

RETHINKING INCOME INEQUALITY

On October 9th, 2020, Asia Culture House and the United Nations in Afghanistan brought together economists and student researchers to discuss income inequality trends. Panelists discussed the future and what it holds, what we need to do now to reduce income inequality, and what role the United Nations can play.

Income inequality is a megatrend that has sobering implications. It is a significant impediment to sustainable development goals and a major cause of public protests worldwide.

The webinar was part of a series of global consultations that the United Nations' Secretary-General launched for its 75th anniversary. This consultation will continue until the end of 2020.

We thank the following distinguished panelists for their participation in the webinar and their unique insights:

1. Mohammad Fidakar: Assistant Professor, Economics Faculty, Ghazni University
2. Jandad Jahani, Assistant Professor, Paktia University
3. Atefa Emran: Assistant Professor, Economics Faculty, Baghlan University
4. Jandad Jahani: Assistant Professor, Paktia University
5. Saeda Najafizada: Researcher, China in MENA
6. Mahdi Frough: Health Economist, the World Bank Group
7. Sapna Goel, Ph.D. candidate, South Asian University
8. Reza Ehsan, Ph.D. candidate, South Asian University
9. Mahdi Gowhari, Entrepreneur
10. Mohammad Shafiq Yousifzai, Advisor, the Afghanistan Bank

Content of this webinar is summarized using the scissor-and-sort technique and is presented in five sections, as follows:

UNDERSTANDING INCOME INEQUALITY

Evidence from the United States has shown that growth positively correlates with income inequality; as societies grow, so does income inequality. Some level of income inequality is mandatory for a healthy growth of the economy provided that there are improvements in other human development indices, i.e., access to healthcare and education and reduced poverty. While the private sector needs incentives, governments must be cautious as huge income gaps hurt the economy.

Both inequalities within countries and between countries have had a rising trend—since 1990 in the latter case. World Bank estimates show that the GINI index for Afghanistan is 0.27. Further, the NSIA's Afghanistan Living Conditions Survey has found that the income of the bottom 40 percent is shrinking.



However, some panelists doubted the accuracy of these estimates. Panelists criticized both the income inequality indices and the reliability of data collected. The GINI index looks at households' monetary income, while the level of income of household members differs from the household income. These measurements should consider that despite higher levels of property-related wealth, the income gap increases in rural areas because of the low level of education and because they look at their income in a monetary sense.

INCOME INEQUALITY AND THE COVID-19 EPIDEMY

All panelists agreed that the Covid-19 has worsened income inequality and affected different groups with differing severity.

UK and US have seen a 10 % drop in their GDP during 2020. People aging 20-35 years share vast burdens of the decline, while the older peoples are less affected. It has affected men more than women and the poor more than the rich. The middle and low-income classes share a considerable burden of a fall in GDP in terms of consumption.

In Afghanistan, too, poor people were hurt more than the rich because access to markets and goods were limited, and prices were high. Poverty and unemployment also increased dramatically.

In India, indigenous communities who rely on common property resources have been historically impoverished and have limited access to healthcare and clean water during the pandemic. Evidence shows that communities whose land and forest rights were recognized coped better with the crisis. The use of common property resources and the local governments has helped cope with the loss of livelihood.

This pandemic is the right opportunity to rethink on how to tackle income inequality, as the use of tax to redistribute income by the international community and the governments has not worked.



INCOME INEQUALITY OUTLOOK

Panelists wanted a 2045 with more sustainable consumption and production, greater equality between men and women, between and within countries. A future free of violence, discrimination, corruption, ethnocentrism, poverty, and hunger. A future where better access to essential educational opportunities is warranted

However, 2/3rd of the participants who responded to a question regarding the future of income inequality believed it would be worse in 2045. Income inequality between and within countries will increase, yet, other development indices may converge.

It will be worse in Afghanistan. While absolute poverty will decrease, the class gap will increase. Children deprived of education today will be low skilled and uneducated adults in 25 years, and this will increase income inequality.

It was also brought that because of the way household income is measured, whether income inequality will increase or decrease will remain unclear.

CHALLENGES

Most of the participants who responded to the question about the challenges ahead believed that corruption is a significant issue. High levels of corruption prevent access to aid within communities. Aid distribution to wealthy families instead of low-income families during Covid-19 lock-down, challenges in adopting laws to combat tax evasion are manifestations of corruption that negatively affect income equality.

Weak governance, misguided policies, and flawed government institution also appeared a significant source of the problem. Lack of interference in the market, multiple taxations including those from the insurgents, increased injustice in totalitarian states, unfair distribution, and allocation of resources by the government will prevent the realization of an ideal vision of 2045. The decay of democracies and the rise of nationalist movements that threaten multilateralism have eroded the support of initiatives by the United Nations.

Lack of accurate data, gender inequality, lack of access to education, skills, and healthcare, monopoly of technology by giant corporations that enjoy market power, and climate change—affecting emerging countries more than the rich—were also brought up.

ROLES FOR THE UNITED NATIONS, LOCAL GOVERNMENTS AND PRIVATE SECTOR

The reduction of income inequality should be a priority for the United Nations. Support of policy reform within countries to facilitate investment and fight inequality, a leading and decisive role by the UN in promoting SDGs related to community members' economic empowerment can help reduce income inequality.

In Afghanistan, the UN has not paid attention to establish a robust financial system. A functioning financial system and a real system will help the agriculture sector by channeling its capital to appropriate investment capital and redistributing the gain.

The United Nations is recommended to strengthen collaboration between civil society, foreign and international institutions, and government institutions. The United Nations should also financially support surveys and data collection for research and policymaking.

It was recommended that negotiations, agreements, and policies between developed and developing countries could be facilitated by the UN to allow the transfer of jobs.

Developed countries have adopted self-interest strategies for developing countries. As developing and least developed countries are more vulnerable, they require more help. Transfer of funds from mean-income rich to mean-income poor countries can help reduce income inequality in both countries. However, taxpayers must be relatively rich in the former, and the beneficiary must be relatively poor in the latter.

For global partnerships to be helpful, we need to make sure that we reach the local communities, their local governments, understand the historical specificities and nature of intersectionality.

Governments are recommended to facilitate increased foreign domestic investment and national income growth. Multinational corporations are significant sources of innovation and job creation. Whether the government should adopt protective policies such as minimum wage before opening their economies was contested among panelists.

In the absence of required wealth, the focus of policies should be economic growth, coupled with vital pro-poor education, health, and social projects.

Government and partners are recommended to inject some level of income to the economy to make sure that people can restart again and build up their livelihood during these difficult times.

Researchers also recommend property registration and institution building in many countries that have had poor institutions. They have attempted to achieve equal distribution of income before embarking on a growth path. Vigorous law enforcement and transparency help achieve this equal distribution of income.

Governments are also encouraged to adopt fair salary schemes.

