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Inequality and the End of Poverty

Won't live with poverty, can't live with inequality

Summary

Fifteen years after the launch of the Millennium Development Goals, the end of extreme poverty is within reach.

Between 1990 and 2011, almost a billion people escaped extreme poverty, a number equivalent to the combined population of North and South America. Extreme poverty, meaning those who live on up to US\$1.25 a day, was halved in the 15 years from 1996 allowing MDG1 to be met five years earlyⁱ.

This is in many ways a staggering success, the fastest reduction in poverty in human history; one driven by the growth of emerging economies and accelerated by debt relief, increased aid and investment in vital public services and infrastructure in poorer countries.

Yet more than 1 billion people still live in extreme poverty and progress could have been even better. Recent research by the Overseas Development Institute shows that of the 1.1 billion people living in extreme poverty in 2010, 200 million of them could have escaped extreme poverty if poor people benefited equally from the proceeds of growth during the MDG periodⁱⁱ.

Later this week at a special session of the United Nations General Assembly in New York, world leaders will agree the successor to the MDGs: the global goals for sustainable development. Front and center will be a new target: to eradicate extreme poverty by 2030.

Tackling inequality will be crucial to achieving this goal. World Bank projections show that even on optimistic growth forecasts, it will not be possible to eliminate extreme poverty (based on the World Bank definition) if the level of inequality stays as it is today. The World Bank also calculates however that an extra 200 million people could escape poverty between now and 2030, reaching our goal to eradicate extreme poverty, if over the next 15 years the poorest people are able to benefit most from growth and inequality is reducedⁱⁱⁱ.

The world has decided we won't live with extreme poverty and that by 2030 it should be eradicated, if not before. But to do this we need to tackle the growing gap between the richest and the rest, particularly the hundreds of millions of people trapped in a life of hunger, sickness and hardship.

Oxfam is therefore calling for a tax system where everyone - including multinational companies - pays their fair share; for the investment of these billions lost through our current tax structures in free, good quality public services; and for women and men to have secure jobs with fair wages.

The MDG years: a qualified success story

The last quarter of a century has seen massive changes that have helped fuel the fastest reduction in extreme poverty in human history. The rise of the emerging economies, improved policy making in many developing countries and unprecedented commitment by world leaders to improve the lives of the world's poorest people have combined to create a situation where hundreds of millions of women, men and children escaped hunger, disease and grinding poverty.

The pledge to reduce the proportion of people living in extreme poverty to half 1990 levels by 2015 was met five years early in 2010^{iv}. Even more impressively, the proportion of people living in poverty halved in the 15 years between 1996 and 2011^v. But this progress is not consistent everywhere. Countries in Sub-Saharan Africa have seen little overall improvement, while the world's most populous countries, China and India, lifted some 232 million people out of poverty from 2008 to 2011. Despite these inconsistencies, this progress has encouraged world leaders to believe they can finish the job by 2030.

So while the story of the MDG years has had much impressive success in the fight to make poverty history, it is also a tale of missed opportunities.

Debt relief for low-income countries has released much-needed resources that poor countries could invest in clinics, schools and infrastructure. But leaders failed to fully meet their promise to increase aid. Overall, they fell about £20 billion short of the £50 billion-a-year extra promised^{vi}.

On a larger scale, climate change and the increasing vulnerability of poor people to extreme weather events have held back progress for many. Achieving a climate deal at COP 21 in Paris to prevent the world warming by more than two degrees and provide poor countries with resources to help them adapt will be crucial to ensure that the number of people living in extreme poverty continues to fall over the years and decades to come.

Increased instability in large parts of the Middle East, and the failure of national leaders and the international community to resolve long-running conflicts, have also held back progress.

This paper will, however, focus on the extent to which rising inequality has hampered poverty reduction in many countries and the potential consequences for progress towards world leaders' pledge to eradicate extreme poverty by 2030.

Mind the Gap: the role of inequality in slowing poverty reduction

Recent research by the Overseas Development Institute found that 79 per cent of people in developing countries live in nations where the incomes of the bottom 40 per cent grew slower than the average during the period of the MDGs^{vii}.

In these countries, the failure of those most in need to gain even a 'fair' share of the proceeds of growth meant fewer people escaped extreme poverty than would have done if growth had been evenly distributed.

Studies have found that what determines the level of a country's income inequality is the income distribution between the top 10 per cent and the bottom 40 per cent, while the income share for the groups in between is stable across time and space. As we look to the Sustainable Development Goals now, it is important that an indicator is set to track this mobile part of income distribution, so that governments can make informed policy decisions to fight poverty and inequality.

Sharing success: the differing cases of China and Vietnam

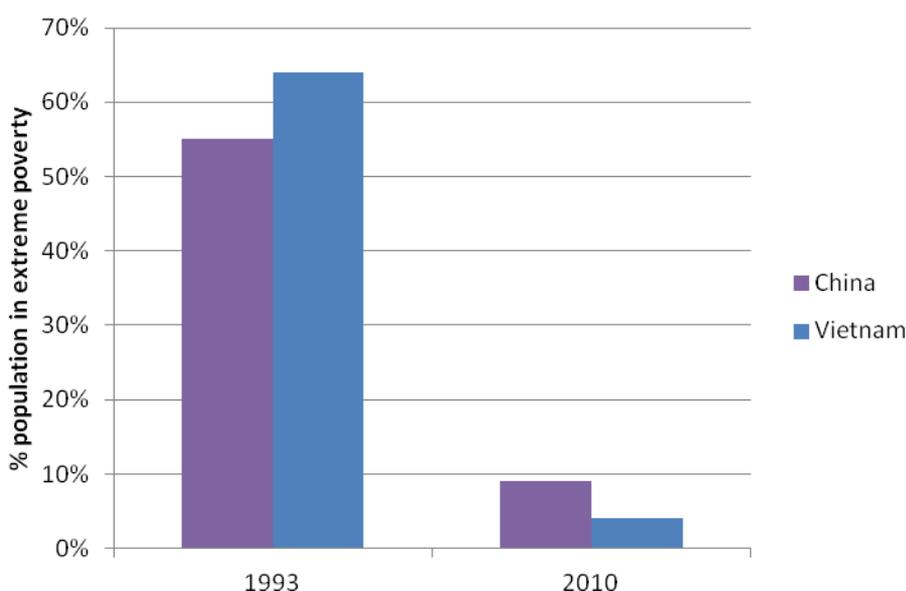
The experience of two middle-income countries, China and Vietnam, which achieved average growth of over five percent between 1990 and 2010, illustrates the point. While both countries have seen their poverty rates rapidly decline over the last two decades, the growth in Vietnam has been close to evenly distributed and the proportion of people living in extreme poverty has fallen from almost two-thirds (64 per cent) to one in 25 (four per cent)^{viii}.

Meanwhile, China, which started with a slightly lower poverty rate of 55 per cent, but where the growth of the bottom 40 per cent was almost two percentage points slower than the average, poverty rates have fallen to one in 11 (nine per cent)^{ix}.

Today, people in China are more than twice as likely to live in extreme poverty than those living just across the border in Vietnam. Under an equal growth scenario, similar to that of Vietnam, it would have been possible to eradicate poverty completely in China.

Despite having followed a more progressive growth path than China, comparing the growth of the bottom 40 per cent with the average, masks the differences opening up between the very poorest and the very richest in Vietnam. Ethnic minorities in particular are being left behind in Vietnam's development^x and more recent trends suggest the rich look set to gain more from Vietnam's continued growth^{xi}.

Chart 1 – In Vietnam, the poor benefitted as much as the rich from economic growth over the last two decades and poverty rates have fallen to 4 per cent. In China, as the rich gain more from growth, poverty rates remain at 9 per cent^{xii}.

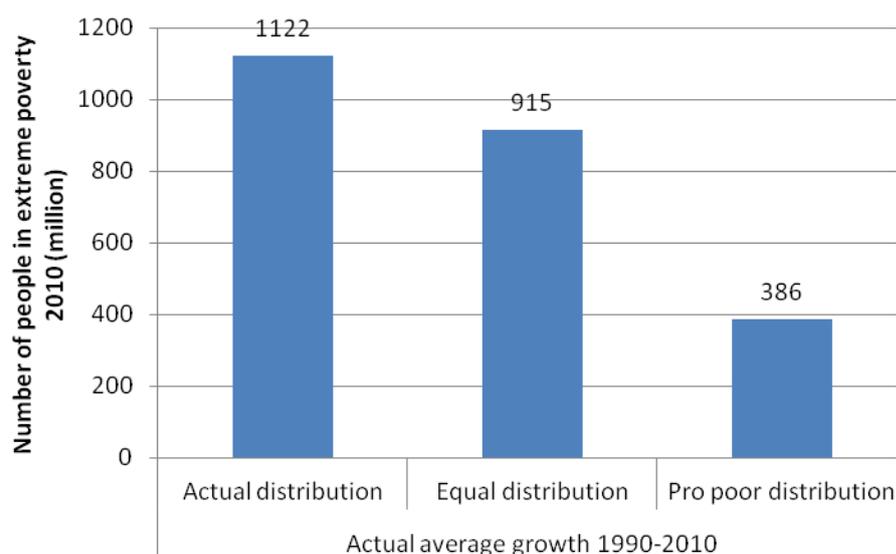


Source: *Extreme poverty rates in Vietnam and China from World Bank poverty and equity database* <http://databank.worldbank.org/data/reports.aspx?source=poverty-and-equity-database>

Rising inequality in countries has a significant cumulative impact on poverty globally. According to the ODI, if growth in all countries had been equal, with the bottom 40 per cent experiencing growth at the same rate as the average, poverty rates would have been 13 per cent in 2010 – that's 3 per cent lower than the actual global poverty rate of 16 per cent^{xiii}.

Furthermore, if developing countries had managed growth so that the income of the bottom 40 per cent grew two percentage points faster than the average, poverty rates could have been as low as 5.6 per cent in 2010 - meaning an additional 700 million people would have escaped poverty between 1990 and 2010^{xiv}.

Chart 2 – If growth had been pro poor, or even just equal, poverty rates in 2010 could have been dramatically lower than they were.



Source: Scenarios modelled by Hoy and Samman (2015)

In the past, rising inequality was often seen as a necessary evil, the price paid for growth that would eventually trickle down to the poorest. But the examples of countries such as Vietnam, which have increased growth and tackled poverty without significant rises in the gap between rich and poor, disprove that view. Today, there is a growing consensus – backed by research from the International Monetary Fund^{xv}, among others – that growing inequality acts as a brake on growth. Once this effect is taken into account, it could be reasonable to assume that the above analysis is likely to underestimate the number of people who could have escaped extreme poverty if inequality had been lower.

In total during this period, there were 45 developing countries where poor people benefited equally or more from growth than the better off. These countries reaped the dividends in terms of poverty reduction. In Guinea, poverty rates fell from 93 per cent to 43 per cent as the bottom 40 per cent grew 2.6 percentage points faster over this period than the average, in Burkina Faso poverty rates fell from 71 per cent to 45 per cent with the bottom 40 per cent growing 1.6 percentage points faster than the average^{xvi}.

The New Global Goals: time to even it up

The new global goals that will be endorsed by world leaders at this week's UN Sustainable Development Summit during the UN General Assembly will set hugely ambitious targets for the next push to end global poverty. The headline goal – already set out by the World Bank – will be to eradicate extreme poverty by 2030.

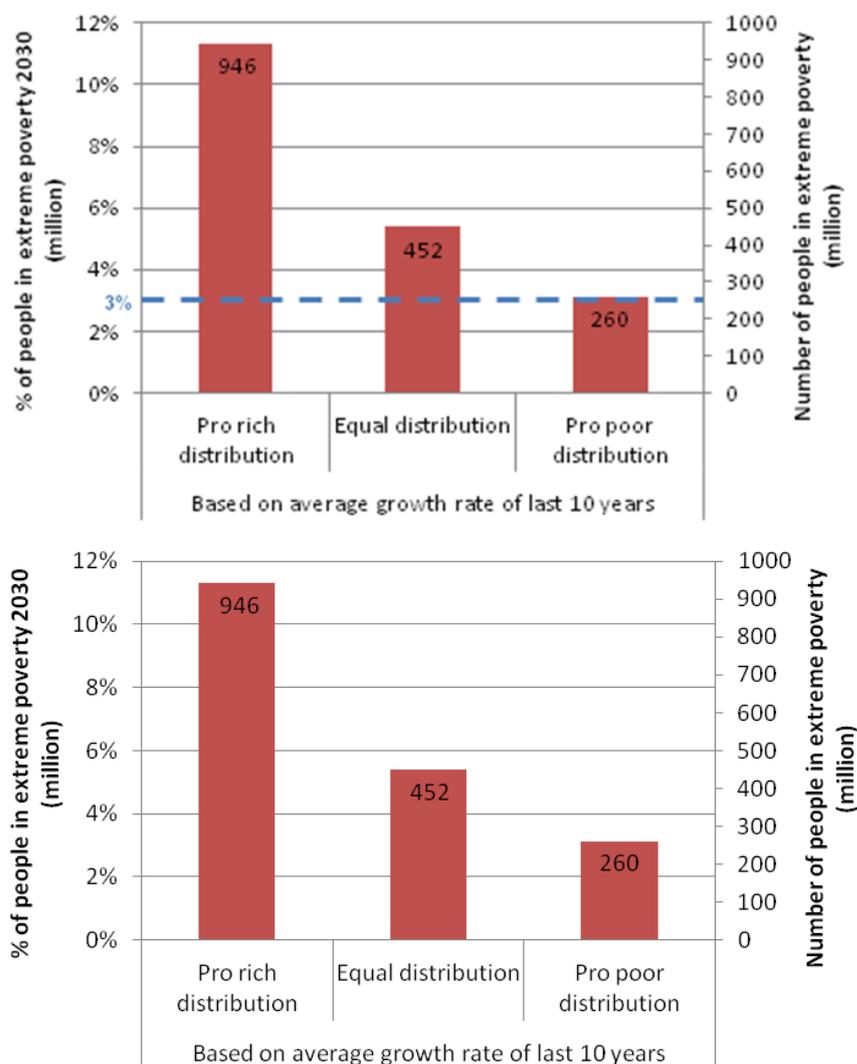
Eliminating structural extreme poverty – the World Bank acknowledges that about 3 per cent of the global population will at any one time suffer 'sporadic' extreme poverty as result of conflicts, disasters and other shocks^{xvii} – will be a Herculean effort. The success of poverty reduction in the MDG years was built on the success of the emerging economies. Meeting the new poverty eradication goal will require further progress in the emerging economies – particularly India, which remains home to 30 per cent of people who live in extreme poverty – but also in countries like the Democratic Republic of Congo home to 5 per cent, Ethiopia 3 per cent, as well as less populous but very poor countries such as Niger^{xviii}.

Some of the lessons of the MDG years appear to have been learned, but not as many that need to be. There is growing global recognition that we must do something about a situation where the richest 80 people have the same wealth as the poorest 3.5 billion^{xix}; in a world where every seven seconds a child under 5 dies of a preventable or treatable illness^{xx}.

Oxfam welcomes the fact that there will be a specific Sustainable Development Goal on inequality. SDG10 requires governments to “reduce inequality within and among countries” and sets out specific targets including a goal for all countries to “by 2030 progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average”.

This is obviously a big step forward from the MDGs, but is it enough? Analysis carried out by the World Bank^{xxi} has found that – even under the optimistic assumption that global growth rates will match those of the last 10 years – in order for world leaders to hit their target of eradicating extreme poverty by 2030 the poorest 40 per cent of people need to benefit from income growth two percentage points higher than the rest of the population. If the incomes of all people rich and poor grow by the same amount, this would leave almost 200 million additional people trapped in extreme poverty.

Chart 3: Only under the scenario where growth is as strong as it has been for the last 10 years, and the bottom 40 per cent grow faster than the average, can we reach our target to eradicate poverty by 2030



Source: Scenarios modelled by Lakner et al (2014)

So by the logic of the SDGs themselves, we cannot wait for 2030 to tackle inequality – action needs to happen immediately.

In addition, Oxfam believes it is important we don't boost the incomes of the bottom 40 per cent by taking from those just above that line. For one thing, in many countries there is a risk this could lead to people moving up out of extreme poverty replaced by others on the way down.

It is also essential that those at the top play their part in reducing rising inequality. The problem with great wealth and income disparities, as Oxfam research^{xxii} has demonstrated (link to *Working for the Few*), is that extreme wealth also confers political power, which can then be used to influence the rules of the game in favor of the wealthiest at the expense of the rest. Given that, on current trends, the 1 per cent will next year own more than the rest of us put together – this is a problem that needs to be urgently tackled.

So what needs to be done?

To close the gap between the richest and the rest, and get the fight to end poverty back on track, governments must put people before profits. We're calling for action in three key areas:

- we have to make tax fair, with rules that ensure everyone – including multinational companies – pays their fair share
- we have to invest in free and public good quality healthcare, schools and other vital public services that make such a big difference to the lives of the poorest people
- we need to ensure that decent jobs with decent wages for both men and women - giving them the chance to work their way out of poverty. It also means fair deals for small farmers and others who survive by selling the fruits of their labors.

G20 finance ministers meeting in Lima next month can help scale up the fight against corporate tax dodging by backing collective international action to make multinational companies pay their fair share of tax in all the countries where they do business. The G20 should support calls from developing countries for the establishment of a new global tax body that will bring all countries together to reform the global tax system.

Delivering the sustainable development goals is not a technocratic exercise. Success will require us to challenge power and vested interests. Are governments – rich and poor – prepared to take on those elites who get ahead in an unequal world?

All governments, rich or poor, must make the fight against extreme inequality central to their national strategies and commit to policies aimed at ensuring everyone has a reasonable chance to thrive, not just the few.

Rather than treating income inequality as one among the many problems, extreme wealth and extreme poverty should be seen as two concurrent symptoms, of one dysfunctional society.

World leaders deserve real credit for making such an ambitious pledge to end extreme poverty and for recognizing that meeting it requires tackling inequality. Now they need to show they are prepared to take the necessary actions to deliver on their promises.

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