WP 2009-31
October 2009

Working Paper

Department of Applied Economics and Management
Cornell University, Ithaca, New York 14853-7801 USA

EQUITY WITHIN AND BETWEEN NATIONS

Ravi Kanbur and A. Michael Spence

Equity Within and Between Nations[*]

By

Ravi Kanbur
Cornell University

And

A. Michael Spence
Stanford University

July 2009

Contents

[*] Introduction to Ravi Kanbur and A. Michael Spence (Editors), *Equity and Growth in a Globalizing World*, forthcoming, published by the World Bank on behalf of the Commission on Growth and Development, http://www.growthcommission.org/index.php. The chapters in the volume are listed in the Appendix to this paper.

1. Introduction

Income inequality between persons in the world as a whole can be conceptualized as composed of two elements. First there is inequality *within* nations or countries. Second, there is inequality *between* nations or countries, being defined as inequality between the average incomes of these different nations. Some inequality measures, such as the variance of log-income, or the generalized entropy family of inequality measures, can be formally decomposed into these two components such that they add up to total inequality. In a purely accounting sense, therefore, inequality within nations and inequality between nations both contribute to global inequality and are thus appropriate policy targets. Even when such a precise formal accounting decomposition cannot be accomplished for income, or even when the discourse on inequality transcends income and touches on broader dimensions such as health and education, the notion of equity between and within nations serves well as a framework for underlying concerns and for organizing discussion and debate.

Inequality within nations is ordinarily thought to be within the purview of the policymakers and the social and political processes of that country. In a globalizing world, however, it cannot be insulated from global forces and trends, and from policies adopted by other countries or the international community at large. Sometimes, it cannot even be insulated from the social and political processes in other countries, especially neighboring countries. Leaving aside these global influences, whose effects are much discussed, there is of course considerable debate about equity and inequity within a country, its impact on growth and on the fabric of society, and on what policies can best be deployed to reduce inequity if that is an ethical goal, or to manage its consequences for growth and development even if equity per se is not an ethical concern. For example, among the fundamental issues to be addressed is the conceptual, empirical and policy difference between reducing inequality of ex post outcomes and inequality of ex ante opportunity.

Difficult as the questions of equity within nations tend to be, inequality between nations is an altogether more difficult topic. The difficulties are partly philosophical, arising from a long standing debate on what exactly constitutes a moral community of concern. Does this moral community move outwards from the family, in concentric circles of diminishing concern as it reaches extended family, immediate neighborhood, region, nation and the world? Or do our deep moral imperatives lead us to a flatter world in the sense of a moral community, so that the only morally defensible objective is to reduce inequity between citizens of the world, no matter which nations they happen to be citizens of? At the same time, the nature of policy instruments available at the global level is less certain and less clear, both in the technical sense of the operation of these global instruments, and because in any case these instruments exist only as the result of agreements between sovereign nation states. One of the most difficult of these global questions, and one on which the nation state holds greatest sway, is that of free migration of labor across national borders.

This volume brings together a significant new collection of papers by leading economists who address a range of challenging questions on equity within and between nations, in the context of a globalizing world. Most of the papers were presented at workshops organized by the Commission on Growth and Development (henceforth, the Growth Commission), in the run up to the publication of the Growth Report.[1] In its report, the Commission emphasized the importance of equity within nations:

"The Commission strongly believes that growth strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth. But equal opportunities are no guarantee of equal outcomes. Indeed, in the early stages of growth, there is a natural tendency for income gaps to widen. Governments should seek to contain this inequality, the Commission believes, at the bottom and top ends of the income spectrum. Otherwise, the economy's progress may be jeopardized by divisive politics, protest and even violent ethnic conflict. Again, if the ethical case does not persuade, the pragmatic one should." (p.7)

It also called for equity between nations, highlighting the responsibilities of advanced countries, including on trade:

"Developing countries cannot grow without the support of the advanced economies. In particular, they need access to the open global trading system. They may also need some latitude to promote their exports, until their economies have matured and their competitive position has improved."

[1] Commission on Growth and Development (2008), chaired by A. Michael Spence, http://www.growthcommission.org/index.php. For the Growth report, see http://www.growthcommission.org/index.php?option=com_content&task=view&id=96&Itemid=169

In this introduction and overview we highlight what we see as the key issues on equity that emerge for analysts and policy makers from the papers in this volume, and from the literature more generally. Section 2 takes up the perspective of equity within nations, while Section 3 focuses on equity in the global context. Section 4 draws together the discussion of the previous two sections into a policy focused discussion of what can and should be done to address equity within and between nations.

2. Within Country Poverty and Inequality

What is the actual experience of the evolution of incomes and other dimensions of well being in developing countries over the past two decades? In their paper, Francois Bourguignon et. al. (Chapter 2) provide a comprehensive answer to this question, focusing on the dimensions captured in the Millennium Development Goals (MDGs). The specific indicators proposed for tracking the MDGs include income poverty, malnutrition, school enrollment rates for boys and girls, infant mortality rates, maternal mortality rates, etc. Despite the data difficulties, and these are considerable, they summarize the analysis of the World Bank and the United Nations as follows:

"i) *Global progress is surprisingly good*, especially for the poverty and the gender parity goals; less so for the child mortality and maternal mortality goal. As is widely acknowledged, however, the progress on global poverty is very much driven by overachievers in East and South Asia, including China, India, Indonesia, Vietnam, and Bangladesh.

ii) There are *clear regional patterns* in MDG progress which depend on initial conditions and recent growth performances. If Asian countries are over-achievers in the income poverty goal, they perform relatively worse in health and, in the case of India, in education and gender equity. Conversely, Latin America and the Middle East are relative underachievers in the poverty goal, but relative overachievers in health, education and gender equity. Finally, Sub-Saharan African countries lag much behind other regions.

iii) *Most countries in all regions are off-track on most MDGs* (or data is missing to assess progress), including even some of those countries which have experienced very good growth performance.

iv) *MDG achievements are much lower in 'fragile' states*. One of the reasons why Sub-Saharan Africa lags behind on the MDGs is the relatively large proportion of so-called 'fragile states' in that region. The definition of fragile countries used here is that established by the World Bank.[2]

[2] The countries referred to as 'fragile' are low-income countries that score below a certain cut-off in the World Bank Country Policy and Institutional Assessment rating (CPIA). These ratings reflect assessments made by Bank staff members in a range of policy and institutional areas, but, in practice, fragility is most often linked to present or past conflicts in the national territory or in neighboring states.

v) In most regions, including those that have been successful on the poverty goal, *progress on reducing childhood under-nutrition is extremely slow*.

vi) The *poorest regions*, South Asia and Sub-Saharan Africa, are the two regions still seriously *off-track for primary completion rates and for child mortality*.

vii) Progress has been *good on gender equity in primary and secondary enrolments in all regions*. Yet Sub-Saharan Africa and other fragile states still lag seriously behind. Most countries in Sub-Saharan Africa are unlikely to meet this goal."

As Bourguignon et. al. note, the overall pattern thus seems to be one of "a half full and half empty glass." But further analysis of the data reveals two important conclusions that are relevant for policy. First, they find that even within regions there is considerable country heterogeneity in country performance on the MDGs. Some of these differences can be accounted for by structural factors such as geographic location or whether a country is a "fragile state", but even allowing for these there is significant variation. This surely emphasizes another of the themes of The Growth Report, that country specificity and context matters, and a uniform policy prescription across countries is inappropriate.

Second, although there is strong correlation between growth in income per capita and changes in income measures of poverty, for non-income MDG's Bourguignon et. al, conclude that:

"The correlation between GDP per capita growth and [improvements in] non-income MDGs is practically zero, as illustrated in Figure 5 for Sub-Saharan countries. This serves to confirm the lack of a relationship between those indicators and poverty reduction. As it would be hard to believe that information on non-income MDGs is so badly affected by measurement error that it is pure noise, this lack of a relationship reflects some relative independence among policy instruments governing progress in the various MDGs. Furthermore, it highlights substantive differences in country policies and circumstances that may affect the relationship between these policies. This is an interesting finding which suggests that economic growth is not sufficient *per se* to generate progress in non-income MDGs. Sectoral policies and other factors or circumstances presumably matter as much as growth."

Thus, as the Growth Report acknowledges and emphasizes, growth is not an end in itself; it is a necessary but not sufficient for development in the broader sense.

Even for income poverty, where the correlation with economic growth is strong, there are still significant variations around the average relationship. Specifically different countries seem to translate economic growth into reduction in income poverty at different rates—the “growth elasticity of poverty reduction” varies considerably. In countries such as China, Honduras, Ghana, Uganda and Cambodia, this effectiveness appears to be quite low. As reviewed by Ravi Kanbur (Chapter 3), a growing theoretical and empirical literature locates this ineffectiveness in high and rising inequality, which dissipates the poverty reduction benefits of economic growth.

In his paper, Kanbur highlights the disconnect between falling income poverty indices in fast growth economies on the one hand, and growing distributional concerns among the civil societies and polities of these very same countries. What explains this disconnect? He argues that official poverty statistics by their very nature will tend to understate true poverty and overstate improvement in poverty. One important reason is that they ignore intra-household inequality, because official surveys collect data on consumption only at the household level. Thus, by ignoring a key dimension of inequity in society, namely gender inequity within the household, official statistics bias the national representation of the level and trends in poverty. They paint a rosier picture than warranted, thereby misleading the policy debate.

Kanbur also argues that, quite independently of the dissipating effect of high and rising inequality on the growth-poverty reduction relationship, higher inequality in and of itself creates tensions in society which are reflected in the concerns of the polity. This is particularly true when the inequity is across salient socio-political groupings such as regions, religions or ethnicities. The reason why such inequities and the tensions they cause can hold back investment and growth is fairly clear. However, in his paper Abhijit Banerjee (Chapter 4) develops an analysis that shows a causal link between inequity pure and simple, even when it does not have ethnic or other group dimensions, and investment efficiency and growth. He develops a canonical model in which there is no correlation between entrepreneurial talent and wealth but, because of fixed costs of investment and because of imperfect credit markets, those with more wealth are better able to invest in their own projects. As a result, “some less talented rich people are able to bid the capital away from some poorer but more gifted entrepreneurs (or, equivalently, the rich father of a mediocre student can bid away a seat in a good college from the poor father of the next would-be genius).” And the problem is not just that the poor are too poor to finance the fixed costs of investment; it is also that the rich can bid away capital because of their better ability to offer collateral. In this sense, “there is too much capital in the hands of the rich.” Banerjee reviews the empirical evidence on credit constraints, which supports the assumptions in his model, and concludes that, “there is reason to try redistribute investible resources, not only towards the poor, but also towards specific groups of the non-poor, including many established but smaller entrepreneurs.”

Further arguments and evidence for the importance of equity for the promotion of efficiency and economic growth is presented in the paper by Andrew Morrison, Dhushyanth Raju and Nistha Sinha (Chapter 5,). They start by recognizing that the evidence that economic growth, on average and over a long period of time, is associated with greater gender equity is quite strong. This is all the more an argument for promoting economic growth, as argued in The Growth Report. However, recalling the results of Bourguignon et. al in Chapter 2, there is significant variation around such relationships, and there is plenty of room for purposive interventions to promote gender equity, to ensure that the fruits of growth are indeed being shared equitably. Moreover, such direct promotion of gender equity can by itself act as a spur to efficiency and economic growth, and this is the burden of argument in the paper by Morrison, Raju and Sinha in Chapter 5. The conduct a thorough review of the literature, and identify not only key findings but also areas for further research where knowledge is lacking. By and large they find that gender equity is supportive of efficiency and growth, but highlight the following areas where more research is needed: (i) documenting gender disparities, (ii) more rigorous evidence on the gender-differentiated effects of increased access by the poor to economic resources and opportunities, and (iii) “more rigorous evidence on whether and how improving the socioeconomic position of mothers benefits children’s welfare more than improving the same position of fathers, and whether improving gender equality, such as by reducing barriers to increasing human capital accumulation and accessing markets, translate into gains into national economic growth and development.”

The Growth Report recognizes the distinction between equality and equality of opportunity, on which there has been much debate in the literature. According to the Growth Commission, equality refers to outcomes or results, equality of opportunity refers to starting points:

“People care about both kinds of equality. But they understand that markets do not produce equal outcomes. They will tolerate this inequality, provided governments take steps to contain it….Inequality of opportunity, on the other hand, does not involve trade-offs and can be toxic, This is especially so if the opportunities are systematically denied to a group due to its ethnicity, religion, caste or gender…How can governments safeguard equality of opportunity and contain inequality of outcomes? The latter goal is served by redistribution, over and above the informal sharing arrangements that often prevail in extended families and tight-knit communities. Equality of opportunity is best served by providing universal access to public services like health and education, and by meritocratic systems in government and the private sector.” (p 62)

A somewhat different perspective is presented in Kanbur (Chapter 3) who argues, in reacting to a literature that tries to specific and measure equality of opportunity, that it may be difficult in practice to distinguish between equality of opportunity and equality of outcomes. This is especially the case if the latter is seen as differing from the first because of individual “effort” or “tastes” since, for example, the effort or tastes of parents translate into the starting points (“circumstances”) of their children. Equalizing starting points for children may then involve , at least to some extent, equalizing outcomes between their parents—so the clean distinction breaks down in concept as well as in practice. Nevertheless, it remains true that differences in achievements across broad groups differentiated by gender, ethnicity, caste, religion have moral significance beyond the fact that they contribute to inequality between persons. If we believe that there is no inherent difference in talent across these groups, then differences in wealth, income, education etc as a result of belonging to these groups per se is inefficient and ethically objectionable.

The paper by Francisco Ferreira and Jérémie Gignoux (Chapter 6) presents a detailed empirical analysis of inequality of opportunity, by applying the concept and measurement to the case of Turkey. Using data from the Demographic and Health Survey (DHS), that paper examines variation in the quantity and quality of education. It is shown that enrollment rates (correcting for age) differ on average across gender, across regions and across family backgrounds. Variation in test scores are also affected by these factors, and other indicators of a child’s “circumstances” such as parental education and father’s occupation. An interesting difference, however, is that while gender determines differences in enrollemtn and retention (lower for girls), conditional on begining school it is is not an importnat factor explaining test scores. As Fereira and Gignoux conclude, "The policy lesson for those concerned with girls' education in Turkey seems to be that the big priority is really to get - and keep – them in school. Once there, they seem to do well enough." The analysis by Ferreira and Gignoux illustrates how careful empirical work on micro data can shed light not only on "big picture" conceptual issues like "equality of opportunity", but it can also provide pointers to very specific policy interventions to achieve equity in key dimensions.

Part of the story of the literature on equity within nations is the level of aggregation at which the discourse proceeds, or should proceed. Thus Bourguignon et. al. (Chapter 2), after giving a detailed cross-country account of how well being has evolved, do emphasize that variations within countries are also important. The previous chapters have focused on the lowest part of the income distribution (poverty), and also on achievements on broad groupings within countries such as gender, ethnicity, etc. However, a group of particular interest, in all developing countries but particularly in fast growing ones, is the "middle class." This grouping is important because of its central role (literally and figuratively) in the generation of the income distribution, and in determining tax and transfer policies that affect the wellbeing of the poor. Thus, for example, Kanbur (Chapter 3) argues for transfer policies that cushion the poor against shocks and vulnerabilities. But such policies cannot be introduced without the support of middle income groups—the imperative of fine targeting for efficiency of the transfer has to be traded off against some leakages to middle income groups to build support for the programs in the first place.

The paper by Nancy Birdsall (Chapter 7) is motivated by the potential political power (PPP, as she calls it) of the middle class. But a prior question is the empirical one of how the middle class is to be defined, how big it is, and what its characteristics are. The Birdsall paper addresses these questions in turn. She defines this middle class as those at consumption/income above \$10 a day in 2005, and at or below the 95th percentile of the distribution of their country. She discusses and defends this mixture of absolute and relative criteria in the definition, as opposed to alternatives in the literature like just the middle three quintiles. On the \$10 line: "I propose an absolute minimum on the grounds that in the relatively open economies of most developing countries today, with economic security to some extent vulnerable to external as well as internal economic and political shocks (including weather, financial crises and so on -- consider the food and fuel price spikes in 2008), as well as some consumption standards set at the global level (a car for example if not everywhere a Lexus), some absolute minimum makes sense." On the 95th percentile: "The relative maximum, which obviously varies across countries, can be thought of as excluding that portion of the population within a country whose income is most likely to be from inherited wealth, or based on prior or current economic rents associated with monopoly or other privileges, and thus less associated with productive and primarily labor activity than for the non-rich."

One can clearly debate the specifics of the Birdsall definition, and she herself recognizes criticisms and addresses them. What is interesting and important, however, is that some such definition gives us an empirical basis on which to delve deeper into specific part of the income distribution. She goes on to provide an account of the size and composition of the middle class across countries. In light of this exploration she concludes that "the real tradeoff in policy design is far better thought of in developing countries as a tradeoff between the rich and the rest rather than, as has been the mindset in the international community for several decades, the absolute poor and the rest." Such a conclusion certainly influences the perspective and the framework from which the issue of equity within nations is approached.

3. Equity in the Global Context

The paper by Ann Harrison and Margaret McMillan (Chapter 8) marks a transition in this volume between a focus on a nation or a country to looking beyond that country at the world at large. It is recognized that opportunities for international trade and especially knowledge transfer have been a central factor in explaining growth performance of developing countries. There is relatively little debate about that. Sustained high growth in isolation is very unlikely and there are no counter examples. But there is considerable debate on what policies best serve the interest of taking advantage of these opportunities to promote growth. A prime example of the latter are industrial policies for export promotion and structural diversification of the economy. The debates within the Growth Commission, discussed in the Growth Report, are indicative of the different views and continuing debate in this area:

"Some skeptics might concede that markets do not always work, but they argue that industrial policies don't either…The risk of failure or subversion is too great…But there also risk to doing nothing….If an economy is failing to diversify its exports and failing to generate productive jobs in new industries, governments do look for ways to jump-start the process, and they should." (p. 49)

While the debate on the exact nature of outward orientation and its impact on growth will no doubt go on, the focus of the Harrison and McMillan paper is the impact of this outward orientation on poverty. Rather like the Chapter on Gender, this chapter summarizes its findings but also lays out an agenda for further research.

Does globalization reduce poverty? Harrison and McMillan summarize their findings as follows. First, "The poor in countries with an abundance of unskilled labor do not always gain from trade reform". This may seem surprising given the basic teaching of trade theory, especially around the Stolper-Samuelson theorem, but it would appear that the conditions of this theorem are not met in practice (it is not the case that all countries, produce all goods, labor is immobile, and so on). Second, "The poor are more likely to share in the gains from globalization when there are complementary policies in place." Third, "Export growth and incoming foreign investment can reduce poverty. In the countries we study, poverty has fallen in regions where exports or foreign investment is growing." Fourth, "Financial crises are costly to the poor." This is a uniform finding in the literature and, although the evidence base of the Harrison and McMillan paper predates the current crisis, this finding has relevance for policy responses to the current downturn as well. Fifth, "Globalization produces both winners and losers among the poor." The central point is that the poor are heterogeneous in terms of their characteristics and in terms of their engagement with the economy. Thus policies like broad tariff reduction are bound to have differential impacts on the poor. Even when overall poverty falls, it is possible that a significant number of the poor are impoverished as a result, at least in the short term. Whether this happens or not is of course empirical question, but Kanbur (Chapter 3) argues that this could be one of the reasons behind the disconnect between good official poverty figures and ground level discontent, as expressed by those poor who have been made poorer, even though the majority of the poor have benefited.

Harrison and McMillan have a final conclusion: "Different measures of globalization are associated with different poverty outcomes. How globalization is measured determines whether globalization is good for the poor." Their paper of course focuses on openness to trade and capital flows. On this basis there has indeed been considerable globalization of the world economy over the past decades. But the one measure on which globalization is not very pronounced is on labor flows. The final three papers in this volume are all focused on the question of international migration and its impact, or the impact of the lack on international migration, on equity within and between nations. The central empirical question in these papers is the extent to which labor of the same type earns different returns in different countries, how much migration this leads to, the impact of this migration in turn on these wage differentials. The implicit or explicit moral challenge in these papers is to the national restrictions on migration in the face of large and persistent wage differentials that exacerbate inequity between nations.

The paper by Mark Rosenzweig (Chapter 9) provides an analysis of the nature of global wage differentials using three newly available data sets: New Immigrant Survey Pilot, Occupational Wages Around the World, and the New Immigrant Survey. A major finding is that "The data reject the model underlying the Mincer wage specification, which assumes perfect capital and labor markets and no barriers to schooling acquisition (and no permanent differences in lifetime earnings), suggesting that a framework incorporating the determinants of the supply and pricing of skills is better suited to accounting for wage inequality." Focusing then on just supply and pricing of skills, the paper finds that it is the latter which is the major influence on wages, and draws the following sharp conclusion: "That most of global inequality in incomes is due to inter-country differences in the prices of skills suggests that greater equalization of schooling levels arising from domestic schooling policies will have only marginal effects on global inequality, that domestic development policies in poor countries should focus on the underlying reasons skill are less valued, and that labor is poorly distributed across countries based on global efficiency criteria, given the structure of skill prices." Perhaps not surprisingly, the paper also finds that skill price differential is a determinant of migration flows to the US.

While the paper by Rosenzweig is an analysis of a specific recently available data, the paper by Gordon Hanson (Chapter 9) is an overview of the general literature on international migration and development, and thus has a broader scope in terms of questions asked and studies consulted. He provides a summary of the key findings of this literature as follows:

"1. Bilateral migration flows are negatively affected by migration costs, as captured by geographic or linguistic distance between countries, the absence of migration networks, or the stringency of border enforcement against illegal entry….2. Emigration rates are highest for developing countries at middle income levels and with higher population densities….3. In most developing countries, it is the more educated who have the highest likelihood of emigrating….4. Emigrants sort themselves across destinations according to income-earning possibilities, with the countries that have the highest incomes for skilled labor attracting the most educated mix of immigrants….5. Empirically, the impact of opportunities for skilled emigration on the pattern and amount of investment in human capital in a country is unknown….6. There is some evidence that emigration puts upward pressure on wages in sending countries….7. Migrant remittances tend to positively correlated with household consumption and investments in education and entrepreneurial activities in sending countries."

Whether one takes the specific study of Rosenzweig, or general survey of Hanson, it is difficult to escape the conclusion that freer movement of labor would certainly enhance global efficiency. It would improve equity between nations for sure, and although its impact on equity within nations is ambiguous, there are positive forces in this direction as well (for example, in the finding that emigration leads to upwards pressures on wages). It is this huge anomaly in the globalization discourse that motivates, and enrages, Lant Pricthett in his paper (Chapter 11), the final paper in the volume.

For Pritchett globalization as currently envisaged is a sham without freer movement of labor. On this score, if anything there has been a retreat since the number of sovereign nations has increased in the last few decades. These sovereigns present a “cliff at the border”, most important for labor movement. He presents considerable evidence of such cliffs, and argues that the world is not all flat—far from it. He labels the world as we now have it Proliferation of Sovereigns combined with Everything but Labor Liberalization (POSEBLL): “…. POSEBLL has led, as expected, to the equalization of prices of goods, equalization of the risk adjusted cost of capital. But, perhaps unexpectedly, it has also led to very uneven progress in the newly proliferated sovereigns and this, combined with binding quantitative restrictions on the movement of labor, has also led to massive gaps in the wages of equivalent labor around the world and sustained divergence in the per capita incomes across nation-states.”

Pritchett’s main thrust goes beyond the empirical establishment of these distortions, to an examination of their implication for equity. In doing so he takes on what he calls the “Nation-State-ization” of equity: “The question is, how does the massive differential treatment of people that are alike in every respect except for their affiliation with a particular nation-state, an essentially arbitrary condition of birth, square with any theory of justice?” His discussion relates very much to our earlier discussion of equality of opportunity. If gender differences and ethnic differences cannot morally be the basis for unequal outcomes for people alike in talent, why should nation of birth have moral salience in evaluating equality of treatment?

“’Because you are a girl’ is no longer considered a socially appropriate rationale for differential treatment….On the other hand, people who are exactly identical in every conceivable and observable respect can be treated in ways that cause their well-being to differ by orders of magnitude—for instance denied access to a more productive job--with no apparent violation of justice if those otherwise identical individuals happen to be citizens of different countries.”

Pritchett’s discourse critiques many, including Rawls, supposed guide to our egalitarian instincts, for circumscribing his moral community to that of the nation state and thereby avoiding the problem altogether.

While Pritchett’s critique is powerful and appeals to moral intuition at one level, a truly global social welfare function, where citizenship did not matter, has its own jarring consequences. This can be illustrated with reference to MDG discussion from Bourguignon et. al (Chapter 2). As they show, globally there has been good progress on income poverty. So much so, in fact, that (before the current global financial crisis) the world was well on the way to meeting the MDG of halving the incidence of poverty between 1990 and 2015. However, as also pointed out and highlighted by Bourguignon et. al. this performance is almost entirely explained by India, China and other large Asian countries because (i) they have had sharp falls in poverty and (ii) they account for the bulk of the population of developing countries. Sub-Saharan Africa, on the other hand, has seen increase in poverty. If we took a truly global perspective a la Pritchett, we would presumably be indifferent as between an Indian or an African being lifted from poverty. But would this also allow us to "cancel out" the increase in African poverty with an equivalent fall in Asian poverty? The issue presents itself equally within a nation state as well, and we have already alluded to it. As highlighted in Kanbur (Chapter 3), quite often a fall in national poverty has been accompanied by a rise in the poverty of significant numbers, quite often in groups identified regionally. The impoverishment of an ethnic group, perhaps by the very same policies that have bettered poverty nationally, raises questions beyond the pragmatic ones of likely consequences for social peace. It jars morally as well. The nation state as the moral community does not seem to be an adequate response. In the same way, the world being a moral community that dominates other groupings may not be an adequate response to many distributional dilemmas. A balance will have to be struck in our ethical conceptualizations of equity within and between nations, just as a balance will have to be struck between national and global policy instruments in addressing inequity in its many dimensions.

4. Policy Conclusions

We have not of course been able to cover the full range of issues that arise in a discussion of equity in a globalizing world. We have focused on topics covered by the papers in this volume and have not addressed many important questions, such as the role of development assistance as a response to inequity between nations, and as an instrument for reducing poverty and inequality within nations. We have also not discussed the role of global public goods (and global public bads) in equity within and between nations.

Nevertheless the analysis and evidence presented in the papers here provides a useful framework for setting policy priorities. In any country, and especially in developing countries, and also in the international arena, priorities have to be set and simply doing everything that sounds meritorious, even if one is sure about the desired direction, is not feasible. Resources, physical, financial, human and political are not infinite.

If one begins with what people care about, the papers make clear the list is not confined to income or material well-being in the narrow sense. It includes health, education, productive employment opportunity, freedom of expression, a voice in governance and shaping the collective destiny, respect and more. With respect to any of these fundamental aspects of life, there are those who are disadvantaged. And the outcomes in the various dimensions are not perfectly or even very highly correlated within and across countries and regions. It is a multidimensional policy challenge, domestically and internationally.

The papers also make clear that ex ante (opportunity) and ex post (outcomes) equity issues deserve a high priority in policy setting for a number of reasons. One reason is moral. People may make choices that lead to differing levels of income. But people do not choose to be very poor or to have limited access to basic services. They end up in disadvantaged positions because of constraints of a variety of kinds, including intertemporal ones.

A second reason has to do with preferences. People generally care about equity for both moral and pragmatic reasons. That gets translated in to political and social choices and implemented by policy. The political challenge is to avoid the zero sum game version of this, in which one person’s gain is another loss. Hence the importance of creating and choosing policies that deal with equity that also promote (or do not impede) growth and expanding opportunity of an inclusive kind. It has to be thought of as an inter-temporal challenge and not simply a static redistributional one. It would be wrong to pretend that this is an easy challenge or that given the current state or our knowledge, the roadmap is well understood and agreed on.

The third and related reason has to do with the sustainability of the growth and development process. Persistent inequality in its various dimensions leads to political and social instability, or very harsh repression. In either case, the chances of growth and intergenerational improvement and poverty reduction decline precipitously.

The case is very strong that there is considerable potential for productive economic activity, growth and employment among poor populations, potential that is untapped because structural barriers that produce lack of access to a variety of services that would serve as crucial inputs. Policies directed at the removal of these barriers and more generally at ensuring access to a broad array of basic services, security, financial, educational and other are likely to have a first order positive impact on growth and intertemporal poverty reduction.

The middle class is important. It gets bigger in a successfully growing and developing country. It is increasingly politically important. And many of its members or their parents used to be poor. What does this mean? As Birdsall and others argue, it means that paying attention to equity in growth and development policy terms cannot mean an exclusive focus on the poor. To do so produces a growing gap between the policy priorities and focus on the one hand and the status and aspirations of the majority of the people on the other. So once again there is a political and policy balancing act combining a special concern for the poor and disadvantaged and a focus on policies that broadly improve the circumstances of the majority of the citizens.

Some forms of inequality, deprivation, or deficit have particularly long lived effects. The papers highlight these. Nutrition, access to basic quality education, chronic and debilitating diseases would be among them. Policies that address these issues should be a continuing priority. They deal with equity issues and have the potential to have enormously high social and economic returns.

The international dimensions of equity are morally and conceptually complex. The absence of labor mobility clearly has a profound effect on outcomes in terms of efficiency and distribution. The growing volume of trade in services involving transactions and the processing of information is modifying the impact of this constraint. Put another way, the tradable sector is becoming larger in the service area.

In any market system, two parallel processes are at work. People move to jobs and jobs move to human resources or people. One can think of this as occurring in the tradable sector, whether international or domestic. In the non-tradable sector, the only safety valve, since the jobs cannot move toward underemployed human resources, the people have to move. And that is what is constrained in the global economy.

The papers make clear that the international differences in incomes are not attributable to simple differences in skills. They have more to do with the complementary assets that are in place.[3] Both tangible and intangible assets take time to create. The full transition from relatively poor to advanced country income levels even at sustained high growth rates takes more than half a century and at lower growth rates, much longer than that. Hence these differentials, not a function of narrowly defined human capital differences, will be persistent.

It is worth noting that within countries, labor mobility in the relevant economic sense is often not perfect. There are linguistic issues, constraints on mobility created by infrastructure and there are institutions and legal structures that protect subsets of the labor force from competition from other segments. Removal of these barriers is not easy. Their removal generally will not benefit everyone. The distributional issues come to the foreground in the political process.

The same considerations appear in the international arena. International policies that increase labor mobility have a high payoff in terms of efficiency and equity. But they have distributional consequences just as does the expansion of the tradable sector. Not everyone gains at least in the short run. It therefore meets resistance and in the case of immigration and emigration, the resistance can be very substantial.

[3] There is ample evidence for this. Well trained professionals in many fields who move from a developing country to an advanced country find their incomes rise reflecting a jump in productivity associated with the change in productivity enhancing complementary assets.

A full scale attempt to change the landscape with respect to labor mobility and immigration is unlikely to be successful. One way to reduce the distributional resistance to labor mobility in the international dimension is to focus on opening channels from surplus labor environments to labor shortage markets. The papers suggest that this process works in practice, a kind of sorting process where immigration constraints are relaxed in response to a perceived need. But the process is far from perfect. There is potential for exploitation and abuse that invites the setting of international standards and the proper supervision of transnational labor flows.

The research in the past 15 years has dramatically increased our understanding of inequality, its quantitative dimensions and its causes. Major progress has been made in thinking about policies that deal effectively with equity. The papers in this volume bring together much of that thinking and progress in a highly accessible form. Our hope is that they will provide a useful framework to political and policy leaders as they wrestle with these important and challenging issues.

APPENDIX

Equity and Growth in a Globalizing World[4]

Edited by

Ravi Kanbur
Cornell University

And

A. Michael Spence
Stanford University

Table of Contents

[4] To be published by the World Bank on behalf of the Commission on Growth and Development, http://www.growthcommission.org/index.php.

Chapter VII
The (Indispensable) Middle Class in Developing Countries: Or the Rich and the Rest, Not the Poor and the Rest
Nancy Birdsall

Chapter VIII
On the Links Between Globalization and Poverty
Ann Harrison and Margaret McMillan

Chapter IX
Global Wage Inequality and the International Flow of Migrants
Mark Rosenzweig

Chapter X
International Migration and Development
Gordon Hanson

Chapter XI
The Cliff at the Border
Lant Pritchett

OTHER A.E.M. WORKING PAPERS

WP No	Title	Fee (if applicable)	Author(s)
2009-30	Middlemen, Non-Profits, and Poverty		Chau, N., Goto. H. and R. Kanbur
2009-29	Do retail coffee prices increase faster than they fall? Asymmetric price transmission in France, Germany and the United States		Gomez, M. and J. Koerner
2009-28	A Market Experiment on Trade Promotion Budget and Allocation		Gomez, M., Rao., V. and H. Yuan
2009-27	Transport, Electricity and Communications Priorities in Guinea Bissau		Kyle, S.
2009-26	The Macroeconomic Context for Trade in Guinea Bissau		Kyle, S.
2009-25	Cashew Production in Guinea Bissau		Kyle, S.
2009-24	When No Law is Better Than a Good Law		Bhattacharya, U. and H. Daouk
2009-23	Is Unlevered Firm Volatility Asymmetric?		Daouk, H. and D. Ng
2009-22	Conditional Skewness of Aggregate Market Returns		Charoenrook, A. and H. Daouk
2009-21	A Study of Market-Wide Short-Selling Restrictions		Charoenrook, A. and H. Daouk
2009-20	The Impact of Age on the Ability to Perform under Pressure: Golfers on the PGA Tour		Fried, H. and L. Tauer
2009-18	Beyond the Tipping Point: A Multidisciplinary Perspective on Urbanization and Development		Beal, J., Guha-Khasnobis, B. and R. Kanbur
2009-17	Economic Impacts of Soybean Rust on the US Soybean Sector		Gomez, M., Nunez, H. and H. Onal
2009-16	Detecting Technological Heterogeneity in New York Dairy Farms		del Corral, J., Alvarez, A. and L. Tauer
2009-15	Altering Milk Components Produced by the Dairy Cow: Estimation by a Multiple Output Distance Function		Cho, J., Nakane, M. and L. Tauer
2009-14	Evaluating Marketing Channel Options for Small-Scale Fruit and Vegetable Producer		LeRoux, M., Schmit, T.M., Roth, M. and D.H. Streeter

Paper copies are being replaced by electronic Portable Document Files (PDFs). To request PDFs of AEM publications, write to (be sure to include your e-mail address): Publications, Department of Applied Economics and Management, Warren Hall, Cornell University, Ithaca, NY 14853-7801. If a fee is indicated, please include a check or money order made payable to Cornell University for the amount of your purchase. Visit our Web site *(http://aem.cornell.edu/research/wp.htm)* for a more complete list of recent bulletins.