Development goals post 2015: Reduce inequality

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A contentious issue in the current debate over inequality in connection with the post-2015 development framework is whether it should include a stand-alone goal on reducing inequality. This DIIS Policy Brief argues that such a goal is necessary and discusses how it could be shaped.

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WHY FOCUS ON INEQUALITY

Recent years have witnessed increasing concern with inequality in the world in general and with respect to the post-2015 development framework in particular, and the topic has become unavoidable in discussions of human development. There are many reasons for this focus on inequality.

First, it has become clear that the remarkable progress achieved in terms of poverty reduction and social welfare in many developing countries has not benefited the poorest in a substantial manner. When, for instance, child mortality rates are disaggregated, excluded and deprived groups are typically far behind the average national progress.

Second, new studies show that high levels of inequality impede social stability and economic development. Capital accumulation by the richest is no guarantee that productive investments will be made creating growth and prosperity for all. On the contrary, inequalities may create frustration and social unrest, in turn discouraging investors.

Third, severe income disparities are predicted to be a probable disruptive factor in the coming ten years. At the recent meeting of the World Economic Forum, business

It is recommended that the post-2015 development framework includes a separate goal on inequality.

GOAL:
Reducing inequality

TARGET:
Reducing economic inequalities nationally and globally

POSSIBLE INDICATORS:
Nationally, halve the Palma ratio that exceeds one by 2030. Globally, reduce the Palma ratio that exceeds one by 25 per cent by 2030.

TARGET:
Eliminate social discrimination.
Country specific targets, baselines and indicators should be identified to eliminate discrimination particularly of groups suffering from intersecting inequalities.

and government leaders alike identified this as the most likely of fifty global risks to stability and development.

Fourth, with globalisation and deeper integration across countries, global inequality is becoming increasingly conspicuous and illegitimate. When less than two per cent earn as much as the income of three quarters of the world's population, the global income distribution does not reflect effort, but very unequal opportunities.

Fifth, the rapid development of information and communication technologies facilitates the spread of information regarding inequality. Acts of injustice and unfairness are disseminated sometimes to millions of people in a matter of hours. This makes the perception of inequality stronger than it was just twenty years ago.

UNAVOIDABLE, BUT POLITICALLY SENSITIVE

As part of a series of thematic and national consultations organised by the United Nations to feed into the generation of the post-2015 development framework, a global discussion on inequality led to a Leadership Meeting on Inequalities held in Copenhagen in February 2013. Ministers from twenty countries attended the meeting, together with the leaders of several UN organisations.

There was general agreement (i) that gender equality is a very important concern; (ii) that social protection floors be established to ensure basic social services for everyone; and (iii) that all goals in the post-2015 development framework be disaggregated so as to monitor progress with respect to the most deprived groups. There was, however, no clear consensus on the need for a separate goal to reduce inequality.

Reduced inequality or, even more, increased equality are politically sensitive issues. For some they are associated with uniformity, a lack of freedom and communism. To discredit such associations, a specific goal calling for reduced inequality should be phrased in such a way that it underscores the values of diversity and freedom. In fact, one could argue that reduced inequality and freedom go hand in hand since the freedom of excluded and impoverished people is significantly circumscribed at present.

Moreover, those who advocate for gender equality also view any general goal regarding inequality with scepticism. Rightly or wrongly, they fear that gender equality will receive less attention if it is conflated with other types of social discrimination and with inequalities of income.

Despite such reservations, a stand-alone goal on reducing inequality is needed. It will draw attention to the diversified structural barriers inhibiting human development as well as social stability and economic growth; it will stimulate an annual discussion of inequality when it is monitored; and it will respond to an increasing public demand expressed in the media and in the national consultations on the post-2015 development framework. If it is neglected, the legitimacy of the post-2015 framework may be seriously jeopardised.

ELIMINATION OR REDUCTION?

There is a growing agreement that certain inequalities are unacceptable and should be eliminated. Discrimination based on the social and physical characteristics of human beings (gender, race, ethnicity, religion, sexual orientation, age, disability, location, family background, etc.) cannot be tolerated, and inequality deriving from such discrimination should be eliminated. In this context, achieving equality is the only reasonable approach to inequality.

However, equality should not be the ultimate goal when it comes to income. Diversity and freedom to choose are important values, and people should be free to pursue their own priorities and satisfy their own interests. Where poverty is of no concern, some people may prioritise a high income, while others value leisure time. Establishing strict income equality should not be a goal, but reducing huge inequality should. The question is whether and how acceptable levels of inequalities of income can be identified.

ALL ASPECTS OF LIFE

The report, *Addressing Inequalities*, synthesising the UN-led global public consultation, distinguishes between inequalities within the social, environmental, political and economic domains and underlines the intersecting nature of inequalities across these domains.

Among social inequalities, gender inequality stands out as it is relevant all over the world and affects half its population. The Millennium Development Goals included a separate goal on gender equa-lity and the empowerment of women and there is wide-spread political agreement that it should also be prioritised strongly in a new development framework. Thus, it seems useful to maintain a goal to achieve gender equality regardless whether a stand-alone goal on reduced inequality is established.

While certain social inequalities are experienced in almost all parts of the world (disability, age, location, etc.), some may be relevant only in specific societies (caste, ethnicity, sexual orientation, etc.), and are therefore not conducive to global targets but rather for national ones. Thus, it may be more relevant to set country-specific targets in relation to social discrimination, something which would also serve to raise discussion of such inequalities in their particular contexts.

Environmental inequalities are often closely linked to social and economic inequalities. Yet, the negative consequences of climate change affect certain parts of the world more significantly than others and this is not directly linked to other inequalities. Storms, increasing temperatures and rising sea levels threaten certain areas in the South and the North much more than others. A common responsibility to build resilience where it is most needed so as to create more equal opportunities for all is an issue that could reasonably be integrated into a goal to achieve environmental sustainability.

Political inequalities sometimes directly reflect other inequalities but in many countries they stem from a lack of accountability and transparency and from the elites who monopolise political power to the detriment of the population at large. Thus, it may be useful to address such inequalities by increasing access to information about the use of public funds. For example, the Kenya Open Data initiative (https://opendata.go.ke/) is an attempt to share relevant information about public spending with Kenya's citizens. This could form part of a goal to improve standards of governance.

Economic inequalities are often discussed in terms of in-country inequalities of income among individuals, as well as in terms of the inequalities between rich and poor countries. With globalisation, income and wealth inequalities among individuals in the world have gained importance and now exceed all other economic inequalities. With growing inequalities of income and wealth in many countries in the South and the North, and with a constant and alarmingly high level of global inequality that far exceeds acceptable and legitimate claims, a separate goal to reduce inequality will have to include an economic dimension. The rest of the brief addresses this issue.

EQUALITY OF OPPORTUNITY – EQUALITY OF OUTCOME

There is broad agreement that equality of opportunity is desirable. People should not have fewer opportunities due to their social, physical and other characteristics beyond their own influence. It has been shown that at least eighty per cent of people's income is determined at birth by two factors: country of citizenship, and parents' income. Individuals' efforts play a minor role, and human beings enter this world either with a silver spoon in their mouths or with ashes in their bellies, depending on the circumstances of their birth.

Equalising opportunities is a constant challenge because inequalities of outcome subsequently produce inequalities of opportunity. If parents prioritise leisure and idleness, resulting outcomes in terms of income, education and health may reduce the opportunities for their children. If young people make rash decisions about education and life-style, their opportunities may be significantly circumscribed later in life. While some of the resulting inequalities of opportunity may be mitigated through social policies, this issue raises the question of whether limits to inequalities of outcome should be established.

MEASURING INCOME INEQUALITY

The Gini coefficient is the traditional and most widespread way of measuring inequalities of income. It suffers, however, from certain problems. First, if the middle class increases its share of national income, the Gini coefficient may indicate a reduced inequality even though the gap between the poorest and richest parts of the society remains constant. Secondly, income inequalities in two societies may produce the same Gini coefficient even though income is distributed differently. Thirdly, the coefficient does not easily lend itself to any judgement about what is a fair, reasonable or useful level of inequality. Accordingly, this measurement is difficult to use politically.

There are many other ways of measuring inequalities of income. One is the Palma ratio, which divides the income share of the top 10 per cent of the population by the income share of the bottom 40 per cent. In countries with relative income equality this ratio is around one indicating that people in the top 10 per cent on average earn four times the income of people in the bottom 40 per cent. In more unequal societies, the ratio is higher (e.g., 7 in South Africa and 4.8 in Bolivia). The strength of the Palma ratio is that it directly communicates the income distribution between poor and rich. However, it evens out the internal differences in the two groups.

REDUCING EXTREME INCOME INEQUALITY

There is no way to identify a desired level of income inequality objectively. It depends on context and is ultimately a political decision. Thus, instead of an absolute target of income inequality, a relative one is more meaningful.

As the comparatively most equal countries in the world have a Palma ratio of around 1, moving towards this level could constitute a national target that would reduce inequalities of income. Countries have different points of departure and halving the "distance" between this point of departure and 1 would be a pragmatic and realistic approach, seeking to reduce inequalities the most in countries suffering from extreme levels of inequality (see Box).

In a sample of 76 low and middle income countries, four countries have a Palma ratio of just below 1; 24 countries are below 1.5; 44 countries are below 2; and 60 countries are below 3. These Palma ratios mean that in 60 countries people in the top 10 per cent on average earn 4 to 12 times the income of people in the bottom 40 per cent. With the proposed target the ambition would be to reduce this to 4 to 8 times.

DIIS POLICY BRIEF

Countries characterised by low or medium-level inequalities of income would probably not find these targets very difficult to achieve while countries with high levels of inequality will have to adopt strong measures to reach the target.

The biggest challenge exists at the global level. One analysis suggests that the global Palma ratio is approximately 32. The political instruments for reducing income inequality between the richest 10 per cent and the poorest 40 per cent of the world's population do not exist. Progressive taxation, provision of social security, etc. are country-level instruments, and official development assistance comes no way near addressing global inequality.

Initiatives that could go some way in addressing the issue include the abolition of tax havens and the creation of pro-poor trade rules, investment agreements, intellectual property regimes and so forth. Yet, as global inequality is very significant and the instruments to address it are inadequate, to be realistic, a target will have to be more modest than any proposed for countries. On the other hand, in an increasingly interconnected world it would be unacceptable not to address the issue. A target balanced between realism and legitimacy would mean a 25 per cent reduction in the global Palma ratio by 2030.

THE ADVANTAGES OF THE PROPOSED TARGET ARE

- **that some countries already have a Palma ratio of one or below, meaning that the target is achievable**
- **that the reduction required is relative to a country's point of departure**
- **that it directs attention towards extreme income inequality while relatively equal societies will not be required to reduce inequality further**

Indicator of reduced national income inequality: Halving the part of the Palma ratio that exceeds one in 2030 compared to 2010

Selected country examples with year of data collection

Country	*Palma ratio 2010 Baseline (x)*	*Palma ratio 2030 Target (y=x-(x-1)/2)*
Bolivia (2008)	4.847	2.924
Brazil (2009)	4.302	2.651
Bulgaria (2007)	0.997	-
Burkina Faso (2009)	1.859	1.430
China (2005)	2.154	1.577
Denmark (1997)	0.922	-
France (1995)	1.267	1.134
Germany (2000)	0.992	-
Ghana (2005)	2.172	1.586
India (2004)	1.355	1.178
Japan (1993)	0.875	-
Malaysia (2009)	2.627	1.814
Netherlands (1999)	1.094	1.047
South Africa (2008)	7.052	4.026
Tanzania (2007)	1.653	1.327
United Kingdom (1999)	1.623	1.312
United States (2000)	1.852	1.426

The data available to calculate the baseline (the Palma ratio 2010) differ much in actuality and quality. Thus, the Palma ratio 2030 target figures are only tentative.

Source: Cobham and Sumner, 2013, and Index Mundi/the Luxembourg Income Study database.

FURTHER READING

Cobham, Alex, and Andy Sumner, 2013. *Putting the Gini back in the bottle? 'The Palma' as a policy-relevant measure of inequality.* (http://www.kcl.ac.uk/aboutkings/worldwide/initiatives/global/intdev/people/Sumner/Cobham-Sumner-15March2013.pdf)

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