Dr Ben Taylor (Oct 2014)
The Springfield Centre

The Irrelevance of Inequality[1] in Aid

Thomas Piketty's *Capital in the Twenty-First Century* and much of the recent discourse around social entrepreneurship and inclusive business have brought the issue of inequality to the fore in recent times. Much debate has taken place about whether inequality causes poverty, retards the rate of poverty reduction, or is simply correlated. However, for the purposes of development programmes, I see it as an irrelevant concept which distracts from the core issues of how to reduce poverty.

While some degree of inequality is inevitable, it is undesirable, particularly at the extremes. Inequality considered as marginalisation and exclusion of freedoms leads to civil unrest and undermines democracy. It concentrates power and compromises the ability to provide public goods. But it is not the place of development programmes to tackle the differences in levels of wealth between individuals in any direct manner.

If inequality is a symptom of poverty then focusing on poverty will reduce it. If inequality slows the rate of poverty reduction, then the role of a development programme is to focus on improving the quality of life of the poorest members of society and not concern itself with how rich the rich are.

Development programmes aim for impact at many levels, from the micro to the macro. Some would argue that multilateral institutions such as the WTO have contributed to the concentration of wealth through internationalising capital. However, even macroeconomic or regional development programmes are in no position to change this. Meso level programmes might aim to develop a sector, while micro-level programmes focus on issues at the household level.

Logically, through the ignorance of inequality, meso and micro level programmes may actually create it if attempting to bring about sustainable change. Raise everyone's incomes by 20% and the richer capture more of the wealth. A programme may catalyse investment in a sector by local entrepreneurs who stand to increase their own wealth, creating jobs and raising the incomes of the poor in the process. But the incentives dictate that an investor won't take on the risk of additional investment if they don't stand to make money from it. The relatively rich will get relatively richer than the poor, who will also become richer but by less.

As argued by Thomas Piketty, the most effective ways to reduce inequality are through higher marginal tax rates and taxes on capital. While they require international coordination in order to be effective, they are matters of national government policy, and not the preserve of development aid. Some of the macro level programmes funded by aid focus on helping the government increase the tax base, either through growth or through technical improvements in collection systems. But how they chose to spend that tax is up to them. Donors may work through governments to build schools, improve infrastructure, or subsidise health care but all of these are one off investments rather than attempts to change social, political and economic structures to deliver more equal outcomes.

The *volte-face* of this argument is that a focus on inequality is the *sine qua non* of 'development'. If there was no inequality there would be no 'development'. The necessity for IFIs such as the Asian

[1] I use inequality here to refer to vertical wealth inequality. It is appreciated that there is great value in programmes focused on horizontal inequality and issues of social justice such as democracy and the rule of law.

Development Bank to state that they need to focus more of their lending on tackling inequality represents the aberration of previous behaviour rather than any notion of progression. For a programme or institution with a developmental remit not to have considered poverty in their decision making processes represents, at best, naivety. In focusing on poverty, there is an implicit consideration of inequality but development's chief aim needs to be poverty reduction, whether or not this results in a concentration of wealth.