Horizontal Inequalities:
Explaining persistence and change

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1. Introduction

Horizontal Inequality (HI) is defined as inequality among culturally defined (or constructed) groups, in contrast to Vertical Inequality (VI) which is inequality among households or individuals. HIs are multidimensional, including a political and social dimension, as well as economic, and a range of elements in each of these dimensions. There is evidence that in many, but not all, cases HIs persist over long periods. For example, black/white differentials in the US, or indigenous/Ladino differentials in Latin America have been in existence for centuries. In contrast, some immigrant groups were poor relative to the national average, initially, but soon climbed to above the national average.

HIs matter to people and society for a variety of reasons: because group members identify with their group and the well-being of the groups affects their identity (Akerlof & Kranton, 2000; Brown et. al., 1999); because such inequalities affect efficiency since the potential of the deprived group is not realised; and, perhaps most serious, because they can lead to political instability (Gurr & Harff, 1994; Stewart, 2001; Mancini, 2005; Østby, 2003). Hence it is important to seek the sources of such inequalities, particularly if they are persistent. This paper considers what determines the socio-economic HIs over time, why they are so persistent in some cases but prove temporary in others.

In considering this issue, we draw on previous work on this issue, both theoretical and empirical. For example, Tilly has made important contributions on both fronts, mainly considering the US situation (Tilly, 1998). Recent work by Mogues and Carter, (2005) has considered theoretical issues, this time with a greater focus on developing countries, while there have been a number of empirical studies with bearing on the

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issue (e.g. Adato, 2006; Borjas, 1992, 1995; Durlauf, 2002). These analyses have generally focussed on one or two elements accounting for HIs over time. We adopt a more comprehensive approach, aiming to incorporate all important factors explaining change in HIs over time, both economic and political. This comprehensive approach is important because of interactions among the various factors, which is relevant to persistence, and because it permits identification of a wider range of policies.

The paper is organised as follows: the next section considers some definitional issues, and in particular the relationship between HI and VI. Section III develops a theoretical framework for understanding the evolution of HIs over time. Section IV draws on empirical examples of long-run HIs to illustrate what happens to HIs in a variety of cases, and which parts of our framework seem to account for the changes. Section V concludes with some policy implications.

2. Definitions and the relation between HI and VI.

A first important issue in measuring and analysing HIs is how groups are defined. One can classify people into groups in many ways and how one does so will change both the extent and the persistence of HIs. In this paper, we are analysing classifications which have clear meaning to members of the groups and to others in society. Members of groups need to be recognisable as such to themselves, and, perhaps more importantly, to others (including outsiders as observers) if the groups in question are to have economic and political consequences. It must also be difficult to move from one group into another, if inequalities are to be persistent because if group membership can readily be changed, then those in deprived groups could escape deprivation by moving into privileged groups. This does not mean that NO change in group membership is possible – all groups are blurred at the edges, with intermarriage, among other factors, weakening group boundaries. It means that switching group membership is not possible for the majority of members, unlike, for example, membership of a particular sports club. Since we are discussing persistent inequalities – persisting not just over the lives of particular individuals but also over generations – the group markers (signs that differentiate group members) must also be persistent. The sort of groups we are discussing here are ethnic groups – where history, language, symbols and behaviour differentiate people; immigrant groups,
differentiated by history, and sometimes by physiology, language, etc.; racial groups, differentiated by physiology, history and sometimes language, and religious groups, differentiated by adherence to particular beliefs, membership of religious institutions. In each case, the boundaries are often unclear; in each case, people can sometimes change membership (particularly in the case of religion); yet in each case, there are recognised markers that differentiate people.

As is well-known, there is vigorous controversy about the origins of such classifications, ranging from the primordial to the constructionist approach (For useful reviews of this issue, see for example: Allen & Eade, 1997; Banks, 1996; Turton, 1997; and Ukiwo, 2005). In this paper, we take a constructivist approach, but assume that constructions of difference are not entirely arbitrary but stem from some differences in markers which allow persistent differences in the way the group behaves and is treated, with consequences for HIs. But we should note that there is fluidity about some constructions; new salient groups emerge and others may disappear, and these changes also lead to changes in the actual HIs and the way we describe and measure them.

It is important to emphasise the multidimensionality of the inequalities we are discussing, because these lie at the heart of the question we are addressing – i.e. the persistence of HIs. The three major dimensions, economic, social and political, each involve a vector of elements. Thus the economic dimension includes income, and access to assets of various kinds, the relevance of which varies according to the society (e.g. land access is important in most developing countries, but less so in developed countries). Employment opportunities are also a critical aspect. The social dimension includes various social outcomes, such as life expectancy, infant and child mortality, educational attainment, and access to services, such as health services, schools and universities, sanitation and water supplies, housing and so on. It is obvious that these lists – which are not comprehensive – are an amalgam of outcomes and inputs, and some are both. Outcomes are most relevant to well-being, but access to inputs is necessary to improve outcomes – hence it is important to include both. This inter-meshing of inputs and outcomes renders analysis underlies and complicates the causes of persistence, as we discuss further below. The political dimension covers participation in important political decision-making and implementation, such as the
presidency and cabinet, elected assemblies, the civil service, the military and the police. Political dimensions can and do change rapidly – in contrast to the economic and social dimensions.

**Horizontal and vertical inequality: a clarification**

Total VI in a society can be decomposed into between group (HI) and within group inequality. In principle, its possible for incomes and assets to be spread evenly across groups so that HIs are very low (or non-existent) while VI might be quite high. If group boundaries are very loose, so people can readily change groups, one might expect this to be an equilibrium situation. HIs arise where group boundaries are relatively impermeable. Even if group boundaries are fairly tight, if HIs of all sorts (including political as well as economic) are low, group identity is unlikely to be important as a source of political identity. Horowitz has differentiated between ‘ranked’ and ‘unranked’ societies, with the former having different groups in a systematic hierarchical, and hence displaying high HIs while the latter consists of a more equally distributed set of groups, and having low HIs (Horowitz, 1985).

There have been numerous investigations into the relative importance of between and within group economic inequality (e.g. Anand, 1983; Borooah et. al., 1995; Papatheodorou 2000; Majumdar & Subramanian, 2001; Pradhan et al. 2001; Zhang and Kanbur 2003; Noobakhsh 2005). In general, within group inequality accounts for far more of the total vertical economic inequality than between group inequality. This is to be expected given that group performance is the average of large numbers of individual performances, so that within group variation reduces the variation in HIs. Some authors have concluded from this finding that HIs are not important. But this is an incorrect conclusion, because HIs can be individually and politically important, irrespective of the proportion of total inequality accounted for. Nonetheless, HI typically forms an important component of VI. Reducing/increasing HI can then be an important component of changing VI statistically. In some situations, it may not be possible to reduce VI significantly without adopting policies to counter HIs, since a major cause of VI stems from the causes of HI. An example is that of apartheid South Africa, where Apartheid had to be tackled if VI was to be reduced, or poverty among
the black population in the United States which requires policies to address group disadvantage, as well as policies towards individual disadvantage.

Churning is possible with VI – i.e. the same overall inequality may be associated with different individuals/families being in the lower/upper segments of the distribution, when there is upward or downward mobility. For example, one study of China found that 50% of poverty in four rural provinces was transient (Jalan & Ravallion, 2000). In Uganda, a study in the Central and Western regions showed that 24% of households moved out of poverty in a 25 year period, 15% moved into poverty, and 23% were chronically poor – i.e. poor over the whole period (Krishna, 2005). A study of developed countries found that ‘In most European countries, the combination of modest inequality and extensive mobility among the poor enabled virtually all families to avoid relative deprivation at least occasionally’ (Duncan, 1993, p.255).

With persistent HI, individuals/families are ‘trapped’ to a greater degree, so that a higher proportion of families in deprived groups remain deprived over time. In other words, persistent HIs imply lower levels of churning among the poorest group(s). This is confirmed by a range of studies. For instance, Duncan (1993), Devine et al. (1992) and Corcoran (1995) found much greater persistence of poverty among the black population in the US. A similar differentiation according to race was found by a study in rural Appalachia (Blee & Billings, 1996). Evidence for Kenya and Madagascar shows that people in remote and poor agro-ecological sites show more persistent poverty than those in more favourable areas (Barrett, 2006).

Hence the welfare cost of inequality is likely to be higher taking lifetimes or even generations as the unit to be concerned about. Moreover, possibilities and expectations that a person faces affect the extent to which inequality hurts them, so that group inequality can be more damaging for individual well-being than similar inequality among a homogeneous population because people in deprived groups may feel trapped in their situation.
3. A framework for considering the evolution of HIs

HIs are multidimensional, as noted above. In our framework, however, we focus primarily on income, despite the importance of political and social dimensions as well as other important elements in economic inequalities (such as access to different types of capital). We focus on income because it is a fundamental dimension of economic welfare and a source of many other inequalities; and because our understanding of the determinants of income and income inequality is considerably more advanced than with respect to other inequalities. However, in principle we ought to extend the approach to encompass other inequalities, and the empirical section contains information on a much wider range of inequalities than simply income.

To start with we consider the immediate causes of economic inequality among individuals at a point in time. Incomes of an individual are a function of assets which they have and the employment and productivity of that capital. Inequality between groups is then the consequence of inequality in asset between groups. Assets include land; finance; education; public infrastructure; and social capital.

Assuming that an individual’s income depends on three types of asset, human capital, financial capital, and social capital, the income of the ith individual in a population is equal to

\[ y_i = f(h_i, m_i, s_i) \]  \hspace{1cm} (1)

Where \( h_i, m_i, s_i \) is the human, financial and social capital of individual \( i \), respectively. Adding up the capital and income of all members of a group and dividing by a group’s size, we get the average incomes of each social group.

For group 1, average income of each group member is given by:

\[ y_1 = f_1(h_1, m_1, s_1) \]  \hspace{1cm} (2)
Where $h_1$, $m_1$, $s_1$ are the average human, financial and social capital available to each member of group 1. Assume the returns to each type of capital are $H^1$, $M^1$, $S^1$ then:

$$y_1 = f_1(h_1^{H1}, m_1^{M1}, S_1^{S1})$$  \hspace{1cm} (3)

and with two groups, 1 and 2, income HIs at time $t$, are given by:

$$HI_t = \frac{y_1^t}{y_2^t} = \frac{f_1^t(h_1^{H1t}, m_1^{M1t}, S_1^{S1t})}{f_2^t(h_2^{H2t}, m_2^{M2t}, S_2^{S2t})}$$  \hspace{1cm} (4)

We should note that we are assuming that different groups may face different production functions (i.e. $H_1$ is not necessarily equal to $H_2$, $M_1$ to $M_2$, $S_1$ to $S_2$), nor are we assuming that the returns are constant over time or in relation to each other. This complicates our presentation as it means we cannot present a CES production function, but it is important to the argument about the determinants of changing HIs over time.

In exploring group inequality at a point in time (i.e. equation 4), then, we need to consider inequalities in both access to and ownership of capital, and in the productivity of that capital, where the productivity of capital includes its use as well as its productivity in use (i.e. subsumes employment). There is evidence that not only the capital available to different group varies, but also the returns vary. For example, poorer groups (as individuals) consistently have poorer human and financial capital (Barrón Ayllón, 2005) They also often appear to secure lower returns on the capital they have. For example, African-Americans have been shown to have lower returns for a given level of human capital, while lower returns, as well as less capital, has been shown to be a feature of minorities in Vietnam (van der Walle & Gunewardena, 2001).

Moreover, social capital is not truly ‘social’ but is a property of groups, with networks biased to within group connections, and consequently less advantageous for poorer groups. Social capital includes neighbourhood and group effects on behaviour, opportunities and productivity, including peer group and cultural impacts on
behaviour and aspirations as well networks which may open up or facilitate opportunities. We can then differentiate the ‘quantity’ of social capital of a group, defined as the number of contacts the group as a whole has, from the quality of that social capital, defined as the impact of the network (quantity of contacts) on economic achievements. A common distinction is between ‘bridging’ and ‘bonding’ social capital, sometimes defined as between family or group and within family or group contacts. In general within group social networks exceed between group networks in quantity. For poor groups, bonding or within group contacts are likely to be of lower quality than bridging or between group contacts. For rich groups, the reverse may be true. Hence any given ‘quantity’ of social capital will offer lower returns to poorer groups than to richer ones.

Thus lower capital and lower returns can explain the existence of inequality among individuals/groups at a point of time, this does not explain what happens over time. In the second period, t+1, HI will be:

\[ HI_{t+1} = \frac{f_1^{t+1}(h_1^{H_1(t+1)}, m_1^{M_1(t+1)}, S_1^{S_1(t+1)})}{f_2^{t+1}(h_2^{H_2(t+1)}, m_2^{M_2(t+1)}, S_2^{S_2(t+1)})} \]  

Changes in HI therefore depend on:

\[ \frac{HI_{t+1}}{HI_t} = \frac{y_1^{t+1}}{y_1^t} / \frac{y_2^{t+1}}{y_2^t} = \frac{y_1^{t+1}}{y_1^t} / \frac{y_2^{t+1}}{y_2^t} \]  

A combination of relative rates of accumulation of different types of capital, and changes in the relative rates of return to different types of capital across the groups will explain changing HIs over time. It is possible that groups catch up over time, for example by accumulating more than the more privileged groups, or by catching up technologically and hence reducing any differentials in returns. Moreover, for some of the non-income elements of HIs, notably health and education, there are upper limits to achievements (e.g. 100% literacy is a maximum) so that some catching up is likely
to arise from this ‘boundedness’. But there are other reasons and factors why catch up does not occur and inequality persists. We identify seven factors in this respect.

Firstly, there are cumulative forces, such that deprivation/riches at one point in time make it harder/easier to accumulate assets in the future. If an individual has a higher income due to higher assets, then saving (including educating children) is easier, so we might assume that the rate of saving and accumulation is likely to be higher among richer individuals/groups. Moreover, in the case of human capital, there is a direct intergenerational impact on behaviour so that a major predictor of a child’s education (and nutrition and health) is the education of her mother. In theory, ‘perfect’ capital markets should enable people to borrow to overcome the disadvantage of not having their own savings. But in practice, banks require collateral so that borrowing too is easier for the rich than for the poor. Loury shows how family income determines mobility in the absence of a perfect capital market for educational loans, leading to poverty traps (Loury, 1981). All empirical evidence shows that poorer individuals/groups accumulate less, both with respect to human and financial capital. Although upper limits on education mean that once richer groups approach this level, there educational accumulation will be limited and a relatively faster rate of accumulation can be expected among poorer individuals/groups.

Secondly, there are interactions among returns to different types of capital according to the other types of capital a person/group has. Thus human capital permits greater earnings, which enable people to accumulate more; financial capital is more productive if people have human capital with which to use it; human capital may be more productively employed if people have financial capital; and both types of capital are likely to be better used with good networks (i.e. more social capital). This is illustrated in Diagram 1, showing how returns to financial capital vary according to the level of other types of capital.

2 Empirical work on inter-country inequality shows much more convergence of human indicators than economic, probably for this reason.
Banerjee and Newman have developed a theoretical model showing how capital market imperfections reduce job choices of the financial capital poor, and thus constrain earnings in subsequent periods (Banerjee & Newman, 1993). In addition, social capital improves as people become better educated and richer and acquire better educated and richer contacts. What this means is that the returns to capital depend not only on the accumulation of one type of capital, but also on the accumulation of others, so that, for example, M (the returns to financial capital, depend on the level of human and social capital, h and s). This is why we do not assume a CES production function and we posit different production functions for each group.

Thirdly, it has been suggested that there are discontinuities in returns to different types of capital, so that at low levels of capital, returns are low and people are trapped in a low-level equilibrium. This could be due to the type of interaction just discussed, i.e. returns on financial capital are low because of weak human capital and conversely, or because of other sources of discontinuity (e.g. indivisibilities in capital). Poverty due to low level equilibria of this type is similar to what Barrett, Carter and others have defined as ‘fractal poverty’ (Barrett et. al., 2006; Carter & Barrett, 2006). To the extent that such discontinuities exist, incomes of low-income individuals/groups may grow slowly, while richer individuals/groups escape these discontinuities and show faster growth.
A fourth factor that might contribute to the persistence of HIs has to do with obstacles to migration. In principle, migration – national and international – can offer people/groups opportunities to improve their situation, thereby potentially reducing inequalities. But in practice, limits to migration often constrain this possibility. This is not only a matter of formal constraints, such as difficulties in obtaining visas and work permits, but also more informal constraints such as language differences and lack of resources to finance migration. Internal migratory constraints are especially relevant in developing countries with severe climatic and ecological differences, because of the importance of access to fertile land and other natural resources for livelihoods. International migratory restrictions, however, are an important factor restricting convergence in incomes among groups from both developed and developing countries, and their relaxation contributes to equalising incomes, as seen in the recent wave of migration from Eastern European countries within the EU.

Although migration might improve the socio-economic situation of the migrants relative to their region of origin, thereby potentially reducing spatial HIs, it may also establish a new set of unequal relations and mechanisms in the recipient areas, while leaving the sending areas without their most dynamic people. In Ghana and Côte d’Ivoire, for instance, a large number of people from the poorer and less well-endowed northern regions migrated to the southern regions in order to work on the cocoa and coffee plantations. However, restrictions on landownership and lack of resources meant that they were primarily employed as agricultural labourers on other people’s land, thereby maintaining and to some extent further engraining the inequalities between ‘southern’ and ‘northern’ people. Another reason why migration does not necessarily lead to a (sharp) reduction in HIs is related to the fact that the cities or regions to which people migrate, are often unable to incorporate all the additional labour supply, resulting in high unemployment and poverty rates among the migrants. The development of vast slums and shanty-towns in a large number of developing countries, where migrants often live in dreadful conditions, is a clear indication that migration does not necessarily improve the socio-economic situation of the migrants. The situation of the Arab population in France is also shows how new HIs can arise from migration.
Fifthly, HIIs might persist because of asymmetries in social capital. While asymmetry in social capital occurs among individuals – poor people tend to have more contacts with other poor people than with richer people – it applies even more strongly among groups. Indeed, some have defined groups as being collections of individuals whose transactions/contacts within group are significantly greater than their transactions outside the group (Blau, 1977). This effect has been modelled by Lundberg and Startz (1998) and Mogues and Carter (2005), while Durlauf (2000) shows how ‘neighbourhood’ effects can sustain poverty, via peer group effects, social learning and social complementarities. An empirical investigation into neighbourhoods in the US found that neighbourhood effects influence intergenerational mobility, while ethnic factors play an additional role even among people who grow up in the same neighbourhood (Borjas, 1995). Borjas also showed empirically that ‘the skills and labor market outcomes of today’s generation depend not only on the skills and labor market experiences of their parents but also on the average skills and labor market experiences of the ethnic group in the parent’s generation’ (Borjas 1992: 148). There is empirical evidence for South Africa too that asymmetries of social capital have blocked pathways of social mobility even in the post-apartheid era (Adato 2006). Based on panel data for 1993-1998, Adato (2006: 224) concludes that ‘social capital becomes more narrowly constructed and increasingly ineffective as a means of capital access for poor people in a country facing a legacy of horizontal inequality and social exclusion.’

A sixth reason for the persistence of group inequality is that group members are often subject to overt (or implicit) discrimination or favouritism by non-group members in access to different types of capital and in employment, in virtue of their group (cultural) characteristics. This illustrated in Diagram 2 showing that Group 1 has higher returns to financial capital, for any level of human/social capital. We should note that historic discrimination contributes to poor returns even where it seems there is no current discrimination. For example, unequal endowments today may be partly a reflection of past discrimination. Effects persist even if there is no current discrimination, i.e. even if, for example, there are equal employment opportunities for the same educational attainments, since past discrimination may have led to inequality in educational endowments (see e.g. Brown et. al. 2005).
Finally, group inequalities in most cases include political inequalities in the same direction as the socio-economic inequalities. This means those who are deprived in socio-economic dimensions also lack political power. These political inequalities generally underpin the socio-economic inequalities since they often imply bias in the distribution of government resources, including access to social and economic services and government employment and contracts. Moreover, they can prevent corrective action which may take place towards individual inequalities more easily than towards group inequalities. In general, where political inequalities and socio-economic inequalities are in the same direction, we would expect each to reinforce the other. But there are occasional cases where a majority (privileged) government takes action to help a deprived group, although generally not enough to eliminate the inequality (e.g. affirmative action in the US or Brazil). One reason for this is that deprived groups may mobilise politically behind their common identity, putting effective pressure on governments for corrective action. This was the case in Northern Ireland, where government policy from the mid-1970s has reduced age-old inequalities, as discussed further below. There are cases, in contrast, where political power and socio-economic deprivation are in opposite directions, as in the recent history of Malaysia or South Africa. In these cases, governments tend to take action to
correct the socio-economic HIs so that overtime they can be expected to become less marked.

Returning to the key variables determining the direction in which economic HIs move:

- $h_{t+1}/h_t$ (or the relative accumulation of human capital): this is likely to diverge in the early stages of development because of differing rates of accumulation, but may converge as the richer groups attain high levels of education and further accumulation slows down. It may also converge because of government policy to spread education widely.

- $m_{t+1}/m_t$ (or the relative accumulation of financial capital): this may diverge because of differing rates of savings. Directed credit schemes may achieve some convergences.

- $s_{t+1}/s_t$ (or the relative accumulation of social capital): this might converge with increased mobility that occurs with development as contacts increase; although richer groups may also increase their contacts over time (e.g. internationally).

- $H_{t+1}/H_t$ (or the change in the relative returns to human capital): this could converge if the discontinuities and imbalances among types of capital have less effect as accumulation occurs among all groups – assuming it does. But we are in somewhat unknown territory here, as to the precise interactions and discontinuities. Policies to reduce discrimination in employment – or to go further and introduced affirmative action – will affect this.

- $M_{t+1}/M_t$ (or the change in relative returns to financial capital): differences between rich and poor groups are likely to persist for reasons given above, but it is difficult to say whether these will increase or decrease over time. The normal neoclassical assumption of diminishing returns to capital accumulation may be offset by indivisibilities and technological change. In any case, this will indicate the trend in $M$ for the economy as a whole (i.e. for all groups) but not what happens to the returns to one group relative to another. Government policy is again potentially relevant here, since it can provide technological assistance targeted at deprived groups, or conversely further help the privileged groups.

- $S_{t+1}/S_t$ (the change in the relative return to social capital): this is a matter of the quality or effectiveness of social capital – a question of among whom the
interactions occur. As a group’s education increases the quality of the interactions within group may improve. In addition, cross-group interactions may occur with increased development, and in response to government/civil society policies to increase them. Equally governments and civil society sometimes follow policies to reduce cross-group interactions.

One general feature which may reduce (or increase) group inequalities is a weakening (or tightening) of group boundaries. As group boundaries weaken – e.g. due to education, intermarriage and so on, - then more people may switch groups which would tend to reduce inequalities. Conversely, if governments or people themselves increase the tightness of group boundaries (e.g. through categorising people, preventing mixing, mobilisation on identity lines), this element bringing about group convergence will disappear. Interestingly, and somewhat paradoxically, even the categorisation of people into different groups for affirmative action purposes (e.g. US and India) or for purposes of quota allocations (e.g. Nigeria and India) sometimes contributes to increasing the salience of group differences, which in turn inhibits the inequality-reducing mechanism of group-switching. It is argued that the Malaysian affirmative action policies have ‘entrenched’ group difference, but without supporting evidence (Jomo 2004).

To summarise, there are good reasons for expecting economic HIs to persist, but they could show some convergence, and in certain circumstances reversal. The key features sustaining group inequality, starting from a situation with unequal access to different types of capital, are:

1. Dependence of the returns to one type of capital on the availability of other types.
2. Discontinuities in returns to capital, perhaps due to these interactions.
3. Inequalities in accumulation of assets due to inequalities in incomes and imperfect capital markets.
4. Formal and informal constraints on migration.
5. Asymmetries in social capital
6. Present and past discrimination by individuals and non-governmental institutions.
7. Political inequalities leading to discrimination by governments.
Of the seven factors, the first three apply equally to individuals and groups, and thus
to groups since they are made up of individuals. The last four are likely to be
particularly relevant to determining group inequalities, since cultural difference of one
kind or another is generally an underlying element. Previous work on persistent group
inequalities has focussed on different elements in these seven factors. For example,
Tilly’s important work focussed on discrimination (5) above, and hoarding (3) above,
as well as ‘emulation’ (copying of discrimination), which is not allowed for here (see
Tilly, 1998). Mogues and Carter have modelled asymmetries in social capital (4) as
responsible for persistent group inequality (See Mogues & Carter, 2005). Barrett and
others have analysed discontinuities in returns as explaining persistence in individual
poverty (2) (see e.g. Barrett, 2006), while Azariadis and Drazen have done the same
to explain persistent inequality among countries pointing to the low return to financial
capital where there is relatively little human capital (Azariadis & Drazen, 1990). The
political system is generally not explicitly included in the analysis. Yet governments
play an important role in furthering or reducing economic inequalities, so it is
important that this too enters systematically into the analysis.

Taken together these factors lead to the possibility of virtuous and vicious cycles with
those groups starting in a privileged position being able to accumulate more, having
higher returns to assets and thus sustaining their privilege, while those who start in an
underprivileged position fall into a vicious cycle, or poverty trap (see also Galor &
Zeira, 1993). This is broadly the same as the accumulation and disaccumulation
analysed by Brown et. al. (2005) in explaining persistent racial inequality in the US.
There is a parallel here with country performance in which poor economic
performance handicaps human development and accumulation and poor human
development handicaps economic growth (see Ranis, Stewart, & Ramirez, 2000).

What these seven factors do not tell us is what causes the initial inequality which sets
in force the interactions leading to the persistence of HIs. An important and pervasive
cause among developing countries is a foundational shock, as noted by Figueroa,
which can be reinforced by climatic differences (Figueroa et al., 1996). This is
typically a massive political event—for example, an invasion, followed by
colonialism. In the case of Northern Ireland, for instance, the initial Protestant-
Catholic inequalities were the outcome of a colonial experience, followed by the
division of Ireland into an independent republic and a UK controlled Northern Ireland; in the case of the US, the slave trade provided the foundational shock and in the case of Ghana, the north-south inequalities stemmed from colonial policy which favoured certain ethnic groups and regions, but also reflects climatic differences.

4. Evidence for the persistence and change of HIs

A full investigation of why HIs persist should explore those that do not endure, as well as those that do. In this section we therefore explore some evidence of very persistent HIs (i.e. Ghana and United States), HIs that appear to have been reduced significantly (i.e. Northern Ireland and Malaysia) and HIs that appear to have been reversed (i.e. Filipino and Japanese immigrants in the US).

1. North-south inequalities in Ghana

Like several other West African countries (e.g. Côte d’Ivoire, Togo, Benin and Nigeria), Ghana is confronted with a severe socio-economic or developmental north-south gap. Ghana’s present regional inequalities arise from a combination of circumstances and policies. Three important factors can be identified in this respect. A first factor is the geographical concentration of most agricultural activities/resources, particularly tree crops such cocoa, as well as natural resources, notably minerals and forest resources, in its southern rather than northern regions. Due to scant and irregular rainfall, most of the crops cultivated in the northern regions are subsistence crops.

A second factor relates to the British colonial policy of investing more heavily in those regions where exploitable resources such as gold, diamonds, manganese, timber, and cocoa, were available or readily produced, and cheapest to export. Consequently, in addition to the administrative core region (i.e. Greater Accra Region), the gold-rich regions, Ashanti and Western, and the cocoa-growing regions Eastern, Central and Ashanti received the bulk of the capital investments made during the colonial era.

A third factor relates to the post-colonial investment patterns and economic policies. Especially the Structural Adjustment Programmes (SAPs) which were implemented
from the mid-1980s reinforced the existing regional developmental inequalities. In particular, in line with the SAPs’ objectives to restore economic growth by rehabilitating Ghana’s export economy, most external funding went to Ghana’s ‘industrial core region’, the Greater Accra Region, as well as the cocoa, timber and mineral industries in the Western, Eastern, Ashanti and Brong Ahafo Regions (Songsore, 2003). Ghana’s northern regions, in contrast, largely failed to benefit from this renewed economic stimulus. In order to redress the exclusion of the northern regions from Ghana’s economy and mitigate the developmental north-south divide, consecutive post-colonial regimes undertook specific developmental projects in the northern regions, including the extension of the national electricity grid, the rehabilitation of the north-south roads and greater expenditure on education. Notwithstanding these and other measures, Ghana’s socio-economic north-south divide remains severe, as illustrated by Table 1.

| Table 1: Socio-economic inequalities across Ghana’s regions in the 1990s. |
|-----------------|------------------|------------------|-----------------|------------------|
|                 | Incidence of poverty (%) | Literacy (% literate) | Access to health services (%) | Primary school enrolment (%) |

a) Data drawn from Songsore (2003). The poverty line was the same in both years, i.e. ₡ 900,000 per adult per year.

b) Authors’ calculations based on data from the 1993 and 1998 Demographic and Health Surveys.
c) and d) Data drawn from the 1997 Ghana Core Welfare Indicators Survey.

According to the first indicator in Table 1, the north-south divide widened during the 1990s. In particular, while the overall incidence of poverty decreased from 52% to 40% in the period 1992-1999, two of three northern regions (i.e. the Northern and Upper East regions) actually witnessed an increase in the incidence of poverty according to this indicator. However, it appears that the northern regions have been able to catch up slightly with the southern regions on literacy.
Even if we take a very long-term perspective, the north-south differences do not appear to have improved significantly. Indeed, quite the contrary. For instance, a comparison between the infant and child mortality rates in the northern and southern regions in respectively 1931 and 1993 shows a worsening of the prevailing north-south differences in relative terms. This is illustrated in Table 2 below. The ‘Northern Territories’ of what was then called Gold Coast largely correspond to Ghana’s three current northern regions (i.e. Northern, Upper West and Upper East Regions). The table shows that the infant and child mortality rates of the Northern Territories in then Gold Coast were considerably closer to the national average than they are in contemporary Ghana. The worsening of the relative infant/child mortality rates confirms the unequal development progress made by the northern regions compared to the southern regions.

The theoretical insights developed earlier prove very useful for understanding the emergence and persistence of the socio-economic inequalities between Ghana’s northern and southern regions. First, the initial north-south inequalities emerged as a result of the combined effect of the colonial ‘shock’ and the prevailing climatic/ecological differences. Second, while migration from the northern regions to the southern regions is likely to have improved the socio-economic situation of some migrants, it has not led to a significant reduction of the north-south inequalities (e.g. through the transfer of funds to family members left behind) because the majority of the northern migrants remained among the poorest part of the population in the southern regions. Third, even the educational programmes aimed at increasing the level of education in the northern regions, which were undertaken by consecutive Ghanaian governments since independence in 1957, have had limited success in reducing the developmental inequalities between Ghana’s north and south. This shows that increases in human capital alone (without corresponding increases in financial and social capital) are insufficient to kick-start development and reduce HIs. Finally, the lack of political mobilization of the ‘north’ as a whole makes more extensive and comprehensive redistribution and development initiatives very unlikely. On the one hand, the northern political elites appear to be content to live with the prevailing north-south inequalities as long as they themselves are included and have access to the state’s patronage networks. On the other hand, and arguably more importantly, the (re-)occurrence of several serious inter- and intra-ethnic conflicts in
the northern regions - e.g. the 1994 Konkomba war and 2002 Dagbon crisis -, themselves related to HIs within the North, has not only resulted in the destruction of political as well as social capital, but it also makes mobilization for mutual benefit less likely.

**Table 2: Infant/child mortality rates for 1931 and 1993.**

<table>
<thead>
<tr>
<th>Gold Coast, 1931</th>
<th>Absolute mortality rates</th>
<th>Relative to national average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Infant mortality</td>
<td>Child mortality</td>
</tr>
<tr>
<td>Eastern Province, Colony</td>
<td>159</td>
<td>161</td>
</tr>
<tr>
<td>Central Province, Colony</td>
<td>171</td>
<td>283</td>
</tr>
<tr>
<td>Western Province, Colony</td>
<td>148</td>
<td>311</td>
</tr>
<tr>
<td>Ashanti</td>
<td>145</td>
<td>240</td>
</tr>
<tr>
<td>Northern Territories</td>
<td>214</td>
<td>248</td>
</tr>
<tr>
<td>National average</td>
<td>171</td>
<td>229</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ghana, 1993</th>
<th>Absolute mortality rates</th>
<th>Relative to national average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Infant mortality</td>
<td>Child mortality</td>
</tr>
<tr>
<td>Western Region</td>
<td>76</td>
<td>60</td>
</tr>
<tr>
<td>Central Region</td>
<td>72</td>
<td>61</td>
</tr>
<tr>
<td>Greater Accra Region</td>
<td>58</td>
<td>44</td>
</tr>
<tr>
<td>Volta Region</td>
<td>79</td>
<td>42</td>
</tr>
<tr>
<td>Eastern Region</td>
<td>56</td>
<td>40</td>
</tr>
<tr>
<td>Ashanti Region</td>
<td>65</td>
<td>34</td>
</tr>
<tr>
<td>Brong Ahafo Region</td>
<td>49</td>
<td>48</td>
</tr>
<tr>
<td>Northern Region</td>
<td>114</td>
<td>139</td>
</tr>
<tr>
<td>Upper West Region</td>
<td>85</td>
<td>113</td>
</tr>
<tr>
<td>Upper East Region</td>
<td>105</td>
<td>84</td>
</tr>
<tr>
<td>National average</td>
<td>66</td>
<td>57</td>
</tr>
</tbody>
</table>

**Source:** Gold Coast figures are calculated from the 1931 Census. The 1993 mortality rates are drawn from the 1997 Ghana Human Development Report.

1) The child mortality rate for 1931 differs somewhat from the conventional definition as it is based on the number of children that died before reaching puberty rather than under the age of five.

2. **Black/white inequalities in the United States**

The racial inequalities in the United States have their origins in three hundred years of economic, physical, legal, cultural and political discrimination based on race. Blacks and whites not only differ substantially in ‘objective’ socio-economic terms, but also have very different perceptions on the ‘main’ causes of these inequalities. Based on the 1996 General Social Survey, Smith and Seltzer (2000: 34) note that ‘there is a tendency for blacks to blame racism for their lower status in America, whereas whites tend to blame blacks themselves.’ For instance, while 64% of the blacks in this survey
saw ‘past discrimination’ as a major cause of black inequality, only 35% of the whites had a similar view.

Although it is widely acknowledged that some progress has been made in reducing racial economic inequalities, there is an abundance of evidence showing persistently large income and wealth gaps between blacks and whites. In 2001, for instance, ‘the real median income of black families was only about 62 percent of that of Whites, only 10 percent higher than it was in 1947 when the ratio was 52 percent’ (Brown et al, 2005: 13). In absolute terms, the black-white real median income gap actually doubled from $10,386 to $20,469 in the period from 1947 to 2001 (Ibid.).

**Table 3: Wealth by income and race.**

|                     | White (NW) | NFA | Black (NW) | NFA | Black/White ratio  \\
<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest fifth median</td>
<td>133,607</td>
<td>40,465</td>
<td>43,806</td>
<td>7,448</td>
<td>0.33</td>
</tr>
<tr>
<td>Second-highest</td>
<td>65,998</td>
<td>13,362</td>
<td>29,851</td>
<td>2,699</td>
<td>0.45</td>
</tr>
<tr>
<td>Middle fifth median</td>
<td>50,350</td>
<td>6,800</td>
<td>14,902</td>
<td>800</td>
<td>0.30</td>
</tr>
<tr>
<td>Second-lowest</td>
<td>39,908</td>
<td>3,599</td>
<td>6,879</td>
<td>249</td>
<td>0.17</td>
</tr>
<tr>
<td>Lowest fifth median</td>
<td>17,066</td>
<td>7,400</td>
<td>2,400</td>
<td>100</td>
<td>0.14</td>
</tr>
</tbody>
</table>

Note: NW = net worth; NFA = net financial assets.

a) Our calculation based on Shapiro and Kenty-Drane’s (2005) data.

**Source:** Shapiro and Kenty-Drane (2005: 177).

Compared to family income, racial inequalities in wealth and financial assets are even more pronounced. According Shapiro and Kenty-Drane (2005), in 1999, the black-white wealth-gap ratio was 0.10, with typical white households having an overall median net worth of nearly $81,450 and blacks a median of just $8,000. The black-white financial assets-gap ratio was even lower with 0.09. While white families typically had net financial assets of $33,500 in 1999, the median black family possessed just $3,000. Interestingly, they also show that this severe wealth disparity exists even between blacks and whites in the top 20 percent category of income earners (see Table 3). The authors stress the importance of socio-historical legacies, particularly slavery, as well as ongoing residential segregation for modern-day wealth inequality between blacks and whites (Shapiro and Kenty-Drane, 2005). Although the
1968 Fair Housing Act outlawed housing discrimination, blacks are far more likely to live in segregated neighbourhoods than either Asian Americans or Latinos (Massey and Denton, 1993).

Furthermore, as Brown et al (2005: 14) note, ‘blacks are much less likely to own a home, and when they can get a mortgage, they receive far less favourable terms than do comparable whites.’ Keister (2000: 219) further notes in this respect that ‘opportunities to invest [and therefore returns to capital and wealth accumulation] vary systematically because income varies systematically by race and affects ability to save.’ Another factor which has been shown to affect racial income differentials as well as wealth inequalities (see for example Keister, 2000) are differences in educational opportunities.

**Table 4:** College attendance and completion by race, persons 25 or older, 1960-1995.

<table>
<thead>
<tr>
<th></th>
<th>Black</th>
<th>White</th>
<th>Black/White Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percent who attended college</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>7.2</td>
<td>17.4</td>
<td>0.41</td>
</tr>
<tr>
<td>1970</td>
<td>10.3</td>
<td>22.4</td>
<td>0.46</td>
</tr>
<tr>
<td>1980</td>
<td>21.9</td>
<td>33.1</td>
<td>0.66</td>
</tr>
<tr>
<td>1995</td>
<td>37.5</td>
<td>49.0</td>
<td>0.76</td>
</tr>
<tr>
<td><strong>Percent with 4 or more years of college</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>3.1</td>
<td>8.1</td>
<td>0.38</td>
</tr>
<tr>
<td>1970</td>
<td>4.4</td>
<td>11.3</td>
<td>0.39</td>
</tr>
<tr>
<td>1980</td>
<td>8.4</td>
<td>17.1</td>
<td>0.49</td>
</tr>
<tr>
<td>1995</td>
<td>13.2</td>
<td>24.0</td>
<td>0.55</td>
</tr>
</tbody>
</table>


It is claimed that the educational gap has narrowed significantly (Thernstrom and Thernstrom (1997: 189). Farley (1984) shows that the average educational attainment of black and white persons aged between 25 and 29 indeed did converge significantly between 1940-1982. In particular, while blacks completed around three and one-half fewer years of school than whites in 1940, this difference decreased to about two years in 1960 and to about half a year in 1982 (Farley, 1984).

Although there has been a steady convergence in school attainment years of blacks and whites, racial disparities persist at the highest level of educational attainment in
modern-day US. While the black-white gap in College attendance (Table 4) narrowed in the period 1960-1995, there continues to be a significant difference in the proportion of blacks and whites with a college degree. In particular, in 1995, blacks were only 55 percent as likely as whites to have attended four or more years of college.

Finally, when it comes to racial disparities in access to health services and outcomes a somewhat mixed picture emerges. Although the adoption of Medicare and Medicaid contributed to a significant reduction of racial differences in the use of health care facilities, ‘racial differences for many health indicators remained unchanged or in some cases widened’ (Brown et al, 2005: 14). While the black infant mortality rates dropped by half between 1960 and 1980, the black-white infant mortality ratio rose from 1.94 in 1980 to 2.35 in 1998 (Ibid.). Brown et al (Ibid: 14) conclude that: ‘…, neither the civil rights revolution nor diminishing prejudice have made much difference to racial disparities in mortality, the most fundamental matter of health. Neither income nor poverty status alone can explain these racial differences.’

The persistence of black inequality in the US exemplifies several of the factors identified in the earlier theoretical section. In the US, slavery was the obvious foundational shock which lies at the heart of the racial inequalities. The period of slavery and then the period of institutionalised racial discrimination and oppression, lasting until the emergence of the Civil Rights Movement in the 1960s, caused severe educational, income, wealth and health disadvantages for the black population. Despite 30 years of affirmative action programmes which followed and which contributed to a significant reduction of racial inequalities in education, persistently large gaps between blacks and whites continued to exist in almost all economic, social and health indicators and measures. Inequalities in some health indicators (i.e. infant mortality rates) even widened during the last two decades. This persistence in inequality arose because historic discrimination and disadvantages not only resulted in lower levels of human, financial and social capital for the black population, but also (indirectly) in lower returns to these different types of capital. For example, poor black families are currently either unable to secure a mortgage loan because they cannot contribute funds of their own, or, if they do get a mortgage, they are charged higher interest rates, which means lower returns to their investment. Achieving a
significant reduction in racial wealth inequalities is therefore proving extremely
difficult, even though affirmative action programmes have contributed to increasing
the human capital stock of the black population.

3. Protestant/Catholic inequalities in Northern Ireland

“The origins of economic inequality lie in the seventeenth century when it was created
as a matter of government policy. … Protestants were in firm control of Northern
Ireland’s economic resources from partition [1921] until the 1960s. They were
dominant at all levels of the private sector including the crucial areas of industry and
finance. They controlled the apparatus of state and – within the limits of Northern
Ireland’s delegated powers – public policy at regional and local levels. They were the
dominant presence in the major agricultural and business organisations, professional
associations and influential informal networks. They had higher levels of education
and training than Catholics’ (Ruane and Todd, 1996: 153, 171).

The limited evidence available shows that systematic inequalities in many dimensions
persisted for the first three-quarters of the 20th century. For example, a study of
occupational mobility in Belfast, 1901 to 1951, shows no narrowing of the gap with
the Catholics disfavoured at every level (Hepburn, 1983), with fewer Catholics
moving upwards from manual to non-manual occupations from 1901 to 1951 than
Protestants, and more Catholics than Protestants moving downwards. For the 1970s,
Miller found that the initial disadvantage of Catholics worsened further across
generations (Miller, 1983). The unemployment rate among Catholics remained
consistently above that of Protestants during most of the twentieth century. The
Catholic unemployment rate was 2.6 times the Protestant one in 1917 and the same in
1971 (McGarry and O’Leary, 1995).

The Catholics were systematically and consistently underrepresented in the higher
echelons of the civil service. In 1927, 6% of ‘staff officers’ were Catholic (while the
Catholic share of population was about 30%); in 1959, the proportion was 6%; in
1943, 5.8%; and in 1971, 11% of senior public officials were Catholic (while their
share of population was then 31%) (Whyte, 1983). Catholics were also severely
underrepresented in the police-force (i.e. the Royal Ulster Constabulary-RUC), accounting for only 17% of the police force in 1936, 12% in 1961 and 11% 1969.

In education, Henry VIII established Protestant English-speaking schools throughout Ireland and forbade Catholic and vernacular ones in the 16th century. Catholic schools were allowed from 1812 and segregated education developed. However, data shows Catholic disadvantage in admission to grammar schools and O and A-level achievements up to the mid-1970s. Other indicators of inequality were the higher proportion of Catholics on income-support (37% compared with 20% among Protestants in the mid-1980s), and the poorer housing conditions. In 1971, for example, 29.3% of Catholics had a housing density of more than one person per room compared with 9.8% of Protestants.

There were also sharp political inequalities. One of the first changes made after partition was to abolish the proportional representation system, followed by the redrawing of boundaries. Buckland (1979) shows that ‘The ‘sole concern’ of the Ministry of Home Affairs was ‘how to give effect to the views of the Unionist [Protestant] rank and file’’ (Buckland, 1979 quoted in Whyte, 1983.) Given the numerical majority of the Protestants, plus the majoritarian voting system and redrawn boundaries assured the Protestant community permanent power.

The disadvantage of the Catholics also illustrates many of the factors identified in the earlier theoretical discussion. First, there was a foundational shock, represented by the British assumption of power and the immigration of people from Britain who took the best land and dominated official employment. Secondly, severe educational disadvantage occurred. Thirdly, there was sustained discrimination in employment, with cumulative impact via informal networks: ‘The informal networks which are still so powerful in Northern Ireland and through which so much employment is found, operate to maintain and reinforce employment patterns already established… even if there were never in Northern Ireland a single instance of individual discrimination in the future, the patterns laid down will remain much the same’ (Murray and Darby, 1980, p.5, quoted in Whyte, 1983). This illustrates the importance of asymmetrical social capital. Because of this discrimination and other handicaps, Catholics received lower returns, an estimated $159 for each extra year of schooling, compared with
$254 for Protestants (Ashby, 1980), and Catholics were less likely to find jobs than Protestants for any given level of education (Cormack et. al., 1980). An investigation into Catholic-Protestant differences in mean income for 1989 and 1990 among employees found that this ‘could entirely be explained in terms of different rates of reward attached to a given set of labour market characteristics’ (Borooah et. al., 1995, p.41).

![Horizontal Inequalities in N.Ireland](image)

**Diagram 3.** The evolution of horizontal inequalities in Northern Ireland.  
Source: Cain Web service.

From the mid-1970s, however, UK and EU policy aimed to eliminate these inequalities, and they succeeded to a remarkable extent (see Diagram 3 above). For instance, Catholics caught up significantly with Protestants in University education and the share of managerial positions, so that very little disadvantage remained (the proportion of managers and administrators who are Catholic rose from 30.5 (1971) to 35.8% 1997. (Fair Employment Commission, 1997, Monitoring Report no. 8). Catholic housing conditions also improved considerably so that they were almost equivalent to Protestants on the availability of a bath/shower and an inside toilet, and

However, some disadvantage remained. For example, Protestants were still overrepresented in the 40 largest companies (with 1.6 times the employment, while being 1.2 times the population size, 1997); a higher proportion of Catholics remained on income-support. Further, a government survey in 2004 on inequality in health and social care found that Catholics were significantly disadvantaged in each area reported on. In particular, it was reported that Catholics were between 10-19% disadvantaged regarding standardised mortality rates, between 10-19% regarding immunisation rates, over 20% on dental registrations and over 20% with regard to hospital admissions (McWhirter, 2004).

4. Malay/Chinese inequalities in Malaysia

In Malaysia, the Bumiputera, who account for the majority of Malaysia’s population were at a severe economic disadvantage vis-à-vis the Chinese, leading to a potentially explosive situation, but systematic affirmative action has successfully diffused this tension. 62% of Malaysians are indigenous (Bumiputera), 30% are ethnic Chinese and 8% are Indians. At independence, economic and social HIs systematically favoured the Chinese: for example, Bumiputera household incomes were less than half of the Chinese, they accounted for only 8% of registered professionals, less than 2% of ownership of capital on the stock exchange and their educational enrolment rates were lower at each level of education (see Diagram 4 below).

The economic disadvantage of the Malay community finds its origins in the colonial period. Under British colonial rule, the method of production was organized into two distinct and parallel types, which was complemented by an ‘ethnic division of labour’ (see Faaland et al, 2003; Abraham, 1997; and, Brown, 1997). In this respect, Faaland et. al. (2003: 7) note: ‘The Europeans, the Chinese and the Indians were mostly engaged in the high productivity modern sector of the economy, as entrepreneurs, managers and employees in firms, estates and trading companies, while the Malays were mostly engaged in the low productivity traditional sector of peasant agriculture and fishing.’ By the mid-twentieth century, the colonial legacy of ‘ethnic division of
labour’ had resulted in the situation that the Chinese dominated the economy, while the numerically dominant Malay community was severely economically disadvantaged (Brown, 2005). In 1967, for instance, the average income in absolute terms was approximately $3,000 for non-Malays compared to about $1,750 for Malays (Faaland et al, 2003: 62).


When Malaya gained independence from the British in 1957, the Malays and non-Malays came to ‘the notorious independence “bargain” of “Politics for the Malays, Economy for the Chinese’” (Case, 1996 quoted in Brown, 2005). However, ‘by the late 1960s, many Malays were increasingly dissatisfied with their side of the bargain, a dissatisfaction expressed by the new breed of Malay ultras rising through the ranks of UNMO [i.e. the United Malays National Organization], and voiced most publicly in two Bumiputera Economic Congresses held during the decade’ (Brown, 2005: 4; original emphasis). After the May 1969 general election descended into ethnic rioting, the then Prime Minister ‘Tunku Abdul Rahman was eased out of power and replaced by Tun Abdul Razak, who was more sympathetic to the ultras’ concerns’ (Ibid: 4). The government under the leadership of Prime Minister Razak identified the severe economic inequalities between the Malays and Chinese as the major cause for the
emergence of ethnic violence. In order to redress the economic inequalities, Razak introduced an ambitious and comprehensive redistribution policy, the New Economic Policy (NEP). As Jomo (1990: 469) states the NEP was aimed at creating ‘the socioeconomic conditions for national unity through reducing poverty and interethnic economic disparities, especially between the indigenous Bumiputeras (mainly Malays, especially in peninsular Malaysia) and non-Bumiputeras (mainly Chinese and Indian Malaysians).’

The NEP is arguably the most successful ethnic inequality-reducing programme implemented by a developing country. Policies that followed included quotas, targets and affirmative action with respect to education, land ownership, public service employment and ownership of quoted companies. The policies were undoubtedly successful. The proportion of Bumiputera professionals rose from 8% to 54%; Bumiputera students in tertiary education increased from 43% to 54% of the total, and there was a similar improvement at other levels of education. The share of corporate stock ownership rose from 1.5% in 1969 to 20.6% in 1995 (see Diagram 4 above). While Bumiputeras retained their dominant position in agriculture, there was an economy wide switch out of agriculture into manufacturing and services, and the Bumiputera position in these sectors improved significantly.

Although the NEP led to a drastic reduction in the Malay-Chinese income inequalities, severe income differences persist. This point is illustrated by Diagram 5, which depicts the evolution of two measures of horizontal inequality in Malaysia over the period since the inception of the NEP in 1970 (Brown, 2005). The first measure is a simple unweighted ratio of Chinese to Malay average household income and the second measure is a population-weighted standard deviation of group incomes from the national mean. Both measures are indexed to 1970. Until 1987, both measures show largely similar patterns (i.e. dropping quickly). In contrast, from 1987, the two measures followed somewhat different patterns. While the first measure has slightly increased since then, the second measure has remained broadly level.
The growth of the Malaysian economy in post-colonial period was among the highest in the world (at 6.7% p.a. from 1970 to 1990). Poverty fell dramatically from 49% in 1970 to 7.5% in 1999 and income distribution improved. The political success of the NEP policy was indicated by the fact that during the economic crisis of 1997, when there were assaults on the Chinese in Indonesia, there were no such attacks in Malaysia.3

5. Japanese, Chinese and Filipino immigrants in the United States

‘Historically, different waves of Asian immigrants originating from different Asian countries have arrived in the United States at different times’ (Pyong, 2006, p.7). The Chinese were the first to move from Asia to the United States, especially California, between 1850 and 1882. From the early 1880s, Japanese immigrants started arriving and around the turn of the century a large wave of Filipino immigrants migrated, initially to Hawaii and later the American mainland. However, as a result of the measures taken by the US government to restrict or ban Asian immigration, the proportion of Asian Americans in the US population remained insignificant in proportion to the white, black and Latino population until the late 1960s. Prominent laws aimed at curbing Asian immigration included: the Chinese Exclusion Act of

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3 Although at the time of the financial crisis relations between the Bumiputeras and Indian Malaysians were strained, this was not directly related to the financial crisis.
1882, the Asiatic Barred Zone provisions of the Immigration Act of 1917 and 1924, and the Tydings-McDuffie Act of 1934. However, following the introduction of the Immigration and Nationality Act of 1965, which abolished discrimination in immigration on national origin, Asian immigration increased dramatically. In particular, in the period 1965-2002, about 8.3 million Asian immigrants were admitted to the US, increasing their number from approximately 1.5 million or 1% of the US population in 1970 to approximately 12 million or 4.2% of the population in 2000. While the Japanese constituted the largest Asian immigrant group in 1970, the Chinese and Filipino communities were the two largest immigrant groups in 2000.4

Acknowledging that there are very substantial differences in the socio-economic progress of different Asian American communities, we focus here on arguably the three most successful Asian immigrant groups to date: Japanese, Chinese and Filipino.

Most Asian immigrants arriving from the late 1960s onwards, with some exceptions – e.g. the Vietnamese- tended to be highly educated due to the selective stipulations of the 1965 Immigration Act (Sakamoto and Xie, 2006). Table 5 below illustrates this point. All three Asian immigrant groups discussed here significantly improved their educational attainment position relative to the whites from 1960 to 1970, particularly with regard to the proportion of people of 25 years and older who had attended four or more years of college. From 1970-2000 they further improved, or at least maintained, their higher levels of educational attainment relative to the US white population. This contrasts with the evolution of the educational position of the black population, discussed earlier, which also got better, but started at much lower levels and improved less at the higher education levels.

Although the initial high levels of education of the Asian immigrants are important in this respect, as ‘the offspring of more educated people tend to become more educated themselves,’ group differences in norms and aspirations also appear to have played an important role. In particular, Asian Americans are often seen to have ‘high aspirations and expectations for their children’s economic success’ (Sakamoto and Xie, 2006, p.56). Correspondingly, ‘…, Asian American parents expect their children to achieve

4 This paragraph is based on Pyong (2006).
higher education than the parents of other racial groups’ (Ibid., p.58). Survey data confirm these different attitudes and expectations towards educational achievement among different groups. For instance, the 1988 National Educational Longitudinal Survey (NELS) found that ‘over a third of the mothers and fathers of Asian 10th graders expect their children to achieve some graduate education compared to less than a fifth of parents of whites’ (Ibid.). Differences in attitudes towards education not only exist among the parents, but also among the children of different racial/ethnic groups. The same study reported that over 20% of the Asian 10th graders aimed to get a Ph.D. compared to 14% or less among the blacks, Hispanics and whites. It is reported that ‘in order to achieve the goals that parents set for them and they set for themselves, Asian American children report doing, on average, close to one hour more of homework per week than do white children’ (Ibid.).

**Table 5:** The evolution of educational differences between whites, blacks and three Asian immigrant groups in the US, 1940-1990

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>People of 25 years or older who completed at least 4 years of high school (proportion relative to the whites, ratio)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blacks</td>
<td>0.28</td>
<td>0.35</td>
<td>0.46</td>
<td>0.58</td>
<td>0.74</td>
<td>0.81</td>
<td>0.89</td>
</tr>
<tr>
<td>Japanese</td>
<td>1.26</td>
<td>1.54</td>
<td>1.24</td>
<td>1.26</td>
<td>1.19</td>
<td>1.12</td>
<td>1.11</td>
</tr>
<tr>
<td>Chinese</td>
<td>0.46</td>
<td>0.79</td>
<td>1.02</td>
<td>1.06</td>
<td>1.04</td>
<td>0.94</td>
<td>1.10</td>
</tr>
<tr>
<td>Filipino</td>
<td>0.71</td>
<td>0.60</td>
<td>0.72</td>
<td>1.00</td>
<td>1.08</td>
<td>1.06</td>
<td>1.05</td>
</tr>
<tr>
<td></td>
<td>Percent of people of 25 years or older who completed 4 or more years of college (proportion relative to the whites, ratio)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blacks</td>
<td>0.24</td>
<td>0.33</td>
<td>0.33</td>
<td>0.39</td>
<td>0.49</td>
<td>0.53</td>
<td>0.52</td>
</tr>
<tr>
<td>Japanese</td>
<td>1.02</td>
<td>0.98</td>
<td>1.16</td>
<td>1.41</td>
<td>1.54</td>
<td>1.60</td>
<td>1.79</td>
</tr>
<tr>
<td>Chinese</td>
<td>0.61</td>
<td>1.41</td>
<td>1.96</td>
<td>2.27</td>
<td>2.14</td>
<td>1.89</td>
<td>2.31</td>
</tr>
<tr>
<td>Filipino</td>
<td>0.55</td>
<td>0.53</td>
<td>0.95</td>
<td>1.99</td>
<td>2.16</td>
<td>1.83</td>
<td>1.24</td>
</tr>
</tbody>
</table>

**Source:** Authors’ calculation based data drawn from various US censuses.

a) The 1960 figures are based on people of 14 years and older.

Many of the highly educated Asian Americans who arrived after the 1965 Immigration Act appear to have been able to convert their high levels of education into high-status occupations and jobs. While during the first half of the century, ‘Asians were concentrated at the bottom of the economic ladder, restricted to retailing, food service, menial service, and agricultural occupations’, in modern-day America they are well represented in the ‘well-paid, educated, white-collar sector of the workforce’ (Espiritu, 1996, p.65). For instance, Sakamoto and Xie (2006) show
that 33% of the male Asian Americans are employed as ‘professionals’ (‘highly skilled occupations that typically require specialized training or licensed accreditation’), compared to 21% of the whites and only 13% of the African Americans. Although it is often claimed that Asian Americans are discriminated against when it comes to the managerial level and positions, Sakamoto and Xie (2006) also show that there is only a slight difference in managerial employment between whites and Asian Americans (8% for whites versus 7% for Asian Americans). The native-born Chinese population has even a slightly higher proportion (i.e. 9%) of ‘managers.’

Table 6: Average wages and earnings of male workers, 2000

<table>
<thead>
<tr>
<th>Race/ethnicity</th>
<th>Wages ($/hour)</th>
<th>Earnings ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whites</td>
<td>23</td>
<td>46,000</td>
</tr>
<tr>
<td>Blacks</td>
<td>18</td>
<td>30,000</td>
</tr>
<tr>
<td>Native-born Asians</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>22</td>
<td>43,000</td>
</tr>
<tr>
<td>Chinese</td>
<td>28</td>
<td>56,000</td>
</tr>
<tr>
<td>Japanese</td>
<td>26</td>
<td>53,000</td>
</tr>
<tr>
<td>Filipino</td>
<td>19</td>
<td>33,000</td>
</tr>
<tr>
<td>Korean</td>
<td>21</td>
<td>40,000</td>
</tr>
<tr>
<td>Asian Indian</td>
<td>22</td>
<td>39,000</td>
</tr>
<tr>
<td>Vietnamese</td>
<td>15</td>
<td>24,000</td>
</tr>
<tr>
<td>Other Asian</td>
<td>17</td>
<td>30,000</td>
</tr>
</tbody>
</table>


Studies show that the income differentials between Asian Americans and whites have almost completely disappeared: in 2000, the average earnings of white individuals were approximately $46,000, while native-born Asian Americans earned on average $43,000. The average earnings of African Americans was substantially lower at only $30,000 (Table 6). A similar picture emerges with regard to hourly wages. These aggregate figures for ‘Asian Americans’, however, disguise substantial differences in earnings between the different Asian American immigrant communities (see Table 6). For instance, while Korean ($40,000) and Vietnamese Americans ($24,000) earned on average considerably less than white Americans ($46,000), the Chinese ($56,000) and Japanese ($53,000) Americans earned substantially more than the whites. Although
some authors such as Hirschman and Wong (1984), Feagin and Feagin (1993) and Espiritu (1996) conclude that Asian Americans suffer from ‘racial’ discrimination as their incomes are lower than they should be, given their (high) levels of education, a very recent study by Sakamoto and Xie (2006) draws the conclusion that the bulk of the evidence indicates ‘that most Asian Americans no longer face extensive or systematic racial discrimination in the contemporary American labor market.’ Several other recent studies come to similar conclusions (see e.g. Xie and Goyette, 2004).

The example of Asian immigrants to the US shows that HIs do not necessarily persist. The factors that seem to explain the fact that the Asian immigrant group were able to ‘catch up’, as, indeed, European immigrants had earlier (Alba et al., 2001), are (i) the initially high levels of education; and (ii) the group values, perhaps associated with these education levels, which led to high aspirations and strong group pressure for achievement in education and work. Social capital and other group pressures were thus asymmetrically advantageous, rather than disadvantageous for these groups.

5. Conclusions and policy implications

This paper has presented theoretical reasons and some empirical evidence to suggest that socio-economic HIs can be very persistent over time, in many cases lasting not just decades but centuries, often initiated by a foundational shock. In developing countries, colonialism and associated movements of people – not only from the imperial power, but also the movement of indentured labour from one part of the world to another – is the most important form of inequality-creating shock. Against the predictions of equilibrium neo-classical economics, where diminishing returns should equalise incomes over time, these initial inequalities have frequently persisted, sometimes narrowing but often remaining very large. This inequality is undesirable – because it traps people of certain ethnicities or races in relative poverty and powerlessness – and because it threatens political stability, since cultural difference provides a powerful potential mechanism of political mobilisation. For both these reasons, HIs have a more adverse impact than VI, of which they are one cause. Moreover, in some cases it is extremely difficult to reduce poverty without reducing
HIs, since general anti-poverty measures will fail to take into account the special circumstances of deprived groups.

Our analysis suggests that group inequalities in various types of capital and in the returns to this capital initiate HI, but this is often perpetuated by inequality of accumulation and by differential returns across groups because the returns to any one type of capital is kept low by deficiencies in quantity and quality of other types of capital, as well as past and current discrimination. The political system plays a central part because government policies can reinforce or offset other sources of inequality. The existence of political inequalities are then important in themselves – because people mind about them and are more likely to mobilise, possibly violently, if they lack political power – and because domination of the political system is likely to determine whether there are policies that accentuate or diminish the other HIs.

However, sometimes groups do succeed in catching up – in the cases of Malaysia and N. Ireland strongly supported by policy, and in the case of some Asian immigrant groups to the US, through their own efforts. These ‘success’ stories provide insights on how HIs can be reduced over time.

Adopting the framework and examples discussed above, factors that help prevent persistent HIs, include:

- Processes that reduce the tightness of group boundaries, so that the salience of group membership falls and people can switch to more privileged groups, moving towards an equilibrium in which either group boundaries become invisible, or of no significance, or group inequalities are gradually eliminated. But we should note that, if only relatively few people can switch in this way (e.g. ‘pass’ as whites), the situation of those left behind may become even worse, as they may consequently lack enterprising leaders. Thus to be effective there must be a genuine reduction of barriers to movement and/or salience of identity across the board. Reduction in the tightness of group boundaries is likely to be a product of norms, culture and changing social relations as much as explicit policies. For example, intermarriage, on a sufficient scale, can lead to a blurring of group boundaries, or even their disappearance – where, for example, are the once important differences
between Angles and Saxons in modern-day Britain? Another example of a blurring of group boundaries is the merging of Javanese, Malay and Minangkabau identities into one ‘Malay’ identity in contemporary Malaysia. Nonetheless, government policies are also relevant – e.g. whether the government takes an integrationist or multicultural approach to difference, which informs its policy towards education and culture. Leaders play an important role in connection with the tightness of group boundaries, in constructing and accentuating difference. Here it is not so much whether or how the underprivileged groups mobilise, but more the attitudes of the privileged because it is they who often accentuate difference in order to create barriers to entry. The media can have an independent as well as instrumental role in accentuating difference, or conversely, creating national unity.

- Processes that reduce inequalities in capital accumulation. Here policies towards reducing inequalities need to ensure that discrimination in loans, education admissions, etc. is prohibited. But more is needed if past discrimination is to be offset. For example, unequal accumulation in the past will mean that any loan allocations requiring collateral will discriminate against poor applicants. Similarly, educational admission policies based on competitive examination, or ‘merit’ will discriminate against children from uneducated backgrounds, those that do not speak the dominant language etc. Hence it is usually necessary to go beyond out-ruling existing discriminatory practices to positive current discrimination (or affirmative action) in order to offset the disadvantages incurred by past discrimination.

- Processes to improve the returns to different types of capital. One requirement is to give simultaneous support to different types of capital accumulation in the deprived group, since investment in one type of capital alone may have little impact: for example, policies to extend education in Northern Ghana have little impact on the incomes of those who attend schools because they lack financial and social capital. A second requirement is to outlaw discrimination, and, as in the allocation of capital, to practice affirmative action as an offset to past discrimination, in employment. Thus fair
employment legislation – which can make a substantial difference – may not be enough, and positive discrimination may be needed. There is some tension between policies involving affirmative action and the objective of reducing the salience of group identities. Affirmative action, if carried out strictly on the basis of group identity – e.g. policies favouring the Bumiputera in Malaysia – will tend to accentuate further, not diminish, the salience of group boundaries. This impact could be lessened if the policies were put on some other basis – e.g. geography – but then they can be hijacked by the privileged group, as some have been in Northern Ghana, for example. Affirmative action on the basis of group identity may be the only way of overcoming deep-seated inequality, but its impact in reinforcing difference is a reason for aiming for a limited-term for such policies.

- One important subset of policies to correct HIs over time are those directed at offsetting asymmetries in the quality of social capital. To do this, it is necessary to promote ‘bridging’ social capital for poorer groups so that more of their contacts are with the richer groups. However, it is not a matter of promoting any old contact; contacts which involve hierarchy (as in servant/master relationships) are not likely to generate effective social capital. There are a variety of ways that such bridging might be achieved: these include promoting mixed schools (e.g. by boarding schools containing members of all groups where groups are scattered regionally); and comprehensive schools plus bussing in areas where different groups live fairly close together; housing policies to promote mixed neighbourhoods; and encouragement of mixed civil society organisations.

Promoting inter-group contact, moreover, is not only likely to help reduce HIs but may also promote peace, following the ‘contact’ hypothesis according to which more contact between groups is likely to reduce conflict (Amir, 1969; Hewstone & Brown, 1986; Varshney, 2002). However, research indicates that not all contact improves relationships – indeed, some types of contact may enhance prejudice. For contact between members of different groups to reduce conflict, it seems that it needs to be contact on a near equal basis and to be
cooperative rather than competitive (Hewstone and Brown 1986; Pettigrew, 1998).

While promoting bridging social capital may then improve the efficiency of social capital and contribute to reducing conflict, there is a question as to how far it should be at the expense of contacts within groups. ‘Bonding’ social capital is important too because formation of strong identity groups can assist in promoting self-respect of the group, providing mutual insurance, and bargaining for an improved position for the group. Here too, as with affirmative action, it seems that there are some potential trade-offs. Enhancing bonding social capital may further embed identities, reduce the fluidity of group boundaries and, perhaps, reduce bridging type social capital. (Fukuyama 2001). Yet forming strong group cohesiveness, and using this for political and economic purposes, can be a more powerful and rapid way of improving the position of a deprived group than waiting for the slow impact of a ‘melting pot’.

The examples of Northern Ireland and Malaysia, given above, show that policies can be effective in reducing long-term HIs substantially in a fairly short period. In the case of Northern Ireland, policies were primarily directed at fair employment (i.e. removing discrimination), and equal access to housing, education and health services. For the most part, the policies were geographically based, not explicitly according to group. Yet identities have nonetheless remained clearly entrenched in Northern Ireland, with significant numbers reporting a deterioration in interethnic relations in recent years. In Malaysia, the policies were directed at government employment, education and capital ownership, and in this case the policies were explicitly group defined, again reinforcing rather than reducing group differences. Significant efforts were also made in Northern Ireland to improve inter-group contacts, via mixed schools and civil society associations (Niens & Cairns, 2005). In Malaysia, there was a spiralling of inter-group associations, but they proved ineffective in improving overall ethnic relations (Brown, 2004). In both cases, then, the policies have placed prime emphasis on human capital (improving the quantity and returns), supported by measures to improve financial capital in the case of Malaysia, but not Northern Ireland.
In contrast, some efforts were made to correct HIs in our other two cases, but they had a rather marginal impact, probably because they were not comprehensive enough – in both cases focussing mainly on education, in a way that was insufficient to offset the legacy of previous discrimination and the handicaps imposed by deficiencies in other types of capital.

The role of politics is critical in explaining failures to combat socio-economic HIs. The concerted efforts required mean that the political system has to back the policy fully. This is likely to be the case where political HIs favour the deprived group, which happens in a democracy where this group forms the majority of the population. This is the case in Malaysia. But where the political system is dominated by the more privileged group, as in Ghana and the US, then strong redistributory policies are less likely. Northern Ireland in the 1980s and 1990s was a special case, where the UK and EU determined policy, not the majority (privileged) protestant population. But even where the deprived group forms the majority, it is difficult to combat high HIs in the context of strong opposition from the privileged groups. As some members of the deprived group gain elite positions (generally the potential leaders of the group), they too may be content to live with the HIs. The prevailing market philosophy also presents an obstacle since, while it favours less current discrimination, it disfavours affirmative action to offset the effects of past discrimination. Hence there are cases, like Nigeria and South Africa, where politics is dominated by the poorer group(s), but there is limited and ineffective action to correct the socio-economic HIs.
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