

The inequality dilemma: conflicts between the objective of reducing inequality and development trends and policies

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‘Whichever way we look at it, we always return to the same conclusion: .. the social pact establishes equality among the citizens in that they all pledge themselves under the same conditions and all enjoy the same rights’ (Rousseau, 1762)

‘It is precisely because the force of circumstances tends continually to destroy equality that the force of legislation should always tend to its maintenance’ (Rousseau)

Levels of inequality today are gross and excessive

- Top 1% have more wealth than 50% of world population (OXFAM)
- In 2000, Americans were 72 times as well off as Africans; 80 times South Asians.
- Richest 1% in China own one third of country's wealth.
- CEO's in US make 185 times average US wage.

This talk will argue that such inequality is unjust and dysfunctional, yet rarely countered

- How should we define inequality?.
- Why is it important to reduce inequality?
- Current trends
- Policies to reduce inequality; policy obstacles.
- What can development cooperation contribute?

Defining inequality: two big questions

1. Inequality among whom?
 2. Inequality of what?
- Plus many methodological questions about measures.

Inequality among whom?

Alternative approaches

- Inequality among households;
 - within a country (*vertical distribution*); predominant approach.
 - In the world as a whole (*global vertical distribution*).
- Inequality among countries (*inter-country inequality*)
- Inequality among groups with common identity (*horizontal inequality*)
 - By race; ethnicity; religion; region; citizenship; gender; class.....
 - Relevant type varies across countries and time.
 - Some overlapping identities and inequalities.

Distribution by factor

- Ricardo 'principal problem in political economy' to determine the laws which regulate the distribution between wages/profits/ rents.
 - Has been given remarkably little attention in recent decades.
 - Yet critical in determining other types of inequality.
 - Renewed interest with Piketty.

Inequality of what? [Sen question]

- Relevant space is the space in which we assess progress
- In the past primarily inequality in *income* as accepted measure of utility/ welfare following economists' traditional view of equation of utility/welfare/income.
- Most measures relate to income (e.g. Gini; Palma; Atkinson)
- But increasingly accepted that income is a very narrow measure of progress.

Inequality of what?

- Sen: capabilities or freedoms, or what people can be or do. Open-ended.
- Horizontal inequalities: four major dimensions and many sub-elements:
 - Economic (assets, incomes, employment..)
 - Social (access to services)
 - Political (power at many levels)
 - Cultural status or recognition (language/religion/cultural practices).
- In general **move from unidimensional to plural approach in assessing inequality.**

Why worry about inequality?

- Intrinsic reasons: for justice...
- And instrumental reasons: because it affects other valued objectives.
- Instrumental approach dominated among economists: especially relationship with economic growth.
- Increasingly a more justice-oriented approach.
- And instrumental reasons have broadened beyond economic growth as valued objectives have broadened.

Towards a justice approach

- Rousseau: social contract required near equality.
- A return to the social contract by Rawls: principle of justice is maximin.
 - Rules out much HI; leaves some VI.
- Human Rights approach to development; everyone entitled to certain rights – implies reduced inequality.
- Human Development: ‘an enabling environment to enable people to enjoy long, healthy and creative lives’: reduced inequality a recurrent theme.
- Recognised in SDGs
- Rawls primarily relevant to within country inequality. Human Rights and HD also between country.

Instrumental arguments:

Is more or less inequality good for growth?

- Earlier more inequality thought to promote growth via savings and incentive effects (Galenson and Leibenstein, 1955; Okun 1975).
- Widely challenged. Adelman and Morris 1973 – country evidence showed more equal countries grew faster.
- Similar evidence in 1990s (Alesina and Rodrik 1994, Alesina and Perotti 1994). But some questioned finding (Fishlow 1995; Banerjee and Duflo 2003).
- IMF economists Berg and Ostry find that more equality better for *sustained* growth.

A broader approach to instrumental objectives

- **Inequality and poverty.**
- From 1990s reducing poverty a central development objective.
- Elasticity of poverty reduction with respect to growth depends on level and change in inequality.
- High inequality, growth does little to reduce poverty.
- Shown by much empirical evidence.

Broadening the instrumental objectives

- **Education, health and nutrition** – aspects of basic capabilities or HD
- Evidence shows more equal incomes tend to increase education and reduce educational inequality; two way causality.
- Claimed inequality reduces overall health level (Wilkinson and Pickett; questioned by Deaton).
- Higher inequality, worse health and nutrition of poor.

Human security and inequality: criminality

- Evidence shows with higher inequality more criminality. Fajnzylber:
 - ‘Crime rates and inequality are positively correlated within countries, and particularly, between countries, and this correlation reflects causation from inequality to crime rates, even after controlling for other crime determinants’.

Human security and inequality: civil war

- Strong evidence of correlation between HI and civil war (Gurr, 1970; Stewart 2000, 2008; Cederman et al 2013).
- Especially where economic and political HIs are in same direction.
- Mixed evidence on VI.
- Evidence that genocide associated with HIs (Fein, Harff, Stewart).
- And riots/ protests – Blau and Blau
- Gender inequality and domestic violence: possible relationship – Peterson, Yodanis.

Environmental sustainability makes more equality imperative

- People and countries give economic growth priority because of 'catch-up' motive.
- Never can catch-up with persistent inequality
- Treadmill of growth, more environmental emissions, and very little more wellbeing.
- If low and middle income countries caught up to present growth/emissions of rich, we would be way beyond safe levels .

Gross Inequality in Emissions per head

	Population, million	E/P, or emissions per head, kt tons
Rich countries	1,287	11,579
Middle income	4,788	3,456
Low income	810	0.3
World	6,885	4,882

Issues of justice, central to sustainability

- Hard limit on emissions means that if some get more, others get less. (Not necessarily true of income).
- We need to consider what a just global distribution would be.
- And what is justice in relation to future generations.
- Current distribution is grossly unjust; and future generations are 'not at the table'.

More equality needed: but is more inequality inevitable?

- Kuznets hypothesis 1955: inverted U curve.
- Rising inequality unavoidable in early stages of development as workers shift from low-productivity to high productivity sectors.
- Hypothesis challenged econometrically (Anand and Kanbur 1993, Bruno et al 1998, Kanbur 2011)
- And reduced inequality at higher stages of devt. questioned by recent upturn in inequality

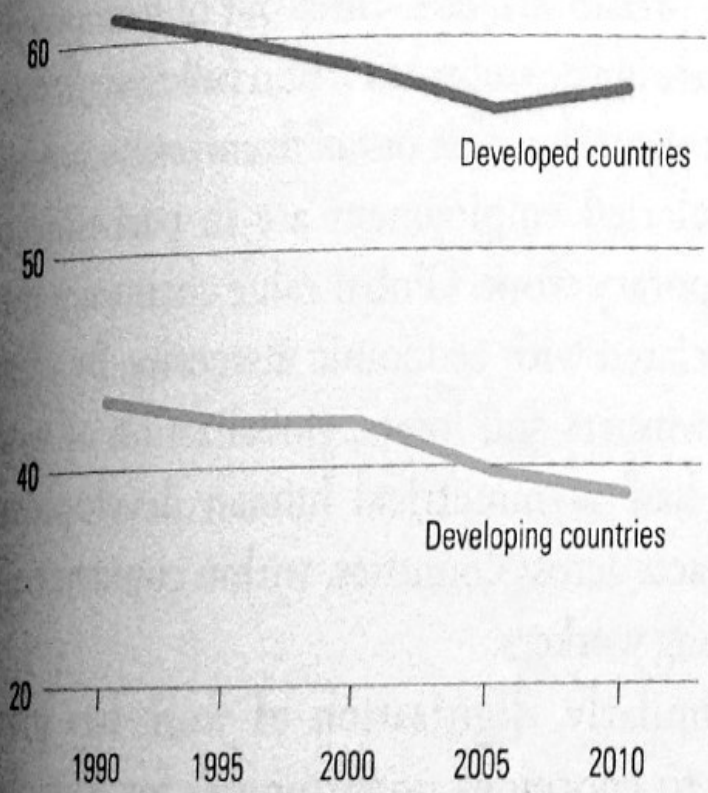
Does globalisation worsen inequality?

- **‘Globalization has dramatically increased inequality within and between nations’ (Mazur 2000).**
- **‘Capital has been the main beneficiary of the globalization of trade..’ (Bourgignon 2015)**

Effects of globalization

- *Trade worsens distribution in rich countries; yet does not improve it in poor countries.*
- ‘Globalisation pushes countries to accept labour market ‘reforms’:
 - Lower minimum wages
 - *Reduced unionisation* associated with more inequality (Jaimotte and Buitron 2015).
- *Technology change* and global markets increase skill premium and wage differentials.
- *Capital account liberalization and financialization* likely to result in more inequality (IMF 2007; Gallas 2014).

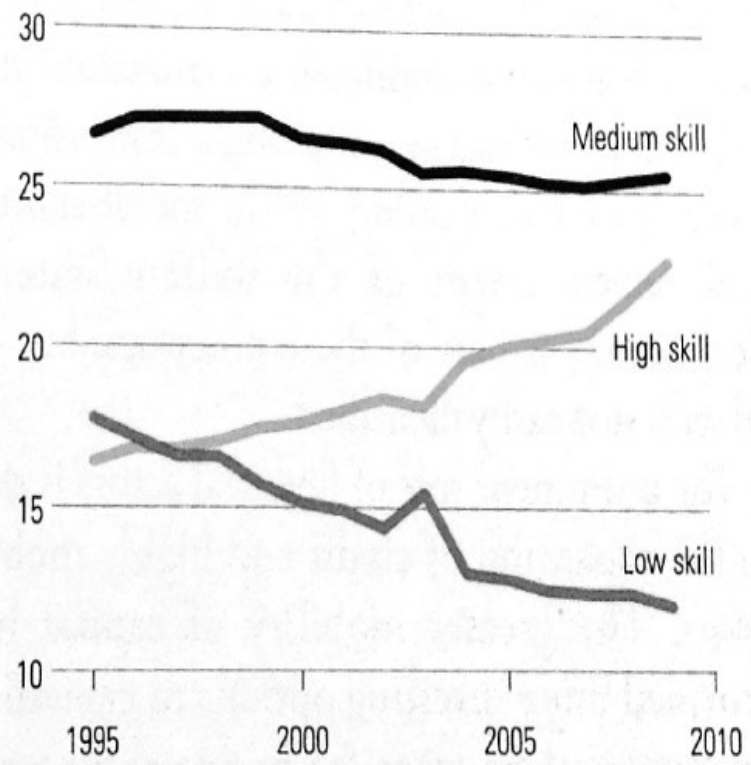
Labour's share of corporate income (%)



Note: Labour's share of corporate income equals the compensation of employees in the corporate sector divided by corporate gross value added.

Source: Karabarounis and Neiman 2014.

Labour's share of corporate income (% of value added)



Note: Simple average of 40 countries.

Source: Human Development Report Office calculations based on WIOD 2014.

Inequality trends

- Rising within country inequality in last decades of 20th century – global and within countries.
- Less clearcut in first decade of 21st C;
 - LA reduced inequality.
 - Africa mixed.
 - Asia and developed country mainly worsening.
 - Post-2007 inequality lessening.
- HI divergent changes.
- Reduction of inter-country inequality
- Little change in global vertical distribution.
- **Country variation suggests policy matters**

Global attitudes have changed radically

- Inequality NOT part of policy agenda until very recently
- 1960s and 1970s: growth.
- 1970s some recognition; Redistribution with Growth 1979. NOT translated into policy.
- 1980s: stabilisation and adjustment; worsening inequality.
- MDGs no reference to inequality.
- 2013 survey shows majority of govts recognise inequality as problem.
- 2016: Accepted as major element in SDGs.

And actual policies became more unequalising

- Early development plans aimed to limit inequality: progressive taxation; nationalisation; land reform; unionisation; minimum wages.
- All stopped/reversed with neo-liberal agenda.
- Nonetheless, affirmative action policies quite widespread- Malaysia (from 1970), India (from 1949), Nepal (2010+), South Africa (1994) Brazil (2000+).

What policies? :

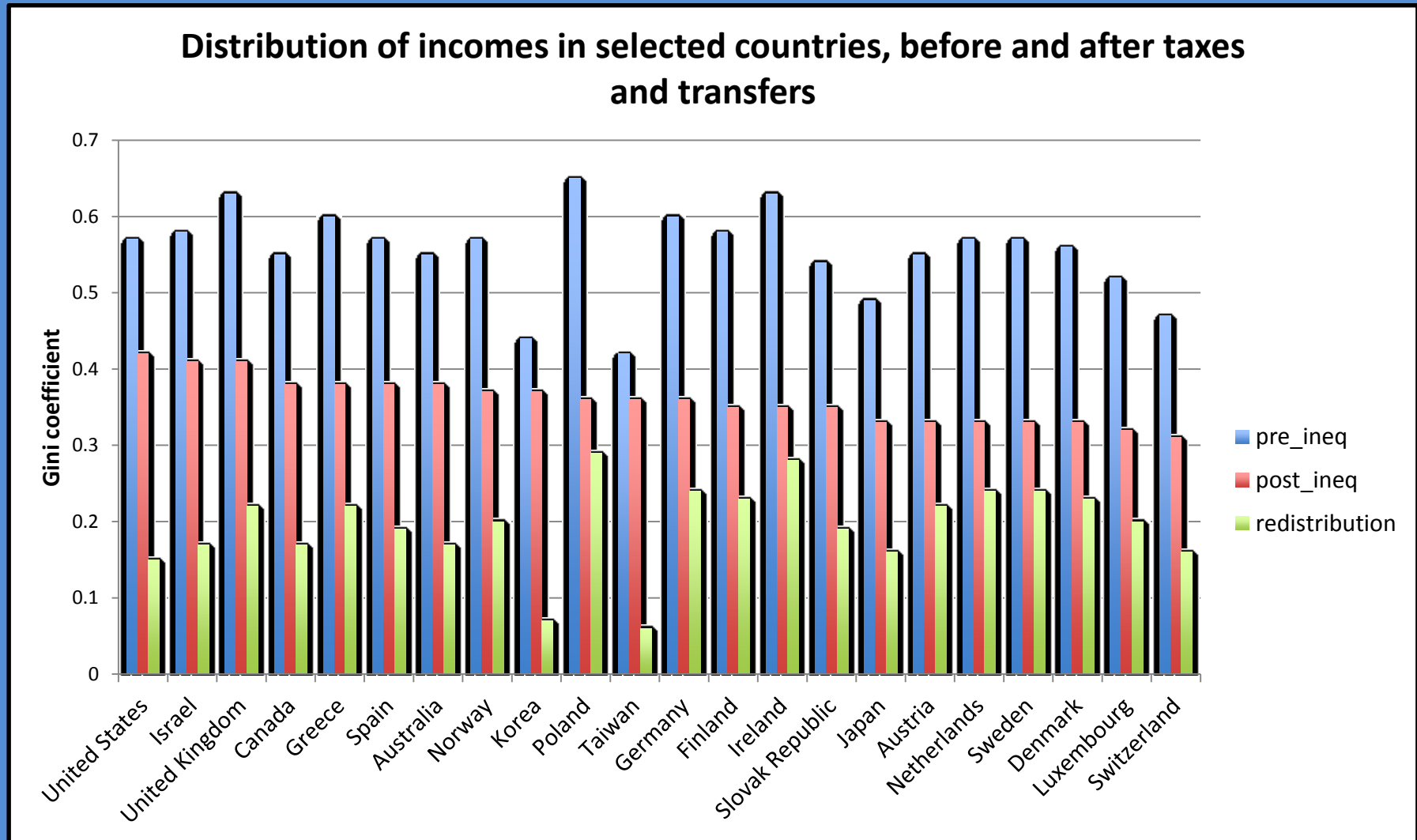
Pre-distribution and redistribution

- **Predistribution**: change distribution before taxes etc.
 - Employment policies;
 - Asset ownership
 - Education
 - Mode of production (capitalist; public ownership; cooperative; self-employment).
 - Competition policy
 - Norms to high pay...

Redistribution

- Level of taxation and expenditure.
- Progressive taxation
- Transfers (social protection; pensions...)
- Public expenditure: sector and allocation within sectors.
 - Social sector expenditure generally progressive.
 - Primary and secondary education progressive, not tertiary.
- Within developing countries most tax and expenditure systems neutral; in developed countries some highly progressive.

Large amount of redistribution in developed countries



Direct versus indirect policies

- Direct policies target groups directly with benefits – e.g. education, employment, transfers. Affirmative action. Can target ‘poor’.
- Universal policies give more benefits to poorer groups/individuals by design (eg. Regional or sectoral expenditure. Universal child benefits).
- Direct policies often rouse hostility. But can be effective (successful in Malaysia).

Effective policies in LA 2000s: mainly indirect combining pre and redistribution(Cornia)

- Rising minimum wages
- Greater spread of education (tertiary and secondary/primary).
- Higher social expenditure
- More support for TUs.
- More social protection.
- Higher direct/indirect tax balance.
- Lower real exchange rate
- Negative: FDI stock

Policies accepted (partially) in selected countries. But rarely advocated by IFIs.

- Continued advocacy of unequalising neo-liberal policies:
 - Privatisation;
 - More indirect taxes;
 - Less progressive direct taxes.
 - Against affirmative action policies...

Major obstacles to equalising policies

- Neo-liberal agenda:
 - Free trade;
 - Free capital movements;
 - Switch from direct to indirect taxation
 - Reduce marginal income tax rates
 - Race to bottom on corporation tax
 - Labour market reforms.
- Ideology dominates economics profession; and economists dominate policy.
- Major influence of global corporations and elite on policy.
- Middle class resistance to redistribution

How can these trends be countered?

- International coordination to avoid race to the bottom
- Through social and political movements
- Shift from GNP as measure of progress:
 - To extend to Human Development
 - To include 'green' effects/sustainability
 - To weight by who gets income or other resources.

What can development cooperation contribute?

- Recognise and advocate need for policy change including:
 - Changing measure of progress
 - Raising taxation and expenditure
 - Adopting more equalising expenditure patterns
 - Progressive taxation and asset policies.
 - Sustaining and increasing social transfers.
- Support for government promoting equalisation.
- Monitoring trends especially less well-documented ones:
 - Horizontal inequalities in multiple dimensions;
 - Non-income dimensions of vertical inequality.

Recognise need to move beyond economic aspects towards politics and culture

- Political inequality critical, for both HI and VI.
 - Support political education and organisation of poorer individuals and groups.
 - Support social movements.
- Document inequality in cultural recognition.

A final note

SDGs are universal

- Equality objective needs to be supported in developed countries as well as developing.
- The suggestions apply as much to developed as developing.
- Its increasingly evident that this is essential for global and local peace, social cohesion and the attainment of sustainability.