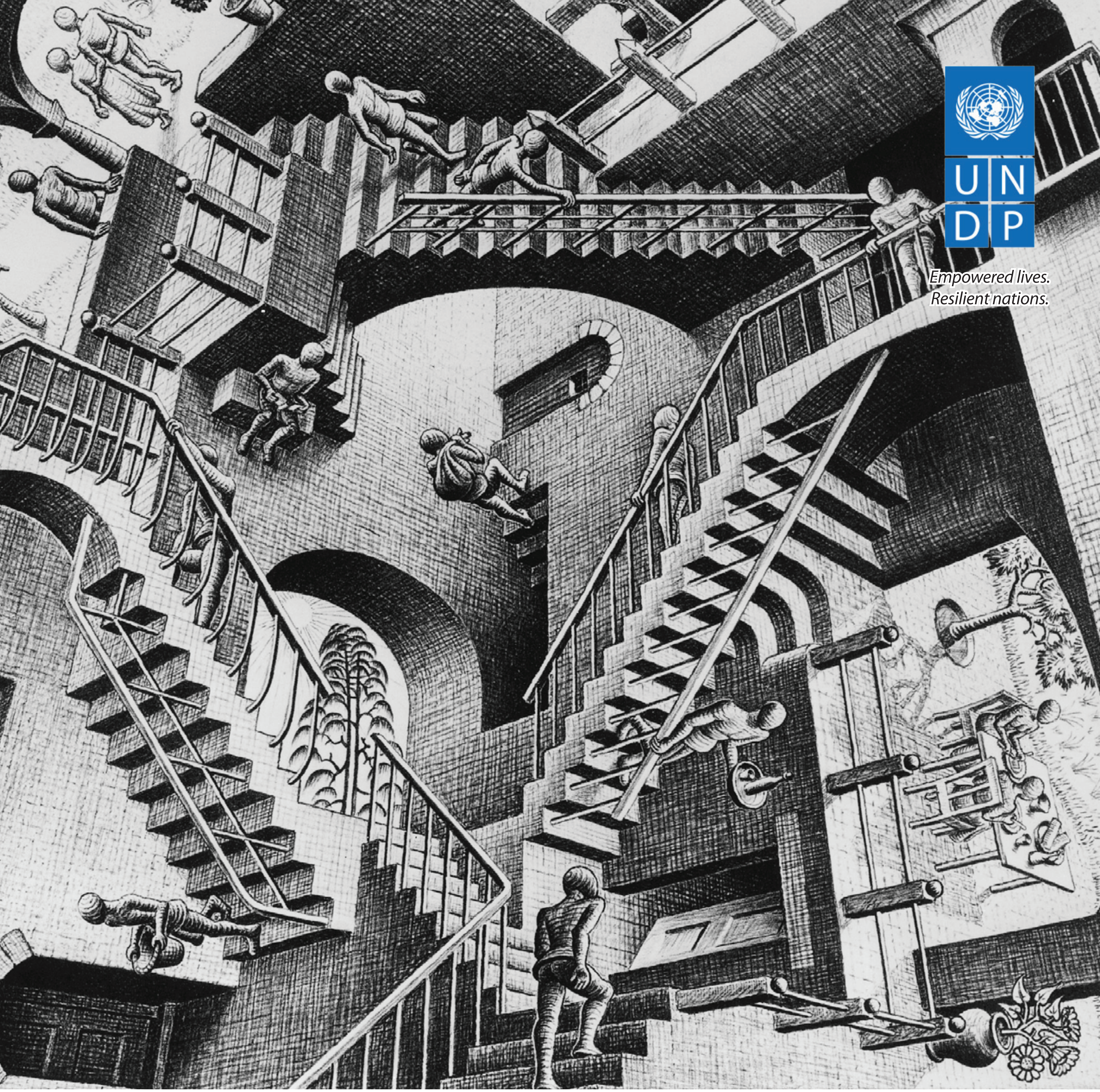

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United Nations Development Programme

POVERTY REDUCTION

HUMANITY DIVIDED:

CONFRONTING INEQUALITY IN DEVELOPING COUNTRIES

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NOVEMBER 2013

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FOREWORD

Great and persistent inequality in the midst of plenty is a paradox of our times. Over the last few decades, innovation has exploded from our increasingly digital age, poverty-rates have declined in every region of the world, and emerging market countries have experienced unprecedented growth. Global income inequality stands at very high levels, whereby the richest eight percent of the world's population earn half of the world's total income, while the remaining 92 percent of people are left with the other half.[1] Such gaps have left many on the precipice of steep decline. With insecure livelihoods, volatile markets, and unreliable services, many people feel increasingly threatened by the prospect of falling under poverty lines and into poverty traps; as many in fact have.

Within many countries, wealth and income inequalities have reached new heights, handicapping efforts to realize development outcomes and expand the opportunities and abilities of people. Soaring inequalities distort budgets and political processes, leaving them ever more attuned to entrenched elites. This makes it more difficult for citizens to have a say in the decisions which impact on them and to be able to live lives they value. Reminders of the sharp differences in wealth, education, and other material resources influence the way in which people view themselves and others, and can make the equal participation of citizens in political and public life almost impossible.

Not surprisingly, people the world over are demanding a change in direction. Through social movements and in protests in both the Global North and South, people are calling for better services, greater opportunity, dignity, and respect. They want responsive government and an end to the discrimination which aggravates and compounds inequalities, often placing women, ethnic minorities, indigenous peoples, people with disabilities, gay, lesbian, bisexual, and transgender people, those living rural or remote communities, and others who are marginalized, at a further disadvantage.

Aside from the ethical imperative of tackling high, and in some cases extreme, levels of inequality, there are also practical reasons why countries may decide that the gaps are no longer tolerable. Growing inequality is detrimental to economic growth, and in particular to the kind which reduces poverty and enables social mobility. Inequalities undermine social cohesion; they can increase political and social tensions, and, in some circumstances, they can drive instability and conflict. The resulting risk-levels and systemic vulnerability dissuades prospective investors and does not make good economic sense.

To address inequality, countries need to generate inclusive growth. This means sharing the benefits of economic growth more equitably, in particular to increase the capabilities, opportunities, and incomes of households and groups which are consistently on the margins of economic, social and political life. To close gaps in well-being, integrated development approaches are needed. Governments must be open, responsive, and capable of meeting the needs of citizens. This means strengthening the capacity of governments to work with stakeholders, including their private sector and civil society partners, to take effective and targeted action to generate inclusive and green growth, create decent jobs, and improve the services available to poor and vulnerable communities. Specific actions must also be taken to stem the prejudices which underpin discrimination and perpetuate social exclusion.

A number of countries have managed to reduce gaps in human well-being significantly, effectively raising the social floor and defining what it means to live with dignity. They have proved that with inclusive growth,

1 Milanovic, B. (2012). "Global Income Inequality by the Numbers: in History and Now", World Bank Research Paper, Nov.

resolute leadership, and citizen action, sufficient political space can be generated to overcome resistance from entrenched interests and remove structural constraints to change. In all cases, honest and informed dialogue helped open this space. This Report is intended to help development actors, citizens, and policy makers contribute to global dialogues and initiate conversations in their own countries about the causes and extent of inequalities, their impact, and the ways in which they can be reduced. It is only through the action and voices of many that we will be able to curb one of the greatest moral and practical challenges of our times: the quest for equality, shared prosperity, and human well-being.

Helen Clark
UNDP Administrator
United Nations Development Programme

ACKNOWLEDGEMENTS

This Report has been prepared by the Poverty Practice in the Bureau for Development Policy, UNDP, under the overall guidance of Selim Jahan, Director of the Practice. The insights and support received from Magdy Martinez-Soliman, Director *ad interim* of the Bureau for Development Policy, are thankfully acknowledged.

Anuradha Seth, Team Leader of Inclusive Green Growth in the Poverty Practice, Bureau for Development Policy, UNDP provided the intellectual and managerial leadership for the Report. The principal members of the team were Almudena Fernandez, Amr Ragab, Emanuele Sapienza, Tiffany Moore, Serwah Asante, Claudia Vinay, Shams Banihani, Eliane D'Pierre and Tami Aritomi, all of whom belong to the Poverty Practice, Bureau for Development Policy, UNDP. Their intellectual insights, analytical contributions, operational support and consistent engagement with the Report were invaluable and are gratefully acknowledged.

Many experts and development practitioners have contributed to the substantive shaping of the Report. Initial conversations with Ravi Kanbur (Cornell University, Ithaca), Diane Elson (University of Essex, Essex) and Nora Lustig (Tulane University, New Orleans) helped to identify the key issues in current debates on inequality and development. Their insights and advice are duly acknowledged. The conceptual and policy approach to inequality as well as the analysis and findings of the Report were the result of background papers and intensive and lengthy discussions with the core team of authors: Stephanie Seguino (University of Vermont, Vermont), Andy Sumner (King's College, London), Rolph van der Hoeven (Institute of Social Studies, The Hague), and Binayak Sen (Bangladesh Institute of Development Studies, Dhaka) in collaboration with Mansur Ahmed (Graduate Student at North Carolina State University, Raleigh).

Public opinion research company IPSOS, was contracted by UNDP to carry out the survey of policy makers' views of inequality described in Chapter 6. The support of UNDP Country Offices in Bangladesh, Bolivia, Bosnia and Herzegovina, Brazil, Cameroon, India, Jamaica, Jordan, Kazakhstan, Lebanon, Malawi, Morocco, Nigeria, the Philippines and South Africa, and the participation of 363 policy makers who accepted to be interviewed for the study is gratefully acknowledged.

Lance W. Garmer was the editor and S. Alex Majumder served as the designer of the Report. Their superb attention to detail brought the publication to print. Finally, comments received by the peer reviewers — Sakiko-Fukuda-Parr (The New School, New York), Richard Morgan (Office of the Executive Director, UNICEF, New York) and George R.Gray Molina (Regional Bureau for Latin America and the Caribbean, UNDP, New York) — helped substantially to strengthen the Report.

LIST OF ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ATM	Automated teller machine
A&P	Asia and the Pacific
CCTs	Conditional cash transfers
DFID	Department for International Development
DHS	Demographic and Health Survey
ECIS	Europe and the Commonwealth of Independent States
ECLAC	Economic Commission for Latin America and the Caribbean
EU	European Union
F/M	Female-to-male
FDI	Foreign direct investment
GDP	Gross domestic product
GNI	Gross national income
IDS	Institute of Development Studies
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
M/F	Male-to-female
MDGs	Millennium Development Goals
MMR	Maternal mortality rate
MPI	Multi-dimensional Poverty Index
NREGA	National Rural Employment Guarantee Act
OECD	Organisation for Economic Co-operation and Development
OHCHR	Office of the High Commissioner for Human Rights
OPHI	Oxford Poverty and Human Development Initiative
pc	per capita
PCR	Primary completion rate
PPP	Purchasing power parity
PSC	Proportion of stunted children under 5
SER	Secondary enrolment rate
SMEs	Small and medium enterprises
SOE	State owned enterprises
TFR	Total fertility rate
U5MR	Under-5 mortality rate
UN	United Nations
UNCTAD	United Nations Conference of Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNODC	United Nation Office of Drugs and Crime
VAT	Value added tax
WCDSG	World Commission on the Social Dimension of Globalization
WDI	World Development Indicators
WHO	World Health Organization

OVERVIEW

Inequality in society is not a new phenomenon. And yet it can be fatal. If left unchecked, as demonstrated in this Report, it can undermine the very foundations of development and social and domestic peace.

Over the last decades, the world has witnessed impressive average gains against multiple indicators of material prosperity. For instance, gross domestic product (GDP) per capita in low- and middle-income countries has more than doubled in real terms since 1990. In the same period, life expectancy in developing countries has risen from 63.2 years to 68.6 years. However, this is only part of the picture. Although the world is globally richer than ever before, more than 1.2 billion people still live in extreme poverty. The richest 1 percent of the world population owns about 40 percent of the world's assets, while the bottom half owns no more than 1 percent. Despite overall declines in maternal mortality, women in rural areas are still up to three times more likely to die while giving birth than women living in urban centres. Social protection has been extended, yet persons with disabilities are up to five times more likely than average to incur catastrophic health expenditures. Women are participating more in the work force, but continue to be disproportionately represented in vulnerable employment. Humanity remains deeply divided.

Nor are recent trends very encouraging. Over the last two decades, income inequality has been growing on average within and across countries. As a result, a significant majority of the world's population lives in societies that are more unequal today than 20 years ago. Remarkably, in many parts of the world, income gaps have deepened — and, with them, the gulf in quality of life between the rich and the poor — despite the immense wealth created through impressive growth performances. In fact, the sharpest increases in income inequality have occurred in those developing countries that were especially successful in pursuing vigorous growth and managed, as a result, to graduate into higher income brackets. Economic progress in these countries has not alleviated disparities, but rather exacerbated them.

The world is more unequal today than at any point since World War II. However, there are clear signs that this situation cannot be sustained for much longer. Inequality has been jeopardizing economic growth and poverty reduction. It has been stalling progress in education, health and nutrition for large swathes of the population, thus undermining the very human capabilities necessary for achieving a good life. It has been limiting opportunities and access to economic, social and political resources. Furthermore, inequality has been driving conflict and destabilizing society. When incomes and opportunities rise for only a few, when inequalities persist over time and space and across generations, then those at the margins, who remain so consistently excluded from the gains of development, will at some point contest the 'progress' that has bypassed them. Growing deprivations in the midst of plenty and extreme differences between households are almost certain to unravel the fabric that keeps society together. This is especially problematic when we consider that, often, it is precisely those at the margins who tend to pay the biggest price for social unrest. But perhaps most important, extreme inequality contradicts the most fundamental principles of social justice, starting from the notion, enshrined in the Universal Declaration of Human Rights, that "all human beings are born free and equal in dignity and rights".

There is, however, some good news. There is nothing inevitable about high inequality. The widening of gaps in income, wealth or other dimensions of well-being is not an unavoidable price to pay for development. In fact, many countries over the last years have managed to significantly reduce income and non-income inequality through a combination of progressive economic and social policies, often accompanied by the greater participation and empowerment of those who had been left behind by the development process. Much can be learned from those experiences and applied to other contexts in which inequality continues to be a concern.

The complexity and multi-dimensionality of the drivers of inequality call for a complex and multi-dimensional response. In fact, only a genuinely holistic approach can fully address the multiple factors that cause inequality and create the conditions for a truly inclusive society.

The drivers of excessive inequality are well known. Specific aspects of globalization, such as inadequately regulated financial integration and trade liberalization processes, whose benefits have been distributed very unequally across and within countries, have played a significant role in determining the upward trend observed over the last decades. But domestic policy choices, such as interventions that weakened labour market institutions or resulted in a downsizing of public investments in critical sectors like health, education and social protection, have also played an important role. Often, various economic, social and cultural barriers hindering the political participation of various segments of the population have compounded these processes. In addition, discriminatory attitudes and policies that are marginalizing people on the basis of gender or other cultural constructs such as ethnicity or religious affiliation drive many intergroup inequalities.

The complexity and multi-dimensionality of the drivers of inequality call for a complex and multi-dimensional response. In fact, only a genuinely holistic approach can fully address the multiple factors that cause inequality and create the conditions for a truly inclusive society. Such an approach must shape growth so that market outcomes do not push households further apart, but deliver shared prosperity. But it must also address social and fiscal policy in ways that will allow governments to intervene to re-balance market outcomes through redistribution, when needed, and ensure universal access to critical services. It must strengthen democratic institutions so that there are mechanisms for broad-based participation in political and public life. And it must reverse discriminatory practices so that nobody is excluded because of who he or she is.

The world today is at a critical juncture. The financial and economic crises of recent years have pushed the international community to reconsider long-held views on economic priorities and social cohesion is much more widely recognized as a major factor contributing to resilience and sustainability. At the same time, with only two years left before the deadline for achievement of the Millennium Development Goals, the debate on the future of development and international cooperation has started. In this context, inequality has emerged as a major issue of concern — not only among development specialists, but also well beyond. A strong concern about inequality was echoed by the citizens who took part in the consultations over a Post-2015 development agenda. The policy makers who shared their views of inequality for this Report confirmed this concern. Furthermore, a host of civil society movements have explicitly and forcefully voiced this concern.

Millions of voices are asking the world's decision makers to confront rising inequalities. It is imperative that this demand be met if the ideals of a prosperous, peaceful and sustainable society are to be realized.

Key messages of the report

- **High inequality undermines development by hindering economic progress, weakening democratic life and threatening social cohesion.** High and growing inequality is not only intrinsically unfair; it also makes the achievement of widespread human well-being more difficult. This is particularly true if we adopt a multi-dimensional definition of well-being that goes beyond material aspects of life to include relational and subjective well-being. Evidence shows that, beyond a certain threshold, inequality harms growth and poverty reduction, the quality of relations in the public and political spheres of life and individuals' sense of fulfilment and self-worth.

- **During the last two decades, income inequality has significantly increased in many countries.** On average — and taking into account population size — income inequality increased by 11 percent in developing countries between 1990 and 2010. A significant majority of households in developing countries — more than 75 percent of the population — are living today in societies where income is more unequally distributed than it was in the 1990s.

- **Increases in income inequality over the last 20 years have been largely driven by broad globalization processes, but domestic policy choices have played an important role, too.** Evidence shows that increases in inequality over the last two decades were mainly on account of trade and financial globalization processes that weakened the bargaining position of relatively immobile labour vis-à-vis fully mobile capital. Trade and financial globalization were also accompanied by skill-biased technical change that further increased wage inequality by driving up wage skill premiums. Moreover, national policy choices have exacerbated the adverse effect of globalization on income distribution. Monetary policies that emphasized price stability over growth, labour market policies that weakened the bargaining position of labour vis-à-vis employers, and fiscal policies that prioritized fiscal consolidation at the expense of social expenditure and progressive taxation, all drove up income inequality.

- **There is nothing inevitable about growing income inequality; several countries managed to contain or reduce income inequality while achieving strong growth performance.** The foundation of the idea that inequality does not matter in developing countries is based on the Kuznets hypothesis, which holds that high and rising inequality is inevitable in the early stages of economic development. However, empirical evidence lends no support to this theory. While many countries did experience significant increases in income inequality over the last two decades, others experienced falling inequality. These countries did not have worse growth performances on average and, among them, many were low-income countries. Furthermore, the experience of numerous countries — many of which are in Latin America — shows that it is possible to reduce income inequality through policy interventions while maintaining a high level of integration with the global economy.

- **Despite some signs of convergence, within-country disparities in education, health and nutrition remain very high.** In most countries, there are still significant inequalities in non-income dimensions of material well-being across wealth quintiles as well as along gender and spatial dimensions. While progress against key indicators of material well-being such as child mortality and primary enrolment has generally taken place at a faster pace for the most disadvantaged segments of the population, gaps remain unacceptably high. In a few instances, there have been reversals, as in the case of women's malnutrition, which decreased in urban centres while increasing in rural areas of sub-Saharan Africa.

- **Income inequality remains a major driver of inequality in other dimensions of material well-being, but other factors, such as the quality of governance, social spending and social norms, matter as well.** Higher country income levels and faster economic growth do not *per se* translate into lower inequality in education, health and nutrition outcomes; however, the distribution of income between households matters greatly for several dimensions of material well-being. In fact, evidence shows that greater income inequality between households is systematically associated with greater inequality in non-income outcomes. Other significant drivers of non-income inequality include governance, social spending and social norms. The latter appear to be playing an especially important role in relation to gender and urban-rural inequalities.

- **Inequality of outcomes and inequality of opportunities cannot be treated as separate issues; they are, in fact, two sides of the same coin.** Equality of opportunities cannot coexist with deep inequality of outcomes — or, in other words, as outcomes become more unequal, opportunities to live a fulfilling life shrink for those who are born into relatively disadvantaged households. Furthermore, the persistence of unequal outcomes for specific groups can entrench underlying patterns of discrimination and cultural biases. Put differently: inequality cannot be effectively confronted unless the inextricable links between inequality of outcomes and inequality of opportunities are taken into account.

- **As demonstrated in the case of gender, narrowing gaps in key capabilities may not be sufficient to reduce disparities in other domains of human well-being, such as access to livelihoods and political agency.** The analysis of gender as an especially salient case of intergroup inequality can help shed light on the complexity of discrimination dynamics. Evidence shows that, despite significant progress in education and some progress in health outcomes, women continue to lag behind in terms of access to livelihood: across the board, they remain disproportionately represented in vulnerable employment and continue to earn significantly less than men. Furthermore, they remain grossly underrepresented among political decision makers. A number of factors, including social norms, prevent advancements in capabilities from translating into equivalent advancements in livelihood and agency.

- **A widely held perception holds that political space for inequality reduction is very limited; however, experience shows that political space can be created.** As documented in a global survey conducted in preparation for this Report, policy makers from around the world acknowledged that inequality in their countries is generally high and potentially a threat to long-term social and economic development. They also identified a broad range of policy measures as highly relevant, yet judged most of these measures as politically highly unfeasible. Despite the importance of inequality as a policy priority, political space for inequality reduction is perceived as very limited. However, the experience of those countries that managed to significantly reduce inequality shows that political space can be created. The analysis of policy makers' responses indicates several potential areas of engagement: a reframing of inequality-justifying narratives, the constructive engagement of the business community and — perhaps most important — the strengthening of venues for civic engagement.

- **Redistribution remains very important to inequality reduction; however, a shift is needed towards more inclusive growth patterns in order to sustainably reduce inequality.** Effective and fair redistribution can play a significant role in the equalization of outcomes and opportunities. However, countries cannot rely only on the redistribution lever to achieve inequality reduction — not, at least, in the context of highly unequal and worsening distributions of income. When growth patterns are highly disequalizing, the amount of redistribution needed to compensate for unequal market outcomes is likely to be economically and politically prohibitive. The moderation of inequality requires a shift to a more inclusive pattern of growth, i.e., a pattern of growth that raises the incomes of poor and low-income households faster than average.

- **Reducing inequality requires addressing inequality-reproducing cultural norms and strengthening the political agency of disadvantaged groups.** In order to address inequality, it is necessary to tackle prejudice, stereotypes and other cultural norms that fuel discrimination. This is especially critical in the context of horizontal inequalities. Tackling social exclusion and ensuring equity in access to opportunities will further require strengthening the agency, voice and political participation of groups that experience disadvantage on account of their income or identity. This will empower them to shape their environment and the decision-making processes that matter for their well-being.

This Report reviews the conceptual approaches that have been adopted in the analysis of inequality and explains why inequality matters. It also examines trends and drivers of inequality in income and non-income dimensions of well-being as well as the trends and drivers of gender inequality as an example of intergroup inequality. After illustrating the results of an investigation of policy makers' views of inequality, it concludes with a comprehensive policy framework to confront inequality in developing countries. The Report has seven chapters, which are summarized below.

Chapter 1: Inequality of what? Inequality between whom?

Two principal issues have long been central to the development discourse on inequality. First is the issue of identifying the dimensions of inequality that matter for human well-being. Second is the issue of how inequalities in such dimensions are distributed among individuals, households and specific groups within a population.

Even as human well-being is inherently multi-dimensional — spanning material, relational and subjective dimensions — development theory has for the most part been concerned with inequalities in the material aspects of well-being. Two perspectives have been especially prominent in development circles: that which is primarily concerned with **inequality of outcomes** that matter for human well-being, such as the level of income or level of educational attainment; and that which is especially concerned with the **inequality of opportunities** that matter for more equitable outcomes, such as unequal access to employment or education.

It can be argued that a key difference between the two perspectives hinges on the direction of causality between outcomes and opportunities. Will, for instance, higher incomes lead to improved opportunities or will greater opportunities lead to improved outcomes in human well-being? The chapter argues that this is a false dichotomy, since outcomes and opportunities are, in fact, highly interdependent. Equal outcomes cannot be achieved without equal opportunities, but equal opportunities cannot be achieved when households begin from greatly unequal starting points.

Unequal outcomes, particularly income inequality, play a key role in determining variations in human well-being. The strong association between income inequality and inequalities in health, education and nutrition makes this evident. Moreover, when the privileged exercise sufficient political control and influence, and when this kind of influence affects job availability or access to resources, then income inequality compromises the economic, political and social lives of those less privileged and limits the opportunities that they have to secure their well-being.

If higher incomes provide people with opportunities to secure their well-being and to get ahead in life, then a person's initial income matters. Initial income inequality can positively or negatively affect the likelihood and speed with which a person can get ahead in life. Put differently: to have meaningful equality of opportunity, income inequality needs to be moderated so that people start their lives from roughly equal starting points.

Unequal outcomes, however, appear to be strikingly persistent for specific individuals and disadvantaged groups within a population (such as women, racial and ethnic minorities). This suggests that factors related to prejudice and discrimination continue to powerfully reinforce and reproduce inequalities. Indeed, certain individuals and groups have opportunities consistently inferior to those of their fellow citizens merely on account of birth circumstances. And these predetermined background variables make a major difference for the lives they lead. Not surprisingly, unequal opportunities lead to unequal outcomes.

Hence, development policy frameworks that focus on the inequality **either** of outcomes **or** of opportunities by themselves are inadequate for addressing inequality in human well-being, given the interdependency between opportunities and outcomes. Development policy must address inequalities of **both**.

Chapter 2: Why does national inequality matter?

For a very long time in the post-World War II period, high and rising levels of inequality have been regarded in development economics as inevitable in the early stages of economic development. However, more recent empirical research has refuted the notion that higher inequality is the price to be paid by developing countries in order to achieve sustained growth. It has been demonstrated not only that inequality within growing developing countries falls about as often as it rises, but also that the poorest countries can aspire to pursue broad-based growth without having to fear, for this reason, negative repercussions on the speed and intensity of their development processes.

Thus, if high and rising inequality is not a necessary consequence of economic development, it becomes important to ask: why does inequality matter? And why should we be concerned about it? Arguments based on intrinsic and instrumental reasons respond to these questions.

The argument based on intrinsic reasons is predicated on fairness as well as moral requirements and largely rests on the principles of dignity, respect and non-discrimination that are embodied in the human-rights-based approach. According to this perspective, equality is an ideal with an independent moral significance, while inequality is inherently negative, as it entails domination and the imposition of hardships on others. Furthermore, this perspective holds that human beings have an infinite responsibility for 'the Other' because their own individual identity can be constructed only in and through relationships with other human beings.

In contrast to the argument based on intrinsic reasons, the argument based on instrumental reasons is concerned with the economic, social and political consequences of high or rising inequality. Although relatively new, this argument is supported by a very strong empirical basis. Today, we know that high or rising levels of income inequality can harm the rate of growth and the duration of growth spells by reducing the propensity of large segments of the population to invest, thereby limiting the ability of the middle class to be a driver of economic progress and encouraging rent-seeking behaviour, among other things. Furthermore, it is now established that the extent of poverty reduction associated with a given level of growth significantly depends on income inequality levels and trends. In fact, forecasts of future global poverty are very sensitive to assumptions about inequality. In one scenario, the difference between poverty estimated according to current inequality trends versus a hypothetical return to 'best-ever' inequality for every country could be an extra one billion people living below the US$2 per day poverty line in 2030.

Persistent inequality between different segments of a population can entrench the discriminatory practices and cultural biases that fuel social exclusion.

In recent years, strong consensus has grown that a genuinely adequate concept of human well-being must go beyond material aspects of life and include dimensions such as relational human well-being (the ability to act meaningfully and engage in fulfilling social relations) as well as subjective well-being (an individual's sense of self-worth and the level of satisfaction about the conditions of one's life). Inequality has also become highly relevant here. Persistent inequality between different segments of a population can entrench the discriminatory practices and cultural biases that fuel social exclusion. Furthermore, high levels of inequality can distort political decision-making by undermining broad-based democratic participation. In addition, evidence shows that sharp disparities in access to resources and opportunities can harm subjective well-being.

Chapter 3: Income inequality

In many developed and developing countries, the distribution of income between households is more unequal now than it was two decades ago. In developing countries, three of every four households are in societies where incomes are more unequally distributed now than in the early 1990s. Population-weighted averages of within-country income inequality show that income inequality has risen by 9 percent in developed countries and by 11 percent in developing countries.

But not all news is bad. A detailed analysis of the trends in income inequality provides insights into the dynamics and drivers of rising income inequality. These insights are interesting mainly because they provide clues for how to design and implement public policy for moderating inequalities.

The first insight is that the rising trend of income inequality is not uniform across all regions or even across time. In fact, the number of countries that experienced an increase in income inequality in the observed period roughly equals that of countries that experienced a decline. Regionally, while income inequality increased on balance in some regions of the developing world (i.e., Asia and the Pacific (A&P) as well as Europe and the Commonwealth of Independent States (ECIS), it fell in others (i.e., sub-Saharan Africa and Latin America and the Caribbean (LAC)).

The second insight is that trends in income inequality are reversible. Several countries have experienced shifts from increasing to decreasing income inequality. Some countries have been able, through policy reforms, to moderate income inequality after decades of increases.

Nevertheless, the analysis of trends also reveals some unsettling insights into the patterns of growth of many developing countries over the past 20 years. Countries that experienced faster-than-average growth performance — mainly countries that graduated to higher income status brackets — had sharper increases in inequality than other countries. For instance, the average income inequality increase for countries that went from the lower-middle to the upper-middle income bracket was 25 percent. In contrast, countries that remained in the lower-middle income bracket experienced an average 3 percent decline in income inequality. Something about the dominant pattern of growth during the 1990s and 2000s was particularly harmful for the distribution of income between households within developing economies.

What, then, is driving these trends?

The first set of drivers — which could be described as 'exogenous' — tends to lie beyond the control of individual country governments and is mostly related to broader globalization dynamics. The integration of developing countries into world trade and financial markets was undoubtedly beneficial for economic growth, but, in many cases, this promoted patterns of growth that played a strong role in worsening the distribution of income. A major determinant of the distribution of income — the share of wages and employee compensations in total GDP (i.e., the labour share in income) — has been decreasing over the last 20 years on account of trade and financial globalization.

Something about the dominant pattern of growth during the 1990s and 2000s was particularly harmful for the distribution of income between households within developing economies.

Global financial integration weakened the bargaining position of relatively immobile labour vis-à-vis fully mobile capital. Furthermore, greater dependence on volatile capital flows made countries more vulnerable to economic and financial shocks and to the concomitant harm to growth and employment, which disproportionally affected people at the bottom of the income distribution. Trade and financial globalization were also accompanied by skill-biased technical change that further increased wage inequality by driving up wage skill premiums.

The second set of drivers — which could be described as 'endogenous'—is more related to national policies. The policy reforms that were adopted to promote and support global economic integration failed to safeguard against the potential, and now very real, adverse impacts of globalization on income distribution. And, indeed, macroeconomic policies often emphasized price stability over growth and job creation. Labour market reforms weakened the bargaining position of labour vis-à-vis employers. Fiscal policies prioritized fiscal consolidation at the expense of progressive taxation and public investments (especially in critical sectors such as education and health).

In many cases, these drivers of income inequality have strengthened pre-existing patterns of wealth inequality, thus further contributing to the intergenerational transfers of not just unequal income distributions, but also of unequal access to opportunities for the improvement of future well-being.

Finally, government policy can be geared to drive inequality downwards. Governments can play — and, in some cases, have played — a role in mitigating income disparities through taxation and public spending. Indeed, if high-income (developed) countries have been able to achieve significant reductions of income inequality through fiscal policy, there must be space for governments in developing countries, and especially in middle-income countries, to elevate the inequality-reducing role of fiscal policies. National institutions and national policies can therefore play a substantial role in reducing income inequality, regardless of overall country income levels.

Chapter 4: Education, health and nutrition disparities

Unsurprisingly, over the last decade, countries with higher levels of income performed better on indicators of average achievement in education, health and nutrition than countries with lower levels of income. However, the pace of progress of high-income countries was rather slow relative to other income groups. Countries with high growth performance achieved improvements in some areas, such as primary completion, secondary enrolment rates, child mortality and maternal mortality rates, but not in all. Clearly, while growth might be important for improving average achievement in well-being, faster growth does not guarantee or automatically translate into faster improvements in education, health and nutrition outcomes.

Furthermore, the analysis of differences in education, health and nutrition outcomes across countries shows that income levels *per se* do not have a large direct impact on education, health and nutrition outcomes. Rather, they make an indirect difference through other channels such as poverty reduction, governance capacity and public spending on social services. On the other hand, there is evidence that countries that achieved higher growth rates also started off with higher initial levels of education, health and nutrition outcomes. This suggests that improvements in education, health and nutrition might benefit future growth.

87 percent of the variation in the ratio of child mortality rates between the richest and lowest quintiles can be attributed to variations in wealth inequality.

Large disparities in education, health and nutrition exist between households of different wealth levels within countries. For example, although child mortality rates for the poorest income quintiles decreased at a faster rate than those for the higher quintiles in most regions, children in the lowest quintile of East Asia and Latin America remained about three times more likely by the end of the 2000s to die before age five than children born in the highest asset quintile.

Similar disparities are also evident between rural and urban households. For example, children living in urban areas are up to 30 percent more likely to complete primary school than children in rural areas. As a matter of fact, certain countries have even experienced some reversals. For instance, between 2000 and 2010, fertility rates in rural areas actually increased in sub-Saharan Africa while decreasing in urban areas. Gender gaps in education, health and nutrition are still significant. For instance, across all regions, girls are not just more likely than boys to die before age five, but improvements in male child mortality rates were larger than those for female children.

The analysis of factors explaining inequality within countries shows that income inequality is clearly an important determinant of inequalities in education, health and nutrition. For instance, 87 percent of the variation in the ratio of child mortality rates between the richest and lowest quintiles can be attributed to variations in wealth inequality. However, inequality does not fully explain the persistence of gaps in non-income dimensions of well-being. Furthermore, economic growth on its own is no guarantee of improvements in education, health and nutrition outcomes for all households, especially for poor and other marginalized and disadvantaged groups. Social norms, governance and public spending matter as well.

Chapter 5: Gender inequality

Gender is a primary marker of social and economic stratification and, as a result, of exclusion. The analysis of gender disparities can therefore provide valuable insights into broader dynamics of intergroup inequality. In order to fully understand the evolution of gender-based disparities, it is necessary, though, to adopt a multi-dimensional view of well-being that includes multiple domains such as capabilities, access to livelihoods and political agency.

Within the capabilities domain, the analysis shows a significant narrowing of educational gaps between genders. For instance, gender inequality in overall education achievement has been falling globally over the last two decades, as indicated by the average female-to-male ratio of total years of education, which increased from 82 percent in 1990 to 91 percent in 2010. Further, there is today much greater equality in secondary school enrolment than 20 years ago. On the other hand, results are more mixed in the area of health, as evidenced by persistent differences in life expectancy ratios between countries and regions. While the global mean of the female-to-male life expectancy ratio (adjusted to reflect biological differences) was 1.002 in 2010, 33 countries with a female-to-male life expectancy ratio below 95 percent in 1990 were still below that threshold in 2010.

A dimension of gender inequality is the uneven bargaining power of women and men at the household level. This is, in turn, a function of gender inequality in livelihoods and earnings, which determines fallback positions and therefore women's ability to negotiate resources within the household. Gender equality in income is therefore key to leveraging changes in other domains. However, the overall picture with respect to gender inequality in access to livelihoods is decidedly mixed.

The analysis of female-to-male employment-to-population ratios (which rose from 0.62 in 1990 to 0.70 in 2010) shows that women's participation in the labour force has significantly increased over the last 20 years — although it still remains well below that of men in most countries and clearly lags behind achievements in education. In a substantial number of countries, females' relative employment gains have been at males' expense: for instance, in 70 percent of the 140 countries in which female-to-male employment ratios have risen, male employment rates have fallen. This trend is worrying because it has gender-conflictive implications and could produce negative feedback in terms of relations at the household level. Evidence further shows that, despite declines in educational inequality, gender wage gaps and job segregation — as seen in the share of females and males employed in the industrial sector — remain very persistent. It would therefore appear that, to a significant extent, women have achieved greater access to employment by replacing men in more vulnerable and 'lower-quality' jobs.

Finally, in the domain of agency, women's share of parliamentary seats has risen, but only modestly. Some countries still have no female political representatives and, among the remainder, few have achieved gender parity. The global ratio rose from 12.7 percent in 1997 to 26.2 percent by 2011; however, the greatest gains have been made in those countries that were already closer to gender parity at the beginning of the observed period.

In conclusion, evidence shows that a significant narrowing of gaps in critical capabilities like health and education has not translated for women into equivalent reductions of inequality in other domains, such as access to livelihoods and political participation. This, in turn, points to the role played by other barriers, such as the cultural norms and discriminatory behaviour embodied in economic and social institutions, which directly affect the opportunities available to women.

Chapter 6: Perceptions of inequality: perspectives of national policy makers

Political processes largely determine the actual viability of policy options. These processes are, in turn, heavily influenced by perceptions and attitudes. A fair amount of information on general public views of inequality can be obtained through global public opinion surveys. But what are the specific views of those who have the primary responsibility of shaping policies?

According to the results of a global opinion survey commissioned for this Report, the vast majority of policy makers would describe inequality of incomes and opportunities in their countries as high (79 percent of the sample in the case of incomes and 59 percent in the case of opportunities). Further, most survey participants are concerned about current levels and trends of inequality and view them as a threat to the long-term social and economic development of their countries.

Generally, policy makers believe that action should be taken to reduce inequality in relation to incomes and opportunities. However, inequality of opportunities is seen as a significantly higher policy priority. Additionally, a significant majority of interviewees (65 percent of the sample) think that inequality of opportunities can be meaningfully addressed in their countries without necessarily addressing income inequality. This is a very critical point, since evidence actually indicates that reducing income inequality is key to reducing non-income deprivations and to enhancing opportunities. Further policy dialogue on the interconnectedness of outcomes and opportunities is apparently crucially vital.

Policy makers see a broad spectrum of policy options as potentially relevant to inequality reduction. Measures aimed at spreading the benefits of the capital economy more equally — mainly through support for small-scale entrepreneurship — and 'non-distortive' social transfers such as conditional cash transfers were among the measures that respondents most often recommended. Interventions aimed at changing power relations in the labour market and at increasing the progressivity of income taxation were also considered potentially relevant, but received somewhat less support (although reducing tax evasion was seen as an extremely relevant measure).

Among policies to reduce inequality of opportunities, reducing unemployment was seen as a high priority, together with infrastructure development (especially in rural areas) and more equal access to services, particularly education. Significantly less support — although still fairly high in absolute terms — was given to affirmative action policies and policies aimed at strengthening the political representation of disadvantaged groups.

While recognizing the need to address inequality and the relevance of several policy measures, policy makers often do not see much political space for action on inequality reduction. This does not mean, though, that political space for inequality reduction cannot be created. Several potential strategies emerge from the analysis of policy makers' responses, including: the promotion of inequality reduction as a non-partisan issue relevant across the political spectrum; the promotion of a more proactive role by the national media in framing inequality as a relevant policy issue; and the constructive engagement of the business community on the assumption that the reduction of excessive inequality is a shared interest. Additionally, the results of the survey point to the importance of creating a strong space for civic engagement to further the participation of civil society organizations in policy-making with a focus on inequality reduction.

Chapter 7: A policy framework for addressing inequality in developing countries

The analysis in this Report argues that inequalities in outcomes and opportunities are interlinked and cannot be treated as separate issues. A policy framework that systematically and comprehensively addresses inequalities should focus on moderating income inequality, on closing gaps in health, nutrition and education, and on tackling prejudice, stereotypes and other cultural norms that reinforce discrimination.

Moderating income inequality

Extreme income disparities are not only negative for economic growth and poverty reduction, but also directly and dramatically limit the ability of individuals and households to get ahead in life. It is thus alarming that income inequality has been rising in many developing countries since 1995. Moreover, countries that experienced more rapid growth and graduated to higher income groups found inequality rising faster than other countries. This points to the fact that the current pattern of growth is widening income disparities and excluding large portions of the population from its benefits.

Moderating income inequality, at its core, requires that countries transition towards inclusive growth; that is growth that raises the incomes of low-income households faster than the average. Inclusive growth can be promoted through three principal routes: (a) by changing the patterns of economic growth such that the incomes of low-income households grow more than the average; (b) through redistributive measures that contribute to growth while reducing inequality; and (c) by expanding opportunities for low-income households and disadvantaged groups to access employment and income generation options.

a) Since wages are the main source of income for the poor, shifting the pattern of growth so that the benefits accrue disproportionately to low-income households requires, first and foremost, the creation of productive employment. Employment policies need to focus on creating quality jobs that provide sufficient income, security and stability to workers. Making growth more inclusive also entails managing trade and financial globalization since the evidence indicates that international trade and private capital flows have been associated with raising inequalities.

b) Fiscal policy provides some of the most important instruments for redistribution available to governments, including programmes such as social protection and consumer subsidies. Social protection improves the income of the poorest households by providing a minimum of income security necessary for investing in human capital and income-generating activities. Consumer subsidies also play an important role in improving the income of the poorest by directly affecting the cost of basic household goods, such as food or fuel. In addition, fiscal policy can support a redistributive agenda through the implementation of progressive taxation and tax reforms that allow for the mobilization of domestic resources necessary for governments to provide basic services and transfers to the poor.

c) Finally, policies that dismantle the barriers that block certain groups and disadvantaged populations from access to employment and income-generating opportunities need to be part of an inclusive growth strategy. Overcoming horizontal or group-based inequality typically requires legislative or administrative reform to repeal discriminatory provisions or to address discriminatory practices. Legislation that grants equal access to land ownership, recognizes collective rights or codifies affirmative action policies are examples of how legislative reforms can help to even the playing field for all. Similarly, policies need to address other barriers to participating in productive employment, such as inadequate skill sets, information gaps or mobility constraints on individuals and groups.

Underpinning an inclusive growth strategy should be a consistent macroeconomic framework. All too often, macroeconomic policies have been concerned with the narrow objective of macroeconomic stability (i.e., keeping inflation and deficits low). But, as the evidence makes clear, macroeconomic stability has frequently been achieved at the expense of rising inequality — and sometimes at the expense of growth itself.

Closing gaps in education, health and nutrition

Income inequality is an important determinant of disparities in non-income dimensions of well-being such as education, health and nutrition, but it does not fully explain the persistence of those disparities. Moderating income inequality is therefore not sufficient to achieve improvements in well-being, especially for poor households and other marginalized and disadvantaged groups.

Closing gaps in education, health and nutrition is possible, though, and progress has been made in several regions in the past decade. Examples from countries that have been successful in curbing inequalities in these dimensions of well-being show that it is critical to focus public expenditure on the universal provision of social services, with a particular emphasis on the sectors and groups experiencing the greatest disadvantages. Improvements in the distribution of education, health and nutrition outcomes also require specific service delivery programmes and modalities, such as early childhood interventions or integrated health systems that cut across sectors and deliver cohesive packages of services tailored to the specific needs of the groups left behind. Moreover, the effective implementation of these programmes requires capable institutions equipped with adequate human resources to deliver services, strong local governments that ensure that services reach the most marginalized communities, and the ability to coordinate across sectors so that services are comprehensive. Institutions also need to be responsive to the needs and aspirations of those who are lagging behind.

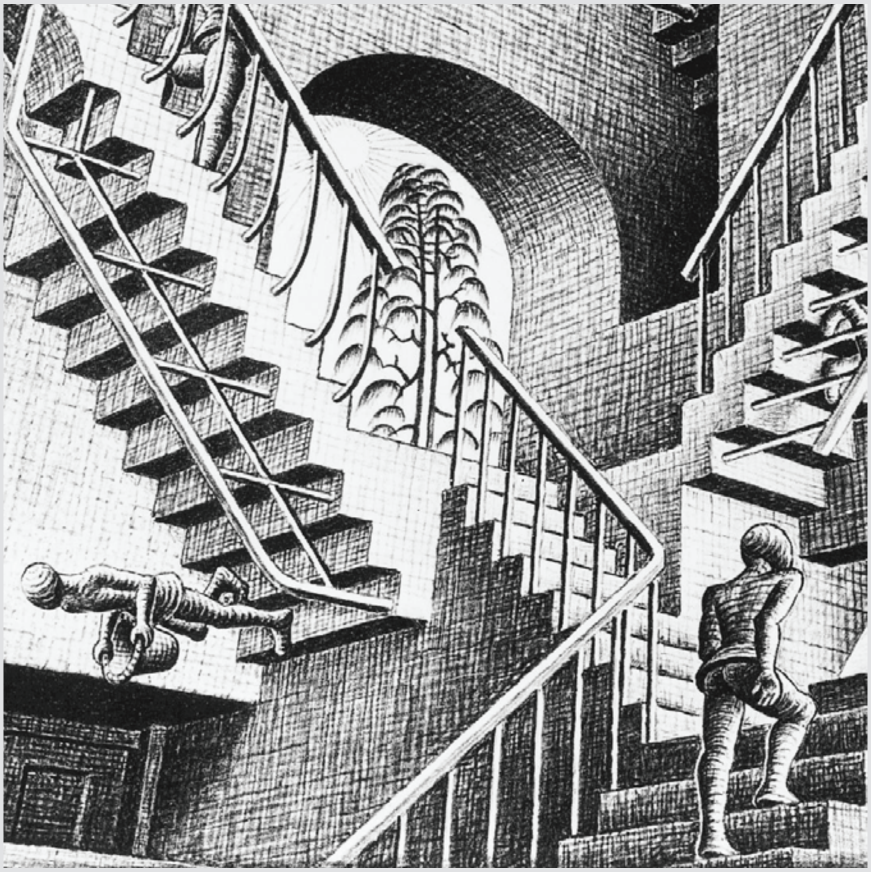
Addressing prejudice, discrimination and social exclusion

Finally, prejudice, discrimination and social exclusion are deeply embedded in the social, economic and political processes of a given society. They reinforce inequalities of outcomes and opportunities by preventing individuals and socially excluded groups from pursuing lives of their own choosing.

Tackling prejudice and social exclusion requires strengthening the political participation and voice of groups so that they are empowered to shape their environment and the decision-making processes that matter for their well-being. A regulatory and political environment that is conducive to the formation and effective functioning of civil society organizations and in which these are seen as legitimate participants can promote the attainment of such voice and participation.

Specific interventions are also needed to address the norms underpinning the intergenerational transmission of group-based inequalities. As dominant groups benefit from better access to resources, they have an incentive to maintain the conditions of inequality that benefit them. For this, they rely on crafting inequality-justifying ideologies. Some interventions that help contest these ideologies and build support for inequality reduction include the enactment of anti-discriminatory legislation, the improvement of access to justice for the poor, marginalized and disadvantaged, and the engagement with the media and other public opinion makers to allow a wide range of ideas, voices and lifestyles to enter public discussions. Moreover, opening policy space for inequality reduction might require raising the concern and engagement of the business community and elites by persuading them that reducing inequality is beneficial for all. Finally, building support and momentum for inequality reduction requires that policy makers develop and pursue a coherent, evidence-based and value-driven policy narrative with clear objectives and action points that compels stakeholders to act.

1 Inequality of what? Inequality between whom?



[There is a] false dichotomy between outcome and opportunity inequality. The two are but opposite sides of the same coin. Hence, development policy focusing on inequality reduction must address both.

1.1. Introduction

What are the dimensions of inequality that matter for human well-being? How are inequalities in different dimensions of well-being distributed among individuals, households and specific groups within a population? These two questions have long been central to discussions of inequality in development discourse and policy.

By now, it is well established that human well-being is multi-dimensional.[1] Recent approaches see well-being as "arising from a combination of what a person has, what a person can do with what they have, and how they think about what they have and can do" (IDS, 2009). In other words, well-being has three core dimensions: the material that emphasizes practical welfare and standards of living; the relational that emphasizes personal and social relations; and the subjective that emphasizes values and perceptions. The three dimensions are interlinked and their demarcations are highly fluid (McGregor, 2007; Sumner and Mallett, 2013).

Despite the inherent multidimensionality of human well-being, development theory has largely been concerned with inequality in the material dimension — that is, with inequalities in standards of living such as inequalities in income/wealth, education, health and nutrition (Conceicao and Bandura, 2009). Much of this discussion has boiled down to a debate between two perspectives: the first is primarily concerned with the **inequality of outcomes** in various material dimensions of human well-being, such as the level of income or level of educational attainment; and the second with the **inequality of opportunities** (that matter for equitable outcomes), such as unequal access to employment or education.

Unequal outcomes, particularly income inequality, it is argued, play a key role in determining variations in human well-being. This is made evident by the strong association between income inequality and inequalities in health, education and nutrition (WHO, 2008).[2] Moreover, when the privileged exercise sufficient political control and influence, and when this kind of influence affects job availability or access to resources, then income inequality compromises the economic, political and social lives of those less privileged and limits the opportunities they have to secure their well-being (Birdsall, 2005).

If higher incomes provide people with opportunities to secure their well-being and to get ahead in life, then a person's initial income matters. Initial income inequality can positively or negatively affect the likelihood and speed with which a person can get ahead in life. Put differently: to have meaningful equality of opportunity, income inequality needs to be moderated so that people start their lives from roughly equal starting points.

The second perspective[3] emphasizes the fact that certain individuals and groups face consistently inferior opportunities — economic, political and social — than their fellow citizens. Individuals, it is argued, can hardly be held responsible for the circumstances of their birth: their race, sex or urban or rural location. Yet these predetermined background variables make a major difference for the lives they lead. In other words, the opportunities that people have to reach their full human potential are vastly different from the outset through no fault of their own. Not surprisingly, unequal opportunities lead to unequal outcomes (World Bank, 2006).

Specifically, the inequality of opportunity is that part of the inequality of outcomes (such as income) attributed to differences in individual circumstances such as race, gender or ethnicity. The rest is attributed to differences in 'talent and effort'. In other words, this perspective is primarily concerned with the fairness of processes that lead to outcomes.

A key difference between the two perspectives hinges on the direction of causality between outcomes and opportunities. Will higher incomes lead to improved opportunities or will greater opportunity lead to improved outcomes in human well-being? This, however, is a false dichotomy, since outcomes and opportunities are in fact highly interdependent. Equal outcomes cannot be achieved without equal opportunities, but equal opportunities cannot be achieved when households have unequal starting points.

This chapter reviews different approaches in the development literature with respect to the inequality of outcomes and that of opportunities. It is argued that frameworks that focus on the inequality either of outcomes or of opportunities by themselves are inadequate for addressing inequality in human well-being, given the interdependency between opportunities and outcomes and how this is played out in the context of a market economy.

Even as income inequality is a critical factor in determining other non-income outcomes of well-being (such as health, nutrition and education), it is not the only factor driving inequalities in non-income outcomes (Sen, 2003). Research has consistently pointed to the role of institutions (for example, inefficient or ineffective service delivery systems), governance failures (such as corruption and absence of the rule of law) and public policy shortcomings (reflected, for instance, in public expenditure biases that favour the privileged) as key drivers of inequalities in non-income dimensions of material well-being (Deaton, 2001; Marmot, 2005; UNICEF 2010).

Frameworks that focus on the inequality either of outcomes or of opportunities by themselves are inadequate for addressing inequality in human well-being, given the interdependency between opportunities and outcomes and how this is played out in the context of a market economy.

Furthermore, this perspective is unable to explain why unequal outcomes and opportunities persist for specific groups within the population. Even after controlling for observable differences such as level of education, type of employment, sector of employment and demographic variables such as age, gender, racial and ethnic income, disparities remain persistent (Darity et al. 2010; Ñopo and Ramos, 2011; Seguino, 2008). In Latin America, for instance, women still earn almost 20 percent less than men and this income gap persists despite the fact that females have outperformed men in educational achievements. Furthermore, on average, ethnic minorities (indigenous and Afro-descendant populations) experience an unexplained wage differential of 13 percent (Ñopo, 2012).

The second perspective holds that, without equal opportunities, systemic patterns of discrimination and social exclusion prevent disadvantaged groups or individuals from accessing resources, markets and public services. However, simply providing equal opportunity may not be enough to improve the inequality of outcomes for two reasons.

First, high-income inequality is itself likely to be a sign that processes such as economic growth are not equitable. This perspective underplays the critical importance of structural and economic growth processes that are needed to transform equal opportunity into more equitable outcomes. Opportunities require an appropriate environment to be transformed into just outcomes.

Second, despite an explicit focus on the 'fairness' of processes that determine material outcomes, equal opportunity perspectives are unable to explain why discriminatory behaviour appears intransigent even where there is formal equality. Why do inter-group inequalities (of outcomes and opportunities) persist even in situations where overt discrimination is illegal and the provision of basic services universal?

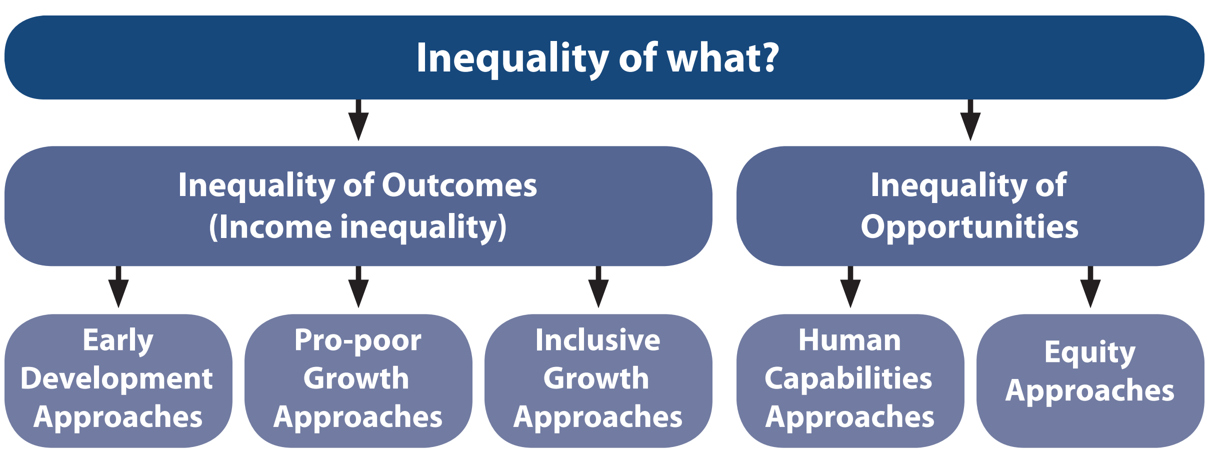
It is time to move the development discourse of inequality beyond current discussions of outcomes and opportunities. Nowhere is this more important than in its implications for development policy. If the outcomes and opportunities that matter for human well-being are interdependent, then policy measures need to address inequalities of both. The exact policy mix adopted needs to be tailored and sequenced to respond to the specific needs and circumstances of each country and depends on the type of inequality that may be more pervasive.

The next section reviews various approaches in the development literature with respect to the inequality of outcomes, focusing principally on income inequality. Section two reviews frameworks that address the inequality of opportunity. Section three provides the rationale for why it is important to move beyond the false dichotomy of inequality of outcomes or opportunities, and the policy implications thereof. The conclusion follows.

Development frameworks that examine income inequality have a long history beginning with the growth and distribution literature of the 1950s (Lewis, 1954; Kuznets, 1955). The principal concern of these early approaches was the nature of the relationship between economic growth and income distribution. By the late 1990s, however, frameworks addressing income inequality were more concerned with the role of inequality for poverty reduction. More recently, though, the pendulum appears to have shifted, with the literature focused on the interplay among growth, inequality and poverty. Three development frameworks addressing income inequality will be examined: the early development approaches; pro-poor growth frameworks; and inclusive growth approaches.

Section two examines two specific approaches that have informed much of the discourse on the inequality of opportunity. The first is the human capability approach, which has profoundly shifted the development discourse of inequality and influenced much of the subsequent literature on inequality, including that of gender and horizontal inequalities.[4] The second is the equity approach, which, too, has been inspired by the human capability perspective. Even as there are important differences between the two approaches,[5] there are also underlying similarities, which is why both prioritize a focus on the inequality of opportunity as opposed to outcome inequality.

Figure 1.1. Inequality of outcome and opportunity: development approaches



1.2. Income inequality

1.2a. Early development approaches

In the early days of development theory, income inequality was typically examined in the context of a long-term growth trajectory envisaged for developing nations (Lewis, 1954; Kuznets, 1955).

These approaches posited that, in the early stages of development, economic growth and income distribution involved a trade-off. This conclusion was in part derived from the famous inverted U-curve hypothesis of Kuznets, which was designed to provide a general framework for understanding patterns of inequality as modern economic growth induced substantial increases in the average incomes of nations (Kuznets, 1955).

The hypothesis was based on two initial assumptions: a significant income gap between rural agriculture and urban industry; and greater inter-sectoral inequality within urban industry than within rural agriculture. As the labour force migrated from labour-surplus agriculture to labour-demanding industry, the weight of the sector with greater inequality increased while the gap between the two sectors was also likely to rise. As a consequence, overall inequality would at first rise and then stabilize for some time before falling.[6] But why would inequality fall? For Kuznets, inequality "eventually diminished because of the rising economic and political bargaining power of the lower-income groups after the initial dislocation of the Industrial Revolution, and after they had become more established urban residents and more organized [...] and it was this social transformation that was the basis for a trend break in the income distribution of a country" (McKinley, 2009:13).

If economic growth and income distribution involved trade-offs, then the policy implications of Kuznet's hypothesis were also clear. Development policy was to concern itself with economic growth. Distributional concerns were hence sidelined. This emphasis on economic growth was reinforced by other studies that showed that capitalists had a higher propensity to save than workers, so a redistribution of income towards profits would raise the growth rate (Kaldor, 1957; Goodwin, 1967). In other words, income inequality would do more good than harm to economic growth.

But was Kuznets correct? Was there an inevitable trade-off between growth and income distribution? These then became the questions that preoccupied empirical studies for the next few decades. Two issues were of concern here: the impact of growth on income distribution and the impact of income distribution on growth.

Cross-country empirical investigations suggested that growth had neither a positive nor a negative effect on inequality (Anand and Kanbur, 1993; Deininger and Squire, 1996; Ravallion and Chen, 1997; Easterly, 1999; Dollar and Kraay, 2002). Widening inequality in different countries was associated with very different growth paths. In some countries, rapid economic growth was accompanied with rising inequality, whereas, in others, inequality rose during periods of stagnation and depression. Recognizing this diversity of country experiences was perhaps the most important lesson to be learned from the data. "At the very least, it shifts attention away from an unquestioning suspicion of high growth rates as such towards an examination of the particular nature of growth in different countries and the implications of different types of growth for inequality" (Kanbur, 2011:8).

What about the impact of inequality on growth? For some, rising inequality dampened growth. When credit-worthy borrowers cannot borrow because they lack collateral, then their lack of income or wealth limits their

Box 1.1. Definitions of income inequality

Income inequality: Measures the distribution of income across households or individuals in an economy. This is usually measured using the Gini Index of inequality which varies between zero and 100, with zero reflecting complete equality and 100 indicating absolute inequality. Another commonly used measure is the income share ratio, which presents the ratio of the average income of the richest quintile of the population divided by the average income of the bottom quintile. This ratio can also be calculated for other percentiles, such as deciles.

The analysis of income inequality in this report focuses mostly on the distributions of income across two dimensions:

1. **Household income distribution:** This is the distribution of income across households within the economy. Inequality of household income distribution can in turn be decomposed as follows:
   - i. **Primary income distribution:** The distribution of household incomes consisting of the (sometimes cumulative) different factor incomes in each household **before** taxes and subsidies, as determined by markets and market institutions.
   - ii. **Secondary income distribution:** The distribution of household incomes **after** deduction of taxes and inclusion of transfer payments.
   - iii. **Tertiary income distribution:** The distribution of household incomes when imputed benefits from **public expenditure** are added to household income after taxes and subsidies.
2. **Functional income distribution:** This is the distribution of income between different factors of production, such as land, labour and capital. It is typically measured as the share of wages or profits in national income.

Source: *Atkinson (2009) and van der Hoeven (2008).*

ability to invest — in small businesses, their farms, and in the health and education of their children (Alessina and Rodrik, 1994; Perotti, 1996). Thus, high inequality could exacerbate the effect of capital and other market failures on growth. Other studies found no link (Barro, 2000; Lopez, 2004). Over time, however, more and more analysts moved to the view that an initial condition of greater asset and income equity enhances growth rates.

Even as empirical work began to discard the earlier growth and distribution trade-off conclusion,[7] the early literature highlighted two issues that remain relevant for policy today. First, since growth and income distribution are organically linked, income inequality cannot be moderated without addressing the structure of growth and, more specifically, the distributional bias of growth. Second, precisely because growth and distribution are inseparable, it cannot be assumed that policy drivers impacting growth will not impact income distribution. Put differently: if income inequality is rising, this points to a distributional bias in the growth process. Thus, policies to moderate income inequality will have to modify the structure of growth. Specifically, the structure of growth will have to influence the pattern of income distribution in such a way that a larger segment of society can share in the overall progress of the economy.

But since the determinants of growth and income distribution are not mutually exclusive, policy makers cannot independently address growth, as that can run the risk of unwittingly and adversely affecting income distribution (Kanbur and Lustig, 1999). Indeed, as noted earlier, individual policy instruments can have growth and distributional consequences. For instance, policy instruments that are assumed to be exclusive to growth, such as government expenditure and trade and financial openness, are not necessarily exclusive to growth. Government expenditures and trade and financial openness have been found to be positively correlated with growth, but negatively with equality (Lundberg and Squire, 1999).

It should also be emphasized that, since distribution concerns who gets what, the 'who' that the early development literature was concerned with was the share of national income accruing to labour and capital—that is, the functional distribution of income[8]—and how this distribution affected savings, the accumulation of capital and growth. By showing how growth and functional income distribution were organically linked—that is, that "the evolution of one is intimately tied to the evolution of the other" (Lewis, 1954)—the literature underscored the fact that growth mattered not simply for functional income distribution, but also for personal income distribution.

By the late 1990s, as poverty rates rose to alarming levels, attention focused squarely on personal income distribution and especially on the incomes of those at the tail end of distribution. Income inequality now mattered insofar as it mattered for poverty reduction.

1.2b. Pro-poor growth approaches

Pro-poor growth frameworks were concerned with three differentiable, but connected development objectives: poverty, inequality and economic growth, of which the principal objective was poverty reduction. The main means of promoting poverty reduction were faster growth and greater equity (including an initially lower level of inequality and a reduction in inequality). Faster growth would lead to absolute improvements for all, while greater equity implied relative improvements for the poor (compared to the state of the non-poor). It was possible to achieve the first without the second or the second without the first.

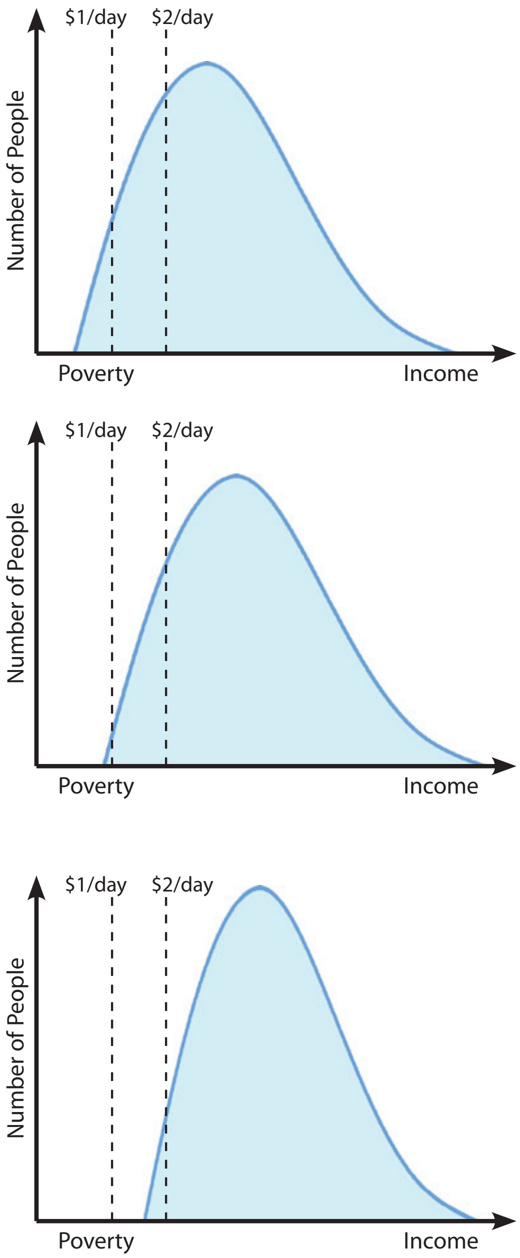
These differences lay at the heart of the debate on pro-poor growth, with the two sides differing on how pro-poor growth should be defined and characterized. On the one hand, it was argued that, insofar as there was an absolute increase in the per capita incomes of the poor, economic growth would reduce poverty (Ravallion, 2004). Simply put: insofar as growth resulted in a reduction in an absolute reduction of the number of poor households, it could be characterized as pro-poor. Thus, even if inequality were rising, growth could be pro-poor (insofar as poverty was falling). On the other hand, it was argued that growth could be pro-poor only if the incomes of the poor grew faster than those of the non-poor (Kakwani et al., 2004). In other words, growth could only be considered pro-poor if it led to a fall in relative poverty, which implied a reduction in inequality (Figure 1.2).

Thus, the differences between the two approaches depended on whether poverty was defined in its absolute or relative sense. And these differences led both sides of the debate to a different emphasis on policy instruments that could be effective in reducing poverty. While faster growth would lead to absolute improvements for all, greater equity implied relative improvements for the poor (compared to the non-poor).

Over time, both approaches converged and agreed that, if the development objective were poverty reduction, then faster growth and greater equity should be policy priorities. Put differently: poverty reduction could be achieved through (1) faster growth without necessarily improving equity, (2) improving equity even if growth rates remained the same, or (3) a combination of faster growth and improving equity (McKinley, 2010).

But if growth and equity were means of addressing poverty, then, as policy instruments, improving equity was neither less nor more important than accelerating growth. Furthermore, if one could mix and match

Figure 1.2. Pro-poor growth: absolute and relative definition



Income distribution in a developing country with a large incidence of poverty

Income is very unevenly distributed, with many people struggling with incomes below the poverty line.

Pro-poor growth: Absolute definition

The poor benefit from growth in the economy, but there is no change in income distribution.

Pro-poor growth: Relative definition

Through strategic efforts, the growth in the incomes of the poor is higher than in the rest of the economy, thus reducing both poverty and inequality.

both means (i.e., faster growth and greater equity), then growth could be pursued without fear of changes in income distribution and/or vice versa.

However, as noted earlier, distribution and growth are intrinsically linked, so individual policy instruments that influence growth can also influence distribution. “Individual policy instruments can be highly distributionally non-neutral, even though some combination of them can of course lead to distribution neutral growth” (Kanbur and Lustig, 1999:8).[9]

In other words, by assuming an implicit separability of policy instruments between growth and equity, pro-poor growth approaches reinforced the idea that growth could somehow be accomplished through a set of policy instruments independently of redistribution. "There was a danger of an easy slip into a classification of policy instruments into growth instruments (such as lower tariffs, higher foreign direct investment, and privatizing state-owned enterprises (SOEs) and redistributive instruments (such as food subsidies, labour-based public works, and progressive taxation)" (Kanbur and Lustig, 1999:8).

Furthermore, if equity could improve even as growth rates remained unchanged, this implied that "equity could be achieved simply by redistributing income, without altering the basic structure of an inequitable distribution" (McKinley, 2009:18). Yet this, too, was a problematic assumption, since high inequality could lower the rate of growth, which, in turn, could reduce the amount of tax revenue available for redistribution. Moreover, there could be political and economic limits to redistribution: if growth continued to worsen the primary distribution of income, governments would be under pressure to continually expand their redistributive role just to maintain the same level of equity. Yet there were limits to how much governments could increase the level and progressivity of taxation, since raising taxes could itself undermine growth.

By the early 2000s, the debate on pro-poor growth stalled and the concept of inclusive growth started gaining currency in development circles as the traditional focus on addressing extreme poverty was regarded as too limiting. There was widespread recognition that wealth and income inequalities were rising in many developing countries, adversely affecting large segments of the non-poor population.[10] Furthermore, policy makers came under pressure to respond to the needs of a much broader segment of the population.

1.2c. Inclusive growth frameworks

Broadly speaking, inclusive growth refers to equity with growth or to broadly shared well-being resulting from economic growth. Different approaches to inclusive growth differ with respect to how inclusive growth should be exactly measured. For some, inclusive growth is "growth that builds a middle-class, which implies an increase in both the proportion of people in the middle-class and the proportion of income they command" (Birdsall, 2007:262). Others measure inclusive growth with reference to the income share of the poorest 60 percent of households (McKinley, 2010). Yet others use inclusive growth as a measure to determine whether economic opportunities created by growth are available to all — particularly the poor — to the maximum extent possible (Ali and Son, 2007). In this Report, inclusive growth is defined as growth that is accompanied by lower income inequality, so that the increment of income accrues disproportionately to those with lower incomes (Rauniyar and Kanbur, 2010).

Despite differences among various approaches on how inclusive growth is to be exactly measured, the chief concern in all of these approaches is with extending disproportionate benefits of growth to a wider share of the population. This is in contrast to pro-poor growth frameworks where the central concern was with raising the incomes of poor households relative to the rest of the population. For advocates of inclusive growth, growth and equity instruments could be used to improve income distribution. However, two issues were critical for determining the optimal policy mix:

(1) The interplay between inequality and growth

(2) The interplay between inequality and poverty

Since changes in inequality are linked to changes in growth (or the structure of growth), it would be essential to ensure that growth is associated with a disproportionate increase in the incomes of those lower in the distribution curve. Thus, it would be important to identify policies that alter the distributional bias of growth while maintaining (or raising) long-term growth. Since growth and inequality are not bound in some immutable relationship, other factors (e.g., policies, institutions, external conditions) could all be more important in determining the wide range of observed outcomes in the relation between growth and inequality. Hence, the focus should be on policies and institutions that influence the joint evolution of equality and growth and not on the rate of growth *per se*.

Income and wealth inequality matter for inequality in non-income aspects of well-being. But, as many have cautioned, it would be a mistake to assume that income or wealth could alone be sufficient to explain the persistence of inequality for other (non-income) aspects of well-being.

Furthermore, changes in inequality could also have a bearing on poverty outcomes. For instance, if inequality fell, there could be a range of possibilities for distributional change associated with any given growth rate. In other words, inclusiveness itself could be more or less pro-poor because certain types of inequality decrease (such as those that raised middle-level incomes) would reduce poverty by less than other types of inequality decrease (such as those that raise the lowest incomes). In other words, it was important to ask the question: redistribution from whom to whom? This was important from a policy perspective because, if poverty reduction was the objective, then the focus must be on "growth with as much inclusiveness of the poorest as possible" (Rauniyar and Kanbur, 2010:8).

To conclude, this review of the development literature on income inequality pointed to the importance of economic growth and structural factors in determining outcomes that matter for human well-being. The evidence indicated that there is no immutable trade-off between growth and income inequality and pointed to the importance of focusing on the functional distribution of income in order to influence income inequality at the household level.

Further, given the organic connection between growth and inequality, these frameworks stressed the importance of not assuming an implicit separability of policy instruments for growth and inequality.

That income inequality was a key determinant of inequality in other dimensions of well-being such as health and education was borne out by the evidence. "In developing countries, 40 percent of children in the poorest wealth quintile are underweight, compared to 15 percent in the richest. […] Data from 43 developing countries indicates that 90 percent of children in the richest wealth quintile attend school, compared to 64 percent in the poorest quintile. […] On average under 5 mortality rates are more than twice as high among children from the poorest wealth quintile as among those from the richest" (UNICEF 2010:2-3).

Clearly, income and wealth inequality matter for inequality in non-income aspects of well-being. But, as many have cautioned, it would be a mistake to assume that income or wealth could alone be sufficient to explain the persistence of inequality for other (non-income) aspects of well-being. Public policies that biased public expenditure patterns to infrastructure and services that benefited more developed regions in a country; the macroeconomic and budgetary policies that resulted in regressive fiscal schemes; or an insufficient allocation of resources to primary social services also explained why progress towards more equitable outcomes in these aspects of well-being had failed. Governance deficits manifest in corruption, the lack of any proper accountability and inadequate institutional capacities all contributed to the persistence of inequality in non-income aspects of well-being.

Moreover, the persistence of unequal outcomes for specific groups in the population (women, racial and ethnic minorities) indicated that factors other than income were also generating unequal outcomes.

These, then, were the issues and concerns that guided the development literature focusing on inequality in opportunities.

1.3. Inequality of opportunity

1.3a. The human capability approach

By the late 1970s, development discourse moved beyond a narrow concern with income inequality.[11] The pioneering work of Amartya Sen very fundamentally reframed the discussion of inequality in development (1979, 1992, 1997, 2003). Now, inequality was examined in the context of human capability.

According to Sen, an overwhelming concern with income and economic growth as the objective of development confused the means and ends of what development was about. It took the form of "focusing on production and prosperity as the essence of progress, treating people as the means through which that productive process is brought about rather than seeing the lives of people as the ultimate concern and treating production and prosperity merely as means to those lives" (Sen, 2003:41).

Sen argued that the primary objective of development should be the enrichment of people's lives — the quality of their lives, their well-being. The notion of well-being was captured by the concept of capabilities. The term referred not simply to what people were able to do, but to their freedom to lead the kind of life they valued or had reason to value. In short, capabilities are the capacity and freedom to choose and to act (Sen, 1997).

What constituted the set of capabilities, however, was complex, since the things that people value doing or being (i.e., their functionings) could be quite diverse. Moreover, determining what constituted this set could not be unrelated to underlying social concerns and values, since that context decided which functionings and capabilities may be important and others trivial or negligible. Thus, the set of functionings and capabilities could include such elementary functionings as escaping morbidity and mortality and being adequately nourished to more complex functionings such as achieving self-respect and taking part in the life of the community (Nussbaum and Sen, 1993; Nussbaum, 2000).

This approach to the evaluation of well-being had bearings on many exercises, including discussions on inequality. According to the capability approach, an excessive concentration on inequalities of income or wealth cannot adequately account for inequalities in the quality of life. "Inequality of wealth may tell us things about the persistence and generation of inequalities of other types, even when our ultimate concern may be with inequality in living standard and quality of life. Particularly in the context of the continuation and stubbornness of social divisions, information on inter-class inequalities in wealth and property ownership is especially crucial. But this recognition does not reduce the importance of bringing in indicators of quality of life to assess the actual inter-class inequalities of well-being and freedom" (Sen, 2003:52).

In other words, the inequality of income could only inadequately explain inequality in people's capabilities. "The problem of concentrating on inequality of incomes as the primary focus of attention is that the extent of real inequality of opportunities that people face cannot be deduced from the magnitude of inequality of incomes, since what we can or cannot do, can or cannot achieve, do not depend just on our incomes but also on a variety of physical and social characteristics that affect our lives and make us what we are" (Sen, 1992:28). In short, the problem with focusing on equality of incomes was that everyone's income was treated as symmetric regardless of the difficulties some people faced compared to others in converting incomes into well-being and freedom.

The emphasis in the capability approach was on having the freedom to choose one kind of life rather than another — not on incomes, especially since the relationship between income, on the one hand, and individual achievements and freedom, on the other, appeared to be highly variable and dependent on "contingent circumstances, both personal and social" (Sen, 1971:70). These "circumstances" included:

Personal heterogeneities: People have physical characteristics connected with age, gender or disability that made their needs diverse. For instance, an ill person even with higher expenditure on treatment or care may not be able to improve health outcomes.

Environmental diversities: Environmental diversities such as climactic conditions (rainfall or flooding, for instance) could influence what a person could get from a given level of income.

Variations in social climate: The translation of personal incomes and resources into functionings could be influenced by societal conditions, including public health care, public educational systems, the prevalence or absence of crime in a particular location and the nature of community relationships (social capital).

Differences in relational perspectives: The material requirements associated with established patterns of behaviour could vary between communities, depending on customs and convention. To 'appear in public without shame', for instance, could require higher standards of clothing in one society or community compared to another.

Distribution within the family: The intra-household distribution of income could be a crucial factor linking individual achievements (outcomes) and opportunities with the overall level of family income.

According to Sen, these "circumstances" helped to explain the variability between incomes and other substantive achievements such as being healthy, being well-nourished, participating in the life of the community and so on. Furthermore, since people's abilities to activate these primary goods varied, the importance of looking into "the actual living that people manage to achieve" was emphasized. Put differently: the emphasis was on securing a real opportunity for every individual to achieve the functionings that he or she desired. Sen thus answers the question of inequality of what by advocating his preferred notion of equality, which is based on the capability for functionings.

The contribution of the human capability approach to the development discourse on inequality was and remains hugely influential. By arguing that equal incomes may not translate into a more equitable level of human capabilities, he emphasized that the opportunities that gave individuals the freedom to pursue a life of their own choosing needed to be equalized.

Box 1.2. Horizontal inequalities

While Sen moves away from a focus purely on incomes to incorporate wider perspectives on well-being, the emphasis of his approach lies on the individual. Others, such as Frances Stewart, have made the case for being concerned with inequalities across groups, i.e., with horizontal inequalities. Horizontal inequalities are inequalities between groups with specific characteristics that their members and others recognize as important aspects of their identity (Stewart, 2002; Stewart et al. 2007). These groups could be defined by cultural, gender, ethnic, religious, racial, geographic location, or age, among other characteristics.

Horizontal inequalities or group-based inequalities are the result of systematic discrimination and exclusion that typically results from stereotypes and prejudice (Stewart and Langer 2007; Stewart et al., 2010). There are a number of reasons to be concerned about group inequalities. They can prevent individuals within marginalized groups from achieving their full potential and contributing to their society's prosperity. Furthermore, they may affect that individual's welfare directly by impacting the respect and wellbeing of the group with which the individual identifies.

Horizontal inequalities manifest themselves in unequal opportunities and outcomes across socio-economic, political and cultural dimensions. Within the socio-economic dimension, for example, restrictions to land ownership or inheritance for women or disproportionately low-quality health services for racial minorities living in remote areas result in unequal opportunities and outcomes for specific groups. Factors within the political dimension range from restrictions for specific groups to access to political leadership positions, to disproportionately low percentages of women in the police force. The dimension of cultural status includes factors such as limited recognition of minority languages or restriction of ethno-cultural practices.

Equal incomes indeed may not translate into an equal capability for functionings, but it is also true that extreme income inequality can limit opportunities for advancement or limit opportunities to secure capabilities that may be necessary to lead a good life. If the market economy could systematically produce dis-equalizing outcomes that effectively excluded or compromised participation of a variety of social classes and groups, then it could not be counted on to provide the space where the equality of fundamental freedoms could be established. "The capability approach does not of itself address the systemic impediments to human freedom that are associated with the functioning of market economies" (Dean 2009:9). By focusing on the equality of opportunities, the dynamics that connect opportunities and outcomes in the context of a market economy are left outside the analysis.

Furthermore, recent studies on social stratification in market economies have shown that material benefits from gender and racial inequality "rebound to dominant groups, who therefore have an incentive to reproduce conditions of inequality" (Darity, 2006). In other words, inter-group inequality can be "intentionally structured to extract rents" and dominant groups can develop and sustain processes that generate social hierarchies and status differences (Seguino, 2008).

Ideology, cultural beliefs, norms and stereotypes then justify a given distribution of resources and the resulting social hierarchy. Thus, status and power hierarchies derive from the dominant group's superior control over material resources. That control and the resulting power differential motivate dominant groups to continue this hierarchical system based on social stratification.

The social sphere then sits alongside the material structure of power relations. But since the principal focus of the human capability perspective is 'individual freedom', it does not of itself challenge the relations of power

Equal incomes indeed may not translate into an equal capability for functionings, but it is also true that extreme income inequality can limit opportunities for advancement or limit opportunities to secure capabilities that may be necessary to lead a good life.

that underpin inequality in a market economy. It appears instead that the individual is "objectively distanced from the relations of power within which his or her identity and his or her life-chances must be constituted" (Dean 2009:8).

1.3b. Equity approach

One of the approaches inspired by the human capability perspective was that of equity. The principal concern of this approach was on eliminating disadvantage from circumstances that lie beyond the control of the individual but that powerfully shape both the outcomes and the actions in pursuit of those outcomes (World Bank, 2006).

Equity was seen to have intrinsic value[12] since some groups faced consistently inferior opportunities—economic, social and political—than their fellow citizens. This violated the principle of fairness, particularly when the affected individuals could do little about them. Specifically, equity was defined in terms of two basic principles. First was equal opportunity, i.e., the idea that a person's life achievement should be determined primarily by his or her talents and efforts, rather than by predetermined circumstances such as race, gender, social/family background or country of birth. The second principle was the avoidance of extreme deprivation in outcomes, especially in health, education and consumption levels.

It was argued that the absence of equal opportunities was damaging because political, economic and social inequalities reproduced themselves over time and across generations, resulting in inequality traps. These traps had two implications: first, because of market failures and of the ways that institutions evolve, inequality traps affected not only distribution, but also the aggregate dynamics of growth and development. For instance, due to informational asymmetries, some people with good ideas could end up constrained in their access to capital. Thus, these differences in initial endowments—such as family wealth, race, or gender—could cause market failures and make investment less efficient. Second, the functioning of states, legal systems and regulatory agencies is influenced by the distribution of political power (or influence, or voice) in society. Thus, unequal distributions of control over resources and of political influence could perpetuate institutions that protected the interests of the most powerful. Consequently, those whose rights were not protected would have little incentive to invest, a situation that would thereby reproduce inequality.

Disparities in opportunity hence translated into different abilities to contribute to a country's development. Thus, apart from the intrinsic value of equity, there were also instrumental reasons to be concerned about inequality. "The sharing of economic and political opportunities is also instrumental for economic growth and development."[13] In other words, equity and growth need not involve trade-offs. Equity could be complementary to long-term growth. The policy focus of the equity approach centred on three pillars that would help promote a level playing field: investing in human capital; expanding access to justice, land and infrastructure; and promoting fairness in markets.

By investing in human capital, potentially talented and productive individuals would gain access to services that they may have been excluded from for reasons that had nothing to do with their potential and societies would gain from greater efficiency and greater social cohesion in the long run. Achieving more equal access to markets was also seen as fundamental for greater equity. "The playing field is far from level in the workings of the market. Barriers are intrinsically inequitable when they privilege insiders' access to capital, good jobs and favoured product markets. But they are also bad for innovation and investment that lie at the heart of modern economic growth. This is why levelling the playing field has the potential to be more equitable and efficient" (World Bank, 2006:178). Hence, improving access to finance and financial services, labor market interventions[14] and interventions in product markets were all seen to be essential for greater equity.

While more even playing fields were likely to lead to lower inequalities in educational attainment, health status and incomes, it was argued that one would always expect to find some differences in outcomes owing to differences in preferences, talents, efforts and luck. This is consistent "with the important role of income differences in providing incentives to invest in education, to work and take risks" (World Bank, 2006). The principle of equal opportunity hence implied that each person's prospects depended only on his or her resources and willingness to exert effort (Pignataro, 2011). This is why equal opportunity theorists aimed to identify the things that a person should be held responsible for and the unchosen circumstances that a person does not have control over. Only inequalities stemming from unchosen factors must be removed. But are established economic arrangements and market forces within an individual's control? Do not economic arrangements also influence the way talents and efforts are rewarded by society? Can the processes that determine income inequality be modified with equal opportunities? Can opportunities be secured when incomes are falling? In fact, if real incomes are falling, the idea that anyone can make it through hard work and effort appears increasingly dubitable. As incomes have stagnated or fallen, so have opportunities. Extreme income inequalities can put to rest the idea that a good life can be had by all.

For the equity approach, insofar as outcomes mattered at all, they mattered only in cases of ***absolute deprivation***. The implication of this principle was that societies may intervene to protect the livelihoods of their neediest members, i.e., those falling below an established threshold of need. However, establishing that threshold of need is fraught with problems. Depending on where the poverty line is set, the number of households 'absolutely deprived' can change dramatically. For instance, if the poverty line is US$1 a day, the absolute number of poor decreased from 1.47 billion in 1981 to 0.97 billion in 2004. However, if the poverty line is defined as US$2 a day, the absolute number of poor increased in every nation outside East Asia (Ferreira and Ravallion, 2009).

Nor can absolute poverty measures disclose what happened to people after they crossed the given poverty line. Is the future income of a person exiting extreme poverty US$5 a day or US$1.01? Does a person with an income of US$1.01 have real opportunities to climb further in the income distribution if he or she so desires? Or will he or she face systematic limitations along the way? A narrow focus on the reduction of absolute poverty can thus lead to the idea that distributional policies are unnecessary to achieve a socially just development process.

More important, despite an explicit focus on ensuring the 'fairness' of processes that determine material outcomes, this perspective is unable to account for the intransigence of discrimination even though overt forms of racism and sexism have become more socially unacceptable and even as explicit bias has been virtually eradicated in several countries. By making the case that discrimination and prejudice violate the intrinsic value of the principal of fairness, the instrumental role of prejudice — that of maintaining inter-group hierarchies and functioning "as a social weapon to support the dominant group's preservation of its superior position"—is sidelined (Darity et al., 2006).

The recent literature on social stratification provides a rich approach to improving the understanding of group-based inequality, such as between ethnic and racial groups. According to stratification theory, the foundation of prejudice finds its anchor in relative group status. Furthermore, prejudice becomes fully activated when members of the dominant groups come to believe that members of the subaltern group desire their privileges and are mobilizing or mobilized to threaten their proprietary claims. Relative group position as the basis for prejudice thus directs attention to inter-group dynamics and differentials in power between groups. It directs attention to the fact that discriminatory social ideologies and norms are embedded in institutions and codified by public policy. Power permits elites to shape ideology, norms and stereotypes as well as formal social institutions in such a way that it defines the dominant group's activities and traits as superior and more valuable. But equal opportunity proponents ignore this more instrumental role of prejudice.

The recent literature on gender inequality also points to the importance of social stratification — that is, hierarchical social and economic relations — based on accentuated differences between men and women that in turn shape a gender division of labour. In most societies, the gender division of labour favours men's access to and control over resources. Women are constrained from engaging in resource-generating activities outside the household. "Status and power hierarchies derive from men's superior control over material resources. That control and the resulting power differential provide the motivation for men to continue this hierarchical system based on gender differentiation" (Seguino, 2008:9).

Male power permits men to shape ideology, cultural norms and stereotypes in a way that defines men's activities and traits as superior and more valuable than women's. To the degree that women choose to comply with gender norms, men need not employ their power to maintain the status quo.

However, as several studies have shown, the degree of gender stratification varies positively with the level of women's economic power. Furthermore, the state of the macroeconomy influences women's bargaining power within the home since it affects women's outside options. For example, the overall demand for labour coupled with the types of jobs that women can get or can produce has a positive effect on women's status within the household. Thus, improvements in women's well-being require permitting women greater access to and control over material resources (Seguino, 2008).

In other words, "livelihood inequality buttresses other forms of gender inequality — such as health, education, bodily integrity, and dignity. Thus, livelihood equality is a pivotal change target in order to transform a comprehensive stratified gender system into one that is gender equitable. In short, equity — equality of opportunities — requires equality of outcomes" (Seguino, 2008).

1.4. Beyond outcome or opportunity inequality

Outcomes and opportunities are clearly closely interrelated. Providing only equal opportunities is unlikely to enhance the well-being of disadvantaged groups if income inequalities are rising at the same time. When children of the rich can go to college without accumulating massive debts or have access to quality health care, it is difficult to argue that incomes do not matter for opportunities to get ahead in life. The assumption that a just outcome can derive from an unjust starting point is dubitable.

Furthermore, poor outcomes beyond income also undermine opportunities. Where outcomes are highly unequal among parents and caregivers, this inequality is transmitted to children, compromising the opportunities of the next generation (UNDP, 2010; Save the Children, 2012). Evidence shows, for example, that differences in birth weight, determined in large part by maternal nutrition, are directly correlated with young child survival, stunting, and educational achievements (Behrman and Rosenzweig, 2004; Woodhead et al., 2012).

But inequalities in opportunities are also critical for three reasons: First, they can magnify the distributional consequences of factors that drive income inequality. For instance, inequality in education is a major contributor to the inequality of income and the same is true for health. Second, without equal opportunities, it will be difficult to tackle horizontal or vertical inequality. Third, equal opportunity has intrinsic value.

The conversion of equal incomes into equal capabilities for functionings was mediated by a host of other factors: governance, the role of public policy and societal conditions, among others.

Thus, any sustained reduction in inequality will need to address both — the inequality of outcomes as well as the inequality of opportunities.

Perspectives focusing on the inequality of outcomes (income inequality) emphasize the idea that income is the single factor that has the greatest impact on people's living conditions. Indeed, this literature was mainly focused on examining how patterns of economic growth were linked to income distribution and how high and rising income inequality reflected a distributional bias of the growth process. The literature pointed to the importance of addressing income inequality, as high inequality could undermine growth itself and slow the rate of poverty reduction. So, those most in need of equitable outcomes would be least likely to get there in the face of rising inequality. Moreover, by pointing to the links between functional and primary income distribution, the literature pointed to the importance of structural drivers and macroeconomic policies in determining individual welfare outcomes. In addition, by highlighting the role of functional and primary income distribution, the literature pointed to the fact that employment in decent jobs is itself an effective distribution mechanism.

But still — and this was Sen's valuable insight — higher income levels (or, for that matter, symmetric incomes) were unlikely to translate into more equitable outcomes (as reflected in better levels of education or health) or into an equal capability for functionings. The reason for this was that the conversion of equal incomes into equal capabilities for functionings was mediated by a host of other factors: governance, the role of public policy and societal conditions, among others. This, then, was one limitation of focusing only on inequality of outcomes. Other factors, too, mattered for equal opportunity.

A second limitation of development approaches to income inequality was their inability to explain the persistence of inter-group inequalities in outcomes. For instance, the underrepresentation of a subaltern group in high-status occupations and professions is typically characterized as a 'pipeline' problem — an inadequate supply of individuals from the relative group with the appropriate credentials. But the persistence of discrimination is evidenced by the fact that, even after accounting for 'observable characteristics', substantial income differentials persist, with women, racial and ethnic minorities consistently falling at the lower end of income distribution.

On the other end, advocates of the equity approach correctly emphasized the fact that, without equal opportunity, equitable outcomes cannot be secured. But they left the dynamics that connected opportunities to outcomes in a market economy unexamined. These remain far from equitable. By focusing exclusively on building an individual's basic capabilities and ensuring equitable access and opportunity, the assumption was that "a greater supply of better-qualified job seekers (in terms of education, housing and mobility) will automatically stimulate the demand to employ it" (Amsden, 2010). However, the expectation that more job seekers who are qualified will generate the demand to employ them is especially irrational in market economies. It requires a leap of faith to assume that, with better opportunities for health care, education and training, poor households and disadvantaged groups can attract the demand necessary to earn a living wage either by working for others or by employing themselves as entrepreneurs.

Importantly, despite the fact that this perspective is mainly concerned with how systemic patterns of discrimination can prevent disadvantaged groups from accessing resources, markets and public services, it was still unable to explain the intransigence and persistence of unequal outcomes for disadvantaged groups even when most laws that explicitly codify discrimination have been stricken from the books. But, as the literature on social stratification has pointed out, power inequalities imply that the dominant group is able to extract compliance from subordinates. The tools of extraction include the material dependence of the subordinate group on the dominant group, a set of ideology, norms and stereotypes to regulate everyday behaviour, and overt forms of power, including violence.

It requires a leap of faith to assume that, with better opportunities for health care, education and training, poor households and disadvantaged groups can attract the demand necessary to earn a living wage either by working for others or by employing themselves as entrepreneurs.

Indeed, as pointed out by studies on gender inequality: the system of gender inequality acts as a 'conversion factor' discounting the extent to which women can convert incomes and other resources into capabilities and power. That system is undergirded by a gender ideology that justifies the unequal state of gender relations, socially and materially. It is supported, monitored and enforced by gender stereotypes and norms. These, in turn, are embedded in a variety of institutions, including property laws and labour markets. The material and cultural spheres operate in tandem, each influencing the other to produce and reproduce systemic gender inequality (Seguino, 2008).

However, if human well-being is about the real (i.e., materially feasible) freedom to choose the kind of life one has reason to value, then this emphasis on real freedoms underscores the idea that "outcomes in material wellbeing are the means required to achieve this freedom, as compared to a mere legalistic approach, which instead accentuates procedural freedoms such as the right to property or education" (Seguino, 2008).

Transcending the artificial dichotomy of outcome or opportunity inequality is especially important because of its implications for development policy. Four issues deserve specific mention in this context:

- Achieving equal opportunity will require moderating income inequality between households, with a specific focus on those at the lower end of distribution, and on specific, disadvantaged groups within the population.
- Although income inequality is significantly correlated with inequality in non-income aspects of well-being, incomes are not the sole determinant of inequality in non-income outcomes. Improving inequalities in the non-income dimensions of well-being will require addressing those characteristics of policies, institutions and governance processes that prevent equitable outcomes in health, nutrition and education from being achieved.

- Even as issues of equal access, anti-discrimination legislation and policies (such as affirmative action) will be needed to promote equal opportunity and level the playing field, addressing inter-group inequality will require more fundamental interventions such as strengthening and empowering the agency, voice and participation of groups who remain consistently excluded from opportunities.
- Finally, cultural stigmas and systems of prejudice and discrimination that remain embedded in public policy and political economic and social institutions will need to be addressed.

1.5. Conclusion

This chapter has reviewed development perspectives concerned with the various dimensions of inequality that matter for human well-being and how variations in well-being are distributed among individuals, households and groups. Even as human well-being is multi-dimensional and arises from the interplay between a person's material, cognitive (subjective) and relational conditions, the development discourse has largely focused on defining and measuring inequality in the material domain of well-being.

More attention must be paid to the subjective and relational domains of well-being and particularly to how these relate in the spheres of human values, norms and behaviour.

Moreover, in this context, the focus in identifying which inequalities matter for human well-being has been on either outcome inequality (as measured by relative deprivations in levels of income or health, nutrition and education, among others) or opportunity inequality (as measured by unequal access to markets or public social services, among others).

The chapter has pointed to the false dichotomy between outcome and opportunity inequality. The two are but opposite sides of the same coin. Hence, development policy focusing on inequality reduction must address both. But inequality is also concerned with who gets what. For some, the 'who' are households that fall at the bottom end of income distribution; for others, it is the entire class of labour. Yet others are concerned with the distribution of outcomes and opportunities by gender or race or ethnicity — and with the stubborn persistence of such disparities across time and space. By pointing to how social norms and stereotypes serve as a powerful means of embedding ideology in social interactions and individual behaviour, they point us to their role as vehicles for the exercise of power. The significance of this is to show that the issue of distribution is at its core a political issue. It involves a contestation over who will get what.

The value, then, of considering relational inequalities (that is, inequalities in voice and agency) is that it demonstrates how deeply intertwined material inequalities are with relational ones. Indeed, improvements in relational inequality cannot be established independently of improvements in the material conditions of well-being.

A human well-being perspective thus encourages us to consider whether efforts to improve the material dimensions of well-being must be accompanied by actions in relation to the other two domains in order to have an overall effect on human well-being outcomes. More attention must be paid to the subjective and relational domains of well-being and particularly to how these relate in the spheres of human values, norms and behaviour.

Such a perspective encourages us to move beyond legal approaches and issues of equal access to a consideration of how to strengthen the ability of disadvantaged individuals and the groups to which they belong to shape decision-making in the productive sphere (such as in the work place) and in the political process. It encourages us to consider empowering individuals and groups to shape their own environment.

How people relate to others and what people feel they can do or be play a strong role in what people will actually do or be able to do. By all accounts, issues of inequality rank highly in people's perceptions of their own well-being (OECD, 2009; Graham and Pettinato, 2001; Chappelle et al., 2009). Many have pointed to inequality as the underlying driver of conflict and social unrest in many countries. "Societal conditions that increase the average level or intensity of expectations without increasing capabilities increase the intensity of discontent" (Gurr, 1970:13; Stewart, 2007). The recent social upheavals witnessed across the developing world are a powerful testimony to this.

Thus, policy makers whose charge is ensuring human well-being must address inequality in all of the dimensions that matter for well-being, focusing especially on those households and groups who remain so consistently on the margins of economic, social and political life.

Notes

1. The conceptual framework on human well-being (and its relation to inequality) is presented in greater detail in chapter 2.
2. This is also why it has been argued that reducing inequalities in health and education will require reducing income inequality (Wilkensen and Pickett, 2009).
3. This perspective — often called the equity perspective — is elaborated upon extensively in the World Development Report 'Equity and Development', World Bank, 2006.
4. Horizontal inequalities are defined as "inequalities among groups with commonly felt cultural identities [and] include ethnic, religious, racial or regional affiliations" (Stewart, Brown and Langer, 2007:4).
5. As Sen himself points out, "The capability perspective differs from various concepts of 'equality of opportunity' which have long been championed. The concept has been used to mean the equal availability of some particular means, or with reference to equal applicability (or equal non-applicability) of some specific barriers or constraints. Thus characterized, 'equality of opportunities' does not amount to anything like equality of overall freedoms" (Sen 1992:7).
6. Neither Lewis nor Kuznets took into account the possibility that the employment effects of low wages during the early reallocation process could, in fact, lead to an increase in the wage bill and a functional distribution favouring labor, which could lead to an improvement in the household distribution of income, as in Taiwan (McKinley, 2010).
7. See Anand and Kanbur, 1993, Li, Squire and Zou, 1998, and Weeks et al., 2004.
8. One exception was Kuznets, whose work focused on personal income distribution.
9. For instance, trade liberalization may have benefited economic growth, but it had adverse consequences for distribution. Government expenditures and financial openness were also positively correlated with growth and negatively with equality (Lundberg and Squire, 2003).
10. Inequality was rising even as countries were making progress in extreme poverty. For instance, the extreme poor as measured by the poverty line of US$1 per day, per person, is projected to decline to only 10 percent of the population in Asia Pacific by 2020 (Ali, 2007).
11. See Paul Streeten, The Frontiers of Development Studies (London, Macmillan, 1972); H. Chenery et al., Redistribution with Growth (London, Oxford University Press 1974); Irma Adelman, "Development Economics: A Reassessment of Goals", *American Economic Review*, 66 (1975); S.R. Osmani, Economic Inequality and Group Welfare (Oxford, Clarendon Press, 1982); Frances Stewart, Planning to Meet Basic Needs (London, Macmillan, 1985).
12. The idea of equity being of intrinsic value is influenced by modern theories of distributive justice that argued that justice implies equality in the allocation of some fundamental concept, whether that be primary goods or liberty, to all people (Rawls, 1958; Roemer, 1996; Sen, 1992).
13. It was pointed out that greater equity would be doubly good for poverty reduction: through the potential beneficial effects on aggregate long-term growth and through greater opportunities for poorer groups within any society (World Bank, 2006).
14. Labor market interventions should level the playing field by "seeking the right (country-specific) balance between flexibility and protection to provide more equal access to equal employment conditions to as many workers as possible" (World Bank, 2006:).

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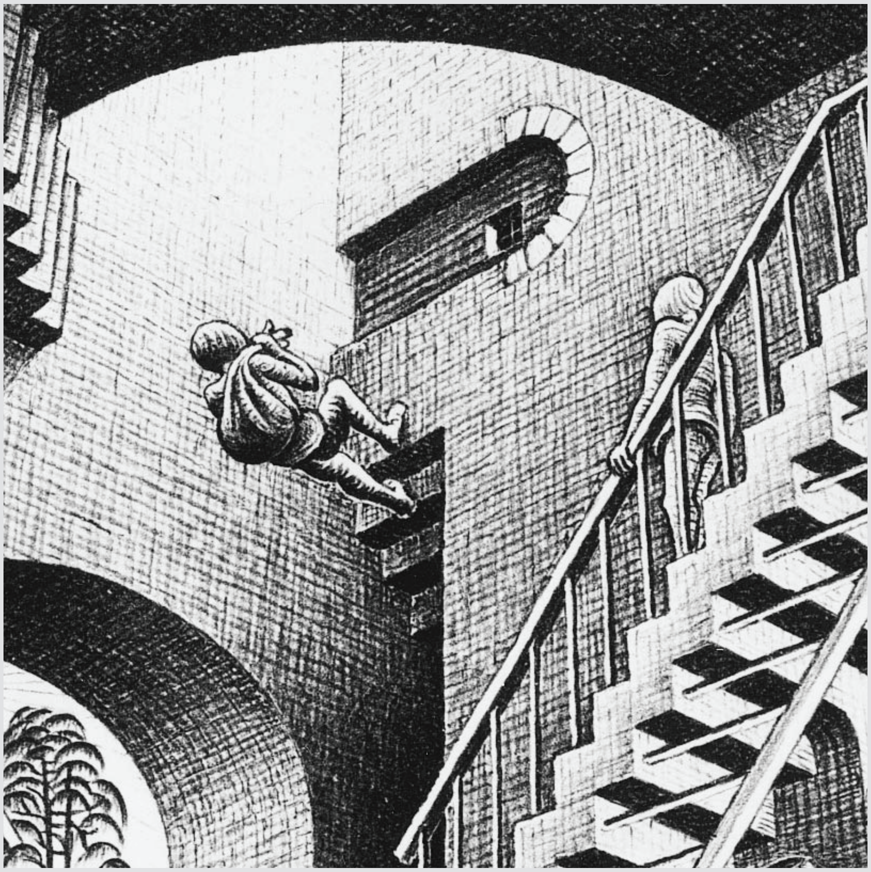
2 Why does national inequality matter?



Unequivocally, the speed — and cost — of income poverty reduction are directly related to the prevailing level and direction of inequality. This implies that, if the objective is to reduce poverty or at least to raise the incomes of the poor, there is a need to track and intervene with policies to manage inequality in order to maximize rising average incomes and rising incomes of the poor.

2.1. Introduction

Early development thinkers such as Kuznets, Lewis and others were interested in the question of whether income inequality mattered for economic growth and development. More recent thinkers, such as Sen and those expanding human development perspectives towards 'human well-being', have increasingly broadened the discussion to whether and how inequality matters for broader conceptualizations of development inherent in the lens of human development and 'human well-being'. The earlier group of thinkers tended to argue that inequality did not really matter. More recent thinkers and literature, though, show that inequality does matter for growth, broader human development and well-being from instrumental and intrinsic viewpoints. This chapter explores these debates. The chapter is structured as follows: section 2 discusses the earlier development thinkers; section 3 focuses on more recent development thinkers; and section 4 concludes.

2.2. Early development thinkers and the inequality-growth relationship

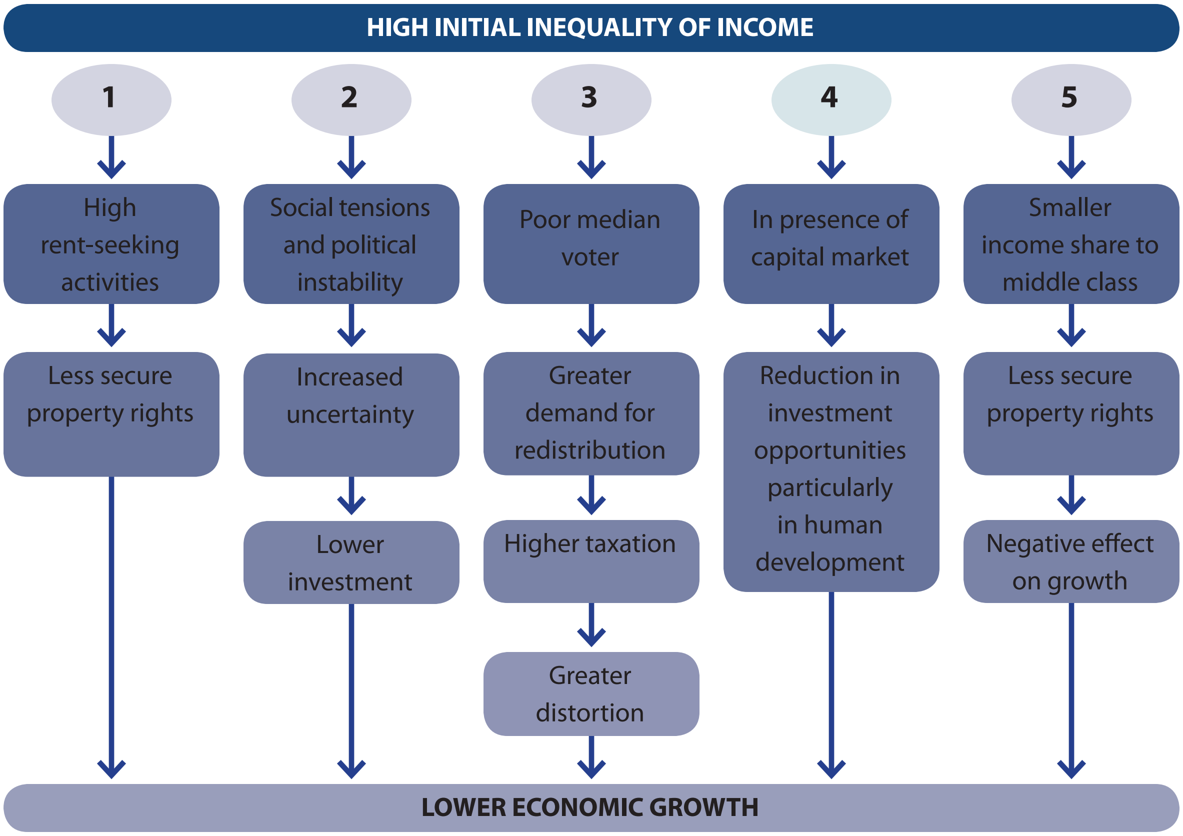
The foundation of the idea that inequality does not matter in developing countries is that high/rising inequality is inevitable in the early stages of economic development, based on the Kuznets (1955; 1963) hypothesis, and, indeed, is an acceptable trade-off, especially if the incomes of the poor are rising and poverty is falling. However, the empirical evidence to sustain the idea that inequality necessarily will rise or is an acceptable trade off is thin at best.

A number of studies in the 1970s initially supported the Kuznets hypothesis. However, in the 1990s, a series of new studies led by Anand and Kanbur (1993a; 1993b) questioned the 'inverted-U'. In the 1990s and 2000s, the empirical literature became somewhat contradictory, probably due to methodological issues. Some have posited that the inequality-growth relationship depends on the level of economic development (Barro, 2000; List and Gallet, 1999) or differs in democratic and non-democratic countries (Deininger and Squire, 1998; Perotti, 1996) or that any change (up or down) in inequality reduces future growth (Banerjee and Duflo, 2003). Those who have considered gender issues have found that high gender inequality, especially in education, is harmful to growth (Klasen, 1999; Knowles et al., 2002).

Nissanke and Thorbecke (2006:1343) sum up the debate in Figure 2.1 below, each channel/box of which is based on an empirical study. They posit that high initial inequality leads to rent-seeking, social tensions, political instability, a poor median voter, imperfect capital markets and a small share of gross national income (GNI) to the middle class, all of which lead to lower investment, higher taxation and lower economic growth.

Within the Nissanke and Thorbecke (2006) figure, two channels are worth exploring further, albeit briefly. The first is Ravallion's (1998) contribution of "imperfect credit markets" theory, which posits that, in unequal societies, there is a high density of credit-constrained people and thus less investment (especially human capital) and hence less growth. The second is Rehme's (2001) introduction of the "redistributive political-economy model", which remains contentious and is based on the idea that unequal societies create redistributive pressures leading to distortionary fiscal policy that reduces future growth. Empirical evidence is mixed (for a range of views, see Clarke, 1995; Deininger and Squire, 1998; Perotti, 1996). Most recently, Luebker (2006; 2012), taking data for 26 countries, found no support for the idea that redistributive pressures impede future growth. Additionally, other studies have found redistribution is good for growth (Easterly and Rebelo, 1993; Perotti, 1996).

Figure 2.1. Conceptual linkages from inequality-to-growth



Source: *Nissanke and Thorbecke (2006: Fig. 1, p. 1343).*

It is worth noting at this point that there are actually at least two policy-related debates worth separating. The first is the relationship that Kuznets hypothesized from **growth-to-inequality**. The second is a trade-off that Kuznets **implied** on **inequality-to-growth**. The former has no systematic relationship in the empirical literature, whereas the latter does.

The latter, i.e., the empirical literature on inequality-to-growth, is clear enough: there is now plenty of empirical evidence that high or rising inequality has a negative effect on the rate of growth or the length of growth spells (e.g., Berg and Ostry, 2011; Easterly, 2002). There is some evidence that this depends on the level of economic development (GDP per capita) and 'openness' (Agénor, 2002; Barro, 2000; Milanovic, 2002) and assets rather than income (Deininger and Olinto, 2010), with an emphasis on human capital in particular (e.g., De la Croix and Doepke, 2002).

The relationship of growth-to-inequality is more complex and, in spite of numerous attempts, no systematic empirical association from growth-to-inequality has been reported in the empirical work (Adams, 2003; Chen and Ravallion, 2010; Deininger and Squire, 1998; Dollar and Kraay, 2002; Easterly, 1999).[1] In fact, the dominant view is that inequality is not an outcome of growth, but plays a role in determining the pattern of growth and poverty reduction (Bourguignon, 2003:12). This does not necessarily mean that growth has no impact on distribution; rather, there are too many country specifics to make a generalization.

Palma (2011) has made one of the most recent systematic data analysis on the Kuznets hypothesis by using a world development indicators (WDI) dataset with observations for 135 countries and data on Gini and income shares. He reaches the following conclusions: first, about 80 percent of the world's population now live in regions whose median country has a Gini close to 40, implying that globalization has reduced regional differences in within-country inequality. Second, 'outliers' to this tendency are now only located among middle-income and rich countries. In other words, the 'poor and upwards' side of the Kuznets 'inverted-U' between inequality and income per capita has evaporated — and, with it, the hypothesis that posits that, for poor developing countries, inequalities have to get worse before they can get better. Chen and Ravallion (2012) have noted somewhat similar findings:

> [I]nequality within growing developing countries falls about as often as it rises. […] The evidence leads one to doubt that higher inequality is simply the "price" for higher growth and lower absolute poverty' (2012:5).

Palma also argues that, while most regions and countries have generally similar levels of inequality, two middle-income regions (Southern Africa and Latin America) have remarkably high levels of inequality representing what probably amounts to the most extreme practicable divisions within a society (since 60 is the maximum likely Gini value, we might conclude that, while more extreme divisions are theoretically possible, they are likely to be difficult to sustain consensually as functioning social systems). Third, Palma argues that it is among the richest countries that the highest diversity of distributions occurs. High levels of development can coexist with either high or low levels of inequality.

In sum, the inevitability of rising inequality during economic development and the trade-offs that are implied struggles to find strong support in empirical studies. This means not only that the poorest countries can aspire to pursue broad-based growth, but also that rising inequality is no longer a short-term price worth paying for long-term economic development, because high or rising inequality can even slow down future growth. If we accept that high/rising inequality is not inevitable or the price for economic development, then we can ask how and why inequality matters to the broader dimensions of human development and human well-being in developing countries.

2.3. Recent development thinkers and the inequality-human development and well-being relationship

As noted, more recent development thinkers have taken a broader approach to the question of whether inequality matters. In particular, the intrinsic and instrumental reasons as to why inequality matters have been explored across the broader conceptualizations of human development. Here, we outline those domains taking a human well-being lens.

2.3a. Human development and well-being

Although the concept of human well-being has been hotly debated over the last 10 to 15 years, especially if the amount of published books and articles is any measure (for reviews, see Gough and McGregor, 2007; McGillivray and Clarke, 2006), the study of human well-being in its broadest sense has a long intellectual history.

Human well-being is generally considered to be a multi-dimensional concept, as illustrated by the Stiglitz-Sen-Fitoussi Commission:

> Objective and subjective dimensions of well-being are both important. […] The following key dimensions that should be taken into account [include …] (a) Material living standards (income, consumption and wealth); (b) Health; (c) Education; (d) Personal activities including work; (e) Political voice and governance; (f) Social connections and relationships; (g) Environment (present and future conditions); and (h) Insecurity, of an economic as well as a physical nature (Stiglitz et al., 2009:10, 14–15).

The Stiglitz-Sen-Fitoussi Commission[2] was inspired by three different streams of conceptual thinking on human well-being: subjective human well-being (individuals are the best judges of their own condition); capabilities (a freedom to choose among different 'functionings'); and fair allocations (weighting the various non-monetary dimensions of quality of life beyond the goods and services that are traded in markets) in a way that respects people's preferences (ibid.:42).[3]

There have been numerous attempts to identify a core set of capabilities and functionings (for discussion, see Alkire, 2010; Doyal and Gough, 1990). Recent initiatives of note include the Multi-dimensional Poverty Index (MPI) of the UNDP Human Development Report Office and the Oxford Poverty and Human Development Initiative (OPHI), which covers a range of aspects including health and nutrition, education, and living standards (water, sanitation, housing, assets and cooking fuel), and the related OPHI 'Missing Dimensions of Poverty Data' project.[4]

A human well-being conceptual framework places a stronger emphasis on relational and subjective aspects, implying that what a person feels can influence what he or she will be and do.

The conceptual framework of 'human well-being' used below seeks to build on Sen's (various, notably Sen, 1999) vision of human development — that is, a person's 'beings' and 'doings' and expanding the lens to focus on beings, doings and feelings and their interactions. As Kapur et al. (2011:41) note:

> Amartya Sen has emphasised that well being is subjectively assessed and emphasises "capabilities" and "functionings" that reflect a particular subjective valuation. However, in empirical practice this conceptual insight has congealed into merely emphasising a slightly different set of outcomes (and slightly different set of summary statistics).

There are numerous perspectives on what constitutes human well-being, one of the most comprehensive of which is that of McGregor (2007). He emphasizes that a practical concept of human well-being should be conceived of as the combination of three things: (i) needs met (what people have); (ii) meaningful acts (what people do); and (iii) satisfaction in achieving goals (how people are). Such conceptualization, not surprisingly, resonates with his colleagues at the Well-being and Development (WeD) cross-country project.[5] For example, Copestake (2008:3) states, "Human well-being is defined here as a state of being with others in society where (a) people's basic needs are met, (b) where they can act effectively and meaningfully in pursuit of their goals, and (c) where they feel satisfied with their life."[6] Further, White (2008) codifies this as material, relational and subjective/perceptional well-being (see Table 2.1).

Kapur et al. (2011:39) provide one example of the three domains in a unique survey designed and implemented by a Dalit community in Uttar Pradesh, India. Their findings suggest that placing exclusive focus on measures of material human well-being, such as consumption expenditure, is misplaced, as it misses important changes in socially structured inequalities and hence in individuals' 'functionings'. Their survey results show substantial changes in a wide variety of social practices affecting Dalit well-being — increased personal consumption, patterns of status goods (e.g., grooming, eating), widespread adoption of 'elite' practices around social events (e.g., weddings, births), less stigmatizing personal relations of individuals across castes (e.g., economic and social interactions) and more expansion into non-traditional economic activities and occupations.

Human well-being can thus be discussed as three-dimensional (meaning that human well-being is holistic and has three discernible domains): it takes account of material human well-being, relational human well-being and subjective human well-being, and their dynamic and evolving interaction. In short, people's own perceptions and experiences of life matter, as do their relationships and their material standard of living.

These three core dimensions of human well-being are summarized in Table 2.1. The material dimension of human well-being emphasizes "practical welfare and standards of living"; the relational emphasizes "personal and social relations"; and the subjective emphasizes "values, perceptions and experience" (White, 2008:8).

Table 2.1. Domains of 'human well-being'

	Material human well-being	Relational human well-being	Subjective human well-being
Definition	LIVELIHOODS and 'needs met' and 'practical welfare and standards of living'	AGENCY and 'ability to act meaningfully' and 'personal and social relations'	PERCEPTIONS and 'life satisfaction' and 'values, perceptions and experience'
Key determinants	Income, wealth and assets Employment and livelihood activities Education and skills Physical health and (dis) ability Access to services and amenities Environmental quality	Relations of love and care Networks of support and obligation Relations with the state: law, politics, welfare Social, political and cultural identities and inequalities Violence, conflict and (in) security Scope for personal and collective action and influence	Understandings of the sacred and the moral order Self-concept and personality Hopes, fears and aspirations Sense of meaning/ meaninglessness Levels of (dis)satisfaction Trust and confidence

Source: *Adapted from McGregor and Sumner (2010) drawing upon Copestake (2008) and White (2008).*

The human well-being lens can take the individual and the community as the unit of analysis. It is important to strongly emphasize that the *categories are interlinked and their demarcations highly fluid*. For this reason, the table's columns should not be interpreted as barriers between domains.

In sum, although there is a significant amount of literature on poverty beyond income and including non-income deprivations (such as health, nutrition, housing and so forth), a human well-being conceptual framework places a stronger emphasis on relational and subjective aspects, implying that what a person feels can influence what he or she will be and do. Such feelings or perceptions may be determined by personal experience or by wider institutions, norms and values that are culturally embedded and potentially disrupted during the process of economic development.

2.3b. Human development, human well-being and inequality

This human well-being literature can then be applied to the analysis of inequality by considering the human well-being domains in relation to inequality of opportunities and outcomes, and the structural causes of inequality and how these matters relate to the 'intrinsic' case and 'instrumental' cases as to why inequality matters (see Table 2.2).

Table 2.2. How can human well-being be applied to the analysis of inequality?

	Material human well-being	Relational human well-being	Subjective human well-being
Definition	LIVELIHOODS and 'needs met' and 'practical welfare and standards of living'	AGENCY and 'ability to act meaningfully' and 'personal and social relations'	PERCEPTIONS and 'life satisfaction' and 'values, perceptions and experience'
Relation to inequality of opportunities	Unequal access to livelihood opportunities (unequal access to various capitals)	Unequal ability to exercise agency to take opportunities	Unequal aspirations; sense of self-worth and what is possible
Relation to inequality of outcomes	Unequal outcomes by livelihoods and living standards	Unequal outcomes by agency and power	Unequal outcomes by aspirations, self-worth, etc.
Examples of stylized structural causes of inequality by human well-being domain	Sectoral and spatial distribution of economic growth and public expenditure	Prevailing institutions such as gender-differentiated access to opportunities	Norms, conventions and prevailing views of groups and how individuals see themselves or their group/identity
Examples of the intrinsic case to address inequality	Fairness/meritocracy	Citizenship/solidarity	Self-value/worth/dignity
Examples of the instrumental case to address inequality	Impacts on economic growth, standards of living, etc.	Impacts on governance, social inclusion/exclusion, peace, etc.	Impacts on self-esteem, aspirations, etc.

The intrinsic case is predicated on various fairness and ethic/moral requirements (e.g., meritocracy). In contrast, the instrumental case is concerned with the consequences of high or rising inequality (e.g., high or rising inequality slows growth, reduces growth spells, lowers the rate of poverty reduction at a given level of growth and so forth). In terms of the intrinsic case, the human well-being framework used facilitates identification of three areas for discussion: fairness/meritocracy, citizenship/solidarity and self-value/dignity. In terms of the instrumental case, it also sets out three areas for discussion: standards of living, governance and self-esteem/aspirations.

The intrinsic case as to why inequality matters to material human well-being

Inequality matters intrinsically to material human well-being because of the role that inequality plays in mediating livelihood opportunities that determine material human well-being. Further, inequality matters because it deviates from meritocracy/fairness in terms of such livelihood opportunities.

In building the intrinsic case for inequality reduction, there is the human rights framework embodied in various UN agreements, such as in Article 1 of the Universal Declaration of Human Rights (UDHR): "All human beings are born free and equal in dignity and rights." In fact, the UDHR also makes reference to the instrumental case (in its first paragraph) as well as the intrinsic case, stating that "recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world."

Inequality matters intrinsically to material human well-being because of the role that inequality plays in mediating livelihood opportunities that determine material human well-being.

Morabito and Vandenbroeck (2012:4) state that "inequalities are unjust when determined by factors beyond individual control (circumstances), such as family background, ethnicity, gender, or genes". Thus, it is not a matter of having the same outcomes; it is more about having the same opportunities (in livelihoods, for example) to reach those outcomes. Furthermore, Morabito and Vandenbroeck (2012) are also concerned with breaking the intergenerational transmission of disadvantages.

Milanovic (2013) further explores an ideally optimal or a better distribution of income, drawing upon Rawls and Roemer. He notes how Rawls, in *A Theory of Justice* (1971), dismisses meritocracy as inadequate because society does not correct the imbalance of starting positions. However, one could note that the extent of meritocracy will differ considerably in different countries, contexts and institutional settings and itself is mediated not only by relational aspects, but by subjective aspects such as status and norms. At a minimum, 'liberal equality' is required, whereby the inheritance of wealth and access to education is effectively equalized because neither is achieved by one's own efforts, but rather by circumstances of birth. Indeed, Rawls favoured equalization of any 'undeserved' characteristics. Inequality would be acceptable as long as such characteristics were equalized, implying an increase in tax on the rich, inheritance taxes and equal access to education. Milanovic then turns to Roemer's *Equality of Opportunity* (1998), which developed the notion that income should be proportional to effort — indeed, that effort should form the basis of rewards. However, although certain groups may have different rewards due to different efforts, differences in between-group rewards would be zero because incomes would depend on effort, 'cleaned' of circumstances.

This points towards the fact that many are concerned with inequality because it is a deviation from egalitarianism (e.g., Brock, 2009; Milanovic, 2003; Miller, 2011; Moellendorf, 2009; Temkin, 2003). For these scholars, equity is intrinsically valuable, but there are various different concerns, such as fairness, opportunities or justice. For example, Temkin (2003:62-63) is more concerned with fairness and states:

> Egalitarians in my sense generally believe that it is bad for some to be worse off than others through no fault or choice of their own. The connection between equality and comparative fairness explains both the importance, and limits, of the 'no fault or choice' clause. Typically, if one person is worse off than another through no fault or choice of her own the situation seems unfair, and hence the inequality between the two will be objectionable. But the applicability of the 'no fault or choice' clause is neither necessary nor sufficient for comparative unfairness, and it is the latter that ultimately matters in my version of egalitarianism.

In short, equality is a moral ideal with an independent moral significance. Miller (2011) takes this to a global level and is concerned with global inequalities. In a similar vein, Brock (2009) focuses on global justice. Cullity (2004) fits within such a frame with a focus on **moral** reasons as to why inequality matters (all material in nature). Specifically, inequality entails domination and imposition of hardships on other groups; inequality entails callousness when others cannot meet their basic needs; inequality entails the inability of a society to include all groups in welfare enhancement.

The instrumental case as to why inequality matters to material human well-being

Material human well-being in areas such as livelihoods and standards of living can be instrumentally related to inequality. Many have argued that inequality reduces economic growth (as noted earlier) and slows down poverty reduction (see, for example, Asian Development Bank, 2012; Beitz, 2001; Birdsall, 2006; Chambers and Krause, 2010; Nel, 2006; Thorbecke and Charumilind, 2002; Kanbur, 2005; Nissanke and Thorbecke, 2006; Ravallion, 2005; van der Hoeven, 2010; Wade, 2005).

The extent of poverty reduction depends on inequality levels and trends and a higher level of inequality leads to less poverty reduction at a given level of growth.

The 2006 World Development Report on inequalities was important in that it triggered a wider debate on the interaction between types of inequality and how inequality reproduces itself across generations as a result of 'inequality traps', a concept elaborated by Bourguignon et al. (2007:236), who note,

> [P]ersistent differences in power, wealth and status between socioeconomic groups that are sustained over time by economic, political and sociocultural mechanisms and institutions […] lead to suboptimal development outcomes of 'inequality of opportunities'.

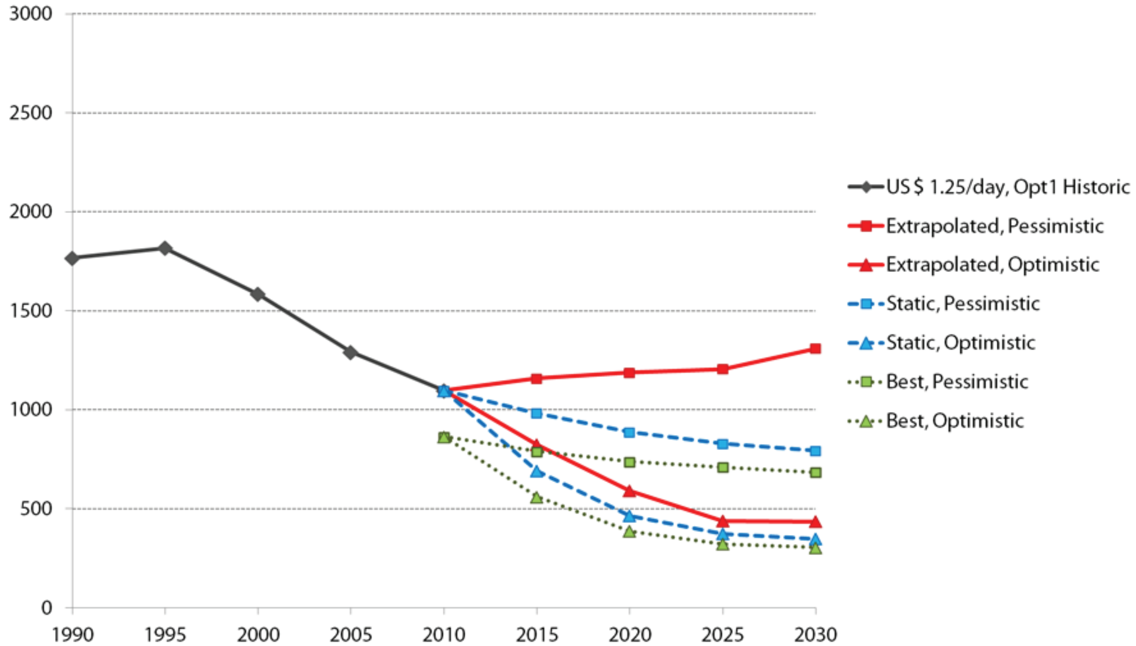
These inequalities are interrelated and compound to form exclusion and limit agency and control over one's life — seen in, for example, lack of influence over public policy and decision-making; discrimination in access to state services, or inequality of treatment in the legal system and, ultimately, the reproduction of poverty over time.

In a similar vein, Birdsall (2006) argues that income inequality in developing countries matters for at least three instrumental reasons: where markets are underdeveloped, inequality inhibits growth through economic mechanisms; where institutions of government are weak, inequality exacerbates the problem of creating and maintaining accountable government, increasing the probability of economic and social policies that inhibit growth and poverty reduction; and where social institutions are fragile, inequality further discourages the civic and social life that underpins effective collective decision-making that is necessary for the functioning of healthy societies.

There is, furthermore, a wealth of empirical evidence linking material human well-being and inequality, specifically, that the extent of poverty reduction depends on inequality levels and trends (Hanmer and Naschold, 2001) and a higher level of inequality leads to less poverty reduction at a given level of growth (Ravallion and Chen, 1997; Deininger and Squire, 1998; Hanmer and Naschold, 2001; Kraay, 2004; Ravallion, 1995, 1997, 2001, 2004, 2005; Son and Kakwani, 2003; Stewart, 2000). For example, Ravallion (2005) argues that inequality is bad for the poor and shows that elasticities of poverty reduction are related to initial levels of inequality in a country and to changes in income distribution, which is why inequality matters for poverty reduction. These arguments are similar to others: Wade (2005) argues that inequality leads to a lower contribution from economic growth to poverty reduction; Kanbur affirms that "growth is a plus for poverty reduction, inequality is a minus" (Kanbur, 2005:224); and Nel (2008) affirms that "growth plus redistribution, it increasingly seems, is what developing countries should pursue" (2008:151).

This, though, is not given, as the high level of heterogeneity of country experience (see Fosu, 2011; Kalwij and Verschoor, 2007; Ravallion, 2001) points towards the role of policy in influencing the sectoral and geographical

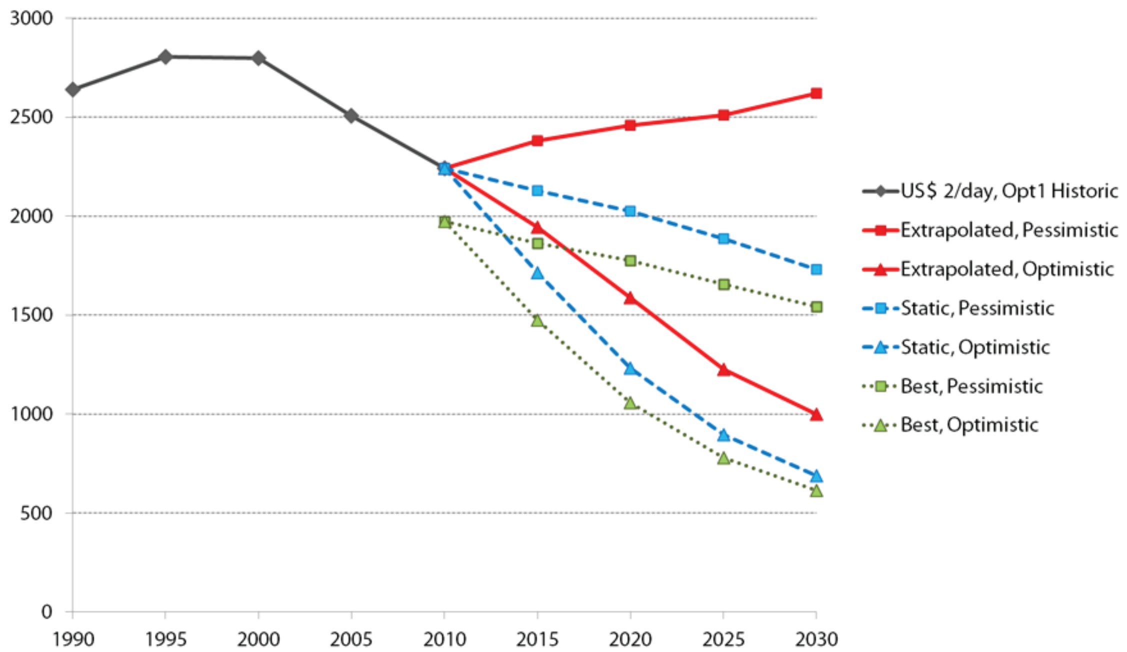
Figure 2.2. US$1.25 headcount (millions), by pessimistic/optimistic growth and three distribution scenarios, survey means, 1990–2030



Notes: *Optimistic/pessimistic = growth at IMF WEO/Half IMF WEO; extrapolated/static/best = current inequality trends/static inequality/'best ever' distribution.*

Source: *Edward and Sumner (2013: Fig. 1, p. 16).*

Figure 2.3. US$2 headcount (millions), by pessimistic/optimistic growth and three distribution scenarios, survey means, 1990–2030



Notes: *Optimistic/pessimistic = growth at IMF WEO/Half IMF WEO; extrapolated/static/best = current inequality trends/static inequality/'best ever' distribution.*

Source: *Edward and Sumner (2013: Fig. 2, p. 16).*

pattern of economic growth, the composition of public expenditure and especially social spending and labour market policies (Fields, 2001; Kraay, 2004; Mosley, 2004; Mosley et al. 2004; Ravallion, 1995).

One interesting study is that of Cornia et al. (2004), who use a dataset of 73 countries to identify critical threshold levels of inequality. They conclude that rising inequality can assist growth, but only up to a Gini value of 0.30; a Gini value above 0.45 impedes GDP growth. In short, they find a distinct non-linear relationship between initial income inequality and economic growth. They argue that too low levels of inequality are bad for growth (free-riding, high supervision costs), but also that too high levels of inequality can have serious negative consequences.

To illustrate farther, and in the context of debates on setting new Millennium Development Goals after 2015, one can consider the impact of changes in inequality on potential future poverty levels. Edward and Sumner (2013) find that forecasts of future global poverty are very sensitive to assumptions about inequality. In one scenario, the difference between poverty estimated on current inequality trends versus a hypothetical return to 'best ever' inequality for every country could be an extra billion people living below the US$2.day poverty line in 2030. Figures 2.2 and 2.3 show the range of possible poverty levels in 2030 based on different growth/ inequality scenarios.

The intrinsic case as to why inequality matters to relational human well-being

Throughout studies of inequality, there is a common topic: equity and inequality are seen only in comparison with other people. This has interesting resonance with the writings of Emmanuel Levinas (in particular 1969, 1998), whose work was concerned with the ethics of 'the Other'. Levinas argued that the question is not 'why do we exist?', but 'how do we justify our existence?'. Levinas contended that human beings have an infinite responsibility for 'the Other' because the sense of identity is constructed from 'positionality' regarding, and relationships with, other human beings. His central proposition is that relationships with 'the Other' are associated with self-identity to a large extent. Indeed, human beings have a sense of identity only through the existence of others and there is therefore a fundamental obligation to treat other human beings well because of one's own dependence on them for a sense of identity. Levinas's ethics thus provides a basis for caring about inequality because of its role in establishing an identity as a constituent element in universal human characteristics.

Temkin (2003) views equity as comparative fairness, meaning that it is fundamental to see it in relation to the lives of other individuals. This argument is in line with Milanovic (2003:3), who suggests that people tend to compare themselves with other peers: "There is no point in studying inequality between two groups that do not interact or ignore each other's existence."

Milanovic, of course, applies this argument to his concept of 'global inequality'. He (2003:3) considers that this is the time when studying and caring about global inequality really matters, because societies are more connected with each other than in the past. Indeed, Milanovic's (2011, 2012) focus is on inequality between all individuals in the world. He (2012:2) notes that inequality is often thought of within the boundaries of countries. However, he argues that:

> [I]n the era of globalization another way to look at inequality between individuals is to go beyond the confines of a nation state, and look at inequality between all individuals in the world.

The instrumental case as to why inequality matters to relational human well-being

Relational human well-being in areas such as social inclusion/exclusion, governance and peace can be related to inequality. The social impacts of inequality can include unemployment, violence, crime, humiliation, and deterioration of human capital and social exclusion (Beitz, 2001; Kaya and Keba, 2011; Nel, 2006, 2008; Thorbecke and Charumilind, 2002; Wade, 2005).

Milanovic (2003) provides an instrumentalist argument explaining why inequality matters. For him, inequality is important because other people's income enters our own utility function, which, in turn, affects our welfare. For example, if we consider that a specific situation is an injustice, we can have a utility loss. Thus, "people's welfare depends on the income of others" (Milanovic, 2003:4).

Then there are political aspects, which include arguments that high or rising inequality distorts processes of decision-making (Beitz, 2001; Birdsall, 2006; Kaya and Keba, 2011; Wade, 2005) and inequality may also be a threat to democratic participation (see empirical estimates of Nel, 2006; Solt 2008, 2010).

Nel (2008) discusses in-depth the socio-political consequences of inequality. He empirically links inequality to democratic participation, corruption and civil conflict. Nel goes yet further (2008:122–123) with a particular discussion of social exclusion: from the Weberian idea that it is a strategy of social closure used by the privileged to follow their own interests to the Senian perspective of social exclusion as a process whereby individuals are denied their capabilities and agency. He (2008:123) argues:

> Social exclusion can also be instrumentally relevant, that is, exclusion can be a causal factor in depriving individuals and groups of specific capabilities that flow from attaining a reasonable education standard, having access to credit and to employment opportunities, and from having access to the means to influence decision making, to name a few of the most serious capability deprivations in developing countries.

Thus, one can argue that there is a relationship between income or wealth inequality and social exclusion. In other words, when people are excluded, they cannot participate in the common institutions that build a society. They lose agency and experience a limited amount of opportunities. However, income is not the only factor determining whether a person is socially excluded. Other factors include race, religion, gender, ethnicity and language.

Furthermore, social exclusion creates inequality in access to public and private services. For example, Nel (2008:124-125) discusses how inequality affects the access to credit and insurance in developing countries and how it denies opportunities to formal schooling for children. Moreover, it also creates power concentration among the privileged, leaving those worse off without the option of participating in the political process of their countries. In turn, this can lead to an abuse in political power.

When people are excluded, they cannot participate in the common institutions that build a society. They lose agency and experience a limited amount of opportunities.

Others, too, have argued that inequality creates unfair policy-making processes (Beitz, 2001; Birdsall, 2006; Wade, 2005) because those who are worse off do not have the same access to state rule-setting forums. This is due to the difference in power and influence that people have. If people are not participating in the decision-making process, they are not deciding about issues that will affect their lives. This is the same as saying that they do not have control over their own lives, which could be considered another instrumental reason why inequality matters.

Moreover, inequality can exacerbate the problem of holding governments accountable. In a society with high inequality, those who are better off may believe that democracy will bring redistribution, and this redistribution means less economic and political power for them. Kaya and Keba (2011) explore such instrumental reasons at the local and global levels and argue that inequality erodes the fairness of institutions. They argue that inequality creates an unequal distribution of power within institutions, due to the differences in influence that countries have; this, in turn, affects the political economy of poor countries. The debate here intermingles aspects of material well-being with relational well-being demonstrating the non-seperability of the domains.

The intrinsic case as to why inequality matters to subjective human well-being

Subjective human well-being in areas such as self-value, dignity, respect, self-worth, self-esteem, aspirations and others can be related to inequality. Inequality matters because it influences our perceptions about self-worth and justice and all human beings are entitled to the same respect and dignity. This perspective supports the view that we should care about inequality because the ultimate moral concern is a world with dignity and respect for all individuals (Beitz, 2001; Brock, 2009; Temkin, 2003; Miller, 2011; Moellendorf, 2009).

Indeed, Moellendorf (2009) focuses his work on the importance of inherent dignity and respect and argues that equity is important because we are all entitled to human rights, which support respect and dignity.

Milanovic (2003) argues that, if people perceive something as unfair or unjust, this may affect their perceptions of their own worth or value. In other words, inequality makes people feel worse off because of injustice and unfairness and because it influences how human beings think they are valued in a society. This way of thinking suggests that inequality depends on one's position relative to another person; and, for supporters of egalitarianism, we are all entitled to an equal moral worth (Brock, 2009) and to the same amount of dignity and respect that others have (Moellendorf, 2009).

Inequality matters because it influences our perceptions about self-worth and justice and all human beings are entitled to the same respect and dignity.

Taking these arguments to the global level, Brock (2009:14) focuses on global justice and states that there is an equal moral worth of persons taking a cosmopolitan view of global justice, arguing, "Strong cosmopolitanism is committed to a more demanding form of global distributive equality that aims to eliminate inequalities between persons beyond some account of what is sufficient to live a minimally decent life."

Similarly, Miller (2011) focuses on inequality between countries and argues that firms, governments and individuals from advanced countries are taking advantage of individuals in developing countries — and thus violating their respect and dignity. Miller argues that advanced countries have inequality-reducing duties/obligations and that they should follow the 'principle of sympathy' towards those in need.

A considerable amount of research has been produced on group or 'horizontal' inequalities and related social inequalities over the last decade or so (e.g., Brown and Stewart, 2006; Kabeer, 2010; Stewart, 2002).[7] It is argued that persistent and related inter-group inequalities lead to the self-perpetuation of poverty. The durability of disadvantages that certain groups face because of their specific characteristics means that their members are more likely to be disproportionately represented among the poor. It is argued that the welfare cost of inequality is likely to be higher in relation to horizontal rather than vertical inequalities, as individuals/families are trapped to a greater degree because of the salient group boundaries (Stewart and Langer, 2007:4, 29).

It is also argued that people's human well-being is related not only by their individual circumstances, but also by how well their group is doing. This is partly because membership of the group is an aspect of a person's identity and hence the group's situation is felt as part of an individual's situation, and partly because relative impoverishment of the group increases negative perceptions and future expectations of its members (Brown and Stewart, 2006:6). Moreover, when political and socioeconomic deprivations coincide with strong and organized group identities, the result may be social conflict, violence, riots or even war. It follows that a critical instrumental reason for trying to moderate horizontal inequalities is that group inequality can be a source of violent conflict.

The instrumental case as to why inequality matters to subjective human well-being

Human well-being in the subjective or perception-based domain (e.g., self esteem and aspirations) is difficult to research empirically. The basic argument to be tested is whether, at a societal level, lower inequality levels are associated with higher levels of subjective human well-being.

Ferrer-i-Carbonell and Ramos (2012:13) provide a recent literature review on inequality and reported subjective human well-being. They argue that there are three channels through which inequality affects subjective human well-being: self-interest, regard for others and relative concerns (where one sits in the distribution):

> People (dis)like inequality because they perceive there is a positive risk that they could benefit (lose out) from it. A second view defends that the inequality (dis)like may also be due to individuals genuinely caring for their fellow citizens, beyond the implications that inequality may directly have on their well-being. That is, individuals have social preferences and these shape their taste for equality.

They note that the research for non-OECD countries is incredibly limited, less reliable and mixed in findings, but that trust in institutions seems to play a role in mediating the relationship between income inequality and subjective human well-being. They note the study of Graham and Felton (2005) of 17 Latin American countries based on the *latinobarómetro* that found that the unhappiest individuals are in the high-inequality countries (with a Gini > 0.55), but that the happiest individuals are in medium-inequality countries (with a Gini in the range of 0.5–0.55) rather than in the low-inequality countries (with a Gini of <= 0.5). One could question the high/medium/low inequality categories here, of course. Other studies on inequality and subjective well-being are based solely on transition economies (e.g., Sanfey and Teksoz, 2007; Teksoz, 2007).

2.4. Conclusion

In conclusion, earlier development thinkers focused on the relationship between economic development and inequality. More recent thinkers have broadened the lens to consider dimensions of human development and human well-being. Emerging from the debate are an intrinsic and an instrumental case as to why inequality matters. The intrinsic case is predicated on fairness and ethic/moral requirements. In contrast, the instrumental case is concerned with the social, economic and political consequences of high or rising inequality. It can be argued that the intrinsic case as to why national inequality matters is long-standing and well known to a considerable extent and is normative — largely based on various notions of fairness. In contrast, one can argue that the instrumental arguments as to why national inequality matters are increasingly gaining attention in academic literature, but have, to date, arguably received less emphasis in policy debates. The instrumentalist case has a surprisingly strong empirical basis that would suggest that inequality merits attention in the form of policy interventions to ensure that high or rising inequality does not reach extremities that hinder economic growth and/or more substantial poverty reduction. Indeed, unequivocally, the speed — and cost — of income poverty reduction are directly related to the prevailing level and direction of inequality. This implies that, if the objective is to reduce poverty or at least to raise the incomes of the poor, there is a need to track and intervene with policies to manage inequality in order to maximize rising average incomes and rising incomes of the poor.

Notes

1. In the late 1990s, many studies argued that year-to-year, intra-country inequality does not change a great deal (Deininger and Squire, 1998: Gallup et al., 1997; Li et al., 1998; Ravallion, 2001; Roemer and Gugerty, 1997; Trimmer, 1997). However, over time — for example, 10 to 20 years — notable increases in the Gini coefficient have been observed in a number of countries.
2. The commission is formally known as the Commission on the Measurement of Economic Performance and Social Progress. See: *www.stiglitz-sen-fitoussi.fr*.
3. See chapter 1.
4. This project covers quality of work, empowerment, physical safety, ability to go about without shame and psychological human well-being.
5. See *www.welldev.org.uk/research/working.htm*.
6. Ryan and Deci (2000:6–7) and others argue that autonomy — meaning "self-determination, independence and the regulation of behavior from within"—is one of the three fundamental and universal psychological needs (along with relatedness and competence).
7. Horizontal inequalities are defined as "the existence of severe inequalities between culturally defined groups" (Stewart, 2002:3). Social inequalities are similar to horizontal inequalities, but place a particular emphasis on inequality in social status (e.g., caste).

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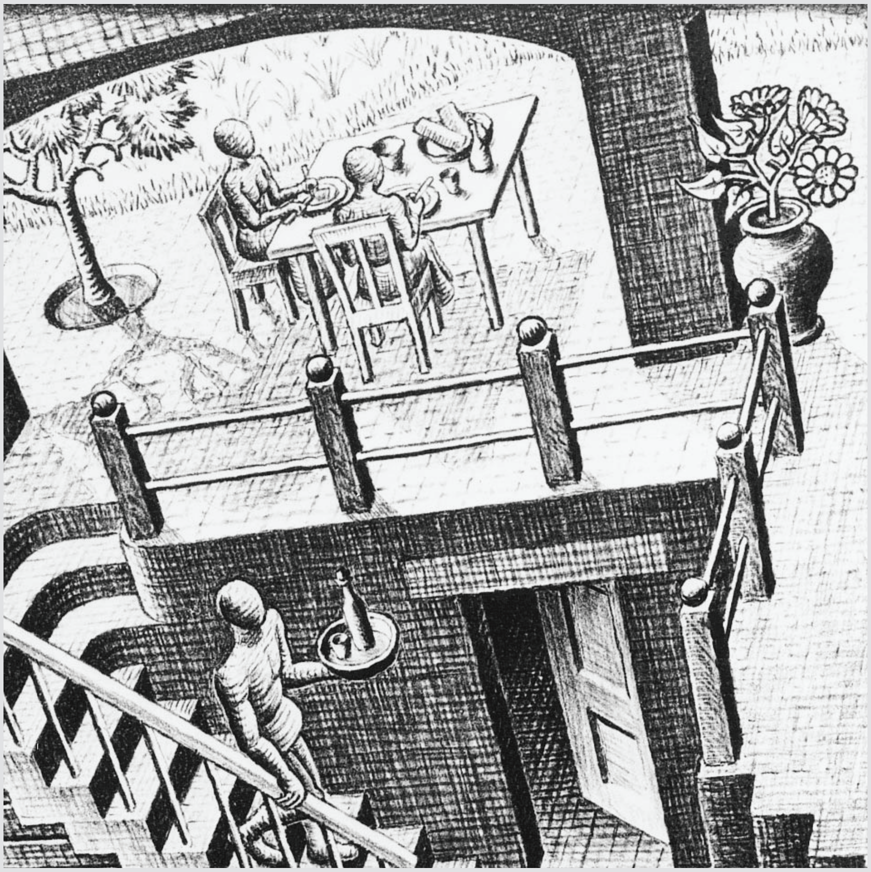
3 Income inequality



Rising inequality need not be an inevitable outcome of growth. Despite continued growth in the 2000s, some countries were able to reverse the direction of change in inequality and started to witness falling income inequality.

3.1. Introduction

This chapter reviews the trends and drivers of income inequality at a national level, i.e., income inequality between people and households within countries. Many studies have shown that inequality between nations has increased (WCDSG, 2004). But this process has been accompanied by a growing inequality within most countries (Cornia, 2004) and policy-making is mainly national. As noted by the World Commission on the Social Dimension of Globalization (WCSDG), "globalization starts at home" and national policies can make a great difference in driving inequality down. Paying attention to inequality at the national level therefore remains important.[1]

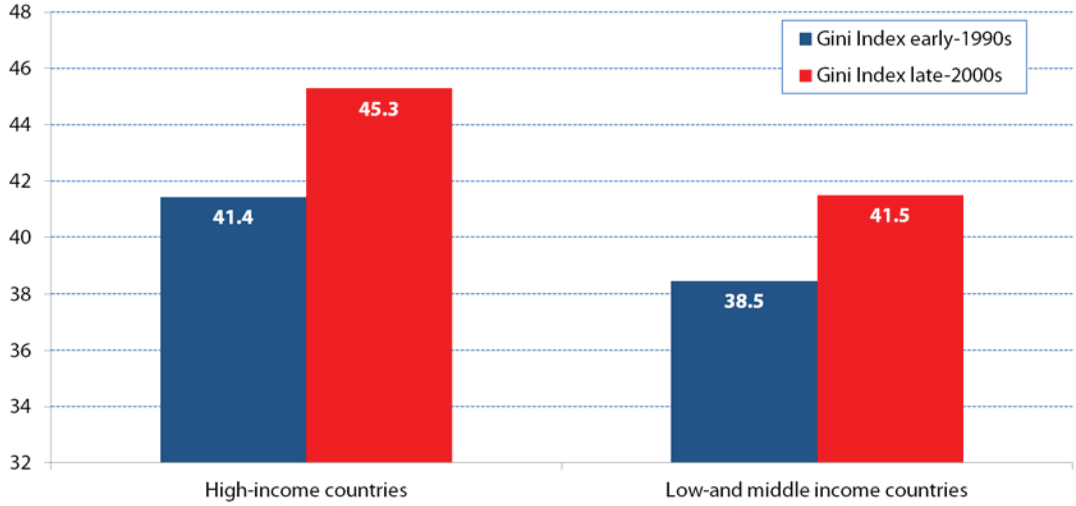
3.2. Trends in household income inequality

3.2a. Global trends

Data on household income inequality shows a rising trend from the early 1990s to the late 2000s[2] in most countries. In a sample of 116 countries, household income inequality as measured by the population-weighted average level of the Gini index increased by 9 percent for the group of high-income countries[3] and by 11 percent for low- and middle-income countries (Figure 3.1).

Of course, a global overview masks variations over time and between countries. Various countries and regions have not seen a linear trend, but have witnessed periods of increasing and decreasing inequality during this period. Similarly, in the same regional and income grouping, countries have very different trajectories, resulting in some cases in a net increase in income inequality over the mentioned period and in other cases in a net decrease.

Figure 3.1. Gini index of household income inequality by development status (early 1990s and late 2000s)



Source: *UNDP calculations using data from Solt (2009).*

Box 3.1. Global income inequality: convergence or divergence?

Three different concepts can be used to capture global income inequality:

Concept 1: Focuses on inequality between nations based on their level of average GDP (income) per capita, without taking into account differences between countries in population size. India and the Maldives have the same importance, because their population sizes are not taken into account.

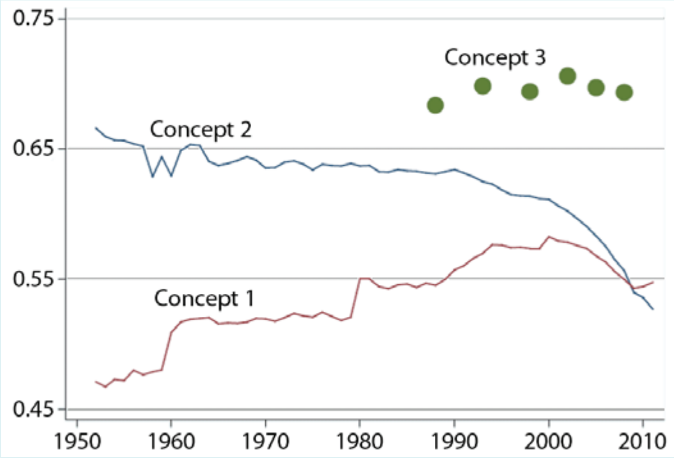
Concept 2: This concept focuses on the differences in GDP per capita or average incomes across countries but it takes into account population weight.

Concept 3: Concept 3 differs from Concepts 1 and 2 in that it takes into account actual incomes of individuals, not national income averages. That is, unlike the first two concepts, this one is individual-based: each person, regardless of her country, enters into the calculation with her actual income.

The following figure presents the trend in the Gini Index of global inequality from 1950 to 2010 according to the three concepts as calculated by Milanovic (2013).

According to concept 1, we see that average incomes across countries have actually become more divergent. Yet, if the population size is taken into account (Concept 2) we see that incomes across the world are converging. The reason for this difference in trends is that a number of very populous countries, mainly China and India, experienced relatively faster growth in per capita GDP than most other countries.

Gini index of global income inequality



Global inequality according to Concept 3 requires data for the distribution of income between households within countries that is available starting only from the mid-1980s. As can be seen, the Gini Index of global income inequality according to this concept stands at 0.7. This is much higher than the level of income inequality found within any individual country.

Despite the convergence in the average income of some big developing economies, rising income inequalities within these economies mean that overall global inequality did not go down. On the contrary: it showed some increase during the globalization era from the mid-1980s to the early 2000s.

Source: *Milanovic (2013).*

3.2b. Regional trends

At the regional level, household income inequality increased on average in all regions of the developing world except for Africa and Latin America and the Caribbean. The largest increases in inequality were in ECIS and Asia and the Pacific regions, where inequality increased on average by 35 percent and 13 percent, respectively (Table 3.1). The Arab States did not experience, on balance, a significant change in household income inequality.

Africa is the region with the largest average decline in inequality (7 percent), followed by Latin America and the Caribbean, with a decrease of 5 percent driven by significant reductions in inequality during the 2000s in the large countries of the region (namely, Argentina, Brazil and Mexico).

Table 3.1. Gini index of household income inequality by region (early 1990s and late 2000s)

Region	No. of countries	Gini index early 1990s	Gini index late 2000s	Percentage change
Africa	26	48.0	44.4	-7%
Arab States	6	36.1	36.0	0%
A&P	13	35.9	40.0	13%
ECIS	19	33.0	43.8	35%
LAC	20	51.4	48.4	-5%
All	**84**	**38.5**	**41.5**	**11%**

Source: *UNDP calculations using data from Solt (2009).*

Within each region, there are varying trends. While some countries experienced a rise in inequality, others saw a decline (Table 3.2). Yet, most regional averages show a net increase because the intensity of upward changes was generally higher than that of downward shifts (Table 3.3). More specifically: of 84 developing countries, about half of them (38) had rising inequality while the other half (34) had falling inequality, but the average increase for the former group was 20 percent while the average decrease for the latter group was 14 percent.

Table 3.2. Number of countries with rising and falling income inequality by region (early 1990s to late 2000s)

Region	Falling	No change	Rising	All
Africa	16	3	7	26
Arab States	3	1	2	6
A&P	5	2	6	13
ECIS	2	1	16	19
LAC	8	5	7	20
Low- & middle-income countries	**34**	**12**	**38**	**84**

Source: *UNDP calculations using data from Solt (2009).*

Table 3.3. Change in income inequality among countries with rising and falling income inequality by region (early 1990s to late 2000s)

Region	Falling	No change	Rising
Africa	-15%	-1%	10%
Arab States	-5%	1%	12%
A&P	-19%	2%	19%
ECIS	-11%	1%	43%
LAC	-10%	-2%	9%
All	**-14%**	**1%**	**20%**

Source: *UNDP calculations using data from Solt (2009).*

3.2c. Trends by income status

Inequality trends were also not uniform for countries when classified according to income status.[4] As mentioned earlier, the group of high-income countries had a 9 percent increase in inequality. At the same time, income inequality increased by 12 percent for the low-income and the lower-middle-income groups of countries. The only income status group that showed a decline in the level of income inequality was the group of the upper-middle-income countries (a decline of 7 percent) (Table 3.4).

Table 3.4. Gini index of household income inequality by income status (early 1990s and late 2000s)

Income status group	No. of countries	Gini index early 1990s	Gini index late 2000s	Percentage change
Low income	33	36.0	39.9	12%
Lower-middle income	47	41.1	43.9	12%
Upper-middle income	12	53.4	49.7	-7%
High income	24	41.9	45.7	9%
All	**116**	**39.0**	**42.1**	**10%**

Source: *UNDP calculations using data from Solt (2009).*

However, these group averages mask a more interesting story. During the period under study, the world has seen important changes in the income status of many low- and middle-income countries. Some low- and middle-income countries grew at a much faster rate than other countries and were therefore able to move to higher-income status groups. Table 3.5 looks at the change in inequality for the groups of countries that moved to a different income status from the early 1990s to the late 2000s.

Table 3.5. Changes in income status groups and income inequality (early 1990s to late 2000s)

Income group in the early 1990s	Change in income group by the late 2000s	No. of countries	Gini index early 1990s	Gini index late 2000s	Percent change
Low income	No change	27	36.4	38.6	8%
	Moved to lower-middle	6	35.5	41.5	17%
Lower-middle income	No change	24	44.5	41.3	-3%
	Moved to upper-middle	17	39.2	47.1	25%
	Moved to high income	3	32.7	39.5	21%
	Moved to low income	3	37.5	42.3	22%
Upper-middle income	No change	7	54.4	50.3	-7%
	Moved to high income	5	43.7	43.9	1%
High income	No change	24	41.9	45.7	9%

Source: *UNDP calculations using data from Solt (2009).*

An important observation from Table 3.5 is that developing countries that moved to higher income classifications, irrespective of initial income level, experienced larger increases in inequality than countries that stayed in the same income group.

For example, in the low-income group, the average Gini index increased by 8 percent for countries that remained in that group, but increased by 17 percent for countries that moved up to the lower-middle income group. The sharpest contrast can be observed in the lower-middle income group of countries: countries that stayed in that group had a modest decline of 3 percent in income inequality, while the group of countries that moved up witnessed an increase in the Gini index of well over 20 percent. [5] Similarly, in the upper-middle income group of countries, countries that remained in this group showed a decline of 7 percent in income inequality, while those that moved up to high income status showed an increase of 1 percent.

Inequality increased on average in all the major income groups that underwent fast growth during the past two decades. This phenomenon is interesting, as it can give insights to how dynamics of growth and structural change interact with inequality. This important observation will be further elaborated when discussing drivers of inequality below.

3.2d. Reversals in trends in income inequality

The trajectories of income inequality were not necessarily linear during the last three decades, as can be observed when breaking down this time horizon into two periods. Table 6 looks at the number of countries with rising and falling inequality between the 1980s and 1990s versus the number of countries with rising and falling inequality during the 2000s.

Table 3.6. Number of countries with falling and rising inequality (1980-1999 and 2000-2010)

Direction in 2000s	Direction in 1980s/1990s			
	Falling inequality	No change	Rising inequality	Total
Falling inequality	15	4	23	42
No change		1	4	5
Rising inequality	15		23	38
Total	**30**	**5**	**50**	**85**

Source: *UNDP calculations using data from Solt (2009).*

The 2000s witnessed some interesting changes in inequality trends, with more countries experiencing falling inequality than during the 1980s and 1990s. Out of 85 countries, 30 countries had falling inequality during the 1980s and 1990s. By the 2000s, this number had risen to 42 countries. [6] The reverse is true for countries that experienced stable or rising inequality. Prior to 2000, about 65 percent of the countries with reliable data showed stable or increasing income inequality, while, after 2000, this number drops to 51 percent. Despite this reversal in trend, the majority of the world's population is still living in countries with stable or increasing inequality, because, in populous countries like India and China, inequality is rising.

Data also show trend reversals at the level of individual countries. For example, of the 50 countries with rising inequality in the 1980s and 1990s, the levels of inequality fell in the 2000s for 23 countries. However, of the 30 countries with falling inequality in the 1980s and 1990s, 15 countries started to see increases in the levels of income inequality in the 2000s (Table 3.6).

Table 3.7 shows that, in most regions, more countries experienced falling inequality in the 2000s than in the 1980s and 1990s. For example, in the 2000s, 12 countries in Latin America and the Caribbean had falling inequality (compared to only six in the 1980s and 1990s) and five countries in Eastern Europe and the ECIS had falling inequality (compared to just two in the 1980s and 1990s). The only exception to this trend is the Asia and the Pacific region, where there were fewer countries with falling inequality in the 1980s and 1990s than in the 2000s.

Table 3.7. Number of countries with rising and falling inequality by income status and region (1980-1999 and 2000-2010)

	High income	Low & middle income					
	All	Africa	Arab States	A&P	ECIS	LAC	Total
1980–1999							
Rising inequality	22	2	1	3	14	8	50
No change [7]		3	1			1	5
Falling inequality	7	5	3	7	2	6	30
Total	**29**	**10**	**5**	**10**	**16**	**15**	**85**
2000–2010							
Rising inequality	14	3	1	6	11	3	38
No change	4		1				5
Falling inequality	11	7	3	4	5	12	42
Total	**29**	**10**	**5**	**10**	**16**	**15**	**85**

Source: *UNDP calculations using data from Solt (2009).*

The above-mentioned findings are consistent with the analysis of global inequality trends carried out by Cornia and Marorano (2012). They observe that the 1980s and 1990s were characterized by a dominance of increases in within-country income inequality in all regions except the Middle East and North Africa, while, from 2000 to 2010, they observe a bifurcation in inequality trends. They note a marked and unanticipated decline in income inequality in practically all of Latin America and in parts of sub-Saharan Africa and South-East Asia. However, inequality continued its upward trend — if at a slower pace — in most OECD countries, in the European and Asian transition economies, in South Asia and in the Middle East and North Africa. They note that the year of inflection of the Gini trend varied somewhat as a result of region-specific circumstances. In particular, the majority of countries of the South-East Asian and Asian economies in transition (Cambodia, China, and Viet Nam) experienced a steady inequality rise in both sub-periods. In contrast, after a rapid surge between 1990 and 1998, the countries of Eastern Europe and the former Soviet Union recorded an average modest decline in the Gini index during the years 1998–2003. This decline, however, was followed in subsequent years by a further income polarization. Cornia and Marorano observe that, in sub-Saharan Africa, income inequality started falling in most of the 21 countries with sufficient data (of a total of 44 countries) since 1995, while, in Latin America, the inequality decline began in 2002–2003 following the end of the 2001 'dotcom' and Argentinean crises of 2001–2002, both of which affected the entire region.

This overview of global and regional trends shows an average increase in household income inequality in high-income and low- and middle-income countries, including a number of large developing economies (such as China, India and Indonesia). Moreover, countries that experienced fast growth had, on balance, more acute increases in inequality than other countries. This raises some interesting questions about the patterns of growth during the period and how they might have impacted income distribution.

However, rising inequality does not seem to be an inevitable outcome of growth. Despite continued growth in the 2000s, some countries were able to reverse the direction of change in inequality and started to witness falling income inequality (Brazil, for example). An investigation of drivers of income inequality has to consider the exogenous or global drivers that influence the pattern of growth and structural transformation and endogenous drivers of inequality that are subject to influence by national policies.

3.3. Drivers of income inequality

3.3a. Types of income distribution

Household income distribution

The analysis of the trends in income inequality was focused on the distribution of income between households in an economy. One can interpret household income distribution in three ways (van der Hoeven, 2011):

- *Primary income distribution*: the distribution of household incomes consisting of the (sometimes cumulated) different factor incomes in each household before taxes and subsidies as determined by markets and market institutions
- *Secondary income distribution*: the distribution of household incomes after deduction of taxes and inclusion of transfer payments (i.e., as determined by fiscal policies)
- *Tertiary income distribution*: the distribution of household incomes when imputed benefits from public expenditure are added to household income after taxes and subsidies. This interpretation of household income is particularly relevant for developing, emerging and developed countries, as different government services are often provided for free or below market prices.

Most policy discussions on inequality focus on secondary household income distribution (take-home pay, rents interest earnings and profits after taxes).

Daudey and Garcia-Penalosa (2007) argue that the distribution of personal or household income depends on three factors: the distribution of labour endowments, the distribution of capital endowments, and the way in which aggregate output is shared between the two production factors. They further note that, if the distribution of capital is more unequal than that of labour, an increase in the labour share of total income would reduce personal income inequality. They find on the basis of cross-country and panel data that the shares of capital and labour in national income vary substantially over time and across countries. [8] Moreover, their article shows that the factor distribution of income is an essential and statistically significant determinant of the personal distribution of income:[9] a larger labour share is associated with a lower Gini index of personal incomes (for example, an increase in the labour share in Mexico to that in the United States would reduce the Gini index of the former by between two and five points). It is therefore important to also consider the functional distribution of income.

Functional distribution of income

The classical economists were especially concerned with the distribution of income between labour and capital: *the functional income distribution*. In effect, functional income distribution was at the centre of the debates on growth and distribution for many years. After a period during which the issue of functional distribution was left somewhat at the margins of the economic debate, renewed attention has been given in recent years to the relation between functional distribution and household income inequality.[10] The focus on functional inequality points to the importance of better understanding the changing position of labour in the production process in order to correctly interpret inequality trends, as labour has been losing ground relative to capital over the past 20 years (ILO, 2011). Furthermore, experience has shown that it is not possible to reduce primary inequality without addressing how incomes are generated in the production process and how this affects functional inequality (van der Hoeven, 2011).

Atkinson (2009) argues that there are at least three reasons to pay greater attention to functional income distribution:

- To link incomes at the macroeconomic level (national accounts) and incomes at the level of the household
- To help understand inequality in the personal distribution of income
- To address the social justice concerns with the fairness of different returns to different sources of income

Experience has shown that it is not possible to reduce primary inequality without addressing how incomes are generated in the production process and how this affects functional inequality.

Glyn (2009) furthermore argues that functional income distribution matters to people for at least two reasons. First, despite broader access to capital among households, wealth and especially high-yielding wealth is still extremely unevenly distributed (see section 3.4) and therefore redistribution from labour to property still has a significant effect in raising household income inequality. Second, the fact that profits may be rising much faster than wages conflicts with widely held views of social justice and fairness. However, in the post-World War II period, less attention was given to the functional distribution of income[11] and attention shifted to personal income or *household income distribution*.

It is therefore important to be more explicit about the drivers of functional income distribution as well as the drivers of primary, secondary and tertiary income distribution and the relation between the different types of inequality.

3.3b. Relation between various drivers and different types of income inequality

Many drivers affect income distribution. One can distinguish between drivers that are largely exogenous (i.e., outside the purview of domestic policy) and ones that are endogenous (i.e., mainly determined by domestic policy). However, a clear line is difficult to draw because even drivers that may look at first sight exogenous or autonomous are often the outcome of policy decisions in the past or the outcome of a political decision to create certain institutions (for example, the creation of the World Trade Organization to establish trade liberalization or the decision to invest in technical progress). Moreover, with increased globalization, exogenous drivers gain in importance. As a consequence, more is expected from national policy drivers to counteract the effect of the more exogenous drivers. Table 3.8 shows the interactions between the major drivers and the various types of income distribution.

Table 3.8. Main drivers and various types of income distribution

Drivers	Distribution type				
	Functional distribution	Wage distribution	Primary household income distribution	Secondary household income distribution	Tertiary household income distribution
Exogenous drivers					
1. Trade globalization	X	X	X		
2. Financial globalization	X	X	X		
3. Technical change	X	X	X		
Endogenous drivers					
4. Macroeconomic policies	X	X	X		
5. Labour market policies	X	X	X	X [12]	
6. Wealth inequality	X	X	X		
7. Fiscal policies: taxation and transfers	X		X	X	X
8. Fiscal policies: government expenditure					X

The upper left quadrant of Table 3.8 illustrates the relation between drivers that can be attributed to globalization (and are therefore exogenous by the above definition) and the functional income distribution (including wage distribution). The upper right quadrant gives the relation between drivers related to globalization and the various types of household income distribution. The lower left quadrant gives the relations between endogenous drivers (i.e., drivers that are mainly resulting from domestic policy) and the functional income distribution. The lower right quadrant gives the interactions between endogenous drivers and the various forms of household income distribution.

3.3c. Exogenous drivers of income inequality: globalization

Many aspects of globalization can be seen as drivers of income inequality, especially with respect to the functional and primary distribution of income. Traditionally, most attention has been given to the effects of trade and trade openness on income inequality, but, more recently, global finance and technical change (particularly in relation to its effect on wage differentials) have also been the focus of much attention. The impact of these globalization drivers on income inequality in many countries depends also on national macroeconomic and labour market policies, which can either counteract or intensify their effects. Before presenting empirical evidence on how globalization drives inequality, this section discusses some more theoretical aspects of how trade, financialization and technical change affect income inequality.

Trade globalization

The leading framework for understanding the possible link between trade and inequality until the 1990s was the Heckscher-Ohlin model. This model predicts that countries export goods that use intensively the factor with which they are most abundantly supplied and that trade therefore increases the real return to the factor that is relatively abundant in each country, lowering the real return to the other factor. According to the Heckscher-Ohlin model, inequality in developing countries that are well endowed with unskilled labour should have declined with trade as the real returns to unskilled labour rises (Harrison, McLaren and McMillan, 2011). However, this is contradicted by evidence of rising inequality in developing countries during rapid globalization. An additional problem for the Heckscher-Ohlin theory has been widespread evidence of within-industry increases in demand for skilled workers (UNCTAD, 2012).

An alternative — and currently more credited — framework to explain the relation between globalization and inequality trends looks at how technological change increased the demand of skilled workers (Harrison et al., 2011). Other factors that have been cited by economists include: changes in labour market institutions leading to the weakening of labour collective action platforms, such as unions and the declining real value of minimum wages; differential access to schooling; and immigration. Most labour and trade economists were skeptical of assigning too much importance to trade-based explanations for the increase in inequality (Freeman, 2004).

New theoretical developments focusing on heterogeneous firms and bargaining, trade in tasks, labour market frictions and incomplete contracts provide better insights into the effects of trade on income and wage inequality and can better explain how trade could contribute to rising within-industry inequality as well as rising inequality in countries at all income levels (Harrison et al., 2011). They mention rising skill premia across countries as a result of North-South trade in tasks and even as a result of North-North trade in goods due to research and development effects or the skill bias of the transport sector. Other models go beyond the skill premia to analyse the effect of trade on the middle class and distinguish between wage inequality and inequality in lifetime consumption through explicitly dynamic models of labour adjustment. The effects of trade on inequality among observationally identical workers (i.e., those doing the same job in the same industry) are also explored through heterogeneous-firms models or implicit-contracts models.

In short, the assumptions of simple models of trade and distribution do not do justice to the complex relations between trade and inequality. It is fair to say instead that the way in which trade triggers gains and losses among factors of production and classes of workers depends to a large extent also on the specific institutional and social features of each country.

In addition to changes in the total number of jobs, other trade-related effects with a bearing on income inequality include shifts in labour towards more (or less) productive activities or even away from formal employment towards informality or unemployment. UNCTAD (2012) notes that, in the group of developing countries in Asia, and most notably in China, labour has moved from low-productivity (often rural) jobs towards higher productivity jobs, especially in manufacturing. At the same time, labour in Latin America and sub-Saharan Africa has moved in the opposite direction (i.e., from high-productivity jobs in manufacturing towards lower-productivity jobs) towards informal services and the production of primary commodities (McMillan and Rodrik, 2011). Taking this broader perspective enables a better understanding of the structural transformations that give rise to intersectoral factor movements and sector-specific productivity shifts. Other factors that need to be taken into account when assessing trade effects on inequality are external shocks and macroeconomic and exchange rate policies (UNCTAD, 2012).

Financial globalization

One explanation for the fact that inequality in developing countries increased despite expectations of declining inequality according to the Heckscher-Ohlin model, is that trade openness was often combined with capital openness (financial liberalization). According to Taylor (2004), the opening of the capital account, without compensating national measures, caused the real exchange rate to rise in many countries. This, in turn, shifted aggregate demand towards imports and led to a restructuring of production, thus reducing the absorption of unskilled labour, increasing informalization and raising wage inequality.

The opening of the capital account is only one of the many (interrelated) aspects of a global process, often called financialization, which also includes various forms of financial deregulation. Developing countries have been especially vulnerable to financial volatility (Ghosh, 2011). For instance, financial deregulation in some countries, notably the United States, has had a destabilizing effect on developing countries that otherwise had a fairly prudent financial management framework. The reason is that international capital flows largely respond to the 'manics' and 'panics' of financial markets in addition to economic fundamentals (Freeman, 2010).

Financialization has had two important effects on the bargaining position of labour. First, as a result of financialization, firms have gained more options for investing: they can invest in financial assets as well as in real assets and they can invest at home as well as abroad. They have gained mobility in terms of the geographical location as well as in terms of the content of investment. Second, financialization has empowered shareholders relative to workers by putting additional constraints on firms to create immediate profits while the development of a market for corporate control has aligned management's interest to that of shareholders (Stockhammer, 2013). ILO (2008) observes that "financial globalization has led to a depression of the share of wages in GDP".

Freeman (2010) argues that deregulating finance was based on theory and ideology and that evidence that an unbridled global capital market would improve economic outcomes was non-existent. Comparing the performance of countries with differing degrees of integration to the global capital market over time, Kose, Prasad, Rogoff and Wei (2006) found little evidence that the financial liberalization in fact improved economic performance. Prasad, Rajan and Subramanian (2007) conclude that "greater caution toward certain forms of foreign capital inflows might be warranted" (2007: 32). Van der Hoeven and Luebker (2007) argue furthermore that financialization has increased macroeconomic instability in many developing countries, with a more than proportional negative effect on the income of poorer workers and a consequent worsening of functional and primary income inequality.

Technical Change

Technological change influences the distribution of income through its effect on different factors of production. If technological change results in greater demand for skilled labour (more educated or more experienced) rather than for unskilled labour by increasing its relative productivity, the skill premium — the ratio of skilled to unskilled wages — might increase, driving at the same time an increase in income inequality (unless compensating measures are taken). Technological change also affects the functional distribution of income by raising the productivity of and returns to capital relative to labour. Primary income inequality might therefore increase as capital incomes are less equally distributed and accrue to the upper income deciles of households.

A declining labour income share means that the growth of wage rates lags behind growth of labour productivity (possibly because of the presence of a large pool of rural surplus labour typical of many developing countries). The pool of surplus labour weakens the bargaining power of labour and depresses wages in the nonagricultural sectors, contributing to declines in the labour income share when globalization and market-oriented reform lead to rapid growth (ADB, 2012).

However, it would be wrong to focus on the skill premium in isolation, as there may well be a race between 1) technological progress, which tends to increase the demand for skilled labour, thereby raising more than proportionally the wages of the skilled labour, and 2) educational attainment, which increases the supply of skilled labour, thereby depressing the wages of skilled labour (Tinbergen, 1975). Goldin and Katz (2008) argue that, following a long period of relatively stable technological progress, rapid progress in information technology and the widespread use of computers in the workplace accelerated the rate of technological change in the 1980s and 1990s. The resulting increase in the demand for skilled labour outpaced educational advances in developed and developing countries alike, causing increases in wage inequality (UNCTAD, 2012). But the theory of a race between technological progress and supply of education rests on two premises, which may not be always fulfilled. The first is the assumption that the education system can indeed provide the new skills required by technological change. The second is that the labour market will cause an excess supply of skilled workers to bring their wages down. In many countries, though, highly paid interest groups can neutralize downward pressure on their wages arising from labour market dynamics.

Technological change also affects the functional distribution of income by raising the productivity of and returns to capital relative to labour. Primary income inequality might therefore increase as capital incomes are less equally distributed and accrue to the upper income deciles of households.

Concerns about inequality in developing and transition economies often focus on distributional effects stemming from changing production structures. Such effects are likely to be larger in developing than in developed countries because productivity gaps between different economic sectors, as well as among enterprises within the same sector, tend to be much larger in developing countries (McMillan and Rodrik, 2011).

Empirical Evidence

So far, this section has delineated three major drivers of income inequality that influence functional and primary income distribution: trade globalization, financial globalization and technical change. Although one can theoretically analyse these drivers separately, it is more difficult to do so empirically, as these drivers do not always operate independently. For example, trade openness often takes place in a context of capital account openness and increasing trade and foreign direct investment influences technical change. The empirical analysis therefore looks at the drivers of income inequality in conjunction.

Contrary to neo-classical conventional wisdom, which sees the labour share in GDP as relatively constant, Diwan (1999) and Harrison (2002) argue that the proportion of GDP that goes into wages and other labour income is variable over time. Moreover, the evidence on the functional distribution of income over the past two decades indicates a shift of distribution in favour of capital, i.e., the share of labour in total GDP declined.

Harrison (2002) shows that, in the group of poorer countries, labour's share in national income fell on average by 0.1 percentage points per year from 1960 to 1993. The decline in the labour share accelerated after 1993 to an average decline of 0.3 percentage points per year. In the richer subgroup, the labour share grew by 0.2 percentage points before 1993, but then fell rapidly by 0.4 percentage points per year.

A number of factors can explain the change in labour shares. Harrison (2002) found that changes in factor shares are primarily linked to changes in capital/labour ratios in production. However, measures of globalization (such as capital controls or direct investment flows) also play a role. Exchange rate crises lead to declining labour shares, suggesting that labour pays a disproportionately high price when there are large swings in exchange rates (i.e., wages are more severely affected than GDP). Capital controls, in contrast, are associated with an increase in the labour share, an effect that Harrison attributes to the weaker bargaining position of capital vis-à-vis labour if the cost of relocating production increases with capital controls. Lee and Jayadev (2005) explore whether the weak bargaining position of labour under open capital accounts is also a causal mechanism for the decline in labour shares. They found that financial openness exerted a downward pressure on the labour share in developed and developing countries from 1973 to 1995.

The overall decline in the labour share is partly explained by what van der Hoeven and Saget (2004) call the "ratchet effect": after an economic shock or a financial crisis, the labour share in gross national income decreases, but then increases at a slower pace than GDP in the phase of recovery. Some authors argue that the decline in labour share after economic shocks in the 1990s was, in effect, the consequence of an excessive labour share before the crisis; they thus partly blame labour for the build-up of the crisis. However, only in a minority of cases were financial crises in the 1990s caused by bidding up wages and labour shares. In most cases, the crisis was caused by external events or rent-seeking behaviour of capital owners. In a study of the manufacturing sector in a large sample of developing countries, Amsden and van der Hoeven (1996) argue that a decline in real wages and a fall in the wage share of value added in most non-Asian developing countries in the 1980s and the 1990s reflect a redistribution of income from labour to capital, as low wages were made to bear the burden of uncompetitive manufacturers.

Trade openness also played a role in the changes in labour shares. Harrison (2002) finds that increasing trade is associated with a fall in the labour share. This result is robust across various specifications of the regression analysis. These results point to a systematic negative relationship between various measures of globalization and the labour share. Similarly, Vos (2007) argues that it is also clear that trade liberalization is no panacea for poverty reduction. Average welfare gains are mostly small and, in many instances, have been inequality-enhancing.

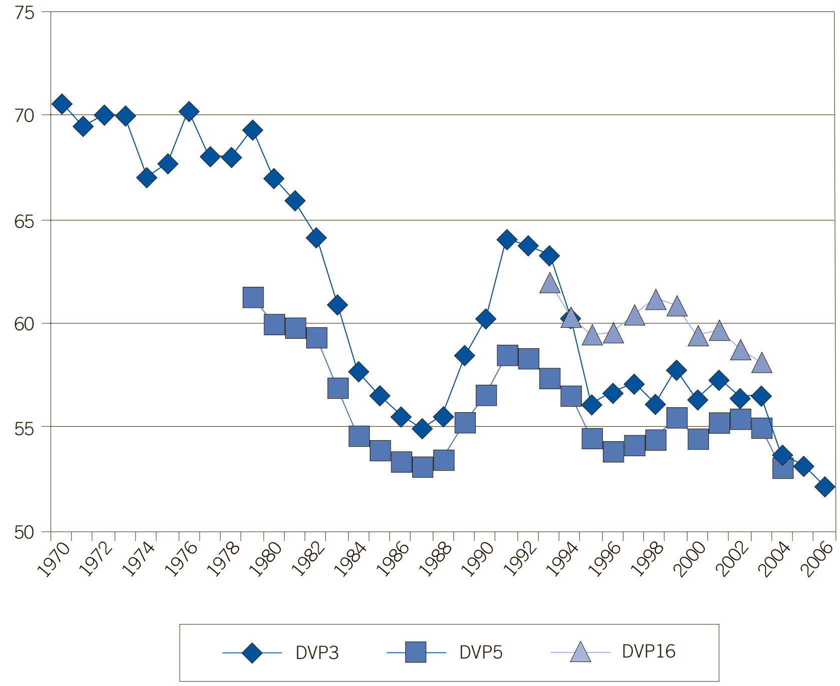
Daudey and Garcia-Penalosa (2007) indicate a new potential trade-off between growth and equality. In order to attract foreign investment and promote growth, developing countries have tended to foster policies that are favourable to capital and that increase its return, but that also carry a substantial cost in terms of inequality. This means not only that governments should carefully assess the desirability of such policies, but also that external shocks that tend to reduce the labour share may call for corrective policies in order to offset their distributional implications.

The decline in labour shares is not limited to specific sectors, but is an economy-wide phenomenon. Rodriguez and Yayadev (2010) investigate by means of a large panel dataset for 135 countries whether the secular decline in labour shares is due to the decline of the labour share in particular sectors or whether the decline in labour share is economy-wide. By matching national economy-wide results with results for the labour share at the three-digit industry level, they conclude that the decline in labour shares is driven primarily by decreases in intra-sector labour shares opposed to movements in activity towards sectors with lower labour shares. This important conclusion implies that the decline in labour shares is driven by economy-wide phenomena and, therefore, national policies rather than industry specific policies are needed to reverse it.

The downward trend of the labour income share is even more pronounced in many emerging and developing countries, with considerable declines in Asia and North Africa and more stable but still declining wage shares in Latin America (ILO, 2011). However, these trends have not been uniform across workers with different skills and levels of education.

The International Labour Organization (2013) and Stockhammer (2013) have used an enlarged panel dataset encompassing developed, developing and emerging countries to investigate the drivers of declining wage shares. They observe that the simple average of labour shares in 16 developed countries for which data are available from 1970 to 2010 declined from about 75 percent of national income in the mid-1970s to about 65 percent in the years just before the global economic and financial crisis. The average of labour shares in a group of 16 developing and emerging economies also declined from around 62 percent of GDP in the early 1990s to 58 percent just before the crisis (Figure 3.2). Even in China, a country where wages roughly tripled over the last decade, GDP increased at a faster rate than the total wage bill — and hence the labour income share went down (Figure 3.3).

Figure 3.2. Adjusted labour income shares in developing and emerging economies, 1970-2000

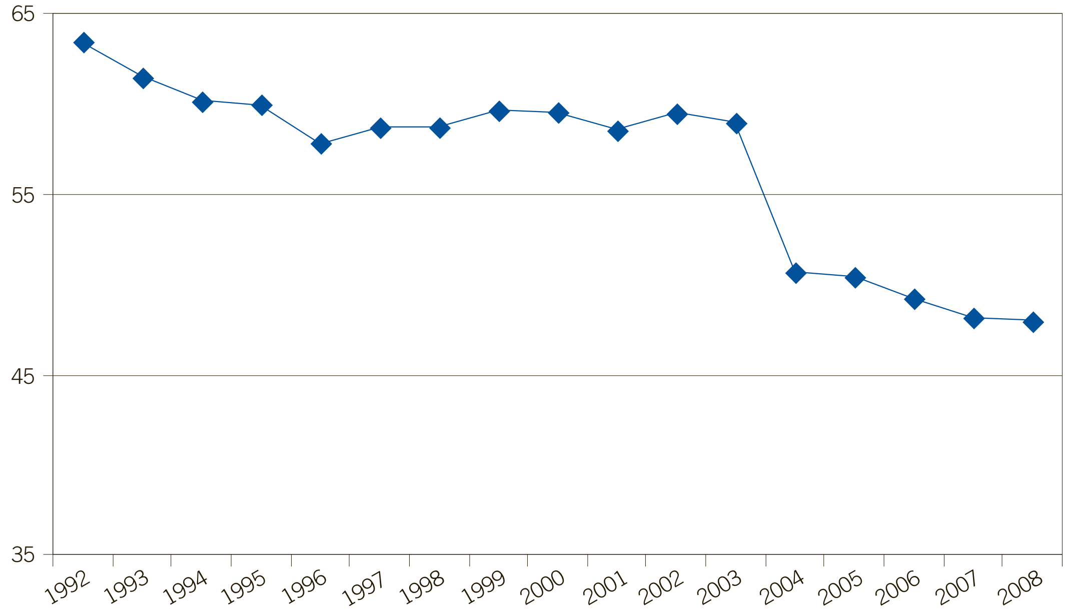


Note: *DVP3 = unweighed average of Mexico, Republic of Korea and Turkey; DVP5 = unweighed average of China, Kenya, Mexico, Republic of Korea and Turkey; DVP16 = unweighed average of Argentina, Brazil, Chile, China, Costa Rica, Kenya, Mexico, Namibia, Oman, Panama, Peru, Republic of Korea, the Russian Federation, South Africa, Thailand and Turkey.*

Source: *ILO (2013: Fig. 32, p. 44), Stockhammer (2013: Fig 2, p. 2).*

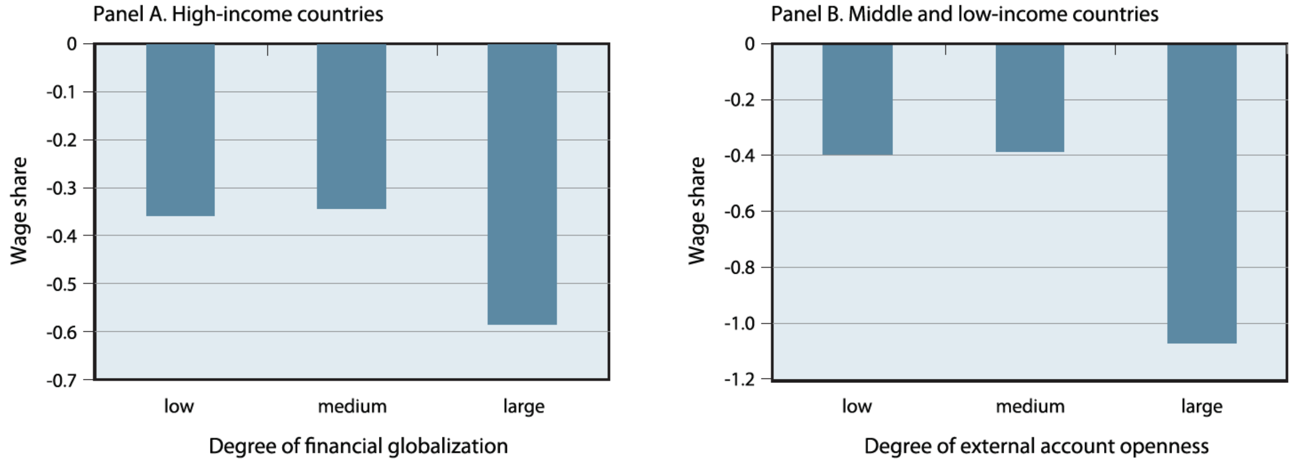
A number of studies from the ILO also analysed the different drivers behind the decline in labour shares. The ILO (2011) investigates the effects of financialization on the wage share in developed and developing countries reporting a consistently negative relationship between financialization and wage shares across the majority

Figure 3.3. Unadjusted labour income share in China, 1992–2008



Source ILO (2013: Fig. 33, p. 45).

Figure 3.4. Financialization and changes in the wage share, 1985 to 2005 (Average annual growth, in percent)



Note: *Panel A: Financial globalization: sum of foreign assets and liabilities. Panel B: Financial globalization: degree of capital account openness.*

Source: *ILO (2011: Fig. 3.3, p. 60).*

of high-income countries (Figure 3.4, panel A). Similarly, in middle- and low-income countries, a higher degree of capital account openness is associated with a larger decline in the wage share (Figure 3.4, panel B). More detailed regression estimates (ILO, 2011) show that capital account openness and currency devaluation are significantly associated with a wage share decline in Eastern Europe and Latin America, partly as a result of significant swings in capital flows and the consequent boom–bust cycles. These results confirm Diwan's earlier observation (2001) that currency crises are associated with sharp declines in the wage share, reiterating that the cost of financial instability has fallen disproportionally on labour.

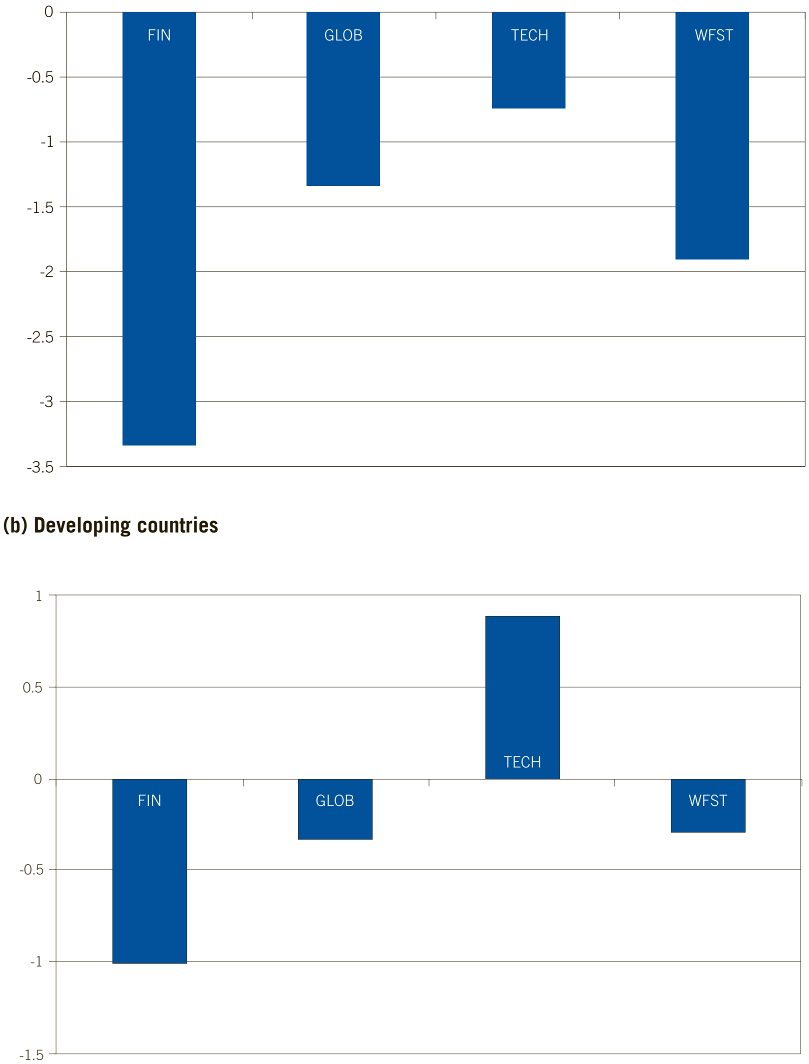
More recent analysis (Stockhammer, 2013; ILO, 2013) investigates welfare state enhancement and labour market institutions in addition to financialization, globalization and technical change as drivers of income inequality. As the authors admit, quantifying these drivers is not easy and, in some cases, crude estimates had to be made. Technical change is, for example, measured by GDP per worker and share of agriculture and industry in GDP, globalization by the quotas of exports and imports in GDP, welfare state by government consumption, and financial globalization by an index constructed by the IMF (Abiad, Detragiache and Tressel, 2008).[13]

Bearing these limitations in mind, Figure 3.5a shows that, in the case of developed economies, all factors contributed to the fall in the labour income share over time, with financialization playing the largest role. The estimates mean that, in terms of relative contribution, financialization contributes to 46 percent of the fall in labour income shares, compared to

Figure 3.5. Decomposing changes in the average adjusted labour income share between the periods 1990-1994 and 2000-2004 in developed (a) and developing countries (b)

(a) Developed economies

(b) Developing countries



Note: *FIN: Financialization, GLOB: Globalization, TECH: Technology, WFST: Welfare state measures and labour market Institutions.*

Sources: *ILO (2013: Fig. 38, p. 52), Stockhammer (2013: Fig. 7, p. 33; Fig. 9, p. 4).*

the 19 percent of trade globalization and the 10 percent of technology. In addition, 25 percent of the decline in labour share is due to downward changes in two broad institutional variables: government consumption and union density.

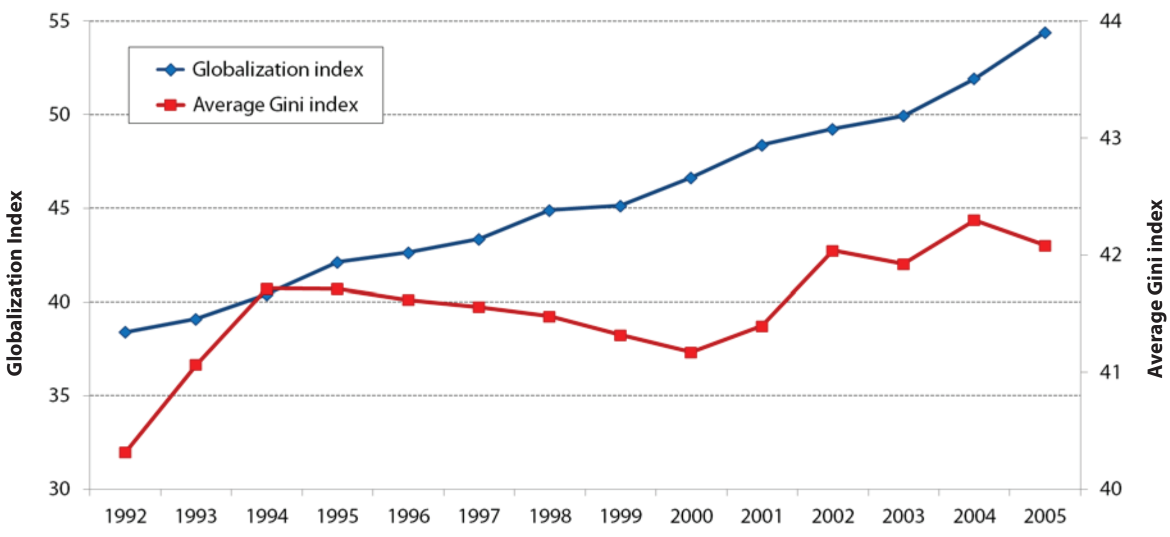
In the case of developing economies (Figure 3.5b), a positive impact of technology on the labour share can be observed, which the ILO (2013) explained as a "catching up" effect of economic growth, with a tightening of labour markets and the draining of excess labour supply. This technology effect partly offsets the adverse effects of financialization, globalization and the shrinking of the welfare state in developing countries. Nevertheless, as was the case for developed economies, financialization stands as the single most adverse factor in terms of explaining the decline of labour income shares. In addition to these variables, the ILO (2013) observes that increases in unemployment also have a strong negative impact on the labour share, mainly as a result of downward pressure on wages and the weakening of workers' bargaining position.

Empirical evidence also shows how several exogenous drivers such as financialization and globalization have resulted in higher primary household income inequality.

In Figure 3.6, the Gini index of household income is plotted against the globalization index.[14] The globalization index[15] is the most widely based index of globalization, as it combines the major *de facto* indicators of globalization (trade, foreign direct investment (FDI) stocks, portfolio investment and income payments to foreign nationals) with various *de jure* indicators (hidden import barriers, the mean tariff rate, taxes on international trade and capital account restrictions).

In a sample of 102 countries (30 of them high-income countries, 72 lower- and middle-income countries), the rise in the Gini index coincided with a similar increase in globalization. For countries in this sample, the

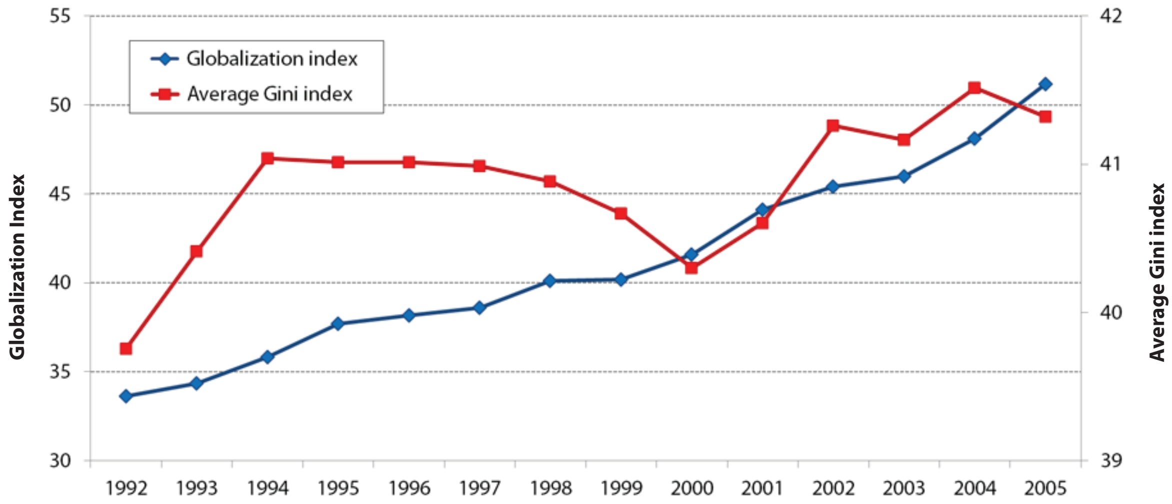
Figure 3.6. Income inequality and globalization across the world, 1992–2005



Source: *UNDP calculations using data from Solt (2009).*

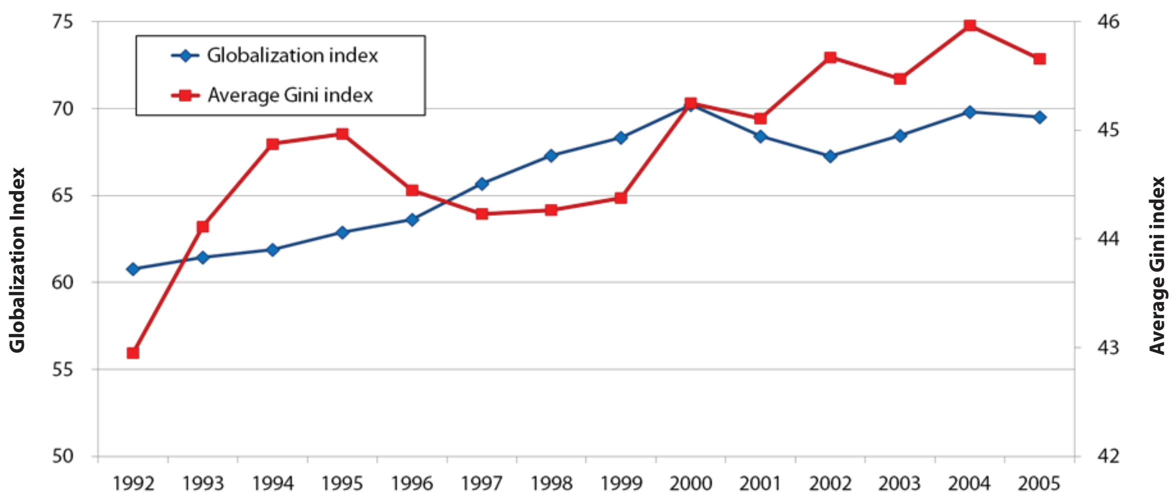
average level of inequality increased by 4 percent during the period, while the index of globalization increased by 42 percent. The correlation between the two measures is above 70 percent.[16] This strong correlation for all countries holds also when high-income (developed) and developing countries are considered separately. The correlations between the two indicators in each group are 68 percent and 67 percent, respectively (see Figure 3.7 and Figure 3.8). But in high-income economies, there is an already high level of globalization at

Figure 3.7. Income inequality and globalization across developing countries, 1992-2005



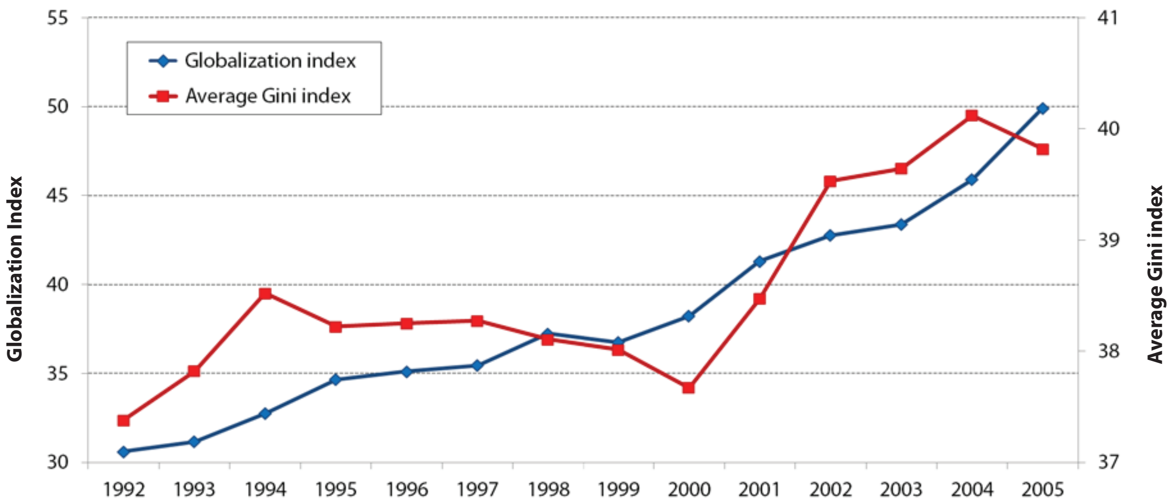
Source: *UNDP calculations using data from Solt (2009).*

Figure 3.8. Income inequality and globalization in high-income (developed) countries, 1992-2005



Source: *UNDP calculations using data from Solt (2009).*

Figure 3.9. Income inequality and globalization in the Asia & Pacific region, 1992-2005



***Source:** UNDP calculations based on Solt (2009).*

the beginning of the period, with a slow rise thereafter (from 61 percent in 1992 to 68 percent in 2005), while lower- and middle-income economies start at a much lower level of globalization and have a much steeper rise (from 34 percent in 1992 to 52 percent in 2005).

The strong effect of globalization on rising household income inequality is even more apparent in the case of countries in Asia and the Pacific (Figure 3.9). This region had the steepest rise in the globalization index (from 30 to 41) and the fastest increase in the Gini index of household income inequality (37.0 to 40.0) of all developing regions.

Table 3.9. Average Gini index and globalization index by income status groups

Income status group	Gini index	Globalization index
Low income	39.6	49.2
Lower-middle income	43.5	54.4
Upper-middle income	50.9	60.3

***Source:** UNDP calculations using data from Solt (2009).*

Grouping countries by income status and looking at period averages also gives some quite interesting insights (Table 3.9). Among developing countries, indicators of income inequality and of globalization increase uniformly for each level of income status group.[17] Put differently, upper-middle-income developing countries score higher on inequality and globalization than lower-middle-income countries, and lower-middle-income countries score higher on both measures than low-income countries. Among the subgroups of countries that changed income status classification during the period, the group of countries that graduated from low to lower-middle and the group that graduated from upper-middle to high income (developed) had a strong positive correlation in the trends of globalization and income inequality.

The analysis of the empirical evidence on the effect of globalization, especially financialization, on income inequality over the past two decades confirms that globalization, especially financialization, is a strong driver of increases in functional and household income inequality.

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3.3d. Endogenous drivers of income inequality

The previous sections discussed the effects of exogenous drivers on the functional and household distribution of income (the north-east and north-west quadrants of Table 3.8). This section discusses the impact of endogenous drivers on the distribution of income.

The discussion of endogenous drivers can be broken into two main groups: drivers that impact mainly the functional and primary distribution of income and drivers that impact directly the secondary and tertiary distribution of income. In the case of the latter group, the analysis is mostly concerned with the role of fiscal policies such as taxation and government spending in shaping the distribution of household income.

Endogenous drivers of functional and primary inequality

Macroeconomic policies address the overall aggregates of the economy: prices, output, employment, investment and savings, government balances and balances on the external account. There are three major policies to manage these macroeconomic aggregates: exchange rate policies, fiscal policies and monetary policies (Ghosh, 2007). Macroeconomic policy in its modern meaning was conceptualized during the 1930s as an answer the Great Depression and rising unemployment. During the post-World War II years, which were dominated by Keynesian thinking, macroeconomic policies were designed to lead to macroeconomic stability, basically defined as full employment and stable economic growth, accompanied by low inflation and sustainable external accounts. The emphasis on full employment and growth in the post-war years led in most countries to an increase in the wage share and an improving functional income distribution (Ocampo, 2003).

However, since the 1980s, fiscal balance and price stability have moved to centre stage, replacing the Keynesian emphasis on real economic activity. The shift in macroeconomic thinking in many developing countries was mainly driven by the so-called 'Washington Consensus', a wider set of policies aimed at stabilizing economies and forcing structural change through market liberalization in the wake of the debt crises in the 1980s, especially in Latin America and Africa.

The changes in monetary, fiscal and exchange rate policies under the aegis of the Washington Consensus were often (new) drivers for growing inequality (e.g., Cornia, 2004; Taylor, 2004; van der Hoeven and Saget, 2004).

Monetary policy used the interest rate as a policy instrument to curb inflation below the 5 percent guideline set by international financial institutions in developing countries (UNESCAP, 2013). This policy effectively induced a recession in developing economies by increasing the cost of capital, thus lowering investment and growth. And, indeed, growth was lower from 1980 to 2000 compared to the period from 1960 to 1980 (Cornia, 2012). Furthermore, these contractionary monetary policies led to a surge in unemployment and, in several cases, even to an increase in informal employment. As companies shed labour and cut wage costs, without a safety net to compensate for the loss of income, functional and household income inequality worsened.

Financial liberalization and high interest rates encouraged large capital inflows, including speculative capital. This led to an appreciation of the Real Effective Exchange Rate, which, in turn, led to a worsening of the trade balance, as exports became more expensive abroad and imports cheaper. While increased capital flows increased demand, the appreciated Real Effective Exchange Rate meant that this demand was satisfied with imports rather than local production, thus depressing growth and employment.

Exchange rate policies adopted during the period to achieve macroeconomic stability had adverse impacts on inequality. In this context, many developing countries were encouraged by international financial institutions to maintain either a fixed nominal exchange rate regime or a free-floating exchange regime (Cornia, 2006). Each of these 'two corner solutions' put developing economies at the risk of currency crises and large currency devaluations. On the one hand, fixed nominal exchange rate regimes are unable to cope with external shocks such as trade shocks and are prone to speculative attacks, thus increasing the risk of a currency crisis. On the other hand, free floats often turn into a 'free fall', given the volatile and pro-cyclical behaviour of capital flows (Reinhart and Rogoff, 2003). Massive currency devaluations and crises that arose from the adoption of these two 'extreme' exchange rate regimes led to rapid declining real wages, often affecting lower wage-earners disproportionately in comparison to other wage-earners, capital owners and land owners (van der Hoeven, 1991).

Capital account openness and the resulting large capital inflows, combined with high interest rates, meant that banks were more likely to lend to high-risk/high-return activities in sectors with lower concentrations of unskilled workers such as finance, insurance and real estate. Conversely, poor households and the small and medium enterprise sector, where most of the poor and unskilled workers are employed, were locked out of the benefits of the expansion in credit markets due to lack of collateral, insufficient profit margin and prohibitive transaction costs (Cornia, 2012). As noted by UNESCAP, this asymmetric distribution of the benefits of finance can "lead to poverty traps, negative effects on social and human development and a rise in inequality" (UNESCAP, 2013: 153).

As a result of the Washington Consensus, fiscal policies abandoned their development and distributional role and became geared towards achieving stabilization. Policies to maintain low budget deficits (or even surpluses) were seen as essential to achieve low inflation. This was achieved through expenditure cuts, with little regard for the composition of those cuts and whether they happened at the expense of public investment in infrastructure or social expenditures (UNESCAP, 2013). This harmed growth and distribution. Public investment in infrastructure diminished, with a negative effect on growth and poverty reduction, while expenditure cuts in social services like health and education worsened tertiary income distribution and reduced the opportunities for social mobility.

In addition to expenditure cuts, governments reduced trade taxes to encourage globalization and income and corporate tax rates to encourage the private sector. The resulting fall in tax revenue in turn led to higher government deficits, which necessitated even further expenditure cuts. Indirect taxes that were introduced to compensate for the loss of tax revenue, such as value added tax (VAT), did not generate enough revenue, but reduced the progressivity of the taxation system. In summary, the redistributive role of taxation was minimized by reducing the size of tax revenues available for social spending and by making the tax system less progressive. Issues of fiscal policy are discussed in more detail in the following section on the drivers of secondary and tertiary inequality.

In summary, monetary, exchange rate and fiscal policies adopted during the past three decades contributed to increasing inequality by reducing growth, investment and employment. Yet little attention was paid to the distributional impacts of those policies. However, various countries recently have started to apply more development oriented macroeconomic policies, which Cornia (2012) refers to as "new structuralist macroeconomics". New structuralist macroeconomics, mainly based on experiences in Latin America and Asia, have three main objectives: preventing external and internal crises, maintaining a low inflation rate and budget deficit (or even surplus), and promoting long-term growth and employment while lowering income inequality. New structuralist macroeconomics-oriented policies resulted in a trend reversal of functional and household inequality in a number of Latin American countries during the past decade (Cornia, 2012). (For further discussion on the role of macroeconomic policies in lowering inequality, see chapter 7.)

Monetary, exchange rate and fiscal policies adopted during the past three decades contributed to increasing inequality by reducing growth, investment and employment. Yet little attention was paid to the distributional impacts of those policies.

Various authors argue that labour market policies have been an important driver of inequality (see, for instance, van der Hoeven and Taylor, 2000). In particular, the labour market policies undertaken in the wake of structural adjustment policies as part of the Washington Consensus have increased income inequality in all countries where these policies have been applied (Cornia, 2004; van der Hoeven and Saget, 2004). Especially relevant for income inequality are the labour market policies concerned with the distribution of wages, the gender gap therein and minimum wages

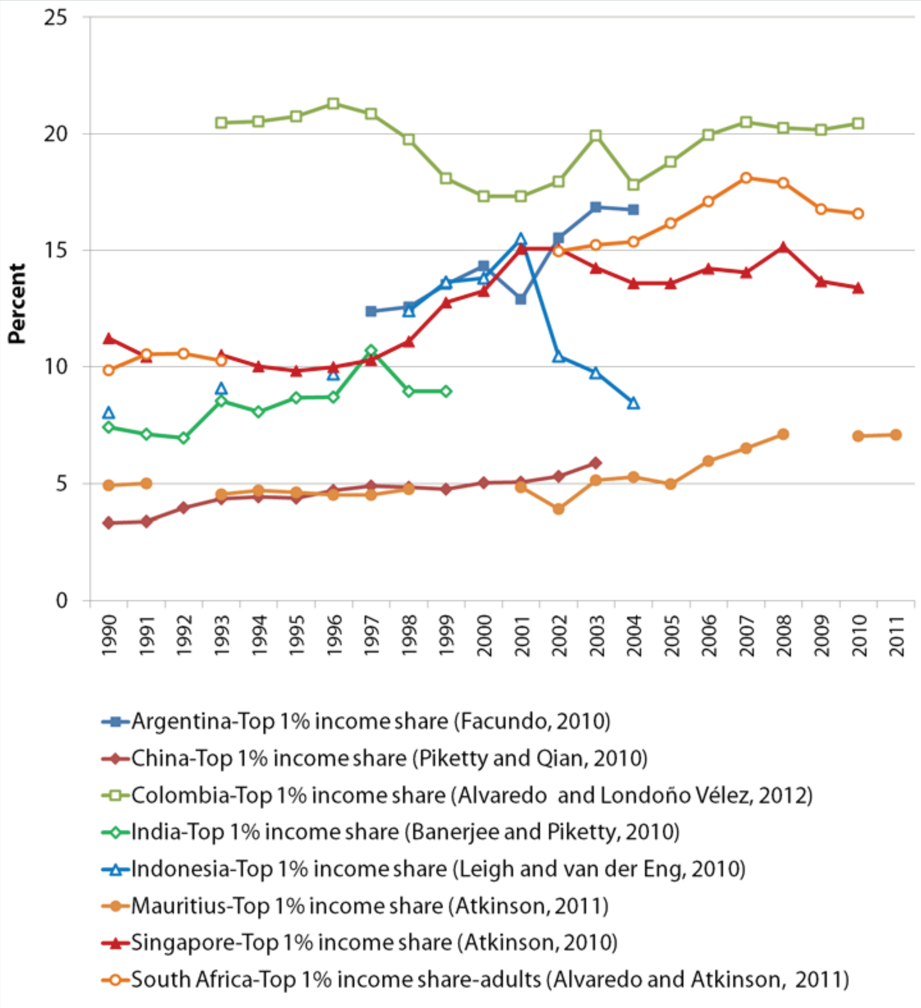
Not only has the share of wages in national income declined as discussed in the section on exogenous drivers and functional inequality, but the distribution of wages themselves has also become more unequal. The distance between the top 10 percent and the bottom 10 percent of wage earners increased from 1995 to 1997 in 23 of 31 countries surveyed, while the proportion of workers with low pay (defined as less than two thirds of the median wage) also increased in 25 of 37 countries (ILO, 2008a). These trends towards growing inequality remain strong even when other income sources, taxation and income transfer are considered (ILO, 2010a). In reviewing levels and trends in education, skills premia and skilled labour force across eight East Asian countries, for example, Gropello and Sakellariou (2010) observe that, while there are increasing proportions of skilled/educated workers over the long run across the region, this is combined with stable or increasing education/skill wage premia. The importance of skills premia as drivers of inequality becomes even stronger in countries where access to post-secondary education is distributed more askew than incomes (Sharma, Inhauste and Feng, 2011).

The Economic Commission for Latin America and the Caribbean (ECLAC, 2010) also reports on an increase in the wage gap in Latin America, which came as a surprise to analysts, who had expected globalization to increase the demand for lower-skilled labour in the region. ECLAC argues that economic reforms did not raise employment or income and did not lead to an increase in work for lower-skilled labour, as demand preferences shifted towards a higher level of education. This was mainly due to the fact that the comparative advantage of many Latin American

Box 3.2. The incomes of the top 1 percent

The growing inequality between the top 1 percent of income earners and other households is another phenomenon that is widely observed in the wake of globalization. If the labour compensation of the top 1 percent of income earners had been excluded from the nationwide computation, the decline in the labour share would have been even greater than what is observed (OECD, 2012). This reflects the sharp increase, especially in English-speaking developed countries, of the wages and salaries (including bonuses and exercised stock options) of top executives, who now cohabit with capital owners at the top of the income hierarchy (Atkinson, Piketty and Saez, 2011; Wolff and Zacharias, 2009). The proportion of wage earnings in the top segments of household income also increased, to various degrees, in other countries, including Japan, the Netherlands, Canada, Italy, Spain and the United Kingdom — though not in Sweden, Finland or Australia (Atkinson, Piketty and Saez, 2011).

Top income shares, 1990–2011



Source: *The World Top Incomes Database, topincomes.g-mond.parisschoolofeconomics.eu*.

Data for the share of top incomes in developing countries are far scarcer, but, for seven developing countries for which data are available, a similar trend as in developed countries can be observed (Fig. 10).

The share of the top 1 percent income group in Colombia reaches 20 percent, a level similar to that in the United States. The same is observed in South Africa and Argentina. The absence of recent data in India and China prevents an analysis of most recent trends, but trends up to the end of the last century were also upwards. Indonesia is the only country that showed a declining trend, although data go only up to 2004.

countries was not based on large supplies of low-skilled labour (owing to their intermediate position in the global economy), but rather on natural resources. Thus, trade liberalization did not benefit the least skilled, but instead facilitated capital goods imports and, with them, the use of technological patterns of highly industrialized countries, thereby replicating their skills bias. To this was added competition from countries outside the region that had enormous reserves of low-waged unskilled labour (Freeman, 2005).

Conventional economic theory would predict that education and schooling would reduce skill premia in the medium term as the supply of skilled labour increases in response to the higher wage premia. However, this did not seem to happen in many developing countries. Behar (2011) reviews why schooling has not countered the pervasive rises in wage inequality driven by skill-biased technical change. He concludes that technological change is skill-biased in the South simply because the North causes permanently rising wage inequality in the South. He models expanded schooling access as producing relatively educated new cohorts of labour market entrants. However, this makes the market for skill-biased technologies more attractive, thus generating accelerated skill-biased technical change, which, in turn, leads to higher wage inequality and possibly stagnant unskilled wages. Thus, rising skill supply has been an ineffective counter against these trends. Behar argues that, in terms of Tinbergen's (1975) race between education and technology, education is standing still or even running backwards. He distinguishes between research and development that are inherently skill-biased and those which are endogenously skill-biased due to rising skill supply. Developing countries engage in little research and development, but acquire technologies from abroad. Irrespective of the reasons for observed skill-biased technical change in rich countries, this produces an external source of skills-biased technical change in poorer countries. Other authors, though, caution against seeing skills-biased technical change as a major driver of wage inequality. For example, Singh and Duhamel (2004) show evidence for middle- and high-income countries that only weakly supports the skills-biased technical change hypothesis. They suggest other factors, such as changes in remuneration norms, labour institutions and financial markets as being more relevant in explaining rises in wage inequality than skills-biased technical change.

Chapter 5 will illustrate that the gender gap is another important driver of wage inequality. Elson (2007) and Heintz (2006) find that many factors drive the gender gap in earnings: differences in education, shorter tenure in the labour market and interruptions in women's employment histories associated with raising children. Nevertheless, a large quantity of research has shown that, even after controlling for education, age and job tenure, gender gaps in remuneration remain. In part, this is due to the persistence of earnings gaps within occupational categories (Horton, 1999), suggesting that wage discrimination remains influential. Research also suggests that earnings differentials between men and women are also apparent across the various forms of informal work (Chen et al., 2005). However, Heintz argues that labour force segmentation is as important, if not more important, in determining the gap between women's and men's earnings. Women are disproportionately represented in lower-paying forms of employment, often with fewer social protections and less stable incomes. Much less is known about the gender earnings gap in low-income countries, where informal forms of employment, including widespread non-wage employment, dominate. Also, the structure of production and responses to global integration can affect changes in the gender income gap. For example, Seguino (2000) finds that capital mobility is one contributing factor to higher wage inequality in Taiwan, Province of China.[18] Since women are more concentrated in industries in which capital mobility is high, their bargaining power, and hence their wages, would fall relative to those of men as global integration progresses.

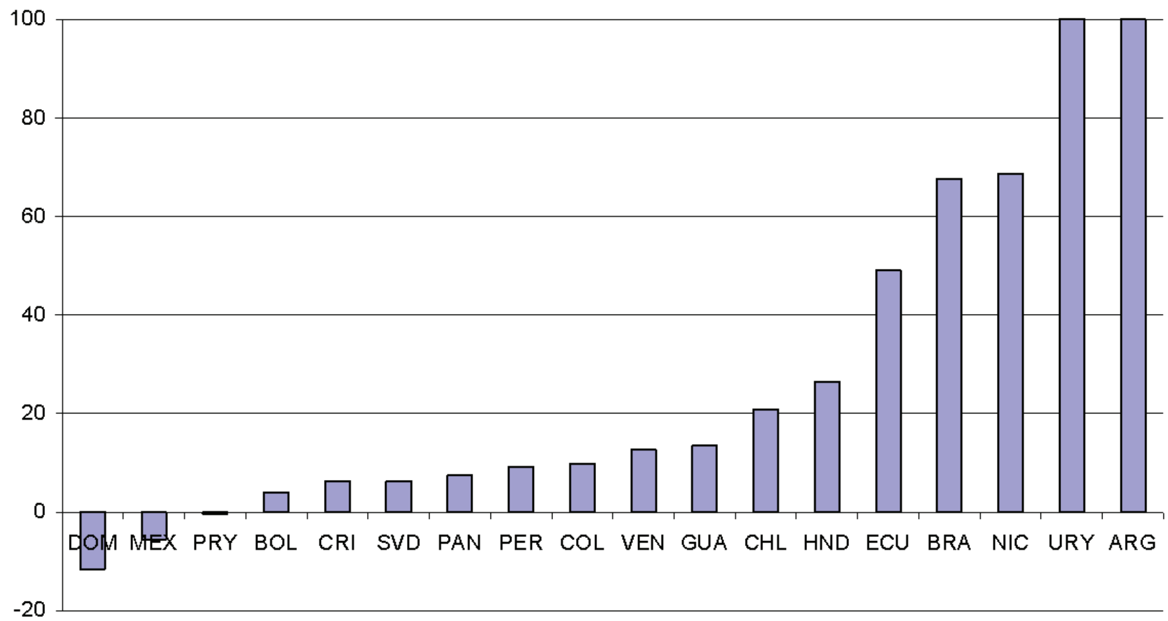
Several ILO studies (Saget, 2001, 2008) have indeed observed that, as a consequence of structural adjustment, liberalization policies and changes in labour market institutions, the minimum wage in a number of countries is so low that it is does not contribute to reducing inequalities or poverty reduction and has become meaningless. This has also led to poorly developed collective bargaining where frustrated minimum wage consultations are the only forum where trade unions can make their demands known.

On the other hand, changes in labour market policies that improve and enforce minimum wage policies can reduce inequality. In the early 2000s, for instance, several Latin American countries revised their stance on minimum wages, with important increases — in some countries even doubling previous levels (see Figure 3.10). These changes have been an important driver of reductions in income inequality in Latin America.

One of the important drivers of income inequality is the large inequality in wealth. Wealth is distributed far more unequally than incomes in all countries for which data are available. (See Figure 3.11.)

In developing countries with very unequal distribution of land and in transition countries with questionable privatization practices, there tends to be great inequality of wealth. The financial crisis in 2008 initially caused a meltdown of personal wealth around the world. Whilst the super-rich have lost fortunes as property and share prices have plummeted, ordinary people are also faring badly as the global recession threatens the livelihoods and security of billions. The misery caused by the worldwide recession hits the poor the hardest, in part because they lack the personal assets that act as a shock absorber in difficult times. Davies (2008) shows

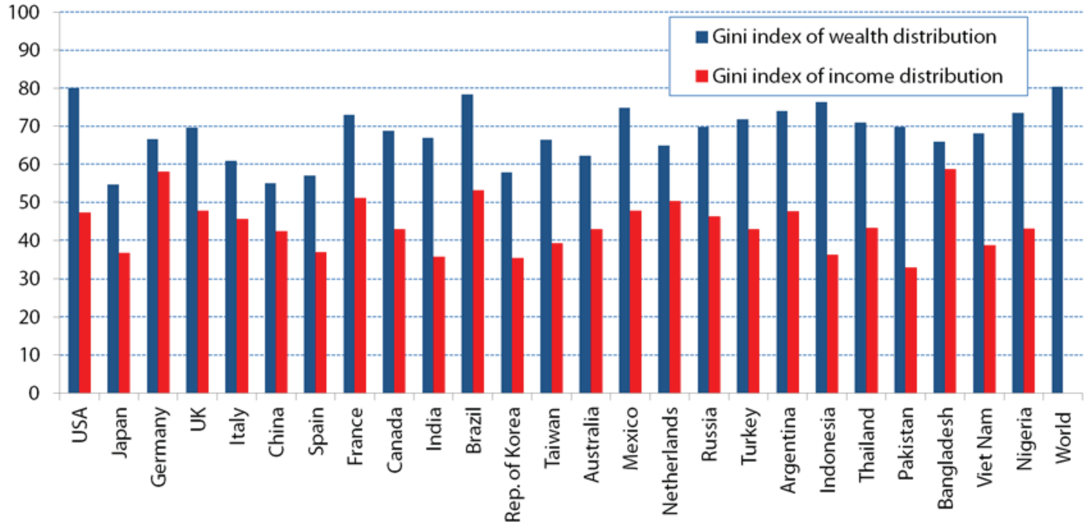
Figure 3.10. Increase in real value minimum wages (2002-2010)



Note: *DOM: Dominican Republic; MEX: Mexico; PRY: Paraguay; BOL: Bolivia; CRI: Costa Rica; SVD: El Salvador; PAN: Panama; PER: Peru; COL: Colombia; VEN: Venezuela; GUA: Guatemala; CHL: Chile; HND: Honduras; ECU: Ecuador; BRA: Brazil; NIC: Nicaragua; URY: Uruguay; ARG: Argentina.*

Source: *Lustig (2012).*

Figure 3.11. Gini indices of wealth and income distribution in selected countries, mid-2000



Note: *Taiwan: Province of China.*

Source: *Davies (2008) and Solt (2009).*

that the Gini index of the distribution of personal wealth ranges from 55 to 80, which are in all countries higher or much higher than for the distribution of primary (market) income (Table 3.3). Another feature of the distribution of wealth is that the rich (i.e., high-income) countries hold greater proportions of wealth in financial assets than poorer or middle-income households (countries), where wealth is predominantly held in real assets such as land, houses and farm infrastructure. Research by Credit Suisse (2012) has found that, by the middle of 2011, household wealth in all regions (except Africa) had fully recovered from the 2007–2008 financial crisis. The prospects for Europe look less bright because household wealth has suffered hits from several quarters. History suggests that the combination of equity price falls and currency depreciation affecting Europe in 2011 is unlikely to be repeated to the same extent in 2012, but the overall wealth outlook remains neutral at best, rather than positive. From a global viewpoint, the emerging market giants — most especially China — will continue to hold the key to household wealth creation in the immediate future.

Closely linked to the question of wealth is the intergenerational transmission of inequality. According to the Credit Suisse (2012), inheritance is an important component of wealth. Worldwide, 31 percent of Forbes billionaires inherited at least some of their wealth. If China, the Russian Federation and other transition countries are excluded, the figure is 38 percent. More broadly, Credit Suisse (2012) suggests that inherited wealth likely accounts for 30 percent to 50 percent of total household wealth in OECD countries. In low-growth or traditional societies, the share is probably higher. At the other end of the scale, very little household wealth in today's transition economies was inherited.

Equally dominant is the effect of the acquirement of human capital. The previous section alluded already to higher education as a driver for greater wage inequality in some Asian countries and to the fact that access to higher education is still skewed, often depending on a family's wealth and income. Stephen Machin (2009), for example, shows how important the influence of family background is on students' test scores. In 53 of 54 countries, including developing and emerging countries, family background is statistically significant and the implied gaps in test scores are large. According to ECLAC (2010), the pattern of secondary school graduation in the Latin American region has increased substantially, but, contrary to expectations, has remained highly stratified in secondary and tertiary completion rates. While gender parity for women has been more than achieved (a greater percentage of young women than men complete secondary school), the average graduation rate is generally very low (51 percent) and its distribution very large: in the first quintile, only one in five young people will complete secondary school, while four in five will do so in the fifth quintile. These contrasts show that education in its current form reinforces rather than reverses the intergenerational transmission of inequality.

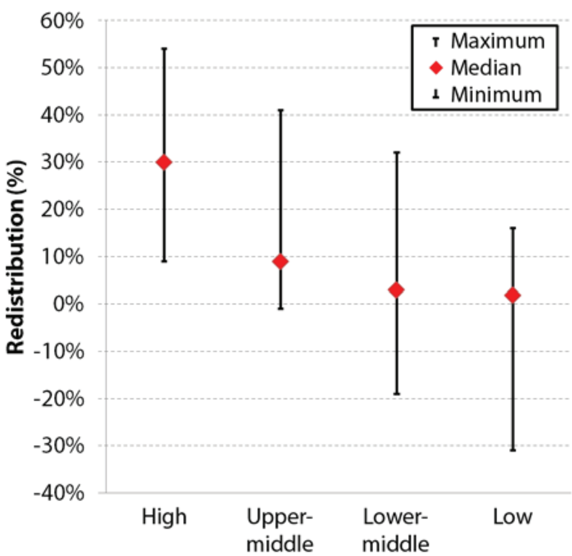
Endogenous drivers of secondary household income inequality

Fiscal policy is an important driver of higher (or lower) income inequality because it affects secondary and tertiary income distribution.

Fiscal policies are mainly determined by a combination of political will and institutions of economic and social governance and can vary greatly between countries — indeed, even between countries with similar levels of development. Figures 3.12 and 3.13 show the maximum, minimum and median reductions in inequality from primary to secondary distribution by income groups in the early 1990s and the late 2000s (for details, see Table 3.A2 in the Annex).

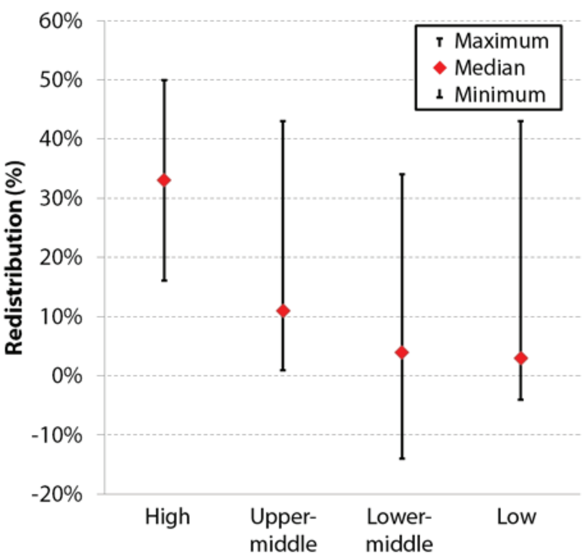
In high-income countries, taxes and subsidies have a sizable effect on reducing inequality. In the period up to 2000, the reduction of primary inequality to secondary inequality ranged from 54 to 9 percent. Through taxes

Figure 3.12. The degree of redistribution in the early 1990s by income group



Source: *UNDP calculations using data from Solt (2009).*

Figure 3.13. The degree of redistribution in the late 2000s by income group



Source: *UNDP calculations using data from Solt (2009).*

and subsidies, the median country in this high-income group was capable of reducing primary inequality by as much as 30 percent (Figure 3.13).

Upper-middle-income countries were also able to reduce primary inequality, albeit at a more reduced magnitude. The best performing country in this group managed to reduce primary inequality by as much as 41 percent, while the worst performing country was barely able to reduce primary inequality. The median country in this group managed to reduce primary inequality by 9 percent.

It thus seems that richer countries on average are better able to reduce primary inequality, but also that, in all country income categories, huge variations in this reduction did exist and do exist. National institutions and national policies can therefore play an important in reducing primary inequality... Initial inequality thus matters, but can explain only about half of the variation in the Gini indices from primary to secondary inequality.

However, in lower-middle-income and low-income countries, the picture was very different. Some countries in these two income groups have been able to reduce primary inequality by over 32 percent and 16 percent, respectively. There were also countries where government intervention resulted not in a decrease in primary inequality, but rather in an increase in inequality by as much as 19 percent in lower-income countries and 31 percent in low-income countries. In those countries, the main culprits for low distributive impact are an increased dependence on regressive taxation (such as value added taxes) and an inefficient public expenditure system, which tend to dilute benefits to poor households. For example, a study of the impact of taxation on inequality in some Latin American countries (Lustig et al., 2012) finds that, for most countries in the region, households richer than the 3rd decile are usually 'net contributors' to the fisc, and that the net fiscal impact pushes from 5 percent to 10 percent of households *back into poverty*, after adjusting for fiscal mobility.

As a result, the median countries in these two groupings were hardly able to reduce primary inequality (3 percent and 2 percent, respectively).

The situation after 2000 has changed (Figure 3.13). For all country groupings, there is a higher maximum level of reduction of primary income inequality, especially noticeable for the low-income category, where the highest level of reduction in inequality changed from under 10 percent before 2000 to over 40 percent after 2000. Median performing countries in all categories also slightly increased their reduction in primary income (33 percent, 11 percent, 4 percent and 3 percent, respectively).

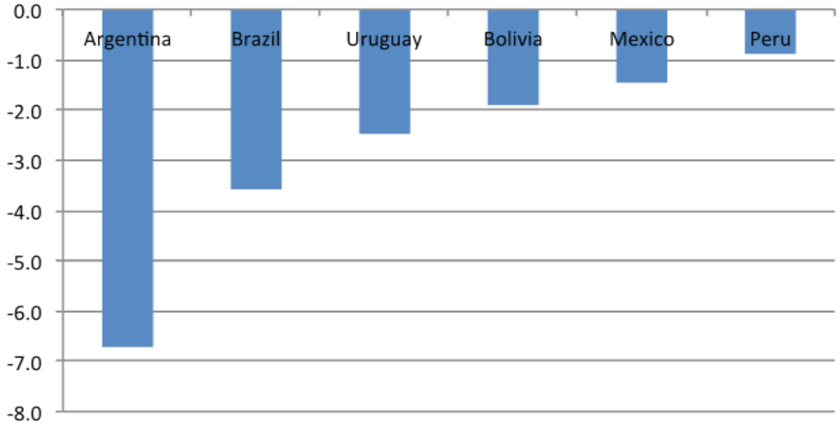
It thus seems that richer countries on average are better able to reduce primary inequality, but also that, in all country income categories, huge variations in this reduction did exist and do exist. National institutions and national policies can therefore play an important in reducing primary inequality, as will be discussed in much greater detail in chapter 7.

Moreover, the degree of inequality reduction from primary to secondary distributions does not seem to be related to the level of primary inequality. Luebker (2013) investigated for a select group of developing and developed countries how policy drivers of taxation and subsidies affect primary and secondary distribution. While various developed countries achieved a reduction in the Gini index of 20 or more between the primary and secondary income distribution, this is much more limited for developing countries like Brazil, Guatemala and Columbia. In fact, one striking fact is that differences in the Gini index for the secondary income distribution are, to a significant extent, policy- or institution-driven and are not fully determined by inequality in the primary distribution. Luebker (2013) found a simple correlation between Gini indices for the primary and secondary distribution of only r = 0.499 (p-value: 0.011). Initial inequality thus matters, but can explain only about half of the variation in the Gini indices from primary to secondary inequality.

Transfers, more than taxation, can be very progressive and have a strong impact on reducing inequality. A recent study of developed and emerging countries of the OECD (OECD, 2011) observes that the magnitude of change between the primary distribution and the secondary distribution has declined most likely as a consequence of globalization and less regulation. Tax and benefit systems have become less redistributive in many countries since the mid-1990s. The main reasons for the decline in redistributive capacity are found on the benefit side: cuts to benefit levels, tightening of eligibility rules to contain expenditures for social protection, and the failure of transfers to the lowest income groups to keep pace with earnings growth all contributed.

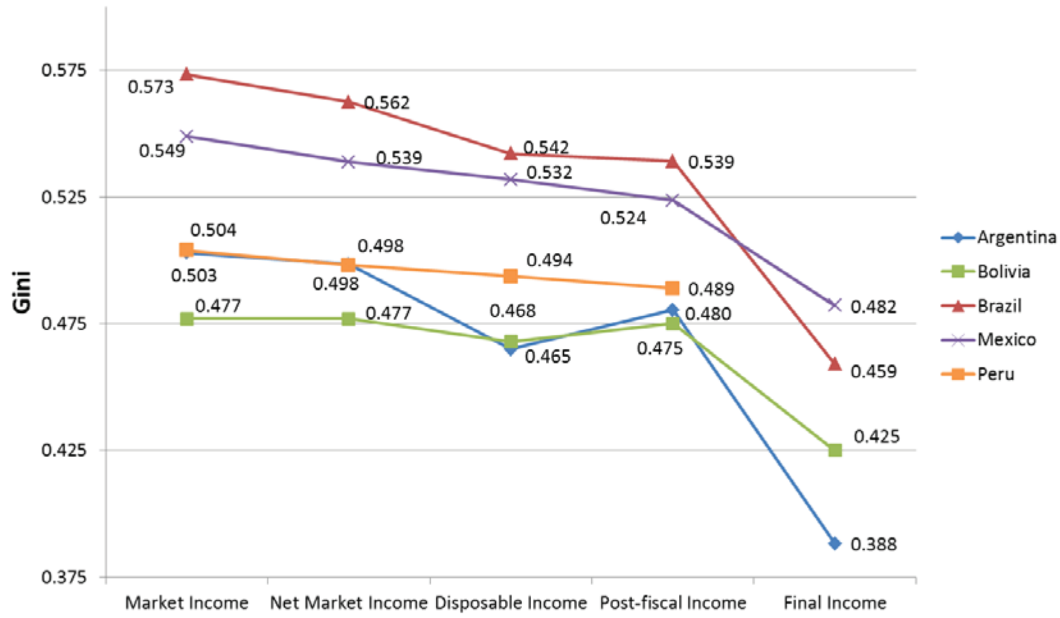
This observation of the impact of transfers on reducing inequality is in line with the conclusions of the Asian Development Bank (2012) that tax systems tend to show a mildly progressive incidence impact, but that direct cash transfers and in-kind transfers can be quite progressive unless there are serious targeting problems. International experience shows that the expenditure side of the budget (including transfers) can have a more significant impact on income distribution. Cash transfers to lower income groups through government social protection programmes have had a major impact on inequality in a number of developing countries. In Latin America and other developing regions, the system of cash transfers (either conditional or unconditional) to alleviate poverty has gained importance over the past decades. Lustig et al. (Figure 3.14) find that these cash transfers are also important drivers to for reducing income inequality. For countries where information is available, they found that these various systems of transfers drove inequality down by 7 percentage points in Argentina to 1 percentage point in Peru.

Figure 3.14. Cash transfers and inequality (decline in Gini in percent)



Source: *Lustig (2012).*

Figure 3.15. Changes in the distribution of primary, secondary and tertiary income in various Latin American Countries (around 2008)



Source: *Lustig et al. (2012: Fig. 1, p. 23).*

The Asian Development Bank (2012) also reports that conditional cash transfers in Asia have been implemented in Bangladesh, Cambodia, Pakistan and, more recently, Indonesia and the Philippines. These programmes, which are financially sustainable and combined with complementary programmes to improve the delivery of health care and education services, could play an important role in reducing poverty and inequality in Asia.

Endogenous drivers of tertiary inequality

How does government expenditure on social sectors drive changes in the tertiary income distribution? Or, in other words, how much does income inequality change when net household incomes (secondary income) are added to the imputed value of government expenditure? An important point is, of course, which types of government expenditure are considered in this respect. Frequently and especially in developing countries, expenditure on health and education are considered, but, in industrialized countries, expenditure on different art forms, sport manifestations, etc., are also included. It is also not a foregone conclusion that government expenditure has an equalizing effect in reducing secondary income inequality. It is foreseeable that higher income groups may benefit more from government expenditure than poorer groups (for example, heavily subsidized hospitals in well-off urban areas, tertiary education, opera tickets, etc.).

While the prime objective of social services is often not redistribution, but the provision of a decent education, basic health care, and acceptable living standards for all, they are in fact redistributive. As chapter 7 argues, expenditure programmes in the social sectors (education and health) are more progressive when more is spent in relative and absolute terms on those goods and services more frequently used by the poor (basic education and primary health care). However, the effective targeting of lower-income groups in expenditure programmes is hard to design and to implement.

The adverse effect of exogenous drivers, such as financial and trade globalization, on income inequality during the past three decades has been exacerbated by national policies that have had a negative impact on income distribution... National policies, including a strengthening of institutions to deal with inequality, can play an important role in reducing income inequality.

OECD (2011) shows countries with sufficient data that household income inequality can be substantially reduced and that some countries even spend much more on the provision of such 'in-kind' services than on cash benefits, as in, for example, the English-speaking and Nordic countries, Republic of Korea and Mexico. Across OECD countries, social expenditures reduced income inequality by one fifth on average and their share of GDP and redistributive impact remained constant over the 2000s.

A recent project in Tulane University led by Nora Lustig (2012) and made for several countries studies in depth how government taxes, subsidies and expenditure have affected different forms of inequality.[19] Figure 3.15 shows that the reduction from secondary inequality (disposable income) to tertiary inequality (final income) can be substantial. In Argentina and Brazil, the Gini index dropped substantially from 46.5 to 38.8 and from 54.2 to 45.9, respectively, and, in Bolivia and Mexico, from 46.5 to 42.5 and from 53.2 to 48.2, respectively.

3.4. Conclusion

Over the past 20 years, on average, household income inequality has risen in high-income (developed) and developing countries. Classifying countries by income, the trend clearly shows that countries moving up in income classification have had steeper increases in income inequality than most other countries. Examining regional trends over the whole period from the early 1990s to the late 2000s, average inequality fell in some regions (Latin America) and rose in others (Asia).

Looking at periods before and after the turn of the century shows more non-linear trends. In some countries, inequality rose during the 1980s and 1990s, but then fell in 2000s; in others, inequality fell during the 1980s and 1990s, but rose in the 2000s. However, despite reversals in some countries, the intensity of change has been greater in the direction of rising income inequality. It therefore remains important to focus on drivers of income inequality and by examining different forms of income distribution such as functional distribution, wage distribution, primary distribution (household market income), secondary distribution (market income corrected for taxes and subsidies), and tertiary distribution (taking into account imputed household income from services).

This chapter argues that globalization and especially financialization, and, to a certain extent, skills-based technical change, have been important exogenous drivers of inequality. These drivers have in various cases strengthened existing patterns of inequality through a stubbornly high-wealth inequality and through intergenerational transfers of inequality due to skewed access to higher-level education.

The adverse effect of exogenous drivers, such as financial and trade globalization, on income inequality during the past three decades has been exacerbated by national policies that have had a negative impact on income distribution. Monetary policies that emphasized price stability over growth, labour market policies that weakened the bargaining position of labour vis-à-vis employers, and fiscal policies that prioritized fiscal consolidation at the expense of benefits and progressive taxation, all contributed to driving income inequality.

However, national policies can be reoriented to promote income equality. National policies, including a strengthening of institutions to deal with inequality, can play an important role in reducing income inequality. Several countries in Europe, for example, have managed to use fiscal policies to mitigate a high primary income inequality down to lower levels of secondary and tertiary inequality. Additionally, the right mix of macroeconomic, fiscal, and social policies can reverse the rising trend in income inequality, as exemplified by various Latin American countries. A number of countries in that region have been able to arrest the upward trend of growing inequality, despite being subject, like all countries in the world, to the continuing challenges of globalization.

Annex 3.A. Gini Index of primary household income distribution by country (early 1990s to late 2000s)

Country	Development Status	Region	Income Status (early 1990s)	Income Status (late 2000s)	Income Status (2012)
Australia	Developed	Advanced	High	High	High
Austria	Developed	Advanced	High	High	High
Belgium	Developed	Advanced	High	High	High
Canada	Developed	Advanced	High	High	High
Croatia	Developed	Advanced	Lower middle	High	High
Cyprus	Developed	Advanced	High	High	High
Czech Republic	Developed	Advanced	Lower middle	High	High
Denmark	Developed	Advanced	High	High	High
Estonia	Developed	Advanced	Upper middle	High	High
Finland	Developed	Advanced	High	High	High
France	Developed	Advanced	High	High	High
Germany	Developed	Advanced	High	High	High
Greece	Developed	Advanced	Upper middle	High	High
Hungary	Developed	Advanced	Upper middle	High	High
Iceland	Developed	Advanced	High	High	High
Ireland	Developed	Advanced	High	High	High
Israel	Developed	Advanced	High	High	High
Italy	Developed	Advanced	High	High	High
Japan	Developed	Advanced	High	High	High
Luxembourg	Developed	Advanced	High	High	High
Netherlands	Developed	Advanced	High	High	High
New Zealand	Developed	Advanced	High	High	High
Norway	Developed	Advanced	High	High	High
Poland	Developed	Advanced	Lower middle	High	High
Portugal	Developed	Advanced	Upper middle	High	High
Singapore	Developed	Advanced	High	High	High
Slovenia	Developed	Advanced	Upper middle	High	High
Spain	Developed	Advanced	High	High	High
Sweden	Developed	Advanced	High	High	High

Note: *A&P: Asia and the Pacific; ECIS: Europe and the Commonwealth of Independent States; LAC: Latin America and the Caribbean.*

Source: *UNDP calculations using data from Solt (2009).*

Development Status	Gini index (early-1990s)	Gini index (late 2000s)	Percent Change	Direction of Change
Developed	43.8	47.2	7.9%	Rising
Developed	53.1	47.5	-10.5%	Falling
Developed	32.5	37.8	16.4%	Rising
Developed	39.1	42.8	9.6%	Rising
Developed	28.8	32.5	12.9%	Rising
Developed	36.8	47.2	28.2%	Rising
Developed	29.7	39.5	33.0%	Rising
Developed	48.7	54.4	11.8%	Rising
Developed	32.5	35.1	8.0%	Rising
Developed	36.6	47.1	28.6%	Rising
Developed	41.1	50.4	22.6%	Rising
Developed	45.1	55.5	23.1%	Rising
Developed	46.3	38.8	-16.1%	Falling
Developed	40.0	37.8	-5.5%	Falling
Developed	35.6	45.5	28.0%	Rising
Developed	44.8	39.7	-11.4%	Falling
Developed	41.0	44.6	8.7%	Rising
Developed	43.7	43.6	-0.2%	No change
Developed	36.0	37.0	2.9%	No change
Developed	34.4	41.5	20.7%	Rising
Developed	40.5	46.1	13.9%	Rising
Developed	42.2	43.8	3.7%	Rising
Developed	41.6	40.4	-2.9%	No change
Developed	34.0	40.3	18.5%	Rising
Developed	48.3	57.0	18.0%	Rising
Developed	45.7	50.4	10.3%	Rising
Developed	31.6	41.8	32.4%	Rising
Developed	37.2	39.4	5.9%	Rising
Developed	45.6	44.9	-1.5%	No change

Annex 3.A. Gini Index of primary household income distribution by country (early 1990s to late 2000s) (contd.)

Country	Development Status	Region	Income Status (early 1990s)	Income Status (late 2000s)	Income Status (2012)
Switzerland	Developed	Advanced	High	High	High
United Kingdom	Developed	Advanced	High	High	High
United States	Developed	Advanced	High	High	High
Botswana	Developing	Africa	Lower middle	Upper middle	Upper middle
Burkina Faso	Developing	Africa	Low	Low	Low
Burundi	Developing	Africa	Low	Low	Low
Cape Verde	Developing	Africa	Lower middle	Lower middle	Lower middle
Central African Rep.	Developing	Africa	Low	Low	Low
Ethiopia	Developing	Africa	Low	Low	Low
Gambia	Developing	Africa	Low	Low	Low
Ghana	Developing	Africa	Low	Low	Lower middle
Guinea	Developing	Africa	Low	Low	Low
Guinea-Bissau	Developing	Africa	Low	Low	Low
Kenya	Developing	Africa	Low	Low	Low
Lesotho	Developing	Africa	Low	Lower middle	Lower middle
Madagascar	Developing	Africa	Low	Low	Low
Malawi	Developing	Africa	Low	Low	Low
Mali	Developing	Africa	Low	Low	Low
Mauritius	Developing	Africa	Lower middle	Upper middle	Upper middle
Namibia	Developing	Africa	Lower middle	Lower middle	Upper middle
Niger	Developing	Africa	Low	Low	Low
Nigeria	Developing	Africa	Low	Low	Lower middle
Rwanda	Developing	Africa	Low	Low	Low
Senegal	Developing	Africa	Lower middle	Low	Lower middle
Sierra Leone	Developing	Africa	Low	Low	Low
South Africa	Developing	Africa	Upper middle	Upper middle	Upper middle
Swaziland	Developing	Africa	Lower middle	Lower middle	Lower middle
Uganda	Developing	Africa	Low	Low	Low
Zambia	Developing	Africa	Low	Low	Lower middle
Algeria	Developing	Arab States	Lower middle	Lower middle	Upper middle
Egypt	Developing	Arab States	Low	Lower middle	Lower middle
Jordan	Developing	Arab States	Lower middle	Lower middle	Upper middle

Note: *A&P: Asia and the Pacific; ECIS: Europe and the Commonwealth of Independent States; LAC: Latin America and the Caribbean.*

Source: *UNDP calculations using data from Solt (2009).*

Development Status	Gini index (early-1990s)	Gini index (late 2000s)	Percent Change	Direction of Change
Developed	39.4	46.5	17.8%	Rising
Developed	46.7	51.7	10.8%	Rising
Developed	43.2	46.2	6.8%	Rising
Developing	56.9	52.8	-7.1%	Falling
Developing	46.4	49.9	7.4%	Rising
Developing	33.8	33.6	-0.7%	No change
Developing	43.8	52.2	19.0%	Rising
Developing	59.5	43.5	-26.9%	Falling
Developing	38.2	29.8	-22.2%	Falling
Developing	53.6	49.7	-7.3%	Falling
Developing	38.2	42.4	11.1%	Rising
Developing	49.2	38.6	-21.6%	Falling
Developing	53.4	38.7	-27.4%	Falling
Developing	58.6	48.7	-16.8%	Falling
Developing	61.1	51.7	-15.4%	Falling
Developing	45.6	47.0	3.2%	Rising
Developing	66.1	39.4	-40.4%	Falling
Developing	39.5	38.8	-1.7%	No change
Developing	44.5	39.2	-12.0%	Falling
Developing	71.0	67.4	-5.1%	Falling
Developing	40.2	43.3	7.7%	Rising
Developing	46.3	43.1	-6.9%	Falling
Developing	32.0	46.4	45.0%	Rising
Developing	57.1	39.4	-30.9%	Falling
Developing	62.2	44.4	-28.7%	Falling
Developing	65.2	70.0	7.3%	Rising
Developing	58.0	47.2	-18.6%	Falling
Developing	41.7	41.2	-1.2%	No change
Developing	56.0	51.0	-9.0%	Falling
Developing	38.6	35.5	-8.1%	Falling
Developing	33.3	32.2	-3.3%	Falling
Developing	43.6	39.4	-9.7%	Falling

Annex 3.A. Gini Index of primary household income distribution by country (early 1990s to late 2000s) (contd.)

Country	Development Status	Region	Income Status (early 1990s)	Income Status (late 2000s)	Income Status (2012)
Morocco	Developing	Arab States	Lower middle	Lower middle	Lower middle
Tunisia	Developing	Arab States	Lower middle	Lower middle	Upper middle
Yemen	Developing	Arab States	Low	Low	Lower middle
Bangladesh	Developing	A&P	Low	Low	Low
Cambodia	Developing	A&P	Low	Low	Low
China	Developing	A&P	Low	Lower middle	Upper middle
India	Developing	A&P	Low	Low	Lower middle
Indonesia	Developing	A&P	Low	Lower middle	Lower middle
Iran	Developing	A&P	Lower middle	Lower middle	Upper middle
Lao PS	Developing	A&P	Low	Low	Lower middle
Malaysia	Developing	A&P	Lower middle	Upper middle	Upper middle
Nepal	Developing	A&P	Low	Low	Low
Pakistan	Developing	A&P	Low	Low	Lower middle
Philippines	Developing	A&P	Lower middle	Lower middle	Lower middle
Thailand	Developing	A&P	Lower middle	Lower middle	Upper middle
Viet Nam	Developing	A&P	Low	Low	Lower middle
Armenia	Developing	ECIS	Lower middle	Lower middle	Lower middle
Azerbaijan	Developing	ECIS	Lower middle	Lower middle	Upper middle
Belarus	Developing	ECIS	Upper middle	Upper middle	Upper middle
Bosnia & Herzegovina	Developing	ECIS	Lower middle	Lower middle	Upper middle
Bulgaria	Developing	ECIS	Lower middle	Upper middle	Upper middle
Georgia	Developing	ECIS	Lower middle	Lower middle	Lower middle
Kazakhstan	Developing	ECIS	Lower middle	Upper middle	Upper middle
Kyrgyzstan	Developing	ECIS	Lower middle	Low	Low
Latvia	Developing	ECIS	Lower middle	Upper middle	Upper middle
Lithuania	Developing	ECIS	Lower middle	Upper middle	Upper middle
Macedonia, FYR	Developing	ECIS	Lower middle	Lower middle	Upper middle
Moldova	Developing	ECIS	Lower middle	Lower middle	Lower middle
Romania	Developing	ECIS	Lower middle	Upper middle	Upper middle
Russia	Developing	ECIS	Lower middle	Upper middle	Upper middle
Tajikistan	Developing	ECIS	Low	Low	Low
Turkey	Developing	ECIS	Lower middle	Upper middle	Upper middle

Note: *A&P: Asia and the Pacific; ECIS: Europe and the Commonwealth of Independent States; LAC: Latin America and the Caribbean.*

Source: *UNDP calculations using data from Solt (2009).*

Development Status	Gini index (early-1990s)	Gini index (late 2000s)	Percent Change	Direction of Change
Developing	36.4	41.5	13.9%	Rising
Developing	37.3	40.0	7.3%	Rising
Developing	38.9	39.2	0.8%	No change
Developing	31.3	57.5	83.6%	Rising
Developing	43.7	43.7	0.0%	No change
Developing	35.0	42.4	21.1%	Rising
Developing	33.0	35.7	8.2%	Rising
Developing	37.7	38.5	2.0%	No change
Developing	45.5	41.6	-8.5%	Falling
Developing	31.0	37.5	20.8%	Rising
Developing	44.3	38.1	-13.9%	Falling
Developing	36.4	48.5	33.4%	Rising
Developing	42.0	32.9	-21.7%	Falling
Developing	57.8	42.9	-25.9%	Falling
Developing	51.0	43.3	-15.0%	Falling
Developing	35.8	39.0	8.8%	Rising
Developing	32.6	43.3	32.8%	Rising
Developing	36.9	32.6	-11.6%	Falling
Developing	27.2	31.2	15.0%	Rising
Developing	40.3	36.7	-9.0%	Falling
Developing	26.5	40.1	51.1%	Rising
Developing	33.8	43.3	27.8%	Rising
Developing	29.4	37.8	28.7%	Rising
Developing	27.8	46.3	66.6%	Rising
Developing	33.2	53.4	60.8%	Rising
Developing	35.1	52.3	48.9%	Rising
Developing	29.4	35.2	19.8%	Rising
Developing	30.7	32.4	5.5%	Rising
Developing	32.9	49.3	49.6%	Rising
Developing	31.9	49.2	54.4%	Rising
Developing	33.7	36.0	6.7%	Rising
Developing	44.6	45.3	1.5%	No change

Annex 3.A. Gini Index of primary household income distribution by country (early 1990s to late 2000s) (contd.)

Country	Development Status	Region	Income Status (early 1990s)	Income Status (late 2000s)	Income Status (2012)
Turkmenistan	Developing	ECIS	Lower middle	Lower middle	Upper middle
Ukraine	Developing	ECIS	Lower middle	Lower middle	Lower middle
Uzbekistan	Developing	ECIS	Lower middle	Low	Lower middle
Argentina	Developing	LAC	Lower middle	Upper middle	Upper middle
Bolivia	Developing	LAC	Lower middle	Lower middle	Lower middle
Brazil	Developing	LAC	Upper middle	Upper middle	Upper middle
Chile	Developing	LAC	Lower middle	Upper middle	Upper middle
Colombia	Developing	LAC	Lower middle	Upper middle	Upper middle
Costa Rica	Developing	LAC	Lower middle	Upper middle	Upper middle
Dominican Republic	Developing	LAC	Lower middle	Upper middle	Upper middle
Ecuador	Developing	LAC	Lower middle	Lower middle	Upper middle
El Salvador	Developing	LAC	Lower middle	Lower middle	Lower middle
Guatemala	Developing	LAC	Lower middle	Lower middle	Lower middle
Honduras	Developing	LAC	Low	Lower middle	Lower middle
Jamaica	Developing	LAC	Lower middle	Lower middle	Upper middle
Mexico	Developing	LAC	Upper middle	Upper middle	Upper middle
Nicaragua	Developing	LAC	Low	Lower middle	Lower middle
Panama	Developing	LAC	Lower middle	Upper middle	Upper middle
Paraguay	Developing	LAC	Lower middle	Lower middle	Lower middle
Peru	Developing	LAC	Lower middle	Upper middle	Upper middle
Trinidad and Tobago	Developing	LAC	Upper middle	Upper middle	High
Uruguay	Developing	LAC	Upper middle	Upper middle	Upper middle
Venezuela	Developing	LAC	Upper middle	Upper middle	Upper middle

Note: *A&P: Asia and the Pacific; ECIS: Europe and the Commonwealth of Independent States; LAC: Latin America and the Caribbean.*

Source: *UNDP calculations using data from Solt (2009).*

Development Status	Gini index (early-1990s)	Gini index (late 2000s)	Percent Change	Direction of Change
Developing	30.7	43.8	42.9%	Rising
Developing	24.8	31.9	29.0%	Rising
Developing	31.9	42.7	33.7%	Rising
Developing	44.2	43.3	-2.0%	No change
Developing	50.0	55.8	11.7%	Rising
Developing	58.3	51.1	-12.3%	Falling
Developing	52.1	50.9	-2.4%	No change
Developing	47.6	52.1	9.4%	Rising
Developing	43.1	47.3	9.6%	Rising
Developing	47.6	46.8	-1.7%	No change
Developing	45.8	47.4	3.3%	Rising
Developing	48.0	44.8	-6.6%	Falling
Developing	57.2	54.6	-4.5%	Falling
Developing	53.0	53.5	1.0%	No change
Developing	49.5	49.7	0.4%	No change
Developing	49.3	45.2	-8.3%	Falling
Developing	55.6	51.4	-7.7%	Falling
Developing	52.9	50.0	-5.5%	Falling
Developing	37.0	49.3	33.2%	Rising
Developing	44.9	47.3	5.2%	Rising
Developing	39.2	37.6	-4.2%	Falling
Developing	39.9	42.8	7.4%	Rising
Developing	41.8	39.5	-5.4%	Falling

Annex 3.B. Rates of redistrubution from primary to secondary income distribution by country (early 1990s to late 2000s)

Country	Income status (early 1990s)	Gini index of primary income distribution		Gini index of secondary income distribution		Rate of redistribution	
		Early 1990s	Late 2000s	Early 1990s	Late 2000s	Early 1990s	Late 2000s
Australia	High	43.8	47.2	30.5	33.9	30%	28%
Austria	High	53.1	47.5	33.8	27.4	36%	42%
Belgium	High	32.5	37.8	23.3	25.1	28%	34%
Canada	High	39.1	42.8	27.5	31.4	30%	27%
Cyprus	High	36.8	47.2	22.5	29.3	39%	38%
Denmark	High	48.7	54.4	25.9	27	47%	50%
Finland	High	36.6	47.1	21	25.5	43%	46%
France	High	41.1	50.4	27	28.9	34%	43%
Germany	High	45.1	55.5	26.5	30.3	41%	45%
Iceland	High	35.6	45.5	22.5	27.3	37%	40%
Ireland	High	44.8	39.7	33	29.3	26%	26%
Israel	High	41	44.6	30.6	37	25%	17%
Italy	High	43.7	43.6	30.7	32.6	30%	25%
Japan	High	36	37	29.1	30.5	19%	18%
Luxembourg	High	34.4	41.5	23.7	28.4	31%	32%
Netherlands	High	40.5	46.1	26.2	26.8	35%	42%
New Zealand	High	42.2	43.8	31.6	32.5	25%	26%
Norway	High	41.6	40.4	23.2	22.2	44%	45%
Singapore	High	45.7	50.4	41.3	41.3	9%	18%
Spain	High	37.2	39.4	30.3	32.7	19%	17%
Sweden	High	45.6	44.9	21	21.9	54%	51%
Switzerland	High	39.4	46.5	30.9	30.2	22%	35%
United Kingdom	High	46.7	51.7	32.8	36.5	30%	29%
United States	High	43.2	46.2	33.6	36	22%	22%
Bangladesh	Low	31.3	57.5	26.9	31.9	14%	45%
Burkina Faso	Low	46.4	49.9	60.6	46.6	-31%	6%
Burundi	Low	33.8	33.6	33.2	33.2	2%	1%
Cambodia	Low	43.7	43.7	42.8	42.1	2%	4%
Central African Rep.	Low	59.5	43.5	58.7	42.3	1%	3%

Source: *UNDP calculations using data from Solt (2009).*

Annex 3.B. Rates of redistrubution from primary to secondary income distribution by country (early 1990s to late 2000s) (contd.)

Country	Income status (early 1990s)	Gini index of primary income distribution		Gini index of secondary income distribution		Rate of redistribution	
		Early 1990s	Late 2000s	Early 1990s	Late 2000s	Early 1990s	Late 2000s
China	Low	35	42.4	33.5	39.7	4%	6%
Egypt	Low	33.3	32.2	32.4	31.5	3%	2%
Ethiopia	Low	38.2	29.8	41.3	29.2	-8%	2%
Gambia	Low	53.6	49.7	59.6	47.7	-11%	4%
Ghana	Low	38.2	42.4	37.9	40.4	1%	5%
Guinea	Low	49.2	38.6	48.7	37.9	1%	2%
Guinea-Bissau	Low	53.4	38.7	51.6	37.7	3%	3%
Honduras	Low	53	53.5	50.2	51.8	5%	3%
India	Low	33	35.7	31.4	34	5%	5%
Indonesia	Low	37.7	38.5	34.9	37.6	8%	2%
Kenya	Low	58.6	48.7	53.3	46.1	9%	5%
Lao PDR	Low	31	37.5	30.3	36.5	2%	3%
Lesotho	Low	61.1	51.7	59	48.7	3%	6%
Madagascar	Low	45.6	47	46.6	43.6	-2%	7%
Malawi	Low	66.1	39.4	60.3	38.6	9%	2%
Mali	Low	39.5	38.8	44.3	38.1	-12%	2%
Nepal	Low	36.4	48.5	35.7	47.2	2%	3%
Nicaragua	Low	55.6	51.4	53.2	49.5	4%	4%
Niger	Low	40.2	43.3	39.4	42.9	2%	1%
Nigeria	Low	46.3	43.1	52	42.7	-12%	1%
Pakistan	Low	42	32.9	35.2	33.5	16%	-2%
Rwanda	Low	32	46.4	33.2	44.1	-4%	5%
Sierra Leone	Low	62.2	44.4	60	43.8	4%	1%
Tajikistan	Low	33.7	36	28.9	33.1	14%	8%
Uganda	Low	41.7	41.2	43.6	38.6	-5%	6%
Viet Nam	Low	35.8	39	35.3	38.2	2%	2%
Yemen	Low	38.9	39.2	37.9	38.1	2%	3%
Zambia	Low	56	51	66.6	50	-19%	2%
Algeria	Lower middle	38.6	35.5	34.4	34.5	11%	3%
Argentina	Lower middle	44.2	43.3	43.4	41.7	2%	4%
Armenia	Lower middle	32.6	43.3	35.1	38.4	-8%	11%
Azerbaijan	Lower middle	36.9	32.6	35.3	30.3	4%	7%

Source: *UNDP calculations using data from Solt (2009).*

Annex 3.B. Rates of redistrubution from primary to secondary income distribution by country (early 1990s to late 2000s) (contd.)

Country	Income status (early 1990s)	Gini index of primary income distribution		Gini index of secondary income distribution		Rate of redistribution	
		Early 1990s	Late 2000s	Early 1990s	Late 2000s	Early 1990s	Late 2000s
Bolivia	Lower middle	50	55.8	48.3	53.4	3%	4%
Bosnia & Herzegovina	Lower middle	40.3	36.7	37	34.2	8%	7%
Botswana	Lower middle	56.9	52.8	54.7	50.6	4%	4%
Bulgaria	Lower middle	26.5	40.1	25.8	35.8	3%	11%
Cape Verde	Lower middle	43.8	52.2	42.7	50	3%	4%
Chile	Lower middle	52.1	50.9	51.6	49.7	1%	2%
Colombia	Lower middle	47.6	52.1	49.7	51.3	-4%	2%
Costa Rica	Lower middle	43.1	47.3	42.2	46	2%	3%
Croatia	Lower middle	28.8	32.5	23.3	27.6	19%	15%
Czech Republic	Lower middle	29.7	39.5	20.5	25.6	31%	35%
Dominican Republic	Lower middle	47.6	46.8	46.9	45.5	1%	3%
Ecuador	Lower middle	45.8	47.4	47.8	46.8	-4%	1%
El Salvador	Lower middle	48	44.8	47.3	43.3	2%	3%
Georgia	Lower middle	33.8	43.3	34	39.5	-1%	9%
Guatemala	Lower middle	57.2	54.6	54.3	50.7	5%	7%
Iran	Lower middle	45.5	41.6	43.5	39.9	4%	4%
Jamaica	Lower middle	49.5	49.7	48.3	49.7	2%	0%
Jordan	Lower middle	43.6	39.4	43.1	39	1%	1%
Kazakhstan	Lower middle	29.4	37.8	26.8	36.9	9%	2%
Kyrgystan	Lower middle	27.8	46.3	29.1	36.5	-5%	21%
Latvia	Lower middle	33.2	53.4	24.7	36.6	26%	32%
Lithuania	Lower middle	35.1	52.3	26.4	36.4	25%	30%
Macedonia, FYR	Lower middle	29.4	35.2	29.6	39.6	-1%	-13%
Malaysia	Lower middle	44.3	38.1	42.5	37.8	4%	1%
Mauritius	Lower middle	44.5	39.2	37.6	38.9	16%	1%
Moldova	Lower middle	30.7	32.4	28.1	35.9	8%	-11%
Morocco	Lower middle	36.4	41.5	37.6	40.7	-3%	2%
Namibia	Lower middle	71	67.4	69.8	66.6	2%	1%
Panama	Lower middle	52.9	50	51.4	48.5	3%	3%
Paraguay	Lower middle	37	49.3	40.1	48.7	-8%	1%
Peru	Lower middle	44.9	47.3	53.6	49.9	-19%	-6%
Philippines	Lower middle	57.8	42.9	39.1	41.3	32%	4%

Source: *UNDP calculations using data from Solt (2009).*

Annex 3.B. Rates of redistrubution from primary to secondary income distribution by country (early 1990s to late 2000s) (contd.)

Country	Income status (early 1990s)	Gini index of primary income distribution		Gini index of secondary income distribution		Rate of redistribution	
		Early 1990s	Late 2000s	Early 1990s	Late 2000s	Early 1990s	Late 2000s
Poland	Lower middle	34	40.3	25.3	29.7	26%	26%
Romania	Lower middle	32.9	49.3	22.8	32.6	31%	34%
Russia	Lower middle	31.9	49.2	33.1	45.2	-4%	8%
Senegal	Lower middle	57.1	39.4	55.7	36.5	3%	8%
Swaziland	Lower middle	58	47.2	56.4	46.9	3%	1%
Thailand	Lower middle	51	43.3	51.1	43.3	0%	0%
Tunisia	Lower middle	37.3	40	38	36.7	-2%	8%
Turkey	Lower middle	44.6	45.3	43.8	37.5	2%	17%
Turkmenistan	Lower middle	30.7	43.8	26.4	40.7	14%	7%
Ukraine	Lower middle	24.8	31.9	20.2	29.5	18%	8%
Uzbekistan	Lower middle	31.9	42.7	27.5	37	14%	13%
Belarus	Upper middle	27.2	31.2	26.7	27	2%	13%
Brazil	Upper middle	58.3	51.1	51.8	46.7	11%	9%
Estonia	Upper middle	32.5	35.1	23.3	30.8	28%	12%
Greece	Upper middle	46.3	38.8	31.9	32.5	31%	16%
Hungary	Upper middle	40	37.8	26.8	26	33%	31%
Mexico	Upper middle	49.3	45.2	47.9	43.7	3%	3%
Portugal	Upper middle	48.3	57	30.5	33.2	37%	42%
Slovenia	Upper middle	31.6	41.8	18.6	24.2	41%	42%
South Africa	Upper middle	65.2	70	61.1	63.5	6%	9%
Trinidad and Tobago	Upper middle	39.2	37.6	38.1	37.6	3%	0%
Uruguay	Upper middle	39.9	42.8	40.4	43	-1%	0%
Venezuela	Upper middle	41.8	39.5	39.4	38.5	6%	3%

Source: *UNDP calculations using data from Solt (2009).*

Annex 3.C. Change in Gini index of primary household income distribution by country from 1980s to 2000s

Country	Region	Gini index				Direction of change	
		1980	1999	2000	2010 or latest available	1980s/ 1990s	2000s
Australia	Advanced	37.0	43.2	43.8	47.2	Rising	Rising
Austria	Advanced	51.1	43.7	43.7	47.5	Falling	Rising
Belgium	Advanced	25.4	45.4	43.2	37.8	Rising	Falling
Canada	Advanced	37.0	43.1	43.0	42.8	Rising	No change
Denmark	Advanced	48.7	46.8	46.2	54.4	Falling	Rising
Estonia	Advanced	36.4	42.6	41.1	35.1	Rising	Falling
Finland	Advanced	38.3	44.5	46.0	47.1	Rising	Rising
France	Advanced	36.3	44.6	46.9	50.4	Rising	Rising
Germany	Advanced	38.1	47.8	51.0	55.5	Rising	Rising
Greece	Advanced	48.6	47.9	50.2	38.8	Falling	Falling
Hungary	Advanced	27.8	43.0	46.0	37.8	Rising	Falling
Ireland	Advanced	47.2	42.7	42.3	39.7	Falling	Falling
Israel	Advanced	39.9	44.2	44.6	44.6	Rising	No change
Italy	Advanced	41.9	44.9	44.8	43.6	Rising	Falling
Japan	Advanced	33.3	38.3	40.3	37.0	Rising	Falling
Korea, Rep. of	Advanced	41.0	33.4	33.9	35.8	Falling	Rising
Luxembourg	Advanced	36.9	41.0	41.8	41.5	Rising	No change
Netherlands	Advanced	38.2	38.7	40.9	46.1	Rising	Rising
New Zealand	Advanced	37.1	44.9	46.4	43.8	Rising	Falling
Norway	Advanced	38.3	45.2	46.1	40.4	Rising	Falling
Poland	Advanced	32.1	36.8	38.0	40.3	Rising	Rising
Portugal	Advanced	50.7	55.3	54.9	57.0	Rising	Rising
Singapore	Advanced	42.6	48.2	47.9	50.4	Rising	Rising
Spain	Advanced	34.9	40.6	39.1	39.4	Rising	No change
Sweden	Advanced	46.3	45.1	47.8	44.9	Falling	Falling
Switzerland	Advanced	44.6	42.0	42.3	46.5	Falling	Rising
Taiwan, Prov. of China	Advanced	29.2	35.6	36.1	39.3	Rising	Rising
United Kingdom	Advanced	41.1	48.0	47.7	51.7	Rising	Rising
United States	Advanced	40.4	47.1	47.2	46.2	Rising	Falling

Note: *A&P: Asia and the Pacific; ECIS: Europe and the Commonwealth of Independent States; LAC: Latin America and the Caribbean.*

Annex 3.C. Change in Gini index of primary household income distribution by country from 1980s to 2000s (contd.)

Country	Region	Gini index				Direction of change	
		1980	1999	2000	2010 or latest available	1980s/ 1990s	2000s
Botswana	Africa	55.7	55.4	55.3	52.8	No change	Falling
Ethiopia	Africa	33.1	37.9	34.9	29.8	Rising	Falling
Kenya	Africa	65.0	53.1	49.8	48.7	Falling	Falling
Madagascar	Africa	46.1	41.9	43.4	47.0	Falling	Rising
Malawi	Africa	66.5	47.1	45.6	39.4	Falling	Falling
Mauritius	Africa	50.8	50.9	48.0	39.2	No change	Falling
Nigeria	Africa	49.0	49.1	47.8	43.1	No change	Falling
Sierra Leone	Africa	61.4	49.6	48.2	44.4	Falling	Falling
South Africa	Africa	66.2	67.0	69.0	70.0	Rising	Rising
Zambia	Africa	57.9	51.5	49.9	51.0	Falling	Rising
Algeria	Arab States	38.3	36.0	36.2	35.5	Falling	Falling
Egypt	Arab States	37.3	40.7	37.2	32.2	Rising	Falling
Jordan	Arab States	39.0	39.1	39.7	39.4	No change	No change
Morocco	Arab States	61.0	40.2	40.4	41.5	Falling	Rising
Tunisia	Arab States	41.9	40.6	40.4	40.0	Falling	Falling
Bangladesh	A&P	46.0	33.6	32.9	57.5	Falling	Rising
China	A&P	30.0	40.1	41.2	42.4	Rising	Rising
India	A&P	35.6	36.6	34.4	35.7	Rising	Rising
Indonesia	A&P	35.3	32.3	33.7	38.5	Falling	Rising
Iran	A&P	45.6	45.1	44.6	41.6	Falling	Falling
Malaysia	A&P	61.9	44.8	47.3	38.1	Falling	Falling
Nepal	A&P	48.9	46.0	46.4	48.5	Falling	Rising
Pakistan	A&P	43.5	32.1	31.4	32.9	Falling	Rising
Philippines	A&P	56.6	51.5	46.7	42.9	Falling	Falling
Thailand	A&P	46.1	46.8	45.9	43.3	Rising	Falling
Armenia	ECIS	29.4	45.9	47.1	43.3	Rising	Falling
Azerbaijan	ECIS	28.2	44.9	36.5	32.6	Rising	Falling
Belarus	ECIS	25.1	27.0	27.3	31.2	Rising	Rising
Bulgaria	ECIS	28.3	31.4	29.2	40.1	Rising	Rising
Georgia	ECIS	27.4	44.9	47.5	43.3	Rising	Falling
Kazakhstan	ECIS	27.8	34.9	34.3	37.8	Rising	Rising

***Note:** A&P: Asia and the Pacific; ECIS: Europe and the Commonwealth of Independent States; LAC: Latin America and the Caribbean.*

Annex 3.C. Change in Gini index of primary household income distribution by country from 1980s to 2000s (contd.)

Country	Region	Gini index				Direction of change	
		1980	1999	2000	2010 or latest available	1980s/ 1990s	2000s
Kyrgyzstan	ECIS	26.7	45.9	39.6	46.3	Rising	Rising
Latvia	ECIS	34.1	45.4	46.9	53.4	Rising	Rising
Lithuania	ECIS	33.3	46.3	46.2	52.3	Rising	Rising
Moldova	ECIS	24.2	43.7	42.3	32.4	Rising	Falling
Russia	ECIS	26.2	47.3	47.9	49.2	Rising	Rising
Tajikistan	ECIS	28.0	33.9	34.2	36.0	Rising	Rising
Turkey	ECIS	50.7	40.4	39.6	45.3	Falling	Rising
Turkmenistan	ECIS	29.4	27.0	33.1	43.8	Falling	Rising
Ukraine	ECIS	31.6	37.4	35.9	31.9	Rising	Falling
Uzbekistan	ECIS	27.8	39.8	37.1	42.7	Rising	Rising
Argentina	LAC	41.7	47.6	48.5	43.3	Rising	Falling
Bolivia	LAC	49.2	57.0	57.6	55.8	Rising	Falling
Brazil	LAC	63.0	56.9	57.3	51.1	Falling	Falling
Chile	LAC	51.3	52.7	52.2	50.9	Rising	Falling
Colombia	LAC	63.1	53.4	53.2	52.1	Falling	Falling
Costa Rica	LAC	51.9	44.8	45.3	47.3	Falling	Rising
El Salvador	LAC	47.4	50.0	50.3	44.8	Rising	Falling
Guatemala	LAC	44.1	55.5	55.5	54.6	Rising	Falling
Jamaica	LAC	78.0	50.6	46.5	49.7	Falling	Rising
Mexico	LAC	50.1	50.1	49.5	45.2	No change	Falling
Panama	LAC	49.7	53.3	52.9	50.0	Rising	Falling
Peru	LAC	70.6	50.8	50.4	47.3	Falling	Falling
Trinidad & Tobago	LAC	53.0	38.2	38.1	37.5	Falling	Falling
Uruguay	LAC	41.0	41.3	41.6	42.8	Rising	Rising
Venezuela	LAC	43.5	45.7	44.9	39.5	Rising	Falling

Note: *A&P: Asia and the Pacific; ECIS: Europe and the Commonwealth of Independent States; LAC: Latin America and the Caribbean.*

Notes

1. During the 1980s and 1990s, income inequality before taxes and subsidies was more or less the same in Finland and the UK, rising in both countries; but while income inequality after taxes and subsidies rose in the UK, it declined in Finland! Atkinson 2004.
2. The actual year of the early 1990s and the late 2000s differs by country, depending on data availability. In these calculations, the starting years range from 1990 to 1993 and the end years range from 2003 to 2010. For detailed data, see Appendix A.
3. This chapter uses the UN country income classifications. The high-income group represents developed economies and the low-income and middle-income (both lower and upper) groups represent developing economies.
4. The UN classifies by their level of development as measured by per capita gross national income (GNI). Accordingly, countries have been grouped as high-income (which represents the group of developed countries), upper-middle-income, lower-middle income and low-income (UN, 2012).
5. In the group of 116 countries in this sample, there are three lower-middle income countries in the early 1990s that were moved down to the low income group by the late 2000s (namely the Kyrgyz Republic, Senegal and Uzbekistan). The average change in inequality for those three countries is above 20 percent, but it is mostly driven by Uzbekistan, where inequality increased by 33 percent (in Senegal, inequality actually fell during the period). The two transition economies (the Kyrgyz Republic and Uzbekistan) experienced the sharp increases in inequality that followed the transition to market economies in the early 1990s. However, their economic growth stagnated during the period. See Appendix A for detailed country data.
6. For a full list of countries, see Appendix B.
7. Less than 1 percent change in the Gini index of income inequality. See Data Appendix B.
8. They constructed a panel of 39 countries from 1970 to 1994 and regressed the Gini index on a number of standard variables, such as the level of income and educational attainment and found that adding the labour share as a regressor improves the fit of the equation substantially and that the labour share has a negative and significant impact on the Gini index.
9. Other variables used are manufacturing share, GDP per capita, openness, civil liberties and human capital, which are discussed below.
10. The IMF investigated (Jaumotte, and Tytell, 2007) the effect of globalization on the wage share in developed countries as did the OECD (Bessani and Manfredi, 2012), while UNDP (Rodriguez and Jayadev, 2010) and the ILO (2011, 2012) carried out several analyses on a broader set of data encompassing all countries.
11. This shift in emphasis was partly caused by the assumption of a constant capital share in the neo-classical production function.
12. The channel through which labour market policies influence secondary income distribution is through collective labour agreements, which result in government support for transfers such as unemployment benefits or wage subsidies.
13. For developed countries, a more refined definition is used in some cases (Stockhammer, p. 11).
14. For details, see Ragab, A. (2013) "Technical note on income inequality and trade and financial globalization trends", UNDP, New York.
15. For detailed definitions of index components and weights please see Dreher, Gaston and Martens (2008) *globalization.kof.ethz.ch*
16. Analysis with other more restricted indices or variables of globalization (such as trade openness or financialization) gave similar results. See Ragab, A. (2013) "Technical note on income inequality and trade and financial globalization trends", UNDP, New York.

17. This trend of higher inequality and greater globalization for each successive income group is not continued for the group of high-income (developed) countries, which has the highest level of globalization (68.9), but a level of inequality (45.5) lower than that of upper-middle income developing countries.

18. Unrecognized member state.

19. The project "Commitment to Equity" is using slightly different terms: Primary income = market income, secondary income = disposable income, and tertiary income = final income.

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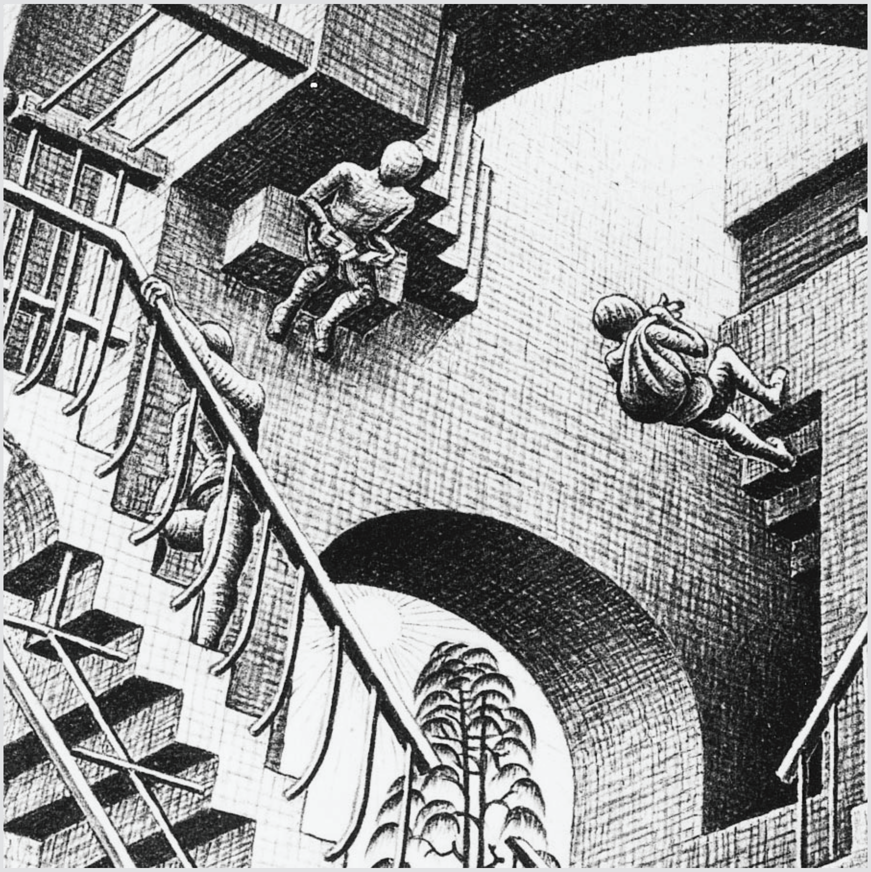
4 Education, health and nutrition disparities



Countries in the lowest income quartile are poles apart from those in the high- and upper-middle-income quartiles with respect to indicators of education, health and nutrition.

4.1. Introduction

This chapter is concerned with inequality in non-income dimensions of well-being. More specifically, the focus is on analysing the trends and drivers of inequality in health, nutrition and educational outcomes across and within countries since 2000. Inequality in these aspects of well-being is important for at least three reasons:

First, as has been noted at the outset of this Report, equity in such dimensions of material well-being is of intrinsic value, that is, it warrants recognition in its own right as it contributes to the very meaning of a good life (Sen, 1985, 1987; Dworkin, 2011).

Second, inequality in health, nutrition and educational outcomes is of instrumental value because of its links to economic growth and income distribution. The distribution of human capital affects the factorial distribution of income and, through that channel, influences the distribution of income at the household level. This also has implications for the distribution of wealth and income across countries, since higher-income countries can grow wealthier (than low-income countries) due to greater access to human capital and human-capital-based technological progress (Ray, 1998).

Third, non-income inequality has informational value: it can reveal hidden income inequalities that are often difficult to monitor. For instance, gender mortality differentials within a country can reveal a lot about the extent of gender inequality in a society (Sen, 1998). Such information is a 'political good' capable of influencing public and policy opinion.

The chapter is organized as follows. The first section focuses on levels and trends in inequality with respect to health, nutrition and education outcomes between countries. This analysis is disaggregated by region and also by the income status (i.e., level of per capita income) and growth performance of countries.

The second section explores the drivers of inequality in these non-income aspects of well-being. Specifically, the section examines the pathways through which economic development can influence outcomes in health, nutrition and educational levels. In this context, the role of income growth, poverty reduction, public expenditure in social services, and institutional factors such as the quality of governance are explored.

The third section examines the level and trends in inequality with respect to education, health and nutrition outcomes within countries and across income/wealth quintiles, gender and spatial dimensions. The fourth section examines the drivers of health, nutrition and education inequality within countries. The conclusion follows.

4.2. Trends and levels of inequality in education, health and nutrition between countries

Trends in inequality in health, nutrition and education between countries were analysed using data from the WDI for the period 2000–2010. For each dimension, two indicators were selected for the analysis based on their relevance as well as data availability (Table 4.1).

Table 4.1. Indicators for education, health and nutrition

Dimension	Indicators
Education	1. Primary completion rate (PCR) 2. Secondary enrolment rate (SER)
Health	1. Total fertility rate (TFR)[1] 2. Under-5 mortality rate (U5MR)[2]
Nutrition	1. Maternal mortality rate (MMR)[3] 2. Proportion of stunted children under 5 (PSC)

4.2a. Regional trends

Figure 4.1 presents the population-weighted regional averages of six indicators to identify patterns and trends in health, nutrition and education inequality between regions for two time periods: 2001–2005 and 2006–2010.

Trends in education outcomes between regions

Trends show large improvements in primary completion rates between the early 2000s and the late 2000s for all regions. However, the levels on primary completion rates vary considerably across regions, with East Asia and the Pacific and Latin America and the Caribbean achieving near 100 percent primary completion rates in the last decade, while, in sub-Saharan Africa, rates stand at 65 percent.

Trends in secondary enrolment rates were more mixed. While the East Asian and Pacific and Latin American regions raised the secondary enrolment rate by 9 percent and 8 percent (from 92 percent to 99 percent and from 95 percent to 100 percent, respectively) during the last decade, the matched increase for South Asia was only about 2 percent. In fact, the trend decelerated in sub-Saharan Africa; the secondary enrolment rate declined by 9 percent.

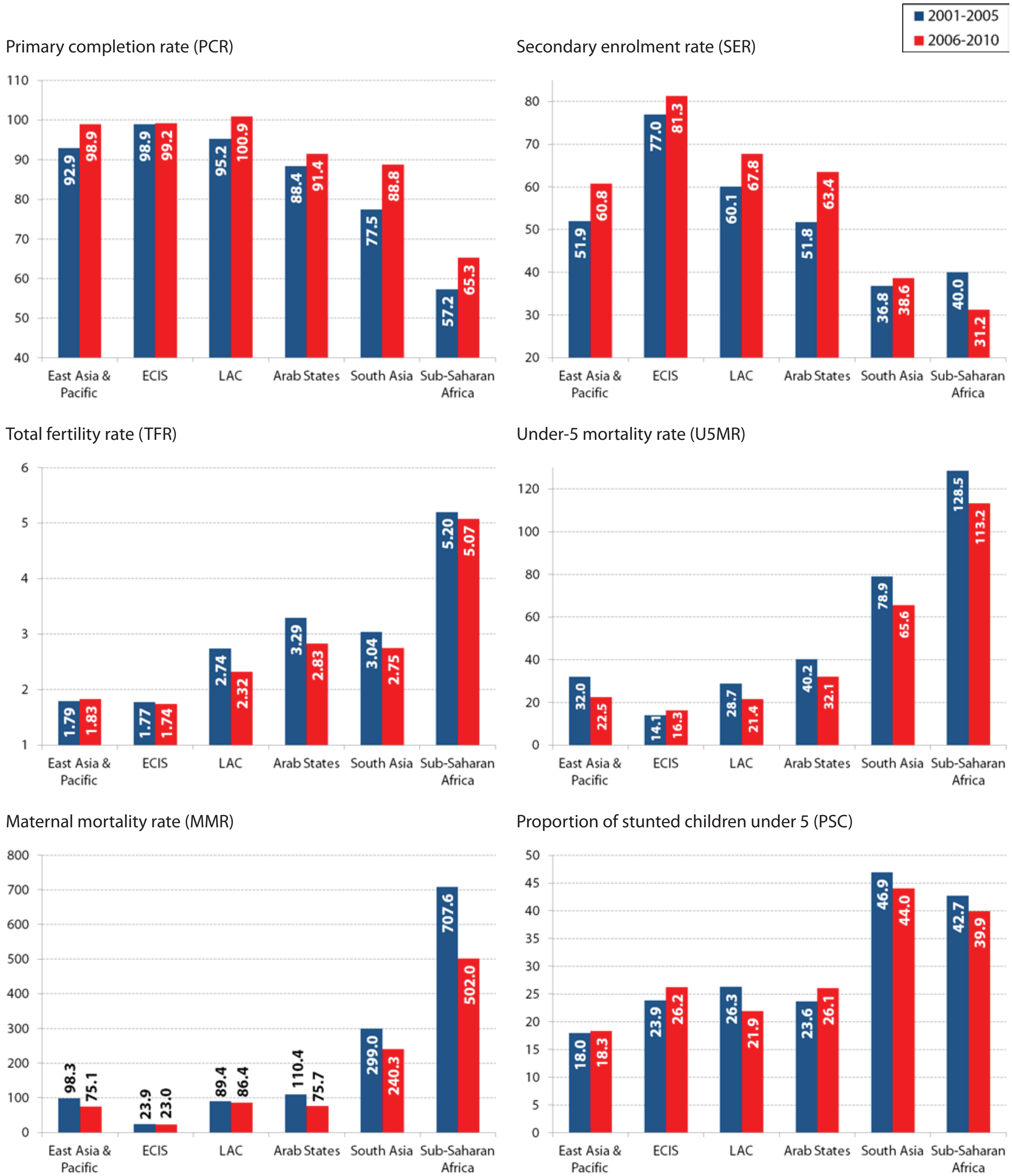
In terms of levels, as of 2010, South Asia and sub-Saharan Africa lagged far behind other regions with respect to secondary enrolment rates: 39 percent and 31 percent, respectively, compared to almost universal primary completion in other regions.

More remarkable is the fact that, across all developing regions, there remains a marked fall between primary completion rates and secondary enrolment rates. Even in regions where primary completion rates are close to 100 percent, we see that only between 60 to 80 percent of the official secondary education age population are enrolled in secondary education. In sub-Saharan Africa, the secondary enrolment rate is about half the primary completion rate (31 percent against 65 percent, respectively).

Trends in health outcomes by regions

The total fertility rate declined across all developing regions except for East Asia and the Pacific between the early and late 2000s. It fell at a faster rate in Latin America and the Middle East compared to other regions. The progress was nearly stagnant in sub-Saharan Africa.

Figure 4.1. Regional averages of education, health and nutrition indicators



Source: *World Bank (2012).*

The child mortality rate also declined across all regions between the early and late 2000s and at fairly high rates (between 30 and 12 percent). The decline was slowest in sub-Saharan Africa, which started off with much higher levels compared to other regions. Child mortality only decreased from 128.53 to 113.2 per 1,000 live births between the early and the late 2000s in this region.

Despite progress, the gap in child mortality between regions remained staggering in the period between 2006 and 2010. Child mortality is relatively low in Europe and Central Asia (16 percent). In contrast, every tenth child in sub-Saharan Africa and every twentieth child in South Asia is likely to face death before his or her fifth birthday. The child mortality rate in sub-Saharan Africa is almost five times higher than that in developing countries in Eastern Europe and Central Asia.

Trends in nutrition outcomes by regions

The gaps in maternal mortality across regions are striking, with mothers over 20 times more likely to die at childbirth in sub-Saharan Africa than in Eastern Europe and Central Asia in the period between 2006 and 2010. This is so despite some impressive progress in sub-Saharan Africa, where maternal mortality fell by almost 30 percent, from 129 to 113 deaths per 100,000 live births, between the early and late 2000s.

The gaps in maternal mortality across regions are striking, with mothers over 20 times more likely to die at childbirth in sub-Saharan Africa than in Eastern Europe and Central Asia in the period between 2006 and 2010.

Trends in stunting rates during the period since 2000 show reversals in some regions: while stunting rates fell in South Asia, sub-Saharan Africa and Latin America, they rose by about 10 percent in East Asia and the Middle East and North Africa regions. The gap between the regions with the lowest and highest stunting rates is large, with South Asia having stunting levels over twice as high as those in East Asia Pacific.

Overall, trends in such non-income aspects of well-being indicate substantial inequality, as measured by the regional averages of indicators that reflect educational, health and nutrition outcomes. Sub-Saharan Africa and South Asia lag behind all indicators, while Latin America and the Caribbean and Europe and Central Asia perform better across the board. In general, Latin America and the Caribbean and the Middle East and North Africa made faster progress in improving well-being compared to other regions. Progress in South Asia and sub-Saharan Africa was mixed, with significant improvements in some indicators (i.e., primary completion rates, and child and maternal mortality), but weak or even negative improvements in others (i.e., secondary enrolment, total fertility and stunting rates).

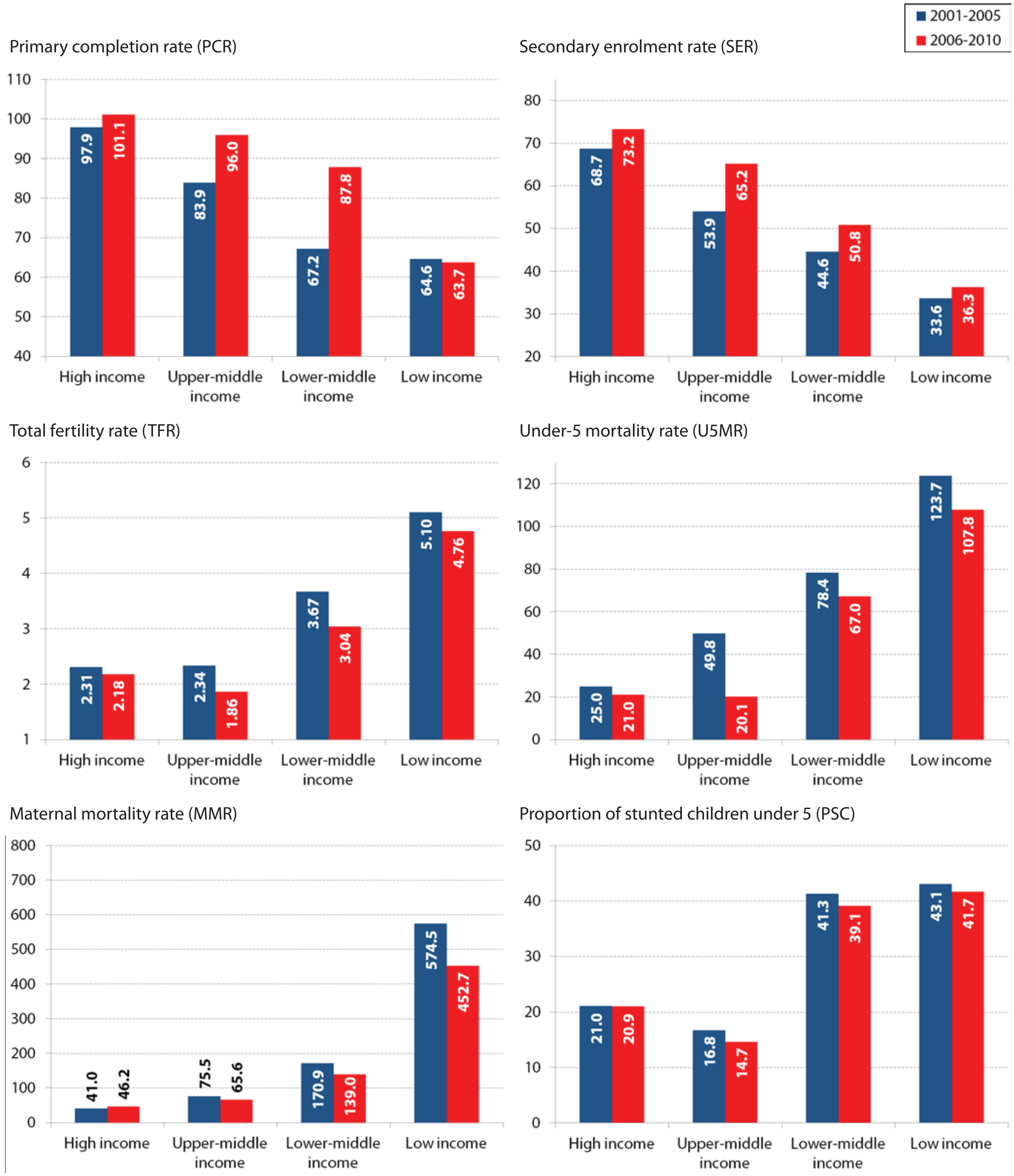
4.2b. Trends by income status

Figure 4.2 presents the levels and trends for indicators according to the income status of countries. Countries were classified as high-income, upper-middle-income, lower-middle-income, or low-income based on the quartile of per capita GDP at purchasing power parity in 2010.[4]

Trends in education outcomes by income status

The primary completion rate in the period 2005–2010 reached 100 percent in high-income countries, 96 percent in upper-middle-income countries and was close to 90 percent in lower-middle-income countries. Low-income countries, however, failed to raise primary completion rates in the last decade, with the level stuck at around 64 percent.

Figure 4.2. Education, health and nutrition indicators by income status



Source: *World Bank (2012).*

Secondary enrolment rates showed modest improvements across income groups, except for the upper-middle-income groups, which improved at a rate of 21 percent. It is a matter of grave concern that the secondary enrolment rate improved so little — by 8 percent — throughout the last decade in low-income countries.

Despite substantial achievements in primary completion rates, huge lags remain for secondary enrolment. The gap between primary completion and secondary enrolment was high for all income groups, but highest for countries in the lower-income quartile, where 65 percent of the relevant age group completed primary education, but only 36 percent of the relevant age group enrolled in secondary education. This gap actually increased from the early to late 2000s.

Trends in health outcomes by income status

The total fertility rate improved for all income groups, although very modestly for high- and low-income groups (the rates of decline were 7 percent and 6 percent, respectively). The total fertility rate in low-income countries was 2.5 times higher than that in countries in the upper-middle-income group.

The child mortality situation also improved in all income groups between the early and late 2000s. Nonetheless, in the period between 2006 and 2010, children in countries from the lowest income quartile were five times more likely to die before reaching their fifth birthday than children in the countries of the second income quartile.

Progress in both health indicators was fastest in countries belonging to the upper-middle-income quartile, with the total fertility and child mortality rate falling by 20 percent and 40 percent, respectively, from the early to the late 2000s. Progress was slowest in countries belonging to the low-income quartile, with reductions of only 6 percent in total fertility rate and 12 percent in under-five mortality rate between the early and late 2000s.

Trends in nutrition by income status

The maternal mortality rate declined for all income groups between 2000 and 2010.[6] The rate of decline was higher for the low-income group (21 percent) than for the lower-middle (19 percent) and upper-middle (13 percent) income groups. However, despite this progress, women in the low-income group are seven times more likely to die at childbirth than those in the upper-middle-income group.

The malnutrition situation remained almost stagnant in the last decade. In fact, child stunting in the lower-middle-income and low-income groups was almost identical at around 40 percent between the early and late 2000s.

Overall, the results indicate that countries in the lowest income quartile are poles apart from those in the high- and upper-middle-income quartiles with respect to indicators of education, health and nutrition. Higher-middle-income countries exhibited the fastest rates of improvements between the early and late 2000s across the board, while high- and low-income groups made slow progress. Income levels seem to be an important determinant of well-being, although unequal progress across groups points to the fact that it is not the only, or even the most significant, factor.

4.2c. Trends by growth performance

Can high-growth episodes bring about faster improvements in human development? Figure 4.3 presents indicators of education, health and nutrition outcomes according to the growth performance of countries[7] and sheds some light on the correlation between economic growth and levels and trends of indicators of human well-being.

Trends in education by growth performance

Improvement in education, both in primary completion and secondary enrolment, were seen in countries across all growth performance groups. Generally, countries with the fastest rates of improvements were those that experienced either very high or low growth. Progress in the middle two categories was modest, particularly for secondary enrolment (2 percent improvement for the high-growth group and 8 percent for the medium-growth group).

Trends in health by growth performance

The total fertility rate declined in all growth performance groups between the early and late 2000s, although at slow rates (between 7 percent and 6 percent for all regions). Child mortality rates also declined across the board, albeit at much faster rates for the very-high- and high-growth groups (21 percent for the high- and very-high-growth groups compared to 11 percent and 14 percent for the medium- and low-growth groups).

Trends in nutrition by growth performance

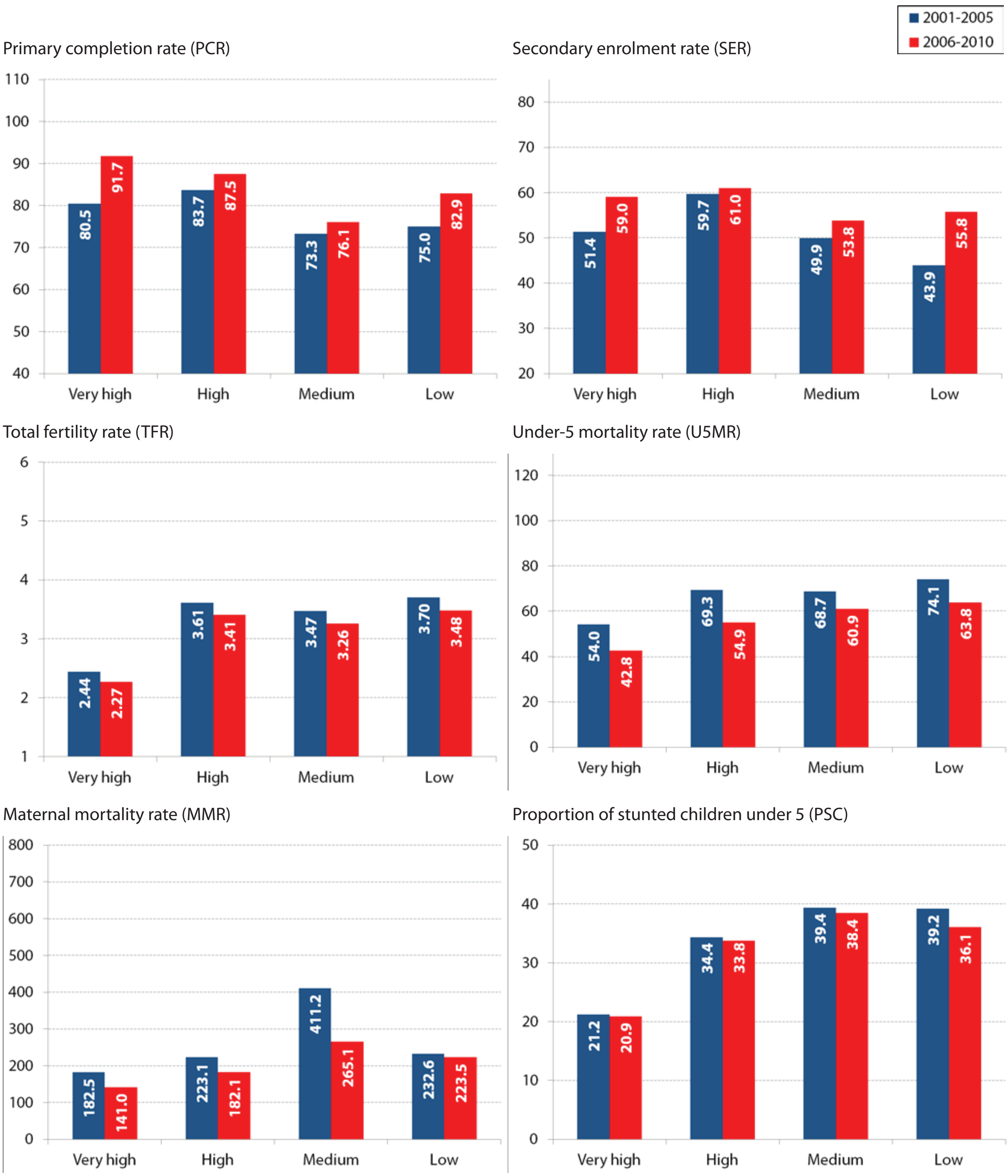
Maternal mortality declined significantly for most growth performance groups, with the exception of the low-growth group, between the early and late 2000s. Medium-growth performers were able to decrease maternal mortality by as much as 36 percent during this period. However, levels for medium- and low-growth groups remained remarkably high and the distance with the levels achieved by the very-high- and high-growth groups remained very large.

Overall, very-high-growth performing countries (i.e., the top growth quartile) were successful in making improvements in some indicators (primary completion, secondary enrolment rates, child mortality and maternal mortality rates), but not in all.

Stunting rates showed little improvements for all groups (a decline of about 2 percent), except for the low-growth group, which experienced a decline of 8 percent. Despite this progress, children in the low- and medium-growth groups were almost twice as likely to experience child malnutrition, compared to those in the very-high-growth group.

Overall, very-high-growth performing countries (i.e., the top growth quartile) were successful in making improvements in some indicators (primary completion, secondary enrolment rates, child mortality and maternal mortality rates), but not in all. The performance of countries belonging to the second growth quartile was more mixed. They performed well in raising the primary completion rate and the child mortality rate, but did not do as well with respect to secondary enrolment, total fertility, maternal mortality and child stunting. In these respects, they were similar to countries with medium-growth performance, which performed rather moderately on improving health indicators compared to the benchmark prevailing at the start of 2000s. Low-growth countries, while starting at low levels for all indicators, were able to make progress generally at faster rates than the high- and medium-growth groups.

Figure 4.3. Education, health and nutrition indicators by growth performance



Source: *World Bank (2012).*

In summary, the analysis of education, health and nutrition trends according to regions, income status and growth performance points to four stylized facts:

- The level of income appears to be an important determinant of performance in education, health and nutrition, but not the only, or even the most significant, factor. Countries with high levels of income performed better on indicators of education, health and nutrition than countries with lower levels of income. However, the progress of countries with high income in the last decade was low relative to other income groups.

- While growth is important for improving well-being, it does not guarantee or automatically translate into faster improvements in education, health and nutrition outcomes. If growth was the main determinant of such outcomes, countries in the very-high- and high-growth groups would have experienced faster improvements on all indicators, which was not the case, as seen in the analysis above.

- Countries that achieved higher growth rates were also countries that started off with higher initial levels of education, health and nutrition outcomes. This suggests that improvements in education, health and nutrition might have positive impacts on future growth.

- Economic growth is not the only driver accounting for improvements in education, health and nutrition outcomes. Countries with low-growth performance were indeed able to make significant progress on various indicators, many times at faster rates than high- and medium-growth countries (particularly in secondary enrolment rates and stunting rate).

4.3. Drivers of inequality in education, health, nutrition between countries

The previous section showed that the income level and growth performance of countries do matter, but are not sufficient to fully explain the variations and trends in education, health and nutrition. This section explores in detail the potential drivers of differences in non-income well-being between countries. Two approaches have generally been used in the literature to analyse these drivers.

The first approach argues that growth affects education, health and nutrition outcomes not directly, but indirectly. Hence, this approach is concerned with testing the channels through which economic growth is likely to influence education, health and nutrition outcomes. In this context, the rate of poverty and the level of public expenditure in social services are seen to be important channels through which growth influences such outcomes (Anand and Ravallion, 1993; HDR, 1995; World Bank, 2007). In other words, if growth has a strong impact on reducing poverty, then improvements in education, health and nutrition outcomes are more likely.

Similarly, growth can be more beneficial for human development if the growth dividends are translated into fiscal gains that support broad-based access to public and social goods. In other words, if the growth dividend leads to an effective use of public expenditure, improvements in education, health and nutrition are more likely. In summary, the growth effects on improvements in non-income material outcomes would depend largely on the strength of these channels (i.e., on the growth elasticity of public spending and growth elasticity of poverty). In both instances, the channels are conditional on growth.

The second approach emphasizes that growth is just one determinant of outcomes in education, health and nutrition. Other factors, too, play an important role in accounting for changes in education, health and nutrition outcomes. According to this approach, non-growth drivers, such as pre-existing pro-human development institutions and social practices reflecting female-friendly norms, are equally important factors in shaping the level and trends in inequality in non-income aspects of well-being (Banerjee and Iyer, 2005; Acemoglu and Robinson, 2012; Dreze and Sen, 2013).

While growth is important for improving well-being, it does not guarantee or automatically translate into faster improvements in education, health and nutrition outcomes. If growth was the main determinant of such outcomes, countries in the very-high- and high-growth groups would have experienced faster improvements on all indicators, which was not the case.

Which of these two approaches can explain the differential progress in reducing inequality in education, health and nutrition outcomes across nations? Both approaches were tested using a different set of tests for each approach and both approaches provide important insights into the dynamics of economic growth and improvements in non-income dimensions of material well-being.

A number of different potential determinants of variations in education, health and nutritional outcomes are explored in both approaches. These determinants include income level (measured by per capita GDP), the poverty rate (measured as the percentage of people below US$ PPP1.25/ day), public spending on health (measured by per capita spending on health) and public spending on education (measured by per capita public spending).[8]

Furthermore, the effects of governance on education, health and nutrition outcomes were also considered. Indeed, recent literature has pointed to how institutions can influence the choice and supply of public goods, including the quality of public, social, and infrastructural spending (Alesina and Rodrik, 1994; Banerjee and Iyer, 2005; Acemoglu and Robinson, 2012; Pritchett, 2004; Miller, 1997; Easterly, 2001; World Bank WDR, 2009).

Governance ratings were used to examine the role of institutions on education, health and nutrition. These ratings (Kaufmann et al., 2012) are the average of ratings of six different dimensions of governance: (a) voice and accountability, (b) political stability and absence of violence, (c) government effectiveness, (d) regulatory quality, (e) rule of law, and (f) control of corruption.

4.3a. The channels of growth approach

The first set of tests examines the channels through which income level affects other dimensions of material well-being. The channels investigated include poverty, governance and public spending. These tests are inspired by the empirical approach suggested by Sudhir Anand and Martin Ravallion (1993).

Table 4.2 tests for the effect of the income level on six indicators of education, health and nutrition outcomes (PCR, SER, MMR, U5M, TFR and PSC). Regional dummies were added to capture the effects of other drivers.

The results show that income levels are significant for education, health and nutritional outcomes. Yet, the impact of changes in income on changes on these outcomes (income elasticity) can vary greatly. In other words, the impact of each extra unit of income on improving educational outcomes is not the same as its impact on improving health outcomes. The income elasticities of the maternal mortality rate and the child mortality rate are quite high (0.84 and 0.48, respectively). In contrast, the sensitivity of primary completion rates to income is much lower (0.11) than other indicators. The low-income elasticity of nutritional outcomes (-0.21 for TFR and

Table 4.2. Effect of income and region on education, health and nutrition outcomes (log transformed)

	PCR	SER	MMR	U5M	TFR	PSC
Per Capita GDP	0.109***	0.259***	-0.836***	-0.487***	-0.210***	-0.249**
	(4.63)	(4.58)	(-5.49)	(-10.19)	(-8.65)	(-2.55)
East Asia and Pacific	0.373***	0.270*	-0.801*	-0.747***	-0.272***	0.156
	(4.49)	(1.72)	(-1.97)	(-5.25)	(-3.78)	(0.58)
Europe and Central Asia	0.370***	0.815***	-2.117***	-1.037***	-0.729***	-0.391
	(6.56)	(5.69)	(-6.56)	(-7.87)	(-10.90)	(-1.41)
Latin America and Caribbean	0.206***	0.292*	-0.196	-0.565***	-0.207***	-0.277
	(3.12)	(1.79)	(-0.47)	(-3.93)	(-2.85)	(-1.02)
Middle East and North Africa	0.309***	-0.103	-0.602	-0.468***	-0.201**	-0.462*
	(3.49)	(-0.39)	(-1.39)	(-2.77)	(-2.35)	(-1.70)
South Asia		0.240	-1.002*	-0.510***	-0.446***	0.0113
		(0.91)	(-1.79)	(-2.71)	(-4.67)	(0.02)
Constant	3.443***	1.732***	11.08***	7.551***	2.819***	5.083***
	(23.03)	(4.71)	(11.19)	(24.77)	(18.22)	(8.52)
Observations	**61**	**54**	**50**	**123**	**123**	**48**
Adjusted R^2	**0.695**	**0.627**	**0.692**	**0.742**	**0.735**	**0.364**

*t statistics in parentheses, * p< 0.10, ** p< 0.05, *** p< 0.01;*

***Note:** 1. All variables are the average of the period of 2009-2011. 2. For regional control variable, sub-Saharan Africa was the base category.*

***Source:** World Bank (2012).*

-0.25 for the stunting rate) is quite surprising, given the strong link between income and food consumption. Clearly, other factors besides income are important for improvements in nutritional outcomes.

Moreover, education, health and nutritional outcomes show significant variation between different regions of the developing world. In other words, countries in some regions perform better on human development outcomes than countries in other regions with comparable levels of income. These findings substantiate the analysis of trends in education, health and nutrition in the previous section, where it was shown that persistent interregional differences with respect to these important aspects of well-being remain.

Now that income level turned out to be significant for non-income dimensions of human development, would it still be independently significant once we include the regressions explanatory variables that capture the different channels through which growth might impact human development?

The regression in Table 4.3 is similar to the regression carried out in Table 4.2, except that additional explanatory variables are now included to capture different channels of growth, namely poverty, social spending on health, social spending on education, and governance.

The main result is that the inclusion of poverty, social spending and governance makes the income variable statistically insignificant (with the exception of total fertility rate). This supports the hypothesis that it is not income *per se* that affects education, health and nutrition outcomes, but it impacts them through other channels such as poverty and public spending on social services.

Of the different channels tested, poverty stands out as a key determinant of the level of health and nutrition outcomes (but not of education). For example, a 1 percent reduction in poverty could lead to a 0.3 percent

Table 4.3. Effect of income and region on education, health and nutrition outcomes with channels (log transformed)

	PCR	SER	MMR	U5M	TFR	PSC
Per capita GDP (2009–2011)	0.0152	-0.0278	-0.334	-0.0811	-0.184***	-0.295
	(0.29)	(-0.19)	(-1.21)	(-0.84)	(-3.10)	(-1.56)
Average education spending (2001-2009)	0.0553	0.176*				
	(1.52)	(1.71)				
Average health spending (2001-2009)			-0.0248	-0.0791	0.0443	0.158
			(-0.10)	(-0.91)	(0.84)	(0.99)
Average poverty rate: (2001-2009)	0.00459	-0.0691	0.312***	0.231***	0.0471*	0.235**
	(0.17)	(-1.07)	(2.95)	(5.94)	(1.98)	(2.44)
Average governance rating (2001-2009)	0.190	-0.290	-2.547*	-1.021**	-0.405	-1.520
	(0.75)	(-0.39)	(-1.93)	(-2.18)	(-1.42)	(-1.53)
East Asia and Pacific	0.457***	0.247	-1.063**	-0.916***	-0.418***	0.0436
	(4.69)	(1.04)	(-2.45)	(-6.98)	(-5.22)	(0.16)
Europe and Central Asia	0.423***	0.766***	-1.427***	-0.688***	-0.696***	0.243
	(4.52)	(3.32)	(-3.39)	(-4.66)	(-7.73)	(0.66)
Latin America and Caribbean	0.269***	0.453*	-0.298	-0.706***	-0.263***	-0.0160
	(3.32)	(2.02)	(-0.73)	(-5.45)	(-3.33)	(-0.05)
Middle East and North Africa	0.373***	-0.112	-0.0109	-0.302*	-0.119	0.164
	(2.87)	(-0.35)	(-0.02)	(-1.86)	(-1.20)	(0.47)
South Asia		0.324	-1.111**	-0.604***	-0.464***	0.0301
		(1.08)	(-2.19)	(-3.90)	(-4.91)	(0.06)
Constant	3.582***	3.709***	10.68***	5.957***	3.018***	6.405***
	(7.26)	(2.73)	(4.46)	(6.88)	(5.71)	(3.42)
Observations	**49**	**44**	**43**	**98**	**98**	**42**
Adjusted R^2	**0.698**	**0.618**	**0.785**	**0.870**	**0.814**	**0.508**

*t statistics in parentheses, * $p< 0.10$, ** $p< 0.05$, *** $p< 0.01$;*

***Note:** 1. All variables are the average of the period of 2009-2011. 2. For regional control variable, sub-Saharan Africa was the base category.*

***Source:** World Bank (2012).*

reduction in the maternal mortality rate, a 0.23 percent reduction in the under-five mortality rate, and a 0.24 percent reduction in the child malnutrition rate. This finding points to the instrumental importance of poverty reduction in reducing health and nutritional deprivations.

The national income level matters for other non-income dimensions of material well-being (education, health and nutrition), but mainly through the channels of poverty, governance and public spending. Yet the degree of impact of those channels is not uniform across all dimensions of material well-being or even across different indicators of the same dimension.

The second most significant channel of impact on health outcomes is governance. Improvements in governance have a significant impact on indicators of health outcomes: maternal mortality and under-five mortality rates. Surprisingly, public spending on health does not appear to have a significant effect on improvements in health outcomes. Part of the reason may be the very high degree of corruption in public social spending. This is indirectly corroborated by the independent significance of the institutional driver such as governance rating.

Also noteworthy, educational outcomes do not appear to be significantly determined by any of the channels tested in this regression. The only exception is public spending on education, which has a small and weak significant impact on secondary school enrolment rates.

In sum, the national income level matters for other non-income dimensions of material well-being (education, health and nutrition), but mainly through the channels of poverty, governance and public spending. Yet the degree of impact of those channels is not uniform across all dimensions of material well-being or even across different indicators of the same dimension. Poverty is particularly important for health and nutritional outcomes, while governance appears to be an important determinant of health outcomes in particular. Although the income level loses its independent significance as a determinant of education outcomes, the other channels tested also did not appear to be significant determinants.

4.3b. The 'growth plus other drivers' approach

The preceding discussion tested the channels of growth in relation to their effects on education, health and nutrition outcomes. The second set of tests[9] examines whether economic growth alone matters for non-income inequalities or whether other structural and/ or institutional drivers also matter.

To answer this question, the Tendulker model (World Bank, 2007) was used. The Tendulker model primarily examined whether past growth and institutional conditions mattered as independent drivers in explaining the cross-country differences in the current level of education, health and nutrition outcomes.

The first step in the Tendulker model involved testing for the effect of long-term growth (measured as the average growth over the period 1991–2010) on education, health and nutrition outcomes (Table 4.4). The analysis also included the level of income and regional dummy variables to capture the effect of interregional differences.

As can be seen from Table 4.4, past growth is significant in explaining non-income well-being. The average rate of long-term growth (over the period 1991–2010) is significant for health and nutritional dimensions of well-being, but not for educational attainments.

Table 4.4. Effect of long-term economic growth, income level and region on education, health and nutrition outcomes (log transformed)

	PCR	SER	MMR	U5M	TFR	PSC	Poverty Rate
Per capita GDP growth (1991–2010)	0.0209	0.0495	-0.231***	-0.0891***	-0.0509***	-0.0795*	-0.234***
	(1.54)	(1.61)	(-4.41)	(-3.67)	(-4.02)	(-1.73)	(-3.45)
Per capita GDP (1991)	0.101***	0.237***	-0.613***	-0.509***	-0.198***	-0.249*	
	(3.91)	(3.78)	(-3.74)	(-9.20)	(-6.86)	(-1.94)	
East Asia and Pacific	0.358***	0.428***	-0.841*	-0.923***	-0.305***	-0.0306	-1.161*
	(3.86)	(2.72)	(-1.99)	(-6.07)	(-3.84)	(-0.08)	(-1.82)
Europe and Central Asia	0.356***	0.841***	-2.203***	-0.946***	-0.723***	-0.384	-3.779***
	(6.04)	(5.80)	(-7.04)	(-6.95)	(-10.18)	(-1.32)	(-8.90)
Latin America and Caribbean	0.198***	0.333**	-0.501	-0.536***	-0.216***	-0.228	-1.582***
	(2.99)	(2.05)	(-1.23)	(-3.67)	(-2.83)	(-0.73)	(-3.95)
Middle East and North Africa	0.301***	-0.0675	-0.869**	-0.461***	-0.225**	-0.418	-2.357***
	(3.54)	(-0.26)	(-2.13)	(-2.70)	(-2.52)	(-1.39)	(-3.35)
South Asia		0.241	-0.853	-0.507**	-0.418***	0.0220	0.261
		(0.96)	(-1.62)	(-2.48)	(-3.91)	(0.04)	(0.43)
Constant	3.502***	1.827***	9.933***	7.735***	2.785***	5.146***	3.963***
	(22.58)	(4.72)	(9.69)	(22.52)	(15.53)	(6.81)	(13.86)
Observations	**59**	**52**	**48**	**115**	**115**	**45**	**58**
Adjusted R^2	**0.691**	**0.646**	**0.704**	**0.750**	**0.723**	**0.346**	**0.658**

*t statistics in parentheses, * p< 0.10, ** p< 0.05, *** p< 0.01;*

Notes: *1) All dependent variables are the average of the period 2009-2011. Per capita GDP growth is the annual average of the period 1991-2010. Per capita GDP is for the year 1991. 2) For regional control variable, sub-Saharan Africa was the base category.*

Source: *World Bank (2012).*

However, past growth rates turned out to be mostly insignificant once the model was extended to include other potential determinants of education, health and nutrition (Table 4.5).[10] The determinants considered in Table 4.5 were the poverty rate, social spending on health and education, and governance.

Poverty is an important driver of child mortality and stunting rates. A 1 percent reduction in poverty drives down the child mortality rate by 0.18 percent (and stunting rates by 0.32 percent).

We previously found that public health and education spending per capita had few independent effects on education, health and nutrition outcomes when the income level is considered (Table 4.3). However, when the growth effect was considered, public spending on health appeared to be weakly significant for the child mortality rate and total fertility rate (Table 4.5). A 1 percent increase in per capita government spending on health leads to a 0.21 percent reduction in under-five mortality rates and a 0.11 percent reduction in the total fertility rate.

Table 4.5. Effect of long-term economic growth, income level, poverty, social spending, governance and region on education, health and nutrition outcomes (log transformed)

	PCR	SER	MMR	U5M	TFR	PSC
Per capita GDP growth (1991–2010)	0.0217	-0.000484	-0.116*	-0.0130	-0.0295	-0.102
	(0.93)	(-0.01)	(-1.75)	(-0.45)	(-1.60)	(-1.18)
Per capita GDP (1991)	-0.0208	0.247	-0.197	0.0321	-0.00242	-0.00955
	(-0.21)	(1.38)	(-0.73)	(0.28)	(-0.03)	(-0.03)
Per capita education spending	0.101	-0.0719				
	(1.19)	(-0.52)				
Per capita health spending			-0.203	-0.207**	-0.111*	0.0252
			(-0.94)	(-2.05)	(-1.72)	(0.11)
Poverty rate (1991-1995)	-0.0134	-0.0126	0.0701	0.181***	0.0350	0.327*
	(-0.40)	(-0.21)	(0.68)	(3.55)	(1.07)	(1.87)
Governance rating	-0.102	0.712	-0.553	-1.130**	-0.0549	-1.210
	(-0.33)	(1.18)	(-0.41)	(-2.16)	(-0.16)	(-0.90)
East Asia and Pacific	0.512***	0.454*	-1.740**	-1.231***	-0.574***	0.0607
	(3.27)	(2.05)	(-2.70)	(-6.80)	(-4.95)	(0.10)
Europe and Central Asia	0.357**	0.769***	-2.615***	-0.864***	-0.712***	0.168
	(2.74)	(3.20)	(-6.57)	(-4.77)	(-6.13)	(0.21)
Latin America and Caribbean	0.242**	0.267	-1.001**	-0.612***	-0.235**	0.0172
	(2.20)	(1.18)	(-2.49)	(-3.80)	(-2.28)	(0.03)
Middle East and North Africa	0.268		-1.654***	-0.497**	-0.348***	0.0799
	(1.65)		(-3.67)	(-2.44)	(-2.67)	(0.13)
South Asia		0.249	-1.493***	-0.794***	-0.506***	
		(1.03)	(-3.02)	(-3.96)	(-3.94)	
Constant	4.118***	1.068	8.597***	5.817***	1.763***	4.179*
	(6.76)	(0.96)	(3.40)	(6.38)	(3.02)	(1.76)
Observations	**28**	**27**	**34**	**70**	**70**	**29**
Adjusted R^2	**0.700**	**0.723**	**0.762**	**0.852**	**0.755**	**0.429**

*t statistics in parentheses, * p< 0.10, ** p< 0.05, *** p< 0.01;*

Notes: *1) All dependent variables are the average of the period 2009-2011. Per capita GDP growth is the annual average of the period 1991-2010. Per capita GDP is for 1991. Per capita education spending, health spending and poverty rate are the annual averages of the period 1991-1995. Governance rating is for 1996. 2) For regional control variable, sub-Saharan Africa was the base category.*

Source: *World Bank (2012).*

Table 4.6. Effect of long-term economic growth, income level, income inequality, social spending, governance and region on education, health and nutrition outcomes (log transformed)

	PCR	SER	MMR	U5M	TFR	PSC
Per capita GDP growth (1991–2010)	0.0331	0.0160	-0.147**	-0.0580*	-0.0443**	-0.101
	(1.40)	(0.35)	(-2.65)	(-1.87)	(-2.53)	(-1.66)
Per capita GDP (1991)	0.00469	0.303*	-0.129	-0.347***	-0.215***	-0.143
	(0.05)	(1.76)	(-0.47)	(-3.60)	(-3.94)	(-0.77)
Per capita education spending (1991-1995)	0.0793	-0.0977				
	(0.98)	(-0.68)				
Per capita health spending (1991-1995)			-0.387*	0.00481	0.0367	0.0453
			(-1.76)	(0.08)	(1.13)	(0.49)
Average Gini (1991-1995)	-0.0628	-0.185	-0.377	0.509*	0.280*	-0.676
	(-0.36)	(-0.61)	(-0.63)	(1.92)	(1.86)	(-1.11)
Type of Gini	0.101	0.0413	0.701*	-0.173	-0.0611	-0.0729
	(1.11)	(0.22)	(2.02)	(-1.31)	(-0.82)	(-0.25)
Governance rating	-0.0374	0.866	-0.840	-1.718***	-0.427	-0.784
	(-0.13)	(1.38)	(-0.66)	(-3.14)	(-1.38)	(-0.77)
East Asia and Pacific	0.395**	0.272	-1.820***	-0.739***	-0.346***	-0.212
	(2.34)	(1.28)	(-3.18)	(-3.68)	(-3.05)	(-0.45)
Europe and Central Asia	0.228	0.556**	-3.495***	-0.750***	-0.538***	-1.090*
	(1.47)	(2.26)	(-5.75)	(-2.98)	(-3.78)	(-1.72)
Latin America and Caribbean	0.121	0.125	-1.370***	-0.572***	-0.187*	-0.446
	(1.21)	(0.47)	(-2.92)	(-3.12)	(-1.80)	(-1.10)
Middle East and North Africa	0.243*		-1.466***	-0.388*	-0.162	-0.920**
	(1.76)		(-3.22)	(-1.82)	(-1.35)	(-2.24)
South Asia		0.0735	-1.598**	-0.404	-0.288*	
		(0.28)	(-2.59)	(-1.51)	(-1.90)	
Constant	4.141***	1.267	10.70***	7.333***	2.359***	8.264***
	(4.56)	(0.87)	(3.07)	(6.34)	(3.61)	(3.27)
Observations	**33**	**29**	**39**	**83**	**83**	**36**
Adjusted R^2	**0.663**	**0.722**	**0.752**	**0.775**	**0.725**	**0.355**

*t statistics in parentheses, * p< 0.10, ** p< 0.05, *** p< 0.01;*

Notes: *1) All dependent variables are the average of the period 2009-2011. Per capita GDP growth is the annual average of the period 1991-2010. Per capita GDP is for the year 1991. Per capita education spending, health spending and the Gini coefficient are the annual averages of the period of 1991-1995. Governance rating is for the year 1996. 2) For regional control variable, sub-Saharan Africa was the base category.*

Source: *The World Bank (2012).*

Previously, public spending on education weakly mattered for secondary enrolment when income levels were considered (Table 4.3), but it does not appear to matter once long-term growth is taken into account (Table 4.5). This may be due to two factors: (a) data (with large gaps in WDI) and (b) governance of public spending.

Governance appears to be particularly relevant for improvements in child mortality rates. We have previously seen that governance is an important channel through which the level of income can have positive effects on education, health and nutrition outcomes (Table 4.3), but the role of governance mostly disappears when the long-term growth rate is considered (Table 4.5). This may suggest that governance is more correlated with income than with growth.

In Table 4.6, we run the same regression as in Table 4.5, but the poverty rate is replaced by the Gini index of income inequality.[11] Growth was slightly more significant when inequality was considered, instead of the poverty rate, in explaining differences in maternal and child mortality and in total fertility.[12] In other words, reductions in income inequality were significant drivers of child mortality and total fertility rates.

In sum, neither income levels nor economic growth could individually explain variations and improvements in education, health and nutrition outcomes across countries in the developing world. Moreover, for some indicators of well-being, income and economic growth were not even a relevant factor. Other drivers appeared to be necessary for making improvements in education, health and nutrition outcomes. These drivers included poverty, public spending on education and health services, governance and even the level of income inequality.

4.4. Inequality in education, health and nutrition outcomes within countries

After examining inequality across countries, we now turn our attention to the disparities in education, health and nutrition within nations. How has the educational gap between males and females changed? Is the health gap between the rich and the poor widening or narrowing? Is the nutritional gap between rural and urban children disappearing? This section describes the trends of inequality in education, health and nutrition within countries and across the wealth, spatial and gender dimensions using data from the Demographic and Health Survey (DHS)[13] for the period between 2000 and 2010.[14] The level and trends of inequality within countries are examined. The data are presented as regional aggregates (weighted by population) for the sake of convenience.

4.4a. Inequality by wealth quintiles

Tables 4.7 and 4.8 present the levels and trends of indicators of education, health and nutrition according to wealth quintiles within countries.[15]

Inequality in education by wealth quintiles

According to the data, the gap in the primary completion rate between the richest and lowest quintiles was prominent in all regions in the late 2000s. It was at its maximum in South Asia, where children in the wealthiest quartile were two times more likely to complete primary school than those in the lowest quintile (90 percent as opposed to 44 percent). Even in regions where the average primary completion rate was close to 100 percent (Latin America and the Caribbean, Middle East and East Asia), we still see important gaps, with only about 80 percent of the children in the lowest quartile completing primary education.

Table 4.7. Level of education, health and nutrition indicators by household wealth index (late 2000s)

Indicator	Regions	Household Wealth Index (Late 2000s)						
		Lowest	Second	Middle	Fourth	Highest	H/L	Total
PCR	Sub-Saharan Africa	54.30	63.76	70.34	77.22	87.34	1.61	70.59
	Middle East	80.20	86.38	92.58	96.14	98.83	1.23	90.82
	South Asia	43.89	60.25	68.85	80.46	90.49	2.06	68.79
	East Asia	78.95	85.49	88.83	92.99	97.44	1.23	88.74
	Latin America and the Caribbean	84.34	91.28	94.77	97.77	99.29	1.18	93.49
TFR	Sub-Saharan Africa	6.82	6.19	5.65	4.80	3.46	0.51	5.24
	Middle East	3.37	3.10	2.83	2.77	2.30	0.68	2.83
	South Asia	3.73	3.13	2.67	2.27	1.83	0.49	2.67
	East Asia	4.23	3.33	3.03	2.63	2.23	0.53	2.97
	Latin America and the Caribbean	5.10	3.68	3.07	2.35	1.77	0.35	2.90
U5M	Sub-Saharan Africa	143.33	138.05	127.81	116.4	85.67	0.60	125.0
	Middle East	36.67	29.33	25.67	25.33	24.00	0.65	28.33
	South Asia	93.00	83.00	76.00	60.67	39.33	0.42	73.67
	East Asia	75.33	60.00	48.00	37.33	26.33	0.35	52.00
	Latin America and the Caribbean	72.00	59.00	50.00	36.67	26.83	0.37	44.60
Stunting (Height-for-age) below -2 SD	Sub-Saharan Africa	45.12	43.12	40.52	34.75	24.43	0.54	38.45
	Middle East	22.87	18.30	17.57	17.90	15.57	0.68	18.73
	South Asia	47.95	43.45	35.75	31.35	23.28	0.49	37.65
	East Asia (Cambodia Only)	57.05	53.95	49.90	44.80	35.10	0.62	49.00
	Latin America and the Caribbean	34.33	26.10	18.75	12.22	7.22	0.21	20.92
Percent of Women with BMI percent < 18.5	Sub-Saharan Africa	16.18	13.89	11.96	9.63	6.56	0.40	11.77
	Middle East	2.30	1.20	0.70	1.05	0.25	0.11	1.15
	South Asia	31.65	30.70	26.60	21.30	12.90	0.41	25.25
	East Asia (Cambodia Only)	26.35	23.15	21.10	22.05	16.40	0.62	21.90
	Latin America and the Caribbean	6.22	7.72	5.70	4.96	3.52	0.56	5.62

Source: *ICF International (2012).*

Table 4.8. Percentage change in education, health and nutrition indicators by household wealth index (2000-2010)

Indicator	Regions	Household Wealth Index (Late 2000s)						
		Lowest	Second	Middle	Fourth	Highest	Lowest 60%	Highest 40%
PCR	Sub-Saharan Africa	8.46	13.09	10.21	7.26	2.12	10.59	4.69
	Middle East	11.61	7.12	5.95	3.80	1.25	8.23	2.52
	South Asia	25.65	17.54	10.01	6.76	9.36	17.73	8.06
	East Asia	13.77	12.31	9.58	6.41	2.00	11.88	4.20
	Latin America and the Caribbean	6.82	4.39	3.28	1.76	1.23	4.83	1.49
TFR	Sub-Saharan Africa	0.63	-0.07	-0.26	-0.71	-0.46	0.10	-0.59
	Middle East	-1.20	-0.67	0.85	5.06	1.55	-0.34	3.31
	South Asia	-4.94	-1.91	-3.89	-2.22	-2.11	-3.58	-2.16
	East Asia	-0.93	-1.73	-0.84	-1.26	1.41	-1.17	0.07
	Latin America and the Caribbean	-1.73	-2.42	-1.79	-2.01	-2.42	-1.98	-2.22
U5M	Sub-Saharan Africa	-2.04	-2.83	-2.50	-2.60	-1.65	-2.46	-2.13
	Middle East	-2.49	-4.59	11.20	7.84	-0.58	1.38	3.63
	South Asia	-5.56	-3.65	-4.52	-3.64	-6.67	-4.58	-5.15
	East Asia	-2.10	-3.23	-3.15	-3.30	0.75	-2.83	-1.28
	Latin America and the Caribbean	-3.42	-3.48	-3.48	-1.81	-1.88	-3.46	-1.85
Stunting (Height-for-age) below -2 SD	Sub-Saharan Africa	-1.15	-0.57	-1.06	-0.89	-0.15	-0.93	-0.52
	Middle East	-2.27	-0.96	-1.70	2.33	-0.83	-1.64	0.75
	South Asia	-2.72	-2.40	-3.88	-4.49	-4.18	-3.00	-4.34
	East Asia (Cambodia only)	-1.19	-1.62	-1.80	-2.96	-2.96	-1.54	-2.96
	Latin America and the Caribbean	-2.30	-2.57	-1.92	1.00	3.28	-2.26	2.14
Percent of Women with BMI percent < 18.5	Sub-Saharan Africa	1.79	0.52	0.94	-0.86	1.75	1.08	0.44
	Middle East	3.61	-3.50	-4.99	-3.76	-12.24	-1.63	-8.00
	South Asia	-1.41	-1.76	-2.55	-3.83	-4.68	-1.91	-4.26
	East Asia (Cambodia only)	-1.33	-1.20	-2.71	-0.71	-0.19	-1.75	-0.45
	Latin America and the Caribbean	7.85	-6.07	2.95	-0.33	1.03	1.58	0.35

Source: *ICF International (2012).*

Progress in the achievement in primary education between 2000 and 2010 was faster in the lowest wealth quartile than in the highest for all regions except sub-Saharan Africa, where progress was faster for the second and middle wealth groups. The increase in primary completion rate among the lowest 60 percent of households was fastest in South Asia (18 percent), followed by East Asia (12 percent).

Inequality in health by wealth quintiles

Fertility rates were inversely correlated to wealth in all regions in the late 2000s. This is particularly prominent in sub-Saharan Africa, where women in the lowest wealth quintile gave birth to around seven children on average, compared to three in the highest quintile. The gap in the fertility rate among wealth quintiles was also high in Latin America and Caribbean, where women in the poorest quintile gave birth to about three more children than women in the highest quintile. Moreover, inequality in fertility rates actually increased in Latin America and sub-Saharan Africa between 2000 and 2010, while decreasing in the Middle East, South Asia and East Asia.

Across all regions, children in the lowest wealth quintile were more likely to die before their fifth birthday than children in the richest quintiles in the late 2000s. Children in the lowest asset quintile of East Asia and Latin America were about three times more likely to die before their fifth birthday than children from the same region who are born in the highest asset quintile. The disparities in child malnutrition across wealth groups was lowest in the Middle East and North Africa, but child mortality rates were still about 50 percent higher for the lowest quintile compare to the highest quintile.

The child mortality rate for the poorest quintiles has declined at a faster rate than that for the richest groups for all regions except South Asia. This is particularly true in Latin America, where child mortality among the poorest quintile decreased twice as fast than for the richest quintile. In sub-Saharan Africa, the fastest progress was seen in the three middle-wealth quintiles, with slower progress among the richest and poorest. Remarkably, child mortality has been rising among middle-class households (third and fourth asset quintiles) in the Middle East while declining for households in all other quintiles.

Inequality in nutrition by wealth quintiles

Children in the lowest wealth quintile were more likely to be malnourished than children in the highest wealth quintile across all regions in the late 2000s. In Latin America and the Caribbean, the poorest children were five times more likely to be malnourished than the richest. The gap was also quite high in South Asia (48 percent in the poorest quintile as opposed to 23 percent in the richest quintile).

The prevalence of child malnutrition declined between 2000 and 2010 in all regions for the lowest three quintiles. In South Asia, it declined at a faster rate across all wealth groups compared to other regions, possibly because of very high initial levels. The slowest pace of decline in child malnutrition was observed in sub-Saharan Africa.

While one in four women in South Asia was malnourished (i.e., had a body-mass index below 18.5) in the late 2000s, every third woman in the lowest wealth quintile was likely to suffer from malnutrition. In sub-Saharan Africa, the gap in malnourishment between the highest and lowest quintiles was about 10 percentage points. The gap was smallest in the Latin America and the Caribbean and the Middle East.

Unfortunately, female malnutrition seems to have increased for the lowest quintiles in sub-Saharan Africa, the Middle East and Latin America and the Caribbean between 2000 and 2010. The increase is particularly stark in Latin America and the Caribbean, where it rose by almost 8 percent. Interestingly, female malnutrition declined by 6 percent in the second quartile, suggesting that policies or expenditure to improve nutrition might not be reaching the poorest in this region. Female malnutrition declined across all wealth categories in South Asia, but the drop was much faster among the rich (with a 1.9 percent decline for the lowest 60 percent as opposed to a 4.2 percent decline rate for the highest wealth quintile). In sub-Saharan Africa, where female malnutrition has increased across the wealth groups, the poor experienced a sharper deterioration than the rich.

In conclusion, there is a wide gap between the top and the bottom wealth quintiles in all non-income indicators of material well-being. Despite some progress, particularly in education, the gap has remained persistent or is even increasing for some regions.

4.4b. Inequality by place of residence

Tables 4.9 and 4.10 present the levels and trends of indicators of education, health and nutrition according to place of residence and gender within a country. This section will focus on the levels and trends according to place of residence, while gender trends will be analysed in the following section (4.3).

Inequality in education by place of residence

Children living in urban areas were more likely to complete primary school than children in rural areas for all regions in the late 2000s. The urban-rural gap in primary completion rate was highest in South Asia and sub-Saharan Africa, where it stood at about 30 percent compared to 7 percent in Latin America. However, the rural primary completion rate increased quite fast in all regions between 2000 and 2010 and at faster rates than urban areas across the board.

Inequality in health by place of residence

An urban-rural gap in fertility rates was observed in all regions in the late 2000s. It was especially high in sub-Saharan Africa, where women in rural settings were likely to give birth on average to six children, compared to four children for women in urban areas. Between 2000 and 2010, fertility rates in rural areas actually increased in sub-Saharan Africa and the Middle East while declining in the other regions. Fast declines of the urban-rural gaps in fertility rates were observed in Latin America, followed by South Asia.

The rural child mortality rate was quite high compared to urban areas in all the regions except in the Middle East in the late 2000s. In sub-Saharan Africa, more children per 1,000 were likely to die before their fifth birthday if they lived in rural rather than urban areas. The gap was largest in Latin America and the Caribbean, where child mortality in rural areas is 34 percent higher than in urban areas. Progress was made in child mortality in urban and rural areas across all regions between 2000 and 2010 and it was faster in rural areas, except for the Middle East, where rural child mortality increased, suggesting a decrease in the gap in child mortality between urban and rural areas.

Inequality in nutrition by place of residence

The urban-rural gap in child malnutrition was persistent in the late 2000s. It was most prominent in Latin America and the Caribbean, followed by sub-Saharan Africa and South Asia. Although progress was made

Table 4.9. Level of education, health and nutrition indicators by residence and gender (late 2000s)[16]

Indicator	Regions	Residence			Gender	
		Total	Urban	Rural	Male	Female
PCR	Sub-Saharan Africa	70.59	85.55	65.88	77.65	68.25
	Middle East	90.82	95.15	86.98	99.70	90.98
	South Asia	68.79	81.55	62.71	74.50	65.53
	East Asia	88.74	95.05	86.93	89.57	86.68
	Latin America and the Caribbean	93.49	97.53	90.49	93.78	93.77
TFR	Sub-Saharan Africa	5.24	3.82	5.96		
	Middle East	2.83	2.70	3.00		
	South Asia	2.67	2.03	2.87		
	East Asia	2.97	2.43	3.30		
	Latin America and the Caribbean	2.90	2.38	3.70		
U5M	Sub-Saharan Africa	125.00	99.14	133.38	132.71	116.9
	Middle East	28.33	26.33	28.67	30.33	26.33
	South Asia	73.67	56.33	78.33	73.67	74.33
	East Asia	52.00	31.67	60.33	57.67	46.33
	Latin America and the Caribbean	44.60	36.00	52.20	47.10	42.00
Stunting (Height-for-age) below -2 SD	Sub-Saharan Africa	38.45	29.13	41.56	41.25	35.68
	Middle East	18.73	17.17	21.27	19.57	17.83
	South Asia	37.65	29.60	39.40	38.38	36.90
	East Asia (Cambodia only)	49.00	38.35	51.40	50.95	47.10
	Latin America and the Caribbean	20.92	13.87	27.93	22.43	19.37
Percent of Women with BMI percent < 18.5	Sub-Saharan Africa	11.77	8.29	13.18		
	Middle East	1.15	1.05	1.25		
	South Asia	25.25	17.30	27.45		
	East Asia (Cambodia only)	21.90	18.10	22.95		
	Latin America and the Caribbean	5.62	4.92	6.10		

Source: *ICF International (2012).*

Table 4.10. Percentage change in different indicators per year according to residence and gender (2000-2010)

Indicator	Regions	Residence			Gender	
		Total	Urban	Rural	Male	Female
PCR	Sub-Saharan Africa	4.21	2.78	5.59	3.67	4.75
	Middle East	1.42	0.98	1.91	0.87	1.98
	South Asia	4.47	1.08	4.40	2.36	6.57
	East Asia	4.29	2.57	5.18	3.31	5.27
	Latin America and the Caribbean	2.07	0.98	5.11	1.61	2.53
TFR	Sub-Saharan Africa	-0.26	-0.22	0.08		
	Middle East	0.57	1.15	0.22		
	South Asia	-2.36	-2.45	-2.55		
	East Asia	-1.08	-1.51	-1.05		
	Latin America and the Caribbean	-2.76	-2.45	-3.11		
U5M	Sub-Saharan Africa	-2.49	-1.99	-2.48	-2.25	-2.80
	Middle East	1.17	3.02	-7.68	2.47	-1.85
	South Asia	-4.82	-4.08	-4.70	-5.03	-4.41
	East Asia	-2.73	-3.53	-2.76	-2.69	-2.36
	Latin America and the Caribbean	-3.42	-3.26	-3.60	-3.69	-3.16
Stunting (Height-for-age) below -2 SD	Sub-Saharan Africa	-1.33	-0.93	-1.25	-0.93	-1.77
	Middle East	1.72	6.65	-0.16	2.22	1.25
	South Asia	-5.66	-6.55	-5.47	-5.61	-5.65
	East Asia (Cambodia only)	-4.60	-5.96	-4.39	-4.41	-4.81
	Latin America and the Caribbean	-4.61	-0.41	-5.50	-5.12	-4.10
Stunting (Height-for-age) below -2 SD	Sub-Saharan Africa	-0.91	-0.60	-0.92	-0.67	-1.17
	Middle East	-0.70	1.04	-1.27	-0.97	-0.46
	South Asia	-3.34	-3.89	-3.20	-3.25	-3.41
	East Asia (Cambodia only)	-1.99	-3.51	-1.73	-1.68	-2.28
	Latin America and the Caribbean	-2.61	-1.86	-2.35	-3.03	-2.10
Percent of Women with BMI percent < 18.5	Sub-Saharan Africa	0.43	-0.16	0.93		
	Middle East	-0.91	2.22	-2.08		
	South Asia	-2.57	-3.66	-2.29		
	East Asia (Cambodia only)	-1.42	-0.95	-1.42		
	Latin America and the Caribbean	-3.63	-0.91	-5.70		

Source: *ICF International (2012).*

in rural areas across all regions between 2000 and 2010, progress in urban areas was generally higher. Thus, there is no sign that the gap between urban and rural areas is closing. The only exception to this is Latin America, where child malnutrition decreased at a much faster rate in rural areas (-5.5 percent) than in urban areas (-0.4 percent).

Women's malnutrition was higher in rural than in urban areas across all regions in the late 2000s. The gap was particularly stark in South Asia, where women in rural areas were 26 percent more likely to be malnourished than women in urban areas. Progress in this indicator was modest throughout, with progress closing the gap in some regions, but increases in disparities in others. Latin America, for example, reduced the urban-rural gap by reducing women's malnutrition by almost 6 percent in rural areas, while improvements in urban areas were closer to 1 percent. Inversely, the gap grew larger in sub-Saharan Africa, where the percentage of malnourished women in rural areas actually grew by 1 percent while slightly decreasing in urban areas.

4.4c. Inequality by gender

Inequality in education by gender

The gender gap in primary completion rate varied greatly across regions between 2000 and 2010. It was highest in sub-Saharan Africa and South Asia, where male children were around 14 percent more likely to complete primary school that females, and insignificant or small in Latin America and East Asia (0.01 percent and 3 percent, respectively). A declining gap between male and female primary completion rates was evident across all regions between 2000 and 2010.

Inequality in health by gender

Mortality rates for female children were lower than those for male children in all regions except South Asia in the late 2000s. Progress was made in overall child mortality between 2000 and 2010, and mortality for males decreased at a faster rate in all regions with the exceptions of sub-Saharan Africa and the Middle East. In the Middle East, male child mortality actually increased between 2000 and 2010.

Inequality in nutrition by gender

Child malnutrition was also higher for male children across all regions in the late 2000s. In sub-Saharan Africa and Latin America, the gap in malnutrition between female and male children stood at about 15 percent. Progress in this indicator of nutrition was modest for females and males between 2000 and 2010.

Overall, inequality remains very high within countries across wealth quintiles, place of residence and gender, despite some progress in closing gaps in education, nutrition and health indicators. In general, inequality in primary completion rates declined for all regions in all three dimensions. The progress in health indicators, however, was more mixed. While progress was made towards closing gaps in child mortality, the evidence suggests that total fertility rates remained highly unequal across wealth and spatial dimensions. Progress in nutrition was even more discouraging. The gap in child malnutrition between males and females actually grew, as did the gap in women's malnutrition across wealth quintiles, and no clear progress was made in reducing nutritional inequality according to place of residence.

Box 4.1. Inequality and people with disabilities

Inequality in non-income outcomes is also obvious across other groups. For instance, disability has received relatively little attention in development discourse as a source of inter-group inequality despite the fact that, according to the most recent estimates, approximately one person in seven experiences some form of disability and between 2.2 percent and 3.8 percent of the world population has a severe impairment. However, the disadvantage faced by persons with disabilities is very strong. Evidence provided by the World Report on Disability (WHO and The World Bank) shows that, compared to non-disabled people, persons with disabilities experience not only higher rates of poverty, lower educational achievements, and poorer health outcomes, but also less legal protection and less political and cultural participation, amongst other forms of disadvantage. Children with disabilities are less likely to attend school, which, in turn, decreases their chances of developing skills for future employment opportunities. For instance, the gap in primary school attendance rates between disabled and non-disabled children has been documented to be as high as 60 percent in some countries. This pattern of non-attendance is more pronounced in poorer countries. Persons with disabilities are more likely to be unemployed and earn less even when they are employed. Evidence indicates that microfinance institutions are often unwilling to lend to persons with disabilities, whom they often do not consider creditworthy, thus depriving them of the financial resources that they need to obtain an independent and sustainable livelihood. Persons with disabilities may have extra costs resulting from disability — such as costs associated with medical care or assistive devices, or the need for personal support and assistance — and thus often require more resources to achieve the same outcomes as non-disabled people.

4.5. Drivers of inequality in education, health and nutrition outcomes within countries

Inequalities in education, health and nutrition outcomes between individuals are prevalent and, in many cases, quite persistent, even when there have been improvements in average levels. If such inequalities are to be addressed by policy makers, it is important to understand the drivers that impact the distribution of well-being outcomes across individuals and household by different wealth endowments, gender or place of residence.

We have little guidance from the literature for modelling the drivers of within-country education, health and nutrition inequalities.[17]

In section 3, a number of drivers of the international inequality in national averages of education, health and nutrition were identified. Income levels, economic growth, poverty, governance and social spending were all among the significant determinants for one or more of the indicators of education, health and nutrition outcomes. The question now is whether those determinants also matter for improvements in the distribution of education, health and nutrition outcomes across households from different wealth quintiles or from different regions within a country. In this section, we test five different potential drivers of within-country non-income material human: 1) income level, 2) economic growth, 3) income inequality, 4) governance, and 5) social norms.

The first three drivers are all income-related (i.e., they reflect the level, growth and distribution of income). It is important to investigate whether countries with higher income levels necessarily have less inequality in the non-income dimensions of material well-being or whether countries with higher rates of growth are more or less likely to reduce education, health and nutrition inequalities. Answering these questions will help shed light on whether higher incomes have a 'trickle-down' impact on non-income human development outcomes.

Income inequality is also a potential driver of non-income inequality because of the strong evidence that indicates that household income levels matter for education, health and nutrition outcomes. This is confirmed by the extensive prevalence of inequalities in these dimensions by wealth quintiles (see section 4.1 above).

The last two drivers tested are governance and social norms. As before, the measure of governance used here are the Worldwide Governance Indicators (Kaufmann et al., 2010). To capture social norms, the female-to-male ratio of secondary enrolment rates was used as a proxy.[18] This ratio reflects the practice at the social and institutional levels of systemic intergroup inequality, based on a different valuation of women and men. For instance, if the norm is for girls to marry young, a norm may emerge whereby societies differentially fund education.

These five factors, plus regional dummies (to capture inter-regional differences in within-country inequality), were used to test their impact on inequality in human development by wealth quintile, gender and place of residence (Tables 4.14–4.16).

4.5a. Drivers of inequality in education, health and nutrition by wealth quintile

Table 4.11 shows the results of the analysis of the drivers of within-country inequality by wealth quintile (measured as the ratio of the average outcome in the 20 percent of households with the most wealth to the average outcomes in the 20 percent of households with the lowest levels of wealth).

The level of income and economic growth do not affect within-country inequality in any of the indicators of education, health and nutrition tested. This is a very significant result. The income status and growth performance of a country do not necessarily indicate lower inequalities in non-income dimensions of material well-being. Income and growth affect the national average level of education, health and nutrition outcomes, but have no significant impact on the distribution of those outcomes between rich and poor households. Countries can have growing incomes without witnessing any improvements in education, health and nutrition inequalities.

The income status and growth performance of a country do not necessarily indicate lower inequalities in non-income dimensions of material well-being. Income and growth affect the national average level of education, health and nutrition outcomes, but have no significant impact on the distribution of those outcomes between rich and poor households.

Income inequality, on the other hand, emerges as a particularly significant determinant of inequality in health outcomes (total fertility rate and under-five mortality). For example, 87 percent of variation in the ratio of under-five mortality rates between the richest and lowest quintile could be attributed to variations in income/wealth inequality (Table 4.11). Income inequality can therefore give a good indication of the degree of inequality in health outcomes. In other words, improving income inequality will have positive impacts on inequality in health outcomes.

We have previously seen that governance is an important channel through which the level of income can have positive effects on non-income dimensions of well-being. However, the quality of governance does not appear to be a prominent independent driver of within-country inequality in human development. A possible explanation for this finding is that the Worldwide Governance Indicators capture a "broad underlying concept

Table 4.11. Drivers of inequality in education, health and nutrition outcomes by wealth quintiles (log transformed)

	PCR	TFR	U5M	PSC	MMM
Average per capita GDP Growth in 2000s	0.0236	-0.0635	-0.0326	-0.0553	-0.108
	(0.66)	(-1.66)	(-0.90)	(-1.11)	(-0.92)
Per capita GDP	-0.116	0.169	-0.0690	-0.0591	-0.433
	(-1.08)	(1.71)	(-0.59)	(-0.32)	(-1.49)
Gini in 2000s	0.586	-0.696*	-0.870**	-0.374	0.218
	(1.64)	(-1.93)	(-2.40)	(-0.55)	(0.26)
Dummy for Income Gini	-0.284**	0.176*	0.0676	0.00764	0.149
	(-2.31)	(1.73)	(0.36)	(0.04)	(0.43)
Average governance ratings in 2000s	0.0536	-0.123	-0.0165	-0.105	0.128
	(0.31)	(-1.04)	(-0.08)	(-0.51)	(0.28)
M/F ratio in SER	-1.859***	0.799	-0.666	-0.439	0.478
	(-3.47)	(1.57)	(-1.09)	(-0.65)	(0.28)
East Asia and Pacific	0.289*	0.0937	-0.578***	0.0465	1.290**
	(1.89)	(0.38)	(-3.49)	(0.24)	(2.63)
Europe and Central Asia	-0.0667	0.298	0.0840	0.359	1.748*
	(-0.28)	(1.26)	(0.24)	(0.67)	(1.92)
Latin America and Caribbean	0.599***	-0.361**	-0.238	-0.937***	1.323**
	(3.07)	(-2.48)	(-0.96)	(-3.46)	(2.54)
Middle East and North Africa	-0.0635	0.0357	-0.517**	0.133	0.176
	(-0.31)	(0.19)	(-2.45)	(0.26)	(0.32)
South Asia	-0.273	0.247	-0.397*	-0.187	0.136
	(-1.55)	(1.36)	(-1.85)	(-0.87)	(0.24)
Constant	-1.035	0.893	3.284**	1.260	1.008
	(-0.79)	(0.74)	(2.57)	(0.65)	(0.38)
Observations	**33**	**31**	**31**	**28**	**29**
Adjusted R^2	**0.628**	**0.518**	**0.482**	**0.541**	**0.284**

*t statistics in parentheses, * p< 0.10, ** p< 0.05, *** p< 0.01;*

Note: *Dependent variables are a log of ratios of respective non-income indicators of the richest and poorest quintiles. Therefore, for all dependent variables except the primary completion rate, the higher the ratios, the lower the inequality in the country. Ratios used as dependent variables are generated from the latest Demographic and Health Surveys available for the sample countries in the 2000s. Per capita GDP growth and Gini are the annual averages of the period 2000-2010. Per capita GDP is from the corresponding year of the Demographic and Health Surveys available for countries. Average governance ratings in the 2000s derive from the annual average of aggregate governance rating from Kaufmann et al. (2012). The dummy for income Gini is a dummy variable to indicate whether the Gini coefficient is an income Gini or a consumption Gini*

Source: *ICF International (2012).*

Box 4.2. Governance and non-income inequality

The relationship between governance and inequality is well-established in the development literature. Political systems and processes determine the policy choices and the provision of basic public services, such as health and education, which have a significant bearing on non-income dimensions of well-being. Numerous studies have found a significant association between high and rising corruption with unequal access to education, higher dropout rates in primary schools, lower levels and effectiveness of social spending, and negative impacts on health indicators such as child and infant mortality (Gupta et al., 2002; Mauro, 2005; Gupta et al., 2000). One study using national service delivery surveys for 62 countries finds that countries with high levels of corruption have child mortality rates about one third higher than countries with low levels of corruption (Gupta et al., 2000).

of effective governance" (Langbein and Knack, 2010) rather than the inclusivity of the governance system (i.e., its ability to represent the interests of the marginalized and disadvantaged), which is more directly relevant to within-country inequality (along the income and the non-income dimensions). Research shows that differences in the capacity to shape political processes allow the rich and powerful to 'capture' institutions to their advantages and reinforce discriminatory public policies (Acemouglu and Robinson, 2008; Robison, 2010; Gradstein, 2007; You and Khagram, 2005).

We also examine whether gender-biased social norms and institutions (proxied by the male-female ratio in secondary enrolment)[19] matter for within-country inequality by wealth quintile. Social norms do not appear as a significant factor for explaining inequality in education, health and nutrition outcomes by wealth quintile, but, as will be shown in the next section, they it do matter for gender and urban/rural inequalities.

Although the analysis shows that the level of income does not independently explain gaps in non-income dimensions of well-being, evidence at the country level points to the fact that these might be related through the public spending channel.[20] Indeed, public spending, particularly in education and health, has a significant impact on levels of inequality (de Mello and Tiongson, 2008; Holzner 2010; Sylwester, 2002; Zhang, 2008). In Latin America, for example, an increase in public expenditure in education from 4.1 to 5.2 percent of GDP between 2000 and 2010, was accompanied by an improvement of secondary enrolment rate from 72 percent to 86 percent (UNCTAD, 2012) and a reduction in the gap in years of education across income quintiles (Cruces and Gasparini, 2011). Similarly, a study for African countries finds that a 10 percent increase in per capita public health expenditure could reduce under-five child mortality by 25 percent or lead to a 21 percent reduction in the infant mortality rate (Anyanwu and Erhijakpor, 2009). The total redistributive effect of public spending, of course, largely depends on its composition, since not every policy has the same distributive impact (Lustig et al., 2011; Cuesta, 2013).

4.5b. Drivers of inequality in education, health and nutrition by residence

Table 4.12 presents the results of the analysis of the drivers of gender inequality in education, health and nutrition outcomes (measured as the ratio of urban-to-rural outcomes).

The results in Table 4.12 confirm the earlier findings that income and economic growth have no significant impact on inequality in education, health and nutrition outcomes between urban and rural areas.[21] Rather, social norms seem to matter most for explaining urban-rural inequalities. Indeed, they can have a major impact on inequality in all dimensions (education, health and nutrition) of material well-being. Improvements

Table 4.12. Drivers of inequality in education, health and nutrition outcomes between urban and rural households (log transformed)

	PCR	SER	TFR	U5M	PSC	MMM
Average per capita GDP Growth in 2000s	-0.0812*	-0.0176	-0.0424	-0.0364	-0.0139	-0.0253
	(-2.07)	(-0.62)	(-1.68)	(-1.33)	(-0.47)	(-0.39)
Per capita GDP	-0.0101	-0.0402	0.119*	0.145	-0.000411	0.0129
	(-0.08)	(-0.55)	(2.05)	(1.42)	(-0.00)	(0.07)
Gini in 2000s	-0.476	-0.102	-0.281	-0.610**	-0.0612	-0.473
	(-1.06)	(-0.45)	(-1.63)	(-2.48)	(-0.17)	(-0.99)
Average governance ratings in 2000s	-0.139	0.115	0.0138	-0.121	-0.0900	-0.0613
	(-0.64)	(0.78)	(0.12)	(-0.83)	(-0.79)	(-0.29)
M/F ratio in SER	2.497***	1.781***	0.480	-1.032***	-0.667*	-0.565
	(4.30)	(3.44)	(1.69)	(-3.28)	(-1.78)	(-0.51)
Dummy for income Gini	0.439**	0.0844	0.0856	0.0395	0.0988	0.0749
	(2.52)	(0.91)	(1.27)	(0.28)	(0.83)	(0.36)
East Asia and Pacific	-0.0470	-0.0445	0.214**	-0.563***	0.0481	0.490**
	(-0.32)	(-0.37)	(2.23)	(-5.63)	(0.40)	(2.24)
Europe and Central Asia	0.0537	0.00321	0.303	-0.345	0.0497	0.433
	(0.13)	(0.02)	(1.45)	(-1.65)	(0.20)	(0.93)
Latin America and Caribbean	-0.358*	0.0941	-0.0604	-0.318*	-0.426***	0.822***
	(-1.99)	(0.74)	(-0.64)	(-1.89)	(-3.65)	(3.34)
Middle East and North Africa	0.314	0.0278	0.0242	-0.425*	0.0738	-0.00439
	(1.19)	(0.16)	(0.20)	(-1.92)	(0.26)	(-0.02)
South Asia	0.523**	0.0777	0.321**	-0.289**	0.0848	-0.163
	(2.54)	(0.49)	(2.48)	(-2.09)	(0.73)	(-0.50)
Constant	1.471	0.841	-0.0626	1.308*	-0.112	1.168
	(0.99)	(1.01)	(-0.10)	(1.75)	(-0.11)	(0.82)
Observations	**33**	**33**	**33**	**32**	**28**	**29**
Adjusted R^2	**0.616**	**0.424**	**0.354**	**0.327**	**0.223**	**0.437**

*t statistics in parentheses, * p< 0.10, ** p< 0.05, *** p< 0.01;*

Note: *Dependent variables are the log of ratios of respective non-income indicators of urban and rural areas. For the total fertility rate, under-five mortality, stunting and women's malnutrition, the higher the ratios, the lower the inequality in the country. For primary completion rates and secondary enrolment rates, the lower the ratios, the lower the inequality. Ratios used as dependent variables are generated from the latest Demographic and Health Surveys available for the sample countries in the 2000s. Per capita GDP growth and Gini are the annual average of the period 2000-2010. Per capita GDP is from the corresponding year of the Demographic and Health Surveys available for countries. Average governance ratings in the 2000s derive from the annual average of aggregate governance rating from Kaufmann et al. (2012). The dummy for the income Gini is a dummy variable to indicate whether the Gini coefficient is an income Gini or a consumption Gini.*

Source: *ICF International (2012).*

in social norms go hand-in-hand with reductions in the gap between urban and rural households in education, health and nutrition outcomes.

Table 4.13. Drivers of inequality in education, health and nutrition outcomes between females and males (log transformed)

	PCR	SER	U5M	PSC
Average per capita GDP Growth in 2000s	0.0421	0.000923	0.0133	0.00234
	(1.47)	(0.05)	(1.14)	(0.25)
Per capita GDP	-0.117*	-0.0353	-0.0548	0.0450**
	(-1.87)	(-0.92)	(-1.47)	(2.18)
Gini in 2000s	0.636**	-0.233*	0.276*	-0.0303
	(2.11)	(-1.78)	(1.71)	(-0.34)
Average governance ratings in 2000s	-0.113	-0.0886**	-0.0338	-0.00913
	(-1.13)	(-2.17)	(-0.49)	(-0.29)
Dummy for income Gini	0.0195	0.0440	0.0250	-0.00492
	(0.18)	(1.06)	(0.60)	(-0.23)
East Asia and Pacific	0.188**	-0.0717	0.0579	-0.0953**
	(2.06)	(-1.38)	(1.02)	(-2.33)
Europe and Central Asia	0.0117	-0.192*	0.168	-0.149**
	(0.06)	(-1.82)	(1.52)	(-2.82)
Latin America and Caribbean	0.302*	-0.0215	-0.0170	-0.0772**
	(1.84)	(-0.29)	(-0.24)	(-2.75)
Middle East and North Africa	0.400***	0.0256	0.179**	-0.147**
	(3.17)	(0.34)	(2.04)	(-2.36)
South Asia	0.212	-0.251***	-0.0775	-0.198***
	(1.59)	(-7.12)	(-1.28)	(-8.05)
Constant	-1.844*	1.132*	-0.613	-0.0163
	(-1.95)	(2.04)	(-1.07)	(-0.06)
Observations	**41**	**33**	**43**	**32**
Adjusted R^2	**0.271**	**0.311**	**0.230**	**0.445**

*t statistics in parentheses, * p< 0.10, ** p< 0.05, *** p< 0.01;*

Note: *Dependent variables are the log of ratios of respective non-income indicators of males and females. For under-five mortality and stunting, the higher the ratios, the lower the inequality situation in the country. For primary completion rates and secondary enrolment rates, the lower the ratio, the lower the inequality situation. Ratios used as dependent variables are generated from the latest Demographic and Health Surveys available for the sample countries in the 2000s. Per capita GDP growth and the Gini coefficient are the annual average of the period 2000-2010. Per capita GDP is from the corresponding year of the DHS available for countries. Average governance ratings for 2000s are the annual average of aggregate governance rating from Kaufmann et al. (2012). The dummy for the income Gini is a dummy variable to indicate whether the Gini coefficient is an income Gini or a consumption Gini.*

Source: *ICF International (2012).*

4.5c. Drivers of inequality in education, health and nutrition by gender

Table 4.13 shows the results of the analysis of the drivers of gender inequalities in education, health and nutrition.

Neither income levels nor economic growth are independent determinants of gender inequality. Governance plays a prominent role in gender inequality in secondary school enrolment rates. Income inequality is a significant driver of gender inequality in primary completion rates (and, to a lesser extent, to secondary school enrolment rates and under-five mortality rates).

In sum, inequalities between households in education, health and nutrition outcomes cannot be reduced by focusing on economic growth. As a matter of fact, income levels and economic growth are not significant drivers of inequality in those 'non-income' dimensions of material well-being. The distribution of income (income inequality), not its level or pace of growth, drives these inequalities. This is an important result for policy makers to consider when designing policies to increase equity in education, health and nutrition outcomes.

Encouraging high economic growth and achieving higher income status does not mean that within-country inequality in education, health and nutrition outcomes will necessarily fall. What matters more for such inequalities is the distribution of income between households.

Other drivers of within-country inequality in education, health and nutrition, especially between gender and between urban and rural households, include governance and social norms. Admittedly, much remains to be understood about the different non-income-related drivers of education, health and nutrition inequalities.The drivers considered in this analysis could explain only an average of 35 percent of the variation in such inequalities;[22] the rest could be due to other drivers.

4.6. Conclusion

The analysis of the trends and drivers of international (inter-country) and national (within-country) inequality sheds much light on the intricate connections between income and non-income dimensions of material well-being.

With respect to inequality between countries, progress was made on educational, health and nutritional dimensions of well-being. Yet the pace of progress has been slow compared to growth in income levels. Economic growth does not necessarily translate into improvements in education, health and nutrition outcomes. In other words, high income levels and economic growth acceleration do not by themselves guarantee improvements in non-income dimensions of material well-being.

Indeed, many countries have seen very little progress or even stagnation in some of the indicators of well-being. The low-income group of countries did not raise the primary completion rate in the last decade from a low level of 64 percent. Secondary enrolment rates remained almost stagnant throughout the last decade in low-income countries. While fertility rates were maintained at 'replacement level' (around 2) in the upper-middle-income group, total fertility rates in low-income countries were 2.5 times higher than those in the lower- and upper-middle-income groups.

The impact of growth on non-income material well-being is mediated through a number of channels. Poverty, social spending and governance are three major channels through which growth in incomes is transformed into improvements in education, health and nutrition. Without improvements in these three channels, economic growth *per se* may have a minimal positive impact on non-income material well-being.

With respect to within-country inequality in education, health and nutrition outcomes, the available data points to significant and persistent gaps in education, health and nutrition outcomes between households on account of differences in wealth, gender and place of residence. Despite substantial improvements in the national averages of many of the indicators of education, health and nutrition outcomes, gender and urban-rural inequalities are still high in many regions, especially in sub-Saharan Africa and South Asia.

The analysis of the drivers of within-country inequality in non-income material well-being provides interesting insights. Income levels and economic growth are not significant drivers of inequalities in education, health and nutrition outcomes; encouraging high economic growth and achieving higher income status does not mean that within-country inequality in education, health and nutrition outcomes will necessarily fall. What matters more for such inequalities is the distribution of income between households. Households with more equal incomes also have more equal education, health and nutrition outcomes. Other significant drivers of non-income inequality include governance, social spending and social norms. Gender and urban-rural inequality appear to be particularly sensitive to changes in social norms and institutions.

Annex 4.A. Data validation checks: Demographic and Health Surveys (DHS) vs. World Development Indicators (WDI)

Since two different sources, namely WDI and DHS, have been used for capturing international and national dimensions of non-income inequalities, the question may arise about the comparability (for levels) and consistency (for trends) between the two data sets. To check this, we compile statistics from the sources on individual countries for three selected indicators (total fertility rate, under-five mortality and stunting rate). We could not do similar checks for three other indicators — primary completion rate, secondary enrolment rate and maternal malnutrition — due to differences in measurement used in the two sources.[23] For example, WDI provides data on the primary completion rate for the total number of children as per the official graduation age; in contrast, DHS reports provide the primary completion rate for all the population covered under the survey. Thus, a downward bias in primary completion rate according to DHS is expected. We also faced a problem in identifying a particular indicator such as maternal malnutrition in both the sources. An indicator measuring female malnutrition (BMI<18.5) is found in DHS data; WDI data reports the malnutrition situation for the overall population.

For indicators common to both surveys, the following may be noted. The results are carried out for 65 countries covered by both sources and presented in the table below. Similar statistics have been found for the total fertility rate and the stunting rate in both sources. For the total fertility rate, we have found absolute differences between the two sources to be about ±0.2. This is true for 41 countries. In contrast, the difference is higher than ±0.5 for 13 countries. For chronic malnutrition among children, we use the measure of stunting (height-for-age) for children under five years old. Of 45 countries for which we have data in both sources, the absolute difference is within the range of ±1 for 35 countries. Thus, little difference exists in fertility and child stunting rates between DHS and WDI.

However, a wide variation is observed between the two sources for the indicator of under-five mortality rate among children under five years old. Only in 11 of 62 countries do we find the matched discrepancy to be within the range of ±5, while most countries exhibit a double-digit difference for the same year. Child mortality rates generally are higher in DHS for most countries (55 of 62 countries). Why do statistics vary between these two sources? DHS data come mainly from large-scale household surveys. On the other hand, WDI merely compile data from different sources. Though many indicators in WDI have been sourced from DHS, the indicators selected for this study have not been sourced from DHS. The total fertility rate of WDI has been compiled from the United Nations Population Division and other national statistics offices, not from DHS directly. Similarly, malnutrition data of WDI has been sourced from the Global Database on Child Growth and Malnutrition maintained by the World Health Organization (WHO). Nevertheless, we find very similar statistics for these indicators between DHS and WDI. This is mainly because these sources, used by WDI, have, in turn, compiled data from DHS.

However, it is difficult to find obvious explanations for the considerable differences that persist in the child mortality rate between DHS and WDI. The latter cites the UN Inter-agency Group for Child Mortality Estimation (UNICEF, WHO, World Bank, UN DESA, UNDP) as the source of child mortality rate data. The DHS database makes its estimates based on the information of child deaths that have occurred in the past five years (for improving the accuracy of sample-based estimates). One possibility is that the UN Inter-agency data is not based on DHS data and instead uses administrative data from the health ministry that keeps child death records (possibly with varying degrees of completeness across the countries). This may explain why DHS estimates of under-five mortality are generally higher than the official data.

But, as long as we are confined to a single data source for a particular cross-country analysis, such a discrepancy observed for child mortality data between the two data sources should not matter for conducting the trend analysis. WDI data is mainly used for exploring the trends in (and drivers of) non-income inequality through the prism of 'three dimensions-six indicators'. DHS data has been used to explore the level of non-income inequality in the within-country distribution of these indicators across wealth quintile, gender and spatial dimensions. Given the separate analytical purposes to which they are put to use, this should not affect the broad conclusions regarding the 'trends of non-income inequality' or the 'drivers of change' that we derive from our statistical and econometric analysis.

Table 4.A1. Data validation: DHS data vs. WDI data

	Survey	TFR-DHS	TFR-WDI	U5M-DHS	U5M-WDI	PSC-DHS	PSC-WDI
Albania	2008-2009 DHS	1.6	1.6	22	15.8	19.30	23.1
Angola	2006-2007 MIS	5.8	5.9				
Armenia	2010 DHS	1.7	1.7	21	18.3	19.30	20.8
Azerbaijan	2006 DHS	2	2.3	58	54.4	25.10	26.8
Bangladesh	2011 DHS	2.3	2.2	64	46	41.30	
Benin	2006 DHS	5.7	5.6	136	120.2	43.10	44.7
Bolivia	2008 DHS	3.5	3.5	76	57.3	27.10	27.2
Burkina Faso	2010 DHS	6	5.9	148	148.8	34.60	35.1
Burundi	2010 DHS	6.4	4.3	127	141.7	57.70	
Cambodia	2010 DHS	3	2.6	68	46	39.90	40.9
Cameroon	2011 DHS	5.1	4.4	128	127.2	32.50	
Chad	2004 DHS	6.3	6.5	203	181.4		
Colombia	2010 DHS	2.1	2.1	22	18.3	13.20	12.7
Congo, Dem. Rep. of	2007 DHS	6.3	6.2	155	176.7	45.50	45.8
Dominican Republic	2007 DHS	2.4	2.7	37	29	9.80	10.1
Ecuador	2004 RHS	3.2	2.7	37	29.5		
Egypt	2008 DHS	3	2.8	33	25.8	28.90	30.7
El Salvador	2008 RHS	2.5	2.3	25	18.8		
Eritrea	2002 DHS	4.8	5.2	107	91.4	42.90	43.7
Ethiopia	2011 DHS	4.8	4.0	110	77	44.40	44.2
Gabon	2000 DHS	4.2	4.1	91	82.4		
Georgia	2005 RHS	1.6	1.6	33	26.4		
Ghana	2008 DHS	4	4.4	85	83	28.00	28.6
Guatemala	2008-2009 RHS	3.6	4.1	45	33.1		
Guinea	2005 DHS	5.7	5.6			39.30	39.3
Guyana	2009 DHS	2.8	2.3	39	38.3	18.20	19.5
Haiti	2005-2006 DHS	3.9	3.7	102	83	29.40	29.7
Honduras	2005-2006 DHS	3.3	3.4	37	26.7	30.00	29.9
India	2005-2006 DHS	2.7	2.8	85	72.3	48.00	47.9

Source: *ICF International (2012).*

Table 4.A1. Data validation: DHS data vs. WDI data

	Survey	TFR-DHS	TFR-WDI	U5M-DHS	U5M-WDI	PSC-DHS	PSC-WDI
Indonesia	2007 DHS	2.6	2.2	51	38.2		
Jamaica	2008-2009 RHS	2.4	2.4	21	19.6		
Jordan	2009 DHS	3.8	3.8				
Kenya	2008-2009 DHS	4.6	4.8	84	79.4	35.30	35.2
Lesotho	2009 DHS	3.3	3.3	105	95.8	39.20	39
Liberia	2009 MIS	5.9	5.3	158	89.2	39.40	21
Madagascar	2008-2009 DHS	4.8	4.7	82	67.2	50.10	49.2
Malawi	2010 DHS	5.7	6.0	127	89	47.10	47.8
Maldives	2009 DHS	2.5	1.8	27	14.4	18.90	20.3
Mali	2006 DHS	6.6	6.5	215	192.3	37.70	38.5
Mauritania	2000-2001 DHS	4.5	5.1	102	117.2		
Moldova	2005 DHS	1.7	1.5	26	19.6	10.20	11.3
Morocco	2003-2004 DHS	2.5	2.5	54	44.5	22.40	23.1
Mozambique	2003 DHS	5.5	5.5	178	152.1	47.00	47
Namibia	2006-2007 DHS	3.6	3.4	69	58.6	29.00	29.6
Nepal	2011 DHS	2.6	2.7	62	48	40.50	57.1
Nicaragua	2006-2007 RHS	2.7	2.8	41	30.9	24.90	25.2
Niger	2006 DHS	7	7.3	218	160.2	54.80	54.8
Nigeria	2008 DHS	5.7	5.6	171	139.1	40.60	41
Pakistan	2006-2007 DHS	4.1	3.6	93	80		
Paraguay	2008 RHS	2.5	3.1	28	25.4		
Peru	2007-2008 DHS	2.5	2.6	33	23.9	27.80	28.2
Philippines	2008 DHS	3.3	3.3	37	28.5		
Rwanda	2010 DHS	4.6	5.4	102	60.4	44.20	44.3
Sao Tome and Principe	2008-2009 DHS	4.9	3.7	72	89.1	29.30	31.6
Senegal	2010-2011 DHS	5	4.7	87	64.8	26.50	28.7
Sierra Leone	2008 DHS	5.1	5.2	168	199.7	36.40	37.4
Swaziland	2006-2007 DHS	3.9	3.6	106	120.6	28.90	29.5
Tanzania	2010 DHS	5.4	5.5	92	72.5	42.00	42.5
Timor-Leste	2009-2010 DHS	5.7	5.6	80	57.6	58.10	57.7
Turkmenistan	2000 DHS	2.9	2.8	88	71.4		
Uganda	2011 DHS	6.2	6.1	106	89.9	33.40	
Ukraine	2007 DHS	1.2	1.3	19	12.7		
Viet Nam	2002 DHS	1.9	1.9	33	31.3		
Zambia	2007 DHS	6.2	6.2	137	113.4	45.40	45.8
Zimbabwe	2010-2011 DHS	4.1	3.2	77	67.1	32.00	32.3

Source: *ICF International (2012).*

Annex 4.B. Sample characteristics

The table on the next page provides summary statistics of the variables considered in our regression analysis. Only developing countries (according to WDI classification) were included in the sample. Average per capita real GDP of the sample countries is US$1,917, while annual per capita GDP growth rate is about 2 percent. The primary completion rate is about 83 percent and the secondary enrolment rate is about 55 percent. The maternal mortality rate is quite high in the sample countries. Annual per capita public spending on health and education is about US$65 and US$89, respectively, in the sample countries. On average, every fifth person is likely to be poor and earning below US$1.25 a day in the sample countries. A woman is likely to give birth to an average of more than three children and each third child is likely to be malnourished in the sample countries.

We also look at the regional aggregations of major indicators that are used in the regression analysis. Sub-Saharan Africa and South Asia are lagging behind in all six indicators. Secondary enrolment rates are about 38 percent and 33 percent in South Asia and sub-Saharan Africa, respectively, as against the average of 55 percent for all developing countries. The child mortality rate is relatively low in the developing countries of Eastern Europe and Central Asia, followed by the countries in Latin America and the Caribbean. In contrast, every tenth child in sub-Saharan Africa — and every twentieth child in South Asia — is likely to face death before his or her fifth birthday. The under-five mortality rate in sub-Saharan Africa is almost five times higher than that in developing countries in Eastern Europe and Central Asia.

The maternal mortality rate is quite high in sub-Saharan Africa, where it is 16 times higher than that in Eastern Europe and Central Asia. Maternal mortality is also very high in South Asia and in the Middle East and North Africa. Countries in South Asia have been successful in bringing down the total fertility rate to a level less than 3 (though this is still very high), but the performance of sub-Saharan Africa is far poorer; mothers there are likely to give birth five times during their reproductive age.

The annual average per capita real GDP growth in 1991–2010 may be considered as the long-term growth performance of an economy. It is highest in South Asia, at 4 percent, and lowest in sub-Saharan Africa, at about 1 percent. Each second person in sub-Saharan Africa and every third person in South Asia is likely to be poor, i.e., earning less than US$1.25 a day. Developing countries in Eastern Europe, Central Asia and Latin America have been quite successful in keeping poverty rates to a very low level. The success of developing countries in Latin America and the Caribbean can be partially attributed to high public spending on health and education. The governance scenario, though, remains unsatisfactory in all regions. The average governance rating for all regions is less than zero, implying the predominance of a 'weak form of governance' in the developing world.

Table 4.B1. Summary statistics of different socio-economic indicators at the regional level

Indicators*	East Asia & Pacific	N	Europe & Central Asia	N	Latin America & Caribbean	N	Middle East & N. Africa	N	South Asia	N	Sub-Saharan Africa	N	Total	N
Primary completion rate	92.57	4	99.14	14	92.46	15	97.07	4	.	0	63.52	24	82.92	61
Secondary enrolment rate	50.58	8	83.94	12	62.80	13	40.57	2	37.73	2	33.36	17	54.67	54
Under-5 mortality rate	32.11	16	25.05	21	27.14	23	35.73	11	51.14	7	105.3	45	58.17	123
Maternal mortality rate	127.8	5	28.17	15	67.37	14	155.8	5	116.5	2	461.3	9	143.4	50
Total fertility rate	3.000	16	1.834	21	2.647	23	2.929	11	2.691	7	4.729	45	3.344	123
Child Malnutrition	35.49	6	21.30	5	20.85	11	17.56	8	40.50	1	37.31	17	28.42	48
Percentage of Malnourished People	16.81	15	8.524	17	15.10	20	5.063	8	16.38	5	27.68	38	18.19	103
Annual Average Growth Rate (1991-2010)	3.236	15	1.985	21	2.086	23	2.150	11	3.974	7	1.306	45	2.036	122
Per Capita Real GDP	2272	16	1898	21	3589	23	2638	11	1111	7	893.1	45	1917	123
Poverty Rate (percentage of people living below US$1.25/ day)	15.66	5	2.743	14	8.857	17	7.327	3	30.97	5	49.95	16	20.72	60
Annual Per Capita Public Spending on Health (US$)	62.60	16	71.04	21	139.3	23	78.17	11	32.03	7	27.41	44	65.47	122
Annual Per Capita Public Spending on Education (US$)	120.5	12	76.55	14	172.8	15	106.1	6	47.08	5	47.77	33	88.93	85
Annual Per Capita Public Spending on Health and Education (US$)	112.0	16	115.3	21	233.6	23	120.4	11	64.30	7	54.77	45	112.4	123
Average Governance Rating (-2.5 (weak) to 2.5 (strong))	-0.437	16	-0.474	21	-0.258	23	-0.597	11	-0.474	7	-0.608	45	-0.489	123

Note:** All variables are the average of the period 2009-2011.* ***Source: *ICF International (2012).*

Notes

1. The total fertility rate is total births per women and is an indicator that is sensitive to reproductive health.
2. The under-five mortality rate, expressed in terms of 1,000 live births, is a direct measure of well-being in the context of developing countries.
3. Maternal mortality ratio is the number of mother deaths per 100,000 live births. Maternal mortality is chosen as a proxy of nutrition, as evidence shows that malnourished mothers are more susceptible to diseases and death (UNICEF, 1998; Brabin et al., 2001; Rush, 2000).
4. The classification of countries into high-income, upper-middle-income, lower-middle-income and low-income was based on the ranking of countries with respect to per capita GDP at purchasing power parity in 2010.
5. MMR for the high-income group only includes data for Argentina since data for other countries in the high-income group was not available for both periods.
6. Data for high income is only available for Argentina, thus numbers are not representative.
7. The criteria used to distinguish between very high, high, medium or low growth were based on quartiles of the ranking of per capita GDP growth between 2000 and 2010.
8. For a detailed discussion on the summary statistics of the indicators, see Annex B.
9. Here we draw upon the econometric specification suggested by the late Suresh Tendulker to regress "current level of human development set against past growth controlling from initial income and other non-growth drivers measured as initial conditions" (World Bank, 2007, chapter 5). We call it the "Tendulker model".
10. Past growth appears significant (weakly) only in the case of the maternal mortality rate.
11. Since the poverty rate and the Gini index of income inequality are measures of the distribution of income, their independent effects on education, health and nutrition outcomes are tested in two separate regressions.
12. Declines in TFR might affect income inequality, as measured by Gini, since these tend to be larger in higher-income households than in low-income households, at least in the short run.
13. Non-income inequality across wealth quintiles can be readily determined for a large number of DHS countries. However, detailed information on the two specific nutritional indicators — child stunting rate and maternal malnutrition rate by asset quintiles and for two data points in time — is available for only a handful of countries. As a result, trend analysis by wealth categories is not always regionally representative for these two indicators due to the limited sample size in Demographic and Health Surveys data. This is especially true in the case of East Asia, where there is only one country (Cambodia). The other general point is that the Latin American sample is underrepresented in the Demographic and Health Surveys (the sample excludes Brazil, Chile, Argentina, and Uruguay, to name the notable exceptions). This should be kept in view while interpreting the region-specific results.
14. For the child stunting rate and female malnutrition, the DHS sample is restricted to the following countries in the following regions: sub-Saharan Africa (Benin, Burkina Faso, Cameroon, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Namibia, Nigeria, Rwanda, Senegal, Tanzania, Uganda, Zambia, Zimbabwe); the Middle East (Egypt and Jordan); South Asia (Bangladesh, India, Nepal); East Asia (Cambodia); Latin America and the Caribbean (Bolivia, Colombia, the Dominican Republic, Peru).
15. The secondary enrolment ratio is not available according to wealth quintile in the Demographic and Health Surveys and thus not included in the analysis of levels and trends.
16. Secondary enrolment rates were available according to gender and residence for only a very limited number of countries. Therefore, we excluded those rates from the analysis of Tables 4.12 and 4.13.
17. There is some literature on health inequalities (see, for example, Mormot, 2005).

18. Johannes et al. (2008) and Seguino (2007) used this ratio as one of the indicators that capture social and institutional norms towards gender.

19. We also have estimated separate specifications, including the male-female ratio in the secondary enrolment rate in 2001 as a proxy measure of the initial level of social institutions and norms. Although there was no qualitative change in the results, the number of observations was below 15 and we do not report the results.

20. Due to data limitations, it was not possible to include social spending in the regression analysis in Tables 4.14-4.16. As the number of Demographic and Health Surveys sample countries is limited, the addition of public spending would bring the sample size below 20.

21. Growth is very weakly significant for inequalities in primary education completion rates and income levels are only weakly significant for inequalities in the total fertility rate.

22. The R^2 of the regressions in Tables 4.14-4.16 averages 35 percent and ranges from 63 percent to 23 percent.

23. In principle, this problem can be resolved if the unit-record data from DHS is used. This is not a practical proposition for just the validation check on individual DHS countries.

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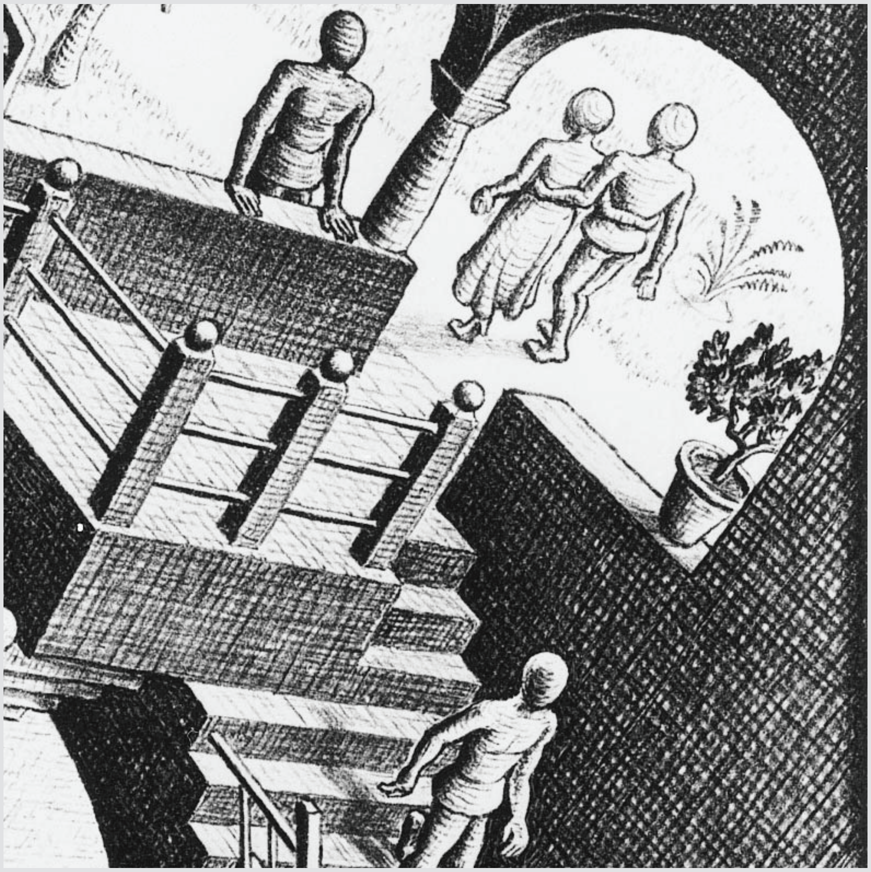
5 Gender inequality



Gender inequality is not perpetuated exclusively through differential access to and control over material resources. Gender norms and stereotypes reinforce gendered identities and constrain the behaviour of women and men in ways that lead to inequality.

5.1. Introduction

Gender is a primary marker of social and economic stratification and, as a result, of exclusion. Regardless of one's socioeconomic class, there are systematic gender differences in material well-being, although the degree of inequality varies across countries and over time. As a result, gender inequality is a characteristic of most societies, with males on average better positioned in social, economic, and political hierarchies. For more than two decades, the goal of reducing gender inequality has held a prominent place in international organizations and in national strategy statements. Millennium Development Goal 3 reflects the global attention to the issue of gender inequality and has been providing the impetus for governments to eliminate gender inequality in primary and secondary education by 2005 and in all levels by 2015.

Where do we stand today with regard to gender parity in well-being? This paper explores that question. There is growing recognition that well-being is a multi-dimensional concept and, as noted in chapter 2, goes beyond income, educational attainment and health (the material dimensions) to include agency and empowerment as well as subjective well-being. That framework is reflected in the following gender analysis that evaluates gender differences in three key domains: *capabilities*, *livelihoods*, and *agency*.[1] The first of these categories — capabilities — is of intrinsic value and it also generates the preconditions for securing one's economic well-being via engagement in production and economic decision-making. The second domain — livelihoods — is comprised of conditions that enable individuals to adequately provide for themselves and their families and includes access to work, wages, access to credit and asset ownership.[2] The third domain — agency (or empowerment) — can be understood as the ability of individuals and the groups to which they belong to shape their environment. Thus, gender equality in this domain would imply that women are equally *agentic* as men.[3] Women's share of managerial positions and trade union membership and of leadership positions in cooperatives, businesses and governing bodies are useful indicators in this domain.

Well-being is a multi-dimensional concept and, as noted in chapter 2, goes beyond income, educational attainment and health (the material dimensions) to include agency and empowerment as well as subjective well-being.

This framework for analysing global trends in inequality is based on the following premises. Equality of capabilities — that is, that women and men be on equal footing in terms of core functionings (education, health, and nutrition) — is a key condition for gender equality in other domains. Further, in order to achieve economic equality, women should be on par with men in their ability to convert capabilities into the ability to generate livelihoods, that is, there should be progress towards gender equity in economic well-being. While we lack gender-disaggregated data on income, we should be able to assess equality in this domain via data on gender gaps in access to jobs, credit and property ownership rights. The third domain, agency, is related to empowerment and voice in decision-making in the major sites of resource allocation in society: the household, the workplace and in governing bodies. With voice in these arenas, women might be able to influence the factors that lead to inequality in the capabilities or livelihoods domain. Unequal investments in girls' education at the household level, for example, can be rectified with increased voice that ensures that government resources are allocated to improve girls' access to schooling.

These three domains, therefore, are interrelated. Progress in one domain can leverage change in another. Further, progress in any one of these domains without progress in the others is inadequate to achieving the overall goal of gender equality.

Gender inequality is not perpetuated exclusively through differential access to and control over material resources. Gender norms and stereotypes reinforce gendered identities and constrain the behaviour of women and men in ways that lead to inequality (Ridgeway, 2011). We therefore also explore trends in some key indicators of gender inequality in norms, using data from four waves of the World Values Survey.

Any approach to analysing global trends in gender equality must be cognizant of the fact that not all gender disparities favour men. For example, trends in educational attainment in recent years indicate gender reversals in some countries, with women's educational attainment exceeding men's. Evidence of male disadvantage is important to identify for intrinsic reasons and also because declines in men's absolute well-being could lead to resistance to policies that promote gender equality. In promoting greater equality, whether by class, race or gender, the most politically feasible strategy is to achieve this goal without lowering the standard of living of the dominant (i.e., male) group. This suggests that, in evaluating gender trends in inequality, we also want to know whether greater gender equality has occurred in an environment of stagnating, declining or rising male well-being. As noted in the consultation on the Post-2015 Development Agenda, "gender equality is not about transferring opportunities from men to women, but about realizing the rights of everyone, and creating conditions where both all have the right and ability to realise their full human potential" (UNICEF and UN Women, 2013:35).

Any approach to analysing global trends in gender equality must be cognizant of the fact that not all gender disparities favour men. For example, trends in educational attainment in recent years indicate gender reversals in some countries, with women's educational attainment exceeding men's.

5.2. Trends in gender equality of capabilities

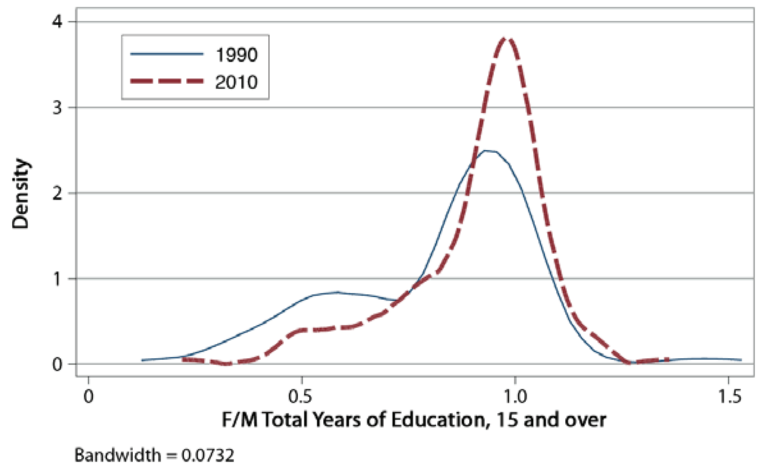
The *capabilities* domain captures gender differences in the preconditions necessary for living a good life. Intergroup gender differences in capabilities condition the probabilities that females and males at the individual level will achieve particular levels of economic well-being. Here we focus on two indicators of capabilities — education and health — both considered essential prerequisites to well-being, laying the foundation for the ability to provision for self and family and thus to achieve economic security.

Intergroup inequality in capabilities is important beyond the individual impacts that it embodies. That is the case because intergroup inequality contributes to the formation and perpetuation of norms and stereotypes that influence access to resources, livelihoods and agency. Underinvestment in female education, for example, contributes to stereotypes about women's relative intelligence and skills, regardless of those possessed by the individual woman. A large time-series of global data is available to examine trends in three variables in the capabilities domain: 1) total years of education of those 15 and older, 2) gross secondary school enrolment rates, and 3) life expectancy (relative to the maximum achievable by gender).[4]

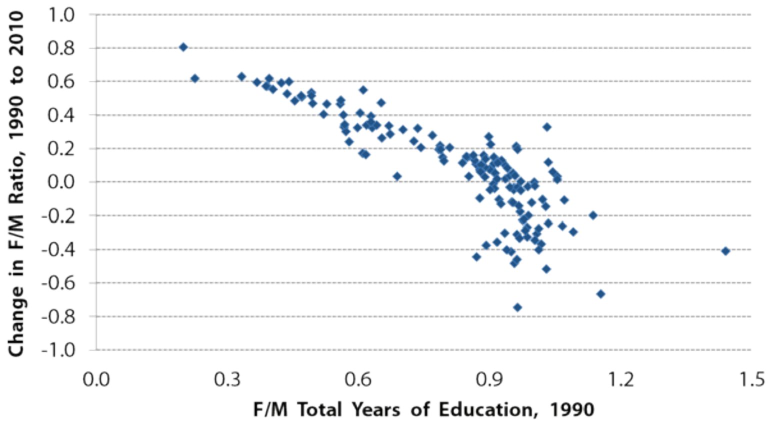
Average total years of education is a stock variable that captures the cumulative societal effect of gender inequality in education. In contrast, (gross) secondary school enrolment rates are a flow variable, indicative of gender differences in the particular year in which the data are measured. This contrasts with previous studies that emphasize gender differences in literacy and primary school enrolment rates. This paper focuses on secondary school enrolment rates for two reasons. First, substantial progress has been made in closing gender gaps in literacy and primary education, making it useful to shift focus to higher levels of education. Second,

Figure 5.1. Trends in female and male average total years of education, 1990 and 2010

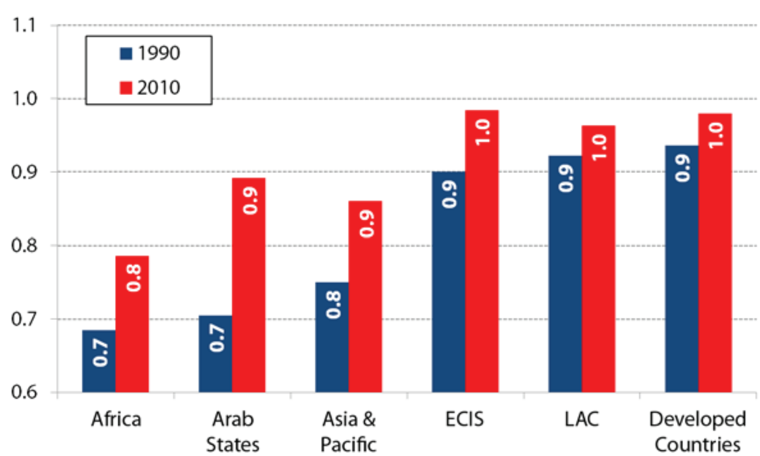
Panel A. Distributions of F/M ratios



Panel B. Change in F/M ratio and initial F/M ratio total average years education



Panel C. Regional trends in F/M educational attainment ratios, 1990 to 2010



Source: *Author's calculations based on Barro and Lee (2010) dataset.*

as economies change and move up the industrial ladder, secondary education is more likely than primary education to determine ability to participate in the paid economy rather than in earlier stages of economic development.

With regard to the health domain, gender differences in life expectancy reveal information about physical well-being and duration of life. Although some studies also examine data on maternal mortality rates, this analysis maintains a focus on variables that explicitly measure gender gaps (Permanyer, 2013).

5.2a. Education

This section examines total years of education of those 15 and older as a broad measure of educational achievement, using data from Barro and Lee (2010) for 1990 to 2010. It also examines gender differences in gross secondary enrolment rates for the same time period.

The data in Figure 5.1 exhibit trends in the ratio of average total years of female-to-male education for those 15 and older from 1990 to 2010 for 146 countries. This variable reflects the cumulative effect of educational inequality in a society. Panel A plots the distribution of the ratio of female-to-male (F/M) total years of education using a kernel density estimation procedure.[5] The x-axis represents the F/M ratio of total average years of education in a country while the y-axis indicates the number of countries with a particular F/M ratio. As Panel A demonstrates, gender disparities in average total years of education have diminished over the past 20 years. The entire distribution has moved to the right, indicating that the average (at the country level) F/M ratio has risen.

The average F/M ratio of total years of education increased from 82 percent in 1990 to 91 percent in 2010. The share of countries with F/M ratios at or above 95 percent has risen from 33 percent in 1990 to 52 percent in 2010. Further, a large number of countries have achieved or are close to parity (countries are clustered around a value of 1, indicating equality in total years of education). At the other extreme, the percentage of countries in which the F/M ratio exceeds 1 has fallen. Overall, it is visually apparent that global gender inequality in total years of education is not only falling, but that we are moving toward global convergence with a large number of countries at or close to parity.

Panel B plots the change in the F/M ratio of total years of education from 1990 to 2010 against the 1990 ratio. The negative correlation of these two variables shows that the greatest gains in narrowing educational gaps are countries that started out with the widest gaps. This can be seen clearly in Panel C. The two regions with the lowest F/M ratios in 1990 — the Africa and Arab regions — have made the largest advances toward gender equality in total educational attainment.

Figure 5.2 shows gross secondary enrolment rates with a comparison of gender trends from 1990 to 2010 for the 107 countries for which data are available. Panel A in Figure 5.2 shows the shift in the distribution of the F/M ratio of gross secondary enrolment rates from 1990 to 2010. The left tail has shifted to the right, indicating progress in the more unequal countries. Also, countries where the ratio had been greater than one in 1990 (in favour of females) have reverted to more gender equal outcomes (the right tail has shifted left). In fact, a large number of countries (almost 75 percent, compared to 60 percent in 1990) are now centred on a ratio of 1, indicating much greater global equality in secondary educational attainment.

There is both greater gender equality in secondary school enrolment rates within countries and a global convergence of gender equality in secondary school enrolment rates of 0.99 in 2010, up from 0.93 in 1990. This is good news and reflects solid progress as we move beyond parity in literacy and primary education.

Panel B describes in more detail the unevenness with which countries at the lower end of the distribution have improved gender outcomes. It is noteworthy that cases of retrogression (declines in the F/M ratio) are concentrated among countries that started out with ratios close to or greater than 1 in 1990.[6] In sum, just as with total years of education, there is both greater gender equality in secondary school enrolment rates within countries and a global convergence of gender equality in secondary school enrolment rates of 0.99 in 2010, up from 0.93 in 1990. This is good news and reflects solid progress as we move beyond parity in literacy and primary education. As with total educational attainment, regional gains (shown in Panel C) are greatest for those that had the lowest ratios in 1990.

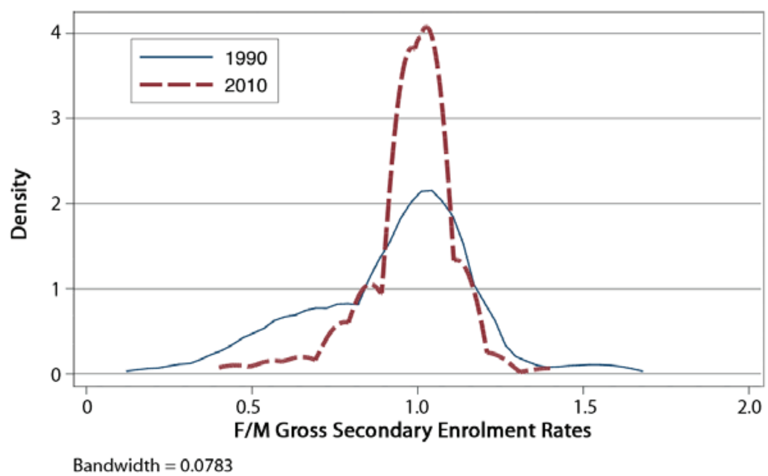
5.2b. Health outcomes

Measurements of gender gaps in health should control for biological differences so as to isolate the effect of societal influences on gender inequality. To that end, life expectancy measures used here reflect how far away a country is from the female and male 'goalposts' as reflected by the gender-specific maximum life expectancies achieved in a given year among the countries in the sample.[7]

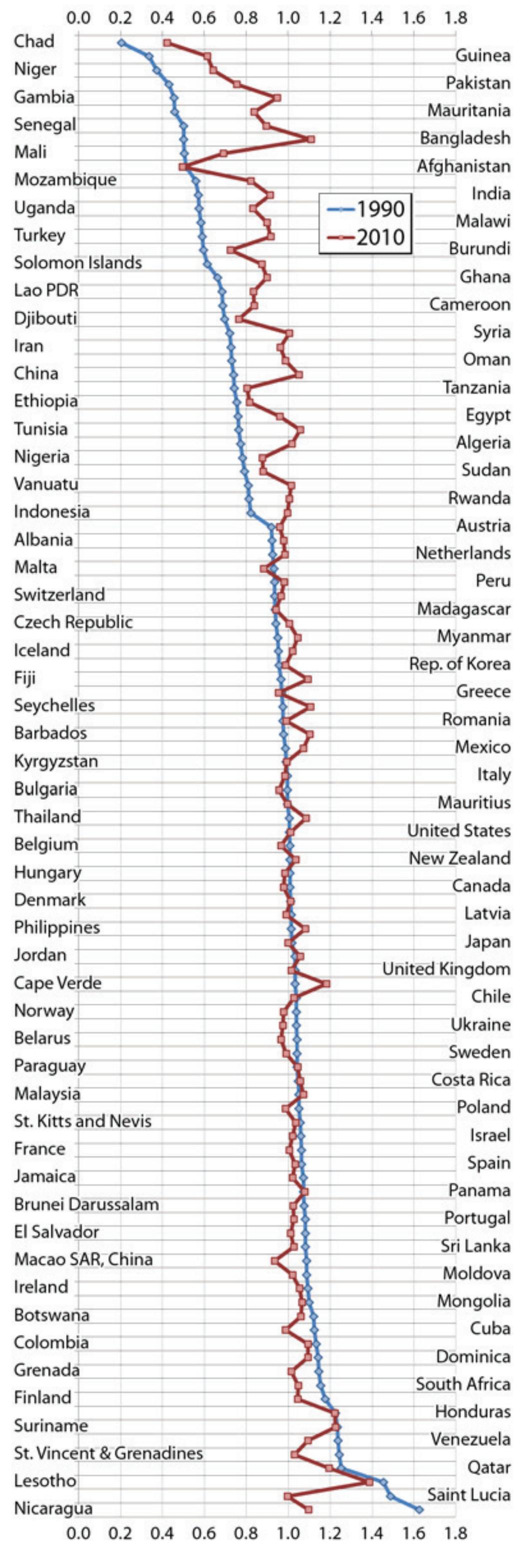
Data for 185 countries are presented in Figure 5.3 for 1990 and 2010. Panel A presents the global distributions for each of these years and indicates a modest improvement in gender ratios at the low end of the distribution (the left tail moves right). For example, in Afghanistan, the ratio rose from 0.49 to 0.53 from 1990 to 2010. The

Figure 5.2. Female and male gross secondary school enrolment rates, 1990 and 2010

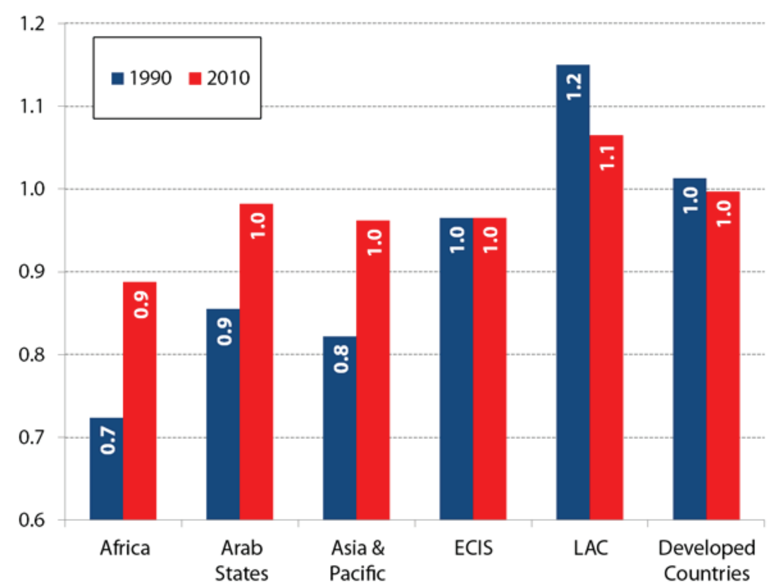
Panel A. Distributions of F/M ratios



Panel B. Countries ranked by 1990 F/M ratio



Panel C. Regional trends in F/M secondary enrolment

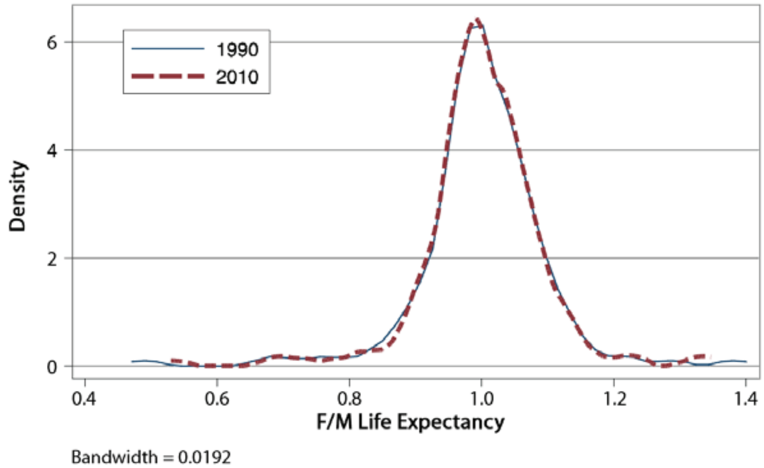


Note: *1990 and 2010 represent averages for 1989-91 and 2009-11, respectively.*

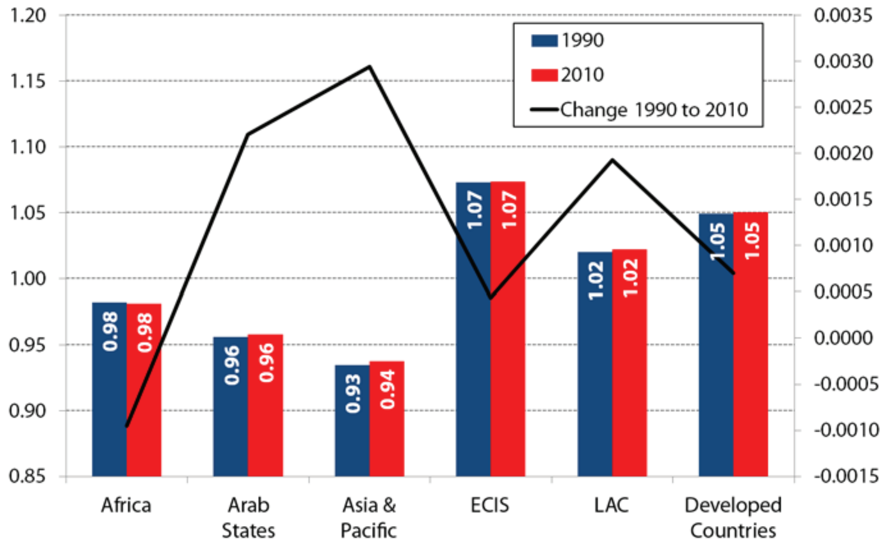
Source: *World Bank (2013).*

Figure 5.3. Trends in female and male life expectancy, 1990 to 2010

Panel A. Distributions of F/M life expectancy



Panel B. Regional trends in F/M life ratios expectancy, 1990 to 2010



Source: *World Bank (2013).*

global mean of the life expectancy ratio is 1.002 in 2010, virtually unchanged from 1990 to 2010. Further, the global mean obscures significant country-level regional differences. For instance, in 33 countries, the F/M life expectancy ratio was below 95 percent in 1990 and there was no decrease in that number by 2010.

Panel B plots regional F/M life expectancy ratios for 1990 and 2010 to the change in the F/M ratio over the time period 1990 to 2010 (see the right axis). The greatest improvements are observable in the Arab region and in Asia and the Pacific, although these changes are very modest, with the ratio below gender parity even by 2010.

In sum, the analysis shows mixed results with regard to global trends in gender equality in capabilities. Educational gaps are closing and there appears to be global convergence in gender educational equality. Results are less positive in the area of health, with life expectancy ratios making uneven progress and demonstrating greater global divergence.

5.3. Gender trends in livelihoods

Gender inequality in livelihoods can contribute to inequality in other domains (Collins et al., 1993; Seguino, 2013b). Women's lower incomes and more limited access to other resources required to secure a livelihood such as land, credit and assets reduce bargaining power within households. As such, women experience restricted ability to exercise their preferences in the gender division of unpaid/paid labour, the allocation of household income and their ability to exit harmful relationships.

Numerous studies find that employment is a key mechanism for promoting gender equity and that gender equality in this domain can leverage change in other domains (Seguino, 2007; Ridgeway, 2011; Kabeer et al., 2013). Of course, it is not just access to employment or livelihoods, but also the relative quality of jobs that matters for economic empowerment. Segregation of women in low-wage insecure jobs will do little to improve their bargaining power if male household members have disproportionate control over good jobs. Data are, however, too sparse to precisely measure women's access to and control over material resources. Wage data tend to be available primarily for higher-income countries and there is little globally comparable time-series data on the quality and security of employment. Moreover, ownership and control over assets influence bargaining power, but accurate time-series gender-disaggregated measures of wealth and other assets are even less widely available than employment data. And, despite advances made in measuring time use that could shed some light on the household division of labour and leisure, we are a long way from having a global time-series on this variable.

Results are less positive in the area of health, with life expectancy ratios making uneven progress and demonstrating greater global divergence.

Therefore, the bulk of the analysis is confined to an examination of gender differences in four variables: 1) employment-to-population ratios, 15 and older; 2) unemployment rates; 3) wages; and 4) shares of females and males employed in the industrial sector to capture gender job segregation in the productive sector of the economy.[8] Most data extend from 1990 to 2009 or 2010, but unemployment data are available as a global dataset only up to 2007. This is not deeply problematic, since this date precedes the onset of the most recent financial crisis, avoiding a distortion in the assessment of long-term trends.

5.3a. Labour force participation and employment ratios

Labour force participation rates measure the proportion of a country's working-age population that is active in the productive sphere[9] of the economy, either by working or looking for work. Because the desire for paid work is not always fulfilled, it is useful to consider employment-to-population ratios for those 15 and older. Caution should be used in making inferences about well-being from these data, since the definition of employment is broad. Specifically, persons who have performed any work at all in the reference period for pay (of any kind) or profit, or who were temporarily absent from a job for reasons of illness, parental leave, holiday, training or industrial dispute, are counted as employed. This implies that the economic effect of employment in terms of access to a livelihood varies widely, depending on pay, hours of work, volatility of income and other forms of non-wage compensation.

Very few countries have achieved parity in employment in contrast to the concentration of most secondary education ratios around 1 (where the global mean in 2010 was 0.976 compared to 0.693 for F/M employment ratios). Clearly, educational equality is not sufficient for securing gender parity in employment.

Figure 5.4 provides data on F/M employment-to-population ratios for 177 countries for 1991 to 2010. As the data in Figure 5.4 demonstrate, gender gaps are closing. The global ratio of F/M employment rates rose from 0.62 in 1990 to 0.70 in 2010. In Panel A, the left tail of the distribution of the ratio of F/M employment rates has shifted to the right, that is, the lowest F/M employment ratio in 1990 was a mere 9.8 percent (in Jordan). By 2010, the lowest ratio was 14.8 percent (in Syria). That being said, in the overwhelming majority of countries, this ratio was still well below parity in 2010. Only four countries had reached parity by 2010: Malawi, Rwanda, Burundi, and Mozambique. Most gains have been made in countries that started out with low ratios, which suggests that progress has stalled in countries that already had greater gender equality in employment in 1991.

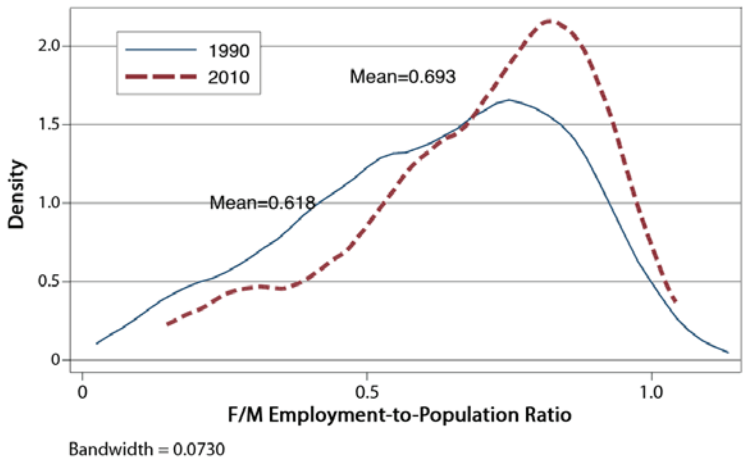
It is useful to know whether gains in the F/M ratio come at the cost of male employment, an outcome that can be gender-conflictive at the household level and society-wide. Panel B plots changes in the F/M employment rate ratio against changes in male employment rates for 1991 to 2010. In 70 percent of the 140 countries in which the F/M employment ratios have risen over this period of time, male employment rates have fallen. This can be observed in the northwest quadrant of Panel B, which identifies countries in which male rates have fallen and female-to-male ratios have risen.

There are important reasons to be concerned about this phenomenon as an impediment to gender equality. Research indicates that, in recessions, male job loss triggers increased incidence of domestic violence (Manheim and Manheim, 2012).[10] Duvvury et al. (2012) have demonstrated the non-trivial cost of domestic violence in Viet Nam for individuals and as a share of GDP. Out-of-pocket costs (such as earnings and medical and legal costs) amounted to 1.4 percent of GDP in 2010, while productivity losses (abused women earn 35 percent less than women who do not experience partner violence) totalled 1.78 percent of GDP in that same year. It would therefore be hard to characterize the higher F/M ratios in those countries in which male employment rates have declined as an unqualified success or movement toward gender equality. To the extent that such trends are in fact gender-conflictive, they are unsustainable, at least in the medium term and until norms of masculinity about male breadwinner roles change and adapt.

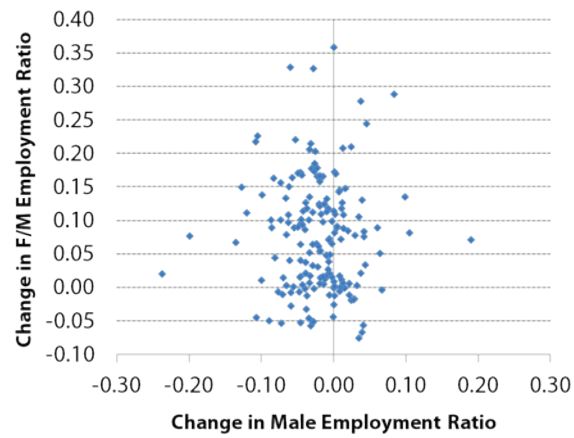
It is clear that gender equality in livelihoods, as measured by employment rates, substantially lags achievements in education. Figure 5.4, Panel C, plots the distribution of the F/M ratio of secondary school enrolment rates in 2010 and compares that with the F/M ratio of employment rates for the same year. Very few countries have achieved parity in employment in contrast to the concentration of most secondary education ratios around 1 (where the global mean in 2010 was 0.976 compared to 0.693 for F/M employment ratios). Clearly, educational equality is not sufficient for securing gender parity in employment. This is confirmed in Panel D, which plots countries' change in the F/M ratio of secondary enrolment against the change in the F/M employment rate. There is no evidence of a positive correlation between greater gender equality in education and employment. In fact, as the trend line in Panel D shows, there is a (weak) negative relationship.

Figure 5.4. Trends in F/M ratio of employment-to-population ratios, 1991 to 2010

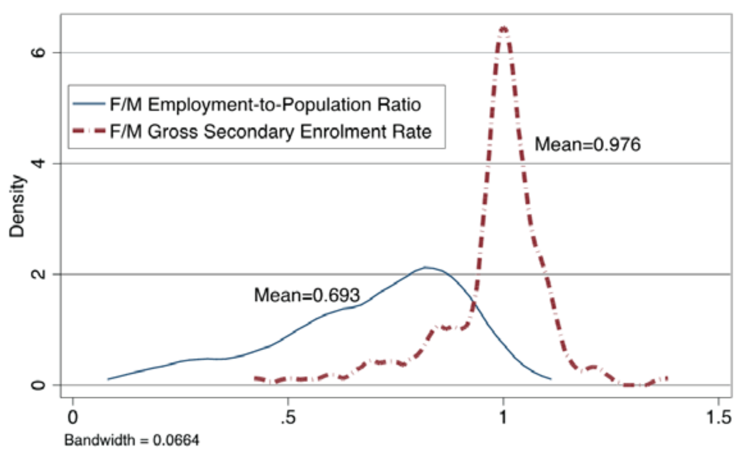
Panel A. Distributions of F/M ratios



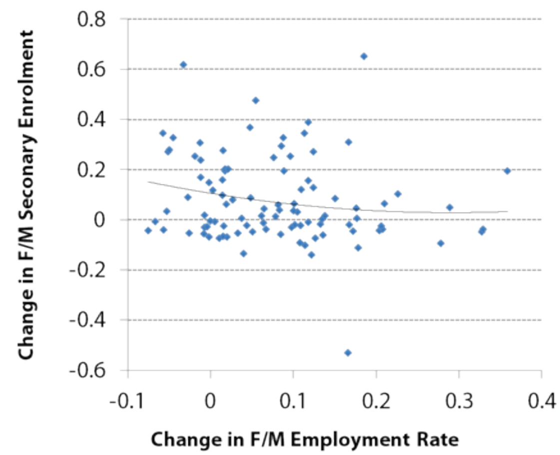
Panel B. Change in female-to-male and male employment rates, 1991 to 2010



Panel C. A Comparison of capabilities and livelihoods equality: female/male gross secondary enrolment and employment, 2010



Panel D. Changes in F/M employment and secondary enrolment



Source: *World Bank (2013).*

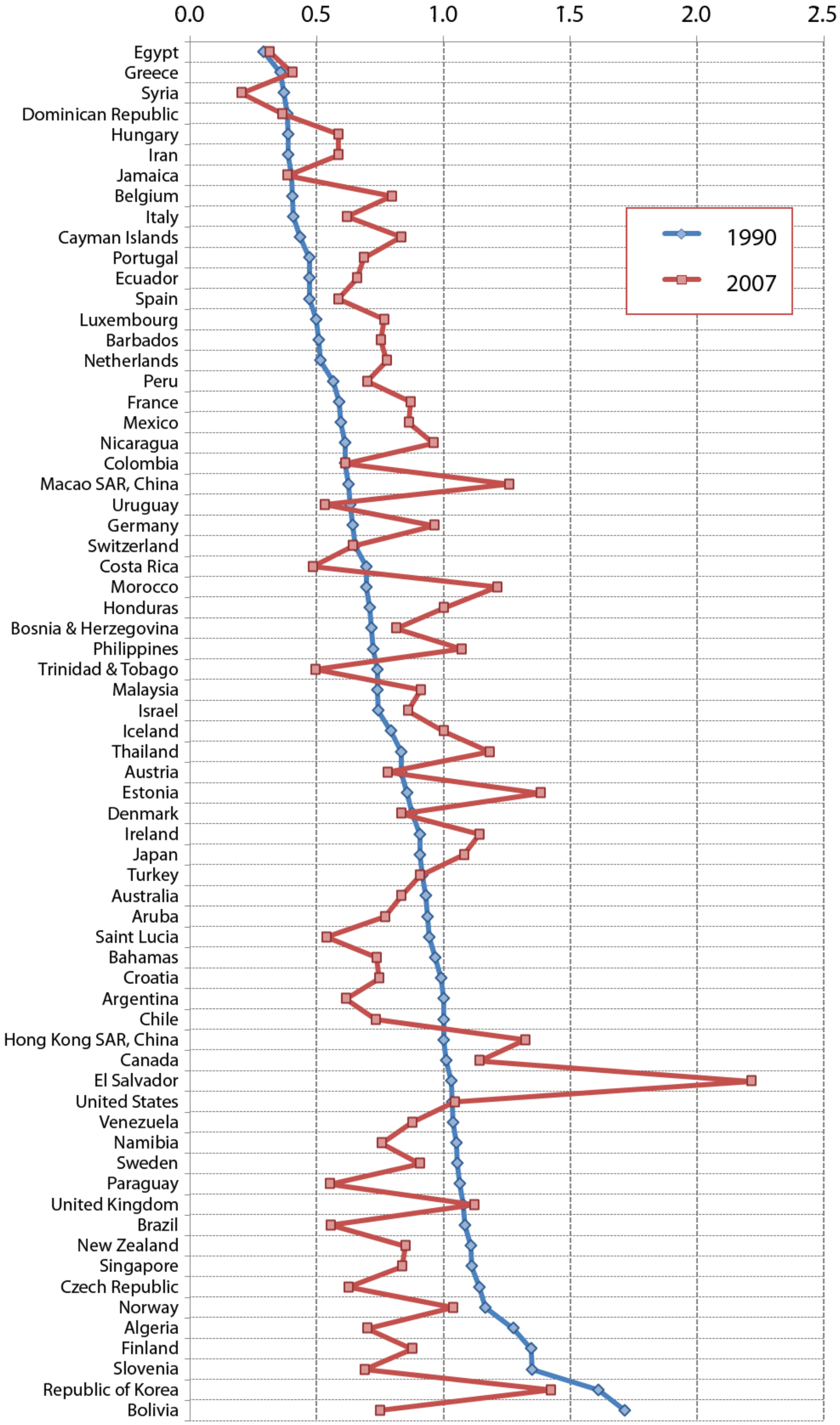
5.3b. Unemployment rates

Unemployment rates are measured relative to the size of the labour force (while employment rates are measured relative to the population above a certain age). A person is defined as unemployed if out of work, available for work and actively seeking work in the past period. Gendered trends in unemployment rates are measured as the male-to-female (M/F) ratio of unemployment, such that a higher ratio indicates greater gender equality (in favour of women). This is done for consistency with other indicators in this study where increases in variables can also be interpreted as greater gender equality.

Gender-disaggregated data are available for only 67 countries for the period 1990 to 2007.[11] The mean global ratio of M/F unemployment rates was 0.861 in 1990, compared to 0.808 in 2007. Panel A of Figure 5.5 compares each country's M/F unemployment ratio in 1990 to the ratio in 2007. Despite some progress in countries with already high M/F unemployment ratios, the majority of countries have ratios below 1, indicating persistent gender inequality in access to work. Moreover, in those countries with greater gender equality in M/F unemployment rates in 1990, there is evidence of reduced gender equality in most of these countries by 2007. Panel B examines the percentage point change in female and male unemployment rates and the M/F ratio by region. (The Africa region is excluded because data for 1997 and 2007 are available for only one country, Namibia). The Asia region stands out as making the most progress in reducing gender gaps in unemployment rates. In Arab countries, the male and female rates have fallen proportionately so that there is virtually no change in the M/F ratio. Female unemployment rates are higher in the ECIS region in 2007 than in 1990, although the increase in male unemployment has been greater so that the M/F ratio has fallen. In Latin America and the Caribbean, men and women have lower unemployment rates, but men's rates have fallen more than women's, reducing the M/F ratio.[12]

Figure 5.5. Trends in M/F unemployment rates

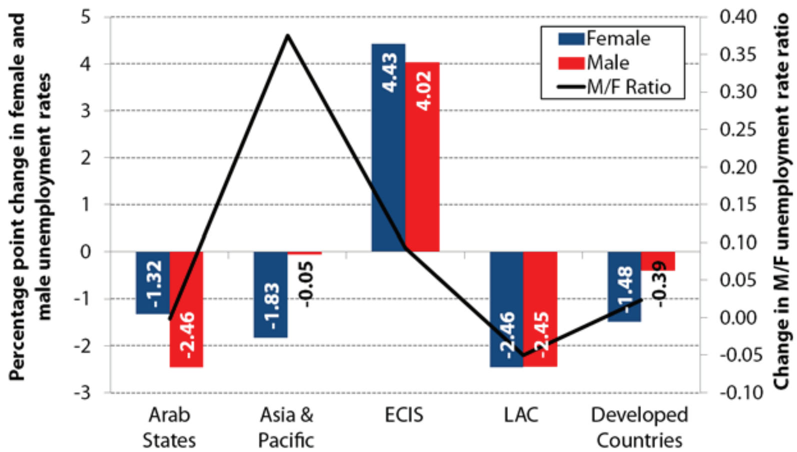
Panel A. Countries ranked by 1990 F/M ratio



Source: *Author's calculations using World Bank (2013).*

Figure 5.5. Trends in M/F unemployment rates (contd.)

Panel B. Change in male and female unemployment rates from 1990 to 2007



Note: *In Panel B, the change in the M/F Ratio is shown on the right axis.*
Source: *Author's calculations World Bank (2013).*

5.3c. Gender wage differentials

Income is perhaps one of the most basic indicators of gender inequality. Household bargaining over the allocation of resources, for example, tends to favour the preferences of the adult with the strongest fallback position (that is, the best range of options available to an adult, should the household dissolve). Fallback positions are influenced by a person's income, ownership of assets, and education, among other factors (Doss, 2013).

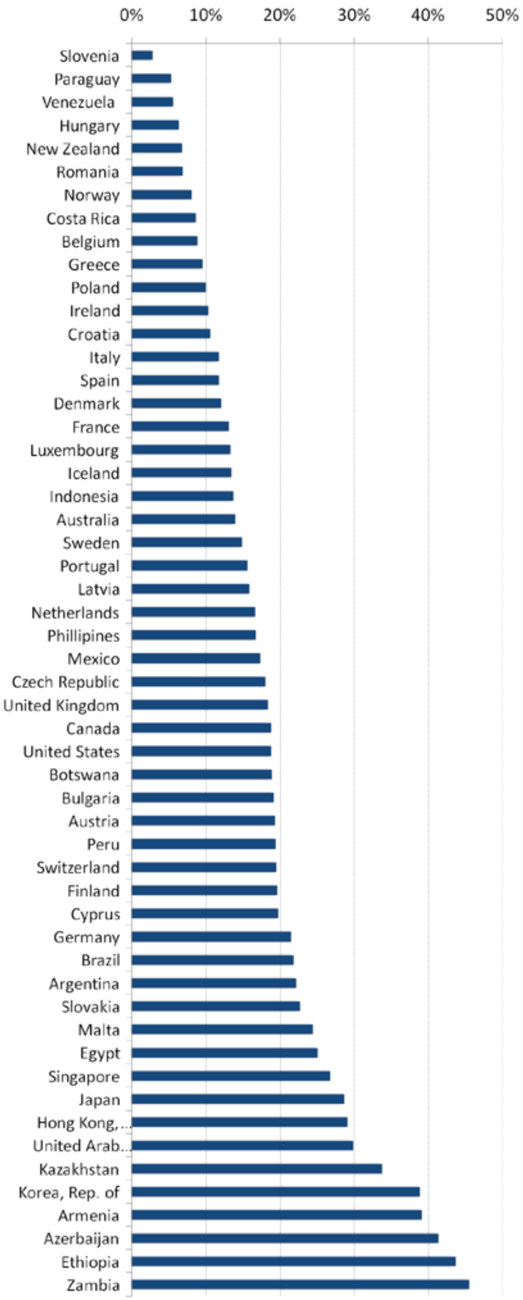
Despite the importance of wage data in assessing gender inequality, the data available is often not comparable across countries and trend data are severely lacking. Some gender-disaggregated income estimates are published in *Human Development Reports*, but the availability of wage data is a limiting factor in these calculations. Because wages are such a key factor in gender equality and mirror societal differences in the valuation of men and women, we report here available data on gender wage gaps for the most recent year as well as trend data on gender gaps in median wages of full-time workers for 21 OECD countries, using one of the few sources of comparable cross-country earnings data.

We report raw gender wage differentials, that is, the simple ratio of average female and male earnings. Raw wage gaps are sometimes criticized because they do not control for 'productivity' as measured by job tenure and education, for example, where the residual is a measure of gender pay discrimination originating within labour markets. However, there is a broader goal in comparing raw wage gaps. Rather than focusing only on whether employers fairly pay employees, raw wage gaps offer an estimate of the structural barriers to gender equality in paid labour, via pre-market discrimination in education and training, as well as within labour markets via job segregation and wage discrimination.[13]

Panel A in Figure 5.6 shows the economy-wide gender earnings gap in percent for the most recent year for 54 countries.[14] The narrowest gap (2.9 percent) is found in Slovenia, while the widest gap is in Zambia (45.6 percent). It should be noted, however, that cross-country gaps are not strictly comparable, since wage data may be for hourly or monthly earnings or may be restricted to just full-time workers. These data are simply

Figure 5.6. Trends in gender wage gaps in OECD countries

Panel A. Economy-wide gender wage gaps for most recent year, various measures

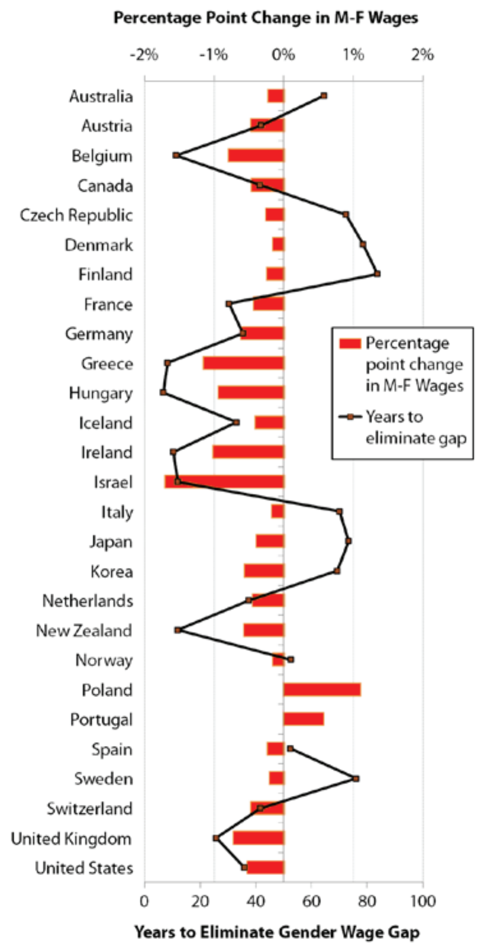


Panel B. Regional gender wage gaps

Region	No. of countries	Gender wage gap
Africa	3	36.1%
Arab States	2	27.5%
A&P	2	15.3%
ECIS	8	21.1%
LAC	7	14.3%
Developed Countries	32	16.4%

Source: *See Annex 5.B*

Panel C. Annual average change in the gender wage gap, 1980 to 2010



Note: *The data in Panels A and B are for 2009 or closest year. The change in the gender gap in Panel C is the percentage points by which female earnings have improved relative to female earnings, from 1980 to 2010, or nearest year. The number of years to eliminate the gap is estimated, based on the annual average decline in the gender wage gap for the period 1980 to 2010 for which there are data. To arrive at an estimate of the years to eliminate the gap, the growth rate of the gender wage gap is calculated and, from this, an estimate of the years to reach wage parity is estimated. Because Portugal and Poland experienced wider gender earnings gaps, the years to eliminate the gap were not calculated.*

Source: *Author's calculations from data sources listed in Annex 5.A.*

illustrative of the persistence of gender wage gaps, despite the declines we observe in educational inequality. In the majority of the countries shown here, male wages exceed women's by more than 15 percent.

As the data in Panel B show, the widest gender wage gaps are found in the Africa region (36.1 percent), while the narrowest are in Latin America and the Caribbean (14.3 percent). These data should be read with some caution, since we have data on only three African countries and two Arab and Asian countries. Further, the Asian group excludes advanced economies of the region (Japan, the Republic of Korea, Singapore, and Hong Kong, SAR of China). If they were included in the Asia region, the Asian gender wage gap would rise to 25.7 percent (and the gap for developed countries would fall to 14.3 percent).

Of particular note is the Republic of Korea's continued wide gap of 38.9 percent. South Korea's rapid economic growth since the 1960s has been fuelled by labour-intensive exports that have employed mainly women. Theory would predict that sustained high demand for female labour, coupled with narrowing gender educational gaps, would lead to much more progress towards achieving wage parity than has been observed over the last 40 years. Progress, however, has been very slow in South Korea (as it has been in other Asian economies, including Japan, Hong Kong, SAR of China, and Singapore).

Panel C shows the annual average rate of change in gender wage gaps in a smaller sample of OECD countries. The data are for 1980 (or earliest year) to 2010 (or latest year), and depending on the country, are for hourly, weekly or monthly earnings. These wage results should be considered a lower-bound estimate of gender earnings differentials, since the data are only for full-time workers. Women tend to be more concentrated in part-time or contingent labour and evidence indicates that hourly earnings for this group are lower than those for full-time workers.

Based on wage trends, an estimate of the number of years to eliminate gender earnings gaps is shown on the right axis. The estimate is obtained by calculating the annual rate of change of the F/M wage ratio from 1980 to present. The rate of change is used to extrapolate the number of years it would take to reach parity. Estimates range from a low of 6.9 years in Hungary to a high of 83.7 years in Finland. The length of time it will take for gender earnings differentials to be eliminated if trends over the last 30 years continue is in fact very high for Scandinavian countries because progress has been slow, despite gaps that are more modest than in other OECD countries.

5.3d. Job segregation: shares of females and males employed in the industrial sector

Gender inequality in wages and earnings is in part attributable to gender job segregation. That segregation may be the result of explicit job discrimination by employers or it may be a function of gendered norms that shape the educational and job decisions of women and men. Whatever the source, women and men workers tend to be concentrated in different sectors of the economy (such as in paid vs. unpaid work or industry vs. services). This segregation has palpable material effects. Ideally, over time there will be changes in gender norms and stereotypes, as well as in the overt discriminatory practices on the part of employers, leading to greater gender job integration with men and women more equally concentrated across sectors of the economy.

One way to evaluate trends in job segregation is to consider the shares of females and males employed in the industrial sector. This sector tends to be better paid than the services sector. The latter sector in many developing countries is largely informal work with low wages or profits and can often be considered residual unemployment. Industrial employment may also be more remunerative than work in the agricultural sector, where incomes can be unstable and social insurance unavailable. This contrasts with industrial employment, where, in addition to greater likelihood of forms of non-wage compensation, more opportunity exists for training over the worker's lifetime that could raise earnings.

Data are available for 62 countries for 1990 and 2009 (or nearest year within one year). Not surprisingly, most countries for which there are data are middle- or high-income. Many of the poorest countries are not represented in this analysis. Panel A in Figure 5.7 shows that the distribution of the F/M shares employed in the industrial sector has shifted to the left, with the F/M ratio of shares employed in the industrial sector falling from 0.62 in 1990 to 0.42 in 2010. Men are even more likely to be employed in the industrial sector than women, to be precise. Among the countries with the lowest F/M ratios in 1990 and 2010 are several developed economies: Luxembourg, Norway, Sweden, Canada and Australia.

Panel B ranks countries from lowest to highest shares in 1990 and compares this with ratios in 2009. Here, too, we observe that the 2009 ranking shifts downward, indicating less concentration of women in industry relative to men, especially in those countries where the ratio had been higher in 1990 (and in some cases, in favour of women).

It is especially notable that the declining ratio of female-to-male shares employed in the industrial sector is taking place in those countries where manufacturing employment had become 'feminized' in the 1980s and 1990s — Mauritius, Hong Kong, SAR of China, Morocco, and the Dominican Republic, for example. The trend identified here is consistent Tejani's and Milberg's (2010) research highlighting the possible trend of 'defeminization' in the manufacturing sector in middle-income countries as the capital intensity of production rises; in other words, as this group of countries has moved up the industrial ladder, Tejani and Milberg observe that women are increasingly excluded from manufacturing employment.

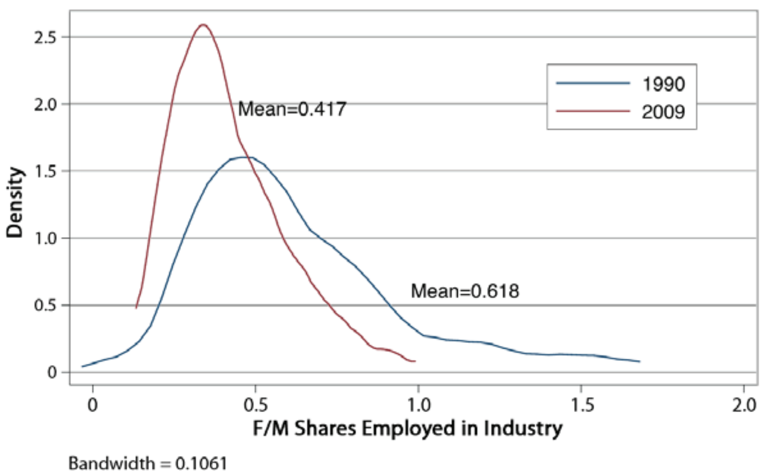
This occurs despite narrowing of gender educational gaps in these countries and may reflect a phenomenon, dubbed 'family responsibility discrimination', that has been noted in industrialized countries such as the U.S. Those with greater family responsibility, particularly women, find themselves less likely to obtain jobs than those who do not signal such care responsibilities, i.e., men and childless women. It may also relate to employers' greater investment in the firm-specific skills of their workers. Employers in capital-intensive firms may inaccurately (or accurately) predict that men are the major breadwinners and therefore be unwilling to hire women workers who are predicted to leave the labour market at higher rates due to care responsibilities. This is more likely to occur in more capital-intensive firms, since the firm's sunk costs in worker training will yield a lower return than investments in men. The binding constraint is an absence of gender-equitable care policies, although there are other barriers as well, including gender norms and stereotypes.

Panel C provides a regional summary of trends in the ratio of female-to-male shares employed in the industrial sector from 1990 to 2009. In all regions, female shares employed in the industrial sector have declined, except in Africa. Moreover, male shares have risen only in the Arab and Asia regions. Across all regions, women's losses are greater than men's, as evidenced by the negative direction of the F/M ratio (Panel C, shown on right axis).

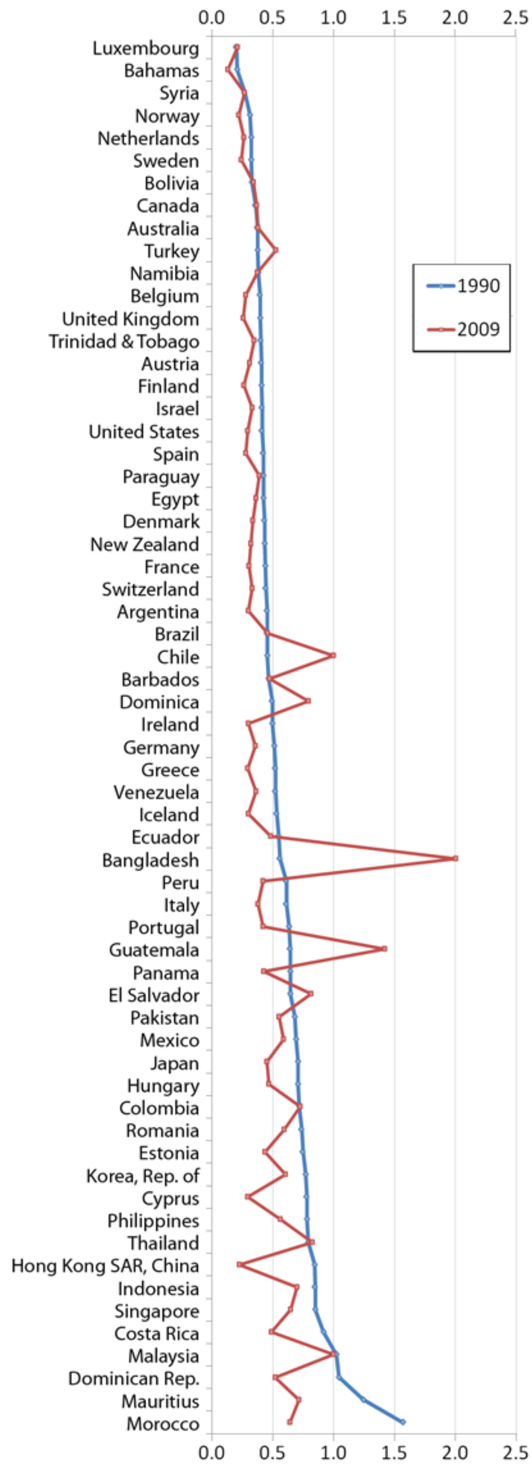
Taken as a group, trends in outcome indicators explored in this section are much less positive than gender progress in education in the capabilities domain. Very few countries have reached parity in employment and unemployment gaps have widened in a number of countries. Of particular concern is the fact that relative female employment gains coincide with a decline in male employment rates in a number of countries, although men appear to be able to disproportionately hold onto jobs in the industrial sector.

Figure 5.7. Shares of females and males employed in the industrial sector, 1990 and 2009

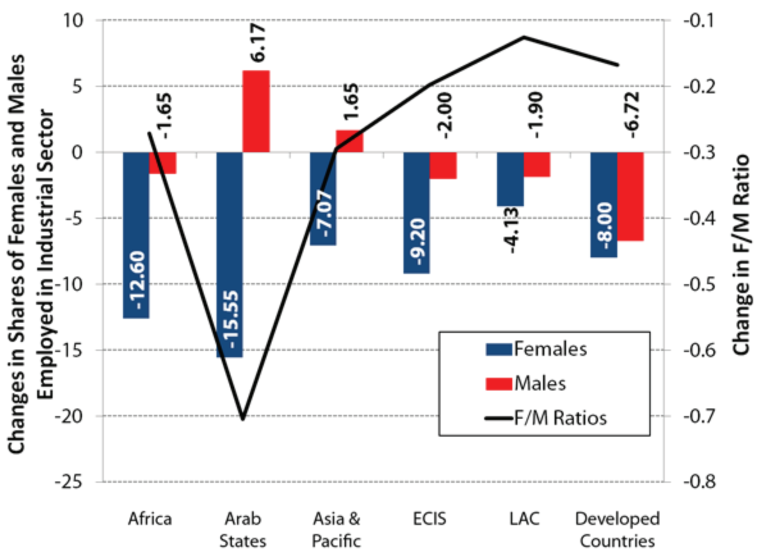
Panel A. Distributions of F/M shares



Panel B. Countries ranked by 1990 F/M ratio



Panel C. Changes in regional female and male shares employed in industrial sector, 1990 to 2009



Source: *Author's calculations from data sources listed in Annex 5.A.*

Employment gains, in other words, could be gender-conflictive. Employment is a particularly salient domain for the fulfilment of norms of masculinity. If improvements in women's employment do indeed come at the expense of men's, this should be cause for concern. (Gender improvements in favour of women in education, for example, while troubling, are less gender-conflictive). Moreover, the reduction in women's concentration in the industrial sector as compared to men's is suggestive of a process of defeminization in that sector. Because industrial-sector jobs tend to be of higher quality than those in other sectors (they are less likely to be informal and more likely to offer benefits and a job ladder than jobs in services and agriculture), this outcome indicates a decline in gender equality. Trends in this sector are also indicative of persistent job segregation by gender.

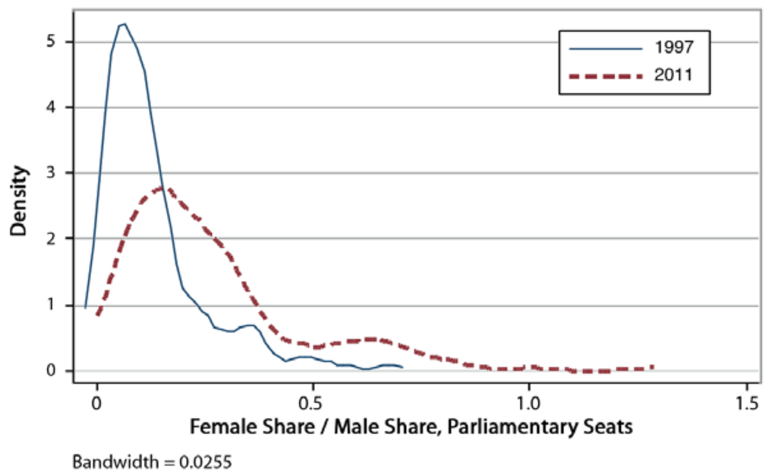
Given the importance of access to and control over material resources for well-being, persistent and in some cases widening gender gaps in this domain are indicative of real challenges to gender equality in well-being. It should be noted that the data presented here emphasize labour market outcomes. Other data on livelihoods that would be useful include are assets,[15] access to credit, the level of social insurance (such as pensions, unemployment insurance) and other entitlements to commodities. Thus, it should be acknowledged that this analysis presents only a partial picture. The data gap might not be problematic if the labour market data presented here are a close proxy for these other indicators. Although we lack global data to assess this possibility, it is likely that the labour market data provide a lower bound estimate of gender inequality. We know from some country-level studies that the gender distribution of wealth, land and credit is more unequal than income, for example.[16]

5.4. Agency, empowerment, and relative political representation

Gender equality in agency and empowerment can theoretically be measured in a number of ways: political representation, trade union membership, managerial and supervisory positions held, corporate leadership and board representation. Were we to possess comprehensive time-series data in each of these categories, we would be able to provide a global picture of trends in gender equality in this domain. Because we do not, the female share of parliamentary seats is a commonly used measure of gendered political agency for the purposes of global comparisons.[17] For consistency with other indicators, the data are converted to female/male ratios. For example, a country with a 25 percent female share of parliamentary seats is assigned a ratio of 25 (for women) to 75 (for men) or 0.333. Figure 5.8 gives these data for 156 countries from 1997 (the earliest year available) to 2011. As can be seen in Panel A, the entire distribution has shifted to the right, indicating that women held a larger relative share of parliamentary seats in 2011

Figure 5.8. Female/male shares of parliamentary seats

Panel A. Distributions of F/M shares



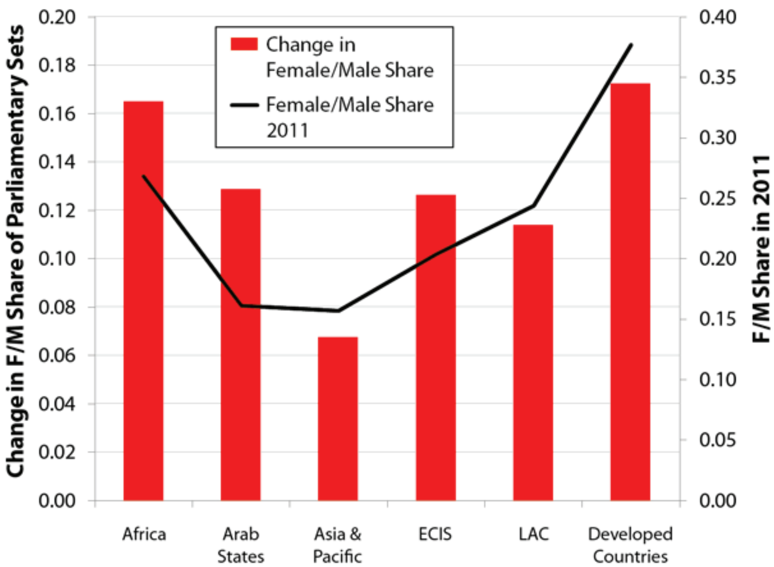
Source: *Author's calculations using data obtained from World Bank (2013a).*

than in 1997. (The outlier in 2011 is Rwanda, where women held a majority of parliamentary seats.)

The global ratio has risen from 12.7 percent in 1997 to 26.2 percent by 2011. Unlike the other indicators in this study, the greatest gains have been made in those countries already closer to gender parity in 1997. Panel B provides a regional representation of trends, with the percentage point change in the female/male ratio plotted on the left axis and the female/male ratio in 2011 on the right axis. The smallest gains are in Asia and the Pacific. This and the Arab regions have the lowest shares of females in parliament (15.7 percent and 16.1 percent, respectively). The gender gap is remarkably large as compared to the ratio of F/M educational attainment (Figures 5.1 and 5.2).

Figure 5.8. Female/male shares of parliamentary seats (contd.)

Panel B. Regional Trends in Female/Male Shares, 1997 to 2011



Source: *Author's calculations using data obtained from World Bank (2013a).*

5.5. Trends in subjective well-being and attitudes

In addition to measures of objective well-being, it is useful to examine trends in subjective measures to gain further insight into trends in gender equality. To do this, we examine data from two waves of the World Values Survey (WVS): Wave 3 (1994-1999) and Wave 5 (2005-2008). The WVS can also be used to explore trends in gender norms and stereotypes that influence gender outcomes in material well-being. We also examine how responses to several prompts indicating attitudes towards gender equality have changed over time.

The WVS is a large-scale survey that has been carried out in a series of five waves, beginning in 1981. It provides coverage of 90 percent of the world's population, generating representative national data for 97 countries and regions. The number of countries surveyed has expanded and, as a result, the country sample changes in each wave. We confine ourselves to a comparison of responses to Waves 3 and 5 because of the expanded country coverage of these waves and because several variables of interest were first asked only in Wave 3. For consistency, we confine the analysis to those countries for which data are available on each question for Wave 3 and Wave 5. This limits the number of countries on which the results are based, but allows one to isolate changes in subjective well-being and attitudes from changes in survey coverage. The WVS summary of results is shown in Table 5.1.

We first examine results for two subjective measures of well-being: health and life satisfaction. When asked about their state of health, men rate their well-being marginally higher than women in both waves. For example, in Wave 5, the percentage of men responding that their health is either very good or good is 70.3 percent as compared to 63.6 percent for women. While women's and men's self-reported health assessments improved since Wave 1, the gender gap is virtually unchanged. This mirrors trends in life expectancy ratios (Figure 5.3).

When men and when were asked how satisfied they were with their lives, they gave assessments that are very similar in both waves, with some improvement over time. For example, on a 10-point scale (where 1 is the highest), the percentage of women responding 1, 2, or 3 is 49.3 percent in Wave 5, compared to 49.2 percent for men. One of the challenges with subjective measures of life satisfaction is that responses are conditioned by aspirations. With regard to gender differences, Amartya Sen (2000) has noted that women's assessments may reflect their assessments of the well-being of family members rather than their own. That being said, it is instructive that the male-female gap in subjective well-being is virtually unchanged between Waves 3 and 5.[18]

The widest gender gaps are in the agency/empowerment domain, following by the livelihoods domain, with the greatest degree of gender equality in the capabilities domain.

When asked how much control they feel they have over their own lives, women report a greater sense of control than men in both waves. But for men and women, their sense of control declines. That women's self-assessment of control is greater than men's is surprising. This may be related to aspirational factors as well. If, for example, men have higher aspirations for control over their lives that are not being met, they may rate their control lower than women do, even if women have less control over their lives. The downward assessment from Wave 3 to Wave 5 for men and women suggests, however, deterioration in external economic, political and social circumstances. This result appears to contradict life satisfaction assessments, unless people value control over their lives less than other direct changes to their well-being.

Gender norms and stereotypes are revealed in Questions 4-9 (Table 5.1). In general, these results show improvement in gender equality of attitudes among men and women over the two waves. For example, Question 4 asks whether men are more deserving of jobs when jobs are scarce. More men than women held this view in Wave 1 (38.5 percent compared to 30.8 percent), but those percentages fell to 32.0 percent and 24.1 percent, respectively, in Wave 5. The male-female gap in responses is virtually unchanged. Son preference (Question 5) has also modestly declined for women and even more so for men. This has led to a narrower gender gap in son preference, since women's son preference was roughly only half that of men in Wave 3.

The degree of support for the view that men and women should contribute to household income (Question 6) was already high in Wave 3 (68.7 percent for men and 74.8 percent for women). But, while the percentage of men agreeing with this prompt rose in Wave 5 (very modestly), women's share fell by almost 5 percentage points. During this period, female labour force participation rates rose in many regions of the world and men's participation rates fell. Women's attitudes reflected in responses to Question 6 may suggest a dissatisfaction with the increased responsibility born by women and declining economic support of men. It is thus very interesting to observe responses to the prompt that women's earning more than men creates problems at home (Question 7). A quarter of all men held this view in Wave 1. Women, on the other hand, more strongly held the view that, if women earn more income than men, troubles at home ensue (37.4 percent in Wave 3

Table 5.1. Trends in gender attitudes and perceived well-being, 1994-2008

No.	Question/Prompt	Wave	Males	Females	Total	M-F gap	Analysis of Change	Scale of Responses
1	How would you describe your state of health these days?	Wave Three: 1994–1999	64.5%	57.2%	60.7%	7.3%	Greater gender health equality; overall health improved.	Percentage responding very good or good.
		Wave Five: 2005–2008	70.3%	63.6%	66.8%	6.7%		
2	How satisfied are you with your life as a whole these days?	Wave Three: 1994–1999	45.1%	44.4%	44.7%	0.7%	Men and women both more satisfied; gender gap narrows.	1=satisfied, 10=dissatisfied: percentage responding 1, 2, or 3.
		Wave Five: 2005–2008	49.2%	49.3%	49.2%	-0.2%		
3	How much freedom of choice and control you feel you have over the way your life turns out?	Wave Three: 1994–1999	4.17	4.42	4.30	-0.25	Both men and women feel less control; gender gap narrows.	1=None at all, 10=A great deal.
		Wave Five: 2005–2008	3.60	3.76	3.68	-0.16		
4	When jobs are scarce, men have more right to a job than women.	Wave Three: 1994–1999	38.5%	30.8%	34.5%	7.8%	Men and women shift to more gender equal attitudes; gender gap widens.	Percentage of respondents who agree with prompt.
		Wave Five: 2005–2008	32.0%	24.1%	27.8%	7.9%		
5	If you were to have only one child, would you rather have it be a boy or a girl?	Wave Three: 1994–1999	15.1%	6.9%	10.6%	8.2%	Men and women shift to more gender equal attitude; gender gap narrows.	Percentage of respondents who prefer a boy.
		Wave Five: 2005–2008	12.3%	6.4%	9.0%	5.9%		
6	Both the husband and wife should both contribute to household income.	Wave Three: 1994–1999	68.7%	74.8%	72.1%	-6.1%	Men and women shift to more gender equal attitudes; gender gap widens.	Percentage who agree strongly or agree.
		Wave Five: 2005–2008	70.0%	69.3%	69.6%	0.6%		
7	If a woman earns more money than her husband, it's almost certain to cause problems.	Wave Three: 1994–1999	26.6%	37.4%	32.7%	-10.8%	Men and women shift to more gender equal attitudes; gender gap widens.	Percentage who agree strongly or agree.
		Wave Five: 2005–2008	22.4%	33.9%	28.7%	-11.5%		
8	Men make better political leaders than women do.	Wave Three: 1994–1999	50.0%	40.1%	44.9%	9.8%	Men and women shift to more gender equal attitudes; gender gap widens.	Percentage who agree strongly or agree.
		Wave Five: 2005–2008	46.4%	32.2%	39.0%	14.2%		

Source: *World Values Survey.*

Table 5.1. Trends in gender attitudes and perceived well-being, 1994-2008

No.	Question/Prompt	Wave	Males	Females	Total	M-F gap	Analysis of Change	Scale of Responses
9	University is more important for a boy than for a girl.	Wave Three: 1994–1999	25.8%	20.4%	23.0%	5.3%	Men and women shift to more gender equal attitude; gender gap widens.	Percentage who agree strongly or agree.
		Wave Five: 2005–2008	21.0%	13.9%	17.3%	7.1%		
10	Employment status	Wave Three: 1994–1999	9.9%	34.0%	22.4%	-24.1%	Women almost 4 times more likely to be unemployed or homemaker than men; gender gap narrows.	Percentage unemployed or homemaker.
		Wave Five: 2005–2008	9.3%	29.3%	19.8%	-19.9%		

Source: *World Values Survey.*

compared to 26.6 percent for men). For women and men, the share holding that view fell by about 4 percentage points by Wave 5.

In Wave 3 (Question 8), a majority of men held the view that men make better political leaders. Women were less likely to hold this view (40.1 percent agreed with this prompt). Over time, the share of men and women holding this view has fallen. The gender gap is wider in Wave 5, with the share of women disagreeing with this prompt falling to 32.2 percent as compared to 46.4 percent for men. Similarly, the percentage holding the view that boys are more deserving of a university education than girls (Question 9) has fallen and, again, the decline is greater for females than males.

Overall, the responses to this set of prompts indicate movement toward more gender-equitable attitudes by men and women. Although women's attitudes have become more gender-equitable than men's in some instances, the overall shift in attitudes is significant, particularly since these surveys span a maximum of 14 years.

5.6. Is there progress toward global gender equality?

Prior to reviewing the results presented here, it is useful to note that the time period that this assessment of global trends in gender inequality covers is one in which global inequality in income, measured at the household level and between labour and profits, is on the rise. It is therefore instructive to compare how gender, as a type of intergroup inequality, compares.

This exploration of gender trends in material well-being is shaped by theory as well as data availability. The analysis reflects a broader theoretical framework than economists have typically explored, extending beyond gender gaps in income to capabilities and agency/empowerment inequality. It reflects the multi-dimensional nature of gender inequality in livelihoods that have been highlighted in the research, including job segregation and measures of agency. Other aspects of well-being that theory identifies as useful to study include stability of income, access to social supports and social protection, healthy days of life, physical security (such as absence of domestic violence) and leisure time. The limited availability of global datasets constrains the analysis of trends over time. The extent to which the analysis presented here is accurate rests on the construct validity of the variables on which we do have data, that is, the extent to which the variables employed are adequate proxies for overall gender differences in well-being for which data are unavailable.

Despite progress, we observe worrying gender reversals in some countries, with males' average years of education and secondary enrolment rates now falling below that of females.

To review, trends in inequality were analysed in three domains: capabilities, livelihoods, and agency/empowerment. Within the domain of capabilities, results show that we are closer to global gender equality in education today than in 1990 and, in many countries, gender gaps have been eliminated. Moreover, we have moved toward global convergence in gender equality in secondary education, with the largest gains made in the countries with the lowest gender ratios in 1990. Still, of 108 countries in this sample, over 50 percent have not yet achieved parity.

Despite this progress, we observe worrying gender reversals in some countries, with males' average years of education and secondary enrolment rates now falling below that of females. There has been little systematic global analysis of the causes for this. To understand this phenomenon, a shift in analysis from women's to men's behaviour is more necessary than ever. In particular, it requires an investigation of norms of masculinity and their response to changes in women's outcomes. For example, the male decline in relative educational achievement in some countries and at some levels may be due to males' unwillingness to compete with females in a space males had previously dominated. In other words, men may perform more poorly or withdraw altogether as schools become perceived as a 'feminized' space.[19]

While gender educational gaps have narrowed, there has been little change in the F/M ratio of life expectancy. Here, too, the causes of this trend are not well understood. Further, it contradicts the prediction that women's life chances improve as they become more economically valuable, as evidenced by their higher rates of labour force participation and employment shares. Thus, in terms of capabilities, progress is mixed.

In the livelihoods domain, although progress is evident, gender gaps are persistent and parity is far from achieved in any of the indicators we examined. In some countries, female relative employment gains have occurred in the context of declines in male employment rates and, thus, the narrowing of gaps is gender-conflictive, with potentially negative feedback effects on relationships at the household level, such as family dissolution and domestic violence.

Of particular significance is the fact that employment equality lags behind educational improvements. Figure 5.4 (Panel C) exemplifies the wide gap in progress between educational and employment equality. As that figure shows, by 2010, while most countries were concentrated around a secondary enrolment ratio of 1, the F/M employment ratio was much more unequal across countries and much lower on average than F/M secondary enrolment rates. It is apparent that educational equality is not sufficient for achieving equality of well-being in livelihoods. Theories of gender stratification indicate that a key factor in gender inequality is unequal bargaining power at the household level. In that context, income under women's control relative to men's (or gender equality in livelihoods) improves their fallback position and thus their ability to negotiate for resources at the household level. Gender equality in this domain, then, is key to leveraging change in other domains due to its effect on gender unequal norms and stereotypes and inequality in other domains (Collins et al., 1993). Slow progress in closing employment gaps, then, is cause for concern.

We also looked at gender wage gaps today for a diverse set of countries and trends in gender wage inequality for a smaller sample of OECD countries. The overwhelming majority of countries continue to have gender wage gaps that exceed 15 percent. Further, in many OECD countries, progress in closing gender wage gaps has been very slow despite the virtual elimination of educational gaps. If gaps continue to narrow at the same rate since 1980 in those countries, it will be decades before gender wage equality is achieved. This is particularly salient since it is sometimes assumed that closing gender gaps in education will be sufficient for overcoming gender inequality in labour markets. The argument is often made that, especially in a globalized economy, where firms are under a great deal of pressure to hire least-cost workers, demand for female labour will be sustained and, eventually, upward pressure on female wages will lead to wage convergence between the wages of male and female workers.[20] The data do not support this optimism.

A key factor in gender inequality is unequal bargaining power at the household level. In that context, income under women's control relative to men's (or gender equality in livelihoods) improves their fallback position and thus their ability to negotiate for resources at the household level.

Moreover, women's access to employment in the industrial sector has declined relative to men's. This trend holds in all regions of the world with the exception of Africa.[21] It would appear that a global defeminization of industrial employment is underway. The share of men employed in this sector has declined, too, but women's more limited access to jobs in this sector, despite narrowing educational gaps, suggests other factors are influencing intergroup inequality in who gets or keeps jobs in this sector. This is significant, since jobs in this sector tend to be of higher quality than those in services and agriculture on average. One factor affecting the widening gender gap may be insufficient public support for care work or policies that enable men to shoulder a larger portion of care activities. Employers, observing that women have primary responsibility for care of the family, may be unwilling to hire and retain women in the industrial sector, where skills are obtained on the job and firms tend to invest more in the acquisition of worker skills than other sectors.

Finally, in the domain of agency, women's share of parliamentary seats has risen, but only modestly so. A number of countries continue to have no female political representation and, among the remainder, few have achieved parity. Some research suggests that women in political office tend to support public investment that reduces women's care burden and to support policies that promote economic security (Chattopadhay and Duflo, 2004; Besley and Case, 2003). If so, progress in political representation could be a mechanism to promote gender equality in other domains. The slow progress in this area then should elicit the attention of policy makers as a target to leverage change in other measures of gender inequality.

Table 5.2 summarizes where gender gaps now stand by region and across indicators, as compared to 1990 (or nearest year). In all regions, the widest gender gaps are in the agency/empowerment domain, following by the livelihoods domain, with the greatest degree of gender equality in the capabilities domain. (The one exception is unemployment rates in the Asia region, where men's unemployment rates are higher than women's, although women's employment disadvantage is substantial, with women's employment rates averaging only 60 percent of men's.)

Figure 5.9 offers a visual representation of these results for each region for 2010 (or nearest year). Regional differences are much narrower for capabilities than for livelihoods and agency. Progress towards gender equality is uneven, depending on the indicator, across all regions. Wide gender gaps in all regions are especially pronounced

Table 5.2. Summary of trends in gender equality indicators by region

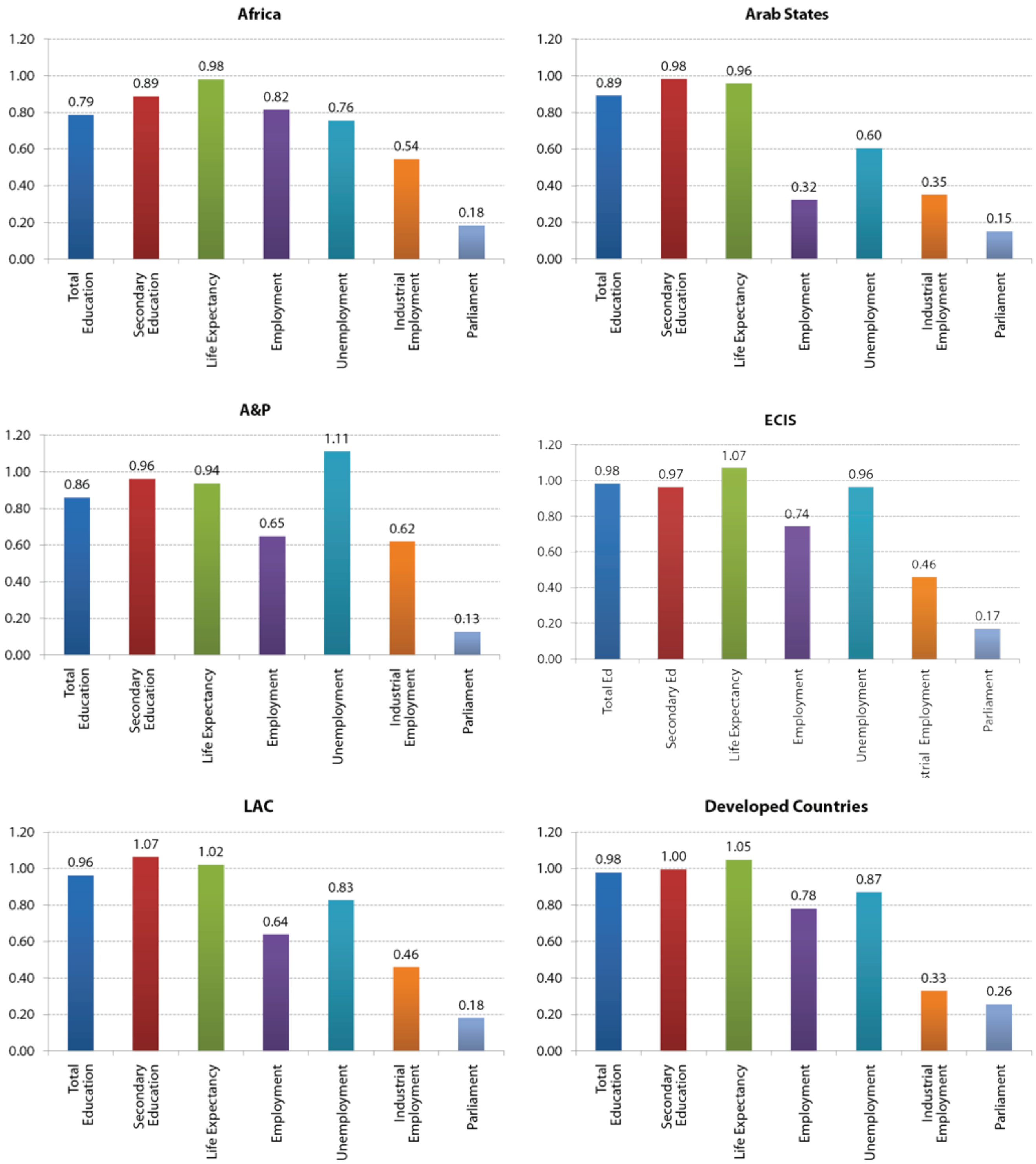
	Total Years of Educational Attainment (2010, 1990)	Secondary Enrolment Rates (2010, 1990)	Life Expectancy (2010, 1990)	Employment-to-Population Rates (2010, 1991)	Unemployment Rates (2007, 1990)	Shares Employed in Industrial Sector (2009, 1990)	Parliamentary Seats (2011, 1990)
World 2010 or most recent year	**0.91**	**0.98**	**1.00**	**0.70**	**0.81**	**0.42**	**0.26**
Africa	0.79	0.89	0.98	0.82	0.76	0.54	0.18
Arab States	0.89	0.98	0.96	0.32	0.60	0.35	0.15
A&P	0.86	0.96	0.94	0.65	1.11	0.62	0.13
ECIS	0.98	0.97	1.07	0.74	0.96	0.46	0.17
LAC	0.96	1.07	1.02	0.64	0.83	0.46	0.18
Developed Countries	0.98	1.00	1.05	0.78	0.87	0.33	0.26
World 1990 or most recent year	**0.82**	**0.91**	**1.00**	**0.62**	**0.86**	**0.62**	**0.13**
Africa	0.69	0.72	0.98	0.76	1.05	0.82	0.10
Arab States	0.71	0.86	0.96	0.25	0.61	1.05	0.03
A&P	0.75	0.82	0.93	0.61	0.73	0.92	0.07
ECIS	0.90	0.97	1.07	0.72	0.87	0.66	0.07
LAC	0.92	1.15	1.02	0.52	0.79	0.59	0.11
Developed Countries	0.94	1.01	1.05	0.67	0.85	0.50	0.17

in access to work (employment rates), relative shares of women and men employed in the industrial sector, and in parliamentary seats. We reiterate here that addressing only gender inequality in capabilities is insufficient for closing gender gaps in other domains.

5.7. Conclusion

Economists and policy makers have begun to pay more attention to intergroup inequality as a result of the coincidence of several phenomena. There has been a remarkable growth of income inequality within and between countries since 1975, regardless of whether this is measured at the household level, between countries, or between wages and profits. The research emerging from the renewed interest in this topic has revealed that inequality may not be costless in terms of its effects on society-wide well-being and economic growth.[22] Moreover, we know that inequality contributes to social exclusion and disproportionate economic power of those at the top of the distribution that can spill over to political institutions. The poor life chances of those at the bottom of the distribution can be worsened by inequality if those at the top with disproportionate political power skew public resources toward their own group and away from middle- and low-income groups.

Figure 5.9. Regional summaries of gender indicators 2010



Source: *World Bank (2013).*

Gender inequality is not a new phenomenon. It has instead been a ubiquitous characteristic of societies in evidence for millennia, though to varying degrees across countries and over time. Nevertheless, the emergence of a human rights agenda in the mid-20th century and women's movements across the world since the 1960s has contributed to increased global attention to this form of inequality. Here, too, research shows that some forms of gender inequality can slow economic growth and development. In other words, in addition to the negative effects of gender stratification on women's relative capabilities and well-being more generally, there are societal costs to continued gender inequality.[23]

The data analysed in this chapter show, in contrast to trends in global income inequality, that gender gaps in education, employment and political representation have narrowed, i.e., there is evidence of a reduction in gender stratification in most countries of the world for some (though not all) indicators, a shift that has been accompanied by more equitable gender attitudes. Nevertheless, there are two reasons to be concerned about trends since 1990. We continue to observe wide gaps in labour market outcomes and, in a number of countries where women's employment increased, men's has declined. We also see persistent and, indeed, worsening job segregation in industrial sector employment. Finally, although gains in political representation of women have been positive, gaps in representation remain wide. This is an important impediment to gender progress. The reason for this is that the public sector plays an important role in promoting gender equality via labour market regulations, family law, social protection programmes and public investments in infrastructure that can reduce women's care burden. The failure to make substantial advances in women's representation means that their life conditions and needs are not fully reflected at the national level in the distribution and allocation of public goods and expenditures.

Annex 5.A. Data and sources

Category	Variable	Years	Nunmber of countries	Source
Capabilities	Total years educational attainment, 15+	1990-2010	145	Barro and Lee (2010)
	Secondary school enrolment rate (gross)	1990-2010	112	World Development Indicators
	Life expectancy	1990-2011	182	World Development Indicators
Livelihoods	Employment-to-population ratio, 15 +	1991-2010	177	International Labour Organization (published in World Development Indicators)
	Unemployment rate	1991-2007	67	
	Wages	1980-2010	54	OECD Earnings Database, ILO ILOSTAT, Tijdens and van Klaveren (2012)
	Share employed in industrial sector	1990-2009	167	World Development Indicators
Agency	Female share parliamentary seats	1997-2010	64	World Bank, Gender Statistics Database
Subjective Well-Being	Health status	1994-2008	31	World Values Survey
	Life satisfaction	1994-2009	31	World Values Survey
	Freedom of choice	1994-2010	29	World Values Survey
Attitudes	Men more deserving of job	1994-2008	31	World Values Survey
	Son preference	1994-2009	31	World Values Survey
	Problem if wife earns more	1994-2010	29	World Values Survey
	Men better political leaders	1994-2008	29	World Values Survey
	University more important for boys	1994-2009	31	World Values Survey

Annex 5.B. Economy-wide gender wage gaps

Category	Gender Wage Gap	Year	Wage Measure	Source
Argentina	22.2%	2009	Average monthly earnings	ILO, ILOSTAT
Armenia	39.2%	2009	Average monthly earnings	ILO, ILOSTAT
Australia	14.0%	2010	Median wages, full-time workers	OECD Earnings Database
Austria	19.4%	2009	Median wages, full-time workers	OECD Earnings Database
Azerbaijan	41.4%	2009	Average monthly earnings	ILO, ILOSTAT
Belgium	8.9%	2008	Median wages, full-time workers	OECD Earnings Database
Botswana	19.0%	2005-06	Average monthly earnings	Tijdens and van Klaveren (2012)
Brazil	21.8%	2007	Average hourly earnings	Tijdens and van Klaveren (2012)
Bulgaria	19.2%	2009	Average monthly earnings	ILO, ILOSTAT
Canada	18.8%	2010	Median wages, full-time workers	OECD Earnings Database
Costa Rica	8.7%	2009	Average monthly earnings	ILO, ILOSTAT
Croatia	10.6%	2009	Average monthly earnings	ILO, ILOSTAT
Cyprus	19.8%	2009	Average monthly earnings	ILO, ILOSTAT
Czech Republic	18.1%	2009	Median wages, full-time workers	OECD Earnings Database
Denmark	12.1%	2009	Median wages, full-time workers	OECD Earnings Database
Egypt	25.1%	2007	Average hourly earnings	Tijdens and van Klaveren (2012)
Ethiopia	43.7%	2009	Average monthly earnings	ILO, ILOSTAT
Finland	19.7%	2010	Median wages, full-time workers	OECD Earnings Database
France	13.1%	2009	Median wages, full-time workers	OECD Earnings Database
Germany	21.6%	2010	Median wages, full-time workers	OECD Earnings Database
Greece	9.6%	2008	Median wages, full-time workers	OECD Earnings Database
Hong Kong SAR, China	29.2%	2009	Average monthly earnings	ILO, ILOSTAT
Hungary	6.4%	2010	Median wages, full-time workers	OECD Earnings Database
Iceland	13.5%	2008	Median wages, full-time workers	OECD Earnings Database
Indonesia	13.7%	2008	Average hourly earnings	Tijdens and van Klaveren (2012)
Ireland	10.4%	2009	Median wages, full-time workers	OECD Earnings Database
Italy	11.8%	2008	Median wages, full-time workers	OECD Earnings Database
Japan	28.7%	2010	Median wages, full-time workers	OECD Earnings Database
Kazakhstan	33.8%	2009	Average monthly earnings	ILO, ILOSTAT
Korea, Republic of	38.9%	2009	Median wages, full-time workers	OECD Earnings Database

Category	Gender Wage Gap	Year	Wage Measure	Source
Latvia	15.9%	2009	Average monthly earnings	ILO, ILOSTAT
Luxembourg	13.3%	2009	Average monthly earnings	ILO, ILOSTAT
Malta	24.5%	2009	Average monthly earnings	ILO, ILOSTAT
Mexico	17.4%	2008	Average monthly earnings	Tijdens and van Klaveren (2012)
Netherlands	16.7%	2005	Median wages, full-time workers	OECD Earnings Database
New Zealand	6.8%	2010	Median wages, full-time workers	OECD Earnings Database
Norway	8.1%	2009	Average monthly earnings	ILO, ILOSTAT
Paraguay	5.3%	2008	Average monthly earnings	Tijdens and van Klaveren (2012)
Peru	19.4%	2009	Average monthly earnings	ILO, ILOSTAT
Philippines	16.8%	2008	Average hourly earnings	Tijdens and van Klaveren (2012)
Poland	10.0%	2008	Median wages, full-time workers	OECD Earnings Database
Portugal	15.6%	2008	Average monthly earnings	ILO, ILOSTAT
Romania	6.9%	2009	Average monthly earnings	ILO, ILOSTAT
Singapore	26.8%	2009	Average monthly earnings	ILO, ILOSTAT
Slovakia	22.7%	2009	Average monthly earnings	ILO, ILOSTAT
Slovenia	2.9%	2009	Average monthly earnings	ILO, ILOSTAT
Spain	11.8%	2008	Median wages, full-time workers	OECD Earnings Database
Sweden	14.9%	2009	Median wages, full-time workers	OECD Earnings Database
Switzerland	19.5%	2008	Median wages, full-time workers	OECD Earnings Database
UAE	29.9%	2009	Average monthly earnings	ILO, ILOSTAT
United Kingdom	18.4%	2010	Median wages, full-time workers	OECD Earnings Database
United States	18.8%	2010	Median wages, full-time workers	OECD Earnings Database
Venezuela	5.6%	2009	Average monthly earnings	ILO, ILOSTAT
Zambia	45.6%	2005	Average hourly earnings	Tijdens and van Klaveren (2012)

Notes

1. This framework is similar to and draws from Grown (2008). See also Grown et al. (2003). An important difference is that, while Grown proposes measures of security in the third domain, here we emphasize agency.
2. Equally important for livelihoods is public sector support, such as social insurance and protection, publicly funded education and health care, and infrastructure investments. Regulatory policies matter also, including gender balance in parental leave policies and other supports for care work. We lack, however, global data on gender budgeting at the national level and therefore may fail to fully capture well-being in the livelihood domain. That being said, some of the effects of public spending and regulatory policies will be observed in the three domains explored here. For example, employment patterns will reflect care policies, affirmative action and infrastructure investments that make it easier for women to engage in paid work. Other factors such as women's 'distress' sales of labour in response to a fall in male income also influence employment, however, and so this proxy for well-being has its own weaknesses. As a result, the absence of data on public sector spending and regulation limits our ability to fully assess global trends in gender equality.
3. The term *agentic* comes from social cognition theory and implies that individuals and groups are producers and products of their social systems, i.e., that agents react to social norms, but can, in turn, shape norms and the gender system.
4. See Annex 5.A for a description of these and all other variables on which data are reported in this paper, as well as sources.
5. Kernel density functions, such as the one shown here, are closely related to histograms, but differ in that the data are modified to achieve a smooth density function (curve).
6. Some countries started with female enrolment much larger than male enrolment, including a number of Caribbean countries. For example, St. Lucia's F/M enrolment ratio was 1.49 in 1990. This may be due to structures of production with men leaving school to work in agriculture or mines (in Lesotho, for example).
7. The method adopted follows that used in the UNDP's *Human Development Reports*. A country's female (male) life expectancy is measured as follows, where *LE* is life expectancy, *F* is female in country *i* at time *t*, and *MAX* and *MIN* are maximum and minimum life expectancy values in the sample in a particular year:

$$Index_{it}^{F} = \frac{LE_{it}^{F} - LE_{t}^{MIN_F}}{LE_{t}^{MAX_F} - LE_{t}^{MIN_F}}.$$

8. Global trends in labour force participation rates, in contrast, capture gender job segregation between paid and unpaid work. Trends in labour force participation, though not reported here due to space limitations, are very similar to global trends in employment-to-population ratios.
9. This does not imply that unpaid work in the care sector is 'unproductive.' See also Folbre (2012).
10. See also Macmillan and Kruttschnitt (2004) on the relationship between male job loss and intimate partner violence in the US.
11. For 1990 or 2007, if data are not available, the analysis uses unemployment rates within one year of each of those years (that is, 1989 or 1991, and 2006 or 2008).
12. For an exploration of causes of improvement in women's relative access to work in that region since the 1990s, see Braunstein and Seguino (2012). It is less the result of macroeconomic phenomena than state-level policies, including social expenditures and minimum wage increases.
13. Weischelbaumer and Winter-Ebmer (2007) conducted a meta-analysis of gender wage gaps in 60 countries, based on more than 260 studies, which control for worker productivity characteristics in order to isolate the unexplained or

discriminatory portion of wage gaps. They find that most of the decline over time in gender wage gaps is due to better labour market characteristics of workers and that, in some countries, the discriminatory portion of wage gaps is rising.

14. Annex 5.B provides the raw data on which this graph is based.
15. The Global Gender Asset Gap Project, which was launched in 2009 to collect data on gender gaps in assets and to demonstrate the feasibility of collecting such data, is an important step in the right direction. See Oduro, Baah-Boateng and Boakye-Yiadom (2011) for an analysis of gender-disaggregated asset data for Ghana coming from this project.
16. See, for example, Blackden et al. (2006) on land and credit in sub-Saharan Africa and Oduro et al. (2011) on the distribution of assets in Ghana.
17. Female representation among legislators, senior officials and managers between 1999 and 2007 is greater than the female share of parliamentary seats in 2011 (28.3 percent compared to 19.3 percent for parliamentary seats, using countries for which both sets of data are available) (UNDP, 2009). This is a problematic comparison insofar as the years of coverage differ, although it does give an additional dimension to our understanding of empowerment differences. Trade union membership data compiled by the ILO show stronger female representation than in political bodies. Data from the ILO and Cobble (2012) for 39 countries show that the female share of trade union membership was 42.8 percent for the most recent year available.
18. Using survey data for the United Kingdom, Anand et al. (2010) find that the capabilities correlated with life satisfaction are very different for men and women. Women and men may, therefore, weight various well-being outcomes differently.
19. See also Diprete and Buchanan (2013).
20. This reasoning flows from neo-classical human capital theory, which assumes that wages accurately reflect differences in skill and experience, with any discrimination ultimately competed away by profit-maximizing firms.
21. This point should be qualified with the observation that, in Africa, industrial employment is a small share of all employment.
22. For references to this broad body of work, see articles in *Journal of Human Development and Capabilities*, Volume 13, Issue 1 (2012), a special issue of on macroeconomics, human development and inequality.
23. The effect of gender inequality depends on its particular form. In general, capabilities inequality may have negative growth effects, but wage inequality may be a stimulus to growth, especially in labour-intensive, export-oriented economies. For a summary of this research, see Seguino (2010, 2013b).

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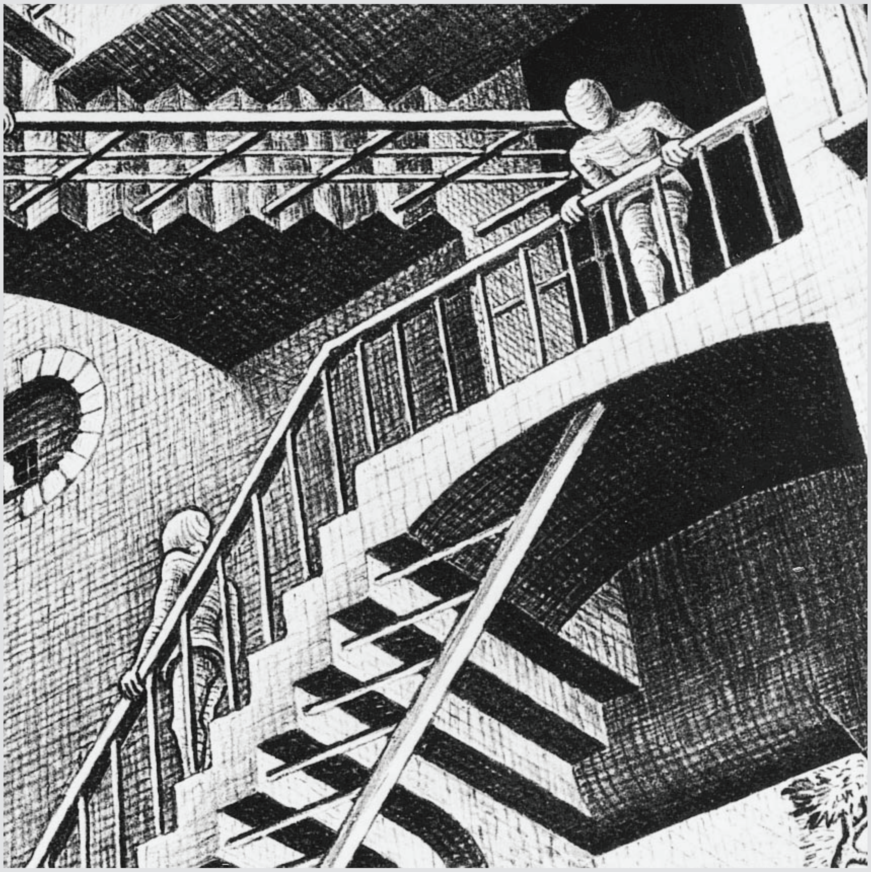
6 Perceptions of inequality: perspectives of national policy makers



A large amount of research shows that, besides material interests, cognitive and normative factors, i.e. perceptions and values, greatly matter for individuals' attitudes towards inequality and play a significant role in shaping both the demand- and the supply-dynamics that affect the political economy of inequality-reduction.

6.1. Introduction

6.1a. Why a survey of policy makers' views of inequality?

At the beginning of chapter 5, "The politics of reform", the 1991 *Human Development Report: Financing Human Development* (UNDP, 1991) asks the question:

> Governments can transfer substantial resources to the social sector — from defense to health, from subsidizing inefficient public enterprises to constructing water supplies. Even within the social sector, they can use resources much better. Why have these changes not taken place already?

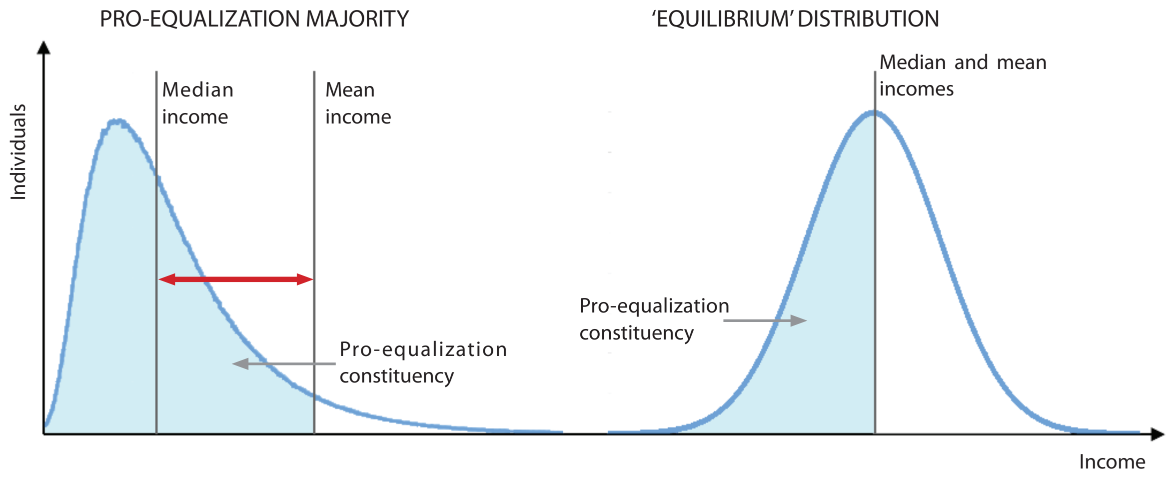
Why do governments not redistribute more? Why do they not do more to reduce disparities in material well-being? And, more generally, what are the political factors that inhibit — or enable, when these are indeed implemented — inequality-reducing policies?

The common point of departure for analyses of the political economy of income inequality (see Robinson 2010 for an overview) is what is usually referred to as the "Meltzer-Richard model" (Meltzer and Richard, 1981), a rational-choice theory of the size of government spending based on the median-voter theorem.

Starting from the observation that a gap between the mean and the median incomes implies the existence of a pro-equalization majority (i.e., a majority of individuals who stand to gain from a more equal distribution of income), Meltzer and Richard predict that, in a simple majority-rule system: 1) as long as there is a gap between median and mean incomes, there will be support for inequality-reducing measures (possibly moderated by people's recognition of the incentive effect of inequality); and 2) higher levels of inequality will trigger greater equalizing action on the part of government.

In other words, according to Meltzer and Richard, democratic systems have in-built mechanisms to address excessive and growing inequality. Centred on the role of the middle class, these mechanisms will alter the

Figure 6.1. The size of the pro-equalization majority in different income distributions



market distribution of income, influence social spending or operate through other channels to moderate income gaps — at least until the median voter does not stand to gain anymore from greater equality (Figure 6.1).

While the Meltzer-Richard theory focuses on income inequality, the logic that it describes could be applied to other forms of inequality as well. However, despite the intuitive elegance of its conclusions, the Meltzer-Richard model is not confirmed by either cross-country or inter-temporal analysis. Based on a study of over-time trends in eight nations during the 1980s and 1990s, Kenworthy and McCall (2008) find the median-voter hypothesis "to have little utility". Similarly, Luebker (2012) in his pooled analysis of cross-section time series data from 26 countries finds no confirmation of the Meltzer-Richard prediction. How can this be explained?

There are essentially two ways to understand the failure of the Meltzer-Richard model to accurately predict the actual levels of inequality reduction pursued by governments. The first set of explanations — which could be called 'demand-side' theories — points to a number of factors, including prospects of upward mobility (Benabou and Ok, 2001) and a belief in the fairness of current distributional outcomes (Benabou and Tirole, 2006), which may reduce the demand for equalizing policies among those who would stand to gain from them. Demand-side explanations also note that those who would stand to gain from greater equality often are less able to engage in collective action to ensure that their demand for inequality reduction is fully reflected in the policy agenda (for instance, Cleaver, 2005). Another body of work — consisting of what could be described as 'supply-side' theories — analyses specific features of the political system, such as clientelism or identity politics, that enable the anti-equalization minority, when in power, to ignore, circumvent or neutralize the demand for inequality reduction (see, for instance, Lizzeri and Persico (2001) and Robinson and Verdier (2002) on clientelism, Khemani (2013) on vote-buying and patterns of service provision, and Roemer (1998) and Chandra (2004) on identity politics).

A large amount of research shows that, besides material interests, cognitive and normative factors, i.e. perceptions and values, greatly matter for individuals' attitudes towards inequality and play a significant role in shaping both the demand- and the supply-dynamics that affect the political economy of inequality-reduction. Alesina and Giuliano (2009), for instance, note the "role of historical experiences, cultural factors and personal history as determinants of preferences for equality or tolerance for inequality". Dion (2010), using data from 300 country surveys conducted in 50 countries between 1985 and 2008, finds evidence that "not only do political institutions, inequality, and existing redistribution shape the formation of preferences, but that social diversity and dominant cultural values do as well."

Although perceptions and values matter on the demand and the supply sides of policy-making, a lot more is known about the former than the latter. In fact, while a fair amount of information on general public views of inequality is available thanks to research programmes like the World Values Survey, the International Social Survey Programme and the Regional Barometers Surveys, very little research has been conducted with a specific focus on policy makers' perspectives. Therefore, a better understanding of this group's distinctive point of view is needed to advance knowledge of what determines the politics of inequality. As a first step in this direction, a survey of policy makers' views of inequality in selected developing countries was commissioned by the United Nations Development Programme at the beginning of 2013. Box 6.1 describes the detailed objectives, structure and methodology of the survey.

Box 6.1. Objective, structure and methodology of the survey

The overall objective of the survey was to document policy makers' cognitive and normative understanding of inequality in a selected number of developing countries. The survey pursued this objective by asking questions in four areas: 1) depth and breadth — i.e., the level, structure and trends of inequality; 2) relevance — i.e., the extent to which inequality should be a policy concern; 3) policy — i.e., the measures that should be taken to address inequality; and 4) political space — i.e., the policy measures that would be politically feasible. Conducted in collaboration with the public opinion research company Ipsos, the survey was administered from June to August 2013 mainly through face-to-face interviews to a diverse set of senior policy makers including: members of government at central level and local level; members of parliament across the political spectrum (i.e., from the parliamentary majority and minority); representatives of local- or state-level administrations and representative bodies; and senior civil servants (i.e., assistant director and up).

6.1b. Survey sampling framework

The survey described in this chapter was conducted in 15 countries across five regions: Africa, the Arab states, Asia and the Pacific, Europe and Central Asia, and Latin America and the Caribbean. As shown in Table 6.1, the selected countries are representative of a broad range of development, income and inequality levels as well as population sizes. In total, 363 policymakers were interviewed for the survey.[1]

Table 6.1. Detail of surveyed countries

Country	Income level	GNI p.c.[2]	Gini (market)[3]	Gini Year	Population [4]
Bangladesh	Low	840	57.5	2010	151,125
Bolivia	Lower-middle	2,220	55.8	2007	1,057
Bosnia and Herzegovina	Upper-middle	4,650	36.7	2005	3,846
Brazil	Upper-middle	11,630	51.1	2009	195,210
Cameroun	Lower-middle	1,170	44.1	2002	20,624
India	Lower-middle	1,530	35.7	2005	1,205,625
Jamaica	Upper-middle	5,140	49.7	2004	2,741
Jordan	Upper-middle	4,720	39.4	2006	6,455
Kazakhstan	Upper-middle	9,730	37.8	2006	15,921
Lebanon	Upper-middle	9,190	45.4	2005	4,341
Malawi	Low	320	39.4	2005	15,014
Morocco	Lower-middle	2,940	41.5	2007	31,642
Nigeria	Lower-middle	1,430	43.1	2004	159,708
Philippines	Lower-middle	2,470	42.9	2009	93,444
South Africa	Upper-middle	7,610	70.0	2005	5,.452

6.1c. Chapter overview

The rest of this chapter presents the main results emerging from each of the survey's four components: section 2 describes policy makers' perceptions about the depth and breadth of inequality in their countries; section 3 reports policy makers' views on the extent to which inequality should be considered a policy priority; section 4 discusses the policy measures that policy makers think should be taken to address inequality; section 5 analyses policy makers' opinions about the political space that is actually available in their countries for inequality reduction; and section 6 summarizes the survey findings and concludes.

6.2. Trends and levels of inequality

How has inequality evolved over the last 10 years and how high is it today in the perception of policy makers? This section attempts to answer these two questions, analysing views on trends and levels of inequality with respect to income, opportunities and access to services.

6.2a. Inequality trends

As highlighted in Table 6.2 and Figure 6.2, there is a variety of views about what has happened to income inequality over the last 10 years, but a majority of policy makers (60 percent of the sample) reckon that income inequality has increased in their countries (either significantly or slightly), while 25 percent believe that it has remained stable and 15 percent think that it has followed a downward trajectory.

Views are somewhat more mixed with respect to inequality of opportunities, although the perception of an increase is still the prevailing one: 49 percent of the respondents perceive opportunities to be more unequally distributed today than 10 years ago, against 28 percent of the interviewees who believe that inequality of opportunities has slightly or significantly decreased and 22 percent who think that it has remained about the same.

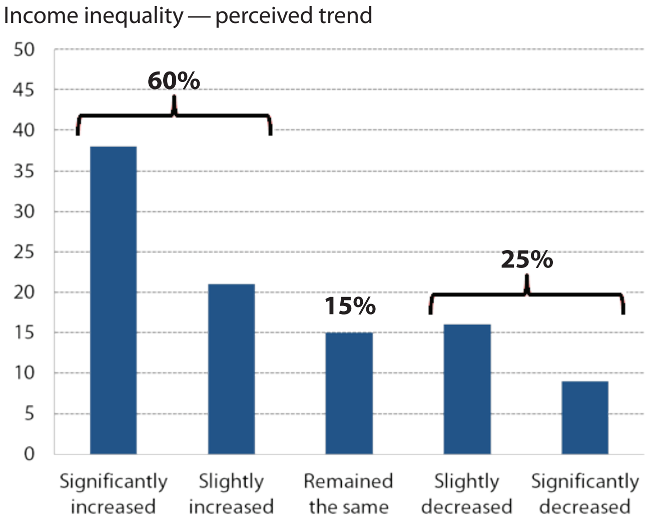
Table 6.2. Perceived inequality trends — distribution of answers

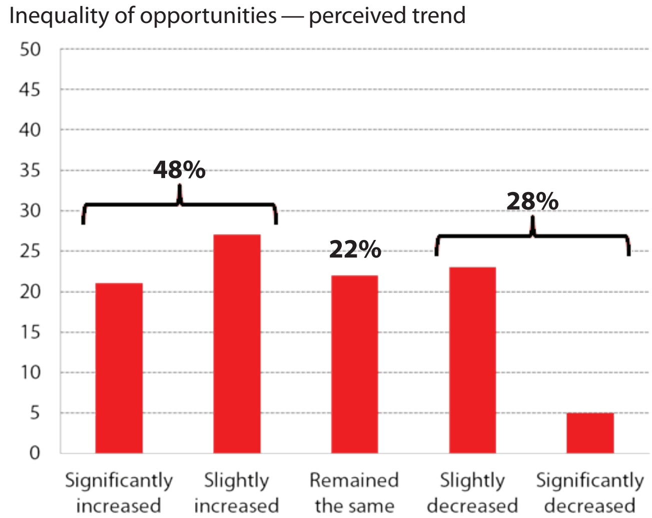
Type of inequality	Significantly increased	Slightly increased	Remained the same	Slightly decreased	Significantly decreased
Income	38%	21%	15%	16%	9%
Opportunities	21%	27%	22%	23%	5%

Question: *Different households typically enjoy different levels of income. Let us call the overall variation of incomes across households 'income inequality'. In some contexts, people may have unequal chances of fulfilling their aspirations in life, depending on the socio-economic status that they are born into. Let us call this variation in chances between individuals of different socio-economic background 'inequality of opportunities'. In your opinion, what do you think has happened to the following in (COUNTRY) over the last 10 years: a) income inequality; b) inequality of opportunities? Do you think it has: significantly increased; slightly increased; remained about the same; slightly decreased; significantly decreased?*

In the majority of countries selected for the survey (12 of 15), available information on the Gini index does not go beyond 2007. It is not yet possible, therefore, to conduct an in-depth comparison of actual versus perceived inequality trends. It is worth noting, however, that, while roughly one third of the countries analysed in chapter 3 (32 of 84) had a downward trend of income inequality, in only three of the 15 countries surveyed did a majority of policy makers think that income inequality had gone down in the last decade and in only

Figure 6.2. Inequality trends: distribution of perceptions





two countries did a majority of policy makers believe that today there is greater equality of opportunities than 10 years ago. Perceptions about the direction of inequality over the last 10 years thus appear to be somewhat more somber than the most recent documented trends available for analysis.

6.2b. Inequality levels

A large majority of policy makers (79 percent of those who participated in the survey) would describe income inequality in their country as 'high' or 'very high', while 17 percent perceive it to be 'moderate' and only 4 percent would characterize it as either 'low' or 'very low'.

Perceptions about the distribution of opportunities are slightly more dispersed, but, nonetheless, inequality of opportunities is seen as 'high' or 'very high' by 59 percent of the survey respondents, with 28 percent of the interviewees saying that it is 'moderate' and about one in eight (13 percent of the sample) describing it as 'low' or 'very low'.

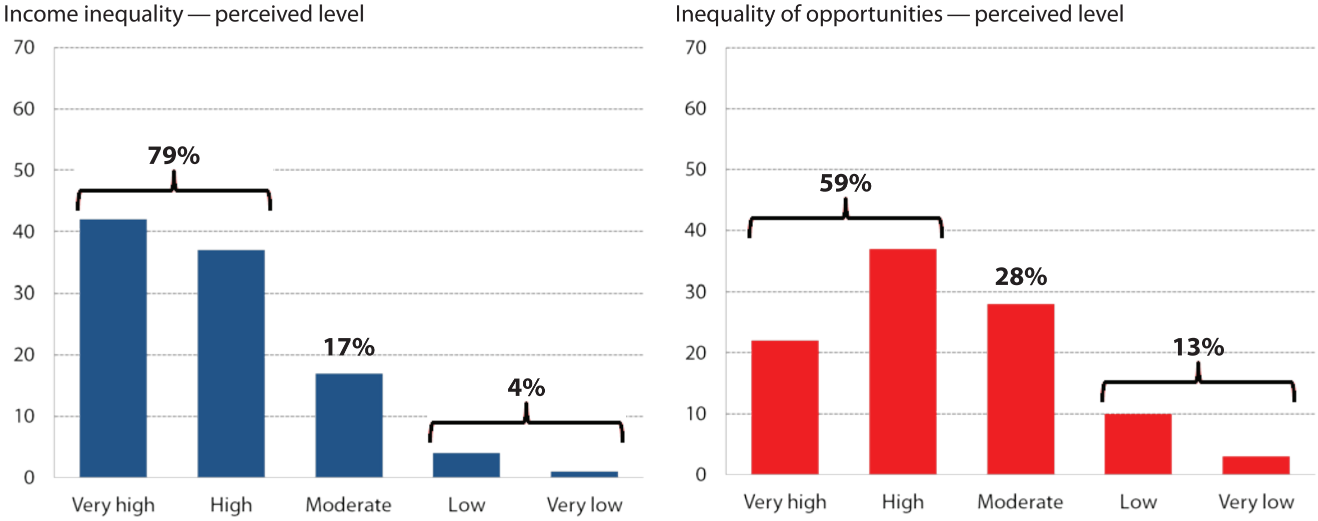
In recent research, a lot of attention has been given to inequality trends with a view to determining whether inequality has increased or decreased globally (see chapter 3 of this publication). While this debate is certainly very important, the figures described above suggest the need to put it in perspective. There is a risk — policy makers seem to be saying — of overestimating the importance of downward changes in inequality by forgetting that they have taken place in a context of already exceptionally high levels.

Table 6.3. Perceived inequality levels — distribution of answers

Type of inequality	Very high	High	Moderate	Low	Very low
Income	42%	37%	17%	3%	1%
Opportunities	22%	37%	28%	10%	3%

Question: *On a scale from 1 to 5, where 1 means 'very low' and 5 means 'very high', how would you rate the level of: a) income inequality; b) inequality of opportunities in (COUNTRY)?*

Figure 6.3. Inequality levels: distribution of perceptions



6.2c. Correlation of perceptions about income and opportunity dynamics

Overall, policy makers' perceptions about income inequality and inequality of opportunities are positively correlated. However, this is much more the case for trends than for levels.

As shown in Figure 6.4, 35 percent of the survey respondents believe that a high level of income inequality coexists in their countries with a low or moderate level of inequality of opportunities (or vice versa). On the other hand, only 25 percent of the interviewees believe income inequality and inequality of opportunities to have moved in different directions. The contrast becomes even sharper when the averages of responses in each country are considered (Figure 6.5). Here, a

Figure 6.4. Correlation of perceptions about income and opportunities dynamics: individual level

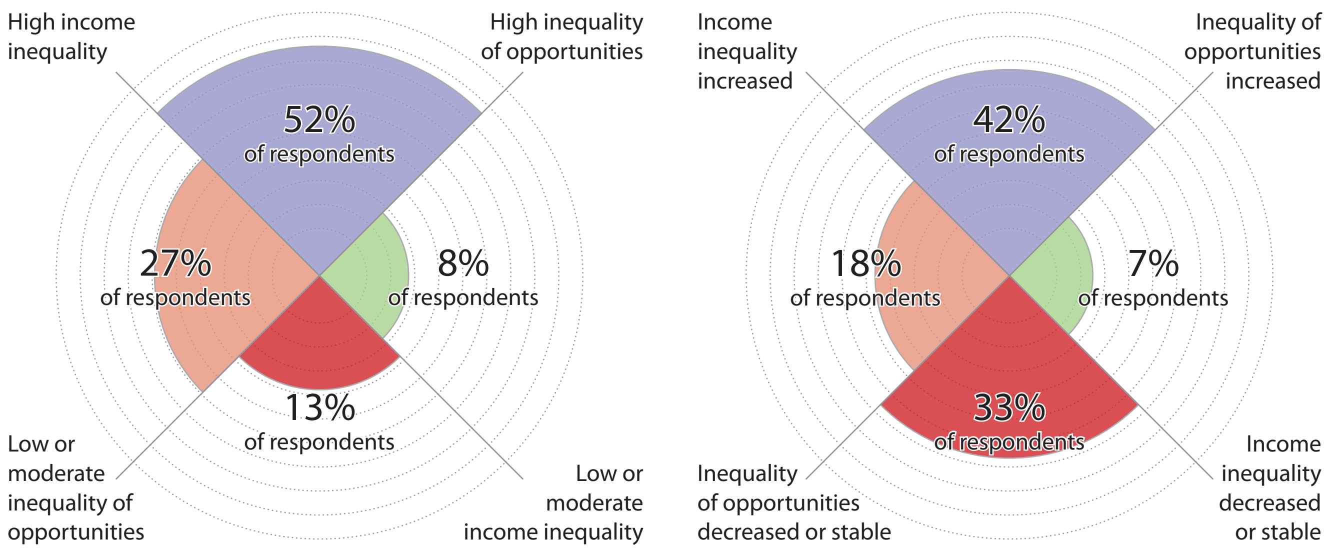
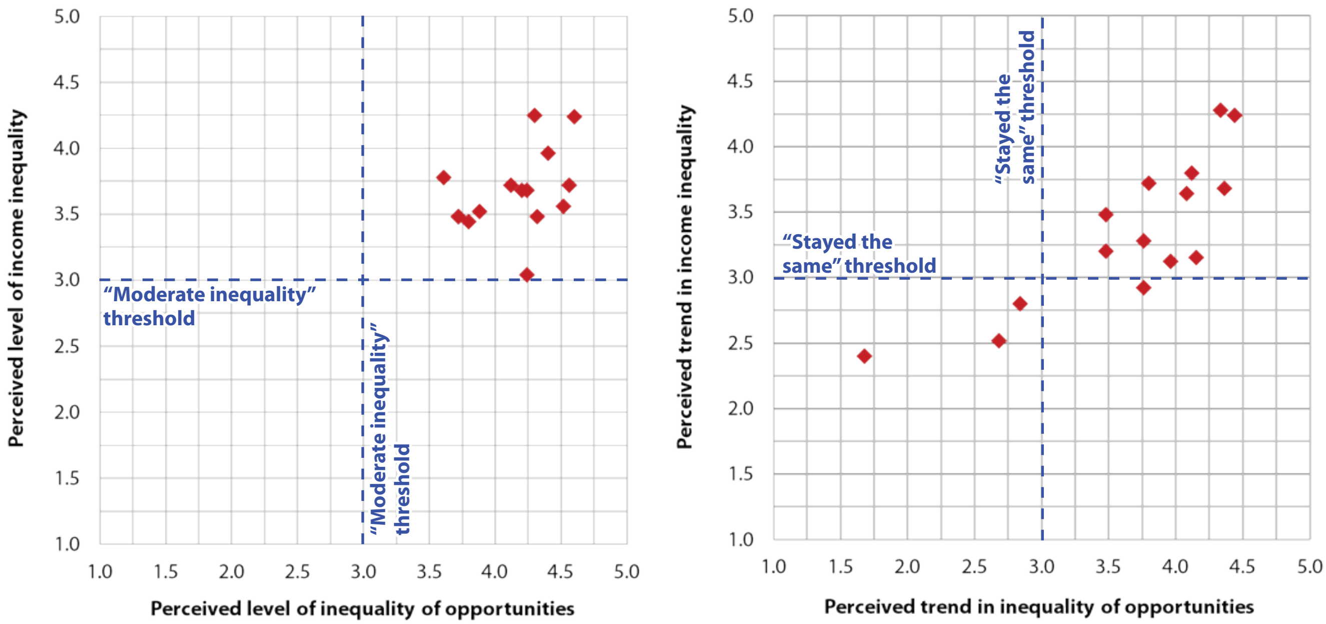


Figure 6.5. Correlation of perceptions about income and opportunities dynamics: country averages



relatively weak correlation coefficient for perceived levels (0.37) is matched by a very strong one for perceived trends (0.82).

In other words, policy makers recognize that growing income disparities are likely to widen the opportunity gap, but they are also keenly aware that the impact of income differentials on the distribution of opportunities is mediated by a multiplicity of factors, which are highly context-specific.

6.2d. Inequality in access to services

Policy makers' views of how inequality in access to services has evolved over the last 10 years are rather mixed, with a slight prevalence of policy makers perceiving a downward trend.

With respect to critical public services (which included, for the purposes of the survey, health and education, but also the administration of justice and basic public administration services, such as certificates and permits), the perception of downward changes is slightly prevailing: 40 percent of the interviewed policy makers believe that inequality in access to public services has decreased, while 34 percent say that it has increased and 26 percent feel that it has remained about the same.

Similarly with respect to access to economic services (including access to credit, employment facilitation services, small and medium enterprise development services, and agricultural extension services), 39 percent of the interviewees think that there is today greater equality than in the past, in contrast to 36 percent of the respondents who maintain that there is greater inequality and 23 percent who reckon that, on balance, things have not changed much.

Table 6.4. Inequality in access to services — perceived trends

Service typology	Significantly increased	Slightly increased	Remained the same	Slightly decreased	Significantly decreased
Public services	12%	22%	26%	31%	9%
Economic services	12%	24%	23%	34%	5%

Question: *In your opinion, what do you think has happened to the following in (COUNTRY) over the last 10 years: a) inequality of access to critical public services; b) inequality of access to services related to economic activity? Do you think it has: significantly increased; slightly increased; remained about the same; slightly decreased; significantly decreased?*

With respect to current levels on inequality in access to services (Table 6.5), the overall picture emerging from policy makers' responses contains some positive elements, but also considerable variations across areas of service delivery. Only 28 percent of the interviewed policy makers reported a high level of inequality in access to public administration services. A relatively low number (37 percent) thinks that there is high inequality in access to education and — perhaps surprisingly — only two in five (41 percent) believe that there is high inequality in access to services related to economy activity. On the other hand, more than half of the interviewed policy makers (51 percent) consider access to health care as very unequal and 57 percent perceive a high level of inequality in access to justice.

Table 6.5. Inequality in access to services — perceived levels

Service typology	Very high	High	Moderate	Low	Very low
Health care	21%	30%	29%	15%	5%
Education	12%	25%	34%	19%	9%
Public administration	10%	22%	36%	22%	10%
Justice	26%	31%	23%	14%	5%
Economic services	14%	29%	33%	18%	5%

Question: *In some cases, people who have equal need of a service may not have equal access to it for a variety of reasons. Let us call this variation in an individual's ability to access a service when needed 'inequality in access to services'. On a scale from 1 to 5, where 1 means 'very low' and 5 means 'very high', how would you rate inequality in access to services with reference to the following critical public services: a) health care (both primary and specialized); b) education (from primary to tertiary level); c) public administration (for instance obtaining certificates, permits, registrations); d) justice sector (when seeking remedy to an injustice).*

Question: *There are many services related to economic activity, for instance credit for entrepreneurial activities, employment facilitation services, small and medium enterprise development services, and agricultural extension services. On a scale from 1 to 5, where 1 means 'very low' and 5 means 'very high', how would you rate inequality of access to these services?*

Perceptions about inequality in access to services tend to have a strong positive correlation in individual responses with perceptions about inequality of opportunities. This is true for trends and levels. However, a remarkable fact should be noted with respect to levels. The percentage of policy makers who see a 'moderate', 'low' or 'very low' level of inequality in access to a specific kind of service ranges from 42 percent (in the case of justice) to 68 percent (in the case of education). These percentages are systematically higher than the percentage of policy makers who believe inequality of opportunities to be 'moderate', 'low' or 'very low' (41 percent). If we consider education and services related to economic activity (the two services that are most often associated with prospects of upward mobility), we observe that more than half (52 percent) of the policy makers who report a moderate or low level of inequality in access to education still believe inequality of opportunities to be 'high' or 'very high' in their countries; at the same time, a little less than half (42 percent) of the policy makers who think that there is relatively equal access to economic services in their countries still find opportunities to be very unequally distributed.

Overall, although policy makers may see patterns of service delivery and the availability of opportunities for social mobility as closely linked, they also seem to be telling us that opportunity consists of much more than access to services — or, in other words, that equalizing access to services may still not be sufficient to the full equalization of opportunities.

6.3. Relevance of inequality as a policy measure

This section examines the extent to which policy makers see the current levels and trends of inequality as a potential threat to the long-term development of their countries. Opinions regarding the level of priority to be given to inequality reduction in the policy agenda are also investigated in relation to income inequality and inequality of opportunities.

6.3a. Inequality as a threat to long-term development

A large majority of policy makers (77 percent) is concerned about current levels of income inequality and regards them as a threat to the long-term development of their countries. Nor do most survey respondents see things moving in the right direction: 70 percent of the interviewed policy makers describe current income

Table 6.6. Inequality trends and levels in relation to long-term development

Type of inequality	Highly problematic	Somewhat problematic	Neutral	Somewhat conducive	Highly conducive
Level of income inequality	51%	26%	17%	3%	4%
Trend of income inequality	39%	31%	20%	6%	4%
Level of inequality of opportunities	36%	34%	23%	5%	2%
Trend of inequality of opportunities	33%	32%	23%	6%	4%

Question: *I would now like to ask you about the extent to which you believe that the current levels and trends of inequality are compatible with the long-term development of (COUNTRY). Kindly note that, in this question, when we ask about development we are referring to a broad definition of development which goes beyond economic indicators to also include aspects such as social cohesion. On a scale from 1 to 5, where 1 means 'highly problematic for long-term development' and 5 means 'highly conducive to long-term development', how would you assess each of the following: a) current level of income inequality; b) current trends in income inequality; c) current level of inequality of opportunities; d) current trends of inequality of opportunities.*

inequality trends as 'problematic' or 'highly problematic' and only 10 percent see them as 'conducive' or 'highly conducive' to long-term development, with 20 percent of the interviewees judging them as a fairly neutral factor.

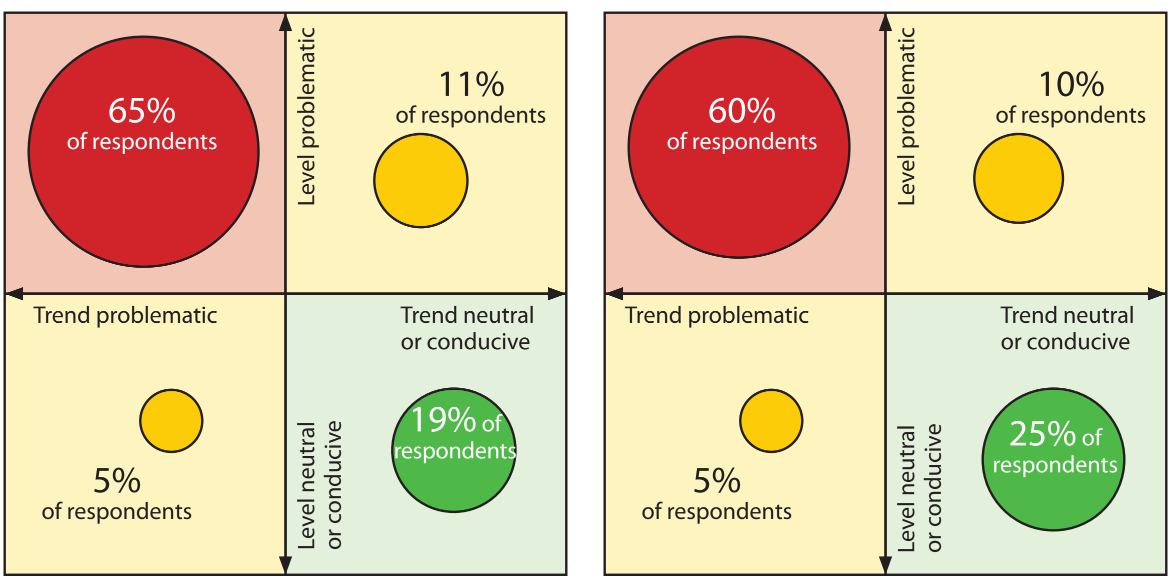
The current level of inequality of opportunities is also perceived as an obstacle to long-term development by a large majority of policy makers (70 percent of the whole sample, in contrast to 7 percent who believe it to be a positive factor and 23 percent who would characterize it as neither positive nor negative). A significant majority of interviewees (65 percent) perceives current trends in inequality of opportunity as 'problematic' or 'highly problematic', 23 percent believe them to be a neutral factor, and only 10 percent regard them are either 'conducive' or 'highly conducive'.

Overall, as illustrated in Figure 6.6, a majority of policy makers is concerned about levels and trends of inequality (65 percent for income inequality and 60 percent for inequality of opportunities). Those who are concerned about levels but more optimistic with respect to trends make up about one tenth of the sample (11 percent for income inequality and 10 percent for inequality of opportunities), while fewer than one in ten are unconcerned about levels, but worried about trends. Policy makers who find levels and trends of inequality unproblematic represent 19 percent of the sample with respect to income inequality and 25 percent with respect to inequality of opportunities.

Interestingly, the number of respondents who are concerned about the current level of inequality of opportunities (70 percent of the interviewed policy makers) is significantly higher than that of those who see inequality of opportunity as high or very high (59 percent of the total sample). Furthermore, among those who see inequality of opportunity in their countries as 'moderate', 60 percent still consider it to be a problem, while 36 percent think it as a neutral factor and only 4 percent regard it as conducive to development.

In light of these findings, there seems to be a clear message emerging from policy makers' answers: that even a 'moderate' inequality of opportunities is not likely to be compatible with long-term development goals and

Figure 6.6. Concern about inequality impact on long-term development



that sustainable development can be built only on a fair distribution of chances to succeed in life across individuals from all backgrounds.

6.3b. Level of priority of inequality reduction in the policy agenda

Most policy makers regard inequality reduction as a policy priority: 71 percent of the respondents would give some priority to policies for the reduction of income inequality and as much as 80 percent of the interviewees see the reduction of inequality of opportunities as deserving of policy attention. Furthermore, almost half of the policy makers (47 percent of the sample) consider reducing income inequality as a top policy priority and a significant majority of the survey participants (61 percent) attach top priority to reducing inequality of opportunities.

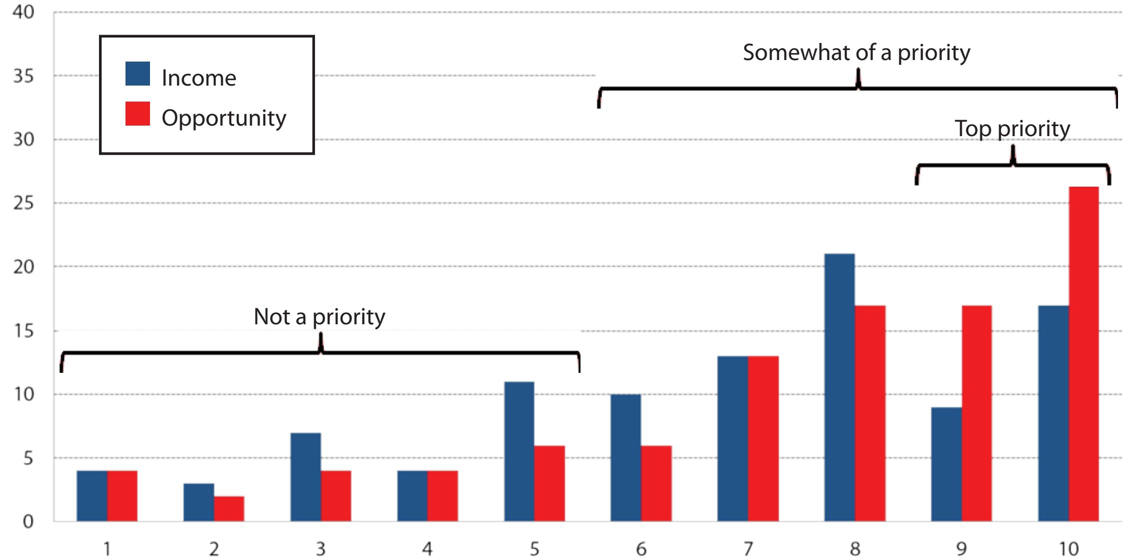
Table 6.7. Perceived priority level of inequality reduction as a policy issue

Type of inequality	Not a priority[5]	Somewhat of a priority[6]	Top priority[7]
Income	29%	71%	47%
Opportunities	20%	80%	61%

Question: *A government is constantly confronted by multiple competing issues that cannot be dealt with at the same time. It has therefore to make choices about priorities. I would like to know what level of priority you would accord to the reduction of inequality in (COUNTRY) today. Using a scale from 1 to 10 where 1 means 'not a priority at all' and 10 means 'the single most important priority', how would you assess the level of priority of each of the following: a) reduction of income inequality; b) reduction of inequality of opportunities.*

Remarkably, while income inequality is more often seen by survey participants as problematic for long-term development, inequality of opportunities is generally considered as a higher policy priority. In part, this somewhat surprising dynamic may be related to values, with inequality of opportunities being regarded as

Figure 6.7. Priority level of inequality reduction: distribution of perceptions



inherently odious (aside from its impact on long-term development) and possibly more unacceptable on moral grounds than income inequality.

The view that the reduction of income inequality is indispensable in order to provide individuals with reasonably equal chances to succeed in life is far from self-evident and, in fact, is held only by a minority of surveyed policy makers.

In this respect, two facts are worth noting. Among those who assessed current levels of inequality of opportunity as low or moderate, almost four of five (78 percent) believe that the equalization of opportunities should be given some priority in policy-making and more than one half (58 percent) believes that it should considered as a top priority. Furthermore, 75 percent of those who see current levels of inequality of opportunity as a neutral factor for long-term development still believe that promoting greater equality of opportunities should be given some priority in the policy agenda and 51 percent of the policy makers in this group would give top priority to policies aimed at reducing inequality of opportunities.

Box 6.2 further elaborates on the role of values describing the conditions under which policy makers would see income inequality as acceptable.

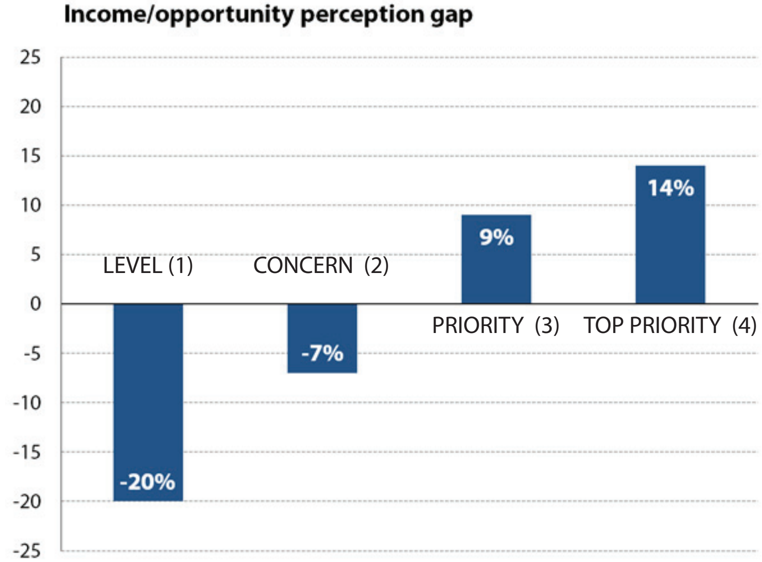
The different level of priority attributed to the reduction of income inequality and the equalization of opportunities may also be related to feasibility considerations, as will be illustrated in the discussion on specific policy measures. However, the direction of causality in this context may be very difficult to establish — or, in other words, it may be very difficult to know whether the equalization of opportunities is prioritized over the equalization of incomes because the former is perceived as more feasible or whether the reduction of inequality of opportunities is more feasible because widely regarded as a priority.

In addition, as will be discussed in the next section, the complex relation between levels of concern and views about policy priorities may have to do with perceptions about the role of the state and the extent to which income gaps between the rich and the poor should be regarded as lying within the purview of policy making.

Box 6.2. When is income inequality acceptable?[8]

Although the vast majority of interviewees is concerned about current levels and trends of income inequality, a significant number of policy makers would find significant levels of income inequality acceptable under certain conditions. A majority of policy makers (63 percent) are prepared to accept income inequality if it is due to differences in individual efforts and if it originates from fair competition. Almost one half of survey respondents (43 percent) think that increasing inequality is acceptable as long as everybody is guaranteed a minimum standard of living, while 39 percent of the interviewed policy makers believe that increasing income inequality is acceptable as long as poverty is declining. However, income inequality is regarded as much less acceptable when it is seen as undermining equality of opportunities: 58 percent of survey respondents consider it 'unjust' or 'very unjust' that people with higher incomes can buy better health care than people with lower incomes, while only 29 percent of the interviewees consider it to be 'just' or 'very just'; 61 percent of the policy makers find it unfair that people with higher incomes can buy better education for their children, in contrast to the 28 percent of interviewees who perceive this to be fully justified.

Figure 6.8. From concern to prioritization: a comparison of income and opportunity



Notes: *(1) Policy makers perceiving current inequality of opportunities as high minus those perceiving current income inequality as high (as percent); (2) Policy makers perceiving current inequality of opportunities as problematic for development minus those perceiving current income inequality as problematic for development (as percent); (3) Policy makers placing some priority on reducing inequality of opportunities minus those placing some priority on reducing on income inequality (as percent); (4) Policy makers considering reducing inequality of opportunities as a top priority minus those considering reducing income inequality as a top priority (as percent).*

It could, of course, be argued that the reduction of income inequality and the reduction of inequality of opportunities should not be regarded as distinct policy objectives. However, policy makers seem to dissent on this point: 65 percent of survey participants think that inequality of opportunities can be significantly reduced while maintaining the current distribution of income, against 32 percent of the respondents who see a limited or very limited space for opportunity equalization at the current levels of income inequality.[9]

As evidenced by these results, a majority of policy makers believe that significant strides can be made in the equalization of opportunities without necessarily addressing income disparities. In other words, the view that the reduction of income inequality is indispensable in order to provide individuals with reasonably equal chances to succeed in life is far from self-evident and, in fact, is held only by a minority of surveyed policy makers.

6.4. Measures to reduce inequality

What needs to be done to reduce inequality in the opinion of policy makers? This section documents policy makers' opinions on the role to be played by government in inequality reduction and investigates the perceived relevance of specific policy measures aimed at reducing income inequality as well as inequality of opportunities.

6.4a. Views about the role of government in reducing inequality

As shown in Table 6.8, an overwhelming majority of policy makers think that it is the responsibility of government to ensure a minimum living standard for all: 81 percent of the interviewees agrees with this proposition, while 13 percent of the sample disagree and the remaining respondents neither agree nor disagree. An extremely high number of policy makers also believe that the government should take measures to provide equal access to services and opportunities: 89 percent of the respondents hold this view with respect to services and 87 percent with respect to opportunities, while about one tenth of the interviewees maintain that equality in access to services and opportunities should not be within the remit of government action.

Table 6.8. Views of the role of government — distribution of answers

Potential government responsibilities	Agree[10]	Disagree[11]	Neither agree nor disagree
Guarantee minimum living standards	81%	13%	4%
Ensure equality in access to services	89%	9%	2%
Promote equality of opportunities	87%	11%	2%
Reduce income differences	63%	17%	13%

Question: *Could you please tell me to what extent you agree or disagree with the following statements regarding the responsibilities of the government in (COUNTRY): a) "It is the responsibility of the government to guarantee everyone a minimum standard of living"; b) "It is the responsibility of the government to guarantee equality in access to services for all people"; c) "It is the responsibility of the government to promote equality of opportunities for all people"; d) "It is the responsibility of the government to reduce the differences in income between those with high incomes and those with low incomes". Do you: strongly agree; somewhat agree; neither agree nor disagree; somewhat disagree; strongly disagree.*

A majority of policy makers (63 percent of the sample) also believe that the government should play a role in the reduction of income inequality. However, this number is considerably lower than the number of policy makers who saw a role for the government in guaranteeing minimum living standards, ensuring equal access to services and promoting a more equal distribution of opportunities. Consistent with what was discussed in the previous section, a sizable portion of the sample (in fact, about one interviewee in three) seems to hold reservations about the government interfering with the market distribution of income. Why is that the case? Does this have to do with a specific understanding of the social contract or is it rather the result of concerns about corruption and the potential for elite capture of redistributive efforts? These questions, which cannot be answered on the basis of the information collected through the survey, are critical ones and should form an integral part of further research programmes.

Another important point should be noted: 71 percent of those who do not believe that the government should take action to reduce income gaps also perceive current levels of income inequality to be problematic for the long-term development of their countries. Whom do they look to for action, then? Individual philanthropists? Religious institutions? Other kinds of development-oriented collective actors? Again, these questions cannot be answered on the basis of the survey, but certainly warrant additional investigation in the future.

6.4b. Views about specific policy options to reduce income inequality

In order to better understand policy makers' opinions on action to be taken to reduce inequality, the survey asked respondents to rate a range of policy measures based on their relevance to the specific context of the respondent. The results emerging from the policy makers' answers are detailed in Table 6.9.

Overall, policy makers recognize that a lot needs to be done to reduce inequality and see a broad spectrum of possible inequality-reducing interventions as potentially relevant. This is evidenced by the average score for the whole set of proposed policies, which is 3.56 — corresponding to an intermediate level between 'moderately useful' and 'necessary'. Furthermore, the average relative deviation of 36 percent indicates a reasonable convergence of views across respondents.

All of the proposed policy options received a level of support above 50 percent, with only three exceptions: the taxation of financial transactions at 35 percent, consumer subsidies at 42 percent and asset redistribution

Table 6.9. Perceived relevance of selected income inequality-reducing policies

Policy options	Support level[12]	Average score	Relative deviation[13]
Subsidies to key factors of production in the agricultural sector	62%	3.68	33%
Subsidies to key factors of production for small and medium enterprises	63%	3.70	32%
Asset redistribution (e.g., land reform)	43%	3.42	41%
Introduction (or increase) of minimum wages	59%	3.68	33%
Strengthening of collective bargaining	57%	3.60	34%
Taxation of financial transactions	35%	2.90	45%
Increase progressivity of income taxation	55%	3.53	36%
Reduce tax evasion	74%	4.06	31%
Introduction or expansion of conditional cash transfers	66%	3.76	31%
Introduction or expansion of employment guarantee schemes	59%	3.63	35%
Consumer subsidies (e.g., on cooking fuel or food items)	42%	3.11	42%
Tax incentives to promote foreign direct investment in marginalized regions	58%	3.63	34%
Average	**56%**	**3.56**	**36%**

Question: *On a scale from 1 to 5, where 1 means 'not necessary at all' and 5 means 'highly necessary', to what extent, if at all, do you believe the following policy measures are necessary in order to reduce income inequality in (COUNTRY) today?*

(including land reform) at 43 percent. However, notwithstanding the generally high level of support given to all interventions, a number of relevant insights can be obtained from a closer examination of how different measures were scored relative to the average for the whole set and therefore implicitly ranked by policy makers' responses.

Policies aimed at giving households a greater share of income from capital — such as measures to increase the profit margin of small entrepreneurs and agricultural producers — are some of the most popular ones among those mentioned to the survey respondents. The introduction or expansion of subsidies to key factors of production in the agricultural sector is supported by 62 percent of the interviewed policy makers (6 points above average), while 63 percent of the interviewees (7 points above average) consider subsidies to key factors of production for small and medium enterprises as 'necessary' or 'highly necessary'. However, forms of asset redistribution like land reform receive significantly less support (43 percent of the sample — 13 points below average — describe them as necessary), perhaps also because of the highly controversial political meanings attached to some of them. Interestingly, asset redistribution is also one of the policy options with the highest relative deviation (41 percent, 5 points above average) — a sign, possibly, of the polarizing nature of this kind of intervention.

Social transfers directly benefiting poorer households are also quite popular among the interviewed policy makers. Conditional cash transfers are the second most supported policy option, with 66 percent of respondents (10 points above average) seeing it as 'necessary' or 'highly necessary'—undoubtedly also as a result of the documented inequality-reducing effects that this policy has had in Latin America and elsewhere. Other forms of social protection receive a more moderate, but still significant, support, like in the case of employment guarantee schemes, which are seen as a relevant policy intervention by 59 percent of the interviewees (three points above average). Consumer subsidies, in contrast, are generally seen as ineffective: only 42 percent of the respondents (14 points below average) would recommend them as an inequality-reduction measure, although a significant variance of views, evidenced by the second largest relative deviation (42 percent, 6 points above average), should also be noted.

On the revenue side, policy makers seem to be highly skeptical about taxing financial transactions, despite the great emphasis placed on this measure by various international campaigns focussing on inequality reduction. In fact, only 35 percent of the interviewed policy makers (21 points below average) see the taxation of financial transactions as a necessary measure, making this policy the least supported among the 12 proposed to survey respondents. Measures to increase the progressivity of income taxation, while much more popular than the taxation of financial transactions, also fall in the group of policies receiving lower-than-average support, with 55 percent of policy makers (1 point below average) recommending them as 'necessary' or 'highly necessary'. On the other hand, policy makers place an enormous amount of confidence in the reduction of tax evasion, the most recommended policy, with a support level of 74 percent (18 points above average).

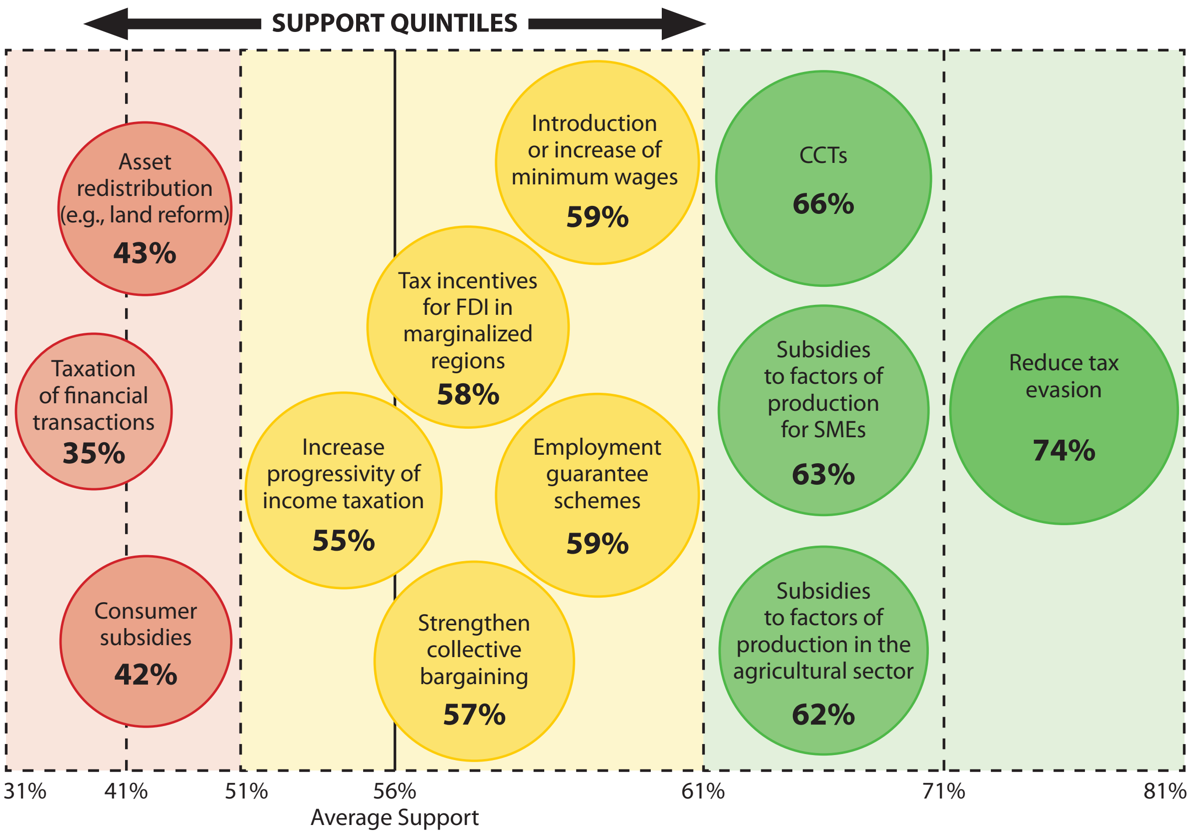
Policies that aim at reducing inequality by changing power relations in the labour market are given a moderate level of support by surveyed policy makers and appear to be less controversial than could have been expected. However, they are still somewhat less popular than policies aiming to promote greater income equality by spreading the benefits of capital or by channelling resources to lower-income households through various forms of social transfer. Support for the introduction (or increase) of minimum wages is slightly higher than the average, with 59 percent (3 points above average) of policy makers scoring it as 'necessary' or 'highly necessary', while the strengthening of collective bargaining is barely above the average support threshold, with 57 percent of policy makers (1 point above average) recommending it as relevant to inequality-reduction.

Finally, regional income disparities seem to rank very high among the concerns of policy makers, and attracting foreign direct investment in marginalized regions — also through tax incentives — is regarded

Box 6.3. Why is the reduction of tax evasion policy makers' preferred inequality-reducing policy?

The reduction of tax evasion was scored by surveyed policy makers as the most necessary in a very diverse set of 12 policy options. How can this be explained? On the one hand, this result may be taken as a demonstration of the role played by values in setting policy priorities: policy makers may be supporting the reduction of tax evasion as a moral imperative, regardless of its impact on overall levels of inequality. Another — but not necessarily incompatible — possible explanation is that policy makers may value the reduction of tax evasion indirectly as a way to pay for fiscally demanding policies, such as subsidies to factors of production and conditional cash transfers, which they consider highly effective as inequality-reducing measures. But there is yet another possible explanation: policy makers may see the reduction of tax evasion as a directly relevant policy instrument in that they perceive tax evasion to be happening disproportionately among people in the higher income brackets.

Figure 6.9. Perceived relevance of selected policy measures to reduce income inequality



as a fairly relevant way to deal with the issue. This policy is in fact seen as 'necessary' or 'highly necessary' by 58 percent of the interviewed policy makers (2 points above average) and ranks number five in terms of support among the 12 policy options presented to the survey respondents.

Figure 6.9 illustrates the support received by each of the 12 proposed policy measures, allocating them in five quintiles centred on the average support level of 56 percent.

What kind of conclusions can be drawn from the above considerations? To summarize and link the discussion in this section to the overall framework of the report, it could be said that the most popular policies among policy makers seem to be either of two kinds: 1) policies that are seen as reducing inequality in the secondary distribution of income without having a significant distortive effect on the workings of the market (i.e., cash transfers rather than interventions on the taxation system or consumer subsidies); and 2) policies that can reduce inequality in the primary distribution of income by providing greater access to income from capital (mainly through support to small-scale entrepreneurship).

Labour market interventions are also seen as relevant, but not necessarily as part of the top-priority group of policy measures. Interventions in the structure of the taxation system are definitively not among the most popular ones among the interviewed policy makers, but there is a strong consensus on the critical importance of reducing tax evasion.

6.4c. Views about specific policy options to reduce inequality of opportunities

Policy makers were also asked to rate the relevance to their countries of a range of policies — not necessarily only economic — specifically aimed at reducing inequality of opportunities. Their opinions about the proposed policies are described in Table 6.10.

Measures specifically addressing inequality of opportunities are seen as generally very relevant by policy makers, as evidenced by the average score for the entire set (4.19), corresponding to an intermediate level between 'necessary' and 'highly necessary'. The relatively low average relative deviation of 24 percent indicates a fairly high convergence of views across respondents. Consistent with the finding that policy makers see the reduction of inequality of opportunities as a higher policy priority, measures with a specific focus on opportunity equalization have systematically higher support levels and average scores than more general inequality-reducing policies, like the ones discussed in the previous section. As in the previous section, however, interesting results can be obtained by examining the relative level of support enjoyed by different policy options.

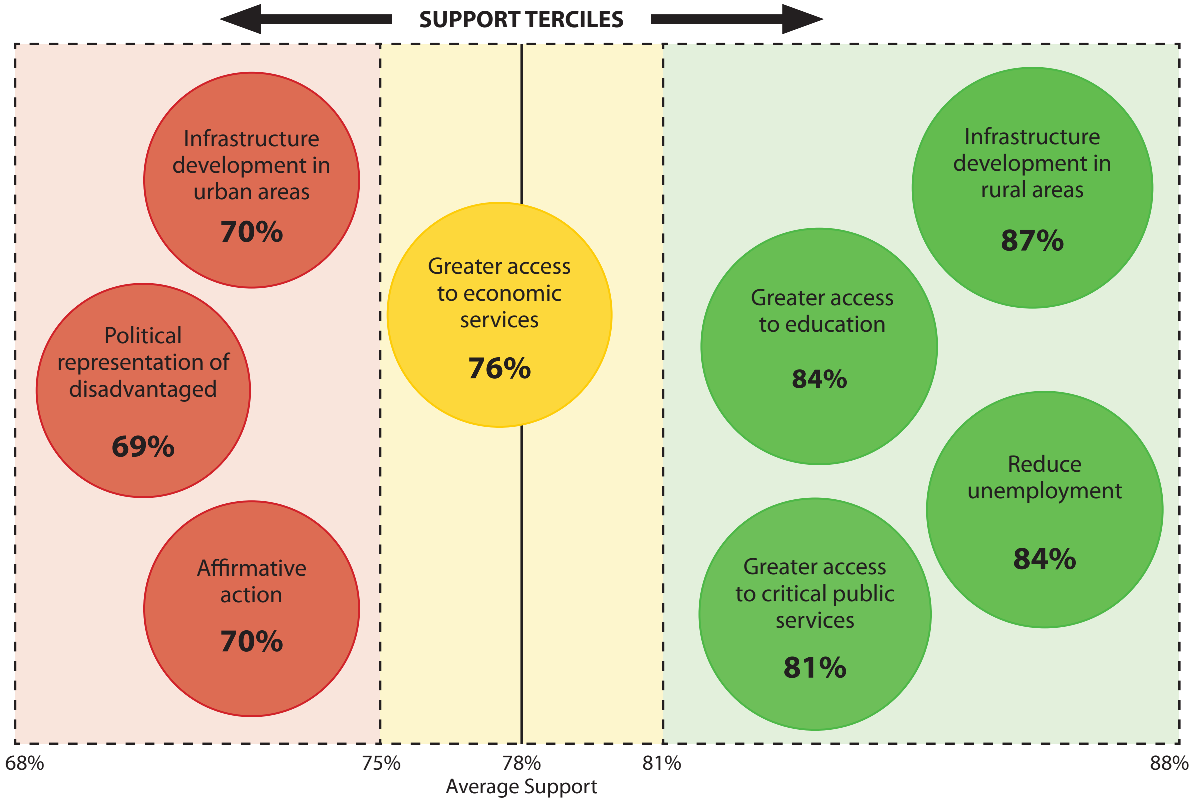
As expected, reducing unemployment is regarded as critically important, with an overwhelming majority of policy makers (84 percent, 6 points above average) seeing the creation of jobs as 'necessary' or 'highly necessary' to the equalization of opportunities in their countries. Services matter a lot, too. More than 80 percent of the respondents believe that reducing inequality in access to education and other public services is urgently needed in order to equalize opportunities. A slightly lower number — but one nevertheless very high in absolute terms — of policy makers (76 percent of the whole sample, 2 points below average) would recommend greater equality in access to economic services. Infrastructure development is also regarded as generally relevant, but much more so in rural than in urban areas: 87 percent of policy makers (9 points above average) believe it to be 'necessary' or 'highly necessary' in rural settings, while 70 percent (8 points below average) would say the same about infrastructure development in an urban context.

Table 6.10. Perceived relevance of policies to reduce inequality of opportunities

Policy options	Support level[14]	Average score	Relative deviation
Reduce unemployment	84%	4.36	23%
Reduce inequality in access to education	84%	4.40	23%
Reduce inequality in access to other critical public services	81%	4.31	21%
Reduce inequality in access to services related to economic activity	76%	4.12	24%
Infrastructure development in rural areas of the country	87%	4.42	19%
Infrastructure development in urban areas of the country	70%	3.99	25%
Strengthen the political representation of disadvantaged groups	69%	3.89	30%
Affirmative action policies for disadvantaged groups	70%	4.00	28%
Average	**78%**	**4.19**	**24%**

Question: *On a scale from 1 to 5, where 1 means 'not necessary at all' and 5 means 'highly necessary', to what extent, if at all, do you believe the following policy measures are necessary in order to reduce inequality of opportunities in (COUNTRY) today?*

Figure 6.10. Perceived relevance of selected policy measures to address inequality of opportunities



Somewhat more surprising results emerge in relation to policy measures specifically addressing horizontal inequalities. In fact, the data show that affirmative action policies and measures to strengthen the political representation of disadvantaged groups receive a level of support that is significantly lower than the average for the whole set of policies (70 and 69 percent, respectively), although still fairly high in absolute terms. With an average score of 3.89, strengthening the political representation of disadvantaged groups is the only one in the entire set of policy options being ranked significantly below the 'necessary' threshold (i.e., 4 points on a scale from 1 to 5). Interestingly, strengthening the political representation of disadvantaged groups is also the policy measure with the highest relative deviation (30 percent, 6 points above average).

6.5. Political space for action to reduce inequality

Even when many people regard it as potentially useful, a policy measure may not always be politically feasible. This section examines policy makers' views about the political space that is available for inequality reduction in their countries as well as their perceptions about the role of key actors operating in the inequality reduction policy arena.

6.5a. Perceived political feasibility of specific policy options

In order to assess perceptions about political space for inequality reduction, policy makers were asked to rate the political feasibility of the individual policy measures listed in Section 4.2 on a scale from 1 to 5, with 1 meaning that there is no political support at all for a certain measure and 5 meaning that there is very high political support. A description of their responses is provided in Table 6.11.

The most striking feature of the results presented in Table 6.11 is perhaps the fact that, despite the high perceived levels of relevance described in Section 4.2, policy makers attribute a generally low level of political feasibility to the specific policy measures that they were asked to comment on. If we take an average score of 3 as a 'political feasibility threshold', only four measures (reducing tax evasion, conditional cash transfers, subsidies to small agricultural producers and subsidies to small enterprises) have average scores above the threshold — and only barely. No single policy measure was considered definitively feasible (i.e., with a score of 4 or 5) by a majority of policy makers, only three policy measures were regarded as definitively feasible by at least 40 percent of the respondents, and half of the proposed interventions were perceived as definitively feasible by less than one respondent of three.

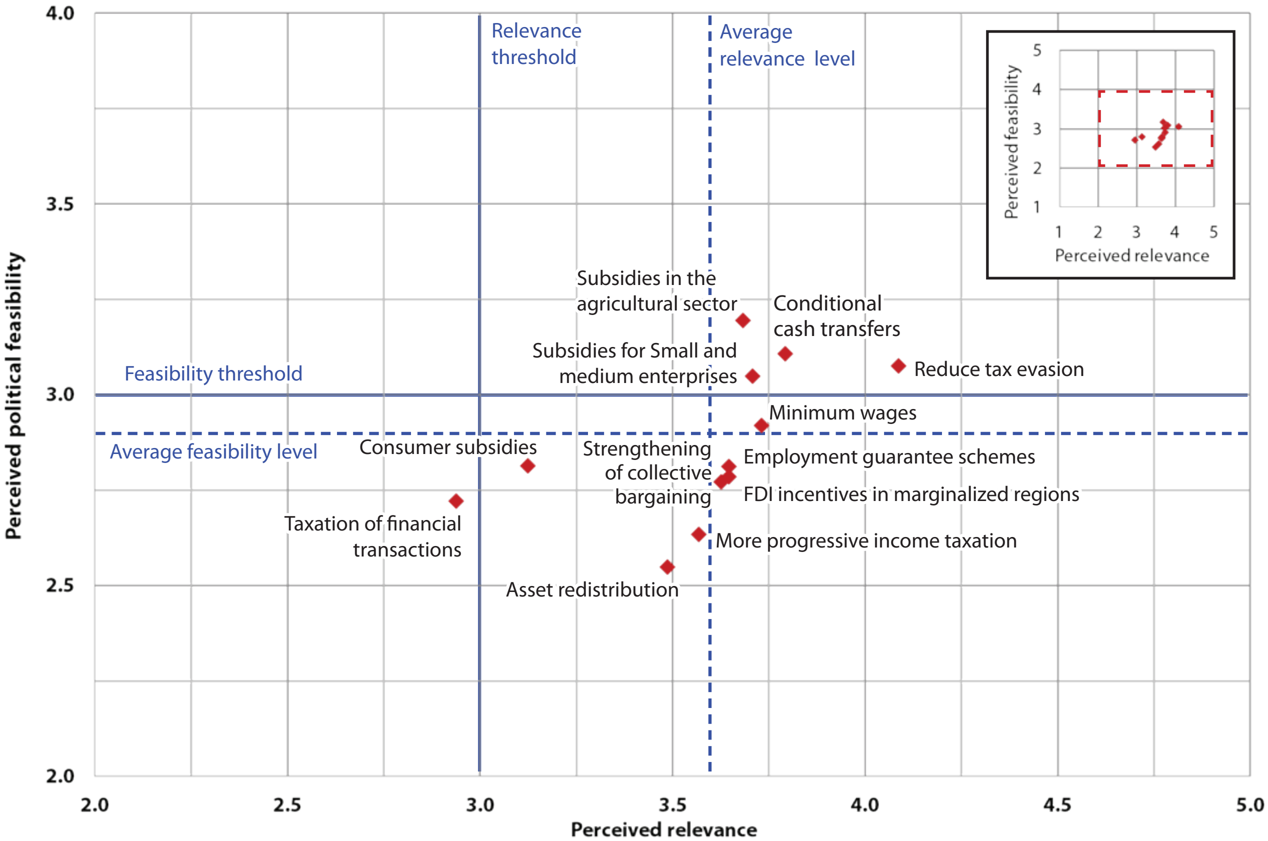
But how do perceptions about relevance exactly compare with perceptions about political feasibility? Figure 6.11 provides a scatter plot of the average scores received by each policy measure along these two dimensions.

Table 6.11. Perceived political feasibility of selected inequality reducing policies

Policy options	Feasibility level[15]	Average score	Relative deviation
Subsidies to key factors of production in the agricultural sector	41%	3.19	37%
Subsidies to key factors of production for small and medium enterprises	36%	3.05	38%
Asset redistribution (e.g., land reform)	23%	2.55	48%
Introduction (or increase) of minimum wages	33%	2.92	39%
Strengthening of collective bargaining	24%	2.77	39%
Taxation of financial transactions	22%	2.72	40%
Increase progressivity of income taxation	21%	2.63	43%
Reduce tax evasion	40%	3.07	41%
Introduction or expansion of conditional cash transfers	41%	3.11	39%
Introduction or expansion of employment guarantee schemes	30%	2.81	44%
Consumer subsidies (e.g., on cooking fuel or food items)	30%	2.81	43%
Tax incentives to promote foreign direct investment in marginalized regions	25%	2.78	40%
Average	**31%**	**2.87**	**41%**

Question: *On a scale from 1 to 5, where 1 means 'no support at all' and 5 means 'very high support', how much political support do you think there is for each of the following interventions in (COUNTRY) at present.*

Figure 6.11. Perceived relevance and political feasibility of policy options



Note: *The inset on the upper left corner shows the distribution of answers within the full interval of potential responses (i.e. 1-5). The larger diagram zooms in on the interval in which most answers actually fell. The* ***Relevance threshold*** *and the* ***Feasibility threshold*** *lines mark the intermediate option within the range of possible answers (i.e. a score of 3 on a scale from 1 to 5). The* ***Average relevance*** *and the* ***Average feasibility*** *lines mark the average relevance and feasibility scores of all policy options.*

Overall, there is a significant positive correlation between perceived levels of relevance and perceived levels of political feasibility. In a way, this is not too surprising: the more a policy is perceived as relevant and necessary, the easier it will be to argue for it in the public domain and to mobilize a supportive constituency. However, this general statement needs to be qualified.

Based on the data from the survey, relevance clearly appears to be a necessary condition of political feasibility: all measures with lower-than-average relevance scores were also regarded as less than politically viable. But, at the same time, among the policies with higher-than-average relevance, measures that are assessed as equally relevant can be seen as having very different levels of political feasibility. In fact, as shown in Figure 6.11, several policy measures that were scored well above the 'relevance threshold' were nonetheless described as having low political support, with scores well below the minimum 'political feasibility' level. In other words, in the opinion of policy makers, above a certain threshold, relevance is no longer a reliable predictor of political viability.

Box 6.4. What explains the different political feasibility of measures perceived as equally relevant?

Several interesting hypotheses about the determinants of the political viability of policies for inequality reduction can be derived from comparing the relevance and feasibility scores of different measures (i.e., the average scores described in Tables 6.9 and 6.11, respectively). For instance: what explains the different political feasibility of employment guarantee schemes and conditional cash transfers? The relevance scores of these two measures are quite similar: 3.63 and 3.73, respectively (corresponding to a 3 percent difference), but their political feasibility scores are much further apart: 2.81 and 3.11, corresponding to a gap of 11 percent. Some of this difference may be due to fiscal impact considerations, with employment guarantee schemes perceived as more fiscally demanding and therefore inferior in terms of value for money (although relevant *per se*). However, when we consider the gap between what could be described as the 'pro-business' package (subsidies to small enterprises and agricultural producers) and what could be described as the 'pro-labour' package (minimum wages and collective bargaining), we see different dynamics at play. In this case, the former set of measures has a higher fiscal impact than the latter, but it is still seen as more viable politically, with feasibility scores that, when we average the two measures in each set, equal 3.12 and 2.85, respectively, corresponding to a gap of 9 percent. Why is the 'pro-business' package seen as more politically feasible than the 'pro-labour' package, given that the two sets of measures are considered equally relevant (with average relevance scores of 3.69 and 3.64, respectively, corresponding to a 1 percent gap)? Part of the reason may lie in concerns about potential negative spin-off effects: the 'pro-labour' package may, for instance, be seen as 'relevant' to inequality-reduction, but 'bad' for growth and therefore less viable. But a role may be played here also by the varying ability of different constituencies to act collectively in order to represent and pursue common interests. In this light, the low political feasibility of increasing the progressivity of taxation (average score 2.63 against a relevance score of 3.53) is especially noteworthy. By its very nature — almost by definition — making the taxation system more progressive is a measure that should enjoy majority support. Yet policy makers regard it as the second-least feasible among all policies that were proposed to them. Further analysis is needed in order to disentangle the factors at the basis of this apparently paradoxical result.

Political space is, in the ultimate analysis, the result of the interaction of multiple actors deploying their influence to advance specific interests in the policy arena. What do policy makers think about the nature of this interaction and its impact in their countries? Relevant perceptions are summarized in Table 6.12.

As shown in Table 6.12 in the perception of policy makers, there are two sets of actors with clearly characterized views on inequality: foreign investors and the national business community, on the one hand, are perceived as relatively unconcerned about inequality (with concern scores of 2.47 and 2.71 respectively), while trade unions and civil society organizations, on the other hand, are viewed as fairly concerned (with average scores of 3.48 and 3.61, respectively). All other actors are characterized as having an intermediate position (neither particularly concerned nor particularly unconcerned), with average scores varying from 3.05 for civil servants and the parliamentary majority to 3.22 for religious institutions.

Predictably, the executive arm of government and the parliamentary majority are perceived as having great power over policy-making (with average influence scores of 4.52 and 4.08, respectively). All other actors are described as having a much lower level of influence (if government and the parliamentary majority are excluded, the average influence score of all actors is 3.03), with very little variation between actors. In fact,

Table 6.12. Perceived concern for inequality and influence of key players in the policy arena

Key players in policy-making	Perceived level of concern for inequality[16]	Perceived level of influence over policy-making[17]
The executive arm of the national government	3.34	4.52
The parliamentary majority	3.15	4.08
The parliamentary opposition	3.08	2.88
Civil servants	3.05	3.10
The national business community	2.71	3.19
Foreign investors	2.47	2.81
The trade unions	3.48	3.06
The national media	3.10	3.28
Civil society organizations	3.61	3.06
Religious institutions	3.22	2.89
Average	**3.12**	**3.29**

Question: *On a scale from 1 to 5, where 1 means 'not concerned at all' and 5 means 'extremely concerned', I would now like to ask you how concerned, if at all, you think the following groups are about inequality in your country.*

Question: *On a scale from 1 to 5, where 1 means 'no influence at all' and 5 means 'a great deal of influence', what level of influence do you think each of the following groups has over policy-making in your country.*

the levels of influence over policy-making attributed to actors other than government and the parliamentary majority fluctuate within a very narrow margin 0.39 points. In this group, religious institutions are perceived as the least influential actor (average score of 2.89) and the national media as the most influential one (average score of 3.28).

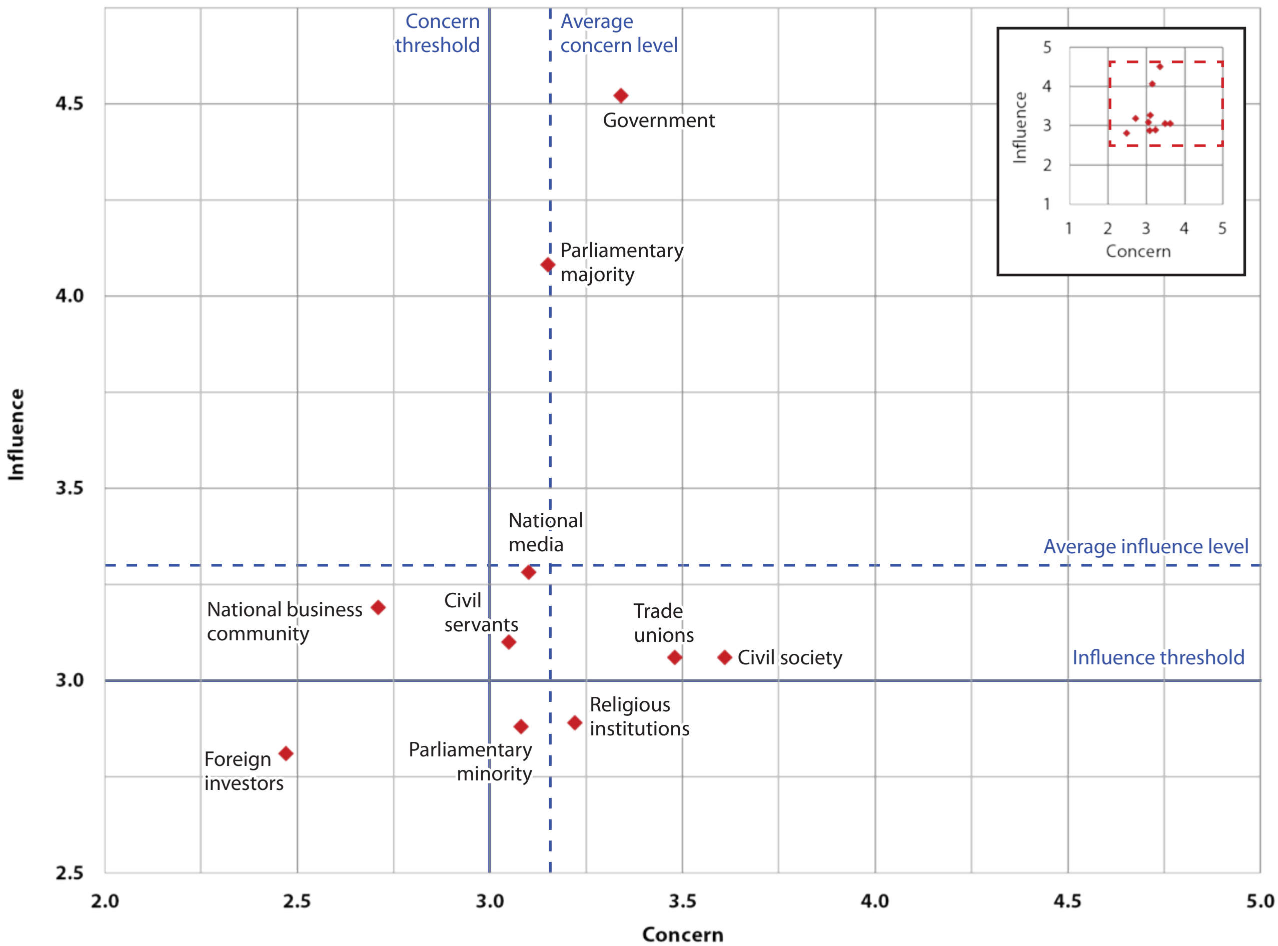
Absolute levels of influence and concern are not necessarily the most revealing features of the political landscape: in many ways, what really matters is how they interact. This aspect is illustrated by the diagram in Figure 6.12, which plots perceptions on the level of concern for inequality against perceptions about the level of influence of different actors operating in the inequality-reduction policy arena.

A striking aspect of the survey data is that the individual respondents systematically attributed to themselves a higher degree of concern for inequality than they would be prepared to attribute to their fellow policy makers. Although a full comparison is not possible because categories were constructed in slightly different ways, it is worth noting, for instance, that the average score for the question on the impact of inequality on long-term development is 4.1, while the average concern score attributed by survey respondents to all actors is 3.12.

How can this be explained? It seems reasonable to assume that individuals derive their perceptions about others' opinions — to a significant degree — from what others say and do (notwithstanding the impact of other factors such as preconceived notions and socially constructed narratives). If that is true, survey respondents may be likely reporting on the concern that is 'shown' by policy makers through politically meaningful acts and statements. So why are policy makers not 'showing' more concern for inequality? Another assumption may be needed here: the politically relevant acts of policy makers are driven not just by their opinions and values, but also — in fact, to a very large degree — by what they see as politically viable. If these two assumptions are true, then the survey findings could be read as indicating that policy makers are hesitant to take action on inequality not because they do not see the negative effects of inequality, but rather because they do not see this kind of action as politically viable. Incidentally, this interpretation would be fully consistent with the fact that policy makers found all policy options presented to them at the same time highly relevant and highly unfeasible.

The lower part of the diagram in Figure 6.12 may shed further light on this conundrum. It essentially shows a balanced force field with two sets of actors (the business community, on the one hand, and labour civil

Figure 6.12. Political dynamics in inequality reduction: concern and influence



Note: *The inset on the upper left corner shows the distribution of answers within the full interval of potential responses (i.e. 1-5). The larger diagram zooms in on the interval in which most answers actually fell. The* ***Influence threshold*** *and the* ***Concern threshold*** *lines mark the intermediate option within the range of possible answers (i.e. a score of 3 on a scale from 1 to 5). The* ***Average influence*** *and the* ***Average concern*** *lines mark the average influence and concern scores of all policy actors.*

Policy makers are hesitant to take action on inequality not because they do not see the negative effects of inequality, but rather because they do not see this kind of action as politically viable.

society organizations, on the other) holding fairly opposite views (but comparable influence over policy-making) and all other actors somewhere in between. Indeed, such a configuration does not easily lend itself to the construction of a politically viable pro-equalization majority (although it is in principle compatible with 'pro-business' equalizing measures, which, as shown in Figure 6.11, are also seen by policy makers as some of the most politically feasible policies for inequality reduction). Based on Figure 6.12, it may also be possible to start formulating hypotheses about shifts that could broaden the political space for inequality reduction — for instance, the emergence of inequality as a non-partisan issue (with a simultaneous shift of the parliamentary majority and minority towards the right end of the diagram); a more decisive position on the part of national media (which could be either the cause or the effect of broader public opinion shifts); or a constructive engagement of the business community. Additionally, the results point to the importance of creating a strong space for civic engagement that will enable civil society organization with an inequality-reduction focus to further their impact on the policy-making process.

6.6. The emerging picture

In conclusion, what is the overall picture emerging from policy makers' responses to the various questions that were asked as part of the survey? This section provides a brief summary of the main survey findings.

There is a variety of views among interviewed policy makers as to whether inequality has increased or decreased in their countries; this is probably unsurprising, since there is evidence that global inequality trends have indeed been mixed over the last 10 years. However, across the board, they believe that inequality of incomes and opportunities is extremely high. Policy makers noted some progress in equalizing access to services, especially in the education sector, and acknowledged that this progress contributed to improving the distribution of opportunities. At the same time, they stressed that the advancements made are far from sufficient.

Survey participants are — for the most part — concerned about levels and trends of inequality and view them as a threat to the long-term social and economic development of their countries. Generally, policy makers believe that action should be taken to reduce inequality in relation to incomes and opportunities. However, inequality of opportunities is seen as a significantly higher policy priority. Furthermore, a majority of interviewees think that inequality of opportunities can be addressed to a significant extent without necessarily addressing income inequality.

There is virtual unanimity among survey respondents about whether the government should play a role in equalizing opportunities and access to services as well as in guaranteeing everyone a minimum living standard. Views are more varied, however, when it comes to reducing income disparities: about a third of the interviewees are not convinced that the government should play an active role in this area.

Policy makers see a broad spectrum of policy options as potentially relevant to inequality reduction. Measures aimed at spreading the benefits of capital more equally — mainly through support to small-scale entrepreneurship and 'non-distortive' social transfers, such as conditional cash transfers — were among the measures most often recommended by respondents. Interventions aimed at changing power relations in the labour market and increasing the progressivity of income taxation were also considered potentially relevant, but received a somewhat lower support (although reducing tax evasion was seen as an extremely relevant measure). Additionally, labour market interventions and changes to the taxation systems were considered to be significantly less feasible politically than entrepreneurship support and conditional cash transfers.

Among policies to reduce inequality of opportunities, reducing unemployment was seen to be a high priority together with infrastructure development (especially in rural areas) and more equal access to services, particularly education. Significantly lower support — although still fairly high in absolute terms — was given to affirmative action policies and policies aimed at strengthening the political representation of disadvantaged groups.

Despite recognizing inequality as a potential threat to long-term development and stating that inequality reduction should be given high priority on the policy agenda, policy makers are often skeptical about the political feasibility of most inequality-reducing measures and generally do not see much political space for action on inequality reduction. This may be partially explained by a political landscape that is characterized by a sharp polarization of business and labour representative organizations and therefore not easily amenable to the construction of politically viable pro-equalization majorities.

This does not mean that political space for inequality reduction cannot be created. The chapter analysis already points to potential strategies: the promotion of inequality reduction as a bi-partisan issue; the promotion of a more proactive role of the national media in framing inequality as a relevant policy issue; and the constructive engagement of the business community based on the notion that the reduction of excessive inequality is a shared interest. Furthermore, the strengthening of spaces for civic engagement appears to be as critical as ever.

Annex 6.A. Methodological note on the survey

Definition of policy maker

For the purposes of this study, policy makers were defined as individuals who, by virtue of their institutional role, are in the position to directly influence the policy-making process. These included:

- Members of government at central level
- Members of parliament
- Representatives of local- or state-level administration and representative bodies
- Senior civil servants — i.e., assistant director and above in the following ministries (or corresponding institution): finance/planning; health; education; social services; labour; justice and public administration
- 'Key influencers' — i.e., individuals who, although not strictly speaking policy makers, are, as a result of their institutional role or prestige, in a privileged position to shape policy (e.g., executives of independent statutory bodies, such as human rights commissions, heads of business associations, media associations, trade unions)

Composition of country sample

While realizing that each country has a different institutional configuration and keeping in mind that the level of access to different categories of policy makers varies widely between countries, an effort was made to maintain a comparable composition of the sample in each country based on the following 'soft quotas':

- **Comparable proportion of elected vs. non-elected policy makers**
  Approximately a 1:1 proportion was sought between elected officials (i.e., members of parliament, but also others, such as mayors) and non-elected officials (e.g., career civil servants, staff of independent commissions, but also non-elected members of cabinet, if applicable to the country context, or 'key influencers').

- **Comparable proportion of political vs. non-political functions**
  Approximately a 1:1 proportion was sought between holders of political office (i.e., elected officials or political appointees, such as non-elected members of cabinet in a presidential system) and 'non-political' policy makers (i.e., career civil servants, members of independent commissions, when they are not political appointees or 'key influencers').

- **Comparable proportion of national vs. subnational policy makers**
  Approximately a 3:1 proportion was sought between representatives of national institutions representatives of subnational institutions or local authorities.

- **Maximum number of 'key influencers'**
  While the value of capturing the perspective of 'key' influencers was acknowledged, given that the survey was mainly about the views of those who shape policy in their institutional capacity, it was agreed that key influencers should not exceed 20 percent of the total sample (i.e., 5 of 25 respondents per country).

Notes

1. In each of the participating countries, 25 policy makers were interviewed, except in India and Jordan where only 18 and 20 interviews respectively had been completed at the time of writing.
2. GNI per capita, Atlas method (current US$) as of 2012 — source: *World Development Indicators online database*.
3. Latest available measurement of the Gini index (market) in the Standardized World Income Inequality Database (SWIID) — source: *Standardized World Income Inequality Database (SWIID)*.
4. Total population 2010 estimates in thousands — source: *United Nations Population Division Department of Economic and Social Affairs*.
5. Policy makers who rated the priority level of inequality reduction 1-5, as a percentage of the whole sample.
6. Policy makers who rated the priority level of inequality reduction 6-10, as a percentage of the whole sample.
7. Policy makers who rated the priority level of inequality reduction 8-10, as a percentage of the whole sample.
8. Based on the question: To what extent do you agree or disagree with each of the following statements: a) "Higher income inequality is acceptable so long as poverty is declining"; b) "Higher income inequality is acceptable so long as everybody is guaranteed a minimum living standard"; c) "Income inequality is acceptable if it is due to differences in individual efforts and an outcome of fair competition". Do you: strongly agree; somewhat agree; neither agree nor disagree; somewhat disagree; strongly disagree. As to the question: Do you think that it is just or unjust that people with higher incomes can buy: a) better health care than people with lower incomes? b) better education for their children than people with lower incomes? Do you think this is: very just; somewhat just; neither just nor unjust; somewhat unjust; very unjust.
9. Based on question: On a scale from 1 to 5, where 1 means 'Not at all' and 5 means 'To a very large extent', to what extent do you believe inequality of opportunities can be reduced in (COUNTRY) today without reducing the current levels of income inequality?
10. Number of policy makers who answered either 'strongly agree' or 'somewhat agree' as a percentage of the total respondents.
11. Number of policy makers who answered either 'strongly disagree' or 'somewhat disagree' as a percentage of the total respondents.
12. Number of policy makers who judged a certain policy option as 'necessary' or 'highly necessary' as percentage of total respondents.
13. Standard deviation calculated as a percentage of the average score.
14. Number of policy makers who judged a certain policy option as 'relevant' or 'highly relevant'.
15. Number of policy makers who judged a certain policy option as having a 'high' or 'very high' level of political support as a percentage of total respondents.
16. Average of all scores.
17. Average of all scores.

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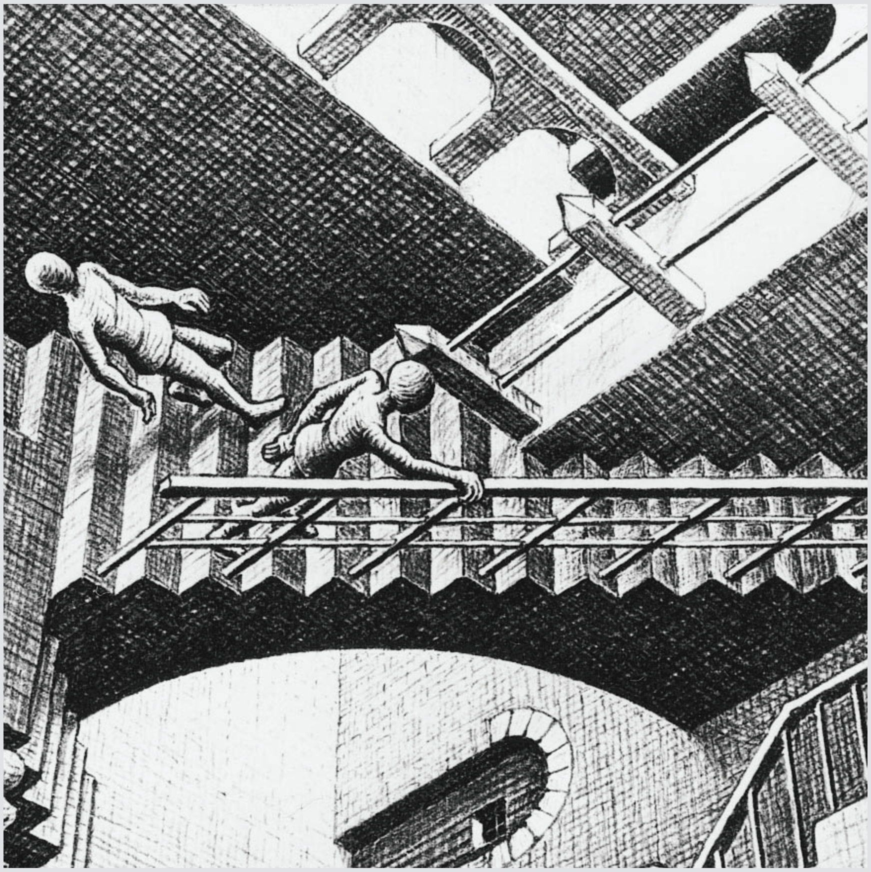
7 A policy framework for addressing inequality in developing countries



A policy framework that systematically and comprehensively addresses inequalities should focus on moderating income inequality, on closing gaps in education, health and nutrition, and on tackling prejudice, stereotypes and other cultural norms that reinforce discrimination.

7.1. Introduction

At the outset of this Report, it was noted that inequality of outcomes and that of opportunities are highly inter-dependent. Without equal opportunities, systemic patterns of discrimination and exclusion prevent the poor and disadvantaged groups from accessing economic, political and social resources, resulting in inequality traps — and the persistence of inequality across generations. Equal opportunities can level the playing field so that the circumstances of birth (such as race, gender, rural or urban location) do not adversely influence an individual's chances to get ahead in life.

Moreover, the capture of economic and political resources by richer households — reflected for instance in public expenditure biases — implies that levelling the playing field remains, politically, a highly contested process. Equalizing opportunities is critical for advancing more equitable outcomes. Apart from such instrumental reasons, equal opportunity has intrinsic value. It is, simply put, the right thing to do.

However, equal opportunities by themselves are unlikely to enhance the well-being of low-income households and disadvantaged groups if income inequalities are rising at the same time. When children from richer households can go to college without accumulating massive debts or access better health care because they can afford to pay for such services, it becomes difficult to argue that incomes do not matter for opportunities to get ahead in life. Equitable outcomes can hardly be derived from unjust starting points.

Since the inequality of outcomes and that of opportunities are interlinked and mutually reinforcing, a comprehensive policy framework to reduce inequality needs to address both.

The mix of policies and how they are sequenced to address inequalities are context-dependent and specific to the needs and requirements of each country. Nevertheless, priority should be given to deeper and more persistent gaps. For example, a country going through rapid urbanization might be experiencing declines in income inequality, but widening gaps in education or health might need to be prioritized.

Based on the analysis of the preceding chapters, this report proposes a comprehensive policy framework to help policy makers better navigate the complexities and challenges of forming appropriate policies to address inequality based on three related pillars:

- Moderating income inequality
- Closing gaps in health, nutrition and education
- Addressing social exclusion by promoting agency, combating discrimination and transforming inequality-reproducing cultural norms

Moderating income inequality:

- Since extreme income disparities limit the ability of individuals and households to get ahead in life, moderating income inequality is necessary for accessing opportunities that promote human well-being.
- Moderating income inequality is critical for leveraging improvements in gender inequality and other forms of horizontal inequality. As noted in this report, a key factor underpinning gender inequality is the unequal bargaining power of women at the household level. In that context, gender equality

in livelihoods and earnings improves their fallback position and thus their ability to negotiate for resources at the household level. Gender equality in income is therefore the key to leveraging changes in other domains due to its effect on gender unequal norms and stereotypes.

- Given the high correlation between income inequality and inequality in non-income aspects of well-being, moderating income inequality will be essential for closing gaps in education, health and nutrition outcomes. Indeed, 87 percent of the variation in the ratio of child mortality rates between the richest and lowest quintile, for example, can be attributed to variations in income/wealth inequality.

Closing gaps in education, health and nutrition:

- The capacity to be well-nourished and healthy constitutes the very meaning of a good life. Extreme deprivations in these aspects of human well-being are inherently odious, especially when they are persistent for specific disadvantaged groups in the population. Indeed, the evidence indicates the persistence of significant gaps in education, health and nutrition achievements between income/wealth quintiles, gender and rural and urban populations.

- Improved outcomes with respect to education, health and nutrition also lead to improved growth prospects. For instance, quality education and good health allow individuals to increase their productivity and contribute to economic growth.

- Even as higher incomes will help reduce inequalities in health, nutrition and education outcomes, income alone may be insufficient to close gaps completely. Evidence indicates that, to varying degrees, other factors also count: public expenditure policies, service delivery modalities, institutional capacity constraints, unresponsive governance and biased social norms all play a role in reproducing inequality between households and specific groups within the population.

Tackling prejudice, discrimination and social exclusion:

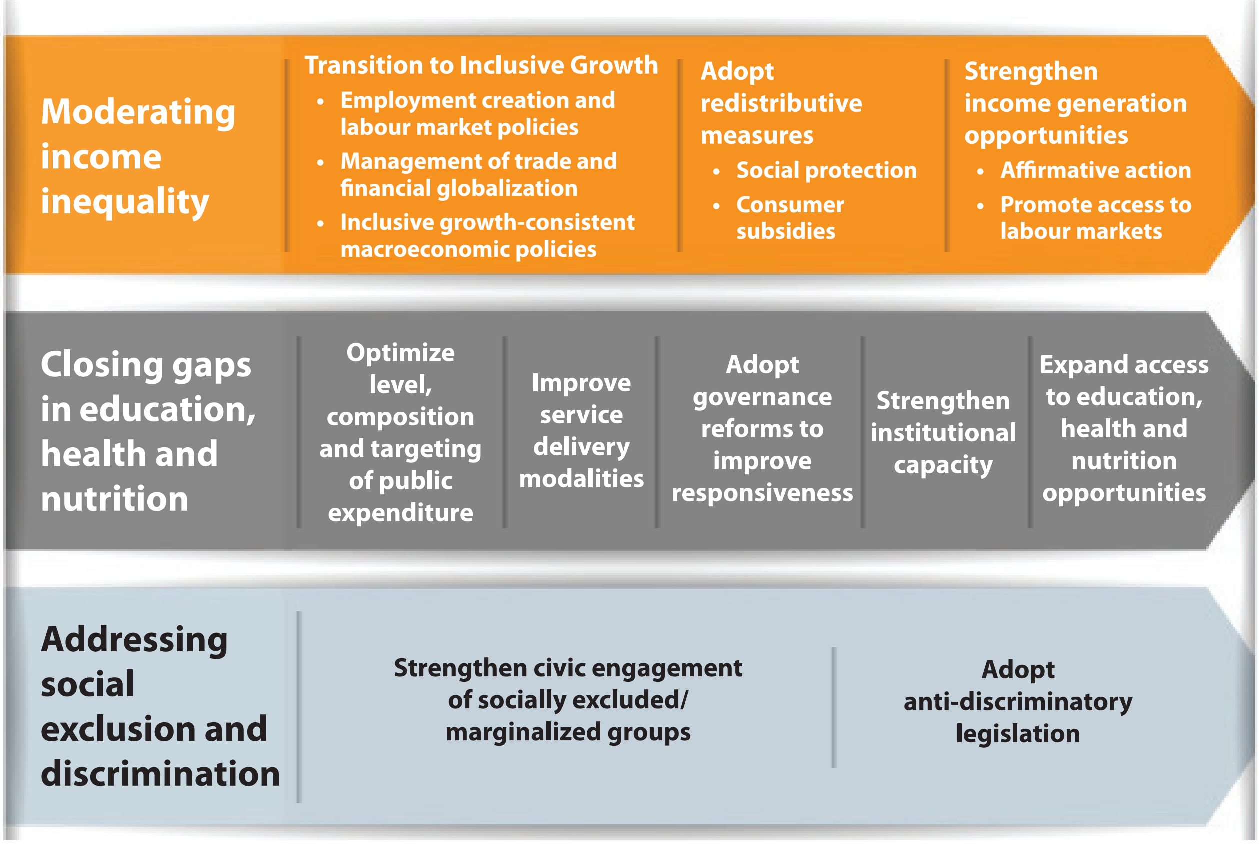
- Prejudice, discrimination and social exclusion are deeply embedded in social, economic and political processes of a society. They serve to reinforce inequalities of outcomes and opportunities by preventing individuals and socially excluded groups from pursuing a life of their own choosing.

- Even as anti-discriminatory legislation and universal service provision can help promote equal opportunity and inequality gaps in outcomes, tackling prejudice and social exclusion will require other fundamental interventions: strengthening the agency, voice and political participation of such groups so that they can be empowered to shape their environment, and the decision making processes that matter for their well-being.

Policy makers across many countries of the developing world have noted the urgency of addressing inequality. But, as pointed out in this report, implementing an inequality-reduction agenda will require creating political space for such change. Making policies for redistribution viable will require specific actions that create political space for inequality reduction, such as facilitating civic engagement and inclusive participation — especially of vulnerable groups and socially excluded populations.

Further, an inequality reduction agenda needs to be anchored in human rights principles and universally adopted standards, such as the UN Charter, the Millennium Declaration and the Universal Declaration for

Figure 7.1. Policy framework to address inequality



Human Rights. This ensures that governments and policy makers are accountable to all citizens for the impact that their decisions (such as those regarding taxation, public expenditure and engagement of civil society) have on the distribution of well-being. A strong accountability component to the policy framework can ensure that inequality reduction is based on the principle of equal human rights for all citizens and prevent the adoption of subjective notions of fairness, which might be the outcome of political negotiation in which the most disadvantaged are often voiceless.

This chapter is organized as follows: section 2 focuses on policies that can moderate income inequality. Section 3 considers policies needed to close gaps in education, health and nutrition. Section 4 focuses on policies that address prejudice and social exclusion and points to strategies that can be adopted to create political space that allows for their greater participation and empowerment. The final section concludes. It should be pointed out that several policy instruments discussed in the following sections can help achieve one or more policy objectives. For instance, even as social protection instruments such as cash transfers can help address inequality in the distribution of income, they can also help close gaps in education, health and nutrition.

7.2. Moderating income inequality

The inevitability of rising inequality during economic development and of the trade-offs that are implied has not found widespread support in empirical studies. This implies that not only can the poorest countries aspire to pursue broad-based growth, but also that rising inequality is no longer a short-term price worth paying for long-term economic development, because high or rising inequality can even slow down future growth. In other words, it is possible to moderate income inequality without jeopardizing long-term growth.

Income inequality has been on the rise in many developing countries since 1995. Moreover, countries that experienced more rapid growth and graduated to higher income groups also found inequality rising faster than other countries. This, then, points to the fact that something about the current pattern of growth in fast-growing countries is excluding large portions of the population from gaining from its benefits.

Thus, at its core, moderating income inequality will require that countries transition towards inclusive growth. It has been noted earlier that inclusive growth is widely understood to be economic growth that results in broadly shared well-being. Inclusive growth can be promoted through three principal routes:

a) By changing the patterns of economic growth such that the incomes of low-income households grow more than the average
b) Through redistributive measures that contribute to growth while reducing inequality
c) By expanding opportunities for low-income households and disadvantaged groups to access employment and income generation options

Underpinning an inclusive growth strategy should be a consistent macroeconomic framework. All too often, macroeconomic policies have been concerned with the narrow objective of macroeconomic stability (i.e., keeping inflation and deficits low). But, as the evidence makes clear, macroeconomic stability has often been achieved at the expense of rising inequality — and sometimes at the expense of growth itself.

7.2a. Promoting inclusive growth patterns

One path towards inclusive growth is through policies that shift the pattern of growth so that the benefits accrue disproportionately to low-income and poor households. This is perhaps the most sustainable route to moderating income inequality since it affects the primary distribution of income and does not require substantial redistributive efforts from the government.

Furthermore, this path towards inclusive growth is good for economic growth. Raising the income of poor and low-income households has the potential to boost domestic aggregate demand because they tend to have a higher marginal propensity to consume compared to higher income households and are more likely to spend their extra income on goods and services that are produced domestically.

Indeed, several developing countries such as China and India are pursuing strategies to raise the income of low-income households. For instance, in February 2013, China unveiled plans to empower the poor and reduce inequality — by lifting 80 million people from poverty by 2015. The plan aims to boost minimum wages to at least 40 percent of average salaries, loosen controls on lending and deposit rates and increase spending on education and affordable housing (Salidjanova, 2013).

India's 12th Five-Year Plan (2012-2017) is also explicitly focused on "faster, sustainable and more inclusive growth." The plan aims to "create adequate livelihood opportunities and add to decent employment commensurate with the expectations of a growing labour force" through the acceleration of the pace of job, creation particularly in the manufacturing sector (Government of India Planning Commission, 2011).

Three sets of policy measures are necessary to shift the pattern of growth such that the incomes of low-income households increase more than the average:

i. Employment and income generation and labour market policies

ii. Managing financial and trade globalization

iii. Inclusive growth consistent macroeconomic policies

Employment and income generation and labour market policies

Employment and income generation

An inclusive pattern of growth is first and foremost a pattern of growth that prioritizes the creation of productive employment. Economic growth can only reduce inequality if its benefits are shared widely across the population. Furthermore, employment represents a very significant channel through which the income generated from growth can be distributed, particularly since low-income households rely mostly on labour income for their livelihoods. Thus, if countries are to reduce inequality sustainably, the economy needs to create a sufficient number of jobs to secure employment for the majority of the population (quantity); the employment generated needs to provide sufficient income, security and stability to workers (quality); and it needs to be accessible to all groups within a population (equal access). Indeed, unequal access to quality employment is a key reason accounting for the persistence of horizontal inequalities, including gender inequality. Vulnerable employment is much more pervasive among women than men, underlining the comparative disadvantages that women face in accessing more secure and better jobs as wage earners.

> *Economic growth can only reduce inequality if its benefits are shared widely across the population.*

However, in many countries, growth has been anything but inclusive. In fact, jobless growth (i.e., growth without a commensurate increase in decent and productive employment in the formal sector) has been an important factor contributing to increases in inequality worldwide. In the period before the global economic and financial crisis, particularly since the early 2000s, many economies achieved high growth rates. Yet the response of employment to growth (the employment elasticity of growth) was low. An examination of recent global growth and employment trends shows that, when growth rates were falling sharply, the employment-to-population ratio decreased slightly from 61.2 percent to 60 percent, but when the world economy was growing steadily, the employment-to-population ratio remained stagnant around 60 percent (ILO, 2012).

The employment elasticity of growth has systematically fallen since 2000 in regions such as sub-Saharan Africa, the Middle East and Latin America and the Caribbean (Kapsos, 2005). With little job creation, many low-income households have ended up engaged in low-productivity sectors with inadequate earnings, lack of security and unsafe conditions. Even the Asia Pacific region, which anchors the global economy, has more than one billion people who remain in vulnerable employment (UNESCAP, 2013).

Small and Medium Enterprise Promotion

Any attempt to achieve inclusive growth by generating employment for the tail end of the income distribution in developing countries needs to consider small and medium enterprises. Small and medium enterprises are responsible for over two thirds of employment in developing countries, with the poor disproportionately represented in this sector (Fajnzylber, et al., 2006). Furthermore, the expansion of small and medium enterprises can boost employment more than large firm growth because small and medium enterprises tend to be more labour-intensive. Empirical studies in eight African countries show that household enterprises were responsible for generating more new jobs than large corporations (Fox and Sohnesen, 2012). A recent World Bank study estimated that, if each self-employed worker created a single additional job, such additional job creation would amount to 8 percent of total employment in Kenya, 5 percent in Egypt and 4 percent in Costa Rica, as a share of the working age population (World Bank, 2013).

However, small and medium enterprises often face difficulties accessing finance and markets, which limits their capacity to grow and expand. Governments can implement a number of policies to help these firms to be more efficient and competitive, while at the same time creating relatively good-income jobs, by improving the business environment under which they operate.

Lack of capital is a major hindrance to start-up and a major impediment to staying in business or expanding operations for small and medium enterprises. Some countries have started experimenting with small and medium enterprise financing through central bank mechanisms along with special public funds to stimulate and guarantee bank loans linked to their business plans (e.g., India, China, Indonesia, Malaysia) (ADB, 2009). Others, through regulations, encourage affordable credit to small and medium enterprises that operate in strategically important sectors.

To help small and medium enterprises adopt new technologies and access new markets, governments can act as facilitators of information on topics such as improved production methods, products and markets, technical support services and vocational training. Governments can also strengthen business links between small and medium enterprises, large enterprises and government by providing incentives for contracting with small and medium enterprises. Some governments, for examples, have quotas for a proportion of government procurement to be contracted to small and medium enterprises.

Integrating entrepreneurs with large-scale enterprises is another practical strategy to support small and medium enterprises. Malaysia's development strategy was based on developing a manufacturing sector, mainly driven by consumer goods production, including electronics and machinery. The strategy deliberately ensured that small and medium enterprises were integrated with the industrial sector as providers of inputs and raw material to bigger firms (Kawanabe, 1995).

Employment Guarantee Schemes

Employment can be enhanced, especially in rural areas, through government-sponsored employment guarantee schemes. In such schemes, the government acts as employer of last resort. This is an important tool to absorb low-skilled poor workers and allow them to earn a basic income. The main aim is to raise the income of poor families by directly creating jobs and acting as a safety net to guarantee a certain level of income for those otherwise unemployed, while putting in place much needed economic and social infrastructure (ADB, 2012).

Work projects are usually labour-intensive, public service and infrastructure programmes such as building rural roads, street cleaning and reforestation. However, in many countries, employment guarantee schemes are still viewed as contingency measures to counteract the impact of shocks and are therefore implemented as temporary measures.

Evidence indicates, however, that scaling up employment guarantee schemes can be effective for reducing inequality, including horizontal inequalities. Moreover, the infrastructure built increases labour productivity, the cost per net job created is often much lower than for alternative policies, and the programme wage becomes the *de facto* minimum wage, reducing minimum wage enforcement costs.

Labour market policies

In addition to employment creation, there is growing recognition that fostering inclusive growth requires stronger labour market institutions. Indeed, labour policies have been a driver of higher income inequality

Box 7.1. Agricultural development

Raising agricultural productivity is essential for improving the income levels of low-income and poor households in rural areas and for reducing inequality. Even as most poor households in developing countries are situated in rural areas, with agriculture the largest employer of the poor globally, this sector has long been neglected, weakening its capacity to reduce inequality and poverty. Many developing countries have experienced a sharp drop in agricultural productivity growth consequent to declines in public investment in agriculture and in extension services and to cuts in agricultural credit and input subsidies.

Policies that improve agricultural productivity focus on three issues: land, infrastructure and finance. Very unequal land distribution (arising for historical and/or geographic reasons) hinders agricultural development by concentrating land into large units with high capital intensity (Eastwood, Kirsten and Lipton, 2010). When rural families have access and secure control to land, they are likely to grow more food and see their incomes rise (IFAD, 2013). Small farms also employ more people per hectare than larger units, generating more employment. The division of large farms into smaller units often results in greater food production per hectare. This is happening in a number of countries. In India, for example, the legislated land reform since the 1960s that set ceilings for the ownership of land has been associated with poverty reduction (Besley and Burgess, 2000). In China, the shift from large farms to smallholdings (from 1977 to 1985) witnessed an unprecedented increase in farm output that enabled millions of households to exit poverty.

However, past land reform has often been problematic, as it resulted in the further concentration of land in the hands of the more powerful. Innovative forms of land reform include the paying of market value to landowners for their land, the distribution of micro-plots, resettlement schemes, restitution, land leasing and sharecropping. The benefits of land redistribution to the poor in low-income countries are also more likely in the presence of support services by the government, including, *inter alia*, agriculture extension and marketing facilities.

Improved access to infrastructure, including physical and social infrastructure, is also key to improving agricultural productivity. Often, rural areas are isolated and have limited access to markets and services. The provision of rural infrastructure, including telecommunications, transport, water supply networks and energy, is thus a key requirement for raising the productivity of the sector. Finally, rural financing is also essential to improving agricultural productivity. Development of the financial sector provides farmers access to productivity-enhancing equipment, which can translate into improved income (Feijen and Claessens, 2006).

over the past three decades (see chapter 3d). To this end, several countries (for instance, Brazil, Malaysia, the Philippines and Viet Nam) have adopted or revised minimum wage policies and introduced related wage reforms. In fact, since the beginning of 2012, minimum wages have been introduced or raised for the first time in more than 20 countries in Asia Pacific. Malaysia was the most recent to establish a comprehensive national minimum wage in January 2013. Likewise, the new daily minimum wage of 300 Thai baht (THB), or approximately US$10, per day set in Thailand came into effect across the country in January 2013.

Adopt Minimum Wage Policy

The minimum wage is one of the most common labour market legislations, with over 90 countries having such a law, although these vary greatly in their value, scope, complexity and enforcement (ILO, 2008). The principal aim of minimum wages is to set a wage floor that ensures that all workers share in productivity gains.

Setting a minimum wage that effectively improves the distribution of income, however, can be problematic. On the one hand, a minimum wage needs to be high enough to allow an adequate or decent standard of living. On the other, it should not be so high that it prices low-skilled poor workers or certain groups like youth out of employment.

Critics argue that, since the minimum wage applies only to low-skilled workers, it might increase the risk of the poorest remaining or becoming unemployed. This criticism has been challenged by a large number of economists and policy makers who believe that modest increases in the minimum wage will improve the well-being of low-wage workers without adverse effects on employment (Maning, 2003; Card and Kreuger, 1995; UNCTAD, 2012). For instance, it is estimated that the recent increase of the minimum wage in Thailand could increase employment growth by 0.6 percent and real GDP growth by 0.7 percent by 2015, compared to a baseline scenario of no minimum wage increase.

The effect of minimum wages on inequality in Brazil provides an interesting example. Between 2003 and 2010, the real minimum wage increased by 80 percent in Brazil. A study looking at income inequality from 1995 to 2009 found that two thirds of this reduction was due to improvements in labour market earnings, while one third was due to cash transfers. Minimum wage increases were found to be responsible for one quarter of the labour market effect and, by extension, for 16 percent of the total reduction in inequality (Soares, 2010).

Minimum wages can also have other positive externalities. There is evidence that, by serving as a benchmark for individual wage negotiations, a minimum wage can help increase pay even of informal workers (Keifman and Maurizio, 2012).

Strengthen Collective Bargaining

Collective bargaining reduces wage inequality because it helps establish standard rates for comparable work across businesses and for particular occupations within establishments, with less differentiation of wages among workers and even less discrimination against women and minorities. Furthermore, with collective bargaining, the wage gaps between occupations tend to be lower. Collective bargaining also reduces wage inequality indirectly. Wage and benefit standards set by collective bargaining are often followed in workplaces not covered by collective bargaining, especially in sectors and industries where there is a large coverage of unions. Indeed, collective bargaining is associated with lower wage inequality between the top and bottom deciles of the income distribution (ILO, 2008). A review in developed and developing countries of collective

Box 7.2. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

One of the largest programmes worldwide, India's national rural employment guarantee scheme was launched in 2006 in 200 of the most backward districts of India (of 640 districts in all). This programme recognizes the right to work as a legal right and provides every rural citizen who meets a set of specific requirements the right to 100 days of remunerated employment per year.

The core funding for the programme is provided by the central government and state governments make additional contributions. The number of households who accessed employment reached 38 million in 2010/2011, which amounted to more than 1,200 million person-days of work.

According to the Act, employment must be provided within 15 days of demand within a 5-kilometre radius of the village (or else extra wages of 10 percent must be paid) or else an unemployment allowance must be paid by the state at its own cost. The Act also contains provisions for how soon NREGA job seekers must receive a work opportunity. The work focuses on the creation of productive assets and ensures that it is labour-intensive by not allowing contractors or machinery to create these assets.

In terms of inequality, an important characteristic of this programme is the large number of women who have used it, with female participation reaching 49 percent in 2010/2011. The programme has been credited with positive impacts such as increasing rural wages, reducing distress migration, improving infrastructure, reducing unemployment and underemployment, encouraging agricultural productivity and reducing malnutrition.

Source: *Bonner et al. (2012); Jagannathan (2011); Sjoblom and Farrington (2008); Zepeda et al. (2012)*

bargaining effects on inequality suggests that, in most countries, there is less wage inequality in unionized sectors compared to non-unionized sectors (Hayter and Weiberg, 2011).

Unfortunately, collective bargaining coverage has decreased considerably in the past decades in developing countries, due mainly to increases in informal labour arrangements, higher unemployment, increasing subcontracting and other forms of non- standard employment relationships.

Collective bargaining can take place at two levels: either at the enterprise level or the industrial or sector level. Issues that are collectively bargained can include wages, contracts of employment, labour contracting, maternity rights, health benefits, hours of work, leave, occupational health, safety and environment, housing conditions, grievance procedures, transport of workers, elimination of child labour and even measures to counter HIV/AIDS.

At the same time, governments, too, can vigorously promote collective bargaining and improve its reach and effectiveness by passing and enforcing legislation that encourages the formation of unions and by looking for innovative ways to extend unions to the informal sector in an effort to help informal workers have some form of representation and protection.

Managing financial and trade globalization

Employment and labour policies alone will not be sufficient to shift growth patterns in favour of poor and low-income households. Policies also have to address the drivers of inequality that are associated with globalization, such as international trade and finance. Indeed, the empirical evidence presented in this report shows that trade and financial globalization are significant drivers of increases in income inequality in the past 30 years.

Managing financial globalization

Private capital flows have become a significant source of investment in many developing countries. For instance, in a few countries in Africa (Uganda, Cameroon, and the Gambia), foreign private capital stocks constitute 30 percent of GDP (Bhinda and Martin, 2009).

International capital flows are highly volatile and such volatility can jeopardize the stability of economic growth itself. For instance, large capital inflows — especially into asset markets — can destabilize growth and result in banking sector crises if reversed. As shown by Stiglitz (1998), countries that experienced a banking or financial crisis between 1975 and 1994 registered a 1.3 percent lower growth rate in the subsequent five years than other countries.

Employment and labour policies alone will not be sufficient to shift growth patterns in favour of poor and low-income households. Policies also have to address the drivers of inequality that are associated with globalization, such as international trade and finance.

Moreover, financial globalization has adverse impacts on income inequality for a variety of reasons. First, the prospect of capital flight has led many governments to adopt a conservative fiscal policy stance, which has limited revenue and resulted in public expenditure cuts, especially in social and infrastructure sectors (Stiglitz, 2000). Capital flight can lead to a sharp devaluation of the real exchange rate, leading to increases in the price of strategically imported goods (such as medicine and food), which weakens the purchasing power of low-income households. Capital flights can also lower the demand for labour, resulting in falling real wages and increases in unemployment.

As more developing countries have become integrated into global financial markets, they compete for foreign direct investment and export market shares by lowering minimum wages, labour standards and tax rates. Lower tax revenues have constrained the ability of governments to increase public investment, whereas lower wages have increased income inequality.

Managing and minimizing the volatility of international capital flows is hence necessary to stabilize the growth process and to ensure that the distributional impacts associated with financial globalization do not worsen income inequality. One measure that manages disruptive capital inflows includes limiting the quantity and areas of the financial sector into which such flows may enter. Capital controls and other macro-prudential measures have also become more popular in recent years. Brazil, Indonesia, South Korea and Thailand, for instance, have introduced defensive measures against capital flows that include preventing maturity and locational mismatches, reducing financial fragility and reducing currency risk and speculative pressures (UNESCAP, 2013).

The international community can also help governments mitigate the impacts of crises induced by financial volatility by supporting adequate financing facilities to prevent crises from occurring, deepening and spreading through contagion. One of the key lessons learned from the most recent financial and economic crises is that emergency financing needs to be on a large scale, rapidly disbursed and made available to countries that may suffer contagion effects (UNDP, 2011).

Managing international trade

An important feature of globalization over the past 30 years has been the integration of many developing economies into international trade markets. While trade liberalization has supported greater international economic integration, there is also evidence that these trends have contributed to increasing income inequality.

For instance, trade liberalization has increased the pace of skill-biased technical change because, in open markets, heightened competition increases the incentive for investment in cost-saving and productivity-enhancing technologies. This, in turn, has increased the wage premium for high-skilled workers and contained wage growth for other workers. Indeed, evidence shows that the skill bias in technology has been more pronounced in sectors that experienced greater trade liberalization (Wood, 1994; Theonig and Verdier, 2003). Moreover, the need to compete in international trade markets has encouraged changes in labour market institutions, leading to the weakening of labour collective action platforms, such as unions and the declining real value of minimum wages.

While action to tackle inequality must be taken at country level, it should be emphasized that decisive progress will be possible only in the presence of conducive international policy frameworks.

While action to tackle inequality must be taken at country level, it should be emphasized that decisive progress will be possible only in the presence of conducive international policy frameworks. It is clear that the causes underpinning increasing income inequality are limited if addressed exclusively through domestic interventions. For instance: industrial policy aimed at promoting investment in sectors with larger proportions of high-skills jobs are dependent on the structure of international intellectual property regimes; the taxation of financial transactions cannot be effectively enforced in a context of high mobility of financial capitals without adequate coordination across countries; similarly in a context of high trade integration, coordinated efforts are indispensable to ensuring the full realization of international labour standards. It is therefore necessary to address the issue of policies to manage financial and trade globalization not only within countries, but also — in a prospective of global governance — within international economic coordination mechanisms.

Inclusive growth consistent macroeconomic policies

Transitioning to inclusive growth pathways will require macroeconomic policies that are consistent with promoting the objectives of growth and moderating income inequality. However, the dominant macroeconomic policy paradigm during the past 30 years has not prioritized economic growth and employment creation. Macroeconomic policies in most developing countries since 1980 have focused mainly on stabilization (defined as keeping inflation at a very low levels and achieving a primary budget surplus or a very low deficit-to-GDP ratio).

This paradigm — dubbed "the Washington Consensus" by Williamson (1989) — achieved a reasonable degree of macroeconomic (price) stability across developing countries, but it has also come at the expense of higher income inequality and slower growth. Indeed, the performance of developing countries in terms of growth and distribution was worse during the Washington Consensus era (1980-2000) than from 1960 to 1980, when achieving growth was a central priority of macroeconomic policies (Cornia, 2012).

A macroeconomic strategy to promote inclusive growth, though, will have to prioritize economic growth, employment creation and macroeconomic stability.

Monetary policy

Policy makers in developing countries traditionally prioritized very low inflation as the target of monetary policy. However, this has led many developing countries into 'stabilization traps' of low inflation with low or no growth (UNESCAP, 2013:141). A tight monetary policy targeting low inflation (below 5 percent annually) uses high interest rates to curb price inflation. High interest rate increases the output gap and suppresses growth, investment and employment creation. In other words, inflation targeting is achieved at the expense of the key drivers of any inclusive growth strategy: growth and employment creation.

Monetary policy that is consistent with an inclusive growth strategy will have to go beyond the singular focus on low inflation and prioritize growth and equality. This means that governments can target a moderate rather than low level of inflation that keeps interest rates low and encourages investment, growth and employment creation.

Adopting more flexible monetary policies also supports long-term growth by giving governments the policy space to fight crises (Blanchard et al., 2010). For instance, during economic crises, governments should have the space to relax inflation targets and lower nominal interest rates to avoid a contraction in investment and growth that would worsen income distribution.

Moreover, intermediate inflation targets can have positive distributional impacts for poor and low-income households by reducing the real value of debt held by them, since these households generally tend to be net debtors. This can help poor households build assets, acquire credit and repay accumulated debts faster.

In sum, adopting flexible and countercyclical monetary policy will support inclusive growth by prioritizing growth itself, reducing growth volatility, and increasing the ability of poor households to accumulate productive assets by reducing the real cost of credit.

Exchange rate policies

Closely related to monetary, trade and financial liberalization management policies are exchange rate policies. In the past 30 years, many developing countries adopted either a fixed-peg or free-float exchange rate regime. Both regimes have left countries prone to currency crises and were not conducive to growth, especially given the appreciation of real effective exchange rates induced by large international capital inflows.

Capital account liberalization in developing countries led to an appreciation of real effective exchange rates and, as a result, an overexpansion of imports at the expense of local production. This, in turn, led to a depression of growth and employment.

Additionally, domestic firms that lost competitiveness due to the increase in real effective exchange rates were pushed to cut costs by reducing employment and wages, all of which meant a deterioration in income distribution.

Moreover, the appreciation of real effective exchange rates in countries that adopted fixed-peg exchange rate regimes increased the risk of currency crises (e.g., the Asian crisis of 1997, the Argentinian crisis of 2001 and the Russian crisis of 1998), with severe consequences for growth, inequality and poverty.

Therefore, exchange rate policies that are consistent with inclusive growth should stay away from 'two-corner' solutions of either fixed or free-floating regimes and adopt an intermediate exchange rate regime. Such a regime is a managed float that combines exchange rate flexibility and discretionary intervention by the central bank in the currency market. Governments following intermediate exchange rate regimes are better able to maintain a competitive real effective exchange rate, which has been shown to be a key factor in supporting growth (Rodrik, 2003; Gala, 2007).

Indeed, a growing number of countries have adopted 'intermediate' exchange rate regimes (Williamson, 2003: Frenkel and Rapetti, 2008) and the evidence in support of an intermediate regime is mounting (Bordo,2003; Corden, 2002; Edwards and Savastano, 1999). The historical experiences of many countries show that, for less financially mature countries, intermediate regimes are preferable, since they reduce the chances of currency crises and maintain a competitive real effective exchange rate that supports a balanced current account and that strengthens export sectors that generate employment, particularly for the poor.

That being said, there is no one-size-fits-all approach to exchange rate regimes. As Frankel (1999) points out, the choice of exchange rate regime is country- and time-specific. If exchange rate policies are to be consistent with an inclusive growth strategy, policy makers have to consider the impact of the exchange rate regime on growth and income distribution.

Fiscal policies

Traditionally, taxes and public expenditure have played a major role in improving incomes and consumption among low-income households. However, since the mid-1990s, the equalizing effect of fiscal policy appears to have remained stagnant in developing countries in part because of increasingly regressive tax systems (UNCTAD, 2012). The Washington Consensus set of policies prioritized low fiscal deficits while advocating for lower income and corporate taxes. As a result, most countries cut public expenditures drastically, especially public investments and social spending, with disastrous effects on the redistributive role of government policies (UNESCAP, 2013).

Yet fiscal policy management can play a key role in promoting inclusive growth. First, countercyclical fiscal policy (for instance, adopting expansionary fiscal policies during economic slowdowns and crises) promotes stability and minimizes the impact of economic crises on low-income households. Second, fiscal policies can play a redistributive role that ensures that households that were excluded from growth can still enjoy the benefits of growth.

7.2b. Redistributive measures to improve the distribution of income

Redistributive policies can promote growth while reducing inequality through a number of channels. First, redistribution can raise the incomes of low-income households that have a higher marginal propensity to consume relative to richer households. This, in turn, boosts domestic demand and thus economic growth (Taylor, 2009). Second, redistributive measures can also expand opportunities by directing public expenditures towards improving human capabilities. Higher levels of education and health raise productivity and thus economic growth (Seguino, 2012). Redistributive measures most commonly adopted by countries include (a) a range of social protection programmes and (b) consumer subsidies for basic goods.

Social Protection

Social protection can contribute to the reduction of inequality by providing households with a minimum of income security necessary for investing in human capital and income-generation activities. Regular and reliable income transfers can help to unlock productive entrepreneurial capacity, increase labour force participation and boost local development and job creation (Barrientos and Nino-Zarazua, 2010; Samson 2009). By guaranteeing access to essential goods and services such as health, education and nutrition, social protection can also play a key role in reducing unequal opportunities for low-income households and socially excluded groups. Finally, social protection can lower the risks and vulnerability of low-income and vulnerable households to crises and shocks (Barrientos, 2008; Fiszbein and Schady, 2009).

In other words, social protection affects the well-being of poor households through three channels: first, by directly reducing income poverty through a transfer of purchasing power to beneficiaries; second, by providing insurance/protection against risk or shocks; and, third, by providing investment income as additional returns or income from productive investment and employment generated through the participation in social protection programmes (Fiszbein et al., 2013).

Generally, social protection programmes can be classified into either of two categories: social insurance or social assistance programmes.[1] Social insurance programmes aim to provide individuals and households with protection to cope with contingencies and events such as disability, maternity or unemployment (Barrientos and Hulme, 2008; Sabates-Wheeler and Devereux, 2008; World Bank 2012a; Asian Development Bank, 2003).

Box 7.3. Seguro Popular in Mexico

Seguro Popular in Mexico was launched in 2003 and has insured 52.6 million previously uninsured Mexicans, mostly belonging to the poorest four income deciles. By 2012, the programme contributed to providing universal health insurance coverage in the country.

Seguro Popular offers health coverage to people regardless of their employment status and its fees are based on an individual's capacity to pay. The law exempts from payment the four poorest income deciles as well as families in deciles IV–VII where there is a pregnant woman or a young child. Household data reveals that the proportion of out-of-pocket health expenditures in poor households has fallen from 13.7 percent in 2002 to 11.4 percent in 2010.

The programme covers 284 basic health services (estimated to include over 95 percent of reasons why patients seek services). It also covers catastrophic medical expenses, such as those related to HIV/AIDS or several types of cancer. If paid out of pocket, these expenditures represent at least 30 percent* of a household's capacity to pay.

The increased coverage provided by the programme has been extended to marginalized groups such as indigenous populations. The enrolment of indigenous persons increased by 47.9 percent between 2006 and 2012, representing approximately 9 percent of *Seguro Popular* enrolees, which is in line with the percentage of the indigenous population in the overall population (9.4 percent).**

** Threshold used in Knaul et al., 2012. WHO recommends a 40 percent threshold (Xu et al., 2005)*

*** Estimate of the National Commission for the Development of Indigenous People (CDI).*

***Source:** Knaul, F. M. et al. (2012), National Institute of Public Health (2012), National Commission for the Development of Indigenous Peoples (2011), Xu et al. (2005).*

These programmes include, for example, health insurance, unemployment benefits and pension programmes that are generally contributory (Barrientos and Hulme, 2008).

However, when social insurance programmes function only in the context of formal employment, they can, in fact, be regressive.[2] In Peru and Mexico, for example, Lustig et al. (2011) find that the distributive impact of formal and public sector pensions is regressive[3] in relative terms, which means that they "make the post-transfer distribution worse than the pre-transfer one" (Esquivel et al., 2010:208).

Formal social insurance can also leave out individuals who cannot participate in the labour market, such as persons with severe disabilities, children and, in some cases, the elderly (Cecchini and Martínez, 2012; World Bank, 2012a) as well as their caregivers (who are commonly women).

It is important to extend social insurance programmes to those workers outside the formal sector. Indeed, doing so can substantially moderate income inequality.

Social assistance programmes aim to provide households and individuals a minimum of income security to meet basic needs and to invest in human capabilities. Specific programmes include targeted cash and in-kind transfers such as conditional cash-transfer programmes, food stamps, school feeding programmes, subsidies and fee waivers. Such programmes are normally tax-financed (Barrientos and Hulme, 2008; World Bank, 2006).

In recent years, more focus has been placed on the potential of social assistance programmes to reduce inequality. Cash or in-kind transfers allow households to invest in human capital., skills and productive assets such as land or livestock, which can allow households to move beyond subsistence levels (DFID, 2011; Fiszbein and Schady, 2009; Cecchini and Martinez, 2012; Kahhat, 2010; World Bank, 2012a). A DFID study on cash transfers (2011) cites evidence that 15 percent of the beneficiaries of Ethiopia's main cash transfer

Box 7.4. Impact of conditional cash transfers on inequality in Latin America

There is mounting evidence that targeted conditional cash-transfer programmes in Latin America have contributed to reducing inequality. Mexico's conditional cash-transfer programme, Oportunidades, is responsible for almost one fifth of the decline in the Gini between 1996 and 2006 (0.502 in 1996 to 0.494 in 2006) (Esquivel et al., 2010). Estimates indicate that 13 percent of the fall in inequality in Brazil between 2001 and 2007 is on account of Bolsa Familia, the country's conditional cash-transfer programme (Barros et al., 2010).

Another study of five countries in the region (Argentina, Bolivia, Brazil, Mexico and Peru) (Lustig et al., 2011) concludes that the improvements in income redistribution in these countries can be attributed in part to the introduction of large-scale targeted cash-transfer programmes such as Oportunidades and Bolsa Familia, as well Asignación Universal por Hijo in Argentina, Bono Juancito Pinto in Bolivia and Juntos in Peru. The study uses household level data for one given year for each country to assess the distributive impact of a range of fiscal interventions and finds that targeted cash transfers are progressive in absolute terms, meaning the poor receive more than the rich in per capita terms (Lustig et al., 2011; Esquivel et al., 2010). In fact, in each country, the cash-transfer programmes mentioned above are among the most progressive, if not the most progressive, social programmes in absolute terms.

Source: *Barros et al. (2010), Esquivel et al. (2010), Lustig et al. (2011), Fiszbein and Schady (2009).*

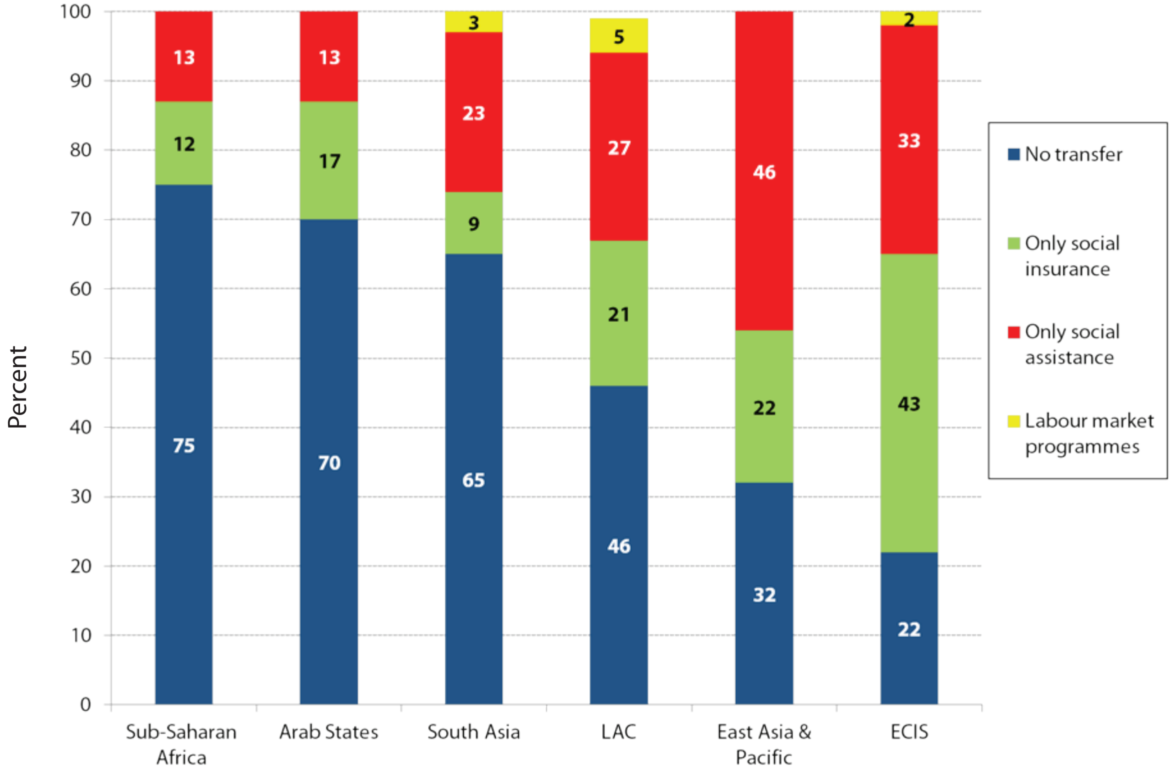
programme, the Productive Safety Nets Programme, invested in farming and livestock. A study by Gertler et al. (2007) found that an average of 12 percent of the transfers received by beneficiaries of the Mexican conditional cash transfer programme Oportunidades went to productive activities such as agriculture and micro-enterprises.

Indeed, recent evidence from Latin America indicates that cash transfers targeted to poor households have had a noticeable re-distributive effect and can be considered responsible for a part of the decline in inequality in many countries in the region (López-Calva and Lustig, 2010). In South Africa, evidence indicates that the Gini fell by three percentage points because of the system of cash grants, which include the Child Support Grant and the Old Age Pension. Furthermore, cash grants almost doubled the share of national income that went to the poorest quintile, pointing to its redistributive impact (DFID, 2011).

Despite the potential that social protection holds for inequality reduction, social protection coverage is still low in developing countries. In sub-Saharan Africa, for instance, only 25 percent of the population is covered by social assistance or social insurance and the situation is similar in the Arab States and in South Asia.

Since many social protection programmes are financed through public expenditure, the expansion of coverage and the sustainability of programmes depend mainly on the availability of domestic resources for financing these interventions in the long run. For many developing countries, and particularly for least-

Figure 7.2. Coverage of social protection and labour, by region



Source: *World Bank (2012, Fig. 3.3, p.23).*

developed countries, affordability of social protection is a concern, given competing priorities and constrained resources. However, recent studies indicate that social protection programmes can be affordable.

As policies that directly affect the cost of basic household goods, such as food or fuel, consumer subsidies can play an important role in reducing inequality.

Recent studies by the ILO in collaboration with the IMF in Benin, El Salvador, Mozambique and Viet Nam (Report of the Social Protection Floor Advisory Board, 2011) and with the EU in Burkina Faso, Cambodia and Honduras (ILO-EU, 2013) find that some major social protection floor programmes would cost in the vicinity of 2 percent of GDP. For example, in Honduras, a package containing modest targeted benefits for the elderly, the disabled, children and the unemployed, as well as basic health and maternity care, would cost between 1.26 percent and 2.5 percent of GDP between 2012 and 2020 (ILO-EU, 2013).

Recently, The United Nations Economic and Social Commission for Asia-Pacific (UNESCAP, 2013) estimated public investment needs for delivering social protection benefits in two policy areas — income security for the elderly and income security for persons with disabilities — in 10 countries in the region (Bangladesh, China, Fiji, India, Indonesia, Malaysia, the Philippines, the Russian Federation, Thailand and Turkey). In terms of income security for the elderly, granting benefits equivalent to the national poverty line in each country to all persons 65 and older, with administration costs of 5 percent, would be affordable for most countries, ranging between 1 percent and 4 percent of GDP by 2030. Providing income security for all persons with disabilities aged 15 to 65 would require between 0.14 percent of GDP in China to 0.87 percent of GDP in Bangladesh by 2030.

In terms of financing, the UNESCAP analysis (UNESCAP, 2013) finds that, in Asia Pacific, there is room to increase overall government expenditures, as the countries in the region are at or below the average spending for countries with comparable levels of GDP per capita. Furthermore, there is also scope for enhancing tax revenues in general in the region. The analysis also finds that the effects of additional spending are sustainable in terms of debt sustainability and price stability as long as they happen in the context of stronger macroeconomic fundamentals including higher labour force participation rates, accelerated earnings and investment growth.

Consumer subsidies

As policies that directly affect the cost of basic household goods, such as food or fuel, consumer subsidies can play an important role in reducing inequality (Bibi and Nabli, 2010; UNDP, 2012). Food expenses represent a large percentage of low-income households' budgets in developing countries (Banerjee and Duflo, 2007). Overall, as noted by de Janvry and Sadoulet (2009), basic good prices have a significant impact on the economic welfare of low-income households in a large majority of developing countries. For this reason, consumer subsidy policies have a great potential to improve the tertiary distribution of income, reducing the costs of household goods for which low-income households spend a disproportionate share of their incomes.

In addition to direct reductions in household expenses on basic household goods, consumer subsidies have an immediate impact on nutrition and consumption as well as the general well-being of low-income households (Brown and Gentilini, 2006; Jha and Bharat, 2010; Bibi and Nabli, 2010). Moreover, these policies can play an important role improving low-income individuals' ability to work, to perform well in school and to develop healthy social relationships, all of which are critical factors for reducing inequality (Coady, 2004).

Box 7.5. Consumer subsidy policies: operational mechanisms and targeting strategies

Operational Mechanisms

1. Government fixes the price of basic goods at lower-than-market price, using various policy instruments such as price ceilings, tax exemptions or transfers to domestic producers.
2. Government purchases basic goods from domestic producers or imports to distribute these goods at a subsidized price or for free, commonly through government distributional stores or warehouses or licensed private retail outlets.
3. Government grants a fixed amount of money to eligible households to purchase specific basic goods at market prices.

Targeting Strategies

1. Universal, granting unrestricted access to all individuals
2. Self-targeted, granting unrestricted access to all individuals, but subsidizing commodities that appeal only to a specific targeted group (e.g., the poor)
3. Means-tested targeted, granting access only to eligible households whose income or welfare level is below a certain level
4. Geographical targeted, granting access to households residing in specific locations, typically with high poverty levels or highly isolated
5. Demographic targeted, granting access to individuals from particular age, gender or some other demographic characteristic group

Source: *Alderman and Lindert (1998), Coady (2004), Coady et al. (2004).*

Consumer subsidy policies can be designed by combining different operational mechanisms and targeting strategies (see Box 7.5). These operational mechanisms can be divided into three general groups: (i) those where the government fixes the price of basic goods at lower-than-market prices, using various policy instruments such as price ceilings, tax exemptions or transfers to domestic producers; (ii) those where the government purchases basic goods from domestic producers or imports to distribute at subsidized prices or for free; and (iii) those where the government distributes a fixed amount of money to eligible households to purchase specific basic goods (Coady, 2004; Coady, et al., 2004). In addition, consumer subsidies could use various targeting strategies, ranging from universal access, to using self-targeted strategies (i.e., granting universal access to all individuals in principle while focusing subsidies only on specific goods that appeal only to low-income households), to strict mean-tested eligibility targeting (Coady, et al., 2004).

Depending on fluctuations in the prices of food and other basic commodities and population dynamics, universal subsidies on basic goods can take up very large portions of national budgets. For instance, the total expense on food subsidies in India represented US$12.4 billion, or 1 percent of the GDP (compared to 3 percent directed to education[4] in 2009 (Jha et al., 2011) and around 2 percent of the GDP in Egypt in 2009 (World Bank, 2010).

Even targeted consumer subsidies are vulnerable to issues such as leakages, with benefits going to individuals who were not intended as beneficiaries; high distribution and administrative costs, linked to transportation of goods and eligibility control costs; and corruption issues, such as store owners or distributors re-selling subsidized goods at higher prices (Bibi and Nabli, 2010; Cunha, 2010; World Bank, 2010; UNDP, 2012). For this reason, inequality-sensitive, effective and enforceable targeting strategies, together with measures aimed at

Box 7.6. Improvements to food subsidy—Philippines case

In an effort to improve targeting to poor households, the Government of the Philippines implemented the Family Access Card as a rapid response to the 2008 food crisis. The Family Access Card is issued to eligible poor households to access subsidized rice. It contains a bar code that identifies eligible poor households, reducing fraud leakages and improving the targeting to poor households. The Filipino Government's efforts to improve the targeting have shown positive results. Between 2006 and 2009, the proportion of poor households with access to subsidized rice nearly doubled, increasing from 26 percent to 48 percent. Additionally, despite leakages to the non-poor, evidence indicates that the rice subsidy program is progressive. The poorest 10 percent of Filipinos received around 16 percent of the programme's benefits, while the poorest 40 percent received 60 percent of the benefits in 2009.

Source: *Fernandez and Velarde (2012).*

reducing distribution and administrative costs, are critical to ensuring that the impact of consumer subsidies on inequality reduction is maximized (Coady and Skoufias, 2004; Coady et al., 2004).

Policies such as self-targeted subsidies, in-kind consumer subsidies of basic goods, food vouchers, ration cards and smart cards are being implemented as ways to improve targeting and reducing administrative costs of consumer subsidies. For example, self-targeted food subsidies were adopted in Morocco and Tunisia to better reach low-income households and to discourage wealthier households from using the subsidy, offering goods less appealing to the non-poor (UNDP, 2012). The implementation in Tunisia improved targeting, reaching the poor 1.1 times more than the non-poor and reducing fiscal expenses associated with consumer subsidies from 4 percent to 2 percent of the GDP by 1993 (Alderman, 2002; Tuck and Lindert, 1996).

Taxation

Redistribution though can be made possible only when fiscal policy makes it a priority. Mobilizing domestic resources is necessary for governments to be able to provide basic services and transfers to the poor that can improve the distribution of income. Most developing countries do not generate enough tax revenues to support progressive public spending. While tax ratios for advanced economies average 26 percent of GDP, ratios in developing economies fall in the range of 15 percent to 20 percent of GDP (see Figure 7.3).

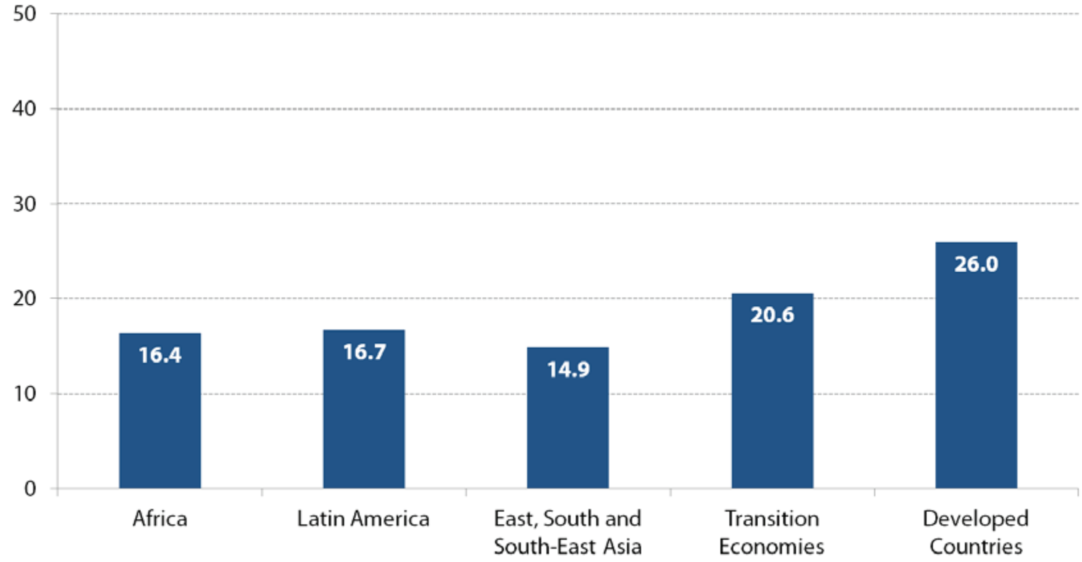
Thus, there is room in developing countries to mobilize additional resources. However, this needs to be done in a way that shifts the distribution of tax burden away from low-income households and towards those at the top end of the income distribution.

Policy measures to mobilize additional domestic revenue and improve the redistributive impact of tax systems include (i) improving the progressivity of tax systems, (ii) expanding the tax base, (iii) curbing tax evasion and avoidance, and (iv) improving tax administrative capacity.

Improve the progressivity of the tax system

If tax systems are to improve income inequality, they need to progressively tax higher income households more than those at the tail end of the distribution. The progressivity of a tax system depends largely on (i) the

Figure 7.3. Tax revenue, 2006–2010 (percent of GDP)



Source: *UNCTAD (2012).*

share of direct taxes in total revenue and (ii) the extent to which taxes rates differ according to income level groups (UNCTAD, 2012).

To strengthen direct taxation, income and property taxes should to be redesigned to ensure that they account for a greater share of overall revenue. Receipts from personal income taxes in developing countries tend to be low, with less than 5 percent of the population paying personal income, compared to 50 percent in developed countries, and only about 15 percent of income is taxed (IMF, 2011). Property is also relatively lightly taxed in developing countries.

The progressivity of tax schedules can be improved by increasing the number of tax brackets, increasing the threshold at which income taxes are first owed, or raising the top income tax rate (see Box 7.7 for an example of such reforms in Uruguay).

However, even when well-designed tax brackets are in place, the effectiveness of rate progressivity can be undercut by high personal exemptions and deductions that benefit those with high incomes. These include exemptions of capital gains, generous deductions for medical and educational expenses, and low taxation of financial income, which typically benefit higher tax brackets.

In general, indirect taxes such as VAT tend to be regressive, since the poor tend to spend a higher proportion of their income on goods and services than the rich do. They, however, can be made more progressive by taxing goods and services consumed by the rich and poor at different rates, such as basic food items. It can also increase tax rates on goods generally consumed by the rich, such as luxury goods (Prasad, 2008).

Box 7.7. Tax reform in Uruguay: from a regressive to a redistributive tax system

Few countries exemplify the effects that tax reform can have on equity and redistribution as clearly as Uruguay. In 2007, the Uruguayan Government implemented a set of tax reforms including a progressive labour income tax, a flat capital income tax and reduced indirect taxes with the aim of improving fiscal balance while redistributing income.

Personal income went from formerly being taxed at two brackets, with rates of 2 percent and 6 percent, to a system of 6 tax brackets with rates ranging from 0 percent to 25 percent. The reforms taxed capital income at a flat rate of 12 percent. Corporate income taxes were simplified, introducing one tax to replace several *ad hoc* taxes. Indirect taxation was lowered as part of the reform, with VAT rates decreased by 1 point and 4 points, and the tax base was increased to include certain goods and services before tax.

Tax administration was also modernized through technological and infrastructure improvements. The government dedicated efforts to increase tax morale and decrease evasion through a combination of stricter enforcement and fiscal education campaigns targeting younger generations.

As a result, tax revenue grew at a yearly average rate of 7.3 percent, while the ratio to GDP increased from 18.2 percent to 18.9 percent between 2006 and 2010. The contribution of indirect taxation to total revenue fell significantly from 74 percent to 54 percent, while the contribution of direct taxation rose from 17 percent to 35 percent. Empirical evidence on the impact of the reform on distribution confirms that these reforms reduced the tax burden of the poorest taxpayers while increasing that of the richest, reducing inequality by 2 Gini points.

Source: *Martorano (2012).*

Certain excise taxes, when applied to goods consumed by the higher income groups, such as tobacco, alcohol and cars, are another way of raising additional revenue while improving progressivity (Ross and Chaloupka, 2001, cited in IMF, 2011).

Expanding the tax base

Besides improving the progressivity of taxes, it is important to expand the tax base in developing countries as a way to mobilize additional resources. This means looking for ways to tax firms operating outside the rule of law. Since the informal sector represents a large share of GDP,[5] its potential as a source of tax revenue is significant (Schneider and Klingmair, 2004; Schneider et al., 2010). A recent study in developing countries estimates that taxing the informal economy could add between 35 percent and 55 percent to total tax revenues in some countries (Brautigam et al., 2008).

It is critical, however, that firms in the informal sector be taxed in a way that improves the distribution of income. Although commonly associated with survival activities, free-entry, little capital, low labour productivity and family-based labour, the informal sector has a modern side characterized as more entrepreneurial and capital-intensive, with more hired workers per firm, more dynamic technology, and substantial incomes (Ranis and Stewart, 1999). Thus, many tax evaders in the modern informal sector operate well above the margin of subsistence. A progressive tax schedule can ensure that larger informal companies comply with taxes, improving revenue collection, while the smallest are taxed at very low rates.

Furthermore, small informal businesses are burdened by a number of costs such as penalties and bribes that tend to be discretionary and can be higher than tax rates (Alm et al., 2003; Joshi et al., 2012). Bringing these firms into the tax system could reduce the burden of penalties and bribes and actually increase their profits. The payment of taxes by firms in the informal economy is also a way to engage them with the state and to provide them with services that would not be available if they operated outside the law. These include access to credit, increased opportunities to engage with large firms and government, and access to training and support programmes. Recent studies of small firms in Mexico and Sri Lanka provide some empirical evidence that formalization (taxation being a large component of this) has positive effects on firm profits, growth and survival rates (Fajnzylber et al., 2009; Mel et al., 2012, quoted in Joshi et al., 2012).

Curb tax avoidance

Tax avoidance and tax evasion are important barriers to revenue mobilization in developing countries.[6] On the one hand, loopholes, incentives and exceptions in tax regulations make it possible for taxpayers to legally avoid taxation. On the other hand, weak capacity to enforce and prosecute and low tax morale provide incentives for tax evasion practices.

To curb tax evasion, governments could look to simplify their tax systems and dissolve incentives and loopholes that do not serve specific goals. Some countries have been successful in reforming their tax systems to avoid distortionary tax exemptions. For example, a General Tax Law introduced in Mozambique in 2009 ended the special low-rate regime for large projects, increased the taxation of mining and petroleum companies and eliminated a 25 percent tax break over eight years for mining investment (Energy Information Administration, 2010). Similarly, a major tax reform took place in Uganda in 1997 that eliminated tax holidays and selective incentives, implementing a 30 percent tax rate on company income and greatly simplifying investment licensing (OECD, 2007).

Addressing loopholes and incentives needs to go hand-in-hand with legislative reforms to strengthen the tax systems. This includes improving enforcement, punishment and prosecution of violators, with strict penalties effectively executed by courts. The Tanzanian Revenue Authority, for instance, has taken important measures in recent years to eliminate tax loopholes and to improve the enforcement of legal sanctions against tax fraud. Until 2003, all tax investigations, including fraud and evasion, were settled within the Tanzanian Revenue Authority, which was seen as contributing to a lack of transparency. Since then, all fraud and tax evasion cases are referred to the Legal Services Department and more cases are tried in courts.

Strengthen tax administrative reforms

Finally, a well-functioning tax administration system remains critical for mobilizing resources. Successful tax administration reforms have moved towards coherent systems, in semi-autonomous revenue authorities protected from political interference, and with independence in operations and human resource management (Cornia et al., 2011). There is mostly only anecdotal evidence on the impact of revenue authorities, but this points towards an improvement in the effectiveness of revenue collection and of managerial and staff capacity (IMF et al., 2011). Creating and updating reliable databases of taxpayers is also an important mechanism to improve the effectiveness of tax authorities. Segmenting the taxpayer population between small, medium and large taxpayers, who have very different needs, can also help enable a better allocation of administrative resources and facilitate compliance. Generally, it is more important to allocate resources and staff to ensure compliance of large taxpayers, while the tax collection for small enterprises needs to be simplified. To this aim, many countries have set up large taxpayer offices that attend to the largest enterprises (usually a few hundred thousand per country).

7.2c. Improving opportunities for employment and income generation

Even if the pattern of growth moves towards inclusivity and governments are successful in implementing redistributive policies that favour lower income households, certain groups and disadvantaged populations face persistent unequal chances to access employment and income-earning opportunities. Disproportionately limited opportunities of specific groups arise as a result of formal discrimination in employment or education, for example.

Even if the pattern of growth moves towards inclusivity and governments are successful in implementing redistributive policies that favour lower income households, certain groups and disadvantaged populations face persistent unequal chances to access employment and income-earning opportunities.

Indeed, horizontal or group-based inequalities are the result of systematic discrimination and exclusion, typically based on preconceived stereotypes and prejudice. Their origins are commonly found in historical roots of dominance, slavery and the persistent deprivation of economic resources and access to human capital (Stewart and Langer, 2007; Stewart et al., 2010). These inequalities persist, creating inter-generational transmissions of group-specific inequalities (Stewart and Langer, 2007). Evidence, nonetheless, indicates that policies and changes in traditional social norms have the potential to break group-based inequalities. Inclusive growth policies have to adopt specific measures to ensure the inclusion of all in the benefits of the growth process.

Legislative or administrative reforms to improve access to employment and income

Dismantling horizontal or group-based income inequality typically requires legislative or administrative reform to repeal discriminatory provisions or to address discriminatory practices. Statutory or customary barriers to access or ownership of assets, for example, systematically affect certain groups. Assets are commonly used for economic activities (for example, land), as collateral for credits or to protect households during unexpected economic shocks. This is particularly important among those whose main source of income is directly linked to these assets. For example, prohibitions to land ownership or inheritance among women because of traditional cultural norms or lack of legal regulations largely contribute to increasing gender-based differences. This is specially the case in societies where women are forbidden from working outside their homes and where women's main source of income comes from working the family land (Deininger et al., 2010).

Evidence shows that interventions that give women formal ownership of land increase the income and productivity of women farmers (Menon and Rodgers, 2013). Different modalities of allowing land tenure for females include reforming inheritance laws so they do not discriminate against women, enabling them to participate in land sales and rental markets, government land titling and registration programmes.

For example, large-scale land registration programs in Ethiopia and Rwanda have had large positive effects on land investments and farm productivity, especially among female-headed households (Deininger, 2011; Ali et al., 2011). Similarly, land-use rights held by women in Viet Nam resulted in higher household expenditures, higher education for women and lower daily hours of housework (Menon and Rodgers, 2013). The reform of inheritance laws in India, which granted women the right to inherit or own land or capital property through amendments to the Hindu Succession Act, increased women's land inheritance, but also improved their control over economic resources in the household and their intra-household bargaining power, as shown in an increase in school attendance among girls (Luke and Munshi, 2007; Deininger, et al., 2010).

The recognition of collective rights is another legislative reform aimed at decreasing inequalities in asset ownership, particularly for indigenous groups (O'Neil and Piron, 2003). In Nicaragua, for example, collective property rights over land were granted to the Mayangna community of Awas Tingni (Feiring et al., 2003). This supported the recognition under the Nicaragua's constitution of the multi-ethnicity of the country.

Affirmative action policies are a common legal instrument aimed at improving the income-generating opportunities of specific groups (Holzer and Neumark, 2006). Affirmative action policies allocate jobs, public contracts, credit, access to higher education and legislative seats on the basis of belonging to a disadvantaged group (UNDP, 2004).

Affirmative action policies can use quotas or more flexibly defined goals and can be voluntary or legislatively mandated. Quota systems hold either a number or a percentage of positions for targeted groups, including racial/ethnic groups, women and people with disabilities. For example, legislation in Peru and Jamaica mandate that 5 percent and 3 percent of posts in government agencies be held by people with disabilities (Zero Project Employment Indicators, 2013). In India, quotas have been used to promote the employment of scheduled castes and tribes in the public sector.

Evidence suggests that affirmative action has reduced intergroup inequalities in places where it has been effectively implemented. In India, for example, the allocation of government jobs, admission to higher education and legislative seats to scheduled castes and tribes has helped members of these groups climb out of poverty and join the middle class. In South Africa, where since 1998 The Employment Equity Act requires employers to have demographically representative workforces, there have been significant increases in the proportion of top and middle managers who are black (UNDP, 2004).

Affirmative action policies, however, are not without controversies. Opponents argue that they can actually increase tension between groups and, if less qualified candidates are chosen strictly because of membership to a specific group, this can further perpetuate discriminatory stereotypes. Also, in places where affirmative action policies were intended as temporary measures to improve opportunities of specific historically disadvantaged groups, it has been difficult to exit from them. In India, for example, the intention was to end reservations once affected groups caught up, but, instead, the preferences have become self-perpetuating. Reserved legislative districts, which were supposed to end 10 years after the Constitution of 1950, have been extended at 10-year intervals and increased in range (UNDP, 2004). These caveats need to be taken into account when designing affirmative action policies to reduce group-based inequalities.

Promoting access to labour markets

Also affecting income-generating activities are barriers to participating in productive employment. These barriers can relate to skill sets, information gaps or mobility constraints of individuals and groups. For instance, skill constraints imply that individuals lack the appropriate technical skills to respond to the demands of prospective employers. This is likely to be the case for high school drop-outs or low-skilled workers. Information constraints in the labour market, coupled with poor social networks to find jobs, implies that the poor and other vulnerable groups have limited information on employment and income-earning opportunities. In addition, mobility constraints that are tied to poor infrastructure and underdeveloped transportation systems imply that people may not be able to move to where the jobs are.

Thus, policies to promote the higher employability of the poor and disadvantaged groups should involve a package of instruments that address different barriers to access employment and income generation opportunities. Measures such as establishing employment information systems, job fairs and career counselling initiatives can provide workers (such as youth) with information to understand the job market. Skill training programmes (technical and vocational) for low-skilled workers and programmes that facilitate the entry of graduates into labour markets can promote access to employment. Improving transit access to employment and removing bottlenecks to the mobility of labour can also help improve access to income-generating activities.

In Peru, for example, a series of measures was taken to prioritize access to employment among youth, who are systemically marginalized from labour markets. A youth employment action plan that included a reduction in time and costs related to job applications, skills training, work experience programmes, career guidance services and a labour market information system was established in 2009. More than 390,000 young people were assisted with the measures of the action plan by the end of 2012 (ILO, 2012).

Improving the access of women to the labour market must also address gender-based discrimination and the specific barriers that women face when entering productive employment. Constraints such as a lack of maternity protection (including maternity leave and care for dependents), or bans to labour market regulations for part-time job creation leave women working in the informal sector (Dannecker, 2000; World Bank, 2012a).

Some examples of government effort to expand childcare in an effort to improve gender equality in the work place include Chile and India. Since 2005, the Chilean Government has significantly increased the number of free public nursery and kindergarten for children living in the poorest areas of the country (from 14,400 public nurseries in 2005 to 64,000 in 2008 and from 84,000 kindergartens in 2005 to about 127,000 by 2009) and launched the Chile Crece Contigo programme, which provides free childcare for the most vulnerable 40 percent of the population. In India, the National Rural Employment Guarantee Programme (NREGA), includes on-site care centres, among other worksite facilities (e.g., medical aid, drinking water and shade) (ILO, 2012a).

Access to credit

Access to finance is another constraint faced by the poor and disadvantaged groups for income generating opportunities. This is particularly true for isolated groups in remote rural areas. Without access to finance, poor individuals have to rely on their own limited savings and earnings to invest in their education, to become entrepreneurs, or to take advantage of promising growth opportunities. For this reason, policy makers need to place much effort on facilitating the access of low-income households and disadvantaged groups to finance and financial services.

Factors that typically constrain access to finance include geography or physical access. For example, Ethiopia has less than one bank branch per 100,000 people and Botswana has 1 branch per 10,000 square kilometres. Delivery channels that can help in this regard include mobile branches, whereby trucks drive through remote areas and provide financial services at a scheduled frequency, and non-branch outlets such as corresponding banking agreements, whereby bank services are sold by non-financial corporations on behalf of the bank.

Another barrier limiting access to finance is lack of proper identification and documentation for isolated groups. For instance, banks in Bangladesh, Cameroon, Chile, Nepal and Zambia require at least four documents, including a passport or ID card, a recommendation letter, a wage slip and proof of domicile. But 60 percent of Cameroon's population works in the informal sector and cannot produce a wage slip. In fact, 61 percent of the overall population of sub-Saharan Africa is unable to provide a formal proof of domicile. Improvements in this requirement would not require great sophistication or cost. Several developing countries are using relatively inexpensive IT solutions to provide citizens with such identity cards. For example, the Government of Indonesia launched a project in 2010 to provide electronic identification cards (e-KTP) to around 172 million people. The card carries 27 data points, including blood type, employment status, physical and mental disabilities and biometric fingerprints, and can be used as an identification proof for banking, insurance and taxation purposes. Bolivia and Nepal also use 'smart' identification cards for inclusion in other financial services such as biometric ATMs (Gelb and Clark, 2013).

Apart from such non-price barriers, price barriers also limit access to finance. Many institutions have minimum account balance requirements or fees that are beyond the reach of many potential users. For instance, in Mexico, 70 percent of those without accounts cite high fees and minimum balances as a key constraint. Alternative banking institutions like credit unions and community development banks can improve access to banking products and related services such as insurance for all citizens and small and medium enterprises.

7.3. Closing gaps in education, health and nutrition

The analysis presented in this report has shown that inequalities in material well-being are not limited only to the domain of income, but that large and persistent gaps in education, health and nutrition outcomes exist between households across income, spatial and gender dimensions. For instance, while almost all children from households in the highest income quintile in Latin America and the Caribbean, the Middle East and East Asia finish primary education, only 80 percent of children in the poorest quintile are able to do so. Gaps in nutrition are also quite stark, with children from the lowest wealth quintiles anywhere from two times to five times more likely to be stunted than children from the highest wealth quintiles in most developing regions.

Public expenditure especially in the social services can have a big impact on equalizing and improving education, health and nutrition outcomes for different groups, especially the poor, who cannot access services at market prices.

Moreover, trends in inequality in health and nutrition outcomes across wealth quintiles over the past two decades do not show signs of improvements. During the 2000s, inequality in fertility rates between households in different wealth quintiles actually increased in Latin America and sub-Saharan Africa. Similarly, the gap in child mortality rates between the poorest and richest wealth quintiles increased in South Asia during the same period. Malnourishment rates fell much faster among rich households than among poor households across all regions.

Gaps in education, health and nutrition outcomes are also evident between rural and urban households. Children living in urban areas are more likely to complete primary school than children in rural areas. In some regions, the rural-urban gap in primary school completion rates can be as much as 30 percent. Inequality between urban and rural households in health and nutrition outcomes is actually increasing in some regions. For instance, gaps in fertility rates between urban and rural areas increased in sub-Saharan Africa and the Middle East.

Gender inequality in education, health and nutrition outcomes is also quite significant. Gender gaps in educational attainment are falling, but still remain persistent across all regions, with male children 14 percent more likely to finish primary school than their female counterparts in regions like sub-Saharan Africa and South Asia. Moreover, the gender gap in health and nutrition actually increased in some regions of the developing world from 2000 to 2010. Across all regions, girls are not just more likely to die before the age of five than boys, but improvements in male child mortality rates were larger than those for female children.

In sum, there are wide and persistent gaps between households across wealth, spatial and gender dimensions in all non-income indicators of material well-being, especially in health and nutrition. Moreover, while there are some improvements in the distribution of education outcomes as measured by primary completion rates, the gap in health and nutrition remains persistent — or is even growing.

While income inequality is an important determinant of inequalities in education, health and nutrition, it does not fully explain their persistence. Furthermore, economic growth on its own is no guarantee for improvements in well-being, especially for poor households and other marginalized and disadvantaged groups. Therefore, closing gaps in education, health and nutrition will require additional policy measures.

Policy measures that can help close gaps in education, health and nutrition outcomes include:

a. Increasing public expenditure in social services, with a specific focus on the sectors with the largest disparities and targeted to groups with the lowest levels of education, health and nutrition outcomes
b. Strengthening service delivery programmes and modalities
c. Strengthening institutional capacity to deliver social services and implement programmes
d. Instituting governance policies to promote institutional responsiveness
e. Expanding access to opportunities for disadvantaged groups and low-income households to access services

7.3a. Public Expenditure

In the previous section, the macroeconomic role of public expenditure in moderating income inequality and promoting inclusive growth was discussed. Yet public expenditure especially in the social services can have a big impact on equalizing and improving education, health and nutrition outcomes for different groups, especially the poor, who cannot access services at market prices.

The provision of basic social services such as education, health and nutrition is a key function of governments and an important instrument to promote human development and to ensure a more equal distribution of outcomes. In fact, various international initiatives, such as the MDGs and the Universal Declaration of Human Rights, promote the universal provision of services. Also, most developing countries have legislation that demands universal provision of goods and services. However, the reality on the ground is that programmes and services very often favour certain groups or leave others behind.

Basic social services need to be available in sufficient quantity; physically and economically accessible; affordable without being a disproportionate burden for the poorest; and of good quality in terms of relevance and cultural propriety.

The provision of social services does not just help achieve universal human rights, but also contributes to inclusive growth. For instance, investments in health can contribute to growth, since healthier workers are likely to be more productive. Investments in education also increase labour productivity and higher levels of education are associated with higher wages. Moreover, the return on investment in education is found to be particularly high for less developed countries (UNESCAP, 2013).

The adequacy of public expenditure policies in addressing gaps in education, health and nutrition largely depends on the level, composition and distribution of public spending as well as the mix of policy instruments that governments use to provide services and opportunities to all. Tackling gaps in education, health and nutrition will require a public expenditure policy that has the objectives of:

i. Increasing the level of public expenditures in education, health and nutrition sectors
ii. Prioritizing expenditure in the social sectors that exhibit the largest gaps
iii. Targeting low-income households or disadvantaged groups that lag behind in education, health and nutrition outcomes.

Expanding the level of public expenditure

Improving equality is easier when resources are plentiful and growing and when governments are able to improve the reach and quality of social services and social protection (UNDESA, 2004).

Indeed, evidence shows that increases in spending in key social sectors can lead to improved outcomes and have a significant impact on levels of inequality (de Mello and Tiongson, 2008; Holzner 2010; Sylwester, 2002; Chen and Zhang, 2009; Martinez-Vazques, 2008). In Latin America, for example, an increase in public expenditure in education from 4.1 percent to 5.2 percent of GDP between 2000 and 2010 was accompanied by an improvement of secondary enrolment rate from 72 percent to 86 percent (UNCTAD, 2012) and by a reduction in the gap in years of education across income quintiles (Cruces and Gasparini, 2011). Similarly, a study for African countries finds that a 10 percent increase in per capita public health expenditure could reduce under-five child mortality by 25 percent or it could lead to a 21 percent reduction in the infant mortality rate (Anyanwu and Erhijakpor, 2009). This supports the proposition that government expenditure on basic services, such as health and education, matters for outcomes.

Optimizing the composition of public expenditures

Aggregate expenditure, however, is insufficient and does not guarantee improvements in the distribution of education, health and nutrition, especially if spent ineffectively. The total redistributive effect of public spending will largely depend on its composition, based on the specific needs of each country (Lustig et al., 2011; Cuesta, 2013). Certain interventions tend to be much more effective in reducing inequality in specific outcomes than others.

Public expenditures should flow towards the social services with the biggest gaps. That means, for example, that expenditures on the health sector in rural areas need to grow faster than expenditures in urban areas. In countries where secondary school enrolment rates lag behind primary completion rates, more resources should be directed towards secondary education. Large gaps in nutrition outcomes across wealth quintiles imply that expenditures should target those at the tail end of the distribution.

Although spending in education, health, nutrition, social protection and infrastructure are all necessary to decrease gaps in well-being, which of these areas receive higher resources and what interventions are favoured within these categories matter to a great extent. Studies that measure the effectiveness of certain interventions in reducing inequalities in national contexts should be used to determine how to allocate resources across sectors and programmes. For example, a study of six Latin American countries reveals that, in the region, public spending on education and health has been more equalizing (in terms of income) than cash transfers (Lustig et al., 2013).

Also, within sectors, certain interventions are more equalizing than others. Spending on primary and secondary education has a greater equalizing power than spending on tertiary education (Cuesta and Martinez-Vazquez, 2012). Total social public spending on education in Zambia, for instance, is found to be regressive because of its focus on tertiary education, which disproportionately benefits the top quintile (Cuesta et al., 2012). Investments in early childhood development are also proven to have strong redistributive power while being highly cost-effective. Public investments in infrastructure, especially in rural and geographically isolated areas, have strong positive growth and inequality-reducing benefits.

Even with low levels or cuts on spending, interventions can be equalizing if the focus of spending remains on the sectors that stands to benefit groups at the tail end of the distributions more than others. For instance, although the Philippines experienced a cut in education spending from 4 percent to 2.8 percent of GDP between 1998 and 2003, the country's focus on basic education for the poor, allocating a significantly greater percentage to primary and secondary compared to higher tertiary education, ensured a redistributive effect (Manasan et al., 2008). Similarly, Thailand has achieved universal health service coverage, despite spending less than the recommended WHO 2030 benchmark of 5 percent of the GDP on health (UNESCAP 2012).

Ensuring access for poor, excluded and disadvantaged groups

Furthermore, the distribution of policies and how they are targeted matters for equality. Not all expenditures benefit households of different income levels or different groups to the same extent (Martinez-Vasquez, 2008). Social policies that aim to address unequal outcomes need to focus on the sectors, geographic locations and groups that are more isolated and disadvantaged. This means that policy priority should be given to increasing the availability and quality of social services and programmes for the poorest and most excluded groups. For example, unequal geographic location-based access to health services in countries such as Zambia or Indonesia largely explained the non-progressive effect of public health spending (Cuesta et al., 2012; World Bank, 2013).

Investments in infrastructure can also reduce gender inequalities by reducing women's unpaid care burden. Investments in basic water and energy, for example, reduce the time women spend in household unpaid labour, allowing them to spend more time in paid labour. This not only reduces income inequality across genders, but also improves the mothers' health, which, in turn, benefits children's well-being (Seguino, 2013).

Improving the quality and relevance of public basic services is also very much needed to reduce inequality in education, health and nutrition outcomes. It is often the case in developing countries that the poor or disadvantaged groups receive access to lower quality public services, even though they stand to benefit more from these services. Therefore, improvements in the quality of social services provided will disproportionately help poor and disadvantaged households improve their education, health and nutrition outcomes. For example, differential quality of schooling prevents enrolment and completion of primary and secondary levels of educations from translating into equal opportunities to enter the labour force. There is a need to match curricula with the evolving needs of the poor and disadvantaged (Mehrotra, 2000; Ghai, 2000) and focus on preparing students for transition to work. This will not only improve the earning capacity of graduates, but also provide more incentives to attend school, especially for those facing high opportunity cost to education.

7.3b. Service delivery modalities and programmes

Beyond focusing on the level, composition and targeting on public expenditure to improve equality, closing gaps in education, health and nutrition requires specific programmes and interventions that provide social services to low-income households and disadvantaged groups.

In general, interventions for inequality reduction need to cut across sectors and deliver integrated packages of services tailored to the specific needs of the groups left behind. More specifically, interventions that work towards reducing inequalities in education, health and nutrition include (although not exclusively) multi-sector early childhood development programmes, integrated local service delivery systems and community-based programmes.

In general, interventions for inequality reduction need to cut across sectors and deliver integrated packages of services tailored to the specific needs of the groups left behind.

Early childhood development

Early childhood development programmes are a set of interventions that have proven to be effective in reducing gaps in education, health and nutrition in tandem. These programs are aimed at children from birth until they enter primary school and include health, nutritional and cognitive development components as well as educational services for caretakers (UNESCO, 2007).

Early childhood development programmes are designed to work across sectors to achieve a series of mutually reinforcing objectives to improve the well-being of children. They directly provide health and nutrition services to participating low-income and disadvantaged children while also providing the stimulation, support and attention to improve their school readiness and chances earn higher future incomes. They also serve as *de facto* childcare, allowing the mothers of participating children to increase labour force participation and higher earnings (Deutsche, 1998).

A large body of evidence shows that intervention during the early years of a child's life can compensate for disadvantages at birth, regardless of individual characteristics such as poverty, gender and ethnicity, and thus can have a significant impact in equalizing well-being outcomes (Deutsche, 1998; World Bank, 2006; UNESCO, 2007; Heckman, 2011; Woodhead et al., 2009; Currie, 2001). Furthermore, evidence shows that it can also have positive impacts on the future earning capacity of children.

Early childhood programmes can also reduce gender inequality. The impact of participation on health has been found to be higher for girls than for boys (Jukes, 2006). Similarly, girls who participate in early childhood programmes are much more likely to begin school at the appropriate age and complete primary school than girls who do not (Arnold, 2004). Among Nepalese children who took part in an early childhood programme, an equal proportion of girls and boys began first grade, compared with 39 percent of girls and 61 percent of boys who did not participate (Arnold et al., 2000).

Integrated service delivery systems

For services to be delivered in a way that improves the outcomes of the most disadvantaged groups, they need to be continuous and organized around individuals and communities' specific needs and characteristics. However, service delivery systems in developing countries are often characterized by high levels of fragmentation, which leads to gaps in access and quality of services, particularly in the most remote areas and among the most disadvantaged groups (McIntyre et al., 2008).

Integrated delivery systems are networks of providers and organizations that aim to deliver a coordinated continuum of services to a defined population and are accountable for the outcomes of the population served. Integrated systems in health, for instance, include services from pregnancy and birth through childhood, adolescence, adulthood and elderly care.

Integrated delivery systems that group relevant services under one scheme and overcome issues of fragmentation can improve access to services and avoid fallouts of beneficiaries as they transition from one level of service to another.

For example, an integrated vision of education could help decrease dropout rates from primary to secondary schools. This Report has provided evidence that there is a significant drop from primary school completion rates to secondary school enrolment and that an existing gender gap in primary school only widens in secondary education. This indicates that there are particular barriers faced by children, especially girls, during this transition that need to be addressed for overall improvement in educational attainment. This requires an integrated vision of educational services that includes inter-sectoral interventions. Such policies include school feeding programs, flexible schooling models for working children, school-based health interventions and various types of financial subsidies and conditional cash transfer systems.

Integrated services are particularly common in the areas of maternal and child health and nutrition services. For example, in the Lao People's Democratic Republic, an integrated maternal neonatal and child health services package, being implemented since 2009, aims to reduce stunting through the delivery of nutritional products to pregnant and lactating women and to children aged 6 months to 23 months.

Community-based programmes

Interventions that support participatory, community-based programmes focused on improving outcomes in education, health and nutrition can also have an important impact in closing gaps in well-being. Families and communities are uniquely positioned to assess, analyse and take action to address specific bottlenecks in the delivery of services and interventions that aim to improve their well-being. Furthermore, by involving beneficiaries in programme design, implementation and evaluation, participatory programmes help empower communities, create a sense of ownership and foster accountability to poor clients. Community outreach and community-based services are also useful strategies for reaching isolated groups or those who would not otherwise seek services.

For example, a community-based health and family planning initiative was established in Navrongo, a disadvantaged and remote community in Ghana, with the objective of decreasing high infant mortality and high fertility rates. The programme aimed to overcome the previously identified problems of underuse of nurses at health care facilities and the unwillingness or inability of individuals in rural communities to seek health services. To do this, the programme directly involved community leaders and community members in health care decisions and relocated nurses from health centres to rural villages. In four years, the programme became associated with a reduction in fertility rates of 15 percent and a drop in child mortality by 60 percent (Ashford et al., 2006; Russell, 2008).

Another example of a successful community-based health programme is that of Pakistan, which aims to improve health equality by training and deploying female community health workers, known as 'lady health workers', to address unmet health needs of rural populations and slum dwellers. The workers are residents of the communities in which they work and must be recommended by the community. Each lady health worker is attached to a government health facility, from which they receive training, a small allowance and medical supplies. Evidence shows that the population served by lady health workers has substantially better health indicators than the control population (WHO, 2008).

Community engagement is vital not only in the provision and use of health services, but also in the promotion of improved health practices and behaviours, such as hand-washing with soap to reduce the incidence of diarrhea and early and exclusive breastfeeding to reduce child mortality. Promoting such measures at the community level has the potential to improve health outcomes for all, particularly those who face more barriers to accessing education and health services.

Community-based programmes can also help decrease disparities in educational outcomes by mobilizing resources, improving accountability of schools to the communities that they serve and ensuring the responsiveness of education to local needs. For example, community involvement in schools in Guinea not only increased gross enrolment rates, but also improved the quality of services by resulting in drops of student-teacher ratios by 10 percent. Additionally, it significantly increased the number of students who passed the secondary school entrance exam from 36 percent in 1997 to 60 percent in 1999 (Miller-Grandvaux and Yoder, 2002).

Furthermore, community engagement can impact the extent to which individuals seek educational services. For example, in South Sudan, work in sensitizing communities about the importance of sending children, in particular girls, to school is reported to have increased girls' enrolment by 96 percent (Miller-Grandvaux and Yoder, 2002).

Institutional bottlenecks often prevent interventions and services from reaching low-income households or disadvantaged groups.

7.3c. Strengthening institutional capacity for equality

While the previous section focused on the programmes and interventions that deliver in closing gaps in education, health and nutrition, this section will focus on the institutional capacity necessary to effectively implement these programmes.

Institutional bottlenecks often prevent interventions and services from reaching low-income households or disadvantaged groups. For example, health clinics in developing countries often face shortages of trained doctors and nurses, equipment and mechanisms to cooperate with other related social services. Building institutional capacity to improve the performance of delivery channels has the potential to improve the access and quality of services and increase uptake among poor and marginalized communities.

Some important tools to build institutional capacity include improving the quantity and quality of human resources to deliver services, strengthening local governments so that services reach the most marginalized communities and enabling inter-sectoral coordination so that services are comprehensive.

Improve human resources to deliver services

Sufficient and adequate human resources to deliver services that are distributed equally across communities are necessary for closing gaps in well-being. It is also essential that the personnel understand the local context and be trained on sensitive issues pertaining to the communities in which they work. Without more and better-trained service delivery staff, quality services will not reach the poorest, most remote rural and ethnic minority communities.

Often, marginalized areas in developing countries have difficulty attracting qualified health workers and teachers. Measures to encourage a more equal distribution of personnel include implementing compensation schemes that provide incentives to work in deprived or remote districts. Incentives can be in the form of monetary compensation, such as hardship bonuses, or non-financial rewards, such as training and career opportunities, subsidized housing, schooling or food, or improved working conditions. In Ecuador, for example, teachers in remote areas receive additional pay as well as priority in being granted tenure, which has resulted in a significant reduction in the disparities in the distribution of teachers across communities (UNICEF and UN WOMEN, 2013).

Other modalities of ensuring an equal distribution of human resources include periods of compulsory service for those recently trained or recruited. In Indonesia, for example, recently graduated doctors must serve five years in rural areas or shorter periods in the most remote regions. In nine years, this measure was able to rise staffing by 97 percent in rural areas and by 200 percent in the most remote regions (UNICEF and UN WOMEN, 2013).

Also, it is important that service delivery personnel meet the specific needs and requirements of the clients they serve. This might require ongoing training in culturally and linguistically appropriate service delivery. Health workers, for example, should be sensitive to traditional medicinal practices preferred by their clients.

Decentralization and strengthening local government capacity

Decentralizing service provision to local government, which is closer to where services are used, better knows local conditions and can be held accountable for the quality of services, is another important mechanism to ensure the delivery of effective, efficient and quality services that are well adapted to the demands of the local context and the specific needs of communities. Decentralization can positively influence the ability of local governments to provide services by increasing their funding and improving their administrative functions. It can also strengthen the participation of citizens in local government by instituting regular elections, improving access to information and fostering mechanisms for participation in decision-making (Mansuri and Rao, 2012).

For example, in order to deal with unequal access to public health services, the Government of Indonesia introduced decentralization policies, granting greater control over public health spending to district-level local governments. Results indicate that the decentralization policy improved the public health service use, particularly for the poorest half of the population (Kruse et al., 2009; World Bank, 2013).

However, it is often the case that the resources and capacities of local governments to deliver quality services are low and unequally distributed. These gaps can reproduced inequality further, as the local governments of areas with fewer resources and capacities tend to deliver poorer quality services than those with better financial and human resources. Some evidence suggests that, as the distance of a locality from major urban centres increases, so does the inequality in access to basic services (Sikander and Shah, 2010). Also, local governments in different types of territories face different constraints and difficulties. Those in rural areas face isolation, long distances, small populations and the resulting higher costs of providing basic services. Those in urban areas tend to have more resources, but face more complex issues with regard to transportation, lack of housing, sanitation and security (IFAD, 2011). Improving the capacities of local governments to formulate interventions that reach all groups in their communities and eliminate barriers to equitable outcomes can go a long way in addressing an unequal distribution of services.

Specific measures are in fact needed to ensure that institutions operate not only efficiently, but also responsively to the needs and aspirations of those who are lagging behind.

Capacity to collaborate across sectors

The capacity to collaborate across sectors is also extremely important to implementing integrated service delivery systems and to improving the distribution of well-being, particularly when it pertains to health. Inter-sectoral collaboration is needed across different departments and agencies within a government or different levels of government and with social service providers, community-based organizations and other relevant stakeholders.

Effective inter-sectoral collaboration requires a shared vision of the problem to be addressed, a strong relationship among partners, clear leadership, adequate, sustainable and flexible resources, and efficient structures and processes for collaboration (Dahaner, 2011).

Some ways to encourage inter-sectoral collaboration include the provision of specific funding dedicated to inter-sectoral work or national or state legislation mandating that sectors work together. For example, the district of Catacahi in Ecuador has successfully implemented inter-sectoral collaborations in health through the provision of specific funding set aside in each region to support inter-sectoral work (WHO, 2008a).

7.3d. Governance policies to promote institutional responsiveness

Institutional capacity, as shown in the previous section, is critical to the reduction of inequality in non-income dimensions of well-being. However, it is not sufficient. Specific measures are in fact needed to ensure that institutions operate not only efficiently, but also responsively to the needs and aspirations of those who are lagging behind.

Even if governments have the capacity to design and implement policies for reducing inequalities in well-being, there can be a significant disconnect between the spirit of these policies and their implementation on the ground due to the uneven influences of different sectors of a society. Effective accountability mechanisms are therefore needed to ensure the full implementation of inequality-reducing measures, particularly those based on public expenditures. A variety of instruments within the broad realm of social accountability, such as social audits, citizen report cards and public expenditure tracking surveys, can be used to this purpose (UNDP, 2006; Benequista, 2010).

A social audit is a mechanism of public accountability through which citizens participate in formally structured assessment processes aimed at evaluating government performance. Citizen report cards are participatory surveys documenting users' feedback on services, including issues of availability, reliability, quality, the responsiveness of service providers and hidden costs arising from corruption. Public expenditure tracking surveys are initiatives that facilitate citizen groups' tracking of spending trends and analysis of their consistency with budget allocations. These mechanisms have been used in many countries and contexts with direct impact on the promotion of equitable and efficient service delivery. As a result of public expenditure tracking surveys in the education sector in Uganda, for instance, the estimated misuse of funds for government-run primary schools went from 87 percent during the period from 1991 to 1995 to between 10 percent and 20 percent between 1999 and 2000 (Kanungo, 2004).

While mechanisms of social accountability have a great potential to ensure government responsiveness, a number of conditions must be fulfilled to ensure their effectiveness (UNDP, 2011a). The first element is an enabling legislation recognizing citizens' right to access public information and the value of civil society's involvement in the monitoring of public institutions. In addition, it is important to ensure the objectivity and independence of the process through which data for the audit is collected as well as the ability of participating civil society organizations to understand relevant technical issues. Furthermore, evidence shows that social accountability mechanisms like the ones mentioned above tend to work only when service users are willing and able to challenge the authority of those who, in the process, control the services contesting the power relations that generate unequal access (World Bank, 2006; McGee and Gaventa, 2011).

Corruption can also greatly hinder the implementation of policies and programmes to reduce disparities in education, health and nutrition (Gupta et al., 1998; UNDP, 2008). It can, for instance, fuel tax evasion and divert tax revenues, thus harming the progressivity of the social expenditure levels and increasing the actual cost of public services aimed at benefiting people with lower incomes and marginalized populations. It also perpetuates unequal access to critical opportunities for social mobility, such as those provided by education. In addition, it has been shown that corruption is not gender-neutral and is one of the elements compounding women's disadvantage in access to key services and opportunities for economic advancement (Huairou Commission and UNDP, 2012). The promotion of transparency and the eradication of corruption are therefore critical measures for the reduction on inequality.

Fighting corruption will require systemic interventions through an integrated approach that must be transparent, non-partisan, evidence-based and impact-oriented. Key components of such an integrated approach will include targeted institution-building and the pursuit of social and situational prevention strategies (UNODC, 2003).

Institution-building measures for anti-corruption should be undertaken at multiple levels of the state machinery. Civil service reform (with a focus on employee culture and the creation of positive incentives) and judicial system reform (aimed at strengthening independence, quality and consistency of judicial decision-making) are examples of broad-based anticorruption measures with a direct impact on service delivery. It has been calculated, for instance, that, by introducing an automated case management system and other measures to increase the transparency of its commercial court system, the Government of Serbia managed to reduce the inventory of pending cases by 24 percent, thereby drastically diminishing the opportunity cost of seeking remedy in the judicial system (Commission on the Legal Empowerment of the Poor, 2008).

Broad-based interventions may need to be complemented by more targeted measures, such as the establishment of specialized anti-corruption institutions, accompanied by appropriate measures to ensure their autonomy and effectiveness. In addition — and perhaps most important in the context of inequality reduction — the engagement of the private sector, civil society organizations and the media can yield major results in major anticorruption efforts. For instance, the "Stop Stock Out Campaign" had a very large impact in ensuring access to essential medicines for all in Kenya and Uganda by combining community monitoring and media campaigns (UNDP, 2011b).

7.3e. Improving opportunities for low-income households and disadvantaged groups

Besides the implementation of programmes to address inequality and measures to improve the capacity and accountability of governments, disadvantaged groups need to be reached through specific reforms that address the particular access barriers that they face, including social norms that allow for exclusion and discrimination. As evidenced in the analysis presented in this report, social norms are significant in explaining inequality in education, health and nutrition outcomes across gender and place of residence.

Inequalities in education across gender can be a consequence of a low demand for girls' education if services do not take into account their specific needs. Reforms to make schools more adequate for girls include training teachers and administrators in gender sensitivity, hiring female teachers and investing in gender-sensitive infrastructure such as latrine facilities. In Nigeria, for example, the government aimed to address gender gaps in education through a female teacher-training scholarship scheme that increased female teachers in rural primary schools. The scheme funded training courses for young women from marginalized areas (particularly remote rural areas) who agreed to return to their rural communities to teach in primary schools. As of 2011, a total of 3,246 candidates were pursuing their education under the scheme.

Disadvantaged groups need to be reached through specific reforms that address the particular access barriers that they face, including social norms that allow for exclusion and discrimination.

Inequalities in education and health between urban and rural households are likely to result from longer distances to services for rural households and discrimination to certain ethnic groups in rural areas. Where limited access is a consequence of long distances to where services are provided, policies that direct greater resources to geographically isolated regions can be especially effective. There is evidence that increases in investments in infrastructure can improve levels of well-being. A study based on a sample of 73 countries found that a 10 percent improvement in a country's infrastructure index is associated with a 5 percent reduction in child mortality, a 3.5 percent reduction in infant mortality and a 7.8 percent reduction in maternal mortality (Leipziger et al., 2003).

Language barriers can be another important obstacle for certain groups to access services in education and health. In multi-ethnic or multi-linguistic contexts, for example, providing services exclusively in the national language, on the grounds of creating ethnic or linguistic unity or shared cultural values, often provokes resistance and places minority groups at an even greater disadvantage in accessing services (Swain, 2005). Cultural sensitivity and awareness are particularly important in access to health, where services must be respectful of the culture of individuals and local medicinal practices. Jambi Huasi ("Health House" in Kichwa) in Ecuador is a health clinic geared towards the health needs of indigenous populations in the city of Otavalo.

The clinic offers traditional indigenous health practices as well as Western medicine and serves over 1,000 people every month. Its main focus is family planning and reproductive health, but it also offers traditional herbal remedies, general medicine and dentistry. The clinic also does outreach and education based on traditional culture, values and language (UN DESA, 2009).

Ensuring access to marginalized groups involves shifting people's mindsets. Disability is a good example. For a long time, disability has been seen through the lens of a 'medical model'. In this approach, disability is seen as a 'problem' that is inherent in the individual and that must be addressed through medical interventions. In contrast, the 'social model' of disability focuses on the elimination of social barriers that prevent persons with disabilities from enjoying the same human rights as other people. By focusing on the elimination of barriers rather than conceiving persons with disabilities as problems to be fixed, the social model empowers persons with disabilities to participate in all dimensions of life as active, contributing members of society. In practice, the application of such an approach requires the appropriate combination of mainstreaming and targeted interventions. For instance, persons with disabilities often share the same health needs as the general public. Therefore, ensuring that persons with disabilities can attain the highest possible level of health care will require, first and foremost, intervention in the health care system to remove the barriers that prevent persons with disabilities from accessing general health care. In some cases, though, it will also be necessary to establish adequate specialized services responding to especially complex needs related to certain primary conditions, e.g., multiple sclerosis, cystic fibrosis, severe arthritis or schizophrenia.

7.4. Addressing social exclusion by promoting agency, combating discrimination and transforming inequality-reproducing cultural norms

Processes of social exclusion — driven by multiple economic, social, political and cultural factors — prevent individuals and groups from meaningfully contributing to the shaping of their environments and from living a life of their own choosing. As such, they play a major role in entrenching inequalities of outcomes and opportunities.

Political space for inequality reduction requires viable pro-equalization majorities, which, in turn, are contingent upon the capacity of marginalized and disadvantaged groups to organize politically in order to have their voices heard. In other words, the effective contestation of unequal power structures necessarily involves the removal of the multiple barriers that block the meaningful participation of entire segments of society in economic, cultural and political life.

As noted in chapter 6, most policy makers perceive that there is limited political space for action on inequality in their countries. However, political space for inequality reduction can be created through specific actions aimed at expanding the domain of political feasibility. Two areas of work are, in this sense, of critical importance: broadening participation in public and political life by strengthening the agency, voice and political participation of those who have been left behind by development processes; and combating discrimination, also by undoing prejudices, stereotypes and other cultural norms that reproduce and justify inequality.

7.4a. Broadening participation in political and public life

Civic engagement — through participation in political parties and other forms of collective organizing — is essential to the aggregation of individual preferences into explicit policy demands (Przeworski et al., 1999;

Edwards 2009). In fact, coordinated mobilization is indispensable for people who wish to pursue a common interest and, as noted by Robinson (2010), solving collective action problems is probably the single most important factor contributing to a group's capacity to claim specific policies. For this reason, in a very fundamental sense, the realization of greater equality is predicated on the achievement of greater voice and political space by those who have been excluded from the benefits of development.

While it is important for civic spaces to remain autonomous from the state, there is a lot that government can do to legitimize and facilitate civic engagement and inclusive participation (Fowler, 2003; CIVICUS, 2013). A first critical step is the establishment of a regulatory environment, based on a strong recognition of the freedoms of association and expression that are conducive to the formation and effective functioning of civil society organizations. A second important step is the promotion of a political environment in which civil society organizations are seen as legitimate and valuable interlocutors of public authorities and in which formal spaces are established for civic engagement — what Fowler (2003:9) calls "arrangements where contending ideas about the public good can be advanced and negotiated".

Political space for inequality reduction requires viable pro-equalization majorities.

Especially important for creating the political space for inequality reduction are mechanisms that ensure the involvement of civil society in policy debates on national development plans and budget priority setting. In particular, more than 20 years after the first experience in Porto Alegre (Brazil), participatory budgeting remains an extremely vital experience with a great potential to deliver inequality-reducing budget choices (UNDESA, 2008). In South Africa, for instance, the South African NGO Coalition has been able to significantly influence the budget process over the years by providing inputs based on large-scale consultations in multiple poor and marginalized settings (UNDESA, 2005, 2008).

While overall strengthening of civic spaces is important, a generic promotion of civil society may not be sufficient to generate momentum for inequality reduction. Attention should also be paid to the specific economic, social and cultural barriers that prevent the poor and marginalized from participating in public life. Civil society organizations must themselves be inclusive, accountable and transparent if they are to effectively promote greater social justice. Legislation and other mechanisms — such as voluntary codes of conduct — can contribute to promoting the application of democratic standards to the internal workings of civil society organizations. In addition, measures should be taken to address constraints such as those involving the availability of time, sufficient technical understanding of relevant policy issues, and limited access to social capital, all of which often prevent low-income individuals from engaging in the public sphere.

As political parties remain the main vehicle in most democratic systems through which policy demands are articulated and negotiated in the political arena, their ability to represent different segments of society and support a truly inclusive democracy — in which nobody is left out of the public dialogue based on income or other grounds — is critical to distributional outcomes. In order to strengthen the ability of political parties to perform their democratic function, the following measures could be considered: encourage programmatic versus clientelistic approaches by creating an environment in which, for each election, political parties are required to develop a political platform that clearly outlines policy preferences; promote, through appropriate regulations, transparency in financing, budget and procurement practices; and encourage the application of democratic standards to the internal processes of political parties from leadership selection to internal decision-making (International IDEA and UNDP, 2009).

Promoting voter participation and the integrity of electoral processes is another way to ensure that the voice of all citizens — regardless of their income or other conditions — is heard. Action in this area will span many issues, including: fairness of boundary delimitation and districting; independence and capacity of electoral management bodies; voter registration and regulation of eligibility to elect and be elected; campaign regulation, including media coverage and campaign financing; and management of actual election operations — just to mention a few of the relevant issues (International IDEA, 2002). Promoting women's participation in elections as voters and candidates and encouraging political participation of vulnerable and marginalized groups such as youth, persons with disabilities and minorities are also important interventions to ensure that electoral processes have the potential to serve as a transformative tool for democratic governance.

New technologies hold great potential to create inclusive citizen networks. For instance, platforms based on simple SMS capacity for collecting and mapping inputs from citizens such as *Ushahidi* —originally developed to track election violence in Kenya — have enabled initiatives as diverse as the mapping of community needs in Chisinau (Moldova), the tracking of plant disease in Argentina and the documenting of instances of xenophobia in South Africa, just to mention a few (UNDP, 2012). In order to make this potential even more relevant to inequality-reduction, action should be taken to ensure that all individuals, regardless of their economic or social status, can have easy and cheap access to relevant communications platforms and technologies as well as to the skills to use them.

7.4b. Promoting normative frameworks that are conducive to inequality reduction

As dominant groups benefit from better access to resources, they have an incentive to maintain the conditions of inequality that benefit them (Darity, 2005). For this, they rely on crafting inequality-justifying ideologies. These ideologies are translated into stereotypes and norms that define the ways in which groups supposedly differ and embed these beliefs into social interactions as well as into legal and cultural institutions (Seguino, 2013; Darity et al., 2010; Stewart, 2002). Statutory and customary barriers based on these stereotypes and norms can block certain groups from gaining access to, or ownership of, certain assets, as is the case, for example, with limitations to women's inheritance (Deininger et al., 2010; Cooper, 2001). Other expressions of inter-group differences are the systematic exclusion of groups from receiving educational or health services, from fully participating in the labour market, or from being politically recognized or represented.

Because prejudice and discrimination are often embodied in the law itself and other public institutions, inter-group inequalities tend to persist, creating inter-generational transmissions of group-specific inequalities (Stewart and Langer, 2007; Darity, 2005). As group affiliation is a major foundation of identity, group-based discrimination can also affect the way individuals recognize themselves, thus preconditioning detrimental behaviours, justifying unfounded social stereotypes, and perpetuating discriminatory responses from other groups (Stewart et al., 2010).

Prejudice and discrimination are based not only on gender, racial, ethnic or cultural grounds, but also on economic grounds. In fact, the poor as a group also experience discriminatory practices based on stereotypes. The poor are often perceived as being responsible for their situation because they are 'lazy', 'dishonest', 'disinterested in education' or are 'unwilling' to make other efforts that could improve their lot (OHCHR, 2011). These beliefs translate into regulations that, directly or indirectly, target the behaviours of the poor and penalize these people. Some measures may be directed at removing the "image of poverty" (OHCHR, 2011) by, for example, removing homeless persons from public spaces.

Civic engagement, in and of itself, can greatly contribute to shifting people's opinions, interpretative schemes and attitudes, as noted by Habermas (1992) in his reflections on the action of "opinion-forming associations" operating in the public sphere to refashion the messages of the constituted authority. However, voice and participation alone may not be sufficient to fully reverse deeply entrenched inequalities. In order to have effective contestation, one would have to assume that disadvantaged groups have the power to actually translate their voices into action for change — which is not the case for all social groups (Seguino, 2009).

On the other hand, ideologies, norms and stereotypes, although persistent, are not static and can respond to policy interventions (Diekman et al., 2004; Darity, 2005). There is a space, therefore, for specific interventions addressing the norms underpinning the inter-generational transmission of group-based inequalities. These include: effective enactment of anti-discriminatory legislation; improving access to justice for the poor, marginalized and disadvantaged; introduction of affirmative action policies; and engagement with the media and other public opinion makers.

The introduction of anti-discriminatory legislation based on the human rights principles of equality and non-discrimination, together with the reform of existing discriminatory laws, may not be always sufficient, but is nonetheless greatly important. Legislative reform to increase access of disadvantaged groups to better livelihoods and overall control over material resources through employment, credit, property and ownership of resources can, for instance, have an effect on their bargaining power and consequently on their opportunities (Seguino, 2013). The reform of inheritance laws in India improve women's inheritance rights not only increased women's land inheritance, but also improved their control over economic resources in the household and their intra-household bargaining power, as shown in an increase in school attendance among girls (Luke and Munshi, 2007; Deininger et al., 2010). These policies can be supplemented with interventions directed at the dominant group, such as policies that distribute the care burden more equitably between men and women (Seguino, 2013).

Collective rights could be another corrective measure aimed at granting equal rights to historically excluded groups (O'Neil and Piron, 2003). An interesting example of collective rights is the property rights over land granted to the Mayangna community of Awas Tingni in Nicaragua. The Inter-American Court of Human Rights ruled in favour of the Mayangna community, granting them property rights on their land and obligating them to demarcate and title the Awas Tingni territory (Feiring et al., 2003; UN DESA, 2009). This supported the recognition of the country's multi-ethnicity under Nicaragua's constitution.

Ensuring that people can access justice systems (state systems as well as traditional and other non-state justice systems) allows for the peaceful resolution of disputes and provides fair, independent remedies for grievances involving discrimination and the unequal distribution of benefits and entitlements in society. It is essential that disadvantaged groups be able to access justice in order to claim rights and entitlements that can help them address the underlying causes of exclusion and marginalization. Furthermore, legal identity is fundamental for inclusion in society and a key to citizenship and active participation in development processes. Support for justice institutions and empowering people to claim their rights and entitlements, such as through legal aid and legal awareness, can be significant means of reducing the barriers that imprison groups in cycles of poverty and inequalities. Additionally, action must be taken to address the specific barriers faced by poor and marginalized groups in accessing justice, including costs associated with accessing justice systems, lack of information and lack of legal recognition as well as institutional barriers such as lack of resources, corruption and lengthy court procedures.

Affirmative action interventions that aim at directly promoting the socio-economic status of specific groups in the areas of education, employment and business creation (Holzer and Neumark, 2006) are a common way of trying to improve the opportunities for disadvantaged groups, but they can also help break deeply held stereotypical beliefs. These policies can use quota systems, holding either a number or a percentage of positions for targeted disadvantaged groups. Quotas have been established for racial and ethnic groups, women and persons with disabilities. The Indian quota system is a positive example of the use of affirmative action to reduce group-based inequalities. Used in India to reserve a number or share of positions for historically disadvantaged minorities (i.e., scheduled castes and scheduled tribes, as well as women), these quotas covered jobs in public and private sector enterprises, political seats and education (Prakash, 2009; Pande, 2003; Pande and Ford, 2011). Evidence indicates the attainment of increased high-skill employment levels and household expenditure among scheduled casts (although not as great among scheduled tribes) (Prakash, 2009; Howard and Prakash, 2011).

This policy framework advocates for the moderation of income inequality through inclusive growth pathways and for increased efforts to close gaps in education, health and nutrition and to tackle prejudice, discrimination and exclusion.

The media are a key tool to shape the public's opinion towards redistribution. Media outlets constitute the main communication channel from which citizens receive the political and social information and value cues that they use to form opinions (Hughes and Prado, 2011). Individuals' support of policies to address inequalities is influenced by how inequality is framed as a policy issue and it is based on the information that they have about the capacity of the state to address this issue (e.g., the operation of the tax system or the efficiency of public projects). Shifts in media policies that ensure diversity in groups, worldviews and lifestyles represented in the media can influence perceptions of equity (Hughes and Prado, 2011). Generally, the media have tended to reinforce an elite dominant worldview and contributed to the acceptance of a status quo that favours them. Media diversity can allow a wide range of ideas, voices and lifestyles to enter public discussions and increase the possibility of support for change. Featuring the voices of the disadvantaged could have important implications for the elites' and non-elites' appetite for redistribution. Public services media systems that allow ownership of media across civic and political groups can improve the diversity and capacity of media outlets to shape public opinion towards the reduction of inequality.

Beyond strengthening civil engagement, opening policy space for inequality reduction might require raising the concern and engagement of the business community, based on the conception that reducing inequality is beneficial for all. Because the business community controls strategic material resources, it has the power to initiate or deter policies, but also the explicit incentives for maintaining a status quo that favours it. Historical evidence from the emergence of welfare states in Europe provides an example of how elites can be prompted to take action if they (i) perceive poverty or inequality as a threat to them (through risk of social uprisings, contagious disease or shortage of labour, for example), (ii) feel some responsibility towards the poor, and (iii) believe that something can be done about it (de Swaan, 1988, as cited in Blofield, 2011).

Thus, shaping the opinions of the elites so that they feel a responsibility towards distributional outcomes in their countries and influencing their perception that governments lack the competencies to address issues of inequality can affect the business communities' engagement in inequality reduction. A recent study of the elites' perceptions of poverty in Brazil provides evidence that the elites do see the poor as a threat to physical security and property. However, it also shows that they have no confidence in the government's ability to address issues of inequality and poverty and, in general, have no sense of responsibility towards the poor. Positioning inequality reduction as a means to increase public security and focusing on the progress made in this area could be important strategies to change the elites' perception of state capacity and to move them towards greater engagement in inequality reduction (Reis, 2011).

Finally, building support and momentum for inequality reduction requires that policy makers develop and pursue a coherent, evidence-based and values-driven policy narrative with clear objectives and action points that compels stakeholders to act. This narrative should highlight government achievements in inequality reduction to build confidence in the government's capacity and emphasize the benefits of redistribution for all. Furthermore, a coherent policy strategy should bring relevant policy together within a single overarching framework and redirect resource from short-term disconnected initiatives towards interlinked and comprehensive policy actions.

7.5. Conclusion

Evidence provided in this analysis has shown that the inequality of outcomes and that of opportunities are interlinked and mutually reinforcing. The report puts forward a comprehensive policy framework to address inequality in all of the dimensions that matter for well-being, focusing especially on those households and groups who remain consistently on the margins of economic, social and political life. This policy framework advocates for the moderation of income inequality through inclusive growth pathways and for increased efforts to close gaps in education, health and nutrition and to tackle prejudice, discrimination and exclusion.

Notes

1. In many cases, labour market interventions such as public work and training and skills programmes are included in social protection (Asian Development Bank, 2003; World Bank, 2012a; Barrientos and Hulme, 2008).
2. Cecchini and Martínez, 2012; Barros et al., 2010; ECLAC, 2011; Esquivel et al., 2010; Gasparini and Cruces, 2010; Jaramillo and Saavedra, 2010; World Bank, 2012a; Barrientos and Hulme, 2008; UNICEF, 2012.
3. This means their coefficient is higher than the market income Gini (Lustig et al., 2011)
4. Public expenditure on education includes government spending on educational institutions (public and private), education administration and transfers/subsidies for private entities (students/households and other private entities). UNESCO Institute for Statistics, Source: World Development Indicators: *http://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS*
5. On average, the informal sector accounts for 40 percent of economic activity in developing countries (IMF, 2011).
6. Avoidance is the use of legal means to avoid paying taxes; evasion is the use the illegal means.

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ISBN 978-92-1-126367-1

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