OXFAM MEDIA BRIEFING
18 January 2013 **Ref: 02/2012**

The cost of inequality: how wealth and income extremes hurt us all

The world must urgently set goals to tackle extreme inequality and extreme wealth

It is now widely accepted that rapidly growing extreme wealth and inequality are harmful to human progress, and that something needs to be done. Already this year, the World Economic Forum's Global Risk Report rated inequality as one of the top global risks of 2013[1]. The IMF and the Economist[2] agree. Around the world, the Occupy protests demonstrated the increasing public anger and feeling that inequality has gone too far[3].

In the last decade, the focus has been exclusively on one half of the inequality equation - ending extreme poverty. Inequality and the extreme wealth that contributes to it were seen as either not relevant, or a prerequisite for the growth that would also help the poorest, as the wealth created trickled down to the benefit of everyone.

There has been great progress in the fight against extreme poverty. Hundreds of millions of people have seen their lives improve dramatically – an historically unprecedented achievement of which the world should be proud[4]. But as we look to the next decade, and new development goals we need to define progress, we must demonstrate that we are also tackling inequality- and that means looking at not just the poorest but the richest[5]. Oxfam believes that reducing inequality is a key part of fighting poverty and securing a sustainable future for all. In a world of finite resources, we cannot end poverty unless we reduce inequality rapidly.

That is why we are calling for a new global goal to end extreme wealth by 2025, and reverse the rapid increase in inequality seen in the majority of countries in the last twenty years, taking inequality back to 1990 levels[67].

Extreme wealth and inequality are reaching levels never before seen and are getting worse

Over the last thirty years inequality has grown dramatically in many countries. In the US the share of national income going to the top 1% has doubled since 1980 from 10 to 20%. For the top 0.01% it has quadrupled[8] to levels never seen before. At a global level, the top 1% (60 million people)[9], and particularly the even more select few in the top 0.01% (600,000 individuals - there are around 1200 billionaires in the world), the last thirty years has been an incredible feeding frenzy[10]. This is not confined to the US, or indeed to rich countries. In the UK inequality is rapidly returning to levels not seen since the time of Charles Dickens[11]. In China the top 10% now take home nearly 60% of the income. Chinese inequality levels are now similar to those in South Africa,[12] which are now the most unequal country on earth and significantly more unequal than at the end of apartheid[13]. Even in many of the poorest countries, inequality has rapidly grown[14].

Globally the incomes of the top 1% have increased 60% in twenty years.[15] The growth in income for the 0.01% has been even greater[16].

Following the financial crisis, the process has accelerated, with the top 1% further [17] increasing their share of income[18]. The luxury goods market has registered double digit growth every year since the crisis hit[19]. Whether it is a sports car or a super-yacht, caviar or champagne, there has never been a bigger demand for the most expensive luxuries.

The IMF has said that inequality is dangerous and divisive and could lead to civil unrest[20]. Polling shows the public is increasingly concerned about growing inequality in many countries, and by people across the political spectrum[21][22].

Extreme wealth and inequality is economically inefficient

A growing chorus of voices is pointing to the fact that whilst a certain level of inequality may benefit growth by rewarding risk takers and innovation, the levels of inequality now being seen are in fact economically damaging and inefficient[23]. They limit the overall amount of growth, and at the same time mean that growth fails to benefit the majority. Consolidation of so much wealth and capital in so few hands is inefficient because it depresses demand, a point made famous by Henry Ford[24] and more recently billionaire Nick Hanauer in his much-discussed TED talk[25]. There quite simply is a limit to how many luxury yachts a person could want or own. Wages in many countries have barely risen in real terms for many years, with the majority of the gains being to capital instead[26]. If this money were instead more evenly spread across the population then it would give more people more spending power, which in turn would drive growth and drive down inequality[27]. The top 100 billionaires added $240 billion to their wealth in 2012- enough to end world poverty four times over.[28]. As a result growth in more equal countries is much more effective at reducing poverty. Oxfam research has shown that because it is so unequal, in South Africa even with sustained economic growth a million more people will be pushed into poverty by 2020 unless action is taken[29].

Extreme Wealth and Inequality is Politically Corrosive

If, in the words of the old adage 'money equals power' then more unequal societies represent a threat to meaningful democracy. This power can be exercised legally, with hundreds of millions spent each year in many countries on lobbying politicians, or illegitimately with money used to corrupt the political process and purchase democratic decision making. Joseph Stiglitz[30] and others[31] have pointed out the way in which financial liberalisation led to huge power for the financial industry, which in turn has led to further liberalisation. In the UK the governing Conservative party receives over half its donations from the financial services industry[32]. Capture of politics by elites is also very prevalent in developing countries, leading to policies that benefit the richest few and not the poor majority, even in democracies. [33]

Extreme Wealth and Inequality is Socially Divisive

Extreme wealth and inequality undermines societies. It leads to far less social mobility. If you are born poor in a very unequal society you are much more likely to end your life in poverty. As Richard Wilkinson, co- author of the Spirit Level[34], has said, the American dream is more real in Sweden than it ever has been in the United States[35]. Social mobility has fallen rapidly in many countries as inequality has grown[36]. If rich elites use their money to buy services, whether it is private schooling or private healthcare, they have less interest in public services or paying the taxes to support them. Those from elites are much more likely to end up in political office or other positions of power, further entrenching inequality. Their children are likely to be as rich, if not richer, than their parents, with inter-generational inequality increasing[37]. Inequality has been linked to many different social ills, including violence, mental health, crime and obesity[38]. Crucially inequality has been shown to be not only bad for the poor in unequal societies but also the rich. Richer people are happier and healthier if they live in more equal societies[39].

Extreme Wealth and Inequality is Environmentally Destructive

As the world is rapidly entering a new and unprecedented age of scarcity and volatility, extreme inequality is increasingly environmentally unaffordable and destructive. The World Bank has shown that countries with more equal distribution of land are more equitable and more efficient, and grow faster[40]. Those in the 1% have been estimated to use as much as 10,000 times more carbon than the average US citizen[41]. Increasing scarcity of resources like land and water mean that assets being monopolised by the few cannot continue if we are to have a sustainable future. Poverty reduction in the face of extreme wealth will become harder as resources become more scarce. More equal societies are better able to cope with disasters and extreme weather events. Studies show that more equal countries are also better able to reduce carbon emissions[42].

Extreme Wealth and Inequality is un ethical

Gandhi famously said “Earth provides enough to satisfy every man's need, but not every man's greed.” From an ethical point of view, it is extremely difficult to justify excessive wealth and inequality. In fact, most philosophers and all of the major religions caution against the pursuit of excessive wealth at all cost and prescribe sharing of income with less fortunate members of the community. For instance, the Koran bans usury and says that the rich should give away a portion of their money. The decision of Bill Gates and Warren Buffet to give away their fortunes or to call for greater taxation of excess wealth is an example to the rest of the world’s billionaires.

Extreme wealth and inequality is not inevitable

After the Great Depression in the US in the 1930s, huge steps were taken to tackle inequality and vested interests. President Roosevelt said that the ‘political equality we once had won was meaningless in the face of economic inequality’[43]. These steps were echoed in Europe after World War Two, leading to three decades of increasing prosperity and reduced inequality. Similarly the growth of the Asian tiger economies like Korea was achieved whilst reducing inequality and meant the benefits were widely spread across their societies[44]. More recently, countries like Brazil[45], once a poster child for extreme inequality, have managed to buck the global trend and prosper whilst reducing inequality.

The policies required to reduce inequality are also well known. Decent work for decent wages has had a huge impact. The rise in the power of capital over labour has been identified by Paul Krugman[46] among many others as a key cause of the recent crisis[47] and one that means that assets are not being used productively, in turn reducing demand.
.
Free public services are crucial to levelling the playing field. In countries like Sweden, knowing that if you get sick or that you will receive good treatment regardless of your income, is one of the greatest achievements and the greatest equalisers of the modern world. Knowing that if you lose your job, or fall on hard times, there is a safety net to help you and your family, is also key to tackling inequality. Similarly, access to good quality education for all is a huge weapon against inequality.

Finally, regulation and taxation play a critical role in reining in extreme wealth and inequality. Limits to bonuses, or to how much people can earn as a multiple of the earnings of the lowest paid, limits to interest rates, limits to capital accumulation are all only recently-abandoned policy instruments that can be revived. Progressive taxation that redistributes wealth from the rich to the poor is essential, but currently the opposite is the case – taxation is increasingly regressive and the poor pay higher effective tax rates than the rich, a point recently highlighted by Warren Buffet among others, who has called for greater taxes on the rich[48]. Cracking down on tax avoidance and tax evasion goes hand in hand with more progressive taxation. Closing tax havens and ending the global race to the bottom on taxation, for example with a globally agreed minimum rate of corporation tax would make a huge difference It is estimated that up to a quarter of all global wealth – as much as $32 trillion - is held offshore[49]. If these assets were taxed according to capital gains taxes in different countries, they could yield at least $189 billion in additional tax revenues[50].

End extreme wealth and inequality

Whatever the combination of policies pursued, the first step is for the world to recognise this as the goal. There are many steps that can be taken to reverse inequality. The benefits are huge, for the poorest – but also for the richest. We cannot afford to have a world of extreme wealth and extreme inequality. We cannot afford to have a world where inequality continues to grow in the majority of countries. In a world of increasingly scarce resources, reducing inequality is more important than ever. It needs to be reduced and quickly.

An end to extreme wealth by 2025. Reversing increasing extreme inequality and aim to return inequality to 1990 levels.

---

[1] http://www.weforum.org/issues/global-risks

[2] http://www.economist.com/node/21564413 and http://blog-imfdirect.imf.org/2011/04/08/inequality-and-growth/

[3] http://occupywallst.org/

[4] Paradoxically this means that whilst inequality in many countries has increased, overall global inequality has reduced- http://www.oxfamblogs.org/fp2p/?p=12888

[5] Inequality is traditionally measured using the Gini co-efficient. However, this fails to capture in many instances the extraordinary rise in the incomes of the top 1% or even 0.01%, so a combination of both Gini and the amounts accruing to different sections of society is needed to fully understand the scope and scale of inequality. See for example Palma, J http://www.un.org/esa/desa/papers/2006/wp35_2006.pdf for a non-Gini view.

[6] 1990 could be the base year for a global goal of inequality reduction, but individual countries may also have peak equality years that differ that they would choose to get back to if 1990 is not sufficient in terms of reducing inequality. There is a parallel here to be drawn with global agreement to reduce carbon emissions.

[7] Cornia and Addison (2003), for example, found that between the 1960s and 1990s inequality increased in about two-thirds of the 73 countries they studied (accounting for about 80 per cent of the world's population). They also found that in those where inequality increased, this was normally equivalent to at least 5 points in the Gini scale. http://www.econ.cam.ac.uk/dae/repec/cam/pdf/cwpe1111.pdf

[8] http://www.economist.com/node/21564414

[9] Milanovic, Branko, 2012. "Global income inequality by the numbers : in history and now --an overview--," Policy Research Working Paper Series 6259, The World Bank.

[10] See also Crystia, F *The Plutocrats*

[11] http://policy-practice.oxfam.org.uk/publications/the-perfect-storm-economic-stagnation-the-rising-cost-of-living-public-spending-228591

[12] http://www.economist.com/news/finance-and-economics/21568423-new-survey-illuminates-extent-chinese-income-inequality-each-not

[13] http://www.oxfam.org/en/policy/left-behind-by-g20

[14] http://www.guardian.co.uk/world/2012/may/11/africe-economic-growth-jeopardised-rising-inequality

[15] http://www.oxfamblogs.org/fp2p/?p=12888

[16] Inequality is usually measured using incomes, and the data for the super rich is notoriously hard to get, as very few fill in surveys. Focusing on incomes also hugely underestimates inequality- if inequality of assets is also taken into account levels are even higher as asset growth has been far greater than incomes.

[17] http://www.guardian.co.uk/society/2012/jun/14/britons-stuck-in-perfect-storm-inequality

[18] http://www.smh.com.au/executive-style/management/the-megarich-just-keep-getting-richer-20130102-2c5m8.html

[19] http://www.bain.com/about/press/press-releases/bain-projects-global-luxury-goods-market-will-grow-ten-percent-in-2012.aspx

[20] http://www.telegraph.co.uk/finance/globalbusiness/8296987/IMF-raises-spectre-of-civil-wars-as-global-inequalities-worsen.html

[21] http://www.huffingtonpost.com/2012/11/28/taxing-the-rich-poll_n_2203400.html,

[22] http://www.pewglobal.org/2012/12/20/slideshow-pew-researchs-global-year-in-review/pg_12-18-12_yearslides_02_capitalism/ and http://www.bbc.co.uk/news/world-asia-19953634

[23] See for example the IMF- Berg and Ostry 2011 http://www.imf.org/external/pubs/ft/sdn/2011/sdn1108.pdf

[24] http://corporate.ford.com/news-center/press-releases-detail/677-5-dollar-a-day

[25] http://www.youtube.com/watch?v=IQi6xJ3-7l4

[26] http://www.clevelandfed.org/research/commentary/2012/2012-13.cfm

[27] http://www.nytimes.com/2012/10/17/business/economy/income-inequality-may-take-toll-on-growth.html?pagewanted=all&_r=0 and

http://blog-imfdirect.imf.org/2011/04/08/inequality-and-growth/

[28] http://www.globalresearch.ca/billionaires-gain-as-living-standards-fall/5318471 and http://topics.bloomberg.com/bloomberg-billionaires-index/ the top 100 billionaires added $241 billion to their income in 2012. The Brookings institute had estimated it would take around $66 billion annually to bring everyone above the $1.25 dollar a day line- see page 13 http://www.brookings.edu/~/media/research/files/papers/2011/1/global%20poverty%20chandy/01_global_poverty_chandy.pdf

[29] http://www.oxfam.org/sites/www.oxfam.org/files/bp157-left-behind-by-the-g20-190112-en.pdf

[30] http://www.nytimes.com/2012/08/05/books/review/the-price-of-inequality-by-joseph-e-stiglitz.html?pagewanted=all-

[31] See also Winner-Take-All Politics: How Washington Made the Rich Richer--and Turned Its Back on the Middle Class by Jacob Hacker and Paul Pierson

[32] http://www.guardian.co.uk/politics/2011/sep/30/city-conservatives-donations

[33] http://tinyurl.com/aq9k7nk Democratisation and the Dynamics of Income Distribution in Low and Middle-income Countries, 1985 -- 1995

[34] Wilkinson, R and Pickett K, *The Spirit Level*

[35] http://www.ted.com/talks/richard_wilkinson.html

[36] . http://www.economist.com/node/21564417

[37] World Bank Word Development Report 2006,page 47

[38] World Bank Word Development Report 2006, Equity and Development and Wilkinson, R and Pickett, K, *The Spirit Level*

[39] Wilkinson, R and Pickett, K, *The Spirit Level*

[40] World Bank Word Development Report 2006, Equity and Development

[41] http://www.tomshardware.com/news/bill-gates-microsoft,5242.html

[42] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2013039 and http://oep.oxfordjournals.org/content/52/4/651.abstract

[43] Great Speeches (Dover Thrift Editions) [Paperback] **Franklin Delano Roosevelt** **(Author)**, **John Grafton** **(Editor)**

[44] 'the experience of today's Asian tigers is in striking contrast to that of an earlier pack. In Japan, Hong Kong, South Korea and Taiwan growth rates soared in the 1960s and 1970s and prosperity increased rapidly but income gaps shrank. Japan's Gini coefficient fell from 0.45 in the early 1960s to 0.34 in 1982; Taiwan's from 0.5 in 1961 to below 0.3 by the mid-1970s. That experience launched the idea of an "Asian growth model", one that combined prosperity with equity.' http://www.economist.com/node/21564408

[45] http://www.economist.com/node/21564411 .

[46] http://www.nytimes.com/2012/12/10/opinion/krugman-robots-and-robber-barons.html?_r=1& and http://www.imf.org/external/pubs/ft/survey/so/2012/int061412a.htm

[47] http://www.imf.org/external/pubs/ft/wp/2010/wp10268.pdf

[48] http://www.guardian.co.uk/business/2011/aug/15/warren-buffett-higher-taxes-super-rich

[49] http://www.bbc.co.uk/news/business-18944097

[50] http://www.taxjustice.net/cms/upload/pdf/The_Price_of_Offshore_Revisited_Presser_120722.pdf