MYTH #7: Extreme Inequality is Inevitable

"This troubled planet is a place of the most violent contrasts. Those who receive the rewards are totally separated from those who shoulder the burdens. It is not a wise leadership." – Spock, character in the American science fiction television show Star *Trek*[1]

"In a sign that the global economy could be improving, there are now 1,011 billionaires in the world, up from 793 last year. … So with the tide apparently turning, and money beginning to be made once more…"
– Pól Ó Conghaile, "Billionaires' Playgrounds"[2]

"The problem is, you help people out, then they expect to be treated like equals."
– A Sri Lankan man explaining to me why conflict breaks out in different countries

Why Inequality?

The Marxist ideal of "From each according to his ability, to each according to his need" still has great appeal; there have been, however, some difficulties in its application. In a society in which everyone is expected to contribute what they can and everyone receives what they need, what would be the incentive to work? Most people do not work for the sheer joy of it, and will not want to work harder than those around them simply because they have the ability to do so. Similarly, people tend not to be satisfied getting simply what they need. Meanwhile, people have a wide range of talents and abilities. If people fail to be either rewarded for their hard work or punished for their laziness, then many people will try to get away with doing as little as possible. Those who are willing to work harder for greater material rewards will be discouraged from doing so if those rewards do not exist; they will thus work less and the whole economy will suffer.

Absolute equality – wherein each person is treated exactly the same and is given identical rewards regardless of his or her input – thus makes little sense as a goal of a good society. There is, however, a vast and all-important difference between minor levels of inequality – those that reward the people who work the hardest and produce the most, or who have the rarest skills, or who have invested the most in training, or have made the greatest contributions to society – and the levels of inequality that are common in much of the world, where some people have billions of dollars while their neighbours starve. Not only do unacceptable levels of inequality exist, but too often, inequality has nothing to do with skills or hard work and everything to do with accidents of birth. Some people never get a fair chance in life because of their sex, ethnicity, religion, or family history, among many other causes of discrimination. Both wealth and poverty tend to be inherited conditions. Even where poverty is 'earned,' how high a price are people willing to make others pay for poor financial management or lack of marketable skills or laziness? And while there are certainly appealing economic arguments to be made for rewarding those who contribute the most and work the hardest, it is difficult to defend rewarding only those who, by mere chance, have lighter skin or belong to a certain ethnic group.

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My closest friend in Sri Lanka recently spent several months on Christmas Island, where he was held with thousands of illegal would-be immigrants to Australia. On his nearly three-week long illegal boat ride there under the hot sun, he received just two cups of water a day. However, he felt that the risk of death that he faced during the boat ride and the humiliation and suffering of being held on the island were a small price to pay for the hope of a better future. The abstract idea of 'inequality' takes on a new meaning when the friend with whom you have been going for walks on the beach feels the need to put himself through misery that you can never imagine for yourself.

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Not only ethnicity and religion, but the simple difference between having an XX or an XY chromosome pair makes an enormous difference in one's life possibilities and what choices one has, even in the probability of surviving to adulthood. One's life circumstances are also largely determined by the country of one's birth. An American is almost five times more likely to be jailed than a Canadian.[3] An American woman is seven times more likely to die in childbirth than a woman in Italy, while a woman in Sierra Leone is a hundred times more likely to do so than a woman in Lithuania.[4]

The natural resources of this planet are limited. This means that we cannot simply address poverty by looking down at the bottom of the economic pyramid while ignoring the vast wealth that is increasingly being hoarded at the peak. We cannot keep trying to make the 'pie' bigger. Such vast inequality causes a range of problems, including the collapse of democracy. It violates the principles of humanity and decency. If people fail to act to reduce it, then inequality will perpetuate itself, worsening poverty and chipping away at the middle class.

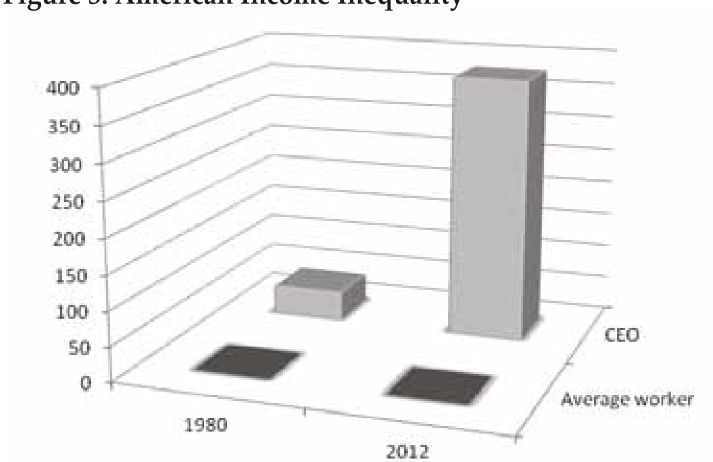
The scale of the problem

Inequality within and between countries is enormous and continues to grow.

- In the 1990s, workers making Nike shoes in Indonesian factories were paid as little as fifteen cents an hour, lived in company barracks, had no unions, were often forced to work overtime, and knew that if they went on strike, the military might be called in to retaliate. In 1992, the $20 million that Michael Jordan received in endorsements of Nike products was equivalent to the entire annual payroll of the Indonesian factories that made the shoes.[5] Today, Indonesian Nike workers continue to be underpaid and badly treated.[6]

- In Argentina in 1970, the richest ten percent of the population earned twelve times as much as the poorest; by 2002, they were earning forty-three times as much.[7]
- In 1980, the average American CEO was paid forty-two times as much as the average worker; at the time, income tax rates for the richest were seventy percent. Today, the pay ratio is 380 times, while the top income tax rate is just under forty percent. Tax loopholes mean that the rich pay even less than that amount. One hedge fund manager, Raymond Dalio, received three billion dollars in compensation in 2011.[8]

Figure 3: American Income Inequality



- In the 1990s, the CEO of McDonalds received about 230 times more in compensation that what a full-time worker receiving the federal minimum wage could earn. That gap has since increased to 580 times. While a typical McDonalds employee struggles to survive on his or her salary,[i] the CEO has access to a company aircraft for personal trips and recently purchased two condos at the top of the Trump International Hotel in Chicago for about $3.3 million.[9]

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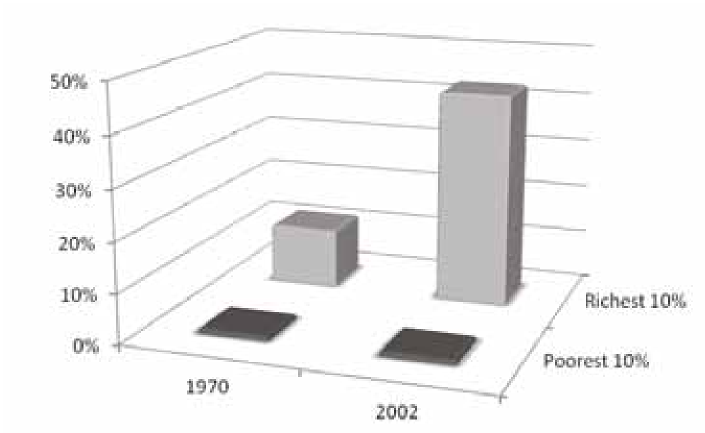
[i] The typical employee's wages are so low that, for example, one man who has worked for McDonalds for twenty years cannot pay the rent on his substandard housing in a men's welfare hotel.

- In the decades between 1971 and 2001, the median income of the average American worker did not grow at all, while the income of the top one-hundredth of one percent of the population increased by almost five times.[10]

- In 2007, the top one percent of the population in the United States controlled almost half of the country's total financial wealth, the top five percent had seventy-two percent, and the top ten percent had eighty-three percent. The bottom eighty percent owned just seven percent of total financial wealth.[11]

- The much talked about economic growth in China has resulted in a doubling of the income gap between city dwellers and the 800 million rural poor since the mid-1990s.[12] There are now 1.6 million rich households in China (annual disposable income of more than $150,000), while there are 164 million poor ones (annual disposable income of less than $5,000).[13]

Figure 4: Argentinean Income Inequality



- In India, 410 million people (thirty-seven percent of the population) live below the poverty line.[14] At the same time, there were sixty-one billionaires in 2012. The combined net worth of the hundred richest people in India is $250 billion[15] – enough to give $610 to each person who lives below the poverty line.[ii]

[ii] That may not sound like much, but consider that the government's poverty line – the amount needed to reach the "minimum standard" – is set at fifty-six cents per day per person in urban areas and forty-four cents per day in rural areas. An additional $610 per year would triple the individual budget of the urban poor and almost quadruple it for the rural poor. Ashima Goya, "India Debates Meaning of Poverty Line and Budget Deficit," *EastAsiaForum*, 5 May 2012.

- While there was only one billionaire in the United States in 1978, there were sixty-eight in 1988, after eight years of Ronald Reagan's presidency.[16] Reagan's anti-poor policies also meant that conditions worsened for many at the bottom of the pyramid: the number of people living below the federal poverty line increased from twenty-six million in 1979 to almost thirty-three million in 1988.[17]
- Worldwide, the number of billionaires has continued to grow, even during the recent worldwide economic recession. The combined net worth of the world's 1,426 billionaires in 2013 was $5.4 trillion. The billionaires were worth, on average, $3.7 billion apiece.[18]
- The GDP of the forty-one Heavily Indebted Poor Countries (567 million people) is less than the combined wealth of the world's seven wealthiest people.[19]
- Globally, the incomes of the top one percent have increased sixty percent in twenty years. The growth in income for the top tenth of one percent has been even greater.[20]

In the absence of regulations and measures to redistribute wealth, 'free market' capitalism will inevitably lead some people to grow extremely wealthy while others remain entrenched in – or fall deeper into – poverty. In a world in which greed is sometimes more common than empathy, some of those at the top fight any measure that would lead to a redistribution of 'their' wealth. Because of this, one sees, in the words of Indian writer Prabhu Chawla, that "… subsidies for the poor are being gradually withdrawn to make way for increased incentives for the rich."[21] Mainstream economists, rather than lamenting these trends, applaud them for their upward impact on GDP; wellbeing is forgotten or ignored.

Inequality, unemployment, and poverty

Inequality, unemployment, and poverty reinforce each other in a number of ways. Imagine that an employer wishes to pay his workers a low wage in order to generate more profits for himself. If there are plenty of better jobs available, or if unemployment benefits are sufficiently generous that people are better off taking the benefits than working for a pittance, then workers will not accept his low wages and he will have to offer more.[iii] But if a lot of people are looking for work,

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[iii] Unless, of course, these jobs can be filled with immigrant labour. If the immigrants are illegal, they cannot complain about their working conditions. But that, again, is a manifestation of inequality.

there is a shortage of good jobs, and unemployment benefits are minimal to non-existent or are doled out in a humiliating way, then the employer will find it easy to attract workers in spite of the low wages. Employers thus benefit both from high levels of unemployment and from stingy unemployment compensation.

Hint: *Whatever they say to the contrary, those who benefit from unemployment and inequality are unlikely to do anything to improve the situation.*

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When most wealth gravitates to the top, there is less to spread around everywhere else. As a result, the number of well-paid jobs – even of jobs in general – declines. Inequality also results in a greater number of existing jobs being unpleasant and of low quality. When the 'floor' is removed in terms of how awful jobs can become, and where rules about government unemployment benefits require that people take a job to receive said benefits, then people are forced into awful conditions. With more equality, nobody is desperate enough to take the most unpleasant jobs (which also, too often, are the worst paid). As a result, either the conditions must improve or the salary must go up, or both.

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In the early 1980s when I was volunteering at a homeless shelter in Boston, I met a man who had been working as a dishwasher. He said the job was miserable – unpleasant work in an extremely hot and humid room – and only allowed him to afford the most atrocious housing. He decided that he was better off quitting his job and living on the streets so that he could at least have his days to himself. The example is extreme, but the lesson remains.

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The reverse is also true. Historically in the United States and Europe, periods of low inequality have been periods of low unemployment.[22] When limited resources are spread more equally, there are more possibilities for job creation in general, and for good jobs in particular. Reducing the difference between the best and the worst jobs will result in people staying in their jobs longer. The result will not be an entire nation of lazy people taking government benefits, but rather better working conditions overall. Entire countries such as Denmark have prospered and continue to prosper by promoting both employment and equality.[23]

Because employers can benefit from joblessness, poverty, and a powerless, desperate workforce, some employers put pressure on politicians to keep unemployment rates high. For example, epidemiologist Dr. James Gilligan describes how American unemployment rates are consistently higher when Republicans are in power, due to their implementation of a whole range of anti-poor policies that also, incidentally, contribute to higher rates of violence.[24] Those policies reduce unemployment benefits and weaken the organizing rights of workers. Gilligan argues that inequality actually benefits conservatives because it causes resentment and fear of the poor – and thus public support for conservative policies that, ironically, make the situation even worse.

In the United States, one significant factor in wage inequality has been the drastic reduction in the strength and power of labour unions. America has a long history of labour unions designed to defend the rights of workers. Employees will usually be in a weaker position than their employers will; that gap is even greater when it comes to unskilled workers who can easily be fired and replaced. The only way to narrow that power gap is for workers to organize and negotiate as a group, rather than as individuals. The results of this negotiating power are evident: in the United States, unionized workers earn between eleven and thirty percent more than non-unionized workers, in terms of wages and full employment packages that include benefits.[iv]

Having the ability to go on strike to press for demands when the situation becomes desperate is a critical negotiating tool.[v] That ability ended to a large extent in the 1980s, at least in the United States. When air traffic controllers went on strike, rather than support their right to do so and pressure their employers to negotiate fairly, then-president Reagan took a strong stance against strikes. In so doing, he eliminated one of the most important tools of unions, which have lost significant power in the years since. When there is nobody with power left to stand up for the beleaguered workers, it becomes that much easier to pay absurdly low wages and deny workers decent working conditions and benefits.[25] It is not difficult to see who benefits and who loses from the deterioration of unions. Where the poor have not seen their incomes decline, it is largely due to the fact that they work longer hours rather than to any increase in pay.[26] Of course, when the worker loses, someone else wins. Labour unions are being busted not because they were ineffective at helping workers but precisely because of their success.

The weakening of labour unions explains only one aspect of growing inequality in the United States. In fact, any explanation of equality that focuses solely on salaries is incomplete, since many multi-millionaires and billionaires did not gain

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[iv] The wide range (eleven to thirty percent) stems partly from the decline in the power of unions and current versus historical benefits.

[v] Literature can often make a point more articulately than non-fiction. The suffering of striking workers and the fact that strikes are generally reserved as last-ditch measures when workers have no other recourse was particularly brought home to me by Ėmile Zola's *Germinal.* At the time of writing this book, non-unionized fast food workers across the United States were going on strike to protest their ridiculously low wages.

their status by receiving high salaries alone but rather by receiving large compensation packages that are comprised of low-taxed perks, or through investments and inheritances. Compensation packages that include stock options and similar investment products can be particularly lucrative because they are taxed at a lower rate than salaries. The wealthiest Americans – those with incomes over $10 million – acquire almost half of that income through capital gains and dividends. For the most part, such investments (capital gains) are taxed at only fifteen percent, much lower than the current highest American income (salary) tax bracket of almost forty percent. Income tax, rather than being progressive, is regressive – some members of the middle class pay a higher percentage (up to thirty-five percent) than do the wealthiest (only fifteen percent). Since taxes pay for public services, decreases in tax rates have consistently made the rich – who do not need the services – richer, and the poor and middle class – who rely on those services – poorer.[27]

Inequality is, in many other ways, simply bad economics. The best way to generate spending in an economy is to ensure that as many people as possible have money to spend. Because their needs are so great, the poor are virtually guaranteed to spend rather than save any money they have. The same cannot be said for the rich. At some point, when a person has millions or billions of dollars, it becomes difficult to spend it.[vi] Even when the rich do spend their money, they tend to spend it in ways that make other rich people better off; little ever trickles down to the poor. When money shifts to the bottom of the socio-economic pyramid, though, it is more likely to circulate there: where the opportunity exists, low-income earners are more likely than the rich to buy their goods from small local shops and stands owned by others with little money. Some of that money will indeed 'trickle up' to the rich when people buy items manufactured by large corporations, a process I call the gravitational pull of money upwards. That process requires various policies to resist, such as encouraging small, local businesses and allowing/encouraging street vendors. But when wealth is spread more evenly rather than collecting in the hands of the few, poorer people would have more to spend, and most of that spending would be for non-luxury items. The poor

[vi] Let us not completely underestimate the creativity of the very rich in spending their billions. Outrageous examples include a $95,000 truffle, a $3 million sports car, building a $1 million emergency room in one's home to avoid the misery of going to a hospital, installing an ATM in one's kitchen, and buying one's own personal submarine or full-sized passenger jet. Ross A. Lincoln, "3 Insane Things Rich People Blow Their Money On," *AlterNet*, 1 Nov. 2013 and Khadeeja Safdar, "8 Insane Things Super-Rich People Spend Their Money On (Photos)," *The Huffington Post*, 6 June 2012.

would thus benefit in terms of both what they can buy and the income opportunities generated by their spending.

Other problems with inequality

The fact that inequality contributes to poverty is reason enough to address it. However, success in reducing inequality will also bring rewards in many other areas. Given how difficult it is to force the elite to surrender some of their money and influence, it is helpful to keep in mind that many other aspects of life will get better if inequality is successfully addressed.

Social cohesion declines when the rich live their lives separately from the poor, retreating behind gates and barred windows, only frequenting expensive clubs and restaurants, never encountering those outside their income group except as workers and beggars. While visiting Malawi, I met a young activist who had just had all the appliances in his outdoor bathroom stolen. His boss did not suffer from theft because he lived behind a high gate, nor did he appear to empathize with his colleague. The affluent can wall themselves off from would-be thieves and other threats, but fear and high walls destroy one's sense of community.

Social cohesion also diminishes when the life experiences of the rich and poor vary enormously. For a society to function, different social and income groups need to mix and interact and learn about each other. Where mixing is rare, prejudices go unchallenged, stereotypes become entrenched, and violence becomes more common. Where inequality is highest, so are murder rates. Mostly the poor kill each other, as jealousy and despair over the lack of opportunities leads to more gangs and other deadly crime – though the fear of crime affects virtually everyone.[28]

Inequality erodes people's sense of humanity. The sight of extreme poverty can be so distressing that the only way to respond is to look away, assuming that those living such a life are not fully human; such beliefs, in turn, reduce people's willingness to address that poverty. Nobody should have to live in conditions of extreme deprivation: street children subjected to violence; parents forced to leave their young children locked in the home alone, uncared for, while they are out working (or looking for work); the sense of inadequacy and despair that arises when, no matter how hard people work, they can never afford even the basic necessities while others live in palatial homes with servants to wait on them. It is impossible to foster a sense of community, of nationhood, of joint endeavour – even of empathy and understanding – when people in the same country or locale are living such drastically unequal lives. It also makes it difficult for nations to work together to solve international problems such as climate change and armed conflict.

Inequality creates two separate tracks of services: public government services for those who can afford nothing else, and private services for those who can. The rich, who have the power to influence government to improve service delivery, have no reason to do so if they are not utilising those services; this includes health, education, transport, and policing. The rich also object to paying taxes to support services that they do not use. They are likely to support policies – such as regressive taxation and limited social spending – that will enable their children to become richer while making it difficult for the poor to rise out of poverty.[29]

Comparisons between different countries show that those with the greatest levels of inequality (the biggest gaps between the wealthiest and poorest segments of the population) have the worst health outcomes, including life expectancy, infant mortality, and rates of obesity. The relationship is not simply a reflection of the fact that poverty causes ill health. High levels of inequality have a negative effect on the health of even the well off, mostly because more inequality means less social cohesion, which results in stress, fear, and insecurity for everyone.[30] Mainstream economic policies may exacerbate this relationship by whittling away at the welfare state, creating even worse situations for the poor.[31]

Inequality also has a destructive effect on politics. When some people have vast wealth, they are able to exercise undue influence on the political system, either legally through campaign donations or illegally through bribes. The more power the rich have, the more of it they can use to keep themselves at the top of the pyramid and others at the bottom. As a result, it becomes more difficult to enact policies and programs that would help the poor, or save the environment, or improve human rights. The repealing or weakening of laws in various countries that were designed to regulate banks and other financial institutions – which ultimately led to multiple economic crashes – were brought about through political pressure from the financial industry. The wealthy can pay politicians to enact policies that maintain or increase inequality. This occurs through a variety of means, including campaign contributions by individuals and corporations, and by a range of ‘gifts’ and other ‘favours’ that exact a return. The wealthy can also control the media so that it refuses to show the negative repercussions of inequality. When inequality grows too great, it is impossible to have genuine democracy.

Extreme inequality also leads to environmental destruction. The fantastically extravagant lifestyles of the very wealthy can be fantastically damaging: enormous climate-controlled homes, private jets, and luxuries sourced from around the world. The very poor do far less damage to the environment than the very rich, but they may have no other options for survival than to destroy natural resources. Finally, despite what mainstream economists claim about inequality encouraging effort, high levels of inequality actually discourage effort and encourage wrongdoing. In Dhaka I cannot help but notice that in terms of physical effort, drudgery and systematic abuse, the worst jobs, such as manually cleaning out blocked sewers, are also the worst paid. Where is the motivation to work hard when one is doomed to a life of poverty anyway? If hard work is to be encouraged, it should be rewarded. If the goal is to encourage cutthroat behaviour and lack of concern about others…well, much of the world is right on track.

How inequality is viewed in mainstream economics

While there is considerable attention being paid to the problem of inequality in some circles, it is largely ignored – or treated as a plus – in mainstream economics, which claims that inequality leads to motivation and prosperity and thus benefits everyone. According to the conservative Heritage Foundation,

> [t]he current welfare system also erodes the culture of work that makes the American Dream possible. Welfare may well 'give' the poor many things, from cash to subsidized housing, but it also takes away a crucial ingredient of happiness: the incentive to work, to save, to improve oneself. … In America, we no longer extol hard work the way we used to. … Nor do we view with shame those who live off of handouts. … we must be relentless in exposing the fallacies of the income inequality argument. If we are, as we should be, concerned with mobility and prosperity, then income inequality is a red herring. Furthermore, behind the charts and graphs detailing the rise in income inequality often lies an ugly animosity against the rich. Even worse, this envy and hatred of the 'one percent' masquerades as compassion for the downtrodden. Every time someone lashes out at the top 1 percent, we ought to talk instead of the bottom 1 percent.[32]

Or, from Forbes:

> While it is distressing to consider the people in the bottom percentiles in the United States, the possibility of such wealth at the top should be exciting. It should not depress us; it should inspire us. It should not incite jealousy; it should kindle ambition. People should look at that astronomical green bar and think: What can I do to get there? What can I make? How can I create something of worth?
>
> The real issue that ignites anger, fear, and sadness is poverty. We need to concentrate on that and finally forget our misguided and nihilistic inclinations to pillage the wealthiest among us. Why should we hate them? We should want to be them. To achieve that, we must unleash our creative forces. Let people make...more useful and agreeable things, it's the best way.[33]

Believing that social mobility really exists – that current inequality is not that important because the truly motivated can work their way up the social and economic ladder – both reduces empathy for the worst off and puts one's focus in the wrong place. Part of the mythology of the United States is the popular belief that anyone with sufficient talent and drive, no matter their background, can succeed. That this can take place is demonstrated by the many individuals who have overcome wretched circumstances and escaped poverty. That it is extremely difficult to do so is likewise demonstrated by the consistent correlation between race and family history on the one hand and such measures as unemployment, income levels, incarceration, and life expectancy on the other. Wealth buys opportunity. Wealthy families can send their children to the best schools, where they not only get a good education but also can make the contacts that lead to the accumulation of more wealth. Equally smart children from poor families cannot attend those schools or, if they can, may not thrive in a setting in which material abundance is taken for granted and other students look down on scholarship recipients. Pretending that these issues do not exist does not make them disappear.

Figure 5[34] illustrates how advocates of the "American Dream" – the rich – argue that social programs designed to foster equality threaten the very existence of their Dream. The distinctions between this vision and one that seeks to ensure that poverty is actually addressed, not just feared and pitied, is stark.

Figure 5: Two Conflicting Dreams?

The American Dream	Two Conflicting Dreams	The Liberal Dream
Ladder of opportunity	SYMBOL	Escalator of results
Ensure all have the opportunity to rise	AIM	Ensure all actually rise
Individual effort	PRIMARY FOCUS	Government assistance
Supporting role	ROLE OF GOVERNMENT	Primary role
Free markets	SOURCE OF OPPORTUNITY	Government spending
Remove artificial barriers to ensure equal opportunity	TYPE OF OPPORTUNITY	Social engineering to achieve sameness of opportunity
Government dependence	PRIMARY THREAT	Income inequality

The mainstream media plays an important role in perpetuating the positive mythology of inequality by creating envy for the rich. Adulation of the rich and calls to emulate or at least envy their lifestyles are far more common in the media – and in public discourse – than are discussions of how the extent of such wealth negatively affects the exponentially larger numbers of poor people on the planet.

False solutions

It certainly can be unseemly to act unconcerned about the situation of those at the bottom. Numerous solutions to poverty – and sometimes even to inequality – have been put forward. However, one should analyze these ideas with great care. One way to ensure that inequality remains is to put forth solutions that one knows will be ineffective at best, or downright harmful at worst. The examples above are one such approach: suggest that inequality provides incentives for the individual hard work that will bring people out of poverty.

The way one diagnoses the problem of inequality will affect the nature of the solution that is offered. If people believe that inequality results from unequal access to technology, then programs that supply low-income schoolchildren with laptops will make sense. Such a focus also means, though, that there would be no need to pass laws to ensure that unions could organize and engage in activities that would help to improve the conditions (and incomes) of low-paid workers. Nor need anything be said about raising taxes to reduce the concentration of wealth in the hands of the few.

In the late 1980s, in a report entitled Our Common Future, The Brundtland Commission recommended a three percent increase in worldwide per capita income to solve global poverty and environmental problems.[vii] While that recommendation may sound good on the surface, the results that it would have achieved are somewhat less impressive. Such growth would, in the first year, result in a gain of $633 on average per person living in the United States and $3.60 for one living in Ethiopia. After ten years, the added income would be $7,257 for an American and $41 for an Ethiopian.[35] Certainly, $41 can buy a lot more in Ethiopia than it can in the United States, but not 177 times more. For an equivalent example, compare the rise in income that a billionaire would receive to someone with an income of just $20,000. In the first year, the lower-income earner would gain an extra $600, while the billionaire would gain $30 million. Clearly, flat percentage increases would further increase inequality rather than reduce it. Of course, dollar figures reveal only a piece of the puzzle. However, these figures do indicate the absurdity of using an approach based on percentage increases.

[vii] Formally known as the World Commission on Environment and Development (WCED), the Brundtland Commission pursues sustainable development in a collaborative way. For the report, see World Commission on Environment and Development, *Our Common Future* (Oxford: Oxford University Press, 1987).

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I once participated in a heated battle over whether to give lump sum or percentage-based wage increases. The accountant with whom I argued said that giving everyone a ten percent increase was 'fair' as it would apply equally across the board…except that it meant a monthly increase at the bottom of $5 and at the top of about $65. Basic necessities cost roughly the same whether people are rich or poor (though one might think the poor would need the money more). Increasing the incomes of the poor is logical, but if we do the same for the rich, we will never reduce inequality.

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The dimensions of the inequality gap are the real issue here. Ten-fold or thirty-fold differences in wealth between people are a vastly different matter from hundred-fold or thousand-fold differences. People surely have the right to profit from their efforts. However, those profits should be kept within a reasonable limit and should extend to all workers whose labour helps generate the profits, not just to those with the power to push for higher remuneration. Any effort to decrease poverty is doomed to failure if one ignores the grotesque scale of existing inequalities and the fact that a few have become fabulously wealthy because so many others work so hard for so little return.[viii]

Plenty of people seek to ensure that inequality remains and that the most effective measures for redistribution do not gain political acceptance. The Tea Party Movement in the United States is a highly visible example of successful political advocacy against equality that uses inflammatory arguments based on ridiculous presumptions. For instance, the movement claims that inequality is not a problem because the rich pay more in taxes than the poor (in terms of total dollars), and that the difference between the two groups, at least in America, is minor: "Today the rich have very nice cars, fly first-class, and have a vacation home or two. Meanwhile, non-rich Americans have a decent used car or two, fly coach, and go on some vacations."[36]

[viii] A colleague at the World Bank told me that there is a wise piece of Hindu philosophy that he finds quite helpful: we have the right to work but not to enjoy the fruits of our labour.

Towards a Better Way: Reducing Inequality

"Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer seems at first sight abundantly plain. Servants, labourers, and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged." – Adam Smith, *The Wealth of Nations*

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The persistence of enormous wealth inequality is not accidental; political, financial, and monetary policies promote it. They can also reduce it. The first step is to be absolutely clear that it is not possible to address poverty without also reducing inequality. There is not enough wealth in the world for everyone to have a decent life and for some to have an enormous share. It is not enough to seek to increase wealth at the bottom; it must also decrease at the top. Activists must counter the claim that efforts to smooth out differences in opportunity and wealth acquisition are going to squash initiative and harm the economy. Activists must defend policies designed to give everyone a decent chance in life, regardless of their chromosomes or their family backgrounds. Activists also need to be clear that there is an inherent contradiction in feeling empathy for the poor while adulating the rich.

Hint: *Pay attention to how the growing number of billionaires is being treated in the media. Why are people supposed to be happy that their number keeps growing? Are people really expected to believe that one day, if they are smart enough and work hard enough, they may join the ranks? Or that their country would be worse off if the rich had to pay more taxes?*

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What types of policies are needed?

NGOs, social activists, and others concerned about poverty need to address the issue of inequality. It helps to focus efforts in terms of both the importance of the goal and the likelihood of achieving it. It is not possible to accomplish these major tasks by working alone: people can join local movements or start one of their own to take on some of the more difficult issues.

First and foremost, many countries need better tax policies. They need international cooperation on corporate taxation, so that corporations cannot simply register in a low- or no-tax country to avoid paying taxes on their profits.[ix] Too many individuals and corporations now legally (or otherwise) dodge their taxes. Some companies even pay their CEOs more money than they do in taxes. For example, in 2011, Chesapeake Energy in Oklahoma (United States) paid only $13 million in taxes (based on sales of $11.64 billion), while paying its CEO, Aubrey McClendon, $17.9 million in compensation. Nor is this a lone exception; according to the Institute for Policy Studies, twenty-six of the one hundred highest-paid American CEOs had a higher salary – on average $20.4 million a year – than the amount their companies paid in taxes. American executives can also legally avoid paying taxes on a significant chunk of their income by having it designated as performance-related pay; Larry Ellison, the CEO of the California-based software company Oracle, avoided paying taxes on $76 million of his income. That $76 million is only a small portion of his wealth: Ellison was able to purchase ninety-eight percent of a Hawaiian island at a cost reported to have been more than $500 million.[37] The CEO of Walmart, Michael Duke, used a tax loophole to bank more than $17 million of his compensation tax free in 2011, or about 774 times more than one of his employees would be allowed (never mind able!) to do. The hedge fund manager Raymond Dalio paid only fifteen percent in taxes on his $3 billion income; if he had paid twenty-five percent – still ten percent less than the tax bracket calls for – he would have paid an additional $450 million.[38]

What is true in the United States is true, to varying degrees, throughout the world: corporations and the rich too often pay far less than their fair share of taxes, leaving the tax burden to those who earn far less. Tax structures should be fair, ensuring vertical equity – whereby the rich pay more than the poor – and horizontal equity – whereby those with the same income (regardless of its source) pay the same.

Raising taxes on the wealthy would mean more government revenue to spend on services for the poor and middle class. It would also help to make societies more equal and governments more democratic, since reducing the wealth of the elite would reduce their power to influence public policy. Most of the population will benefit from better tax policies, and this message needs to be widely broadcasted. Using a simple message would be helpful here, along the lines of 'Tax the rich; support the middle class and poor.' Many groups need to be involved in spreading that message. Clear explanations of what the message means are needed, as is clarity about its specific goals. The Occupy movement in the United States showed that there is abundant public support for evening out the difference between the

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[ix] I also discuss taxes in several of the other myths.

'99 percent' and the 'one percent,' but it lacked a clear goal. Examining how the Occupy movement gained such momentum – and why it collapsed – should inform future movements; its lessons learned could be used to rebuild it with a more specific, achievable aim in mind.

In addition to pushing for higher taxes, activists need to push for those new tax revenues to be invested in wellbeing, for example to provide immediate financial help for those in need to obtain food, heating, housing, and clothing; such an approach would go a long way in preventing some of the worst aspects of poverty.[x] Increased taxation revenues should also be used for longer-term investments in public health, education, income supports, and other government services. Improved services for the poor would also help to decrease the significant inequality of opportunity that currently exists between rich and poor. Tax revenues could also help pay for services such as water and sewerage, which governments are privatizing because they claim they cannot afford to operate them. Higher taxes on the rich would help, in other words, to foster kinder, gentler, more humane societies.

There are other ways to reduce wealth at the very top and increase it at the bottom, aside from taxing wealth. Of course, solutions need to be tailored to local contexts, but possibilities abound. Policies can be developed to reward companies for hiring more workers (so that employment is no longer seen as a cost to corporations), to mandate full benefit packages for all employees (including part-time workers), and to encourage worker-owned enterprises. A minimum wage that allows people a decent lifestyle and actually keeps pace with increases in the cost of living would make an enormous difference for those working in low-end jobs. One of the many advantages of unions is that they tend to focus their efforts on raising the lowest wages.[39] Better workplace safety, anti-discrimination, and anti-harassment policies must be enacted. Flexible leave policies would make it easier for people to balance their home lives with their work.[xi] Unions should be strengthened, with all

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[x] Ensuring decent opportunities for the poor also has direct economic benefits. For instance, today's children who receive decent food, housing, health care and education will, as adults, provide the labour which will pay the pensions of current adults. It thus makes perfect sense that all society, not just the parents, should contribute to the raising of children.

[xi] While perhaps not immediately identifiable as an equality issue, many countries have passed laws to help people better balance work-family conflicts; this provides significant benefits, especially to lower wage earners. The United States is exceptional for its low level of government protection for workers and families, including maternity leave. Paid maternity leave is mandatory in all countries except the United States, Swaziland, Lesotho, and

relevant legislation and policies amended to support the concept and practicality of the organization of workers, rather than, as is too often the case, the opposite. At the other end of the spectrum, caps could be placed on the maximum allowable wages and benefits for the rich; the easiest way to achieve this is through high tax rates.

Activists also need to support policies that promote wealth circulation at the bottom of the pyramid, including policies to benefit informal vendors and other independent, self-employed workers/businesspeople. They need to support policies that reduce giant corporations' control of the economy (for instance, by banning big box stores) and that bolster small farmers, farmer markets, local cooperatives, etc.

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A vivid moment in Michael Moore's film Capitalism, A Love Story *comes when he shows the police marching towards striking automakers...not to break up the strike, but rather to protect them from the owners. That scene is particularly compelling to me, given the number of times I've seen newspaper coverage of Bangladeshi police coming in to break up protests by underpaid and mistreated garment workers; there is never a doubt who is at fault in these episodes. The forces of government being used to defend the worker, not the owner, should be the norm.*

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One piece of advice that development banks and 'economic experts' regularly give to governments with financial woes is to reduce their public sector workforce. The assumption is that government workers do not provide beneficial (meaning economically beneficial) services, and are thus a net drain on the national coffers. However, while governments, like corporations, are susceptible to swollen bureaucracy, governments also provide much-needed social services that should be expanded, not curtailed, in times of economic difficulty. Government employment, rather than being regarded as 'wasteful,' could be seen as what it is: a major contributor to growing equality and wellbeing. Governments could thereby set a good example for the private sector, by showing that even in difficult economic times, anti-labour policies are not necessary. Kriengsak Chareonwongsak, a Senior Fellow at Harvard University who comes from Thailand, writes, "When Asian countries face economic downturn, they do not fire a large number of employees

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Papua New Guinea. Paid sick leave through a social insurance company, delivered either by companies or a government system, exists in 139 countries. Paid annual leave is mandated in ninety-six countries, and a day of rest is mandatory in ninety-eight countries. Jody Heymann, *Forgotten Families: Ending the Growing Crisis Confronting Children and Working Parents in the Global Economy* (Oxford: Oxford University Press, 2006).

and let the public sector take care of the unemployed. Instead the government and the [private] sector cooperate to find the best solutions that will keep employees in their jobs. This means people continue to have purchasing power and are able to support the domestic economy…" Such practices do not necessarily come at a high cost to companies, he points out, since "By not firing employees during a recession, companies gain more loyalty and trust from workers and so are able to retain skilled workers."[40] In both the private sector and the public, employment is good for the economy.

In some cities, land prices are artificially high due to speculators holding unused land on which they pay little or no tax. Raising taxes on unused urban land can prevent speculation and help to ensure that it is put to productive use.[xii] Land reform is also vital. Distribution to the landless poor of unused rural land that companies hoard but do not put to productive use could make an enormous difference in people's livelihood. Land reform, however, while essential, is extremely difficult from a practical point of view. Attempting it is sufficiently contentious to get leaders ousted, permanently blacklisted, or assassinated. It would make a world of difference to the rural poor, though. Policies are needed to prevent corporations from situating large-scale 'development' projects, such as open-pit coalmines and large industries, on land that is being used as someone's rice paddy. The right of the poor to use their land is critical; campaigning for more transparency in various types of land dealings, including those involving the BWI and other international institutions could help. Land must be given back to the poor, not taken away from them.

Those working at the grassroots level can look at ways to organize the poor, not simply for local projects, but to increase public input into local, regional, and national decision-making.[xiii]

Traditional societies typically have mechanisms in place to spread the (local) wealth. Those with the most money are expected to sponsor festivals, to throw big parties, and to engage in other activities that serve to reduce jealousy and increase a sense of community. There is wisdom in such practices: inequality breeds resentment and potentially violence, while equality can help to build community.

[xii] It should be clear by now that I consider parks as 'productive' use.

[xiii] Someone at an international aid agency once mistakenly sent the NGO at which I work a set of internal comments on a proposal that we had submitted for funding consideration. One of the comments, from someone working for the aid agency in Dhaka, was that "organizing the poor could lead to violence." Undoubtedly true, but a revealing remark for someone in the aid business!

Traditional mechanisms to address inequality have largely vanished in much of the world. It is time to rebuild them and to foster a sense of responsibility for those doing less well. One place to start is by encouraging cooperation. Teachers could encourage students to help their classmates to pass, rather than encourage them to compete. Supervisors could promote and reward group efforts.

* * *

I see remnants of these traditions in Asia: when somebody gets a job or receives a scholarship to study abroad, friends will clamour for the happy recipient to treat everyone to some food. When the Vietnamese and other Asians go on study tour as part of their work, they save as much as possible of their per diem so that they can buy gifts for those at home. In my experience, when Asians go out to eat, they never split the bill; instead, the most senior or most wealthy person pays. If someone becomes unemployed, friends will help. Typically, payback is expected, so that someone who was generous while in a good job can expect help if she in turn loses her position.

* * *

How effective would these policies and actions be in reducing inequality?

It is useful to estimate just how much poverty could be eliminated immediately if existing wealth were distributed far more evenly. In a sense this is difficult to know, since poverty, as I have argued, is more than a simple lack of money. It is, however, easy to estimate what it would cost to provide certain services. A recent article in the renowned British medical journal *The Lancet* suggests that a figure of about $116 per person in sub-Saharan Africa would reduce poverty and under-nutrition. The necessary activities under this investment would be carried out in partnership with communities and local governments by investing in programs to improve agricultural practices, better protect the environment, support new small businesses, and improve access to education and basic health services. The study found that investments of that size led to a twenty-two to thirty-two percent decline in mortality of children under age five.[41] Another estimate is that it would cost a total of $66 billion to elevate everyone on the planet out of extreme poverty; this is equivalent to four percent of current global military spending,[42] less than fifteen percent of the accumulated wealth of the ten richest people in the world,[43] and one-fourth the additional amount that the top one hundred billionaires added to their existing wealth in 2012 ($240 billion).[44] Surely, it is not too much to ask?

An estimated one-fourth of all global wealth – as much as $32 trillion – sits in offshore, non-taxed accounts. Taxing those assets could amount to at least $189 billion in additional tax revenues.[45] Millions of dollars in taxes could pay for a lot of school lunches for the poor, among other things. According to a 2012 report on tax loopholes in *The Guardian*, "The four most direct tax subsidies for excessive executive pay cost taxpayers an estimated $14.4 billion per year – $46 for every American man, woman, and child. That amount could also cover the annual cost of hiring 211,732 elementary-school teachers or creating 241,593 clean-energy jobs."[46] It could also pay for healthcare for almost five million low-income American children.[47] According to UNICEF, it would cost $250 billion ($25 billion a year over ten years) to provide global access to low-cost sanitation facilities and safe water – the equivalent of the net worth of about sixty-eight billionaires: that is, the combined holdings of just sixty-eight people could be used to provide safe sanitation and water facilities for the entire world.[48]

Precedents for enacting policies to reduce inequality

Levels of inequality vary dramatically between countries. The countries with the greatest levels of inequality are mainly in southern Africa and Latin America, and, of course, the United States. Most European countries, for example, are vastly more egalitarian than the most unequal countries. Redistributive policies are both common and popular throughout Europe, Australia, and Canada.[xiv] In Scandinavian countries, high wages and equality have led to widespread prosperity. Denmark, for instance, is a highly egalitarian, wealthy country with very low unemployment.

The United States does not do well in an international comparison, scoring worse than Nigeria.[49] No surprise, given the taxation rates, labour policies, and social policies that exist there. Because the United States is the most unequal of the high-consumption countries, and because it has so much influence on the rest of the world, it is worth focusing on it for a moment.

Even the United States had its golden age of relative equality decades ago with the redistributive policies of Franklin Delano Roosevelt's New Deal and Lyndon Johnson's War on Poverty and Great Society.[xv] During World War II, the federal government placed controls on consumption through rationing, coordinated

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[xiv] I am not aware of any utopia on earth. Canadians bicker about their social services. African immigrants in France regularly riot due to their mistreatment. Australians are notoriously harsh to immigrants. The British attack the poor on welfare while supporting corporate welfare. Many countries do not extend full benefits to non-citizens. However, the situation overall is vastly better in these countries than elsewhere.

[xv] American President Franklin Delano Roosevelt enacted various social policies, known as the New Deal, in 1933 to help lift Americans out of poverty following the depression. The policies included job creation through investment in public works. In 1964, President Lyndon B. Johnson passed legislation on civil rights and economic opportunities.

industrial output, decided how to allocate national resources, and established a highly progressive tax system in which those with the greatest means paid the most. In the 1950s, those in the highest tax bracket in the United States paid ninety-one percent of their income in tax. Taxes on corporate profits were also much higher than at present. In 1960, the top 0.01 percent of Americans paid about seventy percent of their income in federal tax, or almost twice as much as they pay today. At the same time, unions were far stronger than they are now. About a third of American workers were union members in 1955; large companies had to take into account not just those who owned stock in their companies, but the employees as well.

The result of redistributive policies (and of the Great Depression) was a significant decrease in inequality. In 1929, there had been 20,000 millionaires and two billionaires, but by 1944 those numbers had dropped to 'just' 13,000 millionaires and no billionaires. While the share of total wealth held by the top 0.5 percent of households was about thirty-two percent in 1929, it was 'only' nineteen percent in 1949.[50] National programs such as Johnson's War on Poverty also succeeded in steadily reducing the percentage of the population that was living in poverty, at least until the late 1970s.[51] Meanwhile, the American economy grew faster than it did in years when the tax rate was lower.[52] As Paul Krugman notes, it was during the period of high taxes and strong unions that median family income doubled (from 1947 to 1973) – something never seen before or since.[53] Precedence does not mean that it will be easy, but it does remove the suggestion of impossibility.

How did the golden age of relative inequality end? By the 1970s, many states had failed to raise the monthly payments given to low-income families with dependent children sufficiently to ensure that they kept up with inflation. When Ronald Reagan became president in 1980, those payments became insufficient nationwide. Reagan also busted the power of unions. As a result, the trend of declining poverty came to a halt. As mentioned, taxes on the wealthiest also dropped significantly. All these changes contributed to growing inequality.

It need not continue. To the extent that a safety net still exists in the United States, it does work. While fifteen percent of Americans had incomes below the poverty line in 1992, that figure would have been twenty-four percent if they had not received support from the government, including Aid for Families with Dependent Children, Social Security, and Supplemental Security Income.[54] Taxes on the rich could return to historic rates. The United States has the worst social policies of any high-consumption country, and this needs to change. The United States needs to learn from its own past or to learn from countries with the highest rates of equality. People need to push the government to take proven measures to reduce inequality, rather than pretending that economic growth will do the trick.

Overcoming the political difficulties of promoting equality

Knowing what to do is one thing; knowing how to do it is quite another. The difficulty is not in identifying what needs to happen, but rather in figuring out how to make such drastic changes politically feasible. Given that money buys power, it is difficult to know how to enact the sorts of policies that could successfully reduce inequality. Those who benefit from a highly skewed wealth distribution system are not going to agree easily to remedies that would reduce their wealth and power. Billionaires and even the lesser millionaires enjoy their power and prestige; those who can afford to have family foundations enjoy portraying themselves as generous and as contributors to the solution, not the problem.

When we lobbied for higher tobacco taxes in Bangladesh, tax officials told us that the major international cigarette companies were already making big economic contributions through taxes. They said that higher taxes on the smaller local companies would reduce employment for those making packaged hand-rolled cigarettes (bidis). They even said that the government was already collecting sufficient taxes and did not need more. A tax official at the National Board of Revenue later mentioned to me how heavily BAT had lobbied against the tobacco tax increase. However, we persevered and after years of effort, we recently won a one percent surtax on tobacco to fund public health programs. In some countries, it can take years, even a decade or more, to get better tax policies; the beauty of it is that once a good tax policy is passed it can reap rewards for many more decades to come. In Thailand, a two percent surtax on tobacco and alcohol yields tens of millions of dollars a year that are used to support various public health initiatives. The years of effort made to obtain that funding now pay off in ample annual health promotion budgets. That model is being copied, albeit slowly, by other countries looking for creative and long-term ways to fund health-related activities. There is hope.

There is not, however, a single recipe for success. Advocacy campaigns must respond to local conditions and make use of local resources. Creativity, persistence, recruiting and training allies, making use of the media, mobilizing the masses, and learning how to make the case to policymakers are all critical.

The strategy used to get policymakers on board will vary by country. In the United States, the most important measure may be campaign finance reform, which could help to liberate politicians from corporate control. Elsewhere, the wealthy have other ways to bribe or influence politicians. People need to shine a spotlight on such practices. In many countries, the population is so used to the idea that politicians serve corporations rather than the public that it is difficult to get a reaction (or traction) on the issue. People need to find creative ways to shake public apathy and convince others that change is possible and desirable. In addition to shaming and blaming the most blatantly corporate-sponsored politicians, people should praise those who act in the public interest, vocally, publicly, and frequently.

Attempting to lessen inequality may be the hardest thing that this book recommends. The goal, though difficult, is not impossible. One big step would be to counter the widespread adulation of the rich; remember, great wealth is always accompanied by great poverty. Finally, it helps to remember that not only the poor will benefit from greater equality. As epidemiologists Richard G. Wilkinson and Kate Pickett, authors of *The Spirit Level: Why More Equal Societies Almost Always Do Better,* note,

> the benefits of greater equality are not confined to the poor. While the benefits are much bigger lower down the social ladder, even well paid middle class people live longer and do better in societies that are more egalitarian. Their children too are less likely to become victims of violence, to drop out of high school or become involved in drugs.[55]

Most of the population will benefit from greater equality, so people need to strategize how to get everyone on board. The billionaires cannot be outspent, but they can be out-strategized. They are already vastly outnumbered.

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