



**STATISTICS**

# Operationalizing Economic Inclusion at the IMF: Can Household Distributional Accounts serve the IMF's needs

**NOVEMBER 5, 2021**

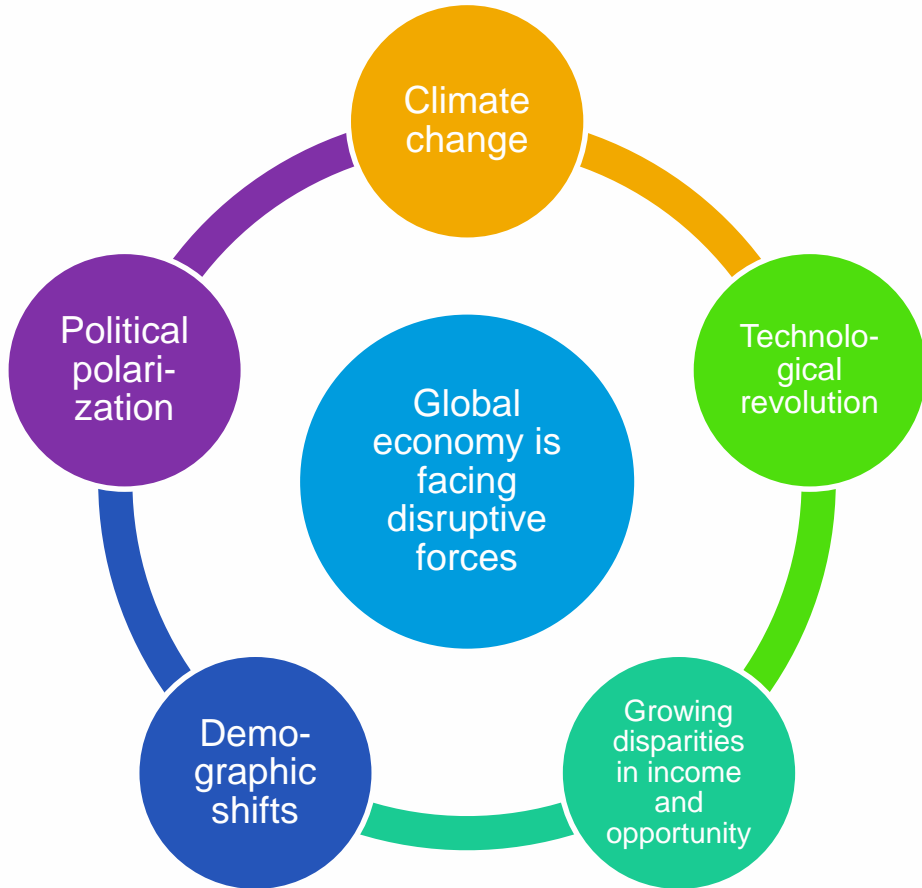
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# Outline

- 1 Economic Inclusion and the IMF Global Policy Agenda
- 2 Operationalizing inequality issues in IMF country work: Selected Staff Reports
- 3 Can Household Distributional Accounts address IMF Staff needs
- 4 Some thoughts to increase the usefulness

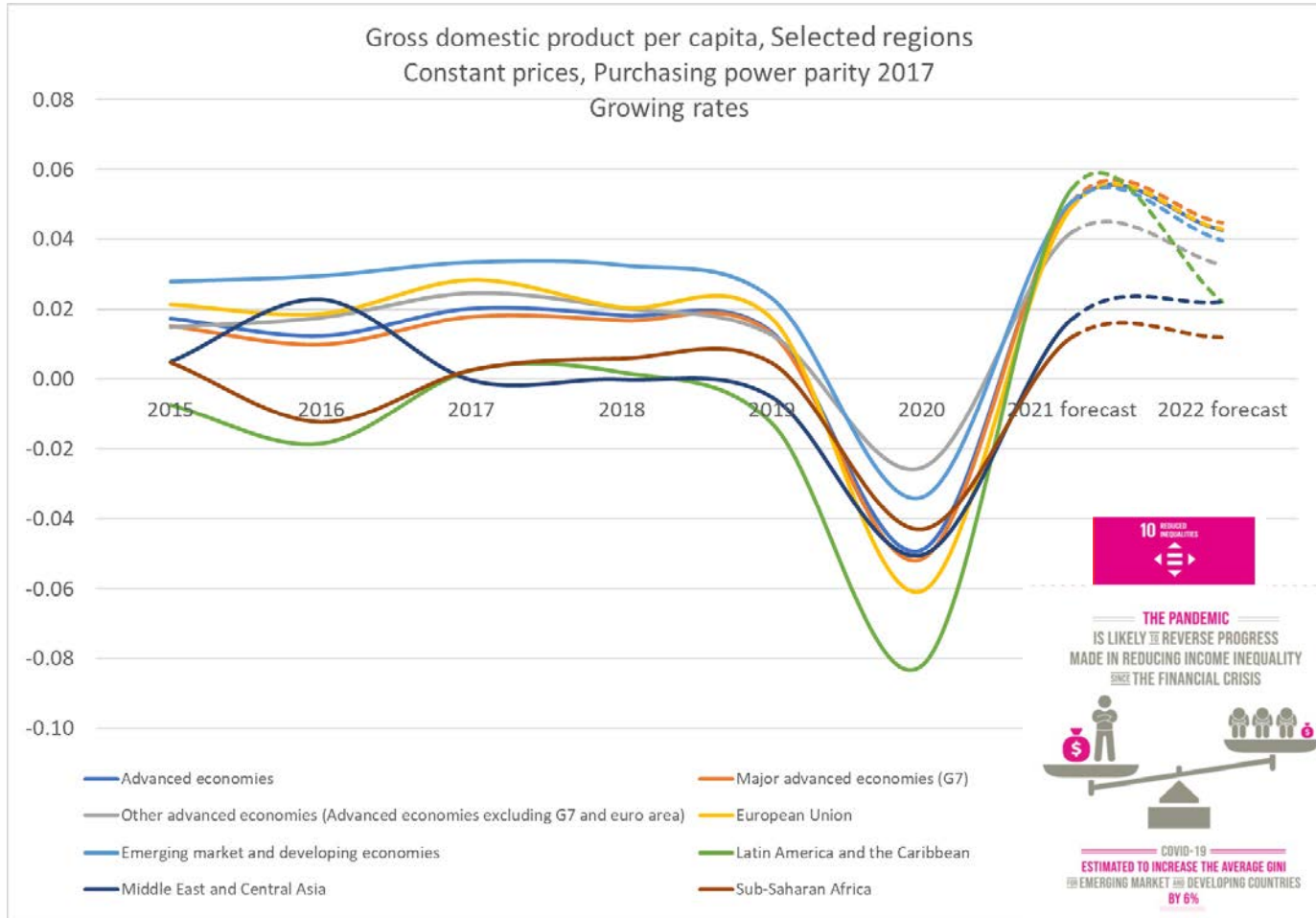
# IMF Global Policy Agenda - 2021



The 2021 IMF Global Policy Agenda (GPA) is a call to accelerate the transformation of the global economy to achieve a more inclusive, greener, and digital recovery. With respect to inclusion the GPA proposes to:

- ❖ Broaden the breadth and depth of inclusion issues in country work and scale up its **distributional impact analysis**; and
- ❖ Reinforce the policy guidance on progressive taxation and strengthening social spending to address **inequality** and promote transparency.

# COVID-19 has served to heighten the urgency to operationalize inequality into IMF work...



Data source: IMF WEO October 2021

Significant regional disparities in the COVID-19 recovery are materializing

Distributional impacts of the COVID-19 pandemic have been well-documented

- In **high-income countries**: Low-wage, low-skill, informal, and minority workers experienced greater and more long-lasting job losses (Chetty et al., 2020; Gould and Kandra, 2021; Gould and Wilson, 2020)
- In **developing countries**: Female, younger, less educated, and urban workers initially more affected and slower recovery (Agrawal, et al., 2021; Kugler, et al., 2021)

# Operationalizing Inequality issues in IMF work

**Economic inclusion is increasingly integrated into our country operations work.** High inequality is negatively associated with macroeconomic stability and sustainable growth—core to the Fund’s mandate in promoting systemic, balance of payments, and domestic stability.

Over the last decade, IMF research has provided a stronger evidence-based case for taking inequality seriously, with a notable finding being that income inequality is harmful for sustained growth.

**Economic inclusion is a high priority issue for the IMF.** Some macroeconomic policies and reforms may have adverse distributional implications, which in turn can undermine public support for reforms.

The pandemic has brought renewed focus on inclusivity and inequality: the IMF promotes fiscal, financial, monetary, external and structural policies to foster inclusive growth.

# Operationalizing Inequality issues in IMF work

In 2015, the IMF committed to intensify its policy and analytical work on inclusion.

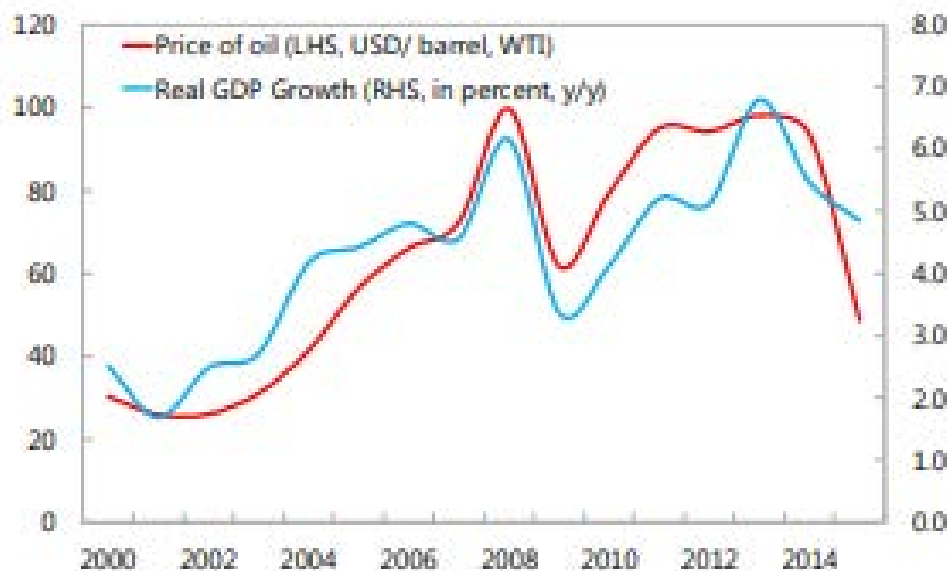
The IMF adopted systematic and structured approach, starting with a pilot initiative to operationalize its work on inequality with the objective of providing lessons on how to effectively integrate distributional issues into broader surveillance and program work.

Country teams should consider inequality issues when they are macro-critical and when the authorities are planning—or advised by staff—to embark on economic policies and reforms that can have significant undesirable distributional effects, which, in turn, could affect current or prospective balance of payments or domestic stability; or when requested by member countries

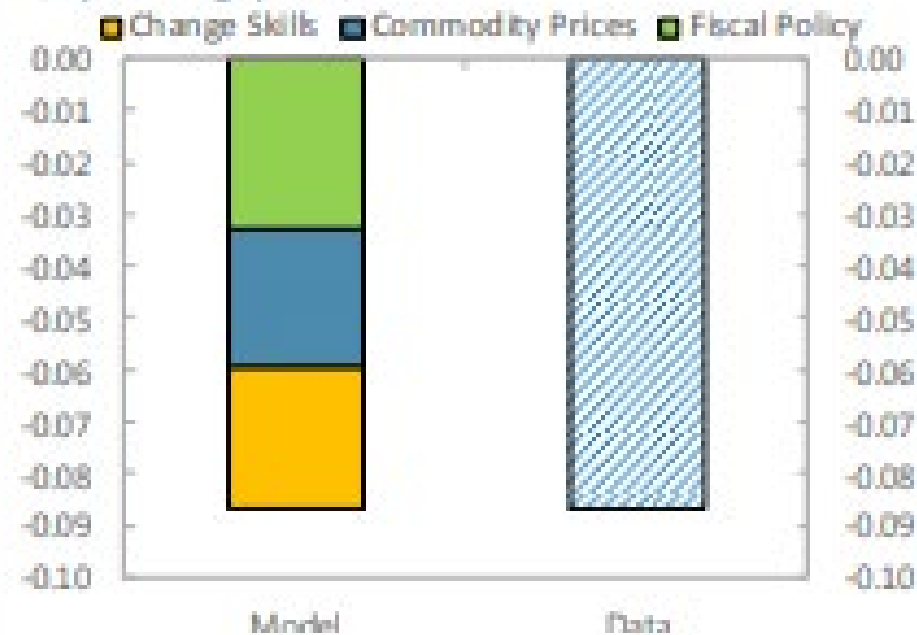
# Staff work on economic inclusion : Bolivia 2016 (Article IV)

- ✓ Inequality (as measured by the GINI coefficient) declined sharply between 2006-2015.
- ✓ Much of the decline in inequality was attributed to the commodity boom – raising rural incomes and government support programs (through increased revenue).
- ✓ As commodity prices returned to normal – fiscal revenues deteriorated potentially having an adverse effect on equality.

### Real GDP Growth and Oil Price

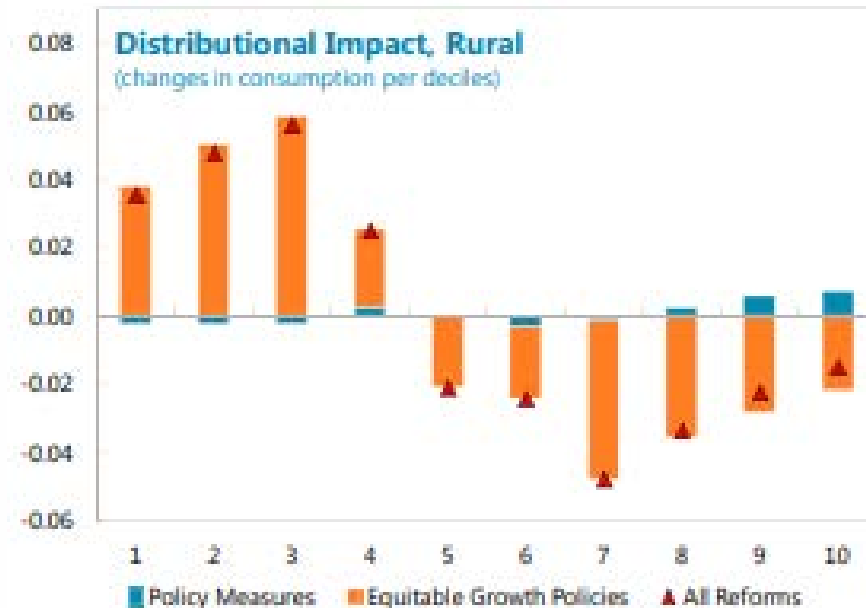
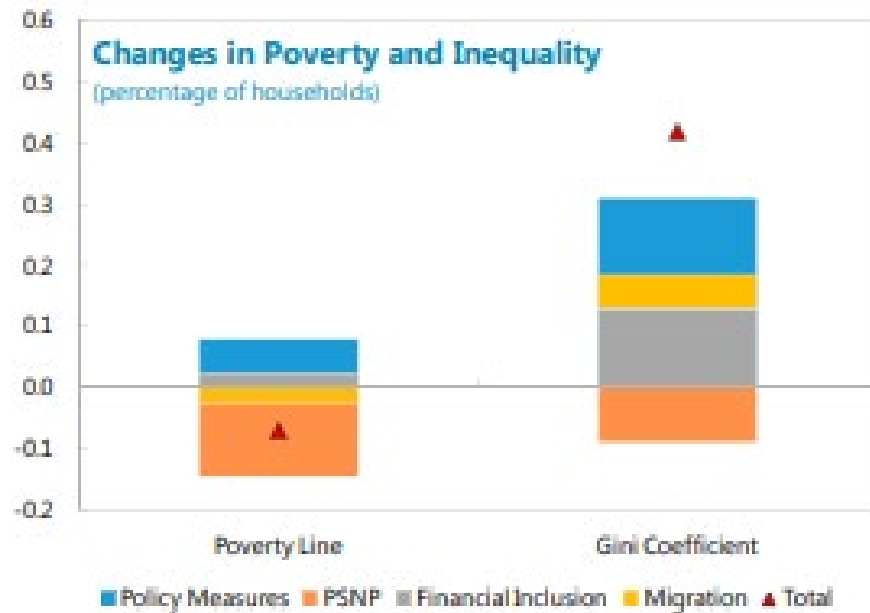


### Change in Gini During Boom (In percentage points)



# Staff work on economic inclusion : Ethiopia 2015 (Article IV)

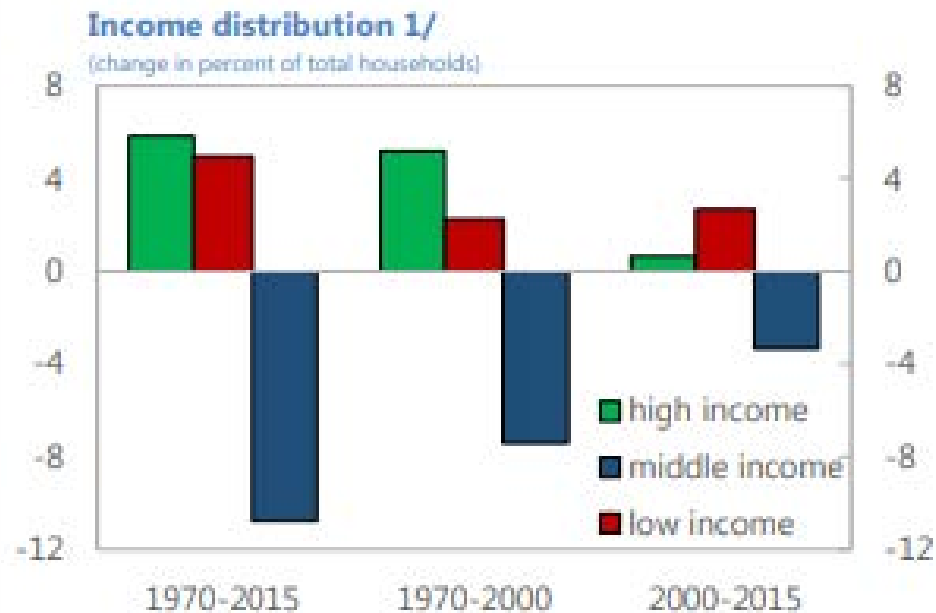
- ✓ In 2015 Ethiopia was aiming to reform its manufacturing and financial sector.
- ✓ It is possible that these reforms could adversely impact equality.
- ✓ Rural workers have little access to financial services and increased manufacturing output could lower demand for agricultural inputs – lowering wages in the agricultural sector.



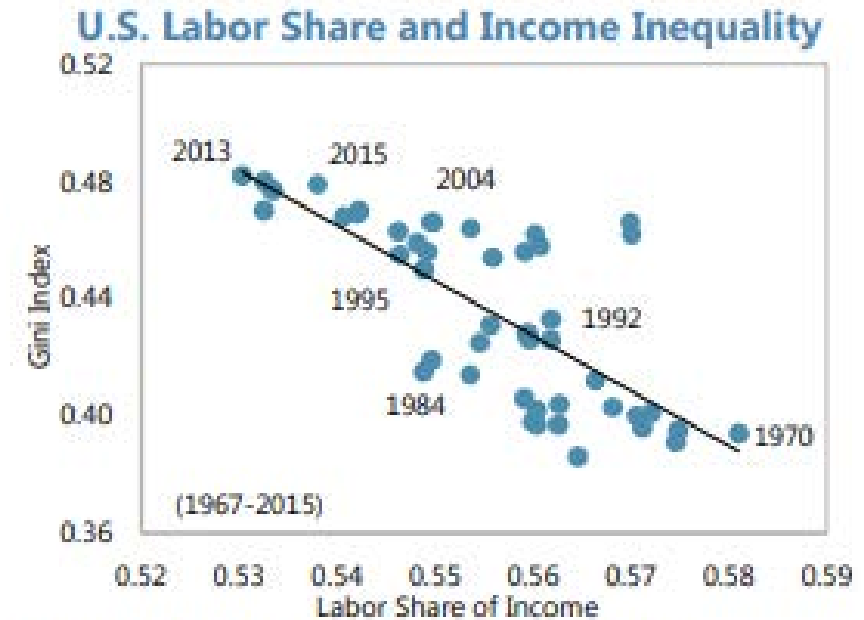


# Staff work on economic inclusion : USA 2016 / 2017 (Article IV)

- ✓ In 2016 US was undergoing one of the longest expansions in history but... growth prospects were constrained by weak productivity, falling labor participating and increasingly polarized income distribution.
- ✓ An income tax cut was being contemplated to boost growth – but Fund studies found that tax reform could have important distributional effects and increase income polarization



Source: Current Population Survey.  
1/ Income is adjusted for household size using OECD's equivalence scale. Middle income (class) consists of households falling within 50-150 percent of median income.



Sources: BEA, US Census Bureau, and Haver Analytics

# Staff work on economic inclusion: Poland 2016 (Article IV)

- ✓ Despite the strong economic performance that Poland enjoyed in recent years, the quality of growth is undermined by enduring regional disparities.
- ✓ A large agricultural sector concentrated in the Eastern regions combined with lower-quality infrastructure and bottlenecks in cross-regional mobility perpetuate the productivity gap between regions, exacerbating regional inequality

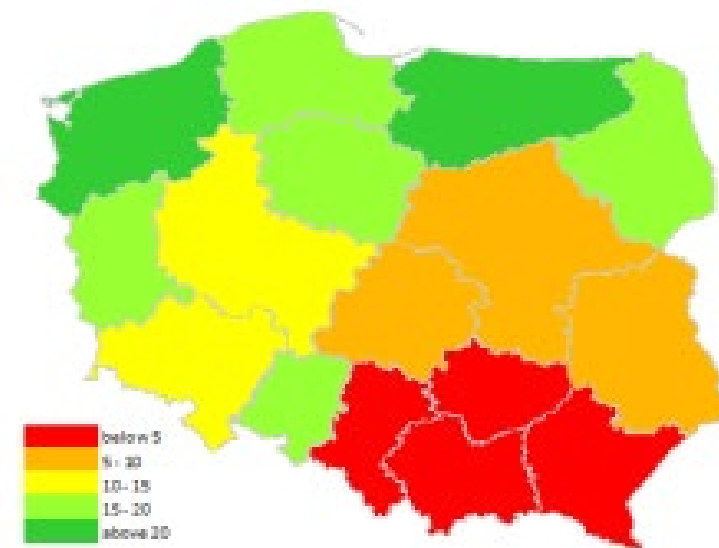
*Per-capita income is notably lower in the east,...*

**GDP per Capita, 2014 1/**  
(Percent of EU28 average, PPS-adjusted)



1/ Names in quotes denote EU countries with similar GDP per capita.

**Share of Farms Larger than 20 Hectares**  
(Percent)



# Can Household Distributional Accounts (HDA) Address IMF Staff Needs?

IMF Country Report	IMF Data Needs	Applicability of HAD
Bolivia	Required data to understand the impact of lower commodity prices and declining government revenue on inequality.	Yes - the HDA are able to measure the impact of government transfer programs on inequality.
Ethiopia	Required data to understand the impact of a change in industrial policy on inequality	Not fully – source of income (by industry) not granular enough in HAD.
United States	Required data to understand the distributional effects of a tax change on inequality.	Yes – the HDA fully articulate the flow of taxes and the resulting effect on inequality.
Republic of Poland	Required data to better understand the drivers behind regional disparities.	No – currently the HDA are at the national level.

# Improving the usefulness of the data for IMF Staff

## A need to ramp up production...

Country	Reporting Period	Country	Reporting Period
Australia	2003 - 2017	Italy	2015-2017
Canada	1999-2019	Mexico	2008 - 2018
Czech Republic	2017	Netherlands	2015,2017
France	2011-2016	New Zealand	2006, 2009, 2012, 2015
Ireland	2015-2016	Slovenia	2012, 2015
Israel	2015-2017	Sweden	2012, 2015
UK	2003-2017	US	2015, 2016
Austria, Belgium, Denmark, Estonia, Latvia, Lithuania, Luxembourg, Norway, Poland, Portugal, Slovak Republic, Spain, Switzerland (compiled by Eurostat)			2015

- ✓ While significant progress has been made – the regional distribution of the estimates is uneven with a heavy concentration of data from Europe and significant resources supplied by Eurostat.
- ✓ In order to support use by Fund country teams – country and temporal coverage would need to improve.

# G20 DGI-2 Rec. II.9: Household Distributional Information

- According to the Sixth Progress Report of G20 Data Gaps Initiative (DGI-2), October 2021, the Implementation Status and Progress indicates that efforts are still needed for the Rec. II.9

Recommendation	Overall assessment and progress made	Status	
		2020	mid 2021
#II.9 Household Distributional Information	Sources and compilation methods have been developed for non-financial accounts transactions and first experimental estimates have been published by Eurostat and the OECD for a range of countries. Sources and compilation methods are under development for financial transactions and balance sheets.		

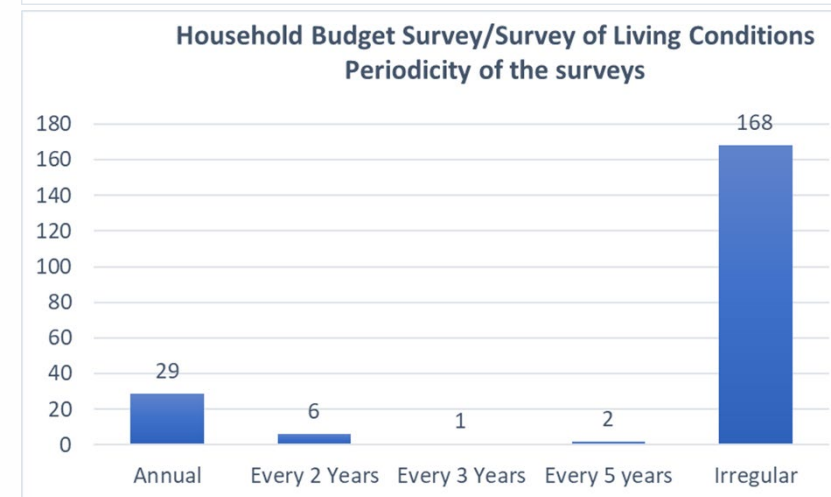
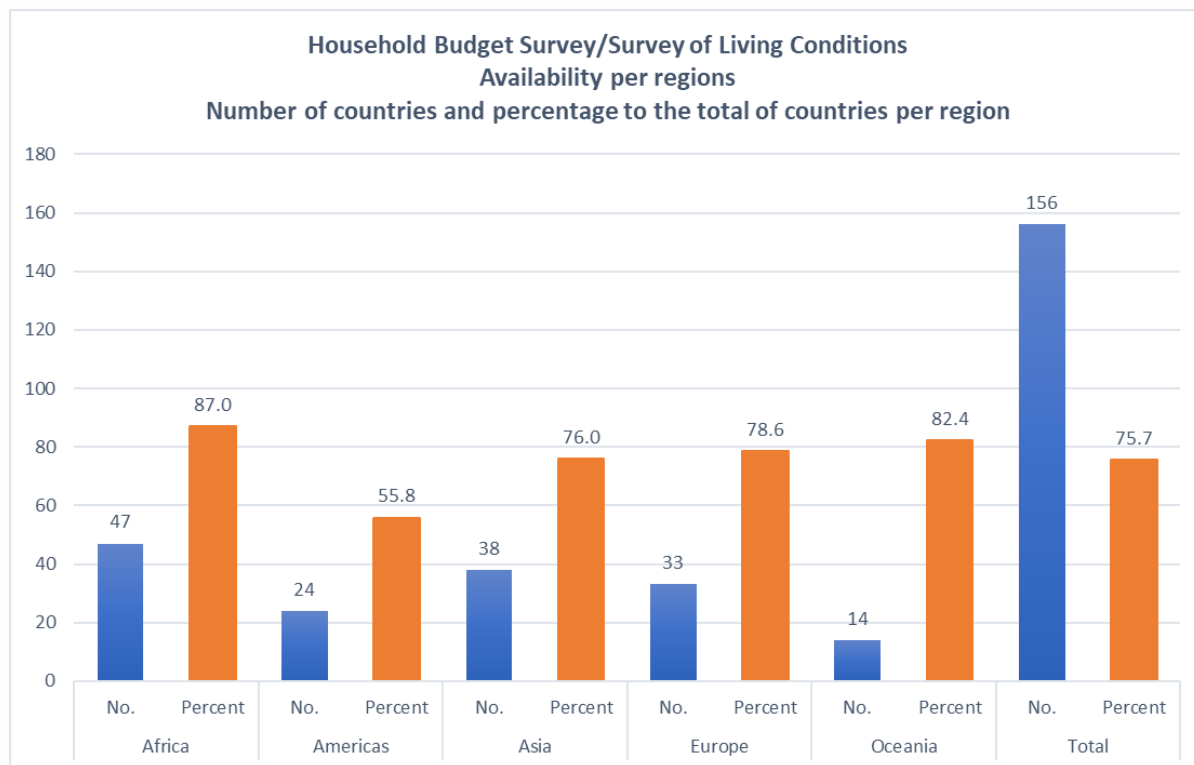
Significant progress made, workstream broadly on track.

Early stage of implementation or lack of timely progress.

- In order to mainstream these data it will be important for all G20 countries to produce HDA and publish them on a regular basis.

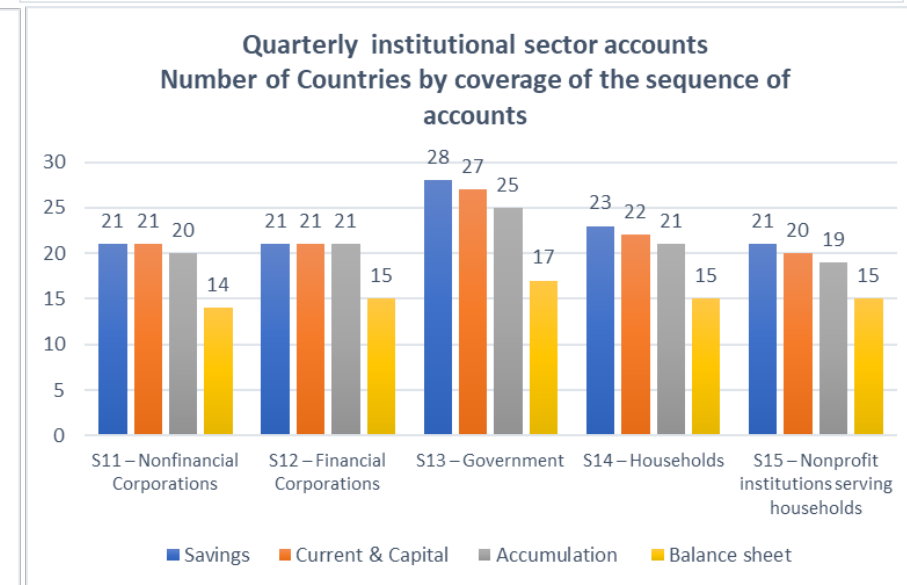
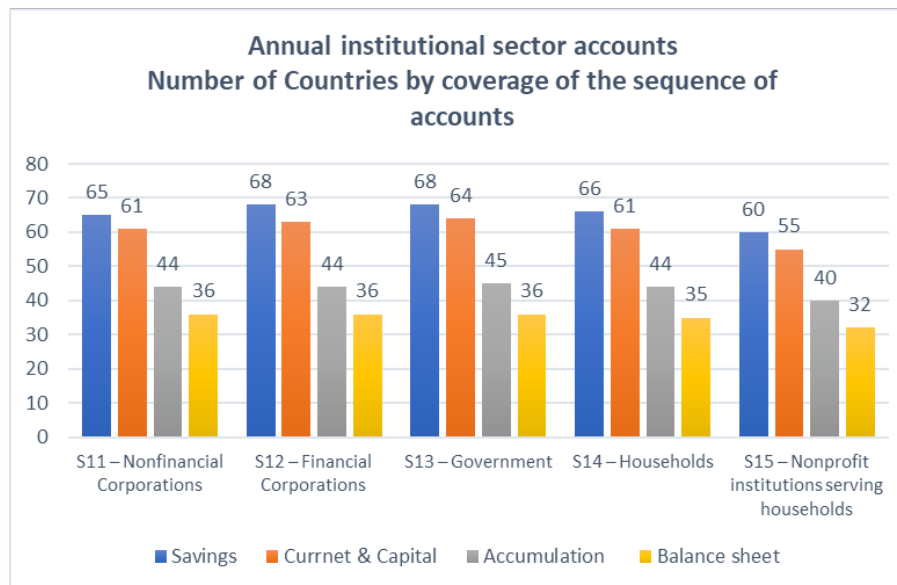
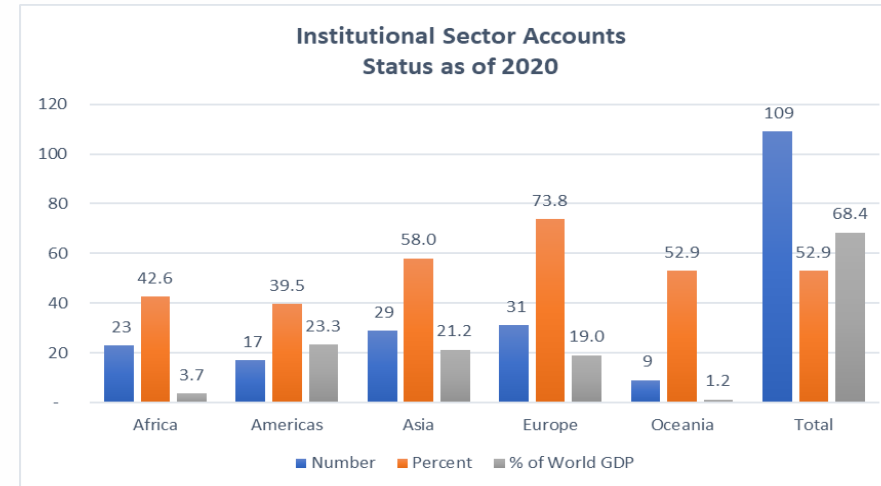
# Expanding Country Coverage - Household Data Availability

- ✓ A significant share of countries have access to household data – but the periodicity is a problem.
- ✓ There is uneven access to personal income tax and social security data by region.



# Expanding Country Coverage – ISA Availability

- ✓ Only about 60 countries have household sector accounts – and only 22 of them have quarterly estimates.
- ✓ Coverage is lower in Africa and the Americas.



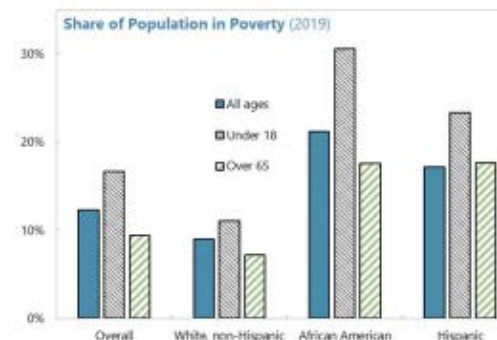


# Are we able to add more granularity

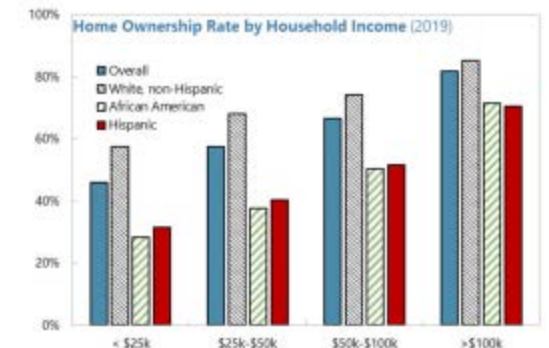
- Are five quintiles sufficient?
- Should we concern ourselves with timeliness? While trends change slowly – using data T-3 gives a perception of irrelevance.
- With a (potentially) growing informal sector – do we need further breakdowns of sources of income.
- Would we consider going beyond national estimates and tackle regional estimates where appropriate?.

Category	Possible Expansion
Source of Income	by Sector / Industry / Formality?
Sub-national	State / Province?
Timeliness	T-1?
Demographic	Race? Educational Attainment, Health insurance.
Beyond Quintiles	Most interest is in the tails.

IMF Article IV 2021 – United States  
*And African Americans and Hispanics are far more likely to live in poverty.*



*Minorities have lower rates of home ownership, even at relatively high levels of income.*



Sources: U.S. Census Bureau (CPS, ACS); Federal Reserve Survey of Consumer Finances; BLS.

# Conclusions

- The potential usefulness of these data is extremely high.
- In order to mainstream these data, we need to promote the growing international database.
- Since country issues / challenges are different we need to provide avenues for compilers to increase the granularity.
- In order to do this some investment in the underlying statistical infrastructure is needed – although we are starting from a solid foundation.

Thank you for your attention!