G20 HOW RESPONSIVE TO INEQUALITY?

A note on the relevance of G20 and its policy agenda, focusing on issues of inequality.

After the Second World War, the world became hostage to bipolar power centres led by USA and USSR. This ended with the disintegration of USSR in the early 1990s, after which USA remained more or less the exclusive centre of power. The latter half of 1990s witnessed gradual but significant changes in the international economic order with countries from the global south, especially China and India, emerging as key players in the economic arena. Simultaneously, the East Asian financial crisis of 1997 highlighted the need for greater economic cooperation between advanced countries and developing countries.

In this backdrop, in September 1999, the finance ministers and central bank governors of the Group of Eight countries (the G-8) announced their intention to "broaden the dialogue on key economic and financial policy issues among systemically significant economies and promote co-operation to achieve stable and sustainable world economic growth that benefits all." This announcement marked the official birth of what subsequently became known as the Group of Twenty countries (the G20). The already existing G8 group of countries, namely, USA, Japan, Germany, United Kingdom, France, Italy, Canada and Russia were joined by the 11 emerging and developing countries (namely, Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, Republic of Korea, South Africa and Turkey) and the European Union to form the G20.

The G20 meets once a year, usually in late autumn, to discuss international economic issues. This event has come to be known as 'Leaders Summit', which brings together the Heads of the State of the member countries. In these meetings, discussions are undertaken by the 'Sherpas' – the personal representatives of the leaders of each nation. They have been tasked by their Leaders to negotiate the Summit documents on their behalf. Thus, Leaders' Declarations are finalized by 'Sherpas'. In this process, they also meet other relevant stakeholders such as the business community, academic institutions, representatives of labour union, young people and civil society organizations in order to facilitate an inclusive and representative dialogue. Till date, eight G20 Leaders Summits have been held in different member countries. The 9th G20 Leaders Summit will be held in Brisbane, Queensland (Australia) on 15–16 November 2014. The economic and political importance of the G20 can be gauged from the fact that after the onset of the global economic crisis in 2008, on the request of the US President, G20 evolved as a crisis manager group making an effort to move towards economic and financial stability. However, 'development' issues had not found any place in G20 agenda until the Leaders Summit in South Korea in 2010. The Seoul consensus identifies nine key pillars for development--- infrastructure, private investment and job creation, human resource development, trade, financial inclusion, growth with resilience, food security, domestic resource mobilization and knowledge sharing. The official recognition of civil society (and the civil 20 process) started even later in 2013 in St. Petersburg, Russia.

OBJECTIVES OF G20

Although the initial focus of G20 was on issues related to international financial stability, it has also examined a broad range of longer-term economic issues of interest to its members. One of the key areas of emphasis of the G20 is promotion of shared economic growth and sustainable development. G20 also intends to foster and adopt internationally recognized standards (through the examples set by its members) in areas such as financial transparency, international tax cooperation and combating money laundering etc.

G20 AND INEQUALITY

As noted earlier, until 2010, G20 leaders did not formally recognize issues relating to 'development' in the G20 agenda. For the first time in the Seoul Summit (2010), a G20 Development Working Group (DWG) was formed and leaders formally endorsed economic development with shared economic growth as an agenda. However, 'shared economic growth' can only be achieved if there is redistribution of income across and even within countries. The G20 nations have been found to be lagging in this respect. Over half of the world's poor (who earn less than $1.25 a day) live in the developing countries, which are members of G20, with high and growing levels of inequality being a common feature in such countries. According to *Standardized World Income Inequality Database* 2013, just four G20 countries (Republic of Korea, Brazil, Mexico and Argentina) have been able to reduce income inequality to varying extents, in the last 20 years.

Wealth (assets) is even more unequally distributed than income in these G20 countries. In US, the wealthiest 1percent possesses 40 percent of the nation's wealth whereas the bottom 80 percent own only 7 percent (Washington Times, 26th January, 2014). Thomas Picketty, a noted economist, in his recently published book '*Capital in the Twenty-First Century*' (2014)[1], claimed that even in the 21st century, not earnings, but income from capital, predominates at the top of the income distribution. He has argued that due to minimal taxation on wealth, wealthy individuals can easily reinvest enough of their income to ensure that their wealth and hence their incomes were growing faster than the economy, reinforcing their economic dominance. When these wealthy individuals die, they pass their wealth on—again, with minimal taxation—to their heirs.

In India, there were only two 'dollar billionaires' in the mid 1990's, and by 2012, this number has increased to 46 (Forbes, 2012). Wealth of these 46 'dollar billionaires' was equivalent to 10 percent of India's GDP in 2012; also, the bottom 70 percent of India's households own only 20 percent of the country's private wealth (State of World Wealth Report, Credit Suisse, 2013).

Institutions like the International Monetary Fund (IMF), which never explicitly focused on income inequalities, but has traditionally advised countries to promote economic growth and reduce debt, has shown a shift in its position by arguing for redistribution of income. The IMF report *'Redistribution, Inequality and Growth'* (2014) states that "It would still be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable".

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[1] *The findings of this book are taken from the review of the book by Paul Krugman in 'The New York Review of Books', 8th May, 2014.(http://www.nybooks.com/articles/archives/2014/may/08/thomas-piketty-new-gilded-age/)*

Income and wealth inequality, however, tells only a part of the story. For instance, prevailing social norms that limit women's access to assets, income, and decision-making cause one of the major constraints in moving towards an equal society. Access to quality education and healthcare is not only a basic right, it also provides greater equality of opportunity – thus lessening other inequalities – and helps to foster economic growth. Services that rely on high out-of-pocket payments or, systems that rely on private provision that often fails to reach the poor, exacerbate rather than reduce inequality. For example Brazil's success story of reducing inequality and bringing 12 million people out of absolute poverty is built on its governments' effort towards increasing tax-GDP ratio and increased spending on social sector schemes like the Bolsa Familia -- a successful conditional cash transfer programme to promote public health and education.

Some of the policy lessons that emerge from other country experiences are progressive taxation and redistributive transfers, investment towards universalization of public provisioning of essential services like health and education, removal of barriers to equal rights and opportunities for women and other vulnerable sections, redistribution of land etc. However, issues pertaining to inequality have not featured on the G20 Agenda yet and many civil society stakeholders are flagging this as a major concern with G20.

G20'S INITIATIVES TOWARDS TAX REFORM

Taxation policy is an important tool to address the problem of disparity in income and wealth in a country. The issue of tax avoidance by Multi-National Corporations (MNCs) by exploiting loopholes in the international tax system is currently of serious concern to both developed and developing countries. Amid large numbers of tax avoidance cases, a number of countries pressing for--an effective system for getting financial information from other nations, especially the low tax jurisdictions, and sound principles to tackle the problem of tax base erosion and profit shifting by MNCs. As a result, the G20 Summit in Los Cabos (2012) explicitly referred to "the need to prevent base erosion and profit shifting" in their final declaration and called on the OECD to develop an action plan to address these issues. The communique issued after the meeting of G20 finance ministers (in 2014) stated that by the Brisbane Summit in September, 2014, all G20 members will start taking effective, practical and sustainable measures to counter 'base erosion and profit shifting' by MNCs across all industries. The G20 countries have also agreed to start automatic sharing of tax information by the end of 2015. Thus, in the domain of taxation and its potential towards tackling inequality, the G20 has initiated a few concrete measures, though a lot more needs to be done.

INDIA'S ROLE IN G20

As a member of G20, Indian Government has voiced its opinion regarding the need for --rebalancing global governance through reforms of international financial institutions (like World Bank and IMF), checking external macroeconomic imbalances, scrutinizing protectionist measures, and widening of G20 agenda to include development issues etc. In the last G20 Summit (September, 2013) Indian Prime Minister, Dr. Manmohan Singh, pointed out that "rapid growth will have little meaning, …. unless social and economic inequalities, which still afflict our society, are eliminated quickly and effectively".

There is an urgent need for prioritizing a policy framework that would enable reduction of inequalities across the countries. However, the official G20 agenda for the Australia Summit, 2014 is restricted to economic development with sustainable growth, job creation, and open trade. In the agenda, 'development' is defined as creating conditions for developing countries to attract infrastructure investment, strengthening tax system and improving access to financial services. Important issues like social infrastructure, gender, poverty and inequality etc. are completely missing from this official G20 discourse.

Moreover, there are also questions relating to G20's legitimacy and representation. Although the forum aims to set 'global standards and norms', there are serious concerns about the exclusion of most of the global south from these processes and the lack of accountability of the G20.

We may note here that, in the St. Petersburg Summit of G20 last year, the Civil 20 (representatives of civil society organizations working on the issues related to the agenda of G20 Summit) initiated the process of preparing a report and recommendations to G20 on how it can address growing income inequality in the member countries. It seems that discussion on inequality will continue to be prioritized by the Civil 20 process in the coming years.

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