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Can the EU help developing countries fight inequality?

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Bonn, 8 October 2012. 'Sustainable' and 'inclusive' are adjectives that have for quite some time now been used in conjunction with growth. Current approaches to inclusive and sustainable growth focus heavily on the sustainability aspect, both in terms of economic growth and environmental sustainability through greening the economy. Inclusive growth is now commonly used to refer to a development strategy that goes beyond increasing GDP - which by itself may not be sustainable - and that also considers its process and outcomes.

Evidence suggests that growth is unlikely to be either sustainable or inclusive unless the tendency to rising inequality can be arrested and reversed. The distribution of global income is extremely unequal. In 2011, the richest 20% of the world's population controlled 80% of the world's income, compared to just 2% for the poorest 20%. Studies by the IMF, the World Bank and UNICEF have all found that longer growth spells are robustly associated with more equality in income distribution. The 2011 UNDP Human Development Report found that achieving sustainable development globally will require bolder action on internal inequalities and environmental risks. As shown both historically (by the East Asian 'miracle') and empirically (by the World Bank's Development Research Group), growth and equity are positively linked: economic growth is greater and growth cycles last longer when accompanied by a simultaneous reduction in inequality.

Development policy has come to embrace approaches that are called 'pro-poor' or 'inclusive'. At the policy level, this has meant adopting programmes that aim to foster broad-based growth, especially through the private sector. This avoids the trickle-down assumptions underpinning policies focusing on growth alone — many of which have failed to alleviate poverty or improve general

wellbeing. In Latin America, programmes like Bolsa Familia in Brazil have led to large reductions in income inequality. The Asian Development Bank has started to develop indicators for measuring inclusive growth which include several dimensions of socio-economic inequality, including gender equity. The International Labour Organisation recently adopted a recommendation from an advisory group headed by former Chilean President Michelle Bachelet on social protection floors including healthcare and basic income security for children, working people and retired people.

Within this general consensus there remain, however, deep disagreements, over what the scope of public policies and private investment should be to target distributional issues. These disagreements are particularly pertinent in the EU. When it comes to internal EU affairs, the European Commission is committed to social cohesion — which means, among other things, reducing economic inequality. However, that same commitment has not materialised to any great extent beyond Europe, in EU international development cooperation.

The question of how to deal with inequality is starting to inform debates about the future of EU development policy. The October 2011 Agenda for Change stresses inclusiveness and sustainability and emphasises the importance of the private sector. However it mentions 'inequality' only once, and this is in reference to equality of opportunity, not of income. On 20 August 2012 the Commission started filling in this gap with the release of a Communication on social protection in EU development cooperation. This document makes some welcome suggestions for advancing social protection in middle income countries (MICs) and in poor countries, including placing social protection at the heart of dialogue with developing country governments and supporting

domestic initiatives to reform tax systems. Its publication indicates that at least some EU development policymakers are interested in mainstreaming the inequality issue, an impression also conveyed by the focus of the upcoming European Development Days.

Momentum appears to be building, but the question still remains as to whether the EU can turn some of these expressions of intent into concrete action. There are at least three reasons to doubt this:

First, although the Commission earmarks around 20% of its development aid for social cohesion programmes, most is actually spent on activities to promote economic growth and tackle governance issues like police and judicial reform. These are undoubtedly helpful, but do not address inequality directly. One specific social cohesion programme, the EUROsociAL programme for Latin America, is very promising, but it is small and marginalised. There are much bigger steps that the EU could take to prove that it is serious about inequality and inclusive development, such as cracking down on tax havens which enable some developing country elites to siphon off wealth that could be invested in social protection and domestic enterprises creating decent, sustainable jobs.

Second, The EU is seriously thinking of disengaging from country-level development cooperation with MICs. Poverty remains a massive problem for many MICs, and even though they have increasing national wealth there are major obstacles to ensuring that most of the people benefit. Addressing inequality could become a central topic for politi-

cal dialogue and technical cooperation with those MICs that are interested. The EU has lots to offer on both dimensions from its own social and regional cohesion experiences. However dialogue and cooperation need to take place at the national level, not only through regional and thematic programmes as currently proposed.

Third, the EU must set an example. Developing country elites will not take EU policy prescriptions targeting inequality seriously while inequality is rising in Europe. As Europe wrestles with self-doubt about its future and its place in the world, this is a good time to reflect on what the European project has been about: providing for the long-term peace, prosperity and well-being of the citizens of its member states. Social cohesion, achieved by ensuring that as many people as possible have a decent standard of living, is a core element of this strategy. It should not be forgotten that although the EU's social model varies from country to country, it contains core features – such as low inequality – that make it one of Europe's greatest success stories.

The European Think-Tanks Group will debate Europe's approaches to inequality in developing countries at the high-level Panel "**Confronting Inequality**" at the European Development Days (EDD) on 17 October 2012.

The European Think-Tanks Group was founded by the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE), the Overseas Development Institute (ODI), the European Centre for Development Policy Management (ECDPM), and the Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE).