POOR THINKING from

Each year, Oxfam releases figures on wealth inequality which appear to be alarming. But PHILIP BOOTH and BEN SOUTHWOOD contend that they're completely meaningless when it comes to improving the lives of the world's poor...

Oxfam began as the Oxford Committee for Famine Relief. It still does valuable disaster relief work today, but it often functions like a political campaigning group.

Each year it releases a report on inequality just before the World Economic Forum in Davos. This purports to show the failure of the global economic system.

The conventional view of capitalism – shared by figures across the political mainstream such as Ed Miliband and Theresa May, despite their differences – is that it generates lots of wealth, but distributes it unevenly.

Oxfam's figures bring this into relief: the latest numbers show eight billionaires owning 0.25 per cent of the world's net wealth, the same as the 3.6 billion who make up the bottom half of the world's population put together.

Actually, this is 56 billionaires, Oxfam admits, when you count those with negative net wealth as having zero. Those with negative net wealth include, for example, recent Harvard graduates with big student debts and yet huge earning potential: they are supposed to be amongst the poorest people in the world according to Oxfam.

The irrelevance of Oxfam's figures

Indeed, it is worth thinking a little more about what Oxfam's figures mean (if anything).

Huge numbers of people in the world have little or no net wealth. This can be for several reasons. If you are reading this as a sixth-form student, you will probably find that out of a group of 200 of your peers only two or three of you have net wealth that is significant enough to be worth measuring.

People accumulate wealth over the life cycle and even the better off in this country do not tend to accumulate significant net wealth until they are in their 30s.

So, if you consider that half of the world's population is aged 28 or below, it is hardly surprising that if you add up net wealth figures across even a huge proportion of the world's population, you do not get a large number – basically, Oxfam is just adding up a lot of zeros.

In the developed world, many older people receive their pension from the state as well as free services. That is a source of income, but not counted in wealth figures. Many receiving state pensions in many countries neither have nor need other forms of wealth. This is one of the reasons why Sweden, with its high level of state pensions, has high wealth inequality: much of the population just do not need to save.

What is important for people is their income which finances their lifestyle. There are perfectly good figures available on income inequality which Oxfam could use if they wanted to talk about inequality. They show, of course, falling global income inequality as the poor have gained disproportionately from globalisation.

The rich often get rich by making the poor better off

Oxfam highlights how their top eight richest people are mostly Americans and half of them are tech billionaires.

But tech billionaires are a paradigmatic example of entrepreneurs who earned their fortunes by creating products that benefited everyone. Facebook has let us keep in contact with old friends and relatives in a way that was impossible before; Amazon means that we can purchase books that would only otherwise have been available in distant libraries, and get them delivered tomorrow.

In America, fortunes mostly reflect outsized contributions to society's wellbeing – additions to the total size of the economic pie – not closeness to government bigwigs, or exploiting resources with large costs to others.

Globalisation has helped such tech billionaires become much richer than they would have become when markets were protected. But, this reflects the fact that their products are used worldwide and they help pull people out of poverty.

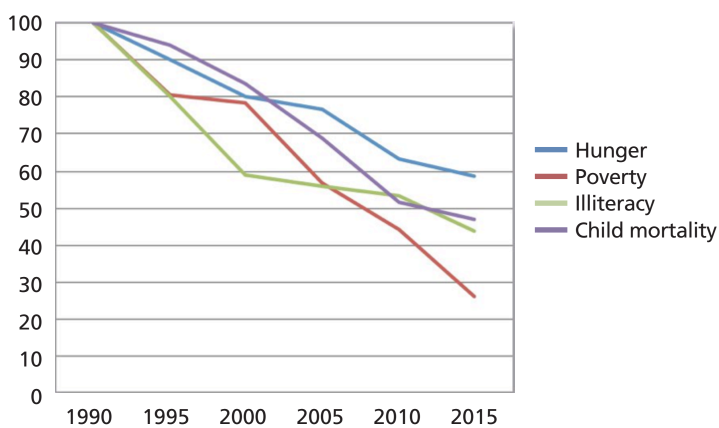
Over 60 per cent of Kenyans use mobile phones to make payments. Mobiles are used by farmers to compare and check prices so that they are not exploited by local monopolies.

Globalisation in general and mobile phone technology in particular are major contributors to the huge growth in incomes in poor countries in recent years.

Worldwide, there are 1.6 billion Facebook users – you are probably one of them.

THERE ARE PERFECTLY GOOD FIGURES AVAILABLE ON INCOME INEQUALITY... THEY SHOW FALLING GLOBAL INCOME INEQUALITY AS THE POOR HAVE GAINED DISPROPORTIONATELY FROM GLOBALISATION

Figure 1: Life in what Oxfam calls the era of 'neoliberalism'



Sources: Johan Norberg: *Progress* (Oneworld) FAO, World Bank, UNESCO, World Bank, EPA

IT IS NOT REDISTRIBUTION BUT MUTUALLY ENRICHING TRADE AND ECONOMIC GROWTH WHICH IS THE HOPE FOR THE POOR OF THE WORLD TODAY

But, the founder of Facebook is rich not because others are poorer. Trade is a process of mutual enrichment. Everybody is better off because of Facebook.

However, Mark Zuckerberg is much better off because he benefits from the fact that so many people have taken up the invention. Meanwhile, there will be many, many more entrepreneurs who have tried and failed – entrepreneurship is a risky business.

Globalisation and poverty

And it is this movement of many countries towards embracing market institutions – a movement that is by no means complete – that Oxfam fails to mention in their annual screed.

This year they highlighted Vietnam as a case of deprivation, and it is true that Vietnam is still a very poor country. But it started from a very low base: they only brought in broadly capitalist institutions in 1986. Since then, their income per capita has gone from $100 per annum to $2,000, and continues to grow at stratospheric rates, mirroring the widely-lauded situations in China and, to a lesser extent, India.

China and India are still poor by Western standards, but a report focused on how capitalism was failing them would rightly have been deemed ludicrous – everyone knows how well they've done since abandoning full state control of their economies, though, again, there is a long way to go.

Real national income per head in China in 1980 was $193 and today, it is $6,807 per head. This is not due to redistribution, it is due to trade and the liberalisation of some markets.

Extreme poverty has fallen from 44 per cent in 1980 to around 10 per cent today. Literacy has risen from 56 per cent to 85 per cent over the same period. If we are to do better still, it is not wealth taxes and tax havens that need to be the focus of our attention, but the basic policy environment that we know leads countries to eradicate policy.

Kenya and South Korea were about equally rich in 1960. Kenya has seen some significant improvements in very recent years, and is one of the better-off countries in East Africa.

But South Korea has grown to enjoy incomes fifteen or twenty times higher, almost on a par with Western Europe. It is institutions, the freedom of businesses to establish and mutually enriching trade that lead to the elimination of poverty, higher literacy rates and better health.

However, increases in income translate into increases in wealth only over a very long time because most people consume the vast majority of what they earn. And it is the growth in incomes that really matters. Redistributing wealth would be a poor policy choice.

Let us suppose that we went even further than Oxfam would like and redistributed the whole of the wealth of the richest people equally throughout the world and throughout the lifetimes of the world population.

Depending on how you do the calculation, you would end up giving everybody a pay rise of between 65p and £1 per year – or about 0.03 per cent for your average Kenyan.

And, at the same time, you would have destroyed the system by which entrepreneurial-led innovation promotes economic growth and which has enriched previously destitute countries in a way that Oxfam could never have imagined back in 1980.

Of course you could follow more moderate policies and just tax such people a little bit of their wealth – say 10 per cent – then the damage you cause might be somewhat less, but the amount you can redistribute becomes even more trivially small.

It is not redistribution but mutually enriching trade and economic growth which is the hope for the poor of the world today – just as it was in the past.

To put it another way, we should stop focusing on the rich as if they are the problem and, instead, focus on the policies which reduce the number of people who are poor•

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