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Extreme poverty and extreme wealth

How sustainable economic policy can resolve global inequality

ECONOMIC INEQUALITY IS NOT only a problem afflicting poor countries. It also affects countries such as Finland. Income and wealth disparities have increased in most countries over the past 30 years. The richest one per cent of the world's population owns almost half of all the world's wealth.

Extreme poverty erodes prosperity, slows economic development and increases the likelihood of financial crises. It also multiplies social and health problems, leads to crime and violence and undermines stable social development. The majority of people do not have the chance to make use of their abilities, realise themselves and live decent lives. At the other extreme, the wealthy part of humanity conspicuously consumes more natural resources than everyone else.

A certain amount of inequality is acceptable: it is natural that talent and hard work are rewarded, as is the capacity to take commercial risks. But everyone should have the same opportunities to succeed in life.

The growth of inequality is one indication that our economic system cannot generate sustainable social and environmental wellbeing. Our current production and consumption practices overreach the planet's limits many times over. Reducing inequality is crucial if we are to cut poverty and maintain the world's habitability.

Sustainable economic policy could promote development that is more equitable, and therefore decision-makers too have a key role to play. We can create a sustainable economy by such measures as curbing tax havens, increasing corporate responsibility, mitigating climate change and stabilising the financial markets.

The reduction of inequality is an objective in 2015 of the UN's Sustainable Development Goals agreed by, and mandatory for, all countries worldwide. The future of humanity depends on our ability to share wealth and prosperity more evenly.

Governments must

- Commit themselves to the eradication of global inequality and advance these aims in international organisations
- Curb the global tax haven economy
- Increase the accountability of corporations
- Sign up to the financial transaction tax
- Promote the adoption everywhere of taxation systems that equalise income and wealth disparities
- Utilise welfare and inequality indicators, and not just GDP, to guide policy-making
- Mitigate climate change by committing itself to emission reduction targets in line with climate science.

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WRITTEN AND EDITED BY
Henri Purje
Eva Nilsson

OTHER WRITERS
Sanna Autere
Bakar Khamis Bakar
Minna Kuivalainen
Mário Machimbene
Nattawat Theeralerttham
José Valdivia

TRANSLATION OF TEXTS WRITTEN IN FINNISH
Mark Waller

LAYOUT
Nicola Lönnberg / Jesse Pasanen

COVER IMAGE
Shutterstock / pio3

KEPA RY
Elimäenkatu 25–27
00260 Helsinki, Finland
+358 9 584 233
info@kepa.fi
kepa.fi

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Content

Wealth is in the hands of the few

MORE ATTENTION HAS BEEN PAID in recent years to the fact that economic growth has not succeeded in reducing poverty as was hoped. There is more wealth in the world than ever before but it is distributed extremely unevenly. International institutions, starting with the World Economic Forum, the OECD and the IMF, have pointed to inequality as the major predicament of our time.

Over the last 15 years, the number of people living in extreme poverty has dropped by over 600 million. The first of the UN Millennium Development Goals, which were set in 2000, for halving extreme poverty from the 1990 level by 2015, has thus been achieved ahead of schedule.

On the other hand, 1.2 billion people continue to live below the poverty line defined by the World Bank of $US1.25 a day. Their daily budget averages at $US0.87. Furthermore, a third of the world's population exists on under $US2 a day. Maybe they are not included in the official classification of extreme poverty but they are anyway very poor, and their numbers have barely declined since the beginning of the 1980s. In sub-Saharan Africa, there are now over 200 million more people living in extreme poverty than 35 years ago, even though the continent's economy grew at a record pace in the 2000s.

The gulf between rich and poor is widening. More than seven out of 10 people live in a country where economic inequality has increased in the last 30 years.[1]

Income gaps are greater within countries

Inequality in Western industrialised countries is now greater than at any time since the 1970s. In some countries, such as the United States, such equality gaps have not been seen since the 1930s.[2] Inequality in developing countries has in many places increased too. Income inequality in developing countries grew by an average of 11 per cent a year between 1990 and 2010.[3]

Over 40 per cent of income growth between 1990 and 2000 went to the richest five per cent of the world's population.[4] The earnings of the top one per cent of those in the highest income bracket grew by 60 per cent. The corresponding poorest half of the population, numbering 3.5 billion people, received less than 12 per cent of this income growth.[5]

1 UNDP 2014
2 Piketty 2014 (wealth); OECD 2014b (incomes)
3 UNDP 2014, population weighted calculation; see also Alvaredo 2011
4 Lakner and Milanovic 2013
5 Milanovic 2012

Key figures

- **1 per cent** of the world's population own 48 per cent – almost half – of the world's wealth.
- **The poorest 50 per cent** of the world's population own just one per cent of the world's wealth.
- The earnings of the top one per cent of those with the highest income grew by **60 per cent** during the 1990s and 2000s.
- **70 per cent** of people in the world live in countries in which inequality has increased over the past 30 years.
- Gross global wealth for 2014 was **$US263 billion, or €198 billion.**
- The World Bank's definition of the extreme poverty line is **$US 1.25** (i.e. daily earnings).

Key terms

- **Poverty line:** the income level below which an individual cannot afford to procure essential commodities needed to maintain a tolerable standard of living.
- **Income inequality:** the distribution of incomes within a specific group of people.
- **Wealth inequality:** the distribution of wealth within society.
- **Gini coefficient:** the most commonly used measure of income / wealth inequality. Gini is a measure of value between one and zero. A coefficient of one would mean that one person has all the income / wealth. A coefficient of zero would mean that income distribution is completely equal. (See page 6 "Indicators matter")
- **Palma ratio:** an indicator of wealth inequality that depicts the income ratio of richest 10 per cent of the population to the poorest 40 per cent. (See page 6 "Indicators matter")

Economic inequality has increased within countries. In the United States, the richest one per cent of the population received 95 per cent of all income increases during the 2009–2012 financial crisis. Over the same period, 90 per cent of the population became poorer.[6]

In comparatively more economically equal Finland, income inequality as measured by the Gini coefficient increased dramatically in the 1990s, and thereafter levelled off.[7] Between 1995 and 2005 income inequality increased more rapidly in Finland than in any other industrialised country.[8] In the Nordic countries, the top earning one per cent's share of income growth has increased by 70 per cent since the beginning of the 1980s.[9]

Globally, income inequality within countries clearly grew from the end of the 1980s to 2005, after which the rate of increase has slowed.[10]

Statistics show that inequality between countries has to some extent decreased over the past 20–30 years but that it remains greater than inequality within countries. The country where one is born determines by about 70 per cent one's income.[11] In 2012, it would have been possible to eliminate extreme poverty in the world with a quarter of the annual income of the top hundred billionaires.[12] The middle-income, fully employed Finn ranking among the world's highest earning 1.5 per cent illustrates inequalities between countries.[13]

If we exclude China, inequality between countries appears to have remained almost constant. The rapid affluence among hundreds of millions of Chinese has had a noticeably stabilising effect on global income distribution.[14] (See page 6 "Indicators matter")

Wealth inequality is greater than income inequality

There is more wealth in the world nowadays than at any time previously. Its total value in 2013 was estimated at $US 263 000 billion, or €198 000 billion.[15] In the last five years, the wealth of those owning over a million US dollars has steadily increased. The fastest rate of increase has been among those who own over $US30 million – the superrich.[16]

The richest one per cent of humanity owns nearly half (48 per cent) of the world's entire wealth, and the richest 10 per cent own 87 per cent.[17] It is reckoned that the world's 85 richest people possess as much wealth as poorest half of humanity. [18] They could all comfortably fit on a tram in downtown Helsinki.

It is likely that the wealth of the rich has increased in 2013 and 2014 faster than at any point in world history. [19]

Wealth inequality decreased in developed economies from the beginning of the 20th century. But, as with income inequality, over the last 30 years it has changed direction and started to increase.[20]

Wealth is distributed more unequally than income both between and within countries. The Gini coefficient of global income distribution adjusted for purchasing power is 0.75, while the corresponding figure for wealth inequality is 0.9.[21] A situation where all income or wealth was concentrated in a single country would yield a Gini coefficient of one.

These calculations are most likely conservative estimates, as the superrich often conceal their assets in the financial secrecy of tax havens and so the real figures are impossible to locate.[22] Tax havens hold an estimated €20 000 billion in funds or bank accounts belonging to private individuals.[23] This roughly corresponds to 10 per cent of the world's entire wealth.[24]

The world's wealth is largely concentrated in Europe, North America and the countries of the west Pacific (Hongkong, Singapore and Australia). These regions' share of global wealth is many times that of their populations.

African countries and India, meanwhile, are over represented in the poorest decile of the world's population. In some sub-Saharan African countries, practically the entire population belongs to this poorest group.

Nine out of ten in the world's richest decile are from the United States, Europe or the states of the western Pacific. On the other hand, the latter region also contains poor countries, such as Cambodia, which characterises the region's significant share of people from the poorer income groups.[25]

6 Saez 2013
7 Törmälehto 2013
8 OECD 2008
9 OECD 2014a
10 Milanovic 2011; Edward and Sumner 2013b
11 Milanovic 2013
12 Oxfam 2013a
13 The Finnish median net wage is calculated by Statistics Finland based on 2012 salary structure data and the Tax Administration's table depicting tax, pension and unemployment insurance contributions. See Statistics Finland 2014a. This does not take into account the monetary value of public services Finns received. The ratio to the global level of income has been made using the Global Rich List service, you http://www.globalrichlist.com/.
14 Milanovic 2011; Edward and Sumner 2013b
15 Davies ym. 2014. Here we are dealing with net assets, obtained from the equation of actual wealth + financial assets – liabilities. The conversion of dollars into euros is according to the Bank of Finland's average exchange rate in 2013, which was $US 1.3281.
16 CapGemini ja RBC Wealth Management 2014
17 This takes into account adults, in which case the world population under consideration is about 4.67 billion people. See Davies et al. 2014
18 Davies et al. 2013
19 Shorrocks 2014
20 Piketty and Saez 2014
21 Davies 2014
22 Shaxson et al. 2012
23 Henry 2012. Also Davies et al. (2012) try to take into account the underreporting of the assets of the richest people in their account, but they do not include in the figures they give a comprehensive assessment of tax haven assets. We find the same problem with almost all estimates of economic inequality.
24 The calculation is based on Henry's (2012) finding that tax havens contain $US 21–32 000 billion in private assets, as well as Credit Suisse's global wealth report's (Davies et al. 2013) estimate of $US241 000 billion in total assets.
25 Davies et al. 2014

As with income, wealth is also distributed extremely unevenly within countries, and not only between them globally. This is true of both the rich West and developing countries.

An extreme example is the world's richest person, Carlos Slim, a Mexican, whose property corresponded in 2012 to over six per cent of Mexico's GDP.[26] In Britain, the hundred richest people are estimated to own as much as the poorest 30 per cent of households.[27] There are more people in India living in absolute poverty than anywhere else on the planet, and yet the wealth of billionaires in the country has increased twelvefold in the past 15 years. Half of this increase in wealth would be enough to eradicate extreme poverty from the entire country.[28] There are countless other similar examples.

26 Broad and Cavanagh 2013
27 Wilkinson and Pickett 2014
28 Lagarde 2014

Indicators matter

EVEN THOUGH OVER TWO FIFTH (44 per cent) of income growth between 1988 and 2008 went to the richest fifth per cent of the world's population, the Gini coefficient, which is the most common indicator of income inequality, does not show any marked change for this period.[29]

Gini is a measure of value between one and zero. A coefficient of one would mean that one person has all the income. A coefficient of zero would mean that all income is the same.

But the Gini coefficient does not give a whole picture of the state of inequality, as it does not reveal what income distribution means for different income groups. Often, the interesting thing in the social context is to find out income trends at the top and bottom. Both within countries and between countries globally, it is precisely the income changes of the richest one per cent – or in the case of the US 0.1 per cent[30] – that are detached from the rest of the population.

Another way of looking at the development of income distribution is to work out how the income of the richest part of the population has developed in relation to the poorest 40 per cent. The context for this is the observation that the middle 50 per cent remains largely the same regardless of time and place.[31]

This so-called Palma indicator shows a fall in the share of the income of the poorest 40 per cent of the global population, and a corresponding increase in that of the richest 10 per cent over the same period, 1988 to 2008. The imbalance between the 40 per cent lowest income earners and the five per cent top earners grew by a ratio of 30 per cent.[32]

Both the Gini and Palma indicators show that the greatest income equality within countries exists in South America and southern Africa. The differences between countries are staggering. In 2008 a person in South Africa belonging to the richest top five percent earned 56 times more than a person belonging to the average 40 per cent of those on low incomes. At the other extreme was Slovenia, where the ratio was 3.6.[33]

It is interesting that countries with a relatively small Gini coefficient can also have very large income differences, when we look at the extremes in levels of income. For instance, in Finland, Denmark and Norway the income share of the richest one per cent is clearly greater than the Gini figure would suggest.

Similarly, the Gini coefficients of Portugal and Sierra Leone in 2010 were the same. However, when we look at Sierra Leone using the Palma indicator income distribution appears to be 25 per cent more unequal.[34]

The indicator we choose to use influences both the outcomes and the ensuing policy recommendations based on them. Gini highlights changes in the middle classes, but the majority of people are concerned about distribution trends at the top and bottom, and these are often more important in terms of social development. For this reason it would be desirable for expanded indicators, like the Palma indicator, to be used more widely. In terms of the usefulness of indicators, it is essential to develop the capacity of developing countries, in particular, to compile quality statistical data.

29 Lakner ja Milanovic 2013
30 Thompson 2014
31 The economist José Gabriel Palma observed this concerning the stabilising effect of the middle class. Thus, the coefficient describing the income ratio of the highest 10 per cent and lowest 40 per cent has started to be named after Palma – the Palma indicator. See e.g. Palma 2006; Cobham and Sumner 2013; and Krozer 2014. However, it should be noted that in the industrialised countries of the global North especially the middle class is losing its income share to the top 10 per cent.
32 The analysis is based on two databases: the World income distribution database (WYD) covers 116 different income countries, and the LIS database has information on 41 upper and upper middle-income countries. See Krozer 2014
33 The Palma indicator refers to the ratio between the lowest 40 per cent and the upper decile. This refers to studies where the four lowest deciles are compared to the richest five and one per cents.
34 Krozer 2014

Inequality and economic growth

Economic growth and inequality are linked to one another in many ways. Economists have spent much time studying the impact of inequality on economic growth. On the other hand, there is concern at the mounting impact of the current unsustainable course of economic growth on inequality. When growth cannot continue, wealth has to be distributed more evenly.

In economics, inequality has traditionally been seen as an inevitable consequence of economic growth and a precondition for it. By this logic, active policy measures to equalise income distribution slow GDP growth.[35]

But reality does not support either thesis. Many historical evidence-based studies have shown that inequality puts a brake on economic growth and shortens growth periods. Active income distribution policy does not slow growth.[36]

Commonsense suggests that inequality has negative consequences. A lack of good quality education and health services and an uneven distribution of opportunities leads to a waste of human capital and talent. The political and economic instability brought about by inequality reduces confidence and a willingness to invest, and makes it difficult to adapt in crises. A concentration of wealth weakens growth the employment that sustains aggregate demand.[37]

Many studies have shown that high rates of financial inequality are one of the main factors behind the financial crisis that started in 2008.[38]

A more basic problem in measuring growth using GDP is the destruction of its material basis. A production and social model based on the unsustainable utilisation of cheap, abundant and easily available non-renewable natural resources has enabled unprecedented prosperity. It is also the biggest cause of climate change, the degradation of the natural environment, decline in biodiversity, destruction of ecosystems and increasing conflicts over the management of dwindling natural resources.[39] Some 80 per cent of the greenhouse gas emissions of the industrialised countries are due to energy use.[40]

35 In economics the idea is known as Okun's big tradeoff, according to which progressive taxation and income transfers to the poor diminish economic effectiveness, which in turn leads to slowed growth. See Okun 1975.
36 See e.g. Berg 2014; Ostry and Berg 2011; Ostry et al. 2014
37 Galbraith 2012; Unctad 2014
38 Rajan 2010; Galbraith 2012; Stiglitz 2012; Unctad 2014
39 Sachs 2013
40 IEA 2013

Global energy consumption grows at the same pace as economic growth. Technological progress will most likely not be able to sever the linkage between energy consumption and GDP: improving efficiency has always been channelled into new areas of production and gross energy consumption increases.[41]

If we want to keep global warming below the two-degree catastrophe limit, three quarters of known coal, oil and natural gas reserves will have to be left untouched.[42] At present, the gulf between the required emission reduction science and actual emissions is widening.[43] The replication of the growth model of industrialised countries throughout the world would require three or four times the planet's natural resources and the possibility to outsource the adverse effects of our consumption to other planets.

The material standard of living of the poorest countries must be increased to meet the conditions of the good life, and adaptation and adjustment must take place above all in the rich industrialised countries.[44]

This is justified from the perspective that in all countries human harm to the environment is down to increasing income and asset growth. The richest ones place more strain on the Earth's carrying capacity than any others.[45] The well-being people experience does not increase beyond a certain income level. This has been observed in Finland.[46]

41 Suokko 2013; Jackson 2009
42 Steffen and Hughes 2013; Carbon Tracker 2013
43 PwC 2014
44 See e.g. Pasanen and Ulvila 2010
45 Science Nordic 2013; De Schutter 2014
46 Hoffrén 2008

A danger to democracy and prosperity

ECONOMIC, POLITICAL AND SOCIAL INEQUALITY is closely interrelated. Economic inequality can result in some citizens not having the opportunities to maintain their own welfare, such as through proper health care or through education and training to attain positions of influence in society.

If welfare services are concentrated in certain areas or they are too expensive for people on low incomes, poor health can ruin people's chances to gain an education, work or be involved in society. Ethnic minorities, indigenous peoples, people with disabilities and other marginalised or vulnerable groups are also often worse off financially.

Equality of opportunity is an important part of building a fair and equal society.

In general, health and income problems, violence, crime, insecurity, diminished trust, diminished wellbeing and lack of communality spread due to inequality, and they affect all social classes and not just "the marginalised" or "the poor".

Except in the poorest societies, relative income level has more of an impact on people's susceptibility to illness than absolute income level.[47] Major economic inequality is reckoned to account for over 1.5 million premature deaths in industrialised countries. This estimate was made before the current global economic crisis.[48]

47 Paskov et al. 2013; Wilkinson and Pickett 2014
48 Kondo at al. 2009

The most usual measures of economic inequality do not take account of differences between men and women. Gender specific statistical data is often not available, particularly on the poorest countries. The household is commonly used as the unit of analysis, which ignores differences between family members.

According to some assessments, the side lining of inequalities that exist within households gives an exaggeratedly positive picture of inequality and poverty by as much as 25 per cent.[50] In every society the incomes, influence and autonomy of women are less than those of men, and sometimes the differences between countries on these counts are enormous.[51]

The advantages of equality have been seen in both rich and poor societies. Low incomes and wealth inequality are closely connected with how people experience wellbeing. Major economic inequalities place an invisible wall between people, separate their social environments, reduce their sense of belonging and lead to constant rivalry over social status, which in turn generates stress, nurtures environmentally unsustainable consumption patterns and compounds indebtedness.[52]

50 Kanbur 2013
51 The UN Gender Inequality Index provides more detailed information on the situation of women in different countries.
52 De Schutter 2014

In Nicaragua women struggle for equality

NICARAGUA IS COMMITTED to promoting equality in its national human development plan for 2012–2016. Nevertheless, equal opportunities do not apply to everyone. In particular, the recent changes in government policy have narrowed rather than increased the opportunities available to different population groups.

For example, under the law on gender equality victims of domestic violence must participate in conciliation procedures together with their abusers instead of reporting offenses to the police. The indirect message of the law supporting the use of conciliation is that domestic violence is not a severe crime and can be overlooked. This reinforces a social climate where assaulting, harassing and discriminating against women are unexceptionable. Previous experience of conciliation methods in Nicaragua has found that the space for violence against women has become more pronounced[49].

The situation also has economic impacts. Victims of domestic violence are more susceptible to losing their jobs as they may underperform at work compared to others. People subject to domestic violence often have fewer educational opportunities and so enjoy lower incomes than other people.

If society finds gender inequality acceptable, women will often end up in lower positions in work and with less pay than men. This will increase inequality all the more. Because women use a greater proportion of family finances than men, inequality of opportunities is passed on to children.

49 Solís 2003

Social mobility demonstrates equality of opportunity

One of the best indicators demonstrating society's real equality of opportunity is social mobility, or the extent to which a child's status as an adult depends on his or her family background. The more equal a country is, the more likely that children will end up in different social classes than their parents.[53]

Cross-generational movement from one social class to another increased in the West particularly in the decades after World War II. The so-called social mobility growth was in part related to the expansion of the middle class and a reduction in inequality: movement from one class to another has usually happened less among the poorest and richest parts of the population.[54]

Access to education has historically been a key factor furthering social mobility, and this is still the case globally. In particular, expanding educational opportunities in unequal and poor countries bolsters the preconditions for more equal development, empowers people and reduces poverty.[55] Education policy aimed at increasing equality has been crucial to the reduction of income disparities in Latin America in the 2000s.[56]

The ready availability of health and other basic services also furthers social mobility. There are fewer welfare services available in poor countries, where state budgets are small, tax revenue low and there is no social protection. In countries where basic services have to be paid for, they tend to benefit only the wealthier sections of the population.

On the other hand, basic and welfare services have also been cut back in wealthy countries. It is worrying that in some societies social mobility is clearly in decline. This is especially apparent in the United States, where the opportunities for poor people in particular to prosper and get a good education are few. Hereditary wealth and power and the gap between the financial elite and the rest of the population have also grown.[57]

By international standards, social mobility in Finland is strong, but here too for young people starting their careers it is weaker than it was for previous generations, unless, for example, something is done about youth unemployment.[58]

The increasing power and over representation of the affluent population and social inequality compound the risk that poverty and wealth will be inherited in the future even more than they are now. This can be prevented by proactive and universal welfare policies promoting equality of opportunity.[59]

53 Erola 2010
54 Smeeding 2013
55 Corak 2013
56 Cornia 2014
57 Corak 2013
58 Erola 2013
59 See e.g. Oxfam 2014a and 2014b

Inequality of access to drinking water in Tanzania

THE EQUAL RIGHT to water and sanitation means that their availability is assured even for the most vulnerable section of the population. But this is not so in Tanzania.

The wealthiest fifth of the population consume just 1.6 per cent of water and sanitation, and 63 per cent are connected to the clean water supply. But the poor majority of the population consume six per cent of water and only 44 per cent of them have access to potable water.

Inequality has a regional emphasis. According to a population and health survey conducted in 2010, almost a half of the rural population did not have access to clean water. In urban areas, clean water is already available to 80 per cent of the population.[60]

Also, eight per cent of rural inhabitants have to fetch water from sources over six kilometres from their homes. In the driest areas, women have to walk for up to five hours to fetch a bucket of water. The time women spend fetching water reduces their chances to be involved in economically productive activity. When the distance for fetching water is over five kilometres, girls of school age in many cases end up missing lessons.[61]

60 Tanzania Water and Sanitation Network 2012
61 Tanzania Water and Sanitation Network 2013

Inequality of health care in Mozambique

INEQUALITY HAS INCREASED in Mozambique in recent years, and is reflected in the country's health system.

Health services do not cover the whole country, and many areas have none at all. The majority of the population live outside the main urban areas in areas not properly covered by the health system. The poorest inhabitants find it especially hard to access quality health care. In the worst cases, it can take over 24 hours for a seriously ill patient to get treatment.[62]

The numbers of health professionals are not enough to meet the needs of the 24 million inhabitants, and there are only 1.8 beds for patients per 10 000 inhabitants.[63]

Also, health service availability is at a worryingly low level. In Nampula, one of the most densely populated provinces, there is just one general hospital and one specialised hospital for four million inhabitants.[64]

In the capital, Maputo, the first and biggest public hospital in the city provides treatment for severely ill patients that is unavailable at other hospitals. But the hospital suffers from a chronic shortage of drugs, staff and equipment. Most clinical tests have to be done by outside private laboratories. Mozambicans who cannot afford to pay the high costs of laboratory work cannot obtain the swift and reliable diagnoses they need are often in danger of losing their lives. Many seek alternative treatment from traditional medicine. Because of drug shortages in the public sector, many people buy their medicines from informal Bisineiro sellers or on the black Tchungamoyo market. Lack of medical knowledge means that people are often sold the wrong drugs by unofficial vendors.

Private health services are mainly available in the big cities.[65] In 2012, the Southern African firm Lenmed Health and the Mozambican investment company INVALCO built a for-profit private hospital in Maputo. The hospitals primary service fee is €32[66], which is a lot in terms of the income level of the average five-person family. Over half of Mozambicans work in low-income sectors, such as farming, fishing and forestry, with wages averaging €75 a month.

For the health system to reach all the population equally, services need to be ensured throughout rural areas and to reach all the poorest sectors of the population.

62 Mozambican Debt Group 2013
63 Instituto Nacional de Estatisticas 2011
64 Ministério da Saúde 2007
65 World Health Organisation 2014
66 The price quoted by Maputo Private Hospital September 2014.

Economic inequality corrodes democracy

The operational scope of unequal distribution leads to socially detrimental outcomes. The more power the affluent elite has, the more likely that it can and will protect its prerogatives. [67]

If power in practice is in the hands of a small wealthy minority and their special interest groups, the institutions of representative democracy, regular elections, universal suffrage and freedom of speech will not ensure that democracy is a reality. [68]

In unequal societies voter participation and other forms of social involvement are low, particularly among the poor. [69]

When the NGO Oxfam asked people's views of the functioning of the political system in Brazil, India, South Africa, Spain, the UK and the US, a majority of respondents believed that in each country the system serves the rich. [70]

In the US, at least, this view seems to be true: between 1981 and 2002, key decision-making on society reflected almost exclusively the viewpoint of a narrow financial elite. The preferences of ordinary citizens were barely evident or non-existent in the decisions taken, even when a significant majority were behind a particular change. [71]

67 Harford 2012
68 Gilens ja Page 2014
69 Nolan et al. 2014
70 Oxfam 2014a
71 Gilens and Page 2014

Inequality means lack of democracy in Thailand

THAILAND IS ONE the world's most unequal countries. Ten per cent of the population earn about 40 per cent of the country's net national income. The poorest ten per cent of the population, on the other hand, earns just two per cent of national income.

The figure measuring national wealth in turn shows that the richest ten per cent of the population own over 57 per cent of Thailand's net wealth, while the poorest ten per cent of the population are indebted. The richest ten per cent also own 857 times more land and possess 18 600 times more savings than the poorest ten per cent. [72]

The unequal distribution of wealth has wide ranging impacts on society. Wealth is closely linked to power. A report by the Thailand Future Foundation finds that the combined wealth of the 500 members of the House of Representatives is greater than the total wealth of the poorest two million people in the country. A small group of politicians is therefore richer than 99 per cent of the citizens they represent. [73]

One wonders who these politicians really represent and whose interests they promote.

72 Thailand Future Foundation 2013

73 Ibid.

Inequality leads to 'bread queues' in Finland

BY INTERNATIONAL comparisons, Finland is a very equal country. But inequality has increased since the 1990s to 1970s levels. The growth of income inequality between 1995–2005 was faster in Finland than in any other industrialised country. [74] Income disparities have remained comparatively constant in recent years.

An important cause of the increase in income inequality was income growth among the rich. Aside from the richest one per cent, the incomes of Finns have increased slowly. The fastest increase has been among this richest one per cent.

Top earners have increased their wealth in terms of capital income. In 2012, almost half of the income of the richest one per cent in Finland was income from property. [75] In Finland, as elsewhere, wealth inequality is greater than income inequality. The richest decile owns almost half of total wealth.[76] According to one estimate, the concentration of property among certain individuals or families shows that almost half of wealth of the 100 richest people is based on inherited capital. [77]

Factor income, or earnings from working and invested capital, is distributed in Finland more unevenly than in many other industrialised countries. However, progressive taxation, income transfers and public services have a significant levelling effect, although less so than before the 1990s recession.

Nevertheless, there are over 800 000 poor people in Finland. Flat rate income support has not developed at the same rate as economic growth and is often not enough to live on. About 100 000 people suffer from prolonged impoverishment, and they include significant numbers of people who are long term unemployed, homeless, and over-indebted. Over 20 000 Finns obtain food each week from so called 'bread queues'.

Poverty leads to mental health problems, shatters social relations, and causes loneliness and isolation. The gap between the extremes of wealth and poverty has been increasing. [78] The Finnish health care system is one of the most unequal in the developed world. [79] Two out of three Finns no longer feel that "we are all in the same boat". [80]

74 OECD 2008
75 Taloussanomat 2014
76 Davies et al. 2013
77 Seppänen 2014. Based on published tax data but does not take into account the influence of international financial organisations or tax avoidance.

78 Finnish Broadcasting Company - Yle 2014
79 Blomgren 2013
80 Turunen 2013

How to tackle inequality?

INEQUALITY HAS MANY BACKGROUND SOURCES, and they vary from one country to another. Nevertheless a few general trends help explain much of the course of inequality of recent decades.

Due to globalisation, the power of multinational corporations has expanded in relation to states and citizens. The growth of corporate profits at the expense of wages is one of the most powerful phenomena increasing inequality in the last few decades. The swelling of the financial sector in relation to the real economy has also been an important factor. Climate change too aggravates inequality.

There is no natural law responsible for vast gaps in income and wealth. They are a result of political choice. While globalisation has involved pressure to "adapt" to global markets and although in ideal situations decision-making for more equal and sustainable policies takes place internationally or regionally, states can still have an important impact on inequality.

A good indication of the importance of political decisions is that many countries have managed to combine stability and sustainable economy as well as the reduction of poverty and inequality.

The Nordic welfare state has historically been a paradigm of the combination of successful economic development and the active levelling of income disparities.

In Latin America, inequality has decreased throughout the 2000s because of deliberate policy changes, even though the continent contains much inequality. In Brazil, for instance, such things as improving employees' income, investing in the school system and initiating an income transfer programme targeting the poor have cut inequality. [81]

In Finland, a government priority of the Katainen government was to reduce inequality in the country between 2011–2015.[82] Although the growth of income inequality has slowed in Finland, income and wealth-based inequality is still commonplace here, in the rest of Europe and globally.

Efforts to reduce inequality must continue. In 2015, the UN agreed on new sustainable development goals. These goals must aim to promote the eradication of inequality.

81 Cornia 2014
82 Finnish Government 2011

Power and prosperity is concentrated among giant corporations and the wealthy

Income inequality has grown[83] alongside the acceleration of economic, social and political globalisation.[84]

Globalisation has undermined the framework of the development model based on nation-state centred changes to the system of production. Whereas previously development implied the emergence of a middle class and domestic industrialisation, globalisation is characterised by many poor countries engaged as the suppliers of raw materials and cheap labour for multinational companies. The poor management of natural resources coupled with feeble taxation and welfare systems has meant that the benefits of such things as raw materials' exports are meagre.

Giant corporations are able to minimise their taxes, arrange value chains to make production as cheap as possible, outsource risks and negotiate favourable terms for themselves with governments hungry for foreign investment. Small and medium sized enterprises operating nationally have no such advantage.

A transnational upper class attached to the global markets has emerged.[85] All too often, we find that the activities of those on high incomes living in low-income countries to increase their wealth and power take place at the expense of livelihoods, food security and other basic human rights of the poorest and marginalised groups in society.[86]

The greater freedom of movement accorded corporations and the liberalisation of markets have resulted in a concentration of power and increase in the influence of multinational companies. The power of national legislative bodies comparative to transnational capital has receded, while the hold of big business on the political system has grown. As much as 70 per cent of world trade is estimated to take place within major enterprises.[87] Nearly 40 per cent of the world's 100 largest economic actors are corporations.[88] Fewer than 150 companies control up to 40 per cent of global business activity.[89]

83 UNDP 2014
84 The acceleration of globalisation is measured using the KOF Index of Globalisation (Dreher et al. 2008)
85 Sachs 2013
86 Sachs 2013
87 Murphy 2010
88 Transnational Institute 2014. Corporate turnover and national GDP are different variables but the comparison illustrates well the vastness of the biggest global corporations.
89 Vitali et al. 2011

Ordinary citizens are often trampled underfoot by big corporations, as in the worst cases they pay a high price for the tax or environmental regulation concessions granted to companies, if forced to endure higher taxes or environmental destruction.[90] Foreign investments are often seen as necessary for investment. They create much needed employment, generate tax revenue and disseminate skills and expertise. But statistics show that foreign investments have on average increased inequality in Latin America, Asia and Africa.[91]

Decision-makers must boldly intervene in the adverse effects of globalised corporate activity. Companies operating abroad and managing extensive value chains must be obliged to make prior assessments of the human rights impacts of their activities and to report on these annually. Companies guilty of human rights violations must also be made legally accountable in their countries of origin.

Multinational company tax avoidance and evasion must be tackled by requiring corporate transparency. At present, even the most proficient specialists are unable to keep track of corporate cash flows. Transparency alone will not get rid of tax havens but will shed light on aggressive tax planning.[92]

Corporate responsibility should also be a feature of trade and investment agreements. Optimally, these can help promote sustainable and equitable development. Agreements must therefore not guarantee corporations unlimited powers of so-called investment protection. Investment protection enables corporations even to sue countries in situations where such things as environmental legislation impinge on their operational latitude.

The growth of corporate power has also affected wealth concentration. The liberalisation of capital movements has undermined the negotiating strength of organised labour and to some degree hindered the direct taxation of affluent individuals and corporate profits due to the pervasiveness of various tax avoidance systems. The result has been a shift of emphasis in taxation toward forms of indirect taxation that increase inequality, such as VAT, while productivity and corporate profits outstrip wages.[93]

This change in so-called functional income distribution, or the increase in the share of corporate profits at the expense of wages, is one of the most powerful factors increasing inequality in recent decades. Adequate income from work is the most important element that determines the welfare and standard of living of the overwhelming majority of people in the world. The added value component of wages has fallen in industrialised and developing countries.[94]

Capital productivity has expanded at a faster rate than the economy, and the already affluent have become ever richer faster than other sections of the population.[95] One effective way to reduce inequality is to improve the labour market position of small and medium-sized income earners and ensure that as many as possible have work.

Governments must

- Promote the realisation of UN guiding principles on business and human rights by setting regulations for companies to do due diligence on human rights and to report on corporate responsibility , and to promote this internationally.
- Create mechanisms to ensure justice for victims of human rights violations caused by companies.
- Reform laws on public procurement to provide for the use of mandatory competitive tendering criteria on environmental and social sustainability in public procurement.
- Curb tax haven economies by requiring companies to report their financial statements on a country-by-country basis, commit themselves to public registers of shareholders and introduce the practice of automatic tax information exchange.
- Include robust sustainable development standards in all future trade and investment agreements.
- Promote worldwide the guarantee of decent work and adequate living wages, particularly for the young.

Financial sector is bloated at the expense of the real economy

The bloated nature of the financial sector has accelerated inequality in the richest countries.[96] First, the channelling of assets into the financial markets instead of the real economy has reduced the real economy's generation of investments, jobs and prosperity. Second, the financial sector has widened pay differentials from the top. Apart from the massive salaries paid in the finance sector, the incomes of company directors in other areas are often linked to the development of the financial markets. Third, the financial crisis that originated from the financial markets has weakened overall employment and economic development.[97]

The phenomenal increase in the gap between executive megasalaries and the pay of ordinary workers has also increased income inequality more widely. In the United States, the executives of the largest 250 companies on average

90 Kepa 2013a
91 Cornia 2014
92 Kepa 2013a
93 ILO 2011; Unctad 2014
94 ILO 2014; Piketty 2014; Trapp 2014
95 Ibid.
96 Galbraith 2012
97 ibid.

earned 204 times the typical salary of their employees from 2011 – 2012.[98] In the UK, the ratio in the 100 largest companies is 130.[99] In Finland, too, the salaries of the executives of listed companies have increased dramatically compared to those of employees, reaching a new record in 2013. If we exclude stock options or stock incentives, executive pay was 23 times that of average pay in Finland.[100]

The financial markets have also been almost wholly unregulated. This was a main cause of the financial crisis that started in 2008. In addition to lack of regulation, the sector was exempt from paying VAT.[101] As European bank bailouts have absorbed more than €400 billion of tax money in the last few years there has been growing public support for taxing the financial sector.

A financial transaction tax would prevent shortsighted speculation and meanwhile the financial sector would be doing its bit to finance welfare services.

Tax systems and welfare services can effectively even out inequality

Even small changes to the distribution of incomes could have a significant impact on global levels of inequality. If we were to redistribute just one per cent of global GDP, we could eradicate worldwide poverty of less than $US2 a day.[102] On the other hand, according to a study carried out in 93 countries, a one per cent reduction of the incomes of the richest quintile could prevent 90 000 cases of child mortality a year in these countries.[103]

Tax systems play an important role in income distribution in society. Levelling income disparities will not happen if the tax system is regressive, meaning if taxation is more of a burden on the less well off than on the affluent. The general trend is that capital income, which is essential in reproducing wealth, is not greatly taxed.[104]

This is the case in Nicaragua, where the government has been gradually reforming tax legislaton. It has not, however, addressed many of the probem areas that increase inequality, but rather has reduced the dividends as well the tax on mortgage and bond interest and capital income. Concurrently, the taxation of wages and indirect taxation of consumer goods and services have remained the same.

State revenue mainly derives from indirect taxation, such as VAT. Some 85 per cent of tax revenue comes from indirect taxes and 15 per cent from direct levys, such as income or community taxes. Indirect consumption taxes place a particular burden on the low income part of the population, as a relatively larger proportion of their income is spent on consumer products, such as food.

Functional and progressive tax systems are a first step toward eradicating inequality. The most effective means comprise providing everyone with different forms of public sector support and good quality basic services. If everyone is guaranteed food, housing, clean water, energy, health care, education and social security, the result is a more equal society.[105] The importance of welfare services is reflected by the fact that in Finland their value increases disposable income by a third.[106]

In Latin America, too, income equalisation schemes and public services have been prominent in reducing inequality in the 2000s. Public services, especially, have played a highly significant role, even though there are appreciable differences between the countries mentioned.

Development aid can make an important contribution, particularly in improving the situation of people in poverty, and thus in reducing inequality. Various income transfer programmes funded from development cooperation can boost the chances of people on low incomes to improve their situation.[107]

98 Bloomberg 2013
99 High pay centre 2014
100 Pietiläinen 2014
101 European Commission 2012
102 Edward and Sumner 2013a; The calculation is based on the estimate according to which the cost of eradicating the under $US2 a day poverty rate would have been $US 600 – 800 billion in 2010. This is in terms of GDP in 2010.
103 Tacke and Waldmann 2013
104 Stiglitz 2012

105 Ghosh 2013
106 Savela 2013
107 Castells-Quintana ja Larrú 2014

Governments must

- Sign up to a financial transaction tax.
- Uptake fair tax and income transfer systems.
- Commit to increasing development aid to 0.7 per cent of GDP and make the eradication of inequality a development policy priority.

Climate change compounds inequality

No country can escape the effects of climate change. But these effects are experienced very differently in different parts of the world and among different social classes. The poor suffer the most from climate change, though they are the least responsible for it.

Climate change impoverishes the surrounding environment and causes floods, drought, rising sea level, heatwaves, hurricanes, lack of water and other problems. This is especially so in areas that are very poor to begin with. According to a World Bank study, low-income countries in tropical and subtropical areas are the most vulnerable of all to climate change. The amount of global greenhouse gas emissions these countries produce is, however, minimal.[108]

People living in poverty have the worst economic and institutional means and knowhow to protect themselves from the adverse impacts of climate change. Affluence occasions opportunities that the poor can only dream of. In every country, the harm done by people to the environment increases with income and wealth. The wealthiest are a significantly heavier burden on the world than anyone else. [109]

The wealthy are able to pay more for their food, turn up the aircon or buy a plane ticket to go on holiday, or when in danger even to go and live in another country. But the poor are left to deal with impossible challenges: where to get drinking water, land fit for cultivating or a new land to call home to replace the one submerged by the rising sea level.

In Thailand, industry is responsible for most (61 per cent) of the country's greenhouse emissions, while agriculture is responsible for just four per cent.[110] Despite this, the fallout of climate change, such as rising temperatures and sea level, worse flooding and drought, and fierce storms, have a more adverse impact on Thailand's agricultural sector, and especially on the livelihoods of small farmers. In 2010, the country suffered prolonged drought causing the water level of the Mekong River to reach a record low. The drought is reckoned to have had a disastrous impact on the lives of some 7.6 million people, because they were unable to fish or obtain sufficient water for cultivation and livestock.[111]

Unless we succeed in mitigating climate change, other efforts to eliminate poverty and inequality in the world will founder.[112] Climate change is a global problem that governments must deal with by changing their own behaviour and helping others to change theirs.

108 World Bank 2013b
109 Science Nordic 2013; De Schutter 2014
110 Ministry of Natural Resourced and Environment of Thailand 2005

111 Marks 2011
112 World Bank 2012; IPCC 2014a

Governments must

- Develop a plan for reducing domestic emissions by at least 80 – 95 per cent by 2050 and update their objectives in light of the latest climate science data.
- Promote a just, ambitious and legally binding international climate agreement within the UN climate negotiations.
- Develop a plan for gradually winding down the use of coal-fired power and replacing it with renewable energy sources.

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