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People waiting to get registered at Motihari District Government Hospital in East Champaran, Bihar, India. With so few doctors employed to work in the healthcare sector in India, this scene is typical. (2009) Ranjan Rahi/Oxfam

WORKING FOR THE MANY

Public services fight inequality

Text

Free public health and education services are a strong weapon in the fight against economic inequality. They mitigate the impact of skewed income distribution, and redistribute by putting 'virtual income' into the pockets of the poorest women and men.

Governments must urgently reform tax systems and increase public spending on free public services, to tackle inequality and prevent us being tipped irrevocably into a world that works for the few, not the many.

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SUMMARY

Economic inequality – the skewed distribution of income and wealth – is soaring. Oxfam's own research has found that the 85 richest individuals in the world have as much wealth as the poorest half of the global population.[1] Economic inequality is also putting lives on the line – more than 1.5 million lives are lost each year due to high income inequality in rich countries alone.[2] A recent study of 93 countries estimated that reducing the income share of the richest 20 per cent by just one percentage point could save the lives of 90,000 infants each year.[3] Estimates also show that failing to tackle inequality will add hundreds of billions of dollars to the price tag of ending poverty,[4] putting the achievement of any new post-2015 poverty goals in jeopardy.

Public Services: A weapon against economic inequality

Free public health and education services are a strong weapon in the fight against economic inequality. In February 2014, backing a new IMF discussion paper, Christine Lagarde, Director of the IMF, underlined that 'making taxation more progressive' and 'improving access to health and education' have a key role to play in tacking inequality.[5]

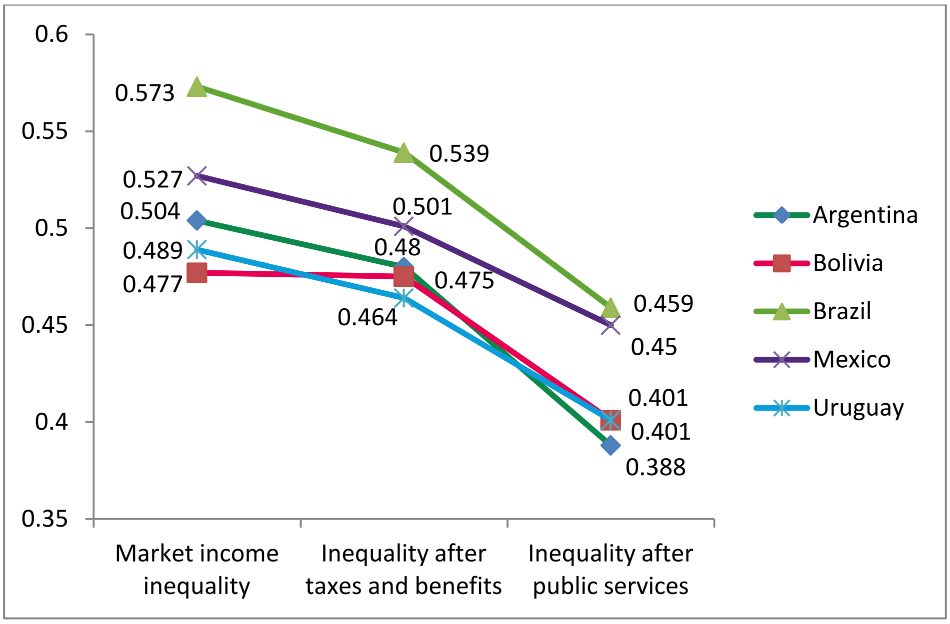
In fact, public services mitigate the impact of skewed income distribution, and redistribute by putting 'virtual income' into everyone's pockets. For the poorest, those on meagre salaries, though, this 'virtual income' can be as much as – or even more than – their actual income. On average, in OECD countries, public services are worth the equivalent of a huge 76 per cent of the post-tax income of the poorest group, and just 14 per cent of the richest.[6] It is in the context of huge disparities of income that we see the true equalizing power of public services.

The 'virtual income' provided by public services reduces income inequality in OECD countries by an average of 20 per cent,[7] and by between 10 and 20 per cent in five Latin American countries (Argentina, Bolivia, Brazil, Mexico and Uruguay).[8] Evidence from the IMF,[9] Asia,[10] and more than 70 developing and transition countries shows the same underlying patterns in the world's poorest countries: that public services tackle inequality the world over.

In Mexico, and even in Brazil with its award-winning *Bolsa Familia* cash-transfer scheme, education and healthcare make double the contribution to reducing economic inequality that tax and benefits make alone. But regressive taxation in many Latin American countries, including Brazil, is undermining the potential to combat inequality through fiscal redistribution, and preventing even greater investment in health and education.

This evidence underlines a double imperative for governments: to ensure progressive taxation that can redistribute *once* when collected and *again* when spent on inequality-busting public services.

Impact on inequality of taxes, benefits and public services, five Latin American countries[11]



The wrong solutions: Spending cuts, fees and privatization

Cuts to public spending in rich and poor countries alike exacerbates economic inequality, and damages public services that could prevent their downward spiral into more unequal societies. Yet, despite this, developing countries are cutting spending on health and education,[12] as are European countries.[13]

Far from being a magical solution to providing universal access to health and education services, private provision of services skews their benefit towards the richest. Amongst the poorest 60 per cent of Indian women, the majority turn to public sector facilities to give birth, whilst the majority of those in the top 40 per cent give birth in a private facility.[14] In three of the best performing Asian countries that have met or are close to meeting Universal Health Coverage – Sri Lanka, Malaysia and Hong Kong – the private sector is serving the richest far more than the poorest. Fortunately, in these cases the public sector has compensated.[15]

Services must be free at point of delivery to reach their inequality-busting potential. Health user fees cause 150 million people around the world to suffer financial catastrophe each year.[16] For the poorest 20 per cent of families in Pakistan, sending all children to a private low-fee school would cost approximately 127 per cent of that household's income.[17] The trend is the same in Malawi[18] and in rural India.[19]

Whereas public services provide everyone with 'virtual income', fighting inequality by putting more in the pockets of the poorest; user fees and private services have the opposite effect. Fees take more away from the actual income of poor people, and private services benefit the richest first and foremost. This is the wrong medicine for the inequality epidemic.

RECOMMENDATIONS

Extreme inequality is not inevitable, and with simple policy interventions, such as free public healthcare and education services, and fairer taxation that raises money from those who are most able to pay, we can start to reverse the inequality trend. Free public services are an investment in a fairer future for everyone, and prioritizing these services is crucial to stop society being tipped irrevocably into a world that only caters to the needs of the privileged few.

Governments must:

- Prioritize increased public spending on and delivery of health and education services, to fight poverty and inequality at a national level. This means:
    - developing country governments meeting spending targets of 15 per cent of the national budget on health, and 20 per cent on education;
    - donor countries prioritizing public spending on and delivery of health and education services in their aid and development policies, and supporting developing countries in removing user fees in health and education.
- Prioritize policies and practice that increase financing for free public health and education to tackle inequality, and also redistribute and tackle inequality themselves. This means:
    - supporting rapid and radical reform of the international tax system, including stopping the secrecy surrounding tax havens and tax avoidance, and ensuring multinational companies are taxed fairly based on where they make their real profit;
    - promoting progressive tax reforms where companies and individuals pay according to their means, to increase tax revenue from the richest and combat economic inequality.
- Finance health and education from general progressive taxation rather than through private and/or optional insurance schemes, or user fees and out-of-pocket payments. This means:
    - increasing national tax to GDP ratios to meet their tax capacity, and do so through progressive taxation;
    - being vigilant to prevent the introduction of formal and informal health user fees;
    - refusing to support the introduction of low-fee schools in developing countries.
- Refrain from implementing unproven and unworkable market reforms to public health and education systems, and expand public sector rather than private sector delivery of essential services.

1 INTRODUCTION

The pressure is on for governments around the world not only to solve their own economic difficulties and turn the page on an unprecedented economic crisis, but also to agree a new global framework to eradicate poverty by 2030.

The Millennium Development Goals (MDGs) have been widely criticized for their categorical failure to tackle the scourge of inequality. Economic inequality – the skewed distribution of income and wealth – is soaring and, if ignored, it will continue to act as a barrier to both poverty reduction and economic growth. Failing to tackle inequality could add up to $300bn to the cost of ending poverty,[20] money that a world still in economic recovery can ill afford to pay.

Inequality puts lives at risk. Lowering the income share of the richest 20 per cent by just one percentage point could save the lives of 90,000 infants each year.[21] Increasing economic inequality also exacerbates social inequalities, and inequality between women and men.

'Extreme disparities in income are slowing the pace of poverty reduction and hampering the development of broad-based economic growth.'

Kofi Annan, Africa Progress Panel, 2012[22]

If they choose to use it, however, governments have a proven weapon that can help to fight inequality: public services. Governments must commit to prioritizing the financing and delivery of these services.

Evidence presented in this paper shows that public services – especially health and education – reduce economic inequality and mitigate the effects of an increasingly unfair income distribution by providing 'virtual income'[23] to the families who need it most. Evidence from the OECD shows that public services are uniformly successful in tackling inequality, and that the 'virtual income' provided by public services reduces income inequality in these countries by an average of 20 per cent.[24] Free public health and education, funded through progressive taxation, could do the same for the world's poorest countries as well.

Investing in free education and health is also a proven way to liberate women and girls from the gender inequality that keeps them out of the classroom and prevents them from learning to read and write.

A world in crisis needs bold and radical solutions. But it also needs greater recognition of the inequality-busting potential of simple policy interventions, such as free public health and education services. There is nothing radical about governments ensuring girls and boys can go to school, and women can give birth safely. And nor should there be anything radical about raising money from those who are most able to pay to ensure that this happens.

Free public services are an investment in a fairer future for everyone, and prioritizing these services is crucial to stop society from being tipped irrevocably into a world that only caters to the needs of the privileged few.

2 A WORLD WHERE THE 99 PER CENT ARE HANGING IN THE BALANCE

Economic inequality is out of control

For the third year running the World Economic Forum's *Global Risks* survey found 'severe income disparity' to be one of the top global risks for the coming decade.[25] At the 2013 World Economic Forum in Davos, Christine Lagarde, Managing Director at the IMF, said the Fund recognized that 'a more equal distribution of income allows for more economic stability, more sustained economic growth, and healthier societies with stronger bonds of cohesion and trust.'[26] And yet, in most countries around the world, income disparities are growing, and economic inequality is thriving.

Since the financial crisis, the number of dollar millionaires – known as High Net Worth Individuals – has rocketed from 8.5 million to 12 million,[27] and India's billionaire community has increased from just two in the 1990s,[28] to 65 in early 2014.[29] In addition to this, where there has been growth and prosperity, it has not been fairly distributed. In 2011, the richest 40 people living in the Philippines netted over 75 per cent of the country's increase in GDP, leaving the poorest far behind.[30]

Oxfam's research has found that the 85 richest individuals in the world have as much wealth as the poorest half of the global population.[32] And whilst the luxury goods market continues to flourish, registering double-digit growth each and every year since the crisis hit,[33] almost one in ten working households in Europe are living in poverty,[34] unable to afford necessities like food and heating. Today, 80 per cent of people around the world are suffering due to the spending cuts that came with austerity, and this is set to rise to 90 per cent by 2015.[35] Women will be hit the hardest: the dice is already loaded against them due to cuts in public sector employment, inequality in pay, and the burden of childcare responsibilities.

Reducing the income share of the richest 20 per cent by just one per cent could save the lives of 90,000 infants each year.[31]

Economic inequality is putting lives on the line

Ordinary people have had enough. From South Africa[36] to Spain,[37] and from Brazil[38] to Britain,[39] people are growing ever louder in their demands for action from their elected governments. Escalating economic inequality is not only putting the political credibility of governments on the line, but also the lives of their citizens.

The British Medical Journal found that more than 1.5 million lives lost each year in the OECD can be attributed to the high level of income inequality,[40] and a recent study of 93 countries, demonstrated that tackling income inequality could significantly reduce infant mortality. In fact, lowering the income share of the richest 20 per cent by just one percentage point could save the lives of 90,000 infants each year.[41]

If allowed to persist, economic inequality will put more lives on the line, and push more people into poverty. Projections from the Brookings Institute have found that 154 million people could be lifted out of poverty by 2025 if the richest 10 per cent give up just 0.25 per cent of their income.[43] Oxfam's own research shows that millions more people will be pushed into extreme poverty in G20 countries unless income inequality is significantly reduced.[44] The majority of these will be women and girls. Estimates also show that failing to tackle inequality will add hundreds of billions of dollars to the price tag of ending poverty,[45] putting the achievement of any new post-2015 poverty goals in jeopardy.

It could cost an additional $300bn to get everyone over the $2 a day poverty line by 2030 if economic inequality remains unchecked.[42]

3 PUBLIC SERVICES: A WEAPON AGAINST ECONOMIC INEQUALITY

Today millions of women and men are denied their right to healthcare and education. In 2010, more than 280,000 women died in childbirth. That equates to 800 maternal deaths daily; just five of which were in high-income countries.[47] And in some of the poorest countries in the world – including Bolivia, Burkina Faso, Haiti and Mali – the child mortality rate is decreasing far faster amongst the richest 20 per cent than the poorest 20 per cent, underlining just how unequal progress can be.[48]

'Without deliberate policy interventions, high levels of inequality tend to be self-perpetuating. They lead to the development of political and economic institutions that work to maintain the political, economic and social privileges of the elite.'

UNRISD[46]

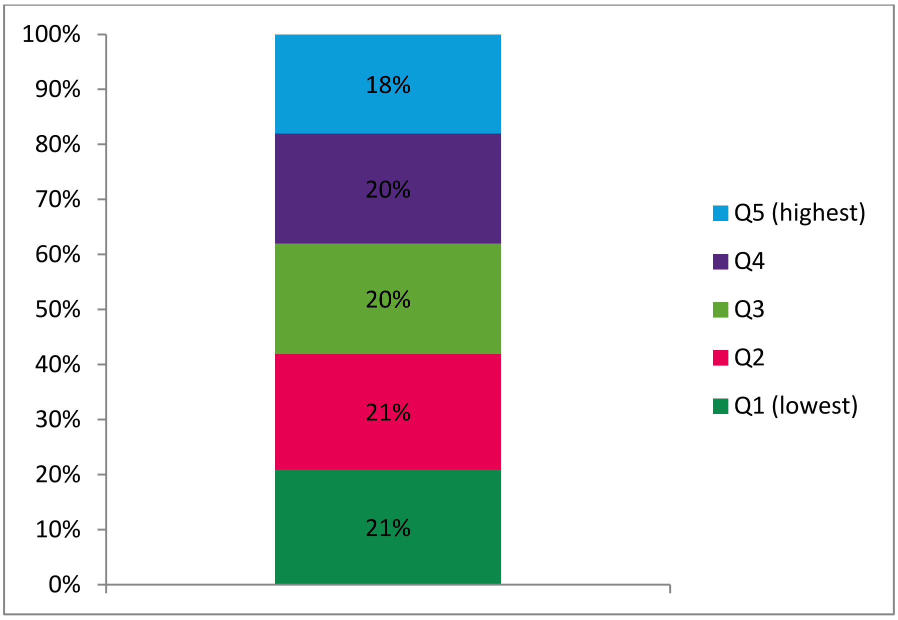
In 2011, 57 million children remained out of school; the majority of these children were girls.[49] Among poorer children, those lucky enough to make it into the classroom are still at a disadvantage. In sub-Saharan Africa and in South and West Asia, for instance, being born into the population's poorest quintile halves the chances of a child's education continuing to secondary school level.[50] Likewise, the poorest 20 per cent of households in Kenya, Yemen, and Pakistan, have a household 'education poverty incidence' double that of the national average.[51] In other words, the chance of getting fewer than four years of education is far higher for the poorest 20 per cent of families than for the average family. For girls in those families, it is even worse. In Yemen, for instance, a poor girl has four times the likelihood of suffering this low level of schooling than a poor boy.[52]

This is precisely where free public services can help to redress the balance. Scaling-up health and education services will not only reverse these trends, but evidence shows it will also act as a strong weapon against economic inequality. National distribution is increasingly important now that the majority of people living in poverty today are in middle-income countries.[53] If governments around the world are serious about building fairer societies, this is exactly the kind of deliberate policy intervention that they must prioritize.

Public services reduce inequality

An OECD study, looking at public services and income distribution across 27 countries, offers strong evidence for the case that public services reduce economic inequality. In OECD countries, the benefit of public services is virtually equal across all income groups. In other words, everyone benefits equally in absolute terms. This offers a remarkable picture of equality resulting from public services of which health care and education represent 85 per cent, the overwhelming majority, in this data.[54]

Figure 1: Equal distribution of the benefit of public services (27 OECD countries)[55]



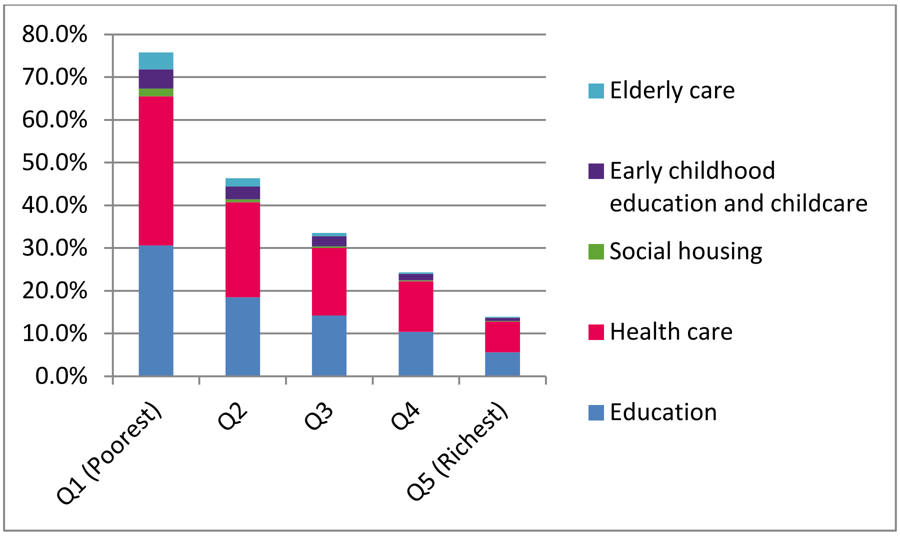
In the context of vast differences in income, this is where the true equalizing power of public services becomes apparent. By converting the actual use of services for each income group into a cash equivalent or 'virtual income', the research can consider this as a proportion of post-tax income.

On average, in OECD countries, public services are worth the equivalent of a huge 76 per cent of the post-tax income of the poorest group, and just 14 per cent of the richest.[56] This means that if the government did not provide 'virtual income' through public services, the poorest group living in OECD countries would spend on average over three-quarters of their available money just on health and education.

In the UK, where universal public services give everyone equal entitlement to health and education, the impact is even greater. In 2013, the 'virtual income' gained through health and education alone, was worth almost the *entire post-tax income* of the poorest 12 million people.[57] Without public services, sending their children to school and seeking medical care would literally cost them every penny they have. In the UK, these public services are so valuable that they are worth more than social security benefits for every income group, except the second poorest.[58]

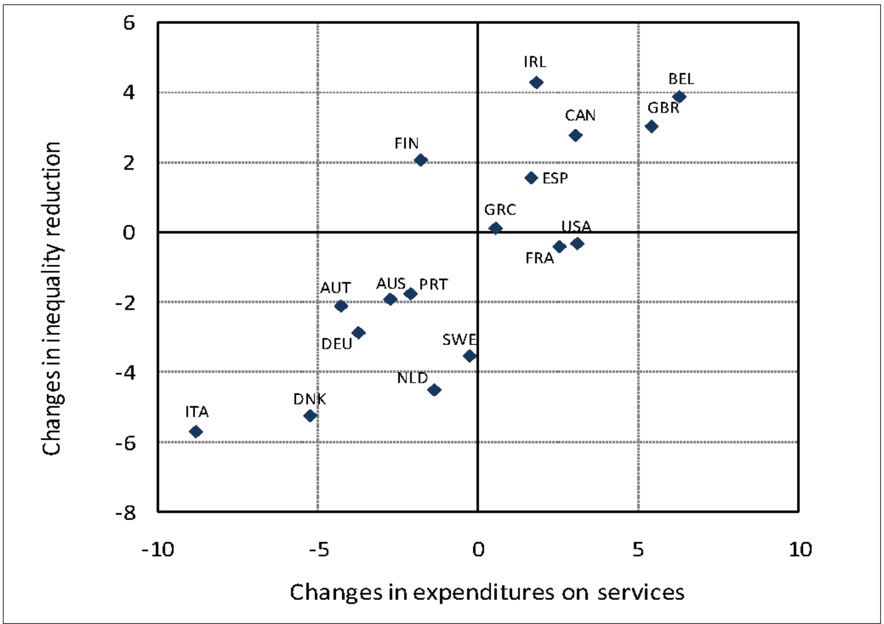
The OECD's data also uses the gini coefficient to show the positive impact of public services. The gini is a measure of income inequality, where 0 represents total equality and 1 represents a situation where one person holds all of the income. The OECD data sends a very clear message: including the 'virtual income' provided by public services in the post-tax income of different groups reduces income inequality by an average of 20 per cent.[59]

Figure 2: Value of public services relative to income bands across 27 OECD countries[60]



The OECD findings go further still. As Figure 3 shows, countries that increased public spending on services throughout the 2000s had an increasing rate of success in reducing income inequality. But those countries that cut spending during that time showed a marked decline in the rate of inequality reduction.[61]

Figure 3: Increasing the level of public services increases a country's impact on inequality reduction (OECD countries 2000-2007)



Note: Percentage point changes in the share of in-kind benefits of services in disposable income, and of the percentage reduction in inequality (gini coefficient), respectively.

Source: OECD (2008a); OECD Secretariat's computations from OECD/EU database on the distributional impact of in-kind services and national survey data for non-EU countries.

The equalizing effect of public services has also been recognized by the IMF. In their 2012 Article IV consultation, the IMF describes how Iceland's pursuit of policies to maintain public spending and a strong social welfare system led to a 'sharp reduction in inequality. Iceland's gini coefficient – which had risen during the boom – fell in 2010 to levels consistent with its Nordic peers.'[62] In February 2014, the IMF released a new discussion paper making the case that redistributive policies, including progressive taxation and spending on health and education, are 'pro-growth and pro-equality'. Christine Lagarde, Director of the IMF, reinforced this, underlining that 'making taxation more progressive' and 'improving access to health and education' have a key role to play in tacking inequality.'[63]

There is no doubt that public services are a strong equalizing force in rich countries, and that increasing spending on public services accelerates inequality reduction.

Does this hold true in the poorest countries?

Yes. Even in less mature health and education systems, in developing countries, these same patterns hold remarkably true.

In 2000, the IMF looked at available data from 61 health and education studies in developing countries. They concluded that in every study on primary and secondary education, as well as in all of the health studies, the benefit derived from these services was progressive compared to income. As in the OECD, health and education services benefited everyone, but they benefited the poorest most. The IMF also found that those countries with progressive health and education provision did not follow the trend of increased income inequality prevalent in many countries in the 1990s. This evidence confirmed that government spending on services, in particular health and education, was topping up the low incomes of the poorest most, thus mitigating the effects of economic inequality.[64]

Evidence from Indonesia also showed that the distribution of benefits from primary and secondary education is absolutely equal across income groups,[65] just as the OECD data showed to be true in rich countries. A 2007 study of healthcare systems in eight Asian countries and three Chinese provinces and regions, backs up the IMF's findings.[66] All but one of the health systems had the same equalizing effect through progressive benefit distribution. The more these governments spent on healthcare, the more progressive the distribution of income was and the more the healthcare system addressed economic inequality. Data from more than 70 developing and transition countries shows that, in 2003, public health spending had a far greater benefit for the poorest in terms of outcomes. It is estimated that even a one per cent increase in public spending on health would save twice as many children's lives in poor families than in richest ones.[67]

Finally, studies examining the impact of health and education provision on economic inequality across six Latin American countries demonstrated the same findings. In five of the countries – Argentina, Bolivia, Brazil, Mexico and Uruguay – there was sufficient data available to show that public services put 'virtual income' back into the pockets of the poorest, and that this was strongly progressive compared to income. These public services effectively reduced income inequality coefficient by between 10 and 20 per cent.[68] This clearly mirrors the results from the OECD.

Free public services fight gender inequality

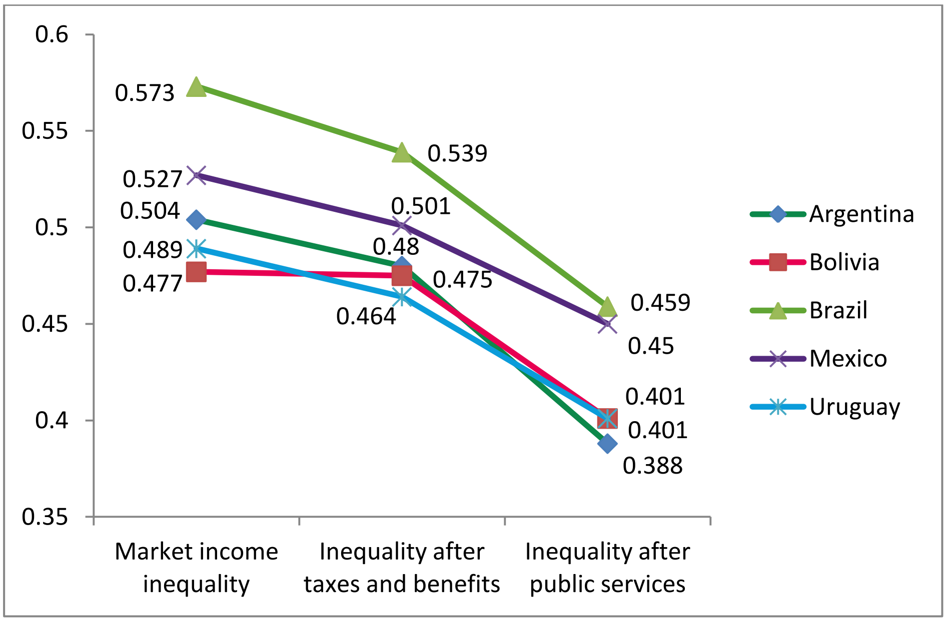
There is considerable evidence that free health and education services are very effective in tackling gender inequality. Fees for schooling exclude girls more than boys meaning free universal primary education, now introduced in the majority of countries, has had a huge beneficial gender impact, allowing tens of millions of girls to go to school for the first time.[69] The knock-on benefits of education for girls are also well documented: they have more control over their lives, they marry later, have fewer children, and have more opportunities.[70]

When assistance at times of ill-health and with childcare is not provided through public services, this burden does not go away; it is shifted on to the shoulders of women and girls.[71] Women and girls work between two and five hours more than men every day as part of the unpaid 'care economy'.[72] Poor women who cannot afford labour-saving technology or assistance are hit hardest. Universal free public services and the welfare state have had a huge impact on reducing gender inequality in developed countries. Free public services help to shift this burden back on to the much broader shoulders of society as a whole. This liberates women and girls, and tackles gender inequality, whilst at the same time tackling economic inequality.

Redistributive fiscal policies reduce inequality

Nora Lustig's research into Latin American inequality also found that investing in public services has a significant impact on tackling inequality, even in countries where taxation is regressive and not fulfilling its redistributive potential.[73]

Figure 4: Impact on inequality of taxes, benefits and public services, five Latin American countries[74]



Her research found that in these five countries the largest decline in inequality was due to in-kind transfers, and that 'governments in Latin America redistribute mostly through public spending on education and health'. But regressive tax systems in these countries are undermining the potential to tackle economic inequality.

For the poorest 12 million people in the UK, health and education are worth 140 per cent of what they earn through their income.

In Mexico, and even in Brazil with its award-winning *Bolsa Familia* cash-transfer scheme, education and healthcare make *double* the contribution to reducing economic inequality than tax and benefits. In Argentina, public health and education services have four times the impact of tax and benefits. While in Bolivia, a country with an extremely regressive tax system dependant on consumption taxes, tax and transfer currently have very little impact at all on reducing inequality.[75]

This evidence reinforces the fact that investment in health and education is a strong weapon in the fight against inequality. However, it also shows the urgent need to reform regressive taxation systems. Despite the positive effects of public services, regressive taxation in many Latin American countries is undermining the potential to combat inequality further. This underlines a double imperative for governments: to ensure progressive taxation that can redistribute *once* when collected and *again* when spent on these inequality-busting public services.

The data available offers a convincing incentive to governments everywhere; correcting regressive taxation and investing more in public services are crucial to tackling economic inequality and correcting skewed income distributions. Doing *both* pays a double dividend in fighting economic inequality.

Box 1 Universal Health Coverage fights poverty and inequality in Thailand[77]

In 2001, the Thai Rak Thai party kept their manifesto promise to introduce Universal Health Coverage. They introduced the Thai Universal Coverage Scheme (UCS), relying on an increase in public spending to make it possible. In 2014, the country is one of the best performers in Asia on health. The impact of Thailand's UCS on poverty, and on mitigating the impact of economic inequality is outstanding.

When UCS was introduced, household expenditure on healthcare for the poorest 10 per cent of the population fell from almost five per cent in 2000 to 2.8 per cent in 2002. The proportion of the poorest 20 per cent of Thai households forced into poverty through excessive health payments fell from 7.1 per cent in 2000 to 2.9 per cent in 2009.

The comprehensive benefits package and the low level of out-of-pocket payments of the UCS protected a total of 291,790 households from health impoverishment between 2004 and 2009. Remarkably, even amongst the very poorest Thais in the lowest-income quintile, 93 per cent of births are now attended by skilled medical staff, hugely benefiting women and children.

'... [austerity] is contributing to inequality that will make economic weakness longer-lived, and needlessly contributes to the suffering of the jobless and the poor for many years.'

Professor Joseph Stiglitz, Nobel Laureate in Economics[76]

4 THE WRONG SOLUTIONS TO TACKLING ECONOMIC INEQUALITY

Austerity: A medicine that could kill the patient

As austerity measures are imposed across Europe, families are suffering the effects of a public spending crisis akin to the crisis families in the poorest countries have suffered for decades. And cuts to public spending in rich and poor countries alike exacerbate economic inequality, and affect the quality of public services that could prevent the downward spiral into an even more unequal society.

Between 1980 and 2000, structural adjustment programmes in Latin America led to the world's lowest levels of public spending, at around 20 per cent of GDP.[78] During this period, income inequality increased, reaching an all-time high in 2000, with 14 of 18 countries registering an increase in income inequality.[79] In every country in the region, except Uruguay, the income share of the richest 10 per cent increased whilst the share of the poorest 40 per cent either decreased or stagnated. It is estimated that half of the increase in poverty in this period was due to redistribution *in favour* of the richest.[80]

Echoing this experience, during the transition to market economies between 1990 and 2007, Central Eastern Europe and CIS countries suffered a period of significant public spending restrictions and austerity budgets. Between 1994 and 1999, average health spending in the region was just four per cent, with Georgia at just one per cent.[81] During this period, the region also saw a significant rise in income inequality, with an average increase of 0.11.[82] Russia saw a staggering increase in its gini rating from 0.24 to 0.46.[83]

Today, Europe is heading into the same vicious cycle that these poorer countries faced 20 years ago, with people living in poverty suffering, as the richest prosper. In those European countries most affected by austerity measures – Greece, Italy, Spain, Portugal and the UK – either the richest 10 per cent are taking home an increased share of the income, or the poorest 10 per cent are taking home a smaller share. Perhaps unsurprisingly, in some cases both are happening.[84]

In 2010, as a result of austerity measures, health spending in Europe dropped for the first time in decades compounding this growing inequality. Ireland and Greece, two countries badly affected by austerity, saw cuts of more than six per cent to health budgets.[85] It is the most vulnerable and often excluded groups – women, girls, disabled people, unemployed people and elderly people – who bear the brunt of these cuts, trapped in poverty at the bottom of an increasingly unequal society.

Developing countries are at the greatest risk of rocketing poverty and inequality due to stagnating public spending on public services. According to a new Government Spending Watch database, spending on health and education is decreasing when it is needed most; as a result of the economic crisis, fears of rising debt, and stagnating aid flows. Less than a quarter of these developing countries are spending what is needed to deliver education for all, and between 2008 and 2012 more than half of countries reduced spending on education as a percentage of GDP, and of total spending.[86] Two-thirds of these countries have seen decreases in health spending relative to GDP and overall expenditure.[87]

History shows that failing to increase public spending will only increase poverty and inequality, presenting a real risk that austerity and cuts to public services will irreversibly entrench economic inequality in rich and poor countries alike. At the same time, these cuts compound and increase inequalities between women and men, as women are hit hardest.[88]

Austerity, and cuts to health and education spending, are the wrong medicine if you want to save all the patients rather than just those who can pay.

User fees and private services: Exacerbating economic inequalities

In the 1980s and 1990s, when developing countries first made significant cuts to their public health and education spending under structural adjustment, International Financial Institutions, along with the largest donors, promoted user fees and increased private sector service delivery to fill the gap.

User fees in health have been dubbed 'unjust and unnecessary'[89] by Jim Kim, President of the World Bank, and one of the original proponents of health user fees in the World Bank, David de Ferranti, has now publically acknowledged that 'for many poor people' they have meant 'choosing between going without needed services or facing financial ruin.'[90] Despite the recent consensus that user fees undermine development, there is a legacy of formal and informal fees that continue to take money out of the pockets many of the world's poorest families. In recent years, donors have also increased support to 'low-fee private education' – in other words private schools that charge fees to families – in the poorest countries. The UK Department for International Development (DFID) has invested in low-fee private schools in Nigeria, Ghana and Pakistan since 2010. User fees for education and health have a disproportionate impact on women and girls; excluding them from education and denying them access to healthcare.

In 2007, the International Finance Corporation (IFC), the private sector investment arm of the World Bank, announced a $1bn fund for equity investments and loans to support private sector participation in health services in Africa.[91] And other donors are doing the same by increasing funding to private healthcare provision. The United States Agency for International Development (USAID), DFID, and the Asian Development Bank, for instance, have spent millions of aid dollars funding large-scale programmes to outsource service delivery to the private sector in countries like Afghanistan, Bangladesh and Cambodia.[92]

All World Bank Education Sector Strategies (ESS) – starting in 1999 – have stressed the key role of the private sector in education, and the importance of private sector investment saw increased prominence in the most recent *Education Sector Strategy 2020* released in 2011.[93]

These trends risk further embedding economic inequality in societies because they have the opposite effect of free public services. People living in poverty are not the main beneficiaries of private services, and quite the opposite of providing 'virtual income' to the poorest, user fees take existing income from them. Fees also place services out of reach of those who need them most.

'Anyone who has provided health care to poor people knows that event tiny out-of-pocket charges can drastically reduce their use of needed services. This is both unjust and unnecessary.'

Jim Kim, World Bank President[94]

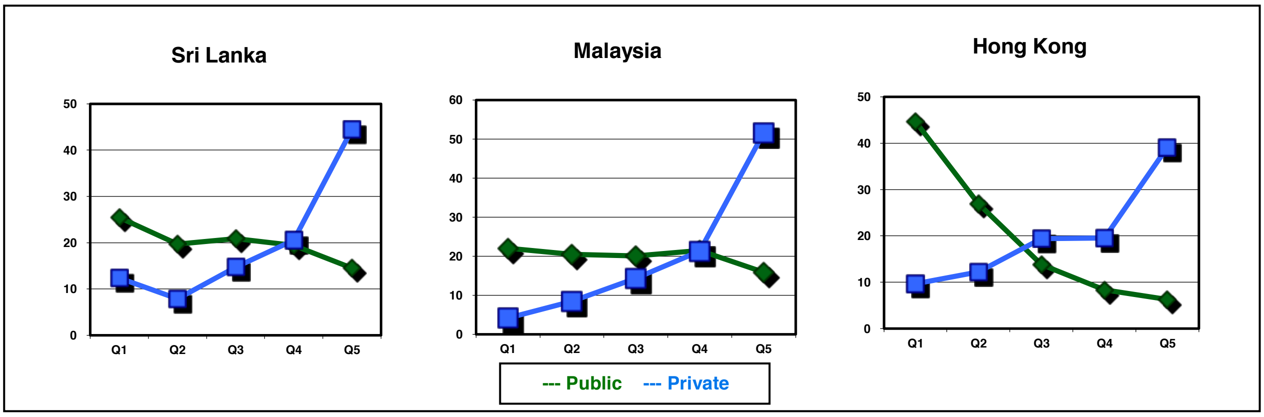
Private services distribute more benefit to the richest

Far from being a magical solution to provide universal access to health and education services to tackle and mitigate inequality, private provision of services further skews the benefit towards the richest.

In three of the best performing Asian countries that have met or are close to meeting Universal Health Coverage – Sri Lanka, Malaysia and Hong Kong – the private sector is of negligible value to the poorest quintile of the population, and the benefits of private healthcare services are strongly regressive. They serve the richest far more than the poorest.

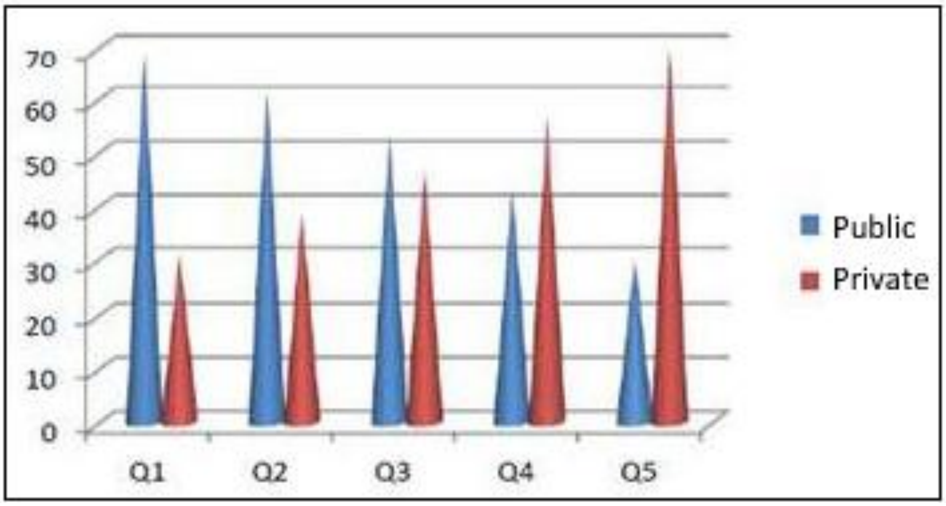
Fortunately in these cases the public sector has compensated and allowed UHC to be achieved.

Figure 5: Difference in public private mix in tax financed health systems[95]



More recent and detailed evidence from a 2013 study of the Indian healthcare system reinforces these findings. It finds that amongst the poorest 60 per cent of Indian women, the majority turn to public sector facilities to give birth, whilst the majority of those in the top two quintiles give birth in a private facility.[96]

Figure 6: Quintile-wise distribution (%) of institutional deliveries in the public and private sector, India[97]



Comparable data from across 15 countries in sub-Saharan Africa reveals that just three per cent of people from families living in the poorest quintile sought care from a private doctor when sick.[98]

Whilst there is less cross-country data on the benefit of private services across different income groups, these studies indicate that in both immature and mature health systems across Africa and Asia, private health services are worth far more to the richest than to the poorest.

In fact, no low- or middle-income country has achieved universal or near-universal access without a predominantly public provision of services that ensures the poorest are getting the benefit they need.[100]

In four US states, half the people who defaulted on their mortgage in the crisis cited private health costs. More than one-third of them had spent in excess of two thousand dollars on healthcare over the previous two years.[99]

User fees take money out of the pockets of the poorest

Due to paying out-of-pocket for health services, 150 million people around the world suffer financial catastrophe each year.[101] That is approximately two per cent of the global population. Since Malaysia privatized health services and introduced user fees in the 1980s, out-of-pocket spending has risen, representing one-third of total healthcare spending in the country in 2009.[102]

A recent study in the USA showed that the poorest 20 per cent spend 15 per cent of their income on healthcare, compared to the richest 20 per cent for whom healthcare amounts to just 3 per cent of income. But despite this significant cost to the poorest, they still don't get all the cover they need.[103]

In Malawi, for the two-thirds of the population living below the poverty line, even moderate fees charged in urban low-fee private schools would cost them one-third of their available income.[105] In rural areas of Uttar Pradesh, India, the cost would be even greater. It is estimated that for an average family in the bottom 40 per cent of the income distribution, educating all their children at a low-fee school, would cost around half of their annual household salary.[106] And finally, for the poorest 20 per cent of families in Pakistan, sending each child to a private fee-paying school would cost approximately one-quarter of household income. Taking the average number of children per household into account, sending all children to school would cost 127 per cent of that household's income.[107]

It would cost the average family in Pakistan 127 per cent of their household income to send all of their children to a private fee-paying school.[104]

The huge cost barrier confronting families inevitably leads to the exclusion of girls from formal education. These examples demonstrate clearly that low fees are unsustainable, fuel gender inequality, and take an unreasonable amount of money away from the poorest.

As the data in Section 3 demonstrates, public health and education service provision provides everyone with 'virtual income', and provides more of that to the poorest, thus fighting inequality. User fees have the opposite effect, taking more from the actual income of poor people, while private services benefit the richest most, rather than those most in need. Both undermine access to the life-saving services that poor families need.

5 CONCLUSIONS

There is growing consensus that economic inequality is out of control. Ordinary working families are struggling to cope whilst the incomes of the very richest continue to rise. Now is the time for governments everywhere to seek pragmatic and immediate solutions for curbing and mitigating the most pernicious effects of this inequality.

The evidence shows that one of the most crucial interventions governments can make to tackle economic inequality is to increase provision of free public services, such as health and education. Universal free public services have a well documented beneficial impact on gender inequality too, liberating women and girls from the burden of care and enabling them to realise their potential.

Governments must also prioritize progressive tax policies that fight inequality, taxing everyone according to their means, and ending the tax evasion and avoidance which currently allows the richest to escape taxation. All of these measures would tackle inequality head on, as well as raising additional revenue to pay for these services.

Public services reduce economic inequality, and mitigate the effects of increasingly unfair income distribution by providing the poorest families with urgently needed 'virtual income'. Austerity programmes and cuts to public spending on services will continue to undermine this simple solution, and must be reversed.

User fees in education and healthcare are similarly counterproductive. Fees effectively take money out of the pockets of ordinary working families, bankrupting them when they need help the most, and preventing them from sending their children to school, or getting the medical care they need – even when their lives depend on it. Private services benefit the richest most, rather than those most in need.

Across developing and developed countries alike, the evidence shows that health and education are crucial weapons in the fight against inequality. And the evidence underlines the need for progressive taxation that can redistribute *once* when collected and *again* when spent on these inequality-busting public services.

Fairer fiscal systems could do far more to fight economic inequality and to strengthen social contract.

Governments and institutions will be complicit in tipping us irrevocably into a world that caters only to the needs of the privileged few, unless they refocus on increasing free public provision of health and education, and on a more transparent and progressive taxation system to tackle inequality, and to make sure that they can invest in these public goods.

RECOMMENDATIONS

Governments must:

- Prioritize increased public spending on and delivery of health and education services to fight poverty and inequality at national level. This means:
    - developing country governments meeting spending targets of 15 per cent of the national budget on health, and 20 per cent on education;
    - donor countries prioritising public spending on, and delivery of, health and education services in their aid and development policy and support to developing countries in removing user fees in health and education.
- Prioritize policies and practice that increase financing available for free public health and education to tackle inequality, and also redistribute and tackle inequality themselves. This means:
    - supporting rapid and radical reform of the international tax system, including stopping the secrecy surrounding tax havens and tax avoidance, and ensuring multinational companies are taxed fairly based on where make their real profit;
    - promoting progressive tax reforms where companies and individuals pay according to their means, to increase tax revenue from the richest and combat economic inequality.
- Finance health and education from general progressive taxation rather than through private and/or optional insurance schemes, or user fees and out-of-pocket payments. This means:
    - increasing national tax to GDP ratios to meet their tax capacity, and do so through progressive taxation;
    - being vigilant to prevent the introduction of formal and informal health user fees;
    - refusing to support the introduction of low-fee schools in developing countries.
- Refrain from implementing unproven and unworkable market reforms to public health and education systems, and expand public sector rather than private sector delivery of essential services.

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