

INEQUALITY IN MIDDLE INCOME COUNTRIES:

KEY CONCEPTUAL ISSUES

**Poverty and Public Policy Group
Overseas Development Institute**

London, 04 December 2003

**Edward Anderson
Tim Conway
Andy McKay
Joy Moncrieffe
Tammie O'Neil
Laure-Hélène Piron**



Executive Summary	2
1. Introduction and Purpose of Note	4
2. Inequality in Middle Income Countries: a Brief Review	5
a. Concepts of inequality	5
b. Income and consumption inequality	5
c. Other dimensions of inequality	7
3. Economic Understandings of Relations between Poverty, Inequality and Growth	8
a. The links between poverty, inequality and growth	8
b. Economic factors influencing inequality	10
c. Responding to inequality	12
4. The Political Economy of Inequality in Middle Income Countries	16
a. Distribution of power and its contribution to inequality	16
b. Political factors influencing inequality	17
c. The politics of responding to inequality	21
5. The Importance of Promoting Rights and Tackling Discrimination to Reduce Inequality	23
a. Human rights, equality, and non-discrimination	23
b. The contribution of discrimination to social and economic inequality	24
c. Drivers of discrimination	26
d. Combating discrimination	27
i. Legal framework	27
ii. Specific policies	28
iii. International actions	30
6. Priorities for Policy Actions	31
Bibliography	32

Executive Summary

This paper has been prepared as part of a DFID-funded project seeking to increase understanding of the links between growth, inequality and poverty reduction in Middle Income Countries (MICs). It surveys the key conceptual issues relating to the understanding of inequality, and policy responses to it, with specific reference to MICs.

The motivation for the project is that MICs account for a substantial proportion of global poverty and deprivation, despite having higher average incomes than Low Income Countries (LICs). In most cases, this is a reflection of high levels of inequality. High, and sometimes increasing, inequalities threaten to be a major barrier to the attainment of the Millennium Development Goals (MDGs) in MICs, as well as globally. They reduce the amount by which economic growth reduces income poverty and also tend to reduce the rate of economic growth itself. They also represent risks to social stability, and, to the extent that they reflect widespread social exclusion and discrimination, are unjust in their own right.

Like poverty, inequality is a multi-dimensional concept. A basic distinction can be made between inequality in *outcomes*, and the inequality of *opportunities* which typically underlie them. Examples of inequality in outcomes include differentials in educational attainment, health, and income. Examples of factors restricting opportunities include discrimination or social exclusion. Besides inequality between individuals, another key aspect is inequality between different groups of the population, for example on gender or ethnic lines.

The available evidence suggests that there is a wide variation levels of inequality across MICs, with Gini coefficients for income (or consumption) varying from 21.7 in Belarus (1998 data) to 74.3 in Namibia (1993 data).^{*} The conventional wisdom that inequality is higher in MICs than LICs is not well founded: high levels of inequality are also observed in many LICs, particularly in Africa.

One can distinguish between economic, political, and social *drivers* of inequality – meaning the underlying processes which cause levels of inequality to change, or to persist, over time. The main economic drivers include capital accumulation, natural resource abundance, globalisation, technological change, and industrialisation. The much higher levels of inequality in most Latin American MICs can be attributed in part to the high ratios of natural resources to labour in the region, which raises the share of natural resource rents in national income (typically the most unequally distributed income source).

Political drivers of inequality include the level of democracy and the characteristics of political institutions. Democratic arrangements help the poor in theory, in that they guarantee the political freedoms necessary for political and social participation. Overall, however, there does not appear to be a consistent association between democracy and the reduction of inequality. The apparent inability of democratic forms of governance in Latin America to make significant sustained impact on levels of inequality is generally explained by reference to the persistence of a deep-rooted

^{*} A value of zero indicates complete equality; a value of 100 indicates complete inequality.

corporatist or clientelist character to the institutions which structure vertical relations within the politics of the region.

Other drivers of inequality include formal and informal practices which prevent individuals or groups from accessing and exercising their rights on equal terms. Such discrimination can be formal, for example through discriminatory constitutional provisions, laws, regulations and policies that are officially sanctioned by the government. It can also be informal, based on perceptions and attitudes that permeate both the private and public sphere and which can restrict equal access to services, employment and decision-making. Just as importantly, past discrimination produces socio-economic and political disadvantages, which make accessing rights and fulfilling productive potential problematic, even when formal equality has been achieved.

There are a wide range of ways through which governments can respond to inequality, including land redistribution, increasing the progressivity of government spending and taxation, improving the functioning of credit markets, and choosing macroeconomic, trade, and agricultural policies which favour poorer groups. Among these, a greater focus on those which are well targeted, and less likely to be costly in aggregate terms (e.g. progressive public spending and taxation; making markets pro-poor), and away from those which are poorly targeted, and more likely to be costly in aggregate terms (e.g. import tariffs, agricultural price support), is desirable. The most appropriate way of addressing inequality also depends on the precise sources of inequality: inequalities in land ownership for example, or inequalities in wage levels between people with different levels of education, require different policy responses.

The establishment of a legal framework that protects the right to non-discrimination is a precondition for combating formal and informal discrimination and ensuring that victims of discrimination are able to seek redress. However, further measures are also required to give this right substance, including policies such as affirmative action, and efforts to ensure that laws and policies are actually implemented and are having the intended effect. Public education and civil society advocacy work is also essential to tackle informal and internalised discrimination.

Addressing inequality also requires political tactics and strategies so that appropriate policies are passed and implemented. Here, three key points emerge. First, policies that involve dynamic (positive-sum) approaches to redistribution – by enabling the poor to capture more of the benefits of growth – are less conflictual than policies involving static (zero-sum) redistribution of existing assets. Second, the ability of the poor to form broad horizontal alliances, including social movements and political parties, is a key factor in determining whether they are able to push through comprehensive responses to inequality. Finally, in the real world of politics, even governments that are inclined to act in the interests of the poor will almost always need to form pacts and alliances with non-poor interests.

1. Introduction and purpose of note

This paper is prepared as part of a DFID-funded project seeking to develop our understanding of the links between growth, inequality and poverty reduction in Middle Income Countries (MICs). Besides this paper, the project involves three country case studies (Brazil, China and South Africa) addressing similar issues. This paper surveys conceptual issues relative to understanding and responding to inequality in general, but also with specific reference to MICs. It has been prepared by an ODI team with expertise in the different themes it covers. This represents the first complete draft of this paper (and a substantial update of the early outline draft circulated on 19 September 2003).

The motivation for the overall project is that Middle Income Countries account for substantial absolute levels of global poverty and deprivation despite the fact that their average income levels are higher compared to Low Income Countries (LICs). This reflects high levels of inequality in many cases. Such high (and sometimes increasing) levels of inequalities threaten to be a major barrier to the attainment of the MDGs in Middle Income Countries, as well as globally. They also represent important risks to social stability and progress, as well as being unjust in their own right to the extent that they reflect widespread social exclusion and discrimination. In other words, the focus on inequality in this project is both for instrumental reasons (its likely impact on poverty reduction, growth rates and social stability) and for intrinsic reasons (high levels of inequality being undesirable in and of themselves).

The focus then of this work is on the relationships between **poverty reduction, inequality and growth**. This covers both economic and non-economic aspects, recognising that the latter (social, political and governance dimensions) are currently less well understood. The country case studies and the concept paper each address a similar set of questions. This paper specifically focuses on the following aspects:

- Providing a brief review of the extent of inequality in Middle Income Countries in general (adopting a broad understanding of inequality where data permit) (section 2);
- Discussing key economic factors and policies influencing the relationships between growth, inequality and poverty reduction, and appropriate responses (section 3);
- Setting out an understanding of the political economy factors underlying inequality and influencing or constraining relevant actions to tackle inequality and make other policy actions effective (section 4); and
- Building on the earlier sections, a specific consideration of the extent to which inequality reflects discrimination and a lack of respect for rights, and considering how this can be addressed (section 5).

Appropriate policy actions or issues open to governments, donors and others in tackling inequality are discussed in each of sections 3 to 5, and are then synthesised in a final concluding section.

For this work programme, briefing papers on inequality previously prepared by ODI for DFID also provide relevant background by reviewing issues in relation to (i) concepts and measurement of inequality; (ii) the economic links between inequality, poverty reduction and growth; and (iii) policy issues in responding to inequality.

2. Inequality in Middle Income Countries: A Brief Review

Middle Income Countries (MICs) are defined by the World Bank as countries whose GNI per capita in US\$ in 2000 lay in the range \$755 to \$9265. In 2002 there were 93 MICs, which are further subdivided into lower and upper Middle-Income Countries depending on whether their GNI was greater than or less than \$2995 in 2000. Of the case study countries, China is a lower middle-income country and Brazil and South Africa are upper Middle-Income Countries.

2.1. Concepts of inequality

Inequality, like poverty, needs to be seen as multidimensional in nature. In this paper we will focus both on inequality of *outcomes* and on the inequality of *opportunities* that typically underlie this. Both are important for policy purposes. Examples of inequality in outcomes include differentials in educational attainment, access to health facilities or in incomes. Discrimination or social exclusion, either of which can take different forms, are important examples of factors restricting opportunities to some, and discrimination in particular is considered in some detail in this study.

Inequality in outcomes is typically measured by summary indices capturing inequality between individuals, with the Gini coefficient being the measure most widely used, and most commonly for income or consumption. This takes values between zero (when there is no inequality) and 100% (in the theoretical case where one person has everything). While there is no precise guidance, we can reasonably consider a Gini coefficient of above 40% as representing a relatively high level of inequality, though values are much higher in some countries. Measures of other dimensions of inequality are sometimes reported or can be calculated (see ODI Inequality Briefing Paper No. 1).

Besides inequality between individuals, another key aspect is inequality between different groups of the population, for example on gender or ethnic lines. The latter is generally referred to as horizontal inequality (Stewart, 2002), and is a major policy issue in its own right, including as a potential threat to political stability. Horizontal inequality is more commonly considered from a multidimensional perspective. In focusing on horizontal inequality though, it is important to remember that there is generally significant differentiation within the groups.

In practice it is necessary to rely on currently available data. At present data on inequality in MICs mostly relate to income/consumption inequality and education inequality, with some information on health inequalities and some generally very dated information on land inequality. We review these briefly below; more detailed information is contained in a separate Statistical Annex.

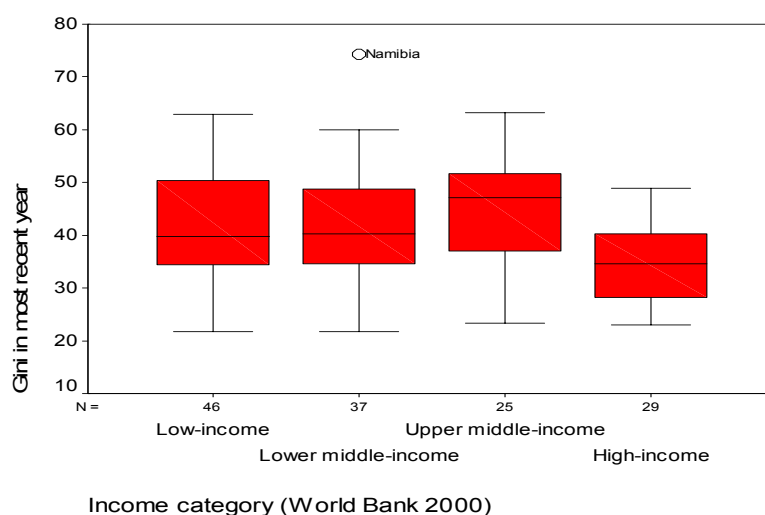
2.2 Income/consumption inequality

Based on currently available international income or consumption inequality data compiled by Dollar and Kraay (2001), there is a wide variation in inequality levels across MICs, with Gini coefficients varying from 21.7 in Belarus in 1998 to 74.3 in Namibia in 1993. 23 MICs, including many former Central and Eastern European

and Central Asian transition countries, have Gini coefficients below 40, so it is incorrect to think that all MICs have high inequality levels.

Figure 1 shows how levels of income/consumption inequality in MICs compare with those in other countries in the form of a 'box-plot' diagram. The figure suggests that there is little difference between levels of inequality observed in MICs and those in low-income countries, although both groups tend to have higher inequality than High Income Countries (HICs). In other words, levels of inequality vary a lot within LIC and MIC groups, but not between them.

Figure 1 Box-plots of Gini coefficients (in most recent year) by income category (in 2000)



Notes: The dark lines show the median level of inequality in each income group, the red boxes show the range which contains the middle 50% of observations in each category, known as the inter-quartile range, while the lines from each box show the distance to the minimum and maximum points, assuming these points are less than 1.5 box-lengths from the box. Extreme points, defined as those more than 1.5 but less than 3 box-lengths from the box, are shown by a circle. Outliers, defined as those observations more than 3 box-lengths from the box, are shown by a cross.

Some qualifications though are required about the quality of the data and their comparability. Inequality data are not available for 30 MICs. For those for which data are available, there is quite a large variation in the year to which they relate, although most are from the 1990s. Some data relate to inequality in incomes and others to inequality in consumption, while some relate to post-tax income while others refer to pre-tax income. This creates comparability issues, in that income inequalities can generally be expected to be greater than consumption inequalities, and pre-tax income inequalities greater than post-tax income inequalities.

Where data enable a comparison of inequality levels between the 1980s and the 1990s (31 cases), the Gini coefficient was observed to increase in more cases than it fell. A number of the cases of rising Gini coefficients are transition countries, with the process of transition presumably being a major factor here.

2.3 Other dimensions of inequality

Thomas *et al.* (1999) have calculated Gini coefficients for educational attainment for a large number of countries, including 42 current MICs, between 1960 and 1990. This shows a clearer pattern between inequality and income category. MICs, on average, have lower education inequality than LICs, but higher education inequality than HICs. Lower MICs have higher education inequality than upper MICs. In the vast majority of cases, education inequality fell over the 1970s and 1980s, but with some exceptions. In several Latin American countries, education inequality fell in the 1970s but then rose in the 1980s (Ecuador, Peru, Colombia, Paraguay, Venezuela, and Costa Rica).

Measures of health inequality between socio-economic groups have been calculated by Gwatkin *et al.* (2000), Wagstaff and Watanabe (2000) and Wagstaff (2000). These data show that poorer groups have statistically significantly worse health outcomes than richer groups;) the amount of health inequality between rich and poor groups varies across countries; and that countries with better aggregate health outcomes tend to have higher levels of (between (income) group) health inequality. The third result is surprising as it is the reverse of the education case.

There are limited data on other aspects of inequality although some information on “voice” – in the sense of political power/participation/influence – is available:

- proportion of seats held by women in parliament (HDR);
- proportion of women among legislators, senior officials and managers (HDR);
- measures of the extent to which citizens of a country are able to participate in the selection of governments (Freedom House, Kaufman *et al.* 2003).

Available data on land inequality (assembled by IFAD, 2001) are generally very dated with Gini coefficient estimates not available for many countries since the 1950s. These generally show very high levels of inequality, which tend to be higher in MICs compared to LICs and HICs.

There are limited available data on gender wage differentials, but Tzannatos (1999) finds that the gender wage differential has fallen in 11 MICs. Similarly there is little comparable information on rural-urban differentials across countries.

In summary, while many MICs have high levels of inequality in different dimensions, there is quite a lot of variation across countries and many also have relatively low levels of inequality. The conventional wisdom that inequality is higher in MICs than LICs is not well founded, with high levels of inequality in many low-income African countries for instance. The case study countries chosen for this project focus on one country with a relatively low, if increasing, level of inequality (China) and two with high levels of inequality (Brazil and South Africa).

3. Economic understandings of relations between poverty, inequality and growth

3.1 *The links between poverty, inequality and growth*

There are four key links between levels of monetary poverty, inequality, and economic growth within countries. First, reductions in income poverty can result either from economic growth, or reductions in income inequality, or some combination of the two. In other words, in a purely accounting sense, the income of the poor can increase either because of increasing average income (often described as the ‘growth’ effect) or by increasing the share of the poor in total income (often described as the ‘redistribution’ effect).¹

Several researchers have used this relationship to ask whether increases in the incomes of the poor over time have been driven mainly by ‘growth’ or by ‘redistribution’. A widespread view is that changes in the distribution of income have in the past been too small to make a significant difference to poverty reduction (Deininger and Squire 1998; Bruno *et al.* 1996). The implication is that the route to poverty reduction is predominantly through growth.

More recently this view has been challenged. There is increasing evidence that inequality levels can change over time, and that even quite small changes in inequality can have quite large impacts on poverty. White and Anderson (2001) find that, although the ‘growth effect’ has been the main source of income growth for the poor in most countries in recent decades, in a substantial minority (roughly one quarter) of cases the ‘redistribution effect’ was more important. Ravallion (2001) shows that reductions in income poverty have been much larger in those developing countries which have combined rising average incomes with falling income inequality. Reductions in inequality have made a significant contribution to poverty reduction in the past, and can continue to do so in future.

Second, the amount by which economic growth reduces income poverty – commonly referred to as the ‘poverty elasticity’ of growth – depends on the initial level of inequality. Holding inequality constant, small increases in average income may be enough to lift large numbers of people out of poverty when income is fairly equally distributed, but not in countries where income is unequally distributed (Naschold, 2002).

A number of recent studies have shown the extent to which poverty elasticities of growth vary with initial levels of inequality (Ravallion, 1997; Hanmer and Naschold, 2002). Hanmer and Naschold (2002) find that high-inequality countries need as much as three times the amount of economic growth to reduce poverty as low-inequality countries. The implication is that reductions in poverty in high-inequality countries will be very difficult to achieve unless inequality is explicitly addressed.

Third, an increasingly wide body of empirical studies find that countries with high levels of inequality tend to experience lower rates of economic growth (Persson and Tabellini, 1994; Alesina and Rodrik, 1994; and more recently Deininger and Squire,

1998 and Easterly, 2002).² We can distinguish between economic and political economy hypotheses as to why this might be the case. Economic explanations typically focus on the role of imperfections in the credit market (Piketty, 2000). When imperfections exist, people's access to credit to accumulate new assets (such as education) depends on their ability to offer a certain amount of existing assets (such as land or financial savings) as collateral against the risk of default. When existing assets are unequally distributed, relatively few households are able to offer the necessary collateral to borrow, and the rate of aggregate investment in new assets is lower than it would otherwise be.³

Political explanations, by contrast, often focus on the fact that governments in countries with high inequality typically come under substantial pressure from their citizens to redistribute incomes, through the use of such instruments as high marginal tax rates on income, import tariffs and quotas, and wage regulation. Such redistribution can reduce economic growth by lowering incentives for private sector investment (Alesina and Rodrik 1994; Persson and Tabellini 1994). In this sense, inequality can be thought of as a cause of poor governance, defined as sets of 'market-unfriendly' policies and institutions which have adverse effects on economic growth. (This is of course only one possible definition of governance.)

This last point leads into the fourth key link between poverty, inequality, and growth. The fact that inequality has potentially adverse effects on growth does not mean that all redistributive measures will increase growth. In some cases, redistributive measures, such as taxation, have adverse effects on incentives for work and investment, and lower growth. However, many developing countries have not reached the point at which higher taxation does in fact become harmful for growth, because taxes are also used to finance productive expenditures on public goods, which benefit the rich as well as the poor. Moreover, there are a number of important economic policy issues where efficiency and equity do not appear to be in conflict (Bardhan and Udry, 1999), such as policies focusing on gender or on access to credit for the poor.

To summarise, reductions in inequality can make a significant contribution to poverty reduction, alongside economic growth. Lower inequality in turn increases the amount of poverty reduction associated with economic growth, and may also raise economic growth itself. Policy-makers may still face some difficult choices or trade-offs between lower inequality and higher economic growth, but the extent of these trade-offs should not be taken for granted and may have been over-emphasised in the past. We now turn to a discussion of the economic forces which affect inequality, before considering in section 3.3 the sorts of economic policies available to governments wishing to address inequality.

² The traditional view among development economists was in fact the opposite: higher inequality would increase economic growth, through diverting resources to richer groups who saved a higher proportion of their income. Some recent studies, using alternative techniques, do in fact find a positive relationship between inequality and economic growth, although it is fair to say they are in the minority.

³ Other 'economic' explanations focus on the role of an equal distribution of assets in ensuring that a greater proportion of the population can reach the minimum nutritional requirement for effective participation in the labour market (e.g. Dasgupta and Ray 1986).

3.2 *Economic factors influencing inequality*

In this section we describe the underlying economic forces which influence levels of inequality within countries, which might be referred to as ‘drivers’ of inequality. There are in our view five such factors, which we label capital accumulation, natural resource abundance, globalisation, technological change, and industrialisation. These forces affect inequality both by altering the distribution of assets, and by altering the returns to different categories of labour and capital. Other ‘political’, ‘social’ or ‘cultural’ influences on inequality are considered in Sections 4 and 5.

Capital accumulation

While basic economic theory suggests that in the process of growth there are strong tendencies for the distribution of assets, and therefore income, to become more equal (Stiglitz, 1969), this does not necessarily happen in practice. Two possible explanations are differences in wage income (driven by inherent productivity, ability or discrimination), and differences in savings rates. These provide explanations for *persistent* differences in the ownership of assets, and therefore income, among individuals over time. Another possible explanation is based on the existence of capital market imperfections (Piketty 2000). When capital markets are limited, and there are significant fixed investment costs, existing levels of assets determine individuals’ opportunities for accumulating new assets, and poorer groups are forced to forego profitable investments.

Natural resource abundance

Levels of natural resource endowments are another economic influence on inequality. In countries with high ratios of natural resources to other factors, the share of income from land and natural resources in total national income tends to be higher. Given that this tends to most unequally distributed source of income, overall inequality is higher as a result. This provides one plausible explanation as to why observed levels of income inequality are significantly higher in both sub-Saharan Africa and Latin America (with predominantly high ratios of natural resources to other factors) than they are in either South or East Asia (with predominantly low ratios of natural resources relative to other factors).

However, there is clearly no automatic link between natural resource endowments and inequality. Many countries with abundant natural resources contain large populations of smallholder farmers, and inequality of land ownership is not always greater than that of other assets. In others, revenues from natural resources are distributed relatively equally via taxes and public expenditure.

Globalisation

Economists have long thought that globalisation – defined here as reductions in natural and artificial barriers to international movements of goods, services and factors of production – has significant impacts on inequality within countries. The central prediction of Heckscher-Ohlin (HO) trade theory is that globalisation raises the returns to relatively abundant factors of production, and reduces the returns to relatively scarce factors. If this applies, globalisation would tend to reduce inequality in countries abundant in unskilled labour for example.

As a group, MICs fall either side of the average world endowment of skilled relative to unskilled labour. As a result, the effects of globalisation on the returns to skilled relative to unskilled labour are likely to vary (at least according to HO theory), positive (tending to increase inequality) for those MICs with endowments above the world average (e.g. Brazil), and negative (reducing inequality) for those with endowments below the world average (e.g. China). In any case, effects are likely to be smaller than they are for LICs and HICs with their more extreme endowments of skilled relative to unskilled labour.

MICs also fall either side of the world average endowment of natural resources (NR) to labour. The effects of globalisation on the relative returns to NR will therefore also vary: positive in NR-abundant Latin America, and negative in NR-scarce East Asia. Effects in this case may be large, given that some MICs do have extreme endowments of NRs relative to labour by world standards. Effects on overall income inequality still depend on how NRs are owned, and the extent to which revenues are distributed via the state, but there is certainly a danger that further globalisation will exacerbate existing inequalities in NR-abundant Latin American MICs.

In practice, effects of globalisation on inequality are likely to be significantly more complicated than the above discussion suggests. First, additional effects arise if we assume, as seems plausible, that some factors of production (e.g. capital, highly-skilled labour) are more mobile internationally than others (e.g. unskilled labour). In this case, immobile factors bear a greater share of the effects of transitory productivity shocks, causing their incomes to become more volatile and, to the extent that they are risk-averse, a welfare loss (Rodrik 1997). Second, further effects arise when we allow for the fact that increased openness typically brings new production technologies to a country, which affect the demand for different types of labour.

Technological change

Technological change can be considered as a separate influence on inequality, although in developing countries it is difficult to disentangle it from globalisation, given that most of the world's new technologies are created in (a subset of) developed countries, and diffuse to developing countries through trade, foreign direct investment, or labour migration (depending on the degree of openness).

Greater openness to foreign technology in the industrial sector is generally thought to increase inequality in developing countries, at least in the short-run, by increasing the relative demand for skilled labour. This might be for three reasons. First, learning and adapting to a new technology is a difficult task which requires the use of skilled labour (Pissarides 1997). Second, recent technological progress in developed countries has reduced firms' demand for unskilled labour, and is likely to have the same effect when transferred to developing countries (Berman and Machin 2000). Third, cheaper access to foreign technology allows firms in developing countries to compete internationally in more skill-intensive goods and services, which raises the average skill-intensity of production in developing countries (Wood 2002). In the medium-run, an increase in the relative demand for skilled labour may be offset by an increase in the relative supply of skilled labour.

Industrialisation

Development economists have long been concerned with how inequality evolves during the process of industrialisation: the transfer of surplus labour from a low productivity (mainly rural, agricultural) sector to productive employment in a high productivity (mainly urban, manufacturing) sector. In early discussions the main prediction was that inequality would follow an inverse-U shaped pattern – the so-called ‘Kuznets-curve’ – first rising and then falling as industrialisation proceeds.⁴ The evidence from a number of recent studies though does not support this hypothesis (Deininger and Squire, 1998; Barro, 1999; Ravallion, 2001). However, this is not to say that shorter Kuznets-type effects are not in operation in particular countries at particular points in time. For instance, new technologies may increase inequality initially, but the rise may gradually decelerate and eventually be reversed as the new technology becomes standardised, and as individuals and public agents react by acquiring new skills.

3.3 Responding to inequality

This section outlines the sorts of ‘economic’ policy interventions governments can use to influence the level of inequality. By ‘economic’ we mean those relating to the ownership of factors of production, the structure of markets, and patterns of public spending and taxation. A number of these economic policy measures can unambiguously reduce inequality. However, in practice political factors may limit the extent to which such actions are taken and/or their effectiveness in practice. Some interventions are explicitly redistributive in nature, involving losers as well as gainers. Others influence the distributional pattern of growth. In both cases they are likely to attract explicit opposition. Some of the political economy factors limiting the scope for change, or that provide opportunities to do so, are discussed in more detail in Section 4. At present we focus on the economic policies themselves.

Public expenditure and taxation

One of the key ways in which governments can influence inequality is through public spending and taxation. Through this channel they can influence both the distribution of income at a single point in time, and the extent to which poorer groups accumulate human and financial capital at a faster rate than richer groups over time. Essentially, there are three sets of options open to governments. First, they can increase the progressivity with which a given amount of tax revenue is collected, meaning the extent to which average tax rates increase with income levels. Second, they can increase the level of public provision of goods and services, such as health, education, water and sanitation which currently do not reach the poor sufficiently. Third, they can increase the level of expenditure explicitly targeted at poorer groups (again increasing total tax revenues, but holding progressivity constant). We consider the relative advantages and disadvantages of these options in turn.

⁴ The underlying mechanics of this relationship are typically derived from dualistic or two-sector models of development. An agricultural/rural sector originally constitutes the bulk of the economy. Workers who leave the sector experience a rise in income, which initially raises overall inequality. However, as the size of the agricultural/rural sector diminishes, more workers are able to join the higher-paying industrial/urban sector, which eventually lowers overall inequality. These effects may be reinforced by a rise and subsequent fall in the share of profits in national income.

Taxation

Research on taxation in developed countries suggests that governments do have the scope to achieve lower inequality of post-tax incomes, through more progressive taxation, assuming they have the desire to do so (Heady, 1993). For instance, income taxation can be made more progressive by combining higher marginal tax rates with higher personal allowances, or by raising marginal tax rates for higher earners. Or expenditure taxes can be made more progressive by exemptions or lower rates on items important in the consumption baskets of the poor. Greater progressivity can also be achieved by an increase in the proportion of total tax revenue accounted for by income relative to expenditure taxes, given that the poor typically consume a greater fraction of their income than other people.

However, there are likely to be barriers to the amount of tax progressivity which can be achieved in developing countries, because of the disincentive effects of higher marginal rates of income tax (in terms of reduced labour supply) and because of weak and/or corrupt tax administration that limit the total amount of income tax which can be collected. The latter calls for institutional reform, the former is more difficult to tackle.

Public provision of goods and services

Governments can also contribute to lower inequality through expanding the public provision of health, education, water, sanitation, infrastructure, and other services if these services reach poor groups sufficiently. To the extent that such expenditure is financed by taxation which is at least somewhat progressive, the result is an indirect subsidy to the consumption of, and – more importantly – the accumulation of human and physical capital by, poorer groups.

The key issue, however, is the extent to which publicly provided goods and services are truly public: available, at the same cost and quality, to all citizens equally. This clearly cannot be taken for granted: a large body of evidence suggests that supposedly public spending on health, education, water, sanitation and electricity services fails to reach less well-off groups (World Bank, 2003a). Reducing these inequalities in provision, without reducing the progressivity of taxation, is one important task for governments seeking to address inequality.

Targeted spending

Governments can also subsidise the consumption and/or investments of poor people more directly, by providing targeted or ‘means-tested’ programs. The types of monthly cash benefits familiar in high-income countries are not feasible in most developing countries, although there are greater possibilities of such schemes in MICs. Instead, programmes are more likely to take the form of food subsidy schemes, subsidised education, health, or water user-charges, cash or in-kind benefits tied to the attendance of children in school (such as the *Bolsa Escola* scheme in Brazil, the Food for Education program in Brazil, and the PROGRESA scheme in Mexico), or employment guarantee schemes (such as the Employment Guarantee Scheme in Maharashtra, India, and the Trabajar Scheme in Argentina).

With targeted spending, the key issue is the extent to which programmes are successfully targeted on poorer groups. The evidence suggests that, typically, many such programmes are not. Increasing the efficiency of targeting, without undermining

political support for the programmes themselves, is another key task for governments seeking to address inequality. Employment guarantee schemes are often the most successfully targeted, as wages are typically set at such a level that they are of appeal only to poorer groups (typically referred to as ‘self-targeting’). However, it is also important to have local capacity to monitor such schemes and enable poor people to benefit from such schemes.

Land redistribution

Where high levels of inequality reflect patterns of land ownership, the most obvious policy response is land reform. This is arguably the case in much of sub-Saharan Africa and Latin America. A wide body of evidence on the experience of previous land reform programs in developing countries shows a mixed record. There are several examples of mainly successful land redistributions, which have raised the incomes and security of the rural poor, without sacrificing (or which have benefited) agricultural productivity, including Kenya, South Korea, Taiwan, and Vietnam. But there are many other cases where reforms have been much less successful: in terms of being vulnerable to state capture, biased against the poorest, inadequately accompanied by supporting services, and having resulted in more insecure property rights. Questions have also been raised about the long-term viability of small farms created by reforms (Ashley and Maxwell, 2001; Killick 2001).

Partly reflecting these difficulties, there is growing interest in measures which operate through the development of land rental markets, and through more ‘market-assisted’ processes. These rely on voluntary land transfers between buyers and willing sellers, with the role of central government confined to establishing a legal framework and providing part of the purchase price to eligible beneficiaries. These types of interventions come under the heading of ‘making markets work for the poor’, which we consider further below.

Making markets work for the poor

Governments can also contribute to lower inequality by alleviating the credit market imperfections which restrict the ability of poorer groups to accumulate assets. Different types of policy interventions may be appropriate for achieving this aim. One is support for informal micro-credit schemes. This type of support has generally proved more financially viable, and better targeted toward the poor, than rural credit programmes sponsored more directly by the state.

More generally, governments can increase poor people’s access to credit markets by strengthening the legal framework and institutions on which credit markets rely. Improvements in rural infrastructure can also help, by reducing the high transaction costs (relative to small loans) typically faced by poorer groups.

Macroeconomic policy

Governments can contribute to lower inequality by pursuing macroeconomic stability, through the use of sound fiscal, monetary and exchange rate policies. This is because an increasingly wide range of evidence suggests that macroeconomic instability, although harmful to all, is particularly harmful to poor people. For instance, the poor are particularly adversely affected by high inflation, either because they hold a greater share of their assets in cash, or because a greater share of their income is fixed in nominal terms, e.g. minimum wages or state pensions (Cardoso, 1992; Easterly and

Fisher, 2000). They are also more vulnerable to volatility, in the sense that a temporary reduction in income could have a permanent effect: if, for instance, it requires withdrawing children from school.

Governments also affect inequality by the particular way in which macroeconomic stability is achieved. For instance, when countries are faced by adverse external ‘shocks’ (such as a capital outflow, or a terms of trade decline), maintaining macroeconomic stability usually requires a reduction in government spending, an increase in government revenue, or some combination of the two. Which is chosen, and exactly how it is done, has potentially very different implications for inequality. A given reduction in public expenditure, or a rise in revenues, can also be achieved in different ways, with again potentially very different implications for inequality.

Trade policy

Governments can influence inequality through their choice of trade policy, meaning the level of tariffs and quotas on imports, and taxes or subsidies on exports. To the extent that integration into international markets is a driver of increasing inequality (a contested issue), an important question is whether an increase in restrictions on trade, such as import tariffs, quotas, or export taxes, or restrictions on international factor mobility, such as capital controls or immigration restrictions, are an appropriate policy response.

Economists typically argue against the use of trade policy to reduce inequality. The main reason is that it can be very costly, in terms of lost opportunities associated either with specialisation according to comparative advantage, or with cheaper access to foreign technology. Even if greater integration does raise inequality, it is generally believed that governments can redistribute income via other means – notably, through public expenditure and taxation – at a lower cost to society.⁵

Agricultural and rural development policy

In a similar vein, there are also good reasons not to use agricultural policies to address inequality, even where rural-urban inequality is a significant source of overall inequality. Such policies are typically very poorly targeted. Consider, for instance, a policy of artificially raising food prices to reduce rural-urban income gaps. However, higher food prices directly benefit only food surplus farmers, and they reduce the real incomes of landless labourers (in both urban and rural areas) and food deficit farmers. Among food surplus farmers, higher increase the incomes of those with a large marketed surplus more than those with a small surplus. Instead, more efficient instruments of income redistribution are typically available.

⁵ There are of course exceptions to this argument. There are some efficiency arguments for trade protection, in which case there is no necessary trade-off between lowering inequality through trade protection and promoting economic growth. There are also limitations to the amount of redistribution which can be achieved through the budget, especially when tax administration is weak or corrupt. However, few studies have found empirical support for the hypothesis that protection can be good for growth; moreover, if tax administration is weak or corrupt, it is likely that trade policies will be set more to support existing inequalities than to reduce them.

3.4 *Summary*

Some key points stand out from the above discussion.

- Among the various instruments for redistribution, a distinction can be made between the less efficient (e.g. trade policy, agricultural policy) and the more-efficient (e.g. public expenditure and taxation, and some forms of asset redistribution). Greater focus on the latter is clearly desirable, but with an important focus on building up on helping the poor accumulate assets (including human capital).
- The most appropriate responses to inequality depend more on the proximate *sources* of inequality, than they do on the underlying *drivers* of inequality. For instance, it would be more important for policy-makers to know that a rise in inequality reflects a rise in the return to educated labour, than it would be to know the precise cause of that rise.

The next two sections consider other political and social explanations as to how and why inequality may change over time and differ across countries, and other, broader political and legal interventions, which are likely to be necessary in addressing inequality effectively.

4. **The political economy of inequality and poverty in MICs**

This section examines political explanations of the root causes, persistence, and nature of responses to inequality. It is divided into three sections. The first examines how the distribution of power contributes to social and economic inequalities. The second considers the underlying political drivers of the distribution of power and inequality, including regime type and institutions. The third examines the political aspects of the policy responses to inequality outlined in the Section 3.3, and in particular how such policies get implemented in practice.

4.1 *Distribution of power and its contribution to inequality*

There is a strong and obvious link between inequality in socio-economic well-being (income, consumption, assets and human development) and unequal distributions of power. At all levels, those with power can and usually do use it to defend and advance their own positions, crafting (or ignoring) public policies in ways that perpetuate and/or exacerbate unequal access to opportunities and resources. The power of the rich may be exercised both through the realms of social and economic relations, through elite capture of the institutions of government and bureaucracy, and through the structures of the state and processes of policy-making and public expenditure management.

Often, different types and sources of power – structural and discursive, political, economic and socio-cultural – overlap to a substantial degree, reinforcing each other and presenting substantial obstacles to egalitarian or pro-poor change. In other circumstances, different groups have somewhat different sources of power which are only imperfectly substitutable, creating political space within which challenges, conflicts, compromises and change can occur. Thus, in a number of countries an ethnic minority commercial elite may hold economic power, but may not be able to fully or dependably translate this into political power. Similarly, there may be

tensions between: a) formal institutional practices (e.g. electoral democracy, constitutions which assert the equality of rich and poor before the law) which confer a degree of power upon the poor and provide a basis for egalitarian policies; and b) informal institutions (e.g. of patronage or discrimination) which serve to entrench differences in opportunity and outcome. The challenge for the poor and their allies in MICs is thus to use opportunities (e.g. intra-elite competition at elections) to leverage greater power.

Although always changing, the distribution of power at any given point in time has a strong component of historical continuity. Horizontal inequalities between different ethnic groups, for example, are often a legacy of colonial policies which ideologically and materially privileged some groups above others, pitting groups against each other for economic gain and political control. In Trinidad and Tobago and Guyana, British colonial authorities manipulated pre-existing tensions among the “East Indian” and Black populations, creating conditions in which Indians and Blacks were forced to compete for scarce economic spoils. Each group came to perceive the other as the cause of its disadvantage. Post-colonial governments have perpetuated this politics of preference and have both used race as a political platform and as the criterion for employment opportunities. Particularly in Guyana, this has produced open conflicts and significant social and economic costs. William Easterly (2001) suggests that conflicts of this type are most potent where institutions are weak and, therefore, incapable of mitigating the effects of diversity.

In any society, differences in power exist at many levels. As at the macro level, so too power relationships at the micro and meso levels (e.g. inequalities within communities, and within households) may present very significant obstacles to equality. Aggregated to the national level, the net effect of inequalities in power in gender relations within the household may show up in the form of marked differences in the average wages of men and women; and, in the worst cases, in pronounced inequalities of human development (life expectancy at birth and, reflecting this, a distorted sex ratio). Mamalakis (1996) argues that in addition to macroeconomic and political factors, absolute poverty and inequality have persisted in Latin America because of failed micro-economic policies: governments lack the power and/or will to tackle local monopolies and monopsonies in crucial markets. Governments and policymakers have also neglected the meso-economic dimensions, in terms of the structure of power in sectoral institutions and policy processes.

4.2 Political factors influencing inequality

Democracy

At the most basic level, ‘median voter’ models of politics suggests that the potential of democracy to result in inequality-reducing policies will depend upon what proportion of the population is poor. In a MIC with high levels of inequality, the poor may or may not be in the minority, depending on patterns of distribution and on the definition of poverty that is used. Regardless of whether or not the poor are able to exert political power by virtue of an electoral majority, a move to democracy may start to break down the association of political and economic advantage. Democratic arrangements theoretically help the poor in that they guarantee the political freedoms necessary for realization of basic capabilities, including political and social participation. Democracy also has a constructive role in creating (through discussion

and exchange) values and norms that inform how needs are conceptualised and satisfied (Sen, 1999). In terms of framing the political response to MIC inequality, democracy can be one of the first steps.

In some places at some times, the formal adherence to democracy has indeed provided benefits to marginalized groups. Over the last decade, for example, indigenous groups in much of Latin America have managed to lobby for some representation of their interests within the new constitutions. Overall, however, experience suggests that democracies can exist in parallel with extremely high levels of inequality. Natrass and Seekings (2001) found no consistent association between democracy and the reduction of inequality (a finding which reinforces that by Moore and Putzel (1999) that there was no clear relationship between democracy and poverty reduction). A number of middle-income democracies (e.g. Brazil and South Africa) display horrendous inequalities. Latin America in general is deeply marked by extreme inequalities: although bureaucratic-authoritarian regimes in the region (both military and, as in Mexico, civilian) began to give way to democratic politics from the 1980s onwards, procedural democracy has not been manifestly more successful in addressing persistent inequalities. In these and other cases, democracy has opened spaces for the poor to acquire political voice and power, but has not yet produced the expected egalitarian outcomes.

Institutions

Political institutions may be taken to include both formal organisations and ‘expected patterns of behaviour’ which establish the ‘rules of the game’ for interactions between political actors, serving either to impose constraints on the actions of agents or to facilitate action (North 1990). When they work well, institutions promote constructive policy-making - sometimes despite agents’ ulterior intentions. Rodrik *et al.* (2002), like Douglass North (1990), find that effective property rights mechanisms and the rule of law are instrumental in promoting economic development. Institutions and their organisational expressions help to provide a concrete focus for the examination of policy choices, in both the short and long term. By setting the rules of the game – and determining which actors are allowed to play and how – institutions both perpetuate and transform regime characteristics.

The origins of the extreme inequalities seen in Latin America are attributed to the institutions developed by European powers in constructing colonial states in the new world, which from the outset conferred radically different rights upon the small European settler elite and the racially disenfranchised majority (broadly speaking, Amerindian populations in Spanish America and African slaves in Brazil). Differences in effective rights, and the institutions which sustained these differences, persisted into post-independence societies and to a considerable degree survive into the twenty-first century.

The apparent inability of democratic governance in Latin America to make significant sustained impact on levels of inequality is generally explained by reference to the persistence of a deep-rooted corporatist or clientelist character to the institutions which structure vertical relations within the politics of the region (World Bank, 2003b). The Latin American model of corporatist politics can be defined as one in which political mobilization is managed from above, by means of formal state or party organizations which represent specific segments of the population (e.g.

indigenous peoples, peasants), in terms that prevent the development of horizontal collective identity and favour the interests of political elites. Clientelist politics, by contrast, are individualistic and informal: they involve ‘lop-sided friendships’, in which ‘patrons’ (those with power, such as politicians) provide immediate material benefits to defined ‘clients’ (e.g. poor neighbourhoods) in return for loyalty and service (in a formal democratic electoral context, taking the form of votes), buying off fragments of the poor and preventing the development of broad horizontal alliances that might address the underlying causes of poverty and inequality. Charismatic leaders (such as Peron in Argentina or Chavez in Venezuela) gain and stay in power through direct, personalized appeals to the poor – the definition of populism. The politics of redistribution under populist governments are often confrontational, focused upon static rather than dynamic approaches, are often fiscally unsustainable, and risk provoking – as in Latin America – an elite backlash which imposes non-democratic, often military government.

It was expected that the emerging democracies of the 1980s would tackle the glaring horizontal and vertical inequalities in these countries; instead, as described above, many ‘have retained the features of their repressive past’, leading Petras and Vieux (1994) to challenge the claim of ‘democratisation’, classifying these post-1980s states as neo-authoritarian regimes. Corporatism and patronage still characterize the politics of the region (World Bank, 2003b). Political mobilization is managed from above through formal state or party organizations that represent specific segments of the population and obstruct the development of collective identities. Similarly, governments use clientelist policies to buy off fragments of the poor and hinder the development of broad horizontal alliances that might address the underlying causes of poverty and inequality.

Decentralisation

There is no necessary correlation between decentralisation and the reduction of inequalities, though there is a belief that by bringing decision-making closer to the people (including the poor), decentralised government expands opportunities for voice in policy and budgetary decisions. One fundamental problem is the varied interpretations and, as a consequence, applications of ‘decentralisation’. However, the extent to which there is ‘deconcentration’ or ‘devolution’ is consequential for policy outcomes. The political motivations behind decentralisation - whether or not the ruling elite is attempting to build its power base through congenial interests at the local level; whether or not the central ruling elite wishes to circumvent or to fragment the local elite -are likely to have considerable influence on the character of the decentralization process (Crook and Sverrisson, 2001).

Decentralisation *per se* is likely to increase inter-regional inequalities in public expenditures. For example, sub-national administrations in regions well-endowed with natural resources or a legacy of human and institutional development will have a larger tax base and, quite possibly, lower proportionate levels of poverty. This establishes a basic case for a system of compensatory transfers from central government. There is also a risk that sub-national governments may be either less inclined and/or less capable of weighting policy and public expenditures to the poor.

The evidence for and against decentralisation is mixed. Chile provides an interesting example of a political system that is still highly centralized but that has, since the

transition to democracy in 1990, enjoyed considerable success in reducing at least some forms of inequality. Similarly in the state of Ceará in Brazil, success in achieving more progressive and effective patterns of social spending was associated to a large degree with a recentralization of functions from the (often corrupt) municipalities to the state government (Tendler, 1997). Generally, there appears to be no clear evidence that decentralisation either promotes or reduces inequality in middle and high-income countries (World Bank, 2003b). However, decentralisation has clearly created the space for some countries to make significant gains with innovative approaches to sub-national democratic governance. While sub-national governments find it difficult to affect patterns of income inequality (these being determined largely by national developments in labour markets), they do provide opportunities for creating greater equality in political influence and patterns of service delivery. There is a case that gains in the redistributive content of policy and spending at sub-national levels, even if modest, are more sustainable than gains made in a highly centralized political system. By creating institutional mechanisms for the participation of poorer groups, decentralisation may help to put in place arrangements which are harder to subsequently reverse.

The potential for decentralization to deliver redistributive change depends in large part upon the strength of organised civil society and local business associations to articulate coherent demands. Where these strengths are lacking, local government easily becomes the preserve of corruption and patronage. Where they exist, however, an organized citizenry and private sector can monitor the activities of the local state and channel demands for systematic reform. Crucially, local political context is also vital, as seen in the case of the development of participatory budgeting at the municipal level in Brazil (Box 1).

Box 1 Redistributive local public expenditure management: the Porto Alegre experience

Participatory budgeting (PB) approaches are largely associated with Brazil, emerging first in the town of Porto Alegre in the late 1980s. Open, public assemblies on area-based and thematic groupings, held long before the start of the legislative budget cycle, allow citizens to decide which investments are most important. Having set budget priorities, participants elect delegates and budget councillors, who meet throughout the year to negotiate the final budget. In explaining the emergence of the PB approach, the role of the PT (*Partido Trabalhadores*, or Workers' Party) has been critical. With a coherent left-of-centre political programme, the PT has created the "opening from above" which made PB possible. With a strongly regional base and facing obstacles in expanding beyond this regional base, it has concentrated upon building local support and to this end supported democratic decentralization. Unlike many other parties in Brazil, the PT is deeply embedded in a broad coalition of grassroots social movements, joining together progressive elements within the church, unions, peasant's association, human rights groups and socialist organizations. This encouraged it to support PB as a way of giving these civil society groups voice in municipal budget processes – an opportunity taken up with enthusiasm by those groups. The result is an example, at the local level, of what Evans described as "embedded autonomy": a state that has a degree of independence from traditional power structures and patronage systems, but which is rooted in society, conferring upon it the legitimacy needed to undertake significant policy change.

Sources: Norton and Elson (2002); World Bank (2003b).

4.3 *The politics of responding to inequality*

The design of effective policy responses to inequality raises both technical issues of ‘what’ – in terms of appropriate policy responses – and political issues of ‘how’ - in terms of political tactics and strategies to get these policies passed and implemented. This section discusses the latter set of issues, the former having been discussed in Section 3.3.

Static vs. dynamic redistribution

All the pro-equality measures described in Section 3.3 are inherently political, involving as they do the exercise of state power in order to determine the allocation of resources among different groups within society. However, the degree to which policies are likely to be politically contentious varies considerably. Generally, policies that involve dynamic (positive-sum) approaches to redistribution by enabling the poor to capture more of the benefits of growth are less conflictual than policies involving static (zero-sum) redistribution of existing assets (Killick, 2002). Redistributing a finite resource such as land will involve first confiscating the land in question from the rich and is thus clearly likely to face stiff opposition (this tends to occur only at moments of state collapse and regime change). By contrast, policy responses that result in the poor becoming better able to engage in economic growth and wealth generation are typically less controversial. This might include ensuring genuine equality in access to credit (that is, removing barriers, due to discrimination or remoteness, that prevent the poor, and especially poor women, from obtaining loans).

Targeting vs. universalism

Issues of targeting, universalism and discrimination become important in this respect. In many MICs the state is, in theory, committed to providing universal services. However, in practice the poor cannot realize these rights, either because there is overt discrimination, or because there are formal or informal costs (such as compulsory school uniforms, travel, opportunity costs of educating children, bribes) that must be paid to obtain the service in question. The result is that formally universal state services are in practice used disproportionately by the non-poor. Responses to this problem can take two different forms: There is the option of revoking the principle of universal provision, and targeting public services for the poor. The alternative approach is to adopt complementary policies to ensure that the poor can realize their rights and obtain access to universal services.

Horizontal alliances

A clear factor emerging from the experience of democratic MICs is that a key factor in making democracy work for pro-poor, equality-enhancing outcomes is the ideological construction of a broad and inclusive lower-class identity, and the ability to give this identity cohesive and effective organizational form. Where the poor are fragmented by religion, race, language, region or, at the micro level, sex, it is probable that they will be mobilized politically along clientelist or corporatist lines. The ability of the poor to form broad horizontal alliances, and to parlay these into social movements and political parties, will be a key factor in determining whether they are able to push through comprehensive approaches to structural problems of asset inequality, low human development and distributionally-neutral or inequality-

enhancing growth, rather than merely compete for short-term and small-scale reallocation of rents.

Policy responses which facilitate the organisation of the poor include laws on transparency which compel service delivery facilities to publish and account for the funds they have received (Jenkins and Goetz, 1999); well-designed, non-distorting incentives for participation in community oversight of natural resource management or service delivery activities (e.g. giving free treatment for those who participate in a health clinic committee, rather than necessarily cash in hand); using public radio to inform poor citizens of their entitlements to public goods and services, and the sources of redress available to them if they are denied these (Tendler, 1997); and capacity-building assistance to help membership associations and charitable organisations to expand, federate and lobby politicians and bureaucrats. This kind of assistance needs to be handled carefully: an excess of state patronage of autonomous social organisations, even with the best intentions, risks recreating corporatist structures that institutionalise and channel social demands in ways that are less challenging to existing political institutions.

However, it is important not to over-simplify the options available. During the 1980s and much of the 1990s, donors attempted to build up the role of civil society – often taken to be synonymous with NGOs – as an alternative to states which were seen as corrupt and inefficient. Towards the end of the decade, however, more nuanced perceptions of what might constitute pro-poor state-society relations started to emerge, with emphasis upon specific and discrete concepts such as citizenship, ‘voice’ and participation in policy-making. There is now recognition that the scope for welfare improvements that might be obtained by working around the state is somewhat limited. Emphasis now is upon core concepts of access to information; inclusion and participation in decision-making; accountability; and the development of local organisational capacity.

Vertical alliances

Changing policies, institutions and patterns of public expenditure in favour of the poor requires careful political management and an ability to be both strategic and opportunistic. In the real world of politics, even governments that are inclined to act in the interests of the poor will almost always need to form pacts with non-poor social and economic interests at the macro, meso and micro levels (Jenkins, 1995).

Recent research has argued that there may be untapped potential for mobilising elites in public actions which serve the poor (Moore and Hossain, 2002). Elites are never likely to support radical redistribution, but they may perceive either self-interest or moral obligation in assisting the poor. High levels of inequality and absolute poverty may be seen as undesirable because they engender the risk of crime or social unrest; or because the poor masses are seen as constituting a public health risk which might spill over and affect the rich. Historically, the birth of public health policies in Europe and North America owe much to the desire of a nationalist state elite to ensure a long-term supply of healthy and literate young men to serve in the army during periods of geopolitical insecurity (World Bank, 2000).

National crises may provide a critical window of opportunity in which poor groups may achieve greater representation in politics, and may allow them to rebalance

political institutions in their favour. Crone (1993) analyses improvements in welfare in South-East Asia and identifies the importance of a 'strategic elite', able to recognise that the continued existence of social order necessitates state action and some degree of redistribution. Crises in Korea in the late 1950s, Malaysia in the 1960s and Thailand in the 1970s provided the opportunity for these strategic elites to achieve ascendancy over traditionally-minded 'tactical' elites, concerned more with maximising rents under the existing socio-economic order.

Of course, while an element of political trading and compromise may be essential to policy changes which might give the poor a greater stake in public policy and growth, there is a need to ensure that the pro-poor intent is not entirely lost in the process. The guiding principles must be to create a framework of positive and negative incentives that encourage orientation towards the needs and demands of poor groups.

5. The importance of tackling discrimination and promoting rights to reduce inequality

In many societies there is a strong dimension of horizontal inequality, meaning gaps in well being between clearly defined groups (for example, along lines of gender or ethnicity). Frequently, lack of respect for equal rights and difficulties in claiming entitlements, in particular for social groups subject to legal, political, social or cultural discrimination, is a major factor underlying poverty, associated with high levels of inequality and contributing to economic and social exclusion. Discrimination reflects socially-constructed identities and interests which, depending on the situation, operate along lines of gender, religion, class, ethnicity, nationality, age and other dimensions.

This section reviews:

- the links between human rights, equality and non-discrimination;
- the contribution of discrimination to social and economic inequalities;
- the underlying drivers of discrimination;
- the ways in which governments, civil society and international donors can combat discrimination.

5.1. Human Rights, Equality, and Non-Discrimination

The Universal Declaration on Human Rights (UDHR) sets out the basic principles of equality and non-discrimination with regard to the enjoyment of human rights and fundamental freedoms. The fact that all member states of the United Nations adopted the UDHR, and that 80% have ratified four or more of the UN human rights conventions, shows that these are universal principles, and not simply Western liberal considerations.

A human rights approach treats the beneficiaries of development as right-holders rather than subjects of charity, who are able to make legitimate claims on governments for their rights to be respected. Such an approach highlights the obligations that governments have not to engage in discriminatory practices themselves, to provide protection against discrimination by others, and to take positive steps to promote respect for equality in both treatment and outcomes.

In terms of action, international human rights law offers a framework for the analysis of discrimination and responses to it.⁶ First, the language of such law highlights the fact that combating inequalities in the process of development is important in itself, because of our shared humanity, and not purely for instrumental reasons (because it will contribute to social stability or economic growth). Second, the human rights framework introduces norms and enforcement mechanisms whereby the principles of equality and non-discrimination can be applied in practice and states can be held to account by the international community.

However, while the international human rights framework is important, the best way of enforcing and protecting rights is still through national institutions and policies. These include constitutions, which entrench the fundamental principles of equality and non-discrimination which domestic laws, regulations and policies must respect. They also include independent institutions, such as National Human Rights Commissions, which may be charged with education, monitoring and advocacy. Non-discrimination is also a fundamental aspect of democracy and the rule of law. The former requires formal equality, under the slogan ‘one person, one vote’. The latter implies that the law is applied equally to all, regardless of gender, ethnicity, religion, or other characteristics, and that courts are independent of political influence and are accessible to all.

These institutions – constitutions, democracy, the rule of law – can be thought of as the minimum requirements to ensure equality and non-discrimination. However, as discussed below, further measures will be required to give these rights substance; to guarantee their equal enjoyment and ensure they are implemented.

5.2. *The contribution of discrimination to social and economic inequality*

Disaggregated data are crucial to understanding the contribution of discrimination to inequality – typically reflected in high levels of ‘horizontal’ inequality. For example, the 1970 Brazilian census omitted categories regarding colour and race and the myth of ‘racial democracy’ could only be challenged once disaggregated data became available in the late 1970s (Santos Roland, 2001). Similarly, in the absence of disaggregated data, it is not known whether some groups, such as religious or linguistic minorities, or indigenous peoples, are consistently falling behind in terms of progress towards the MDGs (Minority Rights Group, 2003).

When they are available, disaggregated data typically demonstrate a strong relationship between the membership of particular groups and poverty incidence. What is important about such patterns is that they indicate that membership of a particular group means a *disproportionate* chance of being poor, suggesting that such inequalities are, in part at least, an outcome of discrimination. The group-based identities that appear to have the most pronounced influence on this disproportionate chance of experiencing poverty are race, ethnicity and gender (see Box 2). However, the dimension in which poverty is experienced – economic, social or political – can

⁶ Legally binding treaties include: the International Covenant on Economic, Social and Cultural Rights (ICESCR), the International Covenant on Civil and Political Rights (ICCPR), the Convention on the Elimination of Racial Discrimination (CERD), and the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW). There are also regional mechanisms, in particular in Africa, America and Europe. The UN Commission on Human Rights also monitors states behaviour.

vary across groups. For some, it can mean political exclusion; for others, the inability to access basic services. For most however, it results in a complex interaction between exclusion in different dimensions, or inclusion on unequal terms.

Box 2: Groups-based identities and the incidence of poverty

- In countries in all income categories, minority and indigenous groups are more likely to be income poor than the rest of the population and they experience higher poverty rates. They are more likely to have poorer living conditions, less valuable assets, less and poorer access to education, health care and access to a range of services, worse access to markets for labour, land and credit, and weaker political representation.
- In China, ethnic minorities constitute 40% of the poor despite making up only 8% of the population.
- Unemployment rates for Romas in Bulgaria can be as high as 90% in contrast to a national average of just 3%.
- The life expectancy of ‘untouchables’ in Nepal is 15 years less than that of Brahmins.
- In Pakistan, women’s share of total earned income in 1994 was just 20.8%.
- White men earn 250% more than black men in Brazil and 400% that of black women.

Source: Justino and Litchfield (2003).

Of course, unequal outcomes are not necessarily the result of discriminatory processes. Unequal wages, for example, reflect differences in ability, education, labour supply, variations across regions in the demand for particular skills, as well as discrimination. However, if two people with comparable qualifications and experience, living close together, and working a similar number of hours, receive unequal remuneration, this can reasonably be attributed to discrimination. Furthermore, while differences in pay can be a reflection of different skills, and therefore not a result of direct discrimination, these differences can themselves be the result of indirect discrimination, in terms of access to the accumulation of skills through education.

Discrimination can also be ‘intersecting’ – for instance, a female Brazilian Afro-descendant’s experience will be different to that of a male Afro-descendant. Furthermore, characteristics such as disability, age and location, which cut across groups, can also intersect with ‘group’-based identities and impact on inequality within groups. These characteristics have a compound effect, further determining how services are accessed and making the conversion of capabilities more difficult.

Inequalities are also not only present between groups. In Latin America, the latest evidence suggests that intra-group inequalities are more significant than inter-group ones (World Bank, 2003b). This means that policy actions based on non-discrimination, and those which target whole groups, will not necessarily reach the most disadvantaged people within those groups. However, it must also be acknowledged that poverty reduction strategies that focus solely on vertical inequality are also unlikely to capture all disadvantaged groups if they fail to take into account the discriminatory processes that produce horizontal inequality. The ways in which such inter-group inequality is produced and maintained is examined in the next section.

5.3. *Drivers of discrimination*

Iturralde (2003) defines discrimination as:

a combination of practices which deny or hamper the enjoyment of rights because of ethnic or cultural differences, and which are rooted in attitudes that interpret such differences in terms of socially accepted prejudices and stereotypes.

Such practices can take many forms and for the purposes of conceptual clarity it is useful to distinguish between formal and informal discrimination, and between direct and indirect discrimination.

Formal discrimination

Formal discrimination is discrimination officially sanctioned by the government. This includes constitutional provisions, laws, regulations and policies that are explicitly discriminatory. Unequal recognition under the law is the most blatant type of formal discrimination. Under apartheid in South Africa, the majority of the population were denied full citizenship rights because of their race. Another example can be found in China where the law in some districts explicitly discriminates against people living with HIV/AIDS by restricting their rights of residence, education and marriage (Human Rights Watch, 2003).

Formal discrimination also includes instances in which governments fail to provide legal protection and redress. In other words, while the state may not explicitly discriminate against groups of people, it may fail to legislate to protect their right to non-discrimination; in the absence of such legislation, people are denied effective recourse. In other instances, non-discrimination legislation is in place but, because the state fails to effectively enforce it or ensure policy implementation, discrimination continues to occur. The use of the majority language in, for instance, the education and justice systems, will particularly affect minorities and indigenous peoples and can be considered to have discriminatory outcomes. States also often fail to adequately protect women from customary practices which may deny their equal right to inherit or own land.

Informal discrimination

Informal discrimination is based on perceptions and attitudes held by individuals and permeates social interactions. It can result in the stigmatisation of particular groups, that is, the belief that 'certain groups are inferior in one or many ways based merely on membership in the group' (ICHRP, 2001). The status of women in many parts of the world provides a glaring example of stigmatisation, based on cultural/customary beliefs and practices and demonstrates how it can permeate social relations, restricting access to networks and opportunities. Furthermore, stigmatisation can become internalised over time. In the Andean region in Bolivia, this internalisation is reflected in indigenous persons changing their surname to what society perceives to be a more 'civilised' one, with obvious consequences for the integrity of their identity.

Informal discrimination can have an impact on different levels. It can operate in the private sphere, when cultural norms restrict access to services, employment and decision-making for certain groups. It can also operate in the public sphere, influencing the decisions and practices of teachers, police officers, bureaucrats, and employers even when such practices are not officially sanctioned. Kabeer (2000) argues that such attitudes dictate the 'rules of the game that govern entitlement and

disentitlement’ by forming institutional bias, social closure and ‘unruly practices’ (that is, the gap between rules and their implementation).

Direct vs. indirect discrimination

Some discrimination, both formal and informal, is direct, in the sense that it is ‘actual’- that is discrimination in progress. However, discrimination can also be indirect: it is no longer officially sanctioned but certain groups continue to experience socio-economic disadvantage due to cumulative affects of discrimination in the past. For instance, although past discrimination against black people in the US has been formally acknowledged and non-discrimination legislation has been in place for some time, black people continue to experience disproportionate levels of poverty.

The implication is that, even when groups have had the protection of legal equality for some time, socio-economic and political inequalities often remain. Addressing indirect discrimination is likely to be much harder, and take more time to achieve, than addressing direct discrimination.

5.4. Combating discrimination

Three main areas of interventions can be identified in combating discrimination in practice. The first relates to the constitutions and laws needed to combat formal discrimination. The second relates to the policies that governments and other partners, including civil society organisations and international donors, can use to combat indirect and informal discrimination, and give substance to formal equality. The third relates to the broader changes at the international level. We consider each of these in turn.

5.4.1 Legal framework

In line with international human rights standards, states need to ensure that their constitutional and legal frameworks embody principles of non-discrimination and equality, including between men and women, and repeal legislation inconsistent with these principles. On the basis of transparent and participatory processes, states may need to strengthen provisions that make it an offence to propagate incitements to violence and hate speech, balancing the need to respect freedom of thought and expression.

States also need to ensure that there are available mechanisms to sanction discriminatory behaviour, and provide effective remedies for victims. This requires strengthening legal and judicial systems, with a concern to enhance their effectiveness as well as their accessibility. Reforms, including the simplification of procedures, the use of local languages, and the facilitating of referrals between state and non-state systems, can promote accessibility. Horizontal accountability mechanisms – including National Human Rights Commissions or Commissions for Racial and Gender Equality – can also be useful to monitor the behaviour of state actors.

A difficult issue arises when some groups within countries call for differential treatment, in that they claim particular rights in order to preserve their unique identity and way of life. Such ‘collective rights’ can combat discrimination which results from the non-recognition of difference (Itteralde, 2001). Collective group rights can

also, however, be considered discriminatory because, by definition, they exclude those not part of that collective and can come into conflict with individual rights. The recognition of collective rights can also run counter to certain political traditions, such as a belief in national unity and social cohesion rather than a recognition of multiculturalism. There are, to date, no legally binding UN Conventions on persons belonging to minorities and indigenous peoples but their rights are increasingly being recognised. It is however important to ensure that the rights of women who belong to minorities or indigenous groups are respected and not denied in the name of collective rights.

5.4.2. *Specific policies*

Affirmative action

Liberal approaches may not be equipped to deal with historically constructed inequality and group-based injustice because they regard the appropriate response to discrimination as being race-blind or race-neutral laws and policies. Such approaches are unable to take account of the ‘raced’ (or gendered) historical and social structures within which individuals operate. By failing to recognise that indirect discrimination means that some groups are unable to compete on an equal footing, the emphasis on procedural equality of treatment inherently favours the status quo: ‘inequality engendered by historical violation of their right not to be treated differently because of race can persist indefinitely if no one takes any further account of race after the initial violation’ (Loury, 2001).

This difficulty in reconciling equality of treatment with differentiation aimed at promoting the rights and interests of particular groups is acknowledged by international instruments. The Convention on the Elimination of All Forms of Racial Discrimination (CERD) and the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), both sanction the use of ‘special measures’ to give substantive content to the equal enjoyment of rights. They make clear that such measures should be time-bound and should not lead to the creation of unequal separate rights for different racial groups. Such measures are to be withdrawn when equality of opportunity and treatment are achieved, although in reality this is likely to prove difficult because groups will come to have a vested interest in their continuation.

These measures are called different names in different countries, for example, positive discrimination in the UK or affirmative action in the US. India’s constitutional provision for non-discrimination is explicitly adjusted to allow for affirmative action to advance the ‘backward classes of citizens’. This ‘reservation policy’ mainly consists of quotas for government and higher education positions for Scheduled Castes and Scheduled Tribes (15%) and Other Backward Classes (27%). This policy has been contested, sometimes violently, by those who see it as challenging the *status quo*. It has been argued that this policy legitimises caste and has only benefited the more ‘advanced’ sections of these groups (Narula, 1991). The reservation policy has however tapped the potential of previously excluded groups, increased interaction between groups and undermined the relationship between caste and occupation. It has also created a new, non-upper-caste, elite who is able to operate as a lobby for lower-caste interests in the legislature (Mitra, 1990).

A mounting backlash to affirmative action in the US and elsewhere has led commentators to consider how the objectives of affirmative action can be achieved without engendering hostility. In South Africa, affirmative action has been explicitly embedded in the constitution and its purposes have been democratically discussed. The judiciary have also taken a leading role in clarifying issues, particularly around the ‘balancing test’, which aims to reconcile equal and preferential treatment. Just as importantly, affirmative action is compulsory in the public sector but different guidelines exist for the private sector (van Jaarsveld, 2000).

Loury (2001) also describes how a backlash against affirmative action can be avoided. He argues that the widespread use of ‘preferential affirmative action’, meaning measures that give preference to a particular group by applying different criteria than that applied to the majority, erodes the perception of the competence of that group. They also undercut incentives for these groups to develop their competitive abilities. By contrast, ‘developmental affirmative action’ refers to measures that seek to meet the required levels of participation by a particular group without using differentiated standards of evaluation. Examples include measures that aim to enhance performance of targeting groups, for example, through assistance either in terms of knowledge or financial support.

Another route to avoid negative responses include policies that also factor in class considerations to foster multiracial support for reforms, or which can build gender coalitions across income and social status differences. ‘Territorial affirmative action’ measures focus on the spatial organisation of opportunity. Despite a concentrated drive to reduce inequalities between Catholics and Protestants in Northern Ireland, affirmative action policies have failed to reverse the high unemployment rates for Catholics because it has neglected the impact of their concentration in poor, working-class areas (Alexander and Jacobsen, 1999). Finally, attention can be paid to how policy is evaluated and implemented. The 10% rule in Texas is an example of a policy that is ‘race-blind’ but not ‘race-neutral’; by guaranteeing college places for the top 10% of students in all high schools, this policy benefits students with good grades in less competitive high schools, who are disproportionately black and Hispanic (Loury, 2001).

Promotional and advocacy activities

It is important for states and societies at large to admit that discriminatory practices are ongoing and negatively affect equal respect for human rights. Public statements by senior officials, and apologies for wrongs committed in the past, can contribute to creating a culture of trust.

Promotional and advocacy activities are needed to raise awareness about discrimination, provide formal or informal education, and initiate processes of social and cultural transformation. In this case, civil society organisations have a crucial role to play and the mobilisation of groups and individuals to claim their equal rights is essential. Political participation, respect for freedom of thought, information and association and reforming political processes will be required to allow the voices of marginalised groups to be heard. Responsible media reporting can also make a significant contribution; the Rwanda genocide illustrates all too well the consequences of unbridled hate speech.

Institutional reforms

Institutional reforms are needed to build awareness of discrimination amongst public servants, and put systems in place so that government departments responsible for service delivery do not engage in discrimination. These are needed as matter of priority in cases where discriminatory practices are considered to be institutionalised.

Adequate policy responses also require disaggregated data, which are needed for the accurate identification of inequalities across and within groups. Such data are not always available, and efforts are needed to develop domestic collection and analysis capacities.

5.4.3 International actions

Rights based development assistance

International development agencies should ensure that, in their dialogue and assistance, they do not encourage or exacerbate discriminatory practices, they raise awareness of the constraints on development posed by discrimination, adopt genuinely participatory approaches (and not just tokenistic consultations), and promote socially inclusive responses. With these aims in mind, the UNDP is developing a set of Practice Notes including on minorities, indigenous peoples and rights-based approaches which can facilitate the genuine integration of non-discrimination into programming. International financial institutions (IFIs) do not recognise that they are subject to international human rights obligations, but should nonetheless ensure that their assistance does not exacerbate discriminatory practices, and instead make a positive contribution. The World Bank has adopted Operations Directive 4.20 P with regards to indigenous peoples, which is being revised, but more can be done. Both IFIs and donors should take greater account of recommendations and standards set by the relevant UN committees.

Support to international human rights system

International standards and monitoring systems are of fundamental importance in creating external pressure for reform. States need to sign up to international and regional treaties, in particular CERD and CEDAW, and fully participate in the monitoring mechanisms, inviting UN special rapporteurs when requested. Governments should continue to engage with new standard-setting processes, in particular for persons belonging to minorities and indigenous persons, and be supportive of processes aimed at strengthening UN human rights mechanisms. Treaty reservations, in particular to CEDAW which lower protection standards for women, should be revoked. International action grounded in the international human rights system can be effective – it contributed to ending apartheid in South Africa and to the mobilisation of indigenous rights activities worldwide.

6. Priorities for policy actions

Sections 3 to 5 have each set out specific policy actions designed to tackle inequality, and this discussion will not be repeated in detail here. However, in discussing policy responses to inequality, it is particularly important to understand the political factors that underlie inequality and create resistance to measures to tackle inequality. Many of the policy measures that can tackle inequality are well known and widely accepted (e.g. public spending and taxation, or actions to discrimination), but they often do not happen or their effective implementation is frustrated. Some policies are likely to be more strongly resisted than others, notably zero-sum redistribution of assets compared to pursuing a pro-poor growth strategy, or policy actions that involve moves towards targeting and away from universalism (even if the latter only applies in name, as is often the case). Appropriate political alliances, which can be horizontal or vertical in nature, have been effective in some cases, and in particular there may be more political scope to mobilise elites in support of pro-poor actions.

In many MICs, discrimination between clearly defined groups is a major factor underlying inequality. Besides being unjust, this is also a threat to social and political stability in many cases. Among other things, this calls for full openness in discussing this issue, specific legal and policy actions to outlaw discrimination, the effective implementation of these measures, and continued monitoring of progress. This is likely to involve different types of actions in different cases, including promotional and advocacy actions (likely always to be important) and affirmative action, as well as key international actions (rights based development assistance and effective implementation of international human rights legislation).

In economic terms the point has already been made that the focus needs to be on obtaining pro-poor, i.e. inequality reducing, growth. In this spirit, key economic policies to tackle inequality operate especially through helping poor people accumulate assets, with patterns of public spending and taxation and helping the poor access key markets, including credit, on better terms. Specific forms of land redistribution may be appropriate in particular cases, but these need to be implemented carefully so as not to be counterproductive economically and politically. The impact of these actions on inequality between groups also needs to be monitored.

Bibliography

- Aldaz-Carroll, E. (2003). Latin America's export structure from a comparative perspective. Chapter of D.Phil. thesis, University of Sussex.
- Alesina, A. and Rodrik, D. (1994). Distributive politics and economic growth. *Quarterly Journal of Economics*, 108, pp.465-490.
- Alexander, A. and Jacobsen, K. (1999) 'Affirmative Action: A Critical Reconnaissance', *International Journal of Urban and Regional Research* 23 (3): 593-601.
- Alibhai-Brown, Y. (2001) 'The Role of Racism and Prejudice in Exclusion, Marginalisation, Inequality, and the Implications of this for a Cohesive Society'. Paper for ICHRP Consultation on Racism and Human Rights, Geneva, 3-4 December.
- Anderson, M. R. (2003) *Access to Justice and Legal Process: Making Legal Institutions Responsive to Poor Peoples in LDCs*. IDS Working Paper 178. Brighton: Institute of Development Studies.
- Ashley, C. and Maxwell, S. (2001). Rethinking rural development. *Development Policy Review*, 19 (4), pp.395-425.
- Bardhan, P. and C. Udry (1999), *Development Microeconomics*, Oxford: OUP.
- Barro, R. (2000). Inequality and growth in a panel of countries. *Journal of Economic Growth*, 5, pp. 5-32.
- Berman, E. and Machin, S. (2000). Skill-biased technology transfer around the world. *Oxford Review of Economic Policy*, 16 (3), pp.12-22.
- Bruno, M. Ravallion, M. and Squire L. (1996). Equity and growth in developing countries: old and new perspectives on the policy issues. Washington D.C.: World Bank.
- Cardoso, E. (1992). Inflation and Poverty. NBER Working Paper 4006, National Bureau for Economic Research: Cambridge, MA.
- Collins, H. (2003) 'Discrimination, Equality and Social Inclusion', *The Modern Law Review* 66 (1): 16-43.
- Crook, R. and Sverrisson, A. (2001). Decentralisation and Poverty-Alleviation in Developing Countries: A Comparative Analysis or, is West Bengal Unique? Working Paper 130, Institute of Development Studies.
- Crone, D. (1993). States, elites and social welfare in southeast Asia. *World development*, 21 (1).
- Dasgupta, P. and Ray, D. (1986). Inequality as a determinant of malnutrition and unemployment. *Economic Journal*, 96, pp.1011-1034.
- de Haan, A. (1999) *Social Exclusion: Towards a Holistic Understanding of Deprivation*. Social Development Department Dissemination Note 2. London: Department for International Development.
- de Zwart, F. (2000) 'The Logic of Affirmative Action: Caste, Class and Quotas in India', *Acta Sociologica* 43 (3): 435-9.
- Deininger, K. and Squire, L. (1998). New ways of looking at old issues: inequality and growth. *Journal of Development Economics*, 57, pp.259-287.
- Dollar, D. and Kraay, A. (2001). Growth is good for the poor. Development Research Group, World Bank, March.
- Easterly, W. (2001). Can Institutions Resolve Ethnic Conflict? *Economic Development and Cultural Change*, 49 (4), pp. 687-706.
- Easterly, W. (2002). Inequality does cause underdevelopment: new evidence. Center for Global Development, Working Paper 1.

- Easterly, W. and Fischer, S. (2001). Inflation and the Poor. *Journal of Money, Credit and Banking*, 1, pp.159-178.
- Economist (2003) 'The Trouble with Women', 25 October.
- Feiring B. with MRG Partners (2003) *Indigenous Peoples and Poverty: The Cases of Bolivia, Guatemala, Honduras and Nicaragua*. London: Minority Rights Group International.
- Forde-Mazrui, K. (2002) *Taking the Right Seriously: America's Moral Responsibility for Effects of Past Racial Discrimination*. Working Paper No. 02-1. Charlottesville, VA: University of Virginia School of Law.
- Gwatkin, D., Rutstein, K., Johnson, R., Pande, R., and Wagstaff, A. (2000). Socioeconomic differences in health, nutrition and population. Available at: <http://www.worldbank.org/poverty/health/data/index.htm>.
- Hanmer, L. and Naschold, F. (2000). Attaining the International Development Targets: Will Growth be Enough? *Development Policy Review*, 18, pp.11-36.
- Heady, C. (1993). Optimal taxation as a guide to tax policy. *Fiscal Studies*, 14 (1), pp.15-41.
- Holzer, H. J. and Neumark, D. (1998) *What Does Affirmative Action Do?* Working Paper 6605. Cambridge, MA: National Bureau of Economic Research.
- Human Rights Watch (2003a) *Just Die Quietly: Domestic Violence and Women's Vulnerability to HIV in Uganda*. New York: Human Rights Watch.
- Human Rights Watch (2003b) *Locked Doors: The Human Rights of People Living with HIV/AIDS in China*. New York: Human Rights Watch.
- International Council for Human Rights Policy (ICHRP) (2001) *Racial and Economic Exclusion: Policy Implications*. Versoix: ICHRP.
- International Fund for Agricultural Development (IFAD) (2001). *Rural Poverty Report 2001: The Challenge of Ending Rural Poverty*. Oxford: OUP.
- Iturralde, D. (2001) 'Ethnic Discrimination, Economic Inequality, and Political Exclusion in Ecuador'. Paper for ICHRP Seminar on the Economics of Racism, Geneva, 24-25 January.
- Jenkins, R. (1995). Liberal democracy and the political management of structural adjustment in India: conceptual tensions in the good government agenda. *IDS bulletin*, 26 (2), pp.37-48.
- Jenkins, R. and Goetz, A. (1999). Accounts and accountability: theoretical implications of the right-to-information movement in India. *Third World Quarterly*, 20 (3), pp. 603-622.
- Justino, P. and Litchfield, J. (2003) *Economic Exclusion and Discrimination: The Experiences of Minorities and Indigenous Peoples*. London: Minority Rights Group International.
- Kabeer, N. (2000). Social Exclusion, Poverty and Discrimination: Towards an Analytical Framework. *IDS Bulletin*, 31 (4), pp. 83-97.
- Killick, T. (2001). Globalisation and the rural poor. *Development Policy Review*, 19 (2).
- Killick, T. (2002). Responding to inequality. *Inequality Briefing Paper No. 3*, Overseas Development Institute.
- Loury, G. (1999). *Social Exclusion and Ethnic Groups: The Challenge to Economics*. Paper prepared for the Annual World Conference on Development Economics, Washington, DC, 28-30 April.
- Loury, G. (2001). *Racial Justice: The Superficial Morality of Colour-Blindness*. Paper prepared for ICHRP Seminar on the Economics of Racism, Geneva, 24-25 January.

- Mamalakis, M. (1996). Poverty and Inequality in Latin America: Meso-economic Dimensions of Justice and Entitlements. *Journal of Inter-American Studies and World Affairs*, 38 (2/3), pp. 181-199.
- Mayer, J. and Wood, A. (2001). South Asia's export structure in a comparative perspective. *Oxford Development Studies*, 29 (1), pp. 369-394.
- Minority Rights Group (MRG) International (2003). Discussion Paper on a UNDP Policy Note on Minorities. Draft, September.
- Mitra, S. K. (ed.) (1990) *Politics of Positive Discrimination: A Cross National Perspective*. New Delhi: Sangam Books Limited.
- Moore, M. and Hossain, N. (2002). Arguing for the poor: elites and poverty in developing countries. Working Paper 148, Institute of Development Studies, Brighton.
- Moore, M. and Putzel, J. (1999). Thinking Strategically about Politics and Poverty. IDS Working Paper 101, Institute of Development Studies, Brighton.
- Narayan, D. (2002). *Empowerment and poverty reduction: a sourcebook*. World Bank: Washington DC.
- Narula, S. (1999) 'Entrenched Discrimination – The Case of India's "Untouchables"'. Paper for ICHRP Consultation on Racism and Human Rights, Geneva, 3-4 December.
- Narula, S. and Macwan, M. (2001) "Untouchability": The Economic Exclusion of Dalits in India'. Paper for ICHRP Seminar on the Economics of Racism, Geneva, 24-25 January.
- Naschold, F. (2002). Why inequality matters for poverty. Inequality Briefing No.2, Overseas Development Institute.
- Natras, N. and Seekings, J. (2001). Democracy and distribution in highly unequal economies: the case of South Africa. *Journal of Modern African Studies*, 39 (3).
- North, D. (1990). *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press.
- Norton, A. and Elson, D. (2002). *What's behind the budget? Politics, rights and accountability in the budget process*. Overseas Development Institute: London.
- Otto, D. (2002) 'Gender Comment': *Why Does the UN Committee on Economic, Social and Cultural Rights need a General Comment on Women?* Public Law and Legal Theory Research Paper No. 31. Melbourne: Faculty of Law, University of Melbourne.
- Perotti, R. (1996). Growth, income distribution and democracy: what the data say. *Journal of Economic Growth*, 1 (2), pp.149-187.
- Persson, T. and Tabellini, G. (1994). Is inequality harmful for growth? *American Economic Review*, 84, pp. 600-621.
- Petras, J. and Vieux, S. (1994). The Transition to Authoritarian Electoral Regimes in Latin America. *Latin American Perspectives*, 21 (4), pp. 5-20.
- Phongpaichit, P et al (1996) *Challenging social exclusion: rights and livelihoods in Thailand* Geneva: International Institute for Labour Studies.
- Piketty, T. (2000). Theories of persistent inequality and intergenerational mobility. Chapter 8 in A. Atkinson and F. Bourguignon, *Handbook of Income Distribution*.
- Pissarides, C. (1997). Learning by trading and the returns to human capital in developing countries. *World Bank Economic Review*, 11 (1), 17-32.
- Powers, N. (1995). The Politics of Poverty in Argentina in the 1990s. *Journal of Interamerican Studies and World Affairs*, 37 (4).
- Ravallion, M. (1997). Can high inequality countries escape absolute poverty? *Economics Letters*, 56, pp.51-57.

- Ravallion, M. (2001). Growth, inequality and poverty: looking beyond averages. *World Development*, 29 (11), pp.1803-1815.
- Rodrik, D. (1997). *Has Globalisation Gone Too Far?* Institute for International Economics, Washington D.C.
- Rodrik, D., Subramanian, A. and Trebbi, F. (2002). Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development. Working Paper No. 9305. National Bureau of Economic Research, Cambridge: MA.
- Sanchez, M. and Bryan, M. with MRG Partners (2003) *Afro-descendants, Discrimination and Economic Exclusion in Latin America*. London: Minority Rights Group International.
- Santos Roland, E. M. (2001) 'The Economics of Racism: People of African Descent in Brazil'. Paper for ICHRP Seminar on the Economics of Racism, Geneva, 24-25 January.
- Sen, A. (1999). *Development as Freedom*. New York: Anchor Books.
- Stewart, F. (2002) *Horizontal Inequalities: A Neglected Dimension of Development*. Working Paper No. 81. Oxford: Queen Elizabeth House, University of Oxford.
- Stiglitz, J. (1969). Distribution of income and wealth among individuals. *Econometrica*, 37, pp. 382-397.
- Tendler, J. (1997). *Good government in the tropics*. Johns Hopkins University Press: Baltimore and London.
- Thomas, V., Wang, Y. and Fan, X. (2000). Measuring education inequality: Gini coefficients of education. World Bank Working Paper.
- Tzannatos, Z. (1999). Women and labour market changes in the global economy: growth helps, inequalities hurt and public policy matters. *World Development*, 27 (3), pp. 551-570.
- Van Dyke, V. (1985) *Human Rights, Ethnicity and Discrimination*. Westport, CT: Greenwood Press.
- Van Jaarsveld (2000) 'Affirmative Action: A Comparison between South Africa and the United States', *Managerial Law* 42 (6).
- Wagstaff, A. (2000). Socioeconomic inequalities in child mortality: comparisons across nine developing countries. *Bulletin of the World Health Organisation*, 78 (1), pp.19-29.
- Wagstaff, A. and Watanabe, N. (2000). Socioeconomic inequalities in child malnutrition in the developing world. World Bank Research Working Paper 2434, World Bank.
- White, H. and Anderson, E. (2001). Growth versus distribution: does the pattern of growth matter? *Development Policy Review*, 16 (3), pp. 267-289.
- World Bank (2000). *Attacking poverty (World Development Report 2000/01)*. OUP: Oxford.
- World Bank (2003a). *World Development Report 2004: Making Services Work for Poor People*. Oxford: OUP.
- World Bank (2003b). *Inequality in Latin America and the Caribbean: breaking with history?* World Bank: Washington DC: Advance Conference Edition.
- Wood, A. and Mayer, J. (2001). Africa's export structure in a comparative perspective. *Cambridge Journal of Economics*, 25 (3), pp. 369-394.
- Wood, A. (2002) Globalisation and wage inequalities: a synthesis of three theories. *Weltwirtschaftliches Archiv*, 138 (1), pp. 54-82.