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Inequalities and the Post-2015 Development Agenda A Concept Note

This concept note was prepared by UNRISD as a member of the UN Task Team Working Group on “Emerging Issue of Inequality (including gender)”.

Introduction to the relevance of the issue/theme

Recent studies point to the fact that over the past two to three decades income inequalities have worsened: a recent ILO study found that between 1990 and 2000 “more than two-thirds of the 85 countries for which data are available experienced an increase in income inequality as measured by the Gini index”.¹ Evidence analysed by WIDER paints an even more drastic picture when it comes to global wealth concentration: the richest 1 per cent of the world’s population are found to own 40 per cent of global assets, while the bottom half of the world’s population owns just 1 per cent of global wealth.² This broad pattern of growing income inequality, and even more staggering wealth inequality, under economic liberalization is supported by data on other dimensions of inequality.

One of the most revealing indicators in this regard is the functional distribution of income—that is, the distribution of income between wages (income from labour) and profits (income from capital). This provides a general picture of how wage earners are faring relative to employers and others who derive their income from the ownership of capital (such as financial assets or productive equipment). On this account, studies by the ILO (on 29 advanced, 33 developing and 11 transition economies) and by UNRISD (on 25 OECD countries) found that a significant proportion of countries for which data were available witnessed a decline in the wage share of national income between 1980/1985 and 2000/2005.³

Further inequalities become evident when wages/earnings are disaggregated by gender: the latest figures suggest that despite the narrowing of gender-based inequalities in terms of school enrollment, the average shortfall of women’s earnings compared to men’s was 22.9 per cent during the period 2008-9. This marks an improvement over the gap observed in 1995 (26.2 per cent). Nonetheless at the current pace of progress it would take more than 75 years to achieve ‘equal remuneration for work of equal value’.⁴ Significant inequalities within countries (by gender, region, and ethnicity/caste) are also

¹ ILO (2008) *World of Work Report 2008: Income Inequalities in the Age of Globalization*. ILO, Geneva.

² Davies, James B., Susanna Sandstrom, Anthony Shorrocks and Edward N. Wolff (2008) *The World Distribution of Household Wealth*, Discussion Paper No.2008/03, UNU-WIDER, Helsinki.

³ ILO 2008 *op.cit.*, UNRISD (2010a) *Combating Poverty and Inequality: Structural Change, Social Policy and Politics*, UNRISD, Geneva.

⁴ ILO (2011) *Report of the Director General, A New Era of Social Justice*, International Labour Conference, 100th Session, ILO, Geneva, p.15.

evident in terms of social indicators and human capabilities, such as enrolment in secondary and tertiary education, access to safe drinking water and sanitation, and maternal mortality.⁵

There are also important global dimensions to the issue of inequality. Even though some hitherto developing countries are catching up with high-income countries, the income levels of rich countries are still much higher than even those of converging countries; if individual incomes in the world are divided into ‘ventiles’⁶ (20 income groups), the poorest ‘ventile’ in a rich country such as the US will be richer than two thirds of the people in poor countries. Thus, a person’s income in today’s world largely depends on his/her citizenship or location.

In recent decades the mainstream response to evidence of growing inequalities was to dismiss *equality of outcome* (as ‘politics of envy’) by focusing instead on *equality of opportunities* as the appropriate metric for measuring equity/equality.⁷ In policy terms this meant an emphasis on ‘human capital’ investment (focusing in particular on children) in order to give everyone an equal start in life and produce a more equitable future, along with targeted social provisions (for those who “messed up their chances”), limited to an avoidance of absolute deprivation.⁸ This made no allowance for structural factors that might play a part in individual outcomes (apart from individual bad luck and personal failings). It thus shied away from serious consideration of other powerful policy instruments that can produce greater equality of outcome:

- **macroeconomic policies** to ensure that sufficient employment is created to absorb the new, albeit ‘educated’, entrants into the labour force
- **income and social policies** (e.g. registration/protection of informal work, effective compliance with legislation on minimum wage and anti-discrimination, state support for smallholder agriculture, etc.) to ensure that labour is properly rewarded in a largely globalized economy where its bargaining power has been reduced through informalization and liberalization
- widely accessible and good quality **social provisions (education, health, food, housing, social security)** to protect and promote not only against sharp declines in income due to contingencies (illness, old age, market risks, etc.) but also persistently low incomes and their structural causes
- widely accessible **infrastructure, domestic technology and care services** to support the (re)production of labour, disproportionately undertaken by women and girls on an unpaid basis⁹
- wealth/income redistribution through **land reform**, and **corporate taxation** and **progressive income taxation** to finance widely accessible social provisions.

The reason why it should be part of the global development agenda

While the facts of inequality have been well-known for some time now, what seems to have changed over the past couple of years is the recognition, across a fairly wide spectrum of opinion,¹⁰ of inequality’s powerful and corrosive effects, and the urgency of doing something about it:

⁵ UN (2011) *The Millennium Development Goals Report 2011*. UN, New York.

⁶ Milanovic, Branko (2011) *The Haves and the Have-Nots*, Basic Books, New York.

⁷ This is illustrated in World Bank (2005) *World Development Report 2006: Equity and Development*, The World Bank, Washington, DC. However, as Anne Phillips has argued, one ‘can only be confident that opportunities were equal when the outcome is equal too’; any ‘systematic disparity in outcomes—whether this be a concentration of certain groups at certain points of the social hierarchy or a marked segregation of occupations and roles—alerts us to a likely inequality in initial opportunities’ (2004:13). Phillips, Anne (2004) ‘Defending equality of outcome’, *Journal of Political Philosophy* 12(1): 1-19.

⁸ World Bank 2005 *op.cit.*

⁹ UNRISD (2010b) *Why Care Matters for Social Development*. Research and Policy Brief, No. 9, UNRISD, Geneva.

- high levels of inequality make it harder to reduce poverty through economic growth¹¹
- high levels of inequality can jeopardize the well-being of large segments of the population through low earnings/wages; low earnings/wages in turn mean lower effective aggregate demand, which limits the size of the domestic market and hinders structural change in the economy¹²
- high levels of inequality can also act as a vital structural factor in the origin and propulsion of financial crises through under-consumption and the creation of various ‘bubbles’ which can destabilize the real economy¹³
- high levels of inequality create polarized and disarticulated societies, fragmented systems of social provision (high quality education/health for those who can afford it, poorly funded public services for the poor), limiting the potential of social policies to create equal opportunities and “human capital”, and reduced social mobility across generations¹⁴
- high levels of inequality make it difficult to construct broad-based, redistributive and fiscally sustainable social welfare systems (social security, social services) that are grounded on principles of social solidarity, i.e. where the middle classes both finance (through taxation) and use public services alongside the poor¹⁵
- high levels of inequality are also likely to lead to the subversion of government, “as those at the top end of inequality use all the instruments of power that extreme wealth puts at their command to protect and perpetuate their position in economy, polity and society”¹⁶
- high levels of inequality may raise crime levels or cause violent conflict, especially in multi-ethnic societies
- high levels of inequality are detrimental to social cohesion and may undermine efforts to build more democratic societies
- high levels of global (i.e. between-country) inequality make it difficult for low-income countries to retain skilled staff in sectors that are crucial for meeting human development goals, such as health and education (carers, nurses, doctors, etc.), leading to ‘brain drain’ and ‘care drain’, despite the compensatory factor of remittances.

The political context in which the relevant issues are or should be incorporated into the inter-governmental process

Recent political developments have drawn public attention to the corrosive effects of deepened inequalities in both global North and global South. There are many signs of social discontent, declining levels of trust in governments, and unrest in response to rising food prices, labour retrenchments, and draconian austerity measures (especially in EU peripheries). While deep-seated and locally specific

¹⁰ This now includes the World Economic Forum in Davos which classified inequality as one of the top 8 risk factors in its *Global Risks Report 2012*.

¹¹ UNRISD 2010a *op.cit.*

¹² *Ibid.*

¹³ Saith, Ashwani (2011) ‘Inequality, imbalance, instability: Reflections on a structural crisis’, *Development and Change*, 42(1): 70-86.

¹⁴ Wilkinson, Richard and Kate Pickett (2009) *The Spirit Level: Why More Equal Societies Almost Always Do Better*, Allen Lane, London. Esping-Andersen, Gösta (2009) *The Incomplete Revolution: Adapting to Women’s New Roles*, Polity Press, Cambridge, p. 73 and Table 2.5.

¹⁵ UNRISD 2010 *op.cit.*, Mkandawire, Thandika (2005) *Targeting and Universalism in Poverty Reduction*, PSPD Paper No. 23, UNRISD, Geneva.

¹⁶ Saith *op cit.*, p.71. For a US example see, Jacob S. Hacker and Paul Pierson (2010) *Winner-Takes-All Politics: How Washington Made the Rich Richer and Turned its Back on the Middle Class*, Simon and Schuster, New York.

factors underpin the recent uprisings in Tunisia, Egypt, Syria and other countries in the region, the high rates of unemployment, precarious livelihoods and repressive state practices are common sources of discontent that feed popular unrest.¹⁷ In contexts where there is deep social insecurity, limited resilience of social institutions to cushion the effects of crises on people, and weak and fragile democracies, the possibility of authoritarian resurgence cannot be ruled out. However, even in countries with consolidated democracies (bracketing the fact that in recent months financial markets seem to have had more power than citizens in changing governments), as austerity measures are taken to cut benefits, diminish health and education services, and make jobs more temporary, crisis is becoming a way of life with unsavoury political implications. Even mainstream political parties, and not just the far Right fringe parties, are finding it acceptable to stress the ‘threat from immigration’, thereby giving credibility to populist racism.¹⁸ Contradictions and crises in the United States have given a boost to coercive forms of rule: carceral relations centred on prisons and debt have become increasingly important, pervading the lives of marginalized social groups, including increasing numbers of poor black and Hispanic women and men.¹⁹

Recommendations for possible ways to address them (e.g. new goals and targets, as fundamental concerns to underpin a new agreement)

There are however ways of using the current conjuncture—marked by geo-political shifts (toward a multi-polar world), the sense of danger/urgency among some political elites, and widespread popular discontent—to initiate (or move further along) pathways of transformative change that are equality-enhancing:

- a) Despite its enormous social costs, 30 years of experimentation with orthodox economic and social policies has given many governments, especially in low-income countries, the will to forge heterodox development strategies that combine the quest for **employment-centred structural change** with social equality (through investments in public services, widely accessible social protection etc.). When the chosen development strategy delivers high levels of good quality employment then both the cost of social policy and the burden of universal coverage can be reduced.
- b) Despite the recent challenges confronting European welfare states, the more universalist variants have shown considerable resilience and continue to prevent worse outcomes in times of austerity. At the same time the new emerging welfare regimes in the global South are also demonstrating their capacity to dampen inequality in some of the most unequal societies (e.g. Brazil, Uruguay, Ecuador) and broaden their reach (e.g. Republic of Korea).²⁰ These diverse experiences make a strong case for **broad-based social policies** (as opposed to narrowly targeted provisions) because they are easier and less costly to administer, ensure the political

¹⁷ Dahi, Omar S. (2012) ‘The political economy of the Egyptian and Arab revolt’, *IDS Bulletin* 43(1): 47-53.

¹⁸ Zizek, Slavoj (2010) ‘Liberal multiculturalism masks an old barbarism with a human face’, *The Guardian*, 3 October.

¹⁹ The US currently leads the world in terms of incarceration rates, with 1 per cent of adult population in prison or jail; if those on probation and parole are added, 3.2 per cent of the adult population is under some form of criminal justice supervision. Overall more than two-thirds of those in prison are black or Latino. See Le Baron, Genevieve and Adrienne Roberts (2010) ‘Toward a feminist political economy of capitalism and carcerality’, *Signs*, 36(1): 19–44.

²⁰ On inequality in Latin America see Lustig, Nora (2010) *Declining Inequality in Latin America: a Decade of Progress?*, The Brookings Institution Press and UNDP, Washington D.C. On the quest for universalism in Republic of Korea see, Kwon, Huck-Ju (2005) ‘Reform of the developmental welfare state in Korea: Advocacy coalitions and health politics’, in Kwon, Huck-ju (ed.), *Transforming the Developmental Welfare State in East Asia*, Palgrave/UNRISD, Basingstoke.

support of the middle classes, help create more equal societies, and are an effective mechanism for (re)producing a healthy, skilled and creative workforce (thereby contributing to item a) above in a synergistic manner).

- c) Such synergies are not automatically given, nor can they be engineered in a top-down manner. Lessons from successful democracies suggest that for inequality to be substantially reduced **rights have to be institutionalized** to allow citizens to organize and contest public policies; political parties need to be sufficiently embedded within broad social coalitions that include the active participation of socially disadvantaged groups; and state-society channels should give social groups voice and influence in holding both states and private interest groups (e.g. corporations, or other corporate entities) to account;
- d) National efforts to reduce inequalities have to be buttressed by an enabling global environment. Global crises and shocks disrupt the processes of economic and social development and are bad for within-country equality. Global inter-sectoral terms of trade (i.e. relative prices between sectors), expressed through commodity price booms/recession and financial bubbles/crises, drive much of within-country inequalities.²¹ This makes it necessary to address global inequalities in any new development agenda that is concerned with global partnerships. MDG8 focuses on aid, trade, medicines and ICTs, but does not explicitly address global inequalities and ways of reducing them.

On goals and indicators

1. Should inequality become a separate goal with its own indicators and/or be included under existing goals and targets?

Our answer to this question is that both are necessary: a) inequality has to be seen as a goal in itself with relevant targets (see below on targets), as well as b) being reflected in the other goals. In the MDGs dealing with human development indicators such as infant mortality, education, maternal mortality, access to water/sanitation etc. targets should be set for 'sub-national inequalities' (i.e. inequalities across regions, gender, ethnicity, income status within countries). The annual MDG reports already disaggregate in terms of these social categories, but there are no targets to hold governments accountable.

2. Assuming that inequality will become a goal, what would the relevant targets and indicators be?

- *Gini coefficient*; some experts consider a Gini of more 0.4 to be undesirable. However, the issue of countries' initial conditions would have to be taken into account (i.e. those who may be making progress in reducing inequalities but may still fall short of the 0.4 target);
- *Inequality expressed in terms of the top and bottom deciles/ventiles etc.*
- *functional distribution of income* (wages versus profits); this is likely to be a politically contentious measure but it captures the distributional question that is now on the public agenda;
- *gender-based wage gaps*
- *other labour market indicators*: median wage, existence of minimum wage, % of labour force with social protection (female, male)
- *female/male ratio of unpaid work.*

²¹ UNRISD 2010 op.cit, Galbraith, James (2010) *Inequality and Economic and Political Change*, Thematic Paper prepared for UNRISD flagship report on poverty and inequality, UNRISD, Geneva.