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Thought for Europe Day 2012: Why can't EU development policy address inequality?

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Bonn, 7 May 2012. European policymakers are struggling to come up with a convincing strategy for addressing the difficult problem of socio-economic inequality in developing countries. There is growing evidence that persistent high inequality is detrimental to poverty reduction and even to the rate of growth itself. Middle income countries like China, India, Indonesia, Nigeria and Pakistan remain home to over 60% of the world's poor. A recent study by the International Monetary Fund found that longer growth spells are robustly associated with more equality in income distribution. On the other hand, experience has shown that conditional cash transfers to the poor have resulted in significant reductions in inequality and poverty in Latin America in the last decade.

While recent European Commission policy statements have recognised that inequality is a major development challenge, few concrete measures are in place for tackling it. Last October's 'Agenda for Change' statement announced that the EU would focus on 'inclusive and sustainable growth' enabling more people to participate in, and benefit from, wealth and job creation. This is backed by investment in human capital, health and education, and emphasis on trade, governance and stability issues. The Agenda only mentions the word 'inequality' once, and this is in reference to inequality of opportunity, not income. It is likely that EU member states will insist that the Commission bases future aid allocation decisions on differences between partner countries – rather than differences within them – when they sign off on the Agenda for Change at the Development Council meeting on 14 May.

In the praxis of EU development cooperation, the difficulty of implementing policies aimed at reducing inequality becomes apparent. Although the Commission earmarks around 20% of its development aid for social cohesion programmes, most is actually spent on activities to promote economic growth and governance issues like police and judicial reform. These are undoubtedly helpful, but do not address inequality sufficiently. Furthermore, the Commission's recent proposal to end development cooperation with several 'middle income' countries is based on Gross Domestic Product (GDP) per capita calculations and the partner country's share of the global economy, and does not take inequality into account.

Specific measures aimed at reducing income disparities should be central to any development co-operation strategy. EU development policy should, for instance, promote improvements in the distributional potential of tax systems and the pro-poor focus of social expenditure in countries with high inequality. This also means supporting a strong role for the state in the economy, both in terms of wealth generation through public investment and support for economic sectors that can generate long-term growth and good, safe jobs.

Inequality: too hot to handle

EU Development Commissioner Andris Piebalgs has told the European Parliament that he believes that inclusive growth must address income distribution. However, Commission officials privately confirm that there is little willingness to address inequality at the policy and implementation levels, despite the Commissioner recognising its importance. The reason given is that inequality issues are politically sensitive in partner countries and should be avoided as a matter of respect for their own internal processes. This is, of course, in stark contrast to the way the EU promotes trade openness

and better business environments, including the Singapore Issues (public procurement, trade facilitation, investment and competition) rejected by most developing countries at the World Trade Organization. It is also inconsistent with the 'universal values' the EU promotes in its development policy statements and agreements with non-EU countries.

The real reason why it is hard for EU development policy to address inequality head on is because it implies strengthening the redistributive role of the state, an objective that few current decision-makers are prepared to fight for. The ongoing Euro crisis is also impacting on the EU's potential to help fight inequality in developing countries. Fiscal pressures are starting to squeeze the aid budgets of several EU member states. It is also difficult for the EU to promote policies to reduce inequality in developing countries while fiscal austerity within Europe is working against inclusive growth, weakening the welfare-state model, and thus significantly increasing socio-economic inequality at home.

The EU's successful social model is not for export

The inclusive growth model adopted in Europe, where states have assumed important redistributive roles, has contributed to consistently high and cohesive levels of human development since the Second World War. Despite recent increases in European Gini Coefficients, inequality measures in the EU are well below that of most middle income countries. The know-how for advancing development in a cohesive manner, without excluding large groups of people from the growth process, is an important comparative advantage of the EU. Surely, important lessons can be taken from this experience that can be applied to Europe's co-operation with developing countries that are willing to address the inequality issue.

The need to tackle inequality and ensure cohesion can be seen nowhere better than in 'Europe 2020', the EU's growth strategy for the present decade, in which social cohesion is one of the five key pillars. Clearly, what is relevant for the EU in terms of "ensuring economic, social and territorial cohesion," i.e. keeping income inequalities at bay, is not for export in the form of European development cooperation.

The fact that inequality is a key part of European domestic strategies but not EU development policy may signal an ideological drift away from promoting a social model for developing countries. The EU appears to be shying away from models that worked for Europe itself, and have started to work in parts of Latin America especially. Rather, it is moving towards the World Bank's 'growth-plus-safety nets' model, with added emphasis on the private sector. While this is an improvement on the Washington Consensus, it is still predicated on the 'trickle down' philosophy rather than one emphasising economic and social cohesion.

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