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Discussion Brief: Costs of inequality and exclusion

DISCUSSION BRIEF FOR THE GRAND CHALLENGE ON INEQUALITY AND EXCLUSION

PAUL VON CHAMIER | OCTOBER 2019

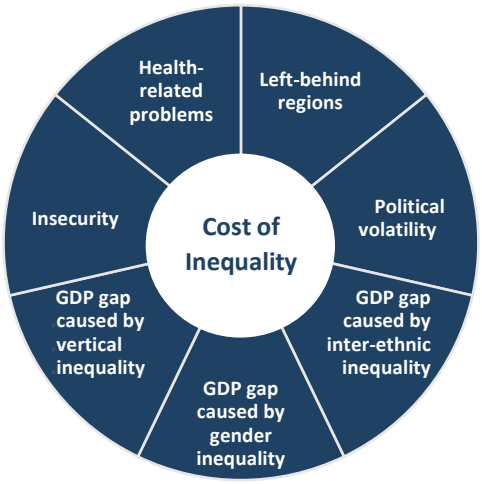
Inequality and exclusion harm society in a number of ways, ranging from fraying trust in institutions and increasing volatility in politics, to causing economic damage, physical insecurity, and higher rates of crime and suicide. Even problems such as obesity, anxiety, and teen pregnancy are found to be amplified by inequality and exclusion.

Yet the most fundamental argument against inequality and exclusion will always remain a moral one. Entrenched socio-economic division infringes upon human dignity. A fair society demands respect for human rights and the opportunity for participation and personal fulfillment. Nevertheless, this brief lays out an array of tangible costs to show that inequality is damaging not only on normative, but also social and economic grounds.

Damage done by inequality and exclusion

Inequality and exclusion are central political problems today.

- **Anger over inequality and exclusion is a formidable political force.** When economic inequality index rises by 1 percent, it correlates with a fall of state legitimacy index by 0.23 percent.[1] This means volatile politics and social unrest. Averaged across 36 developed countries, the number of government changes per decade increases by 1 for every 6-point increase in Gini coefficient.[2] People's anger erupts when some situation can serve as a lightning rod for their frustration. Corruption, a significant driver of economic inequalities,[3] can be such a lightning rod: all bar one of the examples in Civicus' State of Civil Society Report 2018 of successful mass political mobilization relate to corruption. Recent country cases show a similar pattern.[4]



- **Political inclusion and trust between groups is declining.**[5] Trust between social groups has fallen worldwide, from 45 percent to 38 percent in relation to other religious groups and 40 to 35 percent in relation to people of different national origin.[6] The Edelman Trust Barometer shows that the trust gap between informed citizens and general population returned to record highs in 2019.[7] Elites' perceived indifference to inequality erodes state credibility and popular mandate, feeding populism. This is by no means restricted to developed countries: in the Arab world, grievances about "hogra" (Algerian dialect meaning a sense of disdain by elites) were critical in driving protests in 2011.

Inequality has a strong territorial dimension.

- **Successful urban centers such as New York, Shanghai, or Sydney generate a powerful network effect, absorbing capital and talent.** The bulk of economic growth and productivity gain enabled by technological progress is now concentrated in a handful of cities. In his book *The Future of Capitalism,* Sir Paul Collier compellingly describes how this phenomenon creates unearned rents and distorted incentives for the lucky ones who can capture them, leading to the misallocation of resources.[8] He applies this critique to both property owners who surf the wave of asset appreciation, as well as to high-end professionals who enjoy impressive salaries.
- **National statistics belie large gaps across sub-national regions and within cities that undercut intergenerational mobility.**[9] Harvard research shows that the city block in which children are born in Manhattan correlates strongly with their income decades later.[10] A widely discussed study on São Paulo in Brazil finds similar patterns: two neighborhoods in close proximity, Pinheiros and Parelheiros, have human development indices respectively equivalent to Switzerland and Iraq.[11] Entrenched zip code privilege adds to the ongoing collapse of intergenerational mobility. Global data on income and educational attainment reveal that improvements on intergenerational mobility have come to a halt since the early 1980s and even reversed in a number of countries.[12] People from underprivileged backgrounds find ever fewer opportunities for social mobility, which translates into lower productivity, growth, and investment. Research shows that this could be avoided if more children grew up in mixed-income areas where poorer families have the ability to catch up with others[13]—an ever-rarer situation in a landscape segregated by income.
- **Disparities between regions hurt the quality of public services such as education and healthcare.** Citizens perceive public services to be poor and falling across much of the world. Most regions have seen a decline in citizen trust in the civil service since the financial crisis of 2008, after a period of rising trust in the 1990s and 2000s. Decline of service quality is more pronounced in poorer regions, outside the main economic hubs. This is consistent with the fact that much of the funding for public services is sourced from local taxes. Self-segregation of high-income families creates pockets of plenty at the expense of other areas. The marginal improvements in the quality of public services in such wealthy neighborhoods is insufficient to compensate for the commensurate deterioration of services for the rest of the society.

Health-related problems are compounded by inequality and exclusion.

- **Inequality means more unplanned teenage pregnancies and a higher infant mortality rate.** A study from Brazil reveals that a 1-point increase in a national Gini coefficient results in 32 more births for every 10,000 girls between the age of 15–19.[14] Similar studies done in other Latin American countries and the United States found consistent results, with both income and education inequality driving up

pregnancy rates among school-age girls.[15] Teenage pregnancies are proven to both diminish the life prospects of young mothers, as well as place a burden on social protection systems. Women often end up excluded from the labor force, bequeathing poverty to the succeeding generation in a pattern that reinforces the overlap between income inequality and identity-based exclusion.[16] Newborn infants are also higher risk of dying in unequal societies. A 1-point increase in the Gini coefficient is associated with a 3 percent higher rate of infant mortality due to communicable diseases.[17]

- **Income inequality drives up obesity rates and associated diseases.** Poverty-induced stress and the experience of childhood deprivation are imprinted in a person's eating habits.[18] A study of 31 OECD countries found that around 20 percent of variation in weight in a society is driven by income inequality, with a 1-point increase in the Gini coefficient corresponding to a 1 percentage point increase in the obesity rate among women and a 0.82 percentage point increase among men.[19] Analogous results were observed in Latin America.[20] A study in Ghana found that the correlation might reverse in the poorest countries and then alter direction as a society becomes richer.[21] Obesity is linked to non-communicable diseases, most notably type-2 diabetes, cardiovascular disease, gallbladder disease, and cancer, which burden the healthcare system.[22] Change in the Gini coefficient explains around 80 percent of change in diabetes mortality rate among developed countries of similar income.[23]
- **Even wealthy people suffer from more anxiety in high-inequality countries.** Anxiety declines as incomes rise, but is higher for everyone in more unequal societies. The richest 10 percent in high-inequality countries are actually more anxious and depressed than all but the bottom 10% in low-inequality countries.[24]
- **Anxiety contributes to a variety of mental illnesses and aggravates problems like drug abuse and suicide.**[25] The pattern is striking. Both depression and drug use are higher in more unequal neighborhoods of New York City, in more unequal American states, and in more unequal countries.[26] This is likewise the case for suicide rates. A number of studies analyzing data from more than 90 countries point to a consistent pattern: more inequality translates to more suicides.[27] A study from Brazil assessed that each 10-point increase in the Gini coefficient results in a 5.5 percent increase in the suicide rate.[28] Even if mental illness is avoided, income inequality reduces life expectancy.[29]

Everyone is less safe in unequal societies.

- **A World Bank study of 39 countries showed a robust linkage between inequality and homicide.** In Mexico, every 1-unit increase of the Gini coefficient corresponds to 10 more homicides per 100,000 people.[30]
- **Economic exclusion of identity groups and women leads to more conflict and violence.** The 2018 UN/World Bank Pathways to Peace report notes that "many of today's violent conflicts relate to group-based grievances arising from inequality, exclusion, and feelings of injustice."[31] Economic inequality between ethnic groups increases the risk of conflict—in countries with high levels of education inequality between different ethnic and religious communities, the risk of violent conflict was double that of countries where education was more equitably distributed across groups.[32] Other types of exclusion raise the risk of conflict too. Exclusion of ethnic groups from power—political exclusion—is even more strongly related to conflict than socio-economic inclusion.[33] The status of women in relation to men, in particular their vulnerability to domestic violence, is also a good predictor of the country's propensity for violence and war.[34]

Vertical income inequality stunts economic development.

- **The GDP gap caused by vertical income inequality could be in the range of 20–35 percent.** Constrained talents and social mobility limit productivity growth.[35] Political volatility creates uncertainty that hurts economic investment.[36] A recent IMF study calculated the optimal Gini coefficient to be around 27 points.[37] Instead, both the mean and median national Gini is around 38 points globally,[38] and a 1-point increase in the Gini coefficient decreases long-run GDP by 2.5–3 percent on average[39] for a median-income country.[40] The resulting loss of potential GDP can be estimated to be in the range of 20–35 percent.[41] A high Gini coefficient is positively correlated with GDP for the very poorest countries, but transitions to become a drag on growth after a country passes a threshold of around $3,000 of GDP per capita PPP in 2015 terms.

Gender inequality and exclusion hurts the economy.

- **The GDP gap caused by gender discrimination is in the range of 15–26 percent.** Studies dealing with this subject suggest the figure ranges from 15 percent (OECD[42]), through 16 percent (UN Women[43]), all the way to 26 percent (McKinsey[44]). This number certainly captures some of the GDP gap discussed in the above section, due to the overlap of vertical and horizontal forms of exclusion and inequality.

Excluding ethnic groups lowers potential GDP.

- **The GDP gap caused by ethnicity-based discrimination could be between 15 and 30 percent worldwide.** The estimate is based on a study by Harvard Professor Alberto Alesina. The study draws on data on GDP differences between regions representing various ethno-linguistic groups from 164 countries. It uses information on night sky luminosity, geographic differences, and various development indicators as controls. By taking the population-weighted global ethnic inequality score and calculating its possible GDP impact, a range of 15-30 percent of GDP emerges.[45] This estimate certainly also overlaps with the vertical inequality GDP gap, due to a strong linkage between ethnicity-based and class-based inequality and exclusion in many countries.

Endnotes

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