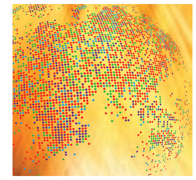
Chapter **7**

Policies for reducing inequalities in human development in the 21st century: We have a choice

7.



Policies for reducing inequalities in human development in the 21st century: We have a choice

Three trends in inequalities in human development are revealed by looking beyond income and beyond averages. They frame the context for policies as we look beyond today to a world of mounting impacts of climate change and revolutionary advances in technology:

- Inequalities in basic capabilities are falling (some quite rapidly) but remain high, with many people still left behind. Moreover, the pace of convergence is not fast enough to eradicate extreme deprivations, as called for in the Sustainable Development Goals (SDGs).
- Inequalities in human development are growing in areas likely to be central to people over the next decades. Inequality in enhanced capabilities—those fast-becoming essential as we move to the 2020s—are increasing, both between and within countries.
- Inequalities in the distribution of opportunities between men and women have improved, but further progress may get harder, as the challenge of gender equality moves from basic to enhanced capabilities. There is even evidence of backlash in some countries.

This is both a hopeful and sobering picture.

Hopeful because progress in reducing gaps in basic capabilities shows that with appropriate policies, results follow. Policies have been insufficient to completely close gaps in basic capabilities, yet it may still be possible to get on track and eliminate extreme deprivations, as pledged in the 2030 Agenda for Sustainable Development. But aspirations are moving. So considering just how to catch up in basic capabilities is not enough: Reversing the divergence in enhanced capabilities is becoming increasingly important. Turning attention rapidly to this task could possibly avoid an entrenchment of divergences in enhanced capabilities.

Sobering because the compound effect of emerging inequalities, technological change and the climate crisis could make remedial actions down the road more challenging. We know this from the lifecycle approach that has informed so much of the analysis in this Report—that capabilities accumulate over time, as can disadvantages (chapters 1 and 2). The 2020s will welcome children who are expected to live into the 22nd century, so gaps that would seem small in the next few years can be amplified over decades, compounding already large inequalities in income and political power.

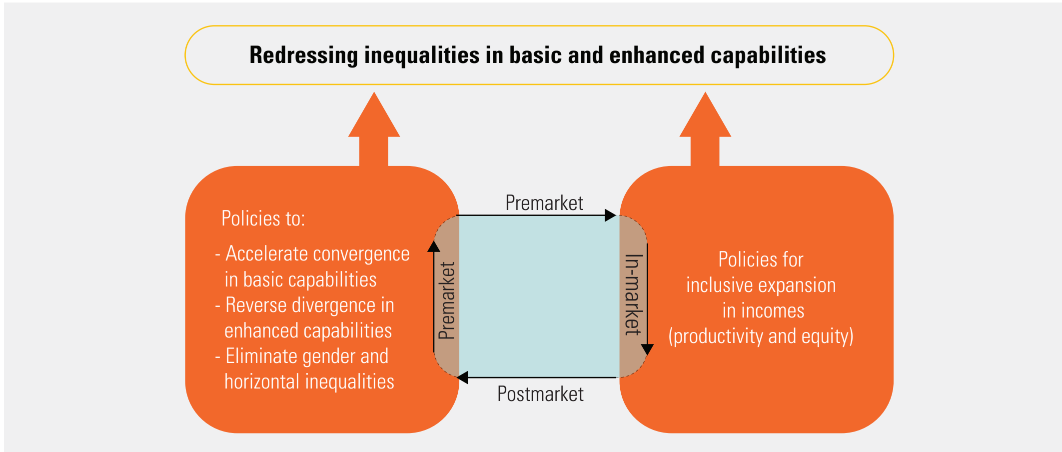
So we must act—but how?

This chapter proposes a framework for policies that links the expansion and distribution of both capabilities and income. With the overarching objective of redressing inequalities in both basic and enhanced capabilities, the framework includes two blocks (figure 7.1). The first block (the one on the left in figure 7.1) encompasses policies towards the convergence and expansion of capabilities, looking beyond income.[1] The policy goals are to accelerate convergence in basic capabilities while reversing divergences in enhanced capabilities and eliminating gender and other horizontal inequalities. The timing of many of these policies along the lifecycle matters, in relation to when they have an impact over the course of people's lives. The earlier in life some policies are pursued, the less interventions may be needed through other policies (which may be both more expensive and less effective) later in life.

The second block (the one on the right in figure 7.1) considers policies for the inclusive expansion of income. The policy objective is to jointly advance equity and efficiency in markets, increasing productivity that translates into widely shared growing incomes—redressing income inequality. The framework is based

FIGURE 7.1

A framework for designing policies to redress inequalities in human development



Source: Human Development Report Office calculations.

on an integrated approach, because the two blocks of policies are interdependent. Policies to advance capabilities beyond income often require resources to fund government programmes, which are financed by taxes. And the overall resources available are, in turn, linked to productivity, which is linked in part to people's capabilities. The two blocks can thus work together in a virtuous policy cycle.

The framework is multidimensional, emphasizing the intrinsic importance of indivisible human freedoms: Redressing inequalities in basic and enhanced capabilities is the overarching intended outcome. Thus, it is not consistent with the reduction of inequalities in some capabilities at the expense of the drastic deterioration of others. Or with approaches that either reduce living standards–compromising sustainable growth through ill-designed distributive policies–or that simply pursue the creation of wealth while violating human rights and our planet's sustainability.

Multidimensionality also allows a better integration of the instrumental analysis of income and nonincome mechanisms behind the formation and progressive equalization of capabilities. The policy cycle can be described as one composed of premarket policies (primarily within the block on the left of figure 7.1 on nonincome capabilities and feeding into the block on the right), in-market policies (predominantly in the right block on inclusive income expansion) and postmarket policies (which connect the right block back to the left). Wages, profits and labour participation rates are typically determined in markets, which are conditioned by prevailing regulations, institutions and policies (in-market). But those outcomes also depend on policies that affect people before they become active in the economy (premarket). Premarket policies can reduce disparities in capabilities, helping everyone enter the labour market better equipped—even though it is important to emphasize that this is far from the only reason why capabilities matter and that by enhancing capabilities the contributions to expanding incomes go beyond participating in the labour market (they can, for instance, enhance political participation). In-market policies affect the distribution of income and opportunities when individuals are working, shaping outcomes that can be either more or less inclusive. Postmarket policies affect inequalities once the market, along with in-market policies, have determined the distribution of income and opportunities. These sets of policies interact. The provision of public services premarket may depend in part on the effectiveness of postmarket policies (taxes on market income to fund health and education, for instance), which matter in mobilizing government revenue to pay for those services. And taxes, in turn, are informed by how much society is willing to redistribute income from those with more to those with less.[2]

The framework is multidimensional, emphasizing the intrinsic importance of indivisible human freedoms: Redressing inequalities in basic and enhanced capabilities is the overarching intended outcome

A corollary is that considering policies in isolation has limited effectiveness. Take, for instance, recommendations linked to the redistribution of income, which tend to dominate the policy debate. Tony Atkinson simulated the effect of an ambitious redistributive package on income inequality in the United Kingdom, showing that it would only halve the gap with Sweden in the Gini coefficient for disposable income and would be insufficient to reverse its increase between the late 1970s and 2013.[3] This should not be read as indicating that redistribution does not matter—the chapter argues quite the opposite—but decisive change depends on a wider and more systemic approach to policies.

Using this framework, the chapter has two sections, each corresponding roughly to policies associated with the two blocks. The aim of the chapter is to illustrate with specific examples of policies how the framework proposed can be used to redress inequalities in human development—it is not meant to provide a comprehensive analysis of all relevant policies. And given the large heterogeneity across countries and the uncertainties associated with future pathways (due not only to climate change and technology but also to other factors not considered in the Report[4]), each country will have to determine the most suitable set of policies for its unique circumstances.

The first section discusses how to expand capabilities beyond income, addressing both vertical and horizontal inequalities in human development. It considers both the structure and the design of education and health systems, as well as policies related to the emerging challenges of technology and climate change. Among horizontal inequalities, the focus is on gender equality, responding to the challenges outlined in chapter 4.

The second section addresses policies that can jointly lift productivity in ways that are translated into widely shared incomes—redressing income inequality. Those policies have a bearing on how markets for goods and services as well as for labour and capital function. The section also discusses the effect of redistributive policies at the national level. Because national policies can be constrained or facilitated by globalization, the section considers how international collective action—or the lack thereof—can shape inequalities in the 21st century.

Towards convergence in capabilities beyond income: From basic to enhanced universalism

Policies with universal reach speak to the fulfilment of the pledge to "leave no one behind" of the 2030 Agenda and to the Universal Declaration of Human Rights.[5] Progress towards universal achievements has been remarkable: 91 percent of children attend primary education,[6] more than 8 in 10 births are attended by a skilled professional[7] and more than 90 percent of people have access to an improved water supply.[8] These averages may hide the prevalence of deprivations (chapter 1) but are massive achievements.[9] They did not happen by chance: They were the result of policy choices. This section is about recalibrating ambitions and actions for the 21st century and for new generations that will see the 22nd century. It starts by arguing that convergence in capabilities beyond income should build on these achievements, but be further enhanced. Such enhancement would call for both political support (which would require overcoming constraints in social choice, as elaborated in spotlight 7.1 at the end of the chapter), as well as financial resources (to be addressed in the second half of the chapter). Beyond enhanced universalism, this section considers policies on eliminating horizontal inequalities (with a focus on gender inequality) and the enhancement of capabilities for climate shocks and to harness technology.

Towards enhanced universal systems

Universal policies built on extensive coverage only—without adequate resources or designed to ensure both quality and equity—are not genuinely universal.[10] They are useful: They boost floors, providing access to essential services, and can be credited for some of the convergence in basic capabilities. But they are unable to address on their own the persistence of inequalities in human development, as manifested in gradients in achievements.

Universal policies built on extensive coverage only—without adequate resources or designed to ensure both quality and equity—are not genuinely universal

This section argues that enhanced universal systems (illustrated with services linked to education and health) could be more effective in reducing human development inequalities if based on two pillars:

Relying on private, fee-based schools for basic education can leave the poorest even further behind, due in part to unequal access and lower accountability for quality, which tends to harm poor students disproportionally, especially girls

- Comprehensive social services ensuring equal access to quality services in line with the new demands and aspirations of the 21st century.[11] As chapter 2 noted, inequality in human development is multidimensional—transmitted through different channels, including markets, family networks and social networks—and can be compounded by factors such as violence. Health outcomes, for instance, depend on access to services but are also socially determined. Enhanced universal systems would incorporate these dimensions.
- Complementary special policies for excluded groups. Even though poor and marginalized people may benefit from universal policies, these alone might not be enough to reach those furthest behind, including due to group-based discrimination. For instance, children from households facing overlapping deprivations. Leaving no one behind thus also requires targeted policies addressing horizontal and group inequalities.[12]

Ensuring universal access to knowledge and lifelong learning

Policies to ensure equitable access to quality early childhood education have long-term consequences for health, cognitive development and employment prospects—and they even benefit a person's siblings and children (chapter 2).[13] Focusing primarily on providing access to education towards a minimum national standard has not always closed achievement gaps, even in developed countries.[14] Given that SDG target 4.6 calls for all young people to achieve numeracy and literacy skills, even equal grade attainment between rich and poor households in the same country would not necessarily ensure that this target is met. In fact, learning achievements in many developing countries are below the SDG target even for students from richer families—and children from poorer households have even worse school attainment. This implies that simple equalization—lifting up the children from the lowest socioeconomic status to the grade attainment achieved by children from the highest socioeconomic status in each country—would not achieve the SDG target of quality learning for all. Thus, enhancing learning outcomes to achieve the SDG target of universal numeracy and literacy implies that there are two gaps to address: the gap between poor and rich within countries and the gap between the top achievers in each country and the SDG target.[15]

Children from lower socioeconomic groups have a double disadvantage—fewer years of school and less learning each year. Policies that focus on outcomes rather than inputs require data on learning rather than just on enrolment, investing in children's mastery of basic concepts from an early stage and combining overall improvements with targeted interventions for groups that are especially disadvantaged.[16] Relying on private, fee-based schools for basic education can leave the poorest even further behind,[17] due in part to unequal access and lower accountability for quality, which tends to harm poor students disproportionally, especially girls. Free quality public education, improving teachers' training and enhancing inclusivity, especially for girls and disabled students, can mitigate these risks.[18]

Early childhood interventions that can help flatten gradients are showing results in developing countries (box 7.1). Several countries have been expanding coverage in preprimary education, with Ethiopia having pushed for a significant jump in coverage since 2010 (box 7.2). This not only is likely to contribute to equalization of capabilities in the long run but can also affect the distribution of unpaid work, favouring the inclusion of women in the labour market (as elaborated in the discussion about gender inequality later in this chapter).

Furthermore, technology demands updating skills throughout life (chapter 6). Lifelong learning would enhance both economic and social outcomes and help achieve more equitable opportunities at every age.[19] The International Labour Organization has made a concrete proposal on how to implement a system of entitlements to training, through reconfigured employment insurance or social funds that would allow workers to take paid time off to engage in training.[20] Workers would be entitled to a number of hours of training, regardless of the type of work they do. In countries where most workers work informally, national or sectoral education and training funds to provide informal workers access to education and training could be established. Policies to reduce informal

BOX 7.1

Enhancing capabilities in China: Tackling inequality at its roots

In addition to cognitive skills, social and emotional skills have been found to mark a productive adult.[1] But these skills are often left to the family. While weak social and emotional skills may be an emerging source of inequality, they can also be a consequence because the root can lie in inequalities in parents' education that may be transmitted to the next generation. But investing in these skills also provides an opportunity to break the vicious cycle of inequalities by creating a level start for all children.

China's scores in positive parenting and socioemotional development improved substantially between 2010 and 2014, especially for children from poorer families. Positive parenting was measured by survey questions that ask caregivers how often they intervene to enhance their children's age-specific skills (for instance, read to them or play outside with them). Socioemotional development was measured by an assessment of children's attitudes, behaviour and relation to others.

For younger children from the lowest income quintile the average positive parenting test score increased from 1.34 (on a scale of 1 to 5) in 2010 to 2.67 in 2014. For younger children from the richest quintile the average score increased from 2.37 to 3.17—less than for the other wealth quintiles. Average scores for older children showed a similar pattern, rising from 3.41 in 2010 to 3.61 in 2014 for children in the lowest quintile and from 3.49 to 3.65 for children in the richest quintile. So, inequality in parenting test scores between richer and poorer quintiles almost disappeared.[2]

China's improvements are linked to its national campaign to promote early childhood development, launched with the United Nations Children's Fund in 2010. The campaign has the ambitious goal of universal early childhood education. It emphasizes brain development in early childhood and provides parenting support through internet portals, websites and mobile phone applications. It also includes substantial investments in kindergarten and teacher training, especially in rural areas and for poor and migrant children in urban areas, and government support for early learning development guidelines, tools and national standards.[3]

Notes
1. Heckman, Stixrud and Urzua 2016.; Kautz and others 2014. 2. Li and others 2018. 3. Greubel and van der Gaag 2012; UNICEF 2019c.

BOX 7.2

Unlocking the potential of preprimary education for advancing human development in Ethiopia

An estimated 50 percent of children in the world are not enrolled in any form of early childhood education.[1] In developing countries children face even higher barriers—with only 20 percent enrolment—and often receive lower quality preprimary education. Sustainable Development Goal target 4.2 calls for all girls and boys to have access to quality early childhood development, care and preprimary education by 2030, but the poorest households have the least access to these learning opportunities.

Ethiopia shows how preprimary education can enable developing countries to improve education outcomes. Starting from one of the lowest preprimary enrolment rates in the world, just 1.6 percent in 2000, Ethiopia saw the rate rise to 45.9 percent in 2017—representing more than 3 million children.[2] Most of the growth was between 2007 and 2017, initiated by the National Policy Framework for Early Childhood Care and Education in 2010.

Acknowledging the key role of equitable access to preprimary education for human development, a core pillar of the policy framework is the expansion of preschool and school readiness programmes.[3] Led by the Ministry of Education, the main catalyst for the growth in preprimary education has been the "0-Class," a year of preschool intended for vulnerable households that aims to prepare young children for entry into grade 1, the first year of primary school. Although the ministry had initially considered two years of preprimary education, the plans were changed to broaden access.

Since its introduction the 0-Class has achieved high enrolment rates and is now by far the most widely available preschool, especially in rural areas.[4] In its first year, the programme enrolled almost three times more children than had access to kindergarten in the previous year. Fuelled by these early successes, further solutions to increase rural enrolment have been explored in Ethiopia. The United Nations Children's Fund and Save the Children piloted the Accelerated School Readiness model to reach children who did not attend 0-Class, including children in emergency situations.[5] The model consists of a two-month summer programme before grade 1. Run by primary school teachers and supported by low-cost learning kits, it provides young children with a basic curriculum in preliteracy and prenumeracy.

The impacts of preprimary education have been evaluated in multiple case studies in Ethiopia. A Save the Children project on advancing literacy and math skills found that children from lower socioeconomic backgrounds achieved significantly higher education gains—practically closing the learning gap with their peers from higher socioeconomic backgrounds.[6] Young Lives, an international study of childhood poverty led by researchers at the University of Oxford, followed the education achievements of two cohorts of children between 2002 and 2016 across Ethiopia.[7] Urban children who attended preschool programmes had a 25.7 percent higher likelihood of completing secondary education than their non-preschool counterparts.

Notes
1. UNICEF 2019c. 2. UNICEF 2019c. 3. Rossiter and others 2018. 4. Woodhead and others 2017. 5. UNICEF 2019c. 6. Dowd and others 2016. 7. Woldehanna and Araya 2017.

employment could be powerful, since formal jobs are associated with larger firms that invest more in worker training and with longer employment spells, where more on-the-job learning can occur.

Enabling everyone to lead a long and healthy life

While inequalities in health outcomes are often unrelated to the availability of health services (chapter 2 and box 7.3), universal health coverage, a priority in SDG target 3.8, has the potential to increase equality in health-related capabilities.[21] Thailand and Rwanda have rolled out universal health coverage schemes. In Thailand the policy, implemented in 2001, spread to all provinces the following year and reached 98 percent of the population in 2011.[22] Rwanda has the highest enrolment in health insurance in Sub-Saharan Africa, with community-based health insurance covering more than 75 percent of the population.[23] In Bangladesh, Brazil, Ethiopia, France, Ghana, Indonesia, Japan, Peru, Thailand, Turkey and Viet Nam—with a wide range of health systems and incomes—governments used an incremental approach to create and expand their universal health coverage programmes.[24] The process typically began by providing health insurance to civil servants and formal sector workers. Next was expanding coverage to poor and vulnerable people, which required a strong political commitment. In Brazil and Thailand social movements played an important role (see box S7.1.1 at the end of the chapter for the role of social movements more broadly in redressing inequalities).

Political commitment needs to go hand in hand with financial resources dedicated to universal health coverage, and different countries take different approaches

Political commitment needs to go hand in hand with financial resources dedicated to universal health coverage, and different countries take different approaches. France used earmarked taxes: first a payroll tax and later earmarked income and capital taxes. Brazil and Ghana earmark part of their social security contributions and value added tax. By contrast, Japan, Thailand, Turkey and Viet Nam do not have specific amounts earmarked but give it budget priority. In addition to financing, a major implementation challenge is the shortage of health care personnel. In many cases private and unregulated public health care of variable quality may increase sharply. In response, Indonesia reformed its accreditation of health professionals and standardized the processes for certifying them. Brazil and Ethiopia broadened their health professional recruitment pools for health extension and offered more flexible career opportunities to community health workers.[25]

BOX 7.3

The persistence of health gradients even with universal health coverage

Even countries with low income inequality and universal health coverage have not eliminated gradients in health. Sweden has an outstanding health care system, with broad coverage, minimal out-of-pocket costs and special help for vulnerable groups. But this equal access to health care does not produce equal health outcomes. For example:

- Mortality rates in Sweden are strongly correlated with socioeconomic status. At the bottom more than 40 percent of people die by age 80, compared with fewer than 25 percent at the top. People of lower socioeconomic status are twice as likely as those at the top to suffer from heart attacks, lung cancer, type 2 diabetes and heart failure.
- Only 10 percent of women from bottom-income households in Sweden receive the vaccination against human papillomavirus, compared with 40 percent of women from top-income households.
- Risky births are more common in poorer families in Sweden, since more than 30 percent of mothers in the bottom 1 percent smoke before or during pregnancy compared with only 5 percent of mothers in the top group.

Such persistent inequality in health outcomes can be accounted for in part by unequal access to health expertise outside the formal health system. Some policies that could mimic family access to health professionals include long-term visiting-nurse programmes, making more general practitioners available and ensuring that more providers are culturally compatible with their communities, since this increases trust. Such policies would be even more effective if targeted at the poorest.

Source: Human Development Report Office, based on Chen, Persson and Polyakova (2019).

Addressing horizontal inequalities: Focus on gender inequality

Universal policies can provide basic floors but may not be enough to eliminate horizontal inequalities. The latter are often rooted in long-standing social norms and social exclusion. Social exclusion happens when people are unable to fully participate in economic, social and political life because they are excluded on the basis of cultural, religious, racial or other reasons.[26] This may mean a lack of voice, lack of recognition or lack of capacity for active participation. It may also mean exclusion from decent work, assets, land, opportunities, access to social services or political representation.[27]

When there are large horizontal inequalities, targeted or affirmative action policies that directly support disadvantaged groups—for example, the provision of access to credit, scholarships or certain group quotas in employment and education—can complement universal policies. Several historical examples show that a combination of universal and targeted policies can reduce horizontal inequalities.[28] But there is also a risk that targeted policies further reinforce group differences or grievances, since members receive benefits precisely because of their group identity. Targeted policies are particularly relevant when a group has clearly been disadvantaged historically,[29] with policies having a defined timeframe so that they are applied only as long as the targeted group is truly disadvantaged. Clear communication about the policies is crucial to prevent grievances and feelings of disadvantage.

Given that gender remains one of the most prevalent bases of discrimination, policies addressing deep-seated discriminatory norms and harmful gender stereotypes, prejudices and practices are key for the full realization of women's human rights.[30] Policies can target social norms directly. Interventions to change unequal power relationships among individuals within a community or to challenge deeply rooted gender roles can be achieved through education, by raising awareness or by changing incentives. Education and raising awareness are both based on providing individuals with new information and knowledge that can foster different values and behaviours. Such initiatives might include formal education, workplace training or media campaigns against gender stereotyping. To change incentives, protective mechanisms can confront possible harm due to traditional gender norms or a backlash, such as school bullying or workplace harassment. Changing incentives can also be introduced to delay early marriage and reduce teenage pregnancies. The three dimensions (education, awareness, incentives) often reinforce each other, as the examples of policies included in this section suggest.

For example, Québec's 2006 nontransferable parental leave for fathers shifted incentives so that fathers became more involved in home caregiving. With new benefits fathers increased their participation in parental leave by 250 percent,[31] contributing to reverse the social norm that expected mothers to take sole responsibility for care work. And in households where men had the opportunity to use the benefit, fathers' daily time in household work was 23 percent higher than in households where new fathers did not participate, long after the leave period ended.[32] This example also shows the importance of including men in gender equality policies. In fact, according to a survey of Organisation for Economic Co-operation and Development (OECD) countries on implementing gender strategies or policies, almost everyone considers changing men's and boys' attitudes towards care activities to be the first priority.[33] Yet, even though the importance of adequately engaging men and boys in overcoming gender inequality or addressing their own gender-related vulnerabilities is widely acknowledged, public policies have yet to fully consider that dimension.[34]

Thus, laws and regulations can balance the distribution of care work in households—say, by increasing the duration of paid parental leave, as in the Québec example. But only about half of the countries in the world offer paternity leave in addition to maternity leave, and half of those offer fewer than 3 weeks for fathers and 80 percent offer fewer than 14 weeks for mothers.[35] Moreover, it is not enough for the policy to be gender-neutral; it must explicitly target men (as in Québec), precisely because otherwise social norms may prevail, impeding people from taking leave. In 2007 the Republic of Korea started to reserve a year of paternal leave, and by 2014 the number of male

Several historical examples show that a combination of universal and targeted policies can reduce horizontal inequalities. But there is also a risk that targeted policies further reinforce group differences or grievances, since members receive benefits precisely because of their group identity

workers who took advantage of it had tripled.[36] And some countries offer economic incentives for workers to use leave, as in Sweden, where parents receive a small gender-equality financial bonus for every day they use parental leave equally. This way, fathers' share of childcare during the early months or years of a child's life can be increased, which may allow for changes in social norms around childcare that can be reflected throughout a child's life.

Balancing the distribution of care, particularly for children, is crucial precisely because much of the difference in earnings throughout the lifecycle is generated before age 40, leading women to miss many labour market opportunities during the early stages of their careers.[37] These missed opportunities coincide with childbirth, which can encourage women to withdraw from the labour market. Offering access to affordable childcare can provide mothers opportunities to make their own work-life decisions, allowing them to engage in paid work. Mothers tend to adjust their choices around paid work to the demands of childcare.[38] Hence, accessible and affordable childcare is relevant for mothers' freedom to engage in paid work.[39]

Balancing the distribution of care, particularly for children, is crucial precisely because much of the difference in earnings throughout the lifecycle is generated before age 40, leading women to miss many labour market opportunities during the early stages of their careers

The impact of regulations and laws goes beyond changing the balance of care. Policies are important in areas ranging from protection from violence and discrimination to access to public services. But the way in which policies are designed and implemented is determined, in part, by participation in politics. Thus, affirmative action quotas that increase minority participation in politics can result in stronger institutional commitment to equality and nondiscrimination. Even though Tunisia is a young democracy (its first constitution was ratified in 2014), today it has one of the world's most progressive gender parity laws. It has legislated candidate, constitutional and electoral law quotas. The regulations guarantee equal opportunities for women and men at all levels of responsibility in all fields and ask candidates to file candidacy applications on the basis of parity between men and women alternating. By 2018 women occupied 47 percent of local council positions.[40] Almost all countries with high female political representation have such enabling measures as positive discrimination and affirmative action.

Policies can also increase the representation of girls in science, technology, engineering and mathematics (STEM; box 7.4). The Costa Rican Technological Institute set up a specialized training centre to build women's capacity in STEM and entrepreneurship. It celebrated the first all-female hackathon in Central

BOX 7.4

Girls' coding choices and opportunities

In Latin America 30 million young people are not in education, employment or training, and 76 percent of them are women. As an additional challenge, studying is not a guarantee for a bright future for women and girls: Less than 20 percent of women in the region transition from studying to formal jobs.[1]

Laboratoria is a nonprofit organization established in 2014 that targets girls from low-income families who face major barriers to accessing higher education. It combines applied coding education (including six-month coding bootcamps), socioemotional training, deep employer engagement and job placement services to create opportunities for students. Operating in Brazil, Chile, Mexico and Peru, it has graduated more than 820 girls and aims to reach 5,000 young women by 2021. More than 80 percent of students get jobs as developers, which often triples their incomes.

The chosen women face different barriers such as living on the outskirts of cities and having to spend 2–3 hours to commute to class or growing up believing tech sector jobs requiring mathematics skills were beyond their reach. In the courses the women learn coding essentials to build websites, apps and games. Classes follow the agile classroom model, learning as if they were working. When students near the completion of the training and begin their job search, Laboratoria pairs them with mentors from the technology field. Tech companies such as IBM, Google, LinkedIn and Microsoft have partnered with Laboratoria to increase the supply of female developers. The companies participating in and sponsoring Talent Fest have first access to Laboratoria's pool of talent, but other businesses can pay to browse student profiles as well.

Note

1. OECD 2017.

Source: Human Development Report Office based on Guaqueta (2017), Laboratoria (2019) and World Bank (2013).

America in 2018, using technology and STEM expertise to bolster sustainable development.[41] Cenfotec University and the institute established a follow-up strategy to create technology training spaces and support all women interested in a STEM career. NiñaSTEM (GirlSTEM), launched in early 2017 by the Mexican government in partnership with the OECD, invites women with prominent science and mathematics careers to act as mentors, visiting schools and encouraging girls to choose STEM subjects and be ambitious.[42]

For girls to choose STEM they must be in school. Some interventions can change incentives for girls to stay in school by either delaying marriage or reducing adolescent pregnancy. Cash transfers have been proven to increase school attendance. The Zomba Cash Transfer Programme in Malawi, where pregnancy is the main reason girls drop out, gave conditional and unconditional transfers to girls in school and girls who had recently dropped out. It significantly reduced HIV prevalence and pregnancy and early marriage rates and improved language test scores.[43]

As with education, it is important to consider how women may be uniquely vulnerable to health inequalities because of their sexual and reproductive health care needs. Reproductive health, which gives women agency and control over their own body and fertility, still has much room for progress. In Tigray, Ethiopia, a service delivery model that combines community-based distribution of contraception with social marketing benefits women and their communities.[44] In Bujumbura, the capital of Burundi, the government started a national module for comprehensive sexuality education in all schools to empower girls and women through awareness of and access to sexual and reproductive health assistance and family planning services—and to provide the community a platform for dialogue on sexual education and sexual and reproductive rights. The government has received support from international organizations, including the United Nations Population Fund, to develop the school club model and two manuals for teachers and students.[45]

Finally, social norms mould individuals' behaviours and beliefs about violence against women. Preventive policies can target both women and men. For example, SASA!, a programme designed by Raising Voices and first implemented in Kampala, Uganda, targets traditional social norms that perpetuate violence against women. Addressing both women and men in households, it approaches the power imbalance at the individual and structural levels by making communities rethink household relationship dynamics. Today the programme's results have been widely tested and standardized, as in Haiti and Tanzania, and it has been scaled up to 25 countries.[46]

Towards enhanced capabilities for climate shocks and technology

Climate change and technology are likely to shape inequalities in human development over the course of the 21st century, as explored in chapters 5 and 6. Enhanced capabilities related to these two factors are ultimately about how empowered people are to navigate the challenges and opportunities associated with them in the coming decades.

For climate change, enhanced capabilities encompass those that enable people to prepare and respond not only to shocks that have historical precedence but also to the more unprecedented disruptions that climate change is likely to bring about. Insurance can help in this regard. Article 8 of the 2015 Paris Agreement of the United Nations Framework Convention on Climate Change calls for risk insurance facilities, climate risk pools and other insurance solutions.[47] That same year the Group of 7 launched an initiative on climate risk insurance, pledging to reach 400 million uninsured people in poor countries.[48] Insurance, however, has well recognized challenges (such as moral hazard and adverse selection) that imply the need for appropriate regulation. This also applies to the design of climate-related insurance systems. Index-based microinsurance linking payouts to independently observed weather parameters, such as rainfall, can address some of these challenges, while sovereign insurance pools have also been proposed and implemented.[49]

Still, climate change poses unique challenges to, and perhaps limits on, the viability and function of insurance if it is difficult to share risks. Climate change is expected to affect large geographies in similar ways. As risks become

For climate change, enhanced capabilities encompass those that enable people to prepare and respond not only to shocks that have historical precedence but also to the more unprecedented disruptions that climate change is likely to bring about

more correlated, the benefits of risk sharing that insurance affords can become smaller. For instance, the probability that the top four maize-producing countries will experience a simultaneous production loss greater than 10 percent is now virtually zero. But as temperatures increase by 2°C, mean yields drop and absolute variability increases, the probability increases to 7 percent. At an increase of 4°C, it reaches 86 percent.[50]

Policies—local, national and international—thus have a major role in the design and implementation of climate-related insurance that includes poor and vulnerable people. Policies can support the application of new technologies. Drones, for example, have shown promise in gathering accurate data on weather-related damage to crops and property.[51] Or insurance premiums could be directly subsidized, and even means-tested. Reinsurance will also be important for affordable premiums, especially where insurance is local and climate-related risk profiles are fairly homogeneous.

The special report of the 2018 Intergovernmental Panel on Climate Change discusses place-specific adaptation pathways as opportunities for addressing structural inequalities, power imbalances and governance mechanisms that give rise to and exacerbate inequalities in climate risks and impacts.[52] But the report warns that such pathways can also reinforce inequalities and imbalances. Adaptation narratives built around self-reliance, for example, may intensify climate burdens on poor people and marginalized groups.

The special report also lists recent research that has linked long-term climate change mitigation and adaptation pathways to individual SDGs, to varying degrees. It calls for more nexus approaches, which investigate a subset of sustainable development dimensions together. Examples include a water–energy–climate nexus, leveraging the widely used shared socioeconomic pathways. Using new methods for poverty and inequality projections, shared socioeconomic pathway–based assessments have been undertaken for the local sustainable development implications of avoided impacts and related adaptation needs.

A focus on sustainable development can reduce the climate risk exposure of populations vulnerable to poverty by more than an order of magnitude,[53] including by developing narratives that would facilitate more SDG-focused analyses, with climate as one objective among other SDGs.[54]

When it comes to technology, chapter 6 highlights the importance of harnessing technological change towards inclusion and sustainability and the crucial role that "being connected" plays in enabling countries and people to leverage the potential of digital and artificial intelligence technologies. Even though the impact of technology on human development goes beyond access, the discussion here illustrates steps that can enhance capabilities (without suggesting that this is the most important policy response). Chapter 6 documents divergence in access to advanced communication technologies, which can be accounted for in part by gaps in relative costs. The Broadband Commission has set a target for 2025: entry-level broadband services (1 gigabyte) at a cost of less than 2 percent of monthly gross national income per capita. Currently most developed countries, almost half of developing countries that are not least developed countries and a small portion of least developed countries have met the target.[55]

Still, the most salient self-reported barrier for mobile internet use is limited digital literacy and skills: 34 percent in Africa, 35 percent in East Asia, 37 percent in South Asia and 28 percent in Latin America.[56] Indeed, more than half the world's people lack basic information and communication technology skills. There are significant differences across income groups. For instance, in lower-middle-income countries only 6 percent of adults have sent an email with an attachment compared with 70 percent in developed countries.[57] Thus, education for both young and older people will be key to increasing digital literacy.

The most salient self-reported barrier for mobile internet use is limited digital literacy and skills: 34 percent in Africa, 35 percent in East Asia, 37 percent in South Asia and 28 percent in Latin America

Connectivity can also be enhanced through public Wi-Fi services offered in public facilities such as libraries and community centres. Singapore and North Macedonia are two pioneers. In 2005 Singapore implemented the Wireless@SG programme to connect citizens through a network of hotspots in public and commercial facilities. In 2006 North Macedonia developed a plan to connect 460 primary and secondary schools and provide

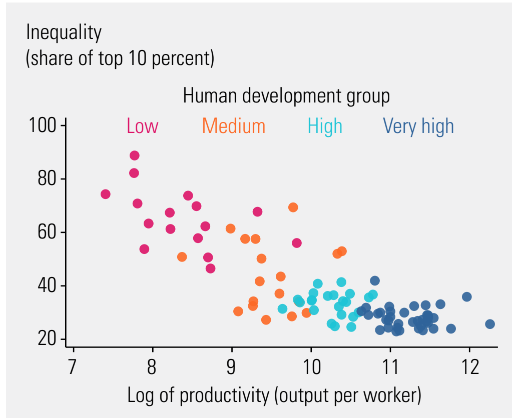
680 Wi-Fi kiosks with free access to internet services. Indonesia recently launched an ambitious plan to have public access across many of its 17,000 islands by 2022. In the Philippines the Free Public Access Program is expanding connectivity through the country: In 2019, 2,677 access points were operational, and 6,000 are expected to be added in a second phase. In Thailand the government is extending connectivity to 4,000 villages. In the Dominican Republic the government is installing 5,000 hotspots. In Madagascar the government has started a plan to connect schools and hospitals.[58] In fact, access to the internet is so important that it is making its way to being acknowledged as a right. In 2016 the United Nations General Assembly passed a resolution stressing the importance of "applying a comprehensive human rights-based approach in providing and in expanding access to Internet," requesting "all States to make efforts to bridge the many forms of digital divides." This expansion must be consistent with general human rights principles, "the same rights that people have offline must also be protected online, in particular freedom of expression."[59]

Towards inclusive income expansion: Raising productivity and enhancing equity

Episodes of rapid economic growth and structural transformation can go along with increases in economic inequality (chapter 2),[60] but higher labour productivity is associated with a lower concentration of labour income at the top (figure 7.2).[61] While the evolution of these two variables cannot be inferred simply by looking at a cross-section that represents a snapshot in time, the relationship appears to hold over time at all levels of human development (except for the Group of 7 economies; figure 7.3). This suggests that pathways that deliver both improvements in economic performance and labour incomes that are not concentrated at the top are not only feasible but also common—even if not inevitable, because this evidence does not indicate the direction of causality.[62] The challenge, therefore, is to identify those policies that are consistent with a framework of inclusive income expansion.[63]

FIGURE 7.2

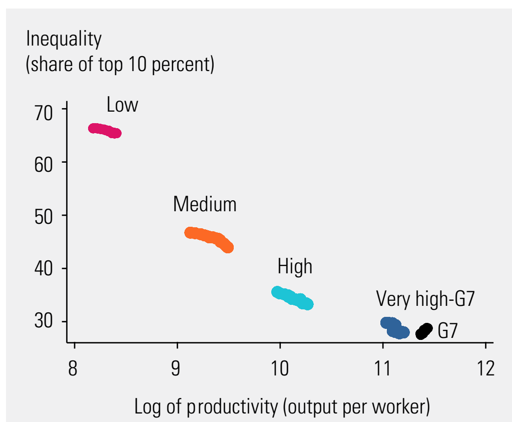
Higher labour productivity is associated with a lower concentration of labour income at the top



Note: Includes 94 countries with microdata.
Source: Human Development Report Office based on data from ILO (2019a).

FIGURE 7.3

The relationship between labour productivity and concentration of labour income appears to hold over time at most levels of human development



Note: Includes 94 countries with microdata.
Source: Human Development Report Office based on data from ILO (2019a).

Higher labour productivity is associated with a lower concentration of labour income at the top. Improving capabilities across the population also unleashes the productive potential of a country

Importantly, environmental sustainability also needs to be considered, especially the climate crisis, which spotlight 7.2 at the end of the chapter addresses.

Improving capabilities across the population also unleashes the productive potential of a country. Discussed here are policies primarily in-market and postmarket that have a bearing on the rate of expansion and distribution of income. The market distribution of income depends on how much people can use their assets and capabilities, the return on those assets and capabilities, and their ability to respond to shocks.[64] Policies that improve the functioning of markets are thus crucial to increase productivity, also determining the distribution of income. Postmarket policies reflect primary choices associated with government taxes, transfers and public spending. This second half of the chapter considers policies in these dimensions.

Balancing power: Equitable and efficient labour markets

A minimum wage can be an instrument of efficiency when there is a monopsony (companies with excessive power in the labour market) or when the economy increases productivity in response to higher labour costs

Most people receive income from work (a few also from capital gains), which is determined to a great extent by how markets are organized and regulated. Thus, labour markets and the world of work are important determinants of income inequality. For instance, increases in labour income towards the bottom of the distribution were central in Latin American countries that reduced income inequality in the 2000s.[65]

Markets are not a baseline on which governments intervene;[66] rather, they are embedded in society (to use Karl Polanyi's expression).[67] And market outcomes are shaped by a number of policies and institutions, some of which are considered in this section. For instance, unions endow workers with the capacity to collectively bargain for their share of income, exercising agency and contributing to the outcome of negotiations, shaping the distribution of market income.[68] Due in part to the fragmentation of production associated with globalization unionization has become more difficult, with the influence of unions declining in many countries,[69] although with variations by country and over time.[70] While the relationship between changing inequality in human development and changing union density varies across countries, in practice, promoting equity through stronger unions is consistent with sustained gains in productivity.[71]

Policies and institutions underpinned by the respect for human rights determine what constitutes illicit labour markets, outlawing practices like slavery, human trafficking, child labour, human degradation, harassment and discrimination.[72] But beyond eradicating those practices, how can in-market policies contribute to a fairer distribution of incomes without hurting incentives for productivity? Policies that enhance women's participation in the labour market, in a context in which mothers and caregivers are empowered with the conditions discussed earlier in the chapter to exercise their free choice, would clearly achieve both objectives (box 7.5). The remainder of this section covers other relevant labour market institutions and policies.

Monopsonies, minimum wage and efficiency

Another important labour market policy is a minimum wage, which exists in 92 percent of countries.[73] As collective bargaining in firms becomes more challenging, broader subnational or national negotiations appear to be gaining relevance as a way to protect worker interests.[74] A minimum wage is an instrument to transmit productivity gains to the incomes of workers with limited bargaining power. But a minimum wage that is too high can reduce employment or provide incentives for informal employment.

Across countries, minimum wages show a negative relationship with inequality in labour income (figure 7.4).[75] This association does not prove any causality, but it is consistent with literature documenting that a minimum wage can, when well calibrated, increase salaries of low-income groups with limited effects on employment.[76] The distributive role is linked, in turn, to productivity.

A minimum wage can be an instrument of efficiency when there is a monopsony (companies with excessive power in the labour market, as alluded to in chapter 6) or when the economy increases productivity in response to higher labour costs.[77] Indeed, monopsony is likely to increase inequality, reducing the labour share.[78] The higher the concentration, the greater the firms' labour market power to determine wages, given workers' lack of alternative employment opportunities. In some cases firms can cooperate to reduce wages even further.[79] Monopsony is more prevalent when the geographical mobility of labour is low, due either to laws such as residency requirements or to low skills of workers, which makes them easily substitutable.

Public policy can play a key role in such cases. Although opinions are split on whether minimum wages reduce employment in competitive markets, when labour market power

BOX 7.5

Gender equality in the labour market

Women's contribution to measured economic activity does not correspond to their share of the population: It is far below their full potential. This has important macroeconomic implications. The loss in GDP per capita that is attributable to gender gaps in the labour market is estimated to be as high as 27 percent in some regions.[1] Women's economic empowerment boosts positive development outcomes, such as productivity, and increases economic diversification and income equality.[2]

Policies that aim to mitigate gender biases and guarantee equal pay can promote economic growth and could be magnified through a stronger presence of skilled women in the labour market.[3] Barriers to women's participation act as brakes on the national economy, stifling its ability to grow. So implementing policies that remove labour market distortions and create a level playing field for all would boost the demand for women's labour—with action also on the supply side to allow women to exercise their free choice to participate.[4] These measures range from changes in discriminatory regulations and practices to ensuring gender equality in pay and fairer working conditions for women.

Modifying regulations could require employers to review their pay practices or to report gender gap calculations. Since 2001 both France and Sweden have asked employers to review their practices and develop an annual plan for gender equality. Australia, Germany, Japan, Sweden and the United Kingdom require organizations with 250 or more employees to publish their gender pay gap calculations.[5] Currently, equal pay for equal work is constitutionally guaranteed in only 21 percent of countries.[6]

Other examples to improve the quality of working conditions include defining identical criteria to promote men and women, having flexible working arrangements and increasing the supply of care options to broaden choices. In Belgium, France, Germany and New Zealand all employees in companies of a certain size are entitled to request flexible working arrangements. Japan and the Republic of Korea provide mothers and fathers one year of nontransferable paid parental leave each. And Nordic countries often reserve parts of the parental leave period for the exclusive use of each parent for a few months.[7]

It is not enough to adopt these policies if they are not accompanied by training or awareness campaigns to change gender social norms. For the workplace it is very important to change attitudes towards caregiving and taking leave from work to care for dependents by men so that fathers who take leave are not stigmatized. This can help balance workloads at home and change attitudes towards gender roles in households. As in other dimensions, it is critical to engage men. One way is by establishing male role models to drive changes in gender stereotypes. An alternative is to raise awareness through sensitivity training to recognize male privilege, discern signs of sexism and understand exclusion and "micromachismos."[8]

Notes

1. Cuberes and Teignier 2012. 2. IMF 2018. 3. Agenor, Ozdemir and Moreira 2018. 4. Elborgh-Woytek and others 2013. 5. Australian Government 2019; OECD 2017a. 6. Human Development Report Office calculations using data from the WORLD Policy Analysis Center's Gender Database 2019. 7. OECD 2016. 8. A series of strategies, gestures, comments and actions of daily life that are subtle, almost imperceptible, but perpetuate and transmit gender-based violence from one generation to another (Gómez 2014).

Source: Human Development Report Office.

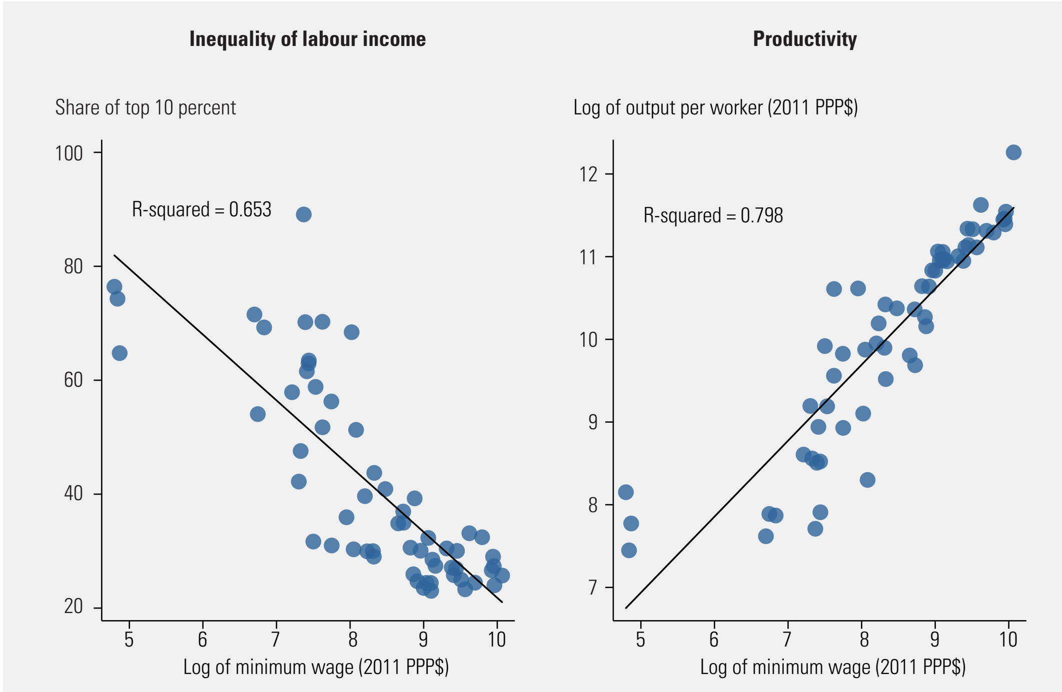
is concentrated by firms, minimum wages can actually increase employment, when the minimum wage acts as a price floor, preventing a profit-maximizing firm with monopsony power from reducing wages through lower hiring.[80] The positive effect on employment and wages at the bottom is expected to reduce inequalities.

Further efforts to reduce inequalities by checking the labour market power of firms are hampered by the dearth of research and data on the topic of monopsony, especially compared with research and data on monopoly. An internationally comparable indicator and dataset on labour market power would enable monitoring across countries and prompt action to reduce it. There is ample scope for policy, since in some cases workers' wages are marked down by 6 percent or more from their marginal product.[81]

Minimum wages can also be effective in the context of high informality. A common misconception is that the informal sector, since it has no formal barriers to entry, is more competitive than the formal sector. But the difficulty of enforcing contracts in the informal economy can create a holdup problem, where workers cannot be certain they will be paid once the work is done. If this happens, employers in informal markets have considerable power over their workers.[82] This would turn on its head the concern that labour market regulations, such as a minimum wage, could increase informality. When this mechanism holds, enforcing

FIGURE 7.4

Minimum wage: a tool to share the fruit of progress?



Note: Includes 60 countries with microdata and observed minimum wage. Data are for the most recent year available.
Source: Human Development Report Office based on data from the International Labour Organization's ILOSTAT database and ILO (2019a).

Platforms generate automatic digital records, so there is an opening for minimum wages under new forms of e-formalization

minimum wages can alleviate the holdup problem by providing a commitment device, which could increase both efficiency and equity.

In India, minimum wage laws had been largely ineffective because the overwhelming majority of the workforce has informal contracts and there is little monitoring or culpability for employers. But since the mid-2000s the laws have played an important role alongside right-to-work legislation. The Mahatma Gandhi National Rural Employment Guarantee Act promised 100 days of employment per rural household, at the official minimum wage, in public works generated by local administrations. Poor people self-select for the programme because it involves arduous physical work at the minimum wage. It has helped move market wages closer to the legal minimum, reduce exploitative working conditions and protect the rights of routinely discriminated groups such as women and workers from Scheduled Castes and Tribes.[83]

In Sub-Saharan Africa moderately higher minimum wages were correlated with higher economic growth, especially in poorer countries, with no major reduction of employment.[84] But minimum wages apply only to workers earning wages—often only in the formal sector in developing countries, thus covering a small share of all workers.

To sum up, minimum wages can be a vehicle of equity and efficiency if well calibrated to local conditions, including productivity growth and its distribution in the economy, the presence of monopsony and the level of informality. Technological change is affecting those parameters, often raising productivity in combination with monopsony power (see chapter 6). Platforms generate automatic digital records, so there is an opening for minimum wages under new forms of e-formalization.[85] As noted, whether work happens in the formal or informal sector can matter.

Informality's challenges

Around the world 61 percent of employed workers (2 million people) are in informal employment. The rate of informality is higher in developing countries and emerging countries

(70 percent) than in developed countries (18 percent).[86] On average, informal workers are poorer, are less educated, have lower productivity and lower salaries, and are more vulnerable to shocks.[87] They also contribute less to social protection schemes, which is an obstacle—both from the financial point of view and from the access point of view—to consolidating high-quality universal systems.[88]

While most informal workers in the world are men,[89] informal female workers are particularly vulnerable.[90] Unpaid family workers, industrial outworkers, home workers and casual workers are predominantly women with low earnings and a high risk of poverty, while employees and regular informal workers with higher wages and less risk of poverty are more often men (figure 7.5). This hierarchy intersects with other horizontal inequalities, such as the marginalization of ethnic groups. Groups with high rates of insecure work and poverty around the world are urban street vendors and people who work from home producing for global supply chains.

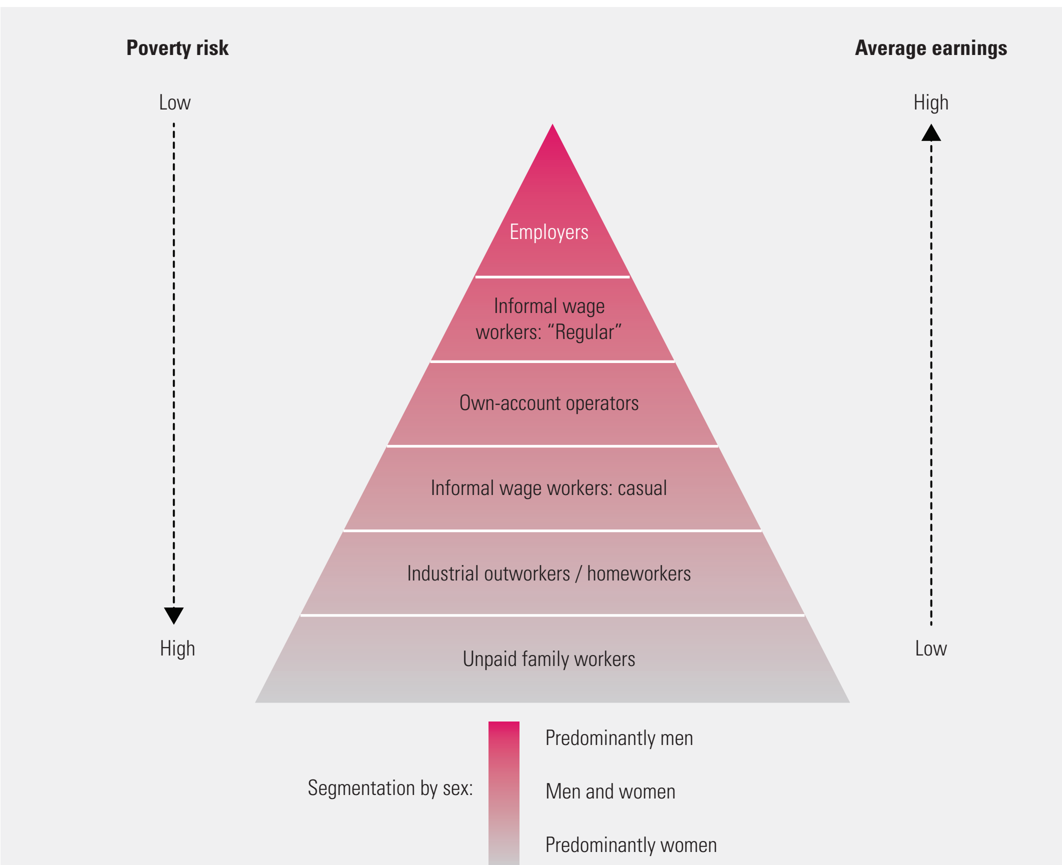
The challenge is to open a path to formality by tackling some of the structural causes—low education and health and low-productivity sectors—while also providing options for social protection, with a flexible mix that might combine contributory and noncontributory systems to ensure financial sustainability.[91]

There are different complementary strategies, given the heterogeneity of conditions facing informal workers. Some countries have a top-down approach, extending the protections and benefits enjoyed by formal workers to home workers and other subcontractors. Bottom-up strategies to protect informal workers are also possible. Organizing workers, especially poor women, into collectives enables them to pool assets and skills to produce larger quantities of

The challenge is to open a path to formality by tackling some of the structural causes—low education and health and low-productivity sectors—while also providing options for social protection, with a flexible mix that might combine contributory and noncontributory systems to ensure financial sustainability

FIGURE 7.5

Unpaid family workers, industrial outworkers, home workers and casual workers are predominantly women with low earnings and a high risk of poverty, while employees and regular informal workers with higher wages and less risk of poverty are more often men



Source: Chen 2019.

higher quality goods, acquire new technology and skills and enhance voice and agency, increasing their bargaining power and increasing political clout.

Technology can help in the move from informality towards better protection for workers. Many modern business models rely on the collection and use of large amounts of data on the actions of consumers and workers. Such data could improve conditions for informal workers. Apps and sensors can make it easier for companies and social partners to monitor working conditions and labour law compliance in supply chains. Governments can invest in incubating and testing digital technologies, including blockchain, that could support social security payments for those working on labour platforms.[92]

Making finance inclusive

Financial development can enhance economic development by reducing asymmetries of information, resolving problems of scale and reallocating capital efficiently.[93] Still, questions remain about whether too much finance increases inequality and, perhaps more important, what type of finance is most inclusive.[94]

Empirical evidence is mixed. Some studies find that financial development reduces inequality, especially in developing countries.[95] But others find that financial deepening increases inequality in both developing and developed countries.[96] Possible channels of increasing inequality, beyond the creation of rent by financial institutions, are the rising compensation of executives at the top of the distribution and the increased indebtedness at the bottom.[97] The Bank for International Settlements has revisited the question, focusing on financial structure and its relationship to inequality.[98] Looking at 97 countries (both developed and emerging economies), it found a nonlinear relationship, with financial development reducing inequality up to a point and increasing it afterwards.[99]

Analysing the composition of financial flows provides a more granular notion of finance than simply considering the amount. It also sheds light on mechanisms connecting financial growth and inequality besides those assuming that all credit goes to productive uses.[100] Dividends, rental income, and interest and financial fees deliver capital gains mainly to the wealthy. In some cases the key increase in financial gains has favoured the top 20 percent of the income distribution—the professional-managerial class—rather than the top 1 percent.[101] In the euro area, wealth inequality is closely linked to capital gains on equities (stocks), which benefit the top of the distribution.[102] In contrast, credit for productive activities leads to broader gains in income for most of the labour force.[103]

Productive credit had a positive effect on economic growth in 46 countries (both developed and developing, including some least developed countries).[104] Combined with the link between credit use and inequality, this evidence strengthens the case for policies that encourage financing for productive purposes.[105] An effective banking and financial sector regulatory framework is also important to the extent that it can prevent banking or financial crises—both of which can be very regressive, depending on the way the crises are resolved.

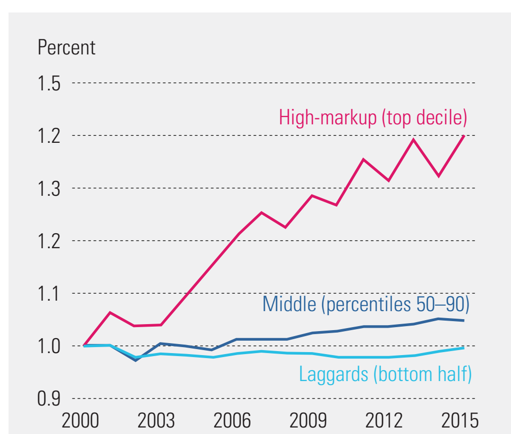
Antitrust policies for greater equity

Rising market power of firms (measured by markups) in recent decades has gone along with the reduction in labour's share of income and, in many cases, increases in inequality (chapter 6).[106] The increase has been led by firms at the top 10 percent of the markup distribution (figure 7.6), with information and

Rising market power of firms (measured by markups) in recent decades has gone along with the reduction in labour's share of income and, in many cases, increases in inequality

FIGURE 7.6

The rising market power of firms in recent decades has been led by firms at the top 10 percent of the markup distribution



Source: Diez, Fan and Villegas-Sánchez 2019.

communication technology–intensive firms increasing their markups significantly more than the rest (chapter 6).[107]

Greater market power for firms can increase inequality, when shareholders and executives accumulate more wealth than workers.[108] Some evidence suggests that antitrust policies could redistribute wealth without the indirect costs of taxation and have a positive effect on the economy as a whole.[109] Market concentration can affect poor households significantly (box 7.6). For those with fewer options to diversify expenditure, lower purchasing power as a result of anticompetitive practices, such as collusion and monopoly, translates into reduced capabilities.[110] But caution is needed when assessing concentration in various markets. An increasing concentration of revenues nationally does not necessarily imply more market power. In many cases geographic markets for products are local, but concentration is measured nationally, so it reflects a shift from local to national firms rather than market power. This requires looking at individual markets in more detail. Markups are also difficult to observe objectively, as different assumptions and measurement methods lead to different results for markup levels and trends.[111] There is also a difference between efficient concentration—due to intense price competition, investment in intangibles and rising productivity of leading firms—and inefficient concentration—when leading firms are entrenched with less competition, higher barriers to entry, lower investment and productivity growth, and higher prices.[112]

Where concentration is inefficient, several policies are available to reduce it and its negative impacts on inclusive growth. The most basic antitrust policy is the detection and sanctioning of collusion. In many countries cartels are already illegal, but more resources could be devoted to enforcement. Mergers are another route to market concentration, and stricter merger enforcement could help tackle rising market power by posing legal challenges to mergers that may stifle competition. Policy can also prevent dominant firms from using their position and network effect to exclude their competitors from markets, by investigating such cases more rigorously. Other policies include reducing the licencing requirements in certain occupations and the legal restrictions that protect the position of incumbent firms and regulating monopolies through prices or, for technology firms, through rules on data ownership, privacy and open interfaces.[113]

With the legal principles behind antitrust law varying by country, global firms face heterogeneous regulations. Over the last few years European regulators have been particularly active in scrutinizing potential anticompetitive practices of big tech companies—for example, the European Commission fined Google €8.25 billion in 2017–2019.[114]

Fiscal progressivity for sustainable development

Redistribution through taxation and public spending is a key determinant of inequality, not just of income inequality but also of capabilities affected by education, health care and other publicly provided services. Several of the policies discussed in the first half of this chapter would likely be making larger claims on public resources in many countries. Direct income tax and transfer schemes thus matter not only because they tend to reduce disposable income inequality. Spending on in-kind transfers such as education and health can also reduce inequalities in capabilities, in turn reducing income inequality. Importantly, reductions in inequalities in income and opportunity can also reinforce each other.

The effect of redistribution on income inequality can be seen by comparing inequality before and after taxes and transfers (direct and in kind). While the analysis of the impact of redistribution can be affected by differences in income concepts and definitions relating to "before" and "after" taxes and transfers (see spotlight 3.3 at the end of chapter 3), the effects can be sizable. There generally is evidence of larger effects of redistribution in developed countries than in developing countries (box 7.7).

Nora Lustig's fiscal incidence analysis has illuminated several features of the impact of fiscal redistribution in low-income and emerging economies.[115] Her analysis goes beyond direct taxes and transfers (and pensions), which dominate the literature, to add both indirect taxes and estimates of the monetized benefits accruing from the public provision of

Where concentration is inefficient, several policies are available to reduce it and its negative impacts on inclusive growth. The most basic antitrust policy is the detection and sanctioning of collusion

BOX 7.6

How market concentration can disproportionately affect poor people

A grasp of the distributive effects of competition is central to policymaking. Poorer households are typically the most affected by market concentration because they consume a more homogeneous set of goods, have less opportunity to substitute consumption and have limited access to markets.[1] Inducing more competition in concentrated markets could reduce poverty, increase household welfare[2] and boost growth and productivity.

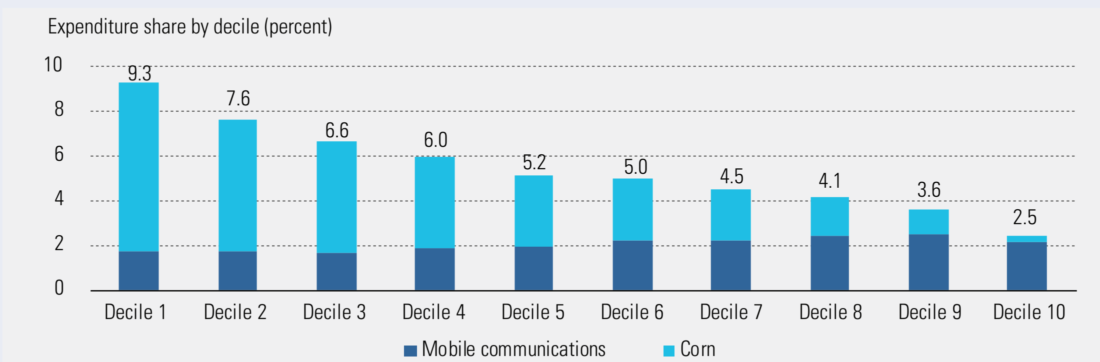
Mexico is well known for its history of monopolies, including Telmex for fixed-line communications (privatized in 1990) and an oligopoly in corn products, an important household staple. Plagued by low productivity and limited innovation that have resulted in high prices for consumers, these monopolies have become an integral part of Mexico's paradoxical growth, leading to an average 98 percent markup in goods across households, according to recent estimates.[3]

One study using the Welfare and Competition tool to simulate the distributional effects of a rise in competition in mobile telecommunications and corn products in Mexico found that increasing competition from 4 to 12 firms in the mobile telecommunications industry and reducing the market share of the oligopoly in corn products from 31.2 percent to 7.8 percent would reduce the poverty headcount by 0.8 percentage point and the Gini coefficient by 0.32 point (box figure 1).[4]

In mobile telecommunications relative gains are fairly evenly distributed across income groups. For corn products a decline in market concentration would benefit households at the bottom of the income distribution more (in relative terms), since they allocate a larger share of their consumption to these products. Corn is especially relevant in the diet for low-income groups in Mexico, therefore, for households in the four lowest deciles, moving from a concentrated market to perfect competition would increase their average income by 1.6–2.9 percent (box figure 2). By contrast, the increase among households in the three highest deciles would be only about 0.4 percent (though the absolute impacts increase in higher income deciles).

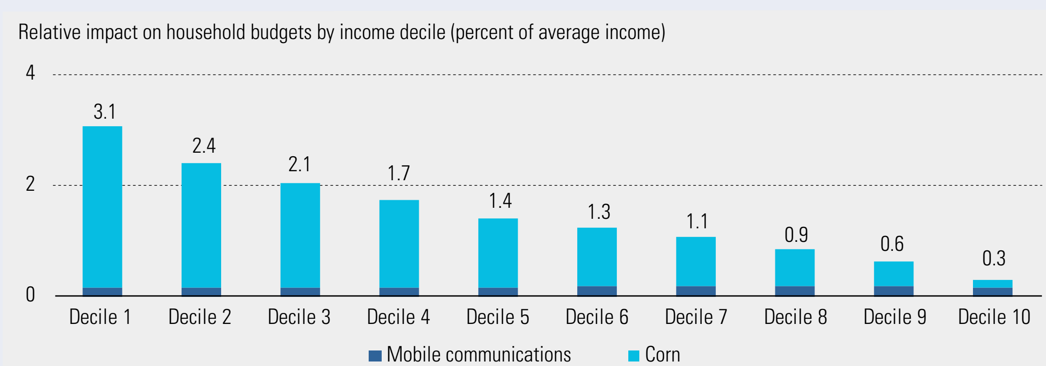
Competition-enhancing policies that reduce concentration in key markets can benefit households. The hypothetical case shows that market concentration in key sectors of the Mexican economy reduces welfare, especially among poor and vulnerable households. Moving towards competitive markets, among the main objectives of the Mexican government, requires removing market imperfections and economic distortions to enhance economic performance.

Box figure 1 Mexico: Expenditure share in mobile communications and corn, by income decile



Note: The simulation relies on the assumption that the mobile telecommunication market behaves as an oligopoly and that corn markets mimic a partial collusive oligopoly. The price elasticity of demand is estimated to be –0.476 for mobile communications and –0.876 for corn products.
Source: Rodríguez-Castelán and others 2019.

Box figure 2 Mexico: Relative impact on household budgets after moving from a concentrated market to perfect competition by income decile



Source: Rodríguez-Castelán and others 2019.

Notes
1. Creedy and Dixon 1998; Urzúa 2013. 2. Atkin, Faber and Gonzalez-Navarro 2018; Busso and Galiani 2019. 3. Aradillas 2018. 4. The reduction in Gini 0.32 point is on a 0–100 scale. See details in Rodríguez-Castelán and others (2019).
Source: Based on Rodríguez-Castelán and others (2019).

BOX 7.7

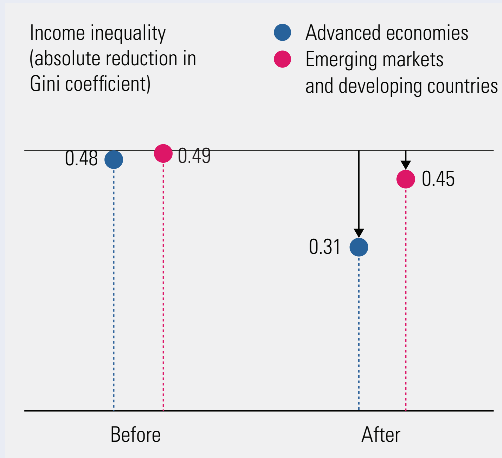
The power of fiscal redistribution

David Coady, Fiscal Affairs Department, International Monetary Fund

Fiscal policy can do much to address inequality in income and opportunity. A comparison of income inequality across advanced and emerging economies shows the redistributive role of direct tax and transfer systems (box figure 1). While direct taxes and transfers in advanced economies reduce the Gini coefficient by 0.17 point (from 0.48 to 0.31), they reduce it much less, by 0.04 (from 0.49 to 0.45), in emerging and developing economies, which include Latin American countries with some of the highest income inequality in the world. So, on average, the redistributive impact of direct income taxes and transfers explains nearly all the difference in disposable income inequality between advanced and emerging economies.

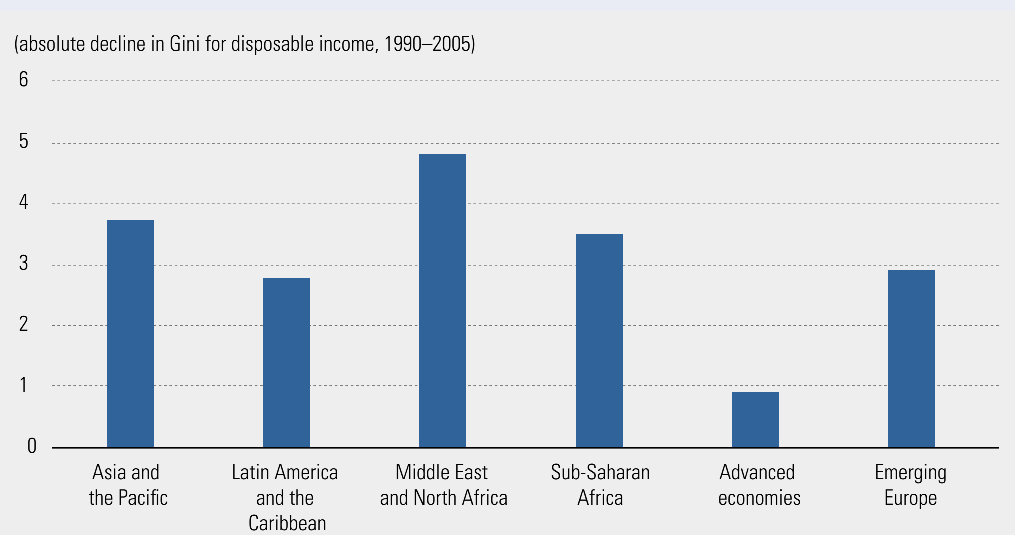
The redistributive reach of fiscal policy is greater when the analysis includes the impact of in-kind public spending on education and health. For instance, rising spending on education has been instrumental in increasing access to education and reducing inequality of education outcomes. As more educated cohorts enter the labour market, income inequality decreases as the inequality of education outcomes falls and the higher human capital stock leads to a reduction in returns to high skills. The decline in education outcome inequality reduced disposable income inequality in emerging and developing economies over 1990–2005 by an estimated 2–5 Gini points on average (box figure 2). In Latin America improved education outcomes have been the dominant factor in recent decreases in income inequality.[1] From an inclusive growth perspective, expanding access to human capital is a win–win prospect.

Box figure 1 Redistributive direct taxes and transfers explain nearly all the difference in disposable income inequality between advanced and emerging economies



Note: Emerging markets and developing economies are Argentina, Armenia, Plurinational State of Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Ethiopia, Georgia, Ghana, Guatemala, Honduras, Indonesia, Islamic Republic of Iran, Jordan, Mexico, Nicaragua, Peru, Russian Federation, South Africa, Sri Lanka, United Republic of Tanzania, Tunisia, Uganda, Uruguay and Bolivarian Republic of Venezuela.
Source: Based on IMF (2017a).

Box figure 2 Absolute decrease in Gini for disposable income due to reduced inequality in education outcomes



Source: Coady and Dizioli 2018.

Note
1. Azevedo, Inchauste and Sanfelice 2013.

health and education services (which consume much more government resources than either direct transfers or pensions). It confirms that fiscal redistribution is a powerful tool to redress income inequality.[116] Net direct taxes and government spending on health and education are always equalizing forces (measured as the marginal contribution to reduce inequality). Even indirect taxes equalize more often than not. The equalizing effect of health and education spending (including tertiary education in some countries) is particularly relevant: Not only are they a more powerful equalizing force, but they also bolster human development capabilities.[117]

The impact of fiscal policies varies considerably across countries. This variation can be explained by differences in the size of the taxes and transfers budget—that is, fiscal effort—and differences in the progressivity of taxes and transfers—that is, fiscal progressivity (see also spotlight 7.3 at the end of the chapter).

From the perspective of fiscal effort, many countries have the scope to increase redistribution by increasing tax revenues

From the perspective of fiscal effort, many countries have the scope to increase redistribution by increasing tax revenues. A recent study on whether (personal income) tax rates are optimal for maximizing revenues, which depends on how responsive revenues are to taxes, found that tax rates were significantly below optimal levels in all the countries examined, implying that they could raise tax rates and still increase revenue.[118] Some studies have also found that the decreasing progressivity of taxation in many countries was not associated with higher economic growth.[119] Hence, all the countries included in the study had room for more redistribution.[120]

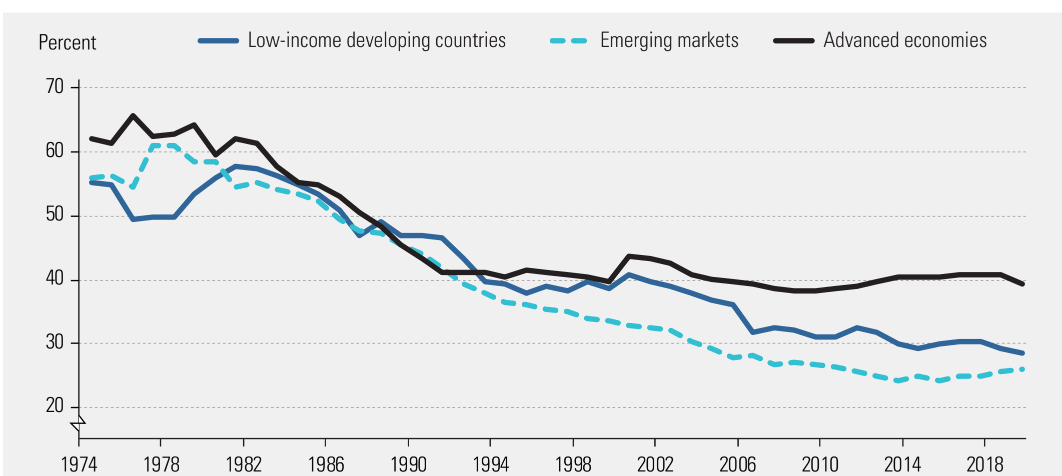
But tax rates have been declining. For example, the top marginal personal income tax rate has tended to decline in both developed and developing countries over the past few decades (figure 7.7). Corporate income taxes have also fallen since 1990, in both developed and developing countries.[121]

Several domestic factors might explain today's low tax rates (chapter 2).[122] And tax competition among countries may also have been a factor, especially for corporate income taxes, as discussed below.

Recent policy debates have returned to taxes on wealth, intended to both raise public revenue and lower inequality (by flattening the wealth gradient and by using the funds raised for public social services expenditure or infrastructure investment). The advantage of taxing wealth, especially real estate, is that it is harder to hide than income, to a point. Wealth taxation is also very progressive due to the very high concentration of wealth at the top. However, the reporting of wealth could fall by as much as an estimated 15 percent in response to such a tax. And of 12 countries with a wealth tax in the 1990s, only 3 (in Europe) still have the measure in place.[123] This is due partly to concerns about efficiency and potential distortive effects on the economy.[124] The OECD recommends a low tax rate targeted at the very wealthy, with few exemptions and the possibility of paying in instalments.[125]

FIGURE 7.7

Top personal income tax rates have declined around the world



Source: International Monetary Fund Fiscal Affairs Department's Tax Policy Reform Database.

However, analysis of progressivity must go beyond the progressivity of individual taxes—or even aggregate taxes. It is not enough to look solely at the progressivity of individual tax rates because fiscal systems are designed with both revenues and expenditures in mind. The progressivity of net transfers is more informative than the progressivity of the individual taxes and transfers. For example, even an efficient but regressive tax—such as a typical value added tax—can be equalizing if it is complemented by transfers that target poor people.[126]

Assessments of fiscal redistribution should thus consider both taxation and spending together.[127] Public policy can also maximize the impact of redistribution through deliberate design of how resources are allocated to different groups in society and to different areas of spending. Fiscal policy should tilt towards greater spending on the lower deciles, through more transfers (both direct and in kind) to the lower deciles or through greater spending on programmes to support disadvantaged groups and communities. Investments in public goods—including the education system, infrastructure, sanitation and security—could also disproportionately benefit people in lower deciles who would otherwise not have access to such services.

Regardless of the type of tax, support for redistribution has strengthened since 1980—at least in OECD countries. The OECD's new Risks that Matter survey asked more than 22,000 people in 21 countries about their perceptions of social and economic risks, how well they think their government addresses those risks and their desired policies and preferences for social protection. In almost all OECD countries more than half the respondents—especially older and low-income ones—think their government should do more for their economic and social security, though this does not necessarily imply support for higher tax rates.[128]

In sum, redistribution can be a powerful instrument to redress inequalities in both income and capabilities. Fiscal effort is one part of this tool. The other side of redistribution is fiscal progressivity, how net transfers are allocated—to whom they are transferred and how and on what public services they are spent on and for whose benefit. Decomposing these two aspects shows great variation—and thus suggests multiple options for countries to consider—in the mix of policies to pursue to redress inequality. What is clear is that the social value of redistribution increases where inequality is higher (see spotlight 7.3 at the end of the chapter).

New principles for international taxation

Globalization and the increased integration of countries have meant more than just increased flows of goods, services, finance and people. Decisions by corporations on how they structure their supply chains can shape investment, production, trade, migration and taxation around the world. Global value chains define modern manufacturing production especially and in recent decades have been accompanied by the distribution of research and development[129] and other segments of the value chain. Multinational corporations distribute activities in cities and countries to take advantage of differences in costs, availability of skills, innovation capabilities and logistical advantages.

Evidence suggests that the domestic spillover of global value chains have contributed to significant gains in productivity and incomes in many economies.[130] There can also be an association with increasing inequality in some developing countries, through the skill premium, and in developed economies, if jobs are displaced.[131] So a more integrated global economy also requires international cooperation and rules to ensure fair play and to avoid a race to the bottom in taxes (particularly corporate income taxes), disclosure and regulations.[132]

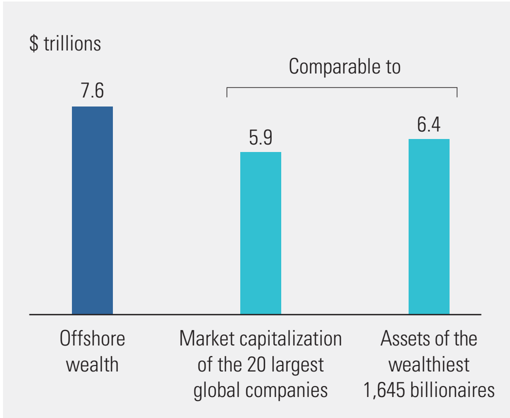
A more integrated global economy also requires international cooperation and rules to ensure fair play and to avoid a race to the bottom in taxes

Thus, international tax cooperation must ensure that transparency is maintained in order to detect and deter tax evasion; that multinational corporations are prevented from shifting profits to no- or low-tax jurisdictions; that countries can get their fair share of taxes, especially with the advent of new digitally intensive business models; and that countries, particularly developing countries, can develop capacities to deal with these challenges.[133]

Wealthy people can use offshore centres to hide their money and reduce their tax burdens. The wealth of individuals in offshore centres in 2014 was an estimated $7.6 trillion, more than the capitalization of the world's 20 largest companies or the accumulated assets of the wealthiest 1,645 people (figure 7.8). In April

FIGURE 7.8

Offshore wealth is bigger than the value of top corporations or of billionaires



Source: Based on Zucman (2015), Forbes and the FT 500.

2016 the Panama Papers offered a glimpse into the extent of the problem. The fiscal cost to national governments has been estimated at more than $190 billion a year.[134]

And because capital is mobile, large multinational corporations often have an advantage over national governments in determining how much and where they pay their taxes. In August 2016 the European Commission determined that the effective corporate tax rate Apple paid was 0.005 percent in fiscal year 2014, thanks to a special tax regime in Ireland, where profits from sales across Europe could be recorded.[135]

In 2015 an estimated 40 percent of the profits of multinational firms globally were attributed to no- or low-tax jurisdictions.[136] In some low-tax jurisdictions, too, government revenues have increased as tax rates have fallen.[137] Where the profits thus attributed are not generated by underlying economic activities, the practice is harmful. In such cases governments in the countries where the underlying economic activities are conducted lose tax revenue. Moreover, the firms are not shifting productive capital—which could raise wages and reduce inequality in the receiving countries—but shifting profits on paper. The benefits to such countries are typically narrowly concentrated.

International tax rules also need to be modified to capture new forms of value creation in the economy

Significant efforts have been made in the last decade to combat tax evasion[138] by wealthy individuals, most notably through the participation of more than 100 jurisdictions in the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum). Besides exchanges of information on request, a significant step towards tax transparency has been achieved through automatic exchange of information frameworks such as the Common Reporting Standard under the Global Forum and the US Foreign Account Tax Compliance Act. The first wave of automatic exchange of information reporting in 2017, and the bulk following in 2018, allowed information on 47 million offshore accounts—with a total value of around €4.9 trillion—to be exchanged for the first time.

Also stepping up is global coordination to combat base erosion and profit shifting by corporates, most notably through the Group of 20–OECD BEPS Project. The project addresses tax avoidance by establishing internationally agreed standards backed by peer review processes to root out harmful tax practices and ensure that profits are taxed where the economic activities giving rise to them are conducted.[139] It includes the review of preferential tax regimes by the Forum on Harmful Tax Practices. Where a regime is assessed by the forum as harmful, the jurisdiction is required to amend or abolish the regime or face being put on blacklists, which could come with punitive consequences. Many jurisdictions have since amended their tax laws in line with the internationally agreed standards under the project.

International collaboration and collective action have thus addressed harmful tax practices and enhanced tax transparency. But more needs to be done. Corporates and wealthy individuals bent on evading or avoiding taxes will continue to exploit loopholes in the current international tax framework. For example, individuals could use residence and citizenship by investment schemes, often referred to as “golden passports,” to avoid disclosure of their offshore assets.[140] Potential tax evaders could also hide wealth in cryptocurrencies and physical assets, which the automatic exchange of information framework does not currently cover.[141] Information exchanges can also be asymmetrical, with jurisdictions collecting more information from overseas on its own taxpayers but sharing little the other way.[142]

International tax rules also need to be modified to capture new forms of value creation in the economy. With digitalization, firms today no longer need to maintain a physical operating presence to sell their goods and services. Business models based on digital networks can also generate value through active and meaningful interactions with a vast consumer or user base. Some take the view that jurisdictions where users are located should be allowed to tax a proportion of those businesses' profits.[143] Discussions at the Group of 20 and OECD have also expanded beyond digitalized business to include broad-based changes to the entire economy to reallocate profits and taxing rights to market jurisdictions.[144]

Any major revisions to international rules on corporate taxation should be shaped by clear principles. A fair playing field is needed to tackle tax avoidance without reducing the incentive for countries to invest in their competitiveness and capabilities for value creation and without losing the substantial efficiency gains brought by global value chains.

Beyond tax rules aimed at new business models, a further option being debated is an across-the-board minimum tax rate.[145] Differential tax rates might also be used to stimulate investments to fight climate change.[146] Developing countries should have an active presence in these definitions. The Inclusive Framework on BEPS is an effort in that direction, but the United Nations remains a far more inclusive forum for these deliberations. The principles of efficiency and equity, from a global perspective this time, must be central in this debate.

Postscript: We have a choice

Big strides have been made in advancing human development and in enhancing capabilities over the past three decades. But progress has been uneven. Large gaps exist between and within countries in how long and how healthily people can expect to live, how much they can learn and how high their overall standard of living can be. Some of the gaps are shrinking, especially in basic capabilities such as life expectancy at birth, access to primary education and basic connectivity through technologies such as mobile phones. But not fast enough: The world in not on track to eradicate basic deprivations by 2030. And in the meantime, gaps in enhanced capabilities are growing—life expectancy at older ages, access to higher education, advanced skills and the use of frontier technologies.

It is possible to reduce inequalities in human development in a sustainable way. Because each country has its own specifics, there is no universal route. While the impacts of climate change and technology are universal, they also vary in how they affect countries. Thus, various elements are needed to design a country-specific path based on a diagnosis of the drivers of inequality along each of the dimensions considered in this Report (and others). Among the array of policies available in each dimension, countries need to choose ones that are most appropriate and politically feasible. Their choices should be driven by a pragmatic view of what could work given their context and institutions. Those at the bottom of the distribution of income or capabilities care about narrowing the difference with those at the top, not about the policy used. So countries need to measure, evaluate and, when needed, adjust.

Much can be done to reduce inequalities in human development. This Report intends to help policymakers and stakeholders everywhere understand the challenges they confront with long-standing and new inequalities in human development—and the options available to address them. There is nothing inevitable in how these inequalities will evolve in the 21st century.

This Report intends to help policymakers and stakeholders everywhere understand the challenges they confront with long-standing and new inequalities in human development—and the options available to address them

Spotlight 7.1

Addressing constraints in social choice

A full-fledged universal system is demanding. Even if resources are available, reducing inequalities in human development is a social choice. Politics and context matter. They have interests and identities. Elements conditioning choices include history and social norms, the prevalence of inequality, and the overall resources available and competing claims on their use.[147] Social norms, in particular, are hard to change.[148] Even with legislation setting equal rights, society might close and open doors selectively. This Report's analysis of gender inequality shows that reactions often become more intense in areas where more power is involved, potentially culminating with a backlash towards the very principles of gender equality (chapter 4). Explicit policies for destigmatization and recognition of low-status groups are relevant to reduce inequalities.[149]

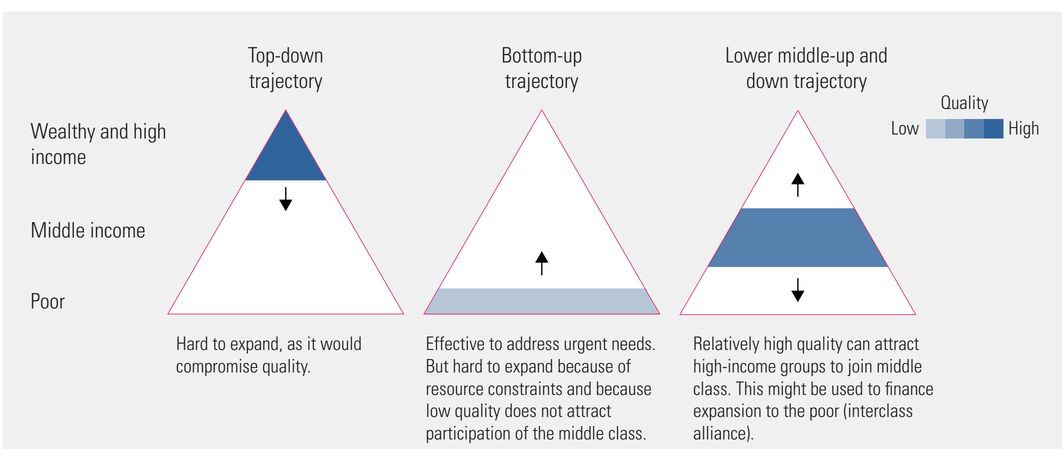
One challenge in several developing countries is how to enhance the existing coverage and quality of services already provided to those at the bottom. In many cases this challenge emerges after targeted programmes, such as conditional cash transfers, have already pushed forward advances in basic capabilities.[150] Those higher up the income ladder may have expanded their access to enhanced capabilities in the meantime. The middle class may be caught in between. What could be the next steps?

Figure S7.1.1 identifies three schematic trajectories for extending both the coverage and the quality of social services, describing some of the political challenges potentially associated with each:

- Top-down extensions of benefits associated with a small formal workforce may be difficult to implement because those already benefiting (at the top) have little incentive to extend services to those below them if they fear that it will reduce quality. Instead, they may press to expand the benefits they already have, even if this requires higher payroll contributions. They often have the resources to opt out.
- Starting from the bottom of the income ladder can also be challenging if the middle class avoids using services perceived as tailored for poor people, preferring to use market options instead. The upper middle class can also oppose financing services that benefit other groups.
- Starting with a unified system that initially covers nonpoor but vulnerable individuals such as formal workers with low wages, policies can then be expanded upward and downward, as long as there is an emphasis on quality (thus providing incentives for high-income individuals to participate, while

FIGURE S7.1.1

Strategies for practical universalism in (unequal) developing countries



Source: Human Development Report Office, based on the discussion in Martínez and Sánchez-Ancochea (2016).

allowing expansions to poor people). This approach, successful in Costa Rica, reduces the risk of creating different programmes for poor and nonpoor people.

In the end the road to universalism may depend on a combination of the three trajectories, specific to each context. For instance, countries where social insurance reaches less than 20 percent of the population require a very different policy trajectory from those where social insurance reaches more than 60 percent. Building broad support requires that revenues be generated from a diversity of sources, including copayments for those who can afford them, payroll contributions (depending on the proportion of formal workers) and general taxes. In countries with deep horizontal inequalities, it is also important to create stakeholders in different communities and to avoid the identification of services with specific groups.

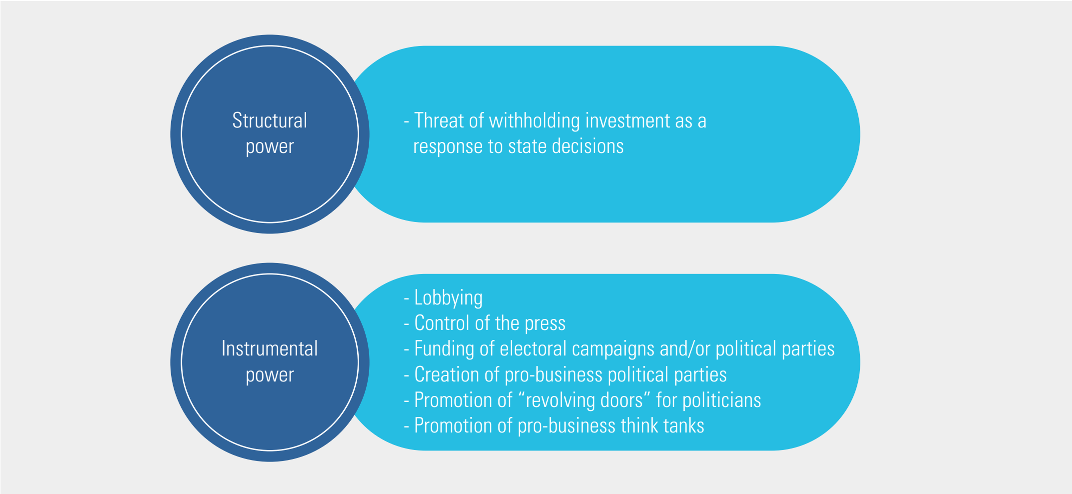
In developed countries the challenge may be to keep social policies that provide enhanced capabilities to the broadest base. Those systems are sustainable to the extent that they work for most of the population, and particularly for the middle classes. That has been eroded recently in some OECD countries, where the middle class perceives itself as progressively left behind in real income, affordable access to quality education and health, and security.[151]

In developing countries the challenge is to solidify social policies for a still vulnerable middle class. In Latin America there is evidence that the middle class pays more than it receives in social services. That, coupled with perceptions of low-quality education and health services, feeds resistance to further expanding social policies.[152] One consequence is the preference for private providers: The share of students going to private school for primary education in Latin America rose from 12 percent in 1990 to 19 percent in 2014.[153] The larger the share of the private sector, the larger the segmentation in social services for different groups.[154] A natural response would be to add resources from those at the top. But those groups, while a minority, have often been an obstacle to expanding universal services, using their economic and political power through structural and instrumental mechanisms (figure S7.1.2).[155]

What to do about all this? Overcoming a narrative of tradeoffs between efficiency and redistribution would be a first important step because gains in equality in human development and productivity can march together under some policies. Strengthening the capacity and autonomy of the state to reduce the ability to turn economic power into political power could also help—through transparency, promotion of a free independent press and opening of space for a range of actors to act and engage in productive social dialogue.[156]

FIGURE S7.1.2

Power of the economic elite and action mechanisms



Note: "Structural power" comes from the elite's control of business decisions and its influence on investment—and economic growth. "Instrumental power" refers to the private sector's active engagement in the political process through lobbying, publicity, and other tools that many other members of society may not have.
Source: Adapted from Martinez and Sánchez-Ancochea (2019), based on Fairfield (2015) and Schiappacase (2019).

BOX S7.1.1

Being right is not enough: Reducing inequality needs a movement from below

Ben Phillips,
author of the forthcoming book
How to Fight Inequality *(Polity Press, October 2020)*

It is a remarkable achievement. Just a few years ago there was no consensus that inequality needed to be tackled. Now inequality is recognized as harmful and dangerous by mainstream economists, the International Monetary Fund, the Organisation for Economic Co-operation and Development and the World Bank. And all governments have, in adopting the Sustainable Development Goals, pledged to reduce inequality.

But winning on words has not meant winning on action. Inequalities continue to worsen, and the broad thrust of government action is at best insufficient to address them. The mainstream consensus has shifted to recognize the inequality crisis without a sufficient shift in action. The problem in beating inequality is not being unsure of what needs to be done; it is not gathering the collective power to overcome those stopping it.

Some leaders made commitments to tackle inequality without a determined intention to implement them, but even when leaders are more inclined to effect change, they cannot act without the wind at their back that ordinary people, when organized, can give them. Remember the story of US President Lyndon Johnson telling Martin Luther King, Jr., "I know what I have to do, but you have to make me do it." Politicians are under so much pressure from the ever more powerful 1 percent that even the best-intentioned ones need pressure.

Inequality is so hard to break because it is a vicious cycle. The power imbalance that comes with the concentration of wealth—and its interaction with politics, economics, society and narrative—enables the further concentration of wealth and a worsened power imbalance. The imbalance of power is what matters for fixing the injustice. As history shows—in the birth of the European welfare state, the US New Deal and Great Society, free education in Kenya, the National Rural Employment Guarantee Act in India, free HIV medicines in South Africa and the declines in inequality in Latin America in the early 21st century—the momentum for action to tackle inequality requires pressure from below.

How can inequality be beaten again? Three key lessons stand out from research and observation.

Overcome deference

The first lesson is to overcome deference. John Lewis, who helped lead the US civil rights movement, describes how, as a child, he was urged by his mother, "Don't get in the way; don't get in trouble." But as a teenager, inspired by activists fighting inequality, he realized that making change required him to "get in trouble, good trouble, necessary trouble." So too with South Africa's Treatment Action Campaign for access to antiretroviral medicines, the Gambia's Has Decided movement to ensure that the loser of the election there stood down as promised and Bolivia's landless workers, who demanded access to land. All were treated as troublemakers before they were recognized for prompting needed change. So too were the suffragettes, who struggled for women's right to vote. Resistance does not always work, but acceptance never works. And no one gets to initiate major social shifts without being criticized—that is part of the journey to greater equality.

Build collective power

The second lesson is to build collective power by organizing. As the saying goes, "There is no justice, just us." But "just us"—organized—is powerful. Jay Naidoo, who led the trade union movement that helped bring down apartheid in South Africa, emphasized that "power is built at the grassroots, village by village, street by street." Organizing is not just about marches. It is about the whole process, about what happens between the most visible moments. It is about people forming groups so they can be strong enough to act and be harder to ignore, suppress or exploit because they have collective power. In Nepal the Mahila Adhikar Manch, a grassroots women's movement, started as community- and district-level women's forums, organizing local campaigns on violence against women. After six years of grassroots actions, community leaders came together for two days' deliberations and formed a national secretariat. Since then Mahila Adhikar Manch has grown to be a membership-based organization that has spread to more than 30 districts with 50,000 members.

Old divides across groups need to be broken down to form a winning coalition. The Usawa ("equality") Festival in Nairobi deliberately brings together rural and urban, young and old of all communities in a common celebration and planning process, because only by breaking down barriers and building community can it build the unity needed for change. So too the dividing line between unions and social movements has never been wide when they have been at their most effective. The movement in El Salvador to protect water as a public good has been effective, its leaders note, only because it brought together such a broad range of the church, social movements, academics, resident groups and non-governmental organizations—a narrower coalition would not have been strong enough to win. William Barber II calls these movements "fusion coalitions" because their power comes from bringing so many different groups together.

Build a new story

The third lesson is to build a new story of society. Previous victories against inequality built one, and a new one is needed again. Such a new story will not be built in policy papers. The Mexican social movement secured the passing of a labour law reform, ensuring domestic workers access to social security and the right to paid holidays, due in part to the popularity of the movie Roma, which has no explicit policy message but moved millions to understand with greater empathy the likes of domestic workers. Similarly, a new narrative is needed to shift from the old Millennium Development Goals to the new Sustainable Development Goals, which embody a new vision of mutuality. But it requires a new narrative to bring it alive. Possible parts of the story might assert that a good society is about the values we want to live by and the relationships we want to have, that we need a ceiling as well as a floor and that our society and economy are something we build together. In Laudato Si Pope Francis set out a vision of community over competition, dignity over materialism.

The shift in recognizing the problem of inequality and the formal commitment to tackle it have been necessary but insufficient conditions for tackling inequality. Likewise, analysis of the trends and impacts of inequality and policy advice on how to tackle it are vitally important but not enough. The one generalizable lesson of social change seems to be that no one saves others; people liberate themselves by standing together. Change can be slow, and it is always complicated and sometimes fails—but it is the only way it works. Change is not given; it is won. By overcoming deference, building collective power and building a new story, inequality can beat inequality.

Spotlight 7.2

Productivity and equity while ensuring environmental sustainability

The analysis in this chapter assumes room for economic growth along pathways that combine equity and increases in productivity. But over the next decades countries will face demands for different patterns of development to keep global warming below 2°C.[1]

So countries may need to recalibrate the tools used to promote both equity and productivity in a more sustainable way, and new opportunities may lay therein.[2] The question is how to make room for the expansion of productivity in a way that does not destroy the planet. The consensus expressed by the Intergovernmental Panel on Climate Change is that the world needs to decarbonize the economy, reaching net zero emissions by mid-century.[3] This requires a shift in patterns of consumption, employment and production and in the structure of government taxes and transfers, with significant implications for the distribution of income and human development.

Take, for instance, carbon prices—either through a carbon tax or a market-based emissions trading scheme. By raising the relative price of carbon-emitting activities to better reflect the social damages of carbon, incentives to produce less carbon would be in place. The United States pioneered successful market-based trading schemes for some pollutants, notably sulphur dioxide, nitrogen oxides and leaded gasoline.[4] The largest emissions trading scheme for carbon is the European Union Emission Trading Scheme, but other jurisdictions are either planning or considering carbon pricing as a way to meet their commitments under the Paris Agreement of the United Nations Framework Convention on Climate Change, which represents 55 percent of greenhouse gas emissions.[5] Still, only about 20 percent of global greenhouse gas emissions are covered by one of the 57 carbon pricing initiatives either in operation or scheduled for implementation.[6] Administered across 46 national and 28 subnational jurisdictions, these initiatives generated approximately $44 billion in 2018, up $11 billion from 2017.[7] Carbon prices vary widely, from less than $1 per tonne of carbon dioxide equivalent to $127.[8] Only 5 percent of greenhouse gas emissions are covered by a carbon price considered high enough to achieve the goals of the Paris Agreement.[9] About half of emissions covered by carbon pricing are priced at less than $10 per tonne of carbon dioxide equivalent, well below what is considered necessary to fight climate change.[10]

Raising the price of carbon, seen in isolation, may be considered regressive since poor people generally spend a greater share of their income on energy-intensive goods and services than rich people do.[11] Some research paints a more nuanced picture: an inverse U-shape relationship between energy expenditure share and income, leading to suggestions that carbon pricing can, on average, be regressive for countries with an income per capita above roughly $15,000 but progressive for poorer countries.[12] However, the inequality impact of fiscal redistribution measures should not be seen as piecemeal and isolated from how the collected funds are to be used and how the incidence of taxes is implemented, as discussed in chapter 7. Nothing mechanical determines that pricing carbon must be regressive.

Carbon pricing can, for instance, reduce inequality if the revenues from a carbon tax are returned to taxpayers according to a budget-neutral concept called revenue recycling. One study in the United States showed that if just 11 percent of revenues were returned to the bottom income quintile, those households would not be worse off on average.[13] The fiscal transfer could be increased, either through cash transfers or tax credits, to reduce inequality as carbon emissions fell. Reductions in energy subsidies function similarly to the introduction of a carbon tax because both increase the price of fossil fuels. A study in India showed that phasing out energy subsidies and returning the government savings to people in the form of a universal basic income would be progressive, significantly benefiting the poorest, who typically spend far less on energy than the richest do.[14]

Where ambitious emission reduction targets are set, carbon pricing can generate sustained revenues over decades that could also be spent on other important areas, such as health and education.[15] And to the extent that those investments disproportionately benefit poor and vulnerable people, inequality in human development could also decline. Some revenue recycling options reduce inequalities more than others.[16] So carbon pricing using equity-promoting revenue recycling options could be a triple win: a way to reduce carbon emissions, reduce or avoid climate-related inequalities and reduce other inequalities in human development.

Where opportunities for equity-promoting revenue recycling face real-world constraints, some have argued for alternatives, such as establishing sector-specific carbon prices supplemented by regulation and public investments.[17] If higher carbon prices can be assigned to different sectors or to different products and uses where the rich tend to spend, lower carbon prices can be set in areas where poor people spend differentially. For a given emissions reductions target a portfolio of differentiated carbon prices, direct regulation and investment means those with higher incomes will ex ante bear more of the costs of compliance. Such approaches can alleviate some of the undesirable distributional impacts of a single carbon price, especially where the ability to address distributional concerns ex post are limited.

The other side of the adjustment is in production and employment. A drastic reduction in fossil fuels implies the progressive reduction of jobs in those sectors. An International Labour Organization study projected scenarios of decarbonization consistent with limiting global warming to 2°C (over preindustrial levels). It found that the net effect on employment by 2030 would be positive, with 24 million jobs created and 6 million jobs lost. Going beyond the averages also applies to policies: Even if the world is better off in employment, the gains and losses are not equally distributed, and some communities will be more affected than others. The management of that dynamic can be very consequential for human development and for the political sustainability of the process.[18]

Notes

1 Some even argue that economic growth objectives may not be consistent with keeping global warming below 2°C (Hickel 2019).
2 As proposed, for instance, by advocates of strategies such as "green new deals." See UNCTAD (2019) as well as the work of the New Economy Commission. See also Rodrik (2007).
3 IPCC 2018.
4 Newell and Rogers 2003.
5 World Bank 2019d.
6 World Bank 2019d.
7 World Bank 2019d.
8 World Bank 2019d.
9 World Bank 2019d.
10 World Bank 2019d.
11 Grainger and Kolstad 2010.
12 Dorband and others 2019.
13 Mathur and Morris 2012.
14 Coady and Prady 2018.
15 Jakob and others 2019.
16 Klenert and others 2018.
17 Stern and Stiglitz 2017; Stiglitz 2019a.
18 See discussion on the management of phasing out jobs in chapter 5 of UNDP (2015).

Spotlight 7.3

Variation in the redistributive impact of direct taxes and transfers in Europe

David Coady, Fiscal Affairs Department, International Monetary Fund

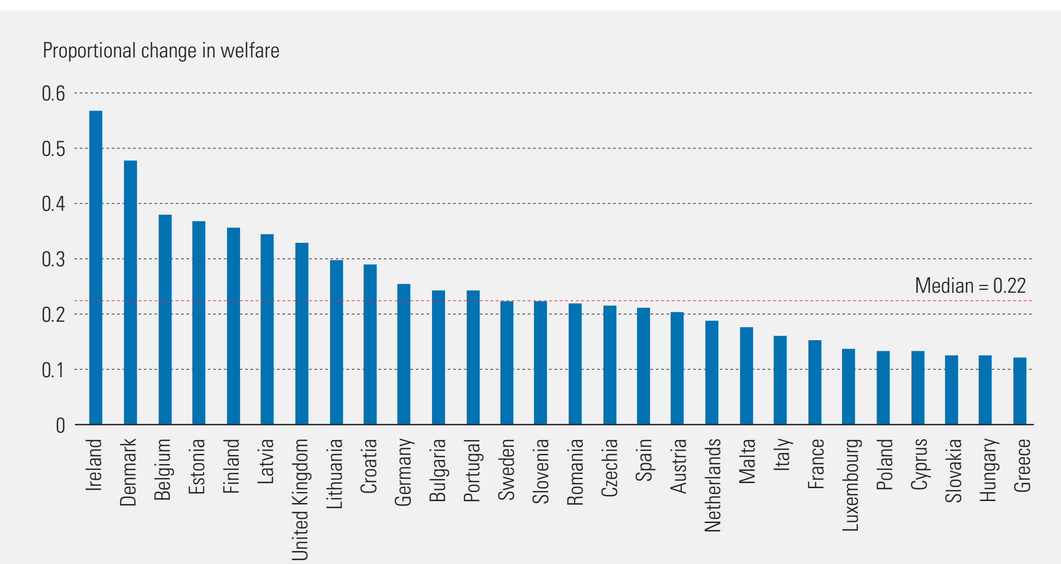
While the redistributive impact of direct income taxes and transfers in European countries is large, so is the variation in the extent of fiscal redistribution across countries. Euromod data for 28 EU countries in 2016 shows that the social welfare[1] impact of redistributive fiscal policy (the extent of fiscal redistribution) is highest (above 35 percent) in Ireland, Denmark, Belgium, Estonia and Finland and lowest (below 13 percent) in Greece, Hungary, Slovakia and Cyprus (figure 7.3.1).

This variation can be explained by differences in the size of the tax and transfer budget—fiscal effort—and difference in the progressivity of taxes and transfers—fiscal progressivity. On average, countries with higher fiscal effort have lower fiscal progressivity (figure 7.3.2). For instance, while Greece, Italy and Hungary have relatively high fiscal effort, this is offset by their relatively low fiscal progressivity, resulting in relatively low overall fiscal redistribution. By contrast, while Ireland, Denmark, Estonia and Latvia have relatively low fiscal effort, this is offset by relatively high fiscal progressivity, resulting in relatively high overall fiscal redistribution. The relatively low fiscal redistribution in Cyprus and Slovakia reflects the combination of low fiscal effort and low fiscal progressivity. The relatively high fiscal redistribution in Finland reflects the combination of high progressivity and fiscal effort.

High progressivity can reflect either of two factors, or a combination. First, high progressivity may reflect a high share of net transfers going to lower income deciles—high targeting performance. Second, high progressivity can reflect high market (pre–taxes and transfers) income inequality[2]—high targeting returns, that is, redistribution has a high social return where market income inequality is high. So even when countries have the exact same tax and transfer policies in terms of fiscal effort and targeting performance—for example, where every

FIGURE S7.3.1

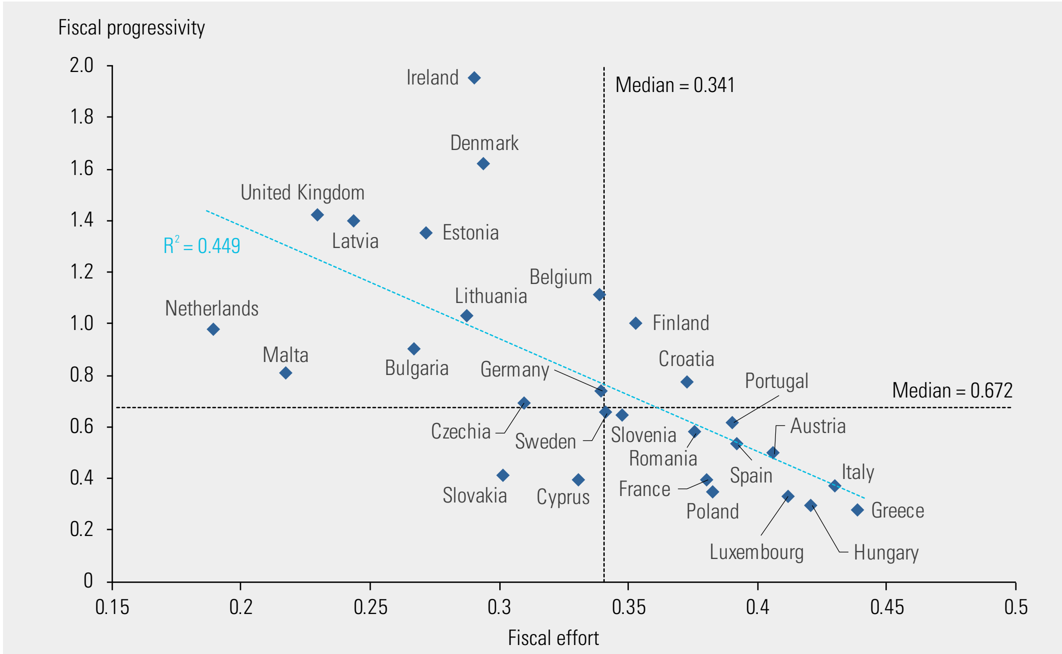
Fiscal redistribution in European countries, 2016



Note: The proportional change in social welfare is the product of fiscal progressivity and fiscal effort.
Source: Coady, D'Angelo and Evans 2019.

FIGURE S7.3.2

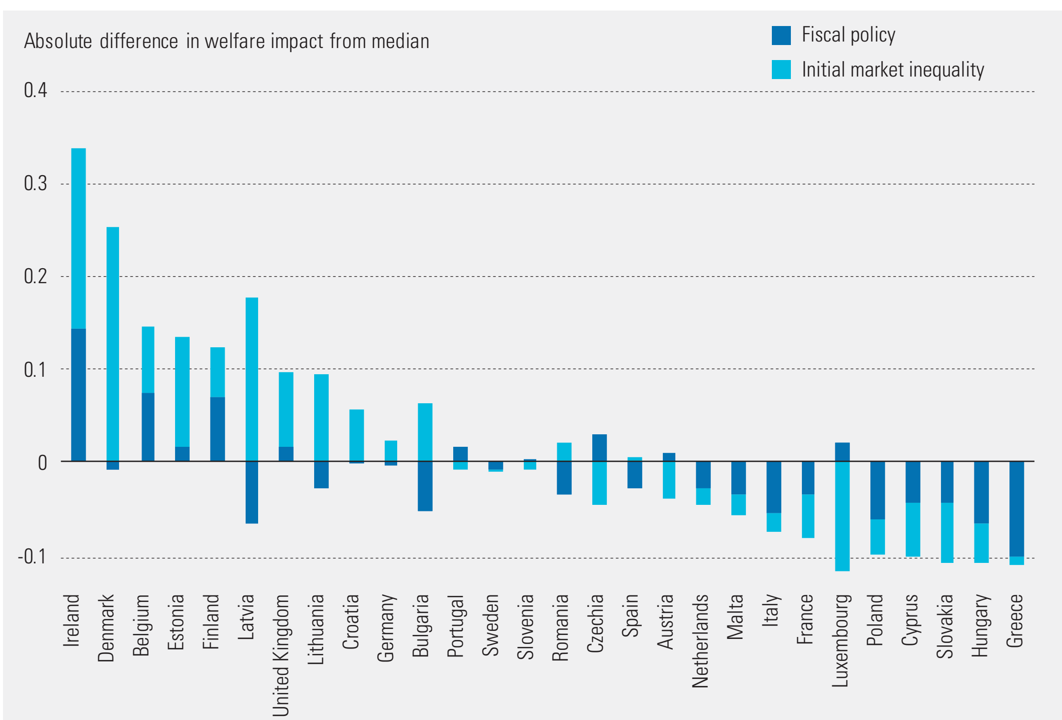
Fiscal progressivity and fiscal effort in European countries, 2016



Source: Coady, D'Angelo and Evans 2019.

FIGURE S7.3.3

Market income inequality and variation in fiscal redistribution



Note: Countries are ordered by extent of fiscal redistribution from figure S7.3.1. Fiscal policy is the combined impact of fiscal effort and targeting performance. Initial market inequality captures the impact of differences in targeting returns due to differences in pre–tax and transfer income inequality. Differences are relative to a reference country with median values for fiscal policy and targeting returns.
Source: Coady, D'Angelo and Evans 2019.

country has the same transfer budget used to finance a uniform transfer—there can still be substantial differences in fiscal redistribution across countries, reflecting solely differences in market income inequality. On average, 37 percent of the differences in fiscal redistribution across countries in figure S7.3.1 is due to differences in the inequality of market income. Overall, high fiscal redistribution—countries to the left in figure S7.3.3—is driven predominantly by high targeting returns, reflecting high market income inequality, rather than by differences in underlying fiscal policies. This is particularly so for Denmark, Estonia, Latvia and Lithuania.

Notes

1 Derived using constant elasticity social welfare functions in which an indicator of inequality can be interpreted as the social welfare cost of disparities in income distribution.

2 Since there is very little social benefit from redistributing income in countries where incomes before taxes and transfers (that is, market incomes) vary little across households, it is possible that a country with relatively high fiscal effort and targeting performance can still have low fiscal redistribution because it has low market income inequality. Conversely, is it also possible that a country with low fiscal effort and targeting performance can have high fiscal redistribution simply because it has high market income inequality.