GREAT EXPECTATIONS

Is the IMF turning words into action on inequality?

For decades, the IMF imposed policy conditions on countries which worsened economic inequality. However, today the IMF has an inequality agenda that calls for action to tackle the inequality crisis. What is the IMF doing in practice to operationalize that agenda? The IMF's main initiative has been a series of pilots that integrate inequality analysis into its economic surveillance of countries. Oxfam's evaluation of these pilots finds they are not promoting policies that reduce inequality.

OXFAM

SUMMARY

In recent years, the International Monetary Fund (IMF) has become a global leader in highlighting the inequality crisis; consistently identifying it as a major threat to human progress and prosperity. This is a significant shift from its previously held position that rising inequality was a necessary trade-off for achieving greater economic growth. The IMF has also come to recognize that, over the past 40 years, its structural adjustment programmes and advice have contributed to an increase in the gap between rich and poor in countries all over the world.

The IMF plays a determining role in whether economic inequality will continue to damage societies. Government policy has a major impact on the level of inequality in any society, and the IMF exercises significant influence over the policies of governments, both indirectly through its contribution to economic thought and the state of the global economy, and directly through its advice to countries and the conditions attached to its lending programmes.

The IMF has gone a lot further than simply recognizing that inequality is a problem. With a series of brave and innovative pieces of research, it has challenged many aspects of common economic thinking, linking it to the increasing global divide between rich and poor. Its research has found that growth is harmed by inequality, and that neoliberal policies have contributed to growing inequality. Further, IMF research has found that redistribution need not hurt growth, and can help it; that more economically equal countries are also countries where women and men are more equal; and that stronger trade unions and greater bargaining power for workers are associated with greater equality.

Considering this body of research, and the narrative on inequality that the IMF has developed from it, it is clear that the IMF is serious about tackling inequality. Oxfam has praised the IMF for this new agenda and the seriousness with which it has come to treat inequality.

OPERATIONALIZING INEQUALITY IN SURVEILLANCE

This strong inequality agenda in turn begs the question of how words are being translated into practice and reflected in the IMF's core functions. Indeed, the institution has also moved to try and change the way it does business to incorporate the new focus on economic and gender inequality.

This paper examines the main initiative adopted so far by the IMF to operationalize its inequality agenda:[1] [2] the introduction of inequality in bilateral surveillance through the implementation of several Article IV pilots.[3] Article IVs are the main instrument through which the IMF influences policy making at the country level, performing surveillance and monitoring macroeconomic stability and growth. The pilots integrate inequality into the analysis in different ways: some look at the characteristics of inequality in a country, some focus on its drivers and others include an assessment of the distributional impact of the reforms recommended using a general equilibrium model.

This Oxfam paper examines fifteen Article IV 'inequality pilots'[4] to assess whether the IMF is achieving its self-described goal of providing 'systematic inclusion of inequality in policy advice'[5] and is effectively beginning to operationalize its inequality agenda through these pilots. On the basis of this analysis, Oxfam finds that significant gaps exist between the IMF's rhetoric and research findings on inequality and its actions. Despite some encouraging first steps, the new IMF inequality agenda is still far from being operationalized. This finding concurs with a recent assessment of the IMF's efforts to operationalize inequality authored by Development Finance International and New Rules for Global Finance.[6]

By Oxfam's assessment, in none of the pilots can the analysis be seen to constitute a 'systematic inclusion of inequality in policy discussion'.

Key findings:

- The pilots are focused on structural reforms and include no assessment of the distributional impacts of the core macro-economic targets and policy advice.
- None of the pilots fully explores alternatives to rapid fiscal and monetary tightening, in view of minimizing their impact on poverty and inequality.
- The focus is on compensating losers rather than questioning the structural reforms themselves. When the analysis finds negative distributional impacts of the reform considered, policy recommendations focus on measures to compensate the losers, who are usually those most vulnerable, including poor people, the young, and women. This 'compensatory' approach reinforces and justifies policy decisions already taken, instead of using findings to consider a broader range of policies that are good for reducing poverty and inequality on their own. A truly ambitious and inequality-focused approach would first ask what structural reforms would directly benefit these groups, rather than focus exclusively on mitigating harm done to them by reforms.

Oxfam believes that the Article IV inequality pilots can be the starting point for a systematic and effective inclusion of inequality in policy analysis and design, but there is still a long way to go before the ambition and challenges laid out by the Fund's research findings are being met by a similar step change in the way that it does business. A far more radical overhaul is needed, where the reduction of poverty and inequality is the starting point, and where the poorest and most vulnerable people are the primary beneficiaries of reforms, not the unfortunate losers who must be compensated by means of safety nets. It is also critical that the concern for inequality is reflected in lending programmes' conditionalities.

This paper goes on to lay out a 10-point set of recommendations for the IMF to truly systematically incorporate the fight against inequality into its research and its actions on the ground, within and beyond the Article IVs.

1. **The innovative IMF research programme on inequality must continue.** It should be expanded to new research areas, especially looking at policies that can reduce inequality.
2. **At the country level, the IMF can be much more ambitious in what it does to help countries to reduce inequality.** The starting point should be a comprehensive understanding of the drivers of inequality, of poverty reduction and of inclusive growth in each country. Such an assessment should rely on

different methodologies and evidence provided by other institutions and stakeholders, and should be owned by country authorities and citizens.

3. **The IMF should also insist that country authorities set clear targets to reduce inequality**, to be agreed with citizens, as part of their medium-term development plans and in line with their commitments under SDG 10.
4. **IMF advice and programming should include comprehensive ex ante Inequality and Poverty and Social Impact Assessments (IPSIAs) of all major proposed macro-economic targets and structural reforms.** Such analysis should ensure that the chosen pathway to fiscal adjustment and stability minimizes impacts that may worsen inequality.
5. **The IMF's policy advice should proactively promote reforms that put the reduction of poverty and inequality first**, moving beyond identifying negative distributional impacts and suggesting mitigating measures. Policy advice should be open to include a wide range of options, including heterodox options on which IMF research is generating evidence.
6. **The IMF should continue and expand its excellent work in the field of gender inequality**, and seek to create synergies with work on economic inequality.
7. **The IMF, working with other international institutions, should lead a data revolution on inequality**, enabling all countries to produce a full set of distributional national accounts, as recommended by economist Thomas Piketty and others. This will enable a systematic understanding of the distributional impacts of many proposed budget measures and structural reforms.
8. **The inequality agenda should be carried forward into loan programmes and conditions**, including regular monitoring of the impacts on inequality of such programmes.
9. **Citizen engagement in these initiatives is essential.** Further, the actions outlined above should be pursued while systematically integrating civil society, labour unions and women's voices into the analysis and policy and programme discussion.
10. **The IMF should continue to maximize its multilateral and influential position to create global consensus around actions to reduce inequality.** This would include, for example, promoting a global tax agenda to support domestic revenue mobilization and trade in a way that promotes the reduction of inequality, and ending tax havens and tax competition.

The IMF can use Article IVs more effectively to deliver policy advice which goes beyond identifying and minimizing the negative impacts of reforms on inequality. This is not sufficient to achieve what is truly needed, which is proactively promoting policies that will serve to reduce inequality, and certainly not those that will increase it. To this end, we recommend the IMF to:

- Streamline systematic analysis of inequality in Article IV consultations for all countries by 2020. We suggest that Article IVs routinely monitor inequality indicators, and when these surpass a certain threshold, steps are taken to include inequality into policy analysis and advice.
- Establish clear criteria for including inequality in surveillance. We suggest that these include an analysis of key drivers of inequality at country level and the adoption of tools for systematic assessment of the distributional impact of different policies.

- The general equilibrium model adopted in several Article IV pilots can be a valid instrument to achieve this, provided it is used systematically for different types of policies and in combination with a wider set of methodological tools which allow a disaggregated inequality, poverty and social impact assessment.
- We encourage the use of the model to learn more about the impact of different policies and design interventions which have a positive impact on poverty and inequality in the first place, instead of leading to the use of more compensatory measures later.

This paper also examines policy advice given in the Article IV pilots on four areas that are critical to addressing inequality: taxation, social spending, labour market legislation and gender equality. It finds that there is significant variability in the extent to which the substance of policy advice has shifted to take inequality into account.

Notable progress has been achieved in policy advice on taxation, where there is a shift towards providing advice on direct and more progressive taxes, for instance the elimination of ineffective tax exemptions and incentives. Raising value-added tax (VAT) remains a popular recommendation, and although in several cases this is qualified so as to minimize its regressivity, it is not always clear whether exemptions for basic goods are specified. There are few cases where tax policy advice concerns taxes on wealth and property. Overall, there is still insufficient concern about ensuring that countries increase the progressiveness as well as the efficiency of their tax systems.

Oxfam makes the following recommendations to the IMF on tax policy advice:

- Include in Article IV consultations comprehensive analysis of the distributional impact of recommended tax reforms, including indicators of tax progressivity and equity.
- Continue and reinforce tailored advice to maximize corporate tax revenue, including eliminating exemptions and tax incentives which benefit large corporations and deprive governments of revenues that can be used for progressive public investments.
- Provide advice which focuses more explicitly on direct and progressive taxes and which depends more often on taxing wealth, property and capital gains of the richest than the consumption of the poorest.
- To this end, develop stronger guidelines on progressive Personal Income Tax (PIT) rates and thresholds and more consistent policy advice on Corporate Income Tax (CIT). Ensure VAT policies supporting exemptions or zero ratings for the poorest consumers are effective and implemented.

In the Article IV pilots examined, countries are often recommended to safeguard social spending, but this is often characterized by a tendency to see social spending as a ‘Band-Aid’ to compensate for the negative effects of other measures, and by an unconditional trust in targeting in social protection. Fiscal adjustment is regularly recommended, without a systematic and disaggregated analysis of its impacts on poverty, inequality and social spending. Public health and education are not sufficiently emphasized as critical policy instruments to reduce poverty and inequality, and recommendations do not clearly encourage the building of universal quality systems.

Instead of recommending fiscal tightening with the optional and generic provision of safeguarding social spending, the IMF should turn around its approach and help countries build public budgets which have a positive impact on poverty and inequality.

Oxfam makes the following recommendations to the IMF on policy advice on social spending:

- Establish transparent criteria for determining social spending floors which are consistent with international commitments such as the Sustainable Development Goals (SDGs), the 2001 Abuja Declaration on health spending and the 2015 Incheon Declaration on education spending, as well as nationally set targets to achieve the SDGs. Include local civil society in dialogue to ensure that social spending floors are appropriate and meaningful.
- Turn social floors into outcome-based binding conditions mutually agreed with country authorities and their citizens and implement clearer and more transparent systems for monitoring changes in the composition and levels of social expenditure.
- Ensure that Article IVs recommend universalism in the provision of health and education and give explicit support to policies to build universal social protection. Avoid recommending overly narrow targeting, especially targeting based on means testing,[7] that will exclude the most vulnerable individuals.

On labour markets and legislation, analysis of the Article IV pilots suggests that the IMF is maintaining a conservative stance, which can exacerbate inequality. In six countries, the recommendations focus on reducing the public wage bill with no analysis of the distributional and gender impact of such a measure, which can be considerable given the large number of women employed in the public sector. Recommendations concerning the minimum wage are few, despite minimum wages being a powerful tool against wage and income inequality. For very few countries, the Article IVs examined contain recommendations on the structure of the labour market, and in no cases are recommendations concerned with the protection or the establishment of adequate labour market institutions, including labour and union rights and legislation.

Oxfam makes the following recommendations to the IMF on policy advice on labour markets and legislation:

- Align policy advice with the results of IMF's own research and focus on labour markets and labour legislation as critical determinants of inequality. First and foremost, the IMF needs to stop pushing for labour market deregulation and instead should recommend labour policies that can help in reducing inequality, such as a minimum wage, gender equality in the workplace, protection of workers' rights and collective bargaining. These measures are also important to help prevent countries from engaging in a race to the bottom on wages and labour rights.
- Include in Article IV consultations an analysis of the country's labour share of national income and use this analysis to inform labour market policies, which should aim to create employment opportunities for all. As such, labour policies need to go beyond recommending 'more training for unskilled workers' and focus more on (re)building labour market institutions, empowering the female labour force and supporting workers in the informal sector.

The most impressive advances have been achieved in the area of gender inequality. In recent years, the IMF has adopted several initiatives to mainstream gender in its work. These include several Article IV pilots on gender,[8] which have been run in parallel with Article IV pilots on economic inequality. While these pilots signal a serious commitment to gender analysis, they have so far focused primarily on determinants of female labour force participation[9] and show limited efforts to ensure that macro-economic policy advice is consistent with gender equality.

ActionAid's recent analysis of the Article IV gender pilots shows that the majority of countries that have been asked to increase female participation in the labour force have also been told to start, increase or not deviate from plans on fiscal consolidation. Such advice has not been accompanied by any analysis of the impact of the suggested measures on the country's ability to implement measures supporting female labour force participation, especially public support to care work (e.g. childcare).[10]

Providing gender-friendly policy advice demands a broad analysis of the gender impact of macro-economic policies and a revision of policy advice that is fully consistent with gender equality.

Oxfam makes the following recommendations to the IMF on policy advice on gender inequality:

- Reverse the approach with which it looks at the macro-criticality of gender equality. The IMF needs to focus on the gender impact of its core macro-economic policy advice, and ensure that such advice qualitatively improves (and not only increases) women's terms of incorporation in the economy.
- Ensure that such advice leaves countries with the fiscal space to invest in quality public services such as childcare, care for the elderly and healthcare that better enable women and men to balance work with their caring responsibilities. The IMF should also discontinue policy advice that is shown to have negative impacts on gender equality.
- Ensure that Article IV reviews are carried out in an open and transparent way, with opportunities for women's rights organizations to engage and put forward their analysis and priorities. Oxfam recommends complete mainstreaming of gender analysis in Article IV consultations for all countries by 2020.

NOTES

1 This paper does not assess the IMF's long-term impact on inequality. Accordingly, this paper does not look directly at country programmes or the IMF's lending activities.

2 See, for example: http://www.imf.org/en/news/articles/2017/02/16/vc02162016-response-to-article-the-imf-is-showing-some-hypocrisy-on-inequality

3 Article IV consultations are the IMF's main bilateral surveillance tool.

4 For the following countries: Bolivia, Colombia, Denmark, Ethiopia, Guatemala, Honduras, Korea, Kyrgyz Republic, Malawi, Mauritania, Myanmar, Poland, Democratic Republic of Congo, Uganda, United States.

5 See footnote 31.

6 J.A Ocampo, J.M. Griesgraber ., M. Martin, N. Colin. (2017). *Are the Multilateral Organizations Fighting Inequality?* 2017 Financial Impact Report Executive Summary. Friedrich-Ebert-Stiftung, Development Finance International and New Rules for Global Finance.

7 Means-tested benefit requires that applicants demonstrate that their resources (income or assets) fall below a certain threshold.

8 The list updated at July 2017 included 20 countries: Chile, Costa Rica, Guatemala, Germany, Hungary, India, Italy, Jordan, Mali, Mauritius, Niger, Nigeria, Pakistan, Sweden, Austria, Cabo Verde, Egypt, Iran, Morocco and Poland.

9 BWP (2016). *The IMF and Gender: A Critical Analysis*. The Bretton Woods Project, June 2016. http://www.brettonwoodsproject.org/wp-content/uploads/2016/06/final-gender-briefing-1-for-online-version-7.pdf

10 ActionAid International (2017). *Women as "underutilized assets": A critical review of IMF advice on female labour force participation and fiscal consolidation*.

This paper was written by Chiara Mariotti, Nick Galasso and Nadia Daar. Oxfam acknowledges the assistance of Max Lawson and Anna Coryndon in its production. It is part of a series of papers written to inform public debate on development and humanitarian policy issues.

For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

Published by Oxfam GB for Oxfam International under ISBN 978-1-78748-087-2 in October 2017.
DOI: 10.21201/2017.0872
Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

OXFAM

Oxfam is an international confederation of 20 organizations networked together in more than 90 countries, as part of a global movement for change, to build a future free from the injustice of poverty. Please write to any of the agencies for further information, or visit www.oxfam.org