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Chapter III

EVOLUTION OF INCOME INEQUALITY: DIFFERENT TIME PERSPECTIVES AND DIMENSIONS



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EVOLUTION OF INCOME INEQUALITY: DIFFERENT TIME PERSPECTIVES AND DIMENSIONS

A. Introduction

The world economy has experienced profound changes over the past few decades. Many countries have adopted different development strategies and even changed their economic systems. At the same time, trade and financial globalization have deepened, and technological advances and sectoral shifts are transforming the patterns of production and consumption. Successive financial and economic crises have had varying negative impacts on different regions. And the rapid growth rates of GDP in a number of large developing countries are altering the relative weight of different regions in the international economy. These developments were bound to have an effect on income distribution both within and between countries.

There are two major measures of income distribution. One measure is the *functional distribution of income*, which examines the distribution between the main factors of production (labour and capital). It shows the respective shares in national income of wages and salaries on the one hand, and profits, interests and rents on the other. It follows the tradition in political economy of looking at the determinants and evolution of income distribution among social classes based on their insertion in the production system (workers and owners of capital and land). This measure highlights the sources of primary income earned through participation in economic activity.

The second measure is that of *personal distribution of income*, which refers to its distribution among households or individuals, irrespective of the source of the income. A given household or individual may receive income from both labour activity and capital revenues, as well as from pensions and other transfers from the public sector. The most comprehensive data are normally gathered from household surveys. After obtaining the total amount of their different types of incomes, households are sorted by per capita income – from the poorer to the richer – and inequality is assessed through inter-quantile ratios or synthetic statistical indicators which measure concentration. The most frequently used indicators for this purpose are the Gini and Theil coefficients.¹

The different degrees of inequality in the distribution of primary revenues partly determine inequality in household incomes. Since capital is generally concentrated in relatively few hands, a rising share of returns on capital in total income tends to increase personal inequality, and vice versa. However, the relationship between functional and personal income distribution is not straightforward, for a number of reasons. First, not all returns on capital are distributed among households: some remain within the firm as undistributed profits. Second, household revenues may come from different sources: capital income, wage income and mixed income (in the case of

self-employed workers). And third, households pay taxes on their primary revenues, and some of them receive public transfers, including pensions, family allocations and unemployment benefits. Hence, the distribution of gross income may differ significantly from that of net disposable income, after redistribution by the public sector.

Statistical evidence on income distribution is highly incomplete and heterogeneous. It also suffers from methodological breaks, which makes it difficult to present a comprehensive picture of how inequality – in its various definitions – has evolved, especially in the long run. In addition, definitions and methodologies frequently differ in developed and developing economies. Thus extreme caution is needed when making comparisons of inequality among countries and regions.² For instance, in most countries of Africa, West Asia and South Asia, statistics present the distribution of households' expenditure rather than that of their income. Although both variables are correlated, concentration of income is significantly higher than that of expenditure, since the share of income saved rises with the level of income. Moreover, functional income distribution also depends on the social structure. In developed countries and economies in transition, wage earners represent more than 80 per cent of the active population, which makes it easy to identify the income distribution between labour and capital. In many developing countries, on the other hand, the largest proportion of the active population does not consist of wage earners, but rather of the self-employed in low-productivity activities (agriculture or retail commerce). It is therefore misleading to consider all their revenues as a share of "capital" incomes. In some developing countries, this income is presented separately as "mixed income", but in others it is included in capital revenues. By contrast, in statistics of the Organisation of Economic Co-operation and Development (OECD), self-employed revenues are distributed between salaries (applying a representative wage to the work of this population) and capital. Finally, the distinction between wage incomes and profit incomes has also become blurred at the upper end of the income scale where remuneration of those at the top of the wage hierarchy often follows more closely the logic of capital income (e.g. bonuses or stock options).

Bearing these caveats in mind, it is nonetheless possible to extract some stylized facts from

the available data. One is that income inequality has changed significantly over time in all regions as a result of major crises or changes in development strategies and in the international economic framework. The 1980s (or in some countries the late 1970s or the early 1990s) appears to be one of the turning points, when there was a sizeable increase in income inequality in virtually all regions. However, it is difficult to generalize: this simultaneous rise in inequality happened in very different situations and resulted from diverse mechanisms. In some countries it was linked to rapid economic growth, as in some major Asian countries; whereas in others, it took place in a context of economic stagnation or depression, as in Latin America in the 1980s and 1990s, and in Africa and the transition economies in the 1990s. More recently, with Latin America recovering its economic dynamism, inequality has declined. A similar positive correlation between rapid growth and falling inequality was observed in the industrialized countries in the decades following the Second World War. All this indicates that the relationship between growth and inequality is complex, and can be altered by proactive economic and social policies.

Another stylized fact is the rising inequality in developed countries – with a growing share of the very rich in total income – in the run-up to the two major financial crises of 1929 and 2008. That inequality probably was one of the factors leading to the crises, as it was related to perverse incentives for the top income earners and led to a high level of indebtedness in other income groups. The way income inequality and excessive indebtedness are addressed is of particular importance in the face of the still unresolved global financial crisis. In the past, many industrialized countries were able to generate sustained and inclusive growth with more equal income distribution as a result of governments playing a more active role. However this happened after an extensive destruction of capital and debts, in particular through hyperinflation, massive bankruptcies and wars. In the current situation, a strategy of "growing out of debt" (*TDR 2011*: 82–83) would need progressive income redistribution and debt restructuring in order to restore domestic demand and growth. However, it appears that in many crisis-hit countries – particularly in the European Union – the policy responses are most likely to lead to further increases in inequality. Proposals for achieving macroeconomic balance are relying strongly on labour market flexibilization and wage restraint, as well as on fiscal austerity with a

focus on spending cuts, particularly on cuts in social expenditures, public wages and employment. This kind of adjustment, with regressive distributional effects, is likely to hamper economic growth in the short and medium run and to generate a less inclusive society for the next generation.

This chapter describes the main changes in income distribution in different regions over time. Section B traces the evolution of income inequality within countries, thereby providing a historical

context for the analysis of more recent changes, particularly those that have occurred since the early 1980s, which are analysed in section C. Section D shows how income inequality evolved between countries and among the world's individuals, and provides an estimate of global income inequality. Finally, section E discusses some dimensions of inequality – distribution of wealth, gender inequality and differing access to education – which, while distinct from income inequality, are closely related to it and frequently tend to reinforce it.

B. Long-term trends in inequality within countries

1. Functional income distribution

Economists have often defended the notion that functional income distribution is to some extent empirically stable, although they offer very different explanations of the causes of stability (Krämer, 2010). This long-run stability was among Kaldor's famous "stylized facts", as reasonable "starting points for the construction of theoretical models" (Kaldor, 1961: 178). However, according to modern Keynesian/Kaleckian theories,³ which posit that functional income distribution strongly depends on political factors, the occurrence of periods of stability should be considered the result of a pause or balance in the "class conflict", arising from a combination of political and economic factors. In particular, the post-war social consensus in the North, in which workers' compensation roughly followed gains in productivity led to relative stability in the income shares of capital and labour. The neoclassical approach, on the other hand, has treated the stability of functional income distribution both as an empirical fact and as a prediction based on a strictly techno-economic explanation with substitutable factors of production: the nature of available technology (as represented, for instance, by the Cobb-Douglas aggregate production function)

would be such that, in the case of a wage rise, labour would be replaced by capital, thereby keeping their relative shares stable (Piketty, 2008: 45).⁴

Long-term statistics on functional distribution without major methodological breaks are available for only a handful of developed countries. Piketty (2008) observed that between 1920 and 1995, income distribution between wages and profits in France, the United Kingdom and the United States was fairly stable: functional income distribution in these three countries has been around two thirds of wages and one third of profits, and no systematic trend altering this distribution has been visible in the long run (although this seems to have changed since 1980, as discussed below; see table 3.1). This stability may seem inconsistent with the significant socio-economic changes that have taken place during the twentieth century, including a reduction in the number of self-employed (e.g. peasants and small shop owners) and a concomitant increase in the share of wage earners in the workforce. This is not fully reflected in the rising share of wages in total income, as reported by the OECD, whose statistical conventions allocate a proportion of self-employed revenues to wages and the residual to capital income (as noted earlier).

Table 3.1

SHARE OF WAGES IN GDP IN SELECTED COUNTRIES, 1920–2010

(Per cent)

	1920	1925	1930	1935	1940	1945	1950	1955	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005	2010
France	66.3	65.1	67.5	69.5	68.7	..	62.2	65.9	65.6	67.6	66.4	70.3	71.7	68.0	62.4	60.3	60.5	61.0	61.4
United Kingdom	61.9	61.9	61.9	64.2	63.7	..	66.8	67.5	68.8	67.5	67.6	70.6	67.1	61.9	62.9	60.3	62.8	61.4	62.6
United States	..	..	55.4	56.7	57.2	60.1	57.5	59.3	61.3	60.5	65.3	63.7	64.6	62.0	62.6	61.4	61.5	59.7	59.0
Japan	..	..	..	..	..	..	..	40.9	39.4	43.7	43.0	55.0	54.6	55.0	54.1	57.3	57.0	54.8	55.0
Republic of Korea	..	..	..	..	..	..	..	..	..	..	37.1	35.3	44.3	45.2	50.5	52.7	48.6	51.6	50.6
Argentina	..	..	..	..	..	..	47.5	46.2	36.4	38.1	44.1	47.6	40.5	39.5	38.6	41.9	39.4	31.6	41.5
Chile	..	..	..	..	..	..	..	..	44.6	43.0	47.8	45.3	43.3	42.4	38.7	40.9	46.5	42.5	44.1

Source: UNCTAD secretariat calculations, based on *OECD.StatExtracts* database; ECLAC, *CEPALSTAT* database; United States, *Bureau of Economic Analysis* database; United Kingdom, *Office for National Statistics* database; Lindenboim, Kennedy and Graña, 2011; and Piketty, 2008.

Note: Data refer to total compensation of employees as a per cent of GDP at factor costs.

The relative stability in the respective shares of wages and capital in France, the United Kingdom and the United States was not replicated in other countries, and it tended to vanish even in these three countries after 1980. Indeed, after 1980 there was a significant reduction in the share of wages in most developed countries (discussed further in section C). Data for the other OECD countries do not corroborate the hypothesis of a stable distribution between labour and capital in the long run. In Japan, the very rapid growth rates of GDP between 1960 and 1975 were accompanied by substantial increases in the share of wages in total income (from 39 per cent to 55 per cent), which remained fairly stable thereafter. The share of wages in the Republic of Korea has also shown an upward trend since the late 1970s owing to a significant increase of real wages in manufacturing, in parallel with industrial upgrading, possibly related to changes in both labour markets and political conditions.

In the Latin American countries for which relatively long statistical time series are available, there have also been significant changes in functional income distribution. In particular, the share of wages in total income has been very unstable, owing to rapid changes in real wages and employment, which in turn mirrored unstable political and economic conditions. Real wages and the share of wages in GDP generally increased under progressive governments

and/or during periods of economic growth, and plummeted during economic crises or after military coups (e.g. in 1955 and 1976 in Argentina, and in 1973 in Chile). For instance, the share of wages in GDP fell between 10 and 20 percentage points during episodes of economic recession and an acceleration of inflation in Argentina (1975–1976, 1981–1982, 1989 and 2002), Brazil (1981–1983 and 1992), Chile (1973–1975 and 1982–1983) and Mexico (1982–1987 and 1994–1995). Hence, in these countries, labour has absorbed much of the economic shocks over the past few decades, and the wage share has recovered at least partially during economic upturns. This pattern contrasts with that more frequently observed in developed economies, where profits adjust faster to short-run changes in growth, and consequently, the share of profits rises in an upswing and falls during a downswing. In Latin America, it has been easier for profit earners to transfer most of the cost of recessions to wage earners. As a result, the share of wages in total income tends to be positively correlated with economic growth in that region. Thus, with low and unstable growth in the 1980s and 1990s, the position of wage earners deteriorated over a long period, resulting in a larger incidence of informality and self-employment. This made the recovery of their previous share in income distribution more difficult; when it eventually occurred, it was due not only to economic growth, but also to proactive public policies in support of employment and real wages.

2. The share of top incomes in total income

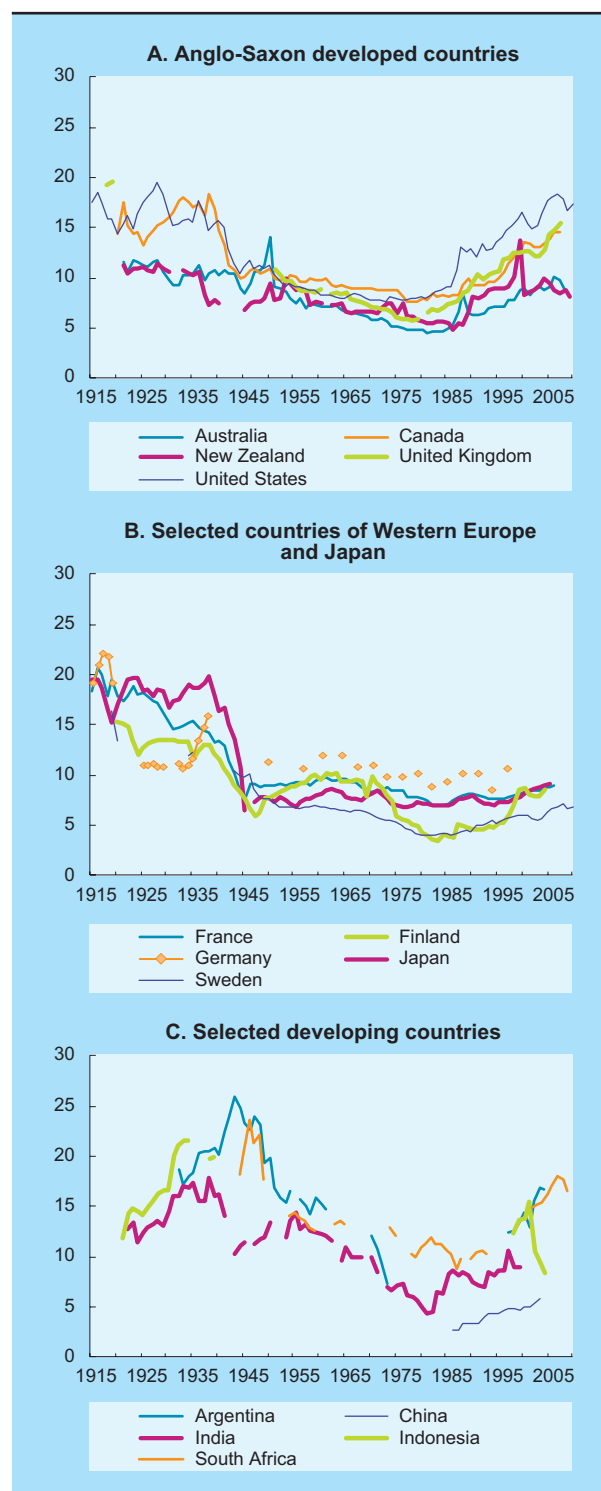
Historical tax statistics can also provide an indication of how income inequality evolved over the long term. Based on the income declared by the richest tax payers and on estimations of national income, the share of “top incomes” (e.g. those received by the 1st or 5th upper percentiles in the income distribution) in total income has been estimated for more than 20 countries, for many of them since the first decades of the twentieth century (Atkinson and Piketty, 2007 and 2010).⁵ However, these statistics should be treated with some caution as they are likely to be underestimations, since taxable revenues are often understated, especially by wealthy people who have strong incentives, more opportunity and better skills to do so. There may also be time breaks due to changes in the tax system, particularly with regard to taxation of capital revenues. Indeed, the share of capital income that is reportable on income tax (and that consequently features in tax statistics) has decreased over time in a number of countries. Since such excluded capital income relates, disproportionately, to the top income groups, this may lead to an underestimation of their shares of income. In addition, estimation of total national income over a long period is a complex exercise in itself (Atkinson, Piketty and Saez, 2011). Notwithstanding these limitations, the analysis of the evolution of the share of top incomes over the past century provides valuable insights for explaining the concentration of personal income.

Regarding the evolution of the share of income of the top 1 per cent, a general feature is the relatively high concentration of income around 1920–1930 in countries of different regions and development levels (chart 3.1). At that time, the “top 1 per cent” accounted for between 15 and 20 per cent of national income in developed countries such as Canada, Finland, France, Germany, Ireland, Japan, the Netherlands, Sweden, the United Kingdom and the United States, but also in developing countries such as Argentina, India and Indonesia. Subsequently, their share declined sharply in almost all the countries. Hyperinflation in Germany and the 1929 crisis in France and the United States eroded rent revenues which are concentrated in the upper income strata. Top income shares were even more dramatically affected by the Second World War, due to the destruction of physical capital, inflation and wartime regulations or confiscations, and, in

Chart 3.1

SHARE OF INCOME OF THE TOP 1 PER CENT IN TOTAL INCOME IN SELECTED COUNTRIES, 1915–2010

(Per cent)



Source: Paris School of Economics and Institute for New Economic Thinking, *The World Top Income Database*.

some cases, the loss of revenues from the colonies. A significant reduction of top shares occurred in 13 out of 14 countries for which data are available. The exception was a non-combatant country, Argentina, where the top income shares benefited from high food prices and increasing food exports to combatant countries (Atkinson, Piketty and Saez, 2011: 62).

In most countries, income concentration diminished further or remained at historically low levels in the subsequent decades, since changes in the orientation of economic and social policies prevented its return to pre-war levels. In many developed and developing countries the State assumed a larger role in the economy, which frequently involved active incomes policies, financial regulation, nationalization of large companies in key sectors of the economy and much greater provision of public services. By contrast, the share of the richest in total income started to increase again in several countries by the beginning of the 1980s. This coincided with the replacement of the post-war social consensus by neoliberal policies, starting in the United Kingdom and the United States among the developed countries, and by policies subscribing to the Washington Consensus in many developing countries.

The share of the top income groups has followed a clear U-shaped curve in so-called Anglo-Saxon countries, with the top 1 per cent income group increasing its share from 6 per cent in 1979 to 16 per cent in 2007 in the United Kingdom and from 8 per cent to 18 per cent in the United States during the same period, thereby returning to pre-war highs (chart 3.1). It should be pointed out that these statistics do not include capital gains, data for which are available only for a very limited number of countries. In the United States, if capital gains were to be included, the richest 1 per cent accounted for as much as 23.5 per cent of total income in 2007, compared with 8.5 per cent in 1978. As a result, between 1976 and 2007 the real income of the top 1 per cent increased at an average annual rate of 4.4 per cent, compared with an increase of only 0.6 per cent for the remaining 99 per cent (Atkinson, Piketty and Saez, 2011: 9).

The evolution of the share of the top income groups in developing countries in the sample covered in chart 3.1 also followed a U-shaped pattern, although it was more pronounced in Argentina and South Africa than in India and Indonesia. In all these countries, the upward trend started between the

mid-1970s and the mid-1980s. China (with a much shorter time series) has also shown an increase in income concentration since the mid-1980s, although concentration in its top 1 per cent (at around 6 per cent of total income) remains low by international standards. By contrast, the share of the top 1 per cent has been fairly stable in continental Europe and Japan since about 1950 – at below 10 per cent. The relatively low level of inequality in these countries is most likely related to relatively high progressive taxation. Nevertheless, even in these countries the share of the top 1 per cent has increased somewhat since the mid-1980s (the exceptions being Denmark, the Netherlands and Switzerland), and most notably in Finland, Ireland, Italy, Norway and Portugal.

Regarding the composition of the highest revenues, this has changed since the first half of the last century, especially in the so-called Anglo-Saxon countries. Earlier, the income of the very rich consisted overwhelmingly of revenues from capital, whereas at present, a significant share consists of wage incomes. Both the new “working rich” and the rentiers may have benefited from financial deregulation, the latter through high interest rates in the 1980s and 1990s and capital gains from rising asset prices, and the former from bonuses and other emoluments gained during financial booms, which are not returned in case of financial losses. Bakija, Cole and Heim (2012) find that in the United States employees in executive positions and top management, together with financial professionals, have accounted for about 60 per cent of the top 0.1 per cent of income earners in recent years.

The very high revenues of corporate executives, managers and financial dealers are indicative of new forms of corporate governance (as discussed further in chapter IV). Since part of their pay is in the form of stocks and stock options, the distinction between wages and capital incomes has become blurred. Apart from ethical considerations, extremely high compensation for senior managers also raises the question of its economic rationale. It would be difficult to explain this by highly concentrated skills, since the education and training of the top 1 or 0.1 per cent of income earners does not differ from that of the top 10 per cent, whose income is significantly lower. Interestingly, Krugman (2012) notes that there are very few true entrepreneurs in this small group: for the most part, they are executives at firms they did not themselves create, but they receive stocks or

stock options of their companies as part of their pay packages, which are decided in a collusive way by compensation committees. As for the top earners in the financial industry, their earnings have often been disproportionately high compared with their actual achievements owing to their highly risky “heads-I-win-tails-you-lose” compensation structure which has nothing to do with their contribution to economic growth; on the contrary, such a structure has led to excessive risk taking, which was one of the reasons behind the global financial crisis.

3. Personal income distribution

In several countries, changes in the share of the top income earners have been large enough to affect overall personal income inequality quite significantly. For instance, rising income concentration in the top 1 per cent in the United States between the second half of the 1970s and 2007 explains in large part, if not entirely, the increase in the Gini coefficient during that period.⁶

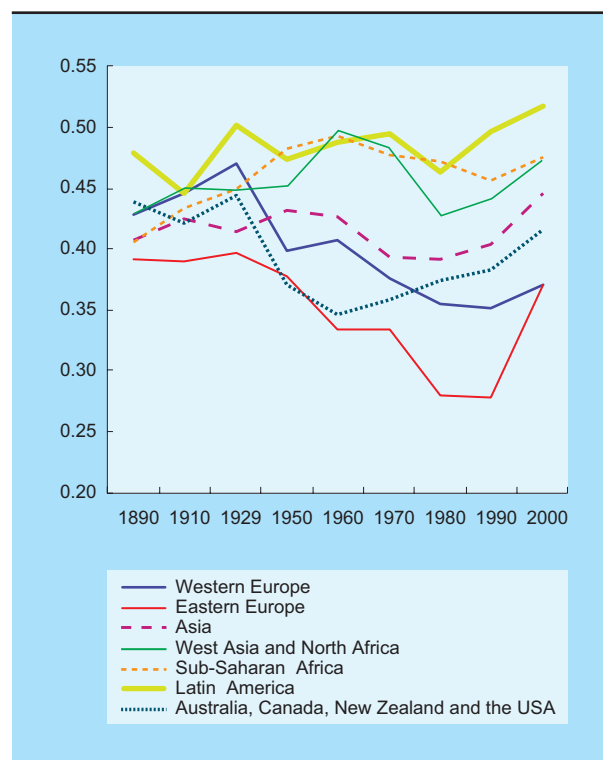
The disproportionate rise in top incomes is only part of the picture. However, a more comprehensive assessment of income distribution among all the social strata over a long period is more difficult to produce. New estimates for household income inequality between 1820 and 2000 in a large number of countries (chart 3.2; see also van Zanden et al., 2011) confirm the evidence already presented on top income shares.⁷ The main results of these estimates are generally in line with the evidence already presented. Income inequality fell markedly in most developed countries between 1929 and 1950, and continued its decline in some of them until approximately 1980. Between the 1980s and 2000, Gini coefficients increased in most countries of this group, sometimes significantly. Inequality also diminished in Eastern Europe after 1929, and was particularly low during the period 1980–1990, before increasing fairly sharply during the 1990s.

During most of the twentieth century, the experiences in these countries, most of which have mature industrial sectors, seem to corroborate Kuznets’ hypothesis: there was increasing inequality during the first decades and a marked decline thereafter, when further increases of income over a long period

Chart 3.2

GINI COEFFICIENT BY REGION, 1890–2000

(Unweighted average)



Source: van Zanden et al., 2011.

Note: Regional compositions follow those of the source.

were associated with falling inequality. This is also consistent with Kuznets’ view that poor countries tend to be more unequal than rich ones. It is true that more recently, in many developed and transition economies, further growth has been associated with rising inequality. However, it must be emphasized that higher inequality is largely due to changes in the capital-labour income distribution. As Galbraith (2012) notes, for most countries in the past half century, the relationship between pay inequalities and per capita income has been downward sloping. The recent exceptions to this rule lie at the top rather than at the bottom of the per capita income scale.

In developing countries, the pattern of evolution of income inequality was less clear during the last century. Inequality tended to increase in Africa until 1950, and remained at relatively high levels in the subsequent decades. Indeed, it has been the

region with the highest inequality, together with Latin America. The unweighted average Gini coefficient was fairly stable in Latin America, although individual countries in the region experienced significant (but temporary) changes in inequality owing to specific political factors; for instance, inequality declined significantly during left-of-centre governments in Argentina (around 1950), Brazil (1950), Chile (1970) and Peru (1985).

In East and South-East Asia, the degree of income inequality has been generally lower than in Africa and Latin America, although significant differences exist among the different economies of these subregions. On the one hand, governments in the Republic of Korea and Taiwan Province of China expropriated and redistributed land and other assets in the immediate post-war period, imposed high wealth taxes and ensured widespread and stable access to education. On the other hand, in countries such as Malaysia, the Philippines, Singapore and Thailand,

the Gini coefficients have tended to be higher (Cornia, Addison and Kiiski, 2003). China is a unique case, as its Gini coefficient rose significantly during the first half of the twentieth century, reaching a peak in 1950, and then fell steeply (i.e. showing a decline in inequality) in subsequent decades following a change in its economic system. However, since the 1990s, personal income inequality has again increased, as discussed in the next section. In India (where a decrease in inequality during the 1970s reversed the increase in the previous decades) and Pakistan in South Asia, there was no clear trend in income inequality between 1950 and 1980.

To sum up, there seems to have been a general increase in income inequality in all the regions of the world between 1980 (or 1990 for some regions) and 2000 (the last year for which data were available in the van Zandenn long-term database). However, inequality evolved less uniformly among the different regions during the 2000s, as discussed next.

C. A closer look at trends in income inequality since 1980

There was a significant change in the economic paradigm in all the major economies and regions between the late 1970s and early 1990s. After three decades of rapid growth with falling inequality in industrialized economies and fairly stable inequality in other economies, decisive steps were taken towards finance-led globalization. In addition, many countries opted for a smaller role of the State in the economy (UNCTAD, 2011; see also chapters V and VI of this *Report*). These changes had a strong impact on income inequality within countries.

1. Functional income distribution

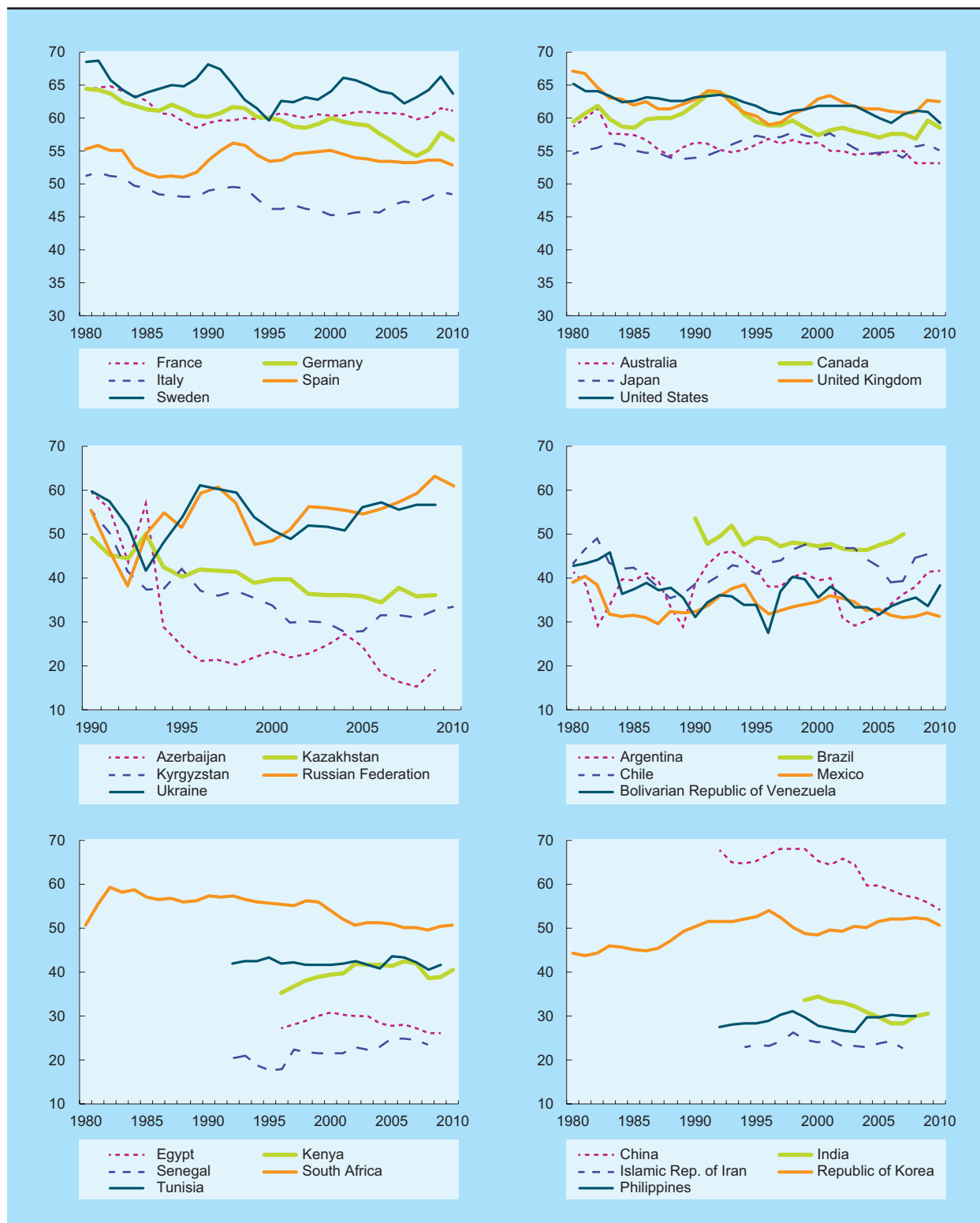
Since 1980, functional distribution has shown a significant decline in the share of wages in many countries, both developed and developing (chart 3.3).

In developed countries, the share of labour income declined, falling by 5 percentage points or more between 1980 and 2006–2007 – just before the global financial crisis – in Australia, Belgium, Finland, France, the Netherlands, Norway, Sweden, the United Kingdom and the United States, and by 10 points or more in Austria, Germany, Ireland, New Zealand and Portugal. In several major economies (including France, Germany, Italy and the United States), a significant proportion of the decline in the share of wages had already occurred between 1980 and 1995. This appears to have been linked to a departure from the post-war social consensus, when wage increases closely followed productivity gains. In some countries – most notably Germany – this trend continued into the 2000s, owing to a deliberate policy of wage restraint and efforts to improve competitiveness. Its effects on domestic demand and imbalances within the euro area are discussed in chapter VI. Another

Chart 3.3

FUNCTIONAL INCOME DISTRIBUTION IN SELECTED COUNTRIES, 1980–2010

(Percentage share of wages in GDP at factor costs)



Source: UNCTAD secretariat calculations, based on OECD.StatExtracts database; United Nations Statistics Division (UNSD), Main Aggregates and Detailed Tables database; ECLAC, CEPALSTAT database; and United Kingdom, Office for National Statistics database.

major cause of the rising share of capital has been the growing dominance of the financial sector over the real sector of the economy and changes in corporate governance which aimed at maximizing shareholder value (see also chapter IV).

In some countries with advanced labour protection and social security nets, the shock of the financial crisis in 2008–2009 actually led to improvements in the wage share, since profits declined more than wages. For instance, in the European Union (EU), the operating surplus (at current prices) fell by 8.5 per cent between 2007 and 2009, compared with a reduction of only 1.2 per cent in employee compensation. In the same period, operating surplus and employee compensation fell by 2.4 and 0.6 per cent in the United States, and by 11.4 and 4.5 per cent in Japan (EC-AMECO database). Whether this is a turning point heralding a more durable recovery of the wage share or just a pause in its declining trend depends to a large extent on policies aimed at overcoming the crisis. The reduction in inequality could be more durable if policy responses were to include fiscal and wage policies that support consumption and investment. However, so far the response to the crisis has been to promote labour market flexibility and extend precarious employment contracts as well as the pursuit of fiscal austerity. A reversal of previous trends is therefore highly unlikely, especially as unemployment rates are proving slow to return to their pre-crisis levels. Indeed, the share of labour declined again in most countries in 2010 and 2011, notably in countries with high unemployment rates, such as Estonia, Greece, Hungary, Ireland and Spain.⁸

Functional income distribution has also changed significantly in developing and transition economies since the 1980s. The transition economies experienced dramatic falls in the wage share following the collapse of the former system of socialist central planning: this share plummeted (from relatively high levels) by between 15 and 23 percentage points in Armenia, Azerbaijan, Kyrgyzstan, the Republic of Moldova, the Russian Federation and Ukraine in the early 1990s. Thereafter, the share of wages was quite volatile in the Republic of Moldova, the Russian Federation and Ukraine, following a procyclical pattern, and by 2010 it had recovered to levels close to those of 1990. By contrast, in Azerbaijan, Kazakhstan and Kyrgyzstan, the share of wages declined even further as revenues derived from extractive industries boosted the share of capital (or “operating surplus”).

There were also significant declines in the share of wages in countries of South-East Europe (e.g. Croatia, the former Yugoslav Republic of Macedonia and Serbia) during the 1990s and 2000s, similar to declines in other East European countries such as Estonia, Poland and Slovakia. It is noteworthy that such a deterioration did not occur in Hungary, Slovenia and the Czech Republic.

Functional income distribution has been quite volatile in a number of developing countries, mainly due to rapid changes in employment and real wages, as mentioned earlier. This has been the result of recurrent economic recessions, inflation shocks and/or political changes, all of which affected employment, labour conditions and workers’ bargaining power. The share of wages declined from the early 1980s in Latin America (and from the mid-1970s in the particular cases of Argentina, Chile and Uruguay), as the debt crisis, structural reforms encouraged by the Bretton Woods financial institutions and, in some cases, authoritarian regimes, weakened formal employment, labour protection and trade unions. In some countries the downward trend persisted into the 2000s: in Colombia, Mexico and Peru, the share of labour has remained roughly between 25 and 35 per cent of GDP (at factor cost), although it should be pointed out that “mixed income” in these countries is relatively high (around 20 per cent of total income). On the other hand, the share of wages increased significantly in Chile (during the 1990s), the Bolivarian Republic of Venezuela (since 1997) and Argentina (since 2003), although it did not return to its previous peaks (chart 3.3).

In countries of Asia and Africa, where the self-employed continue to constitute a significant (sometimes the largest) proportion of the labour force, changes in functional income distribution result from the interaction of different and sometimes opposing factors. On the one hand, migration from rural to urban areas can increase the share of wage earners in total employment, although some of the migrants only change self-employment in low-productivity agriculture to self-employment in low-productivity urban services. On the other hand, an excess of labour supply tends to keep real wages depressed. In India, where the self-employed account for about half of the workforce, evidence suggests that wage shares in total national income in the organized sector since the early 1990s have been falling in parallel with shares of informal sector income in total national income.

Indeed, the movement of factor incomes illustrates the tendency towards greater inequality: the share of wages in national income fell from 40 per cent at the start of the 1990s to only 34 per cent by 2009-2010, while in the organized sector that share fell from 69 per cent to 51 per cent over the same period. Meanwhile, even though the unorganized sector continues to account for the overwhelming majority of workers in the country, including the self-employed, its share in national income fell from 64 per cent to 57 per cent (Ghosh, 2012).

2. Personal income distribution

How these trends in functional income distribution impact on households' disposable income depends to a large extent on redistributive measures taken by governments, which are traditionally fairly large in developed countries. In fact, a particular feature of these countries is the significant difference between the inequality indices of their gross and net income, compared with those of other countries (chart 3.4). This difference was 13 percentage points on average in developed countries in the 2000s, compared with 4 points in the transition economies and around 2 points in developing countries. This highlights the important role of public policies in influencing income distribution in developed countries. Indeed, it is mainly because of public sector involvement that income inequalities are lower in developed countries than in the rest of the world. With a Gini coefficient close to 0.45 (on average), inequality of gross incomes in developed countries does not differ significantly from that of the transition and developing economies. However, net income inequality is clearly lower.

Over the last three decades, income inequality increased significantly in developed countries and the transition economies, as well as in Asian developing countries. It also increased in Latin America and Africa in the 1980s and 1990s from already high levels, but during the 2000s it experienced a not negligible decline of 4–5 points in the Gini coefficient. The transition economies recorded the sharpest increase, of 20 points in the Gini coefficient, between the mid-1980s and the mid-1990s. Income inequality also increased significantly in developed countries – mainly between 1981 and 2000. However,

inequality of gross incomes increased substantially more (almost 8 points) than inequality of net income (half as much), which shows the compensatory – although partial – role of public policies.

These aggregate figures provide a general overview of recent trends, but as they are based on weighted averages, they are mainly determined by changes in populated countries. They need to be complemented by an examination of individual country experiences. Table 3.2 summarizes the changes in inequality of per capita household income in selected countries during the 1980s and 1990s, and throughout the 2000s. The first period was characterized by the widespread adoption of neoliberal policies as well as by a series of financial, banking and currency crises. Inequality increased in 73 out of the 104 countries in the sample, and fell in only 24. It rose in almost all regions during that period, with the exception of Africa, and West and South Asia, where the number of countries with rising inequality was offset by the number where inequality declined.

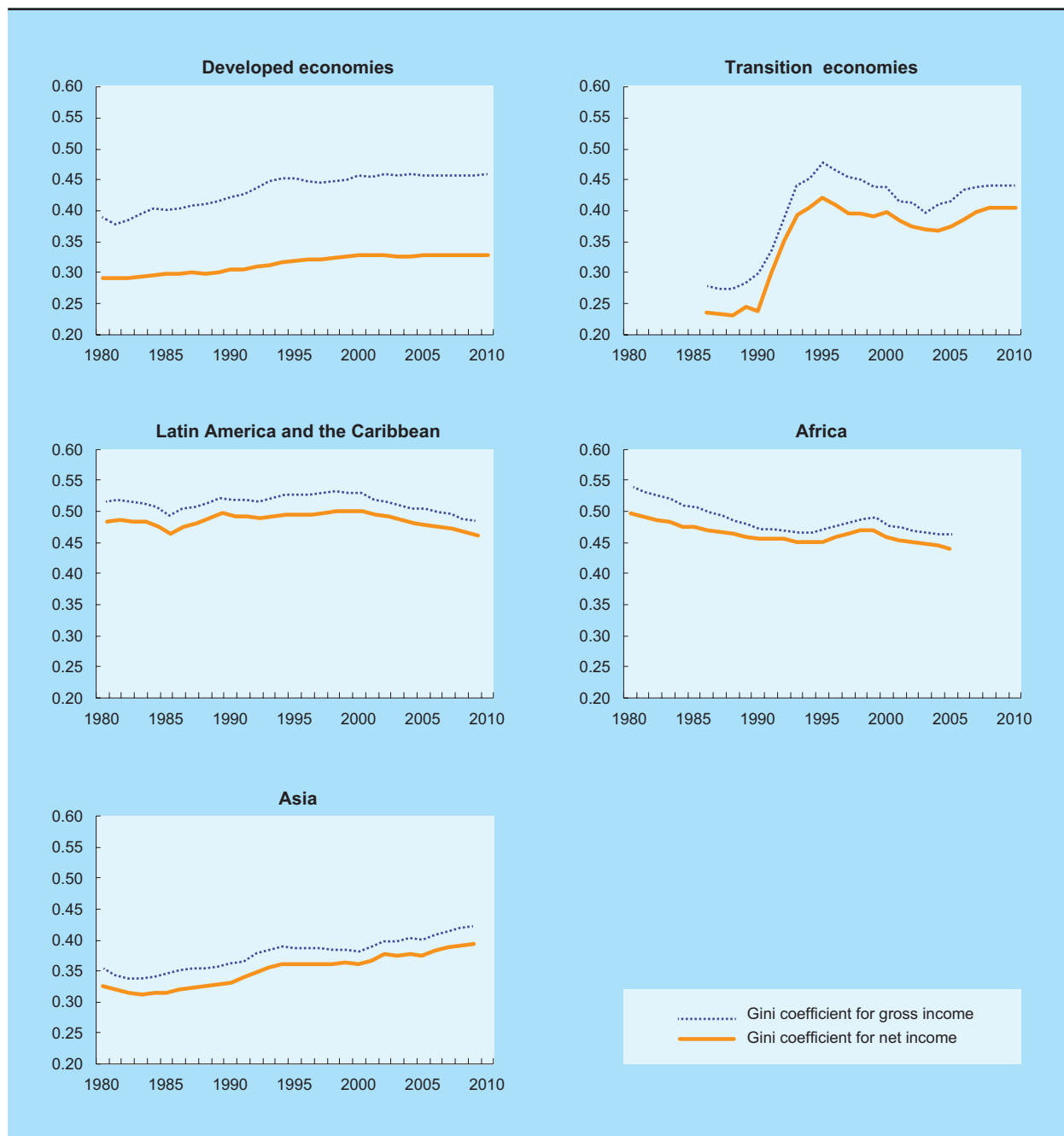
Inequality increased in most developed countries between 1980 and 2000. As mentioned above, capital income increased vis-à-vis labour income, benefiting a small number of capital owners. In addition, there was growing inequality in the distribution of wages and salaries, as the wages of the best paid workers rose more than those of the lowest paid, with few exceptions. Finally, income taxes and cash transfers became less effective in reducing high levels of inequality of gross incomes (or market inequality) (OECD, 2011a: 23, 37). In the transition economies, the economic meltdown of the early 1990s affected wage earners disproportionately, and the crisis in government finances caused a reduction in social transfers. In addition, hasty privatizations led to the concentration of wealth in several countries, resulting in enduring new levels of inequality. Finally, most developing countries also experienced rising inequalities during this period, mainly related to economic reforms and the impacts of financial crises.

By contrast, during most of the 2000s there was an improvement in the global economic environment (at least until 2008), with several developing regions adopting pragmatic macroeconomic and social policies. Practically all developing and transition economies experienced rapid GDP growth and benefited from the rapid expansion of world trade, easier access to global finance and rising migrant

Chart 3.4

GINI COEFFICIENTS FOR GROSS AND NET INCOME, SELECTED REGIONS, 1980–2010

(Population-weighted average)



Source: UNCTAD secretariat calculations, based on *Standardized World Income Inequality Database (SWIID)*; ECLAC, *Social Panorama* database; and national sources.

Note: *Developed countries* comprises: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States. *Transition economies* comprises: Armenia, Belarus, Croatia, Kyrgyzstan, Republic of Moldova, Russian Federation, the former Yugoslav Republic of Macedonia, and Ukraine. *Africa* comprises: Côte d'Ivoire, Egypt, Kenya, Malawi, Mauritius, Morocco, Sierra Leone, South Africa, Tunisia and Zambia. *Asia* comprises: Bangladesh, China, China, Hong Kong SAR, China, Taiwan Province of, India, Indonesia, Islamic Republic of Iran, Jordan, Republic of Korea, Malaysia, Nepal, Pakistan, the Philippines, Singapore, Thailand and Turkey. *Latin America and the Caribbean* comprises: Argentina, Bahamas, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, and Uruguay.

Table 3.2

CHANGES IN INEQUALITY BY REGION, 1980–2010						
(Number of countries)						
	<i>Developed countries 1980–2000</i>	<i>Eastern Europe and CIS 1990–1998</i>	<i>Africa 1980–1995</i>	<i>Latin America and the Caribbean 1980–2002</i>	<i>South and West Asia 1980–2000</i>	<i>South-East and East Asia 1980–1995</i>
Rising inequality	15	24	10	14	3	7
No change	1	0	3	1	2	0
Falling inequality	6	0	10	3	3	2
Total	22	24	23	18	8	9
	<i>Developed countries 2000–2010</i>	<i>Eastern Europe and CIS 1998–2010</i>	<i>Africa 1995–2007</i>	<i>Latin America and the Caribbean 2002–2010</i>	<i>South and West Asia 2000–2010</i>	<i>South-East and East Asia 1995–2010</i>
Rising inequality	9	13	9	2	3	5
No change	5	5	1	1	2	1
Falling inequality	8	6	15	15	3	4
Total	22	24	25	18	8	10

Source: Cornia and Martorano, 2012; and *SWIID*.

Note: Changes are based on variations of Gini coefficient.

remittances over the last decade. However, only some experienced a drop in income differentials. Over this period, there was a divergence in inequality trends: there was a marked and unanticipated decline in income inequality in most Latin American countries and in parts of Africa and South-East Asia, whereas in most of the developed countries, the transition economies and East Asia inequality continued to rise, albeit at a slower pace. These contrasting experiences may help to identify the sources of inequality decline in some regions and its increase in others.

There appears to be no obvious reason why recent economic improvements should directly reduce income inequality. In the countries that experienced gains in the terms of trade, rising commodity prices may have benefited only a small minority, since they occurred in a general context of high concentration of ownership of land and mineral resource. Likewise, the direct effect of an increase in workers' remittances on inequality is uncertain, depending on whom they benefited the most – middle class or unskilled working class households.⁹ The sizeable inflow of foreign capital at declining interest rates mainly benefited large companies and

banks, but did not ease the problems of access to credit for labour-intensive, small and medium-sized enterprises (SMEs). Meanwhile, it simultaneously caused an appreciation of the real exchange rate in most countries, which may lead to a deterioration in competitiveness and employment and potentially increase inequality. On the other hand, there is evidence that in some countries improvements in the terms of trade and higher remittances and capital inflows helped to alleviate the balance-of-payments constraint on growth and increase employment and public revenues (Thirlwall, 2011). These conditions can favour improvements in income distribution, both through their direct impact on revenues from additional employment and their indirect impact on public transfers. This suggests that several factors have an impact (sometimes contradictory) on the evolution of inequality, and the eventual relationship between inequality and growth can vary considerably by region and at different times.

In **Latin America**, the rise in inequality in the 1980s and 1990s was not driven by a massive migration from low productivity activities in rural areas to industrial and modern services jobs in urban

areas in the context of rapid growth – as would be expected in a Kuznets' type development process. On the contrary, it resulted from the reduction of formal and relatively well-paid jobs in industry and in the public sector in countries that were already largely urban and had achieved a significant level of industrialization. Moreover, it took place during more than two decades of slow growth and declining investment rates. Between 1990 and 1999, two thirds of job creation was in the informal sector, comprising microenterprises, domestic employees and the unskilled self-employed (ECLAC, 2004). In this context, higher inequality was not the price the region had to pay for accelerating development; rather, it was closely associated with economic stagnation.

By contrast, the income gap has narrowed in Latin America since the early 2000s, in parallel with a significant economic recovery. Between 2002 and 2010, the average regional Gini coefficient declined by 4 percentage points, and by even more in several countries in South America (Argentina, the Bolivarian Republic of Venezuela, Bolivia, Brazil, Paraguay and Peru). Together with significant improvements in external conditions, the general policy reorientation played a central role in achieving growth with better income distribution. On the macroeconomic side, many of the successful countries followed countercyclical fiscal policies, achieving fiscal balances through an increase in public revenues (including commodity rents) rather than by expenditure cuts. In addition, there was an increase in the progressivity of tax systems (Cornia, Gomez Sabaini and Martorano, 2011). These countries also adopted managed exchange rate systems with the aim of preventing currency overvaluation. Moreover, they shifted economic activity towards labour-intensive, trade-oriented production in both manufacturing and agriculture that had favourable effects on income distribution, exports and growth. Finally, they managed to reduce their foreign public debt and sharply increase their foreign currency reserves. This not only lowered the amount of interest payments on their fiscal and external balances, but also provided substantially more room for manoeuvre in policy-making.

The new policy model also introduced perceptible changes in labour and social policies. These included labour policies that explicitly sought to resolve the problems inherited from the previous two decades, such as unemployment, job informalization,

falling minimum wages, reduced social security coverage and weakened institutions for wage negotiations. In this respect, a number of countries enacted incomes policies that included public works, which extended the coverage of formal employment, and they reintroduced tripartite wage bargaining and sizeable hikes in minimum wages, which generated equalizing effects. The policies also included, almost universally, an acceleration of the upward trend in public expenditures on social security and education, which was made possible by the rise in tax-to-GDP ratios. In addition, many countries introduced social assistance programmes, such as conditional and non-conditional cash transfers, which appear to have contributed significantly to reducing income inequality (Cornia, 2012).

As a result, between 2003 and 2010 the fall in inequality in Latin America almost entirely offset the increase recorded between 1980 and 2002. Thus much of the improvement in the 2000s resulted from a reversal of the unequalizing effects of Washington Consensus-type policies and their negative impact on industrialization and formal employment.

Africa is the world's most inequitable region together with Latin America (chart 3.4).¹⁰ In 2010, 6 of the 10 countries with the most unequal income distribution in the world were in sub-Saharan Africa, specifically in Southern Africa (African Development Bank, 2012). One reason is that in several natural-resource-rich countries, local elites, together with international capital, have been able to appropriate most of the rents from natural resources. The dispersion of income varies dramatically across countries. For example, the ratio of the income of the top decile to that of the bottom decile ranges from 10.5 times in the United Republic of Tanzania to 44.2 times in South Africa (Africa Progress Panel, 2012: 23). The greatest income inequalities are generally in non-agricultural occupations, where education is one of the determining elements in the wage scale. While the income benefits from education are high in Africa, educational inequalities are also the highest of all the world's regions (Cogneau et al., 2006).

The pattern of change of inequality has also differed among the subregions of Africa. Inequality increased in all the subregions except North Africa between the 1980s and the 1990s, particularly in Central, East and West Africa. In the 2000s, it decreased in Southern Africa and to a lesser extent

in West Africa, but showed little change (or even increased) in the other subregions, where the pattern of economic growth has reinforced inequalities (African Development Bank, 2012). Despite conditions specific to Africa, the macroeconomic mechanisms have been similar to those evident in other parts of the world resulting in falling shares of wage incomes and the incomes of petty self-employed workers in the gross national product, and inadequate generation of productive employment opportunities.

The case of South Africa is particularly interesting, because neither the end of the apartheid regime nor income growth appear to have resulted in any decline in South Africa's historically high levels of inequality. Income inequality has been very high and has been increasing since the early 1990s – the Gini coefficient on gross income grew from 0.63 in 1993 to 0.70 in 2005. While race-based inequalities still dominate, inequality within racial/ethnic groups has also been on the increase. Indeed, by 2008, inequality among Africans (who account for 80 per cent of the population) was the highest of all the racial groups. Increasingly, this reflects spatial inequalities (particularly rural-urban income differences) as well as access to education, as better educated Africans have benefited disproportionately from the recent growth process (Finn, Leibbrandt and Wegner, 2011).

Inequality trends in **Asia** are less clear-cut trends, with inequality rising in some countries and falling in others. However, considering that the countries where the income gap has widened are the most highly populated, overall regional inequality has increased significantly since the 1980s. In the **South Asian** region, the processes of globalization have been associated with greater inequalities of income and consumption. This is particularly evident in India, which shows an increase in the national Gini coefficient for consumption from 0.31 in 1993/94 to 0.36 in 2009/10, while the urban-to-rural consumption ratio rose from 1.62 to 1.96. Vanneman and Dubey (2010) estimated a Gini coefficient for expenditure of 0.35 in 2005, and a much higher Gini coefficient for income of 0.48.¹¹ Thus the gains from growth in India have been concentrated among the surplus-takers (which include profits, rents and financial incomes). A major reason for this is that growth in the modern sectors (e.g. manufacturing and high productivity services like the software industry) has not been sufficiently employment generating. Therefore about half of the workforce continues to languish in low-productivity

agriculture (even though that sector now accounts for less than 15 per cent of the country's GDP) and in low remuneration services.

In Bangladesh, the share of farm incomes in total income dwindled over time. Increasing wage differentials in non-agricultural activities (between relatively less skilled wage workers and relatively greater skilled salaried workers) added to the inequality. As a result, the Gini coefficient for income increased from a relatively low 0.28 in 1991/92 to 0.40 in 2005 (Khan, 2005). Inequality also increased in Sri Lanka, which was the first country in South Asia to engage systematically in greater global integration through economic liberalization and market-oriented reforms in 1978. Initially, in the 1980s income inequality remained relatively low, but by the mid-2000s, it exceeded that of its neighbours, with a Gini index for income of 0.50 (Vidanapathirana, 2007). Rising inequality reflects two components: first, growing inequality within the fast growing modern industrial sector, driven by a concentrated ownership of assets and differences in skill levels; and second, growing inequality between the modern industrial fast-growing sectors and regions and the traditional lagging agricultural sectors and regions (Gunawardena, 2008). In Pakistan, by contrast, inequality has remained relatively stable. Consumer surveys indicate that inequality of consumption decreased in the first half of the 1990s and then increased over the next decade (Asad and Ahmad, 2011; Shahbaz and Islam, 2011).

In **East and South-East Asia**, prior to the financial crisis several countries experienced structural transformations that increased inequality, as the acceleration of technological change generated new employment opportunities for better skilled workers in the higher income groups. Moreover, the labour market functioned in such a way that wages in these occupations grew faster than average wages, as insufficient public spending on education caused the supply of better skilled workers to fall short of demand. In addition, economic and financial liberalization reduced the scope for redistributive policies and spurred incomes from financial activities. Following the 1997-1998 crisis, the Gini coefficient fell in Malaysia, the Philippines, Thailand and the Republic of Korea, while it continued to rise in Indonesia, Taiwan Province of China and Singapore. Some common policy-related factors help to explain the distributive gains recorded in the first group

of countries in the post-crisis era. These included pragmatic macroeconomic policies which assured stability and boosted growth (especially in Malaysia¹² and Thailand). In addition, large investments in public education extended the number of years of schooling and improved the distribution of human capital by upgrading the skills of the labour force in line with new technical advances, while avoiding a further rise of the wage skill premium. There was also a strengthening of redistributive policies with a focus on social protection (in the Republic of Korea), a reduction of the rural-urban gap (in Thailand), and a narrowing of income differentials among ethnic groups (in Malaysia) (see also chapter V).

Economic transformations in **China** since the 1980s have had a strong impact on inequality. The first wave of reforms during the period 1978–1984 was centred on the “household responsibility system” in agriculture: rural communes were replaced by egalitarian, family-based farms and higher food procurement prices were paid to farmers. The resulting acceleration of agricultural and overall growth led to a rapid rise in rural incomes, which helped reduce overall inequality. By contrast, income concentration increased rapidly during the second phase of the reforms which began in 1985. This was due to a widening urban–rural income gap, driven by a faster expansion of urban activities, a 30 per cent decline in agricultural prices and a tripling of agricultural taxes levied by the central and local authorities (Ping, 1997). At the same time, a rise in corporate profits and growing earnings disparities as the result of a surge in the skills premium led to greater intra-rural and intra-urban income inequality (Luo and Zhu, 2008). In addition, owing to fiscal decentralization in 1978 the national tax-to-GDP ratio fell to 10.2 per cent by 1996, which substantially reduced the ability of the central Government to control regional inequality by means of transfers to poorer provinces. During the third phase of reforms in the 2000s, the Gini coefficient continued to rise, and was estimated at close to 0.47 in 2009 (compared with 0.27 in 1984; see Chen et al., 2010). Although infrastructure in the western and central provinces was improved, trade and industrial policy continued to promote the creation of special economic zones in coastal areas, export-oriented firms, and the capital-intensive sector over the small-scale one. Despite rapid growth in the average real wage, the share of labour in total income declined as private, corporate and public savings increased in line with rapid accumulation of

capital. Disparities among wage earners contributed to overall inequality, with the distribution of wages shifting in favour of skilled workers in the high-tech, financial and services sectors, and migrants from rural areas receiving lower wages and social benefits than urban workers with formal residence status (Luo and Zhu, 2008). A number of measures have been taken aimed at redressing the rising inequality and “constructing a harmonious society” in what may be the beginning of a new phase. The contract labour law of 2008 improved workers’ conditions, as further discussed in chapter IV of this *Report*; and an increase in the tax-to-GDP ratio from 10.2 per cent of GDP in 1996 to 18.4 per cent in 2010 provided resources to augment public spending on health, education, pensions and other social areas.

3. *Inequality and poverty*

Personal inequality and poverty are closely related, as they both depend on household income. Poverty is defined as the lack of sufficient income for covering basic needs. It is measured by estimating a “poverty line” – which is the per capita cost of satisfying basic needs – and comparing it with the actual per capita income of households. Households whose current income is below the poverty line are considered poor. Therefore, the magnitude of poverty depends on the cost of covering basic needs (in particular, the price of food), the average level of income in a country and the distribution of that income. Different combinations of these factors may lead to a reduction or to an increase in poverty. Clearly, an increase in real per capita income and a more equitable income distribution – with low incomes growing faster than the average income – are the most favourable conditions for reducing poverty. Other combinations would deliver less clear outcomes: per capita GDP and inequality may grow (or fall) at the same time, and lower food prices may pull urban households out of poverty but reduce the earnings of low-income peasants.

The question of how to reduce poverty has been the subject of considerable analytical work and policy debate. These have focused mainly on the links between growth, income distribution and poverty. For several years, an influential view that growth was the main, if not the only, factor for reducing

Table 3.3

PROPORTION OF PEOPLE LIVING BELOW THE POVERTY LINE, SELECTED COUNTRY GROUPS, 1981–2008										
(Per cent)										
	1981	1984	1987	1990	1993	1996	1999	2002	2005	2008
Africa	43.5	46.1	45.4	46.8	49.3	48.3	48.5	46.7	43.9	40.0
of which:										
North Africa	18.2	17.3	16.0	14.8	13.6	12.6	12.0	9.5	8.2	5.8
Latin America and the Caribbean	11.9	13.6	12.0	12.2	11.4	11.1	11.9	11.9	8.7	6.5
Asia	41.2	39.7	37.8	37.5	34.4	31.5	26.9	25.7	20.2	17.1
of which:										
China	84.0	69.4	54.0	60.2	53.7	36.4	35.6	28.4	16.3	..
South Asia	57.5	53.9	52.0	50.6	48.6	46.0	42.7	41.8	37.1	33.8
South-East Asia	45.2	43.5	42.6	37.7	32.7	27.4	25.4	22.2	16.9	12.9
West Asia	6.6	6.4	4.2	4.7	4.9	6.0	5.8	5.4	4.6	3.2
Transition economies	2.4	2.0	2.1	2.5	3.0	5.1	4.9	2.6	1.3	0.5

Source: UNCTAD secretariat calculations, based on World Bank online tool for poverty measurement, *PovcalNet*.

poverty prevailed. According to this view, structural reforms, including greater openness to international trade, low government consumption and financial development, would favour growth, and therefore would also be “good for the poor”. It was assumed that the earnings of the bottom fifth of the income distribution tended to evolve at a similar rate as a country’s average income, and would improve proportionately with GDP growth without the need for redistributive policies. What is more, it was argued that “pro-poor” policies, including public expenditure on health and education, would be ineffective for boosting economic growth and the incomes of the poor (Dollar and Kraay, 2000).

Both the empirical evidence supporting this view and the ensuing policy recommendations have been challenged. Indeed, it has been shown that the share of the low-income groups in total income tended to decline during economic recessions, and did not recover rapidly during upturns (La Fuente and Sainz, 2001). Moreover, there is significant evidence of the positive impact of government expenditures and transfers on the incomes of the poorest, and consequently on poverty reduction (see chapter V). Finally, redistributive policies tend to encourage growth, especially in situations of insufficient domestic demand.

Significant progress has been made in tackling poverty over the last three decades. Yet progress in reducing the rate of extreme poverty – defined by the World Bank as earnings below \$1.25 a day at 2005 PPP prices, and which corresponds to the mean of the consumption per capita in the 15 poorest countries – has been very mixed across countries and regions (table 3.3). On the one hand, in the fast-growing countries in Asia, the proportion of people living on less than \$1.25 a day, which was initially very high, has fallen enormously. In China, for example, it fell from 84 per cent in 1981 to 16.3 per cent in 2005. In absolute terms, this means that more than 600 million people in China moved out of extreme poverty during this period, despite its population increasing by more than 300 million.

On the other hand, in Africa, Latin America and West Asia poverty reduction was very slow during the 1980s and 1990s. In some of the most populous countries in Africa and Latin America the proportion of people living in extreme poverty even increased during these two decades. In Nigeria, for example, that proportion rose from 53.9 per cent in 1985 to 68.5 per cent in 1996, and has averaged 65.5 per cent in the 2000s. In absolute terms, an additional 59 million people moved into extreme poverty between 1985 and 2009, which corresponds to 86 per cent

of the increase of Nigeria's population during this period. In Brazil, the pattern was similar at first, albeit at a lower level, but improved subsequently. From 13.6 per cent in 1981, the extreme poverty rate peaked to 17.9 per cent in 1992 and stabilized at 11.6 in the second half of the 1990s. It started to decline from the early 2000s, to reach 6.1 per cent in 2009, as a result of Brazil's policies aimed at more inclusive growth. In absolute terms, this means that more than 5 million people moved out of extreme poverty between 1981 and 2009, despite a population increase of about 70 million. In the transition economies, the evolution of the extreme poverty ratio followed an inverted U-shaped curve: having increased in most of these economies after the collapse of the Union of Soviet Socialist Republics, this ratio has been falling rapidly since the early 2000s owing to the recovery of economic growth and employment.

These varying performances in terms of poverty reduction largely mirror the rate at which the

different economies have grown since the early 1980s. However, the kinds of policies contributing to economic growth also matter. Some countries have been more successful than others in tackling poverty with higher growth, by increasing public spending, including through social transfers and employment creation programmes (discussed in more detail in chapter V). This partly explains why the growth elasticity of poverty differs among countries. Another reason for different elasticities is related to the initial conditions. A country with an average per capita income well above the poverty line will have a relatively low elasticity, as it needs more growth to achieve the same percentage of poverty reduction as a country with an average level of income closer to (or below) the poverty threshold. This illustrates the limitation of using the same absolute poverty line for very different countries: if the poverty line is very far from the average (or median) per capita income, changes in the latter, even if significant, may be reflected only marginally in changes in the poverty ratio.

D. Global income inequality

This *Report* focuses mainly on income inequality within countries. Most economic and social policies that affect income distribution and redistribution are applied within countries, and, in turn, the evolution of inequality within their boundaries has a direct impact on their economic performance and political debates. However, inequality at a global level – be it among countries or among individuals of all countries – is also a matter of serious concern. Indeed, several multilateral and regional institutions and agencies have the mandate to reduce inequality between countries and regions.¹³ More generally, developing countries' well-established goal of catching up with developed countries entails lowering inequalities between the two groups whereby their respective per capita GDPs will tend to converge. That goal cannot be delinked from income distribution within countries. In other

words, progress towards meeting development goals will not be achieved if the rise of per capita GDP in a developing country results from an increase in incomes of its small social elite alone. Hence, global inequality springs from income inequality both between and within countries. Therefore policies aimed at improving global income distribution must address both of these aspects.

There are different definitions of global inequality.¹⁴ One of these definitions corresponds to "international" inequality, or inequality between countries of different average income. It uses the GDP per capita of each country measured in the same currency – in this case the United States dollar at purchasing power parity (PPP) – for all the countries in the world, and ranks them from the poorest to the

richest in order to compute a measure of inequality, such as the Gini coefficient. By this definition, global inequality first declined between mid-1960s and the late 1970s, since the GDP of a significant number of developing countries grew at faster rates than it did in developed countries (chart 3.5); it then increased between 1980 and 2000, as growth rates in many Latin American, African and transition economies either stagnated or declined, while those of developed countries continued to increase, although at a slower pace than in the immediate post-war decades.¹⁵ Finally, global inequality narrowed again in the 2000s as a result of a significant recovery of GDP growth in most developing and transition economies and a slowdown in developed countries.

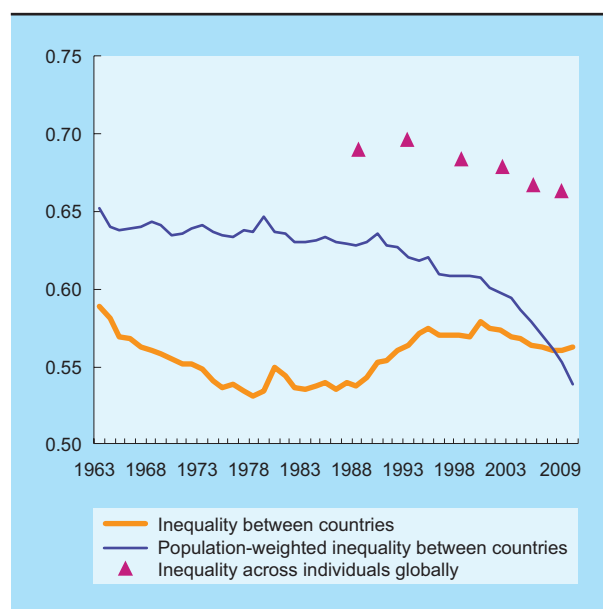
A major shortcoming of this approach to measuring global inequality is that it does not take into account the number of people living in different countries: a very small country has the same “weight” as a very populous one. Therefore, this estimate of inequality may not reflect the living conditions of the majority of the world’s population. The picture changes significantly if different weights are allocated to different countries according to their population. This shows that, first, population-weighted global income inequality until the early 1990s was significantly higher than in the previous definition, as indicated by a Gini coefficient at around 0.65, compared with 0.55 (chart 3.5). Much of this difference is due to the fact that the most populous countries (China and India) were low-income countries at that time. Second, the evolution of population-weighted income inequality reflects more accurately the growth performance of these large countries: global inequality barely changed until the early 1980s, when growth rates in China and India were in line with global growth rates, and declined significantly thereafter, as China and India began to grow much faster than most other countries. Inequality declined even more rapidly in the 2000s, as more developing and transition economies began or resumed the catching up process.

Although this second method is a more accurate approach to analysing global inequality, it is still based on inter-country inequality, and assumes implicitly that all individuals in each country receive the same income. It is relatively easy to calculate, since it is based only on per capita GDP, which is available from national accounts and demographic sources, and is only complicated by the need to estimate PPP.¹⁶ However, for assessing inequality among

Chart 3.5

INCOME INEQUALITY BETWEEN COUNTRIES AND INDIVIDUALS, 1963–2009

(Gini coefficient)



Source: UNCTAD secretariat calculations, based on Milanovic, 2005; Eurostat; World Bank online tool for poverty measurement, *Povcal/Net*; and UNSD databases.

Note: Inequality between countries is based on per capita GDP.

the world’s individuals, data on income distribution within countries for a large set of countries are also needed. It was only in the early 2000s that researchers were able to take advantage of numerous national household surveys conducted worldwide since the late 1980s to present new empirical evidence for the world as a whole, ignoring national boundaries and considering income distribution throughout the world (see, in particular, Milanovic, 2005; 2006).

The level of global inequality calculated using this method is significantly higher than the alternative measures, because it reflects income inequality not only among countries but also within them. It is also higher than inequality in any individual country in the database. This illustrates how the measurement of income inequality may change with geographical coverage. For instance, within a given country, some rural areas or urban slums may be uniformly poor and some neighbourhoods may be uniformly rich; measuring inequality in each of these areas separately would show very low Gini coefficients, even if such

Table 3.4

DECOMPOSITION OF WORLD INCOME INEQUALITY, 1988–2008

(Per cent)

	1988	1993	1998	2002	2005	2008
Gini coefficient						
Within-country inequality	1.1 (1.5)	1.1 (1.5)	1.1 (1.6)	1.2 (1.7)	1.3 (1.9)	1.3 (2.0)
Between-country inequality	62.7 (90.7)	62.5 (89.8)	61.0 (89.3)	60.8 (89.5)	59.0 (88.4)	58.4 (88.1)
Overlap	5.4 (7.8)	6.0 (8.6)	6.2 (9.1)	6.0 (8.8)	6.5 (9.7)	6.5 (9.9)
Total world inequality	69.2	69.6	68.4	67.9	66.7	66.3
Theil coefficient						
Within-country inequality	19.6 (21.7)	22.9 (24.5)	23.0 (25.4)	22.7 (25.4)	23.1 (27.1)	23.0 (27.4)
Between-country inequality	70.7 (78.3)	70.4 (75.5)	67.7 (74.6)	66.9 (74.6)	62.0 (72.9)	61.0 (72.6)
Total world inequality	90.2	93.3	90.7	89.6	85.1	84.0
Number of countries	93	116	121	121	120	110

Source: UNCTAD secretariat calculations, based on Milanovic, 2005; Eurostat; World Bank online tool for poverty measurement, *PovcalNet*; and United Nations Statistics Division (UNSD) databases.

Note: The figures in brackets represent the percentage share of each component in the total.

coefficients were very high at the national level. Similarly, according to the average of national Gini coefficients, the EU appears to be a more egalitarian region than indicated by the coefficient for the region as a whole.¹⁷

Global inequality is, by definition, determined by (population-weighted) differences in income levels between countries and within countries. To what extent do each of these (i.e. intra- and inter-country income disparities) affect global inequality? A decomposition of inequality between and within countries¹⁸ shows that, in 2008, 73 per cent and 88 per cent (according to the Theil and the Gini coefficients, respectively) of total inequality is due to differences between countries, while the rest is due to differences within countries (table 3.4). The higher impact of inter-country inequality in global inequality seems to be a relatively recent development if viewed from a historical perspective. Long-term studies on countries' GDP estimate that by the middle of the nineteenth century, the ratio between the per capita

income in the richest countries (the Netherlands and the United Kingdom) and the poorest countries (formerly Ceylon – now Sri Lanka – and China) was around 4 to 1. This ratio rose to more than 100 to 1 in 2007 (Maddison, 2004; Milanovic, 2011a). Hence, at the beginning of the industrial revolution, global inequality could be explained by inequalities within countries at least as much as by inequalities between countries (Bourguignon and Morrison, 2002). At present, the average income of the lower 10 per cent or even 5 per cent of the population in a developed country is higher than the average real income of the 10 per cent or 5 per cent richest in low-income countries. A comparison of the per capita income of the richest 15 countries with that of the poorest 15 countries over the past few decades confirms this widening gap: the incomes of the richest countries were 44 times those of the poorest in the 1980s, 52 times in the 1990s and 60 times in the 2000s. However, there was a change in the trend during the last decade, with the ratio declining from 62.3 in 2000 to 55.8 in 2009.

Consequently, it could be expected that declining inequality between countries would immediately translate into declining inequality among individuals all around the world. This does indeed seem to be happening, but with a significant lag. Between 1988 and 2002, the Gini coefficient measuring income inequality among individuals remained at between 0.68 and 0.70, while population-weighted inequality among countries was already on the decline due to the fast growth of China and India, which, together, account

for more than one third of the world's population. It seems that for most of that period higher intra-country inequality largely offset the reduction of inter-country inequality (Milanovic, 2011b). It is only since the 2000s that all measures of global inequality have been showing a clear and simultaneous decline. It is worth emphasizing that the reduction of global inequality (among individuals) that seems to have been taking place since the mid-1990s is the first decline in global inequality since the mid-nineteenth century.

E. Other dimensions of inequality

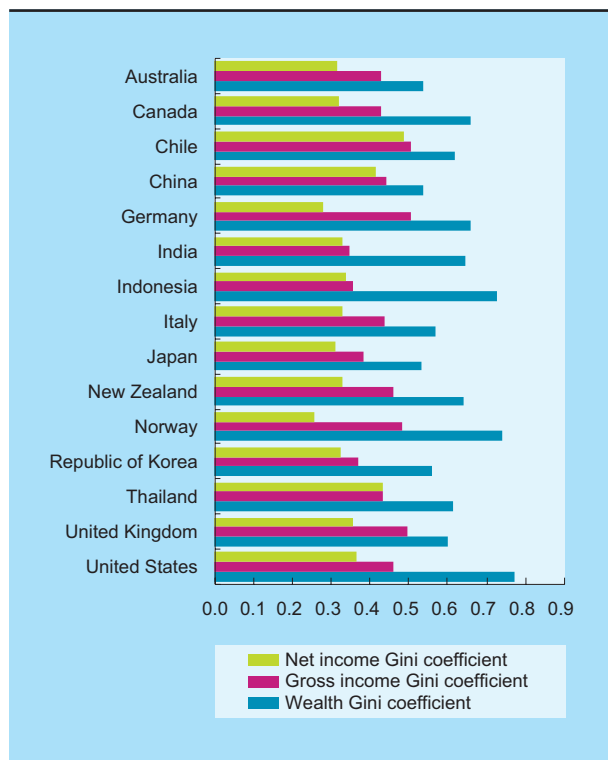
Inequality has several interrelated dimensions, of which the most prominent is income inequality, since it directly determines the level of access to goods and services, either for consumption or investment. Differences in income do not depend only on individuals' differences in talent and effort; they are also the result of an uneven distribution of wealth and of varying access to education and basic services, which in turn are frequently determined by social, racial and gender factors. As discussed in chapter II, this set of factors may significantly undermine equality of opportunities and social mobility, with severe economic, social and political consequences. Moreover, a high level of income inequality tends to be perpetuated – or even widens – through increasing wealth concentration that generates a dual society: only one segment of the population is able to afford access to good-quality private education, health and basic services, while the rest have to settle for low-quality services because their public provision is inadequate. This section briefly presents some other aspects of inequality to show that policies for reducing income inequality need to go beyond measures that only alter primary income (e.g. wages policies) or secondary income (e.g. taxation and social transfers); such policies also need to address some of the fundamental social determinants of inequality.

1. *Wealth distribution*

Income and wealth distribution are closely interrelated. Some primary income can be obtained from asset ownership in the form of interests, dividends and other revenues from capital. Indeed, revenues from property may represent a large share in the total income of the higher income groups.¹⁹ Some of that income is then saved and used for capital accumulation to generate more wealth. Generally, this interrelationship applies to high-income groups who are able to save a significant proportion of their revenues, so that most of the wealth is concentrated in these groups. As a matter of fact, countries with a high concentration of wealth also tend to have a high concentration of income, and vice versa. Furthermore, wealth concentration tends to be higher than income concentration (chart 3.6). This higher concentration is not surprising, since wealth represents a stock of financial and real assets accumulated over several years and transmitted through generations. The concentration of wealth also reflects the fact that savings of the upper-income groups accumulate faster than those of the lower income groups; the former can regularly save a larger proportion and a much greater absolute amount of their income than the latter.

Chart 3.6

WEALTH AND INCOME GINI COEFFICIENTS IN SELECTED COUNTRIES



Source: UNCTAD secretariat calculations, based on *Credit Suisse Global Wealth Databook, 2011*; and *SWIID*.

Note: Wealth data for the most recent year differ by country: Australia (2006), Canada (2005), Chile (2007), China (2002), Germany (2003), India (2002–2003), Indonesia (1997), Italy (2008), Japan (1999), New Zealand (2001), Norway (2004), Republic of Korea (1988), Thailand (2006), the United Kingdom (2008) and the United States (2007).

Indeed, in some countries the lower income groups barely earn enough to cover their basic needs.

Far more than income, a large proportion of the total wealth of households is generally concentrated in the richest percentile. In most countries for which reasonably comparable data are available, the top 1 per cent hold a much larger share of the total wealth of the economy than the bottom 50 per cent (for example, 33.8 compared with 2.5 per cent in the United States, 28.7 compared with 5.1 per cent in Indonesia, and 24 per cent compared with 4 per cent in France), and their share of wealth is significantly higher than their share of income (table 3.5).

A greater concentration of wealth implies that newly created wealth from annual income is

concentrated in already wealthy households. This phenomenon can contribute significantly to the persistence of inequality within a society. For instance, richer parents can afford to provide their offspring with a better education, which in turn increases their chances of earning a high income. Moreover, the offspring of wealthy people often benefit from a substantial inheritance, thus supporting the process of wealth concentration for the next generation. In some cases, this reflects a plutocratic regime in which the rich have a disproportionate influence on the government so that it operates in their favour, enabling them to continue to increase their wealth.

However, the degree of wealth concentration has not always increased. Historical statistics relating to the share of wealth of the top echelons in some developed countries during the twentieth century show that there was a drop in both income and wealth concentration – primarily due to a fall in their capital incomes – mainly during the world wars and the Great Depression. Subsequently, the introduction of a progressive income tax and real estate taxes

Table 3.5

WEALTH AND INCOME CONCENTRATION IN SELECTED COUNTRIES

(Per cent)

Year	Share of wealth		Share of income	
	Lowest 50%	Top 1%	Top 1%	
Canada	2005	5.4	15.5	13.1
France	2010	4.0	24.0	9.0
India	2002-03	8.1	15.7	9.0
Indonesia	1997	5.1	28.7	11.0
Ireland	2001	5.0	23.0	9.7
Italy	2008	11.5	12.2	10.0
Rep. of Korea	1988	12.3	14.0	..
Sweden	2007	..	29.0	6.9
Switzerland	1997	..	34.8	8.0
United Kingdom	2005	9.2	12.5	14.3
United States	2007	2.5	33.8	13.8

Source: *Credit Suisse Global Wealth Databook, 2011*, table 1-4; and Paris School of Economics and Institute for New Economic Thinking, *The World Top Incomes Database*.

made it difficult for the wealthiest capital holders to recover fully to pre-war concentration levels (Piketty, 2003). In France, the United Kingdom and the United States (countries for which long-term series are available), household wealth declined significantly more than disposable income, pushing down the wealth-to-income ratio from 6–7 (at different times between 1900 and 1940) to close to 4 in the 1970s. It was only around 1980 that wealth started to grow rapidly again in all the G-7 countries, driving up the wealth-to-income ratio from 4.6 (on average) in 1980 to 7.4 in 2007. Despite the losses of financial wealth during the financial crisis, the ratio fell only slightly to around 7 in 2008-2009 (Credit Suisse, 2011). The long-run increase reflected a strong rise in asset prices, particularly in stock markets and real estate and it was only partially reversed with the bursting of the financial and real estate bubbles in several developed countries in the present crisis.

The net wealth-to-income ratio in a sample of developing and emerging countries is significantly smaller (roughly half), on average, than that in developed countries. A notable exception is China, where this ratio is close to 7, similar to those of France, Japan and Sweden, resulting mainly from high household savings rates which have exceeded 20 per cent of GDP during the last two decades.²⁰ The composition of wealth is also different in developed and developing countries. In developing countries, the share of non-financial assets in total wealth is significantly higher than it is in developed countries, as land and housing are more important and financial markets less developed. In developed countries, on the other hand, financial and non-financial assets, as a proportion of total wealth, are generally of similar importance. The share of financial assets actually exceeds that of real assets in Canada, the Netherlands, Switzerland and the United States, while the converse is the case in France, Germany, Italy and Spain as well as in Australia, a country with considerable land and natural resource endowments.

In developed countries, the strong increase in wealth assets, which have grown faster than disposable income, and their significant concentration in the top income groups have contributed to rising income inequality since the 1980s. According to Galbraith (2008: 99), rising inequality in some developed economies seems to be “a phenomenon of financial markets, of the distribution of wealth, of the valuation of capital assets, and fundamentally

of the distribution of power”. While in developed countries the increasing concentration of wealth is largely linked to financial and real estate markets, in a number of developing and transition economies it is partly attributable to large-scale privatizations in the 1980s and the 1990s. As noted by Stiglitz (2012: 42), “It’s easy to get rich by taking a state asset at great discount”. And once a dominant position is acquired, monopoly rents can be obtained, thereby further widening income and wealth inequality.

Of particular importance in many developing countries is the distribution of land ownership. A comprehensive estimate of the distribution of operational land holdings in more than 100 countries by the Food and Agriculture Organization of the United Nations (FAO) suggests land concentration to be the highest in Latin America, with a median Gini coefficient of 0.81, followed by West Asia and North Africa (0.66), Eastern Europe (0.62) and South Asia (0.59). The Gini coefficient is lower in OECD countries, at 0.56, and is the lowest in East Asia (0.51) and sub-Saharan Africa (0.49) – two regions that still have a very high proportion of rural population (Vollrath, 2007). However, these statistics on land *holdings* do not exactly reflect the distribution of land *ownership*, because the same agent may own several land holdings, some of which may be worked on by landless peasants. Thus, the above-mentioned values are underestimates for actual ownership concentration. In any case, it is evident that land concentration is higher than income concentration.

There are significant social and economic implications of high land concentration. Land ownership provides not only a means of livelihood, but also facilitates access to credit, and it is associated with greater social and political participation (World Bank, 2006). High land concentration has been identified as a major source of economic inefficiency, as small tenants frequently lack the resources and the access to credit to invest and improve productivity, while big owners may lack the incentive to do so (Vollrath, 2007; Prebisch, 1963). From a historical point of view, the landed aristocracy who owned most of the land also had considerable political influence, and were less interested than the owners of industries in having a well-educated labour force. It is suggested that this may explain the lower priority given to universal schooling and improved access to public health care. All this in turn affected the pace and the nature of the transition from an agricultural to an industrial

economy (Galor, Moav and Vollrath, 2009). Thus it is important to examine potential benefits of land reforms that generate a more equitable distribution of land. Experiences of land reforms in East Asia, for example, suggest that they can indeed improve both social cohesion and economic efficiency. However, they need to be accompanied by technical support and access to inputs and training within a broader strategy for rural development (World Bank, 2006).

2. Gender inequality

An important aspect of social and economic inequality relates to gender. Gender-related differences in incomes and opportunities (within and across households) are determined by a wide range of factors, such as employment and wage conditions, differences in access to education and health, as well as other social and cultural factors. With regard to employment, inequality does not refer only to paid work, since unpaid work within households tends to be disproportionately undertaken by female household members in most societies.

Given that most women perform a considerable amount of unpaid work, the evidence on their participation in paid or recognized work can be misleading. However, it has been found that a higher participation of women in paid and recognized work is associated with a decline in gender inequality over time. This is because it leads to greater social recognition of women's economic role, and to an improvement in the bargaining power of women workers. However, there are wide variations in the participation rates of women in work across countries and regions. The past two decades have witnessed an increase in their participation rate in the adult labour force, from 52.8 per cent in 1991 to 54.3 per cent in 2010. Over the same period, the growth rate of women's labour force was higher than that of men (50.4 and 43.2 per cent, respectively). In developed and transition economies, the participation rates of women were close to 55 per cent in 2010. In developing countries this rate was the highest in East Asia and sub-Saharan Africa (about 70 per cent), followed by South-East Asia and Latin America (around 60 per cent). By contrast, they were the lowest in West Asia, North Africa and South Asia (between 20 and 35 per cent), where women face a range of educational, social and

cultural barriers to entering the labour market (ILO, KILM database).

While involvement in paid work matters for women, what also matter are their working conditions and remuneration levels. Further, without social provision for the unpaid work performed by women who also engage in paid work, their increasing involvement in paid work can impose a double burden on them. In addition, macroeconomic policies, and especially fiscal spending on public services, can have particular implications for women by reducing or adding to their burden of unpaid work.

The relatively low proportion of women who own firms, work in top management or are engaged in full-time employment also provides an indication of the inferior position of most women workers in labour markets (table 3.6).

Women workers tend to be underrepresented in the top echelons (legislators, senior officials and managers). By contrast, they are overrepresented in the bottom echelons (elementary occupations, which include domestic cleaners, labourers and street sales) (table 3.7). A significant proportion of women are employed as professionals and technicians in developed and transition economies. To a lesser extent this is also the case in Latin America, probably as a result of their having better access to education than in the past. However, these are rather heterogeneous groups, which include medical doctors and medical secretaries, university professors and primary school teachers. Activities requiring lower qualifications, such as clerks, services and sales workers, are typically "women's" occupations, as they provide employment to 46 per cent of women in paid work in developed countries and between one third and one quarter in Latin America, Asia (excluding China) and the transition economies (more than twice as much as for men in all these regions). Conversely, it is generally men who work in most crafts and manufacturing occupations. In Africa and Asia, women workers remain heavily involved in agricultural occupations, including unpaid family workers in subsistence agriculture. Moreover, women workers are concentrated in the production of certain types of non-traditional agricultural goods (e.g. cut flowers and vegetables) in sub-Saharan Africa and Central America, in low-grade manufacturing activities, such as in garments and leather goods as well as some electronics in several Asian countries, and in

Table 3.6

	Ownership of firms	Top management	Full-time employment
Eastern Europe and Central Asia	36.7	19.0	38.4
East Asia and the Pacific	54.3	27.1	39.1
South Asia	17.1	6.0	12.5
Middle East and North Africa	17.2	13.6	14.5
Sub-Saharan Africa	33.0	15.2	24.5
Latin America and the Caribbean	40.4	20.8	37.9
High-income OECD	31.9	17.3	34.6
World	35.3	18.4	30.9

Source: World Bank Enterprise Surveys available at: <http://www.enterprisesurveys.org/CustomQuery#Economies>.

Note: The survey data refer to different years between 2002 and 2011, depending on the country. Country groups are as listed by the source.

Table 3.7

	DISTRIBUTION OF EMPLOYMENT BY GENDER AND OCCUPATION GROUPS, 2008									
	(Percentage share)									
	Developed countries		Transition economies		Africa		Asia		Latin America and the Caribbean	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Legislators, senior officials, managers	11.2	8.0	8.2	6.0	4.8	1.7	4.0	1.4	3.8	2.9
Professionals and technicians	22.1	29.8	19.9	37.6	10.3	10.4	6.3	7.8	13.2	18.0
Clerks	7.1	20.0	1.9	6.5	3.5	5.0	4.0	3.3	5.4	11.2
Services and sales workers	15.2	25.7	9.4	19.6	10.2	9.7	9.8	12.6	12.2	23.1
Agricultural and fishery workers	3.5	2.4	7.7	5.8	39.4	53.6	48.1	58.9	17.7	9.7
Craft workers, plant and machine operators and assemblers	35.4	7.9	39.2	9.3	21.6	6.2	21.1	11.5	30.4	10.4
Elementary	4.8	5.8	12.9	14.8	9.9	13.3	6.4	4.4	15.9	24.2
Armed forces and non-classified	0.8	0.3	0.8	0.6	0.3	0.2	0.2	0.0	1.4	0.5

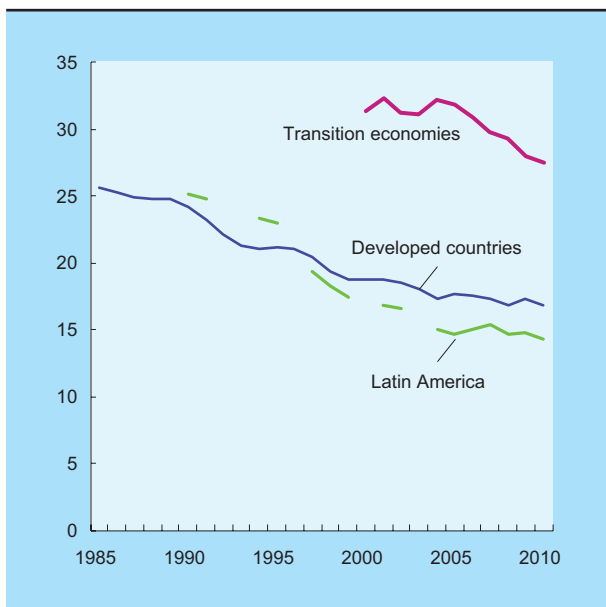
Source: UNCTAD secretariat calculations, based on ILO, *KILM* and *Laborsta* databases; UNECE, *Gender Statistics*.

Note: Craft workers, plant and machine operators and assemblers include "Elementary" for China and Japan in the respective regional aggregates (Asia and developed countries). Data refer to 2008 or latest available year. *Developed countries* comprises: Australia, Austria, Belgium, Bulgaria, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, San Marino, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States. *Transition economies* comprises: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Croatia, Georgia, Kazakhstan, Kyrgyzstan, the Republic of Moldova, the Russian Federation, the former Yugoslav Republic of Macedonia, Serbia and Ukraine. *Africa* comprises: Botswana, Burkina Faso, Egypt, Ethiopia, Madagascar, Mauritius, Morocco, South Africa and the United Republic of Tanzania. *Asia* comprises: Bhutan, Cambodia, China, China Hong Kong SAR, China Macao SAR, Indonesia, Islamic Republic of Iran, Lebanon, Maldives, Mongolia, Pakistan, the Occupied Palestinian Territory, the Philippines, Qatar, the Republic of Korea, Saudi Arabia, Singapore, Sri Lanka, the Syrian Arab Republic, Thailand, Turkey and the United Arab Emirates. *Latin America and the Caribbean* comprises: Argentina, Aruba, Bahamas, Bolivia, Brazil, Cayman Islands, Costa Rica, Dominican Republic, Ecuador, El Salvador, Jamaica, Mexico, Netherlands Antilles, Nicaragua, Panama, Paraguay, Peru and Uruguay.

Chart 3.7

WAGE GAP BETWEEN MEN AND WOMEN, 1985–2010

(Percentage of male earnings)



Source: UNCTAD secretariat calculations, based on UNECE, *Statistical Database*; ECLAC, *CEPALSTAT* database; and OECD, *Employment* database.

Note: For *developed countries*, data refer to the simple average of the gender wage gap in median earnings of full-time employees for Australia, Finland, France, Germany, Italy, Japan, the Netherlands, New Zealand, Sweden, the United Kingdom and the United States. For *transition economies*, data refer to the simple average of the gender gap in monthly earnings for Armenia, Azerbaijan, Belarus, Croatia, Georgia, Kazakhstan, Kyrgyzstan, the Republic of Moldova, the Russian Federation, Tajikistan and Ukraine. For *Latin America*, data refer to the simple average of the gender gap in urban salaries for Argentina, the Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Panama, Paraguay and Uruguay.

“traditionally feminine” aspects of the services trade, such as tourism, data entry and call centres (Dejardin, 2009; Seguino and Grown, 2006).

Regarding the quality of women insertion in employment, this depends on whether their work is formal or informal, full-time or part-time. More qualitative studies show that women are more likely to be working in precarious, low-paid or unpaid jobs (ILO, 2012) and on smaller farm plots, producing less profitable crops than men (World Bank, 2012). In addition, they tend to be concentrated in the lower

paid sectors of the formal labour market so that, “as a result, women everywhere tend to earn less than men” (World Bank 2012: xxi). Even in regions where young women workers have contributed significantly to export-oriented production, they have been concentrated in the relatively lower paid and less skilled segments of production processes.

The gap between formal, regular employment on the one hand, and informal employment – whether as wage earners or self-employed – on the other, is one of the most significant characteristics in the overall structure of employment today. This increasingly translates into income inequalities in developing countries and, more recently, in high-income industrialized countries as well. This fundamental dichotomy tends to be reinforced by gender-based income gaps that are evident across occupations, despite similar educational levels. Gender gaps in wages have been extremely high in Asia; employers in trade-oriented activities have preferred to hire women workers, not only because they usually accept lower pay than men for a given job, but also because events such as marriage or childbirth may be used as an excuse to replace them in production line activities associated with high worker burnout (Seguino, 2000). As gender gaps have narrowed, employers have begun to find such workers less attractive. Indeed, the phase of rapid increase of women’s involvement in export-oriented activities appears to have passed, as recent trends show both relative and absolute declines in the number of women in manufacturing employment even in the most export-driven economies (Ghosh, 2009). Instead, much more of such work is now concentrated in even lower paid locations, such as home-based work and small cottage industries, within larger production chains.

In developed countries, there has been a long-running tendency towards reducing gender-based gaps in remuneration (chart 3.7). However, this decline has been less marked in the last decade, and in some countries the decline has even been reversed. The earnings gap between men and women is larger in the transition economies, at 28 per cent, compared with 17 per cent in developed countries, though it shows a declining trend. In Latin America, policies in some countries have played a role in reducing gender-based wage gaps. In Argentina, Brazil, Costa Rica and Ecuador, for example, an increase in the legal minimum wage and better protection for domestic workers have contributed to reducing wage

gaps and improving working conditions for women workers. In the region as a whole, the gap between the urban salaries received by men and women fell from 25 per cent in 1990 to 15 per cent in 2010. However, a comparison between the earnings of men and women with the same educational level shows a larger gap: 38 per cent in 1990 and 30 per cent in 2005 (ECLAC, CEPALSTAT). This suggests that women not only get lower pay for a similar activity as men, but they also obtain less well-paid jobs with comparable qualifications.

Gender-based inequalities in employment are reflected in and related to other kinds of important gender-related inequalities. Women's participation in the paid labour force can help to reduce poverty, as it increases household income, but this is not the same as equity within the household, or equity between men and women. Women are more likely to be poor than men and this trend is perpetuated from one generation to the next. Households headed by women have lower incomes than those headed by men. Women are less likely than men to hold or inherit income-generating assets such as land, capital and equity, or to own houses (Agarwal, 1994; World Bank, 2006, 2012). Women are also less likely to have income-buffering stocks such as savings or other transfers. Furthermore, they are more likely to be financially precarious in old age because they participate less in public and private pension schemes. All this also makes households in gender-unequal societies less likely to invest in women and girls.

In conclusion, one major structural change that is taking place in labour markets in many parts of the world – although at different paces – is the increasing participation of women. In this process, women frequently obtain jobs that tend to be of lower quality than those of men in terms of formality, decision-making positions and working hours (i.e. full-time or part-time). In addition, women's pay is consistently lower than that of men for a similar job or a similar skill or educational qualification. It could be expected that the increasing participation of a group which is paid below the average income would increase overall income inequality. This is not shown, however, in income distribution statistics, which are based on household surveys, as they conceal the gender dimension. Indeed, data from those surveys could even show a reduction of inequality, because a supplementary source of income actually increases the per capita income of low-income households, where

employment density tends to be smaller. As a result, although gender-related income inequality is one of the most widespread forms of income inequality, it is one that is the least visible in aggregate statistics. Just as for other inequalities, there are strong arguments for reducing gender inequality at different levels. Improving women's conditions of employment would strengthen the bargaining power of workers in general, and would thereby help correct the downward trend in the share of wages that has been taking place in many countries.

3. *Unequal access to education*

Access to education is a key factor in generating equality of opportunities. Widespread access to education can facilitate social mobility, whereas access limited to the elite or upper income groups will perpetuate existing social stratification and income inequalities. Inequalities of education and income inequalities are mutually linked: good education leads to better remunerated occupations, and, in many countries, a higher income can buy a better education. Moreover, education impacts on other important forms of inequality, including infant mortality and longevity, health and nutrition, employability and income levels, gender parity and participation in social, civil and political life (Sen, 1980).

Today more people have access to education, including at higher levels, than ever before. One of the most basic indicators of this progress can be seen in rising levels of literacy, the ability to read or write being a minimum threshold towards equalizing access to knowledge. The youth literacy rate exceeds 95 per cent in 63 of the 104 countries for which data are available, and is 99 per cent in 35 developing countries (UNDP, 2010). People who are illiterate today tend to be older, reflecting highly unequal levels of education in the past. Worldwide, only 7 per cent of 15–24 year-olds have never attended school compared with more than one third of people over the age of 65 years.

Primary school enrolment ratios are now virtually universal in both developed and developing regions, although there are still large gaps in some individual developing countries.²¹ Not only are more children attending school, more are also finishing it: primary school completion rates reached 95 per cent

Table 3.8

GROSS SECONDARY EDUCATION ENROLMENT RATIO, 1971–2010

(Population-weighted averages, per cent)

	1971	1976	1981	1986	1991	1996	2001	2006	2010
Developed countries	78.6	83.5	87.2	92.0	94.5	101.7	101.7	101.9	102.6
Transition economies	..	..	97.7	99.4	94.7	89.9	91.4	88.2	91.8
Africa	14.6	18.3	24.2	29.5	31.7	32.9	37.2	43.1	48.8
Asia	29.7	41.6	35.9	36.3	41.4	51.3	55.5	63.5	70.7
Latin America and the Caribbean	30.2	41.5	50.6	58.4	59.3	64.0	74.2	81.5	86.2

Source: UNCTAD secretariat calculations, based on UNESCO Institute for Statistics database.

Note: Enrolment may exceed 100 per cent owing to students repeating the year. The regional aggregates are averages weighted by population. *Developed countries* excludes Australia, Cyprus, Estonia, Germany, Latvia, Lithuania, Romania, Slovakia, Slovenia and Switzerland for 1971–1986. *Transition economies* excludes Armenia, Croatia, the Republic of Moldova, Tajikistan and the Former Yugoslav Republic of Macedonia for 1981–1986 and Serbia for 1981–1996. *Latin America and the Caribbean* excludes Brazil.

in 2010, and expected years of schooling rose from 9 years in 1980 to 11 years by 2010. Even in countries which rank lowest in the Human Development Index of the United Nations Development Programme (UNDP), expected years of schooling rose from 5 years to 8 years. Secondary school enrolment has also increased appreciably since 1970 (table 3.8); by 2010 it covered more than 80 per cent of this age group not only in developed economies, but also in the transition economies of Europe and Central Asia, and in Latin America and East Asia. This coverage was comparatively low in South Asia (around 60 per cent) and in the sub-Saharan African countries (close to 40 per cent), with some exceptions.²² Tertiary education has followed a similar evolution, with enrolment ratios increasing notably during the 2000s, in particular in Europe (both Western and Eastern), Latin America and East Asia.

The UNDP, which measures inequality of education by average years of schooling, has found that since 1970 this inequality has declined sharply in Central and Eastern Europe and in Central Asia, followed by East Asia and the Pacific, and Latin America and the Caribbean (UNDP, 2011). However, this measure does not take into consideration differences in educational quality, in which important gaps remain. In addition to universal schooling, it is important to improve the quality of public schooling through more spending and other measures so as to ensure more equal educational opportunities.

For example, pre-school attendance is especially important in reducing learning inequalities that reflect family background and income rather than a child's intrinsic abilities. Yet such access is still highly unequal: only 17.5 per cent of eligible children are enrolled in pre-school in sub-Saharan Africa compared with 85 per cent in high-income countries (UNESCO, 2012).²³ Moreover, a reduction in education inequality through better pre-school coverage and a longer school day would reduce the hours that adults, especially women, have to devote to child care. It would also facilitate women's access to paid employment, with positive effects on both income and gender equality.

Low income remains a major barrier at all levels of education, despite the fact that in many countries, educational policies directly support education for the lowest income quintiles (Cornia and Martorano, 2012). For instance, in Latin America, only one in five children from the lowest quintile complete secondary school, compared with four out of five from the highest quintile. According to ECLAC (2010: 209), "these contrasts show that education in its current form reinforces the intergenerational transmission of inequality instead of reversing it".

Inequality of access, and in particular the barriers associated with low-income, is also a concern in many developed countries. Socio-economic status is a strong predictor of educational success in many

OECD countries (OECD, 2011b). In the United States, for example, only 8 per cent of young adults from poor (bottom quartile) households gained a college degree by the age of 24 years, compared with 82 per cent from the top quartile (Educational Trust, 2011). Moreover, students who performed the best in standardized mathematics tests at 8th grade but coming from low-income households were less likely to complete their college education than the lowest-ability students coming from high-income households (Roy, 2005). High and rising college fees are one of the reasons for the stark inequality of access to the top universities: in the United States, only 9 per cent of students in the top universities come from the bottom half of the population, while 74 per cent come from the top quartile (Stiglitz, 2012: 19). Tuition fees are also relatively high in other OECD countries, such as Australia, Chile, Japan, New Zealand, Poland and the Republic of Korea (Oliveira Martins et al., 2009). In general, the higher the direct costs of access to education, the more likely this will deter or pose a heavy burden on poorer households.²⁴ The growing privatization of higher education across the developing world is also cause for concern, as it directly and adversely affects access by lower income groups.

Public spending on education is a major tool for improving equality of opportunities. It is particularly beneficial to the poorest households, who might otherwise not be able to afford an education. Enhancing skills in the entire population, rather than disproportionately among the rich, will create a much greater dispersion of skills and income-earning opportunities, apart from the wider social benefits of equity. The ILO (2008: 132) notes that countries that spent more on education in the early 1990s tended to have lower income inequality in the 2000s.

Educational inequalities are closely linked to the question of who pays for education. The wider coverage of schooling noted globally in recent years is associated with significantly increased public funding in much of the world, especially in developing

countries. Public spending on education averaged around 5 per cent of GDP in 2009, up from around 4 per cent in the 1970s and only around 1 per cent a century ago (which was a time when only the wealthy, and usually only boys, received an education). Even the LDCs spend around 4 per cent of GDP on education today, which has helped to increase enrolment of children from poor households, and particularly girls. However, there are still many disparities in expenditure between regions and countries.

Public spending on education has changed the most in middle-income countries in recent years. It was affected by economic crises in several Latin American and transition economies, leading to a reduction of enrolments in some countries, particularly the transition economies. However, it recovered rapidly in most of these countries during the 2000s and reached new highs, particularly in Argentina, Brazil, Cuba, Mexico, Armenia, Kyrgyzstan, the Russian Federation, Tajikistan and Ukraine. Case studies indicate that the strong increase in public expenditure on education in many countries in Latin America and Asia, particularly Malaysia and the Republic of Korea, has generated a more egalitarian distribution of human capital and wages (Cornia, 2012; Ragayah, 2011; di Gropello and Sakellariou, 2010; Kwack, 2010). It appears that a better educated workforce has a strong impact on the distribution of wages, as it increases the supply of skilled and semi-skilled workers (the “quantity effect”) and avoids or reduces a rise of the skill premium (the “price effect”). For many middle-income countries, this requires increasing enrolment and completion rates in secondary education and broadening access to subsidized tertiary education. The resulting impact on inequality may lag by 5–10 years but it tends to be very effective. Higher spending for education may contribute to better income distribution, particularly in the poorest countries. But this would require the provision of additional job opportunities for those that have received such education. This depends on overall growth dynamics and especially those of the formal manufacturing and services sectors. ■

Notes

- 1 The Gini index or coefficient is the most commonly used measure of income distribution. It is a summary statistic of the Lorenz curve: whereas the Lorenz curve maps the proportion of the total income of a population that is cumulatively earned by different segments of the population, the Gini coefficient represents the area of concentration between the Lorenz curve and the 45-degree line of perfect equality. A Gini coefficient of 0 signifies perfect equality of income, and a coefficient of 1 signifies perfect inequality, i.e. one person earns all the income and the others none. Thus, the closer the coefficient is to 1, the more unequal is the income distribution. The Theil coefficient also provides information about income inequality in a country or region. It varies between 0 (perfect equality), and the log of the number of individuals or countries (perfect inequality). The advantage of this index is that it can decompose inequality into that between countries and within countries without any overlap.
- 2 For a discussion of the data problems in measuring and comparing inequality across countries, see Galbraith, 2012, chap. 2.
- 3 For a survey, see Blecker, 2002.
- 4 As stated by Gollin (2002: 458), “Many widely used economic models implicitly assume that income shares should be identical across time and space”.
- 5 See: World Top Incomes Database at: <http://g-mond.parisschoolofeconomics.eu/topincomes/#>.
- 6 Atkinson, Piketty and Saez (2011: 10) calculated that the totality of the increase of the Gini coefficient of about 8 points can be explained by the rise in the share of the top 1 per cent alone. According to other estimates, the larger share of the income of the top 1 per cent accounts for approximately half of the increase in the Gini coefficient during that period (Krugman, 2012: 77).
- 7 These estimates cover between 41 and 71 countries for the nineteenth century, and between 85 and 108 countries for the twentieth century. From 1985 onwards, the Gini coefficients on households’ gross income from the Standardized World Income Inequality Database (SWIID) are used. For previous years (especially before 1945), as these coefficients are not available (or they are available for only a few countries), they are estimated using different statistics related to income inequality. When some segments of the income distribution are known (typically top incomes), the Gini coefficient is inferred by assuming a statistical distribution for the whole population. Another proxy used for estimating the Gini coefficient is the ratio of average family income to the annual wage earnings of unskilled workers. Finally, extensive use is made of the distribution of heights in a population as a proxy for income inequality. Since nutritional status, health care and shelter in the first years of life, which are essential factors determining individuals’ height, are closely linked to household income, a significant and positive correlation between height variation and income Gini coefficients was found (van Zanden et al., 2011: 5–13). For alternative long-term income estimates, see Bourguignon and Morrison, 2002.
- 8 From a medium-term perspective, higher inequality seems to be a handicap rather than an advantage in handling the crisis. Galbraith (2012) uses wage inequality data to show that more egalitarian societies have lower unemployment and higher rates of technological progress and productivity growth.
- 9 For example, there is evidence that remittances were equalizing in El Salvador and Mexico (Acevedo and Cabrera, 2012), but the evidence from India (where the export of skilled labour has only recently become significant) is more mixed.
- 10 The average estimated Gini index in the mid-2000s was 0.46 for the region as a whole (Cogneau et al., 2006), similar to that of Latin America in 2010. However, it should be pointed out that in Latin America inequality measures normally refer to income distribution, while in Africa, most of the available surveys relate to expenditure, and tend to show lower inequality.
- 11 Other authors found income inequality levels largely exceeding previous estimates based on inequality of expenditure. Using the first detailed income distribution estimates for India, Desai et al. (2010) calculated a Gini coefficient of 0.54 which exceeded that of Brazil in the late 2000s. Estimates based on

- village surveys show even higher Gini coefficients: on average 0.64 among households and 0.59 among individuals, even within villages (Swaminathan and Rawal, 2011).
- 12 As noted by Wee and Jomo (2006: 194), “Malaysian macroeconomic policy has been summarized as optimizing growth subject to restraint on prices and the balance of payments.” The Government increased public investment in a way that complemented market forces.
 - 13 The European Union and the Common Market of the South (Mercosur), for example, have established financial mechanisms for rebalancing development levels within their respective regions.
 - 14 For a discussion on the alternative concepts on global inequality, see Milanovic, 2005.
 - 15 This comparison between per capita GDP among countries has occasionally been altered by the increase in their number, particularly in the early 1960s with the decolonization process, and then again in the 1990s with the disintegration of previously federal States, particularly in transition economies.
 - 16 The use of PPP exchange rates may be problematic since they are based on dated and often questionable price surveys of a fixed basket of goods across countries. These shortcomings are not always adequately taken into account when making inter-country income comparisons.
 - 17 On the basis of this alternative calculation, Galbraith (2008) challenges the widespread belief that Europe is more egalitarian than the United States.
 - 18 For methodological details on this decomposition, see Pyatt (1976). It must be noted that, unlike the Theil coefficient, the Gini coefficient is not totally decomposable, and therefore the exercise calculates an “overlapping” component that refers to the fact that somebody in a richer country may have a lower income than somebody in a poorer country (and the converse). Milanovic (2005) argues that it is acceptable to ascribe the entire “overlap” term in the Gini coefficient to the intra-country component.
 - 19 In developed countries, revenue from property tends to account for between 20 per cent (in Japan) and more than 50 per cent (in France) of the total income of the highest income group (i.e. the top 1 per cent of the population).
 - 20 The simple average of the net wealth-to-income ratio for Chile, China, Colombia, the Czech Republic, India, Slovakia, Slovenia, South Africa and Ukraine is estimated at 3.25, compared with 6.35 for 16 developed countries (Credit Suisse, 2011).
 - 21 According to UNESCO (2012), enrolment in primary school was below 70 per cent in Djibouti, Eritrea, Niger, Papua New Guinea and Somalia around 2010.
 - 22 For instance, enrolment in secondary school exceeded 85 per cent in Cape Verde, the Islamic Republic of Iran, Mauritius, the Seychelles, South Africa and Sri Lanka.
 - 23 In Latin America, pre-school enrolments rose sharply, from 9 per cent in 1970 to 71 per cent in 2008. However there are still significant differences among countries in the region, with relatively high enrolment rates in Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, the Dominican Republic and Uruguay, and relatively low enrolment rates in several Central American countries. In addition, “preschool attendance by children from 3 to 5 years is highly stratified, with access proportional to household income: participation is lowest among children from poor households and those vulnerable to poverty” (ECLAC, 2010: 207–208) – precisely the social groups most in need of such services, which in many countries are not free. Pre-school enrolment rates remain comparatively low in Central, South and West Asia and in Africa – regions in which women’s participation in formal labour markets tends to be low.
 - 24 The cumulated debt from education credits may reach significant levels not only for household budgets, but also from a macroeconomic perspective. The Consumer Financial Protection Bureau in the United States notes that the outstanding debt on student loans rose to more than \$1 trillion (Chopra, 2012) – an amount that exceeds auto or credit-card debt and is second only to mortgage debt (Evans, 2012).

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