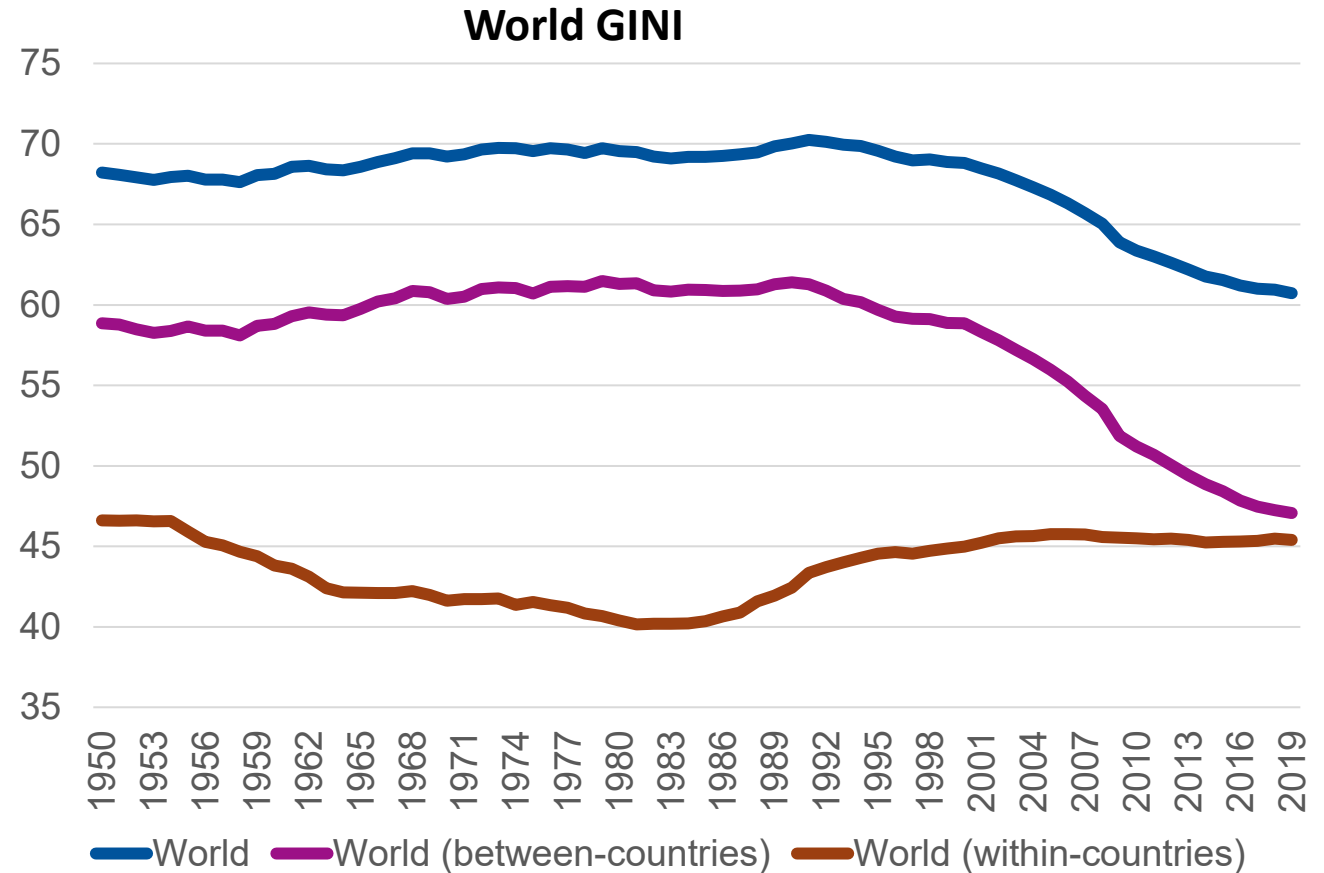


Two Faces of Development—Rising Incomes Combined with Increasing Inequities and Policies to Address the Latter

“No society can surely be flourishing and happy, of which the far grater part of the members are poor and miserable” Adam Smith

Trends in Global Inequality

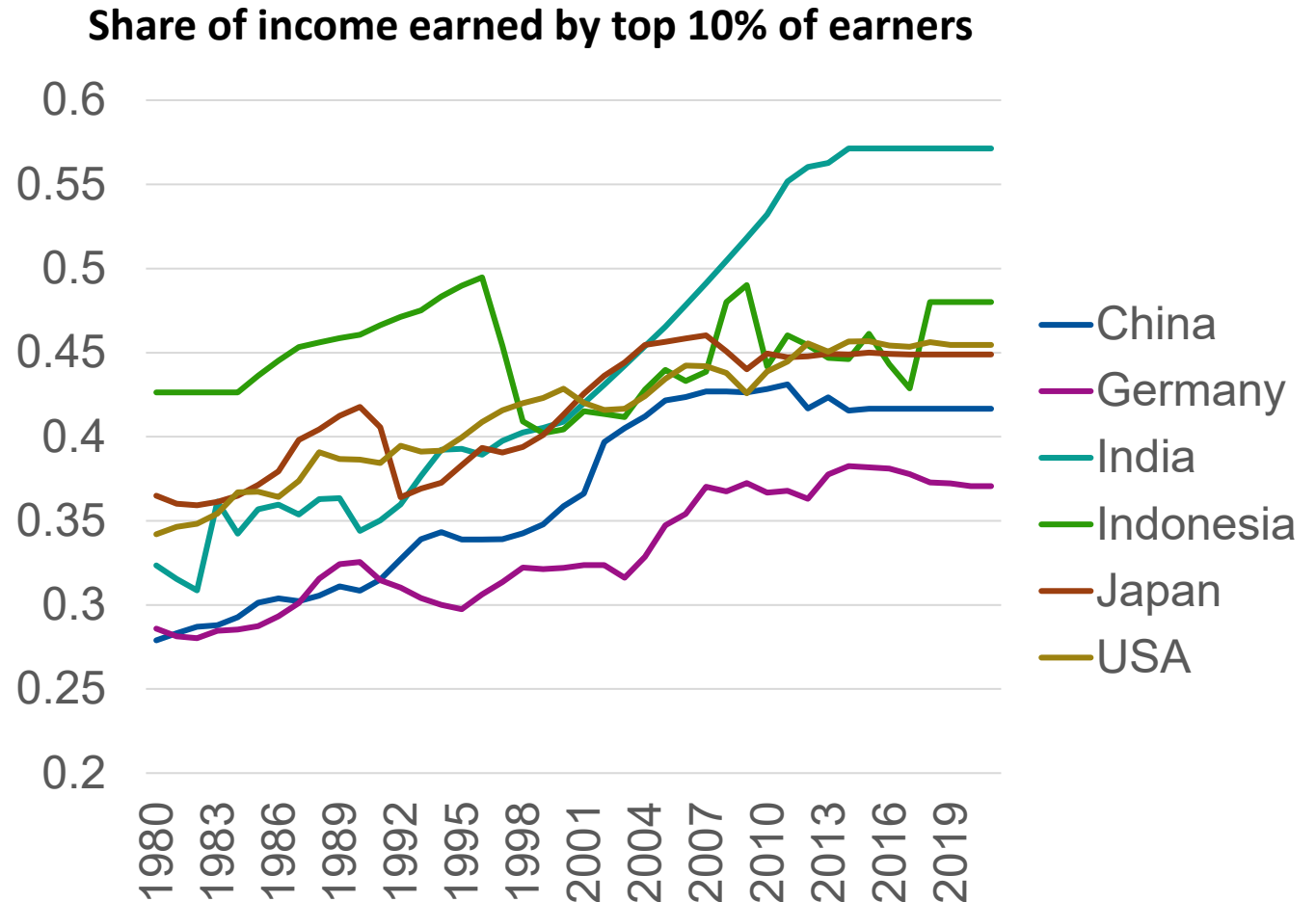
- Global overall inequality began to decline in the 1990s
- Reflecting drop in disparity between AE and EMDE per capita incomes (between-country inequality)
- However, within-country income inequality has been rising since the 1980s (in EMDEs and AEs)



Source: UNU-WIDER, World Income Inequality Database (WIID) Companion dataset (wiidcountry and/or wiidglobal). Version 31 May 2021. <https://doi.org/10.35188/UNU-WIDER/WIIDcomp-310521>

Factors contributing to inequality

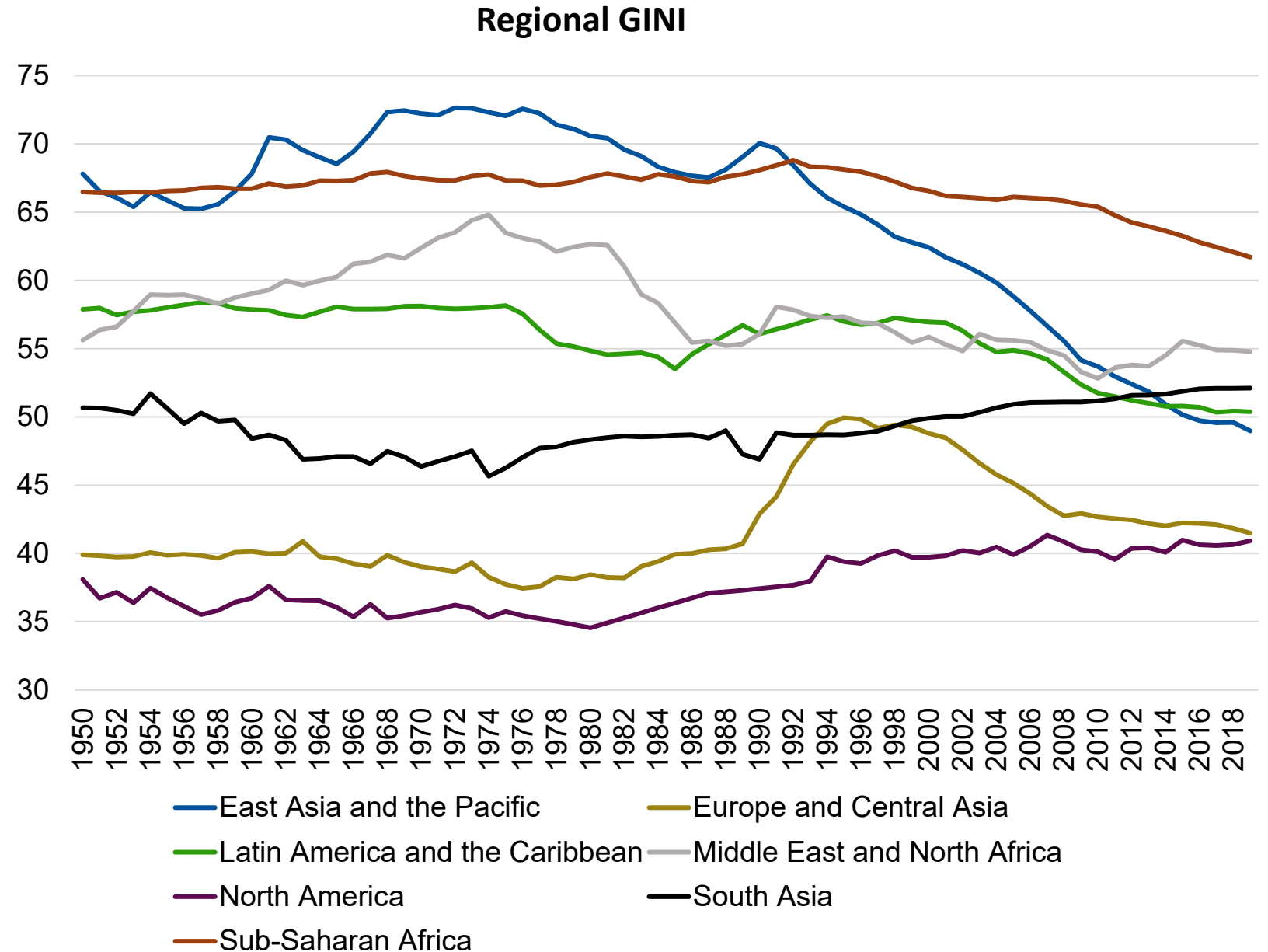
- Technological change, which has negatively impacted low-skill workers
- Financial sector reforms (major transformation of the sector and shift to highly skilled workers)
- Decreasing share of labour in GDP as wages have not kept up with GDP
- Low taxation of multinational corporates
- Fiscal policies became less progressive, e.g., reductions in income tax progressivity and in safety nets
- International competition due to globalization has kept wages of the low skilled low



Source: World Inequality Database 2021

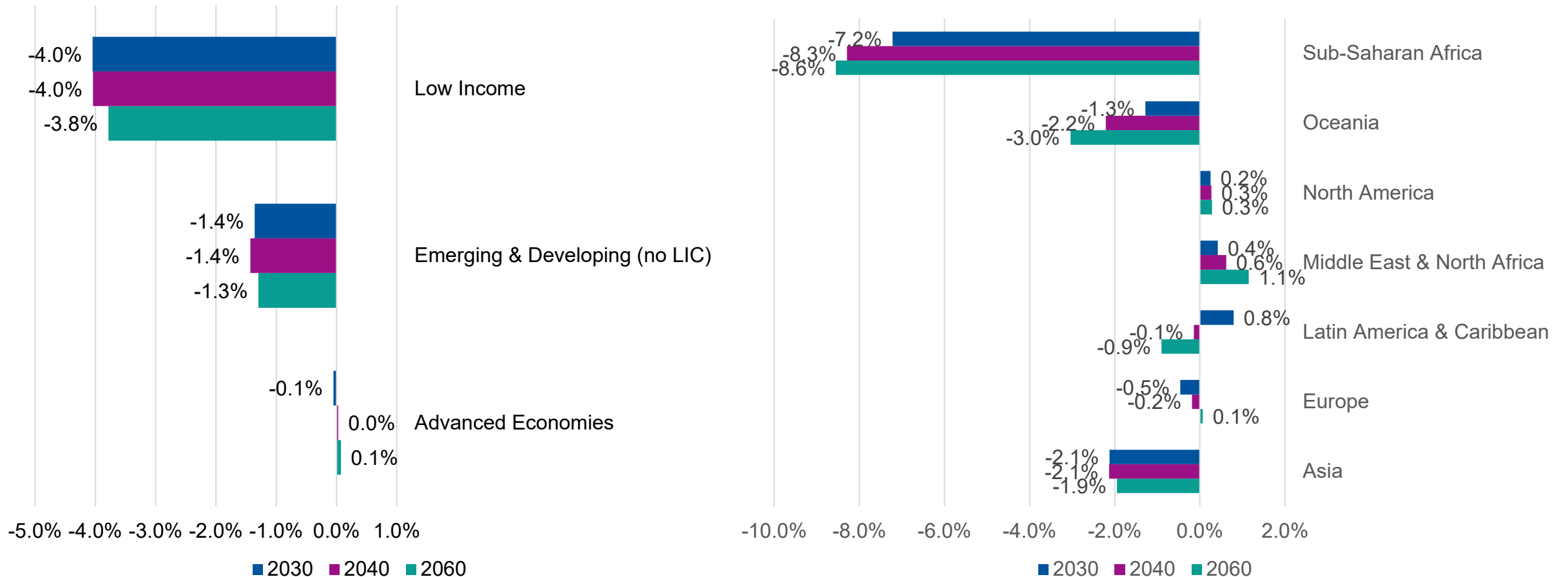
Regional Trends

Regional trends followed the global pattern of staying relatively stable from post-WWII to the mid-1980s to early-1990s after which they diverged



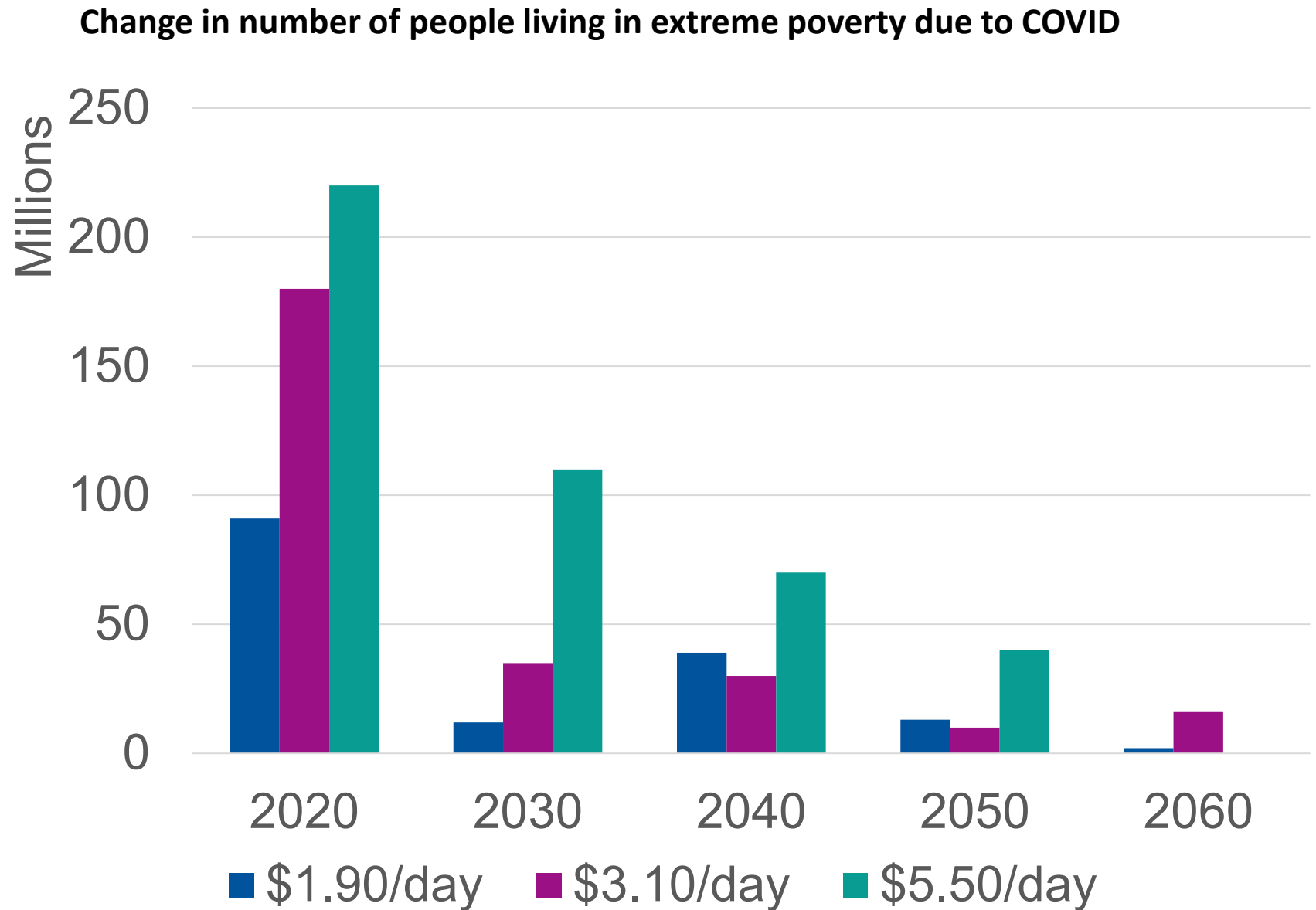
Impact of the pandemic on GDP per capita

Change (%) in GDP per capita PPP by 2030, 2040, and 2060 due to COVID by income group and region



Pandemic impact on poverty

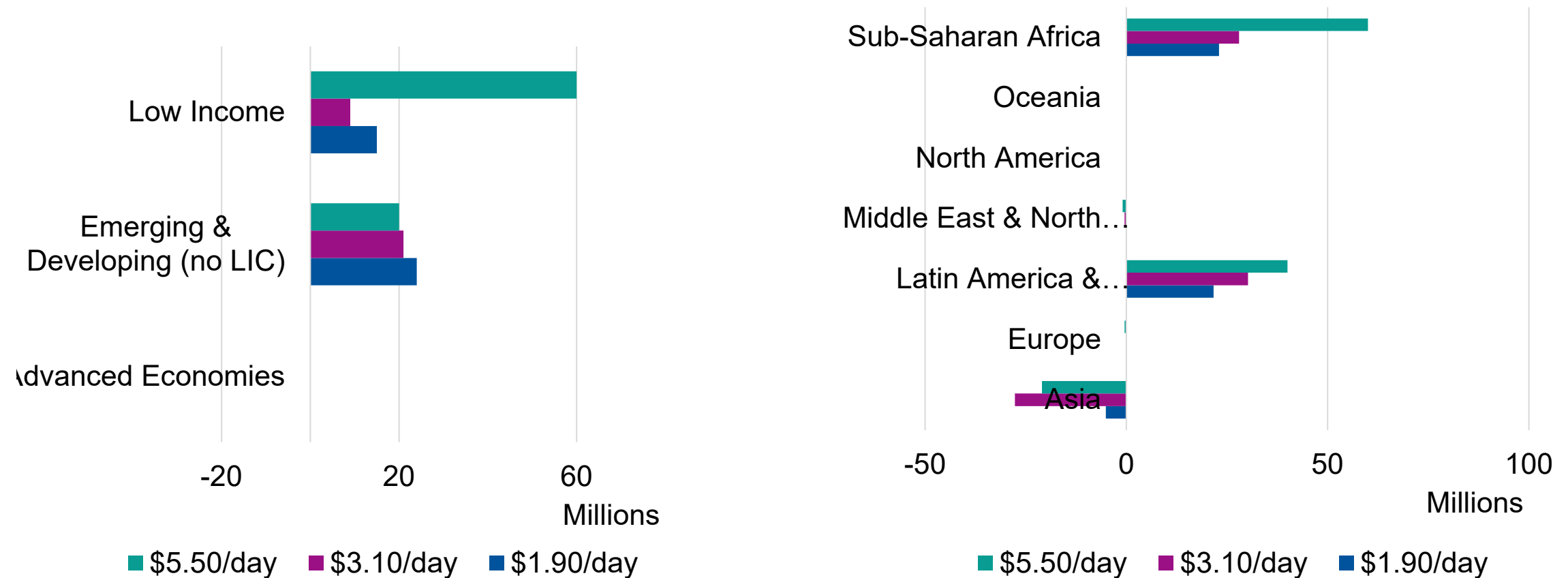
Compared to the pre-COVID baseline, the CGM estimates that the pandemic pushed some 90 million people worldwide into extreme poverty in 2020 under the threshold of US\$1.90 a day, 180 million under the US\$3.10 a day threshold, and 220 million under the US\$5.50 a day threshold --wiping out the progress made over the last 5 to 10 years



Source: Centennial Group Growth model and authors' estimates

Impact of the pandemic on extreme poverty by income group and region by 2040

Change in number of people living in extreme poverty due to COVID by 2040



Why should inequality be a concern?

Economic growth

Economic growth has been slower, and periods of growth shorter in developed countries with higher inequality

Lower inequality is robustly correlated with faster and more durable growth

Health

Health problems (e.g., obesity, mental illness, child conflict, drug use) and poor social indicators (e.g., life expectancy, educational performance, social mobility) are more prevalent in countries with higher inequality

Education and social mobility

Large income disparities lead to lower educational attainment and lower quality of education for the children in the lower end of the income distribution

Countries with more inequality at a point in time experience less earnings mobility across generations than countries with lower inequality

The “Great Gatsby Curve”

Social cohesion

There is an inverse relationship between income inequality and social cohesion

Inequality has adversely affected democracy, public policy, and the system of justice

Distrust of business and government; disillusionment may lead to discontent and political instability

Why should inequality be a concern?

Crime

Homicide rates in the US and Canada are highly and positively correlated with income and the temporal change in the GINI coefficient is a significant predictor of the temporal change in homicide rates.

A World Bank study found a similar causal relationship worldwide

Environment

Some argue that alleviating poverty can have detrimental environment effects because, as poor people become wealthier, they increase carbon emissions.

Others take the view that alleviating poverty can have positive impacts on the environment in terms of energy efficiency and urbanization.

Political Outcomes

Income inequality is a determinant of bad institutions and underdevelopment.

Low social mobility reduces voter turnout among lower income groups

Inequality may lead to terrorism increases the likelihood of coups

Thank you

Additional Slides

What can be done to build a fairer and more equitable society?



Invest in early childhood development



Enhance education quality and mitigate education inequalities



Improve health outcomes and reduce inequalities in health service delivery



Broaden access to clean water and sanitation services



Support vocational training and continuing education programs



Provide lower income families with affordable but quality childcare



Promote gender equality in access to education and labour markets



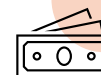
Provide means-tested conditional transfers



Alleviate spatial disparities



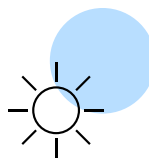
Increase participatory decision-making



Establish universal basic income



Improve the functioning of key markets

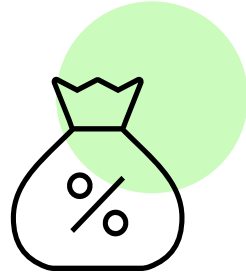


Address impact of climate change.



Ensure financial inclusion.

To
implement
these
policies and
measures,
there may be
a need to:




Boost Fiscal Space

Some of these policies and measures require additional budgetary allocations, To this end: (i) cut or eliminate inefficient and regressive spending, or (ii) increase certain taxes



Promote macroeconomic stability and structural reforms Ensuring economic stability is critical, as lower-income earners suffer disproportionality more than the rich during times of economic crises

Conclusion



COVID-19 pandemic has intensified the increasing inequality within AEs, which started in the early 1980s, and within many EDMEs, which started subsequently

In addition to the impact on health, the pandemic has led to an enormous increase in extreme poverty worldwide and it has led to school closures, hampering human capital build-up and future earnings

Policymakers need to act decisively and urgently to address inequality not only because of ethical and solidarity considerations, but also because inequality within countries may have risen to unsustainable levels (but be masked by the ongoing pandemic)

Priorities and appropriate policies (and sequence) to promote equity depend on the initial circumstances of each country or region. They should be guided by the objective of equalizing opportunities to equalize incomes or vice versa and build an inclusive society.

The private sector should play an important role in reducing inequality, as should the international community, by supporting governments in their efforts to address inequality.