World Institute for Development Economics Research

WIDER ANGLE

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WIDER - Past, Present, and Future

by Giovanni Andrea Cornia

After four and a half years at UNU/WIDER, on 1 January 2000 I will be returning to Florence and the Innocenti Research Centre of UNICEF as well as to teach development economics at the University of Florence.

The Institute that I joined in August 1995 was a mixture of long-standing academic prestige and short-term (but potentially damaging) problems. The latter included declining funding, poor relations with the host country and donor community, and limited contact with the policy-making and UN communities. Most of all, UNU/WIDER needed to rejuvenate its research agenda by focusing on the epochal changes that started in the late 1980s.

These problems need to be seen in the context of the hard work of my two predecessors, a first rate local staff and the many scholars - from over 80 countries - who participated in building the Institute's research in the first ten years of its life. During that time, UNU/WIDER earned a good reputation for its research standards, particularly in the fields of famine, trade and unorthodox macroeconomics.

Recent Years

With this valuable inheritance in mind, and conscious of the problems, we concentrated our efforts on creating a new research agenda, improving research management and increasing the policy impact of UNU/WIDER research.

Much of the 'old' research agenda - especially poverty and unequal international relations - remains valid and must be pursued with renewed vigour. Rural poverty remains resilient, basic social services still reach too few people, and Africa continues to be marginalised.

But new problems have emerged. The number of humanitarian emergencies has risen alarmingly over the last decade, and conflict prevention as well as the reconstruction of war-torn societies are controversial. Furthermore, the widespread failure of the transition to a market economy in Eastern Europe and the former Soviet Union is both unexpected and largely unexplained. And so

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Inequality is Rising

Professor Anthony Atkinson presenting the 1999 WIDER Annual Lecture in Oslo

Many countries are experiencing an increase in income inequality. This phenomenon, and its causes, was the subject of the 1999 WIDER Annual Lecture entitled 'Is Rising Income Inequality Inevitable? A Critique of the Transatlantic Consensus', given by Professor Anthony Atkinson, Warden of Nuffield College, Oxford University. Professor Atkinson is an authority on income inequality and its measurement. He summarises the main themes of his lecture on pages 3 to 4 of this issue of *Angle.*

The Lecture, delivered on 1 November 1999 in Oslo Norway, was sponsored by the Royal Ministry for Foreign Affairs of Norway and hosted by the Centre for Development and Environment (SUM), University of Oslo. Dr Desmond McNeill, Director of SUM, opened the lecture and Norway's State Secretary for International Development and Human Rights, Dr Leiv Lunde, gave the welcoming address. Professor Giovanni Andrea Cornia, Director of UNU/WIDER chaired the meeting. A large audience attended the Lecture, which was reported in the local media.

UNU/WIDER thanks Dr Lunde, Dr McNeill, the Ministry, and SUM for enabling this event to take place. ■

too is the surge in inequality seen in the last two decades. In turn, globalization can create instability, and is taking place in a global regulatory vacuum. The benefits of information technology remain elusive, and its impact on work is unclear. These issues are therefore featured in the Institute's new research agenda.

Since 1995-6, UNU/WIDER has aimed to increase the core of its resident scholars so as to have the critical mass of researchers - and the fruits of interaction - found in university economics departments. Our research is now more cost-effective with earlier deadlines for completion. Previously, it often took up to 5 or 6 years to complete a research project and disseminate its findings - thus limiting its policy impact. Now the aim is to contain research within a biennium by more actively supervising its progress – without sacrificing its quality.

Reducing low-priority expenditures, cost sharing with sponsors, flexible contract arrangements and the elimination of a few support-staff positions have increased the cost-effectiveness of our research. These savings went into expanding the research and training programme, increasing the number of resident research staff, and launching new activities - the Mini-Sabbatical, Short-Visits and International Internship programmes, as well as the prestigious Annual Lecture, and the Public Lectures. These endeavours have generated much goodwill among donors – the numbers of which rose fourfold between 1995 and the end of 1999.

The Institute's size, limited outreach capacity and geographical remoteness have traditionally limited its policy impact. My tenure as Director saw new initiatives in this area, but much remains to be done. First, social scientists from international organisations with policy influence and outreach capacity are now involved in our research. Every year, since 1996, the Institute has counted on the contribution of some 30 economists from UNCTAD, ILO, the IMF, World Bank, IADB, ECLAC, UN secretariat, UNDP, ECA, and AERC - to name just a few. For instance, the much-cited 1998 Annual Lecture by Professor Joseph Stiglitz did much to promote our research within the World Bank.

Second, our new publication series - the Policy Briefs - is targeted at decision-makers. The brief on complex humanitarian emergencies circulates widely and has been cited by the UN secretary general. Third, we reduced the time to prepare research for publication, and early results are available via the web (www.wider.unu.edu). These efforts, and early dissemination to the international media, have made us more visible to policy-makers.

Andrea Cornia with participants of the 'Rising Inequality' project in June 1999

The Future

UNU/WIDER's main assets are a core endowment, an independent Board, and strong 'reputational capital'. These assets, together with the hard work of its staff and network, have enabled us to further sharpen the Institute's reputation for analytical rigour, independence and progressiveness - features that are not all that common among research centres in national and international institutions.

I am therefore optimistic about the Institute's future. That said, some realism is in order. Sustaining these results requires hard work (including recruiting a steady flow of scholars, especially from the less privileged countries), imagination and a bit of luck - like the great empires, institutions rise and fall! The research focus must also keep up with a rapidly changing world. UNU/WIDER must do even more to enhance its policy impact and broaden the reach of its output by organising a greater share of activities outside Finland.

Finally, if policy and advocacy are to be emphasized, then organising joint policy seminars and research dissemination with other influential actors is one way forward. Some of these efforts can be shared with UNU. Closer contacts should also be made with the NGO community which has considerable strength in mobilising international public opinion on key development issues.

I have enjoyed my years at UNU/WIDER. I leave feeling proud of having served as its Director, and I am confident that the Institute will continue to play its role in the research community, UNU and the global development debate.

Professor Giovanni Andrea Cornia was Director of UNU/WIDER from August 1995 to December 1999. He is now Special Adviser to the Deputy Executive Director of UNICEF.

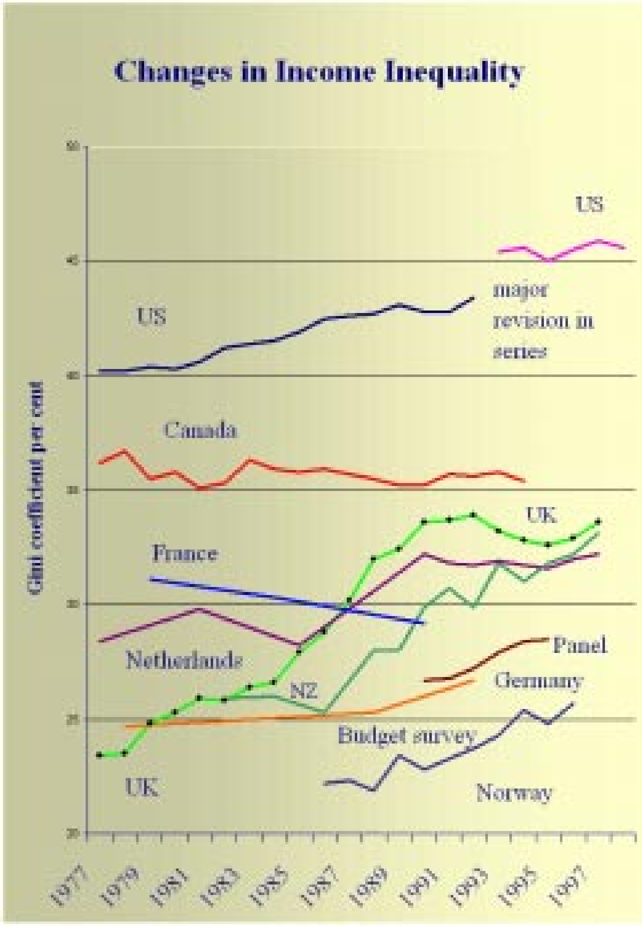
Is Rising Income Inequality Inevitable?

by Anthony Atkinson

Income inequality is rising in a large number of industrialised countries. The phenomenon first attracted attention in the United States, where inequality began to rise in the 1970s, but the increase in the United Kingdom is even greater. The figure shows data on the Gini coefficient - the most widely used measure of income inequality. This varies between 0 when everyone has the same income to 100 per cent when one person has all the income. In the UK case, the Gini coefficient rose by some 10 percentage points from around 23 per cent in 1977 to 33 per cent in 1990 (concepts and definitions are discussed in more detail in the full text of the lecture available at www.wider.unu.edu).

However, the experience is not uniform across the OECD - the extent and timing of the increase has varied across countries. Income inequality has increased sharply in New Zealand, and has risen in Germany and the Netherlands, but France shows little upward trend in the inequality of disposable income. This variety of country experiences suggests that policy matters.

It is best to describe changes in inequality in terms of 'episodes' when inequality rose or fell, rather to talk of 'trends'. Thus in the UK case, there has not been a continuous upward trend. Rather, the UK experienced an episode of rising inequality from 1977 to 1989, but from 1990 onwards inequality showed little trend (see figure). The 1990s do not look like the 1980s in the US and the UK. Therefore, to describe recent experience as an inexorable trend is potentially misleading - in particular it leads too readily to explanations which focus on technology and trade, and too little on policy.



The Transatlantic Consensus

There is a widely held belief that rising income inequality is inevitable; technological change and the globalization of world trade are the most frequently cited culprits. This view is common on both sides of the Atlantic, particularly in key policy-making institutions. The 'Transatlantic Consensus' holds that increased inequality in the United States and high unemployment in Continental Europe are due to a shift in demand from unskilled workers to skilled workers, whether due to technology, trade or both. For some economists rising inequality is driven by the revolution in information technology. For others, trade - especially imports from low-wage developing countries - weaken the demand for unskilled labour in the developed world.

However, the Transatlantic Consensus is open to question. The rise in inequality is neither universal nor of the same extent across countries. Where there has been a rise, it has not happened at the same time. Moreover, in some countries the rise in inequality takes the form of steps - increases followed by plateaux - rather than a continuing trend. This indicates that the world is working in more complex ways than those described in simple technological and trade explanations.

Indeed the models themselves are too simple. For instance, separating

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workers into just two categories - skilled and unskilled - reflects the industrial economy of the nineteenth century, rather than that of the century now ending. Rather, there is a continuum of earnings reflecting a continuum of skills. Moreover, the models of the Transatlantic Consensus see wage-differentials as nothing more than the outcome of supply and demand - thereby ignoring the role of conventions and social norms.

More insightful economic theories draw upon the work of sociologists to argue that supply and demand only place limits on possible wage differentials, while social forces determine where wages actually lie between those limits. These models also indicate that support within society can at times shift away from pay norms - for example the adoption of performance-related pay in the public sector can affect private-sector wage setting - leading to widening wage differentials.

Redistribution Can Offset Market Inequality

What people are paid in the market place is not the only factor determining the distribution of income. Market outcomes are significantly modified by income taxation and by social transfers financed out of the government budget.

To see this, let us suppose for the moment that the Transatlantic Consensus is right about the cause of rising inequality. If demand has shifted away from unskilled workers in economies with very flexible labour, then progressive income taxation should moderate the impact on income inequality - the Gini coefficient of disposable income would rise less than that of market incomes. Outcomes would differ across countries depending on the degree of progression of national income-tax systems. Outcomes will also vary depending on national variations in the importance of non-wage income sources in total household income, and the generosity (or not) of unemployment benefits.

How far has fiscal redistribution offset any rise in inequality in market incomes? Canada provides an illuminating contrast with the UK. In Canada, the Gini coefficient for market income rose by some 5 percentage points over 1980 to 1994, whereas that for disposable income did not show a significant increase. In the UK, however, the income taxation system became less progressive after 1984 and benefit levels and coverage were reduced. Thus inequality in disposable income rose much more strongly than that in market income.

Such differences in outcomes suggest that national governments do have room to manoeuvre. While the pressure of international fiscal competition is often cited as limiting the scope for income redistribution by government, this is far from self-evident, as I argue in the 1999 UNU/WIDER Annual Lecture. Workers who perceive that taxes are lower in other states may react, not by migrating, but by demanding (through the political system) lower taxes at home. This, rather than trade or technology, may be the most important restriction on the freedom of national governments to carry out social protection. Changing social norms regarding pay - a potential cause of rising inequality in market incomes - may also lead societies to shift away from fiscal redistribution. Tax and benefit policy thus reinforces, rather than moderates, rising market inequality.

Rising Inequality is Not Inevitable

The Transatlantic Consensus sees rising inequality as the product of exogenous, inevitable events with an emphasis on technology and trade - including trade with the developing world. There is nothing to be done about rising market inequality. It is pure supply and demand.

But in this Lecture I have described an alternative story which sees the rise in inequality in market incomes as the product of changing social norms resulting in a shift away from a redistributive pay norm to one where market forces dominate. Social conventions in the labour market have changed within countries, and these have spilled out into other spheres, most notably in national tax and benefit systems. But the fact that the driving force is social in origin - rather than trade or technology - means that there is more scope for political leadership. Social norms can be influenced by policy decisions, and thus rising inequality is not inevitable.

Key Conclusions

Income inequality has increased sharply in some, but not all, OECD countries

Trade and technology are overemphasised as determinants of earnings inequality

Social norms are crucial determinants of income inequality

Progressive taxation and transfers can offset rising inequality in market outcomes

Policy can influence social norms - thus rising inequality is not inevitable

Editors Note: This article is a summary of the main arguments of the 1999 WIDER Annual Lecture delivered on 1 November 1999 in Oslo by Professor Atkinson. The full text of the lecture is available on UNU/WIDER's web site (www.wider.unu.edu). The lecture is also available as a UNU/WIDER publication (see page 15 for details of how to order our publications).

BY INVITATION

Global Inequality

by Richard Jolly

The gap between rich and poor nations is now at its highest ever level. OECD Research by Angus Maddison shows that differences in per capita income between the richest and poorest countries were only just above 3 to 1 in 1820 (with income measured in dollars and at constant prices). The gap grew over the 19th century: slowly at first, and then more rapidly until 1913. Inequality between nations continued to grow over the twentieth century, accelerating over the last forty years. The ratio of the average GNP per capita (1987 prices) of the richest countries with a fifth of the world's population, to the GNP per capita of the poorest countries with a fifth of the world's population, grew from 30 to 1 in 1960 to 60 to 1 in 1990, and to 74 to 1 at present. The OECD projects that the gap will grow even larger. The figure (on page 6) shows the dramatic difference in national fortunes.

Today, more than 80 developing and transition countries have per capita incomes lower than ten or more years ago. Twenty have per capita incomes lower than in 1960. These 80 countries contain some 1.2 billion people, nearly a quarter of the world's population.

Global inequality has largely slipped from view over the last two decades. Yet the conclusions of the International Commission chaired by the former Canadian Prime Minister Lester Pearson in 1969 are still valid: "The widening gap between the developed and the developing countries has become the central problem of our times". Global inequality exacerbates political instability in poor nations, encourages migration to the rich world, damages the environment and facilitates the spread of diseases such as HIV/AIDS and TB. Global inequality therefore affects everyone - the rich as well as the poor.

Too Few Transfers

The growth of global inequality should surprise none of us. The present international system lacks almost all of the mechanisms that exist within the developed world to support marginalised groups and offset inequality between regions. Aid transfers could fulfil this role, as they did under the Marshall Plan when, for four years, some 2 per cent of US GNP was transferred each year to Europe. Aid was also important in the early growth of South Korea and Taiwan. But at barely 0.2 per cent of global income, aid cannot achieve its potential.

It is true that private capital flows have grown rapidly. But private capital flows to developing countries are skewed towards a few Asian economies. Just 12 developing countries account for 80 per cent of investment flows from the industrial world to the developing world. The developing world as a whole has relied on foreign savings to only a very limited extent: 1.5 per cent in terms of GDP and 6 per cent in terms of investment according to OECD. Many of the poorest countries remain highly unattractive to private capital, notwithstanding their longer-term development potential.

Moreover, protectionism in the industrial countries - especially in agriculture which affects the export prospects of the poorest countries - hinders efforts to close the global income gap. Other constraints include the concentration of scientific and technological research on the problems of industrial countries, the long-term shift in the terms of trade against commodity producers, and the deterrent to investment posed by corruption.

Photo by F. Mattioli, FAO

Global inequality is associated with hunger: children in Bhutan

Closing the Gap

How can global inequality be reduced? International transfers have a role – but the primary long-run solution must be accelerated rates of pro-poor growth by developing countries themselves. All the least developed countries need to reach a minimum long run annual growth rate of 3 per cent per capita - a target set out in

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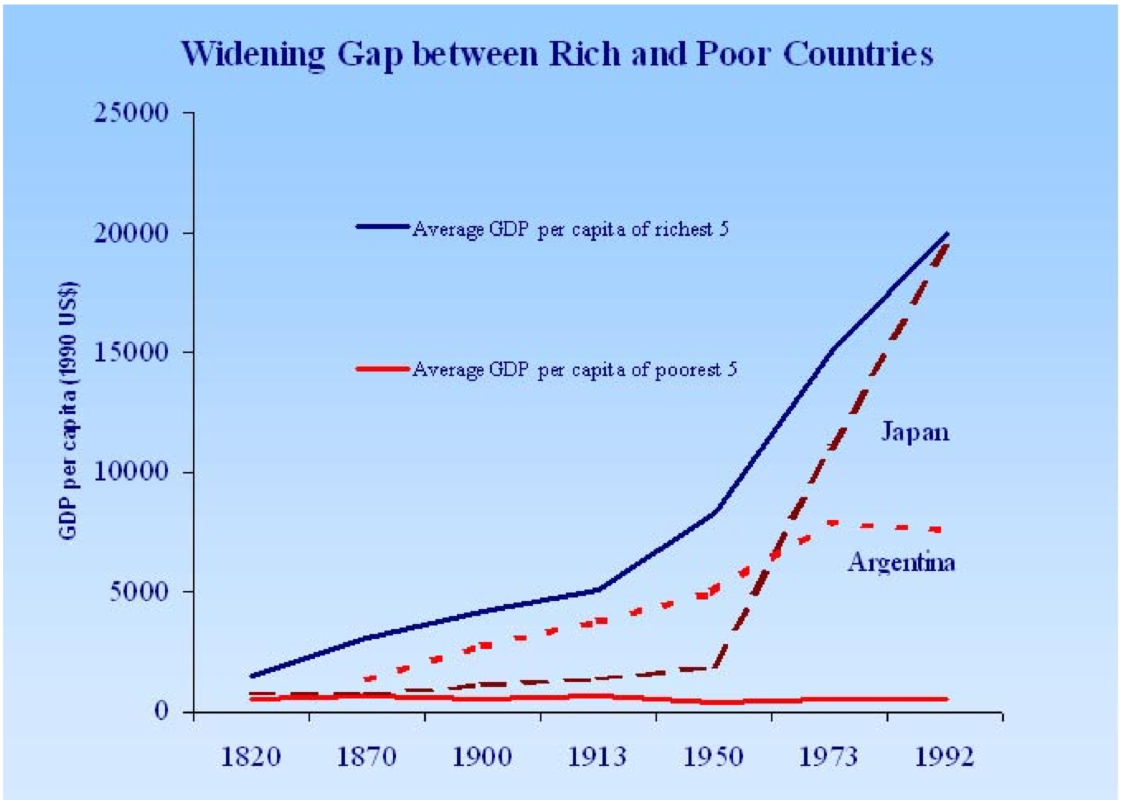

UNDP's 1996 Human Development Report. Growth must also be pro-poor and directed to human development. This requires large-scale investment in primary education and basic health care. But national efforts alone will be insufficient. International action to close the gap is crucial. The decline in Official Development Assistance (ODA) must be reversed and the decline in the share of ODA going to the 43 poorest and least developed countries must be halted and reversed. More must be done to encourage private investment in the poorest countries as well.

More than 80 developing and transition countries have per capita incomes lower than ten or more years ago. Twenty have per capita incomes lower than in 1960.

The OECD, the IMF and the World Bank now pay more attention to poverty reduction. This is to be greatly welcomed. But given the existence of enormous inequality on a global scale, these institutions need to do more. As a practical step, they should be asked to monitor the global gaps between the industrial countries and the main regional groups of developing countries, and report regularly on the progress of the less developed countries in achieving the 3 per cent per capita growth target.

Many people find it difficult to imagine a return to real growth in aid flows - public opinion appears to be against it. But UNDP recently and vigorously restated the strong case - both in principle and in practice - in favour of international support for global public goods. If the OECD countries removed perverse subsidies which damage the environment then up to $ 600 billion per year could be released for investment in global environmental protection and for human development in poor countries.

There is no shortage of ideas about what to do and how it could be done. The challenge is political rather than technical. When Nobel Laureate Jan Tinbergen made the case for international transfers he concluded that ".. the idealists of today are often the realists of tomorrow". We should heed his words.

Dr Richard Jolly is Principal Co-ordinator of the Human Development Report and Special Adviser to the Administrator, United Nations Development Programme.

Further information on UNDP and its work can be found at www.undp.org. Summaries of the 1999 Human Development Report can be found at www.undp.org/hdro.

For details of the new UNU/WIDER database on inequality see page 12 of this issue of Angle, or go to our website www.wider.unu.

Transition's Social Costs

by Vladimir Mikhalev

The transition to a market economy in Eastern Europe and the Former Soviet Union (FSU) has been associated with increased inequality and social stratification. Living standards have fallen for the majority of people, unemployment and poverty are high, the distribution of assets and earnings has changed radically, and social benefits have fallen. The social distance between the 'winners' and 'losers' of the reforms has widened dramatically. The UNU/WIDER project on 'Income Distribution and Social Structure during the Transition' analyses trends in social stratification and their causes with the aim of improving social policy in the transition countries.

Social structures have been deeply affected by macroeconomic and social-sector reforms. Differences in transition strategies across countries - and thus differences in the duration and length of recessions and inflation episodes - are important determinants of changes in social stratification. Social polarisation was further intensified by privatization - which shifted assets towards the wealthy - and by the rise in earnings inequality associated with changes in labour markets. Moreover, the collapse of the state created an administrative vacuum leading to the erosion of the social security system and a worsening situation for society's most vulnerable people.

Social Inequality has Risen Steeply

The FSU countries have seen inequality climb to levels comparable to Latin America. In Bulgaria, Russia and the other FSU countries, poverty now engulfs a third and, in some cases, half the population. Unemployment is a significant cause of poverty. Moreover, many pensioners are poor together with many children living in large and single-parent families. In contrast, a new elite has arisen. This small group consists of the *nomenklatura*, enterprise managers and younger professionals who have adjusted to the new situation.

Rising income inequality has been associated with profound changes in social structures. Socialist societies were stratified into 'status groups' in which social capital rather than economic capital - and social networks rather than market power - determined a person's status. These status groups have been replaced by new social classes in the transition to a market economy. People's prospects in life are now largely determined by their possession of assets, goods and income opportunities. Change has been widespread, but it is not yet complete. Post-communist economies remain mixed systems in which markets coexist with limited redistribution through the state. Mutual self-help also underpins the informal safety net.

This new pattern of social stratification is becoming clearer, although there are serious methodological and data problems in estimating its size. First, there is a new elite - the product of emerging capitalism. Second, the new commercial, managerial, and professional middle class has grown rapidly - despite the widespread perception that there is no middle class in post-communist societies. The available data suggest that about 6 per cent of Russians belong to the 'rich' or upper class, and 29 per cent to the middle class. Despite the rise of the new elite and the middle-class, the most numerous group consists of blue-collar workers, farmers, and state-sector employees. In Russia, this group accounts for 65 per cent of the population. About 8 per cent of this group consist of the most socially deprived and marginalized people who are in long-term poverty - their number has risen in the transition.

Photo UNICEF Finland

Abandoned child born to an HIV positive mother in Kaliningrad, Russia

In summary, there are some common trends across countries. But the UNU/WIDER study also highlights significant differences. Thus, the slowly reforming economies of the FSU now have very high inequality and social polarisation. Central Europe's transition countries have shown smaller increases in income inequality; their successful reforms resulted in the early resumption of economic growth.

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Inequality is Higher in FSU than in Central Europe

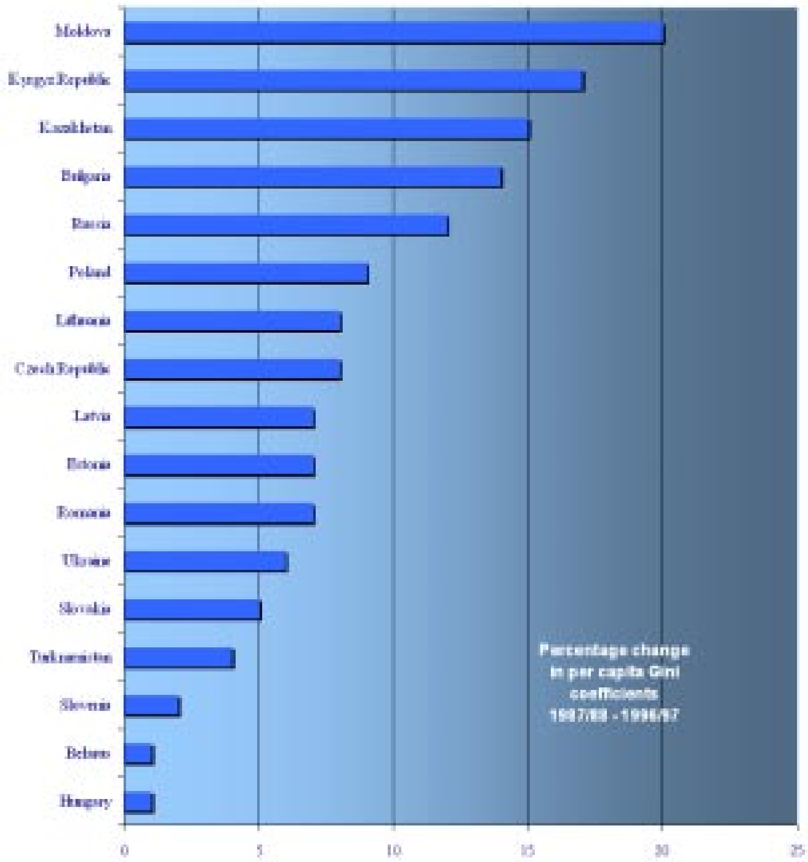
To deepen our understanding of these contrasting experiences, the UNU/WIDER study selected seven countries as case studies: Czech Republic, Kyrgyzstan, Poland, Romania, Russia, Ukraine, and Uzbekistan. These differ in their initial conditions, reform strategies, income-distribution patterns and evolving social structures. Six of the seven countries can be viewed as pairs; they have very similar initial conditions, but followed different reform strategies and/or exhibit different macroeconomic and social outcomes. These pairs are: Russia and the Ukraine; Poland and the Czech Republic; Uzbekistan and Kyrgyzstan.

The project's findings confirm that the Central European countries did not experience extreme social polarisation. The gap between the elite and the rest of society - and the size of the severely deprived group - is less than in the FSU. Many professional workers, especially the young, have successfully entered the market economy. In contrast, an extremely wealthy and powerful economic elite has emerged in Russia and some other FSU countries; this is coupled with the impoverishment and deprivation of many of the population. An extremely skewed income and asset distribution impedes the formation of a middle class - losers from transition largely outnumber the small and heterogeneous group of winners.

Social Polarisation must be Reduced

Social polarisation in the FSU has large economic costs. Not surprisingly, corruption and crime in the FSU is more widespread than in Central Europe where inequality has risen by less. Thus, a more active social policy - promoting better livelihoods and more investment in human capital - could have large economic returns. But there is also a need for more effective public transfers and income redistribution policies to alleviate and reduce poverty. Social cohesion cannot be ignored.

Changes in Income Inequality in FSU and Eastern Europe



Source: UNU/WIDER World Income Inequality Database

Social Polarisation in Transition Economies

Recession, inflation and privatization have increased inequality

New social classes have replaced old status groups

A new elite and a middle class have emerged alongside the socially deprived

Central Europe shows much less social stratification than the FSU

Social polarisation holds back economic prosperity

Dr Vladimir Mikhalev is a UNU/WIDER Senior Research Fellow, and directs the Institute's project on 'Income Distribution and Social Structure during the Transition'. Details of this, and other UNU/WIDER projects, are available on the web site (www.wider.unu.edu).

Conflict Prevention: Tackling Horizontal Inequalities

by Frances Stewart

The number of humanitarian emergencies has been escalating since the early 1990s. Between the early 1980s and the mid-1990s, humanitarian crises rose from around 25 a year to around 70, with an increasing number of deaths from fighting, famine and disease, as well as mass displacement. These humanitarian crises are mainly the result of internal wars. They are to be found in all parts of the world: in Asia (for example Afghanistan and Sri Lanka), in Africa (Sierra Leone, and Somalia - to name just two), in Latin America (for instance Colombia) and, of course, the Balkans. Not only do these wars cause huge suffering as a result of the fighting and the consequent human flight, but they are also a major cause of underdevelopment and poverty. Indeed, eight out of ten of the countries with the lowest income per capita have been at war in the recent past, or are so today. In the international community's fight against world poverty - now the central objective of the World Bank and the UK's Department for International Development - the prevention of such wars needs to be giventhe highest priority.

A recent UNU/WIDER research programme 'The Wave of Emergencies of the Last Decade' has explored the economic and social causes of civil wars, alongside the more accepted political and cultural factors. The study - which includes a dozen case studies - confirms that it is the interaction of economic and social factors with political and cultural divisions that leads to large-scale conflict. Low and stagnant per capita incomes are predisposing factors - in fact over half of the least developed countries have been subject to major conflicts, with causation working both ways - from conflict to low incomes and from low incomes to conflict. But the most important element seems to be *horizontal inequality*, i.e. inequality among groups in economic, social and political access and resources.

Groups are generally differentiated along cultural dimensions, for example religion (Northern Ireland), tribe (Rwanda and Burundi), clan (Somalia and Afghanistan), but sometimes class (Cambodia and El Salvador) or region. Group differences arise in part from genuine cultural differences that have developed historically. But they are accentuated, and sometimes created, by ambitious leaders who wish to use such differences as ways of mobilising people to fight, to further their own ambitions. The Balkans presents many clear examples. Yet ethnic or religious differences do not cause conflict unless they are associated with differences in access to political power, economic assets and incomes, as well as social access (to education and health services, for example) and social indicators.

Political power is clearly important, particularly as it is usually an instrument for acquiring economic resources and social access. In every one of the case studies, there were sharp group differences in political power - usually at every level, ranging from the top leaders including the cabinet, to the military, the civil service, the police, and so on. But these political differences were in turn associated with sharp economic and social differences; in Cambodia and El Salvador land was distributed very unequally among groups. In many countries, educational access was sharply differentiated - including Rwanda, Burundi, and Kosovo. In each case, policies of deliberate exclusion from access to education were adopted in order to prevent identified groups progressing economically and politically. These horizontal inequalities are a major cause of war, especially when they are consistent along a number of dimensions and when they are widening.

Photo Yugoslavia/Lemoyne, UNICEF

War in the former Yugoslavia left many homeless people

Policies to prevent conflict must address these horizontal inequalities, ensuring inclusive and balanced participation not only in political power, but also in the economic and social spheres. The need to reduce horizontal inequalities should be a prime criterion of aid in all conflict-prone countries, and should also inform the policy debate with governments in such countries. Yet at present, neither political conditionality (which insists on majoritarian democracy, which can exclude minority groups) nor economic and social conditionality as practised by the IMF and the World Bank, incorporates considerations of horizontal inequality. The IMF and the World Bank give priority to economic efficiency and poverty reduction in their policies - these will only coincidentally improve

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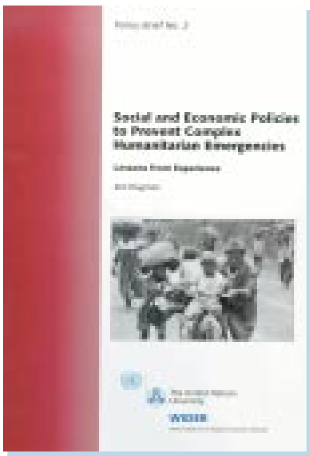
horizontal inequality. The same is true of the unregulated market, widely promoted by the international community. Explicit policies are needed to correct horizontal inequalities.

A few countries with sharp horizontal inequalities have recognised the need to take corrective action to sustain political stability; Malaysia is a prime example. The New Economic Policy introduced in the 1970s effectively corrected much of the imbalance between Malays and Chinese and probably prevented ethnic conflict. Today, South Africa is recognising the need for such an approach, but has so far only partially implemented it. But elsewhere, the need to reduce horizontal inequality should be a central aspect of policy towards conflict-prone countries. These include *all* low-income countries (because of their high propensity to conflict), any country which has experienced significant violent conflict over the last thirty years, and any country where horizontal inequalities are evidently high.

Professor Frances Stewart is the Director of Queen Elizabeth House, Oxford University and a co-editor of the volumes resulting from the research project on 'The Wave of Emergencies of the Last Decade', with Professors E. Wayne Nafziger and Raimo Väyrynen. Policy Brief No.2 summarises the main findings. Policy Briefs are available free of charge (see page 15 for ordering instructions or visit www.wider.unu.edu).



UN Secretary-General cites UNU/WIDER's Conflict Research

Photo by Pekka Elomaa

"A recent study completed by the United Nations University shows that countries that are afflicted by war typically also suffer from inequality among domestic social groups"

UN Secretary-General Kofi Annan with Giovanni Andrea Cornia during his visit to UNU/WIDER in August 1997

In his report to the Fifty-fourth Session of the General Assembly, UN Secretary-General, Kofi Annan, discussed the importance of understanding the causes of conflict as a first step to successful prevention:

"The causes of war are inherently more difficult to explain than those of natural events. Social behaviour is not subject to physical laws in the same way as cyclones or earthquakes; people make their own history, often violently and sometimes inexplicably. Causality is therefore complex and multi-dimensional, and it differs, often fundamentally, from war to war.

We can, however, identify some conditions that increase the probability of war. In recent years poor countries have been far more likely to become embroiled in armed conflicts than rich ones. Yet poverty *per se* appears not to be the decisive factor; most poor countries live in peace most of the time.

A recent study completed by the United Nations University shows that countries that are afflicted by war typically also suffer from inequality among domestic social groups. It is this, rather than poverty, that seems to be the critical factor. The inequality may be based on ethnicity, religion, national identity or economic class, but it tends to be reflected in unequal access to political power that too often forecloses paths to peaceful change.

Economic decline is also strongly associated with violent conflict, not least because the politics of a shrinking economy are inherently more conflictual than those of economic growth. In some instances the impact of radical market-orientated economic reforms and structural adjustment programmes imposed without compensating social policies can undermine political stability. More generally, weak Governments - and, of course, so-called failed States - have little capacity to stop the eruption and spread of violence that better organized and more legitimate Governments could have prevented or contained".

Source: United Nations 'Report of the Secretary-General on the Work of the Organization', General Assembly, Official Records, Fifty-fourth Session, Supplement No. 1 (A/54/1), paragraphs 15-18, page 2.

Public Events

Rubens Ricupero

Crisis of Development or Crisis of Globalized Markets?

The Asian economic crisis of 1997-1998 - the effects of which spread to Latin America and Russia - started as a financial crisis, but quickly took on larger dimensions. It disrupted international trade, caused serious recession, and had major social costs. The challenge posed by such crises, and the wider issues raised by instability in global markets, were addressed by Mr Rubens Ricupero, UNTAD secretary-general at a UNU/WIDER public lecture entitled 'Crisis of Development or Crisis of Globalized Markets?' on 1 September 1999.

Mr Ricupero emphasised the need to replace current ad hoc responses to crisis with more co-ordinated actions. At present, adjustment to crisis relies on measures such as steep interest rate increases and import compression - thus generating recession - and not enough on creating a virtuous circle of export expansion, economic growth, and increased import demand.

Mr Ricupero maintained that in many ways the global economy is entering dangerous waters without the map and compass that co-ordinated global action could provide. In particular the poorest developing countries have little influence in the global management of crises, and suffer unduly from its effects. Thus, Mr Ricupero concluded that policies and measures of a purely national character will do little to address problems originating at the global level.

EMU and the World Economy

The introduction of the single currency (euro) will affect economic integration and social conditions in Europe as well as the functioning of the international financial system - and thus conditions in developing and transition economies. These and other effects of the European Monetary Union were discussed on 11 November 1999 at a UNU/WIDER meeting on 'EMU and the World Economy'.

The topic was addressed by a distinguished panel consisting of Esko Aho, Member of the Finnish Parliament, Tommaso Padoa-Schioppa, Member of the Executive Board of the European Central Bank, György Surányi, President of the National Bank of Hungary, and Charles Wyplosz, Professor of Economics, University of Geneva. The meeting was chaired by Giovanni Andrea Cornia, Director of UNU/WIDER. The event was held in conjunction with the UNU/WIDER project meeting on 'EMU and its Impact on Europe and the Developing Countries'. Professor Wyplosz is project director.

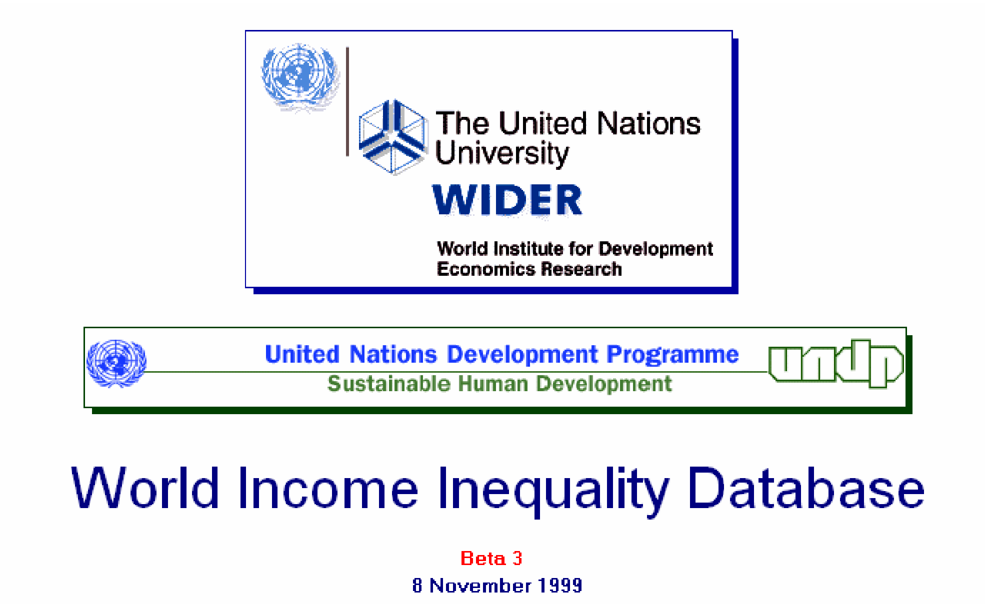
EMU offers major opportunities, but also challenges, for macroeconomic management in EMU members as well as in Europe's transition economies. EMU also has profound implications for the exchange-rate policies of developing countries, in particular for members of Africa's CFA Franc Zone. Other effects of EMU include its impact on world commodity prices - an issue of especial importance to low-income countries which are dependent upon primary commodity exports. These were just some of the issues discussed in a stimulating and lively debate.

Recent Support to WIDER

Sponsorship of the 1999 Annual Lecture by the Royal Ministry for Foreign Affairs of Norway, facilitated by Dr Leiv Lunde (State Secretary for International Development and Human Rights), is a result of recent efforts to expand Nordic support to UNU/WIDER. These efforts aim to promote co-operation and increase the Institute's visibility, as well as the impact of its research, among scholars and policymakers in the region. On 1 November the Royal Ministry provided an opportunity for Professor Giovanni Andrea Cornia and Professor Matti Pohjola to present UNU/WIDER's work and research programme to a special seminar attended by key persons in Norway working on development issues.

In December, the Finnish Ministry for Foreign Affairs made a financial contribution in support of four projects: EMU and its Impact on Europe and the Developing Countries; New Roles and Functions for the UN and the Bretton Woods Institutions; The Social Impact of Privatization and Regulation of Utilities in Latin America; and Globalization and the Obstacles to the Successful Integration of Small Vulnerable Economies.

Launch of the World Income Inequality Database



In November 1999, UNU/WIDER and UNDP officially launched the World Income Inequality Database (WIID). The WIID can be accessed and downloaded from both UNU/WIDER and UNDP's web sites (www.wider.unu.edu/wiid/wiid.htm or www.undp.org/poverty/initiatives/wider/wiid.htm).

The WIID is an output of the project on 'Rising Income Inequality And Poverty Reduction: Are They Compatible?' which is directed by Professor Giovanni Andrea Cornia. The project is jointly sponsored by UNU/WIDER and UNDP's Division for Social Development and Poverty Elimination, and also receives funding from the Government of Sweden (Sida).

Professor Cornia directed the WIID initiative, and UNU/WIDER researcher, Sampsa Kiiski, collated the data and constructed the database together with its documentation. Tony Addison, Juha Honkkila, and Renato Paniccià contributed to the development of the WIID, and valuable suggestions were made by participants at the July 1999 project meeting.

WIID collects and stores information on income inequality for industrialized, developing and transition countries in an easily retrievable, exportable and analysable format. It expands and improves upon the 1997 database constructed by Klaus Deininger and Lyn Squire of the World Bank; the WIID has almost double the number of observations in the Deininger-Squire database. The data can be readily graphed and easily analysed in statistical packages.

The WIID contains some 4600 data points, of which 4582 have Gini coefficients and 1586 are also available as quintile, decile, or other forms of grouped income distribution. The observations come from 149 countries, with good time-series coverage for most regions with the exception of Sub-Saharan Africa, the Middle East and North Africa. As the data points originate from different sources and refer to a variety of income and population concepts, sample sizes and statistical methods, they have been scrutinised one by one and assigned to two broad categories: 'Reliable Data' and 'Less Reliable Data'. Any users intending to use the WIID for cross-section analysis should first examine the data closely in order to satisfy themselves as to the national comparability of their chosen data.

The WIID is particularly suitable for analysing changes in inequality within countries and over time. Analysis using the WIID shows a widespread rise in income inequality since the early 1980s. These conclusions - and many others that can be drawn from the database - are highly relevant to the current policy debate on inequality and poverty reduction. Indeed, the rise in income inequality poses a severe challenge to the poverty reduction targets adopted by the international community, and may also jeopardise economic growth, social cohesion and governance. In launching the WIID, both UNU/WIDER and UNDP hope that the data will help stimulate debate on inequality, its causes, and its effects.

UNU/WIDER 2000 - 2001 Research Programme

The December 1999 session of the UNU Council approved UNU/WIDER's research programme for the next biennium. This followed the recommendations of the 15th session of the UNU/WIDER Board, held in June 1999 (see *WIDER Angle*, August 1999). The programme contains eleven priority projects under five themes. Implementation is contingent upon the recruitment of project directors and funding.

Transition

Privatization, Unemployment and Welfare in China. China has achieved fast growth and poverty reduction. But unemployment and income inequality have risen, and the current privatisation and restructuring will exacerbate these problems in the short term. The viability of the 'Chinese road to the market' is increasingly questioned. This project will assess the issues.

Sub-Saharan Africa

Institutional Capabilities, Reform Ownership and Development in SSA. Policies continue to be donor-driven despite attempts to increase local 'ownership'. This problem, and institutional weaknesses, limit growth in SSA. The project will analyse institutional constraints and identify ways to promote ownership and state capabilities.

Institutional, Poverty and Distributive Issues

The Social Impact of the Privatization and Regulation of Utilities in Latin America. This region has now undertaken extensive privatization. But insufficient attention has been paid to regulating privatized enterprises in the public interest. The project will assess how privatization and regulation can be improved, particularly in the light of experience elsewhere.

Insurance against Poverty. People in developing countries face many risks. They can partially insure each other through mutual support but most people cannot obtain formal insurance. The incomplete insurance market therefore limits growth, and poverty reduction. The project will evaluate alternatives in widening insurance provision for households, especially the poorest.

Refugees, International Illegal Migration and Poverty. Poverty, violence, and 'ethnic cleansing' now drive millions of people from their homes. Much of this migration takes place through illegal channels, leading to the exploitation of refugees. This project aims to document the extent of this phenomenon, to assess its economic and social impact on sending and receiving countries, and to develop humane policy recommendations.

New Fiscal Policies for Growth and Poverty Reduction. Many developing countries are characterised by weak fiscal institutions, insufficient public spending on priority investments and the instability associated with repeated fiscal crises. This project examines public expenditure management, taxation, and macro-fiscal policy in order to increase their focus on growth and poverty reduction .

International Financial and Growth Issues

Financial Contagion: How Does it Spread, How Can it be Stopped? The financial turbulence in East Asia in 1997 shows that international financial markets can be excessively volatile and can spread disturbances between countries. This project will analyse contagion's causes, and will identify suitable policies.

Information Technology, Employment and the Future of Work. There is much concern that the IT revolution is reducing jobs for the unskilled and widening wage differentials in both developed and developing countries. However, IT's effects depend on labour-market institutions which differ significantly across countries. This project will examine IT's impact on job creation and destruction in developed and developing countries, and the effect of labour-market institutions.

Property Rights Regimes, Micro-economic Incentives, and Development. A clear property rights regime facilitates investment and growth. Private property is often thought to be the best system. But this is not always the case when markets are imperfect and institutions are weak (for example regulation). This project will evaluate alternative property rights regimes at different development stages.

National and Global Governance

Globalization and the Obstacles to the Successful Integration of Small Vulnerable Economies. Many of the obstacles to the meaningful participation of vulnerable developing economies in the international system are domestic in origin, but external factors beyond the control of these countries have an important role as well. This project analyses these factors and develops policies that address both domestic obstaclesand external constraints.

Why Some Countries Avoid Conflicts while Others Fail: the Impact of Public Expenditures. For each country in conflict there are many others with similar characteristics that are at peace. This project aims to understand why this is the case. Special attention will be given to the role of discrimination in public spending and public employment in causing conflict, the importance of other causes, and the role of the state in promoting social stability.

News and Events

Project Meetings 2000

19-21 May, Helsinki, 'Globalization and the Obstacles to the Successful Integration of Small Vulnerable Economies' *Project Director, Dr. S. Mansoob Murshed.*

22-23 September (tentative) 'Information Technology, Employment and the Future of Work', *Project Director, Professor Matti Pohjola.*

6-7 October (tentative) 'The Social Impact of the Privatization and Regulation of Utilities in Latin America', *Project Co-Directors, Dr Cecilia Ugaz and Professor Catherine Waddams-Price.*

17-18 November (tentative) 'New Fiscal Policies for Growth and Poverty Reduction', *Project Director, Professor Tony Addison.*

Board Meeting

19-20 June, Helsinki, UNU/WIDER, 16th session.

Lecture Series

UNU/WIDER research staff teach a range of courses at the University of Helsinki and the Helsinki School of Economics and Business Administration as well as at institutions outside Finland. These courses are offered to full-time registered students in the respective universities.

Forthcoming courses

IT and Economic Growth at UNU/INTECH in Maastricht, The Netherlands (1-3 February 2000), *Professor Matti Pohjola.*

The Economics of Development (Advanced Course) at the University of Helsinki, 14 March - 20 April 2000. Main building, lecture room 6. *Lecturers, Tony Addison and Mansoob Murshed.*

Staff Movements

Ms **Nina Penttinen** joined the Institute on 8 November for a four month period as a part-time temporary assistant to help with the work on the physical inventory of the UNU/WIDER Library.

Dr **Laixiang Sun**, International Institute for Applied Systems Analysis, has been appointed as a Research Fellow/Project Director for 'Property Rights Regimes, Microeconomic Incentives and Development' starting in January 2000.

Professor **Catherine Waddams-Price**, University of Warwick, is expected to join in January 2000 as an External Project Co-Director for 'The Impact of Privatization and the Regulation of Utilities and Social Services in Latin America'.

Mr **Eyob Zere Asbu** and **Mr Philippe LeBillon**, left the Institute at the end of October and November, respectively, on completion of their internships under the project on 'Underdevelopment, Transition and Reconstruction in SSA'.

Professor **Yung Chul Park**, resigned as External Project Director for the project on 'Financial Contagion', effective 28 November.

Professor **Richard Auty**, Project Director for 'Environmental, Export and Human Development Problems in Natural Resource-based Growth Models', completed his assignment on 31 December and has returned to Lancaster University.

Professor **Robert McIntyre**, Project Director for the project on 'Transition from Below: The Role of the New Private Sector' completed his assignment on 31 December. He is now with UNDP, Bratislava.

Professor **Giovanni Andrea Cornia**, Director, completed his assignment (and secondment period from UNICEF) on 31 December. He has returned to UNICEF (outposted to Florence) to take up the position of Senior Adviser to the Deputy Executive Director of UNICEF.

Professor **Tony Addison** was promoted to the position of Senior Research Fellow, effective 1 December.

Professor **Matti Pohjola**, Principal Academic Officer, has been appointed by the Rector to serve as Director, a.i. of WIDER and as such Officer-in-Charge until such a time as the new Director is appointed and assumes her/his position.

Participants in the project on 'Group Behaviour and Development', September 1999

UNU/WIDER Publications

New Titles August - December 1999

The 1999 WIDER Annual Lecture

free of charge

WAL3 **Is Rising Income Inequality Inevitable? A Critique of the Transatlantic Consensus**, Anthony B. Atkinson, November 1999, sponsored by the Royal Ministry of Foreign Affairs of Norway

World Development Studies

USD 12.00 / FIM 45.00

WDS13 **Aspects of Transition**, edited by Harriet Matejka and Mihály Simai, August 1999

WDS14 **The Evolutionary Dynamics of China's Small- and Medium-Sized Enterprises in the 1990s**, Laixiang Sun, Edward X. Gu and Robert J. McIntyre, October 1999

WDS15 **Global Scenarios and Policies on Forest Transitions and Carbon Fluxes**, edited by Matti Palo, December 1999

Research for Action

USD 8.00 / FIM 30.00

RFA49 **The Role of Small and Medium Enterprises in Transition: Growth and Entrepreneurship**, Robert J. McIntyre, August 1999

RFA50 **Systemic Capital and Local Government in SME Growth: The Case of Hungary with Russian Implications**, Bruno Dallago, October 1999

RFA51 **Communist and Transitory Income Distribution and Social Structure in the Czech Republic**, Jirí Vecerník, December 1999

Working Papers

USD 5.00 / FIM 20.00

WP162 **Resource-Led Growth – A Long-Term Perspective: The Relevance of the 1870-1914 Experience for Today's Developing Economies**, Ronald Findlay and Mats Lundahl, July 1999

WP163 **On the Regulation of Telecommunications Markets**, Manfred J. Holler, August 1999

WP164 **Kyrgyzstan: A Case Study of Social Stratification**, Vladimir Mikhalev and Georges Heinrich, September 1999

WP165 **A Macroeconomic Model of a Developing Country Endowed with a Natural Resource**, S. Mansoob Murshed, September 1999

WP166 **Development Discontinuities: Leaders and Intermediaries in Producers' Associations,** Tito Bianchi, October 1999

WP167 **Natural Resources and Economic Growth: A Nordic Perspective on the Dutch Disease**, Thorvaldur Gylfason, October 1999

WP168 **Guinea-Bissau: War, Reconstruction and Reform**, Jens Kovsted and Finn Tarp, November 1999

WP169 **The IMF Model and Resource-Abundant Transition Economies: Kazakhstan and Uzbekistan**, Richard M. Auty, November 1999

WP170 **Regulation of Social Services in LDCs: What are the Issues at Stake?**, Cecilia Ugaz, December 1999

WP171 **Rebuilding Rural Livelihoods and Social Capital: Mozambique's Experience**, Clara de Sousa, December 1999

Research in Progress

free of charge

RIP22 **Selecting Priorities for Poverty Reduction and Human Development: The Case of Ethiopia**, Arne Bigsten, August 1999

RIP23 A **Land Cursed by Its Wealth? Angola's War Economy 1975-99**, Philippe Le Billon, October 1999

RIP24 **Demobilization, Land and Household Livelihoods: Lessons from Ethiopia**, Daniel Ayalew, Stefan Dercon and Pramila Krishnan, December 1999.

WIDER Publications

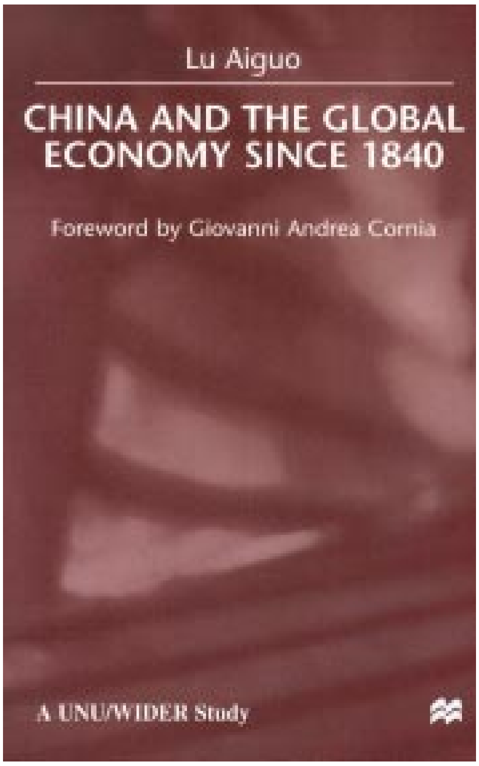
Publications such as the Research for Action series, Working Papers, Policy Briefs, Newsletters, and the Public Lectures are available on the web site **www.wider.unu.edu.**

Books are available from the publishers and their outlets at the list price plus handling and mailing costs.

Please address your orders for UNU/WIDER publications to Ms Tuula Haarla at the address given on page 16 or send your order via e-mail to tuula@wider.unu.edu.

Payment by: USD bank draft payable to UNU/WIDER; credit card (Amex, Eurocard, MasterCard, OK, Visa); and in FIM/euro or USD to the Institute's bank account (please ask for details). An invoice will be provided on request.

New Books



China and the Global Economy since 1840, by Lu Aiguo, Macmillan Press Ltd, UK; and St. Martin's Press, Inc., USA, 1999, 223 p. ISBN 0-333-77721-2 hb (Macmillan Press), and ISBN 0-312-22628-4 hb (St. Martin's Press)

This is a study of the long-run evolution of the relationship between China and the world economy. The book presents an original interpretation of the country's socio-economic processes in the past 150 years, focusing on China's interaction with the expanding capitalist world economy. The author argues that the general thrust of China's quest for development or 'modernization' has been to catch up with the wealthy nations of the West, and goes on to explain the changing paths and outcomes. The book proceeds chronologically from China's mid-nineteenth-century incorporation into the world economy, starting from a semi-colonial state to the Maoist state-led industrialization after 1949, and to the post-Mao liberalization. By carefully examining the patterns of development in these three major periods of the nation's history, it addresses fundamental issues pertaining to the making of modern China. This rigorously argued book will be a timely and much debated contribution to understanding the 'rise of China'.

Books are available from the publishers and their outlets.

The United Nations University

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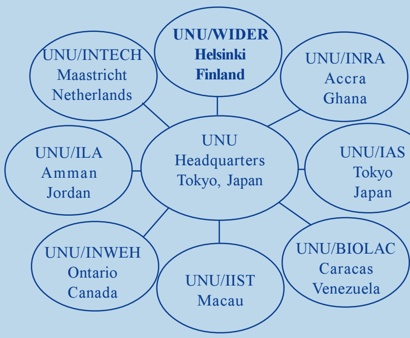
World Institute for Development Economics Research

UNU/WIDER was established by the UNU as its first research and training centre and started work in Helsinki, Finland, in 1985. Through its research and related activities, UNU/WIDER seeks to raise unconventional and frontier issues and to provide insights and policy advice aimed at improving the economic and social development of the poorest nations.

WIDER *Angle* is the newsletter of the World Institute for Development Economics Research of the United Nations University (UNU/WIDER). Published twice a year, the newsletter focuses on the Institute's research activities. It is distributed free of charge. The newsletter is also available on our website at: www.wider.unu.edu.

Editorial contents by Tony Addison, (e-mail: addison@wider.unu.edu). Design and layout by Ara Kazandjian, (e-mail: ara@wider.unu.edu).



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