



EVEN IT UP

TIME TO END EXTREME INEQUALITY



OXFAM

ENDORSEMENTS

KOFI ANNAN

Chair of the Africa Progress Panel, former Secretary-General of the United Nations and Nobel Laureate

The widening gap between rich and poor is at a tipping point. It can either take deeper root, jeopardizing our efforts to reduce poverty, or we can make concrete changes now to reverse it. This valuable report by Oxfam is an exploration of the problems caused by extreme inequality and the policy options governments can take to build a fairer world, with equal opportunities for us all. This report is a call to action for a common good. We must answer that call.

PROFESSOR JOSEPH STIGLITZ

Columbia University, winner of the Nobel Prize for Economics

The extreme inequalities in incomes and assets we see in much of the world today harm our economies, our societies, and undermines our politics. While we should all worry about this it is of course the poorest who suffer most, experiencing not just vastly unequal outcomes in their lives, but vastly unequal opportunities too. Oxfam's report is a timely reminder that any real effort to end poverty has to confront the public policy choices that create and sustain inequality.

NAWAL EL SAADAWI

Egyptian writer and activist

Oxfam's report reveals a new challenge to the capitalist patriarchal world and its so-called free market. We need to fight together, globally and locally, to build a new world based on real equality between people regardless of gender, class, religion, race, nationality or identity.

ANDREW HALDANE

Chief Economist, Bank of England

When Oxfam told us in January 2014 that the world's 85 richest people have the same wealth as the poorest half of humanity, they touched a moral nerve among many. Now this comprehensive report goes beyond the statistics to explore the fundamental relationship between inequality and enduring poverty. It also presents some solutions. In highlighting the problem of inequality Oxfam not only speaks to the interests of the poorest people but in our collective interest: there is rising evidence that extreme inequality harms, durably and significantly, the stability of the financial system and growth in the economy. It retards development of the human, social and physical capital necessary for raising living standards and improving well-being. That penny is starting to drop among policy makers and politicians. There is an imperative – moral, economic and social – to develop public policy measures to tackle growing inequality. Oxfam's report is a valuable stepping stone towards that objective.

JEFFREY SACHS

Director of the Earth Institute at Columbia University

Oxfam has done it again: a powerful call to action against the rising trend of inequality across the world. And the report comes just in time, as the world's governments are about to adopt Sustainable Development Goals (SDGs) in 2015. Sustainable development means economic prosperity that is inclusive and environmentally sustainable. Yet too much of today's growth is neither inclusive nor sustainable. The rich get richer while the poor and the planet pay the price. Oxfam spells out how we can and must change course: fairer taxation, ending tax and secrecy havens, equal access of the rich and poor to vital services including health and education; and breaking the vicious spiral of wealth and power by which the rich manipulate our politics to enrich themselves even further. Oxfam charts a clear course forward. We should all rally to the cause of inclusive, sustainable growth at the core of next year's SDGs.

JAY NAIDOO

Chair of the Board of Directors and Chair of the Partnership Council, Global Alliance for Improved Nutrition

All those who care about our common future should read this report. Rising inequality has become the greatest threat to world peace, and indeed to the survival of the human species. The increasing concentration of wealth in the hands of very few has deepened both ecological and economic crises, which in turn has led to an escalation of violence in every corner of our burning planet.

ROSA PAVANELLI

Secretary General, Public Services International

The answers Oxfam provides are simple, smart and entirely achievable. All that stands between them and real change is a lack of political will. Our job is to make the cry heard. To give action to the urgency. To ceaselessly expose the injustice and demand its resolution. The time to act is now.

KATE PICKETT AND

RICHARD WILKINSON

Co-authors of *The Spirit Level: Why Equality is Better for Everyone*

This report is the first step in changing the policies which have enriched the few at the expense of the many. It is essential reading for all governments, for policy makers and everyone who has had enough of sacrificing public wellbeing to the one percent.

HA-JOON CHANG

Economist at the University of Cambridge

Even It Up is the best summary yet of why tackling inequality is crucial to global development. The gulf between haves and have-nots is both wrong in itself, and a source of needless human and economic waste. I urge you to read it, and join the global campaign for a fairer world.

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IT UP



OXFAM

ACKNOWLEDGEMENTS

The paper was written and coordinated by Emma Seery and Ana Caistor Arendar, with chapters and contributions from Ceri Averill, Nick Galasso, Caroline Green, Duncan Green, Max Lawson, Catherine Olier, Susana Ruiz and Rachel Wilshaw.

Many colleagues gave written inputs and support to the final draft of this report. Special mention should be made to Gregory Adams, Ed Cairns, Rosa Maria Cañete, Teresa Caverio, Katharina Down, Sarah Dransfield, Kate Geary, Jessica Hamer, Deborah Hardoon, Mohga Kamal-Yanni, Didier Jacobs, Roberto Machado, Katie Malouf, Araddhya Mehta, Pooven Moodley, Jessica Moore, Robbie Silverman, Katherine Trebeck, Daria Ukhova, Katy Wright and Andrew Yarrow.

Oxfam was grateful for the opportunity to consult the following on an early draft of this report, and for their valuable comments and assistance: Andrew Berg (IMF), Laurence Chandy (The Brookings Institution), Professor Diane Elson, Chris Giles (Financial Times), Professor Kathleen Lahey, Professor Kate Pickett, Michael Sandel (author of *What Money Can't Buy: The Moral Limits of Market*, Harvard), Olivier de Schutter (Honorary Advisor to Oxfam), Mark Thomas (PA Consulting Services), Kevin Watkins (Overseas Development Institute).

Production of the report was managed by Jonathan Mazliah. The text was edited by Mark Fried and Jane Garton. The report was designed by Soapbox.

Cover:

A man pushes his bicycle, loaded with melons, past a billboard advertisement for *Oman Air's* first class service (2013).

Photo: Panos/GMB AKASH

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FOREWORD

The last decades have seen incredible human progress across Africa and the world. But this progress is under threat from the scourge of rapidly rising inequality.

This report from Oxfam is a stark and timely portrait of the growing inequality which characterizes much of Africa and the world today. Seven out of 10 people live in countries where inequality is growing fast, and those at the top of society are leaving the rest behind.

Addressing the gap between the richest people and the poorest, and the impact this gap has on other pervasive inequalities, between men and women and between races, which make life for those at the bottom unbearable, is an imperative of our times. Too many children born today have their future held hostage by the low income of their parents, their gender and their race.

The good news is that this growing inequality is not inevitable. It can be resolved. This report contains many examples of success to give us inspiration. I hope that many people from government officials, business and civil society leaders, and bilateral and multilateral institutions will examine this report, reflect on its recommendations and take sustained actions that will tackle the inequality explosion.

GRAÇA MACHEL

Founder, Graça Machel Trust



FOREWORD

I have been fighting inequality my whole life. Where I grew up in Uganda, my family did not have much, but we were among the better-off in our village. My best friend and I went to school together every day. I had one pair of shoes, she walked barefoot. I did not understand why then, and I still don't now. Inequality must be fought, every step of the way.

Many of the poorest countries have made great progress in the struggle against poverty; progress that I have seen with my own eyes when visiting some of the toughest places in the world. But this progress is being threatened by rising inequality. Money, power and opportunities are concentrated in the hands of the few, at the expense of the majority.

A child born to a rich family, even in the poorest of countries, will go to the best school and will receive the highest quality care if they are sick. At the same time, poor families will see their children taken from them, struck down by easily preventable diseases because they do not have the money to pay for treatment. The reality is that across the world, the richest people are able to live longer, happier and healthier lives, and are able to use their wealth to see that their children do the same.

Persistent inequalities between men and women only exacerbate these discrepancies. Everywhere I travel with Oxfam, and whenever I return home to Uganda, I see evidence of this. Half of all women in sub-Saharan Africa give birth alone and in unsafe conditions. None of these women are wealthy. Women's low status in society means that the issue of maternal health is neglected in budget allocations, leaving public hospitals and clinics poorly resourced and under-staffed. At the same time the wives, sisters and daughters of the most rich and powerful families in these countries give birth in private hospitals attended by trained doctors and midwives.

This cannot go on. But our ability to raise our voices and have a say over how the societies we live in are run is being threatened by the concentration of wealth in the hands of the few. The wealthiest can use their financial power and the influence that comes with it to bend laws and policy choices in their favour, further reinforcing their positions. In rich and poor countries alike, money yields power and privilege, at the expense of the rights of the majority.

The people have been left behind for too long, a fact that has already sparked popular protests and outrage around the world. Outrage that elected governments are representing the interests of the powerful few, and neglecting their responsibility to ensure a decent future for everyone. Outrage that the banks and bankers, whose recklessness led to the financial crisis, were bailed out, while the poorest in society were left to front the costs. Outrage that corporate giants are able to dodge their taxes and get away with paying poverty wages.

Many of you will wonder whether there is anything we can do to change this? The answer is very firmly yes. Inequality is not inevitable. It is the result of policy choices. This report is concerned with exploring the policy choices and actions that can reverse it: free public health and education services that help everyone, while ensuring the poor are not left behind; to decent wages that end working poverty; progressive taxation so that the rich pay their fair share; and protected spaces where people can have their voices heard and where they can have a say over the societies they live in.

Oxfam is standing in solidarity with people everywhere who are demanding a more equal world, and an end to extreme inequality.

WINNIE BYANYIMA

Executive Director, Oxfam



A cleaner passing an image of a luxury apartment displayed on the ground floor of a residential complex in Chaoyang district, China (2013).
Photo: Panos/Mark Henley

EXECUTIVE SUMMARY

Nthabiseng was born to a poor black family in Limpopo, a rural area in South Africa. On the same day, Pieter was born nearby in a rich suburb of Cape Town. Nthabiseng's mother had no formal schooling and her father is unemployed, whereas Pieter's parents both completed university education at Stellenbosch University and have well-paid jobs.

As a result, Nthabiseng and Pieter's life chances are vastly different. Nthabiseng is almost one and a half times as likely to die in the first year of her life as Pieter.¹ He is likely to live more than 15 years longer than Nthabiseng.²

Pieter will complete on average 12 years of schooling and will most probably go to university, whereas Nthabiseng will be lucky if she gets one year.³ Such basics as clean toilets, clean water or decent healthcare⁴ will be out of her reach. If Nthabiseng has children there is a very high chance they will also grow up equally poor.⁵

While Nthabiseng and Pieter do not have any choice about where they are born, their gender, or the wealth and education of their parents, governments do have a choice to intervene to even up people's life chances. Without deliberate action though, this injustice will be repeated in countries across the world.

This thought experiment is taken from the World Development Report 2006. Oxfam has updated the facts on life chances in South Africa.⁶

From Ghana to Germany, South Africa to Spain, the gap between rich and poor is rapidly increasing, and economic inequality* has reached extreme levels. In South Africa, inequality is greater today than at the end of Apartheid.⁷

The consequences are corrosive for everyone. Extreme inequality corrupts politics, hinders economic growth and stifles social mobility. It fuels crime and even violent conflict. It squanders talent, thwarts potential and undermines the foundations of society.

Crucially, the rapid rise of extreme economic inequality is standing in the way of eliminating global poverty. Today, hundreds of millions of people are living without access to clean drinking water and without enough food to feed their families; many are working themselves into the ground just to get by. We can only improve life for the majority if we tackle the extreme concentration of wealth and power in the hands of elites.

Oxfam's decades of experience in the world's poorest communities have taught us that poverty and inequality are not inevitable or accidental, but the result of deliberate policy choices. Inequality can be reversed. The world needs

* Inequality has many different dimensions, including race, gender, geography and economy, which rarely work in isolation. This report is primarily concerned with the concentration of financial resources and wealth in the hands of the few, which can affect political, social and cultural processes to the detriment of the most vulnerable. As such, in this report we use the term 'inequality' to refer to extreme economic (wealth and income) inequality. When referring to the various dimensions of inequality we make these distinctions.

concerted action to build a fairer economic and political system that values everyone. The rules and systems that have led to today's inequality explosion must change. Urgent action is needed to level the playing field by implementing policies that redistribute money and power from wealthy elites to the majority.

Using new research and examples, this report shows the scale of the problem of extreme economic inequality, and reveals the multiple dangers it poses to people everywhere. It identifies the two powerful driving forces that have led to the rapid rise in inequality in so many countries: market fundamentalism and the capture of politics by elites. The report then highlights some of the concrete steps that can be taken to tackle this threat, and presents evidence that change can happen.

Extreme economic inequality has exploded across the world in the last 30 years, making it one of the biggest economic, social and political challenges of our time. Age-old inequalities on the basis of gender, caste, race and religion – injustices in themselves – are exacerbated by the growing gap between the haves and the have-nots.

As Oxfam launches the **Even It Up** campaign worldwide, we join a diverse groundswell of voices, including billionaires, faith leaders and the heads of institutions, such as the International Monetary Fund (IMF) and the World Bank, as well as trade unions, social movements, women's organizations and millions of ordinary people across the globe. Together we are demanding that leaders around the world take action to tackle extreme inequality before it is too late.

THE GROWING GAP BETWEEN RICH AND POOR

Trends in income and wealth tell a clear story: the gap between the rich and poor has reached new extremes and is still growing, while power increasingly lies in the hands of elites.

Between 1980 and 2002, inequality between countries rose rapidly reaching a very high level.⁸ It has since fallen slightly due to growth in emerging countries, particularly China. But it is inequality within countries that matters most to people, as the poorest struggle to get by while their neighbours prosper, and this is rising rapidly in the majority of countries. Seven out of 10 people live in countries where the gap between rich and poor is greater than it was 30 years ago.⁹ In countries around the world, a wealthy minority are taking an ever-increasing share of their nation's income.¹⁰

Worldwide, inequality of individual wealth is even more extreme. At the start of 2014, Oxfam calculated that the richest 85 people on the planet owned as much as the poorest half of humanity.¹² Between March 2013 and March 2014, these 85 people grew \$668m richer each day.¹³ If Bill Gates were to cash in all of his wealth, and spend \$1m every single day, it would take him 218 years to spend it all.¹⁴ In reality though, he would never run out of money: even a modest return of just under two percent would make him \$4.2 million each day in interest alone.

Since the financial crisis, the ranks of the world's billionaires has more than doubled, swelling to 1,645 people.¹⁵ And extreme wealth is not just a rich-country story. The world's richest man is Mexico's Carlos Slim, who knocked

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There's been **class warfare** going on for the last 20 years and **my class has won.**

WARREN BUFFET
THE FOURTH WEALTHIEST
PERSON IN THE WORLD¹¹

//

Bill Gates off the top spot in July 2014. Today, there are 16 billionaires in sub-Saharan Africa, alongside the 358 million people living in extreme poverty.¹⁶ Absurd levels of wealth exist alongside desperate poverty around the world.

The potential benefit of curbing runaway wealth by even a tiny amount also tells a compelling story. Oxfam has calculated that a tax of just 1.5 percent on the wealth of the world's billionaires, if implemented directly after the financial crisis, could have saved 23 million lives in the poorest 49 countries by providing them with money to invest in healthcare.¹⁷ The number of billionaires and their combined wealth has increased so rapidly that in 2014 a tax of 1.5 percent could fill the annual gaps in funding needed to get every child into school and deliver health services in those poorest countries.¹⁸

Some inequality is necessary to reward talent, skills and a willingness to innovate and take entrepreneurial risk. However, today's extremes of economic inequality undermine growth and progress, and fail to invest in the potential of hundreds of millions of people.

EXTREME INEQUALITY HURTS US ALL

Extreme inequality: A barrier to poverty reduction

The rapid rise of extreme economic inequality is significantly hindering the fight against poverty. New research from Oxfam has shown that in Kenya, Indonesia and India, millions more people could be lifted out of poverty if income inequality were reduced.¹⁹ If India stops inequality from rising, it could end extreme poverty for 90 million people by 2019. If it goes further and reduces inequality by 36 percent, it could virtually eliminate extreme poverty.²⁰ The Brookings Institution has also developed scenarios that demonstrate how inequality is preventing poverty eradication at the global level. In a scenario where inequality is reduced, 463 million more people are lifted out of poverty compared with a scenario where inequality increases.²¹

Income distribution within a country has a significant impact on the life chances of its people. Bangladesh and Nigeria, for instance, have similar average incomes. Nigeria is only slightly richer, but it is far less equal. The result is that a child born in Nigeria is three times more likely to die before their fifth birthday than a child born in Bangladesh.²³

Leaders around the world are debating new global goals to end extreme poverty by 2030. But unless they set a goal to tackle economic inequality they cannot succeed – and countless lives will be lost.

Extreme inequality undermines economic growth that helps the many

There is a commonly held assumption that tackling inequality will damage economic growth. In fact, a strong body of recent evidence shows extremes of inequality are bad for growth.²⁴ In countries with extreme economic inequality, growth does not last as long and future growth is undermined.²⁵ IMF economists have recently documented how economic inequality helped to cause the global financial crisis.²⁶ The 'growth' case against tackling economic inequality clearly no longer holds water.

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Extreme disparities in income are slowing the pace of poverty reduction and hampering the development of broad-based economic growth.

KOFI ANNAN
AFRICA PROGRESS
PANEL, 2012²²

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Extreme inequality also diminishes the poverty-reducing impact of growth.²⁷ In many countries, economic growth already amounts to a ‘winner takes all’ windfall for the wealthiest in society. For example, in Zambia, GDP per capita growth averaged three percent every year between 2004 and 2013, pushing Zambia into the World Bank’s lower-middle income category. Despite this growth, the number of people living below the \$1.25 poverty line grew from 65 percent in 2003 to 74 percent in 2010.²⁸ Research by Oxfam²⁹ and the World Bank³⁰ suggests that inequality is the missing link explaining how the same rate of growth can lead to different rates of poverty reduction.

Economic inequality compounds inequalities between women and men

One of the most pervasive – and oldest – forms of inequality is that between men and women. There is a very strong link between gender inequality and economic inequality.

Men are over-represented at the top of the income ladder and hold more positions of power as ministers and business leaders. Only 23 chief executives of Fortune 500 companies and only three of the 30 richest people in the world are women. Meanwhile, women make up the vast majority of the lowest-paid workers and those in the most precarious jobs. In Bangladesh, for instance, women account for almost 85 percent of workers in the garment industry. These jobs, while often better for women than subsistence farming, offer minimal job security or physical safety: most of those killed by the collapse of the Rana Plaza garment factory in April 2013 were women.

Studies show that in more economically unequal societies, fewer women complete higher education, fewer women are represented in the legislature, and the pay gap between women and men is wider.³² The recent rapid rise in economic inequality in most countries is, therefore, a serious blow to efforts to achieve gender equality.

Economic inequality drives inequalities in health, education and life chances

Gender, caste, race, religion, ethnicity and a range of the other identities that are ascribed to people from birth also play a significant role in creating the division between the haves and the have-nots. In Mexico, the maternal mortality rate for indigenous women is six times the national average and is as high as many countries in Africa.³³ In Australia, Aboriginal and Torres Strait Islander Peoples are disproportionately affected by poverty, unemployment, chronic illness and disability; they are more likely to die young and to spend time in prison.

Economic inequality also leads to huge differences in life chances: the poorest people have the odds stacked against them in terms of education and life expectancy. The latest national Demographic and Health Surveys³⁴ demonstrate how poverty interacts with economic and other inequalities to create ‘traps of disadvantage’ that push the poorest and most marginalized people to the bottom – and keep them there.

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The power of growth to reduce poverty... tends to decline both with the initial level of inequality, and with increases in inequality during the growth process.

F. FERREIRA AND
M. RAVALLION³¹

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The poorest 20 percent of Ethiopians are three times more likely to miss out on school than the wealthiest 20 percent. When we consider the impact of gender inequality alongside urban/rural economic inequality, a much greater wedge is driven between the haves and the have-nots. The poorest rural women are almost six times more likely than the richest urban men to never attend school.³⁵ Without a deliberate effort to address this injustice, the same will be true for their daughters and granddaughters.

Condemned to stay poor for generations

'My parents were not educated. My mother did not go to school. My father attended a government primary school up to Grade 5 and understood the importance of education. He encouraged me to work extra hard in class. I was the first person in either my family or my clan to attend a government secondary school. Later, I went to university and did a teacher training course before attending specialized NGO sector training and got the opportunity to do development studies overseas.

I understand that today nearly 75 percent of the intake at the university is from private schools. University is beyond the reach of the ordinary Malawian. I cannot be sure, but I fear that if I were born today into the same circumstances, I would have remained a poor farmer in the village.'

John Makina, Country Director for Oxfam in Malawi

Many feel that some economic inequality is acceptable as long as those who study and work hard are able to succeed and become richer. This idea is deeply entrenched in popular narratives and reinforced through dozens of Hollywood films, whose rags-to-riches stories continue to feed the myth of the American Dream around the world. However, in countries with extreme inequality, the reality is that the children of the rich will largely replace their parents in the economic hierarchy, as will the children of those living in poverty – regardless of their potential or how hard they work.

Researchers have shown that, across the 21 countries for which there is data, there is a strong correlation between extreme inequality and low social mobility.³⁷ If you are born poor in a highly unequal country you will most probably die poor, and your children and grandchildren will be poor too. In Pakistan, for instance, a boy born in a rural area to a father from the poorest 20 percent of the population has only a 1.9 percent chance of ever moving to the richest 20 percent.³⁸ In the USA, nearly half of all children born to low-income parents will become low-income adults.³⁹

Around the world, inequality is making a mockery of the hopes and ambitions of billions of the poorest people. Without policy interventions in the interests of the many, this cascade of privilege and disadvantage will continue for generations.

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If Americans want to live the **American dream**, they should **go to Denmark**.

RICHARD WILKINSON
CO-AUTHOR OF *THE SPIRIT LEVEL*³⁶

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Inequality threatens society

For the third year running, the World Economic Forum's *Global Risks* survey has found 'severe income disparity' to be one of the top global risks for the coming decade.⁴⁰ A growing body of evidence has also demonstrated that economic inequality is associated with a range of health and social problems, including mental illness and violent crime.⁴¹ This is true across rich and poor countries alike, and has negative consequences for the richest as well as the poorest people.⁴² Inequality hurts everyone.

Homicide rates are almost four times higher in countries with extreme economic inequality than in more equal nations.⁴⁴ Latin America – the most unequal and insecure region in the world⁴⁵ – starkly illustrates this trend.⁴⁶ It has 41 of the world's 50 most dangerous cities,⁴⁷ and saw a million murders take place between 2000 and 2010.⁴⁸ Unequal countries are dangerous places to live in.

Many of the most unequal countries are also affected by conflict or instability. Alongside a host of political factors, Syria's hidden instability before 2011 was, in part, driven by rising inequality, as falling government subsidies and reduced public sector employment affected some groups more than others.⁴⁹

While living in an unequal country is clearly bad for everyone, the poorest people suffer most. They receive little protection from the police or legal systems, often live in vulnerable housing, and cannot afford to pay for private security measures. When disasters strike, those who lack wealth and power are worst affected and find it most difficult to recover.

The equality instinct

Evidence shows that, when tested, people instinctively feel that there is something wrong with high levels of inequality.

Experimental research has shown just how important fairness is to most individuals, contrary to the prevailing assumption that people have an inherent tendency to pursue self-interest.⁵⁰ A 2013 survey in six countries (Spain, Brazil, India, South Africa, the UK and the USA) showed that a majority of people believe the gap between the wealthiest people and the rest of society is too large. In the USA, 92 percent of people surveyed indicated a preference for greater economic equality, by choosing an ideal income distribution the same as Sweden's and rejecting one that represented the reality in the USA.⁵¹

Across the world, religion, literature, folklore and philosophy show remarkable confluence in their concern that an extreme gap between rich and poor is inherently unfair and morally wrong. This concern is prevalent across different cultures and societies, suggesting a fundamental human preference for fairness and equality.

What has caused the inequality explosion?

Many believe that inequality is somehow inevitable, or is a necessary consequence of globalization and technological progress. But the experiences of different countries throughout history have shown that, in fact, deliberate political and economic choices can lead to greater inequality. There are two

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No society can sustain this kind of **rising inequality**. In fact, there is no example in human history where wealth accumulated like this and the **pitchforks didn't eventually come out**.

NICK HANAUER
US BILLIONAIRE AND
ENTREPRENEUR⁴³

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To be wealthy and honoured in an unjust society is a disgrace.

MAHATMA GANDHI

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powerful economic and political drivers of inequality, which go a long way to explaining the extremes seen today: market fundamentalism and the capture of power by economic elites.

Market fundamentalism: A recipe for today's inequality

Over the last three hundred years, the market economy has brought prosperity and a dignified life to hundreds of millions of people across Europe, North America and East Asia. However, as economist Thomas Piketty demonstrated in *Capital in the Twenty-First Century*, without government intervention, the market economy tends to concentrate wealth in the hands of a small minority, causing inequality to rise.⁵²

Despite this, in recent years economic thinking has been dominated by a 'market fundamentalist' approach, that insists that sustained economic growth only comes from reducing government interventions and leaving markets to their own devices. However, this undermines the regulation and taxation that are needed to keep inequality in check.

There are clear lessons to be learned from recent history. In the 1980s and 1990s, debt crises saw countries in Latin America, Africa, Asia and the former Eastern bloc subjected to a cold shower of deregulation, rapid reductions in public spending, privatization, financial and trade liberalization, generous tax cuts for corporations and the wealthy, and a 'race to the bottom' to weaken labour rights. Inequality rose as a result. By 2000, inequality in Latin America had reached an all-time high, with most countries in the region registering an increase in income inequality over the previous two decades.⁵⁴ It is estimated that half of the increase in poverty over this period was due to redistribution of wealth in favour of the richest.⁵⁵ In Russia, income inequality almost doubled in the 20 years from 1991, after economic reforms focused on liberalization and deregulation.⁵⁶

Women are worst affected by market fundamentalist policies. They lose out most when labour regulations are watered down – for instance through the removal of paid maternity leave and holiday entitlements – or when state services are eroded, adding to their already higher burden of unpaid care. And, because women and children disproportionately benefit from public services like healthcare or free education, they are hit hardest when these are cut back.

Despite the fact that market fundamentalism played a strong role in causing the recent global economic crisis, it remains the dominant ideological world view and continues to drive inequality. It has been central to the conditions imposed on indebted European countries, forcing them to deregulate, privatize and cut their welfare provision for the poorest, while reducing taxes on the rich. There will be no cure for inequality while countries are forced to swallow this medicine.

Capture of power and politics by elites has fuelled inequality

The influence and interests of economic and political elites has long reinforced inequality. Money buys political clout, which the richest and most powerful use to further entrench their unfair advantages. Access to justice is also often for sale, legally or illegally, with court costs and access to the best lawyers

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One of the **flaws of market fundamentalism** is that it paid no attention to distribution of incomes or the notion of a **good or fair society**.

JOSEPH STIGLITZ⁵³

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Just as any **revolution eats its children, unchecked market fundamentalism can devour the social capital** essential for the long-term dynamism of capitalism itself.

MARK CARNEY
GOVERNOR OF THE
BANK OF ENGLAND⁵⁷

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ensuring impunity for the powerful. The results are evident in today's lopsided tax policies and lax regulatory regimes, which rob countries of vital revenue for public services, encourage corrupt practices and weaken the capacity of governments to fight poverty and inequality.⁵⁸

Elites, in rich and poor countries alike, use their heightened political influence to curry government favours – including tax exemptions, sweetheart contracts, land concessions and subsidies – while blocking policies that strengthen the rights of the many. In Pakistan, the average net-worth of parliamentarians is \$900,000, yet few of them pay any taxes.⁵⁹ This undermines investment in sectors, such as education, healthcare and small-scale agriculture, which can play a vital role in reducing inequality and poverty.

The massive lobbying power of rich corporations to bend the rules in their favour has increased the concentration of power and money in the hands of the few. Financial institutions spend more than €120m per year on armies of lobbyists to influence EU policies in their interests.⁶⁰

Many of the richest people made their fortunes thanks to the exclusive government concessions and privatization that come with market fundamentalism. Privatization in Russia and Ukraine after the fall of communism turned political insiders into billionaires overnight. Carlos Slim made his many billions by securing exclusive rights over Mexico's telecom sector when it was privatized in the 1990s.⁶¹

Market fundamentalism and political capture have worsened economic inequality, and undermined the rules and regulations that give the poorest, the most marginalized and women and girls, a fair chance.

WHAT CAN BE DONE TO END EXTREME INEQUALITY?

The continued rise of economic inequality around the world today is not inevitable – it is the result of deliberate policy choices. Governments can start to reduce inequality by rejecting market fundamentalism, opposing the special interests of powerful elites, changing the rules and systems that have led to today's inequality explosion, and taking action to level the playing field by implementing policies that redistribute money and power.

Working our way to a more equal world

Maria lives in Malawi and works picking tea. Her wage is below the extreme poverty line of \$1.25 per day at household level and she struggles to feed her two children, who are chronically malnourished. But things are starting to change. In January 2014, the Malawian government raised the minimum wage by approximately 24 percent. A coalition, led by Ethical Tea Partnership and Oxfam, is seeking new ways to make decent work sustainable in the longer term.⁶³

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We can have **democracy** in this country, or we can have **great wealth** concentrated in the **hands of a few**, but we **can't have both**.

LOUIS D. BRANDEIS
FORMER SUPREME
COURT JUSTICE, USA

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Without deliberate policy interventions, **high levels of inequality tend to be self-perpetuating**. They lead to the development of political and economic institutions that work to maintain the political, economic and social **privileges of the elite**.

UN RESEARCH INSTITUTE
FOR SOCIAL DEVELOPMENT⁶²

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The low road: Working to stand still

Income from work determines most people's economic status and their future chances.⁶⁴ But the vast majority of the world's poorest people cannot escape poverty, no matter how hard they work, and far too many suffer the indignity of poverty wages. Meanwhile, the richest people have high and rapidly rising salaries and bonuses, as well as significant income from their accumulated wealth and capital. This is a recipe for accelerating economic inequality.

Since 1990, income from labour has made up a declining share of GDP across low-, middle- and high-income countries alike. Around the world, ordinary workers are taking home an ever-dwindling slice of the pie, while those at the top take more and more.⁶⁵

In 2014, the UK top 100 executives took home 131 times as much as their average employee,⁶⁶ yet only 15 of these companies have committed to pay their employees a living wage.⁶⁷ In South Africa, a platinum miner would need to work for 93 years just to earn the average CEO's annual bonus.⁶⁸ Meanwhile, the International Trade Union Confederation estimates that 40 percent of workers are trapped in the informal sector, where there are no minimum wages and workers' rights are ignored.⁶⁹

Oxfam research found evidence of poverty wages and insecure jobs in middle-income Vietnam, Kenya and India, and below the extreme poverty line in Malawi, despite being within national laws.⁷⁰ Living wages are a dream for the vast majority of workers in developing countries. And women are on an even lower road than male workers; at the current rate of decline in the gender pay gap, it will take 75 years to make the principle of equal pay for equal work a reality.⁷¹

Unions give workers a better chance of earning a fair wage. Collective bargaining by unions typically raises members' wages by 20 percent and drives up market wages for everyone.⁷² However, many developing countries have never had strong unions and, in some, workers are facing a crackdown on their right to organize.

The high road: Another way is possible

Some countries are bucking the trend on wages, decent work and labour rights. Brazil's minimum wage rose by nearly 50 percent in real terms between 1995 and 2011, contributing to a parallel decline in poverty and inequality.⁷³ Countries such as Ecuador⁷⁴ and China⁷⁵ have also deliberately increased wages.

Forward-looking companies and cooperatives are also taking action to limit executive pay. For instance, Brazil's SEMCO SA employs more than 3,000 workers across a range of industries, and adheres to a wage ratio of 10 to 1.⁷⁶ Germany's Corporate Governance Commission proposed capping executive pay for all German publicly traded companies, admitting that public outrage against excessive executive pay had influenced its proposal.

Taxing and investing to level the playing field

Bernarda Paniagua lives in Villa Eloisa de las Cañitas, one of the poorest and most under-served areas of the Dominican Republic, where she sells cheese to make a living.

Victor Rojas lives in one of the wealthiest areas of the country and is the manager of a prestigious company. Yet Bernarda pays a greater proportion of her income in indirect taxes than Victor.

Parents in Victor's neighbourhood can pay for the best education for their children so they can expect good jobs and a prosperous future. For Bernarda's children, the outlook isn't so bright. Her oldest daughter, Karynely, is unable to continue studying or to find a good job as she lacks the necessary IT skills because there weren't any computers at her school.

The tax system is one of the most important tools a government has at its disposal to address inequality. Data from 40 countries shows the potential of redistributive taxing and investing by governments to reduce income inequality driven by market conditions.⁷⁷

The low road: The great tax failure

Tax systems in developing countries, where public spending and redistribution is particularly crucial, unfortunately tend to be the most regressive⁷⁸ and the furthest from meeting their revenue-raising potential. Oxfam estimates that if low- and middle-income countries – excluding China – closed half of their tax revenue gap they would gain almost \$1tn.⁷⁹ But due to the disproportionate influence of rich corporations and individuals, and an intentional lack of global coordination and transparency in tax matters, tax systems are failing to tackle poverty and inequality.

The race to the bottom on corporate tax collection is a large part of the problem. Multilateral agencies and finance institutions have encouraged developing countries to offer tax incentives – tax holidays, tax exemptions and free trade zones – to attract foreign direct investment. Such incentives have soared, undermining the tax base in some of the poorest countries. In 2008/09, for instance, the Rwandan government authorized tax exemptions that, if collected, could have doubled health and education spending.⁸¹

Well-meaning governments around the world are often hamstrung by rigged international tax rules and a lack of coordination. No government alone can prevent corporate giants from taking advantage of the lack of global tax cooperation. Large corporations can employ armies of specialist accountants to minimize their taxes and give them an unfair advantage over small businesses. Multinational corporations (MNCs), like Apple⁸² and Starbucks,⁸³ have been exposed for dodging billions in taxes, leading to unprecedented public pressure for reform.

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There are no politicians who speak for us. This is not just about bus fares any more. We pay high taxes and we are a rich country, but **we can't see this in our schools, hospitals and roads.**

JAMAIME SCHMITT
BRAZILIAN PROTESTOR⁸⁰

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The richest individuals are also able to take advantage of the same tax loopholes and secrecy. In 2013, Oxfam estimated that the world was losing \$156bn in tax revenue as a result of wealthy individuals hiding their assets in offshore tax havens.⁸⁴ Warren Buffet has famously commented on the unfairness of a system that allowed him to pay less tax than his secretary.

Ordinary people in rich and poor countries alike, lose out as a result of tax dodging. Yet tax havens are intentionally structured to facilitate this practice, offering secrecy, low tax rates and requiring no actual business activity to register a company or a bank account. A prime example of this blatant tax dodge is Uglend House in the Cayman Islands. Home to 18,857 companies, it famously prompted President Obama to call it 'either the biggest building or the biggest tax scam on record'.⁸⁵ Tax havens allow many scams that affect developing countries, such as transfer mispricing, which causes Bangladesh to lose \$310m in corporate taxes each year. This is enough to pay for almost 20 percent of the primary education budget in a country that has only one teacher for every 75 primary school-aged children.⁸⁶

The high road: Hope for a fairer future

Some countries are taking the high road and adopting tax policies that tackle inequality. Following the election of a new president in Senegal in 2012, the country adopted a new tax code to raise money from rich individuals and companies to pay for public services.⁸⁷

International consensus is also shifting. Despite the limitations of the ongoing Base Erosion and Profit Shifting process,⁸⁸ the fact that the G8, G20 and OECD took up this agenda in 2013 demonstrates a clear consensus that the tax system is in need of radical reform. The IMF is reconsidering how MNCs are taxed, and, in a recent report, has recognized the need to shift the tax base towards developing countries.⁸⁹ It is also considering 'worldwide unitary taxation' as an alternative to ensure that companies pay tax where economic activity takes place.⁹⁰ OECD, G20, US and EU processes are making progress on transparency and global automatic exchange of tax information between countries, which will help lift the veil of secrecy that facilitates tax dodging.

Ten EU countries have also agreed to work together to put a Financial Transaction Tax in place, which could raise up to €37bn per year.⁹² Wealth taxes are under discussion in some countries, and the debate about a global wealth tax has been given new life through Thomas Piketty's recommendations in *Capital in the Twenty-First Century*, which gained widespread public and political attention.

Oxfam has calculated that a tax of 1.5 percent on the wealth of the world's billionaires today could raise \$74bn. This would be enough to fill the annual gaps in funding needed to get every child into school and deliver health services in the poorest 49 countries.⁹³

Nevertheless, the vested interests opposing reform are very powerful. There is a real risk that the gaps in global tax governance will not be closed, leaving the richest companies and individuals free to continue exploiting loopholes to avoid paying their fair share.

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How people are taxed, who is taxed and what is taxed tell more about a society than anything else.

CHARLES ADAMS⁹¹

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Health and education: Strong weapons in the fight against inequality

Babena Bawa was a farmer from Wa East district in Ghana, a region without hospitals or qualified medical doctors, and with only one nurse for every 10,000 people. In May 2014, Babena died of a snake bite because local health centres did not stock the anti-venom that could have saved his life. In stark contrast, the previous year Ghanaian presidential candidate Nana Akufo-Addo was able to fly to London for specialist treatment when faced with heart problems.

Providing clinics and classrooms, medics and medicines, can help to close the gap in life chances and give people the tools to challenge the rules that perpetuate economic inequality. Free public healthcare and education are not only human rights; they also mitigate the worst impacts of today's skewed income and wealth distribution.

Between 2000 and 2007, the 'virtual income' provided by public services reduced income inequality by an average of 20 percent across OECD countries.⁹⁴ In five Latin American countries (Argentina, Bolivia, Brazil, Mexico and Uruguay), virtual income from healthcare and education alone have reduced inequality by between 10 and 20 percent.⁹⁵ Education has played a key role in reducing inequality in Brazil,⁹⁶ and has helped maintain low levels of income inequality in the Republic of Korea (from here on in referred to as South Korea).⁹⁷

The low road: Fees, privatization and medicines for the few

The domination of special interests and bad policy choices – especially user fees for healthcare and education, and the privatization of public services – can increase inequality. Unfortunately, too many countries are suffering as a result of these 'low road' policies.

When public services are not free at the point of use, millions of ordinary women and men are excluded from accessing healthcare and education. User fees were encouraged for many years by the World Bank, a mistake their president now says was ideologically driven. Yet, despite the damage they do, user fees persist. Every year, 100 million people worldwide are pushed into poverty because they have to pay out-of-pocket for healthcare.⁹⁸ In Ghana, the poorest families will use 40 percent of their household income sending just one of their children to an Omega low-fee school.⁹⁹ Women and girls suffer most when fees are charged for public services.

Significant amounts of money that could be invested in service provision that tackles inequality are being diverted by tax breaks and public-private partnerships (PPPs). In India, numerous private hospitals have been given tax incentives to provide free treatment to poor patients, but have failed to honour their side of the bargain.¹⁰⁰ Lesotho's Queen Mamohato Memorial Hospital in the capital city Maseru operates under a PPP that currently costs half of the total government health budget, with costs projected to increase. This is starving the budgets of health services in rural areas that are used by the poorest people, further widening the gap between rich and poor.¹⁰¹

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I went for a cataract operation. They told me it costs 7,000 Egyptian pounds. All I had was seven so I decided to go blind.

**A 60-YEAR-OLD WOMAN
IN A REMOTE VILLAGE IN EGYPT**

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Despite the evidence that it increases inequality, rich-country governments and donor agencies, such as the UK, the USA and the World Bank, are pushing for greater private sector involvement in service delivery.¹⁰² The private sector is out of reach and irrelevant to the poorest people, and can also undermine wealthy people's support for public services by creating a two-tier system, in which they can opt out of public services and therefore are reluctant to fund these through taxation. In three Asian countries that have achieved or are close to achieving Universal Health Coverage (UHC) – Sri Lanka, Malaysia and Hong Kong – the poorest people make almost no use of private health services.¹⁰³ Private services benefit the richest rather than those most in need, thus increasing economic inequality.

International rules also undermine domestic policy. Intellectual property clauses in current international trade and investment agreements are driving up the cost of medicines so that only the richest can afford treatment. The 180 million people infected with Hepatitis C are suffering the consequences, as neither patients nor governments in developing countries can afford the \$1,000 per day bill for medicine that these rules result in.¹⁰⁴

The high road: Reclaiming the public interest

There are, however, good examples from around the world of how expanding public services are helping to reduce inequality.

The growing momentum around UHC has the potential to improve access to healthcare and drive down inequality. World Bank president Jim Yong Kim has been unequivocal that UHC is critical to fighting inequality, saying it is 'central to reaching the [World Bank] global goals to end extreme poverty by 2030 and boost shared prosperity'.¹⁰⁵ Emerging economies, such as China, Thailand, South Africa and Mexico, are rapidly scaling-up public investment in healthcare, and many low-income countries have driven down inequality by introducing free healthcare policies and financing them from general taxation. Thailand's universal coverage scheme halved the amount of money that the poorest people spent on healthcare costs within the first year, as well as cutting infant and maternal mortality rates.¹⁰⁶

There have also been victories over moves by major pharmaceutical companies to block access to affordable medicines. Leukaemia patients can now take generic versions of cancer treatment Glivec®/Gleevec® for only \$175 per month – nearly 15 times less than the \$2,600 charged by Novartis – thanks to the Indian Supreme Court's rejection of an application to patent the drug.¹⁰⁷

Since the Education For All movement and the adoption of the Millennium Development Goals in 2000, the world has seen impressive progress in primary education, with tens of millions of poor children going school for the first time. In Uganda, enrolment rose by 73 percent in just one year – from 3.1 million to 5.3 million – following the abolition of school fees.¹⁰⁸

Improving the quality of education through adequate investment in trained teachers, facilities and materials is now critical to capitalize on these promising moves, as are policies to reach the most marginalized children who risk missing out. While there is much more to be done, there are some examples of progress. For example, Brazil has championed reforms that increase access to quality education and allocate more spending to poor children, often in

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We used to see just four or five women each month for deliveries and we now see more than twenty. It used to be very expensive to come to the clinic but **now women can deliver here safely for free** and they do not have to wait for their husbands to give them the money.

MIDWIFE, SURKHET, NEPAL

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indigenous and black communities, which has helped to reduce inequality of access since the mid-1990s.¹⁰⁹ As a result, the average number of years spent in school by the poorest 20 percent of children has doubled from four years to eight years.¹¹⁰

Taxation and long-term predictable aid are crucial to enable the poorest countries to scale-up investment in inequality-busting healthcare and education services. They can also help to tackle political capture that concentrates wealth in the hands of elites. In Rwanda, for example, budget support has enabled the government to remove education fees and treat more people with HIV and AIDS.¹¹¹ The USA is seeking to target aid to district councils in poor areas of Ghana and to support farmers to hold policy makers accountable.

Freedom from fear

Tiziwenji Tembo is 75, and lives in the Katete district of Zambia. Until recently she had no regular income, and she and her grandchildren often went without food. Tiziwenji's life was transformed when new social protection measures meant she began to receive a regular pension worth \$12 per month.¹¹²

Social protection provides money or in-kind benefits, such as child benefits, old-age pensions and unemployment protection, which allow people to live dignified lives, free from fear even in the worst times. Such safety nets are the mark of a caring society that is willing to come together to support the most vulnerable. Like healthcare and education, social protection puts income into the pockets of those who need it most, counteracting today's skewed income distribution and mitigating the effects of inequality.

However, recent figures show that more than 70 percent of the world population is at risk of falling through the cracks because they are not adequately covered by social protection.¹¹³ Even in the poorest countries, the evidence suggests that basic levels of social protection are affordable.¹¹⁴ Countries like Brazil and China have per-capita incomes similar to Europe after the Second World War, when their universal welfare systems were created. Universal social protection is needed to ensure that nobody is left behind or penalized because they have not climbed high enough up the economic ladder.

Achieving economic equality for women

The wrong economic choices can hit women hardest, and failure to consider women and girls in policy making can lead governments to inadvertently reinforce gender inequality.

In China, for instance, successful efforts to create new jobs for women were undermined by cutbacks in state and employer support for child care and elderly care, which increased the burden of women's unpaid work.¹¹⁵ According to research conducted on the impact of austerity in Europe,¹¹⁶ mothers of young children were less likely to be employed after the financial crisis,

and more likely to attribute their lack of employment to cuts to care services.¹¹⁷ A recent study in Ghana also found that indirect taxes on kerosene, which is used for cooking in low-income households, are paid mostly by women.¹¹⁸

Good policies can promote women's economic equality

Many of the policies that reduce economic inequality, such as free public services or a minimum wage, also reduce gender inequality. In South Africa, a new child-support grant for the primary caregivers of young children from poor households is better than previous measures at reaching poor, black, and rural women because the government gave careful consideration to the policy's impact on women and men.¹¹⁹ In Quebec, increased state subsidies for child care have helped an estimated 70,000 more mothers to get into work, with the resulting increased tax revenue more than covering the cost of the programme.¹²⁰ Governments must implement economic policies aimed at closing the gap between women and men, as well as between rich and poor.

People power: Taking on the one percent

To successfully combat runaway economic inequality, governments must be forced to listen to the people, not the plutocrats. As history has shown, this requires mass public mobilization. The good news is that despite the dominance of political influence by wealthy elites and the repression of citizens in many countries, people around the world are demanding change. The majority of the hundreds of thousands who took to the streets in recent protests were frustrated by a lack of services and a lack of voice,¹²² and opinion polls confirm this feeling of discontent around the world.¹²³

In Chile, the most unequal country in the OECD,¹²⁴ mass demonstrations in 2011 were initially sparked by discontent over the cost of education, and grew to encompass concerns about deep divisions of wealth and the influence of big business.¹²⁵ A coalition of students and trade unions mobilized 600,000 people in a two-day strike demanding reform. Elections at the end of 2013 brought in a new government that included key members of the protest movement committed to reducing inequality and reforming public education.¹²⁶

In early 2010, a series of popular protests against the proposed mass bailout of Iceland's three main commercial banks forced the newly elected government – who had pledged to shield low- and middle-income groups from the worst effects of the financial crisis – to hold a referendum on the decision. Ninety three percent of Icelanders rejected a proposal that the people, rather than the banks, should pay for the bankruptcy. This led to crowd-sourcing of a new constitution that was approved in 2012, with new provisions on equality, freedom of information, the right to hold a referendum, the environment and public ownership of land.¹²⁷

History shows that the stranglehold of elites can be broken by the actions of ordinary people and the widespread demand for progressive policies.

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People are not tolerating the way a small number of economic groups benefit from the system. **Having a market economy is really different from having a market society.** What we are asking for, via education reform, is that the state takes on a different role.

CAMILA VALLEJO
VICE-PRESIDENT OF THE
STUDENT FEDERATION OF THE
UNIVERSITY OF CHILE¹²¹

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TIME TO ACT TO END EXTREME INEQUALITY

Today's extremes of inequality are bad for everyone. For the poorest people in society, whether they live in sub-Saharan Africa or the richest country in the world, the opportunity to emerge from poverty and live a dignified life is fundamentally blocked by extreme inequality.

Oxfam is calling for concerted action to build a fairer economic and political system that values every citizen. Governments, institutions and corporations have a responsibility to tackle extreme inequality. They must address the factors that have led to today's inequality explosion, and implement policies that redistribute money and power from the few to the many.

1) Make governments work for citizens and tackle extreme inequality

Public interest and tackling extreme inequality should be the guiding principle of all global agreements and national policies and strategies. It must go hand in hand with effective governance that represents the will of the people rather than the interests of big business.

Specific commitments must include: agreement of a post-2015 goal to eradicate extreme inequality by 2030; national inequality commissions; public disclosure of lobbying activities; freedom of expression and a free press.

2) Promote women's economic equality and women's rights

Economic policy must tackle economic inequality and gender discrimination together.

Specific commitments must include: compensation for unpaid care; an end to the gender pay gap; equal inheritance and land rights for women; data collection to assess how women and girls are affected by economic policy.

3) Pay workers a living wage and close the gap with skyrocketing executive reward

Corporations are earning record profits worldwide and executive rewards are skyrocketing, whilst too many people lack a living wage and decent working conditions. This must change.

Specific commitments must include: increasing minimum wages towards living wages; moving towards a highest-to-median pay ratio of 20:1; transparency on pay ratios; protection of worker's rights to unionise and strike.

4) Share the tax burden fairly to level the playing field

Too much wealth is concentrated in the hands of the few. The tax burden is falling on ordinary people, while the richest companies and individuals pay too little. Governments must act together to correct this imbalance.

Specific commitments must include: shifting the tax burden away from labour and consumption and towards wealth, capital and income from these assets; transparency on tax incentives; national wealth taxes and exploration of a global wealth tax.

5) Close international tax loopholes and fill holes in tax governance

Today's economic system is set up to facilitate tax dodging by multinationals and wealthy individuals. Until the rules are changed and there is a fairer global

governance of tax matters, tax dodging will continue to drain public budgets and undermine the ability of governments to tackle inequality.

Specific commitments must include: a reform process where developing countries participate on an equal footing, and a new global governance body for tax matters; public country-by-country reporting; public registries of beneficial ownership; multilateral automatic exchange of tax information including with developing countries that can't reciprocate; stopping the use of tax havens, including through a black list and sanctions; making companies pay based on their real economic activity.

6) Achieve universal free public services by 2020

Health and education can help to close the gap between the haves and have nots, but under spending, privatisation and user fees as well as international rules are standing in the way of this progress and must be tackled.

Specific commitments must include: removal of user fees; meeting spending commitments; stopping new and reviewing existing public subsidies for health and education provision by private for-profit companies; excluding public services and medicines from trade and investment agreements.

7) Change the global system for research and development (R&D) and pricing of medicines so everyone has access to appropriate and affordable medicines

Relying on intellectual property as the only stimulus for R&D gives big pharmaceutical companies a monopoly on making and pricing of medicines. This increases the gap between rich and poor and puts lives on the line. The rules must change.

Specific commitments must include: a new global R&D treaty; increased investment in medicines, including in affordable generics; excluding intellectual property rules from trade agreements.

8) Implement a universal social protection floor

Social protection reduces inequality and ensures that there is a safety net for the poorest and most vulnerable people. Such safety nets must be universal and permanent.

Specific commitments must include: universal child and elderly care services; basic income security through universal child benefits, unemployment benefits and pensions.

9) Target development finance at reducing inequality and poverty, and strengthening the compact between citizens and their government

Development finance can help reduce inequality when it is targeted to support government spending on public goods, and can also improve the accountability of governments to their citizens.

Specific commitments must include: increased investment from donors in free public services and domestic resources mobilisation; assessing the effectiveness of programmes in terms of how they support citizens to challenge inequality and promote democratic participation.

Salena and Sahera walk through Shanti Busti with bottles of water on their way to the wasteland that they use as a toilet, India (2008).
Photo: Tom Pietrasik/Oxfam

INTRODUCTION

Nthabiseng was born to a poor black family in Limpopo, a rural area in South Africa. On the same day, Pieter was born nearby in a rich suburb of Cape Town. Nthabiseng's mother had no formal schooling and her father is unemployed, whereas Pieter's parents both completed university education at Stellenbosch University and have well-paid jobs.

As a result, Nthabiseng and Pieter's life chances are vastly different. Nthabiseng is almost one and a half times as likely to die in the first year of her life as Pieter.¹²⁸ He is likely to live more than 15 years longer than Nthabiseng.¹²⁹

Pieter will complete on average 12 years of schooling and will most probably go to university, whereas Nthabiseng will be lucky if she gets one year.¹³⁰ Such basics as clean toilets, clean water or decent healthcare¹³¹ will be out of her reach. If Nthabiseng has children there is a very high chance they will also grow up equally poor.¹³²

While Nthabiseng and Pieter do not have any choice about where they are born, their gender, or the wealth and education of their parents, governments do have a choice to intervene to even up people's life chances. Without deliberate action though, this injustice will be repeated in countries across the world.

This thought experiment is taken from the World Development Report 2006. Oxfam has updated the facts on life chances in South Africa.¹³³

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Extreme disparities in income are slowing the pace of poverty reduction and hampering the development of broad-based economic growth.

KOFI ANNAN¹³⁴

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There's been **class warfare** going on for the last 20 years and **my class has won.**

WARREN BUFFET
THE FOURTH WEALTHIEST
PERSON IN THE WORLD¹³⁵

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Economic inequality** – the skewed distribution of income and wealth – has reached extreme levels and continues to rise. Seven out of 10 people on the planet now live in a country where economic inequality is worse today than it was 30 years ago.¹³⁶ South Africa, for example, is now significantly more unequal than it was at the end of Apartheid 20 years ago.¹³⁷ This inequality undermines global efforts to reduce poverty and hurts us all. This report is focused on the pernicious effects of inequality, and the possible solutions to it.

Even It Up: Time to End Extreme Inequality starts by showing that the gap between rich and poor is already very wide and is growing in the majority of countries. It then demonstrates why extreme economic inequality is bad for all of us. In more unequal societies, rich and poor alike have shorter lives, and live with a greater threat of violence and insecurity. Inequality hinders economic growth and stifles social mobility. It creates conditions in which crime and corruption thrive. It underlies many of the world's violent conflicts and is a barrier in the fight against climate change.

Critically, this report will demonstrate that unless we close the gap between the haves and the have-nots, we will not win the battle against extreme

** Inequality has many different dimensions, including race, gender, geography and economy, which rarely work in isolation. This report is primarily concerned with the concentration of financial resources and wealth in the hands of the few, which can affect political, social and cultural processes to the detriment of the most vulnerable. As such, in this report we use the term 'inequality' to refer to extreme economic (wealth and income) inequality. When referring to the various dimensions of inequality we make these distinctions.

poverty, and the injustice of millions of families living in extreme poverty alongside great wealth and prosperity will continue. Today, the rich can buy longer, safer lives and better education, and can secure jobs for their children, while those without money and influence are much more likely to be denied even their basic rights. When disasters strike or food prices spike, those who lack wealth and power suffer the most, and find it most difficult to recover.

The report then looks at what is driving this rapid increase in extreme economic inequality, focusing on two major causes: market fundamentalism and the capture of power and politics by economic elites. Many, including billionaire George Soros and Nobel-laureate Joseph Stiglitz, believe that market fundamentalism is to blame for the rapid concentration of wealth over the last four decades. When politics and policy making are influenced by elites and corporations, they serve their economic interests instead of those of society as a whole. This is as true in the USA as it is in Pakistan and Mexico, and has led to government policies and actions that benefit the few at the expense of the many, further widening the inequality gap.

Oxfam's decades of experience working with the world's poorest communities have taught us that poverty, inequality and these traps of disadvantage are not accidental, but the result of deliberate policy choices made by governments and international organizations. The world needs concerted action to build a fairer economic and political system that values the many. The rules and systems that have led to today's inequality explosion must change. Urgent action is needed to level the playing field by implementing policies that redistribute money and power from the few to the many.

The second half of the report explores some of the deliberate policy choices that will be crucial to reducing inequality. Governments and companies can take steps to ensure decent working conditions, the right for workers to organize, the right to a living wage, and to curb skyrocketing executive pay. Companies must become more transparent, and policies must be enacted to ensure that both they and rich individuals pay their fair share of taxes. Ensuring universal access to healthcare, education and social protection will mitigate the extremes of today's skewed income distribution and will guarantee that the most vulnerable are not left behind.

While there has been progress, real change will only come about if we break the stranglehold that special interests now have over governments and institutions, and if citizens demand their governments pursue policies that are about redistribution and fairness.

Extreme economic inequality, the focus of this report, has exploded in the last 30 years, making it one of the biggest economic, social and political challenges of our time. Age-old inequalities, such as gender, caste, race and religion, are injustices in themselves, and are also worsened by the growing gap between the haves and the have-nots.

As Oxfam launches the **Even it Up** campaign worldwide, we join a groundswell of voices, such as billionaires like Warren Buffet, faith leaders like Pope Francis, the heads of institutions, like Christine Lagarde of the IMF, as well as the World Bank, trade unions, social movements, women's organizations, academics and millions of ordinary people, to demand that leaders tackle extreme inequality before it is too late.

A view across Santa Marta favela and central Rio de Janeiro (2006).
Photo: John Spaul

1

EXTREME INEQUALITY

A story that needs a new ending



Leonard Kufeketa, 39, selling brushes in Johannesburg (2014).
Photo: Zed Nelson

1.1

THE REALITY OF TODAY'S HAVES AND HAVE-NOTS

Trends in income and wealth tell a clear story: the gap between the rich and poor is wider now than ever before and is still growing, with power increasingly in the hands of an elite few.

MEASURING INEQUALITY: GINI, PALMA AND THE WORLD TOP INCOMES DATABASE

Accurately and regularly measuring inequality is politically difficult and often neglected, especially in developing countries. A reliance on household surveys and tax records systematically under-reports the incomes and wealth of the richest in society, as they often have the resources to avoid tax and are rarely captured by surveys. The reliance on household surveys also means that gender inequalities are not adequately measured.

Inequality of income, wealth and other assets, such as land, have been historically measured by the Gini coefficient, named after the Italian statistician Corrado Gini. This is a measure of inequality where a rating of 0 represents total equality, with everyone taking an equal share, and a rating of 1 (or sometimes 100) would mean that one person has everything. Throughout this paper we rely heavily on comparisons using Gini coefficients, as this tends to be most prevalent in the research and evidence available on economic inequality.

However, one critique of the Gini is that it is overly sensitive to the middle 50 percent.¹³⁸ The Palma ratio, named after the Chilean economist Gabriel Palma, seeks to overcome this by measuring the ratio of the income share between the top 10 percent and the bottom 40 percent. This measure is gaining traction, for instance it has been proposed by Joseph Stiglitz as the basis for a target in a post-2015 global goal to reduce income inequality. The Palma ratio is crucial for gauging increases in income and wealth concentration at the very top, making it a useful tool for future research.

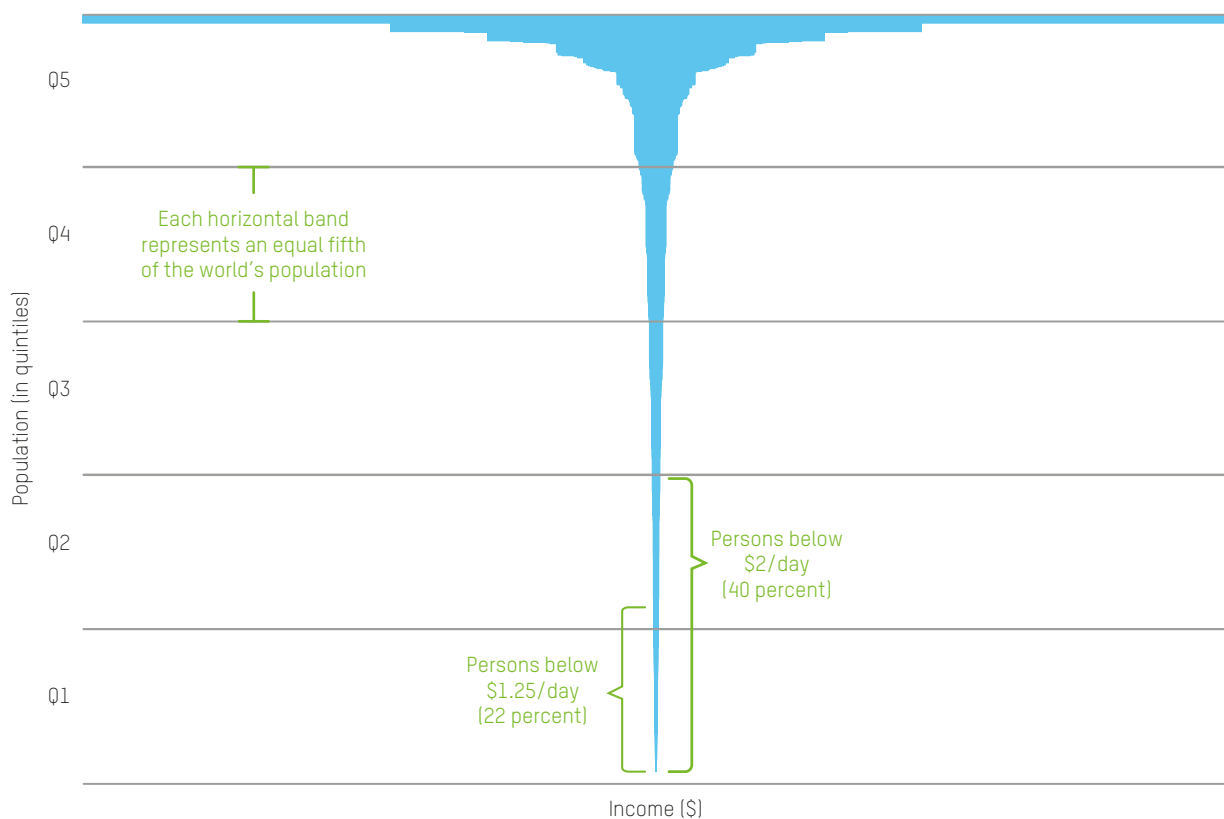
Tax records have also recently been used very successfully to get a more accurate record of top incomes. The World Top Incomes Database, co-founded by Thomas Piketty, covers 26 countries, with information on the share of pre-tax income going to the richest one percent since the 1980s.

There is no doubt that governments and institutions like the World Bank must greatly increase and improve the measurement of inequality as a fundamental foundation to tackle extreme inequality.

IN THE HANDS OF THE FEW: INCOME AND WEALTH

Global inequality – the inequality between countries – rose rapidly between 1980 and 2002,¹³⁹ but has fallen slightly since due to growth in emerging countries, particularly China.

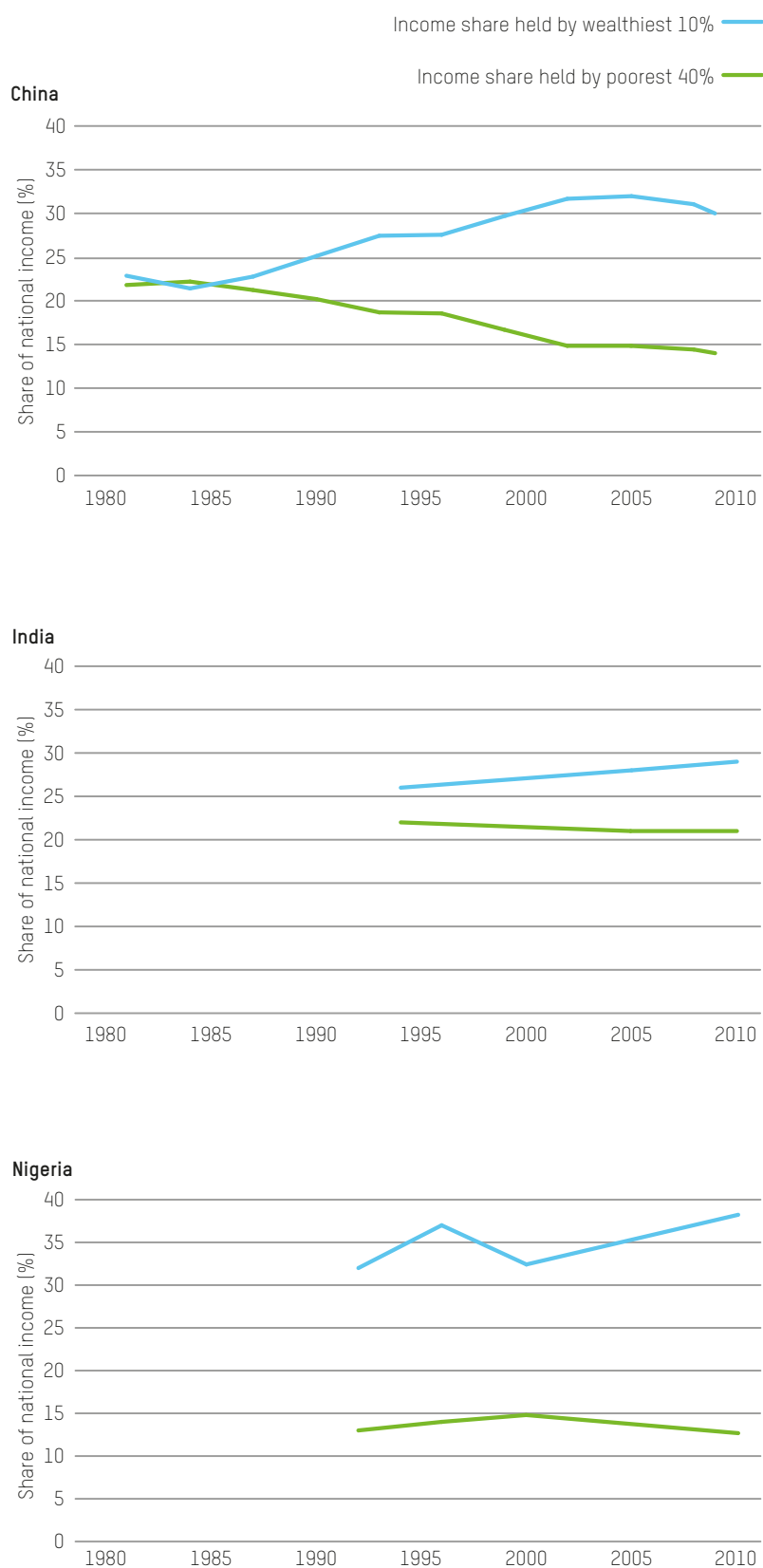
The bottom billion have increased their share of world income by 0.2 percent since 1990, to just short of one percent, but to increase their share to 10 percent at the same rate would take more than eight centuries.¹⁴⁰ We have reproduced UNICEF's analysis in Figure 1 – dubbed the 'Champagne Glass' – showing how much global income is concentrated at the very top, while the vast majority of people take a comparatively meagre share of global income that forms the 'stem' of the glass.¹⁴¹

FIGURE 1: Global income distribution by percentile of population (\$)

But it is national inequality that matters most to people's lives, and this is rising rapidly almost everywhere. Seven out of ten people on the planet now live in countries where economic inequality is worse than it was 30 years ago.¹⁴²

Today, the rich are earning more, both in absolute terms and relative to the rest of the population. According to the World Top Incomes Database, in all but one of the 29 countries measured (Colombia), the share of income going to the richest one percent increased, while in Colombia it held steady at around 20 percent.¹⁴³

India, China and Nigeria are three of the world's fastest growing, and most populous, developing economies. Figure 2 demonstrates how their national income is shared between the richest 10 percent and poorest 40 percent. They show that the benefits of growth have increasingly accrued to the richest members of society, pushing income inequality ever higher. In just these three countries, more than 1.1 billion people – 16 percent of the world – are getting an increasingly smaller share.¹⁴⁴

FIGURE 2: Increasing inequality in three middle-income countries¹⁴⁵

THE BILLIONAIRE BOOM

Inequality of wealth is even more extreme than the inequality of income. The number of dollar millionaires – known as High Net Worth Individuals – rose from 10 million in 2009 to 13.7 million in 2013.¹⁴⁶ Since the financial crisis, the ranks of the world's billionaires has more than doubled, swelling to 1,645 people.¹⁴⁷ The billionaire boom is not just a rich country story: the number of India's billionaires increased from just two in the 1990s,¹⁴⁸ to 65 in early 2014.¹⁴⁹ And today there are 16 billionaires in sub-Saharan Africa,¹⁵⁰ alongside the 358 million people living in extreme poverty.¹⁵¹

Oxfam's research in early 2014 found that the 85 richest individuals in the world have as much wealth as the poorest half of the global population.¹⁵² This figure was based on the wealth of the 85 billionaires at the time of the annual Forbes report in March 2013. In the period of a year from March 2013 to March 2014 their wealth rose again by a further 14 percent, or \$244bn.¹⁵³ This equates to a \$668m-a-day increase.

Once accumulated, the wealth of the world's billionaires takes on a momentum of its own, growing much faster than the broader economy in many cases. If Bill Gates were to cash in all his wealth and spend \$1m every single day, it would take him 218 years to spend all of his money.¹⁵⁵ But in reality, the interest on his wealth, even in a modest savings account (with interest at 1.95 percent) would make him \$4.2m each day. The average return on wealth for billionaires is approximately 5.3 percent,¹⁵⁶ and between March 2013 and March 2014, Bill Gates' wealth increased by 13 percent – from \$67bn to \$76bn.¹⁵⁷ This is an increase of \$24m a day, or \$1m every hour.

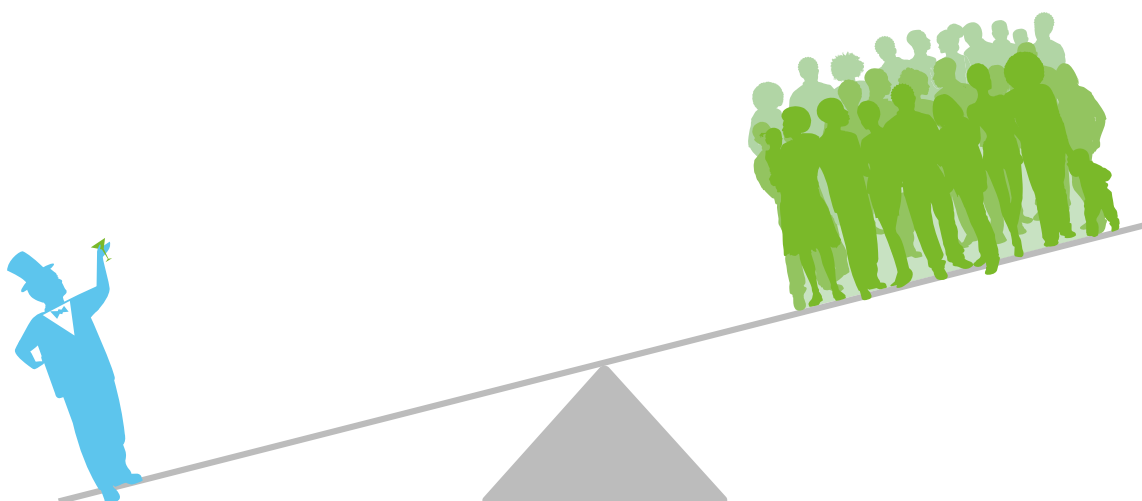
The richest ten people in the world would face a similarly absurd challenge in spending their wealth, as the following calculations show.

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No society can sustain this kind of **rising inequality**. In fact, there is no example in human history where wealth accumulated like this and the **pitchforks didn't eventually come out**. You show me a highly unequal society, and I will show you a police state. Or an uprising. **There are no counterexamples.**

NICK HANAUER¹⁵⁴

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**THERE ARE 16 BILLIONAIRES
IN SUB-SAHARAN AFRICA LIVING ALONGSIDE
THE 358 MILLION PEOPLE LIVING
IN EXTREME POVERTY**

TABLE 1: The number of years it would take for the richest 10 people to spend their wealth, and earnings on modest and average interest¹⁵⁸

Name	Wealth (\$bn)	Years to spend all money, at \$1m/day	Earnings per day at ordinary rate of 1.95% Interest (\$m)	Earnings per day at average billionaire rate of return (5.3%) (\$m)
Carlos Slim Helu and family (Mexico)	80	220	4.3	11.6
Bill Gates (USA)	79	218	4.2	11.5
Amancio Ortega (Spain)	63	172	3.3	9.1
Warren Buffett (USA)	62	169	3.3	8.9
Larry Ellison (USA)	50	137	2.7	7.2
Charles Koch (USA)	41	112	2.2	5.9
David Koch (USA)	41	112	2.2	5.9
Liliane Bettencourt and family (France)	37	102	2.0	5.4
Christy Walton and family (USA)	37	101	2.0	5.3
Sheldon Adelson (USA)	36	100	1.9	5.3

The decision of Bill Gates and Warren Buffet to give away their fortunes is an example to the rest of the world's billionaires. In fact, many billionaires and millionaires have been vocal in their agreement that extreme wealth is a problem that threatens us all. In the USA, a group called the Patriotic Millionaires is actively lobbying congress to remove tax breaks for the wealthy, writing: 'for the fiscal health of our nation and the well-being of our fellow citizens, we ask that you increase taxes on incomes over \$1,000,000'.¹⁵⁹

The aggregate wealth of today's billionaires has increased by 124 percent in the last four years and is now approximately \$5.4tn. This is twice the size of France's GDP in 2012.¹⁶⁰

Oxfam has calculated that a tax of just 1.5 percent on the wealth of the world's billionaires, if implemented directly after the financial crisis, could have saved 23 million lives across the world's poorest 49 countries, by providing them with money to invest in healthcare.¹⁶¹ The number of billionaires and their combined wealth has increased so rapidly that in 2014 a tax of 1.5 percent could fill the annual gaps in funding needed to get every child into school and to deliver health services in those poorest countries.¹⁶²

LAND: THE OLDEST FORM OF WEALTH INEQUALITY

In the history of rich nations, wealth was originally made up of land, and in developing countries this remains the case. Farmland is particularly vital to poor people's livelihoods in developing countries.¹⁶³ But too many people in rural populations struggle to make a living from small plots. Many more lack secure tenure rights, especially women, meaning they can be driven off their land, leaving them without a source of income. In a forthcoming Oxfam study with women's organizations across three continents, women's lack of access to land was identified as one of the top threats to community resilience.¹⁶⁴

Most countries in Latin America score a Gini coefficient on land inequality of over 0.8; in Asia, many score higher than 0.5. In Angola and Zambia, small farms comprise 80 percent of all farms, but make up only around two percent of agricultural land.¹⁶⁵ Large-scale redistribution of land in East Asian countries like South Korea, Japan and China played a key role in their reducing inequality and making growth more pro-poor.

In some countries, such as Brunei, Saudi Arabia, Kuwait and Swaziland, heads of state are the biggest landowners. In Russia, the sugar company Prodimex owns 20 percent of all private land.¹⁶⁶

Inequality of land ownership is not isolated to the developing world although in rich countries, where alternative employment exists, landlessness is less of a social problem. According to recent research in the EU, large farms¹⁶⁷ comprise just three percent of the total number of farms, but control 50 percent of all farmland.¹⁶⁸



A woman walks past two heavily armed policemen on guard outside a department store in Manhattan (2008).
Photo: Panos/Martin Roemers

1.2

EXTREME INEQUALITY HURTS US ALL

The rapid rise of economic inequality is a significant barrier to eliminating poverty and to sharing prosperity where it does exist so that the poorest benefit from it. Extreme inequality both undermines economic growth and the ability of growth to reduce poverty. It damages our ability to live within the planet's resources and succeed in the fight against climate change. It makes the struggle for equality between the sexes far harder.

If a person is born poor in a very unequal country, their children are far more likely to be poor as well. More unequal societies suffer more from a range of social ills, including crime and violence, that hurt both rich and poor. Fundamentally, inequality goes against strongly held moral beliefs and a widely shared understanding of fairness, with people's preferred distribution of wealth and income being far more equal than it actually is.

EXTREME INEQUALITY IS A BARRIER TO POVERTY REDUCTION

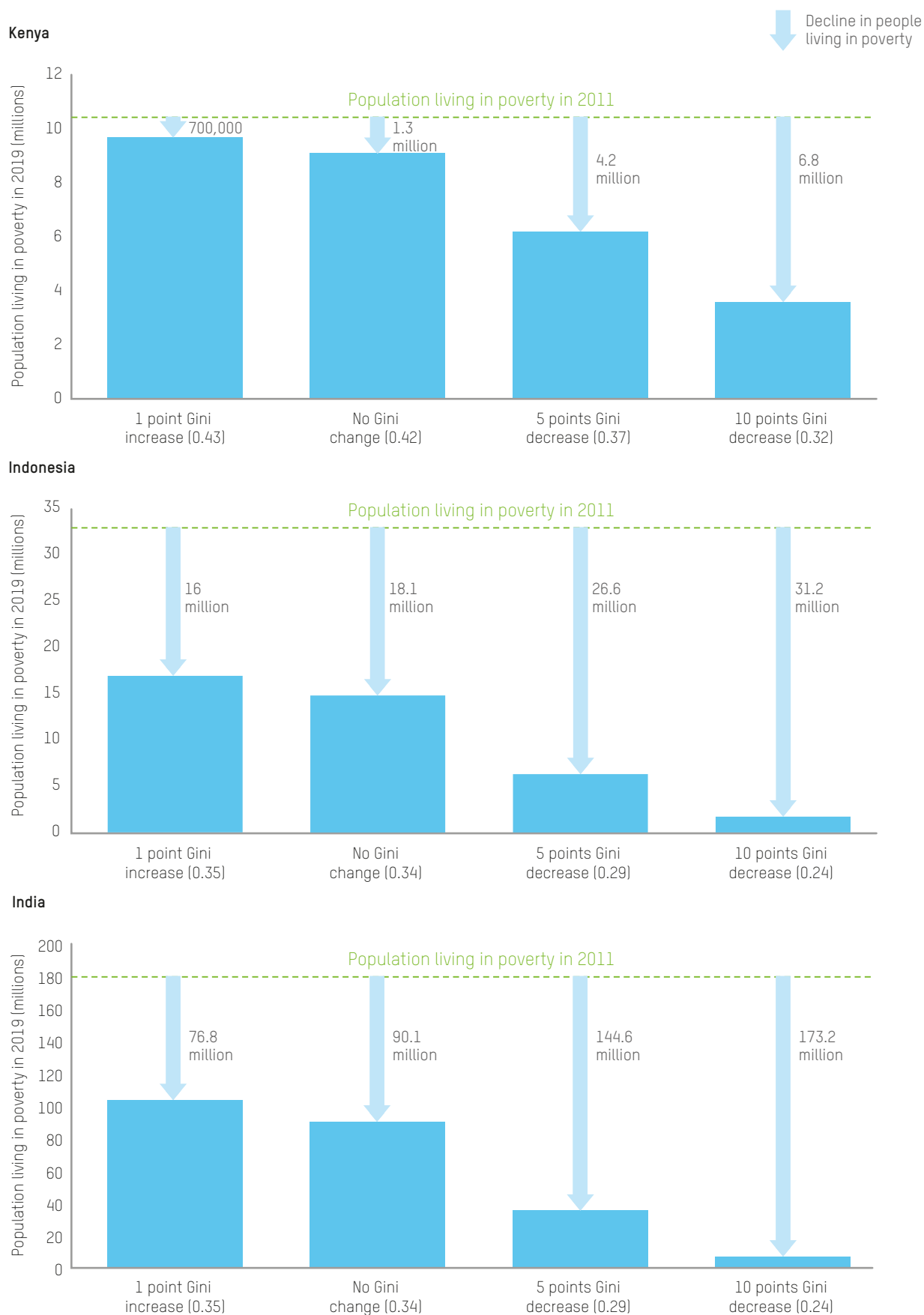
Over the last two decades the world has seen huge progress in the fight to end extreme poverty; millions more people now have access to healthcare and education, and approximately 150 million fewer men and women are going hungry.¹⁶⁹ Yet inequality threatens to undermine, and in some cases reverse, this progress. The fruits of economic growth in recent years have often failed to benefit the poorest, with the biggest beneficiaries being those at the top of the income ladder.

New research by Oxfam has projected potential poverty levels in a number of middle-income countries over the next five years, considering the implications when inequality remains the same, reduces or increases at a constant rate.¹⁷⁰ In all cases, the results present compelling evidence that inequality stands in the way of poverty reduction.

Three examples:

- In Kenya, if inequality remains at the same level for the next five years, three million more people could be living in extreme poverty than if they reduced their Gini coefficient by just five points, the equivalent of a 12 percent reduction.
- If Indonesia reduced its Gini coefficient by just 10 points, the equivalent of a 28 percent reduction, they could reduce the number of people living in extreme poverty to 1.7 million. If inequality remains at recent levels though, there will be 13 million more Indonesian people below the extreme poverty line in five years' time.
- India has, in recent years, become more unequal. If India were to stop its rising inequality, and instead hold inequality levels static, by 2019 they could lift 90 million people out of extreme poverty. Reducing inequality by 10 points, the equivalent of a 36 percent reduction, could almost eliminate extreme poverty altogether, by lifting up a further 83 million people.

FIGURE 3: Poverty projections to 2019 for different inequality scenarios in three countries (millions in poverty)



The Brookings Institution has developed scenarios that demonstrate the same problem at a global level; that inequality is holding back poverty eradication. They found that 463 million more people worldwide were lifted out of poverty in a scenario where inequality was reduced, compared to a scenario where inequality was increased.¹⁷¹

The challenge of eradicating extreme poverty is greatest in Africa, with forecasts projecting its share of the world's extreme poor rising to 80 percent or above by 2030. If African countries continue on their current growth trajectory with no change in levels of income inequality, then the continent's poverty rate won't fall below three percent – the World Bank's definition of ending poverty – until 2075.¹⁷²

CASE STUDY

REDUCING INEQUALITY: A CRUCIAL INGREDIENT FOR TACKLING POVERTY IN SOUTH AFRICA



A boy jumping over a drainage canal.
Masiphumelele township,
near Cape Town (2014).
Photo: Zed Nelson

In 2010, South Africa had a Gini coefficient of 0.66, making it one of the most unequal societies in the world. The two richest people in South Africa have the same wealth as the bottom half of the population.¹⁷³ South Africa is significantly more unequal than it was at the end of Apartheid.

Between 1995 and 2006, the proportion of the population living in extreme poverty fell slightly to 17 percent. However, increases in population over the same period meant that the total number of South Africans living in extreme poverty fell by just 102,000. Although real growth in GDP per capita was just under two percent, further progress on reducing poverty was hampered by South Africa's extremely high, and growing, level of inequality.¹⁷⁴

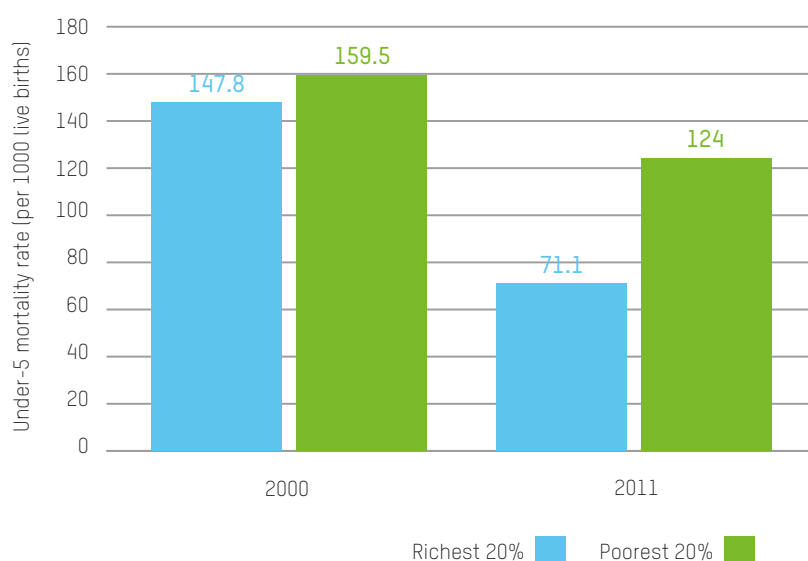
Oxfam projections show that even on the very conservative assumption that inequality remains static, just 300,000 fewer South Africans will be living in absolute poverty by 2019, leaving almost eight million people living below the poverty line. Conversely, if the Gini continues to increase even by one point, this will lead to 300,000 *more* people living in poverty in five years.¹⁷⁵

There is also strong evidence that the national distribution of income has a significant impact on other poverty outcomes. Measured on the scale of average income, both Bangladesh and Nigeria are low-income countries. Bangladesh is the poorer of the two,¹⁷⁶ but the distribution of income is far more equal than in Nigeria. The difference in development outcomes speak for themselves:

- Child mortality rates in Nigeria are nearly three times higher than those in Bangladesh.¹⁷⁷
- While Bangladesh has achieved universal primary education and eliminated gender gaps in school attendance up to lower-secondary school levels, over one-third of Nigeria's primary school-age children are out of school.¹⁷⁸

In many countries progress on development outcomes has been much quicker for the wealthier sections of society, and averages have obscured the widening gap between the rich and poor. In Uganda, for instance, under-five mortality among the top 20 percent has halved, but for the bottom 20 percent it has only fallen by a fifth over the same period. In other countries, such as Niger, progress has been more even, showing that different paths to progress are possible.¹⁷⁹

FIGURE 4: Under-five mortality rate (per 1000 live births) in Uganda (2000-2011)¹⁸⁰



EXTREME INEQUALITY UNDERMINES GROWTH

For decades the majority of development economists and policy makers maintained that inequality had little or no impact on a country's growth prospects. This was based on the understanding that inequality inevitably accompanies the early stages of economic growth, but that it would be short-lived, as growth would gradually 'trickle down' through the layers of society, from the richest to the poorest.¹⁸¹ A mass of more recent evidence has overwhelmingly refuted this assumption and shown that extremes of inequality are, in fact, bad for growth.¹⁸²

A multi-decade cross-country analysis by IMF economists, for instance, strongly suggests that not only does inequality hinder growth's poverty reducing function it also diminishes the robustness of growth itself.¹⁸³ The IMF has documented how greater equality can extend periods of domestic growth¹⁸⁴ and that inequality was a contributing factor to the 2008 financial crisis.¹⁸⁵ Growth is still possible in countries with high levels of inequality, but inequality reduces the chances of such growth spells being robust and long lasting. Moreover, detailed analysis of developed and developing countries from the mid-1990s onwards shows that a high level of inequality constitutes a barrier to future economic growth¹⁸⁶ because it obstructs productive investment, limits the productive and consumptive capacity of the economy, and undermines the institutions necessary for fair societies.¹⁸⁷

If national governments care about strong and sustained growth, then they should prioritize reducing inequality. This is especially true for developing countries, where inequality is on average higher than in rich countries. The Asian Development Bank (ADB) has gone so far as to suggest that growth and equality can 'be seen as part of a virtuous circle.'¹⁸⁸

INEQUALITY HINDERS THE POVERTY-REDUCING POTENTIAL OF GROWTH

If inequality is reduced, poverty reduction happens faster and growth is more robust. Conversely, if inequality becomes worse poverty reduction slows and growth becomes more fragile.¹⁸⁹

It is the distribution of economic growth that matters for poverty reduction rather than the pursuit of growth for its own sake. For example, in Zambia, GDP per capita growth averaged three percent every year between 2004 and 2010, pushing Zambia into the World Bank's lower-middle income category. Despite this growth, the number of people living below the \$1.25 poverty line grew from 65 percent in 2003 to 74 percent in 2010.¹⁹⁰ Nigeria had a similar experience between 2003 and 2009; poverty increased more than anticipated, and the richest 10 percent experienced a six percent increase in the share of national consumption while everyone else's share fell.¹⁹¹

Research by Oxfam suggests that inequality is the missing link that explains how the same rate of growth can lead to different rates of poverty reduction.¹⁹³ The World Bank has similarly found that in countries with very low income inequality, such as several in Eastern Europe, every one percent of economic growth reduced poverty by four percent.¹⁹⁴ In countries with high inequality, such as Angola or Namibia, growth had essentially no impact on poverty.¹⁹⁵ Even in medium-income countries, the level of inequality can have a huge impact on the poverty reducing impact of growth.¹⁹⁶ The World Bank's researchers concluded that 'the power of growth to reduce poverty depends on inequality,' both its initial level and its evolution.¹⁹⁷

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The power of growth to reduce poverty... tends to decline both with the initial level of inequality, and with increases in inequality during the growth process.

F. FERREIRA AND
M. RAVALLION¹⁹²

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EXTREMES OF WEALTH AND INEQUALITY ARE ENVIRONMENTALLY DESTRUCTIVE

The world is approaching a number of 'planetary boundaries', where humanity is using the maximum possible amount of natural resources, such as carbon or safe drinking water. The closer we get to reaching these limits, the more the hugely unequal distribution of natural resources matters.¹⁹⁸

Often it is the poorest that are hit first and hardest by environmental destruction and the impacts of climate change.¹⁹⁹ Yet it is the wealthiest who most impact on our planet's fragile and finite resources. Narinder Kakar, Permanent Observer to the UN from the International Union for Conservation of Nature, has declared that environmental decline can be attributed to less than 30 percent of the world's population.²⁰⁰ The richest seven percent of world's population (equal to half a billion people) are responsible for 50 percent of global CO₂ emissions; whereas the poorest 50 percent emit only seven percent of worldwide emissions.²⁰¹

Key to this are the consumption patterns of the richest. The majority of emissions from wealthier households in rich countries are indirect, such as through the consumption of food, consumer goods and services, much of which is produced beyond their nations' shoreline.²⁰² It is the 'population with the highest consumption levels [that] is likely to account for more than 80 percent of all human-induced greenhouse gas emissions'.²⁰³

Such inequalities in emissions have a parallel in the disproportionate use of the world's resources. Just 12 percent of the world's people use 85 percent of the world's water.²⁰⁴



Female construction workers work to build offices for IT companies in a new technology park, Bangalore, India (2004).
Photo: Panos/Fernando Moleres

ECONOMIC INEQUALITY COMPOUNDS GENDER INEQUALITY

One of the most pervasive – and oldest – forms of inequality is that between men and women, and there is a very strong link between gender and economic inequality. Gender discrimination is an important factor in terms of access to, and control over, income and wealth. While the reasons behind inequality between women and men are about more than money, there is no doubt that the overlap between economic inequality and gender inequality is significant.

Men are overwhelmingly represented at the top of the income ladder, and women are overwhelmingly represented at the bottom. Of the 2,500 people that attended the World Economic Forum in 2014, just 15 percent were women.²⁰⁵

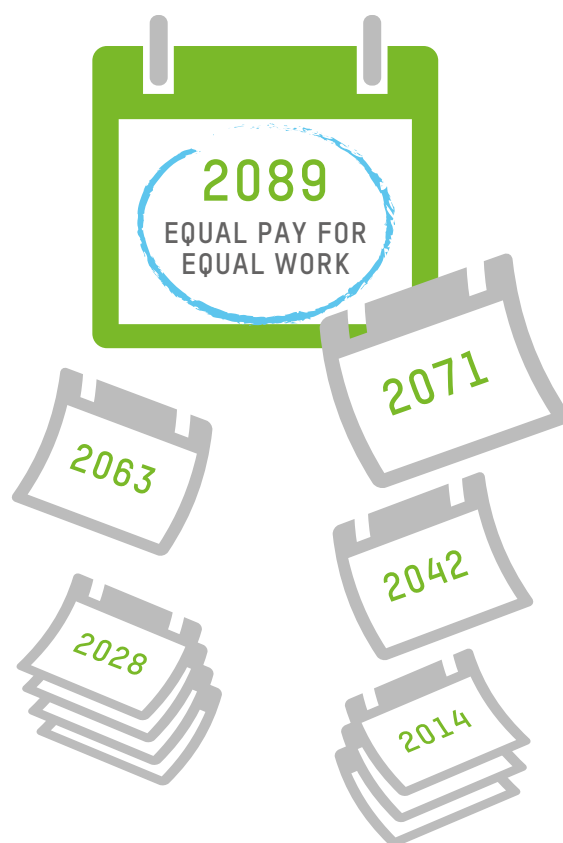
Only 23 chief executives of Fortune 500 companies are women. Of the top 30 richest people in the world, only three are women. The richest in society are very often disproportionately represented in other positions of power; be they presidents, members of parliament, judges or senior civil servants. Women are largely absent from these corridors of power.

At the same time, around the world, the lowest paid workers and those in the most precarious jobs are almost always women. The global wage gap between men and women remains stubbornly high: on average women are paid 10 to 30 percent less than men for comparable work, across all regions and sectors.²⁰⁶ The gap is closing, but at the current rate of decline it will take 75 years to make the principle of equal pay for equal work a reality.²⁰⁷

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Only 23

Fortune 500 chief executives are women

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AT THE CURRENT RATE, IT WILL TAKE 75 YEARS FOR WOMEN TO EARN THE SAME AS MEN FOR DOING THE SAME WORK

The wage gap is higher in more economically unequal societies. Women are significantly more likely to be employed in the informal sector, with far less job security than men. Some 600 million women, 53 percent of the world's working women, work in jobs that are insecure and typically not protected by labour laws.²⁰⁸

In Bangladesh, women account for almost 85 percent of workers in the garment industry. These jobs, while often better for women than subsistence farming, have minimal job security or even physical safety. The majority of those killed by the collapse of the Rana Plaza garment factory in April 2013 were women. In Brazil, 42 percent of women are in insecure and precarious jobs, compared to 26 percent of men.²⁰⁹ Country-level studies have also demonstrated that the gender distribution of wealth, including land and access to credit, is far more unequal than income.²¹⁰

The majority of unpaid care work is also shouldered by women and is one of the main contributors to women's concentration in low-paid, precarious and unprotected employment. In many countries, women effectively subsidize the economy with an average of 2–5 hours more unpaid work than men per day.²¹¹ Even when women are employed, their burden of work at home rarely shrinks. In Brazil, women's share of household income generation rose from 38 percent in 1995 to 45 percent in 2009, but their share of household care responsibility

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Just 3
of the 30 richest
people are women
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fell only by two percent in the second half of that period – from 92 percent in 2003 to 90 percent in 2009.²¹² The same trend is true for many other countries.

The concentration of income and wealth in the hands of men gives them more decision-making power at the national level, where women usually have little voice or representation. National laws often take a piecemeal and incoherent approach to addressing gender inequality; for instance, implementing policies that increase job opportunities for women, but without policies to prevent low wages, or to promote adequate working conditions and high-quality childcare.

Discriminatory laws and practices around asset ownership and inheritance rights prevent women from escaping the bottom of the economic ladder. This creates a vicious cycle, as women living in poverty are more likely to lack the legal entitlements, time and political power that they need to increase their income. Gender discriminatory legislation and the requirements of lending institutions are additional barriers which exclude women from access to credit.

In its World Development Report 2012, the World Bank noted that women are more vulnerable to income shocks, such as unemployment or increased poverty, precisely because they have less economic power. Women tend to have fewer assets than men, less access to economic opportunities to deal with sudden changes, and less support through compensation from government.²¹⁴

The recent rapid rise in economic inequality in the majority of countries therefore represents a serious barrier in the drive to achieve equality between women and men.

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In India, the average daily wage of a **male worker** is about two and a half times that of his **female counterpart**.²¹³

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ECONOMIC INEQUALITY DRIVES INEQUALITIES IN HEALTH, EDUCATION AND LIFE CHANCES

The stark reality is that economic status dictates life chances; poorer people have shorter lives. This is a problem in rich countries and poor countries alike. In the UK, for instance, men born in the richest part of the country can expect to live nine years longer than men from the most deprived areas.²¹⁵ The rapidly growing gap between rich and poor in the majority of countries is worrying not just on its own terms, but because of the way it interacts with other inequalities and discrimination to hold some people back more than others.

Economic inequality adds new dimensions to old disparities, such as gender, geography and indigenous rights. In every country, average rates of child survival, education and access to safe water are significantly higher for men than women. Women in poor households are far less likely to have prenatal and antenatal care when they are pregnant and give birth than their wealthier neighbours. Their children are more likely to be malnourished and many will not live past the age of five. If they do, they are far less likely to complete primary education. If they can find employment as adults, they will likely have much lower incomes than those from higher income groups. This cycle of poverty and inequality is then transmitted across generations.

Using the latest national Demographic and Health Surveys, Oxfam has calculated how poverty interacts with economic and other inequalities

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Things are changing in South Africa for the worst.

The public schools are no good. Those in the government, they are very rich, the rest of us are poor.

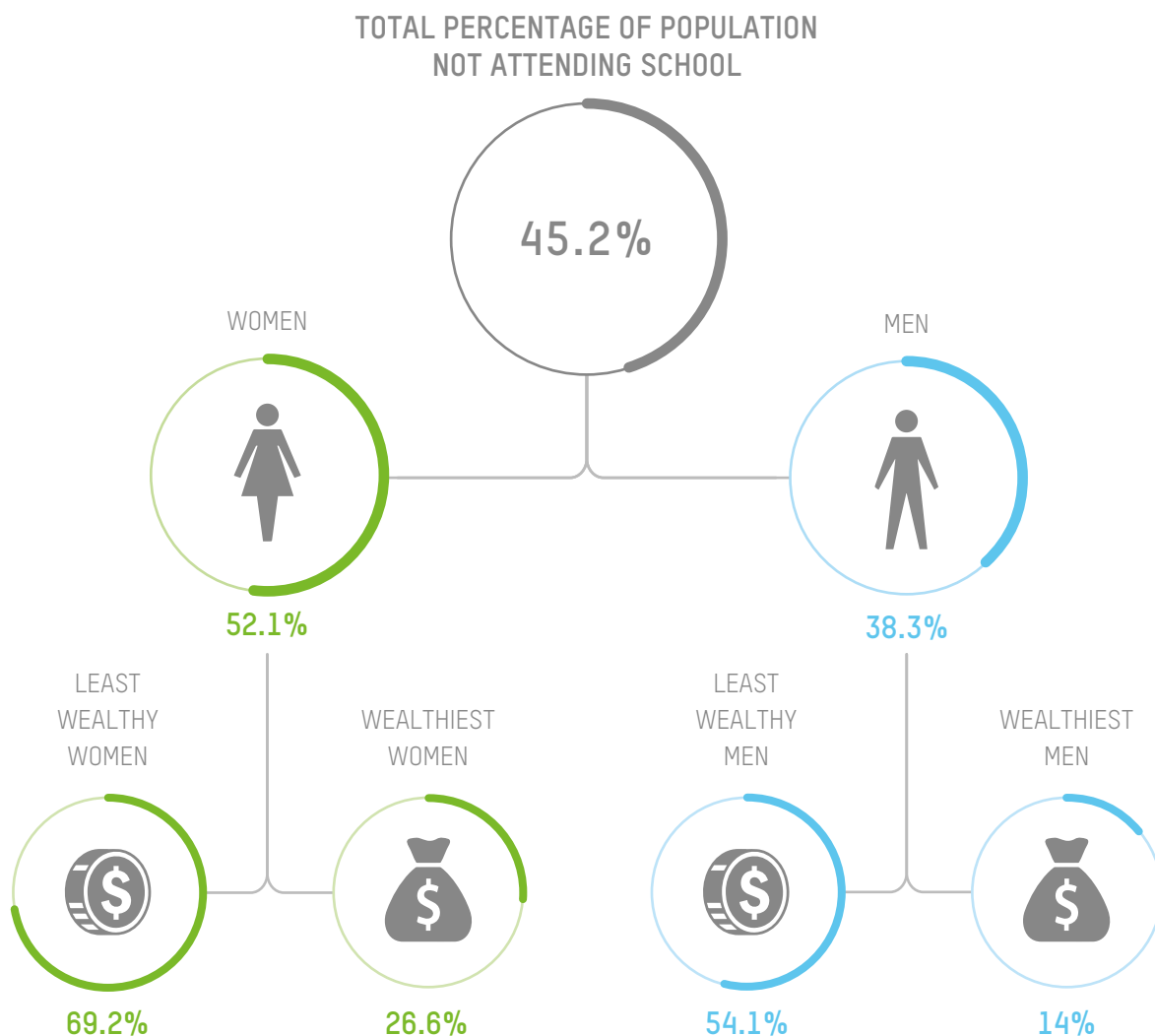
LEONARD KUFEKETA, 39

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in Ethiopia to create ‘traps of disadvantage’, pushing the poorest and most marginalized to the bottom.

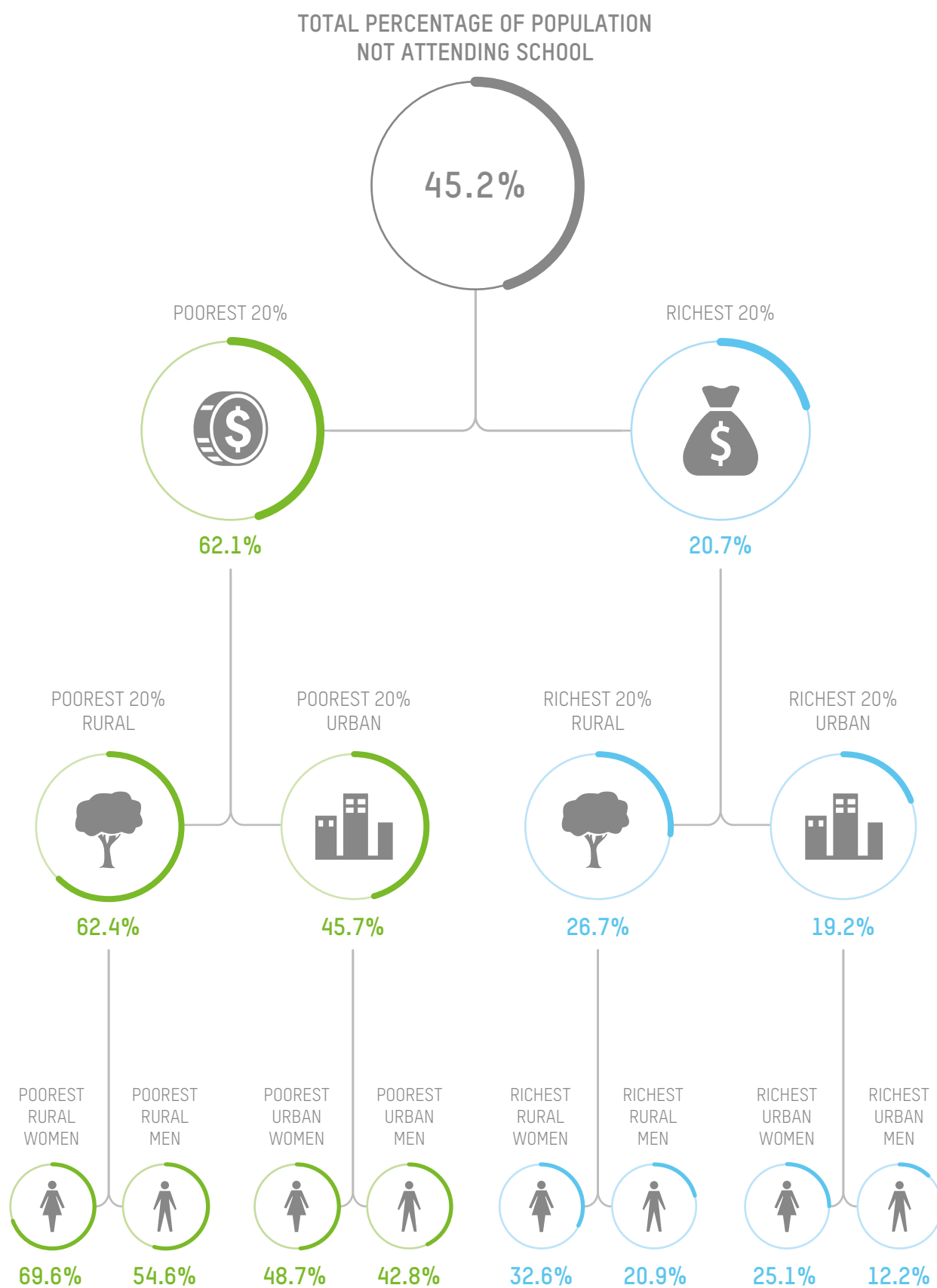
Over 50 percent of Ethiopian women have never been to school, compared to just over a third of men. However, as Figure 5 shows, when we consider gender and economic inequality together, a much greater wedge is driven between the haves and the have-nots. Nearly 70 percent of the poorest women don’t attend school, compared to just 14 percent of the richest men.²¹⁶

FIGURE 5: Gender and economic inequalities: Percentage of Ethiopians who have not attended school



Those living in rural areas are also consistently worse off. As Figure 6 shows, the richest and poorest Ethiopians living in urban areas have a greater chance of going to school than those of comparable incomes living in rural areas. Taking gender into account, a girl born into one of the richest urban families is still only half as likely to go to school as a boy born to a similar family.

FIGURE 6: Multiple Inequalities: Percentage of Ethiopians who have not attended school



Caste, race, location, religion, ethnicity, as well as a range of other identities that are ascribed to people from birth, play a significant role in creating divisions between haves and have-nots. In Mexico, maternal mortality rates for indigenous women are six times the national average and are as high as many countries in Africa.²¹⁷ In Australia, Aboriginal and Torres Strait Islander Peoples remain the country's most significantly disadvantaged group, disproportionately affected by poverty, unemployment, chronic illness, disability, lower life expectancy and higher levels of incarceration.

Around the world, these different inequalities come together to define people's opportunities, income, wealth and asset ownership, and even their life spans.

CONDEMNED TO STAY POOR FOR GENERATIONS

Beyond the impact that rising economic inequality has on poverty reduction and growth, it is becoming increasingly clear that the growing divide between rich and poor is setting in motion a number of negative social consequences that affect us all.

It would be hard to find anyone to disagree with the idea that everyone should be given an equal chance to succeed in life, and that a child born into poverty should not have to face the same economic destiny as their parents. There should be equality of opportunity so that people can move up the socioeconomic ladder; in other words, there should be the possibility of social mobility. This is an idea that is deeply entrenched in popular narratives and reinforced through dozens of Hollywood films, whose rags to riches stories continue to feed the myth of the American Dream in the USA and around the world.

However, in both rich and poor countries, high inequality has led to diminished social mobility.²¹⁸ In these countries the children of the rich will largely replace their parents in the economic hierarchy, as will the children of those living in poverty.

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That's why they call it the American Dream, because you have to be **asleep to believe it.**

GEORGE CARLIN
COMEDIAN

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'My parents were not educated. My mother did not go to school. My father attended a government primary school up to Grade 5 and understood the importance of education. He encouraged me to work extra hard in class. I was the first person in either my family or my clan to attend a government secondary school. Later, I went to university and did a teacher training course before attending specialized NGO sector training and got the opportunity to do development studies overseas.

I understand today that nearly 75 percent of the intake at the university is from private schools. University is beyond the reach of the ordinary Malawian. I cannot be sure, but I fear that if I were born today into the same circumstances, I would have remained a poor farmer in the village.'

John Makina, Country Director for Oxfam in Malawi

In countries with higher levels of inequality it is easier for parents to pass on their advantages to their children; advantages that less wealthy parents cannot afford.²¹⁹ The clearest example of this is expenditure on education. Wealthier parents often pay for their children to attend costly private schools that then facilitate their entry into elite universities, which in turn help them secure higher paid jobs. This is reinforced by other advantages, such as the resources and social networks that richer parents share with their children, which further facilitate employment and education opportunities. In this way, the richest capture opportunities, which then become closed off from those who do not have the means to pay.²²⁰

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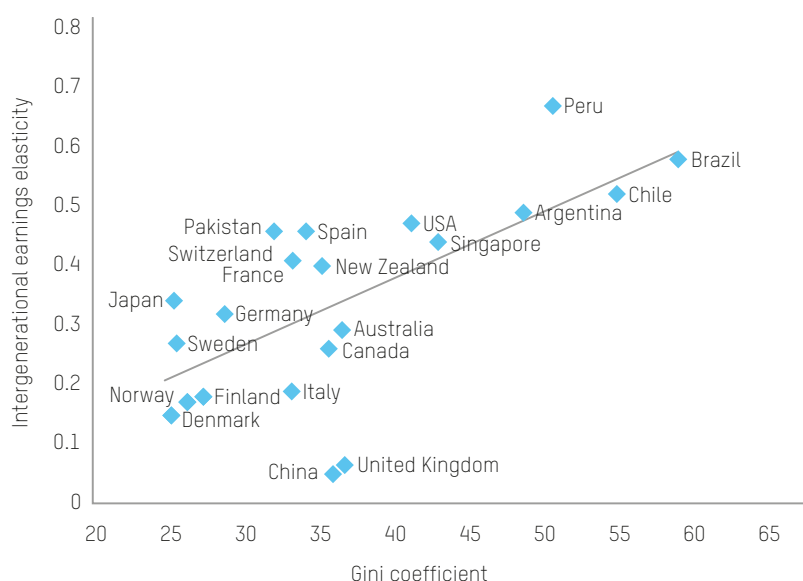
If Americans want to live the **American dream**, they should **go to Denmark**.

RICHARD WILKINSON
CO-AUTHOR OF *THE SPIRIT LEVEL*²²¹

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Figure 7 demonstrates the negative relationship between rising inequality and diminishing social mobility across 21 countries. In Denmark, a country with a low Gini coefficient, only 15 percent of a young adult's income is determined by their parent's income. In Peru, which has one of the highest Gini coefficients in the world, this rises to two-thirds. In the USA, nearly half of all children born to low-income parents will become low-income adults.²²²

FIGURE 7: The Great Gatsby Curve: The extent to which parents' earnings determine the income of their children²²³



In Pakistan, social mobility is a distant dream. A boy born to a father²²⁴ from the poorest 20 percent of the population has a 6.5 percent chance of moving up to the wealthiest 20 percent of the population.²²⁵

In many countries, social mobility for women and marginalized ethnic groups is a virtual impossibility due to entrenched discriminatory practices, such as the caste system in India, which are compounded by economic inequality.²²⁶

Policies designed to reduce inequality can provide opportunities to poor children that were denied to their parents. Education, for example, is widely considered to be the main engine of social mobility,²²⁷ as those with more

education often secure higher paid jobs. Countries that spend more on high-quality public education give poorer students the means to compete more fairly in the job market, while simultaneously reducing the incentive for richer parents to privately educate their children.

EXTREME INEQUALITY HURTS US ALL AND THREATENS SOCIETY

A growing body of evidence indicates that inequality negatively affects social well-being and social cohesion. In their book, *The Spirit Level: Why More Equal Societies Almost Always Do Better*, Kate Pickett and Richard Wilkinson demonstrate that countries with higher levels of income inequality experience higher rates of a range of health and social problems compared to more equal countries.²²⁸ Inequality is linked to shorter, unhealthier and unhappier lives, and higher rates of obesity, teenage pregnancy, crime (particularly violent crime), mental illness, imprisonment and addiction.²²⁹

Inequality is so toxic, Wilkinson and Pickett explain, because of ‘social status differentiation’: the higher the levels of inequality, the greater the power and importance of social hierarchy, class and status, and the greater people’s urge to compare themselves to the rest of society. Perceiving large disparities between themselves and others, people experience feelings of subordination and inferiority. Such emotions spark anxiety, distrust and social segregation, which set in motion a number of social ills. Although the impacts tend to be felt most severely lower down the social ladder, the better-off suffer too.²³⁰

Crucially, inequality, not the overall wealth of a country, appears to be the most influential factor. Highly unequal rich countries are just as prone to these ills as highly unequal poor countries.²³¹ Such ills are from two to 10 times as common in unequal countries than in more egalitarian ones.²³² As Figure 8 demonstrates, the USA pays a high price for having such high income inequality.

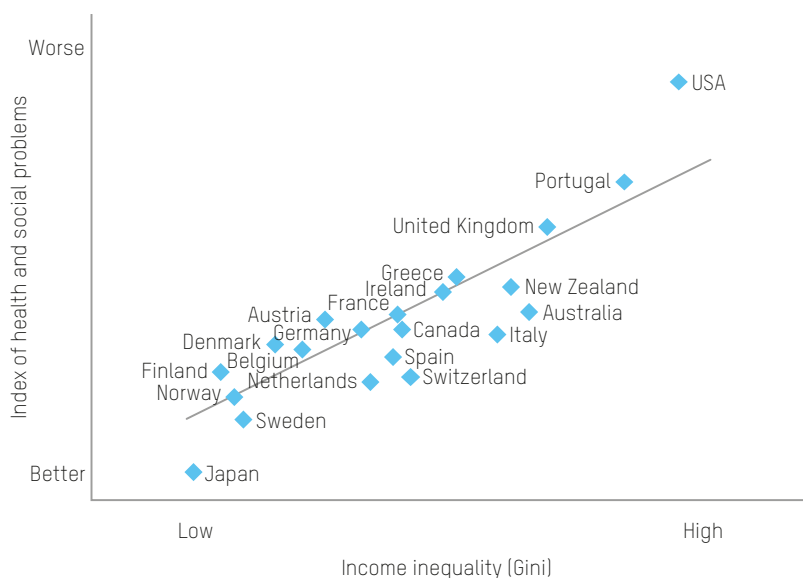
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Inequality is the root
of social evil.

POPE FRANCIS

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FIGURE 8: Health and social problems are worse in more unequal countries²³³



The social divisions reinforced by higher levels of economic inequality become self-perpetuating, as the rich increasingly share fewer interests with those who are less well-off.²³⁴ When those at the top buy their education and health services individually and privately, they have less of a stake in the public provision of these services to the wider population. This in turn threatens the sustainability of these services, as people have fewer incentives to make tax contributions if they are not making use of the services provided; further damaging the social contract.²³⁵

When the wealthy physically separate themselves from the less well-off, fear and distrust tend to grow, something consistently demonstrated in global opinion surveys. The World Values Survey asks random samples of the population in numerous countries whether or not they agree with the statement: 'Most people can be trusted'.²³⁶ The differences between countries are large, with a clear correlation between lack of trust and high levels of economic inequality.

INEQUALITY FUELS VIOLENCE

CASE STUDY HONDURAS: UNEQUAL AND DANGEROUS



The Colonia Flor del Campo neighbourhood in Tegucigalpa, Honduras (2014).
Photo: Oxfam

Honduras is widely considered to be the most dangerous country in the world, with a homicide rate of 79 per 100,000²³⁷ (compared to less than 1 per 100,000 in Spain).²³⁸ Insecurity has been increasing since the political coup in 2009,²³⁹ as has inequality.²⁴⁰ Extremely high rates of violence against women and girls have been recorded, including many killings.

Regina, 26, lives in a high-security residential gated community in the Honduran capital, Tegucigalpa, which is home to 150 people.

'My parents are always fearing for my sister and my security. It's okay to go out in a car at night, but it would be a problem if we had to take public transport. I wouldn't walk around at night. [...] You always have to be on the lookout. To protect yourself you have to live in gated houses with private security and if you can't afford that then you've got to just be on the lookout.'

(CASE STUDY CONTINUED)

Carmen, 34, lives in another neighbourhood in Tegucigalpa, which has no running water, no street lights, and no tarmac roads to permit access to cars. A number of her friends and family have been murdered; two were killed inside her house.

'I feel completely unprotected by the state, mostly because the state is not concerned with us [residents of her neighbourhood]. Quite the opposite, they stigmatize us by labelling our neighbourhoods as "hot-neighbourhoods", meaning that they know the difficult situation we live in here and choose to do nothing about it. I've tried to denounce acts of violence against women that occur in my community, but every time I have been stopped by gangs who have told me that I have to ask their permission before reporting an abuse.'

Quotes taken from Oxfam interviews (2014).

Evidence has clearly linked greater inequality to higher rates of violence – including domestic violence – and crime, particularly homicides and assaults.²⁴² Compared to more equal countries, those with extreme economic inequality experience nearly four times the number of homicides.²⁴³ While all in society are affected, violence and crime have a disproportionate impact on those living in poverty, who receive little protection from the police or legal systems, often live in vulnerable housing, and cannot afford to pay for private security.

Countries in Latin America starkly illustrate this trend.²⁴⁴ Despite the social and economic advances of the last two decades, Latin America remains the most unequal and the most insecure region in the world,²⁴⁵ with 41 of the world's 50 most dangerous cities, and one woman murdered every 18 hours.²⁴⁶ A staggering one million people were murdered in Latin America between 2000 and 2010.²⁴⁷

Greater inequality has frequently been linked to the onset and risk of violent conflict.²⁴⁹ Many of the most unequal countries in the world are affected by conflict or fragility. Alongside a host of political factors, Syria's hidden fragility before 2011 was, in part, driven by rising inequality, as falling government subsidies and a fall in public sector employment affected some groups more than others.²⁵⁰ Inequality does not crudely 'cause conflict' more than any other single factor, but it has become increasingly clear that inequality is part of the combustible mix of factors making conflict or substantial violence more likely.²⁵¹

LIVING IN FEAR

In cities around the world people live in fear of walking alone; they are afraid to stop their cars at traffic lights and can no longer enjoy family outings to parks or beaches; all due to the fear that they may be attacked.²⁵² These are important infringements of basic human freedoms and have a large impact

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The persistence of inequality could trigger **social and political tensions**, and lead to **conflict** as is currently happening in parts of Asia.

ASIAN DEVELOPMENT BANK²⁴¹

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No society can surely be flourishing and happy, of which the far **greater part of the members are poor and miserable**. It is but equity, besides, that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed and lodged.

ADAM SMITH²⁴⁸

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on the quality of life of individuals and communities, especially for women and marginalized groups.

Violence, and equally the fear of violence, often leads to people cutting themselves off from the rest of society, something that is most starkly illustrated by people living in gated communities. As Joan Clos, the Director of UN-Habitat puts it: 'The gated community represents the segregation of the population. Those who are gated are choosing to gate, to differentiate, to protect themselves from the rest of the city.'²⁵³

INEQUALITY PUTS THE LIVES OF THE POOREST AT RISK IN CRISES AND DISASTERS

Risk is not shared equally across society; the most vulnerable and marginalized are more affected by crises, pushing them further into poverty. Those who are hit hardest in times of crisis are always the poorest, because they spend a much higher proportion of their income on food and do not have access to welfare or social protection schemes, insurance, or savings to help them withstand an emergency.

Extreme inequality of wealth and power also drives national and international policies that shelter the rich from risk, passing this on to the poor and powerless. Countries with higher levels of economic inequality have more vulnerable populations.²⁵⁴

Inequality between countries explains why 81 percent of disaster deaths are in low-income and lower-middle income countries, even though they account for only 33 percent of disasters.²⁵⁵

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Our approach has been to look to reduce inequalities. That is at the centre of our policies on Disaster Risk Reduction, because **inequality just increases vulnerability.**

MARÍA CECILIA RODRIGUÉZ
MINISTER OF SECURITY,
ARGENTINA²⁵⁶

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THE EQUALITY INSTINCT

Across the world, religion, literature, folklore and philosophy show remarkable confluence in their concern that the gap between rich and poor is inherently unfair and morally wrong. That this concern with distribution is so prevalent across different cultures and societies suggests a fundamental preference for fairness and equitable societies.

One of the most influential modern political philosophers, John Rawls, asks us to imagine that we are under a 'veil of ignorance' and know nothing about the various advantages, social or natural, that we are born into. What principles of a good society would we then agree on? One of the most convincing principles that emerges from this thought experiment, states that, 'Social and economic inequalities are to be arranged so that they [societies] are both (a) to the greatest expected benefit of the least advantaged and (b) attached to offices and positions open to all under conditions of fair equality of opportunity.'²⁵⁷

Our preference for fairness and equality are further demonstrated by surveys from around the world, which consistently show a desire for more equitable societies.²⁵⁸ An Oxfam survey across six countries (Spain, Brazil, India, South Africa, the UK and the USA) found that a majority of people believe that the distance between the wealthiest in society and the rest is too great. In Brazil, 80 percent agreed with that statement.

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To be wealthy and honoured in an unjust society is a disgrace.

MAHATMA GANDHI

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Similarly, a majority of people agreed with the statement, 'Reducing inequality will result in a strong society/economy'.

In research that compared people's views of what an ideal distribution of wealth would be, the overwhelming majority selected a preference for a more egalitarian society. In the USA, when respondents were asked to choose their preference between two distributions, they overwhelmingly selected the one that reflected distribution in Sweden over the USA (92 percent to eight percent).²⁵⁹

Today's disparities of income and wealth are in opposition to people's visions and desires for a fair and just society.



Luxury yachts moored in Puerto Adriano, Spain (2013).
Photo: Panos/Samuel Aranda

1.3

WHAT HAS CAUSED THE INEQUALITY EXPLOSION?

It is clear that economic inequality is extreme and rising, and that this has huge implications in many areas of life. But what has caused today's levels of inequality?

Many believe that inequality is an unfortunate but necessary by-product of globalization and technological progress. However, the different paths taken by individual nations belie this view. Brazil has reduced inequality despite being part of a globalized world, while, over the same period, India has seen a rapid increase. Rising economic inequality is not the unavoidable impact of supposedly elemental economic forces – it is the product of deliberate economic and political policies.

This chapter looks at two economic and political drivers of inequality, which go a long way towards explaining the extremes we see today. The first is the rise of an extreme variant of capitalism, known as ‘market fundamentalism’. The second is the capture of power and influence by economic elites, including companies, which in turn drives further inequality, as political policies and public debate are shaped to suit the richest in society instead of benefiting the majority. Together these two drivers form a dangerous mix that greatly increases economic inequality.

MARKET FUNDAMENTALISM: A RECIPE FOR TODAY’S INEQUALITY

‘Just as any revolution eats its children, unchecked market fundamentalism can devour the social capital essential for the long-term dynamism of capitalism itself. All ideologies are prone to extremes. Capitalism loses its sense of moderation when the belief in the power of the market enters the realm of faith. Market fundamentalism – in the form of light-touch regulation, the belief that bubbles cannot be identified and that markets always clear – contributed directly to the financial crisis and the associated erosion of social capital.’

Mark Carney, Governor of the Bank of England²⁶⁰

With regulation, capitalism can be a very successful force for equality and prosperity. Over the last three hundred years, governments have used the market economy to help bring a dignified life to hundreds of millions of people, first in Europe and North America, then in Japan, South Korea and other East Asian countries.

However, left to its own devices, capitalism can be the cause of high levels of economic inequality. As Thomas Piketty demonstrated in his recent influential book, *Capital in the Twenty-First Century*, the market economy tends to concentrate wealth in the hands of a small minority, causing inequality to rise. But governments can act to correct this flaw, by placing boundaries on markets through regulation and taxation.²⁶¹

In wealthy societies, for much of the 20th century, effective mobilization by working people convinced elites to act on this evident truth, conceding the need for taxation, regulation and government social spending to keep inequality within acceptable bounds.

In recent decades however, economic thinking has been dominated by, what George Soros was the first to call, a ‘market fundamentalist’ approach, which insists on the opposite: that sustained economic growth comes from leaving markets to their own devices. A belief in this approach has significantly driven the rapid rise in income and wealth inequality since 1980.

When good markets go bad: Liberalization and deregulation

Market fundamentalism increases inequality in two ways: it changes existing markets to make them more unregulated, driving wealth concentration; and it extends market mechanisms to ever more areas of human activity, meaning that disparities of wealth are reflected in increasing areas of human life.

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One of the **flaws of market fundamentalism** is that it paid no attention to distribution of incomes or the notion of a **good or fair society**.

JOSEPH STIGLITZ²⁶²

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The same economic medicine worldwide

In countries around the world, during the 1980s and 1990s, increases in government debt led creditors (principally the IMF and the World Bank) to impose a cold shower of deregulation, privatization, and financial and trade liberalization, alongside rapid reductions in public spending, an end to price stabilization and other public support measures to the rural sector. Generous tax cuts were provided for corporations and the wealthy, and a 'race to the bottom' to weaken labour rights began, while regulations to protect employees, such as maternity leave and the right to organize, as well as anti-competition laws to stop monopolies and financial rules to protect consumers, were abolished.

In East Asia, the shift to liberalization started in the early 1990s and was accelerated following the 1997 financial crisis that paved the way for IMF-imposed public sector reforms, known as 'structural adjustment programmes'. These programmes were implemented in many countries, such as Thailand, South Korea and Indonesia, which subsequently experienced an increase in levels of economic inequality. In Indonesia, the number of people living on less than \$2 a day rose from 100 million in 1996 to 135 million in 1999;²⁶³ since 1999 inequality has risen by almost a quarter.²⁶⁴

Across Africa, rapid market liberalization, under structural adjustment programmes, increased poverty, hunger and inequality in many countries. Between 1996 and 2001, the number of Zambians living below the poverty line rose from 69 to 86 percent; in Malawi, this number increased from 60 to 65 percent over the same period.²⁶⁵ In Tanzania, inequality rose by 28 percent.²⁶⁶ By 2013, across the continent an extra 50 million people were undernourished compared to 1990–92.²⁶⁷

In the countries of the former Eastern bloc, market fundamentalism after the fall of communism in 1989–91 led to economic reforms which focused on liberalization and deregulation, and resulted in a significant increase in poverty and inequality. In Russia, the Gini coefficient almost doubled in the 20 years from 1991, and the incomes of the richest 10 percent of the population are now over 17 times that of the poorest 10 percent, an increase from four times in the 1980s. Meanwhile the wealthiest one percent of Russians – who greatly benefitted from the opaque process of privatization during the 1990s – now hold 71 percent of the national wealth.²⁶⁸

Increases in poverty and inequality were lower in the countries of East Central Europe, such as Hungary and the Czech Republic, where the governments played a key role in regulating the market and responded to soaring levels of poverty.²⁶⁹

CASE STUDY INEQUALITY IN RUSSIA



Vasily outside the derelict Vyshnevolotsky textile factory in Vyshny Volochek, where he and his wife once worked (2007).

Photo: Geoff Sayer/Oxfam

Vasily and his wife once both worked at the Vyshnevolotsky textile factory in the Russian town of Vyshny Volochek, but in 2002 it was shut down and the building now lies derelict. Vasily's family lives within sight of the factory, which provided employment for thousands of workers from the surrounding community, until it failed to survive privatization.

'About 3,000 people lost their jobs. My wife worked there, on the third floor. It was a miserable time. Everyone here lost their jobs. We were victims of these changes. We thought someone would care about our situation, but no one did, no-one helped us. In Moscow, they were getting rich, but the government didn't care what was happening here. Everyone had to look to set up their own business. There were no jobs to find.

'At the time the factory closed, my wife was eighth on the list for an apartment. She had waited for years. All that was swept away. There was not even a payment. In fact, they were given something, 100 Rubles each. It was an insult.'

In Latin America, historically a region where extreme wealth has sat alongside extreme poverty, inequality worsened considerably in the 1980s, when debt relief was made contingent on the adoption of wide-ranging structural adjustment programmes. These slashed public spending to what became the world's lowest levels, at around 20 percent of GDP,²⁷⁰ while also decimating labour rights, real wages and public services.

By 2000, inequality in Latin America had reached an all-time high, with most countries registering an increase in income inequality over the previous two decades.²⁷¹ In every country in the region except Uruguay, the income share of the richest 10 percent increased while the share of the poorest 40 percent either decreased or stagnated. This had a considerable impact on living standards, causing a significant increase in the number of men and women living in poverty.²⁷² It is estimated that half of the increase in poverty during this period was due to redistribution in favour of the richest.²⁷³

Although Latin America remains the most unequal region in the world, over the past decade inequality in most countries has begun to decrease.²⁷⁴ This is the result of a concerted shift in government policy away from those policies favoured by the economic model of structural adjustment (discussed in the Busting the Inequality Myths box which follows).

Women are hit hardest by market fundamentalism

Structural adjustment programmes and market-oriented reforms have been strongly associated with a deterioration of women's relative position in the labour market, due to their concentration in a few sectors of economic activity, their limited mobility and their roles in the unpaid care economy.²⁷⁵ A combination of gender discrimination and the limited regulation favoured by market fundamentalism have meant that the potential for women – especially poor women – to share in the fruits of growth and prosperity and to prosper economically have been severely limited. Women remain concentrated in precarious work, earn less than men and shoulder the majority of unpaid care work.

Liberalization of the agricultural sector, including the removal of subsidized inputs, like credit and fertilizer, has impacted on all poor farmers, but in many poor countries, the majority of farming is done by poor women. Many of the labour regulations that market fundamentalism has reduced or removed, like paid maternity and holiday entitlements, are disproportionately beneficial to women. Removing these regulations hits women hardest.

Women, along with children, also benefit most from public services such as healthcare and education. In education, when fees are imposed, girls are often the first to be held back from school. When health services are cut, women have had to bear the burden of providing healthcare services to their family members that were previously provided by public clinics and hospitals. Equally, women are often the majority of teachers, nurses and other public servants and, as a result, any cuts to state provision of these roles means more unemployment for women than for men.

A tenacious worldview

Despite, in fact, being an extreme version of capitalism, market fundamentalism today permeates the architecture of the world's social, political and economic institutions. For many the global financial crisis and the recession that followed highlighted the failures of excessive market fundamentalism. However, the push towards liberalization, deregulation and greater involvement of the markets has in many places been strengthened. Nowhere is this clearer than in Europe, where the Troika committee – the European Commission, the European Central Bank and the IMF – attached sweeping market fundamentalist reforms as pre-conditions for the financial rescue of struggling states. This has included, for example, proposing workers in Greece be forced to work six days a week.²⁷⁶

The tenacity of this worldview is arguably the result of two things, which are in turn linked once more to inequality: the predominant ideology and the self-interest of elites.

Ideologically, dominant elites in almost every sphere are much more likely to support the market fundamentalist worldview than ordinary people. Economists, in particular, are much more likely to strongly hold this view, and this brand of economics has dominated public thought over the last 30 years. Market fundamentalism, by leading to the concentration of wealth by elites, is also in their self-interest. Elites, therefore, use their considerable power and influence to capture public debate and politics to continue to push for this market fundamentalist approach, as the next section shows.

CAPTURE OF POWER AND POLITICS BY ELITES HAS FUELLED INEQUALITY

The second major driver of rapidly rising economic inequality is the excessive influence over politics, policy, institutions and the public debate, which elites are able to employ to ensure outcomes that reflect their narrow interests rather than the interests of society at large. This has all too often led to governments failing their citizens, whether over financial regulation in the USA or tax rates in Pakistan.

Elites are those at the top of social, economic or political hierarchies – based on wealth, political influence, gender, ethnicity, caste, geography, class, and other social identities. They may be the richest members of society, but they can also be individuals or groups with political influence, or corporate actors.

Economic elites often use their wealth and power to influence government policies, political decisions and public debate in ways that lead to an even greater concentration of wealth. Money buys political clout, which the richest and most powerful use to further entrench their influence and advantages.

Other non-economic elites, such as politicians or senior civil servants, use access to power and influence to enrich themselves and protect their interests. In many countries it is not uncommon for politicians to leave government having amassed great personal wealth. Political elites sometimes use the state to enrich themselves in order to keep in power and make huge fortunes while they govern. They use the national budget as if it was their own to make individual profit. Non-economic elites also often collude with other elites to the enrichment of both.

For instance, today's lopsided tax policies, lax regulatory regimes and unrepresentative institutions in countries around the world are a result of this elite capture of politics.²⁷⁷ Elites in rich and poor countries alike use their heightened political influence to benefit from government decisions, including tax exemptions, sweetheart contracts, land concessions and subsidies, while pressuring administrations to block policies that may strengthen the hand of workers or smallholder food producers, or that increase taxation to make it more progressive. In many countries, access to justice is often for sale, legally or illegally, with access to the best lawyers or the ability to cover court costs only available to a privileged few.

In Pakistan, the average net worth of a parliamentarian is \$900,000, yet few of them pay taxes. Instead, elites in parliament exploit their positions to strengthen tax loopholes.²⁷⁸ The dearth of tax revenue limits government

investment in sectors like education and healthcare that could help to reduce inequality, and keeps the country dependent on international aid. This prevents the growth of a diverse and strong economy, while perpetuating economic and political inequalities.²⁷⁹

Many of today's richest people made their fortunes thanks to the exclusive government concessions and privatization that came with market fundamentalism. Privatization in Russia and Ukraine, after the fall of communism, made billionaires of the political elite overnight. Mexico's Carlos Slim – who rivals Bill Gates as the richest person in the world – made his many billions by securing exclusive rights to the country's telecom sector when it was privatized in the 1990s.²⁸⁰ Since his monopoly hinders any significant competition, Slim is able to charge his fellow Mexicans inflated prices, with the costs of telecommunications in the country being among the most expensive in the OECD.²⁸¹ He has subsequently used his wealth to fend off many legal challenges to his monopoly.

Despite being a country ravaged by poverty, the number of billionaires in India has soared from two in the mid-1990s to more than 60 today.²⁸² A significant number of India's billionaires made their fortunes in sectors highly dependent on exclusive government contracts and licenses, such as real estate, construction, mining, telecommunications and media. A 2012 study estimated that at least half of India's billionaire wealth came from such 'rent-thick' sectors of the economy.²⁸³ The net worth of India's billionaires would be enough to eliminate absolute poverty in the country twice over,²⁸⁴ yet the government continues to underfund social spending for the most vulnerable. For instance, in 2011, public health expenditure per capita in India was just four percent of the OECD country average in per capita terms.²⁸⁵ As a consequence, inequality in India has worsened.

Corporate interests have also captured policy-making processes to their own advantage. Recent analysis of the influence of corporate interests on nearly 2,000 specific policy debates in the USA over 20 years concluded that 'economic elites and organized groups representing business interests have substantial independent impacts on US government policy, while mass-based interest groups and average citizens have little or no independent influence'.²⁸⁶ Financial institutions spend more than €120m per year influencing the European Union.²⁸⁷

CASE STUDY THE POLITICS OF LAND DISTRIBUTION IN PARAGUAY



Ceferina Guerrero at her home in Repatriación, Caaguazú (2013).

Photo: Amadeo Velazquez/Oxfam

Paraguay has a long history of inequality, perpetuated by decades of cronyism and corruption.²⁸⁸ Large-scale landowners control 80 percent of agricultural land.²⁸⁹ Every year, 9,000 rural families are evicted from their land to make room for soy production; many are forced to move to city slums having lost their means of making a living.²⁹⁰

In 2008, after years of political instability, Fernando Lugo was elected president as a champion for the poor, promising to redistribute land more fairly. But, in June 2012, after 11 farm workers and six police officers were killed during an operation to evict squatters from public land being claimed as private property by a powerful land-owner (and opponent of Lugo), he was ousted in a coup and replaced by one of the country's richest men, tobacco magnate Horacio Cartes.

Today, Paraguay is the quintessential example of skewed economic development and political capture by elites, leading to incredible levels of inequality. In 2010 it had one of the fastest growing economies in the world, thanks to a massive rise in global demand for soy for biofuels and cattle feed in wealthier nations,²⁹¹ but one in three people still lives below the poverty line and inequality is increasing.²⁹²

Ceferina is a 63 year-old grandmother, living in the Caaguazú district in central Paraguay. She has a relatively small plot of five hectares, which she has been refusing to sell to a big soy company.

'I have no alternative but to stay here, even though business gets harder every day. In this area there are now towns where nothing is left but soybean crops. Everyone has left, they are ghost towns. It is a lie that these big plantations create job opportunities. They buy modern farm machinery that does everything, so they only need one person to drive a tractor to farm 100 hectares. Who is that providing jobs for? Many people have moved to city suburbs and they are living in misery, on the streets. These people are famers, like us, who sold their land and left, hoping to find a better life in the city. Selling our land is no solution. We need land, we need fair prices and we need more and better resources.'

Elite capture is also capture by men

The capture of political processes by elites can also be seen as the capture of these processes by men. It contributes to policies and practices that are harmful to women or that fail to help level the playing field between men and women. As a result, women are also largely excluded from economic policy making.

Despite significant progress since 2000, as of January 2014, only nine women were serving as a head of state and only 15 as the head of a government; only 17 percent of government ministers worldwide were women, with the majority of those overseeing social sectors, such as education and the family (rather than finance or economics).²⁹³ Women held only 22 percent of parliamentary seats globally.²⁹⁴

Women's leadership is critical to ensuring that economic and social policies promote gender equality. The concentration of income and wealth in the hands of wealthy elites, the majority of whom are men, gives men more decision-making power at national level, and contributes to national laws failing to help level the playing field for women. Around the world there is a legacy of discriminatory laws and practices that compound gender discrimination; for instance on inheritance rights, lending practices, access to credit and asset ownership for women.

CORRUPTION HITS THE POOREST HARDEST

When elites capture state resources to enrich themselves it is at the expense of the poorest. Large-scale corruption defrauds governments of billions in revenue and billions more through the inefficiencies of 'crony contracting'.

At the same time, poor people are hit hardest by petty corruption, which acts as a de facto privatization of public services that should be free. One study found that in rural Pakistan the extremely poor had to pay bribes to officials 20 percent of the time, whereas for the non-poor this figure was just 4.3 percent.²⁹⁵

Elites shape dominant ideas and public debate

Around the world elites have long used their money, power and influence to shape the beliefs and perceptions that hold sway in societies, and have wielded this power to oppose measures that would reduce inequality.

Elites use this influence to promote ideas and norms that support the economic and political interests of the privileged; such as through the promotion of ideas like 'the majority of rich people have secured their wealth through hard work', or 'strong labour rights and taxation of bankers' bonuses will irreparably harm the economy'. Language is cleverly deployed in Orwellian ways, with inheritance tax rebranded as the 'death tax', and the rich becoming 'wealth creators'.²⁹⁶ As a result, across much of the world there is a considerable misperception of the scope and scale of inequality and its causes. In the majority of countries, the media is also controlled by a very small, male, economic elite.

One study of academic economists in the USA found extensive and largely undisclosed links to the financial sector among them, and a very strong correlation between these ties and intellectual positions that actively absolved the financial sector of responsibility for the financial crisis.²⁹⁷ These economists have often appeared in the mainstream media as independent 'experts'. Meanwhile, the share of the world's population enjoying a free press remains stuck at around 14 percent. Only one in seven people lives in a country where political news coverage is robust, independent and where intrusion by the state into media is limited.²⁹⁸

Elites also use their considerable power to actively stop the spread of ideas which go against their interests. Recent examples of this include governments, driven by elites, clamping down on the use of social media. The Turkish government attempted to prevent access to Twitter following mass protests, and Russia has implemented a law that equates popular bloggers with media outlets, thus requiring them to abide by media laws which restrict their output.²⁹⁹

THE PEOPLE ARE LEFT BEHIND

The capture of politics by elites undermines democracy by denying an equal voice to those outside of these groups. This undermines the ability of the majority to exercise their rights, and prevents poor and marginalized groups from escaping from poverty and vulnerability.³⁰⁰ Economic inequality produces increased political inequality, and the people are being left behind.

Since 2011, the divide between elites and the rest of society has sparked mass protests throughout the world – from the USA to the Middle East, and from emerging economies (including Russia, Brazil, Turkey and Thailand) to Europe (even Sweden). The majority of the hundreds of thousands who took to the streets were middle-class citizens who saw that their governments were not responding to their demands or acting in their interests.³⁰¹

Unfortunately, in many places, rather than putting citizens' rights back at the heart of policy-making and curbing the influence of the few, many governments responded with legal and extra-legal restrictions on the rights of ordinary citizens to hold governments and institutions to account. Governments in countries as diverse as Russia, Nicaragua, Iran and Zimbabwe, have launched concerted campaigns of harassment against civil society organizations, in an effort to clamp down on citizens who seek to voice their outrage at the capture of political and economic power by the few.³⁰²

BUSTING THE INEQUALITY MYTHS

Those who say that extreme inequality is not a problem, or that it is the natural order of things, often base their arguments on a number of myths.

MYTH 1

Extreme inequality is as old as humanity, has always been with us, and always will be.

The significant variations in levels of inequality over time and between different countries demonstrates that levels of inequality are dependent on a number of external factors, such as government policies, rather than simply being the natural order of things.

The 20th century provides numerous examples of how inequality can be significantly reduced and how it can radically increase within the span of just one generation. In 1925, income inequality in Sweden was comparable with contemporary Turkey. But, thanks to the creation of the Swedish welfare state, which, among other things, included provisions for universal free access to healthcare and universal public pensions, by 1958 inequality in Sweden had reduced by almost half and continued to decrease for the next 20 years.³⁰³ The experience of Russia mirrors that of Sweden. At the end of the 1980s, levels of inequality in Russia were comparable with its Scandinavian neighbours. However, since the beginning of the transition to a market economy in 1991, inequality has almost doubled.³⁰⁴

In more recent years, countries in Latin America have significantly reduced inequality. Between 2002 and 2011, income inequality dropped in 14 of the 17 countries where there is comparable data.³⁰⁵ During this period, approximately 50 million people moved into the emerging middle class, meaning that, for the first time ever, more people in the region belong to the middle class than are living in poverty.³⁰⁶ This is the result of years of pressure from people's movements that have campaigned for more progressive social and economic policies. The governments that the people have elected have chosen progressive policies, including increased spending on public health and education, a widening of pension entitlements, social protection, progressive taxation and increases in employment opportunities and the minimum wage. Latin America's experience shows that policy interventions can have a significant impact on income inequality.

There is also a strong body of evidence which shows that extreme inequality has been rising in every other region of the world over the past three decades, which is why the negative consequences must be taken seriously, now more than ever.³⁰⁷

MYTH 2

Rich people are wealthier because they deserve it and work harder than others.

This myth assumes that everyone starts from a level playing field and that anyone can become wealthy if they work hard enough. The reality is that, in many countries, a person's future wealth and income is largely determined by the income of their parents. A third of the world's richest individuals amassed their wealth not through hard work, but through inheritance.³⁰⁸

This myth is also flawed in its assumption that the highest financial reward is given for the hardest amount of work. Some of the lowest paid jobs are those that require people to work the hardest, while some of the highest paid jobs are those that require people to work the least. Many of the richest collect large profits from the rent they generate on stocks, real estate and other assets. When this is taken into account, it becomes clear that those who are paid less work just as hard (or even harder) as those at the top of the wage ladder.³⁰⁹ Women spend more time on unpaid domestic and caring responsibilities than their highly paid counterparts, and are more likely than men to have multiple jobs.³¹⁰

MYTH 3

Inequality is necessary to reward those who do well.

Incentivizing innovation and entrepreneurship through financial reward will always lead to some levels of inequality, and this can be a good thing. However, extreme inequality and extremes of potential reward are not necessary to provide this incentive. It would be absurd to believe that a company CEO who earns 200 times more than the average worker in the company is 200 times more productive or creates 200 times more value for society. The success of alternative business models such as cooperatives, which have greater income equality at their core, also disproves this myth.

MYTH 4

The politics of inequality is little more than the politics of envy.

High levels of inequality have negative consequences for everyone in society: the haves as well as the have-nots. As demonstrated in this report, societies with higher levels of economic inequality have overall higher crime rates, lower life expectancy, higher levels of infant mortality, worse health and lower levels of trust.³¹¹ Extreme inequality also concentrates power in the hands of a few, posing a threat to democracy,³¹² and hinders economic growth and poverty reduction. It is not envy, but a preoccupation with the well-being of the whole of society that drives those who campaign against inequality.

MYTH 5

There is a trade-off between growth and reducing inequality, especially through redistribution.

It has long been a central tenet of economics that there is an unavoidable trade-off between strong growth and enacting measures to reduce inequality, especially through taxing and redistributing from the rich to the poor. However, recently there have been a growing number of studies showing that the opposite appears to be the case. In fact, high and growing inequality is actually bad for growth – meaning lower growth rates and less sustained growth. A recent high-profile, multi-decade, cross-country analysis by IMF economists showed that lower inequality is associated with faster and more durable growth, and that redistribution does not have a negative impact on growth, except in extreme cases.³¹³ By mitigating inequality, redistribution is actually good for growth.

MYTH 6

Rising inequality is the inevitable and unfortunate impact of technological progress and globalization, so there is little that can be done about it.

This myth is based on the idea that a combination of globalization and technological progress inevitably leads to increased inequality. However, it is based on a set of assumptions that do not tell the whole story. Namely that globalization and new technologies reward the highly educated and drive up wages for the most skilled who are in demand in a global market; that this same technological progress means many low-skilled jobs are now done by

machines; and that technology and an increasingly globalized market have also enabled companies to shift a lot of low-skilled work to developing countries, further eroding the wages of lower-skilled workers in developed countries. The myth is that all of this drives a relentless and unavoidable increase in inequality.

However, if this myth were true there would be little difference in the development of job markets in individual countries. In fact, while Germany has, to a large extent, resisted the mass export of jobs and the explosion in wealth and high salaries at the top, countries like the USA and UK have seen high-levels of erosion among mid-level jobs and huge concentrations of wealth. Similarly, Brazil has managed to benefit from globalization while reducing economic inequality, whereas other countries, such as India, have seen big increases in inequality.

So, while technological change, education and globalization are important factors in the inequality story, the main explanation lies elsewhere, in deliberate policy choices, such as reducing the minimum wage, lowering taxation for the wealthy and suppressing unions. These are, in turn, based on economic policy and political ideology, not on inevitable and supposedly elemental economic forces.

MYTH 7

Extreme economic inequality is not the problem, extreme poverty is the problem. There is no need to focus on inequality and the growth in wealth for a few at the top, as long as poverty is being reduced for those at the bottom.

This is a widely held view, that the focus of development should be confined to lifting up those at the bottom, and that any focus on the growing wealth at the top is a distraction.

Extreme economic inequality not only slows the pace of poverty reduction, it can reverse it.³¹⁴ It is not possible to end poverty without focusing first on extreme economic inequality and the redistribution of wealth from those at the top to those at the bottom. On a planet with increasingly scarce resources, it is also not sustainable to have so much wealth in the hands of so few.³¹⁵ For the good of the whole world we must focus our efforts on the scourge of extreme economic inequality.

Amir Nasser, 12, Jamam refugee camp, Upper Nile, South Sudan (2012).
Photo: John Ferguson

2

WHAT CAN BE DONE

To end extreme inequality

THE HIGH ROAD OR THE LOW ROAD

Inequality is not inevitable, but the result of policy choices. In this section, we explore some of the deliberate policy choices that have been and are currently being taken by governments that have affected inequality.

The choice which governments face, to move towards or away from inequality, is illustrated first by two fictional articles, each of which describes a potential future for Ghana as the *Economist* magazine may describe it in 2040.

The report then focuses on four key areas where strong policy action can help to tackle inequality: work and wages, taxation, public services, and economic policies that can specifically tackle gender inequality.

The section finishes by looking at the kind of progressive political change that is necessary to ensure that governments break the stranglehold of special interests, and act in favour of the majority of citizens and of society as a whole.

Action can be taken to reverse the trends that are fuelling today's yawning gap between rich and poor, the powerless and the powerful. The world needs concerted action to build a fairer economic and political system that values the many over the few. The rules and systems that have led to today's extreme economic inequality must change, with action taken to level the playing field by implementing policies that redistribute both wealth and power.

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Without deliberate policy interventions, high levels of inequality tend to be **self-perpetuating**.

They lead to the development of political and economic institutions that work to maintain the political, **economic and social privileges of the elite**.

UNRISD³¹⁶

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2.1

A TALE OF TWO FUTURES

The Economist

1 April 2040

GHANA:
MELTDOWN TO MIRACLE

The world's top egalitarians arrived in Accra this week for the inaugural meeting of the Progressive 20 (P20) countries. Ghana, which has been instrumental in establishing the new group, is keen to show off its impressive credentials on redistribution and development. Many of the visitors will linger for a few days of tourism, not least because of Ghana's largely crime-free streets.

Leaders convening today will look back to the 2015 'oil curse crisis', when a power grab for the nation's newly discovered hydrocarbon reserves threatened to tear the country apart. They will start by commemorating those who died or were injured in the 2015 riots that triggered the country's New Deal.

Hundreds died in that conflict, spurring politicians and ethnic leaders, marshalled by the legendary Daavi Akosua Mbawini (dubbed by many as 'Ghana's Gandhi'), to draw back from the brink. The 2016 elections that followed saw the cross-party Alliance of Progressive Citizens (APC) take power, backed by a multi-ethnic coalition of Ghana's vibrant people's organizations. The APC promptly embarked on what has become a textbook case in development.

Advised by Norway and Bolivia, the new government negotiated a sizeable increase in oil and gas royalties, and introduced an open, competitive tender process for exploration and drilling. But it did not stop there. Learning from the experiences of other oil booms, Ghana put 40 percent of oil revenues into a heritage fund, so that future generations could share in the benefits of the windfall (production is already falling from its 2030 peak). Proceeds from the government's famous victory over Swiss tax havens at the International Court of Justice also swelled the fund's coffers.

The government followed this with the introduction of progressive direct taxation – taxing the richest to pave the way for the end of the oil period and to rebuild the 'social contract' between government and governed.

The APC used this new income for a classic exercise in nation-building, helped by the return of many highly skilled Ghanaians who flocked home from the capitals of Europe and North America. By 2017, the country had achieved universal health coverage and primary and secondary education. It invested in an army of nurses, doctors and generic medicines that today make the Ghanaian National Health Service the envy of the world. They moved swiftly on to upgrade the quality of education, pioneering some of Africa's most successful vocational and technical training, and building some of the continent's best universities.

Oil money paid for roads and hydroelectric dams, allowing Ghana to avoid risky 'public-private partnerships', which decades on are still draining national budgets across the rest of Africa.

Ghana is particularly proud of its pioneering 'Fair Living Wage' policy, which tied the minimum wage to average wages, and then ratcheted up the pressure on inequality by moving the minimum from an initial 10 percent of the average to an eventual 50 percent. The Fair Living Wage has since become one of the membership criteria for the P20. Other positive steps delivered huge benefits for women, not least Ghana's Equal Pay Act.

The APC also made 'getting the politics right' an explicit priority. Temporary affirmative action campaigns rebooted Ghana's political system, filling parliament and the civil service with the best and brightest among women and ethnic minority groups. Citizens and their organizations were involved from the beginning (for example in the recent 'Be a Responsible Citizen, Pay your Tax' campaign that rejuvenated Ghana's tax base).

Now a retired elder stateswoman, Daavi Akosua Mbawini says her country has gone from 'meltdown to miracle in one generation'. For once, the political rhetoric is justified.

GHANA: OPEN FOR BUSINESS?

Representatives from the world's biggest multinationals are headed to Ghana this week for the country's annual trade fair, 'Ghana: Open for Business'. Ghana's business class can take credit for creating favourable conditions for foreign investment to flourish in the country, which has enjoyed solid growth rates in recent years. Foreign companies that invest in the country are offered tax-free status and access to the world's cheapest labour force. With no minimum wage in Ghana, most workers earn on average \$0.50 per hour.

Trade fair attendees will land at the new state-of-the-art jet port on the Elysium-style island in the middle of Lake Volta that is home to the ten families who own 99 percent of the country's wealth. Crocodile-infested waters surrounding the island should preclude any protests by the millions living in destitution on the mainland. It is hard to credit that Ghana was once seen as the great hope of West Africa, a country that combined a dynamic and sustainable economy with an impressively stable and democratic political system. All that fell apart under the influence of the 'curse of wealth', in the shape of oil and gas finds in the early years of the 21st century.

Those who can afford it
buy their drinking water from
tankers; the rest have no
option but to use polluted
rivers and wells. Little wonder
that cholera outbreaks are a
regular occurrence and infant
mortality is among the
highest in the region.



The governing elite were swift to spot an opportunity and in no time had sold off the country's newly discovered resources to the highest foreign bidder, personally collecting a royalty dividend for their efforts. As trade unions and social movements mobilized to call for a fairer distribution of the natural resource bounty, the political elite moved just as swiftly to criminalize public protest and collective organizing. Hundreds died in the riots that followed, leading the government to suspend the constitution and install an 'interim' presidency.

Ghanaians still lament the assassination of Daavi Akosua Mbawini (dubbed 'Ghana's Gandhi') as she was building a cross-party movement, the now mostly forgotten 'Alliance of Progressive Citizens'.

For those on the mainland, electricity comes on for a few hours a day at best. People are afraid to leave their homes, even in daylight hours, for fear of assault. Health and education are a privatized, disintegrated, fee-charging mess, to which poor Ghanaians have little access. Those who can afford it buy their drinking water from tankers; the rest have no option but to use polluted rivers and wells. Little wonder that cholera outbreaks are a regular occurrence and infant mortality is among the highest in the region. Farmers in many areas have reverted to subsistence agriculture, as tapping into more lucrative markets is now impossible.

Small wonder then that foreign investors arriving into Volta will not set foot on the mainland, and their presence will go unnoticed by the vast majority of Ghanaians.



Businessmen pass an official union demonstration against low wages and lack of benefits for cleaners in the City. London, UK (2007). Photo: Panos/Mark Henley

2.2

WORKING OUR WAY TO A MORE EQUAL WORLD

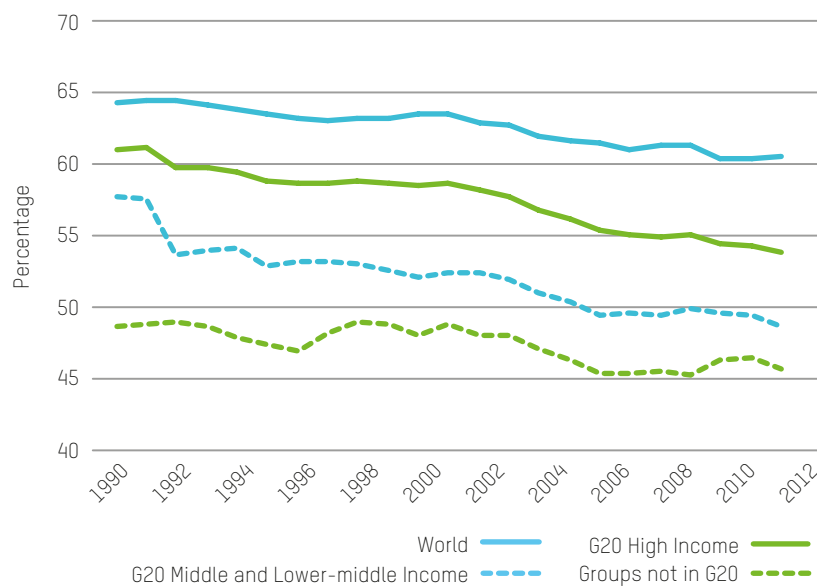
Income from work determines most people's economic status.³¹⁷ The reality for many of the world's poorest people is that no matter how hard they work they cannot escape poverty, while those who are already rich continue to see their wealth grow at an ever-increasing rate, exacerbating market inequalities.

In South Africa, a platinum miner would need to work for 93 years just to earn their average CEO's annual bonus.³¹⁸ In 2014, the UK top 100 executives took home 131 times as much as their average employee,³¹⁹ only 15 of these companies have committed to pay their employees a living wage.³²⁰

Today's combination of indecently low wages for the majority and scandalously high rewards for top executives and shareholders is a recipe for accelerating economic inequality.

Labour's declining share of income

FIGURE 9: Share of labour income in GDP for world and country groups³²¹



Since 1990, income from labour has made up a declining share of GDP across all countries, low-, middle- and high-income alike, while more has gone to capital, fuelling growing material inequalities between the haves and the have-nots.

According to the International Labour Organization (ILO), policies that redistribute income in favour of labour, such as increases in the minimum wage, would bring significant improvements in aggregate demand and growth, while also reducing poverty and inequality.³²²

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It would take a
South African miner

93 years

to earn their average CEO's
annual bonus

>

THE LOW ROAD: WORKING TO STAND STILL

CASE STUDY MALAWI TEA PLUCKERS: IN WORK AND IN EXTREME POVERTY



Tea picking in Mulanje, Southern Malawi (2009).
Photo: Abbie Trayler-Smith

Mount Mulanje is home to Malawi's 128 year-old tea industry, which employs more than 50,000 workers in the rainy season. Maria, 32, has plucked tea on the green, seemingly endless hills for over seven years. She and her fellow tea pluckers are the face of in-work extreme poverty.

Maria is fortunate that she lives in housing provided by a plantation and has recently been put on a long-term contract; but almost three-quarters of workers have neither of these things.³²³ The difficulties workers face are exacerbated by the fact that most have no land of their own and cannot supplement their income or food intake through farming.

The work is hard and Maria must pick a minimum of 44 kilograms of tea every day to earn her daily cash wage. This wage still sits below the \$1.25 a day World Bank Extreme Poverty Line at household level,³²⁴ and she struggles to feed her two children with it, both of whom are malnourished. According to a recent living wage estimation, Maria would need to earn around twice her existing wage just to meet her basic needs and those of her family.³²⁵

But things are starting to change. In January 2014, the Malawian government raised the minimum wage by approximately 24 percent. A coalition, led by Ethical Tea Partnership and Oxfam, is seeking new ways to make decent work sustainable in the longer term.³²⁶

Government regulation and the right of workers to collectively bargain with employers can help to tackle inequality and increase wages for ordinary workers. However, in recent decades, in the context of weakened labour laws, the repression of unions, and the ability of industries to relocate to where

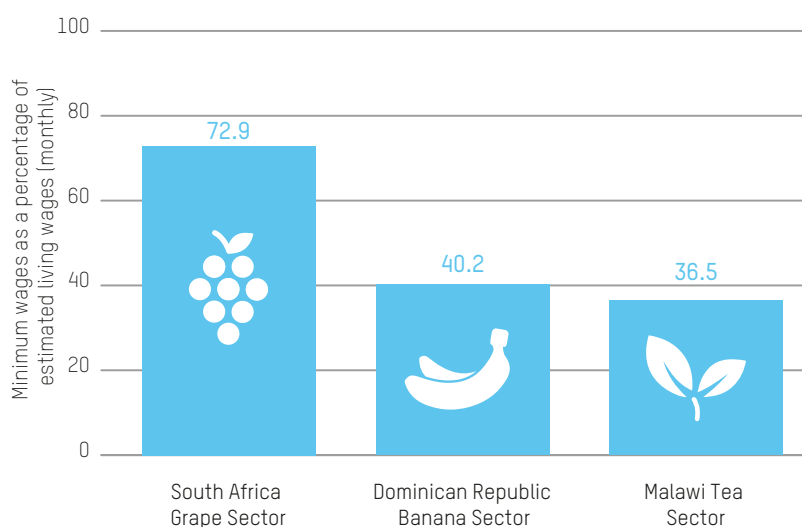
wages are low and workers are passive, companies have been free to choose poverty wages and poor labour conditions for their workers.

According to the International Trade Union Confederation, more than 50 percent of workers are in vulnerable or precarious work, with 40 percent trapped in an informal sector where there are no minimum wages and no rights.³²⁷ In today's global economy many sectors are organized into global value chains, including industrial manufacturing, such as clothing and electronics, and agricultural trade in commodities like sugar and coffee. Within these, multinational companies (MNCs) control complex networks of suppliers around the world. They reap enormous profits by employing workers in developing countries, few of whom ever see the rewards of their work.

The prevalence of 'low road' jobs in profitable supply chains has been confirmed by three recent Oxfam studies of wages and working conditions. The studies found that poverty wages and insecure jobs were prevalent in Vietnam and Kenya, both middle-income countries, and wages were below the poverty line in India and below the extreme poverty line in Malawi, despite being within national laws.³²⁸

A separate set of three studies of wages in food supply chains in South Africa, Malawi and the Dominican Republic, commissioned by six ISEAL members, found that minimum wages in the relevant sectors were between 37 to 73 percent of an estimated living wage – not nearly enough for food, clothing, housing and some discretionary spending.³²⁹

FIGURE 10: Minimum wages as a percentage of estimated living wages (monthly)³³⁰



Some argue that low worker wages are a result of consumer demand for low prices. But numerous studies have shown that even significant wage increases for workers of apparel products, for example, would barely alter retail prices.³³¹ Oxfam's own study found that doubling the wages of workers in the Kenyan flower industry would add just five pence to a £4 (\$6.50) bouquet in UK shops.

The median income of a UK supermarket CEO – in whose shops Kenyan flowers are sold – more than quadrupled from £1m to over £4.2m between 1999 and 2010.³³² If executive reward can be factored into business models, why not a living wage for the workers on whom their reward depends?

Women are on a lower road than men for work and wages. In Honduras, for example, women predominate in sectors where labour law is unenforced and there is no social security. They earn less than men, despite working longer hours. The average woman's wage covers only a quarter of the cost of a basic food basket in rural areas. Their economic dependence on their partners, coupled with the discrimination they face in wider society, can also lock them into abusive relationships in the home, as well as harassment in the workplace.

CASE STUDY POVERTY WAGES IN THE RICHEST COUNTRY IN THE WORLD



Detroit, Michigan (2008).
Photo: Panos/Christian Burkert

Low wages and insecure work is not a story confined to developing countries. Three of the six most common occupations in the USA – cashiers, food preparers and waiters/waitresses – pay poverty wages. The average age of these workers is 35 and many support families. Forty-three percent have some college education, and many hold a four-year degree.³³³

In a recent survey, half of those questioned told Oxfam that they had had to borrow money to survive, while only a quarter receive sick leave, paid holidays, health insurance or a pension. They live in one of the richest countries in the world, but carry a burden similar to that of workers in the poorest of countries.

(CASE STUDY CONTINUED)

Dwayne works in a fast food restaurant in Chicago. His wages have to provide for two daughters, as well as his siblings, his mother and his grandmother. 'I'm the sole provider of the household and can't manage with an \$8.25/hour wage ... given how hard we are worked, fast food workers deserve to show something for it.'³³⁴

The rise in inequality in the USA has happened in parallel with the decline in the real value of the minimum wage and the decline in union membership.³³⁵ The incomes of the bottom 90 percent of workers have barely risen, while the average income of the top one percent has soared.³³⁶

The erosion of bargaining power

Unions represent an important counterweight to top executives and shareholders whose imperative is largely to maximize profit. Their negotiating power helps ensure prosperity is shared; collective bargaining by unions typically raises members' wages by 20 percent and drives up market wages for everyone.³³⁷ Trade unions also play a crucial role in protecting public services. In South Korea, for instance, public sector health unions held a strike and protest rallies in June 2014 after the government announced deregulation and privatization of health services.

Many developing countries lack a history of strong unions, and in many places workers are facing a crackdown on their right to organize, which has contributed to falling union membership. In Bangladesh's garment industry, where 80 percent of workers are women, union membership stands at one in 12.³³⁸ According to an analysis of the Rana Plaza disaster, Bangladesh factory owners have 'outsize influence in the country's politics, hindering the establishment and enforcement of labour law'.³³⁹

In South Korea, public sector workers face deregistration of unions, unlawful arrests and anti-strike action. In 2014, Yeom Ho-seok, a Korean employee of a company making repairs to Samsung phones and founder of the Samsung Service Union, committed suicide following a period of financial hardship. After founding the Samsung Service Union, Yeom's work was reported to have been reduced by his employer; his take home wage fell to just \$400 a month.³⁴⁰

The right to organize has been enshrined in ILO conventions, but since 2012 the official group representing employers (the Employers Group) has contended that this does not include the right to strike. In 2014 this conflict was referred to the ILO's governing body. Striking is the last resort of workers to bargain with their employers for a fair deal, and revoking it would be a huge blow to workers' rights.

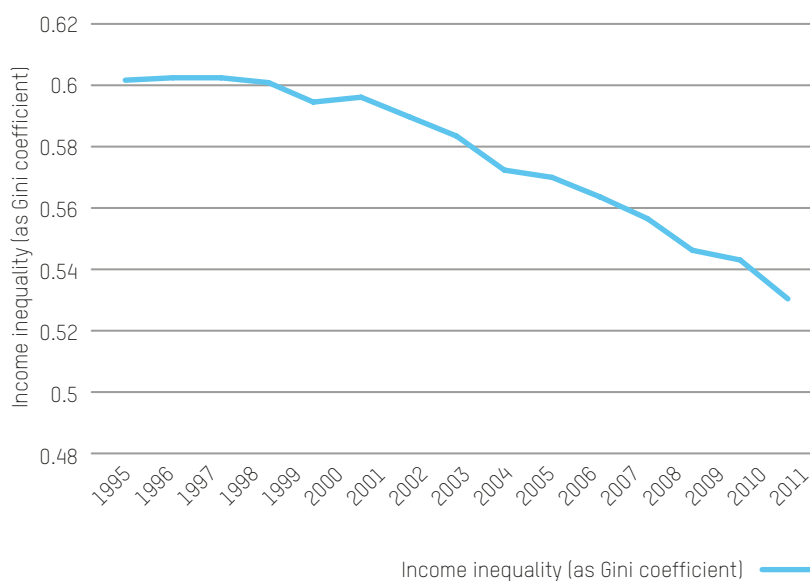
THE HIGH ROAD: ANOTHER WAY IS POSSIBLE

Turning the tide on poverty wages

Some countries are bucking the trend in the race to the bottom on wages, decent work and labour rights.

Brazil's minimum wage rose by nearly 50 percent in real terms between 1995 and 2011, in parallel with a decline in poverty and inequality (Figure 11).

FIGURE 11: Inequality levels in Brazil during the period in which the minimum wage rose by 50 percent³⁴¹



Since taking office in 2007, the Ecuadorean government, led by Rafael Correa, has pursued a policy of increasing the national minimum wage faster than the cost of living.³⁴² Ecuador joined the World Banana Forum to improve conditions in this key export industry.³⁴³ Profitable companies were already required by law to share a proportion of profits with their employees, but new regulations also required them to demonstrate that they pay a living wage; that is a wage 'covering at least the basic needs of the worker and their family and corresponds to the cost of the basic family basket of goods divided by the (average number) of wage earners per household.'³⁴⁴ A decade ago, many workers earned less than half this amount.

In China, where the government has followed a deliberate strategy of raising wages since the 2008 recession, spending by workers is forecast to double over the next four years to £3.5tn, increasing demand for imported and locally made goods alike.³⁴⁵

Some MNCs have taken voluntary steps towards improving the lot of their workers. Unilever, International Procurement and Logistics (IPL) and the Ethical Tea Partnership have acknowledged the labour issues identified by Oxfam in recent joint studies and are implementing plans to address them.³⁴⁶ H&M has published a 'road map to a living wage', starting with three factories in Bangladesh and Cambodia, which produce 100 percent for the company.³⁴⁷ In the UK, 800 companies have been accredited as living wage employers, including Nestlé, KPMG and HSBC.³⁴⁸ In another hopeful sign, Bangladesh's Accord on Fire and Building Safety now has more than 180 corporate members, and has brought brands, industry, government and trade unions around the same table for meaningful dialogue on worker organizing in factories, as well as on getting to grips with safety standards.

CASE STUDY 'HIGHER ROAD' EMPLOYERS THAT POINT THE WAY

In the Dominican Republic, the US company Knights Apparel established a living wage factory to supply ethical clothing to the student market.³⁵⁰ Maritza Vargas, president of the Altagracia Project Union, describes the impact that having a living wage had on her life:

'I can now access nutritious food and I never have to worry that I can't feed my family. I have been able to send my daughter to university and keep my son in high school – this was always my dream ... We now find we are treated with respect in the workplace – this is completely different to our experience in the other factory.'

There have been benefits for local shops and trades people too, as a result of workers' increased spending power. This change came about due to pressure from consumers and, while an encouraging example, it is unfortunately not typical of the companies which work in the Dominican Republic.³⁵¹

Kenya's cut flower sector was the target of civil society campaigns in the 2000s. Since then the workers who process these high-value, delicate products have seen real improvements in some areas. Their wages are still far from being a living wage,³⁵² but the most skilled workers, 75 percent of whom are women, report improvements in health and safety, a reduction in sexual harassment and more secure contracts compared with 10 years ago. A majority of workers surveyed for the report agreed that 'it is easier to progress from temporary to permanent employment than when I started work.'³⁵³

Factors aiding this include the implementation of codes, such as the Ethical Trading Initiative Base Code, product certification (Kenya Flower Council, Fairtrade), more professional human resource management, the establishment of gender committees and improved legislation.³⁵⁴ In neighbouring Uganda, conditions in the industry have improved even more (though from a lower base), helped by greater worker organization.³⁵⁵

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It is clear that good jobs help families and societies to progress more quickly. Our experience at Tesco is that this also makes sense from a business perspective; the best supplier partners for the long-term are those that **invest in their people: they tend to be the most productive, most reliable and make the best quality products.**

GILES BOLTON
GROUP DIRECTOR, RESPONSIBLE
SOURCING, TESCO PLC,
AUGUST 2014³⁴⁹

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Despite the knee-jerk claims of some employers, increases in the minimum wage have had little or no negative macro-level effect on the employment of minimum-wage workers.³⁵⁶ Goldman Sachs economists found that increases in the minimum wage are unlikely to result in significant job losses because of the resulting increase in consumer demand.³⁵⁷ Wage increases offer benefits to business as well; for instance, they often lead to lower worker turnover, which can constitute a significant cost.³⁵⁸

Ending excessive pay at the top

If a key cause of the widening wealth gap is labour's declining share of national income, an obvious solution is a more equitable sharing of wealth within companies.

The idea of restricting income at the top is not a new one. Plato recommended that the incomes of the wealthiest Athenians should be limited to five times those of its poorest residents. And since the 2008 financial crisis, MNCs have faced increasing public pressure to forgo executive bonuses and cap top incomes.

Some forward-looking companies, cooperatives and governance bodies are taking action. Brazil's SEMCO SA, for instance, employs more than 3,000 workers across a range of industries and adheres to a wage ratio of 10 to 1.³⁵⁹ Germany's Corporate Governance Commission proposed capping executive pay for all German publicly traded companies, admitting that public outrage against excessive executive pay 'has not been without influence'. Two US states – California and Rhode Island – have suggested linking state corporate tax rates to the CEO-worker pay ratio – the higher the pay gap, the higher the tax rate.³⁶⁰

Shared interest: Giving workers a stake

A growing body of evidence shows that companies owned at least in part by employees tend to survive longer and perform better. In the UK, they consistently outperform the FTSE All-Share index.³⁶¹ When employees are given a say in governance, as well as share ownership, the benefits appear to be even greater.³⁶²

Employee-owned firms have been found to have higher levels of productivity; they demonstrate greater economic resilience during turbulent times, are more innovative, enhance employee wellbeing, have lower rates of absenteeism, create jobs at a faster rate, improve employee retention, and also demonstrate high levels of communication and employee engagement.³⁶³ And 'unlike changes in tax policy (which can be reversed), employee ownership is long-term and sustainable.'³⁶⁴ It is a powerful and practical idea for a more inclusive capitalism.

Productive work will only be part of the solution to out-of-control inequality if decent jobs pay living wages and workers' rights are upheld and enforced by governments. Voluntary action by employers alone is not enough.



Hamida Cyimana, 6 years old, does sums on a blackboard, Kigali, Rwanda (2012).
Photo: Simon Rawles/Oxfam

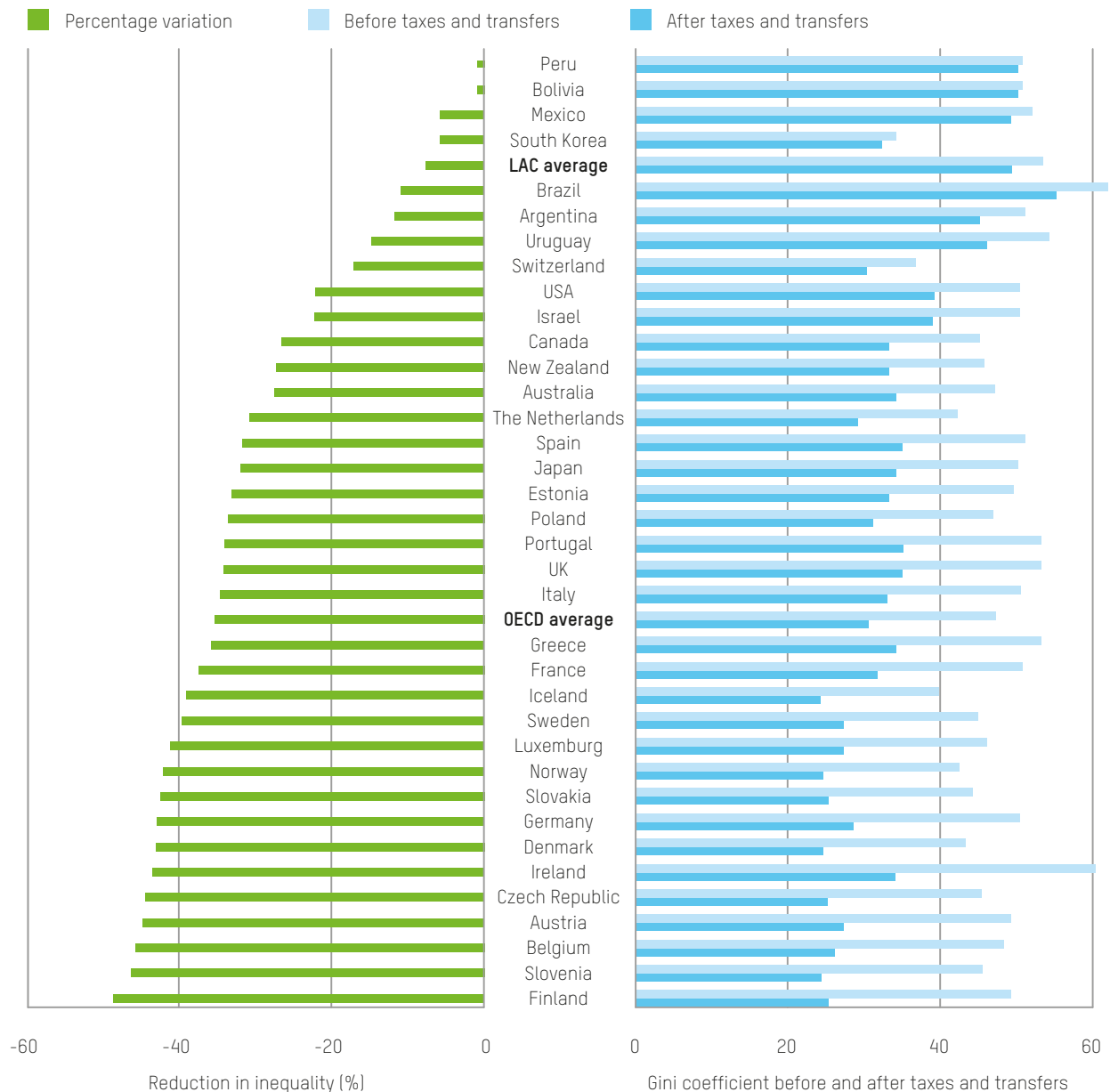
2.3

TAXING AND INVESTING TO LEVEL THE PLAYING FIELD

The tax system is one of the most important tools a government has at its disposal to address inequality.

Data from 40 countries shows the potential of well-designed redistributive taxation and corresponding investment by governments to reduce income inequality driven by market conditions.³⁶⁵ Finland and Austria, for instance, have halved income inequality thanks to progressive and effective taxation accompanied by wise social spending.

FIGURE 12: Gini coefficient (income) before and after taxes and transfers in OECD and Latin American and the Caribbean (LAC) countries (2010)³⁶⁶



Badly designed tax systems, on the other hand, exacerbate inequality. When the most prosperous enjoy low rates and exemptions and can take advantage of tax loopholes, and when the richest can hide their money in overseas tax havens, huge holes are left in national budgets that must be filled by the rest of us, redistributing wealth upwards.

International tax experts, and standard-setters like the OECD and IMF, acknowledge the damage caused by exemptions, loopholes and tax havens,³⁶⁷ but their commitment to solutions does not match the scale of the problem. Powerful corporations and national and global elites have connived to make international and national tax systems increasingly unfair, thus worsening inequality.

THE LOW ROAD: THE GREAT TAX FAILURE

All countries, whether rich or poor, are united in their need for tax revenue to fund the services, infrastructure and 'public goods' that benefit all of society. But tax systems in developing economies – where public spending and redistribution are particularly crucial to lift people out of poverty – tend to be the most regressive, often penalizing the poor.³⁶⁸ The poorest 20 percent of Nicaraguans pay 31 percent of their income in tax, while the richest 20 percent contribute less than 13 percent.³⁶⁹ Indirect taxes like the Value Added Tax (VAT), that fall disproportionately on the poor make up, on average, 43 percent of total tax revenues in the Middle East and North Africa, and up to 67 percent in sub-Saharan Africa.³⁷⁰

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There are no politicians who speak for us. This is not just about bus fares any more. We pay high taxes and we are a rich country, but **we can't see this in our schools, hospitals and roads.**

JAMAIME SCHMITT
BRAZILIAN PROTESTOR³⁷¹

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CASE STUDY THE UNEQUAL TAX BURDEN IN THE DOMINICAN REPUBLIC



Bernarda Paniagua sells cheeses and other products in Villa Eloisa de las Cañitas, one of the poorest and most under-served areas of the Dominican Republic. Victor Rojas is the manager of a prestigious company; he lives in one of the wealthiest areas of the country. Bernarda pays a higher proportion of her income in indirect taxes than Victor. In fact, the majority of the country's tax revenue comes from consumption taxes, rather than income tax. Consumption taxes affect the poorest most as they spend a higher percentage of their income on consumption.

Children in Victor's neighbourhood lack for nothing: they receive the best education on offer and have a doctor visiting the house at the first sign of a fever.

In contrast, Bernarda's oldest daughter, Karynely finished high school four years ago and now helps Bernarda sell cheeses. She is unable to continue studying or find a good job because she lacks the necessary IT skills, as there weren't any computers at her school.

Bernarda Paniagua Santana in front of her business in Villa Eloisa de las Cañitas, Dominican Republic (2014). Photo: Pablo Tosco/Oxfam

Developing countries also have the lowest tax-to-GDP ratios, meaning they are farthest from meeting their revenue-raising potential. While advanced economies collected on average 34 percent of GDP in taxes in 2011, in developing countries this was far lower – just 15 to 20 percent of GDP.³⁷² Oxfam estimates that if low- and middle-income countries – excluding China – closed half of their tax revenue gap they would gain a total of almost \$1tn.³⁷³ The lack of tax collection undermines the fight against inequality in the countries that most need public investment to achieve national development and reduce poverty.

Tax collection in developing countries is also undermined by a lack of government capacity. Sub-Saharan African countries would need to employ more than 650,000 additional tax officials for the region to have the same ratio of tax officials to population as the OECD average.³⁷⁴ Unfortunately, no more than 0.1 percent of total Official Development Assistance (ODA) is channelled into reforming or modernizing tax administrations,³⁷⁵ and programmes that would strengthen public financial management, tax collection and civil society oversight are not prioritized.

Tax breaks: A multitude of tax privileges, but only for the few

The ‘race to the bottom’ on corporate tax collection is a large part of the problem. Multilateral agencies and finance institutions have encouraged developing countries to offer tax incentives – tax holidays, tax exemptions and free trade zones – to attract foreign direct investment (FDI). Such incentives have greatly undermined their tax bases.

In 1990, only a small minority of developing countries offered tax incentives; by 2001 most of them did.³⁷⁶ The number of free trade zones offering preferential tax arrangements to investors has soared in the world’s poorest countries. In 1980, only one out of 48 sub-Saharan African countries had a free trade zone; by 2005, this had grown to 17 countries; and the race continues.³⁷⁷

In 2012, Sierra Leone’s tax incentives for just six firms were equivalent to 59 percent of the country’s entire budget, and more than eight times its spending on health and seven times its spending on education.³⁷⁸ In 2008/09, the Rwandan government authorized tax exemptions that could have been used to double health and education spending.³⁷⁹

This race to the bottom is now widely seen as a disaster for developing countries, tending to benefit the top earners far more, as well as cutting revenue for public services.³⁸⁰ Developing countries are more reliant on corporate tax revenues and less able to fall back on other sources of revenue like personal income tax, meaning any decline hits them hardest.³⁸¹ Recently the IMF has demonstrated that the ‘spillover’ effects that tax decisions made in one country have on other countries can significantly undermine the corporate tax base in developing countries, even more so than in OECD countries.³⁸²

Tax havens and tax dodging: A dangerous combination

Failures in the international tax system pose problems for all countries. Well-meaning governments attempting to reduce inequality through progressive tax policies are often hamstrung by a rigged international

approach to tax coordination. No government alone can prevent corporate giants from taking advantage of the lack of global tax cooperation.

Tax havens are territories that maintain a high level of banking secrecy. They charge little or no tax to non-resident companies and individuals, do not require any substantial activity to register a company or a bank account, and do not exchange tax information with other countries. Tax dodging by MNCs and wealthy individuals robs countries, rich and poor, of revenue that should rightly be invested to address pressing social and economic problems. Tax havens are intentionally structured to facilitate this.

They are also widely used. Great Britain's top 100 companies own about 30,000 subsidiary corporations and 10,000 of these are located in tax havens.³⁸³ Uglund House in the Cayman Islands is home to 18,857 companies, famously prompting President Obama to call it 'either the biggest building or the biggest tax scam on record'.³⁸⁴ Similarly, the Virgin Islands has 830,000 registered companies, despite a total population of just 27,000. At least 70 percent of Fortune 500 companies have a subsidiary in a tax haven.³⁸⁵ Big banks are particularly egregious. Perhaps Bank of America needs a new name – it operates 264 foreign subsidiaries in tax havens, 143 in the Cayman Islands alone.³⁸⁶

Tax havens facilitate the process of 'round tripping', which allows companies and individuals to take their money offshore, shroud it in financial secrecy, and then bring it back into the country disguised as FDI. This allows them to reap the reward of tax benefits only available to foreign investment; the money is subject to tax breaks rather than capital gains and income tax that should rightly be charged on domestic investment. To take one example, more than half of FDI invested in India is channelled through tax havens and most of it from Mauritius.³⁸⁷ Forty percent – a total of \$55bn – is from just one building in the heart of the capital Port Louis.³⁸⁸

Tax havens also facilitate transfer mispricing, the most frequent form of corporate tax abuse, where companies deliberately over-price imports or under-price exports of goods and services between their subsidiaries. Deliberate transfer mispricing constitutes aggressive tax avoidance, but it is nearly impossible for developing country tax authorities to police the ways in which companies set the prices of goods and services exchanged between subsidiaries, especially when it is most of the time hidden behind excessive brand, patents or management fees.

Every year Bangladesh loses \$310m in potential corporate taxes due to transfer mispricing. This lost revenue could pay for almost 20 percent of the primary education budget in a country that has only one teacher for every 75 primary school-aged children.³⁸⁹

The true extent of the financial losses that all countries sustain due to tax avoidance by MNCs may be impossible to calculate. But conservative estimates put it high enough to achieve the Millennium Development Goals (MDGs) twice over.³⁹⁰

Worryingly, this trend shows no sign of slowing down. Profits registered by companies in tax havens are soaring, indicating that more and more taxes are being artificially and intentionally paid in these low tax and low transparency jurisdictions. In Bermuda, declared corporate profits went from 260 percent of

GDP in 1999 to more than 1,000 percent in 2008, and in Luxembourg, they rose from 19 to 208 percent over the same time span.³⁹¹

The richest individuals are able to take advantage of the same tax loopholes and secrecy. In 2013 Oxfam estimated that the world lost approximately \$156bn in tax revenue as a result of wealthy individuals' moving assets into offshore tax havens.³⁹² This is not only a 'rich-country' illness. Wealthy Salvadorans, from a country where 35 percent of the population lives in poverty,³⁹³ are estimated to hide \$11.2bn in tax havens.³⁹⁴

There is no way for governments to make sure that these global companies and rich individuals are paying their fair share of taxes while tax havens are open for business.

Why has there not been a tax revolution yet?

Tax policy is prone to vested interests, particularly the disproportionate influence of business lobbies and wealthy elites opposed to any form of more progressive taxation at the national and global level. As early as 1998, the OECD recognized that tax competition and the use of tax havens were harmful, and expanding at an alarming rate.³⁹⁵ But in the face of intense lobbying from groups representing the interests of tax havens, from tax havens themselves, and from rich country governments, the OECD's attempts to coordinate action on taxation had been largely abandoned by 2001.³⁹⁶

International tax reform has come back to the top of the international agenda since the 2008 financial crisis. There has been widespread public outrage over a number of high-profile companies, including Apple³⁹⁷ and Starbucks,³⁹⁸ and others, that have been exposed for dodging their taxes and cheating the system. In 2012, G20 governments commissioned the OECD again to propose action to curb profit shifting and other tricks exploited by MNCs that erode governments' tax bases – leading to the current Base Erosion and Profit Shifting (BEPS) process. If done correctly, BEPS could provide much-needed coherence in the international tax architecture and could help to reduce corporate tax dodging practices, to the benefit of rich and poor countries alike.

However, the process is in grave danger because it represents the interests of rich countries and is open to undue influence from corporate and economic elites. At the end of 2013, the OECD opened consultations to 'stakeholders'³⁹⁹ to comment on a number of draft rules, including those on country-by-country reporting. Almost 87 percent of submissions on this issue came from the business sector, and unsurprisingly they were almost all opposed to the proposal. Overall, only five contributions came from developing countries, with the remaining 130 from rich countries.⁴⁰⁰

There are still strong vested interests that are standing in the way of true reform.

THE HIGH ROAD: HOPE FOR A FAIRER FUTURE

Despite the shady network of tax havens and the strong resistance to reform, there are signs of hope. Some countries are taking the high road and adopting

fiscal policies that tackle inequality. There is also strong recognition among credible actors that the global tax system is not working.

Sailing against strong winds

Almost nine months after Macky Sall's election as President of Senegal in 2012, the country adopted a new tax code to raise revenue to finance public services. This reform simplified the tax rules, increased corporate income tax from 25 to 30 percent, reduced personal income tax for the poorest and raised it by 15 percent for the richest. While more reform is needed in Senegal, the participatory approach taken – including many rounds of consultation with representatives from the business community and civil society – has opened the door for other progressive reforms that can tackle inequality, notably a review of the mining codes to tackle low royalties paid by mining companies.⁴⁰¹

In 2005, the newly elected government of Uruguay, led by President José Mujica, set about reforming the country's regressive tax system. Consumption taxes were reduced, coverage of personal income taxes was broadened, corporate income taxes were consolidated, and some taxes were discontinued. As a result, the tax structure was significantly simplified and tax rates on the poorest and the middle class were lowered, while the top earners saw their rates rise. Today, inequality measured in after-tax income is starkly lower.⁴⁰² Despite this domestic progress, however, Uruguay remains a global tax haven, facilitating billions in tax avoidance elsewhere.⁴⁰³

These reforms show that where there is political will, policies can move in the right direction, ensuring that those who have more – corporations and rich individuals – pay more taxes.

International consensus is shifting

In the face of constrained budgets and public outrage, international consensus is also shifting. Despite the limitations of the BEPS process described above, the fact that the G8, G20 and OECD took up this agenda in 2013 demonstrates a clear consensus that corporate taxation is in need of radical reform. The OECD's analysis also demonstrates that there is a need to redefine international rules in order to curb profit-shifting, and to ensure companies pay taxes where economic activity takes place and value is created.⁴⁰⁴

The IMF is also reconsidering how MNCs are taxed, and in a recent report recognized the need to shift the tax base towards developing countries.⁴⁰⁵ They also acknowledged that the 'fair' international allocation of tax revenue and powers across countries is insufficiently addressed by current initiatives.

OECD, USA and EU processes are also making progress on tax transparency to lift the veil of secrecy that surrounds the global tax system. European institutions have led the way by adopting a reporting system for European banks, agreeing that information, such as where they have subsidiaries, how much profit they make and where they pay taxes, should be public information, especially after many of these banks were rescued with public money. The G8 has made progress on registries of beneficial ownership, with some public registries moving ahead. And a new global standard for the automatic exchange of tax information has been agreed by the G20.

Alternative proposals that are pushing governments and institutions to go further are also being put on the table. The IMF has recently looked at ‘worldwide unitary taxation’, an alternative tax method promoted by academics and some civil society organizations to ensure that companies pay tax where economic activity takes place.⁴⁰⁶ Ten EU countries have agreed to work together to put a Financial Transaction Tax in place, which if applied to a broad range of transactions, could dampen speculative trading and raise €30–35bn per year.⁴⁰⁷

The debate around global and national wealth taxes has been brought to popular attention by Thomas Piketty’s book *Capital in the Twenty-First Century*, where he proposes a global wealth tax to curb excessive wealth inequality. He proposes a sliding scale starting at 0.1 percent for those with fortunes of less than €1m, moving up to 10 percent for those with ‘several hundred million or several billion euros’.⁴⁰⁸

The idea of wealth taxes was also proposed to the Brazilian congress in 2013 by the Brazilian ruling party in the wake of riots.⁴⁰⁹ In 2012, it was reported that the IMF was considering a one-time 10 percent wealth levy, in order to return many European countries to pre-crisis public debt-to-GDP ratios, but its support for the proposal was quickly denied.⁴¹⁰ The economic and financial crises, and *Capital in the Twenty-First Century*, have undoubtedly started a serious debate about taxing wealth to tackle economic inequality. Oxfam has calculated that a tax of 1.5 percent on the wealth of the world’s billionaires today could raise \$74bn. This would be enough to fill the annual gaps in funding needed to get every child into school and deliver health services in the poorest 49 countries.⁴¹¹

More than numbers: Tax is about our model of society

‘How people are taxed, who is taxed and what is taxed tell more about a society than anything else.’

Charles Adams⁴¹²

Taxes are essential sources of revenue to fund the services, infrastructure, and ‘public goods’ that benefit us all, and can be the glue between citizen and state. Governments must rebuild trust in the tax system, and demonstrate that when tax and public spending are done right, they can form the fabric of a decent and fair society, and deliver for everyone fairly.

Reforms in Lagos State, Nigeria have demonstrated that the vicious cycle of mistrust towards governments can be stopped. Since coming to power in May 2007, Governor Babatunde Fashola has invested in roads and education, and communicated to the 15 million inhabitants that those public services were financed by taxes. Fashola has remained highly popular and was re-elected in 2011 with a large majority. In 2011, an impressive 74 percent of Lagosians were satisfied with the way that Governor Fashola has spent their tax money so far. This shows that, although the willingness of the public to pay taxes is low in many developing countries where governments are typically viewed as wasteful and corrupt, willingness can be rapidly generated by effective fiscal reforms.⁴¹³

These are signs of hope for the future. But, as ever, turning rhetoric and debate into action will require sufficient political mobilization to oblige governments to stand in solidarity with the 99 percent, and against the special interests that resist reform.

PHARMACY
FREE FOR CHILDREN UNDER-5



2.4

A notice above the pharmacy window at the Ola During Hospital for children reads 'Free For Children Under 5', Freetown, Sierra Leone (2011). Photo: Aubrey Wade/Oxfam

HEALTH AND EDUCATION: STRONG WEAPONS IN THE FIGHT AGAINST INEQUALITY

Public services, like healthcare and education, are essential for fighting poverty and inequality.

CASE STUDY GHANA: WEAK HEALTH SYSTEMS COST THE POOREST THEIR LIVES

Babena Bawa was a farmer from Wa East district; a remote and underdeveloped area in the upper-west region of Ghana, where seven health centres serve a population of nearly 80,000 people. There are no hospitals, no qualified medical doctors and only one nurse for every 10,000 people. In May 2014, Babena died of a snake bite that would have been easily treatable, had any of the health centres in his district stocked the necessary anti-venom. Instead his last hours on earth were spent in a desperate race against time to reach the regional hospital, 120km away. The road to the regional centre was too poor and the journey too long, and he died before making it to the hospital.

The story of Babena stands in stark contrast to that of presidential candidate Nana Akufo-Addo. When faced with heart problems in 2013, he was able to fly to London for special treatment.

Public services have the power to transform societies by enabling people to claim their rights and to hold their governments to account. They give people a voice to challenge unfair rules that perpetuate economic inequality, and to improve their life chances.

It is estimated that if all women had a primary education, child marriage and child mortality could fall by a sixth, while maternal deaths could be reduced by two-thirds.⁴¹⁴ Moreover, evidence shows that public services can be great equalizers in economic terms, and can mitigate the worst impact of today's skewed income and wealth distribution. OECD countries that increased public spending on services through the 2000s successfully reduced income inequality and did so with an increasing rate of success.⁴¹⁵ Between 2000 and 2007, the 'virtual income' provided by public services reduced income inequality by an average of 20 percent across the OECD.⁴¹⁶

Long-term trends in poorer countries echo these findings. Studies show that taking the 'virtual income' from healthcare and education into account also decreases real income inequality by between 10 and 20 percent in five Latin American countries: Argentina, Bolivia, Brazil, Mexico and Uruguay.⁴¹⁷ In 11 out of 12 Asian countries studied, government health spending was found to be 'inequality reducing'.⁴¹⁸ Education played a key role in reducing inequality in Brazil,⁴¹⁹ and has helped maintain low levels of income inequality in South Korea.⁴²⁰

However, the extent to which public services are able to achieve their inequality-busting potential depends on how they are designed, financed and delivered. Unfortunately today, in too many cases, the policy choices being made punish the poor, privilege elites, and further entrench pre-existing economic inequality.

THE LOW ROAD: CUTS, FEES, PRIVATIZATION AND MEDICINES FOR THE FEW

Universal public services are a strong tool in the fight against inequality. But the domination of special interests and bad policy choices – budget cuts, user fees and privatization – can make inequality much worse.

Low levels of public spending and cuts

Governments in many countries are falling far short of their responsibilities. The Indian government spends almost twice as much on its military as on health.⁴²² In Africa, only six countries have so far met the Abuja commitment to allocate 15 percent of government spending to health. Between 2008 and 2012 more than half of developing countries reduced spending on education, while two-thirds decreased spending on health.⁴²³

There is also an imbalance, which skews public spending on health and education in favour of the already better-off urban areas, and away from investing in schools and health centres in poorer rural areas. Better quality services tend to be concentrated in big cities and towns. In Malawi, where the level of public spending per primary school child is among the world's lowest, a shocking 73 percent of public funds allocated to the education sector benefit the most educated 10 percent of the population.⁴²⁴

When public services are not free at the point of use, millions of ordinary people are excluded from accessing healthcare and education. Every year, 100 million people worldwide are pushed into poverty because they have to pay out-of-pocket for healthcare.⁴²⁵ A health emergency can doom a family to poverty or bankruptcy for generations. Paying for healthcare exacerbates economic inequality in rich countries too: in the USA, medical debt contributed to 62 percent of personal bankruptcies in 2007.⁴²⁶

Fees still cost some people the earth

School fees have been shown to be a common deterrent to enrolment, especially at secondary school level, where they persist more widely. This is because the poorest simply cannot afford to send their children to schools that charge fees, even when such fees are considered 'low'.

Women and girls suffer most when fees are charged for public services. In many societies, their low status and lack of control over household finances mean they are last in line to benefit from an education or receive medical care. Even the World Bank Group – a long time promoter of user fees – has altered its pro-fee stance. Yet they continue to exist in many of the world's poorest countries.

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Even tiny out-of-pocket charges can drastically reduce [poor people's] use of needed services. This is both **unjust and unnecessary.**

JIM YONG KIM
PRESIDENT OF THE
WORLD BANK GROUP⁴²¹

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I went for a cataract operation. They told me it costs 7,000 Egyptian pounds. All I had was seven so I decided to go blind.

**A 60-YEAR OLD WOMAN
IN A REMOTE VILLAGE IN EGYPT**

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CASE STUDY HEALTH CARE COSTS BANKRUPT THE POOREST IN ARMENIA



The Hovhannisyan family in rural community of Verin Getak, Armenia (2013).
Photo: Oxfam in Armenia

In 2010, total spending on healthcare represented 1.62 percent of Armenia's budget. This under-investment has left people with no choice but to make substantial out-of-pocket payments to meet their healthcare needs.

The high cost of healthcare in Armenia has forced Karo and his wife Anahit into a dire financial situation. Anahit suffers from arterial hypertension and a prolapsed uterus requiring surgical intervention, while Karo has had to live through a myocardial infarction and continues to suffer from complications caused by his diabetes. They do not qualify for subsidized care, and, as a result of their health conditions, they have been forced to take out expensive loans, and to sell off jewellery and livestock. With each health problem that arises, the family has been pushed further and further into debt and poverty.

Dangerous distractions

Significant amounts of money are being diverted from the public purse to bolster the for-profit private sector through cash subsidies and tax breaks. In India, numerous private hospitals contracted and subsidized by the state to provide free treatment to poor patients are failing to do so.⁴²⁷ In Morocco, a recent rapid increase in private schools, supported through government funds and tax breaks, has gone hand-in-hand with widening disparities in educational outcomes. In 2011, the poorest rural children were 2.7 times less likely to learn basic reading skills than the richest children in urban areas; since 2006, this gap has increased by 20 percent.⁴²⁸

Developing country governments are also increasingly entering into expensive and risky public-private partnerships. Lesotho is a striking example of how this strategy can divert scarce public resources away from where they are needed most, driving up inequality in a country that is already one of the most unequal in the world.⁴²⁹

CASE STUDY HEALTH PUBLIC-PRIVATE PARTNERSHIP THREATENS TO BANKRUPT THE LESOTHO MINISTRY OF HEALTH

The Queen Mamohato Memorial Hospital, in Lesotho's capital Maseru, was designed, built, financed and now operates under a public-private partnership (PPP) that includes delivery of all clinical services. The PPP was developed under the advice of the International Finance Corporation, the private sector investment arm of the World Bank Group. The promise was that the PPP would provide vastly improved, high-quality healthcare services for the same annual cost as the old public hospital.

Three years on, the PPP hospital and its three filter clinics:

- Cost \$67m per year – at least three times what the old public hospital would have cost today – and consume 51 percent of the total government health budget;
- Are diverting urgently needed resources from health services in rural areas where three-quarters of the population live and mortality rates are rising;
- Are expecting to generate a 25 percent rate of return on equity for the shareholders and a total projected cash income 7.6 times higher than their original investment. Meanwhile, the Government of Lesotho is locked into an 18-year contract.

The cost escalation has necessitated a projected 64 percent increase in government health spending over the next three years. Eighty-three percent of this increase can be accounted for by the budget line that covers the PPP. This is a dangerous diversion of scarce public funds from nurses, rural health clinics and other proven ways to get healthcare to the poorest and reduce inequality.

For more information see: A. Marriott (2014) 'A Dangerous Diversion: will the IFC's flagship health PPP bankrupt Lesotho's Ministry of Health?', Oxfam, <http://oxf.am/5QA>

Rich-country governments and donor agencies – including the World Bank Group, USAID, the UK Department for International Development, and the European Union – are also pushing for greater private sector involvement in service delivery.⁴³⁰ This can only lead to one thing: greater economic inequality.

In fact, high levels of private-sector participation in the health sector have been associated with higher overall levels of exclusion of poor people from treatment and care. In three of the best performing Asian countries that have met or are close to meeting Universal Health Coverage – Sri Lanka, Malaysia and Hong Kong – the private sector is of negligible value to the poorest fifth of the population.⁴³¹ Recent and more detailed evidence from India has shown that among the poorest 60 percent of women, the majority turn to public sector facilities to give birth, while the private sector serves those in the top 40 percent.⁴³² Private services benefit the richest most, rather than those most in need, and have the impact of increasing economic inequality.

In education, there is a growing enthusiasm for so-called 'Low-Fee Private Schools' (LFPS). However, these schools are prohibitively expensive for the poorest families and are widening the gap between rich and poor. In Ghana, sending one child to the Omega chain of low-fee schools would take up 40 percent of household income for the poorest.⁴³³ For the poorest 20 percent of families in Pakistan, sending all children to LFPS would cost approximately 127 percent of each household's income.⁴³⁴ The trends are similar in Malawi⁴³⁵ and rural India.⁴³⁶ Poor families will also often 'hedge their bets' by prioritizing one or two children⁴³⁷ and it is usually girls who lose out. A study in India found that 51 percent of boys attended LFPS, compared with just 34 percent of girls.⁴³⁸

The wealthiest are able to opt-out and buy healthcare and education outside of the public system. This undermines the social contract between citizen and state, and is damaging for democracy. When only the poorest people are left in public systems, the largely urban upper-middle class (i.e. those with greater economic and political influence) have no self-interest in defending spending on public services and fewer incentives to pay taxes. This sets in motion a downward spiral of deteriorating quality, and a risk that structural inequalities will be made worse, as the rich become even more divorced from the reality of a suffering 'underclass'.⁴³⁹

The Argentinean education system offers a cautionary tale of this two-tiered future. A gradual increase in income inequality has gone hand-in-hand with increased segregation in education.⁴⁴⁰ Evidence from Chile also showed that the introduction of an opt-out option damaged the efficiency and equity of the entire healthcare system.⁴⁴¹

International rules threaten public services

As with taxation, international rules can undermine domestic policy. International education and health service corporations have long lobbied at the World Trade Organization for international rules that require countries to open up their health and education sectors to private commercial interests, and recently Wikileaks exposed plans for 50 countries to introduce a Trades in Services Agreement that would lock in the privatization of public services.⁴⁴²

More immediately, the intellectual property (IP) clauses of current trade and investment agreements, which oblige governments to extend patents on life-saving medicines, are squeezing government health budgets in developing countries, rendering them unable to provide many much-needed treatments. For example, the majority of the 180 million people who are infected with Hepatitis C cannot benefit from effective new medicines because they live in the global south where neither patients nor governments can afford the \$1,000 per day medical bill.⁴⁴³ In Asia, medicines comprise up to 80 percent of out-of-pocket healthcare costs.⁴⁴⁴ And while poor countries are hit hardest by high medicine prices, rich countries are not immune. In Europe, government pharmaceutical spending increased by 76 percent between 2000 and 2009,⁴⁴⁵ with some countries now refusing to offer new cancer medicines to patients due to high prices.

Strong IP protection also stifles generic competition – the most effective and sustainable way to cut prices. It was only after Indian generic companies entered the HIV medicine market that prices dropped from \$10,000 per patient per year to around \$100 – finally making it possible for donors and governments to fund treatment for over 12 million people.⁴⁴⁶ Yet developing countries are being pressed to sign new trade and investment deals, like the Trans-Pacific Partnership, which further increase IP protection, putting lives on the line and, in the end, leading to a wider gap between rich and poor.

The interests that are served when the public interest is not

At both a national and global level, powerful coalitions of interests are making the rules and dictating the terms of the debate. Rich country governments and MNCs use trade and investment agreements to further their own interests, creating monopolies that hike up the prices of medicines and force developing countries to open up their healthcare and education sectors to private commercial interests.

In South Africa, private health insurance companies have been accused of lobbying against a new National Health Insurance scheme that promises to provide essential healthcare to all.⁴⁴⁷ In 2013, the US-based pharmaceutical company Eli Lilly filed a \$500m law suit against the Canadian government for invalidating patents for two of its drugs.⁴⁴⁸

The fact that only 10 percent of pharmaceutical R&D expenditure is devoted to diseases that primarily affect the poorest 90 percent of the global population⁴⁴⁹ is a stark reminder that big drug companies are dictating priorities to suit their own commercial interests at the expense of public health needs. It is no accident that there is no cure for Ebola, as there has been virtually no investment in finding one for a disease predominantly afflicting poor people in Africa.⁴⁵⁰ In Europe, the pharmaceutical industry spends more than €40m each year to influence decision making in the EU, employing an estimated 220 lobbyists.⁴⁵¹ Often their influence is helped by their close connections to power. For example, there is a well-known revolving door between the US Trade Representative office, which sets trade policies and rules, and the powerful Pharmaceutical Research and Manufacturers of America.⁴⁵²

Margaret Chan, Director General of the World Health Organization (WHO), put it well in 2014: ‘Something is fundamentally wrong in this world when a corporation can challenge government policies introduced to protect the public from a product [tobacco] that kills. If [trade] agreements close access to affordable medicines, we have to ask: Is this really progress at all, especially with the costs of care soaring everywhere?’⁴⁵³

Within countries, decisions on how much governments spend on public services and who ultimately benefits, are shaped by power struggles between groups with competing interests. All too often, the needs of wealthy elites are put first and progressive public service reforms are resisted. In many Latin American countries, once health insurance was established for formal-sector workers, attempts to expand coverage were challenged by existing members who do not want to see their benefits 'diluted'.



**...IS DEVOTED TO DISEASES
THAT PRIMARILY AFFECT THE POOREST
90% OF THE GLOBAL POPULATION**

THE HIGH ROAD: RECLAIMING THE PUBLIC INTEREST

Governments must take back control of public policy and ensure that the design, financing and delivery of public services policy are done in the public interest, so they can meet their inequality-busting potential. There are countries around the world offering good examples and hope that the high road is possible. For governments to take this road, mobilized citizens must weigh in on policy choices that, to date, have been dominated by vested interests.

Universal Health Coverage

The growing momentum around Universal Health Coverage (UHC) – under which all people should get the healthcare they need without suffering financial hardship – has the potential to vastly improve access to healthcare and drive down inequality.

In 2013, Margaret Chan, described UHC as ‘the single most powerful concept that public health has to offer’.⁴⁵⁴ At the World Bank, President Jim Yong Kim has been unequivocal that UHC is critical to fighting inequality, saying it is ‘central to reaching the [World Bank] global goals to end extreme poverty by 2030 and boost shared prosperity’.⁴⁵⁵

Some governments are already taking action. China, Thailand, South Africa and Mexico are among the emerging economies that are rapidly scaling up public investment in healthcare. Many low-income countries have introduced free healthcare policies for some or all of their citizens as a first step towards UHC, for example by removing fees for maternal and child-health services. The countries making most progress towards UHC have prioritized public financing of healthcare from general taxation, rather than relying on insurance premiums or out-of-pocket payments by individuals. Every step on this road is a step that can reduce economic inequality significantly, giving everyone access to healthcare.

Before Thailand’s Universal Coverage Scheme was introduced in 2002 nearly a third of the population had no health coverage;⁴⁵⁶ most of them were employed informally and were too poor to pay insurance premiums. The Thai government moved to finance coverage from general tax revenues, and in just 10 years reduced the proportion of the population without health coverage to less than four percent.⁴⁵⁷ This was a progressive reform; in the first year, the amount of money the poorest were spending each month on healthcare costs was more than halved.⁴⁵⁸ The percentage of households forced into poverty through excessive health payments dropped from 7.1 percent in 2000 to 2.9 percent in 2009.⁴⁵⁹ Infant and maternal mortality rates plummeted.

CASE STUDY FREE HEALTHCARE IN NEPAL



A group of young mothers wait with their children for a check-up at a small rural public health clinic, Makwanpur, Nepal (2010).
Photo: Mads Nissen/Berlingske

Beginning in 2005, the Government of Nepal dramatically improved access to healthcare by removing fees for primary healthcare services (including essential medicines), and by providing cash incentives for women to give birth in a health facility. In Nepal's poorest districts the proportion of women giving birth in a health centre more than tripled from six percent to 20 percent in just four years.⁴⁶⁰ Before the reforms, the richest 20 percent of women were six times more likely to deliver in a health facility compared to the poorest 20 percent of women. This ratio halved when charges for deliveries were removed.⁴⁶¹

'I have been a health worker for 18 years. After free maternal health services were introduced the number of patients increased dramatically. We used to see just four or five women each month for deliveries and we now see more than twenty. It used to be very expensive to come to the clinic, but now women can deliver here safely for free and they do not have to wait for their husbands to give them the money.'

Nurse Midwife, Surkhet, Nepal

There have even been victories over the pharmaceutical industry's stubborn efforts to block access to affordable medicines. In 2013, the Indian Supreme Court rejected a patent on Glivec®/Gleevec®, a cancer treatment developed by Novartis. Patients suffering chronic myeloid leukaemia can now take generic versions of Glivec for only \$175 per month – nearly 15 times less than the \$2,600 charged by Novartis and a price that should make it possible for the government to afford to treat patients.⁴⁶²

Promising progress in education

Since the Education For All movement and the adoption of the MDGs in 2000, the world has seen impressive progress in the number of children gaining primary education. Through increased donor support, domestic spending and debt relief, a wave of countries have been able to eliminate school fees, accelerating access to education for the poorest children. For example, in Uganda, enrolment rose by 73 percent in just one year – from 3.1 million

to 5.3 million – following the abolition of school fees.⁴⁶³ Fee abolition is critical to tackling economic inequality, and boosting opportunities for the poorest.

However, the quality of the education on offer has suffered in those countries which have failed to match the increase in enrolment with adequate investments in trained teachers, facilities and materials – a situation made more difficult by faltering donor commitments and falling government budgets due to the global economic crisis. This risks reinforcing inequalities in the quality of education between the public and private sectors, and between the poorest and wealthiest children.

Beyond school fee abolition, additional targeted investments are needed to provide the most marginalized children with high-quality education. These include extra funding for schools in rural and under-served areas, policies to address other financial barriers to poor children's access to education (such as uniforms, transportation and learning materials), and more accountability for education quality through active community involvement in school management.

Some countries are leading the way. For example, Brazil has championed reforms that increase access to good quality education and allocate more spending to the education of poor children, often in indigenous and black communities.⁴⁶⁴ These reforms have helped to reduce inequality of access since the mid-1990s: the average number of years spent in school by the poorest 20 percent of children has doubled – from four years to eight years.⁴⁶⁵ Investment in education and healthcare played a key part in Brazil's recent success in reducing inequality.

A number of East Asian countries, including South Korea, Japan and Singapore, have implemented programmes specifically designed to promote equitable learning, including investing in high-quality teachers. Even the poorest students are now learning above the minimum threshold.⁴⁶⁶ There is solid evidence that making equity an explicit goal of education policy can lead to improved educational outcomes across the board.

Public investment in healthcare and education for all citizens is a powerful tool for addressing inequality, and these examples demonstrate that change is possible, even in the face of powerful special interests.

Aid can tackle inequality and political capture

Taxation and domestic resource mobilization are critical to boosting public spending. For some countries, harnessing aid and investing it well, for instance into good-quality public services that citizens need and demand, has also helped to reduce poverty and inequality through supporting national public service plans and boosting public spending.

In 2004, just over a quarter of the aid received by Rwanda – a country that had spent 10 years rebuilding national institutions and economic stability following the 1994 genocide – was budget support: long-term aid that can support health and education systems, as well as institution strengthening. Steady growth in budget support up to 2004 allowed the government to eliminate fees for primary and lower-secondary school education, increase spending

on treatment for people living with HIV and AIDS, and provide agricultural loan guarantees to farmers.⁴⁶⁷

In many developing countries, aid also plays an influential role in both the economy and politics. As such, when donors actively seek to invest in accountable governance and effective citizen engagement, aid can also help to counteract political capture.

The USA, for instance, is seeking to focus agriculture investments in the north of Ghana – an historically poor region – channelling these through local district councils, in an effort to make the councils more responsive to local farmer input. In parallel, the USA is also supporting farmer associations to demand responsiveness from district councils; as a result, district councils are now demanding more support from central government.

This kind of aid is crucial, but, since 2009, aid to civil society organizations has stagnated at around 14 percent of total aid flows by OECD DAC members.⁴⁶⁸ Meanwhile, the longer term trend is of donors increasing aid to the private sector; multilateral aid to the private sector alone has increased ten-fold since the early 1990s.⁴⁶⁹ This is a worrying trend that skews priorities away from supporting public spending on good governance, public services, small-scale agriculture and other inequality-busting public goods.



2.5

Ensanche Luperon, candy seller, departs every afternoon to sell sweet coconut candy, despite living with a disability that hinders his mobility and speech, Dominican Republic (2014).
Photo: Pablo Tosco/Oxfam

FREEDOM FROM FEAR

The development successes of recent decades have lengthened life expectancies and decreased birth rates across much of the developing world. However, this is now putting a strain on informal support systems, leaving millions of people in desperate situations. Elderly people, older women in particular, face harsh conditions, as do children and people unable to work due to disability or lack of job opportunities.

CASE STUDY ZAMBIA: THE POWER OF PENSIONS

Tiziwenji Tembo is 75, and lives in the Katete district of Zambia. Eleven of her 15 children are dead, and she now cares for four grandchildren. Until recently, she had no regular income and she and her grandchildren often went without food. Her children often refused to go to school because they did not have uniforms and books, and their fellow students would laugh at them. Their lives were transformed, however, when she began to receive a regular pension worth \$12 per month, which has enabled her family to eat more regularly, buy school uniforms and repair their house.⁴⁷⁰

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The true measure of any society can be found in how it treats its most vulnerable members.

MAHATMA GANDHI

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Social protection often involves governments providing money or in-kind benefits – child benefits, old-age pensions and unemployment protection, for instance – that, like healthcare and education, put ‘virtual income’ into the pockets of those who need it most, mitigating an otherwise skewed income distribution. It is not only central to reducing economic inequality, but also to making society as a whole more caring and egalitarian, and less based on individualism.

After the Second World War, the majority of wealthy nations introduced large-scale, often universal, social protection systems, that guaranteed a basic income to all citizens and offered insurance against unemployment, old age and disability, building a path ‘from cradle to grave’. In the USA, the introduction of social security and pensions in the 1930s dramatically reduced levels of poverty among the elderly.

The 2008 financial crisis prompted the establishment of the Social Protection Floor Initiative, led by the ILO and WHO. The initiative encourages countries to offer basic income security for the unemployed, all children, the elderly and persons with disabilities or who are otherwise unable to earn a decent living. However, recent figures show that more than 70 percent of the world’s population is not adequately covered by social protection.⁴⁷¹

TOWARDS UNIVERSAL COVERAGE

Universal coverage has been the ambition in most wealthy countries, rather than targeted benefits for the needy. This has often been for political reasons: giving benefits to all increased a sense of national cohesion and solidarity; it ensured the support of the middle classes and avoided the stigmatization of means-testing.

Deciding who is deserving of benefits is a complex, ever-changing and often divisive exercise, which has its own costs and can be subject to fraud. One study shows that targeting is less efficient in low-income countries, owing to high leakage, under-coverage and administrative costs. A staggering 25 percent of targeted programmes are found to be regressive and, in Africa, targeted programmes transfer eight percent less revenue to the poor than universal ones.⁴⁷² Moreover, targeted programmes are usually aimed at the

household level, meaning that women and vulnerable groups, such as the elderly, can be undermined in the process.

Despite this, in recent decades smaller, targeted, means-tested benefits have become increasingly favoured, particularly by the World Bank and the IMF. This is based on the much more limited role for government envisioned by market fundamentalists and the view that universal benefits are unaffordable for many countries. It also fits with the ever more widespread perception that welfare benefits inhibit work and that the focus should be on individuals having to stand on their own feet and not be stifled by the 'nanny state'.⁴⁷³

Linking the provision of benefits to particular conditions or behaviours, such as getting children immunized or sending them to school, is becoming increasingly popular. However, there is no evidence that this works, and, as with poverty targeting, it requires significant administration and a system of sanctions that must be enforced.⁴⁷⁴ Implicit in the approach is the judgement that firstly poor people will not make the right choices, and secondly that they can be persuaded to make behavioural changes with money.

All countries should be working towards permanent universal social protection systems, which reduce vulnerability and increase resilience to shocks. Mechanisms that can scale-up rapidly at times of crisis, when a basic level of protection is not enough, should also be further pursued. A good interim path would be to guarantee social protection to categories of people; for example, providing benefits to all mothers or all people over a certain age. This would reduce debate and the stigma attached to means-testing to identify who is most needy.

Many developing countries now have levels of income that are on par with those in Europe when universal schemes were introduced there, challenging the idea that these benefits are unaffordable. Multiple studies have also shown that basic levels of social protection are affordable across the developing world.⁴⁷⁵

Things are already changing. Over the past two decades, middle-income countries have expanded social security on a massive scale. China has nearly achieved universal coverage of old-age pensions, while India has instituted an employment guarantee for its rural population, benefiting hundreds of millions of people.⁴⁷⁶ One study found that social protection was responsible for a quarter of the reduction in Brazil's Gini coefficient.⁴⁷⁷

The time has certainly come for all countries to broaden social protection as a critical tool for reducing inequality, and to ensure the most vulnerable are not left behind.



Bin Deshwari and Girijar presenting for NGO Samarpan Jan Kalayan Samiti in Konch, Uttar Pradesh, India (2007).
Photo: Rajendra Shaw/Oxfam

2.6

ACHIEVING ECONOMIC EQUALITY FOR WOMEN

In rich and poor countries alike women perform the majority of unpaid labour, are over-represented in part-time and precarious work, and are often paid less than men for doing the same job. Even in societies that are considered to have achieved high levels of gender equality overall, women face significant income and influence gaps.⁴⁷⁸ The right mix of policies is needed to eliminate the barriers that inhibit women's economic equality. Yet, all too often, policymakers do not take into account the potential impact that policy measures will have on women.

THE LOW ROAD: GENDER-BLIND POLICY PRESCRIPTIONS

Failure to consider the particular situation of women and girls can unwittingly lead governments to reinforce gender inequalities or end up giving with one hand while taking away with the other. In China, successful efforts to create new jobs for women were accompanied by cutbacks in state and employer support for childcare and elderly care, which conversely increased women's unpaid work.⁴⁷⁹

Fiscal policy can also have unintended negative impacts on women and girls. Tax cuts designed to stimulate economic growth, whether made to income taxes or to corporate taxes, benefit men far more than women because the largest benefits of such cuts go to those with the highest incomes and corporate share ownership. A recent study in Ghana found that an indirect tax on kerosene, used for cooking fuel in low-income urban and rural households, is paid mostly by women.⁴⁸⁰

However, direct taxes on those that can most afford them are essential, as countries with reduced tax revenues have less capacity to deal with economic crises, and end up having to introduce austerity measures to balance their budgets. When austerity budgets call for reduced public sector employment, these layoffs hit women hardest because they are heavily represented in the public sector. When austerity cuts reduce public services, not only does this place an undue burden on women, it also makes it more difficult for them to get a job. According to research conducted on the impact of austerity in Europe,⁴⁸¹ after the financial crisis mothers of small children were less likely to be employed than before and more likely to attribute their lack of employment to cuts to care services.⁴⁸²

Governments have come together time and again to commit to eradicating gender inequality. The Convention on the Elimination of all Forms of Discrimination against Women obliges states to eliminate discrimination and differences in treatment between women and men 'by all appropriate means'. In addition, the 1995 Beijing Platform for Action calls for an approach to macroeconomic and development policy which addresses the needs and efforts of women in poverty and promotes a 'more equitable distribution of productive assets, wealth, opportunities, income and services'.⁴⁸³ Now is the time to make good on these commitments.

THE HIGH ROAD: THE RIGHT POLICIES CAN PROMOTE WOMEN'S ECONOMIC EQUALITY

Many of the policies that reduce economic inequality also have a huge impact on reducing gender inequality. Free primary education and free healthcare disproportionately benefit women and girls. Public services are more used by women; they ensure the state takes some of the burden of care away from women, whether it is healthcare or childcare. Social protection grants, such as universal child benefits, also have a big impact on gender inequality. Regulations around minimum wages and job security, as well as those that guarantee paid holiday, sick leave and maternity leave, all help to narrow the

gap between women and men. Again, women are the main beneficiaries of these, as they are the ones most likely to work in insecure or low-paid jobs. Progressive taxation also benefits women more, as it means the burden of tax falls on rich men, while the public services it pays for more often benefit poorer women.

Understanding the differential impact of public policies and public spending decisions on women and men is essential to maximizing the positive impact of policies on reducing gender inequality, as well as tackling economic inequality. Governments need to undertake gender impact analyses based on sex-disaggregated data. South Africa did so and then introduced a child-support grant for the primary caregivers of young children from poor households. The grants reach poor, black and rural women better than previous measures.⁴⁸⁴

In India, the Ministry of Agriculture introduced a gender-budgeting programme for rural women, who are the major producers of food, with significant participation by those women. As a result, in 2000 the National Agriculture Policy encouraged state governments to direct at least 30 percent of their farm budget allocations to women farmers, and set minimum standards for their access to irrigation subsidies, training, credit and farming-related governance structures. Strengthening women's role in farm programmes and communities has enhanced the food and economic security of their families.⁴⁸⁵

South Korea has introduced a number of measures for women workers, including lengthening pre- and post-natal maternity leave and paternity leave, becoming the first country in East Asia to do so. Return to Work Centres provide women with employment information, vocational training and childcare services, and generous subsidies encourage employers to hire and retain female workers before, during and after pregnancy.⁴⁸⁶ Nevertheless, the gap in wages between women and men remains very high and progress in narrowing it over the last 40 years has been slower than expected, showing that far more needs to be done.⁴⁸⁷

South Korea's rapid economic growth since the 1960s has been fuelled by labour-intensive exports that have employed mainly women. In theory, sustained high demand for female labour, coupled with narrowing gender educational gaps, should lead to much more progress towards achieving wage parity than has been observed over the last 40 years. Progress, however, has been very slow in South Korea (as it has been in other East Asian economies, including Japan, Hong Kong, China and Singapore).

CASE STUDY LOW-FEE CHILDCARE IN QUEBEC

In 1997, the Canadian province of Quebec created a low-fee childcare programme (costing only \$7 (CAD) per child per day) to improve the status of women and poor families, and to contribute to building a better labour force. Over the following years, the proportion of children in Quebec under the age of four attending daycare has risen sharply – from 18 percent in 1998 to 53 percent in 2011. Elsewhere in Canada attendance rates have remained constant at around 20 percent for children up to the age of five.

The most significant impact has been on women's employment and earning potential. Between 1996 and 2011, the rate of female employment increased faster in Quebec than in the rest of Canada. In Quebec, the number of mothers participating in the labour force rose faster than that of women without children, which was not the case in Canada as a whole. Moreover, the relative poverty rate of families headed by single mothers fell from 36 to 22 percent, and their median real after-tax income rose by 81 percent.

One study estimated that in 2008 nearly 70,000 more mothers held jobs than would have been the case without universal access to low-fee childcare – equivalent to an increase of 3.8 percent in women's employment. The same study estimated that Quebec's GDP was about 1.7 percent (\$5bn (CAD)) higher as a result, and that the tax revenue that the Quebec and federal governments received due to that additional employment significantly exceeded the programme's cost.⁴⁸⁸ This reform was good for women, boosted the economy and promoted women's economic equality.

A transformational shift is needed in the design and implementation of policies to eradicate the barriers that inhibit women's economic equality. Government must address the care responsibilities predominately shouldered by women, ensure fair and decent work with equal pay for all, redress women's unequal access to assets and finance, reform discriminatory land and inheritance laws, and end violence against women at home and in the work place.



Women protesting at the Tunisian Constituent Assembly, demanding parity in election law, Tunisia (2014).
Photo: Serena Tramont/Oxfam

2.7

PEOPLE POWER: TAKING ON THE ONE PERCENT

In this report we have shown how the massive concentration of economic resources in the hands of a few people can have negative consequences for all of society, including the threat it presents to accountable governance. Those with money can use it to buy power and to rig rules, regulations and policies in their favour, creating a cycle of growing economic inequality. Politicians and institutions that should represent citizens and keep inequality in check are instead being influenced by the rich and powerful, resulting in policies and actions that further widen the gap between rich and poor.

The global alliance of civil society groups CIVICUS has reported an increase in threats to civil society space in recent years,⁴⁸⁹ something that Oxfam has seen firsthand in its work with civil society organizations around the world. This takes many different forms, including direct repression, the introduction of legal restrictions on legitimate civil society action, funding restrictions and, in some cases, a crackdown of communications technology.⁴⁹⁰

Despite this, people around the world are coming together in ever greater numbers to take back power. This can be seen in the mass of protests that have sprung up across the world in the past few years,⁴⁹¹ where hundreds of thousands of people took to the streets to vent their frustration about the lack of services and their lack of voice.⁴⁹² This discontent is reflected in opinion polling conducted by Oxfam and others, which clearly reflects that people around the world continue to be deeply concerned that their governments are acting not in their interests, but on behalf of national and international elites.⁴⁹³

The good news is that political capture and economic inequality are not inevitable. History has shown time and again that the antidote to the capture of power is the mobilization of empowered and informed active citizens.⁴⁹⁵ This makes it a crucial ingredient in the fight against inequality. There are numerous examples of citizens and civil society organizations across the world holding their governments to account and demanding more inclusive and representative policy making. Below are three such cases from Chile, Hungary and Iceland.

Chile: Protests bring education reform and a new government

The biggest public demonstrations to hit Chile since the return of democracy in 1990 erupted during 2011. Initially spurred by discontent over the cost of education, they grew to encompass concerns about deep divisions of wealth (Chile is the most unequal country in the OECD⁴⁹⁶) and the control of government by business interests.⁴⁹⁷ A coalition of students and trade unions mobilized 600,000 people in a two-day strike demanding reform. Elections at the end of 2013 brought in a new government that included key members of the protest movement, on a platform of reducing inequality and reforming public education.⁴⁹⁸

Hungarians block user fees and privatization

In 2006, the Hungarian government proposed health service reforms including hospital closures, the introduction of user fees, and the creation of regional, part-private insurance funds. After parliament passed a first law to introduce patient fees and fees for other public services, including university education, campaigners gained enough signatures to force two referenda in 2008, which eventually led the government to abandon the attempt.⁴⁹⁹

Iceland: Popular participation in country's political evolution

In early 2010, a series of popular protests against the proposed mass bailout of Iceland's three main commercial banks forced the newly elected government – who had pledged to shelter low- and middle-income groups from the worst of the financial crisis – to hold a referendum on the decision. Ninety three percent of Icelanders rejected a proposal that the people (rather than the banks) should pay for the bankruptcy.

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People are not tolerating the way a small number of economic groups benefit from the system. **Having a market economy is really different from having a market society.** What we are asking for, via education reform, is that the state takes on a different role.

CAMILA VALLEJO
VICE-PRESIDENT OF THE
STUDENT FEDERATION OF THE
UNIVERSITY OF CHILE⁴⁹⁴

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The government has **failed the average person in Iceland.** It protects the interests of financial institutions while it couldn't care less about normal people who have no job, no income and have **lost the ability to feed their family.**

BALDUR JONSSON
A PROTESTOR IN ICELAND⁵⁰⁰

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Formal provisions for public participation in the political process were introduced and led the government to crowd-source a new constitution. The process included selecting citizens at random for an initial forum, holding elections for a constitutional council, making the draft constitution available online and sharing it through social media to allow people to comment. The new constitution, which includes new provisions on equality, freedom of information, the right to hold a referendum, the environment and public ownership of land, was put to referendum in 2012 and approved.⁵⁰¹

CASE STUDY HOW BOLIVIA REDUCED INEQUALITY



Bolivian indigenous groups descend from El Alto to La Paz demanding a constituent assembly to rewrite the Bolivian constitution (2004).
Photo: Noah Friedman Rudovsky

Bolivia was, until recently, a country where poverty and inequality sat alongside racial discrimination against the country's majority indigenous population, who were largely excluded from political decision making.⁵⁰² After a decades-long struggle by Bolivia's social movements and civil society organizations, the country's first-ever indigenous president, Evo Morales, took office in 2006.

Social movements pushed for the creation of a radical new constitution, which enshrined a series of political, economic and social rights, including extending provisions for participatory and community-based governance.

(CASE STUDY CONTINUED)

This was accompanied by a range of new progressive social programmes funded by renegotiating the country's contracts for its oil and gas at a time of high global commodity prices.⁵⁰³ A much larger number of people now benefit from the exploitation of the country's natural resources.

The government, responding to the demands of the people, used the natural resource windfall to invest in infrastructure, targeted social programmes and increases in the universal pension entitlement.⁵⁰⁴ It has also raised the minimum wage, and increased public spending on healthcare and education. Even though more spending on these services is needed, poverty⁵⁰⁵ and inequality⁵⁰⁶ in the country have fallen continually for the past 10 years.

Significant challenges remain. To date, the oil and gas windfall has allowed the government to avoid the issue of tax reform, where significant redistributive and sustainable potential remains.⁵⁰⁷ This means that the country's economic model has so far been almost entirely based on revenue from extractive industries, which in the long-run can undermine sustainable, pro-poor development.

Women on their way to work in the rice fields in River Gee county, Liberia (2012).
Photo: Ruby Wright/Oxfam

3

TIME TO ACT

And end extreme inequality

Today's extremes of inequality are bad for everyone. For the poorest people in society though – whether living in sub-Saharan Africa or the richest country in the world – the chance to emerge from extreme poverty and live a dignified life is fundamentally blocked by extreme inequality.

Oxfam is calling for concerted action to build a fairer economic and political system. A system that values the many by changing the rules and systems created by the few that have led to today's crisis of inequality; a system which levels the playing field through policies that redistribute money and power.

As outlined in Section 2, there are many concrete steps that governments and institutions can take to start closing the gap between the haves and have-nots. This is not an exhaustive agenda, but, if committed to, these steps could start to reduce economic inequality.

Governments, institutions, multinational corporations (MNCs) and civil society organizations must come together to support the following changes, before we are tipped irrevocably into a world that caters only to the privileged few, and consigns millions of people to extreme poverty.

1) MAKE GOVERNMENTS WORK FOR CITIZENS AND TACKLE EXTREME INEQUALITY

Working in the public interest and tackling extreme inequality should be the guiding principle behind all global agreements and national policies and strategies. Effective and inclusive governance is crucial to ensuring that governments and institutions represent citizens rather than organized business interests. This means curbing the easy access that corporate power, commercial interests and wealthy individuals have to political decision making processes.

Governments and international institutions should agree to:

- A standalone post-2015 development goal to eradicate extreme economic inequality by 2030 that commits to reducing income inequality in all countries, such that the post-tax income of the top 10 percent is no more than the post-transfer income of the bottom 40 percent.
- Assess the impact of policy interventions on inequality:
 - Governments should establish national public commissions on inequality to make annual assessments of policy choices – regulation, tax and public spending, and privatization – and their impact on improving the income, wealth and freedoms of the bottom 40 percent;
 - Institutions should include measures of economic inequality in all policy assessments, such as the IMF in their article IV consultations;
- Publish pre- and post-tax Gini data (on income, wealth and consumption) and income, wealth and consumption data for all deciles and each of the top 10 percentiles, so that citizens and governments can identify where economic inequality is unacceptably high and take action to correct it;

- Implement laws that make it mandatory for governments to make national policies and regulations and bilateral and multilateral agreements available for public scrutiny before they are agreed;
- Implement mechanisms for citizen representation and oversight in planning, budget processes and rule making, and ensure equal access for civil society – including trade unions and women’s rights groups – to politicians and policy makers;
- Require the public disclosure of all lobbying activities and resources spent to influence elections and policy making;
- Guarantee the right to information, freedom of expression and access to government data for all;
- Guarantee free press and support the reversal of all laws that limit reporting by the press or target journalists for prosecution.

Corporations should agree to:

- End the practice of using their lobbying influence and political power to promote policies that exacerbate inequality and instead promote good governance and push other groups to do the same;
- Make transparent all lobbying activities and resources spent to influence elections and policy making;
- Support conditions that allow civil society to operate freely and independently, and encourage citizens to actively engage in the political process.

2) PROMOTE WOMEN’S ECONOMIC EQUALITY AND WOMEN’S RIGHTS

Economic policy is not only creating extreme inequality, but also entrenching discrimination against women and holding back their economic empowerment. Economic policies must tackle both economic and gender inequalities.

Governments and international institutions should agree to:

- Implement economic policies and legislation to close the economic inequality gap for women, including measures that promote equal pay, decent work, access to credit, equal inheritance and land rights, and recognize, reduce and redistribute the burden of unpaid care;
- Systematically analyze proposed economic policies for their impact on girls and women; improve data in national and accounting systems – including below the household level – to monitor and assess such impact (for example on the distribution of unpaid care work);
- Prioritize gender-budgeting to assess the impact of spending decisions on women and girls, and allocate it in ways that promote gender equality;

- Implement policies to promote women's political participation, end violence against women and address the negative social attitudes of gender discrimination;
- Include women's rights groups in policy making spaces.

Corporations should agree to:

- End the gender pay gap and push other corporations to do the same;
- Ensure access for decent and safe employment opportunities for women, non-discrimination in the workplace, and women's right to organize;
- Recognize the contribution of unpaid care work, and help reduce the burden of unpaid care work disproportionately borne by women, by providing child and elderly care and paid family and medical leave, flexible working hours, and paid parental leave;
- Support women's leadership, for example by sourcing from women-led producer organizations, supporting women to move into higher roles and ensuring women occupy managerial positions;
- Analyze and report on their performance on gender equality, for example, through the Global Reporting Initiative's Sustainability Reporting Guidelines and the UN Women Empowerment Principles.

3) PAY WORKERS A LIVING WAGE AND CLOSE THE GAP WITH SKYROCKETING EXECUTIVE REWARD

Hard-working men and women deserve to earn a living wage. Corporations are earning record profits worldwide and levels of executive reward have soared. Yet many of the people who make their products, grow their food, work in their mines or provide their services earn poverty wages and toil in terrible working conditions. We must see global standards, national legislation and urgent corporate action to provide workers with more power.

Governments and international institutions should agree to:

- Move minimum wage levels towards a living wage for all workers;
- Include measures to narrow the gap between minimum wages and living wages in all new national and international agreements;
- Tie public procurement contracts to companies with a ratio of highest to median pay of less than 20:1, and meet this standard themselves;
- Increase participation of workers' representatives in decision making in national and multinational companies, with equal representation for women and men;

- Develop action plans to tackle forced labour in workplaces within their borders;
- Set legal standards protecting the rights of all workers to unionize and strike, and rescind all laws that go against those rights.

Corporations should agree to:

- Pay their workers a living wage and ensure workers in their supply chain are paid a living wage;
- Publish the wages paid in their supply chains and the number of workers who receive a living wage;
- Publish data on the ratio of highest to median pay, and aim to meet the ratio of 20:1 in each country of operation;
- Build freedom of association and collective bargaining into the company's human rights due diligence;
- End the practice of using their political influence to erode wage floors and worker protections, uphold worker rights in the workplace, and value workers as a vital stakeholder in corporate decision making;
- Track and disclose roles played by women in their operations and supply chain;
- Agree an action plan to reduce gender inequality in compensation and seniority.

4) SHARE THE TAX BURDEN FAIRLY TO LEVEL THE PLAYING FIELD

The unfair economic system has resulted in too much wealth being concentrated in the hands of the few. The poorest bear too great a tax burden, while the richest companies and individuals pay far too little. Unless governments correct this imbalance directly, there is no hope of creating a fairer future for the majority in society. Everyone, companies and individuals alike, should pay their taxes according to their real means, and no one should be able to escape taxation.

Governments and international institutions should agree to:

- Increase their national tax to GDP ratio, moving it closer to their maximum tax capacity, in order to mobilize greater domestic public revenue;
- Rebalance direct and indirect taxes, shifting the tax burden from labour and consumption to capital and wealth, and the income derived from these assets, through taxes such as those on financial transactions, inheritance and capital gains. International institutions should promote and support such progressive reforms at the national level;

- Commit to full transparency of tax incentives at the national level and prevent tax privileges to MNCs where the cost/benefit analysis is not proven to be in favour of the country;
- Adopt national wealth taxes and explore a global wealth tax on the richest individuals globally and regionally, and commit to using this revenue to fight global poverty;
- Assess fiscal policies from a gender-equality perspective.

5) CLOSE INTERNATIONAL TAX LOOPHOLES AND FILL HOLES IN TAX GOVERNANCE

Today's economic system is set up to facilitate tax dodging by MNCs and wealthy individuals. Tax havens are destroying the social contract by allowing those most able to contribute to society opt out of paying their fair share. Until the rules around the world are changed, this will continue to drain public budgets and undermine the ability of governments to tackle inequality. However, any process for reform must deliver for the poorest countries. A multilateral institutional framework will be needed to oversee the global governance of international tax matters.

Governments and international institutions should agree to:

- Ensure the participation of developing countries in all reform processes on an equal footing;
- Commit to prioritizing the eradication of tax avoidance and evasion as part of an agenda to tackle the unfair economic systems that perpetuate inequality;
- Support national, regional and global efforts to promote tax transparency at all levels, including making MNCs publish where they make their profits and where they pay taxes (through mandatory country-by-country reporting that is publicly available), as well as who really owns companies, trusts and foundations (through disclosure of beneficial ownership);
- Automatically exchange information under a multilateral process that will include developing countries from the start even if they can't provide such data themselves;
- Combat the use of tax havens and increase transparency, by adopting a common, binding and ambitious definition of what a tax haven is, as well as blacklists and automatic sanctions against those countries, companies and individuals using them;
- Ensure taxes are paid where real economic activity takes place; adopt an alternative system to the current failed arm's length principle of taxing companies;

- Only grant tax breaks where there has been an impact assessment of added-value to the country and a binding process to disclose and make public all tax incentives;
- Promote the establishment of a global governance body for tax matters to ensure tax systems and the international tax architecture works in the public interests of all countries, to ensure effective cooperation and close tax loopholes.

Corporations should agree to:

- Stop using tax havens;
- Support national, regional and global efforts to promote tax transparency at all levels, including publishing where they make profits and where they pay taxes (mandatory country-by-country reporting that is publicly available).

6) ACHIEVE UNIVERSAL FREE PUBLIC SERVICES FOR ALL BY 2020

The high cost of healthcare and medicines drives a hundred million people into poverty every year. When user fees are charged for schooling, some children can access high-quality private education, but the majority make do with poor-quality state education, creating a two-tiered system. Privatization further entrenches the disparities between the poorest and the richest, and undermines the ability of the state to provide for all.

Governments and international institutions should agree to:

- Guarantee free high-quality healthcare and education for all citizens, removing all user fees;
- Implement national plans to fund healthcare and education, by spending at least 15 percent of government budgets on healthcare and 20 percent on education. Donor governments must mirror these allocations in bilateral aid, and international institutions should promote equivalent social spending floors;
- Implement systems of financial-risk pooling to fund healthcare via tax and avoid health insurance schemes that are based on voluntary contributions;
- Stop new and review existing public incentives and subsidies for healthcare and education provision by private for-profit companies;
- Implement strict regulation for private sector healthcare and education facilities to ensure safety and quality, and to prevent them from stopping those who cannot pay from using the service;
- Exclude healthcare, medicines, medical technologies, knowledge and education from all bilateral, regional or international trade and investment agreements, including those which lock national governments into private healthcare and education provision;

- Ensure that women's health needs are prioritized, sexual and reproductive rights are upheld, and that bilateral aid is not permitted to constrain women's access to reproductive health services.

Corporations should agree to:

- Stop lobbying for the privatization of vital public services, including healthcare and education;
- Work with government efforts to regulate private healthcare providers to ensure their positive contribution to Universal Health Coverage.

7) CHANGE THE GLOBAL SYSTEM FOR RESEARCH AND DEVELOPMENT (R&D) AND FOR PRICING OF MEDICINES, TO ENSURE ACCESS FOR ALL TO APPROPRIATE AND AFFORDABLE MEDICINES

Relying on intellectual property as the only stimulus for R&D keeps the monopoly on making and pricing medicines in the hands of big pharmaceutical companies. This endangers lives and leads to a wider gap between rich and poor.

Governments and international institutions should agree to:

- Agree a global R&D treaty which makes public health – not commercial interest – the decisive factor in financing R&D;
- Allocate a percentage of their national income to scientific research, including R&D for medicines;
- Exclude strict intellectual property rules from trade agreements and refrain from all measures that limit government's policy space to implement public health measures and increase their access to medicine, medical technologies, knowledge, health and education services;
- Break monopolies and encourage affordable pricing of medicines via generic competition;
- Scale-up investment in national medicine policy development and drug supply chains.

Pharmaceutical companies should agree to:

- Be transparent about the cost of R&D, and look for new ways to finance R&D beyond intellectual property;
- Stop national and international lobbying for private corporate gains at the expense of public health.

8) IMPLEMENT A UNIVERSAL SOCIAL PROTECTION FLOOR

Social protection is central not only to reducing economic inequality, but also as a way to make society more caring and egalitarian, and to address horizontal inequalities. For the very poorest and most vulnerable there must be a universal and permanent safety net that is there for them in the worst times.

Governments and international institutions should agree to:

- Provide universal child and elderly care services, to reduce the burden of unpaid care work on women and complement social protection systems;
- Provide basic income security for children, the elderly and those who are unemployed or unable to earn a decent living, through universal child benefits, unemployment benefits and pensions;
- Ensure the provision of gender-sensitive social protection mechanisms to provide a safety net for women, in ways that provide an additional means of control over household spending.

9) TARGET DEVELOPMENT FINANCE TOWARDS REDUCING INEQUALITY AND POVERTY, AND STRENGTHENING THE COMPACT BETWEEN CITIZENS AND THEIR GOVERNMENT

Finance for development has the potential to reduce inequality when it is well-targeted; when it complements government spending on public services, such as healthcare, education and social protection. It can also help strengthen the government–citizen compact, improve public accountability and support citizen efforts to hold their government to account.

Donor governments and international institutions should agree to:

- Increase investment in long-term, predictable development finance, supporting governments to provide universal free public services for all citizens;
- Invest in strengthening public administrations to raise more domestic revenue, through progressive taxation for redistributive spending;
- Measure programmes on how well they strengthen democratic participation and the voice of people to challenge economic and social inequalities (such as gender and ethnicity).

NOTES

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KOFI ANNAN

Chair of the Africa Progress Panel, former Secretary-General
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The information contained in this document is accurate at the time of printing.



Published by Oxfam GB for Oxfam International under ISBN 978-1-78077-721-4 in October 2014.

Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, United Kingdom.

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