THE CHALLENGE OF INEQUALITY:

TIME FOR CHANGE

Background report for the Symposium on

Income Inequality, Labour Market Institutions and Workers' Power,

10 -13 December 2013, Geneva

First published 2013

ILO Cataloguing in Publication Data

The Challenge of Inequality: Time for Change
ISBN 978-92-2-128249-5 (print), ISBN 978-92-2-128250-1 (web pdf)

Also available in French: *Le défi des inégalités: des changements s'imposent* (ISBN 978-92-2-228249-4 (print), 978-92-2-228250-0 (web pdf)), Geneva, 2013, in Spanish: *El reto de la desigualdad: Es hora de cambiar* (ISBN 978-92-2-328249-3 (print), 978-92-2-328250-9 (web pdf)), Geneva, 2013.

Printed in Italy

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PREFACE

Among the achievements of the labour movement in its long history, one of the most significant is certainly its contribution to reducing inequalities. Throughout the 20th century, by organizing an increasing number of workers within the fold of collective bargaining and by mobilizing its membership for better working conditions and social protection programs, trade unions were key architects of industrial democracy and the welfare state. It is probably fair to say that trade union actions helped to give rise to what came to be known as the "middle-class". Still to this day, the strength of the welfare state and the level of equality in our societies remain tightly bound with trade union bargaining coverage.

History took a sharp turn in the 1980s, when the groundwork was laid for the slow dismantling of the institutional settings that had allowed for an impressive reduction of inequalities. These very institutions that made life better for the vast majority of workers were suddenly deemed nefarious by critics for allegedly removing the incentives for work and entrepreneurship and for becoming too costly to maintain. In other words, equality might be a nice idea, but one that was bad for economic development. Looking back, it is indeed impressive to witness the notion of a trade-off between equality and development becoming the dominant ideology – one that is increasingly unquestioned in mainstream discussions. The establishment of a new economic world order through the liberalization of financial and trade flows, through the numerous rounds of structural adjustment programs and through the establishment of global supply chains further led to the weakening of both organized labour's and governments' capacity to deliver on their promises of economic and social security. In fact, the more the world became neoliberal, the more difficult it seemed to step out of the policy mind frame that accepted growing inequalities.

Then came the financial collapse of 2008, which laid bare some of the grossest dysfunctions of this scaffolding. Those who were most responsible for a crisis that cost trillions of dollars and nearly threw the planet into a world depression hardly missed a paycheck while tens of millions were thrown into unemployment and precarity. The toll taken by the neoliberal policy experiment in terms of inequality and insecurity has become evident to all. In many circles, it has prompted a welcome change in discourse: it is no longer simply growth that is needed, but "inclusive" growth. However, even if on the surface the objective has changed, the policies, for the most part, have not. It is evident that meaningful policy change will not be achieved without serious pressure from trade unions and other groups in civil society. The purpose of this year's ACTRAV symposium is to reflect on the roots of growing inequalities and what can be done to overcome them. This background report is offered as a modest primer for our discussions, not as the final statement on the issue. It is our hope that the discussions will lead to honest and frank exchanges about the current state of affairs and bring us to challenge one another on old and new ways of bringing about changes. The cause we serve deserves no less.

Maria Helena Andre (Director, Bureau for Workers' Activities, ILO)

EXECUTIVE SUMMARY

This report tackles one of the most encompassing challenges of our time: inequality. It is argued that inequality is not an irrevocable phenomenon, but a political choice that has been actively promoted in the past. Liberalisation of trade and capital markets have led to a dictate of competitiveness while fiscal, monetary, and labour market polices have weakened the position of labour and strengthened transnational capital, particularly in the finance sector. With the shrinking scope for redistributive policies, inequality has grown both on a global scale and within most countries. In many countries, economic gains are mainly benefitting people at the higher end of the income pyramid, while the majority of the population has struggled amid widespread wage restraint. In this situation, women, minorities and migrants are particularly left behind.

As recent research has shown, high levels of inequality have a consistently negative impact on welfare indicators such as life expectancy, literacy, infant mortality, homicide, mental illness and social mobility. In addition, this report shows how inequality threatens other key factors of human well-being including democracy, public security, social stability and economic and environmental sustainability. After tracing and countering the neoclassical discourse in favour of inequality, this paper advances three sets of policy options for achieving greater equality.

To increase the income share of the bottom 40 per cent of the population, aspects such as Freedom of Association, minimum wages, social protection floors and universally accessible public services are crucial. For capping the income growth of the highest income groups, policies such as progressive taxation, regulation of the financial sector, salary ceilings for management and automatic marginal tax raises as well as the elimination of tax havens are needed. Finally, the middle income group needs to be strengthened by increasing employment security and reducing precarious employment, extending collective bargaining coverage, strengthening responsible public procurement, establishing comprehensive social security systems, promoting economic democracy, strengthening high-quality public services and combating housing segregation.

The traditional core areas of union activities - labour market institutions and social policies - are crucial to achieving greater equality. However, this needs to be complemented by consistently high levels of public investment, universal public services, and policy measures that tackle widespread tax fraud and evasion as well as the power of the financial sector and multinational companies.

Despite broad public support for better social security systems, high-quality public services and protective labour legislation, many governments use the global economic crisis as a pretext to attack these institutions even more vigorously.

The enormous task of the labour movement is therefore to translate the public desire for more equality into real political pressure. This can be achieved by creating an alliance of the middle income group with the bottom 40 per cent

against the top 10 per cent income groups which has increased its income share in nearly all societies. Where labour, as the traditional defender of social justice, succeeds in building inclusive alliances beyond its traditional core constituency of blue-collar skilled male workers, much needed policy space can be regained - even under the difficult conditions of globalisation. This Symposium provides the opportunity to discuss ideas, experiences and strategies to move towards more equitable and inclusive societies.

1. THE WINNERS TAKE TOO MUCH AND THE LOSERS ARE TOO NUMEROUS

> Overcoming poverty is not a task of charity, it is an act of justice. Like slavery and Apartheid, poverty is not natural. It is man-made and it can be overcome and eradicated by the actions of human beings." (Nelson Mandela)

Inequality is nothing new. What changes over time are the justifications for and the varying degrees of inequality. Great ancient Greek Philosophers like Aristotle saw slavery as the indispensable economic basis of an elite democracy, the Indian caste system secured the privileges of the elite by creating insurmountable barriers between social groups, and European feudalism made upward social mobility virtually impossible. Colonialism reintroduced slavery based on race as the 'white man's burden', and after millennia of patriarchy the feminist revolution of the twentieth century challenged the 'natural' inequality between women and men. In every society, there is a dominant religion, ideology or 'discourse' that legitimizes existing inequality. Whether God's will, natural order, tradition, inheritance, systemic functionality or meritocracy fulfils this legitimizing function is not a question of right or wrong, but one of belief. Legitimizing discourses are most effective when the poor agree that inequality is good for them, and when the rich have no doubts that they deserve to be at the top.

The current situation is morally indefensible: more than 840 million people are starving (FAO 2013), hundreds of millions die because of insufficient health provisions (WHO 2013), and even in some rich societies 15 to 20 per cent of children grow up in poverty (UNICEF 2007). Nineteen thousand children under the age of five die every day worldwide mainly from preventable, poverty-related causes (UNICEF 2011). The top 8 per cent of the world population gets one half of the world's income, while the other half goes to the other 92 per cent of the world's population (Milanovic 2012, p.8). However, the human desire for more equality and greater equity is as old as inequality. People stood up, demonstrated, protested, voted, and fought against social injustice and unbearable levels of inequality throughout history.

2. DRIVERS OF INEQUALITY

Income among the top income earners skyrocketed under unfettered globalisation and the ability of societies to create fairer outcomes through redistribution policies has declined. In most countries, wage growth has been trailing gains in productivity to the extent that even where wages have been increasing, the wage share of the Gross Domestic Product (GDP) has been falling.

The underlying forces behind this have been a set of mutually reinforcing trade, capital market, fiscal, monetary and labour market policy interventions. These policies shifted profit from the real economy to the financial sector, weakened workers' individual and collective bargaining positions, and eroded the capacity of governments to tax capital.

Capital mobility and a myriad of new financial instruments are used as powerful tools to demand concessions from workers and governments and generate the exorbitant profit rates in the financial sector, which allowed it to accrue 40 per cent of all corporate profits in the US (Stiglitz 2012). The rising share of profits absorbed in the financial sector has resulted in a decline in real investment despite historically high levels of overall profitability. This was no accident, but the outcome of 30 years of coherent policy lobbying to free capital from rules and regulations determined by nation states. The increased structural and political power of insufficiently regulated capital markets resulted in increased pressure to abolish labour market regulations that protect workers and support collective representation and collective bargaining. This has led to the growth of precarious and low-paid work resulting in a shrinking wage share as well as increasing inequality within the working class (ACTRAV 2011).

However, despite universal global pressures, sizable differences between countries remain. Societies with the same per capita income but very different levels of inequality are similarly competitive in a globalised economy. Likewise countries with lower levels of inequality have been more successful in translating growth into poverty reduction. Recent research indicates that "in general, high initial levels of inequality limit the effectiveness of growth in reducing poverty while growing inequality increases poverty directly for a given level of growth" (Fosu 2011).

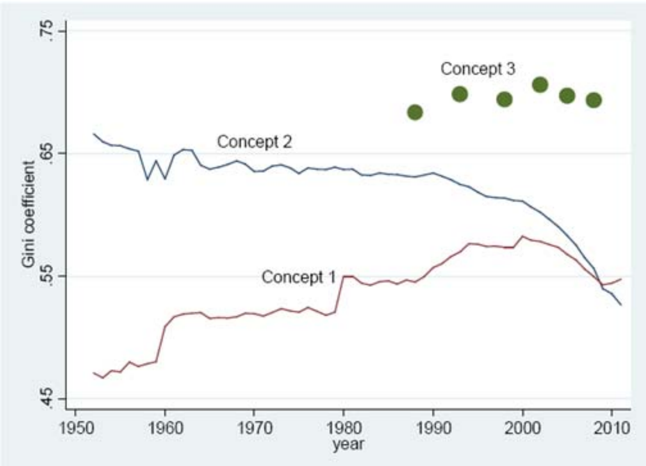
Within the current regime of globalization, alternatives to the high and rising levels of inequality are possible as examples of a number of countries like Brazil, Uruguay or France show. High degrees of inequality are not a functional necessity, but a political choice. It can be changed and it must be changed if we want to live in a socially, economically and environmentally sustainable world.

This report is not meant to provide a definitive answer to the question of inequality, but to help start a much needed discussion among trade unionists about the situation and what to do about it. It is divided into five parts. The first section will present some facts and trends regarding inequality. The second section will explore the impact of inequality on societies. Part three discusses the arguments often used to defend market-driven inequality, followed by an examination of policy options for more equality in part four. The report concludes by raising the challenge of policy alliances and the role of trade unions in promoting social change towards greater equity.

3. WHAT DO THE FACTS SAY ABOUT INEQUALITY?

This might come as a surprise to most trade unionists, but in some circles the question of whether global economic inequality has decreased or increased in recent decades is a seriously contested one. Branco Milanovic (2012) from the World Bank has shown that the answer depends, to a large extent, on the method of measurement. If you compare the differences between the average income in countries, inequality has grown (Concept 1). Looking at inequality between the average income in countries weighted by population (Concept 2), inequality has decreased. Finally, if you measure individual household inequality of the world population (Concept 3) it shows the highest level of inequality among the three approaches (illustrated by the Gini coefficient), but it has slightly declined from its all-time high in recent years. In other words, economic growth in China and India, which represent together 40 per cent of the world population, means that the overall inequality between countries weighted by population has somewhat decreased. But as inequality has increased significantly within most nations, the global inequality between households remains at extremely high levels.

Figure 1: International and global inequality (1952-2011)

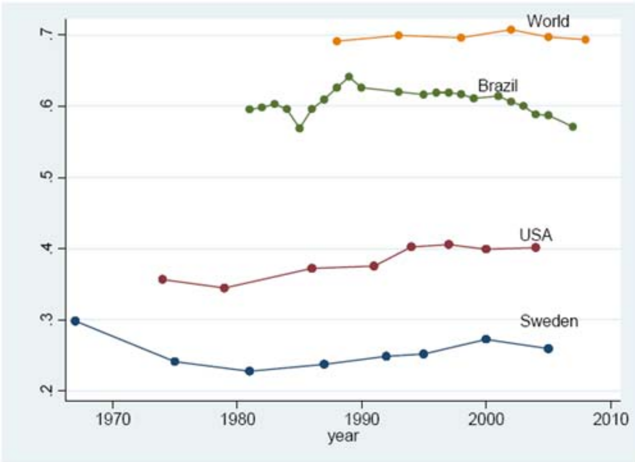


Source: Milanovic (2012, p.6).

Note: The Gini index measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. A low Gini coefficient indicates a more equal distribution, with 0 corresponding to complete equality, while higher Gini coefficients indicate more unequal distribution, with 1 corresponding to complete inequality.

As can be seen in Figure 2, global inequality exceeds the levels of inequality in even the most unequal nation states. The real picture is likely to be even more extreme as data from many of the poorest countries in the world is limited.

Figure 2: Global Gini coefficient compared to the Gini coefficients of selected countries



Source: Milanovic (2012, p.9).

Overall, income has been increasing globally over the last decades, but with inequality growing at corresponding rates, not everyone has benefitted from the income growth. Despite the impressive growth in some emerging economies, we are living in a world where the poorest three-quarters of the world's population share 20 per cent of the total income, the very same share as the top 1.7 per cent (Milanovic 2012).

Global wealth is even more unequally distributed than income with 0.6 per cent of the world population owning almost 40 per cent of the global wealth as compared to 3.3 per cent for the bottom 70 per cent (O'Sullivan and Kersley 2012).

3.1 Inequality among nations

Within nation states, policies mitigate the levels of inequality generated by market forces to a greater or lesser extent. At the global level, inequality has been rising as there are no policies in place to reduce the compounded inequality effects of a global economy dominated by powerful multinational companies and a trading and financial system shaped by the most influential powerful lobby groups of the most powerful nations. Redistributive policies between nations have largely been absent at the international level. Official development aid to less wealthy countries has been limited and a substantial part of it is always recycled back to rich countries through contracts and consultancy fees. The failure of governments to contribute to global social justice is rarely an issue in national elections, but improving international competiveness tends to be rewarded by the electorate. As competitiveness is a relative term, one country's gain must be another country's loss. This leads to the absurd situation in which workers in "winning" and "losing" countries no longer share the productivity gains as it is argued that these gains have to be transferred to capital to further improve competitiveness.

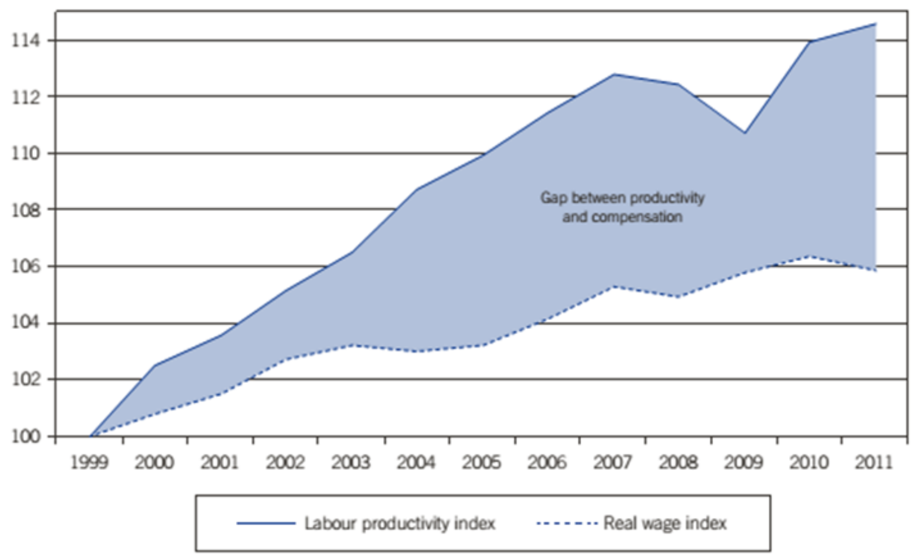
3.2 Inequality within nations

The dismantling of regulatory controls - in particular those that influence global financial markets - has shifted the power from democratically-elected national governments and nation-based democratic mass organizations like trade unions to globally operating banks, hedge funds and multinational companies and to a few powerful big states. This has allowed the people at the top of the income hierarchy to capture most of the income growth.

Among the industrialized countries, this has been most extreme in the United States (US) where the top ten per cent increased their income share by 17 percentage points over the last 40 years (Atkinson et al. 2011, p.6). Most remarkable has been the concentration at the very top of the income pyramid. Since 1970, the top earning 0.1 per cent in the US has increased its income share by 8 percentage points and is now pocketing 12 per cent of the national income (Atkinson et al. 2011, p.8). The main drivers of the rise in the income share have been capital gains and salaries. Executives in the financial industry received huge pay rises for engineering financial bubbles that resulted in huge capital gains, until the bubbles burst.

Meanwhile, wage raises were comparatively low. Productivity gains that had resulted in real wage growth during the long post-war period are no longer shared fairly between capital and labour.

Figure 3: Annual real wage and productivity Index in developed economies (1999 – 2011)



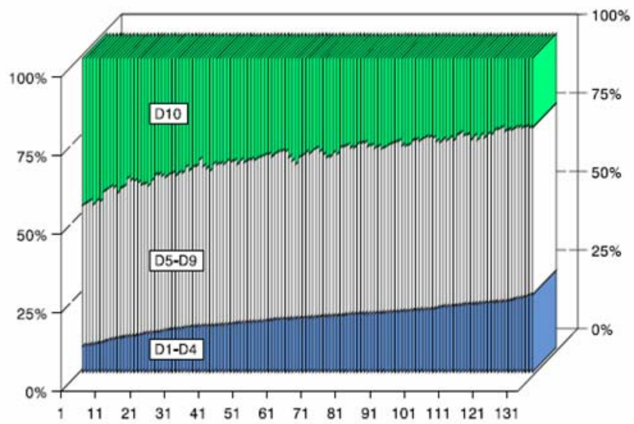
Source: ILO (2013, p.48).

This detachment of wage growth from productivity growth has taken place in both developing and developed countries, with the labour's income share decreasing in many countries. However, while workers in rapidly growing developing countries nevertheless experienced real wage growth (ILO 2013, p.44), many workers in the industrialised countries wages have stagnated or even declined for many years (ILO 2013, p.43).

Not only has the overall wage share of GDP declined, but inequality among wage earners has also been rising. The decline of collective bargaining coverage and the growth of informal and precarious employment have been significant factors behind this growing wage dispersion within the working population (Herr and Ruoff 2013, p.4).

In most societies, the enrichment of the top 10 per cent appears to take place at the expense of the bottom 40 per cent. A comparative study of 132 countries (Palma 2011, p.22) shows that the 5th-9th deciles typically capture about 60 per cent of national income. The success of the very rich in acquiring a bigger share of the pie thus appears to be to the detriment of the bottom 40 per cent. This raises an important political question as to whether the middle class aligns itself with the wealthy against the poor by reducing the welfare state and by supporting an unprotected low-wage sector, or whether it aligns itself with the poor in raising taxes for a more comprehensive welfare regime, public services, higher progressive taxation and a living minimum wage for all workers.

Figure 4: The homogenous middle versus the heterogeneous tails in 132 countries 2005



Source: Palma (2011, p.22).

Liberalisation policies that shifted the structural balance of power in favour of capital and policy measures aimed at weakening organised labour led to increasing inequality in many countries, even in those with traditionally low levels of inequality such as Sweden and Finland (OECD 2013, p. 67).

However, it would be too simplistic to assume that national policy space no longer makes a difference. For instance, looking at industrialised countries, Piketty and Saez (2012, pp.3-4) argue that distributional policies might be better suited in explaining the rise in inequality than factors such as the structural forces of globalisation or skills differentials:

> "To us, the fact that countries with similar technological and productivity evolutions have gone through such different patterns of income inequality—especially at the very top—supports the view that institutional and policy differences may have played a key role in these transformations. Purely technological stories based solely on supply and demand of skills seem not to be sufficient to explain such diverging patterns. Changes in tax policies—which indeed vary a lot across countries — look like a more promising candidate".

3.3 Gender and Inequality

In the section above, the focus has been on economic inequality measured by household income. Certainly there are also other important forms of inequality. In most jobs and in most households women earn less than men. Despite recent progress in access to education and in labour market participation rates, there remains a persistent gender pay gap in all regions of the world. In Western Europe, for example, women earn around 80 per cent of male's wages, while in South America, Central and North America and Asia women's wages hover around 60 per cent of men's wages (Perinelli and Baker 2011, p.8).

Compressing the income at the bottom through living minimum wages and social protection floors would disproportionally benefit women and would help to close the gender pay gap as more women than men work in the informal economy or in low-paying jobs. Compressing top earnings through high progressive taxation would also reduce the gender pay gap as the top earners are nearly exclusively male.

While closing this gap is important in and of itself, it may not necessarily reduce overall inequality in society as families are often composed of members of the same social strata and women are fairly equally distributed across the income spectrum (Ortiz and Cummins 2011).

3.4 Minorities, Migration and Inequality

The average income of minorities is often below average, and that of migrant workers is definitely so. The way market economies are organised determines the degree of inequality in a society, and marginalized groups are often economically forced to accept the lowest paid jobs and are disproportionally represented among the poor. While discrimination of special groups in the labour market is a violation of human rights and unjustifiable, it is fair to say that tackling the issue of discrimination while necessary, will not be sufficient enough to deal with the challenge of inequality.

4. DOES INEQUALITY MATTER FOR REDUCING POVERTY?

A standard argument from those who defend inequality is that as long as the 'tide lifts all boats' inequality is not important; it is a negative side effect that should be accepted for the greater good of poverty reduction. This implicitly, but incorrectly, assumes that inequality is the inevitable price for rapid growth and that there is an inherent trade-off between growth and equality.

However, an overview of studies examining the impact of greater equality on growth by the World Bank (2011) shows that the majority of findings see either no impact or even a positive one. This is particularly true for more equitable wealth distribution and redistributive government policies. A recent publication from the International Monetary Fund states: *"[…] attention to inequality can bring significant longer-run benefits for growth. Over longer horizons, reduced inequality and sustained growth may thus be two sides of the same coin"* (Berg and Ostry 2011, p.3).

While a more equal income distribution has a positive effect on growth, growth alone does not improve income distribution. This means that rapid growth lifted many people out of *extreme* poverty, but it is insufficient in addressing *relative* poverty. The success in reducing extreme poverty (people living on less than 1.25 USD per day) in the world has been significant (see World Bank 2012). In absolute numbers, China's record in reducing extreme poverty has been outstanding. However, when considering the number of people living below the slightly higher poverty line of less than 2 USD per day, poverty has decreased very little - from 2.59 billion people in 1981 to 2.47 billion in 2008 (World Bank 2012).

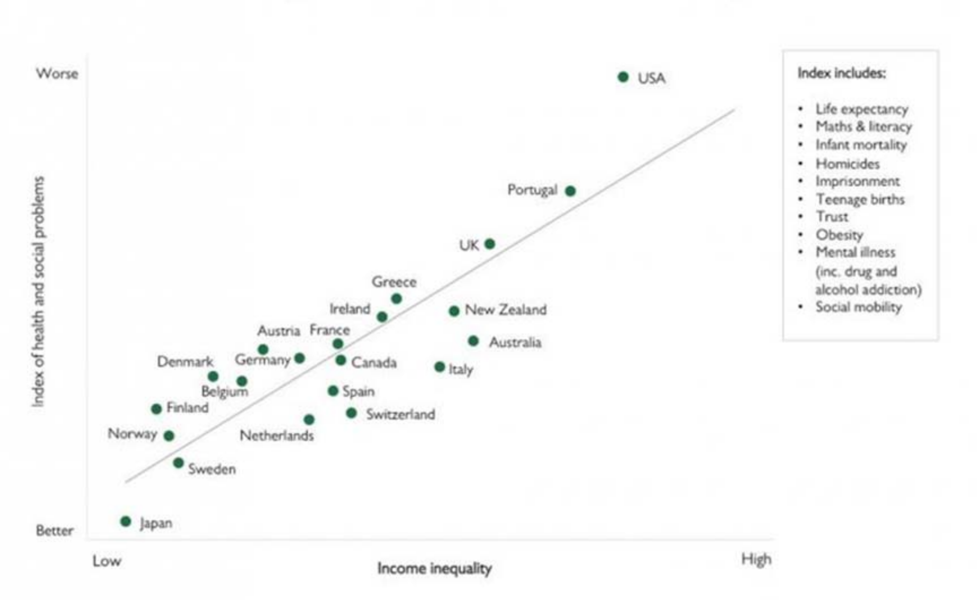
While several hundred million people have been lifted out of poverty through growth, inequality has also been rising fast. Despite lower economic growth rates, countries with better distributional policies such as Brazil were able to increase the income of the poor as much as China which had higher growth rates. While overcoming extreme poverty and starvation must be the first priority for less wealthy societies, relative poverty remains a problem at all levels of development. Inclusive societies cannot be built by protecting people only against starvation and malnutrition. They must provide all inhabitants with the possibility of being a respected member of society and who is able to participate in all social, economic and cultural aspects of life.

As relative poverty depends on distribution and the income differentials within societies, it can even increase while absolute poverty is reduced. If the average or median income increases faster than the income at the bottom of the income pyramid, relative poverty increases. Growing inequality actually creates relative poverty. The idea that growing inequality can be ignored as long as it reduces poverty is therefore a false alternative. The reduction of relative poverty requires a reduction in inequality.

5. INEQUALITY AND SOCIAL AND ECONOMIC RISKS

In their research on health and social effects of inequality, Wilkinson and Picket (2010) show a strong and consistent correlation between many negative social outcomes and high levels of inequality. The average quality of life decreases in societies as inequality increases, even if the average level of income might be increasing. Moreover, quality of life is not only deteriorating for the poor but also for the rich. For instance, the life expectancy of wealthy people in unequal societies is lower than those living in more equal societies.

Figure 5: Health and social problems are worse in more unequal societies



Source: Wilkinson and Pickett (2010) cited in The Equality Trust (2013).

In addition to deteriorating welfare indicators, growing inequality carries considerable risks for democracy, public security, migration, social stability, equal opportunity, economic development and environmental sustainability.

Risks for democracy

The massive concentration of wealth increases the risk of corrupting political parties, individual politicians and election campaigns and creates a government "*of the 1 per cent, by the 1 per cent, for the 1 per cent*" (Stiglitz 2011). Think tanks that are funded by billionaires, media outlets that are controlled by private wealth and an endless supply of well-funded business lobbyists are a threat to democracy (Reich 2012). In an increasing number of countries, the super-rich use their financial power to enter into politics directly by creating their own parties or running as presidential candidates.

Risks for public security

On average, unequal societies not only put more people into prison (International Centre for Prison Studies 2013), but also a growing number of the wealthy retreats into gated communities and pays private security guards to protect them against the rest of society (El Nasser 2002).[1] Public spaces, where people can mingle, meet, debate and experience their commonality and diversity, disappear as a result. Inclusive societies cannot be built on the basis of segregation, fences and fear.

Risks for migration

Extreme poverty in many countries and the huge wealth gap between rich and poor nations create inevitable pull and push factors for migration. These factors result in human tragedies, and desperate people risk their lives to cross deserts, oceans, fences and police controls to escape from absolute poverty, only to become the lowest income earners in the shining world of the rich nations.

Risks for social stability

There is a correlation between growing social unrest or civil conflict on the one hand and the overall wealth share elites appropriate on the other hand (Milanovic 2013). With growing concentrations of money and wealth in the hands of few, the risk of social breakdowns and civil conflicts increases. "*The top 1 per cent has the best houses, the best education, the best doctors, and the best lifestyles, but there is one thing that money doesn't seem to have bought: an understanding that their fate is bound up with how the other 99 per cent live. Throughout history, this is something that the top 1 per cent eventually do learn. Too late*" (Stiglitz 2011).

Risks for equal opportunity

If societies want to fully benefit from the creativity, intellectual capacity and potential of all members of the society, social mobility and opportunities for everybody are indispensable. The de facto exclusion of the children of the poor, girls, or second-generation migrants from quality education is not only inexcusable discrimination, but also a waste of development opportunities for society as a whole. Inequality of income inevitably translates into inequality of opportunity. Where parents cannot afford to send their children to school - or where public schools are so deprived that only those able to pay for private schooling can ensure quality education for their children - income inequality translates into education privileges. The probability of unequal educational outcomes rises with the unequal distribution of the initial assets. Therefore it is highly unlikely that inequality can be overcome or substantially reduced through the educational system, if this is not accompanied by policies to ensure greater income inequality.

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[1] More than 7 million households — about 6% of the national total [in the US]— are in developments behind walls and fences (El Nasser 2002).

It is telling in this respect that one of the countries where inequality has most increased - the United States - once represented a beacon of social mobility. It has become one of the industrialised countries with the least social mobility (Wilkinson and Picket 2010).

Risks for economic development

As mentioned earlier, there is simply no evidence that higher economic growth requires higher inequality. Furthermore the rate of economic growth is by itself a poor indicator for the development of a society. What is more important to assess instead is what is growing and who is benefiting. For example the most expensive yacht of the world, owned by a Malaysian entrepreneur, has a value of 4.6 billion USD (Anton 2013). While this type of luxury consumption shows up positively in GDP figures, it is an obscene waste of resources from a developmental perspective.

The higher people move up the income hierarchy, the more wealth becomes a relative issue. Money is often spent on positional goods that underscore the owners' importance and status in society. With growing inequality, the rich are pushed into ever more expensive luxury consumption (lavish weddings and parties, houses, aeroplanes, yachts, jewellery, etc.) to maintain their status among peers. If everybody has a private jet, flying first class on a regular flight suddenly looks ordinary. Instead of channelling resources into development, a growing share of the commonly produced wealth of a nation is spent on status-related luxury consumption.

Growing insecurity in unequal societies also leads to a wasteful shift of resources towards private security services. In South Africa, employment in private security services grew by 111 per cent in the first ten years of the 21st century (Government of South Africa 2012, p.13). The private security industry employs more people than the army and police forces combined. The growth of this 50 billion Rand industry is probably not so much an indicator of economic development as much as one of the breakdown of social peace due to extreme inequality and social exclusion.

Risks for environmental sustainability

If inequality drives the growth of conspicuous consumption, then it certainly has an impact on the ecological footprint. As such, it perpetuates a model of consumption that is unsustainable.

When it comes to the environmental crisis, it is clear that its consequences will add to global inequalities and will continue to do so even more in the future if left unchecked. To start with, countries that have contributed the least to greenhouse gases emissions are likely to be among the most affected by their effects with dire consequences on economic activities. For instance, a study of the impact of Hurricane Mitch on Central America demonstrated that relative losses were inversely proportional to families' income levels (UNDP 2007).

Moreover, those most affected are typically those who have the least means to take pro-active adaptation measures. The greater frequency of extreme weather events is translating into increasing costs (150 billion USD in 2011), while two-thirds of the costs were not insured (Bevere et al. 2012).

The predictable devastating and disproportionate effects of climate change on the most vulnerable has yet to prompt an appropriate policy response. However, necessary mitigation policies such as carbon taxes bring their own set of effects on inequality.

Clearly, low-income earners are likely to be among those most impacted, relatively speaking, by increases in the price of fossil fuels and its indirect impact of the price of food staples. For those reasons, decisions concerning green taxation must be handled carefully and must be used as an opportunity to increase fairness. Addressing inequality is thus a pre-condition to finding durable solutions to environmental challenges.

6. THE CHANGING DEBATE ABOUT INEQUALITY

If before 2008, growing inequality was largely a "non-issue", the aftermath of the Great Recession changed this and a debate on inequality became unavoidable. This is reflected in the new concern about inequality that can be found in such institutions as the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF).

Defenders of inequality have brought forward a number of arguments to defend the growing inequality:

A. *Inequality does not matter as long as it creates growth and lifts people out of poverty.*
   Not only is there no evidence that unequal societies grow faster, but they typically require higher rates of growth in order to have the same poverty reducing effect than more equal societies. A moral case can be made for preferring greater equality to higher growth, but surely there is no argument for greater inequality if the same or higher growth rates can be achieved through lowering inequality. Indeed, higher inequality has ultimately led to lower final consumption and lower aggregate demand on the one hand and increased speculative volatility of financial markets on the other hand. This was disguised for a while by debt-fuelled consumption, but became fully apparent when the "music stopped" in 2008.

B. *Inequality is "fair" because in a market-based meritocracy, unequal rewards are the fair expression of individual achievement.*
   The position of people on the global income ladder is to a large extent not a result of personal achievement but of pre-determined factors such as class, the country of origin, skin colour, gender, etc. These factors provide some people with huge advantages that have nothing to do with effort or merit.

Sixty per cent of inequality today is defined through inequality between countries (Milanovic 2012). Within unequal societies, the barriers to social mobility are higher and the social status of parents becomes a major defining factor for individual success (Winship 2011). As illustrated by Jäntti et al. (2006), the chances of someone ending up at the bottom of the income ladder in a country is always higher if their parents were in that bottom ladder themselves. However, the chances of moving up are considerably greater in countries that are more equal.

C. *Unequal distribution of income might not be fair, but it reflects the marginal productivity of a worker. The reason one person earns more than another person is explained by the higher added value of his or her work to the profit of the company. Growing skills differentials are the reasons for growing inequality.*

Measuring individual marginal productivity in today's complex work environment is empirically impossible. Among top executives in particular, for whom the real income explosion took place in recent decades, marginal productivity theory seems to be an unlikely explanation for these wage developments; it is unlikely, that an executive's productivity is significantly higher if he earns 10 million instead of 5 million USD per year. According to marginal productivity theory, the pre-tax income should reflect the marginal productivity rate independently from the tax rate. In reality, as Piketty and Saez (2012) have shown, top income increases with lower top tax rates as the incentive for executives to bargain for higher wages grows. Additionally, no above average increase in productivity can be observed along with these pay increases. Wages at the very top, according to Piketty and Saez (2012) or Stiglitz (2012), are rather determined by rent-seeking and insider bargaining power of the management elite than by any objective economic criteria.

D. *Inequality might be unfair and undesirable, but it is indispensable for motivating the most talented to do their best.*

Productivity growth, the ultimate measure for innovation and entrepreneurship, is today lower than in the 1950s, 60s and 70s when top salaries were much lower in absolute and relative terms. Genuine innovators and entrepreneurs seem to be largely driven by intrinsic motivation, and beyond a certain level, additional motivation from more money becomes marginal. Would Bill Gates not have developed Microsoft Windows if he had ended up with only five billion USD instead of fifty billion USD? As wealth beyond a certain level is largely status relevant, an overall cut in top incomes would probably reduce the size of luxury mansions or yachts, but would have little impact on motivation. As Keynes observed in 1936: "*There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition.[...] But it is not necessary for the stimulation of these activities and the satisfaction of these proclivities that the game should be played for such high stakes as at* *present. Much lower stakes will serve the purpose equally well, as soon as the players are accustomed to them" (Keynes 1935, pp. 370-371).*

E. *Inequality is inevitable, because of globalisation and technological change differentials. These objective drivers are beyond political control and there is no alternative than to adapt.*
The great variety of capitalisms shows that countries integrate into the global economy through different strategies and approaches. Furthermore, globalisation itself is not an inevitable part of the market's development process, but the outcome of policies that aim at moving power and decision-making from the policy sphere into the market sphere. By transferring policy decisions to global bodies like the World Trade Organisation (WTO), the International Monetary Fund (IMF) or the European Union (EU), national decision-making - where the democratic influence of the people is stronger - is disempowered and national decision-makers are forced to subordinate their policy options under global market powers. This trend goes against the concept of globalisation of the founders of the ILO. Instead of increasing global pressure on protective legislation, the idea of ILO standard-setting aims at limiting national opportunities to lower standards for workers and establishing a common floor for all.

7. THE WAY FORWARD: USING EXISTING AND REGAINING GREATER POLICY SPACE

"If there is any law governing the distribution of income between classes, it still remains to be discovered" (Robinson [1942] 1966, p.34)

Reducing inequality is good for societies as a whole, but it is not a win-win situation for everybody. The potential losers of greater equity are often the most powerful in society. Greater distributive justice requires supportive policies for the bottom and limitation of income, power and wealth of top earners. It also requires building a broader middle-income group through extension of regular formal employment, productivity-sharing wage policies, inclusive social security systems, high-quality, free public education and universal public services. Many of these policies need to be implemented at the national level, but a universal commitment to pursuing these objectives would help create a mutual trust that good policies are not undercut by "beggar thy neighbour" strategies. ILO standards provide valuable guidance for the necessary policy coordination concerning labour and social policies for greater distributive justice.

7.1 Policies for faster income growth at the bottom

- ***The right to organize: "We are poor, but so many" (Bhatt 2005)***
  Without pressure from below, policy chances in favour of the poor rarely happen. Self-organization of the poor into trade unions and other membership-based organisations is an important step towards voice and

representation to realize the crucial right to Freedom of Association (see C.87 Freedom of Association and Protection of the Right to Organise Convention, 1948).

- ***High levels of quality employment***
  Full employment has been the exception in the history of capitalism. The level of unemployment has a direct impact on inequality, as the unemployed tend to be poorer. It also has an indirect impact on inequality as it leads to a downward pressure on wages for those still in the workforce. Public investment and public employment by the state has the dual function of stabilizing employment and providing necessary goods and services on an equal basis. In countries facing high unemployment and underutilized capacities, the Keynesian argument for public investment is overwhelming. In addition, reversing the global environmental degradation of our planet will only be possible through politically-directed public investment (see C.122 Employment Policy Convention, 1964).

- ***A wage floor***
  Compressing the bottom part of the wage structure through a living minimum wage as suggested in the ILO Constitution and in C.131 (Minimum Wage Fixing Convention, 1970) guarantees that enterprises do not compete by compressing wages. It also ensures that highly ineffective enterprises that can only survive by overexploiting labour make way for those who are more efficient. A living minimum wage would also change the wage structure: the real wages of low-income earners would grow as their salaries increase and the real wages of other workers who consume products and services provided by these workers would go down.

- ***Solidarity-funded social protection floors***
  Providing income security and health services for all through a welfare state has proven to be an efficient way of protecting people from poverty. Universal social protection floors as outlined in ILO Recommendation 202 (Social Protection Floors Recommendation, 2012) as the first step of an inclusive social security system offer basic security. They are essential to avoiding extreme poverty and total market dependency of the poor for income generation.

- ***Universally accessible public services and infrastructure***
  Free or universally affordable, high-quality public services like childcare, education, essential health and elder care, public transport, public utilities, social housing, etc. constitute a social wage and equalize opportunities. These services have the strongest income effect on poor households, enable women to enter the labour market and improve the social mobility opportunities for the next generation.

- ***Land reform***
  The concentration of landownership in the hands of big agro-business or traditional feudal elites condemns many landless rural families to a life in poverty. Land reforms that transfer agricultural land to rural and often landless families are key to improving sustainable income opportunities in rural areas.

7.2 Polices for limiting high income growth

- Progressive taxation on income, wealth, capital gains and inheritance.

- Downsizing of the financial sector and separation of commercial and investment banking. Creation of a well-regulated public banking sector and saving banks as financial utilities.

- Linking the highest salaries in any company to the lowest salaries. The salary of a CEO cannot exceed the salary of the lowest paid employee by a reasonable factor (a referendum in Switzerland is proposing a factor of 1:12). When reaching this ceiling, managers can only increase their salaries further if they simultaneously also improve the income of the lowest paid worker within the company.

- Raising automatically the marginal tax rate with growing pre-tax inequality. The Nobel Laureate Robert Shiller (2012) calculated that if such a provision "*had been legislated in 1979, freezing after-tax income inequality at the then-current level, the marginal* tax rate *on high-income individuals would have increased to an extraordinarily high level, more than 75 per cent*".

- Closure of tax havens and coordinated efforts to avoid transfer pricing and other tax evasion schemes of multinational companies and wealthy individuals.

7.3 Policies to strengthen and broaden the middle income group

- ***A productivity-enhancing wage and employment policy***
  A regulatory environment that supports stable employment relationships and gives preference to internal enterprise flexibility over high employment volatility in unprotected labour markets is required. Research by Kleinknecht et al. (2013) has shown that stable employment leads to a much better productivity performance compared to flexible, precarious and informal labour markets (see C.122 Employment Policy Convention, 1964).

- ***Promotion and extension of collective bargaining***
  A comprehensive collective bargaining system is one of the most effective means to achieve equality. Indeed, bargaining coverage is inversely related to wage inequality and collective bargaining at the

sectoral and national level is more effective at achieving greater equality than decentralized bargaining. Legal provisions must be put in place to stop employers' aggression against workers who desire to create or join a trade union. Legal extension mechanisms have to be established to extend collective bargaining agreements - particularly also to those employed in Small and Medium Enterprises (SMEs) to take labour out of competition and to force enterprises to compete through product quality and productivity gains, rather than through wage repression (see C.98 Right to Organise and Collective Bargaining Convention, 1949; C.151 Labour Relations (Public Service) Convention, 1978 and C.154 Collective Bargaining Convention, 1981).

- ***Reduction of precarious forms of employment***
  Outsourcing, agency work, fixed-term contracts and subcontracting are methods used to undermine collective bargaining and individual labour rights. They are not an economic necessity for development, but rather aggressive instruments for creating a low pay sector. Employers' multifaceted abuse of labour market power can be stopped through protection against unfair dismissal, full legal recognition of any de facto employment relationship, equal rights for part-time employees and clear limitations for the use of temporary employment and triangular employment relationships are required (see C.158 Termination of Employment Convention, 1982; C.175 Part-Time Work Convention, 1994 and R.198 Employment Relationship Recommendation, 2006).

- ***Public procurement policies, preferential public investment credits***
  Governments need to be exemplary as employers and use their role as the procurers and providers of subsidies and credits to secure fair remuneration and working conditions (see C.94 Labour Clauses [Public Contracts] Convention, 1949).

- ***Non discrimination***
  Equal pay for work of equal value and non-discrimination and equal rights for migrants are key policy measures to close discriminatory wage gaps (see C.101 Holidays with Pay (Agriculture) Convention, 1952; C.11 Discrimination (Employment and Occupation) Convention, 1958 and C.97 Migration for Employment Convention (Revised), 1949).

- ***Comprehensive social security systems***
  Social security systems that provide security and adequate income stability are needed. Mature social security systems are indispensable for inclusive societies at each level of development (see C.102 Social Security [Minimum Standards] Convention, 1952).

- *Economic Democracy and Empowerment*
  One fundamental lesson from the crisis and from corporate behaviour in the age of globalization is that we need to explore new ways of organizing production and ensuring that it better serves workers and their communities. Workers can harness the power of their own knowledge and capital (savings) to dispense with an increasingly unaccountable, wasteful and unfair system. The case of Mondragon in the Basque country demonstrates that this is both possible and sustainable. Worker cooperatives in the Mondragon Corporation are simultaneously more productive and twice as profitable as other Spanish enterprises, while the pay differential between executives and workers earning the lowest wage is one to five. Realizing this on a larger scale requires active lobbying to create an economic environment that would facilitate business transfers to workers as well as access to capital (see R.193 Promotion of Cooperatives Recommendation, 2002).

- *Universal high-quality public services*
  Health, education, transport and other public services need to be sufficiently attractive to maintain the upper middle class as customers.

- *Inclusive urban development*
  Urban development policies that make segregated housing costly and make it unattractive to opt for private alternatives are needed.

8. FROM POLICY PROPOSALS TO POLICY SOLUTIONS

Many of the policies suggested above were by and large practiced by the industrialized countries during the long post-war recovery, and they had no negative impact of employment, growth or inflation - to the contrary.

However, in today's context of open economies, the situation becomes more complicated and national policy options are more limited. Cross-border mobility of capital and trade liberalisation provide easier exit opportunities from national regulations. The new context created by corporate globalization has intensified deregulatory pressures, particularly on labour market institutions. The Great Recession is used as a pretext for an even more radical attack on protective regulations and institutions.

The challenge of combating inequality requires a comprehensive multilevel policy response. This needs to include policy initiatives at the national and international level. In an ideal world this would happen in a coordinated and complementary way. However sometimes the best is the enemy of the good and a strategic piecemeal approach might be preferable to a more ambitious grand design.

Where global solutions are difficult to achieve, successful national policies that defend and strengthen labour market institutions in one country also improve the policy space in other countries. The concept of the ILO standards is based on such a global win-win situation whereby ratifying and implementing labour standards improves not only the working conditions under a government's own jurisdiction but also the policy space for others. This philosophy is contrary to that of the WTO, where each round of trade liberalisation reduces the nations' policy space for democratic decision-making of nations.

The focus on labour market institutions and social policies as the traditional areas of trade union competencies remains vitally important, but they need to be embedded into a broader set of policies to reverse the trend of growing inequality. This concerns in particular the downsizing of the hypertrophic and dangerous financial sector, and measures against the use of tax fraud and tax evasion by global corporations and individuals. According to Mr. Barroso, president of the EU Commission, tax evasion costs the EU member states 1 trillion Euro (BBC 2013) or twice the annual budget deficit of *all* EU member states. Oxfam (2013) estimates that developing countries lose between 100-160 billion USD a year due to tax evasion strategies of multinational companies.

Opinion polls in many countries as well as the global poll of the ITUC (2013) confirm there is a majority in favour of better social protection systems, public investment in infrastructure, education and environmentally friendly technologies, greater equity, protective labour legislation and decisive measures against tax evasion by multinational companies. But these desires of the majority are not reflected in government policies.

Systems that fail to respect and implement the ideas and aspirations of their people are flawed and unsustainable. Transferring decision-making to technocratic national or international institutions that lack democratic legitimacy is short-sighted and dangerous. Democracy cannot function if the Demos is told that all vital decisions are taken elsewhere. Re-taking societies from the overpowering influence of big money requires a fundamental shift to greater equality and social inclusion. The arguments for a policy shift are overwhelming, but overcoming the vested interests of the status quo requires broad alliances for change. In increasingly diverse societies, it is a huge challenge to create and maintain a unifying movement within nation-states and across borders. How to build these alliances and how to make workers' organisations a strong pillar of a coalition for justice and inclusion will be the focus of the deliberation at this ACTRAV Symposium.

The following issues are proposed to guide these discussions:

- What are economic and social policy alternatives to the current inequality-enhancing and crisis-ridden globalisation regime?
- What are successful and feasible wage and social policies to ensure greater equality?

- How to re-gain national policy space for progressive reform policies even under the constraints of neoliberal globalisation?
- What are successful examples of trade union mobilisation and alliance building to counter neoliberal regulations and corporate irresponsibility at the national and international level?
- What is the role and potential of ILO Standards and ILO policy guidance to reduce inequality?

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