A Policymaker's Guide on Inequality

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Given the significant impact inequality has on people's lives, it is imperative that policymakers in the region have a good understanding of the core issues surrounding it. This guide provides an introduction to inequality and constructs a knowledge base for effective policymaking to contain it.

I. Core concepts of inequality

There are several paradigms through which inequality can be analysed. The following is used as a common framework throughout this guide:

- **Inequality of outcomes** references disparities in the material dimensions of human well-being among individuals, such as the level of income and wealth.

  Inequality of outcomes primarily concerns economic inequality and is usually measured by either income or consumption metrics. There is also a growing need to better understand and address wealth allocation because it impacts households across generations, rises more rapidly than income and links closely with political power and influence.

- **Inequality of opportunity** references unequal access to fundamental rights and services required for individuals to sustain and improve their livelihoods.

  These opportunities include access to basic services and productive resources such as education, health care and nutrition, water and sanitation, energy, information and communications technology, as well as finance and credit. Equal access to these opportunities levels the playing field and ensures that outcomes are more a reflection of effort and choices made by individuals.

- **Group-based inequalities**, also known as horizontal inequalities, are systemic disparities between groups with shared identities.

  Horizontal inequalities are often historically rooted and persist over generations because of entrenched deprivation or advantage. Current trends, such as migration, including refugee influxes, may also lead to group-specific inequalities.

These inequalities may have different degrees of impact on people's lives, depending on their group membership.[i] Where group membership overlaps, e.g. between religion and ethnicity, it may result in multiple sources of deprivation or privilege and deepen the impact of inequality. Usually multidimensional and persistent group inequalities are also reinforced by a lack of voice and power which impedes participation in civic and political life.[ii]

Inequality of outcomes, opportunities and horizontal inequalities are interdependent and mutually reinforcing. An unequal playing field inevitably leads to disparate outcomes. Unequal outcomes, particularly in terms of income and wealth, aggravate disparities in access to basic services, resources and decent jobs. Prejudice, discrimination and social exclusion further reinforce inequalities of outcomes and opportunities by preventing socially excluded individuals from leading empowered lives.

For example, disparities in accessing education and healthcare are often caused by economic inequalities and lead to gaps in skill levels and health outcomes. These gaps, in turn, result in deepening income disparities.

This multidimensional nature also produces inequality traps persisting over time, resulting in intergenerational inequality.[iii] In a majority of countries in South-East Asia and South Asia, less than 5 per cent of women from poor, rural households complete secondary education, as compared with 50 per cent of women in richer urban households.

These gaps create a direct, intergenerational advantage or disadvantage because, as research shows, a mother's education, along with household wealth, are the two most significant circumstances for stunted children.[iv] Stunting directly influences school attendance, results and future earnings potential.

Research also finds that an individual's experience of inequality negatively affects his or her own attitudes and lowers individual aspirations. Lower aspirations lead to the acceptance and internalisation of a lower status, all while reinforcing pre-existing inequalities. The aspirations affected range from educational and occupational goals to broader aspirations around consumption or social identity.[v]

Is inequality always bad?

It is argued that inequality in outcomes is not morally objectionable if differences are a result of effort. After all, society cannot fault an outcome if, all other things being equal, an individual chooses to work two hours a day and therefore earns less than the individual choosing to work eight hours a day.

Ethical concerns are only raised when inequality arises from circumstances outside of individual control, such as family background, gender and ethnicity. Moreover, inequality arising from returns on varying effort levels have a positive effect on growth.[vi]

In practice, decomposing outcome inequalities into effort and circumstance is nearly impossible. Furthermore, findings in the field of psychology suggest that poverty and deprivation produce physiological and psychological changes causing individuals to make sub-optimal choices and further worsen their circumstances.[vii]

Therefore, it is important that governments formulate policies and interventions aimed at reducing inequalities of opportunity to ultimately level the disparities that individuals and groups face because of their circumstances.

II. Why care – impact and implication of inequality

Reducing inequality in all its forms advances human rights and social justice and is fundamental for all three dimensions of sustainable development.

Inequality stifles economic growth and poverty reduction

The economic cost of ignoring inequality is significant. Research demonstrates that countries with high rates of inequality have lower growth rates and shorter growth spells.[viii] In addition, inequality reduces the impact of growth on poverty reduction. In other words, poverty alleviation efforts are more effective in countries with more equitable growth-distributions.[ix]

The following examples are ways in which inequality impedes growth and poverty reduction.

- Societies with large income and wealth disparities have higher prevalence of, for example, health and social problems such as infant mortality, teenage births, mental illness and obesity among disadvantaged populations.[x] As a result, the pool of human capital is diminished with a negative impact on a country's productive assets.

- When group-based inequalities are common, talented individuals are blocked from appropriate employment opportunities, which hampers economic efficiency.[xi]

- In rural economies, inequalities in land ownership can impact productivity and profitability. When land ownership gets concentrated in the hands of a few, higher costs are incurred. As a result, workers become less motivated.[xii]

- Unequal access to productive and financial resources, such as equipment and credit, also undermines the productive capacity of the marginalised[xiii] by raising their production and marketing costs. It also creates social tension that may threaten the security of property rights.[xiv]

Is higher inequality inevitable in early stages of economic development?

Early economic theorists assumed that income inequality had to rise during the initial stages of economic development. As an economy industrialized, the fruits of growth would be unequally distributed, as workers would migrate from rural to urban areas in masses, searching for jobs and putting downward pressure on wages. Eventually, inequality would decrease as industrialisation progressed, due to the development of the welfare state.[xv]

Contrary to this thinking, evidence shows that many countries have successfully contained or reduced income inequality in tandem with high rates of growth. In the Asia-Pacific region alone, the rapid economic growth of many East and North East-Asian countries between 1965 and 1990, was coupled with health, education and other social improvements, demonstrating that inequality is not an inevitable by-product of growth. The developmental role of the state is therefore crucial in cultivating inclusive and sustainable growth.[xvi]

Inequalities undermine social cohesion and stability

High inequality is a key factor in rising levels of social tension and even crime because it weakens the social compact and undermines public trust in institutions. A weak social compact, in turn, reduces the willingness of voters to pay taxes, thereby leading to further deterioration in basic public services and resources to marginalized groups.

In particular, inter-group inequalities based on cultural markers, such as common history, language or religion, provide powerful wounds upon which group leaders mobilise action. Such risks increase when group leaders are excluded from political power and thereby possess a potential motive for mobilisation.[xvii] Advantaged groups may also move to pre-emptively guard against the disadvantaged groups out of fear for repercussions.[xviii]

As such, where group-based inequalities are high or rising, so is the likelihood of violence and unrest. This is particularly true when coupled with a lack of institutional capacity to address the widening divide, the ensuing lack of opportunity for upward social mobility and the absence of recourse.[xix]

Inequalities negatively impact the environment

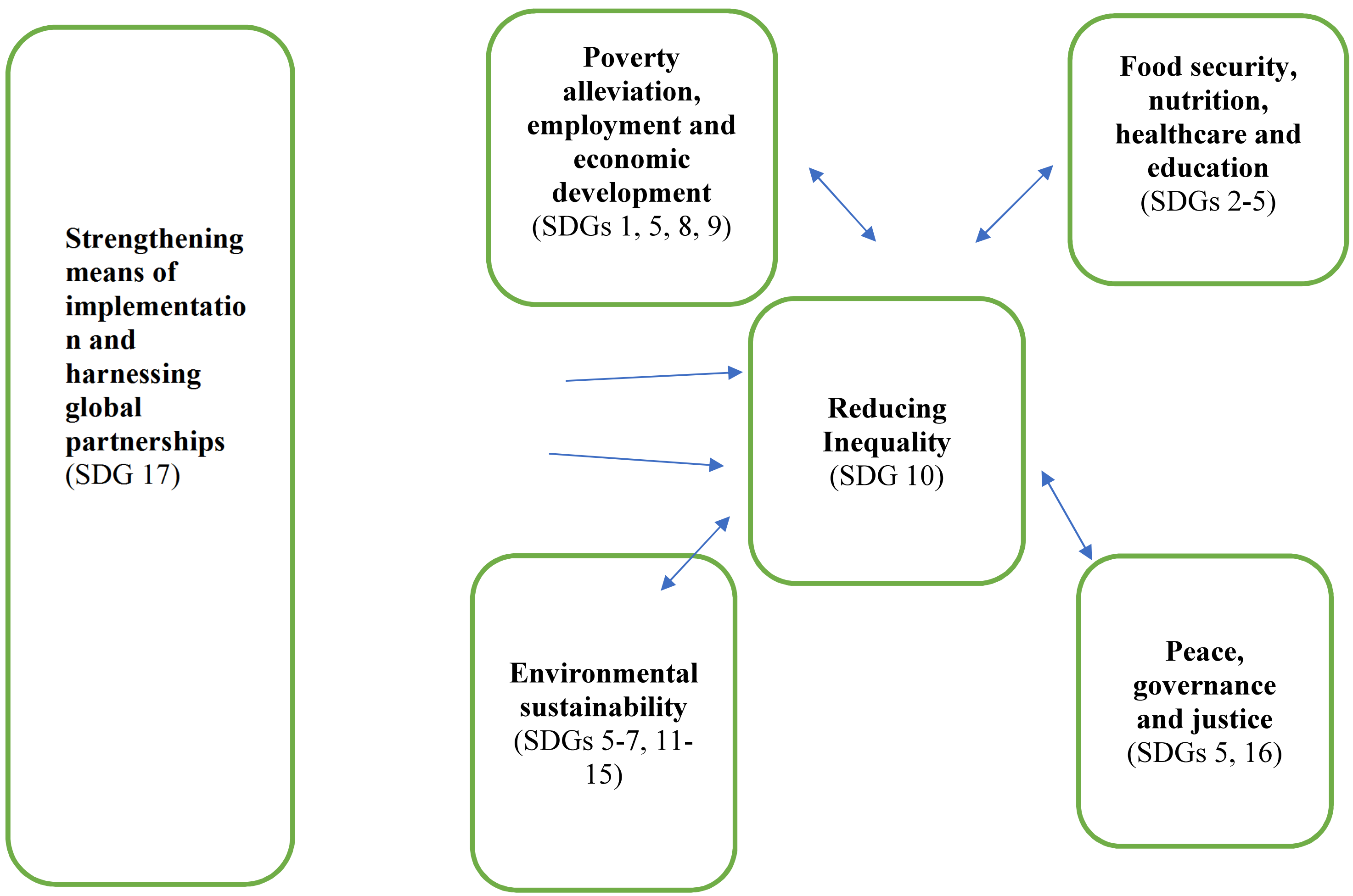
Inequality and environmental sustainability are deeply interlinked. Generally, societies with high levels of inequality show less public support for policies protecting the environment and regulating common goods. Further, inequality in the ownership of land and natural resources provides unchecked freedom for the advantaged to cut, mine and farm lands in ecologically unsustainable ways.[xx] For the disadvantaged, social resentment and lack of education can then lead to widespread free-riding and the overuse of natural resources.[xxi]

Importantly, environmental degradation impacts the poor and marginalised the hardest. The disadvantaged are most exposed to air and water pollution, while being least prepared to soften and withstand the shocks from extreme events, such as natural or manmade disasters.

Extreme weather events also disproportionately impact disadvantaged groups who tend to be located in areas hardest hit. Furthermore, extreme weather events create new competition for natural resources, as they affect land productivity and change access patterns to natural resources. Communities therefore increasingly contend for water, grazing lands and forest products.[xxii]

Inequality and the 2030 Agenda for Sustainable Development

With its commitment to leaving no one behind, reducing inequality is at the heart of the 2030 Agenda for Sustainable Development. Reducing inequality is emphasized in the stand-alone Goal, SDG 10 “Reduce inequality within and among countries” but also a fundamental component to reach almost all other goals.


Strengthening means of implementatio n and harnessing global partnerships (SDG 17)
Poverty alleviation, employment and economic development (SDGs 1, 5, 8, 9)
Food security, nutrition, healthcare and education (SDGs 2-5)
Reducing Inequality (SDG 10)
Environmental sustainability (SDGs 5-7, 11-15)
Peace, governance and justice (SDGs 5, 16)

III. Measuring inequality

The development of well-targeted policies that leave no one behind requires a comprehensive understanding of existing inequalities. Measuring inequality in all its forms provides a powerful tool for advocacy, enabling policymakers to focus on the most pressing gaps and the most marginalized groups. The ability to measure inequality accurately also allows for better assessment of the impact various policies may have on poverty, redistribution and economic growth. There are several approaches to measuring inequality. The most common are:

Gini Index	Situated on a scale of between 0 to 1, the Gini Index measures the extent to which income distribution of a population deviates from an equal distribution. The higher the figure, the more unequal the income distribution of the group. In countries where reliable income data do not exist, consumption data are often used. The Gini Index is a relative measure, comparable across population groups of different sizes and its computation requires extensive data. Notably, the Gini Index does not reveal income distribution patterns.
Palma Ratio	The Palma Ratio examines the income share of the richest 10% of the population divided by that of the poorest 40%. Other similar measures use, for example, the top 1% over the bottom 50%, or the top decile or quintile over the corresponding bottom ones. While it is conceptually simple and easy to compute, it does not reflect the severity of income inequality across the entire population as effectively as the Gini Index.
Dissimilarity Index (D-Index)	The D-Index measures the extent to which access to an opportunity (e.g. education, energy, nutrition, credit) is distributed equitably among population groups. This approach enables countries to measure the degree to which specific identity-based and/or population groups are excluded.[xxiii]

What data sources are used to measure inequality?

Survey and census data: Obtained from household surveys, labour force surveys, demographic health surveys, as well as population and housing censuses, these sources provide information on a wide range of social, environmental and economic indicators necessary for measuring inequality in all its forms.

Administrative data: Obtained from civil registration and vital statistical databases, education and health management information systems, as well as tax registers and national accounts, these sources provide useful information and help triangulate and validate data obtained from surveys and censuses.

What about intra-household inequality?

National statistical sources usually take the household as one unit and have insufficient data to produce information on the allocation of income within the household. However, there is substantial supporting evidence suggesting that resources within the household are distributed unequally, e.g. in terms of gender and age. It can thus be assumed that the available indicators understate the existing extent of inequality.[xxiv]

IV. What drives inequality?

Factors driving inequality tend to intersect through a variety of pathways. Some of these drivers are global trends and processes to which countries respond and adapt programmes, while others include national institutions and active government policies.

Technological change and globalisation

Technological change and globalisation are exacerbating inequalities by increasing demand for skilled labour, thereby widening income gaps between those with necessary skills and those without.

- **Technological advances**, including in the sphere of artificial intelligence (AI) and automation, may threaten job security of low- and medium-skilled workers whose tasks are increasingly at risk of being replaced by machines. At the same time, higher skilled workers, whose competencies are not immediately replaceable by robots, may benefit as the demand for their skills increases. [xxv]

- **Global trade in goods and services** also contributes to inequality by opening up new markets and therefore increasing revenues and profits of those who can access these markets. Protectionism, such as agricultural or other subsidies, also harms local production, particularly in developing countries and lowers the incomes of poorer, rural households.[xxvi]

Lack of social protection and decent work

Low levels of government investments in social development exacerbate inequality. Currently some 60 per cent of all women, men and children are excluded from adequate social protection.[xxvii]

- **Limited access to social protection** in the form of essential health care and income security along the life course undermines human dignity and social justice. It also hampers opportunities and capacities for the disadvantaged and increases intergenerational poverty and inequality. For example, the lack of income security for children and families contributes to high levels of stunting, malnutrition and child mortality.[xxviii]

- **Low spending on social development** affects the socioeconomic prospects of the most vulnerable and marginalized. The low level and quality of public services, including childcare services and elderly care, particularly limits the options for women to participate effectively in society and thus perpetuates gender inequality. Inadequate spending on education also accentuates the skills gaps between those who can afford private education and tutoring, and the rest of the population.

- **The lack of decent job creation** means that low-skilled workers stay in vulnerable jobs, where they have inadequate earnings, low protection and limited voice. The resulting insecurity affects not only their own prospects but also those of their children, thus creating to intergenerational inequality traps.

Governance, institutions and norms

Inequalities deepen and perpetuate when political systems, institutions and norms favour advantaged groups. Discrimination occurs at various levels and in different forms, including:

- **Laws and policymaking** can be influenced by specific groups aiming to remain in power and expand their own interests. Laws governing land reform, property rights, labour rights and consumer rights are typically susceptible to such tendencies.[xxix] Regressive tax policies also worsen inequality, by disproportionately burdening the poor.

- **Poor enforcement of laws** deepens both vertical and horizontal (group) inequalities, even when laws are fair. Corruption, for instance, has been associated with lower access to education, lower levels and effectiveness of social spending, and negative impacts on health indicators, including child and infant mortality all of which decrease the capacities and opportunities of the disadvantaged and widen inequalities.[xxx]

- **Women and girls suffer discrimination in many areas of life**, including access to resources, basic services and decision-making. The lack of effective policies hinders women's participation in society and perpetuates gender inequality, as well as the unfair burden of unpaid care work.

Policy options for reducing inequality

While there is no panacea for reducing inequality, governments should take into consideration the following principles when formulating policy:

- **Recognise the importance of social investment:** Social investment has significant multiplier effects on growth, as it reduces poverty and inequality, changes the structure of opportunities and breaks intergenerational poverty and inequality cycles.[xxxi] As such, while recognising the presence of fiscal pressures, governments should aim at increasing investments in social development by reallocating resources from less productive areas, while also broadening the tax base through progressive taxation and a more effective tax collection process.

- **Re-examine existing policies to identify unfair advantage granted to special groups and privileged individuals.** There is no doubt that political influence and economic power go hand-in-hand in most countries. All stakeholders, including civil society, development partners and academia should help build the capacity of political systems to resist undue pressure and influence and to remove distorting policies that aggravate inequality.

- **Promote job-rich growth:** Inequality is not a necessary externality of economic growth. Growth that creates decent employment opportunities for all is key to the reduction of both poverty and inequality.

- **Expand the capabilities and opportunities of the disadvantaged:** For vulnerable and marginalised groups to benefit from economic growth, governments need to increase both their opportunities and capabilities by ensuring they enjoy the same basic social protection and social services, as well as access productive resources, assets and markets.

- **Identify the root cause(s) of inequalities and injustice:** Governments must recognise and address specific historical legacies and deep-rooted cultural practices, as well as how they shape inequality.[xxxii]

- **Improve coordination among stakeholders and utilise an integrated policy approach:** Inequality is a multi-faceted issue with several dimensions. Governments need to make a concerted effort at coordinating across ministries, sectors and administrative levels, as well as with non-state actors to ensure interventions are effective.

- **Strengthen data systems for better monitoring of all forms of inequality:** Tackling inequality is central to a successful implementation of the 2030 Agenda for Sustainable Development. To enable all stakeholders, particularly governments, in making informed decisions and taking concrete steps towards the fulfilment of the SDGs requires the collection and analysis of better disaggregated data.[xxxiii] Political commitment is therefore essential for institutional capacity building within national statistical systems, establishing adequate coordination mechanisms, as well as advocating for available and accurate data for all users.

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