FROM POVERTY TO POWER **BACKGROUND PAPER**

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Equality, inequality, and equity: where do these fit in the poverty agenda?

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There is growing recognition amongst development policy makers that extreme inequality is bad for healthy economic growth and social stability, as well as being inter-generational in its effects. This paper reviews the state of global inequalities, and analyses the forces that drive them. Shifts towards manufacturing and service-based economies are biased in favour of educated labour, and away from the poorest countries and workers. Simultaneously, global agricultural trade liberalisation is undermining small-scale farmers in the poorest countries. These processes exacerbate inequalities both between and within countries. The author argues that methods to combat inequality skirt around the underlying politics that give rise to such injustices, and tend to focus on technocratic approaches and minor adjustments rather than more radical political solutions. At national level, these would include land redistribution, access to basic services, tax reform, and reforms to political participation. At international level, action to reduce inequality must include pro-poor trade reform.

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When pressed for his views on inequality and redistribution in the 2001 election campaign, the British Prime Minister, Tony Blair, famously ducked the question by replying 'It's not a burning ambition for me to make sure that David Beckham earns less money.'[1] Inequality and redistribution have been out of fashion among rich-country decision-makers for many years and warrant barely a mention in the Millennium Development Goals (MDGs).[2] However, this is now changing as 2005 saw a rash of high-profile World Bank (WDR 2006) and UN publications (Human Development Report (HDR), 2005; Report on the World Social Situation, (RWSS) (2005), arguing that tackling inequality is one of the most urgent tasks of our time.

This renewed interest in inequality stems from several causes, including the manifest failure of the Washington Consensus view that 'a rising tide lifts all boats' to reduce poverty fast enough to meet the MDGs, new evidence that high levels of inequality impede economic growth, and renewed attention to the sources of political tension arising from the 'war on terror'. In the words of President Bush, 'This growing divide between wealth and poverty, between opportunity and misery, is both a challenge to our compassion and a source of instability' (quoted in HDR 2005:75).

This is not to suggest that the multilateral agencies have suddenly become red-blooded redistributive socialists. The core of their concern with inequality is not that it is intrinsically unfair, but that it is bad for economic growth and poverty reduction. The World Bank argues for equality of opportunity (e.g. access to education, freedom from discrimination, equality before the law), with only a minor role for greater equality of outcome, namely, avoiding absolute destitution. The role of redistribution, whether through progressive taxation or land reform, is treated with great caution and its risks emphasised.

The Bank's analysis certainly emphasises that inequality is about much more than income – almost every aspect of the life chances of the poor, from access to clean drinking water to vulnerability to crime, conflict, and natural catastrophes, is plagued by inequality between the weak and the strong. In practice, however, much of the policy debate comes down to inequality of income, and a small number of essential services, namely health, education, clean water and sanitation.

Whereas the academic literature used to stress the positive role of income inequality in rewarding 'wealth creators' as a way to encourage innovation and growth, there is now gathering momentum for the economic arguments that inequality is bad for growth and, therefore, poverty reduction. In essence, the arguments are that:

- *Inequality wastes talent.* If women are excluded from top jobs, this squanders half the nation's talent, which has a negative impact on the economy. If banks refuse to lend to poor people, then good economic opportunities are lost.
- *Inequality undermines society and its institutions.* In an unequal society, elites find it easier to 'capture' governments and other institutions, and use them to further their own narrow interests, rather than the overall economic good.
- *Inequality undermines social cohesion.* 'Vertical inequality' between individuals is linked to rises in crime, while 'horizontal inequality', for example between different ethnic groups, increases the likelihood of conflicts that can set countries back decades and cause enormous suffering.
- *Inequality prevents growth from reducing poverty.* By determining the size of the crumbs that the poor receive from the economic table, inequality prevents growth from reducing poverty: a one percentage point increase in growth will benefit the poor proportionately more in an equal than in an unequal society.
- *Inequality transmits poverty between generations.* The poverty of a mother can blight the entire life of her child. Some 30 million babies are born each year with impaired growth due to poor nutrition during foetal life. Low birth-weight babies are much more likely to die, and to be stunted and underweight in early life, increasing their chances of ill-health and death in childhood and, should

[1] *Guardian* 23 December 2005, available at http://politics.guardian.co.uk/conservatives/story/0,9061,1673455,00.html.
[2] Gender parity in education is the only aspect of inequality overtly addressed in the MDGs.

they survive, condemning them to a lifetime of sickness and poverty (The Chronic Poverty Report (CPR), 2005:21).

Although at first glance the World Bank's emphasis on equality of opportunity looks timid – little more than the American Dream plus a safety net – it allows for some pretty radical interpretations. First, the distinction between opportunity and outcomes is artificial, since today's outcomes shape tomorrow's opportunities. Even if they go to the same school or live in the same *barrio*, children of the better off and/or better educated are also more likely to do better. In order to achieve genuine equality of opportunity, public action is needed to ensure that a village girl from a poor lower caste in India can achieve the same educational outcome as a boy from a rich family in Delhi, for the same effort. Achieving this would require an extraordinary state effort to break the cycle of inequality by compensating for the multiple initial disadvantages faced by the girl. This interpretation bears little resemblance to the traditional criticism that equality of opportunity is tantamount to saying 'we are all equal because all of us have the right to dine at the Ritz'.

Power and rights – the missing piece

Inequality is much more than a technical barrier to growth or poverty reduction. Writing in 500 BC, Plato reminded Athenian legislators of the moral abhorrence provoked by extreme inequality. '*There should exist among the citizens neither extreme poverty nor again excessive wealth*', he wrote, '*for both are productive of great evil*' (quoted in HDR 2005:51).

Extreme inequality provokes outrage and condemnation, and is intimately bound up with notions of human rights. The idea that all people, wherever they are, enjoy certain basic rights has become increasingly influential, not least through the international human rights framework established by the UN. This commits states to guarantee equal civil and political rights, to ensure minimum standards, and to the progressive realisation of economic, social, and cultural rights.[3]

Moving the focus from poverty to inequality makes it impossible to avoid politics. Inequality is about some people having more than others. So is politics. And the two interact – powerful people use their political control over institutions, individuals, or they use force - to benefit themselves, often at the expense of others.

For the multilateral agencies that dominate thinking on development, this poses a dilemma. These agencies are, in theory, supposed to be impartial, technocratic bodies. Yet, their own analysis is leading them inexorably into the minefields of politics. In its 2006 *World Development Report*, the Bank recognised as much, saying:

> *The analysis of development experience clearly shows the centrality of overall political conditions— supporting the emphasis on governance and empowerment in recent years. However, it is neither the mandate nor the comparative advantage of the World Bank to engage in advice on issues of political design. (WDR 2006:10)*

As this excerpt implies, the Bank and others have tried to skirt around *politics* by talking instead about '*governance*' (sometimes caricatured as 'government with the politics taken out') and '*empowerment*'. These concepts cover areas such as the separation of powers between governments, parliaments, and the judiciary, the rule of law, government transparency and accountability, and strengthening the role of civil society organisations, but steer clear of politics *per se*. Critics argue that trying to deal with these issues without taking politics head-on leads up an intellectual and developmental blind alley (see, for example, Lockwood 2005). Political elites that benefit from the current levels of inequality and injustice will always do their best to frustrate reforms, until their power itself is challenged.

[3] Based on presentations by Edward Anderson and Tammie O'Neil at a roundtable discussion, 'A new equity agenda?', Overseas Development Institute, 31 March 2006.

How extreme is inequality?

Inequality exists both within and between countries. The extent of inequality between countries is breathtaking, a form of 'postcode lottery' where the greater part of your life chances are determined by the random circumstances of your birth – where you are born (rich or poor country, town or countryside) and who you are (boy or girl, ethnic minority, living with a disability, or your mother's physical health, especially during pregnancy).

In terms of income and quality of life, gulfs separate the haves from the have-nots. On the (conservative) assumption that the world's 500 richest people listed by *Forbes* have an income equivalent to no more than five per cent of their assets, their income exceeds that of the poorest 416 million people. A woman in Nigeria is 480 times likelier to die from pregnancy-related causes than a woman living in Canada. In poor countries as many as 30 per cent of deaths among women of reproductive age may be from pregnancy-related causes, compared with rates of less than one per cent in industrialised countries (RWSS 2005: 68).

Inequality of opportunities and provision between countries drives such unequal outcomes. Per capita spending on health ranges from an average of more than US$3000 in high-income countries to US$78 in low-income countries with the highest health risks and to far less in many of the poorest countries (HDR 2005:26). For the poor, inequalities can cancel out the benefits of living in a better-off society. Average income is three times higher in high-inequality and middle-income Brazil than in low-inequality and low-income Viet Nam. Yet, the incomes of the poorest ten per cent in Brazil are lower than those of the poorest ten per cent in Viet Nam. The redistribution of just five per cent of the income of the richest 20 per cent of Brazilians would cut the poverty rate from 22 per cent to seven per cent (HDR 2005: 6, 65).

Regionally, Latin America is renowned for a level of inequality that is 'extensive, pervasive and resilient' and for the exceptional slice of national wealth owned by the very rich. Research in Africa suggests that, at least in terms of income, inequalities are as high as in Latin America, a finding that may surprise those who assume that at African levels of poverty, all are more or less equal. Asia contains countries with low levels of inequality (Taiwan, Viet Nam), and others where inequality is rapidly approaching Latin American and African levels, notably China (ODI 2006a:3).

Within countries, inequalities can also be grotesque. In Brazil, the *favelas* of Rio's (largely black) marginalised poor cling to the hillsides overlooking the luxury condominiums and beach playgrounds of the (generally white) mega-rich. In Latin American countries with large indigenous or African descended populations, such as Bolivia, Brazil, Ecuador, Guatemala, or Peru, incomes of these groups are half of that of their 'white' compatriots (World Bank 2003:8).

Within poor countries, internal inequalities in life opportunities are just as stark as those in income. Children born into the poorest 20 per cent of households in Ghana or Senegal are two to three times more likely to die before five years of age than children born into the richest 20 per cent of households. Nowhere is the injustice of inequality more evident than in the phenomenon of 'missing women'. Due to discrimination against girls and women, which starts even before birth, through selective abortion, the world's female population is lower than it should be, compared to men. Recent estimates put the number at 101.3 million. Of these 'missing women' 80 million are Indian and Chinese – a staggering 6.7 per cent of the expected female population of China, and 7.9 per cent of the expected female population of India (CPR 2005:22; HDR 2005:153).

Are equality and inequality rising or falling?

Trends in inequality are widely disputed, and many thousands of hours have been spent by economists 'proving' that inequality is rising, falling, or staying the same. Every participant in the discussion can find academic grounding for their position. The key to the differences lies in what is being measured, how averages are employed, and whether inequality between or within countries is being discussed.

If we compare average GDP per capita *between* countries, unweighted by population, inequality appears to be increasing. In 1990, the average American was 38 times richer than the average Tanzanian. Today the average American is 61 times richer (HDR 2005:37). However, once weighted by population, inequality appears to be decreasing, due to rapid growth in India and China (using average GDP per capita for each country ignores rapidly rising inequality within those countries). If we compare incomes globally, the choice of statistical measures and reference years determines whether you conclude that inequality is rising or falling.

The use of percentages rather than dollars also serves to mask the true extent of inequality. If Luxembourg and Nicaragua, at opposite ends of the world income distribution, grew at an annual rate of two per cent per capita for the next 25 years, inequality between them would be seen as constant. Yet the per capita annual incomes in Luxembourg would increase from US$17,228 (PPP-adjusted) to US$28,264, while in Nicaragua they would rise by a mere US$375, from US$573 to US$940 (WDR 2006: 63).

According to the UN, income inequality *within* countries is generally increasing:

> *Within-country income inequality rose between the 1950s and the 1990s in 48 of the 73 countries for which sufficiently reliable data are available. Together, these 48 countries account for 59 per cent of the combined population of the countries included in the analysis. Within-country income inequality remained relatively constant in 16 of the countries under review, though the data suggest that the situation has worsened in three of them during the past few years. Only nine of the countries included in the analysis registered a decline in income inequality between the 1950s and the 1990s; included in this group are the Bahamas, France, Germany, Honduras, Jamaica, Malaysia, the Philippines, the Republic of Korea, and Tunisia. (RWSS 2005: 52)*

There are, nevertheless, some grounds for cautious optimism when it comes to the non-income dimensions of inequality. In 1970 most adults in the world could not read or write. Now most can. Since the 1960s, average life expectancy in low-income countries has risen from 48 to 63 years (DFID 2006: 57). This achievement was due to the global spread of health technology and to major public-health efforts in some of the world's highest mortality areas. Since 1990, however, HIV and AIDS, and social and economic chaos in some transition economies have reversed some of the earlier gains. Overall life expectancy in Russia has dropped by four years since 1970, and male life expectancy has dropped by even more. In Botswana, HIV and AIDS have reduced life expectancy by nearly 20 years since 1970 (from 56 to 37 years) (HDR 2005).

What drives increasing inequality?

At the heart of increasing inequality lies work. The main assets of the poor are their hands, and the way they are paid for their work, and the nature of that work, is crucial in determining whether they escape from poverty, or are trapped in a world of back-breaking labour with no escape. According to Kofi Annan, 'the best antipoverty programme is employment. And the best road to economic empowerment and social well-being lies in decent work' (quoted in RWSS 2005: 130).

Whether an economy depends on agriculture, manufacturing, or services has a crucial impact on inequality. Despite urbanisation, poverty continues to be more prevalent in rural areas, and agriculture generates more jobs than the other sectors, particularly if small farmers rather than capital-intensive agribusiness run it. Small-farm based agricultural growth is therefore one of the best ways to reduce inequality (DFID 2005).

But globally, economies and jobs are shifting out of agriculture into manufacturing and, increasingly, into service industries such as retail or finance. Here, the nature of work is changing fast. As economies become more technology- and knowledge-intensive, those with an education fare better than those without. Each additional year of education now increases the average individual worker's wages by five-ten per cent (Goldin and Rienert 2006:129), and the differential continues to rise, as huge numbers of low-skilled workers enter the global workforce through the integration of countries such as China. The shift from manufacturing to services, and within manufacturing, to smaller production units, 'informal' enterprises, and female workforces, has undermined the power of traditionally male-dominated labour unions, making it harder for them to organise to secure decent wages and conditions.

The inequalities produced by changes in technology and business models have been compounded by political decisions. Worldwide, governments, often encouraged by the World Bank and other donors, have moved to make their labour laws more flexible, undermining labour unions, lowering minimum wages, and making it easier to hire and fire workers. The global shortage of stable, well-paid jobs for young people bode ill for the future.

Internationally, political decisions have also stacked the cards of global economic governance against the poorest countries, exacerbating the gulf between nations. The powerful nations have insisted on opening up Southern markets to flows of capital and goods, where transnational corporations stand to benefit, while restricting the flows of people (through increasingly tough immigration laws) and knowledge (through laws on intellectual property) that would predominantly benefit the poor countries. Meanwhile, the rich countries continue to subsidise their farmers, while also protecting their domestic markets against goods from the developing world. The US government supports its 25,000 cotton farmers with annual subsidies of up to US$4bn. The resulting overproduction and dumping on world markets undermines millions of poor farmers in West Africa and elsewhere who depend on producing and selling cotton. Europe's Common Agricultural Policy has a very similar effect.

The IMF, World Bank and other multilateral and bilateral agencies have promoted a system of trade and investment liberalisation that flies in the face of historical experience (Chang 2001). While the Bank and others argue that poor countries can kick-start development by opening up their trade and capital markets, successful countries ranging from the USA and Germany right through to China and Viet Nam have shown that such liberalisation happens as an economy grows in size and complexity. Countries of Eastern Europe and, to a lesser extent, those in Africa and Latin America that have followed the 'shock therapy' of the Washington Consensus have seen plenty of shock, but precious little therapy.

While defending the broad direction of reforms in recent decades, the World Bank concedes that trade liberalisation has exacerbated inequalities. It also concedes that poorly designed privatisation programmes in Latin America meant that after some initial improvement in social indicators such as infant mortality, the costs to governments started rising as companies engaged in what it refers to as 'cream skimming' -- leaving the less profitable areas to the public sector. The removal of subsidies for public utilities also resulted in these services becoming 'too expensive for poor consumers' (WDR 2006:171).

Reducing national inequality

There is a growing consensus on ways to achieve greater equality of opportunity, but much less on whether redistribution is required, and how to create greater equality of outcomes in people's lives. To return to the quotation at the start of this essay, decision makers disagree whether David Beckham should be more heavily taxed in order to fund schools and hospitals for the poor. The World Bank stresses the potential economic disruption caused by high income taxes or radical land reform, but others believe that progressive redistribution of assets is needed to kick-start a virtuous cycle of inclusion and growth.

Three ways in which national governments can address inequality are:

- to ensure access to basic social services and infrastructure, including the redistribution of assets such as land;
- to establish guarantees for full participation in public governance and markets for land, labour, and products and
- to break the cycle of inequality through, for instance, inheritance and property taxes on the rich and affirmative action to enable people to overcome social disadvantages.[4]

Above all, any serious attempt to reduce inequality must get off the fence on the issue of politics. The Bank argues that the way to 'break the power and inequality vicious circle' is to recognise that 'societies prosperous today are so because they have developed more egalitarian distributions of political power, while poor societies often suffer from unbalanced distributions' (WDR 2006:108). The first thing that must be redistributed is power – all else follows from that.

How does such a political shift take place? Won't entrenched elites always frustrate attempts to give power to the people? In some Asian countries, elites saw the long-term case for equality, both in terms of preventing social division and building the nation, and in terms of creating a thriving economy. Countries like Taiwan and Viet Nam have combined astonishing growth with high levels of equity. In Indonesia and Malaysia, governments managed to reduce inequality over an extended period through redistribution and employment generation (RWSS 2005:25). China however, is fast becoming the 'Latin America of Asia' with spiralling levels of inequality drastically reducing the ability of its continued growth to keep reducing poverty.

In post-Apartheid South Africa and recently in Brazil, popular movements have carried business elites with them in attempting to redistribute wealth and opportunity in hitherto appallingly unequal societies (ODI 2004:2).5 Brazil's world inequality ranking has dropped from second to tenth by a mixture of good economic management (e.g. controlling inflation which customarily hits the poor hardest) and income redistribution through various public schemes such as the 'bolsa escola' which pays poor families a monthly stipend if they ensure that their children attend school (Ferreira et al. 2006).

What motivates national elites to take poverty seriously? In a fascinating survey (Reis and Moore 2005) of the attitudes of developing-country elites towards poverty, few identified it as a serious 'threat'. Although they worried about crime, they did not see a strong link between this and poverty, and were more worried about organised gangs; since the collapse of Communism, they no longer fear organised revolution. Strangely, they made no link between poverty and disease – rich people believe that a combination of segregated living spaces and modern medicine can protect them.

But while fear may have subsided, the authors of the survey were optimistic that more positive forces for change are gaining ground. Historically, the spread of democracy has played a crucial role in the shift to a set of 'positive drivers' (appeals to common interests) and 'national altruistic arguments' (e.g. national pride). This was particularly true in the case of education, although the reasons for elites' enthusiasm for educating the poor varied between seeing equality of opportunity as a good thing in itself, to wanting to correct the bad habits and 'traditional' thinking and prejudices of the poor!

Again, history suggests that reforms and redistribution often follow a 'shock' such as war or civil unrest, as the land reforms in much of East Asia after the Second World War, which established the basis for the take-off of countries such as South Korea and Taiwan. The US New Deal that followed the Great Depression is another example. In some cases, such reforms were the work of enlightened

[4] Based on a presentation by Francisco Ferreira at a roundtable discussion, 'A new equity agenda?', at Overseas Development Institute, London 31 March 2006.
[5] For briefings on examples of pro-equity interventions in 13 developing countries, see ODI 2006b.

elites, in others, they were driven from below, for example the demands by demobilised soldiers and others for a 'land fit for heroes' that led to the creation of the post-war welfare state in Britain.

Does this mean hope can only follow catastrophe? Luckily, not always. Countries such as Viet Nam, (and perhaps China, if the government's current concerns on inequality are to be believed) have reformed *before* collapse and crisis struck. Going further back, massive advances in areas that did not involve an immediate redistribution of assets, such as universal women's suffrage, public provision of education, the introduction of the minimum wage, or the abolition of slavery, were introduced by elites without a crisis, in response to pressure from below by the organisations of the poor, whether political parties, labour unions, or social movements such as the abolitionists or suffragettes.

Other developments may be increasing the chance of the kind of peaceful changes that have occurred in the former Soviet Union, the demilitarisation of Latin America, the rise in multi-party democracy in Africa, and the more recent 'colour revolutions' in Ukraine, Georgia, and Kyrgyzstan. The growing global acceptance of basic human rights, such as the right to a vote or equal rights for women, strengthens the hands of those demanding equity; and rising literacy creates potential for wider involvement of the poor, as does the increasing difficulty faced by those wanting to prevent the flow of news and information via the internet or other channels. History may be on the side of change.

Reducing international inequality

Closing the formidable gaps *between* nations requires action on many fronts. First, rich countries could simply cease to do harmful things, such as tolerating corruption or tax avoidance; unfairly restricting migration; sitting on their hands on climate change; or denying developing-country firms access to the latest knowledge and technology.

There has been some progress on debt and aid, although much remains to be done, both to hold the G8 to their commitments and to extend debt relief to those countries that need it. There is real reluctance, however, to make trade fair for developing countries. While debt and aid are politically straightforward - cheques, however generous, require a mere flourish of the chancellor's pen - trade reaches into the heart of domestic politics. Vested interests, from US steel makers to the EU sugar lobby, excel in putting politicians under pressure to do the wrong thing. Reforming trade takes real political courage, which the travails of the Doha Round suggest is in short supply.

More broadly, the failures of Washington Consensus policies across large swathes of the developing world have led to a crisis of belief in the IMF and the World Bank. These institutions are now coming out with increasingly nuanced, and self-critical analyses (albeit implicitly so), but the impact the re-think among the Washington-based policy wonks will have on the ground largely remains to be seen. At the very least, however, the crisis of the Washington Consensus should loosen the economic straitjacket on the governments of developing countries, allowing them to follow a more heterodox approach to development. The 'same destination, different speeds' of the liberalisers is becoming a more historically literate 'same destination, different paths'.

Conclusion

Unlike poverty, inequality continues to rise in most countries. However, some governments have shown that it can be reduced, giving their poorest citizens a less meagre slice of the cake.

Inequality deprives citizens of their rights, destabilises nations, and explains why a hard core of some 400 million people are likely to remain chronically poor unless the current system changes. Tackling inequality head-on, through a combination of redistribution and pro-poor growth, makes sense on numerous grounds. It leads inevitably into a struggle for rights, and engagement with issues of politics and power. It gets people angry, not least because it is an issue that affects both North and South and it helps prepare the ground for a post-MDGs world, should they fail to get on track. Ending inequality, at least in its extreme form, could also fill the public messaging void left by the end of the global Make Poverty History campaign. Make Inequality History, anyone?

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