Inequality and the MDGs
The 2010 Erskine Childers Memorial Lecture

By Professor Sir Richard Jolly

Erskine Childers made his mark in many places and many situations. He had a reputation for telling it as it is - with frankness, wit and humour, usually disrespectful humour. He made many contributions to UNDP and to the UN more generally. In the UN, in his beloved Ireland and in the world, he went where his professional skills and journalistic nose told him there was a story to be followed up, issues to be brought forward, mistakes to be exposed and errors to be put right. After that, he did not hold back - but told it as it is.

Tonight, I want to try to do the same, ignoring the handicaps I have as an economist and a professor. I want to avoid the economist's two handed approach to complexity and the professor's tendency to take an hour to say the obvious. I want to tell it as I see it and feel it.

The levels of inequality in the world today are a scandal – slowing progress towards the MDGs. However, with a range of actions in developing and in developed countries much can be done- and a number of countries have already been taking them. In spite of this, in mainstream thinking and policy making, inequality has been ignored in recent decades, nationally and internationally. I will give my reasons why this needs to be changed if faster progress is to be made towards the MDGs.

I shall start with inequalities in the world today –soaring inequalities which exceed anything experienced in recent decades. Then I shall move to the MDGs, noting in passing some of the positive record of achievement so far, but arguing that without more attention to reducing inequalities there is no possibility of making accelerated progress towards the goals by 2015 –or even later. Finally, I will draw some conclusions –about strategy towards the MDGs and about what the UN and Britain can do to help promote this strategy, internationally and in many countries, including in Britain.

Soaring inequalities

Let me start with Britain and move outwards. Let us first hear the voice of Robert Peston, BBC Economic Correspondent in his excellent recent book, *Who Runs Britain*.

In UK today, some 30,000 earn more than £500,000 per annum –with an average income of £1.1 million.[1] They are the top 0.1 per cent of British earners, with a combined income of £33 billion, or about 4% of all personal earning in the UK. On these figures, the UK is a less equal place than France, where this top 0.1% scoop only half as much - or 2% of all personal income. But note that the UK is still more equal than the US, where the gap between rich and poor is at its widest for more than 60 years, with the highest-earning 0.1% now taking 6% of personal income. In the US the top 1% take a remarkable 21% of economic income.[2]

In contrast, the gross median pay for full-time British employees in April 2006 was £23,600, up a mere 3% on the previous year. So the typical FTSE boss earned 75 times what the typical employee was paid. And just one year's pay rise for that typical boss was £400,000, equivalent to 17 times the total pay of a typical employee. …To put that into some kind of historical context, in 1989 the average (not the median) pay for senior directors running the top 10 per cent of British companies was £222, 000, when the median pay for employees was £$11,648. So less than 20

[1] Here Peston was citing David Goodhart and Harvey Cole, *Prospect Magazine*, August 2007.
[2] Robert Peston, *Who Runs Britain* 2009 p8.

years ago, the ratio of bosses pay to that of the employee was 19 to1. Right now, US chief executives earn 300 times what the average US worker makes.

In developing countries, soaring inequalities have also been the pattern for the last two or three decades. In a sample of 71 countries, six out of ten people live in countries where inequality has worsened in recent years. Only one in ten, in fact a bit less, live in countries where inequality has diminished.

There are equally worrying statistics for those who argue that it is economic growth that matters not inequality. A UN analysis of periods of growth from 1984-2001 showed that in most of the cases, incomes of the poorest grew slower than those of the rich - or there was no growth at all. In less than a quarter of the cases, did the incomes of the poorest grow faster than that of the richest.

Most of these trends reflect policy or the failures of policy, especially over the last thirty years. About 1980, marked the beginning of sharp swings to unfettered market policies, nationally and internationally, in developed as well as developing countries. For these we must thank President Reagan in the US and Mrs Thatcher in the UK. But internationally, they soon developed strong allies in the IMF and the World Bank. Thus began the era when policies of structural adjustment were made condition of loans in more than 50 developing countries, mostly in Africa and Latin America. Recent studies have documented the disastrous effects on developing countries. The policies were largely harmful to growth –let alone to inequality. Not only did inequality soar –but growth in Latin America and Sub-Saharan Africa sharply fell for two decades after 1980.

All this is in strong contrast with the years before that, 1945 to 1980, when inequality declined in many developed and developing countries.

Note also that in the last ten years, inequality has been reduced in at least a few countries or at least until they were hit by the global crisis. If soaring inequality is the result of policies –the reduction of inequality can also be made by policies.

Eleven countries in Latin America adopted redistributive policies in the early 2000s, most notably Brazil.[3] In Brazil's case, this was started by President Cardoso and brilliantly pursued by President Lula by a number of deliberate policies, including social protection by cash transfers to the poorest groups in the country.

These unfortunately, have been the rare exceptions. The majority of countries, developed and developing, have allowed inequalities to soar, often pressured by the self interests of richer groups and encouraged by beliefs that actions to set limits on inequalities – let alone reduce them - would discourage economic growth.

Before completing this quick overview, let me contrast the quiet and often complicit attitude of many economists and other analysts today faced with soaring inequalities with the unfettered language of some of the early giants of the economics profession.

Adam Smith for example - "Wherever there is great property, there is great inequality. For one very rich man there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many"

John Stuart Mill pointed to the critical role of legislation in the process of increasing inequality – and how a different process would have shown the positive role of private property.

[3] But also in Argentina, Bolivia, Chile, Ecuador, Guatemala, Paraguay, Peru – and also, but much less, in Honduras, Mexico and Panama. See Giovanni Andrea Cornia and Bruno Martorano, *External Shocks, Policy Changes and Income Distribution: Latin America in the Last Decade*, Preliminary draft July,2009

"…if the tendency of legislation had been to favour the diffusion, instead of the concentration of wealth – to encourage the subdivision of the large masses instead of striving to keep them together; the principle of individual property would have been found to have no necessary connexion with the physical and social evils which almost all Socialist writers assume to be inseparable from it."

And a final quote from Thomas Paine, who got much of his inspiration from 6 years in my home town, Lewes. Paine wrote that the inequalities in his time were such that

"on the one side the spectator is dazzled by splendid appearances; on the other, he is shocked by extremes of wretchedness."[4]

Paine added that civilization – today we would call it globalization - has operated in two ways, to make one part of society more affluent and the other part more wretched, than would have been the lot of either in a natural state.

Paine also added some words which fit well those who have obtained seats in the House of Lords while still paying no taxes.[5]

Blush, aristocracy, to hear your origin, for your progenitors were Thieves…When they had committed the robbery, they endeavoured to lose the disgrace of it, by sinking their real names under fictitious ones, which they called Titles. It is ever the practice of Felons to act in this manner."

And Robert Peston, with whom I began, has pointed out the dangers if such influence continues.

"The new super-rich have the means through the financing of political parties, the funding of think-tanks, and the ownership of the media to shape Government policies or to deter reform of a status quo that suits them." [6]

Inequality and the MDGs - and the need for redistributive growth.

What are the links between inequality and the achievement of the Millennium Development Goals?[7]

There are four main links.

Inequality is linked

- to the rate and structure of economic growth;
- to public expenditure and taxation
- to aid and conditions of international support;
- to the factors which influence who succeeds and who fails to get access to education and health, girls and boys, as well as the marginalized and deprived
- and to human security.

Each of these links involves a two way relationship: for instance, inequality influences the rate and structure of economic growth just as the rate and structure of economic growth influences inequality in a country. The same is true of the other relationships.

[4] Op cit p 416

[5] By Peston's estimates, there are only 30 or 40 private equity superstars in London who earn fortunes here and pay tax here. (p61) Some 112,000 individuals indicated on their self-assessment forms for the year to April 2005 that they are not domiciled in the UK for tax purposes. That's 72% more than in 2002. Those 112,000 individuals were liable to tax of about £3 billion on taxable income of about £9.8 billion – an average tax liability of £27,000 on declared income of £90,000. In other words, they are being taxed as though they were middle-ranking civil servants, not successful wealth creators. Peston estimates that if the wealth of the UK's richest 1000 were taxed just 10% on their capital gains, it would raise £12 billion a year. It is, he adds, "demeaning to the authority of the state and insulting to the majority of tax paying citizens that so little in tax is collected from the super-rich. He makes the key point that any particular wealthy individual is likely to have used state schools and hospitals when growing up or their employees may still use them And their ability to generate wealth today depends in large part on the stability of the state and an expensive physical infrastructure. All of which costs money – and needs taxes to sustain it.

[6] Peston adds, "Tony Blair decided it was preferable for labour to be financially dependent on wealthy individuals than on the party's trade union founders. But both forms of dependence can create conflicts of interest in the formulation of policy."

[7] ODI has just released an excellent briefing note on *Economic Growth and the MDGs* –Briefing Note 60, June 2010

For MDG-1, the eradication of extreme poverty and hunger and increasing employment, economic growth and the form of macro-economic strategy is crucial. But too often the focus has been almost entirely on achieving *higher rates* of economic growth – not on the structure of growth with inequality left out in the cold. If inequality is mentioned, it is more often to suggest that any attempt to reduce inequality will mean of cutting incentives and therefore cause a reduction in growth. (Research incidentally suggests the opposite).

In contrast, the draft report of the UN Development Group on the MDGs[8], issued last month, states the following: "If poverty goals are to be met, a large redistributive process is needed. This redistribution might not be in terms of income or wealth, but in terms of economic growth. In other words, to reach the MDGs for reducing poverty and hunger, the poor must achieve higher growth rates than the non-poor. Specific policies should aim at this."

A similar point was well made by the ILO's report on Basic Needs issued in the 1970s[9]. To achieve the goal of meeting basic needs in 25 years, within a generation, the ILO calculated that a 6% growth rate per year would be needed –but even then would only be enough if accompanied by redistributive measures to ensure that the incomes of the poorest 40% grew somewhat faster. This was the policy of redistribution with growth. Without redistribution they calculated that a much faster growth rate would be needed, so fast as to be impractical. Much the same argument could be made today for meeting MDG 1. We need redistributive growth.

There is much misunderstanding over redistributive growth. Many confuse it with "taking from the rich and giving to the poor". There is a case for this – especially when some redistribution of land or other assets is needed. But this is not implied by redistributive growth. Under redistributive growth the better off and the poor gain. The key point is that the incomes of the poor increase at a faster rate than hose of the better off. In addition, under redistribution with growth the much of the increase of the poor is in the form of adding to their assets, assets in the form of education or training for human capital or assets in the form of tools and equipment for their own production, thus increasing their production and incomes over the longer run. Redistributive growth in this form needs to be better understood.

Probably the strongest argument against redistributive growth comes from the political nay-sayers. "Redistribution simply will never be accepted" – a comment usually meant to close any further discussion or thought. In fact, to such comment there is an obvious reply. Redistributive growth –pro-poor growth- has happened. I have already mentioned Brazil and the 10 other Latin American countries which applied such policies in the early 2000s. In earlier decades, pro-poor, redistributive growth took place in Ecuador between 1970 and 1990, in Sweden 1970-81, in Malaysia between 1967-89, in India 1970-79, in Costa Rica between1971-89 and in Germany between1968-88[10]. Earlier cases can be found in Taiwan, Colombia, El Salvador and Sri Lanka and of course in the earlier history of UK, France and the US.

There are other arguments. Extremes of soaring inequality, as recently, present major problems to the majority of people in all societies, better off and rich as well as poor. *The Spirit Level*, by Richard Wilkinson and Kate Pickett, shows that in more unequal societies, even the better off do worse than they would if the society had been more equal. The better off lose in terms of poorer health and lower life expectancy, poorer educational performance, higher levels of mental ill-health and drug use, of obesity, and higher levels of community violence and imprisonment. As such evidence gets better known, there will hopefully be more support, politically and economically, for actions to diminish the extremes of inequality.

What sort of actions would combine growth with diminishing inequalities? The priority need if for measures which help raise the production and incomes of poorer groups – thus, increases in the

[8] The UNDG brings together all the main UN field agencies and comprises UNDP, UNICEF, WFP, UNFPA and UNIFEM along with the UN's specialized agencies –FAO, ILO, UNESCO, UNIDO and WHO
[9] ILO, *Employment, Growth and Basic Needs: A One-World Problem* (ILO, Geneva) 1976
[10] Data from UNDP, *Human Development Report 1996*, (New York, Oxford University Press) 1996

productive assets of small farmers, of urban informal sector workers and of a wide variety of other small scale enterprises. These also will add to employment and reduce unemployment as well as to production and to economic growth. They are good examples of redistribution with growth.

Another form of redistribution has gained in popularity in the last few years. This is social protection- in the forms of transfers of cash to the poorer groups. Sometimes, as in Mexico, this has been conditional on the children of poorer families attending primary school or pregnant mothers attending check-up clinics or bringing newborns for immunization. In India, it has taken the form of the Minimum Guarantee Employment Scheme – which in half the states of India now <u>guarantees</u> 100 days basic employment to at least one person per family – admittedly at minimum wages but for all who turn up. And if there is no work available, the person gets the wage regardless. Perhaps most dramatic of all, Brazil has now the Bolsa Familia scheme providing a family grant which, with a new minimum wage from 28 to 18% in less than a decade and has also nearly halved chronic malnutrition.

Joseph Hanlon, Armando Barrientos and David Hulme have just published a powerful book documenting these schemes, with the provocative title, *Just Give Money to the Poor*[11]. They estimate that some 110 million families in some 45 developing countries now receive such cash transfers with the main schemes operating in Brazil, Mexico, South Africa, Indonesia, India and China. They argue that such schemes are affordable even in the poorest countries – providing there is targeting on the poorest families.

The second link between inequality and the MDGs relates to the need for government revenue to finance the public services needed to achieve the goals of universal primary education, gender equity, primary health care, the reduction of child and maternal mortality and the other goals like combating HIV/AIDS, malaria and other diseases. These comprise MDGs 2, 3, 4, 5 and 6 – all require additional financial resources, nationally and internationally. These in turn will require taxation, aid and other forms of financial assistance. Economic growth will help but mostly the need for public finance will increase faster than the rate of economic growth. So the tax revenue must be raised.

How tax is raised has a big influence on the levels of inequality in the country. Here, the recent tendency to move from income taxes which are progressive to value-added taxes which are regressive needs to be changed. If soaring inequalities are a serious problem, income taxes and other progressive measures are needed.

MDG 7, dealing with environmental sustainability - renewable energy and more access to water, sanitation and hygiene etc -is another area requiring additional revenue and taxation. But here the primary need is for forms of taxation which embody incentives to cut dangerous emissions, to encourage the adoption of environmental protecting actions and, more generally, moves to a structure of green economic growth and diminished inequality.

The need for additional revenue also brings in the third link - aid and finance as part of the global partnership - MDG8. Aid and conditionality are often the major influence on a developing country's economic policies. The focus on rates of economic growth and the neglect of inequality have been a major weakness of policies promoted by the IMF, and indeed of donors and aid policy more generally. These failures and the promotion of free market globalization for two or three decades will be judged by historians not only as a contributory cause of the present global crisis but as a major cause of the soaring inequalities.

Here again is where policies of redistributive growth can be rediscovered. In the 1970s, the World Bank and IDS Sussex proposed such a strategy under the name of *Redistribution with Growth*. For a few years, basic needs and redistribution with growth also became the consensus of global development strategy. It needs to be rediscovered. If it would help, the name could be changed to

[11] Joseph Hanlon, Armando Barrientos and David Hulme, *Just Give Money to the Poor* (Kumarian Press, Sterling, Virginia) 2010

inclusive growth or redistributive growth. But actions to moderate inequalities, nationally and internationally, will be needed.

The fourth area which needs attention is the link between inequality and the focus of the MDGs in their implementation. This is needed especially in education, health and the reduction of child and maternal mortality. There is need to focus *organizationally and administratively* on the poorest 20% – who are often from marginalized and socially deprived groups and miss out on education, health and other services even when they are available.

The fifth and final area for strategic change is human security. Many developing countries are today spending 2, 4, 6 or more percent of national income on armies and military budgets – ostensibly for the protection of a country's national borders against threats from abroad. But the nature of threats has changed in most countries. The real threats today are <u>threats to people</u>, from disease, from earthquakes, from urban crime and gender violence - from a whole range of man-made threats to the security of a country's population.

We need a whole new mindset towards security – in developed as well as developing countries. Thinking needs to shift away from traditional thinking about armies and military as the main means to achieve security –and towards the real threats which are threats to people. This will take a shift of analysis, political priorities, professional effort and resources towards human security. Central must be the *protection of people*, from a *diversity of threats*, with the emphasis on *prevention* rather than on response to emergencies. It will involve spending more on prevention and development, focused on the protection of people against human insecurities. It will mean not the abandonment of military effort but certainly a major refocusing and some reduction in expenditures on the military. This will often also help reduce inequalities –just as inequalities are often the cause of civil conflicts within countries.

Conclusions for strategy – and for what the UN and UK can do.

In the last two or three decades, inequalities have soared, nationally and internationally. In many countries, rising inequality has been a major cause of rising poverty or the failure of economic growth to reduce poverty and achieve the MDGs.

Growth is important for the achievement of the MDGs– but the pattern and structure of growth is essential if poverty is to be reduced.

Policies for the reduction of inequalities combined with redistributive growth need to be made part of MDG strategy. Such a strategy would need four prongs

–Redistributive growth as a key element in macro-economic strategy
- Increasing public expenditure for MDG achievement, using income tax and other progressive forms for raising revenue.
- Focusing MDG achievement on poorest and marginalized groups.
- Increased attention to human security with reductions in military expenditure

Each of these four elements would also help acceleration towards the MDGs.

Aid and donor support is needed for all this as well as to ease internal conflicts.

Focusing monitoring on inequalities as part of the MDG performance and making them public would help build up public interest and support.

The MDGs are the greatest commitment ever made by the UN and member governments towards the reduction of world poverty. Delivering on this Promise is at the top of today's UN agenda and will be a major topic at the General Assembly Meeting in New York in September.

Redistributive growth now needs to be recognized as an essential condition for reaching the MDG goals.

Erskine Childers, in one of his final contributions, teamed up with Brian Urquhart to produce a series of highly influential publications – *Renewing the United Nations*; *Towards a More Effective United Nations;* and the final one, *A World In Need of Leadership: Tomorrow's United Nations.*[12]

The MDGs are a central part of tomorrow's United Nations. UN leadership towards the MDGs deserves the full and whole hearted support from all of us in the UK, from other governments and from NGO's like Action for UN Renewal and the World Disarmament Campaign.

[12] All were published as issues of *Development Dialogue* (Dag Hammarskjöld Foundation) 1991, 1994 & 1996