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[Combating poverty and inequality] Tackling ethnic and regional inequalities

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CHAPTER 3

Tackling Ethnic and Regional Inequalities

Structural change affects individuals, groups and regions differently. Group membership is intrinsic to human development, and when the benefits and costs of structural change correspond to ethnic or religious affinities, or geographic location, individuals may perceive development in terms of those cleavages. Such inequalities can be a source of conflict and adversely affect well-being. However, measures of inequality that rank individuals and households by income often exclude group and spatial dimensions.

Group inequalities are closely linked to the ways in which groups are integrated into different sectors of the economy, as well as their representation in political and social institutions. They are also reflected in how identities are valued in the cultural sphere. Such inequalities are therefore multidimensional and encompass economic, social, cultural and political dimensions. Achieving equality in each of these dimensions has intrinsic value, and is also instrumental in promoting equality along other dimensions, or in achieving other development goals.

Addressing ethnic and spatial inequalities is critical to poverty reduction for a number of reasons. First, between-group (or horizontal) inequalities make up a large component of overall inequality within any country. A focus on only vertical inequality (see chapter 2) may obscure important differences among groups or regions. Some groups may be seriously disadvantaged or have higher than average concentrations of poverty even when overall vertical inequality is low. Second, regional inequality in large industrializing countries, as well as in most developing and transition economies, appears to be on the rise. If ethnic groups are geographically clustered, industrialization or development may bypass groups that are not located in economically dynamic zones, intensifying poverty in the neglected areas. Third, inequalities between ethnic groups can lead to conflict, which is likely to affect development. Indeed, most conflicts today tend to have an ethnic dimension[1] and are difficult to resolve. Fourth, horizontal or between-group inequalities are significant because, in some situations, it may not be possible to improve the position of individuals without tackling the position of the group.

In ethnically diverse societies, spatial and ethnic inequalities may be closely interrelated, although the dynamics may differ in situations where ethnic groups are highly mobile or widely dispersed. Widening regional inequalities are typical of early stages of development, while decreasing regional inequalities tend to characterize more mature stages of development. However, it is not always obvious how ethnic inequalities will evolve over time as incomes increase.

Indeed, while ethnic inequalities are often created by a foundational shock that may propel a country along a particular development trajectory, those inequalities often persist for long periods of time after the shock. Moreover, individuals may become trapped because of the difficulties of moving across groups. Groups that start from a position of privilege may forge ahead, while those that have historically been disadvantaged may fall into a vicious cycle, or a relative poverty trap. Breaking through these cycles of wealth accumulation will be crucial to tackling poverty among disadvantaged groups.

The issues discussed in this chapter point to five main conclusions.

- The process of development affects ethnic groups and regions differently. Some groups and regions may experience high levels of poverty and are particularly disadvantaged even when economies are growing and overall vertical inequality and aggregate poverty are low.

- Redistributive policies can help mitigate ethnic and spatial inequalities. It is easier to correct ethnic inequalities if an economy is growing, the target population has access to policy-making institutions, and the redistributive policy is part of a wider strategy to transform the economy and eliminate poverty, irrespective of ethnicity.
- Affirmative action policies may improve horizontal inequalities but worsen intra-group and (overall) vertical inequalities. Policies that target both ends of the distribution curve may lead to improvements in both inter- and intra-group income distribution; those that focus on the upper end of the curve may lead to a worsening of intra-group inequality.
- Regional disparities appear to respond well to regional development strategies. Even poor countries that have pursued such strategies have reduced poverty in the worst-off areas.
- Correcting horizontal inequalities is political. Without political inclusivity, there is little chance of implementing effective remedial policies for disadvantaged groups.

The chapter analyses the evolution of inequalities between different regions and ethnic groups in selected countries as well as policies for their mitigation.

Section 1 discusses conceptual issues, patterns of regional inequality and reasons for the persistence of ethnic inequalities.

Section 2 compares country case studies across multiple dimensions of inequality and patterns of development. Countries are classified as agrarian, industrializing and dualist.

Section 3 concludes with a discussion of policies for correcting horizontal inequalities.

1. Ethnic and Spatial Inequalities and Development

In situations where regional and ethnic boundaries coincide, the reasons for regional inequalities may be more or less the same as those behind ethnic inequalities. However, where ethnic groups coexist within the same geographic location, different factors may explain the emergence and persistence of spatial and ethnic inequalities. This section first examines why spatial inequalities arise and how they are likely to evolve.

Many factors contribute to spatial inequalities

The literature on economic geography offers two interrelated explanations for the emergence of spatial inequalities. The first relates to various endowments, such as natural resources or proximity to rivers, coasts and borders. The second relates to efficiency gains and agglomeration forces that amplify a region's initial advantage.[2] Agglomeration forces can lead to "virtuous circles of self-reinforcing development in some cities or regions, while other regions lag behind".[3]

The regional composition of public expenditure may also contribute to regional inequalities. One study[4] finds that rural-urban disparities in neonatal care and school enrolment in 24 African countries are closely linked to disparities in the distribution of public education and health services. Similarly, in Peru, research[5] suggests that, while geographic variables such as altitude, soil type and temperature provide a good explanation for the regional variance in income, once public infrastructure variables are added to the model, geographic variables lose most of their explanatory power.

Increased openness to international trade can also be a factor that intensifies regional inequalities. Export-oriented regions tend to benefit more and grow faster than interior regions.[6] China's increased openness to international trade contributed significantly to the sharp increases in regional

inequalities after 1978.[7] Similarly, Mexico's spatial inequalities worsened as a result of trade liberalization prompted by the North American Free Trade Agreement (NAFTA).[8]

Policies that restrict migration can be another contributing factor. Restrictions on migration in China prevented poor regions from benefiting fully from the rapid growth of coastal regions and thereby contributed to increasing regional inequalities.[9] Similarly, in Chile, fiscal impediments including restrictions on the sale or rent of subsidized housing effectively inhibited migration and contributed to the persistence of regional inequalities in the 1980s and 1990s.[10]

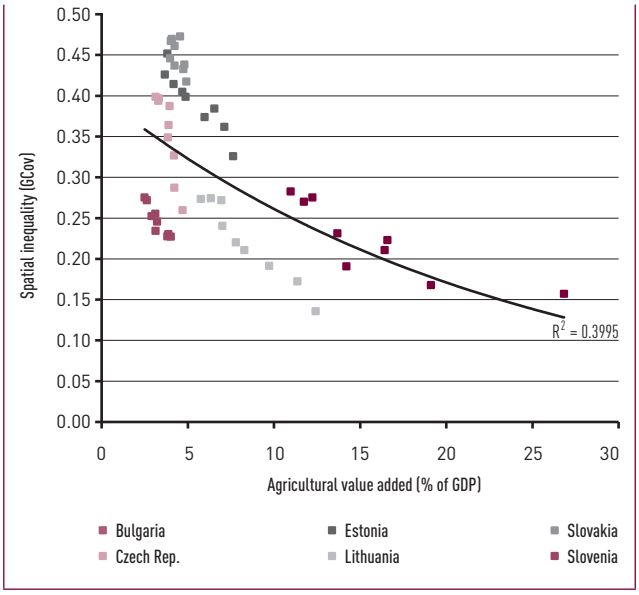
Regional inequalities typically increase in early stages of development, and later even out

Research suggests that an inverted-U shaped curve describes the evolution of regional inequalities. In other words, regional inequalities tend to increase in early stages of development and typically decline as development progresses.[11] In the early stages of development, most economic activities tend to be concentrated in a few regions where the income and production factors needed for their generation are concentrated. This may lead to economies of scale, which boost the growth of those regions but increase regional inequalities. However, at some point, the initial growth areas will experience congestion costs associated with excessive agglomeration. There may also be spatial diffusion of technology, and other regions may offer new locational advantages to firms, such as lower production costs or lower levels of unionization. The spatial diffusion of development will eventually lead to a reduction of regional inequality.[12]

Figures 3.1, 3.2 and 3.3 show trends in regional inequality in three sets of country groups. Regional inequalities are measured using the population-weighted coefficient of variation (the group coefficient of variation/GCov).[13] The focus is on the relationship between regional inequalities and economic structure, using the proportion of agricultural value added as the explanatory variable rather than industry or services. This assumes that regional inequalities are primarily generated by the transition from agriculture to industry, rather than the post-industrial transition to services.

Figure 3.1 shows the relationship between the absolute level of regional inequality plotted against the agricultural contribution to the economy for six transition countries in Eastern Europe from the mid-1990s to the mid-2000s. The figure shows a remarkably clear and consistent trend: higher levels of regional inequality are associated with lower economic dependence on agriculture. It is worth noting here that no statistically significant relationship holds between the overall level of gross domestic product (GDP) per capita and the level of inequality in these countries (not depicted graphically).

FIGURE 3.1: Spatial inequality and agriculture in transition economies, 1996–2005

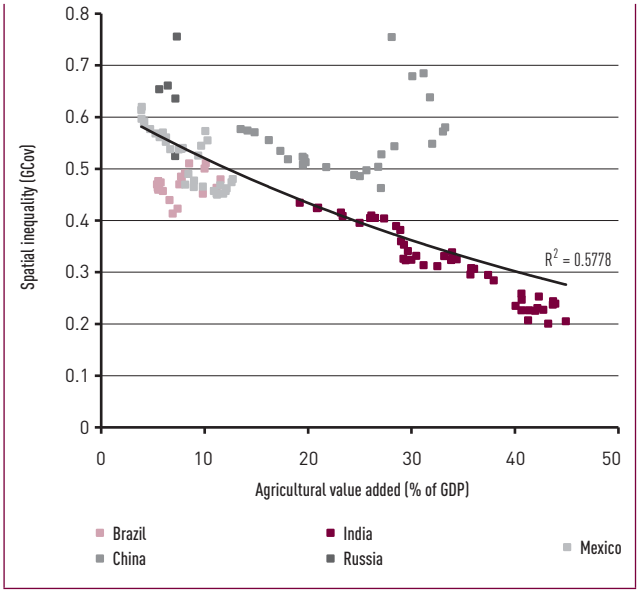


Source: Brown and Langer 2009.

Figure 3.2 shows the link between agricultural contribution to GDP and regional inequalities for the emerging economies of Brazil, China, India, Mexico and the Russian Federation, although the data for the last cover only a very short period. There is a clear inverse link between agricultural dependence and the extent of spatial inequalities,

although at a much higher level of inequality according to the GCov measure. The relationship with GDP per capita is insignificant. It is important to note that less agriculturally dependent countries have exhibited higher regional inequalities. In addition, with the exception of China, the within-country variation across years remains remarkably close to the overall trend.

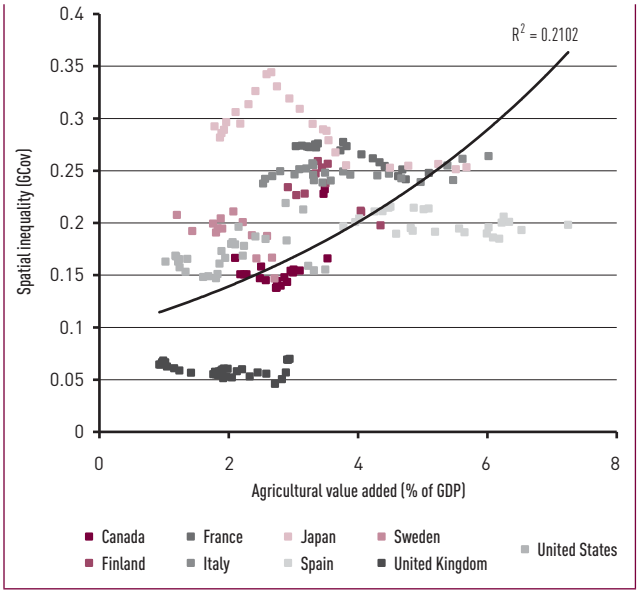
FIGURE 3.2: Spatial inequalities and agriculture in emerging economies, 1960–2004



Source: Brown and Langer 2009.

Figure 3.3 shows the same relationship for nine developed countries. The findings here are very different. While all countries have very low levels of agricultural value added, the broad trend is the reverse: those countries with particularly low agricultural dependance have very low regional inequalities, although the relationship is weak. In addition, the within-country variation across years is much less significant: while agricultural rates have shifted over time for most countries, the level of spatial inequality has not changed noticeably over time, with the exception of Japan. These data strongly confirm the view that early stages of industrialization often lead to an increase in regional inequalities, but the trend at the farther end of the scale is less clear.

FIGURE 3.3: Spatial inequalities and agriculture in highly developed countries, 1978–2004



Source: Brown and Langer 2009.

Ethnic inequalities are often rooted in historical circumstances

Ethnic inequalities evolve differently. Certain historical circumstances or foundational shocks[14] that drive structural change, such as slavery or colonialism, are often the basis for ethnic inequalities. In Malaysia, for instance, the economic disadvantage of the Malay has its origins in the ethnic division of labour established by the British colonial government around the 1920s. While the Europeans, Chinese and Indians were mostly employed in the high-productivity modern sector as entrepreneurs, managers and employees in firms, estates and trading companies, the Malays were mostly engaged in low-productivity peasant agriculture and fishing. In the same vein, ethnic inequalities in the United States have their origins in 300 years of economic, physical, legal, cultural and political discrimination based on ethnicity, with slavery as the foundational shock. Apartheid is also a foundational shock that has led to the persistence of South Africa's ethnic inequalities.

Ethnic inequalities are often created by a foundational shock, but once the shock has ended, such inequalities tend to persist

In contrast to the hypothesized inverted-U shaped curve relationship between regional inequalities and development, it is not clear how ethnic inequalities will evolve as incomes increase. Indeed, while ethnic inequalities are often created by a foundational shock, such inequalities tend to persist for long periods after the shock has ended. Scholars[15] have identified the following factors as crucial to the persistence of ethnic inequalities:

- Unequal rates of accumulation, due to inequalities in income and imperfect markets. Deprivations or riches at one point in time make it harder or easier to accumulate assets in the future. If an individual or group has a higher income due to higher assets, then saving is easier. In theory, perfect capital markets should enable people to borrow to overcome their saving disadvantage. In practice, however, banks require collateral, which means that borrowing, too, is easier for the rich than for the poor. Extensive empirical evidence shows that poorer individuals and groups accumulate less, both with respect to human and financial capital.[16]
- Dependence on the returns of one type of capital to make other types of capital available. For example, human capital permits greater earnings, which enable people to accumulate more. Financial capital is more productive if people have human capital with which to use it. Human capital may be more productively employed if people have financial capital, and both types of capital are likely to be better used with good social networks. Inequalities may intensify if individuals or groups lack one or other type of capital.
- Asymmetries in social capital. Asymmetry in social capital occurs among individuals – poor people tend to have more contacts with other poor people than with richer people. The same principle applies more strongly among groups, since there is a strong tendency for cultural groups to have more intra-group interactions than inter-group ones.
- Discrimination by individuals and non-governmental institutions. Group members are often subject to discrimination or favouritism by non-group members in accessing different types of capital and employment by virtue of their group characteristics. Unequal endowments today may be partly a reflection of past discrimination. Effects persist even if equal employment opportunities exist for the same educational attainments, since past discrimination may have led to inequality in educational endowments.
- Group inequalities often include political inequalities, which may reinforce social and economic inequalities. This means that those who are deprived socially and economically also lack political power. These political inequalities may exacerbate social and economic inequalities, since they often lead to bias in the distribution of government resources, including access to services and government employment and contracts.

Group inequalities often include political inequalities, which may reinforce social and economic inequalities

Combinations of these factors can result in vicious and virtuous cycles: groups starting out in a privileged position accumulate more, have higher returns to assets and thus sustain their privilege, while those who are underprivileged fall into a vicious cycle, or relative poverty trap. Breaking through these cycles is crucial if poverty is to be effectively addressed.

While the origins and evolution of spatial and ethnic inequalities can sometimes be explained by similar factors, there are exceptions. Moreover, relatively moderate regional inequalities may accompany very severe ethnic

inequalities, as in the United States and Malaysia in the 1960s. Where there is an overlap between ethnicity and region, the factors that explain regional inequality are likely to explain ethnic inequalities as well. Where this is not the case, factors explaining regional inequalities are less useful. However, in practice, the dynamics of regional and ethnic inequalities are difficult to separate and often explain different parts of the same puzzle.

2. Ethnic and Spatial Inequalities and Structural Change

This section discusses the evolution of spatial and ethnic inequalities in countries with different patterns of structural change. In addition to determining the evolution of both types of inequalities, it highlights the main policies that have stimulated changes in inequality. It is important to note that ethnic identities are not always easy to pin down, since they are, for the most part, situational or constructed. Objective attributes of language, religion, culture or shared history can be fuzzy and may not always correctly describe a person's ethnicity. Furthermore, ethnicity competes or overlaps with many other forms of identity and is subject to change.[17] This makes classification of ethnic groups difficult. Self-identification is important. However, many countries do not include ethnicity as a variable in their censuses. Accurate data on ethnicity are, therefore, not easily available.

The following case studies analyse the evolution of regional inequalities in terms of income, poverty, employment and access to services, drawing on data from censuses, domestic household surveys, the World Bank's Living Standards Measurement Study (LSMS) and the Demographic and Health Surveys (DHS). Since social and economic data are generally not available in ethnically disaggregated form, DHS are the main data source for assessing ethnic inequalities. These surveys have been conducted in about 70 developing countries and are usually repeated every five years. The standard DHS consists of a household questionnaire and a women's questionnaire for which a nationally representative sample of women aged 15 to 49 are interviewed. In addition to asking a range of questions on issues such as family planning, maternal and child health, reproductive behaviour, contraception, breastfeeding and nutrition, the surveys also ask questions about ethnic background, place of birth and social and economic situation. An important assumption is that inter-ethnic inequalities inferred from the women's questionnaires are a good approximation for the inequalities among ethnic groups in general. For some countries, the LSMS has an ethnic variable and can therefore also be used to assess inequalities among ethnic groups.

How inequalities have evolved in agrarian and industrializing economies

Agrarian economies

As chapter 1 has shown, the failure of many low-income countries to industrialize means that agriculture or mining continues to play a dominant role in their economies. A large proportion of the agricultural labour force remains in the subsistence sector, which accounts for the bulk of food production but has lower returns than the agricultural export sector and industry. If states do not have a redistributive agenda, development strategies anchored in agricultural and mineral exports may put regions and ethnic groups that are located in resource-rich areas in a privileged position in terms of investments, productive employment, services and infrastructure. Ghana and Côte d'Ivoire are illustrative of such a situation. On the other hand, local ethnic groups in resource-endowed regions may be disadvantaged if more influential outside groups use state power to appropriate the resources, or if outside groups that have settled in the endowed regions dominate the production or marketing of the resources.

> *Development strategies anchored in agricultural and mineral exports may put regions and ethnic groups in resource-rich areas in a privileged position*

Ghana. The country's 23 million people are divided into 92 ethnic groups, with four accounting for about 86 per cent of the population. Despite migration, ethnicity and administrative regions roughly coincide. The Akan are by far the largest ethnic group with approximately 49 per cent of the population; they form the majority of the population in five of the 10 regions in the south, followed by the Mole-Dagbani in the north, with around 17 per cent of the population. The third largest group, with about 13 per cent of the population, are the Ewe, found predominantly in the Volta region in the southeast. The fourth largest group, with around 8 per cent of the population, are the Ga-Dangme, who live mainly in the Greater Accra region.[18] Ethnic differences are partly reinforced by religious differences: Muslims, who represent only 16 per cent of the population, make up an important part of the population in the north.

Colonial policy favoured investment in southern regions; there was very little development of infrastructure or human capital in the north

Most agricultural and mining activities are concentrated in the south. British colonial policy favoured heavy investment in regions where gold, diamonds, timber and cocoa were readily produced and cheapest to export. There was very little development of infrastructure or human capital in the north. Post-colonial development strategies reinforced these inequalities, including the structural adjustment policies of the 1980s, which channelled most funds to the capital and to the cocoa, timber and mineral industries in the western, eastern, Ashanti and Brong Ahafo regions.[19] Some projects were undertaken in the north in the 1990s, including the extension of the national electricity grid and the rehabilitation of north-south roads, and expenditures on education and health were increased. However, the vast majority of public expenditure and investment continued to be directed to the south. Current investment patterns essentially mirror those of the 1990s, although more public expenditure and investment have started flowing to the north as a result of funding from the Heavily Indebted Poor Countries (HIPC) initiative, which benefits the north disproportionately.[20]

Data confirm the regional inequalities outlined above. In 1960, the north had only 17 per cent of the gross value added per capita of the Greater Accra region. The north remained much poorer in terms of income, infrastructure, education and medical services in the 1970s. According to one composite measure of development,[21] the northern and upper regions had levels of development equivalent to only 11 per cent and 7 per cent, respectively, of the level found in the Greater Accra region in the mid-1970s. Other indicators, including school enrolment, infant mortality and share of income, also show the persistence of a sharp north-south divide.[22] Though the north appeared to have caught up with the south in terms of literacy and infant mortality in the 1990s (see table 3.1), the north-south divide actually worsened considerably with respect to poverty incidence and income. Increased public expenditure in the north has been positive, as illustrated by the decline in poverty between 1998/1999 and 2005/2006. But despite recent improvements, north-south disparities remain severe. Because the Mole-Dagbani are dominant demographically in the north and the vast majority of them live in those regions, the inequalities between northern and southern ethnic groups largely mirror north-south inequalities. This is captured by a number of indicators, as shown in table 3.2.

Though the north appeared to have caught up with the south in terms of literacy and infant mortality, the divide worsened with respect to poverty incidence

TABLE 3.1: Social and economic inequalities among regions in Ghana, 1988–2006

	Incidence of poverty (%)[a]			Mean annual per capita income[b] (Cedis)		Access to health services (%)[c]	Primary school enrolment (%)[c]	Infant mortality rate (%)[d]			
	1991/ 1992	1998/ 1999	2005/ 2006	1991/ 1992	1998/ 1999	1997	1997	1988	1993	1998	2003
Western	59.6	27.3	18.4	116,000	568,000	28.0	74.6	76.9	76.3	68.0	66.0
Central	44.3	48.4	19.9	118,000	444,000	35.9	72.0	138.3	71.6	83.8	50.0
Greater Accra	25.8	5.2	11.8	146,000	932,000	77.6	70.4	57.7	58.4	41.4	45.0
Volta	57.0	37.7	31.4	116,000	415,000	41.7	70.2	73.5	77.8	53.8	75.0
Eastern	48.0	43.7	15.1	85,000	527,000	32.8	78.1	70.1	55.9	50.2	64.0
Ashanti	41.2	27.7	20.3	111,000	622,000	43.2	72.2	69.8	65.2	41.9	80.0
Brong Ahafo	65.0	35.8	29.5	101,000	548,000	31.9	72.4	65.0	48.7	77.3	58.0
Northern	63.4	69.2	52.3	72,000	210,000	18.4	40.0	103.1	113.7	70.1	69.0
Upper East	66.9	88.2	70.4	83,000	321,000	8.2	45.0	103.1	105.0	81.5	33.0
Upper West	88.4	83.9	87.9	76,000	206,000	19.8	36.1	103.1	84.5	70.6	105.0
National	51.7	39.5	28.5	–	–	37.2	67.0	77.0	66.0	57.0	64.0

Sources: [a] Data from the Ghana Statistical Service. Available at: www.ghanainfo.org, accessed on 29 January 2008. [b] Shepherd et al. 2005. [c] Data from the Ghana Statistical Service 1997. [d] Data from the Ministry of Health, Ghana. Available at: www.moh-ghana.org/moh/facts_figures/default.asp, accessed on 29 January 2009.

TABLE 3.2: Social and economic inequalities among ethnic groups in Ghana, 1993–2003

Indicator	Akan (%)	Ga-Dangme (%)	Ewe (%)	Mole-Dagbani (%)
1993				
With electricity	39.2	53.8	29.5	15.2
Access to flush toilet	8.6	12.9	6.6	3.1
Piped water in residence	18.9	32.1	15.0	8.2
Completed at least primary school	66.7	64.0	59.2	15.1
Completed at least secondary school	3.6	8.8	4.3	1.4
1998				
With electricity	51.3	60.3	39.7	24.3
Access to flush toilet	11.3	17.3	7.8	2.6
Piped water in residence	19.6	36.6	17.1	9.3
Completed at least primary school	68.1	65.8	64.2	13.6
Completed at least secondary school	4.7	11.3	6.3	1.5
2003				
With electricity	59.5	58.9	40.0	28.4
Access to flush toilet	15.0	22.4	15.3	3.0
Piped water in residence	20.8	31.5	17.7	9.5
Completed at least primary school	72.5	64.5	61.7	22.2
Completed at least secondary school	7.6	13.1	10.4	4.1

Source: Brown and Langer (2009), based on the 1993, 1998 and 2003 Ghana Demographic and Health Surveys.

Côte d'Ivoire. Côte d'Ivoire shares similar characteristics with Ghana. The country's 20 million people are divided into 70 ethnicities, which are usually clustered into five groups. The Akan form the largest cluster with about 42 per cent of the population and are located predominantly in the eastern and central parts of the country. The southwest is predominantly inhabited by the Krou, who constitute about 13 per cent of the population. The Southern Mandé are largely in the west and constitute about 10 per cent of the population. The Voltaic and Northern Mandé are dominant in the north and together account for about 34 per cent of the population. Importantly, while the northern groups constitute the vast majority of the Ivorian population in the northern regions (72 per cent), 44 per cent of them live in the south due to extensive internal migration. Côte d'Ivoire has a large proportion of foreigners, accounting for about 26 per cent of the population in 1998. Because most of these foreigners originate from Burkina Faso, Mali and Guinea, they share important cultural and religious traditions with northern Ivorians. Christians form the largest group, with about 34 per cent of the population, and Muslims with about 28 per cent. However, as the vast majority of non-Ivorians are Muslim (about 70 per cent), they tilt the balance in favour of Muslims. While the Akan and Krou are predominantly Christian, Voltaic and Northern Mandé are mostly Muslim. Although the north is predominantly Muslim, about 70 per cent of all Muslims live in the south.

Like Ghana, Côte d'Ivoire is characterized by a serious north-south divide, which stems from ecological and climatic differences and the varying impact of colonialism and post-colonial development policies. The colonial power, France, supported the rapid expansion in the southern and southeastern parts of the country of the production for export of coffee and cocoa. The post-colonial government of Félix Houphouët-Boigny maintained the export-oriented agricultural model. While the development strategy produced impressive results, the concentration of investment, jobs and wealth in the southern parts of the country exacerbated the disparities between the north and south.

Starting in the late 1960s, however, the Ivorian government began promoting commercial food production in the north in order to reduce food imports. An increasing amount of government expenditure and investment went to the north, which moderately reduced regional inequalities. Houphouët-Boigny actively encouraged internal north-south as well as international migration through his land policy, which was based on the slogan, "The land belongs to those who develop it" (*La terre appartient à celui qui la met en valeur*). Many northerners migrated to the cocoa and coffee plantations in the south. Yet while regional income inequalities were reduced between 1965 and 1975, they nonetheless remained severe, which threatened political stability. In response, the government initiated the Programme du Nord, a massive public investment scheme, to reduce inequalities.[23] With the deteriorating economic situation at the end of the 1970s, however, public investment in the north dried up. The sharp decline in coffee and cocoa prices triggered a serious economic crisis and the adoption of structural adjustment policies. Because the negative impact of the recession on expenditures was considerably larger in southern regions, the regional divide improved somewhat in relative terms. Nonetheless, it appears that the war and the subsequent split of the country between a rebel-controlled north and a government-controlled south in 2002 have more adversely affected the social and economic situation of the north.

> *Côte d'Ivoire's north-south divide stems from ecological and climatic differences and the impact of colonialism and post-colonial development policies*

Regional income inequalities at independence were indeed quite severe. Income per capita (including non-monetary income) in Abidjan in 1965 was 11 times higher than in the north; the northern regions were also doing considerably worse compared to other parts of the country. Income per capita in the central part of the country was 1.9 times higher than the north; in southern regions it was 2.6 times

higher. If only cash income is taken into account, the northern disadvantage was even more pronounced: monetary income per capita in Abidjan, central and southern regions was 37, 4.5 and 7 times higher, respectively, than in the north. Similarly, educational differences between the north and south, as well as between the south and west, were also severe in 1967–1969. The north had a primary school enrolment rate of 14.9 per cent in 1967 versus a rate of 55.3 per cent in the south, 32 per cent in the centre, 35.5 per cent in the centre-west area, 33.1 per cent in Abidjan, and 13.3 per cent in the west.[24]

As a result of increased public investment and government expenditure in the northern regions starting in the late 1960s, the north-south divide diminished considerably between 1965 and 1975, as shown in table 3.3. Yet while income inequalities between the two regions were reduced during that period, the north continued to be seriously disadvantaged. In 1975, per capita income in the north was still about 22 per cent less than the national average and 65 per cent less than in Abidjan. The drying-up of funds for the Programme du Nord worsened the inequalities. In 1985, the mean expenditure per capita in the north was about 50 per cent below the national average. Mean expenditure data for 1985 suggest that although the Voltaic and Northern Mandé had the lowest mean expenditure per capita (244,000 and 338,900 CFA francs, respectively), the difference between these two northern ethnic groups and the national average (350,000 CFA francs) was considerably less than the differences between the national average and the northern regions.[25] This suggests that northerners who migrated from the north to the south or were born in the south were doing significantly better than the people in the northern regions themselves. All three southern ethnic groups had a mean expenditure per capita that was well above the national average.

TABLE 3.3: Per capita income in Côte d'Ivoire, 1965 and 1975 (constant 1965 CFA francs)

	Monetary income per capita			Total income (including own-consumption)		
	1965 (thousands of CFA francs)	1975 (thousands of CFA francs)	% change	1965 (thousands of CFA francs)	1975 (thousands of CFA francs)	% change
Abidjan	33.6	47.1	40.2	60.5	66.0	9.1
South	19.5	26.0	33.3	31.5	40.1	27.3
Central West	10.0	18.3	83.0	19.0	31.7	66.8
West	5.8	9.0	55.2	13.4	17.9	33.6
North	3.8	8.9	134.2	16.0	22.8	42.5
Centre	12.8	13.6	6.3	28.1	30.1	7.1
East	10.8	9.4	–13.0	23.4	24.3	3.8
Southwest	6.5	8.8	35.4	15.3	17.8	16.3
National	11.0	15.3	39.1	23.2	29.2	25.9

Source: Bresson 1980:78.

Table 3.4 provides a number of other indicators for 1994–2005, drawn from the DHS. While the inequalities between the northern (Northern Mandé and Voltaic) and southern (Akan, Krou and Southern Mandé) ethnic groups in terms of educational attainment largely mirrored north-south inequalities, ethnic inequalities showed a somewhat different picture with respect to the other three indicators. More specifically, the Northern Mandé appeared to be doing roughly the same or even better in terms of electricity, a flush toilet or piped water in their home than the three southern ethnic groups. The main reason for this is that the Northern Mandé are more likely to live in urban areas than the other ethnic groups, since trade is their primary economic activity.

TABLE 3.4: Social and economic inequalities among ethnic groups in Côte d'Ivoire, 1994–2005

Indicator	Akan (%)	Krou (%)	S. Mandé (%)	N. Mandé (%)	Voltaic (%)
1994					
With electricity	50.3	33.5	34.1	58.8	30.2
Access to flush toilet	25.0	18.7	10.3	16.6	10.5
Piped water in residence	35.8	23.6	15.4	33.3	18.6
Completed at least primary school	26.8	29.3	16.8	16.3	13.3
Completed at least secondary school	1.4	1.0	0.4	1.1	0.7
1998/99					
With electricity	66.0	55.5	46.2	54.5	40.8
Access to flush toilet	27.7	21.8	8.4	12.9	11.8
Piped water in residence	42.5	44.8	19.0	35.0	30.5
Completed at least primary school	42.9	51.6	23.6	15.8	20.0
Completed at least secondary school	4.9	4.4	0.8	1.6	1.9
2005					
With electricity	60.1	59.2	49.9	74.1	52.3
Access to flush toilet	27.4	26.0	14.6	15.6	11.2
Piped water in residence	47.5	43.7	32.3	49.6	32.8
Completed at least primary school	44.3	53.3	33.7	21.5	24.8
Completed at least secondary school	9.8	6.4	4.5	3.9	3.5

Source: Brown and Langer (2009), based on the 1994, 1998/1999 and 2005 Côte d'Ivoire Demographic and Health Surveys.

This comparison points to a number of conclusions. First, in agrarian economies such as Ghana and Côte d'Ivoire, climatic differences that predispose certain regions to better crop production than others are a major obstacle to balanced growth, especially in the absence of redistributive policies. Moreover, structural adjustment programmes (SAPs) that emphasize investment in tradable sectors exacerbate these disparities. However, where governments have undertaken programmes to address underdevelopment in relatively deprived regions – in Côte d'Ivoire in the 1960s and in Ghana in more recent years – these can have a relatively rapid and positive impact on well-being.

> *In agrarian economies, government programmes to address underdevelopment in deprived regions can have a rapid and positive impact*

Industrializing economies

Chapter 1 has shown that a small number of developing countries or areas have recently undergone a pattern of industrialization in which industrial employment increased substantially. Average living standards rose, dramatically reducing poverty. While the most successful of these – Hong Kong, China, the Republic of Korea and Taiwan Province of China – are relatively homogenous ethnically, others – such as Indonesia, Malaysia, Singapore and Thailand – are multi-ethnic. Poverty and inequality may not only assume ethnic dimensions, but can undermine rapid growth and structural change without appropriate policies that address ethnic or regional divisions. The experience of Malaysia and Indonesia illustrates this argument.

Malaysia. Among all the Southeast Asian countries, Malaysia ranks second highest in terms of development (after Singapore), but highest in terms of income inequality. With a Gini coefficient of 0.49,[26] Malaysia also has high inequality in terms of its human development beyond the Southeast Asia region. Among countries of comparable human development, only the Latin American country of Panama has higher income inequality. However, regional inequality in Malaysia is the second lowest in Southeast Asia – surpassed only by the Lao People's Democratic Republic. Inequality and its remediation have been at the heart of Malaysian economic policy since 1969 – not regional or vertical income inequality, however, but ethnic inequality.

The early years of Malaysia's independence were marked by severe social and economic disparities between the majority Malays and other indigenous groups (together termed the Bumiputera) – who tended to be poor, rural subsistence farmers – and the minority Chinese community, which dominated the national economy. The other major immigrant community was Indian. This group was more diverse, with many relatively well-off Indians in the civil service, but a significant proportion of the poor working in the rubber plantations.

The policy that ushered in the great industrial and social transformation after ethnic riots in 1969 had two objectives: reducing ethnic inequalities and eliminating poverty, regardless of ethnicity. The export-oriented growth strategy supported labour-intensive manufacture of textiles, garments and electronics, which absorbed a large number of unskilled ethnic Malays from the rural areas into the formal industrial sector.[27] However, unlike the Republic of Korea and Taiwan Province of China, where domestic capital acted as the vanguard for industrial development, the Malaysian government preferred foreign direct investment (FDI) since it was initially wary of promoting domestic capital, which was fractured along ethnic lines. Affirmative action, an ethnic coalition pact and interventionist industrial policies were pursued.

To reduce ethnic inequalities, the government systematically used ethnic quotas and targets to regulate access to state assistance, business opportunities, tertiary education and civil service recruitment – primarily in favour of ethnic Malays.[28] The ethnic pact involved power sharing at the

elite level by the leading parties of the three main ethnic groups. The pact preserved the position of Chinese capital and largely ceded control of the state to the Malays. Implemented in a context of sustained high rates of growth, affirmative action and industrial strategies reconfigured the ethnic structure and allowed the state to later support large domestic conglomerates through privatization of state assets. Whereas most Malaysians earned their living from agriculture in the 1960s, by 2000 the share had dropped to only 16 per cent. Manufacturing employment expanded in leaps and bounds – from 7 per cent in the 1960s to about 28 per cent in 2000. While many of the New Economic Policy's ambitious targets were not quite met, the period saw a drastic decrease in ethnic imbalances.

> *The remediation of ethnic inequality has been at the heart of Malaysian economic policy since 1969*

The Malaysian government frequently releases summary data on ethnic inequalities across a variety of dimensions – including income, employment and poverty – although the raw data of household income surveys are closely guarded. These data are often reported in academic studies, either as absolute averages or as dispersion ratios.[29] It is possible to condense these ratios into an overall index of ethnic inequality. Figure 3.4A demonstrates this using three measures of horizontal inequality calculated for the three main ethnic groups – Malay/Bumiputera, Chinese and Indian – and a small fourth group (Other). Also reported is the bare Chinese-Bumiputera dispersion ratio (C:B Ratio), which is the ratio between the two largest and most politically important groups. All measures are indexed to their 1970 value for ease of comparison. Between 1979 and 1984, the data on which these figures are based referred only to West Malaysia, without including the states of Sabah and Sarawak, a break represented by the dashed section of each curve.

FIGURE 3.4A: Ethnic inequality in Malaysia, 1970–2002

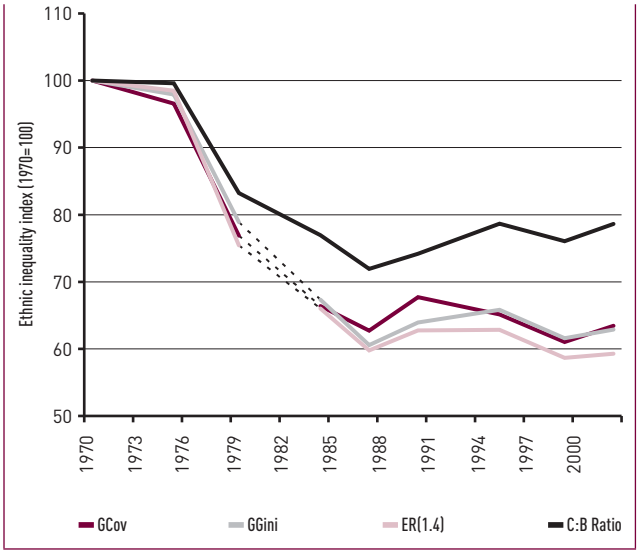
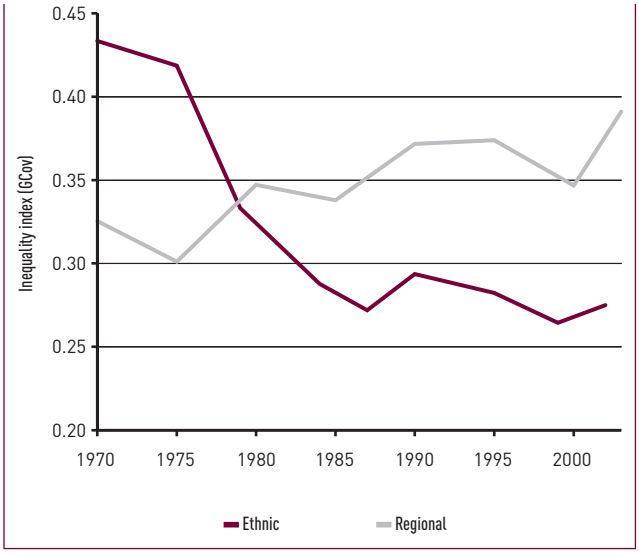


FIGURE 3.4B: Ethnic and regional inequality trends in Malaysia, 1970–2003



Notes: The three measures are the group coefficient of variation (GCov), the group Gini (GGini), and the Esteban-Ray polarization index (ER). See Brown and Langer (2009) for details. Source: Brown and Langer 2009.

The three composite measures of horizontal inequality are highly correlated across time. They all show a significant drop in horizontal inequality between the mid-1970s and the mid-1980s – a period associated with the full implementation of the New Economic Policy, from the passing of the Industrial Coordination Act in 1976 to the loosening of the New Economic Policy by the Mahathir administration following the 1986 recession. This decrease is also reflected in the Chinese-Bumiputera dispersion ratio, although not as strongly. From the mid-1980s, however, the composite indices show a broadly flat trend with only minor variations up and down, while the Chinese-Bumiputera dispersion ratio has been steadily increasing again, with the exception of the period 1995–1999.

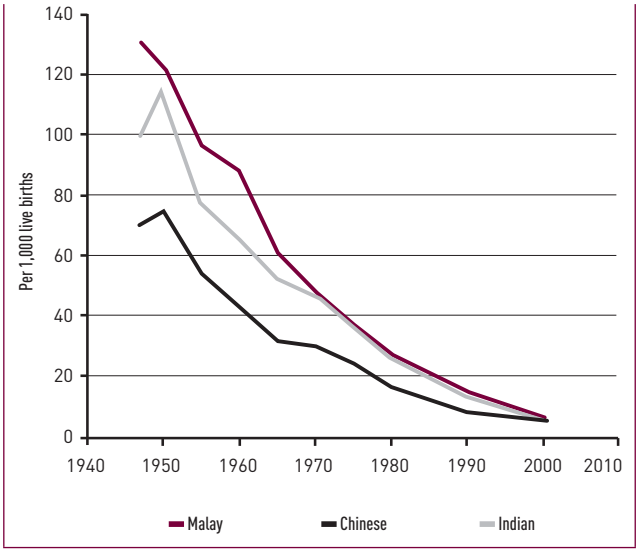
Two regions stand out in terms of regional inequality: the eastern Malaysian states of Sarawak and Sabah, and the northern, Malay-dominated states of Kelantan and Terengganu. Populated largely by the non-Malay Bumiputera groups, Sarawak and Sabah have failed to benefit significantly from the pro-Bumiputera policies of the New Economic Policy. Similarly, Kelantan and Terengganu, even though Malay, continue to lag behind, with poverty rates about twice the national average. Figure 3.4B shows the absolute changes in regional and ethnic inequality since 1970.

As already discussed, ethnic inequalities diminished rapidly before flattening out in the mid-1980s. In contrast, changes in regional inequalities have been less consistent, but the trend is clearly upwards. In 1970, inequality among ethnic groups was about one-third higher than that among Malaysian states; today, the reverse is true, with regional inequalities more than 40 per cent higher than ethnic inequalities. This suggests that intra-ethnic inequalities may have risen.

Overall, Malaysia has made huge strides in human development. In the course of a generation, it has succeeded in lifting all groups and reducing the gaps between them in the areas of health, education, occupation and industry.[30] This has not been even, with the minority indigenous communities generally falling behind with regard to education and, hence, occupation. The record is less striking in income – specifically inter-ethnic income – restructuring. Mean incomes have risen considerably for all groups. Although inter-ethnic gaps at the mean have narrowed, they have narrowed much less than in the non-income measures of health and education.[31] However, it is a significant achievement that income inequality has been reduced to around 25 per cent for Chinese-Malay disparity, and to zero for Indian-Malay disparity.[32]

Overall inter-group disparities may have remained steady relative to each other, but have declined substantially in absolute terms. To give some indication of this, figure 3.5 charts changes in the infant mortality rate by ethnic group since 1945. While the ratio of performance has remained broadly steady – with both Indian and Malay groups experiencing an infant mortality rate that is about 50 per cent higher than the Chinese over the entire period – the absolute level has declined drastically.

FIGURE 3.5: Infant mortality rate by ethnic group in Malaysia, 1945–2000



Source: Brown and Langer 2009.

Inter-group disparities in Malaysia may have remained steady relative to each other, but have declined substantially in absolute terms

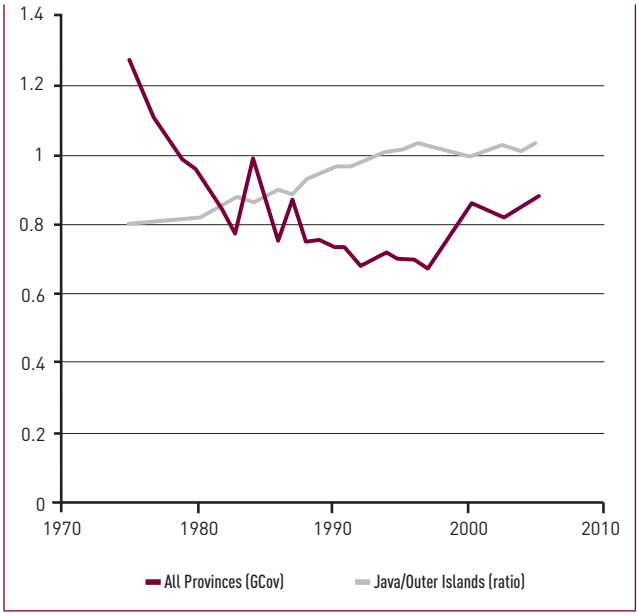
Indonesia. In Indonesia, public policy has focused on regional inequalities. Since independence in 1950, the country has been beset by regional and ethnic problems, partly due to the fact of its geographic spread across some 2,000 islands. Ethnic diversity is extremely high, rendering attempts to quantify ethnic inequality problematic. According to the 2000 census and the 2002 household survey (National Socioeconomic Survey/SUSENAS), the largest group are the Javanese, who account for just under half the population. The second largest group (18 per cent) are the Sundanese, who also originate from Java. Besides these two large groups, no other group constitutes more than 6 per cent of the population.

Since independence, Indonesia has been beset by regional and ethnic problems, partly due to the fact that it is spread across some 2,000 islands

Indonesia followed an export-oriented growth strategy, driven by FDI and buoyed by significant oil revenues. Poverty alleviation has been significant, although not as successful as in Malaysia. Poverty rates have declined from an estimated 53.6 per cent in urban areas and 38.7 per cent in rural areas in 1970 to 9.7 per cent and 12.3 per cent, respectively, in 1996.[33] After 1998, Indonesia instituted a radical decentralization programme, including the introduction of a mandatory equalization formula through which the central government is obliged to disperse more money to less wealthy provinces and districts. Indonesia now ranks as among the most fiscally decentralized countries in the world.

Figure 3.6 tracks the level of regional inequality in Indonesia since 1975. A previous data series (not graphed) showed an initial spike in the level of regional inequality in the early 1970s, which is largely attributable to the discovery and exploitation of natural resources in Aceh, Riau and Papua, which saw their respective gross regional domestic product per capita accelerate significantly. The subsequent decline in provincial inequalities confirms the standard interpretation that, while in many ways corrupt, the Suharto regime was relatively redistributive in its management of natural resource revenues, particularly through the INPRES (Presidential Instructions) system of regional disbursements.[34]

FIGURE 3.6: Provincial horizontal inequalities in Indonesia, 1972–2002



Sources: Brown and Langer 2009.

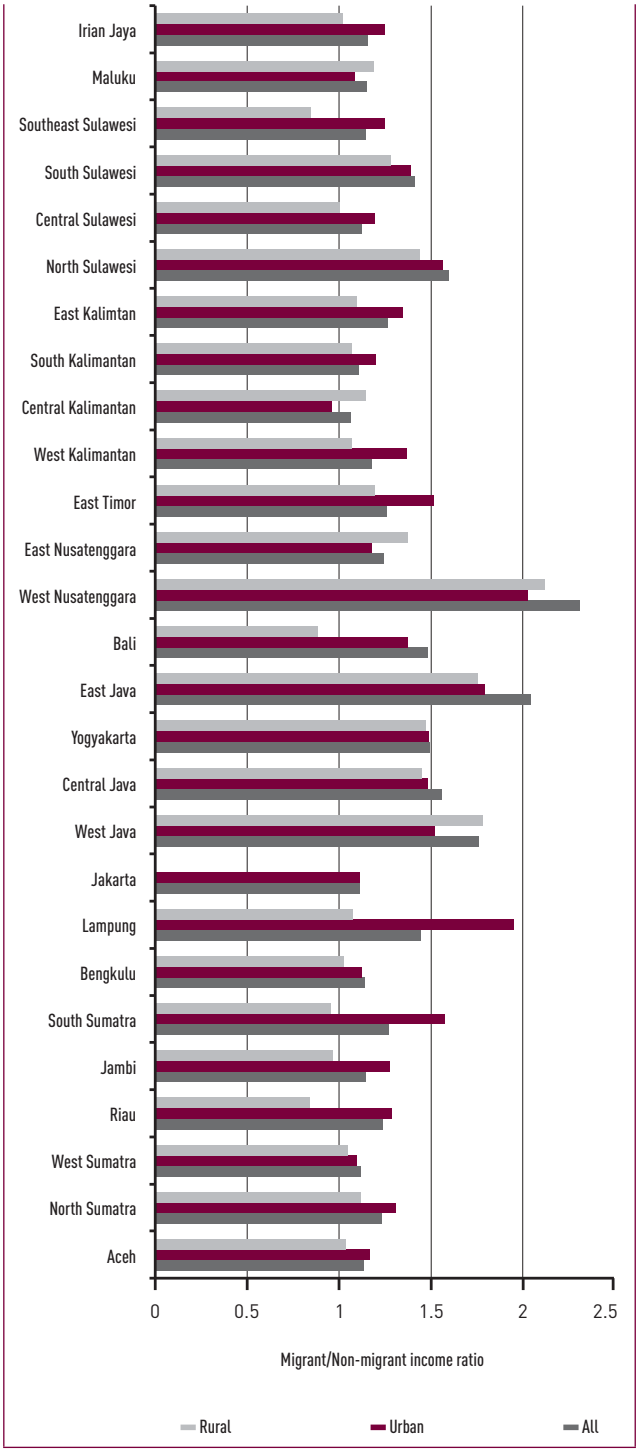
Since democratization and decentralization at the end of the 1990s, however, regional inequalities have increased noticeably. Analysis of household expenditure shows that

while overall inequality declined between 1990 and 1999, the proportion of this inequality accounted for by differences among provinces increased from 13 per cent to 21 per cent.[35] The politics of resource wealth distribution and service delivery was particularly marked in those provinces with high natural resources but, from Jakarta's perspective, dubious political loyalties – either due to their military incorporation into the country, as in West Papua and East Timor, or because of their history of rebellion, as in Aceh. The politics of resource distribution assumed a cycle of rebellion, negative social and economic effects, and thus further rebellion. Poverty in Aceh increased by 239 per cent from 1980 to 2002; over the same period, poverty in Indonesia as a whole fell by 47 per cent. By 2000, Aceh's gross regional domestic product had risen to fourth out of 30 provinces, largely due to income from natural resources, but its poverty rank had also increased to fifth from 28th.

Tracking ethnic inequalities in Indonesia is difficult because the ethnic make-up of the country is so diverse and because the state prohibited collection of such data for long periods of time. However, insights into the dynamics of ethnic inequality can be obtained through an examination of the impact of migration. Under Suharto, appointments to positions of local power by the central state in Jakarta resulted in increasing political dominance of the Javanese. In addition, the massive state-sponsored transmigration programme and associated informal migration was a key source of social exclusion and horizontal inequalities on the outer islands.

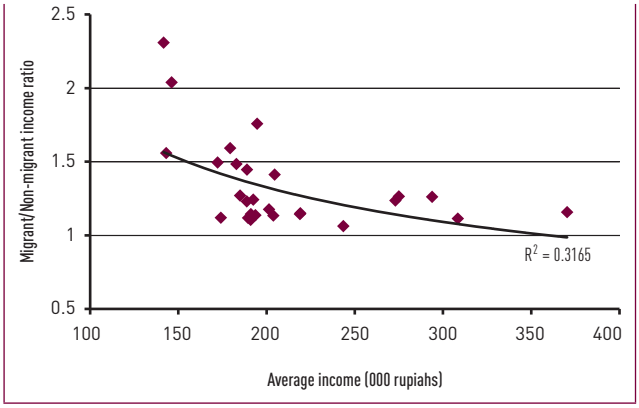
Figure 3.7 shows the average income of migrants relative to non-migrants by province. In every province, the overall average income of migrants was significantly higher than that of non-migrants. In some provinces, local-born residents retained an income advantage in rural areas – notably provinces in the southern part of Sumatra, which received relatively fewer transmigrants. However, in urban areas, migrants held an income advantage in all provinces except central Kalimantan. Moreover, as figure 3.8 shows, the disparity between migrants and local residents is considerably greater in poorer provinces.

FIGURE 3.7: Ratio of migrant to non-migrant incomes in Indonesia, by province, 1995



Source: Brown and Langer 2009.

FIGURE 3.8: Average income and migrant/ non-migrant income ratio in Indonesia, by province, 1995



Source: Brown and Langer 2009.

This comparison of Malaysia and Indonesia points to a number of conclusions. First, redistributive policies – whether primarily ethnically oriented, as in Malaysia, or regionally oriented, as in Indonesia – are not incompatible with rapid growth. Second, significant improvements in basic human development indicators can be achieved across multiple dimensions of horizontal inequality (as also confirmed by the evidence cited above for Ghana and Côte d'Ivoire). But the final note is one of caution: where policies target one dimension of horizontal inequality, this may not translate into a reduction – and indeed may even be accompanied by an increase – in another dimension of horizontal inequality, even when the demographics of these two dimensions are largely overlapping.

Redistributive policies – whether ethnically oriented, as in Malaysia, or regionally oriented, as in Indonesia – are not incompatible with rapid growth

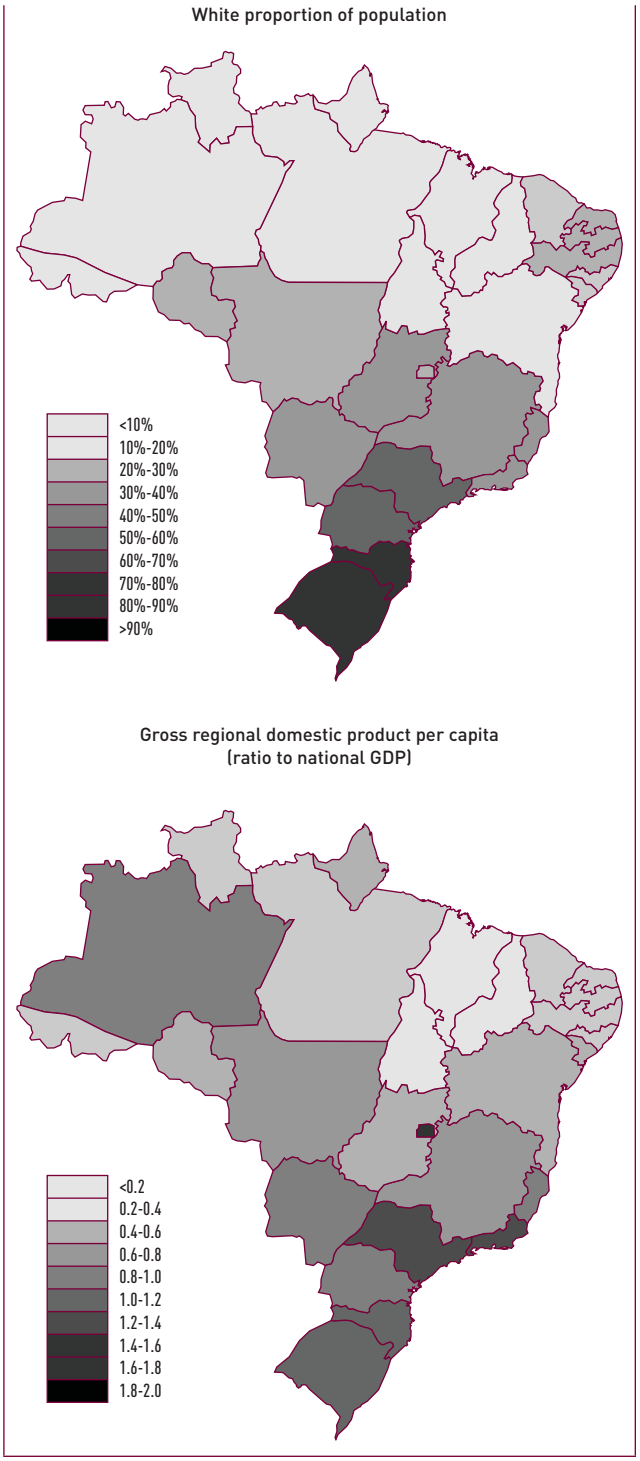
Dualist economies

As reported in chapter 1, many middle-income countries have made important strides in industrialization, but have been less successful in incorporating large segments of their population into the development process. In situations where the majority of the population is indigenous, as in South Africa, an ethnically segregated policy guided development and made it difficult for the majority black population to benefit from development. In Brazil, non-white groups are also disadvantaged, even though there is no explicit regime of separate development. In Mexico, efforts were made to incorporate the largely indigenous peasantry through land reform after the revolution of 1910 and the birth of the Institutional Revolutionary Party. However, the relationship was based on patronage and, after 1940, the dualist agrarian structure re-emerged as peasant farmers lost control of land they legally owned.[36]

Many middle-income countries have made important strides in industrialization, but have been less successful in incorporating large segments of their population into the development process

Brazil. The population of Brazil, like much of Latin America, is characterized by a large degree of ethnic mixing, with most people tracing some degree of mixed heritage from white settlers, black descendants of slaves and indigenous groups. Since 1950, the Brazilian census has distinguished five population groups – *bronco* (white), *preto* (black), *pardo* (brown, or mixed descent), *indígino* (indigenous) and *amarelo* (East Asian). In the latest census, a slight majority of the population identified themselves as white, around a third as brown, about 7 per cent as black, and less than 1 per cent as Asian. As figure 3.9 indicates, there is a strong overlap between geography and ethnicity, and between geography and social and economic performance.

FIGURE 3.9: Ethnic distribution and gross regional domestic product per capita in Brazil, by state, 2000



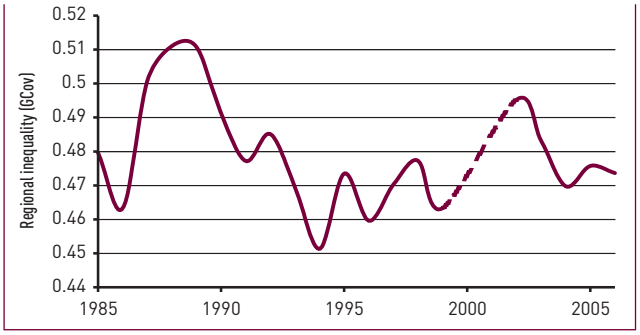
Source: Brown and Langer 2009.

Brazil followed an import-substitution policy for much of its independence period. Its economy was heavily reliant on coffee, making it vulnerable to price fluctuations. Import substitution only started to deliver rapid industrialization in the 1940s; between 1950 and 1975, the economy grew at around 7 per cent per year. By the 1980s, however, increasing debt and oil shocks led to stagflation – the lost decade in which GDP per capita growth slowed to 1.4 per cent and real incomes shrank by 6 per cent. Brazil re-democratized in 1988 with a new constitution that radically altered the political economy, implementing substantial fiscal decentralization to the state level and mandating educational and other social and economic priorities. Subsequently, facing a hyperinflationary threat, the administration of Fernando Collor de Mello began a process of trade liberalization and privatization. It was only after the Real Plan of 1994 pegged the Brazilian real to the US dollar, however, that inflationary pressures were brought under control. Despite fears that he would renege on debt repayments and undo the monetary restraint of the previous decade, President Luiz Inácio Lula da Silva, in power since 2002, has overseen a continuous, though modest, era of growth.

Brazil is a country of high regional and ethnic inequalities, which have remained remarkably steady over the long term. The mean income of black and brown (or pardo, as in figure 3.11) households is only half that of whites. In fact, black and brown households account for 66 per cent of poor households, even though they account for 48 per cent of the population.[37]

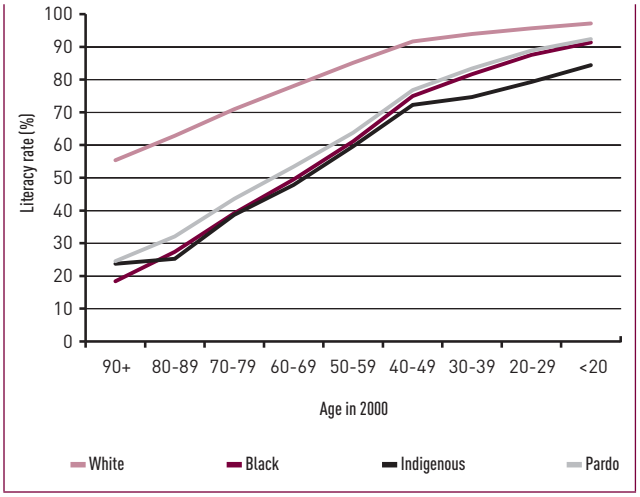
The drop in regional inequalities starting in the late 1980s (see figure 3.10) followed major decentralization initiatives, higher growth rates in the majority of states in the poor northeastern region, a significant real growth of the national minimum wage, and pursuit of wide-ranging social assistance schemes that benefited the poorest states.[38] The per capita value of government transfers was much higher in the poorer states than in the richer ones.[39]

FIGURE 3.10: Regional inequality index in Brazil, 1985–2006



Source: Brown and Langer 2009.

FIGURE 3.11: Literacy rate by age cohort and ethnic group in Brazil, 2000



Source: Brown and Langer 2009.

In 1980, when employment levels were at their highest, there was little difference among ethnic groups. Indeed, the brown employment rate at 90.7 per cent was slightly higher than that of whites (89.3 per cent), with the black employment rate at 89.5 per cent. As employment rates fell over the subsequent two census periods, however, white employment rates fell much less severely; between 1990 and 2000, the white male employment rate fell by less than eight percentage points, whereas the equivalent fall for both black and brown groups was around 14 per cent.

Figure 3.11 traces changes in literacy rates of the four main ethnic groups by age cohort in 2000. While literacy gaps for the four groups have narrowed for those below 40 years of age, they remain high for older individuals.

> *Brazil is a country of high regional and ethnic inequalities, which have remained remarkably steady over the long term*

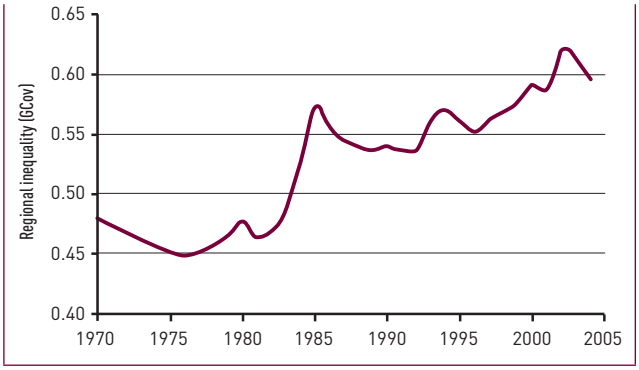
Mexico. Like Brazil, Mexico is characterized by relatively fluid ethnic boundaries between whites, *mestizos* and indigenous peoples. Unlike Brazil, however, Mexico does not have a substantial population of African descent. The ability to speak an indigenous language is often taken as a proxy for ethnicity. By 2000, 9.3 per cent claimed to speak both Spanish and an indigenous language; 2.5 per cent said they spoke only an indigenous language; and 88.3 per cent reported that they do not speak any indigenous language. The geographic distribution of indigenous groups is highly concentrated, however, with over 60 per cent of indigenous-language speakers living in the four southern states of Oaxaca, Chiapas, Veracruz and Yucatán. Moreover, indigenous speakers do not constitute a clear majority in any state, although in Chiapas, Oaxaca and Yucatán they constitute about half the population.

Like Brazil, Mexico's early development trajectory was marked by severe and increasing social inequalities, which gave rise to political unrest. The Porfiriato period between 1876 and 1911, named after Porfirio Díaz, who was president of the country for all but four of those years, was marked by considerable economic growth driven by an open policy towards foreign investment. This growth was unbalanced, however, with the northern regions neighbouring the United States and home

to most of the country's natural resources the primary beneficiaries. These inequalities were a major driving factor in the descent into political instability and intermittent civil war, which ultimately brought the Institutional Revolutionary Party to power in the late 1920s. Badly affected by the depression of the 1930s, it was only after the Second World War that Mexico resumed sustained economic growth through a successful policy of import substitution, leading to the Mexican miracle that saw sustained growth and industrialization until the end of the 1960s. Like Brazil, Mexico's economy entered a period of stagflation in the 1980s, with minimal GDP growth and high inflation between 1982 and 1988. Mexico began instituting liberalization policies in 1988, culminating in the ratification of NAFTA in 1994.

Mexico has exhibited a consistent upward trend in regional inequalities (figure 3.12). All states with significant indigenous populations began the period with per capita GDP well below the national average, which, for the most part, remained broadly steady over subsequent years, with two notable exceptions: Quintana Roo and Campeche. Both of these states experienced rapid growth over the period relative to the national average and are now well above average in terms of GDP per capita. Along with Tabasco, Campeche is home to most of Mexico's oil and gas resources, while Quintana Roo, on the Yucatán Peninsula, has benefited primarily from tourism centred on its Mayan archaeological sites, which now accounts for around 50 per cent of gross regional domestic product.

FIGURE 3.12: Regional inequality index in Mexico, 1970–2005



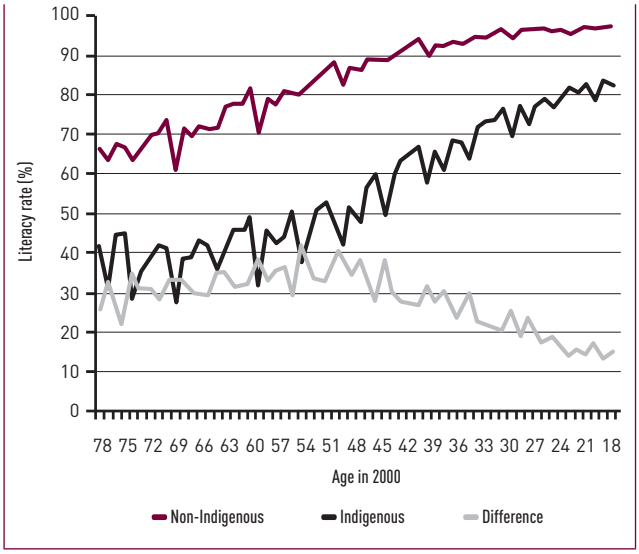
Source: Brown and Langer 2009.

The absence of good income data makes tracking changes in ethnic inequalities difficult. In 1970, more than three-quarters of indigenous people were agricultural workers. By 1990, this share had diminished to about 60 per cent, but this figure barely shifted in the decade of liberalization, remaining around 60 per cent in 2000. In 1990, the ratio of indigenous people in the skilled and semi-skilled occupational categories relative to their proportion in the workforce as a whole was 0.39 – a marked increase on the respective ratio in 1970 (0.28) and, indeed, higher than in 2000 (0.36). In other words, since 1990, there have been only about a third the number of indigenous people in skilled and semi-skilled occupations than we would expect to see if employment were distributed proportionately. While the indigenous have maintained an apparent overall advantage in terms of employment rates, this has largely been due to their concentration in the rural agricultural sector, a phenomenon that liberalization has done little to change.

Figures 3.13 and 3.14 show the literacy rate and average years of schooling among indigenous and non-indigenous groups in the 2000 census, broken down by age. Though all groups have made significant advances over time, there is a noticeable difference in the rates of catch-up among indigenous groups. Among non-indigenous people below the age of 40, full literacy has been more or less achieved. And while indigenous people in this age group lag behind, younger age cohorts are catching up such that equal levels of literacy can be expected in the near future, based on these trends.

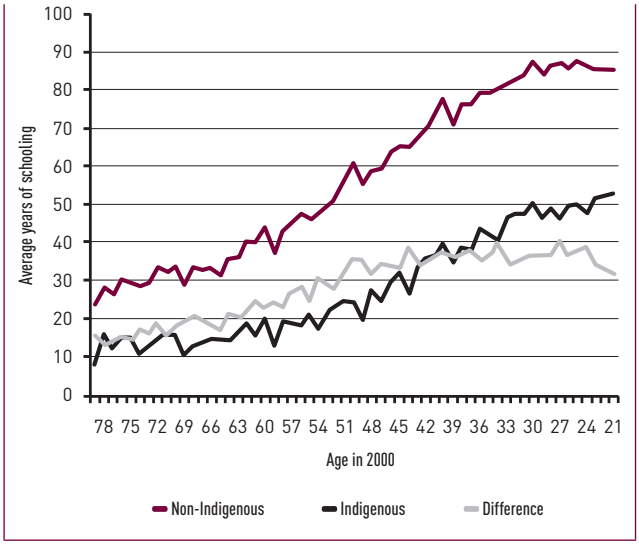
In contrast, though average years of education are also rising in both groups, the absolute gap in years of education was actually increasing among older people. For those under age 50 or so, the gap has remained relatively constant with non-indigenous groups having an advantage of around three years of education within each age cohort, even as overall levels rise in both groups among younger cohorts.

FIGURE 3.13: Literacy rate by indigenous status and age in Mexico, 2000



Source: Brown and Langer 2009.

FIGURE 3.14: Average years of education by indigenous status and age in Mexico, 2000



Source: Brown and Langer 2009.

In both Brazil and Mexico, the era of liberalization was accompanied by three major trends: decentralization, trade liberalization and privatization. Trade liberalization is typically seen to exacerbate regional inequality, and Mexico largely conforms to this trend. However, Brazil appears to provide counter-evidence to this pattern because of the higher growth rates experienced in the majority of poor states, increases in the national minimum wage, and the large-scale social assistance schemes (see chapter 5) that disproportionately benefited the poorest states. Both countries have also made significant advances in basic human development indicators irrespective of ethnicity and state, but have struggled to translate this into similar reductions in income inequality. It is too early to tell whether or not the recent affirmative action programmes for black Brazilians will make any inroads into this disparity.

3. Addressing Ethnic and Regional Inequalities: Implications for Policy

Ethnic inequalities appear to be a universal feature of multiethnic developing countries, and are much more difficult to address than regional inequalities. The persistence of ethnic inequalities may be due to discriminatory public policies, the way labour markets are structured, and differential access to governance institutions. Labour markets may be ethnically segmented because of past public policies, unequal development, or efforts by individuals from specific groups to protect advantages in certain lines of activity. Public policies and market segmentation may lead to physical segregation of groups, further reinforcing ethnic prejudice and antagonism.

Inequalities can also arise from the effects of development policies and practices on different groups. When ethnicity overlaps with social class, inequalities may assume hierarchical ethnic-class dimensions of the types that may breed xenophobia and violence. Such inequalities may mask other cleavages by creating an ethnically divided society. Many

forms of ethnic inequalities are, however, ambiguous. Individuals in an assumed ethnic group may, for instance, rank well in social and economic terms but the ethnic group may be disadvantaged nationally. Inequalities may occur in education, health provisioning, housing, income, employment, infrastructure development and asset holdings, such as land. Ethnicity may become a powerful tool in the hands of elites and politicians in struggles over public office and resources.[40]

Ethnic inequalities are not just a problem in poor countries. Studies of advanced industrial societies[41] also report high levels of inequality between immigrant and indigenous groups that encompass various social and economic dimensions. Sharp inequalities also exist among groups with a long history of residence in some rich multi-ethnic countries, such as the United States.[42]

Failure to reduce horizontal inequalities can have political consequences. The articulation of extreme views on the causes of and solutions to group grievances can, and does, lead to violence or civil war, inhibit growth and make poverty reduction more difficult. The proportion of conflicts identified as ethnic increased from 15 per cent in 1953 to nearly 60 per cent in 2005.[43]

This concluding section presents some direct and indirect policies for correcting horizontal inequalities. Direct approaches, often referred to as affirmative action, involve targeting groups. Indirect approaches aim to achieve the same outcome via universal policies.[44]

Affirmative action is best pursued as part of a larger framework

Affirmative action has been implemented in various guises in countries as diverse as Namibia and the United States, in some cases for disadvantaged majorities (as in Malaysia and post-apartheid South Africa), but more often for disadvantaged minorities (as in Brazil, India and the United States). Critics contend that affirmative action imposes heavy costs on the economy, through what are perceived as market distortions.[45] However, it is instructive to note that in many cases the policies that generated the need for affirmative action were more distortionary and exclusionary than affirmative action policies themselves; and the persistence of ethnic inequalities may affect the welfare of disadvantaged groups and deprive society of the full utilization of the capabilities of all citizens.

The effects of affirmative action on economic growth vary widely from country to country and across different types of policy. Malaysia's phenomenal growth over the past three decades suggests that affirmative action is not inherently detrimental to growth. Moreover, there is evidence from South Africa that efficiency gains may have resulted from such policies.[46]

The Brazil case shows that the majority of the poor north-eastern states with a large percentage of minorities benefited disproportionately from social assistance programmes and have recently registered high growth rates. In Northern Ireland, the elimination or reduction of inequalities between Protestants and Catholics in higher education, housing, employment and recruitment to the police force contributed to the willingness of the Catholic community to support the peace process,[47] which provided a foundation for economic growth.

While improving horizontal inequalities, affirmative action in some cases can worsen intra-group (and overall) vertical inequality. This depends on whether policies target the lower or upper end of the income distribution curve. In India, the marginalized Dalit group has received both preferential access to universities and subsidies in tuition and housing. While these policies have improved the social and economic status of Dalits, many group reservations go unclaimed because deficient primary and secondary schooling prevents students from meeting even relaxed requirements. Ultimately, inadequate primary education and an overemphasis on tertiary education benefited the middle class, exacerbating class inequalities.[48]

In Malaysia, however, youths of the targeted group were sent to well-equipped residential schools and then provided with preferential access to tertiary education. Beneficiaries

have now emerged as the new middle class. Policies targeted both capital ownership at the upper end of the income distribution (by compelling firms to distribute shares to disadvantaged Malays), and poverty eradication and educational and employment opportunities at the lower end. As a result, intra-group income distribution improved or at least did not worsen initially. Later approaches, which have focused on the upper end of the distribution curve, worsened intra-group inequality. Similarly, policies in South Africa have had most effect at the upper end of the distribution curve, and intra-group distribution has worsened.[49]

Affirmative action works best when pursued within a larger framework that seeks to incorporate all citizens in national development and welfare provision. It is easier to reduce inequalities if an economy is growing, the disadvantaged population enjoys access to policy-making institutions, and the redistributive policy is part of a wider strategy that seeks to transform the economy and eliminate poverty irrespective of ethnic origin, as in Malaysia.

Redistributive policies may be controversial when economies are in recession, the policies do not have time limits, and fundamental inequalities, especially in education, are widening despite redistribution. This may give rise to feelings of frustration on the part of those who think they are better qualified than members of the targeted group.[50] Redistributive policies that depend on the choices of majority groups may be unsustainable if the majority public turns against them, as appears to be happening in the United States.

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Universal programmes may not be enough

Universal programmes that aim to reduce poverty irrespective of ethnicity can be considered indirect policies. If successful, they will improve the position of disadvantaged groups. Some empirical evidence[51] suggests that when specific groups suffer from multiple deprivations in human, physical and social capital, universal programmes alone may be unable to reach them effectively since improvement in one dimension will have little impact on the overall level of deprivation. Thus, for instance, one study[52] finds differential returns on education among indigenous and non-indigenous groups in Peru. When indigenous people obtain education levels on par with non-indigenous groups, their returns to education are lower.

Some differential returns can be explained in terms of discrimination either in the workplace or in government policy. In some cases, stringent antidiscrimination legislation can be effective, since such policies do not specifically identify particular groups for positive action, but rather prevent negative action against any group. Such antidiscrimination legislation was a cornerstone of attempts in the United Kingdom/European Union to redress the deprivation of Catholics in Northern Ireland from the 1980s onwards. These efforts were met with broad success, with unemployment differentials between Catholic and non-Catholic groups declining markedly in the decade running up to the Good Friday Agreement in 1998.[53]

Another indirect approach to reducing horizontal inequalities, particularly in countries where ethnic groups are regionally concentrated, is to pursue a strategy of balanced regional development, rather than targeting specific groups directly. Such indirect strategies have been adopted in Ghana in the context of disbursing funds from the HIPC debt relief initiative. Indonesia under Suharto likewise followed a regional development strategy. However, Indonesia's experience with regional development has arguably been less successful in reducing ethnic tensions. Regional development strategies may have reduced disparities among provinces, but there is evidence that they may also have heightened ethnic inequalities within provinces, particularly in rural areas where the main beneficiaries of development have often been the largely Javanese migrant population.

Political and cultural inclusivity is key to action for disadvantaged groups

Correcting horizontal inequalities requires sensitivity to ethnic differences and is, in the final analysis, political. Without political inclusivity, there is little chance of implementing effective remedial policies for disadvantaged groups. Social and economic inequalities are also often intertwined with cultural exclusion. This is particularly important in relation to the cultural identity of the state – whether it embodies exclusion or subordination of practices associated with certain cultural groups, or reflects a cultural inclusivity that places equal value and visibility on the practices of all groups. Alternatively, the state can aspire to an acultural status or civic republicanism. However, this may turn out to be assimilationist, with the dominant culture enjoying supremacy over other cultures. Rectifying cultural status inequalities is often a matter of recognition rather than redistribution. The three main areas of cultural status policies relate to religious practices and observances, language and language recognition, and recognition of ethno-cultural practices.

Two competing frameworks can be used for managing diversity and ensuring political inclusivity at the central level of government: (i) reforms that seek to promote large majorities by encouraging vote pooling, ethnic integration and moderation, while also supporting adversarial politics;[54] and (ii) consociational or power-sharing arrangements that accommodate ethnic divisions.[55]

The first type of reform (majoritarian) promotes plurality within party systems by encouraging political actors to seek votes outside of their ethnic strongholds if they are to gain the second, third or subsequent preferences of voters in the preference vote system that underpins this framework. The second type of reform – consociation or power-sharing – accepts ethnic-based parties as given and seeks to promote plurality, not within the contending parties, but at the governmental level itself. It is grounded in the voting system of proportional representation, which may encourage all key segments in society to be sharply defined so that groups that feel alienated from the political process may form their own parties to gain some representation in parliament, the government and the civil service.

Evidence in multi-ethnic societies suggests that majoritarian policies and power-sharing arrangements do not always pull in opposite directions.[56] The majority of ethnically segmented countries, like their more homogenous counterparts, have majoritarian institutions. But ethnic problems have forced some of them to incorporate power-sharing elements. Formal consociational arrangements may not be relevant in ethnic settings where one group enjoys an overwhelming numerical majority, or in highly fragmented societies that lack a dominant group and where governments are bound to be ethnically inclusive under democratic conditions. On the other hand, they are usually unavoidable in societies where only two or three groups exist, or where two or three dominant groups coexist with smaller groups in a multi-ethnic setting, as well as in multi-polar settings with strong ethnic or regional clusters.[57] Even in these cases of ethnic polarization, parties may still be multi-ethnic, as in Switzerland,[58] rather than ethnic, as in Belgium.[59]

The crafting of institutions that are sensitive to, but not trapped by, ethnic cleavages is a challenge for policy makers in pluralistic societies. It is always important to bear in mind that ethnicity is only one form of identification and that ethnic identities can be fluid. Countries should avoid reforms that make it difficult for individuals to express other identities. Institutional reforms should, therefore, be based on sound principles of universal citizenship where individuals are free to settle and take up employment anywhere in the national territory, and where a common set of citizenship rights applies to everyone. Efforts should also be made to promote institutions that are likely to cut across ethnic cleavages and defend national, as opposed to narrow ethnic, interests. Such institutions include trade unions, professional associations and other civic organizations. These initiatives are important in ensuring that ethnic politicians do not capture governance reforms that serve to play up ethnic cleavages, and that they are also sensitive to the wider goal of building a pluralistic state that can promote development and deliver services to all citizens without discrimination.

Notes

1 Stewart and Brown 2007.
2 Kanbur and Venables 2007.
3 Kanbur and Venables 2007:208.
4 Sahn and Stifel 2003.
5 Escobal and Torero 2005.
6 Kanbur and Venables 2007.
7 Kanbur and Zhang 2005.
8 Rodriguez-Pose and Sanchez-Reaza 2005; Garcia-Verdu 2005.
9 Kanbur and Zhang 2005.
10 Soto and Torche 2004.
11 Williamson 1965; Petrakos and Saratsis 2000; Terrasi 1999.
12 Ezcurra and Rapún 2006:355.
13 This was first suggested by Williamson (1965) and advocated also by Stewart et al. (2005). See Brown and Langer (2009) for a discussion of the methodology.
14 Figueroa et al. 1996.
15 Summarized from Stewart and Langer (2008).
16 Stewart and Langer 2008.
17 Bangura 2006.
18 Gyimah-Boadi and Asante 2006.
19 Songsore 2003.
20 Shepherd et al. 2005.
21 K. Ewusi 1976 (includes per capita energy consumption, employment in non-agricultural activities, literacy rates, earnings per worker and number of hospital beds per 1,000 persons).
22 See Brown and Langer (2009) for data.
23 Berthélemy and Bourguignon 1996; Den Tuinder 1978.
24 For details, see Brown and Langer (2009).
25 See data in Brown and Langer (2009); Glewwe (1988).
26 Based on World Bank data; Malaysian government data set it slightly lower.
27 Khoo Bhoo Teik 2008.
28 Khoo Bhoo Teik 2005.
29 Jomo 2004; Khoo Bhoo Teik 2004.
30 Khoo Khay Jin 2008.
31 Khoo Khay Jin 2008.
32 Khoo Khay Jin 2008.
33 Booth 2000:76.
34 See also Ravallion (1988); Booth (2000).
35 Tadjoeddin et al. 2001:288.
36 Barraclough 1991.
37 Schmelzer 2005.
38 Silveira Neto and Azzoni 2010.
39 Silveira Neto and Azzoni 2010.
40 Bangura and Stavenhagen 2005.
41 Kogan 2007; Heath et al. 2008.
42 Wilson 1987; Danziger et al. 2005.
43 Stewart and Brown 2007.
44 Brown and Langer 2008.
45 Badgett and Hartmann 1995; Sowell 2004.
46 Acemoglu et al. 2007.
47 Stewart 2001.
48 Gomez 2009; Jayal 2006.
49 Acemoglu et al. 2007; Seekings and Nattrass 2005.
50 Mustapha 2006; Bangura 2006.
51 Figueroa and Barron 2005; Stewart and Langer 2008.
52 Figueroa and Barron 2005.
53 Todd 2007.
54 Horowitz 1985.
55 Lijphart 1977.
56 Bangura 2006.
57 Bangura 2006.
58 Linder and Steffen 2006.
59 Deschouwer 2006.