United Nations Department of Economic and Social Affairs
Division for Inclusive Social Development

Expert group meeting

New research on inequality and its impacts

World Social Situation 2019

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Introduction

In 2017, the General Assembly encouraged the Secretary-General to "include best practices in the reduction of inequalities within and among countries in the Report on the World Social Situation 2019."[1] With this in mind, the World Social Situation report 2019 will focus on the links between inequality and other major global trends, including technological innovation, climate change, urbanization and international migration.

This meeting brought together experts from the research community, civil society and the UN system to review recent research on inequality and its impacts, in order to inform this important publication. In a robust exchange of ideas and lessons learned, experts presented recent research on economic and other types of inequality as well as on their social and political costs. They also provided policy recommendations, and discussed the implications for the World Social Situation report 2019.

Session 1: Income inequality trends and their measurement

Presentations in this session showed that there has been much progress in improving the availability, quality and comparability of income and wealth inequality data, despite persistent limitations.

Trends in income and wealth inequality from the World Inequality Database (WID)—which combines tax information and national accounts data with survey data to improve the information on the income and wealth of the richest individuals— show that, globally, the top 1 per cent of the population has captured as much of the global income growth as the bottom 50 per cent since 1980. However, trends differ by country and region: top incomes have increased in developed countries and large middle-income countries but declined in the Middle East and Sub-Saharan Africa. Focusing on Brazil, based on survey data, the income share of the top 10 per cent of the population has declined since 2000 while, based on WID, the share has remained stable.

The need to use more than one indicator of inequality was highlighted: while the global Gini coefficient has remained relatively stable since 1980, the ratio of the top 10 per cent to the middle 40 per cent of income has increased until the early 2000s. During the same period,

[1] A/RES/72/141 of 19 December 2017, para.71.

public wealth has declined while private wealth has increased. Public wealth is now zero or negative in many rich countries. This limits the ability of Governments to tackle inequality. As for future trends, it was noted that, under a "business as usual" scenario, data from the WID predicted that global inequality (measured by the income of the top 1 per cent) would continue to increase. Policy choices mattered greatly to future inequality trends, as differences across countries showed.

Global inequality trends based on the Gini coefficient from PovcalNet (World Bank) show global inequality declining since 2000 for the first time since the 1800s (1820)—even though absolute inequality has risen. The decline is more pronounced after 2008. On average, national inequality (as measured by an unweighted Gini coefficient) has declined. However, there are differences across regions: in the long run, the Gini also shows inequality increasing in rich countries but declining in sub-Saharan Africa, the Middle East, North Africa and Latin America. Since 2008, the Gini has declined in a majority of countries in all regions. Across countries, there is a positive correlation between income inequality and inequality of opportunities: the share of income inequality explained by unequal opportunities rises with income inequality.

Comparing regional and global databases, there are some significant differences in inequality trends across databases. There are however few differences between World Bank (PovcalNet) data and WID estimates.

During the discussion, participants noted that differences in inequality trends across countries, including developed countries—despite their being exposed to globalization, trade and new technologies in similar terms—pointed to the major role played by national policies and institutions in shaping levels and trends in inequality. Context matters.

On the possible stagnation of inequality in recent years, its causes could be positive or negative. In developed countries, the 2008 shock and subsequent recession had affected trends. However, the pessimism about inequality trends in rich countries should not obscure the positive policy lessons that can be learned from inequality trends in developing regions (especially in Latin America). The UN had a role to play in ensuring that the global conversation about inequality was not dominated by trends in rich countries.

Regarding data, there were questions about the quality (and availability) of tax data in developing countries. Where tax enforcement was poor, such data were not meaningful. National accounts data were also lacking in some countries. In many cases, relying on survey data on consumption was the best or even only option. The presentations had made clear that the methodology and assumptions used in estimating inequality trends mattered. These needed to be made explicit in any report on the topic.

Session 2: Income mobility, poverty dynamics & inequality

Presentations in this session emphasised that leaving no-one behind requires thinking carefully about poverty dynamics, understanding the reasons for impoverishment, as well as sustained escapes from poverty. However, it was noted that the lack of panel data in developing countries makes studying this topic very difficult. As a result, the construction of synthetic panels could be of use and these revealed significant variances in income mobility across regions. In Africa, for instance, synthetic panels revealed a relatively high degree of income mobility. In the case of India, traditional panel data suggested people move in and out of poverty all the time.

Examining the causes of movement in and out of poverty it was noted that ill health and high costs of healthcare are particularly common drivers of impoverishment. Improvements in agriculture (through adopting new technology to improve yields for example) as well as rural-to-urban migration were highlighted as two key mechanisms for escapes from poverty. The association between education, particularly post-secondary education, higher upward mobility and lower downward mobility was also discussed. It was noted that children's aspirations for the future are often limited to the low achievement of their predecessors, with important implications for social mobility.

In terms of policy, participants discussed the need to expand pathways to upward mobility (and make them visible) while shutting off pathways to downward mobility. Social policies, including expansion of health and education services, social protection—especially universal tax-financed schemes—as well as anti-discrimination and affirmative action policies, were emphasised as playing a big role in promoting equality of opportunity. The provision of universal compulsory health insurance had, for instance, been crucial at stopping the descent into poverty in Rwanda. Rapid expansion of public primary and secondary education in Latin America had reduced the price of education, both increased skills levels for all children while decreasing costs (especially important for low-income households).

Session 3: The social impacts of inequality

Presentations in this session noted the growing concern about the potential harmful effects of inequality on societies. At the same time, there has been a recent shift in thinking away from the assumption that policy can successfully target poverty reduction—including in high- and middle-income countries—without addressing income inequality. Indeed, income inequality and income poverty, material deprivation and multidimensional poverty are strongly correlated across many European countries.[2]

Participants noted several potential mechanisms driving the relationship between inequality and poverty. First, social aspects include public opinion, and shifts in cultural and social norms. For example, many individuals underestimate levels of income inequality and overestimate social mobility, thus don't pressure the government for action. Second, spatial aspects such as segregation can alter people's perceptions of poverty and inequality, and their preferences for redistribution. Third, political aspects include parties that focus on policies that favour the voting electorate (median voter has higher than median income) who are less likely to support redistributive policies than the general population. There is also a growing recognition of the role of tax havens in perpetuating inequality and reducing the potential for governments to tackle inequality due to their negative impact on government revenues. Fourth and finally, it was noted that aspects relating to crime and the legal system manifest when high inequality

[2] Eleni Karagiannaki (2017). The empirical relationship between income poverty and income inequality in rich and middle income countries. LIPpaper 3, Centre for Analysis of Social Exclusion, London School of Economics. Available from: http://sticerd.lse.ac.uk/dps/case/cp/casepaper206.pdf.

drives an increase in preferences for punitive responses, as indicated by increases in incarceration rates and prison populations—despite falling crime rates—and trends towards tougher sentencing policies, and punishment over rehabilitation.[3]

With regards to countries in the Organization for Economic Co-operation and Development (OECD), it was noted that there are large variations in OECD country inequality rates, but overall inequality is rising in OECD with ethical, social and economic impacts. Higher inequality countries in the OECD had slower growth, less skill investment by the poorest 40 per cent of the population and less social mobility. As inequality increases, the equality of opportunity is suppressed for the lower classes. The biggest drivers of inequality in OECD countries have been changes in labour market (especially the increase in non-standard jobs) and the decline in redistributive policies.

It was emphasised that sticky floors and ceilings limit upward mobility across generations in the OECD. Children from disadvantaged families struggle to obtain higher levels of education and to earn more than their parents. On average, it would take five generations for the descendants of a low-income family to reach average income. Moreover, most people at the top and the bottom of the income distribution in the OECD do not change their position in the income distribution over a four-year period. Of possibly more concern is the prevalence of downward mobility: one in seven individuals from middle-class households are likely to have a lower position on the income distribution within four years.

In terms of policy, participants highlighted that countries can improve mobility with measures that grant children equal opportunities and mitigate exogenous shocks to household income. This can be achieved through the combination of equal opportunity for children (through childcare, healthcare and education) with protection from impoverishment and precarious employment through social protection and active labour market programmes to equalize opportunities in the labour market.

Finally, participants noted that social capital also plays a role in social mobility. Those with social capital use it to prop up their peers. Some capture economic rents and distribute them among their networks to the detriment of those at the bottom. Evidence from India suggests that mentoring young people to improve social capital, learn social codes (time management, etc.), and support the transition from school to work can help those from disadvantaged backgrounds who otherwise have low likelihood of upward social mobility.

Session 4: The political impacts of rising inequality

Presentations in this session focussed on the question as to what the impact of rising inequality is on beliefs about redistribution, particularly in the United States, where economic inequality is high and increasing. Participants noted that social scientists have concluded that popular support for redistributive measures is low. Recent research suggests however that it is

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[3] McKnight, Abigail, Magali Duque and Mark Rucci (2017). Double trouble: A review of the relationship between UK poverty and economic inequality. LSE and Oxfam GB: London. Available from: https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620373/rr-double-trouble-inequality-poverty-uk-091117-en.pdf;jsessionid=894EC9E8B03B8A200424C3600FBDCE1C?sequence=1.

perceptions on whether economic inequality is rising and why—rather than quantitative measures of economic inequality—that influence support for redistributive policies.[4]

It was noted that high economic inequality has a profound effect on democratic values and behaviours, including civic involvement, trust in society and institutions, tolerance, nationalism, class identity, support for democracy, levels of voting, among others. Lower support for democracy means fewer cross-class alliances in support of more equal opportunity policies. Cross-country evidence from the World Values Survey suggests that household and national economic conditions have significant effects on attitudes considered important to democracy, that interact with each other. In particular, it was noted that income inequality has little effect on democratic attitudes in poor countries, but large positive effect in rich countries.

However, it was also noted that economic inequality might not fully explain recent political outcomes. Some argued that cultural division is playing a big role in the recent increase in the share of the votes and the share of legislative seats won by populist parties in European countries (rather than the standard economic insecurity thesis). The cultural backlash thesis posits that the rise of progressive and post-materialist values during the 1970s in Western societies catalyses a cultural backlash among social conservatives. Results from the European Social Survey suggest a strong influence of age, education, urbanization and cultural values in voting for authoritarian-populist parties in Europe. Participants raised the question as to whether the dichotomy between economic and cultural explanations are appropriate, noting that focus on economic explanations alone for authoritarianism and populism will lead to primarily economic policy solutions.

Session 5: What can be done to tackle inequality?

Presentations in this session focused on the policy implications of the meeting. It was noted that the 2030 Agenda, and in particular SDG 10, showed that inequality is intrinsically as well as instrumentally important for Governments. Focusing on how inequality is inherited across generations, it was emphasized that higher levels of inter-generational mobility were associated with lower levels of income inequality. In terms of inequality of opportunities, increasing economic power at the top of the income distribution contributed to "elite capture" of opportunities and therefore unequal access to education, health and other services. The role of inheritance and the inter-generational transmission of wealth in defining opportunities was discussed, as was the need for progressive taxation in promoting equal opportunity.

It was noted that Governments in low- and middle-income countries tend to redistribute progressively—that is, the Gini coefficient declines as a result of taxes and public cash transfers in all countries. However, the net equalizing effect of Government intervention is small. Social services, public primary education in particular, have a stronger equalizing effect than cash transfers. At the same time, some Governments impoverish people living in poverty—i.e. people in poverty pay more in taxes than they receive in transfers in some countries. Overall,

[4] McCall, Leslie, Derek Burk, Marie Laperrière and Jennifer A. Richeson (2017). Exposure to rising inequality shapes Americans' opportunity beliefs and policy support. *Proceedings of the National Academy of Sciences of the United States of America* vol. 114, no. 36, pp. 9593-9598.

it was emphasized that direct taxes are always progressive (i.e. benefit the poorest most) but less than half of indirect taxes are progressive in the countries studied. Public health and education are always progressive, while only about 30 per cent of social insurance pensions are.

Focusing on developed countries, it was noted that inequality had increased and the situation of those at the bottom of the income distribution had improved little even in periods of economic and job growth. This was partly due to an increase in the number of precarious jobs, the unequal distribution of job growth among households and the fact that wages did not grow at the same pace as productivity. In addition, there was downward pressure on social protection for jobless households. Even though there are no silver bullets to tackle inequality, the importance of minimum wages and adequate social protection floors, including social insurance, was stressed.

A cross-country association between income per capita and support for redistribution was discussed, noting that countries with high income per capita could be expected to support income redistribution domestically but also in their cooperation programmes with low-income countries.

Participants noted that, while there is agreement among academics and practitioners regarding policies needed to reduce inequalities ("we know what to do"), many policies have not gained sufficient public support. I.e. politics matter. Participants questioned if Governments (and top income owners) should be persuaded of the need to address inequality, and how? Addressing the political economy of inequality-reducing policies was important and could be a value added of the World Social Situation report.

It was also noted that policies to reduce poverty were necessary but not sufficient to address inequality. However, taxing top incomes was increasingly difficult. This was partly due to the "elite capture" of political institutions, in some cases. In addition, there had been significant wealth creation in the digital economy, for instance, but Governments did not have effective instruments to tax it. International cooperation and wealth registries could certainly help tax, for example financial flows.

Some participants stressed that inequality trends differed across countries. While globalization and technological change may have exerted upward pressure on inequalities, a difference had to be made between countries where inequalities had grown, countries where inequality levels had not changed and countries that had managed to reduce inequalities. Geographical balance was necessary, particularly in a UN report. Overall, inequality was not just a "development" issue, and the UN could help bring discussions on inequality to the mainstream, encouraging Governments to take clear positions on the issue in international fora, in cooperation on minimum income taxation and corporate taxation.

Conclusions and implications for the World Social Situation 2019 report

In presenting the conclusions and policy implications of the discussion, the organizers (DISD) highlighted the fact that inequality trends and their causes varied across countries. There was more than "one story" to tell. There had been recommendations to address the political economy of inequality-reducing policies. How should a UN report approach political economy considerations?

Taking the 2030 Agenda as a guide, it was recommended that the report stress common policy principles to which most Member States would agree. That would help harmonize policy recommendations and make them applicable to different contexts. While some participants stressed the importance of highlighting “best practices” and success stories, others noted that what worked in some contexts may not be a “best practice” in others. There were suggestions to focus on concrete case studies—e.g. the examples of Canada (a progressive Government adding a higher tax bracket, increasing child benefits and keeping a relatively open immigration policy) or Latin America.

It was also recommended to place the focus on low- and middle-income countries. While some trends and policies had positive effects in all contexts, others were good for some countries and bad for others. A developing-country lens would help make recommendations more meaningful. It was also noted that inequality was not sufficiently discussed in international fora. There was no driving force, in terms of UN agency or organizing, behind SDG 10. A UN report on inequality could help raise the profile of SDG 10.