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.

OXFAM

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.[1] 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%'[2] 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.

62 INDIVIDUALS

Have the same wealth as the poorest 3.6 billion people in the world

$542 BILLION

The increase in wealth of the richest 62 individuals since 2010

$1 TRILLION

The fall in wealth of the poorest 3.6 billion people since 2010

1%

Since 2000, the poorest half of the global population received only 1% of the increase in global wealth

50%

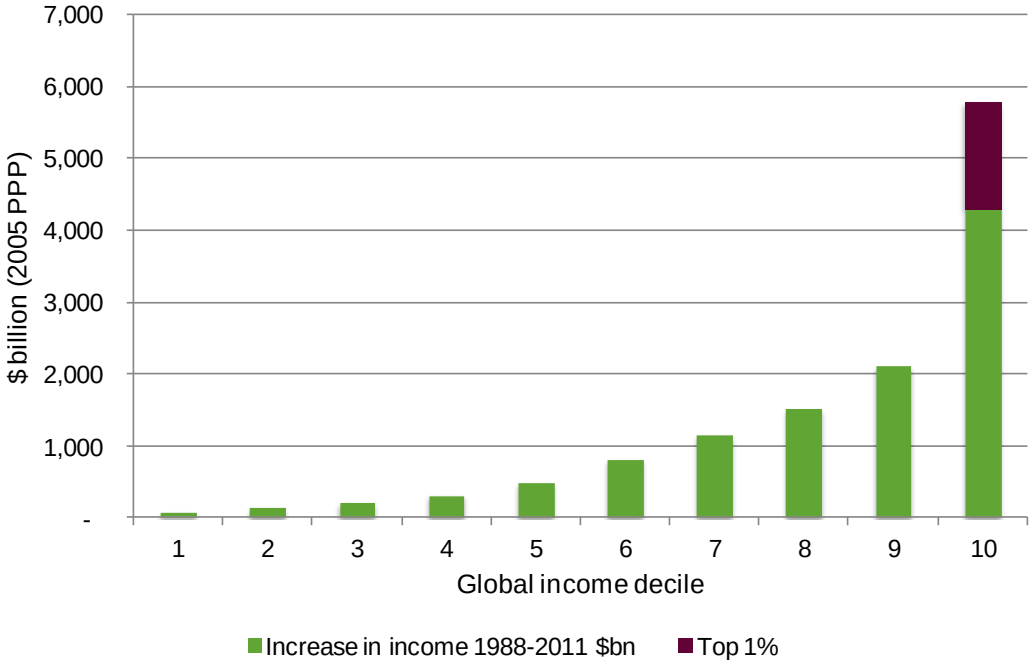
The amount of the global wealth increase since 2000 received by the top 1%

$3

Rise in the average annual income of the poorest 10% of people in the world

A child watches traffic in Manila, Philippines, 2014. Photo: Dewald Brand, Miran, for Oxfam

Figure: Global income growth that accrued to each decile 1988–2011: 46% of the total increase went to the top 10%[3]



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[4] 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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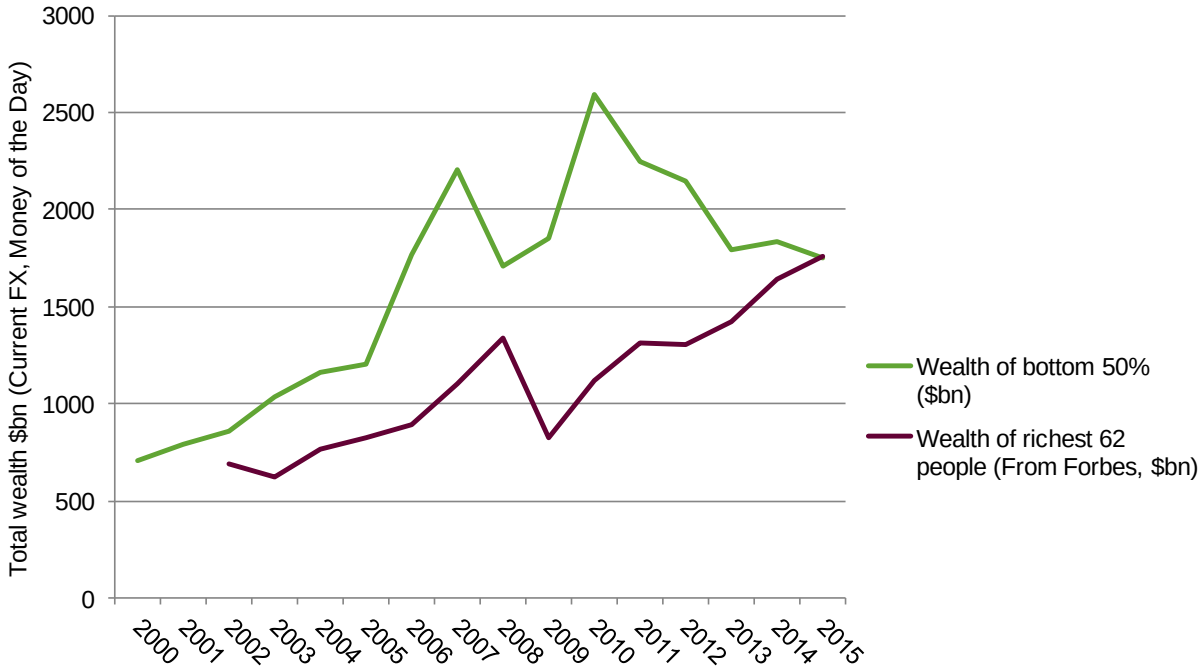
Figure: The wealth of the richest 62 individuals continues to grow, while that of the poorest half of the world stagnates[5]



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.[6] 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.[7] 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?

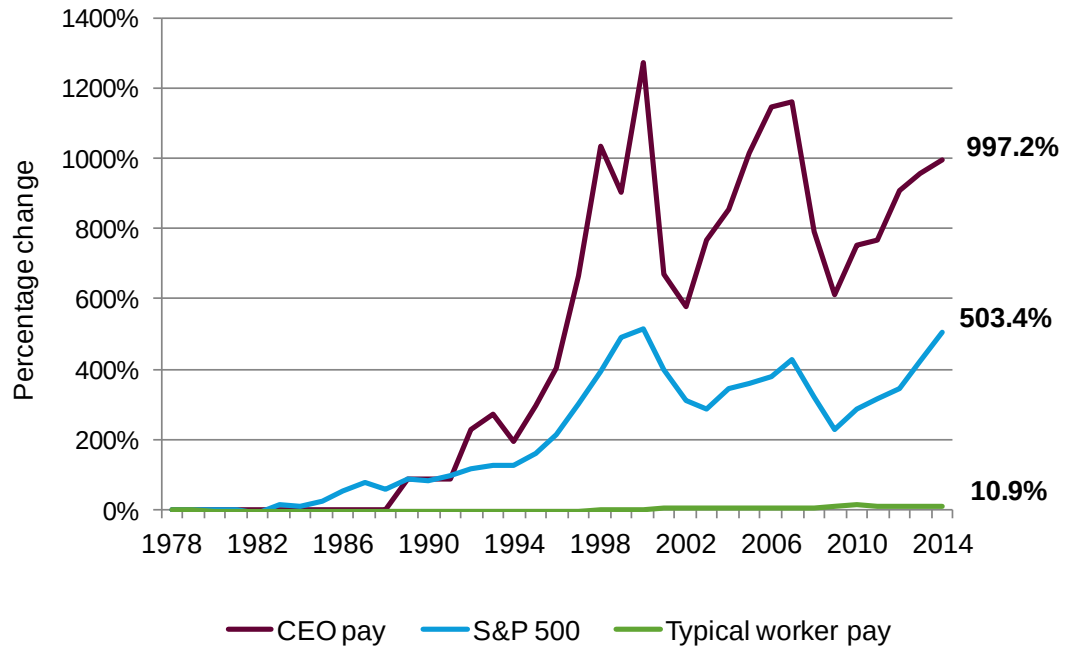
One of the key trends underlying this huge concentration of wealth and incomes is the increasing return to capital versus labour. In almost all rich countries and in most developing countries, the share of national income going to workers has been falling. This means workers are capturing less and less 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.

Myanmar garment workers travel home after their shift in Hlaing Thayar, an industrial zone in Yangon. Photo: Dr Kaung Thet/Oxfam

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.

Figure: In the United States, pay rises for CEOs are far outstripping increases for average workers[8]



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.

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Tax avoidance has rightly been described by the International Bar Association as an abuse of human rights[9] 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.

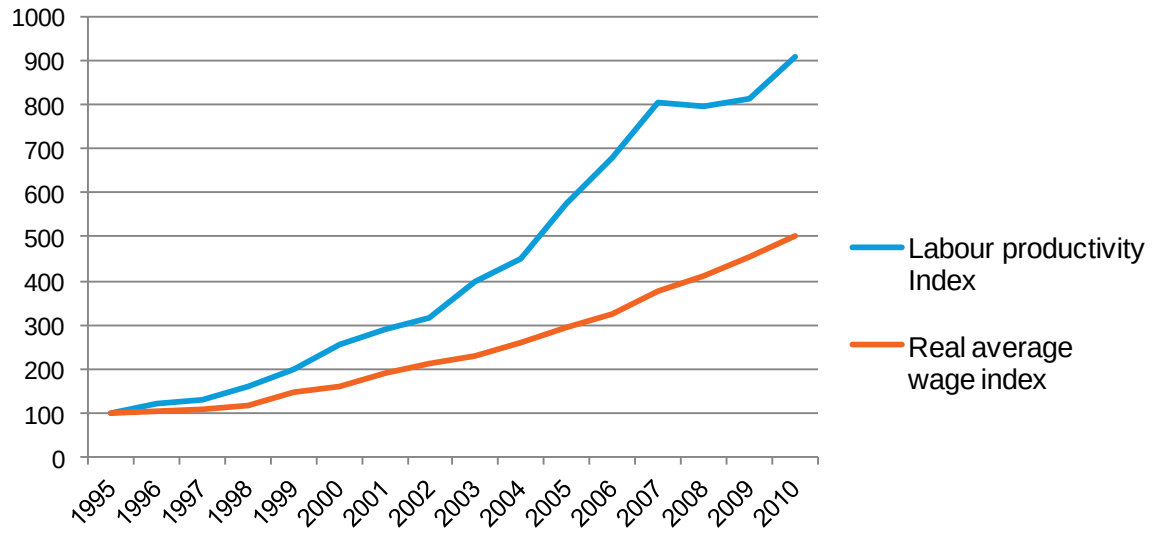
Companies working in oil, gas and other extractive industries are using their economic power in many different ways to secure their dominant position. This has a huge cost to the economy, and secures them profits far higher than the value they add to the economy. They lobby to secure government subsidies – 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[10] 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 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.

Figure: As jobs and productivity in the Chinese garment sector grows, real wages fail to keep up[11]



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**.**

NOTES

1 Credit Suisse (2015) 'Global Wealth Databook 2015'. Total net wealth at constant exchange rate (USD billion). http://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=C26E3824-E868-56E0-CCA04D4BB9B9ADD5

2 D. Hardoon, R. Fuentes-Nieva and S. Ayele (2016) 'An Economy for the 1%: How privilege and power in the economy drive extreme inequality and how this can be stopped', Oxfam, http://oxf.am/ZniS

3 Source: Oxfam calculations based on 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.

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5 Source: Oxfam calculations from data sources : wealth of the bottom 50% from Credit Suisse, 'Global Wealth Databook 2015'; data on the net wealth of the richest 62 individuals from Forbes' annual list of billionaires.

6 C. Gonzales, S. Jain-Chandra, K. Kochhar, M. Newiak and T. Zeinullayev (2015) 'Catalyst for Change: Empowering Women and Tackling Income Inequality'. IMF. http://www.imf.org/external/pubs/ft/sdn/2015/sdn1520.pdf

7 T. Gore (2015) 'Extreme Carbon Inequality: Why the Paris climate deal must put the poorest, lowest emitting and most vulnerable people first', Oxfam, http://oxf.am/Ze4e

8 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

9 M. Cohn (2013) 'Tax Avoidance Seen as a Human Rights Violation', *Accounting Today*. http://www.accountingtoday.com/news/Tax-Avoidance-Human-Rights-Violation-68312-1.html

10 OECD (2012) 'OECD Employment Outlook 2012', OECD Publishing. Chapter 3, 'Labour losing to capital: what explains the declining labour share?'. http://www.oecd.org/els/employmentoutlook-previouseditions.htm

11 Chart reproduced from M-H. Lim (2014), 'Globalization, Export-Led Growth and Inequality, The East Asian Story', South Centre. http://www.southcentre.int/wp-content/uploads/2014/11/RP57_Globalisation-Export-led-Growth-and-Inequality-rev_EN.pdf

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For further information on the issues raised in this paper please e-mail advocacy@oxfaminternational.org

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