

Report on the World Social Situation 2005: The Inequality Predicament

Executive summary

The global commitment to overcoming inequality, or redressing the imbalance between the wealthy and the poor, as clearly outlined at the 1995 World Summit for Social Development in Copenhagen and endorsed in the United Nations Millennium Declaration, is fading. Eighty per cent of the world's gross domestic product belongs to the 1 billion people living in the developed world; the remaining 20 per cent is shared by the 5 billion people living in developing countries. Failure to address this inequality predicament will ensure that social justice and better living conditions for all people remain elusive, and that communities, countries and regions remain vulnerable to social, political and economic upheaval.

The present *Report on the World Social Situation* traces trends and patterns in economic and non-economic aspects of inequality and examines their causes and consequences. It focuses on the traditional aspects of inequality, such as the distribution of income and wealth, as well as inequalities in health, education, and opportunities for social and political participation. The *Report* also analyses the impact of structural adjustment, market reforms, globalization and privatization on economic and social indicators.

Ignoring inequality in the pursuit of development is perilous. Focusing exclusively on economic growth and income generation as a development strategy is ineffective, as it leads to the accumulation of wealth by a few and deepens the poverty of many; such an approach does not acknowledge the intergenerational transmission of poverty. A broader approach to poverty reduction includes social, economic and political dimensions, integrating improvements in health, education, economic development, and representation in legislative and judicial processes. It is the implementation of policies in these areas that contributes to the development of human capital, enabling the poor to realize their full productive potential. Addressing all aspects of poverty increases the odds that future generations will reap the benefits of today's policies rather than remaining trapped in a cycle of poverty.

Inequalities in income distribution and in access to productive resources, basic social services, opportunities, markets, and information can cause and exacerbate poverty. As emphasized in the recommendations of the World Summit for Social Development, it is crucial that policies and programmes for poverty reduction include socio-economic strategies to reduce inequality.

Addressing inequality requires efforts to achieve a balance between many complex, countervailing socio-economic forces. Although economic growth is necessary, it is not a sufficient condition to reduce poverty. Reforms are required in a number of different areas to increase the opportunities for and capabilities of the poor and other marginalized groups in order to spur inclusive growth and development and thereby reduce inequality.

A healthy, well-educated, adequately employed and socially protected citizenry contributes to social cohesion. Improved access by the poor to public assets and services (especially in the education and health sectors) and income transfer programmes to sustain the poorest families are essential to changing the structure of opportunities and are key to reducing the intergenerational transmission of poverty and inequality. Breaking the intergenerational poverty cycle is a vital component of an integrated and equitable poverty reduction strategy.

The World Summit for Social Development emphasized the need to ensure the provision of universal and equitable access to education and primary health care. Recognition of the importance of culture and tolerance, a people-centred approach to sustainable development, and the full development of human resources is also essential.

In spite of the compelling case for redressing inequality, economic and non-economic inequalities have actually increased in many parts of the world, and many forms of inequality have become more profound and complex in recent decades.

Income differentials have narrowed among the high-income countries that are not members of the Organisation



for Economic Cooperation and Development, with the exception of a few countries that have pursued liberalization and deregulation policies; among most other countries income inequalities have worsened since the 1980s, and the income gap between high- and low-income countries has widened.

In many parts of the world, persistently high levels of poverty are at least partly attributable to inadequate incomes. The proportion of the world's population living in extreme poverty declined from 40 to 21 per cent between 1981 and 2001. Nonetheless, many countries continue to experience high levels of poverty. China and India, which together account for close to 40 per cent of the global population, contribute greatly to the overall positive picture. Elsewhere, the levels and persistence of poverty are more pronounced.

The large and growing chasm between the formal and informal economies in many parts of the world strengthens the case for reducing inequality. Those who are part of the formal economy generally fall among the "haves" in society, as they are more likely to earn decent wages, receive job-related benefits, have secure employment contracts, and be covered by labour laws and regulations. In contrast, those in the informal economy are typically among the "have nots"; they are often excluded from various legal protections and are unable to access the basic benefits or enjoy the fundamental rights granted to those in the formal economy. Since most poor people work informally, the recent expansion of the informal economy in many countries has major implications for reducing poverty and inequality.

Access to jobs is essential for overcoming inequality and reducing poverty. People who cannot secure adequate employment are unable to generate an income sufficient to cover their health, education and other basic needs and those of their families, or to accumulate savings to protect their households from the vicissitudes of the economy. The unemployed are among the most vulnerable in society and are therefore prone to poverty.

The global employment situation is characterized by extreme inequality. Some 186 million people were unemployed in 2003, accounting for 6.2 per cent of the total working population, up from 140 million a decade earlier, when the percentage was 5.6. Among developed countries unemployment has generally declined in recent years; however, much of the developing world has experienced high and even rising unemployment. This escalating unemployment within the latter group has several underlying causes, including high labour force growth rates and continued reliance on policies exclusively focused on macroeconomic stability.

Liberalization policies entail changes in labour laws and institutions and account for major changes in the labour market. The process of economic liberalization is typically marked by greater wage flexibility and the erosion of minimum wages, a reduction in public sector employment, declining employment protection, and the weakening of employment laws and regulations. The desire of developing countries to attract foreign investment and expand exports frequently leads to a "race to the bottom" with labour protection and environmental standards often ignored or compromised, ostensibly to make the countries more competitive in the international market. External competitive pressures therefore restrict the ability of developing countries to pursue key aspects of social policy.

In many countries, the failure to address the needs of poor people as part of a strategy for sustained growth has been a major obstacle to reducing poverty. High rates of fertility and population growth, large pools of unskilled labour, and the HIV/AIDS epidemic have also played a role in perpetuating poverty, especially in Africa. Internal and international migration are strongly linked to poverty as well; sending communities become poorer, as they tend to lose their most economically active members, and in receiving communities, migrants are likely to be poorly integrated and vulnerable to extreme poverty. The growing tendency for people to move in and out of poverty can mean that those who are not thought to be poor in a particular period may be overlooked by social assistance programmes. Deepening levels of rural poverty, along with the increasing urbanization of poverty, also pose new challenges to development.

Various non-economic inequalities also impinge on the progress of development in many countries. For example, though most countries have succeeded in expanding educational access in general, large disparities persist in access to both primary and higher-level education. Disparities in child health and mortality are pronounced and reflect underlying inequalities in access to quality care for mothers and their children. One area of concern is access to immunisation, which, despite significant increases in coverage in recent decades, remains highly differentiated by factors such as maternal education and place of residence. Malnutrition and hunger are at the root of global differentials in health and survival.

The HIV/AIDS epidemic has deepened both economic and non-economic inequalities. The situation is particularly alarming in sub-Saharan Africa, which has been hardest hit by the epidemic. The region is performing poorly with respect to both economic and non-economic indicators, and

the gap between many countries in the region and the rest of the world is widening. Of special concern is the contribution of HIV/AIDS to the widening differentials in life expectancy across countries and world regions.

Gender dimensions are deeply embedded in observed inequalities. There are persistent gender gaps in access to education, decent employment, and fair and equal remuneration. In most countries, the increase in the numbers of women in the workforce over the past two decades masks the deterioration in the terms and conditions of employment, as women tend to secure jobs with lower pay. Women's poorer access to economic and non-economic opportunities is often at the root of their lower status in many societies; as a consequence, they may be subject to abuse and sexual exploitation and rendered voiceless in issues relating to their own welfare.

In the past decade, greater attention has been directed towards improving the status of various social groups, as demonstrated by the substantial efforts undertaken to ensure the rights of indigenous peoples and persons with disabilities and to address poverty among older persons and unemployment among youth. There appears to have been less of an interest in policies to equalize the distribution of income and wealth, however.

Providing social protection for the older members of society is especially important. Benefits for older persons often extend to the whole family, as the money and other resources they possess are invariably shared with their offspring and younger dependants, strengthening the family resource base and contributing to the welfare of current and future generations. Governments should therefore identify policy changes that may be needed to sustain and support older persons rather than looking for ways to cut costs.

Democracy and the rule of law are essential for the elimination of institutionalized inequalities that have prevented the successful integration of marginalized groups into society. Although the twentieth century saw a rise in the number of democratic governments globally, the pace and implementation of democratization have been uneven. The consolidation of democracy is a process, and it may take many years for the roots of democracy to take hold. During this transition it is necessary for a sovereign State, through its internal actions and institutions, to reinforce democratic principles by promoting human rights and encouraging the political participation of all groups. It is essential that democratic freedoms be enshrined in legislation and backed up by political will. Many policy prescriptions are designed without adequate analysis of how the poorest and most vulnerable

(especially women) are likely to be affected; consequently, these groups remain marginalized in a number of countries. Achieving success and sustainability in the development process requires the engagement of all groups to ensure that the needs of all people are addressed, and ultimately to promote equality.

The recent explosive growth in international migration is a response to perceived inequalities of opportunity between sending and receiving countries. High migration streams engender and exacerbate inequalities. Many migrants encounter circumstances that leave them vulnerable to exploitation in their countries of destination. Inequalities between migrants and resident populations are even wider when migrants constitute a source of cheap labour. Migrant earnings account for a sizeable share of the increasing flows of remittances, especially to poor countries. These remittances constitute the second-largest source of financial flows into developing countries after foreign direct investment and have surpassed official development assistance (ODA) globally.

Conspicuously absent from the global development agenda are a number of issues of particular interest to developing countries, including international labour mobility, the facilitation of remittances, international taxation on financial flows, financing mechanisms to address the special needs of marginalized countries and social groups, and mechanisms to ensure macroeconomic policy coherence.

Asymmetric globalization is an important source of rising inequality. As rapid globalization is occurring in the economic realm, the international social agenda, for which there are very weak accountability and enforcement mechanisms, remains relatively marginalized. There is a compelling need to create the necessary space in the international system for the provision of political, social, economic and environmental "global public goods". Insufficient public oversight has hitherto contributed to a situation in which the costs and benefits of globalization are not equally shared among countries and peoples.

Even in settings in which institutions prove to be adequate, the shortage of financial resources can cripple social development efforts. There has been ample discussion of possible ways to finance social development, with many countries undertaking commitments to increase the amount and quality of ODA. High levels of military spending have impeded the progress of social development, as those countries that allocate a substantial share of total government expenditure to the defence sector also tend to reserve the lowest portion of the budget for the social sectors. Global insecurity resulting from the rise in international terrorism has contributed

to increased national security spending in many countries, leading to a further diversion of resources from social development. The violence associated with national and international acts of terrorism should be viewed in the context of social inequality and disintegration. In situations in which inequalities are extreme and there is competition over scarce resources, the likelihood of social disintegration and violence increases. Violence is more common where inequalities are greater, and trends suggest that growing up in poverty often leads to social exclusion, which can contribute to crime. Countries with high rates of poverty and inequality generally have poorer social support and safety nets, more unequal access to education, and fewer opportunities for young people. The likelihood of armed conflict is also greater under such adverse social conditions.

The way forward: policies to reduce inequality

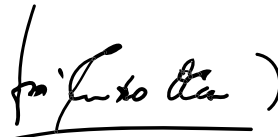
It is evident that inequalities jeopardize efforts to achieve social justice and development. The comprehensive vision of social development agreed upon at the World Summit for Social Development ought to dominate and shape the agendas of Governments and international organizations so that the strategic benchmarks identified in the Millennium Development Goals and the larger objectives of sustainable and equitable social and economic development can be achieved.

To create the conditions necessary for social development, urgent attention is required in four areas of particular importance. First, worldwide asymmetries deriving from globalization need to be redressed. Second, the goal of reducing inequality must be explicitly incorporated in policies and programmes aimed at poverty reduction; in particular, specific measures should be included to guarantee access by marginalized groups to assets and opportunities. In this context, the Millennium Development Goals should not be seen as a substitute for

the larger United Nations development agenda, which provides a much broader development framework. Third, priority must be given to expanding and improving opportunities for employment. It is essential that employment strategies not only address job creation but also promote decent working conditions in which equality, security and dignity figure prominently. Finally, social integration and cohesion must be promoted as key to development, peace and security. Social integration requires the full participation of all groups in the social, economic, political and cultural spheres. Groups that tend to be subject to discrimination, including indigenous peoples and persons with disabilities, require particular attention in policy-making and implementation.

The persistence, and even deepening, of various forms of inequality worldwide should not be accepted with equanimity. With the unprecedented wealth and resources, technical expertise, and scientific and medical knowledge available in the world today, the most vulnerable in society cannot continue to be left so far behind.

Macroeconomic and trade liberalization policies, economic and financial globalization, and changes in labour market institutions cannot be disconnected from the struggle to achieve social development, equality and social justice. The failure to pursue a comprehensive, integrated approach to development will perpetuate the inequality predicament, for which everyone pays the price.



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