United Nations Educational, Scientific and Cultural Organization

Sustainable Development Goals

ISSC international social science council

World Social Science Report 2016

Inequalities and social progress in the future

COLOUR RAIN, Icy and Sot (New York, USA, 2013)

40. Inequalities and social progress in the future

Marc Fleurbaey and Stephan Klasen

World inequalities have evolved in a complex way over the past few decades. The economic emergence of several developing countries with large populations has lowered global inequality, while the widening of inequalities within countries has served to increase it. Many future evolutions are possible. The baseline scenario would see the world go back to a nineteenth-century pattern of large social inequalities. Less unequal scenarios could involve political intervention to reduce inequalities domestically, or quicker convergence between countries. In all scenarios, the convergence of living standards will raise serious environmental challenges.

Inequalities in the world: stylized facts

The twentieth century saw many complex twists and turns as far as income inequalities are concerned. There are four main stylized facts to highlight.

First, the '*Great Escape*' (Deaton, 2014) of developed nations opened a gulf between the rich and the poor regions of the world, creating a bimodal distribution of incomes that was particularly large at the end of the colonial period. At the end of the twentieth century the catching-up initiated by several large emerging economies, particularly in Asia, brought the world distribution back to a unimodal pattern. This is shown in *Figure 40.1*.

The second important fact is that the shift of world income to a unimodal pattern has primarily been a movement of inequality reduction between countries rather than within countries. However, inequalities between countries have not been reduced by any decrease in the gap between their average incomes. In fact, the per-capita income gap between the world's richest and poorest countries today is as large as it has ever been. The real change is that a few countries with a large population, most notably China, but also India, Indonesia, Viet Nam and Thailand, have had high growth rates that lifted a large number of their citizens out of poverty and into the middle of the global income distribution. This reduction in inequalities between countries does not translate into a reduction of inequalities at the world level over the past two decades, because inequalities within countries have actually increased in many nations (though not all, Brazil being a notable exception).

The third fact is that in spite of the emergence of developing economies, and the high and rising inequalities within countries, the world is still one in which the widest gaps in living standards have to do with location, not with socio-economic status. According to Milanovic (2012), two-thirds of global inequalities at the end of the nineteenth century were socio-economic rather than geographical. Now geographical inequalities have become prominent. The global Gini coefficient is much higher, at about 0.7, than typical country coefficients (around 0.6 in Brazil, 0.4 in the USA and 0.3 in Scandinavia). Both inequalities have strong implications for social stability across the world. Large inter-country differences in incomes help promote large migration flows from poor to rich countries, which can put pressure on social provision there. At the moment, most migration is linked to civil conflict, wars and government repression in sending countries. However, the large income gaps in the world bring with them the potential for economic migration to increase. Increasing within-country inequality poses additional challenges for social stability.

The fourth fact (see *Figure 5.1* in article 5 in this volume) is that recent economic change has benefited a large portion of the lower middle class and the top elite of the world, but has left out the most disadvantaged and harmed the upper middle-class of the world, which consists largely of the lower-income groups in developed countries.

This article features in the *World Social Science Report 2016*, UNESCO and the ISSC, Paris. Click here to access the complete Report.

Globalization and technical progress have enabled the educated and globalized elite of the world to reap immense benefits. The elites of emerging countries are increasingly part of this global elite. Lower down, in the middle of the global income distribution, more educated blue-collar and white-collar workers have benefited tremendously from export-led growth in emerging economies, which has allowed them to increase their incomes. At the same time, social stratification in developed countries has widened, wages of less skilled workers have stalled, and the scarcity of decent jobs has had a deep impact on employees and blue-collar workers. People on these levels now think that their children will be worse off than they have been; a sad intergenerational perspective. The gathering of the world distribution into a single mode has been due to a combination of catching-up by some from the lower mode and a lack of movement among those in the upper mode.

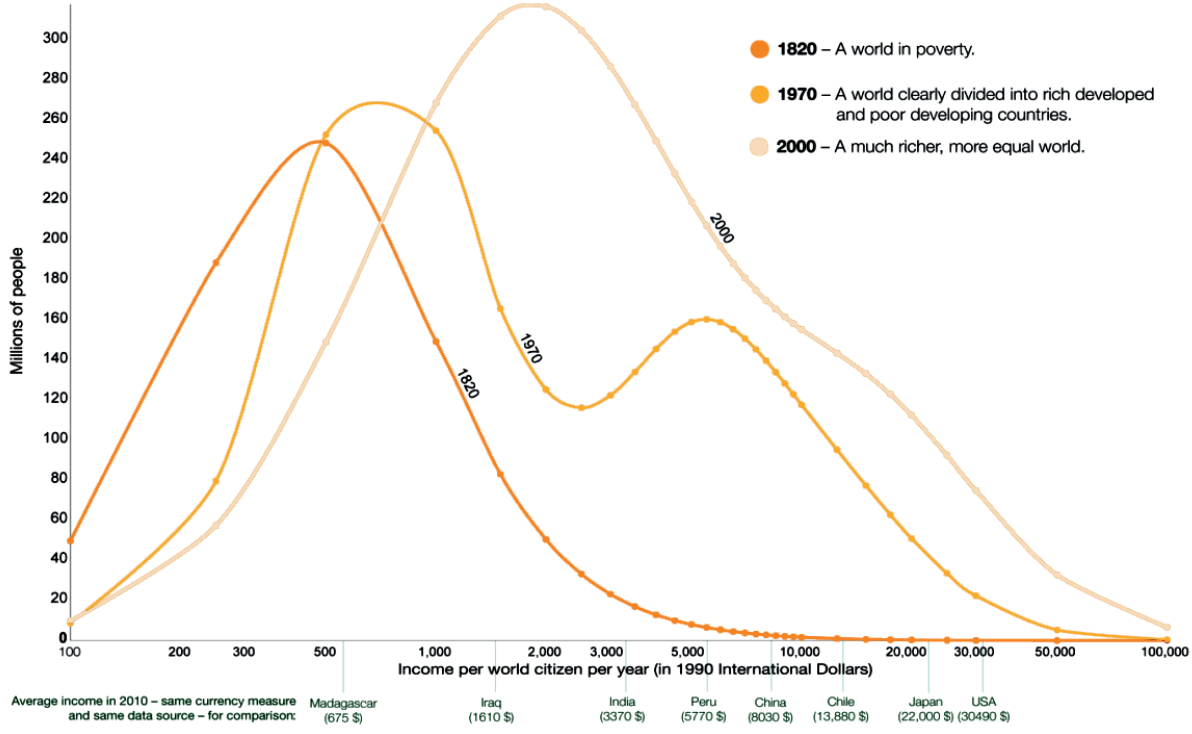
The picture that results from combining these facts is complex, because geographic inequalities remain important in spite of emerging economies' catching-up movement. The socio-economic gaps have become increasingly worrying in spite of the geographic gaps being far larger.

What is wrong with inequalities?

What is the problem? Inequalities have three major undesirable features.

First, when the people at the lower end of the distribution fall into poverty, as has always happened throughout history, there is a huge waste of human potential. Further, high inequality reduces the impact of growth on poverty reduction. Reducing poverty is that much harder if inequality is large. This is why poverty was reduced so very fast in China in the early 1980s, when inequality was still low. With much higher inequality, poverty reduction has slowed considerably.

Figure 40.1 **World income distribution (with absolute population numbers) at three dates**



Note: The yearly income of all world citizens is measured in International Dollars. This is a currency that would buy a comparable amount of goods and services to those a US dollar would buy in the USA in 1990. Therefore incomes are comparable across countries and across time.

Source: Max Roser's elaboration on data available from *www.Clio-Infra.eu* via van Zanden et al. (2014) – *How Was Life ?*. OECD. The interactive data visualization is available at *www.OurWorldinData.org*.

This article features in the *World Social Science Report 2016*, UNESCO and the ISSC, Paris. Click here to access the complete Report.

Second, inequalities lead to social disintegration, unrest and violence.

The third undesirable feature of inequalities is that they are mostly very unfair. It is impossible to justify the unequal opportunities offered to the children of different socio-economic groups, or of different countries.

The duty to do something about inequalities, however, depends not just on the unfairness of the situation, but also on how effective the action will be.

Three – or four – scenarios

Examining how the trends observed in the first section may evolve in the twenty-first century, we can imagine three stylized scenarios.

In the first scenario, business as usual (BAU) continues, with the same policies: the sustained globalization of capital flows (but restricted migration), and low regulation of inequalities, financial risk and environmental externalities. Emerging economies will continue to catch up, while the most deprived countries might remain a long way behind. Inequalities within countries will continue to increase, at least in most of the developed nations, because of the inequality trap that allows the globalized and educated elite to tell national governments what to do. National governments then continue to lose their power to tax mobile inputs (capital and skilled workers) and have to reduce the welfare state. In this BAU scenario, world inequalities remain stable. Inequalities between countries continue to decrease, whereas inequalities within them rise. The world gradually returns to a situation where social inequalities become important and geographic inequalities lose their importance, although they remain substantial if some failed states fall behind. This scenario can be described as going back to the nineteenth century. It contains considerable potential for social unrest, which will have negative economic and political consequences. There is also significant potential for rebellion by Mother Earth, which could disrupt livelihoods in some areas and slow down or reverse the convergence in living standards between regions of the world.

In the second scenario, which may be called the 'social' scenario, many countries take drastic actions against inequalities at home, because a growing shared concern about inequalities brings a change in politics. While international coordination would make redistributive policies more effective, this scenario does not assume it, and substantial action on inequalities can happen on national grounds (Atkinson, 2015). This scenario actually favours the continued catching-up of emerging economies. Inequalities can be reduced in these countries and in developed nations. Capital is likely to flow away from developed nations, to avoid taxes and seek profitability in emerging economies. In this case, world inequalities would start to decrease, combining declining trends within and between countries. This social scenario would create a situation that is unlike both the nineteenth century, with its social inequalities, and the twentieth century, with its geographic inequalities. Instead, the scenario would combine the single mode situation of the nineteenth century with the social institutions of the twentieth century. An open question about this scenario is whether it would put more or less pressure on the environment than BAU. The international catching-up process adds pressure, while the impact of redistribution is unclear, and depends on consumer practices at different income levels.

In the third scenario, which may be called the 'geographic' scenario, national politics are unchanging, but globalization and technical transfers keep stimulating the catch-up process. Most developing countries benefit and raise their average living standards. Climate policies aimed at spreading clean energy throughout the world push the convergence process. Similarly, access to improved technologies in various sectors of production, agriculture and health promotes income growth in poor countries. Such policies may involve providing modern energy and technologies to currently deprived regions, which will increase economic development. In this scenario, inequalities between countries continue to decrease more sharply than in BAU. Inequalities might still increase in the developed countries, but global inequalities will decrease, slowly converging toward the level of within-country inequalities. Whether inequalities will increase or decrease in emerging countries depends on how new technologies and investments are spread. Complex patterns might develop in which the poorest populations (in particular, discriminated minorities) are left behind, with slightly less poor populations gaining. Different patterns may be observed in different countries, depending on their institutions and policies as well as on their trade and foreign investments.

This article features in the *World Social Science Report 2016*, UNESCO and the ISSC, Paris. Click here to access the complete Report.

This scenario is more favourable than the previous ones for one aspect of the environment: climate change. However, there is no guarantee that it will not create serious problems in resource depletion, biodiversity and pollution.

Of these three, the social scenario would be the most effective in protecting national societies against social unrest, but might not avoid destabilizing migration and other results of wide geographical wealth gaps. The geographic scenario will naturally control economic and refugee migration by ensuring better prospects at home for potential migrants. However, these prospects may become unstable at the national level if the elite 1 per cent and the remaining 99 per cent move further apart and end up living in such different conditions that the governing elite can no longer connect to the mass of citizens and satisfy their basic demands. The BAU scenario might combine both sources of instability, so that it is actually unlikely to unfold as described. It is quite possible that a mix of the social and the geographic scenarios could occur, with some countries turning to more redistribution, and a great effort being made internationally to combine climate policy and access to technologies and development.

The ideal scenario would develop this mix further, and combine internal and coordinated international action against inequalities with quicker convergence of living standards between regions of the world. Unfortunately, the degree of international coordination on tax policy that this scenario requires is quite unlikely. The promise of such a scenario is that it could generate a world free of absolute poverty, curable life-threatening illness, and poor education. Such an opportunity is only possible given the last century's large income growth and its associated improvements in health and education. It is less clear whether such a scenario would run up against environmental constraints without drastic changes in our production processes and consumption patterns (Rockström and Klum, 2015).

There are some encouraging facts. For instance, the quick convergence of living standards would make fertility rates converge and contribute to stabilizing the world population at lower levels, which is good for the environment. Likewise, spreading access to clean energy swiftly would enable poor populations to bypass older technology and raise their living standards in a much more environmentally friendly way than has happened previously.

But environmental problems could be worsened if the majority of the world's population imitate the damaging lifestyles of the rich in developed countries, with (for example) high levels of meat consumption, frequent tourism and large houses. Deep changes – not just in institutions, but also in technologies and norms of behaviour – would be required for such a scenario to fit planetary boundaries.

One key fact not mentioned in the first section is that the lifestyle of the affluent, which is based on fossil fuels and the extensive use of raw materials, was only sustainable for more than a century because of the worldwide inequalities we still have today. Spreading this lifestyle was and remains incompatible with the ecosystem. Reducing inequalities in the future, a key factor in social progress, will involve not just sharing resources, but also using them differently.

Bibliography

Atkinson, A. B. 2015. *Inequality: What Can Be Done?* Cambridge, Mass., Harvard University Press.

Deaton, A. 2014. *The Great Escape: Health, Wealth, and the Origins of Inequality.* Princeton, N.J., Princeton University Press.

Milanovic, B. 2012. Global income inequality by the numbers: in history and now. Policy Research Working Paper 6259. Washington DC, World Bank

Piketty, T. 2014. *Capital in the Twenty-First Century.* Cambridge, Mass., Harvard University Press.

Rawls, J. 1971. *A Theory of Justice.* Cambridge, Mass., Harvard University Press.

Rockström J. and Klum M. 2015. *Big World, Small Planet: Abundance within Planetary Boundaries.* New Haven, Conn., Yale University Press.

Roser, M. n.d. Our world in data. *https://ourworldindata.org/* (Accessed 11 June 2016.)

Van Zanden, J. L., Baten, J., Mira d'Ercole, M., Rijpma, A. Smith C. and Timmer, M. (eds). 2014. *How Was Life? Global Well-Being Since 1820.* Paris, OECD.

■ ***Marc Fleurbaey*** *(France), Robert E. Kuenne Professor at Princeton University, has published* Fairness, Responsibility and Welfare *(OUP, 2008) and* Beyond GDP *(OUP, 2013, with Didier Blanchet). He is coordinating editor of* Social Choice and Welfare.

■ ***Stephan Klasen*** *(Germany), professor of development economics at the University of Göttingen, is also director of the Ibero-America Institute for Economic Research and coordinator of the Courant Research Centre on 'Poverty, equity, and growth in developing and transition countries'.*

This article features in the *World Social Science Report 2016*, UNESCO and the ISSC, Paris. Click here to access the complete Report.

World Social Science Report 2016

This article features in the World Social Science Report 2016, UNESCO and the ISSC, Paris.

The World Social Science Report 2016 was published by the United Nations Educational, Scientific and Cultural Organization (UNESCO), 7, place de Fontenoy, 75352 Paris 07 SP, France and the International Social Science Council (ISSC), 1 rue Miollis, 75732 Paris Cedex 15, France.

Original title: *World Social Science Report 2016 – Challenging Inequalities: Pathways to a Just World* – ISBN 978-92-3-100164-2

The *World Social Science Report 2016* is a collaborative effort made possible by the support and contributions of many people. It was financed by generous contributions from the Swedish International Development Cooperation Agency (Sida), UNESCO, as part of its Framework Agreement with the ISSC, the Swiss Agency for Development and Cooperation (SDC), as well as the European Science Foundation (ESF), Netherlands Organisation for Scientific Research (NWO), the Research Council of Norway, Riksbankens Jubileumsfond, and the Swedish Research Council.

Graphic and cover design: Corinne Hayworth

Typeset and printed by: UNESCO

The World Social Science Report 2016 was prepared by the ISSC and the IDS and co-published with UNESCO

The Report is available online at: *en.unesco.org/wssr2016*
Hard copies are available from UNESCO Publishing:
http://publishing.unesco.org/details.aspx?&Code_Livre=5160&change=E

This report should be cited as follows: ISSC, IDS and UNESCO (2016), *World Social Science Report 2016, Challenging Inequalities: Pathways to a Just World*, UNESCO Publishing, Paris.

SWEDEN

The Report is supported by The Swedish International Development Cooperation Agency (Sida)