



The Inefficiency of Inequality



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Tectonic shifts define current globalization

**Migration and
demographic transition**

**Fourth technological
revolution**

The future of work

**The crisis of
mega-trade agreements**

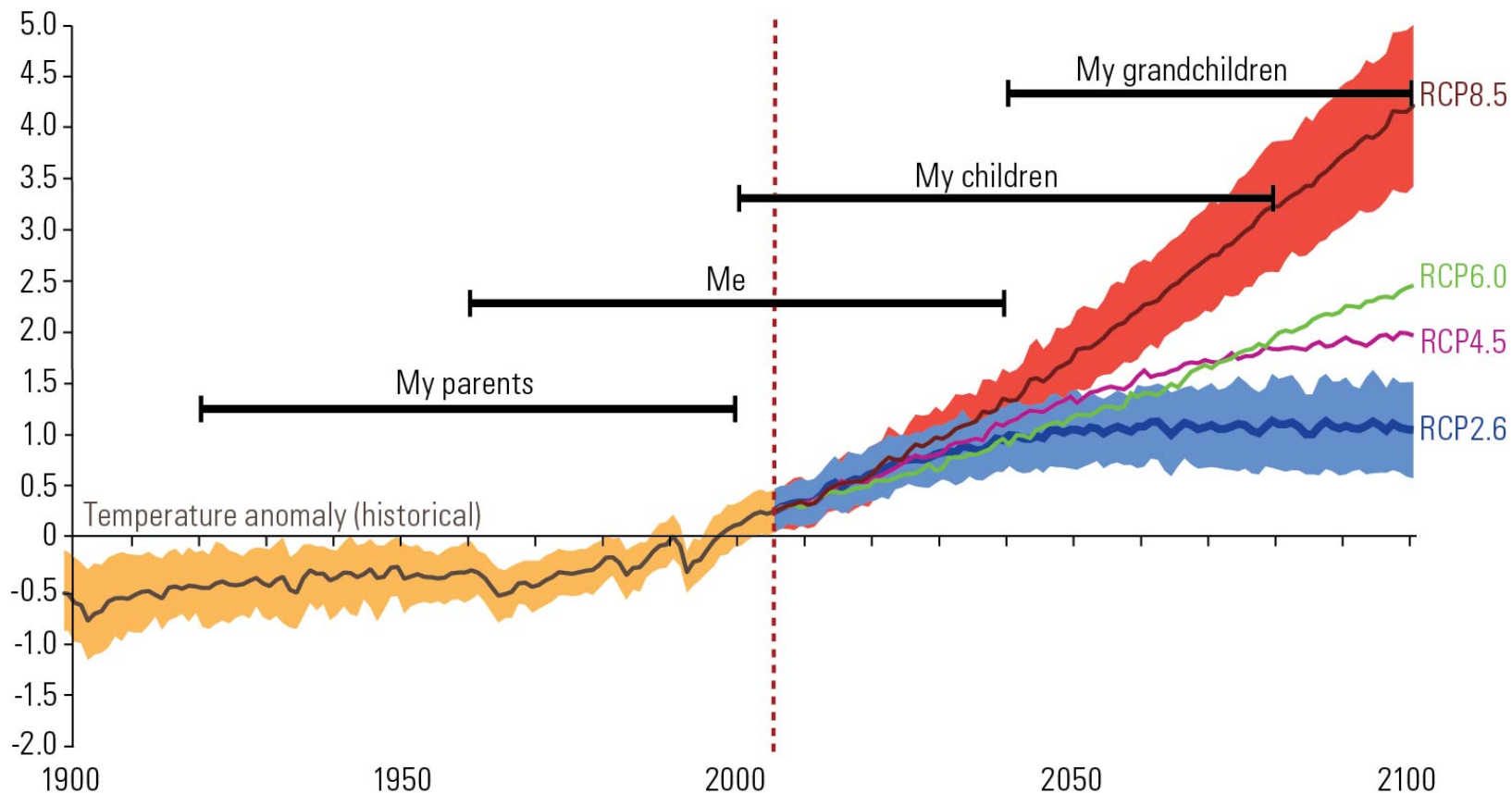
Geopolitical changes

Climate change



The destruction of the environment as intergenerational inequality

Global surface temperature anomaly, 1900-2100, compared with the average for 1986-2005
(Degrees Celsius)

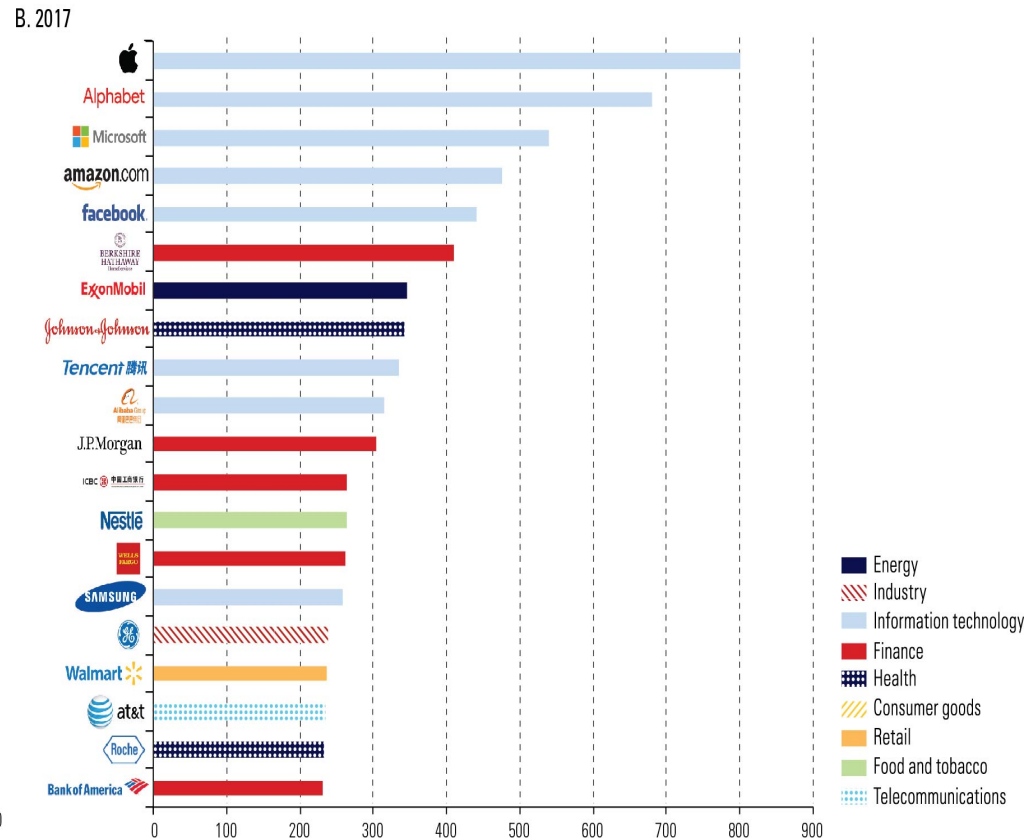
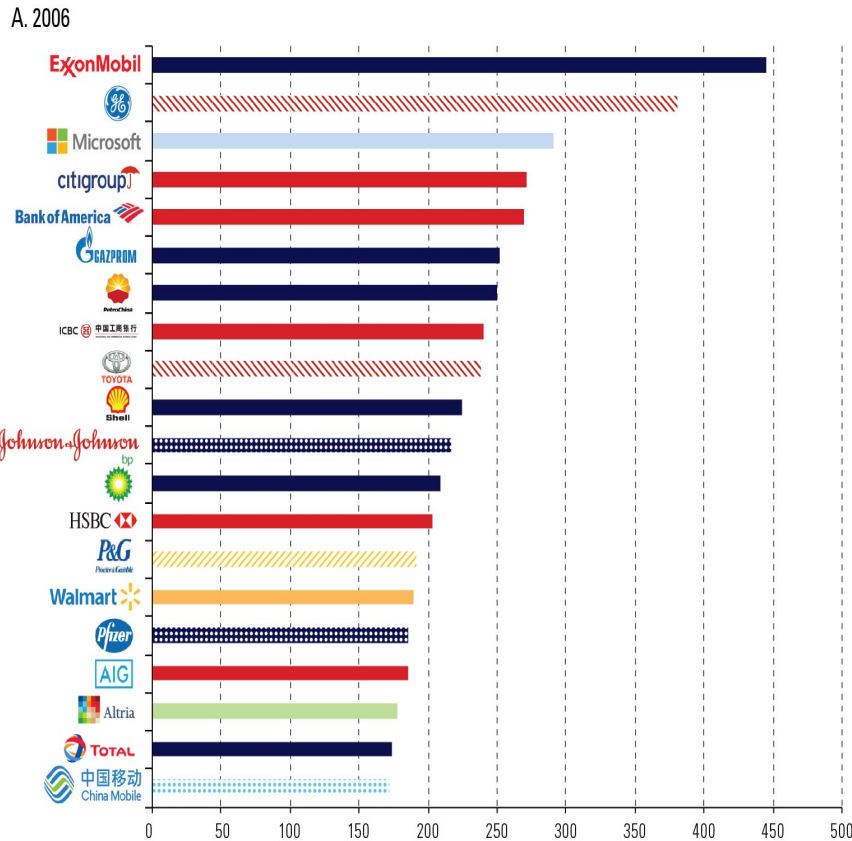


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Intergovernmental Panel on Climate Change (IPCC), *Climate Change 2014: Impacts, Adaptation, and Vulnerability. Part B: Regional Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change*, V. R. Barros and others (eds.), Cambridge, Cambridge University Press, 2014, and D. Weston, "State of the planet, Kyoto and technical fixes", *The Political Economy of Global Warming: The Terminal Crisis*, London, Routledge, 2013.



The technological revolution is redefining sectors and leading global companies and increasing the need for the region to redouble its technology efforts

Market value of the largest global companies, 2006 and 2017
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Bloomberg (date of reference: March 2017).



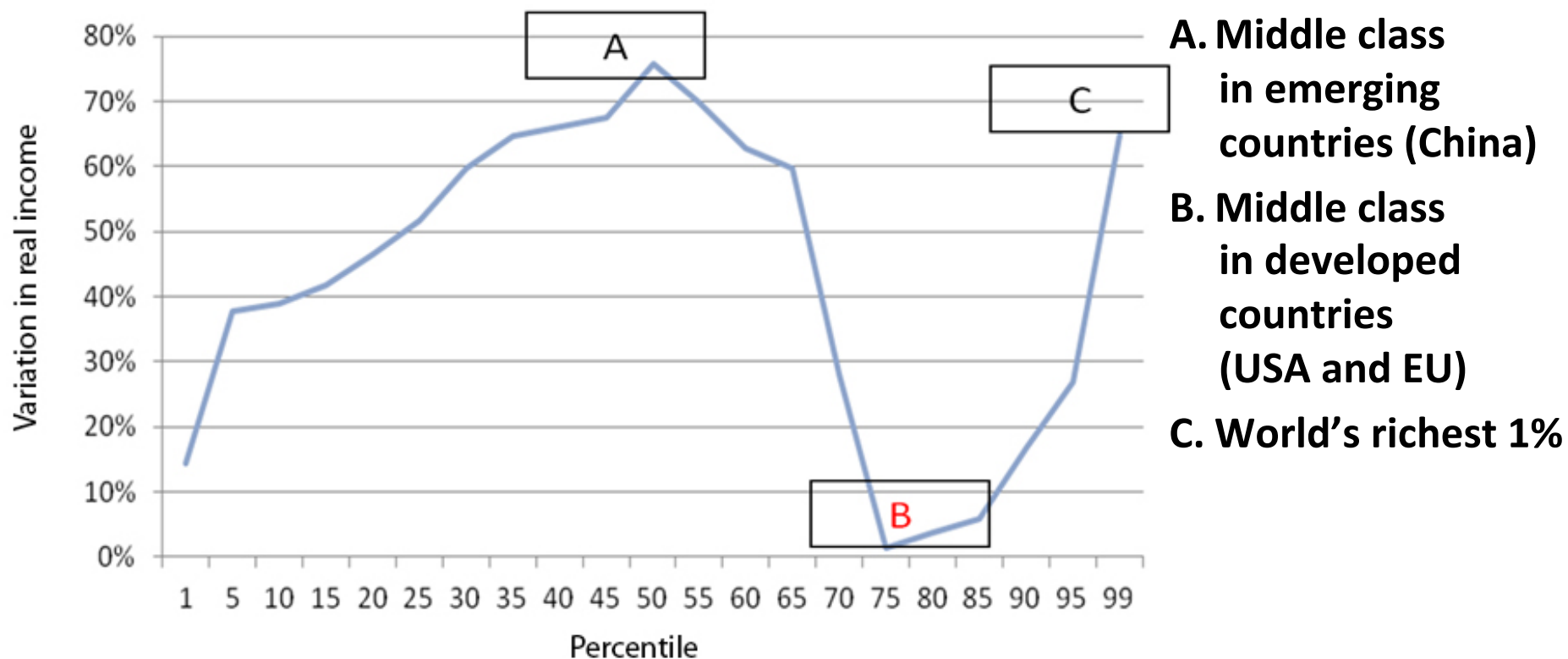
A year that shook the world

- **Hyperglobalization backlash**
 - Geopolitical shifts: China, United States, Europe
 - Trade schemes fragmented by trade wars
 - Weak multilateralism: an international system with few financial regulations, with an asymmetric international tax system where tax avoidance prevails and a high degree of financialization
- **Dangerous disenchantment**
 - Favours few actors (firms and governments) with the greatest bargaining and market power
 - Losers and winners from globalization with increasing anger towards corruption and impunity
 - Dominance of a social conservative agenda



The winter of discontent the current form of globalization has created winners and losers...

VARIATION IN REAL INCOME OF THE GLOBAL POPULATION BY PERCENTILE, BETWEEN 1988 AND 2008
(Percentages)



Source: C. Lakner and B. Milanovic "World Panel Income Distribution (LM-WPID)" 2013 [online] <http://go.worldbank.org/NWBUK13JP0>.

The prevailing development pattern is unsustainable (BAU)...

- **...it is associated with mediocre growth in production and trade (recessionary bias) and decoupling from the financial system**
- **...it is associated with increasing wealth and income inequality with domination of elites (culture of privilege)**
- **...it is compounded by the greatest market failure of humanity: climate change**



2030 Agenda defines the Future we want

- Global governance to create global public goods (climate security)
- Investments in energy transition to low carbon and to green production model
- Reduce financial risks, including climate risks in investments
- Fiscal policies to combat tax avoidance and illicit funds (Tax Havens)
- Innovation and technological change for a big environmental push



Equality as an ethical principle and a development objective

- Broadening the concept of equality to encompass ***autonomy, recognition and dignity***.
- All individuals must be recognized as equal in terms of rights —civil and political— and dignity: ***equality from the perspective of rights, not of means***.
- A concept that goes ***beyond income distribution***.
- It includes other dimensions: ***capacities, social protection and access to public goods***.
- Equality as a ***driver of sustainable development***, contributing to innovation, productivity and environmental stewardship.



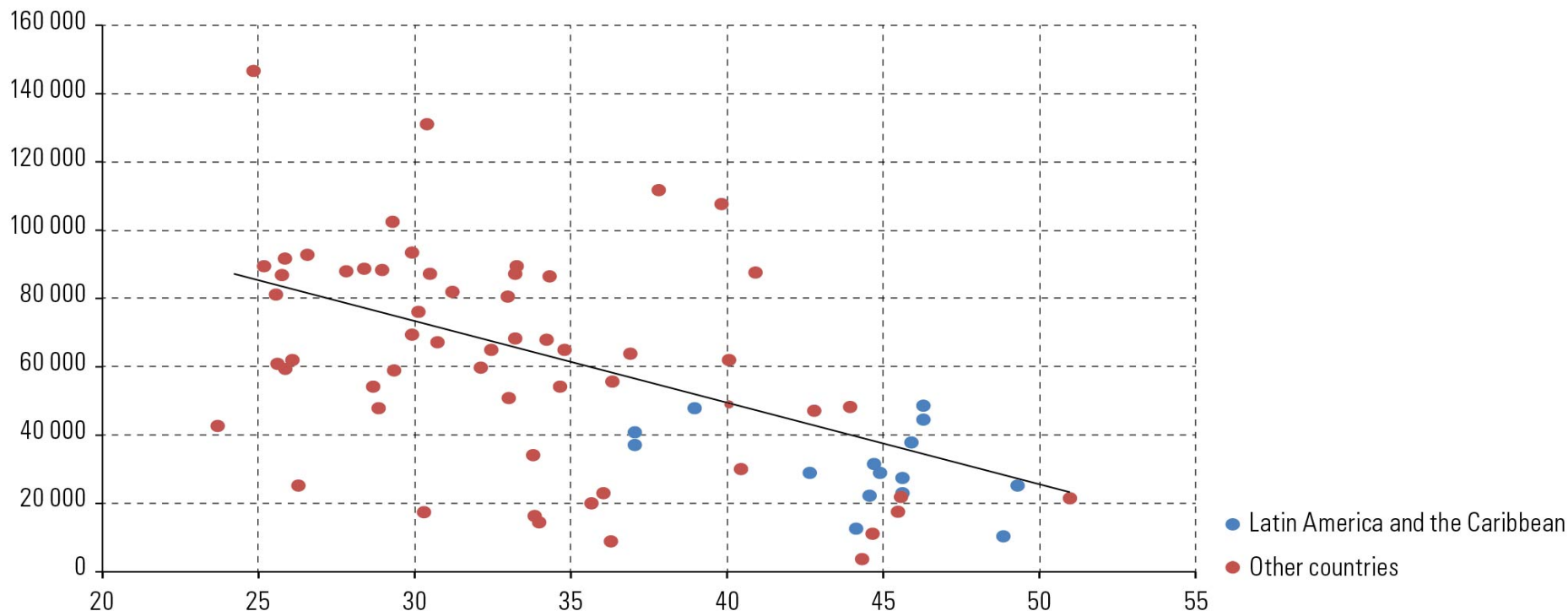
Equality as a tool for development

- New economic theory approaches are converging: experts no longer talk about the “big trade-off” between equality and efficiency.
- Equality is not only the outcome of an economic system, but also an explanatory variable of its long-term efficiency.
- Equality, productivity and democracy are strategic complementary (not substitute) goods, all the more so in a world subject to strong economic, political and environmental tensions.
- Economies that are at the sustainable development frontier today combine these goods to a large extent.



Inverse correlation between productivity and inequality (as opposed to the “big trade-off”)

Productivity and Gini index, 2014
(Purchasing power parity (PPP) 2011 dollars and percentages)



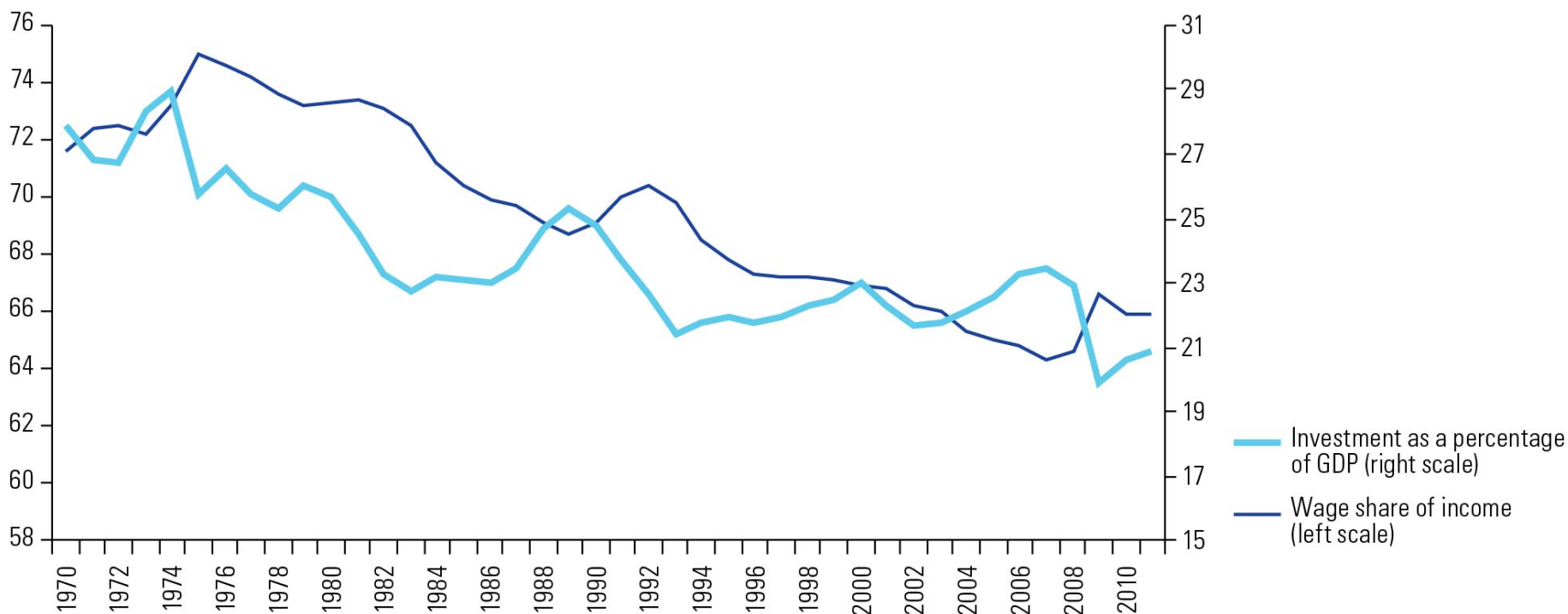
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of University of Groningen, Penn World Table [online database] <https://www.rug.nl/ggdc/productivity/pwt/>, and Harvard University, Standardized World Income Inequality Database (SWIID) [online database] <https://dataverse.harvard.edu/dataset.xhtml?persistentId=hdl:1902.1/11992>.

Note: The Gini index is expressed in percentage terms. Productivity is expressed in output per employee in 2011 PPP dollars.



Positive correlation between equality and investment: greater inequality compromises future productivity

Selected developed countries: wage share of income and investment rate, 1970-2010^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Organization for Economic Cooperation and Development (OECD) and the World Bank.

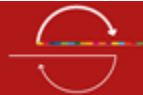
^a Canada, France, Germany, Italy, Japan, Spain, United Kingdom and United States.



Why is equality efficient?

Reasons for the strategic complementarity between equality and efficiency

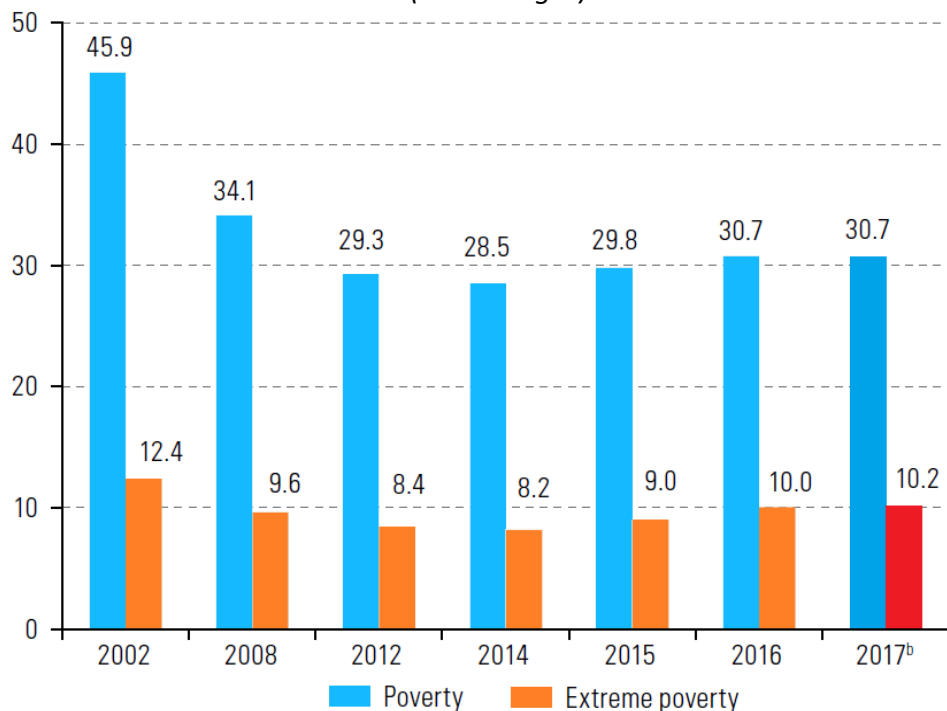
- Equality generates **inclusive institutions and a culture** that rewards the innovation and effort —not the social class, ethnicity, gender or political connections— of economic actors.
- Inversely, inequality generates a **culture of privilege** that closes opportunities, reduces capacities and fosters a rentist behaviour in the privileged classes. The culture of privilege normalizes social hierarchies and the asymmetric access to the fruits of progress, political participation and production assets.
- Equality of access to capacities and opportunities becomes especially important in a context in which the **technological revolution** demands greater education (especially at crucial stages of the life cycle), coordination and cooperation among actors to absorb new technologies and build new sectors.
- Equality strengthens **democracies** and the role of the State in the provision of public goods and positive externalities required for technological change, economic and political stability and environmental stewardship.
- In the global economy, equality helps to expand aggregate demand, **avoid recessionary** bias and reduce the intensity of internal and external conflicts by promoting development.



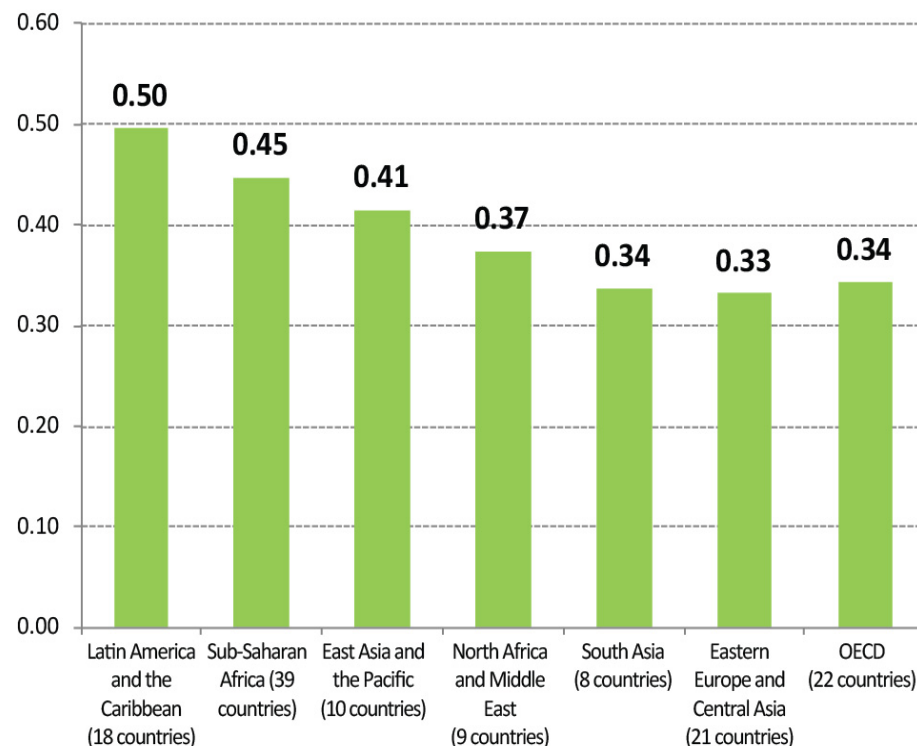
LAC is not the poorest region of the world but is the most unequal in terms of income

LATIN AMERICA (18 COUNTRIES):^a TRENDS OF POVERTY AND EXTREME POVERTY, 2002-2017

(Percentages)



LATIN AMERICA AND THE CARIBBEAN AND OTHER WORLD REGIONS: GINI COEFFICIENT, AROUND 2010



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Household Survey Data Bank (BADEHOG).

^a Weighted average for the following countries: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

^b The data for 2017 are projections.



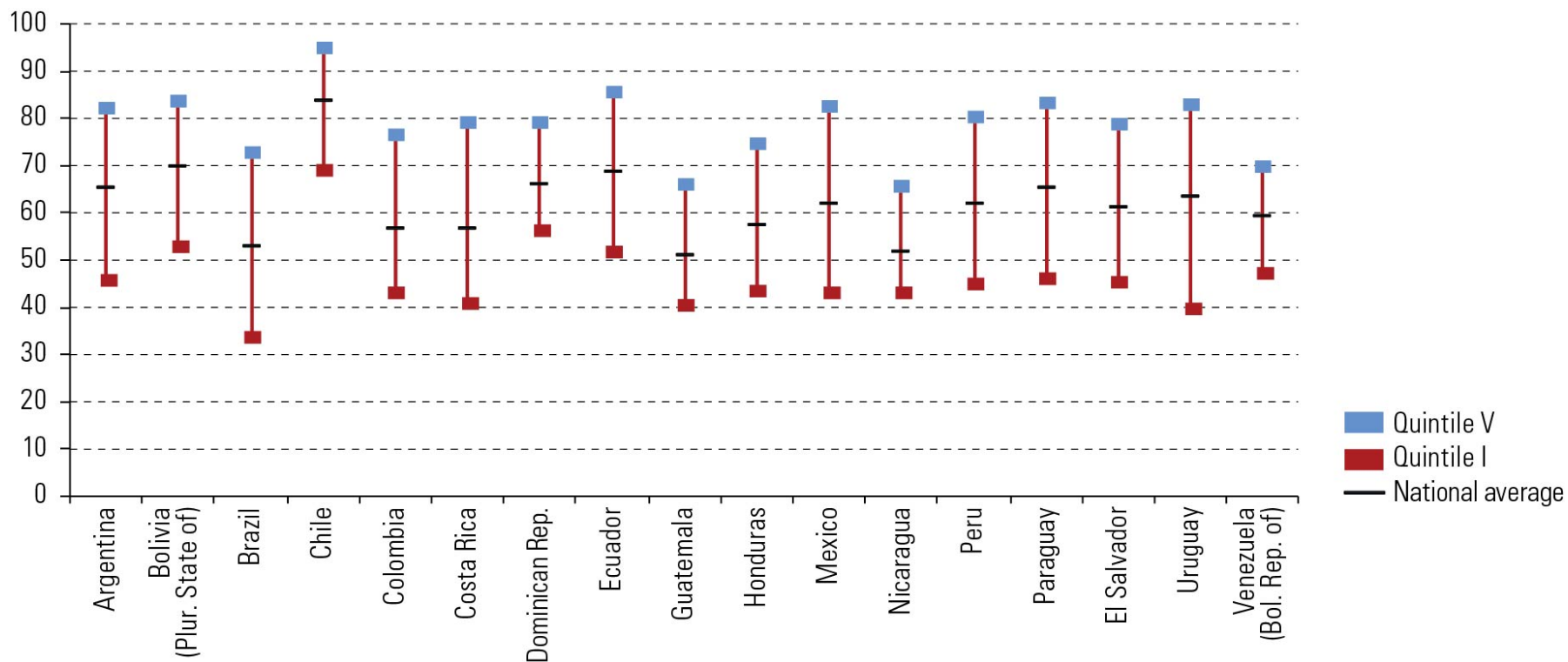
DIRECT EFFECTS OF INEQUALITY ON EFFICIENCY: ACCESS TO CAPACITIES AND EQUALITY OF OPPORTUNITIES

- **ACCESS TO CAPACITIES AND EQUALITY OF OPPORTUNITIES**
- **BARRIERS TO EDUCATION THAT ARE PASSED ON FROM ONE GENERATION TO THE NEXT**
- **BARRIERS IN ACCESS TO HEALTH CARE THAT REDUCE PRODUCTIVITY AND LIFE EXPECTANCY**
- **BARRIERS OF DISCRIMINATION BASED ON ETHNICITY, RACE, GENDER OR CLASS**
- **INEQUALITIES WITH RESPECT TO TAX ISSUES: TAX EVASION AND AVOIDANCE**



The barrier to education for the poorest population segments is a barrier to efficiency

LATIN AMERICA (17 COUNTRIES): COMPLETION OF THE FIRST CYCLE OF SECONDARY EDUCATION, PEOPLE OVER THE AGE OF 18, BY INCOME QUINTILE, AROUND 2016
(Percentages)

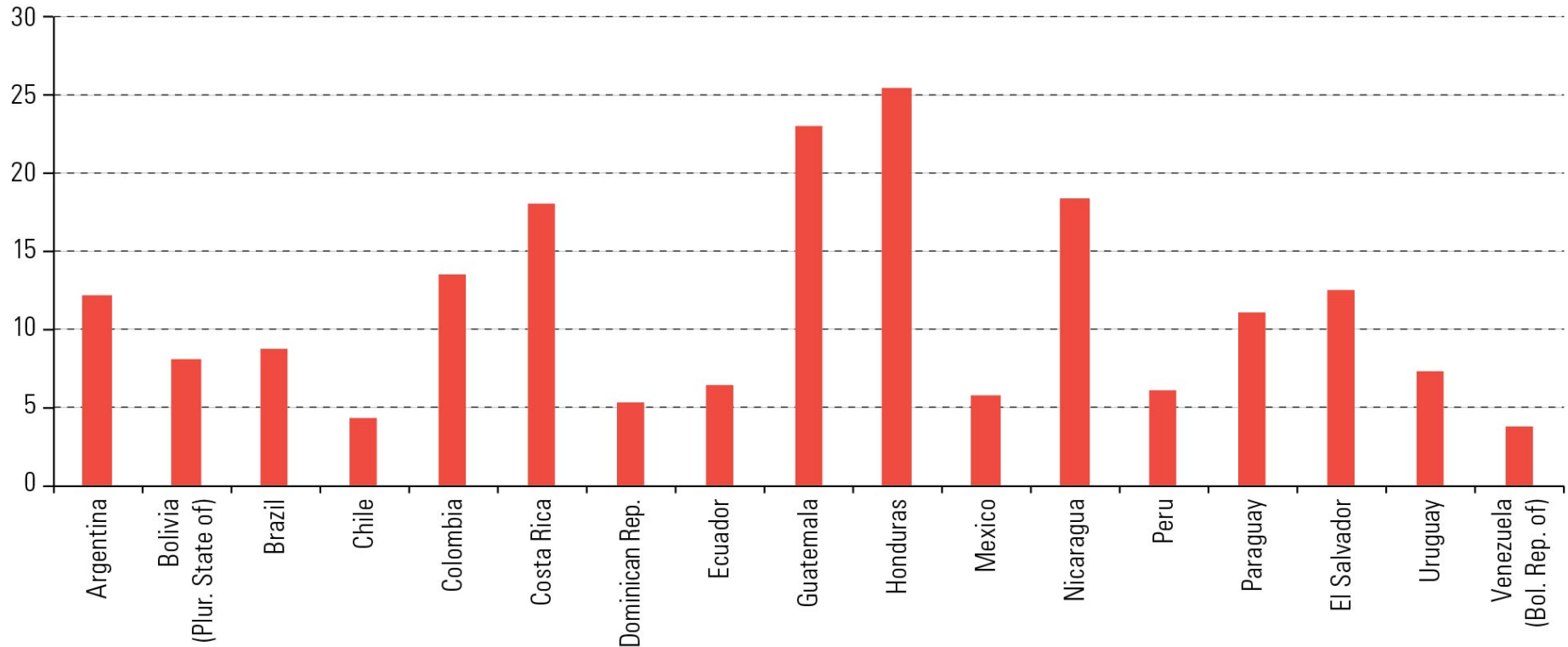


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of tabulations of data from household surveys of the respective countries.



The cost of not having access to education

Latin America (17 countries): increase in household income if completion of the first cycle of secondary education were universal, around 2016
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of household surveys from the respective countries.



Total cost of the double burden of malnutrition in 2014

The total costs of the double burden amounted to US \$493 million in Chile, US \$4,344 million in Ecuador and US \$28,830 million in Mexico, representing 0.2%, 4.3% and 2.3% of GDP, respectively.

Chile, Ecuador and Mexico: Cost of the double burden of malnutrition, 2014
(Millions of dollars at current prices and percentages)

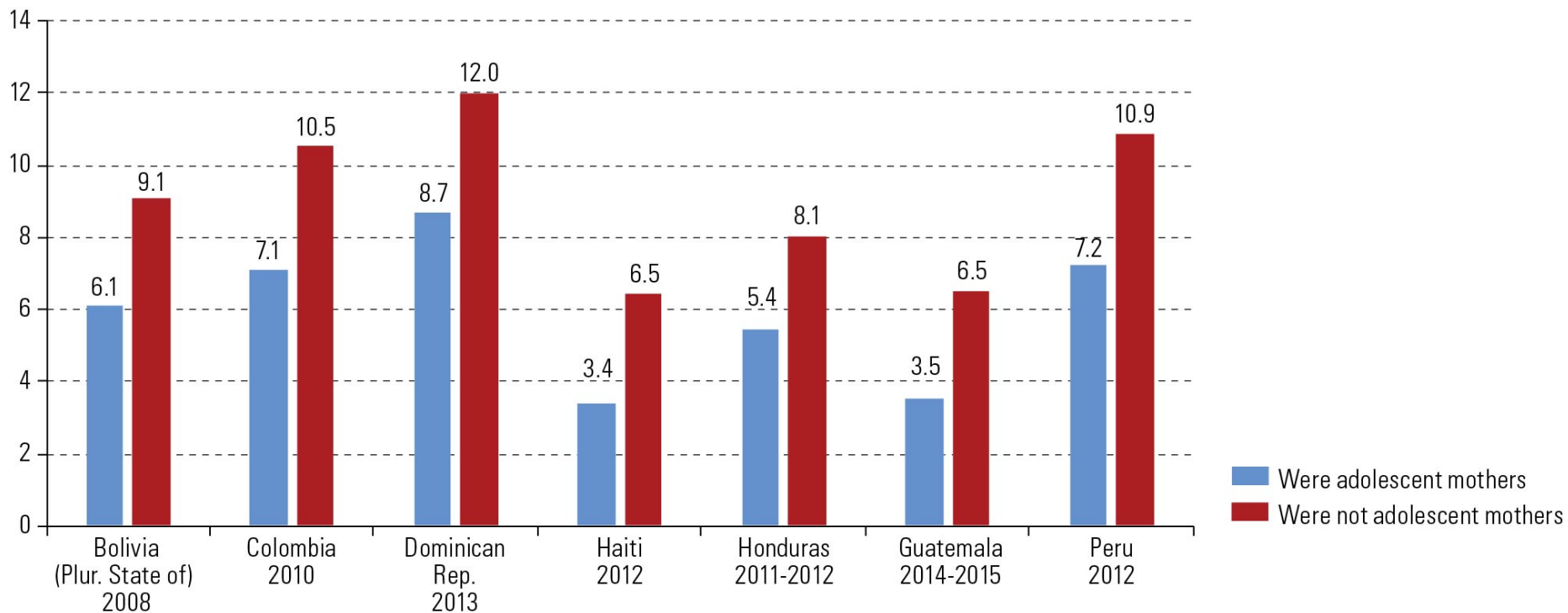
	Chile	Ecuador	Mexico
Cost on health	385	1 666	7 338
Cost on education	-	27	151
Cost on productivity	108	2 651	21 341
Total	493	4 344	28 830
% of GDP	0.2%	4.3%	2.3%

Source: Economic Commission for Latin America and the Caribbean (ECLAC) and World Food Programme (WFP), *El costo de la doble carga de la malnutrición: impacto social y económico*, Santiago, 2017.



Adolescent motherhood also perpetuates social inequalities because it affects the level of education young mothers achieve and their present and future possibilities of access to higher productivity jobs

Latin America (7 countries): average years' education of women aged 25 to 35 who did and did not become mothers in adolescence, 2008-2015
(Years)



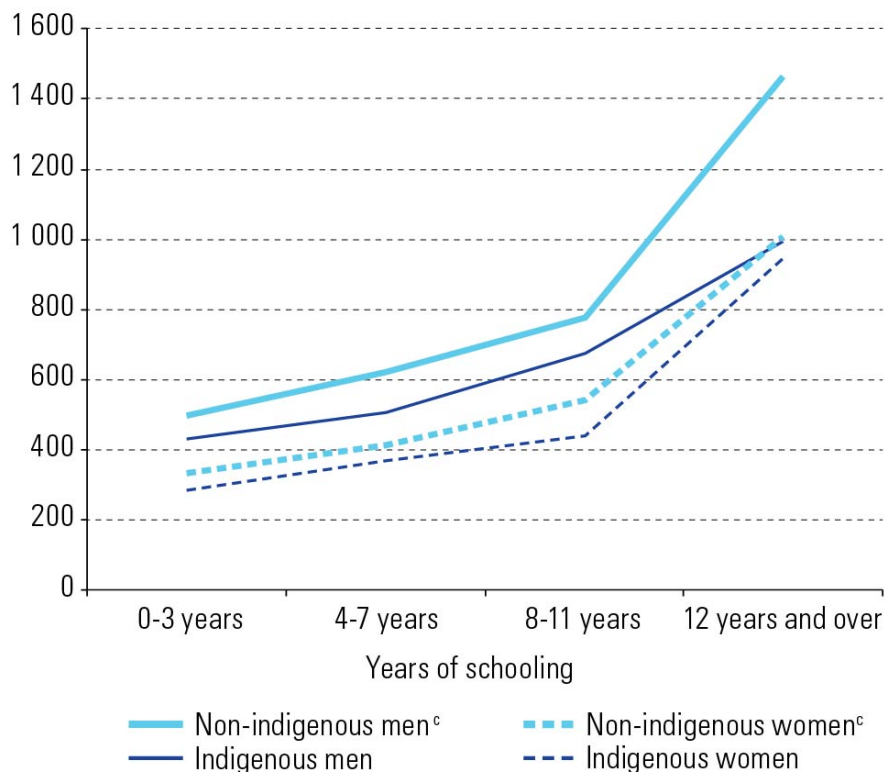
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of demographic and health surveys from the countries and years shown.



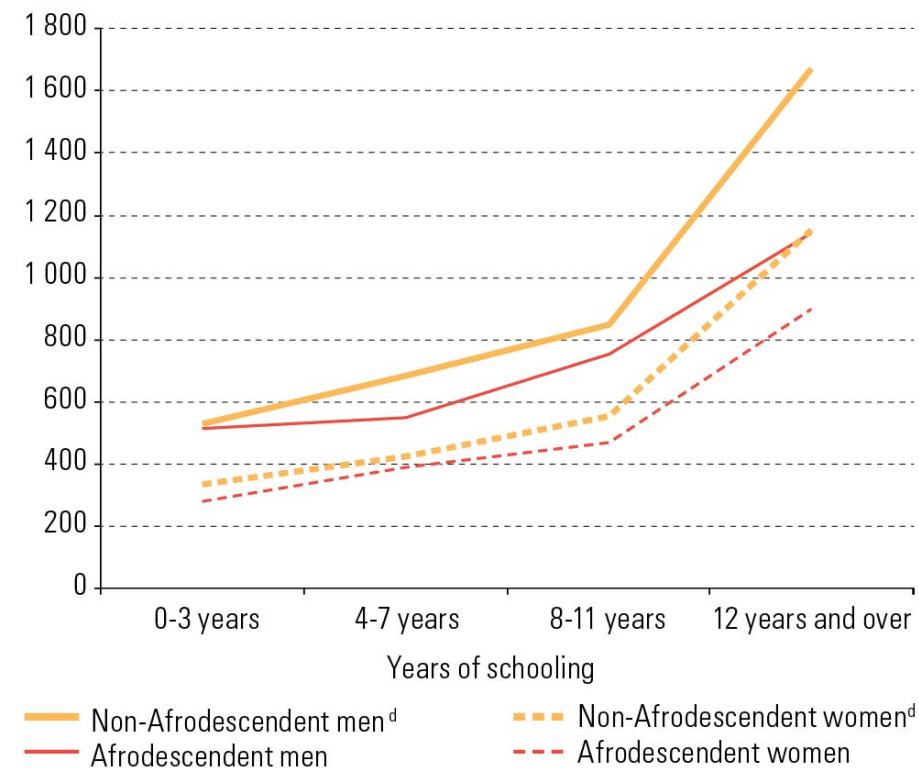
Discrimination based on ethnic or racial identity

Latin America (selected countries): average monthly labour income among employed persons aged 15 and over, by sex, race or ethnicity and years of schooling, national totals, around 2015
(Purchasing power parity dollars at constant 2010 prices)

A. 9 countries, by ethnic origin (indigenous or non-indigenous)^a



B. 4 countries, by racial origin (Afrodescendent or non-Afrodescendent)^b



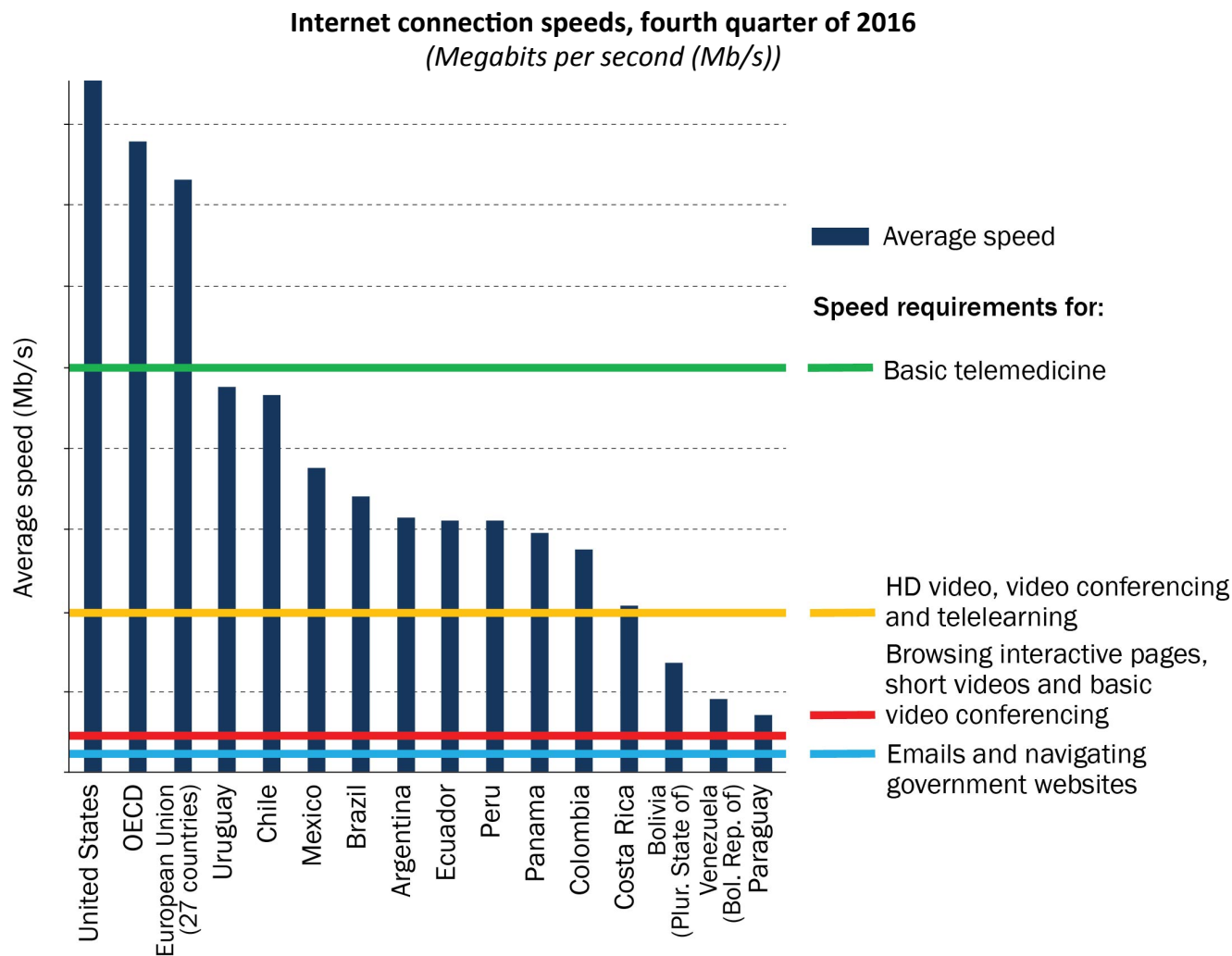
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Household Survey Data Bank (BADEHOG).

^a Includes: Brazil (2015), Chile (2015), Ecuador (2016), Guatemala (2014), Mexico (2016), Nicaragua (2014), Peru (2016), Plurinational State of Bolivia (2015) and Uruguay (2016).

^b Includes: Brazil (2015), Ecuador (2016), Peru (2016) and Uruguay (2016). ^c Does not include Afrodescendent population. ^d Does not include indigenous population.



Gaps in the infrastructure needed to respond to the technological revolution

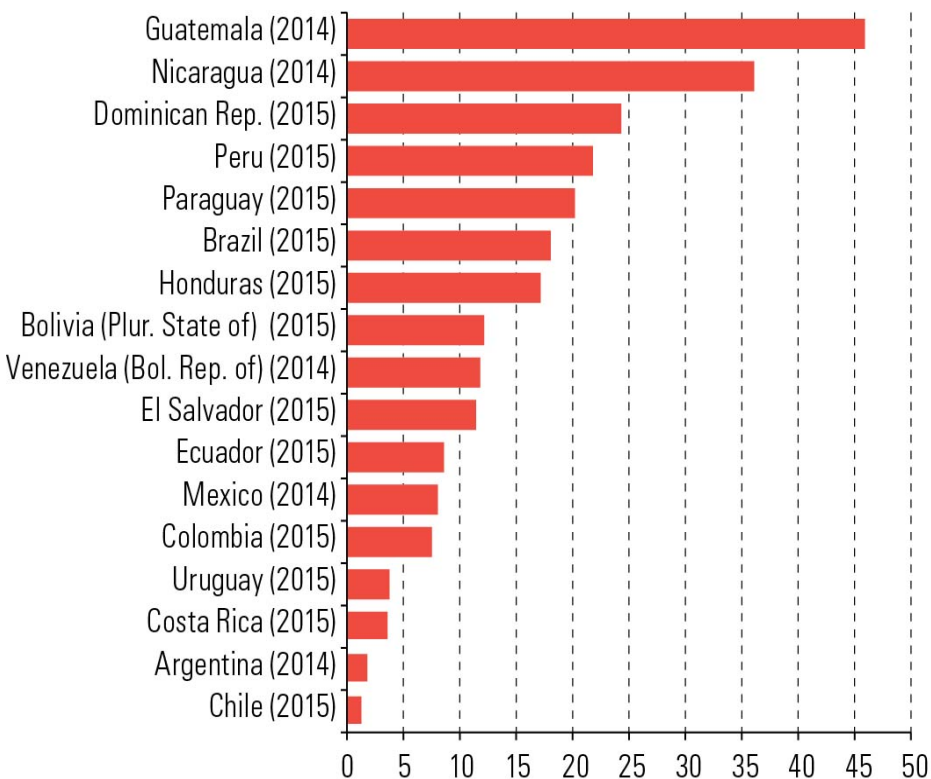


Source: Commission for Latin America and the Caribbean (ECLAC), Regional Broadband Observatory (ORBA), on the basis of Akamai Technologies, *Akamai's State of the Internet. Q1 2016 Report*, vol. 9, No.1, Cambridge, June 2016.

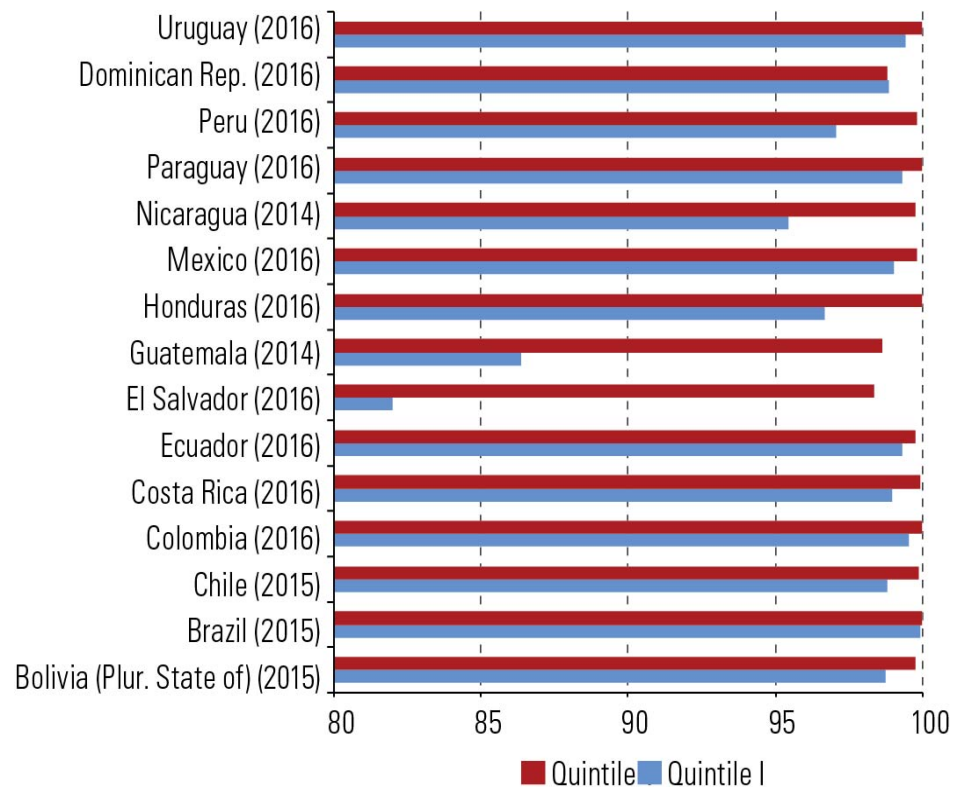


Segregation denies the right to the city: gaps in access to basic urban electric power and sanitation infrastructure

Latin America and the Caribbean (17 countries): differences in sanitation coverage between urban households in the highest and lowest income quintiles
(Percentage points)



Latin America and the Caribbean (15 countries): access to electric power among urban households in the highest and lowest income quintiles
(Percentages)

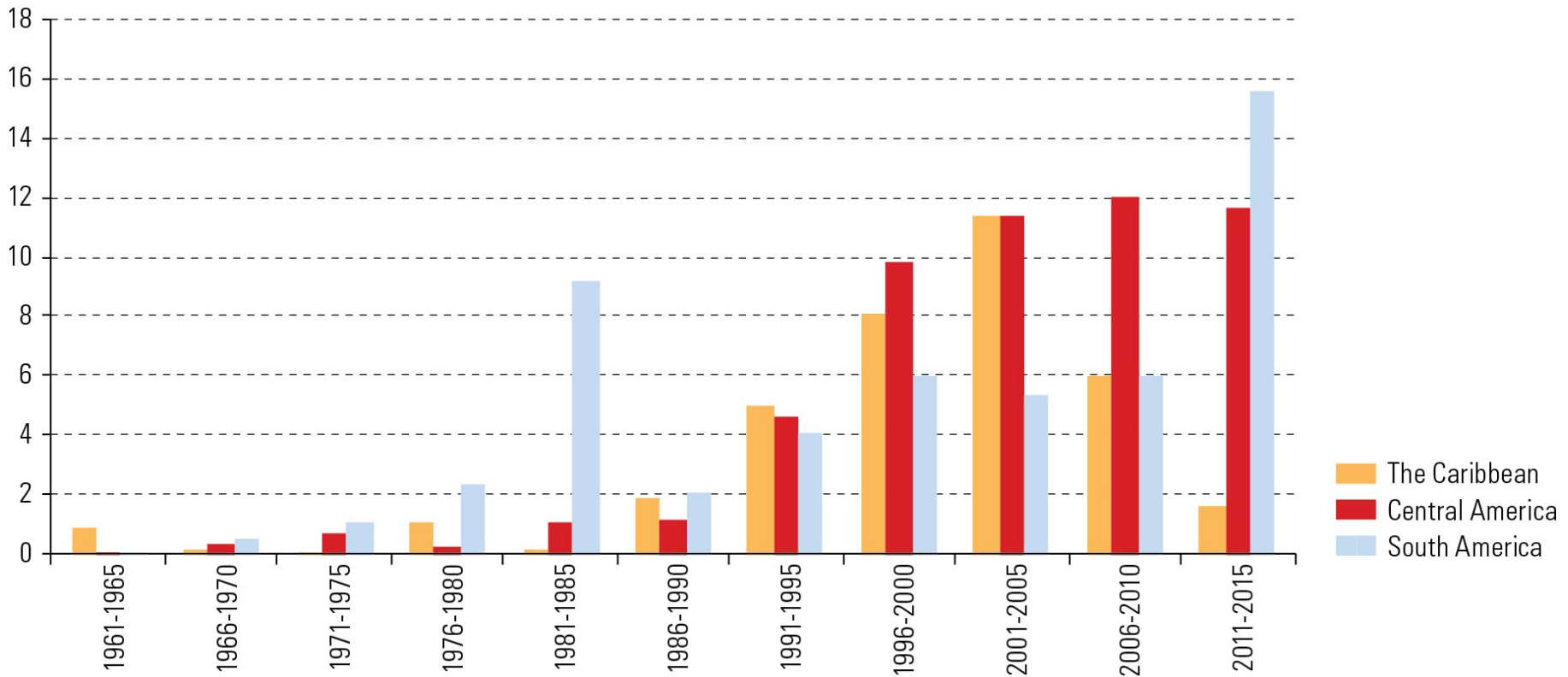


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Household Survey Data Bank (BADEHOG).



The effects of climate change increase the number and cost of extreme weather events in Latin America and the Caribbean

Latin America and the Caribbean: cost of extreme weather events, 1961-2015
(Billions of current dollars)



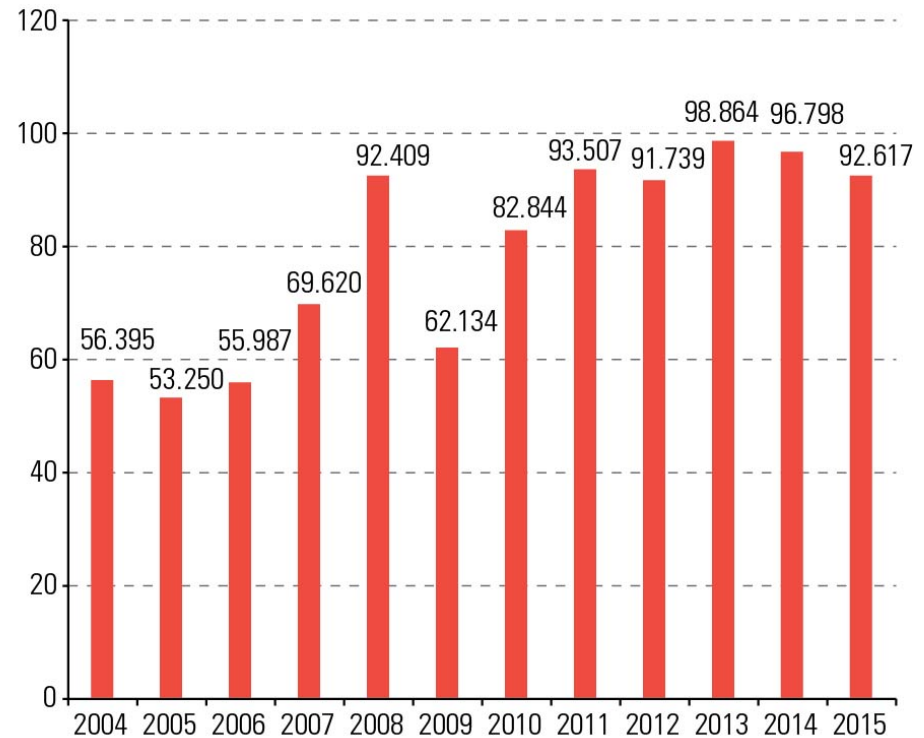
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Disaster Database (EM-DAT), 2016 [online] <http://www.emdat.be/>.

Tax evasion constrains the possibilities of producing public goods and stimulating public investment

Latin America and the Caribbean: tax collection and estimated tax evasion, 2015
(Percentages of GDP and billions of dollars)



Latin America and the Caribbean: estimated value of trade misinvoicing, 2004-2015
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).



Macroeconomy for development

- Macroprudential policies to avoid the formation of fragile financial structures and asset and credit bubbles
- Managing cross-border capital flows as a means of preserving financial stability
- Safeguarding public investment against the fluctuations of economic activity and avoiding its short-sighted use as an adjustment variable during cyclical downswings
- Combating tax evasion and avoidance and improving the redistributive impact of fiscal policy



Achieve equality of capacities key to boost productivity

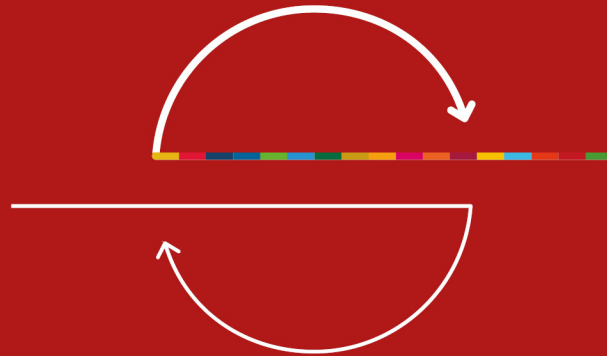
- **Universal policies of social inclusion** (education, health and nutrition) help to build human capacities, boost productivity and economic growth, while fostering a culture of rights and social citizenship.
- **Reshaping education systems** in response to rapid technological change: universal and relevant school and higher education systems and ongoing capacity-building.
- **Building or strengthening social protection and care systems** to make women's unpaid work visible and to alleviate the burden of care that falls on them.



Investment together with industrial and technology policies are central for an environmental big push

- **Environmental big push:** a coordinated set of investments around new technologies and decoupling growth from environmental impact
- **Digitalization favours decarbonization and sustainability:** intangible (digital) services and goods; virtualization of processes
- **Combination of innovative technologies** such as additive manufacturing, augmented and virtual reality devices, the Internet of Things, data analytics, robotics and artificial intelligence, that make processes more flexible and adjust readily to different production scales





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