

The Raffles Review

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Pro-Poor in Panama, Paraguay and Peru?



SOURCE

An IMF Staff Discussion Note released in June 2015, by Dabla-Norris, Era et al. titled [“Causes and Consequences of Income Inequality: A Global Perspective”](#).

BIG IDEAS

- The income distribution in a country matters for its growth prospects.
- If the income share of the top 20 percent (the rich) increases, then GDP growth actually declines over the medium term, suggesting that the benefits do not trickle down.
- In contrast, an increase in the income share of the bottom 20 percent (the poor) is associated with higher GDP growth. The poor and the middle class are the main engines of growth.
- Reducing inequality – by lifting the incomes of the poor and middle class – is not just morally and politically correct, but it is *good economics*.
- Governments should focus on improving access to education and health care for the poor and middle class, as well as redistributive social policies, to help raise the income share of these groups.

IMPLICATIONS FOR PUBLIC SERVICE

- These findings put public service at the heart of achieving SDG 10 – to reduce inequality within and among countries.
- The poor must now be acknowledged as critical for growth, but they are also the hardest, and most costly, to reach. In other words, ensuring that services reach them isn't likely to be easy or cheap.
- For developing countries, the advice to increase investment in education and health comes in the context of pressure (including from the IMF itself) to reduce and contain costs associated with the size of the public sector, especially the wage bill.
- It is paradoxical to say that developing country governments should deliver more services and at the same time spend less. There is an inherent tension between expanding public services and reducing public service capacity to develop and deliver them.
- However the experience of Latin American countries stands out, where the IMF found notable declines in inequality (although the region remains the most unequal in the world). While the causes for this are contested, [other IMF research](#) cites higher education spending as being the most important contributor, followed by higher FDI and higher tax revenue (through more progressive taxation).

The Raffles Review
aims to ruffle your thinking!

This weekly offering summarises insights on public service matters to challenge assumptions and question the status quo.

•Perhaps most tellingly, Latin America may demonstrate what is possible when there is leadership, vision and political support for the public service to implement redistributive, inequality-reducing policies.