



# Richer poorer

**Widening differences in wealth between and within urban and rural communities extends the gap between rich and poor – but they still need each other.**

In recent years the gap between richer and poorer households has widened in most areas of the world despite strong economic growth that has created millions of jobs. This has applied not only in the gaps between some rich countries and some poor ones, but also within many nations: the rich–poor gap in the US has increased, just as it has in Brazil. This has been driven by a number of factors, many of which are increasing rather than decreasing as we go forward. Urbanisation is perhaps the most significant issue. The ways in which governments use taxation and spending on social activities to redistribute wealth show little sign of changing; nor do the effects of access to education as a catalyst for greater differentiation of opportunity. Over the next decade, many experts across the world see that the gap between the haves and the have-nots will grow, even though there will be ever more interdependency, in some areas, between wealth generation across the social spectrum.

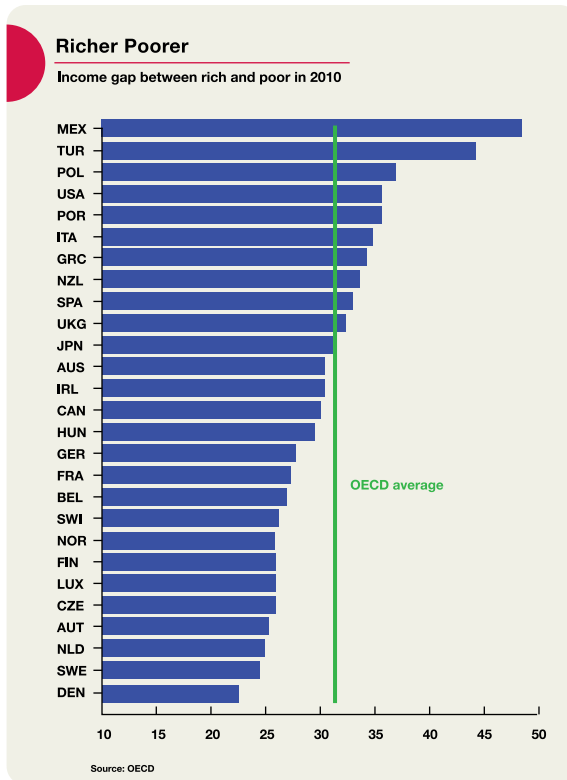
Experts, such as economist Noriko Hama, see that the big economic issue for the world in the 21st century will be the huge gap between rich and poor: 'About 16% of humanity in the richer countries are better off than at any time in history. However, more than 1.3 billion people are living on a dollar a day or less.' Looking back over the past decade or so, OECD research shows that 'the richest countries have certainly got richer and some of the poorer countries have done relatively badly, but the rapid growth in incomes in China and India has dragged millions upon

millions out of poverty'. The gap between rich and poor is getting bigger in the world's richest countries – and particularly the United States – as top earners' incomes soar while others' stagnate. The income of the richest 10% of people is, on average across OECD countries, nearly nine times that of the poorest 10%. In the US, that gap is even greater – about sixteen times – and, according to the Center on Budget and Policy Priorities, this has more than tripled in the past three decades. 'US cities like New York, Chicago and Washington are less equal than places like Brazzaville in Congo, Managua in Nicaragua and Davao City in the Philippines.'

In a twenty-year study, the OECD said wealthy households are not only widening the gap with the poor, but in countries such as the US, Canada, Italy, Norway and Germany they are also leaving middle-income earners further behind. Earnings of full-time workers have become more, not less, unequal in developed economies over the past decade as high earners have become more so. Research by Professor John Hills at the London School of Economics suggests that increasing inequality in the UK after 2004 has meant that, by 2008, it had reached its highest level in the years since figures began in 1961.

In Mumbai, 'the widening gap between India's rich and poor is an undisputed fact' and, in the process of overall growth, redistribution of wealth has become a secondary issue for many. In Johannesburg it was





suggested that the gap between rich and poor was being exacerbated by improved transport systems to the townships – enabling the poor to come into the city more easily and therefore maintaining the old divisions between the black and white populations. But it is in Latin America where the greatest gaps are to be found, and they are increasing. UN research shows that, over the region, the wealthiest 20% holds nearly 60% of the resources but the total income for the poorest 20% is only 3.5% of GDP. In Brazil, the most extreme nation, the richest 10% of the population has over 50% of all income while the bottom 10% has less than 1%.

Increasing urbanisation and escalating migration plus the associated rise of more unplanned slum districts in high-growth cities is leading to rising numbers of urban poor in both the developed and developing world. As Professor Ricky Burdett highlighted in his initial view of the future of cities, 'migration and in-migration has also created an urban underclass which is often allocated to specific areas of the city. Paris is a perfect example. The physical infrastructure, with the beauty and qualities that we all admire, has frozen. This means that all its growth (with increasing immigration from 1945 and onward) has created ghettoisation.' Ismail Serageldin, Director of the Bibliotheca Alexandrina, added that: 'The nature of the economic activity in cities seems to be leading to a greater degree of urban poverty as in-migration and the move to the knowledge society favour the educated and the nimble and drive the gap between the rich and the poor wider. Ghettoisation is a by-product of the income gap as much as it is the result of ossification of the city's physical structure. Are redistributive policies sufficient? Are they politically acceptable at the level that would be required to have an impact on the problem?' But it is not just in cities where the rich–poor gap is increasingly evident: in Brazil, over half the rural population is in poverty; in Mexico, 40.1%; and in Peru, 69.3%. As urbanisation increases, those left behind are getting relatively poorer. Although most of the wealth in rural areas already comes from people in urban areas sending money back, this is not balancing the situation. In India, agriculture in itself produces around 20% of the GDP but more than 60% of the population is involved in this sector.

Looking forward, the rich–poor challenge appears destined to be even greater. As UN findings have highlighted: 'The more unequal that cities become,

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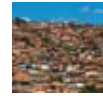
the higher the risk that economic disparities will result in social and political tension. The likelihood of urban unrest in unequal cities is high. Today, the countries of the OECD account for around 60% of global wealth. By 2020, China, India, Brazil, Indonesia and Russia will between them account for 30% of global GDP. Within these fast-growing nations, ever greater urbanisation is creating more unplanned ghettos and exacerbating the rich-poor divide. India is trying to rebalance this by, for example, giving slum dwellers money and land on the edges of cities like Mumbai, only to see people sell the land and move back into the city where the promise of wealth is greater.

China is acutely conscious of the potential political instability that could result from greater imbalance and has recently announced several policies that seek to change the underlying dynamic. Concerned that overall GDP growth below 8% could lead to internal conflict, Chinese Premier Wen Jiabao recently announced that China must reverse its widening income gap between rich and poor and that the benefits of a growing economy should be distributed more fairly. In a speech at the start of China's annual parliamentary session he said: 'We will not only make the "pie" of social wealth bigger by developing the economy, but also distribute it well.' As part of this initiative, China is aiming to reform the household registration system that classifies people as either city or rural dwellers. This controversial

system means many migrant workers – farmers who travel to towns and cities to find better-paid work – are unable to get proper services.

In developed economies, the challenges also look too daunting and further polarisation of rich and poor is on the cards. Again according to the OECD, over the past two decades, 'developed countries' governments have been taxing more and spending more to offset the trend towards inequality', but while 'the redistributive effect of government expenditures dampened the rise in poverty in the 1990s, they amplified it in the decade that followed, as benefits became less targeted on the poor.' Governments often try to rebalance wealth distribution, but few have been successful in the past.

As public spending in many developed economies is cut back to help reduce public debt, many see that the rich-poor gap will be much wider in ten years' time. Top-down redistribution and recalibration of wealth generation, as China is partly aiming to achieve, could be one answer, but some question this approach. Others see more focus on improving social mobility as the way to go: By putting in place the means by which individuals and families can climb up the economic ladder, it is argued that more lasting change can be achieved. There are some positive signs – such as the reversal of the digital divide between those connected to the internet and those not, seen as a result of the rollout of mobile connectivity around the world – but overall most experts we spoke to feel that 2020 will be a world where the rich will have got richer and the poor will have become relatively poorer.



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