3. Inequality beyond neoliberalism

Policies for more inclusive growth

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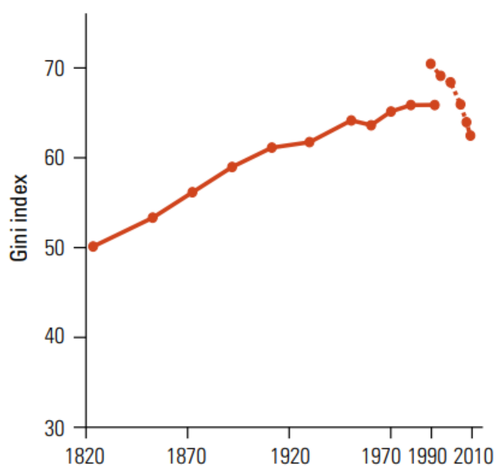
Global trends in inequality

The last 25 years saw large increases in living standards and declines in extreme poverty globally. As of 2015, 736 million people, or 10 percent of the global population, lived on less than $1.90 per day.[1] In 1990, the corresponding figure was 36 percent.[2] Progress was slower at the higher poverty lines of $3.20 per day (relevant for lower middle-income countries) and $5.50 per day (relevant for upper middle-income). About one quarter of the world is poor under the former, and almost one-half under the latter.

This reduction in global poverty resulted from strong inclusive growth in developing countries as they integrated into the global economy. Incomes of the poorest 40 percent grew in 60 out of 83 countries measured.[3] In 49 out of 83 countries, the poorest 40 percent grew faster than the top 60 percent. Open trade and globalization were fundamental enablers of this strong growth, especially for East Asia and India.[4]

The last 25 years also saw a decline in total global inequality (that is inequality across all individuals in the world). While global inequality remains high, this period witnessed the first ever decline in total inequality since the industrial revolution (see Figure 1).[5]

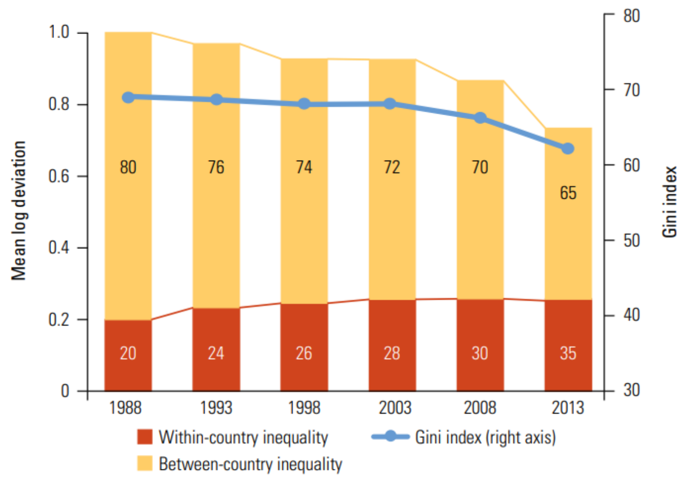
Figure 1: Global income inequality, 1820-2010



Source: Bourguignon (2015)

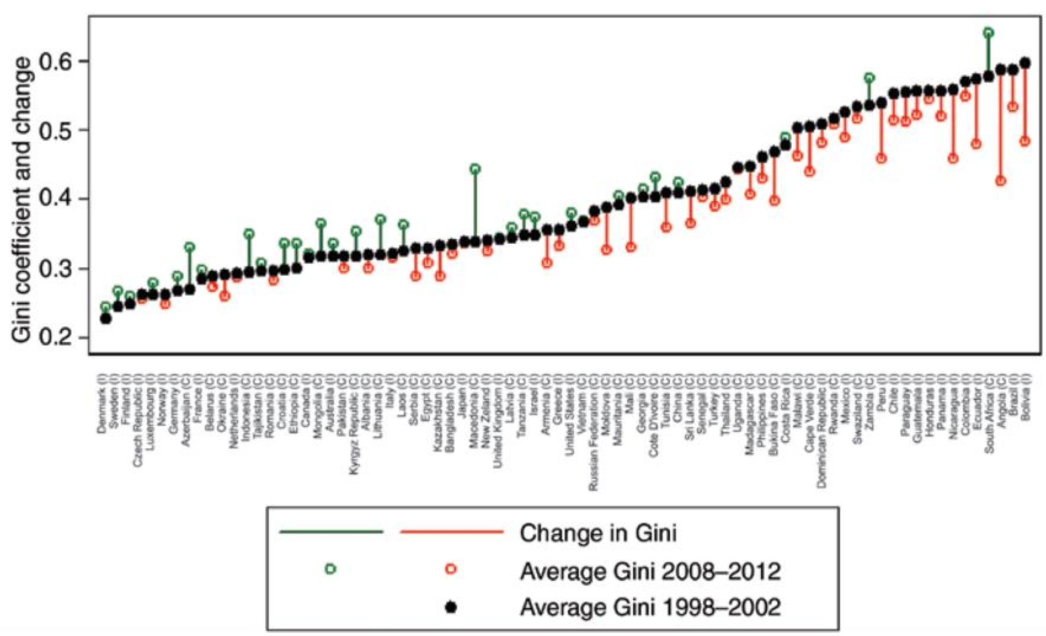
The reduction in total global inequality was driven by the reduction of between-country inequality (see Figure 2). In contrast, progress on within-country inequality has been mixed (see Figure 3). Encouragingly, in 45 out of 78 countries with data, within-country inequality declined between 2000 and 2010, with notable achievements across Latin America.[6] However, 30 countries experienced an increase in within-country inequality, importantly some advanced economies, where the poor and middle class have seen stagnant income growth for the past two decades.[7] Despite the overall positive global trend, the increase in within-country inequality in advanced economies has dominated the global discourse over the last few years.

Figure 2: Global inequality, 1988-2013



Source: Lakner and Milanovic (2016), based on calculations from PovcalNet

Figure 3: Change in Gini by country, 2000-2010

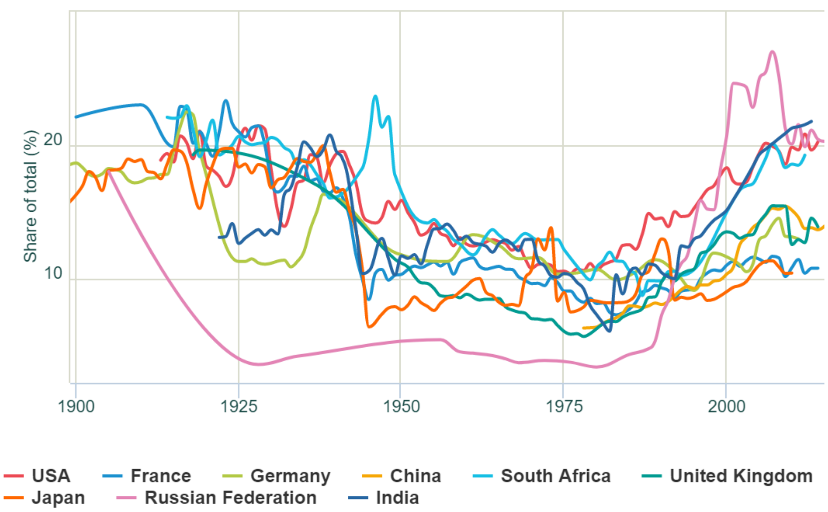


Source: Lustig (2016), data from OECD Income Distribution Database, PovcalNet, and Socio-Economic Database for Latin America and the Caribbean

We have to caveat these facts on the evolution of global inequality in several ways.

First, the data do not capture what happened to top incomes, as estimates from household surveys under sample top earners. When we include income growth at the top end of the distribution, the rise in within-country inequality becomes much starker. Figure 4 depicts the income growth of the top one percent across a handful of advanced and emerging economies. Many countries have seen a swift uptick in the share of income going to the top earners since the 1970s—South Africa, for example, has seen its top income share double in 20 years, and it is now on par with the United States, Russia and India (where the share of the top one percent has also increased sharply).[8] The global top one percent are no longer relegated to advanced economies either; the representation of developing countries among the top one percent has risen significantly since 2005 and developing country elites now account for 22.6 percent of the global one percent.[9]

Figure 4: Top 1 percent of national income share



Source: WID (2017)

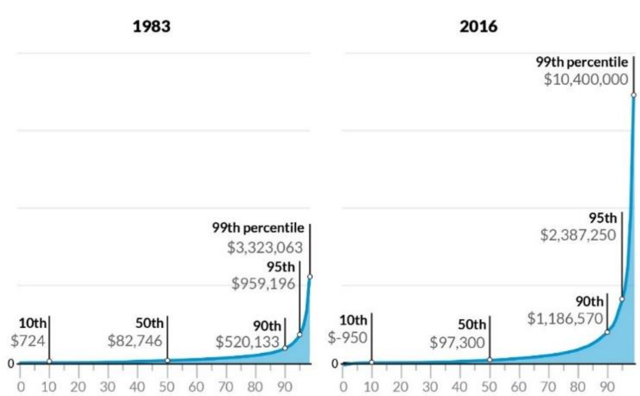
Second, the fact that global inequality is falling stands at odds with the perceptions of people—that is with subjective perceptions of inequality. The average person on the street in many countries thinks that inequality is higher than it is; and that is has increased. For example, the average German underestimates their position in the income distribution by more than 20 percent, believing they are poorer than they actually are (see Figure 5).[10] Technology, specifically social media that exposes people to increasingly divergent lifestyles and opportunities, has exacerbated perceptions of inequality around the world.[11] Other evidence suggests that people care about absolute inequality and about the extremes more than they care about relative inequality.[12] According to survey results from Europe and Central Asia, people feel that economic gains at the lower end of the distribution are smaller than gains at the top, leading to perceptions of increasing absolute inequality.[13]

Figure 5: Difference between perceived vs actual inequality

Source: Bublitz and Dumont (2016), data from
Bertelsmann Stiftung survey compared to EU SILC/LIS data

Finally, focusing on incomes ignores what has happened to wealth. While a paucity of data on wealth in developing countries prevents us from being able to do a rigorous comparison across countries and over time, evidence from a few select countries suggests a greatly skewed concentration of wealth at the very top. For example, Saez and Zucman (2016) show that wealth inequality in the US has exploded in the last few decades, reaching levels comparable to the 1920s (see Figure 6). In a similar vein, estimates by Credit Suisse suggest that the richest one percent owned 50 percent of global wealth in 2015.[14] This global wealthy class is increasingly diverse: 14 percent of the 2016 Forbes World Billionaire's list were Chinese (up from zero in 1996), and 35 percent were from developing or emerging economies. A recent study by Alstadsaeter et al. (2017) sought to estimate the amount of household wealth owned by each country in offshore tax havens to gain a more accurate picture of the global wealth distribution. They estimate that 10 percent of global GDP is held in offshore tax havens, with rates reaching 60 percent of national GDP in some Gulf and Latin American countries. Including these offshore wealth estimates increases inequality dramatically, as the richest 0.01 percent in the U.K., Spain and France, for example, hold 30-40 percent of their wealth offshore.

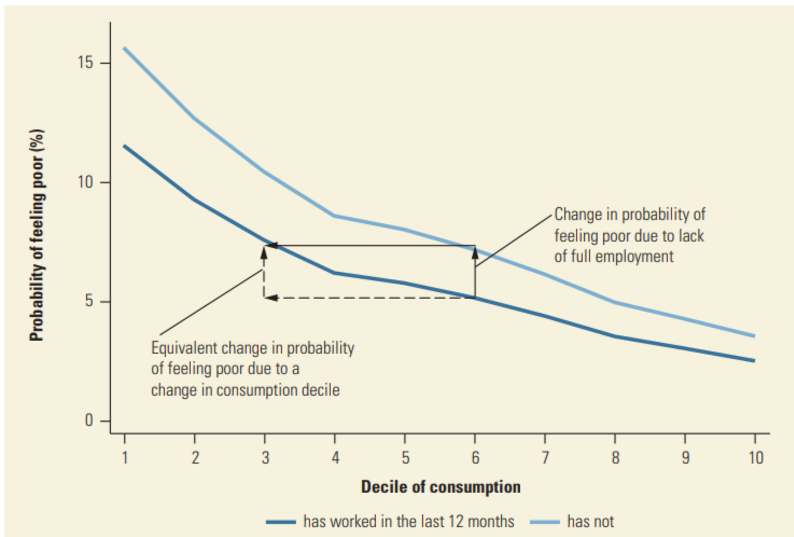
Figure 6: Distribution of US family wealth, 1983-2016



Source: Urban Institute (2017), based on calculations from the Survey of Consumer Finances

Increased inequality is one source of discontent with the neoliberal model. The growing polarization of labor market outcomes in many advanced economies and continued market duality in emerging and developing ones is another source. As articulated in the World Bank's 2013 World Development Report, jobs are not just a source of income, but also a source of dignity, social status and security for the future. Analysis of subjective perceptions of poverty suggest that losing a stable job is associated with a perceived loss of welfare equivalent to falling three deciles in the income (consumption) distribution, much more than the actual decline in income (see Figure 7).[15] This perceived loss of wellbeing decreases trust in the current political and economic systems; indeed, rising unemployment and job insecurity are associated with increased votes for anti-establishment parties.[16]

Figure 7: Relationship between job stability and the probability of feeling poor



Source: Bussolo and Lebrand (2017)

Also contributing to the discontent is a sense that the system is "unfair." According to a recent survey in Europe and Central Asia, over 20 percent of male and female respondents believe that good connections are the number one driver up upward mobility.[17] This contributes to the perception that wealth and opportunity are concentrated amongst a few who "luck out" based on circumstances of birth. Higher perceptions of inequality, unfairness, and distrust in public institutions are associated with lower perceptions of subjective economic mobility, or the belief that one can rise above the economic bracket into which they were born.[18] This economic pessimism has even infiltrated the United States, where the ideal of the American Dream had previously helped preserve a unique sense of optimism about the prospects of economic mobility.[19] The latest Census Bureau report in the United States revealed that while median household incomes rose 1.8 percent in 2017, real median wages actually fell by 1.1 percent, indicating that people are working longer hours in order to take home more money.[20] While poor and middle class wages were falling, the rich saw their incomes grow by 9.3 percent from 2000-2017, in the midst of the Global Recession.[21] Indeed, top capital and labor incomes have become more closely associated since 1985, such that top capital- and top income-earners are increasingly the same people—which was not the case prior to 1985.[22] This rising association has contributed to the accumulation of wealth at the top, exacerbating the effects of rising inequality within capital incomes and earnings.

The neoliberal model traditionally emphasized the idea that some degree of inequality in outcomes is necessary to reward risk taking and effort. Unequal outcomes can motivate entrepreneurs, innovators and workers and compensate them for taking risks. This is “good” inequality. In contrast, deeper structural inequalities, such as inequalities in opportunity, are “bad” inequalities that lead to inefficiency. This distinction between good and bad inequalities is still relevant, but insufficient to frame the problem of excessive inequality. The scale of the accumulation of income and opportunities at the top that we see today seems to swamp any possible underlying gap in productivity and effort, and instead is likely to reflect economic rents, lack of competition, and in some countries, perhaps the capture of institutions and the policy process by privileged groups.

Drivers of inequality and discontent

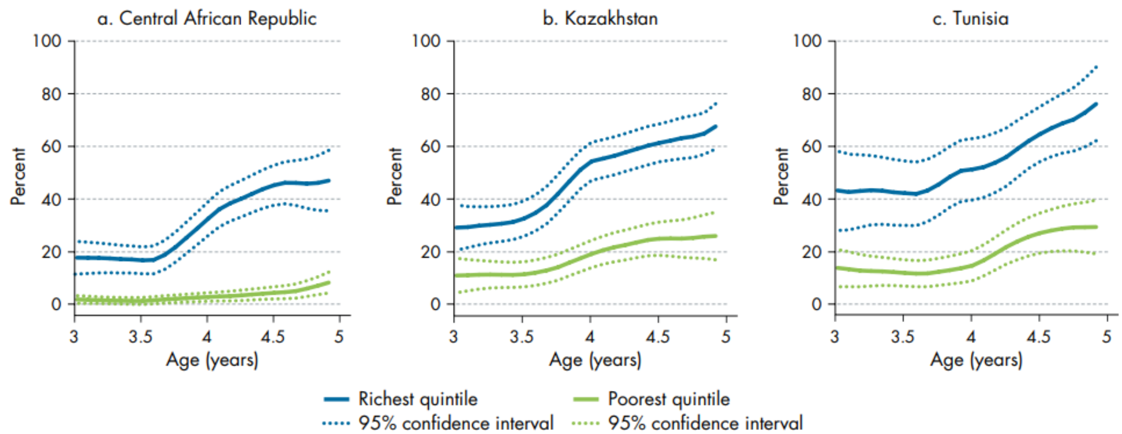
How can we explain the sharp rise in within-country inequality in those places where it has occurred? The current debate on inequality points towards a range of factors, some of them mutually reinforcing. These range from the persistence of deep inequalities of opportunity in the accumulation of human capital, to the role of superstar firms with market power, and the impact of technological change. Another set of drivers are institutional, notably the decline of organizations that gave workers voice and bargaining power, and the negative impact of globalization on the ability (or willingness) of governments to tax corporate profits to support a broad and generous social safety net. To make sense of these explanations, it is useful to break down the drivers of inequality into what we could call “pre-distribution” or inequality of opportunity, “in-distribution” or market inequality, and “post-distribution” or taxes and transfers.

Pre-distribution: Inequality of opportunity

When inequalities of opportunity are deep and entrenched, and passed down from one generation to the next, the pool of human capital in a country is constrained. This is bad both for equity and efficiency. Arguably, inequality of opportunity declined across the globe in the last few decades as developing countries invested heavily in expanding access to schooling. As measured by years of schooling, educational inequality within countries fell across the world in the last six decades. For developing countries, the GINI for years of schooling declined from 0.73 to 0.36. For advanced economies, it declined from 0.38 to 0.19.[23] This should have contributed to reduced inequality, and indeed, in those countries where within-country inequality fell during the past 20 years (such as Mexico and Brazil), increased access to education played a key role.

However, years of schooling is an imperfect measure of human capital. While access to education may have equalized across and within countries in the past few decades, the evidence suggests that quality of education has not. Despite the notable rise in years of schooling across the globe, there is still a very large gap in learning between rich and poor countries and between rich and poor children (see Figure 8). This has a direct impact on lifetime earnings and inequality. A recent study of the European Union (EU) suggests that two-fifths (and in some cases one-half) of all inequality in disposable labor earnings can be traced back to factors over which individuals have no control, namely parents’ education level, sex and ethnicity, and location of birth.[24]

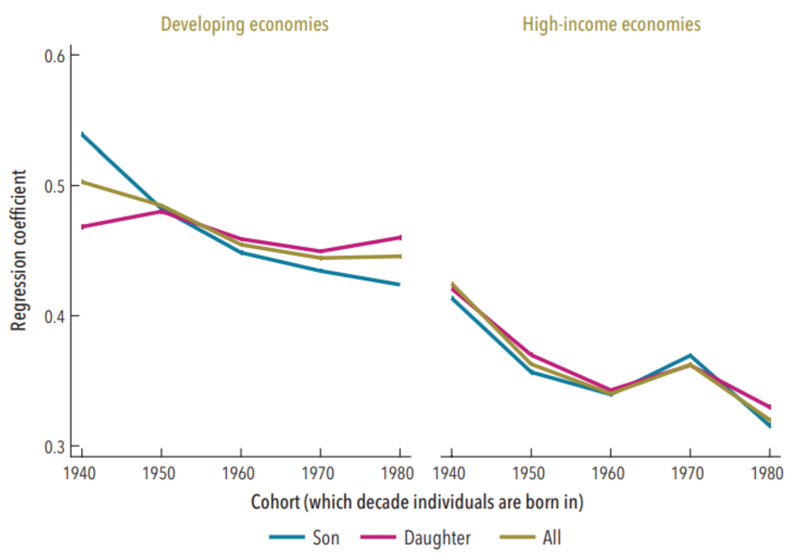
Figure 8: Percentage of children age 3-5 who can recognize 10 letters of the alphabet, by wealth quintile



Source: World Bank (2018b)

These inequalities in educational opportunity are sticky and persist from one generation to the next. In particular, relative educational mobility (whether a child's position in the educational ladder is independent of the situation of her or his parents) has remained low and persistently so in most countries (see Figure 9).[25] This, in turn, is associated with low relative income mobility and higher inequality.

Figure 9: Intergenerational persistence in education—relative mobility (higher IGP indicates lower mobility)



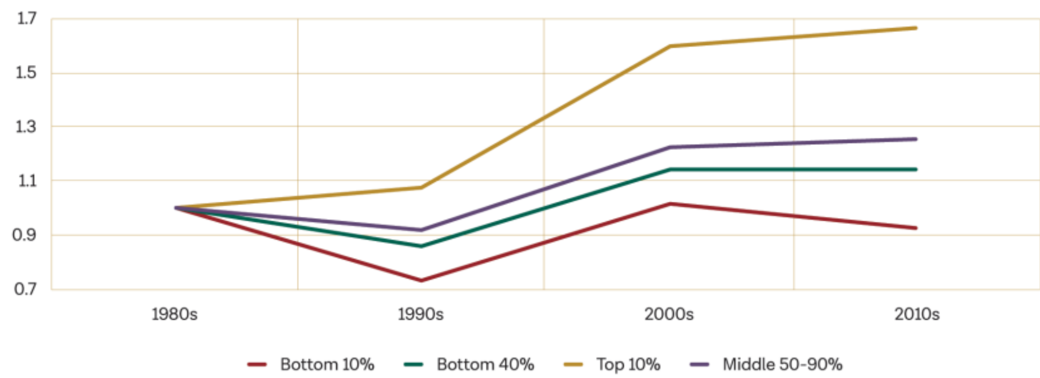
Source: Narayan et al. (2018)

In-distribution: Increased polarization in the labor market

Inequality of opportunity has interacted with shifting demands for skills to give rise to increased polarization in the labor market in many countries.[26] While wage inequality decreased in a number of developing countries over the past two decades (examples include Chile, Mexico, and Brazil), wage inequality in many advanced economies and in some emerging economies, such as China and Russia, increased.[27] The rising trend in wage inequality in the United States since the 1970s has been extensively documented.[28] One of the most marked features of this rise in advanced economies is that the gap has mainly grown at the top – that is, between the 50th and 90th percentiles.[29] Some attribute this to the emergence of (and increased concentration of) profits among large superstar firms with market power. This market concentration creates winners and losers in the economy, as gains are shared with superstar firm employees but not with others.[30] This hypothesis is supported by the fact that returns earned by firms at the 90th percentile are now six times larger than those of the median firm.[31]

Even in the much more regulated labor markets of the EU, the gap between high and low wage earners is growing (see Figure 10). This suggests, as in the U.S., the interaction of underlying inequality of opportunity with rising demand for non-routine cognitive skills and the economics of agglomeration around superstar cities/firms.[32]

Figure 10: Trends in individual earnings by segment of the household income distribution, EU average, 1980s-2010s (index, 1980s=1)



Source: Ridao-Cano and Bodewig (2018), data from Luxembourg Income Study (LIS)

Other explanations suggest that institutional changes, such as the deregulation of labor markets and the decline of unions, also played a role in rising market inequality.[33]

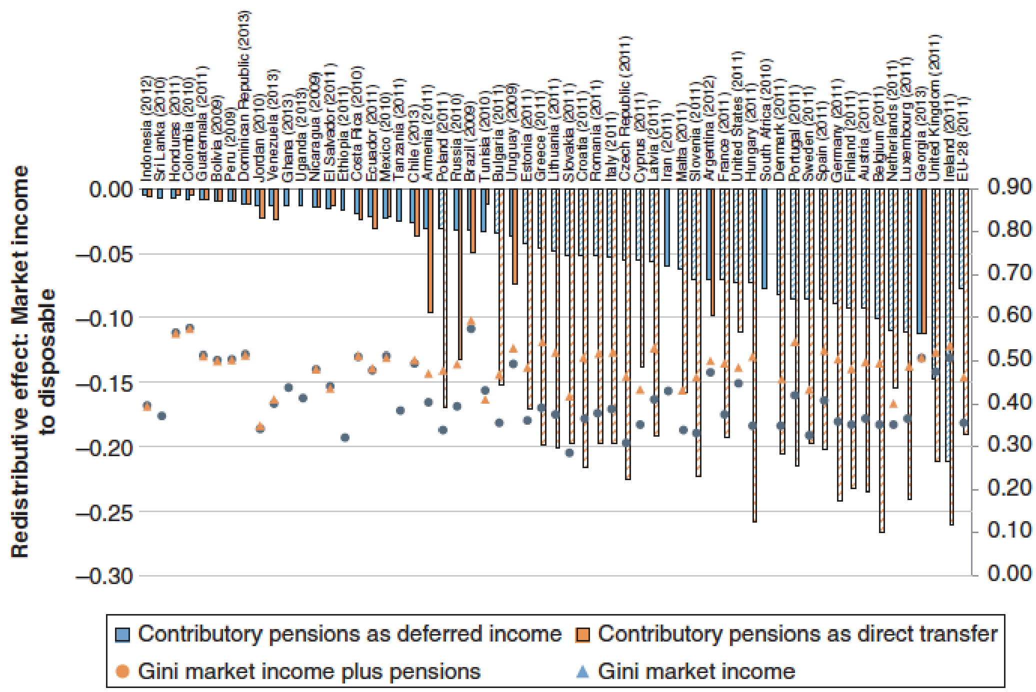
Additionally, recent research suggests that financial deregulation may have contributed to rising inequality through its impact on the incomes of top earners. Philippon and Reshef (2012) find that a sizeable part of the relative wage increase in the U.S. since the 1970s can be attributed to financial market deregulation, due to the growth in the number of and wages of highly remunerated finance executives. This effect has also been documented in the U.K. and Japan, and it seems likely to have played a role in other high-income economies as well.[34] In emerging and developing economies, where access to financial services is much less widespread, extreme financial market deregulation may have also contributed to inequality. Das and Mohapatra (2003) find that liberalization efforts typically benefit top income earners in emerging economies, while the middle class lose out and the poor remain largely unaffected. Further cross-country studies suggest that, while the impact of financial liberalization on inequality depends on the level of financial development in a country and the quality of political institutions, liberalization generally increases inequality.[35] Moreover, as documented by Daniel and Jones (2007), financial sector liberalization in developing countries often leads to banking crises, due to the interaction of rapidly growing net worth among banks, the declining marginal productivity of capital, and the degree of foreign competition in the financial sector. Banking crises, in turn, tend to be associated with increased inequality due to falling wages, relative price changes, and fiscal retrenchment which leads to cuts in social spending.[36]

Post-distribution: Declining role of taxes and transfers

High-income countries do a lot of redistribution. In advanced economies, direct taxes and transfers reduce inequality by approximately one-third.[37] Developing countries do much less redistribution due to lower and less progressive tax systems (see Figure 11).

There has been substantial debate in the development arena about the need for developing countries to improve their resource mobilization and tax base. Indeed, stronger tax systems can play an important role in expanding and sustaining social protection programs, which can help reduce inequality.[38]

Figure 11: Redistributive effect of pensions on Gini coefficient in developing and advanced countries, 2010



Source: Lustig (2018), data from CEQ Data Center on Fiscal Redistribution

However, there are questions as to how much countries can redistribute via taxes and transfers in a world that is highly globalized. Even in high-income countries, there is a push towards much lower taxes. Between 1985 and 2018, the global average statutory corporate tax rate fell from 49 to 24 percent.[39] Globalization complicates the taxation of multinational firm profits. Some estimates suggest that close to 40 percent of multinational profits are moved to tax havens each year. [40] Countries now compete for multinational business with lower tax rates.[41] The race to lower taxes may impede countries' ability to expand existing social programs and social protection systems in ways that could temper rising market inequality.

What policies can help reduce inequality?

On the one hand, strong economic growth in the developing world was the main driver of the decline in global poverty over the past 25 years. Its impact on inequality, on the other, was largely neutral.[42] Continued poverty reduction requires continued strong growth, but it also requires that growth be inclusive. Policies to tackle inequality must do so in a way that supports rather than undermines growth. This is not impossible, as many of the policies that are good for equity are also good for efficiency. For example, policies to address inequality of opportunity increase both equity and efficiency and are thus a win-win. Policies that ensure markets work fairly (e.g. do not discriminate against the poor) and competitively (e.g. do not allow for the accumulation of excessive economic rents) also meet both criteria. A focus on win-win policies that are good for both equity and efficiency fit naturally into the neoliberal model (for further discussion, see the 2016 World Bank Poverty and Prosperity report).

At the same time, in a world where capital is highly mobile and labor is not, and where technology is changing at an ever-increasing speed, there may be a need to strengthen policies that protect workers and provide an income floor for those at the bottom, even if those policies come at some short-term cost to growth. Failing to protect workers and ensure a decent standard of living for all members of a society, especially those who are losing out due to globalization and rapid technological change, may jeopardize the very drivers that have enabled the past three decades of growth and prosperity.

A number of economists have argued, moreover, that in the absence of active interventions by governments, it will be extremely difficult to stop the rising concentration of wealth and income at the very top.[43] There is a risk that this rising concentration of wealth and income leads to the capture of institutions, markets and policy-making processes, which would make the prospect of government interventions to reduce inequality less likely. This is where the neoliberal model needs a deep rethink.

How do we make market-driven growth more pro-poor and inclusive? First, we must reduce inequality of opportunity and its intergenerational transmission. Second, we need new policies to correct the failure of the labor market to provide decent employment and earning opportunities to a growing swath of the workforce in many countries. Third, we need progressive taxation and spending, but as a complement to—not a substitute for—policies that address the two core drivers of inequality.

In practice, this means:

1. **Policies to develop the human and physical assets of the bottom 40 percent,** starting with policies that equalize opportunities and build human capital. One example: Early Childhood Development policies to promote physical, socioemotional, language and cognitive development in the early years. Children in poor households need this the most but get it the least. In a study of 27 developing countries, preschool enrolment rates for the poorest quintile of the population were less than a third of rates among the richest quintile.[44] Nutrition interventions and interventions to support parenting skills are also important, as is ensuring that high quality educational services reach all children, not just those who can afford it. In a recent study, Narayan and van der Weide (2018) find a positive association between the share of GDP spent on public education and inter-generational mobility. Another study finds that differences across EU countries in inequality of opportunity are also strongly associated with how much countries spend on education, especially pre-primary education, relative to GDP.[45] In developing countries, additional instruments such as conditional cash transfers

(CCTs) are useful in supporting investments in human capital among the poorest households.

2. **Policies and regulatory frameworks that ensure that markets are working fairly for everyone.** This means reducing market power concentration and rent seeking behavior among firms. A recent World Bank report highlighted the need to establish a level playing field or equality of opportunity between firms.[46] In some countries, this may mean less business regulation in order to foster a more business friendly environment. In others, it may mean the exact opposite. In both cases, the quality and transparency of institutions that regulate and supervise markets and competition are a key factor for success. Within financial markets, the establishment of strong supervisory agencies and prudential regulation are critical, as they can help moderate the risks of banking crises down the line, and their potentially devastating impact on inequality. This is especially necessary in in developing countries with shallower markets and weaker regulatory institutions, where the risk of financial crisis due to rapid deregulation is even greater.

3. **Support for some basic regulation of labor markets and basic labor market institutions.** Workers need better conditions from which to negotiate with employers. In more developed labor markets, there is a role for minimum wages, for a core level of employment protection legislation and for mechanisms to protect workers from the impoverishing effects of job loss, increasingly brought on by technological change. These protections have to be flexible and distributed evenly across workers; not, as is the case today in many countries, in a way that creates a dual market of protected insiders and unprotected outsiders. With the rise in labor saving technology, the state should explore ways to regulate technology-driven growth in ways that balance the competing need to promote economic growth and innovation yet limit worker displacement and unemployment. Some have suggested a form of time-limited wage insurance to compensate displaced workers for a portion of lost income.[47] Others, including Bill Gates, have proposed a more radical "robot tax," taxing companies who use labor saving technology in an effort to slow workforce automation.[48] In less-formalized labor markets, there is still scope for a minimal set of labor standards that include societal level minimum wages, basic health and safety conditions. The Cambodian apparel industry provides an illustrative example of how governments can successfully introduce both at very low-income levels.[49]

4. **Policies to build a strong and resilient middle class.** "Building a strong and resilient middle class," in the words of Lustig (Forthcoming), is a critical element in reducing inequality. Globalization has created opportunities for many, but advanced and emerging economies alike have done a poor job protecting those who lose out due to expanded global trade and technological advancement. There is a need for more effective social protection mechanisms to protect workers and the existing or emerging middle class from shocks in both high income and developing countries. In high income economies, where extensive welfare systems already exist, protecting the middle class will require adapting existing social protection programs to the changing nature of employment relationships—in effect, de-linking access to welfare systems from employment contracts, both in terms of eligibility and of financing. In middle income countries with incomplete social protection systems, delinking welfare systems and worker protection from the employment contract is especially important in light of large informal sector employment and frequent worker transitions between the formal and informal sectors. Moving towards universally accessible benefits would both protect the middle class from the impact of job loss and increase

protections for those at the bottom of the distribution. In low income countries, where social protection programs are for the most part nonexistent, such programs need to be created, learning from the growing experience with non-contributory social transfers around the world. It may actually be easier to build these systems from the ground up in low income settings, rather than deconstruct existing programs in middle- and upper-income economies.

5. **Development of more effective short- and long-term training policies for individuals who have left the schooling system.** The demand for skills is changing at an accelerated rate. Workers who have long since left the schooling system need mechanisms to facilitate skills upgrading and retraining. Yet existing training systems are ill-equipped to address the challenge of reskilling adult and older workers. Emerging lessons from successful experiences around the world suggest the need to use experiential and on-the-job training rather than classroom instruction. Broader and more flexible options for post-secondary schooling are also needed, which allow for more movement back and forth between the labor market and school. In this vein, the model of "stackable credentials" tried in some US states seems promising.[50]

6. **Mobility policies (to help people move from poor areas) and policies to support lagging regions.** Spatial disparities in labor market and income earning opportunities are large in many countries. The process of economic development may, over time, work to close these gaps as people and resources move to areas with better opportunities, but the adjustment is slow and bumpy. Moreover, the patterns we see in high income economies suggest that technology and the nature of economic agglomeration can, at times, work to increase these gaps rather than reduce them. For example, many researchers have highlighted the growing divergence of educational and labor market opportunities across regions in the United States and in much of Europe. Barriers to labor mobility, even within a single country, emerge from many sources: lack of skills, housing markets, non-portable social benefits, and family or community-based coping systems. Policies can help facilitate movement to more productive areas by tackling some of these barriers: for example, targeted college scholarships, housing credits, and portable social benefits. Some economists have also argued in favor of renewed place-based policies to support opportunities in lagging regions. Some ideas include public investment in physical and human infrastructure in lagging areas, measures to spur productivity growth in lagging regions (better business environment, institutions and investments in R&D), geography-based employment subsidies and strengthening inter-governmental transfers.

7. **Expansion of progressive transfers.** In more formalized settings, in-work or earned-income tax credits or some form of graduated social assistance can be combined with activation measures to support re-employment. In developing countries, these transfers need to fit the local context: worker tax credits may be feasible in some middle-income settings, while targeted social assistance (unconditional or conditional cash transfers) with a graduated cut off may be better in others. As part of this transfer expansion discussion, many have debated the merits of a universal basic income (UBI), which would provide cash to recipients with limited targeting and no conditions.[51] UBI would not act as an alternative to public education, health, and social service investments, but as a complement, designed to replace various income support programs by streamlining implementation and reducing administrative costs. Regardless of context, a targeted scheme is both more affordable than UBI and

offers less of a disincentive effect. Ironically, UBI may actually be a better option in developing countries with large poor populations than in high-income economies, due to UBI's reduced administrative costs and broader coverage of the poor. Indeed, the Indian government is exploring the idea of replacing its patchwork of social protection programs with a UBI, a move they claim would better target the poor by avoiding benefit leakage and misallocation.[52] Rahul Gandhi, president of the Indian Congress, has made UBI a core pillar of his party's platform in the lead up to the May elections.[53] UBI schemes have been administered with some success at the local level, but most national implementation attempts have failed after a year or two due to fiscal constraints, and thus at this point seem a less efficient option than other more targeted programs.[54]

8. **More effective use of tax policy.** To finance a more progressive social safety net system, governments will need to raise additional revenue. Various solutions have been proposed, including increased taxes on the wealthy, higher property taxes, and carbon taxes. Developing and emerging economies have largely failed to effectively utilize taxes as a means of redistribution due to small tax bases, large informal economies, and the low capacity of national tax administrations.[55] Despite these challenges, much can be done to increase the efficacy of existing tax instruments while building government capacity to utilize additional tools in the future. With respect to personal income taxes, there is a room to both broaden the tax base while reducing or capping exemptions and reductions that favor the top of the distribution. In many middle-income countries, there is also scope for more progressive marginal tax rates. Corporate income taxes represent a potentially large source of revenue for developing countries, but considerable international cooperation is needed to combat tax evasion and limit capital flight to tax havens. In this vein, the OECD is working to bring together both developing and advanced countries to develop a modern international tax framework to combat base erosion and profit shifting while promoting transparency and information sharing efforts.[56] Some tax instruments remain highly underused in developing country settings, such as inheritance and property taxes. Property taxes represent an attractive financing mechanism for developing and emerging economies, because unlike capital, property is largely immobile and thus cannot be moved outside of the country. [57] Studies generally find that property taxes are largely progressive, as land and capital owners are typically higher income individuals.[58] However, property taxes do have relatively high administrative costs since they cannot be self-assessed, though new technology and improved land registration records may ease this burden moving forward.[59] Finally, some have proposed utilizing taxes on environmental externalities to fund social safety net programs. OECD research suggests that, on the one hand, transport taxes are largely progressive for the bottom half of the distribution, as poor households are less likely to own a vehicle and hence spend a lower proportion of their income on fuel taxes.[60] Taxes on electricity and heating fuel, on the other hand, tend to be regressive, and thus represent a less promising redistribution mechanism without some sort of minimum consumption threshold. However, the efficacy of any of these environmental taxes also depends on the removal of distortive energy subsidies, especially common among energy producing countries.

Conclusion

It's time to reframe the narrative on inequality. Overall, the trends are not as dire as the global rhetoric contends; total global inequality has declined and within-country inequality has fallen more often than it has risen. The countries that experienced a decline in inequality did so largely by adopting some combination of the above policies; Latin America, for instance, heavily invested in education to reduce inequality of opportunity.

However, the next 25 years of poverty reduction efforts will require concerted policy efforts to ensure that growth is inclusive and pro-poor. There are real structural inequalities in the economy, both at the global and country level, that prevent the poor from rising to the middle class and leave the middle class vulnerable to shocks. The growing populist movement in advanced economies is a predictable and to some extent understandable response to stagnating wages, middle class contraction, and worker displacement. Yet populist policies are likely to make the problem worse in the long-run, not better. To combat this growing discontent, governments will need to play a more active role, tackling pre-distribution, in-distribution, and post-distribution inequality. The interconnected nature of global financial and labor markets today requires greater international cooperation in order to implement meaningful market regulation and taxation policies. Recent OECD transparency efforts of this nature represent an important step forward. Advanced and high-middle income economies need to tackle the growing concentration of wealth at the top of the distribution while investing in worker protection and retraining efforts. Additionally, policymakers in wealthier nations need to ensure that domestic responses to rising inequality do not inadvertently lead to increased inequality in emerging economies. Low- and middle-income economies should focus on investing in quality education to reduce inequality of opportunity while strengthening regulatory and social safety net protections for workers. Encouragingly, low- and middle-income countries may have an easier time enacting such policy changes, as it is easier to construct a new system than reform existing programs. Equity initiatives are not anti-neoliberal, but in fact can go hand in hand with efficiency policies to promote inclusive growth. However, such outcomes are not inevitable, but require a strong state role to ensure gains from market-based growth do not just accrue at the top, but create opportunities for all.

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