

0 \$ & 5 2 ' , 6 7 5 , % 8 7 , 2 1 / \$ 1 . \$ * (6

- R Q D W K D Q ' 2 V W U \ , Q W H U Q D W L R Q D O 0 R Q H W D U \)

, Q F O X V L Y H (F R Q R P L H V , Q F O X V L Y H 6 \$ X J X V W

7 K H Y L H Z V H [S U H V V H G L Q W K L V S U H V H Q W D W L R Q D U H W K R V H R I W K H D X W K R U D Q G G

7+ (7 5 \$ ' , 7 , 2 1 \$ 0 \$ & 5 2 1 \$ 5 5 \$ 7 , 9 (

- 1) We should worry about growth, not its distribution
 - | Growth will trickle down
 - | Redistribution is harmful to growth

- 2) We know the economic policies that deliver growth
 - | structural reforms (liberalization; deregulation)

 - | globalization
 - y trade, international capital flows, immigration

 - | macroeconomic stability (low public debt-to-GDP; low inflation)

75 \$', 7, 21 \$1 \$55 \$7, 9 (

* 52:7 + 758036, 675, %87, 21

| Roots of trickle-down in Schumpeter

y *37KH FDSLWDOLVW DFKLHYHPHQW GRHV QRW W
silk stockings for queens but in bringing them within reach of factory
JL U@V* (Capitalism, Socialism and Democracy, 1942)

| Echoed by Lucas in his famous quotes

y *3, V WKHUH VRPH DFWLRQ D JRYHUQP HQW RI , Q
the Indian economy to grow like Indonesia's? If so, what, exactly? The
consequences for human welfare involved in questions like these are
simply staggering: Once one starts to think about t*



386+72:\$5' 6758&785\$/()2506

0\$&52(&2120,&7\$%,/,7<



7+ (0 \$ & 5 2' , 6 7 5 , % 8 7 , 2 19\$,/(:

1) Growth and distribution should be analyzed together

- | Results on links among growth, inequality and distribution

2) Economic policies pose efficiency-equity tradeoffs

- | structural reforms: do they deliver growth? what are equity effects?

- y Growth-equity tradeoffs of structural reforms

- | globalization: does it work for all?

- y (IIHFWV RI FDSLWDO DFFRXQW OLEHUDOLJDWLR

- | macro stability: how low to go (with debt limits, inflation targets)?

- y (IIHFWV RI ILVFDO FRQVROLDWLRQ³DXVWHUL



0 \$, 1) , 1 ' , 1 * 6

1) Fragile growth and inequality are two sides of the same coin

2) Virtually all policies pose efficiency-equity tradeoffs

y Many structural policies deliver some growth but also raise inequality

y * O R E D O L] D W L R Q G R H V Q ¶ W D O Z D \ V Z R U N I R U

| Episodes of capital account liberalization followed by increased inequality, little benefit to growth, increased volatility

y Austerity can be costly

| Episodes of fiscal consolidation hurt short-run growth & raise inequality

| Paying down debt rapidly can be more costly than living with it

3 2 / , & , (\$ 5 (\$. (< ' 5 , 9 (5 2) , 1 (4 8 \$ / , 7 <



5 (/ \$ 7 , 2 1 6 + , 23) , 1 ' , 1 * 67 2 2 1 * 2 , 1 * ' (% \$ 7 (6

- | Great concern has been voiced about inequality recently -- impact on social cohesion; political capture by elites, etc.
 - y Our finding: there is a direct **economic cost** to inequality -- it leads to lower and less durable growth

- | Retreat from globalization (Brexit, Trump etc.)
 - y Concerns about distributional effects of trade
 - y Protests against migrants
 - y Our finding: the effects of financial globalization should be part of the discussion -- it contributes as much to inequality as trade; it lowers Z R U N H U V ¶ E D U J D L Q L Q J S R Z H U D Q G L Q F R P H V
 - y In fact, financial globalization can make it difficult to mitigate distributional effects of international trade -- it leads to a race to the bottom in taxation, eroding revenues needed for social benefits

,1 (4 8 \$ / , 7 < 6) 2 // 2 : (' % < : (\$. (5 * 5 2 : 7 +
5 (' , 6 7 5 , % 8 7 , 221 (6 1 ¶ + 8 5 7 * 5 2 : 7 +

,1 (4 8 \$ / , 7 ≠ 2 : (5 6 ' 8 5 \$ 7 , 2 1 2) * 5 2 : 7 + 6 3 (// 6
5 (' , 6 7 5 , % 8 7 , 2 2 1 (6 1 ¶ \$)) (& 7 ' 8 5 \$ 7 , 2 1

R Q V K L S E H W Z H H Q W K H O H Y H O R I Q

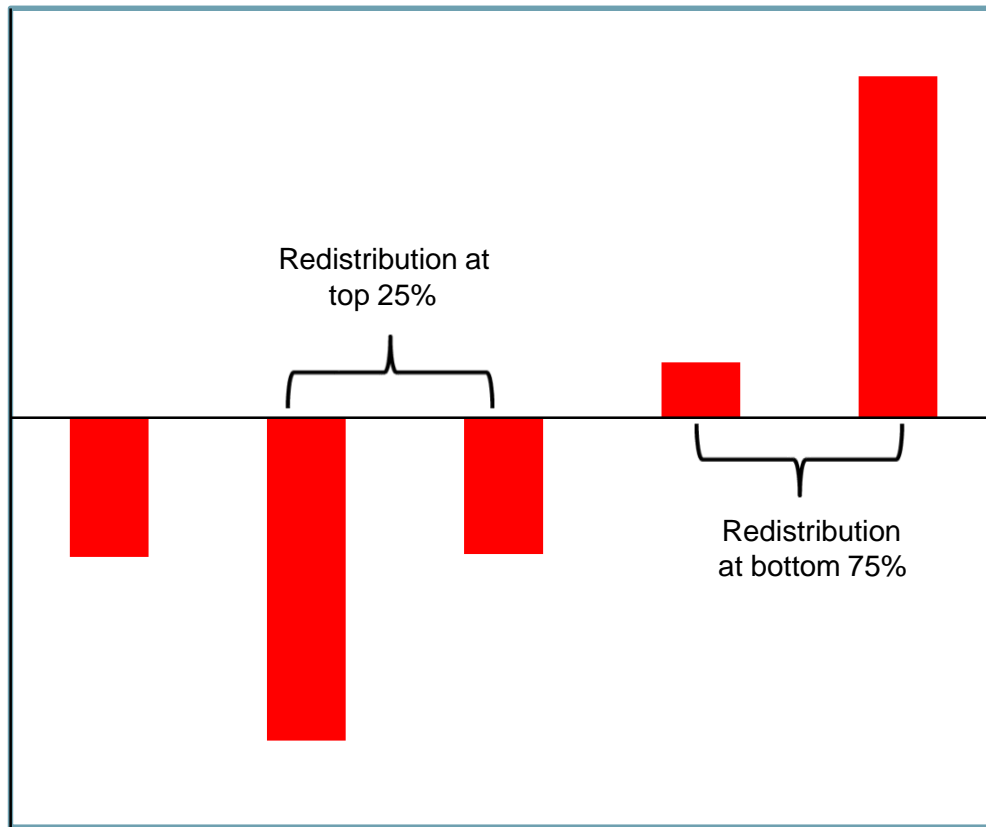
' S 1 Á S " 1 Á 2 ½ Æ ' 8 @ • Á p ^ À @ r ½ Æ ' 8 @ ' Á p ^ À @ v 0 v t ' 8 @

%\$ 6 (/ , 1 (5 (6 8 / 7 6) 2 5 * 5 2 : 7 + 6 3 (// 6

7 + (()) (& 7 6 * 5 \$ 3 + , & \$ // <

7KH HIIHFW RI LQHTXDOLW\ DQG UHGLVWU
SHUFHQWLOH LQFUHDVH LQ HDF

&KDQJH LQ JURZWK VSHOO GXUD




*LQL 1HW 'LUHFW 7RWDO 'LUHFW 7RWDO

#For large redistributions, the estimated negative effect of redistribution on growth duration is somewhat larger than the estimated positive effect of the resulting reduction in inequality

#For smaller redistribution (less than 13 Gini points) the overall effect is growth-positive: roughly neutral direct effects of redistribution, and a protective effect of the resulting reduction in inequality

R Z W K





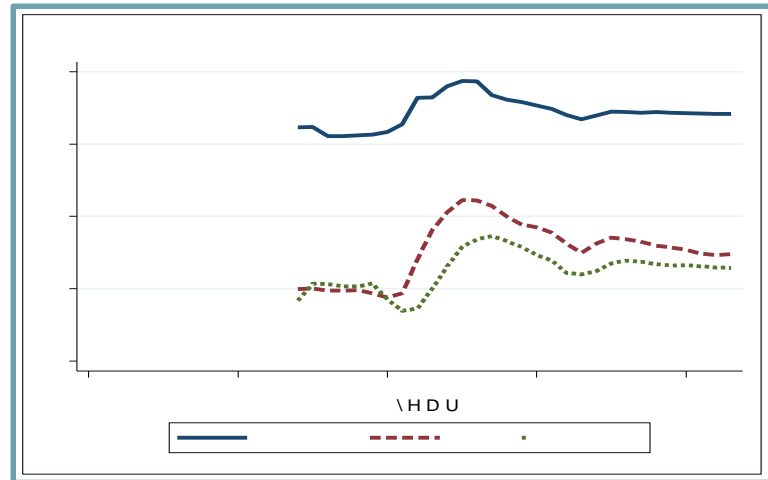
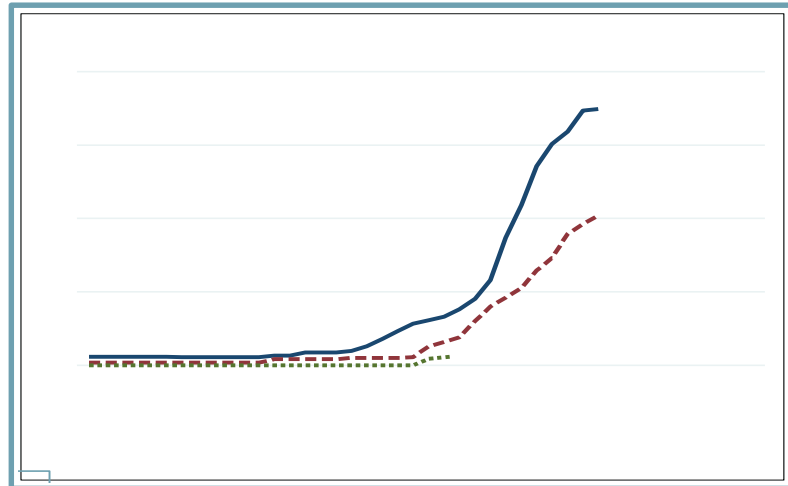
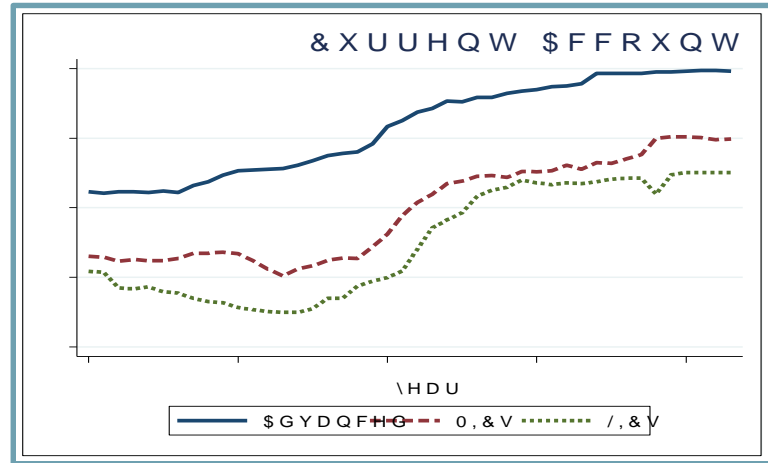
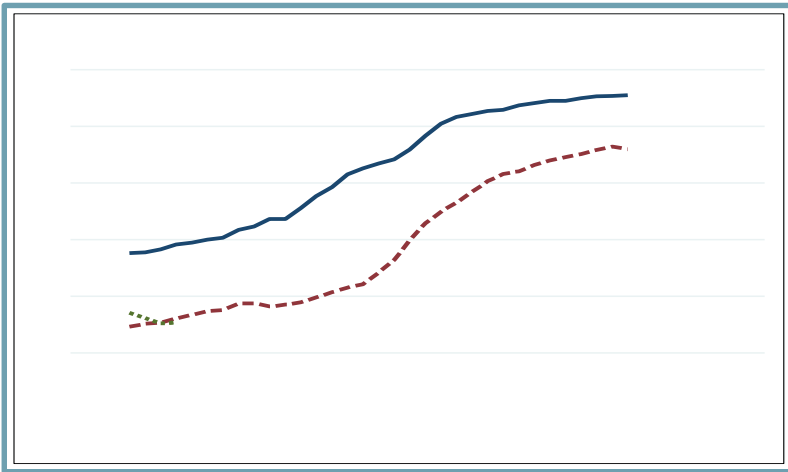
* 52:7 + (48, 7 < 75\$'(2))6, 1
6758 & 785\$5/()2506

48 (67, 216)

| Do structural reforms give rise to growth-



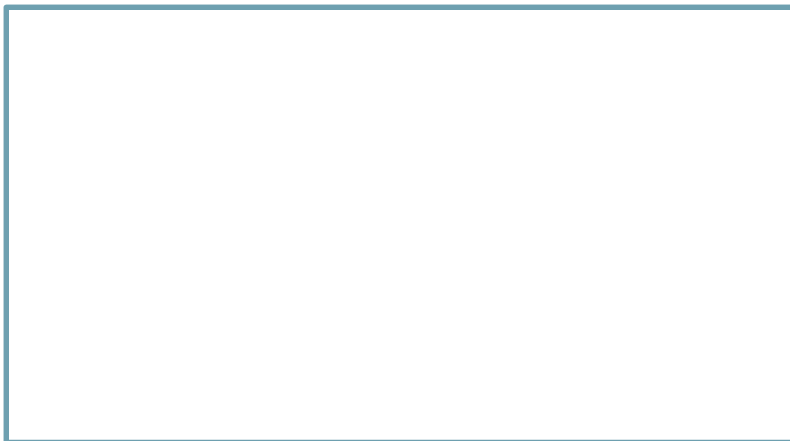
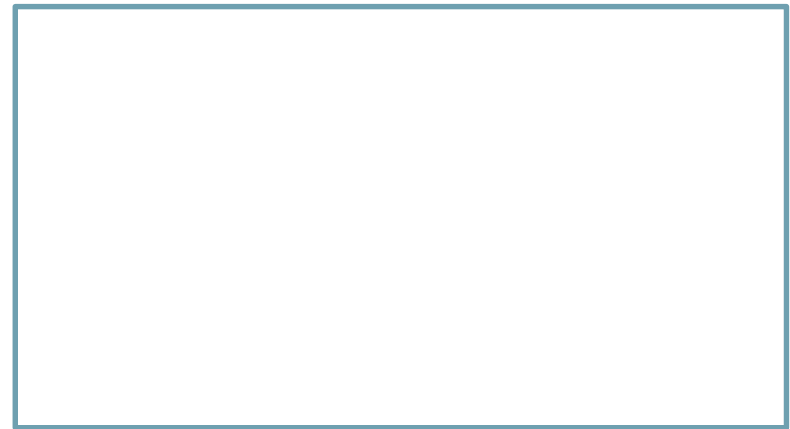
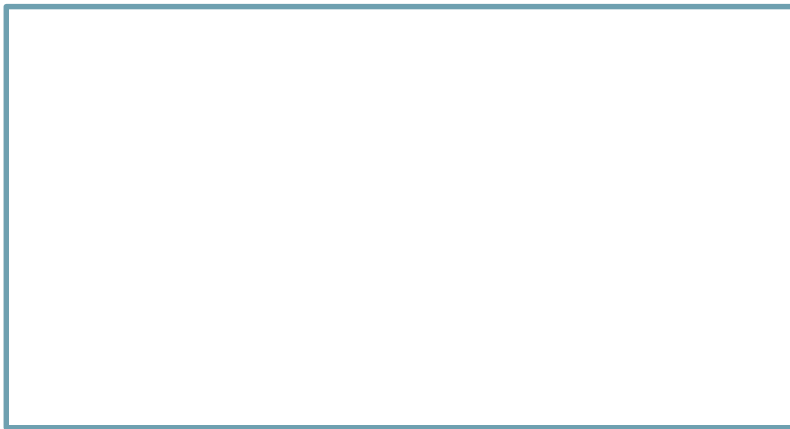
5() 250 , 1 ' , & (629 (57 , 0 (% < , 1 & 20 (/ (9 (/



* 52:7 + \$1' (48,74) (&76


2) 6758 & 785 \$5/() 2506

Each panel plots the long-run effect on the level of income and the level of inequality of moving the reform variable from the median to the 75th percentile.



' , 5 (& 7 \$ 1 ' , 1 ' , 5 (& 7 ()) (& 7 6





() , & , (1 & ← 4 8 , 7 < 7 5 \$ ' (2)) 6
& \$ 3 , 7 \$ \$ & & 2 8 1 7 , % (5 \$ / , = \$ 7 , 2 1
3) , 1 \$ 1 & , \$ * // 2 % \$ / , = \$ 7 , 2 1

,1 7 (5 1 \$ 7 , 2 1 \$ & \$ 3 , 7 \$ 0 2 % , / , 7 6 7 2 5 < / , 1 (

- | Great benefits in theory, but growth and risk-sharing benefits are elusive
- | In fact, for many countries (particularly EMs), capital flows are source of volatility and crisis
- | Evidence also shows adverse distributional impacts
 - | Liberalization can increase likelihood of financial crises (inequality if disproportionate impact on poor)

8 1 & (5 7 \$, 1 7 6 < 8 5 5 2 8 1 ' , 1 * 7 + (% (1 () , 7 6

- | Overall, the positive impact of capital account liberalization on growth is small
 - | 8 Q E X Q G O L Q J W K H I O R Z V) ' , Y V ³ K R W P
- | Sequencing matters: liberalization of capital account ahead of domestic financial reforms lowers growth benefits and raises stability risks (in terms of both macro volatility and crisis propensity)
- | But even appropriately sequenced liberalization creates costs:
 - | Exchange rate volatility
 - | Macro and financial stability risks



() , & , (1 & \$ 1 ')



68 3 3 2 5 7) 2 5 & \$ 3 , 7 \$ & 2 1 7 5 2 / 6 * 5 2 : , 1 *

| We are not in Genoa anymore

- y Genoa Monetary Conference (1922): *3 \$ 0 0 D U W L I L F L D O F R Q W U R O R I R S H U I X W L O H D Q G P L U K L H Y R X V ' a sentiment, however, which lives on in some quarters: 3 , K D Y H R Q O I H L J K W V H F R Q G V O H I W W R W D O N D E R X W F D S L W D O F R O W K D Q W K D W W R W H O O I R X W K H I G R Q W Z R U N , Z R X O G Q W*
(Carstens, 2015)

| Bretton Woods architecture recognized that capital controls would be needed

- y Keynes (1944): *3 : K D W X V H G W R E H K H U H V I L V Q R Z H Q G R U V H G D V*
- y White (1937): *3 : L W K R X W R S Y H U D A R L R Q R I R W K H U F R X Q W U L H V V X F K*

| In the 1970s, US favored capital mobility to help generate dollar devaluation

- y And the IMF became a cheerleader for open capital markets: *3 : K D W , Z R X O G O L N H W I S H U V X D G H W K R V H R I I R X Z K R U H P D L Q V N H S W L F D O « W K D W D F F R X Q W R X W Z H L J K W (Fischer, 1997) Q W L D O F R V W V '*

| But since the GFC, the IMF has outlined a greater role for controls

- y The Economist, commenting on Ostry et al. (2010): *3 7 K H , 0) « D F N Q R Z O H G J H V W K L on capital inflows can be a useful tool. For an organization that has long focused on the G L V W R U W L R Q V V X F K F R Q W U R O V F U H D W H W K H V K L I W L V V L*
- y (Y H Q) L V F K H U E H F D P *3 H K D W F R Q Y H U W S X U S R V H t e r m V H U Y H G E I L Q W H U Q D W L R Q D (Fischer, 2014) D O I O R Z V " '*

| Liberalization may reduce welfare Libegrftnt10<0057>-Pgrrt3q 0 0 720 540 re W3333 1 3

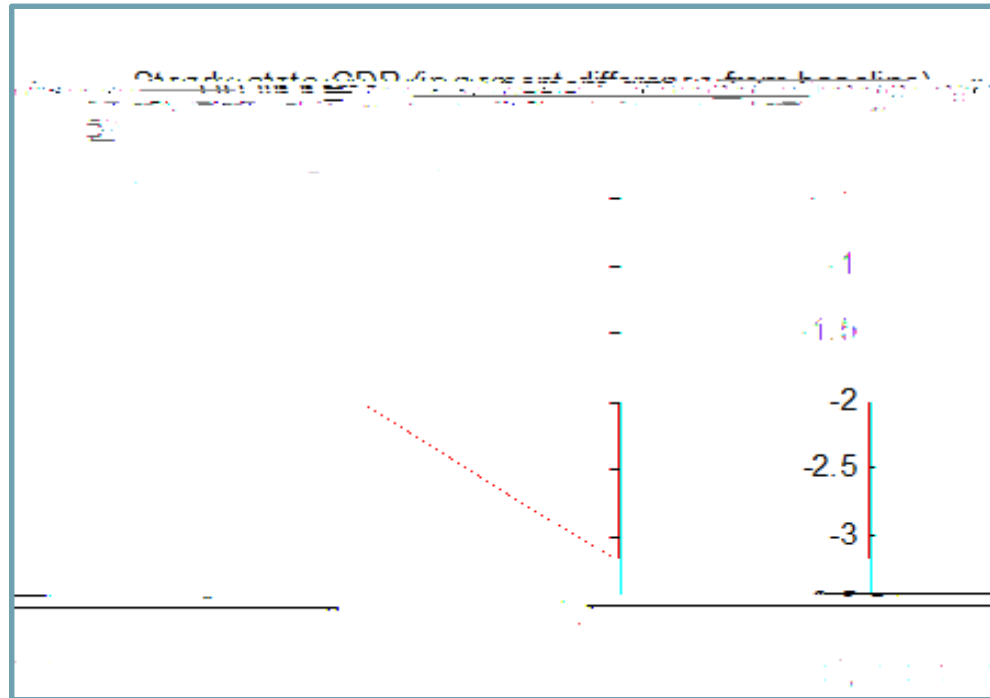
) , 6 & \$ / & 2 1 6 2 / , ' \$ 7 , 2 1 2 9 (5 9 , (:



237,0\$B2/, & < 6127725(3\$<'(%7



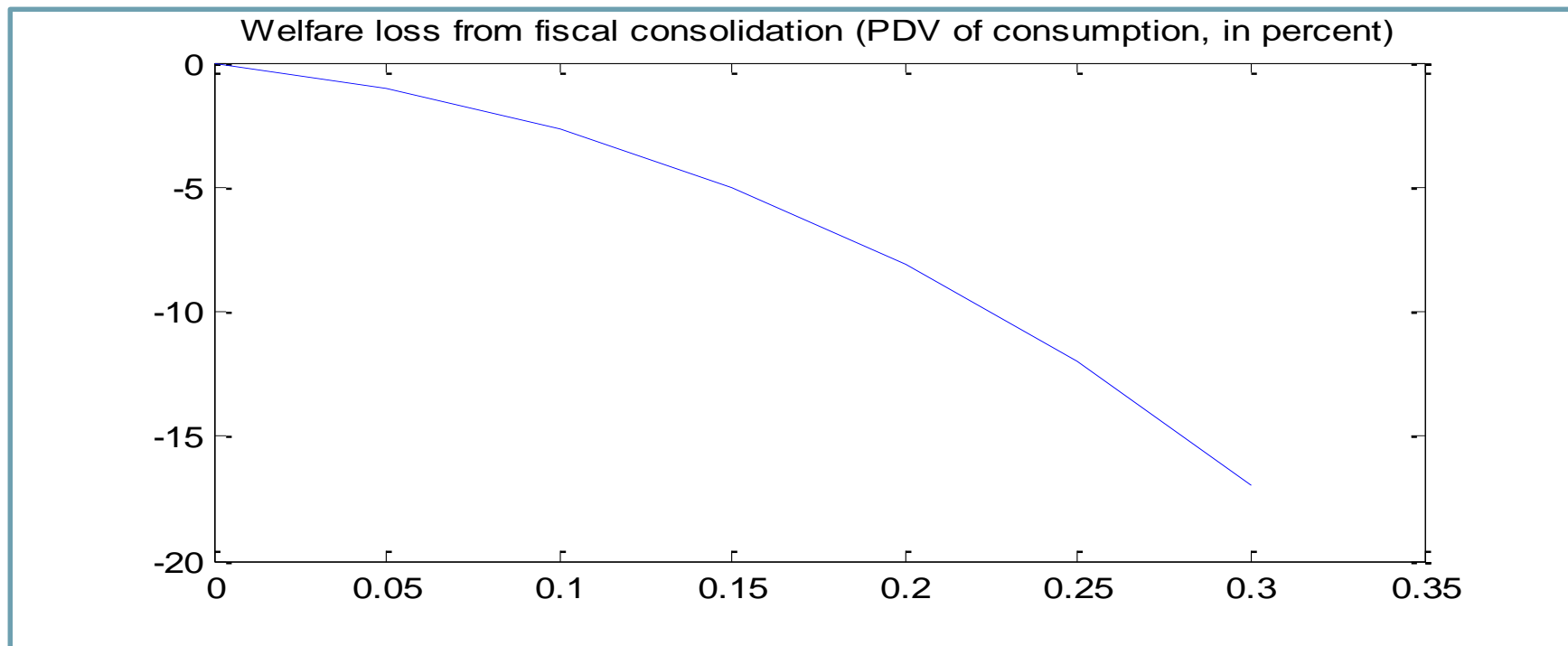
$7 + (\& 2672) , 1 + (5 , 7 (' (\% 7 , 1 ' ((' , 6 + , * +$



For an initial increase in public debt from 50 to 100 percent of GDP:

- y GDP is about 2.5 percentage points lower permanently.
- y The present value welfare cost of inheriting 50 percent of GDP higher debt is around 30 percent of the initial period consumption.

$\% 873 \$ < , 1 * 2 : 1 \quad 7 + (' (\% 7 , 6 (9 (1 0 2 5 ($
 $\& 2 6 7 / < ' (\% 7 , 6 \$ 6 8 1 . \& 2 6 7$



- y Repaying 10 percent of GDP of debt reduces welfare by 2.7 percent of equivalent consumption (1.7 percent if spread over 10 years)
- y The costs are convex in the speed and extent of consolidation

&5 , 6 , 6 1 6 8 5 \$ 1 &% (1 () , 7 2) / 2 : (5 3 8 % / , &(% 7
\$ 5 (6 0 \$ //

Correct but to evaluate this one needs a cost-benefit analysis.

y For debt =120 percent of GDP, the likelihood of a debt crisis is

\$ 8 6 7 (5 , 7 , < 6 % \$ ') 2 5 , 1 (4 8 \$ / , 7 <

| Historically, episodes of fiscal consolidation have been followed by:

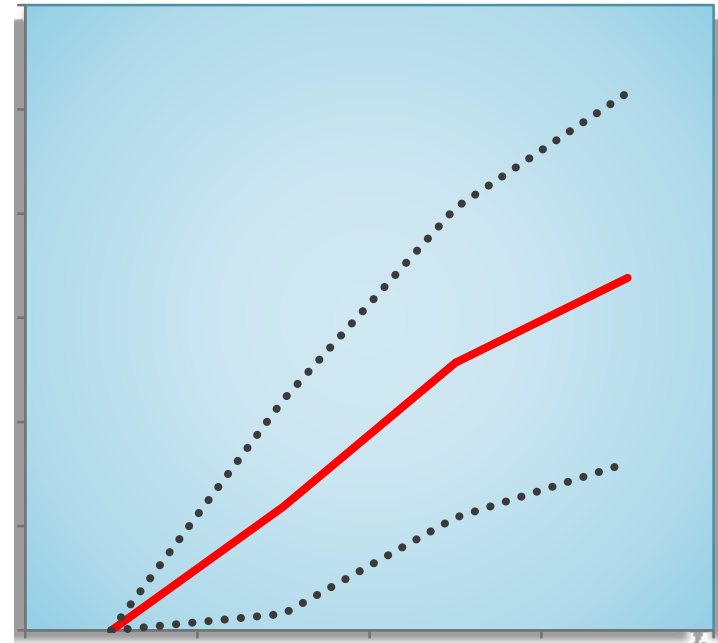
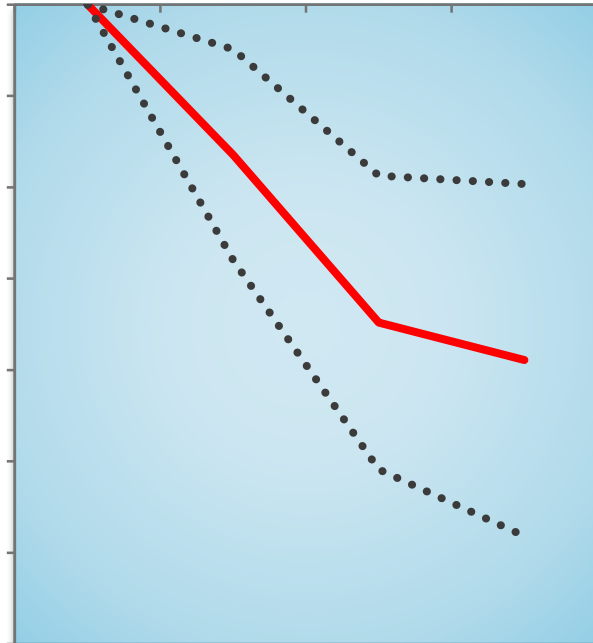
- y a sharp-rise in long-term unemployment, which is an important channel for increases in inequality
- y a bigger contraction in wages than in profits
- y an increase in the Gini coefficient

() , & , (1 & 4 8 , 7 <) (& 7 6 2) \$ 8 6 7 (5 , 7 <

Fiscal consolidation lowers growth:

QR μH[SDQVLRQDU\ DXVWHULV

Fiscal consolidation raises inequality



Estimated impact on growth and market Gini following an episode of fiscal consolidation. Episodes are based on the narrative approach. Estimates are based on an autoregressive distributed lag model (ARDL). 7KH KRUL]RQWDO VFDOH LV LQ \HDUV EHIRUH RU VKRZV SHUFHWDWLRQ. See Oskari Luoma and Furceri (2016, F&D) for details.

7+ (% 5 2 \$ ' 0 (6 6 \$ * («

| \$ μ E X V - a s Q X W X D O † Y L H Z Z R X O G U H F R P

y



7+ (% 5 2 \$ ' 0 (6 6 â € «

| The research summarized here suggests:

y Growth & distribution are two sides of the same coin: we should focus on both

| Redress ²not merely express anguish over ²adverse distributional effects

y Be cognizant of growth-equity tradeoffs in macro & structural policies

| How can we design policies so growth benefits go up, equity costs go down?

| Design policies from the outset so that extreme distributional impacts are muted

| 8 V H R I F R P S O H P H Q W D U \ S R O L F ²such as job training and assistance with search ²to help workers bounce back from job displacement

| Redistribution: greater reliance on wealth and property taxes, more progressive income taxation, and better targeting of social benefits

y On macro policies:

| Case for paying down public debt is weak ²living with debt is a better policy when fiscal space ample