INEQUALITY AND MULTILATERALISM[1]

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I would like to adopt a different approach in my remarks this afternoon than my other panelists. My starting point is that it is the prime responsibility of the national governments to tackle the issues of inequality . I would therefore share with you our present empirical understanding about the relationship between economic growth and inequality. I would then survey the current scene of multilateralism and globalization to infer if this is conducive or helpful to national strategies.

First, What are the lessons we have learnt so far about inequality? Unlike Poverty where a lot of theoretical, cross country and country specific empirical evidence shows that by and large rapid growth does result in poverty reduction the literature and evidence about the relationship between growth and income inequality has remained inconclusive. We can find countries such as Brazil which started with high Gini coefficients and was considered after Albert Fishlow's classic paper as an epitome of high inequality have been successful in reducing inequality under Cardoso and Lula regimes but we also find fairly egalitarian societies such as China and India recording rapid growth but have been hit at the same time by higher inequalities. Both these countries have been successful, China more so, in lifting hundreds of million of poor people out of poverty but the rising trends of dollar billionaires and millionaires whose cumulative incomes exceed the total income of bottom 20 percent of the population are indeed worrisome. . I am also surprised that the most dynamic region in the world i.e. Asia and Pacific has seen the largest increase in the average Gini coefficient in the last twenty five years. South Asia region is additionally characterized by stark gender disparities with low female participation in labour force, limited access to public services and low social status of women.

In my view the SDGs should have taken up Inequality as an overarching theme for 2030 like the MDGs had successfully taken up Poverty reduction as the central theme. All other subsidiary goals that made highest contribution towards mitigating inequality should have been given priority in resource allocation and policy reforms. But the flexibility provided to individual countries in the implementation of these goals should still permit focused attention on attaining this particular objective.

Although initial conditions, country's resource endowments and policy and institutional arrangements would affect the choices of instruments and types of interventions we can draw some broad lessons from the experience of those countries which have had significant success in providing equality of opportunity to its citizens to improve their living standards. The major burden still lies on national strategies for combatting this menace. Those countries who have linked up the production structure and the social welfare system have had witnessed better outcomes. Production, Distribution and Exchange remains driven by market forces and competition produce most efficient allocation of resources. But as markets only favor those who possess assets—land, capital and skills—and leave others behind , a strong and effective state redistributes some of these incomes among the poor and less well endowed

[1] Remarks made at the panel on " Inequality and Multilateralism" at the High level Ministerial segment of the Seventy fourth session of the Economic and Social Commission of Asia and Pacific (ESCAP) held at Bangkok on May 15, 2018

segments of the population through a combination of Progressive taxation , arresting evasion of taxes, limiting tax incentives , provision of public goods, targeted social sector spending and social transfers. Increased ridership of public transport, incentivizing utilization of suitable education and public health services by the poor enhances Social cohesion – a broader sense of belonging to society. Increased stratification of society characterized by huge gaps in the access, quality and timeliness of basic services creates dissatisfaction, mistrust of the state and feeling of deprivation among a large segment of the population. The deprived witness at the same time privileged access to natural resources, appropriation of public rents or quasi rents by actors with greater economic and political power and control of state institutions by these actors. Extensive fiscal exemptions. Evasion and low efficiency of tax collection . absence of inheritance taxes thus create limited redistributive impact. One of the contributory factors to reduction in inequality in Brazil was the increased expenditure on social sectors as well as conditional cash transfer to those living below the poverty line. Empirical studies show that Educational achievements of children in developing countries are determined by those of their parents. They go to the kind of schools and colleges their parents had attended.” Educational segregation serves as a mechanism for social isolation and differentiation in networks of relationships. This reinforces class endogamy in higher income sector which in turn reproduces a system of inheritances and privileges.” Intergenerational inequality can be tackled if the children from the poor families are provided the same opportunities for education and skill acquisition as those from the rich families. Stipends, Scholarships, Interest free loans, Voucher schemes have proved to do the trick in many circumstances .As entrepreneurial energies are unleashed by competitive forces higher per capita incomes and therefore larger intake of tax revenues allow the scope to boost social spending and afford social protection .

These national policies have to be accompanied by international economic cooperation derived through bilateral and multilateral agencies . If we scan and survey the global scene and the current status of multilateralism we do not find much support or synergies between the two i.e national priorities and multilateral policy stance. Official Development Assistance that played a major part in helping the developing countries since 1960s has now become insignificant. Except a few Nordic countries the target of 0.7 percent of GDP as official aid has not been met by any large developed country. Countries such as Canada and Australia have merged their independent aid agencies into the Ministry of Foreign Affairs . The top recipients of US aid such as Israel ,Egypt, Iraq and Afghanistan have not been rewarded for the progress they have demonstrated in poverty reduction or tackling inequality but for other extraneous considerations. Multilateral institutions such as IMF, World Bank, Regional Development Banks are continuously striving to recarve out their space in light of lingering threat of inadequate capital availability and relevance.

During 1990-2008 world trade growth was twice as fast as world output growth helping a large number of developing countries in lifting millions out of poverty. Since the global economic crisis of 2008 world trade has lagged behind its historical rate. Trade liberalization which enlarged the market for developing countries to sell their goods beyond their national borders has slowed down. Protectionism and “Made in the country” policies are being practiced by the countries who once championed and persuaded other recalcitrant countries to the advantages of open economy . These champions are actually giving wrong signals to those aspiring to improve their lot by accessing much larger markets than their own. Doha

Round of Development has stalled and the role of the focal organization for multilateral trade i.e. WTO is becoming questionable more and more. The prospects of world trade as engine of growth appear bleak at present.

Private financial flows particularly Foreign Direct Investment (FDI)also played a big part in providing a stable source of finance relaxing the capital constraint faced by developing countries. These flows are also now becoming more volatile and depend on the monetary policy stances of the Central Banks in the West. Taper Tantrum of 2013 showed us the darker side of global financial integration whereby the developing countries were faced with a sudden and unanticipated shock of capital outflows in light of the rising interest rate scenario announced by the Fed Reserve. The monetary authorities of the developing countries lost control of key variables such as interest rate and exchange rate. As the Central Banks in the US and EU move towards a more normal monetary policy stance phasing out the Quantitative easing the investors would be looking for flight to safety as well as higher returns possibly resulting in greater volatility and reduced availability to developing countries. FDI is becoming concentrated in commodity, mineral producing and high performing countries. The possibility that FDI may extend its reach more broadly does not appear strong.

One of the positive aspects of globalization and opening up of economies in so far as alleviating poverty and mitigating inequality was concerned has been increased migration from developing countries to the more advanced countries in North America, EU, GCC and Australia etc. Remittances sent by the workers to their families back home have become a major source of foreign exchange earnings for the recipient countries as well as for creating assets including education and skills for the hitherto deprived families. Unemployment rates have moderated as the migrant workers act as a safety valve. The recent trends in the Western countries with the rise of anti immigrant right wing nationalist parties and the indigenization of labour force in countries such as Saudi Arabia do not augur well for the future absorption of these migrants. Even economically distressed refugees from conflict ridden countries such as Syria and Libya are being turned away negating the long cherished practice of providing humanitarian assistance with open arms. The US—a country which has been a beneficiary of immigration both at the lower end by filling in the gap in the availability of manual labour and by attracting the best talent from the rest of the world at the high end has now adopted quite a stringent policy against immigration. Therefore the prospects of mobility of labour which should have taken place as a matter of economic compulsion in countries with aging populations also do not look promising.

Looking forward we find ourselves engulfed by disruptive technologies and the restructuring of the world of work which are creating more informality in the labour markets and thus stifling the impact of national policies. Occupational restructuring and jobless ness in the wake of high growth poses a serious challenge for social protection and its financing. Youthful population in South Asia and Africa would have to train equip themselves with skills that make them employable in a continuing stream of job redundancies, new job creation and reskilling.

To conclude, the challenges for national strategies to tackle income, gender and regional inequality are becoming tough but the external support mechanism provided by multilateralism and globalization is proving equally onerous. The spectacular record of MDGs in achieving the goal of reducing poverty by half by 2015 would be hard to match in case of SDGs as far as reduction of inequality is concerned..