

THE COMMITMENT TO REDUCING INEQUALITY INDEX

A new global ranking of governments based on what they are doing to tackle the gap between rich and poor



A computer classroom in Oneputa Combined School, northern Namibia. The Namibian government is committed to reducing inequality and secondary education is free for all students. Photo: John Hogg/World Bank

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In 2015, the leaders of 193 governments promised to reduce inequality as part of the Sustainable Development Goals (SDGs). Without reducing inequality, meeting the SDG to eliminate poverty will be impossible. Now Development Finance International and Oxfam have produced the first index to measure the commitment of governments to reducing the gap between the rich and the poor. The index is based on a new database of indicators, covering 152 countries, which measures government action on social spending, tax and labour rights – three areas found to be critical to reducing the gap.

This preliminary version of the Commitment to Reducing Inequality (CRI) Index finds that 112 of the 152 countries surveyed are doing less than half of what they could to tackle inequality. Countries such as India and Nigeria do very badly overall, and among rich countries, the USA does very badly. At the same time, countries such as Sweden, Chile, Namibia and Uruguay have taken strong steps to reduce inequality.

This first version of the CRI Index is being presented by DFI and Oxfam as work in progress, and we welcome comments and additions. We find that there is an urgent need for coordinated global investment to significantly improve the data on inequality and related policies to reduce it, together with much greater concerted action by governments across the world to reduce inequality.

ENDORSEMENTS

Oxfam and Development Finance International's insightful investigation into what governments are actually doing to reduce inequality could not have come at a better time. Based on careful, systematic and scientific use of the available data, it does much more than simply rank countries to provide objective assessments of their performance on this crucial issue; it provides an urgent wake up call to all governments about what can be done in terms of taxation, spending and labour policies. This should become as prevalent as the Human Development Index as a yardstick to judge national performance.

Jayati Ghosh

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In 2015, the world came together agree the Sustainable Development Goals that would shape the future, safeguard our planet, and ensure inclusive growth. As we strive to meet them, tackling inequality emerges as the challenge of our generation, everywhere, whether in rich or poor countries. Addressing it is a strategic imperative and doing so requires evidence based actions.

Oxfam and Development Finance International's Commitment to Reducing Inequality Index is a rigorous attempt to do so: to demonstrate the nature, the depth and the scope of the problem and the implications for public policy. It shows that every country has to make a step change.

Donald Kaberuka

7th President, African Development Bank (2005–2015)

Africa's people are facing an inequality crisis. For the past few years Oxfam, as a key part of the Global Inequality Alliance, has been able to put shocking figures on just how extreme this is. Consider that the combined wealth of Nigeria's five richest men - \$29.9 billion - could end extreme poverty in that country yet 5 million people there face hunger. This Commitment to Reducing Inequality Index - technical though it sounds - could be a powerful tool in the hands of citizens to demand change. In the face of politician's platitudes, we can show hard facts. In the face of meaningless promises, we can show the gaping holes where policies to reduce inequality could be. Information is power, so let's use it.

Kumi Naidoo

Activist and Board Chair, Africans Rising for Justice, Peace and Dignity

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SUMMARY

THE INEQUALITY CRISIS, THE FIGHT AGAINST POVERTY AND THE ROLE OF GOVERNMENTS

Many countries across the world, rich and poor, have experienced a rapid growth in the gap between the richest people in society and everyone else over the past 30 years.¹ This inequality crisis is characterized by a situation whereby just eight men own the same wealth as the poorest 3.5 billion people. Failure to tackle this growing crisis is undermining social and economic progress and, crucially, the fight against poverty. Oxfam's research has shown that, since the turn of the century, the poorest half of the world's population has received just 1% of the total increase in global wealth, while the top 1% received 50% of the increase.²

Inequality is bad for us all. It has been linked with crime and insecurity, lower economic growth, and poor health and other outcomes.³ The consequences for the world's poorest people are particularly severe. The evidence is clear: there will be no end to extreme poverty unless governments tackle inequality and reverse recent trends. Unless they do so, the World Bank predicts that by 2030 almost half a billion people will still be living in extreme poverty.⁴

DFI and Oxfam believe that the inequality crisis is not inevitable and that governments are not powerless in the face of it. Our findings show that a number of governments, in recent as well as more distant history, including Sweden, Chile, Uruguay and Namibia, for example, have shown they can buck the trend of growing inequality by taking clear steps to reduce it. Unfortunately, many other governments, including Nigeria and India, are failing to make use of the tools available to them to tackle this global scourge. Unless they take concerted action now, they will fail to end poverty and fail to make sustainable economic progress that benefits everyone in society.

THE COMMITMENT TO REDUCING INEQUALITY INDEX

DFI and Oxfam have produced, for the first time, an index ranking 152 governments across the world on their commitment to reducing inequality. This has involved building a comprehensive database including countries where DFI has strong data and research contacts, or Oxfam has country programmes or affiliates, to build up a unique perspective on the extent to which governments are tackling the growing gap between rich and poor in three policy areas.

This first version of DFI and Oxfam's Commitment to Reducing Inequality (CRI) Index is being published very much as work in progress, or 'beta' version, to encourage input, debate and comment from experts across the world.

The Index has been statistically audited by the European Commission's Joint Research Centre. They concluded that the CRI is statistically robust and is 'paving the way towards a monitoring framework that can help to identify weaknesses and best practices in governments' efforts to reduce the gap between rich and poor'.

The reason countries were excluded from the final list of 152 was because the data was simply not available to include them. Our target was to aim for the availability of data that would enable us to look at a minimum of 150 countries. The extremely poor level of public data available for some countries on policies relevant to reducing inequality is a cause for serious concern – this is particularly the case for the Middle East, where data availability is non-existent for many countries.

The CRI Index focuses on policies that reduce economic inequality (which is also the focus of Oxfam's **Even It Up** campaign). This is because the past 30 years have seen a rapid increase

in economic inequality – in the gap between the richest people and everyone else. In turn, this has exacerbated existing inequalities, for example those based on gender and race. It has led to greater political inequality, as the wealthy increase their influence; and it has led to the declining influence of everyone else, particularly the most marginalized people, which undermines democracies and stifles citizens' voices. It translates into greater social inequality and inequality of opportunity and outcomes, with ever-widening gaps between the health and education of the richest people and the rest, which in turn stifles social mobility. Finally, greater inequality has been linked with greater levels of crime and violence in society.⁵

The CRI Index measures government efforts in three policy areas or 'pillars': social spending, taxation and labour. These were selected because of widespread evidence⁶ that strong positive progressive actions by governments in these three areas have played a key part in reducing the gap between rich and poor.

1. **Social spending** on public services such as education, health and social protection has been shown to have a strong impact on reducing inequality. For example, a recent study of 13 developing countries that had reduced their overall inequality level, found that 69% of the reduction of inequality was because of public services.⁷ Social spending is almost always progressive because it helps reduce existing levels of inequality. Despite this, in many countries, social spending could be far more progressive and pro-poor. Social spending can play a key role in reducing the amount of unpaid care work that women do – a major cause of gender inequality – by redistributing child and elder care, healthcare and other domestic labour.
2. **Progressive taxation**, where corporations and the richest individuals are taxed more in order to redistribute resources in society and ensure the funding of public services, is a key tool for governments that are committed to reducing inequality. The potential role of taxation in reducing inequality has been clearly documented in OECD countries⁸ and in developing countries.⁹ However, taxation can be progressive or regressive, depending on the policy choices made by government. This indicator does not measure the extent to which a country is a tax haven, which means that some countries do significantly better than they would if this was considered (see Box 10).
3. There is strong evidence that **higher wages** for ordinary workers and **stronger labour rights, especially for women**, are key to reducing inequality.¹⁰ Governments can have a direct impact here by setting minimum wages and raising the floor of wages; they can also have an indirect impact by supporting and protecting the right of trade unions to form and organize. Evidence from the International Monetary Fund (IMF) and others shows that the recent decline in trade union organization has been linked to the rise in inequality, as workers lose bargaining power and more of the value of production goes to profits and the owners of capital.¹¹ Women are disproportionately represented in the lowest-paid jobs, with poor protection and precarious conditions of employment.

Actions across all three areas – especially between spending and taxation – are mutually reinforcing. While progressive taxation is a good thing in itself, when used for progressive spending its impact is greatly increased, and the CRI Index reflects this in the scoring of countries' efforts.

Why monitor government policy? Why not just monitor levels of inequality?

There are three reasons DFI and Oxfam are choosing to measure the commitment of governments to reducing inequality.

First, in 2015, governments across the world made a commitment to reduce inequality and eradicate poverty through the Sustainable Development Goals (SDGs). The CRI Index will make a contribution in enabling citizens to hold governments to account for meeting their commitments.

Second, DFI and Oxfam strongly believe that the different levels of inequality from one national context to another show that inequality is far from inevitable; rather, it is the product of policy choices by governments. There are, of course, contextual challenges to consider in every situation, as well as contextual advantages in some cases. All countries are also subject to global forces that they cannot fully control (e.g. pressure to lower wages and tax rates), and this is particularly true of developing countries. The worldwide system of tax havens, which undermine scope for government action, is a clear example.

Nevertheless, despite these global issues, DFI and Oxfam believe that governments have considerable powers to reduce the gap between rich people and poor people in their countries. If this were not the case, there would not be so much variation in the policy actions of countries. This is why it is vital to be able to measure and monitor government policy commitments to reducing inequality.

The final reason for developing the CRI Index is that existing systems to measure incomes and wealth (e.g. national household surveys) are subject to significant data errors – notably the under-reporting of the incomes and wealth of the richest people in society. This means that the data available can be very weak, especially for the poorest countries, and is not updated very often, so is a poor measure by which to hold governments to account. There is a need for urgent and significant improvements in both the coverage and frequency of national data on levels of inequality.

LIMITATIONS OF THE CRI INDEX

The CRI Index can only ever be a simple tool that gives one measure of how countries are fighting inequality. The subsequent sections discuss the specific limitations of each of the three pillars, but there are also some overall limitations that are worth mentioning here.

What is clear is that the index can never substitute for context-specific knowledge and the story of each country's path to reducing inequality, or for detailed analysis of each government's proposals or positions. Wherever possible, DFI and Oxfam have worked with colleagues in each country to ensure the most accurate representation of their government's efforts, and in many countries Oxfam continues to work on detailed country reports on inequality that are far more comprehensive. Nevertheless, in a broad index such as this, some individual countries may be unfairly rewarded (see Box 1), while others may be unfairly penalized. But on balance, DFI and Oxfam consider that the index provides a strong foundation from which to gauge the commitment of a government to tackle the inequality crisis.

Box 1: Trading on past glories: when is commitment not commitment?

DFI and Oxfam have called this index the Commitment to Reducing Inequality (CRI) Index because they want to highlight the purposeful and proactive role that *committed* governments can play in tackling inequality. This has not been without its problems, though, especially in the first few iterations of the Index. It means that some governments may be receiving credit for commitments based on policies or approaches developed by their predecessor administrations. In some cases, the current government of the country in question actively opposes these policies and is seeking to undo them.

In a large number of rich countries, many of the policies that make these countries perform well were actually put in place in a previous era and are now under serious threat. In the UK, for example, some have forecast that inequality will rise as a result of current government policies.¹² Equally, across Latin America, new governments are being elected that are not as committed to reducing inequality and are even (in some cases) taking steps to reverse progressive policies.

Denmark (for example) scores very highly in the Index, based on its high and progressive taxation, high social spending and good protection of workers. However, recent governments have focused on reversing all three of these to some extent, with a view to liberalizing the Danish economy, with recent research revealing that the reforms of the past 15 years have led to increasing inequality in the country.¹³ Germany has a well-respected welfare state, which significantly reduces income inequality. However, the income gains of the past two decades went predominantly to those earning more. In consequence, the government needs raise ever more resources to close the inequality gap, and it has in recent years been less successful in doing so. The French government gets a high score for its 33% corporate tax rate, but recently agreed to cut this to 28%¹⁴ as it joins the race to the bottom on corporate tax rates, and this will be reflected in the next iteration of the Index. Even further cuts could occur soon, as newly elected President Macron has clearly stated his willingness to bring down corporate tax to 25%.

Nevertheless, the majority of the data that has been collected for the Index is recent and based on budgets, which means the Index can be updated each year, with countries moving up or down the ranking depending on changes in policies. If a country substantially increases the minimum wage or boosts education spending in the next budget, then it will be rewarded by an increased CRI Index score. Over time, this will enable more accurate attribution of the commitment of governments.

The Index mainly focuses on redistributive actions governments can take, rather than those that would prevent rising inequality in the first place. While the Index looks at how a government can intervene to make the labour market fairer, it does not, for example, look at corporate governance (to reduce excessive shareholder control of the economy), land redistribution or industrial policy as ways to ensure greater equality. Countries such as South Africa, with rising inequality despite a relatively good score on the CRI Index, can only be explained by looking at these structural issues. Oxfam's recent paper, *An Economy for the 99%*,¹⁵ also addresses these issues directly.¹⁶

Data constraints have prevented the inclusion of these structural policies and many other suitable indicators, because the Index has aimed to get the most inclusive group of countries possible. Many potential indicators have not been used because they do not extend beyond a small range of countries, usually those with higher incomes. A massive, concerted effort to improve data on inequality and its contributing factors is urgently needed, especially within poorer countries. Later in this report is a discussion of some other areas the Index might explore in subsequent versions.

Finally, the CRI Index does not aim to cover all actors in the fight against inequality. Other key players – notably the private sector and international institutions such as the World Bank and IMF – have an important role to play, as do rich individuals themselves. A separate report being launched simultaneously analyses the role of the major international institutions.¹⁷ While Oxfam's campaigns and those of its allies target all of these actors, governments remain the key players. Democratic, accountable government is the greatest tool for making society more equal, and unless governments across the world do much more in these three policy areas, there will be no end to the inequality crisis.

WHAT ARE THE MAIN FINDINGS OF THE CRI INDEX?

All countries could do more, even those near the top

The first and most important point is that no country is doing particularly well, and even those at the top have room for improvement. In total, 112 of the 152 countries included in the index are doing less than half of what they could to reduce inequality.

The countries near the top of the index

Table 1

Country	Spending on health, education and social protection	Progressive structure and incidence of tax	Labour market policies to address inequality	Total CRI Rank
Sweden	9	8	8	1
Belgium	4	3	24	2
Denmark	8	9	12	3
Norway	20	6	3	4
Germany	2	17	6	5
Finland	3	23	10	6
Austria	6	40	1	7
France	5	19	21	8
Netherlands	19	13	9	9
Luxembourg	12	21	11	10

The overall rank for a country is calculated as an average of their scores under the three pillars, not their rank under the three pillars. Their rank on each pillar is irrelevant to the overall ranking – see Sweden for example (Table 2).

Table 2: Sweden's ranking per pillar, and overall

Country	Spending on health, education and social protection	Progressive structure and incidence of tax	Labour market policies to address inequality	Total CRI Rank
Sweden	9	8	8	1
Score	0.91	0.87	0.9	0.89

Most of the countries near the top of the index are OECD countries, headed by **Sweden**. In this way, the rankings are similar to the Human Development Index (HDI). As wealthier countries, they have much more scope to raise progressive tax revenues because there are more citizens and corporations with higher incomes that can pay more tax; likewise, they have greater scope to spend those revenues on public services and social protection. They are also trying to tackle wage inequality by increasing the minimum wage and supporting labour rights and women's rights. Finally, they have a smaller informal sector than is typical in developing countries, but precarious forms of employment are on the increase.

For most rich countries, the main body of policies measured by the Index was introduced in a different period of history, when significant action in these areas was broadly accepted as the right thing to do and paid dividends in terms of social and economic progress. Today, in many

countries, political support for these measures has eroded, with governments across the industrialized world chipping away at progressive spending, taxation and labour rights (see Box 1).

Of course, this does not mean that these countries are doing everything they could – for example, Germany and Denmark, coming near the top, could still make their tax systems much more progressive. Yet the degree to which OECD countries are using government policy to tackle inequality varies dramatically. The **USA** and **Spain** among the major economies, for example, come near the bottom of the rich countries in the CRI (see Box 2).

Box 2: The USA and the Commitment to Reducing Inequality Index

The USA is the wealthiest country in the history of the world, but its level of inequality is also the highest among major industrial countries, leaving tens of millions of working people impoverished – especially women and people of colour.

As in a number of OECD countries, in the US, the effective **tax rate** is substantially less than the statutory tax rate (i.e. nominal tax rate). Corporations – even the largest ones – often pay no federal income tax. For example, in 2012, 42.3% of corporations paid no federal income tax whatsoever.¹⁸ Overall, the effective tax rate for 2008 to 2012 was just 14% on the pre-tax net income – in contrast to their nominal rate of 35%.¹⁹ Later in 2017, the US Congress is expected to take up a major rewrite to its tax laws, which is likely to lower taxes for wealthy individuals and large corporations.²⁰

Spending on education, health and social protection in the USA as a measure of efforts to combat inequality is problematic for several reasons. There are often massive inequalities in spending; for example, a 2015 report card on the financing of public education found that 15 out of 50 US states have a regressive structure for state-level education financing.²¹ Per capita healthcare spending in the USA (which combines public and private) is greater than anywhere else in the world, while per capita public health expenditures are among the highest. Despite this, Americans experience poor health outcomes, with life expectancy that ranks 31st internationally.²² In 2017, the US Congress is expected to roll back major provisions of the healthcare law passed during the Obama administration. These changes could cause more than 24 million Americans to lose their health insurance.

In line with the historic discrimination against women and minorities, **labour policy** in the USA is extremely inadequate. The federal minimum wage of \$7.25 is well below the \$10.60 per hour needed for a family of four to stay above the federal poverty line.²³ The government has failed to raise the minimum wage since 2009, which (adjusted for inflation) is less than it was 50 years ago. Similarly, federal legislation only requires employers to provide unpaid maternity leave; unlike the 175 other countries that instituted paid family leave for new mothers.

Trade union representation is dropping at an alarming rate, from 20.1% of the workforce in 1983 to approximately 10.7% in 2016. So-called 'Right to Work' legislation, which allows workers to avoid paying dues at union workplaces, has been passed in 28 states as of 2017, and is being considered at the national level under the Trump administration.

As this report highlights, many middle-income countries have the scope to do far more to tackle inequality than they are doing currently. For example, Indonesia today is richer in terms of per capita income than the USA was when it passed the Social Security Act in 1935.²⁴ Yet Indonesia has some of the lowest tax collection rates in the world, at 11% of gross domestic product (GDP), and the new finance minister has made increasing this her priority. Recently, a paper from the Center for Global Development demonstrated that the majority of developing countries have enough resources of their own to eliminate extreme poverty.²⁵ This also echoes Oxfam's previous research into inequality in the BRIC countries, Turkey and South Africa.²⁶

Box 3: The best and the worst

Sweden tops our index, with the highest score. It has some of the most progressive spending in the world. It also has some of the best labour market policies, and their protection of women in the workplace is the best in the world.

Nigeria has the unenviable position of being at the bottom of the Index. Its social spending (on health, education and social protection) is shamefully low, reflected in very poor social outcomes for its citizens. More than 10 million children in Nigeria do not go to school²⁷ and 1 in 10 children do not reach their fifth birthday.²⁸ The Africa Progress Panel has demonstrated that despite Nigeria's positive economic growth for many years, poverty has increased, and the proceeds of growth have gone almost entirely to the top 10% of the population.²⁹ The CRI Index shows that while Nigeria collects significant tax revenues from oil, there is huge potential for it to raise more tax, for example on personal incomes, and so it scores very badly on this aspect too. Finally, Nigeria's treatment of workers and women in the workplace also puts it near the bottom of the rankings.

Most of the highest-ranked non-OECD countries in the Index are in Latin America, the most unequal region in the world (see Box 4). They are headed by **Argentina**, followed by **Costa Rica**, **Chile** and **Uruguay**. In all of these countries, governments have made strong efforts to reduce inequality and poverty through redistributive expenditure and (in some) by increasing minimum wages. In Argentina, for example, the Gini coefficient fell from 0.53 in 2003 to 0.42 in 2013³⁰ and the poverty rate fell from 23% to 5.5%, with 40% of the reduction in inequality and 90% of the reduction in poverty due to redistributive policies.³¹ Chile has moved to increase spending, and to increase corporation tax, bucking the global trend. Unfortunately, the new government elected in Argentina in 2015 has already moved to reverse many of these policies, including cutting the education budget and extending tax breaks for the richest people (see Box 4).³²

Lower middle-income countries can also show strong commitment to reducing inequality. **Guyana**, for example, spends 17% of its national budget on education and 12% on health, and has a progressive tax structure as well as progressive policies on trade unions and women's labour rights; **Armenia** has very strong and progressive social spending. Low-income countries can also demonstrate strong commitment to tackling inequality. For example, **Ethiopia** is spending 22% of its budget on education, the twelfth highest proportion in the world. **Niger** and **Liberia** both appear in the top third of the Index. Both countries perform well on labour rights and minimum wages, with Liberia having introduced a Decent Work Law and the world's highest minimum wage compared to GDP per capita.³³ Both are doing relatively well on collecting taxes in a progressive way, partly as Liberia has been renegotiating its tax deals with mining companies. Niger has been spending large and increasing amounts on education, while Liberia has done the same in relation to healthcare in the wake of the Ebola outbreak.

Namibia is one of the highest-ranked African countries in the Index and is fifth among the middle-income countries. It is a good example of the difference between the CRI ranking and traditional measures of inequality. Despite being one of the most unequal countries in the world, its high CRI score reflects the commitment of the Namibian government to reducing inequality, particularly through its high levels of social spending (with secondary education free for all students) and some of the most progressive taxation policies. Its commitment has been recognized by economist Joseph Stiglitz and others, and although inequality remains very high, it is no longer the most unequal country in the world and has been continually reducing inequality since 1993.³⁴

Box 4: Latin America: making a wrong turn³⁵

In the past 15 years, Latin America as a region has bucked the trend in terms of reducing inequality. Although there are, of course, some exceptions, governments in Uruguay, Bolivia, Argentina and others had put in place strong policies to tackle inequality, mostly by increasing public revenues and social spending, and, in some countries, raising minimum wages. This is reflected in the Index, with a number of Latin American countries ranking relatively highly.

However, the global economic slowdown since 2010 and the fall in commodity prices (on which many countries in the region depend) has led to an increase in poverty rates since 2015. In some countries this has combined with a shift of government towards the centre-right, with less interest in reducing inequality. There is thus a strong likelihood that the previous gains in reducing inequality will slow and may well even be reversed.

The impact of these policy changes is yet to show up in the data and the impact on the Gini coefficient for these countries will take some years to register. In contrast, the CRI Index, with its significant reliance on annual budgets, will start to pick up the impact of such changes sooner. Countries taking regressive actions are likely to start to slip down the Index unless they make subsequent policy changes, and will start to contrast with those countries in Latin America which remain on a progressive path, like Chile, Uruguay, Ecuador and more recently El Salvador.

The poor performers

Table 3: Rank out of 152 countries: the ten worst

Country	Spending on health, education and social protection	Progressive structure and incidence of tax	Labour market policies to address inequality	Total CRI Rank
Bhutan	112	124	141	143
Tonga	98	108	144	144
Belarus	48	148	137	145
Afghanistan	141	131	133	146
Timor-Leste	135	147	121	147
Panama	145	114	140	148
Albania	87	152	59	149
Myanmar	151	38	126	150
Bahrain	133	151	102	151
Nigeria	152	117	139	152

Swaziland also fares very badly. One of the most unequal countries in Africa (and, indeed, the world), its government has failed to put measures in place to tackle inequality. It scores poorly in terms of social spending and progressive taxation, and has a terrible record on labour rights, which together put the country near the bottom of the Index.

India also fares very badly, ranking 132 out of 152 countries in its commitment to reducing inequality – a very worrying situation given that the country is home to 1.2 billion people, many of whom live in extreme poverty. Oxfam calculated that if India were to reduce inequality by a third, more than 170 million people would no longer be poor.³⁶ Government spending on health,

education and social protection is woefully low. The tax structure looks reasonably progressive on paper, but in practice much of the progressive tax is not collected. On labour rights and respect for women in the workplace, India also fares poorly, reflecting that the majority of the labour force is employed in the agricultural and informal sectors, which lack union organization.

These are just some of the many stories behind the numbers in the CRI Index. There is, of course, a story for every country, and we encourage readers to share those with us.

THE RELATIONSHIP BETWEEN THE CRI INDEX AND ACTUAL INEQUALITY LEVELS

This report also looks at **inequality levels**. Although the Index itself does not include measures of inequality, section 5 looks at in-country inequality and the various measures and their limitations, conceptually and in terms of data. This report uses the Palma ratio, which compares the incomes of the top 10% to the bottom 40%. This is considered the best measure of inequality for the purposes of this research, because it takes more notice of incomes at the extremes of the distribution (whereas the Gini coefficient focuses more on the incomes of those in the middle, and can underestimate the importance of top incomes). While the Palma measures relative income, Oxfam's paper, *An Economy for the 1%*, found that in absolute terms, the biggest share of income growth has gone to the top 10%. Palma ratios range from 7 (where a country such as South Africa has the top 10% earning seven times more than the bottom 40%) to less than 1 (where, as in Sweden, the top 10% is earning the same as the bottom 40%). Oxfam and DFI maintain that all countries should aim for a Palma ratio of no more than 1.

The index does not use measures of **wealth inequality**, as the data is simply not available at country level, especially for low-income countries. Global comparisons, like those made in Oxfam's recent reports for the Davos meetings³⁷ are unfortunately not replicable in many countries due to data constraints. Most countries have much higher wealth inequality than income inequality. Germany for example has very high wealth inequality by European standards, which past and current governments have failed to address – or have even aggravated through regressive policies.³⁸ Despite the continued concern of Oxfam and DFI for wealth inequality, this index does not look at specific policies aimed at tackling wealth, such as wealth, land and property taxation, as again cross-country data on this is not available for enough countries. We hope to look at these taxes in future indexes; and wealth inequality and how to tackle it continues to be a major focus of Oxfam reports for the World Economic Forum in Davos.

WHICH POLICIES ARE STRONGEST AND WEAKEST?

Across all 152 countries, scores vary considerably for different policies. Within each of the pillars:

- Many countries are doing relatively well on the scale of social spending. They are spending more on social protection (19% of budgets) than on education (15%) or health (11%). The average spending levels for education and health are well below those needed to achieve the SDGs (20% and 15% respectively), which a number of countries have signed up to as part of the Abuja and Incheon Declarations.³⁹ In most low- and lower middle-income countries, social protection spending also remains well below the levels needed for basic social protection floors, as estimated by the Bachelet Commission (3–5% of GDP).⁴⁰ Most countries across the world still need to increase their spending on all three sectors dramatically.
- Many countries are doing rather poorly on ensuring that their social spending benefits their poorest citizens more than the wealthy, and thereby reduces inequality. In around two-thirds of the countries analysed, social spending is having at best a neutral effect on the Gini coefficient, rather than reducing it. Countries need to do much more to ensure that their social spending reaches the poorest citizens through universal, free, public provision.

- On tax, many countries are doing increasingly poorly on having progressive tax structures. The rates at which progressive corporate and personal income taxes are levied have been falling and now average only 24.5% and 30% respectively. On the other hand, rates of much less progressive VAT have been increasing and now average 15%. It is essential to reverse these trends and ensure that rates of progressive taxes are higher, as well as ensuring that VAT is made less regressive by exempting basic foodstuffs and small traders.
- Most countries are also doing very poorly on collecting income taxes, with tax productivity levels for these taxes averaging only around 15%, compared with 40% for VAT. To improve the impact on inequality, countries need to collect a much higher proportion of corporate and personal income tax by clamping down on exemptions for large corporations and deductions for wealthy individuals, renegotiating tax treaties and ending tax havens.
- On labour, the average minimum wage is only one-third of national GDP per capita. Just over half of all the 152 countries have laws mandating equal pay and non-discrimination in hiring by gender, and countries are only scoring 4 out of 10 (on average) on the labour rights indicator, with a much lower score on enforcement than on existence of laws. In addition, across the world, 9% of the workforce has no labour rights because they are unemployed, while 32% have no labour rights because they work in the informal sector. A further 35% have reduced rights due to non-standard employment contracts. Countries need to increase their minimum wages, reinforce gender equality laws, implement labour rights laws much more rigorously, and extend labour rights and minimum wages to employees on non-standard contracts.

The patterns vary dramatically for countries with different levels of income, as follows.

- Developing countries are spending 16% of their budgets on education, compared with only 12% among OECD countries. However, the lower a country's income, the less they spend on health (8% for low-income countries compared with 15% for OECD countries) and on social protection (6% for low-income countries compared with 37% for OECD countries).
- Developing countries (especially low-income countries) often have a more progressive tax system on paper than OECD countries because of VAT exemptions for basic goods and small traders, and higher corporate tax rates. Nevertheless, OECD countries reduce inequality more effectively because they collect income taxes more efficiently. There are different priorities here for different countries according to their level of wealth: OECD countries need to improve their tax structures (enhance pro-poor exemptions from VAT and reverse the race to the bottom on corporate tax rates); developing countries (especially middle-income countries) should collect more personal and corporate income taxes; and OECD countries and upper middle-income countries must end tax haven practices.
- OECD countries generally score much higher than developing countries on labour and gender rights – especially on the existence of relevant laws and paid maternity leave. On the other hand, low-income countries perform best on statutory minimum wages due to far-sighted minimum wage increases by a small number of governments (albeit potentially undermined by poor enforcement). A large number of developing countries still need to adopt and enforce laws guaranteeing labour and gender rights, while many OECD and middle-income countries need to focus on increasing the minimum wage.

AREAS FOR IMPROVEMENT AND FURTHER DEVELOPMENT

Economic inequality and gender

Within each of the three areas, spending, tax and labour rights, action to combat economic inequality overlaps significantly with action to combat gender inequality. Gender inequality is exacerbating the growing gap between rich and poor, while widening inequality is in turn making the fight for gender equality harder in countries across the world. Oxfam has shown in its recent

paper, *Women and the 1%*, that the fight against economic inequality is closely linked to the fight against gender inequality.⁴¹ Women are hardest hit by regressive taxation and low or regressive public spending, and they are consistently among the worst paid in the most precarious jobs while both laws and social conventions limit their ability to organize for their rights. They also provide the majority of unpaid care work and so are most affected when public services are inadequately funded, further entrenching inequality.

Each section of this report has specific sections on gender. Sadly, the data availability only allows a specific indicator in the section on labour. There is not currently sufficient disaggregated data to look at either spending or taxation from a gender perspective for the purposes of this Index. Only a few countries have engaged in sustained gender budgeting, especially on the spending side, so no overall comparative assessment is possible to the degree to which tax and spending policies fight gender inequality, although the benefits of gender budgeting are well documented. Oxfam strongly supports efforts to increase both gender-responsive budgeting and the collection of data in this area.

Economic inequality and youth

Inequalities between young people and old people are growing across the world. The major accumulation of the world's wealth to those at the top of the income spectrum has delivered a difficult present and uncertain future to the majority of today's youth. Extreme economic inequality has been shown to inhibit social mobility,⁴² which means that the children of poor parents will stay poor. Unless they come from privileged backgrounds, in many countries the young people of today have fewer opportunities and chances to make the most of their skills and talents than before, because of the huge and growing gap between rich people and everyone else.

Progressive social spending and taxation can counter the growing inequality between young and old people by reducing the wealth handed down between generations directly, and by using revenues to spend more on education and health services that are accessible to all. This is particularly true of education. In countries where education services are very limited and there is a reliance on private education, the vast majority of young people (especially girls) are excluded. Equally strong labour rights are key to helping young people secure a fair wage. Many minimum wages do not apply to young people, so eligibility criteria need to be extended.

Economic inequality, elite capture and political participation

Many decades ago, US Supreme Court Justice Louis Brandeis famously said 'you can have extreme inequality or you can have democracy – you cannot have both'. Across the world, faced with growing gaps between elites and the rest of society, politicians are clamping down on democratic rights and closing the space for civil society.⁴³ Inclusive policy making processes which respect the rights and voice of all people are important as an end in themselves – but also to secure the best policies. Conversely, policy making processes dominated by elites undermine democracy and have been shown to result in policies which predominantly benefit those elites.⁴⁴

Currently, the CRI Index has no explicit measure of political openness or corruption. Many of the poorest performers are also countries that experience high levels of corruption and low levels of political participation. They also have high levels of elite control of government, media and businesses, with extensive networks of patronage and clientelism. While the index does not measure this directly, it is clear that there is a link between poor government performance and the level of corruption and poor governance. This connection is something that DFI and Oxfam intend to look into in greater depth in future years, perhaps including indicators on corruption or governance and participation, and in particular women's participation.

Other policies of relevance to inequality

Social spending, tax and labour rights are not the only areas in which governments can take action to reduce inequality. Other policies – for example, on small and medium-sized enterprises (SMEs), rural development and financial inclusion – can and do have an impact. However, concerted action on spending, taxation and labour rights is a common feature of success stories in reducing inequality, and any government seeking to tackle inequality should therefore prioritize action in these three areas.

Figures on **agricultural spending** are not included in the CRI Index, although this is arguably central to reducing inequality in the majority of developing countries where the poorest groups are predominantly still engaged in farming, the majority of whom are women. African governments have committed to spending 10% of their budgets on agriculture, and other developing countries could be asked to do the same. It is not clear what would be asked of industrialized nations, particularly as their agricultural investment often takes the form of subsidies that can fail to benefit the poorest people. Nevertheless, in subsequent iterations of the CRI Index, DFI and Oxfam will consider including spending on agriculture for the subset of developing countries.

Equally, in spite of recent evidence on the extent to which the impacts of **climate change** are more likely to hit the poorest communities than the richest,⁴⁵ the biggest contributors to climate change remain the richest.⁴⁶ Spending on climate adaptation may also be something that is factored in, in some way, to subsequent iterations of the Index.

Although this hypothesis has not been tested, it is reasonable to suppose that action on social spending, taxation and labour to reduce inequality can be used as a proxy for a government's general approach to tackling inequality through other policy interventions too. In this way, the CRI Index is similar to the Human Development Index, which measures three critical variables – life expectancy, education and per capita income – to make a broader point about a given country's overall level of human development. Clearly, human development is more complex than these three pillars of policy, but the Index nevertheless serves a powerful and useful purpose.

RECOMMENDATIONS

1. Better data

Governments, international institutions and other stakeholders should work together to radically and rapidly improve data on inequality and related policies, and to accurately and regularly monitor progress in reducing inequality.

Throughout this report, we highlight the many areas where data constraints prevent a robust assessment of the progress being made on reducing inequality; yet it is imperative that people can understand and hold governments to account for the policies that are in place and the outcomes they affect. Data on inequality remains extremely poor and irregular; official data on spending, tax and labour policies should be collected regularly as part of the SDG monitoring process. There is also a wide range of additional data priorities (notably on the impact of policies on gender and youth, but also on social protection spending, capital gains and property/wealth taxes, minimum wages, and non-standard employment).

2. Policy impact

Governments and international institutions should analyse the distributional impact of any proposed policies, and base their choice of policy direction on the impact of those policies on reducing inequality

Data is of little use without an analysis of the impact of policies on reducing inequality. There must be greater investment in analysis (across more countries, more regularly, and in a wider range of policy areas) of the impact of government policies on inequality: top priorities are to analyse spending composition and incidence, tax incidence and effort/potential, tax haven behaviour, trends in and coverage/enforcement of labour rights, gender equality and minimum wage rights in all countries.

3. Policy action

Governments must dramatically improve their efforts on progressive spending, taxation and workers' pay and protection.

There needs to be an increase in taxation of the richest corporations and individuals, and an end to tax-dodging and the harmful 'race to the bottom' on taxation. Spending on public services and social protection needs to be increased and improved. There needs to be systematic tracking of public expenditures, involving citizens in budget oversight. Workers need to be better paid and better protected. The next section presents the overall rankings on the CRI Index, with subsequent sections on the three areas it measured: social spending, taxation and labour rights. The final section looks at levels of economic inequality.

1 THE COMMITMENT TO REDUCING INEQUALITY FINDINGS

What follows are the overall global CRI ranking for each country and rankings for each region of the world. These are followed by sections on each area being monitored: spending, tax and labour. Finally there is a short section looking at the relationship between the CRI Index and measures of inequality, in particular the Palma ratio.

On the CRI Index, each country is given a score between 0 and 1 for each indicator, and then ranked under that indicator based on its score. These scores are then averaged to give the overall CRI ranking. This means that countries may have rankings in the three pillars that are not as high as their overall rank, because their overall average score remains high.

Sweden, for example – the top-ranking country (see Table 4) – ranked 8, 9 and 8 for the pillars on tax, social spending and labour rights respectively. Its average score is high enough to make it top of the overall ranking.

Table 4: Sweden's ranking, per pillar and overall

Country	Spending on health, education and social protection	Progressive structure and incidence of tax	Labour market policies to address inequality	Total CRI Rank
Sweden	9	8	8	1
Score	0.91	0.87	0.9	0.89

Table 5: CRI Index headline findings

Country	Spending on health, education and social protection	Progressive structure and incidence of tax	Labour market policies to address inequality	Total CRI Rank
Sweden	9	8	8	1
Belgium	4	*3	24	2
Denmark	8	9	12	3
Norway	20	6	3	4
Germany	2	17	6	5
Finland	3	23	10	6
Austria	6	*40	1	7
France	5	19	21	8
Netherlands	19	*13	9	9
Luxembourg	12	*21	11	10
Japan	7	43	4	11
Iceland	24	27	7	12
Ireland	1	*53	19	13
Australia	27	4	25	14
Canada	30	7	16	15
Italy	17	14	29	16

Country	Spending on health, education and social protection	Progressive structure and incidence of tax	Labour market policies to address inequality	Total CRI Rank
United Kingdom	28	31	5	17
Switzerland	14	*86	2	18
Portugal	18	29	30	19
Slovenia	13	56	22	20
South Africa	29	1	54	21
Malta	37	*2	26	22
United States	25	26	37	23
Czech Republic	10	104	14	24
Greece	11	60	46	25
Argentina	34	16	36	26
Spain	16	48	55	27
Hungary	21	85	32	28
Israel***	38	42	23	29
New Zealand	15	115	35	30
Cyprus	42	*38	27	31
Slovak Republic	23	128	20	32
Croatia	44	32	39	33
Costa Rica	32	*36	77	34
Poland	22	121	38	35
Uruguay	33	44	81	36
Occupied Palestinian Territory**	91	79	13	37
Estonia	26	127	43	38
Chile	36	58	76	39
Namibia	41	52	64	40
Niger	125	51	17	41
Liberia	108	*96	18	42
Guyana	68	72	40	43
Tunisia	40	20	130	44
Colombia	51	50	84	45
Latvia	31	145	28	46
Bolivia	43	77	85	47
Mauritius	62	*108	45	48
Lesotho	76	46	57	49
Romania	57	132	31	50
Korea, Rep.	45	67	93	51
Mozambique	70	35	72	52
Zimbabwe	69	25	88	53
Burkina Faso	104	87	33	54
Turkey	59	55	83	55
Malawi	115	18	51	56
Ecuador	80	41	60	57

Country	Spending on health, education and social protection	Progressive structure and incidence of tax	Labour market policies to address inequality	Total CRI Rank
Armenia	47	92	80	58
Djibouti	92	12	0	59
Samoa	46	*118	61	60
Guinea	136	122	15	61
Jordan	86	*15	90	62
Seychelles	102	*10	0	63
Georgia	63	5	138	64
Tajikistan	81	111	41	65
Togo	114	112	34	66
El Salvador	60	63	102	67
Mexico	35	125	91	68
Kiribati	56	75	100	69
Thailand	61	22	136	70
Benin	94	47	70	71
Papua New Guinea	117	71	52	72
Trinidad and Tobago	84	73	68	73
Sierra Leone	111	103	47	74
Solomon Islands	54	89	121	75
Mongolia	66	123	62	76
Kazakhstan	90	39	98	77
Tanzania	118	24	92	78
Bulgaria	52	144	44	79
Vietnam	109	74	65	80
Nepal	110	69	71	81
Algeria	89	83	78	82
Lithuania	49	141	49	83
Zambia	82	37	123	84
Russian Federation	58	66	132	85
Singapore	65	*105	96	86
China	67	94	107	87
Burundi	73	76	116	88
Kyrgyz Republic	55	117	111	89
Peru	77	57	126	90
Maldives	71	*136	58	91
St. Lucia	85	*84	0	92
Rwanda	123	81	73	93
Kenya	131	88	53	94
Azerbaijan	134	28	75	95
Honduras	132	49	66	96
Ethiopia	105	54	103	97
Mali	93	61	113	98

Country	Spending on health, education and social protection	Progressive structure and incidence of tax	Labour market policies to address inequality	Total CRI Rank
Mauritania	143	11	63	99
Dominican Republic	74	78	128	100
Indonesia	121	34	114	101
Ghana	124	45	104	102
Morocco	99	140	50	103
Serbia	39	139	0	104
Botswana	78	62	134	105
Malaysia	96	30	135	106
Moldova	50	143	69	107
Congo, Dem. Rep.	107	82	105	108
Guatemala	72	110	124	109
Congo, Rep.	126	93	79	110
Cambodia	137	137	42	111
Gambia, The	95	95	115	112
Côte d'Ivoire	100	134	67	113
Philippines	101	80	122	114
Barbados	97	*100	0	115
Paraguay	79	129	97	116
Uganda	127	68	94	117
Antigua and Barbuda	88	114	0	118
St. Vincent and the Grenadines	64	*133	0	119
Vanuatu	120	*97	110	120
Senegal	116	106	112	121
Central African Republic	147	135	48	122
Angola	139	90	82	123
Jamaica	106	126	95	124
Yemen, Rep.	119	99	129	125
Egypt, Arab Rep.	75	102	143	126
Fiji	129	*109	106	127
Guinea-Bissau	113	138	99	128
Cabo Verde	103	142	89	129
São Tomé and Príncipe	122	119	0	130
Lebanon	138	*101	108	131
India	149	91	86	132
Cameroon	144	64	119	133
Lao PDR	150	33	87	134
Madagascar	128	150	56	135
Oman	130	146	74	136
Haiti	140	120	109	137
Sri Lanka	142	59	131	138
Pakistan	146	98	118	139

Country	Spending on health, education and social protection	Progressive structure and incidence of tax	Labour market policies to address inequality	Total CRI Rank
Swaziland	83	130	142	140
Bangladesh	148	65	127	141
Ukraine	53	149	117	142
Bhutan	112	124	141	143
Tonga	98	*107	144	144
Belarus	48	148	137	145
Afghanistan	141	131	133	146
Timor-Leste	135	147	120	147
Panama	145	*113	140	148
Albania	87	152	59	149
Myanmar	151	70	125	150
Bahrain	133	*151	101	151
Nigeria	152	116	139	152

Note: * This country has been identified by Oxfam, the Tax Justice Network and/or other institutions as playing a significant role as a corporate tax haven and/or secrecy jurisdiction. If this were taken into account, their rank on the tax pillar would not be as high and it is likely their overall CRI rank would also be lower. We were unable to incorporate the tax haven status of these and other countries into the Index for this first version and are working with experts in the tax field to aim to make an updated assessment of the characteristics of a tax haven for all countries for subsequent versions.

Note: ** Occupied Palestinian Territory

These figures relate to those parts of the Occupied Palestinian Territory (OPT) that fall under the jurisdiction of the Palestinian National Authority (PNA). The OPT refers to the Palestinian territory occupied by Israel since the 1967 war: the Gaza Strip and the West Bank including East Jerusalem. The OPT is recognized as one territorial entity under international law. The key drivers of inequality and injustice for Palestinians in the OPT are the protracted occupation, recurrent conflict and the systematic and ongoing denial of Palestinian rights. While this Index measures fairness of taxation, levels of social spending and work conditions, it is not designed to capture elements related to a situation of military occupation. It should be noted that the PNA and Palestinian economy remain heavily constrained by the ongoing occupation. Taxation in the OPT is subject to the Oslo Accords (Protocol on Economic Relations or Paris Protocol) and the PNA is not fully sovereign in determining tax policies as they pertain to indirect taxation, the majority of which are collected by the occupying power and transferred to the PNA. However the PNA retains power to levy and collect direct taxes under its authority and Oxfam partners are seeking to encourage the PNA to address issues of tax inequality where it can, within the constraints outlined above. The results of Oxfam's 'Commitment to Reducing Inequality' Index as they relate to the OPT should be interpreted in the light of these facts.

Note: *Israel**

These figures relate to the Government of Israel (GoI)'s national budget, tax system, labour conditions and gender equality and related laws that the GoI applies to its citizens. It must be noted, however, that Israel is the occupying power in the Occupied Palestinian Territory (OPT). In this capacity, the GoI maintains various degrees of control over the occupied Palestinian population. For example, Palestinians for whom the GoI is responsible in Area C of the West Bank do not benefit from the protections of the GoI's labour laws, while the residents of illegal Israeli settlements in the same geographic locations do. The key drivers of inequality and injustice for Palestinians in the OPT are the protracted occupation, recurrent conflict and the systematic and ongoing denial of Palestinian rights. While this Index measures fairness of taxation, levels of social spending and work conditions, it is not designed to capture elements related to a situation of military occupation. The results of Oxfam's Commitment to Reducing Inequality Index as they relate to the GoI's control of the OPT should be interpreted in the light of these facts.

REGIONAL RANKINGS

Asia

Asia's phenomenal economic growth over the past two decades is a remarkable success story in the fight against poverty. However, this growth has also led to a sharp widening of the gap between rich and poor. In cities from Mumbai to Bangkok, state-of-the-art condo and office towers stand alongside shantytowns where people live with no basic services and little protection from the elements. Asia includes some of the countries with the fastest-growing inequality in the world. Whereas growth in the region from the 1960s to the 1980s was remarkable for its broad base, recent growth has been far less inclusive. This is partly due to recent policies that favour those at the top, including widespread tax breaks for corporations and individuals, and cuts in headline tax rates. Tables 6 and 7 show the individual ranking per indicator and the overall ranking for countries in East Asia and the Pacific, and South Asia respectively.

Table 6: East Asia and Pacific

Country	Spending on health, education and social protection	Spending rank	Progressive structure and incidence of tax	Tax rank	Labour market policies to address inequality	Labour rank	CRI score	Regional CRI rank
Japan	0.93	1	0.62	6	0.93	1	0.82	1
Australia	0.70	3	0.91	1	0.74	2	0.78	2
New Zealand	0.84	2	0.38	19	0.68	3	0.60	3
Korea, Rep.	0.44	4	0.53	7	0.36	9	0.44	4
Samoa	0.43	5	0.35	20	0.48	6	0.42	5
Kiribati	0.36	7	0.51	11	0.34	11	0.40	6
Thailand	0.35	8	0.72	2	0.18	21	0.39	7
Papua New Guinea	0.19	16	0.52	9	0.53	5	0.39	8
Solomon Islands	0.39	6	0.46	13	0.28	17	0.38	9
Mongolia	0.31	10	0.33	21	0.48	7	0.37	10
Vietnam	0.20	15	0.51	10	0.46	8	0.36	11
Singapore	0.32	9	0.41	16	0.35	10	0.36	12
China	0.31	11	0.45	14	0.31	13	0.35	13
Indonesia	0.18	18	0.67	5	0.30	15	0.33	14
Malaysia	0.22	12	0.69	3	0.18	20	0.32	15
Cambodia	0.11	21	0.24	22	0.60	4	0.31	16
Philippines	0.21	14	0.49	12	0.28	18	0.31	17
Vanuatu	0.18	17	0.44	15	0.31	14	0.29	18
Fiji	0.14	19	0.39	18	0.31	12	0.26	19
Lao PDR	0.04	22	0.67	4			0.24	20
Tonga	0.22	13	0.40	17			0.20	21
Timor-Leste	0.12	20	0.10	23	0.29	16	0.17	22
Myanmar	0.02	23	0.53	8	0.27	19	0.15	23

Table 7: South Asia

Country	Spending on health, education and social protection	Spending rank	Progressive structure and incidence of tax	Tax rank	Labour market policies to address inequality	Labour rank	CRI score	Regional CRI rank
Nepal	0.20	2	0.53	3	0.45	2	0.36	1
Maldives	0.29	1	0.25	8	0.50	1	0.35	2
India	0.07	8	0.46	4	0.40	3	0.25	3
Sri Lanka	0.09	5	0.55	1	0.23	6	0.22	4
Pakistan	0.08	6	0.43	5	0.29	4	0.22	5
Bangladesh	0.07	7	0.53	2	0.26	5	0.21	6
Bhutan	0.20	3	0.32	6			0.21	7
Afghanistan	0.09	4	0.27	7	0.20	7	0.17	8

Africa

Seven of the world's most unequal countries are in Africa.⁴⁷ Across Africa, inequality is harming the ability of growth to reduce poverty and deliver shared prosperity. It is hindering the emergence of a new middle class. Instead, the benefits of economic growth are all too often accruing to a small minority. The gap between rich and poor is greater than in any other region of the world apart from Latin America, and in many African countries this gap continues to grow. Equatorial Guinea is a high-income country, with a per capita income higher than that of Spain, but with an infant mortality rate significantly higher than that of Burundi.⁴⁸ Table 8 shows the rankings for each pillar and the overall ranking for sub-Saharan African countries included in the CRI Index.

Table 8: Sub-Saharan Africa

Country	Spending on health, education and social protection	Spending rank	Progressive structure and incidence of tax	Tax rank	Labour market policies to address inequality	Labour rank	CRI score	Regional CRI rank
South Africa	0.67	1	1.00	1	0.51	11	0.72	1
Namibia	0.45	2	0.58	13	0.46	15	0.49	2
Niger	0.16	30	0.59	12	0.83	2	0.48	3
Liberia	0.20	20	0.45	27	0.82	3	0.47	4
Mauritius	0.34	3	0.39	30	0.59	6	0.44	5
Lesotho	0.28	7	0.61	10	0.50	13	0.44	6
Mozambique	0.29	5	0.65	7	0.44	18	0.44	7
Zimbabwe	0.30	4	0.71	6	0.39	22	0.44	8
Burkina Faso	0.20	17	0.47	22	0.68	4	0.43	9
Malawi	0.19	24	0.76	4	0.54	9	0.43	10
Guinea	0.12	35	0.34	34	0.85	1	0.42	11
Seychelles	0.21	15	0.82	2			0.41	12
Togo	0.19	23	0.39	31	0.68	5	0.41	13
Benin	0.22	12	0.61	11	0.45	17	0.39	14
Sierra Leone	0.20	21	0.41	28	0.56	7	0.38	15

Country	Spending on health, education and social protection	Spending rank	Progressive structure and incidence of tax	Tax rank	Labour market policies to address inequality	Labour rank	CRI score	Regional CRI rank
Tanzania	0.18	26	0.72	5	0.37	24	0.37	16
Zambia	0.25	9	0.65	8	0.28	35	0.36	17
Burundi	0.28	6	0.51	19	0.30	33	0.35	18
Rwanda	0.18	28	0.49	20	0.44	19	0.34	19
Kenya	0.14	34	0.46	23	0.52	10	0.34	20
Ethiopia	0.20	18	0.58	14	0.33	27	0.34	21
Mali	0.22	11	0.55	15	0.30	31	0.33	22
Mauritania	0.09	37	0.81	3	0.46	14	0.33	23
Ghana	0.17	29	0.62	9	0.32	28	0.33	24
Botswana	0.27	8	0.55	16	0.20	36	0.32	25
Congo, Dem. Rep.	0.20	19	0.48	21	0.32	29	0.32	26
Congo, Rep.	0.15	31	0.45	25	0.41	20	0.31	27
Gambia, The	0.22	13	0.45	26	0.30	32	0.31	28
Côte d'Ivoire	0.21	14	0.27	36	0.45	16	0.31	29
Uganda	0.14	32	0.53	18	0.35	25	0.30	30
Senegal	0.19	25	0.40	29	0.30	30	0.28	31
Central African Republic	0.08	39	0.27	37	0.56	8	0.28	32
Angola	0.11	36	0.46	24	0.40	21	0.28	33
Guinea-Bissau	0.19	22	0.24	38	0.34	26	0.26	34
Cabo Verde	0.20	16	0.17	39	0.38	23	0.25	35
São Tomé and Príncipe	0.18	27	0.35	33			0.25	36
Cameroon	0.09	38	0.53	17	0.29	34	0.24	37
Madagascar	0.14	33	0.07	40	0.51	12	0.23	38
Swaziland	0.25	10	0.28	35	0.13	38	0.22	39
Nigeria	0.00	40	0.38	32	0.15	37	0.05	40

Latin America

Latin America is the most unequal region in the world, built of a history of colonial exploitation and land concentration favouring small elites and disenfranchising the poorest people, especially indigenous people and women. Nevertheless, in the past 15 years, the region has bucked the trend in terms of reducing inequality. Although there are a number of exceptions, governments in Uruguay, Bolivia, Argentina and other countries have developed important reforms to reduce inequality. Public revenues from commodities were used to increase spending on public services and social protection. In some countries, the minimum wage was also increased. This is reflected in the CRI Index, with a number of Latin American countries doing well (see Table 9).

The region is currently facing an economic downturn connected to the fall in commodity prices. In 2015, it experienced the highest increase in poverty rates since the late 1980s and the change of government in many countries is driving policy shifts that threaten the achievements of recent years.⁴⁹

Table 9: Latin America and the Caribbean

Country	Spending on health, education and social protection	Spending rank	Progressive structure and incidence of tax	Tax rank	Labour market policies to address inequality	Labour rank	CRI score	Regional CRI rank
Argentina	0.54	3	0.77	1	0.67	1	0.65	1
Costa Rica	0.63	1	0.65	2	0.42	7	0.57	2
Uruguay	0.57	2	0.62	4	0.40	8	0.53	3
Chile	0.52	5	0.56	8	0.42	6	0.50	4
Guyana	0.30	10	0.52	10	0.61	2	0.47	5
Colombia	0.41	7	0.59	6	0.40	9	0.46	6
Bolivia	0.44	6	0.50	12	0.40	10	0.44	7
Ecuador	0.25	15	0.64	3	0.49	3	0.43	8
El Salvador	0.35	8	0.55	9	0.33	14	0.40	9
Mexico	0.53	4	0.32	20	0.38	11	0.40	10
Trinidad and Tobago	0.24	16	0.51	11	0.45	5	0.39	11
Peru	0.27	13	0.56	7	0.26	17	0.35	12
St. Lucia	0.24	17	0.48	14			0.34	13
Honduras	0.13	21	0.59	5	0.46	4	0.34	14
Dominican Republic	0.28	12	0.50	13	0.25	18	0.33	15
Guatemala	0.29	11	0.39	16	0.27	16	0.31	16
Barbados	0.22	19	0.43	15			0.30	17
Paraguay	0.27	14	0.29	22	0.34	13	0.30	18
Antigua and Barbuda	0.23	18	0.38	18			0.30	19
St. Vincent and the Grenadines	0.32	9	0.27	23			0.30	20
Jamaica	0.20	20	0.31	21	0.35	12	0.28	21
Haiti	0.10	22	0.35	19	0.31	15	0.23	22
Panama	0.08	23	0.38	17	0.15	19	0.17	23

High-income OECD countries

In most high-income countries, the gap between rich and poor people has been rising for the past 30 years. This trend comes after many years of narrowing inequality, so much so that it was thought that when countries reached a certain level of wealth, an increase in equality was inevitable.⁵⁰ At the end of the Second World War, many high-income countries developed high levels of progressive taxation, strong welfare states and strong protection of workers. This combination of policies created some of the most equal countries in the world – which is reflected in the fact that high-income countries are predominantly at the top of the CRI Index (see Table 9). In recent decades, though, there has been a steady erosion of these policies in many rich nations, from Denmark to the US. Institutions such as the IMF and OECD have linked this to rising inequality. The reduction in trade union membership, for example, has been directly linked by the IMF to the increase in inequality.

Table 10: High-income countries

Country	Spending on health, education and social protection	HIC spending rank	Progressive structure and incidence of tax	HIC tax rank	Labour market policies to address inequality	HIC labour rank	CRI score	HIC CRI rank
Sweden	0.71	9	0.71	6	0.65	8	0.88	1
Belgium	0.75	4	0.75	2	0.55	20	0.88	2
Denmark	0.72	8	0.70	7	0.64	12	0.88	3
Norway	0.63	20	0.73	4	0.69	3	0.88	4
Germany	0.75	2	0.68	12	0.66	6	0.88	5
Austria	0.73	6	0.64	20	0.72	1	0.86	6
Finland	0.75	3	0.66	15	0.64	10	0.85	7
France	0.74	5	0.67	13	0.59	17	0.83	8
Netherlands	0.63	19	0.68	9	0.65	9	0.83	9
Luxembourg	0.68	12	0.66	14	0.64	11	0.82	10
Japan	0.72	7	0.62	24	0.67	4	0.82	11
Iceland	0.58	24	0.65	17	0.65	7	0.78	12
Ireland	0.77	1	0.60	27	0.59	15	0.78	13
Australia	0.55	27	0.74	3	0.54	21	0.78	14
Canada	0.51	29	0.71	5	0.61	14	0.77	15
Italy	0.65	17	0.68	10	0.51	25	0.77	16
United Kingdom	0.54	28	0.64	19	0.67	5	0.76	17
Switzerland	0.66	14	0.55	35	0.71	2	0.75	18
Portugal	0.63	18	0.65	18	0.51	26	0.73	19
Slovenia	0.67	13	0.59	28	0.59	18	0.73	20
Malta	0.41	34	0.77	1	0.53	22	0.71	21
United States	0.57	25	0.65	16	0.48	30	0.70	22
Czech Republic	0.68	10	0.53	37	0.62	13	0.69	23
Greece	0.68	11	0.59	30	0.41	34	0.65	24
Argentina	0.43	32	0.68	11	0.48	29	0.65	25
Spain	0.65	16	0.61	26	0.37	36	0.64	26
Hungary	0.62	21	0.55	34	0.50	27	0.63	27

Country	Spending on health, education and social protection	HIC spending rank	Progressive structure and incidence of tax	HIC tax rank	Labour market policies to address inequality	HIC labour rank	CRI score	HIC CRI rank
Israel	0.39	35	0.62	23	0.55	19	0.62	28
New Zealand	0.66	15	0.51	40	0.49	28	0.60	29
Cyprus	0.36	36	0.63	22	0.53	23	0.60	30
Slovak Republic	0.59	23	0.47	43	0.59	16	0.58	31
Croatia	0.36	37	0.64	21	0.46	32	0.57	32
Poland	0.61	22	0.50	41	0.47	31	0.56	33
Uruguay	0.46	31	0.62	25	0.29	40	0.53	34
Estonia	0.57	26	0.47	42	0.43	33	0.51	35
Chile	0.42	33	0.59	29	0.30	39	0.50	36
Latvia	0.51	30	0.41	45	0.52	24	0.45	37
Korea, Rep.	0.36	38	0.58	32	0.26	41	0.44	38
Seychelles	0.19	45	0.70	8			0.41	39
Trinidad and Tobago	0.22	42	0.57	33	0.33	37	0.39	40
Lithuania	0.35	39	0.42	44	0.40	35	0.36	41
Russian Federation	0.30	40	0.58	31	0.15	44	0.36	42
Singapore	0.27	41	0.52	38	0.25	42	0.36	43
Barbados	0.20	44	0.53	36			0.30	44
Antigua and Barbuda	0.21	43	0.51	39			0.30	45
Oman	0.14	46	0.40	46	0.31	38	0.23	46
Bahrain	0.14	47	0.36	47	0.24	43	0.15	47

Table 11 OECD countries

Country	Spending on health, education and social protection	OECD spending rank	Progressive structure and incidence of tax	OECD tax rank	Labour market policies to address inequality	OECD labour rank	CRI score	OECD CRI rank
Sweden	0.71	9	0.71	5	0.65	8	0.88	1
Belgium	0.75	4	0.75	1	0.55	20	0.88	2
Denmark	0.72	8	0.70	6	0.64	12	0.88	3
Norway	0.63	20	0.73	3	0.69	3	0.88	4
Germany	0.75	2	0.68	9	0.66	6	0.88	5
Austria	0.73	6	0.64	17	0.72	1	0.86	6
Finland	0.75	3	0.66	12	0.64	10	0.85	7
France	0.74	5	0.67	10	0.59	17	0.83	8
Netherlands	0.63	19	0.68	7	0.65	9	0.83	9
Luxembourg	0.68	12	0.66	11	0.64	11	0.82	10
Japan	0.72	7	0.62	19	0.67	4	0.82	11
Iceland	0.58	24	0.65	14	0.65	7	0.78	12
Ireland	0.77	1	0.60	21	0.59	15	0.78	13
Australia	0.55	27	0.74	2	0.54	21	0.78	14
Canada	0.51	29	0.71	4	0.61	14	0.77	15
Italy	0.65	17	0.68	8	0.51	23	0.77	16
United Kingdom	0.54	28	0.64	16	0.67	5	0.76	17
Switzerland	0.66	14	0.55	28	0.71	2	0.75	18
Portugal	0.63	18	0.65	15	0.51	24	0.73	19
Slovenia	0.67	13	0.59	23	0.59	18	0.73	20
United States	0.57	25	0.65	13	0.48	27	0.70	21
Czech Republic	0.68	10	0.53	29	0.62	13	0.69	22
Greece	0.68	11	0.59	25	0.41	30	0.65	23
Spain	0.65	16	0.61	20	0.37	31	0.64	24
Hungary	0.62	21	0.55	27	0.50	25	0.63	25
Israel	0.39	33	0.62	18	0.55	19	0.62	26
New Zealand	0.66	15	0.51	30	0.49	26	0.60	27
Slovak Republic	0.59	23	0.47	34	0.59	16	0.58	28
Poland	0.61	22	0.50	31	0.47	28	0.56	29
Estonia	0.57	26	0.47	33	0.43	29	0.51	30
Chile	0.42	32	0.59	24	0.30	32	0.50	31
Latvia	0.51	30	0.41	35	0.52	22	0.45	32
Korea, Rep.	0.36	34	0.58	26	0.26	35	0.44	33
Turkey	0.30	35	0.59	22	0.29	33	0.43	34
Mexico	0.43	31	0.48	32	0.27	34	0.40	35

2 REDUCING INEQUALITY THROUGH SOCIAL SPENDING

2.1 Global evidence on the impact of social spending on reducing inequality

Evidence from more than 150 countries, rich and poor alike, spanning more than 30 years,⁵¹ shows that overall, investment in health, education and social protection reduces inequality. This is because government spending can help to reduce income inequality by putting a 'virtual' or actual income into everyone's pockets.⁵² This has been shown to reduce income inequality by an average of 20% across the OECD,⁵³ and one recent review of 13 developing countries found that spending on education and health accounted for 69% of total reduction of inequality.⁵⁴

When government provides public services (especially health⁵⁵ and education), and when these services are heavily subsidized (or, even better, free), the poorest people do not have to use any (or as much) of their very low earnings to pay for them. This has been shown to boost incomes for lower-income households by as much as (if not more than) their regular earnings.⁵⁶

These 'in-kind' services can be further boosted if a government provides direct cash support, including through social welfare programmes such as cash transfer schemes that provide protection for citizens against unforeseen circumstances, or help to ensure that the poorest people get a boost to their incomes.⁵⁷ This social protection spending can act to redistribute cash from the wealthy in society to the poorest households – helping to tackle inequality and build a better society for all.⁵⁸

There is a minimum level of spending below which service quality suffers. For example, there are ratios of trained teachers to students in order to ensure learning in the classroom,⁵⁹ and a minimum number of doctors and nurses (as well as essential medicines and facilities) are required to operate a quality health system.⁶⁰

A number of national governments have made commitments to increase spending on health and education. In 2001, all African governments made a commitment to increase health spending to 15% under the Abuja Declaration. In 2015, 160 governments made the commitment to spend up to 20% of their budget on education as part of the Incheon Declaration.⁶¹

Quality of spending matters

Beyond overall spending levels, evidence from across the world shows that how governments spend their budget within and across different social sectors matters a great deal. There is huge variation within and across countries for different sectors, and across different types of social sector spending. Some countries have high spending but the money is not spent progressively so that it fails to make much of an impact on inequality, while others spend less but spend more effectively,

In many countries, education fees, both informal and formal, still exclude the poorest (particularly girls) from attending school. Spending is skewed towards tertiary education in most cases. On average, 46% of public education spending in low-income countries and 26% in lower middle-income countries is allocated to educate the 10% of students who are already most educated. Too often, the answer is to privatize tertiary education or hugely increase fees, even though these tend to exclude the poorest children even further. A balance has to be found where tertiary education is available without diverting too much public money away from basic education.

When spending is more progressive, this can have a profound impact – for instance, investment in early years education can have a particularly strong impact on reducing inequality, giving poorer children more of a chance at the very start of their lives.⁶²

Health spending can make a significant contribution to reducing inequality, but this is significantly determined by how it is spent. For example, it will have a limited impact on inequality if spending is skewed towards richer areas or hospital care, away from clinics in poor areas. Each year, 100 million people are driven below the poverty line by having to pay for healthcare, and millions more delay or avoid seeking healthcare because they cannot afford to do so.⁶³ Again, the solution often suggested – health insurance – is not necessarily effective in reducing inequality because it is difficult to secure large-scale coverage for the poorest households. In Ghana, for example, the health insurance scheme is predominantly accessed by better-off households, with national coverage of just 35%.⁶⁴

The impact of social protection spending on inequality and poverty varies greatly across countries. In developing countries, social protection schemes are generally too small to make any substantive inroads into reducing inequality. Contributory schemes (such as pensions) also tend to favour better-off households. The Asian Development Bank's Social Protection Index confirms this, finding that 83% of recipients of social protection in the region were not poor, and that this was due to the predominance of social insurance schemes such as contributory pensions.⁶⁵ Conversely, cash transfers are much more likely to be pro-poor, although targeting those who are poor is very difficult; more universal allocation based on category rather than poverty level (for example, support grants for all mothers and children) often proves more effective. Most middle-income countries could have much larger social protection programmes. In OECD countries, social protection schemes tend to be much larger and have been shown to reduce inequality by as much as 30%.^{66,67,68,69}

Spending decisions are often subject to influence by special interests

Too often, in many countries, decisions around resource allocation are dominated by special interests and bad policy choices that increase inequality. Elites and powerful interests can 'capture' policies and spending and serve to sway spending priorities. For instance, in Chile, studies show that when vouchers were introduced for the education system, the upper and middle classes tended to capture the main benefits, which led to deep stratification in the education system.⁷⁰ Often, allocations in each country go disproportionately to areas with the largest populations, urban or wealthy areas, or areas which are politically favoured by governing parties. For example, in Senegal, more than half of public resources are concentrated in the capital, Dakar, where only about a quarter of the population lives.⁷¹ To address these geographical inequalities, public spending needs to be allocated according to more 'equitable spending formulas'. A number of countries, such as South Africa⁷² and Ecuador,⁷³ have well-developed systems of allocating spending to redress disadvantage, and these have been shown to have an equalizing impact in their social spending. Equity formulas are especially important in countries with marginalized ethnic groups or strong geographical disparities.

This variation shows up in studies that demonstrate the impact of spending on inequality using benefit incidence analysis. The Commitment to Equity project showed significant variation in Latin American countries: Argentina has higher redistribution levels from its spending, while Bolivia's redistributive achievements are low (compared with a higher social spend).⁷⁴ A further study by the same authors looking at 11 middle-income countries also shows differing impacts on inequality.⁷⁵ This incidence analysis is used in the CRI Index.

To establish the indicators in this pillar, DFI has collated the most up-to-date spending data from the most recent budget documents. This has been augmented by other sources, notably the International Labour Organization (ILO)'s Social Protection Index. The majority of the data for the indicators in this pillar will be updated each year.

2.2 Gender, youth, social spending and social protection

There is significant overlap between the impact of social spending on gender inequality and on economic inequality. Poor and disadvantaged women and girls stand to gain most from quality, universal and equitable healthcare and education. If all girls completed primary education, maternal deaths would fall by two-thirds, saving 189,000 women's lives each year.⁷⁶ Education can also increase women's economic opportunities and their decision making power within the household.⁷⁷ Universal access to quality healthcare can transform women's lives, giving them more choices and reducing their risks of contracting preventable illnesses or even maternal death. At least 35.5 million children under the age of five are regularly left alone or being looked after by other young children. The poorest children in the poorest countries are most likely to be left alone.⁷⁸ Moreover, when services are not provided there is an uneven burden on women as care givers: in 66 countries, women spend an extra 10 weeks or more each year on unpaid work, limiting the time and opportunity available to them to earn a living wage⁷⁹. The level of unpaid care work done by women is huge and largely unrecognized, and public services can make a key difference in supporting women and families.⁸⁰

Given the huge gender disparities in access to services and in development outcomes, more and better spending must be a core touchstone for budget setting. One way that government can better target spending to women's needs is through gender-responsive budgeting. This can help to analyse the budget's current impact and target more spending directly to women, such as on maternal healthcare, reproductive rights, and tackling female genital mutilation (FGM), sexual abuse and violence against women. It can also help to ensure that spending is having the desired impact on equity and access by looking at spending through a gender lens.

There have been major efforts across the world to promote gender-responsive budgeting and to analyse the degree to which spending is directly or indirectly targeted to women. A recent IMF report highlights numerous positive examples, and finds that gender budgeting can promote gender equality. While specific policies vary, the evidence is beginning to become clearer about how this vital tool can help to ensure that national budgeting processes address women's needs and support their rights.⁸¹

Young people also hit harder

Young people, and particularly young women, are another group that is disproportionately affected by low levels of social spending. As the main beneficiaries of education spending, they suffer when spending on this sector is cut or when education is only accessible to those who can afford to pay. Free universal primary education is vital, particularly for empowering girls and young women to take control of their lives; it helps prevent child marriage, enables women to have fewer children and to secure a stronger economic position in society.⁸² In many countries, public services are increasingly subject to fees that put them out of reach for most young people. When young people cannot afford to pursue secondary or tertiary education, their talents are squandered, at huge cost to society.

There are many other disadvantaged or marginalized groups, including ethnic minorities and disabled people, who may need special provision to redress inequality.⁸³ These groups often require even more spending to redress such disadvantages; equity formulas, which ensure this happens in a non-political way, have been successful in a number of countries.

2.3 What are the overall results for the CRI Index spending pillar?

The results for the spending pillar show wide variation between countries in terms of how much they spend and the impact of their spending on inequality.

A number of countries have decided to use the majority of their budget for social spending as a means of redistributing wealth and income, and this is having a large impact on inequality. Near the top of the rankings for the spending pillar are two broad clusters of countries. One includes

a group of high-spending (and higher income⁸⁴) countries from Latin America, while the other includes high-performing OECD countries.

Costa Rica, at number one in the rankings on social spending for the Latin America region, performs well on progressive public spending.⁸⁵ Its investments have helped to build a high-quality universal healthcare service, with outcomes that rival (or even surpass) some of the richest countries in the world.⁸⁶ In addition, large and very progressive social protection measures both redistribute wealth⁸⁷ and play a role in social cohesion.⁸⁸ Uruguay,⁸⁹ at number two, spends large amounts on health and education, with well-developed and broad coverage social protection schemes.⁹⁰ Argentina, the third best spending performer in Latin America, is renowned for its progressive social spending. It embarked on a large-scale expansion of social spending after 2009.⁹¹ Taken together, the social spending of these three countries has been shown to have a very strong impact in reducing inequality.⁹² They have been part of an emerging pattern in Latin America, with government spending responsible for as much as 20% of all reductions in inequality since 2000.⁹³ With the shift towards a more centre-right administration in many of these countries, it remains to be seen whether social spending will remain at such high levels. Any changes will, of course, show up in subsequent iterations of the CRI Index.

There is a second cluster of high-performing OECD countries towards the top of the ranking. Renowned for their well-established, long-term commitments to publicly funded social investments, this group includes Finland, Germany and Sweden.⁹⁴

It is notable that most of the high to medium 'achievers' in the CRI Index are drawn from higher income countries which tend to spend significantly more on social protection. This is in line with findings which suggest that social spending (especially on social protection) rises once a certain level of national income has been attained, while in-kind transfers through health and education tend to dominate before such time.⁹⁵ For this reason, it is not until about mid-way through the spending rankings that the first low-income countries start to show up – and these countries deserve even greater recognition for using their more limited resources to work harder on reducing inequality. Ethiopia is a notable example, ranking tenth globally on the education sub-indicator. What is notable about Ethiopia, along with a number of other well-performing low-income countries, is that it is devoting significantly more to 'redistributive' and 'pro-poor' spending than developed countries did at a similar stage in their history.⁹⁶ Meanwhile, Cambodia's otherwise strong performance on reducing inequality is also let down by its very low social spending (see Box 5)

Conversely, some middle-income countries are spending significantly less than today's rich nations did at a similar point in their economic development. For example, Indonesia is richer today (in terms of per capita income) than the USA was in 1935, when it passed the Social Security Act.⁹⁷ Its relatively low spending is reflected in the country's poor performance in the CRI Index, ranked 101st. President Jokowi of Indonesia is publicly committed to turning this around and reducing inequality, which is very positive.

This is also true for Nigeria, Pakistan and India – all middle-income countries that could be spending far more on health, education and social protection than they are doing, which means they get very low scores on the CRI Index. These three countries account for 1.6 billion people, so could make an enormous impact on reducing global poverty and inequality if they chose to. Interestingly, in all three countries there has been a rapid rise in private education in the absence of good state provision, which in turn further entrenches both economic and gender inequality.⁹⁸

Nigeria ranks at the bottom of the Index for social spending, which is reflected in the very poor social outcomes for its citizens. More than 10 million children in Nigeria do not go to school.⁹⁹ A child from a rich Nigerian family could expect to receive 12 years of schooling, while a child from the poorest group could expect to receive around three years of schooling (on average).¹⁰⁰ Nigeria has a similar per capita income to Bolivia, yet in Nigeria, 1 in 10 children die before they reach their fifth birthday (compared with 1 in 25 children in Bolivia).¹⁰¹

Box 5: The flip-side of growth in Cambodia: social spending needs to be rapidly increased to reduce inequality

While economic growth had risen to 7% in 2016,¹⁰² Cambodia ranks 110th on the CRI Index for its social spending. This is significantly lower than its overall ranking of 108. For the past two decades Cambodia has experienced rapid economic growth and a significant reduction in poverty. Although inequality was rising until 2009, it has fallen since then thanks to broad-based economic growth. However, inequality and poverty remain fundamental issues for the country, where 2 in 10 people live on less than \$2 a day, and many more live close to the poverty line. Growth in the garments, construction and service sectors has also come with severe social costs. Women, who tend to work in the informal sector, have less access to social insurance, social assistance, and labour market programmes.

Cambodia allocates only 5% of its budget to social protection.¹⁰³ This is lower than many other countries in the region, including Indonesia, Vietnam and Thailand. The country has various social protection schemes, but they lack integration and many poor people do not benefit, as coverage is insufficient.

While recent total spending on health and education increased, levels of spending and outcomes are still low compared with others in the region. Rich–poor and urban–rural inequalities in access to healthcare remain unacceptably high.¹⁰⁴ Children in the poorest quintile are three times more likely to die before the age of five than those in the richest quintile.¹⁰⁵ Skilled birth attendance is twice as likely for rich women than for the poorest women. User fees are still charged, despite raising a very small amount of money towards the health budget. Although a significant exemption system is in place, fees – combined with a lack of spending on the public health system – exacerbate both gender and economic inequality. Poor people, especially women, have no choice but to make high out-of-pocket payments for unregulated and poor-quality private healthcare. Only 29% of the poorest Cambodians make use of government health services when they fall ill.¹⁰⁶

Equity and efficiency would be vastly improved if fees for government health services were removed altogether and all financing for health was pooled and spent scaling up the health workforce. There is an urgent need to improve the quality of healthcare and extend coverage to all Cambodians so that healthcare is free at the point of use.

Cambodia has the youngest population in South-East Asia. At present, young people and women do not have their needs, perspectives and concerns reflected in the national budget. Making growth inclusive and reducing inequality *is* possible; evidence suggests that there is ample scope to scale up social spending in Cambodia to get closer to achieving this aim.

There are also outliers in this picture – i.e. governments that are spending a significant amount on social services but where that spending is not reducing inequality (or at least is not pro-poor). Nowhere is this clearer than in the case of the USA, which has very high levels of spending on health (even when measured against the standards of the richest OECD countries) and does well on the total spending on health indicators; yet evidence suggests that this spending is having much less of an impact on reducing inequality than health spending in other OECD countries.¹⁰⁷ This is largely due to its complex privatized system and the high cost of healthcare.¹⁰⁸ This can have a devastating impact; in 2013, two million people went bankrupt as a result of medical bills in the US, with the largest amount of personal bankruptcy attributed to medical debt.¹⁰⁹

Box 6: The Nine is Mine! campaign in India

In 2004, the Indian government promised in its Common Minimum Programme to allocate 6% of its gross domestic product (GDP) to education and 3% to health. With this backdrop, the Nine is Mine campaign was launched in October 2006, with a call for 9% of GDP to be committed to health and education. At the launch event, 4,500 children in Delhi had rallied themselves into the movement and 20 inspirational children met with the then prime minister, Manmohan Singh, and asked him to keep his promise of giving all children in India access to health and education. The children presented the prime minister with a giant 'NINEISMINE' postcard with more than 200,000 signatures, and told him stories of their difficulties in accessing their basic rights to education and health. The campaign aimed to hold the United Progressive Alliance government accountable for delivering on its promises. The campaign put children from across the country at the centre of an advocacy effort – speaking with one voice to enable every child to enjoy health and education as a right.

The campaign was led by the Wada Na Todo Abhiyan (Keep Your Promises campaign) supported by a wide range of grassroots organizations, people's movements, advocacy and resource organizations. They used a wide range of campaigning techniques, with actions across 15 states involving children, schools and communities. The public was engaged and made aware of the issue, and children were involved as key actors in the campaign. The lobbying effort had impressive results: in 2007 the prime minister announced a 20% increase in the education budget for the following year. Beyond this, the government committed to full-scale implementation of the Right to Education Act. To achieve this commitment, it was envisaged that over the next five years, \$40bn would be invested in elementary education alone – a huge increase from the \$41bn that was invested in 2009 in the entire education system.

However, after all these efforts, India's spending on public services remains unacceptably low. The country is ranked 132 out of 152 on the CRI Index, and its limited social spending contributes to high and rising levels of inequality. There is far more that the Government of India must do to tackle inequality.

2.4 What do the CRI indicators on social spending actually measure?

The CRI social spending pillar is broken down into two measures: the overall level of spending, and the impact that spending has on reducing inequality.

Indicator 1: How much has a government committed to spend on education, health and social protection?

This measures total spending for each of the three sectors – health, education and social protection – as a percentage of a government's total annual budget. This was seen as a fairer measure than alternatives such as percentage of GDP or per capita allocations, which would tend to penalize low-income countries and reward high-income countries which are able to raise more tax revenue and so to spend more.

The Index looked at the percentage of total government spending on education and health in each of the 152 countries, from the most recent 2016 budget wherever possible, and if not, then for 2015. For social protection, it relied on the ILO analysis, published in its recent Social Protection Report 2014–2015.¹¹⁰

Indicator 2: How progressive is spending on education, health and social protection?

Within sectors, spending can be progressive and even, in some instances, regressive. Across the three sectors in this study, generally, spending on health and education is slightly more progressive than on social protection, because more is spent in relative and absolute terms on

those services that are more frequently used by poor people. This is especially the case for basic education and primary healthcare.

The second indicator in the spending pillar attempts to take account of the different impact that spending can have. It measures the actual or likely impact of spending on inequality in each country for the three sectors. Wherever possible, this is achieved using country-level studies.¹¹¹ Where such studies were not available, the Index used the best possible global estimates.¹¹²

2.5 Limitations of the CRI Index social spending indicators

The data on social protection spending is not as up to date as that on education or health. Social protection spending is rarely one specific item in a national budget, but is instead often spread across different budget lines. The ILO has conducted the most comprehensive analysis of government budgets to date to establish what is contributing to the overall social protection spend, and the CRI Index uses this analysis.¹¹³ Unfortunately, however, the ILO analysis is not updated annually, which explains why the data is not as recent as that for education and health. The ILO will have published an update by the time of the next version of the index, so data on social spending for social protection will be updated then.

The CRI Index measures budget commitments rather than actual spending. It is not possible to get accurate, up-to-date data on how much governments spend, especially in the poorest countries. There is often a discrepancy between the stated commitments and what individual ministries receive from central government. The actual amount may never be disclosed, or if it is, there is often a significant time lag before it is disclosed. DFI and Oxfam work with partners across the world to track budget spending and hold governments to account for when promised spending does not materialize,¹¹⁴ but this is something that it is not possible to accurately reflect in the Index.

The development of the Index did not include direct measures of the quality of services. We did consider, for example, looking at levels of out-of-pocket expenditures in health or the amount spent on tertiary education, but concluded that it was either unwise or not possible to include them at this stage.¹¹⁵ Instead, it was decided to look at the overall incidence of services; that is, the extent to which spending in each area has managed to reduce inequality. This is a good proxy for quality of services, because if a country has very high health spending but it has very limited impact on inequality, then it is fair to conclude that the spending is doing a relatively poor job of benefiting the poorest people more than the richest. It is important to note that incidence studies are not available for all countries included in the Index; where they are available they have been used, but where such studies were not available the Index instead used an extensive global study which looked at 150 countries over 30 years, to establish average incidence levels for education, health and social protection.

The CRI Index does not yet have an indicator on gender. This is because sufficient data is not available at this stage. Some promising work by the IMF and others suggests that sufficient data could be available soon, in which case subsequent iterations of the Index could include a gender indicator.

Finally, the Index does not attempt to measure other 'negative' government expenditures such as military spending or debt servicing, which are often substantial. Debt servicing is once again becoming a major drain on the resources of developing countries, with Ghana for example spending nearly a third of its budget on servicing its debts.

3 REDUCING INEQUALITY THROUGH TAX POLICIES

3.1 Global evidence on the role of progressive tax in reducing inequality

Collecting the maximum amount of tax in a progressive way, so that those earning the most face the highest tax burden, has a key impact on inequality. This is why campaigning for more progressive taxation is a key part of Oxfam's work to reduce inequality. Taxation in society plays a threefold role in combating inequality. First, by taking more from the rich than from the less wealthy, tax contributes directly to reducing the gap between rich and poor. Second, the resources raised by progressive taxation, if used to benefit poor people, can further reduce inequality levels. Finally, tax can play a major role in helping structure the economy in such a way as to reduce market inequalities in the first place, by reducing the incentives towards excessively high profits, shareholder returns or runaway executive pay. Taxation can be used to encourage investment in new technologies and different kinds of businesses that enable workers to secure more of the profits, have more of a say and help build a more sustainable, more human economy.

Countries first have to have a tax system that is progressive on paper. That means higher tax rates for higher earners and progressive thresholds and exemptions. However, many countries fall at this first hurdle, with very low rates of tax on corporates or on high earners. Bulgaria, for example, has a flat personal income tax rate of 10% on all incomes, and a 10% corporate tax rate. The trend is also negative, as many countries are also engaged in a deeply harmful race to the bottom on tax rates as well as other tax exemptions and incentives. In 1990, the G20 average statutory corporate tax rate was 40%; in 2015, it was 28.7%.¹¹⁶ In the Dominican Republic, to give another example, the volume of exemptions received annually by companies in the tourism sector, industry, free trade zones and the border area would be enough to increase the health budget by 70% or multiply the budget for potable water and sanitation by three times.¹¹⁷

However, a progressive tax system on paper is only the first step. Clearly, having a progressive tax system on paper is irrelevant if the actual taxes collected by governments are regressive. Figures on tax productivity show that for every increase in national income, countries collect (on average) around 40% of the VAT and sales taxes they should, but only around 14% of the corporate and personal income tax they should. This is a particular problem in low-income countries, where only around 10% of each extra dollar of taxable income is collected.¹¹⁸ In Côte d'Ivoire, just 4% of personal income tax is collected, compared with 56% in Denmark. As VAT is a regressive tax in most cases, collecting a higher proportion of VAT makes the whole tax system more regressive in practice.

This failure to collect tax is often due to multiple exemptions and deals which ensure that the richest individuals and companies are simply not paying what they owe. It is also due to the impact of international factors like the global network of secrecy and tax havens, which enable tax avoidance and evasion. Because of these, the actual 'incidence' of tax – who actually pays tax – may be very different from how the tax system of a given country appears on paper.

Finally, countries have to be collecting as much tax progressively as they can. Many countries are collecting very little tax overall. India collects just 16.7% of GDP. Indonesia collects 11.9%, whereas South Africa manages to collect over 27%. If Indonesia increased the amount of tax it collected by just 2% of GDP it could more than double spending on health.¹¹⁹

This evidence underlies the choice of the indicators in the CRI tax pillar, which measures:

- the degree to which each country is designing its tax system with an intent to be progressive;
- the degree to which it is collecting taxes progressively;

- the amount of taxes it is collecting compared with its tax base and its 'potential' level.

To examine whether tax policy is progressive in different countries, Development Finance International and Oxfam have constructed a major new global tax database on 152 countries. This is the first ever public database containing comprehensive tax rates/thresholds; it has the widest country coverage on collection of different types of taxes, and the most up-to-date data on actual tax collection performance compared to potential collection. It will be updated annually for future editions of the CRI Index.

Box 7: The Fair Tax Monitor

In parallel to the Commitment to Reducing Inequality Index, Oxfam has developed a detailed methodology for a more comprehensive assessment of national tax systems – the Fair Tax Monitor – which complements the CRI Index by providing a more detailed scoring of one specific area of inequality: fair taxation.

The Fair Tax Monitor is a unique tool for evidence-based advocacy that highlights country-specific issues. It focuses on six components of a fair tax system, analysing each with qualitative and quantitative techniques to identify bottlenecks and opportunities for advocacy.

The use of a common research framework allows for comparison of tax policies and practices over time as well as between countries, while taking into account qualitative differences between national tax systems. At present, results are available for Bangladesh, Pakistan, Senegal and Uganda. The overall findings, methodology and country reports are available at www.maketaxfair.net/ftm

The findings suggest that there is a general trend towards improving tax policies, as tax reforms have continued in several countries to simplify the tax collection system and broaden coverage. The latter is of utmost importance as the number of income tax payers in all four countries is extremely low. All four countries face high losses of tax revenues due to numerous tax exemptions, especially those that do not benefit poor people, but contribute to raising the profits and revenues of the rich and therefore to increasing inequality.

The revenues collected must also be used to benefit the population, especially the poorest and marginalized groups. The category of public spending, although examined superficially, shows that not enough funds are allocated to basic services (especially in Bangladesh and Uganda). Countries need to meet the international benchmarks for spending on education and healthcare to motivate taxpayers to higher compliance.

Finally, unless the tax collection processes become less opaque and the tax data is made available to the public, a tax system cannot be considered fair. More transparency and fewer discretionary powers will also contribute to higher tax revenues and therefore to more resources being available to essential services. Citizens' rights to information should also cover fiscal policies. Governments must collect and publish data and information on tax systems in a way that is useful to further analyses (i.e. in a disaggregated manner), and also understandable by the general public.

The Fair Tax Monitor approach has been developed with Tax Justice Network–Africa through a participatory process, building on the experience of local and international organizations. As a result, it reflects the main priorities of local partner organizations and Oxfam country offices. The implementation of the Fair Tax Monitor in the first four countries has been a valuable learning experience and has helped to strengthen the capacity of all organizations involved in relation to monitoring tax systems. Currently, Oxfam and its local partners are implementing the Fair Tax Monitor in several new countries, using this powerful tool to promote fair tax policies.

3.2 Tax policies also exacerbate gender and youth inequality

The design of tax policies in almost all countries exacerbates gender inequality.¹²⁰ This can occur when women are treated as appendages to their husbands in setting tax thresholds, or where it is insisted that husbands and wives file joint tax returns. But it is also closely linked to the tax structure: due to exemptions and avoidance by multinationals, many countries tax more heavily the types or size of businesses (typically small) run by women, while larger enterprises (generally run by men) are taxed less heavily, as is the income generally earned by men from assets such as land or property rental. Most countries also collect more income from sales taxes and VAT, which has the potential to tax women more heavily because they spend a higher proportion of their income on consumer goods for their families, although this can be mitigated by exemptions for basic goods and foodstuffs.¹²¹

It is scandalous that very few governments conduct regular analysis of the impact on gender or youth of their tax (as opposed to their spending) policies¹²² – and that as a result there are no cross-country data sets that can be used to assess the impact of tax policies on gender inequality. There are a few positive exceptions to this picture: for example, the Swedish government produces its own gender analysis of the impact of each budget, and in countries such as South Africa and the UK, civil society organizations (CSOs) produce their own regular analysis of the potential impact of tax policy changes on women, with suggestions for alternative gender-responsive budgets.¹²³ Overall, designing the tax system to be more progressive and ensuring that the most progressive taxes are those that are actually collected will also help to combat gender inequality. However, all governments should be applying a specific gender and youth lens to their tax policies on an annual basis to ensure that they are reducing gender inequality.

Tax policies can be used to benefit young people, or can unfairly discriminate against them. Young people are more likely to run small businesses, and consume a higher share of their income, so indirect taxes like VAT potentially hit them harder. Young women are particularly affected, often facing direct and indirect discrimination on the basis of both age and gender. Tax can also be used to benefit young people, for example giving companies credits for taking on apprentices, or letting small companies be exempt from corporate tax.

3.3 What are the overall results for the CRI Index tax pillar?

The first thing to say is that none of the 152 countries are performing well in terms of reducing inequality through tax policy. Overall, the average score is only 0.6 out of 1, showing that countries could do a great deal more. Performance is particularly poor in terms of the impact of tax on inequality, where most countries still have what are likely to be regressive tax systems, with high dependence on indirect taxes. Nevertheless, some OECD and Latin American countries have managed to reduce Gini coefficients using tax policy, even though they are not collecting all the taxes they should (most are collecting only two-thirds on average of what they should be collecting). This shows that countries which do have progressive tax structures and make maximum efforts to collect tax can have a big impact on reducing inequality through their tax policy.

Overall, in terms of tax, the data reveals that most of the countries that are performing best are high-income OECD countries. This largely reflects the progressive incidence of their tax systems: they collect a higher share of tax revenue from progressive income taxes, reflecting their larger tax base of individuals and corporations with sufficient income to fall into the tax net. In general, they also perform well in collecting tax – with notable exceptions such as the US. The top low-income country is Malawi, which has a relatively progressive tax structure and is collecting a relatively high share of its potential tax.

Near the bottom of the tax index are Bahrain and Vanuatu, which have no corporate or personal income tax. The other countries at the bottom have very low tax rates or flat tax structures

(mainly Eastern European and former Commonwealth of Independent States countries) and collect relatively little income tax, making their tax incidence much less progressive. Many of them also perform relatively poorly on actual collection of tax compared with the potential levels that could be collected.

3.4 What do the CRI Index tax indicators actually measure?

Indicator 1: Is the tax structure progressive?

To assess whether countries are designing their tax systems to be progressive, the index looks at the progressivity of the three main sources of tax in most countries: personal income tax, corporate income tax¹²⁴ and VAT/general sales tax.

Reports from the OECD and IMF show a sharp trend, from 1990 to 2005, to cut income tax rates and increase VAT rates – making taxes less progressive. Many countries are also cutting corporate tax rates – the UK government, for example has said it aims to reduce the corporate tax rate to 17% by 2020. This is despite evidence that low corporate tax rates are not a major reason why businesses make investment decisions.¹²⁵ There are many countries which could dramatically raise their low or zero corporate and personal income taxes, reduce their high VAT rates, set higher minimum tax thresholds to exclude the poorest, or reduce top tax thresholds to make sure the top 10% are adequately taxed, and exclude basic foodstuffs and small traders from paying VAT.

Indicator 2: Is actual tax collection progressive?

To assess whether the tax collected is actually progressive, the index looks at the share of different taxes in total tax collection, and their likely/actual impact or ‘incidence’ on inequality, based on multiple global and national studies conducted in recent years. The incidence is assessed based on the composition of tax collected in each country, split between VAT, excise duties, customs duties, social security contributions, personal income tax and corporate income tax. For VAT we have also factored in whether or not there are mitigation steps in place to minimize the harm to the poorest, namely higher thresholds before you have to pay and exemptions in place for food.¹²⁶

Overall, the results are disappointing, with the majority of countries performing poorly. The bottom of the Index is dominated by Eastern European and Central Asian countries (Serbia, Ukraine, Hungary and Belarus), which collect very little income tax and depend almost entirely on indirect taxes and, in some cases, large regressive social security contributions.

Box 8: Why the actual rate of tax is often far lower for corporations and rich individuals

The actual rate of tax charged in a country depends on many factors, which means that the effective rate of tax is often significantly lower than that which is stated on paper. For example, the US Government Accountability Office found that for large profitable US companies, the effective tax rate between 2008 and 2012 averaged 14% compared with a statutory rate of 35%.¹²⁷ A recent study found that the effective personal income tax rate for the top 10% in 16 Latin American countries was just 5%.¹²⁸

The CRI Index does not measure effective tax rates directly, as the data is simply not available to do so for enough countries. However, by looking at how much tax a country actually collects from personal and corporate income tax as opposed to VAT, this is, to some extent, reflected in the Index. The more a country’s government gives exemptions, the lower the tax revenue from these sources.

There are three main ways in which rich individuals and corporations end up paying much lower rates of tax.

Tax exemptions for corporations are a powerful reason why countries do not collect progressive corporate taxes. National 'tax exemption' reports across 35 countries have estimated the scale of tax exemption as between 2% and 10% of GDP a year (15% to 33% of the revenue governments are collecting).¹²⁹ Kenya, for example, is losing \$1.1bn a year to tax exemptions and incentives – almost twice what the government spends on its entire health budget.¹³⁰ Such exemptions come in a variety of forms, from 'sweetheart' special deals for specific enterprises, through to sectoral exemptions, tax-free geographical zones and exemptions for exporters. Very often, companies are supported in obtaining tax exemptions in developing countries by their 'home' (headquarters) governments, or by international organizations like the International Finance Corporation (IFC) of the World Bank Group, which funds many of their projects. In a recent World Bank survey of investors in East Africa, 93% said they would have invested anyway, even if tax incentives had not been on offer.¹³¹ Beyond corporate exemptions, low-income countries suffer additionally from demands for exemptions by aid donors – even for highly profitable private sector projects funded by their 'development financing institutions'.¹³² There are also widespread exemptions for individuals – for example, tax relief on mortgages, pensions, private healthcare and other areas, which predominantly benefit wealthy people. In this way, many OECD countries such as Switzerland provide widespread exemptions or lower tax rates, dramatically reducing the actual tax rates corporations and individuals pay.

Tax dodging: Avoidance (often legal) and evasion (by definition illegal) of taxes by corporates and individuals is costing developing and developed countries alike hundreds of billions of dollars a year. The Independent Commission for the Reform of International Corporate Taxation (ICRICT) estimated that one element of these practices – companies shifting their profits to lower-tax jurisdictions – was costing developing countries a third of the corporate tax they should be collecting, i.e. \$100bn a year.¹³³ It has been estimated that wealth being hidden offshore by 'high net worth individuals' costs more than \$190bn a year.^{134,135} Virtually all of this tax avoidance and evasion is undertaken by the wealthiest in society, making the tax system much less progressive. It is also the biggest reason why countries collect far less corporate and personal income tax than they should, sharply reducing revenues to spend on tackling inequality.

These practices are encouraged by the actions of some countries – from the Cayman Islands to Singapore – in cutting tax rates sharply and thereby providing 'tax havens' for avoidance and evasion; they are also encouraged by others – such as Switzerland and the Netherlands – which agree widespread tax exemptions and sweetheart deals, setting themselves up as tax havens.¹³⁶

The poorer the country, the fewer resources (financial and human) it has available to try to combat tax avoidance and evasion by auditing companies and individuals thoroughly, or to participate in complex global initiatives to combat profit-shifting, end bank secrecy, and exchange information with other tax authorities. There is a fundamental need for coordinated global reform to end tax havens, help developing countries to tax companies 'at source' (where they make their profits), and reverse the race to the bottom in tax rates and the use of sweetheart deals and tax exemptions.

Tax treaties: Tax treaties are depriving the poorest countries (and many richer countries) of vital revenue – as much as 3% of GDP a year, compared with tax collection rates of 15–20% of GDP in most low-income countries.¹³⁷ This is also important for tackling inequality, because virtually all the tax revenue lost through treaties is progressive corporate income and capital gains tax.

These treaties often ensure that money flows untaxed from poor to rich countries by not allowing the former to tax profits and dividends before they leave their country (using 'withholding taxes'), or by stopping countries from taxing the massive gains corporations have been making by selling shares or entire companies to others. In the worst cases, known as 'treaty abuse', multinationals declare that they are based in tax havens, so they export all of their profits and pay virtually no tax in the country of operation. Multinationals also try to prevent developing countries from changing tax policies via 'tax stabilization clauses', which could allow companies to sue governments if they try to increase corporate tax rates. A few developing countries such as Rwanda have cancelled or renegotiated treaties to increase their tax rights; and a few middle-income countries such as India have insisted on negotiating treaties that protect their tax bases better. However, it is essential that all developed countries and tax havens redesign their treaties so that they stop denying poor countries the tax revenues they are entitled to.

Indicator 3: Are countries collecting enough tax revenue?

This indicator shows whether countries are collecting as much tax as they should. This is vital to countries being able to spend sufficient funds to reduce inequality, and also helps to explain differences between indicator 1 and indicator 2 – in that countries which collect tax less effectively are generally failing to collect progressive income taxes, and so are actually less progressive than their paper tax structure suggests.

To judge whether countries are collecting enough taxes, it is vital to go beyond just setting targets related to national income, because these take no account of the widely different economic structures and revenue-raising effort of countries with the same income. There are two ways to do this.

1. In terms of revenue-raising efforts, experts use a 'tax productivity' calculation, which compares the amount actually collected for each tax with the amount a country should be collecting according to its tax rates and the maximum tax base. This shows the shortfalls in tax collection due to exemptions, avoidance, evasion and inefficient tax collection,
2. To adjust for tax collected compared to economic structures, the French research institute CERDI and the IMF have produced an additional calculation '*tax effort compared to potential*'¹³⁸ which looks at the relative performance of 148 countries, and shows especially the scope for improving tax policies.

Tax revenues from extractive industries account for a large source of revenue in many developing countries. However, because of their volatility, the CRI analysis currently excludes extractives revenues from calculation of 'revenue effort' (see Box 10).

We have combined these two calculations in order to get the most comprehensive picture we can of whether countries are collecting as much tax as they could. Overall, two-thirds of the 152 countries in the Index are collecting less than one-quarter of the tax they could potentially collect. This indicates that across the world – in rich as well as poor countries – much more tax could be collected and used to invest in measures that are proven to reduce inequality.

Box 9: Countries that are tax havens and the CRI

An increasing number of countries are acting as tax havens in one way or another. They are facilitating the dodging of tax by individuals and corporations both from their own country and from other countries. This means they are playing a major role in the race to the bottom on tax and contributing to growing inequality. In preparing the CRI Index we explored the possibility of including the extent to which a country is deemed to be a tax haven in our assessment of a country's tax system.

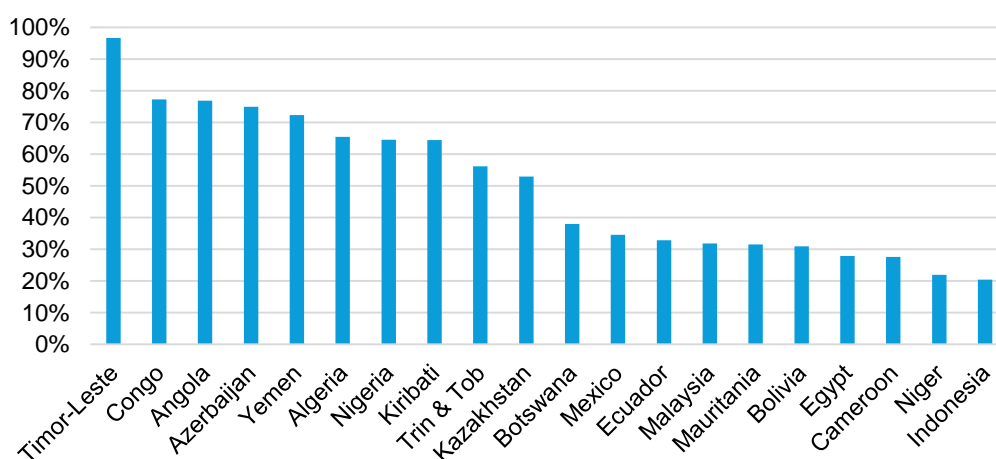
While it was not possible to incorporate it into this version of the Index, we have identified jurisdictions based on the list of corporate tax havens in Oxfam's recent report *Tax Battles*¹³⁹ as well as on the list of countries that score worst in the *Financial Secrecy Index* produced by the Tax Justice Network.¹⁴⁰ Several of the countries, such as Belgium and the Netherlands currently do very well in the tax pillar of the CRI. Were their tax haven status included they would do a lot worse. The country that is at second to the top of the CRI tax pillar, Malta, would be nowhere near this position if it was possible to factor in their role as a tax haven. Malta's behaviour as a tax haven has recently been exposed by a group of investigative journalists in a case known as the *Malta Files*. Whether or not a country is on Oxfam's supplementary list of tax havens is flagged in Table 5 and in the Index.

DFI and Oxfam are continuing to work with tax experts to try to find a way to incorporate a countries' tax haven status into the CRI Index.

Box 10: Taxing extractives¹

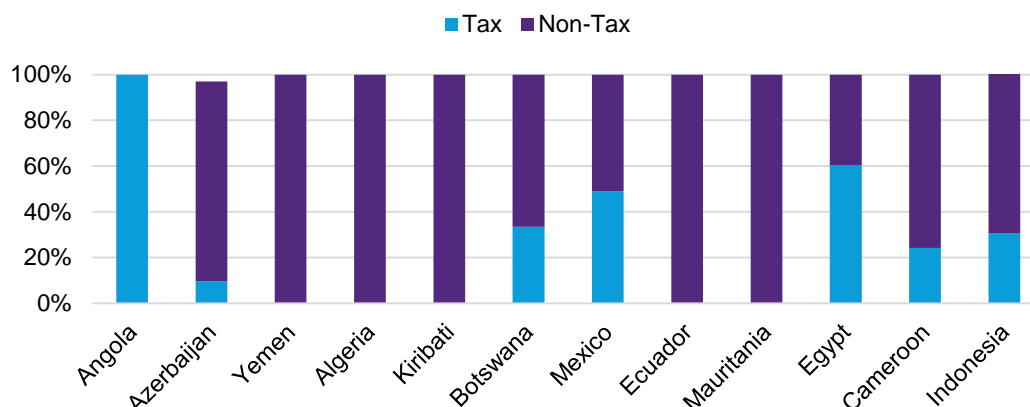
Tax revenues from non-renewable natural resource or 'extractive' industries (such as petroleum, gas and mining) account for the largest source of revenue in many developing countries. Figure 1 shows the share of extractives in total revenue for the 20 most extractive-dependent countries.

Figure 1: Extractives share of revenue (%)



However, taxing extractive industries is very complex. In most countries, it consists of a mixture of tax and non-tax revenues. Tax revenue is usually dominated by corporate income tax, while non-tax revenue includes royalties, bonuses, fees and profits or dividends from state-owned enterprises. Countries collect very different shares of their extractive revenues from these sources, as shown in Figure 2. Angola, for example, collects all its revenue through tax, while Algeria is all non-tax, and Mexico and Egypt are roughly equal tax and non-tax.

Figure 2: Sources of extractives revenue



These different shares reflect governments' different approaches to getting a fair share of revenue from extractives industries. Some governments (especially in developing countries) prefer to have state-run extractives sectors, with the intention of minimizing losses of profits to the private sector. For countries allowing the private sector to run extractives, bonuses and fees are usually dominant in the early exploration stages of projects; royalties are used to tax turnover or production and reduce tax avoidance on profits; and corporate income tax is used to tax profits. In the context of a range of special extractives industry features (such as high uncertainty and risk, substantial initial capital investment, long development and operating periods, high export and import levels, distinctive commercial risk-sharing arrangements, and frequent transfers of ownership), most governments use a combination of all these methods.

These factors often make extractives revenues highly volatile. The extractives sector is also particularly prone to tax exemptions and non-transparent contacts, and among the most adept at avoiding taxes. All these characteristics make assessing tax progressivity for the sector very complicated.

One simple example of such issues occurred in Niger. The contracts it signed with the French company Areva for the exploitation of its uranium are still not officially disclosed, and involved payment of a lump-sum royalty fee. Although this had been sharply increased during 2005–08, allowing Niger to increase education spending significantly, it was seen as being well below a fair tax rate. In 2014 Niger renegotiated these contracts after a long-standing campaign by Oxfam and local partners to introduce elements of a new profit-based royalty regime, in the expectation that this would generate higher revenues for Niger. Three years later, new data released by Areva suggest that they actually pay less than before the renegotiation. The new profit-based royalty regime turned out to be ineffective due to profit shifting strategies and a side agreement signed between Areva and Niger, authorizing the French company to sell uranium based on short-term prices - which are systematically lower average prices and do not correspond to Areva's business model - thus decreasing Areva's profit and eventually the amount of royalties paid. This case shows how hard it is for developing countries to get a good deal from extractives projects.

The CRI Index is therefore very careful in how it treats extractive industry revenues. In line with all global analysis and because of their volatility, the CRI analysis excludes extractives revenues from the calculation of 'revenue effort'. The different composition of extractives revenue sources does not impact on the 'tax incidence' indicator because corporate income tax (the only extractives revenue included in the calculation) has a virtually neutral impact on inequality, due to tax dodging. As a result, the CRI as currently constructed does not penalize countries that collect minerals revenues in non-tax ways.

However, DFI and Oxfam are aware that a more detailed analysis is desirable, preferably based on the share of extractives earnings each government is 'capturing' from tax and non-tax revenue combined. Such calculations have not been conducted for all countries, but DFI and Oxfam would like to use such calculations in future editions of the CRI.

Notes: 1) The data source for this box is the ICTD Revenue Database 2016, available at <http://www.ictd.ac/datasets/the-ictd-government-revenue-dataset>

2) Oxfam et al. (2017). *La Transparence à l'état brut : décryptage de la transparence des entreprises extractives*. https://www.oxfamfrance.org/sites/default/files/file_attachments/la_transparence_a_letat_brut_one_oxfam_sherpa.pdf

3.5 Limitations of the CRI Index tax indicators

The CRI tax pillar only includes country data on VAT, corporate income tax (CIT) and personal income tax (PIT). As yet, it does not include data on other taxes such as capital gains, wealth and property taxes. This means that countries like New Zealand, which have abolished taxes on capital gains, are higher up the Index than they would be if this was included. It is planned to include these types of taxes in future iterations of the CRI Index.

The CRI tax pillar does not have concrete numbers on effective tax rates (see Box 8) as these are simply not available. However, the second indicator does reflect this indirectly, as it looks at the amount governments collect for each tax. If a government has a high corporate tax rate on paper but a very low effective rate, this is captured by the fact that its revenue from corporate tax is much lower.

For a number of countries, social security contributions are a major source of government revenue, and are levied at a flat rate, meaning they are very regressive. We have not included data on social security taxes of this nature because we do not have enough at this stage for all countries where this is an issue. We will be working to try and include these taxes in the next version of the Index.

4 THE ROLE OF WORK AND WAGES IN REDUCING INEQUALITY

4.1 Global evidence on the impact of work and wages on reducing inequality

In the past 30 years, one trend stands out as having made income inequality worse: the decline in the share of income going to labour (in the form of wages, salaries and benefits) while the share going to capital (dividends, interest and the retained profits of companies) has risen.¹⁴¹ Rich and poor countries alike have been experiencing this trend: the labour share has declined in nearly all OECD countries over the past 30 years¹⁴² and in two-thirds of low- and middle-income countries between 1995 and 2007.¹⁴³

An increase in the capital share is the result of capital owners enjoying significant and increasing returns to capital – i.e. income derived from shares or savings rather than wages. For example, in the UK in the 1970s, 10% of company profits were returned to shareholders; today, they receive 70%, leaving little left to raise wages for workers or invest in the future.¹⁴⁴

Meanwhile, workers' wages are failing to keep pace with economic growth. A particular concern is that wages have not kept up with productivity,¹⁴⁵ thereby removing the link between productivity and prosperity. In the US, net productivity grew by 72.2% between 1973 and 2014, yet hourly pay for the median worker (inflation adjusted) rose by just 8.7%.¹⁴⁶ While wages in many developing countries have risen in recent decades, delivering a significant reduction in poverty, they have often failed to keep pace with the increase in incomes of top earners. Oxfam has long campaigned to help low-paid workers and producers protect their rights and claim their entitlements, in an attempt to reverse this worrying trend.

Governments have a critical role to play in the protection of workers. They can set and enforce minimum wages that reduce inequality and ensure a decent standard of life. They can pass and enforce legislation on gender equality in the workplace. They can also protect workers' right to organize and ensure that trade unions are supported and not suppressed. The CRI Index aims to measure the extent to which governments are fulfilling this responsibility.

Oxfam's research has highlighted that across the world, women workers get by on wages that leave them trapped in a cycle of poverty, even though they may be working many overtime hours and receiving the minimum wage.¹⁴⁷ The issue here is that in many countries, minimum wages do not equate to a living wage, taking into account the average number of dependants a wage needs to support.¹⁴⁸ In some sectors, wages have actually declined in real terms, as an increasing pool of low or semi-skilled workers compete for poor-quality jobs, due to an absence of alternatives and increased migration flows. One study from 2013 shows that wages in the garment-producing countries of Bangladesh, Mexico, Honduras, Cambodia and El Salvador declined in real value by an average of 14.6% between 2001 and 2011.¹⁴⁹

But not all workers are seeing their wages squeezed and stagnate. Within the share of income that goes to labour, there has been a divergence in incomes between those at the top and the rest of the population. In a 2012 report, the OECD found that incomes for the top 1% of earners have increased by 20% over the past two decades.¹⁵⁰ This is reflected in dramatic increases in the pay of chief executive officers (CEOs). CEOs at the top US firms have seen their salaries increase by 54.3% since 2009. In India (where it has been compulsory since 2013 for firms to publish their CEO pay ratios), the CEO of the top IT firm brings in 416 times the salary of his company's typical employee; this relatively new legal requirement has been an important step towards informing the public about the level of inequality within companies.¹⁵¹

Wage disparities within and between companies are often extreme, and the differences are even more stark when looking across supply chains that cross national borders. Comparing the inflated pay of a top CEO with that of a typical worker in the global South highlights the increase in inequality across a global supply chain. In 2015, the average CEO of a UK Financial Times Stock Exchange (FTSE) 100 company earned just over £5m – nearly 10,000 times as much as a Bangladeshi garment worker, taking into account purchasing power parity.¹⁵²

Opportunities for financial rewards in the workplace are determined by individual and collective power and the influence of wage setters (employers) compared with wage takers (employees). They are also determined by the extent to which the government intervenes to regulate these relationships and wages. In recent decades there have been some important trends in the labour market, which have seen power shift away from employees and towards employers and capital owners.

In particular, there has been a marked decline in the percentage of workers belonging to trade unions in developed countries, as well as no significant growth in union membership in developing countries.¹⁵³ There is strong evidence¹⁵⁴ that the extent of unionization of the workforce is an important determinant in helping workers to demand higher wages and better rights. Collective bargaining by unions typically raises members' wages by 20% and drives up market wages for everyone. However, many developing countries have never had strong unions and, in some countries, workers are facing a crackdown on their right to organize. Therefore, this route to tackling inequality – of negotiation over the relative share of income that goes to labour and to capital – is increasingly strewn with obstacles.

At the other end of the wage spectrum, CEOs do not depend on union representation, but rather depend on their individual power and influence to determine their own wages in negotiation with company boards, which often comprise corporate peers. Executive pay has also become increasingly complex, with bonus and share options topping up standard salary packages.¹⁵⁵

Globalization and its concomitant increase in cross-border trade have created opportunities for low-wage economies to be highly competitive in international markets for goods and services that require a large concentration of employees for their production and delivery. A number of countries, particularly in East Asia, have embraced this opportunity, with low-wage employment being a core foundation of their growth and development. China, for example, has experienced rapid export-led growth over the past three decades, creating millions of jobs and enabling hundreds of millions of people to work their way out of extreme poverty. The growth of the garments sector in many Asian economies has been critical to their development strategies.

For this labour-intensive sector, keeping wages low and productivity high is seen as crucial to success. Retail businesses, particularly in the USA and Europe, have deliberately pursued a model of outsourcing production to low-wage economies, taking advantage of global-level policy and political changes and the low cost of women's labour. The resulting structure creates a separation between the production and retail sides of a business, the latter being where prices are set and brand reputation is critical. This separation is allowing a dilution both of employment conditions and companies' responsibilities and accountability to the workers who produce the goods and services they sell. Global brand buyers are able to draw on a variety of potential suppliers from all over the world. This context drives a race to the bottom between suppliers and the countries they are located in, pitting low-wage workers against each other across countries, and affording them little leverage in the supply chain.

Box 11: Being squeezed: workers in global supply chains

In many supply chains, retailers take a large share of the value, leaving suppliers and producers to compete over the relatively small share that remains.¹⁵⁶ In the banana supply chain, for example, retailers receive about 41% of the price paid for a banana, while workers receive 7% and producers get 13%.¹⁵⁷ In the cocoa supply chain, the cocoa farmers' share of the value of a chocolate bar has fallen from 16% in 1980 to 6% in 2013, whereas the retailer receives 70%.¹⁵⁸ So the race to the bottom among suppliers and low-paid workers in supplier countries is happening in a context where retailers already have an unfair share of the overall value in those supply chains.

As Oxfam has consistently argued, this high and rising level of inequality is far from inevitable; it is heavily influenced by government policy choices and how those policies are enforced. While the choices made by supplier country governments can address these issues to some extent, the greatest influence rests with the retailers' home governments as well as the policy choices and core business practices of each retailer. This is clearly the case with work and wages. According to the ILO, policies that redistribute income in favour of labour can bring significant improvements in aggregate demand and growth, while also reducing inequality.¹⁵⁹

Governments also need to ensure that workers are being rewarded fairly, and that executive pay and the returns to the owners of capital are not excessive. Businesses and investors must demonstrate their contribution to national development and the upholding of state obligations to human rights. Some governments have recently recognized this duty, as outlined in the UN Guiding Principles on Business and Human Rights, through new legislation on compulsory human rights due diligence.¹⁶⁰ Levels of executive pay and returns to the owners of capital should be included in the remit of human rights due diligence along the entire length of global supply chains.

One core impact of global supply chains is the jobs they create. Full-time jobs need to deliver a minimum wage where the take-home pay is sufficient for a living wage. This can be achieved through an inclusive negotiation process with trade unions as well as employers, updating the living wage level annually, and ensuring that it is implemented so that businesses which benefit from that labour do not gain a competitive advantage by carrying out their business in ways that undercut wages or violate labour rights.

An appropriate minimum wage is a vital element of national strategies to tackle poverty and inequality. For example, KPMG predicted that raising the Minimum Wage in the UK to the Living Wage would lift six million people out of poverty.¹⁶¹ Others predicted that a million jobs would be lost when the UK 1998 Minimum Wage Regulations were introduced, but in practice no negative impacts on employment were seen and there is evidence of a positive relationship between UK minimum wages and employment.¹⁶² In Ecuador, between 2007 and 2015, the government increased the minimum wage faster than the cost of living, so the average household of 1.6 earners could, for the first time, purchase a basket of goods and services – a proxy for a living wage.¹⁶³

Governments can feel pressured to compete with each other by large corporations, but a concerted effort to work together on wages can be powerful. In Asia, Indonesia has proposed a regional minimum wage to help prevent the competition between nations that all too often results in poverty wages for workers.¹⁶⁴ This could be even more effective if done in collaboration with workers' representatives.

4.2 Gender, youth, and work and wages

Women make up the majority of the world's low-paid workers and are disproportionately concentrated in the most insecure roles in the informal sector. In Asia, for instance, 75% of

working women are working informally, lacking access to basic benefits such as sick pay, maternity leave or pensions.¹⁶⁵ Women are often paid less than men for doing the same job, despite working longer hours; for instance, in India, the wage gap is 32.6%.¹⁶⁶ Even in societies that are considered to have achieved high levels of gender equality overall, there remain significant gender gaps in income and influence.¹⁶⁷

Women also carry out the vast majority of unpaid care work (around 2.5 times more than men)¹⁶⁸ and are less likely to be represented in the workplace and thus able to negotiate decent terms and conditions. This unpaid care work is of major economic benefit to society but is not factored into economic calculations of GDP.¹⁶⁹ It is essential that women are not discriminated against in the workplace and that their responsibilities for unpaid care work are recognized, reduced and redistributed.

Almost 43% of the global youth labour force is still either unemployed, or working but living in poverty. More than 500 million young people are surviving on less than \$2 a day. Although the effects of the financial crisis have varied widely, one consistent factor is that young people have been worst affected. A study of 17 middle-income countries found that young people experienced the largest rise in unemployment rates. This was even worse for young women, or young people belonging to marginalized groups. Wage rates also decreased for youth in 15 of the 17 countries. In the OECD, for the first time, young people are now at greater risk of poverty than elderly people. The situation for many young people remains precarious. According to a 2015 study by the ILO, two out of three young people in low-income countries are either engaged in vulnerable self-employment or unpaid family labour.

4.3 What are the overall results for the CRI Index work and wages pillar?

The top 10 countries in this pillar are all OECD countries. Among the highest-scoring developing countries are Liberia and Niger. Liberia is pulled up by having set a high minimum wage, while Niger scores relatively highly across all three indicators. Some of the lowest-scoring countries, such as Swaziland and Egypt, are renowned for weak labour laws and violation of workers' rights, while others (such as Bangladesh) are renowned for poor labour practices.¹⁷⁰

Work and wages was the only area of the CRI where enough data was available for enough countries to have a standalone indicator on gender. Looking at our indicator on gender and work, there is a wide variation in the parental leave granted to women and men across the 152 CRI Index countries: from 480 days in Sweden, for example, to zero in the USA.

Some of the lower scoring countries within this pillar are simply not doing enough to keep their minimum wage at pace with the economy; for instance, Rwanda has not revised its minimum wage since 1974 (although the government is in the process of updating this),¹⁷¹ while in Ethiopia, the minimum wage only applies to public servants. A handful of countries, such as Djibouti and Yemen, have no minimum wage legislation and therefore perform worst on this. Those who do best, such as Norway and Sweden, are given the highest score for determining their wages by collective means, on the basis that this generally reflects an effective level of collective bargaining by trade unions and produces higher wages than in countries where the minimum is set by the legal floor. This is not always the case, however; in Italy, the system of collective bargaining has become deeply flawed and unfair, so that has been factored into the CRI rankings.

There are also some surprises in terms of the countries that are doing well in reducing equality through labour rights. These include Liberia, which has recently introduced a very high minimum wage as part of its new 'decent work bill'.¹⁷² Although a large proportion of workers are engaged in the informal sector (which has been allowed for in the Index by discounting for informality – see section 4.7), the country's low GDP and high minimum wage account for its good score.

Box 12: Non-standard employment and inequality¹⁷³

'Non-standard' employment refers to temporary, part-time and 'zero hours' contracts, as well as self-employment. This type of employment represents around 35% of all employment on average in OECD countries, and more than half of employment in many non-OECD countries. It is being actively promoted by the government of Honduras, for example. The share of the population engaged in non-standard employment has been rising in many OECD and emerging market economies since 2008, though some countries have introduced labour market regulations that have restricted the scope for such type of employment.

Non-standard employment can, to some extent, be positive for employment levels, by providing flexibility (for employers and workers alike) to employ more workers on conditions suited to their needs. However, in most countries, these types of employment do not receive all of the labour and unionization rights (including paid maternity leave or other gender equality rights, or a minimum wage) to which full-time permanent employees are legally entitled, and which are used as the criteria for assessing scores in the CRI Index. Women and young people predominate in this kind of employment category, meaning that they are hit hardest by the lack of earnings and protection it affords. In some countries, other categories of workers such as youth and refugees are also not entitled to these rights. In others, workers in specific industries or special economic zones are deprived of their rights through the use of non-standard employment contracts.

Non-standard workers therefore tend to earn much less for the same work – 30% less on average in OECD countries, and 60% less in developing countries – and to have much more precarious or vulnerable employment situations with considerable periods of under-employment compared with their desired working hours. As a result, organizations such as the ILO and OECD have concluded that 'non-standard employment' is a major factor exacerbating inequality in all countries, and polarizing jobs between high and low earnings. This has a particularly negative impact on gender- and age-based inequality – for example, explaining about 20% of inequality in OECD countries.

DFI and Oxfam would therefore have liked to discount the labour scores in the CRI Index further to take account of the level of non-standard employment in each country (adding to the discounts for the levels of unemployment and informal employment), in order to reflect more accurately the narrow coverage of labour rights in many countries, and to push governments to think about how they can extend more rights to employees on these types of contract. However, unfortunately, in spite of recent efforts by the ILO to expand country coverage, data on the scale of non-standard employment does not exist for around half of the countries included in the CRI Index. To support the implementation of Sustainable Development Goal 8 on Decent Work, it should be an urgent priority to fund the ILO and other organizations to collect data that enables a more accurate assessment of the degree to which workers benefit from the legal rights that reduce inequality.

4.5 What do the CRI Index indicators on work and wages actually measure?

The CRI Index measures three areas of policy on work and wages through which a government can tackle inequality. These have been chosen as globally relevant indicators for which quantitative data exists, with the rationale for this given in each case.

Unlike the spending and taxation indicators, the work and wages indicators focus mainly on provisions made by government 'in law'. Whether they are meaningful in terms of their actual impact on inequality largely depends on how effectively the policies are implemented, which requires a well-resourced and professional inspectorate and the capacity and political will to investigate and punish non-compliance by employers. Violations of work and wage legislation should be measured and reported, disaggregating data by sex whenever possible.

Indicator 1: How good is the minimum wage?

This indicator seeks to measure the minimum wage set by each government, as committed in legislation, as a proportion of GDP – i.e. the value of the minimum wage by comparison to a proxy of average income. A minimum wage is the legal starting point for wage negotiations, protecting the most vulnerable employees from exploitation and poverty wages. However, for this indicator to reduce inequality, we need to analyse not just whether the wage is above the poverty line (which is clearly necessary to reduce poverty) but the extent to which the minimum wage closes the gap between the lowest and highest earners. Given limited data on earnings at the top, this indicator therefore compares minimum wages with GDP per capita for each country.

Indicator 2: How are women protected in law?

This indicator scores countries according to whether they have legislation in place on equal pay for equal work and against discrimination in the workplace, as well as the length of paid parental leave and whether governments support childcare. These are seen as the basic building blocks to measure commitment to greater economic equality for women in the workplace. While most do have this legislation in place, a significant number of countries do not.

Of course having legislation in place does not mean that this legislation is enforced. In many countries women simply do not actually have recourse to the law to enforce these commitments. Unlike other indicators in the CRI we do not yet have a way of tracking enforcement of gender legislation for enough countries. Nevertheless, we felt it was still best to include this data rather than leave it out, with the caveat that having a policy in place, while better than not having one at all, is not the same as these policies actually becoming a reality for women in society.

Indicator 3: How well are the rights of workers protected?

This indicator scores what governments are doing to support stronger labour and union rights through legislation, as well as how effectively this is being implemented, given that there is often a wide gap between law and practice. The data for this indicator is based on the Labour Rights Indicators designed by the Global Labour University and the Center for Global Workers' Rights at Penn State University. This looks at comprehensive evidence on country-level compliance with freedom of association and collective bargaining rights, although it does not check for compliance with the ILO Protocol of 2014 to the Forced Labour Convention.¹⁷⁴

4.6 Limitations of the CRI Index work and wages indicators

It would have been preferable to compare the minimum wage to the average wage in a country, as a better indicator of inequality, but there is not sufficient data available on average wages for enough countries.

There is often great variation in entitlement to minimum wages. In Bangladesh, for example, garment workers are entitled to 5,300 taka (\$68) a month, the lowest minimum wage of all garment workers globally and well below the international poverty line,¹⁷⁵ yet workers in other sectors are entitled to only 1,500 taka (\$19) a month. The minimum wage is revised only every five years, although in 2013 international pressure following the collapse of the Rana Plaza factory led to a further increase after just three years.¹⁷⁶

There are high levels of non-compliance with a minimum wage, which is endemic in many countries. For instance, a study on garment sector wages in 10 Asian countries found that of 100 companies studied, more than half reported under-payment of minimum wages (mostly relating to overtime) and almost half did not pay social security contributions¹⁷⁷ – and this is in the sector that is most scrutinized through audits commissioned by international brands.

There are other problems with using the minimum wage as an indicator. In many countries, there is a minimum age for eligibility, which means young people are often not covered or are only eligible for the wage at an even lower rate. In addition, the minimum wage is rarely applied to the informal sector – which accounts for the vast majority of the workforce in most developing countries and certainly the majority of women in work. The data has therefore been adjusted to take account of levels of informality in the economy, meaning that for workers in the informal sector, legal minimum wages are not being applied. It also takes into account whether the minimum wage only applies to a certain section of the formal sector workforce – for example, public sector workers. (This filter for informality has been applied to the other two indicators in this section, described below.)

Many of the poorest countries have high percentages of people working in the informal sector, so this helps give a more accurate picture. However, despite this adjustment, because the minimum wage is given as a proportion of GDP, some of the poorest countries receive 'high' scores because GDP is relatively low, and not necessarily because the minimum wage is relatively high.

Finally, data for the gender indicator is taken from the World Bank dataset Women, Business and the Law. This dataset covers all of the 152 countries included in the CRI Index. The World Bank indicates that data was collected through surveys of local experts and cross-checked against primary legal sources, and that the assessments are valid as of April 2015.

It should be noted that the dataset is currently being updated, and some cross-checks against recent legislation available on the ILO website indicated that this data may not be entirely accurate or up to date.

4.7 Adjustment for informality and unemployment

Because the legislation evaluated in these indicators only covers people in work, in many countries this has no impact on a large proportion of the population (most of them women) engaged in the informal sector, where they enjoy none of these basic rights. As a result, each of the indicators has been adjusted for the size of the informal sector. A country in which the 'shadow economy' comprises half of the national economy will see its score cut in half.

Countries such as Spain, with high unemployment rates, also find that a significant proportion of people are not covered by legal provisions for the workplace. As a result, the score for each indicator is further adjusted for the national unemployment rate; a country with 10% unemployment will have a 10% discount applied to its score.¹⁷⁸

It was not possible to go further and adjust the figures for those registering as employed to allow for zero hours contracts and other elements of non-standard employment, which is a growing issue in many countries. Data is not yet available for enough countries to do this (See Box12).

5 COMPARING THE CRI INDEX WITH MEASURES OF ECONOMIC INEQUALITY

For each country in the index, their efforts to reduce inequality have been put in context by comparing their CRI Index rank with their level of economic inequality.

There are only two measures of economic inequality for which data is available for the right number of countries: the Gini coefficient and the Palma ratio. The CRI Index uses the latter.

5.1 The advantages of the Palma ratio

The Gini coefficient focuses its measurement on what is happening to those in the middle of the income distribution. The Palma ratio, which compares the incomes of the bottom 40% and the top 10%, is more focused on what is happening to rich people and poor people in a society. DFI and Oxfam consider that, as the main story behind the growth in inequality over the past 30 years has been the huge amount of income accruing to those at the top, the Palma is a better way of capturing this. It is also the case that the share of national income of the middle 50% is not dramatically affected by the system of taxes and social transfers in place, whereas the share for the top 10% and bottom 40% is.¹⁷⁹

There is, of course, no perfect measure of inequality, which is why DFI and Oxfam have developed the CRI Index. All measures currently available are based on very poor data. The Gini and Palma both rely on household surveys or census data only collected every few years, and which systematically underreport the incomes of those at the top.

While the Palma ratio can give us a broad understanding of how income is distributed, it does not tell us which groups of people are at the bottom or the top of the distribution, and therefore how horizontal inequalities (such as gender or ethnicity) intersect with income inequalities. The extent of mobility between these groups is also critical to an understanding of how economic inequality relates to social mobility. Better income data, including sex-disaggregated data, is essential to understand this. Although it is known from other studies that the top 1% (and even the top 0.1%) is where incomes and wealth have really pulled away from the rest, the data cannot capture this.¹⁸⁰ More and better data on the extremes of income is essential to understand where the biggest share of income sits.

Box 13: Global goals on inequality: SDG 10 and the World Bank's shared prosperity goal

In 2015 two important new goals were set to address economic inequality. SDG 10 states that: 'By 2030, progressively achieve and sustain income growth of the bottom 40 percent of the population at a rate higher than the national average'. This reflects the new goal the World Bank has set for itself – to measure the growth in incomes of the bottom 40%, not just overall GDP growth, in what it calls its 'shared prosperity goal'

While Oxfam has welcomed these as important steps forward, there is an urgent need to strengthen and improve these measures to reflect the income share of those at the top. Specifically, Oxfam believes that both goals should instead measure trends in the Palma ratio, looking not just at the bottom 40% but also at the top 10%, and disaggregate further within that top 10%. It is not possible to measure progress in closing the gap between rich people and poor people by only studying changes in the incomes of the latter.

5.2 Comparing the CRI and the Palma of countries

Countries with very low levels of inequality have very low Palma ratios. The lowest is Azerbaijan, with a Palma of 0.6. This immediately illustrates the inadequacy of the data, because it is very unlikely that Azerbaijan – a dictatorship which derives most of its income from oil and where corruption is a major issue – is the most equal country in the world. Sweden, Norway, Denmark and Finland, with a Palma of around 1, are more plausible. (A Palma of 1 means that the top 10% have the same income as the bottom 40%.) Oxfam maintains that all countries should aim for a Palma ratio of no more than 1.

At the other end of the spectrum, South Africa, as one of the world's most unequal countries, has a Palma of 7.1. This means that the top 10% own seven times more than the bottom 40%. The majority of countries register somewhere between 1.7 and 2, and these include countries from every region and income level.

5.3 How does a country's inequality level compare with its CRI Index ranking?

There is significant variation in the relationship between a country's level of inequality and its CRI Index rank. Countries can be categorized according to four basic groups.

Group 1: low inequality, high CRI

Some countries (e.g. Denmark) have put policies in place that have increased inequality and reduced their CRI ranking, which (although still high) would have been even higher in previous years. As the impacts of these changes continue to unfold, this will be increasingly picked up by the CRI, even if headline inequality remains low for some years.

Group 2: low inequality, low CRI

This group includes countries which have in the past had strong policies in place to reduce inequality, and have been rewarded in that the gap between rich people and poor people was relatively narrow. However, some of these policies have changed recently, and inequality is already starting to rise, but remains low by international standards. If these policies continue, inequality is set to rise.

Group 3: high inequality, high CRI

This group includes countries such as Namibia and many Latin American countries, which are implementing policies to reduce inequality, and have seen a reduction in levels of inequality, albeit from historic highs.

Group 4: high inequality, low CRI

This group includes countries such as Nigeria and Swaziland, which are doing very little to combat inequality, and are also some of the most unequal countries in the world.

5.4 What other measures of economic inequality are relevant but unable to be captured by the CRI Index?

Another important measure of economic inequality is inequality of wealth, which is always higher than inequality of incomes. Wealth is critical in that high levels of extreme wealth in society translate into political and economic power. In the poorest countries, there is a strong overlap between wealth inequality and concentration of land ownership, with land being one of the biggest assets owned by the very rich. This has huge impacts on the direction of countries in which agriculture remains the largest sector of the economy. Unfortunately, there is limited

data on wealth in low-income countries, and the data that does exist would not stand up to the scrutiny of a comparison between countries.

Another important measure of economic inequality is the share of the national economy that accrues to workers through wages compared with the share that accrues to the owners of capital through return on investments. As already noted, in many countries, workers have been losing out to the owners of capital in a process that many regard as a strong driver of inequality. However, this measure is not a useful one on which to compare countries, as the structure of each economy – for example, the share of agriculture in relation to other sectors – has an impact on the capital/labour share.

5.5 The urgent need for more and better data

What is clear in all of these measures is that the data available is far from adequate, both in its quality and its timeliness. There is a particular need to improve all of the data for developing countries, and the frequency with which it is collected. All countries should collect sex- and age-disaggregated data and there needs to be a huge improvement in the availability of data on the incomes and wealth of those at the top.

In recent years, there have been efforts to improve the data on top incomes, which has been hugely revealing of the scale of the inequality crisis. The data has been able to show the growth in income, not just of the top 10% but the top 1% and even 0.1%, demonstrating how the super-rich have pulled away from the rest of society. This has involved the use of tax records, which are more reflective of top incomes than household surveys. However, even tax records are flawed, given the large-scale tax avoidance practised by the very rich. Nevertheless, this data does give a much better picture.

There is an urgent need for a concerted effort by governments, supported by international institutions such as the IMF, to collect sufficient data (and sufficiently disaggregated data) to give a timely and accurate picture of the real scale of the gap between rich people and poor people.

NOTES

All web links were accessed in May 2017 unless otherwise stated.

- 1 For an outline of this see for example World Bank 2016 Shared Prosperity 2016: Tackling Inequality
- 2 D. Hardoon, S. Ayele and R. Fuentes-Nieva (2016). *An Economy for the 1%: How privilege and power in the economy drive extreme inequality and how this can be stopped*. Oxford: Oxfam International. <http://oxf.am/Znhx>. <https://doi.org/10.21201/2016.592643>
- 3 K. Pickett and R. Wilkinson (2010). *The Spirit Level: Why Equality is Better for Everyone*. London: Penguin; see also C. Wang, G. Wanand and X. Zhang. (2016). *Which Dimension of Income Distribution Drives Crime? Evidence from the People's Republic of China*. ADBI Working Paper No. 704. Tokyo: Asian Development Bank Institute. <https://www.adb.org/sites/default/files/publication/236561/adbi-wp704.pdf>
- 4 C. Lakner, M. Negre and E.B. Prydz (2014). *Twinning the Goals: How Can Promoting Shared Prosperity Help to Reduce Global Poverty?* World Bank Policy Research Working Paper 7106.
- 5 Pickett and Wilkinson (2010). *The Spirit Level*. Op. cit.
- 6 J.Martinez-Vazquez and B.Moreno-Dodson (2014) *The Impact of Tax and Expenditure Policies on Income Distribution: Evidence from a Large Panel of Countries*. Georgia State University. Economics Department Publications;
N.Lustig (2015). *The Redistributive Impact of Government Spending on Education and Health: Evidence from Thirteen Developing Countries in the Commitment To Equity Project*. CEQ Working Paper Series. Tulane University; and OECD (2015), *In It Together: Why Less Inequality Benefits All* and see, for example, F. Jaumotte and C. Osorio Buitron (2015). *Power From The People*. IMF. *Finance & Development*. 52:1. <http://www.imf.org/external/pubs/ft/fandd/2015/03/jaumotte.htm>
- 7 N. Lustig (2015). *The Redistributive Impact of Government Spending on Education and Health*. Op. cit.
- 8 OECD (2015). *In It Together: Why Less Inequality Benefits All*. Op. cit.
- 9 For evidence of the power of taxation to reduce inequality, see the multiple country studies carried out by the Commitment to Equity Institute, available at www.commitmenttoequity.org
- 10 F. Jaumotte and C. Osorio Buitron (2015). *Inequality and Labor Market Institutions* IMF Staff Discussion Note SDN/15/14.
- 11 F. Jaumotte and C. Osorio Buitron (2015). *Inequality and Labor Market Institutions*. Op. cit.
- 12 See M. Whitaker (2017). *Economy Drive: Priorities and Prospects Ahead of the Spring Budget*. Resolution Foundation Briefing; and L. Elliot and K. Allen (2017). <https://www.theguardian.com/business/2017/jan/31/theresa-may-inequality-margaret-thatcher-resolution-foundation>
- 13 Prior to 2004, the bottom 40% of Denmark's population got more income than the top 10%; this has since reversed. See https://www.ae.dk/sites/www.ae.dk/files/dokumenter/publikation/ae_fl16.pdf
- 14 République Française. (2016). Évaluations Préalables des Articles du Projet de Loi. Projet de Loi de Finances Pour 2017. http://www.performance-publique.budget.gouv.fr/sites/performance_publique/files/farandole/ressources/2017/pap/pdf/PLF2017_Eval.pdf (p 36–37)."
- 15 D. Hardoon (2017). *An Economy for the 99%: It's time to build a human economy that benefits everyone, not just the privileged few*. Oxfam. <http://oxf.am/ZLBB>. <https://doi.org/10.21201/2017.8616>
- 16 It is also the case that these structural factors are often a lot more context-specific than the core actions of progressive spending, taxation and labour rights, which are relevant to inequality reduction in almost every instance.
- 17 New Rules for Global Finance/Development Finance International, Are the International Institutions Reducing Inequality ? The Global Financial Institutions Impact Report 2017, Friedrich Ebert Stiftung
- 18 Government Accountability Office (2016). *Corporate Income Tax: Most Large Profitable U.S. Corporations Paid Tax but Effective Tax Rates Differed Significantly from the Statutory Rate*. Report to the Ranking Member, Committee on the Budget, U.S. Senate. Figure is for corporations with more than \$10m in assets.
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- 23 Oxfam America and Economic Policy Institute. (2016). *Few Rewards: An Agenda to Give America's Working Poor a Raise*. <https://www.oxfamamerica.org/explore/research-publications/few-rewards/>
- 24 R. Desai (2015). *Does the Developing World Need a Welfare State to Eliminate Poverty? Some insights from history*. Brookings Institute.
- 25 C. Hoy and A. Sumner (2016). *Gasoline, Guns, and Giveaways: Is There New Capacity for Redistribution to End Three Quarters of Global Poverty?* CGD Working Paper 433. Washington DC: Center for Global Development. <http://www.cgdev.org/publication/gasoline-guns-and-giveaways-end-three-quarters-global-poverty>
- 26 A. Krozer (2015). *For Richer or Poorer: The capture of growth and politics in emerging economies*. Oxfam International. <http://oxf.am/ZmqK>
- 27 Nigeria out-of-school figures, see: <http://www.premiumtimesng.com/news/top-news/188590-10-5m-children-out-of-school-in-nigeria-unicef.html>
- 28 Nigeria infant mortality figures, see World Bank: <http://data.worldbank.org/indicator/SH.DYN.MORT>
- 29 Africa Progress Panel (2013). *Equity in Extractives: Stewarding Africa's natural resources for all*.
- 30 See World Bank, <http://data.worldbank.org/indicator/SI.POV.GINI?locations=AR>
- 31 D. Rossignolo (2016). *Taxes, Expenditures, Poverty and Income Distribution in Argentina*. Commitment to Equity Working Paper 45. http://www.commitmenttoequity.org/wp-content/uploads/2017/05/CEQ_WP45_Rossignolo_May17_2017.pdf
- 32 See, for example, Tihomir Gligorevic (2017). <https://inserbia.info/today/2017/03/argentina-biggest-work-stoppage-looms-for-macri-as-teachers-plan-strike/>
- 33 Of course all three countries have large informal sectors, so these progressive labour rights do not apply to a large section of the population. The index figures do discount all the labour indicators for levels of informality, which is explained in Section 4, but nevertheless these countries do well because of their generous minimum wages.
- 34 J.E. Stiglitz and A. Schiffrin (2016). *Learning from Namibia*. Project Syndicate. <https://www.project-syndicate.org/commentary/namibia-economic-social-success-story-by-joseph-e--stiglitz-and-anya-schiffrin-2016-06>
- 35 For a full discussion and analysis of the inequality situation in Latin America and the Caribbean see R. Canete et al. (2015). *Privileges That Deny Rights: Extreme Inequality and the Hijacking of Democracy in Latin America and the Caribbean*. Oxfam. <http://oxf.am/ZmS9>
- 36 A. Arendar and E. Seery (2014). *Even it Up: Time to end Extreme Inequality*. Oxfam. P36. <http://oxf.am/Ffd>
- 37 See D. Hardoon, S. Ayele and R. Fuentes-Nieva (2016). *An Economy for the 1%*. Op. cit. and D. Hardoon (2017). *An Economy for the 99%*. Op. cit.
- 38 Policy choices that were detrimental to the reduction of wealth inequality are e.g. the abandonment of the wealth tax in 1997; the continued privilege on business assets in the inheritance taxation; and the introduction of flat-rate taxation on capital gains since 2009.
- 39 For detail of the Abuja Declaration, see http://www.who.int/healthsystems/publications/abuja_declaration/en/ and for the Incheon Declaration, see <http://www.uis.unesco.org/Education/Documents/incheon-framework-for-action-en.pdf>
- 40 For the Bachelet Commission report, see http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_165750.pdf
- 41 F. Rhodes (2016). *Women and the 1%: How extreme economic inequality and gender inequality must be tackled together*. Oxfam. <http://oxf.am/Z72J#sthash.upq2OwOA.dpuf>
- 42 A. Arendar and E. Seery (2014). *Even it Up*. Op. cit.
- 43 See for example Civicus (2016). *State of Civil Society Report 2016*. <http://www.civicus.org/index.php/socs2016>
- 44 L. Bartels (2002). *Economic Inequality and Political Representation*. Princeton.
- 45 S. Hallegatte et al. (2016). *Shock waves: Managing the Impacts of Climate Change on Poverty*. Washington DC: World Bank.
- 46 T. Gore (2015). *Extreme Carbon Inequality: Why the Paris climate deal must put the poorest, lowest emitting and most vulnerable people first*. Oxfam. <http://oxf.am/Zecv>
- 47 World Bank (2016). *Poverty in a Rising Africa*. <http://www.worldbank.org/en/region/afr/publication/poverty-rising-africa-poverty-report>
- 48 Per capita income of Equatorial Guinea at GDP PPP is 34,000; for Spain it is 33,600. Infant mortality for Burundi is 54 per 1,000 live births; for Equatorial Guinea it is 68. Sources: <http://data.worldbank.org/indicator/SP.DYN.IMRT.IN> and <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>
- 49 For a full discussion and analysis of inequality in Latin America and the Caribbean see R. Canete et al. (2015). *Privileges That Deny Rights*. Op. cit.
- 50 This is known in economics as the Kuznets Curve, after the work of Simon Kuznets.
- 51 This is 1970 to 2009. See J. Martinez-Vazquez, B. Moreno-Dodson and V. Vulovic (2012). *The Impact of Tax and Expenditure Policies on Income Distribution: Evidence from a large panel of countries*. International Center for Public Policy Working Paper 12/25.

- 52 See OECD (2015). *In It Together*. Op. cit. and N. Lustig (2015). *The Redistributive Impact of Government Spending on Education and Health*. Op. cit.
- 53 Between 2000 and 2007. G. Verbist, M. F. Förster and M. Vaalavuo (2012). *The Impact of Publicly Provided Services on the Distribution of Resources: Review of New Results and Methods*. OECD Social, Employment and Migration Working Papers, No. 130. OECD Publishing.
- 54 N.Lustig (2015). *The Redistributive Impact of Government Spending on Education and Health*. Op. cit.
- 55 O. O'Donnell et al. (2007). The Incidence of Public Spending on Healthcare: Comparative Evidence from Asia. *The World Bank Economic Review* 21(1) (January 1): 93–123.
<https://doi.org/10.1093/wber/lhl009>. It shows that health spending was found to be inequality-reducing in 11 of 12 Asian countries.
- 56 E. Seery (2014). *Working for the Many: Public services fight inequality*. Oxfam. <http://oxf.am/RZn>
- 57 The data includes all schemes which have some form of contributory element (e.g. pensions or insurance schemes) and non-contributory schemes, and includes 9 categories: sickness, unemployment, old age, employment injury, family, maternity, invalidity and survivors' benefit; plus other income support and assistance programmes, including conditional cash transfers, available to the poor and not included under the above classes.
- 58 See I. Ortiz. (2015). *Social Protection for All to Change People's Lives by 2030*. Geneva: International Labour Organization. http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_405766/lang--en/index.htm
- 59 I. Ortiz. (2015). Op. cit.
- 60 For instance, the World Bank has a minimum threshold of 23 doctors, nurses and midwives per 10,000 population. See WHO (2014). *A Universal Truth: No health without a workforce*.
http://www.who.int/workforcealliance/knowledge/resources/GHWA-a_universal_truth_report.pdf
- 61 For detail of the Abuja Declaration, see http://www.who.int/healthsystems/publications/abuja_declaration/en/ and for the Incheon Declaration, see <http://www.uis.unesco.org/Education/Documents/incheon-framework-for-action-en.pdf>
- 62 See OECD (2015). *In It Together*. Op. cit.
- 63 WHO. *Universal Health Coverage*. Factsheet, updated 2016.
<http://www.who.int/mediacentre/factsheets/fs395/en/>
- 64 See Achieving a Shared Goal: Free Universal Healthcare in Ghana Oxfam 2011 <http://policy-practice.oxfam.org.uk/publications/achieving-a-shared-goal-free-universal-healthcare-in-ghana-125306>
- 65 Asian Development Bank (2013). *Social Protection Index: Assessing Results for Asia and the Pacific*.
<https://www.adb.org/publications/social-protection-index-assessing-results-asia-and-pacific>
- 66 See OECD (2015). *In It Together*. Op. cit. and N.Lustig (2015). *The Redistributive Impact of Government Spending on Education and Health*. Op. cit.
- 67 Contributory pensions are significantly equalizing in Argentina, Brazil and Uruguay and also in Chile, Costa Rica and Ecuador; but in the latter, their effect is small. See N. Lustig (2016). *The Impact of Taxes and Social Spending on Inequality and Poverty in Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Peru, and Uruguay*. (Spanish). Center for Global Development Working Paper 427.
- 68 N. Lustig et al. (2011). *Fiscal Policy and Income Redistribution in Latin America: Challenging the Conventional Wisdom*. Tulane University Working Paper 1124. This showed that for instance, Bolivia spends five times more than Peru, but because funds are not targeted to the poor, the amount of redistribution is limited and only slightly higher than Peru.
- 69 For more details on these issues, see ILO (2014). *World Social Protection Report 2014-15*.
http://www.ilo.org/global/research/global-reports/world-social-security-report/2014/WCMS_245201/lang--de/index.htm One of the issues with incidence is that it only looks at the current impact of social spending. It is arguable that, with social protection which takes a life cycle approach, the total progressive nature of social protection occurs over a lifetime.
- 70 OECD (2004). *Reviews of National Policies for Education: Chile 2004*. and Global Campaign for Education (2016). *Private Profit, Public Loss*. <https://doi.org/10.1787/9789264106352-en>
- 71 A. Kireyev (2013). *Inclusive Growth and Inequality in Senegal*. IMF Working Paper 13/215.
<https://doi.org/10.5089/9781475580266.001>
- 72 For a useful discussion of some of these models, see K. Watkins and W. Alemayehu (2012). *Financing for a Fairer, More Prosperous Kenya: A review of the public spending challenges and options for selected arid and semi-arid counties*. Brookings Institute.
- 73 IBP (2017), Tracking Spending on the SDGs: What Have We Learned from the MDGs?, Budget Brief, May. This is based on a longer background study on which it is based, Development Finance International/Government Spending Watch (2016), Tracking Government Spending on the MDGs: Lessons for the SDGs, report for the International Budget Partnership, July. Both are available at <http://www.governmentspendingwatch.org/news/150-sdgs-what-lessons-can-be-learned-from-the-mdgs>.
- 74 N. Lustig (2012). *Taxes, Transfers, and Income Redistribution in Latin America*. World Bank Group. *Inequality in Focus*.
<http://siteresources.worldbank.org/EXTPOVERTY/Resources/InequalityInFocusJuly2012FINAL.pdf>

- 75 Spending can be progressive, in that without it inequality would be higher – without itself being pro-poor. So health spending, for example, can leave a country more equal than it would be without it, even if that spending is still disproportionately benefiting the better off. But if that spending is improved so it not only reduces overall inequality in the country but also is benefiting the poor more than the rich, for example by removing user fees, then the spending becomes not just progressive but also pro-poor.
- 76 UNESCO data (2013) provides evidence that education transforms development: <http://www.unesco.org/new/fileadmin/MULTIMEDIA/HQ/ED/GMR/excel/dme/Press-Release-En.pdf>
- 77 World Bank (2014). *Voice and Agency: Empowering Women and Girls for Shared Prosperity*.
- 78 C. Melamed (2016). *Women's Work: Mothers, children and the global childcare crisis*. Overseas Development Institute. Working Paper. <https://www.odi.org/sites/odi.org.uk/files/resource-documents/10468.pdf>
- 79 E. Samman et al. (2016). *Women's Work: Mothers, children and the global childcare crisis*. Overseas Development Institute
- 80 T. Bhatkal (2016). *Women's Work*. Blog. <http://policy-practice.oxfam.org.uk/blog/2016/05/womens-work>
- 81 The IMF has recently produced extensive research and advice in this area. See <http://www.imf.org/en/News/Articles/2016/07/26/14/42/NA072816-New-IMF-Study-Data-Tool-Track-Fiscal-Policies>
- 82 See, for example, UNESCO (2013). *Girls Education: The facts*. <http://en.unesco.org/gem-report/sites/gem-report/files/girls-factsheet-en.pdf>
- 83 See M. Martin and J. Walker (2015). *Financing the Sustainable Development Goals: Lessons from government spending on the MDGs*. Government Spending Watch Report 2015. Oxfam and Development Finance International. <http://policy-practice.oxfam.org.uk/publications/financing-the-sustainable-development-goals-lessons-from-government-spending-on-556597>
- 84 All are HICS apart from Brazil and Costa Rica, which are UMICs.
- 85 Health, education and cash transfers have been shown to be highly progressive; for example, in that they help to make Costa Rica more equal. See P. Sauma and J. Diego Trejos (2014). *Social Public Spending, Taxes, redistribution of income, and poverty in Costa Rica*. CEQ Working Paper 18. http://www.commitmenttoequity.org/publications_files/Costa%20Rica/CEQWPNo18%20PubSpendTaxRedistIncandPover%20Costa%20Rica.pdf
- 86 For example, they have infant mortality and life expectancy indicators comparable to European developed countries. See <http://www.who.int/healthsystems/topics/financing/healthreport/CostaRicaNo11.pdf>
- 87 See M. del Rocío Sáenz, J. L. Bermúdez and M. Acosta (2010). *Universal Coverage in a Middle Income Country: Costa Rica*. WHO. World Health Report (2010) Background Paper 11. http://www.commitmenttoequity.org/publications_files/Costa%20Rica/CEQWPNo18%20PubSpendTaxRedistIncandPover%20Costa%20Rica.pdf
- 88 OECD (2016). *All together: Making growth more inclusive in Costa Rica*. In *OECD Economic Surveys: Costa Rica 2016: Economic Assessment*, Paris: OECD Publishing. DOI: http://dx.doi.org/10.1787/eco_surveys-cri-2016-4-en
- 89 M. Bucheli, N. Lustig, M. Rossi and F. Amábile (2013). *Social Spending, Taxes and Income Redistribution in Uruguay*. Commitment to Equity Institute. CEQ Working Paper 10. <https://doi.org/10.1596/1813-9450-6380>
- 90 Their social protection schemes have been shown to have a varied impact on inequality. See discussion in OECD (2015). *In It Together*. Op. cit. Contributory pensions are equalizing in Brazil and are very slightly unequalizing in Chile, see N. Lustig (2015). *Inequality and Fiscal Redistribution in Middle Income Countries: Brazil, Chile, Colombia, Indonesia, Mexico, Peru and South Africa*. Center for Global Development. Working Paper 410.
- 91 N. Lustig and C. Pessino (2013). *Social Spending and Income Redistribution in Argentina During the 2000s: The rising role of noncontributory pensions*. Commitment to Equity. CEQ Working Paper No. 5. http://www.commitmenttoequity.org/publications_files/Argentina/CEQWPNo5%20SocSpendRedist2000sArgentina%20Jan%202013%20REVISED%20Aug%2031%202013.pdf
- 92 N. Lustig (2012). *Taxes, Transfers, and Income Redistribution in Latin America*. Op cit.
- 93 N. Lustig (2015). *Most Unequal on Earth*. IMF. *Finance and Development*. Volume 52.
- 94 The degree of different services and the role they play in redistribution is varied across countries (often weighted against the level of pre-existing inequality, pre-tax and transfer income inequality) and the structure of spending. For example, the OECD has shown that New Zealand focuses on transfer highly targeted at reducing poverty; Germany takes a lifecycle approach to redistribution; Sweden uses a more Nordic model of large and mostly universal cash transfers, a high level of spending. For more information, see I. Joumard, M. Pisu and D. Bloch (2012). *Tackling Income Inequality: The role of taxes and transfers*. OECD Journal: *Economic Studies*. Published online, http://dx.doi.org/10.1787/eco_studies-2012-5k95xd6l65lt
- 95 This is line with the view that historically public spending only starts to play a more redistributive role once they have reached a certain national wealth. See Lindert on the development of welfare states <http://info.worldbank.org/etools/docs/library/139597/Lindert.pdf> [broken link]. However, more recent evidence shows that there is not a linear following of patterns which developed in Western economies. For example, Lisbet points to larger redistributive in the now developed world when it was as poor as a number of developing countries, which challenges 'conventional wisdom', e.g. Cuesta (2013), Bastagli, Coady, and Gupta (2012), who indicate that fiscal policy has typically had a bigger role in the reduction

of income inequality in advanced economies than in developing economies. But differences are also important within developing countries, even within the same region. N. Lustig et al. (2011) on six Latin American countries show that earlier arguments – that there is a reduced redistributive capacity of fiscal policies in that region because of smaller government size and less progressive fiscal policies (shown earlier by Gofii, Lopez and Serven [2008], and Breceda, Rigolini, and Saavedra [2008]) – applies only partially. Their results show that each country represents a different reality. This also seems linked to in development terms to, as Piketty points out vision of a ‘social state’ depends on higher tax to GDP ratios.

- 96 As Lustig points out, judged by the share of total income devoted to social spending, Ethiopia appears quite committed to social progress: its level of spending is much higher than it was in today’s rich countries when their income per capita levels were as low as in Ethiopia today, and there is some good pro-poor spending – even if less redistributive (but given very high levels of poverty and low inequality, this is likely). See World Bank (2015). *Ethiopia Poverty Assessment*. http://www.commitmenttoequity.org/publications_files/Ethiopia/WorldBank%202014EthiopiaPovAssess%20CEQChapt5%20Feb%202015.pdf or N. Lustig (2015). *The Redistributive Impact of Government Spending on Education and Health: Evidence from thirteen developing countries in the Commitment to Equity Project*. CEQ Working Paper 30. http://www.commitmenttoequity.org/publications_files/Comparative/CEQWPNo30%20RedisImpactGovntSpendEducHealth%20March%202015.pdf
- 97 R. Desai (2015). *Does the Developing World Need a Welfare State to Eliminate poverty? Some insights from history* Brookings Institute.
- 98 Global Campaign for Education (2016). *Private Profit, Public Loss*.
- 99 Nigeria out-of-school figures: <http://www.premiumtimesng.com/news/top-news/188590-10-5m-children-out-of-school-in-nigeria-unicef.html>
- 100 Based on WIDE figures: the actual figures for Nigeria are 93% for the richest quintile to complete lower secondary and 22% for poorest quintile
- 101 Nigeria infant mortality figures available at <http://data.worldbank.org/indicator/SH.DYN.MORT>
- 102 World Bank (2016). Cambodia Economic Update 2016. <http://www.worldbank.org/en/country/cambodia/publication/cambodia-economic-update-october-2016-enhancing-export-competitiveness>
- 103 Asian Development Bank (2014). Social Protection Index.
- 104 WHO and Kingdom of Cambodia (2015). *Cambodia Health Systems Review*. Asia Pacific Observatory on Health Systems http://www.wpro.who.int/asia_pacific_observatory/hits/series/cambodia_health_systems_review.pdf
- 105 WHO and Kingdom of Cambodia (2015). Op. cit.
- 106 WHO and Kingdom of Cambodia (2015). Op. cit.
- 107 The US spends 16% of GDP on healthcare, combining public and private spending. Its public spending, at 8.3% of GDP, is comparable with other nations with universal coverage like France or the UK, where private spending is negligible. This fact alone shows the scale of the inefficiency of the US system. US public spending on health, for example on Medicare for the elderly, compares well with public spending in the rest of the OECD, and has an impact on reducing inequality.
- 108 Especially tertiary care; for example, a 2010 OECD study (Koechlin et al., 2010) found the US price level of hospital services to be over 60% higher than the average of 12 other OECD countries in 2007. <https://www.oecd.org/unitedstates/49084355.pdf>
- 109 See D. Mangan (2013). *Medical Bills Are the Biggest Cause of US Bankruptcies*. <http://www.cnn.com/id/100840148>
- 110 The data for this report is quite out of date in some cases, but we chose to not update it as the ILO has a specific methodology for calculating what counts as social protection. The ILO is issuing a follow-up report in mid-2017, which will enable us to update these numbers.
- 111 In total, we use country-level data on the incidence of spending for 60 countries wherever it is available, using a combination of OECD data and data from the studies carried out by Commitment to Equity, kindly shared with Oxfam. The Commitment to Equity Data is taken from the CEQ Institute’s Data Center on Fiscal Redistribution based on the following CEQ Master Workbooks of Results: Argentina (Rossignolo, 2016); Armenia (Younger and Khachatryan, 2014); Bolivia (Paz-Arauco and others, 2014); Brazil (Higgins and Pereira, 2016); Chile (Martinez-Aguilar and Ortiz-Juarez, 2016); Colombia (Melendez and Martinez, 2015); Costa Rica (Sauma and Trejos, 2014); Dominican Republic (Aristy-Escuder and others, 2016); Ecuador (Llerena and others, 2014); El Salvador (Beneke, Lustig and Oliva, 2014); Ethiopia (Hill, Tsehaye and Woldehanna, 2014); Georgia (Cancho and Bondarenko, 2015); Ghana (Younger, Osei-Assibey and Oppong, 2016); Guatemala (Cabrera and Moran, 2015); Honduras (Castañeda and Espino, 2015); Indonesia (Jellema, Wai Poi and Afkar, 2015); Iran (Enami, Lustig and Taqdiri, 2016); Jordan (Abdel-Halim and others, 2016); Mexico (Scott, 2013); Nicaragua (Cabrera and Moran, 2015); Peru (Jaramillo, 2015); Russia (Malytsin and Popova, 2016); South Africa (Inchauste and others, 2016); Sri Lanka (Arunatilake and others, 2016); Tanzania (Younger, Myamba and Mdadila, 2016); Tunisia (Shimeles and others, 2015); Uganda (Jellema and others, 2016), Uruguay (Bucheli and others, 2014), and Venezuela (Molina, 2016).
- 112 J. Martinez-Vazquez, B. Moreno-Dodson and V. Vulovic (2011). *The Impact of Tax and Expenditure Policies on Income Distribution*. Georgia State University: Andrew Young School of Public Policy Studies.
- 113 ILO (2014). World Social Protection Report 2014–15. Op. cit.

- 114 Oxfam (2016). *Fiscal Justice Global Track Record: Oxfam's tax, budget and social accountability work*. <http://policy-practice.oxfam.org.uk/publications/fiscal-justice-global-track-record-oxfams-tax-budget-and-social-accountability-620087>
- 115 We decided against using out-of-pocket expenditures because some countries, Sri Lanka for example, have high out-of-pocket spending on health; but this is by the richest people, not the poorest. Their government health system is progressive, so they would be unfairly penalized by an indicator that simply penalized high out-of-pocket expenditures. When data is available on out-of-pocket spending for different groups in society, we will be able to include this.
- 116 M. Devereux et al. (2016). *G20 Corporation Tax Ranking*. Oxford: Oxford University Centre for Business Taxation
- 117 See C. Daude et al (2014). *The Political Economy of Tax Incentives for Investment in the Dominican Republic*. OECD Development Centre, Working Paper 322. Research area: Latin American Economic Outlook January. http://www.oecd-ilibrary.org/development/the-political-economy-of-tax-incentives-for-investment-in-the-dominican-republic_5jz3wkh45kmw-en See also R. Canete et al. (2015). Privileges That Deny Rights. Op. cit. <https://doi.org/10.1787/5jz3wkh45kmw-en>
- 118 Data from the Development Finance International tax database. Data on changes in corporate and personal income tax collection are compared with changes in GDP; those on VAT and sales taxes are compared with changes in consumption.
- 119 For more on Indonesia, see L. Gibson (2017). *Towards a More Equal Indonesia: How the government can take action to close the gap between the richest and the rest*. <http://oxf.am/ZbM5>
- 120 For details see: J. Birchall and F. Marzia (2015). *The Gender Dimensions of Expenditure and Revenue Policy and Systems*. IDS and DFID; C. Capraro (2014). *Taxing Men and Women: Why Gender is Crucial for a Fair Tax System*. Christian Aid; GTZ (2008). *Why Care About Taxation and Gender Equality*. and Swiss Development Cooperation (2015). *Conclusions of a Facilitated E-Discussion on Gender and Taxation*. Available at <https://www.shareweb.ch/site/Gender/en/About%20Us/Documents/E-Discussion%202015/Gender%20and%20Taxation%20Summary.pdf>
- 121 C. Grown and I. Valodia (2010). *Taxation and Gender Equity: A Comparative Analysis of Direct and Indirect Taxes in Developing and Developed Countries*. London and New York: Routledge.
- 122 For a similar conclusion from a review of gender-responsive budgeting across the world, see S. Quinn (2016). *A Survey of Gender Budgeting Efforts*. IMF Working Paper 16/155. <http://www.imf.org/en/Publications/WP/Issues/2016/12/31/Europe-A-Survey-of-Gender-Budgeting-Efforts-44148>
- 123 For the UK, see for example the Women's Budget Group, www.wbg.org
- 124 The incidence of corporate income tax is made more complicated by global factors, like the impact of tax havens. Also for multinational corporations, with owners and shareholders domiciled all over the world, the impact of higher taxation on reducing the wealth of shareholders is distributed to many different nations, not simply the one where the corporate tax is levied.
- 125 World Economic Forum. (2016). *Global Competitiveness Report 2016–2017*. <https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1/>
- 126 The way that this has been scored and implemented is explained fully in the methodology note.
- 127 US Government Accountability Office (2015). <https://www.gao.gov/products/GAO-16-363>
- 128 ECLAC and Oxfam (2016). *Time to Tax for Inclusive Growth*. <http://www.cepal.org/en/publications/39950-time-tax-inclusive-growth>
- 129 For more details of these at country level see Development Finance International (2016). *IMF Tax Policy Advice and TA: Is It Living Up To (Progressive) Expectations?*. Policy research report for Oxfam International, April; and at global level see IMF (2015). *Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment*. Staff Report. October. <https://www.imf.org/external/np/g20/pdf/101515.pdf>
- 130 Tax Justice Network Africa and ActionAid (2016). *Still Racing Toward the Bottom? Corporate Tax Incentives in East Africa*.
- 131 Edward Mwachinga (2013). *Results of investor motivation survey conducted in EAC*. World Bank, presentation given on 12.02.13 in Lusaka, quoted in ActionAid (2013). *Give Us a Break: How big companies are getting tax free deals*. June 2013.
- 132 For statements by low-income countries opposing these practices, see the communiqués of Francophone country finance ministers available at www.development-finance.org
- 133 ICRICT (2015). *Declaration of the Independent Commission for the Reform of International Corporate Taxation*, citing UNCTAD, available at <http://www.icrict.org/declaration/>
- 134 G. Zucman (2015). *The Hidden Wealth of Nations*. University of Chicago Press. <https://doi.org/10.7208/chicago/9780226245560.001.0001>
- 135 See A. Cobham and L. Gibson (2016). *Ending the Era of Tax Havens: Why the UK government must lead the way*. Oxfam GB.
- 136 For more information, see E. Berkhout (2016). *Tax Battles: The dangerous global race to the bottom on corporate tax*. Oxfam. <http://oxf.am/ZuCG>

- 137 For more on the negative effects of tax treaties, see ActionAid (2016). *Mistreated: How shady tax treaties are fuelling inequality and poverty*. <http://www.actionaid.org/2016/02/mistreated-how-shady-tax-treaties-are-fuelling-inequality-and-poverty>
- IMF (2014). *Spillovers in International Corporate Taxation*. Policy Paper. <https://www.imf.org/external/np/pp/eng/2014/050914.pdf>; SOMO (2013). *Should the Netherlands Sign Tax Treaties With Developing Countries?* Centre for Research on Multinational Corporations. and F. Weyzig (2013). *Analysing Effects of Dutch Corporate Tax Policy on Developing Countries*. Netherlands Ministry of Foreign Affairs. November 2013.
- 138 See R. Fenochietto and C. Pessino (2013). *Understanding Countries' Tax Effort*, IMF Working Paper 13/244; and J. Torres (2013). *Revenue and Expenditure Gaps*. IMF Working Paper 13/05; and subsequent studies in IMF country documents and Regional Economic Outlooks and tax studies. See also CERDI (2016). *Tax Potential and Tax Effort: An Empirical Estimation for Non-resource Tax Revenue and VAT's Revenue*
- See also J.P. Jimenez; J.C. Gomez Sabaini and A. Podesta (2013). *Tax Gaps and Equity in Latin America and the Caribbean*. GTZ/BMZ/CEPAL Fiscal Studies Paper 16.
- 139 E. Berkhout (2016). *Tax Battles: The dangerous global race to the bottom on corporate tax*. Oxfam. <http://oxf.am/ZuCG>
- 140 Tax Justice Network. Financial Secrecy Index. <http://www.financialsecrecyindex.com/>
- 141 D. Hardoon (2015). *An Economy for the 1%*. Op. cit.
- 142 D. Hardoon (2015). *An Economy for the 1%*. Op. cit.
- 143 D. Hardoon (2015). *An Economy for the 1%*. Op. cit.
- 144 Andy Haldane, Chief Economist of the Bank of England, quoted in <http://www.bbc.co.uk/news/business-33660426>
- 145 <http://www.bbc.co.uk/news/business-33660426>
- 146 <http://www.bbc.co.uk/news/business-33660426>
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This is joint Oxfam and Development Finance International report is written to share research results, to contribute to public debate and to invite feedback.

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