Mapping recent inequality trends in developing countries

LSE Research Online URL for this paper: http://eprints.lse.ac.uk/101863/

Monograph:


Reuse

Items deposited in LSE Research Online are protected by copyright, with all rights reserved unless indicated otherwise. They may be downloaded and/or printed for private study, or other acts as permitted by national copyright laws. The publisher or other rights holders may allow further reproduction and re-use of the full text version. This is indicated by the licence information on the LSE Research Online record for the item.
Mapping recent inequality trends in developing countries

Working paper 24
May 2018

Rebecca Simson

Keywords: inequality, developing, international, income

Link to working paper: http://eprints.lse.ac.uk/101863/1/Simson_mapping_recent_inequality_trends_wp24.pdf

More on the theme of #LSEWealth

Over the course of the middle half of the 20th century, countries around the world underwent dramatic social transformations as incomes grew, inequality declined and living standards improved. Since roughly 1980, however, income inequality began to grow again in many regions of the world. Scholars have warned that we are entering a new era of high and persistent inequality. But is this story of rising income inequality since 1980 truly universal?

To complicate this picture, we know that in many countries in Latin America, inequality fell over the 2000s. Some available evidence also suggests that inequality has been falling in parts of Africa and the Middle East over the 1990s or 2000s. By taking a more systematic look at inequality trends across these less studied regions of the world, what can we learn about different regional inequality patterns? Drawing on the existing secondary source literature, what factors have been put forward to explain different inequality trajectories across different regions or countries?

Using existing databases of gini indices, an indicator that summarizes inequality into a single value between 0 and 1 based the distribution of income across households, this paper surveys trends in inequality across countries in Latin America, Asia, Africa and the Middle East. It then provides short case studies focusing on countries where the level of income inequality has fallen in recent decades.

The paper identifies 27 developing countries, roughly half of which are in Latin America, where our measure of inequality, the gini, fallen by more than three percentage points in the past two decades. Conversely, in only 12 countries were has inequality risen by a similar magnitude. In 47 countries we found no major change in inequality, or the data too unreliable to make an informed judgement.
Literature about these countries where inequality had declined highlighted some common drivers across countries and regions. Most of the case study countries had comparatively high levels of income inequality prior to the inequality decline. Latin America is frequently deemed to be the region with the highest levels of inequality in the world, while several other countries featured - notably Thailand, Malaysia and pre-revolution Iran - had unusually high inequality relative to their regional peers. When inequality in these countries rose to unusually high peaks in the 1990s, this appears to have triggered a political backlash that led politicians to introduce new progressive social policies.

In Latin America in particular, the roll-out of basic social safety nets, such as conditional cash transfers and universal pensions, helped to raise incomes of poorer households and thereby lower inequality. Furthermore, falling gaps in earnings between high and low educated workers helped to reduce wage inequality, in part thanks to rapidly rising educational attainment. Fortuitous economic conditions also tended to lend a helping hand. Rising commodity prices and rising government budgets enabled more redistribution in Latin America. In parts of West Africa, rising crop prices also helped to raise incomes of poorer farmers relative to urban regions.

In many countries there has also been an active political discourse around redistribution and policy reforms that explicitly sought to ameliorate or reverse some of the inequality gains in the preceding decades. In Latin America, Tunisia, Iran, Thailand and Malaysia for instance, new political movements actively used a discourse of inequality to galvanize support for reform and politicians justified their actions on inequality reduction grounds. In Africa, recent scholarship has suggested that democracy has discouraged governments from suppressing prices paid to farmers for agricultural commodities.

Among most of the case study countries, however, the policy reforms undertaken did not involve considerable redistribution from rich to poor, through for instance higher taxation or other measures that are likely to have generated a strong political opposition. A remaining question, therefore, is whether these, arguably modest and politically ‘easy’, reforms have already run their course.
LSE International Inequalities Institute

The International Inequalities Institute (III) based at the London School of Economics and Political Science (LSE) aims to be the world’s leading centre for interdisciplinary research on inequalities and create real impact through policy solutions that tackle the issue. The Institute provides a genuinely interdisciplinary forum unlike any other, bringing together expertise from across the School and drawing on the thinking of experts from every continent across the globe to produce high quality research and innovation in the field of inequalities.

In addition to our working papers series all these these publications are available to download free from our website: www.lse.ac.uk/III

For further information on the work of the Institute, please contact the Institute Manager, Liza Ryan at e.ryan@lse.ac.uk

International Inequalities Institute
The London School of Economics and Political Science
Houghton Street
London
WC2A 2AE

Email: Inequalities.institute@lse.ac.uk
Web site: www.lse.ac.uk/III
@LSEInequalities

© Rebecca Simson. All rights reserved.

Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including © notice, is given to the source.