The Collection of Inequality Reports of **BRICS Countries**

Edited by Oxfam Hong Kong

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Prologue

After the long process of collecting, translating and vetting, the Collection of Inequality Reports on BRICS Countries is finally published.

The Collection aggregates policy briefs and research reports on inequality issues in BRICS countries, such as global inequality, an overall inequality in BRICS countries, the inequality situations and challenges in each of the member countries, all of which were developed through *Empowering Civil Society in an Unequal Multi – polar World Programme* with joint support from European Commission and Oxfam.

Based on the research findings and investigation results of global and BRICS countries' inequality situations, the same harsh reality shows that the economic crisis in 2008 not only deeply indebted European and American countries, but also weakened the rapid developing BRICS countries after the booming economy, even though these countries have made tremendous achievements in economic development and significant contribution to reducing world's poverty population in the past three decades. A more serious consequence is, in all countries in the world, developed and developing ones, the gap between the haves and have – nots is increasingly prominent and getting worse and worse.

The country reports discuss poverty and inequality through multiple dimensions. For instance, taking human development perspective, the China Report adopts capability approach for an in – depth analysis on economic inequalities like income distribution, asset distribution, economic opportunity and income poverty as well as social and environmental inequalities such as education, health and social insurance. The report about inequality in Russia reflects the impacts on poverty, income and wealth distribution during the country's transformation from communism to capitalism and in the fast economic developing period. As a conclusion, in Russia, "Even the poverty level has been decreased obviously after 2000, the income inequality is still very high and growing year by year. Consequently, the inequality on accessibility of health services, education, housing, employment and legal aids is also aggravated." All country reports have conducted quantitative analyses on the gap between the rich and the poor and the current situation of inequality. Judging from the gaps between rural and urban areas as well as the constant enlarging gaps on income and wealth, it is crystal clear that Developmentalism has dominated the world in the past three decades, we fail to achieve our primary goal of equality. Worse still, inequality grows and penetrates into every aspect of human life.

To be clear, some countries, such as Indonesia and Mexico, are not members of BRICS, but facing similar problems concerned with those of BRICS. Therefore, related reports are also collected into this book. Most of reports in this book were published before 2013.

The reports on BRICS countries analyse the causes of economic and social inequality and concludes that opportunity, distribution and capacity inequalities due to economic patterns and social institutional arrangements are the main causes of the enlarging gap between the rich and the poor. The India Report *The Indian Inequality and Inclusive Growth under the Globalization* analyses the tendency and pattern of inequality in different states of India and articulates the strategy of inclusive growth and regional balanced development which are initiated in 2003 - 2004. It indicates that the regional imbalance among states is one of the driving forces of economic development. Yet, the inclusive growth and regional balanced development strategies have failed to reverse the increasing inequality. It implicates that economic development is not the only path to tackle inequality issues related to health, education and other basic services. The rural - urban dual structure in China and the caste system in India are the roots of the widening gaps in income, the great urban - rural divide, and all basic public services of aged care nursing, health and education.

Thomas Piketty, the author of the famous *Capital in the Twenty - First Century* uses a lot of accurate and solid data to show how the social inequality in wealth and income evolves in the past two centuries. That is the return rate of capital (r) always surpasses the growth of income (g) . Piketty believes that capital was used to be the "core paradox" and now it is the cause of all problems. He suggests taking measures like inheritance tax, progressive taxation and global wealth tax to prevent further the concentration of wealth and power. As Oxfam series reports *Even it Up*, *Working for the Few*: *Political Capture and Economic Inequality*, have revealed that with the integration of wealth and power, there are two main causes of extreme inequality: 1) deregulation of markets under the influence of market fundamentalism that encourages wealth concentration into the hands of the few; 2) the elites' capture of politics and power bend the rules so that policies are made in favour of the rich instead of the majority.

Serious economic and social unequal development not only undermines the social concepts about justice, but also constrains social and economic development in reality. To solve it, a comprehensive strategy is needed so that all factors could be included into consideration. In the Brazil Report, the government's main experience of tackling domestic poverty is shared. They prioritize the actions on inequality and public policy. In the report *Equality*, *Inequality and Equity*: *Where Do This Fit in the Poverty Agenda*, the situation and causes of global inequality are deeply analysed. It explains that the economic transformation based on manufacturing and services gives more chances for labour with better education backgrounds and gradually abandons the poorest counties and people. Meanwhile, the global agricultural trade liberalization also leaves the smallholders from the poorest countries behind. All these accelerate domestic and inter – state inequality. The author also points out that the current measures of solving inequality with focus more on technique and minor adjustment, instead of the political reasons that triggers the problems. Hence, the suggested solutions and recommendations should be focused more on land redistribution, accessibility of basic services, taxation reforms, political involvement at the state level and pro – poor trade reform at the international level.

In the first year of the implementation of Sustainable Development Goals, I sincerely hope that the Collection of these reports can help people to fully understand the seriousness of inequality and arouse wide concerns and more discussions. As Professor Wang Hui from Tsinghua University said, "It is urgent to re-identify the value of equality, to enrich and deepen its concepts and combine it with the thought of social development patterns. We should take a perspective that 'all things and people are equal while their differences are respected', which goes beyond equal opportunities, fair distribution and equal capacity". I think it is also correspondent to Chinese national strategy of constructing an ecological civilization.

Last but not least, we would like to thank all people that have supported us in reviewing, translating, and vetting the reports. Project Coordinator Wang Man and Geng Hua from Global Call to Action against Poverty China Office and former Assistant Campaign Officer, Li Yurong from China and the Developing World Programme of Oxfam Hong Kong are all devoted into the collecting, translating, and vetting the reports. Campaign Officer, Li Ai from China and the Developing World Programme of Oxfam Hong Kong, review and edit all reports which then become presentable. Also, I would like to send my gratitude to Social Science Academic Press. It is their efforts that Chinese readers can have the opportunity to understand social inequality worldwide and particularly in emerging countries. I sincerely hope that this Collection would enable every reader with profound thoughts on inequality.

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Equality, Inequality, and Equity: Where Do These Fit in the Poverty Agenda?

Duncan Green

There is growing recognition amongst development policy makers that extreme inequality is bad for healthy economic growth and social stability, as well as being inter-generational in its effects. This paper reviews the state of global inequalities, and analyses the forces that drive them. Shifts towards manufacturing and service-based economies are biased in favour of educated labour, and away from the poorest countries and workers. Simultaneously, global agricultural trade liberalisation is undermining small-scale farmers in the poorest countries. These processes exacerbate inequalities both between and within countries. The author argues that methods to combat inequality skirt around the underlying politics that give rise to such injustices, and tend to focus on technocratic approaches and minor adjustments rather than more radical political solutions. At national level, these would include land redistribution, access to basic services, tax reform, and reforms to political participation. At international level, action to reduce inequality must include pro-poor trade reform.

This background paper was written as a contribution to the development of *From Poverty to Power: How Active Citizens and Effective States Can Change the World*, Oxfam International 2008. It is published in order to share widely the results of commissioned research and programme experience. The views it expresses are those ofthe author and do not necessarily reflect those of Oxfam International or its affiliate organisations.

When pressed for his views on inequality and redistribution in the 2001 election campaign, the British Prime Minister, Tony Blair, famously ducked the question by replying 'It's not a burning ambition for me to make sure that David Beckham earns less money.' ① Inequality and redistribution have been out of fashion among rich - country decision - makers for many years and warrant barely a mention in the Millennium Development Goals (MDGs). ② However, this is now changing as 2005 saw a rash of high - profile World Bank (WDR 2005) and UN Publications Human Development Report (HDR), 2005; Report on the World Social Situation, (RWSS) (2005), arguing that tackling inequality is one of the most urgent tasks of our time.

This renewed interest in inequality stems from several causes, including the manifest failure of the Washington Consensus view that 'a rising tide lifts all boats' to reduce poverty fast enough to meet the MDGs, new evidence that high levels of inequality impede economic growth, and renewed attention to the sources of political tension arising from the 'war on terror'. In the words of President Bush, 'This growing divide between wealth and poverty, between opportunity and misery, is both a challenge to our compassion and a source of instability' (quoted in HDR 2005: 75).

This is not to suggest that the multilateral agencies have suddenly become red - blooded redistributive socialists. The core of their concern with inequality is not that it is intrinsically unfair, but that it is bad for economic growth and poverty reduction. The World Bank argues for equality of opportunity (e. g. access to education, freedom from discrimination, equality before the law), with only a minor role for greater equality of outcome, namely, avoiding absolute destitution. The role of redistribution, whether through progressive taxation or land reform, is treated with great caution and its risks emphasised.

The Bank's analysis certainly emphasises that inequality is about much more than income - almost every aspect of the life chances of the poor, from access to

① *Guardian* 23 December 2005, available at http: //politics. guardian. co. uk/conservatives/story/0, 9061, 1673455, 00. html.

② Gender parity in education is the only aspect of inequality overtly addressed in the MDGs.

clean drinking water to vulnerability to crime, conflict, and natural catastrophes, is plagued by inequality between the weak and the strong. In practice, however, much of the policy debate comes down to inequality of income, and a small number of essential services, namely health, education, clean water and sanitation.

Whereas the academic literature used to stress the positive role of income inequality in rewarding 'wealth creators' as a way to encourage innovation and growth, there is now gathering momentum for the economic arguments that inequality is bad for growth and, therefore, poverty reduction. In essence, the arguments are that:

- *Inequality wastes talent.* If women are excluded from top jobs, this squanders half the nation's talent, which has a negative impact on the economy. If banks refuse to lend to poor people, then good economic opportunities are lost.

- *Inequality undermines society and its institutions.* In an unequal society, elites find it easier to 'capture' governments and other institutions, and use them to further their own narrow interests, rather than the overall economic good.

- *Inequality undermines social cohesion.* 'Vertical inequality' between individuals is linked to rises in crime, while 'horizontal inequality', for example between different ethnic groups, increases the likelihood of conflicts that can set countries back decades and cause enormous suffering. *Inequality prevents growth from reducing poverty.* By determining the size of the crumbs that the poor receivefrom the economic table, inequality prevents growth from reducing poverty: a one percentage point increase in growth will benefit the poor proportionately more in an equal than in an unequal society.

- *Inequality transmits poverty between generations.* The poverty of a mother can blight the entire life of her child. Some 30 million babies are born each year with impaired growth due to poor nutrition during foetal life. Low birth – weight babies are much more likely to die, and to be stunted and underweight in early life, increasing their chances of ill – health and death in childhood and, should they survive, condemning them to a lifetime of sickness and poverty (The Chronic Poverty Report (CPR), 2005: 21).

Although at first glance the World Bank's emphasis on equality of opportunity looks timid – little more than the American Dream plus a safety net – it allows for some pretty radical interpretations. First, the distinction between opportunity and outcomes is artificial, since today's outcomes shape tomorrow's opportunities. Even if they go to the same school or live in the same *barrio*, children of the betteroff and/or better educated are also more likely to do better. In order to achieve genuine equality of opportunity, public action is needed to ensure that a village girl from a poor lower caste in India can achieve the same educational outcome as a boy from a rich family in Delhi, for the same effort. Achieving this would require an extraordinary state effort to break the cycle of inequality by compensating for the multiple initial disadvantages faced by the girl. This interpretation bears little resemblance to the traditional criticism that equality of opportunity is tantamount to saying 'we are all equal because all of us have the right to dine at the Ritz'.

Power and Rights – the Missing Piece

Inequality is much more than a technical barrier to growth orpoverty reduction. Writing in 500 BC, Plato reminded Athenian legislators of the moral abhorrence provoked by extreme inequality. '*There should exist among the citizens neither extreme poverty nor again excessive wealth*', he wrote, '*for both are productive of great evil*' (quoted in HDR 2005: 51).

Extreme inequality provokes outrage and condemnation, and is intimately bound up with notions of human rights. The idea that all people, wherever they are, enjoy certain basic rights has become increasingly influential, not least through the international human rights framework established by the UN. This commits states to guarantee equal civil and political rights, to ensure minimum standards, and to the progressive realisation of economic, social, and cultural rights. ①

Moving the focus from poverty to inequality makes it impossible to avoid poli-

① Based on presentations by Edward Anderson and Tammie O' Neil at a roundtable discussion, 'A new equity agenda?', Overseas Development Institute, 31 March 2006.

tics. Inequality is about some people having more than others. So is politics. And the two interact – powerful people use their political control over institutions, individuals, or they use force – to benefit themselves, often at the expense of others.

For the multilateral agencies that dominate thinking on development, this poses a dilemma. These agencies are, in theory, supposed to be impartial, technocratic bodies. Yet, their own analysis is leading them inexorably into the minefields of politics. In its 2006 *World Development Report*, the Bank recognised as much, saying:

> *The analysis of development experience clearly shows the centrality of overall political conditions— supporting the emphasis on governance and empowerment in recent years. However, it is neither the mandate nor the comparative advantage of the World Bank to engage in advice on issues of political design.* (*WDR* 2006: 10)

As this excerpt implies, the Bank and others have tried to skirt around *politics* by talking instead about '*governance*' (sometimes caricatured as 'government with the politics taken out') and '*empowerment*'. These concepts cover areas such as the separation of powers between governments, parliaments, and the judiciary, the rule of law, government transparency and accountability, and strengthening the role of civil society organisations, but steer clear of politics *per se*. Critics argue that trying to deal with these issues without taking politics head – on leads up an intellectual and developmental blind alley (see, for example, Lockwood 2005). Political elites that benefit from the current levels of inequality and injustice will always do their best to frustrate reforms, until their power itself is challenged.

How Extreme Is Inequality?

Inequality exists both within and between countries. The extent of inequality between countries is breathtaking, a form of 'postcode lottery' where the greater part of your life chances are determined by the random circumstances of your birth –

where you are born (rich or poor country, town or countryside) and who you are (boy or girl, ethnic minority, living with a disability, or your mother's physical health, especially during pregnancy).

In terms of income and quality of life, gulfs separate the haves from the have - nots. On the (conservative) assumption that the world's 500 richest people listed by *Forbes* have an income equivalent to no more than five per cent of their assets, their income exceeds that of the poorest 416 million people. A woman in Nigeria is 480 times likelier to die from pregnancy - related causes than a woman living in Canada. In poor countries as many as 30 per cent of deaths among women of reproductive age may be from pregnancy - related causes, compared with rates of less than one per cent in industrialised countries (RWSS 2005: 68).

Inequality of opportunities and provision between countries drives such unequal outcomes. Per capita spending on health ranges from an average of more than US $3000 in high - income countries to US $78 in low - income countries with the highest health risks and to far less in many of the poorest countries (HDR 2005: 26). For the poor, inequalities can cancel out the benefits of living in a better - off society. Average income is three times higher in high - inequality and middle - income Brazil than in low - inequality and low - income Viet Nam. Yet, the incomes of the poorest ten per cent in Brazil are lower than those of the poorest ten per cent in Viet Nam. The redistribution of just five per cent of the income of the richest 20 per cent of Brazilianswould cut the poverty rate from 22 per cent to seven per cent (HDR 2005: 6, 65).

Regionally, Latin America is renowned for a level of inequality that is 'extensive, pervasive and resilient' and for the exceptional slice of national wealth owned by the very rich. Research in Africa suggests that, at least in terms of income, inequalities are as high as in Latin America, a finding that may surprise those who assume that at African levels of poverty, all are more or less equal. Asia contains countries with low levels of inequality (Taiwan, Viet Nam), and others where inequality is rapidly approaching Latin American and African levels, notably China (ODI 2006a: 3).

Within countries, inequalities can also be grotesque. In Brazil, the *favelas* of Rio's (largely black) marginalised poor cling to the hillsides overlooking the luxury condominiums and beach playgrounds of the (generally white) mega – rich. In Latin American countries with large indigenous or African descended populations, such as Bolivia, Brazil, Ecuador, Guatemala, or Peru, incomes of these groups are half of that of their 'white' compatriots (World Bank 2003: 8).

Within poor countries, internal inequalities in life opportunities are just as stark as those in income. Children born into the poorest 20per cent of households in Ghana or Senegal are two to three times more likely to die before five years of age than children born into the richest 20 per cent of households. Nowhere is the injustice of inequality more evident than in the phenomenon of 'missing women'. Due to discrimination against girls and women, which starts even before birth, through selective abortion, the world's female population is lower than it should be, compared to men. Recent estimates put the number at 101.3 million. Of these 'missing women' 80 million are Indian and Chinese – a staggering 6.7 per cent of the expected female population of China, and 7.9 per cent of the expected female population of India (CPR 2005: 22; HDR 2005: 153).

Are Equality and Inequality Rising or Falling?

Trends in inequality are widely disputed, and many thousands of hours have been spent by economists 'proving' that inequality is rising, falling, or staying the same. Every participant in the discussion can find academic grounding for their position. The key to the differences lies in what is being measured, how averages are employed, and whether inequality between or within countries is being discussed.

If we compare average GDP per capita *between* countries, unweighted by population, inequality appears to be increasing. In 1990, the average American was 38 times richerthan the average Tanzanian. Today the average American is 61 times richer (HDR 2005: 37). However, once weighted by population, inequality appears to be decreasing, due to rapid growth in India and China (using average GDP per capita for each country ignores rapidly rising inequality within those countries). If we compare incomes globally, the choice of statistical measures and reference years determines whether you conclude that inequality is rising or falling.

The use of percentages rather than dollars also serves to mask the true extent of inequality. If Luxembourg and Nicaragua, at opposite ends of the world income distribution, grew at an annual rate of two per cent per capita for the next 25 years, inequality between them would be seen as constant. Yet the per capita annual incomes in Luxembourg would increase from US $17, 228 (PPP – adjusted) to US $28, 264, while in Nicaragua they would rise by a mere US $375, from US $573 to US $940 (WDR 2006: 63).

According to the UN, income inequality *within* countries is generally increasing:

> *Within – country income inequality rose between the* 1950*s and the* 1990*s in* 48 *of the* 73 *countries for which sufficiently reliable data are available. Together, these* 48 *countries account for* 59 *per cent of the combined population ofthe countries included in the analysis. Within – country income inequality remained relatively constant in* 16 *of the countries under review, though the data suggest that the situation has worsened in three of them during the past few years. Only nine of the countries included in the analysis registered a decline in income inequality between the* 1950*s and the* 1990*s; included in this group are the Bahamas, France, Germany, Honduras, Jamaica, Malaysia, the Philippines, the Republic of Korea, and Tunisia.* (*RWSS* 2005: 52)

There are, nevertheless, some grounds for cautious optimism when it comes to the non – income dimensions of inequality. In 1970 most adults in the world could not read or write. Now most can. Since the 1960s, average life expectancy in low – income countries has risen from 48 to 63 years (DFID 2006: 57). This achievement was due to the global spread of health technology and to major public – health efforts in some of the world's highest mortality areas. Since 1990, however, HIV and AIDS, and social and economic chaos in some transition economies have reversed some of the earlier gains. Overall life expectancy in Russia has dropped by four years since 1970, and male life expectancy has dropped by even more. In Botswana, HIV and AIDS have reduced life expectancy by nearly 20 years since 1970 (from 56 to 37 years) (HDR 2005).

What Drives Increasing Inequality?

At the heart of increasing inequality lies work. The main assets of the poor are their hands, and the way they are paid for their work, and the nature of that work, is crucial in determining whether they escape from poverty, or are trapped in a world of back-breaking labour with no escape. According to Kofi Annan, 'the best anti-poverty programme is employment. And the best road to economic empowerment and social well-being lies in decent work' (quoted in RWSS 2005: 130).

Whether an economy depends on agriculture, manufacturing, or services has a crucial impact on inequality. Despite urbanisation, poverty continues to be more prevalent in rural areas, and agriculture generates more jobs than the other sectors, particularly if small farmers rather than capital-intensive agribusiness run it. Small-farm based agricultural growth is therefore one of the best ways to reduce inequality (DFID 2005).

But globally, economies and jobs are shifting out of agriculture into manufacturing and, increasingly, into service industries such as retail or finance. Here, the nature of work is changing fast. As economies become more technology- and knowledge-intensive, those with an education fare better than those without. Each additional year of education now increases the average individual worker's wages by five-ten per cent (Goldin and Rienert 2006: 129), and the differential continues to rise, as huge numbers of low-skilled workers enter the global workforce through the integration of countries such as China. The shift from manufacturing to services, and within manufacturing, to smaller production units, 'informal' enterprises, and female workforces, has undermined the power of traditionally male-dominated labour unions, making it harder for them to organise to secure decent wages and conditions.

The inequalities produced by changes in technology and business models have been compounded by political decisions. Worldwide, governments, often encouraged