



# Inclusive Growth

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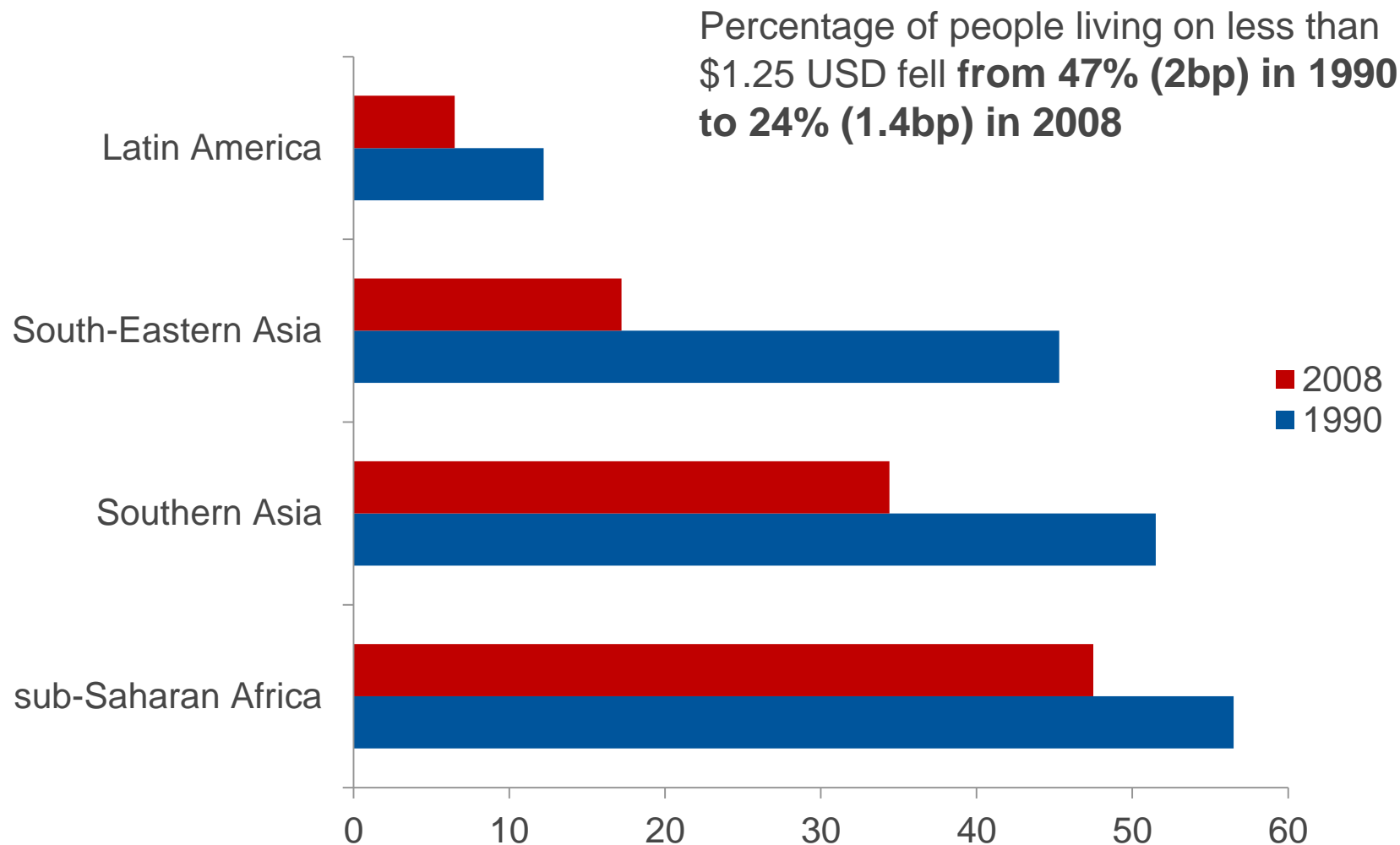


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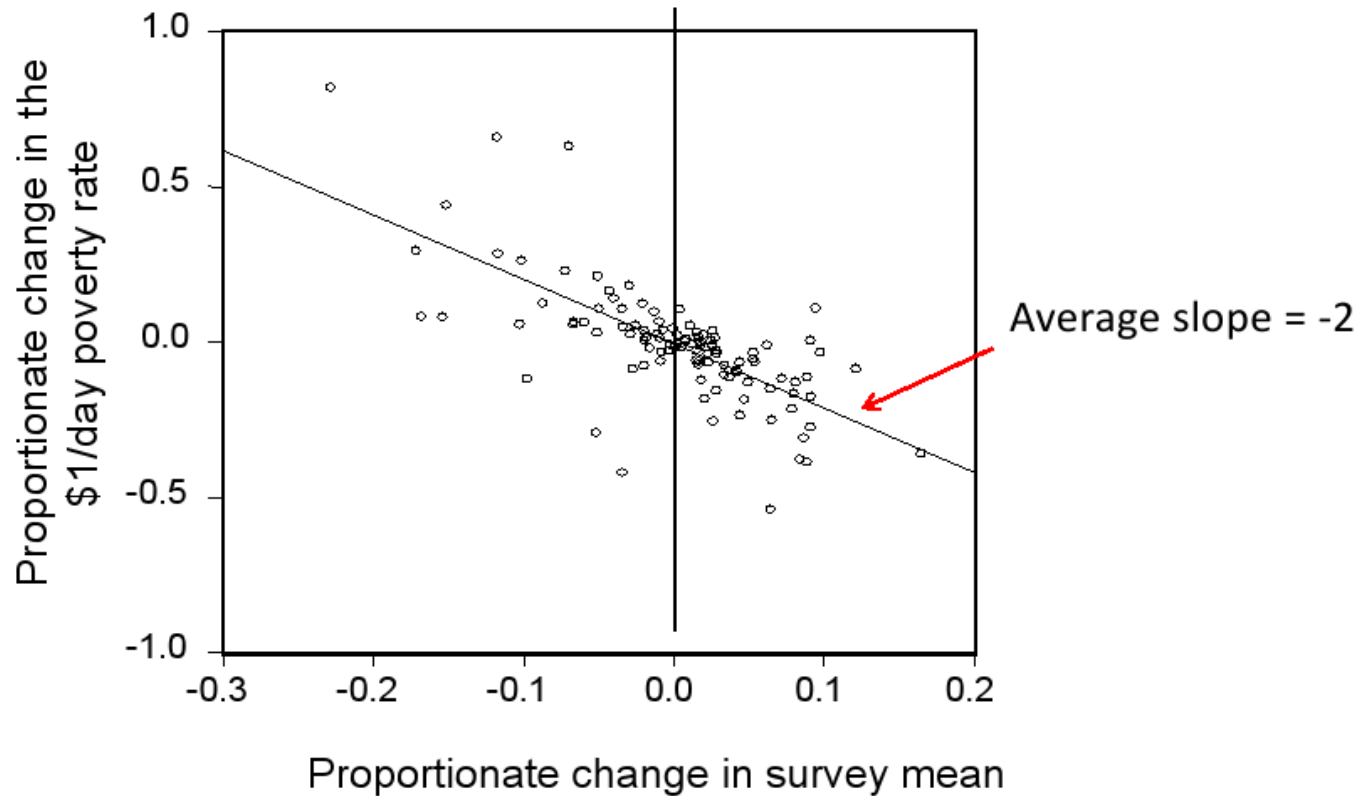
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Economics Research

# Significant poverty reduction since 1990s

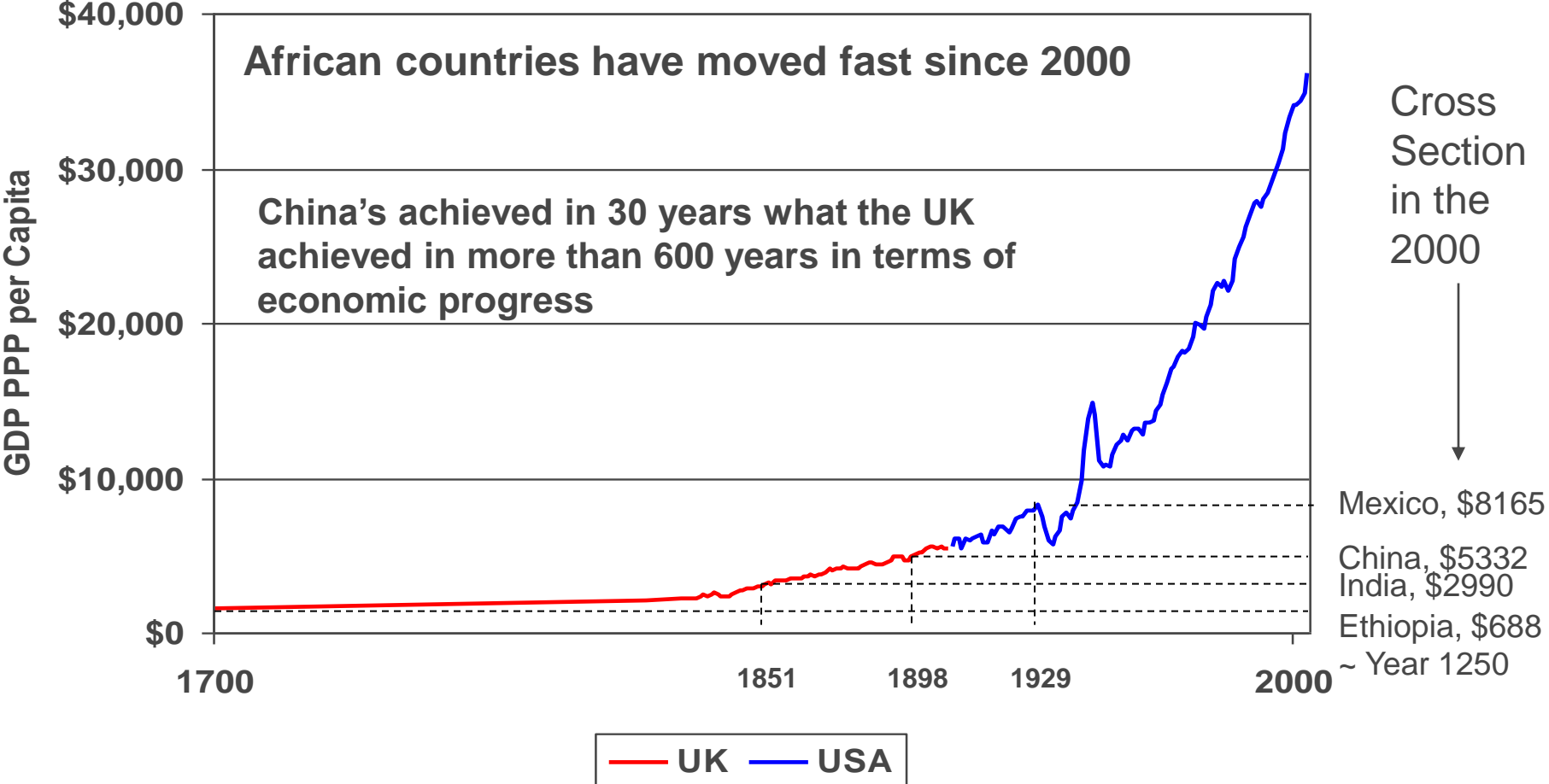


# Economic growth, critical for poverty reduction

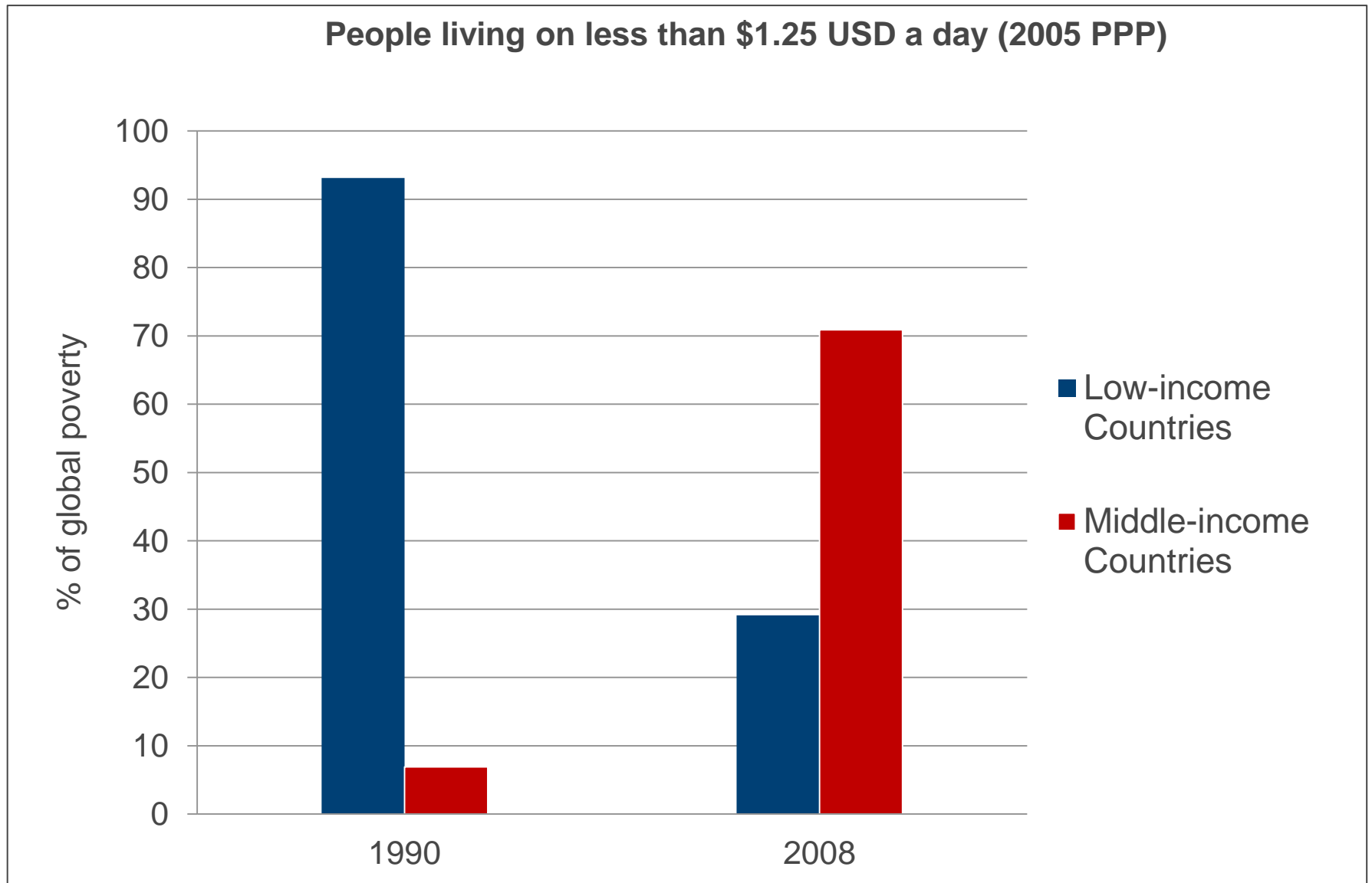


A 1% increase in GDP growth will reduce, on average, the poverty rate by 2%, in a range from 0.6% to 3.5%

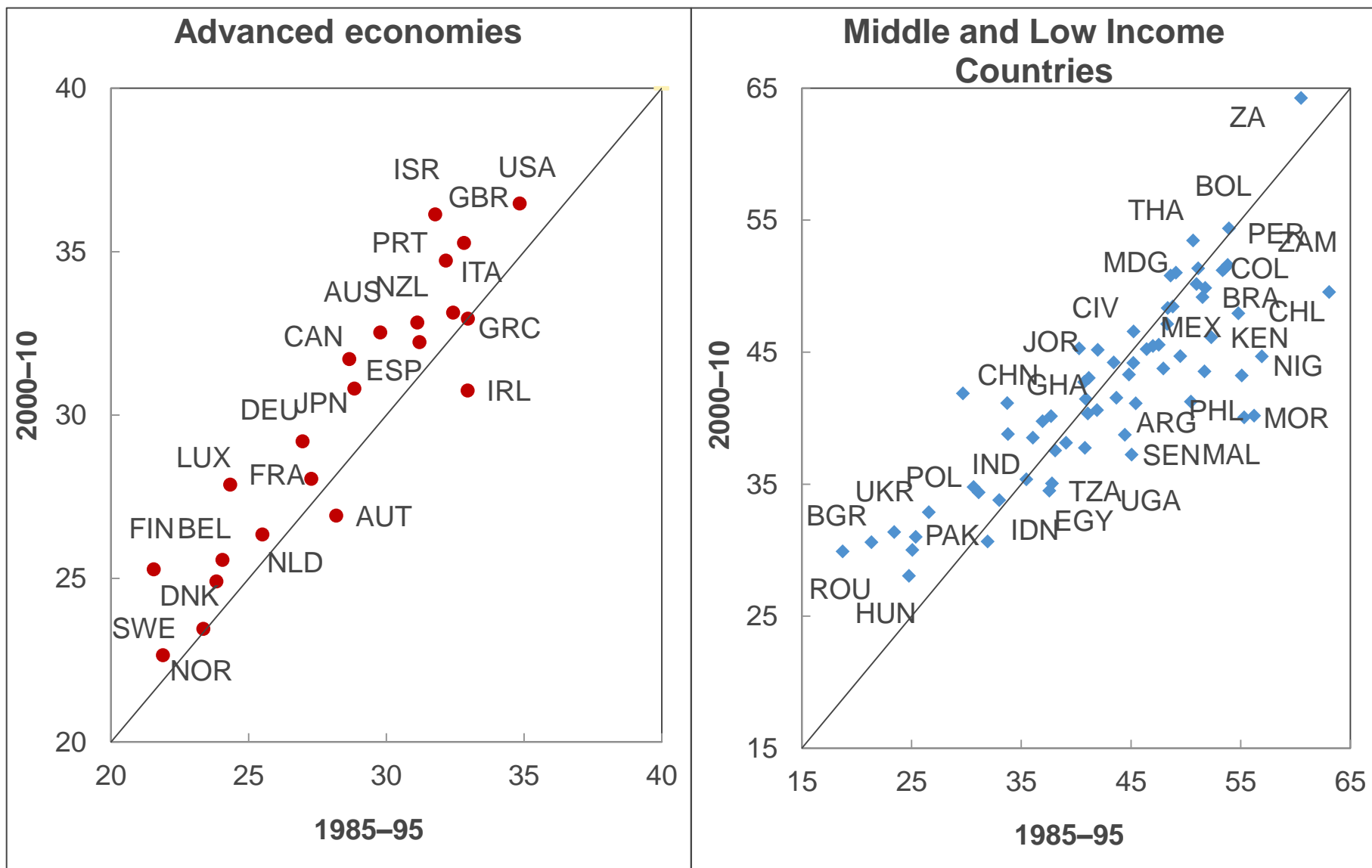
# Growth, also importance for Divergence



# Poverty persists, but where are the poor now?

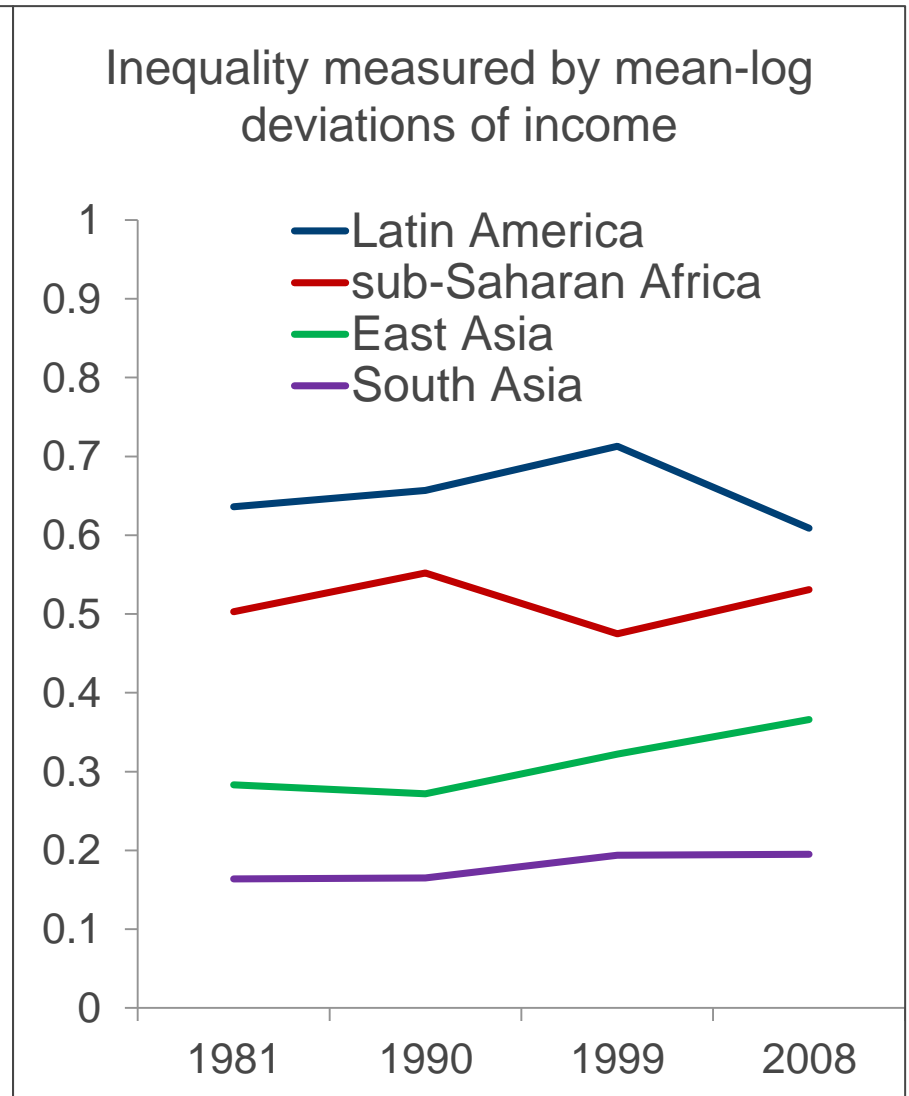
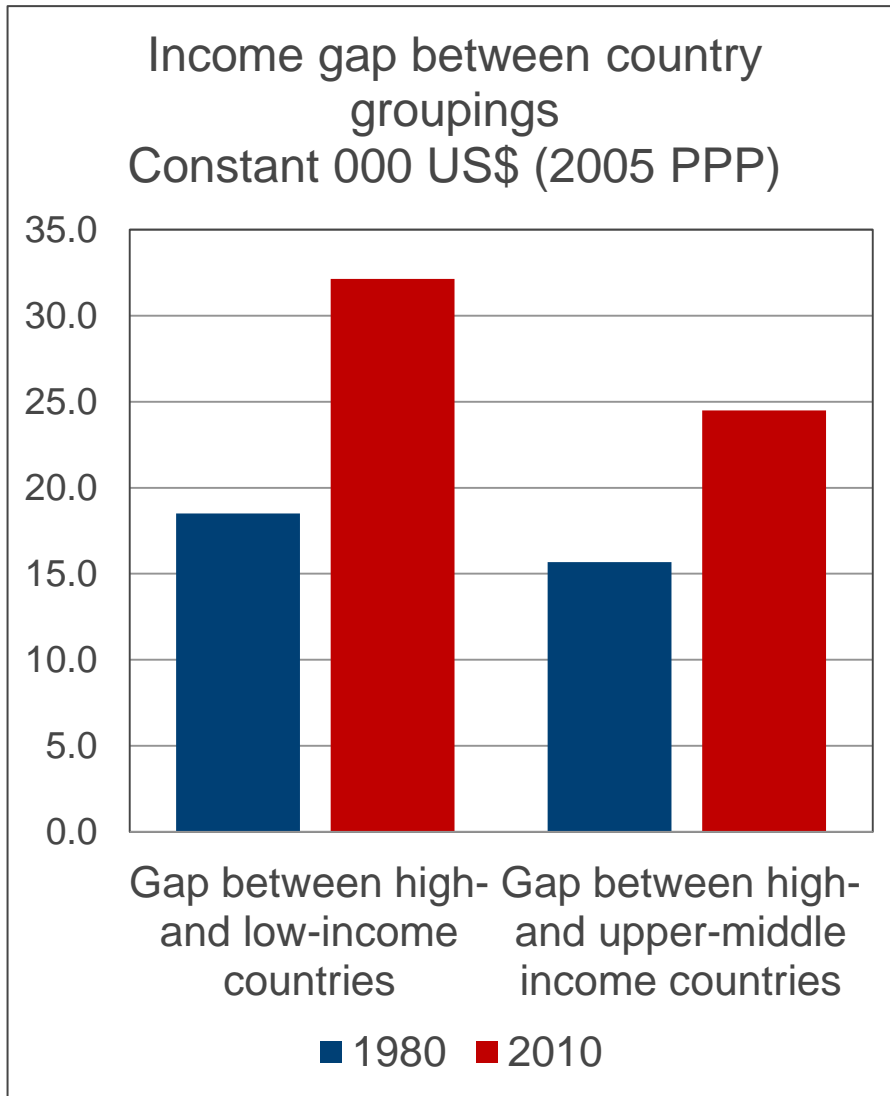


# BUT Inequality remains a major challenge



Source: UNU-WIDER's World Income Inequality Database

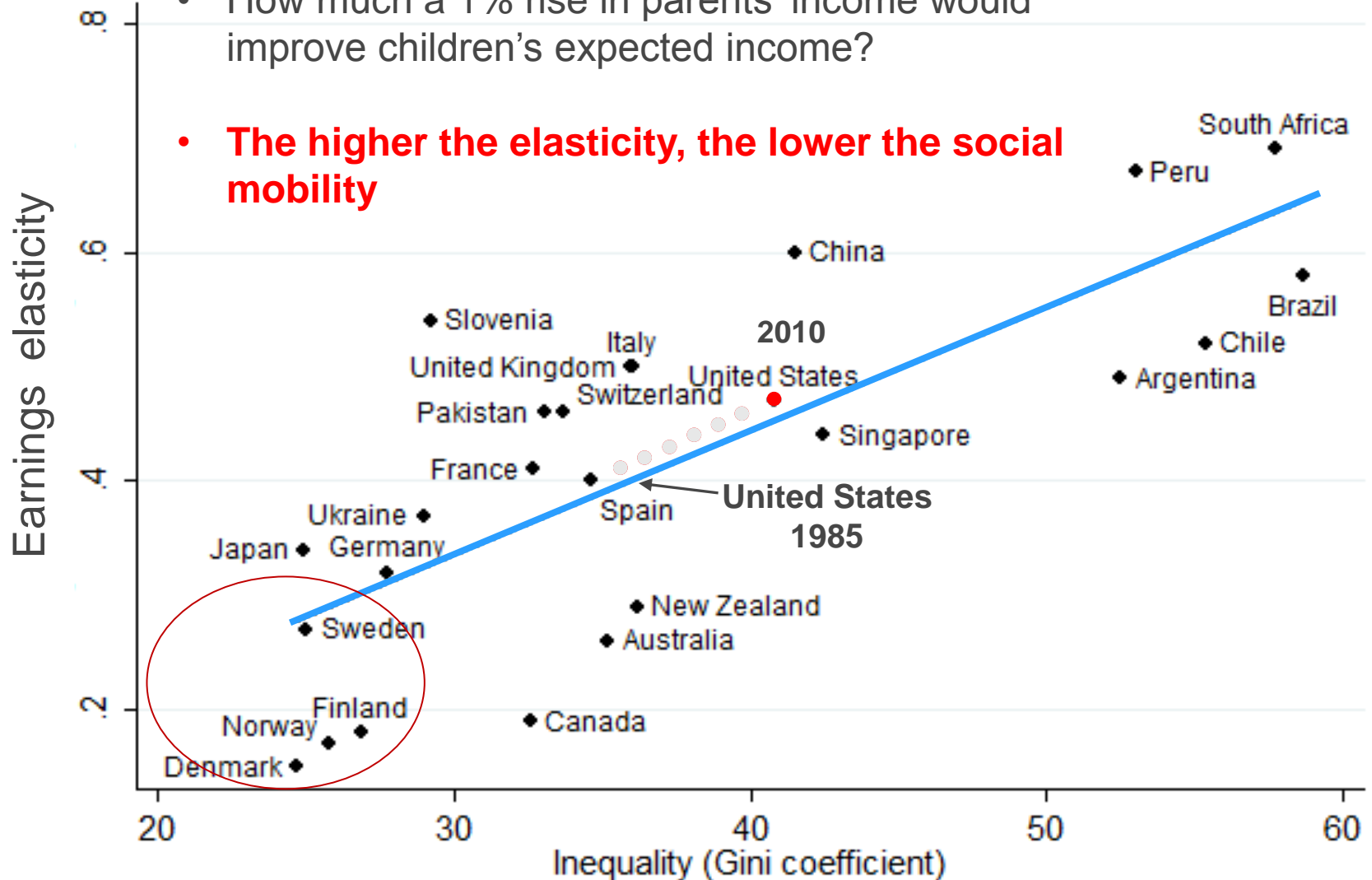
# Heterogeneous trends in between-region inequality



# Why should we worry about inequality?

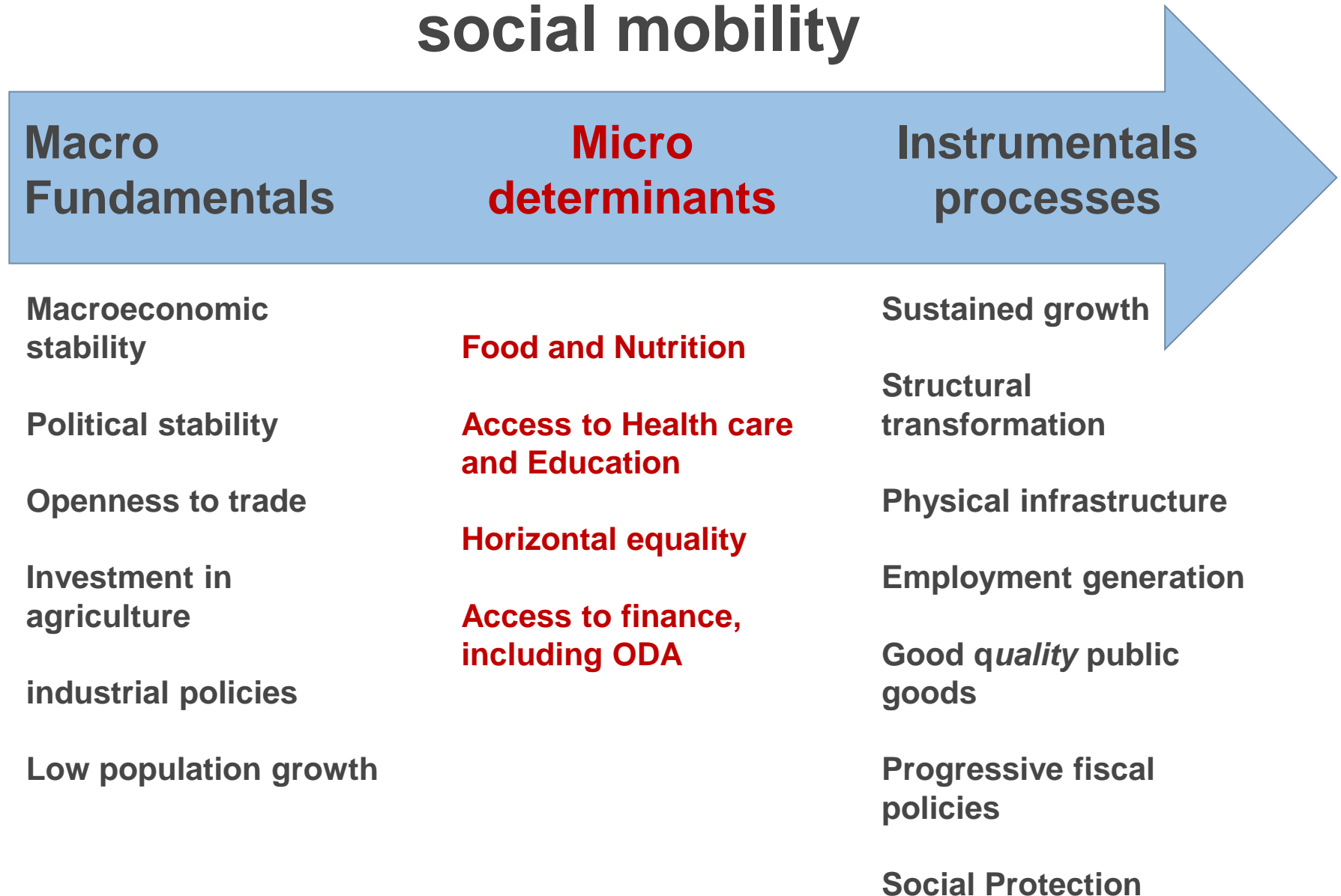
- How much a 1% rise in parents' income would improve children's expected income?

- **The higher the elasticity, the lower the social mobility**



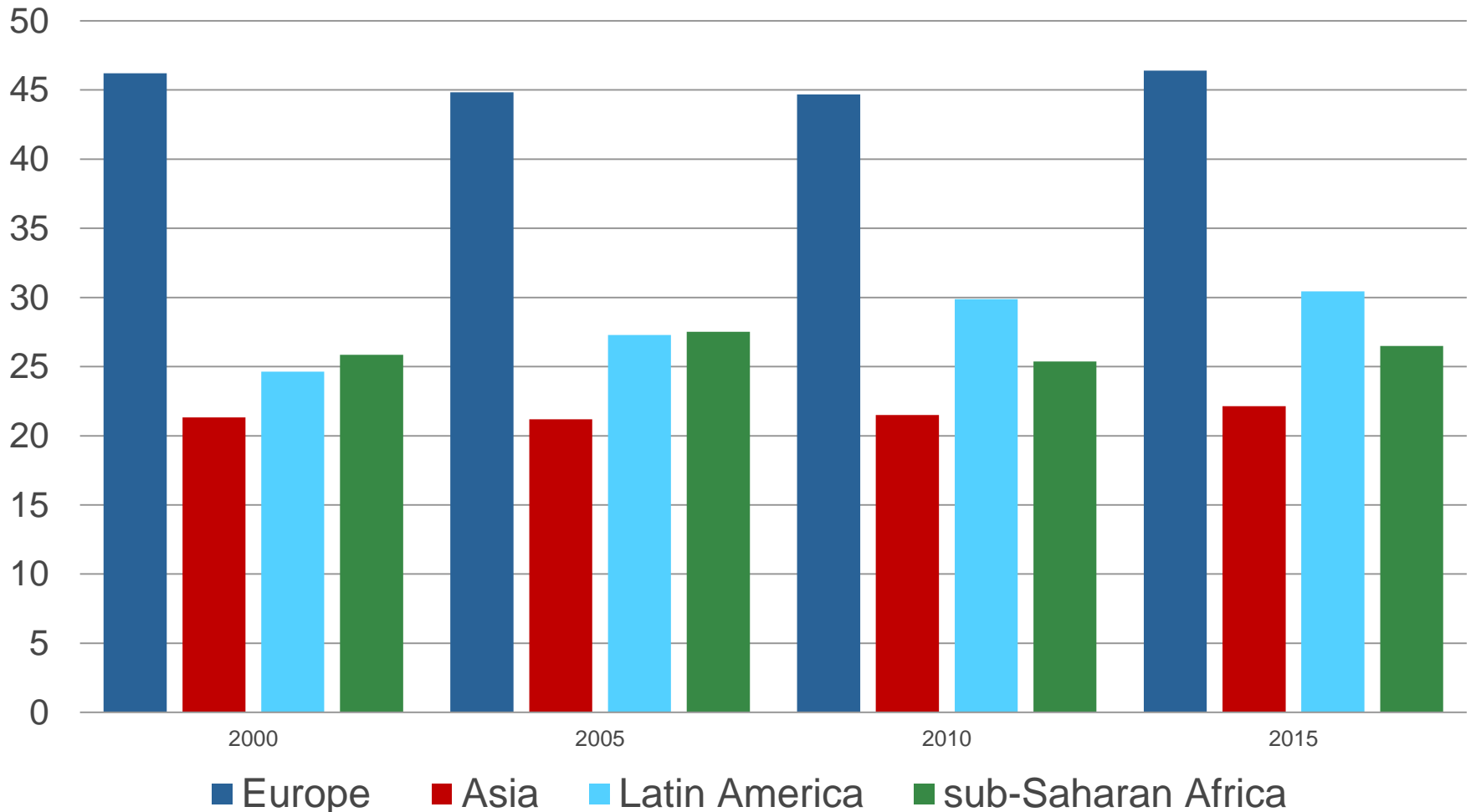


# Clues for inclusive development and social mobility



# The role of fiscal policy

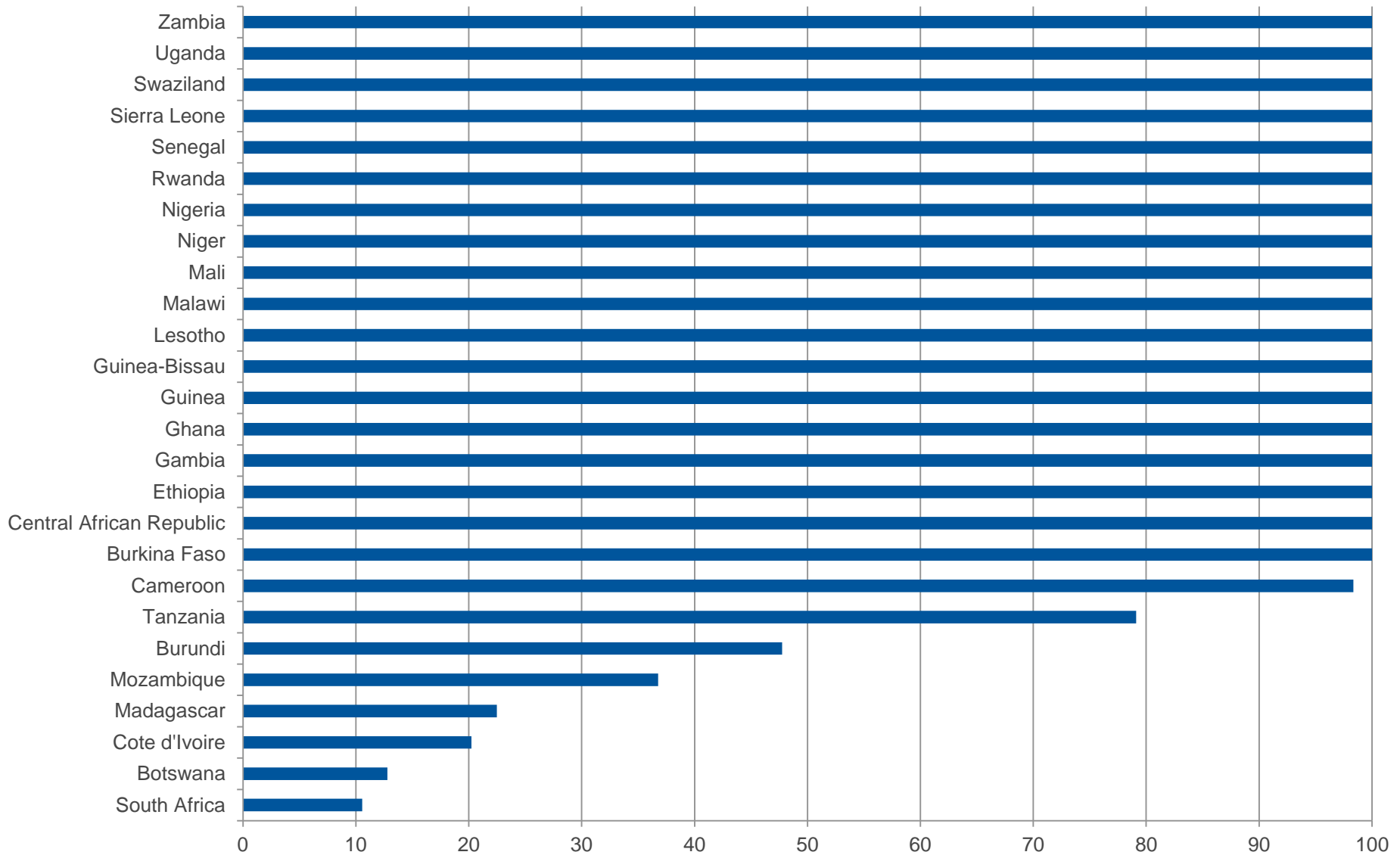
## General Government Revenue as % of GDP



# Sources for financing inclusive growth

- **Revenues from Natural resources** in low income but resource rich countries – challenges:
  - Extractive industries are capital intensive, with marginal impact on employment
  - Not well integrated to the rest of the economy
  - Governance and transparency issues
- **Medium-term fiscal policy objectives**
  - Rises in VAT earmarked for expenditures on the social sectors
  - Anti tax-evasion policies
- **What role for redistribution?**
  - **What marginal tax rate on the ‘rich’ would be necessary to eliminate the normalised aggregate poverty gap?**
  - **Note: MTR:** *proportion of tax paid for each additional income unit earned at the highest income threshold*

# MTR needed to eliminate the poverty gap



Source: Niño-Zarazúa *etal* (2012)

# The Cost of Social Protection

**MIC spend less than 1% of GDP on social transfers**

**LICs African countries: 3-5% GDP**

	Old age pension as % GDP	Child benefits as % GDP	Unemployment scheme as % GDP	Transfer package as % GDP	Revenues -grants as % GDP	Transfer package as % Revenues -grants	Net ODA as % GDP	Transfer package as % net ODA
Guinea	0,6	1,5	0,3	<b>2,8</b>	15,6	<b>17,7</b>	7,5	<b>36,9</b>
Burkina Faso	1,1	2,8	0,6	<b>5,2</b>	13,1	<b>39,5</b>	12,5	<b>41,3</b>
Ethiopia	1,0	2,8	0,6	<b>5,1</b>	12,0	<b>42,2</b>	12,6	<b>40,3</b>
Tanzania	1,1	3,1	0,6	<b>5,5</b>	17,3	<b>31,9</b>	11,4	<b>48,5</b>
Senegal	1,1	2,0	0,5	<b>4,1</b>	19,6	<b>21,1</b>	8,0	<b>51,7</b>
Kenya	0,9	3,0	0,6	<b>5,2</b>	20,8	<b>24,9</b>	3,9	<b>131,3</b>
Cameroon	0,8	1,8	0,4	<b>3,5</b>	20,0	<b>17,3</b>	2,2	<b>154,0</b>

International Labour Organisation (2008)

# Some points for discussion

- What does the present distribution of global poverty mean for the new Global Development Agenda?
- Shall we focus on poor countries or poor people?
  - What about fragile states?
- How should the international community address the concerns of inequality?
- What could countries like Sweden do to support a more inclusive process of economic growth in developing countries?