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# Why reducing inequality must be a global effort

International cooperation is essential to tackle inequality within and between countries. Multinational organisations play an important role, but so should other actors

Although inequality has come to the top of the global agenda over the past decade, it is not always recognised that high inequality between countries – rather than domestic inequality within countries – is the major determinant of the world's inequalities. This is basically the result of growing inequalities from the 19th through the first part of the 20th centuries. However, by the 1980s, rising inequality within countries became the major adverse global trend up until the present. This is in sharp contrast to the period between the 1920s and 1960s, when inequality fell, particularly in developed countries, thanks to a large extent to the rise of the welfare state and progressive taxation. Falling inequality between countries served to moderate this trend in the last decade of the 20th century and, particularly, the first decade of the 21st. By now, however, this moderating factor is probably no longer relevant, since it was partly a result of the super-cycle of commodity prices that fuelled positive income trends in Africa, Latin America, and the Middle East during that period.

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Reducing the high level of inequality between countries has been on the international agenda since the end of the Second World War, and high inequality within countries was also a subject of major concern in the early post-war decades. However, this was then largely ignored by the rise of free-market policies since the late 1970s. Over the past decade, rising inequality within countries has once again come to the forefront of global political discussions, as 'excluded' voters have caused political earthquakes in several countries.

In 2015, after several years of negotiations between member states and consultations with civil society, the United Nations agreed on a set of Sustainable Development Goals (SDGs) to guide the multilateral agenda and national development plans until 2030. One of the objectives in the 2030 Agenda for Sustainable Development (SDG 10) is to 'reduce inequality within and among countries.' This acknowledges that global inequality is a mix of both tendencies, and our strategy must therefore be to address both domestic and international inequality, as well as their inter-relationship. SDG 10 includes a specific target to increase the income growth of the poorest 40 per cent of households in all countries, which is also the core target of the objective of 'shared prosperity' previously adopted by the World Bank Group (WBG). Both goals are also linked to the poverty targets, summed up in the 2030 Agenda in its stated aim to 'end poverty in all its forms everywhere' (SDG 1) and the WBG's objective of eliminating extreme poverty within a generation.

## Major ways to tackle inequality

International cooperation is an essential part of the agenda. While national governments can have a direct impact on domestic inequality, only through international cooperation between developed and developing countries, particularly with the poorest of them, can sustained progress be made on reducing international inequality. This leads me to ask: what can multilateral organisations do? What should they not do?

Firstly, they can foster cooperation with developing countries, particularly the poorest among them, through a mix of financial support (official development assistance and financing from multilateral development banks) and 'special and differential treatment' in trade relations (preferential access to developed country markets and less binding trading rules).

An essential missing element in the associated cooperation agenda in recent decades has been the need for more active production and technology development strategies for poor and middle-income countries. These strategies have been considerably weakened by the free-market policies pushed by international institutions. This issue is back on the international agenda under SDG 9, which calls for 'resilient infrastructure, industrialisation and innovation.' The pursuit of efficient production-development policies to enhance industrialisation in low-income countries and stop the strong de-industrialisation trends in many parts of the developing world is central for creating decent work and thus achieving SDG 10.

A new but critical factor in reducing international inequalities is managing the adaptation to and mitigation of climate change. Prompt attention to the issue is crucial given the growing vulnerability of tropical countries and small island states to climate change, and also because of the historical responsibilities and differing capabilities of developed countries.

In the technology field, the push for industrialisation and management of environmental degradation and enhanced social policies (notably in the area of medicines) also require us to rethink the rules on intellectual property rights in order to enhance the public goods character of technological knowledge and make sure it is available equitably to all of the world's citizens.

Finally, a rising issue in the realm of international cooperation that is absolutely central to the reversal of growing inequality is tax cooperation. This is needed in order to accomplish three main goals: 1) to curtail the syphoning of personal and corporate incomes toward low-tax jurisdictions (or tax havens), 2) to prevent tax competition that reduces tax rates on capital income (supposedly to encourage investment, an effect which has been weak at best), and 3) to reverse the implementation of increasingly less progressive tax systems, which redistribute the tax burden toward consumption and less mobile factors of production. Elements of this problem have been raised more and more prominently in the international agenda in recent years, under the leadership of the Group of 20, notably via the Base Erosion and Profit Shifting initiative and the Global Forum on Transparency and Exchange of Information for Tax Purposes, both under the coordination of the OECD.

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However, these processes should only be seen as constituting a starting point for enhanced international cooperation in this area, due to the incomplete character of the agenda, the lack of cooperation by low-tax jurisdictions (including those of OECD member countries), and the fact that capital has increasingly been channelled into tax havens in recent years even after these initiatives were put in place. New governance arrangements are also required in this area, under the leadership of the UN, as the OECD is not a globally representative organisation. An alternative institutional arrangement in this area would be the transformation of the current UN Committee of Experts on International Cooperation in Tax

> Matters into an intergovernmental organ of the UN system. Such a proposal was made by developing countries in the 2015 Addis Ababa Conference on Financing for Development, but it was opposed by developed countries. Transforming this committee into one which ensures that tax cooperation reduces inequality both between and within countries, as well as approving the UN Conventions on Harmful (or Abusive) Tax Practices, and on Tax Competition, will be a crucial step forward.

Because rising inequality within countries has once again become the dominant trend, the support of multilateral organisations to help reduce domestic inequality is equally, and vitally important. Growing domestic inequality calls for strong domestic policy action, which multilateral organisations can support through financing, analysis, policy advice, and monitoring.

The first and most important action is the construction of effective welfare states, a task made urgent by the weakening of welfare arrangements in developed countries and their insufficient progress in the developing world. The fulfilment of the 2030 Agenda clearly calls for such an effort, and has to be implemented with specific initiatives, such as that by the International Labour Organisation (ILO), with support from the WBG, to develop and expand social protection floors. Such measures should be combined with a push for universal social protection systems (including, in particular, universal pension and healthcare systems), and not just targeting (or means testing) social policies, which has been the priority of the WBG since the 1980s. Universal social protection systems are much better instruments of redistribution than targeted policies, and indeed indicate that targeting should be an instrument of, rather than a substitute for, universalisation. Other types of spending that are also vital to reducing inequality are universal, free, and publicly-provided education.

Equally important today, given the strong changes in labour markets, are very active labour market policies, which include retraining and labour intermediation services, higher minimum wages and enhanced labour and union rights, as well as special attention to gender imbalances in labour markets.

The private sector also has a vital role to play in reducing inequality. Not only must it provide decent work and pay fair taxes; it also needs to do much more – in partnership with providers of official development

assistance – to ensure that the financing provided for global and national development reaches the poorest and reduces inequality. In relation to private finance, policies need to ensure that it is not just guaranteeing poor people's access to finance, but reforming financial systems more broadly to ensure that they fulfil the needs of the poor.

These issues are analysed in detail in a recent report on the impact of the multilateral organisations on inequalities, 'Are the Multilateral Organizations Fighting Inequality?' produced by New Rules for Global Finance and Development Finance International. The report highlights national and international policy issues and the key role that multilateral organisations should be, but are not yet playing to ensure that we reverse the current disastrous trends in both domestic and international inequality and enable all of the world's citizens to benefit from future growth and development.

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**José Antonio Ocampo**
New York City

José Antonio Ocampo is a member of the board of the Colombian Central Bank (Banco de la República), a professor at Columbia University and chairman of the Independent Commission for the Reform of International Corporate Taxation.