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What is holding back the implementation of the 2030 Agenda?

Insights from the United Nations Committee for Development Policy

No. 1 - Inequality and how incomes are generated

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ROLPH VAN DER HOEVEN

Appointed to the Committee for Development Policy in 2019, Rolph van der Hoeven is Professor of Employment and Development Economics (Emeritus) at the International Institute of Social Studies (ISS), Erasmus University, Netherlands. From 2005 to 2008, he was the Director for Policy Coherence at the International Labour Organization (ILO) in Geneva. He has worked for over 30 years in various continents for the ILO and UNICEF, where he, inter alia, was policy analyst for the ILO in Zambia and Ethiopia, Chief Economist with UNICEF in New York, manager of the interdepartmental project on Employment and Structural Adjustment at the ILO, and manager of the Technical Secretariat of the World Commission on the Social Dimension of Globalization. He is widely published on employment, poverty, inequality, and economic reform issues and has a PhD in Economics from the Free University of Amsterdam.

SUSTAINABLE DEVELOPMENT GOALS

Ahead of the SDG Summit in September, members of the United Nations Committee for Development Policy, a subsidiary body of the Economic and Social Council (ECOSOC), reflect on the factors that are holding back implementation of the 2030 Agenda for Sustainable Development and what can be done about them.

Experience has shown that it is not possible to empower people and to reduce household income inequality without addressing how incomes are generated in the production process and how this affects the so-called factor income inequality (the distribution of national income between rents from land, capital income and labour income).

Household income inequality can be interpreted in three ways (van der Hoeven, 2019):

- *Primary* income inequality: the distribution of household incomes consisting of the (sometimes cumulated) different factor incomes in each household, before taxes and subsidies as determined by markets and market institutions;
- *Secondary* income inequality: the distribution of household incomes after deduction of taxes and inclusion of transfer payments (i.e. as determined by fiscal policies);
- *Tertiary* income inequality: the distribution of household incomes when imputed benefits from public expenditure are added to household income after taxes and subsidies. This interpretation of household income is particularly relevant for developing countries as different services and government services are often provided for free or below market prices.

Most policy discussions on income inequality focus, however, on secondary household income inequality (take-home pay, rents, interest earnings and profits after taxes) and on tertiary income inequality (an analysis of the Voluntary National Reviews of the SDGs shows that programmes on empowerment are mostly financed from public sources).

The focus on factor income inequality points to the importance of better understanding the changing position of labour in the production process in order to correctly interpret inequality trends, as labour has been losing ground relative to capital over the past 20 years. Furthermore, experience has shown that it is not possible to reduce primary household income inequality without addressing how incomes are generated in the production process and how this affects factor income inequality (van der Hoeven 2019). Atkinson (2009) argues convincingly that there are at least three reasons to pay again greater attention to factor income distribution:

- To clarify the link between incomes at the macroeconomic level (national accounts) and incomes at the level of the household;
- To help understand inequality in the personal distribution of income;
- To address the social justice concerns with the fairness of different returns to different sources of income.

Factor income inequality matters to people for at least two reasons. Firstly wealth, and especially high-yielding wealth, is still extremely unevenly distributed. Therefore, the current trend of an increasing share of capital in national income has a significant effect in raising household income inequality. Secondly, the fact that profits may be rising much faster than wages, conflicts with widely held views of social justice and fairness.

References:

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