



Reducing Inequality and Promoting a Recovery for All

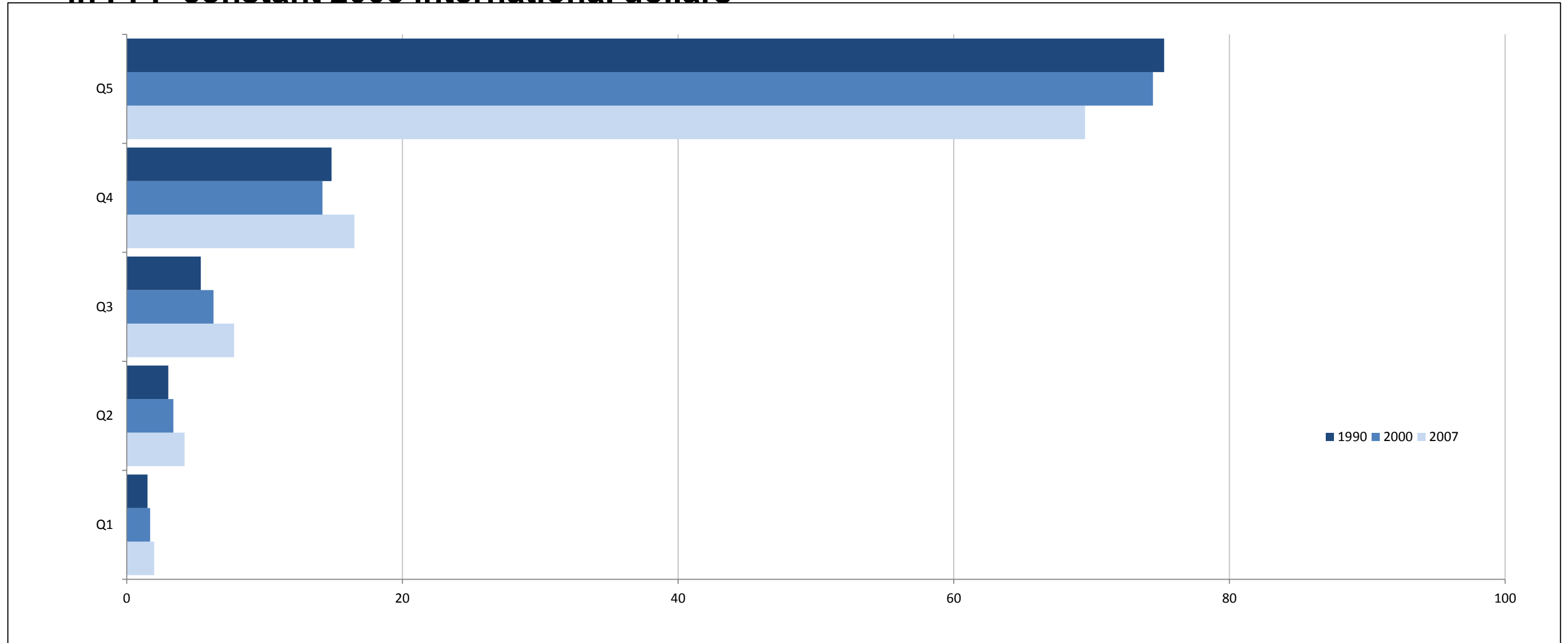
Isabel Ortiz

Moscow, 11-13 December 2012

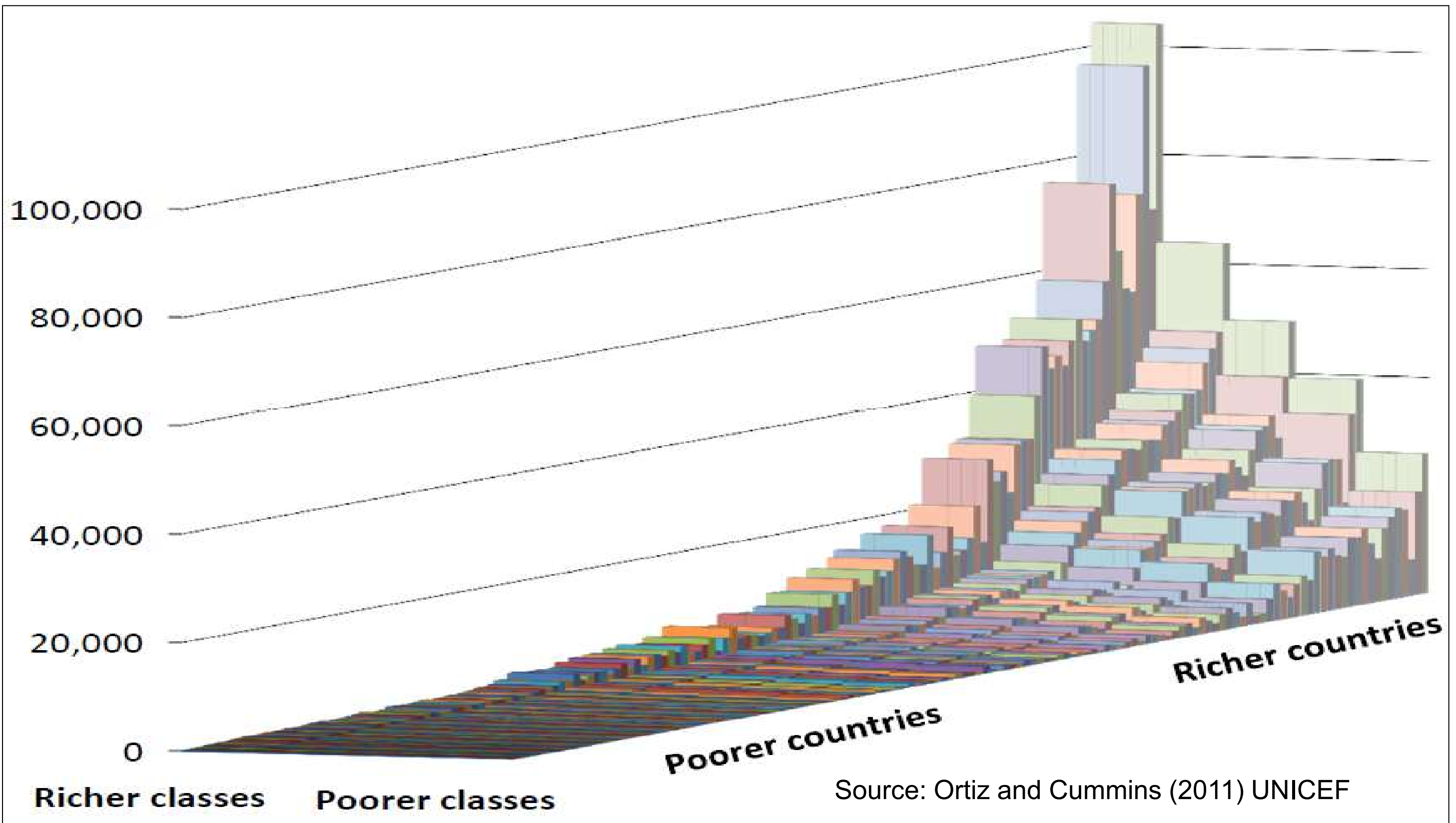
Distribution of World Income: Development for Whom?

The benefits of growth accrue to the wealthiest – Most left behind

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



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



Source: Ortiz and Cummins (2011) UNICEF

Poorest and Richest Quintiles in the World

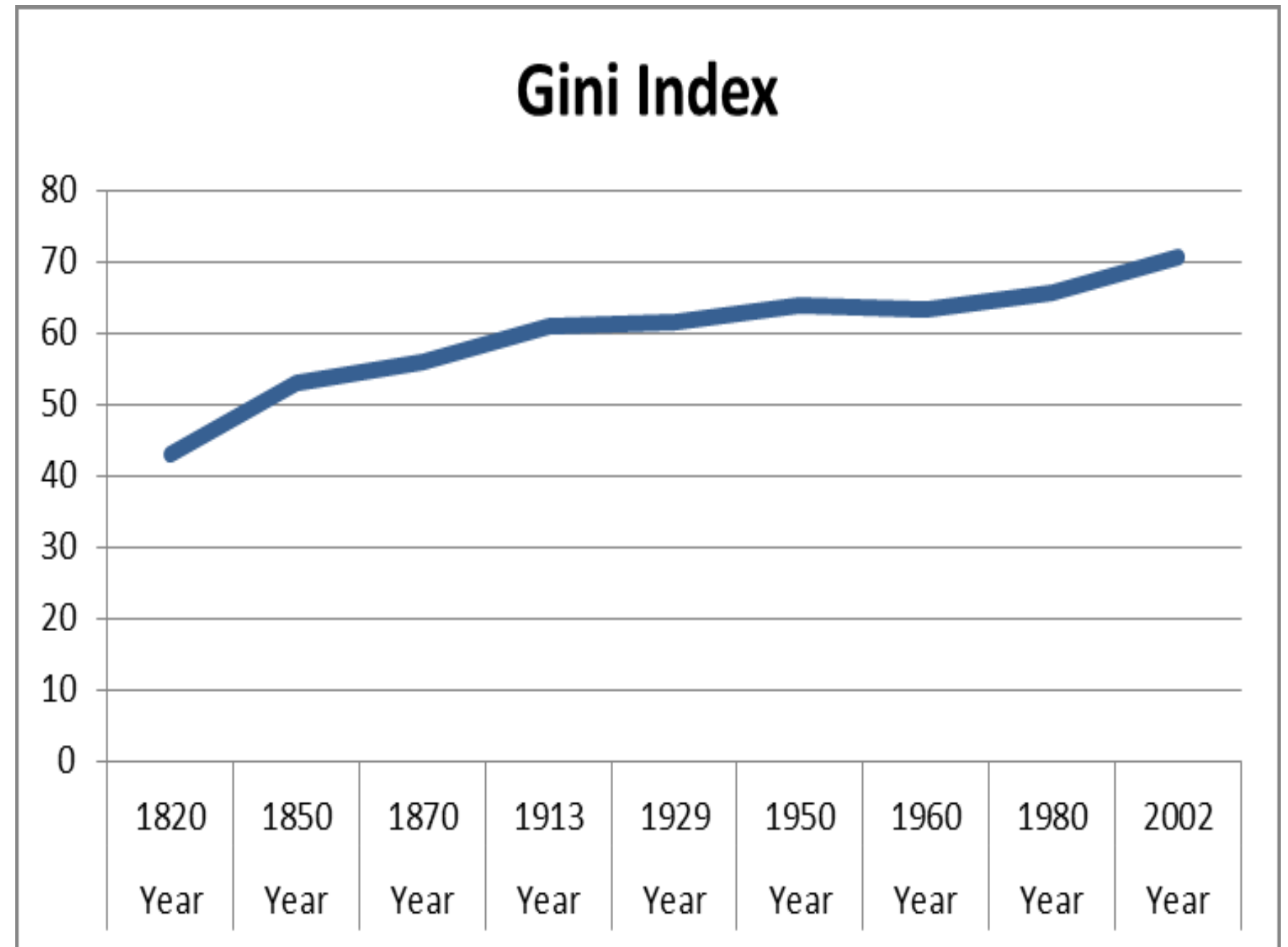
2007, constant 2000 U.S. dollars

| 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)

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, B (2009) World Bank

Income Inequality vs. Wealth Inequality

| Country | Wealth Gini (2000) | Income Gini | Year |
|---------------|--------------------|-------------|------|
| Argentina | 74.0 | 50.1 | 2005 |
| Australia | 62.2 | 31.2 | 2003 |
| Bangladesh | 65.8 | 33.5 | 1996 |
| Brazil | 78.3 | 56.6 | 2004 |
| Canada | 66.3 | 31.5 | 2000 |
| China | 55.0 | 44.9 | 2003 |
| France | 73.0 | 27.8 | 2000 |
| Germany | 67.1 | 31.1 | 2004 |
| India | 66.9 | 36.5 | 1997 |
| Indonesia | 76.3 | 39.6 | 1996 |
| Italy | 60.9 | 33.3 | 2000 |
| Japan | 54.7 | 31.9 | 1998 |
| South Korea | 57.9 | 37.2 | 1998 |
| Mexico | 74.8 | 49.9 | 2004 |
| Nigeria | 73.5 | 52.2 | 1996 |
| Pakistan | 69.7 | 39.8 | 1996 |
| Spain | 56.5 | 33.6 | 2000 |
| Taiwan | 65.4 | 33.9 | 2003 |
| Thailand | 70.9 | 42.7 | 2001 |
| United States | 80.1 | 46.4 | 2004 |
| Viet Nam | 68.0 | 37.3 | 1998 |

Income inequality measures, which are often based on household consumption, do not capture other household wealth, such as financial assets, real estate and savings instruments that high income groups commonly possess.

Wealth inequality – even larger asymmetries

Harmonizing world statistics a priority

Inequality Further Increased by Global Crisis

Crisis: Transmission Channels

Employment and Income

- Unemployment, underemployment
- Wage cuts, reduction in benefits
- Decreased demand for migrant workers
- Lower Remittances
- Returns from pension funds

Prices

- Basic food, agricultural inputs
- Fuel, drugs

Assets and Credit

- Lack of access to credit
- Loss of savings due to bank failures
- Loss of savings as a coping mechanism
- Home foreclosures

Government Spending on Economic and Social Sectors

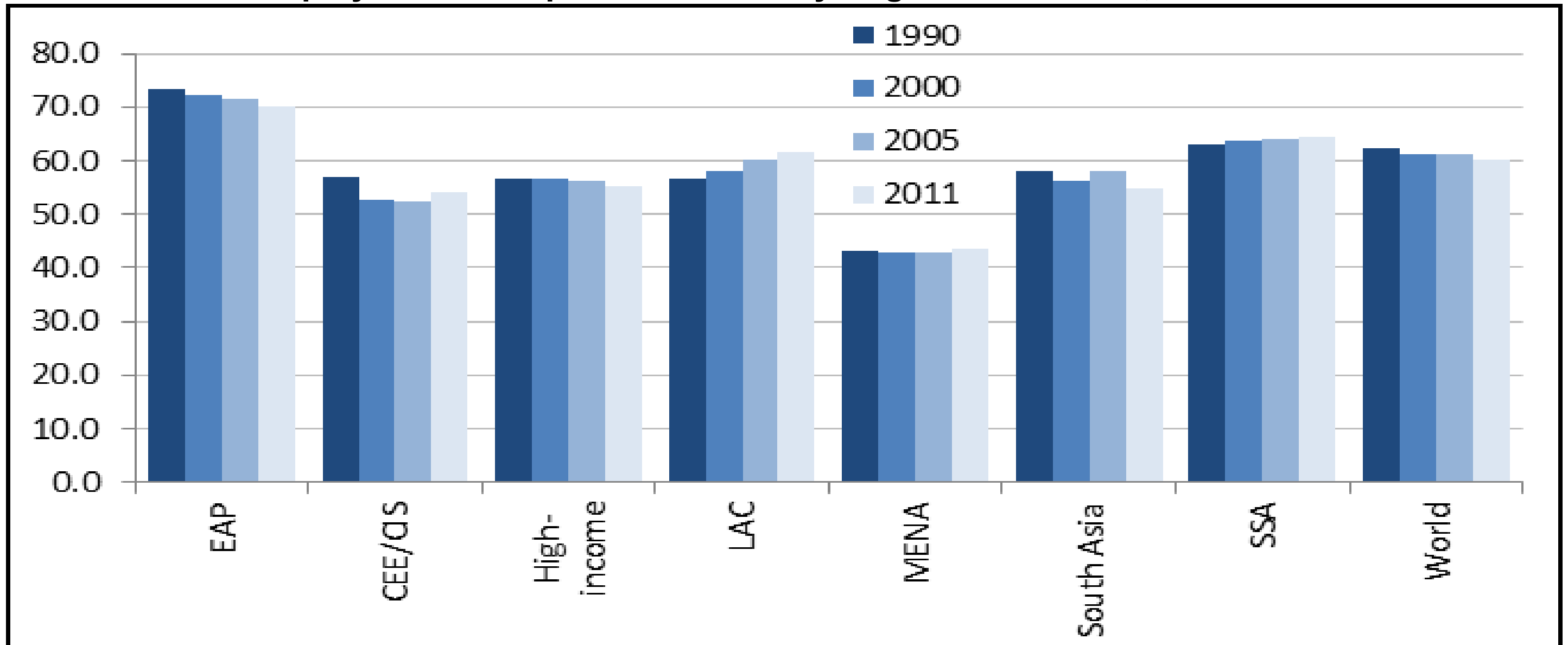
- Education
- Health
- Social protection
- Employment programmes
- Public investment to enhance national productive capacities (eg. infrastructure, green growth)

Aid Levels - ODA

Inequality Further Increased by Global Crisis (I)

Employment – The Long Job Crisis

Employment-to-Population Ratios by Regions and World, 1990-2011

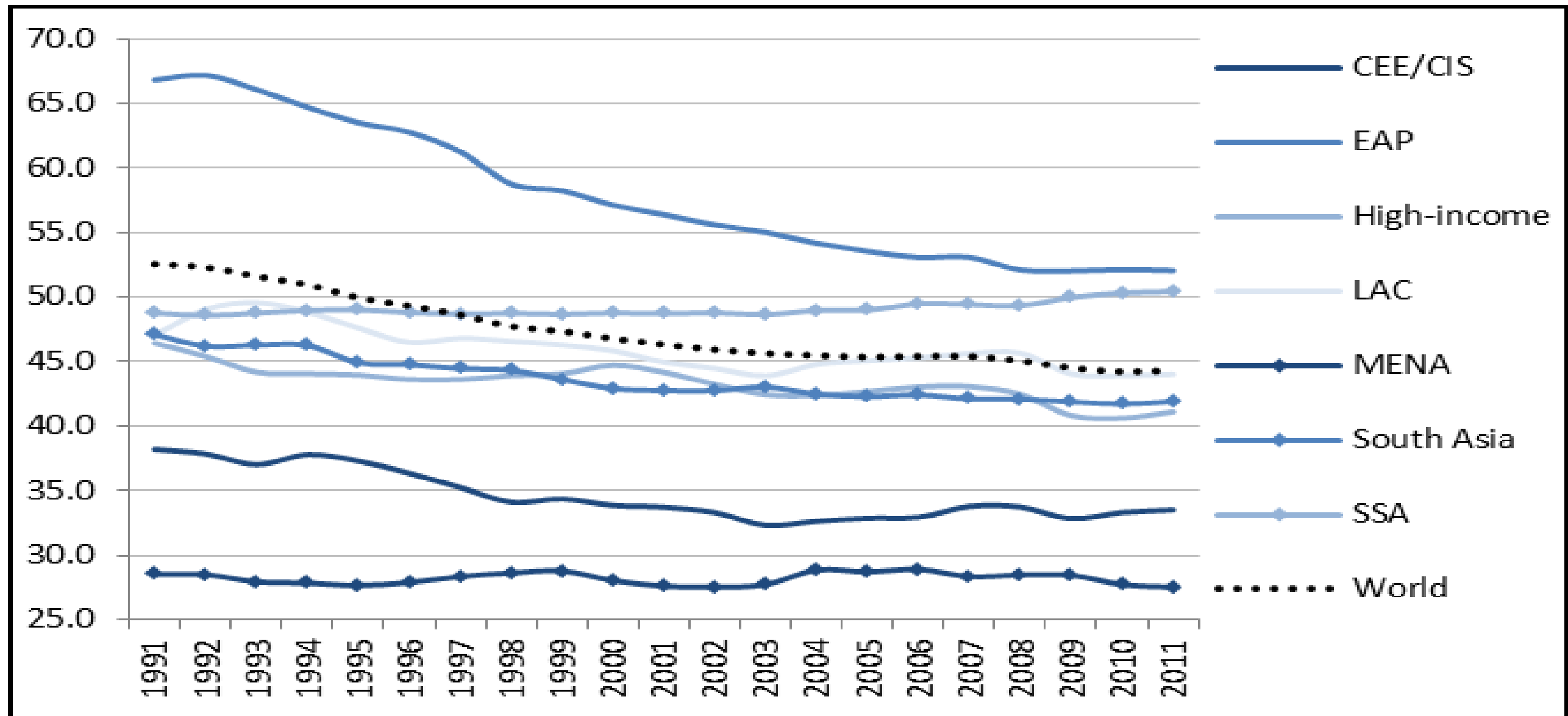


Source: Ortiz and Cummins, 2012: *A Recovery for All*, UNICEF

Inequality Further Increased by Global Crisis (II)

Employment

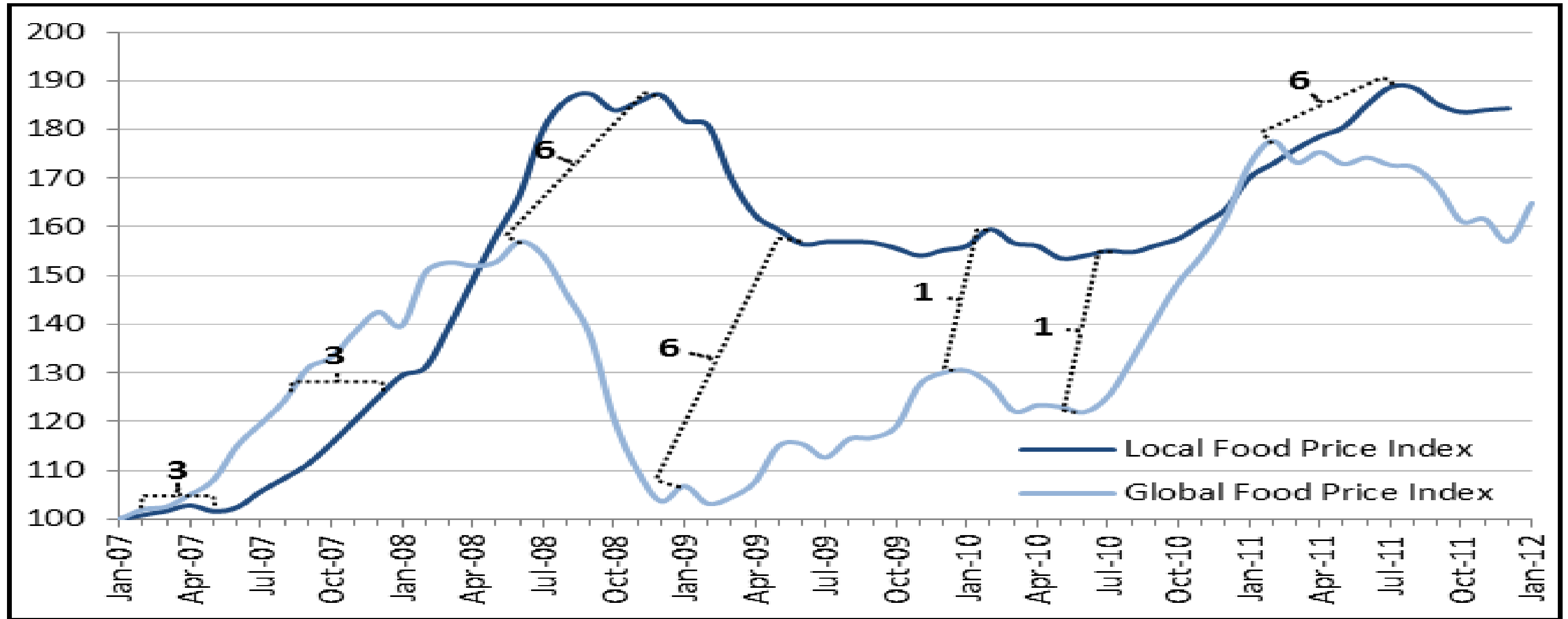
Youth Employment-to-Population Ratios by Regions and World, 1991-2011



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

Inequality Further Increased by Global Crisis (III)

Food Prices



Source: Ortiz and Cummins 2011: *A Recovery for All*, UNICEF

- Plenty of food in the world – but 870 million people hungry
- Hunger and malnutrition => irreversible impacts on children

Public Expenditures - Phase I of Crisis (2008-09) – Expansion

G-20 in London and Pittsburgh (2009)

- Stimulus plans (ILO: saved 21 million jobs worldwide)
- \$1.1 trillion, mostly to IMF (\$750 billion)

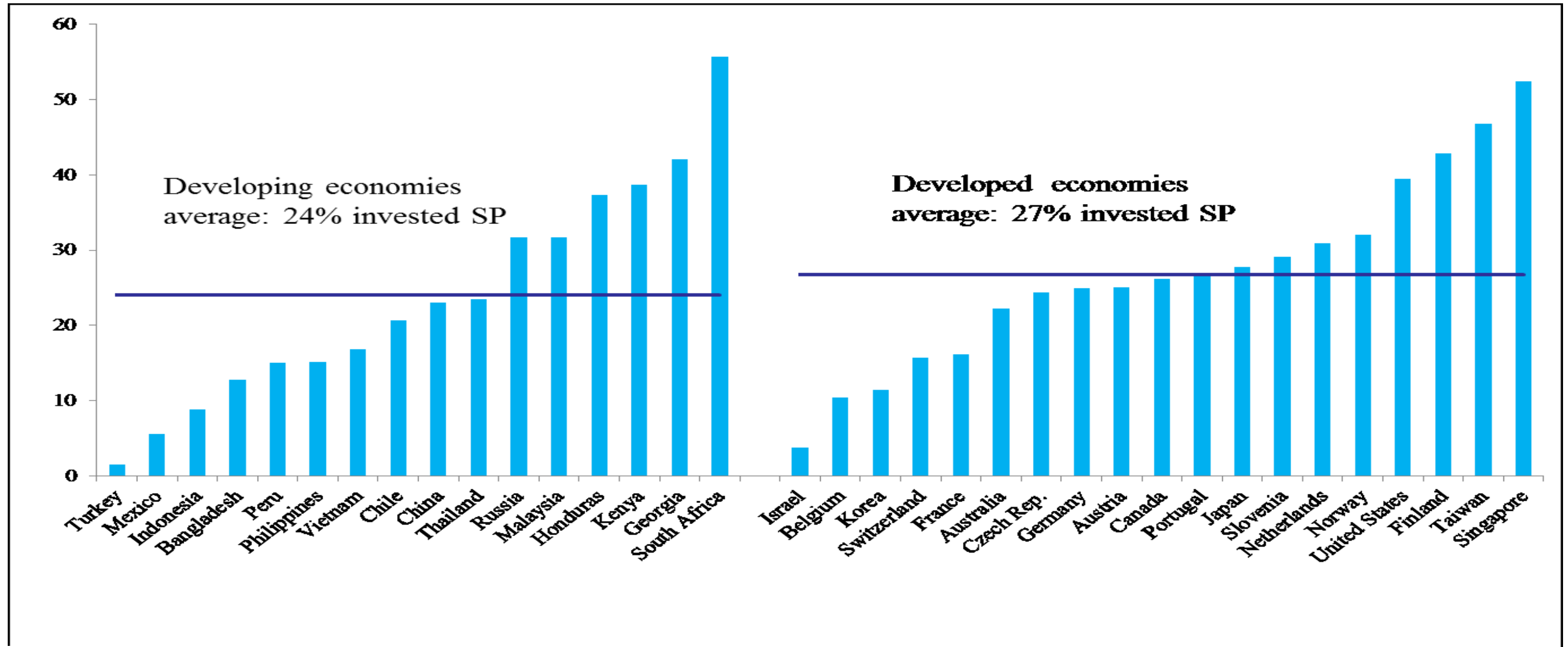
G192 – the UN Summit on the Financial Crisis (2009)

- Need for an internationally coordinated response for real-economy growth
- Stiglitz Report - a new UN Economic and Social Council, explore changes required for the international system to work, such as a Global Reserve System, based on the SDR, or establishing an International Court for Debt Restructuring
- Concerns: IMF unreformed; limited funds for development (banks, UN)

IMF - 2009 new discourse: fiscal stimulus plans, easing macroeconomic policies, counter-cyclical interventions, streamlined conditionality, measures to ensure social safeguards, including protection of “priority social expending”

UN 2009 – 9 Joint Crisis Initiatives (Global Jobs Pact, social protection floor, food security, etc).

Phase I of Crisis (2008-09) – Expansion Public Expenditures Social Protection in Fiscal Stimulus Plans



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

BUT 2010 onwards - Fiscal consolidation and austerity

Governments worldwide contracting public expenditures

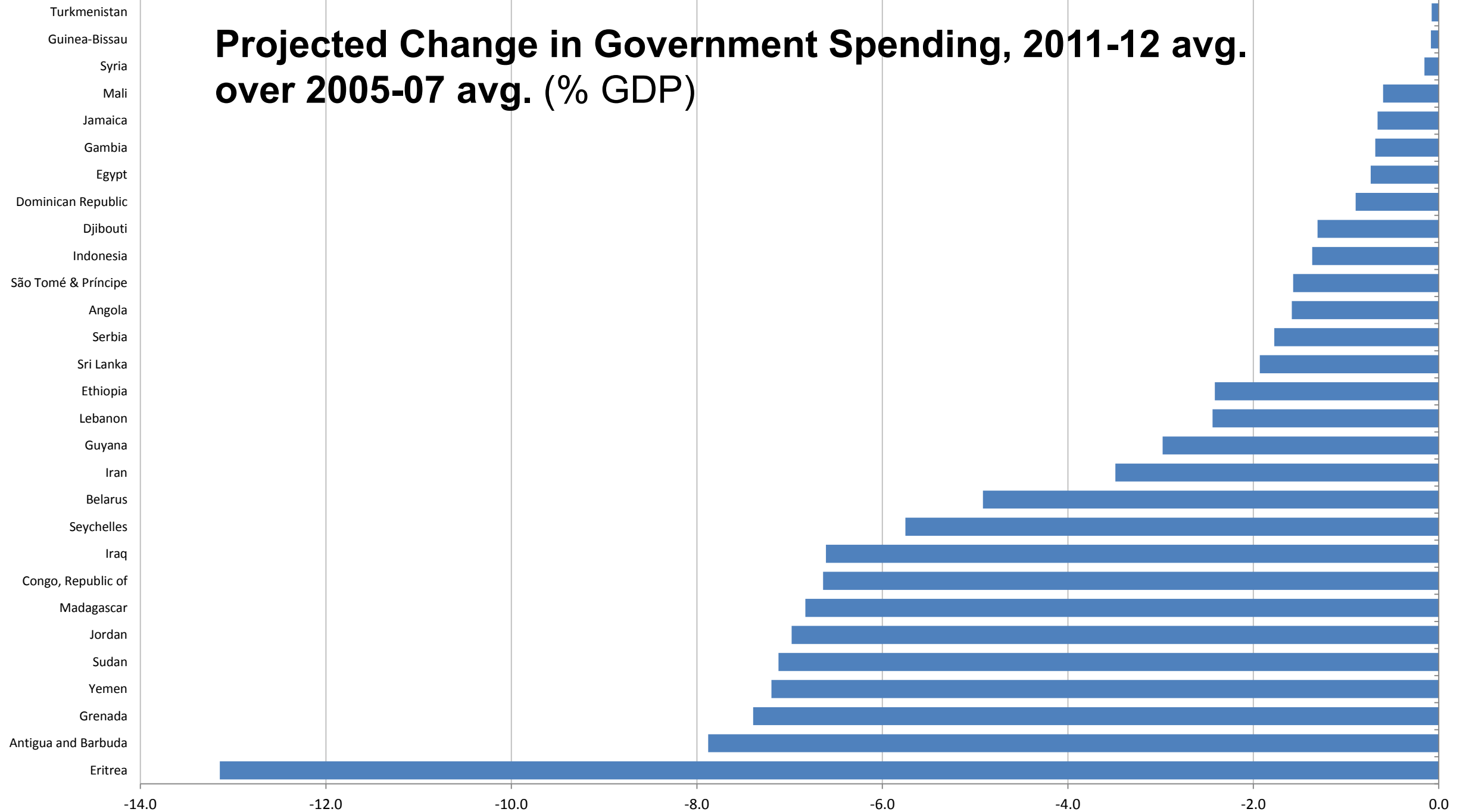
| Income Group (n=) | Indicator | (A) Change in Spending (year on year, in % of GDP) | | | | (B) Growth of Real Spending (year on year, as a %) | | | |
|-------------------------------|-------------------------------|---|------|-------------|------|---|------|-------------|------|
| | | 2010 | 2011 | 2012 | 2013 | 2010 | 2011 | 2012 | 2013 |
| Developing Countries (130) | Overall avg. change | -0.6 | 0.2 | -1.0 | -0.7 | 5.6 | 6.4 | 1.7 | 2.9 |
| | Avg. contraction | -2.7 | -1.8 | -1.8 | -1.2 | -6.7 | -5.0 | -6.2 | -3.3 |
| | # of countries contracting | 68 | 62 | 94 | 92 | 32 | 36 | 40 | 26 |
| High Income Countries (49) | Overall avg. change | -0.7 | -1.2 | -0.6 | -0.7 | 1.8 | 1.6 | 0.2 | 0.6 |
| | Avg. contraction | -1.6 | -2.0 | -1.0 | -1.0 | -4.4 | -4.7 | -2.5 | -3.0 |
| | # of countries contracting | 38 | 37 | 39 | 39 | 18 | 18 | 20 | 14 |

Source: Ortiz and Cummins, 2012: *A Recovery for All*, UNICEF, based on IMF data

Phase II of the Crisis 2010 onwards

Excessive contraction/Cutting expenditures below pre-crisis levels

**Projected Change in Government Spending, 2011-12 avg.
over 2005-07 avg. (% GDP)**



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

A Crisis Of Social Support

**Contraction of public expenditures in 133 countries in 2012
(94 developing countries)**

- Wage bill cuts or caps in 73 countries, reducing the salaries of public-sector workers who provide essential services to the population.**
- Phasing-out subsidies (food, fuel, others) in 73 countries, despite record-high food prices in many regions.**
- Cuts in social protection programs are under consideration in 55 countries, at a time when governments should be looking to scale up benefits**
- VAT increases on basic goods and services that are consumed by the poor – that may further contract economic activity – in 71 countries**

| Wage Bill Cuts or Caps | | Reduce or Eliminate Subsidies | | Further Target Safety Nets | | Old-Age Pension Reform | | Increase Consumption Taxes | |
|------------------------|---------------------|-------------------------------|---------------------|----------------------------|---------------------|------------------------|-----------------------|----------------------------|---------------------|
| Algeria | Mexico Micronesia | Algeria | Malaysia | Albania | Peru | Albania | Nicaragua | Albania | Mexico |
| Antigua Barbuda | Moldova | Angola | Maldives | Algeria | Philippines | Antigua and Barbuda | Norway | Antigua Barbuda | Micronesia |
| Bahamas | Montenegro | Austria | Mali | Antigua Barbuda | Portugal Romania | Austria | Portugal | Armenia | Moldova |
| Belarus | Morocco | Bangladesh | Mauritius | Belarus | Russia | Belarus | Romania | Belize | Montenegro |
| Belize | Mozambiq | Belarus | Mexico | Bolivia | Slovak Rep | Belgium | Russia | Bhutan | Netherland |
| Benin | Netherland | Bolivia | Morocco | Bosnia and Herzegovina | Slovenia Spain | Belize | Serbia | Botswana | New Zealand |
| Bosnia and Herzegovina | Nicaragua | Burkina Faso | Mozambiq | Bulgaria | St. Kitts and Nevis | Benin | Singapore | Colombia | Nicaragua |
| Botswana | Nigeria | Burundi | Nepal | Cambodia | St Vincent &Grandns | Bosnia and Herzegovina | Slovak Rep | Costa Rica | Pakistan |
| Bulgaria | Palau | Cameroon | Netherland | Cyprus | Sudan | Herzegovina | Slovenia Spain | Czech Rep | Panama |
| Burkina Faso | Poland Portugal | Cape Verde | Nicaragua | Czech Rep | Timor-Leste | Bulgaria | St. Kitts and Nevis | Djibouti | Poland |
| Burundi | Romania | Central African Republic | Niger | Denmark | Tunisia | Canada | St. Lucia | Dominica Republic | Portugal |
| Cambodia | Samoa | Congo, Dem. Rep. of | Nigeria | Dominica | UK | Cyprus | St Vincent & Grand’ns | Egypt | Qatar |
| Chad | Serbia | Dominican Republic | Norway | Egypt | USA | Czech Rep | Tunisia | Ethiopia | Romania |
| Chile | Slovak Rep | Egypt | Pakistan | El Salvador | | Egypt | Turkey | Fiji | Russia |
| Costa Rica | Slovenia Solomon Is | El Salvador | Palau | Fiji | | Estonia | Uganda | Gambia | Saudi Arabia |
| Côte d'Ivoire | South Africa | Fiji | Philippines | Germany | | Greece | UK | Ghana | Seychelles |
| Cyprus | St. Kitts and Nevis | Gabon | Portugal Qatar | Greece | | Guyana | Ukraine | Germany | Slovak R |
| Djibouti | Spain | Ghana | Romania | Grenada | | Honduras | USA | Greece | Spain |
| Estonia | St. Lucia | Greece | Saudi Arabia | Hungary | | India | | Guatemal | Sri Lanka |
| Fiji | St Vincent & | Grenada | Serbia | India | | Italy | | Guinea-Bissau | St. Kitts and Nevis |
| Gabon | Granad’ns | Guinea-Bissau | Sierra Leone | Indonesia | | Jamaica | | Guyana | St. Lucia |
| Greece | Swaziland | Haiti | Singapore | Ireland | | Japan | | India | Sudan |
| Grenada | Tajikistan | Honduras | Slovak Rep Spain | Italy | | Jordan | | Iran | Suriname |
| Guinea-Bis. | Tanzania | India | St. Kitts and Nevis | Japan | | Lebanon | | Ireland | Swaziland |
| Haiti | Timor-Leste | Indonesia | Sudan | Jordan | | Lithuania | | Italy | Tanzania |
| Honduras | Tonga | Iran | Suriname | Kazakhstan | | Korea South | | Jamaica | Thailand |
| Hungary | Tunisia | Iraq | Tanzania | Lebanon | | Mali | | Japan | Togo |
| India | Turkey | Ireland | Thailand | Malaysia | | Mexico | | Jordan | Tunisia |
| Ireland | Tuvalu | Italy | Timor-Leste | Mauritania | | Micronesia | | Kenya | Turkey |
| Italy | UK | Jordan | Togo | Mauritius | | Montenegro | | Kiribati | Uganda |
| Jamaica | Ukraine | Kiribati | Tunisia | Moldova | | Morocco | | Korea South | UK |
| Jordan | Vanuatu | Korea South | Turkey Tuvalu | Mongolia | | Netherlands | | Kyrgyz Rep | Uruguay |
| Kazakhstan | Yemen | Kosovo | UK | Morocco | | New Zealand | | Liberia | Vanuatu |
| Kiribati | | Lesotho | Ukraine | Mozambiq | | | | Lithuania | Vietnam |
| Lebanon | | Liberia | Yemen | Nepal | | | | Malaysia | Yemen |
| Lithuania | | Macedonia | | Netherlands | | | | Mali | |
| Macedonia | | | | Nicaragua | | | | | |
| Maldives | | | | Norway | | | | | |
| Marshall Is. | | | | Paraguay | | | | | |

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

People Left Behind

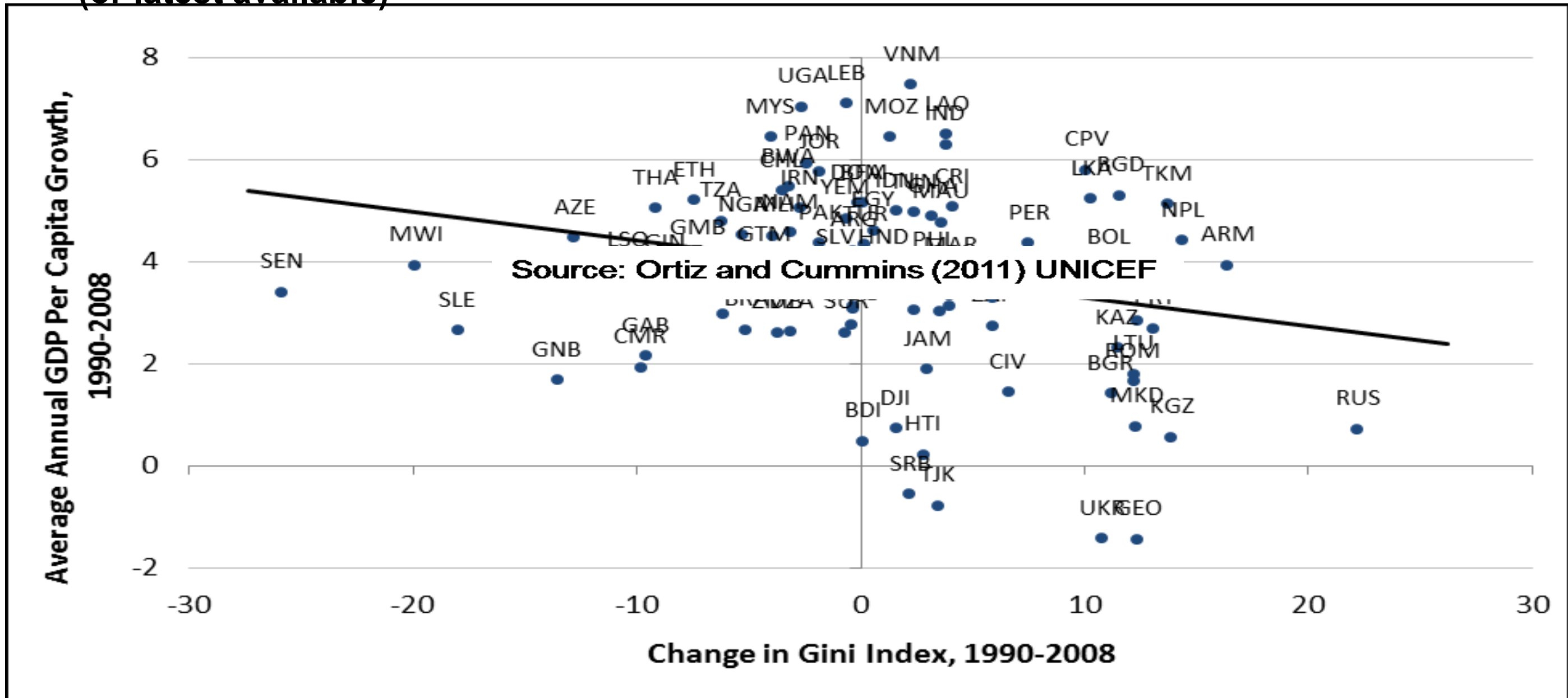
- **Many people have been hurt three times by this sequence:**
 - **They were left behind in the run-up to the crisis**
 - **They were severely affected during the crisis**
 - **They are now suffering from reductions in government expenditure and increases in public debt and from reduced economic growth.**
- **Return to “normal” (pre-crisis) is not a the solution, many were denied a decent living**
- **Governments acted as a banker of last resort – but not as an employer of last resort, protecting people and stimulating sustainable growth.**
- **The crisis is used as an opportunity to impose unpopular reforms (eg labor flexibilization, social welfare cuts) instead of regulating the financial sector and corporate welfare**
- **The crisis is used as an opportunity to cut back the state, even though the lesson of other crises is that the state needs to be stronger not weaker**

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
 - 2012: 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

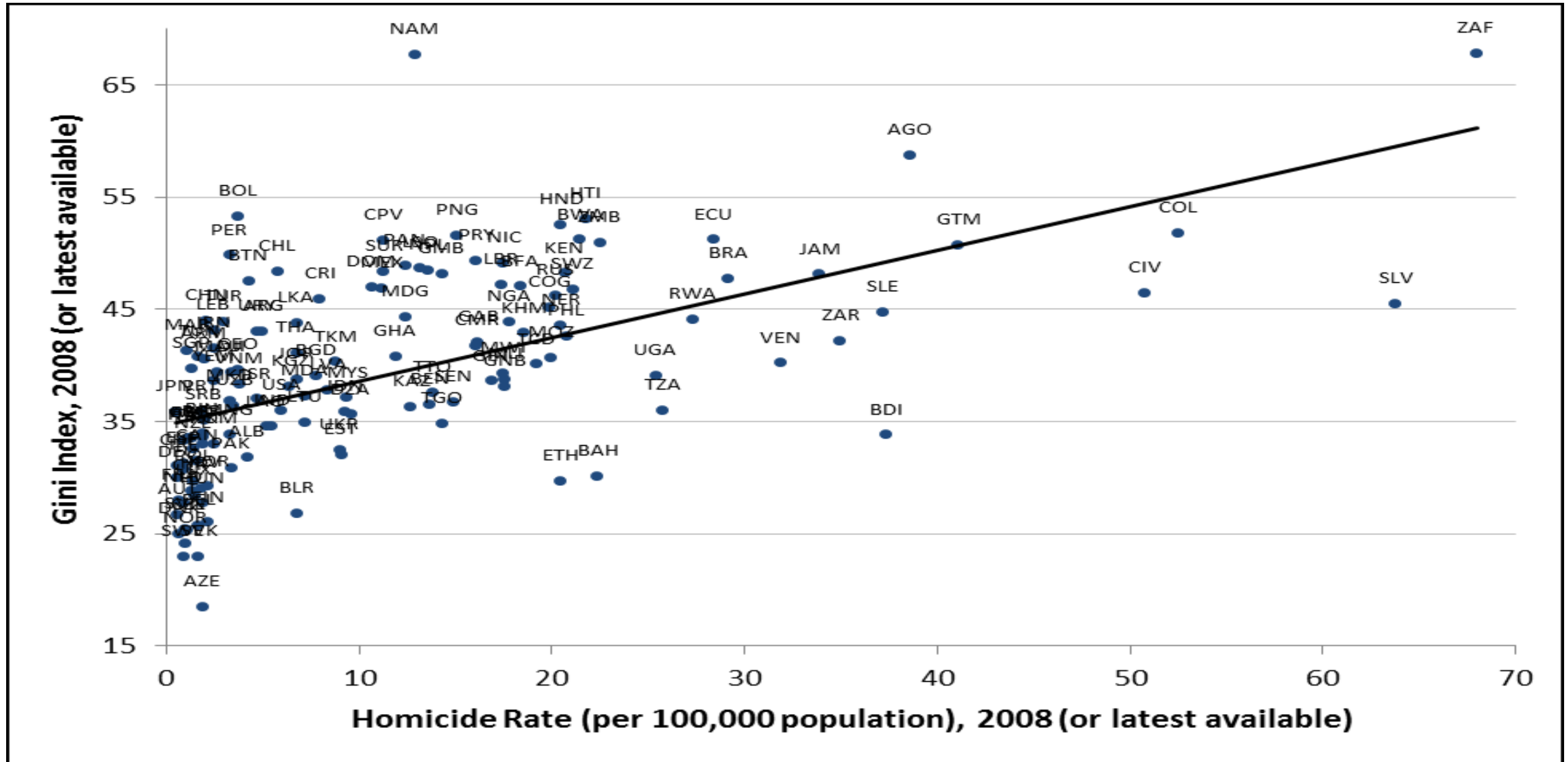
Inequality Slows Down Economic Growth

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



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

Inequality Generates Violence and Crime



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

Policies for an Equitable Recovery

- **The current global economic crisis presents an opportunity to rethink socio-economic policies for all persons.**
- **The 1929 financial crash led to a New Deal that radically altered the development model of the day – stimulating the economy and employment, regulating the financial sector, expanding social security.**
- **A comparable policy push is needed today**
- **It is not too late - prioritizing economic and social recovery can overcome the short-termism dictated by financial markets**
- **Increased international cooperation/coordination is urgently needed for a more robust and sustained recovery, with benefits far more widely shared**

Reducing Inequality and Promoting a Recovery for All

(i) Employment and Sustainable Growth

- **Economic policies are detached from social objectives such as generating employment and protecting people's incomes – often have a narrow focus on containing inflation, budget deficits, service debt, liberalizing product/factor markets and trade, a major reason why inequality increased worldwide.**
- **Policy-makers always talk about employment but few have managed to create it; jobless growth prior to the crisis, jobless recession.**
- **Common misunderstandings: education does NOT generate employment; development does not occur only as a result of private-sector led market processes, need for adequate public policies => macroeconomic and sector policies (eg industrial) that support real economy growth and structural change**
- **To address inequality, recovery policies should prioritize job creation**

Policies for an Equitable Recovery – for All

(i) Employment and Sustainable Growth

Decent jobs are a result of adequate macroeconomic, sector and labour policies:

1. Employment-sensitive macroeconomic and sector policies:

- Monetary and fiscal policies that boost aggregate demand; eg. fiscal consolidation or a tight monetary policy focussed on containing inflation do not generate jobs.
- Financial services for real economy growth, branching out to local level
- Investments in physical and social infrastructure, human capital
- Technology/industrial policy
- Adequate exchange rates; gradual and sequential trade opening to support it.

2. Labour policies: Decent employment is not only about generating jobs, most poor people work long hours but they cannot bring their families out of poverty; it is also about adequate salary and working conditions.

- Labour market policies, including labour standards and fair income
- Social dialogue to reach optimal solutions in macroeconomic policy, public and private investment, the need for productivity, job and income security.

Reducing Inequality and Promoting a Recovery for All

(ii) Transforming The Financial Sector

- **The financial sector has two main functions:**
 - **It should serve the needs of the real economy**
 - **It should help manage and mitigate risk**
- **In the last two decades it has done neither**
 - **It has not provided adequate sustainable finance for key sectors like SMEs, green investments, infrastructure, housing**
 - **It has created risk, led to numerous and costly crises, Latin America, East Asia 1997/8, current crisis**
- **It is under-taxed**
- **It has absorbed public funds**
- **Countries need a smaller, simpler, more transparent and accountable financial sector, focused on lending to the real economy, not on making exorbitant profits and salaries for the financial sector**

Reducing Inequality and Promoting a Recovery for All

(ii) Transforming The Financial Sector

- **Should be taxed, eg. Tobin Tax - the European Commission and Parliament proposal is for a 0.01% tax on all securities and a smaller tax on derivatives.**
- **Adequate and effective regulation**
- **Speculative activity should be discouraged, as was done in the US in the 1930s with the Glass-Steagall Act.**
- **Reform of bankers' remuneration systems, to link them to long term performance rather than short-term results.**
- **The unhealthy power and influence that the financial sector has over regulators and politicians**
- **Expansion of efficient public banks to finance the real economy. Banks nationalized due to the crisis could be turned into public banks; where public banks do not exist, they need to be created.**
- **If the private financial sector continues to resist regulation, parts of the financial sector could become publicly owned: the financial sector is a means to the end (inclusive sustainable growth), and not an end for its own exclusive benefit and that of a small elite.**

Reducing Inequality and Promoting a Recovery for All

(iii) Social Protection Floors

- Social protection is an investment in people, critical to prevent and reduce poverty, inequality, social exclusion and vulnerability to shocks, to promote equal opportunity and gender and racial equality, and raise productivity.
- Social security systems act as automatic social and economic stabilizers, help stimulate aggregate demand in times of crisis and beyond, and help support a transition to a more sustainable economy
- Social protection floors are nationally defined sets of basic social security guarantees which secure protection to the unemployed, old persons, children, persons with disabilities, the poor and food insecure, among others.
- Expanding system coverage (instead of cutting welfare benefits because of austerity) should be a priority



Policies for an Equitable Recovery for All

(iv) Addressing inequality in other sector policies

Diminishing inequality requires bringing redistribution back into the development agenda. Equity needs to be made a focus of policy making, across sector investments

| | Typical Interventions with Equitable Outcomes | Typical Interventions with Inequitable/Regressive Outcomes |
|-------------------|---|---|
| Agriculture | 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) |
| Education | Universal free education; scholarships and programs to retain students | User fees; commercialization of education; cost-saving in teacher's salaries |
| Energy and Mining | Rural electrification; life-line tariffs; contract laws ensuring adequate taxation from natural resource extraction | Untaxed or poorly taxed oil/mineral extraction |
| Finance | 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 |
| Health | Universal health services; nutrition programs; free reproductive health services | User fees; commercialization of health; tertiary highly specialized clinics that benefit a few |
| Housing | Subsidized housing for lower income groups; upgrading of sub-standard housing | Public housing finance for upper income groups |
| Industry | Technology policy to support competitive, employment-generating domestic industries, large and SMEs; | Deregulation; general trade liberalization |
| Labour | Labour programs; adequate minimum wages and labour laws; employment-generating policies across sectors | Labour flexibilization |

Policies for an Equitable Recovery for All

(iv) Addressing inequality in other sector policies

| | Typical Interventions with Equitable Outcomes | Typical Interventions with Inequitable/Regressive Outcomes |
|------------------------------|--|---|
| Macro-economic Policies | Employment-sensitive monetary and fiscal policies; countercyclical policies; adequate corporate and personal income taxes | An excessive focus on macroeconomic stability; cyclical policies; indirect taxation (VAT) |
| Public Expenditures | Public expenditures that benefit lower income groups; fiscal decentralization | Military spending; subsidies to activities benefiting upper income groups; austerity measures |
| Social Protection | Social protection floors, expanding social security coverage | Private funded pension systems |
| Tourism | Small-scale local companies; financing basic infrastructure; international marketing campaigns | Poorly taxed luxury hotel chains |
| Trade | Linking employment-generating local companies with export markets; adequate protection of national industry; taxing exporting sectors for domestic development | Most bilateral free trade agreements; current intellectual property agreements |
| Transport and Infrastructure | Rural roads; physical and social infrastructure for national development; affordable public transport, non-motorized transport for households (bicycles, buffalos etc) | Large (and costly) infrastructure investments that the poor/excluded do not use or do not benefit by taxation |

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

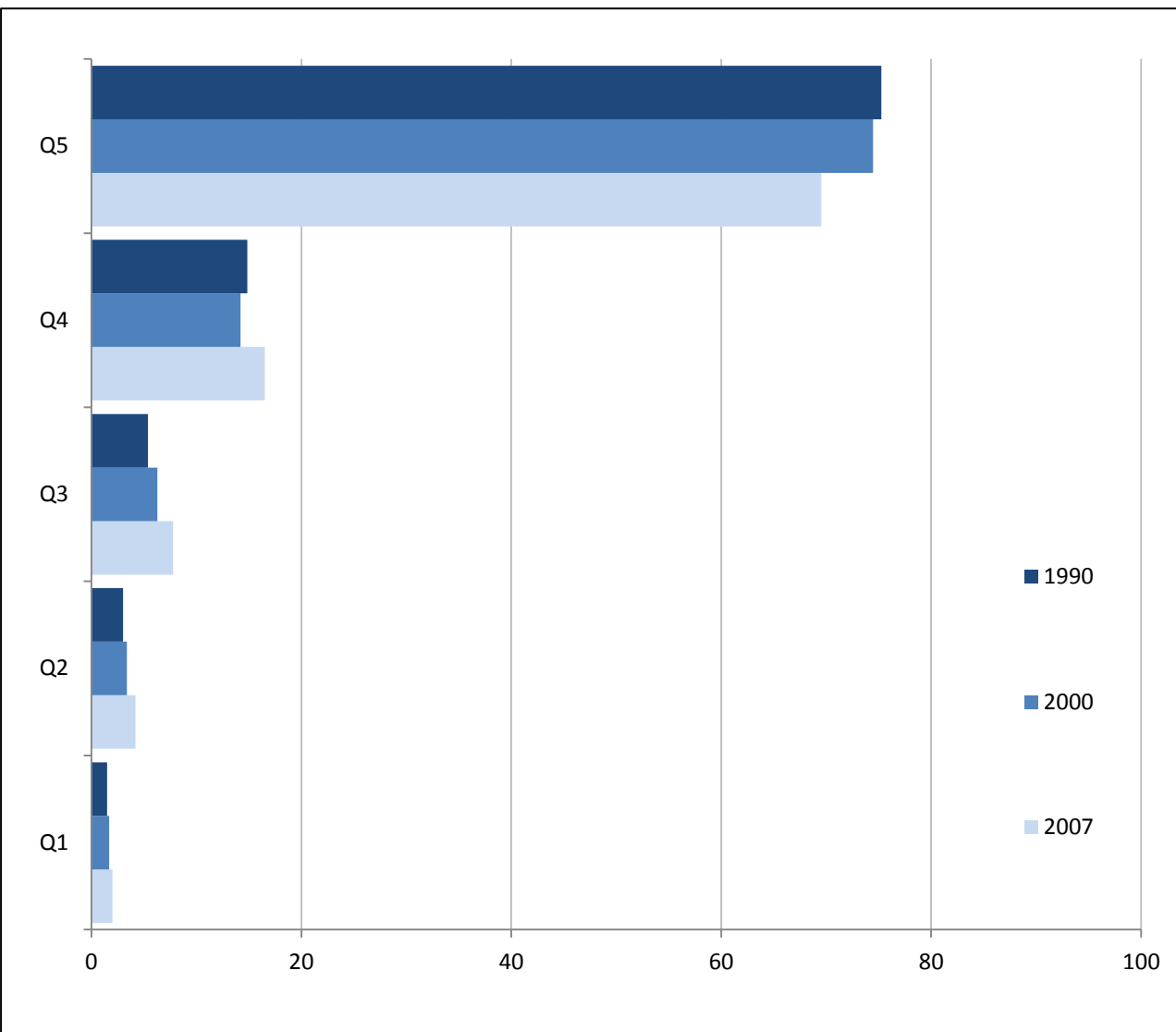
Fiscal Space for an Equitable Recovery Exists Even in the Poorest Countries

There is national capacity to fund social and economic development even in the poorer countries. There are many options, supported by UN policy statements:

- Re-allocating public expenditures**
- Increasing tax revenues, fighting tax evasion**
- Lobbying for increased aid and transfers**
- Fighting illicit financial flows**
- Tapping into fiscal and foreign exchange reserves**
- Adopting a more accommodative macroeconomic framework (eg tolerance to some inflation, fiscal deficit)**
- Borrowing or Restructuring debt**
- Issuing more SDRs**

Economic decisions have important distributional impacts – must be considered by decision-makers

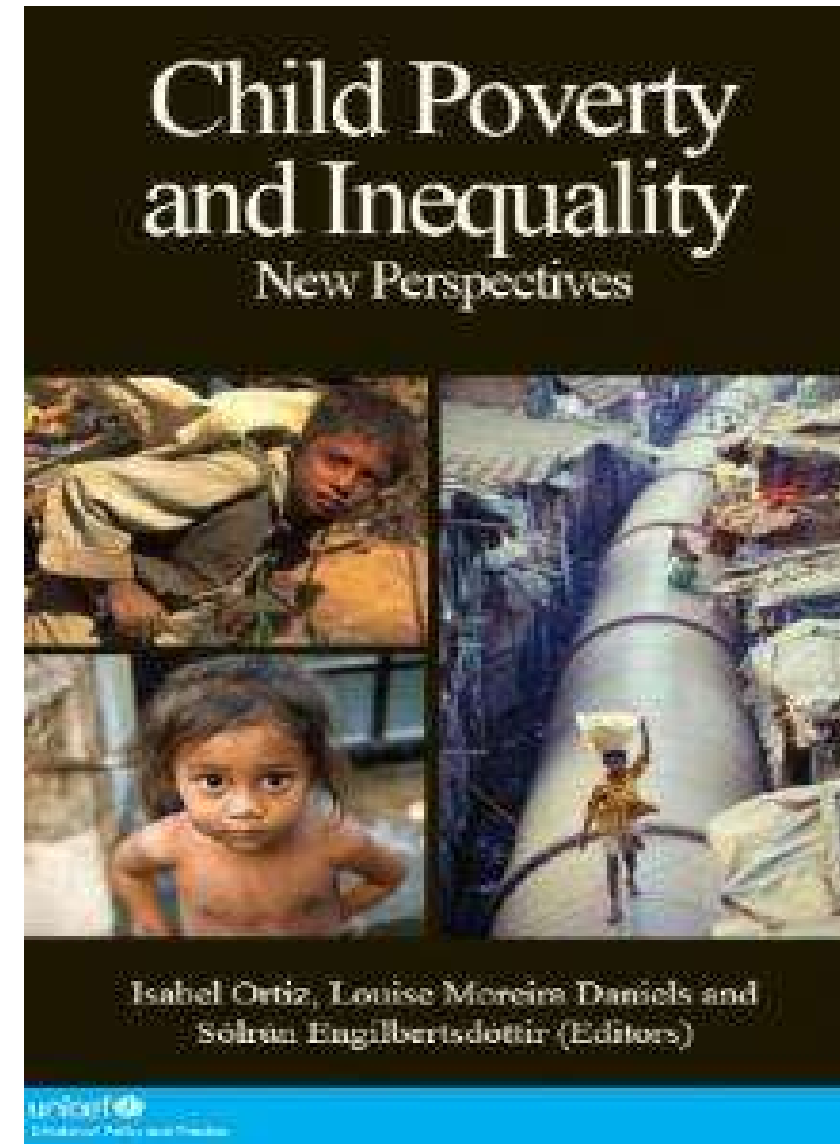
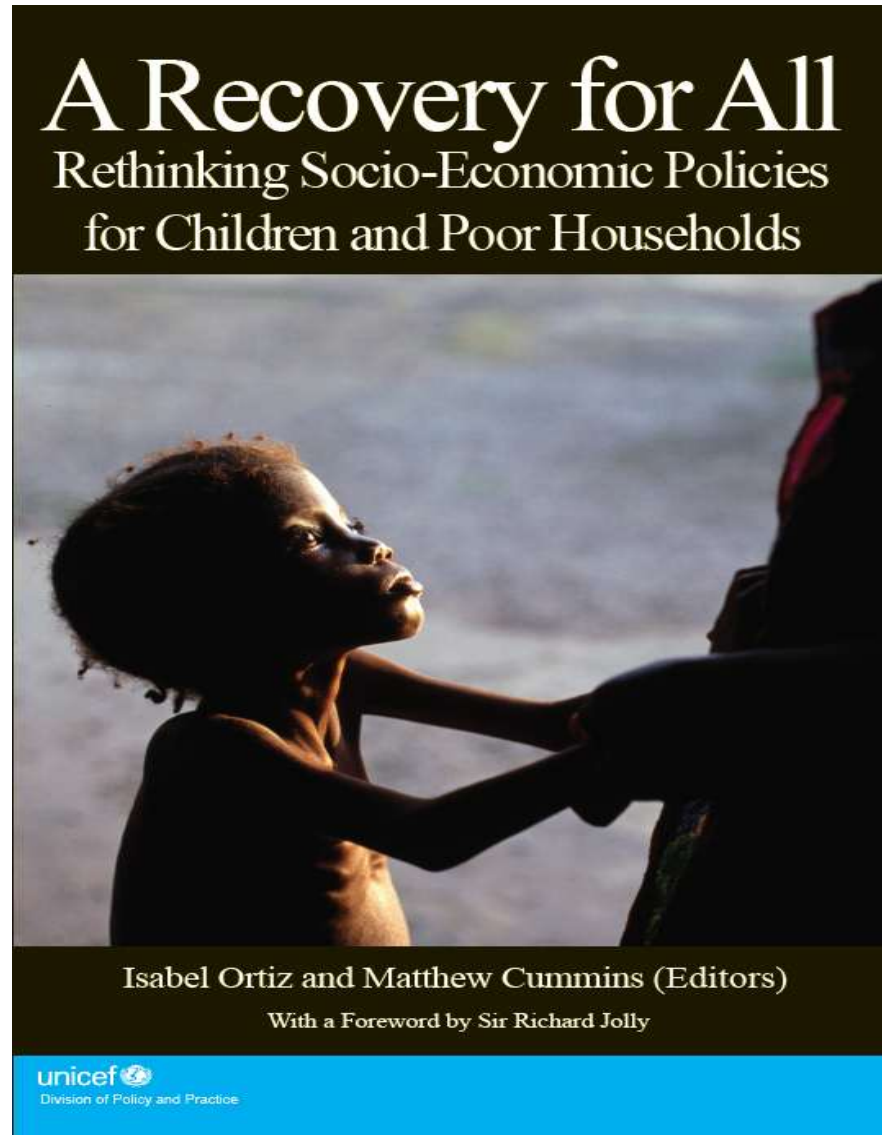
Global Income Distribution by Countries, 1990-2007
in PPP constant 2005 international dollars



Top 1% (61 million) has the same as the poorest 3.5 billion (or 56%) of the world's population

- **Economic policies at both international and national levels are taken without adequate consideration of their distributional impacts**
- **Decision-making is based on some financial/economic logic, without adequately looking at the social consequences such as on employment and welfare of the population, therefore benefitting the wealthiest and continuing inequality patterns.**
- **Distributional/social impacts must be considered by Finance Ministers and decision-makers**
- **A set of alternative policy options for an equitable socio-economic recovery should be discussed in national dialogues and coordinated internationally**

Thank You



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<http://childpoverty-inequality.blogspot.com/>