Chapter XI

DISPARITIES IN INCOMES AND POVERTY

1. Social inequalities are readily evident in all countries. Disparities in wealth, material possessions, power, prestige, access to jobs, financial resources, social services and life essentials, such as food, shelter and drinking water, and the way people are perceived and treated dominate the social life of contemporary societies. Although there are many forms of inequality, the three major forms – economic, social status, and power – have the most profound effect on the access to income opportunities, income returns, distribution and consumption.

2. Throughout the twentieth century and especially since the Second World War, many societies have attempted to alleviate social inequalities arising from disparities in wealth, material possessions and social status, and to remedy the enduring effects of discrimination on some social groups. The major goals of chapter XI are to identify the effects of social inequalities on income differentials, identify trends in income distribution between social groups and evaluate the impact of policies and programmes that aim to ameliorate the income opportunities of socially disadvantaged groups.

World and international income distribution

3. A new concern for income inequality has been sparked, among other things, by evidence of increasing polarization in North America and western Europe in the 1980s and in countries with economies in transition in the 1990s. In recent years, improvements in methodology and greater availability of household survey data have provided the means for the calculation of world income distribution for the first time. World income distribution, based on household incomes world wide, needs to be distinguished from international income distribution, which is based on differences in mean incomes between countries (weighted by population) and does not take into account income inequality within countries.

4. World income inequality increased in the 1990s despite unprecedented global economic growth. According to a recent estimate, world income distribution became more unequal over the period 1988 to 1993 – the world Gini coefficient rose from 62.5 in 1988 to 66.0 in 1993, an implied increase of about 0.6 Gini points per year.[1] This rate of increase in inequality is high by historical standards.[2] The degree of inequality in world income distribution is clearly illustrated as follows: in 1993, the bottom 20 per cent of the world's population received only 2 per cent of total world income in United States dollars at purchasing power parity as compared to a share of 2.3 per cent in 1988; the richest 1 per cent of the world's population received as much as the bottom 57 per cent.[3] These results are similar to those obtained from other studies that have attempted to estimate world inequality without using actual household survey data.[4]

Within-country income distribution

5. Within-country income inequality was examined chapter III. Here we expand further on some of the underlying features of income inequality during the 1990s. The high income inequality in many countries can be gleaned from the sample of 52 countries in table XI.1. With the exception of one country, the income share of the top 10 per cent of the population is at least double their share in total population. In addition, the concentration and polarization of income is more pronounced in developing countries than it is in developed countries or countries with economies in transition. For example, in developing countries the income share of the top decile of the population averaged 34.1 per cent as compared to 25.6 and 22.8 per cent, respectively, in economies in transition and developed countries. At the bottom end of the income distribution, the average share of the lowest decile of the population was 2.5 per cent in the developing countries as compared to 3.3 and 3.4 per cent, respectively, in economies in transition and developed countries.

6. Another important common characteristic of the countries with extremely unequal income distribution is the relatively marginal income share of the third quintile of the population: In Brazil this group had a share of 10 per cent, while in Chile and Colombia it was about 11 per cent (table XI.1). In industrial countries and economies in transition in the sample, the share of the third quintile varies from a low of 13.3 per cent in the Russian Federation to 18 to 19 per cent in Slovakia, Belarus and Slovenia.

7. In most developing countries, rural-urban income disparities contribute significantly to overall income distribution. Typically, the rural population is crowded at the bottom end of the income distribution. The difference between the average per capita or household income of rural and urban populations can be extremely large, reaching staggering proportions in some cases. Available data show that labour income in agriculture is well below

Table XI.1

the national average wage in most developing countries and is also usually lower than the average wage in other economic sectors. The size of the rural-urban income gap in many developing countries reflects the higher incidence of poverty in rural areas. In table XI.2, in all countries except Tunisia, Egypt, Indonesia and the United Republic of Tanzania, the incidence of poverty was higher in rural than in urban areas. It has been estimated that of the 1.2 billion people in the world who live in extreme poverty, 75 per cent work and live in rural areas.[5]

8. There are also pronounced regional income differentials in many countries of the world. In the Russian Federation, for example, the difference in income between provinces, republics, territories and other administrative entities, in terms of the percentage share of the national average per capita income, ranges from 50 per cent in the Republic of Mari El to 320 per cent in the capital.[6] Such regional income disparities are also evident in the distribution of poverty in the United States. In 1996-1997, the incidence of poverty ranged from a high of 23 per cent the District of Columbia and New Mexico to a low of 8 per cent in New Hampshire.[7]

9. In industrial societies and in the formal sector of developing countries, where wages constitute a major component of income for the majority of the employed, occupational wage disparities are conspicuous. At one extreme, in the United States the average chief executive officer in 1998 earned 419 times as much as the average blue-collar worker and 728 times as much as a minimum wage earner.[8] A similar pattern was observed in all countries of Europe: for example, the ratio of the average after-tax wage of a chief executive manager to that of a blue-collar worker was 3.5 in Belgium, 10.5 in Canada, 8.5 in Italy and 11 in the United Kingdom.[9] However, it is the wage disparity between blue- and white-collar workers that divide the labour force in many industrial countries into two large and distinct groups – a high-skill, high-pay group and a low-skill, low-pay group.

10. Income differences by age, gender and ethnicity are also significant in many countries. In particular, in most countries women typically earn less than their male counterparts.[10] In the European Union, a recent survey confirmed that the average hourly earnings of women was less than that received by men – for example, in Sweden women received 84 per cent of the hourly earnings of men; in France and the United Kingdom, the proportions were 73 per cent and slightly over 64 per cent, respectively. Even after adjusting for structural differences (qualification, age, occupation and industry), there was still a disparity in favour of men of 13 per cent in Sweden, 22 per cent in Spain, 23 per cent in France and almost 25 per cent in the United Kingdom.[11] This male-female wage gap also increases with age and level of education – for instance, in Spain the male-female wage disparity for workers aged 55 years and over is 10 percentage points larger than that for workers aged 20 to 24; in France, the wage difference was almost 30 percentage points between the same age groups. The acquisition of better education does not eliminate the wage gender gap: women with a university degree earn 65 to 66 per cent of what men earn with the same level of education in Spain and France, while women with less than upper secondary education earn 74 per cent of comparable male earnings in both countries.

11. On the basis of national poverty criteria, there are people in every country who can be classified as being poor. However, such national poverty indices are not directly comparable with one another, and the poor of Sweden or of the United Kingdom may well be perceived as being well off by the poverty criteria of many developing countries. This does not mean, however, that the degree of human deprivation is any less in industrial societies than in developing countries; rather it differs in form. Whereas in developing countries human deprivation is mainly manifested in chronic hunger, disease and the lack of most other fundamentals needed for physical survival, in industrial countries the more prevalent forms are alienation and relative social marginality.

12. As industrial transformation and urbanization advance, both the social composition of the poor and their geographic location change. To some degree, this is captured by alterations in the incidence of urban poverty. In Brazil, for example, the incidence of urban poverty rose from 15 per cent in the 1980s to 43 per cent in the 1990s. Urban poverty is also on the rise in other Latin American countries, as well as in other countries, such as the United Republic of Tanzania, Zambia and Egypt (table XI.2).

13. Studies of poverty reveal some pervasive and widely-shared patterns of poverty and characteristics of the poor.[12] In all countries, most poor people occupy the bottom level of the social strata and occupational hierarchy; they usually lack assets and the capacity to earn. The probability of falling into poverty is higher among women than it is among men. Indigenous populations and ethnic minorities are also more likely to be among the poor. Class, gender, ethnicity and race continue to converge and generate a system of social stratification that can facilitate or frustrate access to income opportunities and economic rewards, amplifying the impact of each one individually.

Trends in income distribution

14. Income distribution patterns within countries over the post-war period have been examined in chapter II. The diversity of income distribution patterns that were revealed reflects the diversity of socio-economic, political and cultural circumstances that shape both distribution and Table XI.2

redistribution mechanisms. For example, the nature and extent of the unionization of labour also affects the pattern of income distribution: the difference between the pattern of income distribution in many western European countries and the United States can be attributed in part to differences in the degree of activity and organization of trade unions. In much the same way, the divergence of the income distribution outcome in the Russian Federation and Poland following economic transformation can be attributed, in part, to national differences in the activity and historical experience of the labour movement.

15. The ongoing industrialization in developing countries and some economies in transition and the post-industrial transformation that is taking place in developed countries also contribute to the pattern of income distribution in these countries. These two fundamental processes have changed and will continue to change the very social and class structure of societies, which can lead, among other things, to the marginalization of some social groups and the rise of new groups which are associated with new economic activities. Such structural alterations in social stratification have been inscribed in income distribution patterns, and manifested in particular in a widening of the income share of the middle population quintile. This development is consistent with the emergence of urban classes, in particular of the middle class consisting of professionals, managers, high-skilled workers and public employees.

16. In many developing countries, the process of industrialization has been slow, and hence the agrarian population still remains significant in size. Nevertheless, with the development of the modern sectors, new social groups employed in these sectors have enjoyed a relative pay advantage as compared to their rural counterparts, leading to an increase in rural-urban income differentials (table XI.2). The slow pace of modernization in the agriculture sector has aggravated structural inequalities such as the distribution of land in rural areas. Some studies have found that the incidence of landlessness has been on the rise in India.

17. In rural areas, slow economic development and the lack of income opportunities have induced massive rural-urban migration, resulting in rapid urbanization and the expansion of the urban informal sector. The urban informal sector has played a dual role in developing economies, absorbing surplus labour during periods of economic recession and/or structural adjustment, while generating a downward pressure on wages in the formal sector, which limits the bargaining power of the labour force and hampers a redistribution of income in the long run.

18. The dual labour market structure of the urban economy in many developing countries is characterized by a persistently large informal sector and a relatively small formal sector. This structure has been responsible for the rise in urban income inequalities and in poverty (table XI.2). Since the mid-1970s, it has led to an increase in the concentration of urban incomes and widening wage differentials between higher and lower skilled workers, between workers with different levels of formal education and training, and between those with some formal schooling and self-taught workers. The wage premium which accrues to skilled workers, in terms of a cumulative wage increase, was 54 per cent in Mexico, 42 per cent in Colombia, and 32 per cent in Taiwan Province of China and China for the period from the mid-1970s to the early 1990s. The wages of lower skilled workers were also growing in these countries but at a much slower pace: in contrast to skilled workers, their wages rose by only 11 per cent in Mexico, 23 per cent in Colombia and 7 per cent in Taiwan Province of China and China.[13]

19. The evidence suggests that the long-run changes in income distribution in industrial countries have been shaped by the high demand for skills, driven by industrial shifts and technological advances. A decline in agriculture and then in manufacturing and an expansion of services have brought about both a horizontal and vertical redistribution of earnings between the self-employed and the employed, between workers employed in various economic sectors and branches, and within and between occupational categories.

20. Earnings inequality has increased in many industrial countries since the 1980s, and the average earnings of more educated, workers have diverged from those of the less educated while young workers have lost in relative terms to prime-aged workers. For example, individuals with a university degree earned 50 to 100 per cent more than workers with a secondary education. In the United States, the wage premium for workers with a college education increased from 13 per cent in 1979 to 62 per cent in 1995.[14] Inequality increased not only between skilled and manual workers but also within educated and experienced groups. The increase in "within-group" inequality accounted for the most growth in income inequality. In the former Federal Republic of Germany, for example, the Theil index of income distribution by occupational status of the head of household increased from 10 in 1973 to 12 in 1990.[15] The contribution of within-group inequality into overall income inequality grew from 79 per cent to 87 per cent, whereas that of between-group inequality declined from 21 per cent to 13 per cent, respectively.[16] Over the same period, the group specific Theil indices increased by 2 percentage points for white-collar and self-employed workers, 1 percentage point for blue-collar workers and civil servants, and 3 percentage points for farmers.

21. These trends towards greater wage inequality between and within groups have been almost universal among the industrial countries, differing mostly in magnitude. Changes in wage earnings differentials have been associated with structural shifts that have favoured

high-skilled and higher-paid workers, which have led to a redistribution of earnings in their favour (see chapter II). Table XI.3 shows that at the upper end of the distribution, the earnings of a person at the 90th percentile, measured as a deviation from the median, grew by 3 per cent in Australia, the Netherlands and Sweden, and by 7 and 15 per cent in the United Kingdom and the United States, respectively. The earnings of a worker at the bottom 20th percentile fell by 1 per cent in Sweden and the United States but by 7 per cent in the United Kingdom over the indicated periods.

22. The impact of the skill-education premium on income inequalities has varied across countries. It has been much stronger in the United States and developing countries and less pronounced in European countries. It has been suggested that cross-country differences in the degree of skill bias of the prevailing technology, skills supply and the size of the domestic market, on the one hand, and the liberalization of international trade on the other have shaped cross-country patterns of skill premium.[17] Accordingly, in the United States, where technology is more advanced, the supply of college graduates and the market for the skill-bias technologies are larger, the skill premium has been more sizable and continued to grow at a more rapid rate than in Europe and developing countries, causing a more significant redistribution of wages in favour of more educated workers. Moreover, a growing pool of educated people in the United States has sustained a strong demand for high-technology products, and hence a further expansion of investment in the skill-bias technologies, reinforcing the pattern of high skill premium.

23. A relatively high skill premium in some developing countries and hence growing income inequalities by the level – of education – has resulted from the small domestic supply of college graduates and the skill content and price of imported technologies. The liberalization of international trade tends to reinforce the high skill premium trend in the United States and in those developing countries which prefer to import American technologies. It has been estimated that the direct contribution of international trade to the increase in wage inequality in Chile between 1960 and 1996, for example, was about 11 per cent.[18] In European countries, on the other hand, trade liberalization tends to depress the growth of the skill premium because of the prevalence of local technologies, smaller domestic markets, competition from the United States and new producers in international markets.

24. The availability of jobs, unemployment compensation, pension and welfare benefits also affect the distribution of income in industrial countries. The lack of employment opportunities has been an important factor behind growing income inequalities in some countries. Many studies have found that unemployment can have a negative effect on the level of wages in subsequent employment. A study in Sweden estimated that one week of unemployment lowers subsequent hourly wages by 0.17 per cent for men and by 0.18 per cent for women; the impact on subsequent weekly wages was estimated to be 0.19 per cent lower for men and 0.23 per cent for women.[19] The incidence of long-term unemployment in many industrial countries has been consistently high during the 1980s and remained high in some of these countries during the 1990s. In 1997, almost 29 per cent of the unemployed men and 31 per cent of the unemployed women of the 15 European Union countries were without work for 24 months or more.[20]

25. More recently, there have been concerns that the adoption of new technologies is leading to growing income insecurity associated with rapid structural change and the failure of the labour market institutions and the educational establishment to provide timely support for displaced workers. The participation of part-timers, temporary employed and self-employed workers has increased among male workers over the 1970s and has remained at a relatively high level over the entire 1980s. By 1997, this level fell in most countries but increased in Germany and began to grow in the United States. Since 1990, almost 2.2 million workers on an average day have been employed on a temporary basis in the United States. Together with permanent part-time workers, temporary workers account for 24 per cent of the United States labour force.

26. Recent studies of employment patterns in California have found that the incidence of part-time and temporary employment has been on the rise despite robust economic growth. Furthermore, the most pervasive characteristic of the California economy, which is driven in part by the high-technology sector, is a massive job turnover at a time when the real median wage for all workers has been declining. Almost 45 per cent of California workers have worked for their employer for less than 2 years, most working without medical insurance and benefits.[21]

27. The employment of youth is another matter of growing concern in many industrial countries. Young workers have been experiencing difficulties in entering the labour market, and their participation rates have fallen over the 1980s and continued to decline during the 1990s. In 1997, the unemployment rate for young persons aged 15 to 24 ranged between 39 per cent in Spain and 3 per cent in Belgium.[22] The wages of young workers have been lower than those of adult workers with similar skills and qualifications in most industrial countries because they are affected by existing wage-setting legislation. In Germany, for example, the centralized collective bargaining system

Table XI.3

sets up an age floor below which a worker is not considered to be a "full worker" and therefore collects less compensation than an adult worker would with otherwise identical qualifications. The age floor varies from 18 to 21 years, depending on industry and skill requirements, and the compensation ratio for younger workers ranges from 80 to 97 per cent of adult workers' wages.[23] In Canada, on the other hand, younger workers are affected by the legislated minimum wage which requires that all employees and all students who work must be paid the minimum wage. Some studies have found that increases in the minimum wage in Canada have had an adverse impact on the employment of young workers. Some European countries, as well as some Canadian provinces, that have a legislated minimum wage in place have used various devices to ease the entry of young workers into the labour market. France, for example, employs a variety of mechanisms that brings youth wages below the level of the minimum wage. However, the persisting shortage of jobs in most industrial countries tends to penalize the most recent market entrants and to place them at the back of the job queue.

28. During the 1990s, the performance of the labour market has worsened in most OECD countries and the overall unemployment rate rose from 6 per cent in 1990 to 7.3 per cent in 1997. The structural component of unemployment, i.e., unemployment arising from structural change in the economy, increased in most continental European countries – the largest increase was about 6 per cent in Finland, followed by almost 4 and 3 per cent in Sweden and Germany, respectively. The inclusion of involuntary part-timers and discouraged workers in the category of the unemployed raises the unemployment rate across the OECD countries by 2 to 6 percentage points and indicates that the slack in the labour market has been larger than that shown by the conventional measurement of unemployment.

29. Despite lower employment growth and higher unemployment, most countries of Europe did not experience a fall in the standard of living of the working population or a dramatic widening of income inequalities. In the United States, on the other hand, despite strong economic growth and record low unemployment income inequalities have been on the rise since the late 1970s. This difference between the United States and European countries has been attributed to differences in redistributive mechanisms and labour market institutions, in particular the treatment of the unemployed; the wage bargaining system; employment protection; taxation and degree of unionization. On the whole, most countries of continental Europe were able to mitigate income inequalities arising from the increase in the earnings dispersion, while the United States and some other industrial countries were not. The impact of taxation and social transfers on the final distribution of disposable income in terms of poverty incidence, for example, has been much more profound in European countries than in the United States. In Europe, taxation and social transfer reduced the incidence of poverty by about 20 to 30 percentage points as compared to about 16 percentage points in the United States.[24] In all cases, however, the social costs were high: either in the form of high and/or prolonged unemployment or in the form of falling real incomes and/or income polarization.

30. In most countries with economies in transition, the pre-reform patterns of income distribution characterized by small income disparities were broken down by a fundamental reorganization of the social order. To a varying degree, income inequalities and income concentration have increased in all of these countries. Apart from the significant contraction in output, the privatization drive and the acquisition of public assets by a small fraction of the population, inflation, unemployment, the compression of wages and social transfers and the abandonment of some universal social benefits all contributed to the worsening of income inequalities. In addition, wage disparities by level of education, age, status of physical health, gender and location have become more pronounced, including the wage gap between blue-collar and white-collar workers, between public and private sector workers and between workers in different occupations.

31. The economic transformation in transition economies has brought about a radical change in the structure of income and, consequently, in the consumption patterns of social groups. New sources of income have emerged, including the returns on private assets. Due to the large-scale informalization of economic activities, the available estimates of change should be treated with caution. However, they provide some information about trends in income structure and consumption. Table XI.4 shows that the proportion of labour income fell in six of the 11 sampled countries, pensions in five countries and welfare benefits in nine countries. At the same time, the significance of the returns on agricultural produce increased in 8 countries. The share of income spent on food has risen sharply in all countries, with the most sizeable increases in Belarus, Tajikistan and Uzbekistan. In all countries, the share of income spent on non-food consumer goods fell. These trends have been developing against a background of falling real per capita incomes and income polarization, and are therefore indicative of growing impoverishment. The real purchasing power of the average money income has been drastically reduced as a result of price liberalization, inflation and wage compression, lowering the capacity of the population to meet its basic needs (see figure XI.1).

32. Patterns of national income distribution have been increasingly affected by the process of globalization. Recent estimates suggest that both international trade and the outsourcing of inputs and services by firms have

Table XI.4

Figure XI.1

contributed to the widening of the wage/income gap between various social groups, including that between low- and high-skilled workers, between mobile and non-mobile groups and between urban and rural population groups. According to the ILO, the economic gains accrued by Bangladesh, for example, from participating in international trade and outsourcing were mainly captured by the top income quintile of the population, while the income of the bottom quintile stagnated during the 1990s. The economic growth was heavily concentrated in a few urban areas, especially in the export-processing zones, while the rest of the country lagged behind. In many Latin American countries, there has been a similar trend, although the effect of the integration of the region in the global capital market, together with the burden of external debt, exacerbated this trend.[25]

33. The distributional effect of outsourcing on the sending countries has not yet been fully evaluated. Available estimates suggest that outsourcing accounted for about 20 per cent of the shift in relative employment towards skilled (non-production) workers in United States manufacturing during 1979-1980.[26] The magnitude of outsourcing has been rapidly growing since the 1980s. Between 1974 and 1993, for example, the share of imported to total intermediate inputs increased in all manufacturing industries of Canada from 16 per cent to 20 per cent, in the United Kingdom from 13 to 22 per cent and in the United States from 4 to 8 per cent. The extent of vertical specialization, measured as a fraction of the total value of trade accounted for by imported intermediate inputs that are then embodied in exports, reached 30 per cent in the Netherlands, more than 20 per cent in Canada and Denmark and 10 to 20 per cent in Germany, France and the United Kingdom.[27] This most certainly means serious implications for the employment in both receiving and sending countries. Some recent studies found that outsourcing reduces the relative demand for unskilled labour in both developed and developing countries.[28] The reason is that the outsourced activities are unskilled labour-intensive relative to those done in the developed economy, but skilled labour-intensive relative to those done in the developing economy. Moving these activities from one country to the other raises the average skill intensity of production in both locations, and therefore increases the skill premium worldwide.

Changes in gender and ethnic wage/income differentials

34. The post-war period has been marked by intensifying action at the international and national levels against incapacitating institutionalized inequalities.[29] Apart from abandoning explicitly discriminatory formal laws and regulation, efforts have been undertaken to improve the income opportunities of discriminated groups by widening their access to education, financial resources and jobs. A redistribution of assets, particularly of land, has been undertaken in some countries in order to strengthen the income-generating capacity of such groups. Some countries have made significant progress in this respect, while others have just initiated such a liberating process. At least in part, this is reflected in the dynamics of income/wage differentials between these specific groups and the rest of the society. However, it is difficult to gauge progress in this area by relying exclusively on income-wage differentials because of the complexity of factors that affect such differentials. An even more difficult task is to identify that portion of the wage differential which arises from discrimination.

35. In theory, future income returns depend on several major elements that determine human productive capacity, including natural endowments, assets, human capital, social capital (the status of the family, network or connections, beliefs, attitudes and habits acquired through the socialization process), and finally luck and individual choice. Differences in these elements among individuals are responsible for differences in individual market outcomes. In this context, groups subjected to prolonged discrimination lack most of these elements, and remedial measures may not easily solve the problems caused by a cumulative effect of discrimination, or they may have limited impact.

Gender wage gap persists

36. The post-war dynamics of group income differentials indicates that women, for example, have improved their position, but the gender gap continues to persist. Moreover, there are significant cross-country differences in the magnitude and pace of change. The average gender wage gap in manufacturing in Sweden, for example, declined from 17 per cent in 1971 to 10 per cent in 1980, and stayed at this level until the beginning of the 1990s. Between 1990 and 1997, it began to widen again, reaching 16 per cent.[30] In Egypt, on the contrary, the gender wage gap in manufacturing was growing during the 1970s, from 33 per cent in 1971 to 38 per cent in 1980, but then began to shrink. In Canada, the gender wage differential for full-time workers narrowed modestly (by 9 per cent) during 1984-1994 but remained substantial (27 per cent). The majority of women remained in the lowest earnings categories, but over the decade an increasing proportion of women moved into the higher earnings categories. This improvement in earnings was restricted largely to women in the age category of 40 to 54 years old. In contrast, young women appeared to be trapped at the bottom of the wage hierarchy despite significant advancement in their education as compared to the baby boom generation.[31]

37. It seems that in times of economic difficulties, even in the most egalitarian societies, women face shrinking employment opportunities that can threaten to erode women's achievements. During the difficult years of

low growth and high unemployment in Europe, the unemployment rate for women aged 25 years or more was higher than for men in the same age group. For example, the difference was 2 percentage points in Denmark, 8 to 10 percentage points in Belgium, 6 to 8 percentage points in Italy and Spain, and 3 to 4 percentage points in France.[32] The incidence of part-timers among female employees was 8 times greater than among male employees in Belgium and the United Kingdom, more than 9 times greater in Germany, and almost 3 times greater in Ireland. Considering that most jobs occupied by part-timers are lagging behind in terms of technological update, the younger women currently employed in these jobs may face an increase in the qualification component of gender wage differentials in the future.[33] During the recent economic crisis in Asia, female workers were laid off disproportionately, largely because they were over-represented in the industries that were hit hardest. From the very onset of the crisis, unemployment among women was higher than among working men. Women also suffered substantial wage losses, especially in the sectors with a high female presence, such as education, health, textile and food industries. Gender wage differentials, restrained in the past by means of government wage regulation and control, have dramatically widened regardless of qualification, giving way to open forms of discrimination in some countries.

38. It should be also noted that while the trends in labour demand described above have affected both males and females in a similar manner, the impact was somewhat more pronounced in the case of female workers. The wage gap between white- and blue-collar workers, as well as the earnings differentials within the occupational hierarchy, have also increased for women. The vertical occupational wage differentials are much larger for female workers than for male workers. In the United Kingdom, for example, the wage ratio of workers in the occupational categories "Processing, repairing (excluding metal, electrical)" and "Professional – science, engineering, technology" was 59 per cent for women as against 68 per cent for men. At the same time, the horizontal occupational gender gap was wider among blue-collar workers (61 per cent) than among professionals (70 per cent).[34]

39. Ethnic wage/income differentials have also declined mainly because of an improvement in the qualitative parameters of the human capital of these groups, but the disparities are still present. In the United States, the black-white earnings ratio for all workers was 0.67 for men and 0.97 for women in 1981, while the Hispanic-white earnings ratio was 0.72 for men and 0.90 for women. In the early 1990s, it was estimated that black men earned 24.4 per cent less than white men as compared to 19 per cent less for black women. By 1995, the black-white earnings ratio for full-time year-round workers was 0.67 for black males, and declined for black females (0.83), Hispanic males (0.58) and Hispanic females (0.75).[35] In developing countries, both gender and minority-majority earnings/income differentials are larger than in developed countries. In Guatemala, for example, the hourly wage ratio between indigenous and non-indigenous workers was 0.44 for men and 0.36 for women.[36]

40. Scholars and policy makers have long been occupied with identifying the sources of wage/income differentials by sex, race and ethnicity, especially those that violate the principles of equality and/or fairness. Various attempts to evaluate the contribution of each possible determinant of wage or income into wage/income disparities have produced widely ranging estimates, depending on the level of disaggregation. The estimated residual (or the non-explained portion) of the differential that is usually attributed to the effect of discrimination has ranged from 18 to more than 60 per cent.[37]

41. Women and some minorities continue to be disadvantaged in terms of endowments, including the lack of skills/education and experience, necessary to ensure higher productivity and consequently higher earnings. For males belonging to minority groups in some Latin American countries, differences in human capital endowments are responsible for up to one half of the earnings differentials, and for women (minority or otherwise) it contributed to 69 to 76 per cent. The returns to one year of schooling and experience in Peru, for example, are lower for indigenous men and women: the returns to schooling for indigenous workers of Peru were 1.5 per cent as against 5 per cent for non-indigenous workers, while the returns to experience to indigenous and non-indigenous workers were almost zero and 3 per cent, respectively.[38]

42. Furthermore, labour market segregation by gender, race or ethnicity exacerbates the existing earnings differentials between these groups and the majority. The employment of women and minorities in some countries is characterized by higher rates of unemployment and underemployment, as well as their concentration at the bottom of the occupational system and, in many developing countries, in such economic sectors as agriculture. For example, in the United States before the Second World War, blacks and other non-whites were over-represented in the declining agricultural sector and in domestic and personal services. Since then, they moved in large numbers to the manufacturing sector, which was undergoing a deep structural change and consequently suffered from relatively high unemployment. By 1980, nearly 27 per cent of non-whites were "operatives and labourers", mostly in the manufacturing sector, compared with less than 18 per cent for whites.[39] This sectoral segregation has given way to segregation by occupation and establishment: according to a recent study, various forms of segregation (by occupation, industry, establishment and job cells, i.e., the same jobs within establishments, by ethnicity or race) in the United States lower the wages of Hispanic males by 6 per cent and the wages of black men by 4.7 per cent.[40] In both industrial and developing countries, there is a strong relationship

between the share of female employment in an industry or occupation and the female-male wage differential. In the professional/technical occupations in the Philippines, for example, the average monthly wage of females in occupations where the female employment share was 50 per cent or more was about 10 per cent lower than in occupations where the female employment share was between 0.01 to 10 per cent.[41]

43. Although gender employment segregation has been in decline in many countries, according to a recent ILO study it is still extensive and pervasive.[42] On the basis of the ILO study data for about 77 non-agricultural occupations, a typical country has approximately 55 per cent of its non-agricultural labour force in so-called "male" or "female" occupations, defined as occupations where male or female workers comprise more than 80 per cent of all workers. Segregation promotes social inequality because it confines women or minorities to a narrow range of jobs or activities traditionally performed by them. Apart from reinforcing the stereotyping of segregated groups and lowering their earnings, segregation has a negative effect on the efficiency of the labour market by excluding skilled women or persons from minorities from occupations where they would be most productive. Segregation reduces the ability of the labour market to respond to changes by reallocating human resources. Finally, the low pay and incomes for minorities and women that stem from segregation contribute to poverty and inequality in society as a whole. This takes on special significance in the light of the fact that an increasing percentage of households in the world are headed by women – the proportion of households headed by females has been estimated to be about 10 per cent in some countries of Asia, 20 to 25 per cent in Latin American countries and as high as 50 per cent in some parts of Africa. At the same time, in all countries the rate of unemployment among female heads of household is higher than that for male-headed household with children. For example, in 1997 the rate of unemployment among female heads of household with children was 34 per cent in Belgium, 25 to 26 per cent in Spain, France and Ireland, and 5 per cent in Luxembourg, while among male-headed household with children the rate of unemployment was 21 per cent in Belgium, 13 to 17 per cent in Spain, France and Ireland, and 3 per cent in Luxembourg.[43]

Pro-equity policies and programmes

44. Policies that promote an equitable distribution of income have been adopted in varying degrees by countries, and such policies have been heavily conditioned by prevailing cultural values, socio-political factors, the level of economic development and the pace of economic growth. These policies have differed in scale and magnitude, ranging from direct redistribution of assets to the provision of a basic safety net and some temporary income support programmes. In the broadest sense, all policies that mitigate income disparities without making any individual worse off may be considered, in essence, to be pro-equity policies. In reality, however, this is not easily achievable, because any policy that produces a redistributive effect often makes somebody else worse off in relative if not in absolute terms, and can therefore be a source of conflict between competing social groups.

45. In the post-war period, most countries tended to approach distributional issues from either the supply or demand side of the labour market. Government supply-side policies were focused on developing or improving human capabilities and income-generating capacity, the lack of which was believed to be the main cause of low labour productivity and hence low income and poverty. Demand-side policies have attempted to stimulate the demand for labour by changing the institutional framework, providing incentives for the private sector or creating public jobs. These core policies were usually complemented by direct redistributive policies, including agrarian reforms, nationalization, taxation, social protection and welfare benefits, and consumer or producer subsidization. The mix of policies over time has differed from country to country, as has the social impact of these policies.

46. Over the last two decades, there has been an intense discussion of the outcome of various policies that have aimed to redistribute incomes. Many of these policies have been blamed for generating disincentives among beneficiaries, distorting markets, undermining competitiveness, reducing economic efficiency and diminishing economic growth.

47. The pressure to abolish some of these policies has built up as economic growth has been slowing down and the prospect for further economic expansion has been increasingly linked to participation in globalization. Globalisation has become a crucial determinant of growth and income in many countries and has had a redistributive effect, benefiting some domestic groups while undermining the income position of others.

48. Undoubtedly, sustained economic growth over several decades in most industrial countries has allowed them to achieve both a significant increase in per capita income and a noticeable decline in income inequalities. But lower income inequalities did not happen automatically, and policies and institutional mechanisms were devised to ensure a broad distribution of economic growth gains across social groups. One such mix of policies and institutional mechanisms is the welfare state, another is the socialist state. Outside of these two models are variations of the welfare state in which the relative importance of state versus private agents in influencing the patterns of income generation and distribution can vary.

49. The mix of policies and institutions defining the content of the welfare state includes active employment policies and labour market regulations (employees' rights,

wage bargaining systems, etc.); social insurance schemes (pension system and unemployment insurance); social assistance schemes; consumer subsidization; provision of public health and education services; progressive taxation; and public employment. Various cash transfers, provided to individuals under such arrangements, have compensated significantly for the loss of income due to unemployment, old age, sickness, the loss of the breadwinner or maturity, coupled with other benefits and have reduced the risk of falling into poverty.

50. Over the period 1989-1994, the replacement ratio of unemployment benefits ranged between 20 per cent in Italy and 80 per cent in Sweden, and their duration between six months in the Netherlands and 4 years in Belgium, Germany, Ireland, the United Kingdom and New Zealand. All these transfers represent a sizeable redistribution of income between social groups (between employers and employees, the employed and the unemployed, the well-to-do and the poor) and between generations (the working population and pensioners). Such transfers have had an equalizing impact on income distribution and have significantly reduced the incidence of poverty. The latter is well illustrated by the data on the effect of safety net in the United States (table XI.5). As a result of social benefits from all government programmes, the rate of poverty among children and the elderly was reduced by 7 and 40 percentage points, respectively. In absolute terms, almost 26 million people were lifted out of poverty by these programmes. In the majority of states in the United States, benefits significantly reduced the poverty gap by 60 to 99 per cent.[44]

51. Another important set of relevant public policies and programmes is active employment policies, which include elements like labour training, assistance in job search and subsidies to employers and employees. The main goal of these activities is to reduce unemployment and to improve the match between labour supply and the demand for skills. These government activities play an important role in improving the chances of employment for the unemployed, young workers and people with disabilities.

52. The public provision of education and health services represents another form of income redistribution which has played an important role in improving life chances of the poor social classes, the marginalized and discriminated groups, by improving their human capital and hence boosting their labour productivity. In terms of equity, this redistribution has probably had the most widely spread social effect. It has led to a dramatic change in labour productivity; level of incomes; income distribution patterns; and social stratification in all industrial countries.

53. The income effects of discrimination and social marginality have been addressed through the implementation of affirmative action policies and programmes. The results of these policies and programmes have been heatedly debated, especially in the countries where they have been in place for quite some time (India, United States) and in countries where the beneficiary groups represent the majority of the population (South Africa, Malaysia). These policies and programmes have had a positive effect of the social status and income opportunities of beneficiary groups. First, they allowed countries to break down the barriers that separated these groups from mainstream activities. Second, they improved the life chances of these groups by widening their access to education, financial resources and jobs.

54. Until recently, the major preoccupation of developing countries has been not so much with income differentials as with the structural causes of mass poverty and economic underdevelopment. Social protection has been virtually absent and the population has relied heavily on the support of the extended family or different forms of communal security. Economic growth has been viewed as the key means of improving the welfare of the population; hence, the major emphasis has been on developing a technological base of growth by investing in industry and physical infrastructure. Few countries attempted to address the structural aspects of poverty stemming from the unequal distribution of assets, in particular the distribution of land. Most agrarian reforms failed to bring any dramatic improvement in income distribution.

55. Industrial transformation in many developing countries, on the other hand, has not been extensive enough to offset the effects of rapid demographic growth and to become the driving force of development. Moreover, as industrialization was financed by extracting the surplus from agriculture, either through trade or domestic price manipulation, the modernization of agriculture was largely delayed, leading to a decline in agricultural production, especially in food production. Furthermore, the emphasis on large-scale projects in the agrarian sector often led to the displacement of the nearby rural population. Anti-agrarian biased policies and insufficient and slow industrialization have had a negative impact on income distribution in many developing countries, especially in Africa and Latin America. As mentioned above, rural-urban income differentials have Table XI.5

increased in most developing countries. Also, income differentials have increased between major urban groups (between workers in the formal and informal sectors), between the skilled and low-skilled, and between workers in different occupations.

56. Studies in Latin American countries have found that, in the absence of a safety net, macroeconomic shocks tend to disproportionately affect the low-income population groups. During the 1980s – a period of unprecedented economic crises and structural adjustment – the incidence of poverty in 25 Latin American countries (based on the poverty line of $60 per person per month in 1985 United States dollars) grew from 27 per cent in 1980 to 31 per cent in 1989; urban poverty increased by 5 percentage points, while rural poverty increased by 8 percentage points.[45] Furthermore, developments in Latin America, and more recently in Asia, demonstrated that macroeconomic shocks may negate any improvement in the income situation of the poor population strata achieved by means of economic growth, although the degree of deprivation may vary, depending on the capacity of the population to cope with shocks and the duration of crisis. A recent economic crisis in Asia showed that without a sufficient safety net an impoverishment trend may proliferate from urban to rural areas, compounding the negative impact of unemployment.

57. At present, most developing countries focus on the macroeconomic aspects of growth, complementing macroeconomic policies with institutional reforms, human development policies and the build-up of a safety net to ensure an equitable distribution of economic gains.

58. In countries in transition, distributional policies have been changing together with the fundamental structure of society. Many major elements of the socialist security arrangements (guaranteed employment; universal social benefits; enterprise provision of social benefits; guaranteed minimum income; fixed wages and pensions) have been abolished. In their place, new social insurance and welfare arrangements, including unemployment insurance and means-tested benefits, have been set up to provide a minimum safety against the key risks of income loss. All countries have attempted to preserve the public provision of education and health service, but a partial privatization has been taking place against a worsening in the quality of the publicly provided services. Moreover, at the macroeconomic level, there is evidence that some countries, such as the Russian Federation, have until recently repeated past policy mistakes that pushed many developing countries into prolonged economic depression, including excessive external borrowing to cover domestic budget deficits. These developments, coupled with growing income polarization and negative growth in some countries, may erode the political support for transition.

59. The income distributional effect of the process of transition has so far been negative rather than positive. Policies and programmes set up to offset such effects failed to do so mainly because of the continuous contraction in output but also because of insufficient funding. A positive relationship between economic growth and income in recovering countries has yet to be revealed.

60. The world's present conditions surrounding equity in income distribution are not going to disappear in the new millennium. Increased openness and economic liberalization have posed challenges to Governments' ability to shelter their populations from economic downturns. At the same time, there is growing perception that the future prosperity of societies is largely dependent on the diffusion of technologies that will encourage national economies to converge. The existence of the digital divide, however, is a major obstacle. The deep effects of globalization forces are destabilizing because they have exacerbated the gaps within and between economic groups and players. Eventually, policy-making that favours globalization will have to be reconsidered and more sensitive approaches implemented.

NOTES

[1] Milanovic, Branko, 1999. "True world income distribution, 1988 and 1993: First calculation based on household surveys alone," Development Research Group, World Bank, Washington, D.C. The Gini coefficient is a measure of inequality: the lower the coefficient, the closer the distribution is to equality.

[2] By comparison, during the 1980s, inequality in the United Kingdom and the United States increased by about 0.5 Gini points per year.

[3] Milanovic, op.cit., table 28, p.29; and p.52. He argues that the increase in world inequality between 1988 and 1993 is explained largely by between-country inequality – specifically, the world Gini coefficient increased because of: the slow growth of rural per capita incomes in populous Asian countries (China, India, Bangladesh); the fast growth of urban China compared to rural China and rural India; plus the income growth of large and rich OECD countries.

[4] See, for example, Berry, Albert, Francois Bourguignon and Christian Morrisson, 1983. "Changes in the world distribution of income between 1950 and 1977", *Economic Journal* vol.93, June, pp 331-350; Francois Bourguignon and Christian Morrisson, 1999. "The size distribution of income among world citizens: 1820- 1990", World Bank.

[5] International Fund for Agricultural Development, *Rural Poverty Report 2001* (Oxford University Press: Oxford, 2001), p.1.

[6] See *Rossiiski Statisticheski Ezhegodnik, 1996*, Moskva, GOSKOMSTAT, 1996.

[7] See United States Bureau of the Census, *Current Population Surveys*, March 1996, 1997, 1998.

[8] Facts and Figures. A brief statistical look at the inequality of income, wealth and health in the United States, Institute For Policy Studies/United for a Fair Economy, April 23, 1998.

[9] National Bureau of Economic Research Working Paper Series. Abowd, John M. and Kaplan, David S., *Executive Compensation: Six Questions that Need Answering*. Working Paper 7124, Cambridge, May 1999, p. 25.

[10] See International Labour Office, *Yearbook of Labour Statistics, 2000*, Geneva.

[11] Eurostat Press Release, No. 8397, 9 December 1997.

[12] See: Morley, Samuel A. Poverty and Inequality in Latin America, Baltimore: The John Hopkins University Press, 1995; Weisband, Edward, editor. *Poverty Amidst Plenty, World Political Economy and Distributive Justice*, London: Westview Press, 1989; The World Bank, Regional and

Sectional Studies. *Including the Poor*, edited by Michael Lipton and Jacques Van Der Gaag, and Psacharopulos, George and Tzannatos, Zafiris, *Women's Employment and Pay in Latin America*, Washington, D.C., 1993 and 1992; UNDP National Human Development Reports on Poverty, and the World Bank Country Poverty Studies.

[13] Ibid., p. 52.

[14] ILO, *World Employment Report 1998-99*, Geneva, 1999, p. 49; Acemoglu, Daron. *Patterns of Skill Premia*, NBER Working Paper No. W7018, March 1999, p. 1.

[15] The Theil index is a measure of inequality: the lower the index, the closer the distribution to equality.

[16] *Changing Patterns in the Distribution of Economic Welfare. An International Perspective*. Edited by Gottschalk, Peter, Gustafsoon Bjorn & Palmer, Edward, Cambridge University Press, 1997, p. 205, table 9.7.

[17] Acemoglu, Daron. *Patterns of Skill Premia*, NBER Working Paper No. W7018, March 1999.

[18] ILO, Progress report on the country studies on the social impact of globalization, GB,274/WP/SDL/2, 274th Session, Geneva, March 1999, p. 41, graph 7.

[19] Joyce, P. How does unemployment affect income and wages in the future? Licentiate dissertation. Department of Economics, Uppsala University, 1997.

[20] Eurostat. Labour Force Survey. Results 1997, Luxembourg, 1998, p. 226, table 97.

[21] Van Slambrouck, Paul, Now for the Bad News about 'New' Economy, The Christian Science Monitor, May 28, 1999.

[22] Eurostat. Labour Force Survey. Results 1997, pp. 60-61, table 21. The fall in participation rates has been caused in part by increasing attendance at educational institutions.

[23] Gross, Dominique M. *Youth Unemployment and Youth Labour Market Policies in Germany and Canada*, ILO Employment and Training Papers, 37, Geneva, 1998, p. 29.

[24] Luxembourg Income Study, August 1998.

[25] According to Samuel Morley, many countries of the region had to pay owners of capital a rate reflecting what they could earn elsewhere, including a rate to compensate for the perceived risk of investing in Latin America.

[26] Feenstra, Robert C. Integration of Trade and Disintegration of Production in the Global Economy, Journal of Economic Perspective, Volume 12, November 4, Fall 1998, p.42.

[27] Feenstra, Robert C. Integration of Trade and Disintegration of Production in the Global Economy, Journal of Economic Perspective, Volume 12, November 4, Fall 1998, pp. 40-41, and table 5.

[28] Feenstra, Robert C., and Hanson, Gordon. Foreign Investment, Outsourcing and Relative Wages, in The Political Economy of Trade Policy: Papers in Honour of Jagdish Bhagwati, Feenstra, R.C., Grossman, G.M. and Irwin, D.A. (eds), Cambridge: MIT Press, 1996.

[29] The institutionalized inequalities refer to the collection of customs, laws, and social practices that combine to create and sustain the unequal distribution of rewards based on class, minority status, and gender.

[30] International Labour Office, *Yearbook of Labour Statistics*, 1981 and 1998.

[31] Scott, Katherine and Lochhead, Clarence, 1997. "Are Women Catching Up in the Earnings Race?" The Canadian Council of Social Development.

[32] Eurostat. *Labour Force Survey 1983-1989*, p. 90, table 39.

[33] According to some empirical studies, the impact of new technologies on the jobs of part-time and full-time workers have been strikingly different. Whereas, more than half the Canadian full-time workers reported that their jobs had been greatly affected by the introduction of computers or automated technologies over the last five years, only about one-third of part-time workers said this was true of their jobs. Large differences are even evident within occupational categories. Among professionals, two-third of full-time workers said their jobs had been affected by technology, and only 42 per cent of part-time professionals made this claim. (see Schellenberg, Grant, 1997. *The Changing Nature of Part-time Work*, The Canadian Council on Social Development).

[34] Nickell, Stephen. *Sectoral Structural Change and the State of the Labour Market in Great Britain*, Centre for Economic Performance, The University of Oxford, Discussion Paper Series, No.2, May 1996, p. 13.

[35] Bayard, Kimberly, Hellerstein, Judith, Neumark, David and Troske, Kenneth, *Why are Racial and Ethnic Wage Gaps Larger for Men than for Women? Exploring the Role of Segregation Using the New Worker-Establishment Characteristics Database*, NBER Working Paper Series, Working Paper No. 6997, March 1999, p.1.

[36] The World Bank Regional and Sectoral Studies. *Indigenous People and Poverty in Latin America. An Empirical Analysis,* edited by George Psacharopoulos and Harry Anthony Patrinos, Washington, D.C., p. 123, table 6.27.

[37] See, for example, The World Bank Regional and Sectoral Studies, *Indigenous People and Poverty in Latin America, An Empirical Analysis*, edited by George Psacharopoulos and Harry Anthony Patrinos, Washington, D.C., 1994; Psacharopoulos, George and Tzannatos, Zafiris, *Women's Employment and Pay in Latin America, Overview and Methodology*, Washington, D.C., 1992 and some other.

[38] The World Bank Regional and Sectoral Studies, *Indigenous People and Poverty in Latin America, An Empirical Analysis*, edited by George Psacharopoulos and Harry Anthony Patrinos, Washington, D.C., 1994, p. 191, table 8.20.

[39] Vedder, Richard K. and Gallaway, Lowell E. *Out of Work. Unemployment and Government in Twentieth-Century America*, New York: New York University Press, 1997, p. 276.

[40] Bayard, Kimberly, Hellerstein, Judith, Neumark, David and Troske, Kenneth, *Why are Racial and Ethnic Wage Gaps Larger for Men than for Women? Exploring the Role of Segregation Using the New Worker-Establishment Characteristics Database*, NBER Working Paper Series, Working Paper No. 6997, March 1999, p. 26, table 3.

[41] Standing, Guy. *Cumulative Disadvantage? Women Industrial Workers in Malaysia and the Philippines.* World Employment Programme, ILO Working Paper, Geneva, July 1992, p.61, table 47.

[42] Anker, Richard. *Gender and Jobs. Sex Segregation of Occupations in the World,* Geneva: International Labour Office, 1998.

[43] Eurostat. *Labour Force Survey, Results 1997*, pp. 266-267, table 115.

[44] Tanner, Michael and Lopez, Naomi. The Value of Welfare, CATO vs. CBPP, CATO Institute Briefing Papers, No.27, June 12, 1996, pp. 7-9.

[45] Moreley, Samuel A. *Poverty and Inequality in Baltimerica, The Impact of Adjustment and Recovery in the 1980s*, Baltimore: The John Hopkins University Press, pp. 38-39, 42-43, table 2-3 and 2-4.