OXFAM

OXFAM MEDIA BRIEFING
21 September 2015

Inequality and the end of extreme poverty

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

Summary

Fifteen years after the launch of the Millennium Development Goals (MDGs) and a decade after G7 leaders gathered in Gleneagles to promise to 'make poverty history', 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 was halved in the 15 years from 1996 allowing MDG1 to be met five years early.[1]

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 had benefited equally from the proceeds of growth during the MDG period.[2]

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 centre will be a new target: to eradicate extreme poverty by 2030.

Tackling inequality will be crucial to achieving that goal. World Bank projections show that even on optimistic growth forecasts, it will not be possible to eradicate extreme poverty (based on the World Bank definition) if the level of inequality stays as it is today. The World Bank also calculate, 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 reduced.[3]

The world has decided that from 2030 we won't live with extreme poverty. That means we can't live with today's levels of inequality. To end extreme poverty we need to tackle the growing gap between the richest and the rest which has trapped hundreds of millions of people in a life of hunger, sickness and hardship.

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 escaped have 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.[4] Even more impressively, the proportion of people living in poverty halved in the 15 years between 1996 and 2011.[5] Such progress has encouraged world leaders that that they can finish the job by 2030.

Yet, the story of the MDG years is not just stunning progress in the fight to make poverty history; it is also a tale of missed opportunities.

After G8 leaders pledged to 'make poverty history' at Gleneagles in 2005, they largely delivered on commitments to provide low-income countries with debt relief, freeing up much-needed resources that poor countries could invest in clinics, schools and infrastructure. But, with the notable and laudable exception of the UK, leaders failed to fully meet their promise to increase aid. Overall, they fell about £20bn short of the extra £50bn a year extra promised.[6]

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 COP21 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 ensuring that the number of people living in extreme poverty continues to fall over the years and decades ahead.

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 briefing 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 percent of people in developing countries live in nations where the incomes of the bottom 40 percent grew slower than the average during the period of the MDGs.[7]

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.

Sharing success: the differing cases of China and Vietnam

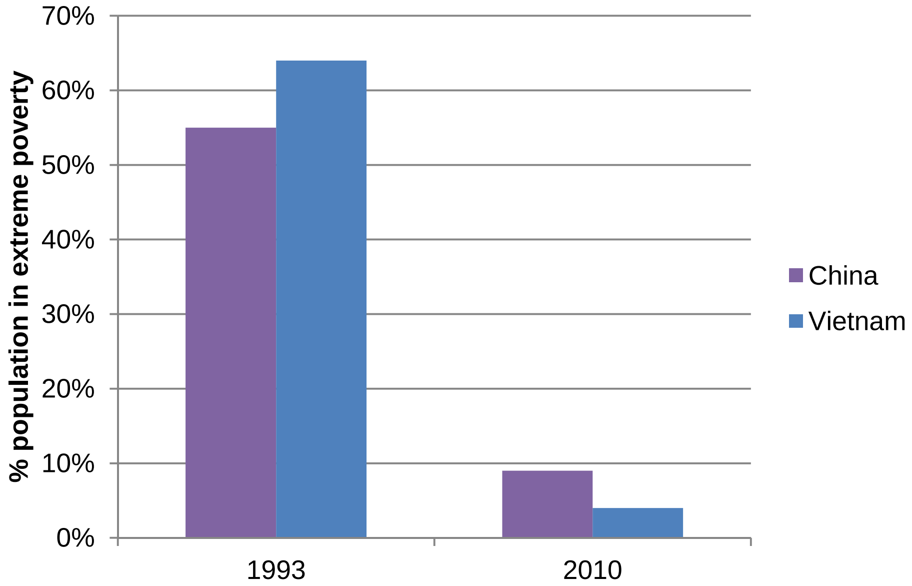
The experience of two middle income countries, China and Vietnam, which achieved average growth of over five percent between 1990 and 2010, illustrates the point. While both countries have seen their poverty rates rapidly decline over the last two decades, the growth in Vietnam has been close to evenly distributed and the proportion of people living in extreme poverty has fallen from almost two-thirds (64 percent) to one in 25 (four percent).[8]

Meanwhile, China, which started with a slightly lower poverty rate of 55 percent, but where the growth of the bottom 40 percent was almost two percentage points slower than the average, poverty rates have fallen to one in 11 (nine percent).[9]

Today, people in China are more than twice as likely to live in extreme poverty as those living 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 percent with the average masks the differences that are opening up between the very poorest and the very richest in Vietnam. Ethnic minorities in particular are being left behind in Vietnam's development,[10] and more recent trends suggest that the rich look set to gain more from Vietnam's continued growth.[11]

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 percent. In China, as the rich gain more from growth, poverty rates remain at 9 percent.[12]

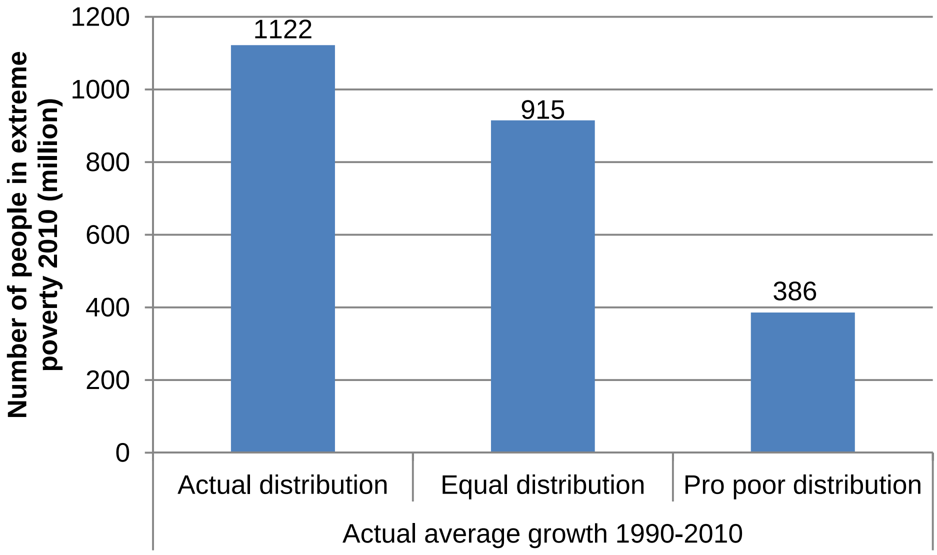


Source: Extreme poverty rates in Vietnam and China from World Bank poverty and equity database[13]

The cumulative effect of rising inequality in individual countries has a significant impact on global poverty figures. The ODI calculated that if in all countries, growth had just been equal, with the bottom 40 percent growing at the same rate as the average, poverty rates would have been just 13 percent in 2010, three percent lower than the actual poverty rate (16 percent).[14]

If developing countries had managed growth so that the income of the bottom 40 percent grew two percentage points faster than the average, poverty rates could have been as low as 5.6 percent in 2010 – meaning an additional 700 million people would have escaped poverty between 1990 and 2010.[15]

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)[16]

In the past, rising inequality was often seen as a necessary evil, the price paid for growth which 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 thesis. Today, there is a growing consensus – backed by research from the International Monetary Fund,[17] among others – that growing inequality acts as a brake on growth. Once this effect is taken into account, it is reasonable to assume that the above analysis is likely to underestimate the number of people that 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 percent to 43 percent, as the bottom 40 percent grew 2.6 percentage points faster over this period than the average. In Burkina Faso, poverty rates fell from 71 percent to 45 percent with the bottom 40 percent growing 1.6 percentage points faster than the average.[18]

The new global goals: time to even it up

The new global goals that will be endorsed by world leaders at this week's special session of the United Nations 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.

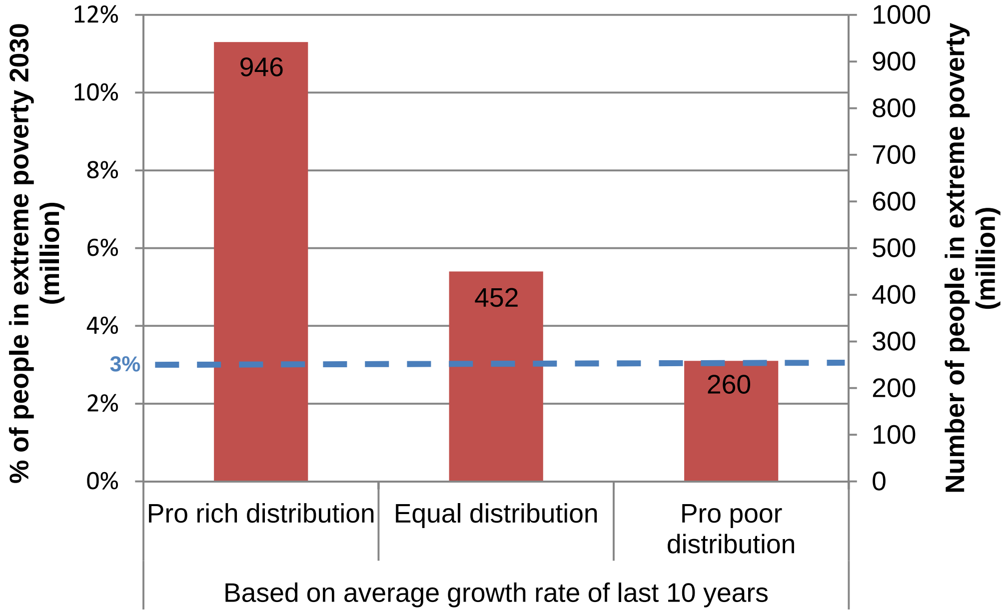
Eliminating structural extreme poverty – the World Bank acknowledges that about three percent of the global population will at any one time suffer 'sporadic' extreme poverty as result of conflicts, disasters and other shocks[19] – will be a herculean effort. The success of poverty reduction in the MDG years was built on the success of the emerging economies. Meeting the new goal will require further progress in the emerging economies – particularly India, which remains home to 30 percent of people who live in extreme poverty – but also in countries like the Democratic Republic of Congo (home to five percent) and Ethiopia (3 percent), as well as less populous but very poor countries such as Niger.[20]

At least some of the lessons of the MDG years appear to have been learned. There is a 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,[21] a world where every seven seconds a child under five dies of a preventable or treatable illness.[22]

Oxfam welcome the fact that there will be a specific Sustainable Development Goal (SDG) on inequality. SDG 10 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 percent 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[23] 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 eliminating extreme poverty by 2030, the poorest 40 percent 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% grow faster than the average, can we reach our target to eradicate poverty by 2030.



Source: Scenarios modelled by Lakner et al (2014)[24]

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 that we do not boost the incomes of the bottom 40 percent by taking from those just above that line. For one thing, in many countries there is a risk that 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[25] has demonstrated, is that extreme wealth also confers political power, which can then be used to influence the rules of the game in favour of the wealthiest at the expense of the rest. Given that, on current trends, the one percent 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, we need a more human economy – one that puts people before profits. We're calling for action in three key areas:

- We have to make tax fair, with rules that ensure everyone – including rich people and multinational companies – pays their fair share.
- We have to invest the missing billions lost by our broken tax systems, as well as money from other sources, in 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 hard work pays. That means secure jobs with fair wages for both women – whose work is often lower paid and less secure – and men, 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 labours.

Progress in all these areas is vital to make markets work for the majority, rather than the other way around. Progress towards tackling corporate tax dodging from G20 finance ministers meeting in Lima next month would be a good place to start. In particular, they need to make multinationals pay tax in the countries in which they make their profits; end the race to the bottom which sees developing countries pushed to compete for investment by lowering tax rates; and support the creation of a Global Tax Body in which all countries have an equal say on making tax rules.

Delivering these 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 vested interests– those who profit from maintaining global emissions or 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 many problems, extreme wealth and extreme poverty should be seen as two concurrent symptoms of one dysfunctional society. Governments must make the fight against extreme inequality central to their national SDGs strategies.

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 promise.

Notes

1 United Nations, (2013) 'We can end poverty: Millenium Development goals and beyond 2015', http://www.un.org/millenniumgoals/pdf/Goal_1_fs.pdf

2 Hoy, C. and Samman, E. (2015) 'What if growth had been as good for the poor as everyone else', Overseas Development Institute, http://www.odi.org/publications/9588-income-inequality-poverty-growth

3 Lakner, C., et al. (2014a) 'The role of inclusive growth in ending extreme poverty', http://www.ecineq.org/ecineq_lux15/FILESx2015/CR2/p191.pdf

4 United Nations, (2013), op. cit.

5 World Bank Poverty and Equity database. Poverty rate fell from 30% in 1996 to 15% by 2011. http://databank.worldbank.org/data/reports.aspx?source=poverty-and-equity-database

6 Oxfam (2013a) "Make Poverty History and G8 promises, was it all worth it?" http://www.oxfam.org.uk/media-centre/press-releases/2013/05/make-poverty-history-and-g8-promises-was-it-all-really-worth-it

7 Hoy, C. and Samman, E. (2015), op. cit.

8 Data on 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 (op. cit.). Analysis on the distribution of growth provided by Hoy, C. and Samman, E. (2015): http://www.odi.org/publications/9588-income-inequality-poverty-growth

9 Ibid.

10 Oxfam (2013b) 'Increasing ineqaulity, what do people think?', http://www.oxfamblogs.org/vietnam/wp-content/uploads/2009/03/Perception-of-Inequality-Policy-brief-EN.pdf

11 World Bank, (2014) 'Taking stock – An update on Vietnam's recent economic developments' http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/07/15/000470435_20140715102929/Rendered/PDF/893100WP0P13240tock0July020140FINAL.pdf

12 Ibid.

13 World Bank Poverty and Equity database, op. cit.

14 Ibid.

15 Hoy and Samman (2015) estimate that poverty rates could have been as low as 5.6% in 2010. Fewer than 400 million people would have remained in poverty in 2010 under this scenario. This is 700 million less than the 1.1 billion who were in extreme poverty in 2010.

16 Hoy, C. and Samman, E. (2015), op. cit.

17 Dabla-Norris, E., et al. (2015) 'Causes and consequences of income inequality: A global perspective', http://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf

18 Hoy, C. and Samman, E. (2015), op.cit.

19 Ravallion, M. (2013),'How long will it take to lift one billion people out of poverty' https://openknowledge.worldbank.org/bitstream/handle/10986/12166/wps6325.pdf?sequence=1

20 World Bank (2015) 'Global Monitoring Report: Ending poverty and sharing prosperity' http://www.worldbank.org/en/publication/global-monitoring-report

21 Oxfam (2015) 'Wealth: Having it all and wanting more' https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/ib-wealth-having-all-wanting-more-190115-en.pdf

22 UNICEF http://www.unicef.org/mdg/childmortality.html

23 Lakner, C. et al. (2014b) 'Twinning the goals: How can pormoting shared propsperity help to reduce global poverty' http://documents.worldbank.org/curated/en/2014/11/20377179/twinning-goals-can-promoting-shared-prosperity-help-reduce-global-poverty

24 Ibid.

25 Oxfam (2014) 'Working for the Few: Political capture and economic inequality', http://policy-practice.oxfam.org.uk/publications/working-for-the-few-political-capture-and-economic-inequality-311312

Published by Oxfam GB under ISBN 978-1-78077-944-7 in September 2015.
Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

This paper was written by Jon Slater and Deborah Hardoon. The information in this publication is correct at the time of going to press.

OXFAM

Oxfam is an international confederation of 17 organizations networked together in more than 90 countries, as part of a global movement for change, to build a future free from the injustice of poverty:

Oxfam America (www.oxfamamerica.org)
Oxfam Australia (www.oxfam.org.au)
Oxfam-in-Belgium (www.oxfamsol.be)
Oxfam Canada (www.oxfam.ca)
Oxfam France (www.oxfamfrance.org)
Oxfam Germany (www.oxfam.de)
Oxfam GB (www.oxfam.org.uk)
Oxfam Hong Kong (www.oxfam.org.hk)
Oxfam India (www.oxfamindia.org)
Oxfam Intermón (Spain) (www.oxfamintermon.org)
Oxfam Ireland (www.oxfamireland.org)
Oxfam Italy (www.oxfamitalia.org)
Oxfam Japan (www.oxfam.jp)
Oxfam Mexico (www.oxfammexico.org)
Oxfam New Zealand (www.oxfam.org.nz)
Oxfam Novib (www.oxfamnovib.nl)
Oxfam Quebec (www.oxfam.qc.ca)