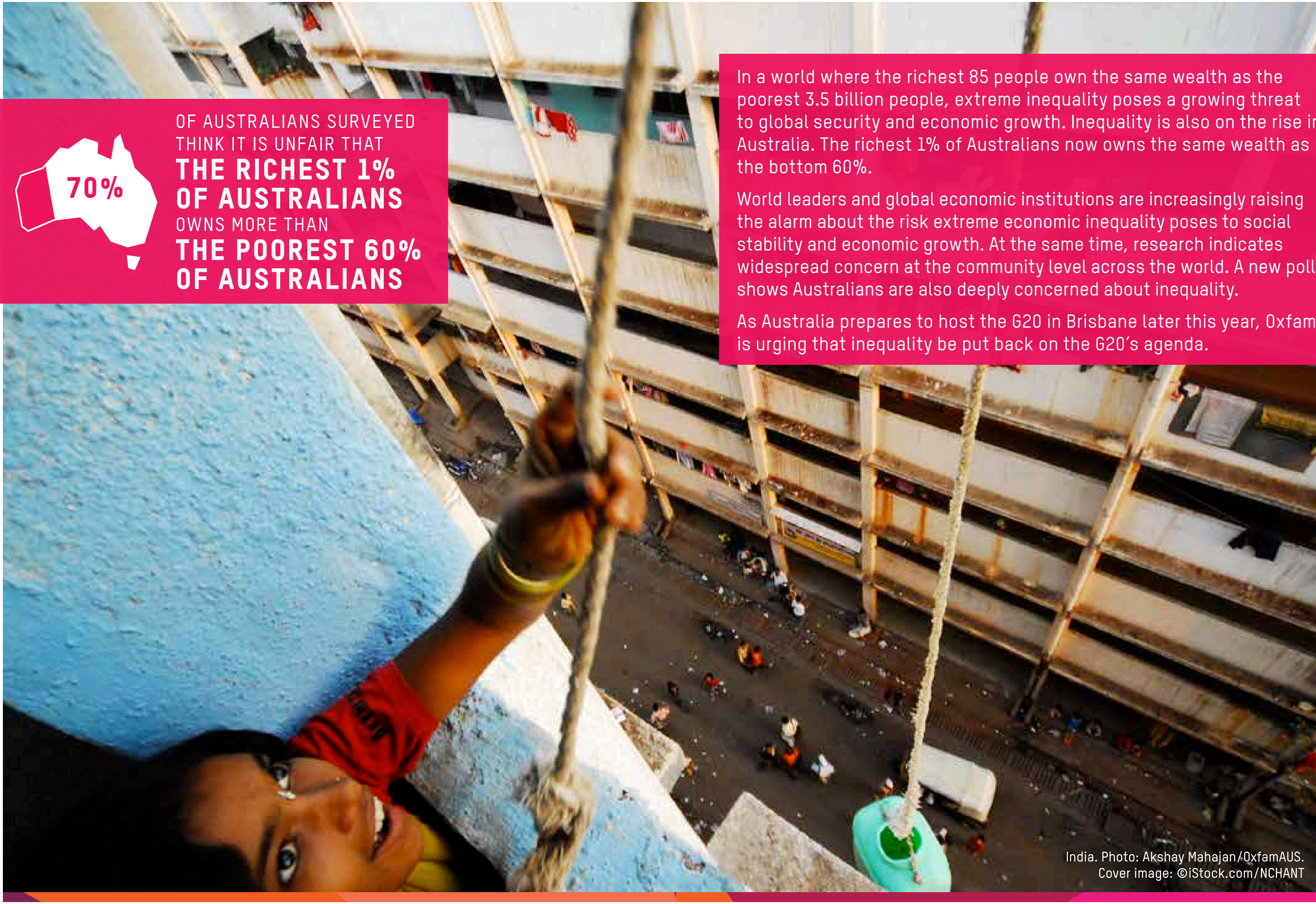
STILL THE LUCKY COUNTRY?

THE GROWING GAP BETWEEN RICH AND POOR IS A GAPING HOLE IN THE G20 AGENDA

JUNE 2014 – OXFAM AUSTRALIA



70% OF AUSTRALIANS SURVEYED THINK IT IS UNFAIR THAT **THE RICHEST 1% OF AUSTRALIANS** OWNS MORE THAN **THE POOREST 60% OF AUSTRALIANS**

In a world where the richest 85 people own the same wealth as the poorest 3.5 billion people, extreme inequality poses a growing threat to global security and economic growth. Inequality is also on the rise in Australia. The richest 1% of Australians now owns the same wealth as the bottom 60%.

World leaders and global economic institutions are increasingly raising the alarm about the risk extreme economic inequality poses to social stability and economic growth. At the same time, research indicates widespread concern at the community level across the world. A new poll shows Australians are also deeply concerned about inequality.

As Australia prepares to host the G20 in Brisbane later this year, Oxfam is urging that inequality be put back on the G20's agenda.

India. Photo: Akshay Mahajan/OxfamAUS.
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THE WORLD IS BECOMING INCREASINGLY UNEQUAL. SO IS AUSTRALIA.

Over the past 30 years the gap between the rich and the poor has increased rapidly in a majority of the world's countries. Oxfam has previously reported that inequality is so severe that the 85 richest people in the world own the same as half of the world's population — 3.5 billion people. In a matter of months, that number has reduced to just 66.[1]

This increasing inequality is evident in all but four G20 member countries and Australia is no exception.[2] The richest 1% of Australians owns the same wealth as the bottom 60%. Australia's richest person owns more than the bottom 10% of the population combined (2.27 million people) and the nine richest individuals have a net worth of US $54.8 billion, more than the bottom 20% (4.54 million people).[3]

Income inequality in Australia has been on the rise since the mid 1990s, despite all sections of Australian society experiencing some increase in income during the same period.[4] In 1995, Australia had an average level of inequality compared to other wealthy OECD member countries. Today, we are below average, having become less equal than our peers despite having a better-performing economy than most.[5]

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THE PROBLEM WITH INEQUALITY

While some economic inequality is essential to drive growth and progress, the extreme levels of wealth concentration occurring today threaten to exclude hundreds of millions of people from realising the benefits of their talents and hard work. Extreme economic inequality is damaging and worrying for many reasons: it is morally questionable; it can have negative impacts on economic growth and poverty reduction; and it can multiply social problems. It also compounds other inequalities, such as those between women and men.[6]

Oxfam's research has shown that, in many countries, extreme inequality is worrying because of the negative impact that wealth concentrations can have on equal political representation.[7] When wealth captures government policymaking, the rules bend to favour the rich, often to the detriment of everyone else. The consequences include the erosion of democratic governance, the pulling apart of social cohesion, and the vanishing of equal opportunities for all.

Oxfam is concerned that, left unchecked, the effects of growing inequality are potentially immutable, and will lead to "opportunity capture" — in which the lowest tax rates, the best education and the best healthcare are claimed by the children of the rich. This creates dynamic and mutually reinforcing cycles of advantage that are transmitted across generations.

Phnom Penh,Cambodia. Photo: Timothy Herbert/OxfamAUS

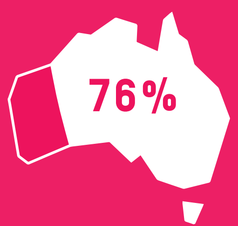
GROWING GLOBAL CONCERN

Oxfam is not alone in raising concerns about extreme inequality and its impacts. Indeed, there is a growing chorus of international concern, with leading international economic organisations including the World Bank, the World Economic Forum and the Organisation for Economic Co-operation and Development (OECD), together with International Monetary Fund (IMF) chief Christine Lagarde, sounding the alarm. Political leaders, such as US President Barack Obama[8] and Chinese President Xi Jinping, and religious leaders, such as Pope Francis[9], have been urging action.

In November 2013, the World Economic Forum released its "Outlook on the Global Agenda 2014", in which it ranked widening income disparities as the second greatest worldwide risk for the year. The outlook highlighted that the "difference between rich and poor is becoming more extreme" and is "impacting social stability within countries and threatening security on a global scale".[10] Similarly, IMF staff, in two strongly worded reports[11], identified inequality as a growing risk to economic growth, stating:

> "IT WOULD STILL BE A MISTAKE TO FOCUS ON GROWTH AND LET INEQUALITY TAKE CARE OF ITSELF, NOT ONLY BECAUSE INEQUALITY MAY BE ETHICALLY UNDESIRABLE BUT ALSO BECAUSE THE RESULTING GROWTH MAY BE LOW AND UNSUSTAINABLE."[12]
>
> OSTRY, BERG AND TSANGARIDES — "IMF STAFF DISCUSSION NOTE", REDISTRIBUTION, INEQUALITY, AND GROWTH.

Concern is also spreading rapidly at the grassroots. Oxfam's polling from across the world shows that many citizens believe that laws and regulations are now designed to benefit the rich. A survey in six countries (Spain, Brazil, India, South Africa, the UK and the US) showed that a majority of people believe that laws are skewed in favour of the rich — in Spain eight out of ten people agreed with this statement.[13]



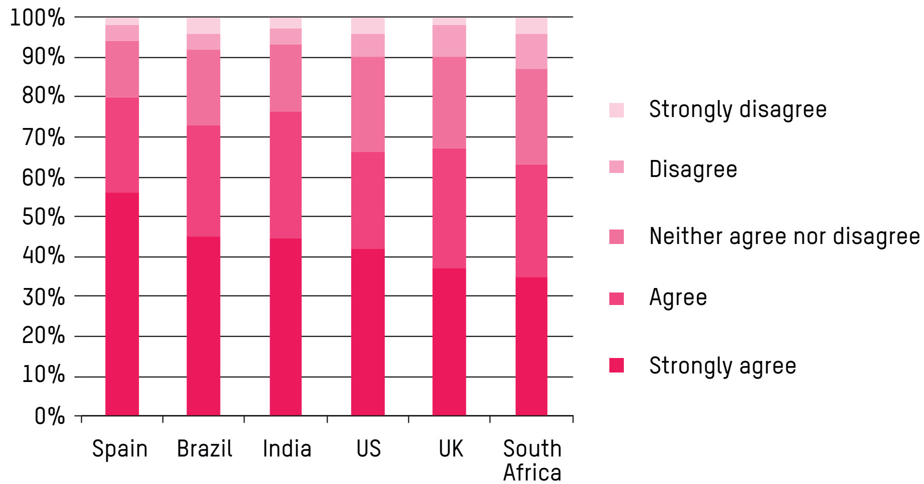
OF AUSTRALIANS SURVEYED THINK THE VERY WEALTHY **DON'T PAY ENOUGH TAX**

In a new national poll commissioned by Oxfam Australia, 79% of respondents believed the rich had too much influence over where Australia is headed.

Oxfam's research also found:

- 79% of Australians surveyed think the gap between richest and poorest Australians has widened over the past decade and 64% of those thought that this was making Australia a worse place to live.[14];
- 70% of Australians surveyed think it is unfair that the richest 1% of Australians owns more than 60% of the poorest Australians;
- 76% of Australians surveyed think the very wealthy don't pay enough tax;
- 75% surveyed think it is important that the Australian Government take action to close the gap between average and poor Australians, and the richest Australians; and
- 79% of Australians surveyed want world leaders to tackle the growing issue of inequality.

FIGURE 3: OXFAM SURVEY ON ATTITUDES TO WEALTH AND POWER IN SIX COUNTRIES



Source: Oxfam own polling. Respondents were asked whether they agreed with the statement "The rich have too much influence over where this country is headed".

INEQUALITY ON THE G20 AGENDA

Australia, as President of this year's G20, has outlined two overarching objectives:

- promoting stronger economic growth and employment outcomes; and
- making the global economy more resilient to deal with future shocks.

The emphasis of the Australian presidency is the first of these objectives, with a specific aim of raising the level of G20 output by at least 2% over the next five years. Discussion of inequality has, so far, remained glaringly absent from the agenda.

There appears to have been a shift in G20 focus from 'inclusive growth', which appeared throughout last year's G20 communiqué, to 'balanced growth'. G20 leaders, meeting in Seoul in 2010, committed themselves to promoting 'inclusive, sustainable and resilient growth', highlighting that this must "take precedence over business as usual" and recognising that 'for prosperity to be sustained it must be shared'.[15] Four years later, in the context of extreme and growing income inequality and a rising chorus of concern from kitchen tables to presidential suites, Oxfam is concerned the G20 is turning its back on this commitment.

For the G20 to drive strong, sustainable and balanced growth across developed and developing economies, it must address the threat posed by growing inequality. Australia should have a particular interest in prioritising this given the impact of inequality on regional development and growth targets in the Asia-Pacific region. As the Asian Development Bank recently argued:

> 'FOR ASIA AND THE PACIFIC, WHERE STELLAR GROWTH IS BEING CHALLENGED BY STILL PERVASIVE POVERTY AND RISING INEQUALITY, INCLUSIVE GROWTH MUST BE MORE THAN JUST A HIGHLY DESIRABLE BUT RATHER VAGUE GOAL: IT IS AN IMPERATIVE FOR ACHIEVING SUSTAINED AND EQUITABLE GROWTH.'[16]

ASIAN DEVELOPMENT BANK — ADB'S SUPPORT FOR INCLUSIVE GROWTH.

From a national interest perspective and for the success of the G20's core economic agenda, Australia must put inequality on the agenda for G20 leaders when they meet in Brisbane later this year.

Afghanistan. Photo: Jason P. Howe/Oxfam.

INTERNATIONAL TAX REFORM

Apart from renewing their commitment to inclusive and shared growth, G20 leaders can and must take steps to fix the broken international tax system that is a major contributor to increasing inequality. Rampant tax dodging by multinationals and wealthy individuals is draining away revenues from national budgets and creating a division between those who pay their taxes and those who have the means to avoid them.

Tax avoidance by digital brands in developed countries has recently captured global and Australian headlines. However, the shifting of profits by multinational companies out of developing and least developed countries is even more pernicious and is a prominent factor undermining prospects for stable global economic growth.[17] The OECD has noted that, 'multinational enterprises (MNEs) are being accused of dodging taxes worldwide and in particular in developing countries, where tax revenue is critical to foster long-term development.'[18]

When profit-shifting is combined with other illicit financial flows, such as the looting of public assets, the impact is devastating. In 2011, the amount of revenue developing countries lost was valued at just under US $1 trillion.[19] Approximately half of these illicit flows from developing countries are attributed to profit-shifting by multinationals (the shifting of profits to low-taxing jurisdictions and losses and costs to high-taxing jurisdictions to minimise tax).[20] This represents a loss of tax revenues of around US $100 billion,[21] which could have paid for the provision of basic school education in poor countries four times over.[22]

The impact of this lost revenue is compounded by the fact that developing countries are more reliant on corporate tax than developed countries, which have greater capacity to tap other tax sources such as personal income tax.[23] Kofi Annan has argued:

> '[FOR RICHER NATIONS] IF A COMPANY AVOIDS TAX OR TRANSFERS THE MONEY TO OFFSHORE ACCOUNTS WHAT THEY LOSE IS REVENUES; HERE ON OUR CONTINENT, IT AFFECTS THE LIFE OF WOMEN AND CHILDREN — IN EFFECT IN SOME SITUATIONS IT IS LIKE TAKING FOOD OFF THE TABLE FOR THE POOR.'[24]
>
> KOFI ANNAN — AFRICA PLUNDERED BY SECRET MINING DEALS.

International tax reform has remained a priority issue for Australia's 2014 presidency of the G20 forum after first being flagged at the 2009 London Summit. Action to address tax avoidance has strong community support, with 88% of Australians surveyed supporting an international push to crack down on tax-dodging by multinational companies.[25] If successful, such international action would generate billions of dollars of revenues for both poor and rich countries around the world.

Addressing tax avoidance, promoting international tax transparency and ensuring that developing countries benefit from the G20's tax agenda is a stated focus of the G20's work.

The G20 has given a mandate to the OECD to lead an international crackdown on tax-dodging by multinationals. But if it is to be successful, greater effort is required to ensure that all developing countries can participate on an equal footing. Developing countries must also be supported in implementing measures to stem their losses from international tax avoidance and illicit financial flows.

Transparency is also essential to address tax avoidance, tax evasion and money laundering, and to ensure developing countries benefit from international tax system reform. The interconnectedness of the world's economies assists individuals and multinational companies to circumvent national tax jurisdictions and shift profits 'offshore' to tax havens. Oxfam conservatively estimates that wealthy individuals alone hide at least US$18.5 trillion in offshore tax havens, representing a loss of US$156 billion in tax revenue.[26] This is twice that required for every person in the world to be living above the US$1.25 a day "extreme poverty" threshold.[27]

One of the most practical reforms to address this is to require business entities to publicly disclose country-by-country information regarding their tax contributions. This will help ensure that companies pay their fair share of tax where value is created and real economic activities occur.[28]

POLICY RECOMMENDATIONS FOR THE G20

As host of the G20 at this critical time, Australia has the opportunity and responsibility to respond to growing global concern about inequality and secure an historic agreement from G20 leaders to tackle it head on. To achieve this, Australia must:

1. Put inequality on the G20 agenda for the Brisbane Summit;
2. As part of its G20 presidency, secure a commitment from G20 leaders to fix the broken international tax regime that is a major contributor to increasing inequality, including:
    a. opening up negotiations to reform tax rules so that all countries can participate in the decision-making process on an equal footing;
    b. working with the IMF, World Bank, United Nations and other relevant bodies to develop a coherent plan to help developing countries strengthen their fiscal administrations in order to tackle tax base erosion and profit-shifting;
    c. implementing a multilateral system for exchanging tax information on an automatic basis, which includes developing countries from the start, with no obligation to send information until they have established the capacity to do so; and
    d. promoting worldwide tax transparency by requiring multinational companies to make publicly available for each country in which they operate: a breakdown of their employees, physical assets, sales, profits and taxes due and paid so there can be an accurate assessment of whether they are paying their fair share of taxes.

OF AUSTRALIANS SURVEYED THINK **THE GAP BETWEEN THE RICHEST AND POOREST AUSTRALIANS HAS WIDENED** OVER THE PAST DECADE AND 64% OF THOSE THOUGHT THAT THIS WAS MAKING AUSTRALIA **A WORSE PLACE TO LIVE.**

CONCLUSION

The world is becoming increasingly unequal and so is Australia. This deepening inequality is concerning, not just for moral reasons, but because of the threat it poses to security, stability and economic growth. Oxfam's primary concern is that inequality threatens to further entrap poor and marginalised people and undermine efforts to tackle extreme poverty. By concentrating wealth and power in the hands of the few, inequality robs the poorest people of the support they need to improve their lives, and means that their voices go unheard.

New polling from Oxfam Australia shows that inequality is clearly on the minds of many Australians. It is also on the minds of a number of key world leaders coming to Brisbane for the G20 in November. Australia, as the G20 President this year, has a global responsibility and a national interest to put inequality back on the agenda and to drive the action that is required to address it.

This includes reforms that deliver the well-functioning domestic and international tax systems that are integral to strengthening industrialised economies but also critical to achieving sustainable economic and human development in developing and least developed countries. The G20 presidency presents a rare and time-bound opportunity to lead these reforms.

Oxfam urges the Australian Government to put inequality squarely on the agenda for the Brisbane G20. Australians are looking for action on this issue, as are global financial organisations and key world leaders. The time to stem the tide of inequality is now.

NOTES

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2. Oxfam, Working for the Few: Political capture and economic inequality, January 2014: www.oxfam.org/sites/www.oxfam.org/files/bp-working-for-few-political-capture-economic-inequality-200114-en.pdf
3. Oxfam used the list of billionaires from Forbes released on March 4, 2014 to calculate the accumulated wealth of the richest families in Australia and data from Credit Suisse Global Wealth Databook to calculate the wealth of the bottom 10, 20 and 60 percentiles of the population.
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5. Ibid. This is from looking at the Gini coefficient in OECD member states in 1995, then in 2010. In 1995 Aus had the same Gini coefficient score as the average of OECD states, in 2010 our Gini coefficient was higher.
6. Oxfam, Working for the Few: Political capture and economic inequality, January 2014
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8. Obama, B. President of the United States, Remarks on Social Mobility, December 4 2013 www.whitehouse.gov/the-press-office/2013/12/04/remarks-president-economic-mobility
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14. A poll of 1016 people across Australia was commissioned by Oxfam Australia and undertaken by Research Now between 28 May and 2 June 2014.
15. The Seoul G20 Summit Leaders' Declaration, available at http://www.g20.org/Documents2010/11/seoulsummit_declaration.pdf
16. ADB, ADB's Support for Inclusive Growth, March 2014: www.adb.org/sites/default/files/TES-IG.pdf
17. Christian Aid, Multinational corporations and the profit-shifting lure of tax havens, March 2013: www.christianaid.org.uk/Images/CA-OP-9-multinational-corporations-tax-havens-March-2013.pdf; Fuest, C and Riedel, N, 'Tax Evasion and Tax avoidance: The role of International Profit Shifting', in Reuter, P, Draining Development? Controlling Flows of Illicit Funds from Developing Countries, 2012: openknowledge.worldbank.org/handle/10986/2242
18. Ibid
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21. Global Financial Integrity, The Implied Tax Revenue Loss from Trade Mispricing, 2010: www.gfintegrity.org/storage/gfip/documents/reports/implied%20tax%20revenue%20loss%20report_final.pdf
22. UNESCO, Schooling for millions of children jeopardised by reductions in aid, June 2013: unesdoc.unesco.orgimages/0022/002211/221129E.pdf
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24. BBC, 10 May 2013: 'Kofi Annan: Africa plundered by secret mining deals', www.bbc.co.uk/news/world-africa-22478994
25. Research Now poll between 28 May and 2 June 2014. Oxfam's Inequality Study was fielded in Australia in June 2014, across 1016 people. The project was run by Research Now, a global online sampling and data collection company who recruited respondents from their proprietary built and owned research-only online panels. Respondents were aged 18+ years of age and were recruited on a nationally representative basis by age, gender, and location.
26. Oxfam calculation, this lost revenue is limited only to profits shifted to tax havens linked to G8 countries and does not include profit shifting by corporations, see http://www.oxfam.org/en/eu/pressroom/pressrelease/2013-05-22/tax-havens-private-billions-could-end-extreme-poverty-twice-over
27. http://www.oxfam.org/en/eu/pressroom/pressrelease/2013-05-22/tax-havens-private-billions-could-end-extreme-poverty-twice-over
28. More detailed recommendations to improve the OECD reform process are available in Oxfam's recent report Business Among Friends, May 2014: www.oxfam.org/en/policy/business-among-friends-why-corporate-tax-dodgers-are-not-yet-losing-sleep-over-global-tax-ref

75%

OF AUSTRALIANS SURVEYED THINK IT IS **IMPORTANT THAT THE AUSTRALIAN GOVERNMENT TAKE ACTION** TO CLOSE THE GAP BETWEEN AVERAGE, POOR AND THE RICHEST AUSTRALIANS

Maharashtra, India. Photo: Bipasha Majumder/Oxfam

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