Why We Must Tackle Inequality If We Are To Eradicate Extreme Poverty

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This year, a series of key global summits will attempt to set out a bold agenda: to tackle global poverty in a way which will leave no-one behind; and to ensure we sustain the natural resources and stable climate on which we all rely.

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At the core of this will be the development of a new set of 'sustainable development goals' to replace the *Millennium Development Goals*. When agreed, these should guide the work of national governments, bodies such as the *UN* and *World Bank*, companies, charities and philanthropists in reaching our common goal: an end to the scourge of poverty.

But there is an increasing body of evidence which clearly shows that that we will not achieve this unless we also tackle extreme economic inequality. The statistics to demonstrate this growing inequality crisis are stark. This January *Oxfam* calculated that just 80 people have the same wealth as the poorest half of the planet, and in 2014 we found that seven out of 10 people live in a country where the gap between the rich and poor has grown.

As the Chief Economist of the *Bank of England* said, when we published our report on inequality, these facts 'touch a moral nerve in many'[1]. But then again, the world has always had inequality. It may not seem fair for the have-nots, but does it actually harm their prospects to work their way out of poverty?

Analysis of poverty trends suggests that it does. Bangladesh and Nigeria 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[2].

Oxfam has done research with the *Brookings Institution* which shows that, 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 just ten points, the equivalent of a 36 percent reduction, it could virtually eliminate extreme poverty[3].

The Evidence Is That Vastly Unequal Societies Are Those In Which It Is Harder To Overcome Poverty

For governments this is an important lesson because it means that GDP growth will not necessarily lead to poverty reduction. Extreme inequality breaks that link and prevents that growth being shared. Zambia, for instance, is one of the ten fastest growing economies in the world, and yet poverty there has actually risen at the same time. Conversely, evidence also demonstrates that if inequality is reduced, not only does poverty reduction happen faster, but growth is more sustainable and robust[4].

To understand what's going on here we need to think about what the existence of extreme economic inequality in a county tells us about the policies and practices that go on there. Not all countries are unequal for the same reasons but we can point to some general trends that entrench inequality, and by the same token, make poverty harder to overcome:

Firstly, inequality can sometimes be associated with clear social discrimination. Apartheid is the famous historical example but in many countries around the world, certain groups of people – ethnic groups or women – are still discriminated against through legal statute or rigid social practice. Addressing discrimination is vital if we are to see all people overcome poverty.

Secondly, there is more inequality where a country does not do enough to redistribute. This could be because of low or regressive tax rates, or simply because people do not pay the taxes they do owe. It is estimated that Africa looses $100bn a year in illicit financial flows[5]. This is the loss of an important resource base to tackle poverty.

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But economic inequality is also the result of policies or economic practices which preserve too much power, and place too much opportunity, in the hands of the richest. This means that the vast majority of people are denied two things we all need to succeed: *investment in their success and the power to take control of their own lives.*

We have to make sure that everyone gets the basic investment they need to succeed. Where the poorest cannot access good quality healthcare or education it stands to reason that those who can pay to be healthy and educated will do better. This breaks down the idea of social mobility and entrenches inequality across generations because richer parents can ensure the investment in their children, whilst society is failing to ensure this for the rest. In the USA, nearly half of all children born to low-income parents will become low-income adults[6].

For people to take control over their own lives they need a certain amount of protection from the already powerful. Countries with weak labour laws and no provision for minimum wages deny people the right to demand fair pay and conditions from their employer. Too many people are therefore trapped working in poverty rather than working their way out of it. According to the *International Trade Union Confederation*, more than 50 percent of workers are in vulnerable or precarious work[7]. The greatest risk is often borne by women. Two years from the Rana Plaza building disaster in Bangladesh it is worth reflecting that most of those killed by the collapse were women.

People are also more able to make bold decisions when they know that if they try and fail, they will get another chance. This is one reason it is so important for governments to provide basic social protection.

There is an economic cost to wasting individual's potential on such an industrial scale – one which is finally being recognised in global policy making circles.

Economists at the *International Monetary Fund* - along with their counterparts at the *Organisation for Economic Cooperation and Development* as well as academic economists – are increasingly warning that extreme inequality is a threat to economic growth itself, and particularly to its sustainability and durability. A recent *IMF* paper models the financial fragility caused by increasing use of financial assets by the rich. It also documents the increasing reliance on unsustainable debt by poorer households, as they try to hold on to decent living standards as incomes fall. The paper warns such financial fragility leads to financial crisis[8].

So there is not – as previously assumed by many – a clear trade off between a fast growing stable economy and a more equal society. If we are sowing the seeds of another financial crisis then it is in all of our interests to have growth that is more equitable.

A rise in economic inequality is also a serious blow to efforts to achieve gender equality.

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[9].

So how can philanthropists address inequality?

Firstly, perhaps your greatest contribution can come before your philanthropy and is about your role in creating well paying, decent jobs throughout your businesses and supply chains; and taking pride in paying tax to fund health, education and social security, and encouraging others to do the same. These should be seen by individuals and companies as investments in the stable, prosperous and healthy societies in which they do business.

On top of this, philanthropy can play a decisive role in addressing inequality. You may consider funding grassroots advocacy and campaigning in poorer countries; supporting people to assert their rights. There are also programmes which specifically look to help individuals on the road to success such as *Oxfam's Enterprise Development Programme* which uses investment and business solutions to help poor people work their way out of poverty. Crucially, it is also directly redressing power imbalances in markets and value chains to give poor people more control. In all projects, it is vital to ask whether a project works for women. Creating jobs for women without working to also address the burden of care they bear simply increases their workload.

It will be a historic moment in September when a new set of global development goals are agreed.

The aim will not just be to halve poverty, but to end it, and to do so by 2030. We will only do this if we recognise the simple fact that inequality and poverty are related. We have the tools to tackle both, but we will not end one without addressing the other.

[1] http://oxfamilibrary.openrepository.com/oxfam/bitstream/10546/333012/50/cr-even-it-up-endorsements-291014-en.pdf

[2] Africa Progress Panel (2013) 'Africa Progress Report 2013: Equity in Extractives – Stewarding Africa's natural resources for all', Geneva: Africa Progress Panel, http://africaprogresspanel.org/wp-content/uploads/2013/08/2013_APR_Equity_in_Extractives_25062013_ENG_HR.pdf

[3] Seery, E and Arendar, A (2014) Even It Up: Time to End Extreme Inequality, Oxfam, Page 36

[4] Seery, E and Arendar, A (2014) Even It Up: Time to End Extreme Inequality, Oxfam, Page 40

[5] http://investmentpolicyhub.unctad.org/Blog/Index/42

[6] J. Stiglitz (2012) The Price of Inequality: How Today's Divided Society Endangers Our Future, Penguin, p.23

[7] International Trade Union Congress (2014), 'Frontlines Report', ITUC, http://www.ituc-csi.org/frontlines-report-february-2014-14549?lang=en

[8] http://piketty.pse.ens.fr/files/KumhoffRanciere2010.pdf

[9] R. Wilkinson and K. Pickett (2010) The Spirit Level: Why Equality is Better for Everyone, London: Penguin, p.59.

Mark Goldring, now Oxfam CEO, was previously chief executive of VSO; and has worked in the field for the United Nations Development Programme, the UK's Department for International Development (DFID) and Oxfam too – as Bangladesh country director in the 90s. Before joining Oxfam, he was chief executive of Mencap.

Goldring read law at Oxford and has a Masters in social planning. His considerable services to tackling poverty and disadvantage were recognised in 2008 with a CBE.