Policy Brief

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Policy Integration and the 2030 Agenda: Policy Tools and Approaches to Tackle Inequality

Inequality has received wide attention as one of the most daunting challenges of our time. While income inequality has been in the spotlight amid staggering examples of economic imbalances, inequalities arise from a wide range of factors in the economic, social and political spheres. The UN 2030 Agenda for Sustainable Development goes beyond a narrow definition of inequality as inequality based on wealth and income, to consider all aspects of inequality as it relates to economic, political and social exclusion. Reducing inequality will thus be a key to achieving the Sustainable Development Goals.

In the context of the 2030 Agenda, policy approaches to inequality need to fully recognise its multidimensional nature and deep impact on Sustainable Development. Policy Integration has been identified as an essential tool to advance the 2030 Agenda and achieve balanced outcomes across the three dimensions of sustainable development. This makes policy integration an important tool to address inequalities that are driven by an exclusion from economic opportunities, social services and support as well as natural and environmental resources.

Chart 1: *Crosscutting Nature of Inequality*

Source: UN DESA

Inequalities and the 2030 Agenda

The 2030 Agenda prioritizes inequality both as a standalone goal and as a cross-cutting issue. SDG10, the standalone goal on inequality, also recognizes inequality as a multidimensional issue. It highlights the need to empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

SDG 10

Reduce inequality within and among countries

10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average

10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

10.3 Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard

10.4 Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality

10.5 Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations

10.6 Ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions in order to deliver more effective, credible, accountable and legitimate institutions

10.7 Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies

10.a Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements

10.b Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes

10.c By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent

Inequalities are a crosscutting issue for the 2030 Agenda; the success of all SDGs will depend on a reduction of all forms of inequalities, especially given the close links between inequalities and each SDG. SDG1 on the eradication of poverty in all its forms is intrinsically linked to inequality, as a more balanced and equitable distribution of a country's economic and environmental resources are a crucial component of poverty eradication. Poverty is also linked to an exclusion from political processes, which can perpetuate poverty, as society and the political system may fail to serve those most in need.

Inequalities are also closely connected to the environmental goals of Agenda 2030 as the costs associated with environmental degradation are unequally distributed, affecting those in the bottom half of the income distribution the most. The destruction of land or water ecosystems significantly hurts communities that rely on these resources. The poor also overwhelmingly suffer from the adverse effects of climate change. As studies have shown, unmitigated climate change will be to the detriment of developing and least developed countries and their inhabitants, reducing average income by up to 75 percent by the end of the century.[1] Yet, inequality is also a direct contributor to climate change: Studies show that the richest 10% produce 50% of global CO_2 emissions, while the poorest half only accounts for 10%.[2]

The failure to enable access to resources can undermine social cohesion and institutions, leading to instability, conflict and war, endangering progress on SDG16. Inequalities can create vicious circles of political instability and conflict. Both horizontal inequality between

[1] Burke et al. (2015): Global non-linear effect of temperature on economic production, *Nature 527,* P. 235–239.

[2] OXFAM (2015): Extreme Carbon Inequality, 2 December 2015, Link.

social groups and vertical inequality between individuals have been identified as key drivers of violent conflict. Conflict-inducing inequalities are based on social exclusion according to ethnicity, culture, language and other characteristics. The persistence of these patterns of exclusion tends to create inequality traps that provide the fertile grounds for violence and instability.

Why should Policy Makers address Inequality?

There is nothing inevitable about inequality. Studies have shown that there is no implicit trade-off between economic growth and greater equality, indicating that reduced inequality can in fact be a powerful driver of economic growth and development[1]. Greater equality increases human capital accumulation and education opportunities for disadvantaged individuals, increasing national human resource development and social mobility. Studies have further shown that growing inequality leads to an increased fragility of growth, effectively lessening the speed and durability of economic development[2]. The fragility of growth is driven by a lack of social cohesion, political stability as well as access to education, health and other services. In some countries, most notably in Latin America and South Asia, income inequality has been reduced, despite an increasing global trend. The experiences of these countries highlight that dedicated policy action that addresses inequality in a multidimensional manner can lead to a more equal distribution of the benefits of economic growth, while advancing social and political inclusion.

Tackling inequality is also a moral imperative. Social justice and human rights are jeopardised by rising inequalities, as social, political and economic injustices become deeply entrenched and are perpetuated through generations. Achieving the vision of the 2030 Agenda and keeping its promise of *leaving no one behind* requires policy action that ensures that development and economic growth are inclusive and empower those most in need. Economic growth that is not inclusive may be short-lived and unsustainable, as it risks being undermined by social and economic instability as well as declining human capital.

POLICY TOOLS TO TACKLE INEQUALITIES

Fiscal policy, in particular taxation, is a primary tool to address income inequality as the redistributive effect of taxation can serve to spread economic gains across society. Progressive taxation can directly impact income inequality: In developed countries, as studies show, direct taxation and social transfers reduce income inequality by one-third[3]. How the tax income is used is fundamental for the effects on inequalities, both vertical and horizontal. Tax proceeds financing social services, including health and education, can effectively reduce inequalities, if the services reach those most in need. These properties of fiscal policy highlight two aspects essential to inequality reduction: (1) Fiscal revenue must be raised to finance appropriate social policies, such as education and public health and (2) policies must serve those most in need.

Fiscal revenues are essential for the financing of social services as well as to bolster economic development and environmental protection through infrastructure and industrial

[1] e.g. R. Benabou (2000) "Unequal Societies: Income Distribution and the Social Contract," *American Economic Review* 90 (1), 96-129.
[2] Ostry et al. (2014) Redistribution, Inequality, and Growth. *IMF Staff Discussion Note 14/02*.
[3] Clements et al. (2015) Taxing, spending, and inequality – what is to be done? *Vox.eu,* 15 April 2014.

policy. In order to achieve higher levels of fiscal revenue and to efficiently address income inequality, taxation policy needs to strive for *progressivity*, especially in higher income brackets, while reducing the scope for tax evasion. Increasing the national tax to GDP ratio can provide the foundation for the financing of inclusive growth policies. Increased fiscal revenue can also be achieved by growing the tax base, which can be an important policy tool to advance labor formalisation.

Formalisation of employment can be a powerful tool in addressing inequalities. Workers in formal employment are covered by applicable social protection schemes, which do not accrue to workers in informal sectors. Labor formalisation can also play an important role in ensuring effective targeting of social policies. Increased funding for social and labor protection of low-wage income earners, for instance, while seemingly designed to decrease income inequality, often has the opposite effect, as these policies exclude workers in informal sectors and hence reinforces inequalities.[1] Creating opportunities for formal employment and ensuring that workers in the informal sector are beneficiaries of social services, is key to ensuring that access to social services is inclusive and benefits those most in need.

Monetary policy, particularly to control inflation, can have a profound impact on the distribution of income and on inequalities, including in the economic, social and political spheres. High rates of inflation can have devastating effects on the poor and reinforce inequalities, as those that do not have access to banking services lack access to inflation protection. Inflation also discourages saving, including for education and health expenditure, thus perpetuating inequalities. High degrees of 'dollarization' of economies can further increase inequalities of income and wealth as those at the bottom half of the income distribution will earn income in national currency and have no access to international financial markets. While monetary policy and in particular efficient inflation-targeting can dampen the adverse distributional impacts of inflation, the provision of inclusive banking solutions can be an important tool to provide inflation protection.

Fostering Policy Integration and Coherence

Policies can carry diverse distributional impacts. In order to reduce inequalities, a*ssessments of distributional impact* need to be established in the policy origination phase of the policy making process to ensure that integrated policies are either redistributive or neutral with regards to how resources and gains from policy outcomes are distributed among society. The policy origination phase is where policies are integrated across the three dimensions of sustainable development.[2]

Distributional impact assessments as well as equity assessments that seek to analyse the distributional effects of policies and regulations, are already widely used policy instruments. However, these assessments are often focused on potential negative effects, rather than used as active policy instruments to tackle inequalities. Assessments require a high level of complexity and contextualisation as distributional effects can arise through a vast array of channels, including through incomes, employment, prices of consumer goods and commodities as well as access to social services. Policies can also have cross-generational

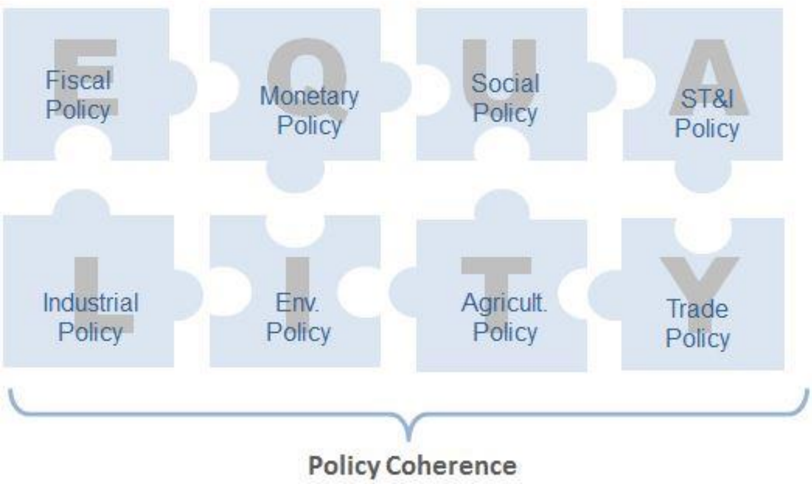
[1] IMF (2014) Fiscal Policy and Income Inequality. *IMF Staff Report*. Link.
[2] See UN DESA (2016) Concepts, Tools and Experiences in Policy Integration for Sustainable Development, *UN DESA Policy Brief*, 1, February 2016, Link.

distributive impacts, if debt-financed, or if they discourage investment in physical and human capital.

Appropriate *targeting of policies* needs to be assured as policies designed to tackle inequalities may not serve their purpose. Inefficient policy design and a lack of attention to national, regional and local contexts may reinforce rather than reduce inequalities. Contextualisation and a close attention to national circumstances, such as the structure of labor markets, education and health systems, as well as existing inequalities would need to be prioritized. Policies that are efficiently administered in the urban context, for instance, may increase horizontal inequalities as people living in remote and rural areas are not adequately covered.

In particular, horizontal inequalities between groups within society, such as indigenous peoples and minority groups, need to be considered in the policy making process to ensure that social policies intended to reduce inequalities do not reinforce them. For example, resources attributed for education that exclude people living in remote areas or that are applied in contexts where primary and secondary school attendance is not universal, reinforces inequalities as those most in need are left behind. Data disaggregation in the review of these policies is essential to assess the accuracy of policy targeting.

Chart 2: *Policy Coherence to tackle Inequalities*



Source: UN DESA

The need for targeting and impact assessment in effectively tackling inequalities requires a high level of integration and coherence of policies, including economic policy - both fiscal and monetary - social policy, and a wide range of other areas. In order to ensure the effective reduction of inequalities, policies need to be coherent with regards to their distributional objectives. Policy tools applied in isolation cannot effectively address inequality, due to its multidimensional nature requiring policy approaches in the economic, social and environmental fields.

In order to ensure that the multidimensional aspects are addressed in the policy making process and that the needs of all societal groups are considered, *stakeholder engagement* needs to be an integral part of the policy drafting and implementation process of inequality-targeting policies. Involving stakeholders can ensure that inequalities arising from social and political exclusion can be addressed more comprehensively, as the voices of all groups will be heard.

CONDITIONAL CASH TRANSFER PROGRAMMES (CCTS)

Cash transfer programmes tied to specific conditions, such as enrolment in social services, including children's education and health services, have been widely applied across the globe. Most programs have been cost-effective, as administrative costs have been held at low levels, thanks to broad targeting.[1] Brazil's Bolsa Familia, Colombia's Familias en Accion as well as similar programmes in Nicaragua, Mexico, the Philippines and Indonesia, among others, provide cash transfers to those in need, seeking to break up vicious circles of poverty and exclusion by incentivising the accumulation of human capital. Studies highlight the success of these programmes in reducing income inequality and poverty through fiscal redistribution and have emphasised some of the positive effects of CCTs in targeted domains, such as education and health care.

As studies have shown, CCTs can increase access and utilization of social services, most notably education and health care. Brazil's Bolsa Familia, the most widely studied conditional cash transfer programme, was shown to have positive effects on health care utilization, not only for the targeted child but also through spillover effects to siblings.[2] With regards to utilization of education, Bolsa Familia, previously entitled Bolsa Escola, increased enrolment by 5.5 percent, while simultaneously reducing dropout rates and increasing standardized grades of those already enrolled at the time of adoption of the programme.[3] In Nicaragua, enrolment rates in areas where the CCTs were adopted increased by 22 percentage points. [4]

Limitations

CCTs have been very successful in targeting income inequality and improving utilization of social services. Yet, they have had limited effects in addressing other drivers of inequality beyond income and wealth, including horizontal inequalities between different groups, particularly peoples in remote areas and indigenous peoples, as services delivered in these areas have lacked quality. Programmes might thus contribute to some drivers of inequality and extreme poverty.

Another limitation includes the lack of appropriate investment into the supply side of services, such as improvement of quality and access, as CCTs only provide demand side incentives. Targeting for CCTs often excludes those that narrowly miss income ceilings, but underinvest in health and education services. Some programmes may also carry stigma due to aspects of means testing for programme eligibility.

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[1] L. Rawlings & G. Rubio (2005) Evaluating the Impact of Conditional Cash Transfer Programs. *World Bank Research Observer*. Volume 20/ 1.

[2] Shei et al. (2014) The impact of Brazil's Bolsa Família conditional cash transfer program on children's health care utilization and health outcomes, *BMC International Health and Human Rights*. 2014, 14:10.

[3] P. Glewwe & A. Kassouf (2012). The Impact of the Bolsa Escola/Familia Conditional Cash Transfer Program on Enrollment, Drop Out Rates and Grade Promotion in Brazil. *Journal of Development Economics,* 97/22.

[4] L. Rawlings & G. Rubio (2005)

Challenges

Policies to tackle inequalities should fully recognise the multidimensional drivers of inequalities and in particular horizontal inequalities caused by social and political exclusion of societal groups. Due to a lack of assessments of distributional impacts, social policies that seek to reduce income inequality often reinforce inequalities as those most in need, such as indigenous peoples and people living in remote areas, are excluded from programmes. Improper targeting of social policies may exclude those that require access to health and education services, while others benefit disproportionally.

In order to address issues related to the targeting of policies, data disaggregation is necessary to assess the impact of policies on all groups within society. However, compiling and analysing disaggregated data requires statistical capabilities that go beyond the capacity of many poor countries. Building this capacity is costly and requires strong partnerships including through the UN system.

Coordination requirements are also vast to ensure that distributional effects of policies are adequately assessed. Fiscal policy needs to be closely aligned with fiscal expenditures, including on social policy, economic policy and others, in order to ensure that the overall distributional effects decrease inequalities. A further requirement for integrated policy making to tackle inequalities is the need for stakeholder engagement at the policy design phase to ensure that horizontal inequalities are addressed comprehensively. Enabling stakeholder engagement requires adequate capacity and policy space and close coordination between ministries, supported by inclusive institutions.

KEY CONCLUSIONS AND POLICY IMPLICATIONS

Success in achieving the ambitious vision of the 2030 Agenda will depend on how effectively inequalities can be tackled at the national and global levels. Its importance is underlined by a goal on inequality, SDG10, which envisages reducing exclusion based on age, sex, disability, race, ethnicity, origin, religion or economic or other status. Inequalities are also related to all the Sustainable Development Goals, making them a truly crosscutting issue of the Agenda. As this policy brief has underlined, overcoming inequality, will be key to the successful achievement of other SDGs, including on education, health, hunger and climate change.

Addressing inequalities through policy have proven effective in many contexts, particularly in countries that have reduced inequalities amidst a global trend of increasing inequality. Tools include fiscal policy, which often has redistributive effects, as well as social, economic, and other policies that address the multiple drivers of inequality and economic, political and social exclusion. Monetary policy can contribute to reducing exposure to inflation, which reinforces inequality.

Economic policy alone cannot effectively tackle inequalities. Close coordination and coherence between policies is key to ensuring that all dimensions of inequality, including the social, political, economic and environmental, are addressed comprehensively and coherently. Effective targeting, contextualisation and the involvement of stakeholders are key to ensuring that no vulnerable group is left behind. Data disaggregation can also play an important role in assessing the distributional impact of policies.

Policy Implications

- Inequality needs to be considered as a **broad concept**, beyond income and wealth inequality, to include all aspects of **social, political and economic exclusion** and lack of access to public resources.
- Fiscal policy and the resulting expenditures should be **closely aligned** to ensure that their distributional effects support objectives of inequality reduction. Given the cross-cutting nature of inequality, coherence should also be fostered among ministries involved in inequality-targeting policies.
- **Assessments of distributional impact** need to be introduced in the policy making process to ensure that policies do not reinforce inequalities. Policies should be redistributive to reduce inequalities, particularly in highly unequal societies.
- **Policy targeting** is key. Social policies with restrictive access due to geographical barriers or other characteristics reinforce horizontal inequalities and should be reconsidered. All policies should be inclusive to benefit all groups in society equally, or should favour those most in need.
- In order to ensure appropriate targeting and inclusive assessments of distributional impacts, **stakeholders must be engaged** at the policy design, implementation and review stages. This will ensure that all voices are heard and policies are inclusive with regards to the needs of all societal groups.
- Policies such as conditional cash transfer programs can have redistributive properties and increase the number of people with access to services, yet only address barriers to access stemming from the demand side. Policies that address the supply side of social services are also necessary to **provide adequate quality** of services that will ensure that educational attainment translates into rising incomes of the bottom half of the income distribution.

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