Building Forward Fairer
Economic Policies for an Inclusive Recovery and Development

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Main messages

- Economic deceleration since the GFC and the recent dramatic impact of COVID-19 has brought concerns about inequality to the fore

- The 2022 Survey goes beyond traditional mechanisms and introduces new thinking on how to address inequality:
  - Targeted fiscal policies: re-evaluate “bang-for-the-buck”
  - Innovative financing: channeling private capital into high impact social domain
  - Inclusive central banking: going beyond price stability
  - Inclusive structural transformation: reduce inequality at the pre-distribution stage
Why we need to rethink about inequality NOW?

High economic growth over the past decades has helped reduced extreme poverty without much dent on inequality.
High economic growth has reduced extreme poverty...

High economic growth has reduced extreme poverty... but efforts pale when ambitions are raised higher....

**Index of poverty headcount in Asia and the Pacific, 2000=100**

...and with high level of Multidimensional Poverty...

... inequality levels remain high

Income inequality by region, changes between early 1990s and early 2010s

Gini coefficient in Asia and the Pacific by subregion, early 2000s and late 2010s

Source: ESCAP (2018) Inequality in Asia and the Pacific in the era of the 2030 Agenda for Sustainable Development

Note: The dotted line is a 45-degree one.
Why we need to **rethink** about inequality **NOW**?

- High economic growth over the past decades has helped reduce extreme poverty without much dent on inequality.

- Pandemic aggravated the difficulties faced by the most vulnerable groups.
COVID pandemic led to large job losses...

7.9% decrease in working hours in 2020

A. Decrease in working hours due to COVID-19

Source: ILOSTAT, accessed on 1 October 2021
COVID pandemic led to large job losses...

138 million job losses in 2020

B. Equivalent number of full-time jobs lost (48 hours/week)

<table>
<thead>
<tr>
<th>Region</th>
<th>Millions</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia and the Pacific</td>
<td>138</td>
<td>43</td>
<td>2</td>
</tr>
<tr>
<td>Central Asia</td>
<td></td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>East Asia</td>
<td></td>
<td>35</td>
<td>8</td>
</tr>
<tr>
<td>Pacific Islands</td>
<td></td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>South-East Asia</td>
<td></td>
<td>24</td>
<td>14</td>
</tr>
<tr>
<td>South Asia</td>
<td></td>
<td>79</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: ILOSTAT, accessed on 1 October 2021
….pushing 90 million people back to extreme poverty..

...with disproportionate impact on informal workers...
...with disproportionate impact on informal workers...

Estimates are for year 2020 and were made as of April 2020
…and the poor due to the large digital divide

230 MILLION SCHOOL CHILDREN... did not access any kind of learning during the 2020 lockdowns

ONLY 12% OF THE WORKFORCE had access to teleworking opportunities during 2020, compared to nearly 27% of the workforce in developed countries

Why we need to **rethink** about inequality **NOW**?

- High economic growth over the past decades has helped reduce extreme poverty without much dent on inequality.
- Pandemic aggravated the difficulties faced by the poor.
- High inequality is posing an issue for long-term development and mobility across generations.
Lower intergenerational mobility matters for long term sustainable development

The Great Gatsby Curve: Low intergenerational mobility is linked with high inequality

Low intergenerational mobility could lead to higher social instability

Source: World Bank (2018a), Global Database on Intergenerational Mobility (accessed on 28 May 2021); the Standardized World Income Inequality Database (accessed on 23 June 2021). Note: The dotted line is a fitted one and is the GGC.

Source: World Bank (2018a), Global Database on Intergenerational Mobility (accessed on 28 May 2021); IMF, Reported Social Unrest Index (RSUI) (last update: June 2021). Note: The dotted line is a fitted one.
High economic growth over the past decades has helped reduced extreme poverty without much dent on inequality.

Pandemic aggravated the difficulties faced by the poor.

High inequality is posing an issue for long-term development and mobility across generations.

With growth slowing across the world since GFC, more focus on inequality and push for inclusive growth making it a political imperative.
Tackling inequality has become a political imperative.

India: Leaving No One Behind (2014)

China: Common Prosperity (2021)
Macroeconomic performance and outlook
Asia and the Pacific
Despite setbacks, developing Asia-Pacific rebounded to an estimated growth of 6.7% in 2021.

Recovery is supported by multiple factors:
- Major economies gradually recovered
- Strong global demand for exports from Asia-Pacific underpins region’s growth
- Countries have somewhat adapted to intermittent restrictions
- Fiscal and monetary policies remained accommodative
Disruptions by the Delta variant resulted in supply shortages and dented recovery

Encouraging prospects are anticipated in Q4

Strong rebound are due to low base while output still below pre-pandemic path

Inflation edged up slightly and is expected to be transitory

Note: Inflation are as of Oct. 2021 except for ...
Outlook remains cautiously optimistic with downside risks

Developing Asia-Pacific is projected to grow by 5.1% in 2022

- The pandemic remains the biggest threat
- Macroeconomic stability concerns are perceptible
- Developments in China may weigh on sentiments and have spillover effects
- Risk of K-shaped recovery persists

Source: ESCAP estimates and forecast as of 20 October 2021
How can macroeconomic policies address these inequities?
With shrinking fiscal space...

Source: IMF Fiscal Monitor data, accessed on 28 November 2021
...and consolidations built in, inequality is expected to rise as past evidence suggests.

Source: UNESCAP
Hence, governments should improve efficiency of spending...

...as fiscal policy impact on inequality varies considerably:

1. How to (re)design fiscal policies to reduce inequalities?

2. What fiscal expenditure should be prioritized (limited fiscal space)?

3. How to increase fiscal revenues?

4. How to improve fiscal policy efficiency?

We must find policies with largest impact on inequality reduction

Source: UNESCAP estimates based on Commitment to Equity (CEQ) data.
...and be innovative in delivering social projects as well as channeling private capital into high impact social domain

Impact investment
- Social/Development Impact Bond

Sustainable Finance
- Sustainability linked bond / loan

IMPACT ONLY
- Improve delivery efficiency

IMPACT FIRST

FINANCIAL RETURN FIRST
- Incentivize social development
Should central banks be concerned with inclusive development?

Monetary policy conduct

Monetary easing

- Lower marginal propensity to consume
- Limited interest rate pass-through

Income and wealth inequality

(+) Borrowers
(+) Asset holders
(-) Retirees

- Wealth concentration
- Large informal sector
How can central banks foster inclusive development more actively?

<table>
<thead>
<tr>
<th>Inclusive finance</th>
<th>Currency issuance</th>
<th>Portfolio investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Financial access</td>
<td>• Explore a central bank digital currency</td>
<td>• Invest official reserves in social bonds</td>
</tr>
<tr>
<td>• Financial literacy</td>
<td></td>
<td>• Use excess reserve as seed capital for social projects</td>
</tr>
<tr>
<td>• Financial consumer protection</td>
<td></td>
<td>• Reorient asset purchases towards local social bonds</td>
</tr>
</tbody>
</table>
Is it time to rethink the *development paradigm*?

**Modern reflections**

- Neither a universal law, nor an automatic process
- Less relevant in a new era of “globotics”
Can Asia-Pacific transform structurally without increasing inequality?

**Korea**
- Manufacturing share of total employment
- Market Gini

**China**
- Manufacturing share of total employment
- Market Gini

**Bangladesh**
- Manufacturing share of total employment
- Market Gini

**Philippines**
- Manufacturing share of total employment
- Market Gini
Structural policies

Guide

Guiding structural transformation

• Be selective & leverage public support to promote inclusive ST
• Reduce the starting inequality
• Invest in the people in an inclusive way

Manage

Managing transitions & disruptions

• Establish social protection floors
• Manage the pace of disruption
• Enhance labor & job market support
• Reduce the cost of life

Prepare

Preparing for the future

• Reduce costs & risks associated with using labor
• Strategize & reinvent education
• Public R&D support for job-creating innovations
Key takeaways...

❖ Rethinking economic transformation – putting together growth with inclusiveness

❖ COVID added urgency – recovery has to be inclusive to sustain itself and be resilient

❖ Think holistically of different factors affecting inequality trends:
  ❖ Not only social, but economic as well
  ❖ It is not purely about redistribution – need to look at cross cutting factors and economic factors that shape the pre-distribution
  ❖ Requires whole-of-government approach
THANK YOU