

The Wealth GAP

John Larkin

Myla is one of the many faces of worsening inequality in Asia. Trafficked at age 13 into a life of misery as a domestic worker for abusive employers, she is trying to rebuild her life.

The streets outside the Manila shelter where she now lives are jammed with shiny SUVs and new apartments-just some of the rewards a growing economy offers those with the right education and skills.

Myla, not her real name, sacrificed her dreams of attending school to become a child laborer, "I was about to enroll but we didn't have money for school supplies, so I made way for my younger brother," says the 17-year-old, "I had to provide for the family."

Asia's flourishing economics have lifted millions out of poverty in recent decades. But that achievement masks a grim reality. The gap between Asia's haves and have-nots is growing as globalization delivers prosperity to some, while others like Myla are denied the opportunities they need to lead fulfilling lives.

Other developing regions have wider gaps between rich and poor. Gini coefficients, a common measure of income inequality, show that Sub-Saharan Africa and Latin America and the Caribbean all have higher levels of inequality than Asia. However, many countries in Latin America and the Caribbean have seen Gini coefficients decline in recent years.

But Asia has failed to keep pace when it comes to reducing inequality. A recent Asian Development Bank (ADB) report notes that 11 of 28 Asian economies-82% of the region's 2010 population-showed rising income inequality through the 1990s and 2000s.

Higher Gini coefficients denote greater inequality. Over nearly two decades from the early 1990s, the Gini coefficient of developing Asia as a single unit, based on per capita consumption expenditure, increased from

39 to 46. The Gini coefficient jumped from 32 to 43 in the People's Republic of China (PRC), 33 to 37 in India, and 29 to 39 in Indonesia.

"Inequality has risen despite aggregate economic growth and poverty reduction," says Peter Warr, a professor of agricultural economics at the Australian National University in Canberra. "The poor have become better off in most countries, but the rich have become better off at an even faster rate."

What is inequality? A simple definition characterizes it as unequal access to income and consequently to good quality education, health care, sanitation, and other building blocks of a successful life ("Defining Inequality", April 2013, cited in <http://development.asia/PDF/issue14/devasia14-1.pdf>).

Increasing across Asia, access to a decent wage and the social benefits it can bring depends on your skills, location, and gender. These disparities can occur between countries, but are particularly troublesome for governments when they occur in the same region, or between different regions of the same country, as they can foster social and political instability.

"It is a challenging issue to the governments of every country," says Haoming Liu, a labor economist at the National University of Singapore. He adds that weak protection of workers and an increasing share of national income that goes to owners of capital "make it even more challenging for Asian countries."

The problem is compounded by the fact that inequality has different causes and forms in each country, which sometimes overlap.

Moreover, degrees of inequality vary across the region. Many of the economies surveyed by ADB showed declining Gini coefficients, though these were often smaller economies subject to shocks and rapid recoveries.

Larger economies enjoying strong gross domestic product (GDP) growth often showed rising inequality, with income gaps at the heart of the problem.

Unequal earning power occurs when those at the top of the income scale earn an increasingly larger share of the income pool than those at the bottom.

India, for example, has seen its earning gap widen along with strong economic growth. In the PRC, turbo-charged economic growth padded some pay packets more than others.

“Rising inequality in developing Asia is closely associated with very rapid increases in the very top income groups,” says ADB’s Asian Development Outlook 2012. “That is, the rich are getting richer much faster.”

The rich are also getting better education for their children, cleaner water, more reliable electricity, better access to immunizations, and access to health care at quality facilities to keep themselves and their families healthy.

The deprivation is keenly felt in developing countries where the poor often miss out on public services.

“The rest, including not only the poor but (also) the vast majority of the population, don’t have access to credit, schooling, the courts and rule of law that would enable them to be productive,” says Nancy Birdsall, president of the Center for Global Development in Washington, in reference to India.

Many poor live in remote rural areas where low income is only one of many problems. The ratio of rural poverty to urban poverty worsened in 18 of the region’s economies between 1990 and 2010, according to ADB’s Framework of Inclusive Growth Indicators 2012.

The imbalance is especially pronounced in the PRC, where the rural-urban income gap accounts for nearly half of total inequality. Poverty has been cut significantly in the PRC but inequality is rising, leaving people less impoverished but also less equal.

“This kind of rising inequality in the PRC, India, and Indonesia shows that the economic growth process has not been sufficiently inclusive,” says Juzhong Zhuang, ADB’s deputy chief economist. “Growth is necessary, but growth alone is not enough.”

The benefits of economic growth are often diverted from those who need it most by inequalities of income, location, and gender.

The deprivation is acute in access to education and health care. According to household surveys, school-age children from the poorest households in some parts of Asia are three to five times more likely than their wealthier peers not to attend primary and secondary school.

“Access to education is the fundamental issue,” says Peter Warr of the Australian National University. “To acquire skill, education is needed. Throughout Asia, rural people especially are disadvantaged in this respect.”

Secondary school attendance in rural Bhutan and Pakistan was only half of that in cities. In the Philippines, children of wealthier households were seven times more likely to attend college.

A study by the Organization for Economic Co-operation and Development (OECD) on rising inequality in emerging economies, released in 2011 found that while primary education is available in many remote areas, secondary schooling can involve traveling or even relocating, making it harder for children to attend classes.

The problem compounds with each generation.

In Pakistan, a household head with no formal education was likely to view educating children as a waste of time, according to an ADB study in 2012. The study notes that in Vietnam and Sri Lanka, large households are less likely to send their children to school.

Girls still find schooling harder to come by especially in parts of the Pacific, South Asia, and Southeast Asia, though the gender-schooling gap has been narrowed considerably in East and Central Asia.

Insufficient health care is also common at poor households. Infant mortality rates among the poor in the region were significantly higher, according to ADB data, than those of richer households; in the worst case, infant death is 10 times more likely in poor households as opposed to rich ones.

Lack of trained medical personnel is a factor, especially during childbirth. Poor households often can't afford top-notch treatment, and their predicament is worse if they live in rural areas.

World Health Organization (WHO) data shows that, despite reduced infant mortality region-wide, infants are at greater risk in rural areas—a differential that has worsened in recent years in several countries, including the Philippines and Viet Nam.

The lack of trained health care workers in rural areas can reflect the desire of graduates to work at the best hospitals, usually in cities. This is a problem particularly in large countries like India with remote rural areas, says Marika Vicziany, a political economist specializing in Asia at Monash University in Melbourne, Australia. “The average doctor is trained in an urban environment at urban hospitals,” says Vicziany. “They don’t want to go back to the villages.”

Lack of access to clean water, clean cooking fuels, proper sanitation, and dependable electricity can deepen health problems.

More than 90% of rural populations in 10 economies depend on “dirty” solid fuels like wood and coal for cooking and heating, with detrimental health consequences.

In 2010, 14% of rural developing Asia compared with just 3% of city dwellers lacked access to clean drinking water, according to Framework for Inclusive Growth Indicators 2012. Open defecation is common in rural areas. Patchy or nonexistent electricity supply to remote areas complicates attempts to deliver basic services.

What lies behind Asia’s rising inequality? The drivers appear to be the same forces propelling Asia’s economic growth.

Globalization has opened up economies to global trade, introduced new and more efficient technologies, and enabled greater capital flows.

It has generated tremendous wealth which are often not shared equally. Profits from increased market access skew to factory owners than factory workers; skilled workers get paid more than the unskilled who may even lose their jobs to new technology; cities with decent infrastructure prosper while remote ones lag.

For countries whose economies are export-driven, globalization provides employment opportunities for millions of workers and lifts many of them from poverty,” says Liu Haoming of the National University of Singapore. “However, it also increases the income inequality between those who participated in the exporting industries and those who were excluded.”

This is not to argue that globalization be reversed, were it even possible. In fact, globalization has done much more good than harm, especially in once-closed economies. “Globalization has been a terrific benefit to India,” says Monash University’s Vicziany. “The problem is that rural India has not benefited from it. Liberalization has been an urban phenomenon.”

Still, impoverished communities are often ill equipped to cope with sudden changes that globalization can bring. Many workers in Asia are employed informally as domestic helpers, construction workers, and the like, for small wages and meager prospects.

Myla earned only 500 pesos (approximately \$12) a month as a domestic helper. She wanted to quit but stayed on to fund medical treatment for her sick grandparents: "I had no choice but to go back to work."

Workers like Myla usually aren't covered by government employee support schemes, which in any case can be insufficient. The PRC and India spend three to four times less on social protection than the OECD average according to the OECD, which notes also that in 2008, only one-third of Indonesian workers who lost their jobs received severance pay.

Technological change is another challenge for Asia's poor, according to the International Monetary Fund (IMF), as it favors workers with tech skills and may extinguish the jobs of those lacking these skills.

"The disqualifying effect of technological change is stronger in Asia," IMF researchers Florence Jaumotte, Subir Lall, and Chris Papageorgiou wrote in the working paper *Rising Income Inequality: Technology, or Trade and Financial Globalization?* "This possibly reflects the greater share of technology intensive manufacturing in Asia."

It is possible that we are altogether too alarmed by rising inequality. Surely, the argument goes, the dramatic falloff in poverty more than compensates. Moreover isn't inequality just a phase in the development process?

Some have argued that an "efficient inequality range" –typically between 25 and 40 Gini points–can promote economic growth.

“People will only be motivated to work harder if there is some degree of inequality,” says Haoming Liu. “But it has to be contained in a certain range.”

Arthur Lewis, the Nobel Prize-winning economist from Saint Lucia, argued that development can't be egalitarian as it happens at different times in different parts of an economy. He attributed rising inequality to uneven patterns in growth, a trend that has been a feature of Asia's economic growth path.

Further complicating the issue, inequality can sometimes arise from differences in effort rather than entrenched social inequities. The axiomatic notion that people who work hard are more likely to achieve success has spurred debate over whether inequality should, to a certain degree, be welcomed (“Defining Inequality”, April 2013, cited in <http://development.asia/PDF/issue14/devasia14-1.pdf>).

For many poor households however, no amount of efforts will lift them up the educational and other opportunities to improve their lot in life. In fact, these people are often exposed to sudden income loss due to forces they may not understand. Indeed, developing Asia's rising Ginis indicate that inequality may be exiting an “efficient” range and heading into dangerous territory.

This is not welcome, as most economists agree that excessive inequality can hobble efforts to reduce poverty and to stimulate economic growth. An extra 240 million people would have been lifted from poverty had inequality remained static during the 1990s and 2000s, according to ADB. The number of people living on less than \$1.25 a day would have fallen dramatically in the PRC, India, and Indonesia. Apart from the waste of human capital, inequality can breed social tensions and political instability if elites are allowed to capture the policy-making agenda at the expense of the poor.

“If the rising inequality is seen as a sign of injustice, that is really dangerous” says Peter Warr, something needs to be done. Two-thirds of policy makers surveyed recently by ADB agreed inequality was high and had increased over the past decade. More than half said inequality is unacceptable even if poverty declined.

Progress is being made. Earlier this year, the PRC unveiled reforms to narrow the wealth gap including measures to boost farm incomes and deliver better public services to rural migrants in cities, according to media reports.

In India, girls are graduating with information technology degrees and getting jobs in the booming tech sector. “These girls are getting the right kind of education to be able to compete for jobs,” says Monash University’s Vicziany. “The problem is there aren’t enough of them to make a big difference.”

Inequality may indeed decline once Asia’s economies mature, in line with a decades-old theory proposed by US economist Simon Kuznets that inequality declines once a certain level of average income is attained, due to a multitude of factors. This proposition is not uniformly supported by empirical evidence, however.

“The factors Kuznets considered in formulating his hypothesis also include policy interventions, mere increases in the average income level may or not lead to declining inequality.

As there is no guarantee that Asia’s inequality will with economic growth. Asia’s policy makers must find ways to promote economic growth that is inclusive as well as impressive, to bridge wealth and skills gaps that are currently widening.

“That should be seen as the canary in the mine,” says Center for Global Development’s Birdsall. “Pay attention and address it, since at some point it probably reflects inequality of opportunity and injustices in the system that put growth at risk.

Latin America has successfully tackled inequality by focusing on jobs-rich growth, and boosting spending on public services for poor households in lagging regions.

Asia is starting down that track, says Zhuang, who points to conditional cash transfer programs to the poor in the Philippines and Indonesia that may produce social dividends. Additionally, several Asian governments have taken the fight to inequality through policy pronouncements placing new emphasis on inclusive economic growth. Funding is necessary for these prescriptions to work effectively, however. That will be a challenge given that developing Asia has the world's lowest tax burdens due to small tax bases, inefficient collection, and high evasion. "Asia needs better taxation to find the revenue to fund inclusive growth", says Zhuang. "Rich people should pay more."

While Asia gets to grips with its inequality challenge, its poor wait for the chance to seize a better life.

Myla's dream is to be an English teacher. She asks only for the chance to work for a new life. "I'm ready now to go to school, to start again," she says. Asia's inequality challenge will be beaten only when most of its poor get the same opportunity.