

EXPERT MEETING ON

# Social Inclusion Programmes and Their Impact on Sustainable and Inclusive Development and Growth



## Tackling Inequality for Inclusive Development and Structural Transformation

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Director, Social Protection Department, International Labour Organization

*Geneva, 27–28 November 2014*



International  
Labour  
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# Tackling Inequality for Inclusive Development and Structural Transformation

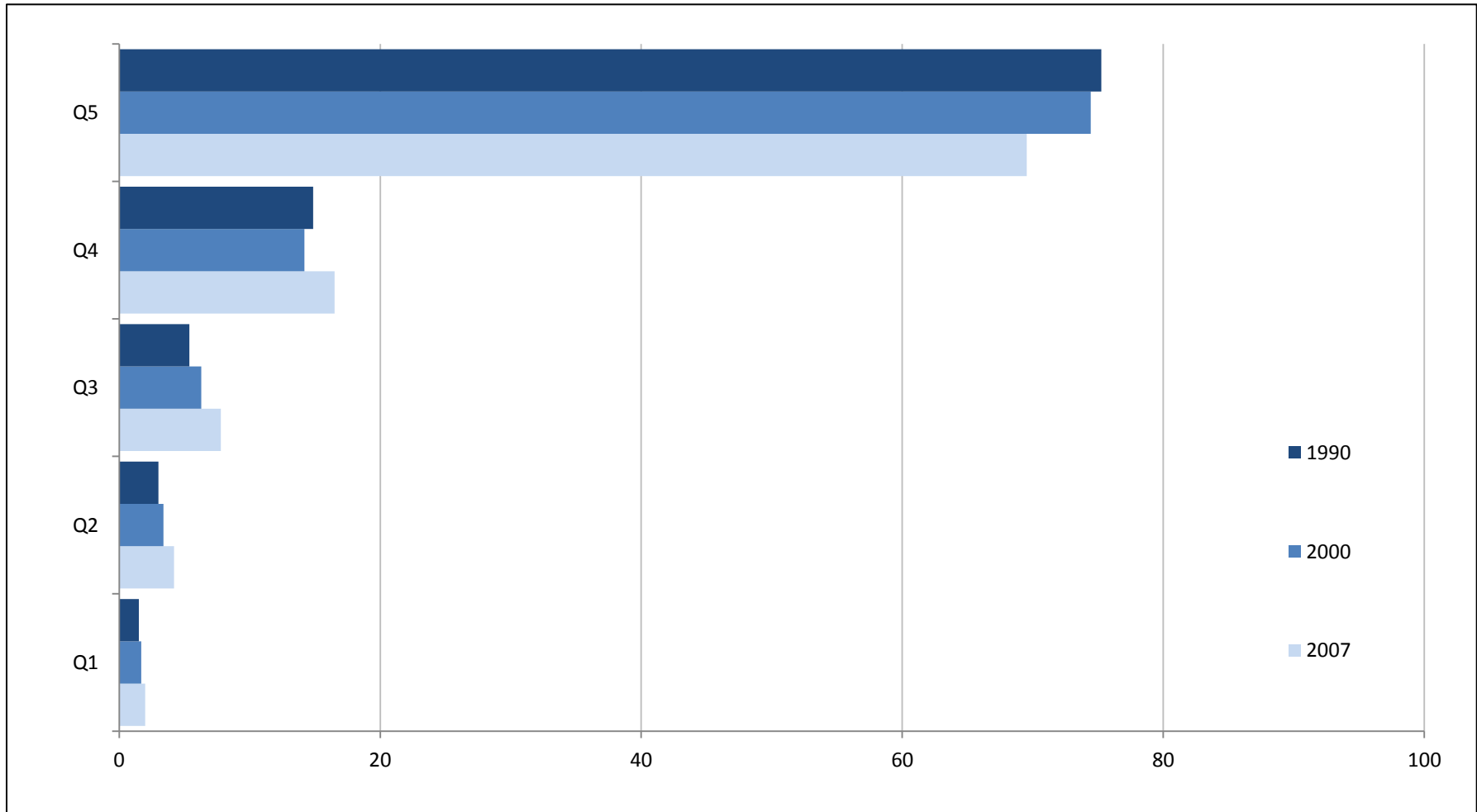
**UNCTAD Expert Meeting on Social Inclusion  
Programmes and Their Impact on Sustainable and  
Inclusive Development and Growth  
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**Isabel Ortiz  
Director Social Protection Department  
International Labour Organization**

# Distribution of World Income: Development for Whom?

## Most people left behind before the crisis

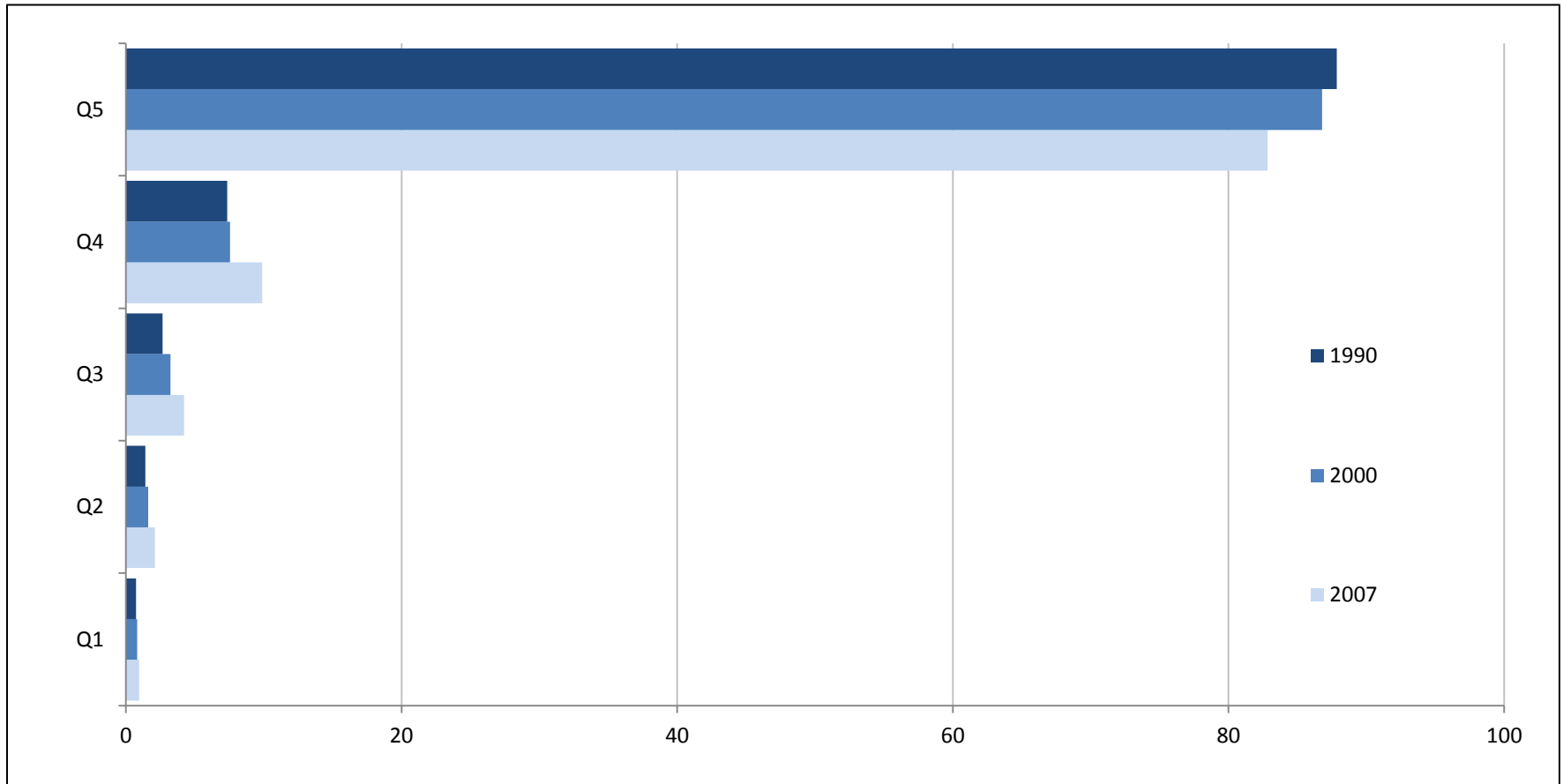
Global Income Distribution by Countries, 1990-2007 (or latest available)  
in PPP constant 2005 international dollars



Source: Ortiz and Cummins. 2011. *Global Inequality*. UNICEF

# Distribution of World Income (at market rates)

Global Income Distribution by Population Quintiles, 1990-2007  
(or latest available) in constant 2000 U.S. dollars

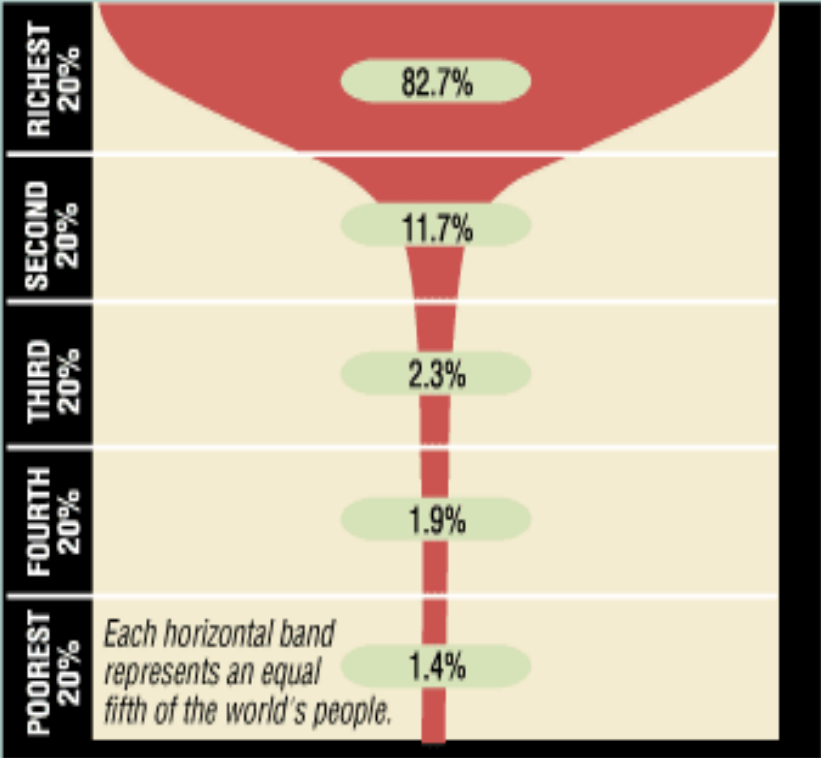


- **Top 1% (61 million) has the same as the poorest 3.5 billion (or 56%) of the world's population**
- **Some progress, but too slow: At this rate, it would take 800 years for the bottom billion to achieve 10% of global income**

# Distribution of World GDP: The “Champagne Glass”

## Distribution of world GDP, 1989

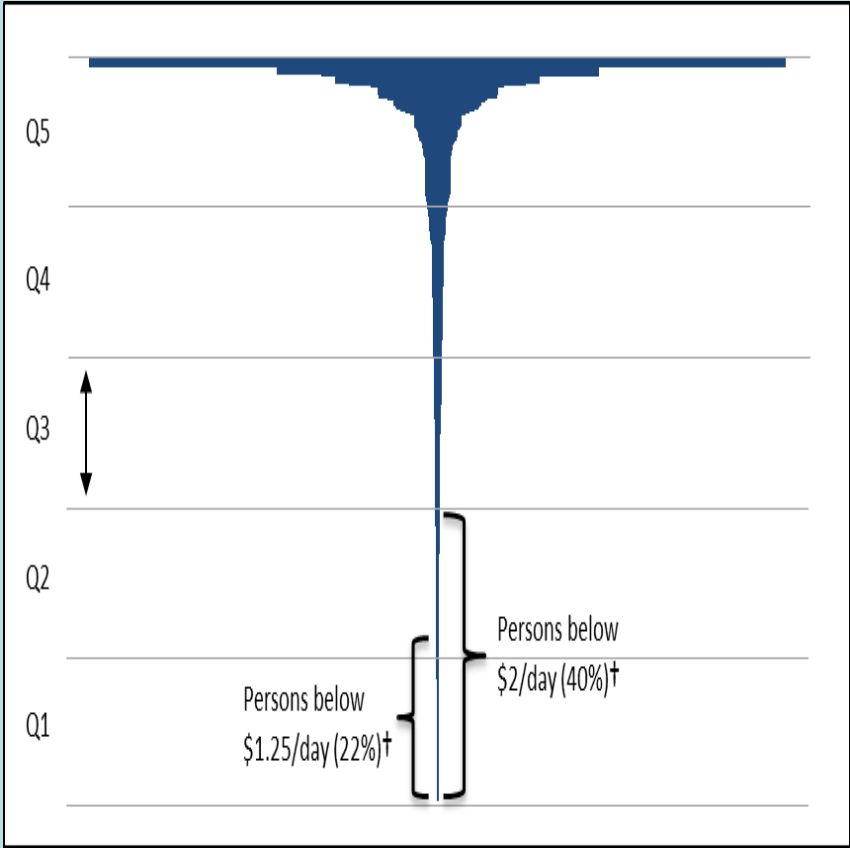
(percent of total, with quintiles of population ranked by income)



Source: United Nations Development Program, 1992, Human Development Report 1992 (New York: Oxford University Press for the United Nations Development Program).

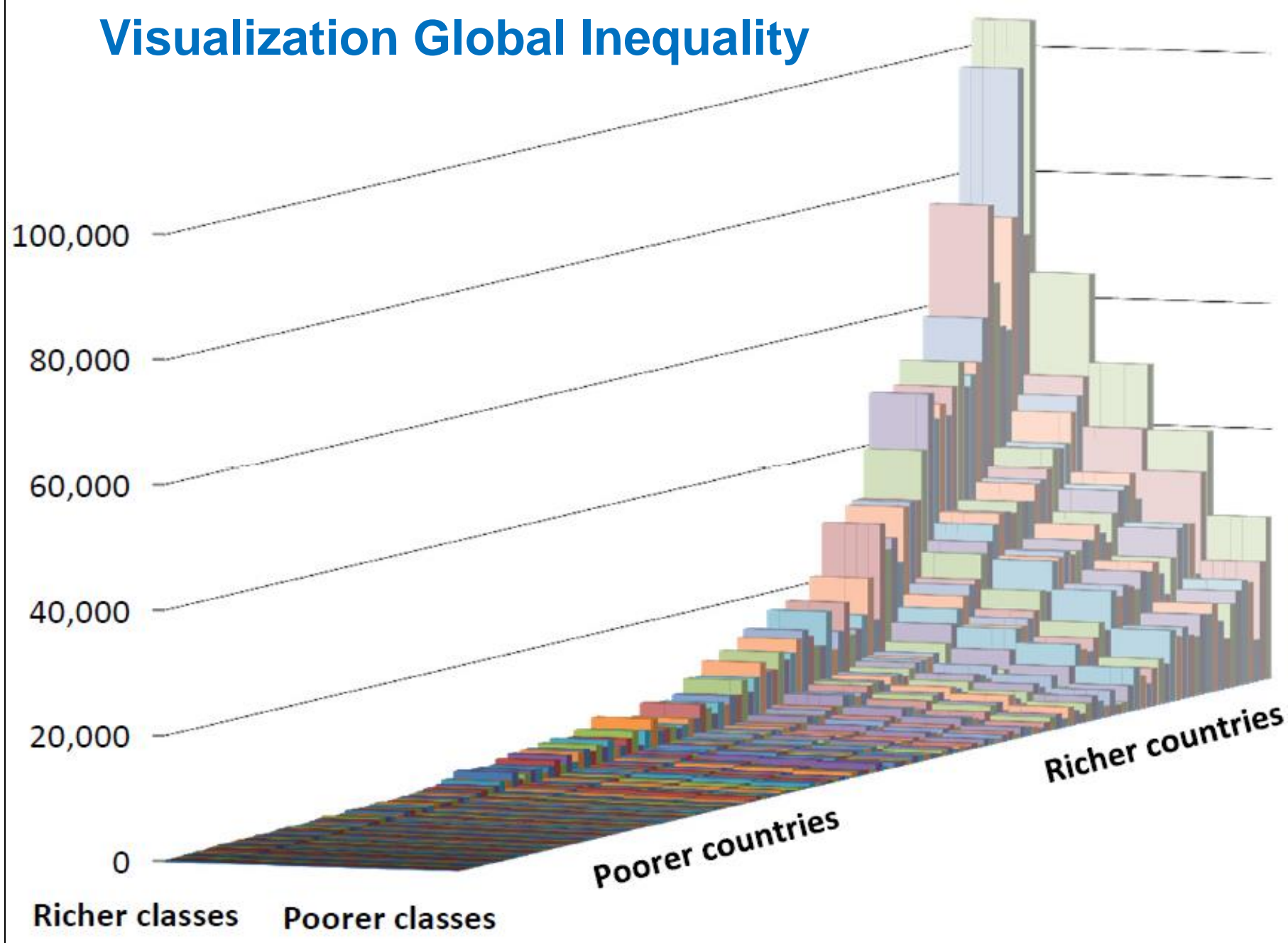
## Distribution of world GDP, 2007

(by quintiles, richest 20% top, poorest 20% bottom)



Source: Ortiz and Cummins UNICEF 2011

# Visualization Global Inequality



Source: Ortiz and Cummins. 2011. *Global Inequality*. UNICEF

# Poorest and Richest Quintiles in the World

2007, constant 2000 U.S. dollars

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

Source: Ortiz and Cummins (2011) based on World Bank (2011), UNU-WIDER (2008) and Eurostat (2011)

# Inequality Further Increased by Global Crisis (I): 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

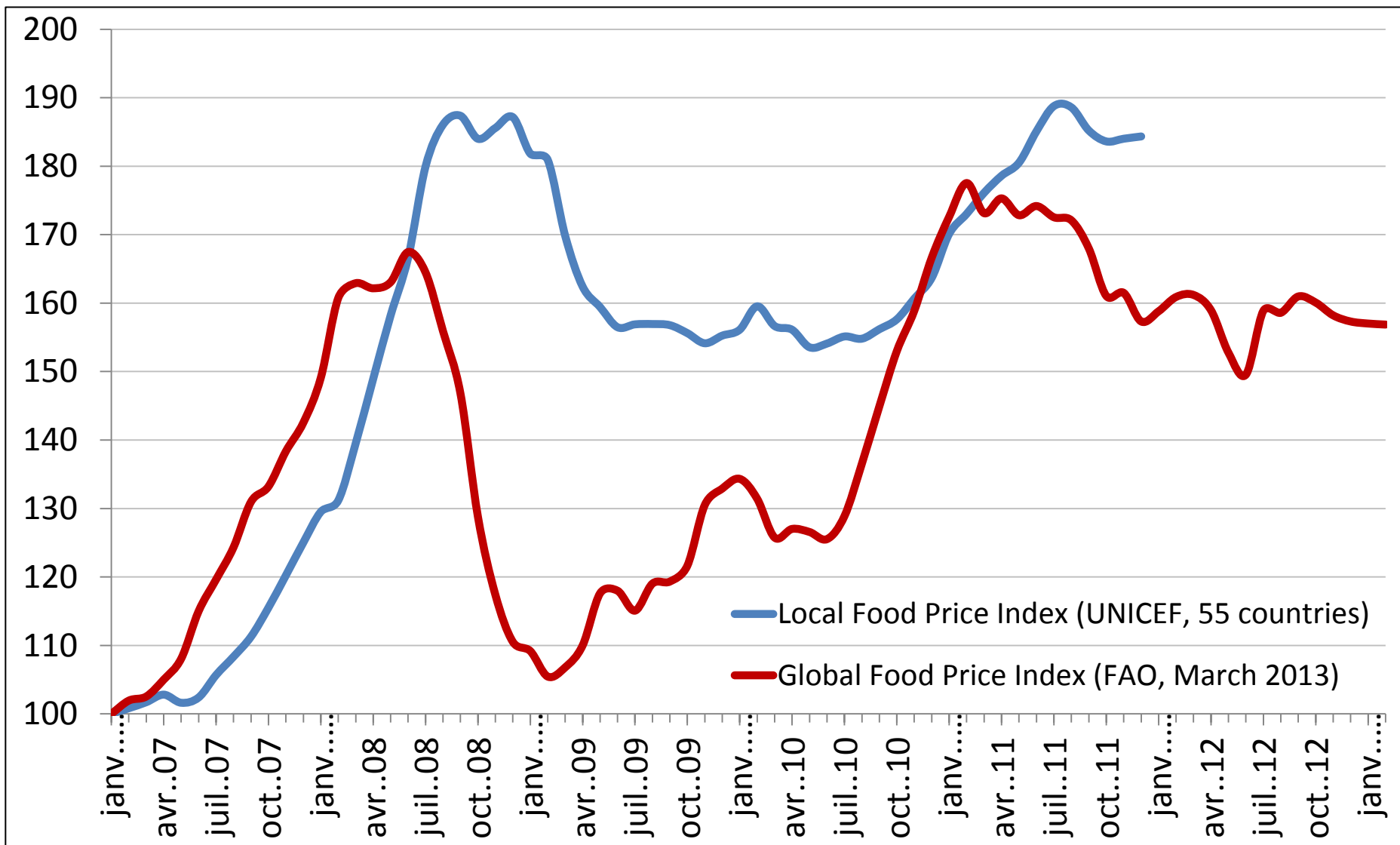
## 4. Government Spending on Economic and Social Sectors

- Education
- Health
- Social protection
- Employment programmes
- Public investment (e.g. infrastructure)

## 5. Aid Levels - ODA



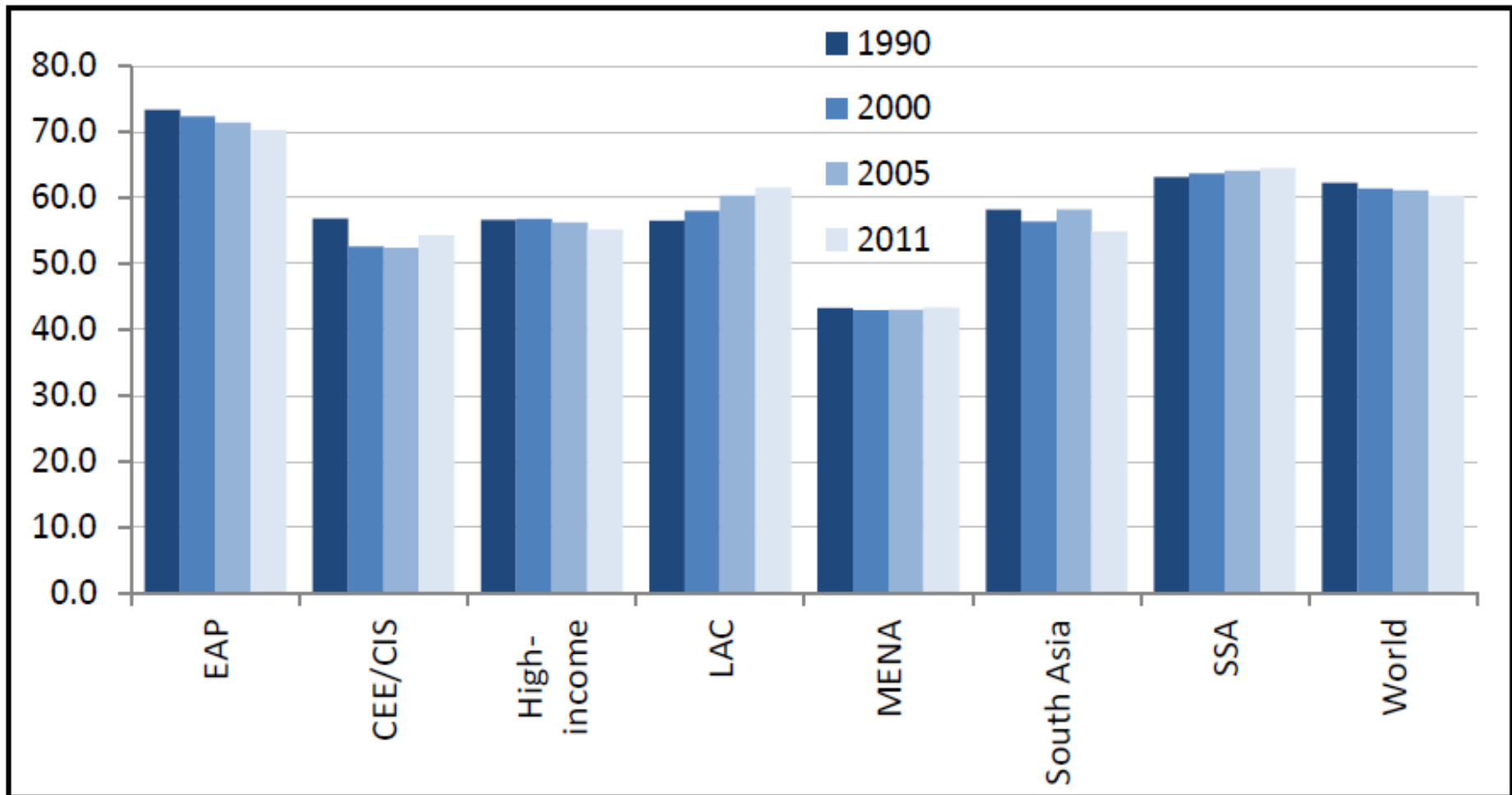
# Inequality Further Increased by Global Crisis (II): Higher Food Prices



Source: Ortiz and Cummins. 2012. *A Recovery for All*. UNICEF

# Inequality Further Increased by Global Crisis (III): Employment – The long jobs crisis

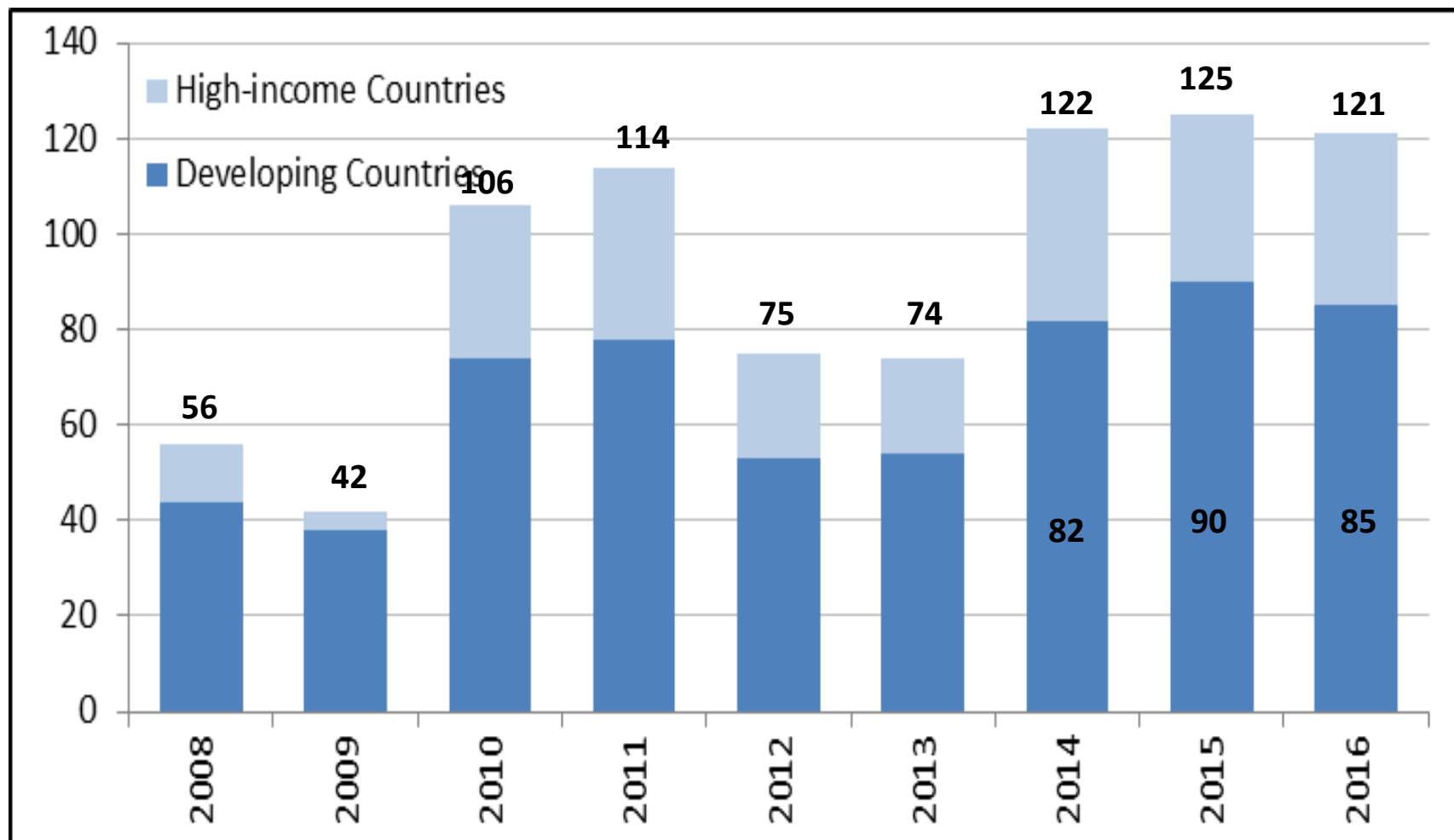
Employment to Population Ratios 1990-2011



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

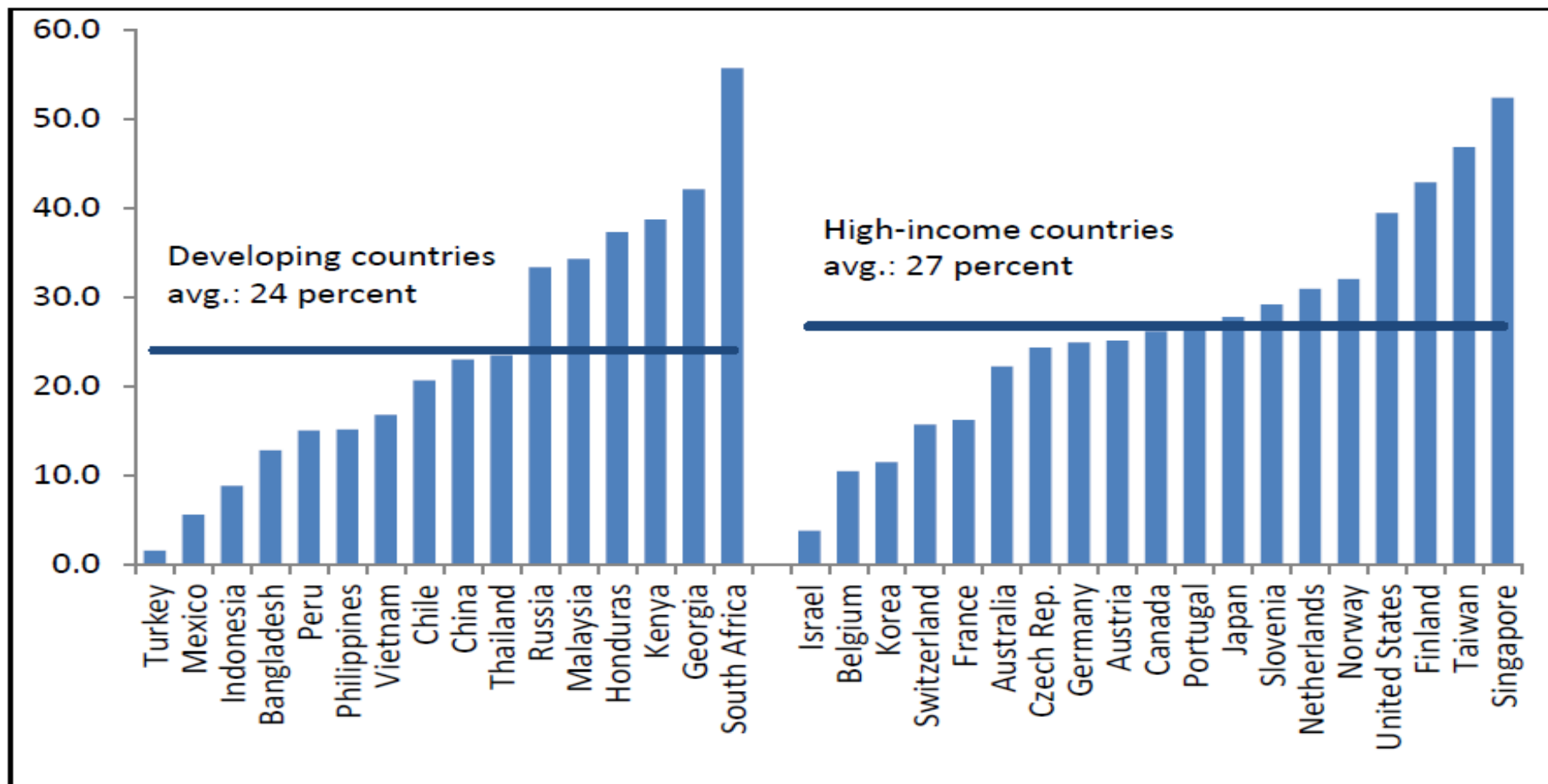


Source: ILO World Social Protection Report 2014-15 - based on IMF's *World Economic Outlook* (October 2013)

# Crisis Phase I (2008-09) – Fiscal Expansion

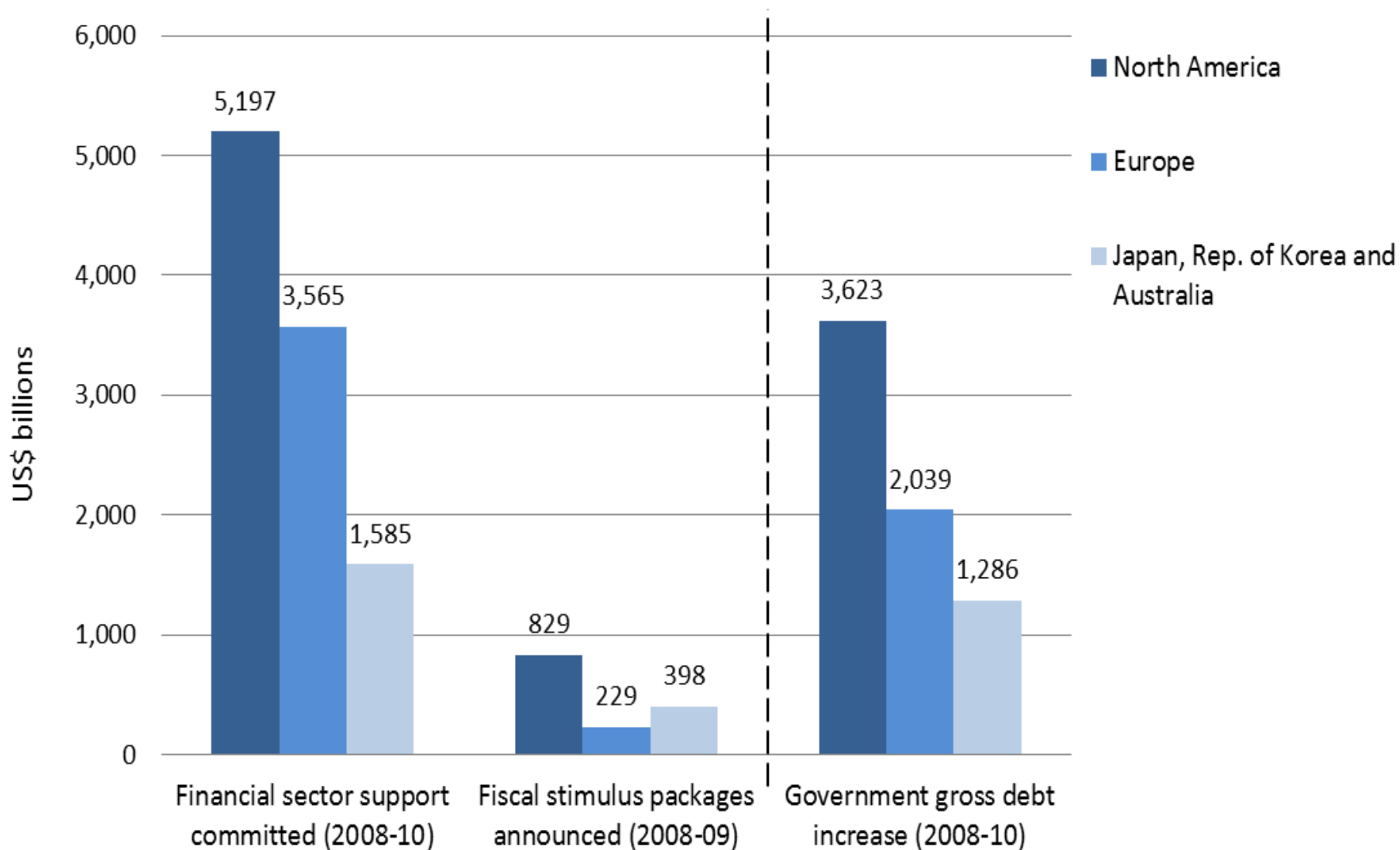
- \$2.4 trillion fiscal stimulus plans in 50 countries

## Social Protection in Fiscal Stimulus Plans 2008-09



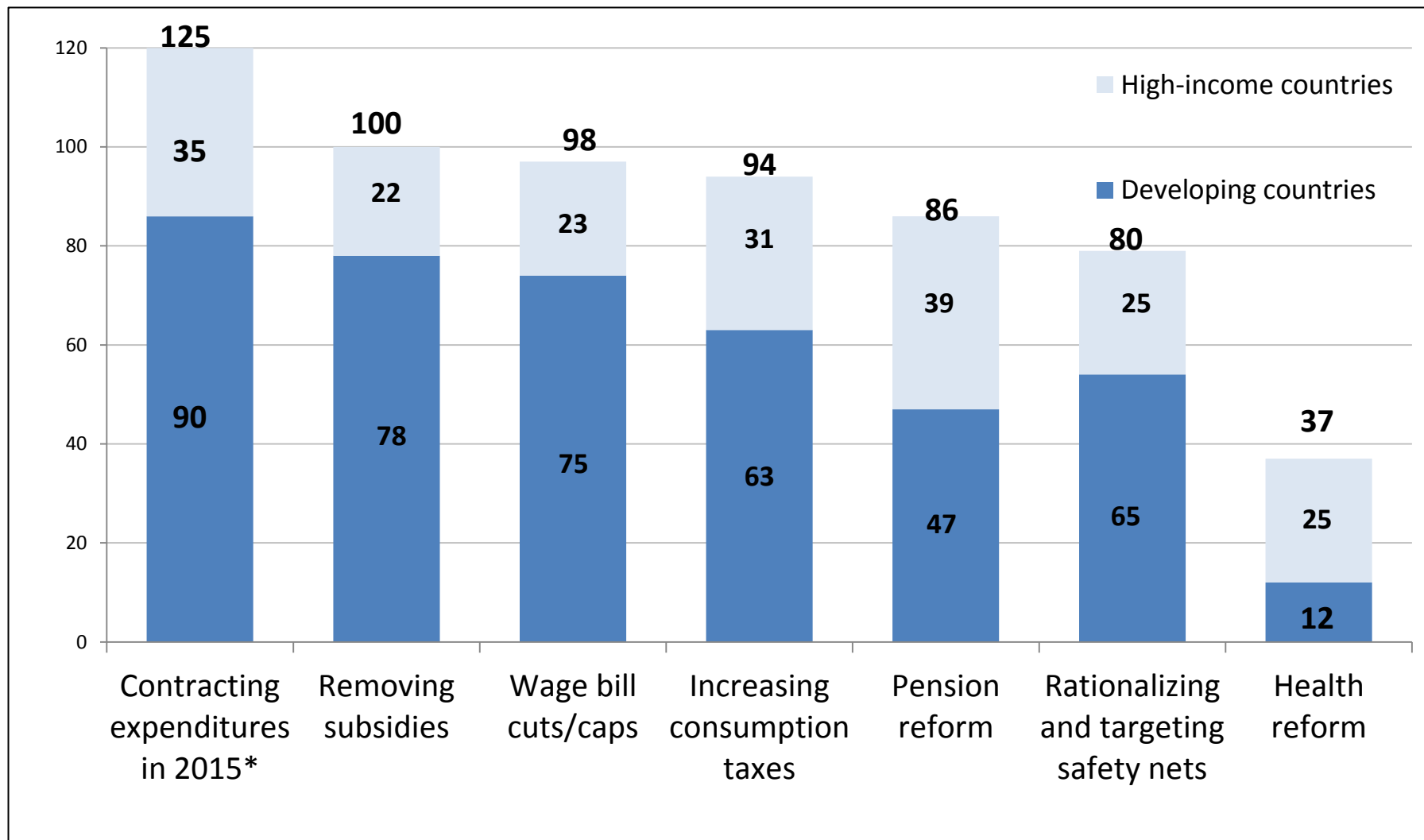
Source: Ortiz and Cummins.2013. *The Age of Austerity*. IPD and the South Centre

# Prioritizing Finance over Socio-economic Recovery



Source: ILO, World Social Protection Report 2014-15

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



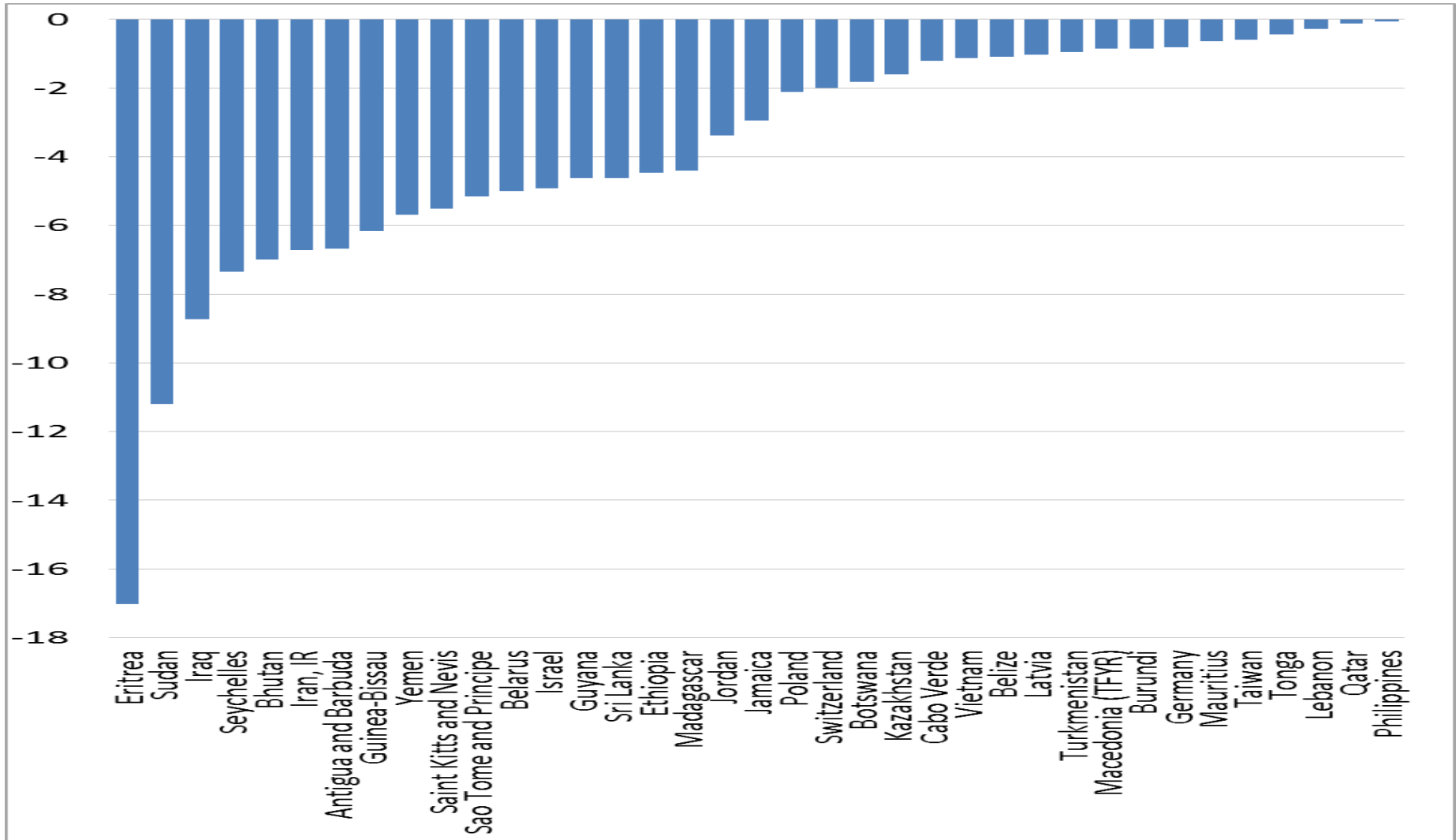
Source: ILO World Social Protection Report 2014-15 - based on 314 IMF Country Reports

# 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 through social protection floors
- **Reforming pension and health care systems** in 86 and 37 countries
- **Labor flexibilization reforms** in 30 countries, eroding workers rights

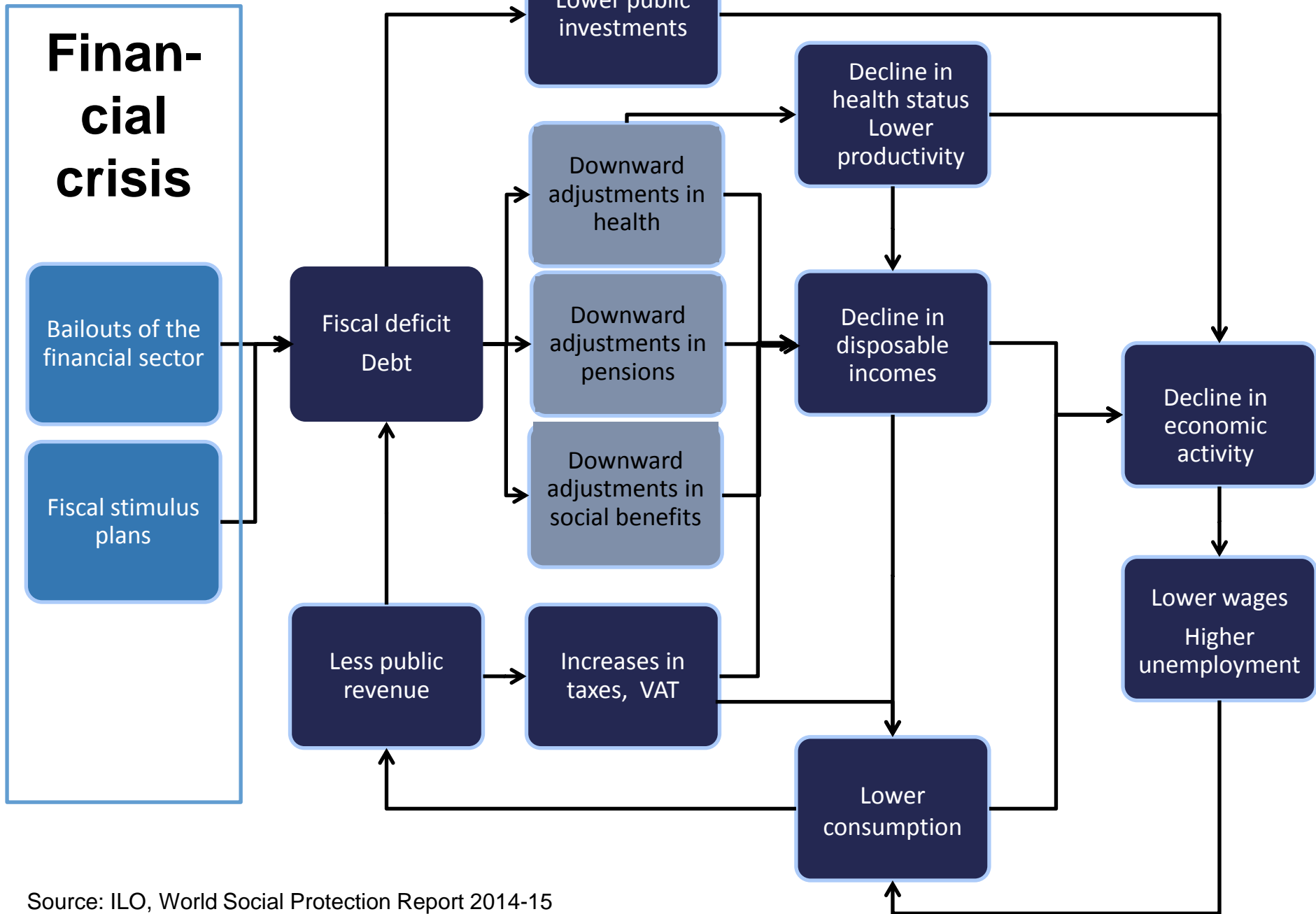
# Inequality Further Increased by Global Crisis (IV): 2013-15: A fifth of countries excessive contraction (expenditures below pre-crisis levels)

Changes in Total Government Spending as a %GDP, 2013-15 avg. over 2005-07 avg.



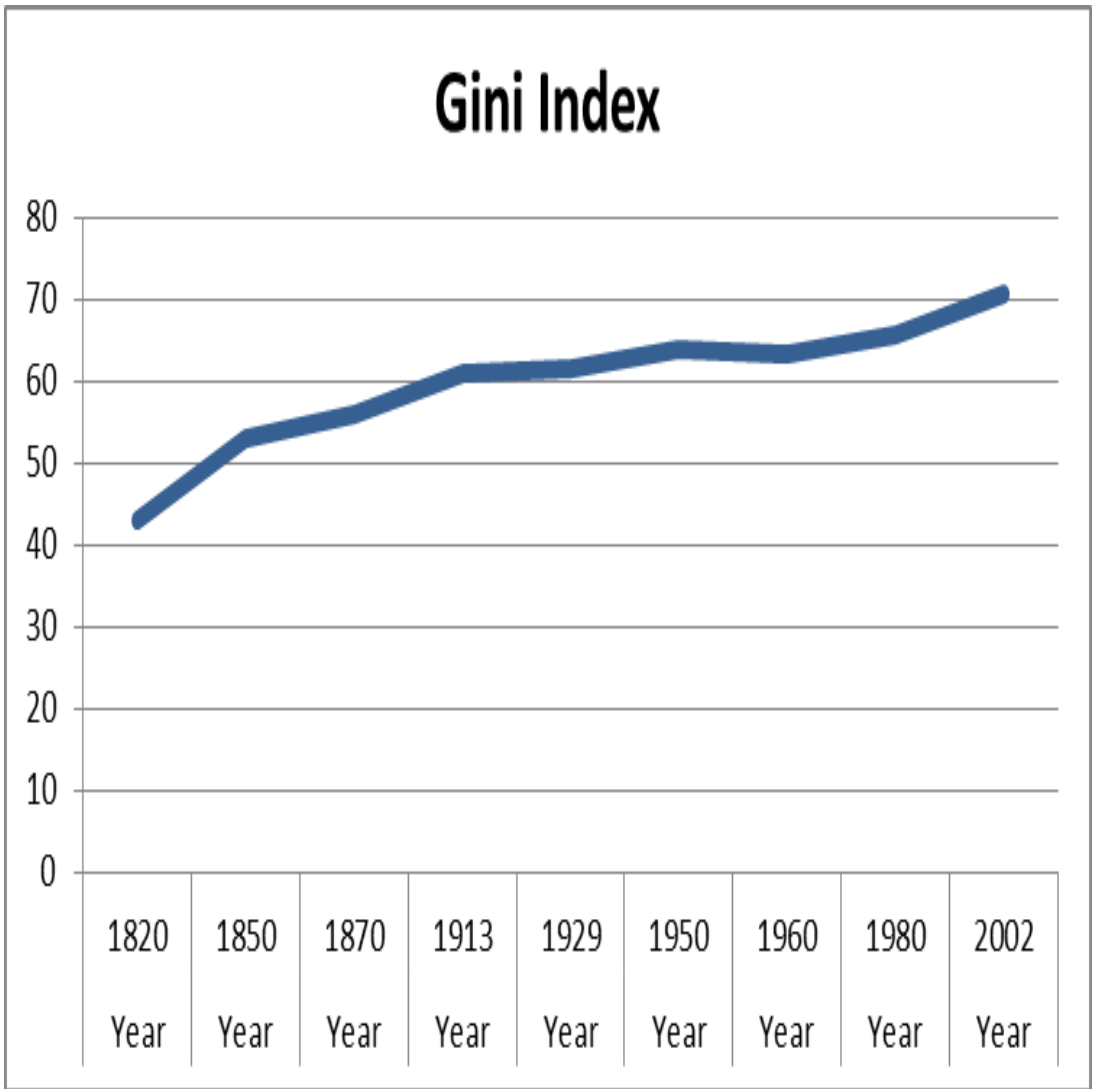
Source: ILO World Social Protection Report 2014-15 - based on IMF's World Economic Outlook (October 2013)





# Historical Perspective: Income Inequality Increasing

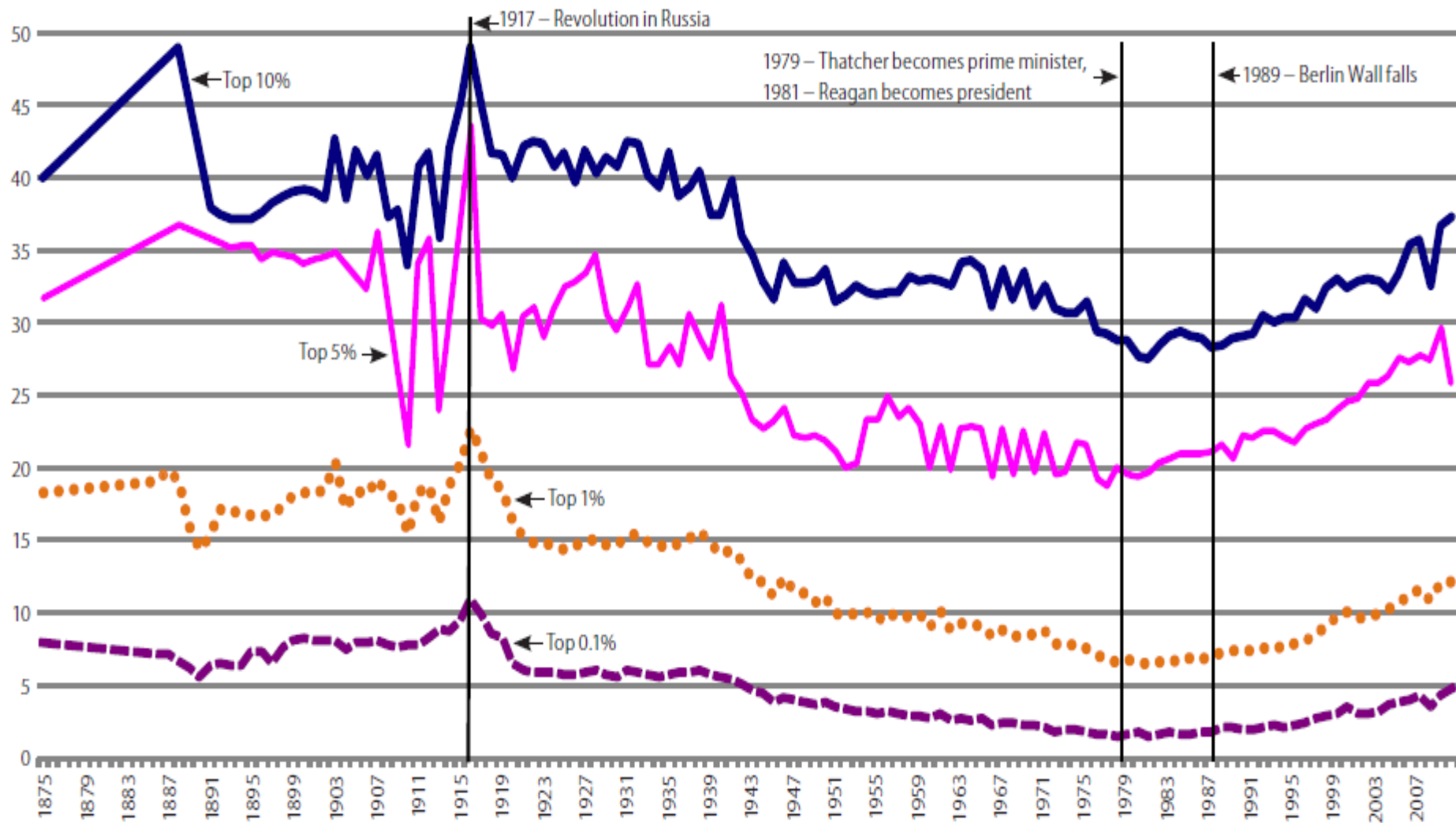
Year	Gini
1820	43.0
1850	53.2
1870	56.0
1913	61.0
1929	61.6
1950	64.0
1960	63.5
1980	65.7
2002	70.7



Source: Milanovic (2009) World Bank

# Income Shares of the Wealthiest 1875-2010

Chart: Income Shares, Average for 22 Countries



European countries: Denmark, France, Germany, the Netherlands, Switzerland, UK, Ireland, Norway, Sweden, Finland, Portugal, Spain, Italy; North America: United States and Canada; Australia and New Zealand; Latin American country - Argentina; Asian countries - Japan, India, China, Singapore, Indonesia; Sub-Saharan Africa - South Africa, Mauritius, Tanzania. Overall - about 1/2 of the population of the world.

Source: Alvaredo, Facundo, Anthony B Atkinson, Thomas Piketty and Emmanuel Saez, "The World Top Incomes Database," <http://g-mond.parisschoolofeconomics.eu/topincomes>, 25 April 2012.

Source: Jomo and Popov 2013

# The UN Agenda Development for All

<b>1980s-90s Orthodox Policy Advise</b>	<b>UN Agenda Development for All</b>
<b>✘ Growth priority through deregulation, free markets, minimalist governments, residual social policies</b>	<b>➤ Growth and equity through active promotion of national development. Social and economic development integrated</b>
<b>✘ Macroeconomic policies focused on inflation and stabilization</b>	<b>➤ Macroeconomic policies focused on the stability of real output, incomes and employment</b>
<b>✘ Containing public expenditures, fiscal discipline, avoiding fiscal deficits</b>	<b>➤ Public investment for development; need to expand governments' fiscal space</b>
<b>✘ Minimal direct taxation</b>	<b>➤ Taxation for development and redistributive purposes</b>
<b>✘ Export-led growth</b>	<b>➤ Developing domestic markets, selective export policy</b>
<b>✘ Privatization of public assets services, minimalist government</b>	<b>➤ Building state capacity to promote development, public investment, technology</b>

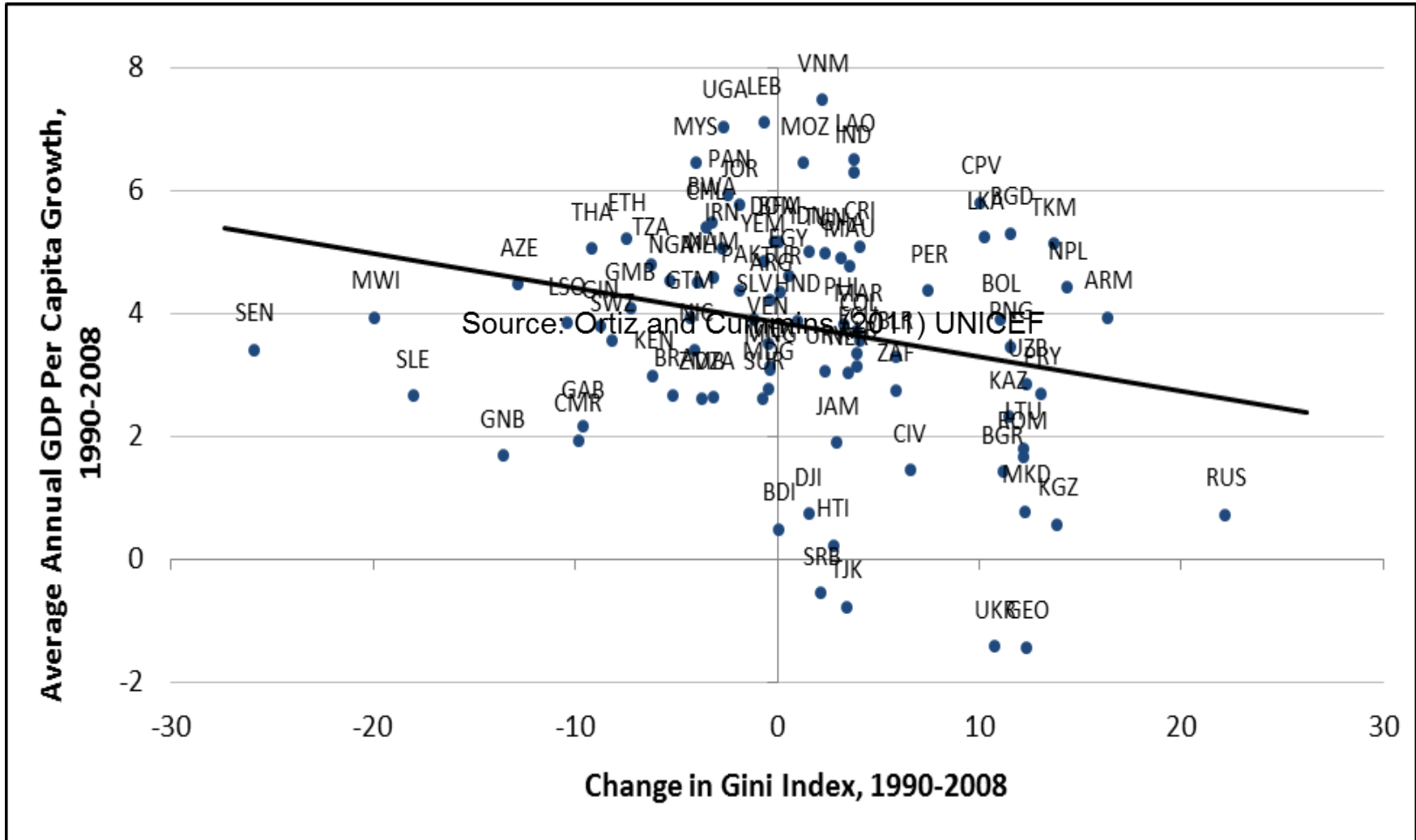
1980s-90s Orthodox Policy Advise	UN Agenda Development for All
<ul style="list-style-type: none"> <li>✘ Residual social policies – a cost (minimal, <i>targeted to the poor</i> ), safety nets</li> </ul>	<ul style="list-style-type: none"> <li>➤ Social Policies as an investment. Universal policies (for all), redistribution back in the development agenda</li> </ul>
<ul style="list-style-type: none"> <li>✘ Commercialization of social services, cost recovery (fees for services)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Universal public services, eg UNICEF School Fee Abolition Initiative, WHO-Bank Universal Health Coverage</li> </ul>
<ul style="list-style-type: none"> <li>✘ Labor flexibility, productivity</li> </ul>	<ul style="list-style-type: none"> <li>➤ ILO Decent work agenda</li> </ul>
<ul style="list-style-type: none"> <li>✘ Reforms social security and welfare systems, targeted safety nets, pension privatization</li> </ul>	<ul style="list-style-type: none"> <li>➤ ILO Social Protection Floors for all and universal public social security systems, reversing pension privatization</li> </ul>
<ul style="list-style-type: none"> <li>✘ Human Rights: endorsed but not implemented</li> </ul>	<ul style="list-style-type: none"> <li>➤ Empowering people through rights and standards</li> </ul>
<ul style="list-style-type: none"> <li>✘ No interest for culture and values (intangible)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Important for tackling exclusion, discrimination (UNESCO, UNFPA)</li> </ul>
<ul style="list-style-type: none"> <li>✘ No attention at sources of conflict (“political”)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Conflict prevention (UNDP)</li> </ul>

# 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

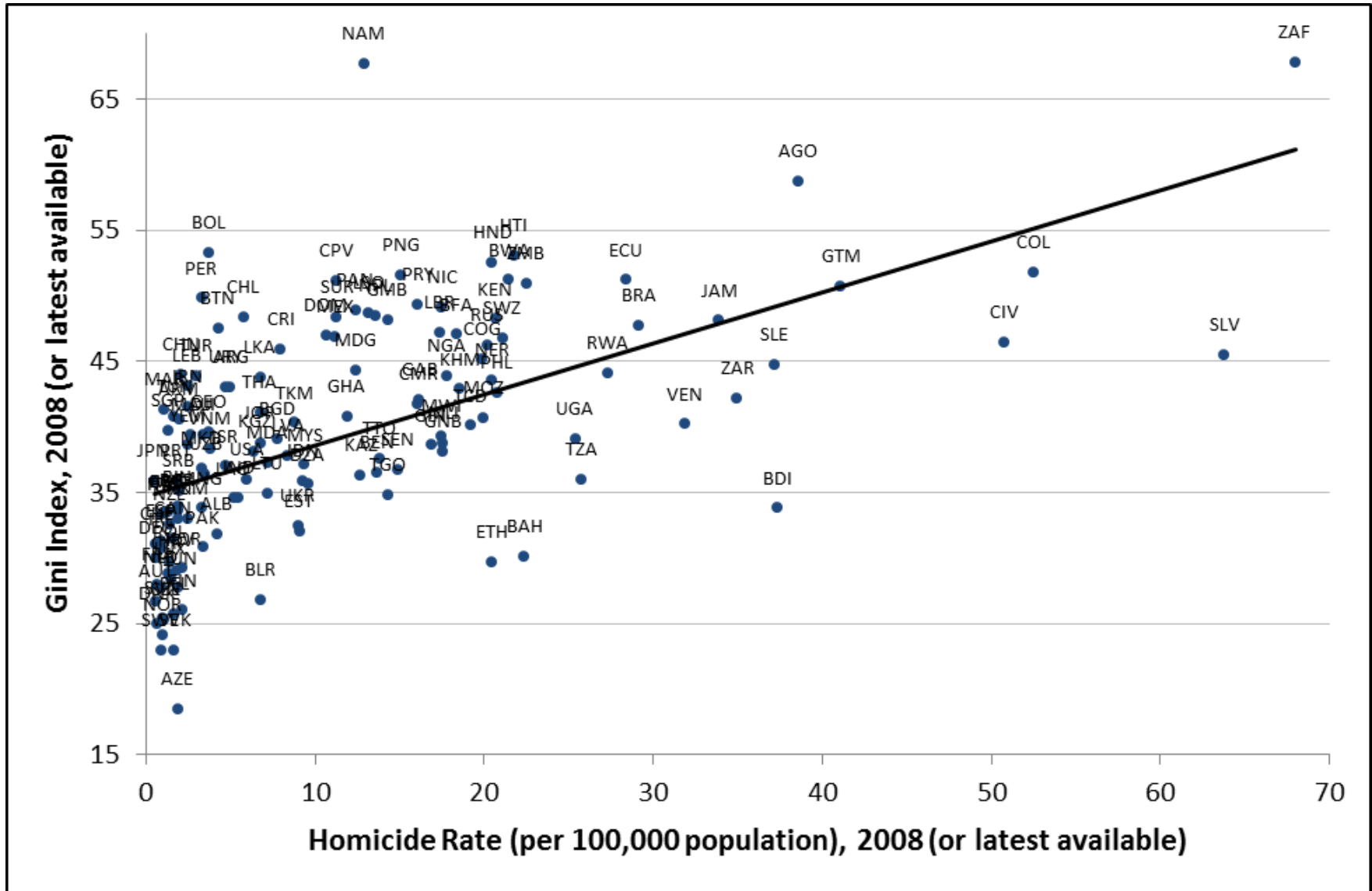
# Inequality Slows Down Economic Growth

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

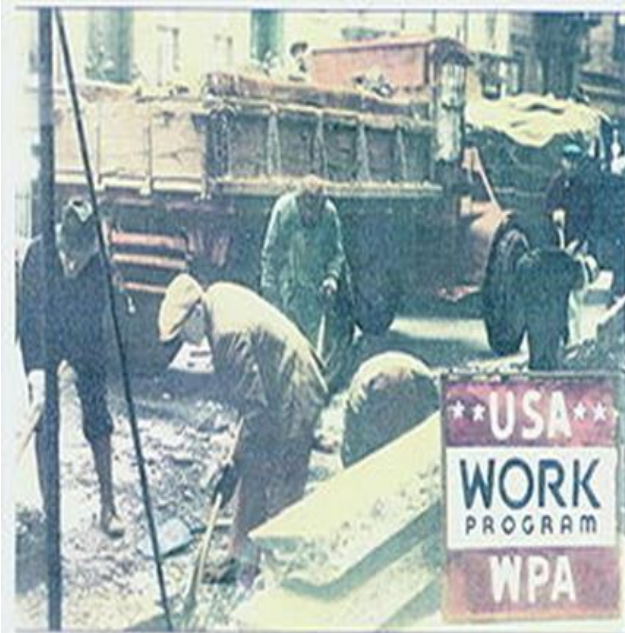


Source: Ortiz and Cummins (UNICEF 2011)



# 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



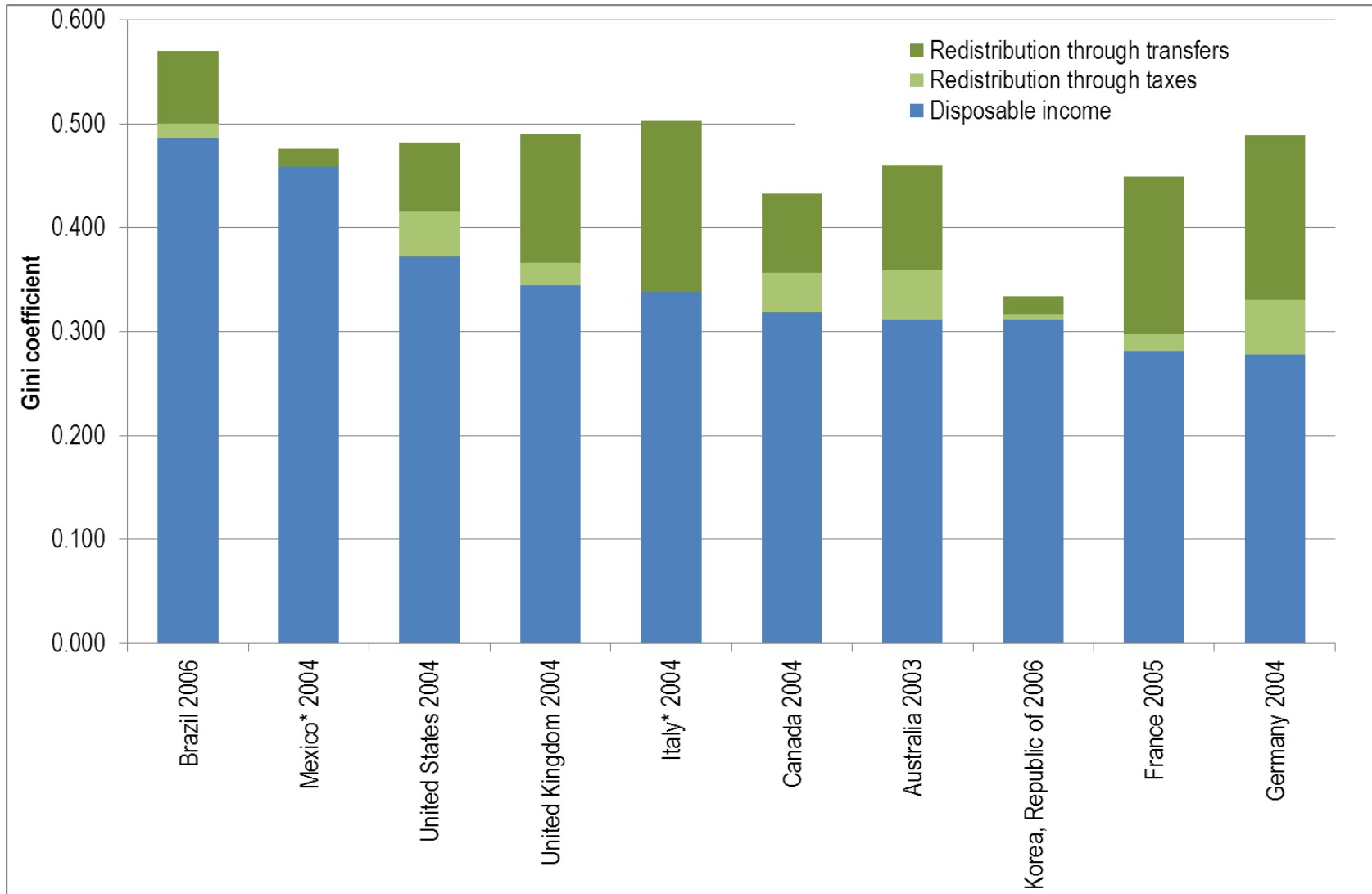
# Equitable Policies for Structural Transformation and Inclusive Development

	Typical Interventions with Equitable Outcomes	Typical Interventions with Inequitable/Regressive Outcomes
<b>Agriculture</b>	Food security; land redistribution; access to water, markets; livestock, credit for smallholders, rural extension services	Large investments that may benefit major landowners (e.g. irrigation systems)
<b>Education</b>	Universal free education; scholarships and programs to retain students	User fees; commercialization of education; cost-saving in teacher's salaries
<b>Energy and Mining</b>	Rural electrification; life-line tariffs; contract laws ensuring adequate taxation from natural resource extraction	Untaxed or poorly taxed oil/mineral extraction
<b>Finance</b>	Regional rural banks; branching out to local areas; managing finance (regulating financial and commodity markets, capital controls); fighting illicit financial flows	Financial liberalization; rescue of banking system (transfers to large banks); subsidies to large private enterprises
<b>Health</b>	Universal health services; nutrition programs; free reproductive health services	User fees; commercialization of health; tertiary specialized clinics benefitting few
<b>Housing</b>	Subsidized housing for lower income groups; upgrading of sub-standard housing	Public housing finance for upper income groups
<b>Industry</b>	Technology policy to support competitive, employment-generating domestic industries, large and SMEs;	Deregulation; general trade liberalization
<b>Labour</b>	Labour programs; adequate minimum wages and labour laws; employment-generating policies across sectors	Labour flexibilization

	<b>Typical Interventions with Equitable Outcomes</b>	<b>Typical Interventions with Inequitable/Regressive Outcomes</b>
<b>Public Expenditures</b>	<b>Public expenditures that benefit lower income groups; fiscal decentralization</b>	<b>Military spending; bank bailouts</b>
<b>Social Security</b>	<b>Social protection floors</b>	<b>Private funded pension systems</b>
<b>Taxation</b>	<b>Adequate corporate and personal income taxes</b>	<b>Consumption taxes (eg VAT)</b>
<b>Tourism</b>	<b>Small-scale local companies; financing basic infrastructure; international marketing campaigns</b>	<b>Poorly taxed luxury hotel chains</b>
<b>Trade</b>	<b>Linking employment-generating local companies with export markets; adequate protection of national industry; taxing exporting sectors for domestic development</b>	<b>Most bilateral free trade agreements; current intellectual property agreements</b>
<b>Transport and Infrastructure</b>	<b>Rural roads; physical and social infrastructure for national development; affordable public transport; non-motorized transport for households (bicycles, buffalos etc)</b>	<b>Large (and costly) infrastructure investments that the poor/excluded do not use or do not benefit by taxation</b>
<b>Urban Development</b>	<b>Slum upgrading; accessible universal design</b>	<b>Large urban infrastructure projects in wealthy areas</b>
<b>Water</b>	<b>Rural water supply and sanitation</b>	<b>Poorly negotiated privatizations</b>

Source: Ortiz and Cummins. 2011. Global Inequality. UNICEF; based on (in alphabetical order) DFID, FAO, IDS, ILO, ODI, OXFAM, UNCTAD, UNDESA, UNDP, UN HABITAT, UNICEF, UNRISD, World Bank's PRSP Sourcebook

# Social Protection Reduces Poverty and Inequality FAST



# Rapid Expansion of Social Protection

<p><i>Pensions</i></p>	<p>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.</p>
<p><i>Child and family benefits</i></p>	<p>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</p>
<p><i>Cash-for-Work</i></p>	<p>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</p>
<p><i>Health Protection</i></p>	<p>China, Lao PDR, Ghana, Rwanda, Tanzania, Thailand</p>

# 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)

# Equity: Not Only a National Development Agenda

100,000

80,000

60,000

40,000

20,000

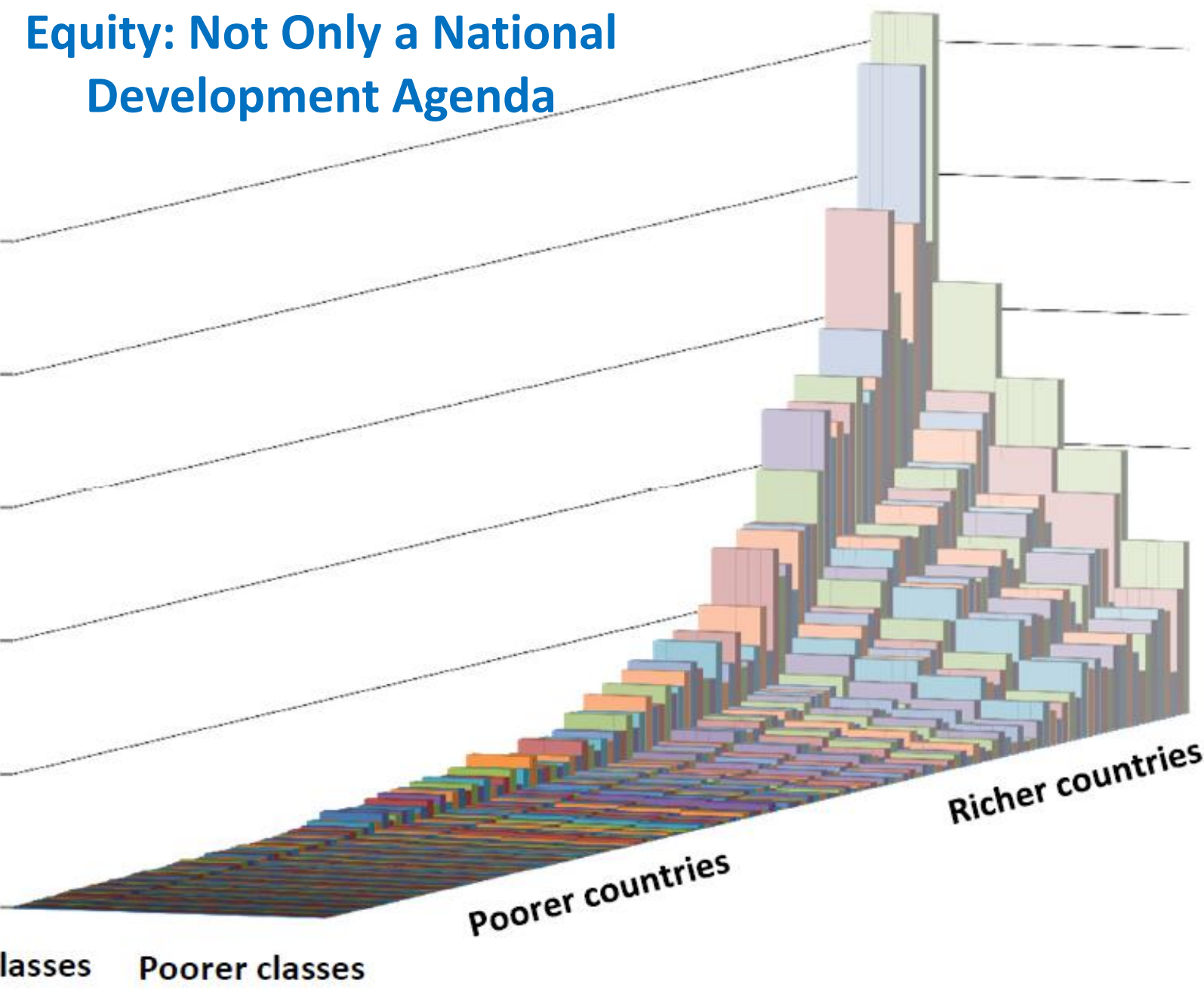
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Richer classes

Poorer classes

Poorer countries

Richer countries



# THANK YOU

## **Download:**

*“Global Inequality: Beyond the Bottom Billion – A Review of Income Distribution in 141 Countries.”* 2011. UNICEF.

[http://www.unicef.org/socialpolicy/index\\_58230.html](http://www.unicef.org/socialpolicy/index_58230.html)

*A Recovery for All.* 2012. New York: UNICEF Policy and Practice.

<http://arecoveryforall.blogspot.com/>

*World Social Protection Report 2014-15.* Geneva: ILO

[http://www.ilo.org/global/research/global-reports/world-social-security-report/2014/WCMS\\_245201/lang--en/index.htm](http://www.ilo.org/global/research/global-reports/world-social-security-report/2014/WCMS_245201/lang--en/index.htm)