

CHAPTER 1

INEQUALITY: WHERE WE STAND TODAY



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KEY MESSAGES

- Inequality within countries is very high but it is not rising everywhere. Since 1990, income inequality has increased in most developed countries. Inequality declined in most Latin American countries from 1990 to the early 2010s but is increasing again in some of them.
- Inequality trends differ across countries at even similar levels of development.
- Income inequality among countries has declined in relative terms but is still higher than inequality within most countries. Absolute income differences between countries continue to grow.
- The world is far from the goal of equal opportunity for all: circumstances beyond an individual's control, such as gender, race, ethnicity, migrant status and, for children, the socioeconomic status of their parents, continue to affect one's chances of succeeding in life.
- Group-based inequalities are declining in some cases but still growing in many others. Unless progress accelerates, leaving no one behind will remain a still distant goal by 2030.
- High or growing inequality not only harms people living in poverty and other disadvantaged groups. It affects the well-being of society at large.
- Highly unequal societies grow more slowly than those with low inequality and are less successful at reducing poverty.
- Without appropriate policies and institutions, inequalities in outcomes create or preserve unequal opportunities and perpetuate social divisions.
- Rising inequality has created discontent, deepened political divides and can lead to violent conflict.

INTRODUCTION

As part of the 2030 Agenda's aim to promote inclusion and leave no one behind, heads of State and Government pledged to reduce inequality within and among countries. The decision to tackle inequality within countries broke new ground. For the first time in the context of internationally agreed development goals, SDG 10 and its targets call for action to reduce income-based inequality within countries.⁸ They also highlight concrete means to progressively achieve greater equality – namely fiscal, wage and social protection policies (target 10.4).

In aspiring to promote the social, economic and political inclusion of all members of society, Goal 10 also draws attention to attributes and circumstances that affect the risk of exclusion and disadvantage, specifically age, sex, disability, race, ethnicity, origin, religion and economic status (target 10.2). Additionally, target 10.3 calls for “ensuring equal opportunity and reducing inequalities in outcome” and points to the role of discriminatory laws, policies and practices in preventing progress.

This chapter provides an overview of inequality trends in various dimensions of well-being and discusses the impact of high and growing inequality. Following the 2030 Agenda's framework, section A describes levels and recent trends in income and wealth inequality. The availability of data and tools to analyse economic inequality has improved rapidly over the last decade. This growing evidence base has helped ensure consideration of income inequality as part of the international development agenda. This section summarizes what is now a broad and burgeoning technical literature on the topic. Considering that each indicator of economic inequality has strengths and limitations, the analysis uses several indicators to assess progress – or lack thereof.

Section B illustrates how access to opportunities and resources continues to depend on group attributes such as ethnicity and race, migrant origin, and socioeconomic and disability status. The focus is on the dynamics of group-based inequality – that is, on whether development is equalizing opportunities among groups or, rather, is leaving some groups behind. Section C discusses why inequality matters, focusing on the effect of high and growing inequality on economic growth, poverty, social mobility and political stability.

A. Economic inequality

People's opportunities in life and the future of their children are largely shaped by their income and wealth. Now five years into implementation, the 2030 Agenda has focused the attention of the international community on the predicament of growing economic inequality. Real and sustained progress in addressing it, however, has eluded most countries.

The evidence presented in this section shows that economic inequality has been on the rise in most high-income countries over the past 30 years but has declined in several low- and middle-income countries. Where inequality has risen, increases have

⁸ Target 10.1 is to progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average by 2030.

been largely due to the rapid rise in top incomes. Even though economic inequality among countries has declined, it is still more pronounced than that observed within countries. Chances in life continue to depend on the country in which a person is born.

Beyond these broad findings, inequality levels and trends vary greatly by country. They are also sensitive to the indicator used to assess progress.

1. Income inequality across countries

In relative terms, income inequality among countries is declining. After a prolonged period of rising international inequality, the relative gap in mean national incomes is shrinking. The Gini coefficient of international inequality, calculated using population-weighted national incomes per capita, fell from close to 63 in 1980 to 53 in 2010 (Milanović, 2012; United Nations, 2013).⁹ Strong economic growth in Asia has been the main driver of this decline.

Despite this positive trend, absolute disparities among countries are still very large. The average income of people living in the European Union is 11 times higher than that of people in sub-Saharan Africa; the income of people in Northern America is 16 times higher than that of sub-Saharan Africans.¹⁰ While low-income countries are growing faster than high-income countries, the absolute gap between the mean per capita incomes of high- and low-income countries increased from about \$27,600 in 1990 to over \$42,800 in 2018.¹¹ The distinction between relative and absolute inequality is not merely of academic interest: perceptions that inequality is rising globally often refer to absolute differences. People perceive and experience absolute inequalities in their daily lives, in terms of living conditions and well-being. The aim to see the Goals and targets of the 2030 Agenda met “for all nations and peoples” calls for a reduction of these absolute gaps.

While inequalities between average national incomes are large, considerable disparities are also found among people at the bottom and at the top of the income distribution across and within countries.

Figure 1.1 shows the mean income of selected countries as well as the income levels that separate the richest and poorest 10 per cent of the population from the rest of the population of these countries, around 2015. The mean income of Bulgaria was below the cut-off income of the poorest decile of all other developed countries shown. Denmark’s poorest decile was five times richer than Bulgaria’s and 20 times richer

INTERNATIONAL
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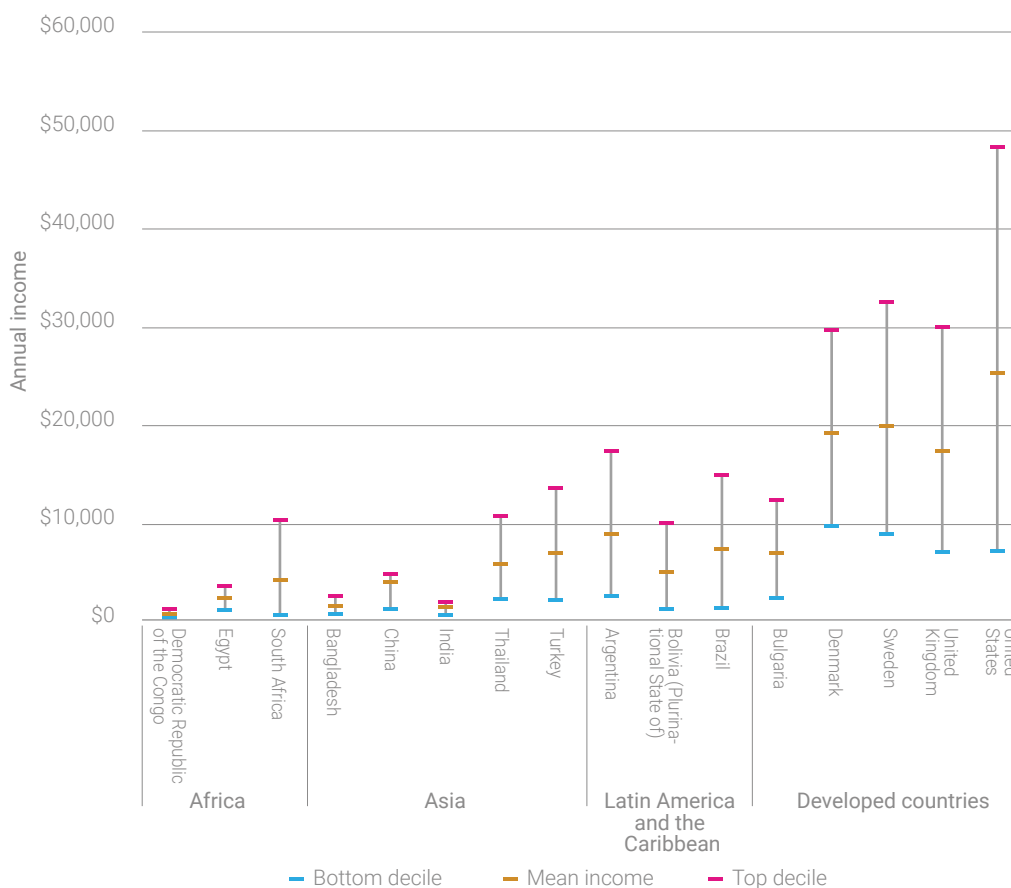
⁹ Trends in income inequality among countries (or international inequality) differ depending on the indicator used, as do trends in inequality within countries. See Annex 1 and box 1.1 for an overview of data and indicators on economic inequality. For a more detailed description of the methods used to estimate international and global income inequality, see United Nations (2013).

¹⁰ Calculations are based on gross national income (GNI) per capita, calculated using purchasing power parity (PPP) exchange rates at constant 2011 international dollars from the World Bank World Development Indicators database, available at: <http://databank.worldbank.org/data/source/world-development-indicators>. Accessed on 19 September 2019. Using non-PPP GNI at constant 2010 US\$, incomes in the European Union are 25 times higher and incomes in the United States are 33 times higher than those in sub-Saharan Africa.

¹¹ High-income countries are those with a GNI per capita of \$12,376 or more in 2018 while low-income countries are those with a GNI per capita of \$1,025 or less, according to World Bank country classifications.

than South Africa's. People at the bottom of the income distribution may be poorer in countries with higher income per capita. For instance, the bottom decile (the poorest 10 per cent) was poorer in the United States than in Sweden, despite higher income per capita in the former. While differences among top earners across countries are also very large, growing evidence shows that household surveys underreport top incomes. That is, inequality within countries as well as differences across countries may be even greater than what is shown in figure 1.1. Box 1.1 discusses the pros and cons of different data sources used to measure income inequality.

FIGURE 1.1
Mean incomes, top and bottom income deciles of selected countries in 2015



Source: World Bank PovcalNet database, unpublished tabulations (based on data from household surveys).

Note: The top and bottom of each bar represent the (annual) income level that separates the richest 10 per cent and the poorest 10 per cent from the rest of the population of each country, respectively; the marker in between represents each country's annual mean income, estimated on the basis of household survey data. All estimates are adjusted for purchasing power parity (PPP). The estimates should be interpreted with caution for two reasons. First, household surveys underreport top incomes. Second, for the African and Asian countries shown, the estimates are based on consumption rather than income data. See Annex 1 for an overview of inequality data and indicators. The countries chosen are only meant to provide an illustrative example of disparities within and across countries. All estimates are for 2015 or later except those of the Democratic Republic of the Congo (2012) and India (2011).

BOX 1.1**Improved data sources to measure income inequality¹²**

The last decade has seen major advances in the availability, quality and comparability of data on income and wealth inequality. As a result, several cross-national databases containing summary inequality statistics are now available.

These databases differ considerably in purpose, data sources and coverage. In terms of sources, assessments of income inequality have traditionally relied on data from household surveys. While surveys are the most comprehensive source of information on income dynamics, they do not capture very high or very low incomes accurately. The wealthy, in particular, are routinely under-sampled and are often reluctant to report all their income. Recently, sources of information other than surveys have been used to help improve the quality of data on income, wealth and consumption at the top of the distribution.

Among available databases, the World Bank's PovcalNet contains the most non-imputed statistics for the largest number of countries (164). Its estimates, based on microdata from household surveys, are used for the international monitoring of SDG target 10.1. Another source – the World Inequality Lab's Database (WID) initiative – relies on data from national accounts, surveys, tax records and wealth rankings in order to track changes at the top of the income and wealth distributions more precisely. In some cases, WID combines data from some or all of these sources based on a series of assumptions.¹³ In other cases, the estimates are based on tax data only. However, the availability of such data remains limited in developing countries. WID estimates are available for 70 countries, of which only three countries are in Africa.

Different indicators shed light on different aspects of income inequality. Considering that each has strengths and limitations, as do the sources used to compute them, the analysis in this report relies on more than one indicator. Estimates of the Gini coefficient are based primarily on PovcalNet as provided through a secondary source – the World Income Inequality Database (WIID), maintained by the United Nations University World Institute for Development Economics Research (UNU-WIDER). These data are complemented by estimates of income shares, where available, from the WID. It is important to bear in mind that these sources and the indicators they provide are obtained using different methodologies.

Estimates of global income inequality go beyond the mean incomes of each country – used in the previous paragraphs to measure international inequality – and account for the distribution of income within countries as well. That is, they consider inequality among all the world's people, across and within borders. Combining data from national household surveys, the World Bank (2016a) found that global inequality as measured by the Gini coefficient changed little between 1988 and 2008 (from 69.7 to 66.9) and then declined faster, reaching 62.5 in 2013.¹⁴ Such levels of inequality are larger than those found within almost any country, as discussed in the next section.

Despite stagnation of the global Gini, important changes have been observed in the income growth and regional composition of bottom, middle and top shares of the income distribution. Namely, income growth has been rapid in the middle and top of the global income distribution, but slow at the bottom and among those in the 80th and 90th percentiles (the global “upper middle class”) (see box 1.2).

¹² See Annex 1 for a more comprehensive overview of data and indicators of economic inequality.

¹³ See the World Inequality Database website (<https://wid.world>) for additional information on the methodology and assumptions used.

¹⁴ These estimates are based on data from household surveys. Growing evidence suggests that very high incomes are underreported in household surveys (World Inequality Lab, 2017; Atkinson and Piketty, eds., 2010). Using national accounts consumption data to correct for such underreporting, Lakner and Milanović (2016) estimate that the Gini coefficients of global inequality are higher and only declined from 76.3 in 1988 to 75.9 in 2008. Using a different survey dataset and different methods to make datasets comparable across countries, Bourguignon (2015) estimates that the global Gini declined from 70 in 1990 to 64 in 2008 and 62 in 2010.

BOX 1.2**Trends in global income distribution**

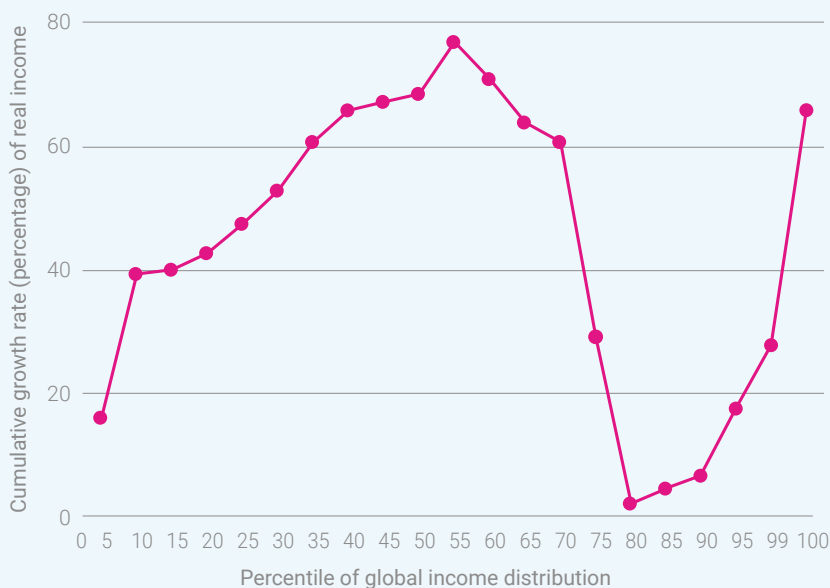
During the last two decades, growth in per capita income has been slow globally among people at the bottom 10 per cent of the income distribution. The number of people living in poverty has declined rapidly, but the average income of the poorest has not increased significantly (Ravallion, 2014). The regional composition of the bottom 10 per cent has shifted dramatically, however. In 1988, about 40 per cent of all people in the bottom 10 per cent lived in China (Lakner and Milanović, 2016). By 2008, practically all individuals in this group lived in sub-Saharan Africa and India.

Per capita income growth has been very high among the population in the world's 40th to 60th income percentiles. China's growth, which has helped lift a large portion of its population from poverty into the global middle class, explains most of the observed improvements at the centre of the global income distribution. The global top 1 per cent of the income distribution has also fared well. Based on the data available, the top 1 per cent captured 27 per cent of all income growth from 1980 to 2016 (World Inequality Lab, 2017). The share of income earned by the top 1 per cent rose from about 16 per cent in 1980 to more than 22 per cent on the eve of the economic and financial crisis in 2007, before declining slightly (to 20 per cent) in 2016. At the same time, the income share of the bottom 50 per cent remained close to 9 per cent throughout this period. Based on these income-share measures, where available, global inequality has increased in recent decades, mainly because top income earners have gained more than the rest.¹⁵

The situation of the global upper middle class (those in the 80th to 90th percentile of the global distribution) barely improved from 1988 to 2008. Most of the population in developed countries – except high income earners – belong to these percentiles. On the one hand, income growth has stagnated among the non-rich in many of these countries. On the other hand, the country composition of the population in these percentiles has changed. Some people in middle-income countries such as China and the Russian Federation reached the 80th and 90th percentiles of the global income distribution during this period. While China has grown rapidly, the income of the better-off segments of the Chinese population in 2008 was lower than that of most of the population in richer countries in 1988.

Overall, relative changes in the global income distribution by decile from 1988 to 2008 yield what has been termed the “elephant chart” by academia and the press (see figure B.1.1). The “elephant” shape is explained by rapid income growth in the middle and top of the distribution.

FIGURE B.1.1
Global growth incidence curve, 1988 to 2008



Source: Lakner and Milanović (2016). Data available at: <https://sites.google.com/site/christophlakner/publications>.

Note: The vertical axis displays the growth rate of the fractile average income (in 2005 PPP dollars) weighted by population. Growth incidence evaluated at ventile groups (the bottom 5 per cent); top ventile split into top 1 per cent and 4 per cent between P95 and P99.

¹⁵ Findings from the World Inequality Lab are based on income inequality data for 70 countries. Included among these are only three countries in Africa and three in Latin America.

The World Inequality Lab (2017) presents basic projections of global inequality based on different scenarios.¹⁶ Under a scenario where inequality trends within countries observed since 1980 continue, the income share of the top 1 per cent would rise from 20 per cent in 2016 to 24 per cent in 2050, while the share of the bottom 50 per cent would remain unchanged (ibid., p. 252). That is, global inequality would increase further. The income share of the global top 1 per cent would decline only if growth in within-country inequality slowed down considerably.

In sum, inequality among per capita national incomes has declined in relative terms in recent decades, although it is still very high. Global inequality, which accounts for inequality within and among countries, has remained stable and high, according to some measures, and has increased based on others. Since inequality among countries has declined, inequality within countries makes up a growing share of global inequality. Estimates by Bourguignon (2015) indicate that the contribution of inequality within countries to total global inequality increased from 30 per cent in 1990 to about 40 per cent in 2010. However, there are substantial differences in inequality trends within countries and regions, as the next section shows.

2. Trends in economic inequality within countries

a. Regional trends

Inequality in income distribution has grown in most developed countries and in several middle-income countries over the last three decades, but trends differ markedly among countries, by period and depending on the indicator used.

Between 1990 and 2016, income inequality as measured by the Gini coefficient increased in 49 out of 119 countries for which data are available and declined in 58 of them, as shown in table 1.1. Inequality has grown in the world's most populous countries – China and India – in particular. Overall, countries where inequality has grown are home to more than two thirds (71 per cent) of the world population.

In general, countries and regions that enjoyed relatively low levels of inequality in 1990 have experienced rises in the Gini coefficient, and many countries that still suffer from high inequality have seen the Gini decline. The Nordic countries, Germany and many Eastern European countries, for instance, have experienced an upsurge in income inequality. Some large middle-income countries have also seen the Gini increase since 1990. Most notable among them is China, where the Gini increased in urban areas (from about 23 in 1990 to 37 in 2013) as well as in rural areas (from 30 to 40).¹⁷

COUNTRIES
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¹⁶ As with any projections, the aim is not to predict the future but simply to extrapolate trends in order to observe the role played by key determinants.

¹⁷ While inequality increased in China over the full period (from 1990 to 2016), the data available show declines starting in the late 2010s, as described in the following paragraphs.

Even though Latin America remains the region with the highest levels of income inequality, together with Africa, the coefficient has declined in 17 out of the 19 Latin American countries with sufficient available data. Included among them is Brazil, which has traditionally endured extremely high levels of inequality (see box 1.3).

Disparities in income declined in several African countries as well, according to the information available, including very unequal countries such as Eswatini and Lesotho. They continued to increase in South Africa during the post-apartheid period until at least the mid-2000s, despite sustained economic growth and the expansion of social

TABLE 1.1
Trends in income distribution by region, 1990 to 2016^a
Number of countries by type of trend in the Gini coefficient

	Africa	Asia	Latin America and the Caribbean	Europe, Northern America, Oceania and Japan	Total	Percentage of countries	Percentage of total population ^c
Rising inequality 1990-2016	13	9	1	26	49	41.2	71.0
1990-1999 ^b	n.a.	7	12	4	23		
2000-2007	n.a.	7	2	13	22		
2008-2016	n.a.	4	1	14	19		
Falling inequality 1990-2016	16	12	17	13	58	48.7	20.8
1990-1999	n.a.	2	4	4	10		
2000-2007	n.a.	8	13	13	34		
2008-2016	n.a.	13	13	14	40		
No trend^d 1990-2016	2	3	1	6	12	10.1	8.2
1990-1999	n.a.	3	2	4	9		
2000-2007	n.a.	0	3	9	12		
2008-2016	n.a.	0	4	14	18		
Total	31	24	19	45	119		

Source: Calculations based on data from UNU-WIDER's World Income Inequality Database, version 4, released in December 2018. Available online at: www.wider.unu.edu/database/world-income-inequality-database-wiid4. Accessed between January and March 2019.

Notes:

a. Or latest year available, if 2008 or later.

b. Includes countries where inequality has remained relatively constant as well as countries where inequality has fluctuated, but where there is no clear upward or downward trend during the period.

c. Percentage of the total population of the 119 countries with data. These 119 countries accounted for 91 per cent of the world's population in 2016.

d. The number of countries with detailed information for each of the subperiods (1990-1999, 2000-2007, 2008-2016) is below the total number of countries with enough information to assess trends over the full period (1990-2016).

BOX 1.3**Brazil: the decline of income inequality and the uncertain road ahead**

Starting in the mid-1990s, Brazil experienced two decades of unprecedented reductions in income inequality: its Gini coefficient fell from 60 in 1995 to 51 in 2015.¹⁸ This reduction is explained mainly by declining disparities in labour earnings. Rising levels of education, increases in minimum salaries, a drive towards transitioning workers from informal to formal employment, together with solid economic growth and falling dependency ratios due to declining fertility, pushed down wage disparities (Neri, 2018; Paiva, 2016). Beyond these factors, social policies played an important role during this period, with fiscal redistribution estimated to account for up to half of the decline in net income inequality (Ferreira, Firpo and Messina, 2014). Included among the social protection programmes implemented in Brazil are:

- Previdência Social Rural, introduced in 1992, provides older rural residents who have worked in mining, agriculture and fishing with a monthly pension equivalent to the minimum wage. As a scheme designed to cover those with a low capacity or inability to participate in contributory pensions, these transfers contributed considerably to a reduction in poverty. In 2008, the number of rural Brazilians living in extreme poverty was estimated at 4 million people lower than it would have been without such transfers (Barrientos, Debowicz and Woolard, 2014). Children living in the same household as those receiving pensions also benefited from the scheme.
- Rolled out in 1996, Benefício de Prestação Continuada targets older persons and persons with disabilities living in households earning a per capita income of not more than a quarter of the minimum wage. Beneficiaries, who numbered 3.7 million in 2010, receive monthly payments equivalent to the minimum wage. As with Previdência Social Rural, some share them with household members, and co-residence was also found to be linked to a reduction of child labour (ibid.).¹⁹
- Through the conditional cash transfer programme Bolsa Família, launched in 2003, recipient households are required to ensure children's school attendance, complete a full immunization schedule, and participate in prenatal monitoring for pregnant mothers and development monitoring for children. The scheme reached 14 million households in 2013 (ibid.).

Collectively, these programmes have managed to bolster the incomes of millions of Brazilians while costing less than 3 per cent of gross domestic product (GDP) per year (ibid.). Despite this impact, inequality remains high, and there is scope to expand social protection. Changing economic and political circumstances in recent years, however, put future prospects for inequality reduction in Brazil into question.

After robust growth over the previous two decades, Brazil suffered a strong recession from mid-2014 until the end of 2016. The Government subsequently put in place austerity measures, including a freezing of federal government spending. The information available indicates that the Gini coefficient stopped declining in 2015.²⁰ Poverty has also been on the rise.

Following general elections in 2018, the future of social protection and other social policies in Brazil is uncertain. Of the three programmes described above, entitlement to Benefício de Prestação Continuada is established in the Constitution, and President Jair Bolsonaro announced plans to enhance Bolsa Família during his election campaign. Given sustained pressure to cut public spending and reduce the fiscal deficit, however, the new administration has proposed a reform of the welfare system, which will decrease overall spending on social programmes (Loyens, 2019). It remains to be seen what the impact of such policy changes will be for the population and for inequality in that country.

¹⁸ World Bank World Development Indicators database, available at: <http://databank.worldbank.org/data/source/world-development-indicators>. Last accessed on 31 October 2019.

¹⁹ The two social pensions have been further augmented by minimum wage raises throughout the two decades, which have consistently kept the minimum age ahead of inflation (Paiva, 2016).

²⁰ The Gini coefficient increased from 51.3 in 2015 to 53.2 in 2017, according to estimates from the Socio-economic Database for Latin America and the Caribbean (SEDLAC), as reported in UNU-WIDER's World Income Inequality Database (WIID) version 4. SEDLAC, prepared by the Centre for Distributive, Labour and Social Studies (CEDLAS) in collaboration with the World Bank, is available from www.cedlas.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.

protection, particularly social assistance programmes. In 2015, South Africa had the world's highest Gini coefficient, at 63.²¹ Persistently high unemployment, strong polarization of the labour force and high wage gaps are the main reasons for the country's very high income inequality (World Bank, 2018a; Hundenborn, Liebbrandt and Woolard, 2018).

Rather than moving continuously in one direction, inequality in all regions has gone through periods of expansion and decline, when measured by the Gini coefficient. In most countries of Latin America and the Caribbean, income inequality rose during the 1990s – a decade of strong economic instability and widening wage disparities – but has declined since 2000. Inequality stopped declining or has even increased in Argentina (since 2014), in Brazil (since 2015) and in Mexico (since 2010). Inequality rose in China in the 1990s and early 2000s but has fallen since 2008, as policies aimed at addressing poverty and inequality have started to take effect and regional inequalities have subsided (Jain-Chandra and others, 2018). On average, the Gini coefficient has also levelled off in developed countries since 2008, after rising in the decades prior. These declines have been small – of less than one point in most of the countries that have benefited from them.

The Gini coefficient does not provide information on whether rising or falling inequality is caused by changes at the bottom, middle or top of the income distribution. Additional indicators show that income is increasingly concentrated at the top of the income ladder, including in some countries that have seen the Gini coefficient decline. The share of income earned by the richest 1 per cent of the population increased in 59 out of 100 countries or areas with data from 1990 to 2015 (see figure 1.2). In 2015, the top 1 per cent earned more than 20 per cent of all income in 18 countries with data, including Brazil, Chile, India, the Russian Federation, Thailand, Turkey, the United Arab Emirates and the United States. While Brazil has seen the Gini coefficient decline rapidly, the income share of the top 1 per cent before taxes and transfers increased – from 26.2 per cent in 2001 to 28.3 per cent in 2015.²²

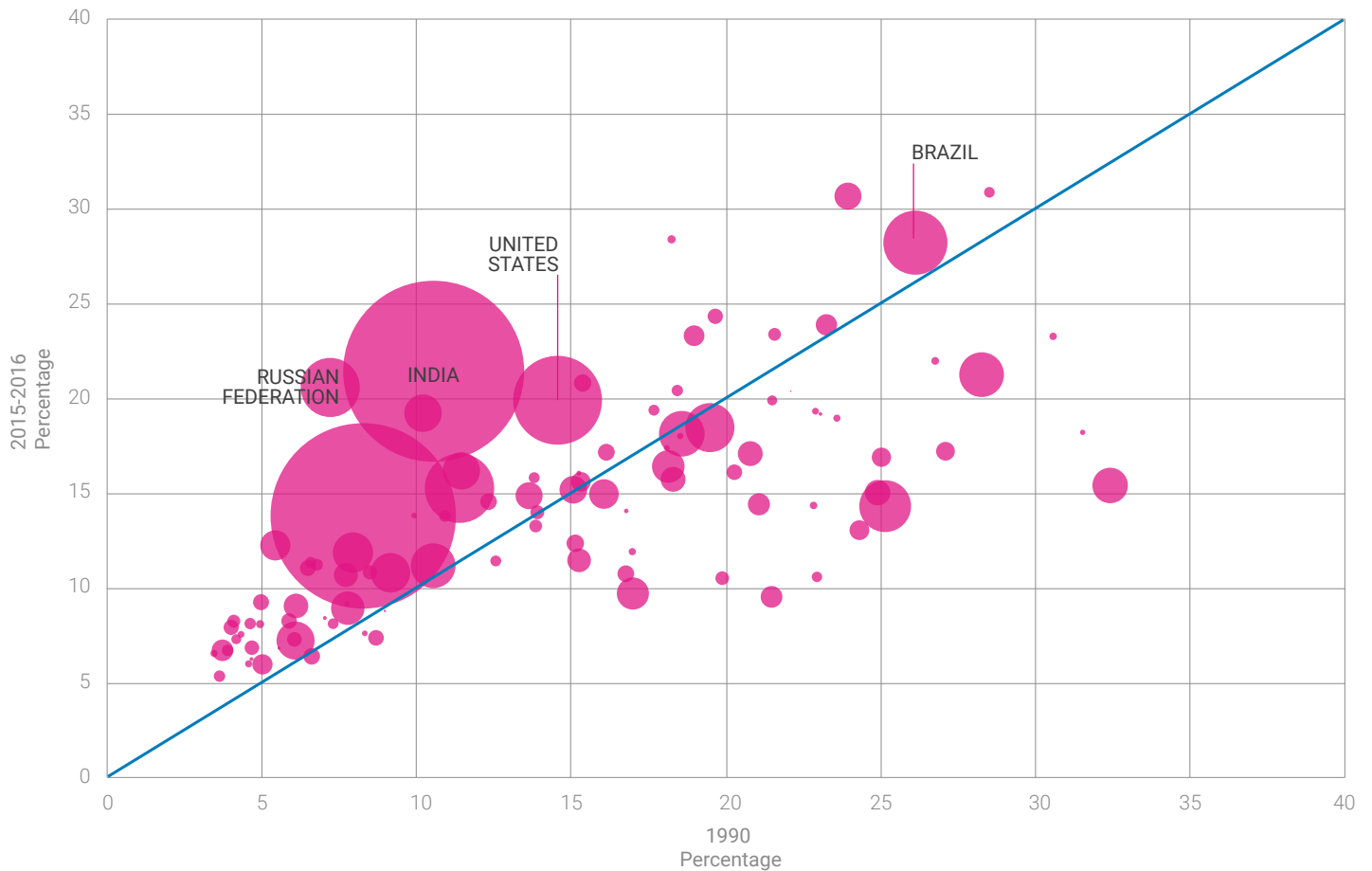
At the other end of the income distribution, the relative situation of those at the bottom has improved in many, but not all, countries. Between 2011 and 2016 alone, the incomes of the poorest 40 per cent of the population grew faster than those of the total population in 50 out of 92 countries with data. In other words, 50 countries made progress towards target 10.1 of the SDGs (United Nations, 2019a). The remaining 42 countries saw the bottom 40 per cent fall further behind the average. For example, average incomes grew faster in the United States than in France in 2011-2016. However, the incomes of the bottom 40 per cent grew more slowly than average in

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²¹ Gini coefficient of consumption expenditure from PovcalNet (<https://databank.worldbank.org/data/source/world-development-indicators>) based on data from the Living Conditions Survey 2014/2015. Hundenborn, Liebbrandt and Woolard (2018) estimate the Gini coefficient of disposable income – income after taxes and transfers – at 66 in 2014. In contrast, the Gini ranged from 25 to 30 in most Northern and Western European countries. For an overview of data and indicators on income inequality, see Annex 1. Section 1.B discusses the role that inter-racial and intra-racial inequalities have played in explaining these trends.

²² It is important to note that fiscal policy became increasingly redistributive in Brazil starting in the 1990s, as described in box 1.3. It is possible that estimates based on disposable income do not show the same increase.

FIGURE 1.2
Share of income earned by the top 1 per cent, 1990 and 2015^a



Source: World Inequality Database. Available from: <https://wid.world/data/>.

Notes: Estimates based on pre-tax national income, which is the sum of personal income flows from labour and capital before taxes and all transfers except pensions.

a. Or earliest/latest year available. The estimates cover only part of the full period in Argentina (1997-2004), Brazil (2001-2015), Colombia (1993-2010), Japan (1990-2010), Republic of Korea (1995-2015), Malaysia (1993-2012) and Thailand (2001-2015).

the United States but faster than average in France.²³ Based on this indicator, France made progress towards reducing inequality and leaving no one behind while the United States did not.²⁴

After the onset of the 2008 economic and financial crisis, the income shares of the top 1 per cent and the top 10 per cent fell in most high-income countries (World Inequality Lab, 2017). Wealth-income ratios fell in all of them. At the same time, the

²³ Income growth rates (national averages and those of the bottom 40 per cent) from the World Bank World Development Indicators database, available at: <http://databank.worldbank.org/data/source/world-development-indicators>. Accessed on 18 January 2019.

²⁴ Fukuda-Parr and Smaavik Hegstad (2018) question the adequacy of target 10.1 to measure the distribution of income. In its report, *Poverty and Shared Prosperity 2016: Taking on Inequality*, the World Bank notes that the indicator “possesses an inequality dimension even though it is not an inequality indicator” (World Bank, 2016a, p. 26). Specifically, the indicator does not track changes at the apex of the income distribution. The indicator will show progress if the incomes of both bottom and top earners grow while incomes of the middle of the income distribution shrink, for instance. Complementary metrics are necessary to assess inequality trends.

income share earned by the bottom 10 per cent of the distribution has experienced a sustained decline in over one third of developed countries with data since 2009.²⁵ Included among them are countries that suffered the greatest labour-income losses during the crisis – Greece, Ireland and Spain.

It is too soon to assert whether the levelling of inequality observed in some countries is a temporary change or the start of a long-term trend. It is possible that some countries have reached their “inequality possibility frontier” – the maximum levels of inequality that are socially possible or acceptable (Milanović, Lindert and Williamson, 2007). However, recent trends in labour income and wealth inequality suggest that economic inequality may continue growing in the years to come.

b. Labour and capital

The distribution of household wealth – which comprises ownership of capital, including physical assets (housing, land) and financial assets, excluding debts – is typically more unequal than the distribution of income. The following findings have been widely publicized: while the bottom half of the global population owned less than 1 per cent of all wealth in 2018, the richest decile (top 10 per cent) owned 85 per cent of all wealth and the top 1 per cent alone held almost half of it (Shorrocks, Davies and Lluberas, 2018). The existing evidence also suggests that, where income inequality has grown, wealth inequality has grown even faster since at least 2008 (Davies and Shorrocks, 2018). While these estimates suggest extreme wealth inequality, they should be interpreted with caution, as measuring levels of wealth is particularly challenging.²⁶

In addition, the distribution of income between capital and labour has undergone major changes. The share of wages in total GDP declined in a majority of countries (91 out of 133 with data) from 1995 to 2014 (ILO, 2016). Improvements in labour productivity have not translated into better labour compensation. Wage stagnation is likely to disproportionately harm workers in the middle and at the bottom of the income distribution, since they rely mostly on labour income.

The forces pushing the labour-income share downwards are unlikely to disappear, as the discussion in chapter 2 suggests. Piketty (2013) argues that the growing capital share of income is likely to endure – mainly because economic growth will slow down and the rate of return to capital will exceed overall growth – unless Governments make a concerted effort to increase wages and tax wealth effectively.

²⁵ The income share held by the lowest 10 per cent of the income distribution has declined in 10 of 26 countries with sufficient data, based on the World Bank World Development Indicators database, available at: <http://databank.worldbank.org/data/source/world-development-indicators>. Accessed on 23 January 2019.

²⁶ Although estimates by Shorrocks, Davies and Llubera (2018) are the most recent and comprehensive to date, estimates of wealth inequality are less often available and less comparable than estimates of income inequality. The data sources available make it impossible to properly estimate the level and evolution of the global distribution of wealth (World Inequality Lab, 2017). The diverse sources of data needed to estimate all the components of household wealth, along with underreporting, affect data quality and their comparability. Wealth is particularly challenging to estimate in poor countries and for people that have negative wealth (debt and mortgages, for example). Therefore, assertions such as Oxfam’s – that, in 2018, the 26 wealthiest people worldwide had the same wealth as the bottom half of the world’s population, which is about 3.8 billion people (Oxfam, 2019) – should be interpreted with caution.

THE SHARE OF
WAGES IN TOTAL
INCOME HAS
DECLINED AND
THE WAGE GAP
BETWEEN TOP AND
BOTTOM EARNERS
HAS GROWN
IN A MAJORITY
OF COUNTRIES

In addition to general declines in worker compensation, the wage gap between top and bottom earners has increased considerably in most developed countries and in several developing countries with data (ILO, 2016; OECD, 2015a). On the one hand, the incidence of non-standard forms of employment – temporary and part-time jobs, own-account work and informal employment – has increased. Workers under non-standard contracts earn less than workers under standard contracts; they also bear the brunt of employment losses during recessions and are not afforded the same protection as other employees. Workers have also become more vulnerable due to a decline in the share of waged workers in the traditional “middle” of the workforce – that is, workers with middle-level skills that usually perform routine jobs, ranging from administrative jobs to sales-related occupations, as discussed in chapter 2.

On the other hand, top salaries have risen dramatically. A sizable proportion of the observed gains in top income shares are due to increases in top wages (Atkinson, Piketty and Saez, 2011).²⁷ The rise in pay of top executives has attracted considerable attention in the past decade in developed countries, particularly in the United States. In 2016, compensation of chief executive officers – including salary and bonuses – of the top 350 companies in the United States was 224 times higher than the average employee’s pay (Economic Policy Institute, 2018).

The recent experience of many developing countries shows that rising wage disparities are not inevitable. Declining income inequality in Latin America, for instance, is due mainly to the reduction of wage gaps that were made possible by the spread of secondary education, a drive towards reducing informal employment, higher minimum salaries, a decline in returns to labour market experience and increases in social spending. These and other policy options are discussed in chapter 6.

c. The impact of policy

Growing inequality is often assumed to be an inevitable cost of the development process. Decades ago, Kuznets (1955) posited that inequality is low at the initial stages of development, when societies are mostly agricultural, and as industry develops, countries urbanize and economies grow faster, and inequalities increase. As countries develop further, increased wealth should enable the introduction of broad-based education and social protection. The growing political power of the urban lower-income groups would lead to protective and supporting legislation, much of it aimed at counteracting the worst effects of rapid industrialization and urbanization. As a result, inequality would follow the shape of an inverted “U” curve as societies develop.

²⁷ In the United States, about 60 per cent of the income of the top 1 per cent came from labour in 2010 (Solow, 2017).

REGIONAL AND
TIME TRENDS
IN ECONOMIC
INEQUALITY
SUGGEST NO CLEAR
RELATIONSHIP
BETWEEN
INEQUALITY AND
DEVELOPMENT

Regional and time trends in economic inequality suggest no clear relationship between inequality and development. Levels of inequality vary considerably even among countries with similar levels of per capita income (United Nations, 2013). Trends within individual countries have also been different from those that Kuznets predicted. Income inequality has increased in many countries and has declined in some others as countries have developed and grown over the last 30 years. In addition, many developed countries have seen inequalities rise.

Global economic, social and environmental forces are certainly affecting the evolution of inequality within countries, as the next chapters will show. But national income dynamics are also shaped by national policies and institutions. Education, health care and labour market policies, for instance, affect the distribution of human capital, skills and wages, and thereby the distribution of market (gross) income. Disparities in disposable (net) income depend on the distribution of market income but are also explained by the redistributive impact of social transfers and taxes.

The magnitude of the impact of taxes and transfers depends on how progressive the tax system is (direct income and property taxes are usually progressive while indirect taxes, such as sales taxes, are regressive), and on the degree to which people living in poverty benefit from social protection transfers and public services. The negative effects of indirect taxes on the incomes of people living in poverty can be stronger than the positive effects of public transfers and services (Lustig, 2017).

Taxes and transfers are much larger in developed than in developing countries, even though the magnitude of their impact differs considerably by country. In Belgium, Denmark, Finland, Ireland and Slovenia, taxes and transfers reduce inequality – as measured by the Gini coefficient – by more than 35 per cent (Causa and Hermansen, 2017).²⁸ In contrast, fiscal policy reduces inequality by less than 20 per cent in Japan and Switzerland (ibid.). Reductions in inequality are even smaller in developing countries with data (United Nations, 2018a). The level of redistribution varies even among countries at similar levels of inequality: while the Gini coefficient of market income stood at 38 in both Japan and Norway in 2014, the Gini of disposable income was around 26 in Norway compared to 32 in Japan (Causa and Hermansen, 2017).

Over the last two decades, however, the redistributive effect of transfers and taxes has failed to correct the trend towards rising income and wealth inequality in developed countries. On average, the effect of fiscal policy on inequality declined from 32 per cent in 1995 to 27 per cent in 2007 in member countries of the Organisation for Economic Co-operation and Development (OECD) with data (Causa and Hermansen, 2017). Declines in progressive taxation are apparent beyond developed countries.

²⁸ The studies cited use the difference between the Gini values of market and disposable incomes (proxies of income before and after taxes and transfers, respectively) as a measure of the overall redistributive impact of taxes and transfers.

OVER THE LAST
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INEQUALITY
IN DEVELOPED
COUNTRIES

Using a complete set of national income tax data for 189 countries, Sabirianova, Buttrick and Duncan (2009) found that top income tax rates declined, on average, from 1981 to 2005, making tax systems less progressive. While the 2008 economic and financial crisis temporarily led to increased redistribution in developed countries, reflecting fiscal discretionary measures, the effect of taxes and transfers declined again after 2009 (Causa and Hermansen, 2017).

To be clear, inequality in disposable incomes has increased mainly because inequality in market incomes – before taxes and transfers – rose in the first place. But, with important exceptions, policies have not become increasingly redistributive (Immervoll and Richardson, 2011; Causa and Hermansen, 2017).

These trends have prompted debate about the role that global economic integration and other transformations – from technological innovation (discussed in chapter 2) to changes in policy (discussed in chapter 6) – may have played in driving inequality trends. Bourguignon (2015) highlights the role played by the expansion of trade in developing countries and by capital mobility, together with technological innovation, to explain the decline in inequality among countries – and its increase within countries. Other authors question the pre-eminence of globalization as the main driver of global inequality, noting that inequality trends differ across countries at similar levels of development and that are equally exposed to trade (Ravallion, 2018; Corlett, 2016). Ravallion (2018) stresses the vital role that national policies and institutions continue to play in defining inequality levels and trends.

In sum, the assumption that economic inequality should decline as societies develop and should remain low in developed countries has not held up in practice. Evidence shows that the reduction of inequality is not a systematic outcome of economic growth and development.

B. Inequality of opportunity

While high and growing inequality are fuelling polarizing political debates around the globe, a consensus has emerged that all should enjoy equal access to opportunity – that one's chances to succeed in life should not be determined by circumstances beyond an individual's control. However, the world is far from giving all people and groups the same opportunity to live a healthy and prosperous life. This is critical in the case of young children, who bear little responsibility for the opportunities afforded to them, but whose early life experiences have a major influence on their health, well-being and even productivity throughout their lifetimes. The 2030 Agenda draws attention to the fact that inequalities based on age, sex, disability, race, ethnicity, origin, religion, and economic and other status are common in developed and developing countries alike.

BOX 1.4**Group-based disadvantages: measuring inequality of opportunity**

In the 2030 Agenda, Governments envisage “a world of equal opportunity permitting the full realization of human potential and contributing to shared prosperity” (A/RES/70/1, para. 8). A growing literature has attempted to quantify the broad concept of equality of opportunity for policy purposes. The basic proposition of this literature is that inequality results from two sets of factors: those that are in some way assumed to be under an individual’s control, such as effort or personal responsibility, and those that are not. A person’s circumstances, such as place of birth, parental socioeconomic status and other attributes highlighted in the 2030 Agenda, including gender, ethnicity and race, and disability status, are beyond one’s control. These and other circumstances affect access to education, health, income and other resources as well as participation in social and political life. Inequalities based on circumstances – also referred to as group-based inequality or horizontal inequality – are therefore used to measure inequality of opportunity.

Most attempts at measuring inequality of opportunity use a decomposable measure of inequality (often the dissimilarity index or Theil-L index) to quantify the extent of inequality that can be explained by measurable circumstances and the extent that cannot (see, for instance, Ferreira and Gignoux, 2011; UN-ESCAP, 2018). Inequality that is not explained by measurable circumstances is attributed to differences in effort and/or skill.

The literature on inequality of opportunity is not without its shortcomings. Conceptually, the distinction between circumstances and effort or skill is not clear-cut. Kanbur and Wagstaff (2014) note that, in early childhood, it is the effort of the parent, not the child, that shapes outcomes. A young child’s effort does not determine whether she is enrolled in school or not, for instance.

In terms of measurement, the extent of inequality of opportunity reported depends on the data available to assess the effect of a person’s circumstances. Analytical studies often take into consideration a person’s gender, age, race or ethnicity, place of birth and parental education, occupation and income. Arguably, there are other factors beyond an individual’s control that affect the outcomes of her or his efforts. As data improve, country-specific studies are taking into account additional characteristics (see, for instance, Hufe and others, 2017). Estimates from cross-country studies, however, are particularly limited by lack of data comparability and availability.

While a comprehensive assessment of all relevant circumstances is not yet feasible, most of the empirical literature on inequality of opportunity qualifies inequality that is not explained by measurable traits as “fair” or legitimate.²⁹ Thus, the measurement shortcomings of this approach have policy implications. Specifically, the extent of inequality assumed to be fair, legitimate or due to personal choices depends on the amount and quality of data available. The more information is used, the stronger the estimated contribution of a person’s circumstances to total inequality. Because of this, estimates of inequality of opportunity are usually considered the lower-bound of actual levels (Ferreira and Gignoux, 2011).

The economic inequalities described in section A are in part the result of inequalities among different population groups – also referred to as horizontal inequality. The persistence of disadvantages based on characteristics such as those described above are hard to justify in our modern and interconnected world.

This section examines group-based disparities in several markers of well-being, including poverty, health, education and employment. Since data limitations preclude a comprehensive analysis of all the circumstances affecting a person’s access to services and resources, the section does not attempt to quantify inequality of opportunity in one single indicator (see box 1.4). Rather, it examines the impact of concrete characteristics

²⁹ Recent studies, including Ferreira and Gignoux’s (2011), are careful to note that estimates of inequality of opportunity are a lower bound of actual inequality of opportunity (because some circumstances are not adequately measured).

BOX 1.5**South Africa: promoting inclusion amidst record high inequality**

South Africa is one of the most unequal countries in the world. While the end of apartheid in 1994 brought forth dramatic social and economic changes, inequality has remained at record highs. However, inequality between racial groups has decreased, as important strides were made in social development and poverty reduction over the last two decades.

The decline in interracial inequality has been driven largely by faster income growth in non-white lower-income households and by a growing percentage of non-white, middle- and upper-income households (Hino and others, 2018). Opportunities have gradually opened up in the civil service, business and education to black South Africans, who made up 6 per cent of top management and company executives in 2001 and 14 per cent in 2017 (Republic of South Africa, 2018).

Efforts to reverse the effects of decades of segregation have been underpinned by anti-discriminatory legislation and by a Constitution establishing citizens' rights to food, water, social security and social assistance. Through a system of progressive taxation and social programmes, the Government has expanded provision of basic public services, achieved near-universal access to primary education, and implemented cash transfer programmes for older persons, families with children, and persons with disabilities (World Bank, 2018a). Primary health care is free, while public hospital services are relatively low-cost or free for disadvantaged/vulnerable persons.

These measures have contributed to reducing both absolute and multidimensional poverty. Workers are becoming more educated, female labour market participation has risen, and the share of the population with access to electricity, improved sanitation and improved water sources has increased (Finn and Leibbrandt, 2018; Leibbrandt, Finn and Woolard, 2012). On the whole, households in the bottom half of the income distribution receive much more in public transfers and services than they pay in taxes (Inchauste and others, 2017).

Social protection transfers form a significant portion of the income of poorer households. It is estimated that the Gini index in 2014-2015 would have been 10.5 per cent higher in the absence of public transfers (World Bank, 2018a).

Despite this progress, substantial challenges remain. South Africans continue to experience high levels of poverty and unemployment, while inequality within racial groups has worsened. With social spending constituting more than half the Government's budget allocations in 2019, solutions will have to go beyond the mere fiscal expansion of current programmes to focus on the quality and sustainability of outcomes.

separately, both to illustrate inequality of opportunity and to highlight the disadvantages faced by some social groups. In line with target 10.2 of the 2030 Agenda, the focus is on inequalities based on gender, race, ethnicity, disability status, migrant origin and parental socioeconomic status. Considering the 2030 Agenda's pledge to leave no one behind, the section places a strong focus on trends in group-based inequality over time.

1. Group-based disadvantage, poverty and income inequality

A sizeable part of observed income inequality can be attributed to inequality among social groups, although large differences are found across countries. For instance, inequality among racial groups accounted for an estimated 50 to 70 per cent of total inequality in South Africa in the mid-2000s, 30 to 50 per cent of the total in Guatemala, Panama and Paraguay, but less than 15 per cent of the total in developed countries (Liebbrandt, Finn and Woolard, 2012; Elbers and others, 2005 and 2008).

Trends in these two key components of inequality – across groups and within groups – do not always go hand in hand. South Africa, for instance, has seen the Gini coefficient of income inequality increase rapidly since the end of apartheid while racial inequality has declined (see box 1.5). In contrast, research from Mexico suggests that, despite declining income inequality at the national level from the mid-1990s to 2010, income growth has been slower for indigenous than for non-indigenous populations, and differences in the incidence of poverty have increased (Servan-Mori and others, 2014).

These examples illustrate that, even where Governments have made conscious efforts to promote social inclusion, overall income inequality can remain unaffected or even grow. Conversely, declining income inequality does not automatically translate into improved welfare outcomes for all disadvantaged individuals or groups.

The uneven progress observed in reducing poverty across different groups further substantiates this point. Extreme poverty has dropped rapidly since 1990. The number of people living on less than \$1.90 a day declined from 36 per cent in 1990 (1.9 billion people) to 12 per cent in 2015 (727 million).³⁰ Yet pockets of extreme poverty persist.

Not only are some groups more likely to live in poverty, but they experience deeper poverty than the rest of the population. The examples shown in figure 1.3 indicate that the multidimensional poverty index is higher than average among the ethnic minorities selected (figure 1.3 A), and that these minorities experience a deeper intensity of deprivation than the national average (figure 1.3 B). That is, they are more likely to experience deprivations across more of the 10 indicators related to health, education and basic services that comprise the index.

Additional research shows that members of ethnic minorities and other disadvantaged groups are also more likely to remain in poverty over the long term. Caste, ethnicity, religious affiliation and class heighten the risk of chronic poverty and of transmitting poverty to the next generation (Dang and Lanjouw, 2015 and 2018; Sumner, 2013; Reddy, 2015). In India, according to Dang and Lanjouw (2018), members of Scheduled Castes and Scheduled Tribes are both less likely to escape poverty than other groups and more likely to experience downward mobility and fall into poverty.

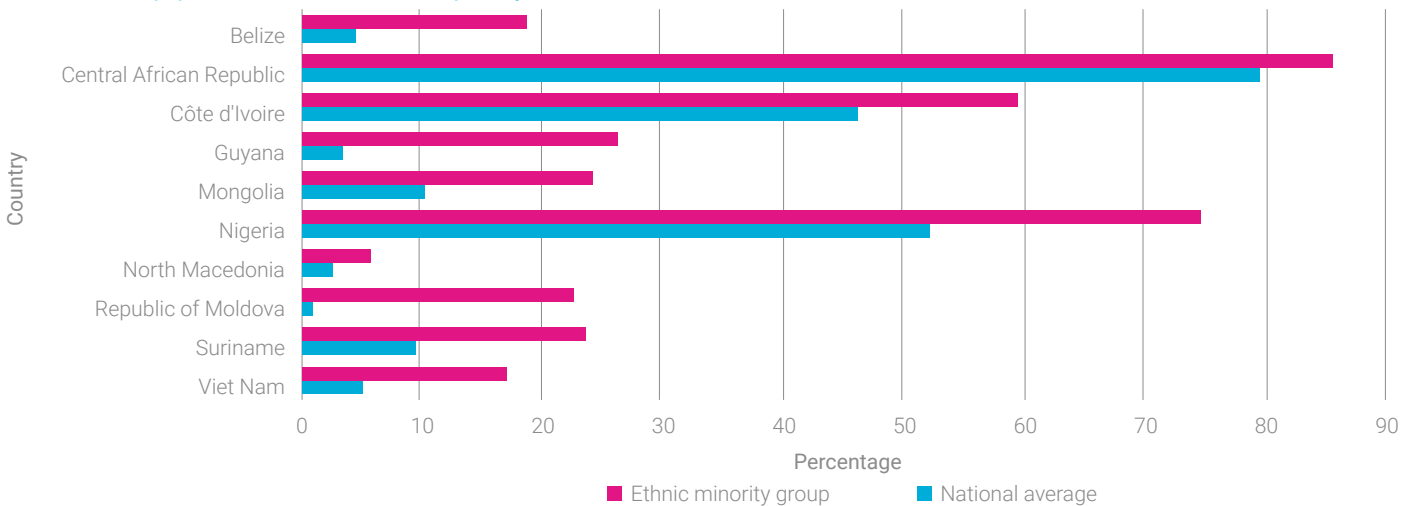
DECLINING INCOME
INEQUALITY
DOES NOT
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OUTCOMES FOR ALL
DISADVANTAGED
INDIVIDUALS
AND GROUPS

³⁰World Bank, PovcalNet database. Available at <http://iresearch.worldbank.org/PovcalNet/home.aspx> (accessed on 31 October 2019).

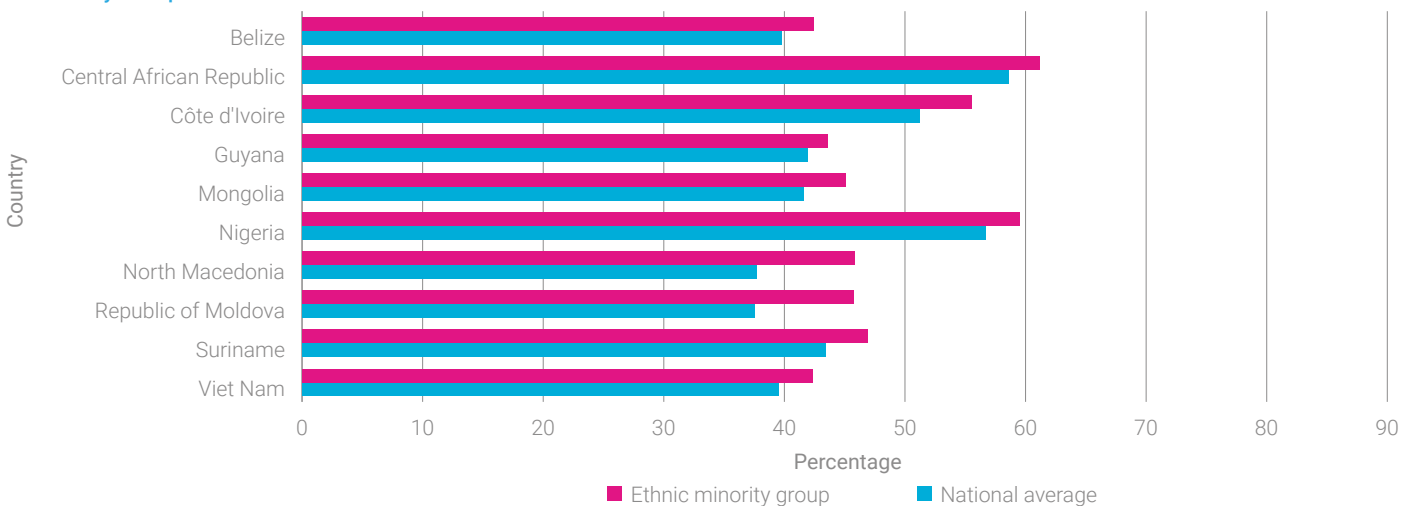
Members of these groups often suffer from multiple disadvantages that deepen their exclusion. In many developing countries, for instance, ethnic minorities live predominantly in rural areas with low access to quality schooling or health centres. Not only do children in rural areas fare worse than those in urban areas in terms of health and education, but the ethnic minority “penalty” in terms of educational attainment is often larger in rural than in urban areas. For instance, in Belize, the percentage of Mestizo youth who completed lower secondary school was two thirds that of Creole children in rural areas, and nearly 90 per cent that of Creole children in urban areas (United Nations, 2016a). Research has also shown that gender and ethnicity interact to the detriment of women, including in the labour market (United Nations, 2016a;

FIGURE 1.3
Multidimensional poverty by ethnicity in selected countries around 2010

A. Share of the population in multidimensional poverty



B. Intensity of deprivation



Source: Calculations by the Oxford Poverty & Human Development Initiative (OPHI), based on data from Multiple Indicator Cluster Surveys (MICS).

Note: The figure represents data for 10 countries where the last two rounds of MICS collected and published information on ethnic identification. Ethnic groups represented are: Maya (Belize), Hausa (Central African Republic), Gur (Côte d'Ivoire), Amerindian (Guyana), non-Macedonian or Albanian (North Macedonia), Roma (Republic of Moldova), Kazakh (Mongolia), Hausa (Nigeria), Indigenous/Amerindian (Suriname) and non-Kinh (Viet Nam).

Kabeer, 2010; World Bank, 2013a). In Bolivia, Brazil, Guatemala and Peru, for example, indigenous women and those of African descent are more likely to earn \$1 an hour or less than men from their ethnic group or men and women in the rest of the population (Kabeer, 2010).

Clearly, conclusions about inequalities within and among social groups are limited by data availability (see box 1.6). The fact that income and consumption data are gathered mostly at the household level, for instance, challenges proper assessments of the gender and age dimensions of inequality. The existing evidence, while incomplete, indicates that resources are not distributed evenly within households. Boys benefit more than girls from investments in health care, private education and childcare, for instance (United Nations, 2015). A study of 30 countries in sub-Saharan Africa shows that women in this region are more likely to be undernourished than men, and that half of undernourished women and children are found in non-poor households (Brown, Ravallion and van de Walle, 2017). Globally, women do three times as much unpaid care and domestic work as men (UN Women, 2019).

BOX 1.6

The challenge of measuring who is being left behind

Adequately measuring who is being left behind requires data from a variety of sources that are different in scope and purpose. National population censuses and some internationally standardized surveys are available for a large number of countries and are fairly comparable across countries. However, none of them alone allows for a comprehensive international assessment of disadvantage or social exclusion. Assessing changes over time presents additional challenges, since some data sources are available for only one point in time and comparability issues arise even between censuses or surveys of the same type.

Ideally, empirical analyses should determine which individual characteristics or combinations of characteristics increase the risk of disadvantage. However, most studies, including this one, pre-select some criteria that have been proven, empirically, to affect inequality – typically age, sex, ethnic background, income, nationality and place of birth. Analyses based on these traditional criteria run the risk of overlooking new forms of inequality.

An additional challenge to measuring who is being left behind is that groups at high risk of poverty and exclusion are often statistically “invisible”. Household surveys inevitably omit homeless persons, people in institutions, including prisons and refugee camps, and mobile and nomadic populations. In practice, they also tend to underrepresent populations in urban slums, those in insecure and isolated areas and atypical households. While population censuses do not omit any of these groups by design, they often under-enumerate them. In addition, the definitions used to classify a population by nationality or by migrant, ethnic or disability status, vary across countries.

While statistical groups are useful analytical categories, it is important to note that they are not necessarily entities with common agency or even common purposes. Some groups of people have shared beliefs and values and act in collective ways (such as religious and many ethnic groups). Other groups are defined on the basis of some shared characteristics (such as migrant status), but in reality have little in common, aside from the discrimination they often face.

THE EFFECTS OF SOCIAL EXCLUSION ON DIGNITY AND AGENCY ARE DIFFICULT TO MEASURE, BUT CAN UNDERMINE PEOPLE'S SENSE OF WELL-BEING

People are left behind in many domains of life – social, economic, political. Translating the disadvantages they experience in each of these domains into a limited set of indicators and finding data to measure them presents considerable obstacles. The effects of social exclusion on a person's dignity and their agency, for example, are difficult to measure, but can undermine one's sense of well-being (United Nations, 2016a).³¹

2. Trends in group-based inequality

Leaving no one behind calls for reductions in group-based inequalities. The empirical literature shows positive trends: from a reduction of inequalities in access to primary education to the broader representation of disadvantaged groups in political processes (United Nations, 2016a). Yet the examples shown in this section indicate that countries are off track in terms of ensuring equal opportunity for all by 2030.

Major progress in fulfilling basic needs, such as improved child health and completion of primary education, has helped reduce gaps. Figure 1.4 shows that disparities in child stunting based on household wealth and the educational level and ethnicity of the household head have also declined, somewhat, based on a large sample of developing countries. However, differences in the average annual change among the different groups are small. At the rate of progress observed from the 1990s to the 2010s, it will take more than four decades to close the stunting gap related to ethnicity, for instance. Under a business-as-usual scenario, those children that are furthest behind in terms of stunting will remain behind by 2030.

Access to good-quality education can help level the playing field or reinforce existing inequalities, depending on how it is distributed. With the notable success achieved at the global level in the provision of primary education, gaps in secondary education have received increasing attention, including in the 2030 Agenda. The percentage of adolescents attending secondary school is growing across developing regions (figure 1.5), but this increase is not enough to close existing gaps. On average, progress in secondary school attendance is slower among children from households in the lowest wealth quintile and among those that belong to the most disadvantaged ethnic group in the countries shown.

Clearly, disadvantages in different domains reinforce one another. Children must be healthy in order to attend school and benefit from the education they receive. Improvements in both health and education come about, in large part, due to improvements in basic infrastructure. Investments in improved water supply, sanitation, electricity and broadband help prevent malnutrition and disease and ultimately promote productivity. Unfortunately, across the board, gaps in access to infrastructure (specifically, electricity and improved sanitation) remain wide (see Annex 2, figures A.1.1 and A.1.2).³²

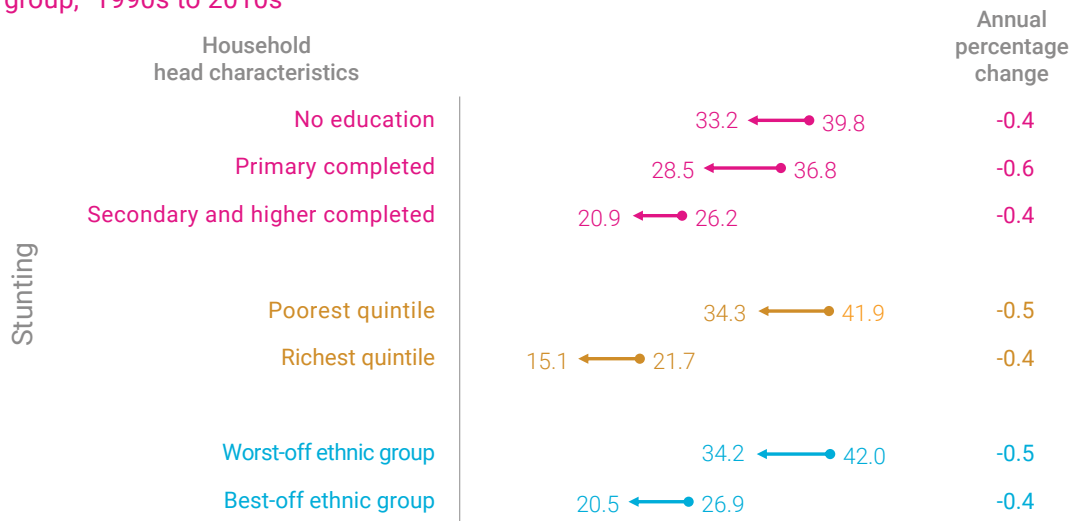
UNDER A BUSINESS-AS-USUAL SCENARIO, THOSE CHILDREN THAT ARE FURTHEST BEHIND WILL REMAIN BEHIND BY 2030

³¹ Chapter 4 of the *Report on the World Social Situation 2016* (United Nations, 2016a) contains a discussion of challenges in measuring discrimination, agency and stigma.

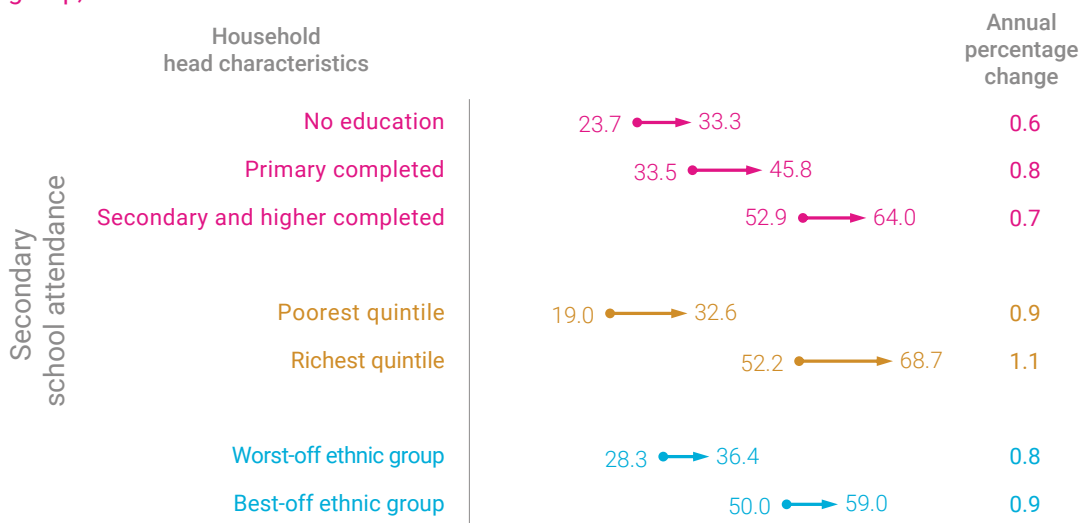
³² Disparities in access to broadband are examined in chapter 2.

FIGURE 1.4

Recent trends in the proportion of stunted children by socioeconomic status and ethnic group,^a 1990s to 2010s^b

**FIGURE 1.5**

Recent trends in secondary school attendance by socioeconomic status and ethnic group,^a 2000s to 2010s^c

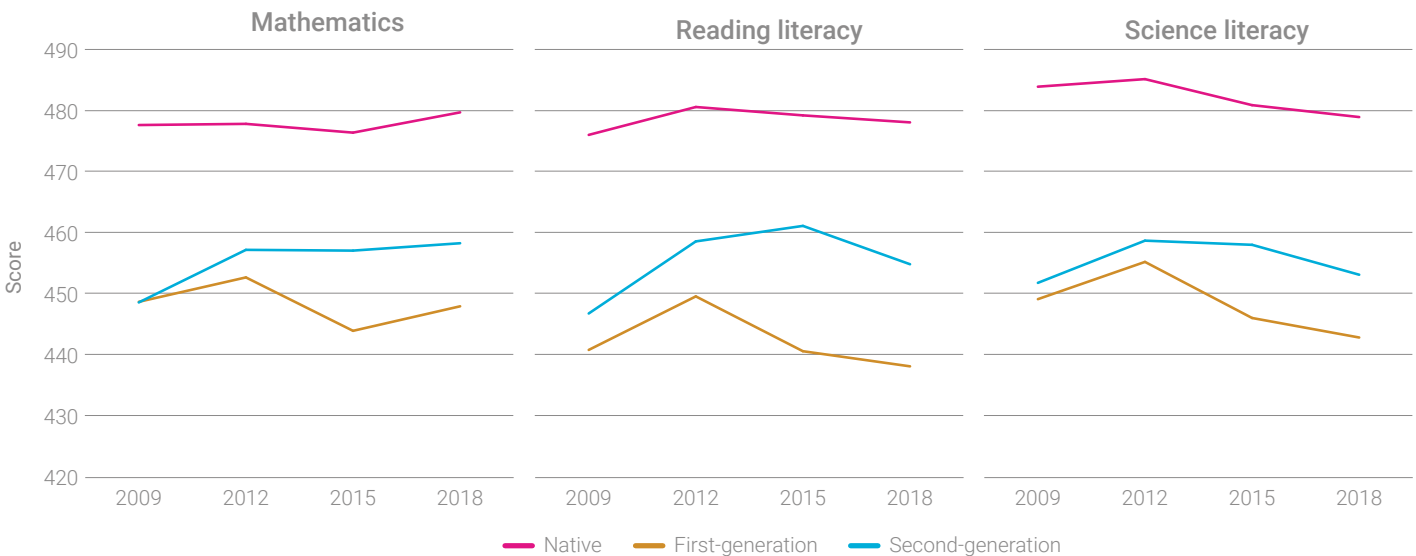


Source: Calculations based on data obtained from MICS and Demographic and Health Surveys (DHS).

Notes:

- Ethnic groups are selected and classified as "worst-off" and "best-off" based exclusively on the prevalence of stunting and secondary school enrolment in the starting year.
- A child is considered stunted if she or he is below minus two standard deviations from the median height-for-age of the World Health Organization Child Growth Standards. Stunting estimates by household wealth are based on data for 54 countries and stunting estimates by education of the household head are based on data for 51 countries. Estimates by ethnic group are based on data for 23 countries, including 17 in Africa, 3 in Latin America and the Caribbean, 2 in Asia and 1 in Europe. Data collection ranges from 1993 to 1999 for the earliest survey, and from 2010 to 2017 for the most recent survey. Household wealth as measured by DHS is based on a household's ownership of selected assets, materials used for housing construction and access to water and sanitation facilities.
- Secondary school attendance estimates by household wealth are based on data for 51 countries and by education of the household head for 50 countries. Estimates by ethnic group are based on data for 26 countries, including 16 in Africa, 5 in Latin American and the Caribbean, 4 in Asia and 1 in Europe. Data collection ranges from 2000 to 2017.

FIGURE 1.6
Proficiency scores in mathematics, reading and science literacy, by origin of student, 2009 to 2018



Source: Calculations based on PISA data. Available at <http://pisadataexplorer.oecd.org/ide/idepisa/>. (accessed December 2019).

Note: Data shown for 49 PISA-participating countries or areas with scores reported for all three categories across all four waves. First-generation immigrant children are those born abroad. Second-generation children are born in the country of residence of foreign parents.

Beyond school attendance and completion, the effective acquisition of relevant knowledge and skills – that is, learning outcomes – is a key determinant of future opportunities. Information from the Programme for International Student Assessment (PISA), indicates that students from an immigrant background – both those born abroad, that is, first-generation immigrants, and those born in the country to foreign-born parents, or second generation – score, on average, lower on mathematics, reading and science tests than students without immigrant parents (see figure 1.6).³³

Differences in socioeconomic status affect learning outcomes as well. Better-off families have more resources – both time and money – to invest in their children’s schooling. Across PISA-participating countries and areas in 2018, students from socioeconomically disadvantaged backgrounds were nearly three times less likely than socioeconomically advantaged students to attain the minimum level of proficiency in reading (OECD, 2019a). Using PISA data from 2006, Ferreira and Gignoux (2013) found that differences in gender and family background account for up to 35 per cent of differences in scores. The educational achievement gap between immigrant and non-immigrant students is still significant when controlling for their families’ socioeconomic status and the socioeconomic composition of their schools, although it declined from an observed average of 41 score points, in the case of reading in 2018, to 24 points (OECD, 2019a).³⁴

³³ PISA is an ongoing OECD programme that helps assess 15-year-old students’ acquisition of knowledge and skills in mathematics, science and reading across high- and middle-income countries. In the 2018 round of PISA, 79 countries and areas participated in the assessments, including OECD member countries and partner countries and areas in Asia, Eastern Europe and Latin America. Scores are reported on a range from 0 to 1,000. About two thirds of students from OECD countries score between 400 and 600.

³⁴ In the context of PISA assessments, OECD measures socioeconomic status (social, economic and cultural status) on the basis of indicators of parental education and occupation, the number and type of home possessions that are considered proxies for wealth and of possessions related to “classical” culture in the family home.

The evidence in figure 1.6 suggests little progress in ensuring equity in learning outcomes. For instance, the gap between native and second-generation students in math scores slightly increased from 30 points in 2009 to 32 points in 2018 in the countries and areas covered by PISA. The difference in student performance in reading by socioeconomic status remained largely unchanged in most participating countries and areas during the same period (OECD, 2019a).

Improvements in health or education do not always translate into reductions in other dimensions of inequality, such as employment, income or wages. Educational attainment is often higher among women than men, for instance, particularly in developed countries. Yet women have not seen this improvement translate into reduced inequality in employment and wages.

Similarly, the proportion of persons with disabilities with secondary education or higher has increased since the 1990s in a sample of 17 countries from developing and developed regions, yet their labour force participation has remained constant over the last decade (figures 1.7 and 1.8). The educational and labour force participation gaps between persons with disabilities and those without disabilities have not changed.

FIGURE 1.7
Percentage of adults who completed secondary or higher education by disability status, 1990s to 2010s

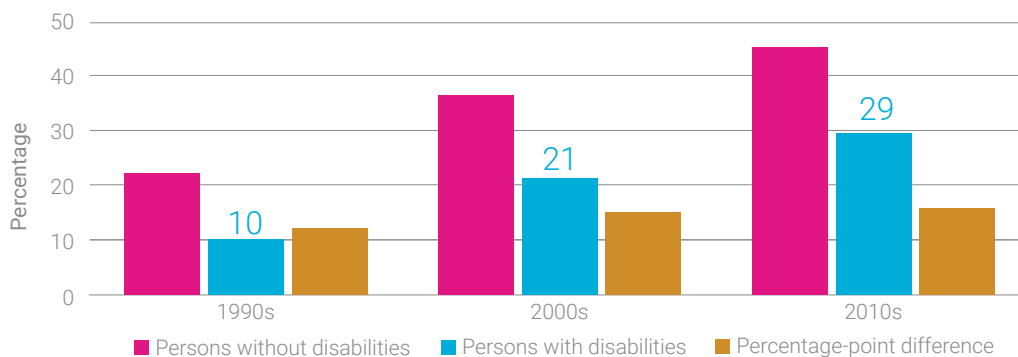
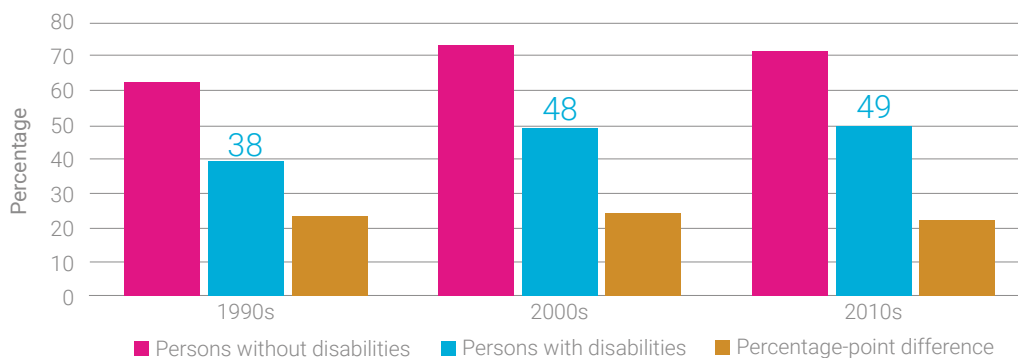


FIGURE 1.8
Labour force participation rates by disability status, 1990s to 2010s



Source: Calculations based on census data from the Integrated Public Use Microdata Series (IPUMS) International: Version 7.1 (Minnesota Population Center, 2018).

Notes: Calculations based on data for the following 17 countries: Benin, Botswana, Brazil, Costa Rica, Dominican Republic, Ecuador, Ireland, Panama, Philippines, Poland, Rwanda, South Africa, United Republic of Tanzania, Trinidad and Tobago, United States, Uruguay and Zambia, as collected by national statistical offices and available from the IPUMS repository at the Minnesota Population Center.

BOX 1.7**Socioeconomic status and the intergenerational transmission of disadvantage**

Socioeconomic status remains a major determinant of lifelong opportunities across countries and cultures. Several recent large-scale studies provide a global picture of how socioeconomic status – as measured by levels of education, income and occupation – is transmitted from parents to children (Narayan and others, 2018; OECD, 2018a).

Intergenerational mobility in social status has historically been lower in developing than developed regions, but it is increasing in middle-income countries such as Brazil, Egypt, India and Indonesia. In some countries, such as China and Nigeria, children can expect to complete more years of education than their parents. However, their rank in educational distribution is increasingly tied to that of their parents (Narayan and others, 2018).

Mobility from the bottom half of the educational or income distribution to the top quartile is low in both developed and developing countries. That is, a person whose parents have low levels of education is unlikely to complete higher education regardless of the country's development level (a phenomenon known as “sticky floors”). On average, it would take five generations for the descendants of a low-income family in OECD countries to reach their country's average income level (OECD, 2018a). At the same time, downward mobility in education, income or occupation is rare among those at the top of the socioeconomic ladder (referred to as “sticky ceilings”).

Infant and early childhood contexts are crucial to understanding the persistence of advantage or disadvantage across the life course and across generations. Language development, for instance – a key precursor to literacy proficiency at older ages – is significantly lower among children from households of low socioeconomic status (Pace and others, 2016). Parents with more economic and social resources are better positioned to access better schools. The positive sorting between families and schools explains a significant share of inequality in learning outcomes above and beyond a student's family background (Anand and others, 2019). The socioeconomic composition of schools has a significant effect on differences in learning outcomes among foreign-born and native-born children, for instance. Parents can also transmit cultural knowledge, or “the rules of the game” in terms of how institutions work.

Across countries, there is a strong link between rising inequality and declining social mobility, as section 1.C illustrates. The experience of some countries, such as those in Northern Europe, that benefit from high intergenerational mobility and low inequality, signal the role that policy and institutions can have in mediating the influence of parents' characteristics on their children's future success, particularly through public funding for education, as discussed in chapter 6.

Evidence suggests that the ability of persons with disabilities to fulfil their potential has been largely stymied. Persons with disabilities face physical barriers in accessing the workplace as well as education, especially in their daily travel. Moreover, misconceptions persist about their ability to study or work and about their potential productivity, in addition to open discrimination. Unaddressed, the lower labour force participation of persons with disabilities perpetuates the myth that they are unable to contribute to society or in the workplace, and results in higher poverty levels among persons with disabilities and their families.

In sum, gaps in opportunity are widespread and not closing fast enough. Children's chances in life continue to depend on who their parents are, where they live and what they own (see box 1.7). Disparities are declining in some basic achievements such as reductions in the prevalence of stunting, but they are growing in more advanced determinants of well-being – such as access to secondary education. Unless progress accelerates, leaving no one behind will remain an unmet challenge.

C. The price of inequality

High inequality is an ethical and moral concern across cultures around the world. Promoting equality is a common ideal, a principle that should be upheld and actively pursued. However, there are instrumental reasons for tackling the issue as well, since high and growing inequality has a range of negative impacts on well-being. This section examines some of those economic, social and political impacts.

1. Slower economic growth and poverty reduction

While the relationship between inequality and economic growth is not clear-cut, recent research shows that countries with high and rising inequalities generally experience slower growth than those with lower inequality (Ostry, Berg and Tsangarides, 2014).

Inequality hurts the economy in different ways. First, greater inequality in income and wealth can result in greater disparities in access to credit or productive assets, such as land, since poorer households are unable to offer collateral or other guarantees against default. This makes it harder for lower-income households to invest in businesses or education. Forgone demand, productivity and innovation affect economic growth negatively. When those at the bottom of the income distribution are at high risk of not living up to their potential, the economy pays a price – not only through weaker demand today, but also through lower growth in the future.³⁵

In contexts of high inequality, the rich may opt out of publicly funded education and health and choose private equivalents of better quality (Ferreira, 2001; van der Weide and Milanović, 2018). The choice of private services by the wealthy can affect political support and therefore the funding of public services, making it even harder for lower-income households – who depend more on these public services – to access good-quality education and health care, further squandering potential for growth. Unequal access to education and health services has also been recognized as a barrier to productivity growth and a key contributor to economic inequality, namely in Latin America (UN-ECLAC, 2018). Low human-capital accumulation among poorer households has similarly been identified as a key factor in explaining the negative impact of inequality on economic growth (OECD, 2015a).

In addition to inhibiting economic growth, inequality can generate economic instability and market volatility. Growth spells tend to be shorter when income inequality is high (Berg and Ostry, 2011). This result holds also when other factors that affect economic

³⁵ Additionally, high income earners typically spend a lower share of their income than do other income groups (see for example Pigou, 1920; Auclert and Rognlie, 2018).

HIGH AND GROWING
INEQUALITIES
INHIBIT ECONOMIC
GROWTH, CREATE
ECONOMIC
INSTABILITY AND
HINDER PROGRESS
TOWARDS POVERTY
ERADICATION

stability, such as external shocks and macroeconomic conditions, are taken into account. The global economic and financial crisis of 2008 provided some evidence of this effect. Its onset has been linked to a combination of rising inequality, wage stagnation and financial deregulation.³⁶

Most empirical evidence on the relationship between inequality and economic growth, including the studies cited, focuses on growth in average incomes. Disaggregating the impact of inequality among different percentiles of the income distribution, van der Weide and Milanović (2018) find that, in the United States, rising inequality in net incomes has been particularly detrimental to income growth rates among the lower income percentiles, while proving beneficial to those in higher percentiles. Thus, even if inequality were found to affect overall growth positively, it is probable that such positive effects would accrue mainly to the wealthy. Indeed, across countries, high and growing levels of inequality have been associated with slower poverty reduction at given levels of economic growth (Besley and Burgess 2003; Ravallion, 2007a; Fosu, 2011).

2. Limited upward mobility

The ability to move up the socioeconomic ladder defines people's aspirations and their sense of well-being. Perceived or actual barriers to upward mobility create social tensions and put the social contract under threat.

Recent research has shown that more unequal societies tend to be less socially mobile across generations. For instance, Narayan and others (2018) find that higher inequality is associated with lower relative intergenerational mobility across a range of 75 countries in all regions.³⁷ Their results echo earlier research by Corak (2013), who named the strong association between the lack of intergenerational income mobility and inequality the "Great Gatsby Curve". That is, people's ability to do well depends more strongly on their parents' fortunes and resources in contexts of higher inequality. The relationship goes both ways: higher inequality is associated with lower relative mobility and lower mobility results in inequality of outcomes and opportunities across generations.

While Narayan and others (2018) find that the negative association between inequality and mobility is stronger in developing than in developed countries, recent findings from OECD countries indicate that social mobility across generations has declined in developed countries in recent decades (OECD, 2018a). However, mobility patterns vary considerably across countries. In countries that have experienced periods of rapid growth in recent decades – including Brazil, China, Indonesia and South Africa – high relative mobility and high inequality coexist. In these middle-income countries, there is greater mobility at the top and, especially, at the bottom of the income distribution

³⁶ See Bourguignon (2015) for a more detailed discussion of the link between inequality and the 2008 economic and financial crisis.

³⁷ Relative intergenerational mobility reflects the extent to which one does better – or worse – than one's peers, in terms of income, education, occupation or other, across generations. A person whose income is at the 75th percentile of the distribution while her or his parents' income was at the 50th percentile at a comparable point in their lives has experienced upward relative mobility. Absolute intergenerational mobility measures the absolute overall progress across generations. Most countries have seen positive upward mobility in absolute terms in recent decades.

than in other countries (OECD, 2018a). Periods of rapid economic growth, particularly in urban areas, offer greater opportunities for mobility to all, even in contexts of high inequality. These opportunities may, however, dry up if growth slows but inequality remains high. The case of China is discussed in depth in box 1.8.

BOX 1.8

China: rising inequality alongside greater social mobility

Over the past several decades, China has made rapid advances in economic development. At the same time, its Gini coefficient increased from 35 in 1990 to a peak of 49 in 2008.³⁸ Despite this dramatic rise in inequality, social mobility has also risen, particularly in rural areas where both relative income mobility and income inequality are higher than in urban areas (Chen and Cowell, 2015).

Strong social mobility has to do with the nature of the country's inequality – the result of the much faster income growth of higher-income households and urban areas, rather than a deterioration of incomes for rural or lower-income households. More than 800 million people have pulled themselves out of extreme poverty in China since 1990 (World Bank, 2018b). The expenditure growth of the bottom 40 per cent of the population is above the national average.³⁹

Government policies, especially those targeted at aiding people living in poverty and expanding public access to services and opportunities, have played a role in facilitating social mobility in China (while having limited impact on overall inequality). Strategic efforts have also been undertaken to improve the infrastructure and development of the rural and inner regions of China, to reduce the gap with richer, coastal provinces. Some of these regions have also benefited from rapid urbanization, which has opened employment opportunities for previously rural and/or lower-income households.

A series of pro-farmer policies have been rolled out since 2000, providing farmer subsidies, abolishing the agricultural tax, and enhancing social protection (Jain-Chandra and others, 2018). Reforms increased public health insurance coverage of rural households from less than 15 per cent before 2000 to over 90 per cent in 2009 (OECD, 2018a). Other measures include expanding social assistance, increasing the minimum wage, and loosening the household registration system that allows for increased migration of rural residents to small and medium-sized cities.

The Government has also instituted policies to abolish tuition fees at the primary and lower-secondary levels and provide schooling subsidies and expand access to education across all levels (Chen and others, 2015). As a result, secondary and tertiary enrolment have increased drastically since the 1980s, and today almost 50 per cent of children in China attain higher levels of education than their parents (Jain-Chandra and others, 2018; OECD, 2018a). This high educational mobility can be considered an aspect of, and lead to increased, social mobility. In general, highly unequal societies provide fewer opportunities for children at the bottom of the income distribution to do better than their parents. If poorer households cannot afford to invest in more schooling for their children, despite high returns to education, opportunities for upward mobility will be limited. High inequality can also create the perception that returns to education are low if people see that, no matter how hard they try, they cannot get the same opportunities as children from wealthier backgrounds – that is, if they perceive the system as being fundamentally unfair. Perceptions of unfairness may offset the potential “aspirational” effect of the higher wage premiums available in highly unequal societies (Kerney and Levine, 2016).

³⁸ UNU-WIDER, World Income Inequality Database. Last accessed 2 October 2019.

³⁹ UN Global SDG Indicators Database. Available from <https://unstats.un.org/sdgs/indicators/database/>. Accessed on 19 September 2019.

SOCIAL
MOBILITY ACROSS
GENERATIONS
HAS DECLINED
IN DEVELOPED
COUNTRIES

Rising inequality in income is also associated with growing spatial disparities and can lead to the concentration of poverty in certain areas, which is associated with lower relative mobility. At state or provincial levels, Narayan and others (2018) find that countries with higher educational mobility enjoy greater spatial equity in education outcomes. At the neighbourhood level, the availability and quality of public services, including schools, is lower in poorer neighbourhoods that also suffer from higher crime rates, limiting prospects for mobility (Chetty and others, 2014; Durlauf and Seshadri, 2017).

Inequality can also hurt social mobility if those at the top of the income distribution ensure that advantages are passed from parents to children. In highly unequal societies, elite groups are more effective at influencing policymakers, creating an environment that favours their interests and shielding their children from downward mobility. Political parties become more dependent on the support of the wealthy as well (Bartels, 2008). The capturing of opportunities for upward mobility by those already advantaged may result in a vicious cycle of lack of mobility and growing inequality (see box 1.9).

IN HIGHLY UNEQUAL
SOCIETIES, THE
ELITES CREATE
A POLITICAL,
ECONOMIC
AND SOCIAL
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THAT FAVOURS
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AND SHIELDS
THEIR CHILDREN
FROM DOWNWARD
MOBILITY

Even though there is a strong association between inequality and a lack of intergenerational mobility, cross-country studies have not successfully established direct causal links. It is likely that the causal mechanisms and their relative importance vary significantly by country. Moreover, mobility itself can be measured in different ways – from income mobility to educational mobility or occupational mobility – yielding different results in cross-country analyses. For example, measured by income mobility, Denmark is a more mobile society than the United States, but not when measured by educational mobility (Landersø and Heckman, 2017). Even when the focus is solely on income mobility, findings can differ depending on the measure of income used (ibid.). The quality and comparability of the underlying data used to measure intergenerational mobility also put findings into question, particularly for developing countries (Krishna and Nolan, 2019).

3. Captured political processes, mistrust of institutions and growing unrest

In principle, rising inequality should become a rallying cry for greater redistribution through progressive taxation and more comprehensive public service provision. However, this is often not the case. People in positions of power tend to capture political processes, particularly in contexts of high and growing inequality. Without strict checks and balances to prevent it, big corporations and the wealthy may use their position and resources to lobby in support of their interests, raise legal challenges to progressive tax legislation, or promote communications and media campaigns to influence, for example, public perceptions of redistribution.

A strong middle class can act as a counterbalance to the interests of wealthier groups by demanding better and more accessible public services, infrastructure and social protection. Where the middle class is small or shrinking, it exerts insufficient political pressure. Additionally, if high-income households opt out of public services,

BOX 1.9**The United States: opportunity “hoarding” among high-income households**

Social mobility is lower in the United States than in many other countries. Relative mobility has been stagnant for decades and absolute mobility has decreased substantially for those born in 1980 or after. Close to four in 10 children born to parents in the top quintile of the income distribution remain in the top quintile. This is roughly twice the probability that a child of middle-quintile parents will rise to the top quintile (Chetty and others, 2017). A contributing factor to the decline in mobility is opportunity hoarding by people in the top quintile. Through their economic and political influence, the wealthy can preserve access to important opportunities for their children, while effectively preventing less-advantaged groups from competing for them.

One channel through which high-income households hoard opportunities is zoning practices. Exclusionary zoning is particularly prevalent in urban areas. It restricts population density in affluent neighbourhoods and increases property values. Research has shown that social mobility is lower in urban areas with high levels of economic segregation (Sharkey and Graham, 2013; Orentlicher, 2016). In making some areas unaffordable for most of the population, zoning laws can effectively block access by lower-income families to high-quality public schools and other services. Moreover, since public schools are often funded locally, through property taxes, wealthy areas generate better-funded schools. Even where schools are predominantly state-funded, affluent families can lobby for additional funding for their school districts more effectively than less affluent groups and contribute a significant amount of their own resources to their children's schools.

Opportunity hoarding also factors into university admissions processes. While tertiary education is critical for upward mobility, its cost is higher in the United States than anywhere else in the world. Students from high-income households are far more likely to have a family member pay than students from low-income households, who require loans (Douglas-Gabriel, 2017). In recent years, the number of for-profit universities has increased rapidly. Most of these universities target low-income communities, even though tuition is higher in for-profit schools than in public universities. Yet students in these establishments have worse labour market outcomes and are more likely to default on their loans (Armona, Chakrabarti and Lovenheim, 2018). Many of the top universities in the United States also continue the tradition of legacy admissions – that is, they give preference to certain applicants based on their familial ties to alumni from that university – in what has been termed “affirmative action for the rich” (Kahlenberg, 2010).

In the labour market, social networks help people with more resources to access better jobs, including through the granting of internships. Approximately half of the students selected for internships are offered employment straight out of college. Unpaid internships, in particular, favour those who have the financial means to work for free.

they can become more resistant to taxation for services they do not use, leading to a growing sense of “social separatism” (Milanović, 2016). On the one hand, middle- and lower-income groups who feel the system is unfairly benefiting the rich can become politically discouraged, making redistributive policies even less likely. Evidence from Europe and the United States also suggests that people who live in highly unequal societies can become less sensitive to the unequal distribution of incomes and exert less pressure for redistribution (Roth and Wohlfart, 2018). Alternatively, unfairness can lead to political turmoil. The social movements against austerity measures in the European Union in the aftermath of the 2008 crisis and the “Occupy Wall Street” protests in the United States were all, in some way, a reaction against the combination of rising inequality and the “elite capture” of politics.

THE CONCENTRATION
OF WEALTH AND
INCOME AFFECTS
TRUST IN POLITICS
AND PUBLIC
INSTITUTIONS.
LACK OF TRUST
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POLITICAL SYSTEMS
AND HINDERS THE
FUNCTIONING OF
DEMOCRACY

Overall, the increasing concentration of wealth and income affects trust in the role of politics and public institutions to address the needs of the majority (Kuziemko and others, 2015; Larsen, 2013). Lack of trust destabilizes political systems and hinders the functioning of democracy. It threatens prosperity through its effect on the climate for investment and economic growth. It also threatens the underlying fabric that holds societies together. While trust in institutions is necessary to address social issues, and to provide and distribute public goods collectively, it can be undermined if policy decisions are perceived to be grossly unfair.

Evidence demonstrates that rising inequality substantially lowers an individual’s trust in others as well, likely through its impact on people’s perception of their position in society relative to others. In the United States, the increase in inequality between 1980 and 2000 explains almost half of the observed decline in trust in others, with a similar impact on trust in Government (Gould and Hijzen, 2016). Even faith in institutions such as property rights may be affected by perceptions of unfairness. Levels of commitment to property rights and contract enforcement, for instance, are lower in countries with higher shares of billionaires whose wealth comes from sectors prone to rent-seeking (World Bank, 2017a).⁴⁰

Rising inequality creates discontent, political dysfunction and can lead to violent conflict. In particular, a positive relationship is found between group-based inequality and violent conflict. Real or perceived inequality among social groups in access to economic resources, public services, political processes and power, along with other aspects of civic and cultural life, has been closely associated with intense grievances that, in turn, have often been mobilized to fuel violent conflict. Research suggests that when the distribution of income and wealth clearly falls along distinct ethnic or religious lines, it can be particularly harmful to social cohesion, inspiring hatred, envy and a sense of unfairness (Alesina, Michalopoulos and Papaioannou, 2016). The recent resurgence of populism in some countries has also been presented as a direct consequence of rising inequality (see box 1.10).

⁴⁰ Including those sectors that are heavily dependent on government concessions, such as finance, real estate and natural resources.

BOX 1.10**Inequality and the rise of populism**

Populism inspires a wide range of definitions. Common to most is the notion of populism as combining anti-establishment sentiments with authoritarianism and nativism. The central message of populist movements has historically been that the common people are being exploited by a privileged elite, and that radical institutional change is required to avoid such exploitation. In recent years, populist movements across the political spectrum have seen electoral success, including in the United States, several European countries and Brazil.

Scholars have provided two main explanations for the electoral success of populist movements. The first explanation highlights the role of increased economic insecurity. Increases in unemployment during the 2008 economic and financial crisis, for instance, have been identified as a driver of the rise of populism in Europe (Algan and others, 2017). In the United Kingdom, regions characterized by increasing income inequality, but also declining shares of manufacturing employment and lower real wage growth, voted systematically to leave the European Union (Becker, Fetzer and Novy, 2017).

The second explanation prioritizes cultural factors. Inglehart and Norris (2016), for example, find that the recent rise in populism in the United States and Europe has been driven more by cultural backlash – a reaction by once-dominant social groups to social and demographic changes – than by economic insecurity. Indeed, support for populist parties has grown in countries that have not seen a rise in inequality (France and Austria), as well as in countries where income growth has been relatively robust (Poland).

A backlash against globalization has been a key component of recent populist rhetoric in developed countries. It is likely that inequality, together with labour market insecurity and other economic considerations, along with cultural and demographic factors, have all played a role in the rising of populism. Milanović (2016) sees a declining middle class in a range of developed countries contributing to a sense of “social separatism”, eroding broad-based support for public services and infrastructure and giving ammunition to populist parties and individuals. Similarly, it is possible that the pursuit of a free-trade agenda in the 2000s – supported by high-income groups – left low- and middle-income groups feeling unrepresented by traditional political parties (Piketty, 2018). In the United States, for instance, counties with greater global trade exposure shifted towards the conservative Republican Party – and its populist candidate, Donald Trump – in the 2016 presidential election (Autor and others, 2016). In the United Kingdom, greater exposure to trade with China resulted in regions voting more strongly in favour of leaving the European Union (Colantone and Stanig, 2018). In both countries, however, the most consistent single predictor of how people voted were educational levels (Becker, Fetzer and Novy, 2017; Picketty, 2018). In this context, tackling inequality is only one of several social and economic policy imperatives to ensure fairer, more sustainable globalization.

D. Conclusions

High and rising inequality hinders progress towards the Sustainable Development Goals. Highly unequal societies grow more slowly than those with low income inequalities and are less successful in sustaining economic growth. They also are less effective at reducing poverty. Without appropriate policies and institutions, inequalities lead to a concentration of political influence among those who are already better off, and therefore tend to create or preserve unequal opportunities.

Yet growing inequality is not inevitable. Although economic inequalities have generally increased in most developed countries since 1990, they have declined in many countries of Latin America and in several countries of Africa and Asia, albeit from very high levels. Differences are found in the timing, direction and intensity of distributional changes across countries, even within regions. Inequality among countries has declined in relative terms but remains very high.

Similarly, some countries have seen increases in group-based inequality but, once again, trends vary by country and depending on the indicator used to assess progress. The data presented in this chapter indicate, for instance, that average gaps in children's stunting are declining, yet disparities in secondary education are not. The educational attainment of persons with disabilities is increasing rapidly, yet their employment opportunities are not.

Major global trends, including those examined in the next chapters, are undoubtedly affecting the distribution of opportunities and resources. Some megatrends may help equalize opportunities while others may exacerbate income inequality, mainly through their effect on labour markets. Yet their impact is not predetermined. Inequality levels and trends differ even among countries at similar levels of development and that are equally exposed to trade, technological innovation and even the effects of climate change. Success stories in reducing inequality illustrate the importance of national policies and local institutions.

ANNEX 1: MEASURING ECONOMIC INEQUALITY

There are different ways to measure and summarize the distribution of income, consumption or wealth, and the levels of economic inequality among individuals and households. Each of the available indicators has strengths and limitations.

The most widely used indicator of inequality is the Gini coefficient, which ranges from 0 (perfect equality) to 100 or 1 (complete inequality, in the sense that one person has all the income – or consumption – while others have none). The closer the coefficient is to 100 (or 1, depending on the scale used), the more unequal the distribution. The Gini coefficient of within-country inequality measures the distribution of income (or consumption) among individuals or households in each country. In contrast, the Gini coefficient of international inequality is obtained by taking each country's income per capita as one observation or data point. That is, it calculates income inequality among average persons in each of the world's countries. A variant of this coefficient weighs each national income per capita by each country's population to account for the fact that China's income and its economic growth, for instance, affect more people than the income and growth of smaller countries. The international income inequality trends described in section A.1. are based on the weighted Gini coefficient. The Gini of global inequality – also presented in section A.1. and discussed in box 1.2 – goes beyond the mean incomes of each country to account for inequality both among and within countries.

The Gini has important advantages over other indicators as well as several limitations. Namely, it has a clear graphic representation. As any summary measure, it allows for general conclusions regarding inequality trends. At the same time, it does not identify whether rises or falls in inequality are triggered by changes at the bottom, middle or top of the distribution. The Gini itself is more responsive to changes in the middle of the distribution than other indices and less responsive to changes at the very bottom and at the very top.

A detailed analysis of distributional changes calls for additional indicators. The shares of income, consumption or wealth at the top or the bottom of the distribution – that is, the share of the bottom or top 10 per cent or 1 per cent of the population – are better indicators of income concentration at these extremes. Each measure focuses on one part of the full distribution and therefore does not provide full information. Combining different shares (for example, relating the share of the top 10 per cent to that of the bottom 40 per cent, as the "Palma ratio" does, or that of the top 1 per cent to the bottom 50 per cent) allows for broader conclusions, but the results may be ambivalent. For instance, the share of income going to both the top 1 per cent and the bottom 50 per cent has increased in many countries in recent decades.

Income and wealth shares have not been used as broadly as the Gini coefficient until recently because their quality is often questionable, as described in box 1.1. Recently, the use of sources of information other than surveys has helped to improve the quality of data on income, wealth and consumption at the top of the distribution. The World Income Lab's Database initiative, in particular, combines data from national accounts, surveys, tax records and wealth rankings in order to track changes at the top more precisely. WID estimates are available for 70 countries, but only three in Africa. In developing countries where tax data are available, data quality may be questionable given the absence of broad income taxes in many of them and the incomplete taxation of capital incomes.

It is, however, important to note that household surveys contain abundant information that is not available in any other of the sources listed. With the necessary corrections from administrative or other data, they are likely to remain the primary source of information on various dimensions of inequality.

Considering that each indicator of economic inequality has strengths and limitations, the analysis in this report relies on more than one indicator. The authors note that cross-country analyses are still affected by data consistency and comparability. In general, there are trade-offs between coverage and comparability.

One of the main reasons for the lack of comparability among data sources is that some surveys collect information on income as the main indicator of economic well-being, while others use consumption expenditure. Developed countries and those in Latin America tend to use income surveys, while surveys in Africa and many Asian countries record consumption. Non-harmonized cross-country series of the Gini coefficient often rely on a mix of consumption and income data.

Given the fact that richer households tend to consume a smaller share of their incomes than poorer households (and save more), estimates of inequality based on consumption are generally lower than estimates based on income. That is, consumption data tend to understate the level of inequality if they are compared to estimates based on income data. For example, in Egypt, the Gini of consumption inequality was estimated at 31.5 in 2011 by the World Bank while the Gini of (net) income inequality was estimated at 53.9 in 2012 by the Luxembourg Income Study.⁴¹ Given the different welfare aggregates used, comparisons across countries and especially among regions – namely Africa and Latin America – must be done carefully. It is reassuring that time trends are similar irrespective of the indicator used (World Bank, 2016a).

⁴¹ Data from UNU-WIDER's World Income Inequality Database (WIID), version 4. Available online at: www.wider.unu.edu/project/wiid-world-income-inequality-database. For a broader comparison of income and consumption-based Ginis, see World Bank (2016a).

Among countries that use household income, some datasets report income before taxes and transfers (market or gross income), others report disposable or net income (after taxes and transfers), and still others report income after taxes but before transfers.

In order to increase coverage and comparability, some income inequality databases make assumptions to impute values where data are missing. The authors of this report have tried to minimize the use of imputed values. Among the databases examined, the World Bank's PovcalNet has the most non-imputed estimates for the largest number of countries. It is also the data source used for the international monitoring of SDG target 10.1. Section 1.1 of this report relies mostly on PovcalNet's estimates of the Gini coefficient provided through UNU-WIDER's World Income Inequality Database. When possible, estimates from various sources are compared to ensure consistency. In addition, estimates of the Gini coefficient of income inequality are complemented with estimates of income shares, where available, as well as estimates of wealth inequality.

ANNEX 2: GROUP-BASED^a DISPARITIES IN ACCESS TO ELECTRICITY AND SANITATION

FIGURE A.1.1

Recent trends in the proportion of households with access to electricity, by household head characteristics, 1990s to 2010s^b

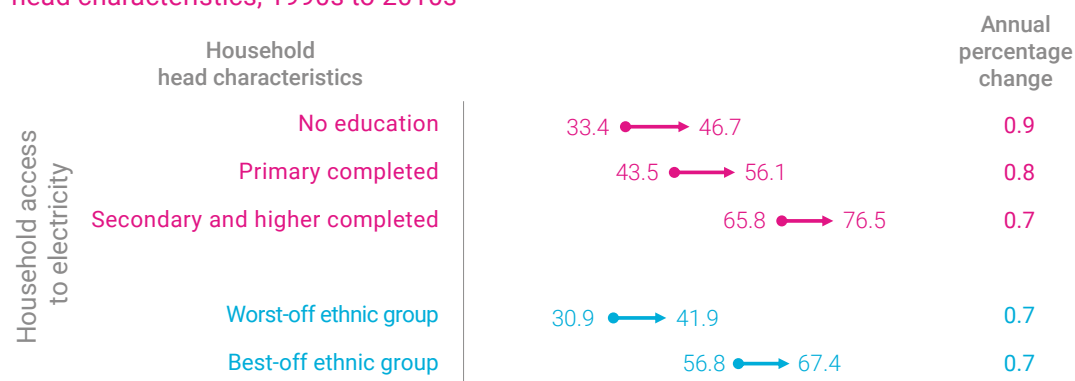
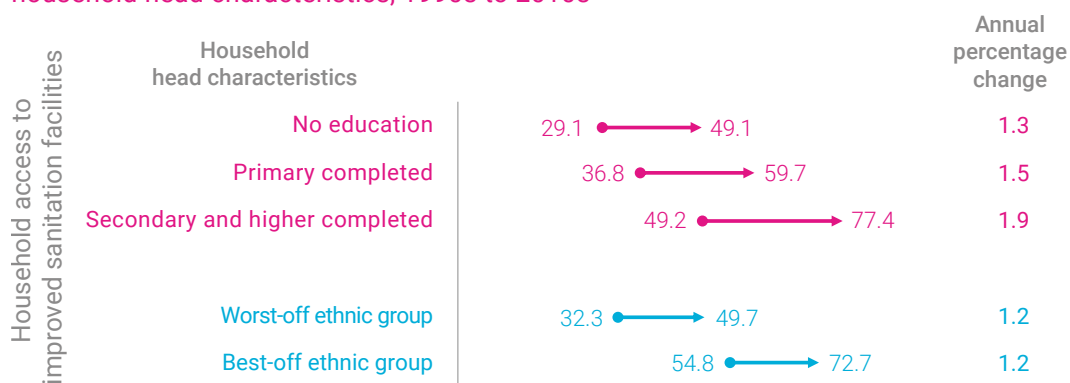


FIGURE A.1.2

Recent trends in the proportion of households with access to improved sanitation,^c by household head characteristics, 1990s to 2010s



Source: Calculations based on data obtained from DHS and MICS.

Notes:

- Ethnic groups are selected and classified as "worst-off" or "best-off" based exclusively on their access to electricity and improved sanitation in the starting year.
- Access to electricity estimates by education of the household head are based on data for 55 countries. Estimates by ethnic group are based on data for 27 countries.
- Improved sanitation is measured by the type of toilet facilities used by a household, and where the contents of the facility eventually end up (if this information is available). An improved sanitation facility is one that hygienically separates human excreta from human contact. Access to improved sanitation estimates by education of the household head are based on data for 54 countries. Estimates by ethnic group are based on data for 26 countries.