Global Inequality Briefing Paper

José Palazón, Melilla. Reuters (22.10.2014, der Bund)

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This briefing paper results from a learning trajectory on global inequalities facilitated by the SDC Quality Assurance & Poverty Reduction Section. Its aim is to build the argument for an inequality focus in development cooperation to be discussed within the *Future Prospects for International Cooperation* initiative at SDC. The broad objective of this initiative is to define a strategic vision for development cooperation within the horizon 2030 based on SDC's mandate, its values and current and future challenges.

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Executive summary

The fact that it takes merely eight men at the top of the scale to own the same wealth as half of the world's population epitomizes the massive extent to which global inequality has risen. Dominant economic and political thinking established in the 1950s maintained that inequality is a necessary step in the process of economic development measured via GDP. While this has been contested, the divide between the haves and the have-nots diagnosed at the end of the Millennium Campaign seems to be entrenched. The commitment to social justice laid out by the Millennium Agenda has been undermined in that specific "pockets of the poor" were systematically bypassed by its achievements. Evidence that inequality hampers the fight against poverty raised awareness on global inequality, as did insights on the detrimental effects of unequal societies to the wellbeing of all, crises and risks that burden the poor disproportionately, out-distanced middle-classes in industrialised countries and persistent mass unemployment and highly informalised livelihoods in the global South. Not least, appeals from scientists that the failure to effectively account for inequality will ultimately threaten our democracies propelled the debate on inequality, putting the issue firmly back on the agenda.

The power of assessing global development through an inequality lens lies in the relational perspective of the concept. **Accounting for inequality implies a debate about the level of difference that is ethically justifiable, politically negotiable and economically viable.** The debate operates along two lines: The instrumental position puts forward that inequality hinders economic growth and prevents poverty reduction measures from being effective, while the ethical position argues that high levels of inequality are categorically wrong.

In the past, priority was given to vertical inequalities (between individuals/households, typically measured by the Gini coefficient), whereas more recent perspectives advocate for a combination with horizontal inequalities (between groups). The dimensions of inequalities unfold along three basic categories: Inequality of what, whom, and where. Levels of inequality vary depending on the reference point: Inequality across countries, inequality within countries, and inequality across the world's people. Despite the fact that the most excessive levels of inequality stretch across the world's people irrespective of national borders, inequalities within countries are on the rise. The state therefore remains an adequate unit of analysis as well as a primary partner in adopting effective measures against inequality.

Largely exogenous drivers of inequality (not dependent on domestic policies) are often distinguished from endogenous drivers (mainly determined by domestic policies), although a strict separation is not possible. Actors responsible for growing inequality are those who undermine democratic structures and use economic policies to destabilise institutions established to govern working relations.

Inequality and poverty are multidimensional. Nevertheless, development theories and corresponding policies have essentially been concerned with the material dimension and thus maintain an income focus. The unique contribution of the inequality perspective is that it relates income inequality with factors of social exclusion, thereby framing differences in achievements from both an ex-post and an ex-ante view. Inequality of outcomes and inequality of opportunity are two sides of the same coin, and development policies must address both.

A shift in priorities in development cooperation towards inequality underscores the commitment towards policy coherence for conducive action upon trade-offs and co-benefits of the Sustainable Development Goals. The inequality lens suggests a rigorous political economy analyses and an alternative set of methods to improve diagnostics on poverty and inequality and their multidimensional nature. Introducing complementary indices at a global scale and improving techniques to assess inequality in national contexts will not only illuminate trends across the world, but open up for novel thinking about the politics of distribution. Grounded data and information saturated with lived experience will provide robust knowledge on how to best assist partner countries in building effective pre- and redistributional policies for both universal and targeted measures.

1. Why is inequality on the development agenda?

"Just eight men own same wealth as half of the world" – this is how, at the occasion of the World Economic Forum in Davos, Oxfam flagged the massive extent to which global inequality has grown (Hardoon 2017). The awareness of the immense dimension as well as the rising disconnect of the middle classes from top-level earners in the Western world fiercely shattered beliefs in market-led economy as the silver-bullet to prosperity.

Dominant economic and political thinking established in the 1950s saw inequality as a necessary if transitional step in the process of economic development. Drawing on Simon Kuznets' comparison of the relationship between income growth and income distribution in the post-World War II era in the U.S, the UK and in two German states (1955), it was widely accepted that, after an initial increase of disparities in early capitalist development, income differences will eventually level off as industrialization takes hold. Kuznets' hypothesis seemed to prove true for Western countries. The relationship between economic performance and inequality attracted generations of economists, who, depending on their evidence, came to rather diverse conclusions (Adelmann et al. 1973, Alesina et al. 1994, Banerjee et al. 2003). As inequality disappeared from the agenda, Tony Atkinson (1975) stood out in his discipline when he featured the issue of inequality as early as the mid-seventies. As opposed to the classics, including Marx, whose focus had been on the shares of the means of production, Atkinson's interest was on the distribution of income and wealth. He had to wait almost 30 years until mainstream economics and the wider public embarked on the inequality debate, the roots of which were planted in the early 1980s with Reagan and Thatcher, as they embarked on a government programme inspired by the neoliberal agenda of the Mont Pelerin Society.

Under the impression of an actual "inequality turn" manifesting itself since the 1980s (Atkinson 2015), recent debates identify inequality as a major cause for stagnating economies. The International Monetary Fund (IMF) performed a remarkable shift from previous positions, referred to by commentators as "IMF Spring" (Lawson 2017): "Recent IMF research tells us that less inequality is associated with greater macroeconomic stability and more sustainable growth", said Christine Lagarde (2012). Arguing along the same lines, business leaders pointed to growing inequalities as one of the biggest threats to the world economy (WEF 2013). Nobel Prize-winner Robert Solow addressed the inadequacy of the vast majority of macroeconomic models to capture economic realities – in particular the different, sometimes conflicting interests of heterogeneous agents and the questions of distribution implied therein (2003). Wilkinson and Pickett offer a broad set of data underpinning the insight that more equal societies fare much better in dimensions as diverse as child and mental health, life expectancy, social mobility, teenage pregnancy, drug abuse and obesity (2009). Social cohesion is seen at risk as people are increasingly frustrated with the gap between their aspirations and their real options. The distribution of opportunities and the chances to turn them into desirable outcomes seem skewed, multiplying disadvantage for marginal groups and even more so for populations of fragile states. Facing the cost for the entire society as levels of trust sink while levels of crime and violence are on the rise (Wilkinson et al. 2009), governments around the globe – given that they're capable of enforcing – embraced the perspective of inequality within their developmental goals. In the early 2000s, an interest in inequality was stipulated by a very different school of economic research. Based on experimental evidence Fehr and Fischbacher argue that fairness matters to economic agents as they judge distributional outcomes (2003). If notions of what is "fair" or "unfair" influence people's decisions, it seems reasonable to address the damaging effects of inequality in social, political, economic and environmental dimensions.

For **developing countries**, Gruen and Klasen diagnosed a sharp increase in inequality since the early 1980s (2003). Additional concerns were raised by evidence pointing to the intergenerational transmission of inequality (World Bank 2013), and to the detrimental effects of translating growth into poverty reduction (Klasen 2003). In fact, an entrenched divide between the haves and the have-nots in developing countries has been diagnosed at the end of the Millennium Campaign.

Structural adjustment programmes to resolve the 1990 Asian crisis as well as the one in Latin America in early 2000 produced devastating effects. The withdrawal of public services and the dismantling of social protection floors affected women and other disadvantaged groups to a greater extent (Campbell 2010). This debate brought the very notion of development into question: The commitment to social justice laid out by the Millennium Agenda has been undermined in that specific "pockets of the poor" were systematically bypassed by the achievements of development (Kabeer 2014). Understood as growth, development did not only leave the poverty problem largely unresolved, but inflicted harm upon the poor – for example, by excessive resource extraction and effects such as environmental degradation – therefore broadening the explanatory and experiential gap between development as economic expansion and development as "change for the better" (Chambers 2004, in Rigg 2016, 13). Nobel laureate Angus Deaton advocates for a priority shift, since the failure to effectively account for inequality will ultimately threaten our democracies: "…it's about the effect on the rest of society when the wealthy are rich enough that they can effectively drive political outcomes so they line up with their unusual policy preferences." (2013). Oxfam's recent report "An economy for the 99%" powerfully illustrates how real the expert's apprehensions have become (Hardoon 2017).

A decisive push towards a commitment to reducing inequalities came from the 2007/2008 financial and economic crisis. Widening inequalities, a fall in wages in the low-paid sectors and the subsequent lack of demand in goods and services were deemed to have spurred the crisis (Fukuda-Parr et al. 2013). The shock uncovered the fragility of the gains of growth-led development and the precariousness of livelihoods at the lower end of the social ladder. In particular, those affected by multiple forms of social exclusion are disproportionately burdened with the risk of global crises.

The case for putting inequality centre-stage is built on either instrumental (e.g. World Bank and IMF) or ethical positions (e.g. Oxfam). The instrumental perspective embraces inequality because of its effect on the reduction of absolute poverty and the fact that the impact of growth on poverty is reduced in unequal societies (Klasen 2016). The ethical position argues that the contemporary level of inequality is excessive (Atkinson 2015) as it deeply undermines societies. No less than the goal of development is at stake, as Kabeer argues: "Recasting the goal of development as one concerned with social justice and economic wellbeing would lead to a twin desire to generate sufficient resources for all the world's people, and to ensure that each of us has a fair share" (2015, 188). Three major theories of justice lend themselves for an interpretation of the ethical position: a) utilitarianism, b) the capability approach, and c) social liberalism (see box).

Infobox 1 – Major theories of justice

a) Jeremy Bentham's (1748-1832) classic utilitarian approach frames individual well-being in terms of the utility level attributed to each person. Based on utilitarian accounting the argument goes that excessive inequality reduces the sum of total utility, since the value of an additional unit of income is lower for the well-off.

b) Amartya Sen criticised utilitarianism because it is "supremely unconcerned with the inter-personal distribution of that sum. This should make it a particularly unsuitable approach for measuring or judging inequality" (Sen, 1973: 16). This is why distributional weights are adopted when measuring inequality since these weights incorporate social values regarding redistribution. Different theories of justice apply different weights.

c) According to John Rawls' "Theory of Justice" (1971), all weight should be given to the least well-off. Known as resource approach, Rawls frames the principle of justice in terms of access to "social primary goods", understood as "things which it is supposed a rational man wants whatever else he wants" (1971: 79). The emphasis is thus on the comparison of individual resource holding.

The main shortcoming of the "theory of justice", according to Sen, is that it eclipses the diversity of people in their ability to convert primary goods into a good life (Sen 2009). The capability approach, in contrast, is not only concerned with achieved outcomes, but also with the range of opportunities and thus people's choices, the essence of freedom and development.

Is a focus on inequality new or rather re-appearance?

The broad neglect of inequality reflects the fading memory of the Great Depression of the 1930s and how the Keynesian policies that mended the dramatic faulting was at the heart of the unprecedented economic prosperity of the post-war West. This was paralleled by the geopolitical situation of the period, with overseas development assistance of the time being instrumental to the geopolitical agenda. Against the backdrop of two competing political and economic systems there seemed no ideology-free space to sincerely debate social disparities. However, the neoliberal turn of the 1980s started to bear fruits. The political upswing of the left throughout Europe and the US in the mid-1990s turned out to be driven by the "New Left". Instead of restoring what was left of social market economy, the New Left adopted the role of executor of some of the unfinished neoliberal reforms – as illustrated by the labour market reforms in Germany.[1] This political constellation produced a powerful shift: the disconnect between salaries and productivity. The nature of work itself was transformed in the wake of the growing importance of the service industry, and by eroding unions and undermining collective representation. This was underpinned by the fact that multinational companies circumvented national laws by outsourcing production, often to developing countries and with jobs that were bare of any social protection and thus do not offer a pathway to full citizenship (Chhacchi 2014). The working middle classes in the US and Europe, in turn, were being outdistanced by a small elite of top earners, as growth rates of return on capital started to exceed gains in salaries.

The dot.com crisis followed by the financial and economic crisis of 2007/2008 propelled concerns about inequality. They were taken to the streets by movements such as "Occupy Wall Street" and "the 99%". Neither the "New Left" nor right-wing movements such as the "tea party" had provided adequate answers to the growing discontent, the culprit of which seem to be the latest political events in Europe (Brexit) and the US. The resonance to Piketty's (2013) analysis epitomizes the invigorated interest in a scientific corroboration of the lived experience of large parts of societies around the globe. The upswing of the debate on inequality responses to the disillusion of the capitalist "fairy tale" (Piketty 2013) that came nowhere near the reality of the 99%, be it in the global South or in Western countries.

This leads us from the initial question as to why inequality is on the development agenda to the value it adds to it. The power of assessing global development through a lens of inequality lies in the relational perspective of the concept. In contrast to poverty, inequality aims at the relation between economic wellbeing and social justice. At its core, it is a political concept, as it points to power relations. According to Stiglitz, inequality does not just happen, rather, it is created (2012). Accounting for inequality implies a debate about the level of difference that is ethically justifiable, politically negotiable and economically viable.

2. Dimensions of inequality

Overview of Dimensions

Accounts of inequality typically refer to vertical inequalities (between individuals and households) represented by the Lorenz curve. Horizontal inequalities (between groups) are a more recent concern, with the exception of gender differences whose analysis dates back to the early 1970s. Relevant group categories differ across societies, and there are a number of ways of measuring group differences (Stewart 2016). Dimensions of inequalities can be broken down to three basic categories: Inequality of what, whom, and where.

[1] Denoted by the responsible commission as „Hartz"-reform.

1. Inequality of **what**?
   Income and wealth are frequently named, complemented by dimensions such as health, education, infrastructure, access to resources, assets (including land), but also participation and voice that are postulated by human rights approaches. Authors distinguish between 'economic inequality' and 'inequality in living conditions' (Infobox 2).
2. Inequality between **whom**?
   Disadvantage usually intersects in particular social groups such as the very old or the very young, ethnic groups, population segments marked by race, social class or scheduled caste, gender, nationality/place of birth, sexual orientation or disability. To associate intersection with addition is an undue simplification. Instead, intersectionality refers to a complex and contingent interplay of different social categories, whereby structural and/or institutional frameworks tend to reinforce disadvantage. The salient dimensions of exclusion have to be determined for different societies (Stewart 2016).
3. **Where** is inequality most pronounced?
   The focus on inequality has shifted the geography of poverty as new spatial patterns emerge. In particular, within-country inequality and the high poverty incidence of the poor in well-off environments have been highlighted.

Infobox 2 - Economic Inequality:

Aristotle distinguished between *economics* (managing the household) and *chrematistics* (the pernicious art of accumulating wealth) arguing that "money was intended to be used in exchange, but not to increase at interest". This points to the fact that economic inequality can be expressed as either income (flow concept) or wealth (stock concept). Income does not just refer to the money received through pay, but includes wages from employment (salaries and bonuses), interest from savings, dividends, state transfers, pensions and rents. Household income before tax that includes state transfers is known as gross income. Household income including all taxes and benefits is known as net income[2].

Despite broad recognition that inequality and poverty are multidimensional, development theories and corresponding policies are largely concerned with material dimensions only: Inequalities in standard of living such as income/wealth, education, health and nutrition (Conceicao and Bandura 2009). Entrenched forms of deprivation however are created by vertical inequalities of wealth and income that correlate with multiple horizontal inequalities associated with marginalized identities (Kabeer 2015).

Much of the debate around inequality in living standards can be associated with either of two positions: The first is concerned with the **inequality of outcomes.** This perspective combines the focus on people's achievements because/despite of circumstances beyond their control (ethnicity, family background, class/caste, gender, disability, place of birth, sexual orientation) with factors such as talent and effort. Evaluating inequalities from an angle of accomplishments, this position is **ex-post oriented**. The second view focuses on **inequality of opportunities.** Based on the assumption that people should have the same opportunities to thrive, it concentrates exclusively on the circumstances beyond a person's control. This perspective proposes an **ex-ante view** (see section 4).

The unique contribution of the inequality perspective is that it relates income inequality with factors of social exclusion, thereby framing differences in achievements from both an ex-post and an ex-ante view. However, the argument has been advanced to more radical terms by Solow and Krugman (CUNY 2015), who emphasize that the division between inequality of outcomes and inequality of opportunity is largely false. This is underscored by Atkinson who advocates that inequality of

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[2] Income or consumption? The choice between income or consumption depends on the purpose of the analysis. Measures based on income are concerned with the standard of living while consumption-based research is concerned with the right to a minimum level of resources (Atkinson 2016:35).

outcomes matters. We cannot ignore outcomes because, even if there were a level playing field, rewards – e.g. the outcomes – are often set within a competitive logic and thus unequal. Atkinson refers to a prize structure that is socially constructed. Furthermore, if we are not concerned with the inequality of outcomes we miss the inequality of opportunities of tomorrow and thus fail to provide fair chances for future generations (Atkinson 2015).

Does the state as the unit of analysis make sense in today's world?

The United Nations' Human Development Report 2003 provides a useful scheme to classify conclusions on inequality: Inequality **across countries**, inequality **within countries**, and inequality **across the world's people**.

Inequality across countries is measured by comparing national per capita incomes, thus focusing on material aspects. By weighting the income data by population, average incomes across countries converge. This is explained by the fact that emerging middle classes in countries like China and India considerably increased their incomes, while earnings of middle class families in high-income countries stagnate or decrease. It can be grossly misleading to compare the relative growth of incomes as measured by the Gini coefficient. If incomes of poor countries increase at a rate slightly faster than incomes of rich countries, the Gini index shows declining inequality even if the absolute gap between them has grown. Anand and Segal showed that global inequality measured in absolute terms rose from a Gini index of 57 in 1988 to 72 in 2005 (2008).

Inequalities across the world's people regardless of national borders, in contrast, have amplified dramatically. Half of the world's wealth is now in the hands of 1% of the global population (CSRI 2015). Finally, according to Branko Milanović, former leading economist at the World Bank, inequalities within countries are on the rise irrespective of whether it is a low, middle or high-income country (2016, see appendix 6).

A critical question is whether the analysis of inequalities should focus on nation states or the global comparison. People conceptualize inequality as an interpersonal construct whereby their own position is assessed relative to others. Therefore, the state remains the adequate unit of analysis. Analysts such as Klasen even advocate for an emphasis on within-country inequality for SDG 10 as well as in terms of priorities for international cooperation (2016). Comparing average incomes across countries however yields little useful information and is furthermore prone to misinterpretation. However, the most excessive levels of inequality stretch across the world's people irrespective of national borders, thus rendering the state as unit of analysis futile (see section 3). Nonetheless, Stewart (2016) suggests that, from a normative position and with a view to shared humanity, the global level provides the adequate lens for assessing inequality. This is underscored by a human rights perspective. Furthermore, unequal global distribution increasingly affects political and economic stability as well as environmental sustainability. Thus, with further increase in global capital, labor and technology flows, it becomes more difficult to tackle inequality at either level without also tackling the other. However, the state does remain a prime stakeholder and a crucial development partner in terms of addressing inequalities and setting up redistributional policies.

3. Geography

Where is tackling inequality most urgent?

Twenty years ago the world's poorest countries also scored highest with respect to inequality. Addressing poverty (and inequality) was seen as a matter of channelling global aid to provide basic public services and stimulate economic growth in low-income countries. Today the landscape has entirely changed: Three quarters of the world's poorest people live in middle-income countries. Nations like China, India, Indonesia and Nigeria are better off overall while simultaneously ranking high in levels of inequality.[3] On the other hand, high-income states like the US, UK and, to a lower extent, Switzerland, undergo dramatic restructurings of production and work, leaving a striking number of people short of their essential needs (Cingano 2014).

Against this background, Andy Sumner (2016) argues that for the first time, ending human deprivation is becoming as much a question of national as well as of international (re)distribution. International redistribution for the 300 million people living in poverty, mainly in sub-Saharan Africa, remains important. But the new geography of deprivation puts tackling national inequalities high on the agenda to leave no one behind while ending poverty for all.

4. Causes

What are the key causes for inequality?

Drivers of inequality can be distinguished between the ones that are largely exogenous (not dependent on domestic policies) and the ones that are endogenous (mainly determined by domestic policies). A strict separation is not possible, as drivers such as macroeconomic policies and the decline of union membership are to a certain extent exogenous as well as endogenous (see appendix table 1).

Exogenous drivers		**Endogenous drivers**	
Technological change	Trade liberalization	Disequalizing sectors	Decline of unions
Economic neoliberalism	Postcolonial relations	Conflict and fragility	Education
Financial globalization		Macroeconomic policies	Governance system
The debt system		Culture	

Table 1: Key causes for inequality based on UNDP (2013), Stewart (2016) and Hickel (2017)

Who are the actors causing inequality?

In order to understand what and who is at the roots of the increase in inequality since the 1980s, it is worth illuminating the factors that delivered more equality in previous decades. The first and foremost stabilizing cause in post-war Europe and the US was the social contract around work. Highly industrialised, with a substantial union membership and a convention referred to as "family wage" – which, it has to be noted, provided for within-household inequality – institutions around work provided the building blocks for broad based welfare. Widely shared employment also paved the way for democratization – an argument that was brought forward to sustain Kuznets' thesis of transitional inequality.[4] Galbraith attributed a massive role to social protection and public services in creating the middle class society that guaranteed for stability throughout the post-war 20th century (Galbraith 2009). These very institutions and services were systematically dismantled by the neoliberal campaigns of the 1980s (Galbraith 1998). They come with the assumption that only economic policies are wealth-creating, while social policies including those addressing inequalities at various levels and dimensions are costly. Structural adjustment programmes (fiscal policy discipline, tax reforms, trade liberalization, liberalization of inward foreign direct investment and privatization of state enterprises, among others) are a direct result of this debate. Redistribution is seen to be adverse to wealth creation and thus disappeared from political agendas (Perrons 2015).

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[3] This is illustrated by the "stretching" of the mountain-shaped red and orange areas (see appendix figure 1).

[4] Although most scholars agree – on various grounds – that Kuznets' theory is basically flawed. Instead, current economic theory largely holds that, with comprehensive government planning and balanced economic and social policies in place, a high growth rate can co-exist with low inequality at any developmental stage.

However, economic growth that relies on a workforce increasingly devoid of social protection, wellbeing and long-term safety is precarious (Kabeer et al. 2015). This is exacerbated by the fact that the nature of work is changing in industrialised countries, where anti-inflation policies have since long outweighed employment programmes. More so, since the 1970s, the gap between productivity and salary growth has increased steadily. In the developing world, access to citizenship is rarely transmitted via formal employment, and work as such may never become the engine of a greater share of prosperity for the masses. This argument put forward by James Ferguson (2015) illustrates a new way of thinking about distribution. It takes account of a number of African countries, where direct contributions gradually become the basis of what an increasing number of the population lives on.[5]

The answer to the initial question risks to appear rather broad stroke and would certainly deserve much more sophisticated analyses. It does however point to the forces that undermine democratic institutions, contributing to the disenfranchisement of large segments of the population and increasing pressure on the working middle classes. Economic development that fails to actively build citizenship puts the participation of all and the social cohesion at risk. The drivers of exclusionary and fragmenting mechanisms are so-called expert governments composed of officials who avoid the political debate, deregulate state structures to allow for a maximum market unfolding and thus circumvent accountability. This comes at the cost of historically negotiated representative systems where political ideas have to be fought over by eligible citizens – whatever criteria qualify for eligibility – and where the more convincing vision – ideally – prevails.

Overview of key approaches to tackle inequality

Phillips, Atkinson and others doubt the usefulness of the outcomes versus opportunity dichotomy. For reasons of clarity, in what follows we categorize key approaches to tackle inequality along this binary.

Inequality of outcomes (ex-post)

Inequality of outcomes occurs when individuals or households do not possess the same level of material wealth or living standards (e.g. education, health, nutrition). However, standard poverty reduction policies concentrated on income inequality. Early development approaches were only concerned with income inequalities when it affected economic growth, as growth was believed to "lift all boats" (Kuznets curve). Alarming levels of poverty in the late 1990ies shifted the focus to poverty reduction. Pro-poor growth approaches were concerned with three different development objectives: poverty, inequality and economic growth. Thereby pro-poor growth was defined, on the one hand, as absolute increase in per capita incomes of the poor such that poverty is reduced through economic growth (Ravallion 2004). Thus even if inequality was rising, growth could be pro-poor. On the other hand it was argued that growth could be pro-poor only if the incomes of the poor grew faster than those of the rest (Kakwani et al. 2004). In the early 2000s, pro-poor growth was replaced with inclusive growth as the traditional method to addressing extreme poverty was regarded ineffective. Inclusive growth refers to broadly shared well-being resulting from economic growth (UNDP 2013).

Inequality of opportunity (ex-ante)

The literature often relates Amartya Sen's capability framework with the concept of inequality of opportunity. He proposed that well-being should be defined and measured in terms of beings and doings ("functions") as valued by people (Alkire et al. 2015), and the freedom to choose and to act ("capabilities"). In this framework, material resources are only means to

[5] What James Ferguson, in his latest book entitled "Give a man a fish", refers to as "new thinking" about the politics of distribution is already underway. Drawing on an extensive empirical account of Southern African countries he demonstrates that many of the taboos governing the discourse around development were discarded, in particular the idea that labour-based livelihoods will provide a basis for the majority of the people (Ferguson 2015). Other initiatives such as "Givedirectly" also indicate that the new thinking is no longer utopia. "Givedirectly" is a programme that functions since a number of years and, besides of offering basic livelihood options to the extreme poor, also provides data to assess outcomes.

valuable ends. Therefore equalizing e.g. income should not be the goal because not all people have the chance to convert income into well-being and freedom in the same way. Sen therefore argues that instead of equalizing means of living the focus should be on *actual* opportunities that give people the freedom to pursue a life they have reason to value.

Success and Failure

The judgement as to whether prominent policies to reduce inequality are successful or not largely depends on the ideological position of the evaluator. This is illustrated by way of the example of conditional cash transfers (CCT), celebrated as a headway against extreme poverty and inequality. Mexico and Brazil stand for positive results, however, these are put into perspective if the broader political context is taken into account. The CCTs were part of large-scale government campaigns for social protection, including old age pensions and health insurances. Their positive effect thus builds on the coordination of a number of initiatives. As the name suggests, these programmes come with conditions, some of which reinforce social inequalities. Such is the case in the above examples with mothers bearing the responsibility to make sure their children attend school or for having them immunized. The trade-off is a restrictive, stereotypical gender role and a traditional division of labour that eventually traps women and men in their roles and positions.

The reduction of inequality across countries suggests that approaches concerning inequality of outcomes were successful. Growing levels of inequality within countries however point to the conclusion that pro-poor and inclusive growth approaches did not reduce inequality. The reason for the overall failure may lie in the very dichotomy between inequality of outcomes and opportunity. Inequality of outcomes and inequality of opportunity are two sides of the same coin, thus development policies must address both.

5. Inequality and poverty

Should inequality be treated the same way as poverty reduction or is a different approach needed?

While inequality focuses at the full range of distribution, poverty concentrates at the lower end of the scale. The two concepts are closely linked in that inequality has an important influence on the effectiveness of poverty reduction initiatives (Stewart 2016). Inequality aims at persistent and arbitrary discrepancies between different people and clusters in various dimensions. It suggests itself therefore for an analysis of the reasons for entrenched disadvantage and the causes that fuel it. Offering a relative perspective, an assessment of power relations and a call for a "whole of society"-approach come with an inequality lens. The relative nature of an inequality assessment is important, as people's well-being is greatly influenced by relative comparison. Political economy analyses offer tools to identify factors of a disabling environment. Development agencies should be concerned with issues such as norms, discrimination and exclusion. The focus on inequality lends itself to relatively new themes such as taxation, e.g. how governments raise money and the distributive effect of political priorities. Social protection and the debate on protection floors as well as ceilings enter the picture when inequality is addressed.

The powerful change in perspective on global development implied by inequality is being undermined by a strategy of influential international agencies to restrain their focus on incomes of the bottom 40% of the world's population. Motives such as "shared prosperity", "inclusive growth" and "pro-poor" initiatives use an inequality rhetoric while not actually deviating from their standard recipes. The "sharing", the "inclusiveness" and a vague definition of what is "pro poor" all remain silent about the distance between the upper and the lower end of the ladder. These concepts circumvent the much needed debate about the extent of inequality that is justifiable. By eclipsing the upper range of the division and thus the reticence of addressing the issue of (re)distribution, inequality is being turned into a disguised poverty lens.

A priority to inequality assists countries in their diagnostics of how means are distributed and how they are effectively allocated. Introducing complementary measures such as the Palma index (appendix 4) at a global scale will illuminate inequality trends across the world and provide information on how to best assist countries to build pre- and re-distributional policies and propose an alternative set of measures to complement traditional poverty reduction policies.

6. International Development agencies and inequality

Overview of key development agencies and their approaches and differences in tackling inequality

Figure 1 presents an overview of selected multilateral and bilateral agencies and attempts to appraise their approaches to inequality. We categorise them along a gradient representing the growth orientation in their overall narrative ranging from a strong growth orientation to a growth-agnostic position. Their narratives may deviate from specific programmes and initiatives. All the agencies considered in this table affirm to tackle inequality of opportunity as well as inequality of outcome. They see inequality as a complex phenomenon calling for stakeholder and level specific approaches. The main difference in their positions is how they interpret the role of economic growth. While the agencies represented in the right-hand corner of the graph regard economic growth as a means for reducing inequality, the others consider it an end in itself. Research on subjective well-being and happiness indicates that relative incomes and various income-dependent factors strongly influence individual welfare. These insights put the explanatory value of the aggregation of individual absolute incomes as a robust indicator of social welfare into perspective. The shortcoming of GDP-based indicators is exacerbated by the fact that economic growth only reflects market transactions, excluding informal transactions between people. Economic growth can therefore result solely from a transfer of informal to formal markets, in which case benefits were already enjoyed in the absence of any market costs. Thus, if the argument that GDP (economic growth) is not a reliable indicator of social welfare (development) seems reasonable, the analysis of developmental effects should rely on alternative indicators. We propose a position that is completely neutral with regards to GDP growth and its effects. The growth-agnostic perspective advocates for a perspective of economic growth as neither good nor bad, but simply not relevant for the question of well-being.

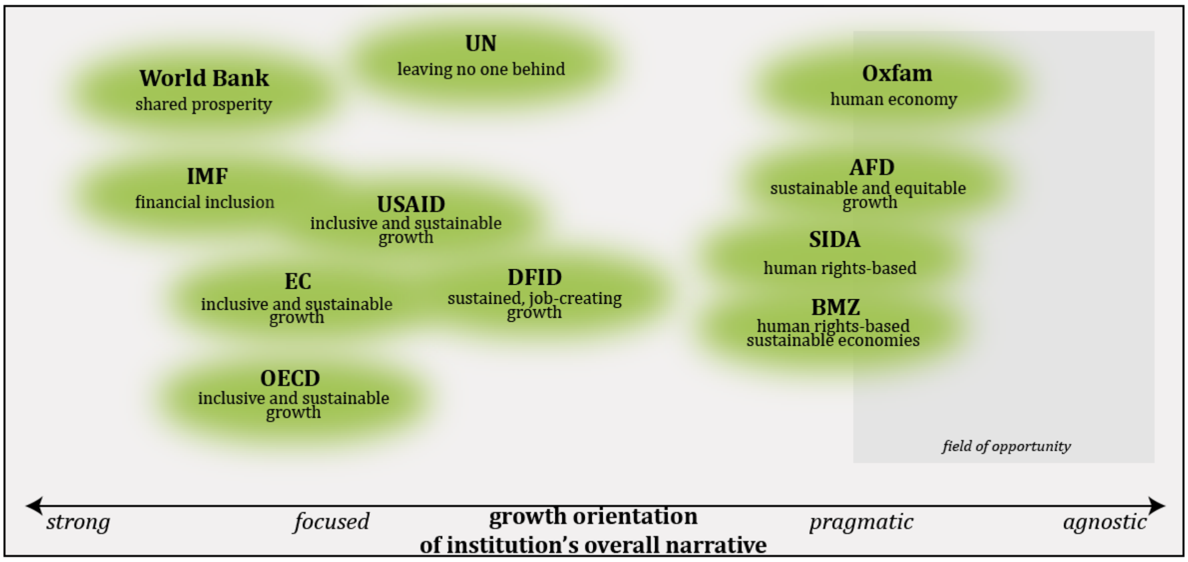

Figure 1: Key development agencies and their approaches based on a literature review (see Appendix table 2)

7. Putting inequality to work in the development agenda

This section aims at stimulating a discussion as to how inequality as the new development focus opens up pathways for powerful initiatives to actually improve the well-being of those who tend to get bypassed by the gains of development. We do this by depicting what we call "fields of opportunity" based on some key elements of this briefing paper.

Key elements

Recast the goal of development: from GDP to a safe and just space for human development. The new development agendas are framed in a growth agnostic way. Beyond worn-out debates of growth as "good" or "bad", this strategy requires measures to assess prosperity irrespective of whether GDP is on the rise, falling, or stable (Raworth 2017).

Improve diagnostics: Substantiate the story of inequality by way of novel measuring techniques that are multidimensional, relative and inclusive. Adopt tools to assess, monitor and manage the impact of a broad set of policies (including economic policies) on economic well-being, social and cultural rights. Reflecting adequate perceptions of growth, poverty and progress, including bottom-up, grounded experiences, these measures build powerful arguments on inequality and poverty, and how they are best fought against.

Integral "whole of society" approach: Inequality lends itself to an integral analysis of disadvantage, including human rights, peace, security, social inclusion and sustainability from both a perspective on outcomes and opportunities. While ambitious, it is the essence of the Agenda 2030: Beyond the sectoral logic, trade-offs and synergies between the 17 goals is where we will break ground. Means to construct and strengthen institutions to advance this approach have to be paralleled by the promotion of policy coherence.

Addressing structural causes: The purpose of economic development is to improve human well-being. The aim is on reforms that promote inclusive growth and reduce inequality by way of access to markets, investing in human capital and promoting job creation. The ultimate goal is to build citizenship in a globalised world. Spurring regulatory and institutional reforms creates an enabling environment for pre- and redistribution.

Reimagination of the politics of distribution: The new regimes of distribution in the developing world will be distinct from the logic of European welfare states. In light of the erosion of the working middle classes as the backbone of Western welfare societies, and against the background of wide-spread structural unemployment in the global South, nothing less than a reimagination of the politics of distribution – and thus development – is at stake.

Include the voices of the most disadvantaged in priority setting: Beyond conventional participation a consequential and determined commitment towards convening a multiplicity of stakeholders at all levels is called for. This includes involving developing countries in international fora to prevent capital flight and tax evasion. At national level, strengthening the capacity of local governments to provide essential services and apply local solutions brings international goals to local people and fosters their shared responsibility as well as accountability in goal setting and achievement. Self-determination is a key principle of a human rights-based approach and it can be fostered by way of inclusive budgeting or assistance to produce shadow reports. Innovative transdisciplinary methodologies offer promising entry points to involve multiply disadvantaged groups and individuals.

Engage in issues of power by way of solid political economy analyses. The will provide the basis upon which to negotiate the delicate balance between interfering with domestic politics and, as a longterm and accountable partner, promoting substantial change towards more equal societies.

Fields of opportunity

The inequality debate offers perspectives of adjusting SDC's overall strategic direction. We propose three degrees of integrating inequality into SDC's future agenda:

The poverty PLUS focus

Focusing on extreme poverty and concentrating on countries that have the highest poverty incidence – in relative terms – is not wrong per se. This option calls for continuity in SDCs traditional commitment on poverty, supplemented by the insights of how poverty can be reduced in highly unequal societies.

> Advantage: Long-term experience and continuity in themes and programmes is secured. The delicacy of a politically sensitive topic, the risk of being accused of interference with domestic politics, and the complication of interrelated problems whereby results are hard to predict can be circumvented, as can the proposed focus on the "have-mores", that is particularly critical.
>
> Disadvantage: The chance is to drift towards a mere rhetoric of inequality. Pro-poor and inclusive development strategies did not achieve their purpose, they have even been criticised for inflicting harm upon the poor. Furthermore, SDC loses a possibility of substantiating its unique profile, risking to become utterly generic.

The middle way – selectively embark on inequality

The perspective on inequality allows for combining the poverty focus with fresh approaches. Relatively new themes such as taxation, social protection, the transformation of working relations, the redistribution of work and questions of collective representation become part of the portfolio. A profound engagement with inequality as a powerful complement to the poverty focus opens up for critical, even radical thinking on distribution beyond the old European social welfare state, including innovative avenues such as unconditional basic income.

> Advantage: The analytical power of the inequality perspective is conducive in addressing entrenched forms of poverty created by multiple social exclusions. This new way of thinking about poverty, growth and inequality opens up pathways that might be more adequate for settings marked by mass structural employment and highly informalised labour markets.
>
> Disadvantage: The risk of the balanced approach is to trim the political potential of inequality and, by using it in a strictly instrumental sense, turn it into a disguised poverty approach, whereby the essential idea edges off.

The inequality turn – embrace inequality

A profound shift towards inequality suggests to recast the aims of development and international cooperation via a decisive move to address underlying causes of deprivation and inequality, and hence, substantive, transformative change.

> Advantage: The revision of main themes and "unlearning" of well-tried, but worn-out approaches unleashes a huge potential for a realignment of development cooperation. Cross-sectoral strategies, coherent policies, the forging of new international partnerships and political alliances within and beyond the administration are part of the envisaged "turn".
>
> Disadvantage: Analysis of multiple structural causes of (under) or maldevelopment open up complexity. Adequate approaches are difficult to communicate, they might be harder to struggle for, and are less likely to be achieved in predetermined project cycles.

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Appendices

Appendix 1

Table 1: Key drivers of inequality

Exogenous drivers	
Technological change	can raise the demand for capital and skilled labour disproportionately over low-skilled and unskilled labour by eliminating jobs through automation or upgrading of the required skill level. Related to this is the declining share of the value added going to workers, a trend which is even more pronounced for low-skilled workers (UNCTAD 2012, Card and Dinardo 2002; Acemoglu 1998).
Economic neoliberalism	supports free markets and minimum barriers to the flow of goods, services and capital. So-called structural adjustment policies shifted political power away from elected representatives of the public to unelected bureaucrats. Scholars argue that neoliberal policies led to low wages, inadequate employment/unemployment and, essentially, to a de-composing of work as such in its known form (e.g. Howell and Diallo 2007 for the US economy). In industrialised countries with welfare-state cutting, declining share of wages and rising earnings dispersion are exacerbated by neoliberal reforms (Atkinson 2015). A study by ILO found that of 71 countries – '28 advanced and 43 developing and emerging economies' – between 1970 and 2007, globalisation had, overall, negatively affected the earning power of workforces (Stockhammer 2013).
Debt system	paved the way for structural adjustment and the outflow of wealth from the periphery of the world system to its core. Since 1980 the foreign debt of Southern countries underwent a 900% increase. In the same period, the South handed over a total of USD 4.2 trillion in interest payments to foreign creditors, mostly in the North. In recent years, annual interest payments on external debt added up to USD 175 billion worldwide. In 2012, the total amount of official development assistance amounts to 133 billion USD (Graeber 2012, Hickel 2017, CADTM 2017).
Trade liberalization	was traditionally seen as the silver bullet to growth and, by way of a supposed trickle down effect, greater income equality in developing countries. By concentrating on the most abundant factors of production – unskilled labour – these countries were deemed to prosper as the share of wages in domestic income would gradually rise. The theory proved wrong – particularly in Latin America and in Sub-Saharan Africa, where manufacturing rates started to decline in the 1990s, as production shifted to more capital-intensive commodities. The result was increasing inequalities (Rodrik 2001, UNCTAD 2014, Van Staveren 2003)
Financial globalization	facilitates efficient international allocation of capital and promotes international risk sharing. At the same time, increased financial flows, particularly foreign direct investment (FDI) can have adverse effects. It is argued that FDI increases inequality because of extreme concentration in specific sectors as well as geographical locations (IMF 2015).[6] Furthermore, financialisation also stands for the shift in power from governments to capital holders, from elected representatives of the public to banks (Galbraith 2016). Globalisation sociologist Saskia Sassen holds that financialisation is a dramatic turn from traditional liberal capitalism to a structure she refers to as extractive, undermining the system of our economies and our societies (Sassen 2016).

[6] For high-income countries, the expansion of the service sector and the concomitant drifting apart of wages – of high-skilled professional, specialised technical and managerial positions – versus the service as the low end of the scale such as cleaning, security, catering is an important driver of inequality.

Postcolonial relations	Referring to the colonial history that perpetuates unequal relations between industrialized and developing countries. These range from unequal terms of trade to the establishment of social and political elites whose self-interest often outcasts the overall interest of a country and its development.
Endogenous drivers	
Disequalizing sectors	such as extractive industries or capital-intensive agriculture have not lived up to their promise of creating jobs for the many and inclusive growth in developing countries. Instead they perpetuate poverty and exacerbate inequality by obscuring resource management transparency and by encouraging rent-seeking behavior of elites (Humphreys et al. 2010).
Decline of unions	Since 1980 union membership declines across most high-income countries. The erosion of union membership und the undermining of collective bargaining reinforces the polarisation in earnings and spurs the divide between labour productivity and salaries (UNCTAD 2012).
Macroeconomic policies	based on the belief in the superiority of markets to determine prices and allocations such that the role of governments is minimised.
Education	was among the success stories of the MDGs. Even though access to primary education has become almost universal, differences start to emerge at secondary and tertiary levels, and the gains in education cannot seem to be translated equitably into jobs to secure livelihoods (Klasen et al. 2009)
Postcolonial relations	have left their marks not only with regards to between-country inequality, but also within countries, as elite groups often accumulate advantage by a "winner takes it all"-logic (Frankema 2006).
Conflict and fragility	are major causes for a country and its people to be left behind. The relationship between conflict and inequality is both ways: countries with high levels of inequality are prone to conflicts (Cramer 2005).
Governance system	in particular the redistributional role (investment policies, taxation and government expenditure) and enforcement capability of the nation state (Klasen 2016).
Culture	Many horizontal inequalities considered salient for a society are associated with culture – within the broad range of its meanings. Effects of emancipatory initiatives and affirmative action policies seem to be offset by what is referred to as "culture". Clearly, social relations and the organisational structure of societies are rooted in traditions, customs, and cultural heritage. Cultural structures often persist even in times of dramatic economic change (Jayachandran 2015). In fact, culture or constructs fuelled by cultural ideas such as national identity are universally used as arguments to justify inequality, social exclusion and discrimination. This has been discussed as culturalization (Hannerz 1999). Arguments that use culture to prevent social change draw on a notion of culture as a static structure regardless of the fact that human history has demonstrated fundamental and rapid cultural change.

Appendix 2

Table 2: Key actors and approaches

Development agencies	growth orientation	Key approaches	Author's comment
UN (UN 2015)	focused	Leaving no one behind	
World Bank (World Bank 2016)	strong	Shared prosperity approach (inclusive growth)	Shared prosperity focuses on bottom 40% to lift them up, but no limits to wealth/income growth of the top 10% (no compression focus)
IMF (Dabla-Noris et al. 2015; Lagarde 2017)	strong	Financial inclusion	Acknowledge that current levels of inequality can harm society, but growth focus is predominant: *"Productivity growth is an essential part of that story, because it is the most important source of higher income and rising living standards over the long term. It allows us to substantially grow the economic pie, creating larger pieces for everyone."* Christine Lagarde (2017).
OECD (OECD 2015;2016;2017)	strong	Inclusive and sustainable growth	Concerns about inequalities are only expressed as side-notes: *"One of the messages of this report is that structural policies are needed now more than ever to put our economies back on a path of strong and sustainable growth, but have to be carefully designed and complemented by measures that promote a better distribution of the growth dividends."* (OECD 2015: 22)
European Commission (DG-DEVCO) (European Union 2015)	Strong	Inclusive and sustainable growth	In the Annual report 2015 on the European Union's development and external assistance policies and their implementation 'inequality' as term is not mentioned.
BMZ (BMZ 2015)	Pragmatic	Equal weight for economic, social and environmental goals	BMZ highlights that we should no longer equate economic development with GDP-growth. They call for new indicators which help to move towards more sustainable economies.
DIE-GDI	pragmatic	"responsible development"	Highlights the pivotal role of education to strive for social justice and responsible development
Overseas Development Institute (ODI 2015)	Pragmatic		ODI calls for new indicators and highlights the important difference between relative and absolute growth especially within the inclusive growth and shared prosperity approaches.
Oxfam (Seery & Calstor 2014)	pragmatic	Rights-based approach	Oxfam describes their approach as "A human economy approach".
USAID (USAID 2011;2015)	Focused	inclusive and sustainable economic growth	
DFID (DFID 2017; Maxwell 2017)	Focused	sustained, job-creating growth	There are points in the substantive chapters which did not make the cut for the summary, for example on corporate social responsibility and workers' rights
SIDA (SIDA 2015)	pragmatic	Human rights-based approach	The Government's aid policy framework specifies six sub-objectives for Swedish development cooperation,

			one of them is – "Better opportunities for people living in poverty to contribute to and benefit from economic growth and obtain a good education". Special attention is given to the creation of more and better jobs and to the development of more inclusive and efficient markets and more liberalised trade.
AFD (AFD 2012)	pragmatic	green and equitable growth	France's development cooperation strategy promotes sustainable and equitable growth. We must design pathways to economic growth that alleviate poverty, reduce disparities, and preserve the planet.

Appendix 3

Reviewed documents

AFD. 2012. Strategic Orientation Plan 2012-2016. Agence Française de Développement. Retrieved from http://www.afd.fr/webdav/site/afd/shared/PUBLICATIONS/INSTITUTIONNEL/pos/POS3-va.pdf

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Appendix 4

Table 3: Indices and measurement of inequality

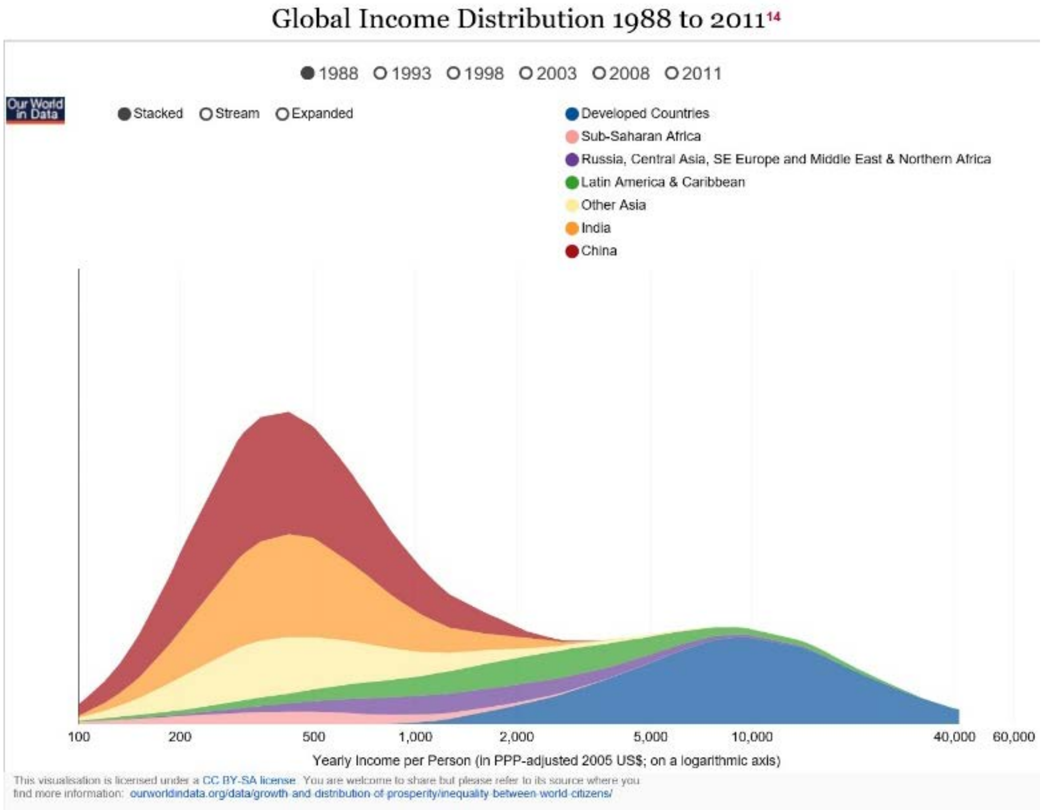
Inequality measures can be used to illustrate inequality between groups and within groups (Haughton and Khandker 2009). Although most of the commonly known measures of inequality relate to income inequality there are also measures that reveal inequality in access to health and education or gender inequalities. The choice of measurement can have different policy implications.

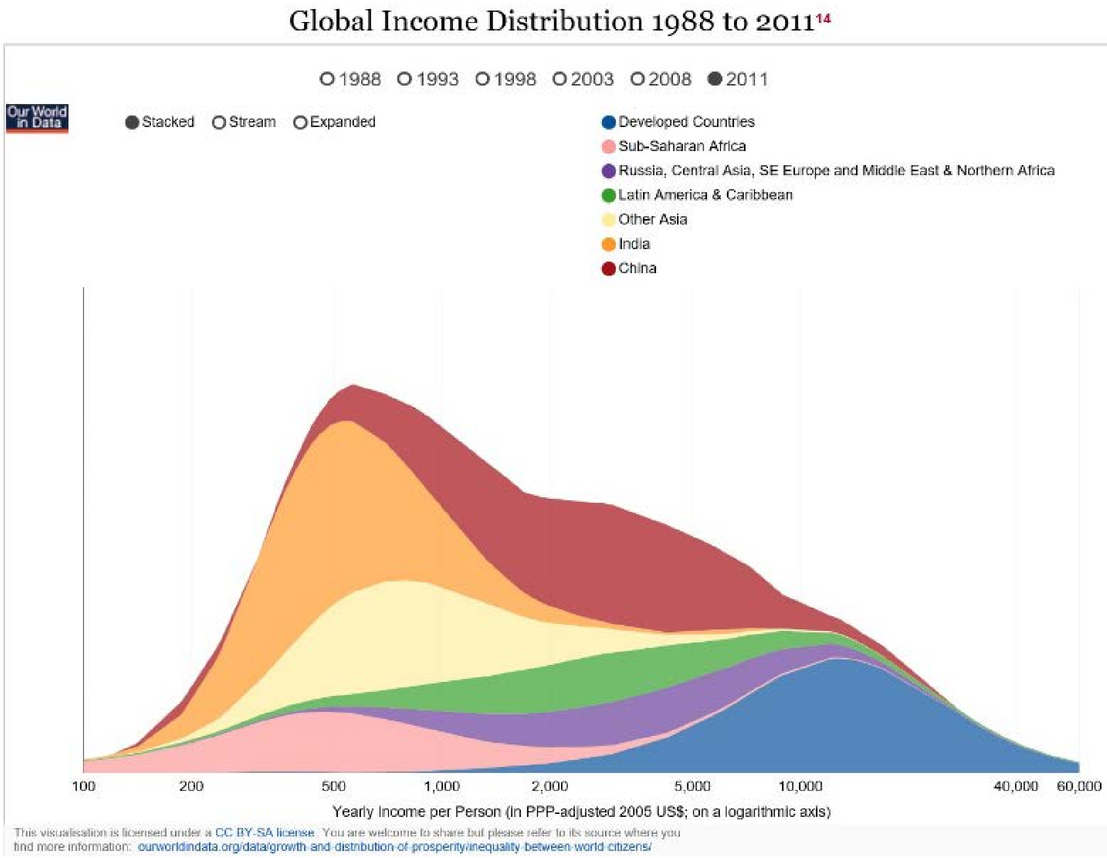
Inequality measure	**Short description**
Income based measures	
Deciles Dispersion Ratios	Simplest measurement of inequality. They sort the population from poorest to richest and show the percentage of income (or expenditure) attribute to the chosen %-part of population. They are popular but considered a crude measure of inequality, albeit easy to understand (Haughton and Khandker 2009). Examples: 90-10 (average incomes of top 10% over bottom 10%) 75-25 (average incomes of top 25% over bottom 25%) 90-50 (average incomes of top 10% over bottom 50%) The Palma ratio: The Palma ratio is defined as the ratio of the richest 10% of the population's share of gross national income divided by the poorest 40%'s share. Gabriel Palma, a Chilean economist, found that middle class incomes usually represents about half of the gross national income while the share of the top 10% and the poorest 40% varies considerably. The Palma ratio addresses the Gini index's over-sensitivity to changes in the middle of the distribution and insensitivity to changes at the top and bottom. Therefore, the Palma ratio reflects income inequality's economic impacts on society as a whole more accurately.
Gini coefficient	The most widely used inequality measure ranging from 0 to 1 that tells us more about the overall distribution of income in a society. A 0 Gini indicates an equal distribution and 1 a perfect inequality. A problem, however, is that it cannot easily be broken down to show the sources of inequality, and it is very sensitive to changes in the middle distribution where there is often less change than at the extremes (Haughton and Khandker 2009; Cobham and Sumner 2013). Nor is it clear about its underlying normative assumptions about inequality (Cobham and Sumner 2013).
Theil's T and Theil's L Indexes Theil's L is sometimes referred to as the mean log deviation measure (MLD)	Break down inequality into the part that is due to inequality within areas and the part that is due to differences between areas, as well as the sources of changes in inequality over time (Haughton and Khandker 2009).
Other measures of inequality	

Inequality-adjusted Human Development Index	Provides data on health, education, and income distribution that can be used for comparisons, although it does not account for overlapping inequalities.
Gender Inequality Index	This UNDP index provides data on gender inequality in more than 150 countries in relation to reproductive health, empowerment, and economic status.

Appendix 5

Figure 1: Comparison of global income distribution between 1988 and 2011





Source: Our World in Data (2017). URL: https://ourworldindata.org/

Appendix 6

Figure 1: Global inequality of inter-personal income, Gini 1988-2011 (left) and inequality of population-weighted mean incomes in the world (right)

Source: Milanovic 2015