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President's summary

Development strategies in a globalized world: Reducing inequalities for balanced and sustainable development

(Agenda item 8)

1. Under this agenda item, discussions in formal and informal sessions focused on the problem of increasing income inequality and the linkages between inequality and growth, in particular, in the context of the ongoing global financial and economic crisis. Inequality was a major concern not only from a moral and social point of view but also because of its impact on economic performance. After being neglected for several years, it had become the centre of the economic debate in many countries. According to one speaker, it was relevant that this was a topic of discussion in UNCTAD, as inequality was a fundamental reason behind its foundation. Several speakers questioned the theories that considered that rising inequality was the inevitable consequence of technological change or of the expansion of global trade, since empirical evidence in this regard was weak, and rejected the corresponding idea that "nothing should be done" in this respect.

2. Globalization had helped close income gaps among countries, though some countries had failed to integrate successfully into the global economy and had been left behind. However, speakers and delegates agreed that the trend towards the growing inequality within countries that had been experienced in the last three decades, especially in developed countries, posed a significant threat to the global economy. The reasons for higher inequality were multiple and varied among countries. They included changes in global financial regimes and the increase in the power of the financial sector, globalization and the delocalization of companies, the rise of economic powers and the implementation of neoliberal policies. There was wide agreement that better global financial governance had an important role to play in the reduction of inequality.

3. Panellists and several delegates emphasized that some developing countries, in particular in Latin America, had successfully averted adverse distributional effects in recent years. Especially important in this context had been supportive macroeconomic and wage policies, as well as targeted fiscal and industrial policies aimed at ensuring that most of the income generated in a context of improved external conditions was used within the country.

4. Empirical evidence showed that the idea that lowering wages would be the solution to high levels of unemployment was fundamentally flawed. The existing high levels of unemployment were not the result of high wages but of wages lagging behind productivity growth. The result was that during a downturn, demand had dried up as households reduced their consumption, with the corresponding impact on the expectations of profits for companies and therefore on investment levels and economic growth.

5. Income inequality had become more visible with the crisis, which in many parts of the world had endangered the social model. Wages, particularly in industry, were being compressed, especially for less-qualified workers; jobs were being lost overseas; and financial manoeuvring and speculative bubbles had caused crises that had their greatest impacts on the most vulnerable. The problem of high unemployment had dramatic consequences for social cohesion and could lead to political and social conflict. In particular, speakers and many delegations raised deep concerns in relation to the high levels of youth unemployment. Youth unemployment implied a handicap as a starting point that would be perpetuated along a person's entire professional career. It was also a waste of resources as investment in education became non-profitable. Nevertheless, several speakers emphasized the role that education could play in reducing income inequality.

Unemployment, and particularly youth unemployment, might also result in brain drain that could prevent the catching up of less-developed regions or countries in crisis as high-skilled workers left their home country and did not participate in strengthening the domestic institutions.

6. There was wide agreement that the way out of the crisis and to reduce unemployment was through economic growth and not through fiscal austerity measures, wage compression or labour markets flexibilization. A substantial reconstruction of institutions was necessary. All speakers emphasized the need to distribute the gains of economic growth between capital and labour fairly. A long-term reduction of the wage share in income, which occurred after 1980 in the member countries of the Organization for Economic Cooperation and Development, was a strategy that had failed. Less inequality in pay structures appeared to be associated with lower unemployment. There was wide consensus that in order to achieve inclusive development there was a need for government intervention, as the market alone could not solve the problem of inequality and high unemployment. A number of speakers said that setting minimum wages and putting more emphasis on collective bargaining were good ways to address inequality. In order to guarantee that competition was based on productivity gains and not on wage cuts, it was important that wages be set at the level of the economy and not at the individual firm level. In addition, improved international cooperation and a reasonable international financial order and exchange rate system were needed to keep the game fair.

7. The issues of territorial inequality and migration were also addressed in the debate. Regarding the possible impact of the latter on wage levels and unemployment, speakers agreed on the importance of avoiding lowering wage levels in the richer regions to match those of the poorest, emphasizing the role of minimum wages. Interregional transfers could provide a buffer against interregional inequality, as for example in the United States of America or the European Union. In the latter case, however, one speaker asked whether the amount of the European budget was sufficient. Furthermore, the discussion pointed to the relevance of looking not only to the economic and social dimension of development, but also to the environmental dimension, which appeared to be sidelined as a result of the global financial crisis. Beyond short-term solutions, the way out of the crisis could provide an opportunity to find appropriate strategies that would avoid returning to the previous unsustainable paths. Panellists generally agreed that the world would pay a high price in the future if it failed to address urgent environmental issues.