



Tondo slum in Manila, Philippines, 2014. Photo: Dewald Brand, Miran for Oxfam

# AN ECONOMY FOR THE 1%

How privilege and power in the economy drive extreme inequality and how this can be stopped

**The global inequality crisis is reaching new extremes. The richest 1% now have more wealth than the rest of the world combined. Power and privilege is being used to skew the economic system to increase the gap between the richest and the rest. A global network of tax havens further enables the richest individuals to hide \$7.6 trillion. The fight against poverty will not be won until the inequality crisis is tackled.**

# SUMMARY

## AN ECONOMY FOR THE 1%

The gap between rich and poor is reaching new extremes. Credit Suisse recently revealed that the richest 1% have now accumulated more wealth than the rest of the world put together.<sup>1</sup> This occurred a year earlier than Oxfam's much publicized prediction ahead of last year's World Economic Forum. Meanwhile, the wealth owned by the bottom half of humanity has fallen by a trillion dollars in the past five years. This is just the latest evidence that today we live in a world with levels of inequality we may not have seen for over a century.

'An Economy for the 1%' looks at how this has happened, and why, as well as setting out shocking new evidence of an inequality crisis that is out of control.

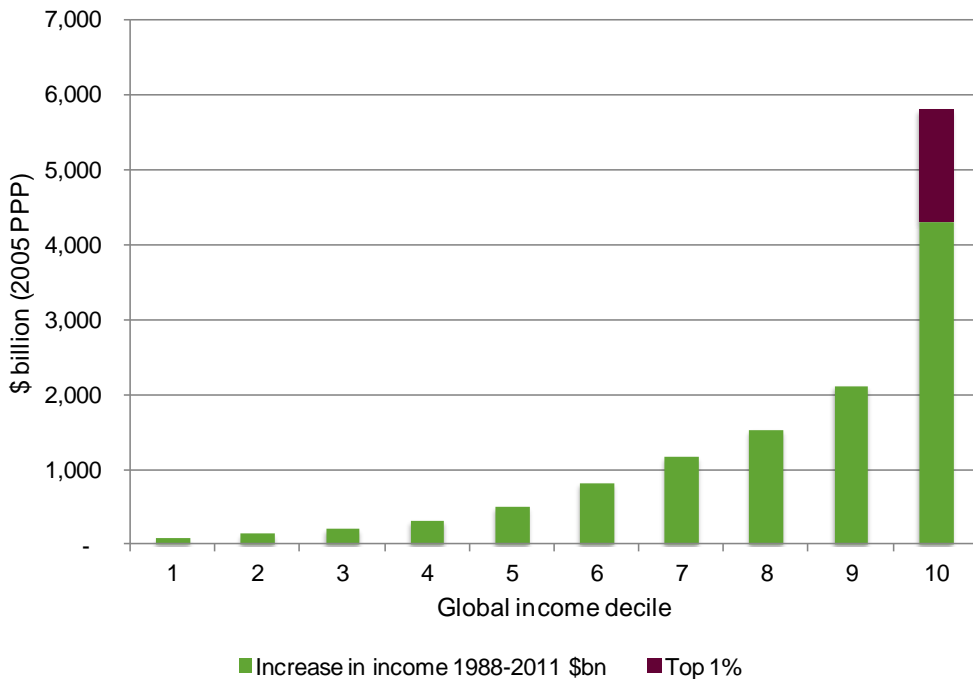
Oxfam has calculated that:

- In 2015, just 62 individuals had the same wealth as 3.6 billion people – the bottom half of humanity. This figure is down from 388 individuals as recently as 2010.
- The wealth of the richest 62 people has risen by 44% in the five years since 2010 – that's an increase of more than half a trillion dollars (\$542bn), to \$1.76 trillion.
- Meanwhile, the wealth of the bottom half fell by just over a trillion dollars in the same period – a drop of 41%.
- Since the turn of the century, the poorest half of the world's population has received just 1% of the total increase in global wealth, while half of that increase has gone to the top 1%.
- The average annual income of the poorest 10% of people in the world has risen by less than \$3 each year in almost a quarter of a century. Their daily income has risen by less than a single cent every year.

Growing economic inequality is bad for us all – it undermines growth and social cohesion. Yet the consequences for the world's poorest people are particularly severe.

Apologists for the status quo claim that concern about inequality is driven by 'politics of envy'. They often cite the reduction in the number of people living in extreme poverty as proof that inequality is not a major problem. But this is to miss the point. As an organization that exists to tackle poverty, Oxfam is unequivocal in welcoming the fantastic progress that has helped to halve the number of people living below the extreme poverty line between 1990 and 2010. Yet had inequality within countries not grown during that period, an extra 200 million people would have escaped poverty. That could have risen to 700 million had poor people benefited more than the rich from economic growth.

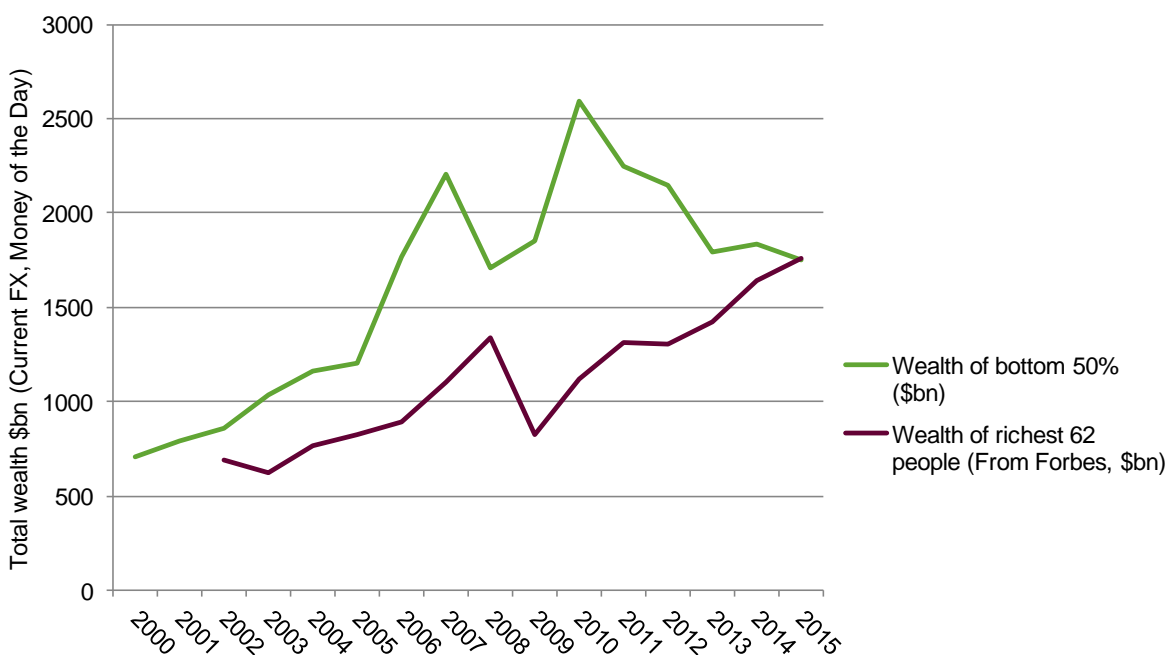
**Figure: Global income growth that accrued to each decile 1988–2011: 46% of the total increase went to the top 10%<sup>2</sup>**



There is no getting away from the fact that the big winners in our global economy are those at the top. Our economic system is heavily skewed in their favour, and arguably increasingly so. Far from trickling down, income and wealth are instead being sucked upwards at an alarming rate. Once there, an ever more elaborate system of tax havens and an industry of wealth managers ensure that it stays there, far from the reach of ordinary citizens and their governments. One recent estimate<sup>3</sup> is that \$7.6 trillion of individual wealth – more than the combined gross domestic product (GDP) of the UK and Germany – is currently held offshore.

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**Figure: The wealth of the richest 62 individuals continues to grow, while that of the poorest half of the world stagnates<sup>4</sup>**



Rising economic inequality also compounds existing inequalities. The International Monetary Fund (IMF) recently found that countries with higher income inequality also tend to have larger gaps between women and men in terms of health, education, labour market participation, and representation in institutions like parliaments.<sup>5</sup> The gender pay gap was also found to be higher in more unequal societies. It is worth noting that 53 of the world's richest 62 people are men.

Oxfam has also recently demonstrated that while the poorest people live in areas most vulnerable to climate change, the poorest half of the global population are responsible for only around 10% of total global emissions.<sup>6</sup> The average footprint of the richest 1% globally could be as much as 175 times that of the poorest 10%.

Instead of an economy that works for the prosperity of all, for future generations, and for the planet, we have instead created an economy for the 1%. So how has this happened, and why?

One of the key trends underlying this huge concentration of wealth and incomes is the increasing return to capital versus labour. In almost all rich countries and in most developing countries, the share of national income going to workers has been falling. This means workers are capturing less and less of the gains from growth. In contrast, the owners of capital have seen their capital consistently grow (through interest payments, dividends, or retained profits) faster than the rate the economy has been growing. Tax avoidance by the owners of capital, and governments reducing taxes on capital gains have further added to these returns. As Warren Buffett famously said, he pays a lower rate of tax than anyone in his office – including his cleaner and his secretary.

Within the world of work, the gap between the average worker and those at the top has been rapidly widening. While many workers have seen their wages stagnate, there has been a huge increase in salaries for those at the top. Oxfam's experience with women workers around the world, from Myanmar to Morocco, is that they are barely scraping by on poverty wages. Women make up the majority of the world's low-paid workers and are concentrated in the most precarious jobs. Meanwhile, chief executive salaries have rocketed. CEOs at the top US firms have seen their salaries increase by more than half (by 54.3%) since 2009, while ordinary wages have barely moved. The CEO of India's top information technology firm makes 416 times the salary of a typical employee there. Women hold just 24 of the CEO positions at Fortune 500 companies.

Across the global economy, in different sectors, firms and individuals often use their power and position to capture economic gain for themselves. Economic and policy changes over the past 30 years – including deregulation, privatization, financial secrecy and globalization, especially of finance – have supercharged the age-old ability of the rich and powerful to use their position to further concentrate their wealth. This policy agenda has been driven essentially by what George Soros called 'market fundamentalism'. It is this that lies at the heart of much of today's inequality crisis. As a result, the rewards enjoyed by the few are very often not representative of efficient or fair returns.

A powerful example of an economic system that is rigged to work in the interests of the powerful is the global spider's web of tax havens and the industry of tax avoidance, which has blossomed over recent decades. It has been given intellectual legitimacy by the dominant market fundamentalist world view that low

taxes for rich individuals and companies are necessary to spur economic growth and are somehow good news for us all. The system is maintained by a highly paid, industrious bevy of professionals in the private banking, legal, accounting and investment industries.

It is the wealthiest individuals and companies – those who should be paying the most tax – who can afford to use these services and this global architecture to avoid paying what they owe. It also indirectly leads to governments outside tax havens lowering taxes on businesses and on the rich themselves in a relentless ‘race to the bottom’.

As taxes go unpaid due to widespread avoidance, government budgets feel the pinch, which in turn leads to cuts in vital public services. It also means governments increasingly rely on indirect taxation, like VAT, which falls disproportionately on the poorest people. Tax avoidance is a problem that is rapidly getting worse.

- Oxfam analysed 200 companies, including the world’s biggest and the World Economic Forum’s strategic partners, and has found that 9 out of 10 companies analysed have a presence in at least one tax haven.
- In 2014, corporate investment in these tax havens was almost four times bigger than it was in 2001.

This global system of tax avoidance is sucking the life out of welfare states in the rich world. It also denies poor countries the resources they need to tackle poverty, put children in school and prevent their citizens dying from easily curable diseases.

Almost a third (30%) of rich Africans’ wealth – a total of \$500bn – is held offshore in tax havens. It is estimated that this costs African countries \$14bn a year in lost tax revenues. This is enough money to pay for healthcare that could save the lives of 4 million children and employ enough teachers to get every African child into school.

Tax avoidance has rightly been described by the International Bar Association as an abuse of human rights<sup>7</sup> and by the President of the World Bank as ‘a form of corruption that hurts the poor’. There will be no end to the inequality crisis until world leaders end the era of tax havens once and for all.

Companies working in oil, gas and other extractive industries are using their economic power in many different ways to secure their dominant position. This has a huge cost to the economy, and secures them profits far higher than the value they add to the economy. They lobby to secure government subsidies – tax breaks – to prevent the emergence of green alternatives. In Brazil and Mexico, indigenous peoples are disproportionately affected by the destruction of their traditional lands when forests are eroded for mining or intensive large-scale farming. When privatized – as happened in Russia after the fall of communism for example – huge fortunes are generated overnight for a small group of individuals.

The financial sector has grown most rapidly in recent decades, and now accounts for one in five billionaires. In this sector, the gap between salaries and rewards, and actual value added to the economy is larger than in any other. A recent study by the OECD<sup>8</sup> showed that countries with oversized financial sectors suffer from greater economic instability and higher inequality. Certainly, the public debt crisis caused by the financial crisis, bank bailouts and subsequent austerity policies has hurt the poorest people the most. The banking sector remains at the heart of the

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tax haven system; the majority of offshore wealth is managed by just 50 big banks.

In the garment sector, firms are consistently using their dominant position to insist on poverty wages. Between 2001 and 2011, wages for garment workers in most of the world's 15 leading apparel-exporting countries fell in real terms. The acceptability of paying women lower wages has been cited as a key factor in increasing profitability. The world turned its attention to the plight of workers in garment factories in Bangladesh in April 2013, when 1,134 workers were killed when the Rana Plaza factory collapsed. People are losing their lives as companies seek to maximize profits by avoiding necessary safety practices. Despite all the attention and rhetoric, buyers' short-term financial interests still dominate activities in this sector, as reports of inadequate fire and safety standards persist.

Inequality is also compounded by the power of companies to use monopoly and intellectual property to skew the market in their favour, forcing out competitors and driving up prices for ordinary people. Pharmaceutical companies spent more than \$228m in 2014 on lobbying in Washington. When Thailand decided to issue a compulsory licence on a number of key medicines – a provision that gives governments the flexibility to produce drugs locally at a far lower price without the permission of the international patent holder – pharma successfully lobbied the US government to put Thailand on a list of countries that could be subject to trade sanctions.

All these are examples of how and why our current economic system – the economy for the 1% – is broken. It is failing the majority of people, and failing the planet. There is no dispute that today we are living through an inequality crisis – on that, the IMF, the OECD, the Pope and many others are all agreed. But the time has come to do something about it. Inequality is not inevitable. The current system did not come about by accident; it is the result of deliberate policy choices, of our leaders listening to the 1% and their supporters rather than acting in the interests of the majority. It is time to reject this broken economic model.

Our world is not short of wealth. It simply makes no economic sense – or indeed moral sense – to have so much in the hands of so few. Oxfam believes that humanity can do better than this, that we have the talent, the technology and the imagination to build a much better world. We have the chance to build a more human economy, where the interests of the majority are put first. A world where there is decent work for all, where women and men are equal, where tax havens are something people read about in history books, and where the richest pay their fair share to support a society that benefits everyone.

Oxfam is calling on leaders to take action to show they are on the side of the majority, and to bring a halt to the inequality crisis. From living wages to better regulation of the activities of the financial sector, there is plenty that policy makers can do to end the economy for the 1% and start building a human economy that benefits everyone:

- **Pay workers a living wage and close the gap with executive rewards:** by increasing minimum wages towards living wages; with transparency on pay ratios; and protecting workers' rights to unionize and strike.
- **Promote women's economic equality and women's rights:** by providing compensation for unpaid care; ending the gender pay gap; promoting equal inheritance and land rights for women; and improving data collection to assess how women and girls are affected by economic policy.
- **Keep the influence of powerful elites in check:** by building mandatory public lobby registries and stronger rules on conflict of interest; ensuring that good-quality information on administrative and budget processes is made public and is free and easily accessible; reforming the regulatory environment, particularly around transparency in government; separating business from campaign financing; and introducing measures to close revolving doors between big business and government.
- **Change the global system for R&D and the pricing of medicines so that everyone has access to appropriate and affordable medicines:** by negotiating a new global R&D treaty; increasing investment in medicines, including in affordable generics; and excluding intellectual property rules from trade agreements. Financing R&D must be delinked from the pricing of medicines in order to break companies' monopolies, ensuring proper financing of R&D for needed therapy and affordability of resulting products.
- **Share the tax burden fairly to level the playing field:** by shifting the tax burden away from labour and consumption and towards wealth, capital and income from these assets; increasing transparency on tax incentives; and introducing national wealth taxes.
- **Use progressive public spending to tackle inequality:** by prioritizing policies, practice and spending that increase financing for free public health and education to fight poverty and inequality at a national level. 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.

**As a priority, Oxfam is calling on all world leaders to agree a global approach to end the era of tax havens.**

World leaders need to commit to a more effective approach to ending tax havens and harmful tax regimes, including non-preferential regimes. It is time to put an end to the race to the bottom in general corporate taxation. Ultimately, all governments – including developing countries on an equal footing – must agree to create a global tax body that includes all governments with the objective of ensuring that national tax systems do not have negative global implications.

# 1 THE WORLD IS GETTING RICHER, BUT SOME GAIN MORE THAN OTHERS

## IMPRESSIVE GLOBAL PROGRESS

The size of the global economy has more than doubled over the past 30 years.<sup>9</sup> In 2014, its value reached nearly \$78 trillion. As production and output continue to grow, there have been absolute increases in gross domestic product (GDP) – one of the main indicators of economic prosperity – in every region of the world over this period. In South Asia, combined GDP in 2014 was more than five times what it was in 1985.

Over the past 30 years, average annual GDP growth has been higher in low- and middle-income countries than in richer ones.<sup>10</sup> Average incomes in poorer countries are catching up with those in richer ones, and inequality between nations is falling.<sup>11</sup> Emerging economy powerhouses are leading this catch-up process: China and India, for example, have driven much of the dramatic increase in the combined GDP of Asian countries. Between 1990 and 2011 economic growth in the region helped nearly a billion people to escape extreme poverty; 700 million in these two countries alone.<sup>12</sup> The proportion of the world's population living in extreme poverty fell from 36 percent in 1990 to 16 percent in 2010, such that the Millennium Development Goal to halve extreme poverty was met five years ahead of the 2015 target.<sup>13</sup> Encouraged by this progress, in 2015 the world's leaders committed to eradicating extreme poverty by 2030 as part of the Sustainable Development Goals (SDGs).<sup>14</sup>

Global wealth stocks, the total value of all assets – financial and non-financial – minus total debt, have also seen robust growth, nearly doubling over the past 15 years from \$160 trillion in 2000<sup>15</sup> to \$267 trillion in 2015.<sup>16</sup> While the 2008 global financial crisis had a negative effect on wealth stocks, every region in the world experienced growth over the period, with some of the biggest increases being in low- and middle-income countries. Wealth stocks in Latin America and Africa more than tripled, as did wealth in China and India, two of the fastest-growing emerging economies.<sup>17</sup>

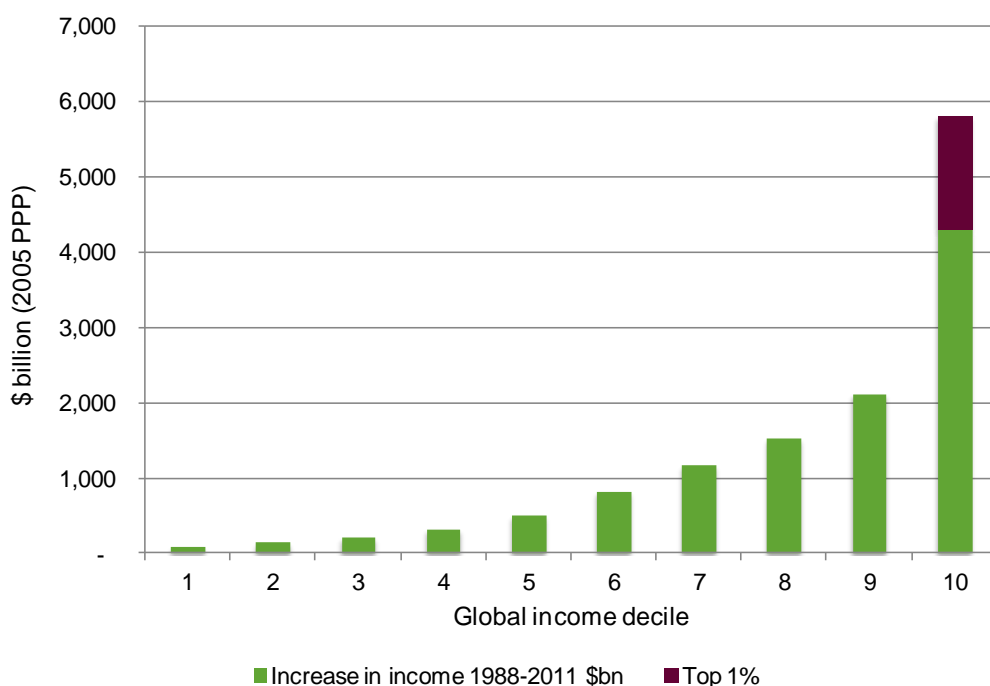
## DENIED THE BENEFITS OF GROWTH

Global growth and progress in human development give us good reasons to believe that we can achieve the goal of eradicating poverty for good. However, the reality of what billions of people in the poorest socio-economic groups have experienced, and what they can expect if current trends continue, is less encouraging. Digging behind the global and national aggregates reveals huge differences in income and wealth at the individual and household levels. Data on global income shares show that interpersonal income inequality is extremely high and that those at the top end of the income distribution benefit from a disproportionately high level of overall growth.



If global income growth were distributed equally, one would expect to see roughly 10 percent going to each decile (one-tenth) of the population. However, the reality is that the distribution is highly unequal: between 1988 and 2011, 46 percent of overall income growth accrued to the top 10 percent, while the bottom 10 percent received only 0.6 percent.<sup>18 19</sup> In fact, the top 10 percent of the population received more than the bottom 80 percent and over four times more than the bottom 50 percent. The picture is even starker when looking at the top 1 percent of the global income distribution. Between 1988 and 2011, the top 1 percent received a higher percentage of global income growth than the entire bottom 50 percent (50 times as many people).

**Figure 1: Global income growth accruing to each decile 1988–2011; 46% of the total increase went to the top 10%**



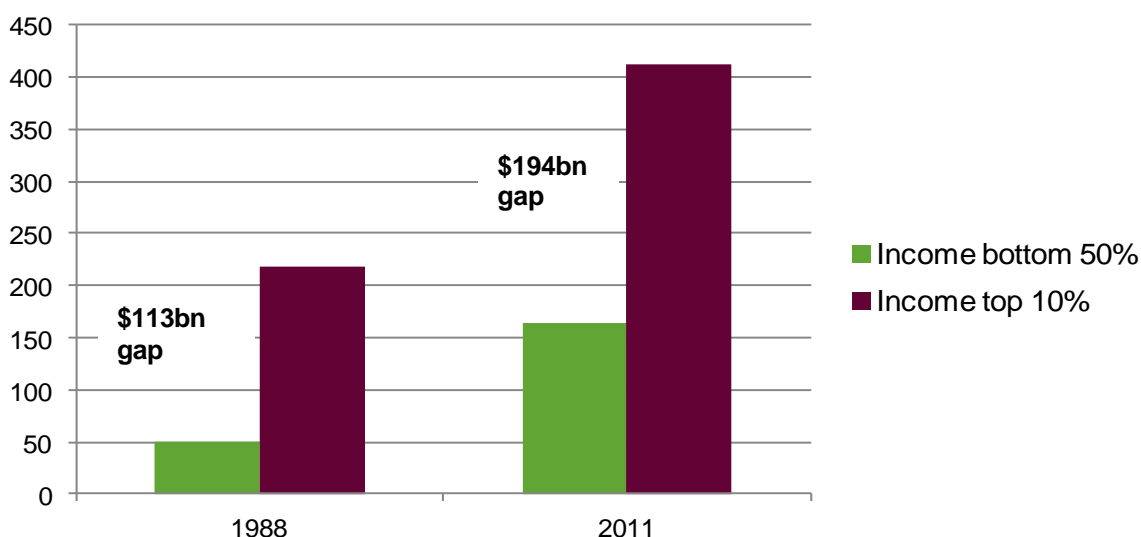
Source: Lakner-Milanovic World Panel Income Distribution (LM-WPID) database (2013). Created for C. Lakner and B. Milanovic (2013) 'Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession', World Bank. Data for 2011 provided through personal correspondence with B. Milanovic, September 2015. Calculations by Sophia Ayele; more details on the methodology used to construct this chart can be found in the accompanying methodology note, available at <http://oxf.am/ZniS>.

Economies may be growing and poorer countries catching up with richer ones, but the incomes of the poorest people all over the world are not keeping up, resulting in much slower progress in reducing extreme poverty than could otherwise be achieved. Research by the Overseas Development Institute (ODI) has found that, between 1990 and 2010, the bottom 40 percent of people in many developing countries saw their incomes grow more slowly than the average rate of growth nationally. If their incomes had grown at the same rate as the average in all countries, 200 million fewer people would have been living below the extreme poverty line by 2010.<sup>20</sup> If growth had been pro-poor, with the incomes of the bottom 40 percent growing by 2 percentage points faster than the average, poverty could be at half the level it is today.<sup>21</sup> While the number of people living in extreme poverty has fallen in recent years, it still remains unacceptably high. The World Bank estimates that 700 million people were living in extreme poverty (below \$1.90 per day)<sup>22</sup> in 2015.<sup>23</sup> World Bank economists forecast that, unless we see pro-poor growth in the next 15 years, we will fail to eradicate extreme poverty by 2030 and almost half a billion people will remain on income levels

below \$1.90 a day.<sup>24</sup> Inequality of incomes is not just bad for people on the very lowest incomes, who are being left behind, but is also bad for overall growth levels and the duration of growth spells. The IMF has found, for example, that an increase in the income share of the poorest 20 percent of people in a country is associated with higher GDP growth.<sup>25</sup>

Looking at the growth rates of the poorest income groups compared with the average, as the new SDG 10 sets out to do,<sup>26</sup> fails to address the stark and growing gap between the ‘haves’ and the ‘have-nots’ in absolute terms. Even if the incomes of the poorest people grow at the same rate or faster than the average, the absolute gap between the rich and the poor will continue to grow. The incomes of the poorest are so low to start with that any growth in their incomes remains small in absolute terms, while for those with extremely high incomes even low growth in percentage terms can result in huge absolute increases. Research by ODI has found that, over the past three decades, when countries have experienced prolonged periods of income growth across the distribution, absolute inequality has always increased. In a sample of developing countries, over the past 20 years the richest 10 percent of people enjoyed around one-third of the absolute gains in income from growth, while the bottom 40 percent saw only around half as much flow their way.<sup>27</sup> In Brazil, where income inequality remains extremely high, the incomes of the poorest 50 percent more than doubled in real terms between 1988 and 2011, increasing slightly faster than those of the richest 10 percent. But the increase in the incomes of the top 10 percent equated to many more dollars in absolute terms, such that the absolute difference between the average incomes of the two groups also nearly doubled.<sup>28</sup>

**Figure 2: In Brazil, the incomes of the poorest 50% have increased faster than those of the richest 10%, but the gap between the two groups has still grown**



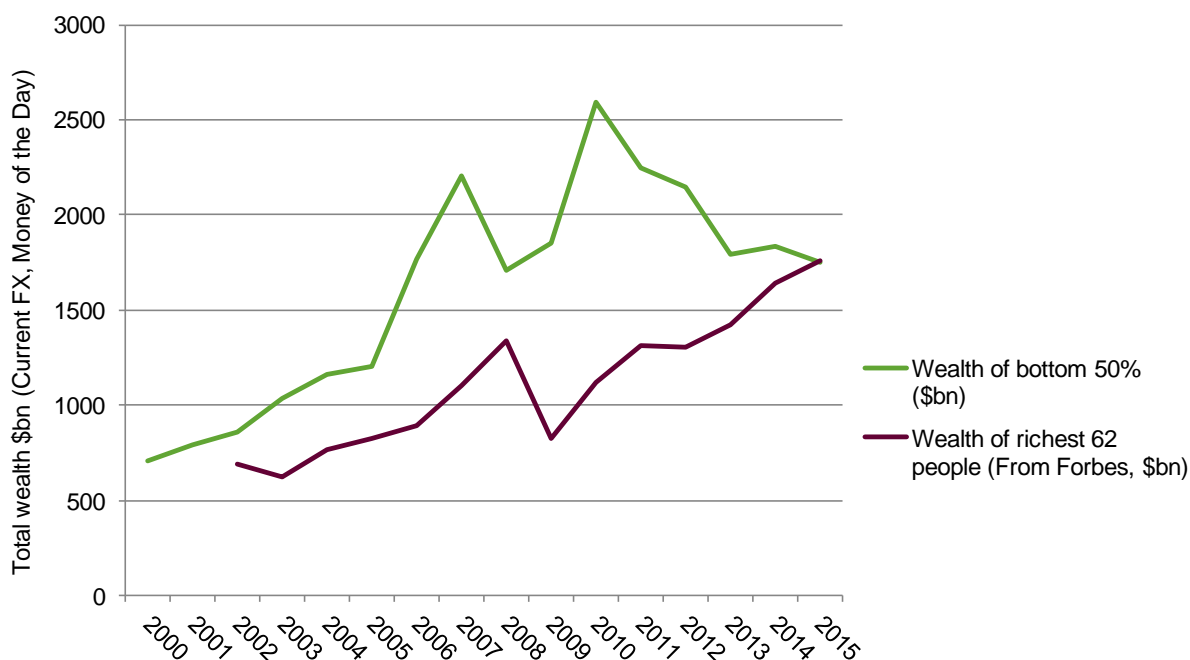
Source: Oxfam calculations based on Lakner-Milanovic World Panel Income Distribution (LM-WPID) database (2013). See sources for Figure 1, and accompanying methodology note, <http://oxf.am/ZniS>

Oxfam’s analysis for this paper shows that, while both the top 1 percent and the bottom 10 percent of the global income distribution both experienced growth in per capita income between 1988 and 2011 – of 31 percent and 33 percent respectively – these increases had a very different impact on their standards of living. While the per capita income of the top 1 percent increased from just over \$38,000 in 2005 PPP (purchasing power parity) international dollars to just over \$49,800 (an increase of \$11,800),<sup>29</sup> that of the bottom 10 percent increased from \$196 to \$261 (an increase

of just \$65, leaving this group well below the extreme poverty line of \$1.90 per day). Although both groups experienced roughly the same percentage of income growth over the period, the \$65 per capita increase for the bottom 10 percent was dwarfed by the increase for the top 1 percent, which was 182 times greater.

In terms of wealth stocks, the picture is even more unequal. Last year Oxfam reported that the richest 1 percent of people held 48 percent of total global wealth and that, if trends continued, they would have more than half of all wealth by 2016.<sup>30</sup> This has happened a year earlier than Oxfam predicted. The average wealth of each adult belonging to the richest 1 percent is \$1.7m, more than 300 times greater than the wealth of the average person in the poorest 90 percent, although for many people in the bottom 10 percent their wealth is zero or negative.<sup>31</sup> Oxfam also reported last year that the richest 80 individuals on the Forbes list of billionaires saw their collective wealth increase from \$1.3 trillion in 2010 to \$1.9 trillion in 2014, giving them the same amount of wealth as the poorest half of the world. In 2015 the world's wealthiest 80 billionaires had collective wealth of more than \$2 trillion. Meanwhile, the wealth of the bottom half of the planet has fallen by approximately \$1 trillion in the past five years<sup>32</sup> and it now takes just 62 increasingly wealthy billionaires to equal the wealth of the bottom half of the world's population (3.6 billion people). This is down from 388 in 2010, as wealth becomes even more concentrated in the hands of just a few.<sup>33</sup>

**Figure 3: The wealth of the richest 62 individuals continues to grow, while that of the poorest half of the world stagnates**



Sources: Wealth of the bottom 50 percent from Credit Suisse, 'Global Wealth Databook 2015'. Data on the net wealth of the richest 62 individuals from Forbes' annual list of billionaires.

Growing economic inequality also compounds existing inequalities between social groups, notably gender inequality. Gender inequality is both a cause and a consequence of income inequality. The IMF recently found that in countries with higher levels of income inequality, gender inequalities across health, education, labour market participation and representation were also higher.<sup>34</sup> The gender pay gap, where women earn less than men for doing the same jobs, is also found to be higher in more unequal societies<sup>35</sup> and this is compounded by occupational segregation and unpaid care responsibilities.<sup>36</sup> Women get much less of the

economic pie than men do, and the very highest incomes are reserved almost exclusively for men – 445 of the 500 richest people in the world are men.<sup>37</sup> Meanwhile, women make up the majority of the world's low-paid workers and are concentrated in the most precarious jobs.<sup>38</sup> In addition, a study of emerging economies found that countries that have seen the most significant long-term increases in economic inequality – for example, Russia and China – have also experienced slower than average reductions in gender inequalities.<sup>39</sup>

Rising inequality is a problem for all of us. The OECD notes that increasing income inequality poses a risk for social cohesion and threatens to slow down the current economic recovery.<sup>40</sup> The World Bank cites 'promoting shared prosperity' as one of its two primary goals, complementing that of reducing poverty.<sup>41</sup> Even the IMF has highlighted the fact that inequality can have negative consequences not just for the poorest people but for the overall health of economies.<sup>42</sup> If the world is to meet its recently agreed long-term goal to zero out greenhouse gas emissions by the second half of the century,<sup>43</sup> addressing the distribution of emissions is also critical. Oxfam recently demonstrated that while the poorest people live in areas most vulnerable to climate change, the poorest half of the global population are responsible for only around 10 percent of total global emissions. Meanwhile, the average carbon footprint of the richest 1 percent of people globally could be as much as 175 times higher than that of the poorest 10 percent.<sup>44</sup>

We need to reverse these trends through progressive policies that share economic rewards between people, rather than concentrating returns to capital. Income and wealth that are invested in public services and infrastructure could be used to improve social and economic opportunities and access for the majority, and to accelerate progress towards eradicating extreme poverty. This would be a far better outcome for society than an increasing concentration of income and accumulation of wealth for the few.

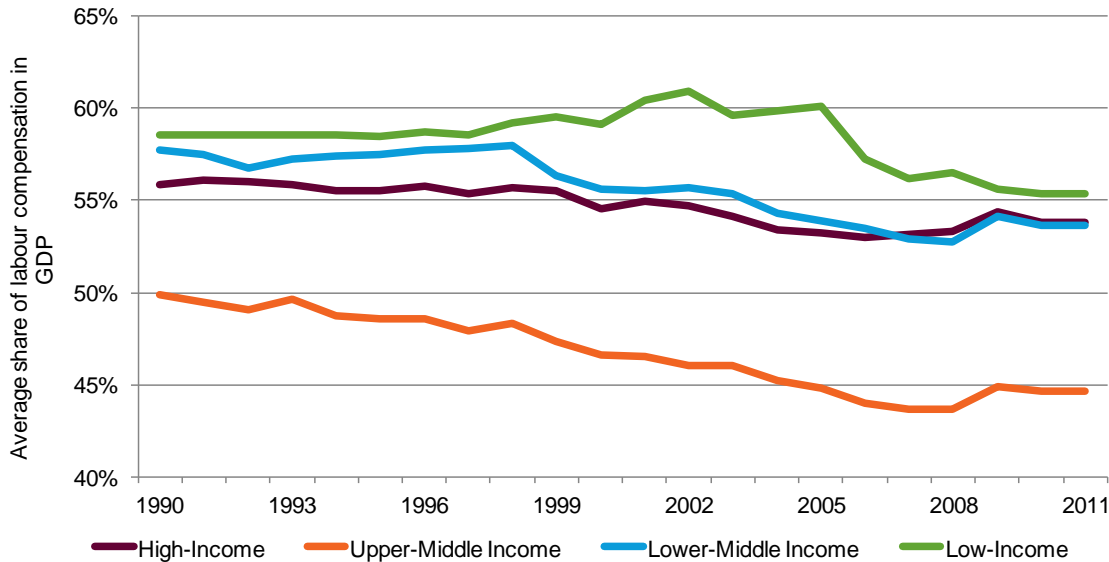
## CAPITAL OWNERS AND CEOS PROSPER AT THE EXPENSE OF THE AVERAGE WORKER

Income can be split broadly between labour income, which is generated by workers in the form of wages, salaries and benefits, and capital income, which is defined as dividends, interest and the retained profits of companies. Over the past three decades the share of income going to labour has been declining in most countries around the world,<sup>45</sup> while the capital share has been rising. This was famously highlighted in Thomas Piketty's best-selling 2014 book *Capital in the Twenty-First Century*, which found that returns for the owners of capital have grown at a faster rate than general economic growth.<sup>46</sup> This means that workers are capturing a smaller share of the gains from growth.

Rich and poor countries alike have been experiencing this trend: the labour share has declined in nearly all OECD countries over the past 30 years<sup>47</sup> and in two-thirds of low- and middle-income countries between 1995 and 2007.<sup>48</sup> Latin America is the only region that has bucked this trend, with some countries experiencing an increasing wage share during the period.<sup>49</sup> Data from the Penn World Table indicate that the average labour share of income across 127 countries had fallen from 55 percent in 1990 to 51 percent by 2011.<sup>50</sup> Figure 4 shows that this trend can be seen in all regions across the world. At the same time, wages are not keeping up with the productivity of workers.<sup>51</sup> A declining labour share reflects the fact that improvements in productivity and growth in output do not translate into a

proportional rise in earnings for workers. This has important consequences because it removes the link between productivity and prosperity. In the US, between 1973 and 2014 net productivity grew by 72.2 percent, yet inflation-adjusted hourly pay for the median worker rose by just 8.7 percent.<sup>52</sup>

**Figure 4: Labour income as a share of GDP in countries of different income levels, 1988–2011**



Source: Penn World Table. R.C. Feenstra, R. Inklaar and M.P. Timmer (2015) 'The Next Generation of the Penn World Table', forthcoming, *American Economic Review*, available for download at [www.ggdc.net/pwt](http://www.ggdc.net/pwt)

Not only are wages failing to adequately reward workers for their efforts, but wages are also failing to meet the income needs of individuals and families. In the European Union, nearly 9 percent of people in employment are at risk of poverty, and this rate has increased over the past decade.<sup>53</sup> Oxfam's research has highlighted the challenges faced by the working poor in different countries and sectors. A recent briefing paper, 'In Work But Trapped in Poverty', summarizes Oxfam research which identifies common findings in five sectors across five developing countries – workers labouring extremely long hours but still trapped in poverty.<sup>54</sup> In the most recent study (July 2015), garment workers in Myanmar said that, even with overtime, they could not afford housing, food and medicine with the incomes they earned in the factories, and expressed concern about low wages, long hours and safety issues.<sup>55</sup> In Morocco in 2009, Oxfam found that female strawberry pickers were facing numerous violations of their rights, including harassment by 'labour providers', dangerous transport and below-minimum wages,<sup>56</sup> linked to their extreme disempowerment in relation to men.

Low pay can be compounded by other employment vulnerabilities where jobs are precarious. This is especially the case for women, who make up the majority of low-paid workers and those in the most precarious forms of work<sup>57</sup> and who face disproportionate responsibilities for unpaid care work, which restricts their chances of taking up leadership positions or professional or technical jobs.<sup>58</sup> On average, women spend nearly 2.5 times more time on unpaid work than men each day<sup>59</sup> and studies have shown that their responsibilities for unpaid care work do not reduce as they increase their participation in the labour market.<sup>60</sup> Women's lower pay rates also have a cumulative effect over their lifetimes, leading to overall increased insecurity, including lower savings or pensions available for later in life.<sup>61</sup> Women find it harder than men to find decent work, with 84.3

percent of women in sub-Saharan Africa in vulnerable employment (including unpaid family work) in 2014, compared with 70.1 percent of men.<sup>62</sup> In many developing regions, 75 percent of women's employment is informal.<sup>63</sup>

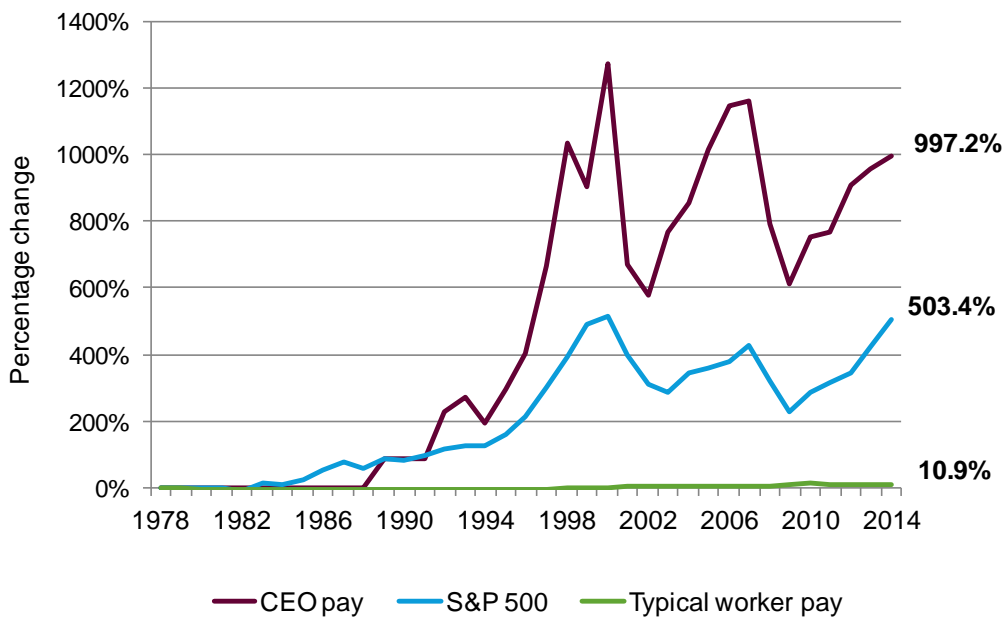
One efficient way of raising low wages is illustrated by the approach taken by the Government of Ecuador. The country's 2008 Constitution contained an article on the need for a living wage, and by 2014 an associated living wage policy had been introduced. The minimum wage has increased every year in real terms, despite high levels of inflation; however, the effect on national employment and wages has been limited due to non-compliance and the number of informal workers.<sup>64</sup> Companies operating in Ecuador are legally required to pay a living wage to their workers before issuing dividends to shareholders. Other promising routes to improving wages include the Freedom of Association Protocol in the sportswear sector in Indonesia,<sup>65</sup> the Action, Collaboration, Transformation (ACT) process between a group of garment brands and the global union federation IndustriALL to promote sector-wide bargaining,<sup>66</sup> the Malawi 2020 coalition, which is committed to revitalizing the country's tea industry and achieving a living wage by 2020;<sup>67</sup> and the Living Wage Foundation accreditation scheme in the UK.<sup>68</sup> However, voluntary initiatives such as these have to date delivered negligible increases in worker incomes when compared with public policy changes such as those in Ecuador, and to a lesser extent in China, which benefit all workers, not just those linked to global companies.<sup>69</sup>

The global economy not only needs to be providing better-paid, decent jobs, but it also needs more of them. This is particularly vital in the context of continued population growth and technological developments that provide robotic and automated substitutes for workers in many sectors. Despite nearly 20 years of solid growth in GDP, Africa's economies are creating too few jobs in sectors where output per worker is high enough to offer a path out of poverty.<sup>70</sup> More worrying still, the fastest-growing sectors in terms of economic activity, such as high-tech services, are creating the fewest jobs.<sup>71</sup> The International Labour Organization (ILO) estimates that over 201 million people were unemployed around the world in 2014, an increase of over 31 million since the start of the global financial crisis.<sup>72</sup> To make matters worse, the ILO predicts that the global employment outlook will continue to deteriorate, with global unemployment increasing by another 3 million in 2015 alone. Around the world young people, especially young women, are the most affected by high unemployment rates, with youth unemployment rates nearly three times higher than those for adults.<sup>73</sup> The ILO reports that this trend is common in all regions of the world, despite an overall trend of improved educational attainment.

But not all participants in the labour market are missing out. As the overall share of income going to wages is shrinking, within that share top executives are receiving larger amounts. In a 2012 report, the OECD found that while low-wage workers have seen their incomes fall, incomes for the top 1 percent of earners have increased by 20 percent over the past two decades.<sup>74</sup> This is observed in the dramatic increases in CEOs' pay packets. The average salary (plus bonuses) of a CEO at one of the top 350 US firms in 2014 was \$16.3m, up 3.9 percent since 2013 and by 54.3 percent since the economic recovery began in 2009 (see Figure 5).<sup>75</sup> And this is almost exclusively a realm for men: women hold just 22 of the CEO positions at S&P 500 companies,<sup>76</sup> meaning that this trend is contributing further to the gender wage gap. High CEO salaries have had a spillover effect, increasing the pay of other executives and managers and contributing to a doubling of the income

shares of the top 1 percent and top 0.1 percent of US households between 1979 and 2007.<sup>77</sup> Lower marginal tax rates in the past 30 years – the percentage of tax applied to income – at top income levels provide a greater incentive for high earners to devote more energy to shifting more income to their personal pay packets when the opportunity presents itself.<sup>78</sup> Falling marginal tax rates have been found to have a significant association with higher pre-tax income shares both in the US and across countries.<sup>79</sup>

**Figure 5: In the US, pay rises for CEOs are far outstripping increases for average workers**



Source: Reproduced from L. Mishel and A. Davis (2015) 'CEO Pay Has Grown 90 Times Faster than Typical Worker Pay Since 1978' EPI. <http://www.epi.org/publication/ceo-pay-has-grown-90-times-faster-than-typical-worker-pay-since-1978/><sup>80</sup>

It is not just in rich countries that CEOs are rewarded with salaries that far outstrip average incomes. Law makers in India passed a disclosure mandate in 2013 which requires CEO pay ratios to be made public, an important step towards informing the public about the level of inequality within companies.<sup>81</sup> The Securities and Exchange Board of India is now releasing the first set of information. This shows that the top executive at the country's largest cigarette manufacturer, for example, is being paid 439 times the median salary for employees at his company, while his counterpart at the top IT services firm receives 416 times as much as the average employee of that company.<sup>82</sup>

## PRIVILEGE, POWER AND INFLUENCE DRIVE THE CONCENTRATION OF ECONOMIC REWARDS

As people rely on national economies to generate jobs, goods, services and stability, strong economies are needed to reduce poverty, particularly in the poorest countries. This is important, while acknowledging that measures of economic growth omit important non-monetary facets of well-being and progress.<sup>83</sup>

Free markets have long been promoted as the most efficient approach for an economy to be managed, with the laws of supply and demand resulting in optimal prices for all goods and services.<sup>84</sup> This perspective has dominated mainstream economics and has long influenced policy makers, particularly during the 1980s.

It lay behind the Washington Consensus, which set out a prescription for developing countries, broadly recognized as an approach focusing around privatization, liberalization and macro-stability (meaning mostly price stability). This approach suggested a minimal need for governments to intervene in the productive economy in order to let markets flourish.<sup>85</sup> But by the 1990s, the Washington Consensus model had clearly been shown to be deeply flawed, doing more harm than good in many of the developing countries pursuing these strategies.<sup>86</sup> For example, in Egypt free market fundamentalism and structural adjustment programmes (SAPs) have been strongly associated with negative impacts on the ability of women to benefit from growth, due to their concentration in a limited number of economic sectors, their limited mobility and their responsibilities for unpaid care work.<sup>87</sup>

This 'one size fits all' model was based on the assumption that we live in a 'perfectly competitive economy': everyone knows everyone else's business and anyone can participate, an assumption that clearly does not hold true in real life. Buyers and sellers are constantly seeking to gain advantage over competitors, disrupting the playing field so that it is anything but level. Technological and organizational innovation, new products or services and new ways of delivering them can all give sellers an advantage. But this advantage can also be gained through entrenched relationships with people in power, the distortion of regulations and laws in their favour and the exploitation of market failures to their advantage.

#### **Box 1: Rent seeking**

'Resources can be used unproductively to claim output or wealth that already exists, or to seek policies that create privileged benefits. Such unproductive behaviour is known as rent seeking. Much of rent seeking involves government or political decisions ... but rent seeking also takes place in personal relations and within firms and bureaucracies.'

Source: R.D. Congleton and A.L. Hilman (2015) *Companion to Political Economy of Rent Seeking*, Edward Elgar Publishing

It is not always necessary to invest hard work, effort and creativity to generate lucrative returns and a position of economic power and advantage. Income and wealth generation can in fact be almost completely disconnected from productivity or added value. An extreme example of this would be a warlord putting up a barrier at a bridge and charging people to cross, even though he had nothing to do with the construction of the bridge. However, it is often harder to identify where returns are disconnected from value. For instance, an oil company might argue that through its technological expertise and upfront capital investment, profits generated from the extraction of oil are a genuine reflection of the economic contribution of its activities. However, the huge profits of the company and the million-dollar salaries of its executives are also generated as a result of its ability to exclude others from this industry and the international demand for oil which pushes up prices; even more so when there is less of it produced.

It would be perverse to argue that the contributions of 62 individual billionaires are worth the same as those of 3.6 billion other people. It is unimaginable that the CEO of a tobacco company in India is as productive as 439 of his employees combined, or that the owner of a UK clothing retailer can produce the same as more than 2,000 garment workers.<sup>88</sup> But the gap between the richest and the rest



continues to grow. The increase in the CEO-to-average pay ratio in the UK has grown even since Oxfam published its inequality report in 2014 and now stands at 183:1.<sup>89</sup> For capital owners and executives the rewards continue to grow,<sup>90</sup> while the average worker receives less for additional contributions as the gap between workers' productivity and workers' wages widens (see Figure 6).

**Figure 6: Worker productivity in developed countries has increased but wages have failed to keep up**



Source: Reproduced from Figure 7, ILO, 'Global Wage Report 2014/15'. ILO Global Wage Database; ILO Trends Econometric Models, April 2014.

The practices of so-called 'crony sectors' illustrate how benefit-free wealth can be accrued to such a massive extent. Crony sectors are those that are vulnerable to monopoly or that have a large degree of state involvement, including government authority to provide licences to operate. The increase in billionaire wealth from crony sectors also suggests that wealth and income are being accrued in ways that do not deliver associated benefits or value to the rest of society. Using Forbes data to calculate the wealth concentrated in crony sectors, *The Economist* finds that billionaires from emerging economies who have generated their wealth, at least in part, from these sectors doubled their wealth relative to the size of the economy between 2000 and 2014.<sup>91</sup> It also finds that individuals have benefited from urbanization and the associated increase in land and property values; the commodity price boom has enriched natural resource owners from Brazil to Indonesia; and privatizations, some of which have taken place on dubious terms, have also led to lucrative returns for new private owners.<sup>92</sup>

Looking at the wealth of individuals that derives from both state-dependent industries and corruption-prone countries, together with extreme wealth that has been inherited and thus not 'earned', Oxfam estimates that at least 50 percent of the fortunes of the world's billionaires could have been gained at least in part by non-meritocratic means.<sup>93</sup> In India, 46 percent of billionaires have made their fortunes from sectors that depend upon market power, influence or preferential access to licensing.<sup>94</sup> In Mexico, four multi-millionaires have seen their combined

wealth increase from the equivalent of 2 percent of the country's GDP in 2002 to 9 percent in 2014.<sup>95</sup> A significant portion of the fortunes of all four of these individuals is derived from sectors that have been privatized, concessioned and/or regulated by the public sector. German Larrea and Alberto Baillères, for example, are owners of mining companies that have exploited a boom in the price of commodities.<sup>96</sup>

Economic and political institutions have the power to either mitigate or exacerbate the extent to which rewards can be delinked from effort and merit. They can and should keep in check how much market power sectors, firms and individuals wield and how they use this power. Intellectual property protection, for example, can either ensure that those who put in the hard work and effort are duly rewarded or it can create opportunities for companies and individuals to dominate markets. Temporary competitive advantages that come from innovation can be made permanent by changes in laws and regulation, which skew the game in perpetuity.

In principle, a country's economy and its political system are separate but, as Oxfam showed in its 2014 paper 'Working for the Few', in reality they are intrinsically linked.<sup>97</sup> The relationship between economic and political power and inequality creates a cycle which affects the design of institutions established to govern economies.<sup>98</sup> Wealth has the potential to capture government policy making and bend the rules in favour of the rich, often to the detriment of everyone else. The consequences of this include the erosion of democratic governance, the diminishing of social cohesion and the reduction of equal opportunities for all. In the past, some excesses were reduced through the power of unionized workers and their influence over economic institutions, but the global decline of private sector unionization has weakened this power and this decline has been closely associated with rising inequality.<sup>99</sup>

Over the past 35 years, decisions on deregulation and privatization, combined with the advent of the information age and globalization, have created new opportunities. But these forces have also allowed sectors, firms and individuals to capture a disproportionate amount of economic power. This is not benign. The concentration of economic power is used to further the interests of these sectors, companies and individuals, creating a vicious and unjust cycle that maintains and increases elite control over economic markets and resources at the expense of everyone else, from competitors to employees. Women in particular are disadvantaged, as they are unrepresented in positions of leadership and over-represented in low-paid sectors, the informal economy and unrecognized unpaid work. If shared prosperity is to be achieved, where people have the opportunity to participate in economic growth and see their hard work pay off, the institutions that govern how our economies work must reflect the interests of ordinary people rather than those of the economically and politically powerful.

The evidence examined in Section 1 highlights urgent and concerning trends. The world is not short of income, which continues to grow; or of wealth, which continues to accumulate. It is unjust that people living in poverty are not getting the boost to their incomes that they desperately need, while already privileged capital owners receive a greater share of income and wealth, which become ever more concentrated, and inequality rises.

## 2 POWER AND PRIVILEGE IN ACTION

Building on the global trends and evidence explored in section 1, section 2 of this paper looks at mechanisms, organizations and individuals where evidence can be found of economic and political power being used to shape rules and institutions to the benefit of the elite few. It first examines the architecture of the global tax system, which has an impact on all businesses and individuals. It then looks at specific sectors where substantial gains are being made by people in positions of power and influence, along with resulting environmental, social and financial costs faced by ordinary people. The three sectors highlighted – extractives, the financial sector and the garment sector – are diverse in their structures and their significance in different economies, but all exhibit a tendency to exclude ordinary people from the rewards that they generate. This section then identifies corporate structures and legal provisions that facilitate the concentration of economic power, and finally focuses on the power that wealthy individuals have to rig the rules in their favour.

### ELITES SHAPING THE GLOBAL TAX SYSTEM AND KEEPING TAX HAVENS OPEN FOR BUSINESS

In every country in the world, tax revenues pay for public services, infrastructure, regulatory bodies, welfare systems and other goods and services that keep the country running. Fair tax regimes are vital to finance well-functioning and efficient states and to enable governments to fulfil their obligations to uphold citizens' rights to essential services such as healthcare and education. In developing countries in particular, where there is an even bigger need for strengthening health and education services for the hundreds of millions of people who still live in extreme poverty, revenues from taxes provide a sustainable way to raise funds, and a well-designed and progressive tax system can ensure that those who can afford it most make the largest contribution. However, national tax codes as well as the international tax structure, can fail to achieve this and instead work in reverse, so that the biggest burden falls on the poorest people.<sup>100 101</sup>

The current global tax architecture also weakens the ability of governments to collect the taxes they are due by facilitating cross-border tax dodging and the concealment of wealth. In particular, tax havens<sup>102</sup> and offshore financial centres, which can be characterized by secrecy as well as by low- or zero-tax regimes, are one of the most obvious facilities used to enable individuals and companies to escape their tax liabilities. Governments are so far failing to crack down on the global practice of tax avoidance and the associated network of tax havens.<sup>103</sup> This system is exploited by highly paid and very industrious professional enablers in the private banking, legal, accounting and investment industries, who take advantage of an increasingly borderless, frictionless global economy. It is the wealthiest companies and individuals, who in a progressive tax system should be paying the most in tax, who have the biggest incentives to exploit this architecture to avoid paying their fair share in taxes, and who can afford to hire the enablers.

Exploiting tax loopholes and engaging in large-scale tax avoidance are integral components of the profit-making strategies of many multinational corporations (MNCs). Companies can artificially shift the ownership of assets or the real cost of transactions to paper subsidiaries in low-tax jurisdictions or jurisdictions that do not require disclosure of relevant business information. Profits disappear from countries where real economic activity is taking place, to exist only in tax havens. In 2012, for example, US MNCs reported \$80bn of profits in Bermuda – more than their reported profits in Japan, China, Germany and France combined. This huge amount – 3.3 percent of all profits made by these companies worldwide – clearly does not reflect the real economic activity taking place in Bermuda, where total sales account for only 0.3 percent and the share of total number of employees or total wage costs is a tiny 0.01–0.02 percent.<sup>104</sup>

Companies that reduce their tax bills (including through legal avoidance and illegal evasion) can gain a significant advantage over domestic competitors and small and medium-sized enterprises (SMEs). The offshore system and harmful tax competition are also costing governments billions of dollars each year. While the exact sums involved remain something of a mystery, it is clear that this is a significant problem. Oxfam reviewed publicly available data on more than 200 companies, which included the 100 largest firms in the world and the World Economic Forum's strategic partners and found evidence that nine out of ten of them have a presence in at least one tax haven.<sup>105</sup> IMF data show that corporate investment in these same tax havens increased by almost four times between 2000 and 2014.<sup>106</sup> The use of tax havens and other tax-dodging practices affects countries of all income levels, including the poorest countries. It is estimated that tax dodging by MNCs costs developing countries around \$100bn annually.<sup>107</sup>

As tax returns from multinational companies and wealthy individuals fall short of their potential, governments are left with two options: either to cut back on the essential spending needed to reduce inequality and deprivation or to make up the shortfall by levying higher taxes on other, less wealthy sections of society and smaller businesses in the domestic economy. Both options see the poorest people lose out and the inequality gap grow.

The offshore world and the opacity it offers also provide a safe haven for laundering the proceeds of political corruption, illicit arms dealing and the global drugs trade, contributing to the spread of globalized crime and facilitating the plunder of public funds by corrupt elites. Tax avoidance has rightly been described by the International Bar Association as an abuse of human rights<sup>108</sup> and by the President of the World Bank as 'a form of corruption that hurts the poor'. There will be no end to the inequality crisis until we end the era of tax havens once and for all.

Achieving a global consensus on a more meaningful approach to tackling harmful tax practice is long overdue. Eighteen years ago the OECD's 'Harmful Tax Competition' report proposed that countries should 'consider terminating their tax conventions with listed tax havens'.<sup>109</sup> Unfortunately, OECD member countries that operate in practice as tax havens, together with other powerful members that are home to the world's largest companies, succeeded in blocking further progress at that time. Sadly, we are still paying the price for this lack of political will. The more recent attempt of the G20/OECD Base Erosion and Profit Shifting (BEPS) project, endorsed by G20 leaders in November 2015, has again done

little to curb harmful tax practices,<sup>110</sup> and attempts to introduce tougher rules have been watered down.<sup>111</sup> Under this process, there was an historic opportunity to reverse all the scandals and abusive practices that have been attracting headlines all over the world – but the chance was not taken.

## SECTOR INSIDERS

### **Extractive industries**

Non-renewable oil, gas and mining resources play a dominant role in many countries' economies. In these countries, opportunities for income and wealth generation, technological progress and government revenues associated with activities in this sector dwarf those of other productive sectors. However, large gains offered by this sector can in some countries be overwhelmingly concentrated in the hands of a few and can result in an economy focused on the extraction of value from these assets, rather than on innovation, job creation and enterprise that benefit the majority.

Governments and companies make money from natural resources when technology and know-how enable their extraction at a cost that is economically viable, and when international commodity markets keep prices high. The opportunity for generating high returns is also helped by laws, geology and specialized knowledge that isolate the sector's activities from competitive market forces, in effect creating monopolies. Control over the sector often sits in the hands of state-owned companies, with some, such as Sonangol in Angola, being responsible for both the administration and regulation of the sector.<sup>112</sup> Control can also be concentrated in private hands: for example, the sale of Russian oil giant Yukos to Mikhail Khodorkovsky in 1995 effectively created a private oil monopoly with extreme economic power and market dominance.<sup>113</sup>

While the rewards flood to the few, they rarely experience the broader economic, social and environmental costs associated with activities in the sector that ordinary people cannot escape. Locally, extractive activities affect people's homes and environments. In Brazil and Mexico, for example, indigenous peoples are disproportionately affected when forests are eroded for mining or intensive large-scale farming and their living space is destroyed.<sup>114</sup> Costs are also borne by people working in other economic sectors: as the appreciation of local currencies affects the competitiveness of other export industries; national investment and subsidies targeted to the sector are prioritized at the expense of others; and the offer of big salaries lures the brightest workers. In the long term, the impacts of extracting these resources will be felt by people in future years and across borders, in terms of climate change.<sup>115</sup>

Actors in the extractives sector are keen to capitalize on the potential to make substantial returns and use their economic power and political access to maintain their position and gain further advantage. Government subsidies, for example, are gifted to the sector to ensure that it remains financially robust, a benefit that is not afforded to greener and more sustainable forms of energy production to anything like the same extent. G20 country governments alone are providing \$452bn a year in subsidies for the production of fossil fuels.<sup>116</sup> Much secrecy exists around contracts and finances associated with this sector; vested interests have worked hard to block legislation designed to improve the transparency of extractive revenues and strengthen accountability. The American Petroleum Institute (API), one of the biggest opponents of such measures, spent at least \$360m on lobbying

the US government between 2010 and 2014.<sup>117</sup> Despite conclusive evidence of the role that hydrocarbons play in accelerating climate change, vested interests in the sector continue to fund climate change-denying think tanks.<sup>118</sup> ExxonMobil has reportedly been deliberately denying the link between fossil fuels and climate change for more than 30 years.<sup>119</sup>

Nigeria is Africa's largest oil exporter, with oil revenues accounting for 70 percent of total government revenues in 2011<sup>120</sup> and representing 90 percent of the country's export earnings. International oil companies dominate activities in the sector, generating billions of dollars in profits, and Nigerian oil bloc owners have also profited greatly, with a handful of individuals becoming billionaires.<sup>121 122</sup> The sector is characterized by a close and pernicious relationship between politics and economics, which has eroded the extent to which proceeds are distributed fairly to the population. One recent report released to the Nigerian press revealed a list of persons who own oil blocs due to their ability to capture the machinery of the state.<sup>123</sup> Conditions written into the contracts of international oil companies requiring them to partner with local companies have been exploited by corrupt political elites who have created shell companies to capture a slice of the rewards.

While these dynamics play out between the economically and politically powerful, more than half of the population see no benefits from the sector and live in extreme poverty on less than \$1.90 per day.<sup>124</sup> The embezzlement of oil revenues and proactive lobbying by companies to reduce their contributions to the national budget (see Box 2) reduce the funds available to pay for much needed public services and infrastructure that could cut poverty. The poorest citizens also have to live with environmental damage, which in the Niger Delta is expected to take 30 years to clean up.<sup>125</sup> Recognizing these challenges and the importance of better oversight of the sector, the new government that came to power in May 2015 has made some far-reaching policy pronouncements and has taken action to remedy the situation, including the idea of reactivating small-scale and local refineries and requiring the Nigerian National Petroleum Corporation (NNPC) to publish monthly operational costs for the first time in its history.<sup>126</sup>

**Box 2: Oil companies in Nigeria have actively opposed tax measures that would benefit communities**

The Petroleum Industry Bill was first drafted in 2007 and has been debated for years. The proposed legislation provides for a new 10 percent tax on profits that is meant to flow to local communities, and an increase in royalty rates. Oil companies (mainly Shell, ExxonMobil, Chevron, Texaco and Total, all members of the Oil Producers Trade Section (OPTS) industry group) have long been opposed to the new Bill, as various reports attest; as one put it: 'International oil companies have been lobbying hard to have the fiscal terms proposed in the now-famous draft Petroleum Industry Bill (PIB) diluted.'<sup>127</sup>

Nigeria's new President, Muhammadu Buhari, was inaugurated on 29 May 2015. On 4 June, the House of Representatives actually passed the PIB. However, on 9 July it was reported that the new government planned to take the Bill 'back to square one, and especially that it would revise its fiscal terms',<sup>128</sup> according to documents leaked from within the ruling party.<sup>129</sup> The campaign appears to have been successful. 'The new administration has yet to determine what will go into the new bill but says it will be based on consultations with international oil companies', it was reported.<sup>130</sup>

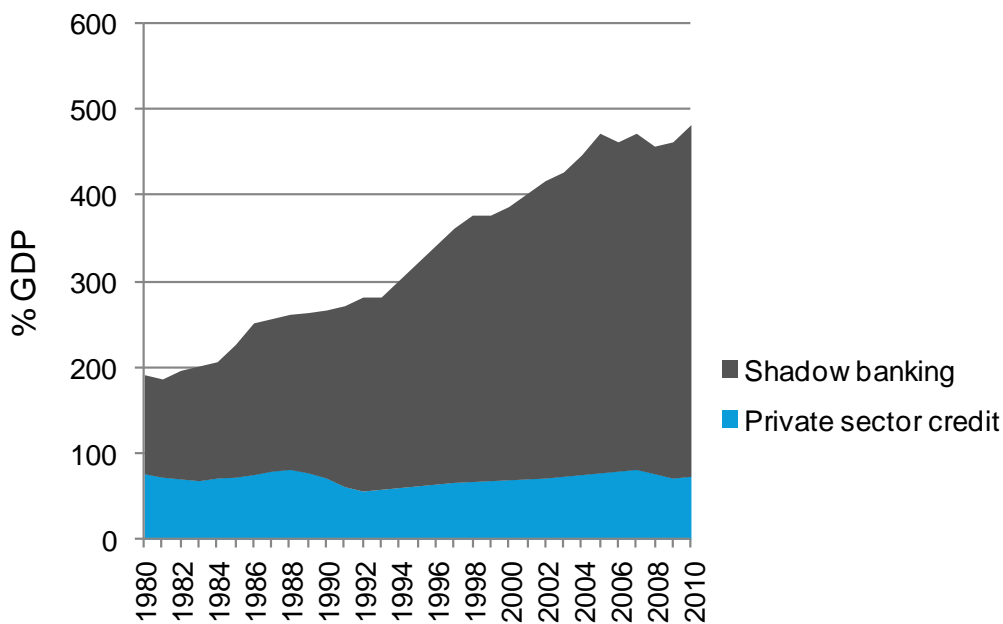
Source: Case study compiled by Mark Curtis of Curtis Research

## The financial sector

The financial sector has grown rapidly in recent decades, driven in particular by the growth of large banks and other financial companies in the US, Canada and Europe.<sup>131</sup> The sector now accounts for an estimated 15 percent of global GDP.<sup>132</sup> It has also created some of the biggest and most profitable companies in the world, including 437 of the world's 2,000 largest companies in 2014, according to the Forbes Global 2000 rankings; financial companies in this group have assets five times larger on average than non-financial companies.<sup>133</sup> Globally the sector has provided more people than ever before with access to financial services: 62 percent of the world's adult population now have an account, up from 51 percent in 2011.<sup>134</sup> It has also helped create vast wealth for individuals, with 20 percent of all dollar billionaires in the world in 2014 being listed as having interests or activities relating to the finance and insurance sectors.<sup>135</sup>

Since the 1980s, the activities of the financial sector have extended beyond providing financial services for citizens and business. They now include a sophisticated set of tools and processes designed to create value from transactions, speculation and asset prices, which are unrelated to value addition, output or productivity in the real economy, but which now dominate the sector.<sup>136</sup> This has been facilitated by the deregulation of the financial sector in the past 30 years.<sup>137</sup> The shadow banking sector (i.e. non-bank financial intermediaries who are not subject to regulatory oversight) now dominates the activities of the financial sector, as shown in Figure 7.<sup>138</sup> In the US, the financial industry now accounts for about 30 percent of all operating profits, double its share in the 1980s;<sup>139</sup> but is responsible for less than 10 percent of value-added in the economy.<sup>140</sup> At the individual level, it has been estimated that roughly 30–50 percent of the earnings of financial sector employees is over and above what they add in value.<sup>141</sup> Arguably the best example of the separation of value-added from earnings was the remuneration packages of the top executive teams at Bear Stearns and Lehman Brothers, who earned \$650m and \$400m respectively between 2003 and 2008 – a period in which these two firms were heading for one of the most spectacular failures in American financial history.<sup>142</sup>

**Figure 7: The growth of the financial sector as a % of GDP in the USA has been driven by growth in shadow banking activities rather than increasing private credit**

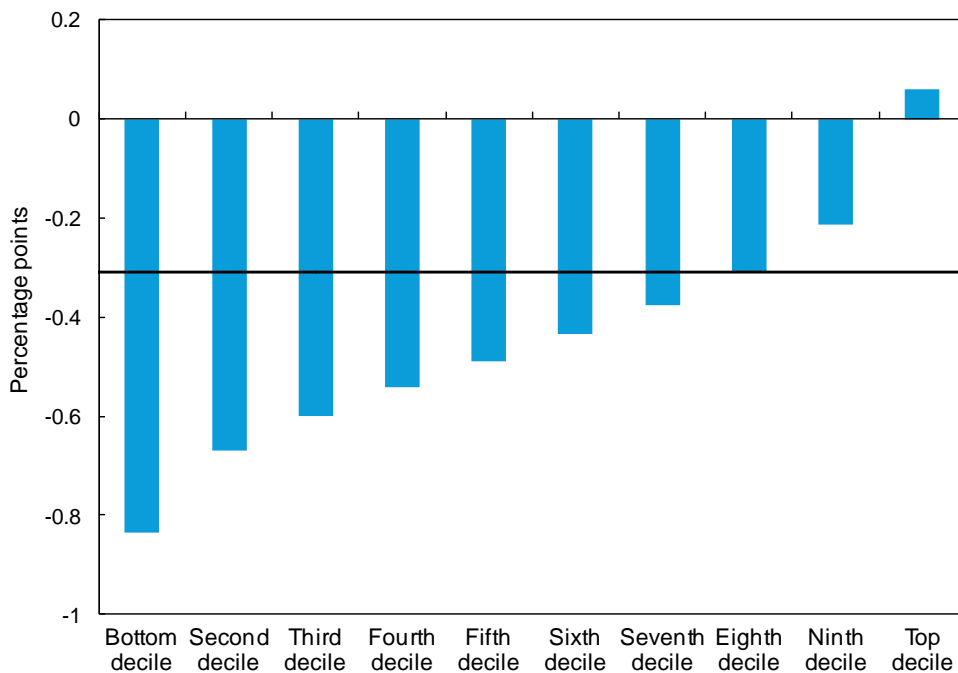


Source: R. Sahay et al. (2015) 'Rethinking Financial Deepening', IMF.

As profits and remuneration in finance outpace what takes place in the real economy,<sup>143</sup> the gap increases between the ultra-rich who have interests in this sector and everyone else, deepening inequality. The financial sector pays employees disproportionately high salaries, exacerbating wage inequality and also widening the gender pay gap, with men in the sector earning 22 percent more than women with similar profiles. As the financial sector grows, credit is extended to households that previously did not have access, but the terms and conditions of the credit on offer can increase inequality, as people with high incomes benefit from better investment opportunities and high returns (see Figure 8), while low-income earners borrow at a much higher cost. This is increasingly a problem where financial markets are excessively deregulated.<sup>144</sup> Larger financial sectors with weaker regulation can also result in the systematic under-pricing of risk, which can lead to the type of transactions and behaviours that were responsible for the financial crisis of 2008.<sup>145</sup> The banks have been bailed out by public funds, which ordinary people will have to pay for in generations to come. As a result of the interconnectedness of global finance and economies,<sup>146</sup> the costs of the protracted slowdown in growth have hit everyone. In Europe, for example, austerity measures have hit the poorest people hardest,<sup>147</sup> yet in the US the richest have been the first to recover – and recover strongly – with the top 1 percent capturing 95 percent of post-crisis economic growth.<sup>148</sup>



**Figure 8: The finance curse – a bigger financial sector hurts those at the bottom most and benefits those at the top**<sup>149</sup>



Note: Simulated effects of credit and stock market expansion vary across the income distribution; the figure shows a link between household income growth for different deciles and a 10% of GDP expansion of intermediated credit. Source: <http://www.oecd.org/eco/How-to-restore-a-healthy-financial-sector-that-supports-long-lasting-inclusive-growth.pdf>

The development of sophisticated tools and instruments to manage financial flows globally has also allowed companies and individuals to withdraw their money from jurisdictions all over the world illicitly and without being traced.<sup>150</sup> In particular, the banking sector has established a strong presence in tax havens, providing a safe haven for tax dodgers. The majority of offshore wealth is managed by just 50 banks, and the 10 busiest banks manage 40 percent of these offshore assets.<sup>151</sup> Banks have lobbied hard to preserve havens for international corporations looking to avoid taxes.<sup>152</sup>

In addition, the economies of countries with a large and dominant financial sector have been found to grow more slowly over time than those that are more balanced, as the dominance of finance crowds out other productive sectors.<sup>153 154</sup> Globally, the growing financial sector is also having an impact on economies beyond those where it currently dominates. In emerging markets, where there is still a great need for increased access to finance for the majority of citizens, there are already worrying signs that the sector is serving financiers and shareholders by working with high-margin corporate businesses, rather than providing services for the broader economy.<sup>155</sup> Women in particular miss out if the financial sector is not designed to meet their needs; for example, women in developing countries are 20 percent less likely than men to have a formal bank account, and 17 percent less likely to have borrowed money from a formal institution in the last year.<sup>156</sup>

With economic success come power and influence, particularly over the policies and institutions that are designed to control and regulate the sector's activities. Companies use their financial resources to pay thousands of lobbyists to directly influence policy makers. In 2014, finance and insurance companies spent just under \$500m on lobbying activities in Washington alone.<sup>157</sup> Investments by financial companies in research agendas and think tanks also have a big influence:

for example, in 2014 the financial sector gave at least £1.3m to fund the UK's 18 most powerful think tanks – raising questions about their independence.<sup>158</sup> Stretched government regulators face 'lawyers, lobbyists, and under-written think tanks – all of whom have the time and money to present extensive, if wildly biased, legal and economic arguments', according to one analysis.<sup>159</sup>

At the individual level, financial managers also exploit opportunities to shift rents to themselves, sometimes through illicit means.<sup>160</sup> A recent survey of financial sector workers in the US and the UK found that more than one-third (34 percent) of those earning \$500,000 or more annually had witnessed or had first-hand knowledge of wrongdoing in the workplace. Twenty-three percent of respondents believed it was likely that fellow employees had engaged in illegal or unethical activity in order to gain an edge, nearly double the 12 percent who reported this in 2012.<sup>161</sup> Similarly, one-third of UK-based finance professionals feel under pressure to compromise their ethical standards in the workplace.<sup>162</sup> Recent scandals across the world involving bankers engaged in predatory and discriminatory lending, abusive credit card practices, market manipulation (e.g. of the Libor rate) and a host of other misdeeds have led to the widespread view that there is also a moral deficiency, a culture of corruption, in the sector.<sup>163</sup>

## **The garment sector**

Globalization and with it the increase in cross-border trade have created opportunities for low-wage economies to be highly competitive in international markets for goods and services that require a large concentration of employees for their production and delivery. A number of countries, particularly in East Asia, have embraced this opportunity, with low-wage employment being a core foundation of their growth and development. China, for example, has experienced rapid export-led growth over the past three decades, creating millions of jobs<sup>164</sup> and enabling hundreds of millions of people to work their way out of extreme poverty. In particular, the growth of the garment sector in many Asian economies has been critical to their development strategies.

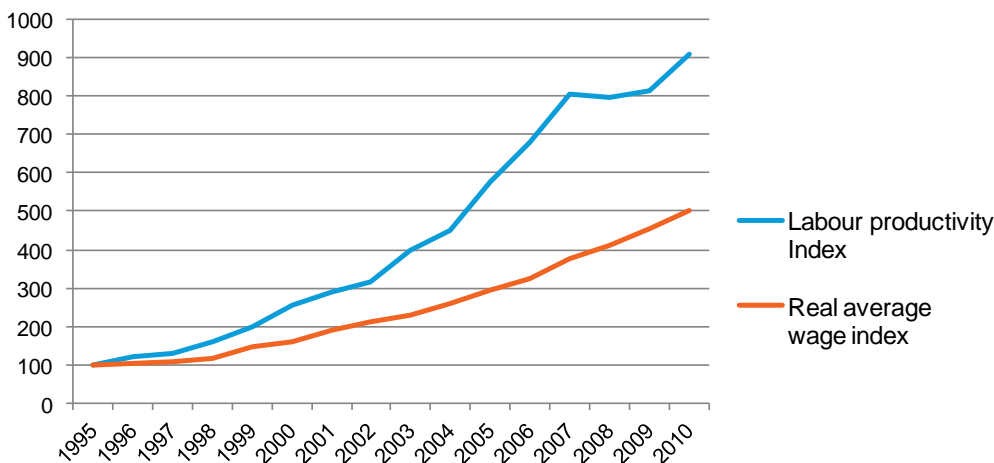
For the labour-intensive garment sector, keeping wages low and productivity high is crucial to success. Retail businesses, particularly in the US and Europe, have deliberately pursued a model of outsourcing production to low-wage economies, taking advantage of global-level policy and political changes. The resulting structure creates a separation between the retail side of the business, where prices are set and brand reputation is critical, with the production side, diluting the company's responsibility and accountability to workers and the conditions they are employed under. Global brand buyers are able to draw on a variety of potential suppliers from all over the world, leaving these suppliers in a state of constant competition for contracts and pitting low-wage workers against each other across countries, leaving them with little leverage in the supply chain.

Research suggests that wages could be increased with minimal increases in the prices paid by retailers or consumers.<sup>165</sup> However, price pressures and the limited bargaining power of workers mean that even small increases are resisted because of their impact on profitability.<sup>166</sup> Governments seeking to attract investment and create jobs also have an incentive to maintain this arrangement, which keeps labour costs as low as possible for international investors; they often further encourage MNCs to use local labour by offering tax incentives and access to land and by overlooking environmental risks. Hence in China, for example,

while productivity in the garment sector has doubled, wages have increased by only half as much (see Figure 9).<sup>167</sup>

Between 2001 and 2011, wages for garment workers in most of the 15 leading apparel-exporting countries actually fell in real terms.<sup>168</sup> The acceptability of paying women lower wages has been cited as a key factor in increasing profitability; in many instances the lowest-paid roles are taken by women, and gender inequalities are specifically cited as facilitating this process.<sup>169</sup> This clearly pays dividends for companies further up the supply chain, as production costs remain low and the prices paid by apparel buyers for products fall.<sup>170</sup> The majority of value-added in the garment value chain shifts to the buyers, who control intangible activities such as product development, design, marketing, branding and management; these are estimated to constitute some 60–75 percent of added value.<sup>171</sup> The distribution of proceeds from this sector is maintained by vested interests at the top of the supply chain, who exercise their economic and political power to extract maximum profit at the expense of workers.

**Figure 9: Jobs and productivity grow in the Chinese garment sector, but real wages fall behind**<sup>172</sup>



Source: M-H. Lim (2014), 'Globalization, Export-Led Growth and Inequality'

Textiles have made an important contribution to growth and job creation in Bangladesh,<sup>173</sup> with the sector accounting for 75 percent of all manufacturing jobs in the country. However, its proceeds are primarily captured by companies higher up the value chain and are absorbed in national growth statistics, which masks the distributional effects. Most jobs are low-skilled and low-prospect and are often precarious, and 85 percent of textiles workers are women.<sup>174</sup> Compounding this, Bangladeshi women also shoulder the vast majority of unpaid care and domestic responsibilities, with little support from men in the household or through state provision of services. For example, women garment workers are four times more likely than men to look after sick children or dependants.<sup>175</sup> The sector has fallen disappointingly short of its potential to provide good-quality jobs and good working conditions, with associated social and development benefits.

The injustice felt by workers goes beyond pay. The plight of workers in garment factories in Bangladesh captured international attention in April 2013, when 1,134 workers<sup>176</sup> were killed in the collapse of the Rana Plaza factory in Dhaka. People are losing their lives as companies seek to maximize profits by circumventing necessary safety practices. Despite all the attention and rhetoric following this tragedy, however, the short-term financial interests of buyers still dominate

activities in the sector, and reports of inadequate safety and fire standards persist.<sup>177</sup>

The need to distribute rewards more fairly down the supply chain in the garment sector is now well appreciated and increasingly is being called for. Progress has been made in several countries where buyers have helped build the case for higher wages and better conditions for workers, recognizing the injustice of the current balance of power. In Myanmar, for example, when the government published its proposed national minimum wage in July 2015, a number of garment manufacturers called for an opt-out, claiming that paying it would make their businesses unsustainable. Prompted by Oxfam, and with leadership from the Ethical Trading Initiative (ETI) in the UK and the Fair Labor Association in the US, 30 European and US brands (including Tesco, Marks & Spencer, Primark and Gap) wrote to the Myanmar government, arguing that 'a minimum wage that has been negotiated by all parties will attract rather than deter international companies from buying garments from Myanmar'. This prompted a lively debate in the local media. The call for an opt-out was rejected and the new minimum wage was confirmed with effect from 1 September 2015.<sup>178</sup>

Unfair labour conditions are putting brand reputations at risk, and in response a plethora of social auditing and certification schemes have been introduced. Larger brands have placed more staff at the country level to monitor factories and advise employers on ways to improve working conditions. However, these efforts fail to address the more structural features of how the global apparel industry works. Brands and buyers have the power to squeeze costs at one end of the supply chain while commanding profits at the other, while certain governments keep wages deliberately low in order to attract business.<sup>179</sup> What is needed is a redesign of the structure to deliver a fairer share of value and to ensure that the market rewards employers, brands and retailers for delivering good-quality jobs to the people who make their products.

## CORPORATE DOMINATION

### **Monopoly: the power of one**

Where a single company dominates a market, its activities and strategies can determine the prices and products on offer. A lack of competition presents opportunities for companies to set prices that enable them to extract returns over and above real value and productivity. It is unusual to find a pure monopoly, where a single entity controls 100 percent of the market, but there are many examples of companies with monopoly power, where they have a market share of more than 25 percent. Examples include household names such as Google, which has 69 percent of the global Internet search engine market and in 2014 reported profits of \$4bn. Google not only defines how the Internet is used but also has a major influence on data protection laws around the world.<sup>180</sup> Other monopoly companies are less in the public eye but nevertheless have a significant impact on people's lives. Some 80 percent of the corn harvested in the US is genetically engineered by Monsanto, a company that also dominates the global research agenda for genetically modified (GM) crops and their safety standards.<sup>181</sup> These corporate behemoths not only have the power to set prices to maximize their profits, with little threat of competition, but they also influence the politics of these markets, which has a much further-reaching impact on societies.

The alcohol industry has witnessed huge market concentration since the late 1970s. Between 1979 and 2006, the 10 largest beer producers more than doubled their share of the global market, from 28 percent to 70 percent.<sup>182</sup> The Belgium-based Anheuser-Busch InBev (AB InBev) is the world's largest brewing company, and sells over 200 different brands of beer across Europe, Asia and America. Not only does the company dominate the market – it has a powerful political voice too. It spent \$3.7m lobbying the US government in 2014, and 56 of the 141 lobbying reports it filed were on issues relating to taxation.<sup>183</sup> AB InBev has used its influence to deliberately target legislation designed in the public interest, for example establishing voluntary advertising standards to avoid limitations on advertising to young people.<sup>184</sup> In Brazil before the 2014 World Cup, the company was involved with FIFA in pressuring the government to change a law banning the consumption of alcohol at football matches, so that its products could be sold.<sup>185</sup> Small retailers also pay a price for corporate dominance. In the US, the Justice Department is currently probing allegations that AB InBev is curbing competition by buying up distributors, making it harder for micro-breweries to get their products onto store shelves.<sup>186</sup>

Last year AB InBev made a bid to consolidate its hold on the market even further by proposing to acquire SAB Miller, the second biggest company in the global beer market (and the largest in Africa). If the deal goes through, the merged company will have combined sales of \$73bn and will further boost the collective fortune of the three founders of AB InBev, which stood at \$49bn in 2015. Brazilian businessman Marcel Hermann Telles owes much of his wealth to his controlling shares in the company, which he owns through private equity firm 3G Capital, together with fellow billionaires and long-time partners Carlos Sicupira and Jorge Paulo Lemann.<sup>187</sup>

However, market dominance does not necessarily have to result in exploitation and political interference. The Japanese group YKK, for instance, has a 45 percent share of the global market for zippers, and 132 subsidies in 62 countries. It has spent no money on lobbying in the US in recent years and its activities have been influenced strongly by its corporate ethics and company structure, which delivers value back to its employees rather than to shareholders.

## **Intellectual property owners: to have and to hold**

Intellectual property rights (IPR), including patents, trademarks and copyright privileges, are designed to incentivize innovation by striking a balance between the interests of innovators and the wider public interest. These rights are issued at a national level, but the standards of IPR are decided at the global level. Membership of the World Trade Organization (WTO) automatically means that countries are signatories to the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement, which sets standards for all WTO member countries regardless of their individual health and development levels and needs. Applications for international IPR continue to grow in number, with 2.57m patent applications filed worldwide in 2013, a 9 percent increase compared with 2012.<sup>188</sup> The vast majority of these applications – 96 percent – are from businesses in high- or upper-middle-income countries, and more than 800 were filed with the China office of the World Intellectual Property Organization alone.<sup>189</sup>

Intellectual property, especially patents, is strongly guarded by the pharmaceutical industry, one of the most profitable industries on the planet and

one that has helped more than 90 individuals become billionaires.<sup>190 191</sup> As new medicines can be time-consuming and expensive to develop, pharmaceutical companies consider IPR as almost the only incentive for them to invest in research and development (R&D). IPR prevent other companies from producing the same drugs, effectively giving the IP holder a monopoly and hence the ability to dictate prices – in practice, determining who can access a medicine and who cannot. By creating a monopoly, IPR also create incentives for ‘Big Pharma’ to maximize its profits by charging inflated prices, at the expense of sick and vulnerable people. While IPR are supposed to stimulate innovation, in reality the system is driven by commercial interests and not by public health.

A flagrant example of this occurred in September 2015 when the price of Daraprim (pyrimethamine), a 62-year-old medicine used to treat the life-threatening parasitic infection toxoplasmosis, increased overnight from \$13.50 to \$750 per tablet. This followed the purchase of US marketing rights to this essential medicine by Turing Pharmaceuticals, a company run by a former hedge fund manager, who spotted the potential for bigger profits by having exclusive rights over its production. Actavis,<sup>192</sup> another pharma company, makes no claims to invest in R&D and has been established solely to extract profits from the market.<sup>193</sup> This enterprise has so far yielded enormous returns for investors, with share prices increasing by 350 percent in just over two years.<sup>194</sup> In fact, Big Pharma has been found to be doing less and less high-risk R&D. In the US, roughly 75 percent of so-called new molecular entities with priority rating (the most innovative drugs) trace their existence to public funding rather than to Big Pharma.<sup>195</sup> These companies also spend more on marketing than they do on R&D.<sup>196</sup>

Pharma companies are well known for their intense and successful lobbying of policy makers. In 2014 they spent more than \$228m in Washington alone.<sup>197</sup> In particular, their lobbying efforts include attempts to extend IPR, both in the duration of market exclusivity and by widening the scope of IP rules; this is often in the form of direct pressure, such as US pressure on India to change its IP rules, or is enshrined in the provisions of free trade agreements (FTAs).<sup>198</sup> Companies also frequently lobby against decisions made by governments in the interests of citizens’ health. When Thailand introduced compulsory licensing for a number of key medicines in 2006<sup>199</sup> – a legal provision in TRIPS that allows governments flexibility to offer licences to companies to produce medicines locally or import inexpensive generic versions without the permission of the international patent holder – pharma companies put intense pressure on the country to revoke the decision. Influenced by their campaign, the Office of the US Trade Representative (USTR) put Thailand on the Special 301 list of countries that could be liable for trade sanctions,<sup>200</sup> and the European Commission pressed the Thai government to reverse its decision.<sup>201</sup> Another pharmaceutical company, Eli Lilly, has taken the Canadian government to court over its move to make drugs more affordable.<sup>202</sup>

Pharmaceutical companies are of critical importance to global health, but their financial strength also gives them undue influence over policies even beyond access to medicines. Pfizer has regularly lobbied the US government on tax cuts, claiming that the corporation tax rate in the US makes it uncompetitive with its rivals. Pfizer has not persuaded the government to reduce the rate, but instead it plans to shift profits to a jurisdiction with a lower tax rate by acquiring another company overseas.<sup>203</sup> Its recent announcement of a merger with Ireland-based









medicines, including in affordable generics; and excluding intellectual property rules from trade agreements. Pharma tries to justify high prices by the cost of R&D, ignoring the fact that initial research and even some clinical trials are usually funded by the public purse. Financing for R&D must be delinked from the pricing of medicines in order to break the companies' monopoly, and proper financing of R&D for needed therapies must be ensured, as must the affordability of the resulting products.

- **Share the tax burden fairly to level the playing field:** Too much wealth is concentrated in the hands of the few. The tax burden is falling on ordinary people, while the richest companies and individuals pay too little. Governments must act together to correct this imbalance. Specific commitments must include: shifting the tax burden away from labour and consumption and towards wealth, capital and income from these assets; transparency on tax incentives; and national wealth taxes.
- **Use progressive public spending to tackle inequality:** Prioritize policies, practice and spending that increase financing for free public health and education to fight poverty and inequality at the national level. 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.

**As a priority, Oxfam is calling on world leaders to agree a global approach to end the era of tax havens.**

This paper has examined how the wealthy and powerful have used economic systems and structures to their benefit, to the exclusion of others. This is most apparent in tax systems, where companies and individuals actively seek to reduce their tax burden through the use of complex accounting mechanisms and international loopholes. This increases their profits, channelling returns to shareholders as opposed to society in general; societies need tax revenues to fund essential public services and infrastructure, on which these companies and individuals also depend. The existence of tax havens in particular allows income and wealth to flow offshore, untaxed and in secret – a legal means created for the rich to stay rich and to prevent essential redistribution that would reduce inequality and benefit society overall. Tax havens are an injustice that undermines the progressive principles upon which most tax systems are based. Until the rules are changed and there is fairer global governance of tax matters, tax dodging will continue to drain public budgets and undermine the ability of governments to tackle inequality. To change this requires global coordination.

All governments need to commit to a second generation of tax reforms to effectively put an end to harmful corporate tax practices in a way that benefits all countries. Specific measures should include:

- An effective approach to tackling corporate tax havens and harmful tax regimes, including non-preferential regimes, and putting an end to the race to the bottom in general corporate taxation. Such an approach requires all countries – including developing countries – to be involved on an equal footing. Ultimately, truly global cooperation will require the establishment of a global tax body under the auspices of the United Nations as the only legitimate representative global institution.
- Addressing the race to the bottom and the role of unproductive tax incentives

in harmful tax competition through greater transparency of the incentives provided to multinational companies (including tax exemptions and holidays, corporate income tax, withholding tax, VAT and customs duties). Cost–benefit analysis should be conducted to measure the social impact needs which should be agreed prior to decisions. The investment climate can often be improved through more effective measures than tax incentives.

- Promote worldwide tax transparency by requiring multinational companies to make country-by-country reports publicly available for each country in which they operate, including a breakdown of their employees, physical assets, sales, profits and taxes (due and paid), so that there can be an accurate assessment of whether they are paying their fair share of taxes.

To end the era of secrecy jurisdictions for financial assets, governments should ensure:

- The establishment of public registers of the beneficial owners of all companies, foundations and trusts;
- The implementation of a multilateral system for exchanging tax information on an automatic basis, which would include developing countries with non-reciprocal commitments (i.e. no obligation to send information until they have established the capacity to do so).

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