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Economic Inequality in the Democratic' Nepal: Dimensions and Implications'

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Dimensions and Implications

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Abstract

Reports indicate increasing economic inequality in Nepal during the era of parliamentary democracy begun in 1990. The extent and the mechanisms by which this increase has occurred are not fully understood, however. Using micro level survey data on consumption expenditures, incomes, and wealth, this paper finds large and slightly increasing economic inequality between 1996 and 2004. Income from house rental, employment, businesses, and remittances as well as the stock of wealth in real estate and housing and businesses are the leading sources of inequality. Horizontal and vertical inequalities have increased along the caste/ethnic and spatial lines, providing a strong impetus to the ongoing political instability in the country. These dimensions of inequality have important social, political, and policy implications in the country.

Keywords: Economic resources; Horizontal and vertical inequality; Democracy; Survey data; Nepal

I Introduction

Published data indicate that economic inequality considerably increased in Nepal during the last three decades. Gini index—the most widely used measure of inequality—of disposable income and consumption expenditures, for example, increased from 0.30 in 1984 to over 0.38 in 1996 and further to 0.47 in 2004 (WIDER 2005; World Bank 2006). The share of the top quintile on the national income and consumption expenditures increased from 40 percent in 1984 to 47 percent in 1996 and 55 percent in 2004. It is understandable that much of the recent policy focus in a country like Nepal, where nearly a quarter of the population lives with less than US$1 of daily income, remains on economic growth and employment generation. But the decision to shun ‘economic inequality’ in official policies such as those expressed in the Poverty Reduction Strategy Paper, commonly known as the Tenth Plan (NPC 2005), partly indicates the overall policy environment in the country providing a powerful impetus to create and sustain inequality and poverty.

Rising economic inequality can pose a serious challenge to social management. In Nepal, this has further threatened the viability of democracy as indicated by the decade-long Maoist insurgency, which does not appear to have ended despite its ascendance to the mainstream politics, profoundly reshaping the nation’s entire political landscape. As Nepal attempts to chart its democratic future, its success depends on the implementation of the broad-based and inclusionary democratic policies that do not aggravate if not undo the enormously rising inequality.

This current wave of rising economic inequality coincided with the economic liberalization policies pursued by the democratically elected governments of the 1990s, further intensifying the process of integration into the regional and global markets. Starting with the average degree of inequality in the 1980s, the magnitude of inequality in Nepal today dwarfs those in all other countries in South Asia (Wagle 2007). That inequality is significantly lower and declining in Sri Lanka and Pakistan, the countries with much longer history of economic liberalization, invalidates the argument for a positive effect of liberalization on inequality (Wagle 2007). Neither does the notion of Kuznets’ Inverted-U, hotly debated internationally, fully explain what is going on in this context as these more intensely liberalizing economies do not sizably differ from Nepal in per capita and other industrialization measures. While these and other international political economy forces are important, as they have significant roles in the micro- and macro-economic performance of a country, their effects on the specific inequality outcomes would depend on the given political and social arrangements.[1]

There is no denying that the current wave of rising inequality in Nepal resulted, in part, from the culture that places the lower caste and ethnic groups as well as the folks in the countryside in a highly disadvantaged position (Deraniyagala 2005; Murshed and Gates 2005; Sharma 2006). An unequal treatment of the different castes and ethnic groups may have served as a major impetus for the powerful Maoist insurgency and the resulting aftermath with intricate political stalemate in this ethnically, culturally, and geographically diverse country (Riaz and Basu 2007).

Economic inequality in Nepal has economic, political, and social dimensions culminating in an unequal treatment of the different groups along horizontal, vertical, and spatial lines. No doubt, the changing political landscape with the policies of the government during the era of parliamentary democracy begun in 1990 has directly contributed to this rising inequality. Yet, it would be difficult to fully disentangle the effects of these different factors on inequality since they tend to gradually change over time. The fact that inequality has remained historically low in Nepal, and in South Asia in general, compared to other countries or regions in the world further complicates the issue.

Economic inequality can take many forms including inequality in the ability to consume, the ability to earn income, and the possession of property-wealth. While income can turn into consumption and while one can use the given stock of wealth to derive income and/or consumption, each manifests a specific type of the access to economic resources. The magnitude of inequality, too, may be different across these and their underlying sources. Where as the widely used consumption estimates show enormously rising inequality in Nepal, how would the

[1] Social arrangements play an important role in effecting economic inequality. As Albert and Albert (2007) currently demonstrated, for example, income inequality in the United States is more strongly related to the existing social conditions than to employment or other economic conditions. Social conditions can affect income inequality variously with participation of women in the labor force decreasing inequality and the composition of households with female headship increasing it.

inequality scenario alter across different types of economic resources as well as different sources of wealth and income? To what extent do the oft-cited notions of horizontal and vertical inequality hold across different resources and over time? This, in other words, is to ask how different population groups—such as by caste, ethnicity, and space—compare within themselves and with others. Finally, what do the findings on these questions mean to the economy, polity, and society of Nepal? A careful examination of these questions will help understand the economic inequality dynamics in this country, with usefulness in further research and policymaking.

This paper investigates the scale, sources, and potential causes of economic inequality during the democratic era in Nepal. It is organized as follows. Next section describes the data. The scale and sources of inequality are explored in section three with following two sections examining the notions of horizontal and vertical inequality. Section six discusses the findings and their relevant social, political, and policy implications. Final section concludes with directions for future research.

II Data

Data for this analysis come from the 1996 and 2004 waves of the Nepal Living Standard Survey (NLSS).[2] These surveys were conducted, under the auspices of the World Bank and UK Department of International Development, to provide reliable statistics for monitoring and evaluation of development programs especially related to poverty. It is the national representation of the data that lend validity to the results derived, with the power to accurately

[2] Information on the sampling, questions, methodology, and preliminary results can be found in the statistical reports prepared by the Central Bureau of Statistics (1996a, 2004a). While these surveys were conducted in two years span, with the first wave in 1995 and 1996 and the second wave in 2003 and 2004, I use the latter years for simplicity and uniformity. The actual years these data represent, therefore, are 1995/1996 and 2003/2004.

capture the temporal trend in society. The two waves of the survey collected data on a wide array of household conditions and characteristics. Apparently, these two waves do not fully represent the recent era of parliamentary democracy begun in 1990 in Nepal. Yet, they capture two important modes of this era, with the first coinciding with the inception of the Maoist insurgency, which occurred after a brief experimentation with the multiparty democracy. The second wave marks the beginning of the greater political instability resulting from the further intensification of the Maoist insurgency, resurrection of the active monarchy, and dwindling power of the political parties.

The original dataset included 3379 respondent-households in the first wave and 3912 in the second wave. This analysis uses all households from the first wave as they include estimates on all relevant variables.[3] In case of the second wave, this analysis uses 3911 households, after dropping an outlying household manifesting estimates that are nearly implausible.[4] The resulting data provide complete estimates on all households included in the sample. While the dataset contains information on a number of aspects of the 7291 households covered in the two waves, I select a number of variables central to this analysis. Consistent with the idea of examining the discrepancies in the ability of households to access or mobilize different types of economic resources, the variables of interest here include household expenditures, income, and wealth.

Conceptually, economic inequality can take many forms, inequality of income, consumption expenditures, and wealth being the most important and direct (Birdsall and Londono 1997; Chhetry 2004; Deninger and Squire 1998; Wagle 2006a). The former two are the flow variables

[3] The Central Bureau of Statistics (CBS 2004a), the government agency that conducted the survey and processed the data, includes 3373 households in its report. The report, however, does not provide information on why the six households were excluded.

[4] This household of four members, headed by an unmarried person 22 years of age, had an implausible amount of earnings, about 500 times the total property, which tended to greatly skew the result for the entire sample, warranting its exclusion from the analysis.

where as the latter is the stock variable that accumulates over time. While all these forms have important implications on how one fares in society, the suggestion that income may not necessarily accumulate into wealth in the emerging economies of Kathmandu and elsewhere in Nepal (Wagle 2006a) indicates that all three factors need to be examined to garner a more thorough understanding. At the fundamental level, consumption and especially its actual intake is directly linked to economic well-being (Dasgupta 1993; Wagle 2002, 2006b). Yet, income and wealth provide a greater degree of power on one's own and others' activities in society. Between income and consumption too, studies have shown that people can have consumption without income as they can count on family/friends, formal and informal supports, and even barters to sustain their livelihoods in pre-capitalist countries like Nepal (Pradhan and Ravallion 2000). Additionally, given the highly agrarian character of the Nepali economy, land ownership provides one with both economic and political power especially in countryside where working with land is the most fundamental economic activity. It is important for the studies of economic inequality to include all types of access to resources that households can count on in order to maintain their living standard.

Since households engage in different economic activities, it is also important to include all relevant items in computing the aggregate expenditures, income, and wealth. First, household expenditures include rent, food, and non-food items[5] on which households spend money as well as items that are grown, produced, or received in kind.[6] Also included in this category is the money remitted elsewhere which can be for a variety of purposes including education, gifts, or

[5] I use the 12 months recall period for these non-food items that tend to be balanced out throughout the year rather than every month, which would be the case with the 30-day recall period. The issue can be debatable for poverty studies as using different recall periods can lead to different poverty estimates (Deaton 2001, 2003). While these small differences would not matter much in studies of inequality, I use the 12 months recall period to be both accurate and consistent in measurement.

[6] These include food items as well as nonfood items such as clothing and housing. Owner occupied housing which signifies consumption or forgone income is also included in this category. Nevertheless, items such as publicly received health care and education are not included because of the complexities attached to their valuation.

simply remittance of earned income. Second, household income includes rental, employment, agricultural, and business earnings as well as remittances received and the consumption of items that are home grown, produced, or received in kind. These different categories of income are also used in the analysis to examine the specific sources of income. Third, the estimates of household wealth include real estates and houses, business ownership, and other types of properties including the current value of durable goods, farming and non-farming assets and equipments, net loan receivable, and other liquid assets. These asset categories are also used in the analysis to examine the stock of wealth in different forms.

Admittedly, the method of aggregation used here is more inclusive than the one used for official purposes in Nepal (CBS 1996b, 2004b). There are some differences in the specific items included in the estimates of income and especially expenditures.[7] Even the specific methodologies used for aggregation may be somewhat different as the official procedures of imputation generalized estimates for some geographic areas, which could otherwise be highly variable across households. This, together with differences in the effective sample size, has had important implications for estimating consumption expenditures and income. As the summary statistics provided in the Appendix show, this approach provides household income estimates that are very close to the official estimates and consumption expenditure estimates that are considerably larger than the official estimates.[8] While official estimates of the household wealth are unavailable, I expect the estimates to be highly similar as is the case with income estimates.

[7] These official calculations, for example, do not include such expenditure items as firewood, education, religious functions, and durable goods, which are included in the calculations here.

[8] The fact that this inclusive approach yields larger expenditure estimates is understandable since many items excluded from the official calculations are included here. In case of the income estimates, however, though remarkably close, they were somewhat smaller than the official estimates especially for the 1996 data. For one, it may be because of the variation in the sample size—the official sample excludes six households included in this analysis—or some subtle methodological differences discussed earlier. Also, the estimates presented in the Appendix are expressed in nominal values to allow absolute comparisons. Similar estimates reported elsewhere in this analysis, therefore, will not equate these values for the 1995/96 wave of the survey since the former are expressed in 2004 values using an appropriate GDP deflator.

The expenditure and income estimates also seem bit inconsistent since most of the households appear to report incomes that are smaller than their expenditures.[9] To correct for this inconsistency, I create an adjusted income variable, where income estimates are replaced with expenditure estimates whenever the latter are larger. It also makes sense to upscale the access to economic resources when households have access to consumption expenditures through means not captured in the reported income.

These differences in the wealth, income, and especially expenditure estimates can have serious implications for an analysis of poverty or other factors using some absolute measures or comparisons. However, I expect these implications to be less serious here since the objective is to examine economic inequality—not poverty—where being methodologically consistent throughout the analysis is more important than being externally valid and producing estimates that conform to some other results. Even so, I expect to minimize any applicable validity threat by using more inclusive sets of estimates together with the alternative, adjusted income estimates. These complex and validity issues also reaffirm the need for using all available measures of access to resources for a more comprehensive and accurate picture of economic inequality.

III Scale and Sources of inequality

Table 1 provides various measures of economic inequality for 1996 and 2004 computed at both

[9] This is true even for the official estimates especially from 2004 data (see Appendix A). Specifically, close to 64 percent of the households from the first wave had consumption expenditures in excess of income. Over 73 percent from the second wave satisfied this criterion. Ideally, one cannot have expenditures without some specific source going into income. A number of possible reasons may have contributed to this anomaly, however. The fact that these estimates apply even after accounting for the consumption of items that are home grown, produced, or received in kind eliminates the most probable suspect: consumption without payment. But a possible reason that has not been incorporated in this analysis is the expenditure directly out of one's stock of wealth or borrowing, an alternative not highly plausible for all of the close to two-thirds of the households. Irrespective of the reason, this is an example of the measurement problems likely in studies of income and expenditure when using micro-level survey data.

household and individual levels. Because these measures use the aggregate values of income and wealth, all households included in the data have non-negative values, which required nullifying any negative income or wealth estimates.[10] Various economic resources have different mean and median values, with the former estimated at higher levels signifying a typical scenario with positively skewed distributions. That mean values are larger than twice the median values in almost all cases indicates that those on the top of the distribution enjoy disproportionately larger share of the resources. More specifically, the bottom 10 percent of the households have access to around one percent or even less of the resources, where as the top 10 percent enjoy around 50 percent or even greater share of the resources.[11] Gini coefficients surpassing well over 0.58 in almost all cases paint a picture where the distributions of different kinds of resources are highly unequal. These estimates place Nepal in one of the most economically unequal countries in the world.[12]

(Insert Table 1 here)

Three observations are noteworthy in Table 1. First, economic inequality varies considerably in Nepal depending on the specific resources used to measure it. Inequality in consumption expenditures may be the smallest, with that in wealth running the highest and inequality in income in the middle. Because not all income is spent and because wealth accumulates over

[10] In reality, negative estimates of income or wealth signify that households incur loss, operate in deficit budget, increase liability, and/or deplete the stock of wealth. Irrespective of the source, however, it is theoretically inconsistent to assign negative value for one's access to economic resources. Where as one can report a negative income or wealth in a particular source, the aggregate estimates would have to be non-negative.

[11] These figures are larger than the official figures for the richest 10 percent estimated at 39 percent using expenditures and 38 percent using income at the per capita level (CBS 2004b) for reasons that are obvious by now. That the expenditure-based estimate is larger than the income-based estimate in the official reports, however, demonstrates the apparent anomaly between using income or expenditures as the basis.

[12] Meaningful comparisons are not justified since the bases of these inequality estimates are different not only in Nepal (as the official measures use slightly different expenditure approaches) but even more importantly across countries. Even considering that the official approaches tend to use more conservative methodologies, however, Gini indices of per capita consumption expenditures of 0.33 in India, 0.34 in Indonesia, 0.42 in Thailand, and 0.45 in China are much smaller than those of Nepal (0.60). These estimates would put Nepal's inequality ranking close to those of South Africa (0.58), Zimbabwe (0.50), and Botswana (0.63), the most unequal countries in the World (UNDP 2006).

time, further magnifying the inequality trend, these inequality estimates for Nepal provide external validity to the data. The locus of inequality of adjusted income between those of expenditures and income is also consistent as the up-scaling of income using the expenditure estimates whenever they are larger tends to attenuate the inequality.

Second, the household and individual level analyses provide largely similar inequality estimates across all types of resources. At a general level, the per capita estimates correct for the resource differentials across households of different sizes. While the household size considerably varies in Nepal with six to 11 member households almost as common as smaller ones, this does not significantly alter the economic inequality situation between the household and individual levels. This can be taken as an indication that further analyses (as in the next section) can exclusively focus on the household level.

Third, the overall economic inequality landscape does not appear to have altered during the eight years covered. There are some differences especially with a sizable increase in inequality of reported income, which contrasts with the sizable decrease in inequality of wealth at the household level. At the individual level, on the other hand, although the wealth distribution saw a sizable decrease in inequality, it is the consumption expenditure more than the reported income that has seen a modest increase. Declining wealth inequality is interesting to observe especially given that the overall income and expenditure inequalities have slightly increased. This trend may be consistent with the declining real estate prices, however, owing to the deteriorating security situation in the entire country.

Irrespective of the sources of inequality (to which I later turn), the finding that inequality of income and expenditures has not considerably increased during the period contradicts the reports cited on the outset of this paper. Rather than providing good news, however, this analysis offers a scenario where the inequality estimate perhaps needs to be up-scaled especially for the first wave of the survey. While the Gini estimate would change for both years covered in the survey, the Gini estimate of 0.38 for 1996 would have to be increased significantly so that the marginal change during the eight years would place the 2004 estimate still significantly ahead of those reported elsewhere (WIDER 2005; World Bank 2006; UNDP 2006).

Table 2 reports inequality estimates using specific sources of household income and wealth. Different from the estimates depicted in Table 1, however, these estimates are based on all positive, nonzero values.[13] Reports indicate that a small number of households had income from remittances, business, and especially house rental with increasing magnitude of remittances not only in the number of recipient households but the actual amounts received. Business was the leading source of income and while the size of all types of income grew during the period, income from house rental, agriculture and livestock, and home production or other in kind sources declined, a trend symptomatic of the increasing security problem especially in the countryside and its pressure on the urban owner occupied housing. Consistent with this, the business ownership too was not highly common even though it was the major form of household wealth.

(Insert Table 2 here)

From the inequality standpoint, on the other hand, the Gini coefficients reported in Table 2 suggest that the distribution of income from employment, house rental, business, and remittances serve as the major sources of inequality. This trend is consistent over time even though the inequality of income from house rental and remittances declined considerably and that of

[13] Admittedly, this may lead to smaller estimates of economic inequality. At the same time, however, it would not be reasonable to base inequality estimate on something that every household is not likely to possess. Inequality of business income, for example, would have to include those that have some business income. More consistent, therefore, would be to estimate inequality among those who have at least some of it.

business income remained unchanged. The inequality of employment income may have been responsible for the positive change in the overall inequality even after accounting for the negative changes in the inequality of income from house rental and remittances especially because of its widespread impact with a large number of households included in this measure. The inequality of agricultural income slightly increased making it one of the leading causes of the overall economic inequality where as that in home production or in-kind sources of income remained unchanged.

No doubt, real estate and houses are the primary source of wealth in this country with economic liberalization and thus manufacturing industry still in early stages. The inequality of household wealth too appears to have been largely tied with this measure. The inequality of business ownership, however, appears to be a leading source of wealth inequality, especially when looking at the rampant increase in the associated Gini index. An almost 0.16 point increase in the already very large Gini index entry uncovers an extreme form of economic inequality in business activities, suggesting that the sudden growth in mega businesses is effectively dwarfing the growth in small businesses that may be the backbone of this early-industrializing economy. The inequality of the ownership of other types of fixed and liquid assets and especially the real estate and houses appears to be declining over time possibly for the reason that the demand for these types of properties has not increased nationwide owing largely to the enduring political turmoil.

IV Horizontal Inequality Across Groups

Horizontal inequality constitutes the inter-group dimension of inequality, with the groups formed along some socioeconomic or socio-demographic lines. Gender, age, education, occupation, and class are some popular characteristics used to form socio-economically meaningful groups. More important than these in the contemporary Nepal, however, are the disparities along the socio-demographic lines including caste, ethnicity, and space, as lower castes and Janjatis and those from specific locations tend to manifest poor access to economic resources. Murshad and Gates (2005) and UNDP (2004), for example, found significant differences in income as well as other human development levels along the caste/ethnic and spatial lines.

I investigate these issues by looking at the differences in the access to resources across different caste/ethnic and spatial groups. Table 3 reports the estimates of household expenditure, income, and wealth and their appropriate sources for major caste/ethnic groups. Compared to the national average, for example, the high caste Hindus including the Brahmins and Chhetries from both Hills and Terai had considerably larger household expenditures, considerably smaller unadjusted household income, and slightly larger adjusted household income and household wealth. In 1996, they appeared to be better poised on average than the rest of the population even though their reported incomes tended to be considerably smaller. Their relative positions significantly improved by 2004. While all of their averages significantly increased, more significant was the increase in adjusted income estimated at over 60 percent. This resulted from the increase in income and wealth across all sources, even though income from agriculture declined somewhat, a typical scenario nationwide.

(Insert Table 3 here)

Compared to the high caste Hindus, more specifically, the middle and low caste Hindus, Newars, and Muslims had consistently smaller estimates of consumption expenditures, incomes, and wealth in 1996, where as the Janjatis and others had consistently larger estimates.[14]

[14] These computations are based on the official caste/ethnic classifications widely adopted in Nepal (Dahal 2003; Gellner 2007; UNDP 2004). As agreed by the Nepal Association of Indigenous Nationalities—a national association

Especially noteworthy are the expenditures, adjusted income, and wealth on which all of these lower performing groups fared much worse than the high caste Hindus. There are also some anomalies with regard to the specific sources of income, however, as the low and particularly middle caste Hindus fare better in income from employment, business, and home or in-kind production. The Muslims appear to exhibit the lowest access across all kinds of resources with their adjusted household income 39 percent and household wealth 19 percent of those of the high caste Hindus. At the opposite end of the spectrum are the Janjatis and especially the others who enjoy considerably larger access to expenditures, incomes, and wealth.

This pattern remained more or less the same in 2004. The condition of the middle caste Hindus significantly worsened even though their wealth significantly improved especially as contributed by the increase in the value of real estate and housing. The case of the low caste Hindus worsened across the board with a very surprising decline in the value of their business ownership from 61 percent to eight percent of those of the high caste Hindus. The Newars made an impressive progress almost across the board with somewhat declining access to income from agriculture and home and in-kind production and a phenomenal growth in household wealth, expenditures, adjusted income, and especially unadjusted income. More important in this process has been the increase in income from house rental, employment, and business and in ownership of business as well as other properties, a sign that they have been capable of harnessing the ever increasing opportunities conferred by the economic liberalization policies. The Janjatis have seen

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of the concerned population and popularly known as NEFIN—and Nepal Foundation for Indigenous Nationalities—an organization formed by the government to promote the indigenous groups—these classifications identify those with their own language and ethnic roots as the Janjatis. The Janjatis, for example, include such ethnicities as Sherpa, Shiyar, Thakali, and Vote from the Mountains, Gurung, Limbu, Magar, and Rai from the Hills, and Bote, Darai, Raji, and Tharu from the Terai. While Newar including a host of different castes of its own is classified as Janjati, I treat the Newars separately for their relatively advantaged position in society. The three Hindu castes include high caste (Brahmin and Chettri), middle caste (Sanyashi from the Hills and Yadav, Kayastha, Halwaii, Hajam, Sonar, Lohar, Rajbhar, and others from the Terai), and low caste or Dalit (Kami, Sarki, Damai, Badi, and Gaine from the Hills and Tatma, Bantar, Mushahar, Chamar, Dom, and others from the Terai). Other caste/ethnic groups include Muslim and others (Bangali, Christian, Sikh/Punjabi, Marwari, and Jain).

their relatively strong position deteriorate across all expenditure, income, and wealth categories except for the agricultural income in which case they have seen a slight improvement. The case of the Muslims is quite the contrary with their relatively weak position improving over the period on every category. The improvements were relatively miniscule, however, suggesting that while the rates of growth or progress surpassed those of the high caste Hindus, they were not anywhere close in absolute terms. Finally, the mix of other ethnicities witnessed their relatively strong position significantly weaken over the period. This weakening, however, was not sufficient in most cases to place them in a worse condition than the high caste Hindus. Particularly interesting was the relatively worsening business income, which occurred despite massive increases in the value of business ownership compared to those of the high caste Hindus.

These statistics paint a picture of economic inequality in which the high caste Hindus and the others have maintained their preeminent position and the Newars have been able to significantly gain thus placing them even ahead of the high caste Hindus on most resources. The middle caste Hindus have mostly maintained their position where as the Muslims have improved but only slightly in relative terms. The low caste Hindus and the Janjatis appear to be the biggest losers with the former seeing their already weak position exacerbate and the latter seeing their relatively strong position significantly worsen over the period.

Changes in the relative position of a group may occur due to the changes in the absolute position of either the group itself, the high caste Hindus—the reference group—or both. The absolute position of the high caste Hindus has conspicuously improved over time. This is not necessarily the case with other groups, however, since the middle caste Hindus have lost their absolute position on unadjusted income and the low caste Hindus have lost theirs on both unadjusted income and wealth. Even more discouraging has been the absolute position of the

Janjatis with significantly smaller expenditures, incomes, and wealth by the end of the period. While the others have seen significant decline in average household wealth, their relative position still remained strong.

Tables 4, 5, and 6 present estimates useful to assess the degree of the spatial form of the horizontal inequality with variations across urban/rural, regional, and ecological belts. Reports suggest large discrepancies in household expenditures, incomes, and wealth across different urban/rural, regional, and ecological areas, the condition that did not improve much during the eight years covered. More specifically, the estimates reported in Table 4 demonstrate that the average household expenditures, incomes, and wealth were considerably higher in urban areas than in rural areas. The estimates for the rural areas were one third the estimates for the urban areas or even lower except for the income sources such as agriculture and home or in-kind production, the popular domains of a country life. It is understandable that the cost of living tends to be higher in urban areas, a fact clearly substantiated by the rental incomes in urban areas that are six times those in rural areas. Yet this many not be sufficient to justify the disproportionately higher income, wealth, and especially expenditure estimates in urban areas, given that the shadow prices have been incorporated for all resources that do not have readily available market prices including house rental and home or in kind production. Although the declining property wealth and especially the real estate and housing values contributed to lower incomes from such related sources as house rental, the growth rate of income, expenditures, and wealth in rural areas exceeded those in urban areas during the eight years. This faster rate of growth was not enough to significantly improve the relative position of rural areas, however, since their 1996 values were tremendously smaller.

(Insert Table 4 here)

Table 5 provides a similar story across the five development regions. The Center region provides the widest access to economic resources with average household expenditures, incomes, and wealth all consistently highest in the country. The West region which follows the Center is considerably far behind in all measures except that business ownership and especially income from remittances run much larger in the former. Despite having larger values of the business ownership, however, business incomes tend to be significantly smaller in this region, an anomaly difficult to explain other than speculating that the businesses there may be less lucrative perhaps involving large initial investments.[15] Following the West is the East region, which leads the country in the household income from agriculture but has considerably smaller sizes of the average household expenditures, incomes, and especially wealth. The Mid-West and especially the Far-West regions lag further behind in all measures of economic resourcefulness. Particularly interesting is the business ownership and associated income in the Far-West estimated at less than 10 percent of those in the Center, indicating the smallest degree of business activities operational in this region. While there are some variations across these four regions (other than the Center), they exhibit a striking similarity in the average employment income estimated at slightly less than 50 percent of that in the Center.

(Insert Table 5 here)

The eight years captured in the analysis have not brought significant changes in the relative position of the regions. All of these regions have gained across all economic measures in absolute terms. When it comes to the relative position, however, the gains they have made in absolute values do not adequately offset their highly disadvantaged position. The Mid-West and especially the West have made some progress in household expenditures in relative terms. All

[15] This begs a question of the difference in the types of businesses across the two regions, clearly an issue that needs further research.

four regions share some common prosperity in household wealth and especially the property wealth, the absolute appreciation of which appears to have contributed to the significant improvement in relative terms. This, together with a decline in the absolute values of wealth in the Center, has led to the relative positions of the Center and West almost identical by the end of the period.

Table 6 reports estimates useful to examine inequality across the three ecological belts. The Hills belt leads the Mountains and Terai across all economic measures. It is reasonable to find that the Mountains belt embodying all the Himalayas lags considerably behind the Hills belt, which draws significantly more economic activities. But even the fertile land of Terai does not enjoy comparative advantage in the values of land and other economic resources to which people have ready access. This did not significantly alter after the eight years either. For one, the Hills belt witnessed increasing household averages of expenditures, incomes, and wealth. Next, the respective averages also increased in these belts in both absolute and relative terms, with some impressive progress especially in household wealth. These improvements, however, were not sufficient to reverse the highly disparate estimates with the Hills belt. While these two belts led in income from agriculture and home or in-kind production, just like the case of rural areas, the household expenditure, income, and wealth estimates were between 68 and 32 percent of those in the Hills, with the lower end estimates applicable to the Mountains.

(Insert Table 6 here)

These estimates suggest a very large degree of spatial inequality in the access to economic resources. It is important to note that some of the variations are associated with the urban/rural settings of the spatial categories examined here. The fact that the inequalities were more pronounced between the urban and rural areas as presented in Table 4 substantiates the argument that the essentially different lifestyles in them require considerably different economic arrangements. Part of the different economic payoffs can be explained using the cost of living differences between the urban and rural areas. This is more applicable to the household wealth composed of the real estate and houses, businesses, and other assets, all of which tend to be widely available as well as more highly valued in urban areas. These urban/rural dynamics also help explain other spatially structured inequality outcomes since the differences across regions and belts have depended in part on the magnitude of urbanization in them. The lower relative positions of the Mid-West, Far-West, and Mountains compared to the Center and Hills are self-explanatory given the smaller representation of urban households in these categories.[16] This factor may not be fully adequate to explain the lower relative positions in the East, West, and Terai, however, as they represent comparable degrees of urbanization. Part of the variation, therefore, is associated with the spatial inequities arising from the specific designation brought about by each region or belt.

V Vertical Inequality Within Groups

The above discussion focused on inequality across different groups of the population. This information is valuable to predict one's position on the overall distribution, which in part depends on her or his membership to certain caste/ethnic and spatial groups. Yet, examining inequality within groups is important to more fully understand how inequality actually plays out. To understand the specific position of an average person or household, for example, we will have to know where the person would be from the standpoint of inter-group as well as intra-group

[16] The Center region, for example, has the largest representation of urban households with 38 percent of the sampled households coming from urban areas in 2004. But the representations in the East and West (22 and 19 percent) were much larger than those in the Mid-West and Far-West (12 and nine percent). The representations are also comparable between the Hills and Terai belts (38 and 25 percent). In case of the Mountains belt, however, urban households comprised only three percent of the sample (CBA 2004a).

inequality. No doubt, this will ideally require looking at more comprehensive information about the person or household including health status, education, occupation, industry, prestige, and a host of other demographic factors. But the information on the degree of inequality within different groups formed along the major caste/ethnic and spatial lines would help assess a range of possible scenarios.

This section takes on the vertical notion of inequality using the major caste/ethnic and spatial demarcations to identify inequality in household expenditures, incomes, and wealth. Gini coefficients reported in Table 7 show, for example, that within group inequality is highly variable across different caste and ethnic groups. This form of inequality was consistently the highest among the Janjatis, with the inequality of unadjusted household income and especially household wealth recording the highest. This is followed by the inequality among the high caste Hindus, Newars, and then other castes and ethnicities. The low caste Hindus and Muslims in particular manifest the lowest degrees of inequality. While there are some variations across different economic resources, the scale of inequality tends to largely follow the average resources reported in Table 3 understandably because larger estimates tend to include larger degrees of dispersion.

(Insert Table 7 here)

Over the period of eight years, the within group inequality somewhat declined among the high caste Hindus, where as it consistently declined among the Janjatis and consistently increased among the others.[17] Within group inequality slightly increased among the middle caste and low caste Hindus, Newars, and Muslims. Inequality of household wealth, however, appears to operate differently, as it consistently declined among the high and low caste Hindus, Newars,

[17] The declining within group inequality estimates among the Janjatis may be associated with their declining estimates of resources. This is not necessarily the case with the others suggesting that the average access to resources is not the only factor driving the inequality outcomes.

Janjatis, and Muslim.

The spatial dimension of vertical inequality is also manifest, as some areas tend to exhibit high degrees of inequality within themselves. Given the often inflated market prices and variable opportunities provided by the market, urban areas tend to maintain higher degrees of inequality as the Gini coefficients reported in Table 8 suggest. While the inequality of household expenditures remained almost the same in urban areas, the inequality of adjusted and especially unadjusted household incomes significantly increased during the period. Rural areas too experienced greater degrees of inequality of expenditures and incomes by the end of the period. These estimates support the argument that those who could harness the opportunities provided by the liberalization policies of the 1990s and beyond were able to rapidly maximize their payoffs. But it is in the urban areas where the inequality of unadjusted income increased more rapidly, substantiating the thesis that the unfortunate folks in the countryside as well as in urban areas happened to lose considerably over the period.

(Insert Table 8 here)

It is interesting to observe that the inequality of wealth declined in urban as well as rural areas. The drop, however, was much more significant in rural areas. On the face value, it contradicts the observed income inequality trend, as a wider inequality of income would further escalate the inequality in wealth. Although the inequality of wealth declined, owing to the broader political instability at the national level, urban areas appear to resist any decline, thus partly shielding the national wave of declining inequality.

The five development regions manifest various degrees of within-region inequality. Estimates reported in Table 9 show that inequality is consistently higher in the Center region, followed by the West, with the Far-West region registering the least degree of inequality. The eight years covered also saw varied distributional patterns, with inequality in the West declining slightly and yet increasing to various degrees in other regions. While the inequality of unadjusted income may be rising faster in the Center than in other regions—the Mid-West even seeing a sizable drop—the within region inequality trend appears to be in line with the inter-region inequality discussed earlier. Where as the inequality of wealth runs relatively higher in the Center, it appears to be either relatively stagnant or falling in all five regions over time. This, however, appears to be falling more rapidly in the Center, an observation that does not readily align with the relatively smaller drop in wealth inequality in urban areas (Table 8), perhaps suggesting that inequality estimates are not necessarily driven by urban/rural distinctions.

(Insert Table 9 here)

Within group inequality also varied across different ecological regions. Gini coefficients reported in Table 10 suggest the Hills had considerably higher inequality than the Terai and especially Mountains. Compared to others, this belt registers the inequality of unadjusted income much higher than those of expenditures and adjusted income. While this did not change by 2004, the Mountains also achieved a new status meeting this very condition. Interestingly, the inequality of unadjusted income considerably increased across all belts and yet the inequality of expenditures and adjusted income increased only slightly. Consistent with the national trend, the inequality of wealth, which was much higher than those of other economic resources, declined across all belts. This is interesting to observe, however, that the difference between the inequality of wealth and those of other resources and especially unadjusted income remained relatively larger in the Terai, a scenario perhaps symptomatic of the fact that expenditures are tied up with the wealth and not necessarily with the earned income.

(Insert Table 10 here)

VI Discussions and Implications

The actual degree of inequality depends on the specific approaches as well as economic resources used to ascertain it, with the distribution of unadjusted income and especially wealth yielding larger inequality outcomes. The common theme across different approaches and resources has been that inequality was relatively high in Nepal in the mid-1990s, which further escalated during the ensuing eight years. Previous studies have indicated that a high degree of inequality has not been a historical phenomenon in Nepal. While the estimates presented here are specific to the two survey years, large discrepancies between the 1996 estimates and any rudimentary estimates available for the mid-19880s (WIDER 2005) suggest that inequality may have increased either in the second half of the 1980s or in the first half of the 1990s. Inequality of wealth actually declined during the eight years covered owing perhaps to the greater political instability and growing security problem in the country. But neither this nor the relatively small variation in the inequality of consumption expenditures and incomes can fully assure that economic inequality actually declined during the period since the distribution of unadjusted income has grown more unequal over time. Because the inequality of income from business, remittance, and employment, the three major and growing sources in Nepal, has remained either relatively high or is increasing significantly, one does not find any indication of declining inequality. While the average income from businesses did not rise much, a sharp rise in the number, value, and inequality of business ownership suggests that businesses will continue to serve as a major impetus to growing economic inequality for many years to come.

What is more important than the speculation of whether or not inequality will continue to rise, however, is identifying its potential causes. This analysis reaffirms the relevance of the notions of horizontal and vertical inequality in that some groups identified along socio-demographic and spatial lines have tended to fare worse than others. Caste and ethnicity is one major socio-demographic factor providing significant impetus to one's access to economic resources. Findings suggest that the high caste Hindus consistently enjoy the prominent status on all types of economic resources, with the Newars being able to consolidate their position, the low caste Hindus and Janjatis seeing their relative positions deteriorate over time, and the Muslims lagging far behind on each resource. No other group appears to have witnessed rapidly attenuating access to resources than the Janjatis, abruptly lowering their status that was much better than that of the high caste Hindus in 1996 to close to that of the middle caste Hindus by the end of the period.

The relatively higher average expenditures, incomes, and wealth for the high caste Hindus, for example, substantiate the widely held thesis that the hierarchical, Hindu caste system has tended to largely determine one's access to economic resources (Bista 1991; Ganguly and Shoup 2005; Lawoti 2005; UNDP 2004). This partly explains why the middle and low caste Hindus as well as the Muslims continue to experience a relatively weak position on economic resources. The suggestion that Newars were able to capitalize on their socio-economically privileged position (Gellner 2007; UNDP 2004) helps explain their ascendance in the economic ladder during the late 1990s and early 2000s. Yet, the abruptly deteriorating position of the Janjatis during the period is difficult to explain. That, just like the middle and low caste Hindus and Muslims, the Janjatis have had lower participation in public service and other socially privileged activities (Gellner 2004; Lawoti 2005; Murshed and Gates 2005; UNDP 2004) cannot fully explain these relatively recent changes. This phenomenon, if operational, would not let them acquire such economically esteemed status in 1996 or perhaps even prior to this. More fully understanding this would involve examining, inter alia, occupational heritage, political apathy, corruption, and foreign employment and remittances, issues that require more comprehensive data.

Each of the seven major caste and ethnic categories included here embodies a diverse group of people and the movements of the group averages do not fully capture everyone's experiences with access to resources. Together with the improved position of the Newars, for example, their within group inequality has also increased, suggesting that a significant portion of the Newars may have been still left behind. While the vertical inequality has decreased among the high caste Hindus as well as the Janjatis, this may lead to different outcomes. The condition of most of the high caste Hindus has improved, as the increase in their access to economic resources indicates. At the same time, the condition of most of the Janjatis has deteriorated over time, thus magnifying their differences with the high caste Hindus. In case of the middle and low caste Hindus and Muslims, on the other hand, the degree of vertical inequality does not appear to have changed much over time, an indication that even the best or worst performers have not deviated much from the average performance.

The spatial face of inequality is also evident as suggested by the increasing disparities in access to resources along the lines of urban/rural distinction, region, and ecological belt. While both urban and rural areas experienced growth in access to resources over time, urban areas were far ahead of rural areas in both the averages and the amount of growth in almost every resource category. This is an indication that the oft-cited concept of 'urban bias' (Lipton 1976) is increasingly becoming a reality in Nepal. Rural areas realized a negative growth in agriculture and home or in kind production, the two sources where they have comparative advantage. Because the liberalization policies of the 1990s favored manufacturing industries, the urban-rural gap further widened as evidenced in the deteriorating relative position of the income from employment and business (Deraniyagala 2005; Karmacharya 2001; Khadka 1998; Rankin 2003, 2004; Sharma 2006). This is quite consistent with the relatively poor performance of rural areas with their human development index almost 0.13 points lower than in urban areas and human poverty index almost 17 points higher than in urban areas (UNDP 2004). One resource on which rural areas have gained relative to urban areas is wealth as the value of real estate and houses has declined in the latter where as it has increased in the former. The within group inequality too has remained almost the same in rural areas where as it has increased in urban areas, especially on unadjusted income, indicating that not all in urban areas are able to gain from the positive change in access to resources.

Development regions and ecological belts also differ in access to resources. The Center region and Hills belt situating the nation's capital enjoy the most extensive access. The West and Terai rank the second position, with all other regions and the Mountains falling far behind. Especially interesting is the size of the differences between the Center and the three regions and the Hills and the Mountains, as many of the 1996 estimates for the three regions and Mountains are much smaller than 50 percent of the Center and Hills. It is reasonable that the massive degree of urbanization in the Center and Hills renders their income and particularly wealth estimates much larger. Over time, where as the West and Terai appear to make significant progress and where as the wealth estimates are rising in all regions and belts other than the Center and Hills, other regions and the Mountains have seen their expenditure and income estimates even declining. From the within group inequality standpoint, on the other hand, inequality appears to be increasing in the Center and Hills, the two locations with increasing averages but also in the East and Terai. It was only in the West where inequality outcomes appear to have improved with increasing averages and yet declining within group inequality, owing particularly to the agricultural, house rental, and home or in-kind production activities.

The fact that the Mid-West, Far-West, and Mountains are far behind the Center and Hills is consistent with much lower human development and much higher human poverty indices assigned to them.[18] Interesting, however, are the large differences between the Hills and Terai and between the Center and East and West even though the human poverty and human development indices assigned to them are largely similar.[19] While the human poverty and especially human development indices incorporate more comprehensive information, the differences signify the differential access to economic and non-economic resources. These economic and non-economic resources are both important, however, as they are intricately linked with each other determining the overall quality of life.

These economic inequality outcomes can have important implications for the structure of society. Their political and social consequences are partly what is happening in Nepal today. The main agenda of the Maoists has consistently been rising inequality, which has led to their dominant role in the national politics (Deraniyagala 2005; Hachhethu 2004; Khadka 1998; Murshad and Gates 2005; Lawoti 2005; Pfaff-Czarnecka 2004; Ganguly and Shoup 2005). Economic inequality provides domestic privilege to those who are in power so that it can be perpetuated in society (Pieterse 2002). This is further justified given that inequality can effectively prevent the poor from being well educated, thus further retarding democratization (Pieterse 2002). Yet, what is currently happening in Nepal appears to be consistent with the thesis that inequality especially when it results from economic transformation such as industrialization likely increases social unrest and then induces democratization (Acemoglu and Robinson 2000; Alesina and Perrotti 1996). The spatial and especially horizontal form of

[18] The human development indices in these locations, for example, were between 0.07 and 0.12 points lower than those in the Hills and Center locations where as the human poverty indices were between six and 11 points higher (UNDP 2004).
[19] The human development indices for the Hills and Terai are within 0.03 points from each other where as the human poverty indices are only one point different. Between the three development regions, the human poverty indices are different up to three points where as they are almost identical on the human development index (UNDP 2004).

inequality can have important implications on the political stability of a country since the oppressed groups often incite social unrest in order to institute democratic processes and achieve equal footing (Acemoglu and Robinson 2000; Hachhethu 2004; Sharma 2006). At the same time, however, the social unrest, ethnic strife, and class struggle triggered by these inequality outcomes also pose a danger of breaking the national unity apart and thus collapsing the state (Ganguly and Shoup 2005), an increasingly harsh reality the government and political leaders in Nepal are currently grappling with.

Economic inequality has enormous implications for the government policies that have not secured successful implementation in the past. Discrimination based on gender, caste, ethnicity, religion, and other socio-demographic identifies, for example, is outlawed by the Constitution of Nepal and yet continues to take place in the homes, workplaces, and communities. Policies designed to foster the lower castes, Janjatis, and other minorities have not been either adequately broad based in architecture or delivered as designed. Policies on land reform, taxes, infrastructure build up, education, health, social development, and economic growth and development, among others, ought to draw from an understanding of the inherent social and economic inequalities that threaten their effective, efficient, and equitable implementation.

More important than these specific policies, however, is to achieve political and social stability, a lack of which has effectively crippled the economy and failed the state (Riaz and Basu 2007). While the second round of the mass-movement has successfully unfolded, effectively stripping the monarch off the power, the issues of social and political inequality have emerged and served as a major stumbling block to stability. But any effort to bring the stability back will require commitment from all different parties involved. It is only with the proper understanding of the roots of ongoing political instability that the concerned agents of change can efficiently deal with it. Now that the broad-based inclusionary policies are vigorously debated on different levels, these understandings can make a real impact.

Notwithstanding this wishful thinking, the contemporary inequality and political trends in Nepal invalidate the thesis that democracy truly levels the playing field, providing more egalitarian economic outcomes (Benhabib and Przeworski 2006; Dahl 1971; Mahler 2004; Lipset 1959, 1994). Ideally, democracy is expected to provide political mechanisms to correct for any unintended consequences especially when the majority of the population wants to alter the course (Dahl 1998; Lipset 1994). In Nepal, however, even the fundamental ingredients of democracy including the adult franchise with competitive elections have not produced balanced participation, leading to inadequate representation of some socio-economically disadvantaged groups (Gellner 2007; Lawoti 2005; Wagle 2006d, 2006e). No doubt, democracy may not be solely responsible for this unintended consequence, with deep-seated discriminatory practices playing even a more substantive role. Yet, it appears to be the democratic changes of the 1990s and beyond that unleashed the newly powerful actors, thus exacerbating the condition of horizontal inequality.

From the standpoint of how inequality affects democracy, on the other hand, the workings here seem to be consistent with the theories of democracy suggesting that greater inequality threatens the evolution of a democratic regime (Lipset 1959, 1994) and its survival (Przeworsky and Limongi 1997).[20] The recent political changes in Nepal suggest that the democratic movement of the early 1990s was largely inadequate to establish a well functioning democracy appropriate for this specific context. Result has been intense caste, ethnic, and class struggles further

[20] The endogenous and exogenous theories of democracy are conceptually quite different with the former suggesting democracy to evolve out of some socioeconomic workings and the latter suggesting it to evolve randomly and yet to depend of socioeconomic workings for survival. In this case, however, these differences are not highly relevant since democracy in Nepal is neither fully established nor has survived for long.

complicating the process of democratic institutionalization. The more reconciliatory tone manifested by the dominant political parties with enormous attenuation of the power of the monarchy suggests, however, that a more meaningful democratic reform may be in the coming. In this sense, it is the further acceleration of economic inequality that may have played a critical role in persuading the people of Nepal to seek more complete democratic changes.

VII Conclusion

The horizontal and vertical notions of inequality discussed here barely scratch the surface of a host of factors that cause and sustain economic inequality. The roles of social and political factors often tend to be speculative. Some argue that hierarchical social structures and authoritarian governments help promote economic inequality. Others argue democratic political structures do not necessarily reduce inequality not because the governments disfavor the lower classes but because their inherent link with capitalist forces makes inequality likely. Large-scale studies have not been able to sort out these arguments either. Some have found democracy or political liberalism to negatively affect inequality (Justman and Gradstein 1999; Mahler 2004; Reuveny and Li 2003; Rodrik 1998) where as others have found it to have no effect at all (Gradstein, Milanovic, and Ying 2001). The South Asian experience, however, squarely contradicts these findings, suggesting that the process of democratization and economic equality may not be compatible in this subcontinent (Gradstein, Milanovic, and Ying 2001; Wagle 2006c). Yet, this may or may not hold in Nepal especially given that this country has remained politically volatile even after the restoration of democracy in 1990, with a vulnerable state of political and civil liberties and democratic institutions (Lawoti 2005; Wagle 2006c), which are the hallmarks of a well-functioning democracy. Now that Nepal has already conducted a brief experimentation with the multiparty democracy, it is also time to assess whether a part of the rising economic inequality is due to the democratization of the polity itself, an issue not fully settled by researchers.

More important than the direct interface between democracy and inequality, however, are the mechanisms through which this interface occurs in society. While one expects political equality leading to processes and institutions that are responsive to the public, therefore giving rise to more equitable distribution of resources, this appears to be largely lacking in Nepal as demonstrated by a very powerful and successful insurgency stemming from the exclusionary policies of the democratic governments (Ganguly and Shoup 2005; Hachhethu 2004; Lawoti 2005; Pfaff-Czarnecka 2004; Wagle 2006d, 2006e). These constitute reflections of the deep-seated social divisions that this hierarchical, Hindu caste system has perpetuated for generations (Bista 1991; Lawoti 2005; Riaz and Basu 2007; UNDP 2004).

Other channels through which democratic governments influence inequality include their economic policies that affect the masses. While the discussion around the economic policies introduced in Nepal has been too little liberalization (Khadka 1998; NPC 2005; World Bank 2002), the rapidly rising inequality amidst this level of liberalization indicates that further liberalization may be disastrous to the already marginalized and disadvantaged groups. Issues such as privatization, public investment in infrastructure, foreign direct investment, and absence of subsidy and price control do not appear to directly benefit the poor (Wagle 2007). Privatization and removal of subsidy in health, education, and other basic necessities, for example, may adversely affect the bottom wrung of the population, thus further polarizing the society. Even the most needed investment in infrastructure such as roads, while beneficial to the rural poor, does not appear to significantly help reduce inequality in Nepal due to its larger benefits accruing to the rich (Jacoby 2000).

Other contributing factors may include the massive government inefficiencies and corruption that are plaguing the entire bureaucracy and political apparatus in Nepal. Corruption has been an everyday reality owing to its clientelistic nature of bureaucracy, which has further accelerated in the 1990s and beyond.[21] Whilst economists regard corruption a price the recipients often pay for their services and thus reject its significant role on economic growth or inequality, more recent evidence invalidates this thesis (Li, Xu, and Zou 2000). In Nepal, corruption in the public sector implies that the social elites, public officials, and businesses can reap the benefits at the expense of the poor quality of public service, a common source of frustration for the masses.

Future studies need to examine more closely the economic, social, and political roots of inequality. Since very little attention has been paid to the extent and nature of inequality prior to the 1990s, it is important to identify the temporal trend as supported by nationally representative data. Without these benchmark studies, for example, we are left to speculating whether inequality increased or declined during the early 1990s. Equally important is to examine the international political economy forces that influence the domestic economic structure through aid, education, employment, investment, migration, and trade, among other things.

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Appendix

Table A **Average Expenditures and Income in Nominal NRS**				
	1996		**2004**	
Variable	**CBS**[a]	**Author**	**CBS**[a]	**Author**
N (number of households)	3,373	3,379	3,912	3,911
Household consumption expenditures[b]	38,682	57,123	83,736	120,763
Per capita consumption expenditures[b]	6,802	10,949	15,848	24,747
Household income	43,732	41,615	80,111	80,432
Per capita income	7,690	9,707	15,162	17,248
Household adjusted income	-	68,123	-	141,016
Per capita adjusted income	-	12,971	-	29,533
Household wealth	-	572,471	-	959,391
Per capita wealth	-	107,370	-	199,552

Note: [a] CBS (2004)

[b] Consumption estimates from the CBS (2004)

Tables

Table 1 **Scale of Economic Inequality**						
Variable	**N**	**Mean** (2004 NRS)	**Median** (2004 NRS)	**Gini**	**Share Bottom 10**	**Share Top 10**
1996						
Household consumption expenditures	3379	81,163	40,956	0.585	1.07	48.17
Unadjusted household income	3379	59,432	29,577	0.601	0.78	48.89
Adjusted household income	3379	96,577	47,513	0.587	1.23	49.40
Household wealth	3379	804,829	188,611	0.771	0.15	67.78
Per capita consumption expenditures	3379	15,559	7,248	0.599	1.22	50.35
Per capita unadjusted income	3379	11,297	5,328	0.610	0.84	49.73
Per capita adjusted income	3379	18,392	8,558	0.597	1.37	50.55
Per capita wealth	3379	150,952	34,611	0.775	0.17	69.03
2004						
Household consumption expenditures	3911	120,763	56,658	0.590	1.10	47.44
Unadjusted household income	3911	80,432	36,102	0.637	0.64	57.76
Adjusted household income	3911	141,016	64,340	0.605	1.14	49.95
Household wealth	3911	967,280	304,335	0.715	0.21	59.23
Per capita consumption expenditures	3911	24,747	11,211	0.595	1.20	47.72
Per capita unadjusted income	3911	17,248	6,991	0.656	0.63	54.83
Per capita adjusted income	3911	29,533	12,604	0.618	1.19	50.93
Per capita wealth	3911	201,205	61,582	0.725	0.22	61.31

Note: Estimates are bassed on all non-negative expenditures, incomes, or assets

Table 2

Sources of Economic Inequality

Variable	1996 N	1996 Mean (2004 NRS)	1996 Gini	2004 N	2004 Mean (2004 NRS)	2004 Gini
Unadjusted household income	3374	59,520	0.601	3911	80,432	0.637
House Rental	488	27,337	0.807	626	22,092	0.733
Employment	2079	32,511	0.522	2335	53,467	0.659
Agriculture	1569	11,133	0.641	1674	8,960	0.664
Business	815	71,408	0.725	1084	81,557	0.728
Remittance	763	29,026	0.772	1206	38,017	0.677
Home and in-kind production	3007	4,414	0.513	3711	3,872	0.513
Household Wealth	3368	804,830	0.771	3880	967,280	0.715
Real estate and hosues	3200	758,070	0.767	3720	881,353	0.710
Business	648	163,246	0.820	934	297,676	0.978
Other assets, equipmments, and property	3366	53,980	0.797	3910	75,066	0.769

Note: Estimates are bassed on all positive incomes or assets

Table 3

Average Expenditure, Income, and Property for Different Castes and Ethnicities*

Variable	HCH (2004 NRS)	MCH**	LCH**	Newar**	Janjati**	Muslim**	Other**
1996							
Household consumption expenditures	93,019	0.63	0.54	0.61	0.99	0.37	1.60
Unadjusted household income	53,357	0.96	0.85	0.72	1.44	0.52	2.29
House Rental	2,829	0.32	0.54	0.53	3.02	0.03	2.00
Employment	17,105	1.12	1.06	1.03	1.31	0.82	2.60
Agriculture	6,067	0.52	0.95	0.55	0.68	0.20	1.40
Business	15,155	1.21	0.70	0.58	1.51	0.36	3.10
Remittance	5,932	0.94	0.58	0.27	1.97	0.61	0.75
Home and in-kind production	3,823	1.11	1.43	0.69	0.90	0.68	0.73
Adjusted household income	101,706	0.73	0.61	0.64	1.16	0.39	1.70
Household Wealth	865,654	0.34	0.40	0.53	1.21	0.19	2.55
Real estate and hosues	787,122	0.34	0.39	0.54	1.17	0.20	2.51
Business	31,055	0.40	0.61	0.46	1.23	0.09	3.32
Other assets, equipmments, and property	49,353	0.34	0.48	0.35	1.77	0.18	2.72
2004							
Household consumption expenditures	144,195	0.67	0.45	1.67	0.59	0.54	1.26
Unadjusted household income	84,500	0.59	0.51	2.58	0.61	0.59	1.69
House Rental	4,728	0.41	0.08	2.59	0.27	0.13	0.22
Employment	25,227	0.88	0.78	4.53	0.74	0.92	1.62
Agriculture	4,969	1.06	0.33	0.27	0.85	0.63	0.49
Business	28,319	0.31	0.30	2.27	0.36	0.34	2.95
Remittance	14,336	0.51	0.65	0.45	0.88	0.70	0.56
Home and in-kind production	4,374	0.75	0.81	0.54	0.82	0.70	0.47
Adjusted household income	164,204	0.63	0.44	1.95	0.58	0.51	1.28
Household Wealth	1,202,885	0.57	0.25	1.95	0.49	0.30	1.33
Real estate and hosues	1,057,668	0.61	0.26	1.83	0.51	0.32	1.18
Business	96,080	0.20	0.08	2.25	0.19	0.22	7.15
Other assets, equipmments, and property	77,655	0.53	0.37	3.20	0.53	0.24	2.84

Note: * Estimates are bassed on all non-negative expenditures, incomes, and assets.
** Values are relative to those of the HCH group.

Table 4

Average Expenditure, Income, and Property for Urban and Rural Areas*

Variable	1996		2004	
	Urban (2004 NRS)	**Rural****	**Urban** (2004 NRS)	**Rural****
Household consumption expenditures	184,798	0.29	220,896	0.35
Unadjusted household income	147,464	0.24	170,245	0.25
House Rental	14,210	0.08	8,657	0.16
Employment	42,887	0.32	70,872	0.22
Agriculture	3,066	1.87	2,605	1.67
Business	59,274	0.10	58,942	0.12
Remittance	13,967	0.33	16,432	0.59
Home and in-kind production	2,265	1.93	2,771	1.46
Adjusted household income	230,248	0.26	272,745	0.31
Household Wealth	2,262,127	0.18	2,012,399	0.26
Real estate and hosues	1,975,958	0.19	1,696,665	0.28
Business	111,515	0.09	195,754	0.09
Other assets, equipmments, and property	174,199	0.12	172,139	0.20

Note: * Estimates are bassed on all non-negative expenditures, incomes, or assets.
** Values are relative to those of the urban areas.

Table 5

Average Expenditure, Income, and Property for Regions*

Variable	1996					2004				
	Center (2004	**East****	**West****	**Mid-West****	**Far-West****	**Center** (2004	**East****	**West****	**Mid-West****	**Far-West****
Household consumption expenditures	113,282	0.52	0.68	0.42	0.41	160,526	0.52	0.80	0.49	0.43
Unadjusted household income	87,310	0.44	0.60	0.50	0.31	117,928	0.45	0.59	0.44	0.39
House Rental	7,281	0.28	0.25	0.32	0.10	5,064	0.31	0.73	0.56	0.46
Employment	30,124	0.49	0.43	0.42	0.43	55,201	0.29	0.36	0.33	0.27
Agriculture	5,010	1.59	0.67	0.93	0.76	3,318	1.52	0.88	1.07	1.76
Business	28,877	0.25	0.45	0.57	0.09	34,139	0.41	0.52	0.50	0.35
Remittance	6,574	0.41	2.37	0.36	0.40	10,004	1.16	2.07	0.51	0.71
Home and in-kind production	4,388	0.81	0.83	0.86	0.83	3,387	1.12	1.09	1.12	1.35
Adjusted household income	137,097	0.49	0.66	0.47	0.37	197,009	0.48	0.72	0.45	0.38
Household Wealth	1,299,825	0.29	0.61	0.28	0.21	1,240,019	0.46	0.96	0.45	0.57
Real estate and hosues	1,171,158	0.29	0.59	0.28	0.21	1,065,824	0.49	0.99	0.45	0.59
Business	42,633	0.36	1.07	0.57	0.07	105,092	0.38	0.69	0.31	0.46
Other assets, equipmments, and property	86,154	0.24	0.68	0.24	0.30	99,809	0.47	0.86	0.47	0.48

Note: * Estimates are bassed on all non-negative expenditures, incomes, or assets.
** Values are relative to those of the Center

Table 6

Average Expenditure, Income, and Property for Ecological Belts*

Variable	1996			2004		
	Hills (2004 NRS)	**Mountains****	**Terai****	**Hills** (2004 NRS)	**Mountains****	**Terai****
Household consumption expenditures	105,627	0.46	0.54	150,431	0.36	0.68
Unadjusted household income	79,091	0.34	0.54	106,572	0.32	0.57
House Rental	6,274	0.09	0.28	5,097	0.10	0.48
Employment	24,376	0.52	0.67	44,861	0.27	0.48
Agriculture	4,115	0.82	1.77	3,076	1.08	1.57
Business	26,917	0.12	0.30	31,818	0.17	0.50
Remittance	9,455	0.23	0.41	12,523	0.63	0.93
Home and in-kind production	3,032	1.41	1.68	3,489	1.45	1.02
Adjusted household income	128,360	0.40	0.52	182,018	0.34	0.62
Household Wealth	1,209,752	0.18	0.35	1,261,516	0.33	0.58
Real estate and hosues	1,071,819	0.18	0.37	1,078,053	0.37	0.62
Business	51,383	0.18	0.20	99,137	0.07	0.54
Other assets, equipmments, and property	86,488	0.18	0.23	104,010	0.26	0.51

Note: * Estimates are bassed on all non-negative expenditures, incomes, or assets.
** Values are relative to those of the Hills belt

Table 7

Gini Coefficients for Different Caste and Ethnicities

Variable	HCH	MCH	LCH	Newar	Janjati	Muslim	Other
1996							
Household consumption expenditures	0.591	0.506	0.481	0.583	0.604	0.422	0.518
Unadjusted household income	0.602	0.465	0.472	0.586	0.666	0.407	0.482
Adjusted household income	0.593	0.479	0.461	0.557	0.631	0.387	0.495
Household Wealth	0.748	0.584	0.730	0.743	0.765	0.643	0.695
2004							
Household consumption expenditures	0.566	0.486	0.499	0.593	0.564	0.468	0.526
Unadjusted household income	0.622	0.524	0.455	0.697	0.553	0.386	0.567
Adjusted household income	0.582	0.479	0.477	0.650	0.551	0.430	0.524
Household Wealth	0.674	0.661	0.654	0.637	0.704	0.582	0.758

Note: Estimates are bassed on all non-negative expenditures, incomes, or assets

Table 8

Gini Coefficients for Urban and Rural Areas

Variable	1996		2004	
	Urban	**Rural**	**Urban**	**Rural**
Household consumption expenditures	0.564	0.492	0.559	0.523
Unadjusted household income	0.564	0.486	0.626	0.503
Adjusted household income	0.573	0.472	0.594	0.508
Household Wealth	0.706	0.687	0.683	0.629

Note: Estimates are bassed on all non-negative expenditures, incomes, or assets

Table 9

Gini Coefficients for Different Regions

Variable						2004				
	Center	**East**	**West**	**Mid-West**	**Far-West**	**Center**	**East**	**West**	**Mid-West**	**Far-West**
Household consumption expenditures	0.602	0.492	0.593	0.519	0.435	0.615	0.531	0.570	0.520	0.428
Unadjusted household income	0.596	0.479	0.600	0.619	0.452	0.686	0.515	0.592	0.551	0.515
Adjusted household income	0.604	0.458	0.585	0.572	0.423	0.649	0.514	0.560	0.525	0.431
Household Wealth	0.781	0.712	0.718	0.644	0.546	0.728	0.687	0.723	0.619	0.540

Note: Estimates are bassed on all non-negative expenditures, incomes, or assets

Table 10

Gini Coefficients for Different Ecological Belts

Variable	1996			2004		
	Mountains	**Hills**	**Terai**	**Mountains**	**Hills**	**Terai**
Household consumption expenditures	0.468	0.606	0.515	0.418	0.623	0.527
Unadjusted household income	0.468	0.650	0.440	0.491	0.696	0.506
Adjusted household income	0.453	0.620	0.474	0.411	0.651	0.515
Household Wealth	0.555	0.771	0.688	0.501	0.741	0.666

Note: Estimates are bassed on all non-negative expenditures, incomes, or assets