Tackling Inequality for Inclusive Development and Structural Transformation

Isabel Ortiz
Director, Social Protection Department, International Labour Organization

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Director Social Protection Department
International Labour Organization
Distribution of World Income: Development for Whom?
Most people left behind before the crisis

Global Income Distribution by Countries, 1990-2007 (or latest available)
in PPP constant 2005 international dollars

• Top 1% (61 million) has the same as the poorest 3.5 billion (or 56%) of the world’s population
• Some progress, but too slow: At this rate, it would take 800 years for the bottom billion to achieve 10% of global income
Distribution of World GDP: The “Champagne Glass”

Source: Ortiz and Cummins UNICEF 2011
Visualization Global Inequality

### Poorest and Richest Quintiles in the World

2007, constant 2000 U.S. dollars

<table>
<thead>
<tr>
<th>Country</th>
<th>Quintile</th>
<th>GDP per capita</th>
<th>Population</th>
<th>Country</th>
<th>Quintile</th>
<th>GDP per capita</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dem. Rep. of Congo</td>
<td>1</td>
<td>26</td>
<td>12,504,557</td>
<td>Luxembourg</td>
<td>5</td>
<td>104,189</td>
<td>95,999</td>
</tr>
<tr>
<td>Dem. Rep. of Congo</td>
<td>2</td>
<td>43</td>
<td>12,504,557</td>
<td>United States</td>
<td>5</td>
<td>96,946</td>
<td>60,316,000</td>
</tr>
<tr>
<td>Liberia</td>
<td>1</td>
<td>47</td>
<td>725,457</td>
<td>Singapore</td>
<td>5</td>
<td>76,189</td>
<td>917,720</td>
</tr>
<tr>
<td>Haiti</td>
<td>1</td>
<td>49</td>
<td>1,944,017</td>
<td>Switzerland</td>
<td>5</td>
<td>73,404</td>
<td>1,510,223</td>
</tr>
<tr>
<td>Burundi</td>
<td>1</td>
<td>49</td>
<td>1,567,596</td>
<td>Norway</td>
<td>5</td>
<td>70,184</td>
<td>941,831</td>
</tr>
<tr>
<td>Niger</td>
<td>1</td>
<td>50</td>
<td>2,827,937</td>
<td>Luxembourg</td>
<td>4</td>
<td>63,986</td>
<td>95,999</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>1</td>
<td>51</td>
<td>308,208</td>
<td>Ireland</td>
<td>5</td>
<td>63,507</td>
<td>871,386</td>
</tr>
<tr>
<td>Malawi</td>
<td>1</td>
<td>52</td>
<td>2,887,899</td>
<td>United Kingdom</td>
<td>5</td>
<td>58,408</td>
<td>12,196,061</td>
</tr>
<tr>
<td>Central African Rep.</td>
<td>1</td>
<td>60</td>
<td>851,481</td>
<td>Denmark</td>
<td>5</td>
<td>56,421</td>
<td>1,092,288</td>
</tr>
<tr>
<td>Dem. Rep. of Congo</td>
<td>3</td>
<td>65</td>
<td>12,504,557</td>
<td>Sweden</td>
<td>5</td>
<td>55,543</td>
<td>1,829,618</td>
</tr>
</tbody>
</table>

Crisis Transmission Channels

1. Employment and Income
   - Unemployment, underemployment
   - Wage cuts, reduced benefits
   - Decreased demand for migrant workers
   - Lower remittances
   - Negative returns from pension funds

2. Prices
   - Basic food, agricultural inputs
   - Fuel
   - Medicines, drugs

3. Assets and Credit
   - Lack of access to credit
   - Loss of savings due to bank failures
   - Loss of savings due to coping mechanisms
   - Home foreclosures

4. Government Spending on Economic and Social Sectors
   - Education
   - Health
   - Social protection
   - Employment programmes
   - Public investment (e.g. infrastructure)

5. Aid Levels - ODA

Inequality Further Increased by Global Crisis (I):
Inequality Further Increased by Global Crisis (II): Higher Food Prices

Source: Ortiz and Cummins. 2012. A Recovery for All. UNICEF
Inequality Further Increased by Global Crisis (III): Employment – The long jobs crisis

Employment to Population Ratios 1990-2011

Source: Ortiz and Cummins. 2012. A Recovery for All. UNICEF.
Inequality Further Increased by Global Crisis (IV): Countries Contracting Public Expenditures

Number of Countries Contracting Public Expenditures as a % GDP, 2008-16

Crisis Phase I (2008-09) – Fiscal Expansion

• $2.4 trillion fiscal stimulus plans in 50 countries

Social Protection in Fiscal Stimulus Plans 2008-09

Prioritizing Finance over Socio-economic Recovery


- Financial sector support committed (2008-10)
  - North America: 5,197
  - Europe: 3,565
  - Japan, Rep. of Korea and Australia: 1,585

- Fiscal stimulus packages announced (2008-09)
  - North America: 229
  - Europe: 829
  - Japan, Rep. of Korea and Australia: 398

- Government gross debt increase (2008-10)
  - North America: 3,623
  - Europe: 2,039
  - Japan, Rep. of Korea and Australia: 1,286

Crisis Phase II (2010 onwards): Fiscal Consolidation Adjustment Measures in 174 Countries, 2010-13

Inequality Further Increased by Global Crisis (IV): A Crisis of Social Support

- **Reducing subsidies** (food, fuel and others) in 100 countries, despite record-high food prices in many regions.
- **Wage bill cuts or caps** in 98 countries, reducing the salaries of public-sector workers who provide essential services to the population.
- **VAT increases** on basic goods and services that are consumed by the poor – and which may further contract economic activity – in 94 countries.
- **Rationalizing and targeting safety nets** are under consideration in 80 countries, at a time when governments should be looking to scale up benefits though social protection floors.
- **Reforming pension and health care systems** in 86 and 37 countries.
- **Labor flexibilization reforms** in 30 countries, eroding workers rights.
Inequality Further Increased by Global Crisis (IV): 2013-15: A fifth of countries excessive contraction (expenditures below pre-crisis levels)


Financial crisis

Bailouts of the financial sector

Fiscal stimulus plans

Fiscal deficit

Debt

Less public revenue

Increases in taxes, VAT

Lower public investments

Downward adjustments in health

Downward adjustments in pensions

Downward adjustments in social benefits

Decline in disposable incomes

Decline in health status

Lower productivity

Decline in economic activity

Lower wages

Higher unemployment

Lower consumption

## Historical Perspective: Income Inequality Increasing

<table>
<thead>
<tr>
<th>Year</th>
<th>Gini</th>
</tr>
</thead>
<tbody>
<tr>
<td>1820</td>
<td>43.0</td>
</tr>
<tr>
<td>1850</td>
<td>53.2</td>
</tr>
<tr>
<td>1870</td>
<td>56.0</td>
</tr>
<tr>
<td>1913</td>
<td>61.0</td>
</tr>
<tr>
<td>1929</td>
<td>61.6</td>
</tr>
<tr>
<td>1950</td>
<td>64.0</td>
</tr>
<tr>
<td>1960</td>
<td>63.5</td>
</tr>
<tr>
<td>1980</td>
<td>65.7</td>
</tr>
<tr>
<td>2002</td>
<td>70.7</td>
</tr>
</tbody>
</table>

Income Shares of the Wealthiest 1875-2010

Source: Jomo and Popov 2013
# The UN Agenda Development for All

## 1980s-90s Orthodox Policy Advise vs. UN Agenda Development for All

<table>
<thead>
<tr>
<th>1980s-90s Orthodox Policy Advise</th>
<th>UN Agenda Development for All</th>
</tr>
</thead>
<tbody>
<tr>
<td>✗ Growth priority through deregulation, free markets, minimalist governments, residual social policies</td>
<td>➢ Growth and equity through active promotion of national development. Social and economic development integrated</td>
</tr>
<tr>
<td>✗ Macroeconomic policies focused on inflation and stabilization</td>
<td>➢ Macroeconomic policies focused on the stability of real output, incomes and employment</td>
</tr>
<tr>
<td>✗ Containing public expenditures, fiscal discipline, avoiding fiscal deficits</td>
<td>➢ Public investment for development; need to expand governments’ fiscal space</td>
</tr>
<tr>
<td>✗ Minimal direct taxation</td>
<td>➢ Taxation for development and redistributive purposes</td>
</tr>
<tr>
<td>✗ Export-led growth</td>
<td>➢ Developing domestic markets, selective export policy</td>
</tr>
<tr>
<td>✗ Privatization of public assets services, minimalist government</td>
<td>➢ Building state capacity to promote development, public investment, technology</td>
</tr>
<tr>
<td>1980s-90s Orthodox Policy Advise</td>
<td>UN Agenda Development for All</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>✗ Residual social policies – a cost (minimal, <em>targeted to the poor</em>), safety nets</td>
<td>➢ Social Policies as an investment. Universal policies (for all), redistribution back in the development agenda</td>
</tr>
<tr>
<td>✗ Commercialization of social services, cost recovery (fees for services)</td>
<td>➢ Universal public services, eg UNICEF School Fee Abolition Initiative, WHO-Bank Universal Health Coverage</td>
</tr>
<tr>
<td>✗ Labor flexibility, productivity</td>
<td>➢ ILO Decent work agenda</td>
</tr>
<tr>
<td>✗ Reforms social security and welfare systems, targeted safety nets, pension privatization</td>
<td>➢ ILO Social Protection Floors for all and universal public social security systems, reversing pension privatization</td>
</tr>
<tr>
<td>✗ Human Rights: endorsed but not implemented</td>
<td>➢ Empowering people through rights and standards</td>
</tr>
<tr>
<td>✗ No interest for culture and values (intangible)</td>
<td>➢ Important for tackling exclusion, discrimination (UNESCO, UNFPA)</td>
</tr>
<tr>
<td>✗ No attention at sources of conflict (“political”)</td>
<td>➢ Conflict prevention (UNDP)</td>
</tr>
</tbody>
</table>

The case for Equity

• Social Justice

• But equity also contributes to growth:
  • Inequality is economically inefficient / dysfunctional
  • Consumption concentrated in top income deciles in all countries
  • 2011: Depressed world markets, lack of demand, excess capacity
    Questioning export-led model, surplus cannot be absorbed by world markets. Need for domestic markets as a development strategy.
  • Raising the incomes of the poor increases domestic demand
  • And enhances human capital and productive employment

  ▪ And equity builds political stability
    ▪ Poverty and gross inequities tend to generate intense social tensions and violent conflict
    ▪ Social benefits ensure the political/electoral support of citizens
Inequality Slows Down Economic Growth

Per Capita Growth and Change in Income Inequality in 94 Developing Countries, 1990-2008 (or latest available)

Source: Ortiz and Cummins (2011) UNICEF
Inequality Generates Violence and Crime

Source: Ortiz and Cummins (UNICEF 2011)
Policies for an Equitable Recovery

- Current crisis presents an opportunity to rethink socio-economic policies for all persons
- 1929 financial crash led to a New Deal that radically altered the development model of the day:
  - Stimulated economic growth and employment
  - Regulated the financial sector
  - Expanded social security
- A comparable policy push is needed today
- It is not too late
- Increased international cooperation/coordination is urgently needed for a more robust and sustained recovery, with benefits far more widely shared
### Equitable Policies for Structural Transformation and Inclusive Development

<table>
<thead>
<tr>
<th>Sector</th>
<th>Typical Interventions with Equitable Outcomes</th>
<th>Typical Interventions with Inequitable/Regressive Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Food security; land redistribution; access to water, markets; livestock, credit for smallholders, rural extension services</td>
<td>Large investments that may benefit major landowners (e.g. irrigation systems)</td>
</tr>
<tr>
<td>Education</td>
<td>Universal free education; scholarships and programs to retain students</td>
<td>User fees; commercialization of education; cost-saving in teacher’s salaries</td>
</tr>
<tr>
<td>Energy and Mining</td>
<td>Rural electrification; life-line tariffs; contract laws ensuring adequate taxation from natural resource extraction</td>
<td>Untaxed or poorly taxed oil/mineral extraction</td>
</tr>
<tr>
<td>Finance</td>
<td>Regional rural banks; branching out to local areas; managing finance (regulating financial and commodity markets, capital controls); fighting illicit financial flows</td>
<td>Financial liberalization; rescue of banking system (transfers to large banks); subsidies to large private enterprises</td>
</tr>
<tr>
<td>Health</td>
<td>Universal health services; nutrition programs; free reproductive health services</td>
<td>User fees; commercialization of health; tertiary specialized clinics benefitting few</td>
</tr>
<tr>
<td>Housing</td>
<td>Subsidized housing for lower income groups; upgrading of sub-standard housing</td>
<td>Public housing finance for upper income groups</td>
</tr>
<tr>
<td>Industry</td>
<td>Technology policy to support competitive, employment-generating domestic industries, large and SMEs;</td>
<td>Deregulation; general trade liberalization</td>
</tr>
<tr>
<td>Labour</td>
<td>Labour programs; adequate minimum wages and labour laws; employment-generating policies across sectors</td>
<td>Labour flexibilization</td>
</tr>
<tr>
<td></td>
<td>Typical Interventions with Equitable Outcomes</td>
<td>Typical Interventions with Inequitable/Regressive Outcomes</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-----------------------------------------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>Public Expenditures</td>
<td>Public expenditures that benefit lower income groups; fiscal decentralization</td>
<td>Military spending; bank bailouts</td>
</tr>
<tr>
<td>Social Security</td>
<td>Social protection floors</td>
<td>Private funded pension systems</td>
</tr>
<tr>
<td>Taxation</td>
<td>Adequate corporate and personal income taxes</td>
<td>Consumption taxes (eg VAT)</td>
</tr>
<tr>
<td>Tourism</td>
<td>Small-scale local companies; financing basic infrastructure; international marketing campaigns</td>
<td>Poorly taxed luxury hotel chains</td>
</tr>
<tr>
<td>Trade</td>
<td>Linking employment-generating local companies with export markets; adequate protection of national industry; taxing exporting sectors for domestic development</td>
<td>Most bilateral free trade agreements; current intellectual property agreements</td>
</tr>
<tr>
<td>Transport and Infrastructure</td>
<td>Rural roads; physical and social infrastructure for national development; affordable public transport; non-motorized transport for households (bicycles, buffalos etc)</td>
<td>Large (and costly) infrastructure investments that the poor/excluded do not use or do not benefit by taxation</td>
</tr>
<tr>
<td>Urban Development</td>
<td>Slum upgrading; accessible universal design</td>
<td>Large urban infrastructure projects in wealthy areas</td>
</tr>
<tr>
<td>Water</td>
<td>Rural water supply and sanitation</td>
<td>Poorly negotiated privatizations</td>
</tr>
</tbody>
</table>

Social Protection Reduces Poverty and Inequality FAST
# Rapid Expansion of Social Protection

<table>
<thead>
<tr>
<th>Category</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pensions</strong></td>
<td>Armenia, Azerbaijan, Belarus, Bolivia, Botswana, Cabo Verde, China, Cook Islands, Guyana, Kazakhstan, Kiribati, Kyrgyz Republic, Kosovo, Lesotho, Maldives, Mauritius, Mexico, Namibia, Moldova, Nepal, Panama, Samoa, Seychelles, South Africa, St. Vincent and the Grenadines, Suriname, Swaziland, Thailand, Timor-Leste, Tunisia, Turkmenistan, Viet Nam.</td>
</tr>
<tr>
<td><strong>Child and family benefits</strong></td>
<td>Argentina, Bangladesh, Bolivia, Brazil, China, Colombia, Costa Rica, Ecuador, Ghana, Honduras, Indonesia, Jamaica, Kenya, Malawi, Mexico, Mongolia, Mozambique, Nepal, Nicaragua, Philip-pines, South Africa, Senegal, Tanzania, Uruguay</td>
</tr>
<tr>
<td><strong>Cash-for-Work</strong></td>
<td>Argentina, Burkina Faso, Cambodia, Colombia, Cameroon, Egypt, Ethiopia, Ghana, Guinea, Honduras, India, Kenya, Madagascar, Malawi, Mali, Nepal, Niger, Panama, Rwanda, South Africa, South Korea, Tanzania, Uganda, Vietnam, Yemen, Zambia, Zimbabwe</td>
</tr>
<tr>
<td><strong>Health Protection</strong></td>
<td>China, Lao PDR, Ghana, Rwanda, Tanzania, Thailand</td>
</tr>
</tbody>
</table>
Fiscal Space Exists Even in the Poorest Countries

- There is national capacity to fund socio-economic investments in virtually all countries

- There are many options, supported by UN policy statements:
  - Re-allocating public expenditures
  - Increasing tax revenues
  - Fighting illicit financial flows
  - Lobbying for increased aid and transfers
  - Tapping into fiscal and foreign exchange reserves
  - Restructuring debt
  - Adopting a more accommodative macroeconomic framework (e.g. tolerance to some inflation, fiscal deficit)

Ortiz and Cummins. 2012. A Recovery for All. UNICEF
Thank you