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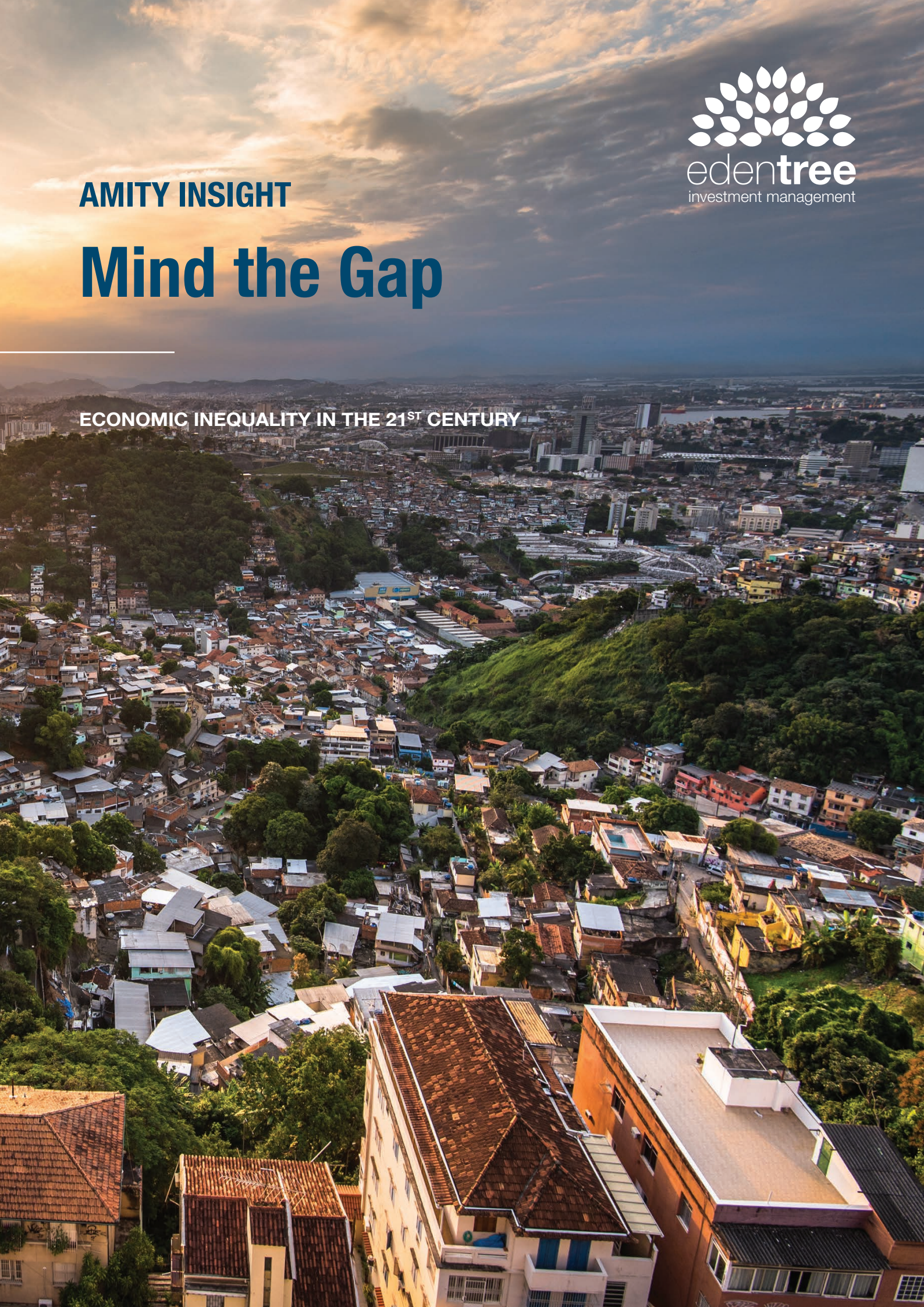
AMITY INSIGHT

# Mind the Gap

ECONOMIC INEQUALITY IN THE 21ST CENTURY



# Foreword

**By Dominic Burke**

Investment Director,
Lankelly Chase

Lankelly Chase

**Lankelly Chase is an independent, charitable funder whose mission is to help change the systems which perpetuate forms of severe and multiple disadvantage. Like EdenTree and its parent, the AllChurches Trust, we understand that our investments – and the ways in which our own wealth is preserved and enhanced – may either contribute to these conditions or, we hope, be put in the service of change.**

I was intrigued to learn from one of the commentators cited in this report that they had been sought out by an investment manager, for the first time, to discuss inequality and planetary boundaries. My supposition is that even the most compelling, new research on these topics does not come across the desks of many investors. To have such work brought together in this Insight is therefore refreshing and important, albeit sobering in its message.

'Mind the Gap' is also a timely contribution, and not only due to the urgency of the climate crisis upon us. On the day I write this, the cover of the *Financial Times* is emblazoned, in bold type, with "Capitalism. Time for a Reset". Its lead economics writer acknowledges that "economies are not delivering for everyone", that "something has gone very wrong". Last month in the United States, the chief executives of the largest companies agreed that companies must not see their principal purpose as serving shareholders, but to contribute to the creation of value, more broadly conceived, that is shared by society as a whole.

What this shift might look like in practice is another matter. But, undoubtedly, it feels like we are moving beyond the easy consensus that has taken hold of the sustainable investment agenda, yet failed so far to counter the unequal consequences of our current economic model, as the evidence in this report makes plain.

The second part of the objective set out for 'Mind the Gap' – to "help spark debate about the nature of the global economic system, and how we, collectively, might change it" – indicates how we have to proceed. Those chief executives in the US recognise that they will need to work in collaboration with investors and others with shared intent to evolve a system which has come to inordinately privilege financial returns. Investment managers, in turn, need support from clients in order to shift their own practices. And their clients, the asset owners like Lankelly Chase, must understand how the ways we relate to those who invest our money, like all our relationships, can either support or constrain our shared capacity to change.

By succinctly foregrounding new economic thinking, this Insight provides an ultimately optimistic foundation for investors and others to reimagine the goals of our economic systems.

# Introduction

**By Jonathan Mowll**

Responsible Investment Analyst,
EdenTree Investment Management Limited

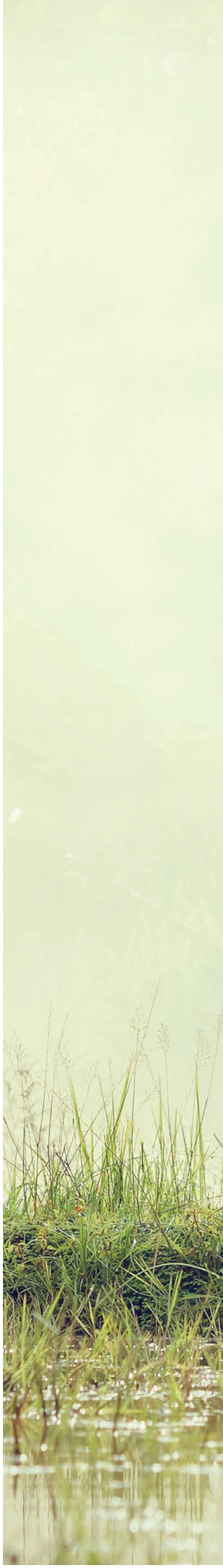
**“Our world is terrible at sharing.”**

So declared Katherine Trebeck and Jeremy Williams in the *The Economics of Arrival*, published earlier this year. Recent data supports this view from the perspective of economic inequality. The bottom 64% of the world’s adult population (some 3.2 billion people) collectively owns just 1.9% of global wealth. The top 10% now owns 85% of global wealth, with the top 1% alone owning 47% of all household wealth. What’s more, in the majority of countries, absolute levels of economic inequality have been getting worse in the last forty years.

The various dimensions of inequality are numerous, covering issues as diverse as poverty, climate change, healthcare, colonialism, globalisation, cognitive psychology, circular economies, taxation, and economic theory.

In line with the ambitions of Sustainable Development Goal (SDG) 10, in this Amity Insight we consider the recent history and current state of economic inequality, both within and between countries. We look at the inequality aspect of climate change, and consider what is driving economic inequality today.

Whilst highlighting the role that investors can play in addressing inequality, we also explore the crucial role of government, and finish by considering whether a totally new economic model is warranted, if we are to tackle inequality within our planet’s ecological boundaries. In doing so, we can hopefully contribute to a wider debate about the nature of our economic systems, who they are benefitting, and whether they are ecologically sustainable.



**As long as poverty, injustice, and gross inequality persist in our world, none of us can truly rest."**

Nelson Mandela

# What do we mean by economic inequality?

Economic inequality most commonly refers to income and wealth distributions. It is frequently expressed using a 'Gini'. Economic inequality is intrinsically related to social inequality – the distribution of power, health, education, housing, etc. across society – and we will consider both at different stages of this Insight. In particular, when we introduce alternative economic models in the final section, the interrelation of social and economic (inequality) will be important.

We're also going to focus on 'vertical inequality', which essentially refers to the distribution of income and wealth in a given population. This is distinct from 'horizontal inequality', which refers to differences between groups – for instance, between men and women, or between different racial groups.[1] The two concepts often overlap, however.

## Explaining Ginis

Ginis (also known as 'Gini coefficients' and 'Gini indices') are the most common representation of income and wealth inequality. They measure the dispersion of incomes/wealth on a scale of 0 (perfect equality) to 1 (one person has all the income/wealth). The higher the Gini, the higher the level of inequality.

# Why does economic inequality matter to investors?

Inequality is at the centre of one of the Sustainable Development Goals (SDGs) – SDG 10. Two of the underlying targets are particularly worthy of note with respect to this Insight:


***10.3*** *Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard*

***10.6*** *Ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions in order to deliver more effective, credible, accountable and legitimate institutions*

SDG 10 calls for reducing inequalities within and between countries. This Insight considers both.

Where economic inequality has been discussed by our peers in the investment management industry, it has generally been in relation to the impact that growing and/or high levels of inequality may have on long-term economic growth and the stability of financial systems. In 2016, the UN's Principles for Responsible Investment (PRI) organisation released a discussion paper on the issue, which referenced the OECD's findings that "income inequality tends to drag down GDP growth".[2] The PRI report indicated inequality could negatively affect growth through a number of mechanisms, including reduced consumer demand, increased economic instability, and an exacerbation of social instability.[3]

Later in this Insight, we will explore how this position on economic growth, at least in developed countries, is increasingly coming under scrutiny. For the time being, let's consider some of the social, political, and environmental features of more unequal societies.

## Social and Environmental Impacts of Economic Inequality

The author of the 2016 PRI discussion paper noted that "inequality is an important topic in its own right: there are many reasons we might worry about economic inequality without regard to its effect on economic growth and investor portfolios."[4] There are a number of reasons why this makes sense:

- Growing bodies of research suggest a causal link between widening economic inequality and rising carbon emissions, at least in high- and upper-middle-income countries.[5] The familiar mechanism is 'status competition', alongside the erosion of social capital.[6]
- More equal societies are not only less ecologically damaging, they tend to have lower levels of teenage pregnancy, drug use, obesity, prisoners, school drop-out, community breakdown, mental illness, as well as having higher life expectancy, social trust, and women's rights.[7]
- Places with high levels of income and wealth inequality experience higher levels of crime[8] and people living there report feeling less safe walking home at night.[9]
- Due to the nature of many political systems, large pools of wealth held by an influential minority can frustrate efforts at mitigating climate breakdown and perpetuate economic inequality – one example is the fossil fuel lobby in the United States.[10]

Some of this may be intuitive, but it is nonetheless important to stress. In short, high levels of economic inequality tend to lead to – and compound – undesirable social and environmental outcomes.

## Note on Poverty

In (at least) the bottom half of global income distributions are some of the very poorest people in the world. Despite the narrative of 'progress' against poverty we often hear, recent estimates indicate that over 2.2 billion people still live in, or on the edge of, multidimensional poverty (a poverty measure that incorporates not only income, but also health, schooling/education, and general living conditions).[11]

And yet this is not an Insight on poverty.

The issues of poverty and inequality are related, but, in the words of US journalist and writer Anand Giridharadas, "inequality is something more worrying [than poverty]: it speaks of what some have and others lack; it flirts with the idea of injustice and wrongdoing; it is relational… To fight inequality means to change the system."[12] When we refer to poverty throughout the Insight, therefore, it is to show the impacts of inequality. Nowhere is this more relevant than in discussing inequality between countries, and we'll do this by looking at the economic relationship between the Global North and Global South.

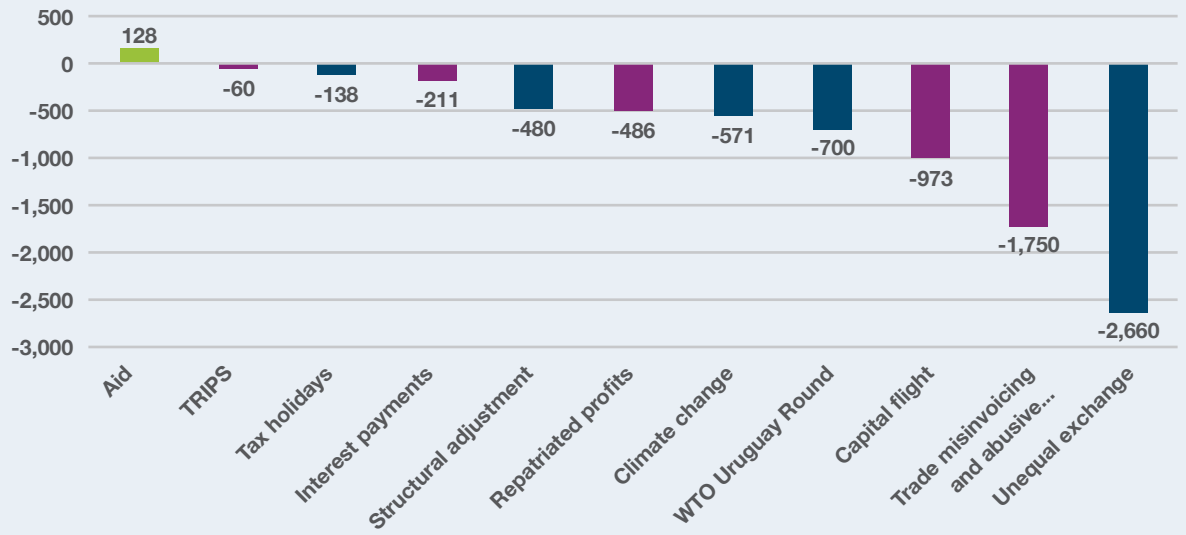
**Those who talk about how capitalism is reducing poverty pat themselves on the back because hundreds of millions of people have gone from having $1.50 a day to $4 a day, from being malnourished to being able to afford a bowl of soup."**

Nathan Robinson, 'How Inequality Statistics Can Mislead You', Current Affairs, 20 April 2019

# The Great Divide between the Global North and the Global South

This is the topic of a seminal piece of work by Jason Hickel, who has built on arguments made by economists such as Ha-Joon Chang, to show, in general terms, that the global economic system disadvantages the Global South (broadly speaking, Latin America, Africa, and much of Asia). This undoubtedly has its roots in the colonial period, but our focus here is on more recent history.[13] A key point in Hickel's argument comes as he compares annual aid flows from North to South with a number of outflows the other way.

Hickel is also at pains to highlight that one of the supposed benefits from globalisation – the reduction in the number of people living under the absurdly low international poverty line ($1.90/day) – had little if anything to do with globalisation at all. Rather, the vast majority of gains against extreme poverty came from China, which was almost unique in being able to develop on its own terms, without being subjected to the same structural headwinds as the rest of the Global South.[14]




**Comparing various outflows from the Global South and structural costs/losses. Annual Gains from Aid (green) vs Selected Outflows (purple) & Structural Adjustment Costs/Losses (blue) (Billions of US dollars).**

*Source: Hickel, 2017. The Divide: A Brief Guide to Global Inequality and its Solutions (London: Windmill Books).*

The data above gives an indication of how much capital is drained from the Global South, to such an extent that it dwarfs the inflow of international aid. Some of these outflows are too intricate to cover in detail here. The concept of 'unequal exchange', for instance, has a long and convoluted history dating back to the 1960s; the essence of the argument is that wages are kept artificially low in the Global South.[15] 'Trade misinvoicing' refers to a "method for moving money illicitly across borders which involves the deliberate falsification of the value, volume, and/or type of commodity in an international commercial transaction of goods or services by at least one party to the transaction".[16]

For our purposes, we will focus more on three other outflows considered by Dr Hickel: structural adjustment, interest payments, and climate change.

## Structural Adjustment

Structural Adjustment Programs (SAPs) are one of the mechanisms by which multidimensional poverty in the Global South has been perpetuated, and the Global South's economic development has been stymied.

SAPs were initiated by the International Monetary Fund (IMF) in the early 1980s, principally due to political pressure applied by Western banks which were overexposed to toxic Global South debt. They required governments of Global South countries to abolish price supports on essential food-stuffs, enact steep reductions in spending on health, education, and other social services, increase taxes, abolish labour protections, open markets to 'free trade', and divert government spending towards paying off external debt. It's not difficult to see why countries subjected to SAPs suffered huge social costs.

**According to UNICEF, over 500,000 children under the age of five died each year in Africa and Latin America in the late 1980s as a direct result of the debt crisis and its management under the International Monetary Fund's structural adjustment programs."**

Ross P. Buckley, 'The Rich Borrow and the Poor Repay: The Fatal Flaw in International Finance', World Policy Journal XIX (2002/3)

## SAPs Case Study – Ghana

- Ghana's IMF-designed Structural Adjustment Program began in 1983
- Government expenditure reduced through cuts in social services and privatisation of state-owned enterprises
- Gross national investment rose from 3.7% to 16%, and industrial capacity was up from 25% in the 1970s to 46% in the 1990s
- Production and exportation of staple products such as coca and timber increased, alongside non-traditional exports[17]

### BUT

- *Inequality worsened, significantly*
- *Just $6 per capita was devoted to healthcare*
- *Unemployment was 10% in 1980; 19% in 1987; and 21% in 1993*
- *Access to water, electricity and healthcare was pushed beyond the reach of millions*
- *Major investments in infrastructure were disproportionately directed towards the country's south (where export-oriented industries were concentrated), to the detriment of farmers in the north, (where deteriorating roads pushed up the cost of transporting crops to market)*
- *The Ghanaian government had to introduce a Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD) in 1987/88, to mitigate the adverse socioeconomic impact of the structural adjustment programmes on vulnerable sections of society*[18]

Ghana's experience under its SAP led UN human rights advocate Aramide Odutayo to conclude that "the IMF and World Bank have failed to fulfil their mandate in three separate ways: failed to alleviate poverty, failed to improve living conditions in Ghana, and failed to promote economic growth by relieving indebtedness".[19]

## Interest Payments

Hickel also notes that the Global South pays more to the Global North in interest payments on debt alone than it receives from the Global North in aid flows. This is a staggering fact in and of itself.

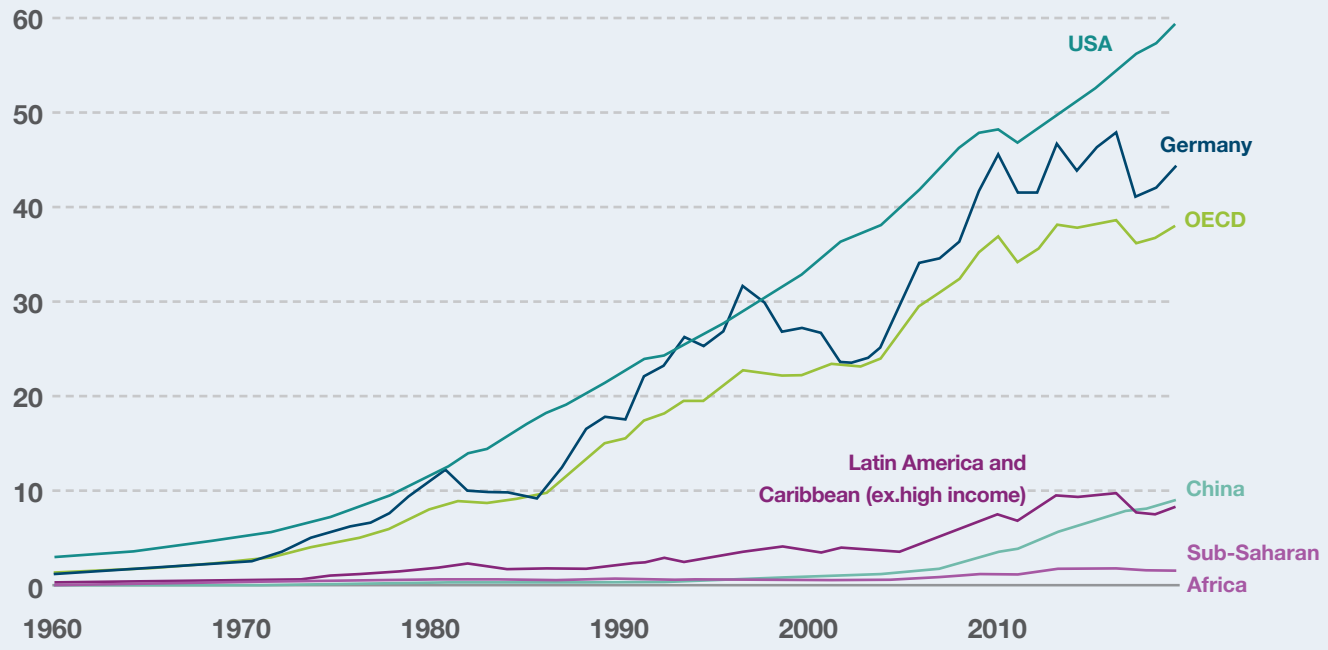
There is a distinct correlation between rises in external government debt payments as a percentage of government revenue and falls in government spending per person on public services. In contrast, those countries with low levels of external government debt payments as a percentage of government revenue have higher and growing levels of government spending per person on public services.

The Jubilee Debt Campaign has calculated that of the 15 countries with the highest debt payments, in 10 of them public spending per person fell between 2016 and 2018. Across the 15, public spending fell by an average of 4%. The largest cuts were in Egypt, Cameroon, Angola and Mongolia, all of which are on IMF loan programmes.[20]

The impact of this systemic inequality is stark. Far from 'catching up' with the Global North, regions in the Global South are being left further and further behind, at least in GDP per capita terms.

This also demonstrates a key flaw in the arguments of those who say inequality between countries has been falling since the 1980s. Their arguments are based on relative changes.

If a poor country sees per capita income growth from $1,000 to $1,500 (a 50% increase), and a rich country sees per capita income growth in the same period from $30,000 to $33,000 (a 10% increase), the relative Gini falls, because the poor country's growth rate is much higher than that of the rich country. In absolute terms however, the poor country has seen just a $500 increase, compared to the rich country's increase of $3,000.

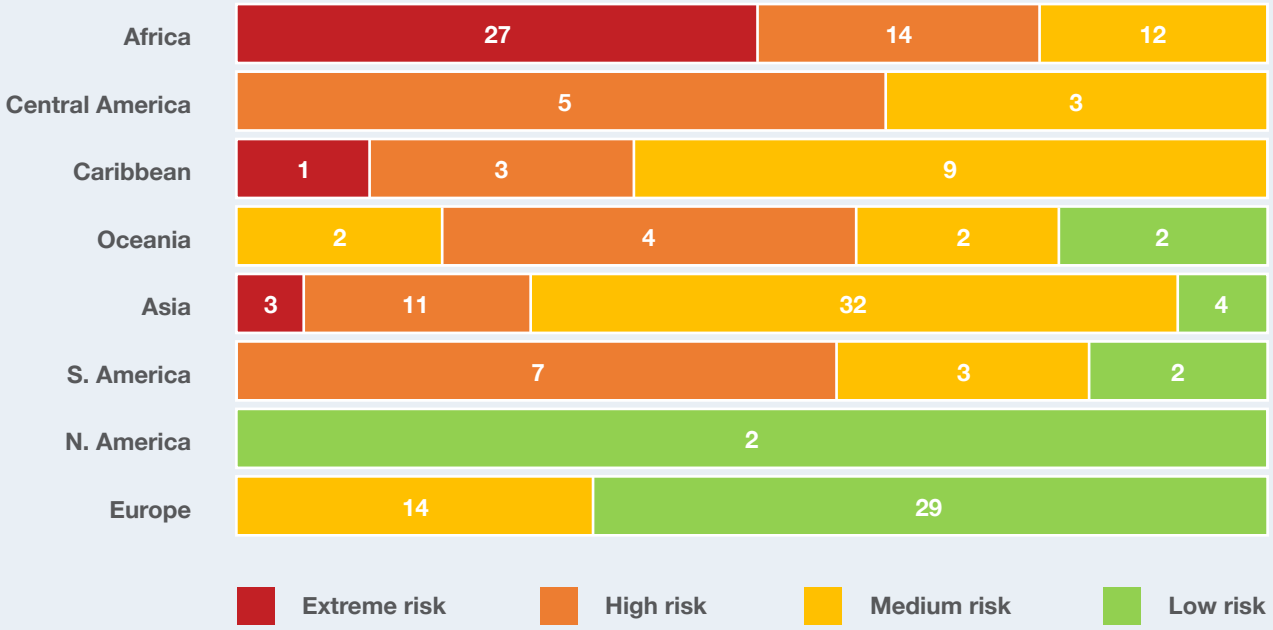



**GDP per capita (thousands of US dollars) by country/countrygroup/ region (1960-2017).**

*Source: World Bank, 'Our World in Data'.*

## Climate Change

With this understanding of how the global economy functions, it is worth pausing to reflect on an increasingly stark truth: the climate crisis will disproportionately impact those people (and countries) least responsible for causing it, and least able to cope with it. We can see this by considering the chart below. It shows, for instance, that Africa, with 16% of the world's population, is responsible for just 3% of consumption-based CO2 emissions, but contains 41 countries with either 'extreme' (27) or 'high' (14) climate change vulnerability risk. The numbers in the boxes refer to the number of countries in each region subject to different levels of risk from climate change.




**Climate Change Vulnerability Index (2017).**

*Source: https://reliefweb.int/sites/reliefweb.int/files/resources/verisk%20index.pdf*

On a global level, the inherent inequality becomes even clearer. The richest 10% are responsible for close to half of all lifestyle consumption emissions. The poorest 50%, by contrast – those most vulnerable to the effects of climate change (food shortages and higher staple food prices, crop failure, extreme weather events, flooding, water shortages, etc.) – are responsible for just 10% of global lifestyle consumption emissions. The top 1% alone emit more carbon than the poorest half of the planet.[21]

The concept of climate justice has been around for some time; at Kyoto in 1992, it was agreed that "…developed country Parties should take the lead in combating climate change and the adverse effects thereof", "on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities".[22]

But climate justice has experienced a dramatic resurgence in recent times. Philip Alston, UN Special Rapporteur on Extreme Poverty and Human Rights, concluded in a sobering report in June 2019 that "climate change is, among other things, an unconscionable assault on the poor". Alston added that the climate crisis...

**"Could push more than 120 million more people into poverty by 2030 and will have the most severe impact in poor countries, regions, and the places poor people live and work."**

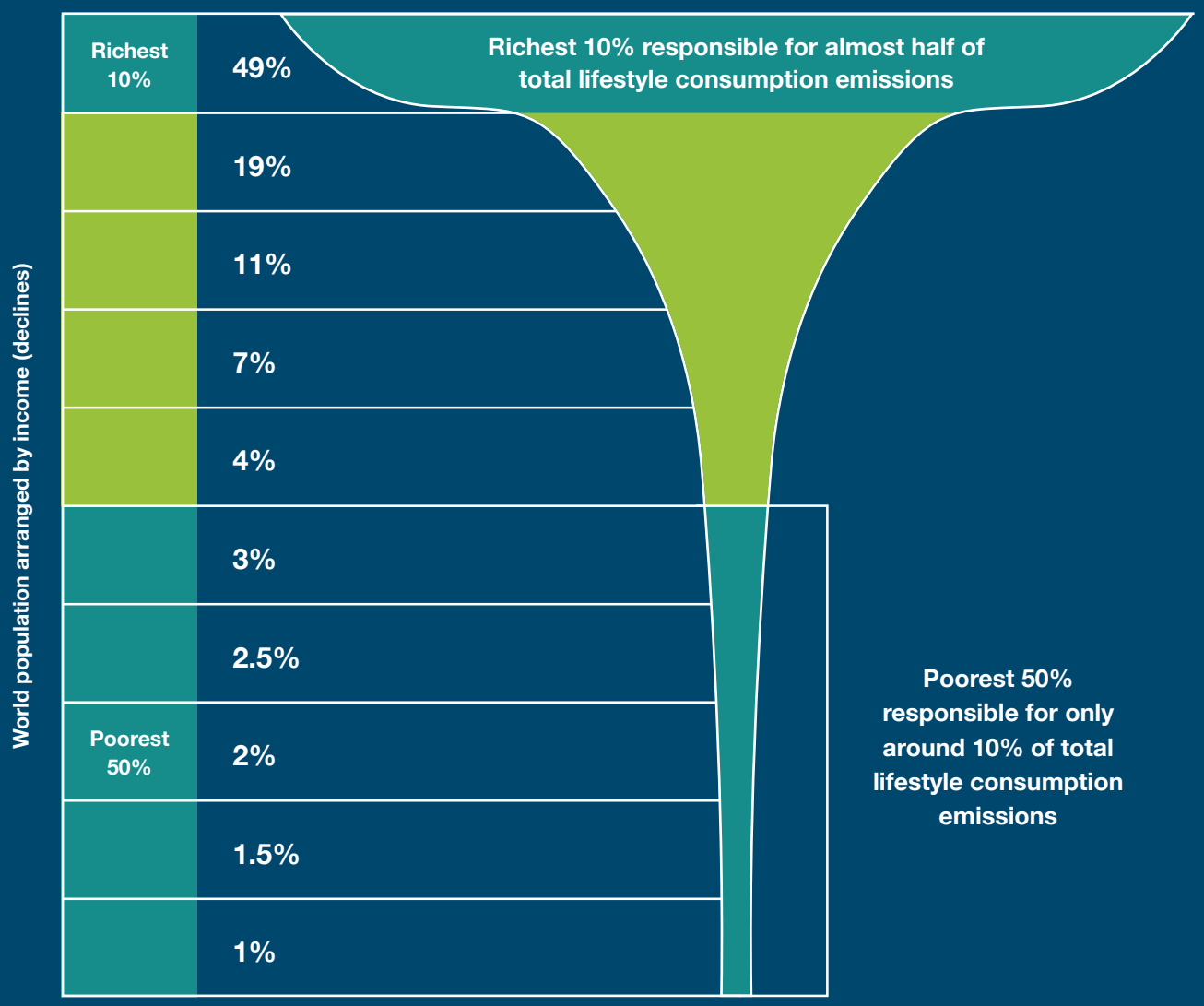
"We risk," he wrote, "a 'climate apartheid' scenario where the wealthy pay to escape overheating, hunger, and conflict while the rest of the world is left to suffer."[23]

We are already seeing this 'climate apartheid' manifest itself in the Global South, where countries' inability to adapt to, and mitigate against, a rapidly changing climate is seen from Mozambique to India. In the spring of 2019, the former (along with Madagascar, Malawi and Zimbabwe) saw two unprecedentedly powerful cyclones – Idai and Kenneth – make landfall within a little over a month. Idai left more than 600 people dead and an estimated 1.85 million people in need in Mozambique alone[24]; an estimated 1 million acres of crops were damaged, and $1 billion worth of infrastructure was destroyed.

This is just a sample of a growing number of extreme weather events impacting countries in the Global South. Indeed, the Climate Vulnerability Monitor predicted in 2012 that climate-breakdown-related deaths in the developing world would increase to around 700,000 per year by 2030.[25]

## Percentage of CO2 emissions by world population

*Source: Gore, T. 2015. Extreme Carbon Inequality: Why the Paris Climate Deal Must Put the Poorest, Lowest Emitting and Most Vulnerable People First. Oxfam International, Oxford.*




**Climate change is, among other things, an unconscionable assault on the poor."**

Philip Alston, UN Special Rapporteur on Extreme Poverty and Human Rights

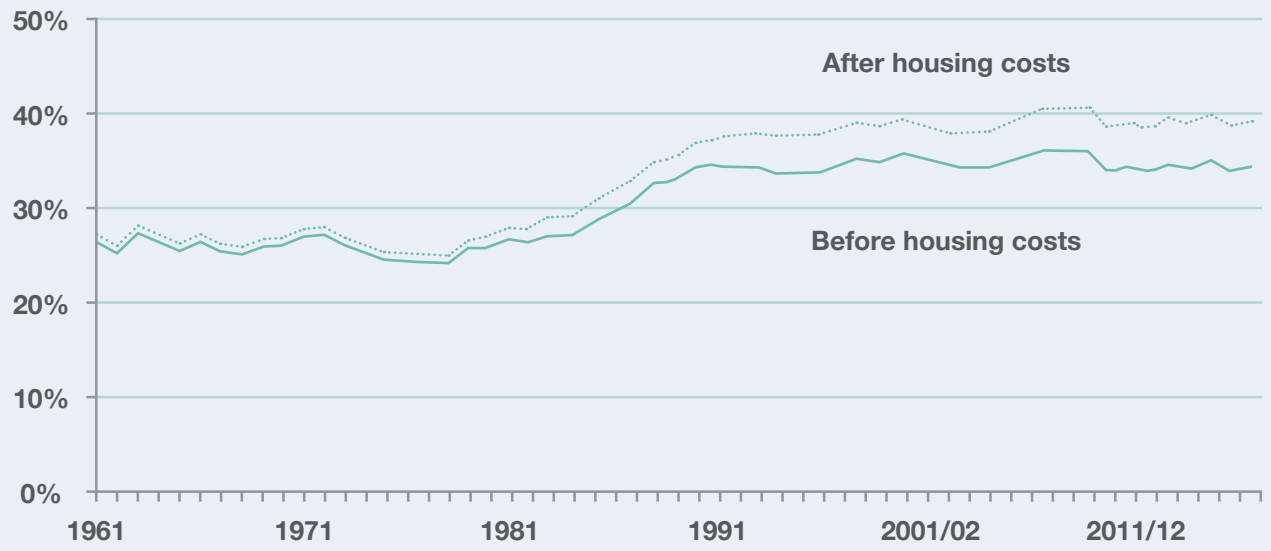
# In-Country Inequality – What and Why?

Even within these poorer countries most vulnerable to climate breakdown, there is a small number of people with enormous levels of wealth/income, and a large number with very little wealth/income at all. The same is often true of richer countries (in GDP/capita terms).

However, we have tended to underestimate inequality in the past, because top incomes have often not been captured in the data. This is partly due to those with high levels of wealth having access to opportunities for tax avoidance and evasion, and partly because the tax planning industry has grown markedly since the 1980s as it became globalised.[26] In 2016, it was estimated that as much as $24-$36 trillion of largely untaxed, private wealth, sat 'offshore'.[27]

## Inequality in the UK

Using income Gini estimates, we can see a couple of key trends in income inequality. First, income inequality in the UK is far higher today than it was in the 1960s and 1970s. And second, income inequality dropped slightly in the immediate aftermath of the 2007/8 financial crisis, but has since continued its upward trajectory. In 2018, the UK's income Gini was 0.35, one of the highest of all developed countries. Work by economists Chancel and Seidel suggests that, due to the historical problem of underestimating inequality, the UK's income Gini is actually about 0.42, some 20% higher than official estimates.[28]



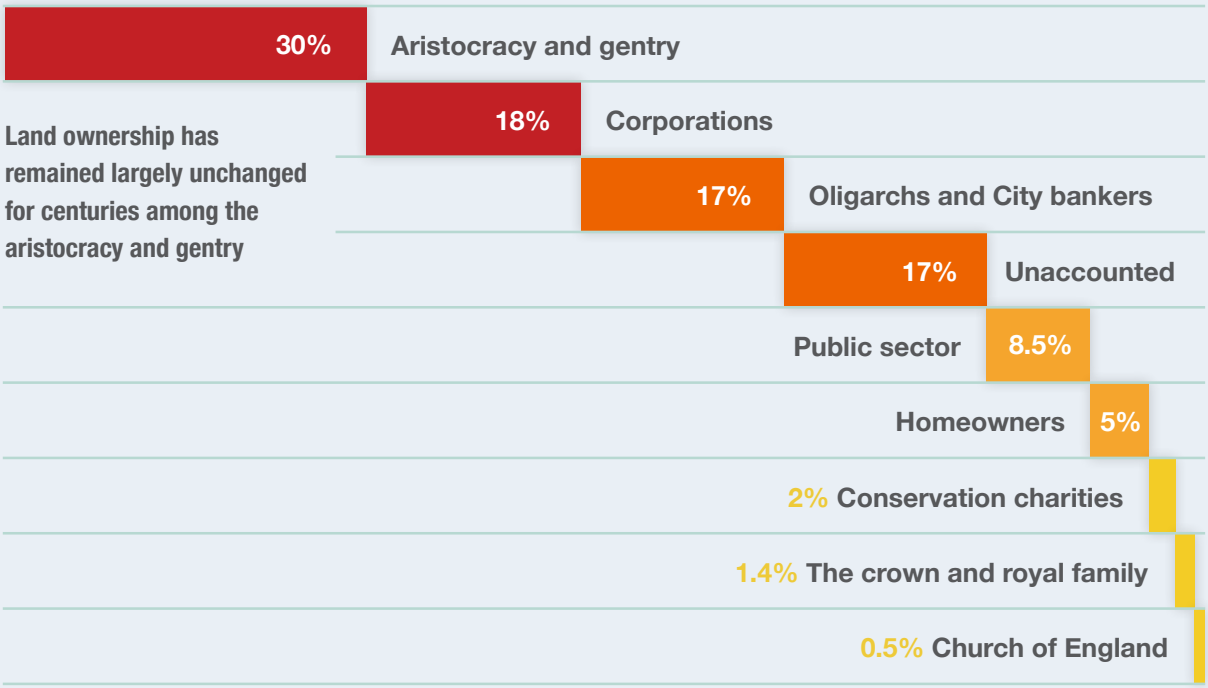

**UK Income Gini Coefficient (before and after housing costs), 1961-2017.**

*Source: Institute for Fiscal Studies, using data compiled from Family Expenditure Survey and Family Resources Survey, as replicated in McGuinness, F. and Harari, D. 2019. Income Inequality in the UK. House of Commons Library. Briefing Paper No 7484, May 2019.*

Wealth in the UK is more unequally distributed than income. In 2016, the ONS calculated that the richest 10% of households hold 44% of all wealth. The poorest 50%, by contrast, own just 9%. The World Inequality Database (WID) found that the top 0.1% saw its total wealth share double between 1984 and 2013, reaching 9%.[29]

The UK's wealth distribution is estimated to be roughly average compared to other OECD countries. In 2018, the World Economic Forum's Inclusive Development Index put the UK's wealth Gini at 72.3. For comparison, the US wealth Gini in 2018 was close to 85; that of France was a little under 70.

The roots of inequality run deep in the UK – to the land itself. Today, land-ownership in the UK is concentrated in the hands of a tiny proportion of the population: around 65% of land in the UK as a whole – 40 million acres – is owned by just 0.36% of the population.[30] This is important in the discussion of inequality: land value tends to increase, thus adding wealth to its owners, and those owners are also able to extract rent (captured in income statistics).




**Guardian Graphic: Land Ownership in the UK.**

*Source: Shrubsole, G. 2019. Who Owns England? How We Lost Our Green and Pleasant Land, and How to Take It Back (London: William Collins).*

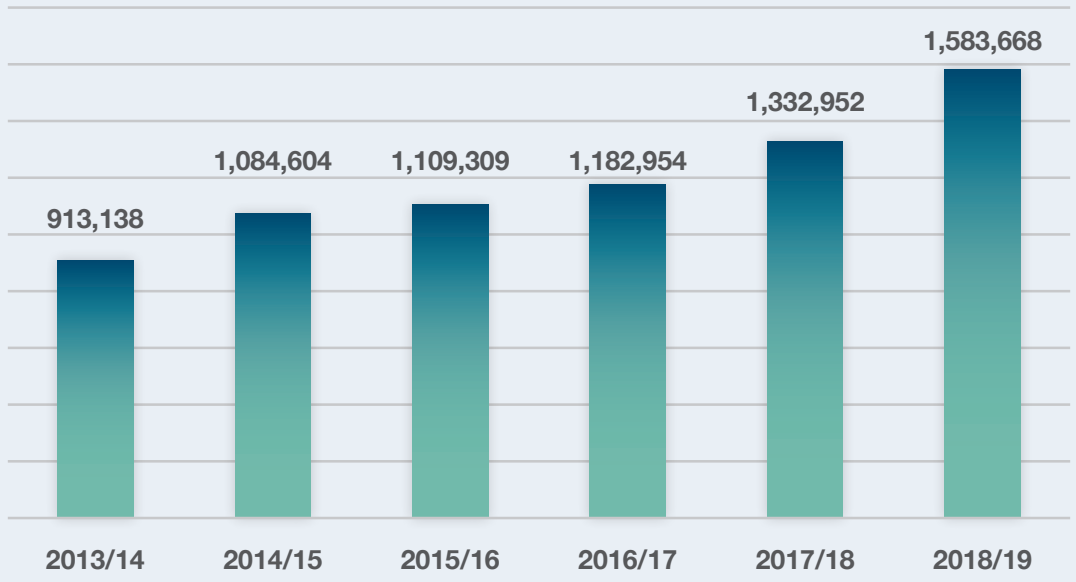
## What does this inequality look like?

In the three years to 2016/17 the number of people living in poverty in working families has risen by over 1 million. As of 2018, an estimated 3 million children are "locked in poverty despite living in a working family".[31] The Joseph Rowntree Foundation puts this down to part-time jobs, insecurity and a lack of career progression, high costs and a lack of availability for both childcare and transport.

The rise of in-work poverty and growing inequality are two sides of the same coin. In the UK, GDP has grown far faster than the average worker's wages since the 1980s, and the wage gap has widened. Growth in the labour market is now heavily skewed towards the bottom-end – low-paid, 'casualised' jobs.[32]

Research from the Public Health Outcomes Framework shows that the healthy life expectancy of the most deprived 10% of people in the UK is almost 20 years lower than that of the least deprived. Premature mortality from heart disease and stroke was highest in the most deprived decile group and lowest in the least deprived.[33]

A report by the UK's Social Mobility Commission (SMC) published in early 2019 concluded that "social mobility has stagnated over the last four years at virtually all stages from birth to work", and that "being born disadvantaged… means that you may have to overcome a series of barriers to ensure that your children are not stuck in the same trap."[34]




**Number of 3-day Emergency Food Supplies Given by Trussell Trust Foodbanks, 2013/14 – 2018/19.**

*Source: Trussel Trust press release, 25 April 2019 https://www.trusselltrust.org/2019/04/25/record-1-6m-food-bank-parcels/*

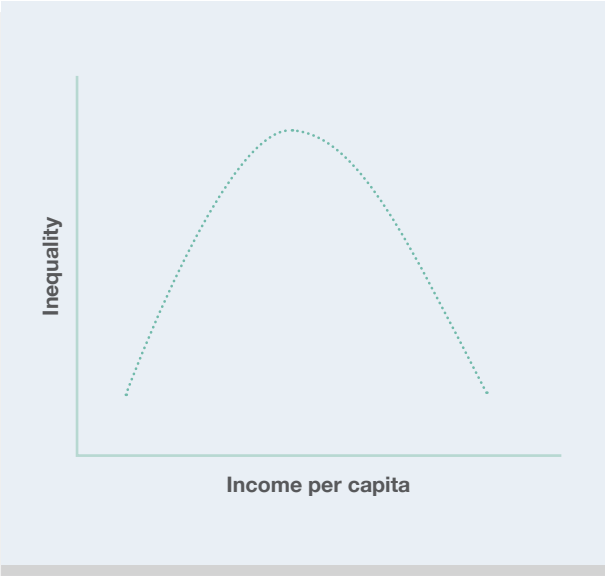
## What has been driving inequality higher?

When we consider what is driving inequality, there are a number of socio-economic and political factors more particular to individual countries. However, the trends in within-country income and wealth inequality since the 1980s have followed a similar trajectory in numerous other developed countries.[35] Why?

**Over a hundred years ago, Italian engineer and economist Vilfredo Pareto found that around 80% of national income was held by 20% of the people in communities in Italy, France, England, the recently-unified Germany, and Peru.**

Pareto assumed, therefore, that this was the natural order of things. By the mid-1950s, US-based Belarussian émigré Simon Kuznets had begun to challenge this assumption. After studying long-run income data in the US, UK, and Germany, Kuznets described an inverted-U inequality curve (pictured), which he thought countries followed as they developed and grew their economies.

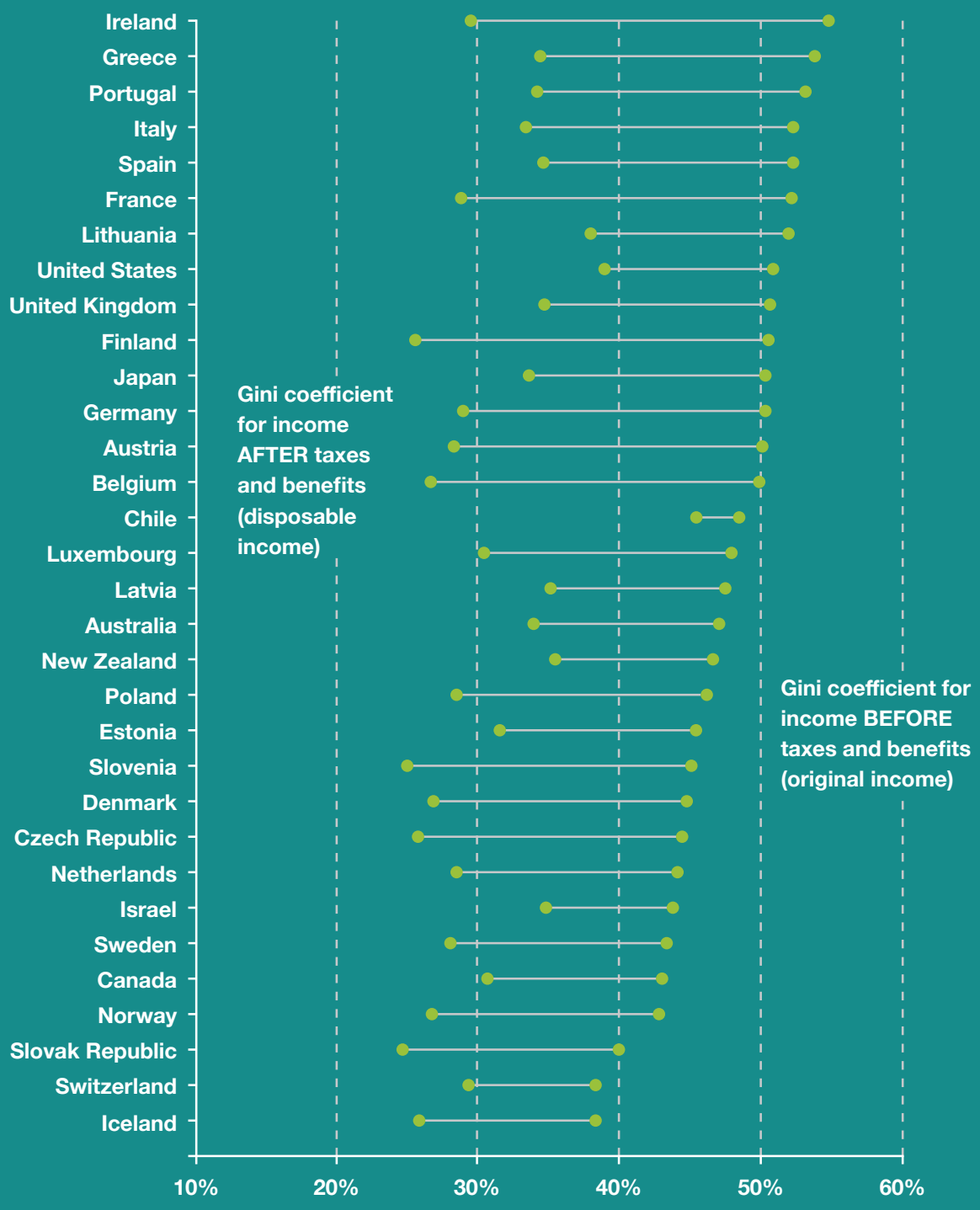
It wasn't until 2014 that Kuznets' theory was seriously challenged by a young French economist, Thomas Piketty. Whilst Piketty did not refute that income inequality fell in the period Kuznets studied (up to circa 1950), he attributed this to the massive capital destruction of the Great Depression and the two World Wars, twinned with progressive taxation to fund state investment in education, social security, healthcare, and housing; he did not treat it as a 'natural' trajectory of capitalist economies as they developed.




Piketty's findings suggested that, without strong redistributive policies, economic inequality in capitalist societies does not follow a Kuznets curve. It accelerates. Piketty ascribed this to returns on capital tending to grow faster than the economy as a whole. This leads to wealth becoming ever more concentrated, as those households which only own their labour (generating wages) fall increasingly further behind those that own and generate returns on capital (land, housing, financial assets, etc.).[36] This holds unless, as in the later period studied by Kuznets (1920-1950), steps are taken to redress the balance.

## The Redistributive Role of Government

**In a crude form, we can see this redistribution in action by considering the importance of taxes and benefits in reducing the inequality of the 'original' distribution of income in the OECD:**




**Gini coefficients for inequality in 'original income' (before taxes and benefits) and 'disposable income' (after taxes and benefits).**

*Source: OECD / McGuinness, F. and Harari, D. Income inequality in the UK, Briefing Paper, Number 7484, 20 May 2019.*

By way of background, it is worth noting that analysis of nationally representative samples in the United States, India, Nigeria, the United Kingdom, Mexico, South Africa, Spain, Morocco, the Netherlands and Denmark shows that around 60% of all respondents agree or strongly agree that their governments are responsible for reducing the gap between the rich and the poor in their countries.[37]

Government intervention to curb the inequality fuelled by 'unchecked capitalism' is central to Piketty's analysis; in fact, it's his prescribed antidote. This idea is gaining traction, particularly in the United States, where inequality is reaching levels not seen since the late-19th century.[38] Evidence from more than 150 countries between 1970–2009 shows that investment in healthcare, education and other social services reduces economic inequality. If this investment is funded by taxes on the wealthiest people, inequality reduces further.

**I hear people talking the language of participation and justice, and equality and transparency, but then almost no-one raises the real issue of tax avoidance… we've got to be talking about taxes. That's it – taxes, taxes, taxes…"**

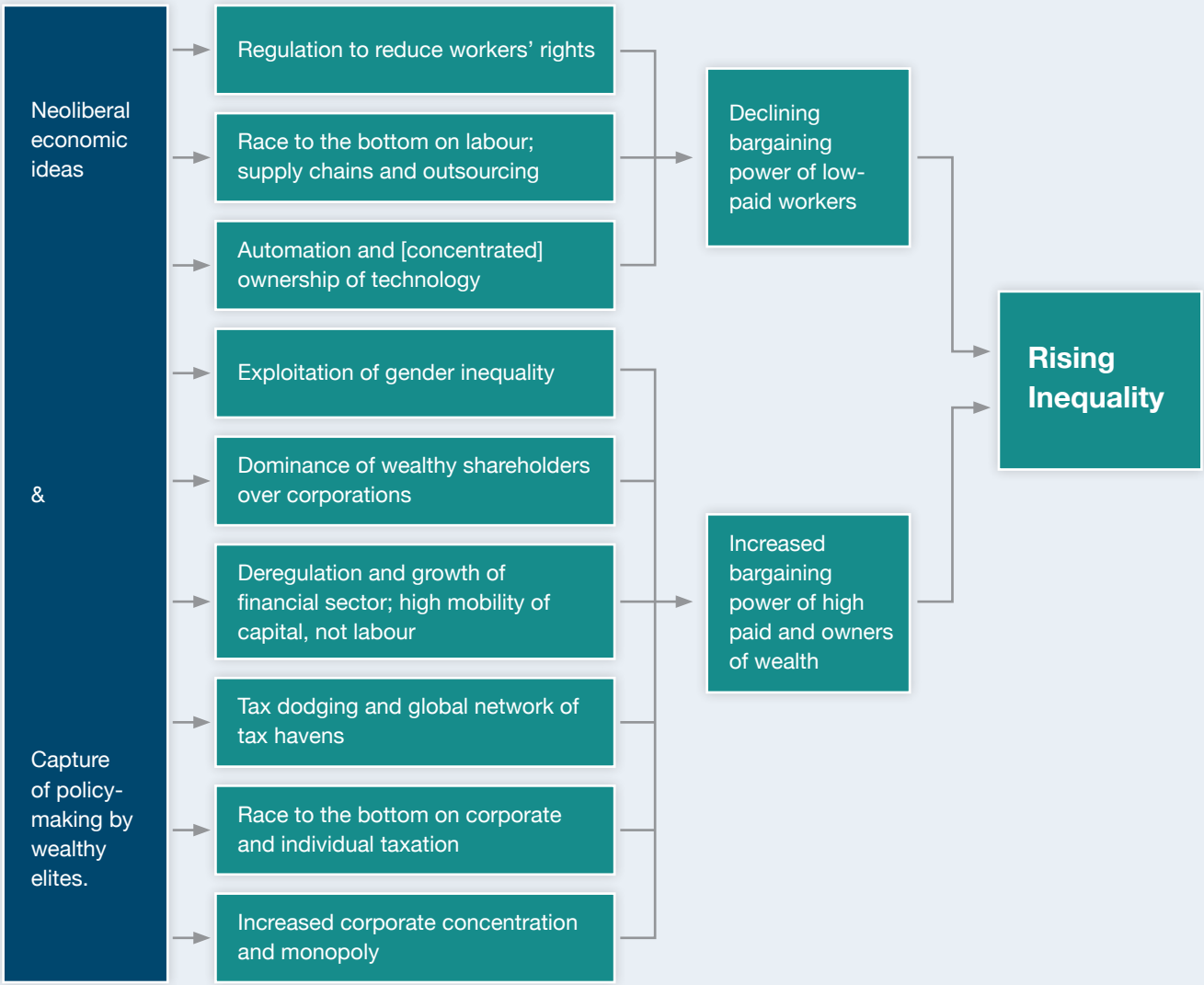
Rutger Bregman, Dutch historian, speaking at the Davos World Economic Forum, January 2019

## The Drivers of Inequality – A Summary

What we have seen since the 1980s is the gradual rolling back of forces which, in the past, tended to curb capital's concentrating tendencies. **This is best illustrated in the diagram below, produced by Oxfam in 2018:**

In the same report, Oxfam noted that "today's income inequality becomes tomorrow's wealth inequality"[39]; as a result of this, wealth inequality (measured as a Gini coefficient) is higher than income inequality in every country for which sufficient data is available.

But both income and wealth taxes are reactive, 'downstream' measures to address inequality. To go one better, we need to consider ways of designing economic, social, and political systems that (a) don't create and perpetuate inequalities in the first instance, and (b) operate within our planet's ecological boundaries.



# Planetary Boundaries

Our economic system is placing unsustainable and unprecedented pressure on Earth's regenerative capacity. This is best visualised via the concept of 'planetary boundaries', first articulated by Rockström and the Stockholm Resilience Centre.

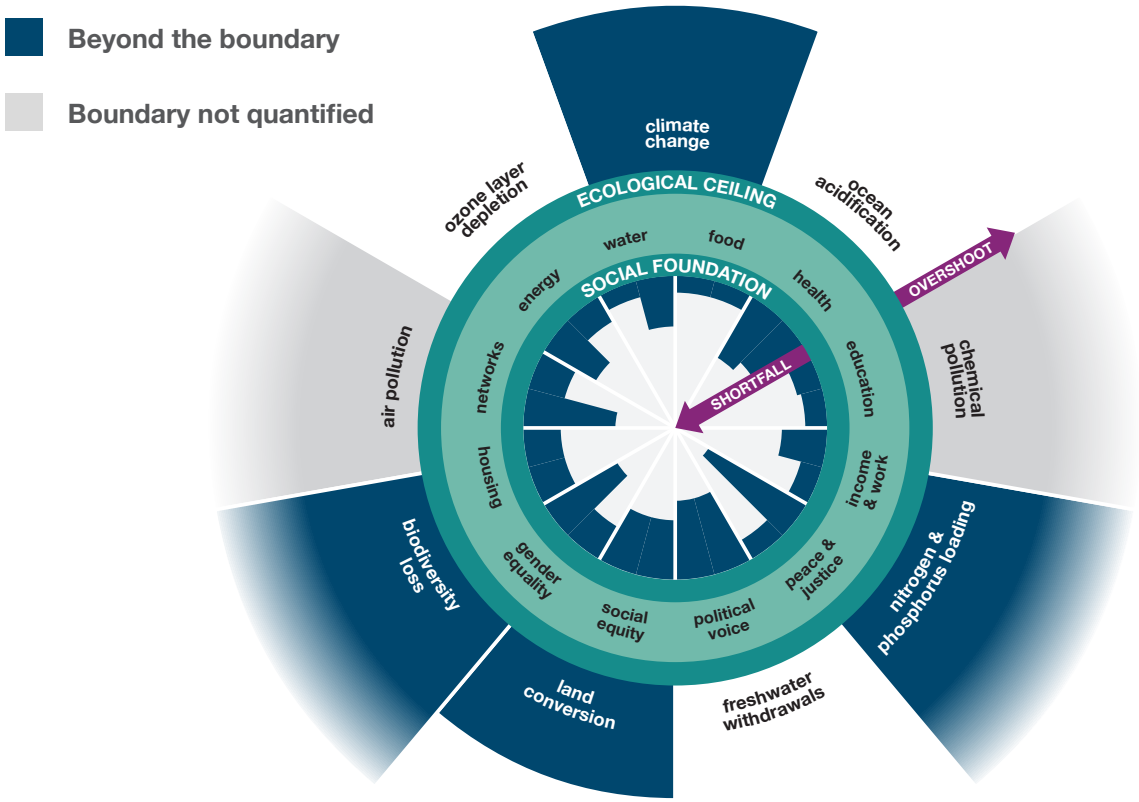
Rockström and his colleagues showed that, globally, we were already transgressing a number of his planetary boundaries: biogeochemical flows, biosphere integrity, climate change, land-system change, and so on. This is now over four years old. Since it was published, we have emitted somewhere in the order of 155 gigatonnes of carbon dioxide[40]; deforestation rates in the Amazon have reached record highs[41]; we have learned that vertebrate populations have fallen by an average of 60% since the 1970s.[42] In short, our collective journey into and beyond what Rockström et al called 'zones of uncertainty' has continued unabated.

This is the crucial context within which we need to frame any debates about societal improvements, including the reduction of inequality.

When we map social (in)equality dimensions onto the planetary boundaries, we get the 'Doughnut Economics' model, first articulated by Kate Raworth, an economist working at both the Universities of Oxford and Cambridge, in 2012. The Doughnut articulates the goal of meeting the needs of all without exceeding the Earth's ecological ceiling. It is essentially a call for balance; for economies that thrive, whether or not they grow.

## Addressing Inequality within the Planetary Boundaries

Before we look at what EdenTree can do to address inequality, we need to understand that investor action can only go so far. As the previous sections have made clear, the problem of inequality is typically systemic – be that within or between countries. Whilst investors have a role to play, this Insight recognises that there needs to be concerted action from other actors, principally governments and supranational bodies, to deal more effectively with the root causes of the types of inequality already outlined.




**The Doughnut**

*Source: Kate Raworth & Christian Guthier / The Lancet Planetary Health.*

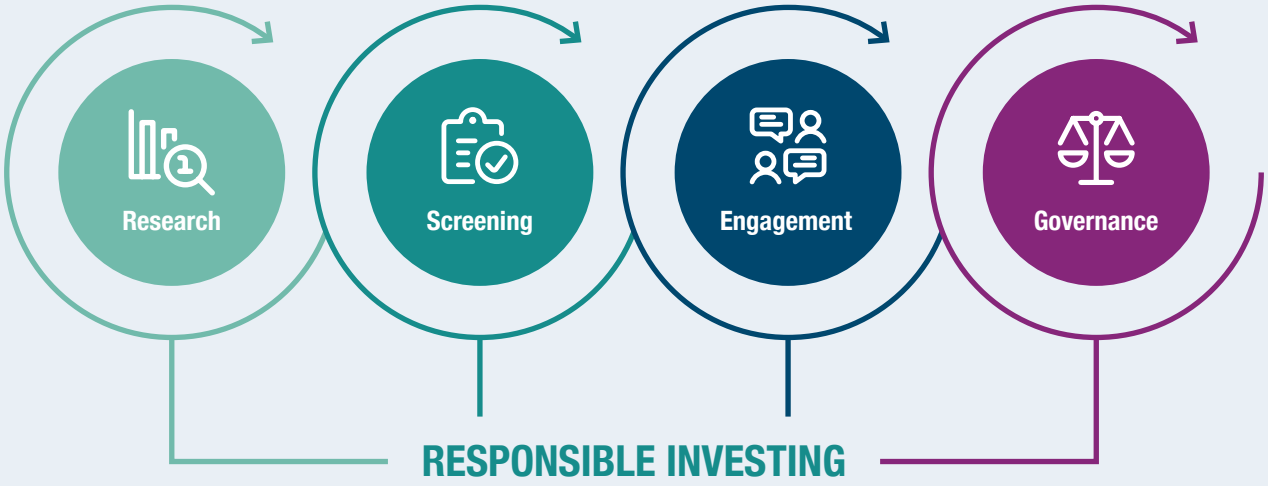
# What can EdenTree do to help address inequality?

Whilst (rising) inequality and mounting ecological pressure may be a product of 'unchecked capitalism', investors can either:

**(i)** accelerate the trend by pushing companies to deliver short-term, 'maximised' profits and 'shareholder value' by exploiting people and/or planet (i.e. a 'race to the bottom')[43] – this is partly to blame for the balance between profits and wages being increasingly skewed towards the former in recent decades; or

**(ii)** help arrest the trend by putting their efforts into encouraging, among other things, (a) good employee welfare and labour standards across a range of factors; (b) good corporate governance practices; and (c) the minimising of negative ecological impacts and the maximising of ecologically regenerative impacts (i.e. a 'race to the top').

Option **(ii)** includes some key tenets of EdenTree's responsible & sustainable investment approach.




## EdenTree's Responsible & Sustainable Investment Approach

EdenTree's responsible investment process is articulated under four pillars: research, screening, engagement, and governance. We recognise that much of the profit-maximising thinking in the investment and business community is short-term in nature. As long-term investors, we allocate capital to companies which we are willing to support, advise, and engage with over a long investment horizon. Some of our work across the four pillars is highly aligned to the task of tackling inequalities, be they in terms of gender pay, Board diversity, living wages, or excessive executive pay.

## Voting on Executive Remuneration

The table below illustrates how people seemingly tend to (significantly) underestimate levels of executive pay relative to the pay of the 'average' or 'median' worker.

As part of our responsible & sustainable investment process, we have a robust approach to voting on executive pay. In general terms, annual and long-term awards that in aggregate exceed 300% of salary per year will trigger an additional 'excess assessment'.

Potential excessiveness may be offset by exceptionally challenging performance hurdles, unusually low base salaries, or where a company is in transition or turnaround.

We continue to oppose flagrantly excessive and unjustifiable levels of executive pay. In 2018, 48% of all UK Remuneration Report and Policy votes were opposed by EdenTree. For FTSE100 companies, we voted on 59 remuneration reports and policies, opposing 88%.

| | What people think the ratio of top pay to ordinary workers' pay is | What people think it should be | What it actually is |
|---|---|---|---|
| South Africa | 28:1 | 9:1 | 541:1 |
| India | 63:1 | 14:1 | 483:1 |
| United States | 25:1 | 6:1 | 300:1 |
| Spain | 4:1 | 2:1 | 172:1 |

*Source: Bloomberg News, 'The best and worst countries to be a rich CEO' (2016).*

## Promoting a 'Race to the Top' on Workers' Rights and Labour Standards

EdenTree works with a number of partners, fellow investors, and other stakeholders (right), to encourage investee companies to commit to living wages – both in their own operations, and in their supply chains – and to strong labour and human rights standards.

We have had constructive conversations and collaborative engagements alongside Oxfam, the Principles for Responsible Investment (PRI), the Workforce Disclosure Initiative (WDI), and others.

This kind of work goes some way to address the vast inequities of unequal exchange, explored earlier in this Insight. Paying living wages in certain supply chains in the Global South can help to stymie the flow of wealth to the Global North.

## Living Wages in the UK

We are strong advocates of the 'Real Living Wage' in the UK, which is distinct from both the UK's Minimum Wage and National Living Wage. Our immediate parent, the Ecclesiastical Insurance Group, is itself a Living Wage Employer.

Whilst paying the Real Living Wage may not in itself reduce economic inequality, it does signal good practice, and is a far cry from some of the more exploitative, unprotected forms of work which have proliferated as part of the "gig economy" in recent years. Below are some of the Living Wage-accredited UK employers in which we are invested:


## Living Wages in Supply Chains – UK Supermarkets Case Study

In 2018/19, following the publication of a report by Oxfam on supermarkets' 'social' performance, we conducted a strand of engagement with the UK food retailers owned in the Amity Funds – Tesco, M&S, Morrison, and Sainsbury's.

The engagement covered a range of social and environmental issues, with a particular focus on the areas of living wages, human rights, Modern Slavery, gender inequality, and labour standards in supply chains. We are seeing some encouraging, salient steps from our UK food retailers on living wages in agricultural supply chains. Tesco and M&S, for instance, are part of a multi-stakeholder initiative, Malawi Tea 2020, helping to create a competitive Malawian tea industry "where workers earn a living wage and smallholders are thriving". Our expectation is that the companies learn from this and other similar initiatives to roll out supply-chain-wide fair, living wage programmes.

A broader objective of the engagement stream is to nudge the companies into a 'race to the top' in these areas (with long-term viability in mind), rather than a 'race to the bottom' (in the interests of maximising shareholder value). Whilst there is still a long way to go, we are already seeing some improvement from our food retailer holdings, as shown in Oxfam's updated Behind the Barcodes scorecard:

| SUPERMARKET | TRANSPARENCY | WORKERS | FARMERS | WOMEN | TOTAL SCORE |
|---|---|---|---|---|---|
| TESCO | 42% | 58% | 21% | 29% | 38% |
| Sainsbury's | 25% | 42% | 21% | 19% | 27% |
| Morrisons Since 1899 | 17% | 38% | 8% | 0% | 16% |

*Note: M&S was not part of the Oxfam survey

## Gender Diversity at Board Level

In the UK, investors have played a crucial role in accelerating the debate around gender diversity in boardrooms. Many investors, including EdenTree, have also integrated diversity into their voting policies, taking action against Chairs of Nomination Committees where insufficient progress has been achieved. Initiatives such as the 30% Club Investor Group have also contributed to raising awareness of diversity as a business issue.

The UK investor coalition has gathered the support of over 30 institutional investors, that have committed to exercise their ownership rights through voting and engagement to effect change on company Boards and within senior management teams. EdenTree is proud to have led and supported some of these engagement initiatives with senior management.

## Investing in the 'Just Transition'

We are in the early stages of scoping how we can invest in the Just Transition – the concept of ensuring a socially responsible shift to a low-carbon future, outlined by researchers at the London School of Economics[44]. In essence, the Just Transition encourages investors to place the same importance on the social aspects of 'sustainability' as they do on the environmental ones. As well as being a signatory to the Statement of Investor Commitment to Support a Just Transition on Climate Change[45], we have also been in discussions with one of the report's authors, Professor Nick Robins, about how we might integrate Just Transition concepts into our thinking.


**At EdenTree, 33% of our Board is female and 38% of our management committee. As a business, our parent – Ecclesiastical Insurance Group – was one of the founding signatories of the Women in Finance Charter. The group has set a target of 45% of our combined senior management and management group to be women by 2020.**

## Profits for Good Causes: EdenTree's Parent, AllChurches Trust Ltd (ATL)

EdenTree is ultimately wholly owned by Allchurches Trust Ltd – a registered charity and one of the UK's largest grant-making trusts. EdenTree's profits are used by ATL to support charities and other bodies providing support to people in need in the UK and Ireland.

It is therefore of paramount importance that the investments we make are not in some way contributing to the problems ATL is trying to tackle:

- Homelessness and poverty
- Mental health and counselling
- Social exclusion and loneliness
- Ex-offender support
- Community health and wellbeing
- Substance misuse

The graphic below shows ATL's 2018 giving record, whilst the points above show some of the issues ATL provides money to try to address.

In 2018, we gave a record

**£16.9 million**

to **churches, charities** and **communities**

We gave more than

**£500,000**

to enable the national expansion of ***The Archbishop of York Youth Trust.*** The Trust supported young people in the North West to complete **58,986 hours of volunteering** – that's more than 6.5 years!

**95.5%** of our annual spend in 2018 went on **charitable activity**

**£730,000**

was given to churches and cathedrals to adapt their **buildings for community use**

More than

**1,100**

different causes were supported

**41%** of our grants were given an uplift to help those in areas of ***greatest need****

* 41% of our grants were uplifted by a deprivation scale factor. This percentage does not include our annual grants to dioceses and cathedrals.

**£2 million**

went out in grants to **protect and preserve listed buildings**

## EdenTree's Research & Thought Leadership: New Economic Thinking?

Whilst our engagement and voting is clearly important, EdenTree's research is perhaps the key lever to pull when it comes to wider social and environmental issues. Through Insights such as this, we can help spark debate about the nature of the global economic system, and how we, collectively, might change it.

"Relentless pursuit of [economic] growth", wrote Ian Gough, Professorial Research Fellow at the Centre for the Analysis of Social Exclusion (CASE), "conflicts with the goals of sustainable wellbeing and prosperity".[46]

Just a few years ago, questioning the wisdom of striving after perpetual economic growth would have been considered heretical, apart from within a few 'radical' circles. Now, however, this idea is spreading. The UN's Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services spoke in May of "steering away from the current limited paradigm of economic growth".[47] New Zealand, Iceland, and Scotland have begun to measure the success of their economies in terms of improvement in 'wellbeing', rather than in terms of GDP growth.[48]

These moves have stemmed, in part, from a recognition that economic growth in the last forty years has materially enriched a very narrow strata of humanity whilst simultaneously placing unprecedented strain on Earth's systems.

So where does this leave us? Well, it brings us, perhaps, to Professor Tim Jackson's simple idea: prosperity without growth.[49] It brings us to Kate Raworth's idea of meeting the needs of all within the means of the planet. If we start with this as our goal, we can then ask questions, as a city, a country, a world, about how we might achieve it.

It's quite clear that reducing inequalities between countries by growing the rest of the world to the current income (and consumption) levels of the average American will be ecologically destructive and unsustainable, and that any short-term prosperity would rapidly unwind as Earth's systems collapsed.[50]

A process of 'contraction and convergence'[51] (i.e. reducing inequality) is therefore prescribed by pioneers of this new economic thinking. They point to evidence which shows that very high social and environmental standards can be achieved with far lower levels of GDP per capita than those of the wealthiest countries. Beyond a certain level of per-capita income ($15,000 or so), social returns to continued economic growth are vanishingly small, and ecological (material) footprints for every unit of economic growth tend to remain stable or even expand.[52] Yet for the very poorest countries, small absolute gains in per-capita income are associated with dramatic social improvements. This is what Jackson means when he recommends wealthier countries 'make room for' growth in poorer ones.

In general terms, those countries which meet their social floor are doing so in an ecologically unsustainable way; those which have ecological 'headroom' fall short on social indicators. Whilst no country is currently totally inside Raworth's Doughnut, some are close. Costa Rica, for instance, has some exceptional social performance – in healthcare provision, education, and self-reported happiness – but is overshooting some ecological boundaries.[53]

The relationship between the social floor and ecological ceiling is clearly seen when we consider population. Improvements in education for girls, employment prospects for women, and healthcare provision have been shown to be critical factors in shaping fertility levels.[54] It seems that working towards social equity within countries could therefore act as a natural brake on population growth, in turn potentially lessening future pressure on natural systems.

The process of getting inside the Doughnut (tending towards social equity) would most likely be necessarily accompanied by falling economic inequality, both within and between countries. Any residual economic inequality would certainly be more palatable. Among other things, the process will likely require new policy incentives and government action[55]; new models of 'ownership' – including a revival of the 'commons'[56]; bio-based circular design[57]; radically different patterns of consumption and production[58]; rewilding on a massive scale[59]; perhaps the creation of new laws to eradicate 'ecocide'[60]; a fairer say in supranational organisations for Global South countries.[61] It will, most likely, also require investors to transition materially to more responsible and sustainable types of investment across all asset classes.

# Conclusion

**Economic inequality is one of the greatest structural challenges facing many societies today. Wealth is incredibly concentrated on a global scale, and within most countries, even if income is slightly less so. Higher levels of inequality have been shown to undermine democracy, fragment societies, lead to populism, and result in higher levels of ecological destruction.**

Tackling inequality within the planetary boundaries requires a radically new way of constructing and managing our economies. Models such as Doughnut Economics are a useful way of visualising the challenges we face.

As it becomes increasingly clear that the fruits of global economic growth are, by and large, being enjoyed by a small minority of people, and are simultaneously imperilling our collective planetary home, calls to shift the focus from economic growth to wellbeing (including reducing inequality) are gaining in strength.

Whilst EdenTree's work to encourage living wages, fair executive remuneration, good working conditions, gender diversity in workforces and at Board level, and carbon emissions reductions is important, we cannot be blind to the research demonstrating the intertwined systemic drivers of both inequality (for Piketty, capitalism without aggressive redistributive policy) and the climate and ecological crises (neoliberal capitalism and the primacy of growth centric economic models).

As such, this Insight is as much about demonstrating what EdenTree does as it is about what EdenTree cannot do, at least not alone. According to many social scientists, and an increasing number of economists, tackling the root causes of inequality within the planetary boundaries requires nothing short of a radical rearticulating of the goals of our economies.

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# Why EdenTree?

- We have over 30 years of experience in responsible and sustainable investing
- Our rigorous screening model underpins our Amity range of funds
- Responsible and sustainable factors are fully integrated into our investment management process
- Our fund managers and responsible investment team work side by side to generate ideas, analyse opportunities, create meaningful and diversified portfolios and undertake ongoing evaluation
- We are active managers who are benchmark aware, not benchmark constrained
- Our focus is on delivering consistent, long-term returns with a contrarian, value-based stockpicking approach
- We look for companies that have meaningful market share, strong cash-flows, good management, robust balance sheets, high levels of recurring revenues and high barriers to entry
- Our integrated stewardship approach includes engagement on a range of environmental, social and governance issues
- We collaborate with other investors on issues where there is common cause, and work collectively with investors through the Principles of Responsible Investment (PRI)
- There is independent oversight from our Amity Panel, an external panel of senior financial, environmental and business figures appointed for their knowledge and expertise

# Our People

**Sue Round**
Chief Executive Officer

**David Katimbo-Mugwanya**
Fund Manager

**Robin Hepworth**
Chief Investment Officer

**Philip Harris**
Fund Manager

**Neville White**
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**Jon Mowll**
Responsible Investment Analyst

**How to contact us**

We hope you have found this Amity Insight interesting and useful. If you have any questions, or would like to know more about our responsible investment, in-house research and analysis, please get in touch.

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