



People waiting to get registered at Motihari District Government Hospital in East Champaran, Bihar, India. With so few doctors employed to work in the healthcare sector in India, this scene is typical. (2009) Ranjan Rahi/Oxfam

# WORKING FOR THE MANY

Public services fight inequality

**Free public health and education services are a strong weapon in the fight against economic inequality. They mitigate the impact of skewed income distribution, and redistribute by putting ‘virtual income’ into the pockets of the poorest women and men.**

**Governments must urgently reform tax systems and increase public spending on free public services, to tackle inequality and prevent us being tipped irrevocably into a world that works for the few, not the many.**

# SUMMARY

Economic inequality – the skewed distribution of income and wealth – is soaring. Oxfam’s own research has found that the 85 richest individuals in the world have as much wealth as the poorest half of the global population.<sup>1</sup> Economic inequality is also putting lives on the line – more than 1.5 million lives are lost each year due to high income inequality in rich countries alone.<sup>2</sup> A recent study of 93 countries estimated that reducing the income share of the richest 20 per cent by just one percentage point could save the lives of 90,000 infants each year.<sup>3</sup> Estimates also show that failing to tackle inequality will add hundreds of billions of dollars to the price tag of ending poverty,<sup>4</sup> putting the achievement of any new post-2015 poverty goals in jeopardy.

## **Public Services: A weapon against economic inequality**

Free public health and education services are a strong weapon in the fight against economic inequality. In February 2014, backing a new IMF discussion paper, Christine Lagarde, Director of the IMF, underlined that ‘making taxation more progressive’ and ‘improving access to health and education’ have a key role to play in tackling inequality.<sup>5</sup>

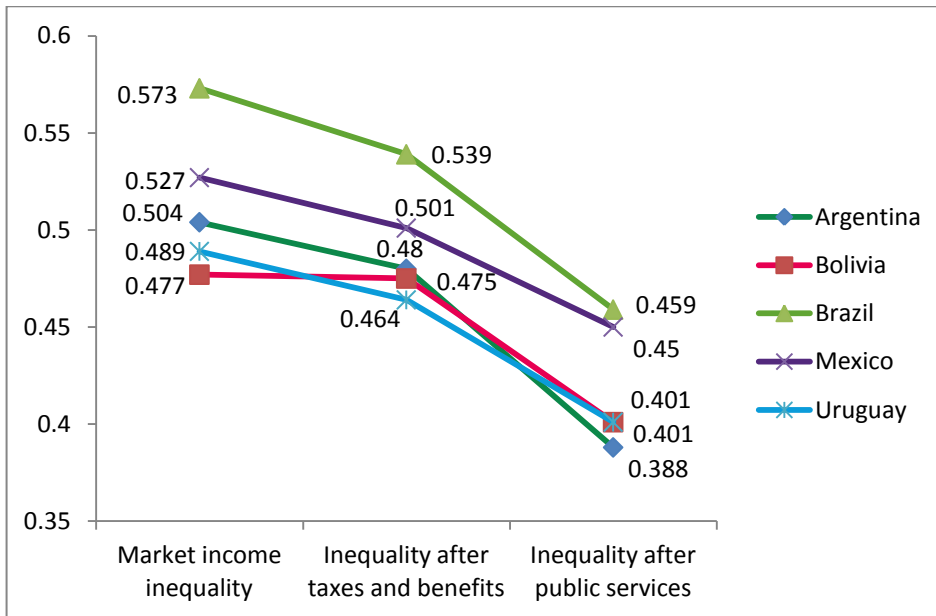
In fact, public services mitigate the impact of skewed income distribution, and redistribute by putting ‘virtual income’ into everyone’s pockets. For the poorest, those on meagre salaries, though, this ‘virtual income’ can be as much as – or even more than – their actual income. On average, in OECD countries, public services are worth the equivalent of a huge 76 per cent of the post-tax income of the poorest group, and just 14 per cent of the richest.<sup>6</sup> It is in the context of huge disparities of income that we see the true equalizing power of public services.

The ‘virtual income’ provided by public services reduces income inequality in OECD countries by an average of 20 per cent,<sup>7</sup> and by between 10 and 20 per cent in six Latin American countries (Argentina, Bolivia, Brazil, Mexico and Uruguay).<sup>8</sup> Evidence from the IMF,<sup>9</sup> Asia,<sup>10</sup> and more than 70 developing and transition countries shows the same underlying patterns in the world’s poorest countries: that public services tackle inequality the world over.

In Mexico, and even in Brazil with its award-winning *Bolsa Familia* cash-transfer scheme, education and healthcare make double the contribution to reducing economic inequality that tax and benefits make alone. But regressive taxation in many Latin American countries, including Brazil, is undermining the potential to combat inequality through fiscal redistribution, and preventing even greater investment in health and education.

This evidence underlines a double imperative for governments: to ensure progressive taxation that can redistribute *once* when collected and *again* when spent on inequality-busting public services.

## Impact on inequality of taxes, benefits and public services, five Latin American countries<sup>11</sup>



### The wrong solutions: Spending cuts, fees and privatization

Cuts to public spending in rich and poor countries alike exacerbates economic inequality, and damages public services that could prevent their downward spiral into more unequal societies. Yet, despite this, developing countries are cutting spending on health and education,<sup>12</sup> as are European countries.<sup>13</sup>

Far from being a magical solution to providing universal access to health and education services, private provision of services skews their benefit towards the richest. Amongst the poorest 60 per cent of Indian women, the majority turn to public sector facilities to give birth, whilst the majority of those in the top 40 per cent give birth in a private facility.<sup>14</sup> 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 serving the richest far more than the poorest. Fortunately, in these cases the public sector has compensated.<sup>15</sup>

Services must be free at point of delivery to reach their inequality-busting potential. Health user fees cause 150 million people around the world to suffer financial catastrophe each year.<sup>16</sup> For the poorest 20 per cent of families in Pakistan, sending all children to a private low-fee school would cost approximately 127 per cent of that household's income.<sup>17</sup> The trend is the same in Malawi<sup>18</sup> and in rural India.<sup>19</sup>

Whereas public services provide everyone with 'virtual income', fighting inequality by putting more in the pockets of the poorest; user fees and private services have the opposite effect. Fees take more away from the actual income of poor people, and private services benefit the richest first and foremost. This is the wrong medicine for the inequality epidemic.

# RECOMMENDATIONS

Extreme inequality is not inevitable, and with simple policy interventions, such as free public healthcare and education services, and fairer taxation that raises money from those who are most able to pay, we can start to reverse the inequality trend. Free public services are an investment in a fairer future for everyone, and prioritizing these services is crucial to stop society being tipped irrevocably into a world that only caters to the needs of the privileged few.

## **Governments must:**

- Prioritize increased public spending on and delivery of health and education services, to fight poverty and inequality at a national level. This means:
  - developing country governments meeting spending targets of 15 per cent of the national budget on health, and 20 per cent on education;
  - donor countries prioritizing public spending on and delivery of health and education services in their aid and development policies, and supporting developing countries in removing user fees in health and education.
- Prioritize policies and practice that increase financing for free public health and education to tackle inequality, and also redistribute and tackle inequality themselves. This means:
  - supporting rapid and radical reform of the international tax system, including stopping the secrecy surrounding tax havens and tax avoidance, and ensuring multinational companies are taxed fairly based on where they make their real profit;
  - promoting progressive tax reforms where companies and individuals pay according to their means, to increase tax revenue from the richest and combat economic inequality.
- Finance health and education from general progressive taxation rather than through private and/or optional insurance schemes, or user fees and out-of-pocket payments. This means:
  - increasing national tax to GDP ratios to meet their tax capacity, and do so through progressive taxation;
  - being vigilant to prevent the introduction of formal and informal health user fees;
  - refusing to support the introduction of low-fee schools in developing countries.
- Refrain from implementing unproven and unworkable market reforms to public health and education systems, and expand public sector rather than private sector delivery of essential services.

# NOTES

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