# 2 Why does national inequality matter?

*Unequivocally, the speed — and cost — of income poverty reduction are directly related to the prevailing level and direction of inequality. This implies that, if the objective is to reduce poverty or at least to raise the incomes of the poor, there is a need to track and intervene with policies to manage inequality in order to maximize rising average incomes and rising incomes of the poor.*

## 2.1. Introduction

Early development thinkers such as Kuznets, Lewis and others were interested in the question of whether income inequality mattered for economic growth and development. More recent thinkers, such as Sen and those expanding human development perspectives towards 'human well-being', have increasingly broadened the discussion to whether and how inequality matters for broader conceptualizations of development inherent in the lens of human development and 'human well-being'. The earlier group of thinkers tended to argue that inequality did not really matter. More recent thinkers and literature, though, show that inequality does matter for growth, broader human development and well-being from instrumental and intrinsic viewpoints. This chapter explores these debates. The chapter is structured as follows: section 2 discusses the earlier development thinkers; section 3 focuses on more recent development thinkers; and section 4 concludes.

## 2.2. Early development thinkers and the inequality-growth relationship

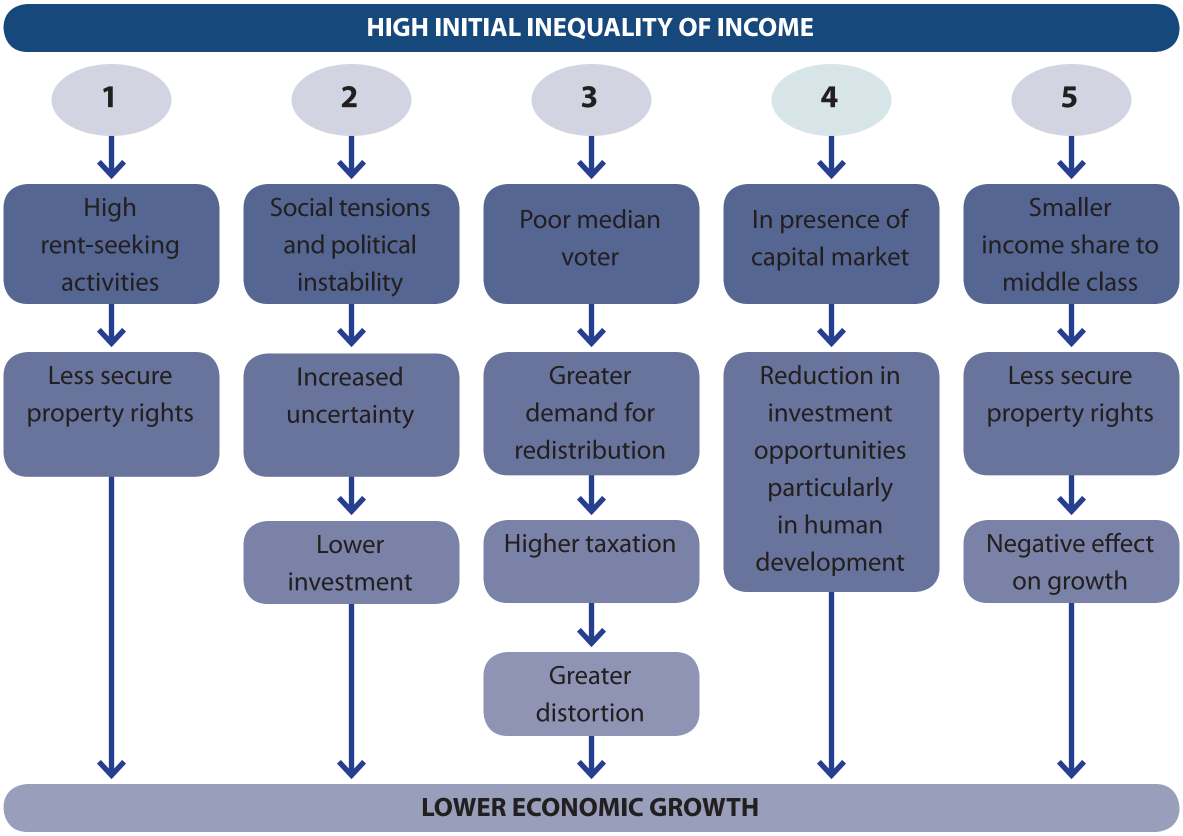
The foundation of the idea that inequality does not matter in developing countries is that high/rising inequality is inevitable in the early stages of economic development, based on the Kuznets (1955; 1963) hypothesis, and, indeed, is an acceptable trade-off, especially if the incomes of the poor are rising and poverty is falling. However, the empirical evidence to sustain the idea that inequality necessarily will rise or is an acceptable trade off is thin at best.

A number of studies in the 1970s initially supported the Kuznets hypothesis. However, in the 1990s, a series of new studies led by Anand and Kanbur (1993a; 1993b) questioned the 'inverted-U'. In the 1990s and 2000s, the empirical literature became somewhat contradictory, probably due to methodological issues. Some have posited that the inequality-growth relationship depends on the level of economic development (Barro, 2000; List and Gallet, 1999) or differs in democratic and non-democratic countries (Deininger and Squire, 1998; Perotti, 1996) or that any change (up or down) in inequality reduces future growth (Banerjee and Duflo, 2003). Those who have considered gender issues have found that high gender inequality, especially in education, is harmful to growth (Klasen, 1999; Knowles et al., 2002).

Nissanke and Thorbecke (2006:1343) sum up the debate in Figure 2.1 below, each channel/box of which is based on an empirical study. They posit that high initial inequality leads to rent-seeking, social tensions, political instability, a poor median voter, imperfect capital markets and a small share of gross national income (GNI) to the middle class, all of which lead to lower investment, higher taxation and lower economic growth.

Within the Nissanke and Thorbecke (2006) figure, two channels are worth exploring further, albeit briefly. The first is Ravallion's (1998) contribution of "imperfect credit markets" theory, which posits that, in unequal societies, there is a high density of credit-constrained people and thus less investment (especially human capital) and hence less growth. The second is Rehme's (2001) introduction of the "redistributive political-economy model", which remains contentious and is based on the idea that unequal societies create redistributive pressures leading to distortionary fiscal policy that reduces future growth. Empirical evidence is mixed (for a range of views, see Clarke, 1995; Deininger and Squire, 1998; Perotti, 1996). Most recently, Luebker (2006; 2012), taking data for 26 countries, found no support for the idea that redistributive pressures impede future growth. Additionally, other studies have found redistribution is good for growth (Easterly and Rebelo, 1993; Perotti, 1996).

## Figure 2.1. Conceptual linkages from inequality-to-growth




***Source:*** *Nissanke and Thorbecke (2006: Fig. 1, p. 1343).*

It is worth noting at this point that there are actually at least two policy-related debates worth separating. The first is the relationship that Kuznets hypothesized from **growth-to-inequality**. The second is a trade-off that Kuznets **implied** on **inequality-to-growth**. The former has no systematic relationship in the empirical literature, whereas the latter does.

The latter, i.e., the empirical literature on inequality-to-growth, is clear enough: there is now plenty of empirical evidence that high or rising inequality has a negative effect on the rate of growth or the length of growth spells (e.g., Berg and Ostry, 2011; Easterly, 2002). There is some evidence that this depends on the level of economic development (GDP per capita) and 'openness' (Agénor, 2002; Barro, 2000; Milanovic, 2002) and assets rather than income (Deininger and Olinto, 2010), with an emphasis on human capital in particular (e.g., De la Croix and Doepke, 2002).

The relationship of growth-to-inequality is more complex and, in spite of numerous attempts, no systematic empirical association from growth-to-inequality has been reported in the empirical work (Adams, 2003; Chen and Ravallion, 2010; Deininger and Squire, 1998; Dollar and Kraay, 2002; Easterly, 1999).[1] In fact, the dominant view is that inequality is not an outcome of growth, but plays a role in determining the pattern of growth and poverty reduction (Bourguignon, 2003:12). This does not necessarily mean that growth has no impact on distribution; rather, there are too many country specifics to make a generalization.

Palma (2011) has made one of the most recent systematic data analysis on the Kuznets hypothesis by using a world development indicators (WDI) dataset with observations for 135 countries and data on Gini and income shares. He reaches the following conclusions: first, about 80 percent of the world's population now live in regions whose median country has a Gini close to 40, implying that globalization has reduced regional differences in within-country inequality. Second, 'outliers' to this tendency are now only located among middle-income and rich countries. In other words, the 'poor and upwards' side of the Kuznets 'inverted-U' between inequality and income per capita has evaporated — and, with it, the hypothesis that posits that, for poor developing countries, inequalities have to get worse before they can get better. Chen and Ravallion (2012) have noted somewhat similar findings:

> [I]nequality within growing developing countries falls about as often as it rises. […] The evidence leads one to doubt that higher inequality is simply the "price" for higher growth and lower absolute poverty' (2012:5).

Palma also argues that, while most regions and countries have generally similar levels of inequality, two middle-income regions (Southern Africa and Latin America) have remarkably high levels of inequality representing what probably amounts to the most extreme practicable divisions within a society (since 60 is the maximum likely Gini value, we might conclude that, while more extreme divisions are theoretically possible, they are likely to be difficult to sustain consensually as functioning social systems). Third, Palma argues that it is among the richest countries that the highest diversity of distributions occurs. High levels of development can coexist with either high or low levels of inequality.

In sum, the inevitability of rising inequality during economic development and the trade-offs that are implied struggles to find strong support in empirical studies. This means not only that the poorest countries can aspire to pursue broad-based growth, but also that rising inequality is no longer a short-term price worth paying for long-term economic development, because high or rising inequality can even slow down future growth. If we accept that high/rising inequality is not inevitable or the price for economic development, then we can ask how and why inequality matters to the broader dimensions of human development and human well-being in developing countries.

## 2.3. Recent development thinkers and the inequality-human development and well-being relationship

As noted, more recent development thinkers have taken a broader approach to the question of whether inequality matters. In particular, the intrinsic and instrumental reasons as to why inequality matters have been explored across the broader conceptualizations of human development. Here, we outline those domains taking a human well-being lens.

### *2.3a. Human development and well-being*

Although the concept of human well-being has been hotly debated over the last 10 to 15 years, especially if the amount of published books and articles is any measure (for reviews, see Gough and McGregor, 2007; McGillivray and Clarke, 2006), the study of human well-being in its broadest sense has a long intellectual history.

Human well-being is generally considered to be a multi-dimensional concept, as illustrated by the Stiglitz-Sen-Fitoussi Commission:

> Objective and subjective dimensions of well-being are both important. […] The following key dimensions that should be taken into account [include …] (a) Material living standards (income, consumption and wealth); (b) Health; (c) Education; (d) Personal activities including work; (e) Political voice and governance; (f) Social connections and relationships; (g) Environment (present and future conditions); and (h) Insecurity, of an economic as well as a physical nature (Stiglitz et al., 2009:10, 14–15).

The Stiglitz-Sen-Fitoussi Commission[2] was inspired by three different streams of conceptual thinking on human well-being: subjective human well-being (individuals are the best judges of their own condition); capabilities (a freedom to choose among different 'functionings'); and fair allocations (weighting the various non-monetary dimensions of quality of life beyond the goods and services that are traded in markets) in a way that respects people's preferences (ibid.:42).[3]

There have been numerous attempts to identify a core set of capabilities and functionings (for discussion, see Alkire, 2010; Doyal and Gough, 1990). Recent initiatives of note include the Multi-dimensional Poverty Index (MPI) of the UNDP Human Development Report Office and the Oxford Poverty and Human Development Initiative (OPHI), which covers a range of aspects including health and nutrition, education, and living standards (water, sanitation, housing, assets and cooking fuel), and the related OPHI 'Missing Dimensions of Poverty Data' project.[4]

*A human well-being conceptual framework places a stronger emphasis on relational and subjective aspects, implying that what a person feels can influence what he or she will be and do.*

The conceptual framework of 'human well-being' used below seeks to build on Sen's (various, notably Sen, 1999) vision of human development — that is, a person's 'beings' and 'doings' and expanding the lens to focus on beings, doings and feelings and their interactions. As Kapur et al. (2011:41) note:

> Amartya Sen has emphasised that well being is subjectively assessed and emphasises "capabilities" and "functionings" that reflect a particular subjective valuation. However, in empirical practice this conceptual insight has congealed into merely emphasising a slightly different set of outcomes (and slightly different set of summary statistics).

There are numerous perspectives on what constitutes human well-being, one of the most comprehensive of which is that of McGregor (2007). He emphasizes that a practical concept of human well-being should be conceived of as the combination of three things: (i) needs met (what people have); (ii) meaningful acts (what people do); and (iii) satisfaction in achieving goals (how people are). Such conceptualization, not surprisingly, resonates with his colleagues at the Well-being and Development (WeD) cross-country project.[5] For example, Copestake (2008:3) states, "Human well-being is defined here as a state of being with others in society where (a) people's basic needs are met, (b) where they can act effectively and meaningfully in pursuit of their goals, and (c) where they feel satisfied with their life."[6] Further, White (2008) codifies this as material, relational and subjective/perceptional well-being (see Table 2.1).

Kapur et al. (2011:39) provide one example of the three domains in a unique survey designed and implemented by a Dalit community in Uttar Pradesh, India. Their findings suggest that placing exclusive focus on measures of material human well-being, such as consumption expenditure, is misplaced, as it misses important changes in socially structured inequalities and hence in individuals' 'functionings'. Their survey results show substantial changes in a wide variety of social practices affecting Dalit well-being — increased personal consumption, patterns of status goods (e.g., grooming, eating), widespread adoption of 'elite' practices around social events (e.g., weddings, births), less stigmatizing personal relations of individuals across castes (e.g., economic and social interactions) and more expansion into non-traditional economic activities and occupations.

Human well-being can thus be discussed as three-dimensional (meaning that human well-being is holistic and has three discernible domains): it takes account of material human well-being, relational human well-being and subjective human well-being, and their dynamic and evolving interaction. In short, people's own perceptions and experiences of life matter, as do their relationships and their material standard of living.

These three core dimensions of human well-being are summarized in Table 2.1. The material dimension of human well-being emphasizes "practical welfare and standards of living"; the relational emphasizes "personal and social relations"; and the subjective emphasizes "values, perceptions and experience" (White, 2008:8).

## Table 2.1. Domains of 'human well-being'

| | Material human well-being | Relational human well-being | Subjective human well-being |
|---|---|---|---|
| **Definition** | LIVELIHOODS and 'needs met' and 'practical welfare and standards of living' | AGENCY and 'ability to act meaningfully' and 'personal and social relations' | PERCEPTIONS and 'life satisfaction' and 'values, perceptions and experience' |
| **Key determinants** | Income, wealth and assets<br>Employment and livelihood activities<br>Education and skills<br>Physical health and (dis) ability<br>Access to services and amenities<br>Environmental quality | Relations of love and care<br>Networks of support and obligation<br>Relations with the state: law, politics, welfare<br>Social, political and cultural identities and inequalities<br>Violence, conflict and (in) security<br>Scope for personal and collective action and influence | Understandings of the sacred and the moral order<br>Self-concept and personality<br>Hopes, fears and aspirations<br>Sense of meaning/ meaninglessness<br>Levels of (dis)satisfaction<br>Trust and confidence |

***Source:*** *Adapted from McGregor and Sumner (2010) drawing upon Copestake (2008) and White (2008).*

The human well-being lens can take the individual and the community as the unit of analysis. It is important to strongly emphasize that the *categories are interlinked and their demarcations highly fluid*. For this reason, the table's columns should not be interpreted as barriers between domains.

In sum, although there is a significant amount of literature on poverty beyond income and including non-income deprivations (such as health, nutrition, housing and so forth), a human well-being conceptual framework places a stronger emphasis on relational and subjective aspects, implying that what a person feels can influence what he or she will be and do. Such feelings or perceptions may be determined by personal experience or by wider institutions, norms and values that are culturally embedded and potentially disrupted during the process of economic development.

### *2.3b. Human development, human well-being and inequality*

This human well-being literature can then be applied to the analysis of inequality by considering the human well-being domains in relation to inequality of opportunities and outcomes, and the structural causes of inequality and how these matters relate to the 'intrinsic' case and 'instrumental' cases as to why inequality matters (see Table 2.2).

**Table 2.2. How can human well-being be applied to the analysis of inequality?**

| | Material human well-being | Relational human well-being | Subjective human well-being |
|---|---|---|---|
| **Definition** | LIVELIHOODS and 'needs met' and 'practical welfare and standards of living' | AGENCY and 'ability to act meaningfully' and 'personal and social relations' | PERCEPTIONS and 'life satisfaction' and 'values, perceptions and experience' |
| **Relation to inequality of opportunities** | Unequal access to livelihood opportunities (unequal access to various capitals) | Unequal ability to exercise agency to take opportunities | Unequal aspirations; sense of self-worth and what is possible |
| **Relation to inequality of outcomes** | Unequal outcomes by livelihoods and living standards | Unequal outcomes by agency and power | Unequal outcomes by aspirations, self-worth, etc. |
| **Examples of stylized structural causes of inequality by human well-being domain** | Sectoral and spatial distribution of economic growth and public expenditure | Prevailing institutions such as gender-differentiated access to opportunities | Norms, conventions and prevailing views of groups and how individuals see themselves or their group/identity |
| **Examples of the intrinsic case to address inequality** | Fairness/meritocracy | Citizenship/solidarity | Self-value/worth/dignity |
| **Examples of the instrumental case to address inequality** | Impacts on economic growth, standards of living, etc. | Impacts on governance, social inclusion/exclusion, peace, etc. | Impacts on self-esteem, aspirations, etc. |

The intrinsic case is predicated on various fairness and ethic/moral requirements (e.g., meritocracy). In contrast, the instrumental case is concerned with the consequences of high or rising inequality (e.g., high or rising inequality slows growth, reduces growth spells, lowers the rate of poverty reduction at a given level of growth and so forth). In terms of the intrinsic case, the human well-being framework used facilitates identification of three areas for discussion: fairness/meritocracy, citizenship/solidarity and self-value/dignity. In terms of the instrumental case, it also sets out three areas for discussion: standards of living, governance and self-esteem/aspirations.

*The intrinsic case as to why inequality matters to material human well-being*

Inequality matters intrinsically to material human well-being because of the role that inequality plays in mediating livelihood opportunities that determine material human well-being. Further, inequality matters because it deviates from meritocracy/fairness in terms of such livelihood opportunities.

In building the intrinsic case for inequality reduction, there is the human rights framework embodied in various UN agreements, such as in Article 1 of the Universal Declaration of Human Rights (UDHR): "All human beings are born free and equal in dignity and rights." In fact, the UDHR also makes reference to the instrumental case (in its first paragraph) as well as the intrinsic case, stating that "recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world."

*Inequality matters intrinsically to material human well-being because of the role that inequality plays in mediating livelihood opportunities that determine material human well-being.*

Morabito and Vandenbroeck (2012:4) state that "inequalities are unjust when determined by factors beyond individual control (circumstances), such as family background, ethnicity, gender, or genes". Thus, it is not a matter of having the same outcomes; it is more about having the same opportunities (in livelihoods, for example) to reach those outcomes. Furthermore, Morabito and Vandenbroeck (2012) are also concerned with breaking the intergenerational transmission of disadvantages.

Milanovic (2013) further explores an ideally optimal or a better distribution of income, drawing upon Rawls and Roemer. He notes how Rawls, in *A Theory of Justice* (1971), dismisses meritocracy as inadequate because society does not correct the imbalance of starting positions. However, one could note that the extent of meritocracy will differ considerably in different countries, contexts and institutional settings and itself is mediated not only by relational aspects, but by subjective aspects such as status and norms. At a minimum, 'liberal equality' is required, whereby the inheritance of wealth and access to education is effectively equalized because neither is achieved by one's own efforts, but rather by circumstances of birth. Indeed, Rawls favoured equalization of any 'undeserved' characteristics. Inequality would be acceptable as long as such characteristics were equalized, implying an increase in tax on the rich, inheritance taxes and equal access to education. Milanovic then turns to Roemer's *Equality of Opportunity* (1998), which developed the notion that income should be proportional to effort — indeed, that effort should form the basis of rewards. However, although certain groups may have different rewards due to different efforts, differences in between-group rewards would be zero because incomes would depend on effort, 'cleaned' of circumstances.

This points towards the fact that many are concerned with inequality because it is a deviation from egalitarianism (e.g., Brock, 2009; Milanovic, 2003; Miller, 2011; Moellendorf, 2009; Temkin, 2003). For these scholars, equity is intrinsically valuable, but there are various different concerns, such as fairness, opportunities or justice. For example, Temkin (2003:62-63) is more concerned with fairness and states:

> Egalitarians in my sense generally believe that it is bad for some to be worse off than others through no fault or choice of their own. The connection between equality and comparative fairness explains both the importance, and limits, of the 'no fault or choice' clause. Typically, if one person is worse off than another through no fault or choice of her own the situation seems unfair, and hence the inequality between the two will be objectionable. But the applicability of the 'no fault or choice' clause is neither necessary nor sufficient for comparative unfairness, and it is the latter that ultimately matters in my version of egalitarianism.

In short, equality is a moral ideal with an independent moral significance. Miller (2011) takes this to a global level and is concerned with global inequalities. In a similar vein, Brock (2009) focuses on global justice. Cullity (2004) fits within such a frame with a focus on **moral** reasons as to why inequality matters (all material in nature). Specifically, inequality entails domination and imposition of hardships on other groups; inequality entails callousness when others cannot meet their basic needs; inequality entails the inability of a society to include all groups in welfare enhancement.

*The instrumental case as to why inequality matters to material human well-being*

Material human well-being in areas such as livelihoods and standards of living can be instrumentally related to inequality. Many have argued that inequality reduces economic growth (as noted earlier) and slows down poverty reduction (see, for example, Asian Development Bank, 2012; Beitz, 2001; Birdsall, 2006; Chambers and Krause, 2010; Nel, 2006; Thorbecke and Charumilind, 2002; Kanbur, 2005; Nissanke and Thorbecke, 2006; Ravallion, 2005; van der Hoeven, 2010; Wade, 2005).

*The extent of poverty reduction depends on inequality levels and trends and a higher level of inequality leads to less poverty reduction at a given level of growth.*

The 2006 World Development Report on inequalities was important in that it triggered a wider debate on the interaction between types of inequality and how inequality reproduces itself across generations as a result of 'inequality traps', a concept elaborated by Bourguignon et al. (2007:236), who note,

> [P]ersistent differences in power, wealth and status between socioeconomic groups that are sustained over time by economic, political and sociocultural mechanisms and institutions […] lead to suboptimal development outcomes of 'inequality of opportunities'.

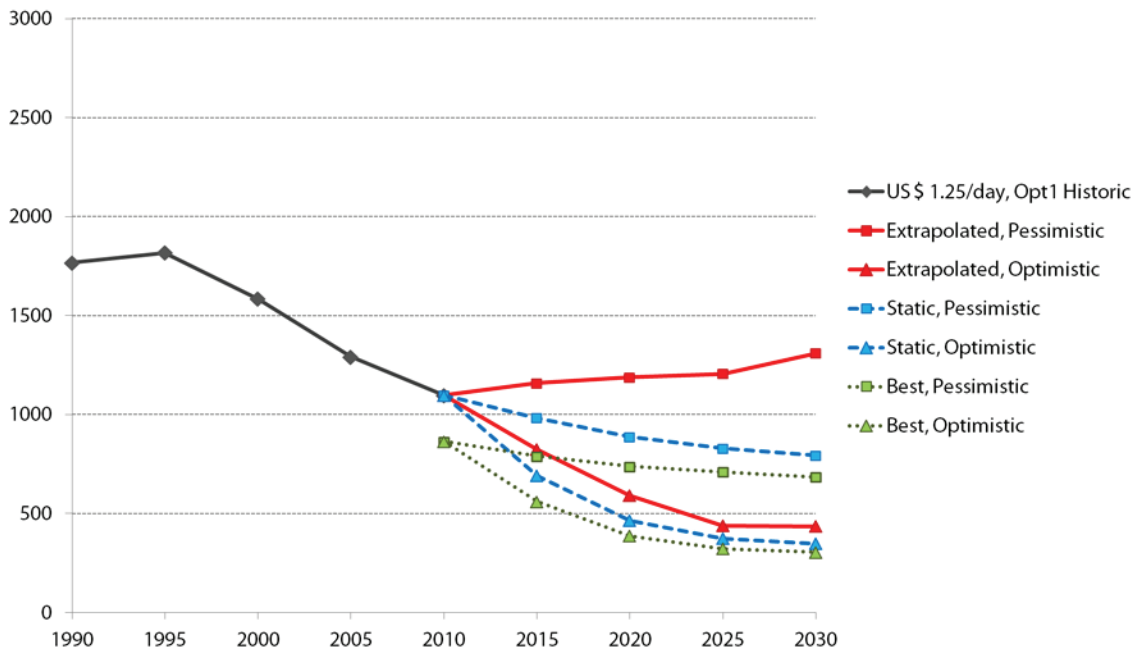
These inequalities are interrelated and compound to form exclusion and limit agency and control over one's life — seen in, for example, lack of influence over public policy and decision-making; discrimination in access to state services, or inequality of treatment in the legal system and, ultimately, the reproduction of poverty over time.

In a similar vein, Birdsall (2006) argues that income inequality in developing countries matters for at least three instrumental reasons: where markets are underdeveloped, inequality inhibits growth through economic mechanisms; where institutions of government are weak, inequality exacerbates the problem of creating and maintaining accountable government, increasing the probability of economic and social policies that inhibit growth and poverty reduction; and where social institutions are fragile, inequality further discourages the civic and social life that underpins effective collective decision-making that is necessary for the functioning of healthy societies.

There is, furthermore, a wealth of empirical evidence linking material human well-being and inequality, specifically, that the extent of poverty reduction depends on inequality levels and trends (Hanmer and Naschold, 2001) and a higher level of inequality leads to less poverty reduction at a given level of growth (Ravallion and Chen, 1997; Deininger and Squire, 1998; Hanmer and Naschold, 2001; Kraay, 2004; Ravallion, 1995, 1997, 2001, 2004, 2005; Son and Kakwani, 2003; Stewart, 2000). For example, Ravallion (2005) argues that inequality is bad for the poor and shows that elasticities of poverty reduction are related to initial levels of inequality in a country and to changes in income distribution, which is why inequality matters for poverty reduction. These arguments are similar to others: Wade (2005) argues that inequality leads to a lower contribution from economic growth to poverty reduction; Kanbur affirms that "growth is a plus for poverty reduction, inequality is a minus" (Kanbur, 2005:224); and Nel (2008) affirms that "growth plus redistribution, it increasingly seems, is what developing countries should pursue" (2008:151).

This, though, is not given, as the high level of heterogeneity of country experience (see Fosu, 2011; Kalwij and Verschoor, 2007; Ravallion, 2001) points towards the role of policy in influencing the sectoral and geographical

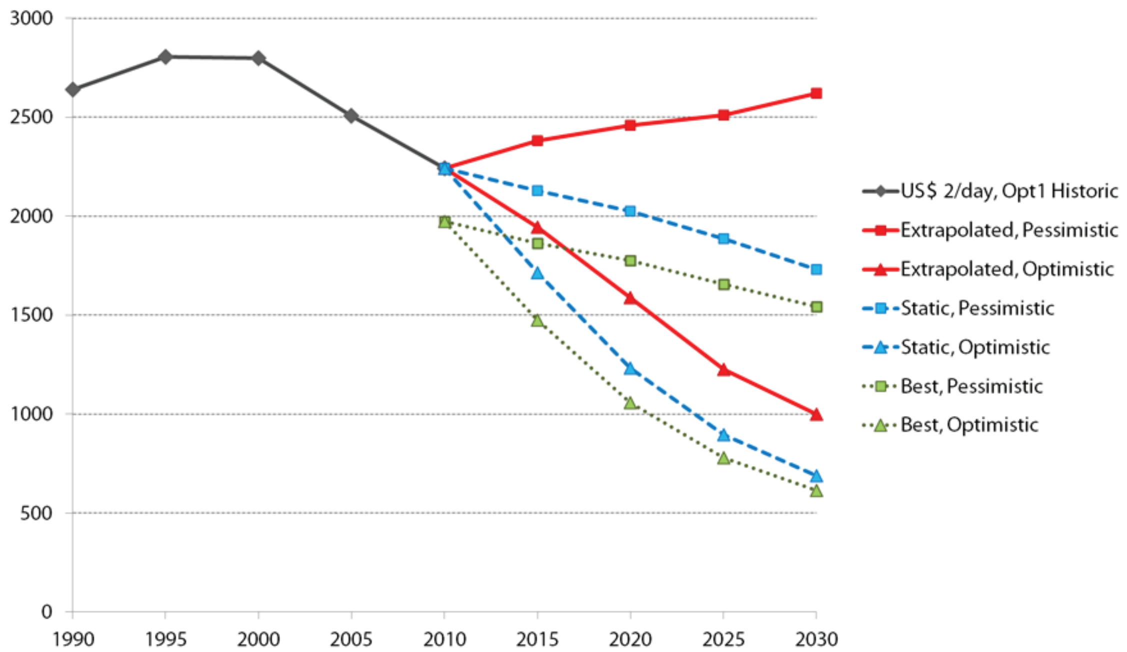
**Figure 2.2. US$1.25 headcount (millions), by pessimistic/optimistic growth and three distribution scenarios, survey means, 1990–2030**




***Notes:*** *Optimistic/pessimistic = growth at IMF WEO/Half IMF WEO; extrapolated/static/best = current inequality trends/static inequality/'best ever' distribution.*

***Source:*** *Edward and Sumner (2013: Fig. 1, p. 16).*

### Figure 2.3. US$2 headcount (millions), by pessimistic/optimistic growth and three distribution scenarios, survey means, 1990–2030




***Notes:*** *Optimistic/pessimistic = growth at IMF WEO/Half IMF WEO; extrapolated/static/best = current inequality trends/static inequality/'best ever' distribution.*

***Source:*** *Edward and Sumner (2013: Fig. 2, p. 16).*

pattern of economic growth, the composition of public expenditure and especially social spending and labour market policies (Fields, 2001; Kraay, 2004; Mosley, 2004; Mosley et al. 2004; Ravallion, 1995).

One interesting study is that of Cornia et al. (2004), who use a dataset of 73 countries to identify critical threshold levels of inequality. They conclude that rising inequality can assist growth, but only up to a Gini value of 0.30; a Gini value above 0.45 impedes GDP growth. In short, they find a distinct non-linear relationship between initial income inequality and economic growth. They argue that too low levels of inequality are bad for growth (free-riding, high supervision costs), but also that too high levels of inequality can have serious negative consequences.

To illustrate farther, and in the context of debates on setting new Millennium Development Goals after 2015, one can consider the impact of changes in inequality on potential future poverty levels. Edward and Sumner (2013) find that forecasts of future global poverty are very sensitive to assumptions about inequality. In one scenario, the difference between poverty estimated on current inequality trends versus a hypothetical return to 'best ever' inequality for every country could be an extra billion people living below the US$2.day poverty line in 2030. Figures 2.2 and 2.3 show the range of possible poverty levels in 2030 based on different growth/inequality scenarios.

*The intrinsic case as to why inequality matters to relational human well-being*

Throughout studies of inequality, there is a common topic: equity and inequality are seen only in comparison with other people. This has interesting resonance with the writings of Emmanuel Levinas (in particular 1969, 1998), whose work was concerned with the ethics of 'the Other'. Levinas argued that the question is not 'why do we exist?', but 'how do we justify our existence?'. Levinas contended that human beings have an infinite responsibility for 'the Other' because the sense of identity is constructed from 'positionality' regarding, and relationships with, other human beings. His central proposition is that relationships with 'the Other' are associated with self-identity to a large extent. Indeed, human beings have a sense of identity only through the existence of others and there is therefore a fundamental obligation to treat other human beings well because of one's own dependence on them for a sense of identity. Levinas's ethics thus provides a basis for caring about inequality because of its role in establishing an identity as a constituent element in universal human characteristics.

Temkin (2003) views equity as comparative fairness, meaning that it is fundamental to see it in relation to the lives of other individuals. This argument is in line with Milanovic (2003:3), who suggests that people tend to compare themselves with other peers: "There is no point in studying inequality between two groups that do not interact or ignore each other's existence."

Milanovic, of course, applies this argument to his concept of 'global inequality'. He (2003:3) considers that this is the time when studying and caring about global inequality really matters, because societies are more connected with each other than in the past. Indeed, Milanovic's (2011, 2012) focus is on inequality between all individuals in the world. He (2012:2) notes that inequality is often thought of within the boundaries of countries. However, he argues that:

> [I]n the era of globalization another way to look at inequality between individuals is to go beyond the confines of a nation state, and look at inequality between all individuals in the world.

*The instrumental case as to why inequality matters to relational human well-being*

Relational human well-being in areas such as social inclusion/exclusion, governance and peace can be related to inequality. The social impacts of inequality can include unemployment, violence, crime, humiliation, and deterioration of human capital and social exclusion (Beitz, 2001; Kaya and Keba, 2011; Nel, 2006, 2008; Thorbecke and Charumilind, 2002; Wade, 2005).

Milanovic (2003) provides an instrumentalist argument explaining why inequality matters. For him, inequality is important because other people's income enters our own utility function, which, in turn, affects our welfare. For example, if we consider that a specific situation is an injustice, we can have a utility loss. Thus, "people's welfare depends on the income of others" (Milanovic, 2003:4).

Then there are political aspects, which include arguments that high or rising inequality distorts processes of decision-making (Beitz, 2001; Birdsall, 2006; Kaya and Keba, 2011; Wade, 2005) and inequality may also be a threat to democratic participation (see empirical estimates of Nel, 2006; Solt 2008, 2010).

Nel (2008) discusses in-depth the socio-political consequences of inequality. He empirically links inequality to democratic participation, corruption and civil conflict. Nel goes yet further (2008:122–123) with a particular discussion of social exclusion: from the Weberian idea that it is a strategy of social closure used by the privileged to follow their own interests to the Senian perspective of social exclusion as a process whereby individuals are denied their capabilities and agency. He (2008:123) argues:

> Social exclusion can also be instrumentally relevant, that is, exclusion can be a causal factor in depriving individuals and groups of specific capabilities that flow from attaining a reasonable education standard, having access to credit and to employment opportunities, and from having access to the means to influence decision making, to name a few of the most serious capability deprivations in developing countries.

Thus, one can argue that there is a relationship between income or wealth inequality and social exclusion. In other words, when people are excluded, they cannot participate in the common institutions that build a society. They lose agency and experience a limited amount of opportunities. However, income is not the only factor determining whether a person is socially excluded. Other factors include race, religion, gender, ethnicity and language.

Furthermore, social exclusion creates inequality in access to public and private services. For example, Nel (2008:124-125) discusses how inequality affects the access to credit and insurance in developing countries and how it denies opportunities to formal schooling for children. Moreover, it also creates power concentration among the privileged, leaving those worse off without the option of participating in the political process of their countries. In turn, this can lead to an abuse in political power.

*When people are excluded, they cannot participate in the common institutions that build a society. They lose agency and experience a limited amount of opportunities.*

Others, too, have argued that inequality creates unfair policy-making processes (Beitz, 2001; Birdsall, 2006; Wade, 2005) because those who are worse off do not have the same access to state rule-setting forums. This is due to the difference in power and influence that people have. If people are not participating in the decision-making process, they are not deciding about issues that will affect their lives. This is the same as saying that they do not have control over their own lives, which could be considered another instrumental reason why inequality matters.

Moreover, inequality can exacerbate the problem of holding governments accountable. In a society with high inequality, those who are better off may believe that democracy will bring redistribution, and this redistribution means less economic and political power for them. Kaya and Keba (2011) explore such instrumental reasons at the local and global levels and argue that inequality erodes the fairness of institutions. They argue that inequality creates an unequal distribution of power within institutions, due to the differences in influence that countries have; this, in turn, affects the political economy of poor countries. The debate here intermingles aspects of material well-being with relational well-being demonstrating the non-seperability of the domains.

#### *The intrinsic case as to why inequality matters to subjective human well-being*

Subjective human well-being in areas such as self-value, dignity, respect, self-worth, self-esteem, aspirations and others can be related to inequality. Inequality matters because it influences our perceptions about self-worth and justice and all human beings are entitled to the same respect and dignity. This perspective supports the view that we should care about inequality because the ultimate moral concern is a world with dignity and respect for all individuals (Beitz, 2001; Brock, 2009; Temkin, 2003; Miller, 2011; Moellendorf, 2009).

Indeed, Moellendorf (2009) focuses his work on the importance of inherent dignity and respect and argues that equity is important because we are all entitled to human rights, which support respect and dignity.

Milanovic (2003) argues that, if people perceive something as unfair or unjust, this may affect their perceptions of their own worth or value. In other words, inequality makes people feel worse off because of injustice and unfairness and because it influences how human beings think they are valued in a society. This way of thinking suggests that inequality depends on one's position relative to another person; and, for supporters of egalitarianism, we are all entitled to an equal moral worth (Brock, 2009) and to the same amount of dignity and respect that others have (Moellendorf, 2009).

*Inequality matters because it influences our perceptions about self-worth and justice and all human beings are entitled to the same respect and dignity.*

Taking these arguments to the global level, Brock (2009:14) focuses on global justice and states that there is an equal moral worth of persons taking a cosmopolitan view of global justice, arguing, "Strong cosmopolitanism is committed to a more demanding form of global distributive equality that aims to eliminate inequalities between persons beyond some account of what is sufficient to live a minimally decent life."

Similarly, Miller (2011) focuses on inequality between countries and argues that firms, governments and individuals from advanced countries are taking advantage of individuals in developing countries — and thus violating their respect and dignity. Miller argues that advanced countries have inequality-reducing duties/obligations and that they should follow the 'principle of sympathy' towards those in need.

A considerable amount of research has been produced on group or 'horizontal' inequalities and related social inequalities over the last decade or so (e.g., Brown and Stewart, 2006; Kabeer, 2010; Stewart, 2002).[7] It is argued that persistent and related inter-group inequalities lead to the self-perpetuation of poverty. The durability of disadvantages that certain groups face because of their specific characteristics means that their members are more likely to be disproportionately represented among the poor. It is argued that the welfare cost of inequality is likely to be higher in relation to horizontal rather than vertical inequalities, as individuals/families are trapped to a greater degree because of the salient group boundaries (Stewart and Langer, 2007:4, 29).

It is also argued that people's human well-being is related not only by their individual circumstances, but also by how well their group is doing. This is partly because membership of the group is an aspect of a person's identity and hence the group's situation is felt as part of an individual's situation, and partly because relative impoverishment of the group increases negative perceptions and future expectations of its members (Brown and Stewart, 2006:6). Moreover, when political and socioeconomic deprivations coincide with strong and organized group identities, the result may be social conflict, violence, riots or even war. It follows that a critical instrumental reason for trying to moderate horizontal inequalities is that group inequality can be a source of violent conflict.

### *The instrumental case as to why inequality matters to subjective human well-being*

Human well-being in the subjective or perception-based domain (e.g., self esteem and aspirations) is difficult to research empirically. The basic argument to be tested is whether, at a societal level, lower inequality levels are associated with higher levels of subjective human well-being.

Ferrer-i-Carbonell and Ramos (2012:13) provide a recent literature review on inequality and reported subjective human well-being. They argue that there are three channels through which inequality affects subjective human well-being: self-interest, regard for others and relative concerns (where one sits in the distribution):

> People (dis)like inequality because they perceive there is a positive risk that they could benefit (lose out) from it. A second view defends that the inequality (dis)like may also be due to individuals genuinely caring for their fellow citizens, beyond the implications that inequality may directly have on their well-being. That is, individuals have social preferences and these shape their taste for equality.

They note that the research for non-OECD countries is incredibly limited, less reliable and mixed in findings, but that trust in institutions seems to play a role in mediating the relationship between income inequality and subjective human well-being. They note the study of Graham and Felton (2005) of 17 Latin American countries based on the *latinobarómetro* that found that the unhappiest individuals are in the high-inequality countries (with a Gini > 0.55), but that the happiest individuals are in medium-inequality countries (with a Gini in the range of 0.5–0.55) rather than in the low-inequality countries (with a Gini of <= 0.5). One could question the high/medium/low inequality categories here, of course. Other studies on inequality and subjective well-being are based solely on transition economies (e.g., Sanfey and Teksoz, 2007; Teksoz, 2007).

## 2.4. Conclusion

In conclusion, earlier development thinkers focused on the relationship between economic development and inequality. More recent thinkers have broadened the lens to consider dimensions of human development and human well-being. Emerging from the debate are an intrinsic and an instrumental case as to why inequality matters. The intrinsic case is predicated on fairness and ethic/moral requirements. In contrast, the instrumental case is concerned with the social, economic and political consequences of high or rising inequality. It can be argued that the intrinsic case as to why national inequality matters is long-standing and well known to a considerable extent and is normative — largely based on various notions of fairness. In contrast, one can argue that the instrumental arguments as to why national inequality matters are increasingly gaining attention in academic literature, but have, to date, arguably received less emphasis in policy debates. The instrumentalist case has a surprisingly strong empirical basis that would suggest that inequality merits attention in the form of policy interventions to ensure that high or rising inequality does not reach extremities that hinder economic growth and/or more substantial poverty reduction. Indeed, unequivocally, the speed — and cost — of income poverty reduction are directly related to the prevailing level and direction of inequality. This implies that, if the objective is to reduce poverty or at least to raise the incomes of the poor, there is a need to track and intervene with policies to manage inequality in order to maximize rising average incomes and rising incomes of the poor.

## Notes

1. In the late 1990s, many studies argued that year-to-year, intra-country inequality does not change a great deal (Deininger and Squire, 1998: Gallup et al., 1997; Li et al., 1998; Ravallion, 2001; Roemer and Gugerty, 1997; Trimmer, 1997). However, over time — for example, 10 to 20 years — notable increases in the Gini coefficient have been observed in a number of countries.
2. The commission is formally known as the Commission on the Measurement of Economic Performance and Social Progress. See: *www.stiglitz-sen-fitoussi.fr*.
3. See chapter 1.
4. This project covers quality of work, empowerment, physical safety, ability to go about without shame and psychological human well-being.
5. See *www.welldev.org.uk/research/working.htm*.
6. Ryan and Deci (2000:6–7) and others argue that autonomy — meaning "self-determination, independence and the regulation of behavior from within"—is one of the three fundamental and universal psychological needs (along with relatedness and competence).
7. Horizontal inequalities are defined as "the existence of severe inequalities between culturally defined groups" (Stewart, 2002:3). Social inequalities are similar to horizontal inequalities, but place a particular emphasis on inequality in social status (e.g., caste).

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