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Global Poverty and Wealth Inequality is Volume 441 in the ‘Issues in Society’ series of educational resource books. The aim of this series is to offer current, diverse information about important issues in our world, from an Australian perspective.

KEY ISSUES IN THIS TOPIC
Despite marked progress in poverty reduction over recent decades, the number of people living in poverty remains unacceptably high. More than 790 million people live in extreme poverty, surviving on less than $1.90 a day. Why is there still so much poverty in the world; how is it measured; and what is being done by way of trade, debt relief and aid to achieve the United Nation’s Sustainable Development Goal 1: End poverty in all its forms everywhere?

By contrast, many around the world have never had it so good. Global income and wealth inequality are on the rise: 82% of the wealth generated last year went to the richest 1% of the global population, while the poorest half of the world’s people saw no increase in their wealth. Just eight men own the same wealth as half the world. What are the causes of this staggering inequality, and how can we achieve the UN’s Sustainable Development Goal 10: Reduce inequality within and among countries?

Using data and analysis from the latest key reports, this book provides an overview of the extremes between wealth and poverty. Can the world afford to let this gap widen any further?

SOURCES OF INFORMATION
Titles in the ‘Issues in Society’ series are individual resource books which provide an overview on a specific subject comprised of facts and opinions.

The information in this resource book is not from any single author, publication or organisation. The unique value of the ‘Issues in Society’ series lies in its diversity of content and perspectives.

The content comes from a wide variety of sources and includes:

- Newspaper reports and opinion pieces
- Website fact sheets
- Magazine and journal articles
- Statistics and surveys
- Government reports
- Literature from special interest groups

CRITICAL EVALUATION
As the information reproduced in this book is from a number of different sources, readers should always be aware of the origin of the text and whether or not the source is likely to be expressing a particular bias or agenda.

It is hoped that, as you read about the many aspects of the issues explored in this book, you will critically evaluate the information presented. In some cases, it is important that you decide whether you are being presented with facts or opinions. Does the writer give a biased or an unbiased report? If an opinion is being expressed, do you agree with the writer?

EXPLORING ISSUES
The ‘Exploring issues’ section at the back of this book features a range of ready-to-use worksheets relating to the articles and issues raised in this book. The activities and exercises in these worksheets are suitable for use by students at middle secondary school level and beyond.

FURTHER RESEARCH
This title offers a useful starting point for those who need convenient access to information about the issues involved. However, it is only a starting point. The ‘Web links’ section at the back of this book contains a list of useful websites which you can access for more reading on the topic.
NO POVERTY: WHY IT MATTERS

SUSTAINABLE DEVELOPMENT GOAL 1 IS EXPLAINED IN THE FOLLOWING FACT SHEET PRODUCED BY THE UNITED NATIONS

WHAT’S THE GOAL HERE?
To end poverty in all its forms everywhere by 2030.

WHY?
More than 700 million people still live in extreme poverty and are struggling to fulfil the most basic needs like health, education, and access to water and sanitation, to name a few.

That’s a lot of people.
Yes. The overwhelming majority of people living on less than $1.90 a day live in Southern Asia and sub-Saharan Africa and they account for about 70 per cent of the global total of extremely poor people.

Lower middle-income countries, including China, India, Indonesia and Nigeria, are home to about half of the global poor.

However, this issue also affects developed countries. Right now there are 30 million children growing up poor in the world’s richest countries.

WHY IS THERE SO MUCH POVERTY IN THE WORLD?
Poverty has many dimensions, but its causes include unemployment, social exclusion, and high vulnerability of certain populations to disasters, diseases and other phenomena which prevent them from being productive.

I’M NOT POOR. WHY SHOULD I CARE ABOUT OTHER PEOPLE’S ECONOMIC SITUATION?
There are many reasons, but in short, because as human beings, our wellbeing is linked to each other. Growing inequality is detrimental to economic growth and

More than 700 million people still live in extreme poverty and are struggling to fulfil the most basic needs like health, education, and access to water and sanitation, to name a few.
undermines social cohesion, increasing political and social tensions and, in some circumstances, driving instability and conflicts.

**CAN WE ACTUALLY ACHIEVE THIS GOAL?**
Yes. To end extreme poverty worldwide in 20 years, economist Jeffrey Sachs calculated that the total cost per year would be about $175 billion. This represents less than one per cent of the combined income of the richest countries in the world.

**SO WHAT CAN I DO ABOUT IT?**

**If you are a young person**
Your active engagement in policymaking can make a difference in addressing poverty. It ensures that your rights are promoted and that your voice is heard, that intergenerational knowledge is shared, and that innovation and critical thinking are encouraged at all ages to support transformational change in people’s lives and communities.

**If you are a policymaker**
Governments can help create an enabling environment to generate productive employment and job opportunities for the poor and the marginalised. They can formulate strategies and fiscal policies that stimulate pro-poor growth, and reduce poverty.

**If you work in the private sector**
The private sector, as an engine of economic growth, has a major role to play in determining whether the growth it creates is inclusive and hence contributes to poverty reduction. It can promote economic opportunities for the poor, focusing on segments of the economy where most of the poor are active, namely on micro and small enterprises and those operating in the informal sector.

**If you are part of the science and academic community**
The academic and education community has a major role in increasing the awareness about the impact of poverty. Science provides the foundation for new and sustainable approaches, solutions and technologies to tackle the challenges of reducing poverty and achieving sustainable development.

The contribution of science to end poverty has been significant. For example, it has enabled access to safe drinking water, reduced deaths caused by water-borne diseases, and improved hygiene to reduce health risks related to unsafe drinking water and lack of sanitation.

To find out more about Goal #1 and other Sustainable Development Goals visit: [www.un.org/sustainabledevelopment](http://www.un.org/sustainabledevelopment)


### SUSTAINABLE DEVELOPMENT GOAL 1: end poverty in all its forms everywhere

The following information from the United Nations relies on a global indicator framework to explain the latest progress on the goal of ending poverty.

The global indicator framework was developed by the Inter-Agency and Expert Group on SDG Indicators (IAEG-SDGs) and agreed to, as a practical starting point at the 47th session of the UN Statistical Commission held in March 2016.

The report of the Commission, which included the global indicator framework, was then taken note of by ECOSOC at its 70th session in June 2016.

<table>
<thead>
<tr>
<th>TARGETS</th>
<th>INDICATORS</th>
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<tbody>
<tr>
<td>1.1</td>
<td>By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than $1.25 a day.</td>
</tr>
<tr>
<td>1.2</td>
<td>By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.</td>
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<tr>
<td>1.3</td>
<td>Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.</td>
</tr>
<tr>
<td>1.4</td>
<td>By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.</td>
</tr>
<tr>
<td>1.5</td>
<td>By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.</td>
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<tr>
<td>1.A</td>
<td>Ensure significant mobilisation of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions.</td>
</tr>
<tr>
<td>1.B</td>
<td>Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions.</td>
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</table>
Despite the fact that the global poverty rate has been halved since 2000, intensified efforts are required to boost the incomes, alleviate the suffering and build the resilience of those individuals still living in extreme poverty, in particular in sub-Saharan Africa. Social protection systems need to be expanded and risks need to be mitigated for disaster-prone countries, which also tend to be the most impoverished.

- In 2013, an estimated 767 million people lived below the international poverty line of $1.90 a day – down from 1.7 billion people in 1999. That figure reflects a decrease in the global poverty rate from 28 per cent in 1999 to 11 per cent in 2013. The most significant progress was seen in Eastern and Southeastern Asia, where the rate declined from 35 per cent in 1999 to 3 per cent in 2013. In contrast, 42 per cent of people in sub-Saharan Africa continued to subsist in conditions of extreme poverty in 2013.
- In 2016, just under 10 per cent of the world’s workers were living with their families on less than $1.90 per person per day, down from 28 per cent in 2000. In the least developed countries, nearly 38 per cent of workers in 2016 were living below the poverty line.
- Social protection systems are fundamental to preventing and reducing poverty and inequality at every stage of people's lives, through benefits for children, mothers with newborns, persons with disabilities, older persons and those persons who are poor and without jobs. Preliminary data show that in 2016, only 45 per cent of the world’s population was effectively protected by a social protection system and that coverage varied widely across countries and regions.
- In 2016, 68 per cent of people above retirement age received a pension. However, that global average masks large regional differences. In Oceania, excluding Australia and New Zealand, and in sub-Saharan Africa, only 10 per cent and 22 per cent, respectively, of people above retirement age received a pension in 2016.
- Other vulnerable groups lack social protections as well. In 2016, only 28 per cent of people with severe disabilities collected disability benefits, only 22 per cent of unemployed individuals worldwide received unemployment benefits and only 41 per cent of women giving birth received maternity benefits.
- Building the resilience of the poor and strengthening disaster risk reduction is a core development strategy for ending extreme poverty in the most afflicted countries. Economic losses from disasters are now reaching an average of $250 billion to $300 billion a year. Disaster risk globally is highly concentrated in low- and lower-middle income countries. In relation to the size of their economies, small island developing states have borne a disproportionate impact.

Source: Report of the Secretary-General, Progress towards the Sustainable Development Goals, E/2017/66.

POVERTY OVERVIEW

Despite the progress made in reducing poverty, the number of people living in extreme poverty globally remains unacceptably high, according to this overview from the World Bank.

CONTEXT

The World Bank Group’s mission is carved in stone at our Washington headquarters: “Our Dream is a World Free of Poverty.” This mission underpins all of our analytical, operational, and convening work in more than 145 client countries, and is bolstered by our goals of ending extreme poverty within a generation and promoting shared prosperity in a sustainable manner across the globe.

There has been marked progress on reducing poverty over the past decades. The world attained the first Millennium Development Goal target – to cut the 1990 poverty rate in half by 2015 – five years ahead of schedule, in 2010. Despite the progress made in reducing poverty, the number of people living in extreme poverty globally remains unacceptably high. And given global growth forecasts poverty reduction may not be fast enough to reach the target of ending extreme poverty by 2030.

• According to the most recent estimates, in 2015, 10 per cent of the world’s population lived on less than US$1.90 a day, compared to 11 per cent in 2013. That’s down from nearly 36 per cent in 1990.
• Nearly 1.1 billion fewer people are living in extreme poverty than in 1990. In 2015, 736 million people lived on less than $1.90 a day, down from 1.85 billion in 1990.

While poverty rates have declined in all regions, progress has been uneven:

• Two regions, East Asia and Pacific (47 million extreme poor) and Europe and Central Asia (7 million) have reduced extreme poverty to below 3 per cent, achieving the 2030 target.
• More than half of the extreme poor live in Sub-Saharan Africa. In fact, the number of poor in the region increased by 9 million, with 413 million people living on less than US$1.90 a day in 2015, more than all the other regions combined. If the trend continues, by 2030, nearly 9 out of 10 extreme poor will be in Sub-Saharan Africa.
• The majority of the global poor live in rural areas, are poorly educated, employed in the agricultural sector, and under 18 years of age.

The work to end extreme poverty is far from over, and many challenges remain. The latest projections show that if we continue down a business-as-usual path, the world will not be able to eradicate extreme poverty by 2030. That’s because it is becoming even more difficult to reach those remaining in extreme poverty, who often live in fragile countries and remote areas. Access to good schools, health care, electricity, safe water, and other critical services remains elusive for many people, often determined by socioeconomic status, gender, ethnicity, and geography.

Moreover, for those who have been able to move out of poverty, progress is often temporary: economic shocks, food insecurity and climate change threaten to rob them of their hard-won gains and force them back into poverty. It will be critical to find ways to tackle these issues as we make progress toward 2030.

STRATEGY

There is no silver bullet to ending poverty, and strategies to reach the least well-off must be tailored to each country’s context, taking into account the latest data and analysis and the needs of the people. The fact that there has been such progress in the world, however, tells us that a few things are working.

Experience shows that in order to sustainably reduce poverty, countries need to:

• Grow in an inclusive, labour-intensive way.
• Invest in the human capital of people, especially those who are unable to benefit from basic services due to circumstances beyond their control.
• Insure poor and vulnerable people against the shocks that can push them deeper into poverty – things such as severe weather, pandemics, food price variability, and economic crises.

The World Bank Group’s goal to end extreme poverty within a generation has the specific target of decreasing the global extreme poverty rate to no more than 3 per cent by 2030, since a small amount of frictional poverty is likely to persist. Important national and global challenges are standing in the way of progress and are keeping large pockets of people trapped in poverty.

High inequality, in both incomes and opportunities,
threatens the world’s ability to end poverty by 2030. Conflict can undo decades of progress, as can climate change and a lack of women’s economic empowerment and participation.

It will be important to promote growth that is sustained and inclusive; to create more and better jobs; to invest in people’s health, education, nutrition, and sanitation; and to develop effective safety net programs to ensure that the most vulnerable can persevere in the face of shocks. While economic growth is vital, the quality of that growth also matters.

With more than 60 per cent of the world’s extreme poor living in middle-income countries, we cannot focus solely on low-income countries if we want to end extreme poverty by 2030. We need to focus on the poorest people, regardless of where they live, and work with countries at all income levels to invest in their wellbeing and their future.

This goal to end poverty works hand in hand with the World Bank Group’s goal to promote shared prosperity, focused on increasing the income growth among the bottom 40 per cent in every country. Boosting shared prosperity broadly translates into improving the welfare of the least well-off in each country, and includes a strong emphasis on tackling persistent inequalities that keep people in poverty from generation to generation.

This is no easy task, and the road ahead will not be simple or straightforward, but this is at the core of what we do every day at the World Bank Group, and we will continue to work closely with countries to help them find the best ways improve the lives of their least advantaged citizens.

RESULTS

The World Bank Group works to end poverty in a number of ways – from funding projects that can have transformational impacts on communities, to collecting and analyzing the critical data and evidence needed to target these programs to reach the poorest and most vulnerable, to helping governments create more inclusive, effective policies that can benefit entire populations and lay the groundwork for prosperity for future generations. Some examples:

GROW

• An agricultural project in the Enugu state of Nigeria is helping farmers, particularly female farmers, increase productivity for rice, cassava, and sorghum crops. Thanks to the project, farmers are able to pay for their children’s education and ensure their household’s food security.
• Chile designed and implemented structural reforms for a more equal society with quality society and increased productivity. The reforms included (i) assessing potential effects of tax reforms on improving equity; (ii) improving access and quality of tertiary education and health; and (iii) strengthening the efficiency of social protection systems.
• Mexico has experienced high income inequality and concentration of poverty in a few states. The World Bank Group has supported Mexico’s efforts to develop a more inclusive, effective, and integrated social protection system including relaunching a conditional cash transfer program to help improve access to higher education and formal employment.
**INVEST**

- Mongolia’s far-flung and low-density communities demand different solutions for reaching children with quality primary education. A World Bank project introduced several innovations well suited to the unique needs of herder communities. The project has directly benefited more than 8,500 of the most remote rural children aged 5 to 10 in four of the most educationally under-performing and under-served provinces.
- Even though real GDP growth increased marginally between 2015 and 2016, economic growth in Afghanistan has been slow. The World Bank Group’s support has been focused on helping Afghanistan build strong and accountable institutions, ensure inclusive growth, and deepen social inclusion. As part of this, one of the programs helped build over 1,100 schools and six teacher training colleges with almost 9 million children now enrolled. Latest findings from a World Bank report show that the prospects of too many people around the world are still too closely tied to their parents’ social status rather than their own potential. Low levels of upward mobility are particularly pronounced in the developing world, especially in Sub-Saharan Africa. The study points to three broad pathways – fostering equal opportunities for children, nurturing aspirations, and tailoring development interventions at the local-level – forward to increasing economic mobility from generation to generation.
- In-depth maps in countries such as Afghanistan, Bangladesh, Croatia, Republic of Serbia, and Vietnam show where economic diversity and gaps in services exist within a country. This, as part of the poverty assessment process, helps policymakers better target policies and programs to reach and benefit the poor.
- China has launched a database of poverty reduction cases, which aims to share innovative and successful approaches and solutions from China and other developing countries. The database is a part of the Global Poverty Reduction & Inclusive Growth Portal, an online platform for knowledge sharing initiated by the World Bank with support from the Asian Development Bank, the Food and Agriculture Organization, and other partners from the private sector.

**INSURE**

- A rural electrification project in Mozambique supports the expansion of photovoltaic solar energy programs and contributed to building new transmission lines and distribution networks, expanding access to electricity.
- Conflict-affected communities in Mindanao are among the poorest in the Philippines, suffering from poor infrastructure and lack of basic services. The World Bank along with other partners have aimed to enhance access to services and economic opportunities and build social cohesion. These projects have helped to build water systems, community centres, sanitation facilities, access roads, post-harvest facilities, and farming and fishing equipment, benefiting 650,000 people in 284 villages in a decade.
- High-frequency data collection initiatives such as Listening to Africa and Listening to Tajikistan can complement traditional household surveys and help identify urgent public needs.

Extreme poverty is falling: how is poverty changing for higher poverty lines?

OUR WORLD IN DATA PRESENTS STATISTICAL EVIDENCE ON THE CURRENT EXTENT OF GLOBAL POVERTY. BY DIANA BELTEKIAN AND ESTEBAN ORTIZ-OSPINA

According to the International Poverty Line, people are considered to be in ‘extreme poverty’ if they live on less than $1.90 per day, or the equivalent amount after converting currencies and adjusting for price differences between countries. This is the definition used by the World Bank and many other international institutions.

Clearly, $1.90 is a very low threshold, so extreme poverty is, well, extreme.

It is very important that fewer people live in such extreme misery, and thankfully that has happened. Today, about 10% of the world population lives in extreme poverty, while in 1990 the corresponding figure was about 37%. Two centuries ago almost everyone in the world lived in extreme poverty.

But that doesn’t mean that we shouldn’t care about what is happening relative to higher poverty lines. The evidence shows that there is a clear and continuous relationship between material deprivation and subjective wellbeing, so it would be wrong to celebrate shifting daily incomes from $1.89 to $1.91, even if this shift technically means abruptly reducing extreme poverty. People living on $3, $5, or $10 per day also face substantial hardships, and are still living in poverty.

So, how has poverty changed relative to these higher thresholds?

The short answer is that global poverty rates have also been falling above the $1.90 line. This means that, although much still needs to be done, progress has been real. The historical reductions in global extreme poverty are not merely the result of people moving marginally above some arbitrary misery threshold.

Let’s take a closer look at the evidence.

**Distribution of people between different poverty thresholds, World**

Poverty thresholds are all in ‘international dollars’ at constant 2011 PPP prices. This means all figures account for cross-country differences in price levels, as well as for inflation. Estimates rely on a combination of income and consumption data (see sources for details).

**DATA: SOURCE AND LIMITATIONS**

PovcalNet is a database of consumption and income distributions from all over the world. It is produced and maintained by the World Bank, and it is the most important source of cross-country data to measure poverty.

The main purpose of PovcalNet is to measure global poverty, and accordingly, there are some limitations...
that follow from the way they produce their data. Importantly: (i) for all countries the top tails of the distributions are unreliable; and (ii) estimates of extreme poverty in rich countries, where PovcalNet uses data from income rather than consumption surveys, are not accurate nor comparable to those in poorer countries.

Because of these limitations, we can’t really use PovcalNet to study extreme poverty in rich countries, just as we can’t use it to study the incomes of very rich people in any given country.

But we can use it to explore how incomes below, say, 10 dollars per day are changing for most people in the world.

GLOBAL POVERTY

The visualisation on the previous page uses PovcalNet data to show the distribution of the world population across different poverty thresholds. This shows a fantastic achievement: Independently of which of the shown thresholds you think should be the appropriate poverty line, the result is the same. The global poverty rate has been falling across all these poverty lines. Indeed, the share of people below any poverty line has declined globally in recent years.

As we can see, more progress has been achieved for the three lowest lines. And this takes us to another important observation: Today, almost two-thirds of the world population live below 10 dollars per day. This explains why, if we want to focus on those who are worst off, we need to use fairly low poverty lines, such as the $1.90 and $3.10 lines employed by the World Bank.

The next visualisation (below) shows the number, rather than the share, of people between the different poverty thresholds.

Again, this is an encouraging picture. For more than a decade, the number of people living under the three lowest poverty lines has been on the decline. So, independently of which of these poverty lines you choose, not only have poverty rates declined, but the total number of people living in poverty has also fallen.

Obviously, there is still much work to be done. Even 10 dollars per day provides a very low standard of living.

Distribution of people between different poverty thresholds, World

Poverty thresholds are all in ‘international dollars’ at constant 2011 PPP prices. This means all figures account for cross-country differences in price levels, as well as for inflation. Estimates rely on a combination of income and consumption data (see sources for details).

Source: World Bank

Note: Estimates for high-income countries are included, but are not always comparable with those from other countries because of differences between income and consumption data.

But the key message here is that the incomes of those at the bottom are increasing.

UNDERSTANDING PROGRESS AND CHALLENGES, COUNTRY BY COUNTRY

The charts above give us an idea of how global poverty is changing. Yet the fortunes of people around the world have changed very differently depending on where they live.

Here, again, we can use PovcalNet’s data to explore the evolution of poverty for particular countries and regions. Below we discuss some countries we found interesting, but you can go to www.ourworldindata.org/poverty-at-higher-poverty-lines and do your own analysis by clicking on any visualisation and selecting the option ‘change country’ at the bottom of the chart.

China

The case of China is remarkable. As the chart above shows, there has been a dramatic decline in the number of people living in extreme poverty, while at the same time there has been an increase in the number of people living on incomes above $10 a day.

If you switch to the ‘relative’ view, you see that poverty rates have been going down for all of the included poverty lines. In 1981, the entire Chinese population lived below $3.10. Today less than 12% of the population live below this threshold.

If you compare China and India, for example, you can see that while Indians have also made substantial progress, they have seen a slower reduction in poverty, especially at higher thresholds. The case of China is special, but it would be wrong to assume that extreme poverty in the world fell ‘only’ because of China.

Sub-Saharan Africa

Relative to the global average, Sub-Saharan Africa has made much slower progress in reducing poverty. And this is, unfortunately, especially true at higher poverty thresholds.

As the chart below shows, the total number of people living in extreme poverty in Sub-Saharan Africa has been fairly constant in recent years, and it remains higher than it was in 1981. Above extreme poverty, if we look...
at the $3.10 line, we see that the increase in the number of poor people is even more pronounced.

However, in relative terms, poverty trends in Sub-Saharan Africa are slightly more encouraging: the share of people living below $3.10 has been falling.

WRAPPING UP
Measuring poverty is difficult because it requires making a sharp distinction between those who are and aren’t considered poor. So when we see that global extreme poverty is going down, it is natural to ask ourselves: are these reductions produced by a definition of ‘extreme’ poverty which is too low?

The evidence discussed above shows that this is not the case. The global poverty rate has been going down in recent years, and this is true independently of whether we set the poverty line at 1.90 or 10 dollars per day.

Of course, high levels of deprivation are unfortunately still very common in most countries, and in many parts of the world we are not making progress. But what is clear is that it is very much possible to reduce poverty.

FOOTNOTES
1. In the documentation, the source writes: “PovcalNet was developed for the sole purpose of public replication of the World Bank’s poverty measures for its widely used international poverty lines, including $1.90 a day and $3.20 a day in 2011 PPP. The methods built into PovcalNet are considered reliable for that purpose. However, we cannot be confident that the methods work well for other purposes, including tracing out the entire distribution of income. We would especially warn that estimates of the densities near the bottom and top tails of the distribution could be quite unreliable, and no attempt has been made by the Bank’s staff to validate the tool for such purposes.”
2. In some reports (e.g. this from the Pew Research Center: www.pewglobal.org/2015/07/08/a-global-middle-class-is-more-promise-than-reality/), the segment between $3.10 and $10 is referred to as ‘low income’ rather than ‘poverty’. In fact, as our chart shows, if you rank the world population by income today, and split them into three groups of equal size, you will find that the middle group is defined by the bracket $3.10-$10. So people in this bracket could also be considered ‘middle income’.

The least developed countries (LDCs) – nations categorised as requiring special attention from the international community – will fall short of goals set out in the 2030 Agenda for Sustainable Development unless urgent action is taken, new United Nations analysis has revealed.

The analysis by the UN Conference on Trade and Development (UNCTAD) also highlights that LDC growth averaged 5 per cent in 2017 and will reach 5.4 per cent in 2018, below the 7 per cent growth envisaged by target 1 of Sustainable Development Goal 8 on promoting sustained, inclusive and sustainable economic growth.

In 2017, only five LDCs achieved economic growth of 7 per cent or higher: Ethiopia at 8.5 per cent, Nepal at 7.5 per cent, Myanmar at 7.2 per cent, Bangladesh at 7.1 per cent, and Djibouti at 7 per cent.

“The international community should strengthen its support to LDCs in line with the commitment to leave no one behind,” Paul Akiwumi, Director of UNCTAD’s Division for Africa, Least Developed Countries and Special Programmes, Mr. Akiwumi said.

“With the global economic recovery remaining tepid, development partners face constraints in extending support to LDCs to help them meet the Sustainable Development Goals. Inequalities between the LDCs and other developing countries risk widening,” he said.

RELYING ON COMMODITIES

The analysis contends that too many LDCs remain dependent on primary commodity exports. While international prices for most primary commodity categories have trended upwards since late 2016, this modest recovery barely made a dent to the significant drop experienced since 2011, particularly in the cases of crude petroleum and minerals, ores and metals.

In 2017, LDCs as a group were projected to register a current account deficit of $50 billion, the second-highest deficit posted so far, at least in nominal terms. In contrast, non-LDC developing countries registered current account surpluses, so did developing countries as a whole and developed countries.

Projections for 2018 suggest that the current account deficits of the LDCs are expected to grow further, making worse possible balance-of-payments weaknesses.

AID LEVELS

Special foreign aid commitments for LDCs amounted to $43.2 billion, representing only an estimated 27 per cent of net aid to all developing countries – a 0.5 per cent increase in aid in real terms year-on-year. This trend supports fears of a levelling-off of aid to LDCs in the wake of the global recession.


Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative

FACT SHEET COURTESY OF THE INTERNATIONAL MONETARY FUND

The joint IMF-World Bank comprehensive approach to debt reduction is designed to ensure that no poor country faces a debt burden it cannot manage. To date, debt reduction packages under the HIPC Initiative have been approved for 36 countries, 30 of them in Africa, providing $76 billion in debt-service relief over time. Three additional countries are eligible for HIPC Initiative assistance.

Debt relief key to poverty reduction

The HIPC Initiative was launched in 1996 by the IMF and World Bank, with the aim of ensuring that no poor country faces a debt burden it cannot manage. Since then, the international financial community, including multilateral organisations and governments, have worked together to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries.

In 1999, a comprehensive review of the Initiative allowed the Fund to provide faster, deeper, and broader debt relief and strengthened the links between debt relief, poverty reduction, and social policies.

In 2005, to help accelerate progress toward the United Nations Millennium Development Goals (MDGs), the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI). The MDRI allows for 100 per cent relief on eligible debts by three multilateral institutions – the IMF, the World Bank, and the African Development Fund (AfDF) – for countries completing the HIPC Initiative process. In 2007, the Inter-American Development Bank (IaDB) also decided to provide additional (‘beyond HIPC’) debt relief to the five HIPCs in the Western Hemisphere.

Two-step process

Countries must meet certain criteria, commit to poverty reduction through policy changes, and demonstrate a good track record over time. The Fund and Bank provide interim debt relief in the initial stage and, when a country meets its commitments, full debt relief is provided.

First step: decision point

To be considered for HIPC Initiative assistance, a country must fulfill the following four conditions:

1. Be eligible to borrow from the World Bank’s International Development Agency, which provides interest-free loans and grants to the world’s poorest countries, and from the IMF’s Poverty Reduction and Growth Trust, which provides loans to low-income countries at subsidised rates
2. Face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms
3. Have established a track record of reform and sound policies through IMF- and World Bank-supported programs, and
4. Have developed a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process in the country.

Once a country has met or made sufficient progress in meeting these four criteria, the Executive Boards of the IMF and World Bank formally decide on its eligibility for debt relief, and the international community commits to reducing debt to a level that is considered sustainable.

This first stage under the HIPC Initiative is referred to as the decision point. Once a country reaches its decision point, it may immediately begin receiving interim relief on its debt service falling due.

Second step: completion point

In order to receive full and irrevocable reduction in debt available under the HIPC Initiative, a country must

1. Establish a further track record of good performance under programs supported by loans from the IMF and the World Bank
2. Implement satisfactorily key reforms agreed at the decision point, and
3. Adopt and implement its PRSP for at least one year.

Once a country has met these criteria, it can reach its completion point, which allows it to receive the full debt relief committed at the decision point.

Countries receiving debt relief

Of the 39 countries eligible or potentially eligible for HIPC Initiative assistance, 36 are receiving full debt relief from the IMF and other creditors after reaching their completion points. Three countries, which have been identified as potentially eligible for HIPC Initiative assistance, have not yet reached their decision points.

Debt relief frees up resources for social spending

Debt relief is one part of a much larger effort, which also includes aid flows, to address the development needs of low-income countries and make sure that debt sustainability is maintained over time. For debt reduction to have a tangible impact on poverty, the additional money needs to be spent on programs that benefit the poor.

Boosting social spending

Before the HIPC Initiative, eligible countries were, on average, spending slightly more on debt service than on health and education combined. Now, they have increased markedly their expenditures on health, education, and other social services. On average, such spending is about five times the amount of debt-service payments.
Reducing debt service
For the 36 countries receiving debt relief, debt service paid has declined by about 1.5 percentage points of GDP between 2001 and 2015.

Improving public debt management
Debt relief has markedly improved the debt position of post-completion point countries, bringing their debt indicators down below those of other HIPCs or non-HIPCs. However, many remain vulnerable to shocks, particularly those affecting exports, as seen during the global economic crisis. To reduce their debt vulnerabilities decisively, countries need to pursue cautious borrowing policies and strengthen their public debt management.

IMF debt relief complemented by other sources
About 44 per cent of the funding comes from the IMF and other multilateral institutions, and the remaining amount comes from bilateral creditors.

The total cost of providing assistance to the 39 countries that have been found eligible or potentially eligible for debt relief under the enhanced HIPC Initiative is estimated to be about $77 billion in end-2015 net present value terms.

The IMF’s share of the cost is financed by bilateral contributions and resources from the Fund itself, mainly investment income on the proceeds from off-market gold sales in 1999. These funds were deposited to the IMF’s PRG-HIPC Trust.

Resources available in the trust are currently insufficient to finance the cost of debt relief to all countries that meet the initial conditions for debt relief and reach the decision point. The original financing plan did not include the cost of debt relief to Sudan and Somalia, as well as to other countries that entered the Initiative after 2006. Should these countries progress to the decision point, there would be an urgent need to mobilise resources.

Challenges remain
The pre-decision point countries face common challenges, including preserving peace and stability, and improving governance and the delivery of basic services. Addressing these challenges will require continued efforts from these countries to strengthen policies and institutions, and support from the international community.

Another challenge is to ensure that eligible countries get full debt relief from all their creditors. Although the largest creditors (the World Bank, the African Development Bank, the IMF, the Inter-American Development Bank, and all Paris Club creditors) have provided their full share of debt relief under the HIPC Initiative, and even beyond, others are lagging behind.

Smaller plurilateral institutions, non-Paris Club official bilateral creditors, and commercial creditors, which together account for about 27 per cent of total HIPC Initiative costs, have only delivered a small share of their expected relief so far.

Non-Paris Club bilateral creditors as a whole have delivered around 47 per cent of their share of HIPC Initiative debt relief, but about one-third of these creditors have not delivered any relief at all. While there has been some increase in the delivery over the past few years, the rate of delivery remains disappointingly low.

The delivery of debt relief by commercial creditors has increased markedly in recent years through a few large operations supported by IDA’s Debt Reduction Facility buyback operations. Some commercial creditors have initiated litigations against HIPCs, raising significant legal challenges to burden sharing among all creditors, including the multilateral institutions. The number of litigation cases against HIPCs has been declining in recent years but flattened over the past few years.

Given the voluntary nature of creditor participation in the HIPC Initiative, the IMF and the World Bank will continue to use moral suasion to encourage creditors to participate in the Initiative and to deliver fully their share of HIPC Initiative debt relief.

The IMF and World Bank will also continue to improve their ability to monitor the delivery of HIPC Initiative debt relief. The IMF will continue to address issues related to participation in the HIPC Initiative during its regular consultations and other missions to creditor countries.

List of countries that have qualified for, are eligible or potentially eligible, and may wish to receive HIPC Initiative Assistance (as of Oct 2017)

<table>
<thead>
<tr>
<th>Post-Completion-Point Countries (36)</th>
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<tr>
<td>Afghanistan</td>
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<td>Benin</td>
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<td>Bolivia</td>
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<td>Burkina Faso</td>
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<td>Burundi</td>
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<td>Cameroon</td>
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<td>Central African Republic</td>
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<td>Chad</td>
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<td>Comoros</td>
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<td>Republic of Congo</td>
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<td>Democratic Republic of Congo</td>
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<td>Côte d’Ivoire</td>
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<tr>
<th>Pre-Decision-Point Countries (3)</th>
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<tr>
<td>Eritrea</td>
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In 2017, net official development assistance (ODA) by members of the OECD Development Assistance Committee (DAC), was USD 146.6 billion, representing a slight fall of 0.6% in real terms. As a share of gross national income, ODA also fell to 0.31%.

The fall reflects the tapering off of the refugee crisis; excluding in-donor refugee costs, ODA increased by 1.1% in real terms compared to 2016, and has doubled since 2000.

ODA ALLOCATIONS

The refugee crisis, which hit especially European countries in 2015, began to recede in 2017. DAC countries reported USD 14.2 billion for in-donor refugee costs, a fall of 13.6% in real terms compared to 2016. In-donor refugee costs represented 9.7% of total ODA compared to 11% in 2016. For nine countries these costs represented more than 10% of their total net ODA flows, and for four of these it was over 20%. For many European countries, the fall in their net ODA flows was due to lower volumes of in-donor refugee costs reported in 2017 compared to 2016. In 2017, the DAC clarified the rules pertaining to the reporting of in-donor refugee costs, in order to make the data more comparable amongst donors and transparent.

Humanitarian aid was USD 15.5 billion in 2017, and rose by 6.1% in real terms compared to 2016. DAC countries’ efforts to deal with the influx of refugees and humanitarian aid, which are both measures to deal with short-term emergency situations rather than longer-term economic development, has risen from an average of 16% of bilateral ODA between 2010 to 2014 to an average of 28% between 2015 and 2017.

Debt relief grants, which had risen to USD 2.5 billion in 2016 due to exceptional debt relief for Cuba, fell to USD 558 million. Contributions to multilateral organisations also fell slightly by 1.7% in real terms compared to 2016 and represented around 30% of total ODA, a level that has not changed significantly in the last few years. Support for bilateral programmes, projects and technical cooperation rose by 4% in real terms, and represented 51% of total ODA.

Most DAC countries provide ODA in the form of grants, yet the volume of gross bilateral lending to developing countries rose by 13% in real terms compared to 2016. Preliminary data show that for some countries concessional loans represented a substantial share of their gross bilateral ODA.

Preliminary estimates show that net bilateral ODA flows from DAC countries to the group of least developed countries rose by 4% in real terms to about USD 26 billion, thus reversing the declining trend noted in previous years. ODA represents about 70% of least developed countries’ total external finance.

Initial estimates for bilateral ODA to Africa was about USD 29 billion, with aid to sub-Saharan Africa around USD 25 billion, reflecting an increase of about 3% in both.

BILATERAL DONOR PERFORMANCE

The United States continued to be the largest DAC donor of net ODA (USD 35.3 billion), followed by Germany (USD 24.7 billion), the United Kingdom (USD 17.9 billion), Japan (USD 11.5 billion) and France (USD 11.4 billion).

The following countries met or exceeded the United Nations’ ODA as a percentage of GNI target of 0.7%: Denmark (0.72%), Luxembourg (1.00%), Norway (0.99%), Sweden (1.01%) and the United Kingdom (0.70%).

Many providers beyond the DAC have long traditions of development cooperation. Amongst these, according to the preliminary figures for 2017 reported to the OECD, both Turkey and the United Arab Emirates exceeded the 0.7% ODA/GNI target, with 0.95% and 1.31% respectively.

In 2017, total net ODA for all DAC members combined as a per cent of GNI stood at 0.31%, falling slightly compared to 0.32% in 2016.

Net ODA rose in eleven DAC member countries, with the largest increases in France, Italy, Japan and Sweden. ODA fell in eighteen countries, with the largest drops in Australia, Austria, Greece, Hungary, Norway, Slovenia, Spain and Switzerland. For several, the decrease was due to lower levels of costs for in-donor refugees in 2017 compared to 2016.

G7 donors provided 76% of total net ODA and DAC-EU countries 56%.

ODA from the twenty DAC countries that are EU members was USD 82.7 billion, a fall of 1.2% in real terms compared to 2016, and represented 0.45% of their...
ODA rose or fell in the following DAC-EU countries as follows:

- **Austria** (-2.7%): due to less support for in-donor refugee costs;
- **Belgium** (-8.2%): due to lower in-donor refugee costs and a slight decrease in other bilateral ODA;
- **Czech Republic** (-0.8%): due to a slight reduction in technical assistance and administrative costs;
- **Denmark** (-2.3%): due to lower in-donor refugee costs;
- **Finland** (-3.3%): due to lower in-donor refugee costs;
- **France** (14.9%): due to an increase in its bilateral lending and contributions to multilateral organisations, in particular UN bodies;
- **Germany** (-3.6%): due to a lower level of in-donor refugee costs compared to 2016;
- **Greece** (-15.8%): due to lower in-donor refugee costs;
- **Hungary** (-29.7%): due to significant cuts in its overall aid programme;
- **Ireland** (-2.4%): although in-donor refugee costs increased, its contributions to multilateral organisations fell;
- **Italy** (10.2%): due to an increase in bilateral grants for developing countries and in-donor refugee costs;
- **Luxembourg** (4.4%): due to its target to allocate 1% of its GNI to ODA;
- **Netherlands** (-2.9%): although costs for in-donor refugees practically doubled this was offset by a fall in core contributions to multilateral organisations;
- **Poland** (-4.0%): due to cuts in its bilateral aid loans;
- **Portugal** (6.9%): as it increased its multilateral contributions to the World Bank and regional development banks;
- **Slovak Republic** (3.5%): due to the overall scaling up of its aid programme;
- **Slovenia** (-10%): due to a lower levels of in-donor refugee costs;
- **Spain** (-45%): after a significant rise in 2016 due to exceptional debt relief for Cuba;
- **Sweden** (9.9%): as it increased its grants to Africa and the group of least developed countries as well as contributions to international organisations;
- **United Kingdom** (2.1%): as the UK continued to meet its ODA/GNI target of 0.7%.

Net disbursements by EU Institutions were USD 16.5 billion, and represented a fall of 6.7% in real terms, mostly due to a lower level of loan disbursements.

Net ODA rose or fell in real terms in other DAC countries as follows:

- **Australia** (-15.8%): due to cuts in its multilateral ODA;
- **Canada** (4.1%): as it increased its humanitarian assistance, in-donor refugee support and climate financing;
- **Iceland** (5.5%): due to an increase in in-donor refugee costs;
- **Japan** (13.9%): due to an increase in its bilateral aid to least developed countries as well as loans;
- **Korea** (-6.5%): due to lower levels of contributions to multilateral organisations;
- **New Zealand** (-6.7%): due to annual expenditure fluctuations within a set three-year budget;
- **Norway** (-10.0%): due to lower levels reported for in-donor refugee costs;
- **Switzerland** (-13.9%): mainly due to lower levels of in-donor refugee costs reported;
- **United States** (0.7%): an increase in its bilateral aid offset the decrease in contributions to multilateral organisation.

Other providing countries that report their development finance flows to the OECD indicated the following changes in real terms:

- **Bulgaria** (-9.6%): mostly due to a smaller amount of in-donor refugee costs;
- **Croatia** (19.9%): which increased its bilateral aid;
- **Estonia** (-8.4%): due to cuts in its overall aid programme;
- **Israel** (-8.8%): due to reduced contributions to regional development banks;
- **Latvia** (2.7%);
- **Lithuania** (-2.6%);
- **Malta** (24.1%): due to an increase in in-donor refugee costs;
- **Russia** (-21.8%): due to reductions throughout its aid programme;
- **Turkey** (40.4%): as it increased its support for humanitarian aid;
- **United Arab Emirates** (6.5%): as it increased its grants to developing countries, especially in the form of budget support.

Gross ODA, (i.e. total flows spent by DAC countries without deducting for loan repayments), was USD 160.2 billion and stable compared to 2016 (up by 0.1% in real terms), with the largest donor being the United States (USD 35.8 billion), followed by Germany (USD 27.4 billion), Japan (USD 18.5 billion), the United Kingdom (USD 18 billion) and France (USD 13.7 billion).
FOREIGN AID AND ITS IMPORTANCE IN RELIEVING POVERTY

BY JENNY WELLS, GOVERNMENT RELATIONS COORDINATOR, OXFAM AUSTRALIA

What is foreign aid?

Foreign aid is a term often used by people, particularly in government and the media, but what does it mean? In its broadest sense it means financial or technical help given by one country’s government to another country to assist social and economic development or to respond to a disaster in the receiving country. It can involve providing financial grants or loans, technical advice, training, equipment and commodities such as food, health, infrastructure and transport.

Military assistance was considered a form of foreign aid until the 1950s. Since then, while some countries still provide military assistance and equipment to other countries, it is usually termed foreign military assistance.

Foreign aid and international development assistance

The most commonly accepted measure of foreign aid for international development purposes is Official Development Assistance (ODA).

In 1969, the Organisation for Economic Co-operation and Development (OECD) established ‘Official Development Assistance’ as a common definition to measure and compare how well the efforts of donor governments, who provide the financial or technical assistance, meet international development objectives. Development intent is fundamental to the notion of ODA that has ‘the promotion of the economic development and welfare of developing countries as its main objective’.

The agreed definition and criteria of ODA is used to measure the amount of foreign aid provided by donor governments for international development purposes. ODA also enables us to assess donor performance against aid commitments and allows partner countries and civil society to hold donors to account.

How much ODA is needed?

In 1970, the United Nations agreed that ‘economically advanced countries’, better understood as ‘developed countries’, should provide 0.7% of their gross national income (GNI) as ODA. This equates to seven cents for every $100 of national income. The 0.7% target was based on the work of Nobel Prize-winning economist, Jan Tinbergen, who estimated the level of financial assistance developing countries needed to achieve desirable growth rates. Since then, governments have continued to affirm their commitment to the ODA target of 0.7% of GNI.

In 2000, world leaders committed to eight Millennium Development Goals (MDGs) and an action plan to reverse the poverty, hunger and disease affecting billions of people. The MDGs set ambitious yet feasible global time-bound targets and measurable indicators to reduce income poverty, hunger, disease, lack of adequate shelter and exclusion and promote gender equality, health, education and environmental sustainability by the end of 2015. They are founded on basic human rights – the rights of each person to health, education, shelter and security. They have also resulted in unprecedented efforts to meet the needs of the world’s poorest people.

At the same time, the UN assessed that 0.7% of developed country GNI would provide enough resources to meet the Millennium Development Goals. If every developed country followed through with a commitment to reach 0.7% of GNI as ODA by 2015, the world could make dramatic progress in the fight against poverty and end extreme poverty within a generation.

Does foreign aid as ODA really reduce poverty?

In 1985, the OECD reviewed 25 years of ODA. It found that despite setbacks in Sub-Saharan Africa and some countries of Latin America, many developing countries had achieved remarkable economic and social growth over the past quarter-century. It also found that aid, accompanied by growing exports to OECD countries, had significantly contributed to these gains.

The OECD identified that ODA is directed to countries coping with the most difficult and intractable development problems, including emergency situations arising from natural disasters, conflict and refugee influxes, and not countries with the highest potential investment returns. Therefore, many receivers of
Global Poverty and Wealth Inequality

Since the MDGs were launched in 2002, significant achievements have been made against all the eight goals. Millennium Development Goal 1 specifically aimed to halve the number of people who live on less than one dollar per day and halve the number of people who live in hunger by the end of 2015.

By 2014, 74 countries have halved their poverty rates, making this target the most met of all the MDGs. Globally the percentage of people living in extreme poverty (less than $1.25 a day) reduced from 47% in 1990 to 22% in 2014 and the absolute number of people living in extreme poverty has declined from 1.92 billion in 1990 to 1.01 billion in 2010. Additionally, 173 million fewer people worldwide suffered from chronic hunger in 2011-13 than in 1990-92 and stunting in children under five has decreased globally from 40% to 25% since 1990.

What’s particularly impressive is that these gains have been made while global population has continued to rise, from 5.28 billion people in 1990 to 7.1 billion people in 2013.

But …

Today, nearly one in five people in developing countries still live in extreme poverty on less than $1.25 a day and 96% of these people live in countries that are politically fragile, environmentally vulnerable or both. Development needs of people and countries today are more complex and more difficult.

While significant reductions in poverty have been made, the people still living in poverty are the hardest to reach and live in most vulnerable of situations.

Ending poverty continues to need dedicated resources that can make and support economic, environmental and social investments that benefit the poorest people. The ODA target of 0.7% is still important.

Should Australia continue to give ODA, and if so, how much?

In 2014/15, the Australian Government provided five billion dollars as ODA. This is close to 1.2% of the total Federal Government budget and 0.22% of GNI, less than a third of the 0.7% target.

This contribution:
- Provided access to agriculture technologies for more than 417,000 poor women and men;
- Helped to build more than 9,000 additional classrooms, train over 100,000 teachers and enabled over 1.3 million more children to access schooling across Asia and the Pacific;
- Supported the international humanitarian response to the Syria crisis, which reached over 10 million people in Syria and 836,000 people in the region with safe drinking water;
- Provided immediate and life-saving support to over three million people affected by Typhoon Haiyan in the Philippines;
- Ensured that nearly 900,000 additional births were attended by a skilled birth attendant;
- Vaccinated over 2.3 million children;
- Increased access to safe water for over 2.9 million people;
- Increased access to hygiene for over two million people and basic sanitation for over one million people; and
- Helped over 66,000 women survivors of violence access critical services such as emergency shelters, counselling and legal advice in Bangladesh, Sri Lanka, Cambodia, Timor-Leste, Papua New Guinea, Fiji, Solomon Islands, Vanuatu and Sub-Saharan Africa.

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Ending poverty continues to need dedicated resources that can make and support economic, environmental and social investments that benefit the poorest people. The ODA target of 0.7% is still important.
How much ODA is really given?

In 2014, total ODA given by all OECD member countries was 0.29% of GNI (USD 134.38 billion). Only five countries currently meet the ODA target of 0.7%: Denmark, Luxembourg, Norway, Sweden and the United Kingdom.

The highest total level of ODA as a per cent of GNI was reached in 1961 with 0.51% (USD 41.65 billion). Since 1960, 19 OECD member countries, including Australia, have never reached the 0.7% target.

What about Australia?

The highest level of ODA as a per cent of GNI ever reached by Australia was 0.66% in 1975. This means that in 1975 for every $100 of income, 66 cents was contributed to development-focussed foreign aid.

Since then the ODA generosity of Australia has fallen and in 2016/17 it is predicted to reach the lowest level ever – to just 0.22% or 22 cents out of every $100 of income.

To put this in perspective, in 2015 every Australian contributed on average four dollars a week to ODA or the equivalent of a soft drink or two chocolates. In 2016/17 this will go down to three dollars per person per week.

Cuts to Australian aid

In 2015/16, Australia’s aid program is being reduced to four billion dollars and then further reduced to around $3.8 billion by 2016/17. These cuts push Australian aid to its lowest level in 60 years as a percentage of our national economy by 2016/17 – just 0.22% or 22 cents out of every $100 of income.

To put this in perspective, in 2015 every Australian contributed on average four dollars a week to ODA or the equivalent of a soft drink or two chocolates. In 2016/17 this will go down to three dollars per person per week.

Conclusion

This year (2015) the Millennium Development Goals expire. Substantial progress has been made and the

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<tr>
<th>PACIFIC AND PNG</th>
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<tr>
<td>PNG</td>
<td>-5 per cent</td>
</tr>
<tr>
<td>Solomon Islands, Vanuatu, Samoa, Fiji, Tonga, Nauru, Kiribati, Tuvalu, Cook Islands, Niue, Tokelau, North Pacific</td>
<td>Steady (in nominal terms)</td>
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<tr>
<td>Pacific regional</td>
<td>-10 per cent</td>
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<tr>
<th>EAST ASIA</th>
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<tbody>
<tr>
<td>Indonesia, Vietnam, Philippines, Burma, Laos, Mongolia, East Asia regional</td>
<td>-40 per cent</td>
</tr>
<tr>
<td>Timor Leste</td>
<td>-5 per cent</td>
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<tr>
<td>Cambodia</td>
<td>Steady (in nominal terms)</td>
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<tr>
<th>SOUTH AND WEST ASIA</th>
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<tbody>
<tr>
<td>Afghanistan, Pakistan, Bangladesh, Sri Lanka, Bhutan, Maldives, Regional South Asia</td>
<td>-40 per cent</td>
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<tr>
<td>Nepal</td>
<td>Steady (in nominal terms)</td>
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<th>AFRICA AND THE MIDDLE EAST</th>
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<tr>
<td>Sub-Saharan Africa</td>
<td>-70 per cent</td>
</tr>
<tr>
<td>North Africa and the Middle East (excl. Palestinian Territories)</td>
<td>-83 per cent</td>
</tr>
<tr>
<td>Palestinian Territories</td>
<td>-40 per cent</td>
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The world has already realised the first MDG of halving the extreme poverty rate by 2015. However, achievements have been uneven – too many people in too many countries remain in need of assistance.

The focus is now on building a sustainable world where environmental sustainability, social inclusion, and economic development are equally valued. Members of the UN are finalising the Sustainable Development Goals (SDGs) that will replace the MDGs. Goal 1 aims to eradicate extreme poverty (less than $1.25 a day) for all people everywhere by 2030.

At a time when nations around the world are striving to achieve the MDGs and discussing a new global set of development goals, Australia is lowering its overall effort and impact. Clearly, a four billion dollar program in 2015/16, and a $3.8 billion program in 2016/17, is unlikely to achieve as much as we have in the past.

Australia can and should do more. Our economy continues to be comparatively strong and we are a member of the Group of 20 (G20), the OECD and the UN. At the same time the majority of the world’s poor people live in Australia’s neighbourhood of Asia and the Pacific. It is important that Australia invest appropriately, along with our peers, in global efforts toward poverty alleviation and tackling inequality.

ENDNOTES

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.gov.au/about-us/publications/corporate/annual-reports/
Pages/department-of-foreign-affairs-and-trade-annual-
report-2013-2014.aspx
10. OECD data tables, available at www.compareyourcountry.org/
oda?cr=20001&cr1= oecl&lg=en&page=1
11. www.devpolicy.org/the-same-the-bad-and-the-ugly-country-
allocations-in-the-2015-16-budget/

ADDITIONAL RESOURCES

> Global Education: Teacher resources to encourage a global
au/global-issues/gi-australias-aid.html
> The Open Budget: A cutting edge government transparency
project, allowing you to easily explore where the Australian
government spends your money, www.theopenbudget.org
> The Weekly: Foreign Aid Charlie unpacks the debate on
whether or not we should cut foreign aid (video),
https://youtu.be/1VvkuQy2xI

Jenny Wells is Government Relations Coordinator,
Oxfam Australia.

Wells, J (July 2015). Foreign Aid and its Importance in Relieving
Trade has been a global force for less poverty and higher incomes

In the ongoing debate about the benefits of trade, we must not lose sight of a vital fact. Trade and global integration have raised incomes across the world, while dramatically cutting poverty and global inequality, according to this World Bank blog post by Ana Revenga and Anabel Gonzalez.

Within some countries, trade has contributed to rising inequality, but that unfortunate result ultimately reflects the need for stronger safety nets and better social and labour programs, not trade protection.

Merchandise trade as a share of world GDP grew from around 30 per cent in 1988 to around 50 per cent in 2013. In this period of rapid globalisation, average income grew by 24 per cent globally, the global poverty headcount ratio declined from 35% to 10.7%, and the income of the bottom 40 per cent of the world population increased by close to 50 per cent.

This big picture evidence is buttressed by compelling micro-econometric studies on pro-poor income and consumption gains.

• The 2001, US-Vietnam free trade agreement reduced poverty in Vietnam by increasing wage premiums in export sectors, spurring job reallocation from agriculture, forestry and fishing into manufacturing, and stimulating enterprise job growth.
• A study of 27 industrial and 13 developing countries finds that shutting off trade would deprive the richest 10 per cent of 28 per cent of their purchasing power, but the poorest 10 per cent would lose 63 per cent because they buy relatively more imported goods.
• In many developing countries, export growth has been associated with greater gender equality. Exporting firms generally employ a significantly higher share of women than non-exporters. In Cambodia’s export-oriented garment sector, which is one of the main providers of wage employment in Cambodia, 85 per cent of all workers are women.

A retreat from global integration would erode these gains, especially in developing countries. For example, abandoning existing agreements in the Americas would have particularly large negative welfare effects in countries like Mexico (4 to 9 per cent), El Salvador (2 to 5 per cent), and Honduras (2 to 5 per cent), according to early research at the World Bank.

Within countries there are invariably losers as well as winners from trade and globalisation. Households are likely to be affected differently depending on their physical and human capital endowments, their consumption patterns, and their incomes.

Among developing countries, which we study most closely at the World Bank, there are countries where the direct effect of trade on the wage distribution has been equalising (e.g. Brazil), and others where it has been un-equalising (e.g. Mexico). Trade also reduced the (relative) wages of the poor in India in the 1990s,
so that poverty decreased less in rural districts more exposed to trade liberalisation.

Work-in-progress by some of our colleagues in the World Bank’s Research Group seeks to quantify the potential trade-off between the efficiency gains and inequality costs of trade liberalisation using household survey data from 53 low- and middle-income countries (Artuc, Porto and Rijkers, Trading-off the Income Gains and the Inequality Costs of Trade Policy: World Bank, 2017, in progress). In spite of heterogeneity in the distributional impacts, hard trade-offs are found only in a relatively small number of countries (such as Burundi, Nigeria and Gambia). In the vast majority of countries (including Egypt, Pakistan and South Africa) trade liberalisation significantly raises incomes with at most trivial inequality costs.

Despite the potentially negative effects of trade on some, what happens to final incomes and hence to inequality, however, is not a given. Between 1990 and 2010, a period of rapid globalisation, inequality (measured by the Gini index) increased in the United States from 43 to 47 but fell in Denmark from 31 to 26.

Consider why. US workers concentrated in communities which face high volumes of Chinese imports have experienced fewer jobs and falling wages. And yet, the US Trade Adjustment Assistance (TAA) program falls short of the challenge of helping people get back on their feet. The US spends just 0.1% of GDP on all its active labour market policies while the OECD average is 0.6%.

Second, the TAA is designed to help only workers suffering direct trade-related job losses but wages losses are not limited to workers who are employed in import competing sectors. Third, the TAA requires active participation of eligible workers in retraining programs but many less educated and older workers, who are worst affected, fail to qualify because they have often already withdrawn from the labour force.

In Denmark, trade liberalisation and offshoring also contributed to a decrease in low-skill wages, and increase in high-skill wages, thus potentially widening inequality. However, the Danish labour assistance system (called Flexicurity) may have helped to avoid any significant increase in inequality. The system targets all workers suffering from job losses, not just workers in sectors exposed to trade and offshoring shocks, and deals with any negative labour market shock, not just relating to trade. The system is based on: a flexible labour market allowing employers to hire and fire relatively easily; a generous unemployment benefit system; and strong activation policies encouraging job search and enhancing workers’ employability.

In countries where trade has created losers, policies that redistribute some of the gains from winners to losers are needed to ensure the benefits of trade are widely shared. Better and more generous safety nets and other social protection policies, and more investments in skill acquisition, are the answer. Not protectionist trade policies that will blunt the engine of growth that has delivered prosperity for millions around the world. This insight guides our work in a World Bank Group dedicated to ending extreme poverty and boosting shared prosperity for all.

CHAPTER 2

Global wealth inequality

EQUALITY: WHY IT MATTERS

SUSTAINABLE DEVELOPMENT GOAL 10, EXPLAINED BY THE UNITED NATIONS

What’s the goal here?
To reduce inequalities within and among countries.

Why?
Inequalities based on income, sex, age, disability, sexual orientation, race, class, ethnicity, religion and opportunity continue to persist across the world, within and among countries. Inequality threatens long-term social and economic development, harms poverty reduction and destroys people’s sense of fulfillment and self-worth. This, in turn, can breed crime, disease and environmental degradation.

Most importantly, we cannot achieve sustainable development and make the planet better for all if people are excluded from opportunities, services, and the chance for a better life.

What are some examples of inequality?
An estimated 69 million children under five years of age will die from mostly preventable causes. Rural women are three times more likely to die while giving birth than women in urban centres. Many families in developing countries are living in societies where income is more unequally distributed than it was in the 1990s. These are just a few examples, but it is an issue that affects every country in the world.

Why should I need to care about inequality if I don’t face any discrimination?
In today’s world, we are all interconnected. Problems and challenges, be they poverty, climate change, migration or economic crises are never just confined to one country or region. Even the richest countries still have communities living in abject poverty. The oldest democracies still wrestle with racism, homophobia and transphobia, and religious intolerance. A recent UNICEF report noted growing inequality among children in several high-income countries.

Global inequality affects us all, no matter who we are or where we are from.

Can we actually achieve equality for everyone in this world?
It can be and should be achieved to ensure a life of dignity for all. Political, economic and social policies need to be universal and pay particular attention to the needs of disadvantaged and marginalised communities.

Recent statistics have shown that this is possible. From 2007 to 2012, the average income of some of the poorest families in more than 50 countries, particularly in Latin America and the Caribbean, and Asia, grew faster than their national averages, reducing the income inequality in those countries.

What can we do?
Reducing inequality requires transformative change. Greater efforts are needed to eradicate extreme poverty and hunger, and invest more in health, education, social protection and decent jobs especially for young people, migrants and other vulnerable communities.

Within countries, it is important to empower and promote inclusive social and economic growth. We can ensure equal opportunity and reduce inequalities of income if we eliminate discriminatory laws, policies and practices. Among countries, we need to ensure that developing countries are better represented in decision-making on global issues so that solutions can be more effective, credible and accountable.

Governments and other stakeholders can also promote safe, regular and responsible migration, including through planned and well-managed policies, for the millions of people who have left their homes seeking better lives due to war, discrimination, poverty, lack of opportunity and other drivers of migration.

To find out more about Goal #10 and other Sustainable Development Goals visit: www.un.org/sustainabledevelopment


SUSTAINABLE DEVELOPMENT GOAL 10: reduce inequality within and among countries

The following information from the United Nations relies on a global indicator framework to explain the latest progress on the goal to reduce inequality.

The global indicator framework was developed by the Inter-Agency and Expert Group on SDG Indicators (IAEG-SDGs) and agreed to, as a practical starting point at the 47th session of the UN Statistical Commission held in March 2016.

The report of the Commission, which included the global indicator framework, was then taken note of by ECOSOC at its 70th session in June 2016.

<table>
<thead>
<tr>
<th>TARGETS</th>
<th>INDICATORS</th>
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<tbody>
<tr>
<td>10.1</td>
<td>By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average.</td>
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<tr>
<td>10.1.1</td>
<td>Growth rates of household expenditure or income per capita among the bottom 40 per cent of the population and the total population.</td>
</tr>
<tr>
<td>10.2</td>
<td>By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.</td>
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<tr>
<td>10.2.1</td>
<td>Proportion of people living below 50 per cent of median income, by age, sex and persons with disabilities.</td>
</tr>
<tr>
<td>10.3</td>
<td>Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard.</td>
</tr>
<tr>
<td>10.3.1</td>
<td>Proportion of the population reporting having personally felt discriminated against or harassed within the previous 12 months on the basis of a ground of discrimination prohibited under international human rights law.</td>
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<tr>
<td>10.4</td>
<td>Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality.</td>
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<tr>
<td>10.4.1</td>
<td>Labour share of GDP, comprising wages and social protection transfers.</td>
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<tr>
<td>10.5</td>
<td>Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations.</td>
</tr>
<tr>
<td>10.5.1</td>
<td>Financial soundness indicators.</td>
</tr>
<tr>
<td>10.6</td>
<td>Ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions in order to deliver more effective, credible, accountable and legitimate institutions.</td>
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<tr>
<td>10.6.1</td>
<td>Proportion of members and voting rights of developing countries in international organisations.</td>
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<tr>
<td>10.7</td>
<td>Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies.</td>
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<tr>
<td>10.7.1</td>
<td>Recruitment cost borne by employee as a proportion of yearly income earned in country of destination.</td>
</tr>
<tr>
<td>10.7.2</td>
<td>Number of countries that have implemented well-managed migration policies.</td>
</tr>
<tr>
<td>10.a</td>
<td>Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organisation agreements.</td>
</tr>
<tr>
<td>10.a.1</td>
<td>Proportion of tariff lines applied to imports from least developed countries and developing countries with zero-tariff.</td>
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<tr>
<td>10.b</td>
<td>Encourage official development assistance and financial flows, including foreign direct investment, to states where the need is greatest, in particular least developed countries, African countries, small island developing states and landlocked developing countries, in accordance with their national plans and programmes.</td>
</tr>
<tr>
<td>10.b.1</td>
<td>Total resource flows for development, by recipient and donor countries and type of flow (e.g. official development assistance, foreign direct investment and other flows).</td>
</tr>
<tr>
<td>10.c</td>
<td>By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent.</td>
</tr>
<tr>
<td>10.c.1</td>
<td>Remittance costs as a proportion of the amount remitted.</td>
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PROGRESS OF GOAL 10 IN 2017

Progress in reducing inequality within and among countries has been mixed.

- The voices of developing countries still need to be strengthened in decision-making forums of international economic and financial institutions. Moreover, while remittances can be a lifeline for families and communities of international migrant workers in their countries of origin, the high cost of transferring money continues to reduce such benefits.

- From 2008 to 2013, the per capita income or consumption of the poorest 40 per cent of the population improved more rapidly than the national average in 49 of 83 countries (accounting for three quarters of the world’s population) with data.

- The International Monetary Fund, through its recent quota reform, has increased the share of developing countries’ votes (defined as countries in developing regions, according to the M49 classification) to 37 per cent in 2016, up from 33 per cent in 2010. That increase is still short of the 74 per cent they represent in the membership. While the World Bank reforms of 2010 are still being implemented, that effort has not changed the 38 per cent share of voting rights at the International Bank for Reconstruction and Development that developing countries have held since 2000.

- Duty-free treatment and favourable access conditions for exports from least developed and developing countries have expanded. From 2005 to 2015, the proportion of tariff lines globally with duty-free treatment for products that originate in developing countries increased from 41 per cent to 50 per cent; for products that originate in the least developed countries, the proportion rose from 49 per cent to 65 per cent.

- The least developed countries and small island developing states continue to require additional assistance to ensure that they share in the benefits of sustainable development. In 2015, total resource flows to the least developed countries and small island developing States amounted to $48 billion and $6 billion, respectively. Eight donor countries met the target of 0.15 per cent of gross national income (GNI) for ODA to the least developed countries.

- The benefits of remittance from international migrant workers are reduced somewhat by the generally high cost of transfer. On average, post offices and money transfer operators charge over 6 per cent of the amount remitted; commercial banks charge 11 per cent. Both are significantly above the 3 per cent target. New and improved technologies, such as prepaid cards and mobile operators, result in lower fees for sending money home (between 2 per cent and 4 per cent), but are not yet widely available or used for many remittance corridors.

Source: Report of the Secretary-General, Progress towards the Sustainable Development Goals, E/2017/66.


IN IT TOGETHER: WHY LESS INEQUALITY BENEFITS ALL

The gap between rich and poor keeps widening. Following is a summary from a book published by the OECD which highlights the key areas where inequalities are created and where new policies are required.

Income inequality increased in good times and in bad times

In most countries, the gap between rich and poor is at its highest level since 30 years. Today, in OECD countries, the richest 10% of the population earn 9.6 times the income of the poorest 10%. In the 1980s, this ratio stood at 7:1 rising to 8:1 in the 1990s and 9:1 in the 2000s. In several emerging economies, particularly in Latin America, income inequality has narrowed, but income gaps remain generally higher than in OECD countries. During the crisis, income inequality continued to increase, mainly due to the fall in employment; redistribution through taxes and transfer partly offset inequality. However, at the lower end of the income distribution, real household incomes fell substantially in countries hit hardest by the crisis.

Much of the recent debate surrounding inequality has focused on top earners, especially the 'top 1%'. Less well understood is the relative decline of low earners and low-income households – not just the bottom 10% but the lowest 40%. This report places a special focus on these households, investigating some of the factors that have weakened their economic position, and the range of policy options that can help address increasing inequality.

Higher inequality drags down economic growth and harms opportunities

Beyond its impact on social cohesion, growing inequality is harmful for long-term economic growth. The rise of income inequality between 1985 and 2005, for example, is estimated to have knocked 4.7 percentage points off cumulative growth between 1990 and 2010, on average across OECD countries for which long time series are available. The key driver is the growing gap between lower-income households – the bottom 40% of the distribution – and the rest of the population.

A main transmission mechanism between inequality and growth is human-capital investment. While there is always a gap in education outcomes across individuals with different socio-economic backgrounds, the gap widens in high-inequality countries as people in disadvantaged households struggle to access quality education. This implies large amounts of wasted potential and lower social mobility.

Rising non-standard work can create job opportunities but also contributes to higher inequality

Temporary and part-time work and self-employment now account for about a third of total employment in OECD countries. Since the mid-1990s, more than half of all job creation was in the form of non-standard work. Many non-standard workers are worse off in many aspects of job quality, such as earnings, job security or access to training. In particular, low-skilled temporary workers face substantial wage penalties, earnings instability and slower wage growth.

Households that are heavily dependent on earnings from non-standard work have much higher income poverty rates (22% on average), and the increase in the number of such households in OECD countries has contributed to higher overall inequality.

Non-standard work can be a ‘stepping stone’ to more stable employment – but it depends on the type of work and the characteristics of workers and labour market institutions. In many countries, younger workers, especially those with only temporary work contracts have a lower chance of moving on to a more stable, career job.

More women in the workforce lowers inequality

Women have made substantial progress in narrowing the participation, pay and career gap with men and this has put a brake on rising inequality. But they are still about 16% less likely to be in paid work and earn about 15% less than men. If the proportion of households with working women had remained at levels of 20 to 25 years ago, income inequality would have increased by almost
1 Gini point more on average. The impact of a higher share of women working full-time and higher relative wages for women added another brake of 1 point.

**High wealth concentration limits investment opportunities**

Wealth is much more concentrated than income: on average, the 10% of wealthiest households hold half of total wealth, the next 50% hold almost the other half, while the 40% least wealthy own little over 3%. At the same time, high levels of indebtedness and/or low asset holdings affect the ability of the lower middle class to undertake investments in human capital or others. High wealth concentration can weaken potential growth.

**Designing policy packages to tackle high inequality and promote opportunities for all**

Policy makers have a range of instruments and tools at hand to tackle rising inequality and promote opportunities for all. For such policy packages to be successful, solid trust in institutions and effective social dialogue are essential. Reducing the growing divide between rich and poor and promoting opportunities for all requires policy packages in four main areas:

- **Women’s participation in economic life**: governments need to pursue policies to eliminate the unequal treatment of men and women in the labour market and to remove barriers to female employment and career progression. This includes measures for increasing the earnings potential of women on low salaries and to address the glass ceiling.
- **Employment promotion and good-quality jobs**: policies need to emphasise access to jobs and labour market integration. The focus must be on policies for the quantity and quality of jobs; jobs that offer career and investment possibilities; jobs that are stepping stones rather than dead ends. Addressing labour market segmentation is an important element of enhancing job quality and tackling inequality.
- **Skills and education**: a focus on the early years, as well as on the needs of families with school children, is crucial in addressing socio-economic differences in education. More must be done to provide youth with the skills they need to get a good start in the labour market. With a rapidly evolving economy, further efforts, with the close involvement of business and unions, should be made in promoting a continuous upgrading of skills during the working life.
- **Tax-and-transfer systems for efficient redistribution**: adequately designed redistribution via taxes and transfers is a powerful instrument to contribute to more equality and more growth. In recent decades, the effectiveness of redistribution weakened in many countries due to working-age benefits not keeping pace with real wages and taxes becoming less progressive. Policies need to ensure that wealthier individuals but also multinational firms pay their share of the tax burden. Large and persistent losses of low-income groups underline the need for well-designed income-support policies and counter-cyclical social spending.

TACKLING INEQUALITY VITAL TO ENDING EXTREME POVERTY BY 2030

Inequality reduction is increasingly important to continued progress in helping the world’s poorest, according to a study from the World Bank.

A new World Bank study on poverty and shared prosperity says that extreme poverty worldwide continues to fall despite the lethargic state of the global economy. But it warns that given projected growth trends, reducing high inequality may be a necessary component to reaching the world’s goal of ending extreme poverty by 2030.

According to the inaugural edition of Poverty and Shared Prosperity – a new series that will report on the latest and most accurate estimates and trends in global poverty and shared prosperity annually – nearly 800 million people lived on less than US $1.90 a day in 2013. That is around 100 million fewer extremely poor people than in 2012. Progress on extreme poverty was driven mainly by East Asia and Pacific, especially China and Indonesia, and by India. Half of the world’s extreme poor now live in Sub-Saharan Africa, and another third live in South Asia.

In 60 out of the 83 countries covered by the new report to track shared prosperity, average incomes went up for people living in the bottom 40 per cent of their countries between 2008 and 2013, despite the financial crisis. Importantly, these countries represent 67 per cent of the world’s population.

"It’s remarkable that countries have continued to reduce poverty and boost shared prosperity at a time when the global economy is underperforming – but still far too many people live with far too little," said World Bank Group President Jim Yong Kim.

"Unless we can resume faster global growth and reduce inequality, we risk missing our World Bank target of ending extreme poverty by 2030. The message is clear: to end poverty, we must make growth work for the poorest, and one of the surest ways to do that is to reduce high inequality, especially in those countries where many poor people live."

TAKING ON INEQUALITY

Contrary to popular belief, inequality between all people in the world has declined consistently since 1990. And even within-country inequality has been falling in many places since 2008 – for every country that saw a substantial increase in inequality during this time period, two others saw a similar decrease. Inequality is still far too high, however, and important concerns remain around the concentration of wealth among those at the top of the income distribution.

Noting "no room for complacency" the report finds that in 34 of 83 countries monitored, income gaps widened as incomes grew faster among the wealthiest 60 per cent of people than among the bottom 40. And in 23 countries, the bottom 40 saw their incomes actually decline during these years: not just relative to wealthier members of society, but in absolute terms.

By studying a group of countries including Brazil, Cambodia, Mali, Peru, and Tanzania, which have reduced inequality significantly over recent years, and examining a wide body of available evidence, Bank researchers identified the following six high-impact strategies: policies with a proven track record of building poor people’s earnings, improving their access to essential services, and improving their long-term development prospects, without damaging growth. These policies work best when paired with strong growth, good macroeconomic management, and well-functioning labour markets that create jobs and enable the poorest to take advantage of those opportunities.

Early childhood development and nutrition

These measures help children during their first 1,000 days of life, as nutritional deficiencies and...
cognitive underdevelopment during this period can lead to learning delays and lower educational achievement later in life.

**Universal health coverage**

Bringing coverage to those excluded from affordable and timely health care reduces inequality while at the same time increasing people’s capacity to learn, work, and progress.

**Universal access to quality education**

School enrolments have grown across the globe, and the focus must shift from simply getting children into school towards ensuring that every child, everywhere benefits from a quality education. Education for all children must prioritise universal learning, knowledge, and skills development, as well as teacher quality.

**Cash transfers to poor families**

These programs provide poor families with basic incomes, enabling them to keep children in school and allowing mothers to access basic health care.

They can also help families buy things like seeds, fertiliser, or livestock, and cope with drought, floods, pandemics, economic crises, or other potentially devastating shocks. They have been shown to considerably reduce poverty and create opportunity for parents and children alike.

**Rural infrastructure – especially roads and electrification**

Building rural roads reduces transportation costs, connects rural farmers to markets to sell their goods, allows workers to move more freely, and promotes access to schools and health care clinics.

Electrification in rural communities in Guatemala and South Africa, for example, has helped increase women’s employment. Electricity also makes small home-based businesses more viable and productive, which is particularly of use in poor, rural communities.

**Progressive taxation**

Fair, progressive taxes can fund government policies and programs needed to level the playing field and transfer resources to the poorest, and tax systems can be designed to decrease inequality while at the same time keeping efficiency costs low.

“Some of these measures can rapidly affect income inequality. Others deliver benefits more gradually. None is a miracle cure,” said Kim.

“But all are supported by strong evidence, and many are within the financial and technical reach of countries. Adopting the same policies doesn’t mean that all countries will get the same results, but the policies we’ve identified have worked repeatedly in different settings around the world.”

To view the latest available Poverty and Shared Prosperity report, visit: [www.worldbank.org/PSP](http://www.worldbank.org/PSP)
Rising inequality and slow economic growth in many countries have focused attention on policies to support inclusive growth. While some inequality is inevitable in a market-based economic system, excessive inequality can erode social cohesion, lead to political polarisation, and ultimately lower economic growth. This Fiscal Monitor discusses how fiscal policies can help achieve redistributive objectives. It focuses on three salient policy debates: tax rates at the top of the income distribution, the introduction of a universal basic income, and the role of public spending on education and health.

INEQUALITY, GROWTH AND FISCAL REDISTRIBUTION

Global inequality – measured across all citizens of the world by abstracting from national borders – has been declining in recent decades, reflecting strong income growth in some large emerging market economies such as China and India. However, the picture of inequality within countries is mixed: while income inequality has increased in most advanced economies, trends in other economic groups have been more varied. In fact, inequality has declined in almost half the countries for which data are available. The forces underlying rising inequality also vary across time and regions. A key source has been technological change favouring higher skills.

Economic growth is fundamental. In many countries, growth has ensured that increases in inequality are compatible with improving living standards for households across all deciles of the income distribution, although there are significant differences across countries regarding the extent to which growth has been inclusive. This diversity of experiences and empirical analysis suggest that there is no systematic adverse trade-off between increasing growth and decreasing inequality.

A substantial share of the differences in inequality across economic groups and over time can be attributed to differences in redistributive fiscal policies. In advanced economies, direct taxes and transfers reduce income inequality on average by about one-third, with three-quarters of this reduction achieved through transfers. In developing economies, fiscal redistribution is much more limited, reflecting lower and less progressive taxation and spending and greater reliance on regressive indirect taxes.

PROGRESSIVITY OF INCOME TAXES AND TRANSFERS

Progressive taxation and transfers are key components of efficient fiscal redistribution. At the top of the income distribution, marginal income tax rates that increase with income levels can achieve greater progressivity.

While various instruments can enhance progressivity at the bottom of the income distribution, this Fiscal Monitor focuses on the universal basic income (UBI) – an identical transfer to the entire population – a proposal that has been widely debated recently and is being tested in several countries. Overall, the appropriate combination of progressive tax and transfer instruments should reflect country-specific circumstances, including administrative capacity, the performance of the existing safety net, underlying fiscal pressures, and social preferences.

While some inequality is inevitable in a market-based economic system, excessive inequality can erode social cohesion, lead to political polarisation, and ultimately lower economic growth.

Advanced economies with relatively low levels of progressivity in their personal income tax (PIT) may therefore have scope for raising the top marginal tax...
rates without hampering economic growth. Different types of wealth taxes can also be considered. Emerging markets and low-income developing countries should focus on gradually expanding the coverage of the PIT and raising indirect taxes – including excise taxes on luxury goods and consumption items that generate negative externalities, such as fossil-fuel-based energy, alcohol, and tobacco – to generate funding for progressive spending.

**While some countries already have some components of a universal basic income in place (such as universal child benefits and social pensions), no country has yet adopted a UBI that covers its entire population.**

How should capital income (including profits, interest, and capital gains) be taxed? Capital income is distributed more unequally than labour income, its share in total income has risen over recent decades, and it is often taxed at a lower (and declining) rate than labour income. Adequate taxation of capital income is needed to protect the overall progressivity of the income tax system by reducing incentives to reclassify labour income as capital income and through a more uniform treatment of different types of capital income. Many countries should emphasise reducing opportunities for tax evasion and avoidance. Taxes on real estate or land are both equitable and efficient and remain underused, but may require a sizable investment in administrative infrastructure, particularly in low-income developing countries.

**AND AT THE BOTTOM**

The UBI has received growing attention in academic, policy, and public discourse, and several countries are experimenting with different forms. While some countries already have some components of a UBI in place (such as universal child benefits and social pensions), no country has yet adopted a UBI that covers its entire population.

Proponents argue that a UBI can address poverty and inequality more effectively than means-tested programs in the presence of information constraints, high administrative costs, and other obstacles (including social stigma) that limit the take-up of benefits. Others see a UBI as an instrument for addressing greater income decline and uncertainty generated by the impact of changing technology (particularly automation) on jobs. It is also advocated as a way to build support for structural reforms.

Opponents highlight that universality implies an unnecessary leakage of benefits to higher-income groups. The associated high fiscal cost raises concerns about the program’s affordability and the risk of crowding out other high-priority spending that promotes inclusive growth. UBI opponents also find problematic the delinking of income from labour force participation.

Is there a case for the adoption of a UBI? Under what circumstances could it be desirable, and how should it be financed? Or should governments focus on strengthening their capacity to use means-tested transfers? Whether a UBI is a good substitute for an existing social benefit system will depend on that system’s performance as well as on the government’s administrative capacity and prospects for enhancing targeting.

In developing economies, where it is more likely for the current benefit system to be very sparse and coverage of lower-income groups might be very low, the adoption of a UBI may be an option for governments wishing to strengthen their safety nets in the short term. However, to be effective and preserve fiscal sustainability, such an expansion would need to be financed through efficient and equitable increases in taxes or cuts in spending, such as eliminating universal price subsidies or broadening the consumption tax base, including through taxes on consumption with negative externalities. Capacity constraints for
mobilising revenues may be an important factor that weighs on developing a universal safety net.

At the other end of the spectrum, for systems with generous benefits, broad coverage, and high progressivity, replacement of the existing system with a UBI would result in substantial decreases in benefits for many lower-income households – a likely scenario in advanced economies. It is therefore preferable to focus efforts on further strengthening existing systems through directly addressing any remaining coverage gaps in social safety nets due to eligibility rules or incomplete take-up and well-designed wage subsidies for low-income workers to provide incentives for work.

The adoption of a UBI in such circumstances would therefore have to be motivated by other considerations, such as enhancing income insurance in the context of rising job insecurity due to rapid technological change and automation or building public and political support for structural reforms, such as eliminating food or energy subsidies and broadening the consumption tax base.

Investments in education and health can help reduce income inequality over the medium term, address the persistence of poverty across generations, enhance social mobility, and ultimately promote sustained inclusive growth. Yet many countries still have sizable gaps in education and health services.

The fiscal cost of a UBI will depend on the level at which it is set. To illustrate, if it were set at 25 per cent of median per capita income, the fiscal cost would be about 6-7 per cent of GDP in advanced economies and 3-4 per cent in emerging markets and developing economies. The impact on inequality, before financing, would be substantial in all countries, with one measure of inequality, the Gini coefficient, decreasing on average by five points.

The reduction in poverty in emerging markets and developing economies would also be significant. The net redistributive impact of a UBI will, however, depend on how it is financed. This Fiscal Monitor analyses a UBI with illustrative country cases, using microsimulation methods and a general equilibrium model to account for behavioural responses, financing, and the trade-off between equity and efficiency.

ADDRESSING INEQUALITIES IN EDUCATION AND HEALTH

Investments in education and health can help reduce income inequality over the medium term, address the persistence of poverty across generations, enhance social mobility, and ultimately promote sustained inclusive growth. Yet many countries still have sizable gaps in education and health services. Closing these gaps will also help address inequalities in other dimensions, such as gender and regional disparities.

Despite progress in education, sizable enrolment gaps between socioeconomic groups remain in almost the entire developing world. Globally, even when students from socioeconomically disadvantaged families are enrolled in education systems, they have substantially poorer actual learning outcomes than those from more affluent backgrounds, reflecting low-quality education.

Disparities in health outcomes are not narrowing in many countries. In advanced economies, the gap in life expectancy between males with tertiary education and those with secondary education or less ranges from about four to fourteen years and has even widened in some countries. The ratio of the infant mortality rate in the top socioeconomic quintile to that in the bottom quintile has increased in about half of emerging markets and developing countries, mostly reflecting slower improvements among the disadvantaged. While progress in health coverage has contributed to improvements in health outcomes, significant gaps remain in some emerging market economies and many low-income countries. Increasingly, health outcomes are determined by factors other than health care, including nutrition, education, and healthy behaviours, particularly in advanced economies.

Addressing remaining inequalities will require better targeting of public spending to disadvantaged groups to improve access to quality education and health care. This would also enhance overall efficiency.

Global inequality is on the rise – but at vastly different rates across the world

The gap between rich and poor is growing, observes Antonio Savoia

Inequality is rising almost everywhere across the world – that’s the clear finding of the first ever World Inequality Report. In particular, it has grown fastest in Russia, India and China – places where this was long suspected but there was little accurate data to paint a reliable picture.

Until now, it was actually very difficult to compare inequality in different regions of the world because of sparse or inconsistent data, which lacked credibility. But, attempting to overcome this gap, the new World Inequality Report is built on data collection work carried out by more than a hundred researchers located across every continent and contributing to the World Wealth and Income Database.

Europe is the least unequal region of the world, having experienced a milder increase in inequality. At the bottom half of the table are Sub-Saharan Africa, Brazil and India, with the Middle East as the most unequal region.

Since 1980, the report shows that there has been rising inequality occurring at different speeds in most parts of the world. This is measured by the top 10% share of income distribution – how much of the nation’s income the top 10% of earners hold.

Places where inequality has remained stable are those where it was already at very high levels. In line with this trend, we observe that the Middle East is perhaps the most unequal region, where the top 10% of income earners have consistently captured over 60% of the nation’s income.

INEQUALITY IS ALWAYS A CONCERN

Even in Europe, where it is less pronounced, equality always raises ethical concerns. For example, in Western Europe, many do not receive a real living wage, despite working hard, often in full-time employment. Plus, the data shows that the top 10% of earners in Europe as a whole still hold 37% of the total national income in 2016.

Top 10% national income share across the world, 2016


Rising income inequality should be focal to public debate because it is also a factor which motivates human behaviour. It affects how we consume, save and invest. For many, it determines whether one can access the credit market or a good school for our children.

This, in turn, may affect economic growth, raising the question of whether it is economically efficient to have unequal societies.

Going into the details of what drives the rise in income inequality, the report shows that unequal ownership of national wealth is an important force. National wealth can be either publicly-owned (for example, the value of schools, hospitals and public infrastructure) or privately-owned (the value of private assets).

Since 1980, very large transfers of public to private wealth occurred in nearly all countries, whether rich or emerging. While national wealth has substantially increased, public wealth is now negative or close to zero in rich countries. In particular, the UK and the US are countries with the lowest levels of public capital.

Arguably, this limits the ability of governments to tackle inequality. Certainly, it has important implications for wealth inequality among citizens. It also indicates that national policies shaping ownership of capital have been a major factor contributing to the rise of inequality since 1980.

INEQUALITY IN THE DEVELOPING WORLD

Resource-rich economies are traditionally considered to be prone to conflict or more authoritarian in terms of how they are governed. What this new report tells us is that some resource rich economies, such as oil
economies’, are also extremely unequal. This was often suspected because natural resources are often concentrated in the hands of a minority. Until this report, however, there was no clear evidence.

The World Inequality Report appears to show us that the Middle East region may be even more unequal than Central and South America, which have long been held up as some of the most unequal places on Earth.

Another significant finding is that countries at similar stages of development have seen different patterns of rising inequality. This suggests that national policies and institutions can make the difference. The trajectories of three major emerging economies are illustrative. Russia has an abrupt increase, China a moderate pace and India a gradual one.

It is not just important to reduce inequality to make society more fair. Equal societies are associated with other important outcomes. As well as political and social stability, education, crime and financial stability may all suffer when inequality is high.

The comparison between Europe and the US provides an even more striking example – Western Europe remains the place with the lowest concentration of national income among the top 10% of earners.

Compared with the US, the divergence in inequality has been spectacular. While the top 1% income share was close to 10% in both regions in 1980, it rose only slightly to 12% in 2016 in Western Europe, while it shot up to 20% in the US. This might help explain the rise in populism. Those left behind grow impatient when they do not see any tangible improvement (or even a worsening) in their living conditions.

It is not just important to reduce inequality to make society more fair. Equal societies are associated with other important outcomes. As well as political and social stability, education, crime and financial stability may all suffer when inequality is high.

With this new data at our fingertips, we can now act to learn from the policies of more equal regions and implement them to reduce inequality across the world.

DISCLOSURE STATEMENT
Antonio Savoia does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond his academic appointment.

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THE CONVERSATION

The report draws on recent WID.world data to provide the first assessment of globalisation in terms of inequality, over the past 40 years.

It shows that the global top 1% of the world’s adult population captured twice as much growth as the global bottom 50% since 1980.

The report also provides novel insights on income inequality dynamics in emerging countries, discusses the evolution of public and private wealth as well as the evolution of wealth inequality within countries and at the global level.

The report presents projections of global income and wealth inequality dynamics up to 2050. The report is available online on wid.world, along with all its associated methodological document and raw data sets.


On the horizontal axis, the world population is divided into a hundred groups of equal population size and sorted in ascending order from left to right, according to each group’s income level. The Top 1% group’s divided into ten groups, the richest of these groups is also divided into ten groups, and the very top group is again divided into ten groups of equal population size. The vertical axis shows the total income growth of an average individual in each group between 1980 and 2016. For percentile group p99.1 (the poorest 10% among the world’s richest 1%), growth was 74% between 1980 and 2016. The Top 1% captured 27% of total growth over this period. Income estimates account for difference in the cost of living between countries. Values are net of inflation.

It shows that the global top 1% of the world’s adult population captured twice as much growth as the global bottom 50% since 1980.

World Inequality Database (14 December 2017). 
The aim of the World Inequality Report 2018 is to contribute to a more informed public discussion of inequality by bringing the latest and most complete data to all sides in the global debate. The report exhibits important analytical advances, yet there remain serious limitations on the world’s ability to measure the evolution of income and wealth inequality. The aim is not to provide perfect data, but rather the best data by making explicit what we know and don’t know about inequality.

The report reconciles in a systematic manner the different data sources: national income and wealth accounts; household income and wealth surveys; fiscal data coming from taxes on income, inheritance and wealth (when they exist); and wealth rankings. All the data is available on the World Wealth and Income Database (WID.world), which combines historical statistics in a consistent way. The computer codes, assumptions and detailed papers are online so that anyone can use them. The aim is to present data that are consistent with macroeconomic statistics such as GDP and national income, and which can be easily understood and used by the public to help ground debate, deliberations and decisions.

The report has an important message for Australia in that it also aims to put pressure on governments and international organisations to release more raw data on income and wealth. The lack of transparency undermines the possibilities for peaceful democratic discussion. It’s critical that governments provide public access to reliable and detailed tax statistics, which in turn requires that they operate properly functioning reporting systems for income, inheritance and wealth.

Short of this, as public commentary in Australia often demonstrates, it’s very difficult to have an informed debate about the evolution of inequality and what should be done about it. Australia falls short of best international practice, particularly in publishing data on wealth inequality. The reason for the report’s emphasis on providing all the details about its sources and concepts is to enable citizens to make up their own minds about these important and difficult issues. As the report says, economic issues do not belong to economists, statisticians, government officials, or business leaders. They belong to everyone. The report’s self-proclaimed chief objective is to boost the power of the many.

**Income inequality**

The World Inequality Report shows that income inequality has increased in nearly all regions in recent decades, but at different speeds. It is lowest in Europe and highest in the Middle East. The fact that inequality levels are so different, even when countries share similar levels of development, highlights the importance of national policies and institutions in shaping the outcomes.

At the global level, inequality has risen sharply since 1980, despite strong growth in China, contradicting supposed common knowledge to the contrary. Because of high and rising inequality within countries, the top 1% richest individuals in the world captured twice as much growth as the bottom 50% since 1980. Most of the gains have accrued to the top 0.1%, an extraordinary inequality of outcomes that, in turn, heralds increasing inequality of opportunities.

**THE RISE OF THE GLOBAL TOP 1% AND THE STAGNATION OF THE GLOBAL BOTTOM 50%**

![Graph showing the rise of the global top 1% and the stagnation of the global bottom 50%.](source: WID.world (2017). See wir2018.wid.world/methodology.html for data series and notes.)

Top 1% income shares have been steadily increasing in Anglophone countries since the early 1980s, after a historical decline throughout the first part of the twentieth century. Inequality has exploded in the United States: the top percentile income share there was less than 11 per cent in 1980, and it was slightly above 20 per cent in 2014. Britain’s top percentile share rose from less than 6 per cent in the late 1970s to a level comparable with Canada, where the top share increased from less than 9 per cent in 1980 to almost 14 per cent.

Australia and New Zealand had levels of inequality much lower throughout the entire period, with the top 1% receiving around 5 per cent of national income in the early...
1980s and rising to less than 10 per cent, but this reflects the same disturbing pattern. The impact of the Global Financial Crisis is visible on top-income shares, which exhibit a marked decline after 2007. The most recent data suggest that top incomes have now either recovered their shares or are progressively recovering them.

**Wealth inequality**

Economic inequality is largely driven by the unequal ownership of capital, which can be either privately or public-owned, and is substantially more concentrated than income. The top 10% owns more than 70 per cent of the total wealth in China, Europe, and the United States, the bottom 50% owns less than 2%, and the middle 40% (‘the global wealth middle class’) owns less than 30%. The top 10% share ranges from 77 per cent in the United States to 52 per cent in the UK. A separate study for the Evatt Foundation has estimated that Australia’s top 10% share is now at least 50 per cent, and perhaps as much as 55 per cent, roughly comparable with Europe.

In the United States, the top 1% wealth share rose from 22 per cent in 1980 to almost 40 per cent in 2014, with most of the gains going to the top 0.1%. The increase in the top wealth shares in France and the UK was more moderate. The Evatt Foundation has estimated that Australia’s top 1% share is now at least 15 per cent, and possibly up to 20 per cent, which is, again, roughly comparable with Europe.

**TOP 1% AND BOTTOM 75% OF GLOBAL WEALTH: CHINA, EUROPE AND THE US**

The report shows that, since 1980, very large transfers of public to private wealth occurred in nearly all countries, whether rich or emerging. In other words, countries have become richer but governments have become poorer. Public wealth, the common wealth, is now negative or close to zero in the rich countries. Arguably this limits the ability of governments to tackle inequality; certainly it has important implications for wealth inequality among individuals. The combination of large privatisations and increasing income inequality has fuelled the rise of wealth inequality. In Russia and the United States, the rise in wealth inequality has been extreme, whereas in Europe (and Australia) it has been more moderate.

Digging deeper into the report, rising wealth inequality is a function of rising national wealth and relatively small private ownership. Australia and Canada demonstrated comparable evolutions in their private wealth-national income ratios to France, Italy, and the UK. Canada’s private wealth more than doubled between 1970 and 2016, from around 250 per cent of net national income to more than 550 per cent, while Australia’s rise was from slightly less than 350 per cent of national income to over 550 per cent. In the United States, private wealth – relative to national income – rose by a half over the same time period, from less than 350 per cent of national income to around 500 per cent.

As extreme as it now is, the ensuing concentration of wealth has not yet returned to its most extremely high early-twentieth-century (pre-WWI) level in the rich countries – the retrospectively so-called Belle Époque or Mark Twain’s *The Gilded Age* (or the hightime of Russel Ward’s *The Australian Legend* within a less well-developed but also extremely unequal country).

By systematically combining data on the patterns of saving, investment, and economic growth in developed countries since 1970, the report shows that both volume and price effects have played a significant role in the concentration of wealth. In the eight largest developed economies, about 60 per cent of national wealth accumulation between 1970 and 2010 can be attributed on average to volume effects, versus about 40 per cent to price effects, although there are large cross-country variations.

Volume effects explain 72 per cent of the accumulation of national wealth in the United States between 1970 and 2010, while residual capital gains explain 28 per cent. Similarly, new savings appear to explain around 70-80 per cent of national wealth accumulation in Japan, France, and Canada between 1970 and 2010, while residual capital gains account for the remaining 20-30 per cent. Capital gains were larger in Australia, Italy, and the UK, where they accounted for more than 40-60 per cent of the increase in wealth. On the other hand, asset prices were reduced over the period in Germany, so savings accounted for all the rise in national wealth, while capital gains actually moderated this rise.

There has also been a huge rise in the foreign assets owned by countries since the 1970s, such that a significant share of each rich country’s domestic capital is...
now owned by other countries. The rise in cross-border positions is significant everywhere, being spectacularly large in Europe and a bit less so in the larger economies of Japan and the United States. In the States, net capital gains on cross-border portfolios represent one-third of total capital gains at the national level, and the equivalent of the total rise in the US national wealth-national income ratio since 1970.

One implication is that capital gains and losses on foreign portfolios can be large and volatile over time and across countries. Foreign portfolios have generated large capital gains in the United States, the UK and Australia, and significant capital losses in some other countries, such as Japan, Germany, and France. In Germany, virtually all capital losses at the national level can be attributed to foreign assets.

The future is bleak under ‘business as usual’
The report projects income and wealth inequality up to 2050 under different scenarios. In a future where ‘business as usual’ continues, global inequality will further increase. Alternatively, if in the coming decades all countries follow the moderate inequality trajectory of Europe, global income inequality can be reduced – in which case there can also be substantial progress in eradicating global poverty.

Yet inequality is not only about the outlook for the rich and the poor. The global wealth of the middle class will be squeezed under ‘business as usual’. Assuming the established trends in wealth inequality continue, the top 0.1% alone will own more wealth than the global middle class by 2050. Even if the ascendancy of the global super-rich is accompanied by absolute rises in middle-class wealth, the scenario implies a loss of relative status, economic (and therefore political) power and social opportunities.

Tackling global income and wealth inequality requires shifts in national and global tax policies. Educational policies, corporate governance and wage-setting policies need to be reassessed in many countries, including Australia. Data transparency is also key. Tax progressivity is a proven way to combat rising income and wealth inequality at the top. The report argues that a global register for recording the ownership of financial assets would deal severe blows to tax evasion, money laundering and rising inequality. More equal access to education and well-paying jobs are held up as the keys to overcoming the stagnating or sluggish income growth rates of the poorest half of the population. The general message is that governments need to invest in the future to address income and wealth inequality.

The World Inequality Report is the most rigorous assessment and evaluation published to date on the catastrophe that increasing economic inequality ultimately promises, setting standards in reliability and methods that no other reputable study can ignore. For those with an interest in inequality, and this implicitly includes everyone, it’s essential reading.

Squeezing the Global Middle Class

Source: WID.world (2017). See wwi2018.wid.world/methodology.html for data series and notes. In 2015, the share of public wealth in national wealth in France was 3%, compared to 17% in 1980.
Global wealth grew significantly over the past two decades but per capita wealth declined or stagnated in more than two dozen countries in various income brackets, says a new World Bank report. Going beyond traditional measures such as GDP, the report uses wealth to monitor countries’ economic progress and sustainability.

The Changing Wealth of Nations 2018 tracks the wealth of 141 countries between 1995 and 2014 by aggregating natural capital (such as forests and minerals), human capital (earnings over a person's lifetime); produced capital (buildings, infrastructure, etc) and net foreign assets. Human capital was the largest component of wealth overall while natural capital made up nearly half of wealth in low-income countries, the report found.

“By building and fostering human and natural capital, countries around the world can bolster wealth and grow stronger. The World Bank Group is accelerating its effort to help countries invest more – and more effectively – in their people,” said World Bank Group President Jim Yong Kim.

“There cannot be sustained and reliable development if we don’t consider human capital as the largest component of the wealth of nations.”

The report found that global wealth grew an estimated 66 per cent (from $690 trillion to $1,143 trillion in constant 2014 US dollars at market prices). But inequality was substantial, as wealth per capita in high-income OECD countries was 52 times greater than in low-income countries.

A decline in per capita wealth was recorded in several large low-income countries, some carbon-rich...
countries in the Middle East, and a few high-income OECD countries affected by the 2009 financial crisis. Declining per capita wealth implies that assets critical for generating future income may be depleted, a fact not often reflected in national GDP growth figures.

The report found that global wealth grew an estimated 66 per cent ... But inequality was substantial, as wealth per capita in high-income OECD countries was 52 times greater than in low-income countries.

The report found that more than two dozen low-income countries, where natural capital dominated overall wealth in 1995, moved to middle-income status over the last two decades, in part by investing earnings from natural capital into sectors such as infrastructure, as well as education and health which increase human capital.

While investments in human as well as produced capital are essential, getting rich is not about liquidating natural capital to build other assets, the report notes. Natural capital per person in OECD countries is three times higher than in low-income countries, even though the share of natural capital in total wealth is just 3 per cent in OECD countries.

“Growth will be short-term if it is based on depleting natural capital such as forests and fisheries. What our research has shown is that the value of natural capital per person tends to rise with income. This contradicts traditional wisdom that development necessarily entails depletion of natural resources," said Karin Kemper, Senior Director, Environment and Natural Resources Global Practice at The World Bank.

The report estimated that the value of natural capital assets doubled globally between 1995 and 2014. This is due, among other reasons, to increased commodity prices along with a rise in economically-proven reserves. In contrast, productive forest value declined by 9 per cent while agricultural land expanded at the cost of forests in many areas.

The latest report, which follows similar World Bank assessments in 2006 and 2011, includes estimates of human capital for the first time. Human capital is measured as the value of earnings over a person’s remaining work life, thereby incorporating the roles of health and education. Women account for less than 40 per cent of global human capital because of lower lifetime earnings. Achieving gender equity could increase human capital wealth by 18 per cent.

Human capital accounts globally for two-thirds of global wealth; produced capital accounts for a quarter of wealth. Natural capital accounts for one-tenth of global wealth, but it remains the largest component of wealth in low-income countries (47 per cent in 2014) and accounts for more than one-quarter of wealth in lower-middle income countries.

Wealth accounts for countries are compiled from publicly available data drawn from globally recognised data sources and with a methodology that is consistent across all countries. Some wealth components from natural capital were not tracked in the report, including water, fisheries and renewable energy sources.

The report was funded in part by the WAVES (Wealth Accounting and the Valuation of Ecosystem Services) partnership and by the Global Partnership for Education.


Eighty-two per cent of the wealth generated last year went to the richest one per cent of the global population, while the 3.7 billion people who make up the poorest half of the world saw no increase in their wealth, according to a new Oxfam report

Reward Work, Not Wealth reveals how the global economy enables a wealthy elite to accumulate vast fortunes while hundreds of millions of people are struggling to survive on poverty pay.

- Billionaire wealth has risen by an annual average of 13 per cent since 2010 – six times faster than the wages of ordinary workers, which have risen by a yearly average of just 2 per cent. The number of billionaires rose at an unprecedented rate of one every two days between March 2016 and March 2017.
- It takes just four days for a CEO from one of the top five global fashion brands to earn what a Bangladeshi garment worker will earn in her lifetime. In the US, it takes slightly over one working day for a CEO to earn what an ordinary worker makes in a year.
- It would cost $2.2 billion a year to increase the wages of all 2.5 million Vietnamese garment workers to a living wage. This is about a third of the amount paid out to wealthy shareholders by the top 5 companies in the garment sector in 2016.

Oxfam’s report outlines the key factors driving up rewards for shareholders and corporate bosses at the expense of workers’ pay and conditions. These include the erosion of workers’ rights; the excessive influence of big business over government policy-making; and the relentless corporate drive to minimise costs in order to maximise returns to shareholders.

Winnie Byanyima, Executive Director of Oxfam International said: “The billionaire boom is not a sign of a thriving economy but a symptom of a failing economic system. The people who make our clothes, assemble our phones and grow our food are being exploited to ensure a steady supply of cheap goods, and swell the profits of corporations and billionaire investors.”

Women workers often find themselves off at the bottom of the heap. Across the world, women consistently earn less than men and are usually in the lowest paid and least secure forms of work. By comparison, 9 out of 10 billionaires are men.

“Oxfam has spoken to women across the world whose lives are blighted by inequality. Women in Vietnamese garment factories who work far from home for poverty pay and don’t get to see their children for months at a time. Women working in the US poultry industry who are forced to wear nappies because they are denied toilet breaks,” said Byanyima.

Oxfam is calling for governments to ensure our economies work for everyone and not just the fortunate few:

- Limit returns to shareholders and top executives, and ensure all workers receive a minimum ‘living’ wage that would enable them to have a decent quality of life. For example, in Nigeria, the legal minimum wage would need to be tripled to ensure decent living standards.
- Eliminate the gender pay gap and protect the rights of women workers. At current rates of change, it will take 217 years to close the gap in pay and employment opportunities between women and men.
- Ensure the wealthy pay their fair share of tax through higher taxes and a crackdown on tax avoidance, and increase spending on public services such as healthcare and education. Oxfam estimates a global tax of 1.5 per cent on billionaires’ wealth could pay for every child to go to school.

Results of a new global survey commissioned by Oxfam demonstrates a groundswell of support for action on inequality. Of the 70,000 people surveyed in 10 countries, nearly two-thirds of all respondents think the gap between the rich and the poor needs to be urgently addressed.

“It’s hard to find a political or business leader who doesn’t say they are worried about inequality. It’s even harder to find one who is doing something about it. Many are actively making things worse by slashing taxes and scrapping labour rights,” said Byanyima.

“People are ready for change. They want to see workers paid a living wage; they want corporations and the super-rich to pay more tax; they want women workers to enjoy the same rights as men; they want a limit on the power and the wealth which sits in the hands of so few. They want action.”

JUST 8 MEN OWN SAME WEALTH AS HALF THE WORLD

Eight men own the same wealth as the 3.6 billion people who make up the poorest half of humanity, Oxfam reveals in a confronting new report

Oxfam’s report, *An Economy for the 99*%, shows that the gap between rich and poor is far greater than had been feared. It details how big business and the super-rich are fuelling the inequality crisis by dodging taxes, driving down wages and using their power to influence politics. It calls for a fundamental change in the way we manage our economies so that they work for all people, and not just a fortunate few.

New and better data on the distribution of global wealth – particularly in India and China – indicates that the poorest half of the world has less wealth than had been previously thought. Had this new data been available last year, it would have shown that nine billionaires owned the same wealth as the poorest half of the planet, and not 62, as Oxfam calculated at the time.

Winnie Byanyima, Executive Director of Oxfam International, said:

“It is obscene for so much wealth to be held in the hands of so few when 1 in 10 people survive on less than $2 a day. Inequality is trapping hundreds of millions in poverty; it is fracturing our societies and undermining democracy.

“Across the world, people are being left behind. Their wages are stagnating yet corporate bosses take home million-dollar bonuses; their health and education services are cut while corporations and the super-rich dodge their taxes; their voices are ignored as governments sing to the tune of big business and a wealthy elite.”

Oxfam’s report shows how our broken economies are funnelling wealth to a rich elite at the expense of the poorest in society, the majority of whom are women. The richest are accumulating wealth at such an astonishing rate that the world could see its first trillionaire in just 25 years. To put this figure in perspective – you would need to spend $1 million every day for 2,738 years to spend $1 trillion.

Public anger with inequality is already creating political shockwaves across the globe. Inequality has been cited as a significant factor in the election of Donald Trump in the US, the election of President Duterte in the Philippines, and Brexit in the UK.

Seven out of 10 people live in a country that has seen a rise in inequality in the last 30 years. Between 1988 and 2011 the incomes of the poorest 10 per cent increased by just $65 per person, while the incomes of the richest 1 per cent grew by $11,800 per person – 182 times as much.

Women, who are often employed in low pay sectors, face high levels of discrimination in the workplace, and who take on a disproportionate amount of unpaid care work often find themselves at the bottom of the pile. On current trends it will take 170 years for women to be paid the same as men.
Global Poverty and Wealth Inequality

An Economy for the 99% also reveals how big business and the super-rich are fuelling the inequality crisis. It shows how, in order to maximise returns to their wealthy shareholders, big corporations are dodging taxes, driving down wages for their workers and the prices paid to producers, and investing less in their business.

Oxfam interviewed women working in a garment factory in Vietnam who work 12 hours a day, 6 days a week and still struggle to get by on the $1 an hour they earn producing clothes for some of the world’s biggest fashion brands. The CEOs of these companies are some of the highest paid people in the world. Corporate tax dodging costs poor countries at least $100 billion every year. This is enough money to provide an education for the 124 million children who aren’t in school and fund healthcare interventions that could prevent the deaths of at least six million children every year.

The report outlines how the super-rich use a network of tax havens to avoid paying their fair share of tax and by ensuring their investments would not be available to ordinary savers. Contrary to popular belief, many of the super-rich are not ‘self-made’. Oxfam analysis shows over half the world’s billionaires either inherited their wealth or accumulated it through industries which are prone to corruption and cronyism.

It also demonstrates how big business and the super-rich use their money and connections to ensure government policy works for them. For example, billionaires in Brazil have sought to influence elections and successfully lobbied for a reduction in tax bills while oil corporations in Nigeria have managed to secure generous tax breaks.

Byanyima said: “The millions of people who have been left behind by our broken economies need solutions, not scapegoats. That is why Oxfam is setting out a new common sense approach to managing our economies so that they work for the majority and not just the fortunate few.”

“Governments are not helpless in the face of technological change and market forces. If politicians stop obsessing with GDP, and focus on delivering for all their citizens and not just a wealthy few, a better future is possible for everyone.”

Oxfam’s blueprint for a more human economy includes:

- Governments end the extreme concentration of wealth to end poverty. Governments should increase taxes on both wealth and high incomes to ensure a more level playing field, and to generate funds needed to invest in healthcare, education and job creation.
- Governments cooperate rather than just compete. Governments should work together to ensure workers are paid a decent wage, and to put a stop to tax dodging and the race to the bottom on corporate tax.
- Governments support companies that benefit their workers and society rather than just their shareholders. The multi-billion Euro company Mondragon, is owned by its 74,000 strong workforce. All employees receive a decent wage because its pay structure ensures that the highest paid member of staff earns no more than 9 times the amount of the lowest paid.
- Governments ensure economies work for women. They must help to dismantle the barriers to women’s economic progress such as access to education and the unfair burden of unpaid care work.

Oxfam is also calling on business leaders to play their part in building a human economy. The World Economic Forum has responsive and responsible leadership as its key theme this year. They can make a start by committing to pay their fair share of tax and by ensuring their businesses pay a living wage. People around the global can also join the campaign at www.evenitup.org.

An Economy for the 99% (January 2017) can be downloaded at: www.oxfam.org/en/research/economy-99

A new Oxfam report – *An Economy for the 99%* – has a number of startling claims about wealth inequality around the world – the world’s eight richest people control the same wealth as the poorest half of the globe’s population, Australia’s two richest billionaires are wealthier than the bottom 20% of the population, while the two richest Canadians are richer than the bottom 30% of Canada’s population.

Oxfam has published similar reports for a number of years, released just before the annual World Economic Forum.

The methodology has been criticised in the past by free market think tanks in the UK as well as the Australian media, but with numbers this dramatic, it’s good to ask how reliable the data is, and whether this really captures world inequality trends.

**WHERE THE NUMBERS COME FROM**

The Oxfam report calculates the wealth of the richest individuals using the Forbes billionaires list and the wealth of the poorest groups from the Credit Suisse *Global Wealth Report*. Wealth is defined as all assets (financial and real i.e. housing) minus debts.

The Forbes billionaire report estimates are based on investigative reporting, while the Credit Suisse reports have been put together by a research team headed by Anthony Shorrocks, one of the world’s leading experts on the distribution of wealth (he has more than one type of statistic named after him).

According to the Forbes list of billionaires, the richest eight individuals have net worths of between US$40 billion (Michael Bloomberg) and US$75 billion (Bill Gates) with a cumulative total of US$426.2 billion.

According to the Credit Suisse *Global Wealth Data-book* the bottom 50% of the world’s population has about 0.16% of the world’s wealth of US$256 trillion, or about US$410 billion.

So we can say that the calculations are roughly correct, given the data. But are they meaningful?

**A CLOSER LOOK AT THE NUMBERS**

First, it should be noted that while Credit Suisse undoubtedly is the best source of world wealth data, there
are an enormous number of technical complexities involved in generating these estimates.

Credit Suisse has household balance sheet data or high quality survey data for about 55% of the world’s population (with 88% of the world’s wealth), and have incomplete data for another 10% of the world. For the remaining third of the world’s population (with less than 5% of the world’s wealth) the wealth data are estimated in various ways.

Critics of these figures point to two main issues. Firstly, the Credit Suisse figures calculate wealth as assets minus debts, so the bottom 1% of the world wealth distribution actually have a negative net worth.

But people with negative net worth can include students, with student debts but who are about to enter a high-paying job and people who have just purchased a house and whose equity is less than the mortgage outstanding. Should these people be counted as impoverished?

Oxfam directly addresses this issue, pointing out that if you take out net debt then the wealth of the bottom 50% rises from around US$400 billion to US$1.5 trillion. This means the wealth of the bottom half is roughly equal to the richest 56 individuals in the world.

While this figure is not as dramatic as focusing only on the richest 8 people, it still shows enormous disparities in wealth.

The second issue relates to the fact that Credit Suisse uses market exchange rates to convert wealth within countries to US dollars, as does the Forbes billionaires list. This means that estimated wealth can be sensitive to exchange rate fluctuations. For example, average wealth per adult in Australia dropped by more than US$40,000 – or nearly 10% – between 2012 and 2016, largely due to a falling Australian dollar.

Oxfam argues that exchange rate fluctuations cannot explain the stability of the share of the bottom 50% of the world, who have not had more than 1.5% of the world’s wealth since 2000. This is a reasonable point, but at the same time the more widely accepted way of comparing economic circumstances across countries is to use Purchasing Power Parities. This gives a better representation of the purchasing power of people using different currencies by eliminating the differences in price levels between countries.

For example, in his study of global income inequality, Branko Milanovic argues that to calculate true global income inequality we have to adjust for the fact that if we are interested in the real welfare of people, those living in ‘cheaper’ countries get a boost to their incomes because price levels tend to be lower.

Using exchange rates ignores this effect, with the likely result that measured inequality is higher using the exchange rate approach used by Credit Suisse.

THE VERDICT

The data used to estimate the distribution of global wealth inevitably has significant technical limitations, but it certainly appears that it is the best available.

If we disregard debt then the extent of the disparity between the wealthiest minority and the poorest majority is likely to be lower, but the disparities still remain massive. There are arguments for using purchasing power parities rather than market exchange rates to adjust for differences in wealth across countries, but it remains unclear whether this would make a significant difference to global wealth disparities.

DISCLOSURE STATEMENT

Peter Whiteford has received funding from the Australian Research Council. He is affiliated with the Centre for Policy Development and with the Chifley Research Centre Commission on Inclusive Prosperity.

Peter Whiteford is Professor, Crawford School of Public Policy, Australian National University.

THE CONVERSATION

GLOBAL WEALTH REPORT: WHERE ARE WE TEN YEARS AFTER THE CRISIS?

As shown in the latest edition of the Global Wealth Report by the Credit Suisse Research Institute, total global wealth has now reached USD 280 trillion and is 27 per cent higher than a decade ago at the onset of the financial crisis.

US gains account for half of global wealth increase

In the past 12 months, total global wealth grew by 6.4 per cent. It is the fastest pace of wealth creation since 2012 and one of the best results since the financial crisis. Moreover, as wealth increased faster than the population, global mean wealth per adult reached a new record high of USD 56,540.

Comparing wealth gains across countries, the United States is an unquestionable leader. The country continued its remarkable unbroken spell of gains after the financial crisis and added USD 8.5 trillion to the stock of global wealth. In other words, the US generated more than half of the total global wealth aggregation of USD 16.7 trillion of the past 12 months.

“So far, the Trump Presidency has seen businesses flourish and employment grow, though the ongoing supportive role played by the Federal Reserve has undoubtedly played a part here as well, and wealth inequality remains a prominent issue,” commented Michael O’Sullivan, CIO for International Wealth Management at Credit Suisse.

“Looking ahead, however, high market valuations and property prices may curb the pace of growth in future years.”

Poland with biggest increase in percentage terms

In line with global wealth growth, wealth in Europe increased by 6.4

CHANGE IN HOUSEHOLD WEALTH 2016-2017, BY REGION

per cent thanks to stability spread across the continent. From Europe, Germany, France, Italy, and Spain made it into the top ten countries with the biggest gains in absolute terms.

Converted into percentage terms, the biggest household wealth gain globally was recorded in Poland. The increase of 18 per cent was driven mainly by rising equity prices.

Switzerland continues to lead the ranking in terms of both average and median wealth per adult in 2017, the latter favouring countries with higher levels of wealth equality. Since the turn of the century, wealth per adult in Switzerland has risen by 130 per cent to USD 537,600.

China is catching up

While the majority of wealth is still held by high-income economies in North America, Europe, and Asia Pacific (excluding China and India), new wealth creators are becoming more visible. China, after suffering losses of 20 per cent during the crisis, quickly overtook its pre-crisis level of wealth growth. This year, its pace of wealth creation caught up with the pace of Europe, and its input to wealth creation became strong global players.

Last but not least, all levels of society were benefitting from the rewards. While global mean wealth per adult grew at 7 per cent per year between 2000 and 2007, the bottom half of wealth holders did even better: Median wealth per adult grew at 12 per cent per year.

In 2007 the global financial crisis brought this episode of growth to a halt, wiping 12.6 per cent off global wealth.

Wealth inequality as heritage of crisis

Shortly after the crisis, wealth growth resumed. It has managed to recoup the lost ground and rise further, but the average pace of growth has been less than half the pre-crisis rate.

In the 12 months to mid-2017, significant rises in wealth were evident throughout the world, driven not only by robust equity markets, but also by substantial increases in non-financial wealth. It may signal that we are reverting to the pre-crisis pattern of growth.

The remaining negative heritage of the financial crisis is wealth inequality. It has been rising in all parts of the world since 2007. As calculated by the report authors, the top 1 per cent of global wealth holders started the millennium with 45.5 per cent of all household wealth, but their share has since increased to a level of 50.1 per cent today.

Wealth outlook for the next five years

According to the report, global wealth should continue to grow at a similar pace to the last half a decade and is anticipated to reach USD 341 trillion by 2022.

Emerging economies are expected to generate wealth at a faster pace than their developed peers, and are likely to achieve a 22 per cent share in global wealth at the end of the five-year period. Unsurprisingly, the strongest contribution is expected from China and is estimated at around USD 10 trillion, an increase of 33 per cent.

The outlook for the millionaire segment is more optimistic than for the bottom of the wealth pyramid (less than 10,000 dollars per adult). The former is expected to rise by 22 per cent, from 36 million people today to 44 million in 2022, while the group occupying the lowest tier of the pyramid is expected to shrink by only 4 per cent.

ABOUT THE GLOBAL WEALTH REPORT

The eighth edition of the Global Wealth Report published by the Credit Suisse Research Institute provides the most comprehensive and up-to-date source of information available on global household wealth. The Global Wealth Report is compiled from data on the wealth holdings of 4.8 billion adults across approximately 200 countries – from billionaires in the top echelon to the middle and bottom sections of the wealth pyramid. The robust methodology, established over many years of analysis, provides transparent information on the Global Wealth Report’s underlying sources and their quality.

ALLIANZ GLOBAL WEALTH REPORT: RECOVERY IN TURBULENT TIMES

Allianz has unveiled the eighth edition of its annual Global Wealth Report, which puts the asset and debt situation of households in more than 50 countries under the microscope. 2016 was politically a very turbulent year, but private wealth shrugged it off: After a weaker 2015 (+4.7 per cent), financial assets grew again by 7.1 per cent last year, more or less matching the post-crisis average. Worldwide, financial assets climbed to a new record high of almost 170 trillion euros.

STOCK MARKETS FUEL GROWTH – BUT SAVERS PREFER TO PUT THEIR MONEY INTO BANKS

Last year’s good performance owed a lot to the year-end rally on stock markets, in particular in industrialised countries. Almost 70 per cent of asset growth last year was attributable to changes in the value of portfolios, only 30 per cent was due to original savings; the year before, it was the other way round. The composition of fresh savings is quite surprising. Private savers sold more securities than they bought but poured as much as two-thirds of fresh funds into banks – a new record high.

“The saving behaviour of private investors is still decidedly risk-averse,” said Michael Heise, chief economist of Allianz.

While financial assets grew over the last few years mainly thanks to the good performance on securities markets, new money is mostly put into bank accounts, not least in industrialised countries. But here, they not only generate no returns but actually suffer real losses: In 2016 alone, savers are thought to have lost around 300 billion euros owing to inflation; this year, with rising inflation, the figure might be twice as high. For decision makers in the financial industry, the economy and politics, solving this paradox is one of the biggest challenges in the coming years: How can we create the backdrop that households not only save, but invest, with a long-term horizon and decent returns? Against the backdrop of the necessary build-up of old-age provisions on the one hand and the need to increase real investments in our economy on the other, we are not making the most of the chances global financial wealth offers.

ASSET GROWTH ACCELERATES IN INDUSTRIALISED COUNTRIES

Last year’s acceleration in growth came mostly from industrialised countries, where asset growth doubled to 5.2 per cent. However, Asia (excluding Japan) was once again the uncontested leader in 2016, with growth of 15 per cent. In a long-term comparison, too, Asia (excluding Japan) is the dominant region, particularly when inflation is also taken into account. Gross per capita financial assets in Asia (excluding Japan) grew by almost 11 per cent per year in real terms in the last decade.

The other two emerging regions, Latin America and Eastern Europe, achieved growth of only about 5 per cent, which was still more than twice as fast as the growth rates in North America (+2.1 per cent real growth since 2006) and Western Europe (+1.4 per cent). As a consequence, the three regions of Latin America, Eastern Europe and Asia (excluding Japan) accounted for just under 23 per cent of global gross financial assets in 2016. This share has more than doubled over the last ten years.

Emerging markets have an even bigger weighting when it comes to asset growth, with 42 per cent of the last decade’s growth attributable to this group of countries. However, this is largely due to the development in China, which alone accounted for roughly 30 per cent of global growth since 2006.

DEBT IS GROWING FASTER THAN THE ECONOMY

Global household liabilities increased by 5.5 per cent in 2016, the highest rate of growth since 2007. That means that debt also rose faster than nominal economic output for the first time since 2006.

TOP 20 IN 2016 BY NET PER CAPITA FINANCIAL ASSETS

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Net Per Capita Financial Assets (in EUR)</th>
<th>y-o-y in %</th>
<th>Rank 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>177,210</td>
<td>5.8</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>Switzerland</td>
<td>175,720</td>
<td>2.7</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>96,890</td>
<td>1.8</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Sweden</td>
<td>95,050</td>
<td>7.0</td>
<td>14</td>
</tr>
<tr>
<td>5</td>
<td>Taiwan</td>
<td>92,360</td>
<td>9.6</td>
<td>12</td>
</tr>
<tr>
<td>6</td>
<td>Belgium</td>
<td>92,080</td>
<td>4.3</td>
<td>4</td>
</tr>
<tr>
<td>7</td>
<td>Singapore</td>
<td>89,750</td>
<td>7.9</td>
<td>15</td>
</tr>
<tr>
<td>8</td>
<td>Netherlands</td>
<td>87,980</td>
<td>9.4</td>
<td>9</td>
</tr>
<tr>
<td>9</td>
<td>Canada</td>
<td>87,590</td>
<td>7.8</td>
<td>8</td>
</tr>
<tr>
<td>10</td>
<td>New Zealand</td>
<td>86,030</td>
<td>0.6</td>
<td>7</td>
</tr>
<tr>
<td>11</td>
<td>UK</td>
<td>84,080</td>
<td>8.6</td>
<td>5</td>
</tr>
<tr>
<td>12</td>
<td>Denmark</td>
<td>81,590</td>
<td>2.8</td>
<td>13</td>
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<tr>
<td>13</td>
<td>Israel</td>
<td>73,330</td>
<td>5.4</td>
<td>10</td>
</tr>
<tr>
<td>14</td>
<td>Australia</td>
<td>67,390</td>
<td>8.8</td>
<td>19</td>
</tr>
<tr>
<td>15</td>
<td>France</td>
<td>56,040</td>
<td>6.3</td>
<td>11</td>
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<tr>
<td>16</td>
<td>Italy</td>
<td>54,530</td>
<td>0.2</td>
<td>6</td>
</tr>
<tr>
<td>17</td>
<td>Austria</td>
<td>51,980</td>
<td>2.0</td>
<td>17</td>
</tr>
<tr>
<td>18</td>
<td>Germany</td>
<td>49,760</td>
<td>5.2</td>
<td>18</td>
</tr>
<tr>
<td>19</td>
<td>Ireland</td>
<td>45,100</td>
<td>6.6</td>
<td>16</td>
</tr>
<tr>
<td>20</td>
<td>Finland</td>
<td>28,650</td>
<td>4.8</td>
<td>20</td>
</tr>
</tbody>
</table>

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Despite the emergence of a new global wealth middle class, the world as a whole is still a long way from a ‘fair’ distribution of wealth ... the richest 10% of the world together own 79% of net financial assets.

Increased by almost 1 percentage point to 64.6 per cent. The picture varied widely between individual regions.

Growth accelerated slightly – starting from a moderate level – in Western and Eastern Europe and in North America. Latin America experienced a further decline in growth. In Asia (excluding Japan), on the other hand, debt growth rose sharply by a further four percentage points to just under 17 per cent; at the top were Chinese households which ratcheted up their liabilities by a whopping 23 per cent. That means that this region accounts for almost 20 per cent of global private liabilities of just under 41 trillion euros, compared with less than 7 per cent ten years ago.

“The debt situation in China should be closely monitored,” commented Michaela Grimm, co-author of the report.

“Although the debt ratio of households is not yet in the danger zone, dynamics are alarming: the ratio jumped by 17 percentage points in the last five years, and by almost six points in 2016 alone – both figures are globally outstanding. Just to compare: in the five years prior to the Great Financial Crisis, the debt ratio in the USA increased by roughly 20 percentage points. The Chinese supervisors should not make the mistake to believe that China would be immune to a financial crisis; timely countermeasures would be better.”

Despite the steep rise in debt, net financial assets – gross financial assets minus debt – reached a new global record high of 128.5 trillion euros at the close of 2016. That represents an increase of 7.6 per cent year-on-year. Although this is slightly below average for the years since the crisis, it is well above the previous year’s growth of 4.8 per cent.

**U.S. AT THE TOP FOR THE FIRST TIME**

At the top of the list of the 20 richest countries (net financial assets per capita, see table), a changing of the guard occurred in 2016, with the United States capturing the top spot from Switzerland. However, its lead is razor-thin and some of the credit goes to a stronger dollar. Japan managed to retain the third position – thanks to a statistical revision which reduced household debt by almost a fifth. Otherwise, the list gives the now usual picture, with Scandinavian and Asian countries dominating. There is in fact only one country from the eurozone still included in the Top 10 in both lists (net and gross): the Netherlands.

**GLOBAL WEALTH DISTRIBUTION SLOWLY EVENING OUT**

Development of global wealth distribution since the turn of the millennium has been defined by one phenomenon in particular: rampant growth in the global wealth middle class. The number of people belonging to this category has more than doubled during this period, from around 450 million in 2000 to over 1 billion today. The vast majority of those joining the middle class have come from the wealth lower class, with almost 600 million people making the leap since 2000.

Despite the emergence of a new global wealth middle class, the world as a whole is still a long way from a ‘fair’ distribution of wealth. If we divide the population of the countries we have analysed into global population deciles based on net per capita financial assets, it becomes clear that the richest 10 per cent of the world together own 79 per cent of net financial assets. Nevertheless, the concentration of wealth was still as high as 91 per cent in 2000.

1. Financial assets include cash and bank deposits, receivables from insurance companies and pension institutions, securities (shares, bonds and investment funds) and other receivables.

2. The classification of wealth classes is based on global average net per capita financial assets. In 2016, these came to 25,510 euros. The global wealth middle class includes all individuals with assets of between 30 per cent and 180 per cent of the global average. This means that for 2016, asset thresholds for the global wealth middle class are 7,700 euros and 45,900 euros.

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WORKSHEETS AND ACTIVITIES

The Exploring Issues section comprises a range of ready-to-use worksheets featuring activities which relate to facts and views raised in this book.

The exercises presented in these worksheets are suitable for use by students at middle secondary school level and beyond. Some of the activities may be explored either individually or as a group.

As the information in this book is compiled from a number of different sources, readers are prompted to consider the origin of the text and to critically evaluate the questions presented.

Is the information cited from a primary or secondary source? Are you being presented with facts or opinions?

Is there any evidence of a particular bias or agenda? What are your own views after having explored the issues?

CONTENTS

BRAINSTORM 50
WRITTEN ACTIVITIES 51
DISCUSSION ACTIVITIES 52
RESEARCH ACTIVITIES 53
DESIGN ACTIVITIES 54
MULTIPLE CHOICE 55
Brainstorm, individually or as a group, to find out what you know about global poverty and inequality.

1. What does the term ‘extreme poverty’ mean, and what are some of its causes?

2. What are the Sustainable Development Goals, and why were they developed?

3. What do the letters ‘GDP’ and ‘GNI’ refer to in relation to global poverty and wealth inequality, and in what context are they used?

4. What is foreign aid, and how does it help to address poverty?
Complete the following activities on a separate sheet of paper if more space is required.

In most countries, the gap between rich and poor is at its highest level in 30 years. Today, in OECD countries, the richest 10% of the population earn 9.6 times the income of the poorest 10%.

OECD, *In It Together: Why Less Inequality Benefits All*.

Consider the above statement, and in the spaces below write at least two paragraphs explaining the possible impacts that wealth inequality can have in the following three areas. In your written answers, provide detailed examples of these impacts, including information relating to topics such as gender, education, health and employment. Suggest your own ideas for potential solutions where relevant.

SOCIETY

ECONOMY

POLITICS
Complete the following activity on a separate sheet of paper if more space is required.

“Despite the progress made in reducing poverty, the number of people living in extreme poverty globally remains unacceptably high.”

The World Bank, Poverty Overview.

Form into groups of two or more people and consider this statement. Discuss your own ideas on ways in which extreme poverty could be addressed globally. From your discussions identify four (4) different areas that you feel could be tackled, and explain how. List these areas and your plans on how to address each of them individually. Discuss your poverty reduction proposals with other groups in the class.

According to the World Bank, people are considered to be living below the International Poverty Line if they live on less than $1.90 per day.

In groups of two or more people, discuss what you think would be the lowest amount of money that you could live on each day, on average, in Australia. Determine how much money that would be per week, per month and per year. Develop a budget to explain how you would spend the money most productively to cover your basic, essential living expenses. Make a list of priority items, as well as a list of things you could no longer afford. Discuss your thoughts with other groups in the class.
Complete the following activity on a separate sheet of paper if more space is required.

“It is not just important to reduce inequality to make society more fair. Equal societies are associated with other important outcomes. As well as political and social stability, education, crime and financial stability may all suffer when inequality is high.”

Savoia, A, *Global inequality is on the rise – but at vastly different rates across the world.*

Use the internet to research the latest available wealth inequality data for four (4) countries around the world. In your answers identify: the country, the year/s relevant to statistics, the details of your findings, and the sources of your data (include URLs). Also explain in your answer how the current state of inequality in each of your selected countries affects their economy and living and working conditions.

1. 

2. 

3. 

4. 

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Complete the following activities on a separate sheet of paper if more space is required.

Use your data findings from the research activities on the previous page (page 53) to complete both of the following design activities.

1. Using the statistical results from your completed research activities on the previous page, design a single graph or table to clearly illustrate the comparative data for all four (4) countries identified. Include in your answer: the choice of graph/table, colours/patterns, methodology, and keys (if relevant) for interpretation of the data.

2. Using the graph or table created above, design an A4-sized educational poster to inform people about wealth inequality. Also feature in your poster design headings, subheadings and explanatory text. Include relevant colour schemes and any images you feel would be relevant. Explain whether you would use illustrations, photographs or a combination of both, and why.
Complete the following multiple choice questionnaire by circling or matching your preferred responses. The answers are at the end of the following page.

1. According to current estimates, approximately how many people still live in ‘extreme poverty’ worldwide?
   a. 7,000
   b. 70,000
   c. 700,000
   d. 7 million
   e. 70 million
   f. 700 million
   g. 7 billion

2. In what year did the world attain the first Millennium Development Goal target to cut the 1990 poverty rate in half?
   a. 1995
   b. 1997
   c. 2000
   d. 2005
   e. 2007
   f. 2010
   g. 2015

3. What do the letters ‘UBI’ stand for in relation to wealth inequality?
   a. Unequal base income
   b. Unnecessary banking instrument
   c. Universal basic inequality
   d. Urban banking institutions
   e. Universal basic income
   f. Unequal bank instalments

4. As of October 2015, what is the monetary figure (per day) used by the World Bank to determine whether people are living below the International Poverty Line?
   a. $1.00
   b. $1.25
   c. $1.90
   d. $10.00
   e. $12.50
   f. $19.00

5. In 1970, the United Nations agreed that developed countries should provide what percentage of their gross national income towards their foreign aid budget?
   a. 0%
   b. 0.1%
   c. 0.7%
   d. 1%
   e. 7%
   f. 10%
   g. 10.7%
6. In the United States, approximately how long would it take for a company CEO to earn what an ordinary worker would make in one year? (Source: Oxfam, 2018)
   a. One minute
   b. One hour
   c. One working day
   d. One working week
   e. One working month
   f. Six working months

7. Which of the following are specific targets of the United Nation’s Sustainable Development Goal 10: reduce inequality within and among countries? (select any that apply)
   a. By 2030, eradicate extreme poverty for all people everywhere.
   b. Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard.
   c. Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality.
   d. By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.
   e. By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average

8. Respond to the following statements by circling either ‘True’ or ‘False’:
   a. The wealthiest 1% of population own half of all household wealth in the world. True / False
   b. More than 700 million people still live in extreme poverty and are struggling to fulfil the most basic needs like health, education, and access to water and sanitation. True / False
   c. A large majority of the global poor live in urban areas. True / False
   d. Wealth is defined as all assets minus debts. True / False
   e. It has been calculated that to end extreme poverty worldwide in 20 years, the total cost per year would be about $175 billion (US dollars). True / False

MULTIPLE CHOICE ANSWERS
1 = f; 2 = f; 3 = e; 4 = c; 5 = c; 6 = c; 7 = b, c, d, e; 8 – a = T, b = T, c = F (The vast majority of the global poor live in rural areas. are poorly educated and mostly employed in the agricultural sector, over half are under 18 years of age, d = 1, e = 1, f = 1, g = 1, h = 1, i = 1, j = 1, k = 1, l = 1, m = 1, n = 1, o = 1, p = 1, q = 1, r = 1, s = 1, t = 1, u = 1, v = 1, w = 1, x = 1, y = 1, z = 1)}
More than 700 million people still live in extreme poverty and are struggling to fulfil the most basic needs like health, education, and access to water and sanitation (UN, No poverty: why it matters). (p.1)

The overwhelming majority of people living on less than $1.90 a day live in Southern Asia and sub-Saharan Africa and they account for about 70% of the global total of extremely poor people (ibid). (p.1)

Right now there are 30 million children growing up poor in the world’s richest countries (ibid). (p.1)

In 2013, an estimated 767 million people lived below the international poverty line of $1.90 a day – down from 1.7 billion people in 1990 (UN, Sustainable Development Goal 1: end poverty in all its form everywhere). (p.4)

In 2016, only 22% of unemployed individuals worldwide received unemployment benefits (ibid). (p.4)

There has been marked progress on reducing poverty over the past decades. The world attained the first Millennium Development Goal target – to cut the 1990 poverty rate in half by 2015 – 5 years ahead of schedule, in 2010 (World Bank, Poverty overview). (p.5)

In 1981, the entire Chinese population lived below $3.10. Today less than 12% of the population live below this threshold (Ortiz-Ospina, E, and Beltekian, D, Extreme poverty is falling: how is poverty changing for higher poverty lines?). (p.9)

Military assistance was considered a form of foreign aid until the 1950s. While some countries still provide military assistance and equipment to other countries, it is usually termed foreign military assistance (Wells, J, Foreign aid and its importance in relieving poverty). (p.16)

Nearly 1 in 5 people in developing countries still live in extreme poverty on less than $1.25 a day and 96% of these people live in countries that are politically fragile, environmentally vulnerable or both (ibid). (p.17)

The highest level of ODA as a per cent of GNI ever reached by Australia was 0.66% in 1975. This means that in 1975 for every $100 of income, 66 cents was contributed to development-focussed foreign aid (ibid). (p.18)

The 2001, US-Vietnam free trade agreement reduced poverty in Vietnam by increasing wage premiums in export sectors, spurring job reallocation from agriculture, forestry and fishing into manufacturing, and stimulating enterprise job growth (Revenga, A, and Gonzalez, A, Trade has been a global force for less poverty and higher incomes). (p.20)

From 2007 to 2012, the average income of some of the poorest families in more than 50 countries, particularly in Latin America and the Caribbean, and Asia, grew faster than their national averages, reducing the income inequality in those countries (United Nations, Equality: why it matters). (p.22)

In most countries, the gap between rich and poor is at its highest level since 30 years. Today, in OECD countries, the richest 10% of the population earn 9.6 times the income of the poorest 10% (OECD, In it together: why less inequality benefits all). (p.25)

Women have made substantial progress in narrowing the participation, pay and career gap with men and this has put a brake on rising inequality. But they are still about 16% less likely to be in paid work and earn about 15% less than men (ibid). (p.25)

Wealth is much more concentrated than income: on average, the 10% of wealthiest households hold half of total wealth, the next 50% hold almost the other half, while the 40% least wealthy own little over 3% (ibid). (p.26)

The Middle East is perhaps the most unequal region, where the top 10% of income earners have consistently captured over 60% of the nation’s income (Savoia, A, Global inequality is on the rise – but at vastly different rates across the world). (p.32)

Economic inequality is largely driven by the unequal ownership of capital, which can be either privately or public-owned, and is substantially more concentrated than income (Sheil, C, The cutting edge of inequality). (p.36)

Canada’s private wealth more than doubled between 1970 and 2016, from around 250% of net national income to more than 550%, while Australia’s rise was from slightly less than 50% of national income to over 550% (ibid). (p.36)

82% of the wealth generated last year (2017) went to the richest 1% of the global population, while the 3.7 billion people who make up the poorest half of the world saw no increase in their wealth (Oxfam International, Richest 1% bagged 82% of wealth created last year – poorest half of humanity got nothing). (p.40)

It takes just 4 days for a CEO from 1 of the top 5 global fashion brands to earn what a Bangladeshi garment worker will earn in her lifetime (ibid). (p.40)

Across the world, women consistently earn less than men and are usually in the lowest paid and least secure forms of work. By comparison, 9 out of 10 billionaires are men (ibid). (p.40)

A global tax of 1.5% on billionaires’ wealth could pay for every child to go to school (ibid). (p.40)

The richest are accumulating wealth at such an astonishing rate that the world could see its first trillionaire in just 25 years. To put this figure in perspective – you would need to spend $1 million every day for 2,738 years to spend $1 trillion (Oxfam International, Just 8 men own same wealth as half the world). (p.43)

At the top of the list of the 20 richest countries, a changing of the guard occurred in 2016, with the United States capturing the top spot from Switzerland. However, its lead is razor-thin and some of the credit goes to a stronger dollar (Allianz, Allianz Global Wealth Report: recovery in turbulent times). (p.48)

Development of global wealth distribution since the turn of the millennium has been defined by one phenomenon in particular: rampant growth in the global wealth middle class. The number of people belonging to this category has more than doubled during this period, from around 450 million in 2000 to over 1 billion today (ibid). (p.48)
Global Poverty and Wealth Inequality

**Absolute poverty**
Absolute poverty or abject poverty is a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services. The term ‘absolute poverty’ is usually synonymous with ‘extreme poverty’.

**Developed country**
A developed country, industrialised country, more developed country, or more economically developed country (MEDC), is a sovereign state that has a developed economy and advanced technological infrastructure relative to other less industrialised nations. The most common criteria for evaluating the degree of economic development are: per capita income, level of industrialisation, amount of widespread infrastructure and general standard of living.

**Developing country**
A developing country – or a low- and middle-income country (LMIC), less developed country, less economically developed country (LEDC), underdeveloped country, or poor country – is a country with a less developed industrial base and a low Human Development Index (HDI) relative to other countries. A nation’s GDP per capita compared with other nations can also be a reference point. However, this definition is not universally agreed upon.

**Development assistance**
Development assistance is distinguished from humanitarian aid by focusing on alleviating poverty in the long term, rather than a short-term response.

**Extreme poverty**
According to the International Poverty Line, people are considered to be in ‘extreme poverty’ if they live on less than $1.90 per day, or the equivalent amount after converting currencies and adjusting for price differences between countries. This is the definition used by the World Bank and many other international institutions.

**Foreign aid**
Financial or technical help given by one country’s government to another country to assist social and economic development or to respond to a disaster in the receiving country. Foreign aid can involve providing financial grants or loans, technical advice, training, equipment and commodities such as food, health, infrastructure and transport.

**Inequality**
Excessive inequality in any society is harmful. When people with low incomes and wealth are left behind, they struggle to reach a socially acceptable living standard and to participate in society. This causes divisions in our society. Too much inequality is also bad for the economy. When resources and power are concentrated in fewer hands, or people are too impoverished to participate effectively in the paid workforce, or acquire the skills to do so, economic growth is diminished. There are two key measures of inequality: *income inequality* (how much income is received by a person or household) and *wealth inequality* (how much wealth is held by a person or household). Wealth inequality is higher in Australia than income inequality.

**Official development assistance**
ODA is defined by the OECD Development Assistance Committee (DAC) as government aid that promotes and specifically targets the economic development and welfare of developing countries.

**Poverty**
The state of being without the necessities of daily living, often associated with need, hardship and lack of resources across a wide range of circumstances. Internationally, people who lack food and shelter for minimal needs are said to be living in absolute poverty. Poverty in Australia, however, is generally relative poverty. People are considered to be poor if their living standards fall below an overall community standard, and they are unable to participate fully in the ordinary activities of society.

**Poverty gap**
The poverty gap index is a measure of the intensity of poverty. It is defined as the average poverty gap in the population as a proportion of the poverty line.

**Poverty line**
The poverty threshold, poverty limit or poverty line is the minimum level of income deemed adequate in a particular country. In practice, like the definition of poverty, the official or common understanding of the poverty line is significantly higher in developed countries than in developing countries.

**Relative poverty**
When a group in society receives significantly less than the average person in that society. Poverty can also be measured in relative terms, where the poverty line is set as some proportion of the average income or wealth of the society. There are many different ways to calculate relative poverty, resulting in different levels of poverty, and researchers often argue about where the line should be drawn.

**Sustainable Development Goals**
The SDGs were developed to succeed the Millennium Development Goals which ended in 2015. The SDGs are a collection of 17 global goals set by the United Nations Development Programme with an agenda deadline of 2030. The goals are broad and interdependent, yet each has a separate list of targets to achieve. Achieving all 169 targets would signal accomplishing all 17 goals. The SDGs cover issues including poverty, inequality, hunger, health and wellbeing, education, gender equality, water and sanitation, energy, urbanisation, sustainable economic growth and climate action.
Websites with further information on the topic

Credit Suisse Research Institute  www.credit-suisse.com/corporate/en/research/research-institute.html
International Monetary Fund (IMF)  www.imf.org
Our World in Data  https://ourworldindata.org
Oxfam International  www.oxfam.org
United Nations Development Programme  www.undp.org
United Nations (Sustainable Development Goals)  www.un.org/sustainabledevelopment
World Bank  www.worldbank.org
World Economic Forum  www.weforum.org
World Inequality Database  https://wid.world

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