

Eliminating Extreme Inequality: A Sustainable Development Goal, 2015–2030

*Michael W. Doyle** and *Joseph E. Stiglitz**

At the United Nations Millennium Summit in September 2000, UN member states took a dramatic step by putting people rather than states at the center of the UN's agenda. In their Millennium Declaration,¹ the assembled world leaders agreed to a set of breathtakingly broad goals touching on peace through development, the environment, human rights, the protection of the vulnerable, the special needs of Africa, and reforms of UN institutions. Particularly influential was the codification of the Declaration's development-related objectives, which emerged in the summer of 2001 as the now familiar eight Millennium Development Goals (MDGs), to be realized by 2015:²

1. Eradicate extreme poverty and hunger.
 - Halve the proportion of people living on less than a dollar a day and those who suffer from hunger.³
2. Achieve universal primary education.
 - Ensure that all boys and girls complete primary school.
3. Promote gender equality and empower women.
 - Eliminate gender disparities in primary and secondary education preferably by 2005, and at all levels by 2015.
4. Reduce child mortality.
 - Reduce by two-thirds the mortality rate among children under five.
5. Improve maternal health.
 - Reduce by three-quarters the ratio of women dying in childbirth.
6. Combat HIV/AIDS, malaria, and other diseases.
 - Halt and begin to reverse the spread of HIV/AIDS and the incidence of malaria and other major diseases.

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7. Ensure environmental sustainability.
 - Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.
 - By 2015, reduce by half the proportion of people without access to safe drinking water.
 - By 2020, achieve significant improvement in the lives of at least 100 million slum dwellers.
8. Develop a global partnership for development.
 - Develop further an open trading and financial system that includes a commitment to good governance, development, and poverty reduction—nationally and internationally.
 - Address the special needs of the least developed countries, and the special needs of landlocked and small island developing states.
 - Deal comprehensively with the debt problems of developing countries.
 - Develop decent and productive work for youth.
 - In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.
 - In cooperation with the private sector, make available the benefits of new technologies—especially information and communications technologies.

As UN Secretary-General Kofi Annan later described them, the MDGs were a remarkable effort in international coordination. They established common ground among competitive development agencies, inspired concerted action by international organizations and national governments, and offered an opportunity for citizens to insist that governments focus on the “we the peoples” they claimed to represent. In short, they transformed the agenda of world leaders.⁴

Fourteen years later, the MDG record has been mixed. Some goals, such as halving the proportion of people living in extreme poverty, have been met at the global level, but none have been fulfilled in all countries. Others, such as universal access to primary education, are unlikely to be achieved by 2015.⁵ However, while the accomplishment of these goals would have been an impressive achievement, even taken together they do not represent a complete or comprehensive vision of human development. They were constrained by what the member states could agree upon in 2000 and, in particular, they lacked a vision of *equitable* development.⁶ As the international community thinks about the set of goals that will follow the MDGs, it is time to address that shortcoming by adding the goal of “eliminating extreme inequality” to the original eight.

WHY INEQUALITY MATTERS

Every country has a distinct political economy that shapes the extent and effects of inequalities; each requires separate assessment. The marked differences in the extent and nature of inequality across countries demonstrate that inequality is not just determined by economic forces; it is shaped by politics and policies.

Full equality is not the goal. Some economic inequalities may be conducive to economic growth. Other inequalities may not be worth addressing because doing so infringes on cherished liberties. While the precise point at which inequalities turn harmful may differ from country to country, once inequality becomes extreme, harmful social, economic, and political effects become evident. Extreme inequalities tend to hamper economic growth and undermine both political equality and social stability. And because inequalities have cumulative economic, social, and political effects, each of these contributing factors requires separate and concerted attention. We turn first to the economic arguments for reducing extreme inequalities, and then to the political and social arguments.

*Economic Arguments*⁷

Economists of widely differing philosophical outlooks agree that inequalities of incomes and assets have harmful economic effects. Increasing inequalities, with top-heavy income distributions, lessen aggregate demand (the rich tend to spend a smaller fraction of their income than the poor), which can slow economic growth. The attempt of monetary authorities to offset these effects can contribute to credit bubbles, and these bubbles in turn lead to economic instability. That is why inequality is often associated with economic instability. In this perspective, it is not a surprise that inequality reached high levels before the Great Recession of 2008 and before the Great Depression of the 1930s.⁸ Recent International Monetary Fund research shows that high inequality is associated with shorter growth cycles.⁹

Much of the inequality observed around the world is associated with rent-seeking (for example, the exercise of monopoly power), and such inequality manifestly undermines economic efficiency. But perhaps the worse dimension of inequality is inequality of opportunity, which is both the cause and consequence of inequality of outcomes, and causes economic inefficiency and reduced development, as large numbers of individuals are not able to live up to their potential.¹⁰

Countries with high inequality tend to invest less in public goods, such as infrastructure, technology, and education, which contribute to long-term economic prosperity and growth.

Reducing inequality, on the other hand, has clear economic as well as social benefits. It strengthens people's sense that society is fair; improves social cohesion and mobility, making it more likely that more citizens live up to their potential; and broadens support for growth initiatives. Policies that aim for growth but ignore inequality may ultimately be self-defeating, whereas policies that decrease inequality by, for example, boosting employment and education have beneficial effects on the human capital that modern economies increasingly need.¹¹

Political and Social Arguments

Gaps between the rich and the poor are partly the result of economic forces, but equally, or even more, they are the result of public policy choices, such as taxation, the level of the minimum wage, and the amount invested in health care and education. This is why countries whose economic circumstances are otherwise similar can have markedly different levels of inequality. These inequalities in turn affect policy-making because even democratically-elected officials respond more attentively to the views of affluent constituents than they do to the views of poor people.¹² The more that wealth is allowed unrestricted roles in funding elections, the more likely it is that economic inequality will get translated into political inequality.

As noted, extreme inequalities undermine not only economic stability but also social and political stability. But there is no simple causal relation between economic inequality and social stability, as measured by crime or civil violence. Neither form of violence correlates with Gini indices or Palma ratios (the top 10 percent of the population's share of Gross National Income [GNI] divided by the poorest 40 percent of the population's share of GNI).¹³ There are, however, substantial links between violence and "horizontal inequalities" that combine economic stratification with race, ethnicity, religion, or region. When the poor are from one race, ethnicity, religion, or region, and the rich are from another, a lethal, destabilizing dynamic often emerges.

Drawing on 123 national surveys in 61 developing countries, one study carefully documents the effects of inequalities in assets among ethnicities. For a typical country with average values on all the variables accounting for violence, the probability of civil conflict in a given year is 2.3 percent. If the level of horizontal asset

inequality among ethnic groups is increased to the ninety-fifth percentile (and the other variables remain at their average values), the probability of conflict increases to 6.1 percent—more than a twofold increase. A similar comparison focused on differences in income among religious groups shows an increase from 2.9 percent to 7.2 percent—again, more than twofold.¹⁴ Another study using similar methods finds regional disparities in wealth to be correlated with an especially high risk of conflict onset in sub-Saharan Africa.¹⁵

Using a different methodology that focuses on geographical disparities in income that are linked with ethnic differentiation, rather than surveys to measure inequalities, other authors confirm the dangers of large horizontal inequalities. Focusing on the post-cold war period (1991–2005), Lars-Erik Cederman, Nils Weidmann, and Kristian Gleditsch divide the total sum of economic production in a given ethnic settlement area by the group's population size to get ethnic group-specific measures of per capita economic production. They find that both relatively poorer and relatively richer ethnic groups have higher likelihoods of experiencing civil war. Demonstrating that not just ethnographic factors are at work, they show that the richer (or the poorer) the ethnographic group is, the greater the likelihood of the extreme groups experiencing civil war with other ethnographic groups.¹⁶

THE MANY DIMENSIONS OF INEQUALITY

Just as discussions of poverty and poverty reduction expanded from a single-minded focus on *income* to many other dimensions of deprivation—including health and the environment—so too did they evolve in the case of inequality.¹⁷ Indeed, in most countries it appears that inequalities in wealth exceed those in income. Especially in countries without adequate public health systems, a Palma ratio reflecting health status would almost surely show even greater inequalities than a Palma ratio for income. A Palma ratio based on exposures to environmental hazards would likely demonstrate a similar trend.

One of the most pernicious forms of inequality relates to inequality of opportunity, reflected in a lack of socioeconomic mobility, condemning those born into the bottom of the economic pyramid to almost surely remain there. Alan Krueger, former Chairman of the U.S. Council of Economic Advisors, has pointed to this link between inequality and opportunity.¹⁸ Inequality of income tends to be associated with less economic mobility and fewer opportunities across generations.

The fact that those born into the bottom of the economic pyramid are condemned to never reach their potential reinforces the correlation between inequality and slower long-term economic growth.¹⁹

That these dimensions of inequality are related suggests that focusing on one dimension at a time may underestimate the true magnitude of societal inequalities and provide an inadequate basis for policy. For example, health inequality is both a cause and consequence of income inequality. Inequalities in education are a primary determinant of inequalities in income and opportunity. In turn, as we have emphasized, when there are distinct social patterns of these multiple inequalities (for example, those associated with race or ethnicity), the consequences for society (including social instability) are increased.

MEASURING THE GOAL

We propose that the following goal—call it “Goal Nine”—be added to revisions and updates of the original eight: *Eliminate extreme inequality at the national level in every country*. For this goal, we propose the following targets:

- By 2030, reduce extreme income inequalities in all countries such that the post-tax income of the top 10 percent is no more than the post-transfer income of the bottom 40 percent.
- By 2020, establish a public commission in every country that will assess and report on the effects of national inequalities.

There is a growing consensus that the best indicator for these targets is the Palma ratio, which effectively focuses on extremes of inequality—the ratio of incomes at the very top to those at the bottom.²⁰ In many countries around the world it is changes in these extremes that are most noticeable and most invidious, while the share of income in the middle is relatively stable.²¹ All countries should focus on their “extreme” inequalities, that is, the inequalities that do most harm to equitable and sustainable economic growth and that undermine social and political stability. A Palma ratio of 1 is an ideal reached in only a few countries. For example, countries in Scandinavia, with Palma ratios at 1 or less,²² do not seem to suffer from the liabilities associated with extreme inequalities. Indeed, in some accounts they seem to benefit from a positive “equality multiplier” across the various aspects of their socioeconomic development, making them efficient and flexible as well as equitable and stable.²³

But countries differ not just in how unequal they are now but also in their culture, tolerance of inequality of various kinds, and capacity for social change. Hence, the more important target is the second one: a national dialogue by 2020 on what should be done to address the inequalities of most relevance to the particular country. Such a dialogue would draw attention to the policies in each country that exacerbate inequality (for example, deficiencies in the education system, the legal system, or the tax and transfer system); those that simultaneously distort the economy and contribute to economic, political, and social instability; and those that might most easily be altered.²⁴

Support for reducing extreme inequalities is widespread.²⁵ In a letter to Dr. Homi Kharas, lead author and executive secretary of the secretariat supporting the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, ninety economists, academics, and development experts urged that reduction in inequality in the post-2015 development framework be made a priority, and suggested that inequality be measured using the Palma ratio.²⁶ They argue—consistent with our analysis—that inequality threatens poverty eradication, sustainable development, democratic processes, and social cohesion.²⁷

Awareness of the adverse effects of inequality has moved beyond academics and social activists. A July 2013 speech by U.S. President Barack Obama outlined the role of inequality in creating credit bubbles (like the one that precipitated the Great Recession) and the way it deprives people of opportunity, which in turn fosters an inefficient economy in which the talents of many cannot be mobilized for the good of all.²⁸ And Pope Francis, in his address in the Varginha slum of Rio de Janeiro on World Youth Day 2013, emphasized the need for greater solidarity, greater social justice, and special attention to the circumstances of youth. And, again consistent with the studies cited earlier, he declared that peace cannot be maintained in unequal societies with marginalized communities.²⁹

There are many dimensions to inequality—some with more invidious effects than others—and many ways to measure these inequalities. One thing is certain, however: sustainable development cannot be achieved while ignoring extreme disparities. It is imperative that the post-MDG agenda have as one of its central points a focus on inequality.

NOTES

¹ *General Assembly Resolution 55/2*, “United Nations Millennium Declaration,” UN document A/RES/55/2, September 8, 2000, www.un.org/millennium/declaration/ares552e.pdf.

- ² As announced in the appendix to the “Road Map Report,” UN document A/56/326 of September 6, 2001. The UN member states tasked the UN Secretary-General with preparing a “road map” that would develop and monitor “results and benchmarks” (“Follow-up to the Outcome of the Millennium Summit,” UN document A/RES/55/162, December 18, 2000). For an analysis of the origins and significance of the MDGs, see Michael Doyle, “Dialectics of a Global Constitution: The Struggle over the UN Charter,” *European Journal of International Relations* 18, no. 4 (2012), pp. 601–624.
- ³ The original indicator was \$1 a day, which has since been raised to \$1.25 to reflect inflation.
- ⁴ Kofi Annan, with Nader Mousavizadeh, *Interventions: A Life in War and Peace* (New York: Penguin, 2012), pp. 244–50.
- ⁵ United Nations, *The Millennium Development Goals Report 2013*, pp. 4–5. For more information on the status of the Millennium Development Goals, see the full 2013 report: www.un.org/millenniumgoals/pdf/report-2013/mdg-report-2013-english.pdf.
- ⁶ The original goals did not include access to reproductive rights, which was corrected in 2005. See *General Assembly Resolution 60/1*, “2005 World Summit Outcome,” UN document A/RES/60/1, paragraphs 57(g) and 58(c): mdgs.un.org/unsd/mdg/Resources/Attach/Indicators/ares60_1_2005_summit_eng.pdf. These goals also lacked the governance goals being considered today. See the Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development*, Annex II, p. 50: www.un.org/sg/management/pdf/HLP_P2015_Report.pdf.
- ⁷ For a more thorough discussion of the adverse economic consequences of inequality, see Joseph E. Stiglitz, *The Price of Inequality* (New York: W. W. Norton, 2012), and the references cited there.
- ⁸ Stiglitz, *The Price of Inequality*, ch. 4, pp. 83–117.
- ⁹ A. Berg, J. Ostry, and J. Zettelmeyer, “What makes growth sustained?” *Journal of Development Economics* 98, no. 2 (2012). For a more theoretical treatment of the links between inequality, instability, and human development, see Stiglitz, “Macroeconomic Fluctuations, Inequality, and Human Development,” *Journal of Human Development and Capabilities* 13, no. 1 (2012), pp. 31–58. Reprinted in Deepak Nayyar, ed., *Macroeconomics and Human Development* (London: Routledge, Taylor & Francis Group, 2013).
- ¹⁰ William Easterly, “Inequality Does Cause Underdevelopment: Insights from a New Instrument,” *Journal of Development Economics* 84, no. 2 (2007). The Council on Foreign Relations reported this year that there are enormous gaps in American students’ achievement depending on their socioeconomic background, and found that parental wealth exerts a stronger influence on achievement in the United States than in almost any other developed country. See Council on Foreign Relations, *Remedial Education: Federal Education Policy*, June 2013, www.cfr.org/united-states/remedial-education-federal-education-policy/p30141.
- ¹¹ Easterly, “Inequality Does Cause Underdevelopment.”
- ¹² Larry Bartels, *Unequal Democracy* (Princeton, N.J.: Princeton University Press, 2008).
- ¹³ We would prefer a measure of post-tax (after all income and other taxes) and post-transfer incomes (after housing, child care, social security and other subsidies), but this is not yet widely available. Unofficial Palma Ratios by country available upon request. To request this unofficial data, please contact Alicia Evangelides at ame2148@columbia.edu.
- ¹⁴ Gudrun Østby, “Inequalities, the Political Environment and Civil Conflict: Evidence from 55 Developing Countries,” in Frances Stewart, ed., *Horizontal Inequalities and Conflict: Understanding Group Violence in Multiethnic Societies* (Basingstoke: Palgrave Macmillan, 2008), pp. 136–157, p. 149.
- ¹⁵ Gudrun Østby and Håvard Strand, “Horizontal Inequalities and Internal Conflict: The Impact of Regime Type and Political Leadership Regulation,” in K. Kalu et al., eds., *Territoriality, Citizenship, and Peacebuilding: Perspectives on Challenges to Peace in Africa* (Pietermaritzburg, South Africa: Adonis & Abbey, 2013).
- ¹⁶ Lars-Erik Cederman, Nils B. Weidmann, and Kristian Skrede Gleditsch, “Horizontal Inequalities and Ethnonationalist Civil War: A Global Comparison,” *American Political Science Review* 105, no. 3 (2011), pp. 487–89.
- ¹⁷ The World Bank’s classic study *Voices of the Poor* highlighted that the poor suffered not just from a lack of income but from insecurity and a lack of voice. This was subsequently reflected in the decennial World Bank’s *World Development Report on Poverty* in 2000. The International Commission on the Measurement of Economic Performance and Social Well-Being (2010) emphasized that metrics of performance (including output and inequality) had to be expanded beyond just conventional measures of GDP and/or income. The OECD has carried on this work in their *Better Living Initiative*, including the construction of the Better Life Index. An important part of the agenda of the OECD High Level Expert

Group on the Measurement of Economic Performance and Social Well-Being is the construction/evaluation of alternative measures of inequality.

- ¹⁸ Alan B. Krueger, "Land of Hope and Dreams: Rock and Roll, Economics, and Rebuilding the Middle Class" (remarks, Rock and Roll Hall of Fame and Museum, Cleveland, Ohio, June 12, 2013), www.whitehouse.gov/blog/2013/06/12/rock-and-roll-economics-and-rebuilding-middle-class#fulltext.
- ¹⁹ Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," *Journal of Economic Perspectives* 27, no. 3 (2013), pp. 79–102.
- ²⁰ Alex Cobham and Andy Sumner, "Putting the Gini Back in the Bottle? 'The Palma' as a Policy-Relevant Measure of Inequality," King's College London, March 15, 2013, www.kcl.ac.uk/aboutkings/worldwide/initiatives/global/intdev/people/Sumner/Cobham-Sumner-15March2013.pdf. The Palma ratio is "the ratio of the top 10% of population's share of gross national income (GNI), divided by the poorest 40% of the population's share of GNI." We would prefer a measure of post tax (after all income and other taxes) and post transfer incomes (after housing, child care, social security and other subsidies), but this is not yet widely available.
- ²¹ This is not true, however, for all countries. In the United States, for instance, there has been a hollowing out of the middle class, with a declining fraction of the population between, say, twice and half the median income and a declining fraction of income going to this group. It has long been thought that a stable democracy depends on a thriving middle class. If so, the decline of the middle class should be of special concern. (For a fuller discussion of these issues, see Joseph E. Stiglitz, *The Price of Inequality*.) Part of the national dialogues on inequality that we recommend below would focus on the nature of the inequality that is emerging in various countries.
- ²² José Gabriel Palma, "Homogenous Middles vs. Heterogeneous Tails, and the End of the 'Inverted-U': The Share of the Rich Is What It's All About," Cambridge Working Papers in Economics (CWPE) 1111, January 2011, www.econ.cam.ac.uk/dae/repec/cam/pdf/cwpe1111.pdf.
- ²³ Karl Ove Moene, "Scandinavian Equality: A Prime Example of Protection Without Protectionism," in Joseph E. Stiglitz and Mary Kaldor, eds., *The Quest for Security: Protection Without Protectionism and the Challenge of Global Governance* (New York: Columbia University Press, 2013), pp. 48–74.
- ²⁴ For instance, in the United States such a dialogue would note inequalities in access to education and health; a bankruptcy code that gives first priority to derivatives and makes student loans difficult to discharge, even in bankruptcy; a tax system that taxes income of the rich derived from speculation at much lower rates than wage income; a minimum wage that, adjusted for inflation, has not increased in half a century; and a system of social protection that does a much poorer job in "correcting" inequalities in income than systems in other advanced industrial countries. It would analyze the extent to which disparities in income are a result of differences in productivities, with differences in productivity in turn partly explained by disparities in access to quality education; the extent to which disparities in income are related to rent-seeking; and the extent to which such disparities can be accounted for by inheritances.
- ²⁵ Alex Cobham and Andy Sumner, "Is It All About the Tails? The Palma Measure of Income Inequality," Center for Global Development, Working Paper 343, September 2013, www.cgdev.org/sites/default/files/it-all-about-tails-palma-measure-income-inequality.pdf.
- ²⁶ See the letter to Dr. Homi Kharas of the Brookings Institute from ninety economists, academics, and development experts supporting the use of the Palma ratio as a measure of inequality at: www.post2015hlp.org/wp-content/uploads/2013/03/Dr-Homi-Kharas.pdf.
- ²⁷ Ibid.
- ²⁸ Michael Shear and Peter Baker, "Obama Focuses on Economy, Vowing to Help Middle Class," *New York Times*, July 24, 2013, www.nytimes.com/2013/07/25/us/politics/obama-to-restate-economic-vision-at-knox-college.html?_r=0.
- ²⁹ Pope Francis, "WYD 2013: Full text of Pope Francis's address in Rio slum," *Catholic Herald*, July 25, 2013, www.catholicherald.co.uk/news/2013/07/25/wyd-2013-full-text-of-pope-franciss-address-in-rio-slum/.