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**A Paper on Macroeconomic Dimensions of Inequality**

**Contribution  
by**

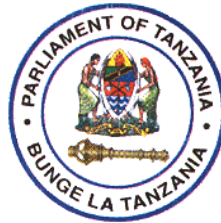
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THE UNITED REPUBLIC OF TANZANIA

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A PAPER ON MACROECONOMIC DIMENSIONS OF INEQUALITY  
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## **MACROECONOMIC DIMENSIONS OF INEQUALITY**

### **1.0 INTRODUCTION**

Over the past three decades, the world has witnessed an enormous economic transformation fostered by significant economic, political, technology and transformation sharing changes. These changes have transformed the way the world's institutions and people function and have therefore changed the economic and societal landscape for everyone. These changes have been accompanied by increasing trends of inequality. However, rapid growth and increased equity do not occur in vacuum, but result from an institutional environment that aligns everybody's incentive in the direction of productivity and efficiency and that expands social entitlements to all workers without discriminating on the basis of labor status.

When considering issues of macroeconomic dimensions of inequality, among other issues, gender inequality cannot be left aside. Dimensions are given special attention, as it has been noted that greater gender equality cannot be achieved without defining and measuring the multi-dimensions of gender inequality. Several initiatives have been taken in this regard which include the UNDP's Gender Related Indexes, such as the GII, World Economic Forum's Global Gender Gap Report, the Economist Intelligence Unit's Women's Economic Opportunity Index, e.t.c. all these initiatives focused on measurable dimensions such as health and education.

### **2.0 AN OVERVIEW OF MACROECONOMIC DIMENSIONS OF INEQUALITY**

In today's inter-dependent and interconnected world, no country is an island of economic and political stability. The global community should finally recognize an increasingly interdependent world, in which financial and real markets are interlinked, no one country can act unilaterally, and "beggar thy neighbor policies". But considering the prevailing distortions in the global financial markets and the misleading market signals, rebuilding and strengthening of a multilateral and fair global financial system is vital. Yet developing countries have only a

limited voice in international financial institutions. The global financial institutions role for implementing such policies and approach cannot be overemphasized. Moreover, since all countries are unequal in different dimensions, it is simply not possible today for all countries to generate current account surpluses or improve their international competitiveness simultaneously by devaluing their currency or cutting costs: One nation's advance is another's retreat. Not only has the financial aspect made the global cooperation and global regulation more crucial but also, the trade. So in order to make a stable system for global finance be achieved through a multilateral approach, a predictable and rules based multilateral framework is required for international trade in goods and services<sup>1</sup>.

Therefore, the failure of governments to pursue such an approach is the primary reason for the current global dilemma. And the implications of this dilemma extend far beyond the realm of banking and financial regulation; they go to the heart of the question of how to revive and extend multilateralism in a globalizing world.

### **3.0 TRENDS IN INEQUALITY AND GENDER INEQUALITY**

As stated in the Millennium Development Goals, promotion of gender equality is one among the goals of the MDG's. Despite many of the successes of the MDGs, they have not managed to integrate all principles outlined in the Millennium Declaration, including equality.<sup>2</sup> Gender inequalities constrain the potential to reduce poverty and achieve high levels of well being in societies around the world. However, without leadership and political will, the world will fall short of taking practical step. Because gender inequality persist in many countries and contexts, is deeply rooted in entrenched attitudes, societal institutions, and market forces, political commitment at the highest international and national levels is

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<sup>1</sup> UNCTAD, (2008). Policy Briefs: Rebuilding Financial Multilateralism. No.4

<sup>2</sup> Rania, A (2012): The multi-dimensions of gender inequalities: Measuring what didi MDG's Overcomw and what dimensions should be addressed post – 2015?

essential to institute the policies that can trigger social change and to allocate the resources necessary to gender equality and women empowerment.<sup>3</sup>

On the other hand, inequalities based on income, location, disability and ethnicity intersect with gender and are often mutually reinforcing. Also, the case of economic inequality, can be explained in different perspectives which include; inequality of income (this focuses on the inter-personal distribution of income), inequality of wealth (focus on the distribution of wealth across individuals or households), lifetime inequality (focus on measuring inequality in incomes or earnings for individual over her lifetime, rather than for a single year) and inequality of opportunity (focus on the relationship between income inequality and social mobility). The obligation to address inequalities is born out of both international treaty standards and human moral perspectives.

#### **4.0 INEQUALITY, ECONOMIC GROWTH AND POVERTY**

It has been explained that inequality plays a significant role in affecting poverty, this brings a close relationship between income inequality and poverty (Cheema & Sial, 2012). Also the effect of income inequality on economic growth have yielded remarkable disparities, resulting in three main positions; that inequality is not a final outcome of growth but plays a central role in determining the rate and pattern of growth, initial inequality seems to be empirically associated with lower growth rates (Davis, 2007) and too much inequality may lead to social tension expresses through collectively organized or individually-led violent redistribution (Naschold, 2002)

Based on the study conducted in Middle East and Northern Africa which analyzed the patterns of inequality in MENA region and investigated the effect of income inequality on key societal development, namely economic growth and poverty, in the region, the study revealed that inequality fuels poverty in African countries, and policy makers need to tackle this challenge head-on. Evidence has shown

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<sup>3</sup> Millennium Project (2005). "Taking Action: Achieving Gender Equality and Empowering Women", Achieving the Millennium Development Goals, Gender Equality Task Force.

that conditional cash transfers and expenditures (for education, which was seen as important in reducing poverty) are effective safety nets and levers of poverty reduction and redistribution (see Levy, 2006; Kanbur, 2008; Anyanwu and Erhijakpor, 2010).

It was noted that, domestic investment increases economic growth and reduces poverty in the MENA region, achieving higher domestic investment must remain an active goal of governments. A key challenge, therefore, for MENA countries is to mobilize increased resources for such high domestic investment. Successful promotion of investment will require actions and measures at the national and regional levels: implementation of tax reforms, cost sharing in the provision of public goods and services and enhancing public expenditure productivity. Tax reforms should focus on broadening the tax base, emphasizing indirect taxes/value added tax (VAT), raising tax elasticity with respect to economic growth, reducing exemptions, simplifying and improving tax administration, especially developing more efficient and effective tax collection systems.

Also, countries where inflation remains very high should embark on measures to tackle the huge binding structural constraints that affect efficient performance of markets. This will help to improve resource allocation and reduce costs and vulnerability. Such measures should include upgrading infrastructure facilities, including ports, to reduce on inefficiency and smooth the flow of goods and services within countries and across sub-regions.

In line with the above, openness has significant effect in reducing poverty and inequality in Africa, since there is need for the promotion of developmental linkages or complementarities between growing export activities and the rest of the economy. Increasing levels of FDI are associated with increasing levels of poverty in the MENA region. Thus, to promote poverty reduction, MENA countries should regulate the inflow of foreign capital to ensure labor-intensive industries are not displaced by globalization.

## 5.0 CHALLENGES AND A WAY FORWARD

The obligation to address inequalities is born out of both international treaty standards and human moral perspectives. However – and especially in the current environment of fiscal austerity – making the practical case for focusing on the worst-off also involves showing that growing inequalities have negative economic, social and political consequences. In the light of this, human rights must represent the standard against which all policies, including Macroeconomic policies, are judged and held accountable, and not vice-versa. The non-discrimination and equality - which means that governments have an immediate obligation for ensuring that deliberate, targeted measures are put into place to secure substantive equality and that all individuals have an equal opportunity to enjoy their rights.

However, increased inequalities are not just bad for the individuals thereby disadvantaged, but for society as a whole. Highly unequal societies tend to grow more slowly than those with low income inequalities, are less successful in sustaining growth over long periods of time and recover more slowly from economic downturns. High levels of inequalities can jeopardize the well-being of large segments of the population through low earnings/wages and have subsequent effects on health, nutrition and child development. Low earnings/wages mean lower effective aggregate demand, which limits the size of the domestic market and hinders structural change in the economy.

**The post-2015 agenda needs to emphasize that there is a critical need to adequately and sustainably invest in people – with a recognition that the greatest potential for the most dramatic gains actually exists among those who are the worst off and most excluded.**

A Well designed and sustained investments in areas like maternal and child health, education and social protection can pay major dividends, not just for individuals but for society. For example, reducing child deaths by 4.25 per thousand children born (i.e. about 5%) to mothers with low levels of education can result in an almost 8% increase in Gross Domestic Product (GDP) per capita ten years later. In

education, a one-year increase in the mean years of schooling has been shown to be associated with a rise in per-capita income of 3-6%, or a higher growth rate of 1 percentage point. Conversely, no society can expect to achieve sustained economic and social progress while significant numbers of its people –often disproportionately its women and girls -- are poorly nourished, in poor health and lack the education and/or skills needed for their own and their families' development.

## **6.0 CONCLUSION**

Addressing inequality alongside human rights, peace, security and sustainability should be the cornerstone of the post-2015 agenda. A more inclusive and equal society is more likely to be sustainable. Therefore, without attention to the underlying economic, social, cultural and spatial causes of poverty and inequality, the post-2015 development agenda will not help level the playing field or achieve lasting inclusive progressive.

In sum, economic and political instability as well as deterioration in social relations, health outcomes and human capital negatively affect all citizens from the poorest to the richest, while investments in social services and social protection that are inclusive of the most deprived can strengthen and lengthen periods of development progress, economic growth, peace and prosperity. Addressing inequalities is in everyone's best interest.

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