



World Development Report 2006: Equity and Development

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Structure at a Glance

Overview: Introduction and Summary

- ◆ **Part I: How Unequal is the World?**
- ◆ **Part II: Do these Inequalities Matter?**
- ◆ **Part III: Institutions and Policies for Greater Equity and Lower Poverty**



Introduction: A Normative Framework

1. Inequality of what?
 - Fundamental space: opportunities to live fulfilling lives.
 - Related to Sen's *capabilities*.
 - Constituent dimensions:
 - Consumption (or income)
 - Health and education outcomes
 - Access to public services
 - Agency and recognition.



Introduction: A Normative Framework

2. What is equity?

- Equity is a *normative* concept, related to fairness in distribution. Its component principles include:
 - Equality of opportunities
 - Equality of endowments
 - Process fairness and merit-based rewards.
 - Aversion to outcome deprivation
- It is almost never the same as *equality*.
- The exact combination of those competing values, as well as a choice along any equity – efficiency trade-off, is a normative matter for social accord in each polity.

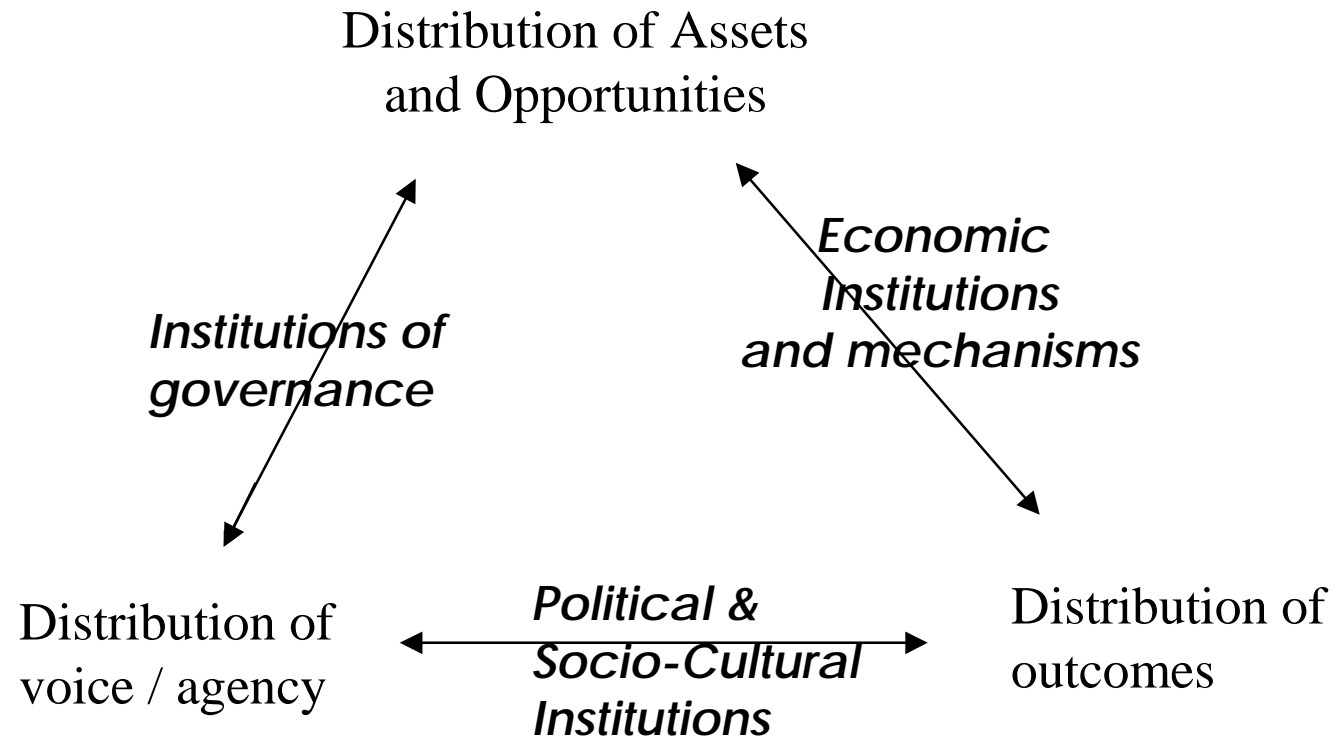


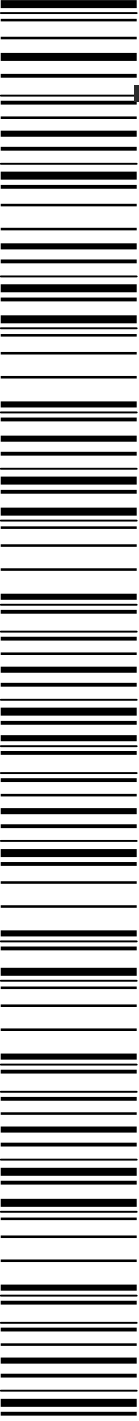
Introduction: A Normative Framework

3. So this report:

- ★ Summarizes information on the extent of inequality along the fundamental dimension of opportunities, as well as various constituent dimensions;
- ★ Discusses reasons why high inequality is detrimental to the achievement of some other goals;
- ★ Considers policy and institutional options for greater equity.

Introduction: A Positive Framework



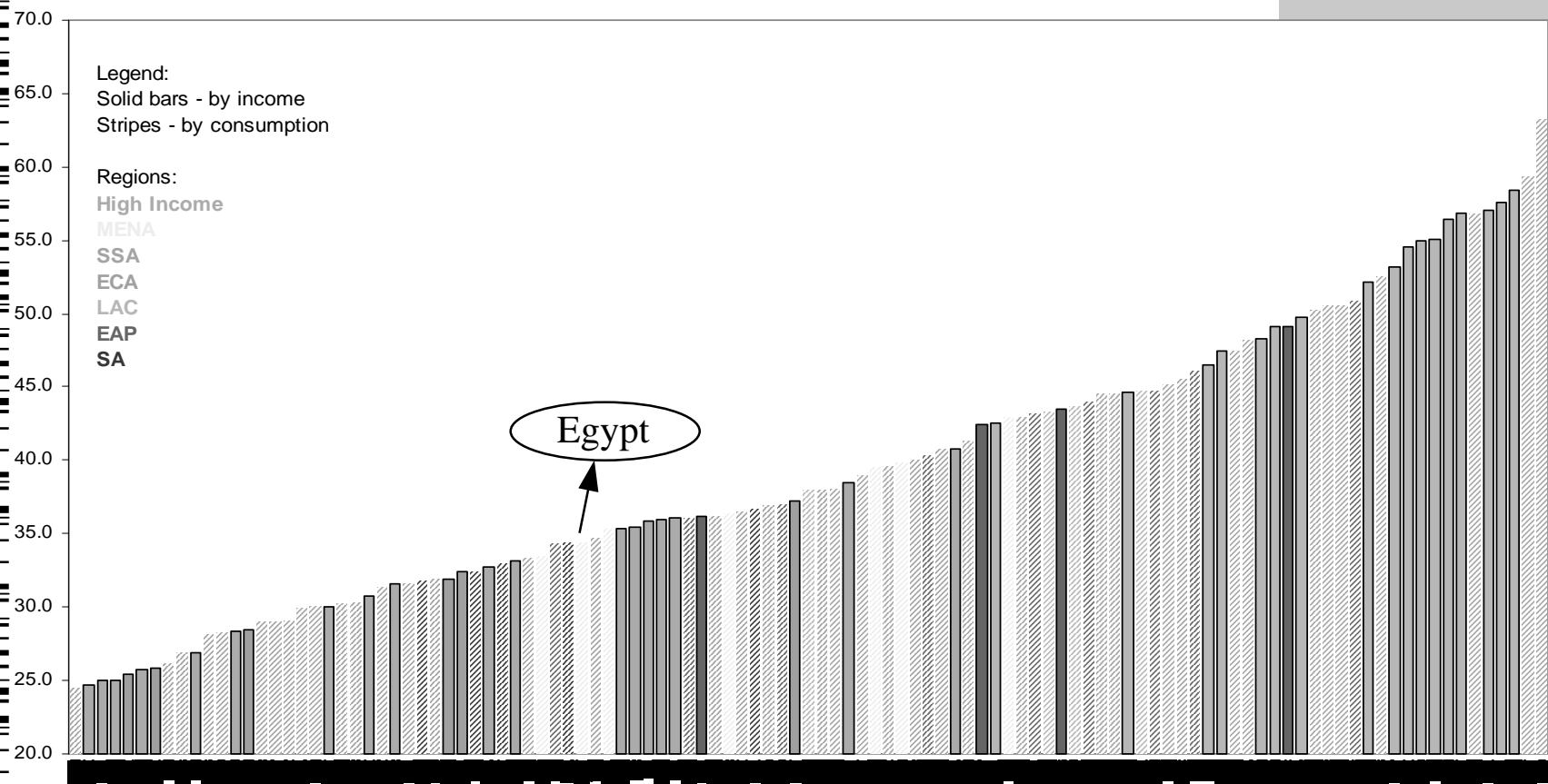


Part I: How unequal is the world

1. Inequalities within Countries

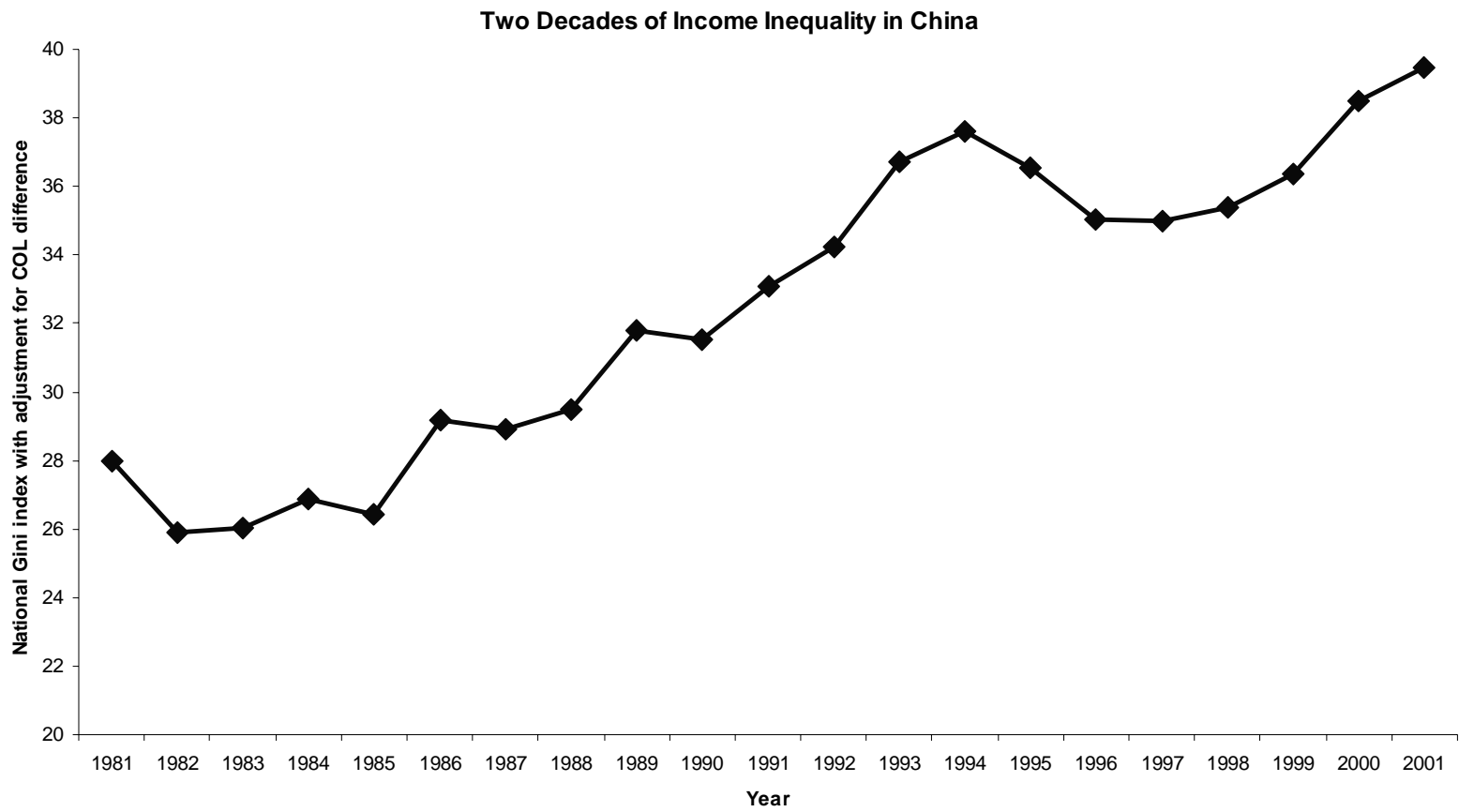
- ◆ How are inequalities distributed in the world?
 - Opportunities
 - Income, consumption, health, education, agency.
- ◆ How do they change over time?
 - Inequality dynamics for selected countries.
- ◆ What is the profile of inequality across countries?
 - Group-based decompositions:
 - E.g. by gender, race, area or educational background.
- ◆ Where are these inequalities coming from?
 - The roles of asset distributions, labor markets, household formation and the State.

Figure 1: Gini coefficients from the SIMA database.



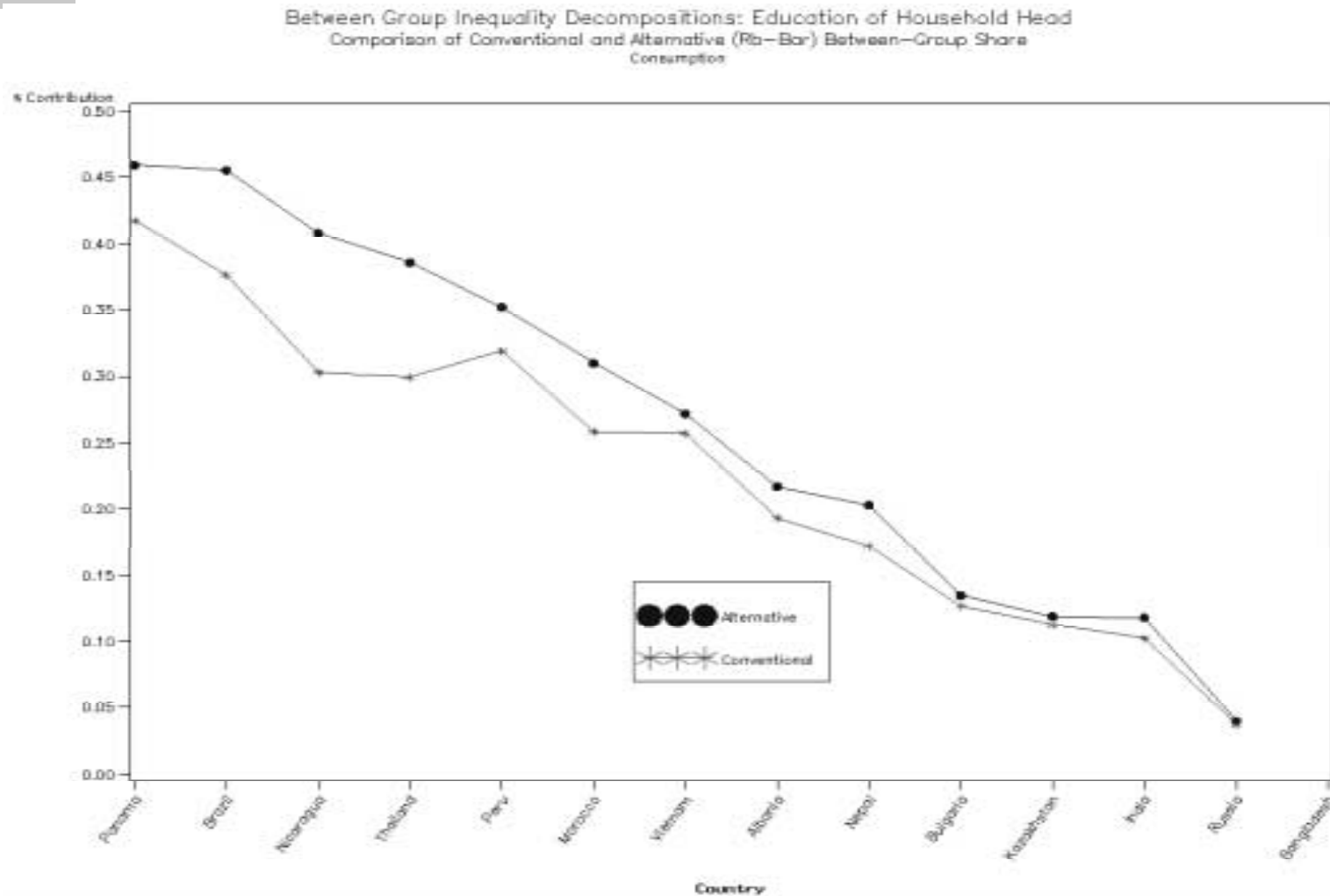
Note: Latest data for each country for the 1995-2002 period.
Source: SIMA

Figure 2: Two Decades of Inequality in China



Source: Ravallion and Chen, "China's (Uneven) Progress Against Poverty"

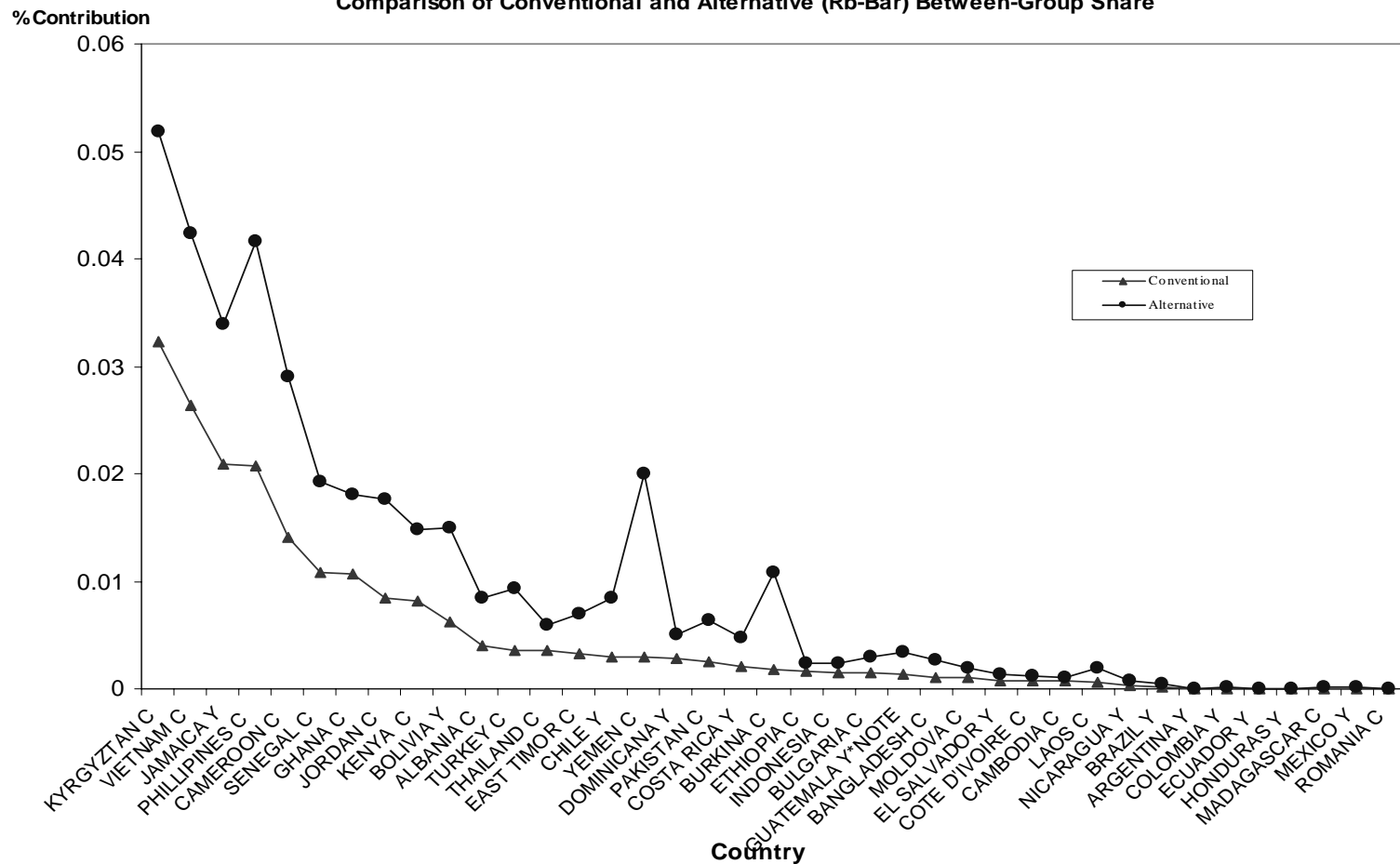
Figure 3: Example of an inequality profile: by education group.



Source: Elbers et.al. work in progress.

Figure 4: Example of an inequality profile: by gender of the household head.

Between Group Inequality Decompositions: Gender of the Household Head
Comparison of Conventional and Alternative (Rb-Bar) Between-Group Share



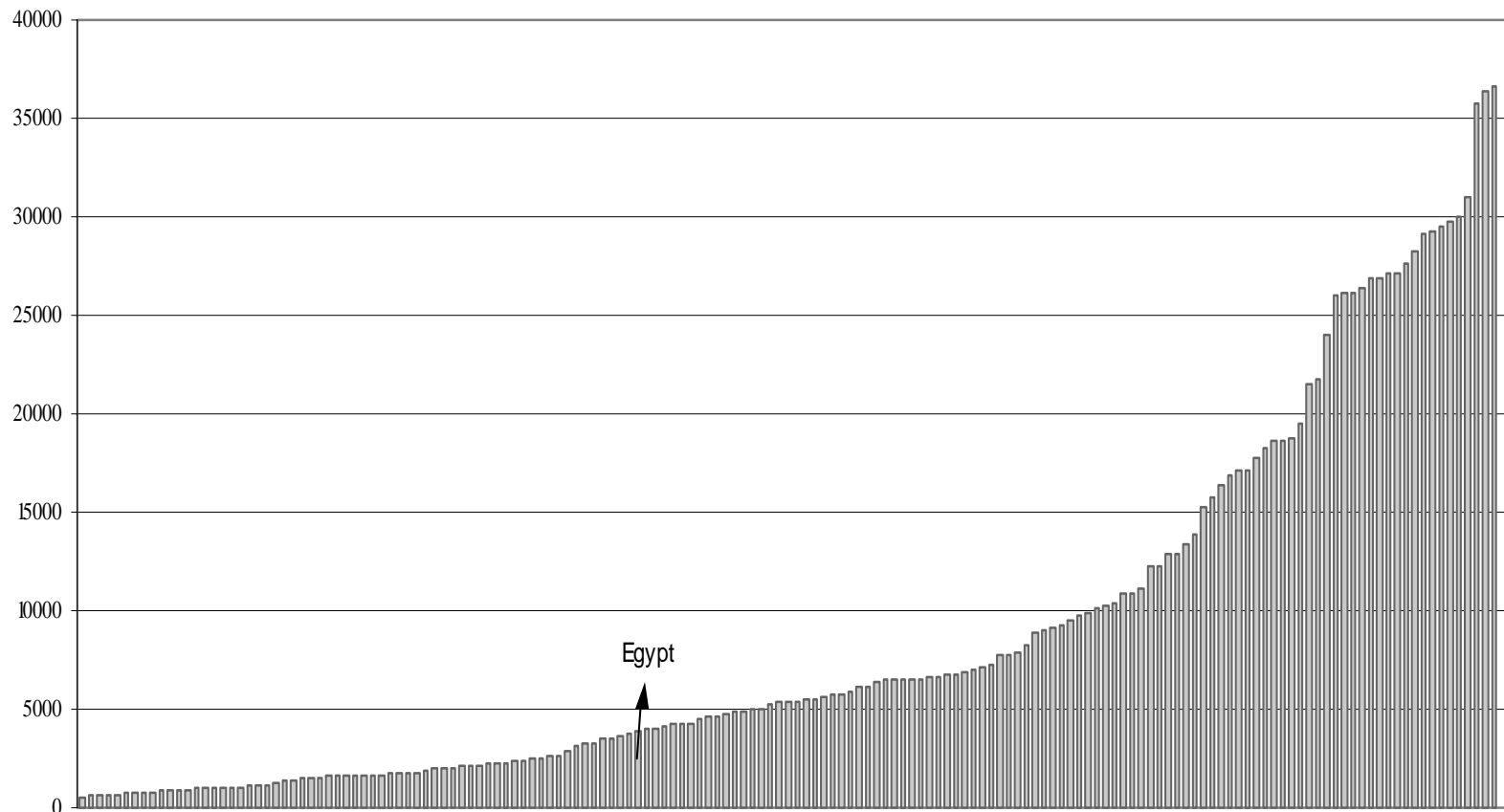


Part I: How unequal is the world

2. Global inequalities

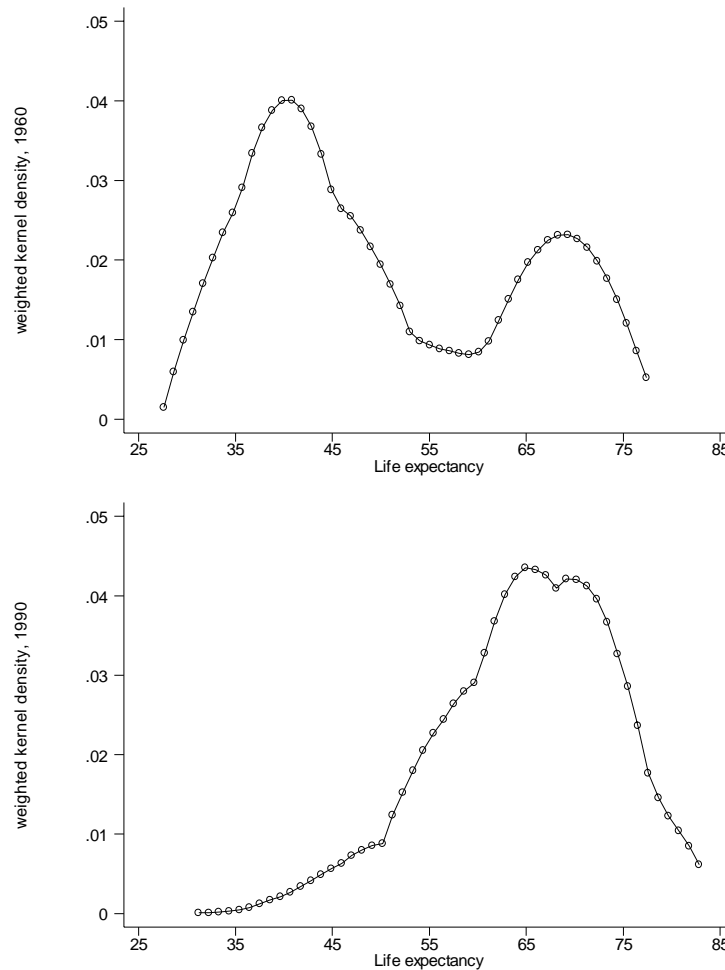
- ◆ International and world income distributions.
 - The distribution of country means: absolute divergence?
 - The population-weighted distribution of means: the role of Chinese and Indian growth.
 - The world distribution of income: within vs. between.
- ◆ International distributions of LEB and years of schooling.
 - Convergence big-time?
 - The AIDS tragedy in Africa.
- ◆ Do these conflicting trends have anything to tell us about globalization?

Figure 5: A Pen Parade of Countries



Note: GDP per capita, PPP values in current international \$ in 2002. Source: SIMA.

Figure 6: Vanishing Twin Peaks in Life Expectancy



Source: Araujo, Ferreira and Schady, work in progress.

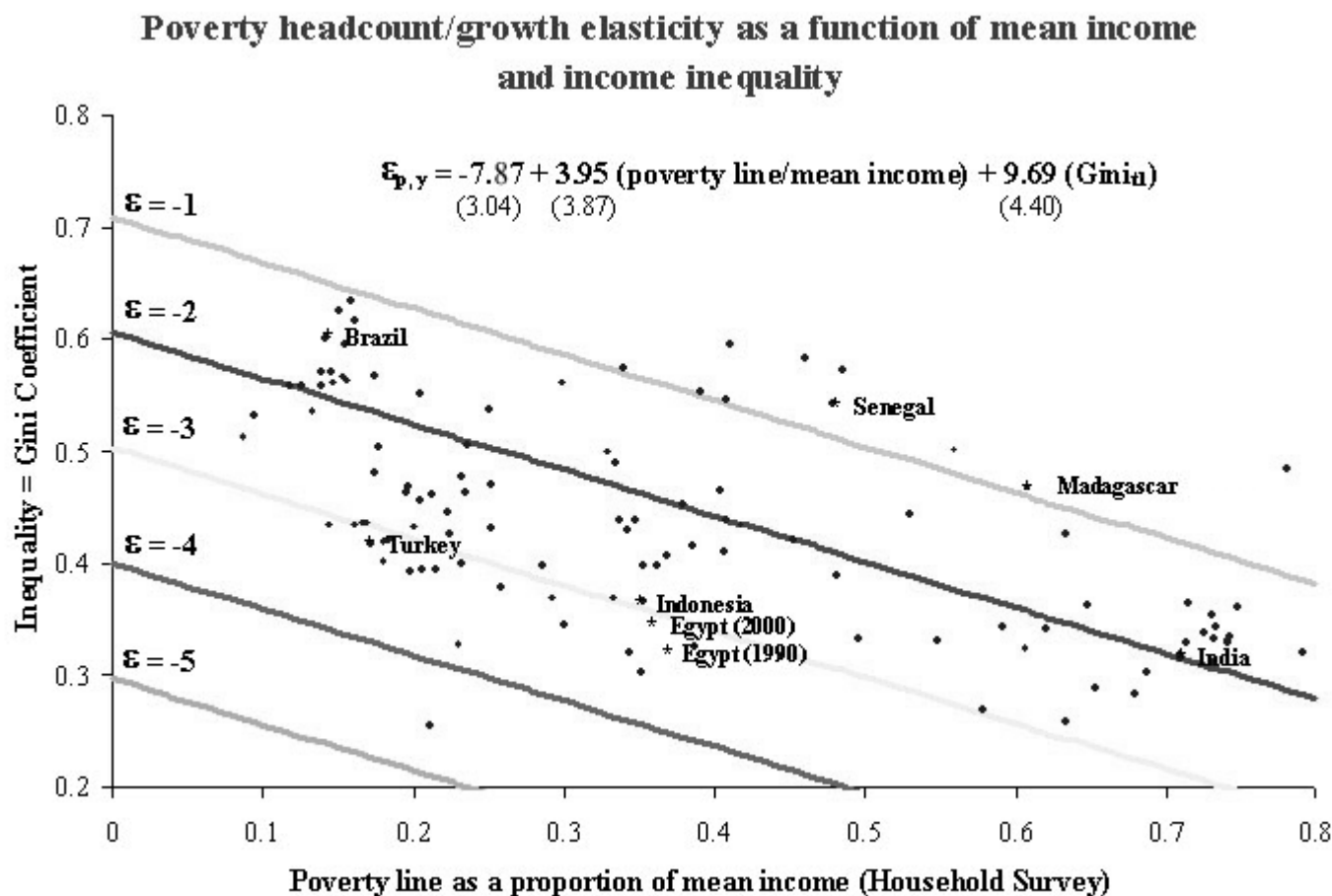


Part II: Does Inequality Matter?

3. Inequality, Well-Being and Development

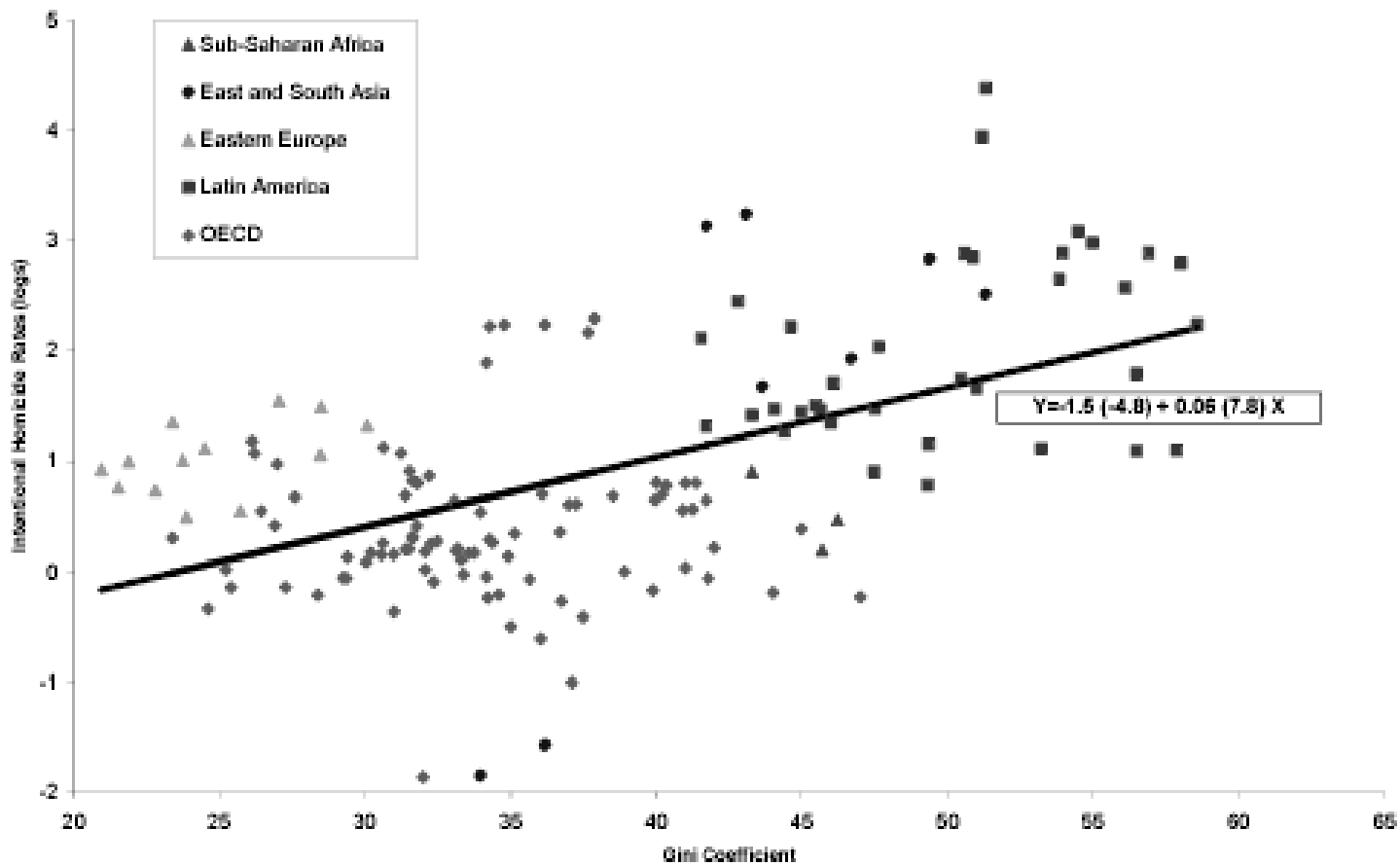
- ◆ Some inequalities matter to welfare intrinsically...
 - Opportunities
 - Fair processes
 - Outcomes
 - with aversion largely to absolute deprivation
- ◆ But inequality also matters instrumentally:
 - The growth elasticity of poverty reduction falls with inequality.
 - Progressive redistribution accelerates poverty reduction.
 - Inequality that is too high likely to slow down growth itself.
 - Inequality may cause other ‘bads’, such as crime and violence.

Figure 7: Inequality weakens the power of growth to reduce poverty.



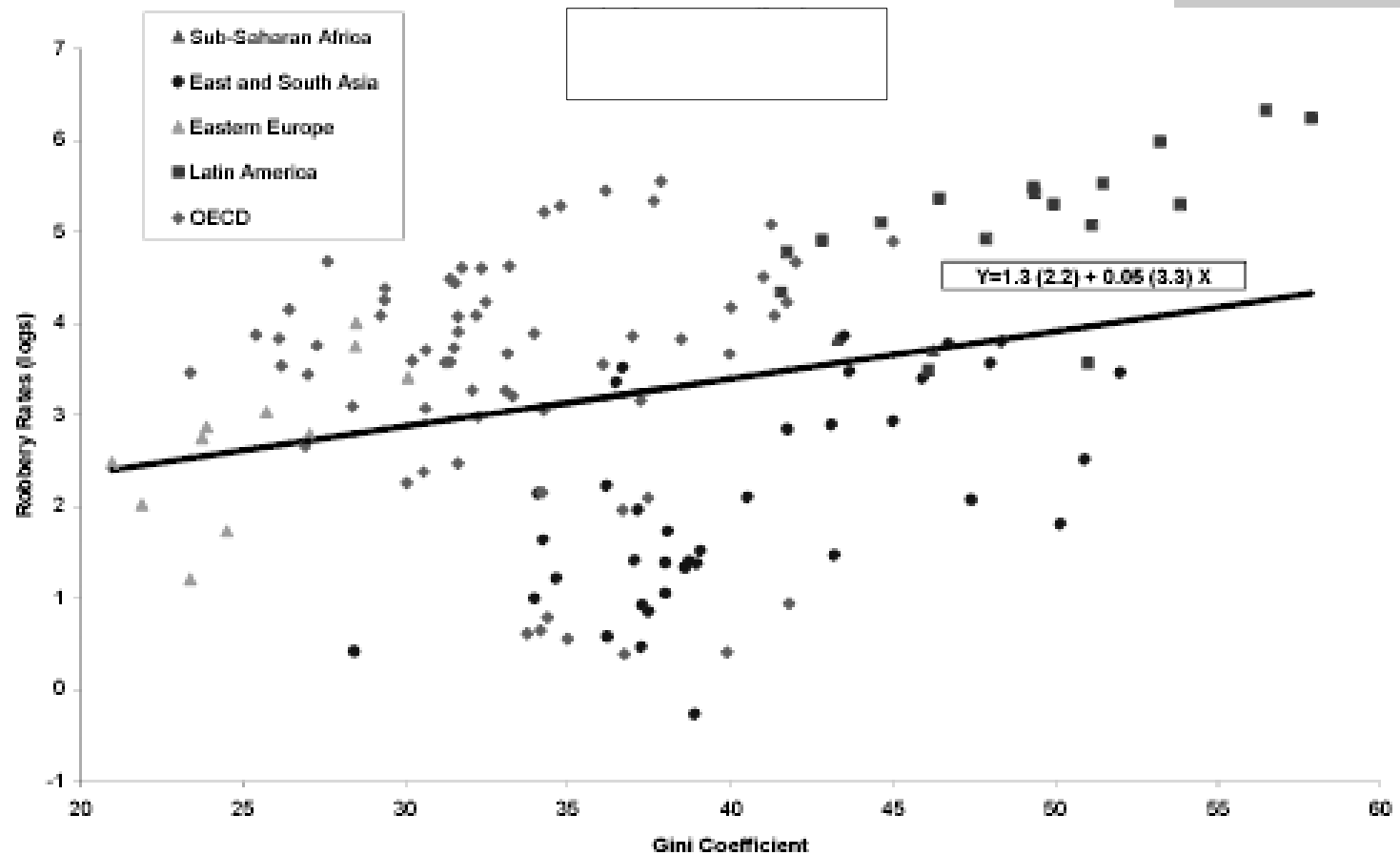
Note: See Bourguignon (2004). ϵ = the elasticity of poverty with respect to income. T-statistics are included in parentheses in the regression equation.

Figure 8A: Income Distribution and Intentional Homicide Rates 1965-1994 (5-year-averages)



Source: Fajnzylber, Lederman, and Loayza (2002).

Figure 8B: Income Distribution and Robbery Rates 1970-1994 (5-year-averages)



Source: Fajnzylber, Lederman, and Loayza (2002).



Part II: Does Inequality Matter?

4. Inequality and investment

- ◆ If the poor are liquidity constrained – due to rationing on credit markets – their investment rates are lower and potential returns higher than in the rest of the economy.
- ◆ If access to insurance markets is limited, production choices of the poor are inefficiently constrained to low risk and low return activities.
- ◆ Aggregate vs. microeconomic evidence.
 - Economic efficiency losses could be a result of the coexistence of poverty and capital market failure;
 - Institutions and policies may mitigate problems of under-investment.



Part II: Does Inequality Matter?

5. Inequality and conflict

- ◆ High inequality can exacerbate several kinds of conflict:
 - **Political conflicts of interest leading** to political instability and inefficient economic choices.
 - **Distortionary redistribution** as a consequence of inequality in a democratic society
 - **Open civil conflict:** the ultimate failure of institutions to mediate conflicts of interest and the poverty trap
 - **Intra-household conflicts**, again with intrinsic and instrumental costs.

Part III

Equity and Policy Objectives

Equity Principles	Broad Policy Goals
Equality of endowments	“Level the playing field” Correction of Asset Imbalances
Fairness in Processes	Non-discrimination
Aversion to outcome deprivation	Pro-poor growth Risk Management Safety Nets and Safety Ropes



Part III

6. Towards More Equitable Markets and Macroeconomic Policies

- ◆ Product Markets and Trade
 - Distortions are usually inequitable
 - But reform processes must be managed with explicit regard to distributional aspects.
- ◆ Financial Markets
 - Shallow markets are also often narrow and captured (examples from pre-crisis East Asia)
 - Wider access: liberalization w/ regulation can be win-win.
- ◆ Labor Markets
 - Process fairness & core labor standards.
 - LM Policies often involve a trade-off between protection and flexibility
- ◆ Macroeconomic Management
 - Stability is a public good, but of particular importance to the poor.
 - Must move towards a fiscal contract which allows for truly countercyclical fiscal and monetary policies.
 - Legitimate and inclusive institutions provide for better crisis resolutions.



Part III

7. Towards More Equitable States

- ◆ Equalizing Endowments: Building Assets for Equity
 - Health and education policies
 - Land markets and land reform
 - Access to infrastructure services
- ◆ Ensuring Fair Process: Governance for Equity
 - Legal services and justice systems
 - Redressing discrimination
- ◆ Providing a Minimum Guarantee: Social Protection for Equity
 - Social assistance
 - (Old age security?)



Part III

8. Institutions and Policies for Global Equity.

- ◆ Towards more equitable endowments
 - Doha and trade arrangements in agriculture and textiles.
 - International capital flows (and debt resolution mechanisms)
 - International migration (incl. cross-border trafficking of women)
- ◆ Ensuring Fair Process
 - Intellectual property rights in pharmaceuticals (and others)
 - International dimensions of agency and recognition: governance of multilateral systems?
 - Role of civil movements – fair trade, corporate social responsibility as examples
- ◆ Providing a Minimum Guarantee
 - Aid: levels, allocation and effectiveness
 - Crisis management

Part III

Some Thoughts on Egypt: Investment Climate

- The inefficiencies and constraints to the well functioning of the main markets impede investment and limit growth;
- Excessive regulations on business affect growth largely by increasing the costs of starting and running a business and thereby deterring new entry, business expansion and trade.
 - *Starting a business requires 13 separate procedures and takes 43 days on average in Egypt compared to 10 procedures and 39 days respectively in MENA;*
 - *Typical Egyptian employer pays 162 weeks of salary to be able to legally dismiss a worker;*
 - *It takes an average of 4.2 years to resolve a bankruptcy case in Egypt compared to 1.9 years in Morocco and 1.3 in Tunisia.*
- Small business in informal sectors suffers disproportionately.



Part III

Some Thoughts on Egypt: Education

Equalizing endowments in Egypt:

Education: Ensuring better incomes & opportunities for the future

- Continue to expand universal primary education, especially in rural areas and to girls;
- Lower child labor (and thus school drop-outs) through direct interventions. For example, school lunch programs in poor areas;
- Provide high-quality and market-relevant secondary education to the youth.



Part III

Some Thoughts on Egypt: Safety-Net

Providing minimum guarantee in Egypt:

Safety Net: Protecting the most vulnerable in the society

- Improve the size of the existing government transfers and adjust the level for the increase in the cost of living;
- Improve the eligibility criteria and better target the poor;
- Target transfers regionally, with higher allocations to poorer governorates;
- Introduce a broader public works program.



Main Messages

- Opportunities are distributed very unequally within most countries, as well as across them.
- Inequality reduction can (if adequately pursued) greatly enhance the power of economic growth to reduce poverty, and growth itself.
- Equitable institutions can be an important building block for sustainable long-term social and economic development.