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Inequality: Major Trends, Policy Challenges and the Need for Global Economic Compact

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Abbreviations

BEPS	Base Erosion and Profit Shifting
CIF	cost, insurance and freight
FDI	foreign direct investment
FIRE	finance, insurance and real estate
FOB	freight on board
G20	Group of 20
GDP	gross domestic product
IFF	Illicit financial flow
IMF	International Monetary Fund
IOM	International Organization for Migration
IPCC	Intergovernmental Panel on Climate Change
MNE	multinational enterprise
OECD	Organisation for Economic Co-operation and Development
SAR	Special Administrative Region
TDR	Trade and Development Report
UNCTAD	United Nations Conference on Trade and Development
UNFCCC	United Nations Framework Convention on Climate Change

Explanatory notes

Classification by country

The classification of countries in this report has been adopted solely for the purposes of statistical or analytical convenience and does not necessarily imply any judgement concerning the stage of development of a particular country or area.

There is no established convention for the designation of "developing" and "developed" countries or areas in the United Nations system. This report follows the classification as defined in the UNCTAD *Handbook of Statistics 2023* for these two major country groupings (see https://hbs.unctad.org/classifications/, accessed on 25 June 2024), which is based on the classification applied in the "Standard Country or Area Codes for Statistical Use", known as "M49", maintained by the United Nations Statistics Division,
(see https://unstats.un.org/unsd/methodology/m49/, accessed on 25 June 2024).

For statistical purposes, regional groupings used in this report follow generally those employed in the UNCTAD *Handbook of Statistics 2023* unless otherwise stated. The data for China do not include those for Hong Kong Special Administrative Region (Hong Kong SAR), Macao Special Administrative Region (Macao SAR) and Taiwan Province of China.

References to "sub-Saharan Africa" in the text or tables include South Africa unless otherwise indicated.

Other notes

References in the text to TDR are to the *Trade and Development Report* (of a particular year). For example, TDR (2020) refers to *Trade and Development Report 2020* (United Nations publication, Sales No. E.20.II.D.30).

The term "dollar" ($) refers to United States dollars, unless otherwise stated.

The term "billion" signifies 1,000 million.

The term "trillion" signifies 1,000,000 million.

The term "tons" refers to metric tons.

Annual rates of growth and change refer to compound rates.

Exports are expressed at freight on board (FOB) prices while and imports are reported at cost, insurance and freight (CIF) value, unless otherwise specified.

Use of a dash (–) between dates representing years, e.g. 2019–2021, signifies the full period involved, including the initial and final years.

An oblique stroke (/) between two years, e.g. 2019/20, signifies a fiscal or crop year. A dot (.) in a table indicates that the item is not applicable.

Two dots (..) in a table indicate that the data are not available or are not separately reported.

A dash (–) or a zero (0) in a table indicates that the amount is nil or negligible.

Decimals and percentages do not necessarily add up to totals because of rounding.

A. Introduction

Inequal systems are brittle systems. The fragility of post-COVID-19 recovery globally is primarily associated with subdued economic growth and divergence between countries. Continuing economic, climate and geopolitical shocks further test systems' resilience. Underlying the current risks of fracture, however, lies the structural dimension of inequality. Against the declining trend in overall income inequality *between* countries – driven mostly by robust economic growth in a handful of large developing countries, particularly China – income and wealth inequality *within* countries (Piketty, 2014) as well as global functional income inequality (TDR, 2023) have been on the rise.

The COVID-19 pandemic and subsequent crises have further widened income and wealth gaps, especially in developing countries (World Bank, 2022). Unfortunately, policies to combat these have retrenched. Reviewing 161 economies, Walker et al. (2022) finds that 70 per cent of Governments cut their spending on education in 2020–2022, while about two thirds failed to increase the minimum wage on par with the expansion of their gross domestic product (GDP). In parallel, developing economies have had to face the additional burden of growing debt service and a diminishing global financial safety net (United Nations, 2024).

Also, since 2021, the collective wealth of five billion people around the world has fallen, while the wages of nearly 800 million workers worldwide have failed to keep up with inflation (Oxfam, 2024). According to the World Bank Group President, in the next decade, 1.1 billion young people will become working age adults across the Global South; but they will only have 325 million jobs created during this period in these countries (Banga, 2023). The predicted failure of market coordination to ensure full employment will cause millions to be excluded from other markets, including credit and, more worryingly, essential goods and services. Moreover, in the current cycle of global turbulence and multiple shocks, inequality carries economic security risks nationally and undermines trust in the multilateral order.

Against this backdrop, this report focuses on ways to leverage wage-led growth at the national level, while also reversing key asymmetries internationally, with the aim to address some of the essential mechanisms propagating inequality at the global and domestic levels. To these ends, section B examines the macroeconomics of inequality from a structural perspective, focusing on the role of the labour income share and sectoral composition, including during the cycle of monetary tightening. Turning to the international dimension, section C.1 tackles the issue of the uneven distribution of global economic activities in general and trade gains by large multinational enterprises, in particular. In the context of the developing countries, it also examines some of the effects and policy lessons of the financialization of commodity sectors (section C.2). Section D concludes by charting steps towards a new international policy compact.

B. Inequality in the macroeconomic context

Discussions on inequality are beset with definitional and measurement challenges (Galbraith, 2016; McGregor et al., 2019). From a macroeconomic perspective, it is useful to focus on the inequality that arises from primary income distribution (the distribution of value added between wages, profits and taxes), as measured by the labour income share. This has analytical and empirical advantages: analytically, the labour share has stable linkages with the macroeconomic variables that are key to understanding growth and development patterns. This includes wage growth, aggregate demand and productivity; empirically, it can be computed from national account data, making estimates easily comparable across countries (although the components that should be included are debated and different orientations exist for developed and developing countries).

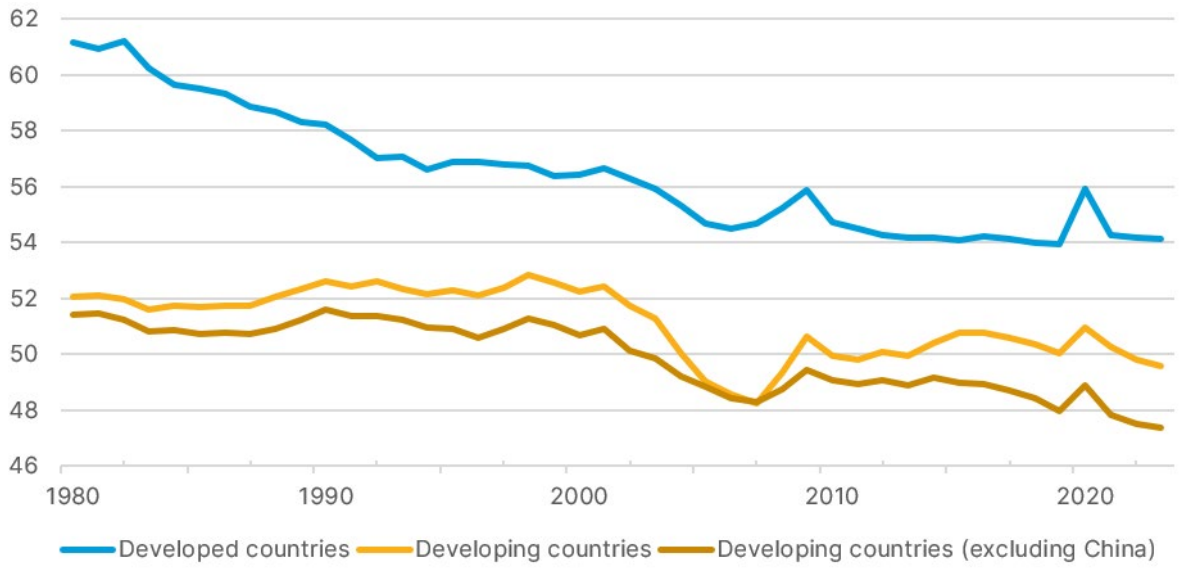
This approach stands in sharp contrast to a common treatment to inequality in macroeconomic discussions, which focuses on the distribution of wages and links them to marginal productivity levels. These analyses are based on axioms about microeconomic behaviour that are notoriously hard to anchor in available data (such as the form of the utility and production functions). As a result, the policy implications of these analyses tend to be confined to education and redistributive policies. In this approach, macroeconomic dynamics – or the coherence of the different components of the economy in a closed system of accounting – are overlooked.

Using the labour income share as a metric, income inequality is higher today than it was 40 years ago both globally and within many countries (figure 1). This adds to the fact that wealth inequality is sharply higher, with the top 10 per cent owning nearly three quarters of the world's wealth, while half the world's population is almost entirely deprived of wealth (World Inequality Database, 2023). Despite a general recognition that heightened inequality was a contributing factor to the global financial crisis of 2008–2009 (Lysandrou, 2011, 2012; Stiglitz, 2012), the past decade has not seen any significant reversal of these trends and on some measures the situation has worsened (see e.g. TDR, 2023; Milanovic, 2018; Stiglitz, 2013; and Galbraith, 2012 for further discussions).

To analyse the dynamics of the labour share, it is useful to define it as the ratio of the average real wage to average productivity, since these two variables are strongly influenced by policies whose distributive effects are often overlooked. These include labour market institutions, fiscal austerity as a response to macroeconomic imbalances (TDR, 2022), tax-motivated illicit financial flows (TDR, 2020), financialization and rising concentration of corporate power in production and finance (TDR, 2017) and the organization of international trade (TDR, 2018 and 2023). The latter has tied countries in unequal relations established around global value chains (Wirkierman, 2023) and, more recently, digital platforms (Peng, 2022).

The focus on the functional distribution of income reveals the magnitude of structural and cumulative pressures that have become sources of economic polarization, whether through rent-seeking behaviour and market concentration; first-mover advantages and scale economies; or unequal terms of trade and the international division of labour.

Figure 1 Labour income shares declining across the board over the last four decades
Labour share in developed and developing countries: 1980–2023
(Percentage)



Source: United Nations Global Policy Model.
Note: Growth rates approximated as log differences for time-wise additivity.

With pre-pandemic trends resuming, the labour income share is expected to continue to recede, dimming any prospects of a sustainable

Empirically, since the 1980s, the labour income share has displayed a downward trend in many developed and developing economies. The trend has continued since the pandemic, with a corresponding rise in the profit share. Compared to 1984, the share of global income earned by workers today has decreased by an estimated 5.5 percentage points in favour of profit earners. In 2024 alone, this amounts to $6.1 trillion transferred from wages to profits. The proximate cause has been wage repression owing to the weakening of labour market institutions. This has prevented wages from keeping pace with increases in productivity and, in many cases, the cost of living. With pre-pandemic trends resuming, the labour income share is expected to continue to recede, dimming any prospects of a sustainable recovery of the global economy. This downward dynamic as the next subsection shows, is a major transmission channel of inequality dynamics, both nationally and globally.

1. Transmission channels between inequality and macro performance

Inequality of income distribution (as measured by the labour share) affects the macroeconomy through the impact on aggregate demand and on prices. The impact on aggregate demand plays out both through household and business spending. Household spending is made up of the outlays of lower income households, whose earnings come mostly from wages, and higher income ones, who are the recipients of most profit income and have higher saving rates. A lower labour share indicates that more income is accruing to profit earners driving up the economy's overall saving rate and depressing effective demand. This affects economic activity and, indirectly, investment demand.

Investment demand is also affected on the side of costs, a fact that emerges clearly when considering that the labour share is also a measure of production costs. Indeed, the share of income accruing to workers is also the labour cost of producing one unit of output, so that a lower labour share implies a lower unit labour cost. While lower labour costs can determine competitive price advantages and help expand market shares in the short term, their second-order effects on economic activity are overwhelmingly negative (Capaldo and Izurieta, 2013; Capaldo and Storm, 2018). Not only do lower labour costs depress household spending, but they also discourage investment by reducing the incentive towards labour-saving innovation. Empirical studies indicate that this mechanism is responsible for the growing divergence between sectors in productivity growth and for causing, especially in developed economies, the slowdown of aggregate productivity known as 'secular stagnation' (Storm, 2018; Taylor, 2020, TDR 2020). These linkages highlight the importance of development strategies based on "race to the top" technological upgrading rather than on a "race to the bottom" of labour costs.

These transmission mechanisms are very different from the ones on which the standard assessments of trade policy are based. In those analyses, cheaper labour acts as an incentive to investment by driving up profitability but the second-order effects are negligible since there is no backlash from slowing or falling aggregate demand. Indeed, aggregate demand is assumed to be always sufficient to generate full employment. Any problem of global inconsistency (such as the fallacy of composition) is ruled out.

With the more plausible mechanisms in mind, it is also important to remember that the effect of inequality on macroeconomic performance does not stop at aggregate demand and output growth but rather feeds back onto inequality itself in the iterative process followed by all economies over time. To trace the effects running from macroeconomic performance to inequality, it is useful to look again at the labour share as the ratio of average real wages to productivity, and to remember two facts: first, wage growth and productivity growth exhibit clear co-movements and, second, economy-wide averages result from sector-level data. The analysis that follows is not meant to highlight more and less successful stories but to show that valuable information on inequality can be easily extracted from publicly available data and used as context in the design of macroeconomic policy.

Table 1 and figure 2 show a general deceleration of real wage growth that can be partly explained by a slowdown in labour productivity growth, which has taken place in most G20 countries since the 1990s. As discussed below, this can be due to changes in productivity growth in each sector and to changes in sectors' shares of total employment. But the change in average productivity growth does not fully account for the change in real-wage growth. The portion of productivity gains that accrues to workers also fell because of wage repression, that is, a reduction in the bargaining power of workers in almost all G20 economies since the 1980s.

Table 1 Labour income shares declining as real wages have not kept up with productivity gains

Change in the labour share and its drivers
(Percentage growth rates)

Countries	Determinants of change	1980–1989	1990–1999	2000–2009	2010–2019
Argentina	Labour share	-4.7	-5.9	6.0	7.6
	Real wage	-39.5	21.9	33.8	-4.3
	Productivity	-34.8	27.8	27.8	-11.9
Australia	Labour share	-4.7	-1.9	-3.0	-0.7
	Real wage	1.5	18.3	16.1	9.8
	Productivity	6.2	20.3	19.1	10.5
Brazil	Labour share	0.8	-0.4	4.7	-0.1
	Real wage	-18.0	0.9	20.0	-1.6
	Productivity	-18.8	1.3	15.2	-1.5
Canada	Labour share	0.2	-4.4	-1.2	-1.9
	Real wage	6.6	12.5	4.8	8.1
	Productivity	6.4	16.9	6.0	10.1
China	Labour share	-4.9	-2.8	-10.0	4.4
	Real wage	55.5	80.8	86.1	73.2
	Productivity	60.4	83.6	96.1	68.8
France	Labour share	-8.4	-3.0	0.0	-1.3
	Real wage	15.2	11.8	2.4	8.7
	Productivity	23.6	14.7	2.3	10.0
Germany	Labour share	-5.0	-1.1	-5.4	-0.4
	Real wage	15.6	18.5	-2.3	7.5
	Productivity	20.6	19.6	3.1	7.9
Italy	Labour share	-4.7	-9.9	-0.5	-1.8
	Real wage	19.0	7.4	-6.4	1.1
	Productivity	23.7	17.3	-6.0	2.9
India	Labour share	-1.4	-2.3	-2.4	-2.3
	Real wage	31.7	32.1	48.5	46.4
	Productivity	33.2	34.4	50.9	48.6
Indonesia	Labour share	-3.9	-2.8	-4.3	-0.1
	Real wage	24.8	12.4	23.8	36.5
	Productivity	28.7	15.2	28.1	36.6
Japan	Labour share	-6.2	1.5	-4.6	-3.8
	Real wage	27.9	11.7	-0.2	4.7
	Productivity	34.1	10.3	4.3	8.4
Mexico	Labour share	-9.3	-1.5	-3.4	-3.2
	Real wage	-30.9	8.7	-10.5	-1.8
	Productivity	-21.6	10.2	-7.1	1.3
Republic of Korea	Labour share	5.4	-0.8	-7.2	0.4
	Real wage	78.2	48.6	19.1	21.5
	Productivity	72.8	49.4	26.3	21.1
Russian Federation	Labour share	-1.1	-14.1	11.9	-4.5
	Real wage	41.6	-37.0	47.0	4.4
	Productivity	42.7	-22.9	35.1	9.0
Saudi Arabia	Labour share	-2.5	-7.2	-5.5	-3.8
	Real wage	-7.4	10.3	34.1	-26.3
	Productivity	-4.9	17.4	39.6	-22.5
South Africa	Labour share	-1.2	-2.8	-4.7	-3.8
	Real wage	-17.9	9.3	23.9	-1.4
	Productivity	-16.7	12.0	28.6	2.4
Türkiye	Labour share	1.4	-7.0	-5.4	-1.9
	Real wage	23.5	18.6	22.9	18.3
	Productivity	22.0	25.7	28.3	20.2
United Kingdom	Labour share	-6.6	2.9	3.4	-4.2
	Real wage	14.4	28.8	11.6	3.6
	Productivity	21.0	25.9	8.2	7.8
United States	Labour share	-1.2	-0.1	-7.3	-0.4
	Real wage	13.3	20.0	8.4	11.3
	Productivity	14.6	20.1	15.6	11.8

Source: United Nations Global Policy Model.
Note: Growth rates approximated as log differences for time-wise additivity.

Three groups of factors are usually referred to as likely drivers of wage repression: (1) labour-saving technological progress; (2) globalization, including the impact of production offshoring and migration; and (3) the political economy of labour market regulation (Campos and Nugent, 2012; Storm, 2019a; Stansbury and Summers, 2020). While technological innovation has certainly played a role, other factors have too, both by directly affecting the labour market and by setting the pace of innovation.

Therefore, multiple fields of policy, both micro- and macroeconomic, including on trade and finance – which matter for income distribution and depending on the context – can serve as transmission mechanisms of inequality. Examining these dynamics, the next section discusses the role of sectoral and composition effects in the economic system and their role in inequality dynamics.

Figure 2 Real wage growth on different trajectories
Changes in real compensation per person employed
(10-year percentage change)

Source: United Nations Global Policy Model.

2. Sectoral and composition effects on average productivity

To distinguish between technological and political economic factors, it is useful to decompose average productivity growth into sectoral (agriculture, industry and services) and reallocation components. This allows to determine the extent to which total productivity growth depends on "within-sector" productivity growth – i.e. productivity growth in each sector assuming the sector's weight in the economy does not change – and on each sector's expansion relative to the rest of the economy (the reallocation component).

For example, recent research suggests that software companies have experienced faster productivity growth but lower employment growth than other sectors, having a positive "sectoral" effect and a negative "composition" effect on average productivity (Storm, 2017a; Stansbury and Summers, 2020). Composition effects are especially important in developing countries where a highly diverse productive structure may allow quick productivity gains (or losses) as workers move between low and high productivity sectors (Lewis, 1954; Kuznets, 1971; McMillan et al., 2014; Rodrik, 2016). Business decisions on hiring and investment, as well as workers' willingness to engage in a long search for higher paying jobs, are factors that can be shaped by policy or left to private actors and markets.

Comparable data on production, employment and wages are compiled annually for most countries, but only at the level of the three macro sectors of the economy: agriculture (together with primary commodities extraction), industry and services. More disaggregated data are available for fewer countries. Thus, a useful analysis of productivity can start by looking at global trends emerging from a three-sector disaggregation.[1]

In table 2, total labour productivity growth is disaggregated into the contributions of three macro-sectors and reallocation effects since 1990.[2] In the developed countries, during the 10 years preceding the COVID-19 shock, total labour productivity expanded 8–13 per cent, except for two outliers.[3] The second striking feature is a slowdown of total productivity growth almost everywhere during the following decades.[4]

The third striking feature is a slowdown of sectoral contributions to productivity growth since the 1990s, with a few exceptions: in Canada the service sector and, in Japan, both industry and services. Fourth, in the 2010s, reallocation effects have been very low or negative while services' contributions have mostly topped those of other macro-sectors. This means that job creation has mostly shifted toward lower-productivity sectors, but the service sector boosted total productivity growth. Finally, with the exception of Canada, in all developed countries the long slowdown of productivity growth has been due more to within-sector productivity changes than to reallocation effects. This suggests that an opportunity to revive productivity growth may lie in better reallocation.

[1] For more insights, such analyses could be conducted with more granular data at the country level.
[2] A sector's contribution to average productivity over a period of time is the sector's productivity growth weighted by its initial share of employment. Reallocation effects indicate how much average productivity has grown (or declined) due to reallocation of workers between sectors. A positive reallocation growth rate indicates that, on average, worker reallocation during a certain decade has increased productivity. A negative rate indicates that reallocation has decreased productivity on average. The economy's productivity growth is determined by the sum of sector-level contributions and reallocation effects. Primary activities include agriculture, both large-scale and small-scale, together with extractive activities such as mining. Industrial activities include manufacturing, civil construction (residential and non-residential) and public utilities. Services encompass both high-productivity activities as in the finance, insurance and real estate (FIRE) sectors and low-productivity activities as domestic services (the "care" or "servant" sector).
[3] Italy registered a subdued 2.9-per cent growth, owing to the consequences of a prolonged period of wage repression and fiscal austerity (Storm, 2019b; Halevi, 2019), while the Republic of Korea grew 23 per cent.
[4] The Russian Federation departs from that trend as it faced major challenges in the 1990s. Also, the Republic of Korea experienced fast productivity growth in the decades of deep structural transformation, when it established its industrial structure, and slower but still high growth as investment levelled off in the 2000s.

Table 2 Significant productivity slowdown across sectors and evidence of job creation shifting toward lower-productivity sectors

Sectoral and composition effects on labour productivity growth
(10-year percentage change)

A. Developed countries

Countries	Drivers of change	1990–1999	2000–2009	2010–2019
Australia	Agriculture	4.4	15.1	1.9
	Industry	4.6	1.8	2.9
	Services	14.2	11.3	8.9
	Reallocation	-0.7	-7.2	-2.7
	Total	22.5	21.1	11.1
Canada	Agriculture	6.6	6.0	1.5
	Industry	7.3	-2.0	2.4
	Services	7.7	6.4	8.5
	Reallocation	-3.2	-4.3	-1.9
	Total	18.4	6.1	10.6
France	Agriculture	1.7	0.9	0.8
	Industry	3.2	0.1	3.1
	Services	10.2	0.7	6.2
	Reallocation	0.8	0.7	0.4
	Total	15.9	2.4	10.5
Germany	Agriculture	1.2	3.4	0.6
	Industry	6.6	4.2	4.5
	Services	12.5	-3.0	4.0
	Reallocation	1.4	-1.4	-0.9
	Total	21.7	3.2	8.2
Italy	Agriculture	4.9	0.8	-0.1
	Industry	4.1	-1.9	2.6
	Services	8.4	-5.4	-0.3
	Reallocation	1.5	0.7	0.7
	Total	18.9	-5.8	2.9
Japan	Agriculture	2.2	0.2	0.4
	Industry	-0.8	3.4	2.4
	Services	8.9	0.8	6.0
	Reallocation	0.5	0.1	0.0
	Total	10.8	4.4	8.8
Republic of Korea	Agriculture	9.8	2.8	3.9
	Industry	34.9	17.6	9.3
	Services	19.8	11.5	11.6
	Reallocation	-0.6	-1.7	-1.2
	Total	63.9	30.1	23.5
Russian Federation	Agriculture	-16.0	28.9	3.2
	Industry	-4.7	1.8	2.9
	Services	-0.1	23.4	4.9
	Reallocation	0.4	-12.0	-1.6
	Total	-20.4	42.1	9.4
United Kingdom	Agriculture	3.8	1.4	0.4
	Industry	9.8	1.7	3.1
	Services	16.1	5.2	5.0
	Reallocation	0.0	0.2	-0.4
	Total	29.6	8.5	8.1
United States	Agriculture	1.8	2.8	-0.5
	Industry	4.6	3.2	1.5
	Services	16.7	10.5	11.6
	Reallocation	-0.8	0.3	0.0
	Total	22.2	16.9	12.5

B. Developing countries

Countries	Drivers of change	1990–1999	2000–2009	2010–2019
Argentina	Agriculture	-5.8	-0.2	9.8
	Industry	10.4	10.9	-6.7
	Services	20.9	12.8	-1.1
	Reallocation	6.6	8.6	-13.3
	Total	32.0	32.1	-11.3
Brazil	Agriculture	-0.4	6.4	4.8
	Industry	-10.5	0.9	-2.3
	Services	8.0	7.0	-4.5
	Reallocation	4.2	2.2	0.5
	Total	1.3	16.5	-1.5
China	Agriculture	34.4	56.1	26.9
	Industry	48.0	55.8	40.9
	Services	25.6	34.1	33.6
	Reallocation	22.8	15.4	-2.3
	Total	130.8	161.4	99.1
India	Agriculture	8.2	16.8	20.6
	Industry	6.0	9.5	6.8
	Services	20.0	27.0	18.0
	Reallocation	7.0	13.1	17.2
	Total	41.1	66.3	62.6
Indonesia	Agriculture	10.6	13.3	19.0
	Industry	3.9	9.5	6.4
	Services	-5.8	6.0	14.2
	Reallocation	7.6	3.8	4.6
	Total	16.4	32.4	44.2
Mexico	Agriculture	1.4	3.3	-0.6
	Industry	8.2	-2.3	0.1
	Services	-3.0	-8.2	1.6
	Reallocation	4.2	0.4	0.2
	Total	10.7	-6.9	1.3
Saudi Arabia	Agriculture	26.8	53.1	-28.0
	Industry	8.0	6.1	-1.9
	Services	-0.9	16.3	4.6
	Reallocation	-15.0	-27.0	5.2
	Total	19.1	48.7	-20.2
South Africa	Agriculture	-1.6	50.3	-1.7
	Industry	-1.6	2.9	0.1
	Services	15.3	9.7	3.0
	Reallocation	0.7	-29.9	1.0
	Total	12.8	33.1	2.4
Türkiye	Agriculture	7.1	14.1	2.7
	Industry	-5.4	2.4	9.4
	Services	13.9	6.8	6.3
	Reallocation	13.7	9.5	4.0
	Total	29.2	32.8	22.3

Source: United Nations Global Policy Model.
Notes: Economy-wide (total) labour productivity is calculated as value added per worker (not to be confused with total factor productivity, i.e. an average of labour and capital productivities). 'Reallocation' is the effect on economy-wide productivity of workers' transferring across sectors.

These trends have led to a view of service sector expansion as a global strategy for growth and development. They have also led to calls for liberalization in the hope of maximizing the service sector's job-creation potential and possible ways to boost productivity (IMF, 2018; World Bank, 2016; Asian Development Bank, 2013). As this report illustrates below, in many cases, especially in the economies that lack sector diversification, this has been unwarranted, on both methodological and empirical grounds.

In developing countries, the disaggregation of productivity reveals a more diverse picture. Everywhere but in Mexico average labour productivity growth accelerated in the 2000s and everywhere but in Mexico and Indonesia it slowed down in the 2010s. Reallocation effects have been large on average compared to those registered in developed countries. This reflects the structural transformations developing countries have undergone. However, in some cases – including Argentina (during the 2010s), Australia, Canada, China (during the 2010s), Germany and the Russian Federation – reallocation has been negative. This indicates that job creation in lower productivity sectors has outpaced job creation in more productive ones.

Beyond data decompositions, a critical issue is understanding and leveraging the prime causes of productivity growth. While these are complex and continue to be debated (Ferguson and Storm, 2023), data clearly indicate a strong positive correlation between (changes in) productivity growth and (changes in) economic activity (Kaldor, 1996; Targetti, 2005; Storm, 2017b). Thus, when an economy stagnates, sooner or later productivity growth slows down too. By the same token, in a fast-growing economy, productivity is likely to pick up and drive down unit labour costs, making the economy more competitive. Employment will likely expand too, although a lower rate than output (as implied by the increase in productivity) drives up real wages. Depending on labour market institutions and workers' bargaining power, real wage growth may outpace or be outpaced by productivity growth. If real wages and productivity grow at the same rate, the labour income share remains unchanged.

(a) Monetary policy as inequality transmission mechanism

While all economies are exposed to business cycles, jobs in some sectors are more vulnerable to fluctuations of economic activity than in others. At a minimum, these include jobs in accommodation and food services, construction, retail, transport and "other services" (such as security and other services ancillary to retail), which in 2020 absorbed approximately 17 per cent of employment globally, up from 13 per cent in 2000.

Behind averages, countries differ greatly among each other, with developed countries featuring a higher proportion of newly vulnerable jobs than developing countries, given that informality has long been the norm in the latter. Countries also differ in their response to job losses, with some countries (predominantly advanced) providing temporary replacement income through unemployment insurance. Higher informality in developing countries makes the proportion of jobs vulnerable to demand fluctuations especially high and the likelihood of receiving replacement income especially low.

These structural problems were clearly on display during the pandemic when millions of jobs and livelihoods were lost in a very short time span. In the countries that had enough policy space – mostly developed economies – the policy responses helped cushioned the blow, but inequality increased sharply, making the structural problem worse. For many countries of the Global South, continuing climate crisis adds further to macro- and microeconomic transmission channels of inequality (box 1).

Box 1: Climate and inequality

Climate and inequality are intertwined at all levels. The preamble of the 1992 United Nations Framework Convention on Climate Change noted that "the *largest share of historical and current global emissions of [greenhouse gases] has originated in developed* countries". Three decades later, banks headquartered in developed countries keep originating more than 60 per cent of the trillions in credit support provided to fossil fuel companies (UNCTAD, 2023). Causality runs the other way round too, however, and research draws attention on a variety of channels through which climate change exacerbates monetary (i.e., income and wealth) as well as non-monetary (e.g., health, education) inequalities. Such evidence calls for more sufficiency in view of accelerating mitigation and adaptation efforts to protect vulnerable populations. [5]

A recent review of 127 papers finds robust evidence that climate change increases economic inequality and disproportionately affect the poor, both globally and within countries. This result is valid across a wide range of physical impacts of climate change, such as heat waves, extreme rainfalls, coastal floods or droughts. It further holds true for different types of income and wealth inequality, economic sectors, and assessment methods (Méjéan et al., 2024).

Internationally, important differences exist between developed and developing countries, however. According to a recent empirical study, climate change vulnerability does not yet significantly affect income distribution in advanced economies, but the estimated effect is seven times greater and statistically highly significant for developing countries due largely to weaker capacity for climate change adaptation and mitigation (Cevik and Jalles, 2023). Another study finds that a one-degree Celsius increase in temperature leads to a 9.1 per cent increase in poverty, using the $1.90 daily poverty threshold and a 0.8 per cent increase in the Gini inequality index (Dang et al., 2023). These findings confirm earlier evidence synthesized by the IPCC (2023) reporting with high confidence that losses and damages attributed to climate change will be strongly concentrated, and disproportionately affect the poorest and vulnerable populations in the Global South.

Global warming is already exacerbating global income inequality, with temperature increases weighing down economic growth in warmer countries across the Global South. Building on Tol et al. (2004), Diffenbaugh and Burke (2019) estimated that per capita GDP has been reduced between 17 and 31 per cent at the poorest four deciles between 1960 and 2010, yielding a ratio between the top and bottom deciles that is 25 per cent larger than in a world without global warming. Combining counterfactual historical temperature trajectories with empirical evidence of the relationship between historical temperature fluctuations and economic growth, these authors estimated that for poor countries there is more than 90 per cent likelihood that per capita GDP is lower today than if global warming had not occurred. Thus, in addition to not sharing equally in the short-term benefits of fossil fuel use, poor countries are being significantly harmed by the warming caused by the excessive energy consumption of richer countries and social classes. Such estimates for climate inequality, which are tied to GDP, will evolve in tandem with rising estimates about the impact of climate change on output (e.g., Bilal and Känzig, 2024).

Climate change also affects inequality between individuals through its negative effects on personal income, health or education. A collapse of agricultural production caused by the higher frequency and intensity of extreme climate events or the irreversible triggering of climate tipping points (Lenton et al., 2008, 2019; OECD, 2022), for instance, would not just affect farmers, but would have economy-wide and globally destabilizing implications.

[5] With support from China and India in the Intergovernmental Panel on Climate Change (IPCC) Plenary, the following definition of sufficiency was adopted and included in IPCC (2023) synthesis report: *"a set of policy measures and daily practices that avoid demand for energy, materials, land and water while delivering human wellbeing for all within planetary boundaries"*.

A decade ago, the Arab Spring illustrated how a food crisis can nurture costly political unrest and civil strife, especially in countries where no food security policies are in place (Soffiantini, 2020). As richer countries, particularly in Europe, faced difficulties integrating less than a handful of millions of refugees from Libya and Syria, the perspective by 2050 of global warming wrecking humanity's climate niche and displacing between 200 million (IOM, 2024) and more than 1 billion (Xu et al., 2020; Clark et al., 2021) represents a daunting challenge. By comparison, recent financial tensions caused by rising food prices and import bills in the wake of the war in Ukraine or climate-related disruptions of shipping routes, such as the Panama Canal (UNCTAD, 2024), which exacerbate the financial burden of the most food import-dependent developing countries (United Nations, 2022) may appear as a mild prelude.

Excessive reliance on monetary policy tools has been a part of the problem. Since 2008, near-zero interest rates and unconventional monetary policies have helped boost asset prices and intensify income and wealth inequality, without promoting real investment (Montecino and Epstein 2015, Seccareccia 2017, De Luigi et al. 2023). This effect was especially striking in 2020 (TDR, 2021). Then, when inflation started rising in 2021, the monetary "normalization" put in place to control the price rise has been found to further intensify income and wealth inequality and expose the world to financial fragility (Ferguson and Storm, 2023). It is above all the extreme nature of these policy stances that has had a pernicious impact on inequality levels, as a period of historically low interest rates has been quickly followed by the application of excessively restrictive monetary stances (TDR, 2023).

Importantly, the nature of the inflation observed globally since 2020 invites a rethink of the relationship between conventional monetary tools, the wage-price spiral and inequality. The so-called 'seller's inflation' has been driven by cost shocks that primarily resulted in increased nominal profit flows (Weber and Wasner, 2023). As rising inflation has been driven by energy and import costs, many large corporations have maintained their real profit margins (or have even increased them). Labour, on the other hand, has seen living standards decline as real wages fall with rising prices. Yet, notwithstanding recent and current steps towards a looser monetary policy in major developed and developing economies, central banks in most advanced economies continue to maintain the view that wages are increasing too rapidly, with the imminent danger of a wage-price spiral ensuing.[6]

The danger of a wage-price spiral has not materialized. In fact, the growth in real wages has been generally outpaced by that of labour productivity.

Evidence of such a danger materializing is scant. In fact, real wages have yet to recover to their pre-pandemic trend (Figure 3.A). By the end of 2023, real average hourly earnings in France, Germany, the United Kingdom and the United States remained 2.4, 9.4, 1.6 and 2.9 per cent below their pre-pandemic trend, respectively. Moreover, comparing the trajectory of real wages to that of labour productivity in these countries, there is no sign that the growth of real wages is significantly outpacing that of labour productivity (Figure 3.B).

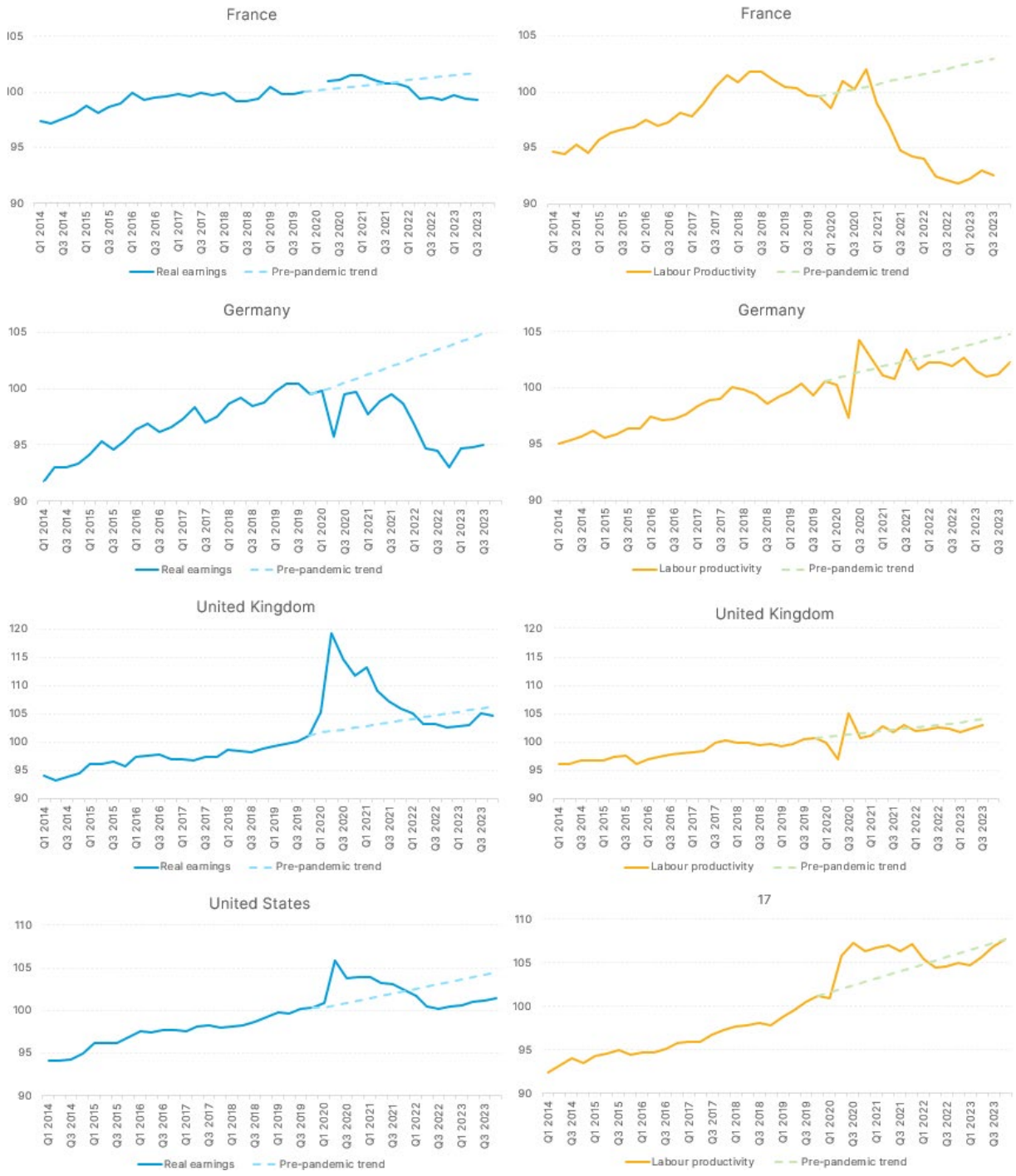
[6] The concept of a wage-price spiral is based on a process in which wage increases feed into price increases which then feed back into further wages increases in in an escalating loop.

Figure 3 Real wages are struggling to return to their pre-pandemic trend and to keep pace with labour productivity

Real average hourly earnings and labour productivity (output per hour worked), selected developed countries

(Index numbers, average 2019 = 100)

A. Real average hourly earnings **B. Labour productivity (output per hour worked)**



Source: UNCTAD calculations based on data from French Ministry of Work, Health and Solidarity, French Institute of Statistics and Economic Studies, Federal Statistical Office of Germany, United Kingdom Office for National Statistics and United States Bureau of Labor Statistics.

Note: The trend refers to the 2015–2019 period.

Globally, the asymmetric effects of restrictive monetary policy have intensified the hiatus between the size of developed and developing countries' policy space: as the dollar strengthened, some developing countries' central banks had to raise their interest rates disproportionately to defend the value of their currencies, while facing inflation rates which remained within historical averages. These challenges call for a shift in approach to policymaking, putting full employment and real wage growth at the centre of both macroeconomic and sectoral policies.

In this context, the following elements are important to consider. First, public work programmes and employer-of-last resort programmes have a fundamental role to play to secure household incomes while improving ailing infrastructures and public services (Tcherneva, 2020). Second, cash transfers such as universal basic income are also important to sustain demand and reduce inequality, especially in developing countries. Third, fiscal and monetary policies should target full employment. While this is already the case in some developed and developing economies, fiscal austerity continues to repress aggregate demand in many countries while the limits of monetary policy as an expansionary instrument have become apparent after a decade of record credit creation. Finally, the phenomenon of 'seller's inflation' exposes the limits of conventional monetary policy and calls for a mix of policy tools to achieve price stability. This, in turn, requires much closer regulatory attention to the problem of market concentration, especially at the international level, as the next section discusses.

C. Inequality, asymmetries of international trade and market concentration

1. Empirical findings: increased profiteering by large multinational enterprises and its negative effects on inequality

In most advanced economies and many developing countries, post-COVID-19 recovery has been marked by a surge of profitability of top multinational enterprises (MNEs) and heightened concentration across major markets. This trend started much earlier actually. Several landmark studies focusing on national economies of developed countries have pointed to growing corporate power and the ability to extract rents as major forces pushing down the labour income share since at least the 2000s.[7] Left unchecked, these developments contribute to reinforce personal income and ultimately, wealth inequalities.

The post-COVID-19 recovery has been marked by a surge of profitability of top multinational enterprises, pushing further down the global labour income share.

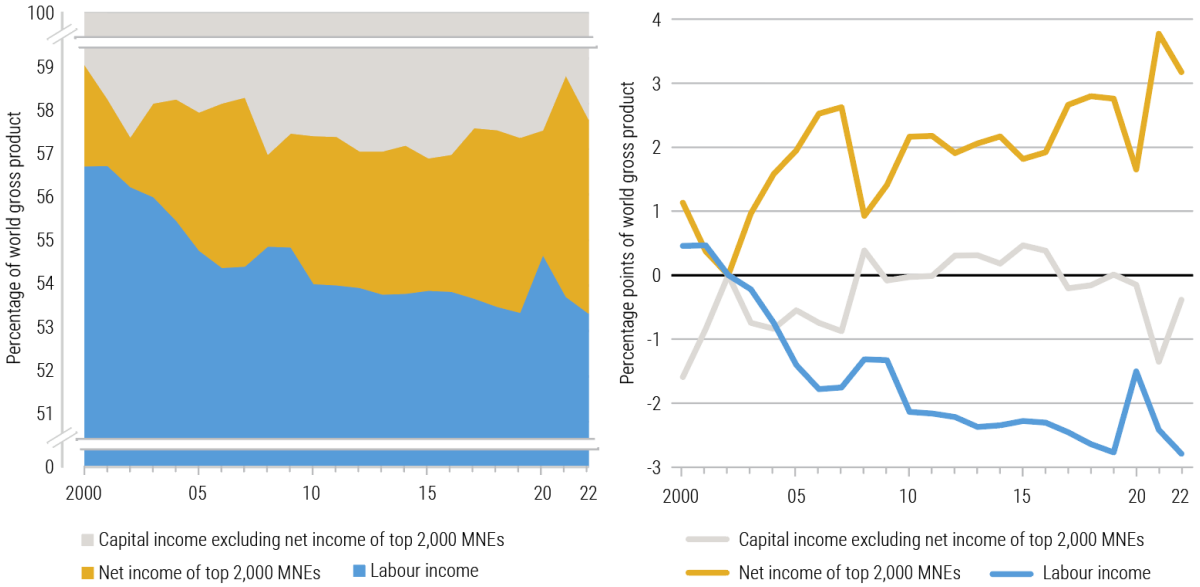
These trends are observable at the global level, too. Since 2000 (a period for which sufficient data exist), the rising share of capital income has been driven by the accelerated expansion of the profits of top MNEs operating globally, both in the financial and non-financial sectors (TDR, 2023). The examination of the top 2,000 and even top 100 MNEs worldwide (in terms of market capitalization in 2022) – whose aggregates are taken as proxies for the very large firms dominating international trade and finance globally – sheds light on this issue. More precisely, figure 4 depicts the evolution of the labour and capital income shares globally, splitting further the capital income shares into two components: (i) the profits of top 2,000 MNEs, and (ii) a residual that captures all capital incomes that are not the profits accruing to the top 2,000 MNEs.

[7] For the United States, Autor et al. (2017) finds that the aggregate labour share has fallen as the importance of "superstar" firms – with high profits and low shares of labour in firm value added – increases, because as industries become progressively dominated by so-called "superstar" firms, the rise in market concentration has pushed up the capital income shares. Subsequently, Autor et al. (2020) also demonstrates that as industry sales became increasingly concentrated in a small number of firms; more intense industry concentration was associated with larger declines in industry labour income shares; and so, the fall in the labour share was mostly driven by such declines in large firms. Obviously, a rise in the capital income share, broadly defined, necessarily involves a decline in the labour share. But it may be compatible with declining and even zero profit or by a rise in corporate profit. Empirically, the second scenario has played a predominant role. Deb et al. (2024) shows how the rise in market power affects wage inequality in the United States, while Barkai (2016) finds that the cost of capital in the United States declined even more rapidly than labour income between 1984 and 2014, as the share of corporate profits in value added increased by 12 points. De Loecker et al. (2020) documents the evolution of market power based on firm-level data for the United States economy since 1955 and measures both markups and profitability, findings that from 1980 onwards, aggregate markups started to rise significantly. According to these authors, the increase was driven mainly by the upper tail of the markup distribution. In addition to the fattening upper tail of the markup distribution, there had been a reallocation of market share from low- to high-markup firms. Hotchin and Leigh (2024) also provides a recent analysis on inequality and market concentration in Australia.

Figure 4 Increasing asymmetries of trade benefits: After the COVID-19 shock, profits of top 2,000 multinational enterprises further increased while the global labour income share continued to shrink

A. Global functional income distribution around the split

B. Evolution compared to 2002



Source: UNCTAD calculations based LSEG Eikon database and United Nations Global Policy Model.
Notes: The selection of the top 2,000 firms is based on their market capitalization. Thus, it excludes non-listed firms. In panel A, the net income of the top 2,000 firms (derived from the financial statement of listed firms) and the capital income excluding net income of top 2,000 firms add up to the world capital income (derived from national accounts data) even though methodologies differ in several regards across both sets of accounts.

Data shows that the profits of top MNEs have registered a gradual increase since 2000, only interrupted temporarily at times of major economic and financial turmoil such as (i) the stock market downturn of the early 2000s, (ii) the global financial crisis of 2008-09, and (iii) the COVID-19 shock in 2020. Over this entire period, the residual share of capital incomes has remained relatively flat. Mirroring this evolution, global labour income share has experienced a decline of 3 percentage points from almost 57 per cent in 2000 to just over 53 per cent in 2022. This is remarkable, given that historically, the variability of these aggregates has tended to be minimal.

The declining labour share and the growing relative profits of large MNEs point to the key role of large corporations dominating international operations driving up global functional income inequality, partly through their organization of production and trade, albeit not exclusively by these means.[8]

Increased profits have been particularly skewed towards the very top of the distribution, even within the restricted sample of the 2,000 largest firms globally.

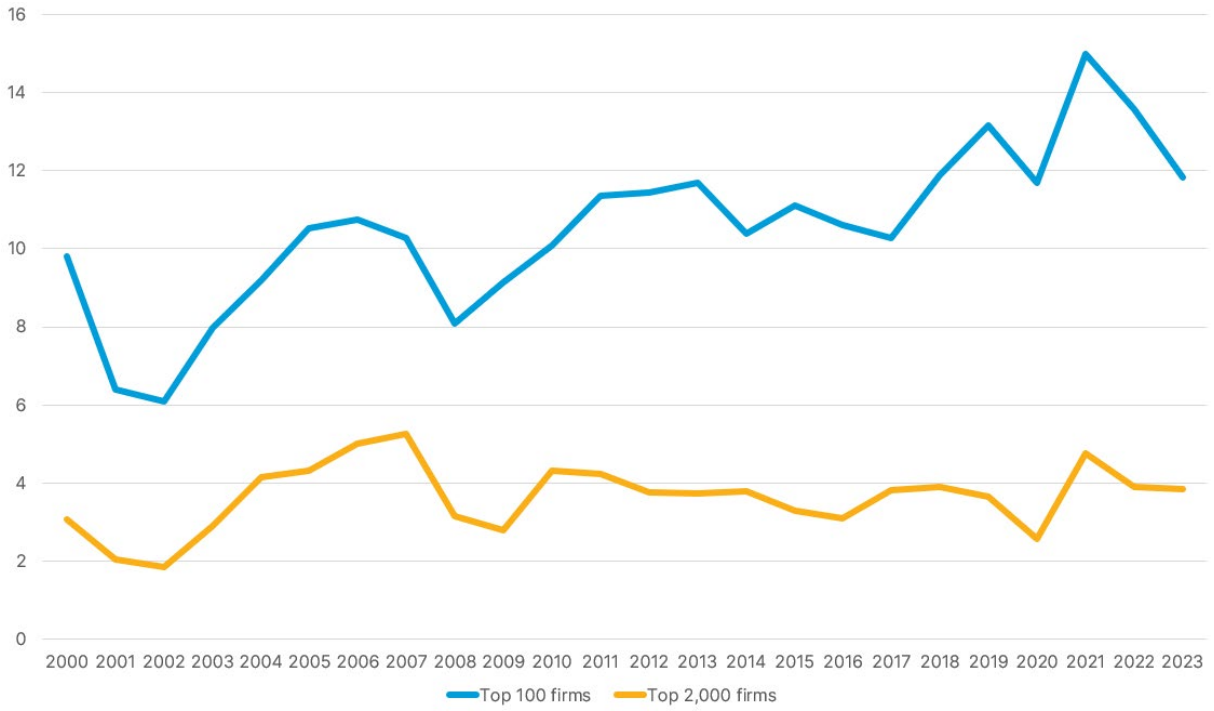
Further data disaggregation shows that increased profits have been particularly skewed towards the very top of the distribution, even within the restricted sample of the 2,000 largest MNEs (figure 5). More precisely, plotting the median profit ratios, i.e. net profits over net sales, from financial reporting data among the top 100 and top 2,000 companies show that relative profits of top 100 firms have been increasing, albeit not monotonically, while among the top 2,000 firms

[8] See TDR (2023) for further discussions about these findings and the other related determinants behind these evolutions.

they have remained flatter. Also, for the top 100 of companies in the sample, profits have also been persistently higher over the entire period. To look at the most recent year, i.e. 2023, one finds that the median profit ratio of top 100 firms was about 12 per cent, more than twice the one of the top 2,000 firms.

Figure 5 Profits of large multinational enterprises have been raising, especially among the largest companies

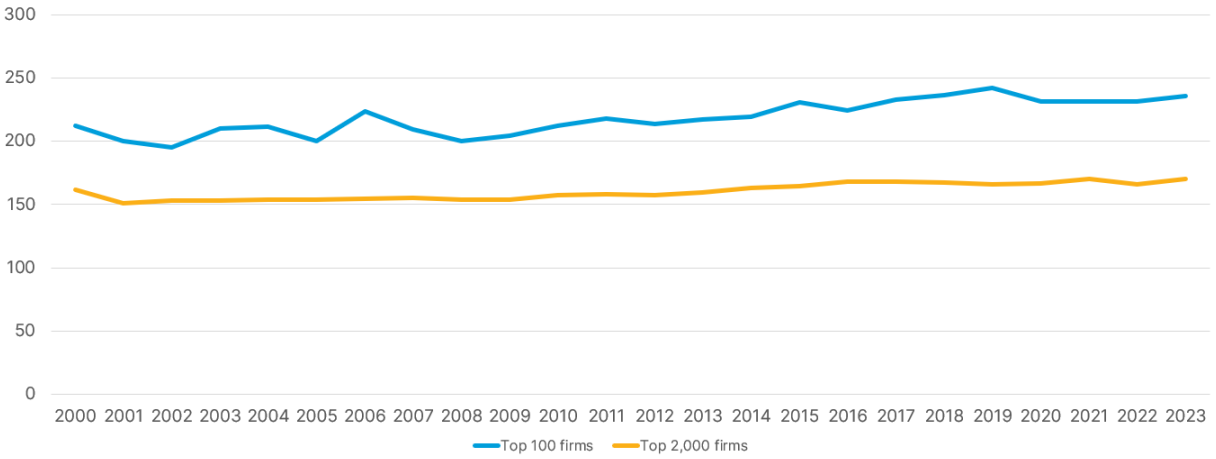
Median profits of top 100 and top 2,000 firms
(Percentage)



Source: UNCTAD calculations based on LSEG Worldscope database.
Note: Profits refer to net income relative to net sales. The top 100 and 2,000 firms categories are based on the size of MNE market capitalizations in 2022.

The rise of markups has been a key determinant behind the increased profits over the years. Based on De Loecker et al. (2020) definition of markups – i.e. net sales relative to the cost of goods sold – figure 6 shows that (the median) markups have been gradually increasing since 2000. More precisely, since the early 2000s there has been a steady increase among the top firms. For the top 2,000 firms, the median markup charged over the sum of all direct costs associated with making a product increased from about 50 per cent in early 2000s to about 70 per cent in early 2020s. For the top 100 firms, the levels and the increase had been even higher as such figures raised from slightly more than 100 per cent in early 2000s to more than 130 per cent two decades later.

Figure 6 Large multinational enterprises have raised markups over the years
Median markups of top 100 and top 2,000 firms
(Percentage)



Source: UNCTAD calculations based on LSEG Worldscope database.
Note: Markups refer to net sales relative to the cost of goods sold.

Larger markups and thus profits can, in theory, foster investment if the increased internal funding is reinvested by companies into their own growth. Such reinvestment can stimulate economic activity and increased productivity. However, data shows that investment – proxied by capital expenditure relative to net sales – by top 2,000 firms has been on a long-term declining trend since 2000, while for the top 100 firms it has remained mostly flat (figure 7).

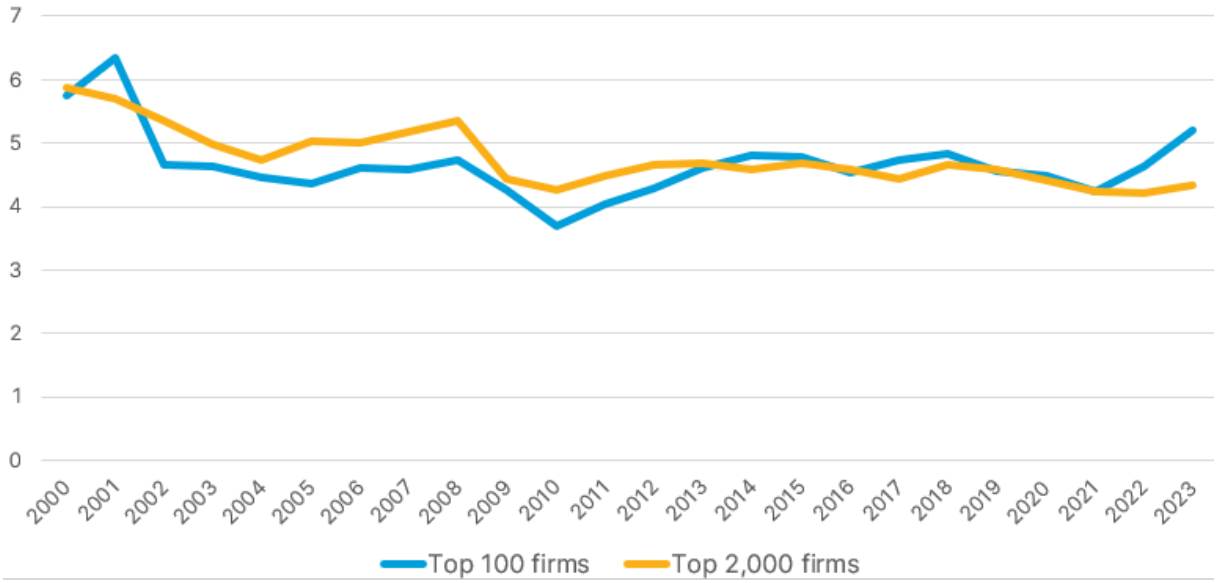
These asymmetries partly reflect transformations in the corporate sector responding to greater international competition, mostly in developed countries. Since the early 2000s, companies have given less attention to upgrading production technology and the product composition of output through productivity-enhancing investment. Rather, corporations have relied on offshoring production activities to low-wage locations, on seeking to reduce domestic unit labour costs by wage compression, and engaging in regulatory and accounting arbitrage, often linked to tax-motivated illicit financials flows (IFFs). These trends have been associated with polarization of incomes in both developed and developing countries (e.g., TDR, 2012; 2016; 2017 and 2018).

The deepening asymmetries between profits and the labour share globally require systemic international responses.

The policy implications of the deepening asymmetries between profits and the labour share are complex and require systemic responses at the international level. Both in the advanced and in developing economies, the regime of corporate governance prioritizing shareholder value maximization encourages companies to purse profit growth through financial investments, operations in the financial markets and corporate arbitrage (TDR, 2023). In this context, while reducing profits of top MNEs may well affect market valuation of these companies, it is unlikely to entail any detrimental effects on economic growth, nationally or globally.

Figure 7 Capital investment has not moved on a par with higher profits and markups, on the contrary

Median capital expenditure relative to net sales of top 100 and top 2,000 firms
(Percentage)



Source: UNCTAD calculations based on LSEG Worldscope database.

Figure 8 presents the geographical distribution of the location of top MNE headquarters. The vast majority of top MNEs remain headquartered in advanced economies, with North America capturing the highest percentage of such firms. An important example of this asymmetry is the allocation of taxing rights between firms' home and host countries currently based on MNE sales in each country: in the existing global tax architecture, headquarter countries get the first right to top up the tax on undertaxed profits, which would see G7 countries receiving more than 60 per cent of additional revenues (Cobham, 2021).

Empirical literature on corporate profiteering and market markups suggests that growing income inequality, together with increasing profits from top MNEs, relate to increasing concentrations of market power, mostly in the advanced countries. This raises concerns about rent-seeking and real economic footprint of corporate investment.[9] While the geography of corporate headquarters does not fully capture the entire network of MNEs activities and their complex ownership structures, it does give a sense of the position of their control centres in the system of the international division of labour.

Several landmark studies suggest the direction of further research. TDR (2017) and Baker (2018) examine the relationship between growing intangible barriers to competition and the critical role of control of intellectual property, and inequality.[10] A growing volume of academic and policy research points to the role of growing markups and corporate power have played in heightening inflationary pressures since 2020. In the context of continuing tensions in international markets, dislocation risks and ongoing concentration of value chains, the phenomenon of "sellers' inflation" is likely to have consequences for income distribution in the developing countries, in particular

[9] TDR (2017) and Baker (2018) discuss the issue of growing intangible barriers to competition and the critical role of control of intellectual property have had on inequality. For further discussion on the abuse of quasi-monopoly power, see Balanced Economy Project et al. (2024).
[10] For further discussion on the abuse of quasi-monopoly power, see Balanced Economy Project et al. (2024).

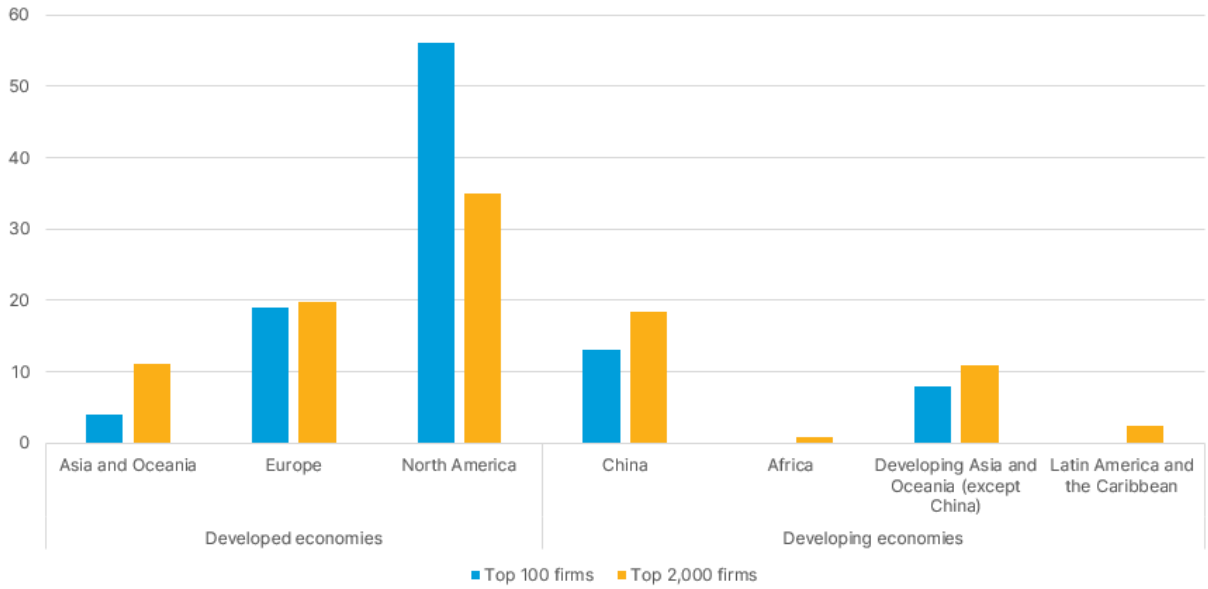
(see e.g. Acharya V et al. 2023; Jung and Haynes 2023; Weber and Wasner, 2023; TDR, 2023: 19–25 for further discussion).

Figure 8

The large majority of top multinational enterprises remain located in developed countries

Headquarter locations of top 100 and top 2,000 firms in 2022, selected country and geographical regions

(Percentage)



Source: UNCTAD calculations based on LSEG Worldscope database.

Answers and policy responses to these problems require a much more granular approach to sectoral composition of corporate profits, as well as greater data availability and transparency, especially in the developing economies. At present, however, there is a vast knowledge gap on the question of what explains the differences between sectors in terms of levels of profits and their evolution. This data and knowledge gap is particularly pertinent for understanding distribution dynamics in the developing commodity-exporting countries, discussed in the next subsection.

Vast knowledge gap remains on the question of what explains the differences between sectors in terms of levels of profits and their evolution.

2. Financialization and the Effects of Commodity Cycles

Inequality has often been linked to premature deindustrialization and stronger dependence on extractive industries. While some developing countries have overcome two "lost decades" of development and enhanced their role as global actors since the early 1990s, in many other countries where the strategic role of the State in shaping industrial policy and governing financial liberalization has not been sustained, economic resilience had been progressively weakened. Eighteen out of 27 surveyed developing economies experienced increases in the shares of

extractive industries in export value added; some registering increases of more than 10 percentage points.[11]

The subject of commodity dependence has garnered particular interest recently, as the increased volatility in commodity prices has exacerbated the pressures associated with commodity dependence. The frequent and increasingly violent gyrations in international commodity prices not only have a direct impact on export revenues, but also on fiscal revenues, foreign direct investment (FDI) and exchange rates, generating macroeconomic instability which often impedes long-term planning and investments towards achieving sustainable growth and development (UNCTAD, 2018a).

The relationship between commodity dependence and income inequality, however, is not straightforward. While the literature has identified several potential links between these two, no clear link that is robust across countries and commodity groups has been established (Davis, 2020; Sebri and Dachraoui, 2021).[12] This ambiguity corresponds to the specificities of commodity sectors across countries, including the predominant commodity product or grouping (agricultural, mineral, energy), the structure of the principal companies operating in the sector (State-owned enterprises, private domestic companies, large transnational corporations), and, crucially (and not unrelated to the first two factors), the manner in which rents from the sector are ultimately distributed, with a particularly important role for the fiscal regimes in place.

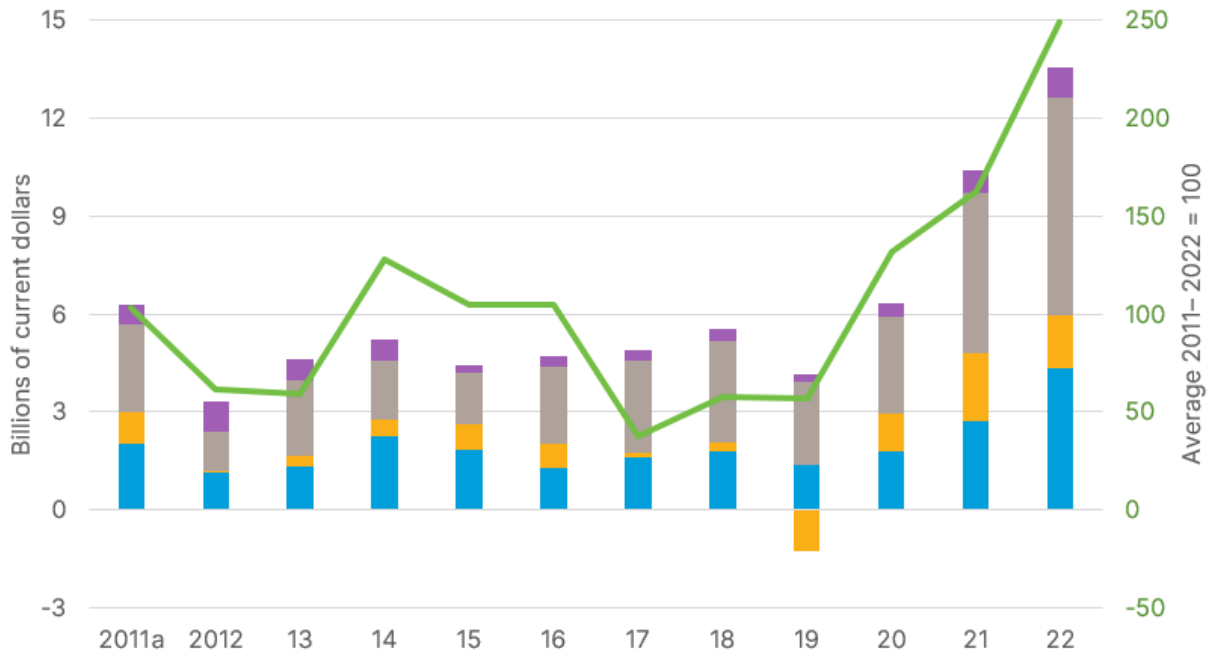
Left to themselves, commodity industries tend to concentrate rents towards a limited number of beneficiaries, leading to heightened inequality. The extractive commodity industries — i.e. mining and energy — are extremely capital-intensive activities and the rents are inevitably concentrated in the hands of the owners of capital. In the case of agricultural commodity sectors, although these activities are labour-intensive, the majority of producers in developing countries are often small-scale and only participate in the lower value-added segments of international food chains where they retain a very small fraction of the value-added of their produce. Coffee producers, for example, were found to retain as little as 3 per cent of the final price (UNCTAD, 2018b).

During the recent years of market turbulence, profits of commodity trading giants have soared, in many cases boosted by financial speculation (TDR, 2023). Figure 9 presents the relationship between the (net) profits of the "ABCD" companies and food price volatility during the last decade.

A recent estimate by Oxfam shows that 18 food and beverage corporations made on average $14 billion a year in windfall profits in 2021 and 2022, enough to cover the $6.4 billion funding gap needed to deliver life-saving food assistance in East Africa several times over (Oxfam, 2023). Similarly, smallholder agricultural producers face the combined challenges of high cost and limited accessibility of inputs, inadequate access to capital, growing requirements in terms of standards (safety and quality, environmental) from importing countries, as well as increasing weather variability with limited adaptation tools (UNCTAD, 2024).

[11] TDR (2018): Chapter II.
[12] In fact, studies on this topic stand out for their surprising heterogeneity in both the magnitude and direction of the effect of commodity dependence on income inequality (Ross, 2007).

Figure 9 Profits of ABCD food companies surging during periods of food price volatility
Profits of selected large agricultural trading firms and food price volatility



Source: UNCTAD calculations based on FAO Real Food Price Index, Blas and Farchy (2021: Appendix ii), Eikon Refinitiv, and Louis Dreyfus Commodities' Financial Results Reports (various issues).
Notes: The underlying indicator for volatility corresponds to the yearly average of the monthly standard deviations of the FAO Real Food Price Index divided by the average of such figure for the 2011–2022 period. A value of 200 means, for instance, that this particular year, the average of the monthly standard deviations was twice as large as the average of the monthly standard deviations for the 2011-2022 period.
a: Cargill's 2011 profits do not include the sale of its stake in the fertilizer group Mosaic that year.

Financialization, understood both as greater tradability of underlying assets in the financial markets, and the predominance of financial profits over revenues from core business activities, accounts for much of the growth of the asymmetries. The negative impacts of financialization on economic stability and income distribution have been documented in pre-pandemic analyses (Bonizzi 2013; dos Santos 2013; Kaltenbrunner and Painceira, 2015).

Empirical studies of the financialization of commodities add further nuance. For instance, Ghana's dependency on cocoa for foreign exchange earnings has necessitated upgrading into higher value-added segments, while also undermining feasible upgrading strategies that build on domestic or regional markets first. These contradicting tendencies associated with financialization constitute 'a middle value-added trap' (van Huellen and Abubakar, 2021). Recent research on the exposure to crises (Sharma, 2022) finds that effects of the financialization of commodities became more pronounced during COVID-19 as compared to the 2008–2009 period.

The risks of heightened exposure to the effects of financialization in commodity exporting countries underscore the importance of sectoral composition and diversification as a basis of resilience, structural transformation and sustainable growth. Figure 10 below presents the dynamics of sector profits since 2012 for selected countries in three key groups of industries: commodities (energy, mining and agriculture), FIRE (finance, insurance and real estate), and the rest of the economy (non-commodities). It shows that, in countries that have experienced deindustrialization, e.g., Argentina, Brazil and Chile (Castillo and Neto, 2016), the evolution of

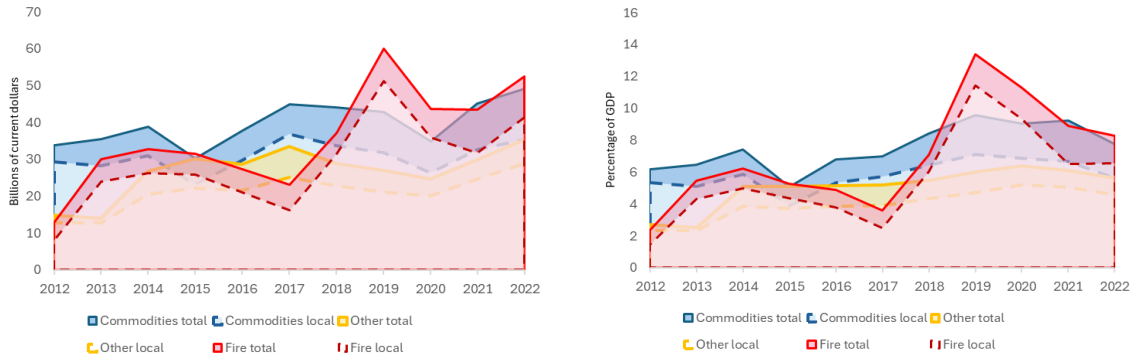
revenues in the core commodity sectors has become tightly interlinked with the expansion of the FIRE sector (Argentina, Brazil and Chile). In contrast, in countries where economic diversification is more advanced, the position and revenue trends in the FIRE sector is more balanced in the overall structure of the economy (India, Indonesia and Viet Nam).

An in-depth examination of the political economy of this relationship is beyond the scope of this report. Yet it is apparent that in the age of overlapping crises, (1) the effects of the global commodity cycle can be reinforced through the financial sector that is intertwined with the growth of commodities revenues, and that (2) the expansion of the FIRE sector needs to be considered in commodity-exporting economies when devising national industrial policies. Safeguarding economic resilience and equity, in turn, requires coordination of the policies of redistribution, diversification and financial regulation, including by greater effort to trace and monitor the economic footprint of MNEs and share relevant data at the international level.

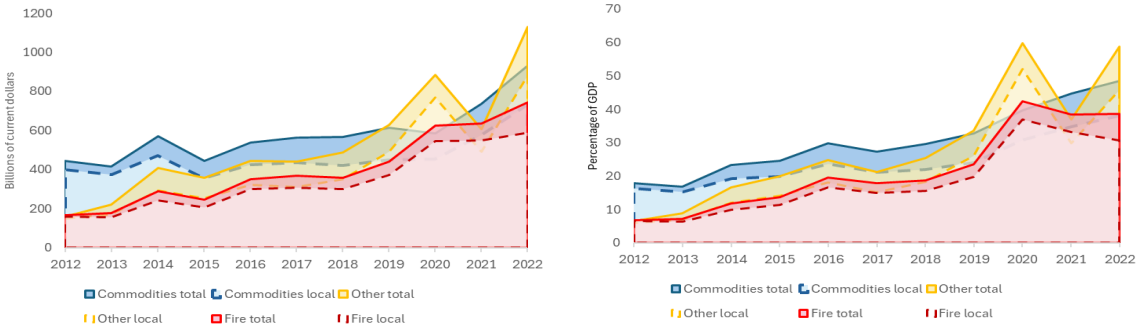
In the age of compound crises, safeguarding economic resilience requires policy coordination, including through tracing and monitoring the economic footprint of multinational enterprises and sharing relevant data at the international level.

Figure 10 Evolution of major sector revenues in selected developing countries
Total revenue by industry group for selected countries, 2012–2022
(Billions of current dollars)

Argentina



Brazil



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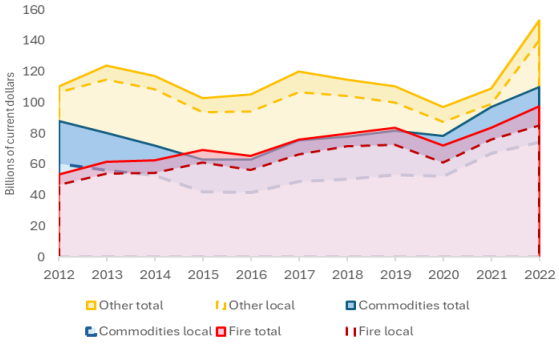

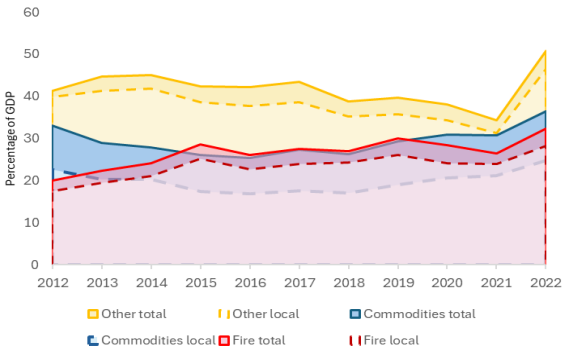

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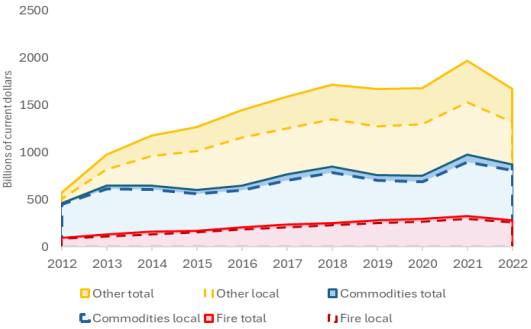

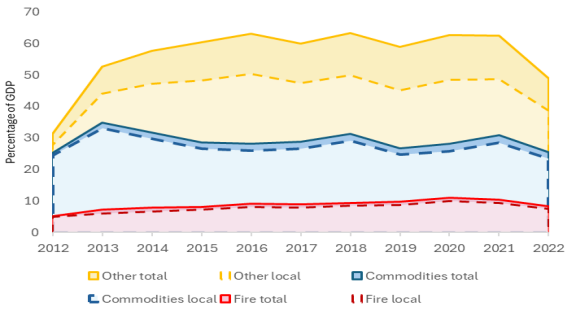

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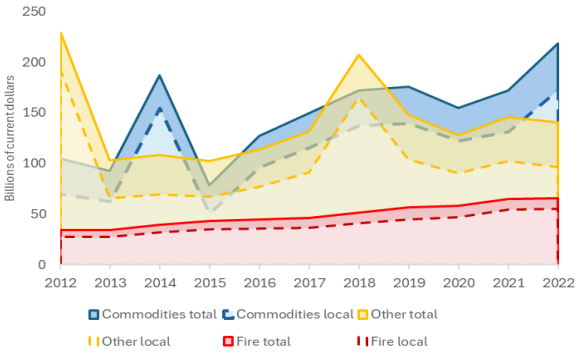

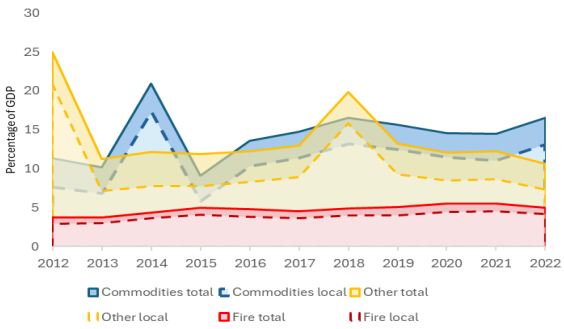

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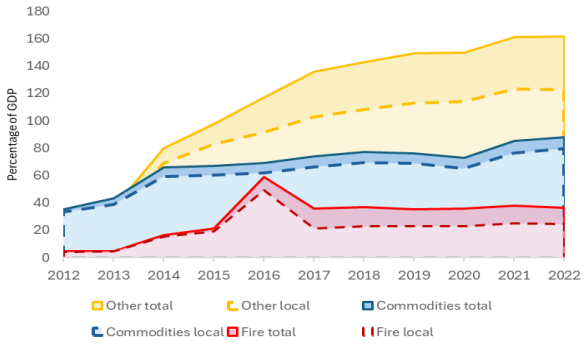

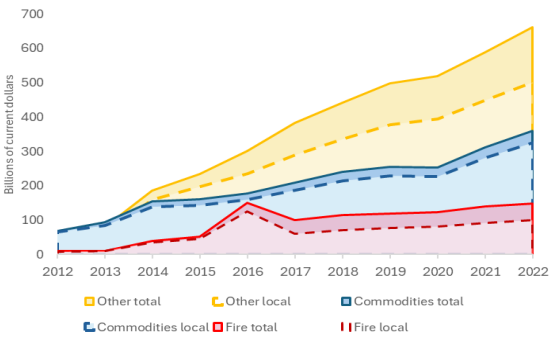

Source: UNCTAD calculations based on Orbis company filings.
Notes: In Orbis, firm level classification via the "NACE2_CORE_CODE" field was used to delineate "commodity sector" firms from "FIRE", and "rest of economy" subgroups. Sector groups are aggregated based on financial reports by companies classifying their activities in the relevant sector. Dataset includes revenues reported by state-owned enterprises (SOEs), publicly listed and privately held corporations, including at the subsidiary level.

3. Implications for Policy

There are at least three major levels at which the effects of growing power of MNEs in commodities, generally, and of the financial actors specifically, matter for distribution dynamics: (a) exposure to excess price volatility in commodities; (b) capacity for revenue mobilization; and (c) regulatory capture and lack of accountability among top firms.

(a) Exposure to excess price volatility in commodities

Empirical studies on the effect of commodity dependence on inequality have been largely inconclusive. This is because the impact on inequality critically depends on the fiscal arrangements in place to redistribute rents from the commodity sector. At the same time, studies examining the impact of volatility in commodity prices on inequality in commodity-dependent countries have established a clear and robust relationship: higher commodity price volatility increases inequality (Van der Ploeg and Poelhekke, 2009; Goderis and Malone, 2011; Kim et al., 2020). This result demonstrates that not only does volatility in commodity prices exacerbate the already pernicious impact of commodity dependence on long-term growth and development, but it also has a particularly detrimental effect on inequality which is often not entirely mitigated by the fiscal or other redistributive mechanisms in place. In this context, it is crucial to address the factors behind the heightened volatility around commodity prices.

Chief among these factors is the increased financialization of commodity markets and the pricing behaviour of large commodity traders, which have played a pivotal and growing role in exacerbating price and market volatility (TDR, 2023). The increasing co-movement of extremely diverse commodity prices is evidence of the prevalence of financialization in determining price dynamics and in distorting prices from fundamental factors (Von Arnim et al., 2018; Ederer et al., 2016). As such, there is a burgeoning need for greater policy action, including greater transparency and improved regulation of the commodity trading industry to reign in the impact of financial actors on these markets and the resulting excessive volatility in prices as well as reigning in risks of financial instability in the shadow financial sector (TDR, 2023).

(b) Capacity for revenue mobilization

Aggressive tax optimization practices have been eroding public revenues by several hundreds of billions of dollars per year for decades.[13] Despite various initiatives to curb tax avoidance by MNEs – notably the launch in 2013 of the Base Erosion and Profit Shifting (BEPS) project by the G20 and OECD – recent academic research suggests that such attempts have so far made, at best, only a small dent in these harmful practices (e.g. Wier and Zucman, 2022). Corporate arbitrage, complexity of the system of rules, built-in carve outs for extractive industries and financial services as well as allocation of taxing rights between countries are some of the main factors that have impeded comprehensive international agreement (TDR 2021). To be effective, current efforts to enhance capacity for revenue mobilization, especially in the developing countries where fiscal space is severely constrained should therefore be complemented by the reforms at the global level of tax and debt architecture.

[13] Estimates on the magnitude of the public revenue loss resulting from these practices is a daunting task, and a broad range of estimates exist between studies, often because of different concepts and methods. For instance, Garcia-Bernardo and Janský (2023) find that MNEs shifted over $850 billion in profits to tax havens in 2017, which in turn implies $200–300 billion in revenue losses for other countries (see also their table A13 for a recent survey of the findings of the literature on this topic). OECD estimates that BEPS practices cost countries $100–240 billion in lost revenue annually (https://www.oecd.org/tax/beps/about/#mission-impact).

(c) Regulatory capture and lack of accountability among top firms

In the commodity sector, albeit in other sectors as well, the opacity and complexity of ownership enables corporations to avoid transparency and regulation, including on issues of social and environmental accountability (see e.g. Carroll, 2012; Carroll and Sapinski, 2016; Eeckhout, 2021). Related to this, the economic dominance of large MNEs often also translates into rulemaking at all levels and creates problems of political and regulatory capture. Following Adam Smith's analysis that "wealth is power", Zingales (2017) refers to this phenomenon as the "Medici vicious circle", where money is used to get political power and political power is used to make money. Thus, an increasingly unequal distribution of wealth is likely to skew political power, and with it, policy design in favour of those at the top of the income ladder (TDR 2017 and 2018).

Given the growing role of services in international trade, and potential reorientation of growth strategies away from traditional manufacturing and into services, balancing the expansion of commodity and finance-related industries is a major policy challenge. Governments have a critical role in ensuring that commodity rents and revenues from related finance-sector industries are more equitably distributed to benefit the population at large.

To fulfil this role, Governments must ensure that they are able to collect an adequate proportion of these rents and subsequently realize effective and inclusive redistributive policies. This is particularly the case when a commodity industry is dominated by large MNEs, who very often enjoy preferential tax arrangements, and also tend to repatriate profits to their home countries as opposed to reinvesting them in the host country (TDR, 2014). When Governments have the necessary frameworks and mechanisms in place, increases in commodity rents can, in fact, produce lower income inequality by way of the increased capacity of Governments to redistribute public revenues and improve the relative position of the more vulnerable segments of the population.

Regarding the fiscal framework, the prevailing tax and regulatory incentives extended to companies operating in the commodity sector are particularly relevant. Crucially, to attract FDI to build up and develop capacities in commodities sectors, many developing countries over the past three decades have introduced schemes to provide tax incentives to international firms investing in the sector. These incentives have taken the form of reduced tax rates (royalties or corporate tax rates) or tax holidays, accelerated depreciation periods, or capital cost allowances that allow them to recover capital costs during the first years of production or carry forward losses. Similarly, some firms have been extended the option of consolidating revenues and losses of different investment projects, while other incentives have included lower corporate taxes for reinvested earnings, tax-free remittance of profits to home countries and exemptions on fuel and import duties. In addition, transnational corporations may have also benefitted from exemptions from capital gains taxes (TDR, 2014).

Such tax incentives have been widely questioned on the grounds that their costs in terms of foregone public revenues may often outweigh the benefits for the domestic economy (TDR, 2014). Where this proves to be the case, Governments have different measures at their disposal to correct the situation. These may take various forms, including revision of contracts that may lead to their renegotiation or cancellation, increases in tax or royalty rates or the introduction of new taxes. In fact, a recent frequently used tool to redress an unequal distribution of commodity

rents, primarily in developed countries, has been the introduction of windfall taxes on the profits of companies operating in the energy sector.[14]

For such fiscal measures to be effective in enabling Governments to receive an adequate proportion of commodity rents, they must be able to effectively enforce them by avoiding losses due to aggressive tax planning and accounting practices (such as transfer mispricing and thin capitalization[15]). Another important aspect in this regard is that of jurisdiction for the settlement of disputes between foreign investors and the Government. Under bilateral investment agreements, investors can submit tax disputes to international arbitration. Multinational corporations can also file cases at international arbitration centres when Governments review their tax regimes or renegotiate contracts on the grounds of breaches of stability clauses.

It is also important to look at Government's obligations under international trade and investment treaties and agreements, specific clauses of which often restrict the ability of Governments to take appropriate actions to redress the excessively skewed distribution of commodity rents to particular groups or entities. For example, provisions in international trade and investment agreements which limit national policy space by prohibiting taxation of commodity exports, the introduction of performance requirements for commodity investors, or the application of safeguard measures against commodity price shocks should be clearly avoided. Such obligations and the threat of legal retribution through the existing investment dispute mechanisms acts as a severe curb on Governments' capacity to ensure that an adequate share of commodity rents is channelled towards the country's development objectives.

[14] The German Government introduced a special levy, known as the "EU energy crisis contribution", that takes 33 per cent of windfall profits made by oil, coal and gas companies based on profits for 2022 and 2023 that exceeded the average from 2018 to 2021 by 20 per cent or more. Similarly, The British Government adopted a windfall tax on oil and gas producers, known as the Energy Profits Levy, which raised rates from 25 to 35 per cent.

[15] Transfer mispricing refers to the manipulation of profit reporting by way of inflating costs and undervaluing prices in the intra-firm operations of a multinational corporation, thus shifting profits away from the country where they are generated to a lower tax jurisdiction. Similarly, thin capitalization refers to the practice of realizing excessive debt funding of a subsidiary company in a producing country as a disguised way of transferring profits to headquarters (TDR, 2014).

D. Pathway to a new international compact

That increased trade flows have not always been accompanied by considerable progress in terms of development outcomes is a longstanding concern of UNCTAD since its creation in 1964. As the organization celebrates its 60th anniversary, this UNCTAD report reaffirms its continuing call for a new international compact.

Two existing international agreements can provide the markers for pathway to reform international trade and the architecture that sustains it. These are the Havana Charter of 1948 and the United Nations Conference on Restrictive Business Practices, and its approved Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices (The UN Set) of 1980.

The Havana Charter recognized the links between labour-market conditions, inequality and trade, calling for improvements in wages and working conditions in line with productivity changes. It sought to prevent "business practices affecting international trade which restrain competition, limit access to markets or foster monopolistic control" (chap. V, art. 46.1) devoting an entire chapter to outline proposals to address the problem of restrictive business practices.

As the attention of regulators in major economies turns to the problem of market control and corporate concentration across major sectors, a framework of norms agreed under the UN can serve as a platform for policy coordination and cooperation.

The UN Set addresses ways to attain greater efficiency in international trade and development, particularly that of developing countries, notably through the control of the concentration of capital and/or economic power. To this end, one of the objectives of the UN Set aims "to eliminate the disadvantages to trade and development which may result from the restrictive business practices of transnational corporations or other enterprises, and thus help to maximize benefits to international trade and particularly the trade and development of developing countries".[16]

Altogether, these two documents provide some important pointers. UNCTAD calls G20 members to re-explore these seminal agreements, while updating them to the twenty-first-century challenges. In addition to the overarching objectives of such reform, the G20 could also consider the following policy actions in key interrelated areas.

1. Supporting the United Nations Framework Convention on International Tax Cooperation

In the area of international taxation, which is central for addressing economic justice and inequality concerns, UNCTAD calls G20 members to fully engage in the current work of the Ad Hoc Committee that resulted from the General Assembly resolution 78/230 adopted on 22 December 2023 – "Promotion of inclusive and effective international tax cooperation at the

[16] In the current juncture, a significant part of the activities carried out under the UN Set umbrella focuses on competition and consumer protection policies at the national level. While this is necessary, it is far from being sufficient because at a time of giant cross-border mergers, as well as those occurring between large firms within advanced countries, the risk exists that such change could adversely affect competition and contestability in developing countries and the world economy. In other words, even with national competition policies, developing countries may not be able to restrain anticompetitive behaviours by large multinationals. Hence, levelling up these concerns to the regional and global level could be a significant step forwards. Also, setting a more explicit distributional objective in the design of competition policy is an area to explore.

United Nations" – which aims at bringing the world one step closer to adequate international tax and economic justice by drafting the terms of reference for a United Nations Framework Convention on International Tax Cooperation.

Much like the international community managed to rapidly negotiate and set up the UN Convention against Corruption in 2002-2003 and inspired by the model governing climate – United Nations Framework Convention on Climate Change (UNFCCC) and IPCC – the G20 members could support a rapid move forward for such Framework Convention and consider setting up a lean Convention, which would then be complemented by protocols dedicated to specific international tax instruments with high potential for revenue collection (Picciotto, 2024). Some of the protocols can extend on revenue sources and tax instruments that have been discussed for a long time in development finance circles, such as a tax on international aviation and freight or on international financial transactions (Landau, 2004). Protocols could also aim at raising the ambition of the BEPS project or tackle emerging challenges, such as excess profit (Heck et al., 2023) and extreme wealth accumulation (Piketty, 2014; Alstadsæter et al., 2024).

2. Tackling concentration of economic power and control at national and international levels

There is a growing need to ensure greater coordination and greater coherence between various types of policies, including competition, trade, industrial, data protection, digital, labour, consumer protection and tax, as well as more stringent enforcement to tackle concentration of economic power and control at national and international levels.[17] Closing data gaps and innovating more granular methodologies on sectoral composition of corporate profits, especially in the developing economies, should be a priority nationally and internationally.

Closing data gaps and innovating more granular methodologies on sectoral composition of corporate profits, especially in the developing economies, should be a priority nationally and internationally.

In this context, *creating a global antitrust and competition observatory* could facilitate the task of systematic information gathering and exchange on the large variety of existing regulatory frameworks. This could be a first step towards a comprehensive monitoring of global market concentration trends and patterns, identifying the economic footprint of large MNEs, as well as towards the establishment of coordinated international best practice guidelines and policies.

Systematic information exchange on the existing regulatory frameworks can be a step towards a comprehensive monitoring of global market concentration trends, identifying the economic footprint of large MNEs and coordinating international best practice guidelines and policies.

3. Safeguarding public policy space

Many restrictive investment and intellectual property policies enshrined in thousands of bilateral and regional trade and investment agreements significantly limit public policy space. Therefore, there is a need to revisit such agreements to overhaul

[17] The Open Markets Institute and several civil society partners active primarily in the European Union, albeit not only, have recently come up with a list of six priorities and 18 recommendations. While geared towards the European Union, several of these proposals could serve as a basis for similar initiatives in other regions and at the global level (Open Markets Institute, 2024).

the current international trade and investment regime.[18] This should begin with rethinking the narrow purpose of protecting foreign investors in favour of a more balanced approach that takes the interests of all stakeholders on board and recognizes the right to regulate at the national level. The international investment dispute settlement and arbitration system also needs to be fixed, and if necessary, replaced by a more centralized system with proper appeal procedures and grounding in international law. An *Advisory Centre on International Investment Law c*ould help developing countries' Governments navigate disputes with multinational corporations on more egalitarian terms.

4. Increasing financing for development and phasing down fossil fuel finance

There is a need to boost industrial policies through capitalization of multilateral and regional banks, in line with the UN SDG Stimulus package, and additional issuance or recycling of special drawing rights, especially through the multilateral development banks. In this regard, UNCTAD calls on G20 countries whose policy space is less constrained, to lead the way. This would also contribute to providing the $2 trillion a year for the next decade, needed for the conversion of global energy systems. The adoption of such a policy package would provide a strong signal that the G20 is committed to tackling inequalities as the Group continues to reform today's imperfect international economic and financial system.

[18] Gallagher et al. (2019) notes that most of the trade and investment treaties leave ample space to regulate capital flows. However, these authors also find that such treaties tend to be older and/or among and between developing countries. More specifically, South-South treaties tend to have the most policy space, whereas North-South and North-North treaties have less. Over time, trade and investment treaties have become more and more stringent and, when weighted by their coverage of the world economy and capital flows, the most stringent treaties effectively governed more than 68 per cent of the world economy and 76 per cent of FDI flows by 2019.

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