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Analysis

# Putting an end to inequalities

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The world has never been richer but this wealth has never been so unevenly distributed. How to explain the facts? What can be done to act upon them when the Sustainable Development Goals appeal to improve the living conditions of the 40% the poorer?

# Analysis Putting an end to inequalities

If we measure wealth on the yardstick of goods and services consumed and produced<sup>1</sup>, the world has never been as rich as in 2015. And never has this wealth been so unequally distributed. The share of wealth owned by the wealthiest 1% or 10% is once again, in countries where tax data is available, at the record levels of the beginning of the previous century. Seven people out of ten live in a country in which the gap between the rich and poor is wider than 30 years ago (Oxfam, 2014 according to Milanovic, 2013). In OECD countries, the gap between rich and poor has never been wider: the income of the wealthiest 10% is 9.5 times that of the poorest 10% (OECD 2015); in the 1980s, the ratio was 7 to 1. In the rare countries of Latin America where inequalities have decreased, the Gini coefficients, which measure income inequalities, are still high. In South Africa, the Gini coefficient was lower in 1995 (0.56) at the end of apartheid than in 2009 (0.63) (Oxfam, 2014). These income inequalities nourish and reinforce inequality where health, education and gender (70% of the poor are women – Cortinovis and Rivière, 2015), territory (between urban and rural populations) and, in some cases, ethnic inequality are concerned (in New Caledonia, a Kanak has 7 times less chance of graduating from higher education as a non-Kanak, Ris, 2013). The increase in inequality we can observe in countries can also be seen on a global scale. In 2016, half the world's wealth will be owned by 1% of the population of our planet (Global Wealth Report

2015). However, for the first time, the reduction of domestic income inequality is on the menu of the international agenda. It figures explicitly among the Sustainable Development Goals (SDGs) adopted in September 2015 by the United Nations. Let us remember that the Millennium Development Goals, which had been oriented towards international cooperation since 2001, did not deal with income inequalities and focused on extreme poverty and access to basic services. In addition to this, they only concerned developing countries, as opposed to the SDGs which apply to all countries.

How have economic inequalities become a universal problem which clearly calls for a coordinated political answer? Why is the increase in inequalities not sustainable? Why have inequalities widened and how can they be reduced from a practical point of view? What role in particular is international cooperation for development likely to play?



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## The emergence of inequalities as a global political issue

Over the last ten years, the increase in income inequalities has acquired an unprecedented importance in public debate. Even if few people remember that work by Piketty and Saez –before the former published his *Capital* – was quoted in Barack Obama's inaugural speech in 2009, nobody or nearly nobody can ignore that capitalism is basically unequal, and Thomas Piketty<sup>2</sup> one of the best-selling authors that human science has ever known. The first subject which has managed to make economics popular in the 21st century is the issue of inequalities.

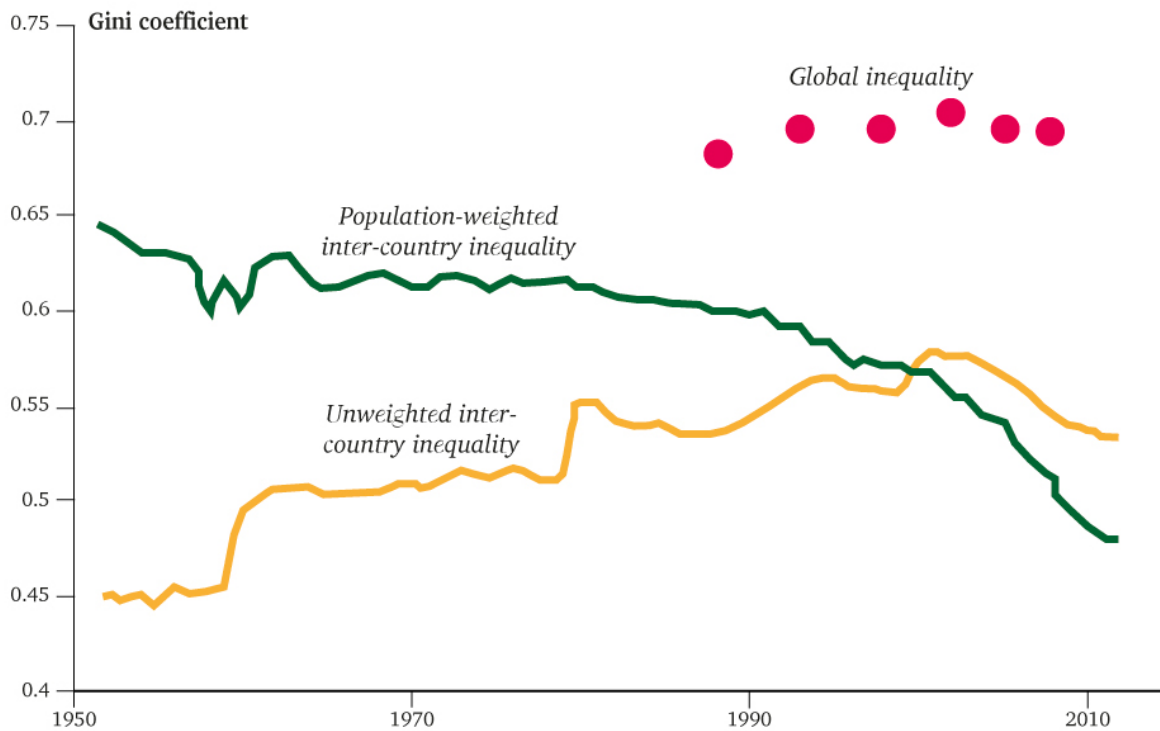
1. Other *A Planet for Life* dossiers deal with sustainable production and consumption conditions and the measurement of wealth and well-being.

2. Thomas Piketty, *The new prosperity of rentiers*, APFL 2013.



FIGURE 1 **Mesuring global inequality**

Three concepts of inter-national income inequality



Note: Unweighted inter-country inequality (orange line) is calculated across GDPs obtained from household surveys of all countries in the world, without population-weighting. The population-weighted inter-country inequality (green line) takes into account population weights. Finally, the global inequality concept (green dotted line) focuses on individuals, instead of countries. The calculation is based on household surveys with data on individual incomes or consumption.

Source : OCDE (2015: 10).

There are different ways to measure inequalities and their evolution. For 15 years inequalities between countries have been reducing (green curve) whereas if we take the world in its entirety they are increasing between individuals (dotted red line).

International economic institutions have also seized the opportunity to highlight the unprecedented increase in inequalities, even though these institutions are considered to be “liberal” and rather more prompt to focus on wealth creation by virtue of competition in their recommendations than on the possible effects of distribution that the former is likely to trigger. Bretton Woods institutions warned of the effects of rising inequality on development by means of the World Bank’s first annual report on the subject in 2006 (World Bank, 2006); the whistle was blown, in rich countries, by OECD publications a few years later (OECD 2011, 2012). The IMF, which no person in their right mind would think of calling leftist, came not far behind and published a paper in 2015 highlighting certain harmful effects

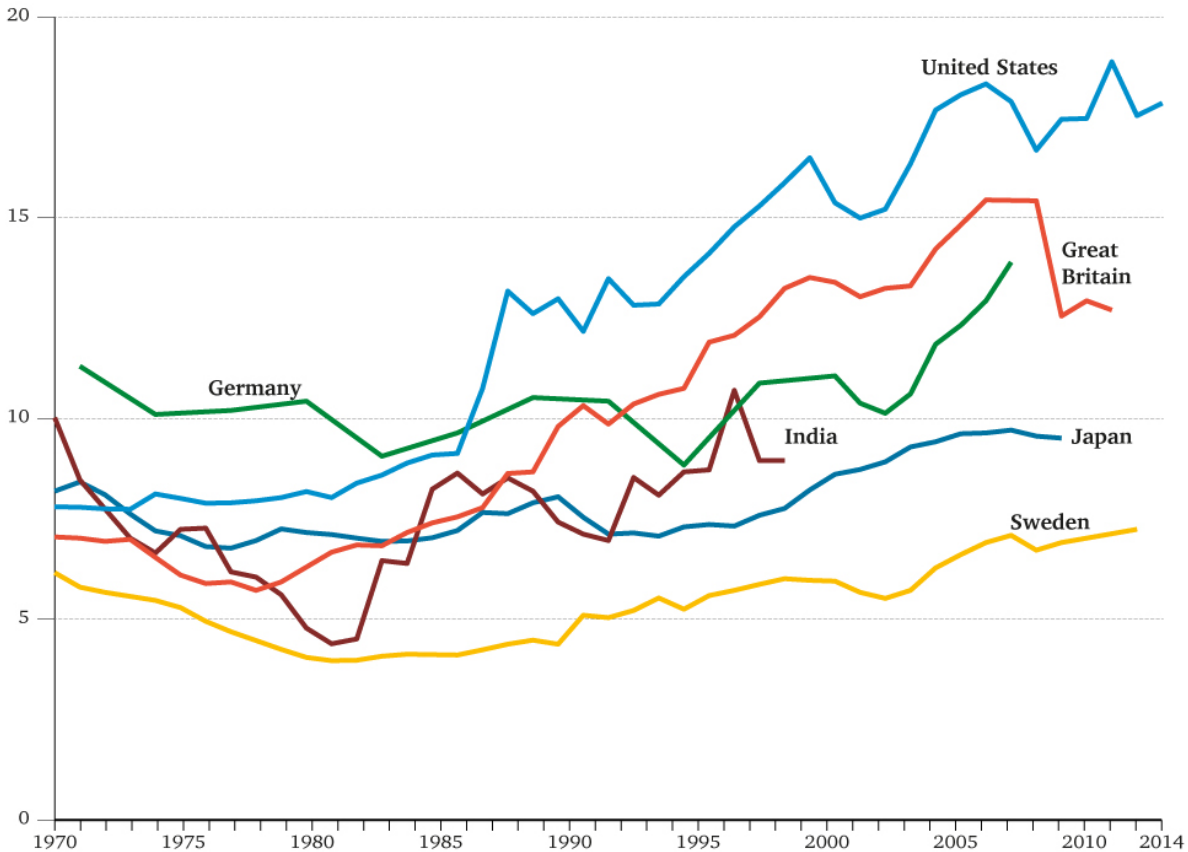
of liberal orthodoxy (IMF, 2015), before publishing a report with an eloquent title in June 2016 – even with its question mark: *Neo-liberalism: Oversold?* The message is the same: “rather than producing growth, certain neo-liberal policies have increased inequalities and endangered sustainable economic expansion” (IMF, 2016).

All these reports and books converge on the rise of income inequalities as an undeniable fact. Whatever the indicator used (Gini, the share of the 1% in the national income, or the Palma ratio)<sup>3</sup>, the history of

3. The Gini Index (or coefficient) is a synthetic indicator of wage inequalities (income, standards of living, etc...). It varies between 0 and 1. It is equal to 0 in a perfect situation of equality where all the wages, incomes, etc. are equal. At the other end of the scale,

FIGURE 2 The richest are getting richer

Evolution of the share of the richest 1% in national income



Source : Hough (2016) based on data from the World Wealth and Income Database

The share of the national income earned by the richest 1% has been on the increase everywhere since the 1980 decade, the “liberal” decade of financial liberalization and the reform of the welfare state in most OECD countries.

the last thirty years is that of an increase in inequality in countries in a context of reducing inequality between countries: considered as a country in itself, the country “Earth” and its billion inhabitants is more and more inegalitarian. On the other hand, if we suppose that it is inhabited by the “average” individual of each member country of the United Nations – i.e. a little less than 200 people – it is less and less inegalitarian. Global inequalities are increasing, but inequalities between countries are tending to reduce.

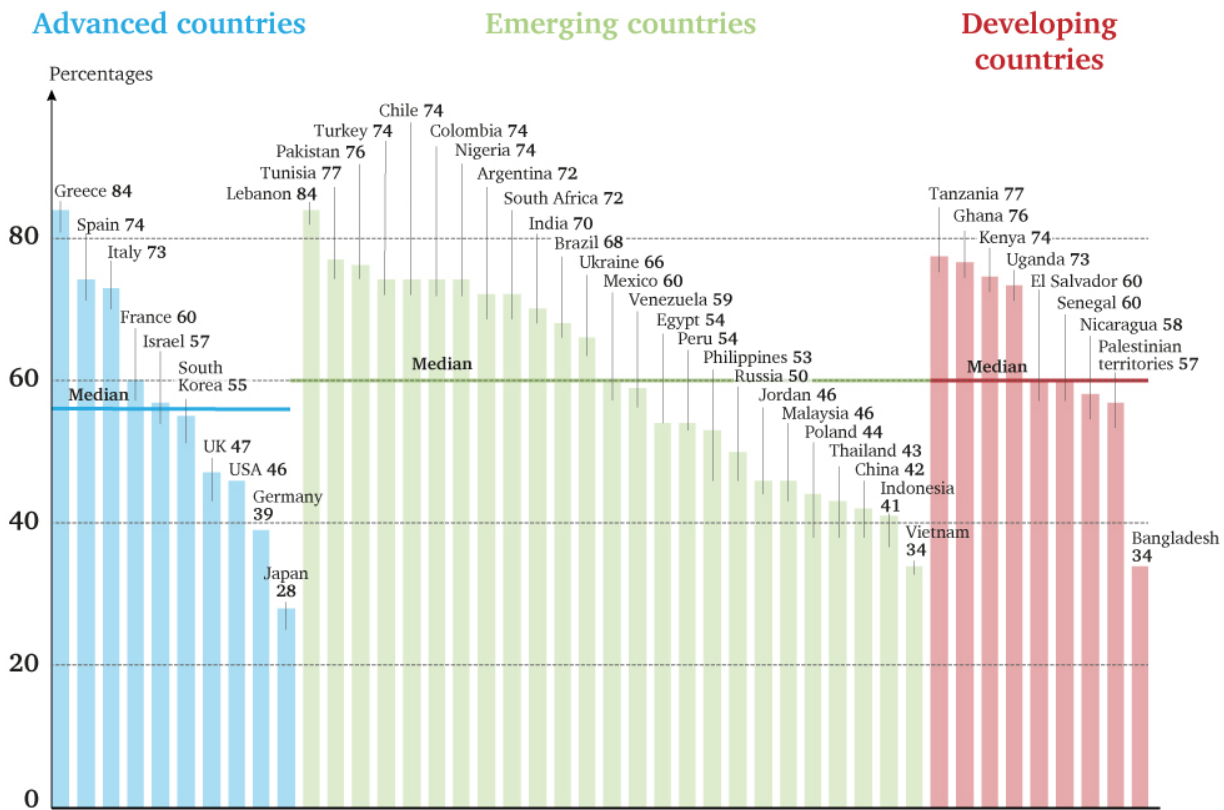
it is equal to 1 the most inegalitarian situation possible, where all wages (income, standards of living...) except one would be nil. Between 0 and 1, the higher the Gini Index, the higher the inequality. As for the “Palma ratio”, this is the ratio of the share of the wealthiest 10% in national income on the share of the poorest 40% in this same national income.

Logically, to make these two phenomena compatible with each other, inequalities within countries have increased over time (figure 1 | Measuring global inequalities).

The increase in wealth of the middle classes was lower than that of the richest: variations in the distribution of world income can be explained largely by the increase in the share of the richest 1% in the national income (figure 2 | The richest are getting richer). The economic recession in 2008 brought prospects of social ascension and accumulation of wealth to a halt in a number of emerging and developing countries. The feeling of injustice which results from the exponential enrichment of the “happy few” while the majority is still waiting for better times, has made this inequality socially unacceptable.

FIGURE 3 Inequalities: a raising global concern

Inequalities seen as a major challenges



Source : Spring 2014 Global Attitudes survey, Pew Research Center.

This inequality is seen as a major problem by most of those surveyed in rich and in poor countries, taken as a whole. There are subtleties within these groups, for instance countries such as Germany, Japan, Vietnam or Bangladesh which are differentiated by their very limited concerns for the subject.

The perception of increasing inequalities is coherent with these few facts. Inequality is no longer considered as necessary and transient, as suggested by the Kuznets curve, but is considered as a major structural problem in most of the countries or regions where surveys are available – for example, we can quote the survey carried out in 44 countries by the Pew Global Attitudes Survey in 2014 (figure 3 | Inequalities: a raising global concern).

However, we can also note that the perception of the problem can be somewhat disconnected from its statistical severity in certain cases, and this is an important element if we want to understand the highly variable importance that inequality

reduction can have on national agendas. In addition to this, even if the stylized facts on the evolution of inequality cannot be challenged, political consensus on the severity of the phenomenon is more fragile, as is that of the means to be mobilised in order to contain it.

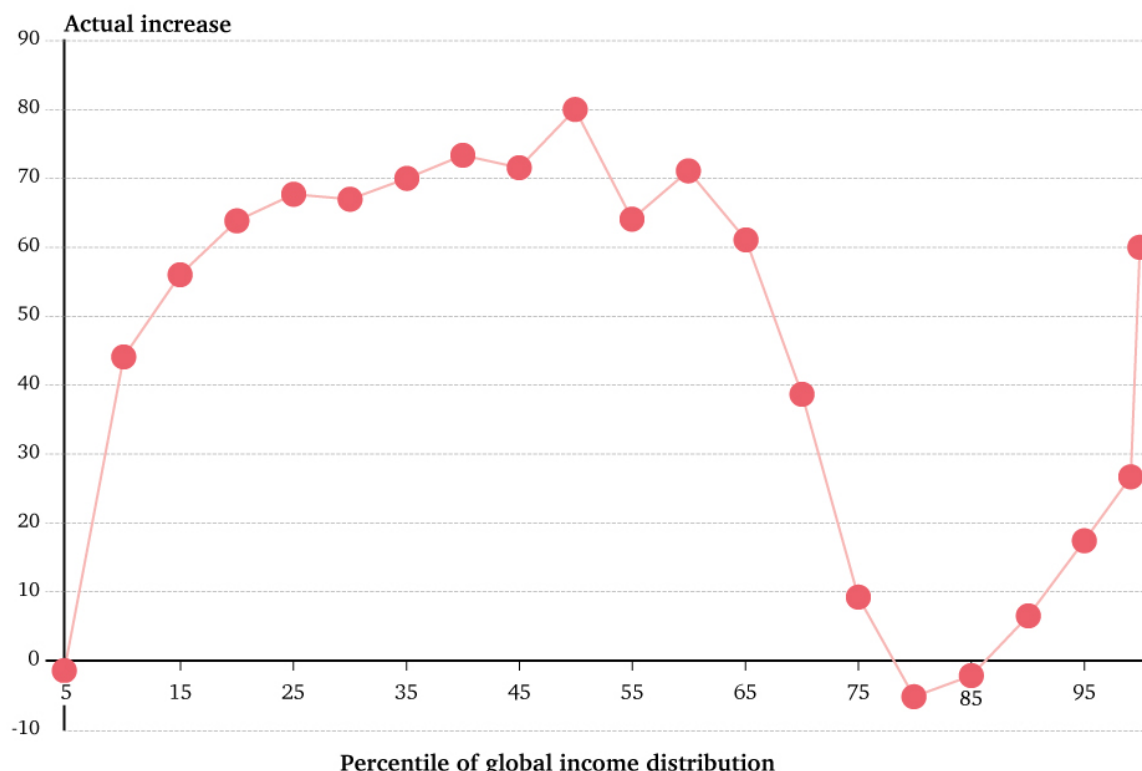
### Increase in inequality and unsustainable development

Studies and press releases by the World Bank, IMF and OECD insist on the fact that the increase in inequalities is not strictly sustainable from the economic point of view, in as much as it impedes

FIGURE 4 The emergence of a “global middle class”

**Global evolution of income distribution**

at various percentiles of global income distribution (calculated in 2005 international dollars)



N.B. : The emergence of a « global middle class » under the effect of the increase in income of densely populated emerging countries (percentiles 36-45) occurred at the same time as an erosion of the median income in certain OECD countries (percentile 80-90).

Sources : Lakner, C., Milanovic, B. (2013) *Global Income Distribution : From the Fall of the Berlin Wall to the Great Recession*. Policy Research Working Paper No. 6719 ; World Bank OCDE. 2011. *Divided We Stand: Why Inequality Keeps Rising*. Paris: OECD Publishing.

The emergence of a “global middle class” under the effect of the income growth of densely-populated emerging countries (percentiles 35-65) occurred concomitantly to an erosion of the median income in certain OECD countries (percentiles 80-90).

growth. OECD countries supposedly lost an average of 4.7 points of accumulated growth rate due to inequalities between 1985 and 2005 (OECD, 2011). Why? According to IMF, the increase in the share of incomes of the richest 20% has a negative effect on medium-term growth, whereas on the contrary, the increase in the share of income of the poorest 20% affects it positively (IMF, 2015). The increase in inequality (in comparison with a more egalitarian situation) resulted in the lowest-income households under-investing in education, and in the long term, by a decline in productivity (Stiglitz, 2012); it restricts social mobility among generations; it can reduce aggregated demand, the propensity to consume of the most wealthy

being lower than that of the lowest-income households (IMF, 2015). The increase in inequality also contributes to recurring financial recessions by triggering indebtedness, speculative bubbles and financial deregulation through lobbies (Rajan, 2011; Acemoglu, 2011).

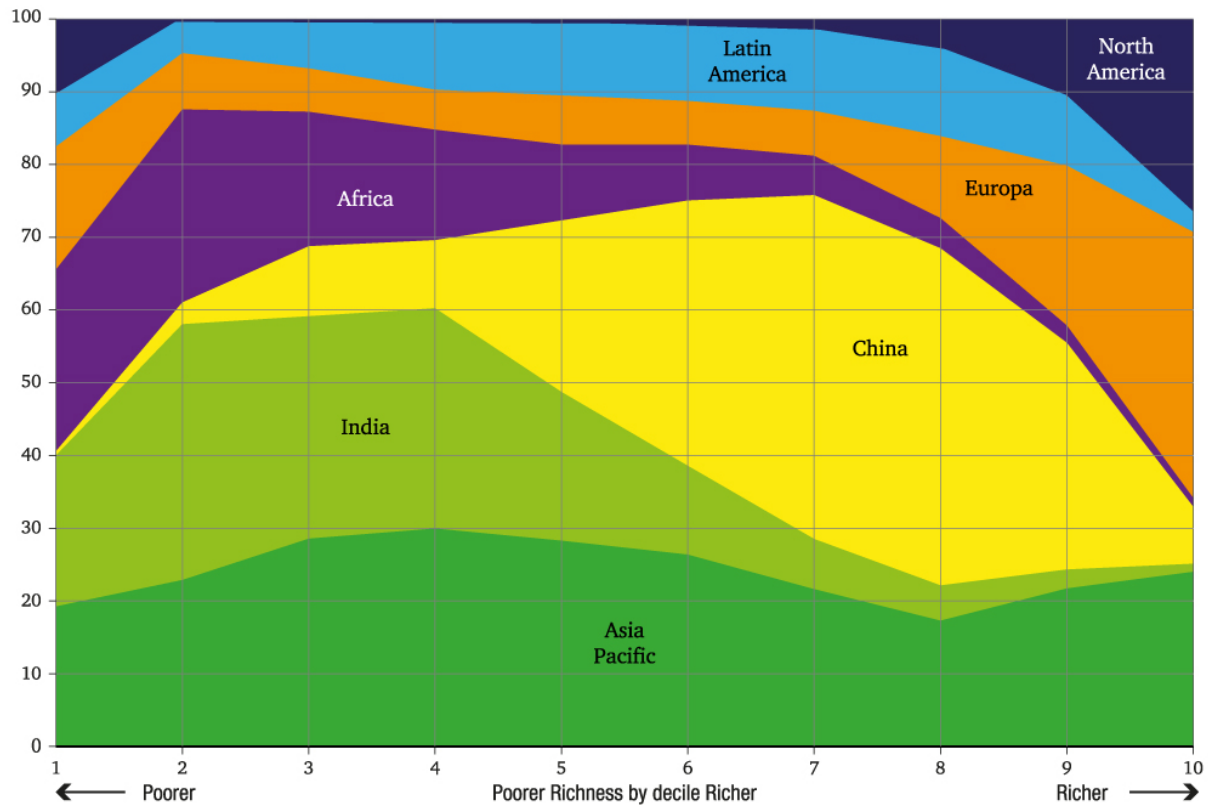
Despite all this, medium-term economic growth is not the only variable or dimension of sustainable development affected by the increase in inequality.

By benefiting the richest, who are also the most mobile and more apt to subtract their incomes from tax, the increase in income inequality places public finance in an impossible budgetary equation? The financing of essential public goods and services,

FIGURE 5 A middle class growing in the South

Regional composition of global wealth distribution 2015

Percentages



Source : James Davies, Rodrigo Lluberas and Anthony Shorrocks, *Credit Suisse Global Wealth Databook 2015*

On a global scale, the “middle class” (deciles 6 and 7) is mainly composed of the inhabitants of emerging regions or countries – China, Latin America, and India.

which is part of the post-war social contract and in its successive transformations, is now seen under the constraint of an apparently inevitable narrowing of the tax base of developed economies. The solutions offered by external debt and increased taxation of captive factors - in a nutshell, the middle classes- are no longer sustainable beyond a certain threshold; the risk is then that of a destabilisation of our democracies (Piketty, RST 2013). The reduction of inequality (SDG 10) and good governance (SDG 16) are therefore connected goals.

The economic insecurity of the popular middle classes of developed economies is manifest in the chart showing Milanovic’s data (2013), independently from the tax burden that the avoiders and other indelicate persons impose on it. Rejection

of globalisation by the popular classes, in countries which were nevertheless defenders of free exchange such as the United Kingdom, as can be seen from the motivations of the Brexit vote, is a consequence of the idea that the middle classes of the “Global South” and the wealthiest classes in the world are the winners in globalization (figures 4 | The emergence of a “global middle class” and 5 | A middle class growing in the South).

The dangers of political violence, insecurity and instability in their widest meaning that the increase in inequality has brought to bear are accentuated by the fact that they are, so to speak, out in the open. They are measured and known as they never were before; data is free of access, and telecommunications highlight their most blatant and unjust manifestations.

Inequality creates frustrations which feed political conflicts and violence (Badie and Vidal, 2016). This contemporary observation is consistent with older economic observations made by Alesina and Perotti (1996) according to whom inequality can reduce political stability, with the effect of triggering a decrease in investment to below optimum levels.

Empirical data collected in 2006 at the time when the World Bank published the report on development, whose theme was that of inequality, shows that growth is actually essential to reduce poverty (-income), on condition that income distribution remains more or less constant (Deininger and Squire, 1996; Dollar and Kraay, 2001; Ravallion, 2001 and 2003; Bourguignon 2003). Likewise, the data show that an increase in inequality tends to increase poverty (World Bank, 2006). Inequality also affects the allocation of investments: only entrepreneurs with guarantees will be able to develop their projects by obtaining loans, even if these have a low yield. On the contrary, (more) profitable investment projects will be deemed more risky in the absence of collateral and for this reason rejected. Inequality of access to credit closes the circle which links inequality, growth and poverty (Bourguignon, APLF 2013).

Lastly the contribution of increasing inequalities to environmental degradation can be seen in the cases of consumption imitation, when lower and middle classes reproduce the models of the wealthier classes – the hypothesis here being that these last are the most harmful to the environment. The systematic checking of such a hypothesis cannot be systematically carried out because it is difficult to reduce the determinants of ecologically irresponsible behaviours to incomes within countries alone (Chancel, 2015). Does a super-rich person pollute more per euro, dollar – whatever – of additional income than a poor or middle-class person? The answer is empirical – and little known for the time being. On the other hand, to explain political inertia regarding environmental protection – and therefore its degradation – by the anticipation of a widening of the difference in income inequalities has been convincingly illustrated in recent history, whether in the maintaining of subsidy to electricity and coal in Poland or the waiver of the carbon tax under Sarkozy's presidency (Hourcade, APLF 2013).

### **Are we approaching consensus on the causes of inequality?**

To explain the increase in income inequalities, which has been characteristic of the last thirty years, the most consensual causes in the literature are: i) globalisation and, specifically the dissemination of a technical progress which was favourable to qualified workers and the reorganization of production to the advantage of owners of capital and managers; and ii) public policy reforms, with the deregulation of the labour market and the deepening of financial liberalization, a “capturing” of the political discourse by the wealthiest and the decrease in public expenditure” – including the loss of fiscal progressiveness. The most controversial causes are international trade and the competition that it induces between salaried workers, by structural unemployment, and the endogamy between new *rentiers* (“marry your like”). Without forgetting these last, we will now examine the few great “drivers” which have been the most documented (IMF 2015, OECD 2014).

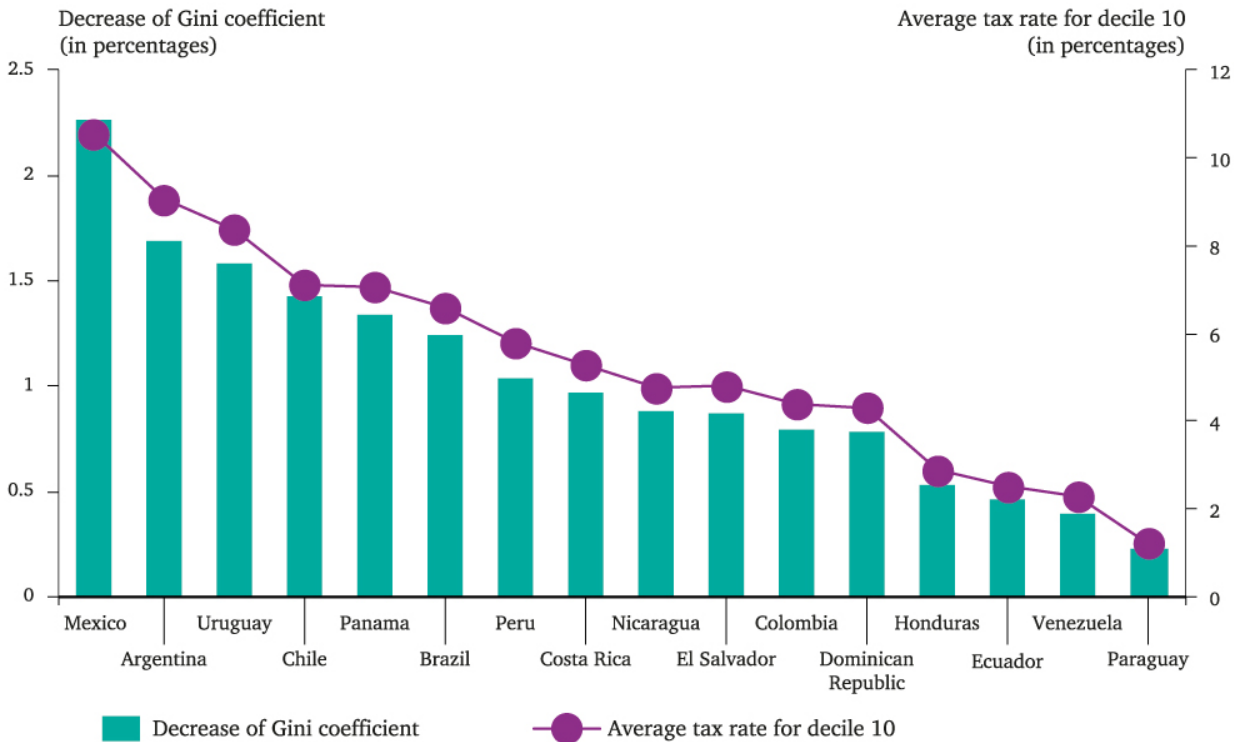
Let's go back 30 years. From the 1980s, structural adjustment policies aimed at re-establishing the macro-economic balances of developing economies hit by the drop in the prices of raw materials and unsustainable levels of indebtedness. They specifically resulted in a considerable reduction of public expenditure in health and education (Nassar, 1993, for the Egyptian case) as well as employment in the public sector, and belong to the social pact in a number of countries and to which the most widespread social coverage is attached. Measures of austerity and the privatisation of public services and companies, in a period of strong demographic growth, have led to profound changes in the labour market. The increase in unemployment (Jarret and Mahieu, 2002, for the Ivory Coast), and particularly of the young, and informality, (Bensidoun, Sztulman, 2015, for Egypt ; Koujianou-Goldberg and Pavnick, 2007, for Latin America) have accelerated income inequalities and, more generally, working and living conditions in society. The dualization of services has made access to essential quality services even more unequal, even though they are indispensable to the constitution of a human capital likely to break the cycle of intergenerational transmission of poverty.

The technological upheaval we have seen since the 1980s, coupled with the liberalization of international trade and the extension of global supply chains, has resulted in the relocation of the demand



FIGURE 6 Tax as a fight against inequality

Latin America (16 countries) : income tax rate on natural persons in decile 10 and redistribution of income, around 2011 (in Gini coefficient percentage points).



Source : ECLAC (Economic Commission for Latin America and the Caribbean), on the basis of household surveys of the different countries

The Latin American countries having observed the strongest reduction of the Gini index are the ones which tax the most the highest income. In other words, the more the high income is taxed and the more the reduction of the disparities is important.

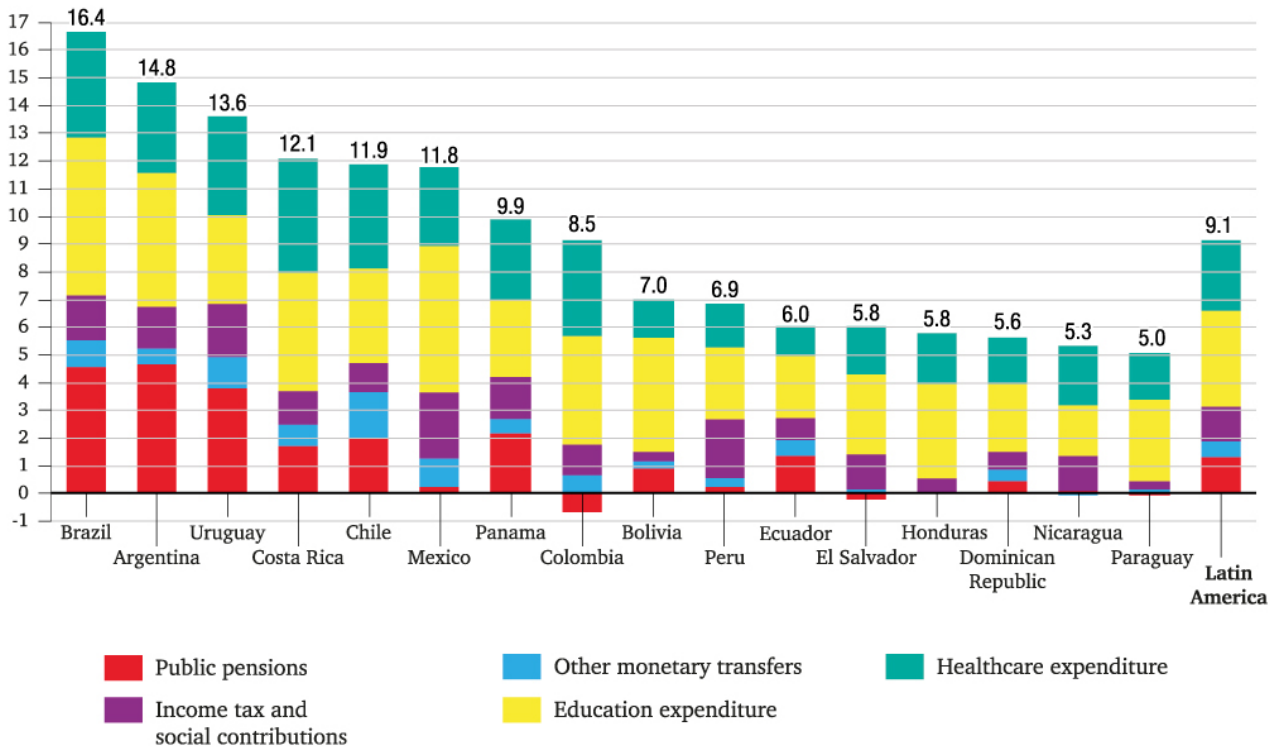
for low-skilled qualified manpower towards emerging countries and then towards developing countries, the decrease in the relative value of low-skilled qualified work and the valorisation of highly-qualified work (Bourguignon, 2012). The income differences between skilled and unskilled jobs have been considerably reinforced. The new global value chains have created new dividing lines between finance and real economy, between the ordering parties and the subcontractors, between the salaried workers at the top of the chain and those at the bottom. The bargaining power of these last has been considerably weakened.

The deregulation of the economy has resulted in its increasing financialization, with two important

consequences for the distribution of wealth: (i) the incomes of those who make a living from the production of raw materials depend on highly volatile prices; (ii) capital draws more and more profit from the wealth produced, to the detriment of work. Tax policies, which tax working income more than the transfer of assets, accentuate patrimonial inequality (Piketty, 2013), an essential explanatory factor which strengthens social inequalities rather than fights them. In the United States, these policies are less and less progressive and redistributive: rich households and companies benefit from effective tax rates which are lower than what they were before the tax reductions set up by the Bush government in 2001 and 2006 (Hungerford, 2013).

FIGURE 7 Which tools do we need to fight inequality in Latin America?

Latin America (16 countries) : Inequality reduction per fiscal policy instrument, around 2011  
(in Gini coefficient percentage points)



Source : ECLAC (Economic Commission for Latin America and the Caribbean), on the basis of household surveys of the different countries

The countries of Latin America where the inequality reduction was the most significant (left-hand side of chart) are those where a wide range of redistributive instruments—taxation, social security, education—have been mobilised. Approximately half the inequality reduction observed can be explained by monetary transfer policies, and the other half is from public expenditure on health and education.

The combination of these phenomena (job instability and a decrease in income, the concentration of assets, modification of public allowances and services) has a multiplying effect on inequalities of adjusted available income. The inequality of opportunity regarding work and insufficient access to resources and the different forms of capital (human, financial, social) are for a large part behind the reproduction of inequality and poverty between generations. Among these inequalities, those regarding discriminations of access to education are without a doubt the most decisive (Arestof and Sgard, 2012). According to this way of thinking, the income inequalities observed

(or “*ex-post*”) refer fundamentally to inequality of opportunity (or “*ex-ante*”): access to knowledge, care, to a roof and everything this network of relationships without which you are kept away from the City and employment.

### Exploring political options

If we suppose that collective preferences will emerge to reduce inequalities, and faced with all the possible causes, what are the political options? It would be ambitious to try to draw up an extensive list – from the setting up of policies promoting equality of

opportunity and in particular access to education, to the Marxist structural reforms which use global and progressive taxation of assets - the political spectrum is a broad one. Inequality belongs to national histories and likewise, its correction cannot be reduced to the use of a particular public policy instrument. Even if the authors and institutions who are the most visible on the subject each have a preference or a priority among the solutions to be provided, all of them recognize that it is both by correcting the inequalities of opportunity (access to education, health and the labour market) and results (income inequality *per se*) then inequality reduction can be sustainably contained. This is what is suggested by the work of one of the best specialists on inequality, Anthony B. Atkinson. For this British economist, the reduction of inequalities calls for a progressive taxation of income and also a strengthening of social protection and wider *ex ante* and *ex post* distribution including guaranteed income and employment.

### Reduction of inequality of opportunity – the example of Chile

Practical examples of inequality reduction—rare enough in the current context where it is on the rise—confirm the range of instruments to be mobilised and target several registers of causes that we have listed (figure 6 | Which tools do we need to fight inequality in Latin America? ). Such is the case of the reforms set up in Chile by President Michelle Bachelet during her second term, inaugurated in 2014, which combine tax reforms and the reduction of inequalities of opportunity, specifically in the case of access to education

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### Taxing capital to break the endogenous dynamics of increasing inequality

In *Capital in the Twenty-First Century* (2013), Thomas Piketty attempted to project the capital/income ratio over the long term, in order to determine the probable trends of inequality. According to Piketty, the yield rate of capital ( $r$ ) is still, in the long term, higher than the rate of growth of the economy ( $g$ ). This “law” explains the structural tendency of capitalism to create inequality ; those who have assets get rich faster than the other economic agents whatever their “merit” or “talent”. For this law to be confirmed, the capital/income ( $\beta$ ) ratio should also increase in the long term, due to the more rapid accumulation of returns on capital than the global income generated by the economy. Piketty’s

estimations for 2100, on the basis of a 10% savings rate and a “crushed” rate of growth of 1.5% per year from the second half of the 21st century, result in a capital/income ratio of 500% in 2030 (equivalent to that of the *Belle Époque*, in 1910), and then around 680% in 2100. This scenario, which to him is plausible, would be the result of an environment of “normative” growth, lower than the exceptional rates observed during a large part of the 20th century due to the impacts of the world wars and reconstruction efforts.

Faced with this structural trend, Piketty advocates the setting up of a global policy to tax high assets with a highly redistributive vocation. This would make it possible to counter the structural trends of capitalism to generate inequality and maintain a market economy at the same time.

### The role of international cooperation

Attention paid to these issues now exceeds research alone, and development agencies in particular are mobilizing. Because it has become a global political issue with a direct impact on the sustainable development potential of countries, inequality is no longer considered as an affair of national sovereignty but more as a development challenge which it is urgent for agencies to address. For an agency like the French Agency for Development (AFD), for example, this calls for an identification and a finer characterization of the final beneficiaries of the financed projects, not to accentuate the inequalities but on the contrary, to reduce them, and by a focus on the equal access to essential services, the development of capacities, decent working conditions, improving the means of existence and living conditions of excluded populations; social protection and social links. AFD has also developed an ambitious strategy which allows its interventions to act on gender inequality. Now authorized by its supervisory bodies to intervene on governance, it will also be able to address tax issues. For Gaël Giraud, AFD’s head economist, the agency is perfectly legitimate to do this and it hopes to be able to go further than these traditional levers: it is the structuring of society and social relationships which generate unfair inequality and it is through its institutions that we must act to be able to glimpse more fundamental changes. How? By supporting the creation or recognition of Commons. The concept invaded the media when the 2019 Nobel Prize in Economics was awarded to Elinor Ostrom. Most of this economist’s work has

consisted of demonstrating on an empirical basis that a number of natural resources can be generated locally by communities who define and set up ad hoc norms and institutions with the specific aim of avoiding the collapse of resources. Commons are defined from three elements: a resource, a community and a set of rules, i.e. rights and duties. The resource can be physical - grazing land managed by a community - or immaterial – freeware, for example. It can also have a more global scope (good health, quality education, a healthy climate). Faced with the mixed results of the efficiency of public governance and the inefficiency of the markets in a number of situations, commons offer an alternative to collective governance. The concept has since spread in a number of directions and some authors have turned it into a genuine social project. In this more holistic approach, Commons are a political alternative to the massive privatization of resources, goods and services which has generated profiteering and increased inequality. For Gaël Giraud, development agencies can and must accompany States in creating conditions for Commons to exist, and communities in organising and managing their resources. In the extract from the interview granted to *A Planet for Life* below. He illustrates this conviction with examples taken from AFD's experience.

### As a conclusion

The sheer extent of the widening of world-wide economic inequalities over the last twenty years is currently well documented and commented. For democracies, the issue is one of responding to the signal conveyed by science and civil society – in the

form of reports, books and articles on the question – and to provide a solution for this universal problem. There are at least two plausible scenarii.

In the first “depoliticization” scenario, the political response is built on consensus on the cost of action. Because it is deemed higher that the cost of action (fighting inequalities benefits society much more than if inequalities are allowed to increase), the cost of inaction induces the creating of policies which transcend the left-right split on the political chessboard, in an analogy with what we were able to observe regarding the climate prior to the universal and transpartisan Paris agreement in December 2015. The recent stands taken by Republican Party figures in the United States or by the Tories in Great Britain on the need to take economic inequalities seriously show that this scenario, however uncertain, is not completely ridiculous.

In an alternative scenario which we can call the “learning scenario” – no global action is carried out, except for a pooling of the successes and failures of the various national policies undertaken in a plethora of trial and error methodologies. Here, the SDGs offer the opportunity of bolstering and encouraging this learning around a simple objective and offer arguments to civil society and political stakeholders to convince them of the possibility of actually reducing inequalities even though a bipartisan agreement is lacking.

In the absence of response or reaction from the citizens of different nations the unavoidable widening of inequalities would be a third “business as usual” scenario which, for the sake of all, we would rather discard here. ✓

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# Inequalities. The scope of policies and the case in Latin America

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Jose Luis Samaniego, CEPALC

WITH TANCRÈDE VOITURIEZ (IDDRI) ET ISABELLE BIAGIOTTI (REGARDS SUR LA TERRE)

*There are inequality changes in Latin America but we are not clear with the drivers. The theory explains they are due to ex-ante policies (education, health access and so on) or to ex-post policies (redistribution, tax, transfers, etc.) What would be your pick? Was there a debate as such, on the most preferable drivers?*

Jose Luis Samaniego: The chosen policies depend largely on what you think the aspiration of your society is. You have very different consequences if you stop tolerating inequality or whether you stop tolerating poverty. If you think that the mandate of your government is to dignify the poorest of the poor, you only focus on the extreme-poor of your society. Then, the government's responsibility is to ensure that these poor people receive what your society defines as the minimum acceptable – which is probably close to the one dollar or one dollar point 25 a-day, held by the UN as the extreme poverty norm.

I think from a values' point of view what a society should

not tolerate is to be too unequal. Inequalities trigger a number of social pathologies that are costly to societies. Crime is more an issue of inequalities than of extreme poverty. Poverty is one extreme expression of the inequalities we are tolerating within a society, but inequalities can take many forms: unequal access to education, to services, and so on, without sending you to extreme poverty. You can have a lousy transportation system for the majority of your population; long waiting hours for your public health services; a glass ceiling on those who are educated in the public system. There lie your choices. And they are very important ones.

My choice is obviously on the inequality issue. To fight poverty, there are plenty evidences, is not that expensive. The cost of the social transfers in Latin America is about 0.4% of regional GDP. You can see that from two angles. One, it is ridiculous to kill social transfers in a moment of slow growth



Jose Luis Samaniego

or recession like this one. Second, you could subsidize the poor and be away with the problem. Period.

So what you mentioned is consequences of your choices. What we have done for 30 years is living in the world ruled by the following theory: if you let more or less the economy work freely without too many distortions,

you create as much capital and as efficiently as possible. You have poor people because you have frictional forces. Some are ground by the system; some can be retrained but in a longer perspective poverty should tend to resolve itself. Theory said you will have a

frictional remnant of poor people you will have to deal with – some irreducible portion of any society, but the rest should be doing fine. This was the theory. So you compensate from a social policy perspective.

These are the reasons why government focused their social policies on direct transfers. It's cheap and it focuses very well on

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the targeted populations – you don't include or exclude people by chance. Very effective? Yes. Subject to conditions? Yes. Following precise criteria, though somewhat burdening the situation of women? Yes.

Tremendous progress has been made in identifying the poor, in updating the social charts and reaching out for them. This capability of identification has the potential to renew fiscal policy from a sustainability and equality point of view. It can allow changing supportive fiscal policy from subsidizing things, like food included in the basket of what the poor eat, which is actually consumed proportionally to the income distribution, to subsidizing the poor directly which enables you to target the people you want in a more precise way. Therefore it enables to move to a different kind of fiscal policy. You can stop subsidizing fossil fuels for the sake of inflation, for instance, because you can subsidize the people you need to subsidize.

**T**heory said you will have a frictional remnant of poor people you will have to deal with—some irreducible portion of any society, but the rest should be doing fine. What we actually saw over the years was the following: when we were not looking at the whole spectrum of society but only to the poor, societies have become critically unequal, and poverty has not been resolved. And it took extraordinary incomes, extraordinary prices in commodities or services and huge increase of exports to reduce marginally the level of inequalities and to

some important level the level of poverty. We did it in LAC for a few million people. But we are now for some 5 or 6 years at a plateau; we cannot reduce anymore.

This takes us to the question of measurement. If we focus on measuring progress of the lower 40% of the income distribution as asked now by the SDGs, we are doing the same as we were doing with the poorest of the poor under the MDGs, but in a more modern and humane way. Now it is not just about the ones who are below the 1.5 or 2.5 dollars a day, but we are still concentrating on what happens on one end of your society and not in the society as a whole. We are reproducing the old behavior. Acting on inequalities demands to look at both ends of the society. If your national income is raising throughout the whole spectrum of the income distribution at the same pace or percentage, your 40% will remain the same relative to the richest portion of society, but inequality will have grown in absolute terms. Thus, it is much more interesting to measure absolute changes in poverty and absolute changes among the richest to compare the changes in the income gap between both.

For instance, one should consider the average income in one's society, how off it is from the 50% of the population, and its evolution. It is similar to what the Gini measures, but comparing absolute quantities. Thus the compared evolution of the extreme incomes, the average and the median income tell us more on the level of inequalities in the society as a whole. It allows us to compare how the additional flow of income is actually distributed in society compared to what it

could have been to attain more equality. I think, thus, it is better to combine the 40% quicker pace in percentage of the SDG 10, which is marginal in very unequal societies, with more meaningful quantities like how many times the richest are richer than the poorest. The information is there, it is only a new processing of available data and making it very well known.

In the new world, we should be comparing the behavior of our whole society. What enables the richest to capture their portion of the income is as important as the means of living of the 40% the poorest. Similarly, a more extreme approach would be to systematically report the 1% of the richest alongside with the richest 10% compared to the poorest and the 40%, as a basis for the gap measurement-(that 1% very rapidly becomes almost a personal identifier).

### *In your knowledge, is there a debate on the comparison of the 40% poorest with the 1% richest?*

JLS: Not on that level of specificity. There are some countries that are developing that kind of processing. The house expenditure surveys for example tend to compare one quintile over the rest but that should be refined to offer more detail. The more you look at society as the whole, the better. That's my opinion. In terms of what happens in Latin America, inequality went down in relative terms, but it went down in a very small amount, say from 0.53 to 0.525.

There's progress in many LAC countries in terms of improved Gini, this is, in relative terms. But given the wealth or stock

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inequalities, even with the relative progress absolute inequality has risen. There can be two takes to this question in regards to policy. One is, and the CEPAL has been very vocal on it, to bet on a strong formal labor environment. That insures that workers take a bigger share of the productivity and of the new flow of wealth in society, and that wages do follow track with the increases in productivity. That's the theory of a stronger primary distribution of incomes. For this you need to grow.

If you have a special advantage, like the relative price of commodities, you will maybe grow enough. But if you diversify, you are creating a bigger mass of wages, you are creating structural change in the nature of employment. And combining the strength of the labor market with the strength of growth and the strength of diversification, you are increasing the portion that the employed part of society takes. That is one theory. To achieve this, you will need to have a very strong government able to insure the employers respect the law, which may be not the case. You need also to have a very strong demand—that we had in the past and a lot of the poverty reduction. We note now results from it. But today this cycle is gone. And finally you will need a lot of innovation. We are not known for innovating in Latin America: we are not technological hubs.

### ***But innovation will come as a trade off with labor...***

JLS: It comes because you have to drive employees from one sector to another. In the absence of universal social protection, what you are creating is a poor men market. If employment

security is very low, and workers get fired, they go on the streets to sell things for a few days or a few months then get rehired in a new sector.

**A**nd then you have the evidence of other countries, for instance European countries, where the GINI before and after taxes changes radically, about 20 points. A 0.4 becomes something like 0.25. The tax creates an equality effect ex-ante—the way you collect taxes-- and the way you spend money too.

If in an already unequal context, when governments spend money for example on infrastructures for private cars, like roads, inequality is underlined. If they spend money on public transports, it decreases inequality and fosters inclusiveness. If I have green taxes, probably I have also a progressive tax structure. If I do have an income tax it may also be progressive but if I rely a lot on value added tax, the policy may be regressive since the fiscal system is taxing more the poor in relative terms, since the spend a higher proportion of their income in consumption.

So the way government collects money plays a role as well as the way it spends money. If money is spent on social transfers it may be progressive. If there is free education, it may be progressive especially if I am doing it at all levels. If I have only university education for free, but not primary and secondary schools, it is regressive since it does not include the poor that did not make it to the university.

### ***There is a mixture of all these in Latin America. There is no straight trend, no collective learning on the effects?***

JLS: I am not sure it is even a learning process. I think it is much more political. For example, it takes an explicit political decision to weaken the taxing system or the progressiveness of an income tax by a series of reforms and to depend more and more on value added taxes plus a certain capture of the extraordinary rents of natural resources like Chile on copper, like Peru on copper, like Ecuador on oil, like Mexico did on oil. It allows you to be lax on the personal income tax or on the entrepreneurial income tax. Latin America has a combination of these two. Taxing on natural resources where we have a lot of experience, like on oil production, and not so much experience on metals.

The oil boom was much before the metal booms. In the 2000s, we realized that we did not have the tools to capture windfall profits and that governments had lost a lot of income regionally because of that reason. This is basically the structure of LAC fiscal policies, and it explains that the end result is very little change in GINI from before and after fiscal policy. It is not very capable of redistribution presently.

### ***In Europe we don't know the scope of what is going on in Chile which is often presented as a champion in tax reform. Is it marginal?***

JLS: You could have a debate on this. Take the big and the small companies. They have an inverse behavior if you consider the value generated and the employment generated. Obviously the former

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can pay higher wages than the latter. Structuralist economists that analyze labor markets with growth, innovation and diversification point at it as the origin of inequality. The small companies are the majority of employers and thus the majority of wages is at the lowest level since there is little value to hand out. They are the ones who create less value but create more employment. The end goal of this sequence is: innovation, diversification, growth and formal markets. It is what they are trying to solve.

**P**resently there is a perception of competition between social expenditures and innovation expenditures. In more sluggish economies, like we now have in LAC, with weakened fiscal incomes there is the perception of a trade-off between keeping up with the social transfers, without the productivity change needed based on innovation; and funding innovation. In another light, the trade off means it means shifting funding from a social cause, poor people's direct transfers, to innovation, a longer term cause, that is done by richer people. But you could have a completely different fiscal approach and therefore structure, for instance by taxing natural resources or negative externalities to fund by fiscal redistribution. To pursue equality at the secondary level and not at the primary labor market level.

The basis would be a green tax reform and/or taxing appropriately natural resources and negative externalities that are created basically by large companies, and then you fund social

protection. And then you can aim to diversification or innovation.

### *This is a recommendation? It is not on-going?*

JLS: It is not the mainstream approach yet in the debate we have regionally. We encourage governments to go for a green fiscal reform aiming at natural resources taxation and of negative externalities to fund social expenditures. From my point of view first you build universal social protection, then you play with the productive structure because changing the structure is a very long term endeavor. You have yet to keep in mind that externalities may change over the time. If you are successful, externalities should diminish, that's the point. But the change is slow and offers a "stable" fiscal basis.

This is your question about Chile. Chile decided to fiscally revamp completely for political reasons the platform on which the budget run. Bachelet's aim was to satisfy a social request - students were on the streets for ten or more years, a generation not afraid of dictatorship because they were born after Pinochet. They went to the streets realizing, in a unified students' movement, trans-class, that the country was only recruiting talent from the dominating class, from the richest. The best formations and universities were all private and recruiting their students from the already ruling class. You had a social "punishment" or social exclusion for the other classes that couldn't go to the private system. And even when they succeeded in entering the private system, there were other filters because they never mixed massively: places of origin, color, last-names, places

of residence, and so on. The mobilized students were asking again for the education space to be a mixing place where you could climb socially.

Now, what was the real situation of schooling in Chile? You had public and private schools and the State University which was among private schools. The government was subsidizing most of the schooling system, whether they were public or private. But the quality of private schools was much higher because they benefit from the combination of public and private resources and drained the best teachers and the best students from the whole system. You had a reinforcing system of degradation of the public system in favor to the private one which was becoming more and more expensive for the students.

The students wanted to break that system, and Bachelet did a very logical sequence of very meaningful reforms. First, she declared that profit in the private system subsidized by the state is illegal. So it created a separation between purely private and purely public at every level. Private is private and gets no subsidies. And public is public and will become, gradually, free of charge for students.

Here you have the two angles we talked about: how you tax and how you spend. First, she made this legal reform banning profits. Second, her team calculated that to fund a quality free public education Chile needed additional incomes of 3.2% of GDP. What fiscal reform could generate that amount of money? What interests to take on? Bachelet took on the FUT, a fund allowing private actors to deposit profits, which as long as they didn't retire them

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from it, were not taxed. The fund had been created by the dictatorship to bypass the blockade of credits it generated in the 1970s. During the 1990s nobody had touched this. And it was a mechanism funding many expenditures. Bachelet killed the FUT. Every profit has to be taxed now. She also suppressed a concession to the building sector exempt from the value-added tax. She managed also taxed CO2 emissions and polluting cars (above a certain threshold of emissions) and got the additional 3.2% but not only. Banning profits from publicly funded schooling, the Church, heavily involved in the education sector alongside with many businessmen, lost the profits made in those schools. They cannot have anymore a business funded by the government. If they want to make profit in their catholic schools they will have to fund it with their own money. This was blow to the Church, and to the Christian Democratic Party. Then she discussed legalization of some cases of abortion, which is a second blow. And she is winning because, there is a huge consensus that the functioning of the FUT is illegitimate, and that the profit made by private schools with public money is illegitimate. The Right wing parties began to disintegrate as it has been increasingly discovered the illegal origin of private funding for the political parties campaigns and therefore of many of their legislators, engineered through criminal and fraudulent mechanisms. Famous political figures of the most conservative parties and of biggest economic groups were sent to prison.

She recruited her former minister of finance to run the reform

of the education ministry and to savely allocate the money. They discussed this allocation of funds with the unions and the deans of universities of public and private schools. Many of universities accepted the common goal of free education and they achieved a significant percentage of students entering the university level. For the first time the possibility of access to free education became a criterion for students to choose their university. There is thus a massive shift now in terms of who educates who. Not only a high percentage of university students will have free access, but also the investment that is being made in the public university is increasing. So the quality of public education is also increasing which was part of the political debate.

**S**he chose to act mainly at the university level. She could have started at the primary level, enlarging the access for everyone. This point of entry is not as controlled by the Church as University level. So the choice is clear and aims to show the purpose of enlarging the future elite of the country. It sends the following message that you can recapture talent from the whole of society if you have high quality public services and that can be done. And there were a lot of obstacles. Since the Chilean government does not own any media, she suffered from large opposition campaigns. She has been crucified in the press but she succeeded relying on a non mainstream strategy.

She also threw into the fiscal reform there the two first environmental taxes ever. First, they tax

with a ridiculous amount –around 6 dollars per ton of CO2, on electricity utilities above 50 MW of capacity. Marginal –you don't even notice it on the final bill.

The second one was very clever. She taxed the cars based on a normal life cycle of 15 years in terms of the total CO2 they would emit plus NOx. Part of the impact is local, part is global. So she made a progressive tax on the pollution potential of which normally reflects on their price (the bigger the more polluting). Taxing the future owner leaves the choice to the consumer whether to be taxed or not to. The fact that there are no local car-makers reduces the opposition and the lobbying against the measure. It is just the importers who have to choose better. It bypassed any taxing on fossil fuels, progressive or regressive.

All this didn't really slowed down GDP growth –one of the opponent's' argument. Chile is actually growing at a rate of 2%. It could have been of 4% if copper prices were higher, but it happens that the global crisis is still there.

### *Are there other countries wanting to learn from Chile?*

JLS: It is a flagship for any the government who wants to achieve free education and also the car tax is a good example. It will be very difficult to revert. The reform could be replicated for sure. The CEPAL is trying to make the Chile case known more broadly hoping to inspire similar reforms. Tiny tools, like the tax on the new cars, is particularly promising as an entry to green taxes. In other countries you do have subsidies to green cars, to electric cars. That is much more regressive and less efficient.



# Creating commons to fight inequality

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Interview with Gaël Giraud, AFD head economist

WITH TANCRÈDE VOITURIEZ (IDDRI) AND EMMANUELLE CATHELINÉAU (AFD)

*The SDG on inequality requires that the countries endorsing it produce policies to increase the incomes of the 40% poorest. What does this change?*

**Gaël Giraud:** Focusing on the incomes of the poorest 40% stems from a hybrid point of view somewhere between the fight against poverty and the fight against inequality – the middle of the road between the bank you come from (poverty) and the bank the international community is going towards (inequality). This compromise is nevertheless supported by an empirical observation: in a large number of our statistics, the aggregation operation of “averaging” often neglects the “lowest” 40% of the pyramid, those who may have a fate which is radically different from the rest of the population. For example, in almost all countries, the “lowest” 40-50% of the pyramid does not own assets. Focusing on this 40% isn’t actually all that new and GDP constructions had already been applied to the 40%. It’s a way of recognizing the existence of a sort of implicit statistical law which means that this 40-50% often have a fate which is different from the point of view of quality from the

rest of the population. All the work carried out over more than 15 years by a number of economists including James Galbraith, who was initiated well before Piketty’s teams, actually conveys the excellent idea according to which we should look at the most privileged 1%, and even the one in a thousand, to capture the precise evolution of income and asset inequality at the top of the social pyramid. In the early 20th century, Vilfredo Pareto had already been surprised by the fact that incomes were always distributed according to power law. When we observe that 20% of the population owns 80% of wealth it is probably the effect that physicists, after the Danes, called self-organised criticality. Power laws appear very much everywhere: in earthquakes, avalanches, black holes, brain pulses, genetic evolution, the disappearance of species, the size of cities, the distribution of assets, etc. In physics, biology and chemistry, there is now consensus on the existence of this almost universal phenomenon

and it is hardly surprising that we can find similar properties in large socio-economic aggregates. Benoît Mandelbrot, for example, highlighted power laws in the volatility of stock trading prices.

To the best of my knowledge,

nobody has yet developed a self-organised criticality model of stock prices or income distribution. At AFD we are working on this because, at more or less regular intervals, there are big financial crashes which would appear to corroborate this hypothesis. It’s like

the dissipation of geothermal energy under the Earth’s crust: there are lots of little earthquakes (like in Taipei, for example), few medium-strength earthquakes, and luckily huge earthquakes are very rare (Gutenberg-Richter law). This means that focusing on the poorest 40% is important: the fate of populations is not distributed continuously but by batches of individuals, and for a certain number of criteria (including assets), 40% would appear to be the average size of the first cluster.



Gaël Giraud

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### **How does this measure change AFD's mandate?**

**Gaël Giraud:** Up until now, the international community had not really identified inequality as a development goal. It concentrated on poverty, with considerable problems of definition, threshold, etc. The approach using the poorest 40% makes us look more closely at inequality, on which an enormous work of methodology was carried out by the Briton Tony Atkinson. To my way of thinking, this evolution must become part of a wider context which is the raised awareness, including in academic circles, to the harmful nature, for all, even for the wealthiest, of inequality. It isn't just a problem of morality. Work by Pickett and Wilkinson in *The spirit level* shows that even the wealthiest get ill if they are living in a society which is too unequal.

Income is actually only one aspect of the issue: cultural inequality, for example, is decisive. Inequalities of integration in social networks are also fundamental. We worked with Thomas Roca (AFD) and Cécile Renouard (Essec) on an indicator of relational capacity which shows how the inequalities of integration into social networks can be dramatic in a certain number of countries where we intervene. Imagine a widow in a village in the Niger delta. This woman is no longer socialized; her children abandon her and she is ostracised by the village. In some areas, she may even be accused of being a witch and she will be killed because she represents one more mouth to feed and provides nothing. Even though she is not necessarily poor

in the sense that she has maybe more than 2-3 \$US per day, she is living in a form of poverty which is just as penalising because she has access to nothing. Inequalities, in the same way as poverty, should be seen as multidimensional realities.

### **What means do we have to correct this? Is income inequality reduction a legitimate goal for AFD?**

**Gaël Giraud:** Now that AFD has jurisdiction on governance<sup>I</sup>, this is of course part of our mandate. We have the legitimacy to talk to public administrations in the Global south about their tax redistribution policies and make proposals. And this we will do. We are in the process of finishing work on optimum taxation that AFD will soon be able to offer administrations of the Global South (and also the North...).

"Taxation is always *ex-post* redistribution. It arrives too late, so to say, because it always has to justify its intervention on an initial order of things that the most privileged (generally speaking, they are also those who contribute the most tax-wise) often tend to consider as "normal". The redistribution of primary income is linked to the social pact, to the governance of businesses, etc. It is important to intervene on the primary distribution of income even if it is much easier to simply change the tax code. This means entering into the way in which businesses distribute their salaries, the governance of the chieftaincy of a village... But, basically, it's much more important, and that's where the question of commons comes in. A whole series of resources might be destined, if it was so decided,

to be managed as commons: natural resources, of course, but also work or money. Inequality only increases from the moment when the privatisation of a certain number of assets provides income. And that is where the origin of the forms of inequality which are contrary to social justice is mainly to be found. Experience shows that market competition alone cannot help to erode these incomes, very much to the contrary.

### **What is your position in the debate on correction methods? Are you in favour of using equality of opportunity and the tax instrument on the lines of Bourguignon, Milanovic and Piketty? Or do you place yourself more among the structuralists in the same way as ECLAC which wants to intervene on the governance of businesses and the distribution of production factors?**

**Gaël Giraud:** Even though we cannot leave taxation to one side, I think that we cannot get away from the second position. The structuring of commons, if we take it seriously, goes a long way. Let's take the universal basic income. This can be interpreted as a means of decommoditizing work because, from the moment I have a universal minimum existence income which is not conditioned to my activity, if I go out to work, I am no long the total servant of a mercantile relationship. A quota of gratuitousness in work can therefore be honoured. But we need to check that we are capable of financing a universal income of this kind, and this calls for macroeconomic closure. As far as I know, this possibility has

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not been demonstrated to date. We can reason in a similar way for currency: all local currencies, in the same way as the sardex in Sardinia for example, or complementary currencies which are being invented in Latin America using the mobile phone network, make up a way of enabling a territory or a population to reclaim the power to create currency. Most of the time, this makes it possible to make up for the shortcomings of a banking sector paralysed by its dubious debts, as is currently the case in Vietnam, and recreate social links where they are being ripped apart, like in Greece. It is easy to understand that these reforms will be considerable ones.

**And is the idea of “commonization” making headway? What are the markers of this evolution?**

**Gaël Giraud:** Commons are certainly among the most resilient institutions with regards to the ecological shocks we will experience in years to come. Climate disruption and the fact that the ecological footprint of humanity is, currently, much higher than Gaia’s load capacity is already triggering considerable damage. I’ve just got back from Vietnam where the Mekong delta and the Danang coast are highly vulnerable to rising water levels (Vietnam is the fifth most exposed country in the world to warming, after the small island Countries). Already the rice-growing areas, which are precious because the delta is Vietnam’s rice granary, are flooded. This leads to the salinization of water sources that the populations draw from (particularly during a drought such as the one the country has just been through) which is added

to scarcer river flow caused both by the melting of Himalayan glaciers and the withdrawals from Chinese dams upstream. In the first six months of 2016, the country’s growth, instead of the 6.5% forecasted by the government in Hanoi, was only 5.5%, the difference being due to climate impact. How is the country going to adapt? The simulations we have carried out at AFD on the Gemmes macro-economic model show that there is a real danger that what Vietnam is experiencing currently will become the rule for the whole planet, at any rate if we continue on our current trajectory of emission. Negative growth could even be imposed on a large number of countries. How is the world going to adapt?

**B**iology makes the distinction between two types of selection of species: *r* selection and *K* selection. In a highly volatile environment, *r* selection wins, because it favours very adaptable small organisms. Typically, a meteorite can wipe out the dinosaurs – big and not highly adaptable organisms – whereas insects and small mammals survived the Ice Age which hit the planet 65 million years ago extremely well. On the other hand, *K* selection favours big organisms. When an environment is extremely stable, these big organisms benefit from economies of scale and, as they develop, they become predators (or at least indirect ones). Let’s take the example of the big trees in a forest. Because they prevent light from reaching the undergrowth, they prevent it from developing until a drought sets off a forest fire which

devastates the biggest trees and allows the undergrowth to recover. The three post-war decades saw great administrations emerge within an environment which had been stabilized by the Cold War. This was the era of big vertical businesses built on the state model and which have been specifically analysed by Luc Boltanski. This model has already changed since the 1980s. A number of observers argue that, in view of the geological shocks that we will experience due to the climate or the destruction of ecosystems, as currently in Vietnam, *r* selection will once again have the upper hand. Communities organized in common promise to be much more resilient than big bureaucracies (private or public), which are not very flexible. Contrary to SMEs, they often innovate more. The future is for start-ups, not bureaucracy. This is exactly what happened after the fall of the Western Roman Empire (essentially due to the paltry management of natural resources and specifically mining), as Joseph Tainter understands it: weren’t the Middle Ages the return to much smaller decentralised structures, and where commons had a prevailing place? Where several currencies co-existed on the same territory, like the local currencies of today?

For biologists and ecologists, the key word is not “green growth” but *resilience*. So the question we must ask now is: which are tomorrow’s resilient institutions? Of course we could anticipate an extremely violent reaction to the attempts at very rapid privatisation of what there is left to privatize (this is what can be seen, for example, in the countries of Southern Europe

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subjected to budgetary austerity, and particularly in Greece and Spain). We could call this the Titanic syndrome: part of the elite, in the Global North and South, has understood that the “world” liner is heading straight for the iceberg but chooses not to undertake the task of diverting it from its trajectory; it says to itself, however unconsciously: “I will guarantee access to my life-boat, i.e., I will guarantee my own access to energy, drinking water, cultivation and all the resources that my tribe and I will need”. This is what is made possible by the privatisation of assets for the smallest number of people. For years, we have seen incredibly rich city centres in Brazil surrounded by a sea of filthy destitution, the *favelas*. In the long term, however, this geographical split will be hardly sustainable: it will probably end up like Detroit or Homs today. Detroit, an urban territory bigger than the richest American metropolises, and which was once the industrial pride of Michigan, is now a field of ruins where a few rare communities survive. For different reasons, the same goes (even though the Syrian crisis stemmed in part from the 2007-2010 droughts) for the martyr city of Homs. In both cases, the surviving populations have had to learn how to pool the few resources they were left with.

### Which countries address this?

**Gaël Giraud:** Latin America is very open to these issues, particularly Bolivia and Ecuador, and this is evidently very much linked to the governments which control these countries. To my way of thinking, a large number of urban agro-ecological experiments

in Latin America are going in this direction. We can also give the very practical example of fish-farming in the forest region of Guinea. AFD supports peasant-farmers for the montage and management of fish farms for tilapia and other fish, in ponds in the middle of the rainforest, near Nzérékoré. *Toma* peasant-farmers, for example, suffer from a chronic lack of protein because the sea is too far away. And because they are in the forest they can't breed livestock. Fish-farming is therefore an excellent solution; especially in a country which is still not food self-sufficient. But without electricity, and therefore no refrigerators, the fish must be eaten on the day it is caught, so there has to be very efficient coordination between the women who sell the fish in the town market, and the fisherman who catches his fish in the pond in the forest — and above all, they have to agree on a selling price. When they explained how they managed, without knowing it, the groups who manage all this were telling us about a common, where the common resource is none other than fish.

Another example, in the region of Prey Nup in Cambodia, a rice-farming area which was flooded by the ocean. The floods were extremely destructive, in the same way as in neighbouring Vietnam today, because even when the sea withdraws, the salt it contains destroys the soil. The country was therefore obliged to build polders which inspired the magnificent novel by Marguerite Duras, *Barrage contre le Pacifique* (*The Sea Wall*). The major issue was that of reorganising the peasant-farmers behind their dyke, so that they could once

again cultivate rice. Actually, they reorganised themselves as a common, even though, as they of course have not read Elinor Ostrom, they do not have the vocabulary for this type of institution. (Actually, as the Danang case shows, the issue of adapting to climate change is much more complex than the older example of Cambodia: the rise in the waters caused by global warming is accompanied by a disruption of the phenomena of planetary convection between the Equator and the poles. This means that ocean currents are modified, etc. But just building polders is not sufficient as it is highly possible that in twenty years' time, currents or wave direction will have changed and everything will have to be done all over again...)

**W**e can also mention DNDI - Drugs for Neglected Diseases Initiative - a network of initiatives

based in Geneva, which grouped together to build a drug-supply chain, from research on the molecule to the distribution of drugs in the Global South. This enables the sale of cheap drugs to fight against diseases which do not interest the conventional pharmaceutical industry due to the lack of a profitable market in the Global South. DNDI works exactly in the same way as a common on an international scale. It is neither a private company, nor a Government, nor an NGO, it's something else, a hybrid institution, and it works very well! For it to work, it needs an unheard-of alchemy between private initiative, the

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public regulatory framework, the militancy of NGOs...

**Y**et another problem, this time in Bolivia: La Paz has an enormous water supply problem. A few decades ago, it was a flourishing area at an altitude of 4000 metres, with glaciers feeding the ecosystem. The glaciers have melted, and now, there's only a desert where the inhabitants have to draw water from underground water sources. It is important to be extremely careful about how this water is used, as was shown by the Cochabamba episode. Currently, there are cooperatives which do this. The institutional system may seem more classical but in reality it manages this water which has become as precious as a common.

**IS AFD going to have to build agendas to identify commons – what is the common in a given location, what should a common be? - Or is this the responsibility of the populations, the interested parties, with AFD only being there to support their management?**

**Gaël Giraud:** It rather depends on where you are. You have to understand that the Government has a fundamental role to play in a world of commons. Some *commoners* believe that we can do away with the government — this is the case of Pierre Dardot and Christian Laval, who are sometimes tempted to benefit from the “return to commons” we are seeing almost everywhere to do away with the congenital enemy they think

they can see in the Government. Despite the fact that we agree with a considerable part of their analyses, we believe on the contrary that the government has a mission which first and foremost consists of exercising its regalian rights, of course, but also of creating the conditions which would make it possible for commons to emerge within civil society. It is far from true, as Proudhon believed that a community is capable, all the time and everywhere, of spontaneously acting on its own initiative to create a common from scratch. If there is no environment, and specifically a legal one, to favour this moment of establishment, it can be very difficult. It is the Government's work to create and regulate this environment. At AFD, in our public policies dialogue with the Global South, within the framework of the jurisdiction that we have just received on governance, it is part of our mandate to support Governments in planning these conditions of possibility, but also to directly help civil societies (village communities, NGOs, local authorities, businesses, digital communities, etc.) to build and manage the commons they will have adopted, commons which do not already exist, by nature, the political decision of a group to make such and such a private, public or common resource. Moreover, the community sometimes sets itself up in the same movement in which it created a common: see certain women's associations in India, which have formed to manage a seed bank ...

As I said before, the commons approach is a fundamental change. It at last challenges the great implicit programme of the Scottish Enlightenment which,

in the 18th century, spread the idea that if everyone had the same rights, inequality would become natural because it would be endogenous to the free functioning of markets. Everyone has the same right to the resource, but *de facto* does not have the same effective access as it is delivered by the invisible hand. Hence a distribution of primary wealth which is more and more unequal and that taxation only corrects after the fact and too late. In a world of commons, it is actually more a case of the opposite. What counts is that everyone has the same access to the resource. To the equality of opportunity dear to Antony Giddens, we must prefer genuine equality, an equality which is compatible with differentiated rights. The great question is still, when we want to create the institutions which will manage a common: who will have the right to modify the resource, the right to negotiate these modifications, the right to exclude, etc.? Basically, differentiation occurs at the legal level and not at the level of access *per se*. And it is this reversal which can put an end to inequalities. In view of building a fairer society.

1. Since the beginning of 2016, AFD has been authorized to intervene in certain sectors which had up until now been the jurisdiction of the Ministry for Foreign Affairs: management of public finance, economic governance, State reform and institutional support, rule of law and justice, gathered together through use under the term of “governance”.



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## A selection of APFL archives on inequality

The issue of inequality and sustainable development has regularly been treated in A planet for life. Here you will find a selection of essential resources

- > **Thomas Piketty** | The new prosperity of rentiers, APFL 2013
- > **Thiago Varanda Oliveira and Mayra Jurua** | Brazil's social policy in the 21st century, APFL 2013
- > **Samir AITA** | Challenges of a turning point in development: Arab countries after the Spring, APFL 2015

### On urban inequality

- > **Pierre Veltz** | Globalization: an urban opportunity, APFL 2010
- > **Alain Durand-Lasserve** | Regulating property markets for inclusive cities, APFL 2010
- > **Anne Odic** | The city as an actor in social development: Johannesburg, APFL 2015
- > **Olivier Coutard** | Urban Services: Overturning Dogmas, APFL 2010
- > **Sylvy Jaglin** | Access to Water and Access to the City, APFL 2010
- > **Luiz Antonio Machado da Silva** | Favelas - segregation in the heart of the city, APFL 2013.

### SOME IMPORTANT MAPS AND DATA

- > The causes of income inequality
- > Comparison of indicators of inequality in South America, 2011
- > Life expectancy depends on equity
- > Demographic pressure, a product of inequality
- > Social safety net does not constrain job creation
- > A recent divergence of income levels
- > Initial comparisons of national income per capita in developing countries





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## The Fabric of Sustainable Development

**A**fter nine years of paper editions, *A Planet for Life* is developing into a digital project. The next contributions to *A Planet for Life* bear on the analysis of the main issues and challenges regarding the collective commitments of Nations, either the Addis Ababa agreement on development financing, the sustainable Development Goals adopted by the United Nations General Assembly in New York or the commitments of Nations on the climate during the COP 21 in Paris.

**They are organised around 10 cross-cutting dossiers:**

- > Consuming and producing sustainably
- > Ending inequalities
- > Basing public policy on science and knowledge
- > Bad governance: the proliferation of the grey areas of globalisation
- > Global to local and vice-versa
- > Stakeholder participation
- > The global vision of emerging countries
- > Finding the right indicators
- > Financing sustainability
- > Digitalization of society

The topics are introduced by experts from the French Development Agency (AFD) and the Institute for Sustainable Development and International Relations (IDDRI) and commented by international reference personalities proposed by both institutions and their partners, including the TERI. These dossiers are based on previously published articles and on other elements such as maps and charts.



*A Planet for Life* is published by the AFD and the IDDRI.

At the centre of the French system of public aid for developing countries and French overseas territories, AFD finances and assists development projects and programmes which support a more sustainable and shared economic growth, improve the living conditions of the poorest, contribute to protecting the planet and help to stabilise fragile countries or countries emerging from crisis. AFD also collaborates with French and international academic networks to feed discussion and forward planning on development.  
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IDDRI is an independent institute for research on policies which functions as a multi-actor platform. IDDRI identifies the conditions needed to implement sustainable development, and particularly for the protection and management of terrestrial ecosystems and the oceans, the creation of a new model of low-carbon, resilient prosperity, managing transition and the building of new alliances. Since its creation in 2001, IDDRI has been recognized for its key interventions in the field of international cooperation and actions (countries, cities, companies) which keep each other informed.  
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