



Time to End Extreme Inequality

Oxfam's new report

Jane Carter, November, 2014

A report with high profile endorsement

Following a “blog Action Day” to end global inequality on 16 October, Oxfam launched its new report, titled “Even it Up”, at the end of the month (1). Being 136 pages long, the report takes a little while to read – but it comes with a more digestible 17 page executive summary, as well as some very prestigious backing. Those endorsing it include Graça Machel, Kofi Annan, Professor Joseph Stiglitz (Nobel Prize winner for Economics), Kate Pickett and Richard Wilkinson (authors of *The Spirit Level*) (2), and Andrew Haldane (Chief Economist, Bank of England), to name but a few. Within the executive summary, the report sets out nine specific actions that are needed to end extreme poverty. The bulk of its arguments, however, are structured into three main sections. The first examines the facts with regard to extreme inequality in the world today, its causes and the evidence that it is damaging to growth overall. The second sets out what can be done to tackle the problem. The third, shortest section reverts to the nine specific actions identified in the executive summary.

Measuring inequality

Oxfam recognises that unequal life opportunities are not only a matter of economic differences, but also bound up with “age old” injustices based on gender, caste, race, religion, etc. Nevertheless, the report focuses on extreme economic inequality, as a phenomenon that has “exploded in the last 30 years”. They and other campaigning organisations have been effective in drawing public attention to global economic inequality through the use of shocking, challenging statistics. One is that the richest 85 individuals in the world have as much wealth as the poorest *half* of the global population. Statistics of this nature are useful for focusing minds. For more detailed analysis of country situations, the most commonly used measure is the Gini Coefficient. Although Oxfam also uses this (acknowledging its familiarity to most readers), it notes that the method is overly sensitive to the middle 50% of the population. It thus suggests that the Palma ratio, which measures the ratio of the income share between the top 10% and the bottom 40%, is a more appropriate method (see also reference 3). Indeed, Joseph Stiglitz proposes it as the best measure on which to base a target on reducing income inequality in a post-2015 sustainable development goal (see also reference 4).

Why inequality matters

The basic argument of Oxfam’s report is that extreme differences in wealth are bad for everyone – bad for reducing poverty, bad for economic growth, and bad for society - in fuelling mistrust and violence, and also in undermining democratic processes. Furthermore, economic inequality compounds existing gender inequalities and limits opportunities for generations to come. The way that inequality hampers poverty reduction is illustrated by the example of Bangladesh and Nigeria. Both are low income countries, as defined by their average per capita income; indeed, Bangladesh is the poorer of the two. However, Bangladesh has a significantly more equal income distribution than Nigeria. Despite its higher average income, child mortality rates in Nigeria are nearly three times higher than in Bangladesh. Whilst Bangladesh has achieved primary education and eliminated gaps in school attendance, in Nigeria over one third of primary school-age children do not go to school. Without government intervention, these unequal life chances will persist from one generation to the next, strongly limiting social mobility. Although there is a prevailing narrative in most societies that if you study well and work hard, you will advance in life, the evidence is that this is simply not true in highly unequal societies. In Denmark, which has a low Gini coefficient (low inequality), only 15% 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, a full 66% of a young adult’s income is determined by that of his or her parents (these figures were not sex disaggregated).

The argument that inequality is bad for economic growth is probably the one that will elicit particular comment. Yet it is backed by many economists, including those of the World Bank and the IMF. Oxfam cites a 2011 IMF study by Andrew Berg and Jonathan Ostry that examined multi-decade data across many countries and concluded that although growth can and does take place in highly unequal countries, such growth not only has little effect in reducing poverty; but is also less likely to be sustainable. A blog article written in 2014 by the same authors provides a simple overview of this paper and related findings (5). Quoting the work of Thomas Piketty, whose book *Capital in the Twenty First Century* made headlines earlier this year (6), as well as the opinions of influential bankers such as Mark Carney (Governor of the Bank of England), the report argues that excessive adherence to the dictates of the market economy – or *market fundamentalism* – has led to the concentration of wealth in the hands of the very few. Although a market economy can bring prosperity to many, the insistence under market fundamentalism of a need for deregulation, low taxation and minimal government interventions has meant that rising inequalities have gone unchecked. Indeed, the report highlights how large corporations and net high wealth individuals can both avoid fair taxation and influence political processes through the media and direct party funding, to further consolidate their position.

Report recommendations

The nine recommendations of the report are as follows.

1. Make governments work for citizens and tackle extreme inequality

Proposed commitments: an agreement of a post 2015 goal to eradicate extreme inequality by 2030; the establishment of national inequality commissions; public disclosure of lobbying activities; and freedom of expression, including a free press.

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

Proposed commitments: 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 award

Proposed commitments: Increasing minimum wages towards living wages; moving towards a highest-to-median pay ration of 20:1; transparency on pay ratio; protection of worker's rights to unionise and strike.

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

Proposed commitments: Shift the tax burden away from labour and consumption and towards wealth, capital and income tax; provide transparency on tax incentives; introduce national wealth taxes and explore a global wealth tax.

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

Proposed commitments: A reform process that renders taxation far more transparent and ensures that companies pay tax based on their real economic activity.

6. Achieve universal free public services by 2020

Proposed commitments: removal of user fees, meeting spending commitments, re-examining provision of public services by for-profit private companies, excluding public services and medicines from trade and investment agreements.

7. Change the global system for research and development and pricing of medicines so everyone has access to appropriate and affordable medicines

Proposed commitments: A new global R&D treaty; increased investment in medicines, excluding intellectual property rules from trade agreements.

8. Implement a universal protection floor

Proposed commitments: 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

Proposed commitments: 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.

Clearly these are highly political demands. Some are also far easier, and more likely to become reality, than others. For example, compensation for unpaid care seems a distant dream for most women, and equal inheritance rights to land is strongly resisted in many countries. There were riots in Bangladesh when the government first introduced the idea in discussions around the National Women Development policy (which in its final form is essentially silent on the matter) (7). Even in Switzerland, farmer's wives have no right to inherit the land that they farm with their husbands (8). By comparison, gender pay gaps are gradually reducing – even it seems, at the level of labour wages in Asia (9).

For those engaged in addressing global poverty, the sobering conclusion from this report is that national and international policy change is essential to bring about real progress. To end with the words of Joseph Stiglitz quoted in the report, “any real effort to end poverty has to confront the public policy choices that create and sustain inequality.”

References

- (1) Even it Up Time to End Extreme Inequality Oxfam <http://www.oxfam.org/en/research/time-end-extreme-inequality>
- (2) Kate Pickett and Richard Wilkinson 2009. The Spirit Level. Why More Equal Societies Almost Always Do Better <http://www.equalitytrust.org.uk/resources/spirit-level-why-equality-better-everyone>
- (3) Alex Cobham 2013. Blog Post accessed 3 November 2014. <http://www.cgdev.org/blog/palma-vs-gini-measuring-post-2015-inequality>
- (4) Bernd Steinman 2013. Do we really need an SDG on inequality? http://www.poverty-wellbeing.net/en/Home/Current_Poverty_Issues/MDGs_and_Post_2015/Do_we_really_need_a_SDG_on_inequality
- (5) Jonathan Ostry and Andrew Berg February 2014. Blog Post accessed 3 November 2014. Treating Inequality with Redistribution: Is the Cure worse than the Disease? <http://blog-imfdirect.imf.org/2014/02/26/treating-inequality-with-redistribution-is-the-cure-worse-than-the-disease/>
- (6) Thomas Piketty 2014. Capital in the 21st Century. Harvard University Press. <http://piketty.pse.ens.fr/en/capital21c2>
- (7) National Women Development Policy 2011. Government of the People’s Republic of Bangladesh Ministry of Women and Child Affairs <http://www.mowca.gov.bd/wp-content/uploads/National-Women-Policy-2011English.pdf>
- (8) SDC Gender Equality Network F2F 2014. Discussion Forum. Gender, Land & Rural Economy: Joint day with A&FS Network http://www.sdc-gender-development.net/en/Home/f2f_2014/Tuesday/Gender_Land_Rural_Economy
- (9) Jane Carter October 2014. More evidence for falling poverty in Asia, linked to falling birth rates http://www.poverty-wellbeing.net/en/Home/Current_Poverty_Issues/Trends_in_Global_Poverty/More_evidence_for_falling_poverty_in_Asi_a_linked_to_falling_birth_rates