

# Redistribution aids economic growth

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Jonathan Ostry, the deputy director of the IMF's research department, [has an article in the FT this morning](#) concerning the paper he and colleagues published last week on the relationship between equality, taxation, redistribution and growth.

This is an important paper, the findings of which need to be widely known and the article makes clear the views are those of the author so I share his conclusions here. They are:

*First, inequality matters, not only for its own sake but also because it makes an important difference to the level of economic growth. More unequal societies have slower and more fragile economic growth. It would thus be a mistake to imagine that we can focus on economic growth and let inequality take care of itself. Importantly, we established that growth is faster in more equal societies than in less equal ones, regardless of whether they have highly redistributive tax systems. The lower growth observed in highly unequal societies does not seem to be a side-effect of redistribution, as some people have claimed.*

*Second, we found little to suggest that a modestly redistributive tax system has an adverse effect on growth. True, there are some signs that highly redistributive tax systems — the top 25 per cent of our sample — may crimp economic performance. But the levels of redistribution seen on average in the broad cross-section of countries we looked at seem to have had negligible direct effects on growth.*

*Put these two observations together and you come to an important conclusion for policy. Making the tax system modestly more redistributive seems to have little direct effect on growth.*

In fact, this understates, if anything the conclusion they reached. They say that even large scale redistribution does not appear to harm growth.

The article, I know, comes with a few caveats attached but the message is clear: the argument that redistributive tax policies (such as a 50p tax rate in the UK) harm growth has been holed well and truly below the water line.

In unequal societies it is now clear that if we want innovation, opportunity, jobs and growth then tackling inequality through progressive taxation is a very clear way to achieve that goal.

I [have already discussed the likely reasons for this finding](#): what we now have to ensure is that this is widely known and understood.