Inequality in development: the 2030 Agenda, SDG 10 and the role of redistribution

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Relevance of inequality for development

With the adoption of the Sustainable Development Goals (SDGs) by the United Nations General Assembly in 2015, the issue of inequality was prominently anchored in an international development agenda for the first time. The inclusion of SDG 10 - reducing inequality within and between countries – was not based on a broad agreement among the member states but highly contested (Fukuda-Parr, 2019). The goal was only included as a stand-alone goal against considerable resistance (ibid.). This contestation is also reflected in a relatively weak SDG 10. For example, there is not a single indicator that explicitly refers to inequality. Furthermore, SDG 10 is characterized by an imprecise language and a missing road map to achieve the goal (Anderso, 2016; Saiz and Donald, 2017). However, references to inequality can be found in at least 13 of the 17 SDGs (Freistein and Mahlert, 2016).

Inequality can thus be considered one of the central themes of the Agenda 2030. It echoes that “the persistence of high, and often rising, income inequality in many developing countries is a growing concern for policymakers and the public” (IMF, 2015:57).

This concern is justified. The reduction of inequality - in its many dimensions - is related to positive changes for societies. According to a World Bank study, SDG 1 - the elimination of extreme poverty – is highly unlikely to be accomplished without a simultaneous reduction of income inequality (Lakner et al., 2019). Inequality is also a major barrier to the implementation of the 2030 Agenda as a whole (UNDESA, 2019). For example lowering inequality between population groups (horizontal inequality) reduces the probability of conflicts (Stewart, 2008). Moreover, reducing income inequality correlates positively with a number of socio-economic indicators that are fundamental for sustainable development (Wilkinson and Pickett, 2007).

This contribution makes the case for redistribution as an indispensable strategy for sustainable development. In the following pages two main arguments will be put forward. First, redistribution as an explicit strategy to reduce inequality is largely absent in international cooperation but fundamental for the implementation of the 2030 Agenda. Second, new approaches to redistribution need to be developed and should consider challenges posed by global trends such as the climate crisis and technological change.

Inequality is a broad concept. It can be analysed in terms of inequality of outcome (measured in income or wealth), or in terms of inequality of opportunity (access to services such as education and health or employment). Vertical inequality means that all observations are ranked from poorest to richest individual or household (or lowest to highest access). Horizontal inequality looks at differences in terms of outcome or opportunities between population groups (ethnicity, gender etc.). Changes in inequality can be measured in absolute or relative terms, before and after redistribution. To measure inequality a variety of indicators

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1 I would like to thank Heiner Salomon for helpful comments and discussions on earlier drafts.
2 This paper was written by the author as part of his own research, and does not necessarily represent the views of his employer.
3 Inequality is multi-dimensional and goes beyond the income dimension. However, for the sake of clarity inequality is referred to in the singular throughout the remainder of this paper.
with different properties such as the Gini coefficient, Palma ratio or Theil index can be applied. Furthermore, a variety of databases exist which report different levels (and sometimes trends) of inequality because of assumptions made when calculating the indicators or extrapolating gaps in data points. To complicate the matter further, it can be distinguished between within-country and between-country inequality. While the former looks at inequality within countries using the above-mentioned concepts, the latter looks at inequality between countries by comparing the per capita income. The focus of this chapter is mostly on within-country inequality. This by no means suggests that between-country inequality is of less or no importance.

Inequality has increased worldwide. “Countries where inequality has grown are home to more than two thirds (71 per cent) of the world population” (UNDESA, 2020:3). It is outside of the scope of this article to discuss trends and measurements of inequality in detail. There is a plethora of research published which analyses, causes, drivers and trends of inequality (Alvaredo et al., 2019; OECD, 2015; UNDESA, 2020; UNDP, 2013a). Often the concept of inequality is criticized for not providing a clear cut-off line, from when onwards inequality should be considered unsustainable. The acceptable level of inequality depends on the country-context and can vary considerably. It is indeed difficult to pinpoint the exact level of “acceptable” inequality. Some research suggests that inequality already has a detrimental effect in many countries. One working paper by the International Monetary Fund (IMF) finds that a relatively low Gini coefficient of 0.27 already has negative effects on economic development (Grigoli and Robles, 2017). Reducing inequality does not aim to make everyone the same, it implies to reduce inequality to levels which enable societies to prosper and develop sustainably.

**Absence of redistribution in international cooperation**

The relevance of inequality and the importance to reduce it is increasingly recognized by many actors in and outside of international cooperation (Dabla-Norris et al., 2015; World Bank, 2016). Another example of changing attitudes towards inequality and redistribution is an article by the Editorial Board of the Financial Times which calls for a turnover of the policies of the last 40 years. “Radical reforms – reversing the prevailing policy direction of the last four decades – will need to be put on the table. Governments will have to accept a more active role in the economy. They must see public services as investments rather than liabilities […]. Redistribution will again be on the agenda […]. Policies until recently considered eccentric, such as basic income and wealth taxes, will have to be in the mix” (Financial Times, 2020).

The inclusion of a stand-alone goal on reducing inequality between and within countries is yet another example of what the Financial Times Editorial board calls “reversing the prevailing policy direction” (ibid.). However, such a new and explicit focus on reducing inequality comes along with a major conceptual change for international cooperation because for the first time it shifts the attention of international cooperation to a relative indicator. Absolute indicators exist for a reason. This article does not intend to dismiss absolute indicators altogether, but it criticizes the reliance on them and points out the importance of a relative concept such as inequality.

Inequality is by definition a relative concept. Inequality measures the distribution of income, wealth or access to basic services across the whole population – including the ones with the
highest income or the best access to services. The society is viewed as a whole, which is a big difference when compared to a narrower focus of most other concepts widely applied in international cooperation such as extreme poverty. Extreme poverty restricts the analysis, as it is limited to a target group smaller than the whole population. A limited focus, at the same time, obscures potential solutions to reduce inequality (Fischer, 2018). Reducing inequality, however, is a prerequisite for the elimination of extreme poverty and the implementation of the 2030 Agenda.

The Inequality Crisis can be understood in two ways: As the crisis of high and increasing inequalities but also as the crisis of a lack of tools to address the issue. Analyses of causes and drivers and research on how to improve statistics on inequality have increased throughout the last couple of years (Atkinson, 2015; OECD, 2015; Ostry, Berg and Tsangarides, 2014; Piketty, 2014; UNDP, 2013b; Wilkinson and Pickett, 2009). This has led to a more nuanced understanding of the negative effects of high and rising inequality (Dabla-Norris et al., 2015; World Bank, 2016). It has also been increasingly recognized that inequality is not a necessary by-product of economic growth or development. Long-prevailing beliefs such as the trickle-down effect or the Kuznets Curve are increasingly disputed and the idea that income and wealth generated through economic growth automatically reduce inequality has been disregarded (Dabla-Norris et al., 2015; IMF, 2017). The continuous concentration of income and wealth at the top and stagnating real wages or the declining labor share of income (ILO, 2019) show that exactly the opposite has happened in many countries. This growing research and reflection on inequality has contributed to a more nuanced understanding about trends, causes and effects. However, this knowledge has hardly been translated into new strategies and concepts that are necessary to reduce inequalities.

Figure 1 Low-income developing countries, growth, poverty and inequality, 1996-2013

Even though the major share of the varying degree of inequality in the global north and the global south can be explained by the varying degrees of redistribution between countries, redistribution has never been part of the toolbox of international cooperation. The 2019 UNDP Human Development Report finds that in selected “developed countries, taxes and transfers led to a 17-point reduction in the Gini coefficient, when comparing pre-tax and post-tax
incomes. But in developing countries the reduction was just 4 points” (UNDP, 2019:15). This gap shows that redistribution is in general a feasible option for the global south which should be strategically explored to achieve sustainable development. “[I]t may be difficult to significantly improve income distribution in the short-term. However, this should not be allowed to discourage immediate efforts in this direction: distributional equity is a permanent goal against which to judge the effects of short-term measures” (UNDESA, 2007:36). However, there is no automatism: Development or economic growth does not automatically reduce inequalities. The reduction of inequalities needs to be strategically implemented.

But what does this mean for international cooperation? First, inequality is not inevitable. Second, redistribution is possible without detrimental effects on growth. Third, there is scope for more redistribution which remains largely untapped (Hoy, 2016). The scope for redistribution is highly context-dependent and countries face challenges such as high informal sector, low tax to GDP ratios and lack of political will – just to name a few. However, this does not necessarily imply that international cooperation should not be incorporating inequality reducing analyses, strategies and tools in its portfolios. Failure to strategically explore potential for increasing distributive policies would be a foregone chance for sustainable development. Or to use the words of the United Nations Global Sustainable Development Report: “The entire 2030 Agenda is threatened by rising inequalities in income and wealth” (UNDESA, 2019:16).

Figure 2: Redistributive direct taxes and transfers explain nearly all the difference in disposable income inequality between advanced and emerging economies

<table>
<thead>
<tr>
<th>Income inequality (absolute reduction in Gini coefficient)</th>
<th>Advanced economies</th>
<th>Emerging markets and developing countries</th>
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<tr>
<td>Before</td>
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Inequality, shared prosperity and SDG 10

Current levels and trends of inequality are highly detrimental to sustainable development. The question that immediately comes up is whether international cooperation has adjusted to the new challenge of reducing inequality. As indicated above, the concept of inequality is very broad, and it can be analyzed from many different angles. In the following paragraphs I am arguing that it is highly important to understand and measure inequality in its full meaning and
to use a relative indicator which explicitly includes the top end of the income distribution. Through a brief comparison of the World Bank shared prosperity goal and the target 10.1 of the 2030 Agenda, I conclude that the understanding of inequality of relevant institutions in international cooperation is not suitable to tackle the structural causes of high inequality.

In 2013 the World Bank adopted two new goals as an overall guidance for its work and strategies. The first one, ending poverty, aims to reduce the number of people living in extreme poverty worldwide to below 3 percent. The second one, shared prosperity, aims to increase the income of the bottom 40 percent of the income distribution in each country. The two new goals are put at the center of the World Bank’s work as they “provide a new context for policy assessment. They provide a framework in which to evaluate policies and their potential contribution to poverty reduction and inclusive growth” (World Bank, 2014:2).

The World Bank’s shared prosperity goal is an example of how a (mis)interpretation of inequality can lead to an understanding that addresses the symptoms without tackling the structural problem. The World Bank does not claim the shared prosperity goal to be an indicator for inequality. The institution states that shared prosperity is “not a measure of poverty, inequality or social welfare […]. Shared prosperity is probably best thought of as a measure of change in a particular notion of social welfare, which is sensitive only to the bottom (two-fifths) of the distribution” (Ferreira, Galasso and Negre, 2018:4). However, a background paper which was drafted by the World Bank for an Expert Group Meeting which discussed the development of the indicator framework for the Sustainable Development Goals (SDGs) maintains that the “the shared prosperity measure implicitly places emphasis on changes in inequality in society” (World Bank, 2015:3). In other instances the connection is made more openly, the sub-headline “Taking on Inequality” of the Poverty and Shared Prosperity 2016 (World Bank, 2016) is one example.

However, even if the income of the bottom 40 percent of a population increases, it does by no means imply that inequality is reduced as the income of top of the income distribution is not considered. Even if the shared prosperity premium which is defined as the “difference in the growth rate in the average incomes among the poorest 40%, and the growth rate in the overall average income” (Ferreira et al., 2018:7), shows a positive development, inequality is not necessarily reduced. It is not difficult to imagine a context where the income of the top end of the income distribution is increasing at similar (absolute or relative) rate. This can lead to a risky situation where the indicators show positive development, while the gap between the bottom and top end of the income distribution is actually increasing. Furthermore, since the shared prosperity goal relies on a relative comparison (as most inequality indicators do) one can also imagine scenarios in which relative inequality is stagnating or decreasing, while inequality measured in absolute terms is increasing. Some research suggests that it is the absolute difference that counts. “Perceptions of inequality may be likely related to increasingly obvious absolute differences in income, not only to the perhaps less apparent relative differences” (Niño-Zarazúa, Roope and Tarp, 2017:680). Hence, an improvement as measured by shared prosperity indicator or shared prosperity premium does not necessarily lead to a sustainable reduction of inequality.

The formulation of the SDG’s target 10.1 has a great resemblance to the shared prosperity goal of the World Bank. Target 10.1 states “By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average” (UNGA, 2015:21). Despite many critical voices and raised concerns regarding the inappropriate formulation of this target, it was nevertheless adopted. “Measuring the income
of the poorest 40% against national growth means the SDG target lacks the […] comparison with the rich. It supports the shared-prosperity goal’s implication that the wealth of the people at the top is unimportant – all that matters is a measurable improvement for people at the bottom” (Cobham, Schlogl and Sumner, 2015). The discussion whether the shared prosperity goal is ambitious enough to make a meaningful contribution to reducing inequality has been going on for the last five years. A think piece written by the German Executive Director of the World Bank critically analyses whether the World Bank has taken the right measures to contribute to reducing inequality (Zattler, 2020). The author suggests that the shared prosperity might not be the measure to ensure a sustainable reduction of inequalities by pointing out that the World Bank “must ask whether the way it currently measures the shared prosperity goal appropriately reflects the key challenges developing countries are facing” (Zattler, 2020:7).

The (mis)interpretation of inequality by the World Bank and the vague formulation of target 10.1 acknowledge the challenge of rising inequality. However, the understanding of inequality put forward by the World Bank and SDG 10 does not call for “reversing the prevailing policy direction” like the Financial Times (2020) does. Inequality cannot be fully understood when the income and wealth of the top end of the income distribution is disregarded. The Inequality Crisis is only partially understood and addressed by the World Bank’s shared prosperity goals and SDG 10 of the 2030 Agenda. A meaningful reduction of inequality requires an understanding of inequality which also includes the development of new strategies and policies which have so far not been part of the policy discussion.

**Technological and climate change require new forms of redistribution**

The negative effects of high and rising inequality are not always directly visible. However, on two occasions throughout the last two years the negative ramifications have become apparent. First, inequality reduces social cohesion (Wilkinson and Pickett, 2009) as was shown by the popular uprisings in 2019 in many countries of the world. While inequality is not the sole cause of the uprisings, it is considered a major contributing factor, particularly in Ecuador, Chile, France and Lebanon (BBC News, 2019; Goodman, 2019). Second, less than a year later, the pandemic caused by the spread of the Covid-19 virus highlights how a pandemic can have a very different impact on different income and ethnic groups (Fisher and Bubola, 2020; Jones, 2020; Oliver, 2020). In the case of the United Kingdom, preliminary academic analysis confirms the observation that the Covid-19 crisis has a different impact across ethnic groups (Platt and Warwick, 2020) and income groups (Adams-Prassl et al., 2020).

These examples show that high and rising inequality has direct consequences. Additionally, it shows how analyses guided by an inequality framework can reveal new and important differences in outcomes. It is well known that averages of socio-economic indicators obscure the highly heterogenous outcomes (Ravallion, 2016:351). Those become visible when the indicators are decomposed based on income groups or the distribution of income and access to services is analyzed across the whole population. A very strong example is the stark variation of life expectancy across income groups (Wilkinson, 2020).

Furthermore, these examples support the need to actively reduce inequality through redistribution. There are other trends which will have a major impact on the ability of governments to implement distributive systems. First, the fast pace-change caused by
technological disruptions. Often it is argued that technological change will create as many new jobs as it will make redundant (ILO, 2018). However, a substantial change coming along with technological disruption and automation is the concentration of productive resources and gains. Among the many drivers of inequality, one stands out in many analyses. The so-called “skill premium” implies that the benefits of digitalization and computation are mostly reaped by people with higher education (UNDESA, 2020). As it is the case with economic growth, the technological dividend will not benefit everyone to the same extent. Institutions must make innovative technologies accessible to everyone. Technological change is also likely to increase productivity. Gains in productivity and real wages used to go hand in hand. However, in OECD countries some three or four decades ago (depending on the country) one can witness the decoupling of productivity and wages. “[T]hese developments have resulted in the decoupling of growth in low and median wages from growth in productivity” (OECD, 2018:52). Again “[p]ublic policies and institutions are important determinants of the link between productivity and wages” (ibid.).

The second global trend which will have a strong impact on distributive systems is the climate crisis. While “the top 10% of world population, are responsible for about 34% of […] carbon emissions” (Hubacek et al., 2017), its ramifications have contributed to the widening of global economic inequality already (Diffenbaugh and Burke 2019). At the same time, the ones who contribute the least in terms of CO₂ emissions are the ones who suffer the most as “[p]oorer countries and poorer people will be hit earliest and hardest” (UNDP, 2019:175) and have fewer resources to cope and recover (UNDESA, 2020). Also, when it comes to climate – similarly to the Covid-19 pandemic – the crisis reveals and intensifies underlying inequalities. Hence, reducing inequalities and fighting climate change have to be thought of together. Climate-related policies need to incorporate a distributive angle and vice versa.

The challenges for increasing inequalities related to technological and climate change outlined above further strengthen the argument to develop strategies for a stronger focus on redistribution. Traditional policy frameworks only provide a partial answer. The rapidly unfolding technological development requires policy makers to adjust and develop new approaches to taxation and ways to reduce the impact of climate change. A policy framework based on inequalities brings about advantages. It provides the analytical lens and suggests indicators to measure its success. An integrated response to these challenges entails applying an inequality approach to climate, social and economic goals. Policies should be measured against its most likely impact they will have on inequality.

**Conclusion**

The absence of redistribution from international cooperation severely hampers its chances to contribute to sustainable development. Economic growth and poverty do not tell the whole story of successful and sustainable development. Inequality makes a significant contribution to the international cooperation because it adds a very important dimension to the debate: the relative dimension. It is very much possible to have increasing inequality in times of a growing economy poverty reduction while.

Attention should also be given to the absolute gap between the bottom and top end of the income distribution. This absolute gap is likely to contribute to the negative impact inequality has. Even if the bottom is relatively better off and their income is growing, but the distance between the bottom and the top is growing simultaneously, sustainable development can be
Redistribution is on average significantly higher in the global north than in the south. This shows that a higher degree of redistribution does not automatically stifle economic growth and hinder development. The stark difference shows that it is viable to strategically develop and employ distributive policies as strategy for development. However, tools and strategies for redistribution in the 21st century need to take into consideration technological and climate change. As many countries show, policies to reduce inequalities can be designed and implemented. Besides, systems of redistribution need to adapt constantly to changing circumstances. For example, the effectiveness of redistribution in most OECD countries was reduced and inequality increased. “Over the past three decades, income inequality has risen in most OECD countries, reaching in some cases historical highs” (OECD, 2015:20).

Due to several factors – for example government capacity, political economy, lobbying, narrow tax base and high informal sectors, it is not possible for all countries to simply implement distributive systems. However, because of the urgency to reduce inequalities, the discussion about suitable models of redistribution for the 21st century should be strategically strengthened. Additionally, the awareness regarding the negative impact of inequalities is growing and along with it the motivation to act upon. The international cooperation should strategically develop distributive strategies to contribute to sustainable development. Reducing inequality allow to develop a comprehensive policy framework which contributes to sustainable development. It is necessary to strategically develop and increase the applicability of such a framework for different country contexts to achieve the 2030 Agenda.

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