

Left behind by the G20?

How inequality and environmental degradation threaten to exclude poor people from the benefits of economic growth

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Around the world, poor families live alongside their livestock in filthy environments, only metres away from glittering signs of wealth and progress.
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The G20 is committed to supporting equitable and sustainable growth. But new data shows that a lot needs to change if they are to live up to this pledge. The stakes are high: analysis in this paper suggests that without attention to growing inequality, strong growth is unlikely to be enough to prevent poverty increasing in some G20 countries over the next decade. Income inequality is growing in almost all G20 members, while it is falling in many low- and lower middle-income countries. Meanwhile, environmentally unsustainable economic expansion is driving dangerous climate change, and depleting the natural resources upon which poor people depend most for their livelihoods. Without action, inequality will render the benefits of growth inaccessible to the poor, even as they bear the costs of this expansion through the impacts of a changing climate and environmental degradation. It's time for the G20 to practice what it preaches.

Summary

In 2010, the G20 committed themselves to promoting inclusive and sustainable economic growth. They argued that ‘for prosperity to be sustained it must be shared’ and also endorsed ‘green growth’, which promises to decouple economic expansion from environmental degradation. But G20 countries have some way to go to match this commitment. This paper assesses their record, and points the way forward.

The stakes are high: over half the world’s poorest people live in G20 countries, and rising inequality threatens to prevent them benefiting from economic growth. Income inequality is growing in almost all G20 countries, even while it is falling in many low- and lower middle-income countries. Meanwhile, G20 countries alone consume almost all the natural resources that the planet is capable of replenishing each year. Unsustainable patterns of usage are driving dangerous climate change and depleting the natural resources upon which poor people depend for their livelihoods.

This means that many of those living in poverty will miss out on the benefits of growth, yet also bear the costs of this economic expansion through the impacts of climate change and environmental degradation. If G20 countries are to secure a prosperous future for all their citizens, they must now practice what they preach and tackle these linked, but distinct, challenges of equality and sustainability.

Inclusive?

Inequality erodes the social fabric, and severely limits individuals’ opportunities to escape poverty. Where income inequality is high or growing, the evidence is clear that economic growth has significantly less impact on poverty: a trickle-down approach does not work.

Moreover, recent research indicates overwhelmingly that inequality is detrimental to economic growth itself. Inequality leads to instability, prevents productive investment and undermines the institutions of government. Protests emerging around the world show the extent to which citizens are concerned about inequality’s corrosive power.

And yet, inequality is growing in most G20 countries. Using a new dataset, we show that only four G20 countries – including just one high-income country, Korea – have reduced income inequality since 1990. In this, the G20 is being outdone: a large number of others, including low-income and lower middle-income countries, have reduced income inequality in this period.

Our analysis illustrates just how dangerous this trend is. In South Africa, our model predicts that more than a million additional people will be pushed into poverty between 2010 and 2020 unless rapidly growing inequality is addressed. The rewards flowing from increased equality are similarly dramatic. In Brazil and Mexico, bringing inequality down to the level in Indonesia (close to the G20 median)

could, according to our calculations, reduce the number of people in poverty by 90 per cent in the space of a decade.

This analysis focuses on income inequality, which though important is just one of the many inter-related forms of inequality. In its broadest sense, inequality denies the rights of whole sections of society to be treated with dignity and respect. In many G20 countries, at least half the population are affected: the often subordinate status of women and girls translates into less access to health and education, lower incomes, and poorer life chances than men.

Sustainable?

Life depends on the planet's natural capital, the natural resources that we use to produce food, water and energy. But the current trajectory of usage is deeply disturbing. No country (in the G20 or outside) has yet demonstrated that it is possible to combine high average incomes with sustainable natural resource use.

However, several middle-income countries have succeeded in reducing the resource-intensity of their economic growth. Between 1991 and 2007, Mexico's gross domestic product (GDP) grew four times faster than its CO₂ emissions. China's grew two and a half times faster.

By contrast, the G20's high-income countries have on the whole performed very poorly. Only four G20 countries have reduced their carbon emissions since the Rio Summit in 1992.

The dangerous climate change and environmental degradation that results hits the poor hardest. The poor not only depend most on natural resources for their livelihoods, but also tend to live in places disproportionately affected by climate change. They can also lack the rights or power to secure access to resources in times of scarcity. Oxfam's recent report *Land and Power* documents detailed cases of land grabs depriving the poor of access in Uganda, Indonesia, Guatemala, Honduras, and South Sudan.¹

The G20 member countries must therefore act far more decisively to bring their use of natural resources back within sustainable limits. The high-income countries among them must lead in demonstrating that environmentally sustainable economic growth is possible.

Recommendations

Towards inclusive growth

The analysis in this paper shows that without attention to rising inequality, strong growth will not be enough to reduce poverty significantly over the next decade.

Policy makers must therefore devote more attention to inequality. There are some indications that this may be about to happen, but most G20 countries are currently moving in the wrong direction. Words need to be matched by comprehensive policy programmes in all G20 countries.

The exact policy mix should be tailored to each national context, but policies in successful developing countries suggest the following starting points:

- redistributive transfers;
- investment in universal access to health and education;
- progressive taxation;
- removal of the barriers to equal rights and opportunities for women;
- reforming land ownership, ensuring the right access to land and other resources, and investing in small-scale food producers.

The experience of Brazil, Korea, and many low-income and lower middle-income countries shows that reducing inequality is within G20 policy makers' power, whatever the level of economic development in their country. There is no shortage of potential policy levers. Instead, there has perhaps been a shortage of political will.

Towards sustainable growth

Resolving inequality will not on its own be enough to secure a prosperous future for all. Economic activity is currently depleting the Earth's natural assets, including the capacity of the atmosphere to absorb carbon dioxide, with the costs borne disproportionately by poor women and men. The most immediate concern is climate change.

Developed countries must lead by going much faster and further in absolutely decoupling their GDP growth from natural resource use, including carbon emissions. However, all G20 countries must monitor and begin to internalise in economic decisions the resource impact of their production and consumption patterns across a wide range of natural resources. These reforms should be accompanied by policies that protect the most vulnerable communities, workers and consumers from the impact of transition. A start can be made at the Rio+20 Sustainable Development Conference in June 2012.

The exact policy mix should be tailored to each national context, but may include:

- Investment in public goods, such as research and development in clean energy;
- Tax breaks, subsidies and other incentives to guide private investment to where it is needed;
- Taxing undesirables, such as greenhouse gas emissions, to direct economic activity towards more sustainable alternatives;
- Regulation to stop companies polluting or to encourage them to provide goods and services they otherwise would not.

In addition, G20 countries must show much greater leadership at the UN Framework Convention on Climate Change (UNFCCC). In particular, they should:

- ensure that developed countries commit, as a first step, to the high end of their current 2020 mitigation pledges, and give assurances that long-term mitigation financing will be mobilized to help developing countries implement their most ambitious pledges;
- forge consensus on the fair shares of the global emissions cuts needed to prevent more than 1.5°C of global warming;
- broker agreement on new and reliable long-term sources of climate finance, particularly a fair carbon charge for international shipping, with a compensation mechanism for developing countries, and financial transactions taxes in developed countries.

The G20 has an opportunity to establish itself as a group of countries that leads by example. They have committed themselves to pursuing inclusive and sustainable economic growth, and living up to this pledge is where they should start.

Notes

- ¹ B. Zagma (2011) 'Land and Power', <http://policy-practice.oxfam.org.uk/publications/land-and-power-the-growing-scandal-surrounding-the-new-wave-of-investments-in-l-142858> (last accessed 3 January 2012)

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