Part Two

02

SOCIAL HARMONY

In many cities, wealth and poverty co-exist in close proximity: rich, well-serviced neighbourhoods are often located next to dense inner-city or peri-urban slum settlements that lack basic services and adequate shelter. A city cannot claim to be harmonious if some groups concentrate resources and opportunities while others remain impoverished and deprived. Income inequalities and shelter deprivations within cities not only threaten the harmony of cities, but of countries as well, as they create social and political fractures within society that fuel social unrest.

Part 2 presents preliminary findings of a global analysis of income and consumption inequality at the city level. The overall conclusion drawn from the findings is that inequality within cities is high in the developing world, especially in Latin America and sub-Saharan Africa, and in some cities, it is actually rising. Part 2 also looks at levels of shelter deprivation in various cities and concludes that not all slum dwellers suffer from the same degree or magnitude of deprivation and not all slums are homogenous. However, inequalities and levels of deprivation vary widely among regions and countries. These differentiated levels of social inequality and exclusion can adversely affect cities' and regions' social and economic development.

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Why Urban Inequality Matters

Over the past few decades, the world has witnessed an increase in income inequalities. Rising inequalities in the latter half of the 20th century have been recorded in all regions of both developed and developing countries. Between 1990 and 2004, the share of national consumption by the poorest fifth of the population in developing regions dropped from 4.6 to 3.9 per cent. In the high-growth economies of East Asia, notably China and Viet Nam, inequalities have risen steadily since the late 1980s. Inequalities have also increased in low-income countries such as Bangladesh, Nepal and Sri Lanka, and in middle-income countries such as Argentina. Regionally, Africa and Latin America have the world's highest levels of inequality, with many countries and cities experiencing widening disparities between the rich and the poor. In both regions, the poorest fifth of the population accounts for only 3 per cent of national consumption.[1]

Although social and economic disparities exist in every society, and relative inequalities – which depend on a variety of factors, including natural endowments, cultural norms, individual capacities, and the like – will always exist, extreme inequalities have historically been less tolerated by societies over time. Often, it is not the actual degree of inequality that matters, but rather perceptions of it. When people perceive inequalities to be the result of unfair processes and unequal distribution of opportunities, they are less likely to accept them than if inequalities are perceived to be the result of differences in individual effort.[2] These perceptions often create conditions in which social unrest or conflict can flourish, as gross inequalities are associated with unjust systems that perpetuate poverty, hamper upward mobility and exclude the majority. Quite often it is not inequalities per se that fuel conflict, but rising expectations. Individuals and groups are more likely to engage in violence or generate social unrest if they perceive a gap between what they have and what they believe they deserve.

Inequalities take various forms, ranging from different levels of human capabilities and opportunities, participation in political life, consumption, and income, to disparities in living standards and access to resources, basic services and utilities.[3] Although the traditional causes of inequality – such as spatial segregation, unequal access to education and control of resources and labour markets – have persisted, new causes of inequality have emerged, such as inequalities in access to communication technologies and skills, among others. "Digital exclusion", for instance, has exacerbated inequalities within sub-Saharan Africa and resulted in the further marginalization of the region within a globalizing economy.[4]

A society cannot claim to be harmonious if large portions of its population are deprived of basic needs while others live in opulence. A city cannot be harmonious if some groups concentrate resources and opportunities while others remain impoverished and deprived. Income inequalities not only threaten the harmony of cities, but also put the harmony and stability of countries at risk, as they create social and political fractures within society that threaten to develop into social unrest or full-blown conflicts. An excessive distributive polarization of income and wealth challenges social cohesion in many parts of the world, and the demands for narrowing social distance are in fact demands for social inclusion, social mobility and equal opportunities; in short they are demands for human dignity.

Equality versus equity

"Equality" refers to having the same status in all aspects of life, including income. Equal distribution of income or resources, however, may not always be desirable or possible, as when incomes are generally low or when equal distribution would not produce desirable development outcomes or incentives for growth. "Equity", or the distribution of opportunities such as equal access health care and education in a manner that is fair and just, is therefore seen as a more appropriate response to growing disparities in societies around the world. Equity concerns levelling the playing field so that disadvantaged groups benefit from a larger share of public resources than the rest of the population until they "catch up", after which they can share more equally in the overall pool of resources. Equity can be difficult to measure, so for the purposes of this report, income and access to shelter are used to determine levels of equality. The solutions proposed in this report for reducing inequalities are based on the concept of equity.

Measuring inequality at the city level

The Gini coefficient is a useful metric for understanding the state of cities with regard to distribution of income or consumption. It is the most widely used measure to determine the extent to which the distribution of income or consumption among individuals or households deviates from a perfectly equal distribution. Other less commonly used measures of inequality include the decile dispersion ratio, which presents the average income or consumption of the richest 10 per cent of a population divided by that of the poorest 10 per cent; the share of income or consumption of the poorest; and the Theil index. This report uses the Gini coefficient. Data on distribution of income and consumption is derived primarily from national household surveys and censuses.

A Gini coefficient of 0 indicates perfect equality, whereas a Gini coefficient of 1 indicates perfect inequality. Higher values, therefore, denote greater inequality, but the correspondence of the ratio to specific conditions is complicated. Generally, cities and countries with a Gini coefficient of between 0.2 and 0.39 have relatively equitable distribution of resources; they typically enjoy social stability and high levels of economic development. A Gini coefficient of 0.4 denotes moderately unequal distributions of income or consumption; it is the threshold at which cities and countries should address inequality as a matter of urgency. Cities and countries with a Gini coefficient of 0.6 or higher suffer from extremely high levels of inequality as a result of inadequately functioning labour markets, sluggish economies, or structural problems of wealth distribution or institutional failure, which put them at high risk of instability.

Levels of inequality should not be confused with levels of poverty. While poverty corresponds to degrees of specific deprivations, measurements of inequality capture the entire distribution of income, or the intensity of concentration of income.

Income or consumption inequality is usually measured at the country or regional level; few studies or surveys examine these inequalities at the city level. The findings presented in this report are the first to compare levels of inequality in a relatively large sample of cities in the developing world. Using a dataset of Gini coefficients in 94 cities from 47 countries, an additional 68 countries with data aggregated at the overall national urban level, and 61 provinces with data at the urban level, the findings present urban inequalities in a total of 72 countries. The years for which changes in urban inequalities at the national or city level are calculated range from 1983 to 2005.

The Gini coefficient data for Latin America and the Caribbean was produced especially for this report by the statistical and social development division of the UN Economic Commission for Latin America and the Caribbean (ECLAC), which calculated the Gini coefficients for all selected cities using household surveys from 1989 to 2006. All these surveys have a module on income and the method of estimation is explained in the document by Cfr. F. Medina, "Consideraciones sobre el índice de Gini para medir la concentración del ingreso", Serie Estudios Estadísticos y Prospectivos, No. 9, CEPAL, Santiago de Chile, marzo de 2001.

To obtain Gini coefficient data for Asia, UN-HABITAT's Monitoring and Research Division worked with the statistical division in the UN Economic and Social Commission for Asia and the Pacific (ESCAP), which calculated Gini coefficients for Asian cities and urban areas using different sources, including national surveys, censuses and data produced by national statistics offices in various countries.

The Gini coefficient data for African cities and urban areas was more difficult to obtain as there is no central depository of such data in the region, and also because many countries do not conduct surveys or censuses that collect information at the city or urban level. Where such information exists, UN-HABITAT worked with various partners, mostly national statistics offices, to obtain and analyze the data. Additional data was obtained through literature research that cites Gini coefficient data produced by national or international organizations in various countries. For instance, the Gini coefficient data for South African cities was obtained from the South African Cities Network; data for Kenyan cities and urban areas was derived from a recently-published integrated household budget survey, while the Gini coefficient data for Kenyan, Tanzanian and Ugandan cities and towns within the Lake Victoria region was produced by UN-HABITAT using its own urban inequities surveys.

The table below provides a general guide to the social causes and consequences associated with different values of the Gini coefficient. It is important to note, however, that not all societies respond to inequalities in the same way; perceptions, belief systems, cultural norms, and collective modes of action often play a role in determining which societies have a higher level of "tolerance" for inequalities than others.

Gini coefficient value	**What it means**
0.6 or above	*Extremely high levels of inequality, not only among individuals, but also among social groups (known as "horizontal inequality"). Wealth concentrated among certain groups at the exclusion of the majority. High risk of social unrest or civil conflict.*
0.5-0.59	*Relatively high levels of inequality, reflecting institutional and structural failures in income distribution.*
0.45-0.49	*Inequality approaching dangerously high levels. If no remedial actions are taken, could discourage investment and lead to sporadic protests and riots. Often denotes weak functioning of labour markets or inadequate investment in public services and lack of pro-poor social programmes.*
0.40	*International alert line – inequality threshold*
0.3-0.39	*Moderate levels of inequality. Healthy economic expansion accompanied by political stability and civil society participation. However, could also mean that society is relatively homogenous – that all groups are generally rich or poor – and, therefore, disparities are not reflected in income or consumption levels.*
0.25-0.29	*Low levels of inequality. Egalitarian society often characterized by universal access to public goods and services, alongside political stability and social cohesion.*

Source: UN-HABITAT Monitoring and Research Division, 2008.

Cities can grow economically without increasing inequalities

In the last few years, there has been intense debate about whether or not inequalities are a natural consequence of economic growth and development. Since the 1950s, economists and researchers (notably, W. Arthur Lewis and Simon Kuznets), have stipulated that in the early stages of a country's development, inequalities intensify up to a certain stage as low-wage agricultural labour migrates to the higher-wage industrial sector. As aggregate incomes increase and as a country develops, inequalities decrease in the long term.[5]

Inequalities have thus been viewed as "good" for economic growth and development in the initial stages of a country's development, as they allow industries to take advantage of cheap labour in order to reinvest profits. Capital accumulation has also been seen as a positive outcome of inequality because it allows investments in sectors that would reduce poverty and inequality in the long term. Others have also argued that inequalities are an unavoidable side effect of liberalization and globalization and that inequality is the price countries need to pay for economic growth.

Previously accepted views are increasingly being challenged, however. Recent evidence[6] shows that the benefits of economic growth are not realized in societies experiencing extreme levels of inequality and poverty. In fact, when inequality and poverty levels are very high, as they are in many cities of the developing world, economic growth does not benefit all groups, and can actually increase levels of poverty in a country. Evidence also suggests that economic growth benefits larger groups of people when it occurs in egalitarian societies. The benefits of growth are "absorbed" better by equal societies than unequal ones, as the latter tend to concentrate the benefits of economic growth among select groups, leaving the majority behind. It is thus argued that reducing levels of inequality permits people at the lower end of the wealth or income scale to fully exploit their capabilities and contribute to human capital development that in turn has positive impacts on overall labour productivity and contributes to accelerated economic growth. This part of the report validates the idea that equality and economic development are not conflicting variables, but in fact maintain a relationship that is mutually reinforcing. Cities can grow without generating further inequalities, and can thus be sites of opportunity for more harmonious development.

The relationship between economic growth and urban income inequality is neither simple nor correlational, and it depends to a large extent on forward-looking planning or mitigation efforts on the part of governments and other actors. Evidence shows that in many cities and countries, rising economic growth rates do not automatically lead to higher levels of inequality. UN-HABITAT analysis of urban inequalities in 28 developing countries[7] showed that while positive economic growth since the early 1980s has been accompanied by a rise in urban income inequalities in 43 per cent of the countries, 46 per cent of the countries managed to reduce urban income inequalities in an environment of positive economic growth, as measured by the Gini coefficient for each country. And in 7 per cent of the sample, positive economic growth had virtually no impact on urban inequality levels[8] (Fig. 2.1.1). Interesting findings were also reflected at the city level. UN-HABITAT analyses of 94 cities in 47 developing countries show that while some cities, such as Beijing, Accra, Maputo and Dar es Salaam, experienced rising inequalities in an environment of positive economic growth, in other cities, such as Phnom Penh and Kigali, inequalities remained constant in an environment of high economic growth – their Gini coefficients did not change.

Malaysia provides useful lessons in managing high levels of economic growth while reducing poverty and inequality. In Malaysia, urban income inequalities have decreased steadily since 1979, although the levels of inequality in this country are generally higher than in many other Asian countries. Rapid economic growth has also helped reduce levels of urban poverty, which fell from 18.7 per cent of the urban population in 1979 to 2.4 per cent in 1997.[9] Reductions in inequality and poverty were achieved through social programmes for the poor in the short term and investment in human capital and infrastructure, including skills development and gender equity, in the long term.

Changes in levels of urban inequality should also be understood in the context in which they occur. As Figure 2.1.1 indicates, unprecedented economic growth rates in China, India and Malaysia in the last two decades have had different outcomes in urban areas. For instance, even though India experienced high economic growth throughout most of the 1990s, urban inequalities in the country remained more or less constant and there was no dramatic reduction in levels of poverty. In China, urban inequalities have been rising since the 1990s, but gross domestic product (GDP) per capita has quadrupled and poverty levels have dropped drastically. Urban inequalities in China are tempered, however, by the fact that until recently, urban residents had access to public housing subsidies, private housing imputed rent, pension, free medical care and educational subsidies that were not so easily available to rural populations. Of more concern to the Chinese authorities is the income gap between rural and urban populations: in 2003, per capita disposable income of urban residents was more than three times that of rural residents, making China one of the countries with the highest rural-urban inequalities in the world.[10] On the other hand, Malaysia, which has levels of urban inequality that are higher than those of both India and China, has managed to reduce both inequality and poverty levels in the last 30 years, largely owing to systematic implementation of pro-poor policies since the 1970s.

It is important at this point to move beyond the relationship between economic growth and income inequality towards a closer examination of key emerging economies that suggest the positive welfare effects of accelerated economic

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Kuala Lumpur: Urban inequality and poverty levels in Malaysia have been decreasing since the 1980s.
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growth could outweigh the negative effects of rising relative inequality. Furthermore, aggregate welfare gains can be maximized by prioritizing the provision of basic services to lower income groups.

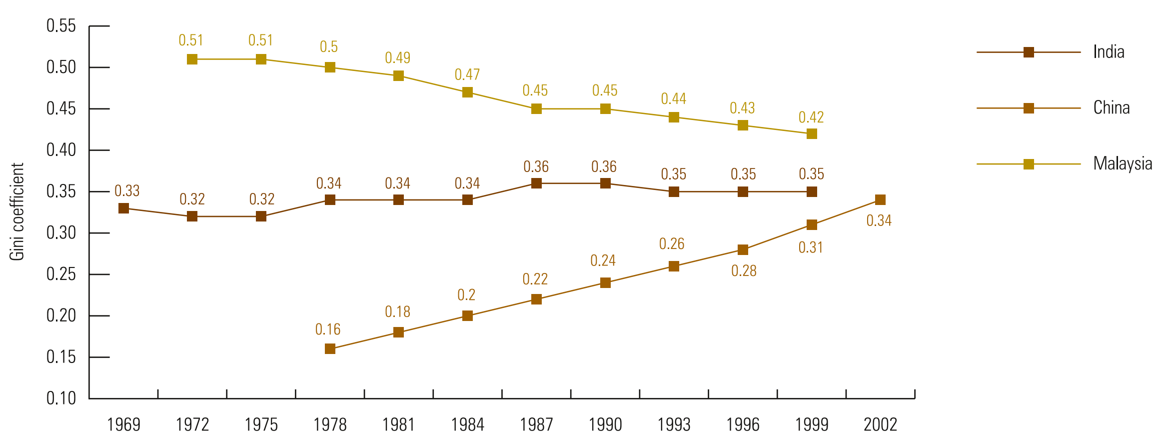
China and India, which have been experiencing staggeringly high economic growth rates since the 1990s, provide useful lessons in this regard. Interestingly, both India and China see their cities as engines of export- and services-oriented economic growth from which they can draw maximum benefits.[11] However, the consequences of urban expansion and growth have been quite different in both countries. China, which had extremely low levels of inequality in the 1980s and 1990s, was able to lift more than 500 million people out of $1-a-day poverty between 1981 and 2004.[12] On the other hand, India, which had higher levels of inequality during this period, only managed to raise 60 million people above the poverty line between 1983 and 2000, although it has been suggested that access to subsidized food and other subsidies substantially reduced levels of vulnerability among the urban poor.[13] This suggests that countries that have low levels of income inequality to begin with have a better chance of reducing poverty than those in which inequalities are relatively high. World Bank analyses show that on average, for countries with low levels of income inequality, a 1 percentage point growth in mean incomes could lead to a 4 percentage point reduction in the

TABLE 2.1.1: **CHANGE IN URBAN INEQUALITIES (GINI COEFFICIENT) AND GDP PER CAPITA (PPP) IN SELECTED COUNTRIES**

	Urban Gini coefficient						GDP per capita (PPP, current US$, country data)					
Country	**year**	**Gini**	**year**	**Gini**	**% change per annum**		**year**	**GDP per capita**	**year**	**GDP per capita**	**% change per annum**	
Algeria*	1988	0.39	1995	0.35	-1.64%	-	1988	4110	1995	4531	1.39%	+
Egypt**	1990	0.34	1997	0.39	1.78%	+	1990	2284	1997	3061	4.18%	+
Morocco**	1990	0.377	1998	0.377	0.00%		1990	2724	1998	3502	3.14%	+
Benin**	1999	0.48	2002	0.45	-1.87%	-	1999	929	2002	1046	3.95%	+
Botswana*	1985	0.54	1993	0.54	0.00%		1985	2598	1993	5195	8.66%	+
Côte d'Ivoire*	1993	0.489	1998	0.487	-0.07%	-	1993	1334	1998	1633	4.04%	+
Cameroon*	1983	0.45	1996	0.47	0.33%	+	1983	1616	1996	1600	-0.08%	-
Ethiopia**	1994	0.46	2000	0.43	-0.93%	-	1994	651	2000	814	3.72%	+
China*	1988	0.23	2002	0.32	2.36%	+	1988	1173	2002	4782	10.04%	+
Bangladesh**	1991	0.31	2000	0.37	2.01%	+	1991	1020	2000	1543	4.60%	+
Nepal*	1985	0.26	1996	0.43	4.57%	+	1985	651	1996	1138	5.08%	+
Sri Lanka*	1990	0.37	2002	0.42	1.06%	+	1990	1922	2002	3739	5.55%	+
Pakistan**	2000	0.32	2004	0.34	1.22%	+	2000	1880	2004	2187	3.78%	+
India**	1993/4	0.35	1999/2000	0.34	-0.05%	-	1994	1659	2000	2364	5.90%	+
Cambodia**	1994	0.47	2004	0.43	-0.74%	-	1995	1253	2004	2381	6.42%	+
Viet Nam*	1993	0.35	2002	0.41	1.76%	+	1993	1192	2002	2348	7.53%	+
Brazil*	1990	0.61	2005	0.60	-0.07%	-	1990	5,241	2005	8,402	3.15%	+
Chile*	1990	0.54	2006	0.52	-0.24%	-	1990	4,686	2005	12,027	6.28%	+
Colombia*	1999	0.56	2005	0.59	0.87%	+	1999	5,750	2005	7,304	3.99%	+
Ecuador*	1990	0.46	2005	0.51	0.69%	+	1990	2,639	1999	3,419	1.73%	+
Guatemala*	1989	0.56	2004	0.53	-0.37%	-	1989	2,647	2004	4,401	3.39%	+
Mexico*	1992	0.51	2005	0.50	-0.15%	-	1992	6,920	2005	10,751	3.39%	+
Uruguay*	1990	0.51	2005	0.45	-0.83%	-	1990	5,723	2005	9,962	3.70%	+
Venezuela*	1990	0.46	1994	0.48	0.30%	+	1990	4,702	2002	5,449	1.23%	+
El Salvador*	1991	0.495	2000	0.503	0.18%	+	1991	3,092	2000	4,597	4.41%	+
Honduras*	1990	0.55	1999	0.50	-1.06%	-	1990	2,239	1999	2,725	2.18%	+
Nicaragua*	1993	0.525	1998	0.530	0.19%	+	1993	2,284	1998	2,802	4.09%	+
Peru*	1991	0.43	1997	0.45	0.76%	+	1991	3,228	1997	4,589	5.86%	+

Source: UN-HABITAT Global Urban Observatory, 2008.
Data from various sources, mostly national surveys between 1983 and 2005.
*Note: * Urban Gini coefficient for income*
*** Urban Gini coefficient for consumption*

FIGURE 2.1.1: **URBAN INEQUALITIES IN CHINA, INDIA AND MALAYSIA, 1969-2002**



Source: UN-HABITAT, Global Urban Observatory, 2008.
Data for India is from Raghbendra Jha, "Reducing and Inequality in India: Has Liberalization Helped" which was prepared for the WIDER project by UNU.
Data for China is from UNDP, National Human Development Report in China, 2005.
Data for Malaysia is from Ragayah Haji Mat Zin, "Improving Quality of Life after the Crisis: New Dilemmas" Malaysian Journal of Economic Studies; Jun-Dec 2001.
Note: India's Urban Gini coefficient is for consumption, while Urban Gini coefficients for China and Malaysia are for income.

A bazaar in Delhi: Urban inequalities in India are relatively low, but poverty remains a perennial problem.
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incidence of $1-a-day poverty. In countries in which income inequalities are high, the same level of growth could result in little or no reduction in poverty.[14] However, while China has been successful in reducing poverty levels on a large scale, it has been unable to bridge the rising inequalities between rural and urban residents, which suggests that the benefits of economic growth have tended to favour urban populations.

The limited impact of economic growth on poverty reduction in India could also be partly explained by the fact that India assigns a relatively low priority to enforcement of policies for the provision of public goods, while industrial policies are given high priority status; China, on the other hand, emphasizes both, at least in urban areas.[15] In China, the strong influence of the state in determining policies has been influential in managing the country's urbanization process, whereas in India, the influence of local institutions, including non-governmental organizations and the private sector, have led to a kind of "spontaneous" urbanization associated with liberalization and consensual decision-making.[16] China's sharp drop in poverty levels, for instance, have been attributed to deliberate agrarian reforms, lower taxes on farmers, investment in urban infrastructure and macroeconomic stability[17]; in India, on the other hand, the role of the state has been comparatively weak in terms of infrastructure development, regulation and enterprise control.

As China increasingly moves toward a market-based economy, however, inequalities in cities and between rural and urban areas may continue to rise. Meanwhile, the Government of India is tackling poverty and inequality in its cities through the National Urban Renewal Mission, which was launched in 2005 and which aims to reduce poverty in 63 Indian cities. Implementation of this seven-year programme may help to bring about large-scale improvements in service delivery and infrastructure in Indian cities, which could impact urban poverty and inequality levels.[18]

Inequalities also have a dampening effect on economic efficiency: they raise the cost of redistribution and affect the allocation of investments, while also creating an unfavourable environment for economic growth and development. Income inequalities impact education and health care outcomes and reduce economic opportunities. In some cases, extreme inequalities can create social and political fractures within society that have the potential to increase social unrest or develop into full-blown conflicts, which discourage investment and induce greater government spending on non-productive sectors, both of which impact economic growth.[19]

The social consequences of inequality in cities

High levels of inequality do not just hamper poverty reduction and economic growth – they impact all aspects of human development. Abundant empirical evidence demonstrates that inequalities affect a host of human development outcomes, including health and education. In cities and countries where inequalities abound and persist, there is a chronic dearth of non-monetary resources for the urban poor, including limited access to opportunities and social mobility. The poor themselves perceive these cities as places with limited prospects, as advantages accrue to a few at the expense of the majority. This is even more evident in places where endemic poverty and high levels of inequality persist alongside visible signs of wealth, creating risks of local tensions, social and political fracturing, forms of violent redistribution of property and widespread social explosion of unpredictable consequences.

Thus, in addition to creating greater social vulnerability by limiting access to basic services, public amenities and opportunities, inequalities are also increasingly associated with social tensions, conflict and different forms of social unrest. Conflicts of this nature cause destruction of infrastructure and property and significant human capital losses through death, displacement and forced migration. In short, conflicts turn back the development clock by several years.

Social unrest, in turn, forces governments to increase the amount of public resources devoted to internal security –

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Youths in Kibera slum in Nairobi carry crude weapons ready to fight youths from a rival side. Rising inequalities have been blamed for the violence that engulfed the country after the General Elections in 2007.
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resources that might have otherwise been invested in more productive sectors of the economy or in social services. As inequalities rise, the poor and disenfranchised are likely to engage in behaviours that the state perceives as leading to instability, forcing the political and economic elite to resort to different forms of repression, using resources that were designated for redistribution. This scenario risks the formation of "bandit" economies, in which the few who have access to state resources and security benefit at the expense of the majority.

Gross inequalities also substantially reduce incentives to participate in the formal labour force, as those outside of it often perceive few or no prospects for upward mobility in formal-economy jobs. Lack of opportunity in the legitimate labour force may motivate the poor and marginalized to engage in illegal activities and to divert their resources away from formal, productive activities into informal activities that are not subject to taxation, and which may have negative social consequences.

In cities, inequalities manifest themselves physically, as wealth and poverty are often spatially concentrated. In many cities, rich, well-serviced neighbourhoods and gated residential communities are often located near dense inner-city or peri-urban slum communities that lack even the most basic services. This form of spatial inequality can often have more serious consequences than income inequality, as the poor and the rich are physically separated in enclaves that generate mistrust and alienation, eventually triggering various forms of social discontent. In many cases, slums become the sites of riots and violent protests. In 2005, South Africa reported 881 protests in urban slums, at least 50 of which turned violent[20]; three years later, in 2008, slums in Johannesburg became the sites of more violence as unemployed South Africans vented their anger at immigrants from other African countries, while rising food prices sparked protests in several other cities in Africa, Asia and Latin America. In China, increasing disparities between rural and urban populations and among regions have also been accompanied by protests, sit-ins, group petitions and public order disturbances,[21] which have prompted the Chinese government to implement reforms allowing for a smoother transition from a planned economy to a market-based economy with the aim of "building a harmonious society".[22]

Inequalities also have psychological costs. New empirical evidence shows that inequalities have negative effects on happiness where signs of persistent unfairness and unrelenting disadvantages for the urban poor exist.[23] Although most of the studies linking inequality and happiness have taken place in developed countries, evidence is conclusive that socio-economic phenomena, such as unemployment and income inequality, negatively effect subjective well-being. For instance, a study in 23 European countries found that people most directly affected by inequalities are unhappy because of their lower social mobility.[24] Similar studies have found that inequality has a significant negative impact on happiness, particularly when individuals perceive that opportunities for upward mobility are limited.

Inequalities in society can have serious political repercussions. Social and economic inequalities can awaken a host of negative sentiments among the poor and dispossessed and lead to mass action, or worse, civil strife, either because disparities are not acknowledged and thus not remedied, or because corrective measures such as laws and redistribution policies attempt to entrench the status quo or seek to placate those mired in a highly unequal system. Inequalities can also reduce the base of social and political support for fundamental structural reforms necessary to embark on a path of high growth with more equity; basically because some groups may perceive that the gains of the reform may not be equitably distributed.[25] In all of these cases, the cost of maintaining inequalities is much higher than the cost of reducing them.

Acting now to prevent tomorrow's urban rebellion

The ancient Greek philosopher Plato argued that "if a state is to avoid … civil disintegration … extreme poverty and wealth must not be allowed to rise in any section of the citizen-body because both lead to disasters".[26] When the disadvantaged realize that economic growth and development do not benefit them directly, or when they perceive that they will never attain their desired living standard and expected personal outcomes despite contributing to economic growth with their labour, it is likely that they will react to perceived or real unfairness through protest, violence or apathy, depending on prevailing cultural and political norms. The responses driven by indignation can entail different forms of rebellion that can range from simple protests to full-blown civil war as the disadvantaged seek more equal relationships or punish those they perceive to have behaved unfairly by violently transforming the status quo.[27]

In view of the political, economic and social costs of inequality, cities and countries need to act now to reduce income and consumption inequalities and other forms of social injustice. The risks of not addressing deep inequalities are social unrest and possibly conflict. The situation can become particularly explosive when inequalities are associated with individual ethnic, religious or minority groups and not just individuals. The cultural, social or political conditions that create different forms of horizontal inequality are primed for political instability and high risks of generalized civil conflict.[28]

Many countries have started to address inequalities before they erupt into a political or social crisis. For instance, the "Grow with Equity" policy in Iran brought greater equality to urban residents at the end of the 1990s. In Indonesia, under the "Growth, Stability and Equity" programme, economic and social policies on income distribution and poverty alleviation were important determinants of growth and economic development. The Indonesian policies led to reductions in income inequality in urban areas by 8.3 per cent from 1976 to 1993.[29] Despite the financial crises that affected many Asian countries in the second half of the 1990s, and despite

City landscape, Yogyakarta, Java: Economic and social policies on income distribution and poverty reduction have led to a reduction in urban inequalities in Indonesia.
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registering negative economic growth from 1996 to 2002, Indonesia has managed to reduce urban income inequalities by 4 points: the Gini coefficient dropped from 0.36 to 0.32. Similarly, pro-poor policies helped reduce inequalities in the Philippines, where a decrease in income was proportionally less, on average, among poor households than among non-poor households in a period of economic recession, leading to a reduction in the country's urban Gini coefficient from 0.46 to 0.41 from 1997 to 2003.

The reduction of inequality is not simply a matter of providing better distribution of wealth or income. In many cases, more equitable distribution of monetary resources must also be accompanied by better health care, nutrition and education for larger portions of the population. Several studies have abundantly verified the that cities that have high levels of inequality have lower human development indicators than cities that have low levels of inequality.[30] Similar studies have found a clear relationship between a country or city's level of inequality and the degree of intergenerational socioeconomic mobility i.e. children of parents who are poor are likely to also be poor. Some countries have addressed intergenerational inequality by enforcing laws that specifically address past injustices. South Africa, for instance, introduced subsidies and social reforms after the dismantling of the apartheid system in the early 1990s, which led to a decrease in income inequality by 1 per cent per annum between 2001 and 2005.[31] This positive development should, however, be tempered by the fact that inequality in South African cities remains significantly high.

In all of the countries mentioned above, social institutions were created or reinforced when the countries experienced rapid growth, with the aim of improving the lives of the urban poor and reducing levels of inequality. These successful experiences show that institutional reforms and government interventions can efficiently maintain or reduce income disparities during periods of high-speed growth. They also demonstrate that it is possible to realize equity in the distribution of income through market mechanisms and distributive government policies. In other words, they show that market efficiency and equity can go hand in hand.

Bhutan's Gross National Happiness Index

For many years, the international development community has struggled to define what constitutes human progress and well-being. The conventional approach – reflected in the United Nations Human Development Index – has been to measure human development within countries through measurable quantitative indicators, such as life expectancy, literacy and Gross Domestic Product (GDP) per capita.

However, long before demographers, economists and development experts had started to think about how to measure prosperity and development, the tiny land-locked Himalayan kingdom of Bhutan began a serious discourse on whether quantitative indicators accurately reflected levels of well-being in society. In 1972, concerned about the negative effects of unrestrained economic growth, Bhutan's newly-crowned leader, H.M. King Jigme Wangchuk, introduced the concept of Gross National Happiness (GNH), which is based in the premise that true development of human society takes place when material and spiritual development occur side by side and complement and reinforce each other. The four key pillars of Bhutan's Gross National Happiness are: promotion of equitable and sustainable socio-economic development; preservation and promotion of cultural values; conservation of the natural environment; and establishment of good governance.

Bhutan's National Human Development Report 2000 states that the country considers GNH to be far more important than GDP because its focus is on "enriching people's lives, improving their standard of living, and augmenting people's economic, spiritual and emotional well-being". The report further argues that economic indicators do not adequately capture many aspects of Bhutan's largely rural economy, which is non-monetised, and fail to reflect the kingdom's vast and diverse natural resources and its rich cultural and religious heritage.

Bhutan 2020, the country's long-term development blueprint, notes that Bhutan's approach to development is firmly rooted in its rich tradition of Mahayana Buddhism that stresses "individual development, sanctity of life, compassion for others, respect for nature, social harmony, and the importance of compromise". The Vision also cautions that while modernization and urbanization have their benefits, they may erode the values and assets that Bhutan has built over the centuries and may lead to negative consequences, such as high levels of urban poverty and environmental degradation.

However, although Bhutan has accepted GNH as the basic tool for measuring its level of development, measuring "happiness" remains an elusive quest. Most studies on happiness are conducted using self-reporting techniques, and are therefore, highly subjective.

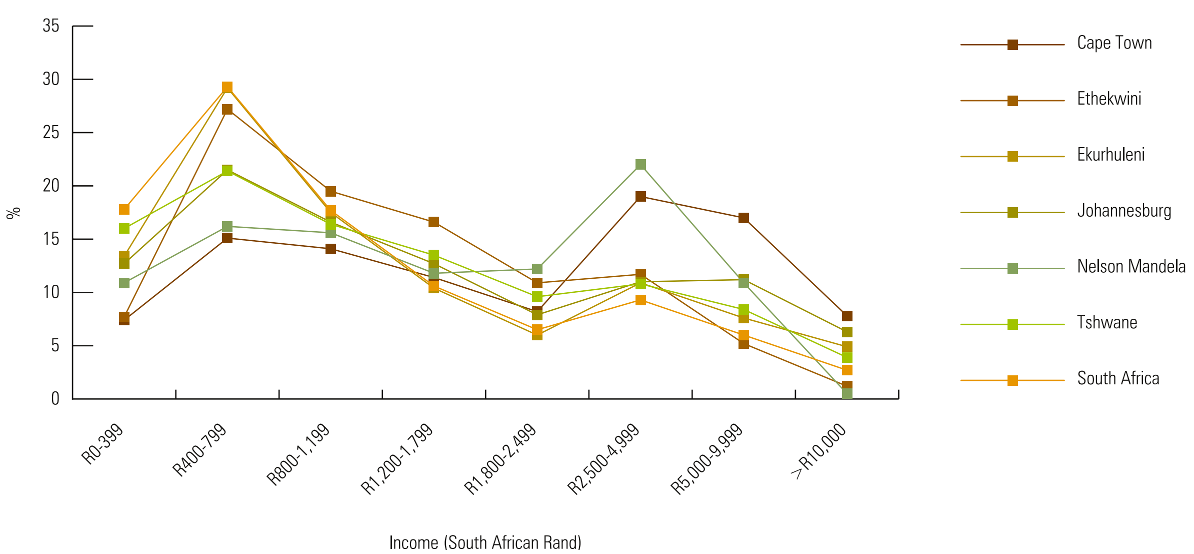
Nonetheless, Bhutan's outlook on development is increasingly being adopted by other countries in the region and elsewhere.

In 2006, for instance, the Chinese government endorsed the new doctrine of "building a harmonious society" that emphasizes balance, moderation, social equity, justice, cultural harmony and coordinated development. The doctrine is being implemented to mitigate some of the negative effects of unrestrained economic growth, including rising inequalities and environmental degradation. While recognizing that a harmonious society needs to be relatively wealthy and needs to meet its basic needs, China is also realizing that rising inequalities in society can contribute to social disharmony.

Like China, many countries are now beginning to wonder whether they got it all wrong when they assumed that rapid economic growth and high per capita incomes would boost overall well-being in their countries. Researchers, such as Martin Seligman, credited for launching the positive psychology movement in 1998, and Ruut Veenhooven, who created the World Database of Happiness in 1999, are also encouraging policymakers to consider more than economic development in their planning and to examine ways in which governments can boost national contentment levels.

Sources: Royal Government of Bhutan, 2000; Xinhua News Agency, 2006

FIGURE 2.1.2: **SOCIAL MOBILITY AND EQUITY IN SOUTH AFRICAN CITIES – CLASS COMPOSITION**



Source: Statistics South Africa: General Household Survey, 2006.

New dimensions of inequality in emerging economies: Recent evidence from China, India and Brazil

The recent economic experience of major developing economies shows that rising per capita income is often accompanied by greater income inequality. Despite the increasing global economic influence of emerging economies, such as China, India and Brazil, recent research suggests that they are increasingly reluctant "to challenge the contemporary world order and the widening income and wealth inequalities within their borders." It is further argued, however, that growing inequalities can lead to socio-political instability and thus eventually compromise economic growth.

There are many reasons for rising income inequality, ranging from "traditional" causes – such as concentration of land ownership and unequal access to education – to "new" causes, such as technological change and associated wage differentials. For example, unequal access to land is closely linked to income inequality and poverty in both China and India, whereas access to education by household head is a critical determinant of economic status in India, though not in China, where fewer are illiterate.

Strong evidence also exists that increasing wage and income inequality in India is attributed to skill-biased technological change and greater wage differentials within key urban economic sectors. Further evidence shows that rising income inequality in both developing and developed countries is closely associated with the rising capital share of total income and, conversely, the declining labour share. In the case of India, the share of total income accruing to the top one per cent of income and dividend earners in the 1990s increased from 4 per cent to almost 11 per cent.

This has generated an intense, and so far inconclusive, debate about whether the positive welfare effects of accelerated economic growth are outweighed by the negative effects of rising relative inequality. Part of the problem surrounding this debate is that per capita income (as a measure of economic growth) and relative income inequality (as measured by the Gini coefficient) are often examined in isolation from each other.

Recent comparative research on Brazil and China has attempted to find relationships between the two by evaluating the overall welfare effects of per capita income growth and relative inequality in the distribution of income simultaneously. It concludes that while inequality has worsened in both countries over the past two decades, economic welfare in Brazil actually increased following implementation of a programme launched in 1994 that contained a set of drastic fiscal and monetary measures to stabilize the Brazilian economy. As the researchers discovered, "the rise in income … was sufficient to overcome the negative effects of a slight worsening of inequality over the whole period".

A slum settlement in Mumbai: Unequal access to land and skill biased technological change has led to greater wage differentials in key urban economic sectors.
©Rasna Warah

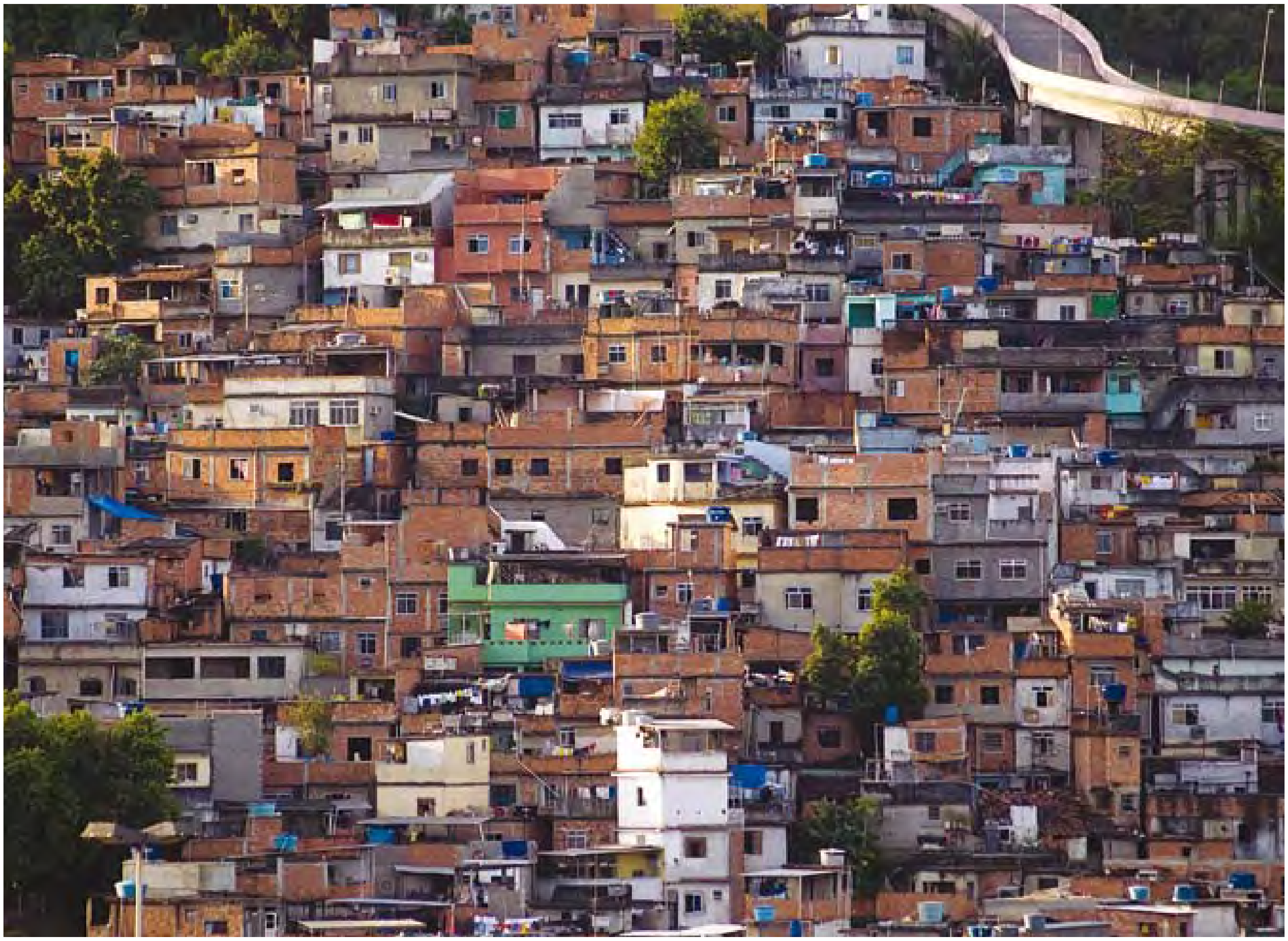
In China, economic welfare rose even more spectacularly over the past two decades, as the rapid increase in per capita income was more than sufficient to counteract the negative effects of increased relative inequality. New evidence incorporating spatial price deflators also suggests that the magnitude of income inequality in China, as well as the role played by regional and urban-rural differences in the recent inequality rise, tends to be overstated. On the other hand, since consumption inequality (arguably a better indication of economic welfare than income inequality) in both urban and rural areas rose significantly between 1985 and 2001, the overall welfare increase in the country may be smaller than previously estimated.

The overall welfare increase in both Brazil and China is thus more complex when disaggregated by its urban-rural dimension or by levels of income. For example, contrary to frequent assumptions, evidence suggests that rural incomes are less equally distributed than urban incomes in China. Urban inequality was thus lower than rural inequality between 1985 and 2001, although it has been rising much faster as urbanization accelerates in the country.

A closer look at the welfare gains caused by fast economic growth in large emerging countries shows that higher-income groups have benefited far more than lower-income groups, particularly in urban areas, even if overall welfare has increased across the board. Furthermore, when there is a serious downturn in the economy, as Brazil experienced during the 1980s, it is the poor who suffer most.

One key policy implication for fast-growing emerging economies is that priority in the provision of basic urban services should be given to lower-income groups, as they tend to experience greater welfare effects than higher-income groups with the same expenditure of public resources. Increased public expenditure on primary schools, basic health services and provision of water supply and sanitation for poor urban districts thus improves the lives of more people than equal expenditures on universities, advanced medical services or increased piped water for the swimming pools and manicured lawns of wealthy neighbourhoods.

Sources: Palat, in press; Borooah, Gustafsson & Li, 2006; Kijima, 2006; Cornia, 2005; Cloes, 2008; Demurger, Fournier & Li, 2006; Wu & Perloff, 2004.



Slum in Rio de Janeiro: Healthy economic indicators in Brazil have had little impact on inequality levels.
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NOTES

1 World Bank, 2006 and United Nations 2007.
2 World Bank, 2006.
3 This report analyses inequality in income and consumption, as these are the most commonly used variables in inequality surveys.
4 World Bank, 2007a.
5 Williamson, 1965. This work elaborated on earlier work done by S. Kuznets (1955), whose inverted "U" hypothesis made a strong link between inequality and economic growth.
6 Refer among other studies to Tony & Giovanni, 2001; Franco, 2002; and Kanbur, 2000.
7 These countries were: (Africa) Algeria, Benin, Botswana, Cameroon, Cote d'Ivoire, Egypt, Ethiopia, and Morocco; (Asia) Bangladesh, Cambodia, China, India, Nepal, Pakistan, Sri Lanka, and Viet Nam; and (Latin America and the Caribbean) Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Peru, Uruguay, and Venezuela.
8 Analysis by UN-HABITAT in 2008.
9 Zin, 2001.
10 UNDP and China Development Research Foundation, 2005.
11 Biau, 2007
12 World Bank, 2007.
13 UNDP National Human Development Report (India), 2001. Data from Planning Commission, Government of India.
14 "Low" and "high" inequality refers to Gini coefficients of 0.3 and 0.6, respectively.
15 Oyelaran-Oyeyinka, & Gehl Sampath, in press.
16 Biau, 2007
17 World Bank, 2008.
18 Biau, 2007. The National Urban Renewal Mission is supported by a central government budget of US$12.5 billion over seven years.
19 Persson, & Tabellini, 1994.
20 Wines, 2005.
21 Lum, 2006.
22 Xinhua News Agency, 2006. The resolution on social harmony, published in October 2006, highlights "coordinated development" and "social equity and justice", among other goals and principles.
23 Graham & Felton, 2006.
24 Alesina, Di Tella & MacCulloch, 2001.
25 Rodriguez, 2002.
26 Quoted in World Bank, 2005.
27 Ullmann-Margalit, & Sunstein, 2001.
28 Addison & Cornia, 2001.
29 Akita & Lukman, 1999.
30 Messias, 2003. This study found that for each 0.01 increase in the Gini coefficient, life expectancy declined by 0.6 years in an analysis conducted in all the Brazilian federal states.
31 South African Cities Network, 2006.