THE BROKER
CONNECTING WORLDS OF KNOWLEDGE

Attention to inequality should be a basic element of any post-2015 agenda

Rolph van der Hoeven | 17 December 2012

However, for a workable post-2015 system, it is not only necessary to make the various impacts on poorer groups more visible and to suggest corrective measures in terms of public and development aid expenditure, but also to analyse what kind of economic or social processes are causing these enormous (often growing) inequalities in developed and developing countries and to incorporate in a post-2015 agenda explicit policies and targets for economic policies which are pro-poor and reduce inequalities.

We should especially question why functional income distribution (that is, the distribution between capital income and labour income) has changed substantially in favour of capital in the last three decades. A recent report (Stockhammer (2012), observes that, as part of a broader trend towards greater social inequality, wage shares in national income have declined in all OECD countries. In developing and emerging economies the picture is somewhat less homogenous, but in most of these countries wage shares have also declined. *Financialization* emerges as the single most important cause for the decline in the wage share, together with welfare state retrenchment and globalization.

The report refutes two widely held views about income distribution. First, that changes in income distribution in advanced economies have mainly been driven by technological change. While technological change has had a negative effect on wage shares in developed economies, this effect is smaller than that of other factors and it is less robust. Second, the prediction that globalization would benefit workers in developing and emerging economies does not hold; globalization has had an observable overall negative impact on wage shares in developing economies.

These findings have important implications for economic and social policy in a post-2015 agenda. They suggest that income distribution is not primarily determined by technological progress, but rather depends on social institutions and the structure of the financial system. *Strengthening the welfare state, strengthening the bargaining power and inclusion of groups at the bottom of the income distribution, and improving financial regulation could help increase the wage share with little if any costs in terms of economic efficiency or growth.*

This is not utopian (van der Hoeven, 2011). Two examples are relevant: First, half a century ago, economic policy in the Netherlands was based on five objectives agreed in a social compact between workers, employers and the government: full employment, equitable income distribution, shared economic growth, price stability and a sustainable balance of payments. That period of shared consensus was characterized by rising employment, fairly equitable inequality and growth. (What is also remarkable is that the goal of achieving an equitable distribution of income was accepted, at a time when research on inequality and growth had not yet advanced as far as it has today and at that time still pointed towards a trade-off between economic growth and reducing inequality, which we know now is often not true)

A second example is the experience of the so-called Asian tigers which, in the period from 1965 to 1980, laid the basis for their extremely fast development. This was achieved through a combination of redistributive policies (land redistribution and high investments in education) and rapid but managed industrial development.

These two examples of combining growth with equitable income distribution may look very different at first glance, but have at least one element in common: both are examples of restrained capitalism. In Europe the restraints came from social pacts and the functioning of the labour markets, while in the Asian tigers they came from government bureaucrats and political elites.

About the author

Rolph van der Hoeven

Rolph van der Hoeven is Professor on Employment and Development Economics at theInstitute of Soci...

Literature

Melaned, C. (2012) *After 2015: Contexts, Politics and Processes for a Post 2015 Global Agreement on Development,* London, ODI.

Stockhammer, E (2012)*Why have Wage Shares fallen? A Panel Analysis of the Determinants of Functional Income Distribution*, (ILO) project 'New Perspectives on Wages and Economic Growth', Kingston University, UK.

Van der Hoeven, R. (2010) 'Income Inequality and Employment Revisited: Can One Make Sense of Economic Policy? ' in *Journal of Human Development and Capabilities*, Vol 11, no. 1, pp 67-84.

Vandemoortele, J.(2011) 'The MDG Story: Intention Denied' in *Development and Change* 42 (1), pp.1-21.

Wilkinson, R. and K. Pickett (2010) *The Spirit Level: Why Equality is Better for Everyone*. London, Penguin Books.