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# **HUMANITY DIVIDED: CONFRONTING INEQUALITY IN DEVELOPING COUNTRIES**

**NOVEMBER 2013**

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## FOREWORD

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

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

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

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

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

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

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

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

A handwritten signature in black ink that reads "Helen Clark". The signature is written in a cursive, flowing style.

**Helen Clark**  
UNDP Administrator  
United Nations Development Programme

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## LIST OF ACRONYMS AND ABBREVIATIONS

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



## OVERVIEW

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

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

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

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

There is, however, some good news. There is nothing inevitable about high inequality. The widening of gaps in income, wealth or other dimensions of well-being is not an unavoidable price to pay for development. In fact, many countries over the last years have managed to significantly reduce income and non-income inequality through a combination of progressive economic and social policies, often accompanied by the



greater participation and empowerment of those who had been left behind by the development process. Much can be learned from those experiences and applied to other contexts in which inequality continues to be a concern.

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

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

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

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

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



## Key messages of the report

- **High inequality undermines development by hindering economic progress, weakening democratic life and threatening social cohesion.** High and growing inequality is not only intrinsically unfair; it also makes the achievement of widespread human well-being more difficult. This is particularly true if we adopt a multi-dimensional definition of well-being that goes beyond material aspects of life to include relational and subjective well-being. Evidence shows that, beyond a certain threshold, inequality harms growth and poverty reduction, the quality of relations in the public and political spheres of life and individuals' sense of fulfilment and self-worth.
- **During the last two decades, income inequality has significantly increased in many countries.** On average — and taking into account population size — income inequality increased by 11 percent in developing countries between 1990 and 2010. A significant majority of households in developing countries — more than 75 percent of the population — are living today in societies where income is more unequally distributed than it was in the 1990s.
- **Increases in income inequality over the last 20 years have been largely driven by broad globalization processes, but domestic policy choices have played an important role, too.** Evidence shows that increases in inequality over the last two decades were mainly on account of trade and financial globalization processes that weakened the bargaining position of relatively immobile labour vis-à-vis fully mobile capital. Trade and financial globalization were also accompanied by skill-biased technical change that further increased wage inequality by driving up wage skill premiums. Moreover, national policy choices have exacerbated the adverse effect of globalization on income distribution. Monetary policies that emphasized price stability over growth, labour market policies that weakened the bargaining position of labour vis-à-vis employers, and fiscal policies that prioritized fiscal consolidation at the expense of social expenditure and progressive taxation, all drove up income inequality.
- **There is nothing inevitable about growing income inequality; several countries managed to contain or reduce income inequality while achieving strong growth performance.** The foundation of the idea that inequality does not matter in developing countries is based on the Kuznets hypothesis, which holds that high and rising inequality is inevitable in the early stages of economic development. However, empirical evidence lends no support to this theory. While many countries did experience significant increases in income inequality over the last two decades, others experienced falling inequality. These countries did not have worse growth performances on average and, among them, many were low-income countries. Furthermore, the experience of numerous countries — many of which are in Latin America — shows that it is possible to reduce income inequality through policy interventions while maintaining a high level of integration with the global economy.
- **Despite some signs of convergence, within-country disparities in education, health and nutrition remain very high.** In most countries, there are still significant inequalities in non-income dimensions of material well-being across wealth quintiles as well as along gender and spatial dimensions. While progress against key indicators of material well-being such as child mortality and primary enrolment has generally taken place at a faster pace for the most disadvantaged segments of the population, gaps remain unacceptably high. In a few instances, there have been reversals, as in the case of women's malnutrition, which decreased in urban centres while increasing in rural areas of sub-Saharan Africa.



- **Income inequality remains a major driver of inequality in other dimensions of material well-being, but other factors, such as the quality of governance, social spending and social norms, matter as well.** Higher country income levels and faster economic growth do not *per se* translate into lower inequality in education, health and nutrition outcomes; however, the distribution of income between households matters greatly for several dimensions of material well-being. In fact, evidence shows that greater income inequality between households is systematically associated with greater inequality in non-income outcomes. Other significant drivers of non-income inequality include governance, social spending and social norms. The latter appear to be playing an especially important role in relation to gender and urban-rural inequalities.
- **Inequality of outcomes and inequality of opportunities cannot be treated as separate issues; they are, in fact, two sides of the same coin.** Equality of opportunities cannot coexist with deep inequality of outcomes — or, in other words, as outcomes become more unequal, opportunities to live a fulfilling life shrink for those who are born into relatively disadvantaged households. Furthermore, the persistence of unequal outcomes for specific groups can entrench underlying patterns of discrimination and cultural biases. Put differently: inequality cannot be effectively confronted unless the inextricable links between inequality of outcomes and inequality of opportunities are taken into account.
- **As demonstrated in the case of gender, narrowing gaps in key capabilities may not be sufficient to reduce disparities in other domains of human well-being, such as access to livelihoods and political agency.** The analysis of gender as an especially salient case of intergroup inequality can help shed light on the complexity of discrimination dynamics. Evidence shows that, despite significant progress in education and some progress in health outcomes, women continue to lag behind in terms of access to livelihood: across the board, they remain disproportionately represented in vulnerable employment and continue to earn significantly less than men. Furthermore, they remain grossly underrepresented among political decision makers. A number of factors, including social norms, prevent advancements in capabilities from translating into equivalent advancements in livelihood and agency.
- **A widely held perception holds that political space for inequality reduction is very limited; however, experience shows that political space can be created.** As documented in a global survey conducted in preparation for this Report, policy makers from around the world acknowledged that inequality in their countries is generally high and potentially a threat to long-term social and economic development. They also identified a broad range of policy measures as highly relevant, yet judged most of these measures as politically highly unfeasible. Despite the importance of inequality as a policy priority, political space for inequality reduction is perceived as very limited. However, the experience of those countries that managed to significantly reduce inequality shows that political space can be created. The analysis of policy makers' responses indicates several potential areas of engagement: a reframing of inequality-justifying narratives, the constructive engagement of the business community and — perhaps most important — the strengthening of venues for civic engagement.
- **Redistribution remains very important to inequality reduction; however, a shift is needed towards more inclusive growth patterns in order to sustainably reduce inequality.** Effective and fair redistribution can play a significant role in the equalization of outcomes and opportunities. However, countries cannot rely only on the redistribution lever to achieve inequality reduction — not,



at least, in the context of highly unequal and worsening distributions of income. When growth patterns are highly disequalizing, the amount of redistribution needed to compensate for unequal market outcomes is likely to be economically and politically prohibitive. The moderation of inequality requires a shift to a more inclusive pattern of growth, i.e., a pattern of growth that raises the incomes of poor and low-income households faster than average.

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

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

### *Chapter 1: Inequality of what? Inequality between whom?*

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

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

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

Unequal outcomes, particularly income inequality, play a key role in determining variations in human well-being. The strong association between income inequality and inequalities in health, education and nutrition makes this evident. Moreover, when the privileged exercise sufficient political control and influence, and



when this kind of influence affects job availability or access to resources, then income inequality compromises the economic, political and social lives of those less privileged and limits the opportunities that they have to secure their well-being.

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

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

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

## *Chapter 2: Why does national inequality matter?*

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

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

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

In contrast to the argument based on intrinsic reasons, the argument based on instrumental reasons is concerned with the economic, social and political consequences of high or rising inequality. Although relatively new, this argument is supported by a very strong empirical basis. Today, we know that high or rising levels of income inequality can harm the rate of growth and the duration of growth spells by reducing the propensity of large segments of the population to invest, thereby limiting the ability of the middle class to be a driver of economic progress and encouraging rent-seeking behaviour, among other things. Furthermore, it



is now established that the extent of poverty reduction associated with a given level of growth significantly depends on income inequality levels and trends. In fact, forecasts of future global poverty are very sensitive to assumptions about inequality. In one scenario, the difference between poverty estimated according to current inequality trends versus a hypothetical return to ‘best-ever’ inequality for every country could be an extra one billion people living below the US\$2 per day poverty line in 2030.

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

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

### *Chapter 3: Income inequality*

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

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

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

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

Nevertheless, the analysis of trends also reveals some unsettling insights into the patterns of growth of many developing countries over the past 20 years. Countries that experienced faster-than-average growth performance — mainly countries that graduated to higher income status brackets — had sharper increases in inequality than other countries. For instance, the average income inequality increase for countries that



went from the lower-middle to the upper-middle income bracket was 25 percent. In contrast, countries that remained in the lower-middle income bracket experienced an average 3 percent decline in income inequality. Something about the dominant pattern of growth during the 1990s and 2000s was particularly harmful for the distribution of income between households within developing economies.

What, then, is driving these trends?

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

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

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

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

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

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



#### Chapter 4: Education, health and nutrition disparities

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

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

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

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

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

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



## *Chapter 5: Gender inequality*

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

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

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

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

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

In conclusion, evidence shows that a significant narrowing of gaps in critical capabilities like health and education has not translated for women into equivalent reductions of inequality in other domains, such as access to livelihoods and political participation. This, in turn, points to the role played by other barriers, such



as the cultural norms and discriminatory behaviour embodied in economic and social institutions, which directly affect the opportunities available to women.

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

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

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

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

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

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

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



survey point to the importance of creating a strong space for civic engagement to further the participation of civil society organizations in policy-making with a focus on inequality reduction.

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

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

### *Moderating income inequality*

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

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

- a) Since wages are the main source of income for the poor, shifting the pattern of growth so that the benefits accrue disproportionately to low-income households requires, first and foremost, the creation of productive employment. Employment policies need to focus on creating quality jobs that provide sufficient income, security and stability to workers. Making growth more inclusive also entails managing trade and financial globalization since the evidence indicates that international trade and private capital flows have been associated with raising inequalities.
- b) Fiscal policy provides some of the most important instruments for redistribution available to governments, including programmes such as social protection and consumer subsidies. Social protection improves the income of the poorest households by providing a minimum of income security necessary for investing in human capital and income-generating activities. Consumer subsidies also play an important role in improving the income of the poorest by directly affecting the cost of basic household goods, such as food or fuel. In addition, fiscal policy can support a redistributive agenda through the implementation of progressive taxation and tax reforms that allow for the mobilization of domestic resources necessary for governments to provide basic services and transfers to the poor.
- c) Finally, policies that dismantle the barriers that block certain groups and disadvantaged populations from access to employment and income-generating opportunities need to be part of an inclusive growth strategy. Overcoming horizontal or group-based inequality typically requires legislative or administrative reform to repeal discriminatory provisions or to address discriminatory practices. Legislation that grants equal access to land ownership, recognizes collective rights or codifies



affirmative action policies are examples of how legislative reforms can help to even the playing field for all. Similarly, policies need to address other barriers to participating in productive employment, such as inadequate skill sets, information gaps or mobility constraints on individuals and groups.

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

#### *Closing gaps in education, health and nutrition*

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

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

#### *Addressing prejudice, discrimination and social exclusion*

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

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

Specific interventions are also needed to address the norms underpinning the intergenerational transmission of group-based inequalities. As dominant groups benefit from better access to resources, they have an incentive to maintain the conditions of inequality that benefit them. For this, they rely on crafting inequality-justifying ideologies. Some interventions that help contest these ideologies and build support for inequality reduction include the enactment of anti-discriminatory legislation, the improvement of access to justice for the poor, marginalized and disadvantaged, and the engagement with the media and other public opinion



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makers to allow a wide range of ideas, voices and lifestyles to enter public discussions. Moreover, opening policy space for inequality reduction might require raising the concern and engagement of the business community and elites by persuading them that reducing inequality is beneficial for all. Finally, building support and momentum for inequality reduction requires that policy makers develop and pursue a coherent, evidence-based and value-driven policy narrative with clear objectives and action points that compels stakeholders to act.