WEALTH, INEQUALITY AND SOCIAL POLARISATION IN THE EU

EAPN EXPLAINER #3

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EAPN
EUROPEAN ANTI POVERTY NETWORK

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This is the 3rd in a series of EAPN booklets called Explainers, which set out to "explain" key issues and debates, which are priorities within the EU poverty discourse, in understandable, everyday language. They are aimed primarily at people working in civil society organizations, but also to anybody who is concerned with how to make progress on reducing poverty and social exclusion in the EU.

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EUROPEAN ANTI-POVERTY NETWORK
RÉSEAU EUROPÉEN DES ASSOCIATIONS DE LUTTE CONTRE LA PAUVRETÉ ET L'EXCLUSION SOCIALE

SQUARE DE MEEÛS, 18 – 1050 BRUSSELS
TEL : 0032 2 226 58 50 – FAX : 0032 2 226 58 69
Email : team@eapn.eu


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INTRODUCTION

"If we speak about poverty, we must not be silent about wealth".

Ernst-Ulrich Huster, Professor for Political Sciences, Germany.

Why a Wealth Explainer

According to the latest EU statistics, over 80 million[1] people are at risk of poverty in Europe today.[2] Under the new Europe 2020 strategy, this figure is further enlarged to 120 million people considered to be at risk of poverty and social exclusion.[3] Despite the promise of EU leaders to take decisive steps to eliminate poverty by 2010, the number of people experiencing poverty has remained persistent over the past decade. In the new Europe 2020 strategy, for the first time a target has been set, to reduce people at risk of poverty and social exclusion by at least 20 million by 2020.[4] At the same time, the number of millionaires has been steadily growing and was only momentarily suspended due to the current financial crisis.

According to the World Wealth Report 2010, 3 million Europeans held more than 1 million USD in financial assets; among them 20.700, so-called, "Ultra High Net Worth Individuals", who held at least 30 million USD in financial assets (excluding collectible items, consumables, consumer durables and primary residences).[5] Existing national and international reports also confirm an increase of inequality in income distribution and 80% of the EU's population believe that "the gap between rich and poor will continue to grow in the coming 20 years".[6]

Inequality studies carried out since the early 1990s give evidence of the negative impact of a **growing social polarisation** for all societies, including an overall increase of health and social problems, rising tensions and less

1. The most EU figures on poverty can be found on the EUROSTAT website http://epp.eurostat.ec.europa.eu and in the annual Joint Reports on Social Protection and Social Inclusion and supporting documents on the Commission website at http://ec.europea.eu/employment_social/spsi/joint_reports_en.thm. These figures are drawn from the Social Protection Committee's (SPC) Assessment of the social dimension of the Europe 2020 strategy (2011) and reflect rates in 2009 (based on 2008 income data).
2. The at-risk-of poverty rate reflects households whose disposable income is below 60% of the national median income.
3. The indicator agreed at the June European Council includes people who are below the at risk of poverty threshold, suffering from severe material deprivation or in jobless households.
4. See European Council Conclusions – June 17 2010: www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/115346.pdf
5. Merrill Lynch/Capgemini, World Wealth Report 2010, available from: www.capgemini.com/insights-and-resources/by-publication/world-wealth-report-2010/
6. Eurobarometer 69, Public opinion in the European Union, Spring 2008.

social cohesion and well-being.[7] The damaging effects of a growing gap between poor and rich have also been repeatedly expressed by the delegates of the European Meetings of People Experiencing Poverty, who have criticized "that the matter of fair distribution plays a marginal role on the political agenda."[8]

Although signs of increasing consciousness about the negative impact of growing social polarisation have been seen during the latest financial and economic crisis, and also backed up by research (see OECD Working Paper, Weltbank), there is a lack of serious debate on this issue. In fact there is not one country in which effective and serious measures to reduce wealth and income inequality have been implemented as a consequence of the crisis. On the contrary, the current recovery measures can be expected to increase the gap between the rich and poor even more.

At the 2011 Davos World Economic Forum, wealth inequality was highlighted by many influential speakers as the "most serious challenge for the world", according to Min Zhu, special advisor at the IMF and former deputy governor of the Bank of the People's Republic of China.

Inequality also emerged at Davos as being one of the underlying causes of the financial crisis and subsequent recession. "Wealthy people invest in financial assets, creating asset bubbles" said Sir Martin Sorrell, chief executive of media giant WPP. "The argument is that a more equal spread of wealth would mean more money is recycled back into the economy by consumers, underpinning businesses by providing stable demand".[9]

An effective fight against poverty and social exclusion however will not be possible without addressing existing inequalities and the need for a better redistribution of the world's riches.

What the explainer will tell you

This explainer on Wealth, Inequality and Social Polarisation sets out to present an initial overview of current discussions and available data and research on wealth. It aims to provide some background material to promote further debate on the role of wealth, inequality and social polarisation, their impact on poverty and its prevention and elimination, and the need for better distribution.

It is a companion to EAPN's Explainer on Poverty and Inequality in the EU, which focuses primarily on the characteristics, causes and consequences of poverty and the link to inequality. As with most of EAPN's publications it will mostly concentrate on the situation in Europe, taking into account and giving a glimpse of the global dimension of the issue. The booklet has been written by Michaela Moser on behalf of EAPN Austria, and has been developed together with the EAPN Social Inclusion Working Group and Sian Jones from the EAPN secretariat between 2009–2010.

7. Convincing evidence and a lot of material has been collected and published by Richard Wilkinson and Kate Pickett, in: *The Spirit Level*, London: Penguin 2009.

8. 6th European Meeting of People Experiencing Poverty, Conference report, p. 10.

9. News article from Philip Aldrick, Daily Telegraph (26 Jan 2011) www.telegraph.co.uk

"Of all the classes, the wealthy are the most noticed and the least studied".

John Kenneth Galbraith, US economist (1908-2006).

Defining Wealth

The seemingly simple question: "what is wealth and who are the wealthy?" is in reality not so simple to answer. With research activities and public debate on wealth being only at its start, there is still a lack of agreement on concepts, indicators and definitions.

Income and assets, absolute and relative wealth

A major difference emerges between researchers that focus on relative or absolute definitions, i.e. defining the rich in terms of their relative wealth in relation to average income and assets or as people who own a fixed amount of financial assets.

Another issue is how far income should be included in wealth studies together with data on assets or whether the two categories should statistically be kept separated.

Different categories of assets

When setting out to compare the available information on wealth, various categories of assets have to be defined and distinguished:[10]

- *Financial assets*: Transaction and savings accounts, credit default swaps, total bonds, stocks, mutual and investment funds, life insurances, pension assets, other financial assets
- *Non-financial assets*: Principal residence, investment in real estate, business equity, vehicles, durables and collectibles, other non-financial assets
- *Liabilities*: Home secured debt, which is the sum of principal residence mortgages, other property mortgages and other home secured debt (including lines of credit), vehicle loans, instalment debt (including credit card balance), educational loans, other loans from financial institutions and informal debt
- *Net worth*: Financial assets plus non-financial assets minus liabilities

10. These are the categories as defined in the Luxembourg Wealth Study (LWS).

The authors of the German Wealth Report use **a relative definition**, counting as 'rich' those who dispose of 200% or more of the median income and hold triple the average property and gross assets.

The World Wealth Report, which is published by the investment agencies Merrill Lynch and Capgemini every year, uses **an absolute definition**. People with financial assets exceeding 1 million USD (excluding their home) are defined as High Net Worth Individuals (HNWIs), leading to a calculation of around 10 million , in the world. As a second category, the Wealth Report introduces Ultra-HNWIs as a name for those holding financial assets (excluding collectibles, consumables, consumer durables and primary residences) worth 30 million USD and more. Credit Suisse's "Global Wealth Report" uses a less stringent definition – any one whose net assets exceed 1 million USD and estimates that there were about 24.2 million in mid 2010, about 0.5% of the world's adult population. They control 69.3 trillion USD in assets, more than a third of the global total. Some 41% live in the USA, 10% in Japan and 3% in China.

Another example of an absolute definition can be found in the work of Wall Street Journal reporter Robert Frank, who has been focusing on writing about the New Rich in the US. Frank makes out **three classes of rich people:**

	household net worth	value of primary residence
The lower rich	1 to 10 million USD	810.000 USD
The middle rich	10 to 100 million USD	3,8 million USD
The upper rich	100 million to 1 billion USD	16,2 million USD

Envisaging one billion Euro

Three sample calculations
At the beginning of the 90s, the financial speculator George Soros made almost 1 billion Euro with currency speculation within one week. In order to help people to grasp how much money this is, the Swiss economist Martha Madörin broke the sum into thirds of around 300 million each and provided the following three sample calculations.

70 years of full time shopping
If someone would try to spend 300 million Euro by shopping, he or she would have to spend 14.400 Euro a day (50 cent/second), 5 days a week for 70 years (including 5 weeks of 'shopping-holidays' every year).

Starting to earn a salary 20.000 BC
If a NGO employee with a decent Swiss salary – such as Madörin – would want to earn 300 million through her work, she would have to have started working 20.000 years before Christ in order to have made the money by now.

NGO funding for 2500 years
An average NGO such as the one where Madörin is employed (an independent network monitoring the Swiss financial system with about 3–5 members of staff) could have started to work at the birth of Christ and would still have finances secured to do their job for the coming 500 years.

Source: Mascha Madörin (1997), Schuldenkrise und Frauenalltag, in: Vergib uns unsere Schulden, Wien, p. 19-27.

However, experts such as Robert Frank and others agree that even if an absolute definition is taken, people's understanding of wealth is usually linked to a comparison with others, who dispose of more or less income and/or assets. This understanding very much depends on **social interpretation and cultural values**.

In many countries, rich people would publicly deny being wealthy, stating that they are only 'comparatively well off' while people having previously experienced poverty might feel rich when finally getting access to a good job with a proper income, good quality housing and better educational possibilities for their children.

Developing concepts and definitions of wealth is thus equally important as collecting data, especially when trying to build a reference source of existing definitions and data of poverty.

Lack of reliable data

As comprehensive tax reports are not generally available, survey data is the most prominent source of information on wealth of private households.

Most wealth surveys usually include:[11]

- *Wealth and income data by stock or flow (e.g. different types of real assets, and financial assets, different types of income)*
- *Socio-economic characteristics of households (household composition, education, occupation, living area …)*
- *Attitudes of the interviewees (e.g. measure of risk aversion)*
- *Behavioural information (e.g. use of information source for financial decisions)*

In search of indicators

Wealth experts such as the Austrian researcher Martin Schürz wonder whether and how absolute and relative wealth could be defined, as it is obviously easier to measure the lack of something rather than an excess. The absence of decent housing, for example, can be defined by certain indicators, such as the existence of mould or leaky windows; corresponding indicators for an excess of good quality housing however can hardly be imagined. Should seemingly unnecessary extras, such as golden fittings be assessed as an excess, or do we rather need to understand them in relation to the increase of status they might bring?

Indicators need to be built on a sound theoretical base to reduce the arbitrary nature of data on wealth and to ensure that non-monetary dimensions of wealth: such as education, social networks etc. are not ignored. Just as with poverty indicators, indicators on wealth need to take into account the concept of human capabilities when looking at data on income and assets. (See page 27, The Capabilities Approach).

11. Source: Davies/Shorrocks (2000), OECD (2008).

In recent years, interest in wealth studies has increased and surveys on the distribution and composition of household wealth are considered today as a flourishing research field. Nonetheless there is still little reliable, comparative data available.

While both the availability and quality of data on income have increased (not least because of the introduction of EU-SILC and international research projects such as the Luxembourg Income Study (LIS), that give an idea of the income inequality ranking of OECD countries), comparable data on wealth is still lagging far behind.

At the 27th General Conference of the International Association for Research in Income and Wealth in 2002, researchers and institutions from a number of countries decided therefore to join forces to bring together existing micro-data on household wealth into a coherent data base. The results of this project, called the "Luxembourg Wealth Study" (LWS), were published in 2007.

Even a comprehensive and ambitious research project such as the LWS, however suffers from many weaknesses and errors and all available data has to be interpreted with caution. A significant improvement is to be expected from the Household Finance and Consumption Survey of the ECB.[12] First results can be expected in 2012.[13]

12. See: www.ecb.int/home/html/researcher_hfcn.en.html and www.hfcs.at.

13. A valid international comparison of data is very difficult as methods of data collection vary from country to country, with some using information from administrative records such as wealth tax registers and others simply referring to household surveys. There are also differences in sample design, weighting, editing of the data, definitions of wealth, research units and other variables.

14. *How is Household Wealth Distributed? Evidence from the Luxembourg Wealth Study*, in: OECD (2008): *Growing Unequal? Income Distribution and Poverty in OECD Countries*, Chapter 10.

The Luxembourg Wealth Study (LWS)[14]

The LWS was officially launched in March 2004 as a joint project of the Luxembourg Income Studies (LIS) offices in Luxembourg and institutions in Canada, Cyprus, Finland, Germany, Italy, Norway, Sweden, the UK and the US. In 2006, Austria also joined the project, whose primary goal is to assemble and organize existing micro-data on household wealth into a coherent database in order to provide a sound basis for comparative research on household net worth (financial and non-financial assets), and wealth distribution.

Almost two decades earlier the Luxembourg Income Study (LIS) was started, leading to an income inequality ranking of OECD countries. Results of the LIS show that at the beginning of the 21st century **income inequality** was **least pronounced in Nordic countries**, with the Benelux countries, France, Germany and other Central and Eastern European countries coming next, preceding most Anglo-Saxon and Eastern European countries. **Russia, Mexico, Estonia and the United States showed the highest degree of inequality**.

First results of the LWS include:

- *In almost all countries involved in the LWS, over 80% of households own some financial asset, in most cases a deposit account. Stocks are particularly widespread in Finland and Sweden.*
- *Over 60% of households own their principal residence in all countries except Germany and Sweden, owning a second home is most popular in Finland and Norway. There is a substantial variation in debt holdings: from 22% of households in Italy to 80% in Norway, from 10% in Italy to 46% in the US if home-secured debt alone is considered.*
- *Country ranking differs between net worth and income. The US is the richest country in terms of wealth, followed by Canada and the UK, then Germany and Sweden and lastly Finland and Italy.*
- *Median wealth holdings by age show that the young have less, the middle aged have the most, and the older have less than the middle-aged but more than the young.*
- *The highest wealth inequality (household net worth) is found in Sweden, followed by the US, Germany and Canada. Sweden's top ranking is partly due to the high proportion of Swedish households with nil or negative net worth. When the share of net worth held by the top population percentiles is considered, the US regain the lead. The richest 1% of US households control 33% of total wealth.*
- *Net worth and disposable income are highly, but not perfectly, correlated.*

Wealth Inequalities in EU countries

Available data[15] from different sources underline the unequal distribution and heavy concentration of wealth across Europe, with the top 10 % holding between 42% (Italy) and 58% (Sweden) of wealth and the Top 1% holding between 11% (Italy) and 18% (Sweden).

	Finland	Germany	Italy	Sweden	UK
Top 10%	45%	54%	42%	58%	45%
Top 5%	31%	36%	29%	41%	30%
Top 1%	13%	14%	11%	18%	10%

15. Data from Austria included only financial wealth.

Clandestine wealth

A major problem of household surveys on wealth is the tendency of wealthy people not to disclose their real situation. Participation in household surveys is voluntary and existing surveys usually suffer from a middle-class bias.

Participation of wealthy households in such surveys must not be regarded as incidental but is directly influenced by the level of income and assets a household holds. Complementary information deriving from tax registers or deduced from residential areas or energy use is necessary. The abolition of wealth related taxes not only leads to a decrease of tax income but also to further limiting the availability of information on the unequal distribution of wealth.

Wealth continues to be a hidden issue. Only recently has public interest and media reporting on wealth and its impact on inequality started to increase. A more analytical public debate on wealth distribution however has hardly started. Even at the European Meetings of People Experiencing Poverty wealth has hardly been reported to be discussed, although general concern on the growing gap between rich and poor has been raised at these meetings.

Investment in wealth studies is needed

According to the authors of the LWS, there is still a long way to go to achieve solid and substantive research on household wealth, but there is also enthusiasm and hope for significant progress over the decades to come.

EU institutions and national governments will have to be held accountable to start collecting or keep pursuing data on wealth.

Wealth data from EU Member States

Even before the start of the Luxembourg Wealth Study (see Box 4 in the previous chapter for first results) discussions and some attempts to collect data on wealth were initiated in some of the EU Member States, although very few have included this data in their reports on poverty.

In 2001, Germany started to complement its data on poverty with data on wealth within its national report on poverty and wealth.

Austria also began to include a special chapter with data on wealth in its biannual social report. And recently, data on wealth and inequality have also been published in the UK and Ireland.

The German Wealth Report[16]

In 2001, the German Government published its first report on poverty and wealth with the attempt to give a comprehensive picture of the social situation. Only 30 of the 290 pages of the report however were devoted to wealth, and the lack of analysis with regards to the origin and effects of wealth has been criticised by social organisations and researchers.

While analytical methods were said to be improved with the publication of the 3rd report in 2008 which was complemented by a survey on the perception of wealth and managers' salaries by the German population, there is still comparatively little data available on wealth and inequalities.

According to the German definition counting everyone holding 200% of the median income as 'wealthy', the current German wealth quota (based on data from 2003) is 6,4%. Further taking into account also financial assets the quota increases to 8,8% of Germans with a net income of more than 3.418 Euro per month.

German welfare organisations have highlighted the need to act on deficits with regards to data collection and to apply an ethical analysis of (the lack of) equal opportunities, possibilities of participation and indicators for fair distribution.

Interdependencies between poverty, wealth and inequality are hardly highlighted and have also been noticeably absent from media coverage on the report.

Results of a recent German research project on wealth distribution based on data from 2007 show that 27% of all Germans hold no

16. *Der 1., 2. und 3. Armuts- und Reichtumsbericht der Bundesregierung* (2001, 2005, 2008), available from the ministry's website: www.bmas.de. Frick, Joachim R. and Grabka, Markus M. (2009): *Gestiegene Vermögensungleichheit in Deutschland*, available here: www.diw.de/documents/publikationen/73/93785/09-4-1.pdf

wealth or are even indebted, with the top 10% holding more than 60% and the top 1% holding 23% of the total assets of private households with a net worth of 6,6 trillion Euro.

The study also underlines a high correlation between income and wealth inequality.

The Austrian Wealth Report[17]

Wealth issues have been a focus of the Austrian anti poverty network *Die Armutskonferenz* almost from the beginning of its activities. Two conferences on wealth were organized in 1997 and 2001. Lobbying the government to complement its social report with data on wealth was only partly successful. So far three issues of the report, published in 2005, 2009 and 2011, included a specific chapter on wealth, alongside ones on poverty and on income inequalities.

According to the data first made available in 2009 **the top 10% of the Austrian population holds 54% of all financial assets, with the top 1% holding 27%. The richest Permille, 0,1% holds 8% of all financial assets which equals the total of financial assets held by the lower 50%.**

Data on non-financial assets show an even more unequal distribution with the top 10% holding 37% (= 170 billion Euro) of principal residences and 85% (= 370 billion Euro) of additional real estate.

Wealth concentration is even higher when it comes to equity capital. Only 3% of Austrian households hold equity capital, while about 10 individuals in Austria hold 25% (worth 4,7 billion Euro).

The available data also give evidence of the unequal distribution of chances to inherit, showing that only one third of households (38%) receive an inheritance and that chances to inherit are significantly higher for university graduates.

In their conclusions, the authors of the chapter on wealth published in the recent Austrian Social Report once again underline that the current figures must be regarded as an underestimation due to a limited availability of data.

17. Source: Chapter 18, *Verteilung der Geldvermögen* in: BMASK 2009: *Sozialbericht 2007-2008*, and Chapter 14, *Aspekte der Vermögensverteilung in Österreich* in: BMASK 2011: *Sozialbericht 2010*, available in German from the Austrian social ministry's website: http://www.bmask.at

18. Source: Mary Murphy and Peadar Kirby, *An Alternative Ireland is Possible: The Challenge of voicing an alternative vision for Ireland*, 2008.

Wealth distribution in Ireland[18]

There is limited recent up to date information available on wealth in Ireland and different reports use different measurements. The current economic crisis has had an impact on much of the wealth in Ireland but it would be a mistake to think that this has eroded the incomes of Ireland's wealthiest people.

A recent study by Merrill Lynch in 2010 found that the number of people with more than 1 million USD (814,640 Euro) increased by almost 2,000 by the end of 2009, having decreased drastically in 2008. The study recorded the wealth of anyone who had more than 1 million USD in cash and assets excluding their primary residence and jewellery, art or other collectables. The rise in millionaires by 2,000 people marked the first rise in the number of "super-rich" in the country for two years moving back towards its peak of 2007.[19]

The Sunday Independent newspaper's "rich list", published in 2010, showed that despite the recession and economic downturn in Ireland, its top 300 richest people are worth close to 50 billion Euro.[20]

Prior to the recession, Irish per capita wealth ranked second among the leading OECD countries, behind Japan, according to a report published by the Bank of Ireland in 2007. This report shows that wealth per capita stood at 196,000 Euro per head in 2006, up from 168,000 Euro in 2005. On top of this, total wealth exceeded 1 trillion, personal savings of 10 billion in 2005 were set to double over the following ten years. 30,000 Irish people were cash millionaires and 100,000 are millionaires if the worth of their house is included. At the time, 330 Irish individuals had net worth in excess of 30million Euro, 2,970 ranging from 5 to 30 million Euro, while 29,700 had a net worth of between 1 and 5 million Euro, along with 6 billionaires.[21]

This same study also highlights the extent of inequality in wealth distribution in Ireland. It highlighted that the top 1% of the Irish population held 20% of the wealth, the top 2% controlled 30% and the top 5% disposed of 40% of private assets. Excluding the value of housing, the concentration of wealth mounts up to 1% controlling 34% of all wealth.

While many media outlets place much emphasis on the emergence of an extremely wealthy elite in Ireland, very little research has been done into wealth inequalities. The OECD Country Statistical Profile for Ireland made in 2010 showed that in 2008 Gross National Income (GNI) per capita stood at 25,904 Euro.[22] According to a report by Tasc, an independent think tank concerned with economic inequality, of the EU-15, Ireland ranked first in terms of earning inequality in 2006.[23] In a survey they conducted as part of their research they found that well over two-thirds (70%) of respondents felt that wealth is distributed unfairly in Ireland. OECD findings support this analysis of wealth distribution, citing Irish wealth distribution as among the most unequal in the developed world. Unfortunately the study of wealth distribution in Ireland has been quite limited so far.

In terms of income inequality, the Gini coefficient measurement reveals that in 2008 the top 20% of people had incomes 4.4% greater than that of the lowest 20%. This is just below the EU average.[24] (See pp 22–23 for an explanation of the Gini coefficient measurement).

19. *Merrill Lynch Global Wealth Management and Capgemini,14th annual World Wealth Report*, June 2010.
20. www.independent.ie/national-news/number-of-irish-millionaires-soars-2230552.html
21. Bank of Ireland, Wealth of the Nation 2007.
22. http://stats.oecd.org/Index.aspx?DatasetCode=CSP2010
23. TASC, 2008. *The Solidarity Factor -Public Perceptions of Unequal Ireland.*
24. Central Statistics Office, 2009. *Survey of Income and Living Conditions 2009.* Dublin.

What's the impact of the crisis?

In the UK, the crisis initially appears to have affected even the wealthy. The 2009 Sunday Times newspaper's "Rich List" highlighted that the richest people had lost 155 billion pounds in collective wealth. But this drop was short-lived as in April 2010, the top 1000 richest people bounced back and increased their collective wealth by 30%, the biggest increase in 22 years, whilst the rest of the population began to suffer from austerity measures. This means an increase from 335.5 billion up to 77.265 billion pounds. The richest man in the UK in 2010, Lakshmi Mittal, Steel magnate, was worth 22.45 billion pounds.

Wealth and Inequality in the UK

According to the Institute of Fiscal Studies (IFS) Report (2008), the rapidly rising income of the richest 10% was the major factor conditioning growing income inequality in the UK. According to the IFS, inequality trends rose over the 1980s with the Gini coefficient rising from 0.25 to 0.34 in the 1990s. The mid 1990s then saw a fall, but it has been rising again since 2007. The figure for 2008 is 0.36 - the highest level since 1961.

Who are the rich in the UK? The IFS highlights that in 2008 the top 0.1% of tax payers were:

- *90% male*
- *80% middle aged*
- *70% live in London and the South East*
- *60% work in Finance, property, accountancy or law* [25]

Distribution of wealth at a global level

The richest 2% of adults in the world own more than half of global household wealth

The richest 1% of adults in the world own 40% of global assets

The richest 10% of adults in the world own more than 85% of global household wealth

The bottom half of the world adult population own barely 1% of global wealth

Wealth is heavily concentrated in North America, Europe and high income Asia-Pacific countries. People in these countries collectively hold almost 90% of total world wealth.

Source: World Institute for Development Economics Research of the UN University, 2006.

25. IFS – 2004/5 Tax Returns: www.ifs.org.uk/publications/5200.The IFS data is based on the Survey of Personal Incomes (SPI), a sample of tax returns made every year by HMRC, with a sample size of 550,000. For reasons of comparison, the figures include England, Scotland, and Wales, but exclude Northern Ireland.

GROWING INEQUALITIES AND SOCIAL POLARISATION

***"Dos linajes solos hay en el mundo,
como decía una abuela mía,
que son el tener y el no tener".***

*("There are only two families in the world,
as my grandmother used to say,
the haves and the have-nots".)*

Sancho Panza to Don Quijote in: Miguel de Cervantes Saavedra, Don Quijote de la Mancha.

What is social polarisation?

The British sociologist, Peter Townsend, has introduced the concept of social polarisation in order to raise attention to what he calls the "world's most fundamental problem", the fact that "wealth and poverty are becoming increasingly polarised".[26]

The concept of social polarisation is meant to help analyse inequalities in not only the EU and the US but also in the so-called developing world.

Townsend proposes connecting the concept of poverty and social exclusion with the concept of social polarisation because poverty and social exclusion "direct attention to only parts of the population".[27]

With the concept of social polarisation Townsend shifts some of the attention that has been devoted to debates on the existence of a so called 'new underclass' to the emergence of what he already previously had suggested to call an 'overclass', the small elite of the super-rich.

26. Townsend, Peter, 'Poverty, Social Exclusion and Social Polarisation: The Need to Construct an International Welfare State', in: Townsend, Peter and Gordon, David (eds.), *World Poverty: New Policies to Defeat an Old Enemy*, Bristol: The Policy Press, 2002, pp.3–24, p.3.

27. Ibid., p. 7.

Growing inequalities

With the increase in extreme wealth the gap between rich and poor within and between countries has widened. According to a recent OECD study published in October 2008, the gap between rich and poor has grown in more than three-quarters of OECD countries over the past two decades.

The results of the study also confirm that the gap between low and high paid employees has grown, that incomes from capital and self-employment have become even more unequally distributed and that wealth is distributed even more unequally than income.

Here are some of the key facts:

- The income of the richest 10% of people across OECD countries is on average nine times that of the poorest 10%.

- Poor people in rich countries are not necessarily better off than their counterparts in lower income countries. The poorest 10% in Sweden have an income that is 1,5 times the level of the poorest 10% in the US even though average incomes are higher there.

- The cause of much inequality lies in the labour market and a larger gap between the low and the high paid and changing numbers of people out of work.

- There is less earning mobility between generations where inequality is higher.

- Access to Public service drives greater equality, with the most important effects coming from access to education, health services and housing provision. The redistributive effect of public services accounts for on average two thirds of the effect of taxes and benefits.

Source: OECD, Growing Unequal: Income Distribution and Poverty in OECD Countries, 2008.

Other studies and estimates also show that wealth is usually far more unequally distributed than income and that a relatively equal distribution of income does not imply a relatively equal distribution of wealth.

Wealth taxation, political institutions and cultural differences play a crucial role.

United Kingdom (2000): Gini for Income, 0.32 – Gini for Wealth, 0.66

Sweden (2002): Gini for Income, 0.23 – Gini for Wealth, 0.89

Source: OECD (2008), p. 51 and p. 263.

Inequalities within a society today are usually measured by what statisticians call **the Gini index**. The ***Gini coefficient***[28] is a way of measuring the inequality of distribution of income in a country. It takes account of the full income distribution. It is a technical formula which identifies the relationship of cumulative shares of the population arranged according to the level of income, to the cumulative share of the total amount received by them. If there were perfect equality (i.e. if each person received the same income), this **coefficient** would be 0. If the entire national income were in the hands of

28. You can read more about the technical aspects of the Gini coefficient in Wikipedia at http://en.wikipedia.org/wiki/Gini_coefficient. See also EAPN's poverty explainer at http://www.eapn.eu/index.php?option=com_content&view=article&id=998%3Anew-version-2009-of-the-poverty-explainer&catid=40%3Aeapn-books&Itemid=84&lang=en

only one person then the coefficient would be 1. The higher the coefficient, the greater the inequality in the distribution of income in a country. The available Gini Indices range from 0.247 for Denmark (ie lower inequality) to 0.743 for Namibia. The USA's Gini coefficient rose from 0.34 in the 1980s to 0.38 in the mid 2000s and Germany's has risen from 0.26 to 0.3. The only large country to see a significant fall is Brazil (from 0.59 to 0.55).

However, the value of the Gini coefficient has been questioned as the household survey that usually provides the base for its calculation does not include the wealthiest households. In addition, private assets that have been transferred to foundations are not covered. A sample calculation for Austria that would include a very cautious assumption with regards to these assets shows an increase of the Austrian Gini from 0. 65 to 0.75.

A public debate is also lacking on what the 'right' level of (in)equality would be. Not surprisingly opinions differ here, as do the underlying philosophical and ideological concepts and specific views on equality.

Explanations for the growing gap between rich and poor differ as much as the solutions suggested. The OECD report cites changes in the structure of the population and in the labour market over the past 20 years as the main reasons for growing inequalities (ie the trends in employment and unemployment rates). The main solutions proposed are consequently increasing investment in active employment policies and education rather than a more comprehensive proposal to tackle inequalities through redistributive tax-mechanisms, social protection systems and public services.

Global Inequalities

Research on global economic inequality so far has mostly focused on differences in income and consumption. The findings give evidence of the high disparity of living standards but also seem to indicate that there is no clear upward trend in global income inequality, which is mostly due to the increase of incomes in countries such as China or India. Taking out these two countries, global income inequality has increased.

According to studies from World Bank economist Branco Milanovic, 2,7 billion poor people have to share the same income as 50.000 rich people; the poorest 5% of the world have lost almost 25% of their real income between 1988 and 1993, while the top 5% have gained 12%. The situation is even more dramatic if the global unequal distribution of wealth is taken into account as well.

In countries that lack full social safety nets, household wealth is of comparatively greater importance for providing security and opportunity. It provides a means of raising long term consumption, helps to insulate households

29. Sources: James B. Davies et al: *The World Distribution of Household Wealth*, UNU-WIDER Discussion Paper No. 2008/03; Branco Milanovic, *Worlds Apart: Measuring International and Global Inequality*, Princeton 2007.

against adverse risks and provides a source of finance for entrepreneurial activities. However, studies on wealth distribution prove that wealth is and will continue to be lowest in areas where it would be needed most.[29]

A global gender gap

Available sources on the gender dimension of income and wealth inequalities give evidence of a global gender gap.

Already in the 1980s the UN drew attention to the fact that women make up more than half the world's population, yet perform two thirds of its work, receive one tenth of its income and own less than one hundredth of its property.

The fact that these figures have been in use ever since and even the UN has felt no need to update them has to be taken as strong evidence that the general picture with regards to women enjoying an equal part of the world's wealth has not much changed since the 1980s.

The harmful impact of inequality

The comparison of a great number of studies on income inequalities gives convincing evidence that societies with bigger income differences between rich and poor suffer more from a wide range of problems, including worse physical and mental health and higher levels of drug abuse, criminality, and imprisonment.[30]

According to Richard Wilkinson and Kate Pickett, authors of *The Spirit Level* that presents meticulously collected evidence on the harmful impact of inequalities, we are at a turning point in human history. Many of the so-called developed countries have come to the end of what economic growth can do for their societies. Measures of well-being or of happiness are no longer on the increase, on the contrary it is the rates of depression and anxiety that have risen over the last fifty years in these countries.

The evidence deriving from inequality studies in the 50 richest countries of the world suggests that we need to shift our attention from increasing quantitative growth and material wealth, to the social environment and the quality of social relations in our societies. Getting even richer makes little or no difference to the prevalence of health and social problems in comparatively wealthy countries, but getting more equal does. Societies with smaller income differences between rich and poor are more cohesive: community life is stronger, levels of trust are higher and there is less violence. The vast majority of the population seem to benefit from greater income equality. And there is no reason to believe that this would not be equally true for a more equal distribution of wealth.[31]

30. See Richard Wilkinson and Kate Pickett, *The Spirit Level: Why more equal societies almost always do better*, London: Penguin 2009.

31. The fact that Wilkinson and Picket are exclusively focussing on income inequalities has to be explained by the current data situation, where comprehensive sets of data on the effects of income inequalities are available, and hardly any comparable data on wealth distribution.

The influence of the very rich

As Townsend and other have also pointed out the **concentration of wealth** usually goes hand in hand with the **concentration of power**.

Despite the difficulties of many banks and some big enterprises in the recent crisis, there is growing evidence that a small number of people and international corporations exercise increasing influence over economic policy as well as over politics in general. Wealthy people are in a position to influence the definition of principle social concepts and values. Crucial concepts such as the understanding of freedom or security are shaped according to their needs. Freedom, for example, is increasingly restricted to denote economic freedom only, while responsibility and solidarity tend to be regarded as merely personal, individual qualities rather than duties of a society. At the same time, security is mainly viewed as the need to secure property and goods.

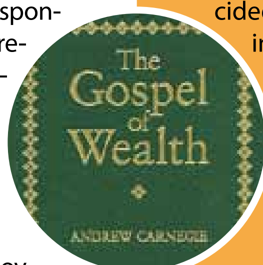
The more the accountability of governments shifts to the needs of the wealthy and away from people experiencing poverty, the smaller the budgets for public sector spending (including social services and infrastructure) become.

Discrediting the welfare state and a solidarity-based tax system, combined with an individualization of risk are as much part of this development as is the growing privatisation and liberalisation of public services. They reflect how the principles of market economy now increasingly underpin all areas of life including individual households, the non-profit-sector and the State itself.

Accountability of those who have accumulated wealth and today control a disproportionate share of the world's wealth is extremely limited. This has also become clear in the current crisis.

Welcome to Richistan

"Some years ago Wall Street Journal editor Robert Frank got to talk to a yacht owner from Texas during a yacht show in Florida. While looking at the hundreds of giant boats in the marina, the yacht owner remarked that he felt like being "in a different county". His words stuck with Frank, who realized that the wealthy were not just getting wealthier but also had started forming their own virtual country, "a self contained world, with its own health-care system (concierge doctors), travel system (private jets, destination clubs) and language. ('Who's your household manager?'). A breakaway republic that he decided to call "Richistan" and to describe in a book that provides insights into the world of people who live in a different financial universe, consuming like crazy and never losing sleep over insurance payments or tuition bills such as many low income households.



The book also reveals that next to the growing accumulation of assets with the number of super rich across the globe, the aspiration to become wealthy is changing our culture and the character of society, or as Frank puts it: "Richistan is driving our economy, our culture and our spending habits." *Robert Frank, Richistan, New York: Random House, 2007.*

Frank has continued reporting on the wealthy, including how they are surviving the crisis, in his blog: http://blogs.wsj.com/wealth/

BETTER DISTRIBUTION

"Reicher Mann und armer Mann standen da und sahn sich an. Und der Arme sagte bleich: wär ich nicht arm, wärst du nicht reich".

*("Poor man and rich man stood there looking at each other.
And pale-faced poor man said:
Was I not poor, were you not rich".)*

Bertolt Brecht.

Ethical considerations

Ethics is about reflecting on the good life and what needs to be done, or not done, in order to bring about a good life for all members of a household, local, regional, national, or the global community.

An ethical perspective on wealth therefore has to evaluate how far wealth and current forms of wealth creation and distribution undermine or contribute to generating a good life for all. This pre-supposes a discourse on what a good life constitutes and public debate on how people can best organize their lives and society, respecting each other's diversity and equality.

Assessing philosophical concepts, sociological research, human rights reviews, global policy papers as well as the experiences and views of people as recounted in literature or personal encounters, it seems there is broad overlap of what is seen as the core elements of a good life, although lot of difference will be discovered when it comes to the details.

The ethicist Martha Nussbaum has listed them in her version of an advanced capability approach and thereby provides a set of indicators that also can be used to measure the positive or negative effects of wealth and its impact on inequality and well-being.

The Capabilities Approach (Martha Nussbaum)

Based on the work of the Indian economist Amartya Sen and on the experiences of "poor" women in India and other places, and as a result of cooperative work with other academics at the Helsinki UN University, the US philosopher and ethicist Martha Nussbaum developed a set of indicators to assess to what extent a good life for all members of a society is possible. Her approach seeks to advance the idea of capabilities as introduced by Sen, thereby building on the Aristotelian understanding that the excellence of the constitution of a state lies in its ability to ensure that citizens may decide in favour of a good life and beneficial acts on the basis of the material and natural resources of the community. In order to judge how far a state lives up to this principle it is necessary to develop a clear understanding of what a good human life is. It is not only about a more socially-just distribution of money, real property, opportunities and positions in society. The question that lies at the heart of such an approach is not what resources people have, or how satisfied they are but instead: "What are people able to do and to be?"

Looking for a comprehensive answer to this question, Nussbaum has drawn up a list of the following functions or capabilities that can be used for both life assessment and political planning:

- *Life (to be lived to the 'natural' end)*
- *Bodily health (including accommodation, food and reproductive health)*
- *Bodily integrity (freedom of movement; no sexual harassment or violence)*
- *Senses, imagination, thoughts (to be trained and expressed through education, art, religion)*
- *Emotions (attachment to people and things, the ability to care and to love, to grieve, to feel and express gratefulness, desire, and anger)*
- *Practical reasoning (to have an idea/a concept about what a good life would be; to be able to reflect on one's own life plan)*
- *Relationships (to human beings, other species and the environment)*
- *Play (to be able to laugh and play and enjoy relaxing activities)*
- *Control over one's environment (through political participation, the ability to hold property, the right to good quality employment).*

According to Nussbaum, the list needs to be regarded as being of "irreducible plurality", which means that the need for one component cannot be satisfied by giving people a larger amount of another one. "All are of central importance and all are distinct in quality."

A good life, therefore, not only includes good health and bodily integrity but also ideas, creativity and playfulness, the ability to express emotions, to sustain good relationships, to enjoy a sense of belonging and to participate in the shaping of one's own life context.

Source: *Martha C. Nussbaum, Women and Human Development. The Capabilities Approach, Cambridge University Press, 2000.*

Justification of inequalities

Once the need to legitimise huge income and wealth inequalities is recognised, there is usually a set of explanations ready at hand: Income inequalities are often justified in terms of recognition of greater effort or responsibility. It is however hard to explain and even more difficult to understand why an investment banker, particularly one that has risked the money of many investors, should be paid a hundred or even a thousand times the wages of a cleaner in the same bank or a nurse who cares for the banker's ill relative.

Popular arguments to justify wealth accumulation include the explanation that existing assets are the result of successful savings or successful business activities.

Savings however are only possible for those who dispose of sufficient surplus income, beyond covering their necessary expenses, and only a very small number of successful businessmen manage to make millions or billions out of their business.

A Theory of Justice (John Rawls)

Challenging the mainstream economic position that inequalities are not only legitimate but desired as they contribute to the wealth of the nations, the US philosopher John Rawls has argued that this is only true if the situation of 'the poor and needy' is effectively improved. A general increase of a society's wealth does not suffice.

In his famous book "A Theory of Justice", that was published in the early 1970s Rawls set out to introduce a new concept of distributive justice, which he later further clarified and reorganized in "Justice as Fairness: A Restatement", 2001.

Rawls' arguments, which are influential still today (although often used in a distorted way) especially when 'equal opportunities' are upheld by political decision makers, include the principle that all members of a society have to be guaranteed access to a set of basic goods, including liberties, opportunities and respect, and that social and economic inequalities are acceptable if they are arranged so that "they are to be of the greatest benefit to the least-advantaged members of society and that offices and positions must be open to everyone under conditions of fair equality of opportunity".

Rawls' theory has been controversially discussed and ethicists such as Martha Nussbaum have classified it as a "weak" theory and minimal conception of the good. His theory ignores the influence of social origin and fails to define the capabilities needed to freely chose among and make best use of the available opportunities.

SHARING THE WORLD'S WEALTH: WAYS FORWARD?

"Earth provides enough to satisfy everybody's need, but not everybody's greed".

Mahatma Gandhi.

A new vision, economics and politics of the social is needed

Already in the eighteenth century, Adam Smith, in his classic economic theory, defined human beings as beings with an acquisitive drive. In doing so he succeeded in transforming greed from a sin to become the main driving force of the economy. Since then, infinite desire and growth form central values not only of a capitalist economy but increasingly also of society in general.

In order to gain a new perspective on wealth - and consequently, a new and more just way of distributing it - some of the main economic principles need to be questioned.

Historically, economy was always understood to be about the distribution of scarce goods. But today, at least in industrial countries, there is no actual scarcity of goods, on the contrary, industrial countries live in societies of affluence, which clearly indicates that poverty could be eradicated if there were a political will to redistribute wealth.

It thus has to be made clear that a society's wealth could be regarded and has to be distributed quite differently. If what counts is the good life of all members of a society, a wealthy society would be one that is able to guarantee an adequate minimum income for everyone, affordable access to social goods and services (education, health prevention, public transport, child-care facilities, counselling centres etc.), and solidarity in sharing risks. Even when focusing on economic efficiency, it is evident that countries with a highly developed social security system are among the most efficient economies worldwide.

The rich possibilities of wealth

The term wealth must not be restricted to property and assets alone - a society can also be wealthy in terms of its public goods and services. Similarly, the wealth of individuals is not only determined by their property, but to a much higher degree by what they can do and have (see above). Individual quality of life, however, depends to a great extent on more equal societies that manage to give its members full access to high quality social goods and services and ensure that their capabilities are supported so that everyone is able to convert them into a good life for her/himself and her/his community.

Adopting such an understanding, wealth does not have to be demonised.

On the contrary, the inherent potential of wealth and its rich possibilities could be truly set free.

Taking advantage of the rich possibilities of wealth, and aiding redistribution, various methods can be applied, among them philanthropy and charity, wealth and income taxes, social security, including a guaranteed minimum income and investment in quality social infrastructure.

Philanthropy today seems to be the most popular method for the wealthy.

According to the Economist, the ten largest foundations in 2005 held more than 150 billion USD. Bill Gates and Warren Buffet alone control 60 billion USD in their Foundation. Philanthropic work obviously gives some rich people a certain sense of a meaningful life, helps them to justify their wealth, and gives them, as the Belgium researcher Francine Mestrum points out, additional status and power with billions to spend without any democratic control.

High wealth and income tax are popular with only a small number of wealthy people, such as the Austrian tycoon Hanspeter Haselsteiner who publicly supports a higher taxation of wealth which he regards as an adequate price for living in a social coherent society without wealthy people having to hide themselves in gated communities.

Despite – or maybe just because of – their high distributive effect, wealth and income taxes, however, have become less and less popular in the last decades and are increasingly replaced by indirect or flat taxes which shifts a disproportionately high percentage of taxes towards lower-income groups.

Promoting social security and social protection has increasingly been recognized as an economic necessity, even by institutions such as the World Bank. The function of social security thereby is usually restricted to fighting poverty as such, without taking into account in which way universal social security and social protection measures could also contribute to reducing inequality by ensuring a fairer distribution of wealth.

A global approach is needed

In their book "World Poverty", UK researchers Pete Townsend and David Gordon call for the development of an International Welfare State and have compiled a list of international actions to defeat world poverty. Next to anti-poverty and social infrastructure measures such as the introduction of adequate minimum income schemes around the world, global provision of child benefit, public housing for the poorest 10% and the adoption of an international poverty line, the manifesto also includes a series of measures targeted towards a better distribution of wealth such as:

- *Adoption of an upper limit of income-equality (e.g. a standard of 0.4 on the Gini coefficient) by every government*
- *Commitment of governments in the North to replace the 0.7% GNP for overseas development with a 1% target*
- *New international company law and framework plan on fair trade*
- *Reconstitution of international financial agencies*
- *Introduction of an international financial transaction tax, administered by a further democratized UN and subsidising the establishment of child benefits in the developing world.*

A global welfare project is also at the core of the concept of World Public Finances, as discussed at the World Social Forum, proposing the introduction of global taxes and building global social protection systems that go beyond fighting absolute poverty only. The new thinking of development assistance with budget support is regarded as a positive step here, but as such, not enough. International monitoring systems on capital flight and arms trade, and creating more transparency on capital movement would have to be introduced in order to move towards a re-orientation towards development and the fair provision of global public goods.

Researchers on wealth, such as the Austrian economist Martin Schürz, set out to raise awareness that justice is always a relational issue and information about unequal relations is therefore of greater importance than the collection of data on wealth alone.

Schürz suggests the development of indicators that cover the whole range of income and wealth distribution and take both prosperity and poverty into account.

Moreover, he calls for economists to dare to analyse and raise issues of injustice and inequality instead of restricting themselves to endless data collection. Otherwise the only consequence of an increase in poverty and wealth reports will be better documentation instead of a change in the situation.

"One hundred years ago, different governments, including those of Britain and Germany as well as of smaller countries like New Zealand and Norway, responded to the manifest problems of poverty in those days. (…) Early in the 21st century the prospect of even greater social self-destruction, experienced as an accompanying feature of social polarisation, looms before us – unless urgent countervailing measures are taken. Collaborative scientific and political action to establish a more democratic and internationalised legal framework to protect human living standards has to become the first priority." (Townsend, p. 19)

What needs to be done?

Based on the data, discussions and concepts presented above we set out some immediate next steps which could move us along the road towards a better life for all:

- **Raise awareness about what wealth means**, *and increase understanding about the interdependence of poverty, inequalities and wealth creation, and its social and economic costs.*
- **Invest in wealth studies, better monitoring and measurement** *by developing robust indicators and comparable data on wealth, income and poverty, building on existing data/indicators. Invest in studies on wealth as well as poverty and include data/indicators as part of EU and International monitoring mechanisms.*
- **Focus more research on wealth mobility:** *there is a high persistence of wealth across generations (the rich stay rich – the poor stay poor) hindering equality of opportunities.*
- **Develop and agree new indicators of social and economic progress** *which capture the key elements of a good life for all and fulfilment of capabilities, through the development of new indicators beyond GDP.*

- **Make more use of the concepts of social polarisation and poverty production** *to shift attention from the so called 'new underclass' of people in the most extreme poverty to what Townsend calls the 'overclass', and challenge the dominant neo-liberal economic model which supports and promotes this widening division.*
- **Increase research into the effectiveness of different distribution and redistribution mechanisms**, *including into the social/economic costs and benefits of different tax regimes and of spending priorities within public budgets, in view of promoting a fairer distribution of wealth and capabilities.*
- **Launch a broader, public debate about the society we want**. *What constitutes a 'good life' for all individuals; defining what governments' rights and responsibilities should be. Only in this way can we start to develop a common understanding of social and economic justice and to identify how the world's wealth can be distributed in a way that ensures a good life for all.*
- **Building a campaign for a Global Welfare and Well-being project,** *pressing for international mechanisms to ensure fair distribution of income and wealth and adequate financing to build an effective social and economic infrastructure that can guarantee a better life for all.*

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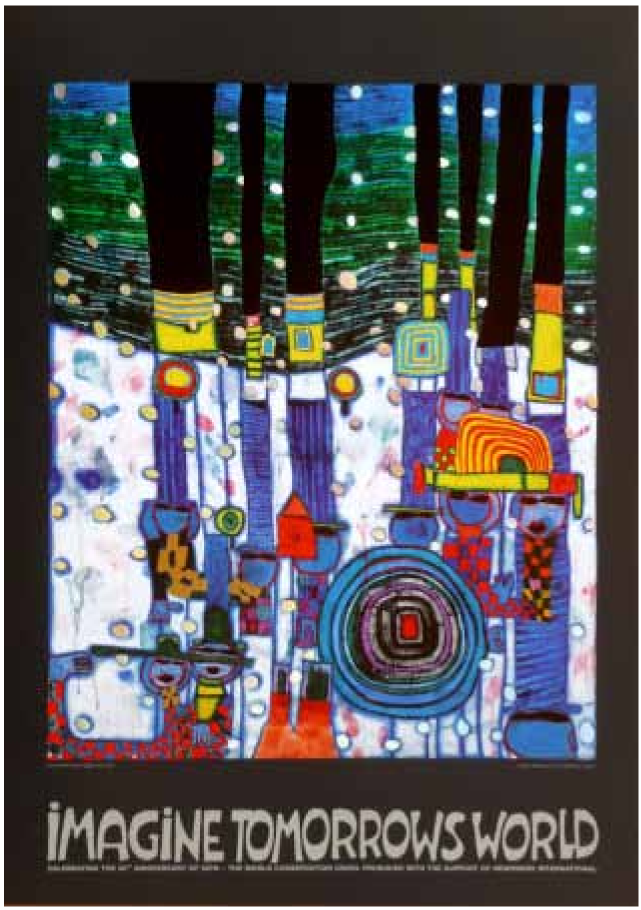
IMAGINE TOMORROWS WORLD

The European Anti Poverty Network (EAPN) is an independent network of non-governmental organisations (NGOs) and groups involved in the fight against poverty and social exclusion in the Member States of the European Union, established in 1990.

This explainer was drafted by Michaela Moser, the EAPN Social Inclusion Working Group and Sian Jones from the EAPN's Secretariat. The document builds on published work by several researchers in the field of poverty, wealth and social inequalities. The detailed references to their publications are to be found in the footnotes and in the bibliography. The authors also wish to thank EAPN Austria, EAPN Ireland, EAPN Germany and Martin Schürz for their specific inputs.

EUROPEAN ANTI POVERTY NETWORK