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Toward Greater Global Equity

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Toward Greater Global Equity

People around the world do not have the same chances to live, learn, work, and participate in society's activities, because these opportunities are greatly influenced by circumstances beyond their control, including their country of birth. Global equity is worth pursuing for its own sake and for greater global prosperity. Concrete changes in global policies and global governance are needed to bring about greater equity: better aid to help poor countries make up for limited endowments, more space for legal migration of unskilled workers, more open trade (particularly for agricultural goods), less restrictive protection of intellectual property rights, and reforms in global governance.

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The World Bank's World Development Report 2006 on *Equity and Development*, on which this paper is based, argues that greater equity, intended as greater equality of opportunities and the avoidance of extreme deprivation, is a key ingredient of long-term prosperity. The report describes how opportunities vary widely within and across countries on the basis of predetermined characteristics, rather than just preferences, talent, effort, luck. It presents two main reasons why inequities, in addition to being unjust, are detrimental to development: first, people who do not face the same opportunities waste part of their potential; second, when the distribution of power and wealth is inequitable, powerful elites tend to put in place economic institutions that benefit only themselves, at significant cost to society as a whole.

The WDR 2006 argues that developing country governments should act to level the playing field in the crucial areas of human capacities, justice and the rule of law, land and access to infrastructure, and in the broad functioning of markets and the macroeconomy. Where there are trade-offs between equi-

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ty and efficiency, both the long-term benefits of equity and the efficiency costs of tampering with individual incentives need to be taken into account.

While action within countries is crucial, global conditions powerfully affect the scope for and impact of domestic policies. Complementing other articles on the report (see for instance Ferreira and Walton, 2006), this paper focuses on the global dimension of equity: what do we know about inequities on a global scale, why they matter, and what can be done to reduce them. In line with the WDR 2006, it highlights the key role played by developed country policies in supporting greater global equity.

Differences in opportunities are massive in the world

Since opportunities are potentials, rather than actual observables, we do not measure them directly but rely instead on analyzing indicators across different groups defined on the basis of predetermined circumstances. Systematic differences across such groups are an indication that predetermined circumstances matter, instead of being irrelevant.

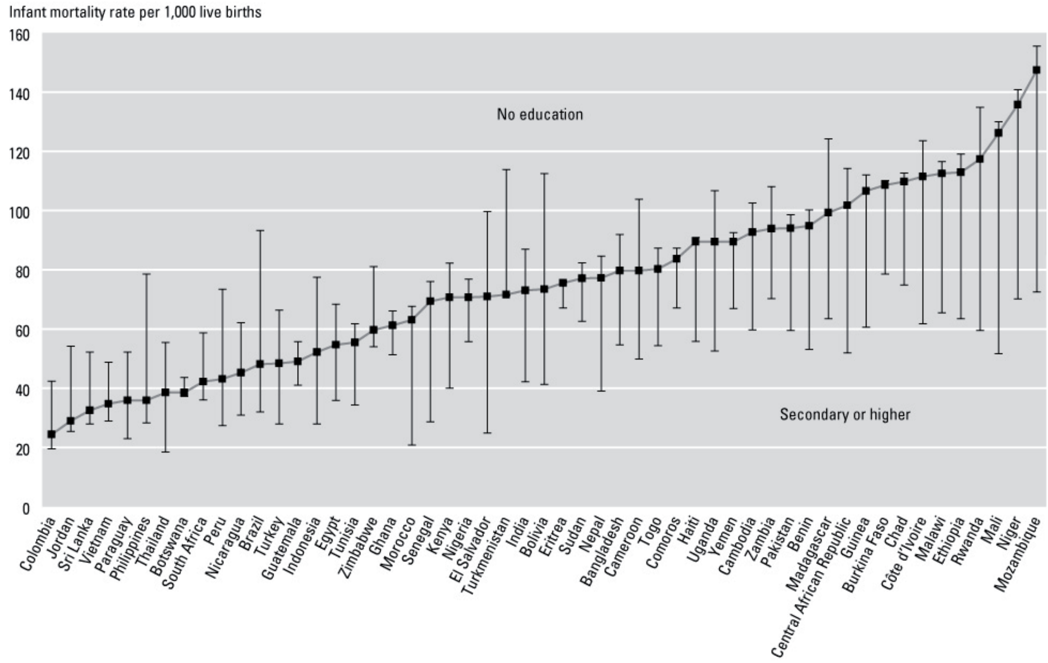
Country of birth is one such predetermined circumstance. There is no question that opportunities are vastly different in the world depending on where a person is born. This is true for the opportunities to live, learn, earn and consume, participate in politics and social life. Compare, for example, some basic facts of life in Mali, ranked 174th out of 177 countries in the UNDP's Human Development Index, and the United States, ranked 10th.[2] In Mali, 130 out of 1000 children die in their first year of life (and even among the better off, 90 out of 1000 die), and an additional 110 children out of 1000 die before turning five. In the United States, only four children out of 1000 die in their first year of life, and one more out of 1000 in the first five years. Average life expectancy in Mali is 48 years, in the U.S. 77 years. An average Malian born in 1975-79 has on average less than two years of schooling; a woman, less than one. An average American of the same age (male or female) has on average 14 years of schooling—and this difference would be even more striking if adjusted by quality. Average consumption in Mali was $54 per person per month in 1994; an average American spent about 20 times as much at that time.

These differences are illustrative of differences in many other indicators and across many other countries. Figure 1 focuses on infant mortality rates (the dark dots connected by the line), which vary from 25 per 1000 live births in Colombia to almost 150 per 1000 in Mozambique—almost six times as much.[3]

Over time, some differences across countries have been narrowing while others have been increasing. Differences in life expectancy and years of schooling have narrowed. The top panel in Figure 2 shows that life expectancy at birth (weighted by population) increased on average from 53 in 1960 to 65 in 2000. The distribution was clearly bimodal in 1960, with 50 countries having

2. The Human Development Index combines indicators for life expectancy, adult literacy, gross enrollment for primary, secondary, and tertiary schools, and GDP per capita (see United Nations Development Programme (UNDP) 2005). By comparison, Norway is ranked 1st, Sweden 6th, Finland 13th, and Denmark 14th.
3. The figure also illustrates differences within countries. The vertical bars indicate, for each country, the spread between infant mortality rates for children whose mothers have no education (at the top) and those for children whose mothers have secondary or higher education (at the bottom).

Figure 1: Infant mortality rates vary greatly across countries



Source: World Bank (2005). Data come from the most recent Demographic and Health Survey available (ranging from 1985 to 2002).

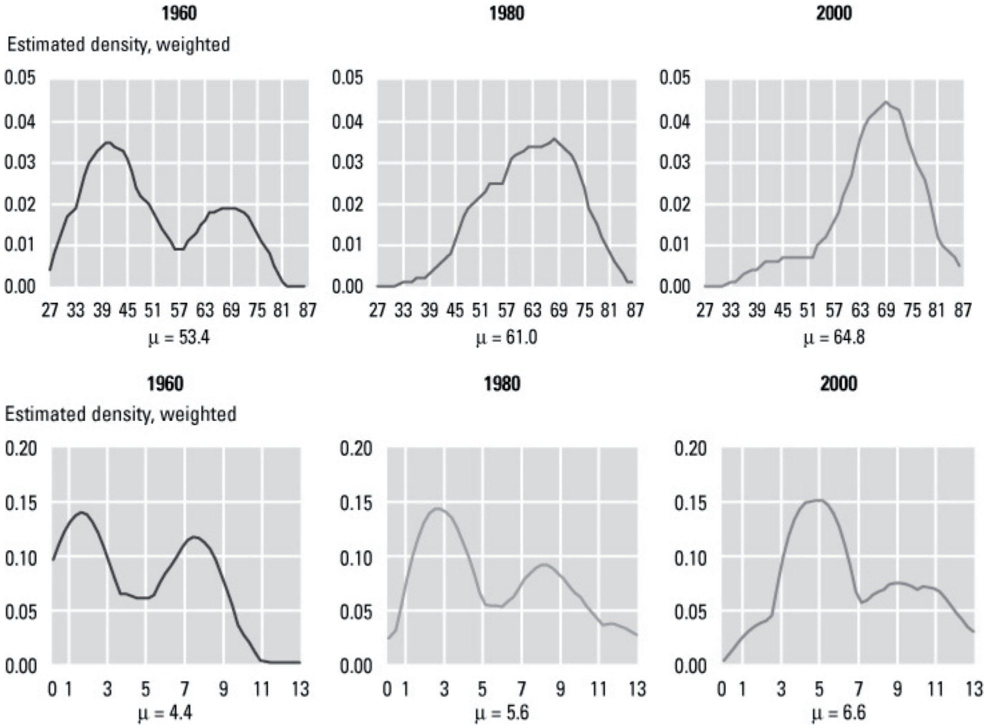
life expectancies between 35 and 45 years and 41 countries with life expectancies between 65 and 75 years. By 1980, the low mode had mostly disappeared and the distribution had shifted considerably to the right. Unfortunately, the story is not entirely positive: by 2000 a low mode was beginning to reappear, capturing the dramatic impact of AIDS on life expectancy in Sub-Saharan Africa.

The bottom panel of Figure 2 shows that average years of schooling (again population-weighted) increased on average from 4.4 in 1960 to 6.6 in 2000, as schooling expanded in the Middle East and North Africa, South Asia, and Sub-Saharan Africa. Differences narrowed not just across countries but also between men and women.

However, the convergence in educational outcomes measured by years of schooling completed masks the wide gap that still exists in the quality of education. Looking at educational attainment in five middle-income countries for which data on a standardized international achievement test are available, Pritchett (2004) finds that at most 25 percent of eighth-graders do as well as OECD students in mathematics (figure 3). In Morocco, for instance, less than 5 percent of children aged 15-19 score as well as their OECD peers, while another 10 percent complete grade 9 but do poorly on the test. Of the remaining 85 percent, 35 percent never went to school, 15 percent dropped out before completing grade 5, and 35 percent dropped out before completing grade 9. These and other data suggest that, while average years of schooling have increased, the gap in learning achievement remains large.

Differences in consumption levels across

Figure 2: Differences in life expectancy at birth (top panel) and years of schooling (bottom panel) have narrowed during the last half century

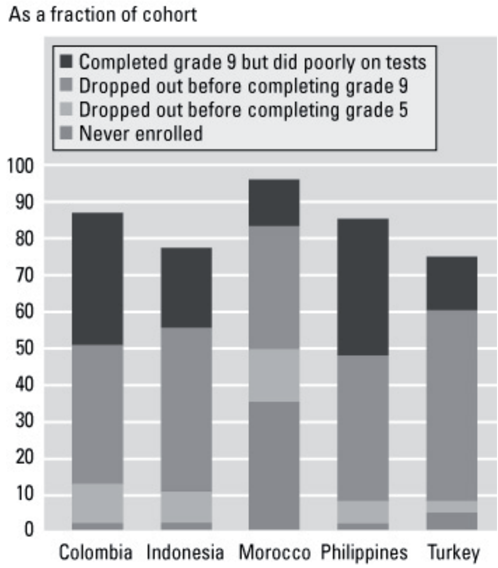


Source: Schady (2005).

countries remain large. The consumption levels of the rich in many poor countries remains at levels lower than those of the poor in rich countries. Figure 4 illustrates these differences by plotting the 10th and 90th percentiles, mean and median of consumption or income for 20 countries. Even individuals earning mean income in Argentina or Brazil earn less than individuals at the tenth percentile in the OECD countries in the figure. Countries known for wide differences between rich and poor—Argentina, Brazil, South Africa, the United States, but also Ireland and Israel—do indeed reveal large absolute gaps, while countries such as China and India, where there has been concern about growing inequality, still show much smaller absolute differences in consumption levels between the top and the bottom of the distribution.

The convergence observed over time in life expectancy and years of education is not matched by similar clear-cut evidence on incomes and consumption levels. If we examine *intercountry inequality*, where each country counts for one with its mean income, whether it is Chad (9 million people) or China (1.3 billion people), we find that it has increased over the last 50 years. Another way to examine inequality is to weigh each country by its population, assigning each person his or her country's mean income. This indicator, which the WDR 2006 termed *international inequality*, has declined over the last 50 years, in contrast with intercountry inequality. But the decline

Figure 3: Only a small share of students in five middle-income countries learn as much as their OECD peers



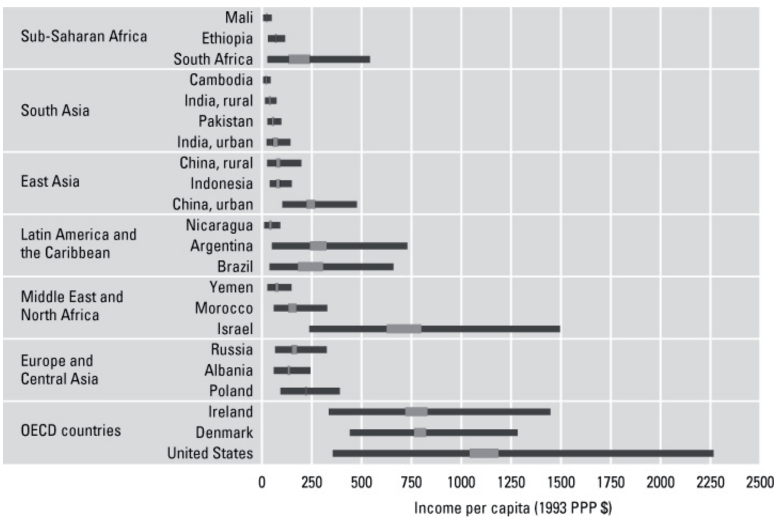
Source: World Bank (2005), adapted from Pritchett (2004). The figures are based on TIMSS-R scores for eighth graders on mathematics in 1999, assumed to be similar to those of ninth graders. Students with scores lower than the OECD median minus one standard deviation are considered to be performing poorly.

is almost entirely due to the fact that the two most populous countries, China and India, have been catching up with the rest of the world (see figure 5).

In calculating international inequality, each person is assigned his/her country's average income. But the increasing availability of household survey data since the 1980s now makes it possible to estimate people's incomes (or consumption levels) rather than rely on country averages. We can then calculate *global inequality*, the inequality of incomes between the citizens of the world, ignoring national boundaries. Trends in this measure are much debated. The data used for the WDR 2006 indicate it has not changed much over the last twenty years (figure 6, top line), with a decrease in the between-country component being offset by an increase in the within-country component (bottom two lines). Rough estimates going back two centuries, however, show a significant increase over the long run (Bourguignon and Morrisson, 2002).

In sum, in contrast to what has happened

Figure 4: Consumption levels/incomes also vary greatly across countries

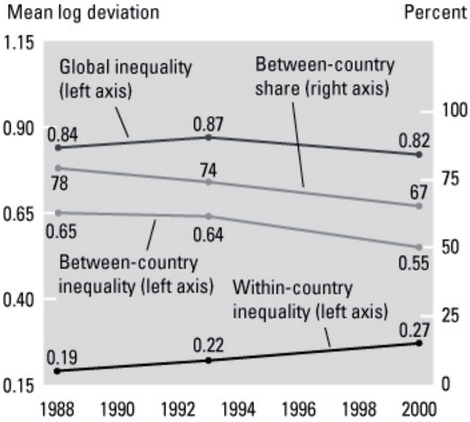


Source: World Bank (2005). Data come from household consumption/income surveys, expressed in 1993 purchasing power parity (PPP) dollars. Years range from 1997 to 2002. The left end of each line indicates the 10th percentile, the right end the 90th percentile. The two edges of each box indicate median and mean. Income data for Argentina, Brazil, Israel, Ireland, Denmark, and the United States; consumption data for all other countries in the figure.

Figure 5: Intercountry inequality has increased while international inequality has declined, thanks to China and India

Source: Milanovic (2005).

Figure 6: Global inequality has not changed much over the last twenty years



Source: World Bank (2005)

with life expectancy and years of schooling, differences in income/consumption across the world's individuals have increased over the long term, even though this trend has been countered in the last twenty years by the very rapid progress of China and India.

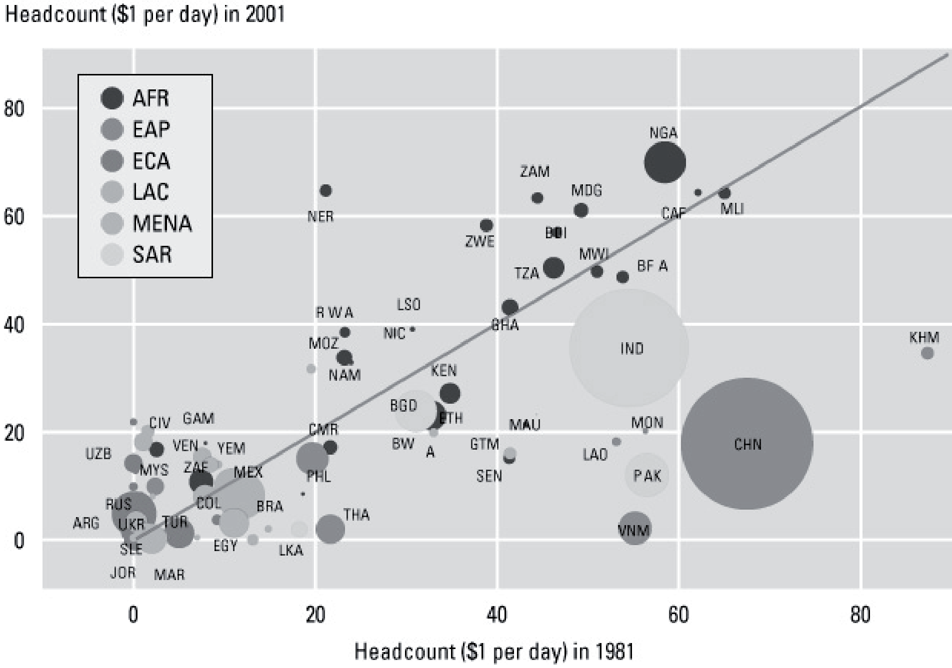
Progress in China and India should not be underplayed: China alone managed to lift more than 400 million people out of extreme monetary poverty (measured at $1 per day). At the same time, this progress should not obfuscate the fact that several countries, especially in Sub-Saharan Africa, have fallen behind and many in these countries are worse off today than they were twenty years ago. These are the countries above the 45-degree line in figure 7, which plots the incidence of extreme poverty in 1981 and 2001—among them Niger, Nigeria, Zambia, Zimbabwe.

To conclude this section, we can say that there are major differences across countries in people's opportunities to live long and healthy lives, to learn, to get jobs, to earn a decent living, to access public services, to have their voices heard and to participate in political life. While some of these differences have narrowed over time, most remain extremely high.

Why does global inequity matters?

Do these differences in opportunities matter? In WDR 2006, we argue that they do; that the great differences in opportunities we live with today are not conducive to long-term prosperity. Domestically, two mechanisms are at play. First, in the presence of market imperfections, individuals with power and wealth are often able to exploit markets to their advantage while others are unable to fully use their talents and potential. The poor may not be have access to education, or access only poor-quality schools. So some bright poor children will not get educated and their potential may be wasted. Second, narrow, powerful elites tend to put in place and maintain economic institutions that benefit only themselves.

Figure 7: Extreme monetary poverty (consumption below $1/day) has declined globally, but not in every country



Source: PovcalNet (http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp).

Internationally, there is little empirical work on the impact of inequities on global prosperity, partly because of data limitations. But it is clear that there are several channels through which inequities impact global well-being. Scholars have looked for instance at the linkages between inequalities in access to a clean and healthy environment and sustainable development. Chaudhry, Lynch, and Magraw (2002) for example argue that a more equitable sharing of the costs and benefits of protecting the environment is a key principle to achieve environmental justice and sustainable development.

Others have looked at the linkages between and between inequalities, conflict, and development. Wolfensohn and Bourguignon (2004:30) suggest that "widening gaps and better information may have serious implications for peace and security" and that "growing disparities in standards of living [...] feed radicalism of all types, some leading to movements to disrupt national and international orders". Conflict is extremely costly. Chauvet and Collier (2004) estimate that a country descending into conflict causes a loss of approximately $80 billion in present value terms, borne mostly by its neighbors. Failed states can also provide a haven for illegal activities. Peace-keeping and reconstruction impose costs on richer nations. In sum, "growing disparities seem likely to sow disorder and conflict, both nationally and internationally, with the damage spreading through developing and developed countries." (Wolfensohn and Bourguignon, 2004:31).

Finally, the possibility that inequities can reduce global prosperity is not the only reason to care about global equity. Many citizens of the world share the belief that all should have equal rights and be spared extreme deprivation, as testified by support for the human rights covenants. The "intrinsic" value many people place on equity is sufficient reason to justify interventions that lead to greater global equity, to which we now turn.

Policies towards greater global equity

Traditionally, rich countries have responded to global inequities by providing aid. But aid—even more, better aid—is not going to be enough. More equitable policies on migration, trade, intellectual property rights, capital flows, and the management of natural resources all need to be part of a package of pro-equity global policies.

Aid

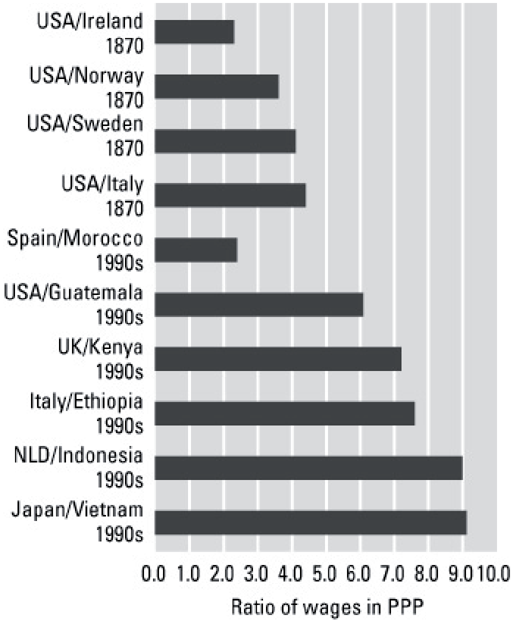
The WDR 2006 joins reports by other agencies such as the United Nations Development Program in calling for more, better delivered aid (see UNDP, 2005). Considering aid through the lens of equity enriches the discussion of the allocation of aid across countries. Following work by Burnside and Dollar (2000) and Collier and Dollar (2001, 2002), a lively debate has emerged on whether aid should in fact be allocated to countries that have good policies and institutions. Hansen and Tarp (2001) and others have argued that different country circumstances—analogous to predetermined circumstances at birth in the case of individuals—ought to play a role in aid allocations. Cogneau and Naudet (2004) worked out an aid allocation rule, alternative to that of Collier and Dollar, that takes into account geographical, historical, economic disadvantages, and showed that this allocation rule would reduce differences across countries in the risk of being poor while still significantly reducing global poverty.

In sum, an equity perspective, while not suggesting that good policies and institutions are not important, underscores the need to help countries overcome structural disadvantages. Aid should be spent where it effectively expands the opportunities of those who have the least. Donors actually do, to some extent, provide aid to the poorest countries even if their policies and institutions are lagging, and the poorest communities in poor countries, but more research is needed to fully understand how aid can be most effective in difficult policy and institutional environments.

The functioning of markets for labor, goods, and ideas

Greater global equity requires action well beyond aid. While providing aid with one hand, with the other rich countries routinely turn the functioning of imperfect markets to their advantage, thus making it more difficult for poor countries to close the gap in opportunities. We will look at three examples. Consider first the functioning of the international labor market. Wage differentials are larger today than they were during a period of large-scale migration such as the 1870s (see figure 8). With such differentials, and much improved transport and communication systems, it is not surprising that migration flows are substantial today. Yet, migration of unskilled workers is highly restricted. Often people migrate illegally, with heavy consequences in terms of their opportunities and sometimes their lives. Economic analysis indicates that the efficiency gains from

Figure 8: Wage differentials between receiving and sending countries were larger in the 1990s than in the 1870s (ratios of wages in purchasing power parity terms between pairs of countries)



Source: Pritchett (2003).

greater migration could be quite substantial (see for example Walmsley and Winters, 2003), and would accrue largely to migrants, thus directly improving their living standards. Making progress in resolving the complex issues of economic, social, and cultural integration that rock European countries today and block progress on migration policies is fundamental from an equity standpoint.

Let us turn now to the market for goods. Global trade in goods and services is all but left to the free hand of "the market". Complex rules, the result of highly political international negotiations, govern the functioning of the global markets for every good and service, and generally protect the interests of stronger trading partners more than those of weaker ones. While examples abound in almost every market, we will focus on agricultural goods and look at the specific example of cotton. Agricultural trade is not huge; in 2003 it accounted for 9 percent of global merchandise exports and 11 percent of developing countries' merchandise exports. But agriculture is the main source of income for millions of people in developing countries and the potential benefits from liberalization are significant. Anderson and Martin (2005) calculate that distortions on agricultural markets account for more than three-fifths of the global gains forgone because of distortions in merchandise trade, gains which they place at $300 billion per year by 2015.

Agricultural trade distortions come in three main forms: high tariffs, huge producer subsidies, and subsidies to exporters. Of the three, tariffs have the greatest negative impact. On average, developing country producers face tariffs of 16 percent for their agricultural goods, compared to 9 percent on apparel and 2.5 percent on other manufactures. The removal of tariffs would account for more than 90 percent of total gains from agricultural liberalization (Martin and Anderson, 2005). Unfortunately, five years after the start of the Doha Round of talks under the World Trade Organization, there has been almost no progress. In July 2004 an agreement was reached to reduce higher tariffs the most,[4] but discussions since have revolved around a formula for tariff reductions with no major substantive agreement

4. The decisions taken at the WTO General Council meeting in July 2004 are known as the "July package" (WTO 2004).

on key matters. Moreover, exceptions are foreseen for sensitive products, which alone could reduce gains by as much as three-quarters (Anderson and Martin, 2005).

While not as damaging as tariffs, subsidies are nonetheless huge. The OECD estimates that producer support was about $240 billion in 2001-2003, or 31 percent of total farm receipts. In other words, a whole third of income for OECD farmers comes from public subsidies. OECD governments are much more generous with farmers than they are with developing countries: aid was only one-quarter of subsidies in 2003 (figure 9).

While the WTO July 2004 package included an agreement to substantially reduce trade-distorting subsidies, it was clear in the run-up to the December 2005 Hong Kong WTO Ministerial meeting that there is strong opposition to cutting subsidies in several OECD countries, most visibly France. In Hong Kong, agreement was reached only on eliminating the third type of distortions, export subsidies, the least significant of the three, and even then only by 2013. In short, progress so far under the Doha Round has been very limited and much remains to be done to level the playing field on global agricultural markets.[5]

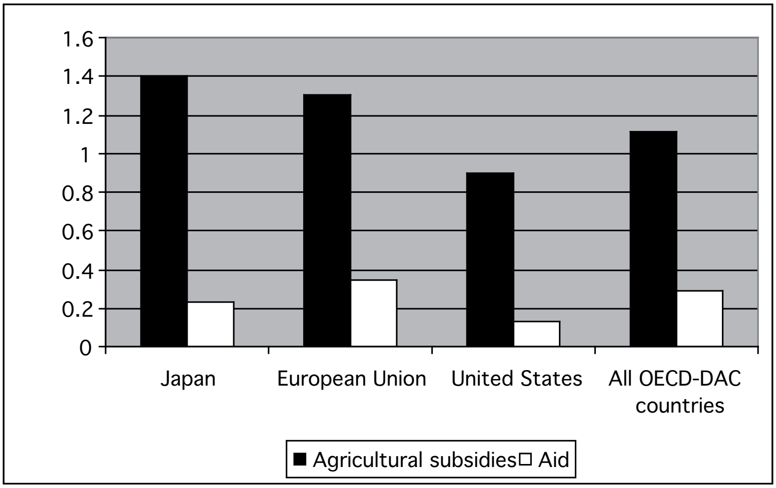
Cotton provides a good illustration of how difficult and elusive progress in eliminating subsidies is. Subsidies to cotton producers were estimated to be around $5.8 billion in for the 2001/02 growing season (International Cotton Advisory Committee, 2003), $3.3 billion of which in the United States alone, going to about 25,000 cotton growers.[6] These subsidies lowered world prices by as much as 71 percent in 2001/02 according to estimates (Baffes, 2004).

Cotton is a crucial commodity for an estimated 10 million African smallholders, no doubt much poorer than American cotton farmers. A study found that a 40 percent reduction in farmgate cotton prices—equivalent to the price decline from December 2000 to May 2002—implied an increase in the incidence of poverty among cotton growers in Benin from 37 percent to 59 percent (Minot and Daniels, 2002). If subsidies were removed, prices would increase and poor farmers would benefit (although the magnitude of the impact depends on a host of domestic and international factors, see Porto and Balat, 2005).

In 2003, four West African cotton producers (Benin, Burkina Faso, Chad, and Mali) launched an initiative to highlight the damage caused by OECD subsidies and called for separate negotiations on cotton and the establishment of a compensation fund. The WTO 2004 July package mentioned above included a compromise solution: keeping the negotiations on cotton under the Committee on Agriculture, but establishing a subcommittee to deal with the problem "ambitiously, expeditiously, and specifically." The subcommittee met eight times in the year leading up to the December 2005 Hong Kong Ministerial, considering proposals from West African countries and the EU, but in the end there was no agreement other than

5. It is important to recognize that progress in negotiating agricultural trade liberalization is difficult because the impacts of different concessions are complex and differ across countries. Some countries that are net importers of food, for example, would be harmed by the increase in prices that would follow the elimination of agricultural subsidies.
6. Other countries providing subsidies were China ($1.2 billion), the European Union ($979 million, for producers in Greece and Spain), and to a much smaller extent Turkey, Egypt, Mexico, Brazil, Cote d'Ivoire, in that order (International Cotton Advisory Committee, 2003).

Figure 9: Agricultural subsidies in OECD-DAC countries are on average four times larger than aid



Source: OECD-DAC (2004) and OECD (2003). The Development Assistance Committee of the Organization for Economic Development and Cooperation comprises 23 aid-providing countries (see www.oecd.org).

reduce cotton subsidies more quickly than other subsidies.[7]

Finally, let us turn to the market for ideas and innovation and look at intellectual property rights protection for pharmaceuticals. Current rules effectively make it more difficult and expensive for people in poor countries to get drugs. Patents exist to allow innovators to recover the costs of research and development. But should poor countries be asked to contribute to such costs equally? In fact, it turns out that only a very small fraction of pharmaceutical firms' profits come from sales in developing countries. So, at least for drugs that address diseases that are global in nature and for which poor countries represent a very small share of the market, not asking poor people to bear R&D costs would not do much harm to pharmaceutical companies and would make drugs more accessible. Poor countries ought to be allowed to produce or import generic copies of patented drugs for global diseases. This is one of the key elements of the "generic region" proposal developed by the late Jenny Lanjouw to make drugs more available in poor countries while not damaging incentives to innovate (see Lanjouw, 2004).

How to move the agenda forward?

The three examples above illustrate how the functioning of global markets for unskilled labor, agricultural products, and drugs favors rich countries at the expense of poor countries and poor people, thus exacerbating

7. In the meantime, Brazil has successfully used the WTO dispute settlement mechanism to challenge U.S. cotton subsidies. In its March 2005 final decision, the WTO Appellate Body upheld the conclusions of the dispute settlement body, which had ruled that U.S. subsidies were higher than allowed by the WTO and that they had depressed prices. The United States is taking action to comply with the WTO ruling.

existing differences. These examples share a common feature: the processes that set the rules are, or are perceived to be, unfair.

Trade agreements and IPR rules stem from multilateral negotiations in the context of the WTO, where, while formally each country has a vote and veto power, effective ability to participate in and influence decisions varies widely. Or they stem from regional or bilateral negotiations, where the voice of strong countries (and strong interests in those countries) is even loudest, as IPR protection clauses in bilateral and regional U.S. trade treaties amply demonstrate (Fink and Reichenmuller, 2005). Migration rules are almost entirely the result of bilateral negotiations—in some cases, with aid held out to get greater controls or used to strengthen border policing.

Greater global equity will require more equitable global rule-setting processes, including more equitable representation in global institutions. The Bank's own governance structure draws heavy criticism in many countries, because it neither reflects the current weight of emerging markets nor does it give adequate voice to the poorest countries that the Bank aims to help.

Changing global policies and institutions in a pro-equity way is difficult, and the current global context offers little to be optimistic about. Against some modest increases in aid and the timid steps made by the G8 on debt cancellation, we are witnessing widespread tolerance of human rights abuses, near-complete failure to move ahead on trade talks, and slow (if any) progress on global governance, from the International Financial Institutions to the UN Security Council.

While no one knows how to engineer change, some factors play a role. Equity-enhancing changes in global policies and institutions can come about through action by governments and coalitions of governments, informed leadership and grassroots mobilization, analysis and policy research to inform alternatives, and networks that disseminate those alternatives. Good research on the impact of inequities and evidence-based advocacy can mobilize both leaders and public opinion and contribute to change. Researchers and practitioners who would like to see greater global equity need to make an effort to identify actions that are both important *and* have some chance of being implemented, and focus research and advocacy efforts on them. Only with much greater concerted efforts on fewer issues with better-developed solutions there will be a chance to move the agenda ahead.

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