

Inequality Watch II



Norwegian People's Aid



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Contents

INTRODUCTION

- 4** Preface
- 5** Why do we let this happen?
- 6** How to close the gap
- 11** An agenda for reduction of inequality

AN UNEQUAL WORLD

- 12** **Norway:** High income – low inequality
- 22** **Ecuador:** Reduced inequality after the Citizens' Revolution
- 34** **Spain:** Popular resistance against the crisis
- 46** **Egypt:** Produced by the state – contested by the people
- 54** **Tunisia:** Regional inequality caused strong protests
- 66** **Viet Nam:** An economic tiger in South East Asia
- 76** **South Africa:** Inequality: The Achilles Heel of South Africa

REFERENCES

- 80** Glossary
- 82** References and footnotes

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FRONT PAGE
From Beijing
Photo: Peter Parks/AFP/NTB scanpix

PAGE 2
From Ecuador
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Preface

Liv Tørres, Secretary General
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Within the span of a few years, the world has changed dramatically. Power has moved south and east. China's role in the world economy is undeniable. Likewise the reduced US influence. We have moved from a bipolar world dominated by the cold war to a multipolar world governed by a whole range of states and actors setting the international agenda.

The increasingly stark gap between the “haves” and the “have nots” formed an important background for the initial mobilisation in the Middle East-North Africa region. The Arab Spring in 2011 promised major waves of democratisation internationally. Four years later little has been achieved when we consider the strong calls that were there for increased justice and democracy. Instead, the growing discontent that broke into the Arab spring is partially contributing to the civil wars that are now taking place in parts of the region.

UN reports in 2014 documented historic achievements in poverty reduction internationally. At the same time, income levels for the middle class and the better off have increased much more. Inequality is increasing in many countries and is contributing to social unrest, instability and in turn security concerns for the whole international community.

Increasing inequality internationally goes hand in hand with a growing suppression of democratic rights in many countries. Rising global inequality undermines democracy at the same time as strong and vibrant democracy is needed to fight growing inequality. Many people lose confidence in democracy because they do not see their vote translated into services and social justice. At the same time, they see the rich getting richer, getting access to further privileges and seemingly having more influence over public policy than the “regular voter”. The OECD also documented in 2014 that since 1980 economic growth has been significantly reduced because of the growing inequalities (in OECD countries). As if this was not enough, the World Economic Forum continuously argues that inequality is the main threat to economic stability.

Extreme inequality undermines social trust and cohesion. Increasing gaps in income and wealth are contributing to reduced contact between people and thereby the willingness of people to contribute to collective problem-solving. Last but not least, increased inequality can reduce the willingness of the wealthy to contribute to public welfare systems and social protection schemes through paying taxes, even further. Increasing inequality often goes hand in hand with privatisation of health, education and other services for the wealthy, while the poor face services that are diminishing in quality, from a cash stripped public sector. In this there is a huge potential for conflict and discontent. It is a “lose lose-situation”. The combination of a lack of strong organisations that can mobilise people in a democratic, disciplined and peaceful manner with high and increasing inequality is a potent mix. Social discontent arising from increasing inequality can take many forms. The challenge ahead will be to build strong and disciplined organisations that are able to mobilise people in democratic and peaceful ways to fight inequality. ■

Why do we let this happen?

Influential politicians, elites and economists have decided not to care about inequality. They warn that any attempt to interfere with the marked will harm us and affect economic growth. They argue that we should give benefits to the rich so they can get richer and be able to supply us with cheaper goods and services, create jobs, and promote growth. In effect, the rich have hoarded more resources; there is growing wealth in the hands of few people, but this wealth does not trickle down. Substantial evidence shows that distribution of resources and small differences in income are favourable for the development of a healthy economy and for people's wellbeing. **Nevertheless inequalities continue to increase. The present situation is harmful to society.**



World wealth grew by 14% in 2014. Wealth is extremely concentrated, much more than income. **The richest 10% controls 87% of the world's wealth.** The richest 1% controls 50% of the world's wealth. The bottom half (50%) of the world's population only controls 1% of the world's wealth. This is also reflected within countries, for instance in Egypt, the richest 10% controls 73% of the country's wealth. (Credit Suisse)



Small landholders are being pushed aside and there is a tendency towards re-concentration of land. Land use, control and tenure are highly unequal and women control and have less land than men. Some places, large national land-owners are taking over land from smallholders, but small farmers also loose land due to the increase in foreign direct investments, mainly from the rich countries.



70% of the world's absolute poor live in middle income countries.

This shows that growth has not trickled down. Income inequality is growing within countries and within the world's population. The rapid increase in high salaries, including in many developing countries, is a strong driver of inequality. (Sumner, IDS)



Tax systems often favour the rich and do not contribute to redistribution. The race to the bottom on corporate taxes to attract investments and the emphasis on value added taxes on goods and services in development countries have made the poor pay relatively more. The rich also have more capacity to take advantage of tax loopholes, creative tax planning, and use of tax havens.



Only 27% of the world's population enjoys access to comprehensive social security (ILO). Social protection mechanisms are important to reduce inequality and poverty and enhance economic stability.



People lack access to decent jobs. 600 million jobs must be created to absorb the working age population, according to the World Development Report 2013. Economists have considered labour only as a factor in productivity and not looked at jobs as a fundamental issue of people's quality of life and wellbeing.



Labour has lost bargaining power and labour's share of national income has decreased, while capital's share has increased (functional income distribution). This has been a trend for years; Wages have not increased according to labour productivity. The loss in labour's share of national income has a negative impact on household income distribution. (ILO)

How to close the gap

Beate Thoresen, Editor
Inequality Watch

■ ■ The extreme increase in inequality is not a law of nature, but a result of politics.



“One should be wary of any economic determinism in regard to inequalities of wealth and income. The history of the distribution of wealth has always been deeply political and it cannot be reduced to purely economic mechanisms... The history of inequality is shaped by the way economic, social, and political actors view what is just and what is not, as well as the relative power of those actors and the collective choices that result.”

Thomas Piketty, *Capital in the Twenty-First Century*, 2014.

Who would have thought that a thick book with an economic analysis of inequality could become a bestseller? The French economist Thomas Piketty has starred the discussion on inequality this year, and we can only hope that the enormous interest will translate into political action to counteract increasing economic inequality.

Piketty's finding is that increased concentration of wealth is the principal long-term trend. Wealth increases faster the richer you are and inheritance contributes to perpetuate concentration of wealth. Piketty's book challenges mainstream economists who, over the last 30 years, have argued that inequality is of no concern and that any intervention to reduce inequality will damage the economy. People are concerned, however, with the extreme inequality observed, and the popularity of the book must be seen as an expression of this concern and of relief; finally someone is documenting what we are experiencing.

Norwegian People's Aid has argued, as does Piketty, that distributional analysis must be at the heart of economic analysis. We have also argued that it must be at the core of development policies, and that neither free markets nor industrial development will automatically reduce inequality. The extreme increase in inequality is not a law of nature, but a result of politics or rather the political abandonment of equity policies. We can choose to take measures to reduce inequality. It is time to make that choice.

Inequality Watch II

Inequality Watch seeks to provide a better understanding of the politics of inequality in different countries and has asked researcher and activists from selected countries to write for us. We want to mobilise to close the economic gap and this requires decisive political action at country level and solutions tailored to the country specific situation. It requires that there are organisations in each country that can push for a just distribution of resources. At the same time, it is urgent to change the economic policy recipes that for too long have been prescribed globally by mainstream economists, international finance institutions and many politicians. Measures such as structural adjustment, privatisation, weakening of labour institutions and withdrawal of the state have contributed to increasing inequality in most countries. For this we need coordinated mobilisation between organisations globally.

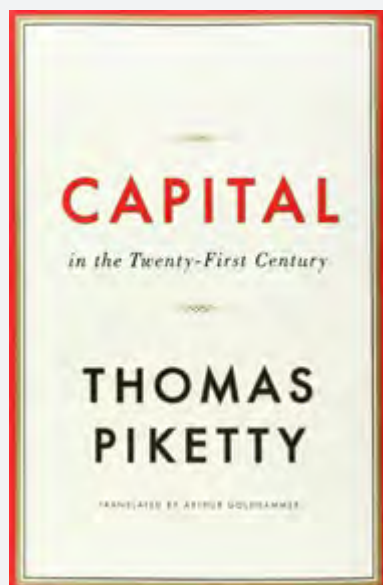
In this issue, Inequality Watch includes an analysis of two countries that have maintained low levels of inequality over time. The article about Norway

■ ■ Today, the world's richest 85 people own more wealth than the bottom half – some 3.5 billion people.

attributes the relative equal income distribution to three elements; the high employment rate, the centralised wage bargaining systems and the universal redistributive welfare state. This is a model that came about after years of conflict, especially between unions and employers, at the beginning of the 20th century. The article about Vietnam suggests that the country will no longer be able to maintain the low levels of inequality combined with a high growth rate as its economic liberalisation continues.

In recent years we have seen many protests against market fundamentalism and rising inequalities, the so called austerity protests. These led several countries in Latin America to break with neo-liberal policies and promote alternative development models. This is a hard job due to the continent's historic record of extreme inequality and has only been possible by getting the state actively back into the equation. Inequality Watch provides an analysis of Ecuador, one of the countries in the region that has managed to reduce economic inequality.

Widespread popular uprising has also taken place in North Africa and Europe. Inequality Watch explores how economic inequality played into the protests, looking at the cases of Egypt, Tunisia and Spain. The Tunisia article points at regional inequalities, not income inequality, as the most important factor behind the protests. The article on Egypt stresses that the state distribute resources unevenly and that this was an important contributor to the popular uprising.



THOMAS PIKETTY: *Capital in the Twenty-First Century*

Thomas Piketty analyzes a unique collection of data from twenty countries, ranging as far back as the eighteenth century, to uncover key economic and social patterns. His findings show that modern economic growth and the diffusion of knowledge have allowed us to avoid inequalities on the apocalyptic scale predicted by Karl Marx. In the 18th and 19th centuries western European society was highly unequal. Private wealth dwarfed national income and was concentrated in the hands of the rich families who sat atop a relatively rigid class structure. This system persisted even as industrialisation slowly contributed to rising wages for workers. Only the chaos of the first and second world wars and the Depression disrupted this pattern. High taxes, inflation, bankruptcies, and the growth of sprawling welfare states caused wealth to shrink dramatically, and ushered in a period in which both income and wealth were distributed in relatively egalitarian fashion. But we have not modified the deep structures of capital and inequality as much as we thought in the optimistic decades following World War II. The main driver of inequality—the tendency of returns on capital to exceed the rate of economic growth ($r > g$)—today threatens to generate extreme inequalities that stir discontent and undermine democratic values. But economic trends are not acts of God. Political action has curbed dangerous inequalities in the past, Piketty says, and may do so again.

Following the breakout of the international financial crisis, Ecuador's President Correa commented that Latin-Americans are experts on crisis because they have experienced them all. The lesson learnt is that these crises were handled badly because the only goal was to defend the interests of capital. He warned that Europe is going down that same erroneous road. The article about Spain describes a deep crisis and rapidly increasing economic inequalities. The established political system has failed to respond to ordinary peoples' demands who have taken politics to the streets. Finally, Inequality Watch includes a comment on



**One billionaire among
the world's poor?**

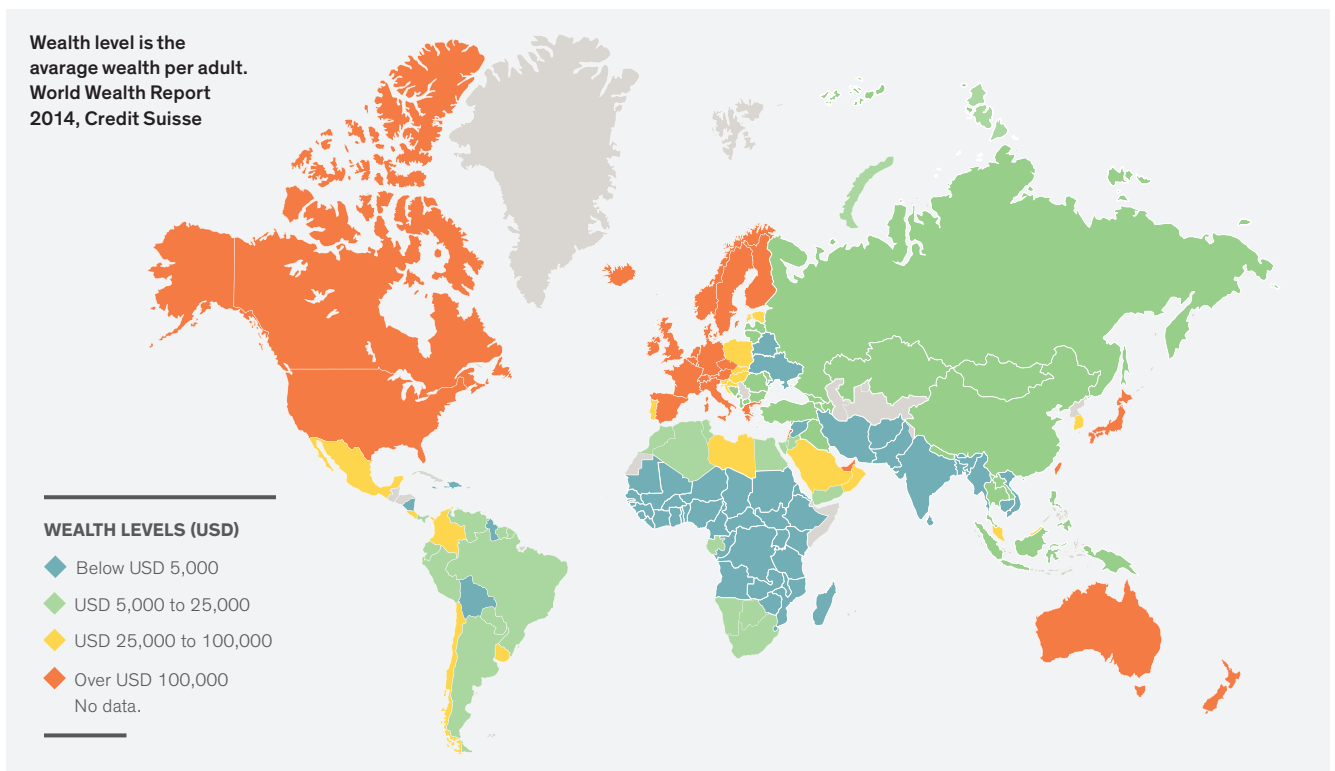
(Photo: Svein Erik Dahl,
Samfoto/NTB scanpix)

the development in South Africa. This underlines that inequality has become the country's Achilles heel. Social justice was postponed in the post-apartheid era, supposedly to stabilise democracy by getting the elites on board. This has, however, created an increasing discontent that threatens to undermine the very democracy it was supposed to favour.

Pay attention to wealth

Several of the articles report that peoples' perceptions of inequality do not coincide with the statistics on income or consumption inequality. One explanation is that the statistics do not take wealth inequality into account and that the distribution of wealth is much more skewed than income. Wealth is associated with economic power and most often also with political power. To get a better grip on inequality we have to pay more attention to wealth.

Systematic information about wealth is less readily available, but the various media occasionally publish articles about the richest people in the world. According to Forbes there are 1500 – 1600 USD billionaires in the world. The majority are from the United States, but the richest man in the world is from Mexico, a man whose fortune is built on the controversial privatisation of the Mexican national telephone company. The daughter of Angola's president is the highest ranking USD billionaire from African countries.



The Global Wealth Report published by Credit Suisse tries to track all wealth globally. It shows that global wealth reached unprecedented levels in 2014. Looking at regions, North America has 6% of the world's population, but nearly 35% of the world's wealth. Switzerland has an average wealth per adult of USD 587 000, while some countries, particularly in central Africa and Southeast Asia have less than USD 5000 per adult. In addition, wealth is also skewed within countries and globally 1% of the world's population own 48% of the world's wealth. This situation is damaging to a peaceful development and is profoundly unjust.

The inequality problem will not be solved by focusing on poverty reduction alone. Reducing the number of people that live with less than 2 USD a day is good, but it does not secure people's well-being or reduce inequality. The extreme concentration of wealth in few hands is at the expense of the majority. A focus on inequality has great advantages because it takes the whole population into account, not just the poor, and evaluates the effects of political and economic measures on the whole population; the rich, the middle class, the poor, or on women and men. It is time to put reduction of inequality as a priority goal for development policies.

Pay attention to democratic processes

Wealth often counts more than votes when it comes to the definition of political priorities and political power often gives access to increased wealth. When wealth inequality is high, this is a vicious circle that undermines democratic processes, social cohesion and justice.

Elite capture of power and politics is one of the main drivers of economic inequality. Wealth gives the political and economic elites leverage to entrench and promote their privileges. It gives power to dominate and define the terms of the political debate. Oxfam argues that elites often use the state to enrich themselves and their economic power to secure land concessions, contracts, subsidies, tax exemptions, as well as to block policies that may strengthen the hand of smallholders or labour. In addition, access to justice is often for sale, money buys the best lawyers, covers the court costs and thereby ensures impunity for powerful individuals or enterprises. Companies use enormous sums of money to lobby congress representatives and governments.

Democracy loses credibility when the system does not respond to people's concerns and priorities. In many countries, people experience that their votes have little effect; there is no real choice because elites control the system. This is also reinforced because democratic institutions decide less while economic power in the market more. The elites are mostly men, and the political power gap between women and men is even larger than the gap in economic participation. A loss of faith in the democratic institutions is leading to more confrontation and street protest.

An agenda for reduction of inequality

1. Strengthen organisations that challenge concentration of power and resources – Formal democratic institutions and elections alone have not contained increasing inequality. Organising is a priority to counterbalance elite power resulting from concentration of wealth. Organising is necessary for collective negotiations. International solidarity between organisations that represent people outside the elites is needed. The current tendency to restrict the right to organise must stop. Governments and international institutions must respect the right to assemble and associate, contribute to an enabling environment for organising and provide protection when the work or lives of organised people are threatened.

2. Promote collectively negotiated solutions – Negotiated solutions to challenges in society and distribution of resources are more democratic, more sustainable and secures broader representation of interests and opinions. We should promote collective bargaining of salaries, free prior informed consent for indigenous peoples and communities when investments are planned, hearings of policy proposals, opportunities to influence public budgets and social dialogue on state reform or tax systems. In these processes, there are profound power imbalances between elites and the rest, between different groups, for instance

ethnic minorities, and between men and women that must be recognised and dealt with.

3. Make inequality reduction a priority – Choose economic and social policies that contribute to inequality reduction and redistribution, evaluate the effect on inequality of present policies, and document economic inequality (between classes, groups, women and men).

4. Promote openness and transparency – This is a prerequisite for holding governments and companies accountable, for democratic rule and debate, decision-making and development of effective policies. We need to document who owns what and abolish tax havens, and demand prior public information on trade agreements, openness about state income, budgets, expenditure, taxes, and information on concessions to companies.

5. Share inequality information and analysis – Knowledge and information are powerful and necessary tools to fight inequality. We must share information on changes in inequality, analysis on why it happens and propose solutions. It is particularly important with independent media and channels of information accessible to the broad population that is not controlled by the elites.

A proposal to Norwegian development policies

1. Take the five point agenda into account in all development cooperation.

2. Increase economic and political support to representative organisations that promote the interests of the marginalised and the right to unionise and strike.

3. Strengthen organisations working to close the gender pay gap, promote equal inheritance and land rights for women, and women's political participation.

4. Strengthen the Tax for Development programme offering support to the development of progressive tax systems, transparency, broad-based dialogue on tax systems, as well as continued support to countries negotiating contracts with multinational companies on exploitation of natural resources.

5. Develop an action plan to fight tax havens and engage internationally to reform the global tax system, especially on corporate taxation and financial transactions.

6. Strengthen support to development of social security systems and to the implementation of a universal Social Protection Floor.

7. Promote and support the International Labour Organisation's (ILO) Decent Work Agenda and the implementation of the ILO conventions

8. Support that the new United Nations Sustainable Development Goals includes a specific goal to reduce economic inequality and promote a target to reduce inequality in income and wealth between the richest and poorest segments of the population.



Norway







Population
in million

5



SHARE OF WORKFORCE IN
AGRICULTURE

2%



ILOstat

10% richest earn
6 times
as much as the
10% poorest

Calculated based on World Bank Database

Wealth share
richest 10%



66%

Credit Suisse, Global Wealth Databook 2014

Seats held by **women**
and **men** in national
parliament in 2013



40%



60%

World Bank, Gender Equality Data and Statistics



Female
income
80%
of male
income

Gender Related Development Index (GDI) - UNDP;
Estimated share of GNI per capita (\$PPP 2011)



Number
of USD
billionaires

8



Forbes

GDP
per capita



66520

World Bank (2013, \$PPP)

Youth **9%**
unemployment rate

ILOstat



High income – low inequality



Lilja Mósesdóttir

Senior researcher at Fafo Institute for Applied International Studies

■ ■ Many are looking to the Nordic countries that have achieved lower level of income inequality than most other countries.

Capitalism is making the rich richer and the poor poorer is a message coming out of recent studies of inequality (e.g. Piketty 2013, OECD 2011 and 2014a). Many are, therefore, looking to the Nordic countries that have achieved lower level of income inequality than most other countries. But have the Nordic countries and Norway in particular succeeded in preventing inequality from growing and the wealthy from accumulating a greater share of the national income?

Our focus is on inequality in Norway and the reasons for its low level compared with other countries. We will also explore whether inequality is on the rise in Norway and what forces are pulling towards greater inequality. It should, however, be emphasised that the quality of life is not only determined by the level of income. Other factors are also important such as family and social relations, health, employment, education, the environment, culture, security and democratic rights.

1. How unequal is Norway?

In 2011, Norway was among the three countries in the Organisation for Economic Co-operation and Development (OECD), with the lowest levels of inequality in household disposable income measured with the Gini coefficient (see figure 1).¹ This coefficient is a standard measure of income inequality that ranges from 0 (everybody in a society has the same income) to 1 (one person has all the income). The value of the Gini coefficient was 0.25 in Norway while it was 0.32 on average in the OECD countries.

So far, Norway has managed to uphold a low overall level of income inequality, along with a high level of Gross domestic product (GDP) per capita. This means that the Norwegian people are not only relative equal, but that they also have a high income level. This contrasts with the US, where both the level of income inequality and GDP per capita is high. In 2011, GDP per capita² was 46,800 USD in Norway and 44,400 USD in the US (OECD database). Hence, Norway has been more successful than the US in ensuring that the great majority of the population reaps the benefits of economic growth.

There is, however, a considerable gap between the richest and the poorest ten percent in Norway, although smaller than in most other countries (see figure 1). In 2011, the gap between the average disposable incomes of the richest and the poorest of the population (the so-called S90/S10 ratio) was 6:1 in Norway and on average 10:1 in the OECD. In other words, the share of the total income earned by the richest is 10 times the share earned by the poorest in the OECD while it is 6 times in Norway.



LILJA MÓSESDÓTTIR

Lilja Mósesdóttir received her university education in the United States, Germany and the United Kingdom where she obtained a master degree in development economics and a doctoral degree in comparative labour market studies. Since the early 90s, Lilja has participated in various interdisciplinary research projects financed by the EU, the Nordic Council of Ministers and the European Trade Union Institute on the European social model, equal pay issues, the knowledge society and its social implications.



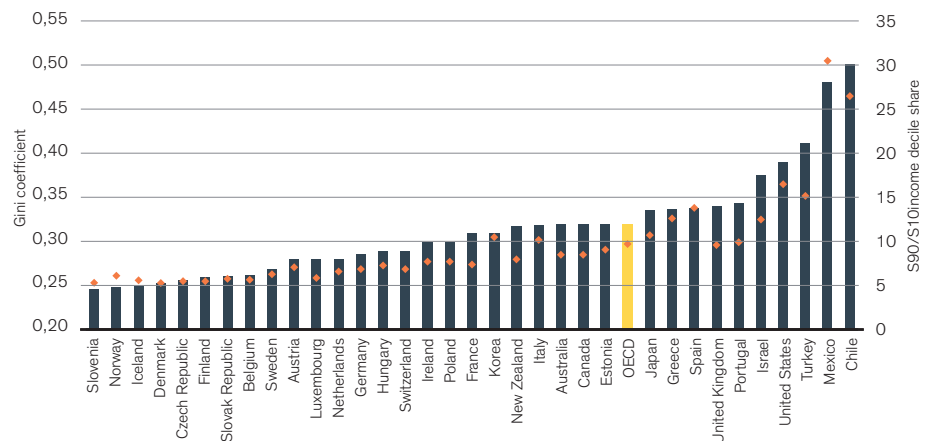
FIGURE 1

GINI COEFFICIENT OF HOUSEHOLD DISPOSABLE INCOME AND GAP BETWEEN RICHEST AND POOREST (S90/S10 SHARE), 2011

■ Gini ◆ S90/S10

Source: OECD.statExtracts, Income and distribution database, September 2014

Note: Data for Belgium is from 2010 and Japan from 2009.



■ ■ The Nordic model is based on high union density. More than half of the Norwegian workforce (52%) are unionised.

2. What has contributed to the low level of inequality in Norway?

The fact that Norway is a wealthy country with access to large oil resources is sometimes suggested to be the reason for the high level of equality. Being rich in itself is, however, no guarantee of equal distribution and other factors are more essential to explain the low levels of income inequality. Such factors, closely related to the so-called Nordic model, are: high employment level, centrally coordinated wages and a welfare state characterised by universal access to public services, extensive redistribution through the tax system and generous social transfers (e.g. Fløtten et al. 2014, Kvist & Greve 2011, OECD 2012).

High level of employment is promoted through coordinated active labour market policy and social policy. Those outside the labour market receive the assistance (services and benefits) to help them access the labour market and to remain in employment throughout their life-cycle. Extensive public child care, paid parental leave, and gender equality policies have contributed to women's high employment rate in the Nordic countries (Alestalo et al. 2009). In Norway, mothers and fathers have the right to 10 months parental leave, with full wage compensation, to share between them, when having a child. Furthermore, the child has, from one year of age, the right to have a place in a publicly funded kindergarten with a regulated rate for parents' financial contribution.

The Nordic model is based on high union density. More than half of the Norwegian workforce (52%) are unionised, while in the neighbouring countries Sweden and Denmark more than to thirds (70%) are (Dølvik et al. 2014). The strength of the unions is important to sustain the centralised wage bargaining system. This system aims at moderate wage increases that do not endanger full employment. High union membership and centralised wage agreements that are extended to the unorganised part of the labour market have, so far, resulted in more compressed wage structure in the Nordic countries than in most other OECD countries. Collective wage bargaining ensures that firms with different productivity



levels pay similar wages to workers with comparable skill levels. Wages can, therefore, be too high for firms with low level of productivity while high productivity firms are highly profitable. This gives incentives to expand the activities of profitable firms while unprofitable firms will be forced out of business. Hence, there is a constant need for highly competent and productive labour force in order to maintain high employment levels. A good, publicly funded educational system helps to ensure high skill levels (Ministry of Finance 2013).

Civil society organisations play a rather limited role as welfare providers in the Nordic countries. They have, however, been important in pioneering and developing these services. Today civil society organisations, not least organisations for disabled people and pensioners, play an important role in defending the level of income among those depending on welfare benefits and pensions.

■ ■ The relative equal income distribution can be attributed to the high employment rate (also among women and the elderly), the centralised wage bargaining systems and the universal and redistributive welfare state.

The Nordic welfare state is based on the principles of universalism and equality. Universal access to high quality social services such as child care, education, employment services and health services ensures that everyone enjoys equal opportunities. In Norway, a good, publicly funded educational system helps to reduce income disparities and the importance of parental income for the children's future (Ministry of Finance 2013). Only 3% of pupils in primary and lower secondary education attend private schools (Statistics Norway (SSB) 2014).

Social services are financed with tax revenues, but mainly provided by municipalities. Such services include for instance public education and public health services which are free of charge, as well as public long term care. An extensive social benefit system involving public pension, disability payments and transfers to families with children ensures that those unable to work have an acceptable level of income. Benefit schemes such as child allowance is for all families with children and not income-related and everyone has the right to public pension (Alestalo et al. 2009, Anttonen et al. 2012)

The advantages of universal access to welfare programmes and schemes are less stigmatisation, better service quality, higher benefit levels, and greater support for the welfare state among taxpayers (Anttonen et al. 2012). This is partly the result of trade unions' and civil society organisations' fight for the dignity of all and the equality of people. Hence, the Nordic welfare state's role is not only to reduce poverty, but to promote social cohesion by insuring against risk of income-losses (e.g. unemployment, lack of appropriate skills and ageing) and redistribute across social groups and over the life-cycle. The Nordic countries have all achieved a high level of employment, income equality and gender equality. The relative equal income distribution in the Nordic countries and Norway in particular can be attributed to three important elements. These are the high employment rate (also among women and the elderly), the centralised wage bargaining systems and the universal and redistributive welfare state.



■ ■ The share of the richest 1% in the growth of pre-tax income increased more in Norway than in other European countries. This trend was curbed by tax reforms in 2006.

In 2011, income inequality before taxes and transfers measured with the Gini coefficient was 0.42 in Norway. After taxes and transfers, inequality fell to 0.25. This illustrates the effect of the equalising measures and that the equal income distribution in Norway is both the result of relative equal distribution of earnings from work and capital and of redistributive taxes and transfers.

3. Has inequality increased in Norway?

Over the two decades prior to the onset of the global economic crisis, inequality in disposable income increased in the OECD countries (OECD 2011:228). The main driving force behind this trend was increased inequality in market incomes that includes gross wages, income from self-employment, capital income, and returns from savings (OECD 2011:23). Also in Norway, the Gini coefficient showed a strong trend towards increased inequality in disposable income until 2005. This was mainly because of a sharp increase in capital earnings, and the trend was reversed after a tax reform that came into effect from 2006 (OECD 2011: Table A1.1, Ministry of Finance 2013:93).

Between 1975 and 2007, the richest 1% increased their share of the growth in pre-tax income in many OECD countries including Norway (see figure 2). However, the wealthy in the US, Canada, the UK and Australia captured a much larger slice of the growth in income than in the Nordic countries. The growth in wealth of the 1% richest has been associated more with a rise in incomes of the “working rich” (e.g. the remuneration of top executives) rather than a recovery of capital incomes (OECD 2011:348). Interestingly, the share of the richest 1% in the growth of pre-tax income increased more in Norway than in other European countries (figure 2). As mentioned this trend was curbed by tax reforms in 2006.

FIGURE 2

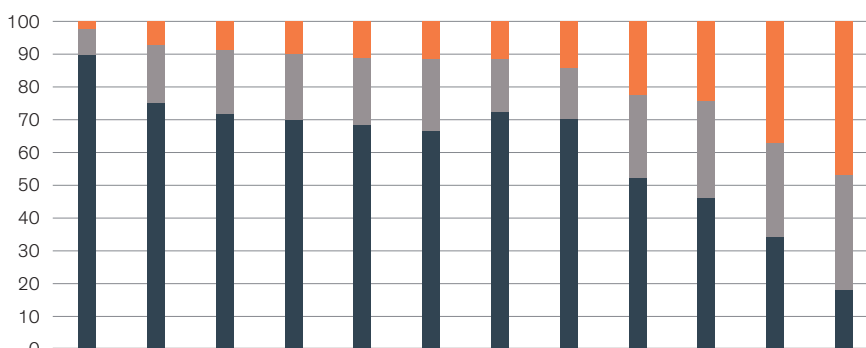
IN SOME COUNTRIES, ONE FIFTH OR MORE OF TOTAL INCOME GROWTH WAS CAPTURED BY THE TOP 1%.

SHARE OF INCOME GROWTH GOING TO INCOME GROUPS FROM 1975–2007

◆ BOTTOM 90% ◆ TOP 10-1% ◆ TOP 1%

Note: Incomes refer to pre-tax incomes, excluding capital gains OECD calculations based on the World Top Income Database.

Source: OECD 2014a, figure 3





■ ■ Persons with non-Western immigrant background in Norway are overrepresented among those with low income.

Growing income inequality is worrying as it may push more people into poverty and spark social unrest. Countries with large income gaps (e.g. in South America) are to a much larger extent characterised by economic and social instability than countries with relative equal incomes (e.g. the Nordic countries). OECD defines the poverty line as 50% of the median disposable income while Eurostat sets the line at 60% of the median disposable income. The share of the population with low income measured with these indicators is small in Norway compared with other countries. In 2011, the share of the population in Norway with income below the 60% of the median income was 10.5%, while in EU27 16.9%. According to the OECD poverty line (50% of the median disposable income), only 7.7% of the population in Norway have low income (OECD and EU databases), while in EU27 11.5% (figure3). Median income in Norway in 2011 was approximately USD 50 000.

The large increase in the share of those with low income in Norway when we move from OECD threshold of 50% to EU threshold of 60% of the median disposable income is not only due to a higher income cut-off point. Another important reason is that a substantial number of the elderly living alone receive minimum public pension that is between 50-60% of the median disposable income.

Persons with non-Western immigrant background in Norway are overrepresented among those with low income. Their employment rate is lower and they tend to have larger families than other population groups. Households with many children and only one breadwinner in Norway have a high risk of poverty/ low income (Fløtten et al. 2014, Ministry of Finance 2013).

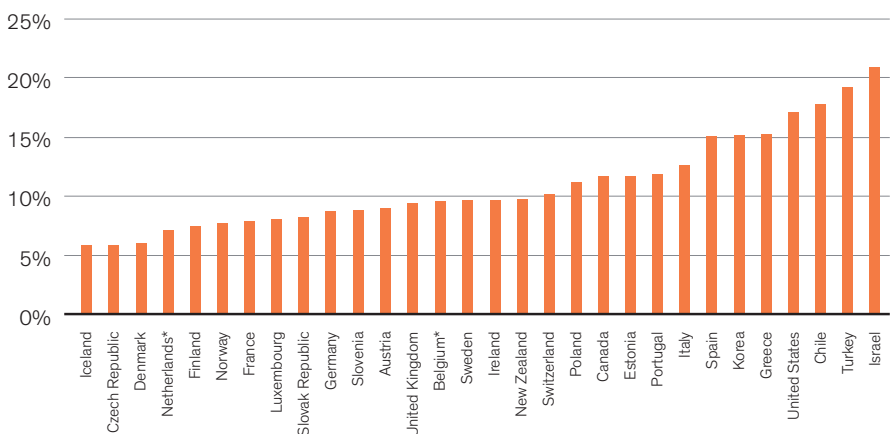
Figure 3 shows the share of those who had income below 50% of the median disposable income in the OECD countries in 2011.

FIGURE 3

RELATIVE INCOME POVERTY RATES WHEN THE POVERTY LINE IS SET AT 50% OF MEDIAN INCOME. 2011 PERCENT.

Source: oecd.statExtract, Income and Poverty database

* Numbers for 2010





■ ■ Strengthening the welfare state, in particular changing union legislation to foster collective bargaining and financial regulation, could help increase the wage share with little if any costs in terms of economic efficiency.

4. What is driving income inequality?

According to OECD (2011:113), changes in labour market policies and technological change were the main determinants of the increase in wage inequality between the early 1980s and the late 2000s. The labour market policies and institutions refer to product market regulation, employment protection legislation and tax wedges that are all important parts of the Nordic model. These policies have become more lenient due to de-regulation and de-centralisation of collective bargaining which has contributed to growing inequality in the OECD.

Stockhammer (2012) found in his study of 71 countries during 1970-2007 that income distribution is not primarily determined by technological progress, but rather depends on social institutions and on the structure of the financial system. Financialisation or an increased role of financial activity has led to an upward concentration of income and thus to falling wage shares of those at the bottom. Stockhammer (2012: viii) argues that strengthening the welfare state, in particular changing union legislation to foster collective bargaining and financial regulation could help increase the wage share with little if any costs in terms of economic efficiency.

The Nordic model including centralised wage bargaining systems and redistributive welfare states has contributed to the relative equal income distribution in Norway. The ability of the Nordic model to attain high level of income equality has, however, come under strain from technical progress, globalisation (of trade and production), immigration and market pressure. Technological progress, such as the spread of the Information and Communication Technologies, increases demand for skilled workers and depresses demand for those without. Hence, there is a constant need to ensure that the Nordic labour force is flexible and competitive in order to keep employment high and inequality low. This has, so far, been achieved through a good, publicly funded educational system or extensive social investment.

Centralised wage setting that aims at attaining compressed wage structure and low level of unemployment has played an important role in ensuring a relative stable share of wages as opposed to capital in national income over time in the Nordic countries, compared with many other OECD countries (see e.g. Stockhammer 2012). Representative and well organised labour, as well as employers, makes this system powerful. Greater international competition puts a strain on the compressed wage structures in the Nordic model, as skilled workers can increase their earnings by moving to international enterprises that do not participate in the centralised wage setting system. Continuous immigration increases the risk of social dumping and may prevent any further improvements in income inequality.

Recently, the French economist Thomas Piketty warned the Nordic countries of the growing income inequality risk, especially at the top of the income distribution. In his book *Capital in the twenty-first century*, Piketty (2013) showed how



■ ■ This trend will accelerate the growth in inequality if capital is not taxed in the same way as wages or progressively.

capital incomes are growing faster than other incomes and becoming more concentrated among the richest. This trend will accelerate the growth in inequality if capital is not taxed in the same way as wages or progressively. Norway has, as already mentioned, managed to curtail this trend by tax reforms that made the taxation of capital and wages more similar (see figure 1).

The relatively low level of inequality in Norway can, in other words, be traced back to several factors. Firstly there is a high level of income, but this does not guaranty low level of inequality. Political factors are therefore important. Strong trade unions and organised civil society makes space for centralised wage bargaining and redistributing welfare provision. This system is, however, under pressure. Sustaining this system will demand political will to use measures that keep a high level of employment as well as a redistributing tax and welfare system.

Till now, Norway has been a country with relatively low inequality. However, today there are some disturbing signs of increasing inequality also here.

(Photo: Jens Sølberg, Samfoto/NTB scanpix)



Indigenous peoples in Ecuador continue to demonstrate for fulfilment of their rights to land and resources.

(Photo: Werner Anderson)



Ecuador







Population
in million

15



SHARE OF WORKFORCE IN
AGRICULTURE

20%



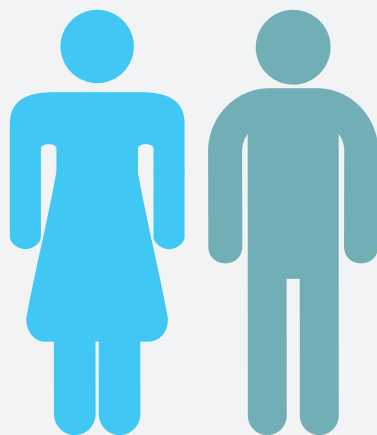
ILOstat

10% richest earn
25 times
as much as the
10% poorest

Calculated based on World Bank Database



Seats held by **women**
and **men** in national
parliament in 2013



39%

61%

World Bank, Gender Equality Data and Statistics



*Female
income*
54%
of male
income

Gender Related Development Index (GDI) - UNDP;
Estimated share of GNI per capita (\$PPP 2011)

GDP
per capita

9900

World Bank (2013, \$PPP)



Number
of USD
billionaires

0



Youth **11%**
unemployment rate



Reduced inequality after the Citizens' Revolution



Ana María Larrea Maldonado

Technical Secretary for Poverty Eradication

■ ■ Buen Vivir puts human beings and nature above capital and is the key objective of public policy. This new constitutional framework accelerated a process of change in the country.

Ecuador is a country in the Andean region of South America, with a population of 14.5 million people.¹ From the 1980s onwards Ecuador, like all Latin American countries, applied the Neoliberal policies of the Washington Consensus, promoted by the World Bank and the International Monetary Fund. The neoliberal period (1980–2006) led to increased poverty and inequalities², and the worst economic crisis in the country's recent history (1999–2001), causing millions of Ecuadorians to migrate. The crisis echoed in the political sphere, creating a situation of marked instability. From 1996 to 2006, no President completed his term. In the midst of strong social protest they were ousted by the very people who had elected them. In a single decade, the country had eight presidents, and experienced an acute institutional and political crisis.³

In this context, the economist Rafael Correa was elected president of the Republic in 2007. His government proposal, known as the 'Citizens' Revolution', aimed to end the 'long, sad Neoliberal night' in Ecuador, and change the power relations in the country by calling for a new constitution to rebuild the country. A Constituent Assembly was established in 2007 with the backing of a referendum, and Ecuadorians overwhelmingly approved the new constitution at the polls in 2008. The constitution represented a new social contract that marked a break with the former Neoliberal order. Based on the concept of Sumak Kawsay or Buen Vivir (Good Quality of Life in harmony with nature), it questioned the old idea of 'development' as a unilinear progress and as economic growth alone. Buen Vivir puts human beings and nature above capital and is the key objective of public policy. This new constitutional framework accelerated a process of change in the country.

This article focuses on the progress achieved during the first seven years⁴ of government under the Citizens' Revolution policy, with regard to reducing poverty and inequality.

A lost decade: 1995–2005

Neoliberalism led to increased poverty and inequality in Ecuador. Consumption poverty increased from 39.6% in 1995 to 52.2% in 1999. In 2000, income poverty reached 64.4% (SETEP, 2014: 47). Whilst inequality, measured by income, increased from a Gini coefficient⁵ of 0.57 in 1999 to 0.62 in 2001, inequality measured by consumption increased from a Gini coefficient of 0.42 in 1995 to 0.46 in 2006 (SENPLADES, 2009: 80).

In 1999, the worst financial crisis in recent history began, leading the country to lose its currency and adopt the United States dollar as its official currency. With the dollarisation inflation reached 103.7% in June 2000,⁶ creating social problems and leading to mass emigration. In early 2006, Ecuador achieved the same poverty levels as in 1995.⁷ It was a lost decade in terms of a reduction in poverty and inequality. The neoliberal model had failed.



ANA MARÍA LARREA MALDONADO

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■ ■ The Citizens' Revolution resulted in a profound change for Ecuador, since it managed to set new priorities for public policy and regain state sovereignty.

Neoliberalism claimed that economic growth was the measure of development. The state should not intervene in the economy; its role was limited to guaranteeing stability and growth. The idea of redistribution was dismissed and replaced by the 'trickle-down' concept: if the 'viable' economic sectors were promoted and favoured the well-being of these sectors would 'spill over' to those excluded from the benefits of the system. Consequently, the objective of public policy was to support the viable sectors of the economy. Those groups considered to be 'non-viable' should either receive 'aid' from the State or be 'trained' to enter 'modernity' and become part of the 'viable' sectors (Larrea, 2012: 26).

In relation to economic policy, social policy was given a secondary, residual role (SENPLADES, 2009: 78). It was a welfare-based policy, directed at 'alleviating' poverty with the basic objective of neutralizing social unrest and generating governability. This policy based on cash transfer to the poorest people was implemented throughout the continent, and Ecuador was no exception. In 1998, during Jamil Mahuad's term, the '*bono solidario*' (family support voucher) was established with a cash transfer of one hundred thousand Sucres a month⁸ to families with limited resources. The voucher was conceived as compensation to the most vulnerable sectors, due to a reduction in subsidies for gas, electricity and fuel. Those who considered themselves poor had to fill in a form with their socio-economic details, which were processed through BANRED, a private financial network. By the end of 1999 1,324,000 families were benefiting from the voucher scheme, but there were serious shortcomings in the way it was run, as around 20% of the families included in the scheme were not poor, whilst 24% of the poor families were excluded (León, 2000: 1–3).

The Ecuadorian state invested approximately 200 million dollars annually in this voucher scheme. Comparatively, the bailout of the banks because of the financial crisis in 1999 cost the country close to 8 billion dollars, benefitting owners and bank directors. These figures clearly show the priorities in the public policy. From 1980 to 2001, social investment progressively decreased, by 2001, in real terms per capita, social investment was half of what it was in 1981 (Larrea, 2004: 44).

The Citizens' Revolution and the shift in power relationships

The Citizens' Revolution resulted in a profound change for Ecuador, since it managed to set new priorities for public policy and regain state sovereignty. A change of this nature can only be made through structural modification of power relations. Therefore, the aim was to deconstruct the bourgeois state and create a people's state; from a state with a history of defending the interests of a few, to one defending the interests of the vast majority.

In contrast to the neoliberal period, when the social policy was directed at offering aid to victims of an economic policy, the Citizens' Revolution has managed to combine economic and social policies to allow for redistribution of wealth. In order to consolidate an effective redistribution policy, four aspects were particularly significant: tax policy; renegotiation of the foreign debt; renegotiation of oil contracts; and considerable public investment to benefit the poorest groups.



Years of social uprising against neoliberal politics rendered results. It brought the redistributive state back and the new constitution put human beings above capital.

(Photo: Cristina Santacruz/NPA)

Redistribution and distribution

In 2007, the constituent assembly approved the amendment law for equitable taxation in Ecuador. In the period 2007–2013, the total tax revenue almost tripled compared to revenues recorded in the period 2000–2006, increasing from 21,995 million dollars to 60,660 million dollars (SENPLADES, 2014: 4). The net tax contribution, that is taxes as a percentage of GDP, increased from 10% in 2000, to 15% in 2012 (SENPLADES, 2013: 55). In 2013, tax revenue accounted for 60% of the General State Budget⁹. The efficiency of tax collection was improved (tax evasion was halved) and the tax system was made more progressive so that those who have more also pay more tax.

In 2008, for the first time in history, the State started a public audit process on foreign debt. The government set up the Audit Commission for Ecuador's Foreign Debt. Following a detailed study, this commission concluded that a considerable part of the foreign debt incurred by Ecuador was immoral and illegitimate, a conclusion that was denounced to the world at large. In this way, the Ecuadorian state initiated one of the most successful processes to renegotiate its foreign debt, managing to safeguard 8 billion dollars, equivalent to 13% of the GDP in 2008. In 2006, foreign debt services accounted for 24% of the general State budget, whilst



■ ■ Ecuador is the Latin American country with the highest public investment in relation to its GDP.

in 2013 it scarcely accounted for 3.6%. This important recovery of national sovereignty made possible a progressive increase in social expenditure from 2.4% in 2001 to 12% in 2012 of GDP. In 2006, 2,390 million dollars were allocated to service foreign debt and scarcely 1,976 million to social investment. In 2013, this relationship had been reversed with 1,284 million dollars spent on foreign debt whilst 8,959 million went to social policy (SENPLADES 2014: 18).

From 2007 onwards, Ecuador implemented a sovereign policy for managing its natural resources. Oil contracts were renegotiated, changing the contract provisions and the State's share in the earnings. Whilst in 2005, the State barely received 13% from oil extraction; the Ecuadorians now receive 85% of oil revenues. This means that the State now receives a billion dollars more per year, and this amount is used for public investment programs to benefit the poorest.

Ecuador is the Latin American country with the highest public investment in relation to its GDP. In 2013, Ecuador recorded an investment equivalent to 15% of its Gross Domestic Product, whilst in 2006 this investment scarcely accounted for 4% of GDP. In 2012 the average level of public investment in Latin America was 4.5% of GDP. Ecuador tripled this percentage.

In addition to the economic redistribution policy, distributive efforts were made, notably in terms of growth in income and measures to democratise the ownership of property.

From 1982 to 2006, income per capita experienced an average annual increase of 0.8%. In the period 2006–2011, income per capita increased almost six fold, at 4.6% per annum (SENPLADES, 2013a: 118).

By March 2013, the Plan Tierras (Land Plan) had allocated a total of 20,500.90 hectares to 4,020 peasant families. In addition, 6,440.14 hectares of land were redistributed to 1,288 beneficiaries through the acquisition of farm holdings, whilst the ancestral ownership of 122,626.49 hectares was acknowledged, with 4,198 beneficiaries (SETEP, 2014: 142).

At the end of 2013, the handing over of 'La Clementina' – the largest banana plantation in the country with 12,000 hectares - to 1,960 workers marked a historical milestone. This plantation was the property of the richest man in Ecuador, the Lawyer Alvaro Noboa, who owed the Ecuadorian State more than 100 million dollars in taxes. After lengthy legal proceedings, the courts ruled in favour of Ecuador's Internal Revenue Service on the lawsuit it had filed for tax evasion, and proceeded to seize this plantation. The plantation was valued at 90 million dollars. The Ecuadorian state encouraged the workers to organise themselves into a production cooperative and put the plantation up for auction. The workers received a loan from the Banca Pública del Ecuador, for close to 79 million dollars, which allowed them to participate in the auction, and they were awarded ownership of the property¹⁰.



One of the landmark hotels of Guayaquil, the Hotel Ramada, also became the property of the workers, following the same procedure. The Hotel Ramada belonged to the Isaías family, who owned one of the Banks which collapsed during the bank crisis in the late nineties and subsequently passed into State ownership. In 2008, the government decided to seize 200 assets belonging to the Isaías family to recover the resources the State had spent on the bailout of the Filanbanco bank. Hotel Ramada was included amongst these assets. In 2009, the hotel administration was handed over to the workers and, in 2012 the workers received a loan from Banca Pública on 4.4 million dollars to purchase the hotel.

Many more examples can be mentioned to illustrate the distributive policy in Ecuador, but only one more milestone will be mentioned here. In 2012, the president of the republic decided to increase the monthly amount received by families benefiting from the Bono de Desarrollo Humano (Human Development Voucher)¹¹, from 35 to 50 dollars. The increase was financed by eliminating a tax exemption from the earnings of private banks, through a law approved by the National Assembly. As a result almost 130 million dollars per year, which were previously part of Bank earnings, are now distributed amongst the poorest people in the country.

Universality of rights

The progressive increase in social investment and expenditure is another of the pillars of the redistribution policy. Whilst in 2001 public investment in the social sector accounted for 2.4% of the Gross Domestic Product, in 2012 this had risen to 12% of GDP (SETEP, 2014: 48).

Since the Citizens' Revolution government came into office, social policy has been based on the universality and superiority of social rights. These rights were no longer considered commodities, as was the case in the neoliberal period, and the State guaranteed free universal public health and education for everyone.

One of the first measures was to remove the so-called 'voluntary contribution' in education. Although the constitution of 1998 acknowledged the right to free public education, parents were charged a 'voluntary contribution' of USD 25 at the beginning of every school year. In 2007, this contribution was eliminated and the State guaranteed that primary and secondary level education in Ecuador would be free. This was supplemented with the provision of free school uniforms and text books. The '*tejiendo el desarrollo*' (weaving development) scheme was created where small production units, connected to the popular economy made school uniforms that were purchased by the State for public schools. This was a source of additional income for small associations of women dedicated to textile production. A number of studies in Latin America and Ecuador¹² demonstrate that free education is an effective means to reduce inequality, even more effective than cash transfer (SETEP – Economics, 2014).

Free education has effectively universalised primary education and closed gaps between groups. The net rate of attendance for primary education increased,

■ ■ Since the Citizens' Revolution government came into office, social policy has been based on the universality and superiority of social rights.



■ ■ The constitution of 2008 introduced the concept of a living wage, establishing that no company can take out profits until all its workers are paid at least a living wage.

from 78% in 2001 to 91% in 2010 (SENPLADES, 2013a: 54 – 55) and by 2013 the net enrolment rate is 97% (INEC, ENEMDUR: 2013). The enrolment increase was far greater in rural areas, rising from 73% in 2001 to 90% in 2010. Importantly, access to education increased with 20% for indigenous peoples and 15% for Afro-Ecuadorians (SENPLADES, 2013a: 53).

Progress with regard to secondary education has also been significant. The net enrolment rate increased from 41% in 2001 to 67% in 2013. The enrolment of indigenous peoples tripled, increasing from 17% to 57%, almost double the national average, whilst the net enrolment rate for Afro-Ecuadorians doubled from 28% in 2001 to 56% in 2013. The changes were also significant in rural areas with an increase from 26% in 2001 to 56% in 2013 (SENPLADES – SETEP, 2014: 14–15).

In 2008, the new constitution of Ecuador democratised higher education. The recognition of the right to free higher education led to a major increase in enrolment, from 25% in 2001 to 40% in 2010 (SENPLADES, 2013a: 55). A historically ambitious scholarship scheme reinforced the democratisation of the system that has until now granted 7,166 scholarships (SENPLADES, 2014: 27). Comparably, the Ecuadorean State only granted 300 scholarships for higher education in the period 1996–2006.

Access to public health services has also increased significantly. The number of health service consultations increased from 95 per 100 inhabitants in 2006, to 246 consultations in 2010 (SENPLADES, 2012: 48). The number of health personnel per 10 thousand inhabitants increased from 37 to 50 doctors or equivalent and the access to these personnel has become more evenly distributed (Gini coefficient reduced by 9 points). Whilst in 1990, 6% of the population had no health personnel in their parish; in 2010, this figure had dropped to 0.6% of the population. The average life expectancy at birth has increased from 59 years in 1970 to 76 years in 2010, exceeding the Latin American average (SENPLADES, 2013a: 7–75). Poverty-related illnesses and diseases have reduced considerably.

As far as housing is concerned, the most significant achievement is access to electrification, rising from 78% in 1990 to 97% in 2013, with rural electrification recording the greatest increases (INEC: CPV, 1990; ENEMDUR, 2013). The public drinking water supply network coverage increased from 69% in 2006 to 75% in 2012, whilst the sewerage network coverage increased from 56% to 66% over the same period. In spite of improvements, the universalisation of these services represents one of the major public policy challenges in Ecuador, as in 2012, scarcely 36% of homes in rural areas had access to public drinking water and only 21% had access to the sewerage system.

SENPLADES estimates that achievement of a 95% coverage rate for drinking water and sewerage would reduce poverty due to unsatisfied basic needs (UBN) by 15% and eradicate extreme poverty, measured by UBN. Furthermore, it would



Ecuador has been the country in Latin America with the fastest reduction in inequality. Rafael Correa, representing Alianza País, has been president since 2007.

(Photo: Rodrigo Buendia/AFP Photo)

have significant effects in the field of child health and malnutrition. Consequently, the poverty eradication strategy has prioritised access to drinking water and sewerage.

Ecuador has managed to reduce unemployment considerably. In 2013, the unemployment rate was 5% (INEC, ENEMDUR, 2013), lower than the average for Latin America, which was 6% in 2013.

The constitution of 2008 introduced the concept of a living wage, establishing that no company can take out profits until all its workers are paid at least a living wage. A living wage is calculated as the sum required to cover the basic food basket, taking into account the average number of wage earners in a family. This was yet another important measure to redistribute income in Ecuador. Whilst in 2006, the average family income scarcely managed to cover 46% of the basic food basket, in 2014 the entire basket was covered.

The percentage of the working population affiliated to the social security system, one of the most important indicators of the quality of employment, has increased considerably over the last few years, from 23% in 2001 to 43% in 2013. In the refer-



Peasant and indigenous peoples organisations were crucial in promoting the reform process in Ecuador. They have also been critical towards the present government.

(Photo: Werner Anderson)

end of 2011 non-affiliation to the social security system was penalised, as set out in the new Integral Penal Code, approved by the National Assembly in 2013. One of the most important decisions was to make domestic workers affiliation to the social security system compulsory and to match their wage to that of a worker. As unbelievable as it may seem, until 2006, domestic employees earned half the amount of other workers¹⁴ in Ecuador. Wage standardisation for all male and female workers put an end to this historical inequality and the value of domestic female work was increased.

In 2011, for the first time, full urban employment was greater than underemployment. However, underemployment continues to be an important structural problem and its reduction one of the greatest challenges in the coming years.

Poverty and inequality

As mentioned above, the right combination of distributive and redistributive policies has reduced the problems of poverty and inequality considerably, positioning Ecuador as one of the few countries in Latin America that has managed to decrease poverty, reduce inequality and increase per capita consumption simultaneously (SENPLADES, 2013a: 33). According to CEPAL, Ecuador is the Latin American country with the fastest inequality reduction rate. The Gini coefficient of income fell by 0,07 points between 2006 and 2012, from 0,54 to 0,47, whilst during this same period, Latin American only managed to reduce this coefficient by 0,02 points, down to 0,50 (SENPLADES, 2014: 16).

These are the results of public policy priorities, based on the '*Buen Vivir*' planning concept. Consequently, over the last few years, Ecuador has become a benchmark in Latin America for overcoming poverty and inequality.



Broken dialogue with social movements

Rural development, ownership and distribution of water, and concessions to mining companies are among the issues that have repeatedly led to protests against the government.

Peasant and indigenous organisations call for an agrarian reform in Ecuador, but in spite of promises made by the Correa government their expectations have not been met. The ongoing negotiation about a free trade agreement (FTA) between Ecuador and the European Union has increased the level of conflict between social movements and the government.

The article in this report, written by Larrea, documents the last years' substantial reduction in inequality and improvements in social and economic indicators. Still, inequality remains high in Ecuador. As could be expected, there are conflicting views on the way forward between the economic elites and the government. At the same time, there are strong contradictions between the government and the social movements.

The indigenous movement, represented by CONAIE, spearheaded the mobilisation against neo-liberal policies from 1990 and onwards. Their mobilisation, in alliance with others, prepared the ground for a policy change and the wave of protests that eventually lead to the election of Rafael Correa in 2006. Nevertheless, the relationship between the social movements, particularly CONAIE, and the government of the citizens' revolution is full of conflict.

Rural development, ownership and distribution of water, and concessions to mining companies are among the issues that have repeatedly led to protests against the government. Former president of CONAIE, Humberto Cholango, commented in a recent interview with Torunn Aaslund, editor of the NPA magazine Appell, that unjust distribution and privatisation of natural resources is a huge problem in Ecuador. Romelio Gualán, president in the peasant organisation CNC, says to NPA that the situation for peasants has not improved and that land redistribution is necessary to secure peasant production. They are both against a free trade agreement with the European Union, while large export producing land-owners are among the strong interest groups promoting the FTA. According to Gualán, Ecuadorian peasants cannot compete with European providers and a free trade agreement will not be fair trade for them.

The mayor of Kayambe and former president of CONAIE, Guillermo Churuchumbi, explains to NPA that they are developing new ways of working in the municipal government. Participation is crucial. People living in the neighbourhoods know the challenges they have and must take part in setting priorities. They must organise and present their proposals and needs to the municipality. The municipality is establishing a fund to contribute to a more just distribution of water, initially funded by taxation of tele companies. Churuchumbi considers corruption to be a major challenge embedded in the top down colonial culture that is still present. Therefore the municipality has developed a strategy where citizen participation is the key to fight corruption: participatory budgeting, public hearings and citizens' observatories.

Participation is also an issue at the national level, and the demand for a new state and a democratic and inclusive constitution, has been crucial in the mobilisations of the indigenous movement. However, the organisations claim there is a contradiction between the participatory democracy reflected in the approved constitution and the government's lack of will to dialogue and negotiate with the social movements.



BEATE THORESEN, NPA



Spain





Enough austerity measures!
People in Spain have taken to the streets to protest increasing inequalities and the government's management of the financial crisis. Los Indignados express their outrage with the austerity measures.

(Photo: Pierre-Philippe Marcou/
AFP/NTB scanpix)



Population
in million

47



SHARE OF WORKFORCE IN
AGRICULTURE

4%



ILOstat

10% richest earn
18 times
as much as the
10% poorest

Calculated based on Wold Bank Database

Wealth share
richest 10%

56%



Credit Suisse, Global Wealth Databook 2014

Seats held by **women**
and **men** in national
parliament in 2013



36%



64%

World Bank, Gender Equality Data and Statistics



Female
income
62%
of male
income

Gender Related Development Index (GDI) - UNDP;
Estimated share of GNI per capita (\$PPP 2011)



Number
of USD
billionaires

22



Forbes

GDP
per capita



31850

World Bank (2013, \$PPP)

Youth **56%**
unemployment rate

ILOstat



Popular resistance against the crisis



Gabriela Jorquera Rojas

Coordinator of the European Antipoverty Network in Madrid

■ ■ Once the financial crisis began, the State did not have sufficient resources to take countermeasures and support the most vulnerable.

Understanding the crisis in Spain

The marked increase in inequality and poverty in Spain is not a product of the crisis. This scenario began to take shape in the early nineties and to understand it we have to see it in a broader perspective.

After overcoming the crisis that hit Spain in the early nineties, a golden age began for the Spanish economy. These were the miracle years: 12 to 20 million jobs were created, primarily connected to the construction and hotel industries.

This period saw a rise in female and youth employment, which meant a significant improvement in household income, even though their salaries were lower, and their inclusion in the labour market tended to be more precarious – particularly in the case of women. Nevertheless, GDP increased systematically in this period.

Alongside this economic success, high levels of poverty (approximately 20%) persisted, and inequality began to increase for the first time since the democratic transition from 1975. The result was that poverty and vulnerability¹ was concealed beneath an expansive tide. At the same time, the welfare state was progressively losing its capacity to integrate the disadvantaged members of society.

However, the citizens were not concerned about this. On the contrary, the feeling was that things were going well. Progress made in terms of social rights was negligible compared to that in the economic sphere, but this did not appear to cast a shadow on the sunny mood in Spain. Capitalising on this momentum certain anti-social measures were taken, which would later have an impact once the crisis was in full swing.

Amongst these were the fiscal reforms of 1998 and 2007 that lowered taxes – to lure private investment – and reduced public revenue. Once the financial crisis began, the State did not have sufficient resources to take countermeasures and support the most vulnerable. These were happy years, financially speaking, but sterile from a social point of view; neither social protection nor investments were consolidated. Of course, an increase in social expenditure does not necessarily mean better redistribution, but it is an important element in evaluating a society's level of equity, and Spain always remained far below the European average for social expenditure² and below its own potential capacity to sustain social expenditure.

The social impact of austerity measures on the citizens' well-being

From 2009, there was an unprecedented rise in unemployment, close to 25%, particularly amongst those under the age of 25 (53.4%). Inequality, poverty and social exclusion saw their highest increase in a very short period. The loss of household purchasing power has been emblematic of the crisis years. Inequality has grown



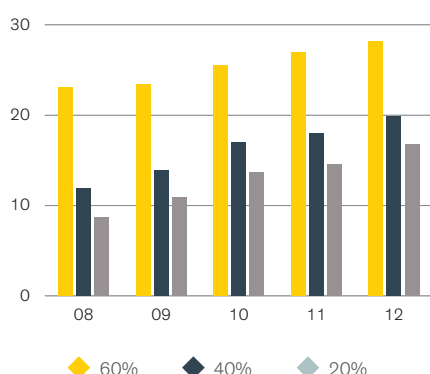
GABRIELA JORQUERA ROJAS

Since 2009, Gabriela Jorquera is coordinator at the European Antipoverty Network in Madrid, EAPN Madrid. She is a social worker with experience in social intervention in deprived context in Chile and Spain. She has a Certificate on research proficiency, undertook postgraduate studies in Sociology, public policies and social exclusion at Universidad Comillas de Madrid. She has written many articles concerning poverty, social exclusion, social action, minimal incomes and social rights. Researcher and activist against poverty.



FIGURE 1

PROGRESSION IN THE POVERTY AND EXCLUSION PREVALENCE RATE IN SPAIN



Progression in the Poverty and Exclusion Prevalence Rate in Spain, with different thresholds (moderate 60%, severe 40% and extreme 20% of median household income) 2008 – 2012.

Source: Prepared by the author based on INE [Spanish Institute of Statistics] data, Living Conditions Survey.

and the end result is difficult to predict. Underlying factors unleashed the economic crisis, and their effects have been devastating. There is no before and after; it is all part of the same process.

As the diagram shows, the crisis first hit the low income sectors of the population that worked in sectors such as the construction and hotel business. The crisis also affected those already in severe or extreme poverty with few qualifications; temporary workers; part-time workers and those on very low incomes who lacked even basic social protection³. These were the first people to be dismissed and to fall victim to the economic crisis. General poverty increased, as did extreme poverty. This trend was accentuated in 2010 as unemployment rose.

In the second phase, from 2011, the crisis hit the middle classes, increasing the numbers at risk of poverty. This process was the result of job losses and, as unemployment continued to persist, the loss of social security for the unemployed⁴. The crisis had an impact on a Spain that had a fragmented system of guaranteed income, with major territorial inequality and gaps in its coverage. The low levels of social expenditure were symptomatic of the fragile nature of the country's mechanisms for social and economic integration. This consolidated the exclusion of those outside the labour market, who had limited access to social rights and basic goods and services.

The Spanish state does not perform a particularly redistributive role. It is increasingly unequal and profoundly unjust. Inequality has thus risen to historic levels and has created a powerful breeding ground for citizen outrage.

The data does not demonstrate the impact this has had on people, and the huge feeling of injustice they are experiencing. Here are some stories from a neighbourhood movement in Madrid, Invisibles de Tetuán, which reveal how abandoned the citizens feel⁵:

"I have 2 daughters, aged 12 and 13. My husband and I are unemployed. I have a temporary job for one month and earn EUR 3.40 an hour. I owe Canal de Isabel II (Madrid's water company) EUR 435 which I'm paying in instalments. When I couldn't meet the payments, they sealed off the supply and charged me a fine for removing it. Any request for help to pay the bills was rejected." Olvido

"I get EUR 600 a month from my deceased husband's pension, and I use this to help my daughters. I feed them and my three granddaughters every day. They cut my water supply because I hadn't paid the bills, and have charged me EUR 75 to reconnect me. If I pay for electricity, water, gas and I help my daughters, I've nothing left for food. Things are very bad. I need help. We, the older people, need help with our electricity, telephone, gas bills etc." Juana

"I have to make do with my EUR 365 pension. I can barely pay the bills. At the moment, I owe the landlord EUR 1200 for electricity. He's told me to pay him back



■ ■ The Spanish state does not perform a particularly redistributive role. It is increasingly unequal and profoundly unjust.

“With a pension worth 600 Euro, my daughter, granddaughter and I can hardly scrape out a living.” *The Invisibles from Tetuán campaign*

Con mi pensión de 600€ malvivimos
mis hijas y mis nietas

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when I can. I go to the food bank every couple of weeks. My main worry is paying the electricity bill.” Carmen

The increase in inequality

The crisis in Spain meant a significant loss of wealth, which was not distributed equally across society. Of all OECD countries, Spain is the one where social inequality has increased the most. One of the inequality indicators, the S80/S20 ratio, which compares 20% of the richest people with the 20% poorest, shows that Spain has gone from 5.4 in 2000, to 7.2 in 2012 (in other words, the richest 20% earn 7.2 times more than the poorest 20% in 2012 compared to 2000).



■ ■ The poorest 10% have lost one third of their income, and there are more than 740,000 households (1.4 million people) with no income at all.

The Gini index, where 0 means total equality and 1 is absolute inequality, has gone from 0.27 in 2004, to 0.35 in 2012.⁶ Globally, normal rates for developed countries are between 0.25 and 0.35. Spain is close to the limit considered to be inadequate for a country with its level of development.

Inequality has not only increased because medium and low incomes have dropped. Oxfam Intermón points out that there have been significant changes in the income of the super-rich (the top 0.01%). In 1980, they earned 74 times more than 90% of the population, but in 2008 they earned 173 times more, thanks to a 275% increase in annual income during this period. The richest 1% earned 105% more.⁷

The income of the richest 1% is rising, 370,000 people earn more than EUR 153,000 a year. At the other extreme, the poorest 10% have lost one third of their income, and there are more than 740,000 households (1.4 million people) **with no income at all**, either in the form of salaries or welfare benefits. Spain is now a dual society.

Inequality increases the impact of poverty, with negative implications for the well-being of individuals and, in particular, for social cohesion. The effect of the rise in inequality will increase the complexity of the economic and social consequences of the crisis⁸, affecting the social make-up and regional balance in ways still difficult to predict, but which will undoubtedly have a major impact.

The government response to the crisis

The first robust response came in 2010 – a 5 thousand million Euro budget cut – which affected all the Ministries and cut jobs in the public sector. In the following months, various plans to rationalise expenditure were approved, and measures to reduce the public deficit⁹ were adopted, such as freezing salaries in the public sector and pensions. Welfare payments for children were also cut.

In response, there were a number of citizen mobilizations. One of the most significant was the General Strike of September 2010, in which 5 million people took part, one third of the salaried population¹⁰. Their demands (a rejection of labour reform) were supported by two thirds of the citizens. However, neither the broad support for the strike nor its social legitimacy were able to force a change. This reinforced the perception that it was impossible to influence a government that did not respond to the views of its citizens.

In April 2011, the 2011–2014 Stability Programme was adopted¹¹. Some of these measures involved freezing support and benefits, such as grants, subsidies, and minimum incomes, making it tougher for the unemployed to access social protection, and increasing VAT from 16 to 21%.¹² These measures were overwhelmingly rejected by the citizens and were particularly damaging to the poorest households.

The largest display of public outrage was the Movimiento de los indignados, which began with a mass demonstration on 15 May 2011 (15-M), expressing people's opposition to the government's measures. The 15-M marked the



■ ■ Participation has acquired a particular form: protest, which has become a form of participation in Spain, in response to the fragile mechanisms for formal participation.

beginning of a new social upheaval. But once again, no substantial changes to the austerity policies were achieved.

The new government (elected in November 2011) subscribed heavily to cutting expenditure, particularly welfare expenditure, and reduced the health and education budget by 1% of GDP¹³. Once again, it increased VAT and reduced unemployment benefits. In healthcare, the budget was systematically cut and began moving away from a universal guaranteed model to one that was conditional.

These decisions were adopted with a sole focus on reducing public deficit, without considering the effect that this would have on the population and how their rights were infringed¹⁴. The citizens resented this, the number of protests rose and the alienation of the political class became more acute.

The democratic crisis

Inequality is not only the economic gap between rich and poor. It is also the gap in well-being and power-sharing. Increased economic inequality was accompanied by a setback in political participation.

The historical background to political participation is of interest here. Spain went from tight constraints on participation during the Franco regime to greater openness in a Parliamentary monarchy. However, the right to participate in social organisation enshrined in the Constitution, has not materialised in reality. The transition from dictatorship to democracy was achieved through pacts between the political leadership, "overriding the important participation of the people that had taken place during the process"¹⁵.

After the transition, inequality in political participation also increased. Empirical evidence shows that those who feel excluded participate less during elections than the rest of the population¹⁶. Extreme electoral abstention (more than 80%) is concentrated in the poor and marginalised neighbourhoods of the great cities. This does not mean there has been no participation, but that participation has acquired a particular form: protest, which has become a form of participation in Spain, in response to the fragile mechanisms for formal participation.

The mechanisms for indirect participation, such as referenda, have only occasionally been used during democracy. Popular legislative initiatives, which the citizens submit to Congress for discussion, have been widely used, but remain ineffective. Of the 71 initiatives submitted in the last 30 years, only two have been considered, and only one has become law.

The pre-crisis period was not a very favourable period for citizen participation. Participation was delegated to politicians, who were increasingly less appreciated. They monopolised the management of public affairs, while ignoring the interests and needs of society. Citizen participation in the decision-making was minimal¹⁷.



■ ■ The government's response has been to criminalise protests. There are currently 80 ongoing court cases against 265 individuals.

In the years preceding the crisis, the number of civic and politically-oriented associations increased, as did actions such as signing letters of protest and attending demonstrations¹⁸. These initiatives have grown, along with a distrust in politicians, currently at its highest level.

The citizens' response to the crisis

As was to be expected, given the tradition for political participation in Spain, the reactions in the streets have been overwhelming. In 2008 there were not more than 10,000 protests a year, but in the last three years of Rodríguez Zapatero's Socialist government they multiplied¹⁹ to 21,297 in 2011. Rajoy's period in government (2011-) has broken all records. In the first year of his mandate, there were 44,233 demonstrations. In 2013, there were 43,170, but the number of banned demonstrations rose from 371 in 2011 to 1,682 in 2013. Outrage against the government's austerity policy has taken to the streets.

The government's response has been to criminalise protests. There are currently 80 ongoing court cases against 265 individuals. Many of them are trade unionists who have taken part in protests, which according to the trade unions "is a gross violation of the right to organise"²⁰. A draft law, known as the "Gag Law" (Ley Mordaza), has been proposed on citizen safety to control protests and has been strongly criticised. In recent months, the most damaging aspects of the law have been modified, and it remains to be seen how much of the original draft will be retained. Even so, the level of control and repression of citizen protest has been on the rise, particularly since 2012.

The main reasons behind the demonstrations have been labour issues (38%) and a rejection of the measures the government is taking (23%)²¹. These figures are consistent with the main concerns of the Spanish people²²: unemployment (77%) followed by corruption and fraud (41.5%), and economic problems (28%), followed very closely by politicians in general, political parties and politics (26.4%). This data is significant; as far as the Spanish people are concerned, politicians do not offer solutions; moreover, they are perceived to be a *problem*.

There is great diversity in the composition, subjects, objectives and forms of organisation. These groups and movements, that count thousands²³ in numbers, have been established through social networks, and have multiplied their capacity to create an impact. They have transcended the barriers of mass media, aligned themselves with the interests of large pressure groups, and connected with the section of the population that does not participate in movements, but sympathises with them.

The large variety of issues and demands gives the protest movement a multifaceted and fragmented character²⁴. Its considerable diversity is positive and its greatest obstacle is the inability to generate change.



■ ■ As far as the Spanish people are concerned, politicians do not offer solutions; moreover, they are perceived to be a problem.

"I am one of 23 000 people in Tetuán that have to choose whether to eat or to pay electricity and water". *The Invisibles from Tetuán campaign*

Soy una de las 23.000 personas de Tetuán que o como o pago la luz y el agua



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One example is the *Plataforma de Afectados por la hipoteca* [Mortgage Victims' Movement] (PAH), which has broad citizen support. The PAH has prevented a large number of evictions, but is a long way off solving the problem. According to the General Council of the Judiciary in Spain, there were 67,537 evictions by the third quarter of 2012, and according to information from the district courts, there were 76,724 during the first nine months of 2012.

Therefore a Popular Legislative Initiative was promoted, in conjunction with the trade unions and various NGOs, for a mortgage law preventing future evictions and supporting families who have already been evicted. There were 1.5 million signatures collected endorsing the proposal, however, no demands were met.



■ ■ One of the main criticisms of social movements is their lack of pluralism; they are essentially made up of the middle classes. If those who are most excluded are not present, their interests will not be included in the demands.

This feeling of futility of citizen action, and the resistance and indifference of the institutions, is symptomatic of how weak Spanish democracy is and a great threat to social movements.

One of the main criticisms of social movements is their lack of pluralism; they are essentially made up of the middle classes. If those who are most excluded are not present, their interests will not be included in the demands. During the crisis years the number of citizens taking part in protest movements increased across all income groups, but in lower income groups participation has remained substantially lower.

The protest movements have strength based on their legitimate social demands. However, their major challenge is to expand and strengthen representation, create greater channels for participation from the sectors of society that are least represented and have least power.

The progress made by citizen protest movements

Protest has not been the only response. Some social movements have transformed themselves into new political forces being counted at the ballot boxes alongside traditional ones. There is a desire to break the hegemony of the powerful groups, and to restore balance to political inequality, which in turn both maintains and promotes economic and social inequality.

Amongst these political groups is the *Partido Podemos* ["We Can" Party], which has had unexpected success (winning 5 seats in the European Parliament in the first elections where they participated (2014)), and according to the latest polls it is the third largest political force. This is a substantial change to the way social movements have developed, and suggests a quantum leap to positions of power and spheres of representation.

The success of *Podemos* has encouraged others, and the political groups and alliances (such as *Ganemos*) standing for election (2015) and able to achieve institutional representation have multiplied. The success of these movements is destabilising the political establishment in Spain.

Wilkinson and Pickett²⁵ point out that an unequal society has less solidarity and is more violent. But in Spain, the social cohesion indicator is one of the few that has yielded positive results in the crisis years²⁶. Solidarity has worked as a powerful buffer to the fall in people's living standards. And although people do not trust politicians or the parties, they continue **to believe in politics and in making policies**²⁷; they take to the streets, demonstrating and demanding change with increasing intensity. The population has remained cohesive and continues to take a stand.



■ ■ Although people do not trust politicians or the parties, they continue to believe in politics and in making policies.

Conclusions

- The systemic crisis in Spain has had huge consequences in the social sphere and its impact on peoples' rights has been dramatic.
- Spain had structural conditions that made it particularly vulnerable, and the crisis has made this weakness more acute.
- The austerity policies have created inequality and poverty. Directly, by cutting benefits and basic services, and indirectly as a result of a fall in production and employment resulting from cuts in public expenditure.
- Some of the most serious social consequences have been:
 - an increase in inequality and poverty gaps, becoming ever more severe, extensive and intense;
 - salary reductions and an increase in the number of poor workers, who are becoming increasingly poorer;
 - the loss of household purchasing power;
 - the increased heterogeneous nature of the poor and excluded;
 - increasingly more difficult and unequal access to basic social rights which may, create a social structure of polarisation and inequality in the future.
- These are critical challenges for public policies. The needs of the population must be met urgently, but conditions must also be created for poverty and inequality to be reduced in the medium and long-term.
- The citizens' response has been a categorical rejection. While confidence in political representatives has fallen to a historic low, protest movements are bubbling up, rejecting the austerity policies, and demanding a turnaround in the government's policies.
- The citizens' movements have not managed to have an impact on the government's actions, nor to reverse or block some of the measures, even though they have considerable social legitimacy.
- There are countless protest movements. The fact that some have managed to make the leap into the political arena may create a different landscape, in terms of rebalancing power and the decision-making capacity of the citizens.
- The action of social protest movements has kept alive the force of outrage felt by the citizens and has eroded the credibility of the discourse defending the need for austerity policies.
- This requires the political system to take a step forward in entrenching democracy and generating structural change in methods of governance. The future depends on the response of the current political system and its capacity to be open to the changes society is demanding.