Raphaël Jozan
AFD (Agence française de développement), Paris, France

Tancrède Voituriez
IDDRI (Institute for Sustainable Development and International Relations), France

Reducing Inequalties: A Sustainable Development Challenge

What is the state of inequalities worldwide?

Is the world increasingly unequal? Are the rich getting richer and the poor poorer? Inequalities mobilize citizens more today than they did twenty years ago, fuelling protests by activist groups such as Occupy, the 99%, or the Indignant, to cite just a few. Such critics oppose and rebel against an unfair distribution of globalization's costs and benefits – especially as the lion's share of the latter goes first and foremost to the richest.

To truly understand how inequalities have evolved, we must first distinguish between gaps in living standards *among* countries and those *within* a country. Both inequality types have seen great reversals that mark a historic change for humanity (**Pedro Ramos Pinto, Chapter 1**). The first is the reversal of a secular trend that fostered ever-larger *regional* income gaps, which had reached extremely high levels at the end of the twentieth century. The new geography of growth has displaced the world's economic centre of gravity from the West to the East, ending what the head of the World Bank's research department, Branko Milanovic, calls the "great divergence"[1]. The spectacular growth of emerging countries has reduced, on average, income inequality between countries. In addition, a significant reduction in absolute poverty has accompanied this growth. Twenty years ago, people lived twenty times better in Western Europe than in China; that

1. Milanovic, B., 2009, "Global inequality and the global inequality extraction ratio: the story of the past two centuries." World Bank Policy Research Working Paper Series, no. 5061.

gap has been halved. During the same period, more than 500 million people have escaped poverty. These trends fuel a guarded optimism, especially about Africa; many observers view the emergence of a middle class in Africa as a lever for inclusive and democratic development[2].

At the same time, a second reversal saw a major breakdown in developed countries, with inequalities increasing *within* many countries. In Europe and North America, a very long period of contraction in income inequality certainly helped maintain the illusion that societies had automatically moved toward reduced inequality. However, Europe has entered a protracted phase in which inequalities have increased because of slack economic growth; this greatly favours inherited capital, raising the spectre of a resurgence of a rentier society some thought had vanished (**Piketty, Chapter 2**). This problem has arisen in developed countries as diverse as France, the United Kingdom, Japan and Germany. An implacable arithmetic tallies the increases in income inequality as the rate of return on capital exceeds the pace of economic growth, threatening all European countries, even the most egalitarian ones, such as Sweden. In the United States, income inequality has reached heights not seen in a century.

Does globalization drive the inexorable rise of inequalities worldwide? A historical comparison of inter-country and intra-country inequalities shows a far more complex relationship between inequalities and globalization, one at odds with the overly-simplistic view of a world that is increasingly unequal. The entrance of nearly one billion unskilled Chinese and Indian workers into the global labour market has certainly led to changes in pay scales and the delocalization of production chains to Asia. In addition, technological advances, growth of corporations, and the structural changes in value-chains have principally benefited capital, not labour, increasing and concentrating profits. That said, over the last ten years globalization has also helped reduce inequality levels at the international level, driving the convergence of countries' average income (**Bourguignon, Chapter 4**). This convergence remains fragile and unequal, particularly among the least-developed countries.

Inequality and unsustainable development trajectories

Inequalities have never achieved a central place in development cooperation strategies, despite pressure from some countries, particularly France (**Tomasi, Radar 4**). Poverty alleviation and human development have taken priority since the turn of the century. Can inequalities take centre stage in the development agenda today? And why consider inequalities a collective-action problem whose solution requires cooperation within and between countries?

First of all, despite the reduction in national income gaps worldwide – particularly between emerging and developed countries – large gaps remain; growth rates will not easily erase these gaps for several decades. Taken globally, the measurable

2. See, for example, a 2009 report published by the African Development Bank: *The Middle of the Pyramid: Dynamics of the Middle Class in Africa*. Tunis: AfDB.

decrease in inequalities between countries, and their increase within countries, stems from China's population share and the high concentration of wealth among its rich (**Pinto, Chapter 1**). Much of humanity remains trapped in poverty. Emerging countries have become more unequal over time, despite their diversity in economic size, population, per-capita income and growth rate. Brazil and Indonesia have escaped this trend, but their levels of inequality nevertheless remain very high, as do those in China (**Cook and Dong, Radar 11**), in India (**Bouver, Radar 12**) and South Africa (**Giordano, Radar 10**). Countering the oft-expressed enthusiasm about the African middle class, Pierre Jacquemot's meta-analysis on studies on sub-Saharan Africa **(Radar 9**) notes that social inequalities generally deepen despite the emergence of middle classes; traditional social ties disintegrate without public action to reshape or "modernize" them.

Second, a growing number of economists and institutions also see a positive link between reducing inequalities and increasing the capacity for sustained and stable long-term growth. Equality may well be an important ingredient in promoting and sustaining growth, particularly over the medium and long term, making economies more resilient (**Berg, Ostry, Radar 4bis**). By contrast, the growth of inequalities contributes to economic crises; two economists from the International Monetary Fund, Andrew Berg and Jonathan Ostry (**Radar 4bis**) highlight the role that American inequalities played in igniting the global financial crisis five years ago[3]. We now see social cohesion emerging as a critical objective for governments, as expressed in the *2012 OECD World Development Perspective: Social Cohesion in a Shifting World* report. In and of themselves, improvements to living standards, health and education do not necessarily translate into greater satisfaction among the populace. The 2010 anti-government protests in Thailand and the 2011 overthrow of Ben Ali in Tunisia demanded more fairness, beyond more just income distributions. Inequalities incorporate far more complex mechanisms than simple income distribution: far upstream from income inequality, we find unequal access to productive resources, education, credit, justice, employment and/or government decisions. These various forms of inequality play a critical role, combining and reinforcing each other, segregating social groups and regions.

Inequalities and development: a changing paradigm

In **Chapter 4**, François Bourguignon, former World Bank chief economist and a major scholar of the relationship between growth and equality, describes how in academic circles from the 1950s to present, debates about inequality, growth and poverty and their interconnections have shaped national policies and development organization strategies. His history of economic ideas reveals that the growth paradigm has changed over the past twenty years, with a progressively greater focus on a key issue

3. In recent decades, the growth of inequalities in the United States resembles that of the 1920s, marked then as now by a boom in the financial sector, heavy borrowing by the poor and relatively insolvent, and the devastating financial crisis that followed.