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TOWARDS A WORKING DEFINITION OF INCOME EQUITY

by

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The Need for Equity-Oriented Development Planning

One of the important aspects of the quality of life in the year 2000, which can be influenced by policies implemented at present, is the degree of equity in the distribution of income.

The critical state of present income inequality in the Philippines has been well documented.[1/] Although the historical rate of Philippine economic growth does not match certain "economic miracles" found in other parts of the world, the growth rate has been a modest one, in the order of 6% per year. In the meantime, the degree of relative income inequality has been rather high by international standards, and has shown no signs of improving during the past two decades or so. Furthermore, recent research has shown that the extent of absolute poverty has also been widening. As the PREPF paper by M. Barlis[2/] indicates, the Philippines appears to fit the general pattern of the Kuznets-hypothesis, which is roughly summed up: as development proceeds, income inequality usually gets worse before it gets better. This condition is depicted by a curve, shaped like a hill, which relates income inequality to GNP per capita. It appears that the Philippines is still on the upward slope of the hill, and, according

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1/ See for instance Development Academy of the Philippines (1975) and Mangahas (1974).

2/ Barlis (1975), part of the UPSE/PREPF Phase I report.

to the Barlis projections, will by the year 2000 just manage to get over the hump. The degree of absolute poverty will still be substantial. Out of 17.8 million families, between 4 and 6 million will still not have sufficient incomes to meet the cost of purchasing a minimum-norm food threshold (let alone minimal consumer items aside from food). The range of 2 million in the estimate is due to assumptions on the probable range of growth rates of GNP. The higher GNP growth rate leads to a substantially lower absolute poverty rate, and so it may be conceded that more rapid economic growth is more effective in reducing absolute poverty than less rapid economic growth. However, the projection that, even after a full generation of continuous rapid economic growth, there would still be as many as 4 million families -- over 20 million people -- below a food threshold underscores the low potential of economic growth per se as a policy emphasis.

Of particular interest to us is the work by I. Adelman and C. Morris, who did an extensive cross-sectional study of the experience of 74 developing countries over 1951-1964. Adelman states:

> "It is important to recognize that a country must lie among the upper half of those underdeveloped countries at the highest level of development before higher levels of income are positively correlated with equity. Indeed, in the absence of domestic policy action aimed specifically at redirecting the benefits of growth, a nation must attain a level of

> development corresponding to that which exists among the socio-economically most developed of the underdeveloped countries (Argentina, Chile, Taiwan, Israel) before the income distribution tends to be as even as it is in countries that have undergone virtually no economic development (e.g., Dahomey, Chad, Niger). Anything less and accelerated development works against the poor."[3/]

The Adelman-Morris study bears careful consideration, since very many of their findings bear a striking similarity to conditions in the Philippines. They find that LDC's usually start out on a stage of dualistic economic growth (a stagnant traditional subsistence sector co-existing with a dynamic sector consisting of a metropolitan area, and possibly export-oriented plantations or natural-resource-extractive industries). This first stage is characterized by the exploitation of such natural resources by expatriate groups, and by the existence of a politically dominant elite as a cultural/ethnic group. As this stage progresses, both the poorer classes and the middle classes get worse off, and only the rich classes gain from economic growth.

When the country gets beyond the dualistic stage, it is the middle class which gains the most, especially if there is an expansion in educational opportunities, in political participation, and in the government share in investment. The position of the

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[3/] Adelman (1973), pp. 182-183.

rich classes is diminished if there is a greater concentration on education, on industrial and agricultural expansion, and on government infrastructure, but their position is enhanced if there are extensive natural resources which are open to exploitation. Again, the tendency is that the poorer classes become worse off, both absolutely and relatively. In Adelman's words,

> "Along what appears to be the most likely transition path, drops of between two and three percentage points in the share of the poorest 40% are, on the average, associated with increments in growth rates of less than one percentage point; under these circumstances, close to two generations may be required before the poorest sector can regain the absolute level of income it had before the change in the growth rate."4/ (My ital.)

Adelman lists eight processes by which income inequality is structured by economic development, many of which are found in the Philippine context:

(1) there is typically a high rate of population growth which depresses per capita income;

(2) there is typically an immiserizing inflation during which cash wages increase, but the production of wage-goods lags behind, causing greater than proportional increases in their prices;

(3) the growth tends to be geographically imbalanced, bringing about extreme regional inequality areas (note the Muslim

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4/ Ibid., p. 184.

issue in the Philippines);

(4) on account of an overly capital-intensive technology, the share of property in total income tends to increase, and there is a severe unemployment problem[5/];

(5) there is typically a lack of social mobility[6/];

(6) the country typically pursues import-substitution policies which raise the prices of wage-goods for the protection of the capitalist class[7/];

(7) prices of export crops in the world market tend to be soft, and lagging behind other prices, due to inelastic world demand;

(8) there is a gradual destruction of the country's handicraft industries.[8/]

Their empirical tests, which gave roughly equal focus to economic, political and social variables, identified the following as the five most important variables, in terms of their power to explain intercountry differentials in patterns of income distribution, in order of importance:

[5/] See Power and Sicat (1971), Sta. Romana (1975), and ILO (1974).

[6/] See Lauby (1975), which finds that the Philippine case is similar.

[7/] See Power and Sicat (1971) and ILO (1974).

[8/] See Resnick (1970).

(1) the level of education;

(2) the degree of direct government economic activity through the ownership of economic resources;

(3) in case of abundance of natural resources, the degree of exploitation by expatriates;

(4) the degree of political participation[9/]

Adelman concludes by stressing the feasibility of creating equity-oriented as contrasted to growth-oriented development plans. For short-term plans of about five years, it is reasonable to treat socio-political conditions as exogeneous, and to concentrate on purely economic instruments. However, for long-term planning, there is a need for a development model which takes account of the effect of economic modernization on social structure itself, in such a way as to determine whether certain social groups can have their interests articulated in the political system and can participate in the fruits of modernization. As it undergoes transformation, the social system in turn brings pressures on the political system. The political system responds by developing policies which in turn

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9/ A positive factor favoring equity, this is a composite index reflecting (a) representation of major socio-economic and cultural/ethnic group in national political decisions, (b) the availability of choices among political channels for national representation, and (c) the degree of actual participation in national political processes.

influence the economic structure, thus completing the endogeneity of the model.

In view of the uncomfortable similarity between Philippine conditions and the general structure of income inequalities in other developing countries, we would conclude that there is an urgent need for the Philippine government to plan not only for economic growth but also for reduction in income inequality. If economic planning concentrates only on growth, then it cannot be supposed that the problem of income inequality will take care of itself, at least not within a reasonable time period. As Tinbergen has put it, the problem is how to avoid mass misery -- as the British experienced in the 1800's, the Russians in the 1930's, and the Indians in the 1970's -- while promoting an economic take-off.[10/] There is now a growing consensus that it is feasible to achieve both redistribution and growth.[11/] But it can only be achieved with the assistance of economic policies which are specifically directed at redistribution.

A necessary first step in the creation of a plan for improved equity is the definition of equity itself. The term

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[10/] Tinbergen (1970).

[11/] See Chenery et al. (1974).

equity needs to be clearly distinguished. Equity is not necessarily identical to equality. This paper takes the view that income inequalities can, in principle, be decomposed into socially justifiable or acceptable components, as well as socially unjustiable or unacceptable components. Equity can be defined as the degree to which there exists unacceptable or unjustifiable inequalities. Analysis such as this, which necessarily involves the application of some measure of ethics, is in the nature of what Tinbergen has referred to as "scientific socialism". In the first place, the manner by which ethical principles are introduced must be plainly stated. In the second place, they should appeal to a majority. It should not be expected, Tinbergen argues, that the majority should be as overwhelming as in issues found in the physical sciences. It is necessary only that the methodology should be appealing to a majority of scientists and that the ethical principles should be appealing to the majority of the citizens; but there is definitely no requirement for unanimity.[12/]

A second step is the incorporation of the equity concept in the development planning done by the state. There are several available measures of income inequality which could be used as first approximations of the degree of inequity. In the long-run of

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[12/] See Tinbergen, op. cit.

a full generation, however, there will be significant changes in both demographic and economic structure which would tend to invalidate such time-comparisons. This is the reason for the need to develop a more appropriate definition of equity which is adjustable for such structural changes, particularly those changes which affect the decomposition of measured inequality as to its acceptable and unacceptable components. For instance, if L is a measure of overall income inequality (ranging from 0 for complete equality to 1 for only one family having all the income), and A is the component of L which represents socially acceptable inequalities, then the inequity variable might be defined as (L-A)/(1-A), also having a zero-one range. The component A, it will be argued later, is particularly sensitive to demographic structure.

Whatever the definition of equity, it is necessary that the government should use it in its development plans, that is, that targets should be set, instruments proposed, and monitoring devices established in order to determine the degree of attainment of the proposed targets. It bears repeating that the Philippine government, for all its declarations concerning the high priority of relieving income inequity, and inspite of the technological competence of its planners to do so, has yet to institute specific numerical targets to the degree by which it proposes to reduce income

inequality by such-and-such amount over some specified time period.[13/]

An Experiment Using a Chinese Wage Structure

One way of estimating the degree of socially unacceptable income inequality would be to develop an estimate of what will be the socially acceptable degree of income inequality. This presupposes that one knows, from the very beginning, the socially-acceptable set of rules for establishing income differentials. Although this prerequisite is rather stiff, the approach may be useful in at least establishing that the size of acceptable inequalities, relative to overall inequalities, can be very large indeed. This was done in a simulation of what the Philippine income distribution would be like if one applied the wage structure prevalent in the People's Republic of China, where income equity has, from all appearances, been well obtained.

A recent report gives some data on the Chinese wage structure.[14/] For the sake of the experiment, it was supposed that the income differentials found in this wage structure might be the

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[13/] See Mangahas (1975).

[14/] Council for Economic Development (1972).

maximum socially justifiable for Philippine society. It appears that Chinese workers are classified into grades (I, II, III, etc.) for the purpose of determining their wage rates, as given in Table 1. In general, one is assigned to Grade I when one first become a regular worker. Every five years, a worker moves up by one grade, and receives a higher wage; by the time he has reached the age of 60, or retirement, he has attained the highest grade, which is Grade VIII. The table also includes a wage rate for apprentices, which is below that of Grade I, and two wage rates for high-ranking employees. The top rank is assigned a wage level of 250 Yuan, which is a judgment figure based on the information that engineers receive anywhere from 96-296 Yuan and that university full professors receive 350 Yuan. The wage rate of 190 in the second highest group is simply the midpoint between 250 and 130, the wage rate for Grade VIII. Thus eleven income brackets were formed out of the two rank-groups, the eight grades, and the apprentice-group. The next-to-last column in the table simply converts the wage level to a base of 100 for Grade I, indicating that workers in Grade VIII receive almost triple the income of workers in Grade I, and that top-rank workers receive about 5-1/2 times the income in the base grade.

We then asked what Philippine income inequality would be if these wages were combined with the Philippine occupational structure and age structure. Since about 5 percent of Filipino

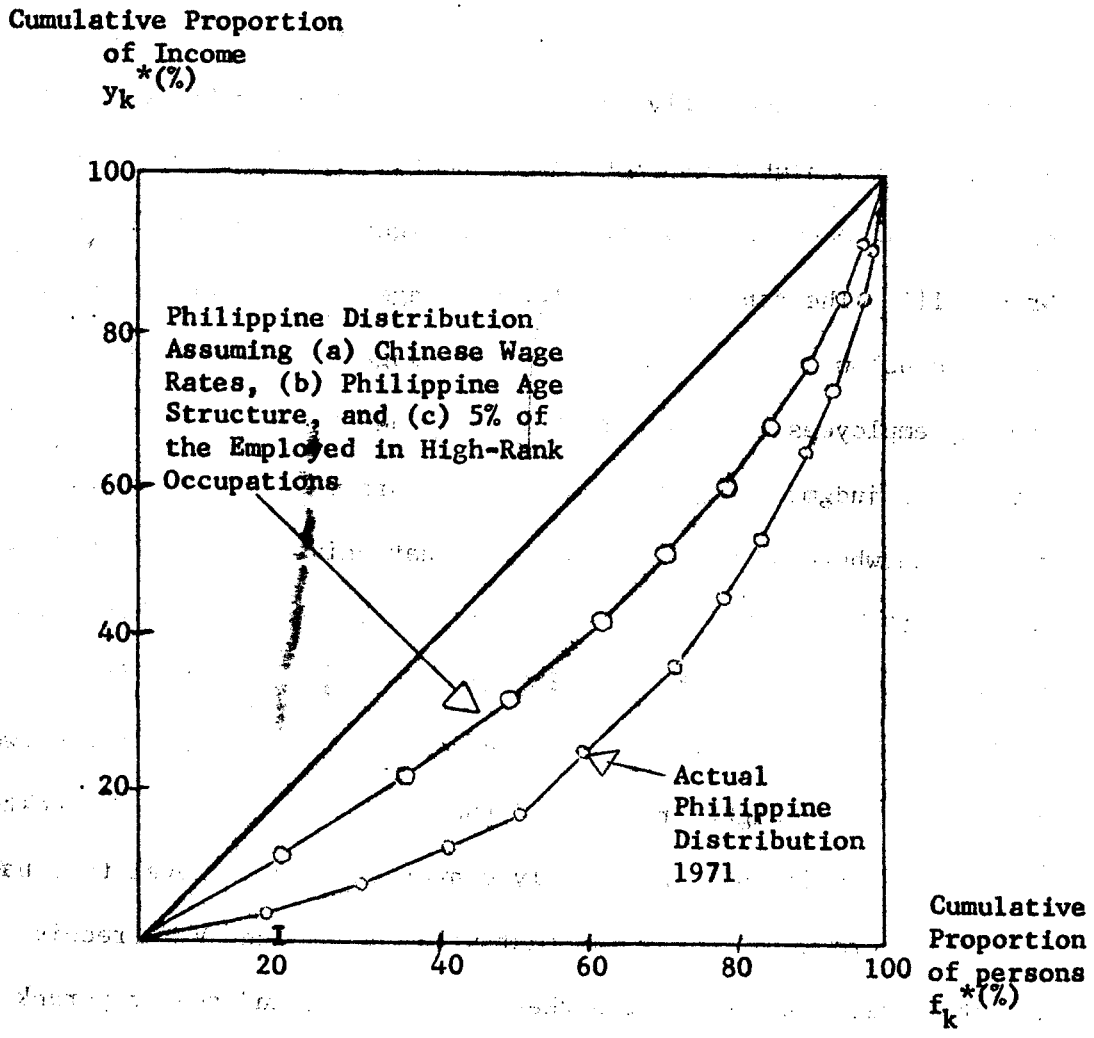

Fig. 1 Simulated Philippine Income Distribution Under Chinese Wage Structure

Table 1. Chinese Wage Structure Used for Experiment

Income Class	Category	Age Cohort	Wage in Yuans	Wage Index	Assumed Percentage of Workers, Under Philippine Conditions
1	Apprentice	15-20	35	78	18.82
2	Grade I	20-25	45	100	16.83
3	Grade II	25-30	50	111	14.43
4	Grade III	30-35	60	133	11.63
5	Grade IV	35-40	70	156	9.43
6	Grade V	40-45	80	178	7.41
7	Grade VI	45-50	90	200	6.35
8	Grade VII	45-55	100	222	5.45
9	Grade VIII	55-60	130	289	4.65
10	Second Highest Rank		190	422	2.50
11	Highest Rank		250	556	2.50
					100.00

Source of Data: Council for Economic Development, Twenty Days in China, Makati, 1972, pp. 56-57. Also see text.

families in 1971 were occupationally characterized as either professionals or administrators, it was assumed that half, or 2-1/2 percent of all families, would be in the top or eleventh income bracket, and the other half of 2-1/2 percent would be in the tenth income bracket. The proportions of families found in income brackets 1 to 9 were obtained by pro-rating the remaining 95 percent of families according to the 1970 Philippine age distribution. The result of the experiment is that the mean income is found to be 154 index points, or approximately the same as the income of those in the age group 35-40. The Lorenz curve is plotted in Figure 1, and has a Gini coefficient of .28, which is over half of the actual Philippine Gini coefficient of .49. The results thus indicate that a very large segment of total measured Philippine income inequality might be accounted for by socially justifiable factors: the two factors of acceptability considered in this experiment are (a) occupational rank and (b) age structure. One should hasten to add that the results do not minimize the seriousness of income inequality in the Philippines. It is precisely because income inequality is so serious that one needs to examine in greater detail the extent of the acceptable and unacceptable components of it.

The Income Concept

Ideally, one would prefer to work with an all-inclusive, full-income concept. This would include income from both market and non-market activities, with the latter including not only goods produced for home consumption but also household-produced services. Philippine income surveys in the past have always made provision for inclusion of the home consumption component of agricultural production, with the possible exception of food produced in home gardens too small to be classified as "farms". A portion of the UPSE/PREPF socio-economic survey questionnaire is devoted to the area of home gardening in order to meet this omission.

Even less data is available on the value of services, particularly those of the housewife, produced by the household for its own consumption. This is of relevance to the study of income inequality, since published data permit classification of incomes as coming from either full-time or part-time workers, with female workers typically playing a large role among the part-timers. The point is that part of the additional cash income earned by a woman who leaves the home is counterbalanced by a reduction in the household services which she could otherwise provide. If a full-income concept is not used, then measured family income might seem greater on account of the entry of a housewife into the market labor force,

due to the lack of a correction factor for the reduced value of household services. Then the degree of measured income inequality would appear lower than if a proper adjustment were made. Furthermore, one would expect that the market-labor-force participation rate among women would be substantially greater 25 years from now. Thus the consideration of a full-income concept is more critical for cross-generational income analysis.

Demographic Factors

Demographic factors are of particular importance in the analysis of income inequality, firstly, because the basic income recipient unit is the family; secondly, because there are very clear relationships between income levels and such demographic factors as sex, age, and size of family, and, thirdly, because it can be argued that a substantial portion of the income differentials due to demographic differences might be considered as socially acceptable.

In the first place, the family is the fundamental social unit (which the state has been constitutionally directed to strengthen). Income differentials among members of the same family are typically ignored; they are not published, and, even when available from primary sources, rarely analyzed. This is because

one implicitly assumes that income inequality among members of one family is completely socially justifiable. The family will take care of equitably distributing the goods and services which can be afforded by the combined level of family income. For long-range projections, one thus takes a keen interest on the processes by which families are formed, maintained, and eventually die. In the course of economic growth, there is a trend towards later marriages, and towards earlier breakaways by young single individuals and young married couples from their families of orientation, and more of a tendency for old couples/widows/widowers to live alone rather than with their children's families of procreation. Some procedure seems needed to "standardize," as it were, our measure of inequality for the type of family structure to which it pertains.[15/]

Three of the demographic-income relationships of interest are illustrated in Figure 2. In the first place, we find that average family incomes are generally greater among household whose heads are male than among those whose heads are female. (The case of Manila and Suburbs should be noted as an exception, however.) The income differentials may to some extent be due to discrimination according to sex -- that is, a female receiving lower income even

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[15/] Kuznets (1974) reports, for instance, that much of U.S. income inequality is explained by low incomes among single-person households. This is not similarly the case in the Philippines at present, but we may expect some trend towards it in the future.

when her other qualifications for work may be exactly the same as a male. On the other hand, the income differentials are also partly explained by the difference between the occupational structure of males and that of females, although a counter-argument would be that males may have unfair advantages in finding placement in higher-paying occupations. It should be noted that the proportion of households heads who are females is only about 10% of the total. Presumably the large majority of these are women who are widows or separated from their husbands; thus the life expectancy of males relative to females (which could change over the course of a generation) is an important factor of consideration here. In other cases, it may be that the female household heads are young individuals taking care of their brothers and sisters, and who have become household heads since both parents are no longer employed or have already died. In this case, what may be relevant are (a) the proportion of first-borns who are females, in conjunction with the life expectancy and employability of the parents, and/or (b) the employability of young females relative to young males.

The second portion of Figure 2 depicts so-called age-income profiles. The rate at which income increases on account of age declines with age, and there is a peak in average family incomes reached at the age 55-64. As always, there are income differentials on account of area of residence; to some extent this would be simply

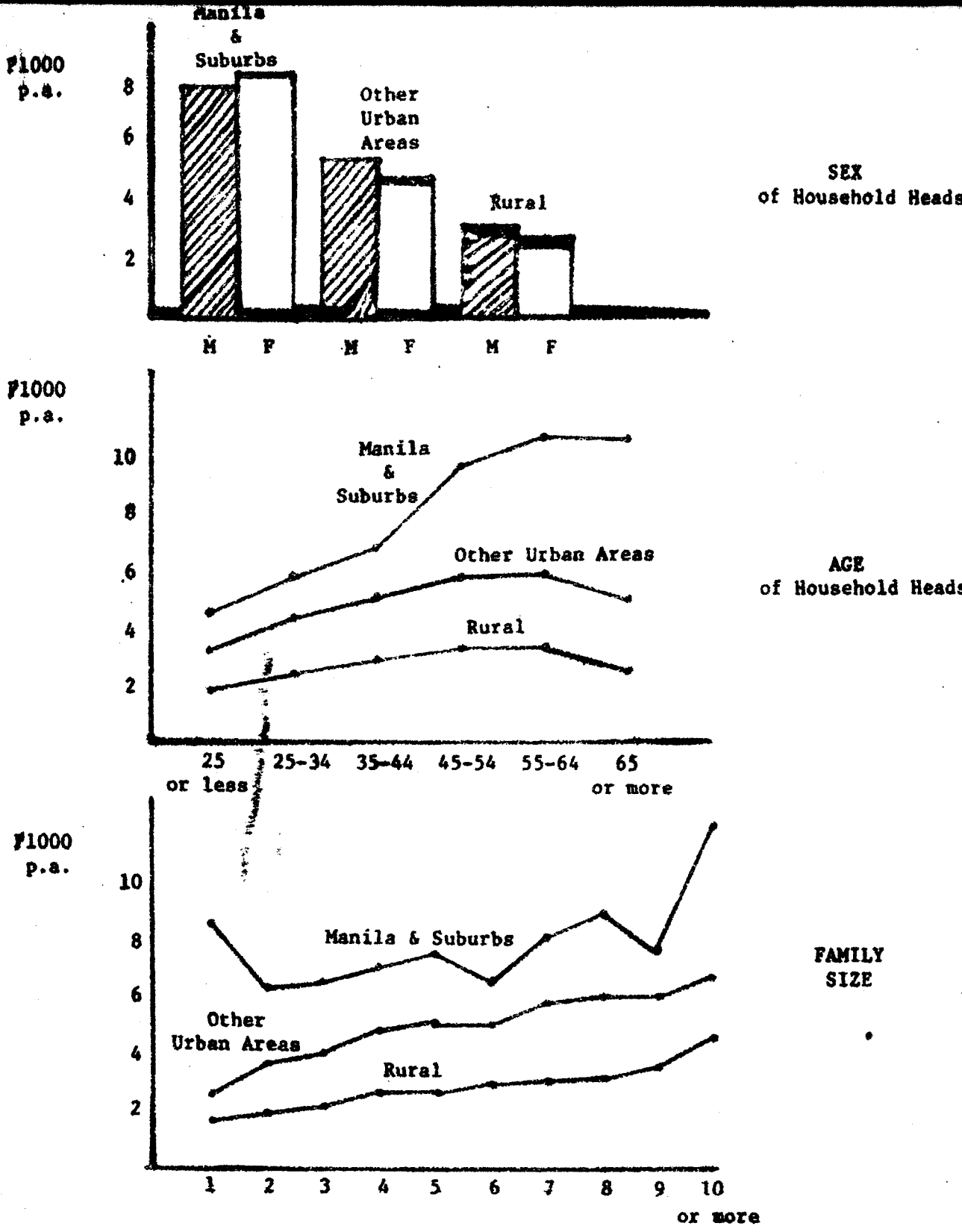

Fig. 2 Relationships of Average Family Income to Demographic Factors: Sex of Household Head; Age of Household Head; and Family Size, 1971

reflective of different costs of living in different areas, and might also be considered as socially acceptable.. Over a space of one generation, one would expect substantial changes in age structure. Specifically, the Philippine population will be getting younger and younger, and, therefore, there would be a larger proportion of household heads in the lower income categories simply on this account, i.e., the degree of acceptable income inequality due to age structure would rise over time.

In the third part of Figure 2 we find a positive relationship between family size and income. To some extent, this is due to the correlation between family size and age of household head: larger families belong to heads who are older, and, up to a point, older household heads earn more income. However, to some extent the increase in income is due to the greater supply of labor by members other than the household heads as the size of the family expands. Larger families have more family members of working ages who can contribute to family income. It should also be noted that this positive relationship between income and family size does not contradict the negative relationship between fertility and income (above some minimum income level) which has been revealed in earlier studies.[16/] It is nevertheless true that fertility is a prime deter-

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16/ See A. Kintanar et al. (1974) and Concepcion and de Guzman (1975).

minant, although not only the determinant, of family size. Furthermore, the size of family also figures as a demand factor, since it can also be considered socially acceptable that the family with more mouths to feed should earn more income.

Finally, it should be noted that the income profiles associated with demographic factors found in Figure 2 are the actual profiles. One should next determine what the justifiable profiles may be. The data have merely indicated what the general shapes of the justifiable profiles are but more information is needed to determine whether the slopes might be too steep or too flat, etc.

Area and Region

Income data are often geographically categorized, as by area of urbanization (Manila and suburbs, other urban areas, and rural areas), or by region. A region will contain its own different areas of urbanization, although, unfortunately, published income surveys frequently do not cross-classify by area and region. Income differentials according to area and region may be partly acceptable and partly unacceptable. At the very least, one should make adjustments corresponding to differences in the cost of living between areas or between regions. Costs of living are typically higher, the more urbanized is the area. (A major difficulty with present Philippine price indices is that they are designed to reflect only

differences across time, and not likewise across geographical space.) Aside from the cost of living factor, however, the remaining components of spatial income inequality should probably not be rated as justifiable. Regions need not be similarly endowed with natural resources in order for regional incomes to be equal. With sufficiently equal opportunities for acquisition of human capital and for mobility of labor across regions, workers' incomes in different regions would tend to equality in equilibrium.

Occupational Rank As A Socially Acceptable Factor

There may be income differentials which correspond to occupational ranks which are themselves socially acceptable. These ranks exist both in capitalist or market economies and in socialist, centrally directed economies. In the former, the structure of organization in firms, and the need for a system of supervision of workers brings about a condition in which supervisors are paid more than the supervised[17]. This condition would not be unacceptable to the supervised, to the extent that (a) they may anticipate being themselves promoted in rank, as they grow in age and experience, or (b) they may consider that attainment of higher positions is based on innate ability. In socialist economies, there also are income

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[17] See Tuck (1954).

differentials associated with rank, as earlier described in the experiment using the Chinese wage structure. In the Philippines in particular, there are some income differentials which are determined by the political body as a whole, as for instance the salary levels set for the highest ranking government officials, which are found in the national constitution. One might also argue that the salary structures found in government institutions reflect to a substantial extent socially acceptable differentials in compensation for different types of work. Further research is needed to determine the magnitudes of income differentials, associated with occupational rank, which the majority of Philippine society would consider as acceptable.[18/]

Main Source of Income

This variable gives us some information on the distribution of income according to economic factors of production. There are 11 types of sources in the income surveys published by the Bureau of Census and Statistics, which can be combined in order to distinguish income from work from income from property.[19/]

[18/] Tinbergen (1974) implicitly argues that occupational wage differentials are socially acceptable. It is interesting to note that the Gini coefficient of income inequality for the salary items contained in the 1975/1976 university budget for salaries in the UP School of Economics is .29.

[19/] See Mangahas and Gamboa (1975).

On constitutional grounds, we would classify income differentials which are attributed to property as entirely socially unacceptable. We may cite Section 6 of Article II, "Declaration of Principles and State Policies":

> "The State shall promote social justice to ensure the dignity, welfare and security of all the people. Towards this end, the State shall regulate the acquisition, ownership, use, enjoyment and disposition of private property, and equitably diffuse property ownership and profits."20/

On the other hand, the portion attributable to work would be partly acceptable and partly unacceptable. Certain acceptable factors are discussed below.

Education and Occupation

Education and major occupation are empirically very important factors determining the level of income received from work.21/ In determining whether there is a socially acceptable component to this, we are considering a two-stage analysis. One may initially classify income differentials arising from schooling and occupational differentials as acquired in a socially acceptable way. Then one could turn attention to the equality of opportunity

20/ The comparable section i the 1935 constitution was less explicit. See Fernando (1974), p. 75, who argues on constitutional grounds that the Philippines is a welfare state.

21/ See J. Encarnación (1974).

among individuals for the attainment of desired levels of schooling and of occupation. To the extent that such opportunities are determined by family wealth or background, or similar factors, the resulting income differentials would be classified as unfair. If some part of the differentials in attaining schooling and occupation can be shown to be due to differences in innate ability, then the results in income differentials can be termed as acquired in an acceptable way.[22/] Again, one should be careful not to impute too much to innate ability. For example, a person may do poorly in his search for education, because his mental capacity has been harmed by malnutrition as an infant, so that this factor too needs to be considered. One might also consider cases of individuals whose lack of achievement may be due to a congenital defect attributable to inadequate health of the parents on account of a condition of poverty.

A Preliminary Approach to the Measurement of Income Equity

There are several available alternative measures of overall income inequality, which, as a first approximation, would serve as monitoring devices for income inequity. It were as though one

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[22/] Tinbergen (1974), however, observes that Nature has not distributed innate ability equally to all individuals, and appears to consider such a distribution as unfair. – too bad!

assumed, to start with, that 100% of the income inequality were socially unjustifiable. This is a very conservative approach, and could be likened to the use of an extremely sensitive signal light, which flashes at the slightest provocation, even though in many instances there may be no real danger. As a refinement, one can make estimates of those components of income inequality which may be taken to be acceptable to society, but taking care not to overestimate the acceptable portion, even to the extent of knowingly underestimating it. By analogy, one is trying to design a signal light which gives fewer false alarms, but taking care that, even though it may still register some false alarms, it will not fail to register in case of a real danger.

Among the measures of income inequality, it would be convenient to use one which can be reduced to additive components (such as the variance, or the Gini ratio, or the Theil information measure, or the Kuznets index). In general, the decomposition can be carried out according to mutually exclusive classes of income recipients or according to mutual exclusive categories of income.[23/] Since one income recipient can have more than one category of income, it is much simpler to consider an accounting frame classified according to recipient.

23/ Mangahas and Gamboa, op. cit.

Any income inequality variable is a measure of dispersion. One will need to explain or account for this dispersion, because the explanation factors are potentially to be the focus of policy instruments. Inevitably, however, the total dispersion will be divided into an 'explained' component (often referred to as the 'between-group' dispersion) and an unexplained component (often referred to as 'within-group' dispersion). Barring evidence to the contrary, we should consider the unexplained dispersion as purely a socially unacceptable dispersion.[24/] We may turn next to the explained component in total dispersion; it should be clear that the term "explained" is definitely not being used to connote "justifiable". An accounting is then needed of the portion of explained dispersion attributable to socially unjustifiable factors, and the portion attributable to socially justifiable factors. In conducting research one should start with what seemed to be the most unacceptable factors and end with what seem to be the most acceptable ones. One cannot be indifferent as to the order in which the factors are taken. We wish to avoid unnecessarily imputing unexplanatory power to acceptable factors, and there is a danger of imputing too much to the factors which are used first in a sequence. One may draw a lesson from stepwise regression -- when only one explanatory variable is used, it tends to "grab" the

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24/ Perhaps later on one could study Filipino attitudes towards luck or purely random events as a determinant of income. Perhaps few would begrudge a neighbor's good luck; but would they feel it to be fair if he experienced bad luck?

explanatory power of all the missing variables it has some correlation with. As the missing variables are found, and included, one will always note a decline in the explanatory power of the earlier-introduced variables. Inevitably, of course, not all of the dispersion will be explained; and if the variables introduced are all what may be termed socially justifiable, then one will have overestimated their explanatory power.

Conclusion

This paper presents preliminary views on how a measure of overall income inequality may be subdivided into a socially acceptable or defensible component, as well as a socially unacceptable or distressing component. The latter component is identified as income inequity. The identification of acceptable income inequalities is definitely not intended to play down the seriousness of the income inequality problem. It is precisely because income inequality threatens to become worse before becoming better that it deserves a very close look, which results in certain income differentials being classified as more socially problematic than others.

It was argued that the acceptable income differentials are closely related to demographic variables such as the number of families, the sex of the household heads, the age structure of the

working population, and the size of families, all of which will probably be very different in the year 2000 from what they are today. Therefore projections of overall income inequality which do not account for demographic structural changes are likely to either overstate or understate (depending on how the demographic structure changes) the degree of income inequity. Furthermore, although the variables are traditionally considered demographic, they are not independent of economic factors. The decisions on age of marriage, on the choice of a spouse (with the potential of enjoying a certain income from either work or property), on when to leave the family of orientation in order to establish a new family, on number of children to have, on who among a family of unmarried brothers and sisters should be the family head -- all of these to some extent depend on present and expected income streams, on ownership of wealth, on costs of setting up a separate household, on the benefits from combining incomes of separate individuals, and other economic factors.

In the next phase of PREPF, work will continue on (a) more precise definition of the inequity variable, (b) data gathering on income (with emphasis on the full-income concept) and on social attitudes towards the acceptability or unacceptability of certain determinants of income differentials, from forthcoming UPSE/PREPF surveys, and (c) construction of a model with the purpose of simulating income inequity in the year 2000.

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