

Economic & Social Affairs

# Inequality Matters



Report on the World Social Situation 2013



United Nations

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Department of Economic and Social Affairs

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Report of the World Social Situation 2013



United Nations

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## Department of Economic and Social Affairs

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## Preface

As the international community shapes its vision for a post-2015 global development agenda, worsening inequalities across and within many countries have been an important part of the discussions. There is a growing recognition among stakeholders that economic growth is not sufficient to sustainably reduce poverty if it is not inclusive.

When world leaders adopted the Millennium Declaration in 2000, they pledged to create a more equitable world. Yet, in many countries, the ladder of opportunity has become much harder to climb. Large disparities in access to health and education services, land and other productive assets between the richest and the poorest households persist. Wealth inequalities are inherited across generations and are present across locations, trapping large pockets of society in poverty and exclusion.

Across the globe, people living in poverty and vulnerable social groups have been hit particularly hard by the global financial and economic crisis and its aftermath, adding urgency to the need to address inequalities and their consequences. There is growing global consensus on the need to bridge the divide between the haves and the have-nots.

As underscored in the outcome document of the United Nations Conference on Sustainable Development (Rio+20), finding ways to effectively reduce inequality will require a transformative change and an inclusive approach to the three dimensions of sustainable development – economic, social and environmental. Properly balanced social, economic and environmental policies and institutions can help reduce inequalities when they ensure equality of opportunity, foster job creation and ensure access to adequate social protection for all. Much can be learnt from those countries that managed to reduce inequality even under an uncertain and volatile global environment. The international community can play a role in providing support to policies that help reduce inequality.

Eight years after the 2005 issue of the *Report on the World Social Situation*, which warned the world of an inequality predicament, this *Report on the World Social Situation 2013: Inequality Matters* brings renewed attention to inequality. The *Report* places special focus on the impacts of inequality and highlights policies that have been effective at reducing inequality and have helped improve the situation of disadvantaged and marginalized social groups.

The *Report* illustrates that growing inequalities can be arrested by integrated policies that are universal in principle while paying particular attention to the needs of disadvantaged and marginalized populations. It reminds world leaders that, in addressing inequalities, policy matters.

The *Report* shows that inequality does not affect only the poor, but can be detrimental to growth, stability and well-being in general. It aims to provide

effective guidance on striking the necessary macroeconomic and social policy balance for achieving sustainable development and in doing so, also seeks to provide practical inputs to the ongoing multi-stakeholder consultations to elaborate the post-2015 global development agenda.



Wu Hongbo

*Under-Secretary-General for Economic and Social Affairs*

## Acknowledgements

The *Report on the World Social Situation*, prepared biennially, is the flagship publication on major social development issues of the Department of Economic and Social Affairs of the United Nations Secretariat.

Wenyan Yang led the team from the Division for Social Policy and Development (DSPD) that prepared the present issue of the *Report*. The core team at the Division included Lisa Ainbinder, Sarangerel Erdembileg, Astrid Hurley, Felice Llamas, Marta Roig, Amson Sibanda and Makiko Tagashira. Kevin Chua, a consultant, and Leena Kemppainen, Lisa Morrison, Julie Pewitt, Hantamalala Rafalimanana and Simone Wilson, who have moved to other offices, also contributed to early drafts. Yu Jia, Pytrik Oosterhof and Josiane Toundzi joined the team at a later stage. Bibi Sherifa Khan and Sylvie Paillet, also of DSPD, provided valuable assistance. Tessa Too-Kong edited the *Report*.

Input to the *Report* was also received from an independent expert, Jayati Ghosh.

Preparation for the *Report on the World Social Situation 2013* started with overall guidance from Jomo Kwame Sundaram, then Assistant Secretary-General for Economic Development. Finalization of the *Report* benefited from valuable guidance of Assistant Secretary-General for Economic Development Shamshad Akhtar and DSPD Director Daniela Bas. Mariangela Parra-Lancourt, Special Assistant to ASG Akhtar, provided constructive feedback and suggestions.

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## Explanatory notes

The following symbols have been used in tables throughout the *Report*:

Two dots (..) indicate that data are not available or are not separately reported.

A dash (—) indicates that the item is nil or negligible.

A hyphen (-) indicates that the item is not applicable.

A hyphen (-) between years, for example, 1990-1991, signifies the full period involved, including the beginning and end years.

A minus sign (-) indicates a deficit or decrease, except as indicated.

A full stop (.) is used to indicate decimals.

A slash (/) between years indicates a statistical year, for example, 1990/91.

A dollars sign (\$) indicates United States dollars, unless otherwise stated.

Annual rates of growth or change refer to annual compound rates, unless otherwise stated.

Details and percentages in tables do not necessarily add to totals, because of rounding.

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The following abbreviations have been used:

ADB	Asian Development Bank
AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
DHS	Demographic and Health Surveys
ECA	Economic Commission for Africa
ECLAC	Economic Commission for Latin America and the Caribbean
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
GDP	Gross domestic product
GFSR	Global Financing Stability Report
GNI	Gross national income

GNP	Gross national product
HIPC	Heavily Indebted Poor Countries
HIV	Human immunodeficiency virus
IEE	Intergenerational earnings elasticity
ILO	International Labour Organization
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MDG	Millennium Development Goal
MONA	Monitoring of Fund Arrangements
MPI	Multidimensional Poverty Index
NEET	Not in <u>E</u> ducation, <u>E</u> mployment, or <u>T</u> raining
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
OPHI	Oxford Poverty & Human Development Initiative
PPP	Purchasing power parity
PRGF	Poverty Reduction and Growth Facility
SBA	Stand-By Arrangements
SDRs	Special Drawing Rights
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UN-HABITAT	United Nations Human Settlements programme
UNICEF	United Nations Children's Fund
US	United States
WEO	World Economic Outlook
WHO	World Health Organization

For analytical purposes, countries are classified as belonging to either of two categories: more developed or less developed. The *less developed regions* (also referred to as *developing countries* in the *Report*) include all countries in Africa, Asia (excluding Japan), and Latin America and the Caribbean, as well as Oceania,

excluding Australia and New Zealand. The *more developed regions* (also referred to as *developed countries* in the *Report*) comprise Europe and Northern America, plus Australia, Japan and New Zealand.

The group of *least developed countries* comprises 49 countries: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia. These countries are also included in the less developed regions.

In addition, the *Report* uses the following country groupings or sub groupings:

*Sub-Saharan Africa*, which comprises the following countries and areas: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cabo Verde, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Comorian Island of Mayotte, Mozambique, Namibia, Niger, Nigeria, Réunion, Rwanda, Saint Helena, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Swaziland, Togo, Uganda, United Republic of Tanzania, Zambia and Zimbabwe.

*East Asia and the Pacific*, which comprises the following countries and areas: American Samoa, Cambodia, China, Fiji, Indonesia, Kiribati, Democratic People's Republic of Korea, Lao People's Democratic Republic, Malaysia, Marshall Islands, Micronesia (Federated States of), Mongolia, Myanmar, Palau, Papua New Guinea, Philippines, Samoa, Solomon Islands, Thailand, Timor-Leste, Tonga, Vanuatu and Viet Nam.

*South Asia*, which comprises the following countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

*Middle East and Northern Africa*, which includes the following countries and area: Algeria, Djibouti, Egypt, Iran (Islamic Republic of), Iraq, Jordan, Lebanon, Libya, Morocco, Syrian Arab Republic, Tunisia, Occupied Palestinian Territory and Yemen.

*Eastern Europe and Central Asia*, which includes the following countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Poland, Romania, Serbia, Slovakia, the former Yugoslav Republic of Macedonia and the successor countries of the former Union of Soviet Socialist Republics, comprising the Baltic republics and the member countries of the Commonwealth of Independent States. These countries are also referred to as *transition economies* in this *Report*.

*Heavily indebted poor countries* (as of September 2012): Afghanistan, Benin,

Bolivia (Plurinational State of), Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda, United Republic of Tanzania and Zambia.

*Landlocked developing countries:* Afghanistan, Armenia, Azerbaijan, Bhutan, Bolivia (Plurinational State of), Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Lesotho, Malawi, Mali, Mongolia, Nepal, Niger, Paraguay, Republic of Moldova, Rwanda, Swaziland, Tajikistan, the former Yugoslav Republic of Macedonia, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

*Small island developing States and areas:* American Samoa, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, British Virgin Islands, Cabo Verde, Commonwealth of the Northern Mariana Islands, Comoros, Cook Islands, Cuba, Dominica, Dominican Republic, Fiji, French Polynesia, Grenada, Guam, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Micronesia (Federated States of), Montserrat, Nauru, Netherlands Antilles, New Caledonia, Niue, Palau, Papua New Guinea, Puerto Rico, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Seychelles, Singapore, Solomon Islands, Suriname, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu, United States Virgin Islands and Vanuatu.





## OVERVIEW

World leaders, in adopting the Millennium Declaration in 2000, pledged to create a more equitable world. Yet, income inequality has increased in many countries over the last few decades, as the wealthiest individuals have become wealthier while the relative situation of people living in poverty has improved little. Disparities in education, health and other dimensions of human development still remain large despite marked progress in reducing the gaps. Various social groups, especially indigenous peoples, persons with disabilities and rural populations, suffer disproportionately from income poverty and inadequate access to quality services and, generally, disparities between these groups and the rest of the population have increased over time.

This is not new. The *Report on the World Social Situation 2005* warned of an inequality predicament and concluded that failure to pursue a comprehensive, integrated approach to development would perpetuate such a predicament, causing all to pay the price. The *Report on the World Social Situation 2013* builds on that earlier report, emphasizing that addressing inequalities is not only a moral imperative but it is also necessary in order to unleash the human and productive potential of each country's population and to bring development towards a socially-sustainable path. The *Report* examines recent inequality trends and analyses their social, economic and political impacts, highlighting new developments and paying particular attention to the situation of disadvantaged social groups. It shows that inequality not only matters to people living in poverty, but also for the overall well-being of society. The *Report* illustrates that growing inequalities can be arrested by integrated policies that are universal in principle yet pay particular attention to the needs of disadvantaged and marginalized populations. It reminds world leaders that, in addressing inequalities, policy matters.

While income inequality across countries has receded somewhat in recent years, it has risen within many countries. Non-economic inequalities have either remained stable or declined, yet remain high. Chapters 1 and 2 present these trends, and compare inequality across regions. The chapters show that some countries have defied the general trend and managed to reduce inequalities, demonstrating that policies can make a difference.

The implications of rising inequality for social and economic development are many. There is growing evidence and recognition of the powerful and corrosive effects of inequality on economic growth, poverty reduction, social and economic stability and socially-sustainable development. Chapter 3

discusses these impacts and concludes that the many adverse consequences of inequality affect the well-being not only of those at the bottom of the income distribution, but also those at the top. Specifically, inequality leads to a less stable, less efficient economic system that stifles economic growth and the participation of all members of society in the labour market (Stiglitz, 2012). With high income inequality, the rich control a greater share of the income. As richer households typically spend a smaller share of their income than the poor, this unequal concentration of income and wealth reduces aggregate demand and can slow down economic growth. Inequalities also pose a serious barrier to social development by slowing the pace of poverty reduction. Inequality limits opportunities for social mobility, including intergenerational mobility. Income inequality leads to uneven access to health and education and, therefore, to the intergenerational transmission of unequal economic and social opportunities, creating poverty traps, wasting human potential, and resulting in less dynamic, less creative societies. Inequality also increases the vulnerability of societies (and, especially, of particular groups within societies) to economic crises and prolongs the time it takes to recover from such crises. These varied impacts can combine to generate potent sources of social tension, fertile ground for political and civil unrest, instability and heightened human insecurity.

Inequality is also an issue of social justice. People want to live in societies that are fair, where hard work is rewarded, and where one's socioeconomic position can be improved regardless of one's background. A unique contribution of the present *Report* is that it zeroes in, in Chapter 4, on the challenges facing disadvantaged and marginalized social groups, and draws particular attention to the issue of social justice. It examines the distinct impacts of inequalities on youth, older persons, persons with disabilities, indigenous peoples and migrants. The disadvantages faced by these groups reinforce one another. Young people and older persons across the globe experience a broad range of disadvantages that are associated with their age. Indigenous peoples generally fare worse than the non-indigenous in every socioeconomic dimension. There are also significant social inequalities between persons with disabilities and the general population in educational and health outcomes and in access to full and productive employment and decent work opportunities. Migrants also face manifold disadvantages, including discrimination. Disadvantages are greater among women than among men within these groups. The chapter draws attention to the measures policymakers should take to identify disadvantaged groups, and implement policies addressing different social groups' needs to combat inequalities effectively.

The global financial and economic crisis and its aftermath (see Chapter 3) have added urgency to the need to address inequalities and their consequences. Draconian fiscal austerity programmes still dominate attempts to reduce sovereign debt in many developed countries, and a growing number of developing countries are cutting public expenditure. Popular discontent has grown and trust in Governments is dwindling, even in countries with consolidated democracies,

as people believe they are bearing the brunt of crises for which they have no responsibility and feel increasingly disenfranchised. Furthermore, the slow—and still unstable—recovery in output has not resulted in an across-the-board recovery in jobs and wages, leaving millions to struggle under the burden of the crisis. The social contract is under threat in many of these countries. Given the current political context, it is important to bring forth evidence-based strategies to address this persistent problem. Much can be learned from countries that have been able to reduce inequalities despite the uncertain global economic outlook.

Indeed, the experience of some countries shows that growing inequality is neither destiny nor a necessary price to pay for economic growth. Policy makes a difference. A fundamental premise of the *2013 Report* is that policies are also responsible for growing or, conversely, declining inequality. Chapter 5 focuses on policy measures that have been effective in addressing inequality and brings the analysis of the volume to bear on policy recommendations that address various aspects of inequality. It emphasizes that gains made through targeted interventions alone are unlikely to be sustained without broad-based coverage. It suggests that a set of cohesive, coherent and complementary policies is needed to combat inequality in all its dimensions.

As the international community pledges to accelerate progress towards achieving the Millennium Development Goals and shapes its global vision for the development agenda after 2015, stakeholders recognize that, along with eradicating poverty, tackling inequalities should be at the core. The *Report on the World Social Situation 2013* aims at providing effective guidance on striking the necessary macroeconomic and social policy balance for achieving this end, and creating inclusive and equitable societies for all.

The *Report* offers some key policy recommendations for consideration:

- The promotion of productive employment and decent work for all should be an objective not only of social policy but also of macroeconomic policy.
- The emphasis in public spending must be on universal, good-quality, essential services such as health, nutrition, sanitation and education. Access to education at all levels, in particular, has significant distributional effects.
- Urgent action must be taken to establish, and extend, a basic social protection floor that ensures access to basic services for all. Fiscal consolidation measures must be designed in such a way as not to undermine essential public spending on such services.
- The basic principle of universalism must be combined with particular policy focus on disadvantaged groups, especially those affected by multiple deprivations. Gender inequalities are cross-cutting and must be addressed actively when dealing with all other dimensions of inequality.

- In all policy matters, relational inequalities and socially- and culturally- generated patterns of discrimination and exclusion must be confronted.

## Chapter 1

# Recent trends in economic inequality

Disparities in income, wealth and consumption have tended to dominate the discussion on inequality, not only because they contribute directly to the well-being of individuals and families, but also because they shape the opportunities people have in life as well as their children's future: access to goods and services available on the market depends on economic resources as do—to a considerable degree—good educational outcomes and good health. Chapter 1 describes different kinds of economic inequality across and within countries and compares levels and trends of inequality across regions.

The evidence presented shows that economic inequalities have declined somewhat across countries in recent years but they have risen within many countries, as wealthier individuals have become wealthier while the relative situation of the poorer segments of the population has not improved. However, trends have been far from universal: as countries have grown and developed, inequalities have increased, in many cases, and have declined in some others. Successful cases of reducing inequalities illustrate the importance of policies and institutions in shaping inequality trends.

### I. Trends in global economic inequality

Globally, the distribution of income remains very uneven. In 2010, high-income countries – that accounted for only 16 per cent of the world's population – were estimated to generate 55 per cent of global income.<sup>1</sup> Low-income countries created just above one per cent of global income even though they contained 72 per cent of global population. An average gross domestic product (GDP) per capita of \$ 2,014 in sub-Saharan Africa in 2010 stood out against regional GDPs per capita of \$ 27,640 in the European Union and \$ 41,399 in North America.

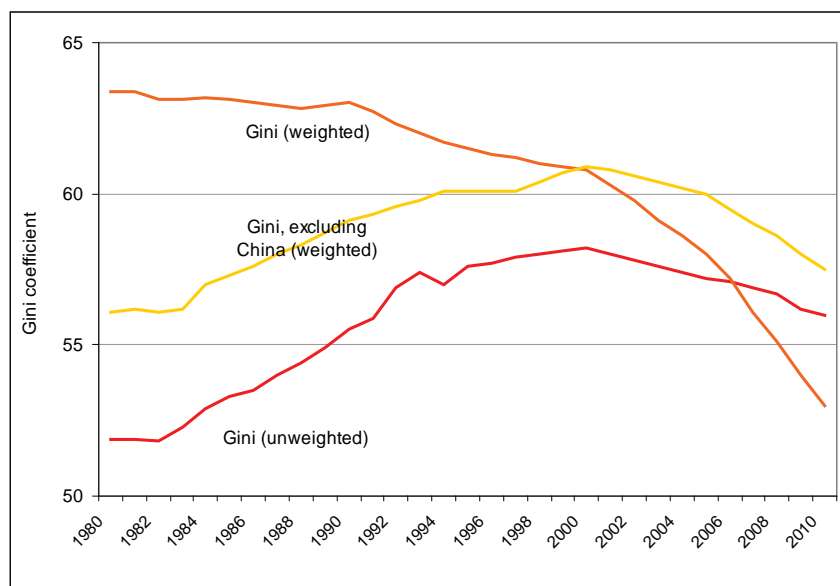
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1 High-income countries are those with a gross national income (GNI) per capita of \$12,476 or more in 2011, while low-income countries are those with a GNI per capita of \$1,025 or less, according to the World Bank. GDP adjusted for purchasing power parity (PPP) at 2005 constant international dollars from the World Bank World Development Indicators Database, accessed between 15 and 30 July 2012 and available [online] at: <http://databank.worldbank.org/ddp/home.do?Step=3&id=4>.

The magnitude and direction of change in income distribution among countries since 1980 depend significantly on the indicator used. One way of measuring international inequality is to examine the Gini coefficient of per capita incomes of countries. This Gini coefficient has been calculated by taking each country's GDP per capita as one observation or data point. Figure I.1 shows trends in this non-weighted Gini coefficient of international inequality, as well as trends in a variant of this coefficient, obtained by weighting each national GDP per capita by each country's population—to account for the fact that China's economic growth, for instance, should have affected more people than growth in a smaller country. Based on this population-weighted Gini, international income inequality has been declining since the early 1980s. Statistically, most of this decline has been due to the rapid growth of China.

Figure I.1 indicates that international income inequality increased quite sharply between 1980 and 2000, both measured through the weighted Gini, if China is excluded, and through the non-weighted Gini. Several factors played a role in this, particularly declining incomes in Latin America during the 'lost decade' of the 1980s and the prolonged economic implosion of countries in sub-Saharan Africa, as well as the economic collapse of transition countries in the late 1980s and 1990s. However, since about 2000, the decline in international

**Figure I.1. International income inequality, 1980-2010**



Source: Based on Milanovic (2012), figure 3, reproduced and extended to 2010 using the World Bank World Development Indicators Database, available [online] at: <http://databank.worldbank.org/ddp/home.do?Step=3&id=4>. Accessed between 15 and 30 July 2012, and World Population Prospects: The 2010 Revision. Comprehensive Dataset (United Nations, sales no. 11.XIII.8).

inequality has been observable even without China. Stronger economic growth in all three major developing regions (Asia, Africa and Latin America) has contributed to this trend.

Despite this recent improvement, international inequality remains very high –in fact, excluding China, the Gini coefficients of international inequality were higher in 2010 than they had been in 1980. That is, the country where a person was born, or where they live, is an important determinant of their expected income, given the enduring, large disparities in national income per capita.

In addition, while low-income countries have been growing faster than high-income countries and international inequality is falling, the absolute gap in mean per capita incomes between these two groups of countries increased from \$ 18,525 in 1980 to close to \$ 32,900 in 2007, before falling slightly to \$ 32,000 in 2010.<sup>2</sup> The absolute gap between incomes per capita of low- and upper-middle income countries has more than doubled, from around \$ 3,000 in 1980 to \$ 7,600 in 2010.

The magnitude of income disparities across countries is large, but so are disparities across individuals within each country. Figure I.2 shows national GDP per capita as well as average GDP per capita of the top and bottom 10 per cent of the population of selected countries. The mean income of a resident of Albania or Russia was lower than that of an individual in the lowest 10 per cent of the distribution in Sweden, who also earned almost 6 times more than an Albanian in the bottom 10 per cent of their country's distribution, 80 times more than a Bolivian in the bottom decile, and 200 times more than an individual in the bottom decile in the Democratic Republic of the Congo in the late 2000s. At times, income distributions of different countries, even within the same region, barely overlap. For instance, the average income of an individual in the bottom decile in South Africa is higher than that of an individual in the richest decile in the Democratic Republic of the Congo.<sup>3</sup> Yet, internal distribution also has a strong impact on the relative economic situation of individuals in different countries. Poor people in more unequal countries can have lower living standards than poor people in countries with lower average incomes but less unequal distribution. For instance, individuals in the bottom 10 per cent earned less in the United States than in Sweden, in Brazil than in Indonesia, and in South Africa than in Egypt in the late 2000s.

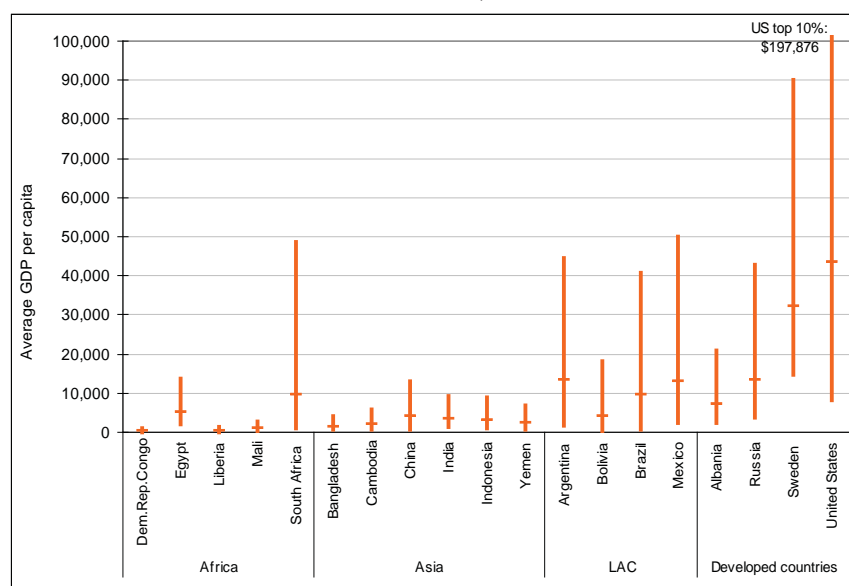
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2 GDP adjusted for purchasing power parity (PPP) at 2005 constant international dollars from the World Bank World Development Indicators Database, available [online] at: <http://databank.worldbank.org/ddp/home.do?Step=3&id=4>. Accessed between 15 and 30 July 2012.

3 These comparisons should be interpreted with caution, as they are based on income estimates derived using PPP exchange rates. These have several problems, especially when comparing incomes at the lower end of the distribution, because they are based on the prices of an average basket of goods that may not be representative of the basket consumed by the poor in different societies, and the prices themselves are estimated through relatively infrequent country surveys upon which local inflation rates are applied.



**Figure I.2. Average income per capita of the top and bottom 10 per cent of the population and of the total population in selected countries, late 2000s**



Sources: World Bank World Development Indicators Database, available [online] at: <http://databank.worldbank.org/ddp/home.do?Step=3&id=4>. Accessed between 1 and 15 November 2013, and *World Population Prospects: The 2012 Revision. Comprehensive Dataset*.

**Note:** The top and bottom of each bar represent the average GDP per capita (PPP, in constant 2005 international dollars) of the top and bottom 10 per cent of the population of each country, respectively; the marker in between represents average (national) GDP per capita.

It is possible to estimate the global distribution of income along these lines, that is, going beyond the mean incomes of each country, by combining data on domestic income distribution from household surveys and adjusting incomes using purchasing power parity (PPP) exchange rates to translate domestic currencies into international dollars (Milanovic, 2012). Based on this method, global inequality measured by the Gini coefficient increased from 68.4 per cent in 1988 to 69.4 per cent in 1998 and reached 70.7 per cent in 2005 – a level of inequality larger than that found in any one country. The income share of the top 10 per cent of the world population increased from around 51.5 per cent to 55.5 per cent during the period. Since this measure of global inequality among individuals reflects, in principle, inequalities within and across countries, and since inequalities across countries did not increase in this period, the rise in global inequality must be due to increased inequalities within countries. Chen and Ravallion (2012) suggested that within-country inequalities explained less than one third of total income inequality in the developing world as a whole in 1981, but that they constituted more than half of total inequality in 2008.

## II. Recent patterns of inequality within countries

### A. Trends and patterns in income inequality

Income distribution has become increasingly unequal in the majority of developed countries and some large developing countries in the last twenty years, but trends differ markedly between countries and regions. Between 1990 and 2012, inequality in disposable income, that is, income after taxes and transfers, increased in 65 out of 130 countries for which data trends are available, as shown in table I.1.<sup>4</sup> These countries are home to more than two thirds of the world population. In many of them, inequality has risen more or less continuously. In others, including several countries with economies in transition, inequality trends have followed an N-shape – that is, inequality rose in the 1990s, declined or remained stable in the late 1990s or early 2000s, and began rising again during the 2000s. In the majority of those countries where income inequality has declined, trends have followed an inverted U shape – inequality increased in the early 1990s and started to decline in the late 1990s or early 2000s.

However, recent trends differ markedly by region. In general, income inequality has increased in countries and regions that enjoyed relatively low levels of inequality in 1990, and has declined in some countries that still suffer from high inequality. Namely, some large, emerging economies, and the large majority of developed countries, have experienced sharp rises in Gini coefficients since 1990, including Nordic countries with traditionally low levels of inequality. The rise in income inequality has been particularly fast in Eastern Europe.

Although Latin America and the Caribbean remains one of the regions with the highest levels of income inequality apart from Africa, the Gini coefficient declined between 1990 and 2012 in 14 out of the 20 Latin American countries for which data are available, including Brazil, which has traditionally had very high levels of inequality (Solt, 2013). According to the information available, the gap between the rich and the poor declined in many African countries as well, including very high-inequality countries such as Botswana, Lesotho and Swaziland, but continued to increase relatively quickly in South Africa during the post-apartheid period, despite continued economic growth and the expansion of social assistance programmes. In 2008, South Africa's Gini coefficient stood at around 70 (World Bank, 2012a).<sup>5</sup>

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4 For an overview of data and indicators of economic inequality, see annex to Chapter 1. The description of recent inequality trends focuses on the period 1990-2012 so as to ensure maximum data coverage and reliability—for instance, inequality indicators are not widely available in countries of Central Asia and Eastern Europe before 1990; where they are available, the estimated measurement errors are relatively high. For more information, see Solt (2009). Data available from: <http://www.siuc.edu/~fsolt/swiid/swiid.html>.

5 Inter-racial inequality has remained high in South Africa but fell during this period; meanwhile, intra-racial income inequality increased, especially in urban areas (Leibbrandt

**Table I.1. Trends in income distribution by region, 1990 to 2012<sup>a</sup>**

Number of countries by type of trend in the Gini coefficient

	Africa	Asia	Latin America and the Caribbean	Europe, North America, Oceania and Japan	Total	Percentage of countries	Percentage of total population <sup>c</sup>
<b>Rising inequality</b>	13	18	4	30	65	50.0	70.6
Continuously rising	4	4	1	13	22		
U-shaped trend	8	2	1	6	17		
N or reclined S shape (increase-decline-increase)	1	12	2	11	26		
<b>Falling inequality</b>	19	10	14	8	51	39.2	25.3
Continuously falling	6	0	3	2	11		
Inverted U-shaped trend	13	10	11	6	40		
<b>No trend<sup>b</sup></b>	3	3	2	6	14	10.8	4.1
<b>Total</b>	35	31	20	44	130	100.0	100.0

*Source:* Calculations based on data from Solt, Frederick, Standardized World Income Inequality Database, Version 4.0, released September 2013. Available [online] at: <http://myweb.uiowa.edu/fsolt/swiid/swiid.html>. Accessed between 1 and 15 November 2013.

**Notes:**

- Or latest year available, if 2005 or later.
- Includes countries where inequality has remained relatively constant as well as countries where inequality has fluctuated but where there is no clear upward or downward trend during the period.
- Percentage of the total population of the 130 countries with data. These 130 countries accounted for 94 per cent of the world population, including 80 per cent of the African population and more than 95 per cent of the population in other regions in 2012.

Historically, Asia has experienced lower inequality than other developing regions. However, despite remarkable growth and impressive declines in extreme poverty, the region has seen widespread increases in income inequality at the national level, as well as in both urban and rural areas. Between 1990 and 2012, income inequality rose in 18 out of 31 countries with data—accounting for over 80 per cent of the region’s population. Most notable among them has been China, where inequality increased both in urban areas (with the Gini growing from 25.6 in 1990 to 35.2 in 2010) as well as in rural areas (from 30.6 to 39.4), leaving rural areas more unequal than urban areas – a position unlike that of most developing countries.<sup>6</sup>

In countries where inequality has declined, two key factors have contributed to such declines: the expansion of education, and public transfers to the poor. Starting in the early 1990s, increases in public expenditure on education throughout Latin America and the Caribbean, for instance, led to rising secondary enrolment and completion rates, and this became a major determinant of the fall in wage inequality (Ferreira and others, 2012; López-Calva and Lustig, 2010). This increase in public spending was, itself, the result of a shift in the economic policy model followed by many countries in the region. In general, there was growing social consensus on the need for Governments to serve as the engines of development, providing social protection as well as public infrastructure (Cornia, forthcoming).

In countries where inequality has risen, income is concentrated increasingly at the very top of the distribution ladder. The share of income owned by the top quintile of the population increased in the majority of countries (61 out of 111) although it did not increase globally from 1990 to the mid-2000s (Ortiz and Cummins, 2011, table 5, p.16). However, income shares have risen significantly among the top 5 per cent and, particularly, among the top 1 per cent of the population. Much like the Gini coefficient, top income shares have increased since the 1980s, according to data available for the 16 developed and 6 developing countries shown in table I.2<sup>7</sup>.

Gains have been largest at the very top. In the United States of America, for instance, the average income of the top 5 per cent increased at an annual rate of 1.5 per cent between 1980 and 2011, while the growth rate of the income of the top 0.1 per cent was 4.0 per cent. In contrast, the average real income of the bottom 99 per cent of income-earners grew at an annual rate of only 0.6 per cent between 1976

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and others, 2010).

6 Asian Development Bank (2012). Asian Development Outlook 2012: Confronting Rising Inequality in Asia.

7 The time series of top income shares shown here have been constructed using tax statistics. For additional information on top income data and methodology, see Atkinson and Piketty, eds. (2007); Atkinson and Piketty, eds. (2010) and Atkinson, Piketty and Saez (2011). Data available in Alvaredo and others, The World Top Incomes Database [online] at: <http://g-mond.parisschoolofeconomics.eu/topincomes/> (accessed on 15 June 2012).

**Table I.2. Share of income owned by the top 1 per cent**

	Year	Per cent of income owned by top 1%	Annual growth rate of top 1% income share since 1980 (in %)
<b>Argentina</b>	2004	16.7	
<b>Australia</b>	2008	9.2	2.2
<b>Canada</b>	2010	12.2	1.5
<b>China</b>	2003	5.9	4.7
<b>Denmark</b>	2005	4.3	0.3
<b>Finland</b>	2009	7.5	1.9
<b>France</b>	2006	8.9	0.6
<b>India</b>	1999	8.9	
<b>Indonesia</b>	2004	8.5	0.8
<b>Ireland</b>	2009	10.5	1.5
<b>Italy</b>	2009	9.4	1.5
<b>Japan</b>	2010	9.5	0.9
<b>Mauritius</b>	2011	7.1	0.2
<b>New Zealand</b>	2010	7.3	0.9
<b>Norway</b>	2008	7.9	1.8
<b>Portugal</b>	2005	9.8	3.3
<b>Singapore</b>	2010	13.4	0.8
<b>South Africa</b>	2009	16.6	1.4
<b>Spain</b>	2010	8.2	0.3
<b>Sweden</b>	2011	7.0	1.8
<b>United Kingdom</b>	2009	13.9	2.6
<b>United States</b>	2012	19.3	2.7

*Source:* Alvaredo and others, The World Top Incomes Database. Available [online] at: <http://g-mond.parisschoolofeconomics.eu/topincomes>. Accessed in November 2013.

**Note:** China: annual growth rate 1986-2003. Indonesia: annual growth rate 1982-2004. South Africa: annual growth rate 1990-2010.

and 2007 in the United States, which implies that the top 1 per cent captured 58 per cent of income growth (Atkinson, Piketty and Saez, 2011). While average incomes grew faster in the United States than in France during that period, the incomes of the bottom 99 per cent grew more slowly in the former. Therefore, excluding the top 1 per cent results in more inclusive, and more equitable, economic growth by France than by the United States of America.

Therefore, inequality has increased mainly because the wealthiest individuals have become wealthier, both in developed and developing countries where the necessary data were available. Palma (2011) observed that, in absolute terms, the top 10 per cent of the population in middle-income countries has succeeded in catching up with the top 10 per cent in rich countries, while the bottom 40 per cent of the population of middle-income countries is still far below its counterpart in rich countries—even in relative terms—regarding their share of national income. The author proposed an alternative to the Gini coefficient for measuring income inequality: *the ratio of the top 10 per cent of the population's share of income to the bottom 40 per cent's share*. Overall, the ranking of countries according to this 'Palma ratio' conforms to other measures of inequality, but trends can differ from changes in the Gini (Cobham and Sumner, 2013). For example, the value of the Gini coefficient declined from 1990 to 2010 in countries such as Mexico, Nigeria and the United Republic of Tanzania, while the Palma ratio increased. That is, even though income inequality as measured by the Gini coefficient declined in those countries, the share of income of the top 10 per cent has increased relative to that of the bottom 40 per cent—or, alternatively, the share of the bottom 40 per cent has declined. Conversely, Pakistan and the Philippines experienced increasing inequality based on the Gini coefficient, but not by the Palma ratio.

### *B. Other dimensions of economic inequality*

Income inequality measures do not capture all household wealth – which, in addition to income earned, may include ownership of capital, including physical assets (land, housing) and financial assets. While the two are highly correlated, the distribution of wealth is typically more unequal than the distribution of income. In a considerable effort to collect comparable data across countries, Davies and others (2008) found that the Gini coefficient of wealth ranged between 55 and 80 per cent in a sample of 26 countries in the year 2000 and that the share of wealth owned by the top 10 per cent of the population ranged from 40 to 70 per cent.<sup>8</sup> In contrast, the share of income owned by the top 10 per cent ranged from 20 to 43 per cent in a sample of 26 developed and developing countries with data (Alvaredo and others, 2012).

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<sup>8</sup> Although the work by Davies and others (2007) is the most recent and comprehensive to date, sources of data (household surveys of differing purpose and sampling frame, in some cases, tax records in other cases), the economic unit of analysis (households, individuals or adults, depending on the country) and data quality affect their comparability, particularly when it comes to estimates that require data from the full wealth spectrum. Therefore, the estimates cited should be interpreted with caution.

However, wealth inequality appears to have increased less than income inequality, or even declined in some countries. In the United States of America, for instance, the share of wealth owned by the top 1 per cent was slightly lower in 2001 (33.4 per cent) than in 1983 (33.8 per cent) (Davies and others, 2008). One explanation for this is that, to a large extent, the rise in top income share has been brought about by growing earnings dispersion, rather than by an increase in capital income, and particularly by a rise in executive compensation (Ebert, Torres and Papadakis, 2008; Atkison, Piketty and Saez, 2011). Another likely explanation, which may apply to the pre-crisis period, is the housing bubble. Ownership of real assets, and particularly housing, has been relatively more important for individuals in the middle and bottom of the income-distribution ranking than for those at the top, who might rely to a larger extent on financial assets. Thus, increases in real estate prices tend to reduce top wealth shares and other measures of wealth inequality, and may have countered the trend towards higher wealth inequality due to higher share prices and increasing returns to financial assets, in general.

In many developing countries, the distribution of land ownership has been particularly relevant in explaining inequality. Land concentration remains particularly high in Latin America, followed by Western Asia and Northern Africa (Vollrath, 2007; World Bank, 2005). Highly-unequal land distribution has created social and political tensions and is a source of economic inefficiency, as small landholders frequently lack access to credit and other resources to increase productivity, while big owners may not have had enough incentive to do so. However, attempts at land reform have been successful only in a few countries, mainly in Eastern Asia (World Bank, 2003; 2005). Broader rural development strategies and complementary measures that would be easier to implement politically, such as access to education and infrastructure, are greatly needed to enhance land equity and productivity.

There have also been important changes in the distribution of income between capital and labour. While the period of expansion that preceded the economic and financial crises was accompanied by employment growth across most regions, such growth occurred alongside a redistribution of income towards capital and away from labour. In developed countries, the share of wages in total income declined from 74 per cent in 1980 to close to 65 per cent in 2010 (Stockhammer, 2013). In developing countries with available data, wage shares have declined as well—by as much as 20 percentage points, on average, in Mexico, the Republic of Korea and Turkey—although trends have varied markedly by country (Stockhammer, 2013; ILO, 2012a; IMF, 2007). For instance, wage shares fell the most in Latin America and the Caribbean during the 1980s and 1990s but have increased significantly in several countries—Argentina, Brazil, Ecuador and Venezuela—since 2000 (Cornia, 2011; 2012). Declines in the wage share, where these have taken place, have been attributed to the impact of labour-saving technological change and to a general weakening of labour market regulations and institutions (namely, decreased unionization).

Such declines are likely to affect individuals in the middle and bottom of the income distribution disproportionately, since they rely mostly on labour income.

In addition, the wage gap between top and bottom earners has also increased in the majority of developed countries and in many developing countries with data (Galbraith, 2012; ILO ILS, 2008; OECD 2013). On the one hand, there has been an increase in non-standard forms of employment—including temporary and part-time employment, in developed countries, and informal-sector work in developing countries—which are generally less well-remunerated than standard employment. Labour-saving technologies have also had a negative impact on the earnings of less-skilled workers in developed countries (Stockhammer, 2013). On the other hand, top salaries have increased significantly. Atkinson, Piketty and Saez (2011) found that a significant proportion of gains in top income shares are due to increases in top labour incomes. That is, those at the top of the income ladder are not only capital owners, as used to be the case in the first half of the twentieth century, but also top wage earners (see also Piketty, 2003; and Wolff and Zacharias, 2009). The rise in pay of top executives has attracted considerable attention in the past few years, particularly in the context of the recent crises. Ebert, Torres and Papadakis (2008) found that, in 2007, chief executive officers of the 15 largest companies in six selected countries earned between 71 and 183 times more than the average employee—excluding share-based compensation. Focusing on the United States and the Netherlands, they also showed that the gap between executive and employee pay grew considerably between the early 2000s and 2007.

Although increases in executive compensation have not outpaced growth in employee pay or inflation in the United States or Europe since the financial crisis, the gap has remained very large (Mishel and Sabadish, 2013; Hay Group, 2013). In the United States, for instance, compensation of chief executive officers of the top 350 companies – including salary and bonuses – was 221 times higher than the average employee’s pay in 2007, and remained 202 times higher in 2012 (Mishel, 2013). Since the crisis started, several European countries, including the Netherlands, Norway, Sweden and Switzerland, have enacted legislation that has put restrictions on executive pay (Mercer, 2013).

As will be discussed in chapter 5, investment in education, labour market institutions and regulations can change this pattern of increasing wage inequality, even in highly-integrated economies. For example, the reduction in income inequality in Latin America has been related to the reduction in wage inequality which, in turn, is related to the more equalizing role played by the spread of education (Cornia, forthcoming). Well-designed minimum-wage policies can have very significant, positive effects in reducing wage inequality. Recently, countries like Brazil, South Africa and Viet Nam have succeeded in reducing wage inequalities largely through higher minimum wages, which also were found to have statistically negligible adverse effects on levels of employment (ILO, 2012a).



### C. Growth and inequality: policies matter

Regional and national trends in economic inequality suggest that there is no clear relationship between inequality and development: income disparities have increased in many countries, and have declined in some others, as countries have grown and developed in the last 25 years. Yet, increasing inequality has been assumed as a cost of the development process, probably based on the Kuznets (1955) proposition that inequality tends to be low at the early stages of development when societies are mostly agricultural, and inequalities increase as industry develops, countries urbanize and economies grow faster. As countries develop further, increased wealth would enable the introduction of broad-based education and social protection, and the growing political power of urban lower-income groups would result in support for more even income distributions. As a result, inequality would follow the shape of an inverted U curve.

The empirical evidence on such a relationship between inequality and development is ambiguous, at best.<sup>9</sup> A comparison of income distributions across countries by gross national income (GNI) per capita in 2012 shows a slightly inverted U shape, but country observations are significantly scattered and the correlation between the two variables is small: countries at similar levels of income per capita have very different levels of income inequality (see figure I.3). The shape of these cross-sectional distributions may have more to do with the history of each country and region and their situation in 2012 than with the assumed relationship between inequality and development. For example, Latin American countries, the majority of which are middle-income countries, have been more unequal throughout their history than countries in other regions.

Trends within individual countries have also been different from those which this theory predicts. Namely, inequality has increased in some middle-income countries and has declined in others. The contrasting experiences of Brazil, China and India have been widely discussed in the literature (see, for instance, Bourguignon, Ferreira and Lustig, eds., 2005; Deaton and Kozel, 2005; Chaudhuri and Ravallion, 2006). While Brazil continues to suffer from record-high levels of income inequality, recent economic growth has benefited the poor, due—in part—to improvements in education, labour market conditions, and the expansion of social assistance programmes, including *Bolsa Familia*, the world's largest conditional cash transfer programme. In contrast, the unprecedented growth enjoyed by China and, to a lesser extent, India, has been accompanied by rising inequality. Income inequality has also increased in most developed countries—instead of remaining stable or declining—although national experiences have varied significantly across the developed world, as well.

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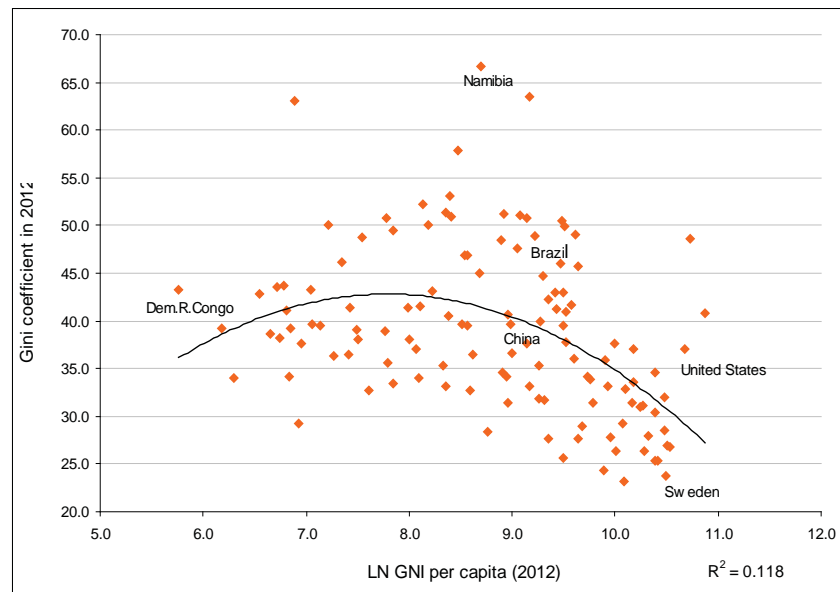
<sup>9</sup> For a summary of the empirical literature on inequality and development, see Atkinson and Bourguignon, eds., (2000). Additional references are found in Salvedra, Nolan and Smeeding, eds., (2011). For a recent cross-country assessment, see Palma (2011).

#### D. The power of redistribution

A significant part of the difference observed in disposable income disparities across countries can be explained by the redistributive impact of social transfers and taxes. Both should have immediate, direct effects on income distribution, although the magnitude of their impact will depend on the degree of progressiveness of the tax system (income and property taxes are usually progressive, while indirect taxes are regressive) and on the degree to which the poor benefit from social transfers and social insurance. The negative effects of indirect taxes on the incomes of the poor, or nearly-poor, can be stronger than the positive effects of cash transfers (Lustig, 2012).

According to the empirical literature, social transfers have had a larger redistributive impact than taxes. Wang and Caminada (2011) estimated that social transfers accounted for 85 per cent of the observed reduction in inequality

**Figure I.3. Gini coefficient and GNI per capita by country <sup>a</sup>**

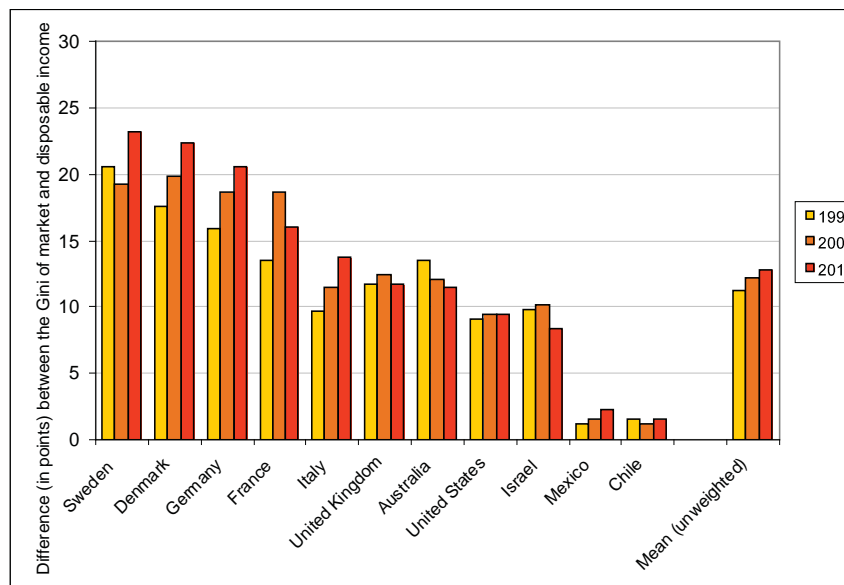


Sources: Solt, Frederick, *Standardized World Income Inequality Database*, Version 4.0, released September 2013. Available [online] at: <http://myweb.uiowa.edu/fsolt/swiid/swiid.html>. Accessed between 1 and 15 November 2013; and United Nations Development Programme (2013). *The Rise of the South. Human Progress in a Diverse World*. Statistical Annex.

<sup>a</sup> GNI converted to international dollars using 2005 PPP rates and divided by the midyear population.

**Notes:** The estimated squared Pearson product-moment correlation coefficient ( $R^2$ ), shown on the bottom right of the figure, is 0.21, denoting that the correlation between the two variables is very weak.

**Figure I.4. Trends in redistribution<sup>1</sup> in selected countries, 1990, 2000, 2007 and 2011**



Source: Calculations based on data from Solt, Frederick, *Standardized World Income Inequality Database*, Version 4.0, released December 2013. Available [online] at: <http://myweb.uiowa.edu/fsolt/swiid/swiid.html>. Accessed between 1 and 15 November 2013. See also Solt (2009).

<sup>1</sup> Difference between the Gini coefficients of market income and disposable income.

in a sample of 36 countries, while taxes explained 15 per cent of such a reduction. Similarly, according to Doerrenberg and Peichl (2012), a 1 per cent increase in Government spending on social transfers was correlated with a 0.3 per cent drop in inequality in member countries of the OECD, while the effect of tax progressivity was much smaller.<sup>10</sup>

Over time, the redistributive impact of social transfers and taxes has failed to correct the trend of rising income inequality in developed countries. From 1990 to 2007, a period of global policy shift toward less Government intervention and greater reliance on market forces, the relative difference between the Gini coefficient of market income and that of disposable income—the extent of redistribution—declined, or remained constant, in six out of the 12 countries shown in figure I.4 (Sweden, the United Kingdom, the United States, Spain, Israel and Chile). On average, the difference remained relatively stable, increasing only from 10.6 to 11.8 points of the Gini coefficient, meaning that disparities in

<sup>10</sup> Declines in tax progressivity, however, are found to be important determinants of the increase in top income shares (Atkinson, Piketty and Saez, 2011).

disposable income rose almost as much as disparities in market income in the countries shown. The economic crisis brought about increased redistribution in some countries between 2007 and 2011—in Sweden, Denmark and, to a lesser extent, in Italy and the United Kingdom. However, the redistributive impact of taxes and transfers in most of the countries shown in figure I.4 declined during the first four years of the crisis. With important exceptions, policies have not become increasingly redistributive as inequality has grown.

### III. Conclusion

Inequality trends have not followed a universal pattern. Economic inequalities across countries remain very large, but have declined somewhat, while income disparities have increased within many countries over the last two decades, particularly in countries and regions that had enjoyed relatively low levels of inequality in 1990. However, some countries of Latin America and Africa have been able to reduce economic inequalities.

Despite the broad expectation that inequalities should decline systematically as societies develop, or remain low in developed societies, evidence shows that the move towards less inequality is not automatic. Rather, policies must actively pursue such a goal. Indeed, the empirical evidence presented suggests that much depends on country-specific conditions and national policymaking. The poor are more likely to benefit from economic growth and share in the gains from globalization when there are pro-poor national policies in place, where growth is equitable, and labour markets inclusive. Chapter 5 discusses this further and shows that countries that have used redistributive fiscal policy measures, developed universal social protection programmes, or even wide-ranging social assistance, with emphasis on education and health spending, and those that have increased labour-market opportunities for those at the bottom, have weathered better the general trend towards growing within-country inequality.

## Annex to Chapter 1:

### Data and indicators of economic inequality

There are different ways of measuring and summarizing the distribution of income and the levels of economic inequality among individuals or households. While each of the indicators available has strengths and limitations, their appropriateness can be assessed against a number of criteria. For instance, indicators of economic inequality must be scale-invariant: their values should not change when all incomes change proportionally. They must also satisfy the principle of transfers, whereby transferring income from a richer to a poorer person should result in a reduction in inequality as measured by the indicator, and the reverse should also hold. They must also fulfil the symmetry or anonymity axiom – the index must depend only on the income values used to construct it and not take into account additional information.

The most widely-used indicator of inequality, and the one used most extensively in the present *Report*, is the Gini coefficient, which ranges from 0 (perfect equality) to 100 (complete inequality: one person has all the income or consumption while all others have none).<sup>11</sup> Thus, the closer the coefficient is to 100, the more unequal the income distribution. The Gini measures the extent to which the distribution of income, or the consumption expenditure among individuals or households, deviates from a perfectly equal distribution. It has clear graphical representation and is easy to interpret but, as with other measures of inequality, suffers from a number of limitations. For instance, it is not additive across groups: i.e. the total Gini for a society is not equal to the sum of the Ginis for its sub-groups (Galbraith, 2012). In addition, it does not identify whether rises or falls in inequality were triggered by changes at the bottom, middle or top of the income distribution ranking. Also, the Gini itself is more responsive to changes in the middle of the income distribution ladder than to changes at the very bottom, or at the very top (Palma, 2011).

A better indicator of income concentration at the top or the bottom of the distribution would be a more direct measure, such as the share of income or consumption of the bottom, or top 10 per cent, or top 20 per cent of the population, or the *Palma ratio* – the ratio of the top 10 per cent of the population's share of income to the bottom 40 per cent's share – also discussed in the current *Report*. The quality of data on income or consumption at the very top and bottom of the distribution, however, is often questionable, as discussed in the *Report*.

Cross-country analyses of economic inequality are affected by the consistency and comparability of data. Greater data coverage across countries and over time often comes at the cost of reduced comparability across observations. Although full comparability can only be achieved through concerted efforts to harmonize

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<sup>11</sup> The Gini has been shown as a percentage in the present *Report* to allow for greater detail in the analysis.

data collection, the main source of income inequality data used in this *Report*, the Standardized World Income Inequality Database (SWIID), overcame some of the limitations found in other global datasets.<sup>12</sup> One of the main sources of non-comparability, for instance, is that some countries use household income as the main indicator of economic well-being, while others use consumption expenditure (Jenkins and Van Kerm, 2009). Among those that use household income, some datasets report income before taxes and transfers (market income), others report disposable or net income (after taxes and transfers), while some report income after taxes but before transfers. An additional factor affecting comparability is the reference unit over which income is measured. Solt (2009) identifies five main reference units that have often been used: household per capita, household adult-equivalent, household without adjustment, employee and individual.

Based on these different definitions, SWIID classifies country-year observations into 21 different categories (Solt, 2009). Comparability problems are partly overcome in the database by calculating country-specific ratios between each pair of categories where data are available. Where data are missing, ratios are generated on the basis of those ratios available through multi-level models using, when possible, ratios from the same country and for the same decade. Since the distribution of income within a country, typically, changes slowly over time, dramatic differences in estimates of inequality for a given year compared to those preceding or following it are likely to reflect errors in measurement. In the SWIID, a five-year, weighted, moving-average algorithm is used to allow estimates to be informed by observations for surrounding years.<sup>13</sup> Overall, Solt (2009) estimated that about 30 per cent of the observations in the database had associated standard errors of one point or less on the 0-100 scale of the Gini coefficient. Over 60 per cent of standard errors were less than two points, and more than 85 per cent were less than three points. Observations with large standard errors were concentrated in the earlier years of the period covered by the database (1960 to 1980).

Even though SWIID constitutes the most comprehensive effort, to date, to improve data comparability while maintaining broad coverage, data will not be strictly comparable without concerted efforts to harmonize data collection across countries and improve survey coverage. For now, greater comparability can only be achieved by narrowing the scope of analysis to one, or a few, countries.

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12 The Standardized World Income Inequality Database (SWIID) provides Gini coefficients of disposable and market income for 153 countries for as many years as possible from 1960 to 2011.

13 This smoothing method was not applied to countries with high-quality data, including those covered by the Luxembourg Income Study (LIS) (Solt, 2009). This *Report* also showed some cases where rapid changes in inequality were likely to have taken place, namely in Eastern Europe and the former Soviet Union.



## Chapter 2

# Inequality in key aspects of well-being

The present chapter analyses disparities across and within countries in several dimensions of well-being, namely, life expectancy at birth, child survival, nutrition and educational attainment. Although inequality in health and educational outcomes across countries remains large, the past two decades have seen a shift towards convergence, as poorer countries have continued to make notable progress in improving their levels of human development. However, this good news is tempered by the persistence of large inequalities in health and education within and across both social groups and regions within countries. Spatial disparities may not have increased in all countries but they have remained high, as have inequalities in education and health. However, as with economic inequalities, trends are far from universal.

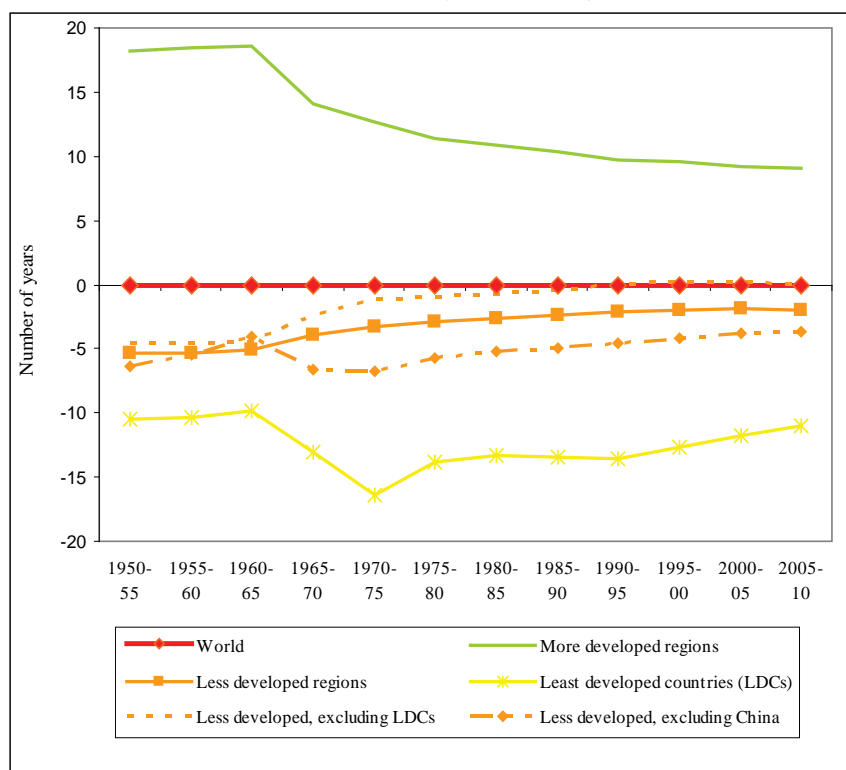
### **I. Health inequalities: Life expectancy at birth, child mortality and nutrition**

Life expectancy at birth is a widely-used indicator of human well-being. Disparities in length of life reflect inequalities in health risks and in access to health services; life expectancy is also a marker of a country's economic and political situation, including its level of stability and human security. Over time, disparities in life expectancy at birth have declined across major areas and geographical regions, due to improvements in standards of living, nutrition, public hygiene, levels of education (especially female education) and technology, particularly simple and low-cost health interventions in the developing world (see figures II.1 and II.2). As a result, there have been marked reductions in deaths due to infectious diseases, congenital and prenatal conditions, and other ill-defined causes.

The absolute gap in life expectancy at birth between the more- and the less-developed regions shrank from 23 years in 1950-1955 to 13 years in 1980-1985, and further, to just under 10 years, in 2005-2010. Life expectancy has improved more slowly in the least developed countries, particularly during the



**Figure II.1. Trends in the gap in life expectancy at birth between each major area and the world average, 1950 – 2010 (both sexes)**

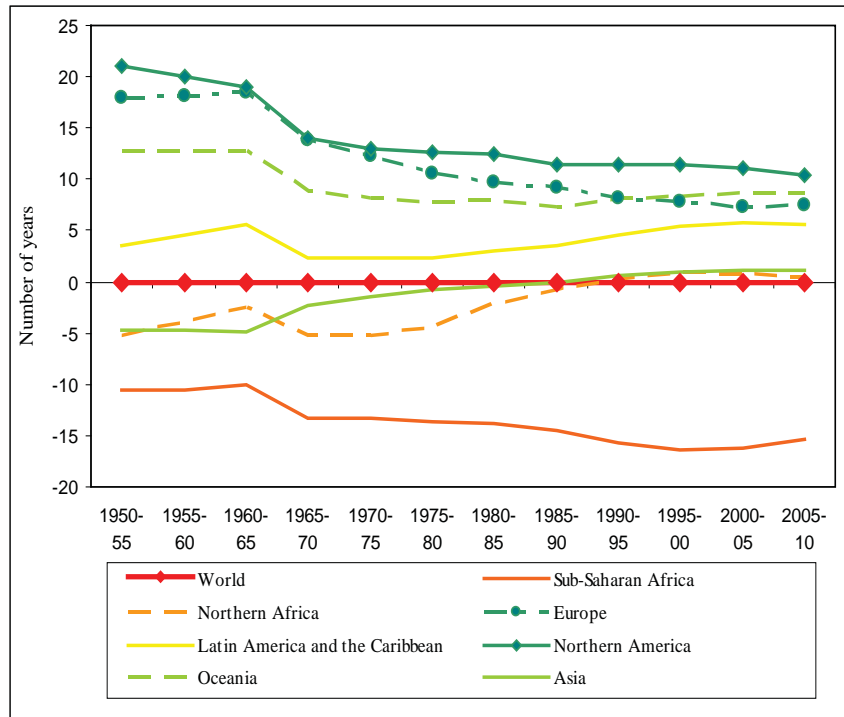


Source: United Nations, Department of Economic and Social Affairs, Population Division (2013) World Population Prospects: The 2012 Revision, CD-ROM Edition

'lost decades' (1980s and 1990s) of declines in incomes and public expenditure. Since 2000, however, stronger economic growth has gone hand-in-hand with faster progress in health, but the recovery has not been sufficient enough to reduce the gap with other developing countries significantly.

Disparities in life expectancy have also declined across most geographical regions, with the notable exception of sub-Saharan Africa. Life expectancy at birth was about 14 years below the world average in 1980-1985 and over 16 years below in 1995-2000. Despite some progress since 2000, average life expectancy in sub-Saharan Africa is still 16 years below that of most countries in Asia. Most of the relative lack of improvement in sub-Saharan Africa can be traced to the ravages of the HIV/AIDS epidemic that swept through much of the continent. Additional factors, including civil wars and other violent conflicts, are also responsible, both directly and through their impact on nutrition (by disrupting food supplies) as well as on the provision of health services and basic infrastructure.

**Figure II.2. Trends in the gap in life expectancy at birth between each region and the world average, 1950-2010 (both sexes)**

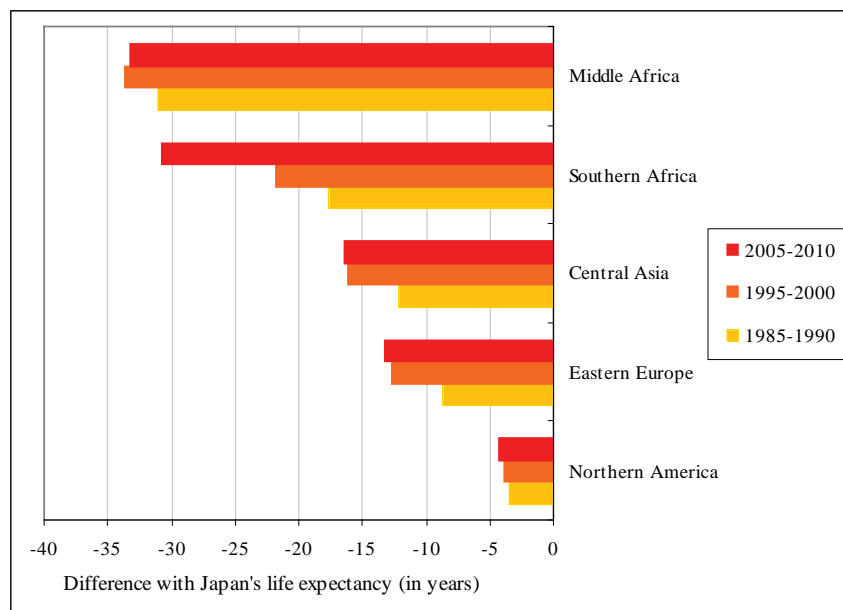


Source: United Nations, Department of Economic and Social Affairs, Population Division (2013) World Population Prospects: The 2012 Revision, CD-ROM Edition

Differences in life expectancy across some developing countries, countries with economies in transition and developed countries have actually increased since the 1980s. The mortality gap between Japan (a country with one of the lowest mortality rates in the world) and five world subregions has increased, as shown in figure II.3. The gap in life expectancy between Japan and the Russian Federation, for instance, increased from 9 years in 1985-1990 to close to 16 years in 2005-2010. A similar trend was observed in most of the countries of the former Soviet Union which suffered cutbacks in their health systems following the transition to market economies, and where public health suffered from the effects of high unemployment, growing inequality and other social impacts of the transition. The difference in life expectancy between Japan and Southern Africa increased from 18 to 31 years, mostly due to the impact of the AIDS epidemic in the latter, and remained high in Middle Africa.

One of the most important determinants of life expectancy, especially in countries with high mortality rates, is the health of infants and young children.

**Figure II.3. Gap in life expectancy between Japan and selected subregions**



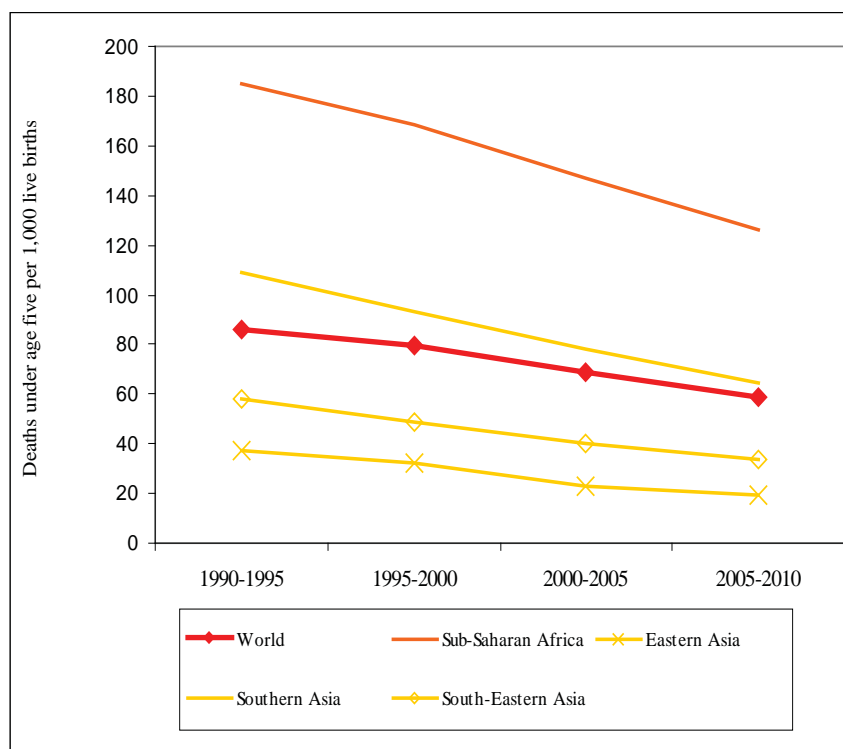
*Source:* United Nations, Department of Economic and Social Affairs, Population Division (2013) World Population Prospects: The 2012 Revision, CD-ROM Edition.

**Note:** The figure shows only those subregions in which life expectancy vis-à-vis Japan has declined. The gap between Japan and all other subregions has shrunk.

Figure II.4 shows that, while East and Southeast Asia have experienced significant declines in child mortality, the rate in sub-Saharan Africa has barely fallen. In recent years, the decline in child mortality has slowed in South Asia, such that the regional gaps in child mortality have remained significant. Increasingly, child mortality is concentrated in the poorest regions of the world, with sub-Saharan Africa (47 per cent) and South Asia (37 per cent) accounting for more than two thirds of all child deaths.

Child mortality, particularly neonatal mortality (death in the first month of life), correlates strongly with the health and nutrition of the mother, as well as with the accessibility of both basic and emergency health services. There are very wide differences in the percentage of births attended by skilled health personnel, ranging from nearly 100 per cent in most advanced economies as well as in East and Central Asia, to only 50 per cent of deliveries in South Asia and sub-Saharan Africa (United Nations, 2013). Inequalities in nutritional intake, use of health-care services and access to infrastructural amenities are very important in determining disparities in child mortality.

**Figure II.4. Child mortality by region for both sexes combined, 1990-2010**



Source: United Nations, Department of Economic and Social Affairs, Population Division (2013). World Population Prospects: The 2012 Revision, DVD Edition.

Within countries, there is also a strong association between income, health outcomes and the use of health-care services, even in countries with comprehensive public-health programmes. On average, children in the lowest 20 per cent of households by income in developing countries are three times less likely than those in wealthier households to have been delivered by skilled health personnel, nearly three times more likely to be underweight, and twice as likely to die before their fifth birthday (United Nations, 2012; Case, Lubotsky and Paxson 2002; Cutler, Lleras-Muney and Vogl, 2008).

Nutrition also remains an area of significant global disparity. It is estimated that there has been reasonable progress globally in reducing the number and proportion of people undernourished, although most of the improvement has occurred in East and Southeast Asia (Food and Agriculture Organization of the United Nations (FAO), World Food Programme (WFP) and International Fund for Agricultural Development (IFAD), 2012; United Nations, 2013). The pace of change has been much slower in Southern Asia and sub-Saharan Africa

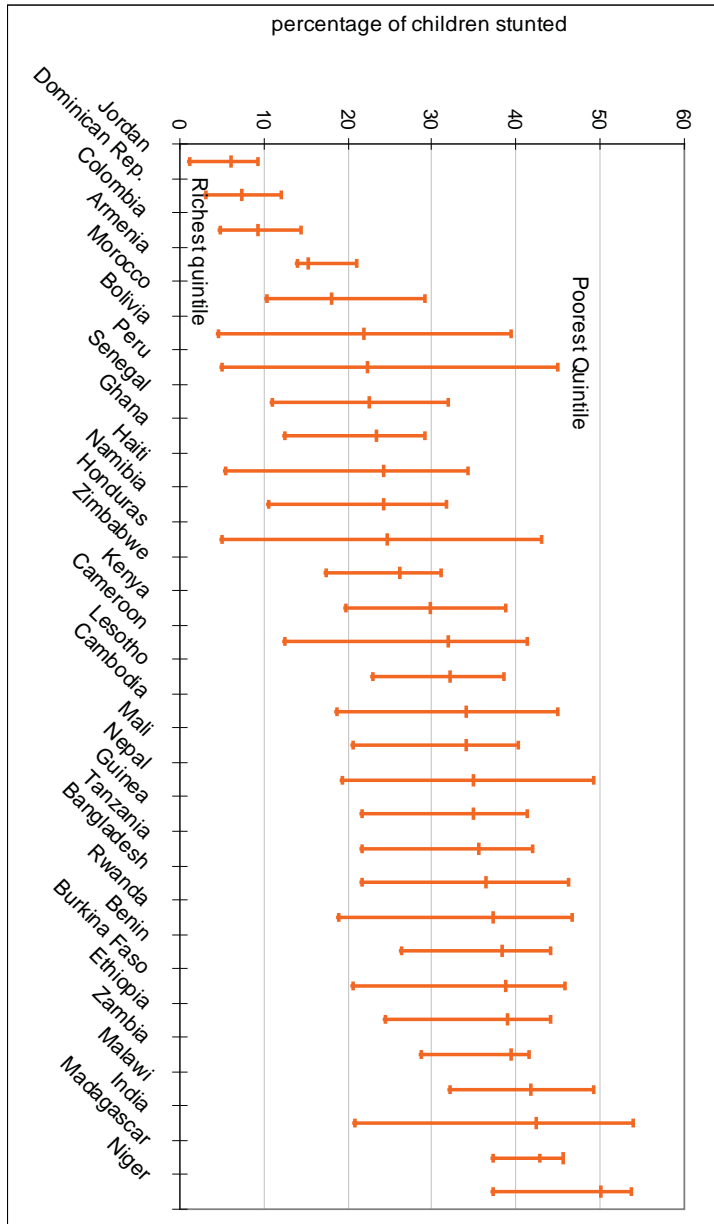
which, considered together, are now estimated to account for the majority of all undernourished people in the world. Similarly, significant disparities in hunger still persist within and across countries. While progress has been made against hunger over the past decade, the FAO estimated that 842 million people did not have access to adequate food in 2011-2013. Progress in reducing hunger has been relatively swift in South-Eastern Asia, Eastern Asia, the Caucasus and Central Asia, and Latin America, but hunger remains acute in South Asia and sub-Saharan Africa. Poor, or inadequate, nutrition is closely linked to poverty, and contributes to health and educational inequalities. For example, maternal malnutrition is linked to low birth weight and poor prenatal and postnatal health in mother and child. In 2011, an estimated 16 per cent of all children below the age of five globally (some 101 million children) were underweight. In 1990, the number of underweight children stood at 159 million.

Survey data on the proportion of children's stunting (low height for age) also show large disparities between poor and rich households, both in countries with overall high levels of stunting and in countries with low levels (figure II.5). Disparities are particularly severe in Latin American countries such as Bolivia, Honduras and Peru, with the prevalence of stunting being nine times higher among children from poorer households compared to children from richer households. Differences across countries in stunting and malnutrition, however, are not necessarily correlated with each country's income. For instance, Morocco and India are both lower-middle income countries, yet in Morocco, where disparities between income groups are smaller, average levels of stunting are three times lower than in India. Moreover, levels of stunting in Jordan are lower than in Colombia, even though income per capita is significantly higher in the latter. These examples suggest that policy plays an important role in national health outcomes.

Poor health during childhood has a strong impact on opportunities and outcomes over the life course. A longitudinal study conducted in Guatemala to assess the effects of stunting during childhood showed that stunted children, compared with non-stunted children who were given nutritional supplements during the first 36 months of their lives, completed less schooling, scored lower on cognitive skills' tests as adults, made less money and were less likely to be employed in higher-paying jobs (Hoddinott and others, 2011).

## II. Inequalities in education

Educational achievement is a critical dimension of human well-being, not only in its own right but also as an important input to a person's empowerment, capabilities and full participation in society. It is also a major driver of income and health outcomes. People who lack education or basic literacy skills face higher risks of ill-health and insecure employment, and are more likely to live in poverty. Education is one of the main determinants of future economic



Source: Calculations based on data from Demographic and Health Surveys.  
 Note: Stunting is defined as having a height for age below two standard deviations from the reference population.

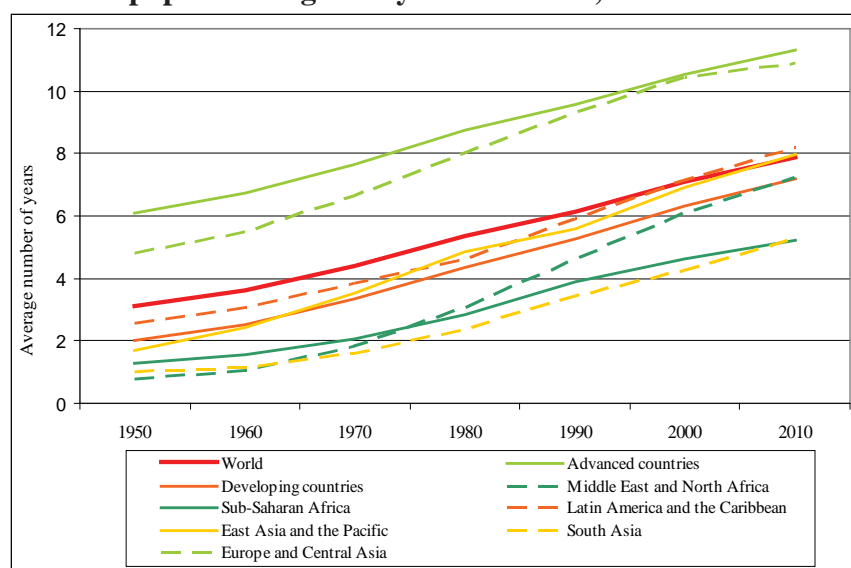
Figure II.5. Proportion of children stunted by income quintile, late 2000s

opportunity, as there is a strong connection between levels of educational attainment and upward social and economic mobility. Investments in both the quality and quantity of education at all levels are, therefore, important for equalizing opportunities and reducing inequalities. Where declines in wage inequalities have been observed, these can be attributed largely to the expansion of coverage of basic and higher education (López-Calva and Lustig, 2010; Cornia, forthcoming).

Despite the remarkable progress in expanding access to primary education around the world, the number of school-age children out of school remains staggering. In 2011, an estimated 57 million children of primary school age still were not enrolled in school, although the number was down from 102 million in 2000 (UNESCO, 2012). More than half of those children reside in sub-Saharan Africa. Reducing inequality in education will, therefore, require getting those children into school and ensuring that they complete their schooling. UNESCO has estimated that one in four children who enter primary school will probably drop out before reaching the last grade of primary school. The persistence of high drop-out rates in developing countries is a key contributor to educational inequality.

Differences between developed and developing countries in educational attainment, measured by average years of schooling, have declined in the last 50 years due to the expansion of primary schooling worldwide. The average years of schooling among the global population aged over 15 years more than doubled,

**Figure II.6. Average years of schooling completed by the population aged 15 years and over, 1950-2010**



Source: Barro and Lee, 2012.

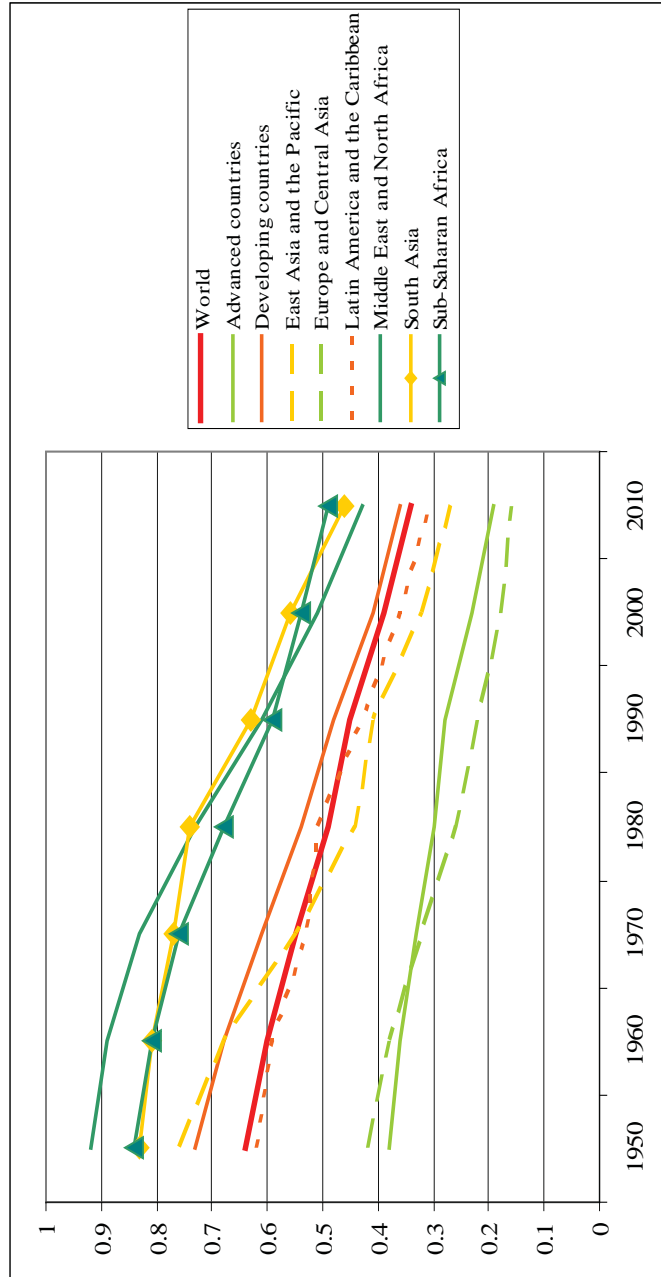
from 3.12 years in 1950 to 7.9 years in 2010 (shown in figure II.6, based on a dataset for 146 countries). In developing countries, the average number of years of schooling increased from 2.0 years to 7.2 years, and the average rose from 6.1 years to 11.3 years in advanced economies. Such improvements have been evident in all regions, with the greatest progress seen in the Middle East and North Africa, East Asia and the Pacific, and Europe and Central Asia. Primary-school enrolment and completion rates among girls and boys have improved significantly since the 1990s, as a result of the Millennium Development Goals campaign to achieve universal primary education and increase participation in post-primary education in developing countries.

As average educational levels have been increasing in all regions since the 1950s, educational inequality within regions has been declining (figure II.7). A relatively new indicator used to assess the distribution of human capital and welfare, *the Gini coefficient of the distribution of school attainment for the world*, declined from a high of 0.64 in 1950 to 0.34 in 2010, indicating that inequality in educational attainment has been declining in most countries. Educational Ginis are similar to the Gini coefficients used to measure the distribution of income or wealth. They range from 0, which represents perfect equality, to 1, which represents perfect inequality. The advanced countries have the lowest Gini index of education (0.19 in 2010), while the developing countries have seen a faster decline over the period (from 0.72 in 1950 to 0.37 in 2010).

The largest regional declines in educational inequality occurred in East Asia and the Pacific, and in the Middle East and North Africa. Inequality has not fallen markedly in Europe and Central Asia, in part, because the region already had high average schooling levels and, hence, relatively low educational Gini coefficients, and had also reached gender parity in education over most of the period. Although gender gaps have been closing, in particular at the primary-school level, gender remains an important determinant of differences in educational attainment across the developing world. Sub-Saharan Africa has seen some of the greatest gains, with its ratio of years of schooling of females to males increasing from 67.2 per cent in 1990 to 80 per cent in 2010, although remaining well below parity. In both Latin America and the Caribbean, and Europe and Central Asia, the gender ratios are now around 98 per cent, and in East Asia and the Pacific, the ratio is 88.3 per cent (Barro and Lee, 2012). The gender gap in education, as also evidenced by the fact that educational Gini for women tend to be much higher than those for men in most regions (see table II.1), accounts for much of the remaining inequality in education. Since forces underlying educational disparities often involve the interplay of structural, institutional, geographical, cultural and household factors, policies to reduce such disparities often vary across countries. Some common policies that have contributed to narrowing gender gaps in education include abolishing school fees, reducing costs, improving school facilities to make them 'girl-friendly', purging school curriculums of gender biases, providing conditional cash transfers, and building rural infrastructure to reduce the amount of time rural women and girls spend collecting water and firewood.



Figure II.7. Gini index of education of the population aged 15 years and over (1950-2010)



Source: Wail, Said and Abdelhak, (2011).

**Table II.1. Gini coefficients of educational inequality by sex in some regions**

	Male		Female	
	1950	2010	1950	2010
Europe and Central Asia	0.38	0.15	0.44	0.17
Middle East and North Africa	0.89	0.38	0.95	0.49
South Asia	0.74	0.37	0.93	0.57
Sub-Saharan Africa	0.79	0.43	0.89	0.54
Latin America and the Caribbean	0.60	0.30	0.65	0.31

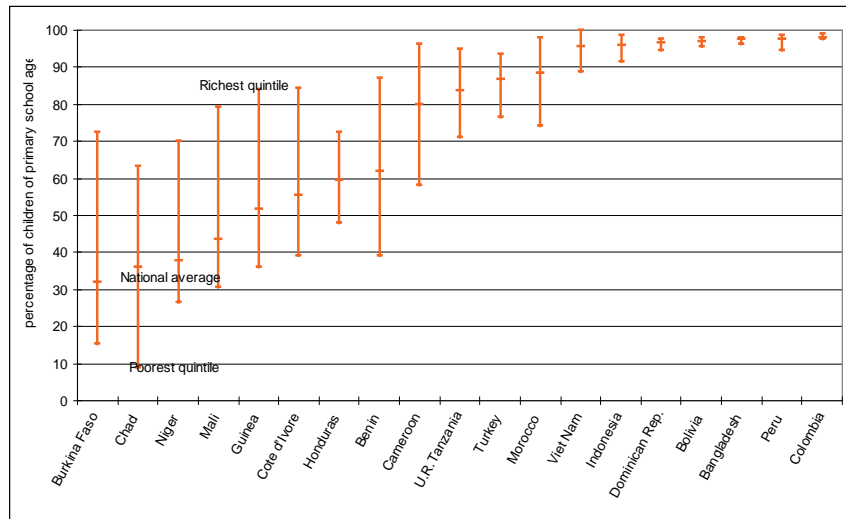
Source: Wail, Said and Abdelhalak, (2011).

The available evidence suggests that within-country disparities in education are also narrowing. An analysis of trends in educational inequality since the 1970s, measured in years of schooling, shows declining disparities in most countries (UNDP, 2011). In contrast with trends in income inequality, within-country educational inequality declined most in Europe and Central Asia, followed by Eastern Asia, and Latin America and the Caribbean (*ibid*).

Despite a general trend towards narrowing disparities, primary and secondary school attendance and completion still differ markedly within countries by wealth quintile, particularly at lower levels of attendance, as illustrated using recent data from Demographic and Health Surveys (DHS) for a sample of 19 developing countries (figures II.8 and II.9).<sup>1</sup> In Chad, for instance, only 9 per cent of children from the poorest households were attending primary school in 2004, compared with 63 per cent of children from the richest households. In most other sub-Saharan African countries shown in the figures, children from the poorest households were at least twice as likely to be out of school as children from the richest households. Even countries close to achieving universal primary education, such as Turkey and Viet Nam, have been unable to reach poorer children and retain them in school. In addition, higher attendance does not necessarily imply a smaller disparity. For instance, average primary school attendance is higher in Chad than in Burkina Faso and is also higher in Morocco than in Turkey. Yet children in the poorest quintile are out of school more often in Chad than in Burkina Faso, and more often in Morocco than in Turkey.

<sup>1</sup> In Demographic and Health Surveys, the proxy for wealth is a composite index of a household's living standards, estimated by its ownership of selected durable assets (material used for construction, access to water and sanitation, and ownership of a television, a bicycle and other goods).

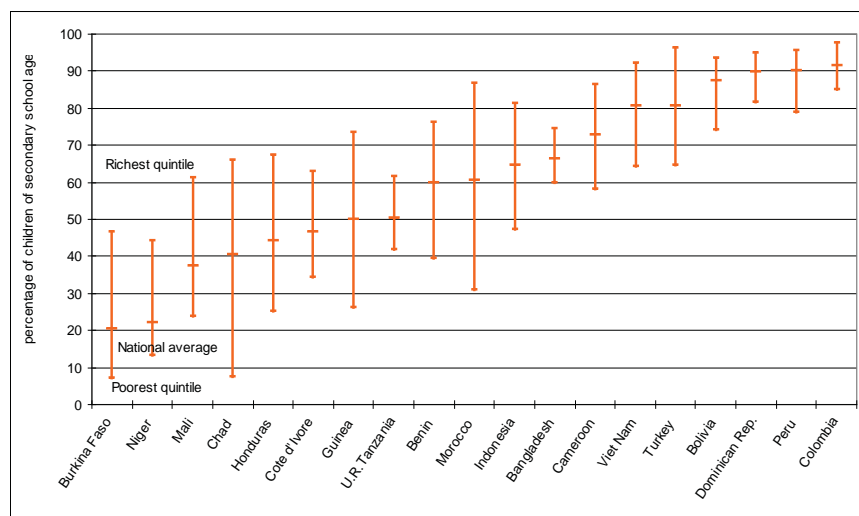
**Figure II.8. Proportion of children attending primary school by wealth quintile, late 2000s**



*Source:* Calculations based on data from Demographic and Health Surveys.

**Note:** Primary school age differs by country. Information on country-specific school systems has been used to obtain each country's age range for primary school attendance.

**Figure II.9. Proportion of children attending secondary school by wealth quintile, late 2000s**



*Source:* Calculations based on data from Demographic and Health Surveys.

**Note:** Secondary school age differs by country. Information on country-specific school systems has been used to obtain each country's age range for secondary school attendance.

Household poverty has been found to be the single most important factor in keeping children out of school. An analysis of household surveys conducted in 63 developing countries between 2005 and 2011 found that children and adolescents from poorer households were at least three times more likely to be out of school than their richer counterparts (United Nations, 2013). Location and gender also matter. Rural children were nearly twice as likely as urban children to be out of school. Girls were more likely to be out of school than boys at both the primary and the secondary educational levels. Income and wealth also have a direct impact on educational outcomes, particularly in countries where education is not provided free of charge. They also affect education indirectly, as malnutrition, disease and lack of stimulation are heightened by household deprivation. All of these are factors that undermine the linguistic, cognitive and social skills that children develop even before entering school, and which form the foundations for lifelong learning and for economic as well as other opportunities. Additionally, family income and location are correlated significantly with educational quality (UNESCO, 2010; 2011). Poor-quality education affects educational outcomes adversely and contributes to higher dropout rates among children living in poverty (Sabates and others, 2010).

Barriers at the primary level are magnified at the secondary level (figure II.9). Income disparities in secondary school attendance are larger in most countries than those observed in primary school, with the difference being greater where national average attendance is higher. Distance to school, the opportunity costs of being in school and the quality of education all play larger roles in access to, and completion of, secondary education among poor groups, particularly in developing countries. Disparities in secondary and higher education are increasingly powerful forces driving inequalities, given that their roles are more and more vital in the development of the skills that are needed to participate in the global economy.

Although formal secondary schooling is the most effective means of acquiring work and life skills, young people in less-developed countries, rural or remote areas, and with socioeconomically disadvantaged or immigrant backgrounds, are more likely than others to be disadvantaged in access to secondary education. In developing countries, young adolescents from the poorest 20 per cent of households are three times more likely than those in the wealthiest 20 per cent of households to be out of school (United Nations, 2013). Young adolescents living in rural areas are 9 per cent more likely to be out of school than those living in urban areas. Moreover, young girls are more likely than their male counterparts to be out of school. In countries of the OECD, 15-year-old students from socioeconomically disadvantaged backgrounds, immigrant backgrounds or living in rural areas often perform less well than other students. These disadvantaged students are also more likely to attend schools that lack adequate resources and have less favourable teacher-to-student ratios.

Despite the undisputed value of education, it should be borne in mind that it does not always provide a route out of poverty. School attendance and

completion do not necessarily reflect adequate learning or job-preparedness, and access to productive employment and other assets is influenced by factors other than education. These facts illustrate the urgency of debates over the quality of education, learning outcomes and employment opportunities. As chapter 4 explains, Governments of many countries and the international community are moving beyond expanding access to education as their only goal to focus on improving the quality of learning, thereby giving young people better skills to participate in the labour market.

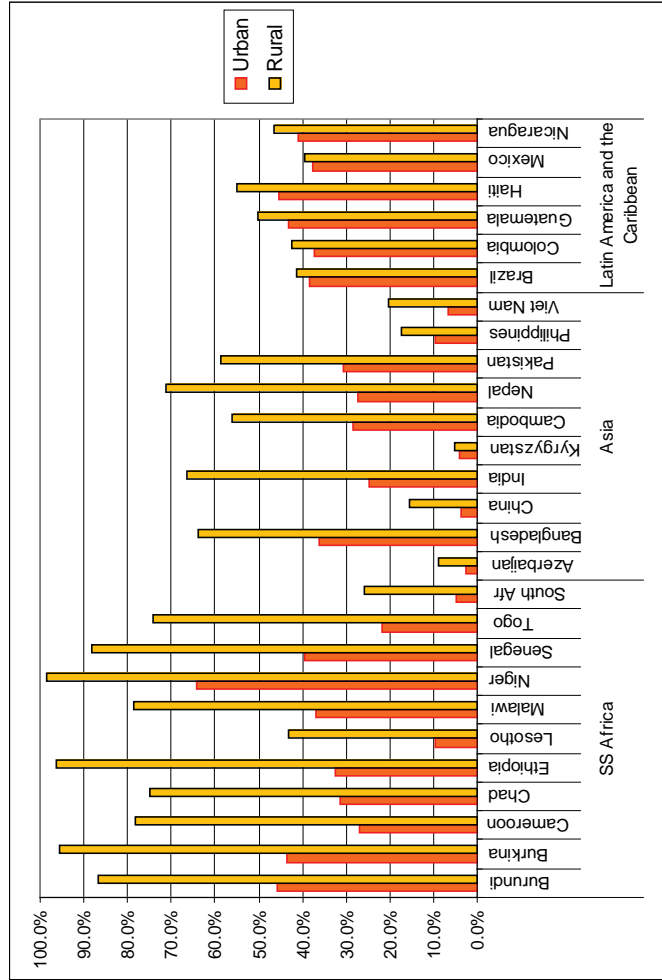
### III. Spatial inequalities

Opportunity is strongly influenced by location. Where people are born and where they live have a lasting influence on their lifelong chances. While there is much heterogeneity across countries, spatial disparities are generally wide in all countries. Recent research indicates, for instance, that the poorest geographical regions of middle-income countries are, on average, as poor as low-income countries (Alkire, Roche and Seth, 2011). In Europe, intra-national disparities in educational attainment and achievement are often larger than disparities across countries (Ballas and others, 2012). Often, spatial inequalities account for a significant proportion of within-country inequalities. They constitute more than half of total income inequality in China, for instance, and over 30 per cent in India (ADB, 2012). Although improvements in communications technologies and reductions in transportation costs are reducing effective distances, on average, such improvements are not universal. In many developing countries, poor infrastructure, coupled with high transportation costs and congestion, makes even short distances difficult to travel for the majority of the population.

#### *A. Disparities between urban and rural areas*

In addition to geography, the unequal distribution of public and private assets is an important determinant of spatial disparities, which are particularly noteworthy between urban and rural areas. Natural resource endowments and location are drivers of the concentration of investment, employment opportunities and people. At the same time, the spatial concentration of activity leads to efficiency gains, economies of scale and further agglomeration. Thus, productivity tends to be higher in urban areas, and agglomeration reinforces the comparative advantage of cities. In addition to such advantages, urban residents have, on average, better access to education and health care – as well as to other basic services such as safe drinking water, basic sanitation, transportation and communication – than rural populations. For instance, in developing countries, 73 per cent of urban dwellers, and only 33 per cent of the rural population, had access to basic sanitation facilities in 2004 (WHO and UNICEF, 2006). Salaries and returns to assets are often higher in urban areas because of higher productivity, as well as better infrastructure and services.

Figure II.10. Incidence of Multidimensional Poverty Index (MPI) in selected countries, late 2000s



Source: Data provided by the Oxford Poverty & Human Development Initiative (OPHI). For more information on the MPI, including data at the national level, see [online]: <http://www.ophi.org.uk/multidimensional-poverty-index/>.

Note: Estimates for these countries show disparities similar to those found across a broader range of countries.

The evidence showing that poverty is higher in rural than in urban areas is broad. According to the World Bank, 75 per cent of those living in extreme income poverty resided in rural areas in 2002, despite the fact that only about 52 per cent of the world population were living in such areas (Ravallion, Chen and Sangraula, 2007). Based on more recent estimates of the Multidimensional Poverty Index (MPI), which considers overlapping deprivations in education, health and living standards, the greatest incidence of MPI poverty is still in rural rather than in urban areas of all developing countries with data (figure II.10), even in those countries where the overall prevalence of poverty is low - such as in the Central Asian countries shown in figure II.10.

Rural populations also receive lesser returns to human capital investments (Kanbur and Venables, 2005). The urban-rural gap in health, education, and other skills and household endowments, is compounded by factors such as wage differentials and employment opportunities (Nguyen and others, 2007). Such compound disadvantages, together with social and political exclusion, make rural populations more likely to experience long-term poverty in what it is often referred to as *spatial poverty traps* (Bird, Higgins and Harris, 2010; UN-Habitat, 2010).

### *B. An enduring rural-urban divide?*

Despite persistent rural disadvantages, evidence from surveys suggests that improvements in education, health and nutrition during the last decade have often been achieved faster in rural rather than in urban areas of developing countries. According to Sumner (2012), progress in these dimensions in urban areas was very limited between the late 1990s and the late 2000s, with levels of education and health even declining in some large cities. DHS data for 33 developing countries showed, for instance, that the proportion of children underweight in rural areas declined from 30.7 per cent in the late 1990s to 28.3 per cent in the late 2000s while remaining almost constant, although at much lower levels—6.4 and 6.2 per cent—in urban areas (Sumner, 2012). Günther and Harttgen (2012) found that, in sub-Saharan Africa, adult mortality rose in urban areas, from an average 124.5 per thousand in the 1990s to 141.1 per thousand in the late 2000s, while declining in rural areas.

However, trends do vary significantly across countries. Rising urban-rural inequalities in China during the last few decades have been widely documented. The uneven distribution of economic growth, poverty reduction and public investment to the benefit of cities and industrial development resulted in significant increases in the absolute gap between urban and rural incomes between the early 1980s and the mid-2000s (Chaudhuri and Ravallion, 2006; Whyte, 2010). China's system of household registration (the *hukou* system), which restricts internal migration severely, has contributed to this income gap through the marginalization of rural residents and rural-to-urban migrants (Wang, 2010; Chan, 2011). Recent efforts by the central and local governments

to reduce inequalities and stimulate rural growth, through regional development plans, the reduction in regressive taxes and fees in rural areas, increased public investment in rural infrastructure and, to a lesser extent, in social services, as well as some initial attempts to reform the *hukou* system, may have started to bear fruit (Whyte, 2010; OECD 2010a). Namely, annual income growth in rural areas increased from 4 per cent in the early 2000s to over 8 per cent in 2006-2008, a growth rate similar to that registered in urban areas (Sun, 2010). OECD estimates indicate that the rise in inequality may have started to level off in 2005, with some indicators even showing declines in spatial inequality since 2006 (OECD, 2010a). Whether this apparent decline is the beginning of a long-term trend remains to be seen, particularly taking into account the country's economic slowdown in 2011 and 2012.

While most evidence regarding spatial disparities is highly aggregated and generally compares only major sub-national regions, or urban to rural areas, the economic and social landscape of cities and rural areas is very heterogeneous. Although spatial segregation or exclusion, be it by income, ethnic or national background, religion or other factors, is common to many cities, the way in which a population is spatially distributed differs by city and by country.<sup>2</sup>

### C. Disparities within urban areas

Despite the comparative advantage of cities, urban areas are more unequal than rural areas. Firstly, social and economic conditions vary by city size. In general, larger cities (usually defined as those with a population of one million or over) are better served than smaller cities and towns in terms of social services and infrastructure, including safe drinking water, sanitation and electricity (National Research Council, 2003). Moreover, a comparison of large and small cities across 90 developing countries showed that adults in larger cities had more schooling than those in smaller cities (*ibid.*, figure V.6).

Secondly, within most cities and towns, high levels of wealth and modern infrastructure coexist with areas characterized by severe deprivation and lack of services in what UN-Habitat called the 'urban divide' (UN-Habitat, 2010). Such a divide has economic, social and political dimensions. Economically, the Gini coefficient of income is larger in cities than in rural areas in the large majority of developed and developing countries, with the important exception of China (*ibid.*). Socially, rapid rates of urbanization combined with inadequate infrastructure have led to growing concerns about deteriorating health conditions in urban areas. The evidence available on intra-urban disparities suggests that the health disadvantages

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2 UN-Habitat's Global Urban Observatory monitors and documents urban segregation through its Monitoring Urban Inequities programme. For an overview of its findings, see the State of the World's Cities series, available [online] at <http://www.unhabitat.org/pmss/listItemDetails.aspx?publicationID=3387>, and in particular, UN-Habitat (2010). See also the biannual Global Reports on Human Settlements, available [online] at <http://www.unhabitat.org/categories.asp?catid=555>.



suffered by the urban poor differ little from those experienced by rural residents. In a study of 20 countries in sub-Saharan Africa, Günther and Harttgen (2012) found that child mortality rates in urban slums were, on average, 1.65 times higher than in other urban areas. In three of these countries, child mortality was even higher in slums than in rural areas. In India, 52.6 per cent of urban children in the bottom wealth decile were stunted in 2000, while stunting affected only 26.1 per cent of urban children in the top half of the urban distribution and 40.8 per cent of rural children in the top half (Montgomery, 2009). Stunting was only slightly higher among rural children in the bottom decile (57.2 per cent) than among poor urban children (52.6 per cent). Similar disparities were found in Egypt and other developing countries in these and other indicators of maternal and child health (Montgomery, 2009). Thus, although there is an urban health advantage, health disparities are larger in urban than in rural areas, and the burden of disease borne by the urban poor is similar to that borne by rural populations.

Despite the advantages conferred by closer proximity to modern health care and other services in urban areas, such services may lie beyond the reach of people living in poverty due to economic constraints or other reasons. For example, poor households may lack the information or the agency needed to seek health care. In addition, poor city dwellers often live in close proximity to health services yet lack access to basic sanitation or safe drinking water, thereby facing a higher risk of contracting communicable diseases. The urban poor, especially those resident in slums, receive less water and sanitation services and electricity than other urban residents (National Research Council, 2003).

Many of the urban poor still live in poor-quality settlements or slums, where unmet basic needs—in terms of housing, infrastructure and services—are greatest, despite Millennium Development Goals achievements. In developing regions as a whole, the proportion of slum dwellers to the total urban population decreased from 39 per cent in 2000 to 33 per cent in 2012, due to the expanded provision of improved water sources, sanitation facilities, durable houses and sufficient living space (United Nations, 2013). The largest decreases were in Asia, where less than one third of urban residents are now considered to be living in slums. However, slum dwellers in sub-Saharan Africa still account for around 62 per cent of that region's urban population.

Slums are the clearest symptom of a divided city, yet urban poverty is found outside of slums as well. In India, the proportion of the population below the official poverty line was 44 per cent in areas officially classified as slums, close to 52 per cent in non-notified slums, and 23 per cent in other urban neighbourhoods (Chandrasekhar and Montgomery, 2010). In addition, over one quarter of households in slum areas have expenditure that is above the official poverty line, suggesting that many households in the slums are not poor—or, rather, that the official poverty line is set too low (*ibid.*). The challenges for slum dwellers arise from inadequate infrastructure, poor housing, hazardous location, social and economic exclusion, violence and insecurity. Slum dwellers are, therefore, disempowered on account of their location and are often discriminated against

in employment and access to public services. Like rural populations, urban slum dwellers are also victims of ‘spatial poverty traps’ due to their social, economic and political exclusion, which results in a severe waste of human potential.

Politically, persons from low-income households in both urban and rural areas have little or no political voice or formal representation, particularly if they live in settlements with no legal address. Differences in power, influence and access can help reinforce the urban divide and tilt public investment towards the interests of the elite. In addition, political voice can be controlled through relationships that trade access to benefits for electoral support. In Nairobi, for instance, 41 per cent of landlords in informal settlements in 2002 were found to be Government officials and 16 per cent elected politicians; many ran lucrative businesses on the side, selling water and access to sanitary facilities (Syagga, Mitullah and Karirah-Gitau, 2002). In Karachi, municipal officials provided water tankers with access to public water supplies, which were then sold at much higher prices (Rahman, 2008).

#### IV. Conclusion

Despite a general trend towards narrowing the disparities in life expectancy, child health and mortality, and primary and secondary school attendance and completion, health and educational outcomes still differ markedly across, and within, countries. Opportunities and children’s futures depend strongly on income, wealth and place of residence. As with economic inequalities, trends vary significantly across countries and regions. Some countries have done better than others at closing human development gaps. Domestic policy measures, supported by international cooperation, have made a difference. However, shrinking inequalities are not always the outcome of widespread progress: in some countries, for instance, urban health indicators have stagnated—or even worsened—while rural health has improved.

As the international community shapes its vision for the development agenda after 2015, it is important to emphasize that addressing inequality is not merely a moral imperative. It is also necessary to unleash the full potential of each country’s population and to bring development onto a sustainable path. Indeed, as the next chapter shows, there is growing evidence and recognition of the powerful and corrosive effects of inequality on poverty reduction, economic growth, social cohesion and stability.



## Chapter 3

# The impact of inequality

The previous chapters showed that, both within and across countries, the rich have gained disproportionately from the economic growth of the past two decades. This rising inequality matters, not only for its effect on economic development processes, but also for its impact on poverty reduction, social mobility, social cohesion, political stability, and other aspects of social development. However, as highlighted in previous chapters, the arguments and evidence against inequality as an unavoidable by-product of development are growing. While some level of inequality can be incentivizing, there is growing recognition that too much inequality, and sustained periods of it, can derail economic progress and deepen—or create—the social and economic exclusion of large pockets of society.

This chapter discusses the real and potential impacts of inequality on socioeconomic development. While it accepts that moderate levels of inequality can have a constructive influence, it illustrates the—mostly constraining—impact of inequality in relation to economic growth, poverty, social mobility, social stability and cohesion.

### I. Inequality and economic growth

The relationship between inequality and growth is complex. Ongoing efforts to understand this relationship in the development literature are yielding mixed results. Some studies have found a positive relationship between the two phenomena, while others have found either a negative relationship or no relationship at all. Consequently, a number of important policy questions have emerged. These include whether inequality is harmful to economic growth, whether growth is good for the poor, and whether highly unequal societies experience slower economic growth than more egalitarian ones.

Inequality has shown itself to be useful, to some degree, in ensuring the efficiency of the economy, which enhances growth. Okun (1975) argued that pursuing equality could reduce economic efficiency. This scenario sees some level of inequality as constructive, stimulating capital accumulation and technological innovation and creating incentives to invest in education and

health. This suggests that more equal distribution of incomes could reduce incentives to work and invest. This argument also points out that efforts to redistribute incomes through minimum wages, taxation and other public policies can be costly. However, with the onset, and lasting effects, of the recent global financial and economic crisis, greater attention is being given to the negative long-term impact of rising inequality, and to the role of fiscal and social policy in shaping and curbing these effects.

High levels of inequality can be a serious impediment to future economic growth and a potential cause of underdevelopment (Berg, Ostry, and Zettelmeyer, 2012; Easterly 2002; Bruno, Ravallion and Squire, 1996; Alesina and Rodrik, 1994). Berg and Ostry (2011) examined the relationship between income inequality and economic growth across 174 countries, to reveal that income inequality was a strong determinant of the quality of growth, even when market structure and other institutional factors were taken into account. Countries with low levels of inequality tend to sustain high rates of growth for longer durations, while growth spurts tend to fade more quickly in more unequal countries. Similarly, growth in more unequal countries can be much slower than that in countries with low initial levels of inequality (Bénabou, 1996).

In addition to inhibiting economic growth over time, inequality can also generate greater market volatility and instability. One of the important ways in which inequality has created economic instability is through its impact on the generation of finance-driven business cycles (Galbraith, 2012). Some evidence of this has been seen in the much-debated relationship between inequality and the onset of economic recession. Both the Great Depression of the 1930s and the 2007-2008 Great Recession were preceded by sharp increases in income and wealth inequality and by a rapid rise in debt-to-income ratios among lower- and middle-income households (Kumhof and Ranci re, 2010)

While the relationship is not clear-cut, there are persuasive arguments that it was the combination of growing inequality, wage stagnation and financial deregulation that fuelled the global financial crisis of 2008-2009 (Foster and Magdoff, 2009; Galbraith, 2012; Stiglitz, 2012; Stockhammer, 2012; Rohit, 2013). In the years prior to the crisis, the poor (who consume a relatively greater share of their income) had falling shares of national income. Rising inequality reduced aggregate demand and slowed economic growth. The financial sector and economic stimulus policies sought to counter reduced spending and economic stagnation with so-called financial innovations and easy credit, which led to increased debt-driven consumption, particularly among poor and middle-income households in the advanced economies of the United States of America and Europe. As a result, poor and middle-class households accumulated unsustainable debt. Household debt in the United States rose from around 50 per cent of gross domestic product (GDP) in the early 1980s to nearly 100 per cent in 2007, and to 130 per cent of disposable income (Papadimitriou, Hannsgen and Zezza, 2008; Krugman, 2010). Not surprisingly, with this increased debt came a decline in savings among the poor and middle classes, feeding further

demand for, and supply of, credit to these same households. As rich households tend to hold riskier financial assets than other income groups, there was a further concentration of income and wealth at the top of the income distribution ranking. The expansion of hedge funds and subprime derivatives, associated with the rising demand for credit increased, not only the incomes of the super-rich but also, aggregate speculation (Stiglitz, 2012; Lucchino and Morelli, 2012; Rajan, 2010; Reich, 2010). This combination of forces created the unsustainable process of expansion in the United States and other developed countries in Europe that culminated in the financial crisis.

The complex relationship between inequality and growth is also illustrated by the potential of economic crises to create, or deepen, inequalities. The financial and economic crisis impacted many countries by increasing their fiscal deficits, limiting their policy space and their capacity to respond to future shocks. In particular, the crisis also spurred the sovereign debt crisis in Europe, to which policymakers have responded by implementing austerity measures. This has not only decreased growth rates in Europe but has affected other economies through reduced trade and aid.

With the declining revenues fuelled by the crisis, many Governments have been unable to maintain, or increase, public spending in critical areas, including those that affect livelihoods and living conditions. The less well off have been disproportionately affected, hit heavily by job losses and income declines (ILO, 2013a).

In many countries, the increase in part-time work in comparison with full-time work, and reductions in overtime, has resulted in fewer total working hours, exacerbating a phenomenon that existed before the crisis. In Europe, temporary workers have felt the brunt of labour-market adjustments. Ninety per cent of employment losses in Spain were among temporary workers (Vaughan-Whitehead, 2012). Across the region, and in many other advanced economies, rising unemployment has put downward pressure on real wages, reducing consumption further. Bulgaria, Hungary and the United Kingdom have experienced increases in wage differentials between the top and bottom of the wage scale. Aggregate statistics may hide the actual depth of the effect of the crisis on income-inequality, as lower-waged, low-skilled and temporary workers may be laid off first, leaving better-paid workers employed at higher aggregate wages (ILO, 2013b). In emerging and developing economies, structural change has slowed since the crisis, as jobs are not moving from low- to higher-productivity sectors as fast as they had before. This has slowed progress in reducing vulnerable employment and the number of working poor.

The mixed impact of the recent crisis on inequality and growth highlights further the importance of social and fiscal policy in shaping the effects of growth on poverty reduction, social mobility and social cohesion. Chapter 1 showed that many countries in Latin America, several in Africa and a few in Asia experienced declines in income inequality between 2003 and 2010. In most

of those countries, proactive public policies played a critical role in ensuring that the crisis did not harm the population in the bottom half of the distribution disproportionately. The following sections discuss some of the social impacts of inequality, and show that policy matters, critically.

## II. Inequality and poverty

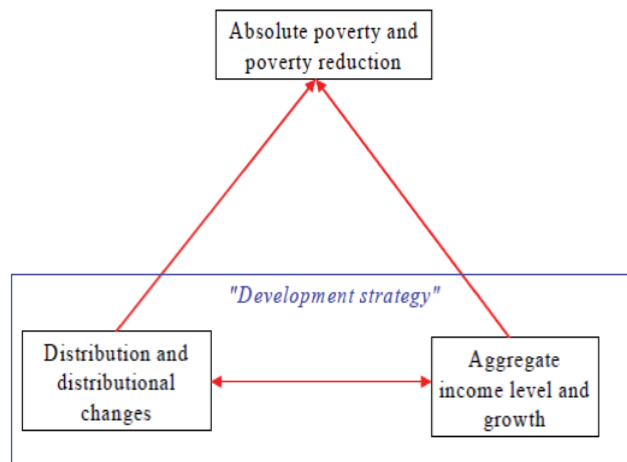
Inequality, and its relationship with growth, have marked implications for poverty reduction, and vice versa. Income and non-income inequalities shape the responsiveness of poverty to income growth. Inequalities also undermine the growth process by excluding people living in poverty from sharing the benefits of growth (Ravallion, 2011; Adigun, Awoyemi and Omonona, 2011; Adams, 2003; Easterly, 2000; Kakwani, 1993). Lack of opportunities for building human capabilities, such as limited access to quality education and health care, can contribute to rising inequality, and limit social and economic mobility. Similarly, unequal access to other tangible productive assets, such as agricultural land, contributes to rising, or persistently high, inequality, by limiting the ability of some to share fully in the benefits of growth. In turn, these developments can lower growth rates, as argued in the preceding section. The quality of institutions and the nature of social policies pursued by countries are, therefore, important in determining the ultimate level and direction of both inequalities of opportunity and of income.

As illustrated by figure III.1, the inequality-poverty-growth nexus is one of co-dependence. While accelerated economic growth is a primary factor in reducing poverty, inequalities can constrain poverty reduction significantly. Without a change in the distribution of income, poverty reduction is only possible with growth. However, growth is less effective in reducing poverty in high-inequality countries, even when the distribution does not worsen; and, low levels of initial inequality, or modest reductions, can have relatively large poverty-reducing effects (Bourguignon, 2004). Grammy and Assane (2006) showed that improvement in income distribution was the key channel for poverty reduction. Using data on sixty-six developing countries over the periods 1970-1979, 1980-1989 and 1990-1998, they noted that growth accompanied by improved distribution worked better than either growth or distribution alone, and that provision of civil liberties and political rights enabled people to participate more actively in reducing poverty.

The pace of poverty reduction also tends to be much faster in more egalitarian countries and in countries in which lower initial levels of inequality have been followed by sustained growth spurts. Conversely, poverty-reduction efforts have been observed to falter in countries with large inequalities, weak growth or inadequate social protection programmes (Fosu, 2011; Besley and Burgess, 2003; White and Anderson, 2001; Bruno, Ravallion and Squire 1996). Yet, as highlighted earlier, redistribution without competitive economic incentives can undermine productivity and economic growth. The relationship between inequality, growth and poverty thus strikes a delicate balance. Prioritizing

growth alone is not sufficient for poverty reduction. In order to reduce poverty effectively and sustainably, growth must be combined with sustained investments in human capital, such as education and health, and food and nutrition security, that keep income and non-income inequalities at constructive levels.

**Figure III.1. The growth-inequality-poverty triangle**



Source: Bourguignon (2004)

The experience of poverty reduction in East Asia is often cited as a counter-argument to the need for curbing inequalities. Over the past 30 to 40 years, some East Asian countries have managed to achieve rapid poverty reduction despite rising inequality. In China, for example, very rapid output growth (at an annual rate of around 9 per cent - 10 per cent between 1981 and 2005) was associated with dramatic declines in poverty (at an estimated annual rate of 6.6 per cent over the same period), even though inequality measured by the Gini index rose from 0.16 in 1980 to about 0.48 in 2011. However, inequality in both assets and incomes in China was extremely low at the start of the high growth phase, and this was probably critical to enabling rapid income growth. Further, poverty declined most sharply in the early 1980s and the mid-1990s, both of which were periods of falling inequality (particularly rural-urban income inequality). Increased income to farmers was crucial in reducing aggregate poverty at these points (Ghosh, 2010). Without rising inequality, the high rates of growth in China would have translated into even higher poverty reduction (Ravallion, 2011; Fosu, 2011).

The cross-country variations in growth and inequality presented in Chapter 1 underscore the complex linkages between growth, inequality and poverty reduction. They are a reflection of the different macroeconomic and social



policies that countries have (or have not) implemented in order to stimulate growth, foster structural transformation, create employment opportunities, widen access to basic opportunities in education, health and job training, and deepen social provisioning. Addressing inequalities requires a combination of growth-enhancing, employment-generating macroeconomic policies and redistributive social policies. A focus on only one set of policies is likely to maximize impact on either poverty reduction or lowering inequalities, but not, necessarily, on both. However, tying redistributive policies too tightly to growth policies, or equity objectives too closely to growth objectives, would be a major mistake (McKinley, 2009). Greater equity should be valued as an end in itself—not primarily as a means that could advance the cause of growth. Redistributive policies, therefore, need to be addressed in their own right.

### III. Inequality and social mobility

The relationship between inequality, poverty and growth can also manifest itself through the ease—or difficulty—with which individuals are able to move up the socioeconomic ladder, and live better lives in relation to their parents. This intergenerational socioeconomic mobility reflects the dynamic impact of inequality. The degree of mobility within a country is an indicator of the distribution of access to opportunities for building human capabilities, and of the extent to which people can move ahead based on their abilities and efforts.

One measure of socioeconomic mobility is the relationship between the incomes of parents and children. Limited income mobility would mean that all children born to poor parents would be poor as adults, and all children born to rich parents would become rich adults, regardless of their innate potential or efforts. The intergenerational earnings elasticity (IEE) of a given society is a measure of the fluidity or rigidity of this relationship. IEE ranges from 0 (total mobility) to 1 (no mobility) and, as illustrated by the phenomenon known as ‘the Great Gatsby Curve’ (Kreuger, 2012), is affected significantly by initial levels of inequality (Corak, 2013, figure 2). Although data differences make inter-country comparisons tenuous, Corak (2013) shows that higher levels of inequality are associated with less intergenerational mobility. Developing countries also show less income mobility than developed countries, a trend that may be related to the comparatively fewer opportunities for improving human capacity in developing countries, such as access to quality education, health care and decent work.

Recent studies find some support for a link between rising inequality and declining mobility in the United States and the United Kingdom (Blanden, Gregg and Machin, 2005; Bradbury, 2011). As income inequality in the United States has increased, family income mobility has declined, and the link has become stronger with time (Bradbury, 2011). A similar situation was found in Britain, when comparing income mobility of children born in 1958, versus a group born in 1970 (Blanden, Gregg and Machin, 2005). While less is known about intergenerational

income mobility in developing countries, studies in Latin America have shown strong links between the socioeconomic status of parents and that of their children (Grawe, 2004; Dunn, 2007; Nunez and Miranda, 2010). In many countries, parental wealth has a substantial effect on children's education, occupational status, consumption, and wealth later in life (Torche and Costa-Ribeiro, 2012).

The structure of inequality in terms of the varying concentration of households along the income distribution also affects the degree of income mobility in a given country. There are fewer opportunities for mobility in those countries characterized by smaller middle classes, more people concentrated at the bottom of the income distribution and fewer at the top. There tends to be less mobility at the very top and bottom of the income distribution, as the very poor are less likely to move up while the extremely wealthy are less vulnerable to downward mobility and more likely hold on to their positions (d'Addio, 2007).

Education is an important channel for socioeconomic mobility. Countries with higher overall levels of education tend to have higher intergenerational mobility (Filmer and Pritchett, 1999; Behrman, Birdsall and Szekely, 2000; Dahan and Gaviria, 2001). In Latin America, a region with otherwise very high inequalities, a main determinant of the fall in wage inequality over the 2000s was the increase in secondary enrolment and completion rates that began in the early 1990s and accelerated during the 2000s. This trend benefited children from low-income families in particular (Cruces, Domench and Gasparini, forthcoming). In the Republic of Korea, rapid educational expansion led by public spending contributed to high educational mobility. Forty-five per cent of the 1970-to-1985 birth cohort whose fathers did not achieve high-school diplomas received at least some college education, and 59 per cent of women had received some college education by 2005 (Kye, 2011).

In turn, socioeconomic background influences educational attainment in several ways. Children from disadvantaged families may receive less parental and domestic support and cognitive stimulation, live in poorer neighbourhoods, experience worse health outcomes, and have other conflicting pressures such as contributing to family income or housework-related tasks. Studies have found that, even by the age of five, substantive gaps have emerged in the cognitive and non-cognitive skills of children from different socioeconomic backgrounds. These gaps have a tendency to widen over time as less advantaged children encounter more barriers to choice, such as: the need to opt out of school and join the workforce to contribute to the household, inability to pay school fees, and lack of access to quality schools (Bradbury and others, 2012; Heckman, 2006).

As will be discussed in Chapter 4, membership in a particular ethnic group, class, gender, or having other social characteristics can heighten educational disadvantage and upward mobility. For example, Majumder (2010) found intergenerational educational mobility in India to be much lower for disadvantaged and excluded groups than for advanced classes. Similarly, in South Africa, Nimubona and Vencatachellum (2007) found that the intergenerational

educational mobility of black Africans was lower than of white Africans, with the poorest groups experiencing the lowest levels of mobility.

Educational attainment and social and economic mobility are clearly interrelated, and policies to address disparities in education need to bear this in mind. Education can mediate the association between the socioeconomic status of parents and that of their children, a persistence present in many country settings (Hertz, 2008). As Chapter 5 highlights, policies to promote universal quality education are important. However, in order for educational access to translate into improved social and economic outcomes across generations, attention to household support structures is important, as well as attention to the discrimination and social exclusion creating the socioeconomic traps in which some families are caught.

Health outcomes are also integral to intergenerational upward mobility. Good health is an important precondition for the development of other capabilities that can enable socioeconomic mobility, such as education and labour productivity. Poor health can limit individual socioeconomic prospects and, ultimately, perpetuate—or even contribute to—increases in income and non-income inequality. Children in poor health may have greater difficulty learning, leave school earlier than healthy children, and tend to become less healthy adults. Adults in poor health may have difficulty finding, or holding, good jobs. They may not be able to work as many hours, or at the same productivity level, as their healthier peers, resulting in lower wages (Case and Paxson, 2006). Conversely, there is a clear relationship between poverty and the increased likelihood of poor health (Adamson, 2010). Policies to promote investment in health thus form an important component of any strategy to facilitate socioeconomic mobility.

#### **IV. Social and political cohesion, social tolerance of inequality**

Besides its close relationship with social mobility, inequality also matters for social and political cohesion and social tolerance. Under certain conditions, inequality can contribute to social instability and undermine trust. This is particularly the case where the gap between rich and poor is large and continuing to grow.

The upsurge in inequality in many parts of the world is generating divergent life experiences and societal expectations between the affluent and other social groups. The result has been greater social stratification and residential segregation. As the wealthy retreat from broad civic engagement and insulate themselves from the social and economic costs imposed by rising inequality on the broader society, they are less likely to be concerned about the plight of the less fortunate. The rich, individually or in associations such as business lobbies and other groups, may also engage in unproductive or predatory activities that add to inequality, and may be further detrimental to growth and economic and financial stability. This includes political lobbying to increase further their share of existing wealth through regulatory capture and by influencing the formulation

and application of rules to their own advantage. Such behaviour weakens social trust and the social compact between groups further, and makes it much more difficult to forge common political solutions and social policies that promote investment in areas such as education, health and social protection (Oxendine, 2009; Costa and Kahn, 2002; Kawachi and others, 1997; Massey, 1996).

The denial of political voice or influence among those at the lower end of the inequality spectrum can cause social tensions, political instability, and even, violent conflict. People grow frustrated when they perceive that opportunities to improve their own lives are inaccessible, and the resultant protests can also lead to social unrest. This has shown itself in the wave of demonstrations seen around the world in response to the economic and financial crises and austerity measures, and in the social and political protests in the Middle East and North Africa. The discontent has not necessarily been always related to the absolute level of inequality, but to a combination of rising expectations and limited opportunities. For example, in Tunisia, high levels of educational attainment coupled with the lack of employment and decent work opportunities were critical factors fuelling the tensions (Campante and Chor, 2012). Similarly, the recent public protests in Brazil that involved workers, students, middle-class professionals and others, not only reflected continued inequalities, but expressed a wide range of demands about public service provision and corruption, reflecting the rapid growth of expectations in a dynamic country (Saad-Filho, 2013).

The relationship between income inequality and conflict is complex. Poorer countries tend to have more conflict than wealthier countries (Collier, 2007), and in highly unequal societies, both rich and poor groups are in conflict more often than groups whose wealth lies closer to the country average. Furthermore, horizontal inequalities between ethnic groups and States can promote conflict (Cederman, Weidmann and Gleditsch, 2011). Local economic characteristics also matter for conflict: civil conflicts are more likely to erupt in areas with low absolute income, even if a country's gross domestic product per capita is not necessarily low, and in areas with large deviations from national averages (Buhaug and others, 2011).

Inequality is more likely to be perceived as acceptable where all individuals have equal opportunity to improve their socioeconomic position, and where those at the upper end of the income continuum have achieved their position through merit rather than inherited advantage. As a result, when the level of Government investment in education, health, public transport and social security increases, the likelihood of the onset of civil conflict declines significantly (Taydas and Peksen, 2012). When privileged elites use institutions, public resources and access to assets, such as land, to maintain their status, they impose tremendous social and economic costs on society – creating conditions which not only weaken economic growth, constrain the financial development of countries and foster long-term inequality, but also contribute to social exclusion and political instability (Acemoglu and Robinson, 2012; Roe and Siegel, 2011; Sokoloff and Engerman, 2000). Furthermore, social and

economic inequalities reinforce disparities in political participation and, as a result, ethnic minorities, women, indigenous people, youth and other affected social groups tend to have significantly lower rates of political participation. However, ethnic-minority participation and representation has been increasing in many liberal democracies (Bird, Saalfeld and Wüst, 2010). Similarly, gender inequality in political participation is declining, albeit slowly, worldwide (Coffé and Bolzendahl, 2011). Despite such improvements however, all regions are still well below equality in the engagement of all social and economic groups in activities intended to influence Government decision-making.

The media play an important role in shaping how inequality is seen and addressed. There is evidence that the extent of media freedom in democracies is positively associated with spending on health and education, net of the overall level of development (Petrova, 2008). Media control can also lead to manipulation of public opinion in ways that perpetuate, or increase, inequalities. High inequality is associated with elite capture of media and lower media freedom, particularly in democracies. A study on the way in which tax cuts in the United States were presented to the public in the early 2000s showed how media framing of the issue may have led to support for the cuts by the majority of citizens. This occurred even though the benefits were heavily concentrated at the very top of the income and wealth distributions, and although the implications – in terms of reduced public spending in other areas—were often against individuals' own economic interests and widely-shared collective values (Bell and Entman, 2011). Another study on the United States found that media outlets largely ignored economic inequality in discussions about the overall economy, despite mounting evidence suggesting that the problem had increased in recent years (Kleine, 2013).

Social media play a new role in this context, and the rapidly changing nature of media business and coverage suggests that traditional forms of elite capture can be both undermined and reinforced by the new social media. It is harder to influence the content and perspectives of major media providers amidst so many alternative sources of information. It is also harder to prevent different—and more pluralistic—forms of expression that can inform those who would otherwise remain unaware of actual trends, including in inequalities, and how policies can affect them. However, the digital divide remains large, albeit narrowing, even in developing countries where mobile telephony is fulfilling many of the earlier functions of personal computers. Moreover, blogging and similar forms of media interaction are still strongly class-driven (Schradié 2012), even as race and ethnicity become less important as determinants.

## V. Conclusion

The many adverse consequences of inequality affect not only those at the lower end of the distribution, but also those who would seem to be benefiting from it. The onset—and continued impact—of the recent financial and economic crisis highlights the damage that inequalities can do to social and economic development. Inequality leads to less stable, inefficient economic systems that restrain economic growth and pose a serious barrier to the eradication of poverty. This, in turn, reduces the contribution of economic growth to social development and reduces social mobility.

Given the complex linkages between inequality, growth and poverty reduction, macroeconomic and social policies must aim at stimulating growth, fostering structural transformation and deepening social provisioning. All individuals, irrespective of their background, should have a fair shot at economic success. Accessing those opportunities that nurture their talents and abilities is critical.

Rising inequality can have a particularly profound impact on specific groups within societies. Various social groups – such as youth, older persons, persons with disabilities, indigenous peoples and rural populations – suffer disproportionately from inequality. Chapter 4 elaborates on how the disparities associated with these social groups intersect with, and reinforce, each other.



## Chapter 4

# Identity and inequality: Focus on social groups

The previous chapters have shown that factors beyond an individual's skill or effort, such as place of residence or parents' education, affect income, access to other productive assets, and health and educational status, thus creating inequality between individuals. Yet other characteristics that identify the social group to which an individual belongs, including gender, age, and migrant, indigenous or disability status, also have considerable influence on well-being and economic outcomes. Indeed, an individual's chances in life depend significantly on group ascription and the ways in which both the individual and group interacts with public institutions and the labour market.

It is important to address group inequalities, because they constitute a large component of overall inequalities within countries (United Nations Research Institute for Social Development, 2010). Disadvantaged groups often have lower levels of human capital due to factors such as place of residence, lack of social capital or discrimination, and may receive lesser returns on such investments than other groups. Furthermore, unequal access to resources can affect the well-being of the individuals belonging to disadvantaged groups adversely in comparison to how such group members would fare based on their individual positions or characteristics (Stewart, 2002). As a result, the potential of individuals within these groups to be productive and to participate in all aspects of society is diminished, as is their ability to contribute to, and benefit from, development.

Inequalities across social or population groups – those that are socially embedded and defined in terms of social characteristics such as ethnic background, culture, language, and so on – also tend to be more persistent over time than economic inequalities between individuals (Stewart, 2009). Group inequalities span many dimensions, particularly economic, social, political and cultural, the interactions among which are likely to explain the persistent disadvantages experienced by the members of certain groups. Similar to the case with individuals, the lower levels of human capital usually found among members of disadvantaged groups (social inequality) may lead to lower incomes (economic inequality). Both types of inequality may result in, but at the same time may be caused by, the lack of political power. However, faced with persistent



group inequalities, individuals and families are unlikely to escape poverty because it is difficult to move across groups, such that a higher proportion of families in disadvantaged groups remain deprived over time (Stewart and Langer, 2007). Thus, addressing inequalities faced by disadvantaged and marginalized social groups is not only an imperative, but also a practical entry point to combating inequality in society.

In addition, many individuals belong to more than one disadvantaged group, and inequalities across dimensions often reinforce each another. For example, older, young or indigenous women experience setbacks and marginalization on the basis of their gender, ethnicity and culture, as well as their age. In Bolivia, the probability of a Spanish-speaking woman completing secondary education is 5 percentage points lower compared to a Spanish-speaking man. The probability declines by 14 percentage points for a man belonging to the Quechua people, and by 28 percentage points for a Quechua woman (World Bank, 2013). In India, men from Scheduled Tribes are about four times less likely to have completed secondary education than men who do not belong to Scheduled Castes or Scheduled Tribes, while women from Scheduled Tribes are six times less likely than other women to have done so.<sup>1</sup>

This chapter brings into focus some of the disparities that exist across five social and population groups—youth, indigenous peoples, older persons, persons with disabilities and migrants—and also illustrates how such disparities intersect with—and reinforce—one another. Indigenous and ethnic groups generally share a cultural identity—a common history, language and traditions—while young people, older persons and persons with disabilities share a set of common distinctions and concerns related to their age or abilities. Similarly, migrants have a shared, defining experience. Yet, each of these groups faces particular disadvantages and barriers, which preclude the full participation of the individuals within them in social, economic and political life. Lack of participation, at its turn, reinforces the disadvantages they face and limits the opportunities they have to influence their circumstances. The discussion to follow will highlight shared inequalities in poverty, education, employment and health outcomes between these social and population groups with respect to the rest of the population.

## I. Inequalities faced by youth<sup>2</sup>

Youth, having lost the protection afforded to children, but generally not yet viewed as adults, confront structural and cultural barriers to their full

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1 Calculations based on data from India's Demographic and Health Survey 2005-06. Available [online] at: <http://www.measuredhs.com/>.

2 The United Nations Secretariat uses the terms youth and young people interchangeably to refer to people between the ages of 15 and 24.

participation in economic, social and political life that, in turn, risk leading to long-term inequalities. In many societies, youth are increasingly—and, in some cases, alarmingly—disadvantaged in terms of relative income, unemployment, working poverty, and other decent work deficits that point to uncertain futures. Many of these problems have been exacerbated by the financial and economic crisis and subsequent austerity measures, so much so that today's youth are seen as an entire generation at risk (ILO, 2013a).

The situation of youth employment poses a host of cumulative long-term challenges ranging from income insecurity to disruptions in family life. Additionally, young people are susceptible to particular health risks and harmful behaviour. Yet, frequently, they lack access to knowledge about issues related to reproductive health, sexuality and mental health.

#### *A. Youth and inequalities in the labour market*

One major concern facing many countries is the question of how to integrate youth into the formal labour market and promote equal employment opportunities and outcomes among young people. Even in prosperous times, young people have experienced challenges in accessing and retaining employment, as labour markets have struggled to absorb large populations of youth. In developed countries, secure and regular employment with its associated benefits—such as pensions and social security, which were taken for granted by most of the previous generation—are simply no longer available to new entrants into the labour force, who are forced increasingly to take on temporary or part-time jobs, often at skill levels below their own qualifications. In developing countries, where nearly 90 per cent of the global youth population resides, informal work with low remuneration is increasingly the order of the day, with the exception of a few countries where formal employment has increased through proactive public policy.

Unemployment is a particularly severe problem for youth. Although there is wide variation, rates of unemployment are significantly higher – generally more than double, and often nearly triple – for youth than for adults, in all geographical regions. Youth tend to be 'last in' and 'first out' – the last to be hired, and the first to be let go. Due to their age, they have less experience, smaller networks, and less information and expertise regarding job searching than prime-aged (aged 25-54) and older workers, such that many youth are disadvantaged in finding new employment once they have been dismissed. The most recent rate of global youth unemployment stood at 12.3 per cent in 2011. That rate is expected to rise to 12.6 per cent in 2013, amounting to more than 73 million young people unemployed (see table IV.1).

Unemployment, particularly prolonged unemployment, during youth can have severe, long-term repercussions on equality. In addition to the immediate effects of lost earnings, skill development and experience, young people who experience unemployment will not recover those losses fully over time; many

will have lower lifetime earnings and fewer skills than had they not encountered unemployment, and will confront unemployment again later in life (Morsy, 2012). Young people's difficulty, in transitioning from school or training into the labour force, and in earning decent wages also hinders their ability to contribute to family income, become independent, establish their own household and plan for child-rearing. Delayed household formation also has broader implications for aggregate demand, in particular for housing and consumer durables associated with home-ownership. It is estimated that the growth in youth unemployment during the economic crisis raised the Gini coefficient considerably in some developed countries, particularly where young workers were most affected by decent work deficits (Morsy, 2012).

Although rates of youth unemployment in developed countries are expected to fall in the coming years, much of the decline is likely to be due to discouraged youth dropping out of the labour market (ILO, 2012c). Already, approximately 6.4 million youth worldwide have grown discouraged and given up on job searching, or extended their education in the hope of riding out the jobs crisis (ILO, 2012b). In OECD countries, one out of every six young persons is neither employed, looking for employment, nor in education or training (ILO, 2013a). Though some youth are not in employment, education or training by choice—or rather, lack of opportunity—many unemployed or idle youth are not developing human capital and are at greater risk of poverty and social exclusion. It is, therefore, not surprising that youth poverty has increased significantly in 19

**Table IV.1. Global unemployment and unemployment rates, youth (15-24), adults (25+) and total (15+), 2007-2013**

	2007	2008	2009	2010	2011	2012	2013
Youth unemployment (millions)	69.9	70.4	75.6	74.0	72.6	72.9	73.4
Adult unemployment (millions)	99.8	104.4	120.7	120.0	119.7	122.5	128.1
Total unemployment (millions)	169.7	174.8	196.4	194.0	192.3	195.4	201.5
Youth unemployment rate (%)	11.5	11.7	12.7	12.5	12.3	12.4	12.6
Adult unemployment rate (%)	4.0	4.1	4.6	4.5	4.5	4.5	4.6
Total unemployment rate (%)	5.4	5.5	6.1	6.0	5.9	5.9	6.0
Ratio of youth-to-adult unemployment rates	2.9	2.9	2.7	2.8	2.8	2.8	2.7

Source: International Labour Organization (2013b), Annex A, Table A1.

OECD countries since the crisis. In Estonia, Spain and Turkey, in particular, an additional 5 per cent of young people fell into poverty between 2007 and 2010. Youth poverty decreased only in Germany, where household income grew in this period and youth unemployment did not rise (OECD, 2013).

A recent report by the European Foundation for the Improvement of Living and Working Conditions (Eurofound) found that the economic impact of the exclusion of youth, not in employment, education or training (NEET) was at least 153 billion euros—or 1.2 per cent of European gross domestic product – in 2011. Such costs relate mainly to public finance as well as to loss of earnings over the long term. Youth with low education levels were three times more likely to become NEET than those with a tertiary education. Youth with an immigrant background as well as those living with disabilities were also significantly more likely than the rest of the population to be unemployed or idle (Eurofound, 2012).

Good academic performance and the ease of students' transition into decent work are dependent in large part on the quality and affordability of educational systems and programmes and their relevance to the changing needs of the labour market. Many young people believe that youth are not being prepared adequately for future employment (Mourshed, Farrell and Barton, 2012; United Nations, 2011a). The skills mismatch in youth labour markets is a persistent problem, as is, increasingly, skills obsolescence brought about by long-term unemployment (ILO, 2013a). Young women, in particular, are often over-educated for the kinds of jobs that are available to them. In many countries, growing levels of educational attainment among young people coexist with high levels of youth unemployment. The social exclusion, the frustration, the unfulfilled expectations and even, the hopelessness, of unemployed and underemployed, educated youth have been linked to recent social unrest in many countries and regions and most prominently, to the protests in the Middle East, North Africa and Europe (ILO, 2012b; World Bank, 2012b; Stiglitz, 2012).

The general lack of effective education-to-employment systems has often led young people to turn to vulnerable jobs and insecure working arrangements, such as contractual, temporary or part-time work, hazardous work, low-productivity jobs, jobs unrelated to their skills, or informal-sector work. Such jobs are, typically, associated with poor pay, poor working conditions, and limited opportunities for skills-development and -advancement. In the Arab Republic of Egypt, youth are twice as likely to work in the informal sector, as are adults between the ages of 35 and 54 (World Bank, 2012b). Similarly, in the European Union, 17 per cent of young workers are in the informal sector compared to 7 per cent of prime-aged workers (aged 25-54) (ILO, 2012c). Part-time employment in the European Union rose faster among youth than adults before, as well as during, the economic crisis. Between the second half of 2008 and 2011, Ireland saw an increase of 20.7 percentage points in part-time employment of youth and Spain an increase of 11.8 percentage points (ILO, 2012b). Such jobs can help youth to integrate into the labour market initially and provide short-term benefits, but can also lead to persistent job insecurity.

In developing countries, where many, including youth, cannot afford to be out of work, the majority of workers are in vulnerable employment, comprising own-account and unpaid family work. Youth, in particular, are often engaged in unpaid work for family businesses or farms. Those who do have paying jobs are more likely than prime-aged workers to be in low-wage jobs. Young people also confront greater challenges in entrepreneurial activities, as they are less likely to qualify for credit and possess fewer skills and less experience (ILO, 2012b). These challenges result in disproportionate levels of poverty in working youth in developing economies across regions. In countries where data are available, youth represent 23.5 per cent of the total working poor, against 18.6 per cent of non-poor workers<sup>3</sup> (ILO, 2012b). Agricultural-sector work and low levels of education are highly correlated with youth working poverty. In Africa, data from 24 countries suggest that 49 per cent of young workers live on less than \$1.25 per day, and 73 per cent live on less than \$2 per day. Similarly, another study of 22 African countries showed that 41 per cent of working youth were food insecure, or had not had sufficient food on several occasions over the past year (AfDB and others, 2012).

### *B. Health risks borne by youth*

During the period of adolescence and youth, individuals become susceptible to particular health risks and harmful behaviour, such as early pregnancy, sexually transmitted diseases, including HIV, and inter-personal violence. Other potentially risky practices, such as smoking, are also likely to be developed during these years. Yet, youth-friendly services, such as access to relevant information on health and well-being, and adequate health care and social support, are insufficient. For example, just 36 per cent of young men and 24 per cent of young women have sufficient knowledge to protect themselves from contracting HIV (WHO, 2012a).

Worldwide, 40 per cent of all new adult HIV infections are among youth. Among the five million youth living with HIV and AIDS, girls and young women are more affected than males (Joint United Nations Programme on HIV/AIDS, 2012). Sexual violence also affects a significant proportion of youth, which is particularly worrisome in the context of HIV and AIDS. A multi-country study showed that the younger the woman when she had sexual intercourse for the first time, the greater the likelihood that her sexual initiation was forced (WHO, 2005). In two thirds of the settings surveyed, the proportion of women who described their first sexual encounter as coerced was over 30 per cent if that encounter was reported to have occurred before the age of 15 years, and less than 20 per cent among women who had had their first sexual encounter at ages 15 to 18 years.

Teenage pregnancy is detrimental to the health of both mother and child. It

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3 Based on an income poverty line of \$1.25 a day.

also correlates with lower educational attainment and poverty. Complications from pregnancy and childbirth are a leading cause of death among women aged 15 to 19 years in developing countries. Yet, at the global level, more than 10 per cent of all births occur among women aged 15 to 19 years, mainly in developing countries (WHO, 2012a). Inter-personal violence is also a significant cause of youth mortality and disability, particularly among males. An estimated 250,000 homicides occur annually among youth aged 10 to 29 years, representing 41 per cent of the global annual number of homicides (WHO, 2011).

## II. Inequalities faced by older persons<sup>4</sup>

Although many older persons around the world are able to participate in all aspects of society and to maintain adequate living standards through retirement pensions, ongoing work or familial support, many others, in both developed and developing countries, confront increasing levels of poverty, poor health and social exclusion. Older persons are disproportionately at risk of inadequate and insecure income, insufficient access to quality health care and other services—such as finance and accessible transportation and housing—and pervasive discrimination on the basis of their age.

### A. Older persons and poverty

The incidence of poverty among older persons varies significantly among countries and data are not always available. However, in general, in developing countries without well-developed social security systems, older persons are generally less well-off than the rest of the population. Their living standards are also lower, in part because they are more likely to live in rural areas, where poverty is more prevalent.<sup>5</sup> Figure IV.1 illustrates the percentage of older persons in several developing and emerging economies that are in the bottom wealth quintile, as estimated using DHS surveys. In some countries, households headed by older persons will have more of certain assets than those headed by younger persons, due to accumulation over the life cycle. However, even such older households may lack a regular or secure income, or liquid assets. In 30 out of the 44 countries shown, older persons are poorer than average, based on this indicator.

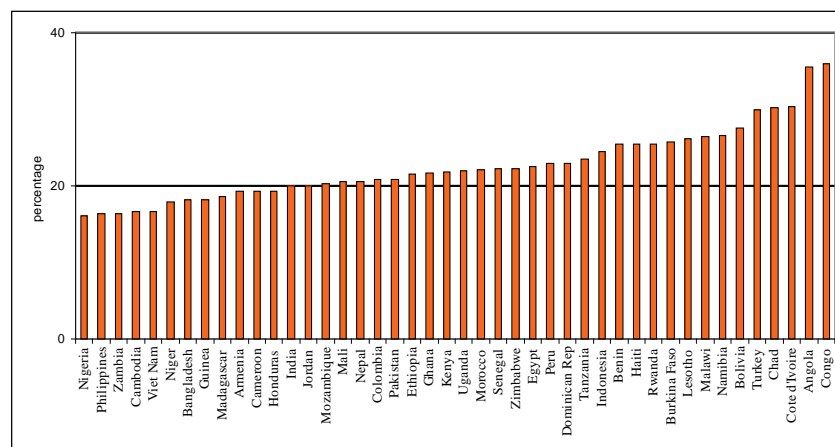
In many countries of the OECD, however, in the last two decades, older persons have seen greater income gains than other social groups. Still, in 2010, the percentage of older persons living in poverty (defined as having an income below half of the national median income), was above that of the total population

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4 The United Nations defines older persons as men and women aged 60 years or over. In many developed countries, the cutoff point of 65 years is used to refer to older persons.

5 The DHS wealth index is calculated with data on household ownership of assets such as televisions and types of access to drinking water.

**Figure IV.1. Percentage of older persons in the bottom wealth quintile, late 2000s**



*Source:* Author's calculations based on data from Demographic and Health Surveys (DHS).

**Note:** The chart shows the percentage of older persons who own an equal or lower amount of wealth per capita as the poorest 20 per cent of the total population.

in only 11 out of 26 countries with data (see Table IV.2). Older women tend to experience higher rates of poverty than older men, in some countries even reaching more than triple men's levels. In addition to gender, household structure is a key determinant of old-age poverty. Among households headed by an older person, single individuals experienced income poverty at a rate of 25 per cent, compared to 9.5 per cent for couples, on average (OECD, 2011).

The extent and degree of poverty and inequality experienced by older persons are generally linked to the presence (or absence) of social protection schemes and the level of benefits they provide (United Nations, 2007; OECD, 2011; Barrientos, 2006). Older persons experience distinct vulnerabilities in income security, yet longer life expectancies and changing family structures—whereby older persons are being cared for by family members less frequently—underscore the fact that the issue is of critical importance. Although, on average, legislated contributory pension programmes cover 40 per cent of the global working-age population, there is significant variation across regions. Effective coverage is lower than legal coverage in all regions, pointing mainly to gaps in programme implementation, or funding (ILO, 2010). Accordingly, less than one out of every five older persons worldwide has public pension coverage (United Nations, 2011a).

In high-income countries, approximately 75 per cent of persons aged 65 years and over benefit from some form of pension, compared to an average of less than

**Table IV.2. Income poverty rates for adults aged 65 and over in OECD countries**

	65 and older			Total
	Total	Male	Female	
<b>Rep. of Korea</b>	47.2	43.7	49.5	14.9
<b>Australia</b>	35.5	32.5	38.1	14.4
<b>Mexico</b>	27.6	27.2	28.1	20.4
<b>Israel</b>	20.8	19.0	22.3	20.9
<b>Slovenia</b>	16.7	14.7	15.9	9.2
<b>Greece</b>	15.8	14.2	17.1	14.3
<b>United States of America</b>	14.6	12.1	17.5	17.4
<b>Spain</b>	12.5	11.0	13.5	15.4
<b>Austria</b>	11.3	6.9	14.5	8.1
<b>Belgium</b>	11.0	10.9	11.1	9.7
<b>Italy</b>	11.0	7.0	13.8	13.0
<b>Germany</b>	10.5	7.9	12.4	8.8
<b>Portugal</b>	9.9	9.5	10.1	11.4
<b>Finland</b>	9.7	5.0	12.9	7.3
<b>Poland</b>	9.7	11.3	8.3	11.0
<b>Sweden</b>	9.3	4.5	12.5	9.1
<b>United Kingdom</b>	8.6	6.2	10.5	10.0
<b>Denmark</b>	8.0	6.4	9.2	6.0
<b>Estonia</b>	6.7	7.8	5.8	11.7
<b>Norway</b>	5.5	2.1	7.9	7.5
<b>France</b>	5.4	4.1	6.4	7.9
<b>Slovakia</b>	4.3	1.5	6.1	7.8
<b>Czech Republic</b>	3.7	2.3	4.7	5.8
<b>Iceland</b>	3.0	3.5	2.6	6.4
<b>Luxembourg</b>	1.9	2.5	1.5	7.2
<b>Netherlands</b>	1.4	1.1	1.6	7.5

Source: OECD, Income Distribution OECD.Stat database. Available online at: <http://www.oecd.org/els/soc/income-distribution-database.htm>. Accessed in December 2013.



20 per cent of older persons in low-income countries. Standard pension systems cover mainly workers in the formal sector, whereas most of the working-age population in low-income countries are employed in the informal sector. Where contributory social security systems exist, older women are disadvantaged vis-à-vis older men in terms of pension levels and other benefits (United Nations Office of the High Commissioner for Human Rights, 2012). In most countries, women are less likely than men to work in the formal sector, where pension coverage is higher. Additionally, women earn, on average, lower wages and frequently spend less time in the labour force, due mainly to child-rearing and care-giving activities. In some cases, women are disadvantaged further by limited pension entitlements, such as where they may be covered by a husband's or former spouse's pension, or following the death of a husband – despite women's greater life expectancy and lower levels of remarriage (ILO, 2010). When older women receive pension income, it is often used for family expenses, such as school fees and meals (UNFPA and HelpAge International, 2012).

Across all regions, voluntary coverage for self-employed persons extends to just 4 per cent of the working-age population (ILO, 2010). Some developing countries have been establishing, and expanding, social protection programmes, including non-contributory or social pensions, which ensure a minimum level of income to all persons or to those not covered by a contributory system. Such systems can be highly effective in reducing poverty and inequality, especially among older persons belonging to marginalized and disadvantaged social groups.

### *B. Employment and health inequalities faced by older persons*

Universal pensions are important, not only as a matter of social justice, but because older persons face a range of challenges in employment. In many countries, older persons have lower social status and confront widespread, age-based discrimination in hiring, training and retention, as well as high rates of long-term unemployment (defined as unemployment for 12 months or more), which can be found even where their overall levels of unemployment are relatively low (UNFPA and HelpAge International, 2012). In Europe, seven out of ten respondents to a survey believed that the greatest barriers to participation in the labour force by persons aged 55 years or older were: inadequate opportunities to limit working hours gradually, exclusion from workplace training, and employers' negative perceptions of older employees. Moreover, the most pervasive form of age discrimination was reported to be workplace-related, with 21 per cent of respondents having either experienced, or witnessed, age discrimination in the past two years while in the workplace or seeking work (European Commission, Eurobarometer, 2012). Older persons' disproportionately high rates of long-term unemployment may be linked to age-based discrimination. Once unemployed, older persons are less likely to be rehired and, if rehired, are likely to experience greater wage losses (OECD, 2006). Approximately 44 per cent of older workers in the United States had been unemployed for at least one year, in comparison to 21 per cent of the 20- to 24-year-old workers and 12 per cent of workers below age 20 (Kurtzleben, 2012).

Older persons also face multiple barriers to accessing health care, precisely during the stage in life when health care is often most needed. They often confront discriminatory attitudes and receive poor or inadequate treatment, if any. In Europe, evidence exists of age limitations and price inflation in health-insurance policies for older persons (Murphy, 2012). In surveys from developing countries, older persons have reported multiple forms of discrimination in seeking health care, from disrespectful treatment to outright refusal of treatment (Sleap, 2011). In a multi-country survey of older persons, the majority of respondents—63 per cent—found it difficult to access health care when needed (HelpAge International, 2011).

User fees and medication costs, lack of data and investment related to the situation of older persons, location of services, and lack of age-friendly services and structures are some of the other common—and even ubiquitous—factors that perpetuate inequalities faced by older persons. A prominent example is the experience of older persons with HIV. In addition to serving frequently as caregivers to infected younger family members, many older persons themselves have the virus. Yet, statistics on HIV and AIDS are often gathered on persons only up to age 49 or 59. Similarly, older persons are rarely screened for the virus, and programmes on HIV and AIDS prevention and treatment seldom target older populations (United Nations, 2011b). Such failure to consider older persons in relevant research and initiatives is generally based on the mistaken assumption that older persons are unlikely to engage in activities that could transmit the virus. Consequently, older persons may be put at greater risk due to lack of awareness of safe practices and testing or treatment resources.

Access to health care plays a key role in the health outcomes of older persons, particularly those who might be living with disabilities. More than 46 per cent of older people aged 60 and over have disabilities. The prevalence of disabilities among older persons increases with age and geographic location, despite the fact that many of these disabilities are preventable. Older persons in developing countries are more likely to have disabilities than those in developed countries, and older women in both developing and developed countries are more likely than men to have disabilities. For example, visual impairments are three times more prevalent among older persons in developing countries than in developed countries (UNFPA and HelpAge International, 2012).

### III. Inequalities faced by persons with disabilities

Persons with disabilities are at a disadvantage compared to the general population across several dimensions of social and economic well-being (WHO and World Bank, 2011). This disadvantage is very often the result of a disabling environment: physical and institutional barriers, discrimination and exclusion. Often, persons with disabilities are rendered invisible, or considered to be incapable of participating in society, or even in processes of decision-making

regarding policies that affect them. Yet, such exclusion has costs. For instance, excluding persons with disabilities from the world of work costs societies not only the value of their lost potential productivity but also the expense of providing disability benefits and pensions. One study of ten countries in Asia and Africa estimated that this exclusion might cost countries between 1 and 7 per cent of GDP (Buckup, 2009).

#### *A. Persons with disabilities and poverty*

Disability is more common among women, older people and households that are poor, and lower-income countries have a higher prevalence of disability than higher-income countries (WHO and World Bank, 2011). Although few studies have looked at the prevalence of disability among poor households, one such study of 15 developing countries showed that the economic situation of households that had at least one member with a disability was worse than the situation of households without any person with a disability. In 10 out of those 15 countries, households that had at least one member with a disability had significantly lower assets (Mitra, Posarac and Vick, 2011). At the individual level, disability has a two-way relationship with poverty, which creates a vicious circle: disability may increase the risk of poverty, for example, by excluding individuals from education and work, but poverty may also increase the risk of disability, inter alia, through malnutrition or poor living and working conditions (The Lancet, 2009; WHO and World Bank, 2011). It is estimated that 20 per cent of the world's poorest persons have disabilities (Elwan, 1999). At the same time, persons with disabilities are more likely to live in poverty than persons without disabilities. Data from 59 countries surveyed in the WHO World Health Survey (2002-2004), showed that, in lower-income countries, 22.4 per cent of all persons with disabilities were in the poorest wealth quintile compared to 13.3 per cent in the richest quintile (WHO and World Bank, 2011). In a separate study of 18 out of 21 OECD countries with data, working-age people with disabilities showed higher poverty rates (defined as less than 60 per cent of the median-adjusted disposable income) than those without disabilities. On average, across OECD countries, the income of persons with disabilities was 12 per cent lower than the national average and as much as 20 to 30 per cent lower in some countries (OECD, 2009).

#### *B. Persons with disabilities face educational, employment and health inequalities*

Most of the evidence suggests that children with disabilities tend to have lower school attendance rates compared to children without disabilities. Data from surveys conducted in Africa, Asia, Latin America and Eastern Europe show that children with disabilities aged from 6 years to 17 years are less likely to start school, or to be enrolled (Mitra, Posarac and Vick, 2011). Similarly, in South Africa, being physically disabled or having some other type of disability has

been positively associated with the likelihood of dropping out of primary and secondary school (Sibanda, 2004). Similarly, a recent study by WHO based on data for 51 developed and developing countries found that primary school completion rates for boys with disabilities were only 51 per cent, compared to 61 per cent for boys without disabilities. The intersecting deprivation determined by gender is evident here as well: the corresponding rates for girls were only 42 per cent for girls with disabilities and 53 per cent for girls without disabilities (UNICEF, 2013).

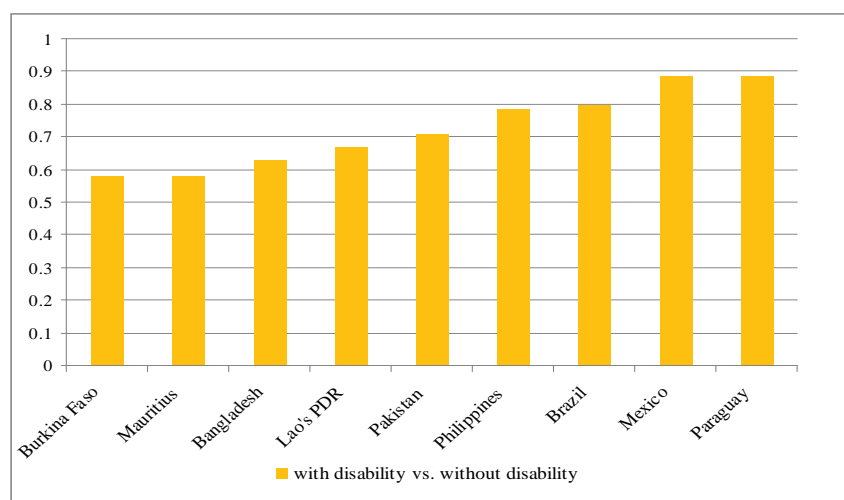
There is also consistent evidence that adults with disabilities have lower educational attainment than their peers without disabilities. In a study of 15 countries in sub-Saharan Africa, Asia, Latin America and Eastern Europe, in 12 of the 15 countries the mean number of years of education completed was significantly lower among persons with disabilities. In 14 of these countries, the percentage of individuals who completed primary education was significantly lower among persons with disabilities (Mitra, Posarac and Vick, 2011).

Regular school systems rarely provide learning opportunities to all students, especially those with disabilities. In many countries, public resources for children with disabilities are directed to segregated schools instead of to mainstream education in one, inclusive system. Yet segregated schools may not be suitable, or even cost-efficient, for students with disabilities. In one country, special schooling cost up to three times more than schooling for children without disabilities (UNICEF, 2013). Resources would be more efficiently used if they were directed towards enabling children—both with and without disabilities—to attend the same age-appropriate classes, with appropriate infrastructure and individually-tailored support, as required.

Persons with disabilities also tend to have lower employment rates than persons without disabilities. *The World Report on Disability 2011* found that, among 51 countries, women with disabilities were 10.3 per cent less likely than women without disabilities to be employed, and that men with disabilities were 12.1 per cent less likely than men without disabilities to be employed (WHO and World Bank, 2011). As shown in figure IV.2, the disability gaps in employment rates were largest in the countries of sub-Saharan Africa, smallest in the countries of Latin America, and ranged in between in the countries of Asia. Persons with multiple disabilities suffered the most from the disability gap in employment rates (Mizunoya and Mitra, 2013).

Employment inequalities experienced by people with disabilities are found in both developing and developed countries. In most developed countries, persons with disabilities of working age have an unemployment rate that is at least twice that of persons without disabilities (United Nations 2012a). A study of 27 OECD countries found that 44 per cent of working-age persons with disabilities were in employment and 49 per cent were inactive, while 75 per cent of working-age persons without disabilities were in employment and just 20 per cent were inactive (OECD, 2010b).

**Figure IV.2. Ratio of the employment rate of persons with disabilities to the employment rate of persons without disabilities, selected countries**



Source: Mizunoya and Mitra (2013).

**Note:** A ratio below 1 means that persons with disabilities are not integrated in the labour market to the same degree as persons without disabilities.

Not only are people with disabilities less likely to find work than people without disabilities but, worse yet, they have little chance of finding decent work. When persons with disabilities are employed, they are more likely to be underemployed, receive lower earnings and experience higher job insecurity, even in high-income countries (OECD, 2009). In developing countries, many persons with disabilities work in the informal sector, where there is very little job protection and stability (Murray, 2012). Women with disabilities are even less likely to be employed than men with disabilities, and also earn less when they are employed.

Disability gaps in health exist as well. At the household level, there are inequalities in health expenses. On average, households with persons with disabilities report spending a significantly higher proportion of their expenditure on health care (Mitra, Posarac and Vick, 2011). At the individual level, there are significant inequalities between persons with disabilities and the general population in health outcomes and access to health care. Some of these health inequalities result from the fact that certain health conditions that cause disability are associated with the increased risk of specific co-morbidity (Mayeux, 2007; Prince and others, 2007; WHO and World Bank, 2011). Very often, though, these health inequalities are the results of barriers faced by persons with disabilities in accessing effective health-care services, barriers that are not just

physical, environmental, economic and societal in nature, but also the result of neglect, abuse and acts of discrimination committed by caregivers or health-care professionals themselves (Hughes and others, 2012; Jones and others, 2012; WHO, 2012b; WHO and World Bank, 2011).

#### IV. Inequalities faced by indigenous peoples

In countries and regions (Latin America, Northern America and Oceania) where data disaggregated by indigenous status exist, it is well documented that indigenous peoples face many socioeconomic disadvantages relative to non-indigenous peoples (Hall and Patrinos, 2012). Studies indicate that half of the gap in earnings between indigenous and non-indigenous groups is due to human capital deficits. Lower educational levels, lack of skills or abilities, lower employment rates and poorer health all contribute to higher poverty rates for indigenous groups. The other half of the gap is due to unknown factors, which may represent the impact of discrimination and other social forces, in the labour market (World Bank and IMF, 2011).

##### *A. Indigenous peoples and poverty, educational, employment and health inequalities*

Around the world, indigenous peoples are among the poorest groups, accounting for 10 per cent of the world's poor. Moreover, one third of indigenous people worldwide are poor (United Nations, 2009; World Bank and IMF, 2011). In the United States, for example, an indigenous person living on a reservation is four times more likely to live in poverty than an average citizen, and more than one quarter of the indigenous population live below the official poverty line (Hall and Patrinos, 2012). In countries of sub-Saharan Africa, Asia and Latin America, poverty rates were between 1.5 and 5.1 times higher among indigenous peoples than in the rest of the population in the mid-2000s (table IV.3). With a few notable exceptions (Chile and Mexico), poverty rates have not improved much among indigenous peoples in Latin American countries, especially in countries with large indigenous populations such as Bolivia, Ecuador, Guatemala and Peru. By contrast, poverty rates have declined rapidly in Asian countries that have experienced rapid economic growth recently (such as China and Viet Nam), and the decline has very often occurred more rapidly among the indigenous than the non-indigenous population (World Bank and IMF, 2011).

Although indigenous traditional knowledge and livelihoods are rarely taken into account, in many countries, indigenous peoples have lower educational outcomes and experience lower employment rates than non-indigenous peoples. Among indigenous peoples, illiteracy levels are higher, school enrolment ratios are lower, school performances are poorer and average years of schooling are far fewer (López, 2009; Macdonald, 2012; World Bank and IMF, 2011; United Nations, 2009; UNESCO, 2010; Hall and Patrinos, 2012). In sub-Saharan Africa,

the literacy rate of some indigenous groups can be as much as four to five times lower than the national rate, as was the case among the Pygmies in the Congo and the Democratic Republic of the Congo, as well as the Peuhls in Benin in the mid-2000s. In the Central African Republic, gross primary enrolment ratios are only 7 per cent for the Mbororos and 21 per cent for the Pygmies, but reach 73 per cent for non-indigenous groups. The differences persist at the secondary level. In Gabon, the gross primary enrolment ratio is only 4 per cent for Pygmies compared to 80 per cent for non-Pygmies.

As regards employment inequalities, there is ample evidence that indigenous peoples are excluded from the labour force, which reinforces the persistence of their poverty levels (United Nations, 2009; Statistics Canada, 2011). In Australia, the 2006 indigenous unemployment rate of 15.6 per cent was more than three times higher than the rate among the non-indigenous population. Similarly, in New Zealand, the Maori unemployment rate of 7.7 per cent was more than twice the national average of 3.8 per cent (United Nations, 2009).

There are also significant disparities in health status between indigenous and non-indigenous peoples. Indigenous groups experience disadvantages in terms of both morbidity (prevalence of communicable and non-communicable diseases, malnutrition, suicide and violence) and mortality (United Nations, 2009). For instance, child malnutrition prevalence tends to be worse among indigenous groups than in the rest of the population in countries of sub-Saharan Africa, Asia and Latin America. By the mid-2000s, the prevalence of stunting among indigenous children was three to four times higher in Cameroon (53.6 per cent among the Pygmies versus 13 per cent nationally), Gabon (51 per cent among the Pygmies versus 6.7 per cent nationally), Namibia (25.6 per cent among the Sans versus 7.3 per cent nationally), and Mexico (44.3 per cent among the indigenous population versus 14.5 per cent among the non-indigenous population) (Macdonald, 2012).

Indigenous groups tend to experience higher mortality levels than the rest of the population in both developing and developed countries. By the mid-2000s, mortality rates in children under age five were higher than national rates among almost all the indigenous groups analysed by Macdonald (2012). Gaps in life expectancy are also apparent in both developing and developed countries, and differences in life expectancy between indigenous and non-indigenous groups are as great as 20 years in Australia and Nepal (United Nations, 2009). In Latin America, maternal mortality levels are also higher for indigenous peoples, particularly in remote areas. In Ecuador, for instance, the maternal mortality rate of 250 maternal deaths per 100,000 women measured among indigenous peoples living in remote areas was over three times higher than the national rate of 74.3 per 100,000 measured in 2003 (Montenegro and Stephens, 2006).

While indigenous peoples worldwide continue to be among the poorest groups, and tend to suffer from lower educational and poorer health status and greater incidence of discrimination than other groups, no clear differences

**Table IV.3. Poverty rates in selected countries, 2002-2008**

Country, year	Proportion poor (percentage)		
	Indigenous people (1)	Non-indigenous people (2)	Ratio (3)= (1) / (2)
<b>Sub-Saharan Africa</b>			
Dem. Rep. of the Congo, 2005	84.8	71.7	1.2
Gabon, 2003	70.1	32.7	2.1
<b>Asia</b>			
China, 2002	5.4	3.5	1.5
India, 2004	42.8	22.7	1.9
Lao People's Dem. Rep., 2002	50.6	25.0	2.0
Viet Nam, 2006	52.3	10.3	5.1
<b>Latin America</b>			
Bolivia, 2006	69.3	46.0	1.5
Chile, 2006	15.2	9.1	1.7
Ecuador, 2006	78.0	46.6	1.7
Mexico, 2008	80.6	45.3	1.8
Peru, 2005	62.3	35.0	1.8
Guatemala, 2006	74.8	36.2	2.1
Brazil, 2002	48.0	23.0	2.1

Source: World Bank and International Monetary Fund (2011).



exist in some countries (especially the poorest) between indigenous and non-indigenous groups in terms of such development indicators. Moreover, within some countries, the experiences of different indigenous groups vary, with some indigenous groups showing better development indicators than others. Such variation is evident among the various Mayan peoples in Guatemala and Native American groups in the United States. Sometimes, the performance of some indigenous peoples even exceeds that of the population as a whole. For instance, several Scheduled Tribes in the Northeastern States of India fare better than the population as a whole, in terms of under-five mortality and child stunting prevalence. Similarly, the Aymara of Peru and the Guarani of Bolivia exhibit better levels of under-five mortality, water deprivation, child stunting and literacy than the national population (Macdonald, 2012).

### *B. Indigenous peoples, inequalities in land rights and environmental challenges*

A great number of indigenous peoples live in precarious conditions and are marginalized, often as a result of forced displacement and the impacts of globalization and climate change, leading to serious inequalities and poverty (United Nations, 2009). Indigenous peoples retain deep ties to their ancestral lands and territories and the resources these contain. Land, and resources such as water, timber and wildlife, have provided for the subsistence and development of indigenous groups, which have used their traditional knowledge and expertise to manage their territories' resources efficiently and sustainably. Yet indigenous peoples face environmental challenges on multiple fronts that increase their social marginalization and disadvantage.

Dispossession of indigenous people's traditional lands and territories—which are often sources of valuable natural resources, such as oil and minerals—by both public and private entities has generated tensions over land tenure and access to productive land in many countries, adversely affecting the economic and socio-cultural stability of indigenous peoples. Many members of Scheduled Tribes in India have, for example, been forced to migrate to cities or nearby areas (8.5 million people between 1951 and 1990) and work as construction workers or agricultural labourers, as they have lost access to their traditional lands (Das and others, 2012).

Indigenous peoples have found that many development policies and projects fail to consult them, encroach on their land rights and—either directly or indirectly—harm their traditional production methods. Large-scale and resource-intensive development projects can not only result in eviction and loss of traditional territories and land, but also generate challenges related to migration and resettlement, depletion of resources necessary for physical and cultural survival, pollution and destruction of the traditional environment, social and community disorganization and, in some cases, harassment and violence. Critical to the prosperity—and even survival—of indigenous culture is the ability

of indigenous peoples to own and manage their lands, territories and resources according to their collective rights. Responding to appeals from indigenous peoples, and in line with recent international instruments, several countries, particularly in Latin America, have enacted legal reforms to recognize the rights of indigenous peoples over the protection and control of their territories, lands and resources. However, implementation of reforms such as land titling is widely lagging and uneven.

Indigenous peoples are also particularly at risk from the impacts of climate change, due to their dependence on the environment and its resources. Thus, the thawing permafrost in the Arctic region, the rising sea levels in the Pacific Islands region, and the frequent droughts in the semi-arid lands of sub-Saharan Africa are destroying traditional food sources and habitats (vegetation, livestock and fish stocks), and forcing indigenous people in these regions to relocate to other territories, making them environmental refugees.

## V. Inequalities faced by migrants

Migration is a forceful symbol of inequality, whether in terms of income, labour market opportunities, access to social services, security or lifestyle. Millions of people move each year, within their countries or across borders, seeking to improve their situation and reduce the gap they perceive between their position and that of people in other, often wealthier, places. Many of these migrants may end up better off than they would have been if they had not moved. Nevertheless, migration also carries significant risks and costs and its outcomes are dependent on a number of contextual factors. Poor access by immigrants to good education and health care, lack of political voice, work in the informal sector, immigration policies as well as deep-rooted social, racial, ethnic and gender barriers often limit both the opportunities available to them and the outcomes of their move. While many immigrants do gain from moving, they are often disadvantaged in comparison to individuals born in the regions or countries of destination.

### *A. Inequalities and trade-offs: migrants and those who stay behind*

Migration constitutes an important income-diversification strategy and can play an important role in reducing poverty and improving the livelihoods of those who move. On average, migrants are economically better off than those who do not migrate. For instance, the income of foreign-born persons in OECD countries is higher than income per capita in their countries of origin, with the differences being particularly large among those coming from the least developed countries<sup>6</sup> (Clemens and Prichett, 2008). A comparison of workers with similar characteristics (e.g. same country of birth, country of education, years of education, work experience) in and outside of the United States indicates that foreign-born workers

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6 GDP per capita at PPP (constant 2000 \$).

in the United States earn four times as much as they would have in their countries of origin (Clemens, Montenegro and Prichett, 2008). Individuals and families who move from one developing country to another, and even internal migrants, also tend to access better opportunities, earn higher salaries and are able to diversify their sources of livelihood (UNDP, 2009). An analysis of Demographic and Health Survey (DHS) data shows that internal migrants work more often in skilled, non-manual positions than non-migrants in a majority of developing countries with data.<sup>7</sup> The migrant/non-migrant gap is highly significant in most of these countries, even after adjusting for differences in age, childhood residence (urban-rural) and current residence (United Nations, 2008).

A better-paid job is not the only reason for migrating. Individuals and families also move in order to give their children a better education, get access to better health care and other services, or become more independent and empowered. Migration can also be triggered by displacement or loss of livelihood in the place of origin. Oftentimes, it enhances educational attainment and has a positive impact on children's health; enrolment rates are higher and child mortality is lower among children of immigrants in OECD countries than in countries of origin, on average, and also among internal migrants in the majority of developing countries (Ortega, 2009; Harttgen and Klasen, 2009). Nevertheless, improvements in education or health are not as large as those in income. Even when immigrants gain economically, poor access to services may hinder their human development and inhibit well-being.

Migration has costs and carries risk. Financially, travel expenses, official fees and documents and settlement costs typify a journey that can, at times, last for years (UNDP, 2009; De Haas, 2006; Papadopoulou, 2008). In addition, migration often involves separation from family members. While individual migrants and their families often benefit economically from the move, children and other family members can be affected adversely in various ways (Cortes, 2008; Rossi, 2008).

Overall, the risks that migration entails, as well as its outcomes, are distributed unevenly and affected greatly by the conditions under which people move. Those who are forced to move by conflict, insecurity or desperation, or who move using irregular channels, have less choice than those who move freely or through regular channels in search of better opportunities. In general, moving involves trade-offs: people who migrate gain in some dimensions of well-being and lose in others. Moving may affect material well-being positively, yet migrants often face hostility and discrimination and lose civic and electoral rights. Moving can empower women and youth by allowing them to participate in the labour market and gain autonomy, even though it involves separation

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<sup>7</sup> Internal migrant women, defined as those who moved during the six years preceding the interview, were more likely to work in skilled, non-manual occupations in 29 out of 42 developing countries with data available in the early to mid-2000s, while internal migrant men were likelier to work in more skilled jobs in 24 out of 27 countries with data.

from family and friends. Yet, in many cases, social and policy barriers curtail the gains from migration, including economic gains.

### *B. Disparities between migrants and natives of the regions or countries of destination*

Disadvantages experienced by immigrants, in the area or country of destination, are often reflected in enduring disparities between them and those born in receiving areas (natives). Information from developed countries shows that international migrants experience higher unemployment rates and, when they are employed, work more often in precarious and informal jobs and have lower income than natives, even at comparable levels of education. Education does not grant equal treatment to immigrants in the economy and the labour market. In the European Union, the share of foreign-born workers with higher education working in low- and middle-skilled jobs (36 per cent), is almost double that of natives (19 per cent) (European Commission, 2011). Over-qualification relative to actual employment is observed even among immigrants who have been in the European Union for 10 years or longer. Similarly, in the United States, the proportion of international immigrants with higher education is larger than that of natives, yet immigrants earn lower salaries and work less often in managerial and other highly skilled positions.<sup>8</sup> In Canada, over-qualification or *brain waste* has been estimated to drain \$1.7 billion a year from the economy (Reitz, 2005). One problem is that the skills and credentials earned abroad often go unrecognized. Poor host-country language skills, a provisional or irregular legal status, and discrimination are other factors that influence the inequalities observed. Discrimination and other social barriers are deeply entrenched through social and cultural norms and affect internal migrants as well. In many developing countries, for instance, uneducated migrants from rural to urban areas often fare worse in the labour market than other urban residents, and are treated as outsiders (UNDP, 2009).

As a result of these disadvantages, immigrants are at a higher risk of poverty and exclusion than natives. In addition, many immigrants have limited or no access to social protection, partly because they work more often in informal jobs and under non-standard contracts. Many countries restrict access by temporary immigrants to unemployment benefits, health care and various social transfers, even when they work in the formal economy (UNDP, 2009). While 20 per cent of European Union natives are at risk of poverty or exclusion, the proportion is 35 per cent among those born outside the European Union (European Commission, 2011). In the United States, the percentage of persons below the national poverty

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<sup>8</sup> The proportion of families earning \$75,000 per year or over was 41.5 per cent for those headed by a native-born person and 31.5 per cent for those headed by a foreign-born (United States Census Bureau, 2012 Statistical Abstract, Population: Native and Foreign-Born Population. Available [online] at: [http://www.census.gov/compendia/statab/cats/population/native\\_and\\_foreign-born\\_populations.html](http://www.census.gov/compendia/statab/cats/population/native_and_foreign-born_populations.html). Accessed on 14 March 2013).

line was 13.5 among native-born persons and 19.0 among foreign-born persons in 2009 (United States Census Bureau, 2012).

Inequalities often affect immigrants who arrived as children and are even inherited by those born in the area or country of destination (the second generation). Most evidence indicates that children of immigrants do better than their parents in terms of education, labour-market situation and income, but they do not catch up fully to children with no immigrant background. While their educational attainment differs greatly by country, children in the second generation are generally at greater risk than other children of dropping out of school before completing secondary education, and often perform less well than other students (European Commission, 2011; OECD, 2012). Their disadvantage is due, in part, to their socioeconomic background. Students from disadvantaged backgrounds, including those with an immigrant background, tend to concentrate in poor neighbourhoods and under-resourced schools that, for example, suffer from low teacher-to-student ratios. However, significant differences remain after controlling for parental education, occupation, household living standards and other characteristics. For instance, reading outcomes at age 15 are lower among the second generation in 21 out of 27 OECD countries with data, even after accounting for socioeconomic characteristics (OECD, 2012). Countries with educational systems that separate students according to performance at an early age, such as Germany, or those in which there is strong residential segregation and a high concentration of disadvantaged students, have the biggest gaps in school performance.

In the labour market, second-generation youth suffer from higher levels of unemployment than workers with no immigrant background, even at similar levels of education (European Commission, 2011). For the employed, differences in wage and occupation are small and, for some groups, these tend to disappear as workers age, suggesting that the greatest hurdle for children of migrants is to get a foothold in the labour market. Limited access to employment-related networks, and discrimination, particularly against ethnic minorities, are some of the structural obstacles found by the second generation in accessing employment. Even though many countries have enacted anti-discrimination legislation, limited compliance and lack of awareness curtail its effectiveness (Lessard-Phillips and others, 2012). Countries where the educational system provides extended vocational training options, and those in which labour unions and employers are actively engaged in integrating minorities, have done better in reducing the risk of unemployment among second-generation youth (Liebig and Schröder, 2010; Heath, Rethon and Kilpi, 2008).

## VI. Conclusion

The above sections have described how diverse social groups—which share an identity and certain distinct characteristics—experience similar disadvantages,

in particular in the realms of income, education, employment and health. They confront barriers that prevent them from fulfilling their potential and participating fully in society; they face exclusion and are considerably less likely to enjoy the fruits of development. They are denied opportunities, often branded by stereotype and stigma, and discriminated against. Lack of participation perpetuates the disadvantages they experience and their ability to influence their circumstances. The persistence of such barriers and disadvantages across generations leads to broad inequality traps.

The chapter also highlighted how inequalities experienced by social groups do not occur in isolation, but rather, tend to overlap across key domains of opportunity. For example, good-quality education accessible to all young people – especially those who are indigenous or have disabilities – promotes their health literacy and the likelihood that they will engage in healthy behaviour, develops the skills needed to attain decent work and wages eventually, and builds their long-term awareness of citizenship and the importance of participating in society. At the same time, good health enables individuals to perform well in school and in jobs or traditional livelihoods, to continue to work into old age, and to participate in family and community life. Both successes and gaps in such domains are, therefore, interconnected. Yet, it is in this way that manifestations of inequalities in each of these areas intersect and, thereby, persist.

In charting the course for the future United Nations development agenda, the High-Level Panel of Eminent Persons on the post-2015 agenda called for reaching excluded groups: “Leave no one behind”, it advised; “We should ensure that no person—regardless of ethnicity, gender, geography, disability, race or other status—is denied universal human rights and basic economic opportunities.” Addressing inequalities between social groups is crucial in and of itself, but it is also necessary for social cohesion, sustainable economic growth, political stability, and development processes in general.

Enhancing social inclusion is a long-term process, particularly when inequalities are rooted in historical and cultural norms but, as Chapter 5 will discuss, it can be done, namely, by expanding opportunities, improving abilities and according dignity. Although each social group may face particular challenges, and the needs of these groups may be prioritized differently, overcoming group-based inequalities requires a policy approach that goes beyond piecemeal, group-specific measures. As Chapter 5 will highlight, policies to address the negative impacts of inequalities on particular social groups need to emphasize the empowerment of all members of society in building human and social capital. They must focus on developing inclusive institutions and expanding access to basic services, and on ensuring that the services provided address the needs of all social and cultural groups in society effectively. Policies must also be based on the clear and thorough understanding of the social, political and cultural norms at work in creating positions of disadvantage in the first place, to ensure that the root causes of discrimination and social, political, cultural and economic exclusion are addressed.



## Chapter 5

# What can be done to tackle inequalities?

### I. Taking stock

The analysis in the previous four chapters shows that there has been an upsurge in economic inequality in many countries, both developed and developing, in the past thirty years. In the majority of countries, the distribution of assets, incomes and wages has become increasingly unequal. However, in the past decade, several countries have bucked the trend of rising inequality, suggesting that domestic social and economic policies can play a crucial role in determining inequality trends. These policies can serve as positive examples of not just what can work, but of what has worked already.

Inequality across countries is still larger than inequality within most countries. Opportunities in life still depend largely on an individual's country of residence. Nonetheless, there is some evidence of convergence across countries in terms of per capita incomes. The decline in international inequality is due largely to the more rapid growth of a relatively small number of large countries. Thus, international cooperation to create an international environment that enables poor countries to grow faster is important for reducing aggregate global inequality.

It is clear that high, and rising, inequalities have had adverse economic, social and political impacts, with—often—dire consequences for social stability and cohesion, political participation and stability, and poverty reduction, as well as for the rate and stability of economic growth.

In addition, economic, social, political and cultural inequalities interact, generating persistent disadvantages among members of certain social groups and creating *inequality traps*. This makes the reduction of inequality a difficult, complex task. Ensuring that improvements in one area are not hindered by growing inequality in others is, therefore, important. This calls for an integrated policy approach and a specific policy focus on disadvantaged groups.

In this context, the following section considers policies that address



some aspect of inequality. It purports to be a set of cohesive, coherent and complementary policies (social, monetary and fiscal, developmental, trade and industrial, and other) to attack inequality in its various dimensions, since stand-alone policies are unlikely to have much effect.

## II. Addressing inequality

Rising inequality is not destiny. In fact, certain social and economic policies have demonstrated their impact on reducing various dimensions of inequality. Experiences show that—while the national context is important for policy effectiveness in combating inequality—there are elements that underlie successful actions to reduce social and economic inequalities.<sup>1</sup> These elements, illustrated by examples whenever possible, are the subject of the analysis below.

### A. *Universalism in the provision of social services*

Ensuring public funding for the universal provision of basic amenities – access to housing, water, sanitation and electricity, as well as essential social services such as nutrition, health and education – is critical to the reduction of poverty and the promotion of equality of opportunity.

Universal provision is more cost-efficient than targeted delivery because of the high levels of administrative capacity required for means-testing, the high transaction costs of targeted measures, and the risk of political capture by the elites or the richest regions and its potential impact on social segmentation. Indeed, it has been argued that systems in which benefits are not targeted towards low-income groups are precisely the ones that benefit those groups most (Danson and others, 2013). Further, universalism creates broader public support and a wider public demand for a better quality of public service which, in turn, enables the imposition of a **more progressive tax system** that helps reduce income inequality while increasing social cohesion and stability. This underscores the strong arguments being made in the international public policy discourse in favour of a move from targeted safety nets back to universal social provision (Deacon, 2005).

Despite these advantages, universal social policies have often given way to targeted social transfers in recent decades, especially when greater policy emphasis is placed on short-term results in the development discourse. Targeting of specific groups has often been suggested by multilateral financial institutions and donors as a way of achieving social objectives without a significant rise in social spending (Besley and Kanbur, 1990; United Nations, 2008). While more narrowly-targeted interventions improve the conditions facing some

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<sup>1</sup> While studies are available on the experience of Latin American countries, empirical research is still lacking to analyse the few cases in Africa where inequality has been reduced in recent years.

disadvantaged groups, as discussed in the next section, gains made through targeted interventions alone are unlikely to be sustained without broad-based coverage.

In practice, social policies are rarely based on purely universal, or purely targeted, approaches. Some measures are universal while others are targeted to groups that may be hard to reach through universal measures. Both types of spending may be justified, depending on each country's situation. A policy framework grounded in universalism in the provision of essential public services but with special measures in implementation can be more effective in reaching certain segments of the population that face greater challenges than others in overcoming poverty and deprivation.

### *B. Reducing social exclusion and intergenerational disadvantage*

Universal approaches have proven to be broadly effective in creating improvements in overall human capacities and bridging social and economic gaps. Their design and implementation has to have a nuanced approach that recognises when and how intersecting inequalities lead to the social and economic exclusion of particular social and population groups.

As highlighted by the discussions in Chapter 3 and, especially, in Chapter 4, there are particular groups of people in any given society that bear the brunt of multiple deprivations. The discussion on such groups in this *Report* has focused on youth, indigenous peoples, older persons, persons with disabilities and migrants, and has also shown the poignant gender dimension. Not only do these marginalized and disadvantaged social groups fall behind the general population in terms of welfare outcomes, they often face inequality of opportunity that prevents them from accessing social services, even those that are provided on a universal basis. Policymakers should aim at **removing the obstacles** to their full social and economic participation.

A first step towards removing such obstacles is to evaluate why any given group faces challenges in their ability to access the services provided. Intergenerational poverty traps may make it necessary to keep children at home or have them enter the labour force at an early age; it may be that the group's traditionally rural or pastoral way of life kept them in remote areas underserved by health, sanitation, educational and other services, or that other infrastructural obstacles physically limited their ability to access services. Particular cultural norms or language spoken within a group may have kept them out of the mainstream or from accessing services. It is also important to examine whether discriminatory policies or social norms have created barriers to a group's full participation.

In many cases, addressing the identified obstacles is about **taking the services or opportunities to the group**, in either the literal or philosophical sense. It may mean awareness-raising and information outreach. It may entail expansion or decentralization of service provision to reach remote areas. It

may require investment in infrastructure in underserved locations. It may mean training providers in local languages. It may mean sensitization of providers to group nuances and needs, and sensitization or retooling of disadvantaged groups to be able to utilize the opportunities provided. In other cases, it is about creating an enabling legal environment, or eliminating barriers within that environment.

The various approaches taken by some Governments in improving girls' educational attainment are good examples of identifying and addressing shortcomings in service access. Countries have instituted a mix of policies and programmes including the sensitization and enhancement of training for teachers and education officials, improved infrastructure, elimination of school fees, free textbooks for students from disadvantaged households, and providing bicycles and other useful incentives to households. These policies, alone or in concert, have enhanced the broader strategy of universal provision of education, by identifying the reasons why girls were often left behind – such as poor households prioritizing boy children in the apportionment of resources – and reducing, or eliminating, those obstacles. These policies have been effective wherever they have been implemented, such that most countries have reached gender parity in primary school enrolment and made significant progress in improving girls' primary school completion, literacy and secondary school enrolment rates (UNESCO, 2012). The lesson here lies in identifying successfully ways to increase the use of a universal service by a previously underrepresented group.

Governments must also take stock of areas where well-intentioned economic and social policies may actually create a situation of deprivation of some groups in society. The issue of land tenure and the dispossession of indigenous peoples' traditional lands and territories is an apt example. As noted in Chapter 4, policies surrounding land use and access to natural resources have often affected the economic and sociocultural stability of indigenous communities adversely. The lesson to be taken from these cases is the need for recognising the relationship of any given group to particular assets, and working with them to ensure that their rights and well-being are not compromised by the allocation or re-allocation of these resources.

Similarly, Governments should evaluate cases where policies may embed unjust discrimination. The situation of migrant workers provides a good example here. Chapter 3 highlighted that many countries restrict the access of temporary immigrants to unemployment benefits, health care, education of children and various social transfers, even when they work in the formal economy. It is only by reversing these policies that we can ensure greater parity between immigrants and the local population. In these cases, the lesson to take away is the need to identify areas where existing laws create a situation of group disadvantage.

As suggested by the discussion in Chapter 4, a focus on social groups and their rates of participation in social and economic life will not just enhance the reach and effectiveness of universal social policies, but will address

inequalities where they intersect most heavily, helping to reduce their long-term, intergenerational impacts.

### C. Social protection

One positive development in the international public policy discourse in the past decade has been the renewed emphasis on universal social protection as a necessary – and desirable – form of social transfer. Social protection is a concept integral to the Welfare State, which has been most effective in protecting people from poverty and in keeping inequality in check. It refers to policies that ensure basic income security, in the form of various social transfers (in cash or in kind), such as pensions for older persons, income support for persons with disabilities and families with children, and employment guarantees and services for the unemployed and working poor. Basic social protection has become even more imperative for ensuring that individuals do not slip into poverty as a result of loss of employment, poor health or external shocks. While these measures do not guarantee the possibility of equality of outcomes, they ensure that the rungs of the **social mobility ladder** are not too far apart. They ensure that opportunities to participate in the social, economic and political activities are distributed more widely.

Recent assessments of the Latin American experience indicate that, in order to shift income distribution effectively in a progressive direction, cash transfer programmes must cover a high proportion of the extreme poor, and such spending must be large enough so that transfers per beneficiary closely match the *poverty gap* – that is, *the average distance between the poverty line and the per capita income of the poor* (Lustig, 2012).

It is important to highlight that basic social protection, such as the type considered in the Social Protection Floor Initiative, can be kept within a relatively modest percentage of national income even in severely resource-constrained countries. The Bachelet Report on the social protection floor (ILO, 2011) found that, in countries like Benin, El Salvador, Mozambique and Viet Nam, universal social protection floor programmes would only cost between 1 and 2 per cent of GDP. This is small compared to the tax revenues often forgone by not collecting revenue effectively from the wealthy and by not tackling inefficiencies that exist in many expenditure programmes.

Effective country-specific social protection floors which can gradually expand are affordable in most countries and can—in the long run—be sustainable financially by expanding the tax base, through more sustained growth resulting from enhanced labour productivity, the resilience of society and the stability of the polity. What is especially significant right now is that, apart from reducing human insecurity and gender gaps, this strategy can have important macroeconomic benefits. It increases the presence of countercyclical buffers reducing the negative effects of economic downswings. By buttressing aggregate demand, it actually provides a positive way out of the downward

cycle of fiscal austerity and social unrest that now seems to be a common curse in many countries (UNCTAD, 2011). It also facilitates the transition to a greener economy, by cushioning the impact of necessary structural changes on poverty and inequality while also facilitating skill retraining.

Despite these clear advantages, the majority of the world population still has no access to social protection. The challenge now is to build on existing safety-net schemes, to move towards more universal coverage based on a social protection floor that is affordable, and that can be expanded progressively as a country's resources allow.

#### *D. Investing in education and strengthening labour-market institutions*

Increasing investment in education and ensuring that macroeconomic policies support employment creation is important to reducing inequalities: these policies have played a central role in the rapid industrialization cases of recent decades. For example, the higher educational levels of farmers and their children in both the Republic of Korea and Taiwan Province of China, a long-term by-product of land reform (Lim, forthcoming), contributed to their fast industrialization. In just one decade, in the 1970s, enrolment in primary, secondary and tertiary education in the Republic of Korea rose by factors of two, eight and ten, respectively. In addition to increasing their receptivity to new agricultural technology and crops, this provided the social basis of an educated workforce for the industrial sector, upward social mobility, and social and political stability. It contributed to significant reductions in wage inequalities in the subsequent decade, when the fruits of this expansion in education became evident.

A similar process is currently under way in Latin America, one of the most unequal regions in the world and also one characterized by high wage inequalities. Wage gaps between skilled and unskilled workers have come down in many countries in the region over the past decade. The widespread drop in the skill premium in the 2000s in Argentina, Brazil, Mexico and Peru (which contributed to the recent drop in income inequality) can be attributed to increases in educational access and enrolment (Cornia, forthcoming). This process has been facilitated by an increase in the supply of skilled workers due to greater educational efforts by Governments and a parallel decline in the supply of unskilled labour due to demographic factors. Widening access to education and ensuring more female enrolment in schools will also reduce gender wage gaps.

Labour market institutions play an important role in moderating wage inequalities. These include labour unions, employment protection, minimum wages, unemployment benefits and regulation with respect to firing practices. The decline in union membership rates in several countries since the 1950s has been accompanied by a sharp rise in wage inequality. In the United States, for example, the decline in rates of unionization in the 1970s and 1980s explains between 10 to 20 per cent of the increase in wage inequality among men (Koeniger, Leonardi and Nunziata,

2004; Freeman, 2005; Card, 2001). Conversely, in parts of Latin America, the active attempts to revive labour market institutions and reintroduce collective bargaining have served to reduce wage inequalities among those in regular employment (Marinakis, 2011). From a policy standpoint, it would, therefore, be important to consider mechanisms that **protect collective bargaining institutions**. Such institutions have been shown to have an equalizing effect on wage dispersion across skill groups, particularly among male unionized workers in the middle of the skill distribution (Card, Lemieux and Riddell, 2003; Freeman, 1980). However, unions organized around the traditional employer-employee relationship are not well-suited for giving voice to those who do not work for a wage, or who do so outside the formal sector (World Bank, 2012b). The growing incidence of informal and non-standard forms of employment has created momentum for the establishment of innovative institutions, such as associations of self-employed workers.

In addition, institutional changes, such as an increase in minimum wage, can be very important in reducing wage inequalities (UNCTAD, 2012). In much of the Latin American region, legal minimum wages rose through most of the 2000s and, in some countries like Brazil, more than doubled in real terms (Cornia, 2012). **Increasing the minimum wage** and its more effective enforcement constitute another significant strategy for improving wage distribution. This is often particularly important for women workers, who tend to be clustered at the lower end of the wage distribution, around the minimum wage. Increases in minimum wage have proved to be significant in reducing gender gaps in wages in Argentina, for example (Ministry of Labour, Argentina, 2012).

All these processes are greatly assisted by **extending the coverage of social protection and decent work standards to informal workers**. Since informality is essentially linked to the absence of basic labour protection, it should be resisted. Some countries have managed to increase minimum wages while simultaneously increasing the number and share of workers in formal activities and, once again, there are positive examples from Latin America (Marinakis, 2011; ECLAC, 2012).

### *E. Fiscal and monetary policies to reduce inequality*

Fiscal and monetary policies affect inequality not only because they have a bearing on income distribution, but also through their role in resource mobilization for social investment. The manner in which Government policy affects the distribution of income and wealth depends on the level and composition of public spending and taxation. The magnitude of their impact will depend on how progressive the tax system is (income and property taxes are usually progressive, while indirect taxes are regressive as they put greater proportionate burden on the middle classes and poor households) and on how much the poor benefit from social transfers and social insurance. **The negative effect of indirect taxes** on the income of people living in poverty or near poor can be stronger than the positive effect of cash transfers (Lustig, 2012).

Fiscal policies can reduce inequality through progressive income taxation and highly-redistributive social transfers targeting education and health spending, as well as public child- and old-age benefits. The impact of such transfers on inequality can be quite significant. The experience of 25 OECD countries during the period 1985 to 2005 has shown that direct income taxes and public cash transfers reduced the average Gini coefficient by about one third (Bastagli, Coady and Gupta, 2012). Thereafter, fiscal policies have not had equally levelling effects in OECD countries, as the redistributive impact of fiscal policy has failed to correct the trend of rising income inequality.

As was observed in Chapter 1, in many countries the redistributive effects of fiscal policy, including tax policies, have not been strong enough to counter rising income inequality in recent years, as tax policies have allowed the wealthy to retain a higher proportion of their incomes and have become less progressive by relying on indirect taxes. In some advanced economies such as the United States, a major ongoing debate is about the level at which capital gains and dividends should be taxed in order to reduce the contribution of such income to the sharp rise in income inequality (Hungerford, 2013). While in developed countries political economy changes may have led to the shift away from progressive to more regressive fiscal policies, in developing countries the problems may be somewhat different. The ability of poor countries to curtail inequality through redistributive fiscal policy measures is more likely to be constrained by low levels of revenue collection, associated with a narrow tax base and lack of diversification. Typically, this situation is compounded further by high levels of informality and weak tax administrations, tax havens and capital flight, among other issues.

In countries where natural-resource extraction is an important economic activity, there is often significant scope for altering the distribution of the rents from such resources in favour of the public exchequer. The recent changes in the royalty structures of oil revenues of Ecuador, Bolivia and Venezuela, for example, are instructive in this regard.

The impact of any of these measures on the level of inequality is likely to differ across countries depending on initial conditions, social structures, productive asset ownership patterns, the quality of public institutions, and the level of social spending. In many cases, when there are large differences in social spending between countries, the effectiveness of fiscal policy in reducing inequality will also differ significantly.

The feasibility of implementing such policies also hinges on national attitudes regarding the role of markets in determining rewards for individual effort, and the perceived role of the State in setting labour standards such as minimum wages, pursuing progressive redistributive policies (that is, taxes paid and transfers received), and promoting policies that foster sustained, inclusive and equitable economic growth and structural transformation.

The role of monetary policy in both income and consumption inequality

has received relatively little attention in the economics literature. Yet, the **control of interest rates and the availability of credit** can affect levels and patterns of inequality (Coeuré, 2012; Acemoglu and Robinson, 2012; Galbraith, Giovanni and Russo, 2007). For example, if expansionary monetary policy causes business income to outpace growth in labour income, inequality would have worsened in terms of the composition of income (Coibion, and others, 2012). Similarly, monetary policy can compound income inequality through financial segmentation, should the latter benefit disproportionately those in the financial-services sector and households that receive a significant share of their income from capital gains and dividends (Williamson, 2009; Ledoit, 2009; Atkinson, 2001). Monetary policy could also worsen inequality through the portfolio channel when central banks' policies generate inflation, which tends to affect low-income households negatively and disproportionately, since they are more predisposed than upper-income households to hold a large proportion of their financial wealth in cash (Albanesi, 2007; Coeuré, 2012). Conversely, actions taken by the central bank to curtail inflation by raising interest rates and restricting access to credit in a blanket fashion can cause particular hardship to small borrowers. Identifying such factors should help inform policy responses targeting the recent upsurge in income inequality.

#### *F. Creating more and better-paying jobs*

It was shown in Chapter 1 that wage shares of national income have been falling over the past two decades in the majority of countries in both developed and developing regions. This has been commonly attributed to the impact of globalization (which has drawn more workers in different countries into the pool available for global production, and reduced the bargaining power of workers because of the greater mobility of capital) and technological changes that have reduced demand – particularly for less-skilled labour. However, the counter-experiences of an, admittedly, small number of countries (mostly in Latin America), as well as the earlier experience of East Asian countries in their phase of rapid industrialization, show that it is possible to maintain, or increase, wage shares of income. Already, improvements in the wages of both skilled and non-skilled workers in major emerging economies have contributed to lifting millions of people out of poverty. This experience also shows that a progressive shift from agriculture to manufacturing and services, accompanied by improvements in educational attainment, will result in higher wages, and is likely to reduce the income gap between workers in advanced economies and those in developing countries.

Several factors have been cited as responsible for the decline in the wage share of national income globally: technological progress (including structural change), globalization, financialization, and Welfare State retrenchment (Stockhammer, 2012; Galbraith, 2012). Several of these factors can be addressed by domestic and international policies. Wages would have to be perceived, not just as a cost of production, but **as a major source of aggregate demand**,



such that rising wage bills can actually propel economic recovery in slumps, and generate conditions for stable growth (UNCTAD, 2012). There are three elements of the aggregate wage share that are relevant in this regard, and policies must be concerned with all of them: the level of employment, wages relative to productivity changes within production, and the remuneration of self-employed workers, who constitute an increasing share of workers in many countries.

The inability of economic growth to create sufficient decent work to meet the requirements of the labour force is a major part of the problem (ILO, 2012c). Reducing inequality requires policies that foster dynamic structural change to increase shares of higher productivity activities, especially in poor countries.

The countries that have experienced recent increases in the wage share of national income have also increased their levels of formal employment in general. This has not necessarily occurred through additional, private employment-generation only. In much of Latin America in the 2000s, there have been significant increases in public employment, through the expansion and qualitative improvement in public services in areas such as health and education, as well as through **insourcing** activities that had been outsourced previously by Governments to private companies (Keifman and Maurizio, forthcoming).

Wages, in many societies, have not increased in line with labour-productivity increases. Ensuring that wages increase along with labour productivity is important in stabilizing primary income distribution as well as in enabling a recovery from the continuing global economic crisis (UNCTAD, 2011; 2012). In those countries where the greater part of employment is informal and the labour force is dominated by self-employed workers, the policy focus has to be on increasing the productivity and remuneration of such activities. In industrialized countries, there has been an increasing trend towards *flexibilization*, leading to *more workers in informal contracts or in vulnerable self-employment*. This makes particularly important the policies designed to improve conditions for non-conventional forms of work and access by small-scale producers to credit on affordable terms, inputs, technology and markets.

A major part of non-wage incomes have been appropriated by returns to financial activities, and it has become evident that not all of this is beneficial to economies and global financial stability. The association of financialization with economic instability is now well-known. Furthermore, the contribution to income inequality of financial sector bonuses to higher-end employees, and the rising concentration of assets and interest and dividend incomes associated with the growth of the financial sector as a share of GNI has been noted (Hungerford, 2013). Therefore, bringing financial returns back to normal historical levels, when financial markets used to thrive with innovation – but also had incentives to fulfil their core function of intermediating savings towards productive investment – will help reduce income inequality. A similar, positive role can be played by strategies to curb excessive concentration of ownership or control that cause rents from land and other resources to accrue to a small section of society.

### *G. Reducing asset inequalities*

As argued in Chapter 3, high asset inequalities constrain the development potential of a society. By the same token, asset redistribution can play an important—even critical—role in assisting the process of development. For example, radical land redistribution in the Republic of Korea and Taiwan Province of China destroyed the economic and political base of the land-owning oligarchies. This enabled the emergence and operation of relatively autonomous States that were able to enact developmental policies that transcended narrow interests (Lim, 2013; Ranis, Fei and Kuo 1979; Amsden, 1989). In order to be successful, attempts at land reform should be combined with broader rural development strategies and complementary measures, such as access to credit and inputs for farmers, as well as broad-based access to good-quality educational and decent work opportunities.

There is a substantial concentration of other productive and—especially—financial assets both within most countries as well as internationally. In both developed and developing countries, there is great potential for enhancing tax revenues through more progressive taxation, that is, for increasing taxes on top earners and corporations. Piketty, Saez and Stantcheva (2011) find that, in a majority of OECD countries, current income tax rates are significantly below those at which the total tax yield would be maximized. So **reducing the personal and corporate concentration of assets** is an important area of public intervention to promote social development.

Gender differences remain an important source of inequality in most societies regarding asset ownership and control. The gender discrimination inherent in property and inheritance laws needs to be overturned, and this is all the more urgent because often, such discrimination is combined with unequal gender access to education and gainful employment, enlarging the gap in economic conditions between men and women and reducing the social status of women further.

## **III. The international framework and the post-2015 global development agenda**

Inequality has been raised as a major social concern by many stakeholders in the discussions on sustainable development goals and the post-2015 development agenda. An initial report on the consultations facilitated by the United Nations started in August 2012 on a new development agenda revealed a sense that inequalities were growing and that small elites were benefiting from development and growth at the expense of the majority (United Nations Development Group, 2013). The Secretary-General acknowledged these concerns as he noted, in his report to the sixty-eighth session of the General Assembly on accelerating progress towards the Millennium Development Goals and advancing the

Post-2015 Development Agenda, the need for transformative action to tackle exclusion and inequality:

In order to leave no one behind and bring everyone forward, actions are needed to promote equality of opportunity. This implies inclusive economies in which men and women have access to decent employment, legal identification, financial services, infrastructure and social protection, as well as societies where all people can contribute and participate in national and local governance.<sup>2</sup>

The report of the High-Level Panel of Eminent Persons advising the Secretary-General on the Post-2015 Development Agenda recommended tackling inequality of opportunity (in access to health, education, nutrition and other vital services) as well as other aspects of inequality relevant for social inclusion, such as security of tenure and access to justice.<sup>3</sup> The Panel proposed that targets would only be considered as achieved if they were met for all relevant social and income groups. Thus, the Panel called for integrating equality of opportunity into all relevant goals and targets. Regarding income inequality, however, the Panel noted that:

... national policy in each country, not global goal-setting, must provide the answer. History also shows that countries tend to have cycles in their income inequality as conventionally measured; and countries differ widely both in their view of what levels of income inequality are acceptable and in the strategies they adopt to reduce it.<sup>4</sup>

The analysis provided in this Report indicates that most of the world's poor, and those who belong to marginalized groups, are in highly-disadvantaged starting positions which impede their ability to capitalize on opportunities. Focusing only on the symptoms of poverty or exclusion (such as access to education or health), rather than on their structural causes, has often led to narrow, discretionary measures aimed at addressing short-term needs. Without attention to the underlying economic, social and spatial causes of poverty and inequality, the post-2015 development agenda may not help to level the playing field.

Other proposals have advocated the inclusion of a self-standing goal on inequality. For instance, a proposal made by a group of 90 academics and development experts in a letter to the High-Level Panel in March 2013 encouraged the inclusion of a goal to reduce gaps within countries, with a focus on income and gender inequalities.<sup>5</sup> Thus, the proposal is to go beyond equalizing opportunities

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2 A/68/202. A life of dignity for all: accelerating progress towards the Millennium Development Goals and advancing the United Nations development agenda beyond 2015.

3 A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development. Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, United Nations, 2013. Available [online] at: <http://www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf>

4 *ibid.*, p. 16.

5 See [online]: <http://www.post2015hlp.org/wp-content/uploads/2013/03/Dr-Homi-Kharas.pdf>

to addressing outcomes. While a goal on inequality may help raise awareness and gather political support to address it, focusing exclusively on income inequality is also limited. Higher income does not translate systematically into better access to health, education and nutrition or participation in political and social life. As shown in the present report, a focus on intersecting inequalities makes it clear that economic, sociopolitical and spatial inequalities can have cumulative, mutually-reinforcing effects that contribute to the systematic disadvantage of some social groups and to the intergenerational transmission of poverty. Focusing on income redistribution alone may not be sufficient to redress systematic disadvantage.

The experience of the Millennium Development Goals suggests that addressing the root causes of poverty and inequality may require moving beyond goals and targets, to incorporating recommendations on the policy instruments that are required to ensure more equitable opportunities and outcomes. As discussed in this report, these include strategies with respect to asset and income distribution, fiscal policies, employment and labour-market policies, social policies (especially universal provision of good quality education, health and social protection), access to infrastructure and basic amenities, and special attention to particularly disadvantaged groups, including ensuring their voice and access to legal redress. It is obvious that, while these must be implemented at the national level, the international community must play a major role in providing support to such policies. The most important aspect of such international cooperation will be an enabling environment where global governance structures and international organizations are supportive of progressive social and economic policies within countries and across regions.

In practice, and regardless of the format, integrating inequalities in the goals would require that targets and indicators refer explicitly to different groups of the population, with clear focus on the poorest and most marginalized. In its report on statistics and indicators, the United Nations Task Team on the Post-2015 Development Agenda proposed the use of independent sets of indicators for each group or area of interest, so that indicators could be tailored flexibly to the needs and priorities of each group.<sup>6</sup> This approach would require improved national statistics and indicators to capture disparities. Some of the existing survey tools and programmes already allow the data disaggregation necessary to generate equality-adjusted indicators. Strengthening such programmes and expanding data collection to capture all population groups will be critical. The importance of the monitoring framework should not be discounted: the way in which it is defined, and the type of disaggregation used, will influence the political debate, the focus of programmes and interventions, and the outcome of the development efforts.

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6 Statistics and indicators for the post-2015 development agenda. United Nations Task Team on the post-2015 United Nations Development Agenda, 2013. Available [online] at: [http://www.un.org/en/development/desa/policy/untaskteam\\_undf/UNTT\\_MonitoringReport\\_WEB.pdf](http://www.un.org/en/development/desa/policy/untaskteam_undf/UNTT_MonitoringReport_WEB.pdf)

A final consideration is that opportunities in life depend largely on an individual's country of residence. Not only are inequalities across countries larger than national inequalities, but improvements in information and communications technologies are heightening the awareness of international inequalities. Addressing international inequalities requires broadening the scope of the global partnership for development. The international trade agenda must support measures targeted towards equalizing opportunities for participation in global markets, and trade agreements should be harmonized with other multilateral agreements in social development so as to form a more coherent, integrated approach. The recent global financial and economic crisis call for a more effective regulatory system for international financial markets. There is scope for further policy coordination across countries in other areas as well, namely, migration and foreign direct investment. Overall, in an increasingly global economy, emphasis must be placed on the equitable distribution of benefits and on the prevention and management of financial and economic crises.

#### IV. Conclusion

It can be concluded from the analysis in the present *Report* that inequality should, and can, be reduced.

While there is no single policy approach to combating growing inequalities, there is scope for action. In particular, addressing inequality and promoting sustained, equitable and inclusive growth requires that issues of employment creation, social protection and redistribution be placed at the centre of social and economic policymaking. Both social and macroeconomic policies should work in tandem to promote growth together with decent jobs to reduce poverty, inequality and social exclusion. In addition, social investments—especially in education and health, redistributive fiscal policy and innovative mechanisms for social dialogue amidst declining unionization—should be accorded priority

At the national level, one critical strategy is that of ensuring universal access to good-quality, basic goods and services. Within such universal policies, it is important to ensure that provision reaches the sections of the population that are, typically, excluded. It is particularly necessary to recognise, address and work to reduce, or eliminate, the existing structures of discrimination and exclusion typically related to gender, ethnic and other divisions, regional or locational characteristics, or personal features such as age or disability. This underscores the call made in this present *Report on the World Social Situation* for the integration of universalism, and specific interventions in social policy that will entail affirmative action, public investment in underserved areas and sectors, equal access to resources by all, and a conscious understanding of how policies are implemented on the ground with reference to economic, social, legal, environmental, administrative and cultural realities.

Desirable social policies need to work hand-in-hand with macroeconomic

strategies, not only to avoid the policy inconsistencies sometimes observed, but also to secure adequate financial resources for social policy to be effective. Tax policies that seek to improve collection from sectors and agents that have benefited disproportionately from income growth do not necessarily require higher tax rates: better—and more effective—implementation of existing tax laws and closing tax loopholes can be even more effective, as some recent examples from Latin America, and elsewhere, indicate. Recently, international coordination on these matters has gained acceptance. In addition, monetary and financial policies need to be re-oriented towards the supervision and regulation of financial markets and the creation of incentives in the financial system to achieve not only economic stability but also socially-desired goals such as greater financial inclusion, by supporting microcredit, micro insurance and microfinance. Once again, international support for such measures is necessary, given the—much greater—global integration of finance today.

Policies to promote employment diversification and livelihood sustainability are crucial to addressing inequality. It is important to emphasise policies that increase decent work for all. In low-income countries, particular focus should be placed on economic diversification to enable the shift of workers to less-vulnerable and better-remunerated jobs with safe and healthy working conditions. Recognizing, and redressing, inequalities in wages that are generated not just by types of work, but by patterns of social discrimination and segmented labour markets, are also needed.

The ongoing multi-stakeholder consultations to craft the post-2015 global development agenda are taking concerns about inequality into consideration. The analysis and policy conclusions contained in this *Report* can provide useful inputs to the debate. Inequality matters: it must be addressed; Policy matters: inequality can be reduced.



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The *2013 Report on World Social Situation: Inequality Matters* brings attention to inequality, with a particular focus on policies and the disadvantaged social groups. Tracing recent trends, the *Report* shows that inequality matters not only for people living in poverty, but also for the overall wellbeing of society at large. The *Report* demonstrates that growing inequality is neither destiny nor a necessary price to pay for economic growth. It examines the experience of some countries that have defied the general trend and have managed to reduce inequality, showing that policies and institutions can make a difference. Domestic policies especially play a crucial role. The *Report* shows positive examples in some countries in reducing inequalities even under an uncertain and volatile global environment during the latest global economic and financial crises.

The *2013 Report on World Social Situation* follows the *2005 Report*, which warned the world of an inequality predicament causing all to pay the price. The *2013 Report* puts greater emphasis on the consequences of high inequality. A unique contribution of the *2013 Report* is that it draws special attention to the challenges facing disadvantaged and marginalized social groups, pointing out that inequality is also an issue of social justice. People want to live in societies that are fair, where hard work is rewarded, and where one's socioeconomic position can be improved regardless of one's background. However, economic, social, political and cultural inequalities interact, generating persistent disadvantage among members of certain social groups which makes the reduction of inequality a more difficult and complex task. While the *Report* calls for policy approach to pay attention to the needs of marginalized social groups to achieve equality, it emphasizes that targeted intervention should not become a substitute for universal coverage.

Built on positive examples of what can work and what has worked in different countries, the *Report* offers a series of key policy recommendations for consideration, illustrating that countries that have used redistributed fiscal policy measures, developed universal social protection programmes, with emphasis on education and health spending, and those that have increased labour market opportunities for those at the bottom, have better weathered the general trend towards growing within-country inequality. The analysis and policy conclusions contained in the *Report* seeks to provide useful inputs for the ongoing multi-stakeholder consultations to elaborate the post-2015 global development agenda, and serve as a policy-making guide on social-economic issues.

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