

# No, communists have not taken over the IMF: the evidenc...

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The [IMF issued a new report yesterday](#) that confirms something I and many in the tax justice movement have been sure of for some time, which is that reducing inequality positively improves the prospects for economic growth even when that reduction comes as a result of redistribution by taxation.

The report, authored by senior IMF economists Jonathan D. Ostry and Andrew Berg concludes:

*First*, we continue to find that inequality is a robust and powerful determinant both of the pace of medium-term growth and of the duration of growth spells, even controlling for the size of redistributive transfers. Thus, it would still be a mistake to focus on growth and let inequality take care of itself, if only because the resulting growth may be low and unsustainable. Inequality and unsustainable growth may be two sides of the same coin.

*And second*, there is remarkably little evidence in the historical data used in our paper of adverse effects of fiscal redistribution on growth. The average redistribution, and the associated reduction in inequality, seem to be robustly associated with higher and more durable growth. We find some mixed signs that very large redistributions may have direct negative effects on growth duration, such that the overall effect—including the positive effect on growth through lower inequality—is roughly growth-neutral.

This will, of course, be a complete shock to neoliberal economists. The whole logic of their approach is that without the differential of inequality then there is no incentive for growth. This study shows that is not just not true, but that the reverse is true.

Actually, to anyone with an understanding of both human nature and economic reality (neither apparently possessed by neoliberal economists and so absent from the assumptions which automatically lead to the conclusions of their work) this finding is glaringly obvious.

Let's deal with the economics first. Reduced inequality inevitably means a broader base

of ownership for capital. That means more people have access to opportunity to create businesses and unsurprisingly increased growth will follow.

There is a second aspect to this economics: it's not just a broader capital base provides opportunity; if the capital base is concentrated those who own it will expend considerable effort in creating barriers to entry against newcomers using, amongst other things, tax haven activities to achieve this aim. This is now very clearly recognised in behavioural economics; the fear of loss in most people is such that it is almost inevitable they will behave in this way. The sums expended in creating these barriers to entry will always be less if capital ownership is more diverse and so growth is bound to be higher.

So what's the bit about human nature? Well, actually this comes from the acknowledged fact that convergence to the mean is normal, but recognises that the progression is quicker if the distance to be travelled is smaller. People instinctively know that, so the motive to succeed is greater when inequality is lower.

The IMF economists have done us a service in this paper. The Washington Post has noticed that fact; [they have claimed communists have taken over the IMF when, actually, evidence has. But the dogmatists aren't too keen on that.](#)

*For those in the UK the big question that arises from this is when will our political parties notice, because right now our tax system under delivers on redistribution? It's time to change that - because as is clear, redistribution provides the best chance we have for delivering growth in this country. We need it, soon.*