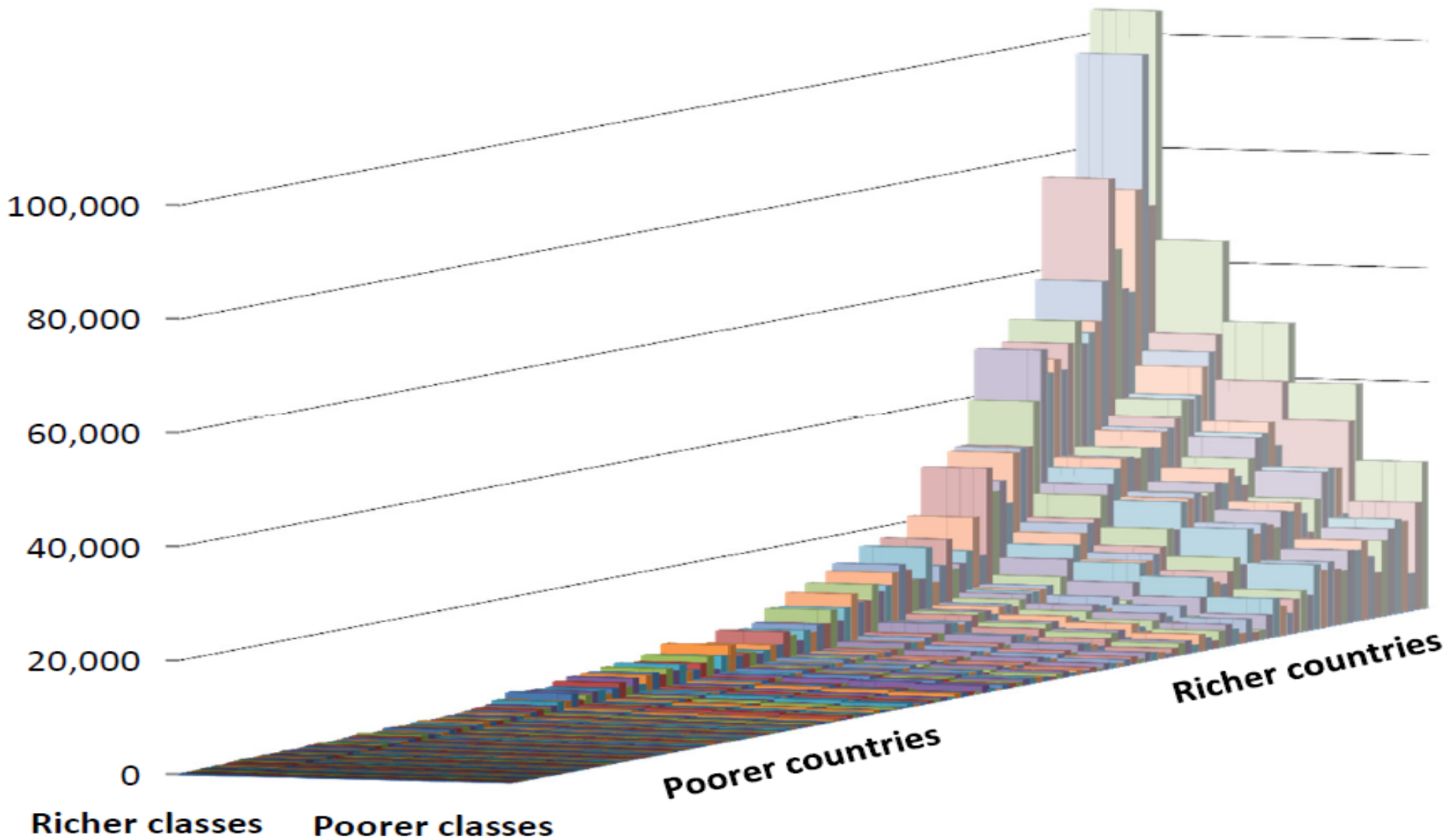


Income Inequality and Fiscal Policy

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*G-24 Technical Group Meeting,
Cartagena, Colombia
3 March 2016*

70% of world inequality due to international inequalities



Global inequality

Global inequality decreased slightly in recent years:

- From extremely high level ($>2/3$ s of global inequality due to disparities **among** countries)
- Recent decreases mainly due to rapid growth in several large middle income countries; recent convergence due to greater heterogeneity in developing world
- Within-country inequality increasing in most developed and developing countries

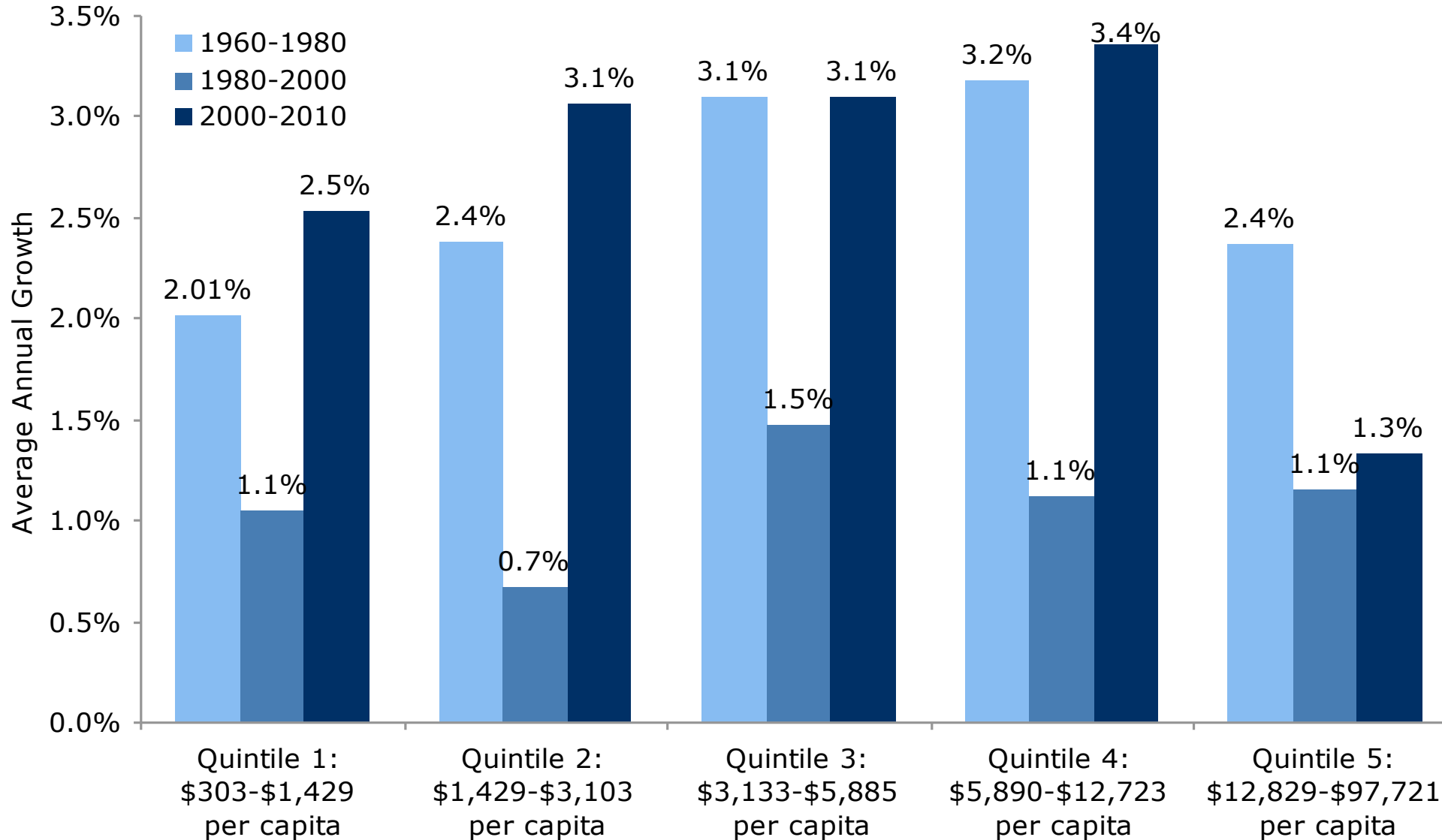
Drivers of inequality

- common drivers of inequality with globalization, liberalization, PRs
- changes in functional distribution of income (K v L)
- uneven globalization (K flows eased, but not L migration)
- ‘financialization’ vs real economy
- insufficient employment creation

Recent trends

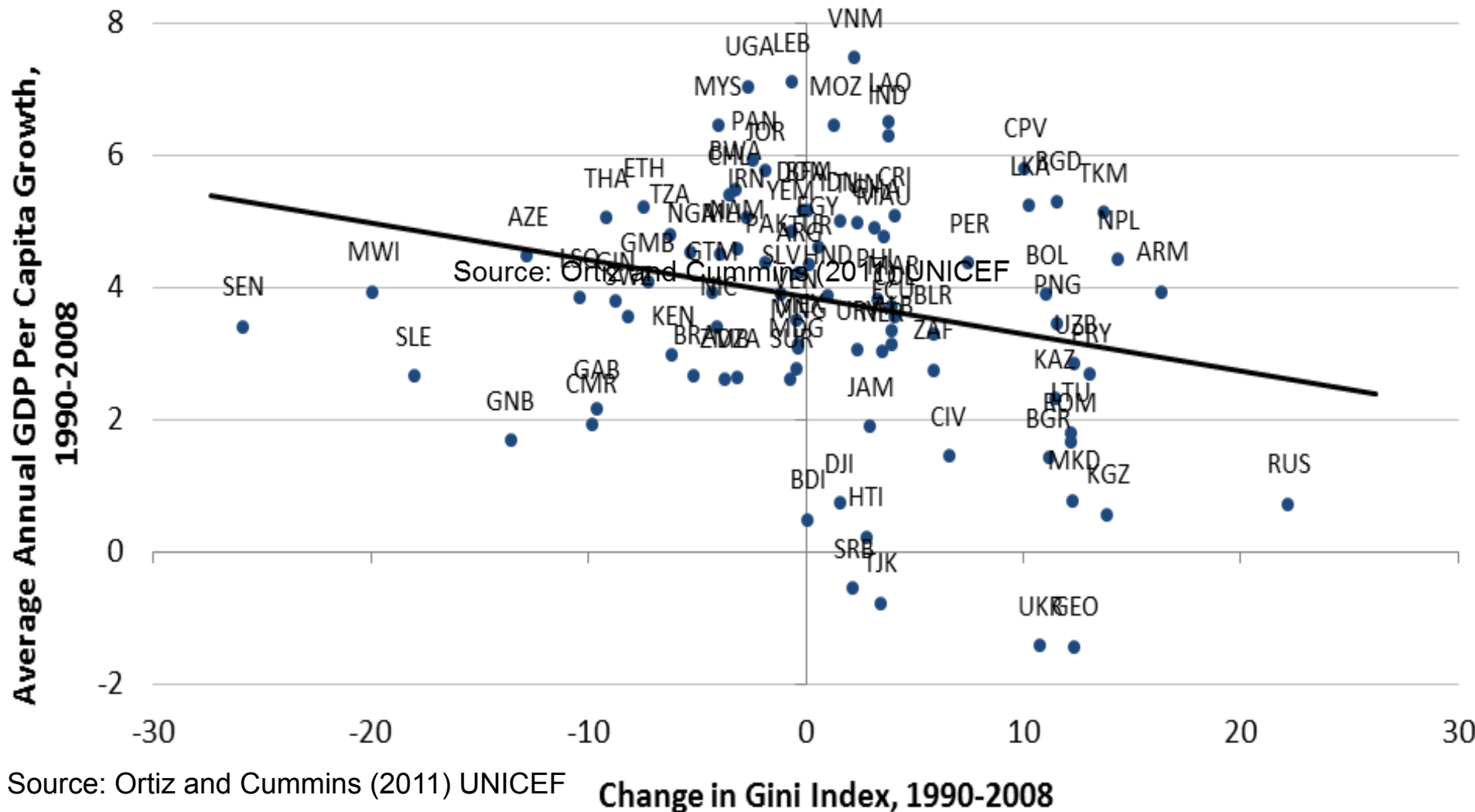
- Income inequality has increased in most countries since 1980s, but erratically
- Recently, much higher growth in many Asian countries, especially with large populations, i.e. China, India, Indonesia
- In SS Africa, from @ 2003 with higher commodity prices until 2014
- Low growth in North since 2009 crisis, slowing growth elsewhere, especially since 2014
- Lower inequality from higher levels in South America until recently

Av. annual growth by income, 1960-80/1980-2000/2000-10



Inequality slows growth

Per Capita Growth + Inequality Change in 94 Developing Countries, 1990-2008

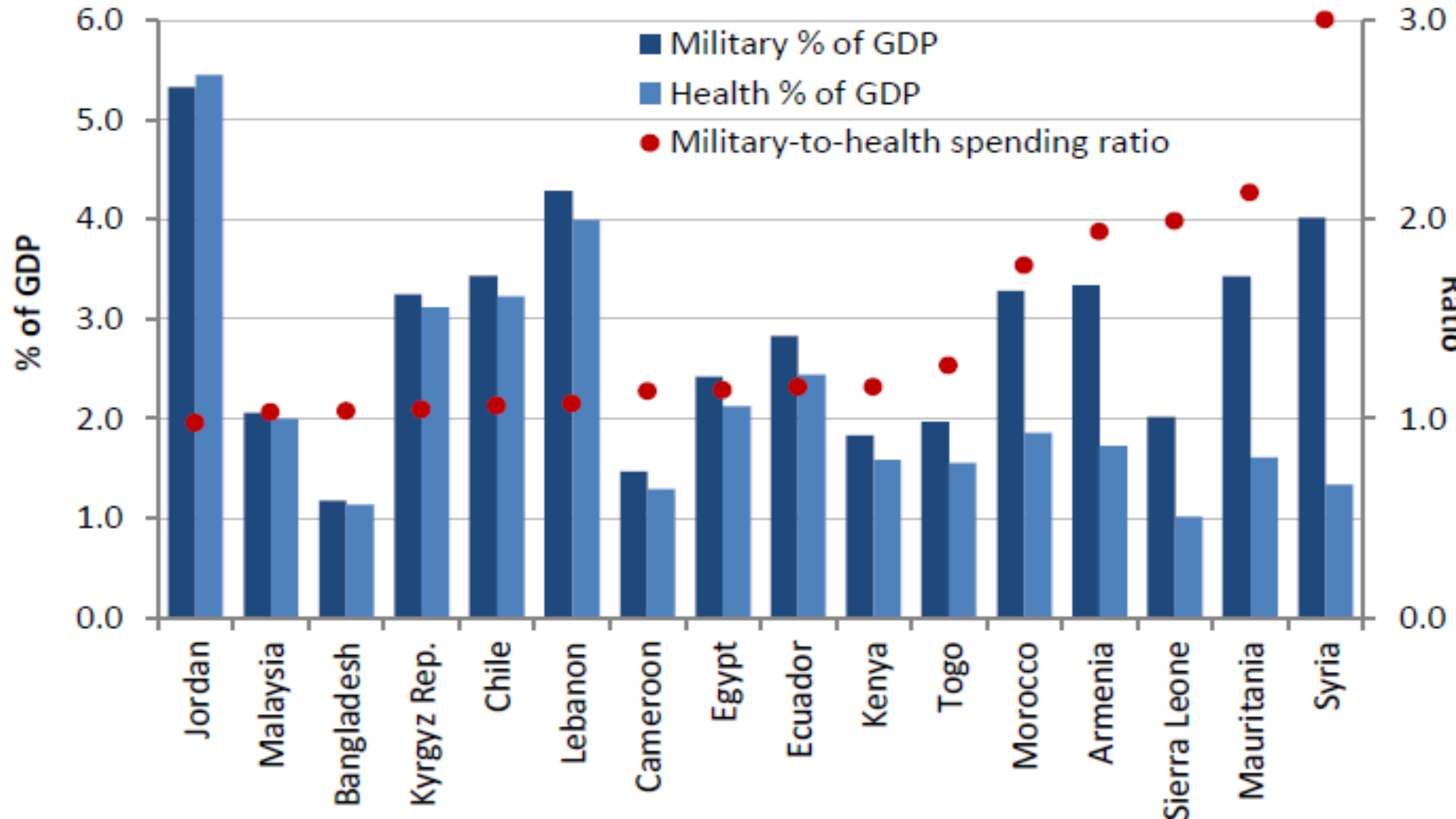


Source: Ortiz and Cummins (2011) UNICEF

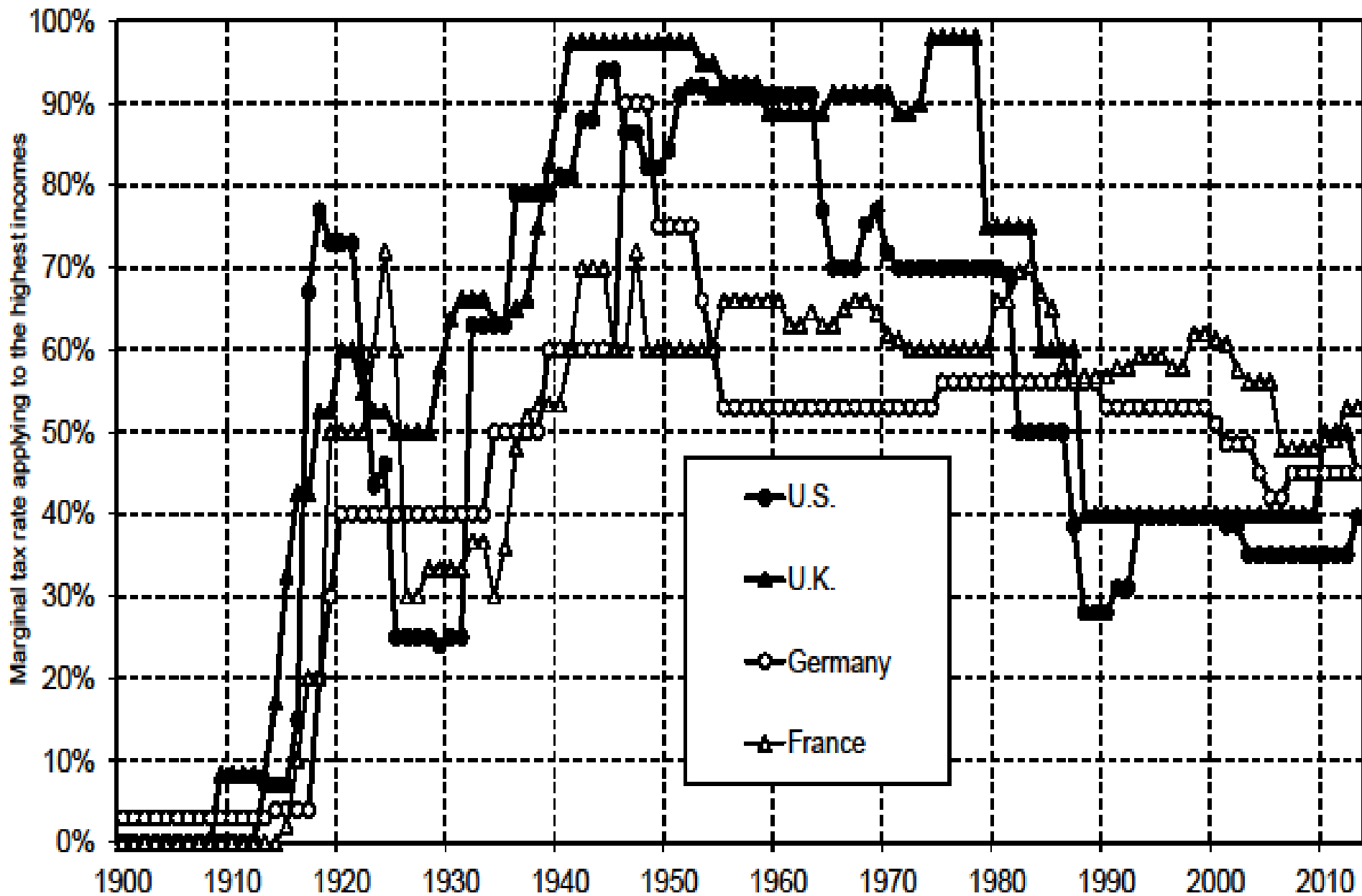
Change in Gini Index, 1990-2008

Public spending priorities

Military and Health Spending in Selected Developing Countries, 2006-09
(countries with no major armed conflict since 2000)



Top income tax rates in US, UK, Germany, France, 1900-2010



Increase tax revenues

- Income taxes
- Property and inheritance taxes
- Corporate taxes, including the financial sector
- Tariffs (imports/exports)
- **Consumption/sales taxes**, tolls

Governments should reduce reliance on indirect taxation (e.g. sales/ consumption taxes/VAT) which worsen inequality

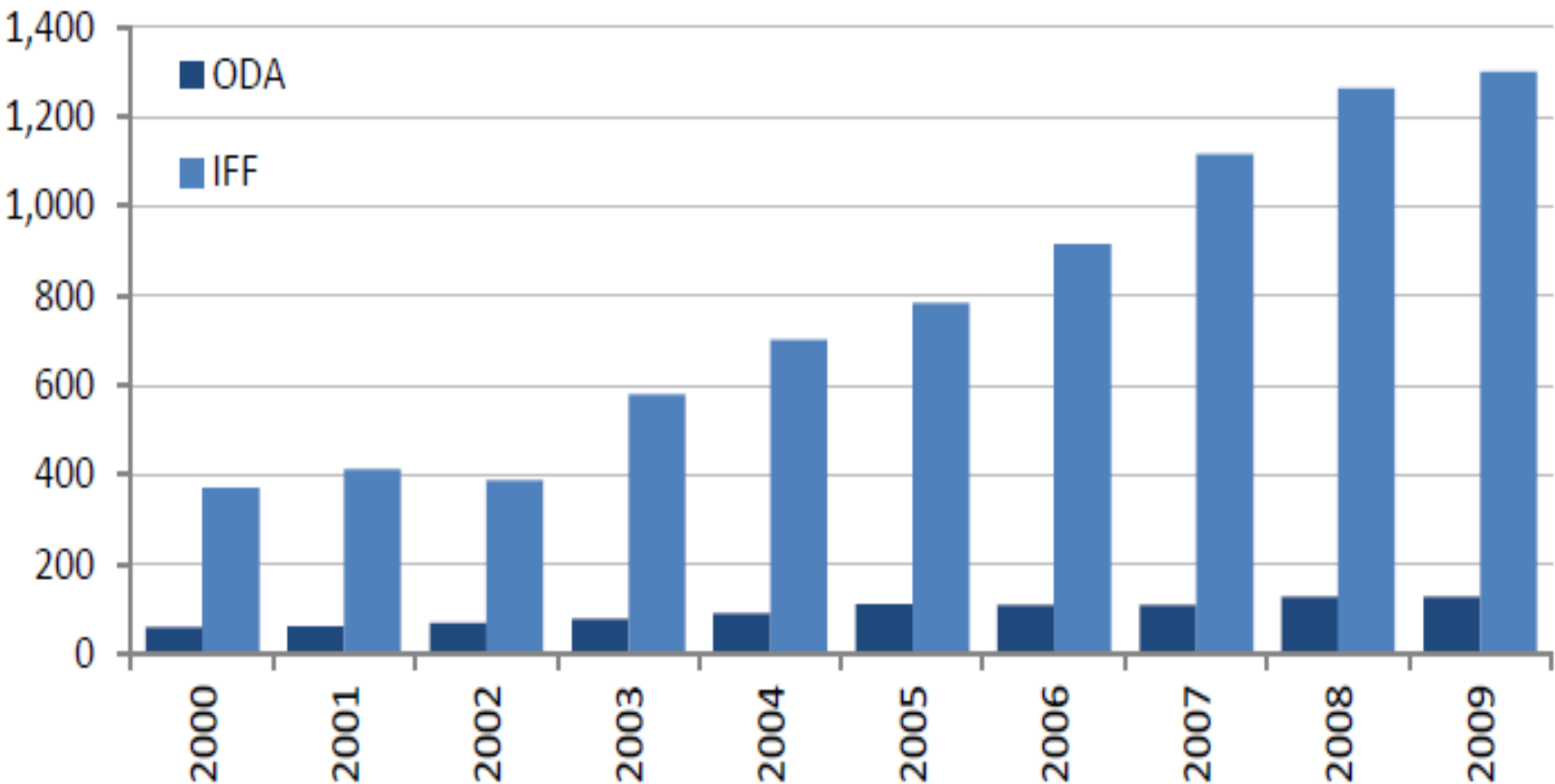
Many developing countries still continue lowering individual and corporate income tax rates for top income brackets, e.g. in 2009

Individual Income Tax	Corporate Income Tax		
Bulgaria	Albania	Ghana	Romania
Colombia	Bangladesh	India	Russian Federation
Egypt	Bosnia & Herzegovina	Indonesia	Serbia
Indonesia	Bulgaria	Kazakhstan	South Africa
Kazakhstan	China	Kenya	Swaziland
Lithuania	Colombia	Macedonia	Thailand
Malaysia	Costa Rica	Malaysia	Tunisia
Mauritius	Côte D'Ivoire	Mauritius	Uganda
Mexico	Dem. Rep. of Congo	Mexico	Venezuela
Pakistan	Dominican Republic	Papua New Guinea	
Papua New Guinea	Ethiopia	Peru	
Viet Nam	Fiji	Philippines	

Fight illicit financial flows

Main IFFs due to: (1) **trade mispricing**; (2) **tax evasion**

IFFs versus ODA, 2000-09 (billions of current US\$)



- Global inequalities vs national fiscal policies
- National-level inequalities growing
- From direct to indirect taxation: less progressive
- Government spending reduced, less progressive
- Need international tax cooperation: OECD, IMF
- Avoid ‘race to bottom’ tax competition
- Fiscal policy necessary, but not enough

Thank you