This Briefing Note is part of a series addressing issues surrounding poverty and poverty reduction. They have been produced for SDC, its partners and interested development practitioners and offer an overview of the current debates. An introduction to the full series can be found here (www.poverty-wellbeing.net).

Brief No 4 – North-South Inequality

Eva Ludi, April 2008

1. Introduction

'The world's richest 500 individuals have a combined income greater than that of the poorest 416 million.'
(UNDP, 2005)

In his seminal publication *Inequality re-examined*, Amartya Sen asks *'Why equality? What equality'* (Sen, 1992). The same question can also be asked of inequality. And to both of these questions there is no simple answer.

Inequality exists at the global level between the developed North and the developing South; between individual countries; within countries (geographically and by gender, ethnicity or social group); and between individuals. *Horizontal inequality* refers to political, social and economic inequality between groups. *Vertical inequality* describes inequality between individuals. Inequality occurs both as *inequality of outcomes* (e.g. different levels of income) and as *inequality of opportunity* (e.g. through discrimination and exclusion). From an equity perspective, the distribution of opportunities matters more than the distribution of outcomes. But opportunities, which are potentials rather than actuals, are harder to observe and measure than outcomes.

Inequities are usually associated with differences in an individual's 'agency' – the scope for independent action and the ability to shape the world around oneself. Inequities create biases in the institutions and rules in favour of more powerful and privileged groups. Persistent differences in power and status between groups can become internalised into behaviours, aspirations and preferences, which further perpetuate inequalities. Inequalities of opportunity are transmitted across generations – through economic, socio-cultural and political mechanisms to form inequality traps: the children of poorer and lower-status parents face inferior chances in education, health, incomes and status (CPRC, 2004; World Bank, 2005).

There is considerable debate as to whether globalisation has led to an increase or a decrease of global inequality. Over the past five centuries, the world has become more globalised and much more prosperous. If we consider interregional disparities (measured in per capita gross domestic product – GDP) then inequality has grown (Basu, 2006) (Table 1). If we consider population-weighted data, however, then inequality has slowly declined since the late 1960s, mainly because of strong economic growth in India and China (Chen and Ravaillon, 2007).

Table 1: Levels of GDP per capita over time (in 1990 PPP dollars)

	1500	**1700**	**1913**	**1998**
US	400	527	5,301	27,331
Japan	500	570	1,387	20,413
UK	714	1,250	4,921	18,714
China	600	600	552	3,117
Africa	400	400	585	1,368
Ratio of richest to poorest region	1.8:1	3.1:1	9.4:1	20:1

(*Source*: Madison, 2001)

There are different ways to express inequality. Most often, inequality is measured in terms of outcomes by focusing on consumption (or income as a proxy). A second way of expressing inequality is to focus on resources people have at their disposal, e.g. GDP per capita or disposable income per capita (Robeyns, 2005). Inequality, however, affects all dimensions of wellbeing – whether it is related to health, education, housing, opportunities for personal development, or living in a secure and peaceful environment. A third approach to assessing inequality therefore focuses on indicators of human development or capabilities (see Brief No. 1). In the following, a brief discussion of inequality of outcomes, illustrated by income inequality (Section 2), inequality in other dimensions of human development (Section 3) and other areas where North-South inequalities are significant (Section 4), is presented.

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2. Inequality of outcomes – income inequality

Inequality between countries was relatively small until the early 19th century, but increased significantly toward the end of the 20th century (Milanovich, 2005). Among the main reasons for this is that the economic growth process was uneven in space as well as time. The rise in income and life expectation has been most rapid in Western Europe, North America, Australasia and Japan. By 1820, this group had achieved an income level twice that in the rest of the world. By 1998, the gap between the US (the present world leader) and Africa (the poorest region) was 20:1. Milanovic (2005) estimates that in 2002 the average (un-weighted) gross domestic income (GDI) per capita of the 10 richest countries was 42 times greater than the average (un-weighted) GDI per capita of the 10 poorest countries. And this gap is still widening. Madison (2001) identifies three main drivers responsible for advances in population and income – some of which contribute to maintain inequality between different world regions – over the past millennium: (i) conquest and settlement of relatively empty areas which had fertile land, new biological resources, or a potential to accommodate transfers of population, crops and livestock; (ii) international trade and capital movements, and (iii) technological and institutional innovation.

Between 1950 and 1973, the world economy grew considerably and a degree of *convergence* between regions could be observed. Since 1973, however, per capita growth in many regions has been halved to pre-1973 levels and a much greater *divergence* in the performance of different regions has resulted. A 'tri-furcation' of the world can be postulated: (i) advanced capitalist economies (Western Europe, US, Canada, Japan, Australia, New Zealand), which have reached high levels of living standards and human development, but with current low economic growth rates; (ii) 'resurgent Asia' (India, China, South Korea, Thailand, Malaysia, Indonesia, Singapore, Hong Kong, etc.), which have half of the world's population and which, in recent years, have seen very strong economic growth and improvements in human capital; and (iii) the large group of about 168 countries (some East Asian countries, West Asia, former USSR and Eastern Europe, Latin America & the Caribbean, Africa) with about one-third of the world population. In many of these countries, the deterioration in economic performance and human development since 1973 has been alarming (Madison, 2001; Basu, 2006).

The debate about income inequality is an old one. Adam Smith, for example, remarked in the 18th century that *'Wherever there is great property, there is great inequality. For one very rich man there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many'* (quoted in Jolly, 2006). The debate, especially focusing on reasons of inequality, continued throughout the 19th and 20th centuries. Since the mid 20th century, global inequality has increasingly been seen as an important international issue. The UN in its early days prepared a report (1951) on 'Measures for the economic development of underdeveloped countries', strongly focusing on the distribution and use of land (Jolly, 2006). Income inequality raises important questions rooted in the normative ideas about social justice and fairness. Because income affects opportunities for nutrition, health or education, income inequality is also associated with wider inequalities in capability and in some cases with absolute deprivation. Inequality also relates closely to poverty, can lead to increasing dissatisfaction and a sense of injustice leading to conflicts, and influences people's perception of their place in society, often perpetuating poverty over generations.

Box 1: How is income inequality measured?

In a perfectly equitable world, 50% of the population would earn 50% of the income and possess 50% of all wealth and everyone would have the same opportunities to access, for example, the same quality and quantity of services such as healthcare and education or public goods such as security. Reality, however, is different – a small portion of people control a disproportionally large share of the income whereas a large share of the population controls a disproportionally small share of total income. The **Gini index** expresses the amount of inequality, with 0 being perfect equality (everyone has the same income) and 1 being perfect inequality (i.e. one person takes everything).

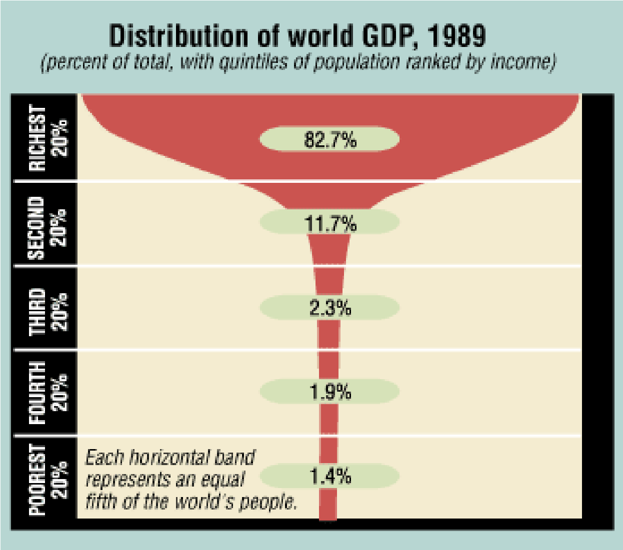
Of those countries reporting a Gini index for the Human Development Report 2007 (126 out of 177 countries), the five most equal countries were all OECD countries; the five most unequal countries were all developing countries in Africa (UNDP, 2007).

Denmark	24.7
Japan	24.9
Sweden	25
Czech Republic	25.4
Norway	25.8
Switzerland (Rank 32)	33.7
Botswana	60.5
Central African Republic	61.3
Sierra Leone	62.9
Lesotho	63.2
Namibia	74.3

Milanovic (2005) uses two concepts to measure inequality: *international* inequality measures inequality between countries, whereas *global* inequality measures inequality between citizens, i.e. including inequality within countries. In PPP (purchasing power parity) terms, the top 5% of the world population control one-third of the global income, and the top 10% get one-half. The bottom 5% and 10% receive 0.2% and 0.7% of total world income, respectively. This means that the ratio between the average income received by the richest 5% and that received by the poorest 5% in the world is 165 to 1. Or, the richest 5% have to work two days for what the poorest 5% have to work a whole year.

Figure 1 shows the distribution of the world's GDP in 1989. The richest 20% owned 82.7% of the total GDP, and the poorest 20% only controlled 1.4% of global GDP.

Figure 1: Distribution of world GDP in 1989



(*Source*: Wade, 2001)

2.1. Relation between inequality and growth

In developing countries, the distribution of productive assets and the opportunity to participate in and benefit from growth are highly unequal, resulting in a high level of inequality in the distribution of incomes. Growth, inequality of incomes, assets and opportunities, and poverty are interlinked. Inequality in asset ownership and opportunities can directly undermine growth. With a high level of income inequality to begin with, growth needs to be faster and longer sustained to achieve the same level of poverty reduction. If income inequality increases, it will reduce the effect growth would have had on raising the incomes of the poor. Increasing inequality in opportunity, assets and incomes also runs the danger that mounting dissatisfaction and a sense of injustice contribute to undermining the political and social stability that is vital for sustaining growth (OECD, 2006).

On a global level, inequality has declined, mainly as a result of massive economic growth and the sharp reduction in poverty in China and India. This led to poverty rate declines in East Asia and the Pacific from 58% in 1981 to 9% in 2004. The decline in poverty in recent years in several Asian economies owed to both improved income distribution and sustained rapid growth, whereas Africa has seen a stagnant annual per capita growth over the past two decades. If China and India are excluded, inequalities between countries have continued to rise, owing to the continuing divergence between most other low-income countries and rich countries (World Bank, 2005; Chen & Ravaillon, 2007).

3. Inequality in human development

From an equity perspective, inequality of opportunity is more important than inequality of outcomes (such as incomes). A person's life prospects should not be influenced by circumstances outside his or her control – such as country and place of birth, gender, race or family origins. But the reality is that who one's parents are, in which country they live, how rich they are, or what type of (formal) education they have received makes a vast difference in terms of life expectancy, education, access to services and economic prospects.

Despite the remarkable increase in prosperity experienced by many poor countries, simultaneous gains in human development have been less impressive. Large parts of the developing world are left behind and, because inequalities in opportunity are reproduced over time and across generations through economic, socio-cultural and political mechanisms, many people find themselves in an inequality trap, from which it is very hard to escape. Gaps in income and human development, already large within many countries, are truly staggering on a global scale between rich and poor countries.

Box 2: Global inequalities in perspective – Mali and USA

To illustrate global inequalities in wellbeing, the World Bank (2005) uses the example of two countries on opposite ends of the wealth spectrum: Mali and the US.

A baby born in Mali in 2001 had an approximately 13% chance of dying before reaching age one, with this chance declining only slightly to 9% if the baby were born to a family in the top quintile of the asset distribution. By contrast, a baby born in the US the same year had a less than 1% chance of dying in its first year. The situation becomes even worse for under-five mortality: 24% of children in Mali will not reach age five, compared with less than 1% of American children.

The picture does not improve for education. The average American born between 1975 and 1979 has completed more than 14 years of schooling (roughly the same for men and women, and in urban and rural areas). The average school attainment for the same cohort in Mali is less than two years, with women's attainment less than half that for men, and virtually zero in rural areas. If one considers the quality of the education received, the inequalities in learning achievement are possibly much larger.

Leaving aside the many differences between the two countries, for example in relation to historical experiences and development pathways, geography, agro-ecology and availability of natural resources, or quantity and quality of productive and social infrastructure and services, it is not surprising, then, that many citizens of Mali, having survived immense hardships as children and without much education, can barely eke out a living as adults, on average living on less than US$2 a day (US$54 a month) in 1994. By comparison, the average American earned US$1,185 a month, more than 20 times that of the average Malian.

(*Source*: World Bank, 2005)

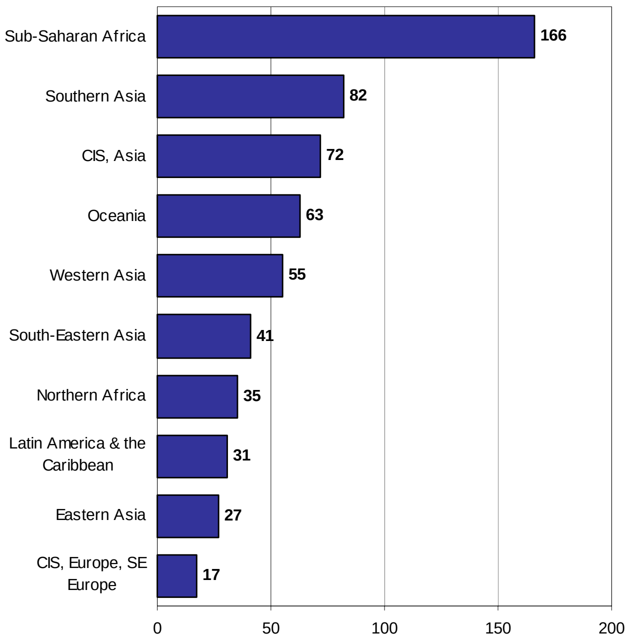
Gender dimensions are deeply embedded in observed inequalities. There are persistent gender gaps in access to education, decent employment and fair and equal remuneration. Women's poorer access to economic and non-economic opportunities is often at the root of their lower status in many societies and their voicelessness (UN, 2005). Other social groups which are commonly disadvantaged or discriminated against are ethno-linguistic minorities, scheduled casts and tribes (see Brief No. 4), religious minorities, youth, the elderly, the chronically ill and people with disabilities.

With regard to human development, a number of different indicators can be used to illustrate inequalities between countries or regions. Primary school enrolment and under five mortality are two indicators often used.

Although primary school enrolment has increased significantly in all regions, Africa and Oceania still lag far behind, with only 70% and 78%, respectively, of net enrolment in 2005. Most other regions have reached at least a 90% net enrolment ratio in primary education.

Figure 2 shows the under-five mortality rate per 1,000 live births in 2005. In sub-Saharan Africa, still more than 15% of all children die before reaching the age of five, whereas in Europe and CIS countries this figure is below 2% (UN, 2007a). Disparities in child health and mortality reflect underlying inequalities in access to quality care for mothers and their children. Of concern is access to immunisation, which, despite significant increases in coverage in recent decades, remains highly differentiated by factors such as maternal education and place of residence (UN, 2005).

Figure 4: Under-five mortality rate per 1,000 live births, 2005



(*Source*: UN, 2007a)

Adverse effects of unequal opportunities are all the more damaging because economic, political and social inequalities tend to reproduce themselves over time and across generations to form 'inequality traps'. Disadvantaged children from families at the bottom of the wealth distribution do not have the same opportunities as children from wealthier families to receive quality education. So these disadvantaged children can expect to earn less as adults. Because the poor have less voice in the political process, they – like their parents – will be less able to influence spending decisions to improve public schools for their children. And the cycle of underachievement continues.

4. Other indicators of inequalities between the North and the South

There is a whole range of other indicators that can be used to highlight the inequalities between the global North and South. The following are but a few examples and assert no claim of indicating the whole range of North-South inequalities.

Global trade volumes are highly unbalanced between different world regions (Table 2). World trade has been expanding at a rate of nearly 5% a year. But gains in trade are concentrated in a few nations. Over 80% of all world exports are produced by only 10 countries. The lion's share of every dollar of wealth produced in the world economy goes to wealthy or middle-income countries. Only three cents of every dollar, says the World Bank, go to the low-income countries that are home to 40% of the world's population. This is unfortunate, as under favourable conditions and with the right policies in place, trade can be assumed to have a huge impact on growth, including poverty reduction (UN, 2007b).

Table 2: Share of global exports in 1980 and 2006

	1980	2006
Developed regions		
Europe	42.8	40.1
North America	14.5	12.0
Asia & Oceania	8.0	7.0
Developing regions		
Africa	5.9	2.8
South and Central America	5.5	5.7
Asia	18.0	28.3
India & China	1.3	9.1
Least developed countries (LDC)	0.76	0.82

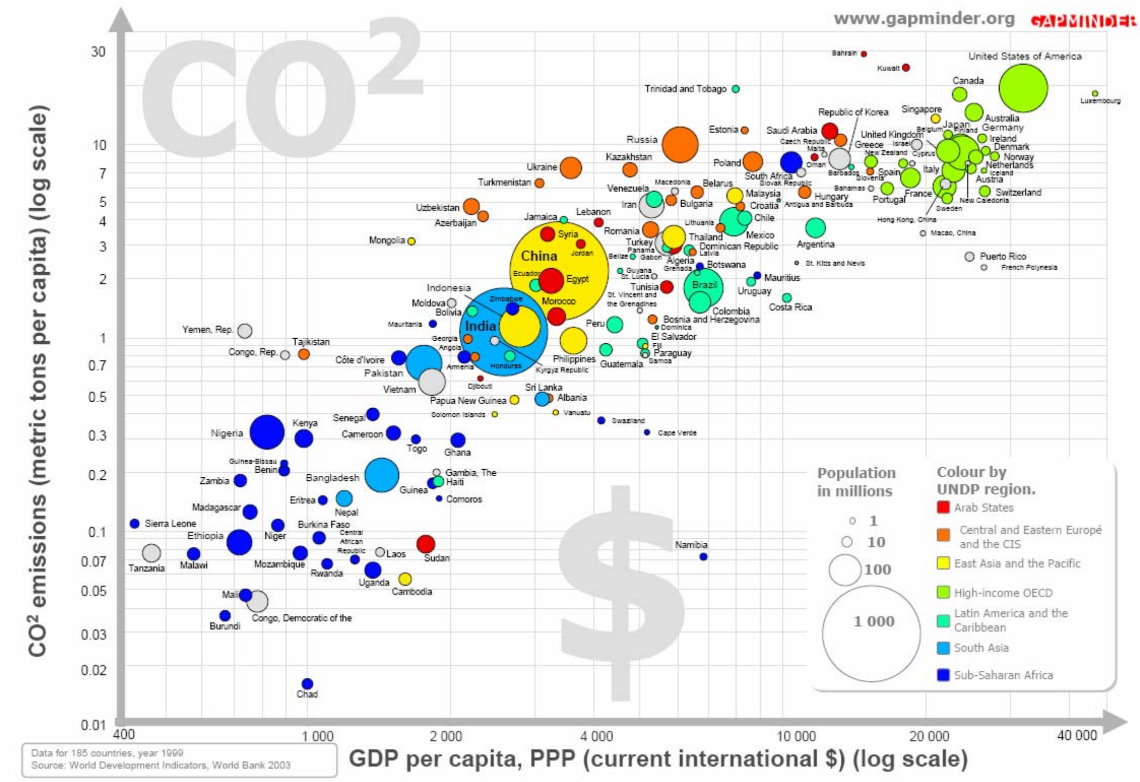
(*Source*: UN, 2007b)

For many developing countries, agricultural trade is a major source of foreign income. Often, however, access to international markets is restricted by OECD countries providing substantial subsidies to farmers for production and export. In the case of cotton, the US, for example, subsidised its 25,000 cotton farmers with US$3.9 billion in 2001. This led to export losses of US$302 million for the 15 million cotton farmers in West and Central Africa (Heinisch, 2006). The World Bank Chief Economist in 2002, Nicholas Stern, pointed out that *'European subsidies and barriers are, in general, much higher than those in the United States. [...] Some of the results are bizarre. We see sugar beets grown in Finland whilst poor sugar cane producers and cutters in the tropics struggle to make a living. [T]he average European cow receives US$2.50 per day in government subsidies and the average Japanese cow receives US$7.50 in subsidies,* *while 75% of people in Africa live on less than $2 per day.'* Agricultural subsidies lead to increased production and distorted markets. This lowers world market prices, for some products by 10% or more, resulting in lower economic growth for developing countries than would be the case without subsidies. Additionally to direct subsidies, the past 20 years have seen the proliferation of non-tariff trade barriers. While such measures can be positive, as they try to improve environmental and social standards, they can increase entry barriers for poor countries in potentially rewarding markets.

It is often claimed that developing countries have little power in international negotiations. Page (2003) finds that developing country negotiators are often inexperienced and few in number, whereas developed countries have enough resources to send a large number of highly specialised negotiators to important international negotiations. However, she finds evidence that developing countries are increasingly able to influence negotiations at the World Trade Organization (WTO) level, although less so the negotiations on climate change. In multilateral banks a country's decision-making power is usually correlated with its economic strength. Developing countries thus have only a fraction of the votes compared with OECD countries. Even in international bodies where countries are equally represented, such as the UN or the WTO, developing country interests can be underrepresented because of, for example, separate bilateral agreements (World Bank, 2005).

Per capita emissions of CO_2, one of the driving greenhouse gases responsible for climate change, also show a marked disparity between the North and the South. CO_2 emissions can be used as an indicator of mobility, economic production and living standards. Most African countries emit less than one ton/per capita of CO_2, but high-income OECD countries emit between five and almost 30 tons of CO_2 per capita (Figure 3).

Figure 3: CO_2 emissions per capita in relation to GDP per capita, 1999



(*Source*: www.gapminder.org)

5. Conclusions

Despite improvements over time, inequalities among countries and especially between the North and the South in various dimensions remain unacceptably high. Ignoring inequality in the pursuit of economic growth and income generation is dangerous and ineffective as a development strategy, as there is a pronounced danger that such an approach will lead to the accumulation of wealth by a few and a deepening of the poverty of many. Inequalities, between and within countries, jeopardise efforts to achieve social justice and sustainable and equitable development. Growing inequality among countries and their citizens is one factor contributing to growing insecurity, which can undermine efforts in view of reducing poverty and inequality. Breaking this vicious cycle and tackling inequality at global level needs policy responses in both North and South. Recognising equity as a central pillar of development requires a focus on the following areas: (World Bank, 2005; CPRC, 2004):

- Unequal control over resources reinforces the unequal concentration of power. When markets are missing or imperfect, the distribution of wealth and power affects allocation of investment opportunities. Correcting market failures is thus important. However, not all inequalities can be corrected through market mechanisms, and redistribution – of assets, political influence or access to services – may be necessary. Global markets for many products and services are highly distorted. Action is needed to reduce such distortions, e.g. by eliminating subsidies and trade barriers in the North in order to allow developing countries to benefit from international trade. In countries of the South, a number of measures are necessary too: improving governance and institutional settings to allow markets to work, to enable poor people to access markets, or fostering broad-based pro-poor economic development which builds on assets poor people have control over.

- Enabling poor people to take up opportunities requires investments in human development through improved access to basic services such as education, skills, health, water and sanitation, and social assistance. To achieve this, three interlinked issues must be addressed. First, access barriers need to be reduced. Second, the quality of services needs to be improved so they are capable of assisting people and are responsive to their needs. Thirdly, attitudes and perceptions of the value of services, and therefore the demand for services, need to be fostered, especially among poor people.
- Empowerment is at the core of development. Poor people need a greater voice over policies aimed at reducing poverty and to be empowered to participate in economic, social and political activities.
- Social protection measures help reduce risks and vulnerability and so facilitate the engagement of poor people in more productive enterprises. They can also help reduce the dangers of an outflow of capital from productive activities to meet domestic stress and shocks. Often, social protection schemes try to achieve the twin goals of mitigating current poverty by providing income supplements and preventing future poverty by creating incentives to invest in human development and productive enterprises.
- Inequality is also defined by the way poor people are incorporated into the formal economy and how social relations are shaped. Adverse incorporation can mean, for example, that poor people earn a salary that is insufficient to cover basic living costs; are exposed to precarious labour conditions; suffer from low and declining assets; have minimal access to social protection and basic services; and are at risk of depending on a patron. Policy responses to address these include measures to improve labour conditions, strengthening formal and informal institutions, or the provision of social protection.

The right policies and institutions are needed to break the 'inequality trap'. Interventions that support human development and capacities for those with the most limited opportunities will help them engage in more economically productive enterprises. It will also contribute to political participation and voice. Processes that redistribute assets, services, justice and political influence are essential for empowering poor people; they increase investment opportunities and contribute to reducing inequality between citizens. And promoting fairness in markets – both at domestic and international levels – is essential for supporting a growth path in which poor people can participate in a way that benefits them, and which – lastly – contributes to reducing global inequality.

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