OXFAM BRIEFING PAPER OCTOBER 2017

GREAT EXPECTATIONS

Is the IMF turning words into action on inequality?

For decades, the IMF imposed policy conditions on countries which worsened economic inequality. However, today the IMF has an inequality agenda that calls for action to tackle the inequality crisis. What is the IMF doing in practice to operationalize that agenda? The IMF's main initiative has been a series of pilots that integrate inequality analysis into its economic surveillance of countries. Oxfam's evaluation of these pilots finds they are not promoting policies that reduce inequality.

www.oxfam.org

OXFAM

SUMMARY

In recent years, the International Monetary Fund (IMF) has become a global leader in highlighting the inequality crisis; consistently identifying it as a major threat to human progress and prosperity. This is a significant shift from its previously held position that rising inequality was a necessary trade-off for achieving greater economic growth. The IMF has also come to recognize that, over the past 40 years, its structural adjustment programmes and advice have contributed to an increase in the gap between rich and poor in countries all over the world.

The IMF plays a determining role in whether economic inequality will continue to damage societies. Government policy has a major impact on the level of inequality in any society, and the IMF exercises significant influence over the policies of governments, both indirectly through its contribution to economic thought and the state of the global economy, and directly through its advice to countries and the conditions attached to its lending programmes.

The IMF has gone a lot further than simply recognizing that inequality is a problem. With a series of brave and innovative pieces of research, it has challenged many aspects of common economic thinking, linking it to the increasing global divide between rich and poor. Its research has found that growth is harmed by inequality, and that neoliberal policies have contributed to growing inequality. Further, IMF research has found that redistribution need not hurt growth, and can help it; that more economically equal countries are also countries where women and men are more equal; and that stronger trade unions and greater bargaining power for workers are associated with greater equality.

Considering this body of research, and the narrative on inequality that the IMF has developed from it, it is clear that the IMF is serious about tackling inequality. Oxfam has praised the IMF for this new agenda and the seriousness with which it has come to treat inequality.

OPERATIONALIZING INEQUALITY IN SURVEILLANCE

This strong inequality agenda in turn begs the question of how words are being translated into practice and reflected in the IMF's core functions. Indeed, the institution has also moved to try and change the way it does business to incorporate the new focus on economic and gender inequality.

This paper examines the main initiative adopted so far by the IMF to operationalize its inequality agenda:[1] [2] the introduction of inequality in bilateral surveillance through the implementation of several Article IV pilots.[3] Article IVs are the main instrument through which the IMF influences policy making at the country level, performing surveillance and monitoring macroeconomic stability and growth. The pilots integrate inequality into the analysis in different ways: some look at the characteristics of inequality in a country, some focus on its drivers and others include an assessment of the distributional impact of the reforms recommended using a general equilibrium model.

This Oxfam paper examines fifteen Article IV 'inequality pilots'[4] to assess whether the IMF is achieving its self-described goal of providing 'systematic inclusion of inequality in policy advice'[5] and is effectively beginning to operationalize its inequality agenda through these pilots. On the basis of this analysis, Oxfam finds that significant gaps exist between the IMF's rhetoric and research findings on inequality and its actions. Despite some encouraging first steps, the new IMF inequality agenda is still far from being operationalized. This finding concurs with a recent assessment of the IMF's efforts to operationalize inequality authored by Development Finance International and New Rules for Global Finance.[6]

By Oxfam's assessment, in none of the pilots can the analysis be seen to constitute a 'systematic inclusion of inequality in policy discussion'.

Key findings:

- The pilots are focused on structural reforms and include no assessment of the distributional impacts of the core macro-economic targets and policy advice.
- None of the pilots fully explores alternatives to rapid fiscal and monetary tightening, in view of minimizing their impact on poverty and inequality.
- The focus is on compensating losers rather than questioning the structural reforms themselves. When the analysis finds negative distributional impacts of the reform considered, policy recommendations focus on measures to compensate the losers, who are usually those most vulnerable, including poor people, the young, and women. This 'compensatory' approach reinforces and justifies policy decisions already taken, instead of using findings to consider a broader range of policies that are good for reducing poverty and inequality on their own. A truly ambitious and inequality-focused approach would first ask what structural reforms would directly benefit these groups, rather than focus exclusively on mitigating harm done to them by reforms.

Oxfam believes that the Article IV inequality pilots can be the starting point for a systematic and effective inclusion of inequality in policy analysis and design, but there is still a long way to go before the ambition and challenges laid out by the Fund's research findings are being met by a similar step change in the way that it does business. A far more radical overhaul is needed, where the reduction of poverty and inequality is the starting point, and where the poorest and most vulnerable people are the primary beneficiaries of reforms, not the unfortunate losers who must be compensated by means of safety nets. It is also critical that the concern for inequality is reflected in lending programmes' conditionalities.

This paper goes on to lay out a 10-point set of recommendations for the IMF to truly systematically incorporate the fight against inequality into its research and its actions on the ground, within and beyond the Article IVs.

1. **The innovative IMF research programme on inequality must continue.** It should be expanded to new research areas, especially looking at policies that can reduce inequality.
2. **At the country level, the IMF can be much more ambitious in what it does to help countries to reduce inequality.** The starting point should be a comprehensive understanding of the drivers of inequality, of poverty reduction and of inclusive growth in each country. Such an assessment should rely on different methodologies and evidence provided by other institutions and stakeholders, and should be owned by country authorities and citizens.

3. **The IMF should also insist that country authorities set clear targets to reduce inequality**, to be agreed with citizens, as part of their medium-term development plans and in line with their commitments under SDG 10.
4. **IMF advice and programming should include comprehensive ex ante Inequality and Poverty and Social Impact Assessments (IPSIAs) of all major proposed macro-economic targets and structural reforms.** Such analysis should ensure that the chosen pathway to fiscal adjustment and stability minimizes impacts that may worsen inequality.
5. **The IMF's policy advice should proactively promote reforms that put the reduction of poverty and inequality first**, moving beyond identifying negative distributional impacts and suggesting mitigating measures. Policy advice should be open to include a wide range of options, including heterodox options on which IMF research is generating evidence.
6. **The IMF should continue and expand its excellent work in the field of gender inequality**, and seek to create synergies with work on economic inequality.
7. **The IMF, working with other international institutions, should lead a data revolution on inequality**, enabling all countries to produce a full set of distributional national accounts, as recommended by economist Thomas Piketty and others. This will enable a systematic understanding of the distributional impacts of many proposed budget measures and structural reforms.
8. **The inequality agenda should be carried forward into loan programmes and conditions**, including regular monitoring of the impacts on inequality of such programmes.
9. **Citizen engagement in these initiatives is essential.** Further, the actions outlined above should be pursued while systematically integrating civil society, labour unions and women's voices into the analysis and policy and programme discussion.
10. **The IMF should continue to maximize its multilateral and influential position to create global consensus around actions to reduce inequality.** This would include, for example, promoting a global tax agenda to support domestic revenue mobilization and trade in a way that promotes the reduction of inequality, and ending tax havens and tax competition.

The IMF can use Article IVs more effectively to deliver policy advice which goes beyond identifying and minimizing the negative impacts of reforms on inequality. This is not sufficient to achieve what is truly needed, which is proactively promoting policies that will serve to reduce inequality, and certainly not those that will increase it. To this end, we recommend the IMF to:

- Streamline systematic analysis of inequality in Article IV consultations for all countries by 2020. We suggest that Article IVs routinely monitor inequality indicators, and when these surpass a certain threshold, steps are taken to include inequality into policy analysis and advice.
- Establish clear criteria for including inequality in surveillance. We suggest that these include an analysis of key drivers of inequality at country level and the adoption of tools for systematic assessment of the distributional impact of different policies.
- The general equilibrium model adopted in several Article IV pilots can be a valid instrument to achieve this, provided it is used systematically for different types

of policies and in combination with a wider set of methodological tools which allow a disaggregated inequality, poverty and social impact assessment.

- We encourage the use of the model to learn more about the impact of different policies and design interventions which have a positive impact on poverty and inequality in the first place, instead of leading to the use of more compensatory measures later.

This paper also examines policy advice given in the Article IV pilots on four areas that are critical to addressing inequality: taxation, social spending, labour market legislation and gender equality. It finds that there is significant variability in the extent to which the substance of policy advice has shifted to take inequality into account.

Notable progress has been achieved in policy advice on taxation, where there is a shift towards providing advice on direct and more progressive taxes, for instance the elimination of ineffective tax exemptions and incentives. Raising value-added tax (VAT) remains a popular recommendation, and although in several cases this is qualified so as to minimize its regressivity, it is not always clear whether exemptions for basic goods are specified. There are few cases where tax policy advice concerns taxes on wealth and property. Overall, there is still insufficient concern about ensuring that countries increase the progressiveness as well as the efficiency of their tax systems.

Oxfam makes the following recommendations to the IMF on tax policy advice:

- Include in Article IV consultations comprehensive analysis of the distributional impact of recommended tax reforms, including indicators of tax progressivity and equity.
- Continue and reinforce tailored advice to maximize corporate tax revenue, including eliminating exemptions and tax incentives which benefit large corporations and deprive governments of revenues that can be used for progressive public investments.
- Provide advice which focuses more explicitly on direct and progressive taxes and which depends more often on taxing wealth, property and capital gains of the richest than the consumption of the poorest.
- To this end, develop stronger guidelines on progressive Personal Income Tax (PIT) rates and thresholds and more consistent policy advice on Corporate Income Tax (CIT). Ensure VAT policies supporting exemptions or zero ratings for the poorest consumers are effective and implemented.

In the Article IV pilots examined, countries are often recommended to safeguard social spending, but this is often characterized by a tendency to see social spending as a ‘Band-Aid’ to compensate for the negative effects of other measures, and by an unconditional trust in targeting in social protection. Fiscal adjustment is regularly recommended, without a systematic and disaggregated analysis of its impacts on poverty, inequality and social spending. Public health and education are not sufficiently emphasized as critical policy instruments to reduce poverty and inequality, and recommendations do not clearly encourage the building of universal quality systems.

Instead of recommending fiscal tightening with the optional and generic provision of safeguarding social spending, the IMF should turn around its approach and help countries build public budgets which have a positive impact on poverty and inequality.

Oxfam makes the following recommendations to the IMF on policy advice on social spending:

- Establish transparent criteria for determining social spending floors which are consistent with international commitments such as the Sustainable Development Goals (SDGs), the 2001 Abuja Declaration on health spending and the 2015 Incheon Declaration on education spending, as well as nationally set targets to achieve the SDGs. Include local civil society in dialogue to ensure that social spending floors are appropriate and meaningful.
- Turn social floors into outcome-based binding conditions mutually agreed with country authorities and their citizens and implement clearer and more transparent systems for monitoring changes in the composition and levels of social expenditure.
- Ensure that Article IVs recommend universalism in the provision of health and education and give explicit support to policies to build universal social protection. Avoid recommending overly narrow targeting, especially targeting based on means testing,[7] that will exclude the most vulnerable individuals.

On labour markets and legislation, analysis of the Article IV pilots suggests that the IMF is maintaining a conservative stance, which can exacerbate inequality. In six countries, the recommendations focus on reducing the public wage bill with no analysis of the distributional and gender impact of such a measure, which can be considerable given the large number of women employed in the public sector. Recommendations concerning the minimum wage are few, despite minimum wages being a powerful tool against wage and income inequality. For very few countries, the Article IVs examined contain recommendations on the structure of the labour market, and in no cases are recommendations concerned with the protection or the establishment of adequate labour market institutions, including labour and union rights and legislation.

Oxfam makes the following recommendations to the IMF on policy advice on labour markets and legislation:

- Align policy advice with the results of IMF's own research and focus on labour markets and labour legislation as critical determinants of inequality. First and foremost, the IMF needs to stop pushing for labour market deregulation and instead should recommend labour policies that can help in reducing inequality, such as a minimum wage, gender equality in the workplace, protection of workers' rights and collective bargaining. These measures are also important to help prevent countries from engaging in a race to the bottom on wages and labour rights.
- Include in Article IV consultations an analysis of the country's labour share of national income and use this analysis to inform labour market policies, which should aim to create employment opportunities for all. As such, labour policies need to go beyond recommending 'more training for unskilled workers' and focus more on (re)building labour market institutions, empowering the female labour force and supporting workers in the informal sector.

The most impressive advances have been achieved in the area of gender inequality. In recent years, the IMF has adopted several initiatives to mainstream gender in its work. These include several Article IV pilots on gender,[8] which have been run in parallel with Article IV pilots on economic inequality. While these pilots signal a serious commitment to gender analysis, they have so far focused primarily on determinants of female labour force participation[9] and show limited efforts to ensure that macro-economic policy advice is consistent with gender equality.

ActionAid's recent analysis of the Article IV gender pilots shows that the majority of countries that have been asked to increase female participation in the labour force have also been told to start, increase or not deviate from plans on fiscal consolidation. Such advice has not been accompanied by any analysis of the impact of the suggested measures on the country's ability to implement measures supporting female labour force participation, especially public support to care work (e.g. childcare).[10]

Providing gender-friendly policy advice demands a broad analysis of the gender impact of macro-economic policies and a revision of policy advice that is fully consistent with gender equality.

Oxfam makes the following recommendations to the IMF on policy advice on gender inequality:

- Reverse the approach with which it looks at the macro-criticality of gender equality. The IMF needs to focus on the gender impact of its core macro-economic policy advice, and ensure that such advice qualitatively improves (and not only increases) women's terms of incorporation in the economy.
- Ensure that such advice leaves countries with the fiscal space to invest in quality public services such as childcare, care for the elderly and healthcare that better enable women and men to balance work with their caring responsibilities. The IMF should also discontinue policy advice that is shown to have negative impacts on gender equality.
- Ensure that Article IV reviews are carried out in an open and transparent way, with opportunities for women's rights organizations to engage and put forward their analysis and priorities. Oxfam recommends complete mainstreaming of gender analysis in Article IV consultations for all countries by 2020.

1 THE IMF'S INEQUALITY AGENDA: RESEARCH AND RHETORIC

'Excessive inequality is corrosive to growth; it is corrosive to society.'

Christine Lagarde, Managing Director of the IMF[11]

1.1 THE IMF'S MISSION AND ITS GROWING INTEREST IN ECONOMIC INEQUALITY

Within its discourse, the IMF today acknowledges economic inequality as 'macro-critical', meaning that it is essential to its mission. The IMF's mandate aims to ensure the stability of the international monetary system – the system of exchange rates and international payments that enables countries to transact with one another. The institution carries out these functions through surveillance, technical assistance and lending to countries with balance of payments or budget financing problems.

Important factors influencing the change in the IMF's position on inequality include fall-out from the global financial crisis and the ensuing unrest of the Occupy movement and the Arab Spring.[12] However, it was the arrival of Christine Lagarde as Managing Director in 2011 that saw the IMF's position on inequality begin to change dramatically. During the 2013 World Economic Forum, Lagarde declared:

> *'I believe that the economics profession and the policy community have downplayed inequality for too long. Now all of us – including the IMF – have a better understanding that a more equal distribution of income allows for more economic stability, more sustained economic growth, and healthier societies with stronger bonds of cohesion and trust. The research reaffirms this finding.'*[13]

To be sure, the IMF's position on inequality began to shift prior to Lagarde's appointment. However, significant changes have occurred since she joined the organization. In 2012, the IMF clarified its surveillance mandate to include all macro-economic and financial sector issues that bear on global stability. In 2013, its Jobs and Growth Board Paper recognized the need to improve its analysis and policy advice on inequality and income distribution, and to treat these as macro-critical concerns.[14]

1.2 CORE TENETS OF THE IMF'S INEQUALITY AGENDA

Having looked at *why* the IMF has taken an interest in and developed an agenda on inequality, this section looks at the core tenets of this new agenda, and how it is translating into particular policy recommendations.

1 Economic and gender inequalities are bad for growth

Given the IMF's mission, it is not surprising that an early foray into researching inequality focused on its relationship with growth. A major finding of this research is that longer growth spells are 'robustly' related to greater income equality.[15] For example, closing the inequality gaps in Latin America and emerging Asian economies by half would more than double growth spells in those regions. The most recent IMF research finds that there is in fact an 'inequality overhang', whereby any positive relationship between inequality and growth begins to diminish at a net Gini ratio of around 27 percent.[16] To put this in perspective, in 2014 only eight out of 35 OECD countries had Gini coefficients below 27.[17] Among those, the lowest score was 24.6 (Iceland). In other words, for most countries, more inequality means less growth. Looking at the Eurozone, a recent paper found that reducing income inequality could actually accelerate economic growth in the region.[18]

Why is inequality damaging to the kind of sustained growth that reduces poverty? The first IMF paper on growth and inequality sided with the consensus in existing literature that inequality undermines broad access to health and education, and that it stokes political and economic instability which undermines investment.[19] It also points to political economy concerns, especially the influence of the rich in high-inequality countries in steering public policies towards their own interests, even if this involves macro-economic risk.[20]

Under Lagarde, the IMF has also undertaken extensive analyses of the impact that gender inequality has on growth and stability.[21] These findings augment the growing empirical evidence that gender inequalities hurt growth and inhibit economic development. The IMF's work in this area includes a 2016 global review of fiscal policies that promote gender equality and the empowerment of girls and women.[22] Conclusions from these surveys suggest that gender-responsive budgeting practices are growth-enhancing if they tackle key gender-related concerns.

2 Though the drivers of inequality vary across countries, there are certain policies that may increase or reduce it in nearly every context

Annex 1 summarizes the wide range of policy types that the IMF indicates will reduce inequality, and those that drive it higher. Fiscal policy, especially social spending and taxation, feature strongly in the first category. This aligns with Oxfam's argument that these are areas critical to reducing inequality and poverty, though with some differences when it comes to specific policy recommendations. For instance, the IMF routinely recommends the use of value-added tax (VAT) and means-tested safety nets. Oxfam cautions that VAT can worsen inequality if a high proportion of goods consumed by the poor are not excluded. Women are also disproportionately impacted. Means testing is notoriously difficult, and often fails to reach the poorest people. Targeted small-scale schemes are also often barely redistributive, so fail to reduce inequality sufficiently. Although subsidies have downsides, Oxfam finds that there are instances where they still have a role to play for the poorest and in reducing the gap between rich and poor.

Despite these differences, an important conclusion from Oxfam's review of IMF policies is an acknowledgement that social spending and taxation have a significant role to play in reducing inequality and promoting growth.

In terms of monetary and financial policy, the IMF suggests that both advanced and developing countries should strengthen financial access and inclusion, along with efficiency, depth and stability, to reduce income inequality and poverty.[23] Some research also indicates that expansionary monetary policy and liberalization of the financial sector have been bad for equality by largely benefiting the wealthy (Annex 1).

Turning to policies that drive inequality, the IMF's research identifies fiscal consolidation, the decline of organized labour and reduced labour regulations, and financial liberalization as factors contributing to economic inequality in both advanced and developing countries. Also, the decline of unionization in advanced economies is linked to the growth of top income shares, a lower level of redistribution and erosion of minimum wages.[24] The IMF is also looking at the declining share of labour income in developing and advanced economies which, since at least the 1980s, has moved in step with rising income inequality.[25] Critical drivers identified here are integration into global value chains in the case of developing and emerging economies, and financial and value chain integration as well as technological change in advanced economies.

These findings suggest that the IMF is moving away from the so-called 'neoliberal' economic dogma that influenced its policy recommendations and analyses in earlier decades. In fact, IMF staff have acknowledged the failure of two tenets of the neoliberal agenda – the free movement of capital across borders and reductions in the state's capacity to run up debts and fiscal deficits (known as 'austerity').[26] Neither capital liberalization nor austerity has made a discernible contribution to economic growth. Instead, they have contributed significantly to economic inequality. In turn, rising inequality threatens sustainability and the potential for countries to grow. Oxfam argues that these processes have been compounded by high levels of political inequality and the capture of democracy by wealthy interests, which has seen social mobility ossify in countries that once had growing middle classes.[27]

3 Redistributive policies are a legitimate solution to excessive inequality (and do not harm growth)

A widely held assumption among policy makers, economists and even segments of the public is that reducing inequality through redistribution harms growth. Taxes and transfers to strengthen equity, the argument goes, can undermine growth by impairing market efficiency. Challenging this conventional wisdom, the IMF now says: 'We should not jump to the conclusion that a treatment for inequality – redistribution – may be worse for growth than the disease itself.'[28] In fact, the acceptance of a trade-off between equity and efficiency ignores policies that produce both: for instance, taxes on activities where negative costs are paid for by the rich (such as excessive risk taking in the financial sector) and government spending on education that benefits the poor. Moreover, government spending on infrastructure, health, education and social protection enhances both equality and growth. The IMF's upcoming Fiscal Monitor (Autumn 2017) reflects these findings and further investigates how fiscal policy can play a greater role in fostering sustainable and inclusive growth and smoothing the economic cycle.[29]

CONCLUSION

The three tenets of the IMF's research and rhetoric on inequality would imply substantial shifts in the way that the institution carries out its core functions. The following section examines to what extent this is the case by looking at recent bilateral surveillance and in particular Article IV consultations that have been piloted to focus on inequality. An alignment of the IMF's rhetoric and its practice on inequality should be reflected in these pilots, as policy recommendations should be scrutinized to assess their distributional impact, and policies that are found to have a negative impact on inequality should be questioned. We would also expect the IMF to actively promote policies that reduce inequality, as these would help achieve the IMF's goal of supporting growth and stability.

2 WHAT IS THE IMF ACTUALLY DOING TO OPERATIONALIZE ITS INEQUALITY AGENDA?

This section offers a critical exploration of what steps are being taken by the IMF to translate research findings into programmatic action at the country level. The analysis is based on a desk review of IMF staff reports and policy papers, Article IV consultations and Country Selected Issues Papers. It is also informed by insights collected during interviews and conversations held with IMF research staff in March and April 2017. Oxfam is particularly interested in looking for signs that country-level policy advice is evolving to reflect the inequality agenda outlined in the previous section. In particular:

- Section 2.1 considers a number of recent Article IV consultations that the IMF has stated incorporate inequality, to assess how the concern for inequality is being operationalized in surveillance.
- Sections 2.2 to 2.5 examine evidence from both Article IV reports and some secondary evidence emerging from recent studies on the Fund's lending programmes to assess the nature of its policy advice in four areas that are critical to addressing inequality: taxation, social spending, labour rights and gender equality.

2.1 ARTICLE IV CONSULTATIONS AND SURVEILLANCE

The main initiative undertaken by the IMF to operationalize its new-found concern for inequality has been the implementation of a number of pilot Article IV consultations which include some analysis of country drivers of inequality or of the distributional impact of one of the reforms recommended. Article IV consultations are the process through which the IMF carries out its annual surveillance and monitoring at country level, with the purpose of identifying stability and growth risks that demand policy adjustments. The IMF staff visit government offices, the central bank and various stakeholders to gather information for the Article IV report. Once completed, the report is discussed at the IMF's Executive Board and submitted to country authorities. This process is run for all member countries regardless of their income levels. In non-borrowing countries, Article IVs are the main instruments through which the IMF influences policy making. For both borrowing and non-borrowing countries, compliance with Article IV recommendations is often used as an indicator of the quality of policies by the IMF and other international financial institutions.

The Article IV pilots on inequality have been introduced since 2015 by way of implementation of the *2015 Guidance Note for Surveillance under Article IV Consultations,* where inequality is referred to as one of the structural issues which staff 'may wish to include' in Article IV consultations.[30] According to the background note *Fostering Inclusive Growth*, prepared for the July 2017 G20 Summit, 'inequality and gender issues have been systematically included in policy discussions in countries where these issues are seen to be macro-economically relevant', in a total of 18 pilots on inequality completed and a second wave under way in 31 countries.[31]

Oxfam's assessment of the inequality analysis conducted in fifteen Article IV pilots[32] suggests that the IMF's claim that inequality has been systematically included in policy discussion is an overstatement. There is great variability in the type of analysis conducted in the pilots and in the efforts to recommend policies that consider their distributional impacts. It also remains unclear what qualifies inequality as macro-critical for a country and therefore an issue to be dealt with in surveillance. Broadly speaking, the pilots can be divided into two groups: a group of eight pilot countries[33] where the analysis has been conducted using a macro-economic general equilibrium model; and the remaining pilots which include an analysis of characteristics and drivers of inequality and, in some cases, a generic discussion of policy implications or policy recommendations for inclusive growth.

Table 1: Type of inequality analysis in selected Article IV inequality pilots

Country	Type of analysis
Bolivia (Article IV 2015 and 2016)	Drivers of inequality and poverty reduction; impact of the commodity boom and bust on a number of dimensions, including poverty and inequality.
Colombia (Article IV 2015 and 2016)	Tax progressivity; inequality trends and underlying drivers; financial inclusion; inclusive growth.
Denmark (Article IV 2016)	Assessing the general level of inequality.
Ethiopia (Article IV 2015) Fabrizio et al. (2017)	**Simulation analysis:** Financial sector reforms to stimulate private sector's contribution to growth**:** – increase deposit rates – reduce share of credit to the public sector. Compensatory measures: i) increase access to deposits for rural population; ii) increase sectoral labour mobility; iii) expand the cash transfer programme.
Guatemala (Article IV 2016) Fabrizio et al. (2017)	**Simulation analysis:** Increase domestic revenues to finance higher investment/social spending by: – changing the personal income tax structure, or increasing VAT rate from 13% to 16%. Compensatory measures: channel higher revenues to investment spending or cash transfer programme.
Honduras (Article IV 2016) Fabrizio et al. (2017)	**Simulation analysis:** Higher VAT rate plus expansion of cash transfer programme: – increase VAT rate from 15% to 18% – Recurrent public spending cuts (6% of GDP). Compensatory measures: expand the 'Vida Mejor' conditional cash transfer programme.
Korea (Article IV 2015)	Analysis of characteristics and drivers of inequality: role of fiscal policy in reducing inequality and helping the poor.
Kyrgyz Republic (Article IV 2015)	Inclusive growth, differences in poverty levels across regions.
Malawi (Article IV 2015) Fabrizio et al. (2017)	**Simulation analysis: E**nhance productivity and diversification in agriculture by: – reducing subsidized rate of maize fertilizer from 100% to 80% – reducing procurement costs. Compensatory measures: i) introduction of cash transfers to the rural poor; ii) higher spending on agricultural R&D.
Mauritania (Article IV 2016)	Generic discussion of poverty reduction and measures for growth inclusiveness.

Myanmar (Article IV 2016) Fabrizio et al. (2017)	**Simulation analysis:** Enhance financial deepening in the rural sector and expand infrastructure to stimulate private sector activities by: – increasing deposit rates – reducing share of credit to the public sector. Compensatory measures: increase investment spending on infrastructure in rural areas.
Poland (Article IV 2016)	Analysis of characteristics of inequality, with focus on regional inequality.
Republic of Congo (Article IV 2015) Fabrizio et al. (2017)	**Simulation analysis:** Increase revenue to GDP ratio by 2% of GDP per year by: – increasing fuel prices – increasing VAT rate by 5 percentage points. Compensatory measures: increase investment spending by 2% of GDP and increase its efficiency.
Uganda (Article IV 2015) Fabrizio et al. (2017)	**Simulation analysis:** Increase domestic revenues to finance higher investment in infrastructure and human capital by: – increasing the effective rates of PIT, CIT, or VAT Compensatory measures: increase infrastructure investment spending, social transfers and pro-poor spending
United States (Article IV 2016)	Analysis of drivers of the labour share of income, linked to analysis of poverty and inequality.

In none of these pilots can the analysis be seen to constitute a 'systematic inclusion of inequality in policy discussion'.

First, the pilots are focused on structural reforms and include no assessment of the distributional impacts of the core macro-economic targets and policy advice. Concern for inequality should imply adjustment policies that are designed with the aim of minimizing their impacts in worsening inequality and poverty. This should be assessed ex ante and should influence the policy choices made. However, none of the pilots fully explores alternatives to rapid fiscal and monetary tightening, or looks at macro-economic policy options, such as a slower reduction in the deficit or in the headline rate of inflation.[34]

For example, the **Kyrgyz Republic's** Article IV review recommends fiscal consolidation, strengthening of the financial sector and increasing exchange rate flexibility. It also finds that, although the country's Gini coefficient has improved over the past decade, the relative share of income of the lowest quintile of the population has declined, and only one-fifth of those in the poorest quintile receive social benefits. While the Article IV does include a discussion of policies that could help to achieve inclusive growth, it does not specify how these would benefit the poorest quintile of the population, or what the impact of fiscal consolidation on the poorest people would be.

Another serious shortcoming of the pilots is their focus on compensating 'losers' rather than questioning the structural reforms themselves. When the analysis finds negative distributional impacts of the reform considered, policy recommendations focus on measures to compensate the losers, who are usually those most vulnerable including the young, the poor, and women. This 'compensatory' approach reinforces and justifies policy decisions already taken, instead of using findings to consider a broader range of policies which can reduce poverty and inequality on their own. As in the case of Malawi, where cash transfers are recommended to compensate for the negative impact of cuts in farm subsidies, this

approach looks at social transfers as compensatory measures which are put in place for the 'losers' from a reform. A truly ambitious and equality-focused approach would first ask what structural reforms are going to directly benefit these groups, rather than focus exclusively on mitigating harm to them.

Reliance of Article IV pilots on a general equilibrium model

The model employed in the pilot countries is a 'micro-founded general equilibrium model with heterogeneous agents' – i.e. a macro-economic model which enables an ex ante assessment of the impact of reforms, policies and other economic shocks on different agents and sectors of the economy. The model is heavy with assumptions, including that actors maximize utility under constraints with perfect information, that markets clear, and that the time horizon is infinite.[35] 'Micro-founded' means that the relationship between the macro-economic aggregates – and therefore the impact of a policy change – is consistent with and grounded in specific assumptions about the behaviour of economic agents (households and companies). 'Heterogeneous' means that this behaviour (i.e. tastes, preferences and constraints) varies across different types of agent (e.g. rural and urban households, businesses in the formal and the informal sectors). This enables the assumptions to be 'customized' to the economic and policy structure of each country.

This approach constitutes an attempt to build models that are better able to account for the diversity of countries and of economic agents and the differentiated impact that a policy can have on different types of people. Such models allow different channels to be to uncovered through which reforms can affect growth and distribution and identify the potential sources of trade-offs between these two objectives. For example, when used to simulate the impact of increasing energy prices in the Republic of the Congo, the model revealed that higher energy prices would reduce the demand for energy and overall demand, with a negative impact on GDP growth. However, this effect would be offset by increases in economic efficiency following a reallocation of resources away from energy-intensive sectors to less energy-intensive activities. Since it is mostly higher-income households and firms that consume energy, increasing energy prices would be progressive, reducing inequality.

Conversations with IMF researchers suggest that they consider the model to be a tool that can help streamline distributional analysis into surveillance work, being flexible enough to account for each country's structural characteristics. The main constraints that they see are data availability and insufficient levels of expert skills at the country level to adapt and implement the model.

Indeed, the Article IV pilots where the model was used reflect what we would expect a systematic inclusion of inequality in policy discussion to look like. This entails using the model to run an ex-ante analysis of distributional impact of different policy options, and use the results to take an informed decision. For example, in Guatemala the model was used to analyze the growth and distributive impact of raising VAT compared with raising the PIT rate.

However, Oxfam's assessment of the model as used so far in Article IV consultations is that, on its own, it is insufficient to deliver a comprehensive assessment of the impact of policies and economic reforms on inequality and on poverty. If used in the absence of a systematic analysis of country drivers of

inequality and of other tools to understand the distributional impact of policies, it can lead to ineffective or even counter-productive policy recommendations.

There is often a significant temporal and implementation mismatch between the reforms and the solutions proposed, with the former being defined policy interventions and the latter complex transformations which demand time, capacity and political will, and whose realization is therefore uncertain.

For example, for **Ethiopia**, the model is used to assess the impact of financial sector reforms, including an increase in deposit rates and a reduction in the share of credit to the public sector. These measures were found to increase savings and investments and to lead to higher profits and wages in the manufacturing and modern services sectors. However, inequality increases because these benefits do not accrue to the agricultural sector, rural–urban mobility is limited and demand for agricultural inputs declines. The model's necessary oversimplification of the complexity of the Ethiopian economy is translated to the policy recommendations. Compensatory measures are suggested to offset the negative impact on inequality, including increases in access to deposits for the rural population, in rural–urban labour migration and in the country's cash transfer programme. There is a temporal and feasibility mismatch between the financial reform suggested and these measures, which are in fact structural transformations of the economy which imply overcoming major constraints, such as the chronic lack of access to credit for marginal farmers and the absence of a land market. Further, rural–urban migration may in fact increase inequality if it is not accompanied by substantial interventions for small-scale and marginal farmers.

The concluding section of this paper outlines concrete steps that Oxfam believes are necessary for the IMF to achieve a systematic inclusion of inequality in its policy advice and Article IV consultations.

Box 1: The inequality impact of farm subsidies reform in Malawi

Malawi is a landlocked, low-income country where 70 percent of the population live in poverty.[36] In the past few years the country has experienced a severe food and humanitarian crisis following a series of environmental shocks, compounded by a macro-economic crisis. Since 2012, Malawi has been borrowing from the IMF through the Extended Credit Facility (ECF) arrangement, which was renewed for a ninth time in June 2017.

As a condition for the loan's renewal, and together with other donors, the Fund requested a reform of the country's Farm Input Subsidy Programme (FISP). The FISP was launched in 2005/06 with the purpose of achieving food security by increasing food production among small-scale farmers. It had positive effects on food production and household income, but it has been criticized for its poor targeting capacity, its exposure to political capture and its overall inefficiency. Between 2012/12 and 2016/17 its value was cut back from 3 percent to 0.8 percent of GDP and the number of beneficiaries was reduced from 1.5 million to 900,000. Further cuts are recommended by reducing the size of the subsidies and improving the programme's targeting.[37]

The Fund's simulation analysis finds that such measures will improve output and efficiency but will also increase inequality, harming the poorest farmers. By way of compensating for this negative impact, it recommends the introduction of a cash transfer programme for the rural poor and an increase in spending on agricultural research and development (R&D). This approach is problematic because targeted cash transfers are insufficient social protection measures in a country where the majority of the population are living below the poverty line. In Malawi, they can help attenuate the negative impact of the FISP reform, but will not be enough to mitigate the country's poverty and inequality. Further, while a reform of the FISP is necessary, it is irresponsible to initiate this before adequate safety nets exist to cushion the negative impacts on the poorest people. The temporal mismatch between the cutting of FISP subsidies and the expansion of cash transfers could imply destitution and hunger for thousands of people. The cash transfer programme is not a binding condition to obtain the loan, and there are no guarantees that it will be implemented in a timely fashion.

2.2 THE IMF'S ADVICE ON TAX POLICY

Progressive taxation, where corporations and the richest individuals are taxed more in order to redistribute resources in society and ensure the funding of public services, is a key tool for reducing inequality. Evidence of this positive role has been documented in OECD countries[38] and in developing countries alike.[39] The IMF can play a significant role in encouraging and enabling governments to implement progressive taxation systems, including through policy advice and technical assistance.

As seen in section 1, a number of IMF research outputs and official statements in recent years have acknowledged the importance of improved and more progressive taxation systems in addressing inequality, especially for low- and middle-income countries. Evidence suggests that, until 2015, the IMF's policy advice, conditionality and technical assistance were mostly concerned with raising revenues and improving the efficiency of taxation systems, and less with their distributional impact. However, this has begun to shift in recent years.

Recent research[40] examining evidence for five country case studies (Ghana, Senegal, Mozambique, Nicaragua and Peru) for 2000–15 and IMF documentation for all 2013–14 Poverty Reduction and Growth Trust (PRGT) country programmes found that IMF advice and technical assistance in almost all countries have focused on increasing tax collection and efficiency, and less so on improving progressivity. This was reflected in the design of individual taxes and in the absence of systematic monitoring of tax progressivity. This report, however, also highlighted some positive developments, such as the IMF's clear opposition to excessive corporate tax exemptions and to corporate and individual tax avoidance and evasion. This trend seems to be continuing, with the IMF encouraging more strongly and providing more specific guidance on direct taxation. For example, more technical assistance has been provided to help collect more tax from major corporations and to fight base erosion and profit shifting (BEPS) practices.[41]

On VAT, the IMF's position remains ambiguous. On one hand, it has helped some countries to make VAT less regressive,[42] while on the other it has included it as a condition in lending programmes, even in countries where it has been strongly opposed because of its regressive impact. In Egypt, the 2016 Extended Fund

Facility (EFF) loan required an increase in VAT rates, albeit with an exemption on most food items consumed by poor people. However, independent research found that this exemption was insufficient to protect the poorest people from feeling its impact, especially in the context of rising inflation.[43] The IMF responded that VAT was 'a modern and efficient tax, [and] its application can be quickly implemented with less room for "leakages"'.[44]

The Article IV pilots examined in this paper demonstrate progress in providing advice on direct and more progressive taxes, but they still exhibit insufficient concern for ensuring that all countries increase the progressivity as well as the efficiency of their tax systems.

In several countries, recommendations include the elimination of ineffective tax exemptions and incentives, and in some these also concern personal income tax and corporate income tax. Some of the pilots where the general equilibrium model was adopted also assessed their distributional impact (e.g. Guatemala and Uganda). Raising VAT remains a very popular recommendation, but in several countries this is qualified so as to minimize its regressivity. It is not always clear, though, when exemptions for basic goods are specified. There are few cases where tax policy advice concerns taxes on wealth and property. In Colombia, where taxes on wealth and financial transactions exist, their replacement is suggested to improve business competitiveness. Country authorities believe that the personal wealth tax has been an important instrument for achieving more progressivity, but have scheduled elimination of the tax for 2018.

Table 2: IMF tax policy advice in Article IV inequality pilots

Republic of the Congo	Minimize use of reduced VAT rates and of tax exemptions.
Ethiopia	Rationalize use of tax incentives and expenditures and update tax brackets for inflation.
Malawi	Strengthen VAT compliance.
Honduras	IMF congratulates authorities for having increased VAT rate and offset its regressive impact by using revenues for cash transfers. Gradually eliminate excessively high tax exemptions.
Guatemala	Increase the number of brackets and top marginal rate of PIT; smaller increase of the VAT rate; simplify CIT; increase energy taxes. Simulation analysis shows that mobilizing revenue through PIT could prove less distortive and more equitable than through VAT.
Uganda	Authorities congratulate government for removing VAT and tax exemptions in FY2014/15. Simulation analysis shows that increasing the effective VAT rate by strengthening revenue administration efforts can raise revenues more effectively than increasing PIT and CIT.
Myanmar	Modernize the tax policy and legislation framework. Rationalize tax exemptions and investment incentives.
Bolivia	Introducing a progressive PIT or reforming RC-IVA (the complementary VAT regime). Establish rules to deal with transfer pricing practices; ensure transparent and incentive-compatible fiscal regimes for hydrocarbons and mining.
Colombia	Increase VAT rate and base (but reduce VAT on capital goods). Improve existing minimum PIT to reduce loopholes. Simplify exemptions in the corporate profit-based tax system. Reduce personal wealth tax and financial transaction tax.

Korea	Criticism of large difference between PIT rates, CIT rates and rates on capital gains, which facilitate avoidance and income shifting. Replace taxes on property transactions with taxes on ownership.
Mauritania	Staff welcome 2015 increase in VAT on gasoline. Gradual elimination of tax exemptions recommended.
Kyrgyz Republic	Strengthen VAT administration and consider increasing the VAT rate. Raise excise tax rates on alcohol and tobacco; introduce stamps for domestically produced goods. Introduce luxury tax for large real estate transactions. Streamline exemptions and refrain from extending exemptions that are about to expire or granting new ones.
United States	Expand tax credits to low-income households. Comprehensive reform of CIT needed.
Poland	Recommendation to maintain 2011 VAT increase, and to reduce preferential rates and exemptions. Cautious of the fiscal costs associated with planned increase in PIT tax-free allowance. Criticism of tax on bank assets introduced in 2016 and suggestion to replace it with a Financial Activities Tax.
Denmark	Criticism of plan to introduce new freeze on land tax valuations for tax purposes.

Overall, policy advice in the Article IVs examined is geared towards offering countries progressive tax options; but this is done ad hoc, in certain countries more than others, not always informed by distributional analysis, and still focused more on direct than indirect taxes.

Recommendations

- Include in Article IV consultations comprehensive analysis of the distributional impact of recommended tax reforms, including indicators of tax progressivity and equity.
- Continue and reinforce tailored advice to maximize corporate tax revenue, including eliminating exemptions and tax incentives which benefit large corporations and deprive governments of revenues that can used for progressive public investments.
- Provide advice which focuses more explicitly on direct and progressive taxes and which depends more often on taxing wealth, property and capital gains of the richest than the consumption of the poorest.
- To this end, develop stronger guidelines on progressive PIT rates and thresholds and more consistent policy advice on CIT. Ensure VAT policies supporting exemptions or zero ratings for the poorest consumers are effective and implemented.

2.3 THE IMF'S POLICY ADVICE ON SOCIAL SPENDING

Public expenditure in social sectors is the most powerful instrument available to governments to address poverty and inequality and to promote inclusive development. Evidence from the world over shows that, overall, investment in health, education and social protection reduces inequality.[45] Free public health and education services mitigate the impact of skewed income distribution and

redistribute resources by putting 'virtual income' into the pockets of the poorest women and men.[46] They can help reduce gender inequalities by redistributing child and elder care, healthcare and other domestic labour, all of which usually fall on the shoulders of women alone.

Oxfam's *Commitment to Reducing Inequality Index* assesses and ranks countries on the grounds of social spending indicators among others.[47] It finds great variation between countries in terms of how much they allocate to social spending, with many still far from achieving adequate levels and others where social spending fails to be redistributive. It is therefore paramount that international institutions such as the IMF enable and advise countries to implement progressive public spending policies.

The IMF's structural adjustment programmes (SAPs) have been severely criticized for undermining social expenditure in the past, by imposing binding conditions[48] on fiscal balance attached to their programmes. Recently, the institution has argued that it has learned from past mistakes and has rectified its surveillance and lending practices to safeguard essential public spending. This has been operationalized through the specification of non-binding 'indicative targets' or 'quantitative performance criteria' which stipulate social spending floors.[49] In a recent publication,[50] the IMF argued that, thanks to the use of social floors, pro-poor social spending has for the most part been protected in low-income countries involved in lending programmes between 2010 and 2016. According to the paper, fiscal consolidation was requested for only half of the countries, and 90 percent of programmes reviewed included an 'indicative target' concerning social and other priority spending. It also found that IMF programmes over the period 1988–2014 had a positive impact on education spending and no effect on health spending.

However, evidence available to date on social spending floors is still not sufficient to signal a substantial shift in IMF policy priorities towards a clear commitment to prioritize public spending in order to address poverty and inequality. As a first issue, the soundness of the evidence put forward in the IMF paper has been challenged. An independent replication of the regression analysis included in the IMF report based on a modified methodology led to different results. In particular, it found that participation in IMF programmes had no statistically significant effect on education spending, but was associated with a decrease in health spending.[51] Further, several developing countries have undergone repeated budget cuts following the global economic crisis[52] and the commodity price crash. The paper does not capture the impact of this trend, which is likely to have significantly impacted social spending.

Second, the inclusion of social floors in programme agreements does not in itself guarantee their implementation. They are weak instruments to prevent countries from adopting dangerous austerity measures, like those seen in Latin America, South-East Asia and sub-Saharan African in the 1980s and 1990s and more recently in Europe.[53] This is because countries are often confronted with conditions (in the case of loans) or policy advice (in the case of surveillance) that involve potentially conflicting targets: typically, cutting budgets or maintaining fiscal stability while preserving expenditure in critical areas. As the former is a binding condition, it is often prioritized at the expense of the latter. In fact, evidence suggests that, since 2000, social floors have been implemented in only about half of the IMF's programmes, while fiscal conditions have been implemented in the majority of cases.[54]

Finally, social floors are insufficiently ambitious goals. The IMF must give policy advice which unambiguously encourages countries to adopt social spending as their chief weapon against poverty and inequality and for the achievement of the SDGs. Countries should be encouraged to proactively increase social spending to adequately meet needs, not to keep them to a minimum, and this should be a binding condition. Floors should cover all core SDG-related spending beyond social protection, health and education – for example, investment in agriculture, water and irrigation. It is also worrying that there is little clarity on how such floors are established, which criteria they follow and whether they are to be assessed against internationally established targets – for instance, towards the achievement of the SDGs[55] or against the demands of national civil society. Unfortunately, the achievement of social floors in itself is not a guarantee that public expenditure for poor and vulnerable citizens has been safeguarded, let alone increased. For example, the 2016 Article IV for Honduras recommended that the country maintain a social spending floor of 2 percent of GDP (Table 3). However, the SDG spending target for education alone is 4–6 percent of GDP, which illustrates the gross inadequacy of the social spending floor in this case.

Social spending in the Article IV inequality pilots

Oxfam's assessment of the fifteen Article IV pilots highlights the fact that the IMF's policy advice on social spending is still often characterized by a tendency to see it as a 'Band-Aid' to compensate for the negative effects of other measures, and by widespread reliance on targeting in social protection.

Most importantly, it is still recommending fiscal adjustments without a systematic and disaggregated analysis of their impacts on poverty and inequality, and on the country's ability to deliver on social spending. The great majority of the Article IV consultations reviewed recommend a tightening of fiscal policy or greater efforts to maintain medium-term fiscal stability (Table 3). In many countries, it also puts emphasis on the need to safeguard public spending for poverty reduction (Ethiopia), social protection or infrastructure (Republic of Congo, Malawi, Colombia). In some, it recommends an increase in spending in these areas (Myanmar, Korea). However, limited guidance is provided on how to operationalize these recommendations, and this focuses almost exclusively on improving the targeting of transfers and other social programmes.

In many cases, there appears to be an unconditional trust in targeting as the 'magic bullet' that can deliver increased efficiency and lower costs. For example, as described in Box 1, a targeted cash transfer programme is recommended in Malawi to make up for cuts in farm subsidies, with little guarantee that this will be sufficient to compensate for the certain negative impacts on poverty and inequality. In Republic of the Congo, a pro-poor cash transfer programme is recommended to compensate for the introduction of energy subsidy reforms.

This finding is in line with that of the Independent Evaluation Office's report on social protection,[56] which shows that the IMF has mostly supported narrow targeting of social benefits. In this preference for targeting, the Fund diverges from the International Labour Organization (ILO), other UN agencies and even the World Bank, which have been shown to favour universal provision. It is also at odds with the universal health and education targets of the SDG Agenda, and specifically with target 1.3,[57] which the IMF has endorsed.

Another worrying trend to be noted in the pilots is that recommendations concerning spending on health and education are sometimes absent or often generic, while other critical sectors for achieving the SDGs are rarely mentioned. Public health and education are not sufficiently emphasized as critical policy instruments to reduce poverty and inequality, and recommendations do not clearly encourage the building of quality systems for everyone.

Table 3: IMF policy advice on fiscal policy and social expenditure in Article IV inequality pilots

	Fiscal policy recommendations	**Recommendations concerning targeting of social transfers**	**Other recommendations on social expenditure**
Democratic Republic of Congo	Fiscal tightening, but prioritize budget allocation to agriculture and social sectors.	Introduce pro-poor cash transfers to compensate for energy subsidy reforms.	Improve access to healthcare by waiving user fees for the poor.
Ethiopia	Maintain cautious fiscal position but safeguard pro-poor spending.		None
Malawi	Reduce fiscal budget but increase public expenditure in terms of infrastructure and social spending.	Targeted cash transfers complemented by farmers' training are recommended.	Cut farmers' subsidies and compensate with cash transfers.
Honduras	Strong fiscal position following sharp decline in public spending since 2013. Maintain floor of 2% of GDP for social spending.	Keep expanding the *Vida Mejor* targeted cash transfer programme.	Improve efficiency in health and education spending by paying salaries on the grounds of a results-based approach.
Guatemala	No strong concern for the country's fiscal position; recommended increase in both government transfers and public investment.	Increase spending for targeted cash transfers for indigenous girls.	Increase public expenditure on education, childcare and infrastructure.
Uganda	IMF satisfied with country's fiscal position and efforts to increase revenue mobilization.	Support for government's plan to roll out targeted social protection plan.	Indicative target on the pro-poor expenditure floor includes health, education, water and agriculture.
Myanmar	Keep the fiscal deficit in check and build fiscal space by improving domestic revenue mobilization and spending efficiency. Expand and prioritize expenditure on infrastructure and social programmes.		Encourage further spending on health and education.
Bolivia	Adopt a cautious fiscal stance in the face of ample but decreasing fiscal buffer.	Improve design and targeting of social transfers.	Improve quality of public health and education.
Colombia	Mobilize non-oil revenues to meet medium-term fiscal targets while protecting social and infrastructure spending.	Unclear position on expanding social transfers.	Support to government's plan to improve access to quality education and expand coverage of non-contributory pensions in view of improving its equity.

Korea	Low public debt provides room for additional fiscal stimulus and reinforced social safety nets.	Need to build a more comprehensive social safety net.	Adopt public initiatives to increase female labour force participation.
Mauritania	Additional fiscal adjustment recommended, backed by public investment that safeguards poverty reduction expenditure.	Increase targeted social transfers to protect poor citizens from the impact of policy adjustment.	None.
Kyrgyz Republic	Need to rebuild fiscal buffers and a credible medium-term fiscal strategy to achieve sustainable debt levels.	Consolidation of public finances by improving the targeting of social benefits and of subsidies.	None.
United States	Near-term fiscal policy considered appropriate but emphasis on increasing public expenditure in critical areas.		Boost infrastructure spending, reform healthcare and pension systems; expand paid family leave and childcare assistance.
Poland	Start fiscal consolidation as soon as possible to take advantage of the cyclical up-swing and rebuild fiscal space.	Criticism of poor quality fiscal measures to finance the new child benefit programme.	Recommended gradual phase-out of preferential pension regimes for miners and farmers. Support for childcare and early education to improve female labour force participation.
Denmark	IMF is happy with the planned fiscal tightening.	Support to reform introduction of a cap on total benefits per household and using savings for tax cuts for low-income households.	None.

Oxfam's overall assessment is that the adoption of social spending floors is welcome and is a move in the right direction, but that it is not sufficient to guarantee that IMF policy advice and surveillance are safeguarding and prioritizing social spending as a critical tool to tackle poverty and inequality and achieve the SDGs. Instead of recommending fiscal tightening, with the optional and generic provision of safeguarding social spending, the IMF should turn around its approach and help countries build public budgets which have a positive impact on poverty and inequality, and then ensure that these are not detrimental to debt sustainability.

Recommendations

- Establish transparent criteria for determining social spending floors that are consistent with international commitments such as the SDGs, the 2001 Abuja Declaration on health spending and the 2015 Incheon Declaration on education spending, as well as nationally set targets to achieve the SDGs. Include local civil society in dialogue to ensure that social spending floors are appropriate and meaningful.
- Turn social floors into outcome-based binding conditions (the outcome is binding, not the way in which it is achieved) which are agreed with governments and their citizens. Support this process implementing clearer and more

transparent systems in surveillance for monitoring changes in the composition and levels of social expenditure.

- Ensure that Article IVs recommend universalism in the provision of health and education and give explicit support to policies to build universal social protection. Avoid recommending overly narrow targeting, especially targeting based on means testing, that will exclude the most vulnerable.

2.4 THE IMF'S POLICY ADVICE ON WORK AND WAGES AND INEQUALITY

Higher wages for ordinary workers and stronger labour rights, especially for women, are key to reducing inequality. Governments can play a critical role by setting minimum wages and supporting and protecting the right of workers to form and organize trade unions. For the majority of the world's population, wages represent the most important source of income. They are also one of the most important drivers of economic inequality. Over the past 30 years, the share of income going to labour in the form of wages, salaries and benefits has declined, while the share going to capital has increased, and inequality with it.[58] Workers' wages have failed to keep up with economic growth in developed as well as in developing countries, and estimates for 2017 show that close to 43 percent of workers worldwide remain in a situation of vulnerable employment and almost 29 percent in 'working poverty'.[59]

The IMF's research and its narrative have recognized as problematic the decline in the labour share of income in favour of capital,[60] but its policy advice is failing to address this problem. Policy recommendations continue to focus on structural labour market reforms that encompass wage moderation and flexibility, reducing the strength of centralized collective bargaining, reducing employment protection, tightening and rationalizing unemployment benefits and strengthening active labour market policies. A recent review by a UN independent expert[61] examined the human rights implications of austerity-driven labour policies, as promoted by international financial institutions. This research found that these policies have often undermined labour rights and advances in work-related gender equality, and that they have contributed to an increase in insecure and informal employment. Significantly, the research points to a lack of evidence that deregulated labour markets helped European countries to cope with the 2007–11 crisis[62] or that employment protection legislation determines employment levels.[63] Further research has found that, following policy advice given by the IMF and the World Bank, 89 countries implemented austerity-related labour reforms between 2010 and 2015, and 130 countries implemented, or were contemplating, cuts or caps to public sector salaries.[64]

Deregulatory reforms of labour market institutions have been a major focus of IMF programmes and policy advice in European countries in the aftermath of the global economic crisis, despite weak evidence that labour market regulations were ever a significant impediment to growth.[65] After requesting the decentralization of collective bargaining from sector to firm level in Greece in 2011, in July 2017, during negotiation for another loan, the IMF has criticized the government's announcement in July 2017 of its intention to restore sector-level bargaining. In Germany, the IMF criticized the introduction of a minimum wage in 2015, but the country's 2016 Article IV found no evidence of a negative impact on inflation or

employment. Deregulation of labour markets still features prominently in IMF lending programmes in the Middle East and North Africa.[66] This narrow focus of IMF policy research and recommendations on labour markets is especially inadequate considering the increase in precarious working conditions and the exploding numbers of the working poor in advanced and developing countries alike.

The IMF's policy advice has neglected evidence showing that weaker labour market regulations and institutions, reflected in declining trade unions and collective bargaining coverage, are the main drivers of increased inequality in many countries.[67] In fact, it has been forgetful of its own research, which shows that the erosion of labour market institutions in advanced countries may partly explain the increase in inequality and the decline in the labour income share in the period 1980–2010. Significantly, the decline in unionization is associated with the rise of top income shares and with lower levels of redistribution, while the erosion of minimum wages is correlated with increases in inequality.[68]

The IMF's conservative stance on policy advice on labour markets is especially evident in the Article IV pilots that Oxfam has examined. The link between labour markets and inequality is not explored, and no pilot looks at the evolution of the labour share in the country in question. In six countries, the recommendations focus on reducing the public wage bill (Republic of the Congo, Malawi, Myanmar, Honduras, Mauritania and Kyrgyz Republic), with no analysis of the distributional and gender impact of such a measure, which can be considerable given the large number of women employed in the public sector worldwide. In the Republic of the Congo, this is despite the fact that the wage bill is due to increase following the hiring of additional health staff with the purpose of rebalancing geographic inequality in healthcare provision, and in Mauritania despite the fact that public sector wages have contributed to an increase in household savings.

Recommendations concerning the minimum wage are few. A minimum wage is found to have been a major driver of declining inequality in Bolivia, but further wage growth is discouraged to avoid reducing competitiveness. Colombia is also advised to reduce its minimum wage as it is seen as a constraint to formalization and the expansion of the pension system. Only for the United States does the IMF take a clear stance in favour of raising the minimum wage. Here, it is seen as a measure to address the fact that 40 percent of those in poverty are working, despite a low and declining unemployment rate. If an increase in the minimum wage can contribute to inclusive growth in the US economy, it is puzzling and disappointing to observe the Fund's reticence in accepting the possibility that such a measure could play a similarly positive role elsewhere.

For very few countries do the Article IVs examined contain recommendations on the structure of the labour market, and in no cases are recommendations concerned with the protection or the building of adequate labour market institutions.

Table 4: IMF policy advice on labour markets in Article IV pilots

	Recommendations on wages (including the government wage bill)
Republic of the Congo	Minimize growth of wage bill (which is due to increase following the hiring of additional health staff with the purpose of rebalancing geographic inequality in healthcare provision) by moderating increases in wage rates.
Ethiopia	None.
Malawi	Criticism of unplanned overspending on the wage bill, which has contributed to compromised achievement of the fiscal target.
Honduras	Implement structural reforms on the labour market to improve labour mobility across sectors; reform compensation schemes in public education and health aligning them with a results-based approach.
Guatemala	None.
Uganda	None.
Myanmar	An increase in public sector wages identified as a factor contributing to a larger fiscal deficit and an acceleration of inflation.
Bolivia	Acknowledgement of role of minimum wage and wage growth in inequality reduction, but advised to prevent further wage growth so as to improve competitiveness.
Colombia	Minimum wage is too high with respect to average wages and prevents formalization and employment opportunities for youth and unskilled workers (despite recognizing progress in formalization of the economy).
Korea	Staff notes problem of labour market duality and low female labour force participation; it is acknowledged that reforms will require consensus building among stakeholders.
Mauritania	Recognition that public sector wages contribute to increased household savings, but still recommends public sector reform and fiscal consolidation, including a cut in the wage bill.
Kyrgyz Republic	Reduce the wage bill by rationalizing support staff and refraining from ad hoc wage increases. Prepare an action plan for the reform of the public sector wage policy.
United States	Clear stance in favour of raising the minimum wage. Decline in unionization rate is identified as one of the factors driving the fall in labour share of income.
Poland	Wage growth considered healthy as inflation remains low.
Denmark	Unclear – possibly further liberalize the labour market.

Recommendations

- The IMF’s policy advice needs to align with the results of its own research and to focus on labour markets and labour legislation as critical determinants of inequality. First and foremost, it needs to stop pushing for labour market deregulation and instead recommend labour policies that can help in reducing inequality, such as a minimum wage, gender equality in the workplace, protection of workers’ rights and collective bargaining. These measures are also important to help prevent countries engaging in a race to the bottom on labour wages and labour rights.
- Article IV consultations should include an analysis of the country’s labour share of income, and this analysis should inform labour market policies. These should aim to create employment opportunities for all. As such, they need to go beyond recommending ‘more training for unskilled workers’ and focus more on (re)building labour market institutions, empowering the female labour force and supporting workers in the informal sector.

2.5 THE IMF'S POLICY ADVICE AND SURVEILLANCE ON GENDER INEQUALITY

High levels of economic inequality undermine the fight against gender inequality and are a threat to women's rights.[69] By contrast, women's economic empowerment can reduce poverty and support economic growth.[70] The current economic model is failing to close the gap between men and women fast enough. The world over, women are still more likely than men to live in poverty;[71] they earn less than men and are concentrated in the lowest paid and least secure forms of work.[72] At the current rate of progress, it will take 170 years for women and men to be employed at the same rates, to be paid the same for equal work and to have the same levels of seniority.[73]

A structural change is needed in the current economic model, including in the macro-economic policies which support it and which affect women's participation in the economy. Far from being gender-neutral, macro-economic policies reflect social priorities through government spending and taxation, and specify the terms of inclusion in the labour market.

In recent years, the IMF has recognized gender equality as an issue with potential macro-economic relevance[74] and has produced several research outputs demonstrating the growth and broader economic benefits of women's economic empowerment.[75] Recent research has also explored the linkages between income and gender inequality.[76] As well as showing that gender-friendly policies could help countries diversify their economies.[77]

Driven by a strong mandate from the IMF's Managing Director, several initiatives have been adopted in recent years aimed at mainstreaming gender in the IMF's various activities, including surveillance, policy advice and lending. The Fund's work on gender budgeting is moving in this direction, meaning an approach to allocate and manage government expenditure in a way that comprehensively promotes gender equality and empowerment for women and girls. The main contributions by the Fund have consisted of a global review of countries' efforts in gender budgeting and an assessment of their impact on gender equality,[78] and a paper for the G7.[79] Capacity development on gender budgeting at country level has been done in some countries such as Cambodia and Ukraine. Three recent country programmes (Egypt, Jordan and Niger) have included measures for women's empowerment.

These initiatives constitute significant advancements in integrating gender in the work of the IMF and efforts have also been made to incorporate gender analysis in surveillance. This has been done through a number of Article IV pilots[80] which have included an explicit gender analysis, mostly focused on determinants of female labour force participation, but occasionally covering other topics such as gender wage gaps, domestic violence, female infanticide, women's political participation and reproductive health.[81] In fact, ActionAid's review of 124 IMF Article IV reports publicly available in 2016 shows that the Fund has recommended that more than one in five member countries take action to increase female participation in the labour force.[82]

Some of the Article IV pilots on economic inequality also included recommendations for gender-friendly policies. For example, Article IVs for Poland and Korea called for increased support for childcare and early education to improve

female labour force participation; in Guatemala it recommended increased spending for targeted cash transfers for indigenous girls.

However, the Article IV pilots on gender have focused predominantly on drivers of labour force participation. This is problematic because this is not in itself a guarantee of greater economic empowerment for women.[83] Low-wage, poor-quality work without support for unpaid care work responsibilities does not empower women. More generally, while greater gender equality is good for economic growth, economic growth is not necessarily good for gender equality[84] if it does not improve women's terms of incorporation into the economy.

This also means that measures adopted to increase women's participation in economic activity may not lead to more equitable outcomes if they are implemented together with other policies recommended by the IMF, such as fiscal austerity or regressive taxation,[85] that harm women disproportionately. Austerity typically harms women disproportionately because it squeezes the public provision of essential services: when these are not provided, women tend to fill in the gaps with increased unpaid care work.[86] Regressive taxes such as VAT have been shown to have a gendered impact, since women are concentrated in lower-income groups and have different patterns of spending – for example, often bearing responsibility for household expenditures.[87]

In order to support gender equality, the IMF must be consistent and seek to achieve policy coherence across its work. Recent analysis by ActionAid has shown that the IMF's surveillance and policy advice has not yet changed sufficiently to incorporate concern for its gender impact. The ActionAid analysis finds that the majority of the countries that have been asked to increase female labour force participation have also been told to start, increase or not deviate from plans on fiscal consolidation. Such advice has not been accompanied by an analysis of the impact of suggested measures on the country's ability to implement measures supporting female labour force participation, especially those that would require greater investment in service provision.[88]

Providing policy advice which is good for women's economic empowerment demands a broad analysis of the gender impact of macro-economic policies and a revision of policy advice to make it fully consistent with gender equality. This means, among other things, revisiting the principle by which gender is a legitimate area of work for the IMF only when it is considered to be macro-critical. In fact, having established that gender inequality hampers growth, and that macro-economic policies have a differentiated gender impact, gender appears to be clearly relevant for the entire IMF mandate. Future IMF work on gender inequality should ensure that all policy advice is gender-friendly, and in particular revise fiscal policies and fiscal adjustment strategies which can be harmful for women.

As a concluding remark, despite the gaps identified above, the institution has made significant progress in integrating gender inequality into its work. Conversations between IMF staff and Oxfam researchers and the range of projects undertaken by the institution so far demonstrate enthusiasm and commitment on its part, driven by a strong steer from management, including the leadership role played by Christine Lagarde in this area. Notably, this has been achieved despite a lack of previous expertise on gender issues among IMF staff. Oxfam would like to see comparable commitment, allocation of human and financial resources and willingness to overcome constraints in work aimed at mainstreaming economic equality.

Recommendations

- The IMF needs to reverse its approach of looking at gender equality only when it is considered macro-critical. It needs to focus on the gender impact of its core macro-economic policy advice, and ensure that such advice improves (and not only increases) women's terms of incorporation in the economy.
- In particular, it needs to ensure that such advice leaves countries with the fiscal space to invest in quality public services such as childcare, care for the elderly and healthcare that better enable women and men to balance work with their caring responsibilities. It should also discontinue policy advice that is shown to have negative impacts on gender equality.
- The IMF should expand the work done so far on gender budgeting, including encouraging governments to involve women's organizations and civil society in the process.
- It should ensure that Article IV reviews are carried out in an open and transparent way, with opportunities for women's rights organizations to engage and put forward their analysis and priorities. It should complete mainstreaming of gender analysis in Article IV consultations for all countries by 2020.

3 CONCLUDING REMARKS AND RECOMMENDATIONS

While once the IMF infamously promoted irresponsible structural adjustments across continents, with heavy and long-lasting impacts on economies and communities, the institution has now made a strong start in taking the inequality crisis seriously. There has certainly been a marked shift in its research and its rhetoric. In fact, Oxfam feels confident in arguing that the IMF indeed now has an inequality agenda. Its research has been instrumental in challenging accepted economic orthodoxy, and concrete steps have been taken to consider inequality in its activities, starting with pilots in its Article IV surveillance work.

This is an exciting development, and Oxfam appreciates that institutional shifts take time and that a full operationalization of the inequality agenda will require several years to accomplish. Nevertheless, much still needs to happen in the institution before it can comfortably be said that the IMF has fully recognized that the fight against inequality is instrumental to future human progress and the ending of poverty.

In particular, the approach seen so far – of ensuring that its policies do not impact negatively on reducing inequality – is not sufficient to achieve the fundamental shift in practice that is needed if the IMF is to address inequality effectively. This would entail not just offsetting any negative impact, but proactively promoting policies that serve to reduce inequality. Oxfam wants to see the IMF rise to the challenge that it has set for itself by carrying out this agenda.

This paper has assessed the main initiative undertaken so far by the IMF to operationalize this concern for inequality in surveillance, examining in detail fifteen Article IV inequality pilots. Its main finding is that this initiative is a valuable step forward and that it can be the starting point for a systematic and effective inclusion of inequality in policy analysis and design, but that it is still far from constituting a 'systematic inclusion' of inequality in policy discussion.

Oxfam strongly believes that inequality is largely a result of policy decisions. It is not enough to have it featured in a section or a box of an Article IV review. Instead, Oxfam expects inequality to be mainstreamed into IMF analysis and policy recommendations to reflect that analysis. These should draw on IMF research findings on heterodox policy options and provide indications on a policy package that can achieve a more substantial income redistribution. Importantly, the inclusion of inequality in analysis and policy recommendations should also be reflected in IMF's lending conditionalities.

In earlier sections, this paper has provided policy-specific recommendations on taxation, social spending, labour markets and institutions, and gender inequality. **Beyond these, Oxfam recommends the following steps in order to achieve a systematic inclusion of inequality in the IMF's policy advice and Article IVs.**

- Streamline systematic analysis of inequality in Article IV consultations for all countries by 2020. We suggest that Article IVs routinely monitor inequality indicators, and when these surpass a certain threshold, steps are taken to include inequality into policy analysis and advice.

- Establish clear criteria for including inequality in surveillance. We suggest that these include an analysis of key drivers of inequality at country level and the adoption of tools for systematic assessment of the distributional impact of different policies.
- The general equilibrium model adopted in several Article IV pilots can be a valid instrument to achieve this, provided it is used systematically for different types of policies and in combination with a wider set of methodological tools which allow a disaggregated inequality, poverty and social impact assessment.
- We also encourage the use of the model to learn more about the impact of different policies and design interventions which have a positive impact on poverty and inequality in the first place, instead of leading to the use of more compensatory measures later.

However, Article IVs are, and should be, just one part of the IMF's inequality agenda. Its MD Christine Lagarde has been a clear champion on this issue, but it is important that it is institutionalized such that it outlives her leadership and becomes a part of the IMF's ethos. **To this end, Oxfam outlines here a 10-point set of recommendations for the IMF to systematically incorporate the fight against inequality into its research and its actions on the ground.**

1. **The innovative IMF research programme on inequality must continue.** It should be expanded to new research areas, especially looking at policies that can reduce inequality.
2. **At the country level, the IMF can be much more ambitious in what it does to help countries to reduce inequality.** The starting point should be a comprehensive understanding of the drivers of inequality, of poverty reduction and of inclusive growth in each country. Such an assessment should rely on different methodologies and evidence provided by other institutions and stakeholders, and should be owned by country authorities and citizens.
3. **The IMF should also insist that country authorities set clear targets to reduce inequality**, to be agreed with citizens, as part of their medium-term development plans and in line with their commitments under SDG 10.
4. **IMF advice and programming should include comprehensive ex ante Inequality and Poverty and Social Impact Assessments (IPSIAs) of all major proposed macro-economic targets and structural reforms.** Such analysis should ensure that the chosen pathway to fiscal adjustment and stability minimizes impacts that may worsen inequality.
5. **The IMF's policy advice should proactively promote reforms that put the reduction of poverty and inequality first**, moving beyond identifying negative distributional impacts and suggesting mitigating measures. Policy advice should be open to include a wide range of options, including heterodox options on which IMF research is generating evidence.
6. **The IMF should continue and expand its excellent work in the field of gender inequality**, and seek to create synergies with work on economic inequality.
7. **The IMF, working with other international institutions, should lead a data revolution on inequality**, enabling all countries to produce a full set of distributional national accounts, as recommended by economist Thomas Piketty and others. This will enable a systematic understanding of the distributional impacts of many proposed budget measures and structural reforms.

8. **The inequality agenda should be carried forward into loan programmes and conditions**, including regular monitoring of the impacts on inequality of such programmes.
9. **Citizen engagement in these initiatives is essential.** Further, the actions outlined above should be pursued while systematically integrating civil society, labour unions and women's voices into the analysis and policy and programme discussion.
10. **The IMF should continue to maximize its multilateral and influential position to create global consensus around actions to reduce inequality.** This would include, for example, promoting a global tax agenda to support domestic revenue mobilization and trade in a way that promotes the reduction of inequality, and ending tax havens and tax competition.

ANNEX 1: SUMMARY OF RECENT IMF EVIDENCE ON POLICY DRIVERS AND SOLUTIONS TO INEQUALITY

	Advanced countries	**Developing countries**
Policies which reduce inequality		
Social spending		
Improve fiscal sustainability of existing pension systems through increasing statutory retirement ages*	**x**	**x**
Tighten link between contributions and benefits*		**x**
Expand non-contributory means-tested social pensions*		**x**
Expand means-testing of family benefits with stronger link to work*		**x**
Intensify use of active labour market policies (ALMPs) and in-work benefits for social benefit recipients*	**x**	
Develop unemployment savings accounts*	**x**	
Consolidate social assistance programmes and improve targeting*		**x**
Replace general price subsidies with targeted transfers*		**x**
Expand conditional cash transfer programmes as administrative capacity improves*	**x**	**x**
Improve design of public works programmes as a safety net instrument*		**x**
Improve access to education of low-income families*	**x**	**x**
Increase private financing of tertiary education*	**x**	**x**
Maintain access of low-income groups to essential health services*	**x**	
Expand coverage of publicly financed basic health packages*		**x**
Taxation		
Implement progressive PIT rate structures*	**x**	**x**
Relieve low-wage earners from tax or social contributions*	**x**	
Expand coverage of the PIT*		**x**
Reconsider income tax exemptions, based on a critical tax expenditure review*	**x**	**x**
Impose a reasonable PIT exemption threshold*		**x**
Tax different types of capital income in a neutral manner*	**x**	
Develop more effective taxation of multinationals*	**x**	**x**
Automatically exchange information internationally*	**x**	**x**
Utilize better the opportunities for recurrent property taxes*	**x**	**xx**
Examine scope for more effective taxes on inheritances and gifts*	**x**	
Minimize VAT exemptions and special VAT rates*	**x**	**x**
Set a sufficiently high VAT registration threshold for businesses*	**x**	**x**
Use specific excises mainly for purposes other than redistribution*	**x**	**x**
Monetary and financial sector policies		
Four dimensions of financial development can reduce income inequality and poverty: strengthening financial access, efficiency, stability and depth[89]	x	x

Policies which can increase inequality		
Fiscal policy and social spending	**Advanced countries**	**Developing countries**
Fiscal consolidation, but possible to minimize by balancing spending cuts with tax increases, ensuring progressivity and targeting distributional effects. In developing countries fiscal consolidation tends to have a negative impact on inequality in the short term but adverse effects can be reversed in the medium/long term, especially if inflation is reduced*	**x**	x
Better access to education and healthcare and well-targeted social policies can help raise the income share of the poor and the middle class**	**x**	x
Labour market policies		
Reduced labour market regulation and decline of organized labour**	x	x
Evidence based on data from 93 countries between 1970 and 2013 shows that changes in income inequality across a wide range of countries have been driven significantly by changes in the inequality of wages, while the distribution of income between labour and capital has not been a major factor[90]	x	x
The erosion of labour market institutions is associated with the rise of income inequality in advanced economies. In particular, the decline in unionization is related to the rise of top income shares and less redistribution, while the erosion of minimum wages is correlated with considerable increases in overall inequality. There is also some evidence that the broad extension of collective agreements to non-union members is associated with higher inequality, likely owing to higher unemployment[91]	x	
Trade, globalization and technological progress		
Globalization has a small but reinforcing role. Technological progress and the resulting rise in the skill premium is associated with widening income disparities in advanced countries, while financial deepening is associated with rising inequality in EMDCs, suggesting scope for policies that promote financial inclusion.**	**x**	**x**
Technological progress has a greater impact than globalization on inequality. In particular, whereas trade globalization is associated with a reduction in inequality, financial globalization – and foreign direct investment in particular – is associated with an increase[92]	**x**	**x**
Evidence from 18 advanced countries over the period 1982–2002 suggests that technological progress, especially in the information and communications sectors, has had a bigger impact than globalization in terms of reducing the income labour share in unskilled sectors[93]	**x**	
Monetary and financial sector policies		
One dimension of financial development – i.e. financial liberalization, increases inequality[94]	**x**	**x**
On average, capital account liberalization reforms increase inequality and reduce the labour share of income in the short and medium terms (depending on the level of financial development and the occurrence of crisis)[95]	**x**	**x**
Contractionary monetary actions increase income inequality, with effects varying over time, depending on the type of shocks, the state of the business cycle and the share of labour income and redistributive policies[96]	**x**	**x**

* Source: IMF (2014). *Fiscal Policy and Inequality*. IMF Policy Paper, Staff Report, Table 1, p.43.

** Sources: E. Dabla Norris, K. Kochhar, N. Suphaphiphat, F. Ricka and E. Tsounta (2015). *Causes and Consequences of Income Inequality: A Global Perspective*. IMF Discussion Note; and Nunn and White (2016). Figure 1, p.202.

.

NOTES

1 This paper does not assess the IMF's long-term impact on inequality. Accordingly, this paper does not look directly at country programmes or the IMF's lending activities.

2 See, for example: http://www.imf.org/en/news/articles/2017/02/16/vc02162016-response-to-article-the-imf-is-showing-some-hypocrisy-on-inequality

3 Article IV consultations are the IMF's main bilateral surveillance tool.

4 For the following countries: Bolivia, Colombia, Denmark, Ethiopia, Guatemala, Honduras, Korea, Kyrgyz Republic, Malawi, Mauritania, Myanmar, Poland, Democratic Republic of Congo, Uganda, United States.

5 See footnote 31.

6 J.A Ocampo, J.M. Griesgraber ., M. Martin, N. Colin. (2017). *Are the Multilateral Organizations Fighting Inequality?* 2017 Financial Impact Report Executive Summary. Friedrich-Ebert-Stiftung, Development Finance International and New Rules for Global Finance.

7 Means-tested benefit requires that applicants demonstrate that their resources (income or assets) fall below a certain threshold.

8 The list updated at July 2017 included 20 countries: Chile, Costa Rica, Guatemala, Germany, Hungary, India, Italy, Jordan, Mali, Mauritius, Niger, Nigeria, Pakistan, Sweden, Austria, Cabo Verde, Egypt, Iran, Morocco and Poland.

9 BWP (2016). *The IMF and Gender: A Critical Analysis*. The Bretton Woods Project, June 2016. http://www.brettonwoodsproject.org/wp-content/uploads/2016/06/final-gender-briefing-1-for-online-version-7.pdf

10 ActionAid International (2017). *Women as "underutilized assets": A critical review of IMF advice on female labour force participation and fiscal consolidation*.

11 C. Lagarde (2013). *A New Global Economy for a New Generation*. Prepared remarks made at the World Economic Forum (23 January 2013). http://www.imf.org/en/News/Articles/2015/09/28/04/53/sp012313

12 A. Nunn and P. White (2016). *The IMF and a New Global Politics of Inequality*. *Journal of Australian Political Economy*, 78, pp.186–231.

13 C. Lagarde (2013). *A New Global Economy for a New Generation*, op. cit. The research she refers to includes the IMF's own findings that inequality is harmful to long-term growth.

14 IMF (2013). *Jobs and Growth: Analytical and Operational Considerations for the Fund*. https://www.imf.org/external/np/pp/eng/2013/031413.pdf

15 A. Berg and J.D. Ostry (2011). *Inequality and Unsustainable Growth: Two Sides of the Same 28 Coin?* IMF Staff Discussion Note 11/08.Washington: International Monetary Fund.

16 F. Grigoli and A. Robles (2017). *Inequality Overhang*. IMF Working Paper 17/76, International Monetary Fund.

17 OECD data: Income inequality. https://data.oecd.org/inequality/income-inequality.htm

18 IMF (2017). *Euro Area Policies: Selected Issues*. July 2017.

19 Berg and Ostry (2011). Op.cit.

20 N. Galasso and R. Fuentes-Nieva (2014). *Working for the Few: Political capture and economic inequality*. Oxfam Briefing Paper, 20 January 2014. https://oxf.am/2t7Xhc6

21 These include *Women, Work, and Economic Growth: Leveling the Playing Field* (21 September 2016); and *Catalyst for Change: Empowering Women and Tackling Income Inequality* (22 October 2015).

22 J. Stotsky (2016). *Gender Budgeting: Fiscal Context and Current Outcomes*. IMF Working Paper, WP/16/149.

23 Ratna Sahay, Martin Čihák, Papa N'Diaye, Adolfo Barajas, Srobona Mitra, Annette Kyobe, Yen Nian Mooi, and Seyed Reza Yousefi (2015). *Financial Inclusion: Can It Meet Multiple Macroeconomic Goals?* IMF Staff Discussion Note 15/17.

24 F. Jaumotte and C. Osorio Buitron (2015). *Inequality and Labour Market Institutions*. IMF Discussion Note, July 2015.

25 IMF (2017). *Understanding the Downward Trend in Labor Income Shares*. World Economic Outlook 2017. http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017

26 J. Ostry, P. Loungani and D. Furceri (2016). *Neoliberalism Oversold*. *Finance & Development*, June 2016, Vol. 53, No. 2.

27 Galasso and Fuentes-Nieva (2014). Op.cit.

28 Ostry, Berg and Tsangarides (2014). *Redistribution, Inequality and Growth*. Staff Discussion Notes No. 14/02. Washington D.C.: International Monetary Fund.

29 Fiscal Monitor (October 2017 forthcoming). http://www.imf.org/en/Publications/FM/Issues/2017/04/06/fiscal-monitor-april-2017

30 IMF (2015). *Guidance Note for Surveillance under Article IV*. http://www.imf.org/external/np/pp/eng/2015/031915.pdf

31 IMF (2017). Fostering Inclusive Growth. G20 Leaders' Summit, 7–8 July 2017, Hamburg, Germany, p.29. As discussed in section 3.5, pilot Article IV consultations have also been conducted focusing on gender inequality. It is to be noted that different documents indicate different numbers of pilots completed.

32 Different documents report a different list of pilots completed. For the purpose of this paper, Oxfam examined all countries in the 'first wave' of pilots as communicated to it by the IMF in early 2017, together with the countries included in the paper by Fabrizio et al. (2017; op.cit.) for which the general equilibrium model was run, and the United States and Poland because these were flagged as significant examples by IMF staff.

33 Republic of the Congo, Ethiopia, Malawi, Honduras, Guatemala, Uganda, Myanmar. See: S. Fabrizio, D. Furceri, R. Garcia-Verdu, B. G. Li, S V Lizarazo Ruiz, M. Mendes Tavares, F. Narita, A. Peralta-Alva (2017). *Macro-Structural Policies and Income Inequality in Low Income Developing Countries*. IMF Discussion Note SDN/17/01, January 2017. Washington DC: International Monetary Fund. The model was also used in Bolivia.

34 Oxfam (2003). *The IMF and the Millennium Goals: Failing to deliver for low income countries*. Oxfam Briefing Paper 54, September 2003. http://policy-practice.oxfam.org.uk/publications/the-imf-and-the-millennium-development-goals-failing-to-deliver-for-low-income-114624

35 The use of such modelling has been heavily criticized in the past. See, for example, E. Kraev and B. Akolgo (2005). *Assessing Modelling Approaches to the Distributional Effects of Macroeconomic Policy*. *Development Policy Review* Vol. 23, Issue 3; and Bretton Woods Project Observer (2013). *IMF Forecasting Models*.

36 IMF (2017). *Malawi Economic Development Document*. IMF Country Report No. 17/184, July 2017.

37 World Bank (2016). *Malawi Economic Monitor. Emerging Stronger*. October 2016.

38 OECD (2015). *In It Together: Why Less Inequality Benefits All*. OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/9789264235120-en

39 For evidence of the power of taxation to reduce inequality, see the multiple country studies carried out by the Commitment to Equity Institute, available at: http://www.commitmenttoequity.org

40 Development Finance International and New Rules for Global Finance (2017). *Is IMF Tax Policy Progressive?* A report for Oxfam. DOI: 10.21201/2017.0865 http://policy-practice.oxfam.org.uk/publications/is-imf-tax-policy-progressive-620350

41 Global Financial Impact Reports (2017). *2017 Financial Impact Report: International Monetary Fund*. http://globalfinancialimpact.org

42 Ibid.

43 IMF http://www.cesr.org/sites/default/files/IMFresponseEgyptnew IMFdealcomeswithahugepricetagforhuman rights032017_0.pdf

44 Ibid.

45 Evidence for 150 countries between 1970 and 2009. See J.Martinez-Vazquez, B.Moreno-Dodson and V.Vulovic (2012). *The Impact of Tax and Expenditure Policies on Income Distribution: Evidence from a large panel of countries*. International Center for Public Policy Working Paper 12/25.

Evidence for OECD countries: OECD (2015). *In It Together: Why Less Inequality Benefits All*. Op. cit.

Evidence from 13 developing countries: N.Lustig (2015). *The Redistributive Impact of Government Spending on Education and Health: Evidence from Thirteen Developing Countries in the Commitment To Equity Project*. CEQ Working Paper Series, Tulane University.

46 E. Seery (2014). *Working for the Many: Public services fight inequality*. Oxfam. http://oxf.am/RZn

47 M. Lawson and M. Martin (2017). *The Commitment to Reducing Inequality Index: A new global ranking of governments based on what they are doing to tackle the gap between rich and poor*. Development Finance International and Oxfam. July 2017. http://policy-practice.oxfam.org.uk/our-work/inequality/cri-index

48 Binding conditions, or conditionalities, establish targets that a country must achieve in order to receive subsequent loan tranches. A non-binding condition does not impinge on a country's ability to continue borrowing from the IMF or other institutions.

49 IMF (2016). *2016 Handbook of IMF Facilities for Low Income Countries*. International Monetary Fund, Washington, D.C.

50 IMF (2017). *Social Safeguards and Program Design in PRGT and PSI-supported Programs*. http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/06/01/pp042117social-safeguards-and-program-design-in-prgt-and-psi

51 T. Stubbs and A. Kentikelenis (2017). *Targeted Social Safeguards in the Age of Universal Social Protection: the IMF and Health Systems of Low-Income Countries*. Critical Public Health.

52 I. Ortiz, M. Cummins, J. Capaldo, K. Karunanethy (2015). *The Decade of Adjustment: A Review of Austerity Trends 2010–2020 in 187 Countries*. Geneva: International Labour Office. (Extension of

Social Security Series No. 53) International Labour Office Social Protection Department.

53 T. Cavero and K. Poinasamy (2013). *A Cautionary Tale: The true cost of austerity and inequality in Europe*. Oxfam. September 2013. http://policy-practice.oxfam.org.uk/publications/a-cautionary-tale-the-true-cost-of-austerity-and-inequality-in-europe-301384

54 A. Kentikelenis, T.H. Stubbs and L.P. King (2016). *IMF conditionality and development policy space, 1985–2014. Review of International Political Economy*, 2016. http://dx.doi.org/10.1080/09692290.2016.1174953

55 The 2016 *Handbook OF IMF Facilities for Low Income Countries* indicates only that 'definition of what constitutes social or other priority spending should be consistent with the authorities' poverty reduction and growth objectives'. Staff reports of loan programmes reviewed by the author of this paper report the absolute magnitude of the social floor target, but no discussion of how such target had been determined and what criteria had been applied.

56 IEO (2017). *The IMF and Social Protection*, July 2017. IMF. http://www.ieo-imf.org/ieo/pages/EvaluationImages279.aspx

57 Target 1.3: Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.

58 D. Hardoon, S. Ayele and R. Fuentes-Nieva (2016). *An Economy for the 1%: How privilege and power in the economy drive extreme inequality and how this can be stopped*. Oxford: Oxfam International. https://doi.org/10.21201/2016.592643; and IMF (2017). *World Economic Outlook 2017: Gaining Momentum?*

59 ILO (2016) *Global Wage Report 2016/17: Wage Inequality in the Workplace*. International Labour Office – Geneva: ILO, 2016; ILO (2017) *World Employment and Social Outlook – Trends 2017*. International Labour Office – Geneva: ILO, 2017.

60 IMF (2017). *World Economic Outlook 2017: Gaining Momentum?* Op. cit.

61 UN (2016) *Report of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights.* A report for the UN General Assembly. A/HRC/34/57.

62 P. Tridico (2013). *The impact of the economic crisis on EU labour markets: a comparative perspective. International Labour Review*, Vol. 152 No. 2.

63 International Institute for Labour Studies (IILS)/ILO, World of Work Report 2012: Better Jobs for a Better Economy. http://www.ilo.org/global/research/global-reports/world-of-work/WCMS_179453/lang--en/index.htm

64 I. Ortiz, M. Cummins J. Capaldo and K. Karunanethy (2015). *The decade of adjustment: a review of austerity trends 2010–2020 in 187 countries*. Op. cit., pp.12–13. This analysis draws on 616 IMF Article IV reports.

65 ITUC (2013). *Frontlines Report April 2013.* International Trade Union Confederation; and ITUC, CSIIGB (2013). *Involvement of the International Monetary Fund in European Countries*. ITUC Background Paper, February 2013.

66 Global Financial Impact Reports (2017). *2017 Financial Impact Report*: *International Monetary Fund*. http://globalfinancialimpact.org

67 OECD (2011). *Divided We Stand: Why Inequality Keeps Rising*. Paris: OECD.

68 F. Jaumotte and C. Osorio Buitron (2015). *Inequality and Labour Market Institutions.* Op. cit.

69 F. Rhodes (2016). *Women and the 1%: How extreme economic inequality and gender inequality must be tackled together*. Oxfam. 11 April 2016. http://policy-practice.oxfam.org.uk/publications/women-and-the-1-how-extreme-economic-inequality-and-gender-inequality-must-be-t-604855

70 F. Rhodes, A. Parvez and R. Harvey (2017). *An Economy That Works for Women: Achieving women's economic empowerment in an increasingly unequal world*. Oxfam. March 2017. http://policy-practice.oxfam.org.uk/publications/an-economy-that-works-for-women-achieving-womens-economic-empowerment-in-an-inc-620195

71 UN Women (2015). *Summary Report: The Beijing Declaration and Platform For Action Turns 20.* http://www2.unwomen.org/~/media/headquarters/attachments/sections/library/publications/2015/sg report_synthesis-en_web.pdf?v=1&d=20150226T215547

72 UN Women (2015). *Progress of the World's Women: Transforming Economies, Realizing Rights*. http://progress.unwomen.org/en/2015/pdf/UNW_progressreport.pdf

73 World Economic Forum (2016). *Global Gender Gap Report*. http://reports.weforum.org/global-gender-gap-report-2016/progress-over-time/

74 Gender was included in the 2015 *Guidance Note for Surveillance* as one of the structural issues 'staff may wish to consider' when developing surveillance reports.

75 On the economic benefits of higher labour force participation: IMF (2013). *Women, Work and the Economy; Macroeconomic Gains from Gender Equity*. http://www.imf.org/external/pubs/ft/sdn/2013/sdn1310.pdf

76 C. Gonzales, S. Jain-Chandra, K. Kochhar, M. Newiak and T. Zeinullayev (2015). *Catalyst for Change: Empowering Women and Tackling Income Inequality*. IMF Discussion Note.

77 IMF (2016). *Gender Equality and Economic Diversification*. Working Paper No. 16/140

78 See: http://data.imf.org/?sk=AC81946B-43E4-4FF3-84C7-217A6BDE8191

79 IMF (2017). *Gender Budgeting in G7 Countries*. International Monetary Fund.

80 The list updated as at July 2017 included 20 countries: Chile, Costa Rica, Guatemala, Germany, Hungary, India, Italy, Jordan, Mali, Mauritius, Niger, Nigeria, Pakistan, Sweden, Austria, Cabo Verde, Egypt, Iran, Morocco and Poland.

81 BWP (2016). *The IMF and Gender. A Critical Analysis*. Op. cit.

82 ActionAid International (2017). *Women as "underutilized assets": A critical review of IMF advice on female labour force participation and fiscal consolidation*. Op. cit.

83 F. Rhodes, A. Parvez and R. Harvey (2017). An Economy that Works for Women. Op. cit.

84 N. Kabeer and L. Natali (2013). *Gender Equality and Economic Growth: Is there a Win-Win?* IDS Working Paper 417, Brighton: Institute of Development Studies.

85 BWP (2017). *The gender dimensions of the IMF's key fiscal policy advice on resource mobilisation in developing countries.* The Bretton Woods Project, April 2017.

86 *Social Reproduction in the Global Crisis: Rapid Recovery or Long-Lasting Depletion?* in P. Utting, S. Razavi and R. Buchholz, eds. (2012). *The Global Crisis and Transformative Social Change.* United Nations Research Institute for Social Development. London: Palgrave.

87 BWP (2017). *The gender dimensions of the IMF's key fiscal policy advice on resource mobilisation in developing countries.* Op. cit.

88 ActionAid International (2017). Op.cit.

89 S.B Naceur and R.X Zhang (2016). *Financial Development, Inequality and Poverty: Some International Evidence*. IMF Working Paper WP/16/32, February 2016.

90 M. Francese and C. Mulas-Granados (2015). *Functional Income Distribution and Its Role in Explaining Inequality*. IMF Working Paper No. 15/244.

91 F. Jaumotte and C. Osorio Buitron (2015). *Inequality and Labour Market Institutions*. Op. cit.

92 F. Jaumotte, S. Lall and C. Papageorgiou (2008). *Rising Income Inequality: Technology, or Trade and Financial Globalization?* IMF Working Paper WP/08/185.

93 F. Jaumotte and I. Tytell (2007). How Has The Globalization of Labor Affected the Labor Income Share in Advanced Countries? IMF Working Paper 2007.

94 S.B Naceur and R.X Zhang (2016). *Financial Development, Inequality and Poverty*. Op. cit.

95 D. Furceri and P. Loungani (2015). *Capital Account Liberalization and Inequality*. IMF Working Paper WP/15/243.

96 D. Furceri, P. Loungani and A. Zdzienicka (2016). *Impact of Monetary Policy Shocks on Inequality*. IMF Working Paper WP/16/245, December 2016.

© Oxfam International October 2017

This paper was written by Chiara Mariotti, Nick Galasso and Nadia Daar. Oxfam acknowledges the assistance of Max Lawson and Anna Coryndon in its production. It is part of a series of papers written to inform public debate on development and humanitarian policy issues.

For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

This publication is copyright but the text may be used free of charge for the purposes of advocacy, campaigning, education, and research, provided that the source is acknowledged in full. The copyright holder requests that all such use be registered with them for impact assessment purposes. For copying in any other circumstances, or for re-use in other publications, or for translation or adaptation, permission must be secured and a fee may be charged. Email policyandpractice@oxfam.org.uk

The information in this publication is correct at the time of going to press.

Published by Oxfam GB for Oxfam International under ISBN 978-1-78748-087-2 in October 2017. DO: 10.21201/2017.0872
Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

OXFAM

Oxfam is an international confederation of 20 organizations networked together in more than 90 countries, as part of a global movement for change, to build a future free from the injustice of poverty. Please write to any of the agencies for further information, or visit www.oxfam.org

Oxfam America (www.oxfamamerica.org)
Oxfam Australia (www.oxfam.org.au)
Oxfam-in-Belgium (www.oxfamsol.be)
Oxfam Brasil (www.oxfam.org.br)
Oxfam Canada (www.oxfam.ca)
Oxfam France (www.oxfamfrance.org)
Oxfam Germany (www.oxfam.de)
Oxfam GB (www.oxfam.org.uk)
Oxfam Hong Kong (www.oxfam.org.hk)
Oxfam IBIS (Denmark) (www.ibis-global.org)
Oxfam India (www.oxfamindia.org)
Oxfam Intermón (Spain) (www.oxfamintermon.org)
Oxfam Ireland (www.oxfamireland.org)
Oxfam Italy (www.oxfamitalia.org)
Oxfam Japan (www.oxfam.jp)
Oxfam Mexico (www.oxfammexico.org)
Oxfam New Zealand (www.oxfam.org.nz)
Oxfam Novib (Netherlands) (www.oxfamnovib.nl)
Oxfam Québec (www.oxfam.qc.ca)
Oxfam South Africa (www.oxfam.org.za)

www.oxfam.org

OXFAM