

PRIVILEGES THAT DENY RIGHTS

EXTREME INEQUALITY AND
THE HIJACKING OF DEMOCRACY
IN LATIN AMERICA AND THE CARIBBEAN



OXFAM

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EXECUTIVE SUMMARY



"Acahualinca", Nicaragua. Photo: © Róger Antonio Ramírez Romero | OXFAM



CONTENT

- 1.** EXTREME CONCENTRATION OF WEALTH, EXTREME INEQUALITY
 - Income, wealth, land and patriarchy: the foundations of inequality and the concentration of wealth
- 2.** INEQUALITY AND THE HIJACKING OF DEMOCRACY
 - Public policies and rules custom-made for the richest
- 3.** EXTRACTIVISM, PRIVATIZATION AND OTHER CHALLENGES PRESENTED BY THE MODEL
- 4.** PUBLIC POLICIES FOR TACKLING INEQUALITY
 - Policies that promote gender equality
 - Fiscal policies
- 5.** IT IS TIME TO CHANGE THE RULES

1. EXTREME CONCENTRATION OF WEALTH, EXTREME INEQUALITY

Despite the fact that inequality and poverty are closely linked, for several decades multilateral organizations, government and even development agencies have prioritized economic growth and the fight against poverty as the objectives of their debates and policies, leaving inequality to one side. As a result, efforts to tackle inequality have been insufficient.

Discussing inequality and acting swiftly to combat it is essential to tackling poverty and building a fairer future, where women and men enjoy all their rights on an equal basis.

Oxfam has calculated that if inequality in the region were to be reduced by five points between 2011 and 2019, some 17.4 million people could move out of poverty. If the opposite were to occur, a five-point increase could result in an additional 18 million people living in poverty¹.

However, this needs to be put in perspective. Although this reduction is still not enough, poverty in LAC did experience a marked decline over a 10 year period: while 44 percent of the region's population was poor in 2002, in 2012 the figure was 28 percent, a reduction of almost 61 million people². During this same period, inequality in terms of income per capita was also reduced, but it still remains the highest in the world.

Inequality threatens poverty reduction and is not only detrimental to the poorest, it also harms society as a whole.

A recent study by the International Monetary Fund (IMF) calculated that the economy grows if the percentage of total income which peo-



"Maquillaje Colorido". Foto: © Alejandro Alberto Andrade Vera | OXFAM

LATIN AMERICA AND THE CARIBBEAN:

INEQUALITY AND THE CONCENTRATION OF WEALTH IN FIGURES



165,000,000
MILLION PEOPLE

IN 2013, WERE LIVING IN POVERTY, WITH 69 MILLION OF THIS TOTAL IN EXTREME POVERTY. LATIN AMERICA AND THE CARIBBEAN IS THE WORLD'S MOST UNEQUAL REGION IN TERMS OF INCOME DISTRIBUTION.



32 INDIVIDUALS

OWN THE SAME WEALTH AS THE POOREST 50% OF THE REGION'S POPULATION



WOMEN

COMPRISE THE MAJORITY OF THE GROUPS LIVING IN POVERTY AND EXTREME POVERTY.



IN 2014

THE RICHEST 1% OWNED 41% OF THE REGION'S WEALTH, WHILE THE REMAINING 99% HAD TO SHARE 60%ⁱ. IF THIS TREND CONTINUES, IN JUST EIGHT YEARS (BY 2022) THE RICHEST 1% IN THE REGION WILL HAVE ACCUMULATED MORE WEALTH (51%) THAN THE REMAINING 99% (49%).

ple living in poverty and the middle class receive increases. In contrast, if the percentage of income obtained by the richest increases, the country's economy shrinks³.

Inequality is also linked to violence. It is no coincidence that LAC is the most unequal, as well as the most unsafe, region in the world, excluding war zones. A case study conducted in more than two thousand Mexican municipalities identified a direct link between inequality and crimeⁱ.

INCOME, WEALTH, LAND AND PATRIARCHY: THE FOUNDATIONS OF INEQUALITY AND THE CONCENTRATION OF WEALTH

The concentration of wealth, land and income in the region is extreme. In terms of income per capita, LAC is the most unequal region in the world, followed by Sub-Saharan countries⁴.

In terms of wealth and assets, inequality is also very high, with a Gini index of 0.809⁵ in 2014.

The gap between the richest and those who have less is shocking. The poorest 10 percent have such low income levels that in 2013 they barely reached a mere 1.3 percent⁶ of the regional total. Meanwhile, the highest 10 percent of earners in Latin America get to keep 37 percent of the total⁷.

The figures become even more extreme when one examines wealth and assets. In 2014 [Fig. 1], the region's richest 10 percent owned 71 percent of wealth and assets. The concentration was so dramatic that in that same year, 70 percent of the poorest barely managed to accumulate 10 percent of wealth. And this trend shows no sign of declining.

From 2002 to 2015, the fortunes of LAC's billionairesⁱⁱ grew at an average annual pace of 21 percent, a growth rate six times higher than the entire region's GDP growth (3.5 percent per year⁸) and

ⁱ World Bank, (2014) "Income Inequality and Violent Crime. Evidence from Mexico's Drug War", Policy Research Working Paper No.6935, Washington: World Bank.

ⁱⁱ Billionaires: individuals with fortunes exceeding \$1bn as compiled by Forbes. The term 'multi-millionaires' will be used to refer to people with net assets exceeding \$30m, as compiled by UBS in its 2014 'World Ultra Wealth Report'

FIGURE 1.

PERCENTAGE OF WEALTH AND ASSETS PER DECILE IN LATIN AMERICA AND THE CARIBBEAN, 2014



Source: Own calculations based on Credit Suisse (2014) ⁹.

six percent higher than the growth of wealth in the rest of the world. This means that most economic growth is being obtained by the richest, which dramatically widens the inequality gap.

Moreover, according to the 2014 'World Ultra Wealth Report', ¹⁰ Latin American multi-millionaires – individuals with a net asset worth exceeding \$30m – already total 14,805 people. Their collective wealth is equivalent to the money that would be needed in order to eliminate extreme monetary poverty in Brazil, Colombia, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Peru. In Bolivia the wealth owned by the country's 245 multi-millionaires is equivalent to 21 times the country's public health expenditure, while in Nicaragua the wealth of the country's 245 multi-millionaires is equivalent to 76 times the country's public education expenditure.

Oxfam has calculated the annual yield of the fortune belonging to a person from each country's multi-millionaire set in order to compare it with the average annual income of a person from the country's poorest 20 percent. The results are very conclusive and show the extreme concentration of wealth: For example, in Honduras, the average multi-millionaire receives 16,460 times more per year than a person from the poorest 20 percent of the population [Fig. 2].

In terms of unequal land ownership, Latin America is ranked first worldwide, and the Caribbean second. Governments have found it difficult to develop policies geared towards more equitable land distribution, and historically large-scale landowners have exerted pressure in order to prevent and limit the development of agrarian reforms. Combined with models of agrarian use based on intensive crop farming, this has hit small producer families

hard. But the brunt is borne by women farmers: 'They have less land, worse land quality and their ownership is often insecure'¹¹.

Indeed, women are always the most excluded in all sectors of society, whether this is measured in each quintile or decile, or by examining the list of the richest one percent or the 101 wealthiest individuals in Latin America, or by looking at the urban or rural population.

The inequalities that affect women interact with each other and in order to tackle them the entire social and economic system needs to be re-thought and re-structured. Its origins lie in the unequal power relationships bet-

ween men and women, and the factors that influence their perpetuation are structural and reproduce historical exclusions. This explains why, for example, despite the progress made in access to education and learning, women still do not enjoy equal conditions in the labour market.

There are more poor women than poor men. And indeed, there have been some areas of progress: for example, the percentage of women without their own incomes decreased from 42 percent in 2002 to 32 percent in 2011. But these achievements are fragile and inadequate and the gaps are still unacceptable.

FIGURE 2.

RATIO OF MULTI-MILLIONAIRES' ANNUAL INCOME PER CAPITA/POOREST QUINTILE'S ANNUAL INCOME PER CAPITA 2014 (CURRENT VALUES IN US\$)



Based on figures from ECLAC, WEALTH X, Credit Suisse and the World Bank.
Notes:

d/ Percentage share in national income by the 1st quintile from 2012 and only for the urban area

e/ Percentage share in national income by the 1st quintile from 2011

f/ Percentage share in national income by the 1st quintile from 2006

g/ Percentage share in national income by the 1st quintile from 2010

h/ Percentage share in national income by the 1st quintile from 2012

i/ Percentage share in national income by the 1st quintile from 2009

The region did not make the most of its 'golden decade' to invest in structural changes. During the boom years a certain amount of social progress was achieved, but there are still major challenges that must be faced, and they will be even greater at a time of almost zero economic growth, when inequality can hinder development and the assurance of rights.

From now on, governments must make a sincere commitment to re-thinking the development model, tackling inequality and ensuring that the achievements that have been made in the fight against poverty are not lost. It is an unavoidable need from an ethical, political, social and economic point of view. And to tackle it will not be easy, because confronting inequality means securing the rights of many... by reducing the privileges of a few.

2. INEQUALITY AND THE HIJACKING OF DEMOCRACY

Extreme concentration of wealth goes hand-in-hand with extreme concentration of power, which perverts institutions and political processes by putting them at the service of elites instead of all citizens, creating imbalances in the exercise of rights and political representation within democratic systems.

When we discuss the hijacking of democracy we refer to a process whereby political or economic elites co-opt democratic institutions in order to bring about the creation of dysfunctional policies that enable it to maintain its privileged position in society. This hijacking implies the perpetual accumulation of wealth, income and power in the hands of elites and

the use of the state for the benefit of a few. In effect, the hijacking of democracy is the loss of democracy's very nature.

And this is how citizens perceive it. Oxfam has developed a metric for verifying the relationship between income inequality and public opinion regarding the nature of democracy. The results prove that economic inequality leads citizens to question the democratic system: when income inequality increases, so does citizen dissatisfaction with the nature of democracy,¹² and the perception that they are being governed for the benefit of powerful groups increases,¹³ along with the perception that some people and groups have a great deal of influence on political decisions, and that the interests of the majority are ignored.¹⁴

The hijacking of democracy is expressed in several ways. Influence on the development of policies, which takes the shape of illegitimate lobbying and influence peddling; corruption, which is reflected for example in the irregular and opaque allocation of contracts; overvaluing of public works or the handover or sale of undervalued state lands; and political patronage, which is reflected in vote-buying, the hiring of public employees solely based on their political affiliation, prioritization of paternalistic policies and the granting of public services as favours. Some are illegal, others are legal, but all are illegitimate.

The ways in which democracy is hijacked by economic and political elites also extend to the communications media, which are controlled and used, whether to promote ideas that favour the elite, or to vilify ideas that go against their interests.

PUBLIC POLICIES AND RULES CUSTOM-MADE FOR THE RICHEST

Four sectors provide Latin American billionaires with the greatest wealth, according to the Forbes list: telecommunications (19 percent), beverages (19 percent), the financial sector (19 percent) and the extractive industries (12 percent). Together they comprise the greatest number of billionaires: 69 percent of those who lived in the region in 2015.

The telecommunications sector is paradigmatic. As well as being the sector that contributes the most riches to the region's multi-millionaires, it is almost all concentrated in the hands of one person: Carlos Slim, the richest man in the region and the second richest in the world in 2015. His fortune, calculated at \$77.1bn, was equivalent to almost 6 percent of Mexico's GDP in 2014.¹⁵ An OECD study concluded that between 2005 and 2009 the monopolistic conduct of Carlos Slim's telecommunications companies translated into a loss of well-being for Mexicans that exceeded \$129bn, which is equivalent to almost 1.8 percent of Mexico's annual GDP¹⁶.

The mining sector accounts for three of the 10 wealthiest business owners in the region. Their fortune, as well as the surge in the sector's growth, is based on the exploitation of natural resources granted by the state on a concessionary basis, and they have greatly benefitted from the boom in the price of raw material in the last decade. These concessions also bring great privileges to those who are granted them. While mining companies in Colombia paid \$456m per year in income tax between 2005 and 2010, they also received tax

discounts, deductions and exemptions worth \$925m. For every dollar that the mining companies paid in taxes, the Colombian state failed to collect two¹⁷.

The degradation of environmental regulations and the relaxation of applicable penalties for infractions against the environment are other areas where mining elites wield their power with the aim of acquiring and preserving privileges. This is the case in Peru, where lobbies and economically powerful groups – especially the extractive industry – use their influence to push the government to waive environmental regulations that it had brought in in recent years¹⁸.

In its study, *'Fiscal Policy: Expression of Power in Latin American Elites'*, the Latin American Fiscal Studies Institute (ICEFI in Spanish) exposes the mechanisms used by Central American economic elites in order to mould fiscal policies to suit their own purposesⁱⁱⁱ. They are motivated by three objectives: to maximize profits through privileged treatment such as exonerations; to socialize private costs by concealing them with public debt and other fiscal distortions; and to align fiscal policy with their business objectives so that they can expand, consolidate or migrate to other activities or sectors.

The obstacles that Latin American democracies face when it comes to guaranteeing rights and providing a response to their citizens' demands mean that the public has low levels of trust in institutions. New forms of protest and participation are now being observed¹⁹.

ⁱⁱⁱ ICEFI (2015) "Fiscal Policy: Expression of Power in Latin American Elites", Guatemala, p.9.

TABLE 1.**DIFFERENT WAYS OF THE HIJACKING OF DEMOCRACY IN LATIN AMERICA AND THE CARIBBEAN**

MECHANISMS	DEFINITION	DIVERSE FORMS
INFLUENCING PUBLIC POLICIES, LAWS AND REGULATORY FRAMEWORKS	Elites use their influence to shape public policies and legislation in their favour, establish social and economic priorities for their own economic or political benefit.	<ul style="list-style-type: none"> - Influence-peddling - Lobby - Political parties private funding
CORRUPTION	Apropiation of resources and state properties with the purpose of obtaining payments or other economic benefits such as economic support to a political party or individual benefits.	<ul style="list-style-type: none"> - Bidding and award of government contract without due process and transparency. - Overvaluation of infrastructure works. - Sale or delivery of undervalued public owned land.
PATRONAGE	The trading of votes or political support for personal benefits, employment, public goods or services. The use of public funds and policy for political gain.	<ul style="list-style-type: none"> - Vote buying - Employment of public officials according to their political attachment and not base on their competencies. - Prioritise short term social policies instead of conducting structural reforms with long term benefits for all. - Granting of public services in a customized way and as a political favour.
CONTROL OF MEDIA	Elites use public and private resources to buy media and opinion makers in order to promote either messages that benefit them or discredit ideas that go against their interests.	<ul style="list-style-type: none"> - Concentration of media ownership. - Standardization of media content and economic dependency of government publicity. - Threats and attacks against journalists.

Source: Authors elaboration

Plural and diverse media systems can become an effective way of fighting against inequality in environments where ideas and public debate led by political and economic elites predominate²⁰. Accountability and citizen participation can also be antidotes against the hijacking of democracy and economic inequality.

Control of private funding for parties, anti-lobbying laws, guaranteeing plurality and diversity in the media, protection of the right to free expression, civic monitoring and peaceful protests, as well as the correct application of laws on holding public office, are all essential mechanisms for curbing the hijacking of democracy.

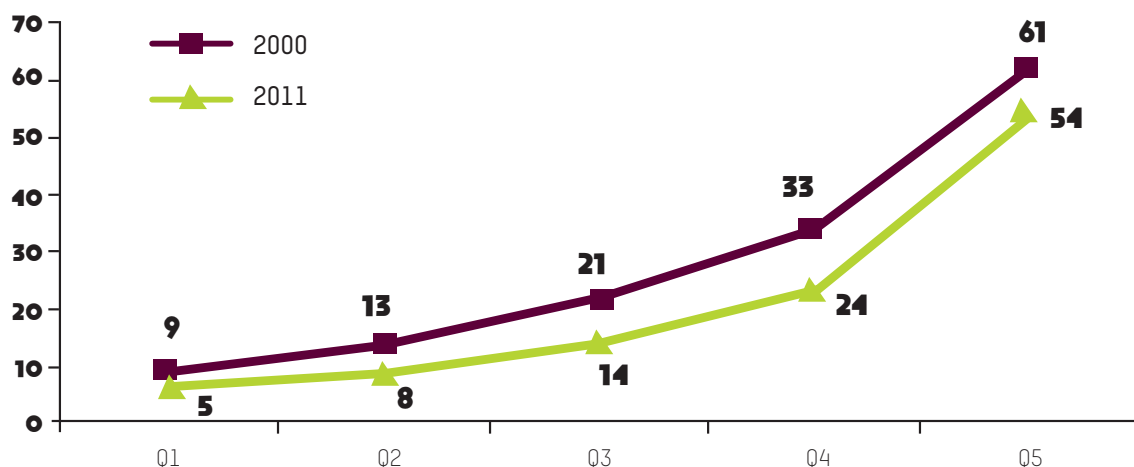
3. EXTRACTIVISM, PRIVATIZATION AND OTHER CHALLENGES PRESENTED BY THE MODEL

The privatization of public services also deepens inequality and contributes to the rupture of the social pact needed in order to tackle it. This process creates relational segregation in terms of guaranteeing rights and it distances the middle and upper classes from using public services and – consequently – from their willingness to contribute towards funding them and to demand satisfactory levels of quality.

Private interests and multilateral organizations have long promoted the concept of privatization as a response to the lack of efficiency and

FIGURE 3.

PERCENTAGE OF PEOPLE REGISTERED AT PRIVATE SCHOOLS AT PRIMARY LEVEL IN SELECTED COUNTRIES IN LATIN AMERICA



Source: Own calculations based on SEDLAC household surveys in Argentina, Brazil, Chile, Colombia, Costa Rica, Peru and Uruguay.

quality of state-provided services. At present, the lack of investment and commitment to quality and universalization has brought public funds to a level of private management in which the interests that predominate are far removed from the principle of the common good. This has resulted in poor quality services, a reduction in coverage and the creation of fragmented societies where private providers obtain huge benefits without any efficient state regulation. Meanwhile, the impoverished classes are deprived of quality services, and in some cases, even the services themselves, due to their inability to pay.

We are faced with a situation of public services for people who are living in poverty and private services for the middle classes and the rich, a model that reinforces poverty and unequal income distribution²¹ [Figure 3]. It is

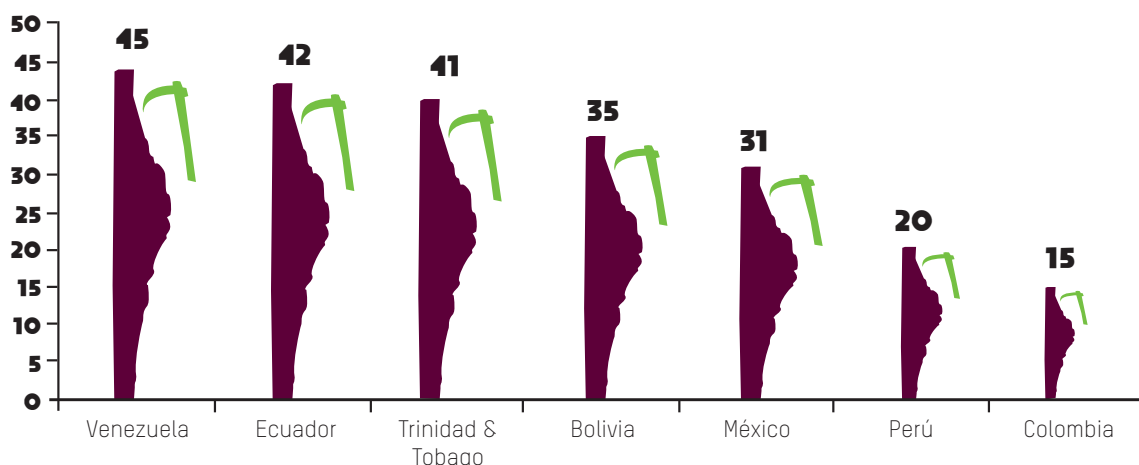
also a trap for the middle classes, making them more vulnerable to any external shock, including loss of employment, chronic diseases, disabilities, etc., which puts them at risk of joining the ranks of the poor.

Governments must prioritize policies, guarantee sufficient public funds and take the necessary measures to ensure the provision of quality public services including education, health, water and sanitation. They should also regulate private provision of these services if they want to effectively tackle inequality.

Public services and rights cannot respond to market forces, just as state income should also not be subject to the whims of the markets. The region is still as dependent on the extraction of natural resources as it was 40 years ago,²² and just as sensitive to price volatility. In 2011 raw materials exports represented

FIGURE 4.

FISCAL DEPENDENCE ON NATURAL RESOURCES FOR SEVERAL LAC COUNTRIES
(AS % OF PUBLIC INCOME). 2010-2013



Source: Own calculations by *Grupo Propuesta Ciudadana* based on ECLAC.

60 percent of total LAC exports, and their contribution to public income and budgets – fiscal dependence – was also very high. Venezuela tops the list: the share of extractives in total income was 44.5 percent during the period 2010–2013 [Figure 4].

According to estimates, the region's combined agricultural production in 2012 exceeded \$300bn, boosted by the increase in price of agricultural raw materials. The region is the world's main producer of sugar, soya beans and coffee, supplying more than 50 percent of global exports of these products.²³ Nonetheless, as in the case of mining and hydrocarbons, soya bean and sugar production generate large capital profits but create little employment and are not environmentally sustainable in the long term, especially in the case of soya beans.

Dependence on natural resources and their

high prices in the first decade of the 21st century explain to a large extent the 'golden years' experienced by the region in terms of economic growth. This boom gave many governments in the region some room for manoeuvre to finance a more decisive commitment to social policy. However, the recent deceleration in growth of Latin American economies is also related to the fall in the price of raw materials and the slowdown of growth in China,²⁴ a major importer of Latin American raw materials.

The consequences have not taken long to appear. The negative impact on public finances of the fall in international prices of raw materials is already evident in some countries²⁵: lower taxation income and a threat to the fiscal balance, which reduces states' capacity to fund social problems and cater to their citizens' needs.

Extractivism has a very high environmental impact and is not linked to other production sectors; its impact in terms of the type of change it brings is large, and it does not have the capacity to increase employment. However, it does have the capacity to influence the design of the policies that regulate it or to create incentives for it for its own benefit. It is not an easy task, but Latin American governments must review their dependence on the extractive industries and take measures to diversify their economies by creating jobs and varying the sources of their fiscal resources.

The region must transfer the high productivity of the extractive sectors to low-productivity sectors such as industry, agriculture and services, which would generate a virtuous circle, with the use of the primary export surplus for the diversification and increased productivity of the rest of the economy.

The adverse impact of the extractive industry on the wellbeing of indigenous and rural communities must also be taken into account, in order to ensure the wellbeing of the population geared to the new development paradigm of 'Living Well'.

If this diversification is not ensured through policies that grant incentives to small and medium-sized companies, small-scale production and other sectors that create employment, and if no fiscal reforms are pushed through that will start to increase the income derived from high earnings and capital, this will represent a serious threat to the progress of the fight against poverty in the region.

4. PUBLIC POLICIES FOR TACKLING INEQUALITY

As outlined in the report, the most relevant public policies for reducing economic inequality are fiscal policy, employment policy, social protection, policies for reducing inequalities between men and women, and policies for guaranteeing quality public services – mainly education, health and access to water and sanitation.

The reduction in poverty that Latin America has experienced over the last decade is attributed to a great extent to the increase in labour income that took place when minimum wages went up and workers were formalized.²⁶ The labour market's significant contribution to the reduction of inequality highlights the need to reflect on the importance of employment and income as a vehicle for improving living standards, especially for young people and women.

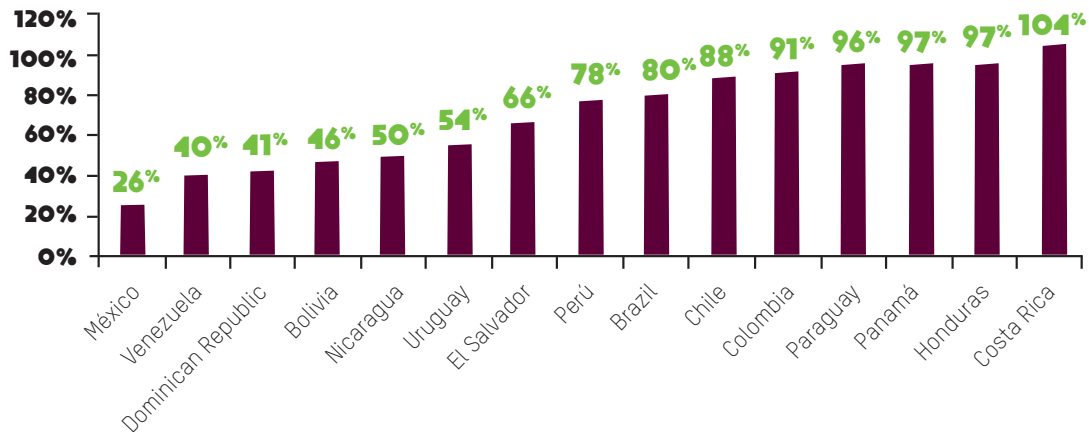
Beyond macroeconomic policies that promote a favourable environment for investment and innovation, interventions should also take place in sectors that create linkages and spark an intensive demand for labour.

The formalization of employment also directly affects the state's capacity to receive fiscal income to fund redistributive social policies, which generates a virtuous process towards the creation of 'States of Wellbeing'. This formalization can also bring about other social benefits, such as retirement and health insurance, which help reduce inequality.

Policies for increasing the minimum wage have succeeded in reducing, in relative terms, labour income inequalities in most countries.

FIGURE 5.

RATIO OF LEGAL MINIMUM WAGE/SUBSISTENCE SALARY, CIRCA 2011



Source: Own calculations based on ILO 2014.

However, there is still a long way to go: out of 15 countries only Costa Rica's legal minimum wage reaches the minimum subsistence salary. In extreme cases, the legal minimum wages in Mexico, Venezuela, Dominican Republic and Bolivia do not cover even 50 percent of the minimum subsistence wage. The case of Bolivia is worth highlighting, because despite a sustained increase in the minimum wage since 2006, it still fails to reach subsistence levels [Figure 5].

Raising the minimum wage can improve economic equality in the region,²⁷ but so can imposing a ceiling on maximum salaries. In the private as well as the public sectors, maximum salaries should be limited: as Thomas Piketty has explained, there comes a point when salary differences cease to have any kind of relationship with worker productivity and ins-

tead respond to the negotiating powers of the higher echelons of business, creating greater income and a concentration of wealth.^{iv}

For their part, social protection systems are essential in the struggle against inequality inasmuch as they reduce people's vulnerability to the risks associated with the life cycle, such as illness, motherhood, disability or old age, which can represent a loss of income. They also comprise the public policies that cater for the specific needs of the most excluded population groups and make society as a whole more based on solidarity, more egalitarian and less individualistic.²⁸

The social security systems in the region should guarantee universality and solidarity between groups and thus curb the inequalities that occur in the labour market. The promotion

^{iv} Piketty Thomas, 2014, *Capital in the Twenty First*, Harvard University Press.

of policies that enhance coverage for informal workers and protect women's rights must be strengthened. Solidarity pensions, which have proved effective in guaranteeing minimum incomes for elderly people, should also be strengthened.

Although conditional cash transfers have contributed to ensuring that the poorest households receive an income, they are a limited tool in the fight against inequality and should be supported within a wider framework that guarantees quality universal services, raises awareness of rights and tackles gender inequalities.

POLICIES THAT PROMOTE GENDER EQUALITY

The positioning of public labour and protection policies in the region lacks a specific gender focus in their content. In fact, they highlight the idea of neutrality without taking into account the institutions, both formal and informal, that engage in workplace discrimination and segregation against women. These institutions operate from a range of spheres: the home, schools and the labour market itself, without recognizing the work, whether or not it is remunerated, which women contribute to society.

The elimination of biased and discriminatory regulations and laws are the main point of a gender agenda that strives for equality in the labour market. Policies must be developed to ensure equal treatment at work, equal salaries for equal tasks, and which allow women to enter the labour market by disconnecting them from traditional gender roles.

Another pivotal element is domestic and re-

productive work, which is invisible, not valued by society and mostly undertaken by women, usually without remuneration. This work ensures that the economic and social system can function, but it does not receive any recognition.

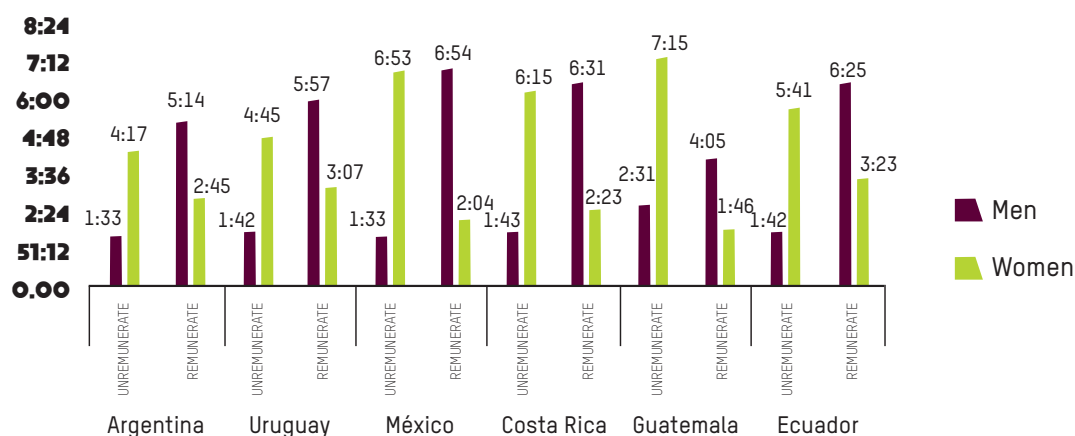
The average number of hours that women devote to unremunerated work every day ranges between a little more than four hours in Argentina and over seven in Guatemala.²⁹ Women employees tend to bear a triple work burden: remunerated work, community work and domestic and care-giving work. Many find themselves in a situation where they are pushed into carrying out tertiary and informal activities, where flexible timetables enable them to fulfil all these tasks [Figure 6].

Fiscal systems must contain incentives and penalties that tackle discrimination against women in the taxation system and ensure sufficient funds for designing policies that respond to women's needs. Social protection policies such as social security systems or welfare programmes must also be designed to address the deficiencies of the labour market and redistribute the unremunerated domestic and reproductive workload. Access to land and credit are historic debts that urgently require comprehensive reforms.

The state must develop policies and laws that confront inequality by penalizing companies that fail to comply with regulations, as well as implementing policies that transform power relations. Many discrimination and domination structures remain intact, despite the great strides that have been made in the area of equality between men and women.

FIGURE 6.

WORKLOAD BY TYPE OF REMUNERATION IN HOURS, BY SEX, 2011



Source: Esquivel Valeria, 2011, The Care Economy in Latin America, UNDP, El Salvador.

FISCAL POLICIES

A first step towards combating inequality is to increase the tax collection capacity of the countries in the region. The increased³⁰ fiscal pressure of the last twenty years is undeniable; however, final collections are still nowhere near their full potential. If the countries in the region³¹ were to reduce the difference between what they collect and potential collections by 50 percent³² between now and 2010, public funds equivalent to 6.6 percent of the GDP of a set of several countries in the region could be raised by that time.

Due to this deficit and to extractivism, social spending and investment are still dependent on the insufficient collection and the high volatility of the sources of public income.

The low fiscal pressure is also compounded by another problem: unfair and inequitable fiscal policy design. Their main weaknesses are

the imbalance in the tax effort undertaken by different economic actors, the vast amount of resources that easily escape the public coffers due to tax evasion and avoidance and the excessive bias towards indirect taxes levied on consumption.

Taxing consumption is essentially unfair because the poorest people have to devote most, if not all of their income, to consumption of the most essential products. This means that they don't have savings or investments. For this reason consumer taxes proportionally affect people living in poverty more than those who are wealthy, which is the opposite of a fair taxation policy.

Nonetheless, more than half of collections in LAC come from taxing consumption,³³ more than eight times what is collected in direct taxes on properties that tend to be held by the wealthiest sectors of the population³⁴.

The low level of collections from direct taxation is symptomatic of deliberate policies that have ended up granting more privileges to the owners of capital and the wealth than to most citizens. Tax privileges, the inaccurately named ‘tax incentives’, end up being the source of deep inequalities in the region. In LAC, it does not cost very much to be rich (financially speaking). Broad privileges are maintained that help the ‘haves’, along with low tax rates on wealth and property, capital income and non-salary incomes.³⁵

In Brazil, Colombia, Guatemala and Venezuela wage earners’ incomes have effective taxation rates³⁶ that are almost double what is applied to capital gains.³⁷ As a result, the tax effort of a person earning an average salary in LAC can be higher than that of a company, especially those in sectors with an outsize capacity to influence public policy, such as mining, the petroleum industry or agro-exports. These are awarded generous tax breaks, but paradoxically do not always represent the main sources of employment.

Meanwhile, entire economic sectors that make up most of the region’s labour force, such as small and medium-sized companies or small-scale agriculture, still only receive tenuous backing through public policy. The same thing happens with fundamental policies for fighting inequality, such as policies for reducing the gender gap.

The latest available figures suggest that after direct taxation and public monetary transfers – pensions, grants and cash transfers³⁸ – the OECD countries reduce income inequality³⁹ almost six times more than the countries in

LAC.⁴⁰ The meagre performance of fiscal policies as a whole shows that LAC does not use fiscal policy as a tool for fighting inequalities.

LAC must do it within, as well as beyond, its borders. In the words of Nobel Economics Laureate Joseph Stiglitz, the design of the international fiscal system is ‘repulsive, unfair and inefficient.’⁴¹ It permits large corporations to artificially transfer their profits – from countries that do apply taxes to tax havens – by using aggressive financial planning strategies.

This is how corporate gains tax is broken by fiscal evasion and avoidance. Although few figures are available, by the very nature of its operation, corporate income tax evasion exceeds 50 percent of theoretical collections in many countries: half of what should be collected is lost due to tax fraud. Honduras, one of the most unequal countries in the region, loses some 10 billion *lempiras* every year (equivalent to almost \$450m) to tax evasion and fraud.

LAC’s great financial black holes are the tax havens. Figures leaked by the International Consortium of Independent Journalists (ICIJ) show the scale of the problem. The *SwissLeaks* scandal revealed that Latin American residents amassed a total of almost \$52.6bn in accounts in HSBC Bank in Switzerland between 2006 and 2007.⁴² This sum is equivalent to 26 percent of total public spending in health in the region as a whole⁴³ [Table 1].

This is just **one** snapshot of **one** single bank, in **one** single tax haven, for **one** single region and in **one** single year, barely a brushstroke, but enough to create the suspicion that this is not just about a few bad apples, but a systemic problem.

In order to reduce their tax contributions to a minimum, many trans-nationals also create complex and sophisticated corporate structures with a large number of subsidiaries that are difficult to track, and that artificially transfer their profits from the countries in which they operate to tax havens. Telefónica's corporate structure reveals that the group has several holding companies between the subsidiary that it operates in the country and the group's parent company in Spain, which appears to suggest that the company's activities in these countries are channelled through holding companies in tax havens.

This is not the only company that engages in these practices. Based on public information divulged by Spanish companies that are valued on the IBEX35 stock exchange index, Oxfam has detected 810 subsidiaries in tax havens.

In 2014, the average value of gross gold exports from all of LAC to the EU was half the value attained by the exports of the same product from tax havens, despite the fact that some countries in the region are among the 15 main producers and exporters in the world, as revealed by a study being conducted by Oxfam on the EU's official customs figures.



TABLE 2.

MILLIONS OF LATIN AMERICAN US\$ HIDDEN FROM THE TAX AUTHORITIES IN HSBC ACCOUNTS AND SIMILAR

COUNTRY	VALUE IN US\$ BILLIONS IN HSBC ACCOUNTS (2006 AND 2007)	VALUE IN HSBC ACCOUNTS AS PERCENTAGE OF PUBLIC INVESTMENT IN HEALTH	VALUE IN HSBC AS PERCENTAGE OF THE PUBLIC DEBT IN 2013
Argentina	3.500	13%	5%
Bolivia	94	8%	2%
Brazil	7.000	7%	5%
Chile	468	5%	-
Colombia	276	1%	1%
Costa Rica	23	1%	0%
Cuba	84	1%	-
Dominican Republic	34	2%	0%
Ecuador	198	10%	2%
El Salvador	88	9%	1%
Guatemala	32	3%	0%
Haití	24	21%	2%
México	2.200	6%	1%
Panamá	2.800	149%	23%
Paraguay	46	5%	2%
Perú	141	2%	1%
Uruguay	2.800	97%	-
Venezuela	14.800	-	-
ALC	52.579	24%	9%

Source: <http://www.icij.org/project/swiss-leaks/explore-swiss-leaks-data> y datos de deuda e inversión en salud de WDI.

OXFAM
HAS DETECTED



IN **TAX HAVENS** FOR
THE LARGEST LISTED
SPANISH COMPANIES
(IBEX35)

According to the European Commission and the consultancy firm PriceWaterhouseCoopers, developing countries could increase their tax collections of company profits by 40 percent in five years if large companies could be made to stop their abusive practices when it comes to transfer prices.⁴⁴

These fiscal planning practices are so commonplace, and the toll it takes on all the countries in the region and in the world is so devastating, that international organizations have had no choice but to initiate international fiscal reform. In 2013 the G20 decided to reduce the artificial transfer of profits to tax havens⁴⁵ and made a commitment to the Base Erosion and Profit Shifting (BEPS) project. However, this initiative, which is unequal and unrepresenta-

tive in its process, does not appear to meet the specific needs of the region, especially in terms of the taxation of raw materials, the race to the bottom in tax incentives or taxation in the capital source countries or countries of residence. The current global agenda is insufficient for LAC's interests.

A political agenda for genuine and effective cooperation in the area of taxation is what is needed, at a regional or sub-regional level, which will resolve the existence of multiple – and lax – regulatory frameworks. This agenda will complement the frameworks and provide greater coherence for pushing through solutions that have no place solely in the purely national sphere.

But above and beyond technical cooperation and the weak and insufficient achievements of national tax administrations, none of the regional or sub-regional institutions has yet to show the courage or the commitment to include these issues among their priorities.

There is still plenty of space for achieving an increase in wealth redistribution and greater equality in income and opportunities through fiscal policy. Taxation policies should be used not just for collecting more, but also for doing so from the sectors and people who amass the greatest profits. This means increasing income, wealth and property tax collections and reducing taxation on consumption. In order to achieve this, the tax privileges of some sectors will have to be reviewed, as well as reducing evasion and avoidance, and assessing new capital and property taxes.

5. IT IS TIME TO CHANGE THE RULES

Reducing economic, social and power inequalities should be an absolute priority for the governments and institutions in the region. All public funds and policies should be coordinated in order to achieve this purpose. LAC requires firm, simultaneous and coordinated actions from several sectors, which will lead to:

- disrupting the model of wealth, income and land concentration by providing figures and measuring inequality in all impact assessments of public policies.
- ending the hijacking of democracy and placing the interests of the majority above the privileges of a few elite groups;
- making a commitment to an economic and social model that overcomes the dependence on extractive industries, by diversifying the productive matrix;
- curbing the process of privatization of public service provision and rebuilding the social pact that is needed in order to guarantee a society with equal rights and solidarity;
- guaranteeing equality of rights and power between women and men, from the design right through to the implementation of policies and legislation.

In order to achieve these objectives, Oxfam has outlined a series of concrete actions in its report that governments and institutions can and should commit themselves to in order to fight inequality and poverty. The measures are organized by sphere of action: hijacking of democracy; gender equality;

LATIN AMERICA AND THE CARIBBEAN: INEQUALITY AND THE CONCENTRATION OF WEALTH IN FIGURES



10% THE RICHEST

IN THE REGION OWNED 70.8% OF WEALTH AND ASSETS IN 2014, WHILE THE POOREST HALF OF THE POPULATION ONLY OWNED 3.2%.



THE
WEALTH

OF THE 101 BILLIONAIRES IN THE REGION WOULD BE ENOUGH TO ERADICATE POVERTY IN ECUADOR, EL SALVADOR, NICARAGUA, PARAGUAY, PERU AND THE DOMINICAN REPUBLIC.



64% TOTAL WEALTH

THE REGION HAS THE HIGHEST CONCENTRATION OF LAND IN THE WORLD; HOUSING AND LAND OWNERSHIP REPRESENTS 64% OF TOTAL WEALTH.



INDEX
FEMALE

IN ALL COUNTRIES EXCEPT HONDURAS THE FEMALE EXTREME POVERTY INDEX WAS OVER 100 IN 2013.



22%

IT IS ESTIMATED THAT WOMEN ARE PAID ON AVERAGE 22% LESS THAN MALES.



IN
MEXICO

FIGURES COLLECTED BETWEEN 2005 AND 2010 SHOW THAT AN INCREASE OF ONE PERCENTAGE POINT IN INEQUALITY IN THE GINI INDEX WAS RELATED TO FIVE ADDITIONAL MURDERS PER 100,000 INHABITANTS AT A MUNICIPAL LEVEL.



"La profundidad". Foto: © Fernanda Cornish | México | OXFAM

dignified work and fair pay; effective social protection; fiscal and taxation policy; budget and expenditure; and universal quality public services, namely education, health, water and sanitation.

These technical recommendations are no secret and remain urgent, but we insist that the debate on inequality is essentially political. It is time to confront the capture of the state. Democracies must fulfil the role of guaranteeing that conflicts of interests are discussed in the public arena and that their results lead to guaranteeing respect for rights and the benefit of the population as a whole.

In order to end inequality we need governments with a clear commitment to the majority, capable of disconnecting themselves from the interests of the political and economic elites. We need governments and citizens with the awareness that there are no people living in poverty without those who are wealthy, and who understand that the solution to inequality and poverty entails looking at the other side of the coin: wealth.

- ¹ Oxfam America calculation, 2015. Source: Revised headcounts from Brookings spreadsheet, *Country HC & HCR revisions* - 05.14, received July 21, 2014; except China, India, Indonesia headcounts from Laurence Chandy e-mail, July 22, 2104; 2010 means from Brookings spreadsheet, *Poverty means_2010*, received July 22, 2014; conversion factors from GDP/capita growth to mean consumption/income growth from Chandy, Ledlie, and Penciakova, *The Final Countdown: Prospects for Ending Extreme Poverty by 2030*, p. 17; \$1.55 (2005 \$) poverty line from <http://www.brookings.edu/blogs/up-front/posts/2014/05/05-data-extreme-poverty-chandy-kharas>; GDP/capita projections are IMF World Economic Outlook April 2014 current-dollar PPP figures, adjusted for US CPI inflation in 2010-12.
- ² ECLAC 2015 *Social Panorama of Latin America and the Caribbean*, 2014 p. 65
- ³ IMF 2015 *Causes and Consequences of Income Inequality: A Global Perspective* IMF Staff Discussion Note.
- ⁴ Own calculation based on the World Bank's World Development Indicators 2015
- ⁵ Credit Suisse 2014
- ⁶ CEPALSTAT
- ⁷ CEPALSTAT
- ⁸ The GDP of the countries of Latin America and the Caribbean grew by an average 3.5% per year from 2000-2013 <http://wdi.worldbank.org/table/4.1>
- ⁹ Credit Suisse 2014, op. cit.
- ¹⁰ UBS 2014, World Ultra Wealth Report: <http://www.worldultrawealthreport.com/home.php>
- ¹¹ CISEPA, CIRAD, International Land Coalition (2011) *The Concentration of Land Ownership in Latin America: an Approach to the Current Problems*.
- ¹² When we conduct a correlation analysis the level of economic equality measured by Gini and the perception of dissatisfaction with the workings of democracy, a positive relationship of 0.473 is apparent in the Latin American countries. Nonetheless, we find two atypical values in this analysis, for Costa Rica and Uruguay respectively.
- ¹³ We observe on average that there is a positive relationship of +0.474 between income inequality and people's perception that government is for the benefit of powerful groups.
- ¹⁴ When we conduct a correlation analysis for the level of inequality (GINI) regarding people's perception that some people and/or groups have so much influence that the interests of the majority are ignored, we find a positive relationship of 0.357.
- ¹⁵ Esquivel 2015 for Oxfam Mexico, p. 19
- ¹⁶ Esquivel 2015 for Oxfam Mexico, p.21
- ¹⁷ Garay Jorge 2013 *Minería en Colombia* [Spanish only] General Comptroller of the Republic <http://www.rebelion.org/docs/167838.pdf>
- ¹⁸ <http://www.oxfamblogs.org/lac/>
- ¹⁹ Latinobarómetro Corporation (2013) 'Report 2013', Latinobarómetro Corporation: Santiago, Chile
- ²⁰ OXFAM (2014) *Even It Up: Time to End Extreme Inequality; Time to Change the Rules*, OXFAM GB: Oxford
- ²¹ ILO, (2014) *World Employment Trends 2014: The Risk of a Jobless Recovery*, Geneva: ILO.
- ²² Caliri (2014), *Política Fiscal para salir del extractivismo*, [Spanish only - Tax Policy for emerging from Extractivism] in *Economía Crítica* quoting the International Monetary Fund (IMF).
- ²³ Vergara W., A. R. Rios, P. Trapido, H. Malarín (2014) *Agriculture and Future Climate in Latin America and the Caribbean: Systemic Impacts and Potential Responses*, IDB
- ²⁴ World Bank (2015), *Latin America Treads a Narrow Path to Growth: The Economic Slowdown and its Macro Challenges*, World Bank.
- ²⁵ In 2014 the average price of copper was 22% lower than recorded in 2011; in the case of gold the variation was -19%, silver -46% and lead -13%. In the case of oil prices, the decrease is recent: in mid-2014 the price per barrel was more than US\$100, but by January 2015 it had fallen below US\$50 (See for example Epifanio Baca & Gustavo Ávila (2015), *El fin del súper ciclo de los commodities y su impacto en los ingresos regionales* [Spanish only - *The end of the commodities supercycle and its impact on regional income*]; Available at: <http://www.propuestaciudadana.org.pe/sites/default/files/publicaciones/archivos/NIA%207-2015.pdf>

NOTES

- ²⁶ See ECLAC (2013) Social Panorama Latin America, United Nations: Santiago, Chile
- ²⁷ ILO (2014) *Labour Overview 2014. Latin America and the Caribbean*, Lima: ILO / Regional Office for Latin America and the Caribbean.
- ²⁸ OXFAM (2014) *Even It Up: Time to End Extreme Inequality. Time to Change the Rules*
- ²⁹ Esquivel Valeria, 2011, *The Care Economy in Latin America*, UNDP, El Salvador
- ³⁰ It should be pointed out that in this document, fiscal pressure, unlike taxation pressure, is a broader concept that includes contributions to security and other non-taxation income like royalties or licences for the extraction of natural resources
- ³¹ 14 in total.
- ³² This figure corresponds to new calculations by Oxfam, based on estimates from International Monetary Fund (IMF) researchers on tax effort and the fiscal capacity of several countries. The estimates made by the researchers can be found in the following publication: Ricardo Fenochietto & Carola Pessino (2013), *Understanding Countries' Tax Effort*, International Monetary Fund Working Paper, Fiscal Affairs Department, WP/13/244. Available at: <http://www.imf.org/external/pubs/ft/wp/2013/wp13244.pdf>
Fenochietto and Pessino (2013) carried out a simulation exercise to estimate the total income that could be collected if the collection gap is reduced by 50% in 2020. In order to make this estimate the following assumptions have to be made: GDP (in US\$ at current prices) expands at the same annual average growth rate registered in the two year period 2011- 2012 and estimated tax capacity remains constant over time. Tax capacity is calculated by the abovementioned authors as the maximum level of tax income that a country can obtain given its actual level of GDP per capita, the degree of trade openness, public spending on education as a percentage of GDP, inflation rate, Gini index, perception of corruption, and agricultural share in GDP. It is to be expected that the first three variables will have a positive impact on tax income, while the rest of the variables will have a negative influence on collections. Tax effort is the proportion that results from dividing current tax income (2011 data, with some exceptions 2012) into estimated tax capacity.
- ³³ Ibid.
- ³⁴ Own calculations based on OECD, ECLAC and CIAT (2015), *Revenue Statistics in Latin America and the Caribbean*, Table C. Available from: http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/revenue-statistics-in-latin-america-and-the-caribbean-2015_rev_lat-2015-en-fr#page26
- ³⁵ Such as financial investments, interest on public titles, profits from investment funds, capital gains from property assets and shares, etc. Financial investments are funds that are banked for a specific period, from seven days to more than one year, with higher interest rates than savings accounts.
- ³⁶ After exonerations and other tax benefits/incentives.
- ³⁷ IDB (2013), *More than Revenue: Taxation as a Development Tool*, figure 1.9. Available from: http://www.iadb.org/res/centralBanks/publications/cbm75_1115.pdf
- ³⁸ Includes social security cash payments (monetary public pensions)
- ³⁹ Measurement made through the Gini index.
- ⁴⁰ ECLAC and the Institute for Fiscal Studies (2015) *Los efectos de la política fiscal sobre la redistribución en América Latina y la Unión Europea* [Spanish only - The effects of fiscal policy on redistribution in Latin America and the Caribbean], Study nº 8, Series: States of the Question, Area: Public Finances, Eurosocal, pages. 46-47. Available from: <http://www.cepal.org/es/publicaciones/37881-desigualdad-concentracion-del-ingreso-y-tributacion-sobre-las-altas-rentas-en>
The countries analysed in the study are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Uruguay and Venezuela.
- ⁴¹ http://www.huffingtonpost.com/entry/multinational-corporations-taxes_55d4baede4b055a6dab265d9
- ⁴² SwissLeaks <http://www.icij.org/project/swiss-leaks/explore-swiss-leaks-data>
- ⁴³ World Bank
- ⁴⁴ Europaid. *Transfer Pricing and Developing Countries*. Final Report. July 2011 http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/transfer_pricing_dev_countries.pdf
- ⁴⁵ G20 (2013) Information Centre: *Tax Annex to the Saint Petersburg G20 Leaders Declaration* <http://www.g20.utoronto.ca/2013/2013-0905-tax.html>

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