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### The Inefficiency of Inequality

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Taking a longer term perspective of the performance of economies over decades, rather than years, the present monograph under review prepared by United Nations Economic Commission for Latin America and the Caribbean (ECLAC), argues that poverty breeds inefficiency. In the process, in addition to the usual determinants of productivity and innovation, the study also incorporates socio-cultural factors that play significant role in economics of inequality and redistribution. Described from the perspective of the Latin American and Caribbean countries, the study raises a number of issues relevant to the rest of the Southern economies as well.

The growth-equality trade-off has been a traditionally accepted idea in the literature since long. Kaldor (1958) and Kuznets (1955) convincingly argued that the richer section of the society, with a higher capacity to save, should earn more to ensure higher level of capital accumulation, and consequently a higher level of investment and growth. The emergence of endogenous growth theory had changed the perception, and since mid- 1990s, a significantly large contributions had emerged that questioned the supposed trade-off between growth and equity. The present study under review not only corroborates the findings from the domains of endogenous growth theory but also identifies the factors that strengthen poverty-inefficiency nexus.

It argues that the following features bear testimony to the existing poverty-inefficiency nexus.

- Unequal access to capacities: a barrier to productivity growth that the market does not correct;
- Destruction of environment with implications for increasing inter- and intra- generational inequity;
- Undersupply of better quality of public goods; and
- Prevalence of a culture of privilege.

In view of these shortcomings, it calls for building a culture of efficiency and equality.

The monograph is divided into seven distinct but interlinked chapters. In locating the cost of inequality and in tune with the spirit of endogenous growth theory, the first chapter argues in favour of the enhancement of human capital and its productivity. Unequal access to capacity – due to restricted access to essential services like education and health to a significant section of the population in the developing countries – creates iniquitous distribution of skill and wellness parameters across communities and contributes simultaneously to inequality in their productive capacities. This becomes more visible in societies where access to such services tends to be dominated by a market system that is often prone to ‘market failure’ and thereby reduces prospect of reaping potential social profit that such access regime may have generated. Inequality, both intra- and inter-generational, also affects productivity growth in the light of environmental degradation. The document cites the case of pollution emitted in urban localities and the resultant negative impact on the

health of the population. By favouring individual modes of transport and in the same vein, penalizing public transport, intra-generational inequality perpetuates negative environmental consequences. The document under review calls for creation of global public goods in a larger scale in tune with the spirit of democratic ideals. It also argues in favour of providing better quality public goods. Elaborating further on the entrenched culture of privilege prevailing in most of the nations, the chapter calls for efforts to be immediately initiated to build a culture of efficiency and equality.

The next chapter focuses rightly on the growing tensions arising out of globalization – primarily in the form of growing in-country inequality across the globe during the last decade; with Latin American region being exception to the rule. Observing that we are moving to a more uncertain world, both economically and technologically, it questions prevailing interpretation of the macroeconomic structure of the country. It also raises serious issues with the shift from ‘goods’ to ‘bits’ through digital revolution, as seriously contributing to uncertainties. In the accompaniment of the fact that the quantum of global trade is still hovering below the pre-crisis level; such uncertainties are accentuating level of inequality across board. The crisis has further gained strength with the tilt of the transnational corporations towards search of high quality assets, leading to returns of the capital to advanced economies; a phenomenon that was reversed considerably during pre-2008 era of globalization that saw flight of capital to the developing world

in search of cheap labour and mass production of general consumables and to tap benefits of economies of scale. Ineffective global governance, the chapter argues, also contributed to distress the world is facing today. Such concerns in global governance include migration, weakening multilateralism in trade, and environmental degradation.

The third chapter focuses on the role of external vulnerability in hindering development in the Latin American region, caused by negative labour and social effects and by creation of fewer quality jobs. This has led to increased poverty. The villain of the piece, the report argues, is the structure of the fiscal policy that fails to reduce inequality in the region: tax revenues are biased against equality, fiscal policy is not effective enough for redistribution in favour of the marginalized sections of the society. Following the culture of privilege, tax evasion also remains a serious issue. In addition, the global spread of financial market also adds to external vulnerability and hinders growth, investment and product diversity in the long -run.

The following chapter forcefully argues that inequality is inefficient and unsustainable, citing the incidence of higher cost of education and health services being borne by those located at the bottom of the resource ladder. Inequality also affects inter-generational mobility, generates inefficiency in labour market through persistent informalization and thereby accentuates gender inequality. Emphasizing on the positive impact of social protection on growth and employment, the section presents a case for enhancing the same in future strategies.

Chapter five specifically deals with inequalities that cause segregation of territories and deterioration of the environment, while the next chapter captures political economy of inequality against the backdrop of the culture of privilege.

The final chapter, before providing the concluding remarks, offers a roadmap for strategic orientation. The strategies include:

- A move from monetary policy to a finance policy
- A fiscal policy that encourages growth with equality
- Protection of public social spending through progressive taxation
- Adaptation of education to the new technological context
- To strengthen social protection and care system and
- To ascertain the need for offering basic income to all.

As a strategic move, the concluding chapter also calls for decarbonization through digitalization, renewable energies and sustainable urbanization and creation of a favourable trust in institutions to facilitate implementation of policies to promote environmental big push in a transparent manner.

The following quote from the concluding section of the document captures the spirit of the arguments very clearly:

“The quality of democracy depends both on the institutions that promote equal rights and on the modes of coexistence that reflect a society’s sense of belonging. The technological alternatives with the smallest carbon footprint and the change in

the energy matrix must also strengthen this collective belonging. Hence the importance of strategies and policies that facilitate the transition to more sustainable ways of producing, inhabiting and consuming and, at the same time, enhance the provision of public goods and better-quality services. This will make it possible to move towards a new style of development, with fewer social gaps and spatial segregations, and to achieve growth based on innovation and the dissemination of clean technologies” (Pp: 251-2).

As mentioned in the beginning, the document is mainly prepared against the Latin American perspective. However,

given the long tradition of ECLAC in articulating in a general framework the problems of the developing world, right from the days of Raul Prebisch, this document provides valuable insights into the generic problems faced by the South today, and becomes a must read for anyone pursuing developmental concerns from a Southern perspective.

Finally, the extensive empirical treatment of the challenges at hand in a non-technical way and a rich bibliography at the end of each of the chapters add tremendous value to this volume.

- **Milindo Chakrabarti**

#### QATAR TAKES LEAD TO BUILD REGIONAL AND INTERNATIONAL PARTNERSHIPS TO ADDRESS DISASTERS

Minister of State for Foreign Affairs H E Sultan bin Saad Al Muraikhi affirmed Qatar’s keenness to continue efforts exerted by all Arab and African countries by working together in order to effectively address the dangers of disasters facing humanity and to prepare the appropriate preparedness plans to anticipate what would negatively affect our peoples and planet. In a statement before the Arab-African Platform on Disaster Risk Reduction in Tunis, the Minister of State for Foreign Affairs expressed Qatar’s support for the platform’s final declaration, stressing that the country will spare no effort to build regional and international partnerships. This emanates from the belief that development is a right for all and represents an added value that must be preserved for the prosperity of humankind.

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