

World Development Report 2006

Equity and Development

Chapter 1 Introduction

Focus on Palanpur

Inequality traps stifle economic development in a north Indian village

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Chapter 1: Introduction

1.1 Nthabiseng and Pieter—the hypothetical South African children who opened the report’s overview—are not unusual examples of people who face highly disparate initial opportunities. A girl born to a lower-caste family of nine in the slums of Dhaka has vastly different opportunities from a boy born to well-educated and affluent parents in the well-heeled neighborhoods. An AIDS orphan in rural Zimbabwe is almost certain to have fewer chances and choices in life than a compatriot born to healthy and well-educated parents in Harare. Those differences are even greater across borders: an average Swiss, American, or Japanese child born at the same instant as Nthabiseng will have incomparably superior life chances.

1.2 Such staggering inequalities in opportunity are intrinsically objectionable, and almost every culture, religion, and philosophical tradition has developed arguments and beliefs that place great value on equity for its own sake. In addition, Part II of this report will argue that we now have considerable evidence that equity is also instrumental to the pursuit of long-term prosperity in aggregate terms for society as a whole. But before one can describe inequity, or assess its impact on growth and development, a clear definition of the term is needed.

1.3 This introductory chapter presents our working definition of equity and briefly discusses its main component—equality of opportunity. It then turns from our central normative concepts to one of the report’s key positive concepts: inequality traps. An inequality trap encapsulates the mutually reinforcing nature of various inequalities, which leads to their persistence and to an inferior development trajectory.

Equity and inequality of opportunity: the basic concepts

1.4 What is equity? As with any normative concept, the word “equity” means different things to different people. It is a difficult concept, with a history of different interpretations, varying by country and academic discipline. Economists link equity to questions of distribution. Lawyers tend to think of principles meant to correct the strict application of the law, which may lead to an outcome judged to be unfair in specific circumstances. Philosophers have produced the most headway in the thinking about equity. Indeed, the attributes that would characterize a just and fair society lie at the foundation of western political philosophy, from Plato’s *Republic* and Aristotle’s *Politics* onward. Equity is also central to most of the world’s great religions, including Buddhism, Christianity, Hinduism, Islam, and Judaism, as well as to most other faith traditions. More recently, social choice theory, and the closely related domain of welfare economics, have been concerned with the aggregation of preferences into some form of “social optimum.”

1.5 Summarizing such long-standing and nuanced characterizations is perilous, but the common denominator of these many different views is that equity relates to fairness, whether locally in families and communities, or globally across nations. We do not dwell on the different approaches to equity here, but we do elaborate on them in chapter 4, which reviews various categories of evidence in support of the intrinsic importance of

equity. For this report, we think of equity as being defined in terms of two basic principles:

- *Equal opportunity.* The outcome of a person's life, in its many dimensions, should reflect mostly his or her efforts and talents, not his or her background. Predetermined circumstances—gender, race, place of birth, family origins—and the social groups a person is born into should not help determine whether people succeed economically, socially, and politically.¹
- *Avoidance of absolute deprivation.* An aversion to extreme poverty, or indeed a Rawlsian² form of inequality aversion in the space of outcomes, suggests that societies may decide to intervene to protect the livelihoods of its neediest members (below some absolute threshold of need) even if the equal opportunity principle has been upheld. The road from opportunities to outcomes can be tortuous. Outcomes may be low because of bad luck, or even because of a person's own failings. Societies may decide, for insurance or for compassion, that its members will not be allowed to starve, even if they enjoyed their fair share of the opportunity pie, but things somehow turned out badly for them.

1.6 The equal opportunity principle is conceptually simple: circumstances at birth should not matter for a person's chances in life. But to measure inequality of opportunities is much harder. Chapter 2 briefly discusses one approach, which decomposes observed income inequality into one part that can be attributed, in a statistical sense, to predetermined circumstances—such as gender, race, place of birth, and parental background—and one part that cannot. The first component captures a lower bound value for the opportunity share of income or earnings inequality. But it is generally very difficult to measure things like family background precisely: years of schooling and broad occupational categories are imperfect proxies for a family's endowments of human, physical, and social capital.

1.7 A superior approach would be to capture the inherently multidimensional and group-based nature of inequality of opportunity. How do the factors that determine a person's chances in life—the access to health and educational opportunities, the ability to connect to the rest of the world, the quality of the services available, the way institutions treat them—relate to one another? And how do these factors vary across groups? Such an approach would require a focus not only on the dispersion of univariate distributions (such as income inequality or life expectancy) but also on the correlations among them (how do health outcomes vary across socioeconomic groups?). This is the approach taken in most of chapter 2, which summarizes information on inequalities (with emphasis on the plural) in the various building blocks of opportunity and on their interrelationships.

1.8 In taking this route, the report recognizes that predetermined circumstances, or membership in prespecified groups, affect opportunities in two ways:

¹ This formulation draws loosely on Roemer (1998), but it is also related to the works of Dworkin (1981b), Dworkin (1981a), and Sen (1985).

² See Rawls (1971).

- The circumstances of one's birth affect the endowments one starts with, including all kinds of private assets, such as physical wealth (including land and financial assets), family background (the human, social, and cultural capital of one's parents), and access to public services and infrastructure (sometimes referred to as geographic capital).
- Group membership and initial circumstances also affect how one is treated by the institutions with which one must interact. Two individuals may both live in areas where formal labor markets exist, where courts are agile, and where a police force is present. But if these two (otherwise identical) people, because of their gender, race, religion, sexual orientation, political beliefs, residential address, or any other morally irrelevant reason, are differently rewarded for the same work in the labor market, are discriminated against by the court of law, or are treated with bias by the police force, then the rules are not being applied fairly. Therefore, these two people do not have the same opportunity sets. Equity also requires fairness in processes.

1.9 Endowments that are less unequal, processes that are fair, and protection from deprivation are not always mutually consistent. At the policy level, there may be tradeoffs among them. Indeed, some policies or institutions developed to further one of the principles may compromise the other.

1.10 For example, a policy of affirmative action that seeks to correct past inequities in the access to educational opportunities for one group—to equalize endowments—may imply that individuals of greater merit (but from another group) are excluded, creating unfair processes. For another example, the taxes needed to raise government revenues to make transfers to poor individuals (desirable to avoid deprivation) expropriate some fruits of the efforts of hardworking men and women. This might be seen as violating property rights or the rights to appropriate the fruits of one's own labor, again creating unfair processes.

1.11 Whenever such tradeoffs exist—which is most of the time—no textbook policy prescription can be provided. Each society must decide the relative weights it ascribes to each of the principles of equity and to the efficient expansion of total production (or other aggregate). This report will not prescribe what is equitable for any society. That is a prerogative of its members to be undertaken through decision-making processes they regard as fair.

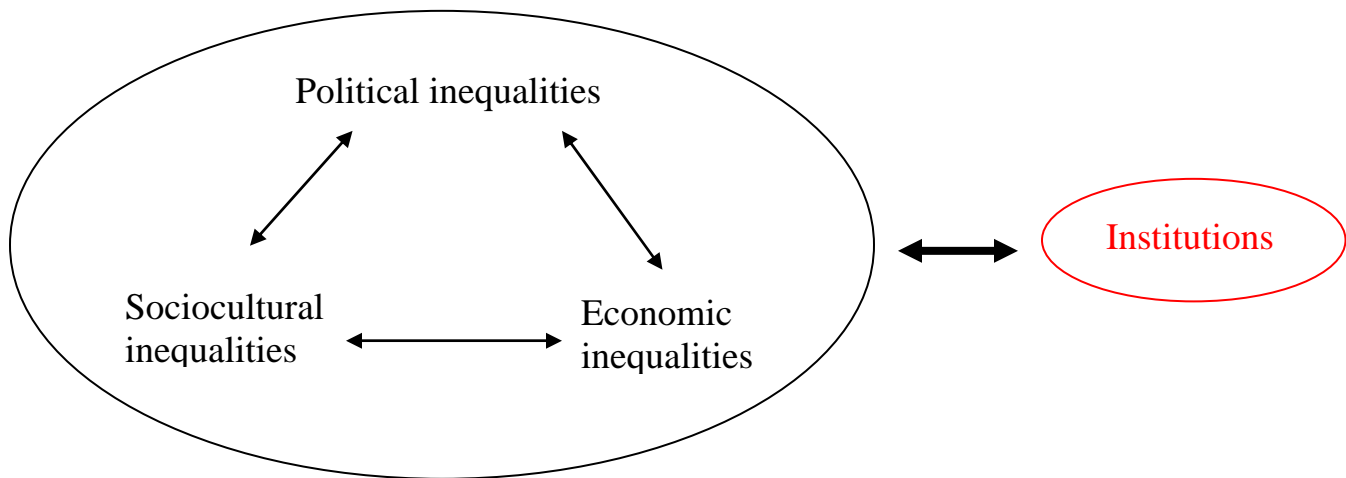
Inequality traps

1.12 If people care about equity, and if political systems aggregate people's views into social preferences, why don't the distributions we observe represent optimal choices? Why do inequalities of opportunity persist, if they are both unfair and inimical to long-term prosperity? And how do these inequalities reproduce themselves? The short answer is that political systems do not always assign equal weights to everyone's preferences. Policies and institutions do not arise from a benign social planner who aims to maximize the present value of social welfare. They are the outcomes of political economy processes in which different groups seek to protect their own interests. Some groups

have more power than others, and their views prevail. When the interests of dominant groups are aligned with broader collective goals, these decisions are for the common good. When they are not, the outcomes need be neither fair nor efficient.

1.13 The interaction of political, economic, and sociocultural inequalities shapes the institutions and rules in all societies. The way these institutions function affects people's opportunities and their ability to invest and prosper. Unequal economic opportunities lead to unequal outcomes and reinforce unequal political power. Unequal power shapes institutions and policies that tend to foster the persistence of the initial conditions (figure 1.1).

Figure 1.1 The interaction of political, economic, and sociocultural inequalities



Source: Authors' creation.

1.14 Consider the status of women in patriarchal societies. Women are often denied property and inheritance rights. They also have their freedom of movement restricted by social norms that create separate “inside” and “outside” spheres of activity for women and men. These social inequalities have economic consequences: girls are less likely to be sent to school, and women less likely to work outside the home. This reduces the options for women outside marriage and increases their economic dependence on men. The inequalities also have political consequences: women earn less than men, and they are less likely to participate in important decisions within and outside the home.

1.15 These unequal social and economic structures tend to be readily reproduced. If a woman has not been educated and has grown up to believe that “good, decent” women abide by existing social norms, she is likely to transmit this belief to her daughters and to enforce such behavior among her daughters-in-law. An inequality trap may thus prevent generations of women from getting educated, restrict their participation in the labor market, and reduce their ability to make free, informed choices and to realize their potential as individuals. This reinforces gender differences in power that tend to persist over time.

1.16 Similarly, the unequal distribution of power between the rich and the poor—between dominant and subordinate groups—helps the rich maintain control over resources. Consider an agricultural laborer working for a powerful landlord. Illiteracy and malnourishment may prevent him from breaking out of the cycle of poverty. But he is also likely to be heavily indebted to his employer, which puts him under the landlord’s control. Even if laws were in place that would allow him to challenge his landlord’s dictates, being illiterate, he would find it difficult to navigate the political and judicial institutions that might help him assert his rights. In many parts of the world, this distance between landlords and laborers is compounded by entrenched social structures: landlords typically belong to a dominant group defined by race or caste, tenants and laborers to a subordinate group. Because members of these groups often face severe constraints from social norms against intermarrying, group-based inequalities are perpetuated across generations.

1.17 Poor individuals in geographically isolated regions and racial and ethnic minorities also have less political power and less voice in many countries. This affects their ability to propose and implement policies that would reduce their disadvantage, even if such policies might be growth-enhancing for the country.³ The correlations between the unequal distribution of assets, opportunities, and political power give rise to a circular flow of mutually reinforcing patterns of inequality. Such a flow, and its associated feedback loops, help inequalities persist over long periods—even if they are inefficient and deemed unfair by a majority of the population.⁴

1.18 Economic and political inequalities are themselves embedded in unequal social and cultural institutions.⁵ The social networks that the poor have access to are substantially different from those the rich can tap into. For instance, a poor person’s social network may be geared primarily toward survival, with limited access to networks that would link him or her to better jobs and opportunities. The rich, by contrast, are bequeathed with much more economically productive social networks that maintain economic rank. Rich parents can use their social connections to ensure that their child gets into a good school, or they can call a few good friends to make sure that their son gets a good job. Conversely, poor parents are more subject to chance. Connections open doors and reduce constraints.

1.19 Social networks are closely allied with culture. (By “culture” we mean aspects of life that deal with relationships among individuals within groups, among groups, and between ideas and perspectives). Subordinate groups may face adverse “terms of recognition,” the framework within which they negotiate their interactions with other

³ See Acemoglu and Robinson (2000), Bourguignon and Verdier (2000), and Ferreira (2001).

⁴ This theme is one that recurs across many disciplines—in sociology and anthropology see Bourdieu (1986), Bourdieu (1990), and Tilly (1999), in economics see Engerman and Sokoloff (2001), Bénabou (2000), and Piketty (1995).

⁵ See Acemoglu and Robinson (2000) for various perspectives on the interconnections among cultural, social, and economic inequality.

social groups.⁶ One obvious expression is explicit discrimination that can lead to an explicit denial of opportunities and to a rational choice to invest less at the margin.

1.20 But the process may also be less overt. A person born into a low social class or a socially excluded group may adopt the dominant group's value system.⁷ Religious beliefs may propel this: women may take on gendered beliefs about their economic and social role, and low castes may absorb the upper castes' view of their "inferior" status. In schools, a stigmatized group may face a "stereotype threat," adopting the dominant group's view of their ability to perform in cognitive tests or in occupations historically controlled by dominant groups.⁸ This can affect a discriminated group's "capacity to aspire."⁹ It also implies that "voice," the capacity of individuals to influence the decisions that shape their lives, is also unequally distributed and that "effort" and "ability" are not necessarily exogenous (predetermined).¹⁰

1.21 The existence of these inequality traps—with mutually reinforcing inequalities in the economic, political, social, and cultural domains—has two main implications for this analysis. The first implication is that, because of market failures and of the ways in which institutions evolve, inequality traps can affect not only the distribution but also the aggregate dynamics of growth and development. This in turn means that, in the long run, equity and efficiency may be complements, not substitutes.

1.22 Capital, land, and labor markets in developing countries are imperfect. Informational asymmetries and contract enforcement problems imply that some people with good project ideas (and thus a potentially high marginal product of capital) end up constrained in their access to capital. This, even as other people earn a lower return on their (more abundant) capital. In agriculture, land market failures mean that some farmers exert too little effort on some plots (where they are sharecropping), and too much effort on other plots (which they own).¹¹ Investment in human capital can also be allocated inefficiently, because of intrahousehold disputes, because credit-constrained households lack the resources to keep their children healthy and in school, or because discrimination in the labor market reduces the expected returns to schooling for some groups. What do such diverse market failures have in common? They cause differences in initial endowments—such as family wealth, race, or gender—to make investment less efficient.

1.23 There also are political and institutional reasons why equity and efficiency are long-term complements. Markets are not the only institutions in society. The functioning of states, legal systems, and regulatory agencies—indeed, of all the institutions that assign and enforce property rights and mediate conflicts among citizens—is influenced by the distribution of political power (or influence, or voice) in

⁶ Appadurai (2004).

⁷ See Bourdieu (1990) on symbolic violence for more on this.

⁸ Steele (1999).

⁹ Appadurai (2004).

¹⁰ See Rao and Walton (2004) for more on such "inequalities of agency."

¹¹ "Too much" and "too little" are used here with respect to the social optimum. The choices are usually privately rational.

society. Unequal distributions of control over resources and of political influence perpetuate institutions that protect the interests of the most powerful, sometimes to the detriment of the personal and property rights of others.¹²

1.24 Those whose rights are not protected have little incentive to invest, perpetuating poverty and reproducing inequality. Conversely, good institutions that protect and enforce personal and property rights for all citizens have led to higher sustained economic growth and long-term prosperity. Equity can, once again, help societies grow and develop.

1.25 This does *not* mean, of course, that efficiency-equity tradeoffs have somehow been abolished. In some cases, equity enhancements bring immediate—as well as long-run—benefits for efficiency. If we reduce discrimination against women in one segment of the labor market, such as management, and if this brings a new pool of talent into that segment, efficiency is likely to increase even in the short run.¹³ In other cases, however, expanding the opportunity sets for the disadvantaged may require more costly redistribution. To finance better-quality schooling for those who have the least educated parents, and who attend the worst schools, it may be necessary to raise taxes on other people. The basic economic insight that such taxation distorts incentives remains valid. Such policies should be implemented only to the extent that the (present) value of the long-run benefits of greater equity exceed the efficiency costs of funding them.¹⁴

1.26 The point is that some of these long-term benefits of pursuing greater equity are ignored in the conceptual calculus of policy design. The fact that better-schooled children who are poor and from a racial minority will be more productive is usually taken into account. But the fact that they may acquire greater political voice and help make social institutions more inclusive—which, in turn, may increase the stake of that group in society, potentially leading to greater trust, less conflict, and more investment—may not be. To the extent that such indirect (but important) benefits of equity-enhancing policies are ignored, too few of them are pursued—even assuming a purely benevolent government.

1.27 By placing equity and fairness as central elements of an efficient development strategy, developing countries will be better able to reach sustainable growth and development trajectories. Such equitable growth paths are likely to lead to faster

¹² The role of high inequality of political power and wealth as a barrier to economic development in the modern era is a rapidly growing area of research. Striking results are reported in Sokoloff and Khan (1990), Engerman and Sokoloff (1997), Sokoloff and Engerman (2002), Acemoglu, Johnson, and Robinson (2001), Acemoglu, Johnson, and Robinson (2002), and Banerjee and others (2001). Overviews of the broad set of research questions are Sokoloff and Engerman (2000), Hoff (2003), and Acemoglu, Johnson, and Robinson (2004).

¹³ This is so if the distribution of talents and informational asymmetries between employers and employees are similar between men and women. Notice that the efficiency gain does not satisfy the Pareto criterion. Some individual men might lose out. The efficiency criterion here is first-order dominance, under the anonymity axiom.

¹⁴ Of course, the intrinsic valuation of equity may be reflected in the appropriate distributional weights underpinning these benefits.

reductions in the many dimensions of poverty, the central objective of development everywhere.

1.28 The second implication of the existence of inequality traps is that no real-life policy or institution is entirely exogenous: no existing organization or application of a policy idea has been implemented on a purely technocratic basis. All policies and institutions exist because the political system has brought them into being or allowed them to survive. The political system reflects the distribution of power and voice attained at a particular time and place. This distribution is, in turn, influenced by the distribution of wealth, income, and other assets and outcomes in that society. Such “circular causality” for wealth, income, social and cultural capital, and power, mediated through institutions, evolves throughout time and history.

1.29 Acknowledging history and social and political institutions is crucial to avoid policy mistakes. But a fatalistic view of the world is not only wrong, but also counterproductive. To propose policies without understanding history, or the specific context for developing these policies, often leads to failure. But this acknowledgment is not equivalent to the view that no policies should be suggested at all. Such a view fails to recognize how purposeful social and political action can achieve significant policy and institutional changes—and would result in fatalistic inaction.

1.30 History is *not* endlessly repetitive and, as this report documents, many countries have taken on the challenge of breaking inequality traps with some success. Groups have also changed their circumstances or changed social and political institutions. Consider the civil rights movement in the United States, the democratic overthrow of apartheid in South Africa, the more participatory budgeting practices in some Brazilian cities, and the reforms in access to land, education, and local government in the Indian state of Kerala. The challenge for policy is to ask when and how such changes can be supported.

A brief preview of the report

1.31 Part I summarizes evidence on inequity within and across countries. Part II asks why equity matters for development, both intrinsically and instrumentally. Part III turns to the policy implications. If unequal opportunities and absolute deprivation are inimical to long-term prosperity—as well as intrinsically objectionable—there is scope for policy and institutional reform aimed at leveling the economic and political playing fields.

1.32 An equity lens and the focus on leveling the playing field add three basic points. First, redistributions from richer and more powerful groups to poorer groups that face more limited opportunities are sometimes necessary and should be pursued. Second, when considering policy tradeoffs between equity and efficiency, the full long-term benefits of equity—including on the development of better and more inclusive institutions—need to be taken into account. Third, all categories of economic policy—macro and micro—have effects on both efficiency (and growth) and equity (and distribution). Because our ultimate goal is the reduction of poverty through the equitable pursuit of prosperity, the policy suggestions in these chapters are consistent with good poverty-reduction policies, which the World Bank has been advocating since at least the

publication of the World Development Report 1990.¹⁵ These suggestions are also in line with the 2000 World Development Report's three pillars of opportunity, empowerment, and security.¹⁶

¹⁵ World Bank (1990).

¹⁶ World Bank (2001h).

Focus on Palanpur

Inequality traps stifle economic development in a north Indian village

Villagers differ markedly from one another in the opportunities they have to improve their welfare and in their abilities to use the assets and endowments available to them. Mirrored in village economic and social institutions—and in the political processes for seeking change—these deep-seated inequalities have prevented the village from improving human development and accelerating economic growth.

S1.1 The village of Palanpur, in the north Indian state of Uttar Pradesh, has been the subject of intensive study by a group of development economists based first at the Agricultural Economics Research Centre of the University of Delhi and Oxford University and later at the London School of Economics. Researchers visited the village repeatedly and collected detailed quantitative and qualitative information between the late 1950s and early 1990s. While a single village study covering a specific period of time cannot be used to draw inferences about development in rural India as a whole, it does provide a distinct window into the kind of processes that can shape growth and equity over time.

S1.2 The study documents modest economic progress over time with slow growth in per capita incomes and some declines in income poverty. But alongside this sluggish growth is evidence of stagnation and even deterioration along other dimensions of well-being. A major conclusion—and a central theme of this year's report—is that the slow pace of economic development in the village has been shaped by deeply rooted inequalities among villagers.

S1.3 Different groups of villagers, defined by such predetermined characteristics as caste or gender, face radically different opportunities for economic and social mobility. Their economic endowments differ markedly, as do their education, health, occupational mobility, and capacity to influence and shape social and political institutions in the village. Disadvantage in one dimension of opportunity is generally reinforced by disadvantage in others, combined in a way that perpetuates the stark inequities over generations.

S1.4 These deep-seated inequalities of opportunity shape, and are shaped by, market imperfections in the village, resulting in suboptimal investments and impeding growth. Inequalities are also mirrored in village institutions. State and central government policies that were introduced in the village were inevitably filtered through a highly unequal distribution of power and influence. Disappointingly ineffectual in stimulating broad economic and social progress, public policy has simply reproduced the prevailing patterns of inequality.

Caste

S1.5 Caste in Palanpur defines opportunities and determines the activities villagers pursue, even independent of occupation, education, and other standard household characteristics. The three largest castes in Palanpur are Thakurs, Muraos, and Jatabs.

S1.6 At the top is a martial caste known as the Thakurs, which accounted for about a quarter of the population in 1993. Thakurs are disproportionately represented in jobs such as the army and police that accord well with their martial past. They are typically averse to wage employment in the village, because this would place them in a subordinate position. Alert to nonfarm employment opportunities outside the village, they are well placed to take advantage of them, thanks to stronger information and social networks.

S1.7 Just below the Thakurs is a cultivating caste, the Muraos, also accounting for a quarter of the population. Muraos are traditional cultivators who have continued to specialize in agriculture. Very hardworking, they have seen a rapid rise in wealth and economic status in the village. While they may still not enjoy the same social status as Thakurs, they have become more prosperous and now challenge the previously unquestioned political and economic dominance of the Thakurs.

S1.8 At the bottom are the scheduled castes known as Jatabs, accounting for 12 percent of the population. Traditionally “untouchable” leather workers who now engage primarily in agricultural wage labor, Jatabs have not seen any of the social mobility of the Muraos. They remain a caste apart, with little or no land, poor education, and little access to nonfarm employment outside the village. Despite some slight improvement over the years, Jatabs continue to endure many forms of discrimination, including that from government officials.

Gender

S1.9 Gender inequalities in Palanpur are pronounced. In 1993 there were 84 females for every 100 males, strikingly lower than in most parts of the world (where the ratio is usually greater than one). Child mortality rates are much higher among girls than among boys. As the researchers reported, “We witnessed several cases of infant girls who were allowed to wither away and die in circumstances that would undoubtedly have prompted more energetic action in the case of a male child.”¹⁷

S1.10 Young girls leave their village to join their husband’s family. Marriage is “the gift of a daughter.” In the new household, the girl is acutely vulnerable with no income-earning opportunities, no property, no possibility of returning home permanently. Giving birth to a child improves her status—particularly if it’s a boy. But family planning practices are limited, leading to high fertility rates and short birth-spacing. Repeated pregnancies take an enormous toll on women’s general health and put their lives at risk at the time of delivery. Old age is strongly associated with widowhood, in part because of

¹⁷ Drèze, Lanjouw, and Sharma (1998), 51.

the typically large age difference between husbands and wives. To survive, widows depend overwhelmingly on adult sons.

S1.11 The participation of women in the labor force in Palanpur is extremely low. Of 313 women age 15 or older in 1993, only 14 had anything other than domestic work as their primary or secondary occupation. This low female participation in the labor force and society, more generally, has extensive consequences. For example, the survival disadvantage of girls compared with boys tends to narrow only when adult women have wider opportunities for gainful employment. Similarly, the virtual exclusion of women from most representative institutions in Palanpur has limited the focus and quality of local politics and public action.

Schooling

S1.12 Inequalities in education are wide, declining only slowly. In the late 1950s, just under 20 percent of males age seven or older, and only 1 percent of females, were literate. By 1993, male literacy had risen to 37 percent and female literacy to just below 10 percent. Yet education is clearly of great value in Palanpur. Years of schooling strongly increase the likelihood that an individual will find employment in a regular job outside the village. Among farmers, too, direct observation strongly suggests that better-educated farmers in Palanpur have been crucial in technological innovation and diffusion.

S1.13 The perceived value of female education is quite different from that for boys, because girls are expected to spend most of their adult life in domestic work. Although there is good evidence of the benefits of education in domestic activities, it is not clear that the effects of maternal literacy on child health, for example, are recognized. Even if benefits are correctly perceived, they might not be of direct interest to the parents, because daughters are “transferred” from the village when they marry. Those who bear the costs of female education thus share little in the benefits.

S1.14 The upper-caste Thakurs have a view (adopted by many others) that education is not important or even suitable for the lower castes. Blatant forms of discrimination against children from disadvantaged castes have disappeared from the schooling system, but subtler forms of discrimination have remained—for example, the high-caste teacher considered any form of contact with Jatab children as “repulsive,” which likely affected his or her rapport with them and probably discouraging their attendance.

Work

S1.15 Occupational divisions in Palanpur have widened as the village has shifted from an overwhelmingly agricultural economy to one in which nonagricultural activities have come to account for 30 to 40 percent of village income. In 1957-58 some 13 villagers (of 528) were employed in regular or semiregular nonfarm jobs. By 1993, this number had increased more than four times to 57 jobs (the total population had only doubled).

S1.16 Outside jobs are associated with higher and more stable incomes, and the work is often less strenuous and demanding than in agriculture. Access to nonfarm jobs is far from equal, however. Workers who wish to obtain a regular job generally have to pay

bribes and, more important, get a recommendation or introduction from a friend or relative. Such rationing by personal contacts and influence implies that people with low social status tend to be at a disadvantage in the competition for nonfarm jobs, even for given education levels, skills, and endowments.

S1.17 The least advantaged segments of the labor force in Palanpur are highly represented in agricultural wage labor. Casual wage labor in agriculture can be described as a “last-resort” occupation, one taken up by those who have no significant alternative. Agricultural wage rates have risen over time, but slowly, and there are prolonged periods of seasonal unemployment.

S1.18 Econometric analysis indicates that—controlling for a large number of household characteristics (caste, demographic characteristics, education, land, and so on)—the probability of engagement in agricultural labor is 50 to 60 percent higher for households that had engaged in this occupation a decade earlier. Occupational inequalities thus result in income inequality, and they persist over long periods.

Incomes, assets, and liabilities

S1.19 Per capita incomes in Palanpur have grown at around 2 percent a year between 1957-58 and 1983-84 and income poverty fell from around 47 to 34 percent during this period. Incomes in the village are distributed about as unequally as they are in India as a whole, and income inequality has remained relatively stable over time.

S1.20 An assessment of economic inequalities based on *wealth* provides a different picture. Ownership of durables has expanded, and the value of land and other productive assets has grown, implying a significant rise in gross wealth. But there has also been a dramatic and uneven expansion of liabilities. Inequality in the distribution of *net* wealth has widened in Palanpur from a Gini of around 0.46 in 1962-63 to a conservatively estimated 0.55 in 1990.

S1.21 Many of the liabilities come from publicly provided and subsidized credit sources that have expanded sharply over time, but that have been associated with pervasive corruption. Disadvantaged groups, such as the Jatabs, are the principal targets of fraudulent accounting practices that have resulted in a dizzying accumulation of debts and dramatically raised the cost of borrowing for such households. Those without access to cheap formal credit have to fall back on private moneylenders.

S1.22 Moneylender credit remains costly. Despite the government of India’s efforts to dampen “usurious” moneylender interest rates through the massive injection of cheap credit into rural areas, rates have actually been rising in Palanpur. Between 1957-58 and 1983-84 formal credit expanded from Rs 7,000 in real terms in 1957-58 to about Rs 64,000 in 1984—yet real interest rates on cash loans from village moneylenders rose from 2 percent per month in the 1950s to 4 percent by the mid-1980s. Even at these interest rates, credit is not always available. For disadvantaged groups in the village, access to credit has thus become more difficult. The boost to productivity growth that could have come from such credit was consequently lost.

Collective inaction

S1.23 The different bases of social division in Palanpur have led to multiple solidarities and oppositions. The village society is highly fragmented, with few solid rallying points for collective action, whether cooperative or adversarial. The limited reach of collective action, in turn, is responsible for some of the most serious failures of its development. For example, the village assembly (panchayat) is constituted every few years, but it rarely meets. In 1984 it was made obligatory that at least one woman participant be selected, but in Palanpur she is never consulted and has never attended any panchayat meetings. All decisions and responsibilities are effectively taken by a village headman, who has always come from one of the privileged groups. There also is ample scope for self-serving patronage and fraud. Modern arrangements (elections, reserved seats for low castes, and women on the panchayat) have not profoundly altered the elitist and nonparticipatory character of local politics in the village.

S1.24 The dominance of privileged groups over collective institutions has had far-reaching consequences. Between the late 1950s and early 1990s, no fewer than 18 types of government-provided programs were introduced to the village: a public works road-building program, free schooling, free basic health care, old-age pensions, a fair-price shop, a farmer's cooperative, and so on. Most of them remained nonfunctional, particularly when there was a redistributive component. Only programs that enjoyed strong backing from the politically advantaged in the village were allowed to succeed. The authors of the study conclude, "There is little prospect of major improvement in the orientation and achievements of government intervention without a significant change in the balance of political power, both at the state and at the local level."¹⁸

Source: Drèze, Lanjouw, and Sharma (1998).

¹⁸ Drèze, Lanjouw, and Sharma (1998), 211.