

# **Enhancing Economic Equality for Growth and Jobs**

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## **Introduction**

The G20 was created in 1999 to perform two central missions: first, to promote global stability and, second, to make globalization work for the benefit of all. Since it was upgraded to the summit level in 2008, it has succeeded in accomplishing its first mission, by responding to the great American-turned-global financial crisis from 2008 to 2010 and then by preventing the European financial crisis from going global from 2010 to 2013. Yet it is still struggling to meet its second mission, despite its expanding efforts to generate jobs, entrepreneurship, social protection and development. In the face of growing economic inequality in almost all its members, both long before and after the crisis, it is time to put enhancing economic equality at the centre of G20 summit governance, through a St. Petersburg Action Plan on Strong, Sustainable, Balanced *and Inclusive* Growth (emphasis added).

## **The Cadence of Economic Inequality: Growth in the G20 and Beyond**

Economic inequality, starting with the income distribution among individuals, is growing in both depth and breadth throughout most G20 countries and in much of the global community beyond (Larionova and Kirton 2013). The dispersion of income among individuals globally is at a high Gini coefficient of 0.70 (where 1.00 is complete inequality and 0 is complete equality). Despite gains by the middle classes in developing countries during the past decade, the global financial crisis has hit the middle and lower classes in many countries very hard. Within the G20, inequality has increased in most members, with the top 1% of Americans doubling their portion of national income from 8% to 17% since 1981.

## **The Consequences of Economic Inequality: Economic, Social, Political**

The harmful consequences of this increasing inequality are clear, across the economic, social and political domains (Larionova and Kirton 2013).

Economically, inequality inhibits economic growth in several ways. If those at the bottom of society lack income, they are unable to generate aggregate demand, for unlike the rich they spend all their income immediately. Without adequate income they are also unable

to obtain sufficient the education, health care, housing, transportation and information connectivity needed for them to get the available jobs now and work well, or enhance human capital for themselves and for their society as a whole in the medium and longer terms.

Socially, as recent events in Brazil and Turkey suggest, income and economic inequality can harm social cohesion and create social instability. For those facing the reality or prospect of increasing relative deprivation take individual and collective action, such as strikes and protests in response.

Politically, increasing economic inequality, especially when compounded by corruption, can reduce the legitimacy of governing regimes. It can also fuel separatist movements, as those at the top or the bottom of the increasingly polarized income scale seek to create a separate state to improve their economic fortunes.

## **The Causes of Economic Inequality**

The causes of economic inequality are specific to the context of each country, where particular combinations of causes combine in complex ways. However, there are some core causes with widespread, continuing impacts across most G20 countries and beyond (Larionova and Kirton 2013). Those causes are technological change, trade and financial liberalization, labour market regulatory reforms, fiscal policy adjustments, spatial and horizontal inequalities, unequal access to services and informal unemployment. As G20 members are unlikely as a policy priority to seek to reduce properly constructed technological change or trade and financial liberalization, corrective G20 action could appropriately focus on measures directed at the other domains.

## **The Cures of Economic Equality**

Here the major options for curing increasing economic inequality are largely under the control of the major governments of the G20 (Larionova and Kirton 2013). The four major sets of options are more inclusive economic growth through macroeconomic, microeconomic, financial regulation, trade, investment, industrial and entrepreneurship policy; redistribution through government taxation, transfers, benefits and social protection regulations; governance to reduce corruption and capital flight, and increase transparency, the rule of law and effective provision of public services; and equal opportunities to access public and private services and the reduction of discrimination against underprivileged groups.

## **G20 Governance of Economic Equality: Increasing, Indirect, Incomplete**

Since its initial preoccupation with promoting financial stability to respond to the great crisis in 2008-09, the G20 summit has increased its attention and action through such instruments to the major components of economic equality, with jobs and development taking pride of place. Yet this agenda still remains small and selective and has not yet put the cadence, consequences, causes and cures of rising economic inequality directly as a

core cause of generating strong, sustainable and balanced growth and jobs (Kirton and Larionova 2012; Kirton, Kulik and Bracht 2013). Indeed, the first full-length book on G20 governance from 1999 to 2012 contained no attention to the issue of economic inequality in its own right (Kirton 2013).

A review of G20 summit governance on the five pillars of social policy, protection and investment that combat economic inequality shows six central trends. First, G20 performance has been small and slight, relative to its core, classic, economic agenda. Second, it has spread in turn from the most clearly economically connected component of employment through education, health, gender and old age security. Third, all five pillars have received increasing attention, if not in a sustained way. Fourth, by the most recent summit at Los Cabos in 2012, all five received substantial, interlinked attention, providing a firm foundation on which to build. Fifth, the G20 approach is still driven largely by the central economic logic that dominates a G20 institution where finance ministers and central bankers still have a central place, and where too few have recognized that economic equality is a source of sustainable growth. And sixth, the post-Toronto 2010 emphasis on fiscal consolidation competes with that on development, launched at the same time, with the former suggesting restraint on government spending to combat inequality through direct social policy and the latter suggesting reinforcement for such spending.

Even so by the time of the Seoul Summit in November 2010, the discussion among the leaders showed that a minimal consensus on social protection and investment had emerged. Employment was noted first and most fully, led by the United States and China and followed by most leaders. Brazil's Luiz Inácio Lula da Silva added social benefits for workers, Australia's Julia Gillard the social safety net, Germany's Angela Merkel and Japan's Naoto Kan aging, Singapore's Lee Hsien Loong health care, entitlement and pensions, South Africa's Jacob Zuma skills, human capital and the Millennium Development Goals and Saudi Arabia's King Abdullah bin Abdul Aziz Al Saud human capital. Only gender was left out.

Preparations for the 2013 St. Petersburg Summit showed signs that G20 leaders could finally give economic equality an important place as a source of new growth and jobs. Several summit leaders directly noted economic inequality as an issue (Kirton and Koch 2013). The Russian presidency responded positively to the initiative of a Civil 20 Task Force on Inequality, co-chaired by Marina Larionova and John Kirton. The draft report released in June 2013 presented the clear evidence on the cadence, consequences, causes and cures of increasing economic inequality as discussed above (Larionova and Kirton 2013).

## **Enhancing Economic Equality through G20 Action in 2013 and Beyond**

On this foundation, the G20 leaders at their St. Petersburg Summit can and should act together to improve income and economic equality within their countries and beyond.

They should do so by adopting actions of varying specificity, ambition and time horizons, starting with the following steps.

First, G20 leaders should launch the St. Petersburg Action Plan for Strong, Sustainable and Inclusive Growth. It would affirm the value of inclusion and increasing equality along with strong, sustainable and balanced economic growth. It would proceed from general principles to specific supporting policies and a work program of measures to be approved at the G20's Brisbane Summit in 2014.

Second, G20 leaders should reinforce success by strengthen those polices that the G20 has already agreed to and that are of proven value in improving inclusion and income equality across the members' societies and beyond. This requires producing an inventory of the relevant principles, policy commitments, the members' compliance with them, as well as their inclusiveness and equality effects. It also requires introducing measures that improve compliance with the commitments already agreed. The International Monetary Fund, World Bank and Organisation for Economic Co-operation and Development, working with relevant multilateral organizations such as the International Labour Organization, could be invited to contribute analytically to this work.

Third, G20 leaders should create a G20 study group on equality. It should work with appropriate international organizations and civil society groups to help refine and implement these recommendations, and devise new ones for actions by G20 leaders at their Brisbane Summit in November 2014.

Fourth, G20 leaders should agree to assess and advance economic growth and inclusiveness together, by identifying and improving how policies to promote one goal affect the others. The first step is to formally include equality measures, and subsequently aspirational targets, within the Framework for Strong, Sustainable and Balanced Growth. The second step is to encourage members to add equity measures to their national development plans and annual budgets.

Fifth, G20 leaders should emphasize G20 actions that simultaneously enhance economic and equity growth. This should start with those equity-enhancing actions that most directly and inexpensively contribute to new sources of economic growth and jobs, and fiscal sustainability where possible, in the short and medium terms.

Sixth, G20 leaders should affirm good governance and basic human rights, specifically universal access to the rule of law, anti-corruption, anti-tax evasion and equal access to essential food, water, health care and rights of movement for citizens within the country. This requires expanding the G20's agenda to take up in a substantial way issues of water, health and mobility.

Seventh, G20 leaders should agree to steadily strengthen social security systems in ways that move toward wider and ultimately universal coverage, effective results and cost control.

Eighth, G20 leaders should include the goal of attaining equality as one of the post-2015 Millennium Development Goals.

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