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Means to achieve Sustainable Development Goal 10

Note by the UNCTAD secretariat*

Executive summary

The present note has been prepared for the high-level segment of the Trade and Development Board. Taking as a point departure a set of guiding questions received from member States, this note addresses the issue of means to achieve Sustainable Development Goal 10, namely, to reduce inequality within and among countries. The note provides a brief overview of trends in economic inequality and discusses broader forces responsible for long-lasting tendencies towards increased inequality. It also presents a short discussion of illicit financial flows which are particularly damaging to equality and to developmental outcomes of developing countries. Lastly, the note proposes policy recommendations that the Board may wish to consider during deliberations.

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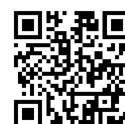

I. Introduction

1. Inequality is a complex and multidimensional phenomenon, both in the forms it takes and in its underlying causes. It is present in economic, social and political domains, and in vertical (income and wealth) and horizontal (gender, racial, ethnic, caste, etc.) dimensions. This note focuses on economic inequalities as they are a significant part of Sustainable Development Goal 10. Other inequalities, most notably gender, educational and health, are addressed in other Sustainable Development Goals, so reducing the multiple manifestations of inequality is one of the core principles of the 2030 Agenda for Sustainable Development.

2. For several decades, the issue of economic inequality was mostly absent from mainstream economics. This, however, has changed markedly in the last two decades. This quote from International Monetary Fund researchers is symptomatic:

> Widening income inequality is the defining challenge of our time. In advanced economies, the gap between the rich and poor is at its highest level in decades. Inequality trends have been more mixed in emerging markets and developing countries, with some countries experiencing declining inequality, but pervasive inequities in access to education, health care, and finance remain. Not surprisingly then, the extent of inequality, its drivers, and what to do about it have become some of the most hotly debated issues by policymakers and researchers alike.[1]

II. Trends in economic inequality

3. Assessing trends in economic inequality between countries is not an easy task due to major data deficits. Another difficulty is finding the appropriate unit of measurement as results vary dramatically depending on whether data are weighted by population or not, if household survey, tax data or national accounts are used, whether nominal or real figures are looked at and the methodology used for converting nominal to real data. For example, if only gross domestic product data are used as a measure, inequality between countries decreased substantially in the last three decades. However, this measure does not show that much of that convergence can be explained by a combination of very rapid growth in a small number of large economies and demographic shifts across rich and poor countries.

4. If gross domestic product per capita is the measure used, the trends are very different. Based on UNCTAD calculations, the inequality between countries increased from the early 1980s until 2002, a period characterized by the debt crisis, structural reforms and economic instability in most of the developing world. The fast growth of the global economy from 2003 reversed that trend, so inequality started to slowly decrease. From 2015 onwards, however, inequality between countries started to increase again. This shows the need for careful analysis and interpretation of data, through use of several indicators to get a fuller understanding of global trends and a combined analysis of inequality between and within countries.

5. One of the possible indicators in a combined analysis of inequality is the so-called "elephant curve", which depicts global inequality and growth. It shows that, from 1980 to 2016, the top 1 per cent of the income spectrum in the world captured 27 per cent of total growth of the world economy, while the bottom 50 per cent captured only 12 per cent of total growth.[2] Similarly, the wealth of the world's billionaires increased by US$900 billion in 2018, or US$2.5 billion a day, while the wealth of the poorer half of the world's population, 3.8 billion people, fell by 11 per cent.[3]

[1] E Dabla-Noris, K Kochhar, N Suphaphiphat, F Ricka and E Tsounta, 2015, Causes and consequences of income inequality: A global perspective, Staff Discussion Note, International Monetary Fund.

[2] World Inequality Lab, 2017, *World Inequality Report 2018*, available at https://wir2018.wid.world/files/download/wir2018-full-report-english.pdf.

[3] Oxfam International, 2019, Public good or private wealth?, Oxfam Briefing Paper, January.

6. Inequality of incomes within countries is a result of two major determinants. The market produces a primary or functional distribution between labour and capital. The secondary, or personal income distribution, is an attempt by the State to modify primary distribution by means of taxes, social transfers and the like. The trends of inequality in developed countries in the last four decades are clearly towards deterioration, while in developing countries and countries with transition economies the picture is mixed. Some Latin American countries were able to reduce inequality of incomes with instruments such as progressive taxation and social programmes. Countries with transition economies had a steep reduction in the share of wages in national total income (deteriorating functional distribution) in the 1990s, followed by an improvement in the last 15 years. Trends in Asia are less clear-cut, with inequality growing in some countries and declining in others. At the global level, however, the share of wages in total income has steadily decreased from 60 per cent in 1980, to 54.5 per cent in 2015.[4]

III. Understanding constraints for securing the means required for the implementation of Sustainable Development Goal 10

7. Against this background, the main constraints for securing the diverse means required for the implementation of Sustainable Development Goal 10 include an inadequate understanding of causes and channels through which inequality increases and the political will to tackle them. This also has bearings on policies that national Governments and international community need to adopt to achieve goals of reducing inequality. In effect, the targets and indicators of Sustainable Development Goal 10 provide only a partial picture on inequality.

8. With the breakdown of the Bretton Woods system in the 1970s and the shift towards the Washington Consensus policies in the 1980s, private capital has become more mobile, and the bargaining power of capital has greatly increased compared to that of labour. Corporations have been able to compress wages, and productivity has grown faster than labour incomes. In addition, financial markets have acquired unprecedented power over the real economy through new rules on financial services provision, intellectual property rights, investment and the like. At the same time, market concentration has markedly increased, in large measure because States have neglected their role of regulating markets and ensuring the existence of competition and fair play. Market concentration and lack of regulations have made rent-seeking activities more profitable than innovation, leading to "winner-takes-most" distributional outcomes. This has arisen particularly in the digital economy.[5]

9. Lagging labour incomes and reduced tax revenue have been partially compensated for by borrowing as households and Governments took on more debt to meet their spending needs. Debt stock of households and Governments has soared fourteenfold from 1980 to 2016, while world gross domestic product has increased less than sevenfold. Thus, indebtedness is today more than double then in 1980. Indebtedness contributes to rising inequality both in boom and bust phases of the economic cycle. During booms, rising asset prices and corporate profits drive incomes at the top, forcing households and Government to take on more debt to finance their consumption needs. In the aftermath of crises, banks are bailed out, while jobs, wages and public services take a hit. This is compounded in addition by fiscal austerity, which has become a default policy response to crises.

10. With these forces pushing towards increased economic inequality, means to achieve Sustainable Development Goal 10, such as official development assistance and private financial flows, have been inadequate to reverse these adverse trends or have made them worse. Official development assistance from Development Assistance Committee countries

[4] A Izurieta, P Kohler and J Pizarro, 2018, Financialization, trade and investment agreements: through the looking glass or through the realities of income distribution and government policy? Global Development Environment Institute, Working Paper 18-02, Tufts University, United States of America.

[5] Analysis based on PK Gallagher and R Kozul-Wright, 2019, A new multilateralism for shared prosperity: Geneva principles for a global Green New Deal, Global Development Policy Center, Boston University (United States of America), and UNCTAD.

increased from 0.3 per cent of gross national income in 2015 to 0.32 per cent in 2016, only to decrease again to 0.31 per cent in 2017.[6] Against the long-standing commitment of 0.7 per cent of gross national income, this shortfall does not bode well for faster development of developing countries and the achievement of Sustainable Development Goal 10. In addition to more official development assistance, the Development Assistance Committee of the Organization for Economic Cooperation and Development has called for smarter and more effective approaches.[7]

11. Regarding financial flows, developing countries are subject to global financial cycles which do not correspond with their national development needs. Instead, global financial cycles are determined by the monetary policies of a few systemically important economies. As interest rates decrease in the latter, there is a rush of private capital to developing countries in search of higher yields. When monetary policy becomes restrictive, private capital reverses direction. The resulting boom and bust cycles have been extensively analysed and documented in the literature.[8]

12. These cycles also limit the policy space of developing countries. The Addis Ababa Action Agenda and the 2030 Agenda for Sustainable Development identified domestic resource mobilization as one of the core pillars needed to achieve the Sustainable Development Goals. The emphasis has been given to improving domestic capacities for tax and other revenue collection. However, with unlimited capital mobility and with a substantial presence of illicit financial flows, reliable tax revenues needed to provide the social support measures to correct market-driven inequalities are difficult, if not impossible, to achieve.

13. Illicit financial flows refer to cross-border economic and financial transactions originating from illegal activities, those arising from corruption and those resulting from abusive tax and profit-shifting practices by large transnational enterprises operating in legal markets. The latter is by far the largest part, representing about 70 per cent of all illicit financial flows. Illicit financial flows can become part of a vicious circle as weakened Governments find it difficult to control them and are, in turn, further undermined by these flows. Moreover, tax revenues provide core funding for public services, such as health care and education, both of which are explicit goals under the 2030 Agenda. Tax policies are a crucial instrument for mitigation of income inequalities and promotion of inclusive development through redistributive tax design and transfer programmes to the poor, in addition to funding essential public services. For all these reasons, illicit financial flows are highly detrimental to inclusive development prospects of developing countries.[9]

14. Estimates of illicit financial flows are, by definition, difficult to make and thus vary greatly. However, a cursory look at some estimates shows that the numbers are very large. The Economic Commission for Latin America and the Caribbean estimates that illicit financial flows reached a total of US$765 billion for the period from 2004 to 2013, equivalent to 1.8 per cent of regional gross domestic product. The report of the High-Level

[6] Organization for Economic Cooperation and Development, 2019, “Net [official development assistance] ODA” (indicator), available at https://doi.org/10.1787/33346549-en (accessed 24 April 2019).

[7] Organization for Economic Cooperation and Development, 2018, *Development Cooperation Report 2018: Joining Forces to Leave No One Behind*, Paris.

[8] See, for example, UNCTAD, 2015, *Trade and Development Report, 2015: Making the International Financial Architecture Work for Development* (United Nations publication, Sales No. E.15.II.D.4, New York and Geneva) and UNCTAD, 2017, *Trade and Development 2017: Beyond Austerity – Towards a Global New Deal* (United Nations publication, Sales No. E.17.II.D.5, New York and Geneva).

[9] For the effect of illicit financial flows on increased inequality, see A Cobham, W Davis, G Ibrahim and A Sumner, 2016, Hidden inequality: How much difference would adjustment for illicit financial flows make to national income distributions? *Journal of Globalization and Development*, 7(2):1–18, and A Alstadsaeter, N Johannesen and G Zucman, 2017, Tax evasion and inequality, available at http://www.nielsjohannesen.net/wp-content/uploads/AJZ2017.pdf.

Panel on Illicit Financial Flows from Africa[10] suggests that illicit financial flows from the continent amount to between US$30 billion and US$60 billion per year and have increased rapidly over the past decade. The estimates of global losses due to corporate profit-shifting and tax avoidance range from US$150 billion to US$500 billion annually. Curbing these flows, therefore, could provide countries with more resources to combat inequality than other means of implementation of Sustainable Development Goal 10.

15. Business as usual is not the way to achieve Sustainable Development Goal 10 or the 2030 Agenda for Sustainable Development as a whole. Greater economic inequality is rooted in the systemic forces of hyperglobalization, which has been reinforced by political interests and lobbying, particularly by corporate interests, that has, as one Nobel prize-winning economist has put it, “rigged” the rules of the economic game. A comprehensive and holistic approach that seeks to tackle the systemic causes behind economic, social and environmental breakdown, along the lines of a “Green New Deal”, will likely be needed, encompassing policies and regulations at the national and international levels.[11]

IV. Policy recommendations

16. The Trade and Development Board may wish to consider the following policy recommendations:

(a) There is a need to gain a more complete understanding of forces driving the increase of economic inequality, such as excessive financialization of the economy, shifting of bargaining power to capital, market concentration and rentierism, tax avoidance and evasion, policies favouring capital in detriment of labour and the like.

(b) While there are numerous individual attempts to deal with these interrelated problems, the most effective efforts will be those that recognize the systemic nature of these challenges.

(c) Coordinated international action to reverse these trends will require a different prioritization of growth and distributional goals that can deliver rising living standards for the majority of people in all countries.

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[10] African Union and United Nations, Economic Commission for Africa, 2015, *Illicit Financial Flow: Report of the High-Level Panel on Illicit Financial Flows from Africa*, available at https://www.uneca.org/sites/default/files/PublicationFiles/iff_main_report_26feb_en.pdf.

[11] J Stiglitz, 2019, *People, Power and Profits: Progressive Capitalism for an Age of Discontent*, W. Norton, New York, and Gallagher and Kozul-Wright, 2019, A new multilateralism.