Expert Comment Real Instituto Elcano

Looking beyond MDGs: put inequality on the agenda[1]

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Perspectives on Global Development 2012: Social Cohesion in a Shifting World, the OECD Development Centre's annual report published in summer, addresses one of the main challenges to be faced by the next global development agenda: the lack of cohesion and, at its root, inequality.

The logic underlying inequalities is very complex. As Professor Angus Deaton, put it in a recent lecture at the Institute for International Economic Studies, according to data from the World Bank and the Penn World Tables, the differences between countries – global income inequality – has been decreasing since the mid 70s and up until the mid 2000s. At the same time, a fair number of countries began to record an increase in domestic inequality.

Another OECD publication, Divided We Stand: Why Inequality Keeps Rising, reports this phenomenon for its member countries. One of the important features of the increase is that it occurred during periods of sustained economic and employment growth. The main point is: an increase in wealth does not automatically mean a decrease in income inequality.

We are finding that this is also true of developing countries and emerging economies. So what should policy makers in these regions do?

Enhancing the role of fiscal policy is key; that is, developing the role of local administrations as re-distributors of wealth. Governments can either have no impact on the distribution of income or make a great deal of difference – for better or worse. For instance, taxes and transfers have the capacity to consistently lower inequalities in some OECD countries (as has been seen with Canada, Germany and Sweden), but this has not happened in others (Brazil, Chile, Mexico, Peru and South Korea).

Taxes are an important tool for redistributing wealth and income, but taxation has limitations: in many countries, there seems to be a 'natural' trend towards greater inequality. If the 'natural' dynamic of the domestic economy leads to increasing levels of inequality and exclusion, it will be extremely difficult for any administration to totally reverse the trend. The truth is that public administrations can redistribute but cannot work miracles. Fiscal policy can help manage the problem but it cannot solve it.

The good news is that there is much more the public sector in developing and emerging countries can do about inequality besides tax policy: investing in education, health, research

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and development, banking sector regulation, industrial policy and even exchange-rate and monetary policy (if the country still has control over the latter two), are all important.

As the millennium development goals (MDGs) agenda comes to its end, it is important for governments to think not just about poverty but also inequality. The post-2015 landscape will have a more or less shared agenda for global development. It will replace the MDGs agenda and might possibly overcome some of its deficits, an obvious one is the lack of reference to inequality. Reducing poverty and hunger, improving education and health and access to safe water, and applying environmentally-friendly policies can all take place – while inequality grows, and this is what we are witnessing.

As governments and development agencies consider what will replace the MDGs, they must begin to also ask: is inequality as important as poverty reduction? If so, how can we tackle it and create not just a richer, but also a fairer world.