UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
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12 September 2012, 17:00 GMT

(1 PM New York, 19:00 Geneva, 22:30 Delhi, 02:00 – 13 September 2012 Tokyo)

UNCTAD/PRESS/PR/2012/31*
Original: English

RISING INEQUALITY IS NOT INEVITABLE, REPORT SAYS – AND ECONOMIES WILL PERFORM BETTER WITH MORE EVEN INCOME DISTRIBUTION

Causes for long-running trend vary, Trade and Development Report finds, but trend can be reversed through government fiscal and labour market policies

Geneva, 12 September 2012 – Expanding gaps in income and wealth around the world are not an unavoidable by-product of globalization and technological change, a new UNCTAD report maintains. The study contends that the increasing concentration of income in fewer hands limits nations' economic potential by dampening demand for goods and services and by reducing the educational prospects and social mobility of their broader populations – thus underexploiting their talent and possible economic achievements. Such trends can and should be reversed by government intervention through fiscal and labour-market policies, the report says.

The **Trade and Development Report 2012**[1], subtitled "**Policies for inclusive and balanced growth**", was released today.

Trends over the last 30 years show income inequality increasing both within countries and between them. The share of wages in total income has fallen in most developed and in many developing countries. For example, it fell by 5 percentage points or more in Australia, the United Kingdom of Great Britain and Northern Ireland, and the United States of America, and by 10 percentage points or more in France, Germany and Ireland. In several countries, the richest 1 per cent of the population now accounts for 10 to 20 per cent of national wealth.

There has been a similar broad shift between countries. While in 1980, the per capita income of the 15 richest nations was 44 times that of the 15 poorest, by 2000, that multiple had increased to 62. The report notes, however, that in 2009, reflecting better economic performance in several developing and transition countries; the ratio had fallen to 56.

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[1] The Report (Sales No. E.12.II.D.6, ISBN-13: 978-92-1-112846-8) may be obtained from United Publications Sales and Marketing Office at the address mentioned below or from United Nations sales agents throughout the world. Price: US$ 55 (50% discount for residents of developing countries, and 75% discount for residents of least developed countries). Customers may send orders or inquiries to: United Publications Sales and Marketing Office, 300 E 42nd Street, 9th Floor, IN-919J New York, NY 10017, United States. tel.: +1 212 963 8302, fax: +1 212 963 3489, e-mail: publications@un.org, https://unp.un.org.

Because globalization has advanced greatly over the same 30-year period, the report says, a number of economists have argued that rising disparities in income are the necessary result of rapidly growing international trade and financial flows, and of quick advances in technology.

But the study says this outcome is not inevitable – that governments can use fiscal and labour market policies to reduce income inequality.

It says this goal is worthwhile not only for reasons of fairness and social welfare, but because it would improve economic performance. Low- and middle-income families spend much higher proportions of their incomes on consumption, the report notes – and that consumption creates the demand that drives modern economies. It says the ongoing feeble recovery from the 2009 recession in developed economies is rooted directly in the lack of demand.

It is even likely that the increasing proportion of income going to the rich contributed to the global financial crisis. In some developed countries, extremely high compensation paid to corporate executives, managers and financial agents was frequently linked to excessive risk-taking in search of short-term profits and shareholder dividends, while wage earners were forced to go into debt to maintain their living standards. "Excessive concentration of income was one of the factors leading to the global crisis as it was linked to perverse incentives for the top income earners and to high indebtedness in other income groups," the report says. It predicts that there will be no significant recovery from the recession until low- and middle-income groups achieve sufficient earnings to spend on consumption.

More even income distribution also pays off over the long term, the **Trade and Development Report** contends. That is because high inequality deprives many people of access to education and credit, and prevents the expansion of domestic markets. Over years and decades, that amounts to an enormous waste of a country's economic potential. Thus, a better income distribution pattern would help stimulate and sustain economic growth in the short run and would provide stronger incentives for investment, innovation and job creation in the long run, the study says.

In developed countries, rising inequalities have resulted partly from behavioural changes in the corporate sector, the report claims: Rather than reacting to greater international competition through productivity-enhancing investment, companies have tended to create profits by offshoring their production to low-wage countries and/or by keeping wages down through the mere threat of going offshore. Much of the resulting profits were used for dividend payments and share buybacks to maximize shareholder value. As a result, domestic wage restraint has been accompanied by rising income shares among the top income groups, including *rentiers* and the "working rich" in top management positions.

In developing and transition economies, the distributional outcomes of globalization and technological change have depended on changes in production structures, the report says. Labour moving from agriculture towards higher productivity activities, such as manufacturing, may initially have adverse distributional effects, as in China – that is, factory workers earn much more than farmers, and while all workers are better off, they are better off by different degrees.

However, when finance-led globalization leads to premature de-industrialization and/or financial instability and crises, as in Latin America and transition economies, labour moving from manufacturing to less-productive activities – such as informal services and precarious occupations – or workers simply being lost to unemployment tend to reduce wage levels and to worsen income gaps. Financial crises and extended privatizations of formerly State-owned businesses also have altered the ownership structure of enterprises, leading to increased wealth and income concentration, the report says.

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