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Reducing inequalities and strengthening social cohesion through inclusive growth: a roadmap for action

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Abstract
The authors propose a policy compact to achieve more inclusive growth in G20 countries so that economic growth regains the ultimate sense of improving all people's lives. Guiding principles are: 1) prosperity is not just about income but about all relevant outcomes of well-being and capabilities to overcome the initial social disadvantage; 2) it is also about including people in participatory decision-making to enhance their dignity and control over their lives; 3) excluding people from reaping the benefits of growth will thwart social cohesion and well-being; 4) integrated policy approaches are needed to achieve inclusive growth, across policy domains and between national and global actions, including responsible management of migratory movements. Concrete policy actions are described that span education, labor, fiscal instruments, public and private governance.

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1 The Challenge

Income inequality has risen within many countries, especially among the advanced G20 economies, since the 1990s. According to some aggregate indicators, global income inequality has decreased as a consequence of convergence from fast-growing economies. In particular, Hellebrandt and Mauro (2015) show a shift in the Lorenz curve computed for the world income distribution that led to a decrease in global inequality between 2003 and 2013 (see Figure 1).

Lakner and Milanovic (2016) also show a reduction in the global Gini index during the 2000's. In spite of this reduction, global inequality remains high by all standards. Studies may differ according to methodology and data, but concur in estimating the current global Gini coefficient at values around 70%. Worldwide income inequality is thus higher than inequality in even the most unequal countries in the world (see Klasen et al., 2018, for an extensive discussion).

Moreover, the process of economic growth worldwide has been uneven. More than a billion people have been lifted out of extreme poverty, but the world's poorest and the middle classes in the developed world have seen, on average, no significant income gain over the past 30 years. Conversely, people at the top of the world income distribution have reaped a high share of the income growth. Alvaredo et al. (2018), combining different data sources, estimate the concentration of world income to be even higher than previously estimated (Milanovic, 2016). People occupying the top 1% of the world income distribution appropriated 27% of total growth between 1980 and 2016, while the entire bottom half only captured 12% of total growth (see Figure 2).[1] [2] The same process of income concentration has characterized OECD countries over the period 2007–2014, as shown in Figure 3. People in the bottom 10% of the distribution in OECD countries lost disproportionately in 2007–2010 and recovered little in 2010–2014, so their gap from the mean national income widened. Conversely, people in the top 10% of the income distribution earned well above the mean income in 2010–2014.

Global inequality appears even starker if one looks at wealth rather than income (OECD, 2017). The observation that the eight wealthiest individuals in the world own as much as the entire poorest half of the world population shows in glaring detail the extent of worldwide

[1] The rising share of income accruing to the top 1% is in principle consistent with a decrease of the global Gini index, because the emergence of a global middle class may counterbalance the rise in income share by the top 1%. It has to be stressed, though, that the datasets used to estimate the global Gini coefficient have typically been based on household surveys, and these most likely underestimate the magnitude of top incomes (Milanovic, 2016).

[2] A reviewer notes that the overall Gini index may be seen as a weighted sum of subgroup Ginis plus a measure of between group inequality plus a term which reflects the extent to which lower income groups overlap with higher income groups (Mookherjee and Shorrocks 1982, Anderson et al. 2018). When the overlap between country's income is small, as is arguably the case for the real world distribution, the global index will tend to be higher than individual country-level indexes.

Figure 1: Lorenz curve of the world distribution of household per capita disposable income in 2003 and 2013

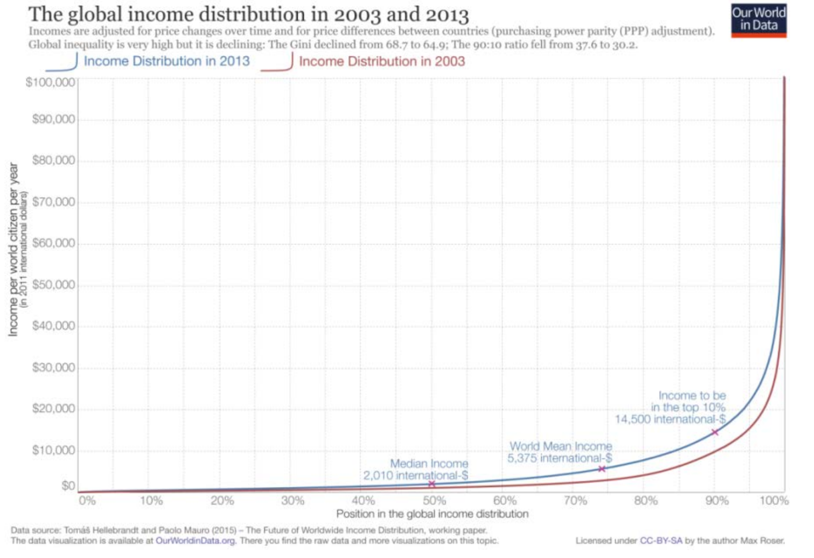


Figure 2: Total real income growth per adult per income brackets of world distribution (1980–2016)

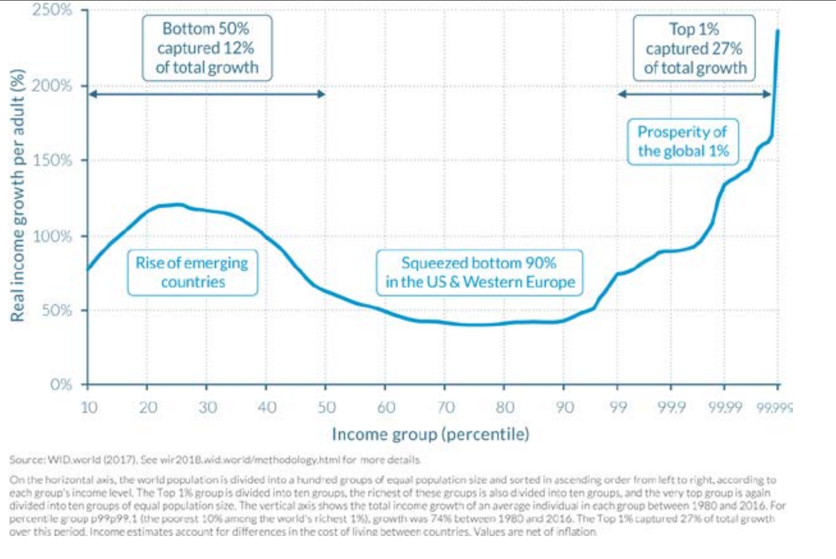
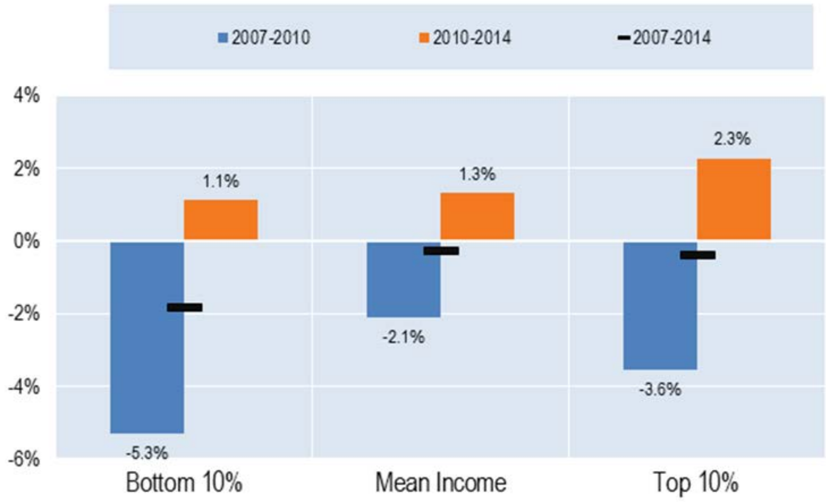


Figure 3: Variation in mean absolute income for top and bottom 10% of income distribution and mean income in OECD countries (2007–2014)



Sources: OECD Statistics. All OECD countries have been included.

wealth inequalities (Oxfam, 2018).[3] The rise of inequality has not prevented many aspects of individual well-being to improve throughout the world. The Human Development Index, which takes into account life expectancy (as a measure of health) and education, in addition to income, has shown steady progress in all groups of countries, albeit with little convergence across high-income and low-income countries (Grimalda et al. 2018a). Poverty rates have decreased throughout the world. In our view, the success in these indicators does not make the current situation less worrying. Firstly, even if progress has on average been made, large numbers of people have been left behind. In particular, the absolute number of people being poor in Africa has increased in the last decades, in spite of a drop in relative poverty. Secondly, an even faster progress may be desirable. Thirdly, the current trend in increasing inequality poses serious concerns that even these positive achievements that we observed in the last decades may soon be reversed.

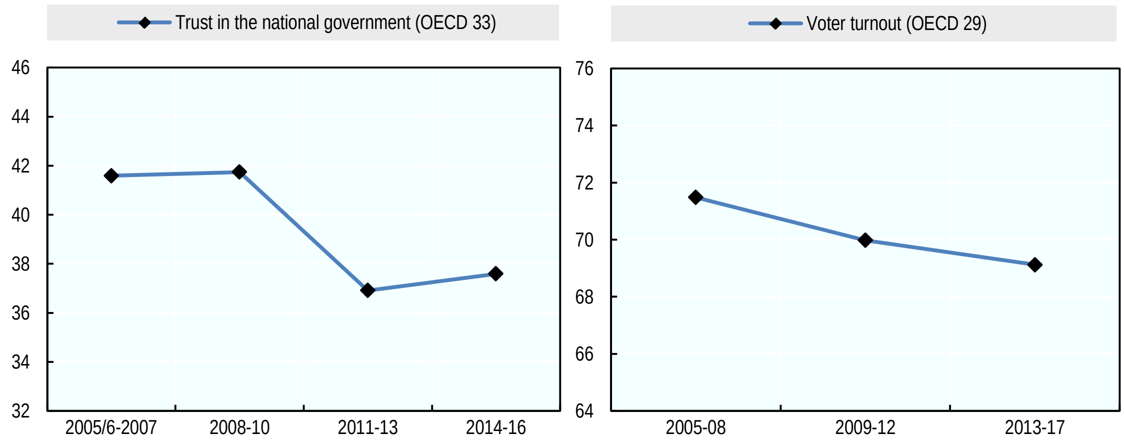
Those who are left behind are confronted with economic insecurity, while lacking the means and skills to adapt to a changing economy and fast technological change. In their own perception, they have not benefitted from globalization and are calling economic openness into

[3] We note that the inequalities measures we are using only consider differences in relative terms rather than in absolute terms. Relative measures somehow "compress" inequality more than absolute measures. This is the case because, given the lower level of income of relatively poor people compared to rich people, the same increase in income will appear larger for low-income people than high-income people when relative measures are used. As shown by Milanovic (2016) for the global distribution of income, this appears as much more unequal if one uses absolute measures than relative measures.

question. As shown in Figure 4, trust in national governments has decreased in the last decade in a sample of OECD countries, and so has voter turnout. A backlash against globalization and global economic integration and a rise in populism may turn out to further hurt the least advantaged (see also Rodrik, 2018).

The global nature of these processes makes national policies less effective. This may jeopardize the whole social contract and the political stability that stems from it. Pursuing inclusive growth, as recommended by the 2016 and 2017 G20 summits, is a major global challenge that requires both national and international efforts. Inclusive growth is the process of creating shared prosperity in many well-being dimensions, not just economic ones.

Figure 4: Evolution of trust in national government and voter turnout



Note: For trust in the national government, the OECD average is population-weighted and excludes Iceland and Luxembourg, due to an incomplete time series. For voter turnout, the OECD average has been calculated across four-year periods. This required excluding Austria, Finland, Italy, Luxembourg and Mexico. Chile is also excluded since compulsory voting was dropped in 2012, introducing a break in the series.

Sources: For trust in the national government: OECD calculations based on Gallup World Poll, www.gallup.com/services/170945/world-poll.aspx. For voter turnout: International Institute for Democracy and Electoral Assistance (IDEA) (2017), www.idea.int, the register of the Supreme Electoral Tribunal for Costa Rica, and the Federal Statistical Office (FSO) of Switzerland.

2 Our Vision

Our vision of inclusive growth involves four pillars. It is consistent with the general approach of the Agenda 2030 that has inspired the Sustainable Development Goals (SDG). This approach revolves around the idea of a "life of dignity" and the imperative of "leaving no one behind." However, the Agenda 2030 specifies only to a limited extent the policies and institutions that help achieve the Goals, partly because the Agenda recognizes that countries need to own and develop specific policy solutions that fit their needs. The present paper builds on the assumption that a process of inclusive growth is necessary to leave no one behind and to enable all to live a life of dignity. To this effect it suggests a complete policy package that can inform national solutions and be implemented fully or in part, depending on the local context and circumstances. The key recommendations are summarized in the box below.

Key recommendations

1. Share the benefits of increased prosperity and globalization more evenly across social groups.
2. Devise policies that consider the multidimensional nature of prosperity and how the various sources of well-being are distributed in the population.
3. Ensure that all individuals are equipped to fulfil their productive potential with adequate investment in skills and health and good opportunities for quality jobs to keep pace with an increasingly globalized and digitalized world.
4. Make sure that the voices of all citizens are heard by promoting wide participation to political and economic decisions in particular from less engaged groups. Foster transparency in decision-making processes and prevent capture by special interest groups, at all levels.
5. Counter the rising tide of anti-immigration voices by developing effective migration and integration policies and by explaining the benefits from immigration. Step-up international cooperation to manage migration flows at the global level.
6. Making inclusive growth happen requires evidence-based reasoning. More timely data are needed to understand the conditions under which economic growth translates into higher well-being, to monitor the distribution of the components of well-being in the population, and to evaluate their impact on social cohesion.

2.1 First pillar: Inclusive growth is about enhancing well-being for all

Inclusive growth is not just about ensuring income adequacy or economic security for different income groups. It is about improving a wide range of outcomes that matter for well-being such as employment prospects, job satisfaction, health and educational outcomes, as well as the quality of social relations and social cohesion. Many of those outcomes are heavily conditioned by individuals' opportunities which are in general heavily affected by socioeconomic status. The most disadvantaged often live shorter lives and find it difficult to break away from a vicious circle of educational underachievement, low skills, poor employment prospects and social alienation. Vulnerable social groups are also affected disproportionately by pollution and are often ill-equipped to cope with environmental degradation. Within countries, some regions, and even neighborhoods within cities, prosper while others lag behind.

2.2 Second pillar: Inclusive growth is also about empowerment and participation

Inclusive growth is not only about outcomes and opportunities but also about processes. It requires making citizens feel respected and able to participate in the decisions that affect their lives. At the current juncture, there is clearly a perceived lack of legitimacy in the way globalization has been taken forward. Critics of the process portray it as having been captured by powerful corporations and financial institutions, and beset by insufficient transparency and accountability to citizens. Anti-establishment protests (in votes or in the streets) reflect a widespread perception that selfish and greedy elites have broken the social contract by creating a situation in which many decisions are taken without sufficient accountability and without consulting the affected populations. The strong desire of people to be respected and in control of their conditions seems universal: for instance, surveys among the most destitute populations show that, even in cases in which economic deprivation seems the obvious priority, the prime concern of these populations is not just about their economic condition but about dignity, respect, and participation (ATD Fourth World 2013, 2015; World Bank 2000).

2.3 Third pillar: Inclusive growth has positive repercussions on social cohesion, solidarity, belonging, and trust

Social cohesion involves the existence of strong social bonds among members of a society. This includes willingness to help and cooperate with each other, and psychological perceptions of being included in the society (Roca and Helbing, 2011; Bertelsmann Foundation and Eurofund, 2014; Grimalda and Tänzer, 2018). Dense social relationships, trust in other people and in institutions buttress social cohesion, as emphasized by the research on social capital (Putnam, 2000).

Inclusive growth permits stronger bonding relationships between citizens and thus fosters social cohesion. This meets fundamental needs of human beings, whose nature is fundamentally social. Evolution seems to have developed a strong disposition to in-group bonding and cooperation as well as distrust or hostility toward outsiders. But the delineation of the groups to which people affiliate themselves is endogenous and can be influenced by policies and institutions. This is sometimes described as the process of identity formation (Akerlof and Kranton 2000). At the limit, the identity of human beings or even simply living beings can take over and foster a universal positive attitude, as posited by Giddens (1991). To be sure, the alternative process – with individuals retrenching into parochial attachment to traditional loyalties and to their ethnic or national group – is also possible, especially if these sentiments are stirred by political leaders. Whether cosmopolitan values or parochial values will prevail in the future, or whether they will interact dialectically, is at the moment impossible to say. This is for sure a matter of concern for the reformist agenda.

The attitude toward migrants and minorities is in particular very sensitive to prevailing narratives about their origins, differences, and contribution to the country and community. Another aspect of social cohesion is the ability for people to experience and express feelings of solidarity, care and altruism. Giving people the possibility to develop such solidarity bonds beyond their immediate circle of relatives importantly enhances their life and gives it additional purpose and meaning. Trust (Putnam 2000; 2007) is a closely related form of mutual recognition that is quite important to fluid social and economic relations, and can also be influenced by policies and institutions.

2.4 Fourth pillar: Economic inequalities harm well-being, empowerment, and social cohesion

While we emphasize the importance of conceiving inclusive growth by going beyond a strictly economic outlook, as developed through the first three pillars, economic inequalities should not be neglected as a specific policy target. This is the case for several reasons. First, while it is sometimes argued that growth is satisfactory when everyone benefits from it, with a reference to Rawls' difference principle, it is now recognized that when economic inequalities become excessive (even if the poor benefit from growth), the social fabric is vulnerable to disintegration. This may lead to a weakening of participative decision processes, making the disadvantaged populations feel disenfranchised and disempowered, and to a dilution of social bonds between rich and poor, generating distrust, loss of empathy, and exacerbated feelings of hostility (Alesina and La Ferrara, 2000; 2002; Rothstein and Uslaner, 2005). In extreme cases, this can lead to protest and sometimes violent social conflict (Klasen et al., 2018). Such disintegration is directly harmful to well-being, harming not only the worst-off but also the middle class as well as the best-off since the enjoyment of community feelings vanishes for most social groups.

Moreover, economic inequalities, when excessive, also bring about a broad array of economic and social costs. While data limitations and methodological issues have prevented reaching consensus on the idea that income inequality hinders economic growth,[4] it is well-established that inequality exacerbates poverty both directly and by decreasing the poverty-reducing effect of economic growth (Bourguignon, 2003). Moreover, economic inequality tends to lead to large inequalities in health and education and is negatively associated with

[4] A view that has attracted some consensus is that the impact of inequality on economic growth is opposite in low-income and high-income countries. In the former the effect would be positive, because removing inequality would overcome credit constraints and reduce criminality. In the latter the effect would be negative because of the efficiency losses associated with taxation. In IPSP (2018, Ch. 3), a review of the literature shows that multiple results on various data sets and with various methods have been found. We believe that the link depends on the nature of inequality, for example if inequality reflects rent-seeking behavior and entrenchment of privilege or if it reflects the remuneration of talent and innovation (Aghion et al. 2016). While some policies, for example in the area of taxes, may discourage work and innovation, other policies, for example in the area of in human capital or coordination between social partners (as in Scandinavia) may enhance efficiency and productivity (IPSP 2018, Ch. 8).

intergenerational mobility (Corak 2013, Klasen et al., 2018). This makes for a less productive workforce and for increasing gaps in productivity across jobs and firms, and may hinder innovation. Similarly, greater inequalities tend to be linked to greater inequalities in access to funding, reducing the opportunities of innovators and entrepreneurs from a modest background. Economic inequalities, when entrenched in steep (e.g. winner take all) reward processes, may also imply greater risks in economic activities, reducing incentives to invest and innovate, especially if the provision of a safety net is undermined by social divisions between entrenched elites and the rest of the population.

In practice, inequality of initial opportunities or inequality in final outcomes are closely correlated. However, understanding people's opinions about whether one type of inequality matters more than the other may serve better policy design. There is scant empirical evidence on this issue. Generally speaking, citizens of so-called "liberal welfare states" - typically in Anglo-Saxon countries - tend to have more optimistic views on the possibility of social mobility in their society. For this reason, they are typically more concerned with equality of opportunity and therefore their demand for ex post redistribution is lower than elsewhere (Alesina and Glaeser, 2004; Alesina and Angeletos, 2005; Benabou and Tirole, 2005). Conversely, European citizens tend to attach more importance to equality of outcomes, because significantly fewer citizens than in Anglo-Saxon countries see their societies as guaranteeing sufficient opportunities (Corneo and Gruner, 2002). These are of course general tendencies and many citizens do not easily fall into one category or another (Grimalda et al., 2018b; Anderson and Leo, 2017). What this evidence points to, nevertheless, is the existence of a strong cultural component into which type of inequality is more concerning for people, and how much inequality may be considered fair. This cultural variability is certainly something that policy-makers should take into account.

3 Roadmap for action: preliminaries

Before laying out the concrete policy items we propose in this paper, a few general remarks are in order.

First, addressing the multidimensional nature of inequalities and lifting outcomes and opportunities for those that cumulate disadvantages effectively requires an integrated approach to policymaking, in contrast with a traditional silo approach. For instance, conditional cash transfers may be more effective if designed and implemented to span multiple dimensions of well-being such as children education, health care and more broadly household consumption expenditures. This requires coordination across multiple ministries for the implementation of the programs which can prove challenging especially for emerging economies. There are however successful examples of coordinated policies even in those countries: for instance, Brazil's *Bolsa Familia* and Mexico's *Prospera* program that combine several policies into an integrated package have proved effective at reducing income inequalities (World Bank, 2016).

Second, countries and regions of the world vary significantly, in their economic situation, their social structure, their policy traditions, their political history, and their environmental outlook. It is impossible to advance a one-size-fits-all agenda, and adaptation to the local context is key to successful reforms. We stress that we believe that the reforms we propose could and should be applied, suitably adapted, to any country in the world. Although country's needs and preferences may be very different, the general principle that policy-makers should be concerned with their citizens' well-being, broadly defined, and that growth should be made inclusive, may be applied universally.

Third, however, policy coordination across countries can greatly enhance national actions. Indeed, in the context of global competition, some tax and transfer or regulation policies can influence localization and outsourcing decisions by firms, and governments may be put under pressure to outcompete other countries in terms of attractiveness for investors, even if this may clash with their social goals. While it is in principle possible to adjust trade and corporate tax policy to protect some local policies from external competition, the best configuration is obviously coordination between governments so as to release some of the pressure from investors.

Fourth, while national and local governments are key players in the implementation of the measures proposed in this paper, civil society can also make important contributions, both by putting pressure on public authorities to enact the desired measures, but also by initiating change in their own capacity and in their local area.

Fifth, policy design and evaluation requires reliable data. Notable progress has been achieved over the recent past in measuring income inequality and assessing its policy drivers. Unfortunately, non-income dimensions of well-being, such as health and its distribution across income groups, are not yet well covered by the various Inclusive Growth frameworks. Overcoming data constraints is key to identifying robust empirical relationships between multidimensional living standards and policies, as well as to ensure the responsiveness of outcomes to policy intervention. Indicators of social cohesion are possibly even more in short supply, partly because of the under-theorization of the concept, and partly for lack of empirical measurement (for an exception, see Bertelsmann Foundation and Eurofund, 2014). Against this background, it appears highly desirable to improve the depth, breadth, timeliness and international comparability of datasets and statistical instruments underpinning the measurement of social and economic indicators; and to develop analytical capacity to measure both inclusive growth and social cohesion patterns and understand their policy drivers, especially among G20 emerging economies.

Finally, we would like to add two remarks about the policy context created by globalization and technical change.

First, while globalization and technical innovation are the main underlying drivers of economic and social trends, it would be a mistake to take them as given exogenous constraints to which policymakers can only try to react. In fact, both drivers are influenced by policies (IPSP 2018, Chapters 3, 7; Fleurbaey et al., 2018). Globalization is influenced by trade arrangements, monetary policies and financial regulations, by product norms and intellectual property laws, as well as by foreign investment regulation and dispute resolution mechanisms. Technical innovation is influenced by taxes and subsidies, by patent regulations and intellectual property, by competition policy and the governance of organizations that conceive, diffuse or adopt innovations. In other words, globalization and innovation can be addressed not only by compensating those who stand to lose from their impacts on the economy, but also by orienting their momentum in a more universally beneficial direction.

Second, a related point about technical change, is that while many routine jobs will be shed by digitalization, continued income growth will make it possible to create new jobs addressing needs that remain imperfectly met in the current economy. In particular, the caring economy as well as services to the elderly and jobs dedicated to social bonding can be developed in more affluent societies and meet an important demand provided that the beneficiaries of such services can be given sufficient means and be incentivized to contribute when public good effects are present.

4 Roadmap for action: national policies

As explained in the previous section, coordination of national policies can play an important role in enhancing the capacity of governments to achieve inclusive growth, and it is therefore useful here to examine the policy options at the national level, before considering the international level.

4.1 Social investment and the safety net

Before listing concrete policy options, three general remarks are in order about the safety net and the notion of social investment.

First, many public policies are treated as expenses but should actually be considered investments, in particular those that invest in human capital, at the individual level as well as at the group level. Those include health care, education, and security. This means in particular that such policies may generate additional growth that may be sufficient to repay for the associated costs (see also Anderson and Leo, 2017).

Second, a great majority of safety net measures are like reinvestments helping to preserve and expand human capital. And the very same services (in particular health care) provide initial and continued investment in the same facilities and without any distinction. For education, one can of course distinguish initial education from continued training or re-training, but again, there is no reason why some coordination of the providers should be avoided.

Third, a successful tenet of inclusive growth policies in the North of Europe is that they seek to protect individuals, not jobs or industries. This enhances the efficiency of the economy, by making the decision-makers and stakeholders more willing to adapt to changing economic conditions, while preserving inclusion and dignity of the workers.

Against this background the policies proposed under the heading of social investment and safety net are:

1. Ensuring universal access to quality public goods and services, in terms of health and good quality education as well as good quality infrastructure, with an emphasis on electrification and improved water and sanitation services in emerging economies. While universality is financially challenging and may be out of reach at early stages of development, it appears ultimately beneficial by increasing the acceptance of the services by the general population, and reducing the symbolic exclusion and stigma endured by the beneficiaries of targeted support (IPSP 2018, Chapter 8). We stress that these policies will have a direct effect in reducing pre-tax income inequality (or so-called market income inequality). In particular, enlarging the access to education and improving the equality will improve the skills of prospective employees, thus increasing their market wages. This is an "ex ante" form of redistribution that reduces the need to implement "ex post" income redistribution through tax and transfers, as proven by countries providing broad and high-quality education to its citizens, such as Scandinavian countries, South Korea and Japan. We believe that it is important to enforce the role of the state as a provider of assets that individuals hold before entering the labor market – in particular both vocational and general skills and qualifications, as well as their physical capabilities (see Key recommendation 3), although the role of the state in ex-post redistribution should not be discontinued (Causa et al., 2018). .
2. Expanding the social protection net by reducing unequal access between regular (formal) and non-regular (informal) workers, including workers of the sharing economy and of similar precarious status; hence extending unemployment benefits coverage and increasing generosity in countries where these are low; as well as well-designed minimum wages to address in-work poverty and the risk of excessively low pay, for instance in emerging economies. Minimum wages enhance productivity by incentivizing firms to adopt technologies that can justify the required wage level, and therefore contribute to accelerating the modernization of the economy.
3. Introducing or stepping-up conditional cash transfers in emerging economies, focusing on efficient beneficiary targeting and precise evaluation of transfer effectiveness. The conditionality of transfer has to be implemented in a way that avoids intrusiveness and undignified treatment of the beneficiaries, but when it is well conceived it encourages households to make decisions that benefit them (and especially their offspring) in the long run.

4.2 Enhance the equity and effectiveness of taxes and transfers

Many countries can improve their tax and transfer system both in terms of efficiency and equity. In particular, efficiency can be improved by seeking new tax bases that correspond either to inefficiencies due to market failures that need to be tackled, or to rent situations and rent-seeking behaviors that divert resources away from productive purposes; and reducing the traditionally heavy tax burden on labor, which tends to make the labor market sluggish and to encourage labor-saving decisions in the productive sector, including in technical innovations.

The two main types of reforms proposed here are the following:

- Making the tax system more equitable by i) reducing tax breaks that disproportionally benefit the rich, such as for owner-occupied housing or retirement contributions, and ii) making more use of inheritance taxation by levying it at the receiver level so as to curb wealth inequality and its transmission across generations. Inheritance taxation has become very unpopular, because when it bears on bequests on the donor's side it seems to punish effort and saving, as well as family caring. But applied to the receiver's side, it acquires a totally different meaning, since it penalizes the accumulation of inherited advantage that undermines equal opportunity (Atkinson 2015). The same bequest shared among many beneficiaries should be taxed much less than when a single heir receives it in full. Empirical evidence on the contribution of inherited wealth to wealth inequality and wealth persistence is not univocally conclusive[5], but can be viewed as supporting the case for progressive inheritance taxes, which would involve taxing large inheritances but not taxing or taxing at very low rates small inheritances received by poor taxpayers, to ensure that the potential equalising effect of inheritances is not offset by inheritance taxes. It makes sense to have an exemption level that avoids taxing the majority of people who leave small inheritances. This reduces the number of people subject to tax without losing much of the potential revenue.
- An element of progressivity in the tax rate should also be introduced, both to improve the perception of the fairness of this tax and to avoid penalizing the transmission of savings among less wealthy families.
- Promoting job creation and labor-friendly technical innovation by reducing the reliance on distortionary taxation of labor and shifting toward efficiency-promoting taxation such as environment-related and rent taxes (IPSP 2018, Chapter 4), designed to curb negative externalities and unproductive advantages, including anti-competitive behaviors. There are legitimate concerns about the adverse distributional effects of measures such as the repeal of fossil fuel subsidies, which can raise the price of energy for poor households. These adverse effects can be alleviated by income compensation mechanisms targeted at low-income groups, particularly from an energy affordability perspective (Schwerhoff et al., 2017). It should be emphasized that a more labor-friendly tax system would not stop technical progress, but it would make it more compatible with the goal of empowering people, and combined with the governance measures of the next paragraph, it would be compatible with upskilling and raising the productivity of the work force.

[5] While some studies have found that inheritances tend to increase wealth inequality (Leitner, 2016, Humer et al 2017), others have found the opposite (Elinder et al. 2018, Wolff and Gittleman 2015). This lack of consistency reflects the fact that while richer households tend to receive greater inheritance (and other wealth transfers) than poorer households, wealth transfers are actually greater for the poorer as a proportion of their current wealth holdings.

4.3 Improve governance in the economic, political and social spheres, strengthen social dialogue and foster strong alliances between the public and the private sectors

Governance is essential in ensuring the implementation of an empowerment policy package (World Bank 2017). The last decades have seen a dilution of local and national state power, as well as absorption of many small and medium-size firms into larger units, giving both citizens and workers a sense of disempowerment. While it is impossible to turn the clock back and downsize the scope of many decision processes, it should be possible to restore some accountability and transparency by adapting the rules of participation of stakeholders to the new globalized context, and ideally one can even hope to improve the fairness of decision processes compared to the old status quo, which often lacked the desired level of participation.

1. Establishing country-level coordinated systems of wage bargaining that counter undesired increases in the dispersion of wage and productivity in the context of slowing productivity (OECD, 2016a); as the experience of Scandinavian countries shows, a "social contract" based on a more equitable distribution of market incomes and strong R&D investment can combine equity, inclusiveness and fast technological modernization, hence reviving productivity while ensuring a better distribution of its dividends (Agell and Lommerud, 1993; Moene and Wallerstein 1997; Barth et al., 2014; 2015; Atkinson, 2015; IPSP 2018, Chapter 8).
2. Enhancing social dialogue between the private sector, civil society, trade unions and business associations, and other relevant stakeholders to promote an inclusive education system, which expands opportunities for people of all ages and backgrounds to develop their human capital, acquire relevant skills and improve their employment and overall life prospects; as well as an inclusive labor market, in which women, youth, seniors, immigrants, people with disabilities, and people of all social and ethnic backgrounds have access to quality employment opportunities.
3. Incorporating inclusive growth commitments into daily business practice and the adoption of responsible business conduct; encouraging good corporate governance practices that are inclusive and improve the well-being of all stakeholders including workers, suppliers, customers, and local communities. The traditional doctrine by which firms should maximize shareholder value while the other stakeholders, especially workers, should be treated as mere contractors, has proved inadequate as it ignores the important investments in specific know-how made by workers and the key role of trust and information flows in successful organizations. Modern management seems to tend toward a horizontal model in which all contributors are treated as partners and their specific information and specific needs are considered with due respect, enhancing the quality of their contribution. This model is also much more credible in delivering socially and environmentally responsible business conduct (IPSP 2018, Chapters 6 and 8).

4. Introducing mechanisms to monitor campaign and party funding, as well as funding and governance of the media, in order to avoid political capture by wealthy elites and the disenfranchisement of ordinary citizens (IPSP 2018, Chapters 13, 14). The frontier between lobbying and corruption is blurred by mechanisms such as revolving doors between public positions and private jobs, and more stringent transparency and cooling-period regulations would contribute to restoring public confidence in institutions (IPSP 2018, Chapter 6). The influence of money in politics and in the media varies a lot between countries, and while legal constraints on the formal involvement of money in political activities are insufficient to insulate public debates from the pressure of well-funded interests, they can exert a positive influence.
5. Supporting a social and solidarity sector that generates positive social externalities and enhances civic participation (UNRISD 2016). There are many different forms of social entrepreneurship and they make a variety of contributions to social cohesion. Governments may want to compare the social returns obtained by subsidizing such activities with directly supporting the costs induced by their absence.

4.4 Promote social cohesion and fight discrimination

While the measures listed up to now would contribute to including the average person into the benefits of growth, they need to be supplemented with specific policies targeting groups which are disadvantaged only by prejudice or dubious legal and conventional restrictions. Women and migrants, in particular, can benefit from special efforts to promote their socio-economic inclusion.

1. Combating gender inequality under all its forms, in income and non-income dimensions; this includes removing policy barriers that prevent women from participating in the labour market at their full potential hence enhancing the provision of good quality childcare, addressing horizontal inequities in taxation, and fostering anti-discrimination measures; tackling the remaining gaps in education and access to capital; and, last but not least, fighting gender discrimination and violence against women.
2. Enhancing migrants' integration in society, for instance in the labour market: lowering barriers to employability, focusing on better recognition of skills acquired abroad and expansion of language courses; as well as ALMPs and coaching to address potential information hurdles beyond language barriers.
3. Developing educational and awareness campaigns to reduce discrimination against migrants, demonstrating their long-run net benefits to the economy and to society.

We are aware that discrimination against different ethnic groups may be hard to eradicate, and be driven by different factors. The studies on the topic distinguish between so called taste-based discrimination, which consists of unconditional aversion to migrants, and statistical discrimination, which is based on specific beliefs that come to be associated with people from different ethnicities. For instance, people from other ethnic groups may be perceived as not sharing the same work ethic as people from the ethnic majority, or as performing inappropriate behavior. These beliefs are often based on factually unfounded stereotypes, which are stirred either by factious media (Gilens, 1999) or politicians (Glaeser, 2005). While taste-based discrimination can be tackled effectively through long-term educational programs (Putnam, 2007), there is more scope to intervene rapidly on statistical discrimination. Our proposal is to diffuse factually founded information on immigrants contribution, thus removing unfounded stereotypes with truthful information.

It is also important to stress that trust in governments is an important component of social cohesion. Trust in government may also be subject to unfounded stereotypes, or simply to the fact that voters' preferences and opinions may change sometimes rather flimsily (Hirschmann, 2002). We are confident that our proposals leading to greater inclusiveness will also help restore trust in governments. Nonetheless, we acknowledge that with the diffusion of social media public opinion may shift more rapidly and unpredictably than in the past, and it may lead to polarization of political stances by the public. This requires both the exploration of new communication strategies by governments and more action by non-governmental-organizations and civil society for "fact-checking" initiatives and diffusion of truthful information (IPSP 2018, Ch. 13).

5 Roadmap for action: international and global policies

Increased cross-country coordination and global rule-making, particularly within the G20, is needed to spread the benefits of globalization more inclusively worldwide. This is needed in many areas including taxation, product market regulation, innovation and intellectual property rights. Fair global governance requires advanced countries and emerging economies to interact with each other on an equal footing. This may imply a rethinking of the voting rules in international organizations to give individuals around the world greater recognition of being represented and included in global decision-making. This objective might imply that a country's weight in the voting should depend on its population size more than on its GDP level. It has to be stressed, nonetheless, that some countries may need capacity-building to facilitate policy implementation, reporting, and to take full advantage of the opportunities provided by global governance. It also has to be stressed that, according to many political scientists, world governance is becoming more and more "polycentric". New centers of governance emerge in fluid and transformative ways, without following the standard rules defining the actions of established institutions. This polycentricism may add both further room for action but also greater unpredictability to the way global governance manifests itself.

5.1 Develop global dialogue and exchange of good practices

A lot of coordination can operate through simple circulation of information about experiences of different countries or regions, inspiring imitation or creative adaptation to different contexts. The key measures we propose are as follows, with one focusing on civil society and the other on standard setting.

1. Facilitating the exchange of good practices among networks of civil society, for instance among city governments and other key stakeholders on effective policies to achieve inclusive growth in cities (OECD, 2016b).
2. Opening a global dialogue and encouraging international standards in areas such as corporate governance, competition policy, responsible business conduct, environmental protection and anti-corruption practices.

5.2 Enhance the institutional tools for global rule-making and implementation

The need for integrated packages applies not just in the national but also in the international context. There are valuable tools and organizations that can be harnessed in a more consistent way to promote the relevant goals. This suggests the following policy ideas:

1. Enhancing policy coherence between different areas of policy intervention and objectives, for instance by re-examining the relationship between trade agreements and both labor and environmental standards.
2. Reinforcing WTO multilateral trade sanctions mechanism as penalty for lack of responsible business conduct in particular over labor and environmental standards.
3. Enhancing the role of international organizations in global governance, by greater focus on stakeholder engagement and implementation in standard-setting and through engagement with the G20 and other international fora. The United Nations and the G20 can play complementary roles, the former having laid a general framework and set of goals while the latter can focus on coordination and cooperation on concrete measures.

5.3 Pursue cooperation on issues of global common interest

There are common goods and global issues that cannot readily be tackled without international cooperation. The three most cited nowadays are tax evasion, climate change mitigation, and migrations. We would like to add a fourth one.

1. Pursuing international cooperation in the area of automatic exchange of information to address tax avoidance and evasion and shut down offshore tax havens; and in in the area of corporate taxation through implementation of the measures agreed to as part of the OECD/G20 Action Plan on Base Erosion and Profit Shifting (OECD, 2013).

2. Implementing climate policies at a global scale; policies such as introducing carbon pricing and eliminating fossil fuel subsidies would make growth sustainable and improve health. As already mentioned earlier, the possible regressive effects of such policies may be avoided through suitably designed redistribution policies (Schwerhoff et al., 2017). There are important differences between developed and developing countries. While carbon pricing is regressive in developed countries, it is progressive in developing countries, but may nevertheless worsen poverty, since the poor may consume less energy than the rich, but still depend on fuel subsidies in a more important way.
3. Establish international coordination mechanisms to tackle migration flows. Migrations away from economically deprived areas and from war zones have surged in recent years and have generated a set of cooperation issues. The question of the distribution of refugees among host countries, the funding of shelters in host countries near the conflict zones, and the prevention of migrations at the source through economic and social policies all test the capacity of countries to initiate joint action aiming at improving the situation of migrants and potential migrants. One should not forget that the most deprived populations are often unable to migrate and would deserve even more attention than the migrants.
4. Develop security cooperation linked to development cooperation and social cohesion. Conflicts and resentments generate violent movements, such as the recent wave of Sunni terrorism in the Middle East, South-East Asia, Africa, and in the West. While cooperation on intelligence and surveillance of suspect movements is ongoing, deepening the links between development policy and security considerations, in order to prevent the economic and social destabilization of areas that creates fertile ground for violent rebellion, could improve the long-term outlook of this crisis.

6 Discussion and Conclusion

Guided by the well-being, empowerment, and social cohesion pillars, this paper proposes a set of policies tackling economic and social inequalities and disintegration both by improving the mechanisms of redistribution and by improving the mechanisms that create primary incomes and social positions.

The vision proposed in this paper is not a utopian depiction of a perfect society, but a set of realistic policies and reforms that would move us toward a more inclusive growth path. In this approach, we follow Atkinson (2015) and Sen (2009) who argue that finding the direction of progress is more constructive than outlining a “transcendental” objective. These considerations explain the important role of national policy in this paper. Given that national governance is substantially more developed than global governance, it is unavoidable to see national objectives as more easily attainable and as such deserving priority over global objectives. Nevertheless, this does not mean that global objectives should be neglected. In some cases, global objectives of great relevance should be given priority over national objectives. An obvious example is climate change. It is obvious that a country may pursue greater growth, possibly accompanied by equality and inclusiveness, disregarding the global objectives of preventing climate change. In such cases, global objectives should be incorporated into the national policy agenda. The same holds for the other relevant global objectives, such as those included in the Sustainable Development Goals. Many of these objectives entail a net transfer of resources from high-income countries toward low-income countries. As such, they imply a cost for high-income countries that, strictly speaking, may hinder the achievement of national objectives, at least in the short run. In the long run, however, there is a strong common interest in achieving convergence of living standards over the world in order to construct a peaceful, cooperative and flourishing global society.

Some skeptics of our roadmap to action will question the overall financial viability of the package of reforms we propose. Providing a detailed assessment of the fiscal impact of our proposed measures goes well beyond the scope of this paper, especially considering the necessary and broad-ranging adjustments that are needed when implementing our vision in different countries. We nonetheless want to stress that we have strived to provide ideas for both increased public expenditures and for increased fiscal revenues. Although we cannot guarantee that the overall package will come at no cost for a country, we remain confident that the possible financial costs are less sizable that what is commonly argued. In fact, Atkinson (2015) proposes a package of reforms to reduce inequality in the UK that shares many similarities with those illustrated in the present paper. He provides an estimation of the fiscal impact of his overall package, showing that it could be achieved at no great cost.

The question of the political feasibility[6] of the package proposed in this paper goes beyond the scope of this analysis. While the whole package may appear ambitious, particular components of it are being implemented or discussed in various countries. Our goal is merely to offer ideas for the public debate and for policy-makers. At a time when exclusionary values of authoritarianism, nationalism, racism, religious conflicts and xenophobia appear on the rise again, many countries and the world itself are at a crossroads. Our responsibility as scholars and experts is to show that there are ways toward inclusion and peace.

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[6] As argued by one reviewer, there is also another domain that would require a radical change in approach, and this is in the methodology of Economics. Most current macroeconomic models (in particular, DSGE models) shy away from studying the welfare of multiple agents by assuming that there is only one of them – the “representative agent”. A policy decision is thus evaluated paying no attention to the fact that there may be losers and winners. Second, the analytically-tractable and identical utility functions used in macro-modelling do not do justice to the great variety of personal objectives. Third, it is questionable that policy judgements should derive directly from individual preferences over consumption patterns: people’s preferences about the destiny of their society – their political views as distinct from their consumption preferences – need not coincide with their own self-interest. The apparently neutral mathematical summation of individual utilities (derived from consumption) is not necessarily the appropriate social welfare function for policy evaluation.

The inclusive growth approach is currently fashionable even within political and economic circles traditionally reluctant to take inequality seriously, but it cannot be implemented unless it is fully embodied in everyday economic modelling and policy making.

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Annex: Existing initiatives and analyses

Implementation Overview

Significant progress has been made in devising and implementing Inclusive Growth strategies at both national ad cross-national levels over the last few years. Such progress is corroborated by major international conventions that create a level playing field on tax policy. These empower countries to exert control over tax revenues and reinvest them in expenditures raising well-being for the neediest. Commitment to foster shared prosperity more broadly is further signaled by the strong emphasis on leaving no one behind in the 2030 Agenda. The implementation of country-specific policy packages is further needed to foster inclusive growth dynamics on a structural basis.

Existing Agreements

- Sustainable Development Goals – Goal 10 "Reduce Inequality within and among countries"

Goal 10 explicitly states that "…Economic Growth is not sufficient to reduce poverty if it is not inclusive and if it does involve the three dimensions of sustainable development – economic, social and environmental.

- Europe 2020 strategy

It was adopted by the European Council in June 2010. It aims at establishing a smart, sustainable and inclusive economy with high levels of employment, productivity and social cohesion, for the decade 2010-2010.

Existing Conventions and Policy Platforms

- OECD/G20 Base Erosion and Profit Shifting (BEPS) package.

The proposal for broadening participation in the OECD/G20 BEPS Project was endorsed by the G20 Finance Ministers at their meeting on 26-27/2/2016 in Shanghai and was welcomed by the G20 Finance Ministers and Central Bank Governors at their meeting on 14-15/4/ 2016 in Washington D.C. 86 countries have so far committed.

https://www.oecd.org/g20/topics/taxation/beps.htm

- OECD Anti-Bribery Convention;

The OECD Anti-Bribery Convention establishes legally binding standards to criminalise bribery of foreign public officials in international business transactions and provides for a host of related measures that make this effective.

http://www.oecd.org/corruption/oecdantibriberyconvention.htm

- OECD Guidelines for Multinational Enterprises.

They offer governments' recommendations to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct. They are the only multilaterally agreed code of responsible business conduct that governments have committed to promoting. 42 governments had agreed, as of 2011.

http://www.oecd.org/daf/inv/mne/48004323.pdf

- OECD's standard on exchange of information.

It aims at the implementation of international standards on tax transparency. It ensures that these high standards of transparency and exchange of information for tax purposes are in place around the world through its monitoring and peer review activities. Over 130 jurisdictions have agreed.

http://www.oecd.org/tax/exchange-of-tax-information/

- OECD Inclusive Growth Initiative

In 2012 the OECD launched its Inclusive Growth Initiative, a novel approach to analyze and address rising inequalities, monitor material living standards and broader well-being, and design underlying policy packages. OECD Ministers endorsed the Inclusive Growth agenda and called for its advancement. They stressed that inequalities are multidimensional and that better access to employment opportunities, health and education services, is needed to tackle them. They mentioned the need to link pro-growth policies with equity objectives, highlighting policies to boost productivity, ensure fair competition, promote efficient labor and product markets, address tax evasion and avoidance, and stimulate investment, innovation and entrepreneurship.

http://www.oecd.org/inclusive-growth/

Analysis and Data

- Several OECD reports specify the notion of Inclusive Growth, clarify its theoretical underpinnings, define its measurement, and map the progress towards achieving it.

- Boarini, R. et al. (2016), "Multi-dimensional Living Standards: A Welfare Measure Based on Preferences", OECD Statistics Working Papers, 2016/05, OECD Publishing, Paris. http://dx.doi.org/10.1787/5jlpq7qvxc6f-en
- Boarini, R., F. Murtin and P. Schreyer (2015), "Inclusive Growth: The OECD Measurement Framework", OECD Statistics Working Papers, 2015/06, OECD Publishing, Paris. http://dx.doi.org/10.1787/5jrqppxjqhg4-en
- Veneri, P. and F. Murtin (2016), "Where is inclusive growth happening? Mapping multi-dimensional living standards in OECD regions", OECD Statistics Working Papers, 2016/01, OECD Publishing, Paris. http://dx.doi.org/10.1787/5jm3nptzwsxq-en
- OECD (2017), Going for Growth, Paris: OECD Publishing

- Progress towards the Sustainable Development Goals Report of the UN Secretary-General, 3 June 2016.

Points 72 through 77 of the report details aggregate progress towards Goal 10 of the Sustainable Development Goals for 94 countries.

http://www.un.org/ga/search/view_doc.asp?symbol=E/2016/75&Lang=E

- Report of the International Panel on Social Progress, Rethinking Society for the 21st Century; and Fleurbaey et al., A Manifesto for Social Progress. Ideas For A Better Society, both at Cambridge University Press, 2018.

The International Panel on Social Progress brings together several hundred experts from different academic disciplines and from all around the world to offer science-based assessment of the state of social progress around the world. The range of topics covered includes democracy and citizenship, poverty, inequality and well-Being, global risks and resources, the labor market, global health, gender, urbanization, education and communication.

The draft of the report is available at: https://www.ipsp.org

- OECD (2016). "The Productivity-Inclusiveness Nexus", Paris: OECD Publishing.

This report gathers empirical evidence on the factors behind slowing productivity gains and rising inequality; it suggests possible linkages between these two trends; it draws preliminary conclusions on the type of policy packages that are needed and on the implications for policy making.

https://www.oecd.org/global-forum-productivity/library/The-Productivity-Inclusiveness-Nexus-Preliminary.pdf

- Eurostat (2016). "Smarter, greener, more inclusive? Indicators to support the Europe 2020 strategy"

It supports the Europe 2020 strategy by monitoring progress towards the targets and goals defined under the three mutually reinforcing priorities of smart, sustainable and inclusive growth.

http://ec.europa.eu/eurostat/web/products-statistical-books/-/KS-EZ-16-001