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Taking income inequality reduction seriously: a pass-or-fail test for the Sustainable Development Goals

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A list of 17 Sustainable Development Goals (SDGs) and their associated targets will replace and enlarge the Millennium Development Goals (MDGs) as of January 2016. Among the contentious issues remaining before finalization lies the question as to whether countries will have to commit to meeting *all* the targets at national level or will be left free to pick-and-choose among them.

The question is of utmost importance for targets such as income inequality reduction, whose final inclusion in the negotiation text came after long and fierce diplomatic battles. Using a simple pass or fail test for the income inequality reduction target, we provide robust explanation on the very reason why countries renege on choosing it as a national target, unveiling its genuine transformative dimension. Further, we suggest using the pass-or-fail test to qualify a pick-and-choose option as transformative or not, thereby shedding some light on the transformative commitment of any single Nation.

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KEY POINTS

- The Sustainable Development Goals' Target 10.1 reads: "By 2030, progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average." Using historical inequality data, we assess countries performance on domestic inequality target over the 1988-2008 period.
- This enables us to qualify the SDG inequality reduction target as conservative for countries for which income growth of the bottom 40% actually overcame mean income growth. And as transformative for countries which so far have failed to meet the target.
- Assuming that SDG-led social and economic transformation will come from a combination of goals and targets cutting across the different dimensions of sustainable development, but also from the target/value assigned to each, we argue that countries should not choose those on which they are already good performers. Only under this condition would the SDG implementation phase not be a show-casing exercise, but a genuine experimentation process.

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1. ARE RISING INEQUALITIES A SUSTAINABLE DEVELOPMENT ISSUE?

Reducing the differences in average national income per capita across countries and fastening convergence in living standards remain the bedrock of development thinking and the central objective of development agendas. A more contentious issue lies in the need for any single country and for collective action among countries to tackle domestic income inequalities. Although theoretical work and empirical evidence provide consistent rationale and guidance for tackling inequalities at home, international development institutions have long considered the reduction of inequalities a sovereign issue for each country, or inequalities as a necessary evil towards global improvement of well being. Despite mounting evidence that domestic income inequalities are resuming and reaching record levels worldwide—at least in countries where top income data are available—they have been politically confined in the shadow of absolute poverty reduction until the SDGs replaced the MDGs and retained an explicit income inequality reduction target. Until then, the few appearances of domestic inequalities in the global development agenda had narrowed them to inequalities of opportunities and access—without any significant mention of income or wealth.

However, there has been a stack of data collected over the last decade pinpointing the catastrophic consequences of rising inequalities on the stability of democratic societies and their performance in a wide spectrum of sustainable development-related issues. Rising inequalities make a dangerous dent into the social contract of meritocratic societies (Piketty, 2014[1]), they jeopardize the capacity of governments to levy taxes and to finance the provision of public goods the argument goes on to say. Theoretical work strongly suggests that they propel unsustainable consumption herd behavior (Bowles and Park, 2005[2]; Frank, 2001[3]). On sustainable development issues, empirical evidence draws a clear relationship between inequality and poor health (Wilkinson and Pickett, 2010[4]) or between economic inequalities and pollution inequalities (Chancel, 2014[5]), even if this would require more systematic investigation. Not only rising income inequalities is a fairness issue and hence a sustainable development concern in its own right. But it has also profound ramifications across a large range of economic, financial, social and environmental issues which ultimately make it both a means and an end for sustainable development.

2. THE DISPUTE OVER THE DOMESTIC INEQUALITY TARGET

The domestic inequality reduction target was the subject of harsh debates within the Open Working Group[6] in charge of establishing a list of goals and targets for intergovernmental negotiations. Several countries such as the USA or Canada contended that a standalone goal on inequality could "lead to a sterile debate" and that domestic inequality reduction would better be achieved through other goals such as economic growth or a fair access to productive assets. Other countries like China and Indonesia argued that within-country inequalities objectives tended to place a higher burden on developing countries than on OECD economies, and that "promoting equality should not be a standalone goal area."

The domestic inequality goal is controversial indeed as it relates to national social and tax policies, which countries traditionally consider as their very own prerogative, as China stressed. After the target was removed from the draft-list in the course of 2014, a group of countries led by Denmark, Norway, and Brazil supported its re-inclusion. Denmark, along with Norway, argued that the rise in inequalities found its roots in "exclusive growth" and that a specific metric should be used to ensure that growth resorbs inequalities rather than triggers them. As for Brazil, while stressing the need to reduce between-country inequalities, it also supported the inclusion of domestic inequality reduction targets. This second group of countries was successful in including the domestic target in the final list.

Without disputing the power of persuasion of Denmark or Norwegian delegates, one should reckon that the possibility ushered by some delegates that countries could pick-and-choose a limited number of targets for national implementation leaves room for consensus. The pick-and-choose option among targets could undermine the transformative power of SDGs as countries could remain in their comfort zone and select targets which are the closest to their business- as- usual (BAU) scenario. To address this possible drawback, and following on our proposition that countries should be asked to announce Intended Nationally Determined Contributions for

1. Piketty, T., 2014. *Capital in the 21st Century.* Harvard University Press Cambridge.
2. Bowles, S., Park, Y., 2005. Emulation, Inequality, and Work Hours: Was Thorsten Veblen Right?. *Econ. J.* 115, F397–F412.
3. Frank, R.H., 2001. *Luxury fever: Why money fails to satisfy in an era of excess.* Simon and Schuster.
4. Wilkinson, R., Pickett, K., 2010. *The spirit level: why equality is better for everyone.* Penguin UK.
5. Chancel, L., 2014. Are younger generations higher carbon emitters than their elders? Ecol. Econ. 100, 195–207.

6. See http://sustainabledevelopment.un.org

SDGs (INDC-eqs, see Voituriez, 2015[7]) for a specific set of targets in a similar approach to the one adopted for mitigating greenhouse gases emissions, we test in the section below the transformative capacity of domestic inequality reduction targets. Implications for the definition of INDC-eqs follow.

3. INEQUALITY GOAL: THE PASS-OR-FAIL TEST

The inequality target of the SDG list tackles both domestic and between countries inequalities, understood under their economic and non-economic dimensions. Target 10.1 specifically addresses domestic income inequalities:

> *"By 2030, progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average."*

The UN Statistical Commission published a report in March 2015 with proposals for indicators able to monitor *evolutions* towards this target. The Commission suggests that countries should use the Gini coefficient or the Palma ratio[8] as well as the change in real income per income quintile. It is important to stress that these indicators have no causal link to the target: they do not tell us whether or not countries meet it. Hence, below, we prefer to focus on the initial *target* as it is possible to assess whether a country complies with it or not.

Using historical inequality data (Lakner and Milanovic, 2015[9]), we present in Table 1 countries which pass and failed the domestic inequality target, over the 1988-2008 time period. This enables us to qualify target 10.1 as *conservative* for countries (in green) in which income growth of the bottom 40% overcame mean income growth, and *transformative* for countries (in white) which so far have failed to meet the target.

Table 1. Domestic inequality test per country

Country	Period	Growth of bottom 40%	National average	Pass/fail (1)
Brazil	1988-2008	76,5%	37,6%	PASS
Brazil	1998-2008	69,6%	20,3%	PASS
Brazil	2003-2008	80,2%	15,7%	PASS
China	1988-2008	78,9%	258,5%	FAIL
China	1998-2008	44,0%	81,2%	FAIL
China	2003-2008	73,5%	50,2%	PASS
Denmark	1988-2008	40,0%	32,3%	PASS
Denmark	1998-2008	73,6%	16,4%	PASS
Denmark	2003-2008	-0,7%	8,6%	FAIL
France	1988-2008	110,8%	26,5%	PASS
France	1998-2008	27,9%	9,9%	PASS
France	2003-2008	10,9%	3,0%	PASS
Germany	1988-2008	-0,5%	25,0%	FAIL
Germany	1998-2008	31,9%	8,0%	PASS
Germany	2003-2008	-5%	2%	FAIL
India	1988-2008	34,8%	101,5%	FAIL
India	1998-2008	48,9%	56,4%	FAIL
India	2003-2008	17,4%	23,2%	FAIL
Indonesia	1988-2008	145,5%	122,8%	PASS
Indonesia	1998-2008	77,8%	31,4%	PASS
Indonesia	2003-2008	30,1%	14,6%	PASS
Spain	1988-2008	49,1%	40,4%	PASS
Spain	1998-2008	5,3%	12,2%	FAIL
Spain	2003-2008	28,8%	2,0%	PASS
Sweden	1998-2008	19,0%	14,5%	PASS
Sweden	2003-2008	-1,8%	4,3%	FAIL
United Kingdom	1988-2008	190,7%	86,2%	PASS
United Kingdom	1998-2008	77,5%	28,4%	PASS
United Kingdom	2003-2008	37,6%	2,6%	PASS
United States	1988-2008	24,5%	55,4%	FAIL
United States	1998-2008	4,5%	26,9%	FAIL
United States	2003-2008	2,5%	4,2%	FAIL

Source: Based on Lakner and Milanovic database, data from national consumption or income surveys in constant 2005 USD PPP. See Lakner and Milanovic (2015) for more detail

4. RESULTS OF THE TEST

The within-country inequality goal is constraining and can hence be deemed transformative, as a lot of countries have failed in meeting it over the past 25 years. In that respect, it is possible to say that the inequality target has a transformative power: in order to meet the objective, countries like China, the USA, or India will have to adopt new policies and deviate markedly from their "business as usual" prolonged trend—note that the positive figure for 2003-2008 is largely due to short-term financial crisis effects in 2008.

Yet, some countries did manage to meet the inequality reduction objective. Brazil or France met the targets for all the years considered. Spain, Sweden, Denmark or Germany met it for some periods. This point is also crucial as it shows that the goal is not impossible to achieve—the objective is realistic—and that countries might benefit from a collective learning process on how to achieve domestic inequalities reduction.

The fact that both developed and emerging countries met the target also deserves careful consideration. Brazil started from an extremely unequal situation at the end of the 1980s and adopted redistribution measures directed at the poorest. Denmark has a long tradition of progressive fiscal regime. The means chosen to reduce inequalities differ across countries, but what is interesting here is that whether developed or developing, countries not yet meeting the target can learn from other developed *and* developing countries. This is in line with the

7. Voituriez, T. (2015). Three commitments governments should take on to make SDGs the drivers of a major transformation. IDDRI *Issue Brief* 03/15.

8. Ratio of the top 10% share by the bottom 40% share.

9. Lakner, C., Milanovic, B., 2015. *Global income distribution: From the fall of the Berlin Wall to the Great Recession.* World Bank Economic Review.

universal scope of SDGs, as laid out in „The Future We Want", the outcome declaration of the Rio+20 summit: every country should transform and the solutions will not come from developed countries only.

Regarding the means to reduce inequalities, it clearly stands out that economic growth alone is not a good metric to monitor the reduction in domestic inequalities. There is nothing new under the sun here, but it seems important to recall this stubborn fact as certain countries still seem to believe in a quasi-systematic growth-inequality reduction link.

Countries that strongly supported the inequality target are countries that generally succeeded over the past 25 years in reaching the target (this is the case for Brazil, France and to some extent Denmark). Conversely, countries that opposed the objective, like China or the USA, failed to meet the target over the period considered for the test.

Last but not least: the choice of indicators and data sources used to monitor whether countries pass or fail the inequality test is key. In this article, we use data from surveys to account for bottom 40% income growth and compare it to mean household consumption growth from National Accounts. Had we used mean income data from surveys instead, a few countries which passed the test would have failed it (such as Indonesia for all periods) and others which failed the test would have passed it (like India, from 1998 to 2008). In order to ensure international consistency of SDGs, it is indeed essential that all countries use the same concepts and methodologies as well as transparent data sources.

5. IMPLICATIONS FOR THE DESIGN OF INDCs FOR SDGs (INDCs-EQ.)

A UN official, Mr Kamau, highlighted that, because the SDGs are interrelated, countries "will not be able to pick-and-choose which goals to implement and which goals not to." This indivisibility of the agenda, due to the integrated nature of the SDGs, implies that one cannot look at a goal without taking into account its relationship with other goals. Yet what holds for goals at the global level does not hold for targets at the national level. The opportunity to cover all the 160-or so targets at country level is questionable, some delegates emphasizing irrelevancy, impossibility to measure and/or inconsistency in the proposed list. The US questioned for instance how to prioritize across the 371 different elements and outcomes that are covered in the targets, and whether to use a "pick-and-choose" approach or apply more integrated thinking.

In the future stages of the SDG process, if countries are allowed to pick-and-choose a few targets on which they would commit to perform, a key question will be : "how to select the targets deemed relevant to national priorities and consistent with the overarching transformative ambition of the post-2015 development agenda?"

From a global sustainability standpoint, what matters is the selection of a transformative set of targets to which values beyond BAU would be ascribed. To turn it in another way, transformation will come from a combination of goals and targets cutting across the different dimensions of sustainable development, but also from the very target/value assigned to each. We argue in this brief that countries should not choose those on which they are already good performers. Only under this condition would the SDG implementation phase not be a show-casing exercise, but a genuine experimentation process.

Our simulation test further shows that assessing the transformative value of specific targets for a given country is something doable—at least for those targets which are substantially dynamic (in the sense that they inform of the *change* of a variable) as well as binary (either pass or fail). It helps draw the line between conservative and transformative commitments vis-a-vis a BAU scenario inferred by the value of the target at some point/period of the past.[10]

Our test focuses on the transformative dimension of a standalone target. It does not address the issue of how to choose and assess the transformative *combination* of goals and targets stretching across sustainable development different dimensions. What makes a combination of goals and targets transformative in given national circumstances? One option complementing our test would consist in developing transformation pathway scenarios at national level by 2030. In a previous brief, we have argued that one way to foster national appropriation of SDGs, thereby bridging the sustainable development implementation gap, would be to develop forward-looking views of different potential development paths for 2030 at national and regional levels (Voituriez, 2015). Forward-looking exercises are ongoing in some countries for climate change and energy and agriculture. They could be generalized to other SDGs and lead to the definition of INDCs-eq. applied to a dashboard of country-relevant SDGs and targets. This dashboard should encompass targets passing a transformation test in the vein of the one suggested in this brief.

10. Indeed, the fact that a country performed on an target over the recent past does not imply that it will easily perform on this target in the coming years. In that sense, past performance is not an ideal proxy for a *transformative* target—but it remains the best we could find.