EVEN IT UP

TIME TO END EXTREME INEQUALITY

EXECUTIVE SUMMARY

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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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

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

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.[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 healthcare[4] 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.

* 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.

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 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

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

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]

> "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 WORLD[11]

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 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]

A TAX OF 1.5% ON BILLIONAIRES SINCE THE FINANCIAL CRISIS COULD HAVE SAVED 23 MILLION LIVES

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]

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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, 2012[22]

"

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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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. RAVALLION[31]

"

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 Oxfam[29] and the World Bank[30] 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.

Only 23

Fortune 500 chief executives are 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 Surveys[34] 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.

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

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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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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.

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.

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

Homicide rates are almost four times higher in countries with extreme economic inequality than in more equal nations.[43] Latin America – the most unequal and insecure region in the world[44] – starkly illustrates this trend.[45] It has 41 of the world's 50 most dangerous cities,[46] and saw a million murders take place between 2000 and 2010.[47] 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.[48]

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.

> "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 ENTREPRENEUR[49]

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]

> "To be wealthy and honoured in an unjust society is a disgrace."
>
> MAHATMA GANDHI

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 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.

> "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 STIGLITZ[53]

> "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 ENGLAND[57]

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 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.

> 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

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.

> 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 DEVELOPMENT**[62]

Working our way to a more equal world

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

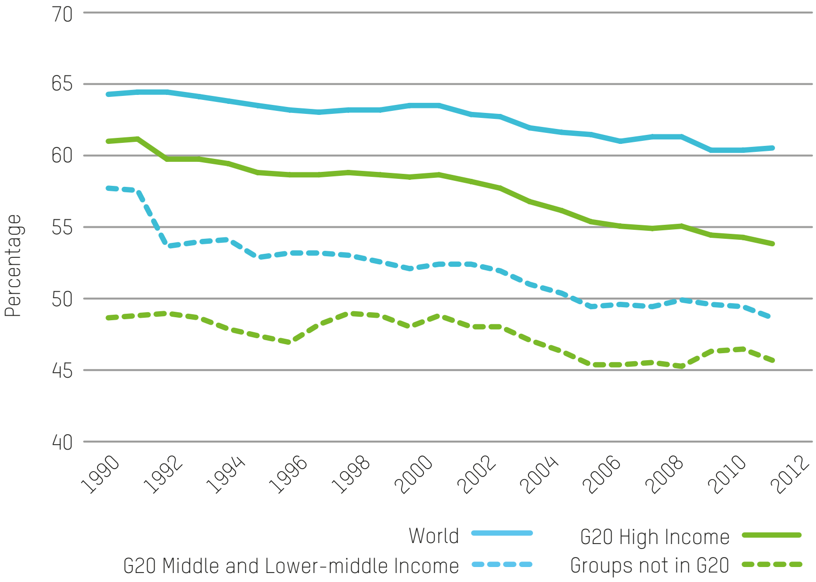
Maria lives in Malawi and works picking tea. Her wage is below the extreme poverty line of $1.25 per day at household level and she struggles to feed her two children, who are chronically malnourished. But things are starting to change. In January 2014, the Malawian government raised the minimum wage 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]

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]

FIGURE 1: Share of labour income in GDP for world and country groups[66]



In 2014, the UK top 100 executives took home 131 times as much as their average employee,[67] yet only 15 of these companies have committed to pay their employees a living wage.[68] In South Africa, a platinum miner would need to work for 93 years just to earn the average CEO's annual bonus.[69] 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.[70]

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.[71] 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.[72]

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.[73] 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.[74] Countries such as Ecuador[75] and China[76] 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.[77] 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 Santana in front of her business in Villa Eloisa de las Cañitas, Dominican Republic (2014).
Photo: Pablo Tosco/Oxfam

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.[78]

> **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 PROTESTOR[81]

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 regressive[79] 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.[80] 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.[82]

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 Apple[83] and Starbucks,[84] have been exposed for dodging billions in taxes, leading to unprecedented public pressure for reform.

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.[85] 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 Ugland 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'.[86] 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.[87]

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.[88]

International consensus is also shifting. Despite the limitations of the ongoing Base Erosion and Profit Shifting process,[89] 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.[90] It is also considering 'worldwide unitary taxation' as an alternative to ensure that companies pay tax where economic activity takes place.[91] 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.

> "How people are taxed, who is taxed and what is taxed tell more about a society than anything else."
>
> **CHARLES ADAMS**[92]

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.[93] 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.[94]

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.

Health and education: Strong weapons in the fight against inequality

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

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.[95] 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.[96] Education has played a key role in reducing inequality in Brazil,[97] and has helped maintain low levels of income inequality in the Republic of Korea (from here on in referred to as South Korea).[98]

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.[99] 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.[100] Women and girls suffer most when fees are charged for public services.

> "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**

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.[101] 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.[102]

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.[103] 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.[104] 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.[105]

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'.[106] 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.[107]

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.[108]

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.[109]

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 indigenous and black communities, which has helped to reduce inequality of access since the mid-1990s.[110] 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.[111]

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.[112] The USA is seeking to target aid to district councils in poor areas of Ghana and to support farmers to hold policy makers accountable.

"

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

"

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.[113]

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.[114] Even in the poorest countries, the evidence suggests that basic levels of social protection are affordable.[115] 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

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

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.[116] According to research conducted on the impact of austerity in Europe,[117] 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.[118] 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.[119]

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.[120] 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.[121] 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.[128]

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

"

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 CHILE[127]

"

TIME TO ACT TO END EXTREME INEQUALITY

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

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.

NOTES

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