Notes on the Policy Seminar on Inequality and Development, Held on the 26th of September 2014 at the Ministry of Foreign Affairs of Finland

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Abstract
The following document presents summarised key notes from the United Nations University – World Institute for Development Economics Research (UNU-WIDER) policy seminar titled “Inequality and Development – Trends and Policies”. This policy seminar represented a follow-up to a prior two-day conference organised earlier in the same month by the same institute, in which the author has participated as well.

Keywords: UNU-WIDER, policy, seminar, inequality, development

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Main Points

The seminar started around the planned time. Brochures from the previous United Nations University – World Institute for Development Economics Research (UNU-WIDER) September conference titled “Inequality – Measurement, Trends, Impacts, and Policies”, as well as other research briefs, from UNU-WIDER Research and Communication on Foreign Aid (ReCom), that discussed, among other, the role of aid in the promotion of development and the extent to which unpaid care work is addressed in World Bank projects, were made available for the attendants.

The opening word was given by the Deputy Director General of the Development Policy Department at the Ministry of Foreign Affairs of Finland, Riikka Laatu. Lasting around ten minutes, it had an emphasis on the link of this policy seminar with the previous conference, and stated the department's view on what is considered inequality across and within groups and countries. It further described the attempts of their development policy to decrease inequality and improve income distribution, and reiterated the interest in tangible conclusions from the previous conference and its relevancy to the Post-2015 Process and Working Group.

The introductory word was that of Finn Tarp, the Director of UNU-WIDER. After expressing thanks to the Ministry's staff, as well as that of UNU-WIDER, Tarp affirmed the link with the previous conference through an observation about the increase of inequality levels in the recent years. Tarp equally expressed his personal interest in the topic by reiterating a remark mentioned in the previous conference regarding the communality of the topic of his thesis and that of the conference and the seminar. His subsequent point discussed the trade-off between inequality, growth, and poverty through the example of François Bourguignon's Iron Triangle, as well as interconnected aspects such as environmental protection. Tarp further emphasised the importance of data in this context through the re-announcement, previously made during the prior conference, of the latest update to one of the UNU-WIDER's jewels, id est the World Income Inequality Database (WIID). The WIID entered its 3.0B version in early September 2014, with around 2000 new observations covering more countries and seven more years up to 2012, as well as corrections to its June 2014 3.0A version. It has been rather widely used so far in related academia, and has even been the foundation for other, arguably enhanced, databases, namely Frederick Solt's Standardized World Income Inequality Database (SWIID). The presence of these seemingly competing databases does not seem to please Tarp, who tried to wittingly hint at how institutions are “taking over the WIID” and “branding it as their own”. The last point of the 23-minute address asserted that development is as a matter of fact happening and not stagnating, and that Brazil is one of the
notable examples, where the income of the poorest decile has quadrupled comparatively to the Gross Domestic Product (GDP), mainly through the effect of the Bolsa Família policy. Tarp concluded by reviewing key messages from the last conference's final panel and invited the audience to check the UNU-WIDER's website and publications.

The first presentation, discussing the trends of inequality and the role of social protection, was that of Miguel Niño Zarazúa. While asserting that inequality is a concern for a country's potential of economic growth, the presentation's introduction showed a declining international trend for inequality between 1975 and 2005, yet an intra-national stagnation, as exhibited through the levels of the Theil L mean log deviation index. Subsequent slides drew a closer look on India and China, where the main factors that reduced inequality were stimulus packages and social policies such as minimum wage, agricultural support, and targeted tax reduction policies. Furthermore, the presenter used the South American examples of Brazil and Chile to show how conditional cash flows work better than food subsidies in reducing inequality through their predictability for the recipient, among other. The twelve-minute presentation equally confirmed the same observation in the case of low-income economies, where the capacity to collect revenues is limited and where social protection may cost up to 5% of the GDP. The presenter concluded with brief remarks on related resource mobilisation.

The following presentation discussed the role of taxation. Jukka Pirttilä started by providing an outline of the three presentation sections, i.e. characteristics of a “good redistributive tax system”, details on the full incidence of tax and spending policies as well as the role of price subsidies compared to direct income support, and finally thoughts on the linkages between tax policy research and actual policy practice in developing countries. The first part described a “good redistributive tax system” based on the Mirrlees Review, led by James Mirrlees of Britain's Institute for Fiscal Studies: Key principles are considered progressiveness and neutrality, e.g. no discrimination between different activities unless there are “good reasons”, otherwise such differentiations might create incentives for tax evasion. Furthermore, a system needs to be thought of “as whole”, with considerations of the role of each tax. Pirttilä concluded the section with further notes on tax systems and relative economist attention, and started the following one on taxes, poverty, and inequality, with an explanation of the differences about income concepts, e.g. net income or market income. The second point of the section concerned redistribution using indirect taxes and price subsides compared to direct transfers, and was based mainly on the presentation of Michael Keen titled “Equity Objectives and Puzzles in the Linking of Tax and Spending Measures”,
which was delivered at the previous UNU-WIDER conference in a parallel that Pirttilä chaired. The main question, i.e. “are there better ways?”, found a theoretical support: For a cash transfer, the condition consists in the consumption share being lower than the share in total cash benefits. Pirttilä also suggested that price support may be less efficient than taxation due to its distorted targeting to the poorest. This signalled the transition to the final section of the final presentation, where the main message and policy conclusion for the Ministry of Foreign Affairs was to think of taxes and transfers as a system and to seek more knowledge about the current systems of low-income countries, in order to optimise redistribution within the same rationale of transfers and public provisions rather than price subsidies.

Prior to the scheduled panel, Finn Tarp had a brief word encouraging questions and invited Kari Alanko, the Deputy Director General of the Department for Africa and the Middle East at the Ministry of Foreign Affairs of Finland to comment. Building on a previous remark that discussed the linkages of poverty, growth, and inequality, Alanko stated its political dimension, affirming that Finland's different political parties “tolerate” rather different extents of inequality. Alanko equally admitted that it is not enough to acknowledge inequality, as there is yet need to unearth the reasons, and focus on applying policies that proved their efficiency. In this sense, the contribution of institutions like the UNU-WIDER is deemed essential to increase understanding. Alanko further reiterated the Bourguignon's triangle linkages and asserted the need to shift focus from one point to juggling between points, citing the example of his Mozambican experience. His conclusion revolved around the need for the solicitation of clear policy recommendations from researchers, without the caveat of “on the other hand”.

The subsequent comment was addressed by Alanko's colleague, the Deputy Director General of the Department for Americas and Asia, Eija Rotinen, who expressed her rather different perspective. While agreeing with Alanko that there is still much to learn, Rotinen stated that their methodology resembled that of a “fire brigade”, in the sense of “doing something about the most crucial injustices”, and concluded her five-minute comment with the examples of Afghanistan, Myanmar, and Nepal, elaborating on the department's work in the areas of increasing economic well-being in basic services, e.g. water, as well as grass-roots promotion of human rights.

The panel's questions revolved mostly on the ethicality of accepting an inequality minimum from a human rights perspective, and whether inequality would be a concern “if everyone were equally poor”. Responses included that of Miguel Niño Zarazúa, which considered inequality to become a problem when it is an obstacle for economic growth, and that social protection policies
act on more than one axis to limit inequality and improve growth. He concluded by stating that there is still room for learning about the tax-inequality linkage, particularly from the South American and Asian countries, in order to properly form policy recommendations that achieve and maintain peace, and reduce inequality, particularly in Sub-Saharan Africa. Jukka Pirttilä's brief comment affirmed that the presence of acceptable levels of income inequality is relative, and Finn Tarp's concluding comment insisted on the importance of juggling between the two issues and not working to solve each one uni-dimensionally.

If there would be any observations to be made, they would concern the relative lack of technical depth regarding policy recommendations; albeit the fact that the offered generalised recommendations seemed to appear complicated for some of the audience. On the other hand, despite some of the questions regarding the “extent of tolerated inequality” seemingly reflecting a rather limited overview of economic theory and mechanisms as well as the current de facto standard documents related to human rights, mainly the Universal Declaration of Human Rights, responses could have acknowledged that the reduction of inequality, per se, concerns the effort to offer to everyone an equal opportunity to access services, rights, and whatever may be deemed necessary in the view of different human groups as inscribed in their respective founding documents such as constitutions or other consensual social contract manuscripts. In this sense, economists need not to be obsessed with altering what human economic choices affect ex-post for the sake of reducing inequality, since in essence, and on a more philosophical level, as long as there is biodiversity, everyone would commit different choices and have different interpretations of inequality, itself hence remaining rather intrinsically human. This is in no sense contradictory to the Universal Declaration of Human Rights, which states that human beings are born equal, are endowed with reason and conscience, and are entitled with rights, hence emphasising on entitlement and equal opportunity and not on equal outcomes. Granted however that such responses could have sparked further debate, which time constraints would not have allowed, yet could posit initiatives for further events. Overall, the seminar went well and the organisational set-up of the UNU-WIDER and the Ministry of Foreign Affairs of Finland is assuredly exemplary.