Jens Weidmann: Welcome remarks

Speech by Dr Jens Weidmann, President of the Deutsche Bundesbank and Chairman of the Board of Directors of the Bank for International Settlements, at the SAFE/CFS/Deutsche Bundesbank lecture on "Making inclusive growth a reality" by Tharman Shanmugaratnam, Frankfurt am Main, 5 December 2017.

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1. Introduction

Dear Tharman

Dear President Wolff

Dear Otmar

Ladies and gentlemen

I wish you a warm welcome to today's lecture on "Making inclusive growth a reality", which is organised jointly by the Center for Financial Studies (CFS), the Research Center SAFE and the Deutsche Bundesbank.

How to achieve inclusive growth featured prominently on this year's G20 agenda of "Shaping an interconnected world". With that in mind, I am especially delighted to welcome Tharman, Deputy Prime Minister of Singapore, to speak on this issue today. Singapore was one of Germany's guest countries during the 2017 G20 presidency, and Tharman has first-hand information on the topic of inclusive growth, having been one of the protagonists of this year's G20 meetings in Baden-Baden, Washington and Hamburg.

In addition to his duties as Deputy Prime Minister, Tharman serves as Coordinating Minister for Economic and Social Policies in the Singapore Cabinet and is Chairman of the Monetary Authority of Singapore (MAS), Singapore's central bank and financial regulator.

He also chairs the Group of Thirty, a consultative group on international economic and monetary affairs that seeks to deepen understanding of international economic and financial issues. Tharman previously headed the International Monetary and Financial Committee, the key policy forum of the IMF, where he was the first Asian chair.

Furthermore, he is Chairman of the G20 Eminent Persons Group on Global Financial Governance, a role to which he was appointed by the G20 finance ministers and central bank governors in April 2017 to recommend reforms to the system of multilateral financial institutions. It was in this capacity that he led the first Eminent Persons Group Symposium with international organisations, academics and renowned experts yesterday and today at the Bundesbank premises here in Frankfurt.

His broad set of national responsibilities and his wide-ranging experience on global issues put him in an excellent position to speak on the topic of today's lecture.

2. Inclusive growth

According to an IMF note prepared for and presented to the leaders at the G20 Hamburg summit in July this year, "inclusive growth is a priority that resonates globally today". And, in contrast to some of the other topics discussed at the Hamburg summit, the G20 member states were unanimous in supporting the objective of inclusive growth.

So what does inclusiveness mean with respect to growth? Let's start by breaking the term “inclusive growth” down into its two components: “inclusive” means sharing the benefits of growth amongst all, and “growth” can be simply stated in economic terms as a long-term increase in real GDP.

Thus, we are talking about economic prosperity for the benefit of everyone. Put this way, it becomes obvious that inclusive growth is not a recent invention but rather an economic goal that is just common sense. After all, back in 1957, Ludwig Erhard, the former German Minister for Economic Affairs and later Chancellor, entitled his book on the German Social Market Economy "Wohlstand für Alle", which translates as “prosperity for all".

Although the invisible hand at work in a market economy leads to an efficient allocation of resources, it is now widely accepted that the market mechanism on its own creates winners and losers. While technological change generally leads to an increase in production capacities, it affects workers with different capabilities in different ways.

Obviously, a far-reaching redistribution would hamper incentives. Excessive public expenditure — or speaking more generally – excessive redistribution through the tax system might harm the potential for sustained growth because entrepreneurs and workers become discouraged.

On the other hand, "excessive inequality is not conducive to sustainable growth" either, as Christine Lagarde rightly stated.[1] Excessive inequality can harm growth because it dampens the prospect for a significant part of the population of ever participating in the country’s prosperity.

And so it is a matter of course that in most countries, the public sector shares in individuals’ income to a certain degree by imposing taxes, with the majority of these countries imposing progressive taxes. This enables the public sector to supply public goods. Achieving social cohesion by means of social security transfers, building human capital by subsidising education, and promoting the labour market participation of women, the long-term unemployed and low-skilled workers – all of these things can boost not only inclusion, but growth as well.

Bearing this in mind, it is important to find the right calibration of growth policies.

The public debate on inclusive growth policies often takes the development of economic inequality over recent decades as a starting point. Rising inequality is seen as a major challenge around the world.[2]

However, the perception of steadily rising inequality depends strongly on the indicator used. When you look at the Gini coefficient of net income, for example, which is a commonly used measure of inequality, inequality across countries has decreased over the last two decades. Within countries, however, we see a mixed picture of higher Gini coefficients since the 1990s in some advanced and emerging countries, yet lower coefficients in other countries.[3]

Of course, Gini coefficients looking at the distribution of net income after taxes and transfers are only one of many measures. The dispersion of gross market income, the distribution of wealth, the median income and poverty rates are other measures that seek to quantify economic inequality. Further measures describe inter-generational distribution by looking at demographic aspects and public debt. All in all, there is no uniform answer to the question how inequality has evolved over the last decades.

3. Conclusion

Notwithstanding the difficulties associated with measuring inequality meaningfully, policies that achieve both inclusion and growth are especially sought after. We need to ensure that enterprises and their employees are properly equipped to harness the opportunities presented by globalisation and technological progress, and that they are able to cope with structural change, especially through better education and life-long learning.

As a former Minister for Education, Tharman will certainly agree on this.

That said, we are looking forward to hearing suggestions from you, Tharman, on how to make inclusive growth a reality.

The floor is yours.

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1 Christine Lagarde, Managing Director, IMF: “Lifting the Small Boats", Address at Grandes Conferences Catholiques, Brussels, June 17, 2015.

2 See, eg, The World Economic Forum (2017), The Inclusive Growth and Development Report 2017, Geneva, and OECD(2017), A policy framework to help guide the G20 in its development of policy options to foster more inclusive growth, Paris.

3 IMF (2017), Fostering Inclusive Growth, Report prepared by Staff of the IMF for the G20, June 2017, Washington DC, p. 12.