How Global Financial Institutions Impact Inequality

A Workshop to Strengthen Understanding, Assessment & Reporting

Executive Summary

This report summarizes the discussions and resulting recommendations from the June 3-4, 2016 workshop organized by Friedrich-Ebert-Stiftung New York and New Rules for Global Finance to strengthen understanding, assessment and reporting on what impact the global financial rules and rule makers – in the International Monetary Fund (IMF), World Bank, Organization for Economic Cooperation and Development (OECD), United Nations (UN), G20, and Financial Stability Board (FSB) – can have on economic inequalities and the social and political inequalities linked to them. The workshop was structured around two roundtables, one featuring inputs from an academic- and policy-experts' Reflection Group on Inequality, the other featuring presentations from the rule-making international organizations on their approaches to inequality. This was followed by moderated breakout groups looking at how each of the organizations might impact inequality.

The opening roundtable questioned organisers' notion that the problem with strengthening reporting objectives has primarily to do with refining the use of best measures, literature and data and not the implications of more fundamental questions. There was a broad agreement that, as one participant put it, "There is a danger of getting distracted by relatively insignificant questions, when the stories we tell about inequality vary little depending on whether we use Gini or Atkinson or some other measure." Instead, participants emphasized the need for a comprehensive "dashboard" of measures and indicators, since the greater problem is not a lack of tools but a lack of adequate data on matters like the care economy, capital incomes, illicit financial flows, and even basic population data from a number of developing countries.

During the second roundtable, representatives from the international organizations presented a range of research and discussed how it impacts the development of targets and policy mandates. The IMF is exploring how inequality impacts its mandate, notably through research on links between inequality and economic growth and stability. The World Bank approaches inequality indirectly, through its indicators of "shared prosperity" and poverty reduction. The OECD introduced its new framework on inequalities: "Productive Economies, Inclusive Societies" and mentioned its focus on expanding datasets beyond its wealthy member states, to include upper middle-income countries such as Brazil and India. The UN Development System (UNDS) is finalizing inequality indicators for Agenda 2030's Sustainable Development Goal (SDG) 10, but an Inter-Agency Task Force charged with coordinating the UN system's approach underscores the huge task to correct inconsistencies in data that exist across the large number of UN entities. The G20 German Presidency will put inclusive and sustainable growth at the heart of its work program in 2017. Finally, the Financial Stability Board is conducting impact assessments of financial reforms on government spending and has begun to incorporate financial inclusion goals into its work plan.

Observations and recommendations:

- It is necessary to be more clear about the relationship between wealth and income inequality;
- When wealth can buy access, inequality within a country can corrupt the political decision-making process;
- The lack of good data is a more serious stumbling block than a lack of tools to analyze inequality, especially for international inequality;
- The international organizations should do much more to encourage countries to be more transparent about wealth and income data;
- Organizations dominated by the Global North (especially OECD) have historically been lacking in sufficient space for developing countries to have an impact on their decision-making, which points to the need for the UN to create that space;
- There are two main roadblocks to strengthened understanding, assessment and reporting on inequality:
    - a lack of sufficient data to accurately assess inequality, especially international inequality; and
    - political capture, either of the international organizations by the richest and most powerful countries, or of national governments by the richest and most powerful private actors.
- The project should therefore focus explicitly on the relationship between economic and political inequalities, drawing on the fact that the abuse of political rights places clear obligations on states in a human rights framework;

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New Rules for Global Finance

FRIEDRICH EBERT STIFTUNG
NEW YORK OFFICE

How Global Financial Institutions Impact Inequality

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Workshop Report

Introduction

On June 3-4, 2016 the Friedrich-Ebert-Stiftung (FES) New York office and New Rules for Global Finance co-organized a one and one-half day workshop[1] in New York City under Chatham House Rule to strengthen understanding, assessment and reporting on what impact the global financial rules and rule makers – in the International Monetary Fund (IMF), World Bank, Organization for Economic Cooperation and Development (OECD), United Nations (UN), G20, and Financial Stability Board (FSB) – could have on economic inequalities.

FES's and New Rules' respective grounding in the issues of global economic governance is both broad and deep. FES maintains regular working lines in its more than 90 offices and 100 countries around the world on the economics of shared prosperity and inclusion; the New York office of FES has focused much of its work in the last 10 years on helping to shape these debates in and around the United Nations, International Monetary Fund and World Bank. New Rules has worked for over 15 years with all of the major international organizations and coalitions of civil society and Southern voices, analyzing their governance and its impact on their effectiveness. In 2013 and 2014, New Rules in conjunction with a network of experts from NGOs and think tanks, published "Global Financial Governance and Impact Reports",[2] offering informed and critical assessments of the major global entities engaged in international financial rule-making.

The workshop was structured around two roundtables and moderated breakout groups. The first roundtable featured inputs from an academic- and policy-experts' Reflection Group on Inequality, whose participants were asked to discuss best practices for assessing inequality. This was followed by a roundtable on multilateral institutions featuring presentations from participating international organizations on their current approaches to the issue. The breakout groups focused on identifying "transmission mechanisms", the policy areas and institutional processes which could be used to assess the impact of each institution on inequality.

Not including organisers, there were 32 participants, two of whom contributed remotely; they included academic and independent researchers as well as representatives from the secretariats of

[1] See the Appendix for the workshop Programme.

[2] http://www.new-rules.org/what-we-do/global-financial-governance-a-impact-report

international organizations (UN, IMF, World Bank, OECD, FSB, South Centre, G24), trade unions (ITUC, Deutscher Gewerkschaftsbund-DGB), and from a small number of UN Member States and Civil Society Organizations (Oxfam, Center for Economic and Social Rights, Tax Justice Africa, and the High-Level Panel on Illicit Financial Flows in Africa). Of these, 14 were from developing/emerging market economies, and 10 were women. The intent of this diversity was to foster a useful discussion for informing global economic governance debates.

Since the central objective of the workshop was to discuss what sort of framework should be adopted for best reporting on each of the institutions, the organisers proposed the methodology developed previously by New Rules as a starting point. That methodology, developed for creating the impact assessment in New Rules' 2013 report, examined spectrum of transmission mechanisms through which the rule-making entities positively or negatively impact inequality and assigned a set of scores to each. When this report was reviewed by independent analysts and staff from each of the international organizations in 2014, they recommended that future reports focus on inequality as a common standard for evaluating the impact of each organization.

In January 2016 the United Nations embraced a new, 15-year development agenda that makes progress on reducing inequalities within and between countries a key objective, "Sustainable Development Goal (SDG) 10". The significance of this goal has been amplified by the G20 presidencies of China (2015-16) and Germany (2016-17), both of which have explicitly referred to "inclusive growth" as a focus of their G20 presidencies. Moreover, since assignments from the G20 to the OECD, FSB, IMF and World Bank regularly become work streams within those organizations, this is already being reflected in their research, policy advice, and flagship reports.

In the remainder of this report, we summarize the main themes arising from the roundtables and working groups, outline the blocks to understanding and assessing inequality that were discussed, and recommend a two-pronged way forward to strengthen reporting, particularly on the international dimension of inequality.

Roundtable 1: Reflection Group on Inequality

Prior to the workshop, FES and New Rules asked the Reflection Group participants to consider: 1) best ways to measure and analyze economic inequalities, 2) which literature and databases are best for conducting such measurement and analysis, and 3) whether the measures and data recommended are relevant to low- and middle-income countries, or only high-income countries. The opening roundtable immediately threw into question the notion that the problem with strengthening reporting objectives had primarily to do with refining the use of best measures, literature and data and not the implications of more fundamental questions: "What do we mean by inequality?", "Why do we care about it?" and "Given the deficits in data, what can we really know about inequality?". There was a broad agreement that, as one participant put it, "There is a danger of getting distracted by relatively insignificant questions, when the stories we tell about inequality vary little depending on whether we use Gini or Atkinson or some other measure." Instead, participants emphasized the need for a comprehensive "dashboard" of measures and indicators, since the greater problem is not a lack of tools but a lack of adequate data on matters like the care economy, capital incomes, illicit financial flows, and even basic population data from a number of developing countries.

What do we mean by inequality?

Various participants in the Reflection Group posed this and related questions, such as: Are we looking at economic or social inequalities? (The 2030 Agenda's Sustainable Development Goal 10 targets both.) What is the relationship between economic inequalities and the social and political inequalities that arise from them? Are we focusing on relative or absolute inequalities? Inequality within countries or among them? On economic inequalities, are we talking about income, consumption, wealth, or some combination? And what is the relationship between wealth and income inequality? As one participant emphasized, "Wealth distribution is intimately related to and often a major determinant of income distribution, but the relationship is not mechanical and certainly very much contextually defined. It therefore becomes incumbent for us to pose the question of what the purpose of this whole analysis is and to try to address the question about the distribution of wealth and its impacts."

Why do we care about inequality?

Some participants in the Reflection Group made the point that it is clear why we care about poverty, but not why or even if we really care about inequality. Are the reasons primarily ethical, because inequality is a global bad or violates norms of social justice? Some participants raised concerns about the impact that inequality *within* a country can have on the political decision-making process and policy choices, when wealth can buy access, secure political capture and engender social unrest due to the implementation of policies that further increase inequality. Other participants highlighted the impact of inequalities *among* countries, reflected in the 2030 Agenda's Goal 10 to "reduce inequality within and among countries" because of the resulting multiple negative impacts on development, which creates a global bad. One participant even suggested the project should focus explicitly on the relationship between economic and political inequalities, drawing on the fact that the abuse of political rights places clear obligations on states in a human rights framework.

If not for reasons of ethics, do we care about inequality for pragmatic reasons, for example, because high levels of inequality may impact economic growth, create fragile economies or generate spillovers? A researcher from one of the international organizations noted that even though monitoring inequality is not in its core mandate, rising inequality creates threats to economic issues that are part of its mandate. Another participant was surprised by the "high proportion of attention being paid in the discussion to the 'very top' (10%, 1%, .1%) of the income and wealth distributions, which – while worrisome and important – should not crowd out concerns about either 'the bottom ninety' or the 'bottom half'." This researcher pointed out that some research has shown inequality in the bottom half could be a larger drag on growth than inequality in the top half, and disproportionate attention to the very top could lead us to neglect economic and social policy development that could improve economic status in the bottom half.

What can we know about inequality?
As one participant in the Reflection Group put it – "There is no area in economic theory we know as little about as income distribution. What we need is more research and data because otherwise we are dealing with a black box, and we need the international organizations to help open that box and make it transparent." Another, who had taken part in an extensive inter-UN Agency exercise to assess the suitability of available data for tracking progress on the 2030 Agenda, including inequality related goals and targets, pointed out that the big questions, before getting into the finer technical issues of data, include "How do we begin tracking inequality when we don't even have consistent country categories accepted across the different international organizations? And how do we assess the indicators for developing countries when there is no standard definition of what developing countries are?"

How should policies be designed to impact inequality?
Researchers and policy makers acknowledge that poverty reduction and inequality reduction are not the same and that global financial rule makers are still not doing enough to address poverty. The roundtable therefore discussed whether the focus of policies should be on the deprivation of the poorest, or if the reduction of inequalities should be an end in itself. Some participants asked whether the orthodox neoliberal policy responses of the international financial institutions and the neoclassical economics they reflect provide adequate analysis to understand and effective policies to manage inequalities? Or is it time to examine heterodox perspectives as well?

Others asked whether we should be concerned with possible policy levers for redistributing market outcomes, the unequal outcomes produced prior to taxes and transfers. Or should our policies focus on the net inequality produced thereafter? Various participants asked whether we are concerned with the declining labor share of income, or with the impact of fiscal consolidation on inequality. One participant from an international organization noted that while some macroeconomic policies they recommend may have small or limited impacts on growth or economic stability, their impacts on inequality could be much larger and therefore in time could have quite salient negative impacts on growth and stability. Another noted that widespread avoidance of regulating and taxing finance has led to a situation in which "128 countries are now cutting expenditures, with some undertaking excessive contraction, or cutting expenditures below key crisis levels of 2005-2007, which makes it very difficult to have development." Still another participant noted the need to better understand how some countries (e.g. South Korea and Taiwan) were able to generate excellent market distributions that have been sustained over time.

International inequalities and development

One of the questions posed by several participants is whether our focus on inequality is based in a national, regional or global perspective, or attempts to assess all of them simultaneously. One participant noted that in the course of the 2030 Agenda negotiations, the Africa group's proposal for a target to "reduce the wealth gap between developed and developing countries" fell to the wayside. Instead of the group's position that the international financial institutions (IFIs) should make the reduction of international inequalities a part of their mandates, the final agenda goes only so far as recommending the enhancement of representation for developing countries in the IFIs and encouraging ongoing official development assistance to least developed countries (LDCs). As another participant noted, for a half century fully two thirds of income inequality has been international, rather than intra-national, and when people's incomes are determined more by geography than hard work and productivity, the implication for global migration is great, and the task to actually reduce inequalities of all kinds is even greater.

Several participants from the Global South noted that disparities in the amount and kind of data available from countries at different income levels presents a huge obstacle to reducing inequalities between countries. At one end of the data spectrum is abundance: OECD countries have ample microdata, such as that in the LIS data sets[3] that supply much of the harmonized OECD data. Such microdata allows for the degree of granular analysis and exploration of inter-group disparities necessary to fine-tune policies for social impacts. This lies beyond the distributions – and the related policy options to address them – currently attainable for many other countries.

At the other end of the data spectrum is a staggering deficit: one participant, a veteran of the UN Secretariat, indicated shock – upon entering the UN system – at learning the number of sub-Saharan African countries that lacked even a population census, much less income or consumption data. Though improved since the early 2000s when that shock was first registered, the number is now around 30% of sub-Saharan African countries whose populations are uncounted. Participants also discussed another dimension to the data problem, which is that many countries outside the OECD, including some large developing countries with emerging markets, are unwilling to share tax return data. With representatives from international organizations on hand, the discussion touched on their unique position to be able to encourage and press all countries to engage in greater data transparency. Several participants posed this disparity as an issue of justice. Without that, most participants agreed that the resulting

[3] LIS refers to the "Luxembourg Income Study" Center, which has recently been renamed the Stone Center on Socio-Economic Inequality, is a part of the City University of New York (CUNY) Graduate Center; its sister institution is in Luxembourg.

disparities could skew research and policy, and make global goal monitoring difficult or impossible.

Roadblocks

Workshop organisers identified two significant roadblocks to strengthened understanding, assessment and reporting on inequality, especially international inequality. One is a lack of sufficient data to assess inequality. The other concerns both geopolitics and political capture.

On the lack of sufficient and high-quality data, microdata on both the wealthiest and poorest is problematic. At the global level, it is no one's priority or responsibility, and many more resources would be needed to compile it. Data on what happens in low-income and lower-middle-income countries in many cases does not exist, while the wealthy shield the reality of their circumstances by avoiding participation in household surveys. As one participant put it, "Billionaires caught in traffic jams of helicopters above São Paulo are probably not being surveyed". The fact that better data on income has emerged in recent years is tempered by its being confined mainly to middle income households in OECD economies, which further problematizes an international approach to inequality, as the Roundtable I discussion of data gaps between wealthy and poor countries attests. In addition, data is rarely disaggregated into different income sources (e.g. wages vs. capital), even though capital incomes are likely to be a key driver of rising inequality in recent decades. Finally, privacy and secrecy laws in some jurisdictions hinder, or even prevent, collection of data on wealth, underscoring the importance of strengthening data on illicit financial flows, something to which the G20, FSB, IMF and Bank for International Settlements should be devoting resources.

Geopolitics is a major roadblock to meaningfully addressing inequality. The international organizations are governed by the wealthiest and most powerful countries, most of which do not consider it a high priority to reduce either domestic or international inequalities. Several participants mentioned the priority given to poverty alleviation by the international community but wondered if that is merely "lip service" when countries that have ratified global human rights agreements that oblige them to address poverty and inequality then turn around and sign international trade and investment agreements in direct conflict with those obligations.

A number of participants emphasized roadblocks due to political capture, either of the international organizations by the richest and most powerful countries, or of national governments by the richest and most powerful private actors. Several participants expressed concern that such capture has an impact on our information about both domestic and international inequality. One researcher from an international organization working on behalf of developing countries made the point that members of the international Secretariat serving the multilateral system are simply technical experts and that it is the "owners" of the organizations who choose which policies are in-bounds and which, out-of-bounds. According to this perspective, these sorts of choices are not merely preferences for one policy or other, but choices of one kind of economic model over another. “In effect, if your country’s exchange rate and interest rates are disconnected from long-term investment, and you have periodic economic crises, then you are always creating inequality as part of the way you manage your economy.”

This is significant, since the economic model determines what constraints are placed on the private sector in that economy, especially private *corporations*, which are sanctioned and regulated, indeed *created,* by the state. A participant expressed concern that in the multilateral setting, developed countries often act like proxies for the private sector, while developing countries always say the state should be in control, but what is actually at stake in these stances is the role the public sector has in constraining or failing to constrain the actions of corporations, particularly in the area of taxation, which has a huge impact on both domestic and international inequality.

Roundtable 2 and Working Groups on Multilateral Institutions

Following the Roundtable 1 discussion, representatives from the international organizations briefed the meeting on the wide range of research they are currently conducting, and how that research impacts the development of targets and policy mandates to reach those targets. After presentations from each organization, participants received an introduction from meeting organisers on the concept of “transmission mechanisms”, the policy areas and institutional processes through which the various organizations impact inequality. Participants then divided into working groups tasked with identifying the transmission mechanisms for each institution. What follows is a synthesis of both the roundtable discussion and outcomes of the different working groups.

International Monetary Fund

The IMF reports that it has been exploring how inequality impacts its mandate, notably through research on links between inequality and economic growth and stability (e.g. Ostry, Loungani), using Gini as the key indicator of inequality. It has also developed toolkits for countries to analyze policy choices and their impact on domestic inequality. However the IMF does not routinely report on inequality in Board papers or set itself policy goals for the reduction of either domestic or international inequalities.

IMF—Transmission Mechanisms

Recent IMF research on ways to reduce inequality has identified the key potential transmission mechanisms - especially through fiscal policies, labor market policies and financial market development and regulation, and to a lesser extent through external – especially capital account – liberalization, monetary and other structural reform policies. It should be noted for future policy development that Article I of the IMF’s Articles of Agreement mandates – as an expected outcome of the expansion and balanced growth of trade – the “promotion and maintenance of high levels of employment and real income”. There is also an emerging transmission mechanism, now that the IMF is assessing gender-related policy issues in developing countries, including gender budgeting and female inequality in the labor force. Particular attention should be paid to whether the IMF's policies and research are comprehensively and systematically translated into anti-inequality policy advice and technical assistance. The importance of its "advice" and technical assistance should be emphasized because of its "good house-keeping" seal of approval, which facilitates other lending and grants.

World Bank

The World Bank is producing a wide range of high quality research related to poverty and inequality, utilizing multiple indicators (Gini, Palma, human opportunity, "shared prosperity", poverty reduction) in its publications, although so far the Bank has limited its targets to the last two. Echoing the discussion on data from the morning roundtable, Bank representatives acknowledged that their constraints came "not from a lack of tools, but from a lack of data." Several participants questioned whether the Bank's dual "shared prosperity/poverty reduction" approach was adequate for reducing inequality, since there is no methodology explicitly relating it to inequality. Representatives from the Bank agreed that the Bank should continue to monitor additional indicators such as Gini and Palma.

World Bank—Transmission Mechanisms

The World Bank has an extremely broad mandate. It is crucial to hold it accountable for delivery on fighting inequality, by monitoring progress on indicators such as Gini and Palma, and to evaluate whether its focus on shared prosperity is achieving this broader goal, as well as encouraging it to work on inequality of wealth. It will also be vital to analyze exactly how its targets are being turned into systematic anti-inequality policy advice, technical assistance and research. Transmission mechanisms to look at should include those included in the 2014 report - overall Bank country assessment tools such as the Country Policy and Institutional Assessment (CPIA) and Doing Business Report, fiscal policy on tax and spending (including new more inclusive social protection policies), operations for private sector support (which currently take little account of inequality), and labor issues. Other issues could include the new agriculture policy and the impact of infrastructure projects (now 40% of the Bank's budget) on inequality.

Organization for Economic Cooperation and Development

During our workshop, the OECD was holding its annual Forum on the new OECD framework on inequalities: "Productive Economies, Inclusive Societies". The OECD currently produces a large amount of research on the impact of tax, social spending and labour policies on income inequality, covering its own member states, but increasingly expanding to include middle-income countries such as Brazil and India. OECD's representative mentioned the OECD Council's initiative to make data available for free online as a public good, but participants thought it could still do more to help collect and organize wealth data. The OECD also plays two other important roles in influencing global debates on inequality: as an international standard setter on tax issues, and through its work on development assistance and OECD member state development policies. Several participants (especially from developing countries) expressed their preference for UN leadership and criticized the OECD, in its role as a tax standard setter, for providing insufficient space for non-OECD countries and groupings. Recently the OECD has attempted to respond to such criticism, such as with its Inclusive Framework on Base Erosion and Profit Shifting, which was adopted in late June 2016, and is supposed to bring interested countries[4] together on an equal footing in the OECD's Committee on Fiscal Affairs' decision-making and technical working groups.

OECD—Transmission Mechanisms

The OECD is a research and standard setting institution, operating largely through peer pressure and review. Its work covers a very broad range of areas, including most prominently social spending, tax and labor, and it could be assessed for the anti-inequality content and impact on member policies of this work Analysis should place special emphasis on where its activities are now impacting more directly on non-member countries (especially through the Global Forum on tax, and various technical assistance/information exchange programs which involve over 100 countries). The OECD Development Assistance Committee also has a major influence on policies for the bilateral aid programs of its member countries, and should be assessed for the degree to which it is encouraging them to put inequality at the core of country strategies for the SDGs.

United Nations Development System (UNDS)

The UNDSis currently finalizing its inequality indicators for Sustainable Development Goal (SDG) 10, to "reduce inequality within and among countries". It has already agreed on using a "shared prosperity" target similar to the World Bank's, and debate continues on additional targets such as Gini, Palma and wealth-related indicators. Following agreement on these indicators, the challenge will be to transform them into goals and targets for the multiplicity of UN bodies and agencies, each with different mandates. This session also discussed the huge task of the Inter-Agency Task Force charged with coordinating the UN system's approach to monitoring Agenda 203, in improving and harmonising data across the various UN entities.

UNDS—Transmission Mechanisms

The UN, is a norm-setting and service-providing set of Agencies, Funds and Programmes, and importantly provides a key forum for expressing the views of emerging market economies and developing economies on inequality issues. Its mandate is virtually all-encompassing under the SDGs (though some tasks such as financial regulation or fiscal policy have been assigned to other global bodies such as the FSB and IMF). It will be essential to assess the degree to which the UN has a coherent results framework across all agencies for delivering on reducing

[4] 85 countries are participating as of mid-July 2016, 39 of which are new BEPS members; the list is available at http://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf

inequality, and a strong monitoring and reporting process on the inequality elements of Agenda 2030. One suggestion made was for the appointment of an independent "rapporteur on inequality" by the Secretary General, to ensure system-wide focus on fighting inequality. However, it will also be vital to analyze key agencies and their impact on key policy areas (for example ILO and labor, sectoral agencies and sectoral policy/spending, agencies such as UN Women and UNICEF for their focus on inequality and women/children, and the UN Tax Committee on tax).

G20

Since the 2008 financial crisis the G20 has had "inclusive growth" in its communiqués every year. Inclusive and sustainable growth will also be at the heart of the German G20 presidency. Its research and measurement operates indirectly via the other organizations, which it tasks regularly to report on various issues. However, its commitment to reducing inequality has been highly variable, depending on political views of each presidency: in more positive years, it has focused on issues such as social protection, financial inclusion, or combating tax evasion, while in others there has been no research or detailed discussion of inequality issues; and it has never set targets for inclusive growth in its own self-assessment frameworks.

G20—Transmission Mechanisms

Both China and Germany have committed to using the Agenda 2030 as the organizing framework for their presidencies, and established a framework for assessing G20 performance which is closely tied to the SDGs. It is therefore time to hold the G20 to account for delivering inclusive growth, by assessing the degree to which this framework reports on progress in reducing inequality. The G20's influence is in global agenda setting, so the precise transmission mechanisms will depend on what it tasks the other organizations to do. Infrastructure, global tax reform and financial inclusion look likely to stay at the forefront of its work, but it should also be assessed in other areas it ought to be covering, such as social protection and social spending, and labour and employment policies.

Financial Stability Board (FSB)

The Financial Stability Board is not measuring and analyzing inequality data, but its impact assessments of financial reforms have included assessments of the impact on government spending (e.g. taxpayer funded bailouts). Independent research has shown that financial instability can increase inequality, inequality can increase the risk of financial instability, and excessive remuneration in the financial sector can exacerbate inequality. The FSB and several Standard Setting Bodies[5] have conducted a growing amount of work on the relationship between financial inclusion and regulation, notably on payment systems, microfinance, deposit insurance,

[5] For example: the International Organization of Securities Commissions (IOSCO), Basle Committee on Banking Supervision (BCBS), and International Accounting Standards Body (IASB).

micro-insurance and micro-transactions in equity investment, but more work is needed to understand the relationship between these goals and inequality.

FSB—Transmission Mechanisms

While reducing inequality is not explicitly within the mandate of the FSB, participants agreed that financial crises have significant consequences for economic inequality, through bank bailouts; destruction of middle-class wealth (in real estate or stock or pensions); and increased debt levels and unemployment. Therefore a vital transmission mechanism is preventing financial crises and ensuring they are managed in ways which reduce inequality. Speculative financial investments generally increase returns for the wealthy, so a second key transmission mechanism is reducing speculative activity. A third transmission channel was the ongoing work, coordinated by the FSB, to reduce the risk of financial misconduct.

A second set of issues concern regulation for inclusive financial development. This includes positive regulation to encourage products and institutions that serve the needs of the poor and middle classes, such as micro-insurance, which benefits micro-/small-/medium-enterprises and women-run enterprises; as well as avoiding the potential negative impact of "de-risking" on financial flows to developing countries. These would constitute two further transmission mechanisms. Another potential mechanism relates to the role of the FSB in monitoring and formalizing global financial flows to improve their regulation, through its work on shadow banking and the Global Legal Entity Identifier System (GLEIS). This could have potential broader "global public good" benefits in terms of helping to track illicit financial flows.

Finally, participants discussed academic research data showing that large increases in income inequality have preceded major financial crises (1929 and 2008). Participants expressed concern that high levels of inequality are linked to political decision making on financial regulation (where the wealthy support deregulation of sectors that generate, and preserve, their wealth).

Recommendations

The workshop has suggested to the organisers two sets of conclusions and recommendations, around the production of the New Rules report due in 2017 and toward shaping the broader debates on inequality.

1) New Rules Report
    - The workshop discussed a wealth of data and analysis which make it possible for the various institutions to be held accountable for their impact on inequality, and reaffirmed strong support from the institutions and independent analysts for production of the New Rules report. The organisers will therefore continue with plans to produce this report by April 2017.

- It also demonstrated the key value-added which can be gained from more input by policy-connected academic thinkers (especially on measurement and analysis of inequality) and representatives of the IFIs. New Rules will therefore assign the writing of a chapter on inequality to an independent academic, and ask the institutions to nominate "focal points" to write sections on their institutions' mandates and transmission mechanisms, as well as to comment on report drafts, and keep organisers fully informed of latest research/data/policies.
- The workshop endorsed many of the transmission mechanisms used in the 2014 report, but also made major progress on identifying potential additional mechanisms, especially for the OECD and the United Nations. However, more work is needed to finalise these, and New Rules and FES will convene a half-day meeting in Washington DC on October 5, 2016 to focus on achieving this as well as reinforcing the involvement of the IFIs.
- Major progress was also made in linking the FSB's work to inequality. However, given that this is such an innovative area, and that other stakeholders (Southern policymakers and CSOs, members of the CSO G20 finance group) need to be consulted, more detailed discussion is needed before transmission and measurement mechanisms can be finalized. It is intended that this discussion should take place in Berlin back to back with meetings being organized by German and global CSOs to discuss G20 finance-related issues in the context of the German G20 Presidency.

2) FES: Shaping Debates on Inequality
   - At the same time that it is important to press forward with initiatives such as the New Rules' driven report to hold the IFIs accountable for their role in tackling inequalities, it is equally urgent that we take the initiative to further shape debates on inequality so that they better address complex and poorly understood issues like the relationship between wealth and income inequality.
   - Discussions from the workshop also made clear that the lack of adequate data – on the care economy, capital incomes, illicit financial flows and even basic population data from some developing countries – represents a serious roadblock to understanding both how inequalities are transmitted and how we can reverse them, especially internationally. Solving this problem should become a first-priority of international development cooperation and must be made an issue in that policy space.
   - Political capture – of the IFIs by the richest and most powerful countries as well as of national governments by the richest and most powerful private actors – was raised by a number of participants as a serious roadblock to addressing the issue in a meaningful way. Since some also denounced the capture of intellectual space for researching and debating inequalities, these spaces should be a central focus of initiatives to shape further debates.
   - Since recent work on international inequality suggests that even progress on domestic inequality within each country may not necessarily translate into a reduction of inequality

between countries, it is imperative to place much more emphasis on understanding what sort of economic systems and economic arrangements produce low market rates of inequality, even as we recommend policies for redistribution in those that produce higher rates of inequality.

- Toward addressing the need to better shape the debate across the spectrum of academic, policy and popular discourses, FES will focus its efforts in the coming months on commissioning a variety of papers aiming at different audiences to address each of the issues raised in bullet points above.

Appendix

Programme (without participant names)

<table>
<tr><th colspan="2">Friday, June 3 | 8:45 am – 6:00 pm</th></tr>
<tr><td>9:15–9:30:</td><td>Welcome and Overview:

Partner organizations behind the workshop introduce the objectives of the workshop and Reflection Group on Inequality and preview the workshop program.</td></tr>
<tr><td colspan="2">Session I:
To Strengthen Understanding, Assessing and Reporting on Economic Inequality</td></tr>
<tr><td>9:30–11:15:</td><td>Roundtable I: Reflection Group on Inequality features presentations from academics and policy experts. An open discussion follows, in which all participants are invited to make interventions. Guiding questions are below.

1. What do you recommend as the best way(s) to measure and analyze economic inequality (income, consumption, wealth) and why?
2. What literature, databases and other tools would you suggest as necessary or best in order to conduct such measurement and analysis?
3. To what degree are these recommendations relevant to the assessment of Low Income Countries (LICS) or Middle Income Countries (MICS)?
Open Discussion

Closing Remarks</td></tr>
<tr><td>11:30–1:00:</td><td>Roundtable II: Multilateral Institutions features representatives from international institutions and independent experts on the G20. An open discussion follows, in which all participants are invited to make interventions. Guiding questions are below.

1. How does the institution determine which policies and activities impact inequality? Does this lead to change in policy or activities?
2. What are the key indicators, databases, and tools your institution uses to measure and analyze inequality?
3. Are there examples or lessons learned that can be shared?
Open Discussion

Closing Remarks</td></tr>
<tr><td colspan="2">Session II:
Working Groups on the Role of Specific Institutions’ Influence on Inequality</td></tr>
<tr><td>2:00–2:30:</td><td>Presentation on “Transmission Mechanisms”</td></tr>
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	This session will open with a presentation on *transmission mechanisms* as a proposed analytical framework to assess the impact of global financial rule-making institutions, followed by a short Q & A.
2:30–2:45:	**Review objectives of working groups: questions and clarifications** Participants will be organized into 5 working groups (each focused on a separate institution), to deliberate on *how* each institution impacts economic inequality. Before separating into breakout rooms, we will review the precise objectives of the working groups – namely, identifying the key ways in which each of the respective institutions can impact inequality.
2:45–3:45:	**Working Groups** Working groups will meet for one hour. Each group has two co-Chairs to lead the discussion and a rapporteur from the organizers. **Agenda for each working group**: 1. Discuss and document the key ways (e.g. activities, policy spaces, research, technical assistance, secondary influences) in which the institution impacts inequality, either directly or indirectly. 2. Identify the key "transmission mechanisms" or other ways in which the institution impacts inequality. 3. Break down one of these methods, or transmission mechanisms, into its components.
4:15–5:15:	**Working Group Reports & Feedback** Following the breakout group session, participants will reconvene to discuss conclusions of the working groups. Each working group will have an opportunity to present its findings (5-min), followed by an open discussion to offer suggestions and critiques, as well as to identify cross-cutting issues. During this discussion, participants are also encouraged to provide feedback on the overall analytical approach. How can the proposed "transmission mechanisms" framework be enhanced? Or would a different approach be better, and if so, what form should the new approach take?
5:15–5:30:	**Wrap-up & Preparations for Next Day's Agenda** Heads of the partner organizations behind the workshop offer closing remarks and preview the final session on the agenda, which takes place on Saturday.
Saturday, June 4 | 9:45 am – 1:30 pm	
10:00–11:00:	**Financial System, Regulation & Inequality** The session opens with a brief recap of the previous day's key points, followed by discussion of the financial system, financial sector regulation, and their possible impacts on inequality. In this discussion, in line with the working groups on institutions, we look at the Financial Stability Board (FSB) and standard-setting bodies (SSBs), such as the Basel Committee on Banking Supervision (BCBS), International

	Accounting Standards Board (IASB) and International Organization of Securities Commissions (IOSCO). The context of this session is that every year, the UN ECOSOC holds a Special high-level meeting with the World Bank, IMF, WTO and UNCTAD in the context of Financing for Development. These are meetings in which the Financial Stability Board (FSB) has never been formally included. However, in order to evaluate the role international financial regulation has on inequality related goals in the 2030 Agenda, the roles of FBS and SSB must be better understood.
Session III: **Building the Framework to Assess Global Financial Institutions' Impact on Inequality**	
11:15–12:45:	**Roundtable: Strengthening the Analytical Framework** The purpose of this workshop is to deepen analysis and strengthen the methodology for assessing and reporting on how international institutions impact economic inequality. Drawing on Session I (how to measure inequality) and Session II (ways in which these institutions can impact inequality), this final session will focus on putting together perspectives from all the working group outcomes toward building an analytical framework for reporting back to the various institutions covered.
1:00–1:30:	**Working lunch and wrap up** Concluding remarks and next steps. Following the conclusion of the workshop, organizers will prepare a summary report and synthesis of input.