty and informality rates by boosting demand for a low-skilled labor force and providing resources for fiscal expenditure (REO 2018).** Labor-intensive domestic mineral mines were especially helpful in reducing

<sup>28</sup> An informal worker is a salaried worker in small firms, non-professional self-employed, and zero-income worker.



poverty, as they increased employment. Capital-intensive offshore oil and gas producers contributed to the reduction of poverty mostly through the fiscal channel: the government had resources to increase public investment and employment. Higher-income due to the commodity boom also increased domestic demand and drew labor from agricultural and informal sectors into services and construction.

**Brazil has been at the forefront of anti-poverty government policies.** In 2003, Brazil launched the Bolsa Familia Program (BFP). In 2015, this program constituted 0.44 percent of GDP or one-third of the annual spending on the social safety net program (almost two-thirds belonged to social pensions) (World Bank, 2018). This program provides conditional cash transfers (CCTs) to the extremely poor while supporting human capital accumulation by requiring better school attendance, vaccination, and pre-natal visits. About 60 percent of the poorest quintile receive CCTs and about 80 percent of CCTs go to the two poorest quintiles (World Bank, 2018). In 2018, more than 20 percent of the population was enrolled in the BFP. The BFP helps increase women's share in the household income, as 90 percent of direct recipients are women.

**While the BFP has clearly been instrumental in supporting the poor, its effects on (formal) employment have been the focus of many studies.** Potentially, larger social assistance and higher tax rates on marginal earnings can reduce labor supply (Moffit 2002; Borjas 2005). In addition, the BFP eligibility criteria can potentially create incentives to stay in the informal economy: informal workers can underreport their incomes to become eligible for stable BFP transfers. However, Fruttero et al. (2020) found that the BFP has been instrumental in reducing informality and supporting formal labor market participation for both men and women, especially in younger cohorts. Fruttero et al. (2020) offer two explanations why CCTs improve formal labor market participation: (i) transfers cover the costs of job searching; (ii) they also improve psychological well-being that is necessary to break free from a cycle of poverty (Mullainathan and Shafir, 2013).

**Brazil has reduced the gender gap between 1990 and 2014.** The female labor force participation rate increased from 42% in 1990 to about 55% in 2004 and plateaued afterward. Women's relative wages have also improved: women's wages were only 53 percent of men's wages in 1995; this share increased to 70 percent in 2014 (Pinheiro, Lima Junior, Fontoura, & De Silva, 2016). According to the WEF's Global Gender Gap Index<sup>29</sup>, the gender gap declined from 35 percent to 31 percent between 2006-2014. A decline in the educational gap between men and women played a major role in these improvements: by 1991 women had more years of education than men and by 2000 this gap had increased further, while overall years of education continued to increase both for women and men (Beltrão & Alves, 2013). Policies also contributed to this positive dynamic. For example, the administration of President Lula de Silva introduced the National Plan for Women's Policies in 2004 focusing on women's access to education, financial services, the labor market, health services, and protection against violence.

**While Brazil has reduced inequality to an extent, it remains one of the most unequal economies in the world.** Between 2000-2014, the Gini coefficient declined from 58.4 to

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<sup>29</sup> The Global Gender Gap Index consists of four sub-categories: economic participation and opportunity, educational attainment, health and survival, and political empowerment.



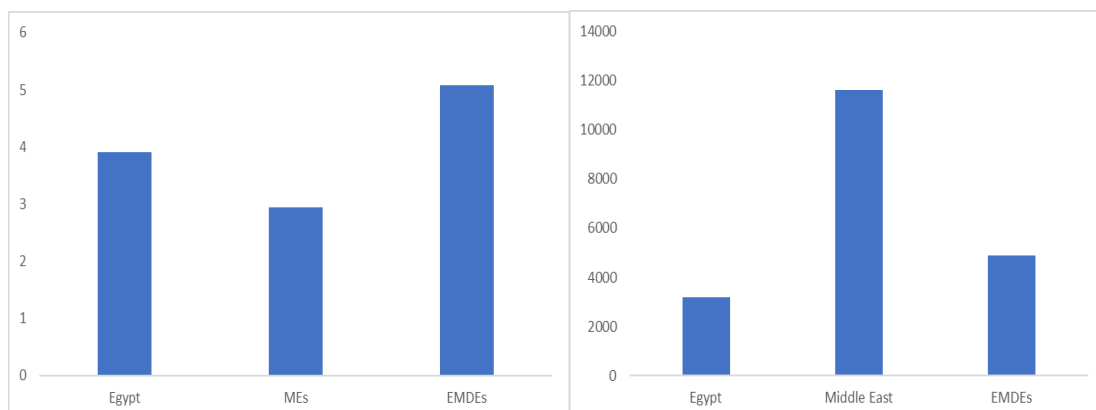
51.9 (Figure 23 upper-left chart). Using state-level Gini coefficients, Goes and Karpowicz (2017) found that labor income growth, formalization, and schooling contributed to the decline in inequality during 2004-2014. However, the Gini coefficient is based on surveys and may not take into account the income of top earners. Tax data provided by the World Inequality Database shows that the top 10 percent of earners received around 55 percent of total income between 2001-2018 and that this share was stable. Assouad et al. (2018) explained persistently high inequality by large regional inequality stemming from the colonial and slave-owning period. In the twentieth century, meanwhile, industrialization favored a minority of formal workers, while a limited agrarian reform led to the high concentration of land ownership. Education is still unequally distributed, and most adults do not have secondary schooling (Medeiros 2016). Providing access to education and closing the quality gap between private and public schools is necessary to reduce inequality.

**In summary, Brazil provides an important case for development economists and policymakers.** Some long-term constraints, such as low domestic savings, limited Brazil's growth in the 2000s. Accumulated fiscal imbalances became an important growth constraint and contributed to a deep recession in 2015-2016. The public pension system that had required reforms for many years connected these two constraints: large spending on pensions reduced incentives to accumulate private savings, limiting public saving, and undermining public sustainability. At the same time, Brazil achieved progress in reducing poverty rates and informality. It did so by boosting employment during the commodity boom and creating an effective social assistance system.

## V. THE MIDDLE EAST: THE CASE OF EGYPT

**Egypt has averaged economic growth of about 4 percent over the past two decades, mainly driven by capital deepening.** While Egypt is considered as a fast-growing economy in the Middle East (MEs) region (Figure 24, left side), economic growth has been insufficient to improve the living standards in a context marked by high population growth. Figure 24 shows the GDP per capita during the past decade, 2010-2019, which point to a wide gap between Egypt and MEs and EMDEs. This performance could be explained by the growth model relying mainly on capital deepening, while labor and productivity contributions were lagging (IMF 2018a).

**Figure 24. Average growth (in %, left side) and GDP per capita (in USD, right side) from 2010-2019**



Source: World Economic Outlook (October 2020)



**Like many other emerging market economies, Egypt is perceived as a country with high inequality.** During the Arab Spring in 2011, inequality and poverty have been cited as the main cause of the uprisings. Since then, inequality and poverty have been an important concern for both policymakers and the general public.

**Looking at official measures of income inequality suggests low-income inequality, in stark contrast with the general perception.** For instance, Enbaby and Galal (2015) confirm that the wide perceptions of income inequality are at odds with standard measurements, such as the Gini index, which shows only slightly declining levels of income inequality. The conflict between perceptions and evidence from available data has given rise to a “MENA inequality puzzle” (Verme et al., 2014), which is particularly relevant to Egypt. This section explores this puzzle, together with measurement issues, and provides some explanations from the literature.

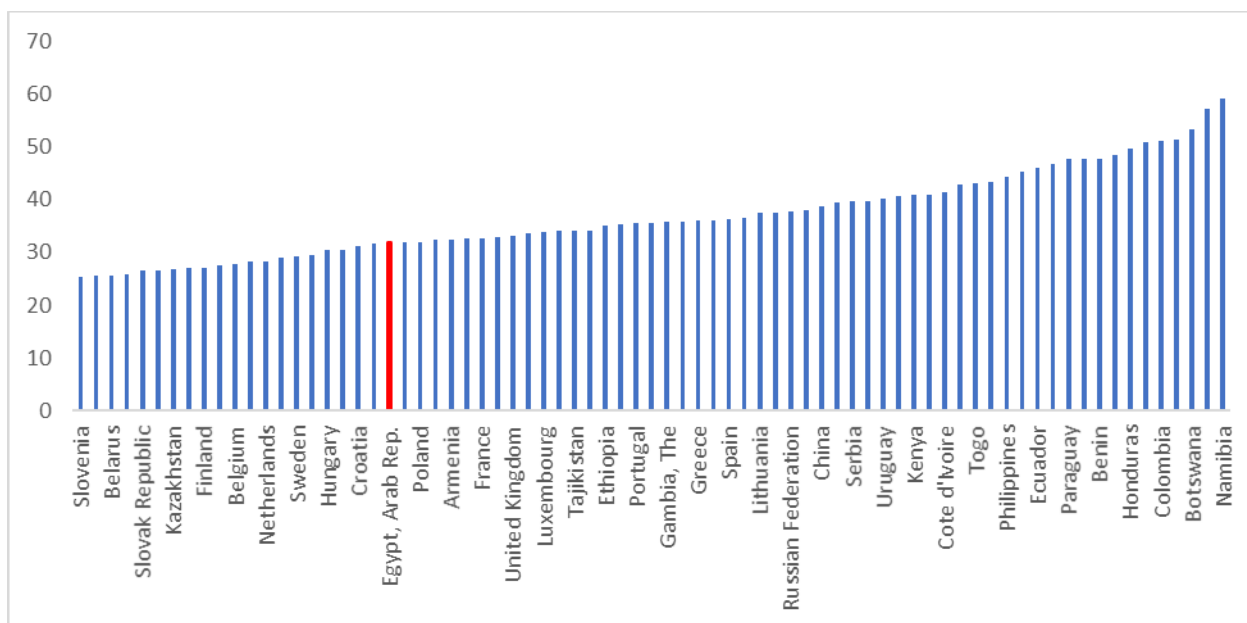
**On the macroeconomic front, Egypt implemented in the past inconsistent macroeconomic policies which, by 2016, had led to a build-up of significant imbalances.** Large budget deficits, loose monetary policy, and a fixed exchange rate had resulted in a drastic reduction in foreign exchange reserves, high inflation, and unsustainably high levels of public debt. Growth had fallen and unemployment increased, especially among women and youth. As part of an IMF program concluded in late 2019, an Extended Fund Facility (EFF), Egypt paid special attention to policies and reforms to reduce inequality and alleviate poverty. These reforms consist of targeted cash transfers, reducing energy subsidies, and policies to increase female labor participation.

#### **A. Inequality between perceptions and official data**

**The Gini coefficient is arguably the most commonly used measure of inequality.** Since 1958, the Egyptian income distribution has been relatively egalitarian by the standards of developing countries, with the Gini index ranging from a high of 32.8 in 1999 to a low of about 31.5 in 2017. This narrow range points to the relative stability of income inequality in Egypt despite facing significant economic changes and shocks over this period. However, as highlighted in Verme et al. (2014), Gini estimates in Egypt are characterized by a large discrepancy between different studies in the literature.

**Figure 25 shows that Egypt is more egalitarian than many emerging economies and several advanced countries.** The most unequal countries are on the right with a high Gini index. Egypt’s Gini is just over 0.3, which is low by international standards and even by the standards of the rest of the MENA countries.

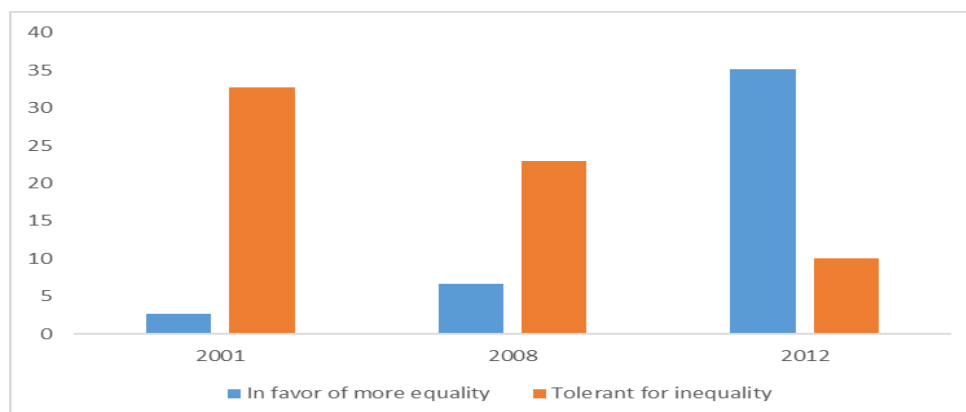


**Figure 25. Gini index for 75 countries from around the world in 2015**

Source: World Bank.

**However, there are significant perceptions of high inequality in Egypt.** Measures of public perceptions come from the World Values Survey (WVS). The WVS is a global survey of views and opinions across a wide range of issues and is conducted every five years. The survey asks a question on people's attitudes toward inequality, measured on a scale from one to ten, where one indicates a desire for more equality and ten indicates a tolerance for higher inequality.

**Figure 26 depicts the results from WVS surveys during 2001, 2008, and 2012 for the same question on inequality.** The figure clearly shows that the group in favor of income equality has been rising over time—comprised more than 35 percent of respondents in 2012 (up from 2.6 percent in 2001). At the same time, the group tolerant for inequality has become smaller, reaching 10 percent of respondents in 2012 (down from 32.8 percent in 2001). The increase in aversion to inequality in Egypt is comparable to MENA countries, while greater than elsewhere in the world (WVS, 2001, 2008, 2012).

**Figure 26. Public perception of inequality (as % of respondents)**

Source: World Values Survey



**Overall, the change in people's perceptions observed over the period from 2000 to 2012 has been a result of two factors.** First, economic aspects became more important as the country experienced various shocks. For instance, spillovers from the Global Financial Crisis (GFC) in 2008 and the economic crisis following the uprisings of 2011 had a major impact on people's lives and wellbeing. Second, regional factors have been also behind the changing perceptions on inequality, as rising globalization during 2000-2012 and the opening to GCC countries have made people more aware of income distribution in the region.<sup>30</sup>

**The relatively low and stable measured inequality is at odds with the general perception of high inequality.** This observation could hide a few data issues as raised in Alvaredo and Piketty (2014). Data sources relying on income surveys are insufficient to derive reliable estimates of income inequality in Middle East countries, and particularly in Egypt. Household income and expenditure surveys could underestimate the level of inequality possibly by a very large margin (e.g. Latin America). To check the reliability of Gini coefficient estimates, one would need reliable fiscal data on income tax in order to complement survey results, as household surveys often fail to account for top incomes.

## **B. Solving the puzzle: data vs. perceptions**

**Several studies investigate whether inequality is underestimated or misreported.** Hlasny and Verme (2014) focus on understanding whether the low estimates for the Gini coefficient in Egypt are a result of top households systematically under-representing their incomes in surveys. Their main finding is that households' income survey data do not appear to suffer from this potential systematic bias. However, Van der Weide, Lakner, and Ianchovichina (2016), using data on house prices to estimate the top tail of the income distribution, find evidence that inequality is considerably underestimated in Egypt, where the Gini coefficient for urban Egypt was revised from 0.36 to 0.47. Johannesen (2015) provides evidence of high wealth inequality using data on financial assets held abroad by MENA individuals. The author uses a dataset from the Bank of International Settlements (BIS) on cross-border bank deposits to estimate the size of wealth hidden in tax haven bank deposits. The findings indicate that the size of haven deposits is not linked to expenditure inequality, suggesting that quantitative evidence does not support the perception of such wealth held abroad while<sup>31</sup>. Using different approaches and data sources, these papers show mixed results on the accuracy of Gini estimates.

**Another stream of this literature, such as Assaad et al. (2018), has examined inequality of opportunity, which can better capture the notion of unfairness and social injustice that may lie at the root of popular perceptions.** Assaad et al. (2018) use survey data between 1988 and 2012 to link individual wages to parental education as well as household consumption to parental education of the household head. While inequality of opportunity did not show any increase during the study period, the paper shows that the wealth of those born to middle-class families collapsed toward those born to lower-class families, and the

<sup>30</sup> People tend to approach inequality thinking about the region (MENA) as a single community. The middle class in Egypt compares themselves not only to rich people in Egypt but also to the middle class in GCC countries, which raises inequality perceptions (Verme et al., 2014).

<sup>31</sup> Expenditure inequality stands for the measurement of inequality from households' expenditures as opposed to households' income.



gap between the latter and those with an upper-middle-class background narrowed. At the same time, those at the higher end of the income distribution have remained quite apart from the rest. This finding shed light on the growing discontent of the middle class, which is potentially behind rising inequality perceptions.

**Moreover, one of the sharp observations on the inequality of opportunity is related to education.** As shown by Assaad (2013), the probability of a boy from a poor family enrolling in university is estimated to be only 9 percent compared to 97 percent for a boy from a most advantaged family. In addition, estimates of inequality of opportunity in educational achievement (TIMSS scores for eighth-graders) also show considerable inequality in Egypt.

**Attempts to solve the inequality puzzle for Egypt clearly indicate mixed results suggesting that there are several factors at play.** Missing top incomes, data quality issues, and inequality of opportunity are all good candidates for an underestimated Gini coefficient, which is one piece of the puzzle. On the other hand, people's beliefs are also important to examine in order to explain the other piece of the puzzle. Indeed, perceptions about inequality and the unfairness of the distribution could be determined by regional or global inequality, and not only on a national level. Also, the middle-class growing discontent could be related to upward mobility rigidity. People judge inequality not only by the perceived gap between their own income and the income of others but also by the perceived gap between their actual income and their expected income. With high growth rates in the run-up to the GFC, people feel frustrated that benefits of growth are not shared, and their income did not grow as expected.

### C. Policies in favor of more inclusion

**Inconsistent economic policy management, together with other structural factors and the economic hit of the 2011 revolution, led to large imbalances.** Low economic growth and investment, rising inflation, high government debt, and high unemployment characterized this period. To counter these imbalances Egypt engaged in a home-grown economic reform program, supported by the IMF over three years, starting from November 2016. The program achieved its key objective of macroeconomic stability, which is a precondition to attract investment, raise growth, and create jobs. This sets the stage for broader reforms, such as improving the business climate and fostering inclusive growth.

**Indeed, one component of the authorities' program was to address extensive fuel subsidies, which were a significant drain on the budget and benefited the rich.** These subsidies made fuel in Egypt one of the cheapest in the world, encouraging excessive consumption and benefiting the well-off far more than the poor because those with means consumed more. Phasing out fuel subsidies created more room in the budget for better-targeted social spending, as well as more investment in health, education, and public infrastructure.

**The authorities' reform program also entailed a modern social spending system of a couple of cash transfer programs targeted to those most in need.** For example, Takaful and Karama, which were implemented in March 2015 and expanded during the program, are conditional and unconditional cash transfer programs. "Takaful" or "Solidarity" is a conditional (on school attendance among other criteria) cash transfer program aimed at



supporting vulnerable families' consumption, reducing poverty while encouraging families to keep children in school and providing them with needed health care. The main goal of this program is to build the 'human capital' of the next generation and give them an opportunity for upward mobility. On the other hand, "Karama" or "Dignity" is an unconditional cash transfer program aiming at supporting poor elderly citizens. These programs were the most cost-effective way to ensure that the poor did not bear the costs of these economic adjustments. Social policy centered around Takaful and Karama was critical to ensuring public support for the broader reforms Egypt needed to undertake to stabilize the economy and to lay the foundation for higher and more inclusive growth.

**These cash transfer programs have enrolled about 2.25 million families with a significant social and economic impact.** The International Food Policy Research Institute (IFPRI) has conducted an evaluation of these programs in late 2018 through a survey conducted across the country (IFPRI, 2018). The findings of this assessment point to about 89 percent of the sample are either very satisfied or somewhat satisfied. About 93 percent of transfer recipients reported no difficulties in receiving this support. On the economic impact, these programs have helped households to increase their consumption by about 8.4 percent, compared to people who did not receive the transfers.

**Policies were also implemented to foster job creation for women and the youth.** Policies in favor of women inclusion in the labor market, implemented in 2017, were centered around allocating more public expenditure to improve the availability of public nurseries and other facilities to enhance the ability of women to actively seek jobs. Efforts in this area also included establishing a joint Ministerial committee as well as representatives of the Women's council, academia, and business community with the objective to improve women's participation rate in the labor force. The committee is working with UN women to introduce and effectively implement gender budgeting in the future. It is also responsible for simplifying rules and facilitating registration of home-based nurseries, to expand job opportunities for women and child-care for working mothers (IMF, 2018b). The outcome of these policies was positive but somehow limited to the extent that female labor participation has increased only slightly from 21.8 percent in 2017 to 22.1 percent in 2020. Other programs included Forsa, a program that helps create job opportunities, launched in early 2018, and Mastoura, a program for microcredit directed to women, which covered more than 6000 projects in its first phase of inception in 2017.

**Further, Egypt's recent policies are focused on revamping the growth model allowing more room for the private sector to take the lead in job creation.** The government has undertaken several structural reforms to promote inclusive growth. For instance, the authorities have initiated reforms in areas related to competition policy, the public procurement system, management and transparency of State-Owned Enterprises, industrial land allocation, and management of public finances. These reforms have the potential to significantly improve the investment climate and, therefore, boost job creation, which would absorb a large and growing young population.

**More broadly, the path to inclusive growth and more equality in income is tied to the opportunities offered by the economy.** Significant progress has been achieved with a positive impact on, both, social and economic levels. Looking forward, broadening and better targeting these programs together with sustainable economic growth are *sine qua non* conditions to make growth more inclusive.



## VI. LESSONS AND CONCLUSIONS

**The country cases demonstrate that achieving inclusive growth requires a multipronged approach to policies.** In each country example, government policies address several facets of the economy and society that are key to inclusion. For example, these range from labor market policies to business regulation and policies for trade, migration, and capital flows to the use of tax policy and public spending. Programs also need to target different groups that fall behind, especially the extreme poor, who are also often women or youth.

**The Nordic model represents some of the best practices in inclusive growth and exemplifies the wide span of policies that bear on success.** The policy framework creates an extensive role for government, but not just in terms of redistribution. The government facilitates a strong business environment for stable and sustainable growth by ensuring macroeconomic stability. It fosters competition and innovation in domestic markets and promotes integration with international markets. Social partners cooperate in labor markets to reduce wage inequality while ensuring labor market flexibility and social cohesion. The government combines broad safety net programs to support incomes and assure access to public services, with policies such as retraining to help people find new jobs and adjust to changing economic conditions.

**The efficacy of policy measures depends on their interaction with other measures and the country's economic conditions.** For instance, Sweden does not have a minimum wage, yet protects worker wages through a strong collective bargaining system. With Sweden's high rate of employment and strong capacity in mobilizing fiscal revenue, it can afford a system of universal social services. In contrast, a system of universal income services is out of fiscal reach for most developing countries, as in the case of India.

**The cases show that policies to promote high and stable economic growth are still relevant for achieving inclusion.** High rates of growth were especially pivotal in reducing poverty in India and Brazil over much of the past two decades. Growth led to increases in jobs and incomes in the private sector. Growth also expanded public resources to raise social assistance programs. Conversely, bouts of economic instability or episodes of crises have set back progress in inclusion, especially in poverty reduction.

**Growth is not a panacea though and well-designed public programs can go a long way in fostering inclusion.** Brazil realized more poverty reduction than Chile, despite having lower growth per capita during 2000-2015. Its Bolsa Familia Program covered a large share of the extreme poor and coupled its income support with conditionality to improve education, health, and support to women. Unconditional and conditional cash transfers were successful features of social assistance in Brazil and Egypt and direct benefit transfers in India. Education has been important across the board for helping people escape from poverty and raising the labor force participation of women.

**Likewise, poorly designed or targeted policies can impede inclusive growth.** Although on the surface it may seem that a generous pension system could be a feature of inclusion, the case of Brazil demonstrated that an overly generous and poorly targeted system contributed to fiscal deficits and low domestic savings, which factored into high-interest rates and lower growth relative to peer countries. Prior to the reform introducing the direct benefit transfers,



India's social assistance was plagued by leakages and corruption. Egypt's extensive energy subsidies mainly benefited higher-income households and were large drains on public finances that could have been used for programs more targeted to the poor. And even well-managed inclusive growth frameworks, such as in Denmark and Sweden, have room for improvement on some dimensions, such as enhancing work opportunities for the low-skilled and foreign-born workers.

**Technology can drastically improve the scope for implementing effective policies, even in developing countries.** This is illustrated best in the case of India, where the use of digital IDs has enabled the expansion and more efficient administration of public transfers, with less corruption, as well as spurred the creation of millions of bank accounts that increased financial inclusion.

**Statistics on distribution are important for understanding the state of inclusiveness and for designing the policy response.** The case of Egypt demonstrates that official data on inequality had not suitably reflected the perception of it. More work is required, for all countries, to fill in data gaps related to misreported income and wealth. The example also suggests that the public's tolerance for inequality may not be adequately represented by the Gini coefficient as an indicator. It may also depend on perceptions of the scope for social mobility over time and over generations, and whether improvements in economic and social match expectations of them.



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