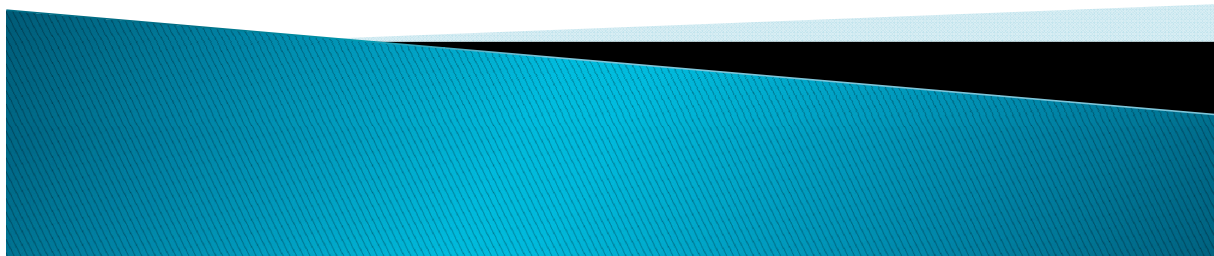


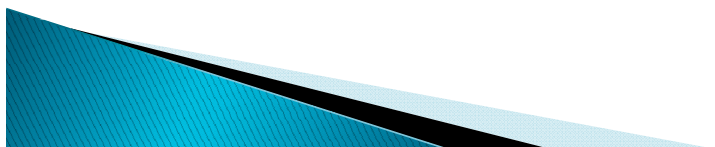
# Inclusive Growth: Some Recent Research

Giovanni Ganelli  
OAP-Hitotsubashi Seminar  
March 12-13, 2015, Tokyo, Japan



## “How Inclusive is Abenomics?”

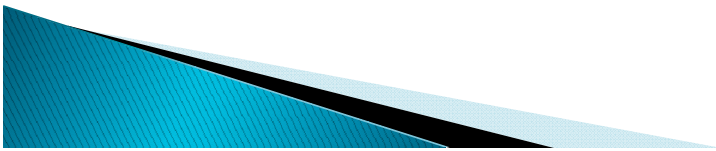
- ▶ Forthcoming IMF Working paper by Aoyagi, Ganelli and Murayama
- ▶ Evaluation of the reflation policy in Japan in terms of inclusiveness (i.e. Income Growth and Equality) using prefectural level panel data
- ▶ The first attempt to study in a systematic way how inclusive Abenomics is



“How Inclusive is Abenomics?”

## –Why focus on inclusiveness?–

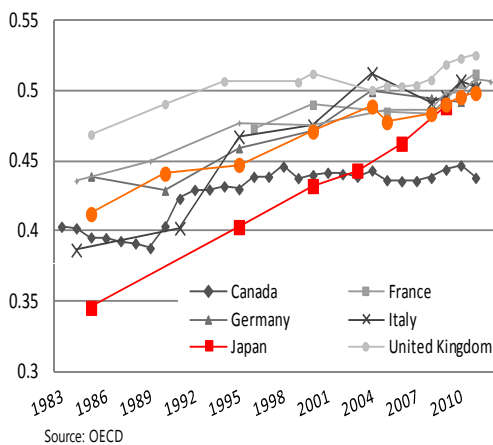
- ▶ Relevant to macroeconomic outcomes and to the ultimate success of the reforms, for at least two reasons.
  1. Public support is needed for long-term reforms which might imply some short-term costs for some segments of the population
  2. Evidence suggests economic inequality is bad for both growth and social cohesion



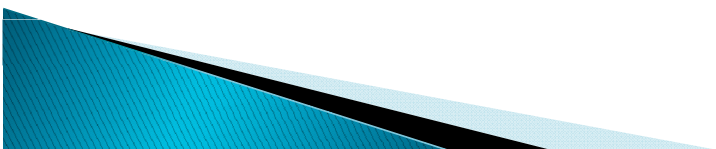
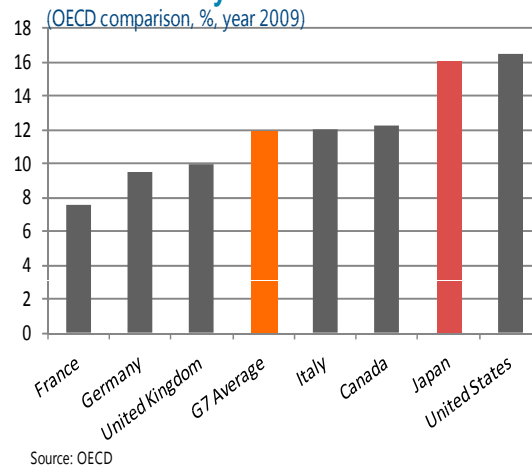
“How inclusive is Abenomics?”

## –Inequality has been increasing–

Gini before Taxes and Transfers (Market Income)



Relative Poverty Rates of G7 Countries



# “How inclusive is Abenomics?” –EMPIRICAL RESULTS–

•Overall, policy variables affect inclusive growth mostly through growth in average income.

**Table 1. Results for All Households**

	<i>Dependent variable:</i>		
	Inclusive Growth (1)	Average Income Growth (2)	Equity Index Growth (3)
Inflation (%)	1.586*** (0.197)	1.598*** (0.174)	-0.032 (0.069)
Inflation, squared	-0.353*** (0.041)	-0.331*** (0.037)	-0.020 (0.015)
Part- to Full-time job openings (%)	-0.028 (0.020)	-0.033* (0.018)	0.005 (0.007)
Female labor force participation (%)	0.165* (0.084)	0.125* (0.074)	0.040 (0.029)
Labor input growth (%)	0.524*** (0.165)	0.489*** (0.146)	0.029 (0.058)
Initial GDP per capita	-1.564** (0.762)	-0.985 (0.672)	-0.600** (0.267)
Elderly index	0.057 (0.037)	0.052 (0.033)	0.004 (0.013)
Observations	235	235	235
R <sup>2</sup>	0.660	0.714	0.112
Adjusted R <sup>2</sup>	0.509	0.550	0.086
F Statistic (df = 7; 181)	50.250***	64.430***	3.260***

Note: \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

# “How inclusive is Abenomics?” –Policy Implication–

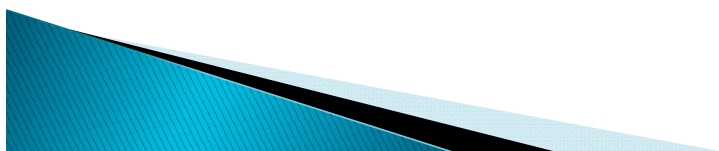
**Table 3  
Scenario result table, inclusive growth**

	All Households			Working-Age Households		
	Incl. Growth	Avg. Growth	Equity Change	Incl. Growth	Avg. Growth	Equity Change
Inflation (0.0 to 2.0%)	1.76	1.87	-0.14	1.91	1.97	-0.07
Part- to Full-time job postings ratio (21 to 5%)	0.45	0.53	-0.08	0.63	0.64	-0.01
Female Labor Participation (47 to 52%)	0.83	0.63	0.20	1.13	0.78	0.35
Labor Input (-0.81 to 0.00)	0.42	0.40	0.02	0.31	0.29	0.02

The best way for Abenomics reforms to foster inclusive growth is to fully implement structural reforms, i.e. fully launch the third arrow.

# “Asia’s Quest for Inclusive Growth Revisited”

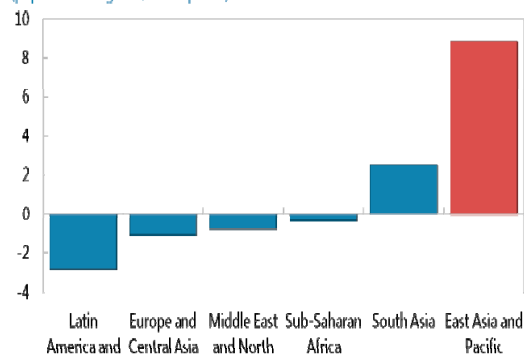
- ▶ IMF Working paper No. 15/42 by Aoyagi and Ganelli
- ▶ Following IMF Regional Economic Outlook (2011) we revisit the issue.
- ▶ A cross-country empirical analysis on policy options to facilitate inclusive growth in Asia
- ▶ We include in our model variables which proxy the impact of fiscal redistribution, monetary policy and structural reforms.



## “Asia’s Quest...” -Inequality has increased in Asia -

**Developing Countries : Change in Gini Index, Since Early 1990s**

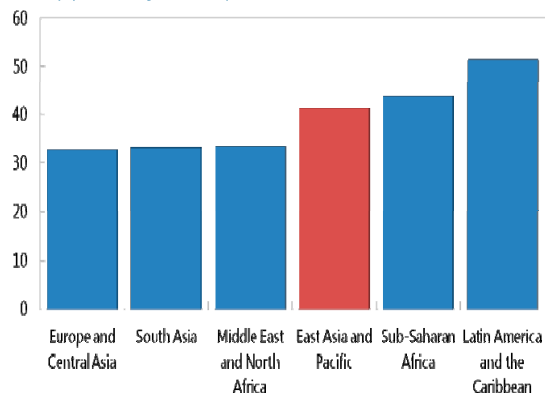
(population-weighted, in Gini points)



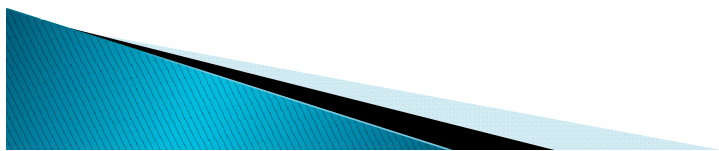
Sources: The World Bank, Staff Calculations

**Developing Countries: Latest Gini Index**

(population weighted, in Gini points)



Sources: The World Bank, Staff calculations



# “Asia’s Quest...”

## –Some Studies on Policy Effects–

### ▶ Fiscal Policy

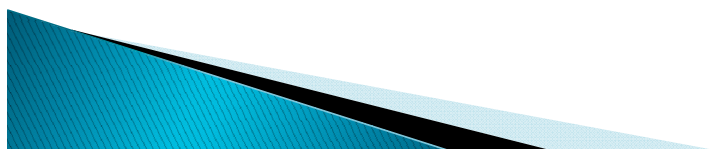
- The combined direct and indirect effects of income redistribution are on average “pro-growth”–Ostry et al. (2014)

### ▶ Monetary Policy

- Price stability appears to be conducive to economic growth, low unemployment and subdued income volatility–Coeuré (2012)

### ▶ Structural Reform

- Asia needs effective labor market and industrial competitiveness policies– Zhuang et al (2014)
- Trade globalization is associated with a reduction in inequality– IMF (2007)



# “Asia’s Quest...”

## –EMPIRICAL RESULTS–

Fiscal redistribution, monetary policy aimed at macro stability, and structural reforms to stimulate trade, reduce unemployment and increase productivity are important determinants of inclusive growth.

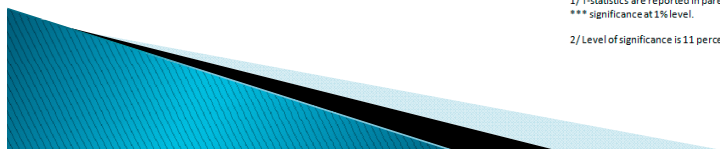
Table 1. Determinants of Inclusive Growth in a Panel of Countries: Regression Results 1/

	Fixed Effects (Robust SE)	Fixed Effects	Random Effects
Dependent Variable: Proxy of Inclusive Growth			
Redistribution (5-year moving average)	0.647 [1.94]*	0.647 [1.61] <sup>2/</sup>	0.195 [1.55]*
CPI Inflation	-0.103 [-1.41]	-0.103 [-2.43]**	-0.054 [-1.33]
GDP Volatility (Standard Deviation of Growth over 5 years)	-0.654 [-1.81]*	-0.654 [-2.39]**	-1.145 [-5.30]***
Share of Employment in Agriculture	0.185 [9.18]**	0.185 [2.56]**	0.115 [2.78]**
Unemployment Rate	-0.717 [-3.05]**	-0.717 [-3.01]**	-0.052 [-0.70]
Productivity	0.001 [3.25]**	0.001 [3.05]**	0.000 [3.05]**
Trade Openness	0.157 [4.45]***	0.157 [3.74]***	0.020 [1.52]
Lagged GDP per capita (t-1)	-0.002 [-4.34]***	-0.002 [-4.82]***	0.000 [-2.58]***
Lagged Dependent Variable (t-1)	-0.159 [-2.80]*	-0.159 [-2.33]**	-0.030 [0.48]
R-squared	0.424	0.424	0.313

Source: IMF Staff Calculations

1/ T-statistics are reported in parenthesis. \* denotes significance at 10% level, \*\* significance at 5% level, and \*\*\* significance at 1% level.

2/ Level of significance is 11 percent



# “Asia’s Quest...” –Policy Implication–

- ▶ Asia has scope to increase and improve fiscal redistribution
- ▶ Monetary policy should aim at longer term stability
- ▶ Productivity improvement and completing multilateral trade negotiations are important

