

ESRC GPID Research Network Briefing Paper 8

ECONOMIC POLICIES TO ADDRESS INCLUSIVE DEVELOPMENT

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SUMMARY

This Research Brief draws on the findings of policy-oriented country studies that its author led while a Policy Adviser in the United Nations Development Programme (UNDP). It addresses the kinds of Economic Policies that should be implemented to achieve the goal of Inclusive Growth.

About the GPID research network:

The ESRC Global Poverty and Inequality Dynamics (GPID) research network is an international network of academics, civil society organisations, and policymakers. It was launched in 2017 and is funded by the ESRC's Global Challenges Research Fund.

The objective of the ESRC GPID Research Network is to build a new research programme that focuses on the relationship between structural change and inclusive growth.

See: www.gpidnetwork.org

THE DEVELOPER'S DILEMMA

The ESRC Global Poverty and Inequality Dynamics (GPID) research network is concerned with what we have called 'the developer's dilemma'.

This dilemma is a trade-off between two objectives that developing countries are pursuing. Specifically:

1. Economic development via structural transformation and productivity growth based on the intra- and inter-sectoral reallocation of economic activity.
2. Inclusive growth which is typically defined as broad-based economic growth benefiting the poorer in society in particular.

Structural transformation, the former has been thought to push up inequality. Whereas the latter, inclusive growth implies a need for steady or even falling inequality to spread the benefits of growth widely. The 'developer's dilemma' is thus a distribution tension at the heart of economic development.

Introduction

The [GPID Briefing Paper 5](#) addressed some of the confusions surrounding the concept of Inclusive Growth. As is well known, this concept took over from the previous prevailing concept of ‘Pro-Poor Growth’ some years ago.

In some ways, however, the precise meaning of this new concept has remained even more elusive. More troubling is that there appears to be little clarity or conviction about the kinds of economic policies that should be implemented to achieve such a potentially beneficial outcome.

This GPID Briefing Paper seeks to address this shortcoming. It draws on the findings of 22 policy-oriented country studies that spanned Asia, sub-Saharan Africa, the Middle East, and Eastern Europe and the CIS (see McKinley 2009).

This Briefing Paper also draws on more recent evidence from research for the Financialisation, Economy, Society and Sustainable Development (FESSUD), a large multi-country five-year European Commission research project that focussed on policy issues related to financialisation. The part of this research that was conducted by SOAS (University of London) and covered major Emerging Economies such as Brazil, China, India, Indonesia, South Africa and Turkey.

The economic policies that we were able to identify and develop as a result of completing the country studies mentioned above can be placed in three major categories. These are 1) **Macroeconomic policies**, 2) **Structural policies** and 3) **Equity-Focussed policies** (see McKinley 2011).

Macroeconomic Policies

Macroeconomic policies include three kinds of policies: 1) **Fiscal policies** that prioritise mobilizing *public investment* in order to expand the Supply Side of the economy; 2) **Exchange-Rate policies** that are designed to *manage* the real exchange rate; and 3) **Monetary policies** that prioritise supporting fiscal expansion (rather than adhering to restrictive policies of inflation-targeting). The above policies are designed primarily to drive sustained economic growth and minimize instabilities.

The studies did not examine, however, the issue of the **management of the capital account**. But as a result of the Global Financial Crisis in 2008-2009 and the intensified ‘financialisation’ of emerging economies, this policy area has become increasingly critical in combatting instability.

Included in the research of the FESSUD project was an analysis, for example, of the financial instability inflicted on Brazil (see Jump and McKinley 2015). After the outbreak of the Global Financial Crisis, Brazil became an attractive destination for short-term speculative capital inflows.

Though some analysts might assume that such a position should be beneficial, the reality was entirely different: the country was subjected to the intensification of the instabilities of rapid inflows and outflows of short-term portfolio investment, bank lending and bond buying.

As a result, its currency, the *Real*, was continuously unstable, and the country’s stockpiling of substantial (but low-return) foreign-exchange reserves proved woefully inadequate to deal with this problem. That is why the country began to experiment with capital management techniques, such as a Financial Transaction Tax.

Structural Policies

Structural Policies, our second major category, involve a differential allocation of economic resources. Such allocations are crucial: otherwise, how could either ‘Pro-Poor Growth’ or ‘Inclusive Growth’ be explicitly promoted?

Such policies can be differentiated into three major categories: 1) the application of **fiscal policies** that are differentiated, for example, by Economic Sector or Employment Type; 2) **Financial policies** that differentiate the access to financial capital in various ways; and 3) **Industrial policies**, which are noteworthy for explicitly channelling public resources to strategically important economic sectors or subsectors (potentially through Development Banks).

However, the spread of liberalisation and privatisation in recent years has weakened the discretionary power of the state in the above policy areas. As a result, resource allocation has been abandoned to the ‘vagaries’ of the market mechanism (which is dominated by economic agents with substantial market power) or it has been handed over, more recently, to ‘**private-public** partnerships’, which represent very dubious ‘money-for-value’ initiatives.

Structural policies can have an impact on inequality (i.e., inclusive growth) and poverty (i.e., pro-poor growth) at the *macro level*—namely, determining the broad thrust of the relative allocation of economic resources.

Equity-Focussed Policies

Equity-Focused policies, our third category, are *explicitly* designed to enhance the access of poor or disadvantaged households to various economic and social assets and opportunities. Especially important are access to education, skill development, technology and credit.

Social protection programs could be included under this general category. These can take various forms. In the past, Micro-Credit was one of the most popular programs. Now Cash Transfer Programs (whether targeted or universal) have been preoccupying people’s attention.

But expanding universal forms of social insurance, such as health insurance and pensions, should be accorded greater priority. Research for the Social Protection Indicator of the Asian Development Bank (which has compiled comprehensive data on social protection for 25 Asian countries) has highlighted the contribution of countries such as China and Viet Nam in expanding such universal forms of social insurance—even if the initial benefits remain small (see ADB 2016).

But this report also highlighted the striking finding that only about 3% of all forms of social protection are comprised of *active* labour market programs. Passive labour market programs, such as unemployment insurance, are also relatively small.

One of the important contributions of this report was to highlight the relative neglect of *active* labour market programs—in particular, skill development and training programs. This finding is certainly troubling in light of the projections by the McKinsey Global Institute that just adopting currently available technology could potentially automate about half of the world’s current work activities (see McKinsey 2017).

If such dire projections are correct, skill development and training programs should be scaled up substantially—and soon. There are sizeable well-known programs, such as Employment-Guarantee Schemes in India and Bangladesh, which provide temporary jobs to low-skilled workers. But such programs would not be sufficient to meet the large looming technological challenge.

References

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