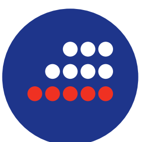
Analysis 90

STUDY

Reducing inequality requires redistribution

Social protection ensures progress towards reaching SDG 10



Global Coalition for SOCIAL PROTECTION FLOORS

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Author Anja Gaentzsch
Editors Maike Lukow, Nicola Wiebe
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Preface

Together with its partner organizations worldwide, Bread for the World continues to observe the negative impact of high levels of social inequality, both within and between countries. Inequality hinders the reduction of poverty, affects human dignity and violates human rights. Moreover, due to its negative impact on social, economic and political participation, inequality endangers the core values of democracy and challenges social cohesion and peace. It will be impossible to achieve the sustainable development goals, if inequality is not reduced.

Overcoming inequality requires transformative change of national and international institutions and the addressing of imbalances of power, especially within economic systems, trade regimes and the international financial architecture. It also requires empowerment of those left furthest behind, who are often trapped in a vicious cycle of poverty, discrimination and exclusion.

Fiscal and social policy alone cannot overcome the multifaceted problem of inequality, but they form an important foundation that can be built upon. Social protection facilitates direct redistribution of disposable income as a corrective intervention to deal with the often extremely inequitable market distribution of income and wealth, which exists in many countries. Even more importantly, social protection can ensure livelihood security and guarantee access to public services like education and health. This improves the basic situation for disadvantaged groups within society and creates access to opportunities for all. If well designed, social protection systems contribute to reducing inequality and exclusion, and enable self-determined participation in social, economic and political affairs.

This study reviews the scope for influencing social inequality through social protection. It illustrates which instruments social protection can use and why finance always has to be part of the overall analysis. The author examines the question of why there is such a large variance in the impact on equality resulting from the social protection systems in operation in different countries. Similarly, the study investigates how inequality between countries has evolved. Also under discussion are the framework conditions that place constraints on redistributive social and fiscal policy in the global south and the resulting responsibilities for national governments and the international community.

NICOLA WIEBE
Social Protection Policy Advisor
Brot für die Welt (Bread for the World)

Executive summary

Inequality has been rising in many countries and stabilized at excessively high levels in others. This problem has many dimensions – among them income, wealth, human development and opportunities – that are linked with and reinforce one another. Sustainable Development Goal (SDG) 10 commits to reducing inequalities within and between countries. While inequalities between countries have not risen in the recent past, this is largely due to a few large countries – notably China and India – advancing to a global middle class. However, this development masks trends at both ends of the global distribution of living standards: a global elite takes increasingly high shares of income and wealth while poverty concentrates in fewer countries and world regions that get left behind to a greater and greater extent. This endangers progress towards SDG 10 and other SDGs: excessive inequalities are detrimental for development because they go hand-in-hand with high levels of poverty and undermine social justice.

Social protection is a key instrument for reducing inequality. Access to social security has long been recognised as a human right and fosters solidarity within and between countries. In terms of policy instruments, social protection involves cash transfers, in-kind transfers and social insurance and is often linked to the provision of public services and active labour market policies. Analysing these instruments individually is important in the context of SDG 10 since their reach and design carries implications for their redistributive impact.

The limited reach of social insurance and its tendency to exclude poorer groups of society blunt its redistributive impact in low- and middle-income countries (LMICs). Social assistance carries greater redistributive potential but transfer levels and coverage of the poor are insufficient in many countries. Reform strategies should therefore aim to broaden access to social insurance and design more comprehensive systems that integrate social assistance and social insurance into common policies. Transfer levels need to be raised in order to ensure that they have a meaningful impact on poverty and inequality reduction. Apart from vertical redistribution from rich to poor, horizontal redistribution can play an important role in ensuring greater equity between culturally or socially defined groups, based for example on origin, religion or gender.

Social protection and its financing sources need to be analysed jointly. Both the level and composition of revenue sources determine the overall redistributive impact of government intervention. Governments raise revenues through a wide range of sources that are relevant for financing social protection, among them income and consumption taxes, social security contributions, revenues from royalties and natural resources as well as international financing mechanisms. Among these, progressive taxes have the greatest redistributive potential. Direct taxes tend to be progressive but play a limited role in the Global South. Consumption taxes play a much greater role in these countries and risk undermining the redistributive potential of social protection since they tend to place a much higher burden on poorer households. Revenues from natural resources can account for sizeable shares of public revenues in resource-rich countries. However, these are often volatile and may not be a sustainable source of financing if resources are finite and costs to future generations are not taken into account.

In order to create larger fiscal space for social protection, the effectiveness, level and progressivity of tax systems need to be increased. More national and international efforts need to be directed towards reducing tax avoidance and evasion. Unfair global tax systems and practices are a case in point: here, global action is needed to ensure that just rules are enforced and that the public interest is put before private interests. In addition, the international responsibility for building comprehensive social protection systems in pursuit of SDG 10 needs to be recognized. Among other things, this entails exploring new global financing mechanisms and fulfilling commitments to reach the ODA target of 0.7 per cent of gross national income. Importantly, however, it goes far beyond providing increased aid allocations and must instead tackle some of the underlying causes of the imbalances that are evident within and between countries. Such imbalances are also rooted in economic and political structures that often work to the disadvantage of low-income countries – for example, by exposing them to economic shocks that result from high and unfettered international economic volatility.

Strengthening the voice and representation of marginalised groups and individuals is an end in itself. It is also instrumental in reducing inequalities and requires public action to widen and equalize opportunities. Unequal opportunities and limited prospects for social mobility exacerbate inequality in many dimensions. This means that social protection needs to embrace comprehensive measures, including the promotion of access to quality healthcare and education. Moreover, it needs to go hand-in-hand with efforts in other policy spheres including tax and labour market policies to ensure level playing fields at the individual and global level.

Background

SDGs place a key focus on the pivotal role that the reduction of inequalities plays in ending poverty. SDG 10 explicitly aims to "reduce inequality within and among countries", recognizing that development requires sharing progress more widely with everyone, including the most disadvantaged groups in society. However, inequality has been on the rise in many countries, a trend that has benefitted those at the very top in particular. And even where it has not risen in recent years – such as in many Latin American countries that reduced the concentration of labour income and strengthened their social protection systems – disparities remain vast and levels appear to stabilize at excessively high levels (ECLAC 2019). In some of the most unequal countries and regions, the richest one per cent hold more than 20 per cent of national income. In South Africa, the Middle East and India for example, the income shares of the top one per cent have almost doubled since 1990 and currently amount to just under 20 per cent in South Africa, 25 per cent in the Middle East and 22 per cent in India, where the top ten per cent account for as much as 55 per cent. This stands in stark contrast to the bottom half of the distribution, which accounts for some ten per cent of income in the Middle East and 15 per cent in India and sub-Saharan Africa (Alvaredo et al. 2018, World Bank 2016). These figures may even underestimate the excessive concentration of income and wealth at the top since much of it is not observed in official accounts or surveys. Income and wealth inequality often go hand-in-hand with inequalities in other dimensions such as opportunities, access to services and resources, or political influence and representation.

Reducing inequalities is important for development because the adverse impacts of high inequality undermine efforts to overcome poverty, and because high inequality undermines social justice. Inequality endangers social cohesion and peace, it negatively affects economic, social and political participation and weakens trust in institutions. High levels of inequality also have adverse socioeconomic effects such as lowering social mobility and curbing progress in healthcare and education outcomes (OECD 2018; Easterly 2007; Wilkinson/Pickett 2010). These inequalities reinforce each other because those that benefit from them often have many other ways of exerting political influence while disadvantaged groups typically lack a lobby. As such, reducing inequality also contributes to the achievement of other SDGs such as SDG 1 (No Poverty), 2 (No Hunger), 3 (Good Health and Well-Being), 4 (Education), 5 (Gender Equality) and 8 (Decent Work and Economic Growth). Similarly, global inequality remains intolerably high and exacerbates stubbornly high rates of extreme poverty (World Bank 2018).

Social protection is among the most effective policy instruments that governments have at hand to address the many dimensions of inequality. It embraces a range of mechanisms for redistributing resources among individuals and across the life cycle and for widening opportunities – for example, through access to education, healthcare and nutrition. It serves to guarantee a minimum living standard for each member of society and to guard against risk along the life cycle such as sickness, old age or unemployment. Accordingly, having access to social protection when a negative shock occurs not only aims to protect people from starvation but rather allows them to partake in society, plan with a long-time horizon and prevent negative coping strategies such as selling productive assets or taking children out of school. This is all the more relevant in LMICs and fragile settings where this risk occurs more frequently and hits the poor hardest. Strengthening social protection hence constitutes an essential contribution towards reaching SDG 10.

In building systems, it is of the utmost importance to consider the financing side of social protection: not only are more resources needed to guarantee comprehensive coverage, but the composition of financing instruments also matters a great deal for the overall redistributive impact of government intervention. Tax policy in particular has decisive implications for inequality: the more progressive its design, the less of a burden is placed on poor populations that are least able to pay. A tax is called progressive if the average rate increases as the taxable amount rises, meaning that those with higher incomes pay a larger share of their income towards taxes than those with lower incomes. This is in contrast to a regressive tax for which the average rate – the share of personal income that is being taxed away – decreases as income rises. The more regressive taxes are, the greater the need for social transfers to redistribute and address inequalities. While the various objectives and functions of social protection are equally important, the focus of this analysis will lie on vertical redistribution given its primary relevance for achieving SDG 10.

Social protection: an essential building block for reducing inequality

High inequality has several root causes – among them unequal access to land, capital, resources and power – that depend on the specific context but often persist across generations. In some of the most unequal countries, such as South Africa and Brazil, historical legacies of slavery, colonialism and racial divides have contributed to shaping extremely unequal societies. In other regions, socio-economic inequality is associated with long-standing unequal economic and trade relations or more recent developments of contemporary capitalism, the ownership of natural resources and private capital, and the privatization and commodification of public assets. Since the 1980s, large shares of public wealth have been transferred into private hands in the Global North and South alike (Alvaredo et al. 2018). Parallel to this, changing labour markets, economic structures and fiscal policy – globalization, declining unionization, falling top marginal tax rates on income and wealth to name just a few of these trends – have led to stronger divergences between the top and bottom income shares and a declining share of labour in national income. The various dimensions of inequality perpetuate one another: for example, high wealth inequality exacerbates inequality in income, political representation and influence, access to education and good health. According to estimates by the United Nations Children's Fund (UNICEF), the risk of dying before reaching the age of five is nearly twice as high for children from the poorest 20 per cent of households compared to children from the richest 20 per cent (UNICEF 2011). Women in the richest 20 per cent of the global population are up to 20 times more likely to have a birth attended by a skilled health worker than those among the bottom 20 (WHO 2011).

Strong social protection systems – alongside fair taxation and labour market policies that strengthen rights of workers, for example through living wages and collective bargaining – are key instruments in addressing rising inequalities. Redistributing resources from the top of the distribution to the bottom – commonly referred to as vertical redistribution – is one of the main objectives of social protection but by no means the only one. Social insurance serves to smooth consumption over the life cycle and in times of income loss. Social protection also serves to address horizontal inequalities, which refer to systemic differences in development outcomes or access to resources and opportunities among culturally or socially defined groups, based for example on origin, religion or gender. In order to achieve its redistributive aims, social protection schemes rely mainly on cash and in-kind transfers and on social insurance. These are often linked to the provision of public services and labour market interventions such as in healthcare and education or aim to promote employment and protect workers and to create equal access to opportunities for all. The overarching objective here is to promote a shared idea of social justice: Article 22 of the Universal Declaration of Human Rights establishes the right to social security for everyone as "indispensable for his dignity and the free development of his personality" (UN General Assembly 1948).

Social protection and inequality have a reciprocal relationship. While redistribution through social protection has the potential to reduce inequality in income, opportunities and access to public services, a high level of inequality can at the same time erode public support for it because inequality divides societies. When comparing systems of social protection across countries, it becomes evident that these differ strongly in the degree of redistribution they achieve. Equally important as the level of public spending is the specific design of fiscal policy including social protection. As such, two countries with the same level of government revenues and social expenditure can achieve vastly different degrees of redistribution if, for instance, one of them channels public transfers effectively to the poor population while the other redistributes resources among the relatively better-off in society. The degree to which benefits reach poor and excluded people in society, the mode of financing and the design of tax systems all play a central role.

Figure 1 illustrates this point. The columns depict the changes in inequality as measured by the Gini coefficient between market and disposable income. The Gini coefficient is a commonly used measure of statistical dispersion that indicates how unequal resources are distributed between individual members of societies. It ranges between zero (perfect equality) and one (maximal inequality). Market income refers to incomes gained by individuals before any state intervention, in particular taxation. Disposable income measures the resources available after taking account of taxes and transfers. Comparing the changes in the Gini index between these two income concepts therefore demonstrates the redistributive impact of fiscal policy. The right panel represents countries of the Organization for Economic Cooperation and Development (OECD) region while the left panel represents countries of the Global South.

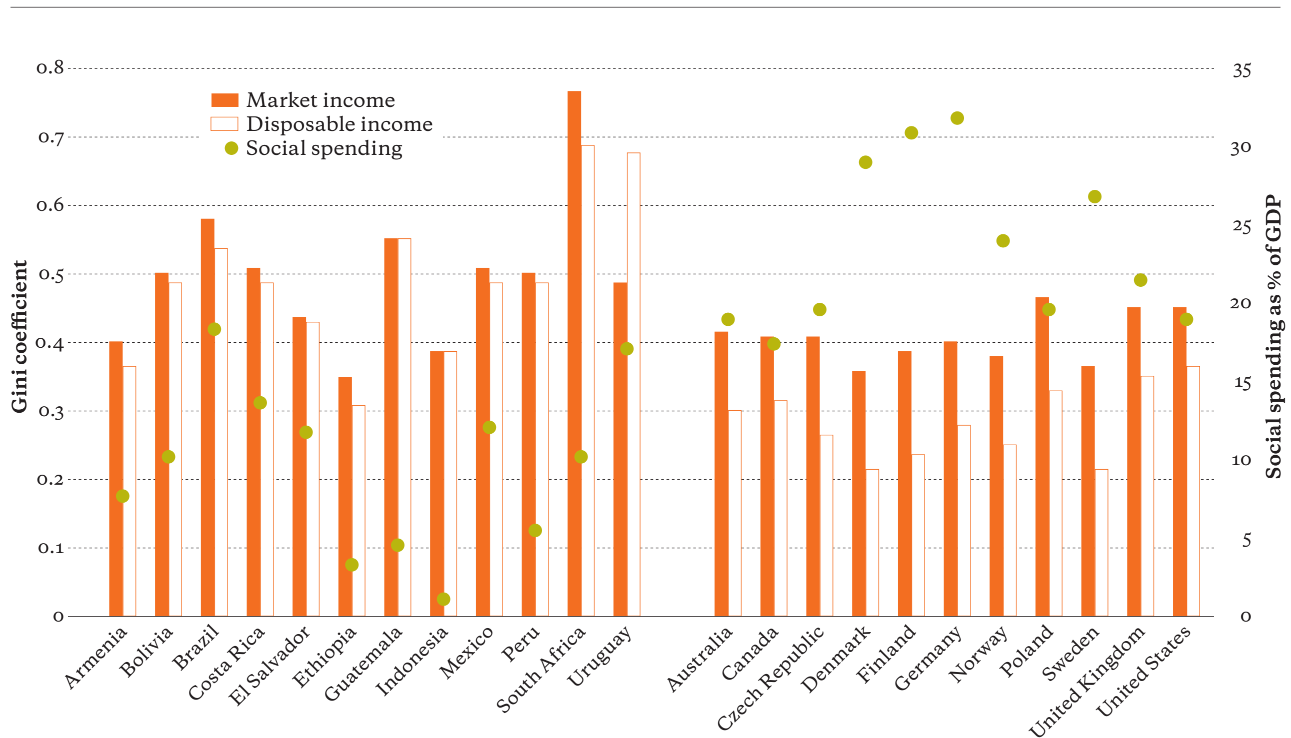

Figure 1: Social spending and the redistributive impact of taxes and transfers on income inequality in selected countries
Source: Adapted from Bastagli (2015). Social expenditure data comes from the ILO Social Expenditure Database and refers to 2015 or the most recent year available (2014 for Bolivia, 2010 for Ethiopia, 2011 for Guatemala).

In Sweden, Denmark and other countries that achieve high redistribution, the tax and transfer system reduces income inequality by up to 15 Gini points. This represents a reduction of around 40 per cent (OECD 2015). In countries with weaker redistributive policies such as Costa Rica, Indonesia, and Peru, the impact is negligible: taxes and transfers hardly have any effect on income inequality as measured by the Gini.

The level of social spending can partly explain differences in redistribution but is hardly sufficient. It is evident that the level of social spending is much higher in the OECD region: this is between 19 and 32 per cent compared to levels between 1 and 18 per cent of GDP in the non-OECD countries depicted here. At the same time, the inequality reduction is higher. Countries such as the Czech Republic and Germany that spend more on social protection reduce inequality to a greater extent than countries with lower spending such as Armenia and Indonesia, even though all four of them started off at similar levels of market inequality. Comparing, however, Brazil and Uruguay with Australia and Canada shows that similar levels of social spending – around 20 per cent of GDP in all of them – can result in vastly different reductions of inequality. These observations lend credit to the arguments that the composition of transfer and tax policies and the initial levels of inequality are all important factors in this connection. These figures do not yet take into account the provision of public services, which also have great potential for reducing inequalities, for example in healthcare and education.

Social protection reduces risk and vulnerability

Broadly speaking, social protection schemes can be classified into three different types. As a risk pooling mechanism, **social insurance** is typically confined to members who contribute to a common fund and are therefore entitled to contingent benefits. The primary objective of social insurance is to smooth consumption through income replacement over the life course and in times of

risk. The most common schemes include pension, health and unemployment insurance. In many cases, the benefits an individual receives are linked to his or her previous contributions. For this reason and due to the confined membership, the degree of redistribution social insurance achieves is limited but, depending on its design, can be considerable. Firstly, even though high-income earners may receive higher benefits for example upon retirement, contributions are often still levied progressively and function in the same way as an income tax. In health insurance, benefits respond to specific healthcare needs, facilitating redistribution between the healthy and the sick. Secondly, in the absence of insurance, individuals may be thrown into poverty when a shock hits them so that the presence of insurance prevents inequality from widening. Thirdly, many schemes require employers to contribute, thereby increasing fiscal space for redistribution.

A challenge in the Global South is that social insurance schemes tend to be tied to participation in formal employment. This is why their scope and coverage are often limited – particularly for workers in non-standard and precarious forms of employment and workers in the informal economy. In Latin America, for example, social insurance transfers favour higher income groups disproportionately compared to lower income groups. This can mainly be explained by high informality which primarily affects low-income earners that are excluded from membership in social insurance. A positive counterexample is the Monotax system in Uruguay: it groups taxes and social security contributions into one combined and simplified scheme that targets micro-entrepreneurs below a specified income threshold. It was introduced in 2001 with the objective of formalizing employment and extending social security to independent workers with limited turnover. Affiliated members are obliged to join the public pension insurance and can voluntarily opt into health insurance with options to enrol their spouse and children as well. As with independent workers in most countries, Monotax payers are excluded from unemployment insurance. The Monotax scheme has been successful in extending social security to a large section of the uncovered population – Uruguay is in fact among the countries with the highest coverage rate of independent workers in Latin America – although challenges remain, particularly in reaching the poorest populations. The Uruguayan experience has informed reform efforts undertaken by similar schemes in Argentina, Brazil and Ecuador (Durán-Valverde 2014).

Types of social protection schemes

Social insurance: A mechanism designed to smooth consumption and protect members from risks such as unemployment, sickness or retirement. Typically, individual members receive benefits on the basis of previous contributions in the event that a risk occurs. Membership is often mandatory for a specified group such as formal sector employees.

Social assistance: Benefits that are granted to individuals or households without the need of prior contribution. Usually, eligibility is based on means-testing of need and funding comes from the general government budget. They are typically designed to cover a basic minimum and withdrawn as income rises.

Universal transfers: These are given to anyone that fits certain criteria (such as citizenship, having children, a certain age or a disability) regardless of income or wealth. They are usually also paid out of general government revenue.

In most countries in the region, however, social insurance is less progressive and has no significant impact on inequality. In Peru and Mexico, social insurance transfers even have the effect of slightly increasing inequality (Lustig/Pessino/Scott 2013). This can happen for example when insurance schemes receive public subsidies and cover the upper half of the distribution disproportionately or when contributions and benefits are realised at different points in time. Pension insurance illustrates this point most clearly: although pensioners have paid contributions during their working lives, at the time of retirement they usually pay little or no direct taxes or contributions while receiving pension transfers. If they belong to the middle or upper class – which is often the case in countries with limited social security coverage – an assessment of the redistributive impact of the fiscal system in any given year will find that pensioners are paid out more than they pay in. Systems that rely on a defined benefit scheme – where members are guaranteed a specified benefit level at the time of retirement as opposed to a defined contribution where transfers depend mainly on accumulated savings – may also be dependent on substantial public subsidies. This is why, even in a longitudinal analysis, social insurance may benefit higher income

groups more: they tend to have a higher life expectancy and thus often receive, on average, higher pay-outs from old-age and health insurance than low income groups.

Coverage rates of social insurance vary greatly across countries and regions. In sub-Saharan Africa, less than 30 per cent of the working-age population is legally covered by contributory old-age pension insurance (voluntary or mandatory), with the actual coverage likely being much lower. Legal coverage at around 60 per cent of the working population is higher in South-East Asia, but the gender differences are greater there: the share of working women legally covered by mandatory pension insurance is more than ten percentage points lower (ILO 2019). Even in countries that have experienced strong economic growth, high numbers of workers – especially women – work in the informal sector or at home and thus lack access to social security. The latter is actually part of the definition of informal employment adopted by the International Labour Organization (ILO). For the reasons outlined above, social insurance schemes in LMICs therefore tend to serve the middle or even upper class. To increase the redistributive capacities of these schemes, it would be necessary to broaden their reach to include poorer people. More often than not, this will involve subsidising those who are unable to contribute, providing higher replacement rates for low income earners and linking them more strongly with non-contributory schemes. The latter is particularly important given the high levels of informality. Integrating contributory and non-contributory benefits into common schemes has also more potential to reduce inequality because it can ensure that non-contributory benefits do not fall too far behind contributory ones, or become restrictive or stigmatised.

In contrast to insurance, receipt of **social assistance** is not tied to membership but is rather aimed at those who fall under a certain income or poverty threshold. As such, their objective is to secure a minimum income and/or access to services rather than to maintain consumption close to previous levels as in the case of social insurance. They are typically financed out of the general budget. This is why social assistance tends to have a greater redistributive impact than insurance: it relies to a larger extent on the principle of solidarity, which states that everyone in society should contribute according to their ability to pay while receiving benefits according to their needs. This means that cash transfers tend to be distributed much more progressively than insurance although their impact depends greatly on both the coverage of the poor population and the level of transfers they receive. The poverty impact of transfers in Mexico and Peru, for instance, is very low because a significant share of the poorest population is not covered and even those that are receive transfers that are insufficient to lift them above the poverty line (Lustig/Pessino/Scott 2013). Similarly, in many Asian countries cash transfers and targeted services benefit the upper part of the distribution more in relative terms and therefore actually worsen inequality. The smallest overall impact on poverty is achieved in sub-Saharan Africa, the largest in Eastern Europe (Bastagli 2015). These examples illustrate some of the reasons for which targeting is controversial: it is designed to channel scarce resources to those most in need but this naturally entails exclusion and inclusion errors. These errors may be due to failures in actually identifying the poor, barriers preventing the target population from taking up the benefit, weaknesses in implementation or even political capture. Apart from shortcomings in reaching its intended beneficiaries, targeting bears administrative costs and may create a stigma while also promoting dependency if efforts to exit poverty are undermined by prospects of losing the transfer.

Independent of means-testing, the receipt of social assistance is sometimes tied to certain behavioural conditions such as sending one's child to school and making use of primary healthcare services as in the case of conditional cash transfers (CCTs) or providing evidence of job-seeking efforts as in the case of many unemployment assistance schemes. These conditionalities aim to link cash transfers with wider development objectives such as fostering health and educational investment into children to break intergenerational poverty traps. CCTs have been evaluated positively on many accounts: they were found to positively impact educational attainment, health and poverty outcomes, and the empowerment of women (Fiszbein et al. 2009). In a review of eight studies that directly compared conditional with unconditional transfers, Bastagli et al. (2016) summarize that six of them find greater impacts on education, healthcare and nutrition when conditionalities are in place. Nonetheless, few studies scrutinize potential adverse effects. Conditionalities risk excluding some of the most marginalized people, often women, who find it difficult to comply with them or with additional administrative requirements – thereby undermining the very idea of providing a basic minimum.

Universal transfers do not encounter the difficulties associated with targeting or conditionalities since they

Public services in the field of education have huge redistributive impacts. They also allow primary school children – here in Colombia – to improve their own starting position.

are not confined to narrow groups but are granted to all individuals that meet certain criteria, such as having children or being disabled, regardless of their own means. Prime examples of this include universal child grants, social pensions for everyone above a certain age threshold or proposals of a universal basic income. In principle, universal benefits are rights-based and reduce inequality by design: if everyone in an unequal society gets the same transfer, the spread in incomes will be reduced. In practice, their impact depends on the size of the transfer and will likely be smaller than that of targeted assistance since the latter ideally facilitates redistribution from the top to the bottom and, given the same budget, can be larger in size. For this reason, proponents of targeting argue that fiscal space – especially in countries with a tight budget constraint where high-income earners often do not pay a fair share of taxes – is limited. In this sense and notwithstanding its critique, targeting provides means of channelling resources to those most in need and maximizing redistributive impact at lower costs. According to political economy arguments, universal transfers are still likely to receive higher budget allocations and be sustained by social consensus in the long run, thereby potentially yielding stronger redistributive results. Where poverty is widespread, universal transfers may also be more effective since the costs of targeting become disproportional. Which effect ultimately prevails is an empirical question that depends greatly on the context in question.

Of course, social protection integrates a much wider set of policies than cash transfers and subsidies. Public services – particularly in the field of healthcare and education – have huge redistributive impacts and allow disadvantaged people to improve their own starting position and to break cycles of poverty that often persist across generations. In fact, contrary to high-income countries, LMICs often spend much higher shares of their budget on providing healthcare and education services compared to cash transfers (even though overall spending on healthcare and education is still lower than in high-income countries). In the OECD region, in-kind transfers in health, education and housing are very egalitarian:

they reduce inequality by around one fifth on average and much more uniformly than cash transfers (Verbist/Förster/Vaalavuo 2012). While they also tend to be equalizing in many countries of the Global South, they still benefit higher income groups disproportionately. This is partly due to limited access of marginalized groups to services and limited infrastructure in rural regions where poverty is concentrated. Generally speaking, basic education and primary healthcare tend to be pro-poor while tertiary education tends to be pro-rich. Investing in social services that benefit the lower part of the distribution not only contributes to reducing inequalities in income but also those that exist in other dimensions, such as gender, age and disability. Women and girls are not only at higher risk of being poor, in many countries they also suffer from lower access to education, receive less healthcare and are more likely to be found in unpaid care or low-paid precarious work environments. Accordingly, social cash and in-kind benefits have great potential for reducing gender inequality.

Horizontal redistribution: the impact of social protection on gender equality

Systematic differences between men and women are an example of horizontal inequalities that vertical redistribution may be ill-suited to address sufficiently. Horizontal redistribution is not primarily concerned with redistributing from rich to poor individuals but rather with addressing inequalities between socio-economic groups. These can for example be defined by age (as with universal child or pension benefits), household types (such as support to single parents), region (for example schemes that target rural areas), identity (as with affirmative action or quota systems), disability status or occupational groups. Although these schemes are explicitly not tied to income-related criteria and are granted to rich and poor group members alike, the identified group often faces a higher risk of poverty or exclusion. By addressing these imbalances, horizontal redistribution can make a key contribution to reducing poverty and levelling playing fields. In many cases, greater vulnerability results from unequal opportunities, for example in accessing education or participating in the labour market, or from outright discrimination. Gender inequality is a case in point where the relevance of social protection is well documented. Traditionally, social protection – and contributory schemes in particular – are often designed around a single (mostly male) breadwinner model that builds on continuous full-time employment in the formal sector. Those that engage in the informal economy, carry out unpaid family and care work or earn low wages are penalized: they receive much lower social security entitlements or none at all. Non-contributory benefits can play an important role in counteracting these imbalances and ensure that women and other disadvantaged groups gain access to at least basic provisions and services.

In a comprehensive review of the empirical evidence on the impact of cash transfers on women and girls, Hagen-Zanker et al. (2017) find that cash transfers have positive impacts on the well-being of women and girls. For many of the reviewed outcomes, including poverty, education, healthcare and employment, the impact did not differ significantly between women and men. In education and healthcare, for example, women and girls generally benefitted from transfers in the same way as men and boys did. Differential impacts were detected with respect to investment behaviour, where some evidence suggests that female-headed households engage in more productive investment than those in which men were the recipients of benefits. In addition, cash transfers can increase the decision-making power and choices of women, including those on marriage and number of children, and reduce domestic violence. Sometimes, these positive effects on gender equality come at the expense of reinforcing traditional gender roles due to added care burdens and responsibilities of women. Evidence on the impact of cash transfers on time usage suggests that women are more likely to dedicate more of their time to domestic chores (for example taking over chores of daughters who are now attending school) while men increase time spent on paid work. This means that carefully considering potential gender dynamics is crucial in the design of cash transfers. Social protection should contribute to achieving gender equality.

Fiscal space for social protection

A key factor that determines how effective social protection tackles inequality is the way in which revenues for its financing are generated. Raising revenues is often treated separately from expenditure policies although, when it comes to reducing inequality, the two are inextricably linked. Analysing tax and transfer systems together therefore provides a more complete picture of the redistributive impact of a government's overall fiscal policy. This is all the more relevant since, in many LMICs, providing adequate social protection will require raising expenditures. Tight budgets are an often-cited constraint to doing so, even though costing studies suggest that providing an adequate coverage of social protection is affordable and need not put an excessive strain on fiscal sustainability, even in low-income settings. A comprehensive costing study that covers 57 low-income countries comes to the conclusion that implementing universal social protection floors would cost on average 4.2 per cent of GDP although figures vary greatly among them (Ortiz et al. 2017). Other costing estimates that are based on poverty gap estimates suggest similar figures: in Mozambique, the cost of extending basic social protection to a majority of the population is placed at around 2.8 per cent of GDP, and less than 2.5 per cent of GDP to provide social old-age pension, targeted child benefits for the poor and basic income security to the working-age population in Vietnam (ILO/IMF 2012). These costing studies – especially those that use poverty gap estimates as benchmark – are, however, not uncontroversial. They assume that benefits generally reach those most in need while evidence shows that it is particularly hard to reach the poorest parts of the population. Only some of them include administrative costs and most do not take account of the fact that public transfers may crowd out private ones. Dercon (2011) shows that, while Bolsa Familia in Brazil and Oportunidades in Mexico have budget allocations that are close to covering the poverty gap of the target population, their actual impact reduces the poverty gap of beneficiaries by less than 20 per cent. In order to make significant strides in closing poverty gaps and reducing inequality, governments must therefore be prepared to allocate significantly more resources to social protection than monetary poverty gap estimates would suggest.

There are three main avenues for creating fiscal space for social protection financing: reallocating spending from other uses towards social security, mobilizing additional domestic resources, and seeking more external resources for example through international aid and grants. These avenues entail a range of strategies including raising tax rates and broadening their base, reducing tax evasion and illicit financial flows and increasing foreign aid towards social protection. A recent study by ILO proposes further strategies to free up resources such as debt management and the use of fiscal and financial reserves, and argues that all countries have leeway in raising social expenditure (Ortiz/Cummins/Karunanethy 2017).

As reallocating expenditure items is a highly political issue and depends on current budgetary priorities, it is difficult to make any generalizations. For instance, two areas where reallocations in favour of social protection have proved successful are reductions in defence spending and reforms of energy subsidies. In South Africa and Thailand, for example, rising social protection expenditure was made possible partly through large reductions in defence expenditure over several decades; in Costa Rica, the army was even abolished altogether (Durán-Valverde/Pacheco 2012). Reducing universal energy subsidies that were found to be regressive was a key reform to free resources for targeted transfers in Indonesia and Pakistan (Bastagli 2015). Generally speaking, political will to strengthen social protection and a balanced representation of interest groups and political power are crucial when negotiating budget priorities.

Domestic resource mobilization: raising levels and progressivity

Raising additional domestic resources is a cornerstone for ensuring adequate social protection, even more so in LMICs where tax-to-GDP ratios are much lower than, for example, in the OECD region. Whereas countries in the OECD region raise on average 34 per cent of GDP as public revenues, this only averages at 18 per cent in Africa, 23 per cent in Latin America and the Caribbean, and ranges between eleven and 18 per cent in Asia and the Pacific (OECD 2019). This is mirrored by the much lower social protection spending in LMICs described above. Apart from fiscal space, strengthening capacities of tax systems additionally has the potential to foster sustainability and the accountability of governments towards their own citizens. Fair and effective tax systems that promote improved service delivery can thereby strengthen the tax morale of citizens.

While raising the level of domestic revenues is decisive, differences in tax composition and design are equally important for the redistributive capacities of fiscal systems. In LMICs, raising tax revenues has often been achieved through an expansion of indirect taxes, mainly on consumption, and a stronger reliance on taxing natural resources. Both represent viable opportunities given the challenges associated with direct taxes but have potential drawbacks concerning equity, financial and environmental sustainability. Indirect taxes such as Value Added Tax (VAT) that cannot take due account of the equity principle whereby richer individuals should not only pay larger absolute amounts into the common pool but also higher relative shares of their income and wealth. VAT taxes consumption and since the poor populations consume a much larger share of their income, it hurts them most – even if these resources are then used to finance progressive benefits. A comparative study by Lustig et al. (2013) finds that regressive consumption taxes in Bolivia and Brazil not only compromise the redistributive effect of fiscal policy but even offset the poverty-reducing impact of direct cash transfers. Evidence from other countries confirms a pattern of consumption taxes that tends to be regressive even if the net effect after taxes and transfers may still contribute to reducing inequality. A VAT increase in Ghana in 2004, for example, was used to finance a universal national health insurance scheme.

Revenues from natural resources have increased in many countries in recent years due to high international demand and rising commodity prices. However, the difficulty with this revenue source is its volatility and unpredictability, which may jeopardize long-term sustainability. Further concerns relate to a potential 'resource curse' that describes the paradox of worse development outcomes and democratic governance in many resource-rich countries. Nonetheless, positive examples include Bolivia's universal old-age pension Renta Dignidad, which was introduced in 2007 and is financed by a tax on hydrocarbon production along with dividends from nationalised public enterprises. Similarly, tax receipts from oil and gas production in Norway are invested in the sovereign Government Pension Fund Global that explicitly aims to ensure intergenerational equity and recognizes that natural resources are finite and that using them reduces the natural wealth passed onto future generations.

Contrary to VAT, personal income taxes (PIT) tend to be progressive: they have the largest redistributive capacity when rates rise progressively with income so that high earners shoulder a larger part of the burden. While in many high-income countries, PIT is the most progressive tax and a primary source of revenue, they play only a minor role in many LMICs. PIT represents 24 per cent of total government revenues in the OECD but only ten per cent in Latin America and the Caribbean and 16 per cent in Africa (OECD 2019). Value-added tax (28 per cent) and other taxes on goods and services (21 per cent of total government revenues) play a much larger role than income taxes in Latin America. While this is also the case in the 21 African countries reviewed by the OECD (share of VAT at 29 per cent and other consumption taxes at 25 per cent of total revenues), the rising revenues from income taxes have contributed most to the growth in tax revenues since the early 2000s. In Latin America, social security contributions are in turn relatively more important than in Africa. In many LMICs, a large share of economic activity takes place in the informal sector and even in the formal sector, exemptions and weaknesses in enforcement curtail the narrow tax base further. Accordingly, whereas revenues from PIT are in

Tax composition and design are important for the overall redistributive impact of social protection.

the order of eleven per cent of GDP on average in the OECD, they are less than three per cent in countries such as Chile, Paraguay, the Ivory Coast and the Democratic Republic of Congo. Similar challenges arise with respect to social security, where contributions can be tied to PIT so that they also adhere to the principle of solidarity financing. Payroll taxes, by levying contributions to social insurance on both employer and employee, have the additional advantage of sharing responsibility for social insurance with the corporate sector.

Taxes on capital income, wealth or financial transactions could theoretically have a highly progressive impact. In practice, however, rates are far lower than PIT in many countries or non-existent altogether, which undermines principles of social justice. For example, inheritances are exempt from taxation in many LMICs despite their progressive potential and relevance for social mobility. Some countries actually had more progressive systems in the past but abolished them in the wake of wider economic liberalization reforms. A case in point is India, which until the 1980s had an inheritance tax of 85 per cent that was reduced to zero in 1984. The under-taxation of land and property in many countries where these assets are distributed in a highly unequal manner is another example of a wealth tax that has little mention in the discussion of creating fiscal space for social protection. Even though administering and enforcing taxation of capital income, wealth or financial transactions may be challenging, their redistributive potential in themselves and as a financing source of social protection underlines their relevance for achieving SDG 10. Brazil has used a financial transaction tax twice in the past to finance increased healthcare expenditure and other social protection schemes. Although successful in raising revenues, it was discontinued first in 2007 and again in 2013 due to political pressure from financial sector lobby groups (Ortiz/Cummins/Karunanethy 2017).

Sharing the tax burden fairly

Apart from scrutinizing the tax composition and its progressivity, it is important to take a closer look at the tax base – at who actually pays taxes, on what sources of income or assets, who is exempt, and who avoids or evades them altogether? Among the main factors that help to explain the stark differences between high- and low-income countries in both tax composition and levels of revenue are the structure of the economy, labour markets and political economy. High rates of poverty, low incomes and large informal sectors are all factors that curtail the tax base and the scope for more progressive income taxation in LMICs. These are the same arguments as discussed in the context of social insurance. In addition to these, relatively large agricultural sectors and low urbanization make tax collection more difficult and costly. More salient factors in terms of policy-making may be those related to political economy aspects. Limited administrative capacity for enforcement and a high number of tax exemptions or tax incentives for companies contribute to tax avoidance and evasion. The latter not only erode fiscal space for social protection and the delivery of public services, but also the social contract that lays the foundations for an inclusive social policy. Tax avoidance and evasion by 'high-net-worth' individuals and companies undermine social (and legal) justice and account for the revenue gaps that are needed for achieving the SDGs. While it is difficult to quantify the extent of tax evasion and avoidance reliably, the joint initiative of the G20 and OECD on Base Erosion and Profit Shifting Initiative (BEPS) estimates that US$240 billion are lost annually due to tax avoidance by multinational corporations. Conservative estimates by the World Bank – which civil society organisations claim are actually far too low – indicate that around US$20-40 billion per year of tax revenues are lost in LMICs due to illicit gains and financial flows including tax evasion, corruption and stolen assets (Camarda/Oldfield 2019). While tax avoidance refers to strategies that explore legal loopholes and transfer pricing to 'optimise' tax liabilities, tax evasion describes illegal practices such as misinvoicing or misreporting profits. The rise of tax havens fosters financial opacity and enables illicit financial flows. The wealth currently held in tax havens worldwide is estimated to represent more than ten per cent of global GDP and has risen steadily since the 1980s (Alvaredo et al. 2018). Naturally, not all illicit financial flows represent foregone tax revenues as enforcing the law would mean preventing illegal economic activities such as drug trade or human trafficking altogether rather than turning them into legitimate taxable business. Nonetheless, the implications for inequality are evident.

Global solidarity mechanisms

The urgent need to strengthen tax systems in LMICs should not divert attention away from the responsibility of the international community: on the one hand, new financing mechanisms may be needed to ensure the realization of the global responsibility for social protection floors worldwide, especially in times of crises and disasters, and in countries that cannot yet finance social protection floors by their own means. There is also a clear need to refrain from austerity programmes that cut the public expenditure needed to guarantee social protection floors and that often have the effect of worsening poverty and inequality. On the other hand, increased international cooperation and commitment is needed to counter tax evasion and avoidance, and to coordinate efforts for designing revenue policies including corporate and wealth taxes in a more progressive fashion while avoiding tax competition between countries. The latter is closely linked to domestic resource mobilization but merits particular attention in the context of taxes on wealth and financial transactions that may be raised domestically but require cross-border cooperation or harmonization. Rules for countering tax avoidance and evasion are highly complex and face strong political resistance not only by business lobby groups but also by national governments that benefit from large financial sectors and tax havens within their jurisdictions. Among the first steps, increased transparency and publicly available information on company ownership and financial flows are crucial for reducing financial opacity. Recent initiatives such as the European Union's list of non-cooperative tax jurisdictions and similar lists by the OECD, G20, IMF, etc., have created political pressure and led to more dialogue even though such 'naming and shaming' bears no legal consequences. Investigative research by Oxfam and the Tax Justice Network (TJN) have also contributed to exposing practices of secrecy. Calls for a global financial register that would record ownership of financial assets including equities and bonds argue that this would help to close corporate tax loopholes and reduce tax evasion and illicit financial flows. At the same time, it could serve as a basis for a global wealth tax (Alvaredo et al. 2018).

The role of international aid in financing social protection is not uncontroversial. Social protection is a domestic public responsibility and must be designed with a long-term view that is based on steady, non-discretionary financing. Nonetheless, increased international

The large inequalities between countries demand for a global solidarity mechanism to finance social protection floors.

aid is justified on several grounds. Firstly, it can play an important role in assisting the development and design of policies and their underlying systems of implementation – a 'start-up grant' that helps to develop comprehensive social protection systems. As such, international aid has supported initial pilot programmes, the development of beneficiary registry systems and evaluations of several conditional cash transfer programmes in Latin America that were subsequently financed and owned by national governments. Secondly, international aid can be crucial when low-income countries are not yet in a position to finance basic social protection for all of its citizens. In such settings, aid to social protection should go hand-in-hand with support to strengthening capacities of governments to increase revenue mobilization tackling both domestic and global challenges. Thirdly, the capacity of national governments to guarantee Social Protection Floors comes under severe strain in the event of natural disasters or excessive international economic volatility (Brot für die Welt 2018). International aid may be among the few rapid responses that can help countries recover from shocks and prevent severe consequences for the poorest members of society. This is not least because international economic volatility is often caused by economic systems that work to the disadvantage of the Global South. Countries such as Pakistan, Lesotho and Chile that frequently experience natural disasters are using existing social protection infrastructure to disburse transfers quickly to the poor to prevent them from adapting adverse coping strategies (Gaentzsch 2017). Last but not least, the large inequalities between countries not only justify but demand a redistribution from rich to poor countries. This is an explicit part of SDG 10 and should not be restricted to international aid; rather, it is important that it should also strengthen the voice and negotiating power of LMICs in the international political and economic arena.

Reform priorities for progressive and fair financing of social protection

Overall, the challenge of designing more progressive tax systems that align with social protection schemes in a common effort to reduce inequality and eliminate poverty is therefore threefold. In the first place, more resources are needed to put in place comprehensive social protection systems. This means taxing corporations and high wealth individuals sufficiently. In the past decades, the tax burden on high-net-worth individuals – and the corporations they own – has diminished continuously, not only because top marginal tax rates have decreased but also because the relevance of taxes on wealth, capital incomes and business profits is dwindling. In most countries, income from labour is taxed more heavily than forms of non-labour income or wealth although these income sources are much more relevant to the rich than income from salaries and wages. In the design of tax systems, a priority should be placed on raising more revenues from progressive taxation. Secondly, there must be an end to elaborate schemes for shifting profits between jurisdictions that enable companies to avoid paying their fair share and instead shift the tax burden onto labour. This global trend is one reason why the rise in inequality has been accompanied by a decreasing share of labour in national income over the last decade – alongside declining levels of unionization and collective bargaining and stagnating wage levels. Thirdly, it is not enough to merely recognize that regulating international taxation and helping countries to collect their fair share of taxes is an international responsibility. Political will for concrete action needs to be strengthened; the UN Committee on Financing for Development provides an effective forum for this. Tax systems need to be more progressive in nature so that raising these extra resources contributes to reducing inequality rather than worsening it. Lastly, enforcement and compliance need to be strengthened to ensure that the burden is shared fairly.

Inequality between countries

The discussion so far has focused on domestic policies and international efforts to reduce inequality within countries through strengthened social protection systems and the progressive financing of these. Inequality in living standards between countries is still huge and by far surpasses levels of inequality within single countries – despite declining trends in recent decades. For example, Brazil is an emerging economy that has seen continued growth in the past two decades and is catching up with high-income economies. Nonetheless, average living standards are still only around one third of those in Europe. The richest ten per cent in Ethiopia – one of the

poorest countries in sub-Saharan Africa – live on an income that is below the living standards of the poorest ten per cent of the population in France (Bourguignon 2015). In addition, the poorest in the Global South in particular have access to far fewer opportunities and public services that contribute to decent livelihoods. Inequality between countries describes differences in living standards at particular points of the distribution – such as the mean, the median or the two ends of the distribution – between two or more countries. Global inequality treats the world population as one and orders its income, wealth or other relevant measure of living standard along a global distribution without country borders. The famous 'elephant curve' described by Lakner/Milanovic (2016) did exactly this for income inequality and countries representing around 90 per cent of the world population. The authors conclude that a global elite – that is mainly populated by individuals from high-income countries but also includes the super-rich from the Global South – has captured a large share of income growth since 1988 while the global poor have largely been left behind. The global middle class has risen mainly due to a number of large developing countries having experienced strong growth, chief among them China, Brazil and India. This latter trend has largely been responsible for preventing global inequality from rising, but it masks the trends of polarization at the extreme ends of the global income distribution. In this sense, some progress towards convergence in living standards between countries coupled with high – and, in many countries, increasing – levels of inequality within countries have impacted global inequality in different ways, making predictions about future developments difficult. This is also because inequality trajectories do not follow any natural law but are rather a function of political and policy choices. Social protection undoubtedly plays a crucial role although its impact is likely to be strongest in tackling inequality within individual countries. Nonetheless, the lack of global social protection systems cannot divert attention away from an ideal of global social justice that any analysis of global inequality implicitly builds upon. Here again, the role of international aid or an international funding mechanism – as a 'progressive tax' on rich countries to fund transfers to poorer countries – comes into play. It embodies an international obligation that helps to contribute to a fair sharing of resources among a global society and to ensure that basic needs of all citizens are met. This responsibility necessitates stronger commitments by donor countries towards reaching the official development assistance (ODA) target of 0.7 per cent of gross national income (GNI) – even though it is not sufficient to tackle the causes of global inequality that are to be found, among other things, in structural political and economic imbalances that enable these excessive inequalities in global living standards to emerge in the first place. Tackling these systemic causes will require much deeper structural changes that alter the primary distribution of resources among countries before any efforts of redistribution are even undertaken.

New financing mechanisms are required to ensure social protection floors, especially in times of disasters as after the tsunami in Sulawesi, Indonesia.

The way forward: recommendations and fields for action

Social protection and its progressive financing are essential pillars for achieving the SDGs, and in particular SDG 10, which aims to reduce inequality within and between countries. Building these pillars requires concerted efforts. Certainly, there is no 'right' system that any one country should adopt. Nonetheless, the objective is clear: establishing social protection floors through equitable financing strategies is a priority in countries where these are not yet in place. Social protection needs to follow a rights-based approach. Countries that already have appropriate floors in place should aim to extend these towards building comprehensive social protection systems that not only alleviate poverty but protect against risks across the life course and provide equitable access to high-quality public services.

Strategies for building such systems need to broaden contributory schemes to include people that cannot contribute (sufficiently) through their own means, and integrate these with non-contributory schemes. Ideally, non-contributory schemes should aim for universality. In the light of constrained budgets and the pressing need to reduce inequality, however, targeted assistance to those in need may be an important step on the road towards achieving universality. Ultimately, social protection needs to be recognized as a human right for all not only in principle, but in implementation. In order to increase the redistributive capacity of social protection systems, financing strategies need to build and promote progressive taxation and equitable resource mobilization. This entails taxing the upper part of the distribution more both in relative and absolute terms. This especially holds for those at the very top and for ensuring that corporations pay their fair share of the overall tax burden. Tax avoidance and evasion represent huge losses to the public purse, undermine social justice and jeopardize progress towards reaching the SDGs. More concerted efforts at the international level are needed, including legally binding rules and stronger enforcement mechanisms.

High levels of global inequality underline the responsibility of the international community and in particular donor countries in ensuring sufficient resources for comprehensive social protection systems. This responsibility entails living up to the commitment by the international donor community to spend at least 0.7 per cent of gross national income on ODA. Few countries fulfil this commitment although they do not hesitate to confirm it regularly. Exploring international financing mechanisms beyond aid can greatly contribute to the common goal of reducing inequality within and between countries. Reducing tax evasion and avoiding excessive tax competition should be the top priority on the global agenda since it requires international cooperation. Current negotiations by the Ministers of Finance of the G20 are much welcomed and need to be followed up by strong enforcement mechanisms. Social protection budgets need to be protected in times of crises and disasters, which means that social protection spending must be adequate even during austerity periods. Further dialogue and cooperation are needed to develop global solidarity mechanisms.

Social protection and its progressive financing are essential pillars for achieving the SDGs.

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About the Author

Anja Gaentzsch is a researcher in the field of social protection, inequality and redistribution. She has worked in academia and international development cooperation and is interested in helping to facilitate a greater transfer between the two. As a member of the Socium Research Center on Inequality and Social Policy in Bremen, she conducted research into the determinants of welfare state reform and the development of harmonized databases across countries. She obtained her PhD in economics from Freie Universität Berlin, where she was a member of the Public Economics and Inequality programme and published her thesis on social protection and redistribution in Latin America. Prior to her doctoral research, Anja Gaentzsch worked for Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH in Germany, Cambodia and Georgia. As a team leader in the regional Public Financial Management programme in the South Caucasus and as an independent expert, she has gained extensive experience in advising policy reforms in the fields of social protection, public finance and labour market reforms.

Brot für die Welt
Evangelisches Werk für Diakonie und Entwicklung e. V.

Caroline-Michaelis-Straße 1
10115 Berlin
Germany

Phone +49 30 65211 0
Fax +49 30 65211 3333
info@brot-fuer-die-welt.de
www.brot-fuer-die-welt.de