

DEVELOPMENT AND INEQUALITY

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Some brief considerations about economic and social development and inequality and their linkages

- **Main question: Why does the World need people to get involved in development issues?**

General pattern: huge differences (inequality) in the level of development of countries

...traditionally countries were ranked according to income-related measures (ex. Gross Domestic Product per capita)

...recently focus switched towards a measurement that takes into account many aspects other than income (life expectancy, school enrolment, adult literacy rate)

Let the figures (stark) answer the main question: see table 1

Source: Unicef, The State of the world's children 2003

...see also:UNDP Human development index

http://hdr.undp.org/statistics/data/indic/indic_8_1_1.html

...from the discussion above the following **definition of inequality** seems especially relevant:

<<..inequality is the fundamental disparity that permits one individual certain material choices, while denying another those very some choices.>>

Debraj Ray (1998)

- **Ok, now we know that the world is a very unequal place, but what could we do to change this path (first there is a debate on this: rising or decreasing inequality)?**

TABLE 1 – STARK FIGURES: POVERTY AND INTER-COUNTRIES DIFFERENCES (INEQUALITY?)

Countries and territories	Under-5 mortality rank	Under-5 mortality rate		Total population (thousands)	Annual no. of births (thousands)	Annual no. of under-5 deaths (thousands)	GNI per capita (US\$)	Life expectancy at birth (years)	Total adult literacy rate	Net primary school enrolment/attendance (%)	% share of household income 1990-2000	
		1960	2002	2002	2002	2002	2002	2002	2000	1996-2002	lowest 40%	highest 20%
The 10 countries with the highest under-5 mortality rate												
Sierra Leone	1	390	284	4.764	239	68	140	34	36	41	3	63
Niger	2	354	265	11.544	642	170	170	46	16	30	10	53
Angola	3	345	260	13.184	695	181	660	40	-	37	-	-
Afghanistan	4	360	257	22.930	1101	283	250	43	36	36	-	-
Liberia	5	288	235	3.239	161	38	150	41	54	83	-	-
Somalia	6	-	225	9.480	499	112	130	48	-	11	-	-
Mali	7	500	222	12.623	631	140	240	49	26	39	13	56
Guinea-Bissau	8	-	211	1.449	72	15	150	45	38	41	14	53
Burkina Faso	9	315	207	12.624	606	125	220	46	24	36	12	61
Congo, Democratic Republic of the	10	302	205	51.201	2594	532	90	41	61	51	-	-
The 10 countries with the highest under-5 mortality rate												
Sweden	193	20	3	8.867	91	0	24.820	80	-	100	24	35
Denmark	189	25	4	5.351	63	0	30.290	77	-	99	23	36
Iceland	189	22	4	287	4	0	27.970	80	-	100	-	-
Norway	189	23	4	4.514	54	0	37.850	79	-	100	24	36
Singapore	189	40	4	4.183	43	0	20.690	78	92	93	14	49
Malta	177	42	5	393	4	0	9.200	78	92	99	-	-
Monaco	177	-	5	34	0	0	d	-	-	-	-	-
Netherlands	177	22	5	16.067	196	1	23.960	78	-	100	20	40
Slovenia	177	45	5	1.986	16	0	9.810	76	100	93	22	38
Luxembourg	177	41	5	447	5	0	38.830	78	-	97	21	40

Different ways of getting involved, different perspectives:

Make a **social choice** [Amartya Sen (1998)]: make the whole society benefits of your skills and your innate abilities. Try to contribute with your own specificities and in the context of your activity to the development of all the community. In brief, **try to make a difference**.

First problem after a "social choice": Where can I be more helpful?

- **Health and nutrition issue:** Main issue in many developing countries is AIDS and malnutrition. Awful stories about this: generations of people lost, children affected because teachers don't show up. Many organizations involved in this. **obstacles:** drug patents, monopolistic power of pharmaceutical companies, personal involvement can be difficult because of lack of proper skills (you need to be a doctor, a nutritionist not only a voluntary...)
- **Bringing support "on the field":** There are a lot of people really motivated to put a huge effort for the cause at this level. Their actions are primarily addressed to make interventions possible (for example supplementing food to rural villages) and build and managing infrastructure (especially hospitals and schools). **obstacles:** people "on the field" are not always helped from governments. These organizations are often seen as an obstacle especially from those governments with other "secret" businesses (first of all I think of weapons trade). Besides these organizations are often (at least in Italy) ideologically biased towards an unconditional refusal of the capitalistic system (and this point is important as far as the discussion about inequality is concerned as it will be clear in a bit).
- **Scientific research:** The little I know is about economics. A lot of "beautiful minds" are lending their knowledge and effort to the development issue, like Stiglitz and Sen, to cite I guess the most known. **obstacles:** in general I don't think students that have just finished their BA in economics see studying development as the most appealing choice (investment banks usually attract more). The result (not negative in itself because it comes from free choices) is that **a lot of skills are wasted** as far as the cause of development is concerned. **example:** if you work for an investment banks usually your main activity is helping people

already rich to become even richer. **counter-example:** financial development can be really helpful in breaking the inter-generational transmission of poverty.

- **Current issue 1: Breaking the inter-generational transmission of poverty.**

The most unacceptable kind of inequality is: **inequality of day one.**

Debraj Ray (1998) on this: <<...there are philosophical and ethical grounds for aversion to inequality per se. There is no reason why individuals should be treated differently in terms of their access to lifetime economic resources. It is, of course, possible to argue [...] that some people are poor because “they had it coming to them”. In some cases this may indeed be true, but in most cases the unequal treatment begins from day one.>>

Poverty brings about several tragedies, such as malnutrition, illiteracy and marginalization. The greatest tragedy of all is the intergenerational transmission of poverty, that is the vicious circle in which a child who is born poor is locked in. This is a very good example of inequality of day one.

Amartya Sen (1999) argues that poverty should be seen from the perspective of capabilities, or substantive freedoms people enjoy: <<..poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes...>>. Accordingly, children from poor families lack these basic capabilities necessary to try to pull themselves out of poverty.

There is a consensus in the literature that **fostering children human capital accumulation is the most effective way of breaking the poverty cycle.** In support of this, there is strong empirical evidence of a positive relationship between human capital accumulation and economic growth with the difference in the rate of growth of South East Asia and Latin America being the most cited example. However, **human capital does not come as manna from heaven.** Human capital has to be delivered to the targeted population. Several problems arise in performing this task with an obvious one being the lack of resources. Governments of the country where the intervention is ongoing usually do not have enough resources and are involved in different interventions. Global instability then is causing most of the rich world to shift resources towards other uses, for example war against terrorism.

In addition to this, other ethical, religious, political and cultural obstacles to interventions arise as important. One example among many is randomization of the program beneficiaries whose ethics is often under discussion. [example PROGRESA, welfare program implemented in Mexico]

In this context a rigorous **evaluation of the interventions** arises as a fundamental step. There are clear economic reasons in support of program evaluation. Evaluation can improve the design and the effectiveness of the program evaluated as well as it can allow governments to reallocate funds from less to more effective programs. Other social and political reasons call for a reliable evaluation. For example evaluation can successfully increase government accountability and credibility, something of particular importance especially when resources come from outside the country.

- **Current issue 2: Debate on which path inequality is following: Is it rising or decreasing?**

Some people think that the “judgment” of capitalism should be closely linked to the answer to this question: if capitalism makes global inequality worse then capitalism does not work.

There are substantial difficulties in understanding which path is driving inequality as well as if capitalism can influence substantially this path.

Some technical problems: **Which kind on inequality we are interested in?**

Among countries, within a country, among individuals.... Inequality among countries could be rising, while among individuals it could be falling. This is happening in reality because countries with a vast population (China and India) are growing a lot faster than the poor-country average.

Even more technical details: **How to measure consumption? From national accounts or from household surveys.**

In general it has been observed that national accounts data tend to give a more optimistic view of trends in poverty than do household-survey data.

There is a **really interesting debate** (even though rather technical) on this between **Xavier Sala-i-Martin** (*Columbia University*) and **Martin Ravallion** (*Research Manager of the Development Research Group of the World Bank*) see more on this: <http://www.columbia.edu/~xs23/home.html> (somewhere in the page there's the link at some articles appeared in *The Economist*)

Martin Ravallion (whose approach I prefer) concludes that: <<*Yes, on the whole the poorest people in the world have been doing better.* [something that sounds like: inequality has been decreasing] *But the fight against poverty is far from won.*>>

Conclusion on Inequality and Capitalism: Evidence does not support the statement that capitalism fosters inequality. On the contrary the poorest countries in the world (sub-Saharan Africa) are the most comparatively isolated countries from global capitalism (globalisation).

Provocation: Do we really need to care so much about inequality?

example: **China and India** are trying to seize the opportunities afforded by the global economy (even they remain far from being free-market economies) The result is: **huge growth rates, rising living standards (also of the poorest)** but also **rising inequality** (for example gap between urban and rural incomes is widening).

Are China and India wrong? Clearly not. There are things that are worse than inequality... look at Africa.

- **Let's follow the wise person's suggestion...**

<< <i>We cannot, we must not stay aside confining ourselves to the role of simple and inactive audience...</i> >> Joseph E. Stiglitz (2002)

Sources:

More or less equal?, *The Economist*, 11th March 2004

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Joseph E. Stiglitz, *Globalization and Its discontents*, W.W. Norton & Company, 2002