

Paper 4 of the Introduction to the Project "Tax Justice & Poverty"

Concepts and Context of the Project = Technical version

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Finally: if you find mistakes or if there are suggestions for improvements, your feedback is very much appreciated. Please write to the author at <alt.joerg@gmail.com>.

Thank you very much.

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1 Introduction & methodological remarks

The aim of the research project “Tax Justice and Poverty”, as circumscribed in the research concept (Tax Justice & Poverty, 2013a), is to develop proposals which are suitable to narrow the wealth gap, to reduce governmental dependence on external financing and thus to improve the situation of the poor. It is our understanding that the growth of the wealth gap and the persistence and/or growth of governmental dependence on external financing contributes to persisting and/or growing poverty in our countries and this world. However, only if we succeed convincingly in establishing a link between the wealth gap and governmental dependence on the one hand and poverty on the other, can we then try to argue whether (and what form) of taxation might be a just and justified remedy for alleviating poverty.

Even though these problems present themselves differently in each country and the centrepiece of this research project are studies relating to the situation in Germany, Kenya and

Zambia, one needs to ask: What are the broader global developments underlying and impacting upon national situations?

This leads to the question of selecting literature for presenting our case in this chapter. There is an increasing number of publications addressing global, regional and national inequality and, on the background of that which has been said in (I/II), it is both difficult and telling to pick a selection as the starting point for a study: It is difficult since all of them contribute an important aspect or perspective, depending on its theoretical assumptions or geographical/economical/sociological focus. It is telling, because each selection betrays something about the leaning of the author since each study is based upon some guiding assumptions for the selected and applied methodology, (hypo)theses and the analyses building upon that.

For this chapter on Concepts and Context, the following reasons underlie the selection taken:

Some of the studies from Thomas Piketty and his team, e.g. Gabriel Zucman, Anthony Atkinson or Emmanuel Saez have been selected due to their impact on the global debate of wealth inequality, most particular after Thomas Piketty published his “Capital in the 21st Century.”

As to the geographical scope, both Piketty and the UNDP report “Humanity divided” describe and set out a global framework of inequality. The OECD study “Divided we stand” places its focus upon developed countries; Atkinson and Christian Aid add a focus upon sub-Saharan Africa. Other papers with a less comprehensive approach and more specific focal points, especially by the IMF, were included as well where it seemed appropriate and helpful.

Admittedly, the selection of papers in this chapter has a strong economical bias. Most certainly a stronger case could probably be developed if authorities would primarily have been drawn from human rights, trade union, “socialist” backgrounds.¹

One reason for the selection presented is an experience the main author made in his advocacy work: Whatever good arguments are there from a human rights, trade union or socialist background, they are often waved away as being from the “usual suspects” who are ignorant about that which really matters in today’s world, namely recommendations based upon hard facts by economists. In other words: They seem to be moralist and appellative, but in the end unrealistic and useless for solving global problems and to create growth and wealth, something soft and fuzzy and rather ideologically biased – very different from the “objective” approach of economics.

This is, of course, not the case and this paper will also demonstrate how little fact-based and much theory-dependent economics can be. But when reviewing literature for this research it was recognized with a certain surprise that authors, proponents and institutions, which so far were advancing neoliberal principles, realized at the latest with events leading to the Global Financial and Economic Crisis 2007, that something went wrong with(in) the prevailing paradigm and that accordingly there is need to correct, reform and adjust. At times

¹ For example (Sepulveda-Carmona, 2014) or Wagenknecht, S. (2012) Freiheit statt Kapitalismus. Frankfurt: Campus. One exception among those selected for this research might be Thomas Piketty who indeed served some time as economic advisor to the French Socialist Party and its presidential candidate Segolène Royale. This, however, does most certainly not influence his empirical based analysis, perhaps his conclusions which is, as will be also made clear in 2.2.3.

the author marvelled at the convergence of analysis and findings, by authors and institutions as diverse as a French elite economist, the OECD, UNDP and even the arch-neoliberal IMF, upon issues of inequality which could hardly be more poignant if other sciences and background had been chosen.

Therefore it was resolved to use those publications as a starting point, as it is hoped that conclusions presented from “unusual suspects” are more convincing in decisive circles than those coming from the “usual suspects”, even more so since the support in the latter case is guaranteed anyhow – which makes the coherence of findings and recommendations even more important.

2 Growing wealth gap

2.1 What are we talking about?

The first goal of this research is to narrow the so-called wealth gap, i.e. the growing distance between those who have much and those who have little or even nothing. This gap and distance is measured with concepts and methods establishing inequality within nations and/or the world. Most importantly, the distinction between income-inequality and wealth-inequality needs to be kept in mind:

2.1.1 Income inequality

Income is the total amount of money which you receive and which gives you financial liquidity. More specifically, the following distinctions exist and need to be kept in mind:

- Inequality of income, which ‘focuses on the inter-personal distribution of income, which captures how individual or household incomes are distributed across the population at a point in time.’² Here one has to sub-distinguish:
 - *income from work*, *income from wealth* (i.e. income from work, capital (interest), shares, real estate, rent,...) and *total income* (income from work & income from wealth); see also (Piketty, 2014a, p. 254).
 - *Marketable income* (income before tax) and *disposable income* (income after taxation, or *income after receiving social transfers* and benefits).³
 - Yet another category to consider is *net-equivalent income*, i.e. the number of persons (of different ages and, accordingly, differences in needs) who have to share in the remaining income, i.e. the household income resulting from earnings, minus taxes and plus public transfers, which then is available for actual spending.⁴
 - One finally has to be aware that *average net-equivalent income* varies according to socio-demographic categories. For example, in some geographical regions it is higher than others, or that people with certain educational achievements have on average a higher net equivalent income

² This and other of the following quotes, if not indicated differently, are from (International Monetary Fund, 2014a, p. 7ff.).

³ Here, UNDP talks of primary, secondary and tertiary income (UNDP, 2013, p. 20).

⁴ Here it is assumed that households with more persons have relative savings in operating a household as compared to single households. For that reason, household income is not just divided among household numbers, but by a qualifiedly weighed factor. On this and the following point see (Bayerisches Staatsministerium für Arbeit und Sozialordnung, 2012, p. 195ff).

than others, or that certain groups are on principle below. Therefore, the *relative income position* might be the more telling value.⁵

- Inequality of wealth considers ‘the distribution of wealth across individuals or households, which reflect differences in savings as well as bequests and inheritance.’ Most commonly, net-wealth is defined as financial asset plus real estate minus debt. Here also questions of ownership matter, because in some areas possession underlies power and influence (e.g. voting power due to the possession of shares, possession of land, possession of saved capital as a potential means of investment or speculation...) - even if it does not generate any income at a given time.
- Inequality of opportunity: ‘This focuses on the relationship between income inequality and social mobility, in particular the extent of mobility between income groups across generations.’

Inequality is most commonly measured with the Gini and the Palma indicator, the Gini indicator being the most widely known. ‘The coefficient varies between 0, which reflects complete equality and 100 (or 1), which indicates complete inequality (one person has all income or consumption, all others have none). It was developed by the Italian statistician and sociologist Corrado Gini, which accounts for the name.’⁶ However, the Gini coefficient has its shortcomings. One drawback of the Gini measure is its over-sensitiveness ‘to changes in the share of income of middle-income groups,’ thus focussing upon the area that is least susceptible to change (Christian Aid, 2014, p. 18). The Gini’s major shortfall is that its calculations underestimate the income of the rich. ‘Income from capital is poorly captured by income and expenditure surveys; and property and earnings from capital held offshore are not included.’ (ibid., p. 21). Another indicator tries to improve insights on inequality: the Palma indicator, inspired by the work of Gabriel Palma, ‘focuses on the share of income of the richest 10% and the poorest 40%’ (ibid., p. 18). For that reason, this coefficient ‘highlights changes at the top and bottom ends more’ (ibid.). Recent research on the Palma indicator presents rates of progress from countries which downsize their Palmas ‘to be three times higher in reducing extreme poverty and hunger compared to countries with rising Palmas’ (ibid.).⁷ Piketty, criticizes the Gini and other so-called “synthetic indices” as well and opts for the use of distribution tables in order to demonstrate more clearly forms of inequality in a given society (see below 2.2).

2.1.2 Wealth inequality

The OECD states in its 2015 report on inequality: ‘Comparable data on income are much more abundant than data on wealth, which perhaps partly explains why wealth inequalities have been largely neglected, up until recently.’ And this, the OECD continues, even though wealth inequality, of course, matters ‘both in shaping people’s individual circumstances by generating capital income and as a wider socio-economic force.’ (OECD, 2015a, p. 34).

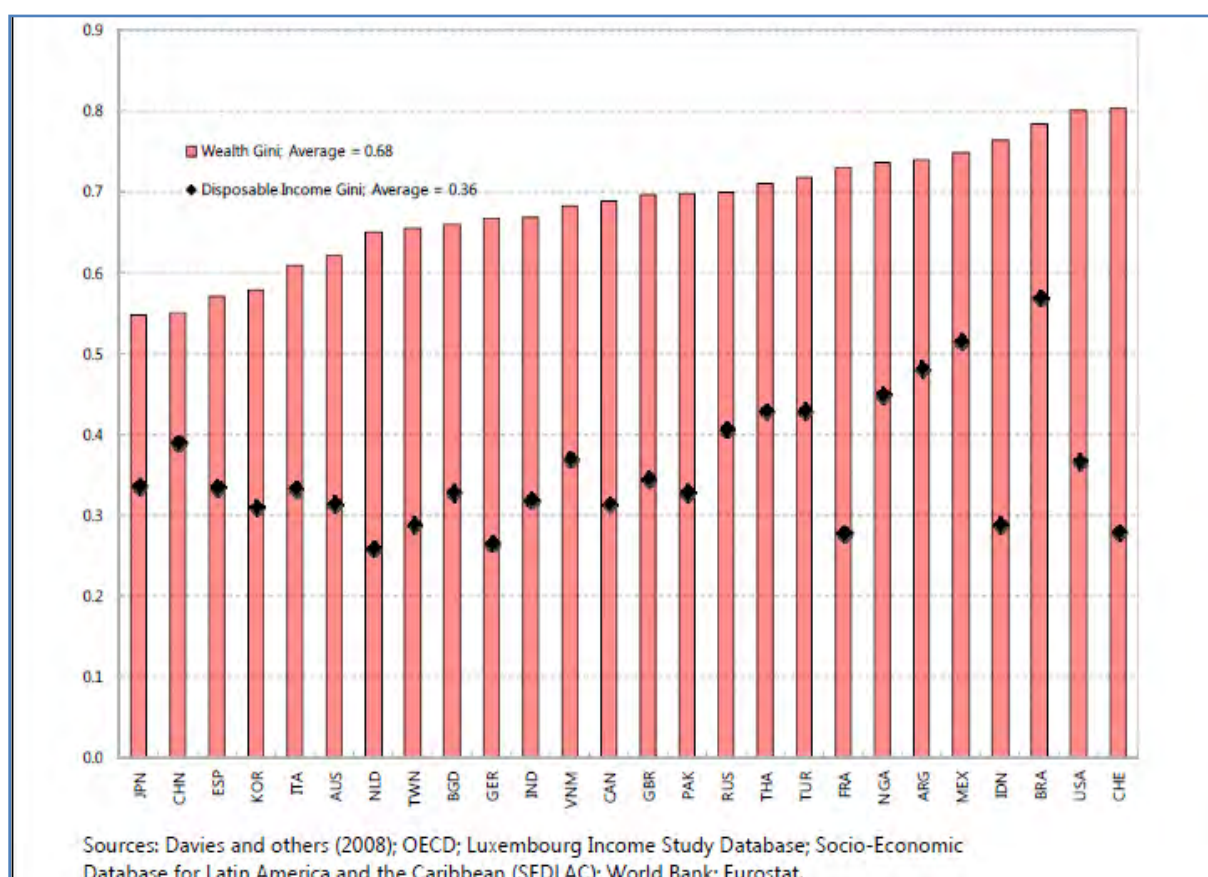
Wealth inequality is, by wide consensus among experts, much larger than income inequality – even though there is dispute about the reasons why this is the case:

⁵ Ibid.

⁶ See http://en.wikipedia.org/wiki/Gini_coefficient.

⁷ The differences in applying both the Gini and the Palma indicator are demonstrated below (2.3.2.) For a discussion of the Gini vs. the Palma coefficient see also Green, D. (2013, September 26) Is Inequality All About the Tails? In: *World Bank blogs*. Retrieved from <http://blogs.worldbank.org/publicsphere/inequality-all-about-tails-palma-gini-and-post-2015>.

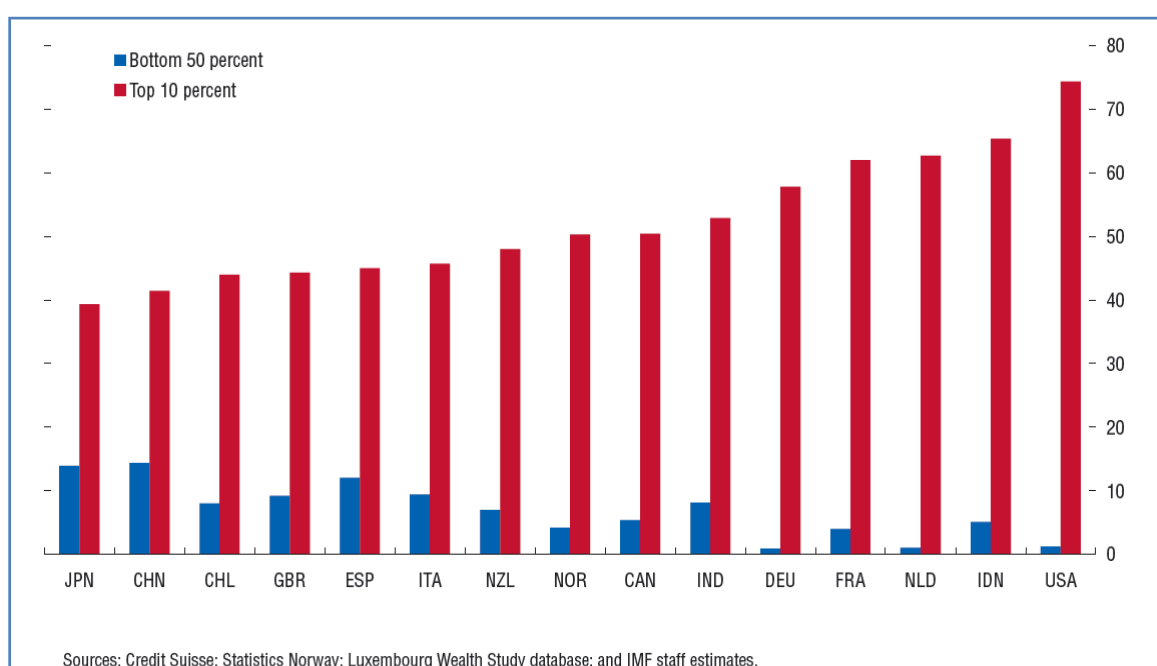
Graphic 1 Inequality regarding wealth and income in selected countries



Source 1 (International Monetary Fund, 2014a, p. 12)

The following graphic demonstrates how unequal societies have become over time by comparing the shares of net wealth held by the bottom 50 percent and the top 10 percent of a given population:

Graphic 2 shares of net wealth held by the bottom 50 percent and the top 10 percent of a given population



2.1.3 Problems defining the “wealth gap”

However, there are problems for this research to cover wealth inequality adequately for the three respective countries of this research: In African countries there is no comparable agreement on wealth categories as available as it is in European countries⁸ – let alone differentiated statistics on those categories. Rather, statistics are limited to those categories of income which are considered to be important, e.g. by tax authorities, and on statistics which arise from this consideration. Just two examples to illustrate the point:

The first example refers to the valuation of real estate on which houses can be built which in turn generate income from rent: While it is comparatively easy⁹ in developed countries to measure the value of real estate since agreed standards of assessment exist, there are no widely applied standards on how to assess the value of real estate in Africa: Not least, because a lot of land is still owned by the state (ZAM) or wealthy individuals (KEN). In both cases no real market exists for trading this commodity, an important precondition to establish market-value. Furthermore, in both cases there is no incentive to assess and tax real estate. In the case of KEN because influential people are at the same time politicians who can prevent these taxes coming into force, in the case of ZAM, because it would not make sense if the state would tax itself on its property and, the relation between effort and potential profit does not make it sensible to spend a lot of resources in assessing and taxing privatized plots. For that reason, there are limits in our treatment and comparison of the wealth gap within and between our countries, but at least some convergence is possible or will be in the near future since work on comparable categories is proceeding also on sub-Saharan countries.¹⁰

As to the second example: wealth is often seen to consist in the composition of “non-financial assets” owned by a household. In a survey done by the Central Statistical Office in Zambia it was revealed that the most commonly owned “non-financial asset” of a Zambian household is the hoe (see ZAM/III#). This is certainly a valuable piece of information, but only of limited use for discussing wealth in the country and between countries. At the same time, there is overlapping: In Germany and Zambia, houses, cars and real estate count as non-financial wealth assets. At the same time, in Germany, so many households own a house, that the possession of a house alone does not suffice to categorize that household to be wealthy – here, more is required (see GER/III/2.2.3.1). At the same time, there is change going on in the valuation of assets both in Africa and European countries: Earlier in history the main value of real estate and real property for a long time consists in being a resource for agriculture. Nowadays, the real value of real estate both in African and European countries resides in the potential to build private houses and commercial factories on them, especially in the close environment of large cities.

Not surprising, there is no universally and unconditionally accepted definition of wealth. Even the definition in Wikipedia is wanting, since the editors of Wikipedia call for

⁸ See for developed countries e.g. different studies on Wealth Management or, for Germany, (Grabka & Westermeier, 2014).

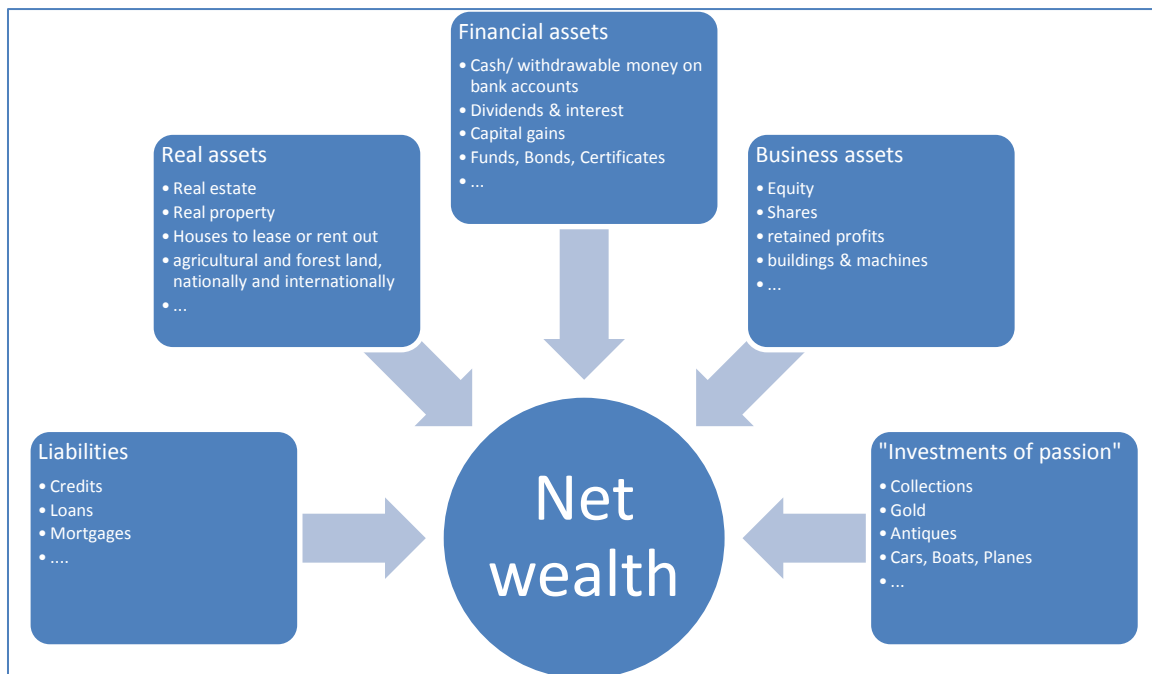
⁹ Please note this caution, namely that it is only ‘comparatively easy’ in developed countries to establish the value of real estate: Here, too, problems exist which will be presented and discussed in the German country study.

¹⁰ See <http://topincomes.parisschoolofeconomics.eu/#WorkInProgress>, and here especially the work of Atkinson (Atkinson, 2014) and his team.

sources and backup of that which has been entered so far.¹¹ The economic definition of wealth at Wikipedia read on 16 February 2015

In economics, net wealth refers to the value of assets owned minus the value of liabilities owed at a point in time.^[citation needed] Wealth can be categorized into three principal categories: personal property, including homes or automobiles; monetary savings, such as the accumulation of past income; and the capital wealth of income producing assets, including real estate, stocks, bonds, and businesses.^[citation needed] All these delineations make wealth an especially important part of social stratification. Wealth provides a type of individual safety net of protection against an unforeseen decline in one's living standard in the event of job loss or other emergency and can be transformed into home ownership, business ownership, or even a college education.^{[8][not in citation given]}

Regarding this research, the following categorization of wealth is taken, which is mainly inspired by definitions of economic institutions such as the European Central Bank (2013) or Wealth Reports (Credit Suisse, 2014):



This is, of course, very schematic and there might be more and less truth to it in the case of Germany, Kenya and Zambia or among individuals and/or families in those three countries. More on the differences and problems assessing wealth will be also presented in the introductory chapters of the three country reports.

2.1.4 Measuring poverty and the “Wealth Gap”

Since the discussion surrounding the “wealth gap” is more elaborate and diversified in Germany, illustrations shall be taken from that background. Most commonly and in everyday speech, the “wealth gap” is determined by comparing income level. This is quite easy regarding the poverty-end of the divide. Here, for example, the EU defines the following:

- Less than 70% of the respective national median equivalised disposable income signifies danger of poverty in situations of social risk
(*Armutsgefährdung in sozialen Risikosituationen*)

¹¹ Retrieved on 16 February 2015 from <http://en.wikipedia.org/wiki/Wealth>

- Less than 60% signifies risk of poverty (*Armutsgefährdung*)
- Less than 50% signifies relative income poverty (*relative Einkommensarmut*)
- Less than 40 % signifies poverty (*Armut*).¹²

Comparably, a person earning 200% or 300% of the equivalised disposable income of a country could be called “wealthy”. Here, however, an important representative among the few researchers into wealth in Germany cautions: Wolfgang Lauterbach and his team (2011) argue that those earning merely 300% of the equivalised disposable income in Germany may be called affluent or prosperous, but not yet wealthy. **Any approach to “wealth” would have to consider not just wage or salary from work, but also income from different sources of wealth which would enable a person or household to live in affluence.**

It is here, where problems of categorization and quantification start, because: There is wide variety of opinions about what makes up and counts as a source of wealth. Accordingly, and different from income, wealth cannot be quantified and reflected easily in current cash flows, even though wealth does generate income now, but most importantly at an unspecified point in future:

Most importantly, the market value of companies, shares, options, real estate and houses reflects first of all hope or expectation that, if somebody were to sell companies, shares, options, real estate and houses upon the market, somebody else is willing to pay that very price. Hence, this calculated, imputed value does not automatically generate gold, silver and cash if somebody actually does sell it or has to sell it because s/he needs money urgently, e.g. to pay inheritance tax. The amount and extent of wealth is influenced in many ways: For example,

- By the appreciation and depreciation of currencies: When the US\$ loses against the Euro, wealth in Europe or invested in Euros is increasing and the other way round.
- By demand and scarcity: The more people demand a scarce resource (and are principally able to buy it), the higher its price, the higher its value. This increase in wealth is reflected by the increase of shares and papers traded at Stock Exchanges or Over The Counter.
- By the difference between nominal value and the development of market value, e.g. in the area of businesses, where the so-called “hidden reserves” emerge over time without anybody working with them.

Most importantly, however, one needs to be mindful of the link between wealth and debt: One of the basic laws of economics is that every fortune is paralleled by debt. This is particularly true today, where a lot of consumption is financed by credit, loans and debt of private, corporate and governmental households. How quickly assets of all kind can lose value was amply demonstrated during the “Dot.com” crisis 2000. What happened, when private homeowner cannot repay their mortgage we have seen in 2007. Billions turned into millions and wealthy people suddenly got “poor” or even committed suicide out of desperation.¹³

¹² (Berger, 2014) Chapter “Armut”. See also

http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Income_distribution_statistics

¹³ Madeleine Schickedanz lost a fortune because of mismanagement of her bank, see: Schickedanz-Prozess: Middelhoff stützt Quelle Erbin (2014 November 3). See: Spiegel online. Retrieved from <http://www.spiegel.de/wirtschaft/unternehmen/schickedanz-prozess-middelhoff-stuetzt-klaegerin-in-teilen-a-1000820.html> . Adolf Merckle committed suicide, see: Dörries, A. (2010, May 17) Adolf Merckle begeht Selbstmord. In: *Süddeutsche Zeitung*. Retrieved from <http://sz.de/1.383538>

Something similar can happen any time again which will hurt especially those industries which engage in export or banks and funds holding bonds of states which will default.

Developments like that are behind the experience of Oxfam, which had to correct in 2015 their headlines of 2014 due to changes in the methodology and data base of Credit Suisse which was underlying their own calculation (see 2.6).

Bearing all that in mind, wealth can be measured and quantified: According to some theories, today's value of wealth expresses the sum of all expected future income from the assets making up wealth. Thus, annual income therefore is an annual advance upon the sum of all expected future income. If therefore the sum of all future income from wealth assets represents the values of today wealth, then today's income represents a fraction of today's wealth. In mature national economies the coefficient between those two entities is called "present value factor" (*Barwertfaktor*) which remains largely unchanged and enables future calculations and projection. "Mature" means that no unexpected developments (e.g. wars, inflation...) impact and distort the relationship between wealth and income, but that a normal development stabilizes the correlation between wealth and income. From then on, the only factor determining the present value factor is economic growth (Braun, Pfeiffer, & Thomschke, 2011, p. 7f.). Accordingly, in the calculation of tax rates of national wealth taxes, the assessment of expected future income (*Sollerträge*) is the key for the practical implementation of wealth taxation (Bundesministerium der Finanzen, 2013a, p. 20ff.).

Finally, and to make things even more complicate, any wealth-measure in cash equivalents has also its deficits: even money is not an absolute and reliable yardstick for wealth. A bill of money, for example, is merely the debt claim, an exchange value, to be claimed sometime in the future. This is best made visible by the inscription on British bank notes, telling the owner "I promise to pay the bearer on demand the sum of ...", which has remained unchanged on notes to this day.¹⁴ Against this background, houses, businesses, gold and furniture are non-financial assets but something one possesses already and in real. All these things need to be kept in the back of one's mind when presenting a case on "wealth inequality" or joining a discussion of it.

It does make a difference whether one defines wealth in Germany, Zambia or Kenya. This, namely what counts as wealth and how it is best measured, can therefore be done best at the national level which will be done in this study for Germany, Kenya and Zambia. But in all three countries two truths apply: First, "wealth" consists not just in assets, but guarantee regular income without the need to work for it – not just in the present, but most likely also in future. The true importance of "wealth", however, reflects that which Collins and Gates phrase as follows: 'wealth – including saving, investments and property ownership – tells us about enduring power, stability and security' (Collins, 2012, p. 22). The point at hand is also illustrated by the distinction between "Wealthiness" (the mere extent of monetary income and disposable financial assets, i.e. "**Income-Inequality**") and "Wealthability", the latter being closer to the German word for wealth, namely "Vermögen", suggesting that which one can (or ought to) do with that which one owns and controls, i.e. measuring "**Wealth-Inequality**".¹⁵ Here additionally the question of ethics comes into play which will be dealt with later in more detail in the German In-Depth study of wealth (GW). The distinction between Income and

¹⁴See <http://www.bankofengland.co.uk/banknotes/pages/about/history.aspx> as well as (Berger, 2014), chapter "Große Geldvermögen: die große Unbekannte."

¹⁵ See also (Druyen, 2011)

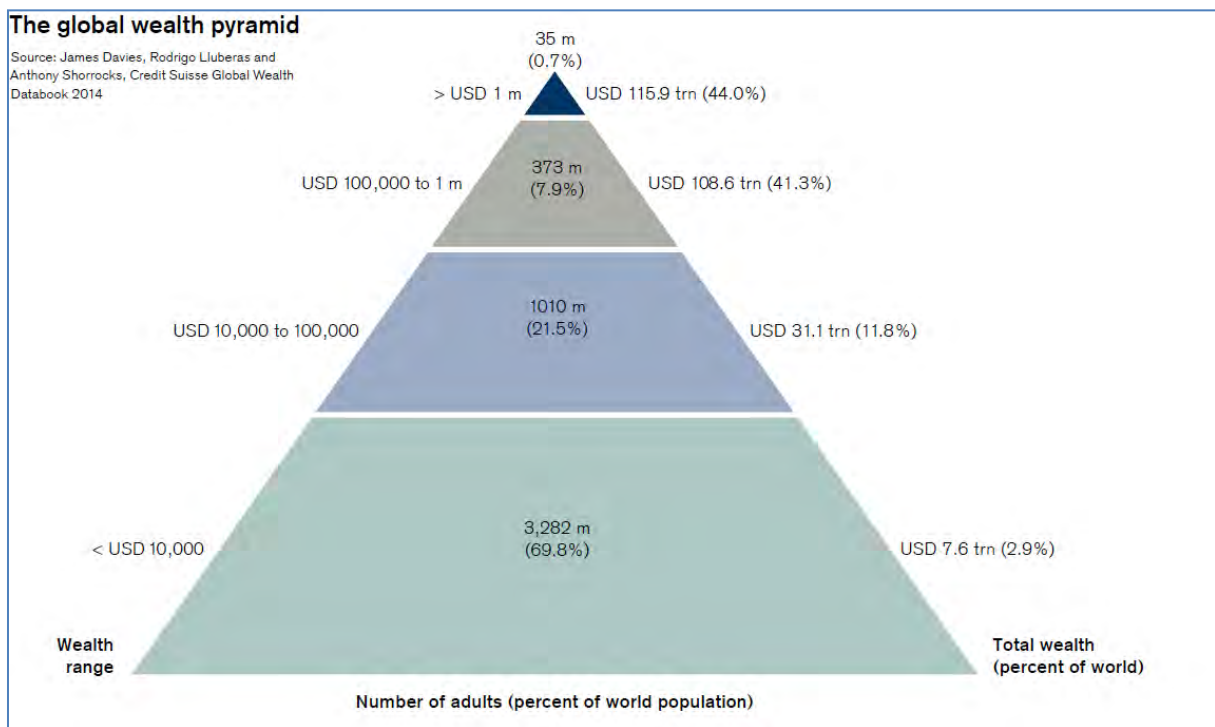
Wealth Inequality is very important for the measurement of inequality, since the former is considerably lower on the Gini scale than the latter equality (see above, 2.1.2.).

2.1.5 Selective use and presentation of data

Whenever one deals with complex data, there are ways and means to use it in a selective and manipulative way. Accordingly, if wealth inequality is discussed, one has to examine very carefully the foundation on which the argument and conclusion is built upon. Two examples:

Take the difference in the presentation of the global wealth distribution: In the good old times, national wealth distribution, for example in Germany, resembled an “onion”,¹⁶ representing a small number of low-income households, a small class of top-wealth holders and a large middle class. Slowly, this onion-shape transformed into a pyramid, representing a large number of poor and low-income households and a small number of top income households. This shape and figures are also used by Credit Suisse to illustrate global wealth distribution:

Graphic 3 The global wealth pyramid



Source 3 (Credit Suisse, 2014, p. 24)

This does not look too bad, and, most importantly, it does look familiar. However: if you look at the bottom piece it says that 69.8% of the people earn less than USD 10.000. In this category you can find people who earn as much as USD 10 per month (!) and count to an African middle class and people who earn less than USD 1.25 a day and belong to the world's poor. And, as you might guess, those who earn less make up most of the bottom part, while those earning from USD 1000 to USD 10.000 make up a very small part of those 69.8%. Much more realistic in terms of a graphic illustration is therefore the “Champagne Glass” distribution of global wealth, which is used by Oxfam or UNICEF, see below 2.7).

¹⁶ The so-called Bolte Zwiebel. See <http://de.wikipedia.org/wiki/Bolte-Zwiebel>

The second example is taken from Germany: Here, those who want to make the wealth gap look smaller than it actually is like to use the *Einkommens- und Verbraucherstatistik* (EVS) sample. This sample does not include households with a monthly net-income beyond EUR 18.000, since their number is too small for representative examination within the EVS sample. Equally, it does consider real and financial assets, but does not take into account business assets and company ownership. Here, of course, the wealth gap is smaller. On the other side, those who want to make the wealth gap look larger, omit pension and social security entitlements, as is the case in the SOEP sample. Here, rightly, opponents criticize that important assets are excluded because they cannot be quantified.¹⁷

Another point which is often forgotten in the discussion of wealth is that the amount is subjected to changes, e.g. the ups and downs of currencies and Stock Exchanges. They also forget that wealth can evaporate overnight due to those ups and downs, e.g. in the consequence of the Dot.Com Crisis 2000 or the World Financial and Economic Crisis 2007.

2.2 *Inequality and taxation in Africa*¹⁸

2.2.1 Anthony B. Atkinson (2014) “The Colonial Legacy”

The presentation of Piketty is best followed by Anthony B. Atkinson’s examination of inequality in former British African colonies (Atkinson, 2014), because Atkinson cooperates with Piketty and others in the World Top Income Database Project. In the case under examination, Atkinson wants to elaborate insights into the topic of distribution of top incomes in former British colonies in Africa. The methodological approach he uses is to examine and analyse income tax records of 11 African countries.¹⁹ His calculations start at the national level (e.g. establishing the total income share), followed by a breakdown of his macroeconomic national income calculations down to household income distribution.

Atkinson introduces two important distinctions for assessing the extent of inequality (pp. 5ff.): The **concentration** and the **distribution of income**. As to the first, it regards the top income shares of total national income, in an image: how much of the “national wealth cake” is possessed by the top income groups. The second perspective examines the shape of income distribution, which does not depend on the income totals. In other words: it examines the gap between poor and rich, and to use Atkinson’s image here: how steep the mountain is which one has to climb in order to get from the bottom to the top. He structures his paper in different sectors of interest by the following lead questions:

- 1) How unequal were incomes?
- 2) How did the income concentration in African colonies evolve in the 20th century?
- 3) How far did independence contribute to changes in the colonies?

The first lead question attempts, on the one hand, to look at inequalities among the African colonies themselves and, on the other hand, to compare them to European States and

¹⁷ Ein Beamter, der zur Miete wohnt, alles ausgibt und eine Jahresrente von 50.000 Euro bezieht, ist einmal vermögenslos ("arm"), hat aber - abhängig vom Rechenzins - ein (fiktives, da nicht gefundenes) Pensionsvermögen von heute vielleicht einer Million Euro zu Buche stehen. Damit ist er de facto "Millionär". Aus: Commentary, (2015, January 21) In: Institutional money. Retrieved from http://www.institutional-money.com/index.php?id=11&ref=2&tx_ttnews%5bt_news%5d=46806

¹⁸ Sub-chapter 2.3 has been contributed by Elisabeth Rummel.

¹⁹ There were other taxes at that time, e.g. Hut Tax or Poll Tax, but these were left out of analysis as well as the question about how to value and evaluate income generated in a society largely based upon a subsistence economy.

the 'Western offshoots' of the (former) British empire²⁰ in order to find out whether they differed widely in their income distribution. Furthermore, the question aims more specifically at drawing concrete comparisons between the positions of colonial elites and that of the imperial power itself, namely the United Kingdom.

The second and third lead questions are partly intermingled, because of the fact that the time of independence falls in the time of the 20th century. The second lead question sets out to examine how the colonial income concentration evolved in the twentieth century. Here it makes sense to differentiate between three decisive phases the colonies went through during that time: the phase preceding and following World War II (WW II) and the time that led up to the colonies' achievement of independence. These different phases must be taken into consideration in order to find out how far inequality is related to the colonial ruler and what share needs to be attributed to self-determined history. Furthermore, the third lead question shall reveal to what extent independence had effects on the different countries and whether these effects contributed to an ongoing inequality during the time of post-independence.

Taking a look at 11 former British colonies, the paper investigated first who paid taxes at all. '[T]he percentage of taxpayers is both small and varies across the 11 countries. [...] [A]t most half of the European population was the subject to income tax' (p. 16). In general, public employees, employees of large companies and self-employed professionals and businessmen 'were a natural target group' in terms of taxing salaries. Among employees, the Europeans predominated, whereas the group of self-employed taxpayers was dominated by Asians (cf. p. 17). The paper also sub-structures the British Colonial area into three geographical sub groups, namely Southern/Northern Rhodesia, East Africa/Nyasaland and West Africa, which differed in terms of the proportion of taxpayers.²¹

As Africa was influenced by British imperialism for centuries, it is important to see its influence on historical and persisting income inequalities. A question that arises here is whether 'the administrative and economic structures set in place in the colonies reproduce[d] the income hierarchy of the old world' (p. 22). The data which exists for the time before WWII 'suggest that – in Central Africa at least – the top of the colonial income distribution was less concentrated than in the imperial powers or in most of the Western offshoots' (p. 24).

²⁰ 'The economic historian Angus Maddison created the term "Western Offshoots". According to Maddison's classification, Western Offshoots consist of the United States, Canada, Australia and New Zealand.' (<http://www.urbandictionary.com/define.php?term=Western%20Offshoots>)

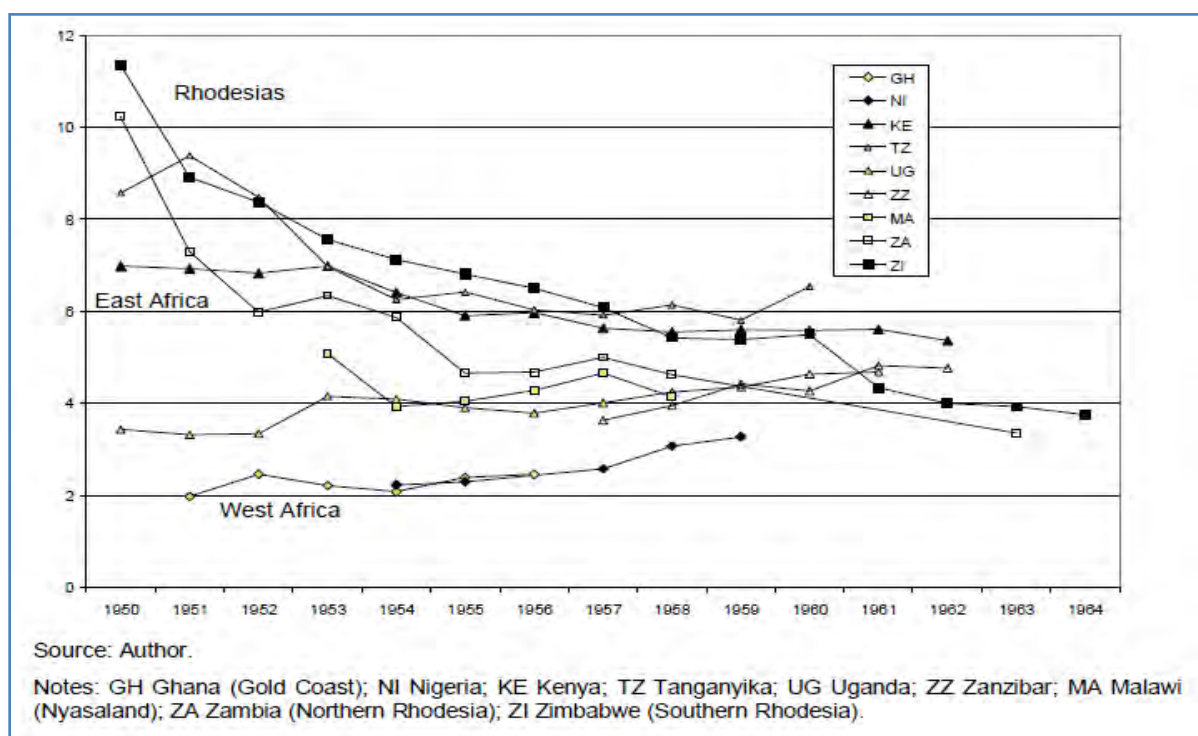
²¹ In detail Atkinson explains: 'The proportion of taxpayers was highest in Southern Rhodesia, where in 1950 they constituted more than two per cent of all tax units. [...] By 1960, this figure had risen to more than four per cent. From a comparison with the figure for the size of the European population, it is clear that at most half of the European population were subject to the income tax. In Northern Rhodesia in 1950, total taxpayers were some two-thirds of the European population. [...] [In] East Africa and Nyasaland, [...] the proportion of taxpayers exceeded the proportion of Europeans but fell short of the total non-African population, so are consistent with the tax being paid essentially by non-Africans. This was legally the case in Nyasaland and Uganda, and in Kenya it was noted that in 1948 'very few Africans paid income tax because the number of those who could afford to pay was too small to justify the employment of staff to carry out the exercise' (Tarus 2004: 29). [...] [In] West Africa [...] there were broadly the same number as (Sierra Leone) or more (Gold Coast) taxpayers than non-Africans. For Sierra Leone, there are figures on the composition of taxpayers for IY1948, which show that Africans accounted for 480 out of 2,093 individual taxpayers (Colonial Office 1952, Volume III: 88). The annual report of the Nigerian Federal Inland Revenue Department for the year 1957–58 showed the distribution of taxpayers with incomes of GBP500 and over by nationality in IY1956: African (only those receiving income from the Lagos Township) 1,890 (14.5 per cent), European 10,284 (78.9 per cent), and Levantine and Asiatic 863 (6.6 per cent).' (pp. 16ff.)

With the end of the war in 1945 British policy underwent a shift in its treatment of the colonies (cf. 26). This change in policy was caused through belief in a new ideology that included the goal to develop the African colonies and, at the same time, the hope to secure that way a privileged access to raw materials and other necessities even after independence. Consequently, the post-war period lists ‘a distinct fall in the degree of income concentration in the British colonies’ (p. 29).

At the same time, ‘at the point of independence, all of the colonies had higher top shares than found at the time in the UK, France and the Western offshoots’ (p. 41). This is due to two developments:

Whereas the colonies’ top income inequality showed considerable differences among the African states at the beginning of the post-war colonial period, ‘the extent of top income inequality at the point of independence was relatively similar across the different colonies’ (p. 40). The colonies’ top income shares obviously converged in those years (p. 40). The following graphic from Atkinson’s paper shows this phenomenon of convergence of top income shares in various countries referring to the share of the 0.1 per cent at the total income share from the 1950s to the 1960s:

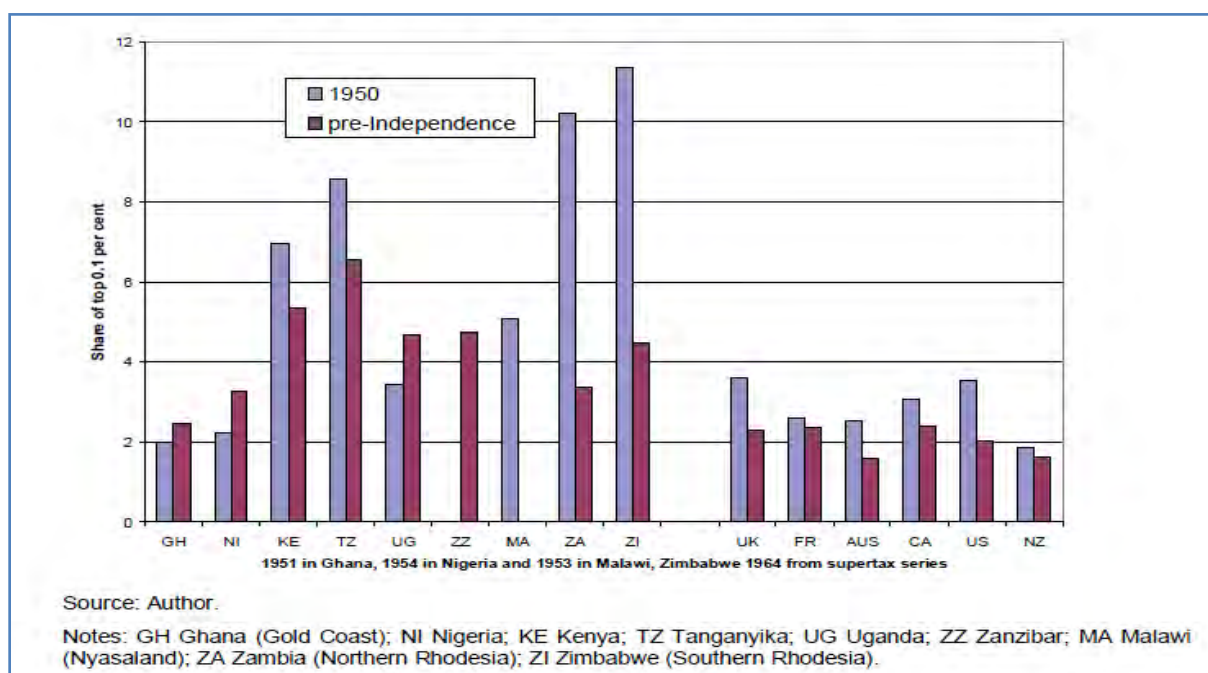
Graphic 4 Share of top 0.1 per cent from 1950 to independence



In Europe, at the same time and because of the World Economic Crisis 1929 and the Second World War, a ‘major fall in top income shares [...] in the imperial powers and North America’ took place (p. 40). Equally, new taxes and tax rates introduced in the wake of these events aimed to diminish the wealth gap, most importantly the introduction of substantial progressive income tax rates. The taxes existing in the USA and Europe in post-war and post-world economic crisis times reduced the gap between rich and poor. This led to the phenomenon that the total income share of the top 0.1% in African societies was higher compared to the imperial powers/Western Offshoots. The following graphic from his paper

presents the share of the top 0.1 per cent at 1950 and the year prior to independence, both in selected African countries and the Western comparison group.

Graphic 5 Income share of the top 0.1 per cent at 1950 and year prior to independence



On the whole, the post-war colonial period meant for some parts of Africa a moderate fall of the top income shares. In East Africa the share of the 0.1% total income fell modestly in the post-war colonial period. ‘In Kenya, the top shares fell in the first half of the 1950s but then fell no further’ (p. 56)²². Due to the fact that evidence for post-independence in Zambia is limited, Atkinson makes no attempt to draw any conclusions in this case (cf. p. 51).

After independence, different developments can be found in the 11 states under examination.²³ ‘In Malawi and the Gambia, there was increased concentration. In Tanzania, Kenya and Zimbabwe post-1980, there was less concentration at the very top, but there were also signs that the distribution had “tilted”, making the earlier climb steeper’ (pp. 52ff.). According to Atkinson, concluding from those findings ‘it appears that the elites were structured differently in different colonies’ (p. 56). Atkinson leaves open to research how far those different structures were conceived.

In short, and coming back to the metaphor of the mountain and the “national wealth cake” mentioned in the beginning: Wealth inequality in African colonies was, compared to Western Offshoots and imperial powers, rather unequal in reference to the share of top-income groups of the national “wealth cake” but more equal when it comes to the distance from the foot to the top of the national wealth “mountain”.

²² Nevertheless, in this period of time some countries differed – as ‘[i]n Ghana, the top shares were broadly stable over the 1950s, and the top income shares rose in Nigeria, Uganda, and Zanzibar’ (p. 56).

²³ ‘[T]here was a distinct fall following independence in Uganda and Malawi, and, although the evidence is more limited in time, in Ghana. There was a modest fall in top shares in Kenya and Tanzania. In Zimbabwe, the UDI was followed by a rise in top shares that was later reversed in the 1970s; in the early years following independence in 1980 top income shares fell’ (p. 56).

Atkinson's paper is limited to a historical examination and can be taken as an overview providing insights into the history of African States leading up to the 1960s, but not up to the present. That will be treated in the following chapter.

2.2.2 Christian Aid (2014) "Tax and inequality"

The Christian Aid report of February 2014 examines the development of income inequality in Africa, which is, according to Gini measures, 'the second most inequitable region in the world after Latin America' (Christian Aid, 2014, p. 13). African countries have been in the press over the past years due to outbursts of violence which, in part, were linked to aspects of inequality. Just to give some illustrations of the extent of the wealth gap: Somebody earning as much as US\$ 10 per day is counted among the African middle class, which so far makes up 4% of sub-Saharan society, a number which is slowly growing. This middle class is in no way able to catch up with the wealthy elite of African society: South Africa alone counts almost 50,000 dollar millionaires; Nairobi alone counts 5,000 dollar millionaires, only a fraction of them, however, declare their wealth to the tax man.²⁴

More specifically, the report wants to find out the exact changes that have taken place since independence. While an IMF paper, looking at 'available data from the period between 1990 to 2005 finds that in sub-Saharan Africa the region's average income inequality, as measured by the Gini, has fallen' (p. 15), Christian Aid is sceptical since available data does not justify wholesale assessments. Christian Aid therefore focuses on those sub-Saharan states where adequate data is at hand, namely Ghana, Kenya, Malawi, Nigeria, Sierra Leone, South Africa, Zambia and Zimbabwe, starting its analysis in the period of the late 1980s leading up to the present. Among them, the data collected proves that at least five out of eight countries (Ghana, Nigeria, South Africa, Zambia, Kenya) are truly endangered in terms of an increasing income inequality. Due to database limitations, the report leaves out 14 other countries, even though some of them are also known to be highly unequal in terms of income distribution.

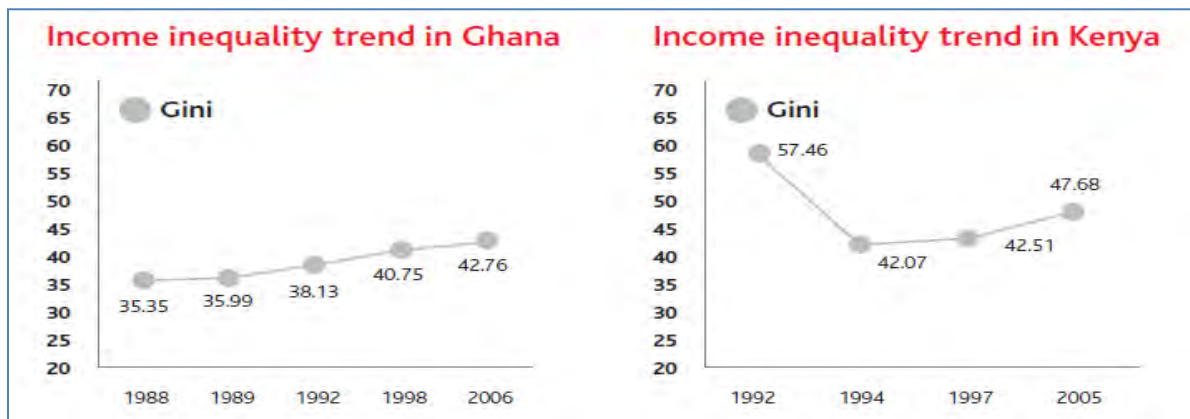
The Christian Aid report's examination is based on the World Bank Gini dataset and the World Bank Development Indicators, data from Global Financial Integrity as far as illicit financial flows are concerned, and tax data available from the IMF.

The report draws an important distinction by examining inequality, using both the Gini and the Palma indicator,²⁵ and, beginning with the Gini coefficient, the following picture emerges:

²⁴ p. 13. The US\$ 10 per day is certainly the case for the Middle-Class in Kenya and Zambia.

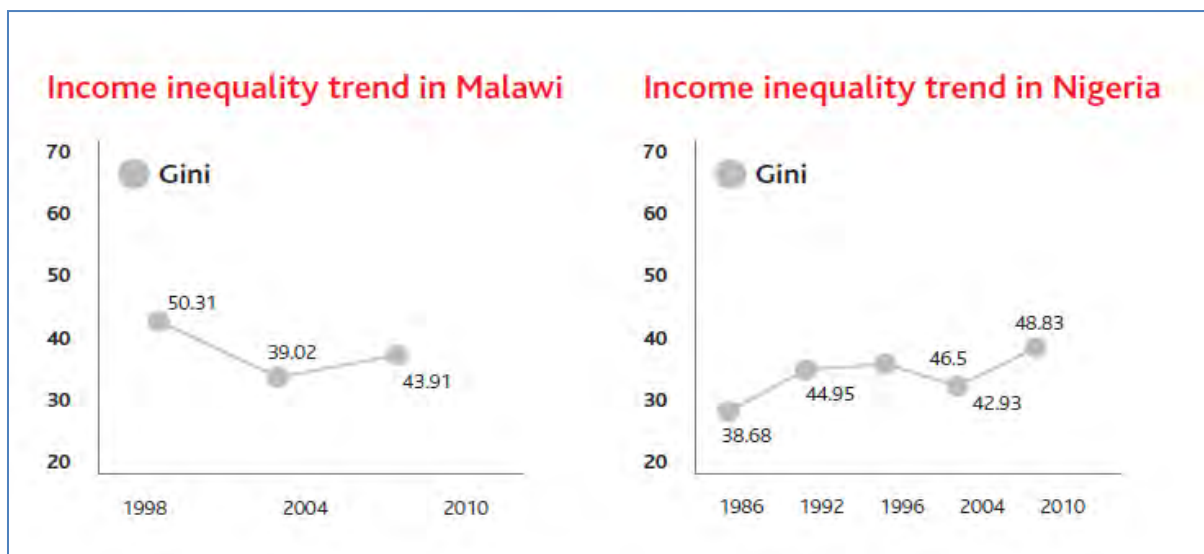
²⁵ See above, 1. note, that Christian Aid does not use the 0-10 scale, but the 0-100 scale.

Graphic 6 Income inequality trend in Ghana and Kenya (according to Gini)



Although poverty in general fell between 1998 and 2005 in *Ghana*, this cannot be judged as a general decrease in inequality in the country since income inequality has been rising.²⁶ Indeed poverty ‘fell by less than it should have’, as ‘the top 10% are getting richer [and] the bottom 40% saw their share of income decline’ (p. 16). In general, the concentration of income has increased up to 50% during 18 years. The graph depicting *Kenya* shows an increase in income inequality since 1994. Nevertheless recent data of 2013 offer a reduction in income inequality, hinting that at least some progress has been made.

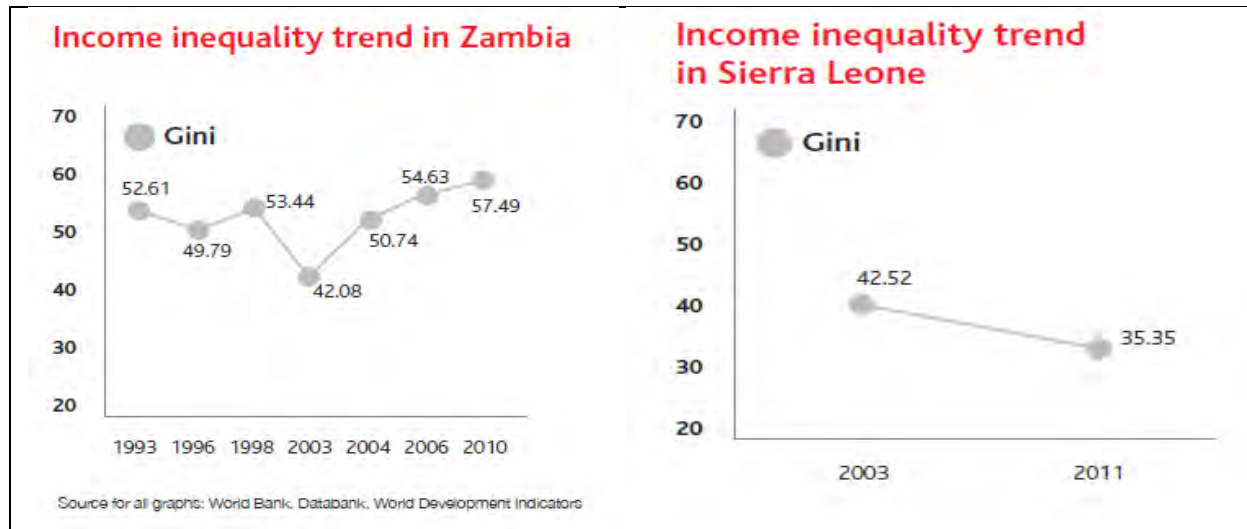
Graphic 7 Income inequality trend in Malawi and Nigeria (according to Gini)



The graphic depicting the income inequality trend for *Malawi* shows a downward trend in the period from 1997 to 2004. The Gini lists 50 in 1997 and decreased to only 39 in 2004. This extraordinary development is probably not completely true and rather has to be put down “to some shortcomings in World Bank data, particularly given that 1994-2004 is commonly referred to as the ‘lost decade’ in Malawi” (p. 18). The more recent data existing for Malawi presents indeed a rather troubling upward trend in income inequality since 2004. In *Nigeria* the negative development is clearly presented by the consistent trend directed to increasing income inequality. Actually, the negative development between 2003 and 2009 happened to be even greater than expected. In numbers: income concentration increased by a total percentage of 75 between 1986 and 2010.

²⁶ Regarding the issue that poverty is able to decline while inequality is on the increase: see below 4.1.

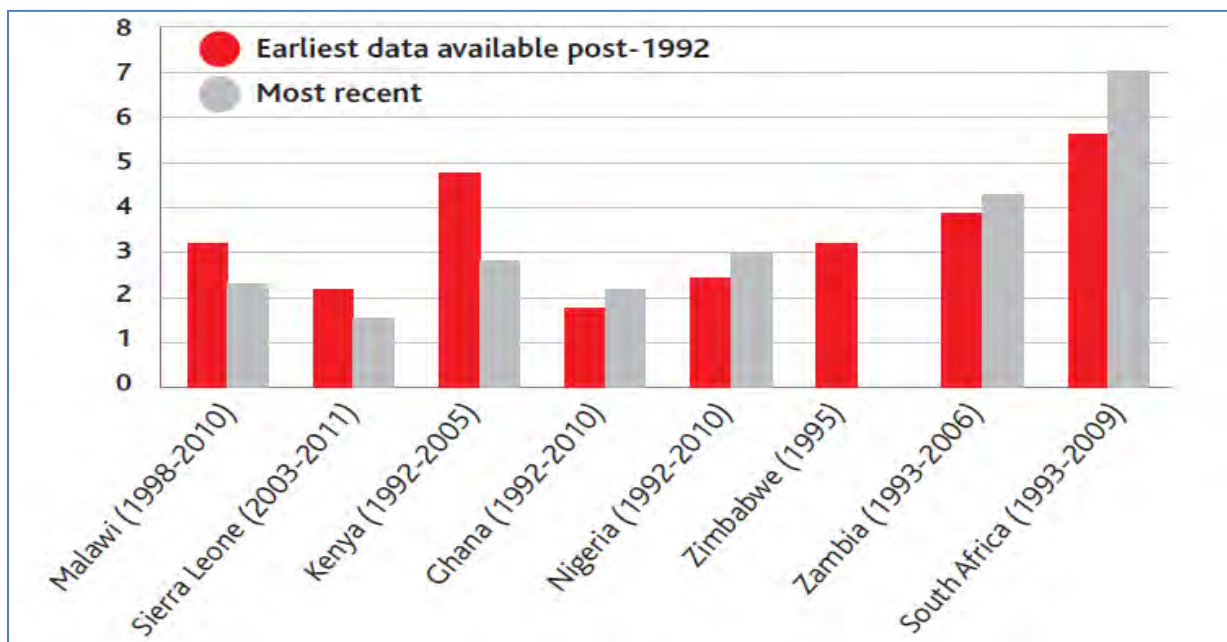
Graphic 8 Income inequality trend in Zambia and Sierra Leone (according to Gini)



Zambia records a consistent rise in income inequality since 2003. At the moment, income inequality is at its highest level since the collection of data. Those on the receiving end are the rural areas as ‘Zambia has very high levels of spatial inequality’ (p. 18). In contrast to Zambia, **Sierra Leone** depicts a downward trend in income inequality. However, as can be extracted from the graph, there are only two points in time where data exists. This requires of course treating the development with caution.

As to the Palma indicator, inequality in states under examination looks as follows:

Graphic 9 Inequality trends in selected African countries (according to Palma)



The Palma ratio of 7 in South Africa in 2009 means ‘that the top 10% of the population earns seven times as much as the bottom 40%’ (p. 19). Taking a closer look at Nigeria, data reveal that income concentration rose 75% during the period under examination;

the increase in South Africa was 24%. In the case of Ghana, ‘the poorest 40% had a 19% share in total income in 1988. This had fallen to only 15% in 2006. In fact there has been a 50% increase in the concentration of income in the country over an 18-year period and a 29% increase since 1992 as shown in the graph’ (p. 19).

Although they differ in their means of measure, both Gini income inequality trend graphs and the Palma chart depict a ‘worrying trend towards increasing income inequality’ (p. 16) taking place in a number of sub-Saharan African countries. Therefore, it is important to examine to what extent those trends relate to unfair taxation.

The report sees a vital factor in taxation, reducing the concentration of wealth and redistributing it (cf. pp. 24, 54). Accordingly, the improvement of the tax system is an urgent goal on the road to a more equal sub-Saharan Africa. Most importantly, direct and progressive income taxes need to be put in place because they are best suited to redistribute wealth within a given society. At the same time, progressive taxation has to go alongside ‘progressive expenditure’ as a means to combat inequality, i.e. spending which is specifically targeted towards improving the situation of the poor.

The progressiveness of a tax system is mainly determined by ‘its reliance on indirect versus direct taxation’ (p. 36). **Direct taxes** contain personal income taxes (PIT) as well as corporate income taxes (CIT). Furthermore, property taxes and any other capital or asset taxes work as direct taxes. In contrast, one major drawback for **indirect taxes** is that they are ‘often invisible to consumers’ (ibid). Furthermore, they are ‘levied on the sale of goods and services’, contributing to the fact that they ‘weigh more heavily on the poor (as they consume most of what they earn, spending proportionately more of their income on goods and services)’ (ibid).

So far, the states under examination have been unable to put such progressive taxation into place, mainly for two reasons:

1) **‘Illicit financial flows** from the continent make taxation of wealth extremely challenging’ (p. 26), the authors argue. ‘Simulations suggest that if all the flight capital over the period 2000-2008 had been invested in Africa – with the same productivity as actual investment – the average rate of poverty reduction would have been 4 to 6 percentage points higher per year’ (p. 28). Since this phenomenon is examined in more detail below in sub-chapter 6, we turn to the second factor.

2) Remnants of the long standing **IMF tax consensus** which was part of IMF policy recommendations given alongside other advice such as deregulation, privatization and other “structural adjustment programs” and “conditionalities” and which often went along with loans and credits. However, while there has been a lot of research into the effects of other IMF policy recommendations, e.g. financial austerity programs, there has been little research done regarding the implementation of the tax consensus.²⁷ What the tax consensus asks in a nutshell is the ‘reduction of corporate and, to a lesser extent, personal income tax rates while expanding the base for consumption taxes and VAT in particular’ (p. 37). As a result, indirect taxation accounted ‘for 66% of the increase in total tax collection between 1980 and 2005’,

²⁷ Here, another study of Christian Aid tries to bridge the gap, namely (Marshall, 2009).

while the share of direct taxation of GDP rose from 6% in 1996 to 6.7% only in 2007.²⁸ This is clearly in contrast to OECD countries, which build on direct taxation as their preferred tax structure ('indirect taxation made up only 33% of the total tax collection in the 2010') (p. 39). However, given the dependence of indebted African states from international financial donor agencies, they did not have many choices whether to implement conditionalities requirements by the IMF or not.²⁹

Before national tax systems in sub-Saharan Africa will be able to contribute sustainably to overall progress in development and to combating poverty, key shortcomings must get amended. Most importantly, it must be prevented that 'excessive exemptions and tax preferences [are] granted especially to multinational corporations' (p. 39). African nations must 'fight illicit financial flows and transfer pricing by multinationals' (ibid.). And they must reduce indirect taxation and instead rely more on direct taxation. Most particularly, they must tax all forms of wealth 'including natural resource rents, land and property' (p. 55) and tackle tax evasion in all its forms. If this will not be the case, a further increase in terms of inequality must be expected in the studied countries.

2.2.3 Discussion

The most interesting bit, reading those two reports, was that inequality in these sub-Saharan African states decreased, both during the period between World War II and independence and for some time afterwards. As it seems, a set of policies by the colonial power as well as by the national elites/policy makers was responsible for those developments, and the development was parallel to policies employed during that time in developed countries. It would be equally interesting to look more carefully into the reasons why inequality picked up to the extent it did later on, especially after the Cold War, when both west and east, stopped channelling a lot of money into Africa towards their "proxy-regimes". From what could be demonstrated already, however, the impression consolidates that also African countries were increasingly affected by neoliberal globalization which led to the forms of wealth concentration which Piketty and others currently analyse. Beyond that, as far as Africa is concerned, illicit financial flows and remnants of the "tax consensus" have an aggravating impact on the situation.

2.3 OECD Inequality research

In 2008, OECD published its major report on inequality, namely "Growing Unequal?" This research starts with the second report in this series, the 2011 report "Divided we stand" with its update 2013.

2.3.1 Report "Divided we stand" (2011)

The report is based upon 'standardised data on household income distribution and poverty prepared by national experts', but besides household survey microdata, the report also considers findings of metadata, which is, for example, needed to establish the Gini coefficient indicating the measure of inequality within a country and to compare inequality between countries.³⁰

²⁸ Quote from p. 39: 'In fact five of the eight selected countries have greater shares of indirect taxation than direct taxation in their overall revenue collection (Zimbabwe 59%; Malawi 57%; Sierra Leone 55%; Nigeria 54% and Ghana 53%.'

²⁹ A comprehensive examination of public revenue mobilization in African countries is contained in a special part of the African Economic Outlook report of 2010 (OECD; African Development Bank, 2010).

³⁰ For more detail on the definition of inequality see (OECD, 2011a, p. 26ff.); for the database and methodology used see the project website aligned with the report <http://www.oecd.org/social/inequality.htm> and <http://www.oecd.org/social/income-distribution-database.htm>.

According to the report, in advanced economies today, the average market income (i.e. the income ahead of taxes and social transfers) of the richest 10% of the population is about nine times that of the poorest 10% – a ratio of 9 to 1. This trend of increasing inequality has been observed not only in comparatively poor OECD countries where inequality has traditionally been high, but also in some traditionally low-inequality countries like Germany, Denmark and Sweden (OECD, 2011a, p. 22). In emerging economies, economic growth has helped to sharply reduce the prevalence of poverty. But at the same time, high levels of income inequality have risen further. During the period under discussion, inequality increased in most of the 34 member countries of the OECD. In those countries where it fell, these were already highly unequal societies and despite this recorded fall or stability, they remain fundamentally unequal societies. A good example in this case is Turkey where the Gini coefficient was very high in 1985 and fell in the period coming up to 2010 but is still higher than most OECD countries. This shows that inequality on the whole is increasing.

The report is also looking into the reasons underlying this overall increase in inequality. While attempts, based on data from the 1980s and 1990s, proved rather inconclusive, the authors state ‘notable shifts in patterns of globalisation’ over the past decade and with that ‘a renewed interest in examining whether global processes alter wage structures’ (p. 110). The OECD distinguishes between external and domestic drivers of inequality: There is, of course, the impact of globalization of trade and “financial deepening”, but also technological change and domestic labour market policies. In more detail:³¹

- Advances in information and communication technology (ICT) are traditionally skill based, favouring a certain category of jobs over others
- Along with ICT goes fragmentation of economic activities and the offshoring of production.
- Between the 1980s and 2008, a number of states loosened employment protection legislation which led to a revolution on the labour market and a spread of income between well-paid, permanently employed skilled workers at one end of the spectrum, and low-paid, temporarily employed labour at the other end.
- Changes in household structure contributed to inequality and poverty, e.g. an increase in single and single-parent households.
- A growing importance of capital income over household earnings can be stated, mostly for those already in the top quintile.

OECD sees the largest impact on growing inequality not attributable to the (external) forces of globalization of trade and finance, but to domestic-national institutions and policies, especially related to product market regulation (PMR), employment protection legislation (EPL) and tax wedges:

Recent studies have highlighted the importance of taking into account labour market institutions and regulations for changes that occurred to the distribution of earnings, particularly to understand differences in inequality trends across countries (Checci and Garcia-Penalosa, 2005; Piketty and Saez, 2006; Lemieux, 2008). A notable observation is that the rise in wage inequality since the 1980s has coincided with more lenient labour market institutions and policies, such as trade unions and minimum wage-setting. It has been argued that the

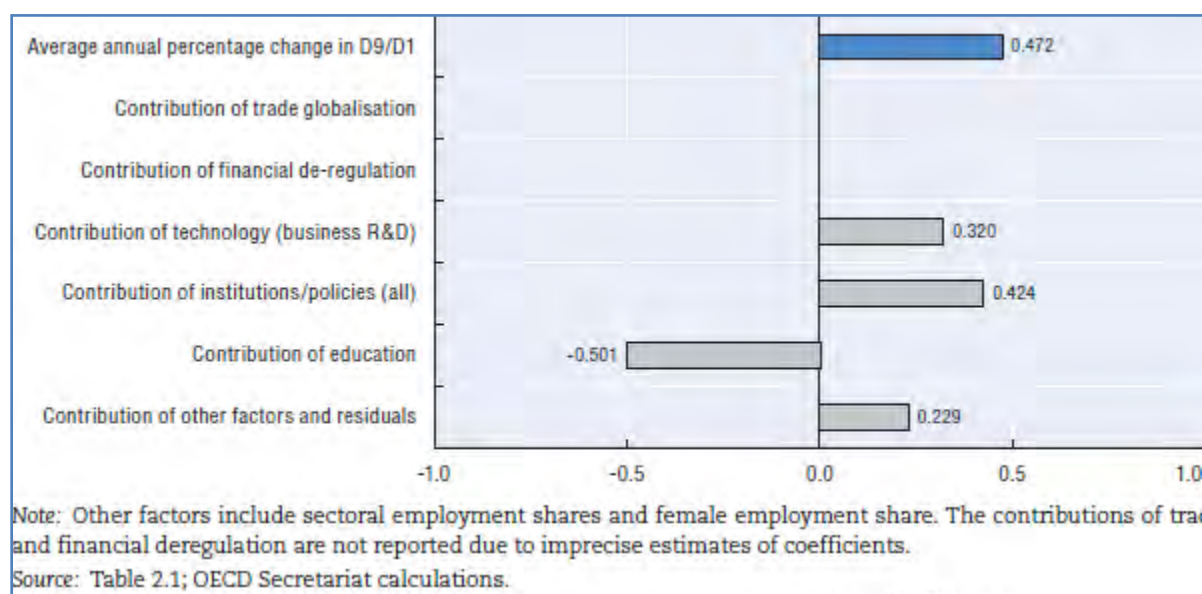
³¹ For the following list see (OECD, 2011a, p. 24ff.)

declining role of institutions and policies has significantly reduced the government's redistributive potential, and thus widened the distribution of earnings or incomes. (p.99)

As to those domestic-institutional approaches, however, the authors state a problem of comparability: Since different states choose different approaches and emphases to counter trends of globalization, this makes it difficult to get a unified picture for all OECD states together.³²

And yet, the report offers the following summarizing graphic:

Graphic 10 Accounting for changes in wage inequality: the role of globalisation, technology and labour market policies and institutions



Source 4 (OECD, 2011a, p. 122)

Accordingly, when asking what in the *past* contributed most to inequality levels, the OECD points to developments in the area of institutions/policies regarding wages and salaries rather than the influence of capital income on household earnings. 'Wages and self-employment income account for most of the income inequality levels in OECD countries. Wages, in particular, are the largest income source for the working-age population and have become increasingly concentrated. Capital income has contributed comparatively little to inequality levels' (p. 245). The report hastens to add in the same paragraph that capital seems to be a major driver behind *current* inequality trends, something which has been confirmed by developments ever since.

Staying on in the field of domestic policies, the OECD report further examines the redistributive effect of public transfers either in taxes, social benefits or the de-facto effect of public services, e.g. public provision of health care or education. Here it is first stated that these transfers indeed lower inequality of around one fifth on OECD average. It is also stated, however, that the tax-benefits system became less redistributive since the mid-1990s, because, e.g., of an increase in numbers of those being entitled for it and changes in eligibility criteria:

³² 'This exercise ... highlights a few influential countries that may have a noticeable impact on the point estimate. For instance, removing Denmark from the sample would reduce the disequalizing effect of PMR. The opposite is true when Spain was removed from the estimation. Dropping Finland from the country sample also tends to greatly mitigate the impact of EPL on wage inequality.' (p. 122)

While growing market-income disparities were the main driver of inequality trends between the mid-1980s and mid-1990s, reduced redistribution was sometimes the main source of widening household-income gaps in the ten years that followed. In fact, income inequality after counting benefits and taxes increased at a faster rate after the mid-1990s than in the decade before (p. 292).

In other words: Over the past decades, tax-benefit policies could not/no longer stop inequality from growing since market income grew twice as fast as redistribution.³³

The OECD sees a whole range of dangers associated with rising inequality: It stifles social mobility between classes, impacts on economic performance, ‘breeds social resentment,... generates political instability’ and ‘can also fuel populist, protectionist and anti-globalisation sentiments’ (p. 40).

On that background, the report looks at developments in taxation systems, which, after all, are supposed to generate the revenue for redistribution which in turn lowers inequality: Here it is relevant to note that the importance of progressive income taxes declined in their role to lower inequality: ‘Top rates of personal income tax, which were in the order of 60-70% in major OECD countries, fell to around 40% on average by the late 2000s’ (p. 369), while social security contributions had a flat-tax character and therefore rather a regressive impact. Furthermore, the OECD points out that not even those considerably lowered marginal tax rates were being paid and that rather the effective tax rates were lower still. The report is nevertheless hopeful, because

(t)he new OECD work presented in this report shows that there is nothing inevitable about growing inequalities... Regulatory reforms can be designed in such a way that they make markets more efficient and encourage employment while reducing inequalities at the same time... Any policy strategy to reduce the growing divide between the rich and poor should rest on three main pillars: *more intensive human capital investment; inclusive employment promotion; and well-designed tax/transfer redistribution policies* [emphasis added]. (p. 41)

Accordingly, especially in Chapter 7, a number of proposals are given as to how best to reform the taxation and public spending system. They would bring it partly back to a state in which it was before neo-liberally inspired tax reforms started. While the latter increased both the wealth gap and the gap between public debt and private wealth rather than narrowing it, submitted proposals now bear in mind once more the contributive capacity of those being better off:

The relative stability of higher incomes, as well as their longer-term trends, are important to bear in mind in policy debates that seek to define a response to growing inequalities. They are also relevant in the context of planning fiscal consolidation strategies. It may therefore be necessary to critically review whether existing tax provisions should be adapted in light of equity considerations and current revenue requirements, in particular where those with high or very high incomes have benefited from declining overall tax burdens [emphasis added]. (p. 293)

This is, last but not least, why chapter 9 of the report is in particular devoted to “Trends in Top-Incomes and Their Tax-Policy Implications”.

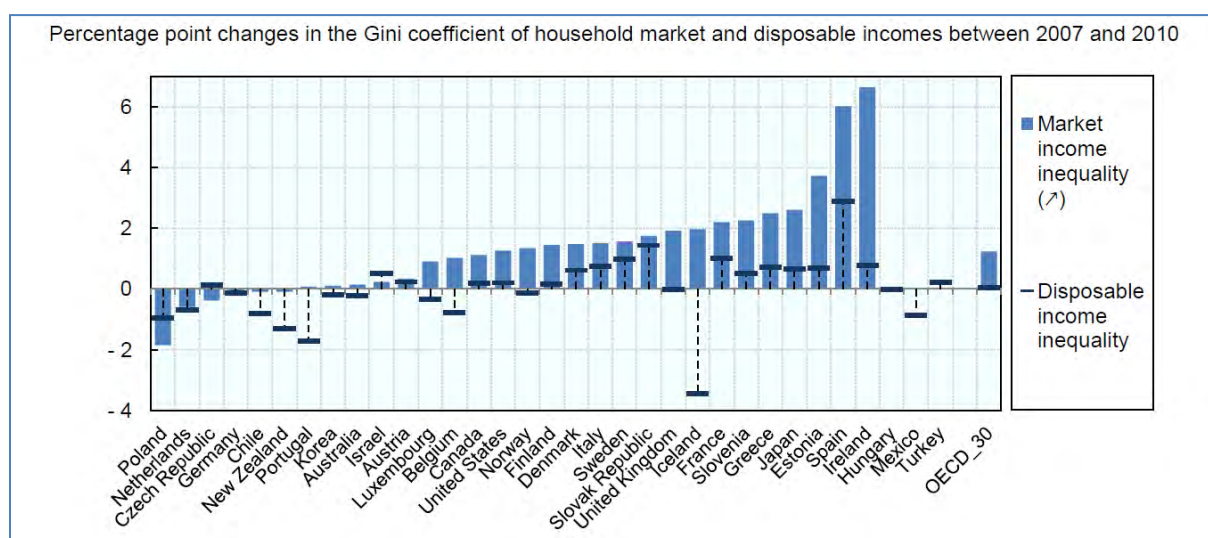
³³ (OECD, 2011a, p. 37ff.) as well as chapter 7.

2.3.2 Database Update 2013

OECD continued to feed their database after the publication of the 2011 study. An eight-page-update for the years up to 2010 and published in 2013 confirms important tendencies for the years following the World Economic Crisis (OECD, 2013d). Some results taken from this short paper are:

Income inequality increased in the first three years of the crisis to the end of 2010 by more than it had in the previous twelve years. After taxes and transfers, the richest 10% of the population in OECD countries earned 9.5 times the income of the poorest 10% in 2010, up from 9 times in 2007. The gap is largest in Chile, Mexico, Turkey, the United States and Israel, and lowest in Iceland, Slovenia, Norway and Denmark.

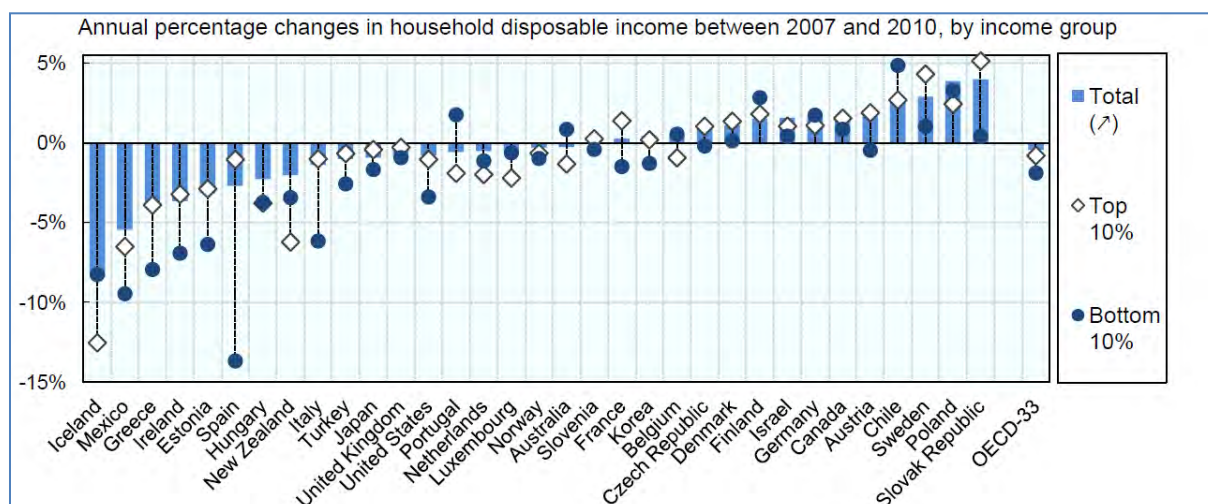
Graphic 11 Market income inequality rose considerably during and after the crisis



Source 5 (OECD, 2013d, p. 2)

The top 10% of the population did better than the poorest 10% in 21 of the 33 countries where data are available.

Graphic 12 Poorer households lost more or gained less than richer households



Source 6 (OECD, 2013d, p. 4)

Using pre-crisis income levels as a benchmark, the number of people living in poverty rose during the crisis in most countries. Between 2007 and 2010, the average relative income poverty in OECD countries rose from 13 to 14% among children and from 12 to 14% among youth, but fell from 15 to 12% among the elderly. Until 2010, in many countries, pensioners were largely protected, while working households took the hit. Child poverty has risen in 16 OECD countries since 2007, with increases exceeding 2 points in Turkey, Spain, Belgium, Slovenia and Hungary. This confirms a previously identified trend, namely that of young people and children replacing the elderly as the group most at risk of income poverty across the OECD.³⁴ In the Press conference presenting these findings, OECD Secretary-General Angel Gurría said:

‘These worrying findings underline the need to protect the most vulnerable in society, especially as governments pursue the necessary task of bringing public spending under control. Policies to boost jobs and growth must be designed to ensure fairness, efficiency and inclusiveness. Among these policies, reforming tax systems is essential to ensure that everyone pays their fair share and also benefits and receives the support they need.’³⁵

2.3.3 Report „In It Together“ (2015)

The third and most recent report in the OECDs series on long-term trends in inequality continues the analysis begun in the preceding ones and besides to introduce new aspects to understand better the consequences of growing inequality. The title “In It Together: Why Less Inequality Benefits All” indicates the emphasis of this report: to demonstrate that increasing inequality continues to harm all, because it contributes to declining economic growth, sinking salaries, sinking consumption, sinking investment, sinking social mobility, sinking social cohesion etc. And, vice versa, to propose policy changes to amend the situation.

The very first sentence of the Executive Summary states the status: ‘In most countries, the gap between rich and poor is at its highest level since 30 years,’ (OECD, 2015a, p. 15). This implies that the tendencies which are analyzed as causes behind the development in the previous reports are still seen to be adequate. Most importantly it is emphasized that inequality is not just growing because of rising income and wealth among the top decile but also because of stagnant or sinking income among not just the bottom 10%, but the bottom 40%!

Reasons for rising income and wealth is simple to explain: Because salaries are rising and a higher concentration of wealth means income from capital and other assets which lower income groups do not have. An interesting point are explanations regarding the most widespread wealth-asset, namely the own family home: While this is for top incomes a place of status and enjoyment, it is for middle and low income group a poverty risk since it goes along with debts, which are called to be the ‘flipside of wealth.’ (p.35). The reasons for stagnant and sinking income among the bottom 40% continues analyses and explanations of the previous reports, namely the deteriorating quantity and quality of jobs for large segments of the population. The OECD emphasizes that non-standard jobs are not per se bad, if they are a stepping stone for better, more permanent jobs. The fact is, however, that the majority of workers in such employment situation remains in those and does not move on to better jobs:

³⁴ This finding is confirmed both in national and regional reports (see G/III/Armutsberichte#) and internationally, e.g. by (OECD, 2011a).

³⁵ Gurría, A. (2013, May 15) Speech held at Press Conference. Retrieved from <http://www.oecd.org/els/growing-risk-of-inequality-and-poverty-as-crisis-hits-the-poor-hardest-says-oecd.htm>

Graphic 13 In most countries the majority of temporary workers stay on such jobs

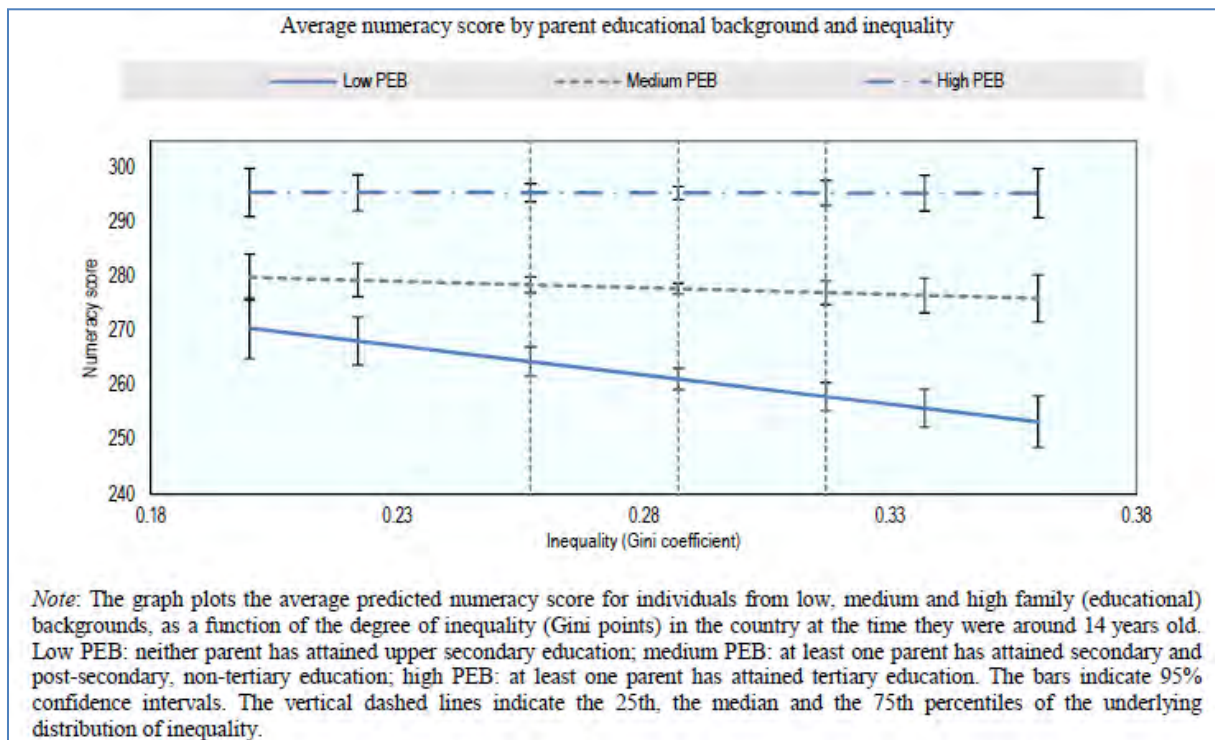


Source 7 (OECD, 2015a, p. 32)

The report talks of a “job polarization”, meaning, ‘a decline of the share of workers in the middle of the workforce, both in terms of skills and income, and increases in the proportions of workers in high- and low skill jobs’ (p.29). Alarming, and due to youth employment, is that young people in many country replaced old people as those most endangered by income poverty (p.25).

The report also elaborates the link, or better: vicious cycle, between the income situation of parents, education, opportunities on the labour market and decreasing social mobility: OECD Skills surveys do not just illustrate that children from poor households perform worse than those from better households, which is known on the assumption that they simply have less access to and time to spend on quality education. More alarmingly, it illustrates that children from poorer households loose out ‘if they spend the same amount of time in education that their better-off peers. This suggests that a large part of their lower proficiency is not because they have less education, but rather that they get less out of their time in education’ (p.27).

Graphic 14 Inequality lowers skills of the poor



Source 8 (OECD, 2015a, p. 28)

Those findings substantiate that the widespread assumption that nowadays it is more important than ever into what kind of households one is borne, meaning, what educational and occupational situation somebody's parents have is decisive for the future of a child. Obviously, result of poorer education "automatically" leads to badly paid jobs, leads to disenchantment with society, sinking trust in its institutions, sinking willingness to participate in democratic processes and, eventually, there is risk for the disintegration of society.

This report does ask, however, whether, and how much, the World Financial and Economic Crisis can be considered to be a "game changer", meaning, whether the situation became worse. The answer is: "Yes". Inequality rose before and after the crisis, the report argues, but what became worse are the developments both at the top *and* bottom in many states (whereby the top lost little, the bottom a lot) and because the redistributive effect of social transfers decreased: Even though there is a weak economic recovery in many states, governments tend to give priority not on the situation of people, but 'chose to shift focus to fiscal consolidation, including curtailing unemployment benefits, education and investment' which is why 'the overall upwards trend in disposable income inequality (is accelerating).' (p.24).

The conclusion of the report is given by the headline 'If the bottom loses ground, everyone is losing ground' (p.26), which underlies the report's title "Why less inequality benefits all.' But instead of trusting that the "rising tide lifts all boats", the OECD recommends a number of policy interventions for the advancement of economic growth on part of the state in four main areas:

1. Women's participation in economic life
2. Employment promotion and good-quality jobs
3. Skills and Education

4. Tax-and-transfer systems for efficient redistribution, this area being of most interest for this study.

2.3.4 Discussion

The OECD reports are remarkable since it indicates a shift of the organisation away from a neoliberal set of policy recommendations towards a more state-regulation friendly approach. What is annoying, however, is the lack of analysis underlying the analysis presented: Why were which policy implemented in the first place which lead to increasing inequality ever since the 1990s? Only if the entire picture is understood one can be sure that the remedies are working. Here the authors of this paper argue, the importance of deregulated financial markets and other policy options which have been advocated by the OECD (and IMF for that matter) for a long time are politely ignored.

For example, when examining the role of international financial flows, the OECD stated the difference in size between Foreign Direct Investment (FDI) with long term interests in investments, and the far larger flow of Foreign Portfolio Investment which the authors (rightly) judge to be much more volatile, but where they uphold the opinion that these flows are ‘expected to have less impact (than FDI) on the domestic labour market and wages structure.’ (OECD, 2011a, p. 92). This view was disproven during the 2007/2008 crisis which was triggered by the financial industry and their products and wasted millions of jobs in the real economy worldwide. But there are other important elements not adequately treated which also contributed to present misery: The current competition and privatization law, recurrent recommendations/pressure (also by OECD) to lower business taxation, dismantle social security systems and public services, the dynamics caused by wealth/asset driven accumulation or the faltering and dragging attempts to reform the financial order. Similarly, the reports emphasize the importance of wages and salaries to be the major factor behind inequality *levels*. But again it should be asked what the *reasons* are underlying this “Americanization” of global and national labour markets and who are the ones profiting most from it.

It is here, where conclusions of the reports’ conclusion strike a post-crisis reader as being only half of the truth: When asking what contributed most seriously to the widening inequality, the report suggests ‘that trends in trade integration and financial flows exert no significant impact’ upon wage disparities (2011:125) and that rather ‘changes in policies and institutions’, e.g. product market regulations, employment protection legislation and tax wedges ‘exerted an important impact on rising wage inequality in OECD countries’ (2011: 119). Here the question might be asked what prompted those policies in the first place. It is a safe bet that many de-regulation measures in the area of employment protection would not have occurred if globalization related trends would not have forced governments to act that way.

- It is the “interest of capital”, after all, that deregulation of the labour markets occurs in the first place. By threatening to go elsewhere with investment, states lower PMR and EPL, which lowers decent market incomes or even force states to top-up wages with taxpayers’ money
- It is tax competition between states which lowers progressive direct income and corporation tax, which in turn lowers tax revenue, which in turn forces spending cuts which, in cases and places, was the main source of widening household-income gaps in the ten years that followed the mid-1990s (2011: 292f.).

- OECD finally admits that capital is a growing source of income among the top quintile of the population. But: this is a broad brush stroking, since the highest concentration again is within the top *percentile*.

Seeds for the recognition of the real culprit behind inequality are contained in the 2011 report, but they are not yet collected in a systematic manner and therefore cloud the issue as to what is the “hen” and what is the “egg” – and where to pay particular attention. If a new systematization were to happen, some puzzling statements in the report would no longer be puzzling: For example the rather incomprehensible sentence ‘Financial deepening, proxied by either *de jure* or *de facto* measures, has no significant impact on ... wage inequality’ (2011: 125). This sentence implies first that this impact would have been felt if those measures had not been implemented, and they imply second that the impact could have been softened even better if better measures had been implemented, and they imply third, as a consequence, that dangers made apparent and visible in the 2007/2008 crisis are not banned as long as no re-regulation of the financial system has been achieved.³⁶

After all, this OECD report does at least consider the Top-Incomes in Chapter 9, addresses the specific importance of the top 1% and even 0.1%, and even discusses the importance of their findings in relation to taxation. The question is who is going to read that far or whether it is not more likely to assume that people are satisfied with that which is written under the heading “Main Findings”. If, therefore, the report will ever be reviewed for the post-crisis situation, the issue of top income and capital should move higher up in the analysis agenda and the policy recommendations regarding capital owner and/or the wealth of the top centile should move higher up the list.

Sadly, the 2015 report is not much of a progress on these issues. At least there is an admission that, besides income inequality, there ‘is no doubt that wealth also matters’ (2015:34) and that this area has been unduly neglected for too long. The reason given by the report is that exactly there is more income besides that from wage and salaries, which has been the focus in the 2011 report: ‘Accumulated wealth can generate capital income, which, in turn, can deepen income inequalities’ (2015: 34). The problem is, the report rightly states, that there is far more data on income inequality than on wealth inequality, ‘which perhaps partly explains why wealth inequalities have been largely neglected, up until recently’ (ibid.). This report contributes a bit by presenting developments in the wealth concentration among households in 18 OECD countries in chapter 6, i.e. those countries who have some comparable statistical material. This chapter gives some insight in different distribution of assets across countries and other useful information. Sadly, Piketty’s groundbreaking work regarding the relationship between capital and labour and its implication for inequality has not been absorbed in OECD reporting and analysis.

2.4 Thomas Piketty (2014) “Capital in the 21st Century”

An influential publication on the topic of global inequality and the wealth gap was and is Piketty’s “Capital in the 21st Century”, most particularly because of the range of data published along with it on his website.³⁷ Piketty defines “capital”, to (first) exclude that which is commonly meant by “human capital”, and to include ‘all forms of real property (including

³⁶ Less confusing, but the same message, is contained on p. 118 of the 2011 report: ‘Empirical findings suggest that financial deepening generally had no significant impact on the distribution of wages in OECD countries when measured at the aggregate level and when other macroeconomic changes and changes in policy and institutions are controlled for.’

³⁷ See <http://piketty.pse.ens.fr/en/capital21c2>

residential real estate) as well as financial and professional capital (plants, infrastructure, machinery, patents, and so on) used by firms and government agencies' (p. 46). Thus defined, he uses the terms "capital" and "wealth" interchangeably (p. 47). Piketty included private wealth kept in businesses and foundations into his overall calculation of "private wealth".³⁸

Piketty bases his book on 'sources dealing with the inequality and distribution of income and sources dealing with the distribution of wealth and the relation of wealth to income.'³⁹ Looking at his data going back to the European Belle Époque (1884-1914), the US Gilded Age (1877-1900), the "Glorious Thirties", the time leading up to the first Global Financial and Economic Crisis 1929 and a time period starting in the 1970s leading up to the present day, he feels himself justified in saying that 'the first regularity we observe when we try to measure income inequality in practice is that inequality with respect for capital is always greater than inequality with respect for labour. The distribution of capital ownership (and of income from capital) is always more concentrated than the distribution of income from labour.' (p. 244). Saying this,

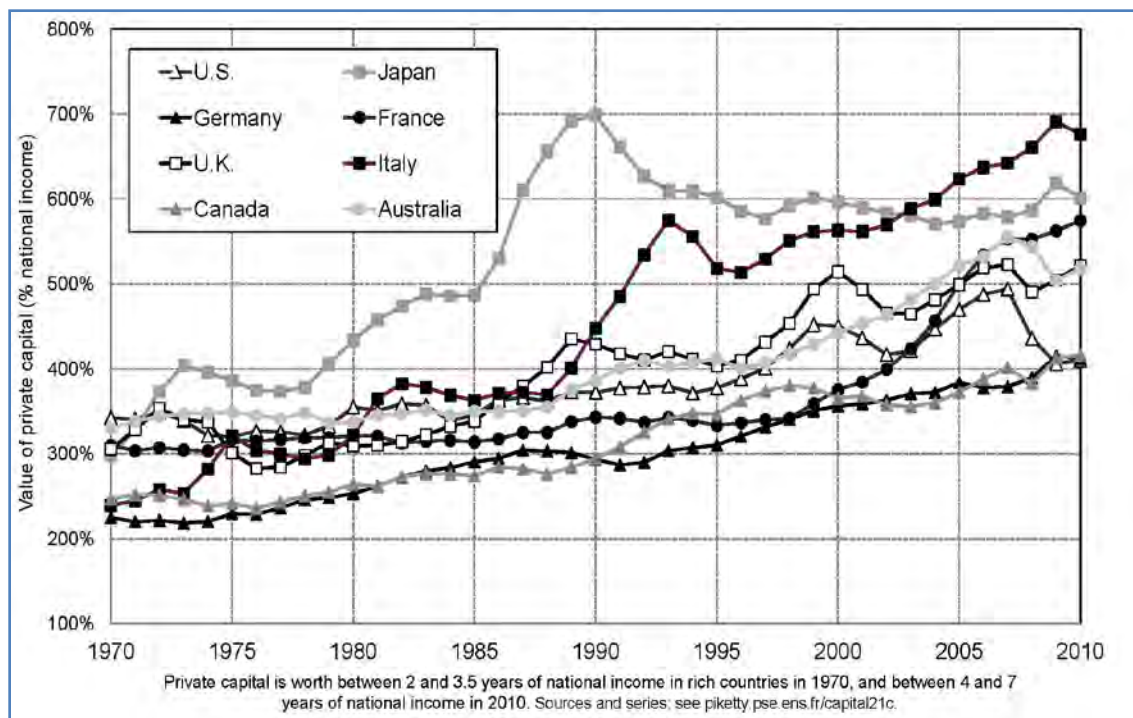
'I should also make it clear that the hierarchies ... of income are not the same as those of wealth. The top 10 percent or bottom 50 percent of the labour income distribution are not the same people who constitute the top 10 percent or bottom 50 percent of the wealth distribution. The "1 percent" who earns the most is not the same as the "1 percent" who owns the most. Deciles and centiles are defined separately for income from labour, ownership of capital and total income (from both labour and capital), with the third being a synthesis of the first two dimensions and thus defining a composite social hierarchy. It is always essential to be clear about which hierarchy one is referring to.' (p. 254)

The share of private income in relation to the national income has risen fast over the past decades:

Graphic 15 Private capital in rich countries, 1970-2010

³⁸ For businesses see (Piketty, 2014a, p. 176), for foundations see p. 182.

³⁹ (Piketty, 2014a, p. 16). More particularly, he explains, that when he and his team work with data, 'we tried to use the same types of sources, the same methods, and the same concepts. Deciles and centiles of high incomes were estimated from tax data based on stated incomes (corrected in various ways to ensure temporal and geographic homogeneity of data and concepts). National income and average income were derived from national accounts, which in some cases had to be fleshed out or extended. Broadly speaking, our data series begin in each country when an income tax was established (generally between 1910 and 1920 but in some countries, such as Japan and Germany, as early as the 1880s and in other countries somewhat later). These series are regularly updated and at this writing extend to the early 2010s. Ultimately, the World Top Incomes Database (WTID), which is based on the joint work of some thirty researchers around the world, is the largest historical database available concerning the evolution of income inequality; it is the primary source of data for this book. The book's second most important source of data, on which I will actually draw first, concerns wealth, including both the distribution of wealth and its relation to income. Wealth also generates income and is therefore important on the income study side of things as well. Indeed, income consists of two components: income from labor (wages, salaries, bonuses, earnings from nonwage labor, and other remuneration statutorily classified as labor related) and income from capital (rent, dividends, interest, profits, capital gains, royalties, and other income derived from the mere fact of owning capital in the form of land, real estate, financial instruments, industrial equipment, etc., again regardless of its precise legal classification). The WTID contains a great deal of information about the evolution of income from capital over the course of the twentieth century. It is nevertheless essential to complete this information by looking at sources directly concerned with wealth. Here I rely on three distinct types of historical data and methodology, each of which is complementary to the others. In the first place, just as income tax returns allow us to study changes in income inequality, estate tax returns enable us to study changes in the inequality of wealth.' (p. 17)

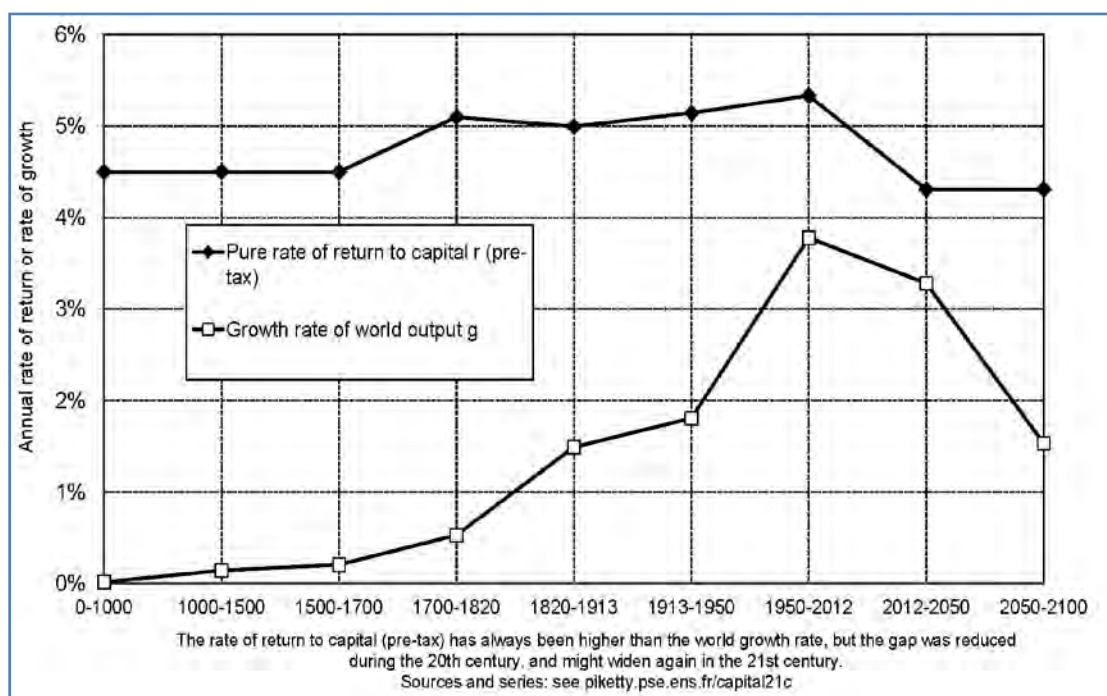


This increase is, among others, a consequence of the changing nature of wealth composition in the world: While in earlier times wealth was based upon income from agriculture or rent, even (as in the case of the US) the possession of slaves, nowadays the share from income from capital, is increasing fast within the wealth portfolio.

A very important finding of Piketty and his team is the identification of mechanisms underlying the simple formula $r > g$, i.e. the return of (and accordingly income from) capital is always larger than the growth of the (real) economy, which underlies increases in wages and salaries for most people. This, he argues, is an inescapable fact.⁴⁰

⁴⁰ 'Throughout most of human history, the inescapable fact is that the rate of return on capital was always at least 10 to 20 times greater than the rate of growth of output (and income). Indeed, this fact is to a large extent the very foundation of society itself: it is what allowed a class of owners to devote themselves to something other than their own subsistence.' (Piketty, 2014a, p. 353).

Graphic 16 Rate of return vs. growth rate at world level, from Antiquity until 2100



The gap between capital returns and income from labour earned in the real economy widens not that fast (or remains steady) if economic growth is solid. But with economic growth being slow or not around zero rates, ‘it can involve a very large capital-income ratio β and capital share α , as well as extreme wealth concentration due to high $r-g$. This has nothing to do with a market imperfection: the more perfect the capital market, the higher $r-g$.’⁴¹

This process of wealth concentration is further accelerated by the fact that larger fortunes grow faster than middle size or small fortunes, for example, because for the wealthiest (expensive) professional advice is more readily available as there are larger sums of money for attractive investments.⁴² A final boost of concentration is the fact that increasingly substantial fortunes via gifts and inheritances are passed on⁴³ which adds “unearned” money to “earned” money.⁴⁴ Here one should be aware that it is probably not the way which is commonly assumed, namely, that large inherited fortunes remain invested in family companies. It is more likely that large fortunes are ‘held in diversified portfolios’ (p. 441).

⁴¹ (Piketty, 2014c, p. 46), see also (Fernholz & Fernholz, 2012)

⁴² ‘It is important to realize that this inequality of access to the most remunerative investments is a reality for everyone (and thus much broader than the extreme case of “alternative investments” available only to the wealthiest individuals and largest endowments). For example, some financial products require very large minimum investments (on the order of hundreds of thousands of euros), so that small investors must make do with less profitable opportunities (allowing intermediaries to charge big investors more for their services). These size effects are particularly important in regard to real estate. In practice, this is the most important type of capital asset for the vast majority of the population.’ (Piketty, 2014a, p. 454)

⁴³ ‘People with inherited wealth need to save only a portion of their income from capital to see that capital grow more quickly than the economy as a whole. Under such conditions, it is almost inevitable that inherited wealth will dominate wealth amassed from a lifetime’s labor by a wide margin, and the concentration of capital will attain extremely high levels—levels potentially incompatible with the meritocratic values and principles of social justice fundamental to modern democratic societies.’ (Piketty, 2014a, p. 26).

⁴⁴ The expression “unearned” is used by Piketty both with and without quotations marks.

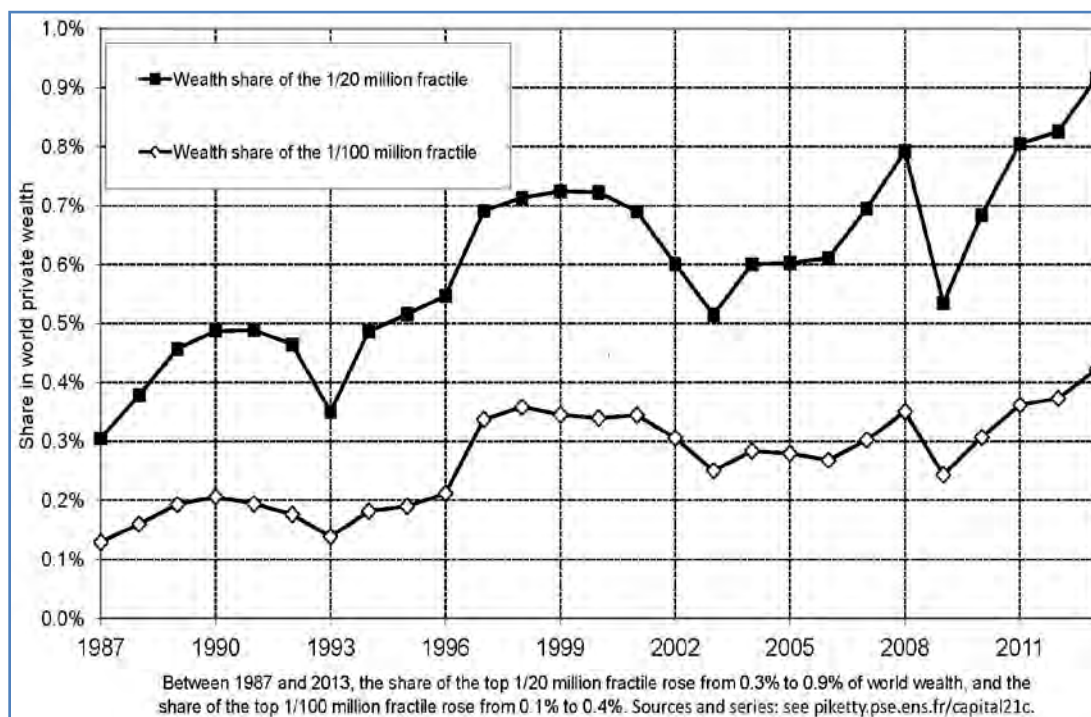
The dynamic towards concentration is not hampered by inflation: Inflation always eats up increases in wages and salaries and it certainly reduces the increase in return from capital, but it does not stop or ever reverse the accumulation of capital and therefore growth of wealth (p. 452).

All this analysis explains what “Forbes” and others talk about, namely, an increasing polarization of wealth and income of the entire population:

Currently, in the early 2010s, the richest 10 percent own around 60 percent of national wealth in most European countries, and in particular in France, Germany, Britain and Italy. The most striking fact is no doubt that in all these societies, half of the population own virtually nothing: the poorest 50 percent invariably own less than 10 percent of national wealth, and generally less than 5 percent. (p. 257)

For Piketty it is important to emphasize the implications of the polarization which he states within the top decile of the population, which advances the concentration of wealth among the top 1% of households and even more among the top 0.1% of the population.

Graphic 17 The share of top wealth fractiles in world wealth, 1987-2013



To Piketty, the widespread ignorance of the specific importance of the super-rich is one of the problems of ordinary measurements and definitions of “synthetic indices” such as the Gini coefficient which mix different indicators or use “interdecile ratios” which partition the populations into deciles, not centiles.⁴⁵ Both obscure the real importance and influence of that tiny number of people: ‘The top decile always encompasses two very different worlds: “the 9 percent,” in which income from labour clearly predominates, and “the 1 percent,” in which income from capital becomes progressively more important.’ (p. 280). That way, the growth rate on the top is much faster than elsewhere. Piketty, for that reason, believes in the

⁴⁵ See his chapter “Problems of Synthetic Indices”, pp. 266ff. Piketty’s skepticism towards the usefulness of the Gini index is shared also by other researchers, e.g. from IMF (Ostry, Berg, & Tsangarides, 2014, p. 13).

use of distribution tables in order to illustrate both the speed of accumulation and the growing distance between the top and bottom tail of society (cf. p. 269).

Table 1 The growth rate of top global wealth, 1987-2013⁴⁶

Average real growth rate per year (after deduction of inflation)	1987-2013
The top 1/(100 million) highest wealth holders (about 30 adults out of 3 billions in 1980s, and 45 adults out of 4,5 billions in 2010s)	6.8%
The top 1/(20 million) highest wealth holders (about 150 adults out of 3 billions in 1980s, and 225 adults out of 4,5 billions in 2010s)	6.4%
Average world wealth per adult	2.1%
Average world income per adult	1.4%
World adult population	1.9%
World GDP	3.3%

The accumulation and concentration of wealth is not yet as distinctly visible for the developing world or emerging markets. It is not yet obvious for India or China or the Gulf States with their huge Sovereign State Wealth Funds. On the whole, Piketty concedes that capital movement and investment might even contribute to a decrease of global poverty.⁴⁷ But still he thinks that the trends and tendency emerging from his research will also prove right when looking at these developing and emerging regions and states, as there are indications already in the research of his colleague Atkinson for Africa (below, 2.3.1).

For the time being, Piketty is focussing his demonstration of alarming wealth concentration in view of the US and Europe. In the US he states as one major reason behind the widening wealth gap the so-called “supersalaries” which CEOs of large corporations are able to award themselves. In Europe he perceives a growing class of “rentiers”, i.e. people who no longer have to work for their living, but just live from the proceeds emerging from their returns of capital - the emergence of a “patrimonial capitalism”.⁴⁸ Those emerging “oligarchys” have an increasing impact not only on economic decisions, but also on the way our democratic states are governed. That way, this increasing concentration of wealth undermines the democratic system which is based, among other factors, on the belief of equal opportunity and the reward of merits (more below, 4.4).

And because this is so, ‘one conclusion is already quite clear...: it is an illusion to think that something about the nature of modern growth or the laws of the market economy ensures that inequality of wealth will decrease and harmonious stability will be’ (Piketty, 2014a, p. 376), which is why governance and regulation are so important.

⁴⁶ Data taken from table 12.1, available on website www.piketty.pse.ens.fr/capital21c2. At the bottom of the table Piketty states: ‘Between 1987 and 2013, the highest global wealth fractiles have grown at 6%-7% per year, vs. 2.1% for average world wealth and 1.4% for average world income. All growth rates are net of inflation (2.3% per year between 1987 and 2013).’

⁴⁷ ‘To be sure, the very rapid growth of poor and emerging countries, especially China, may well prove to be a potent force for reducing inequalities at the global level, just as the growth of the rich countries did during the period 1945–1975.’ (Piketty, 2014a, p. 15) and chapter “Growth: Illusions and Realities” (pp. 72ff).

⁴⁸ Piketty emphasizes that there is no incommensurateness between “supersalaries” and rents from capital. Rather, large fortunes tend to feed themselves from both sources and he supposes that the situation in the US will develop towards a similar class of “rentier” due to the accumulation of wealth from both “supersalaries” and inherited fortunes as is the case in Europe (Piketty, 2014a, p. 265).

Piketty proposes a global progressive recurrent tax on annual income from wealth/capital as well as a hefty tax on inheritances; having done this, he would in turn abandon a specific tax upon property.⁴⁹ The money should be used to safeguard the functioning of the social welfare state and its social security system and for the repayment of debt and efforts to counter climate change.

As to him, the chances that this tax reform will be implemented any time soon are low because of the lack of transparency of the global financial system and the fact that there is rather “tax competition” between states than cooperation for a better global taxation, e.g. by implementing common mechanisms of transparency such as automatic data exchange. He thinks, however, that there are chances for the area of the European Union, where some movement can be seen already.⁵⁰

Piketty appeals to society to occupy itself more intensely with the problem of wealth, even though it is quite a hard going business. It is nevertheless necessary because the problem is not easily visible in social life: ‘The inescapable reality is this: wealth is so concentrated that a large segment of society is virtually unaware of its existence, so that some people imagine that it belongs to surreal or mysterious entities. That is why it is so essential to study capital and its distribution in a methodical, systematic way’ (p. 259). Given its impact on the entire world, however, Piketty appeals at the very end of his book: ‘All citizens should take a serious interest in money, its measurement, the facts surrounding it and its history. Those who have a lot of it never fail to defend their interests. Refusing to deal with numbers rarely serves the interests of the least well-off.’ (p. 577).

2.4.1 Capital and democracy

Three important insights are elaborated by Piketty which are also of interest for this research project. They build on the observation that owners of financial capital are unfairly privileged in society which is why their influence on government and governance is unfair as well. First of all, the (de facto) growth of inequality in today’s world due to the implication of the formula $r > g$ disproves the legitimating neoliberal creed that “the rising tide lifts all boats”, i.e. that increasing inequality in the end still benefits all. According to Piketty, this has never been the case when capital and markets had their way and he can prove it based upon previous “wealth accumulation waves”. Periods of reducing inequality with some sort of redistribution via progressive taxation, e.g. the New Deal in the US or the German model of Social Market Economy, were rather exceptions than rules and had a chance of implementation only due to

⁴⁹ ‘Given the very high level of private wealth in Europe today, a progressive annual tax on wealth at modest rates could bring in significant revenue. Take, for example, a wealth tax of 0 percent on fortunes below 1 million Euros, 1 percent between 1 and 5 million Euros, and 2 percent above 5 million Euros. If applied to all member states of the European Union, such a tax would affect about 2.5 percent of the population and bring in revenues equivalent to 2 percent of Europe’s GDP. The high return should come as no surprise: it is due simply to the fact that private wealth in Europe today is worth more than five years of GDP, and much of that wealth is concentrated in the upper centiles of the distribution. Although a tax on capital would not by itself bring in enough to finance the social state, the additional revenues it would generate are nevertheless significant.’ (Piketty, 2014a, p. 528). ‘To be clear, I am speaking here of a permanent annual tax on capital at a rate that must therefore be fairly moderate. A tax collected only once a generation, such as an inheritance tax, can be assessed at a very high rate: a third, a half, or even two-thirds’ (p. 532f.). ‘This would replace the property tax, which in most countries is tantamount to a wealth tax on the propertied middle class.’ (p. 529).

⁵⁰ ‘Note, however, that progress toward some forms of fiscal cooperation has been more rapid than one might imagine at first glance: consider, for example, the proposed financial transactions tax, which could become one of the first truly European taxes. Although such a tax is far less significant than a tax on capital or corporate profits (in terms of both revenues and distributive impact), recent progress on this tax shows that nothing is foreordained. Political and fiscal history always blaze their own trails.’ (Piketty, 2014a, p. 562)

the preceding catastrophes. But exactly those exceptional periods are a strong argument for drawing conclusions and determinations from the past and attempting a more consistent and regulative approach to capital flows and capital ownership.

A second important aspect for Piketty is the link between growing wealth inequality and the decreasing importance of merit and social justice when it comes to who has a say in a democratic society. This is particularly problematic if wealth is not the result of a lifetime labour which perhaps is rewarded with a high salary, but by inheritance (p. 26). The former origin of inequality is due to work and merit and is easier to communicate and legitimate in a society than inequality arising from the latter which is only due to the luck of being born into the right family (p. 241). ‘Our democratic societies rest on a meritocratic worldview, or at any rate a meritocratic hope, by which I mean a belief in a society in which inequality is based more on merit and effort than on kinship and rents. This belief and this hope play a very crucial role in modern society, for a simple reason: in a democracy, the professed equality of rights of all citizens contrasts sharply with the very real inequality of living conditions, and in order to overcome this contradiction it is vital to make sure that social inequalities derive from rational and universal principles rather than arbitrary contingencies.’ (p. 422). On this background it is a bit surprising that Piketty is spending a lot more energy on developing his ideas for a recurrent and progressive global wealth tax than he does on a tax upon inheritances.⁵¹ After all: If a company is willing to pay “supersalaries” or bonuses for the good performance of a CEO this is “earned wealth”, while income through inheritances is “unearned wealth” and is accumulative not only over a lifetime, but over generations, and so much more important for growing inequality than the former. That way, it seems to be easier to legitimate attempts to cut inequality via inheritance and gift taxes rather than via a wealth tax.

But before any taxation can be imposed, a third aspect needs to be addressed in this context: The lack of transparency regarding wealth, which is why Piketty rightly argues that it is well hidden, which is why the public is widely unaware of its existence (2014a: p. 259): Both regard the amount of wealth owned by individuals and the ways in which the wealthy execute their influence in society and politics. This is supported by others who know about the ways in which capital tries to exert influence: Chuck Collins, in his own words one of those being born into a family of society’s top 1%, lists 5 ways in which this influence is organized (2012, p. 34ff.).

1. Direct influence on politicians via campaign contributions and personal relationships.
2. Influence via Charities – for example, if a donation to a university coincidentally “proposes” the kind of teaching the donor wishes to have or if charitable foundations influence with their “expert publications” a certain strand of thinking, such as the Koch brothers in the US promote libertarian thought via their support for the Tea Party or the Bertelsmann Foundation in Germany assists neo-liberal ideas.
3. Owning and using the media.
4. Organizing other members of the “Top 1 percent” behind some political initiatives or political candidates.

⁵¹ Even though, of course, he has both taxes in view, for example on p. 527: ‘A tax collected only once a generation, such as an inheritance tax, can be assessed at a very high rate: a third, a half, or even two-thirds’, as was once the case in Britain and the USA.

5. Partnering with influential leaders of Transnational Corporations or big business think tanks.

Of those five ways, only number 2 is out in the open, the other channels of influence are indirect and not fully transparent to the ordinary citizen. For that reason transparency is an important issue for Piketty, both regarding the quantity and composition of wealth portfolios, the way democracy is conducted and regarding the tax administration framework and international cooperation which is needed to enforce tax laws.

2.4.2 Overstretching the scenario of conflict?

Piketty in his ambition to “improve” even Karl Marx nevertheless paints a rather gloomy picture of a society venturing towards conflict and, if pressing issues are not resolved, perhaps collapse. He points out that the only times when societies successfully put a rein upon inequality were times after collapses: The First and Second World War or the World Financial and Economic Crisis of 1929. Accordingly he doubts the ability of democracies to handle the emerging inequality differently.⁵²

But there are others observing and arguing, that inequality creates conflict and doom. For example the great historian Arnold Toynbee investigated 21 now collapsed societies. Two reasons for it: ‘The first was a concentration of wealth, and the second was inflexibility in the face of changing conditions.’ (Gates & Collins, 2003, p. 22). Similarly Motescharrei, Rivas and Kalnay: They did a multidisciplinary study upon the collapse of previous complex civilizations, reaching back as far as Mesopotamia, the Mediterranean Empires, Central American Empires, etc. They are looking into features common to those civilizations, collecting them into a mathematical model and applying it to contemporary data. Result: In all examined civilizations one finds (1) an overexploitation of natural resources and (2) extreme inequality between an elite and the mass, called “commoners”. They observe: ‘In many of these historical cases, we have direct evidence of Ecological Strain and Economic Stratification playing a central role in the character or in the process of collapse.’ (Motescharrei, Rivas, & Kalnay, 2014, p. 4). Concluding, the team finds that the present civilization also comes to the limits in both areas and is therefore threatened by tensions which no longer can be resolved peacefully, but will destroy the present model of civilization – if most urgent reforms are not done in order to increase the “carrying capacities” of our civilization, thus extending our existence. ‘Collapse can be avoided and population can reach equilibrium if the per capita rate of depletion of nature is reduced to a sustainable level, and if resources are distributed in a reasonably equitable fashion’ (p. 23).

Meanwhile Piketty gets support even from US billionaires who are also getting increasingly alarmed by the processes of today’s wealth concentration. Nick Hanauer, who made his position into the top 0.1% wealth owner by e.g. funding once small start-ups which

⁵² Expert analysis ‘will never put an end to the violent political conflict that inequality inevitably instigates’ (2014a: p. 3). ‘Symbolically, the inequality of capital and labor is an issue that arouses strong emotions. It clashes with widely held ideas of what is and is not just, and it is hardly surprising if this sometimes leads to physical violence ... It is difficult to accept that the owners of capital – some of whom have inherited at least part of their wealth – are able to appropriate so much wealth produced by their labor (p. 40). In the 20th century ‘there was no gradual, consensual, conflict-free evolution towards greater equality. ... It was war, and not harmonious democratic or economic rationality that...enabled society to begin anew with a clean slate’ (p. 275). Apart from the fact that there are still influential groups adhering to the “classic” paradigm of economic growth reigning supreme, arguments against pessimism are, e.g., that society accomplished such a degree of complexity and technical skills that more tools than ever are at hand to balance any instability or threat. How quickly such growth-based optimism can collapse was amply demonstrated by the almost global collapse of the financial and economic system in 2007/2008.

eventually developed into Amazon, sees pre-revolutionary moods once again and to those among his “fellow zillionaires” doubting it, he counters:

Here’s what I say to you: You’re living in a dream world. What everyone wants to believe is that when things reach a tipping point and go from being merely crappy for the masses to dangerous and socially destabilizing, that we’re somehow going to know about that shift ahead of time. Any student of history knows that’s not the way it happens. Revolutions, like bankruptcies, come gradually, and then suddenly. One day, somebody sets himself on fire, then thousands of people are in the streets, and before you know it, the country is burning. And then there’s no time for us to get to the airport and jump on our Gulfstream Vs and fly to New Zealand. That’s the way it always happens. If inequality keeps rising as it has been, eventually it will happen. We will not be able to predict when, and it will be terrible – for everybody. But especially for us. (Hanauer, 2014)

2.4.3 Discussion

The main charm of Piketty’s book is the long perspective back, based on empirical data which is difficult to doubt. As Krugman emphasizes in his review of Piketty’s book: he made a convincing case that capital tends not only to dominate over labour again and again, because this tendency has been proven several times since the 1870s, but that capital and its owner also devour the future by determining social and public policies, democracies and the course our society is taking (Krugman, 2014).

Another argument in favour of Thomas Piketty’s findings is that he is exactly not the sole ingenious spirit behind this research approach. For years he has been cooperating with a group of peer scholars emerging from the French *Grandes Ecoles* (e.g. Emmanuel Saez and Gabriel Zucman) and others.⁵³ And even before them, others such as Branko Milanovic at the World Bank pointed to the dangers worked out, perhaps in greater eloquence and therefore greater public reach, by Thomas Piketty and his team. On the whole, the result of their research is simply confirming the age-old and common feeling that the wealthy are getting wealthier, the poor are getting poorer. But the way they do it is a turning point in the global wealth debate since (a) they broadened the data base on which they build their conclusions⁵⁴ and (b) they extend the timespan of examination back through time to the middle of the 19th century.

Standing on this ground, they demonstrate the return of a wealth-based society in the 21st century. The real service of their work is that they can disprove widespread beliefs and assumptions by using their data bases. This applies not only for simple statements such as the “Trickle Down” effect, but also for more complex examples: ‘In textbooks, wealth-income & capital-output ratios are supposed to be constant. But the so-called “Kaldor facts” actually rely on little historical evidence’ (Piketty, 2014c, p. 7). Their huge collection of data makes the refutation of theoretical assumptions convincing.

Given a publication of that complexity, it was only a matter of time until critics would try to discredit both the empirical foundation and its conclusions. A quite respectable attack

⁵³ See the list of contributors in the directory “Acknowledgements”
<http://topincomes.parisschoolofeconomics.eu/#Acknowledgments>:

⁵⁴ Of course, given the complexity of global processes, they admit that their database is still insufficient and needs to be improved further. ‘It is important, moreover, to recognize that we suffer from a serious lack of reliable information about the global dynamics of wealth. National governments and statistical agencies cannot begin to keep up with the globalization of capital, and the tools they use, such as household surveys confined to a single country, are insufficient for analyzing how things are evolving in the twenty-first century.’ (Piketty, 2014a, p. 432).

was launched by Christ Giles of the *Financial Times* in May 2014. Taking the situation in the United Kingdom, Giles stated, for example, mistakes in Piketty's calculations, accused him of comparing the incomparable and bending data to fit his conclusions. In the hefty ensuing discussion, however, two results remained: Piketty admitted that, given the complexity of data, his presentations are in more need of transparency and that, a problem exists in comparing data ranging back that long in time. At the same time, he insisted that the general gist of his calculations and findings is defensible and that Giles himself follows assumptions on shaky ground, which contradict other contemporary studies and findings and therefore stand out in isolation. Piketty found supporters and defenders ranging from Paul Krugman to *The Economist* to the *New York Times*.⁵⁵

Other criticism comes from developing countries, e.g. from Chandran Nair (2014), who asserts that Piketty is oblivious about priorities because he is focussing upon financial capital and forgetting about social, human and – most importantly – natural capital. Nair has obviously not read Piketty's book since he (1) explains at the very outset why he focuses upon wealth and capital and (2) he most certainly is aware of Nair's priority issue given his treatment of the environmental crisis which he acknowledges to be our "major worry".⁵⁶

A confusing issue is, however, that he equates different categories of capital with wealth, which throws together very different items with different value and "dynamics". Financial capital in particular, under the present circumstances, is certainly the category which increases wealth much faster than other forms of wealth. On the other hand, real estate seems to the authors of the study the most reliable and persistent form of wealth because it is immune from inflation, war and other forms of crises. Certainly in Germany, a number of the super-wealthy would not be in this position anymore if they had not been in possession of extended real property and real estate. It seems for that reason, for example, that taxation of capital and taxation of real property or income from rent has its distinct values if it comes to sustainably and over a longer timespan narrowing the wealth gap.

2.5 UNDP (2013) "Humanity Divided"⁵⁷

After looking at the situation regarding inequality in developed countries, the focus now will be more (but not exclusively) upon developing countries via a recent United Nations Development Program (UNDP) report titled "Humanity divided" (UNDP, 2013). The UNDP is the UN institution in charge of monitoring the development of the world's countries and the wellbeing of its citizens. UNDP has a wide view of development: It is not focused on or confined to economic growth as the main/sole indicator of development, but also takes other aspects into consideration in order to assess human wellbeing. In order to do the job, UNDP developed an extensive database with the annual Human Development Reports and the Human Development Index as its center piece.⁵⁸ At times, the UNDP commissions feature reports if issues deem to merit special investigation, and it is here where "Humanity Divided" is placed, namely within the section of poverty reduction.

⁵⁵ Krugman, Paul (2014, June 1) On Inequality Denial. In: *New York Times*. Retrieved from <http://nyti.ms/1pygzl2>. R.A. (2014, May 24) Inequality, A Piketty Problem? In: *The Economist*. Retrieved from <http://www.economist.com/node/21602850>. Irwin, N. (2014, May 30) Everything you need to know about Thomas Piketty vs. *The Financial Times*. In: *New York Times*. Retrieved from <http://nyti.ms/1kcNqsd>

⁵⁶ 'This is a very important debate for the decades ahead. The public debt (which is much smaller than total private wealth and perhaps not really that difficult to eliminate) is not our major worry. The more urgent need is to increase our educational capital and prevent the degradation of our natural capital' (Piketty, 2014a, p. 445).

⁵⁷ This sub-chapter has been contributed jointly by Jörg Alt and Elisabeth Rummel.

⁵⁸ See <http://hdr.undp.org/en/data>

For the following reasons, treatment of this report here is more extensive: first, it describes recent developments in research dealing with the question of how to best improve the situation of the poor; second, because of its treatment of non-economic but complementary aspects of inequality, third, its survey among policy makers from developing countries.

The choice of inequality as an analysis topic is seen to be timely and important due to the fact that inequality is on the increase during the past two decades in the majority of the world's countries. Dealing with inequality is important because recent developments admittedly increased average indicators of well-being. This should not blind one to the fact that inequality increased between those at the top and the bottom of society and that there are no indicators that this trend towards increasing inequality will abate in the foreseeable future. It is emphasized that 'high and growing inequality is not only intrinsically unfair [but] ... also makes the achievement of widespread human well-being more difficult' (p. 3). Even more alarming: current developments seem to be no longer sustainable and the risk of social instability and unrest might increase (p. 1).

The report starts with differentiating the *inequality of outcomes* (i.e. level of income or level of educational attainment) and the *inequality of opportunities* (i.e. unequal access to employment or education), for drawing attention to the difference between income inequality and non-income inequality affecting broader dimensions of human wellbeing. Research further indicates that unequal outcomes influence some groups more than others, which draws attention to persistently disadvantaged groups within a population, such as the rural population as opposed to urban settlers, women or people of a certain race or social class – which is why the category of **intergroup inequality** needs to be taken into focus.

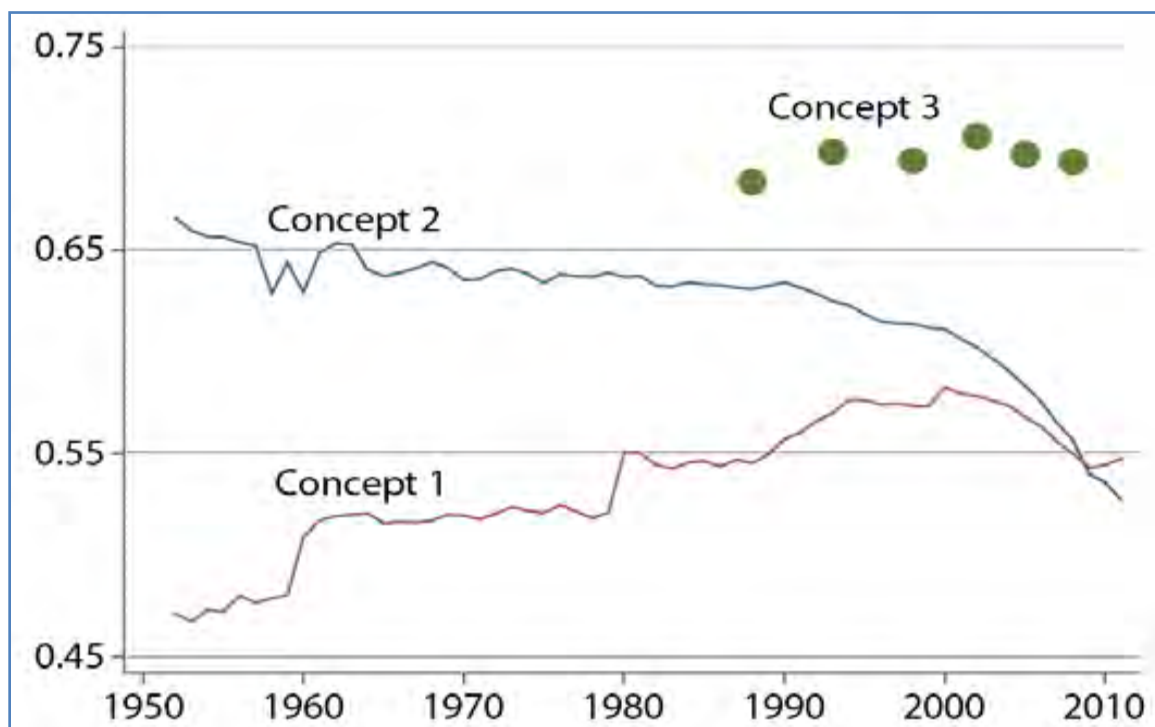
To start with, income inequality measures the distribution of income across households or individuals in an economy. The report's focuses are the following two distributional aspects: First, household income distribution. This is the distribution of income across households within a country, depending on whether this income is measured before taxes, after taxes or after tax-funded social transfers.⁵⁹ The second aspect considers functional income distribution. This is the distribution (allocation) of income between different factors of production, such as rent for land, wages for labour, profit for business men and interest for capital owners. This aspect of income distribution came increasingly into focus recently. It 'points to the importance of better understanding the changing position of labour in the production process in order to correctly interpret inequality trends, as labour has been losing ground relative to capital over the past 20 years. Furthermore, experience has shown that it is not possible to reduce primary inequality without addressing how incomes are generated in the production process and how this affects functional inequality' (p. 71).

The report demonstrates the importance of theoretical and methodological premises, determining expected results, for example when answering the question: 'Has income inequality been increasing or decreasing over the past years?' Whether globally income inequality diverges or converges depends on three different, but equally possible premises: The focus is based on (1) their level of average income per capita, (2) differences in average

⁵⁹ Accordingly: Primary, secondary and tertiary income distribution. See p. 20. The more widespread distinction is market income (i.e. income before taxes and transfers) and disposable income (i.e. income after direct taxes and transfers) and final income, see e.g. (International Monetary Fund, 2014a, p. 4f.).

income per capita, taking into account population weight, (3) actual income (not national income average).⁶⁰ Those three approaches offer very different results (p. 65):

Graphic 18 Gini index of global income inequality



The first approach demonstrates an increase in inequality, the second perspective a convergence of inequality, the third perspective very high levels of (persisting) inequality. The “success” with perspective 2 is due to paying attention to large-population countries with fast growth (e.g. India and China), achieving therefore proportionally more progress than small countries. According to perspective 3, based upon actual household income, global inequality increased dramatically during the period of “Globalization” and is still at very high levels.

Even more interesting information is provided in the report when descending from the global level to a comparison of regional developments of income inequality:

Graphic 19 Gini index of household income inequality by regions (early 1990s-late 2000s)

Region	No. of countries	Gini index early 1990s	Gini index late 2000s	Percentage change
Africa	26	48.0	44.4	-7%
Arab States	6	36.1	36.0	0%
A&P	13	35.9	40.0	13%
ECIS	19	33.0	43.8	35%
LAC	20	51.4	48.4	-5%
All	84	38.5	41.5	11%

⁶⁰ Due to the fact that household data required for perspective 3 is only being collected since the 1980s, the result is not as well backed up as developments 1 and 2.

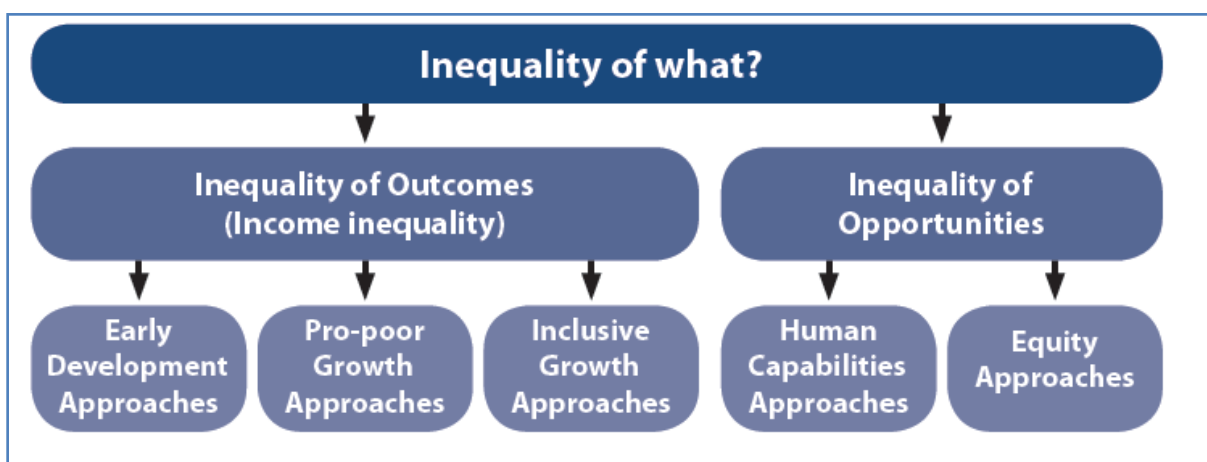
Here it can be seen that Africa profited from Globalization more than Central/Eastern and former Commonwealth of Independent States (ECIS). But here again, a variation of trends exists and should be considered carefully, which cannot be done here adequately. Just to pick an exemplary one: Empirical finding suggests that a national increase in inequality is largest in countries which had the fastest overall economic growth, enabling them as a country to move from a lower income group into a higher one:

Graphic 20 Changes in income status groups and income inequality (early 1990s to late 2000s)

Income group in the early 1990s	Change in income group by the late 2000s	No. of countries	Gini index early 1990s	Gini index late 2000s	Percent change
Low income	No change	27	36.4	38.6	8%
	Moved to lower-middle	6	35.5	41.5	17%
Lower-middle income	No change	24	44.5	41.3	-3%
	Moved to upper-middle	17	39.2	47.1	25%
	Moved to high income	3	32.7	39.5	21%
	Moved to low income	3	37.5	42.3	22%
Upper-middle income	No change	7	54.4	50.3	-7%
	Moved to high income	5	43.7	43.9	1%
High income	No change	24	41.9	45.7	9%

However, and as indicated above: UNDP takes a broader view about inequality affecting human wellbeing. It is not confined to economical considerations regarding income inequality, but also takes into account findings of related research regarding complementary factors of inequality. The shift in emphasis in understanding different categories of inequality shall be illustrated by the following overview and brief summarizing history. In the beginning, inequality of outcome stood in the centre of research focus and developmental policies, before inequality of opportunities moved into the focal point:

Graphic 21 Inequality of outcome and opportunity: Different development approaches



In detail: Within the *early development approaches* the wide-held belief was that an inevitable trade-off would take place between growth and income distribution, which was based on the Kuznets hypothesis, according to which, for poor developing countries,

inequalities have to get worse before they can get better.⁶¹ The late 1990s and their emerging and alarming poverty rates drove the focus to personal income distribution. **Pro-poor approaches** were concerned with actively raising the income of poor households relative to the rest of the population. To reduce poverty could happen in different ways, namely through ‘(1) faster growth without necessarily improving equity, (2) improving equity even if growth rates remained the same, or (3) a combination of faster growth and improving equity’ (p. 21). But, eventually it was recognized that it is not sufficient to fight extreme poverty and that wealth and income inequality also affect segments of the population which do not belong to the poor. Accordingly, a third **inclusive growth approach** aimed for a shared well-being of broader segments of the population. The main goal here is economic ‘growth that is accompanied by lower income inequality, so that the increment of income accrues disproportionately to those with lower incomes’ (p. 23).

Eventually, sensitivity regarding **inequality of opportunities** was brought to attention by Amartya Sen’s **human capability approach**. According to Sen, everybody’s income cannot be treated symmetric/in the same way since human beings and their living conditions are very different. For that reason and when it comes to inequality, other factors need to be considered such as personal heterogeneities (age, gender, disability), environmental diversities (climatic conditions), variations in social climate (public health care, public educational systems, the prevalence or absence of crime, social capital), differences in relational perspectives (appearance in public) and distribution within the family (intra-household distribution of income). All this matters if people are to be able to choose one kind of life rather than another. The problem with the human capability approach is its principal focus on individual freedom which prevents this approach from addressing ‘the relations of power that underpin inequality in a market economy’. This leads to the emergence of the **equity approach**, which, besides aiming to strengthen agency of the individual, aimed as well to remove disadvantage from those circumstances which individuals have no possibility to control, but nevertheless ‘powerfully shape both the outcomes and the actions in pursuit of those outcomes’, therefore requiring policies ‘investing in human capital; expanding access to justice, land and infrastructure; and promoting fairness in markets’ (pp. 27f.).

Obviously, those insights into multiple dimensions of inequality complicate policy intervention. The report appreciates the problem, which is why it explicitly deals with the question: Why does inequality matter? And why should policy makers devote themselves to the effort of comprehensively addressing inequality?

Once more, the report first offers insights into the development of analysis and theory: Early development thinkers thought that inequality does not matter as high/rising inequality was seen to be inevitable in the early stages of economic development. As empirical studies looked into the relationship of inequality-to-growth the result became clear: ‘Inequality is not an outcome of growth, but plays a role in determining the pattern of growth and poverty reduction’ (p. 43.). Furthermore research demonstrated that growth is possible without letting inequality get out of hand, which also refutes the Kuznets-based hypotheses. ‘As the long held belief that high/rising inequality is the price for economic development crumbled, the next question is ‘how and why inequality matters to the broader dimensions of human development

⁶¹ Kuznets made the proposition when an economy is primarily agricultural it has a low level of income inequality, that during early industrialization income inequality increases over time, then at some critical point it starts to decrease over time.’ Retrieved from http://economics.about.com/cs/economicsglossary/g/kuznets_curve.htm

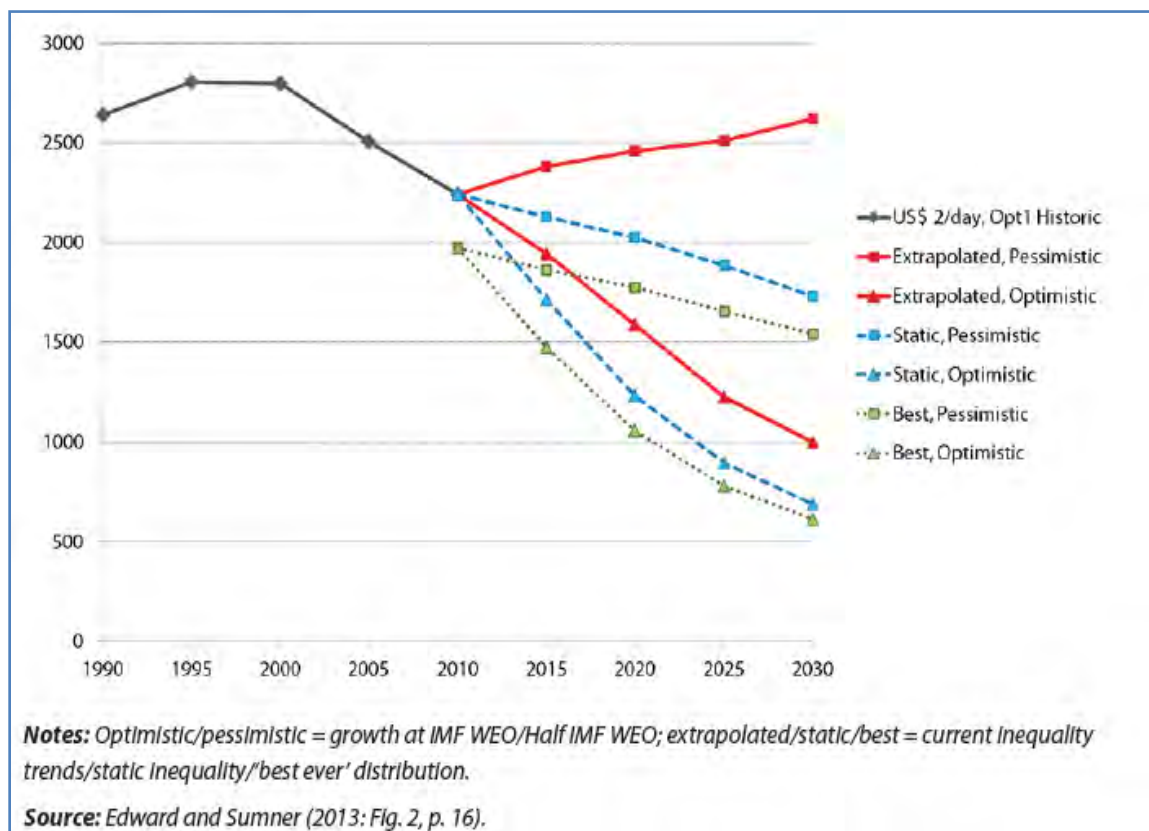
and human well-being in developing countries' (p. 44) – and clearly, the answer to this question is not of interest solely for developing countries, but also for developed countries.

Posing the question like this indicates most clearly the shift away from a merely material focus on inequality and, by doing it, the authors enter findings of another strand of reflection emerging over the past years: Material income, material growth and other 'objective' dimensions and indicators of wellbeing are important. But there are also subjective dimensions to human wellbeing. The realization that human wellbeing needs to be seen as a multi-dimensional concept had a breakthrough after the World Financial and Economic Crisis, e.g. in findings of the Stiglitz-Sen-Fitoussy Commission, but also numerous commissions on national levels looking into the question whether wellbeing and welfare needs more indicators besides the traditional focus upon economical growth of GDP, for example a clean environment, personal free-time activities, an intact personal and social environment and, of course, health, education, social security and justice (p. 49).

A holistic understanding of human wellbeing thus has three complementary domains: 1) material well-being: emphasis on practical welfare and standards of living; 2) relational well-being: emphasis on agency, personal and social relations; 3) subjective well-being: emphasis on values and perceptions. What do recent thinkers say regarding such an enlarged concept of human wellbeing? They offer intrinsic and instrumental reasons to back up their thesis that inequality does matter, the former invoking ideals of fairness and moral requirements, the latter referring to economic, social and political consequences following high or rising inequality. In detail:

Material wellbeing: here, intrinsic reasons emerge from human rights legislation as well as the philosophy of ethics and morals. Both the Universal Declaration of Human Rights and Justice Theories emphasize that inequality shaping life conditions and life opportunities is a violation of human dignity and offends against the value of meritocracy (p. 48). More known are instrumental arguments for more equality and a reduction of poverty. The report quotes a wealth of research looking into the links between the impact of (increasing) inequality on a decrease in growth and the ability to reduce poverty. The following graphic illustrates 'the difference between poverty estimated on current inequality trends versus a hypothetical return to "best ever" inequality for every country could be an extra billion people living below the US\$2/day poverty line in 2030' (pp. 50f.):

Graphic 22 US\$2 headcount (millions), by pessimistic/optimistic growth and three distribution scenarios, 1990-2030



Evidence suggests therefore, that for instrumental reasons alone, a policy based on growth *and* redistribution is the best way to go.⁶²

An intrinsic case, as to why inequality matters regarding relational human wellbeing, is provided by the ethics of Emmanuel Levinas who posits that ‘relationships with “the Other” are associated with self-identity to a large extent’, insofar we construct our sense of self-identity in relationship with others. Or, as Milanovic puts it: ‘There is no point in studying inequality between two groups that do not interact or ignore each other’s existence’ (p. 52). Due to global interconnectedness this requires ethically that we pay attention to the inequality of others which, in turn affects and determines my own position in (global) society. The instrumental case regarding the relational aspect of human wellbeing is captured by research into social exclusion and participation in governance. Inequality-related issues such as unemployment, crime, humiliation and deterioration of human capital create an unfair and explosive society. People lose agency and can neither participate in existing societal structures nor in creating a better, fairer society.

The intrinsic argument against inequality regarding subjective wellbeing is obvious: Of course one’s place within society impacts on one’s own sense of dignity, self-worth and self-respect. Instrumental reasons for combating inequality are provided by research indicating that the unhappiest people live in highly unequal countries (with a Gini >0.55), while happier people live in comparatively equal societies whose Gini is lower than 0.55.⁶³

⁶² Which is meanwhile also seen that way by IMF staff people, e.g. (Ostry, Berg, & Tsangarides, 2014).

⁶³ P. 54, see e.g. the findings of (Wilkinson & Pickett, 2009) in I/II/3.1.2. or Ruckriegel in (Alt & Drempetic, 2012).

Does inequality therefore matter when trying to combat poverty? The UNDP report is clearly affirmative about this, both for normative reasons arising from intrinsic argumentation based on concepts of fairness, but also because of the instrumental reasons, even though the report admits that reasons presented in the report ‘arguably received less emphasis in policy debates’, even though they have ‘a surprisingly strong empirical basis. ... This implies that, if the objective is to reduce poverty ... there is a need to track and intervene with policies to manage inequality in order to maximize rising average income and rising income of the poor.’ (p. 55).

2.5.1 Survey among policy makers

Here, the UNDP report includes an interesting element absent from other reports concerned about inequality, namely a survey among policy makers, asking crucial questions such as: What do policy makers think about the relevance of inequality in their countries and its impact on long term development? What do they think should be done? And is that which should be done possible to implement? The survey was conducted in 15 developing and emerging countries in Africa, around the Mediterranean, Asia & Pacific, Central Europe & Asia, Latin America & Caribbean, interviewing 363 policy makers.⁶⁴

It can be seen that, both, inequality in income and inequality of opportunities have been increasing significantly over the last 10 years (p. 199):

Table 2 Perceived trends of inequality – distribution of answers

Type of inequality	Significantly increased	Slightly increased	Remained the same	Slightly decreased	Significantly decreased
Income	38%	21%	15%	16%	9%
Opportunities	21%	27%	22%	23%	5%

Policy makers recognize the interdependence and mutual relationship between inequality of income and inequality in opportunities, but also differences across countries, e.g. that the ‘distribution of opportunities is mediated by a multiplicity of factors which are highly context specific.’ (p. 202). Regarding long-term development of their countries, policy makers see the impact of inequality to be rather problematic than conducive for development (p. 204):

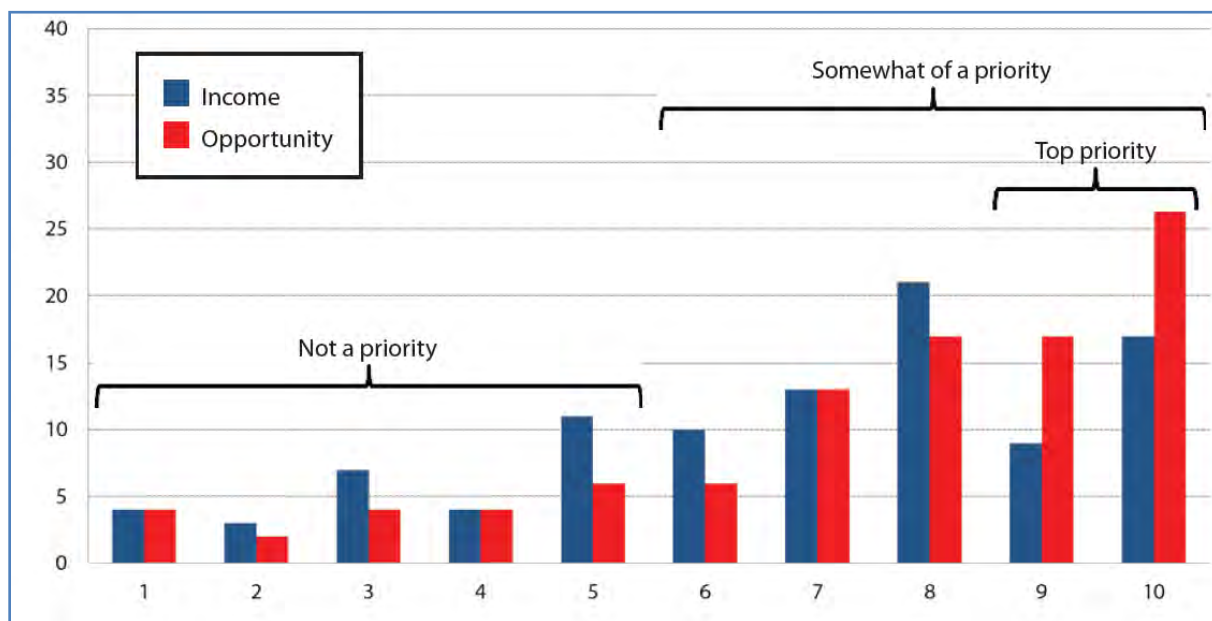
Table 3 Inequality trends and levels in relation to long-term development

Type of inequality	Highly problematic	Somewhat problematic	Neutral	Somewhat conducive	Highly conducive
Level of income inequality	51%	26%	17%	3%	4%
Trend of income inequality	39%	31%	20%	6%	4%
Level of inequality of opportunities	36%	34%	23%	5%	2%
Trend of inequality of opportunities	33%	32%	23%	6%	4%

⁶⁴ A list of countries and explanations of the methodology of the survey are given on pp. 198f.

To put it differently: There seems to be a widely shared agreement that ‘sustainable development can be built only on a fair distribution of chances’ which is why the reduction of inequality is widely perceived to be a policy priority (p. 206):

Graphic 23 Priority level of inequality reduction: Distribution of perceptions



Interestingly enough, the graphic illustrates that inequality of opportunities is seen to be a higher priority than inequality of income, even though previously the interconnectedness has been acknowledged. It could not be established why this is the case with the survey. Some policy makers even held the view that income inequality might be acceptable if certain conditions are met, e.g. a minimum standard of living, the declining of poverty and no undermining of equality of opportunities (pp.207ff., graphic p. 209).

Table 4 Views of the role of government - distribution of answers

Potential government responsibilities	Agree ¹⁰	Disagree ¹¹	Neither agree nor disagree
Guarantee minimum living standards	81%	13%	4%
Ensure equality in access to services	89%	9%	2%
Promote equality of opportunities	87%	11%	2%
Reduce income differences	63%	17%	13%

This seems to argue in favour of no interference in the market distribution of income, which is somehow contradictory to the 77% of policy makers who stated above that income inequality is “problematic”. Here again, the survey did not state underlying reasons for this deviation or whether respondents had other ideas about the reduction of income inequality.

What inequality-reducing policies are receiving support by policy makers? First a list addressing inequality of income (p. 208):

Table 5 Perceived relevance of selected inequality reducing policies

Policy options	Support level ¹²	Average score	Relative deviation ¹³
Subsidies to key factors of production in the agricultural sector	62%	3.68	33%
Subsidies to key factors of production for small and medium enterprises	63%	3.70	32%
Asset redistribution (e.g., land reform)	43%	3.42	41%
Introduction (or increase) of minimum wages	59%	3.68	33%
Strengthening of collective bargaining	57%	3.60	34%
Taxation of financial transactions	35%	2.90	45%
Increase progressivity of income taxation	55%	3.53	36%
Reduce tax evasion	74%	4.06	31%
Introduction or expansion of conditional cash transfers	66%	3.76	31%
Introduction or expansion of employment guarantee schemes	59%	3.63	35%
Consumer subsidies (e.g., on cooking fuel or food items)	42%	3.11	42%
Tax incentives to promote foreign direct investment in marginalized regions	58%	3.63	34%
Average	56%	3.56	36%

In this list, several issues merit attention: First of all, that those three items gaining less than 50% support (land reform, Financial Transaction Tax, consumer subsidies) are the same ones which are most heavily contested among respondents; they are obviously polarizing issues. It is also interesting, that both, land reform and Transaction Tax are clearly aimed at national elites, consumer subsidies at the poorest. Secondly, the issue receiving most support and which is least contested is: tax evasion, considerably above another instrument which normally is seen to equalize inequality, namely progressive taxation.

Regarding measures addressing inequality of opportunities, the following list emerges (p. 213):

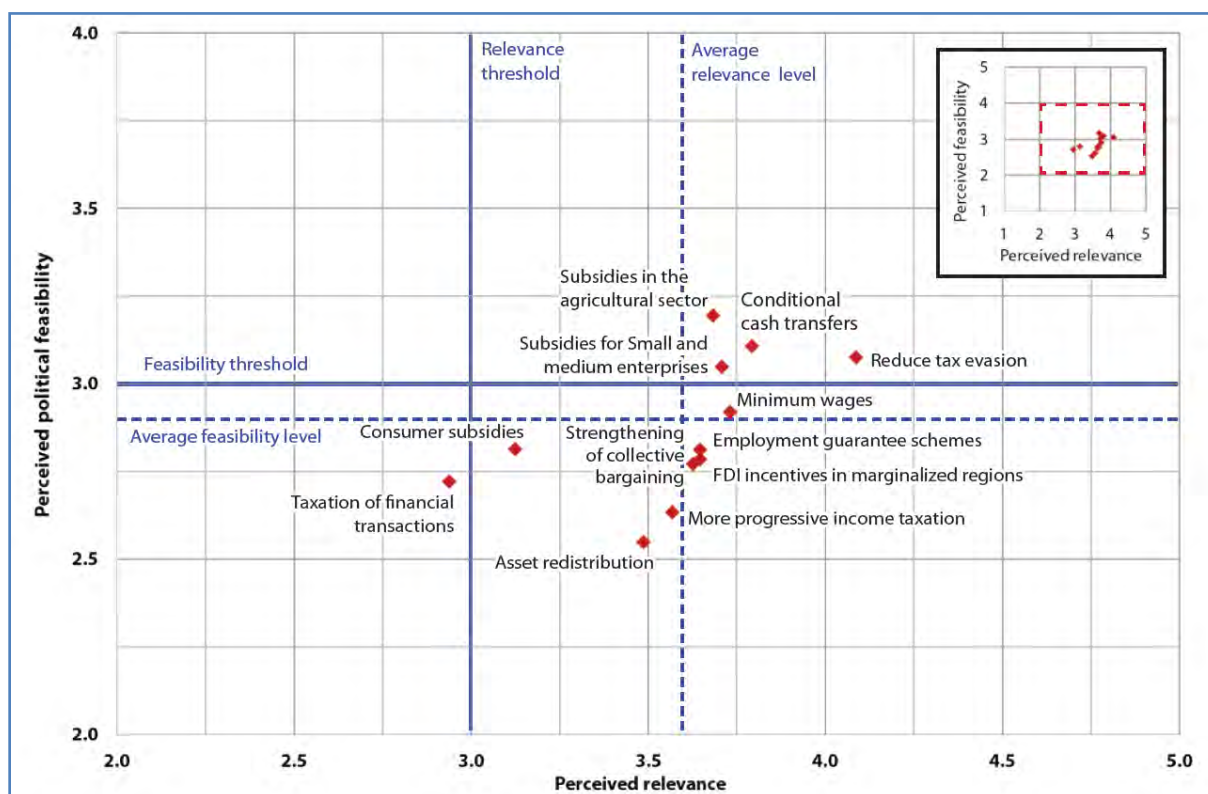
Table 6 Perceived relevance of inequality of opportunity reducing policies

Policy options	Support level ¹⁴	Average score	Relative deviation
Reduce unemployment	84%	4.36	23%
Reduce inequality in access to education	84%	4.40	23%
Reduce inequality in access to other critical public services	81%	4.31	21%
Reduce inequality in access to services related to economic activity	76%	4.12	24%
Infrastructure development in rural areas of the country	87%	4.42	19%
Infrastructure development in urban areas of the country	70%	3.99	25%
Strengthen the political representation of disadvantaged groups	69%	3.89	30%
Affirmative action policies for disadvantaged groups	70%	4.00	28%
Average	78%	4.19	24%

Here it is interesting that the least supported and highest contested issue is the advancement of participation, i.e. the inclusion of marginalized people into the political process.

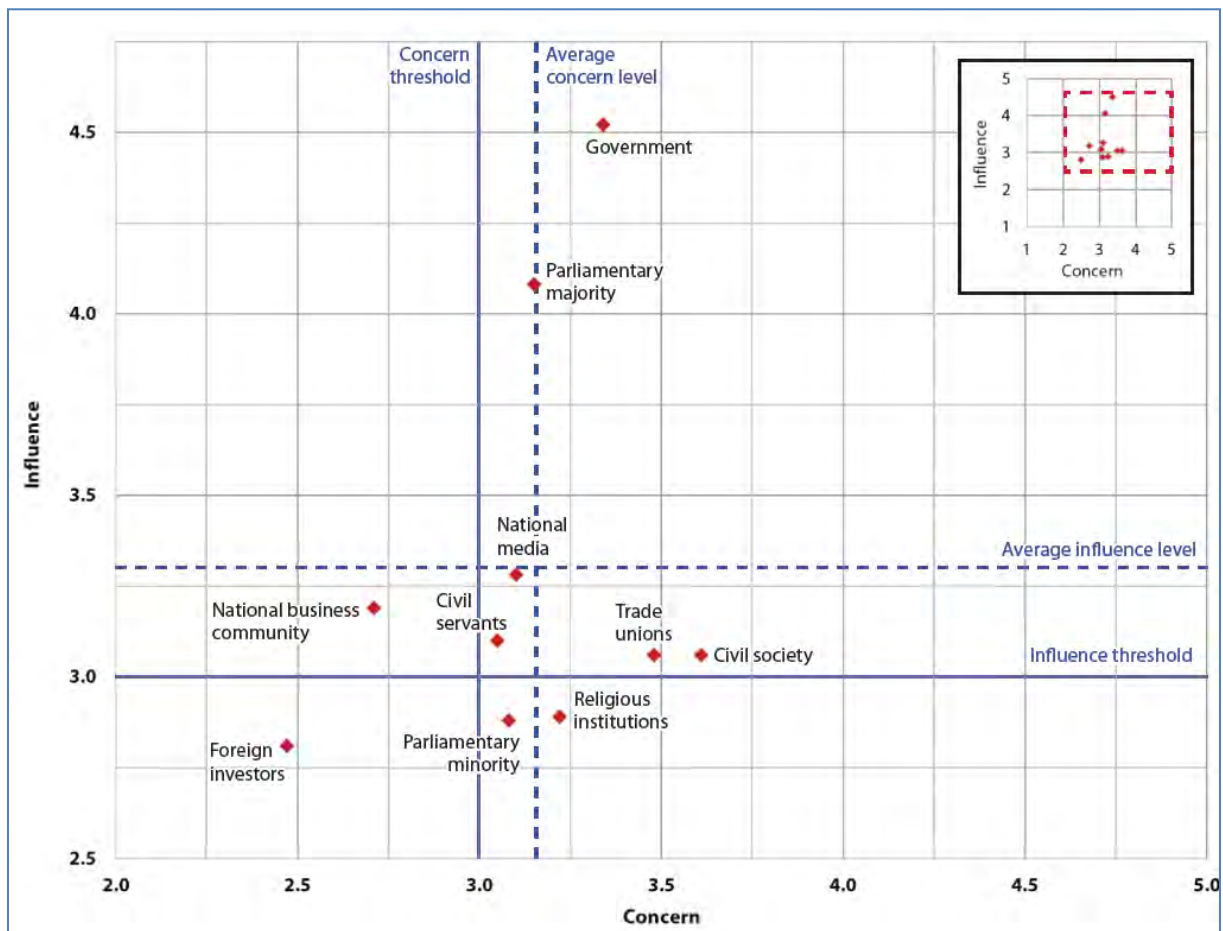
Then follows the most interesting and the most important question, namely: Is that which is seen to be most urgent and most helpful to address inequalities, at the same time that which is possible to implement? Answers given provide the following graphic (p. 216):

Graphic 24 Perceived relevance and political feasibility of policy options



Here it is striking to see that enthusiasm for certain policy measures has decreased markedly: only four measures of those seen as important for inequality reduction, namely tax evasion, conditional cash transfers and subsidies in the agricultural sector and small and medium enterprises are above both the relevance and feasibility threshold. Why is this the case? The survey provided the following explanation regarding concern and influence of certain stakeholders (p. 219):

Graphic 25 Political dynamics in inequality reduction: concern and influence



Provided states are democratically governed in the first place, the survey takers guess that there is a strong opposition by “pro-business” groups (see the ranking of foreign investors and national business community), little coherence among “pro-labour” groups and generally not sufficient majority support for pro-equality measures, except perhaps the fight against tax evasion. The conclusion is, therefore, to emphasize the importance of increasing public and popular support for effective, inequality-reducing measures, e.g. by a better cooperation among media, civil society groups, churches and political parties, thus empowering the population, especially the poor, socially excluded and marginalized, thus organizing majorities for those policy changes (pp. 217ff.).

2.5.2 Discussion

There are puzzling elements in the survey of the policy makers, though, most of all, the ranking of Foreign Investors in the preceding graphics. One should assume, for all that has been indicated already about the impact of foreign “capital” and “capitalists” in poor countries, that there is a link between capital interest and the blockade of inequality-reducing policies by – e.g. – using corruption and bribery, aggressive lobbying for tax exemption and reliefs or even blackmail (e.g. “No investment will be made if certain conditions are not fulfilled”).⁶⁵ In spite of all that, foreign investors are ranked lowest on the axes signifying influence (i.e. upon the development of inequality) and concern (i.e. to become object of

⁶⁵ Even IMF studies admit that foreign capital flows/trade and financial globalization are associated with an increase in inequality and therefore merit special policy attention, e.g. (Jaumotte, Lall, & Papageorgiou, 2013).

national policy making). This low ranking is telling and may be due to the knowledge of the real power of foreign investors and foreign capital, whose adversity, of course, policy makers of poor countries cannot dare to rouse.

Summarizing findings presented in the report “Humanity Divided” so far, are the following conclusions:

- It is and remains important how one uses statistics to establish levels of inequality and adhering trends. Focusing on actual household income, as this report does, inequality globally and nationally seems to be still at a high level or even increasing, as does poverty.
- This report also supports the importance of understanding the changing relationship between labour and capital when it comes to understanding inequality and resulting poverty. The report also implies, when looking at the policy survey, that policy makers in their answers are tacitly influenced by capital owners because there is a noticeable gap between what they think is important and the solutions and priorities which they suggest – both in agreement with Thomas Piketty’s findings.
- Income inequality, inequality of opportunities and intergroup inequality examined with economic criteria are important, but do not represent the entire picture. Human wellbeing is influenced by more factors than economic growth and material wealth.
- In order to improve the situation, a more complex and holistic approach is needed than just focussing on economic/material aspects such as economic growth and income inequality.

What can be guessed when reading the policies recommended above in Tables 5 and 6 is that many policies will cost some money. This is why recommendations regarding a redistributive taxation policy have a place of importance within the policy framework presented and discussed later in chapter 7 of the report (“A policy framework addressing inequality in developing countries”).

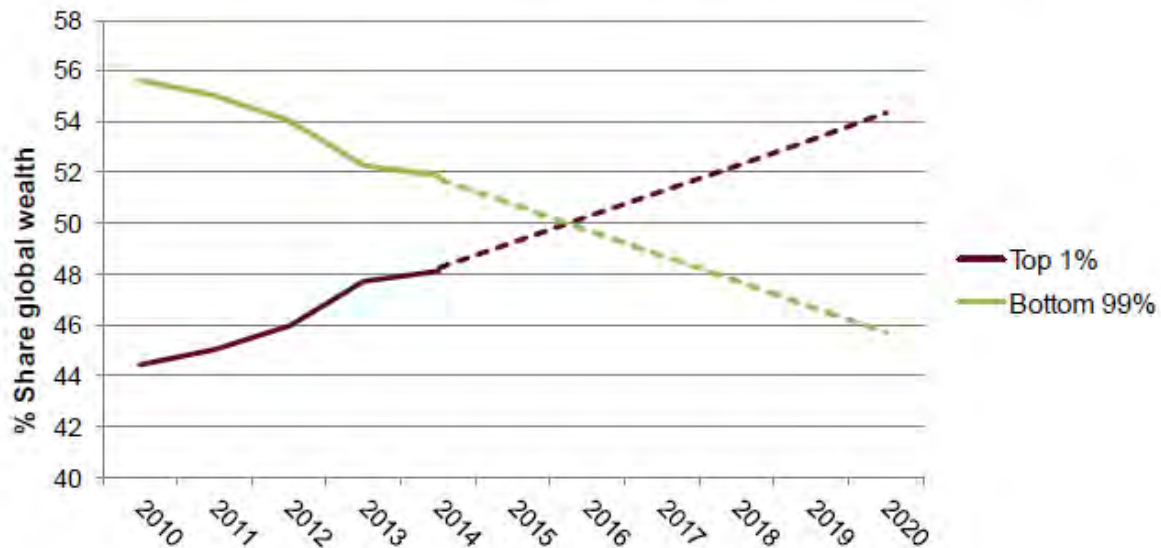
2.6 An NGO view: OXFAM

An important global player in the fight against inequality is Oxfam and its campaign “Even it up”, started in 2014 (Oxfam, 2014). Oxfam published a number of larger and smaller reports, mostly geared to attain publicity. So, for example, on 19 January 2015 and ahead of the Davos Summit the press release “Richest 1% will own more than all by 2016”.⁶⁶ This press release again was based upon the Issue Briefing “Wealth: having it all and wanting more.” (Oxfam, 2015a). Here, Oxfam explained that, given their own research based upon the Credit Suisse wealth data and own calculations, continuing trends in wealth development will result in the situation that in 2016 1 percent of the world’s population will own as much as the 99% others. And they include a number of impressive graphics, such as:

⁶⁶ <http://www.oxfam.org/en/pressroom/pressreleases/2015-01-19/richest-1-will-own-more-all-rest-2016>

Graphic 26 Share of global wealth of the top 1% and bottom 99% respectively

Figure 2: Share of global wealth of the top 1% and bottom 99% respectively; the dashed lines project the 2010–2014 trend. By 2016, the top 1% will have more than 50% of total global wealth.



Source 9 (Oxfam, 2015a, p. 2)

However, Oxfam admits that data might change and therefore also conclusions based upon it: In 2013, their catchy headline ahead of the World Economic Davos Summit was that 85 of the world billionaires own as much as the world's bottom 50%. Here, however, they had to adjust their calculation when Credit Suisse updated their wealth data base: According to the October 2014 database, the number of billionaires had to be corrected upwards from 85 to 92.⁶⁷ All this probably will not invalidate the longer trend, as also the “Champagne-Glass” graphic of UNICEF presented below illustrates, but it also proves the point how careful one has to be when using data and reading headlines and that wealth increases can be followed by decreases as well.

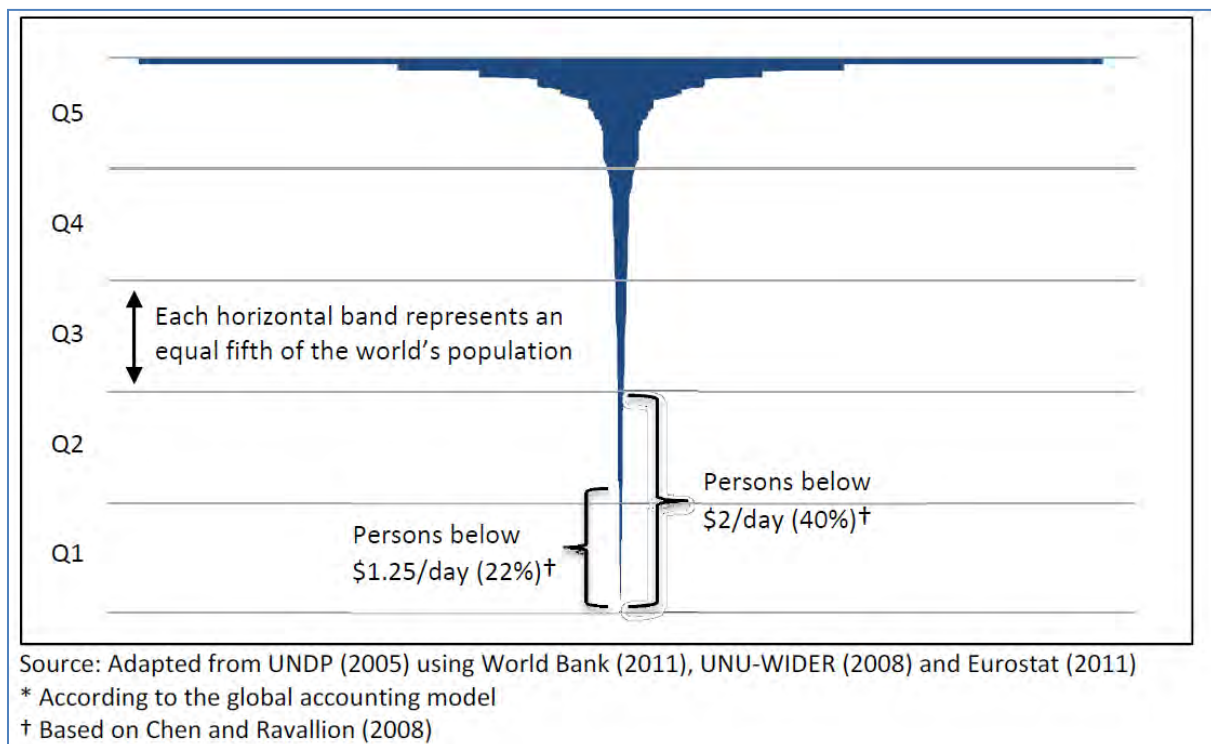
2.7 Conclusion

Growing inequality in income and opportunities and a growing wealth gap, impact also on poverty since it seems to be the case that the position of the disadvantages in a given society consolidates and no longer improves. How outrageously income distribution has developed is illustrated by UNICEF's graphic called the “Champagne Glass”:

⁶⁷ Box 1: Updating the Credit Suisse wealth data – and Oxfam's 2014 statistic. In January 2014 Oxfam calculated that in 2013, 85 people had the same wealth as the bottom half of the world's population, a number that was cited worldwide due to the extreme level of wealth inequality that it illustrated. The paper used data from the Forbes list published in March 2013 and from the Credit Suisse Global Wealth Databook with data for „mid 2013“.

In October 2014, Credit Suisse updated their wealth estimates; the share of wealth held by each global decile and the total global wealth estimates for the years 2000–2014 at the end of each year. The new estimates include an update to the wealth numbers for 2013, from which Oxfam calculated the 85 statistic. This briefing uses the updated number for 2013 and all other years as published in 2014. Based on these updated figures, in 2013 the number of billionaires holding the same amount of wealth as the bottom 50% was recalculated to be 92.' (Oxfam, 2015a, p. 4)

Graphic 27 Global Income Distributed by Percentiles of the Population in 2007 (or latest available) in PPP constant 2005 international dollars

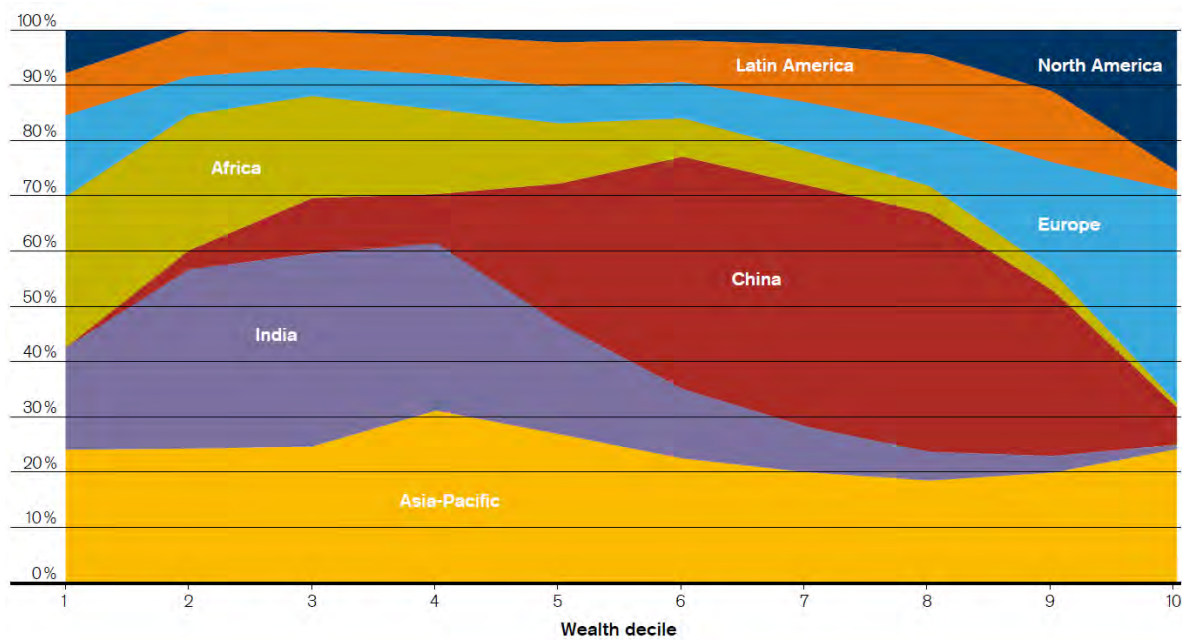


Source 10 (Ortiz & Cummins, 2011, p. 21)

Piketty, OECD and UNDP state a growing dominance of capital (owner) over labour, which not only changes income inequality of households, but also the functional income distribution of states. They all are unanimous in the view that this problem is exacerbated by the withdrawal of state regulation of markets which, in turn, admits the view that a better/stronger re-regulation might be called for.

An increasing wealth gap exists both, within states and between states, and partly between global regions. There are also closing tendencies in the wealth gap since, e.g., some of the BRICs states are catching up with western countries and in some countries the wealth gap is not (yet) as extreme as it is in the west, as the following graphic illustrates. As one can see, there is indeed progress in India and China (even though one might argue in the case of China what the ecological price for growth is). But since this research is concerned with Europe and Africa, it is apparent how extreme inequality is in those two continents.

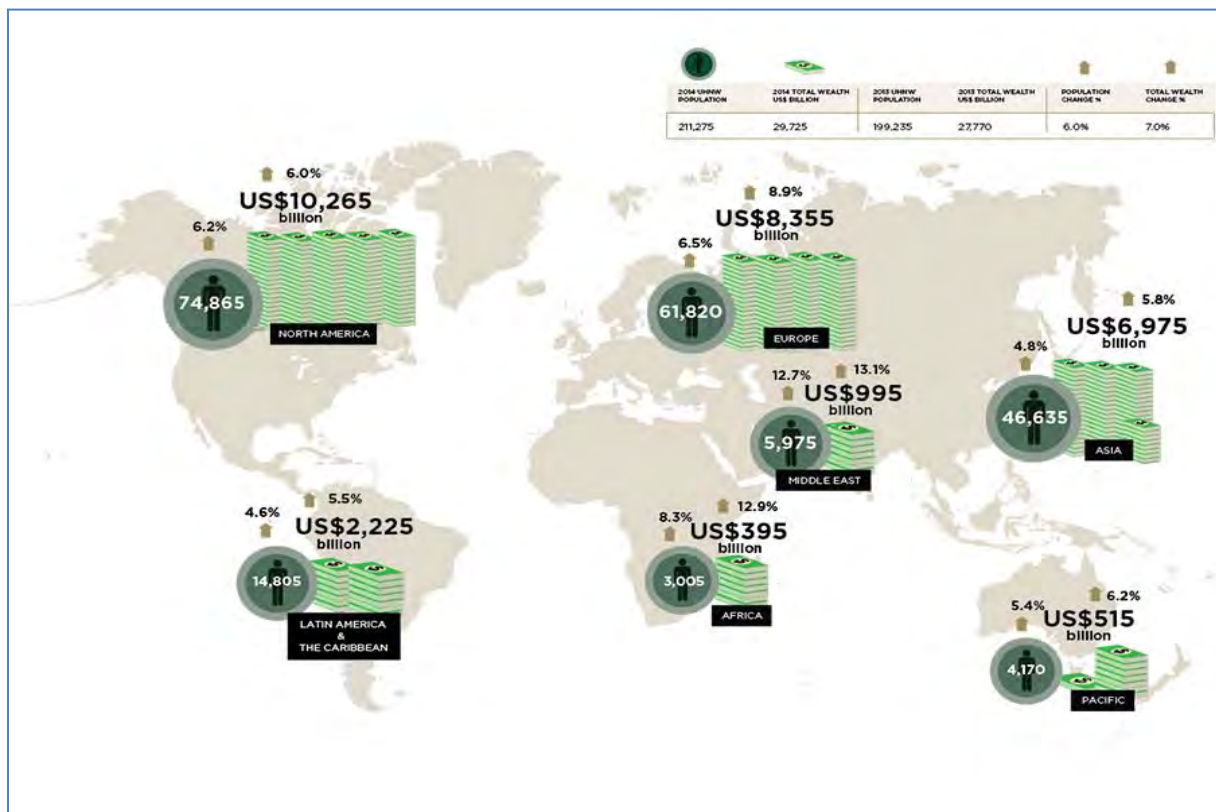
Graphic 28 Distribution of wealth within global regions



Source 11 (Credit Suisse, 2014, p. 12)

Following wealth reporting, the number of super-rich is getting higher and higher and no continent, not even the smallest country,⁶⁸ is standing outside of this development, as the following graphic demonstrates:

Graphic 29 Ultra High Net Worth individuals - Estimated numbers and wealth in 2013



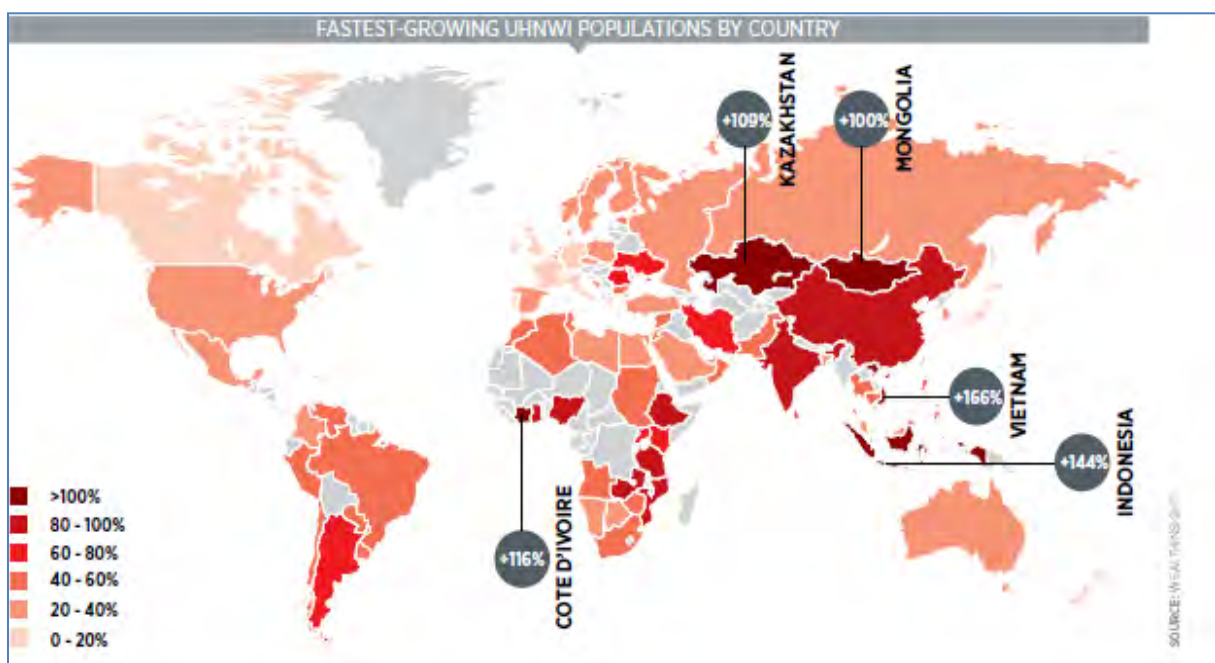
⁶⁸ For example: Even the tiny country of Belize is, due to dual citizenship arrangements, residence to (at least) two billionaires: British Lord Michael Ashcroft and Chinese Huang Maoru.

Source 12 (Wealth-X and UBS, 2014, p. 15)

Wealth reports by Credit Suisse, Knight Frank, Capgemini/RBC and Wealth-X/UBS agree that worldwide wealth growth reached top levels in 2014. Europe is still holding its second place regarding the number of millionaires and billionaires. While Europe is attractive due to its diversity, stability and many investment opportunities, it is likely to remain in second place for the foreseeable future. Wealth reports predict that in particular Germany will further elaborate its top rank within Europe regarding UHNWIs, Centa-Millionaires and billionaires, more on that in the In-Depth study on the German wealthy (GW).

At the same time, nowhere in the world the number of UHNWIs was growing as fast as in the Middle East and Africa, the latter “far outstripping” the average ‘growth rate across the rest of the world’ (Knight Frank, 2014, p. 22).

Graphic 30 Fastest growing UHNWI populations by country



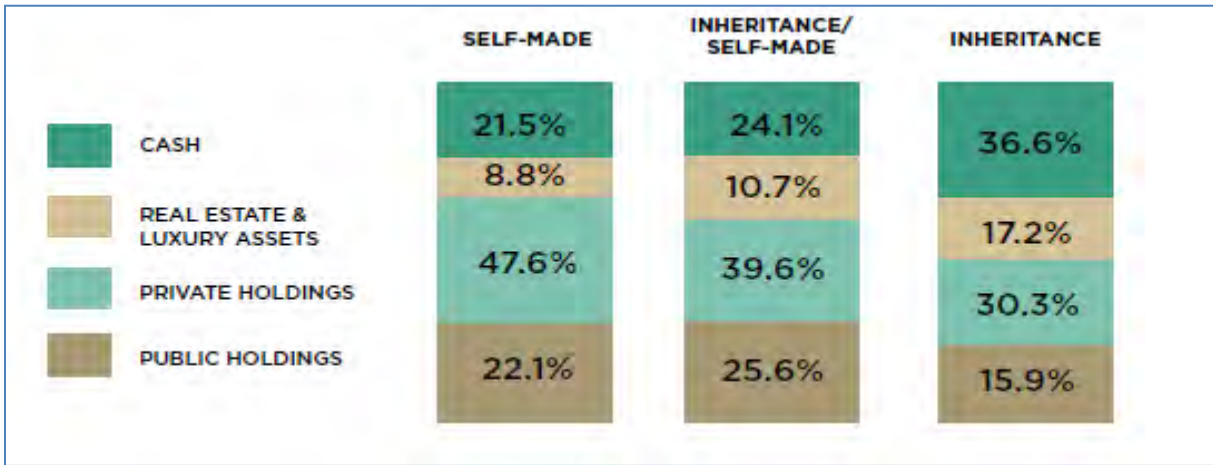
Source 13 (Knight Frank, 2014, p. 18)

This trend is confirmed also for 2015. African “hubs” of the super wealthy were Lagos (520), Johannesburg (450), Cairo (445), Cape Town (150) and Nairobi (135). Even though poor governance and infrastructure will hamper the growth of wealth, the prognosis is that by 2019 the number of UHNWIs will be well beyond 4250 and their assets close to US\$ 600 billion (Wealth-X and UBS, 2014, p. 91). Kenya’s share of Centa-Millionaires is predicted to grow from 31 (2013) to 54 (2023) (Knight Frank, 2014, p. 18).

One should be mindful, however, that maybe the number of millionaires and billionaires is growing overall, but that there is a lot of movement, too: those being on the top today may be out by tomorrow: The UBS/PwC billionaire-report, for example, stated that only 40% of those who were among the world’s top-wealthy in 1995 were still at the top in 2014, making then only 9% of the world’s total wealth-holder (UBS-PwC, 2015, p. 13). A similar observation can be made when regarding Germanys top-wealthy family businesses (see In-Depth study of German wealth (GW)).

Wealth sources for the world’s UNHWIs depend on whether they are self-made men or whether they inherited their fortune:

Graphic 31 Sources of private wealth



Source 14 (Wealth-X and UBS, 2014, p. 22)

According to this Wealth Report, the world’s top 0.004% of UHNWIs holds US\$ 29.7 trillion worth of assets, while the world’s GDP in 2014 reached “only” US\$ 77 trillion. The Report is honest enough to admit that wealth concentrated that high brings along ‘a large degree of influence’ directly, but also indirectly ‘through their social networks of family or friends’ (Wealth-X and UBS, 2014, p. 10f.). Regarding Africa, the situation is as follows:

Graphic 32 Relationship between billionaires and those in extreme poverty in Africa

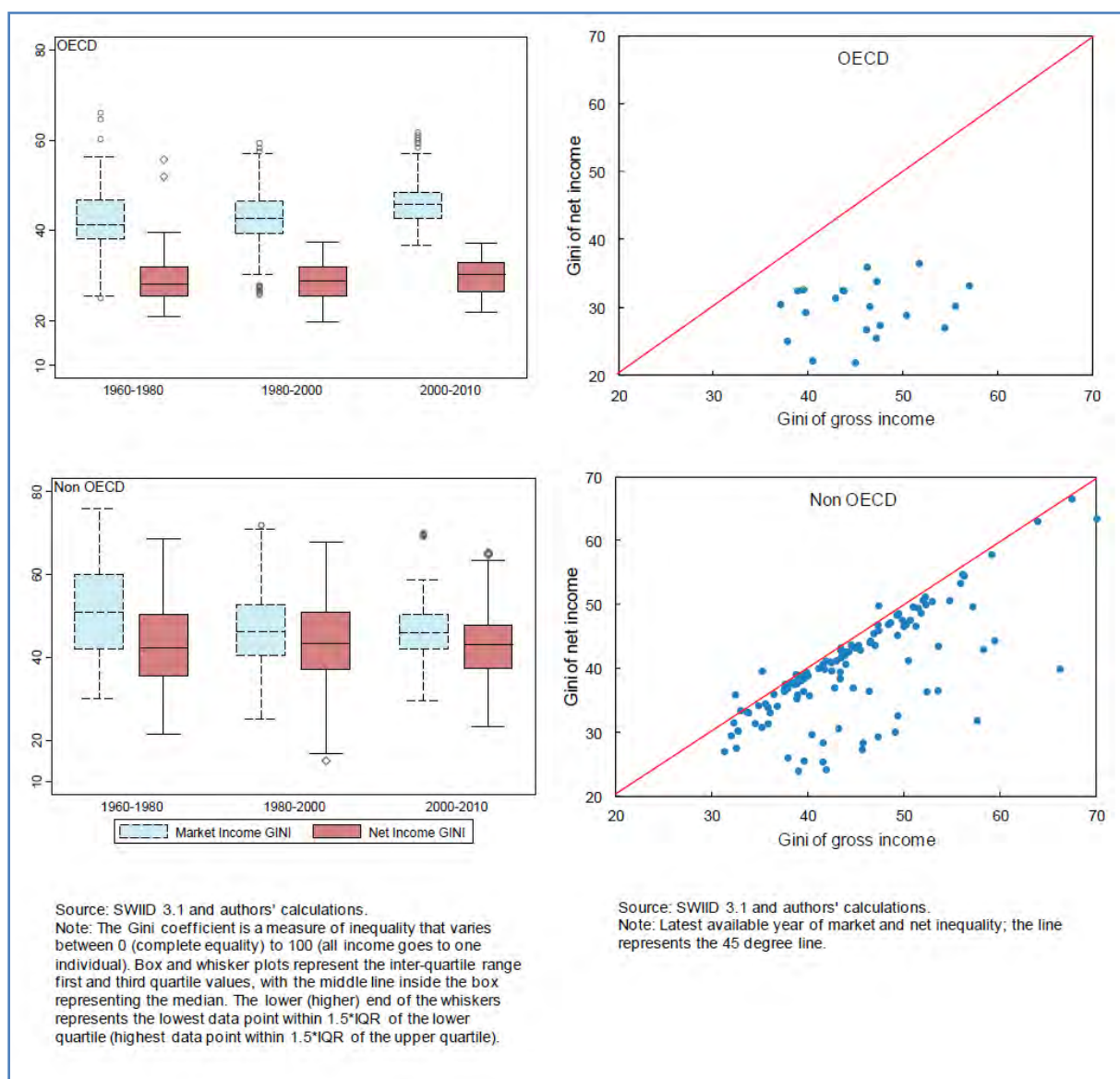


Source 15 (Oxfam, 2014, p. 32)

At the same time, income in the middle and lower segment of society, which is linked to the growth of the real economy, did not increase at speed comparable to that of owner of private and corporate wealth and often those increases were eaten up by inflation or the move into a higher tax bracket. In many areas of the world, private households not only among the poor, but also the middle class were seduced to make up for budgetary tightening by taking up credits and loans (Collins, 2012). Obligations for repayment and debt service arising here resulted in a growing number of indebted households, i.e. those whose wealth started to become negative. This situation overlaps with the second research interest, namely dependence on external financing, since in today's world problems arise not just from the dependence of governmental/public households, but also from private and corporate households on external financing.

Findings in this chapter are supported by other institutions. For example, the following graphic prepared by IMF staff and based on more recent data provides a good and up-to-date overview about the developments in both advanced and developing countries over the past decades. The first box points to the evolution of market and net inequality in OECD and developing countries, the second box illustrates the gap between market and net inequality (inequality after taxes and transfers) by country groups:

Graphic 33 Evolution of market and net inequality & market and net inequality by country group



Source 16 (Ostry, Berg, & Tsangarides, 2014, p. 14)

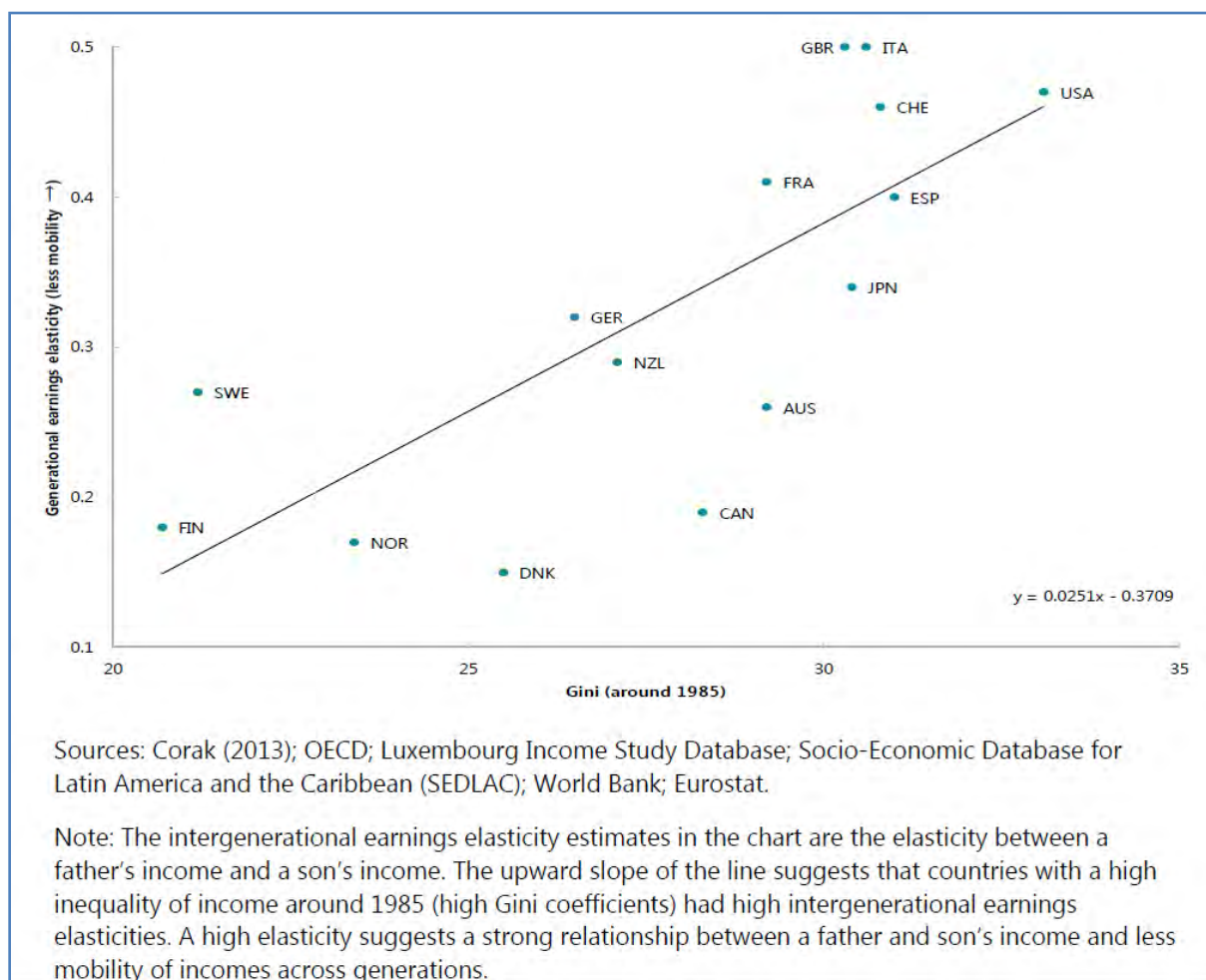
The graphic illustrates that market inequality has been rising over the past three decades in OECD countries and falling in developing countries. IMF researchers also agree with OECD's observation regarding the decreasing ability of transfer systems in developed countries to counterbalance the increase in inequality.⁶⁹ This could tempt one to argue that the situation in developed countries is worse than in developing countries, implying that resources need to be spent to ameliorate the situation in the developed countries before turning to the developing countries. But, exactly in this situation it is important to not play off one against the other. Both developed and developing countries have a common problem, namely rising inequality in income, in wealth, in opportunities.

Another important issue which is often discussed: Is inequality in income worse than inequality in opportunity? This is an irrelevant juxtaposition since both interact with each

⁶⁹ 'The gap between market and net inequality is much more pronounced in industrial countries than in the developing world, reflecting the former's more extensive tax and transfer systems. Net inequality has risen, however, in the OECD over the past several decades, as redistribution has not kept pace with the rise in market inequality.' (Ostry, Berg, & Tsangarides, 2014, p. 13) cf. (OECD, 2011a, p. 37ff.)

other as is shown by the next graphic: Countries with a high income-inequality also offer little social mobility, meaning that people belonging to disadvantaged social strata are empowered and able to move up the scale; here too, scholarly research (Wilkinson & Pickett, 2009) agrees with IMF findings.

Graphic 34 The Great Gatsby Curve: Income Inequality and Economic Mobility



Source 17 (International Monetary Fund, 2014a, p. 14)

This is why UNDP argues strongly for active pro-poor policies to counter intergroup inequality arising and consolidating inequality in outcome and opportunity by actively targeting socially excluded and marginalized people and assisting them in the first place to participate from public goods such as education. Especially the importance of education is emphasized by all publications quoted above and cannot be emphasized enough: Educationally attainment levels are largely accepted to be the best cure against inequality⁷⁰ and are the key for social mobility, which is seen to be the only justification for the existence of considerable income inequalities.⁷¹

It is important to fix this problem as long as governments are still in the situation to act because clearly, UNDP, IMF and OECD agree, here a socially highly explosive situation is emerging. For that reason it is important to marshal awareness and support for this link

⁷⁰ E.g. (UNDP, 2013), but also (International Monetary Fund, 2013b).

⁷¹ (OECD, 2011a) chapters 7+8, as to the importance of social mobility chapter 9. Similar emphasis upon health care and education: (International Monetary Fund, 2014a).

between the growing problem of inequality and governance, for example by people as different as Piketty, Pope Francis⁷² and billionaires like Warren Buffet⁷³ or Nick Hanauer.⁷⁴

In all publications quoted so far, taxation, and most particularly the taxation of top incomes, is an important issue. The concept of “Tax Consensus”, which has been introduced by the Christian Aid report, is helpful to illustrate that the Washington Consensus, whose principles were shaping global economic and monetary policy for decades, included a strong fiscal dimension which determined policies in (all too) many countries of the developing and the developed world. Both Christian Aid and the UNDP criticize strongly (OECD (2011: p. 293) more moderately), that tax policies promoted by the Washington Consensus were inherently designed to increase inequality by cutting personal and corporate income tax and its increasing reliance on indirect taxation, which in turn impacts poor and low-income households over-proportionate. This shift did not make up for the loss of revenue from progressive taxation. This led to cuts in redistributive measures, which up to then successfully diminished inequality within societies by means of public subsidies or social transfer programs. Additional consequences were that there was less revenue to be spent on public goods such as infrastructure, health, which lead to a two-class society between those who could afford private services and those depending on public services.

This implies that, especially after the warnings given by the World Financial and Economic Crisis, one should note that not only economic and monetary corrections need to be put on the agenda globally and nationally, but also fiscal and tax related corrections: After all, a lot of damage created over the past decades needs to be repaired and all the many good policies proposed to do that are costly. It is necessary to free oneself from decades- long held beliefs in free market forces and slowly the conviction is growing that regulation (including taxation), growth and redistribution are no longer irreconcilable and can lead to a more just and fair society.⁷⁵

This is even more important if one follows the view that there is more to inequality than inequality in income and opportunities alone. The UNDP-Report in particular, but also Catholic Social Teaching, alerts towards aspects which are increasingly accepted as being determinants of whether people think that they are leading a good or happy life: an intact environment and social relations, social peace, free time and work-life balance, etc. All this is part of a trend getting stronger since the World Financial and Economic Crisis, namely that

⁷² Nr. 56 of *Evangelii Gaudium*: ‘While the earnings of a minority are growing exponentially, so too is the gap separating the majority from the prosperity enjoyed by those happy few. This imbalance is the result of ideologies which defend the absolute autonomy of the marketplace and financial speculation. Consequently, they reject the right of states, charged with vigilance for the common good, to exercise any form of control. A new tyranny is thus born, invisible and often virtual, which unilaterally and relentlessly imposes its own laws and rules. Debt and the accumulation of interest also make it difficult for countries to realize the potential of their own economies and keep citizens from enjoying their real purchasing power. To all this we can add widespread corruption and self-serving tax evasion, which have taken on worldwide dimensions. The thirst for power and possessions knows no limits. In this system, which tends to devour everything which stands in the way of increased profits, whatever is fragile, like the environment, is defenseless before the interests of a deified market, which become the only rule.’

⁷³ “Stop Coddling the Super-Rich”. (2011, August 14) Op.Ed. In: *New York Times*. Link: http://www.nytimes.com/2011/08/15/opinion/stop-coddling-the-super-rich.html?_r=0.

⁷⁴ ‘If we don’t do something to fix the glaring inequities in this economy, the pitchforks are going to come for us. No society can sustain this kind of rising inequality. In fact, there is no example in human history where wealth accumulated like this and the pitchforks didn’t eventually come out. You show me a highly unequal society, and I will show you a police state. Or an uprising. There are no counterexamples. None. It’s not if, it’s when.’ (Hanauer, 2014).

⁷⁵ See e.g. (Ostry, Berg, & Tsangarides, 2014) and (International Monetary Fund, 2013a).

everything related to GDP is not adequate to determine a happy life and that other factors need to be included in policy planning. Even the OECD introduced by now its Better Life Index and a number of other official commissions tried to promote values beyond GDP statistics into policy making.⁷⁶ All too long certain common goods were taken for granted and presumed to be abundantly in supply. Slowly we are awakening to the fact that these goods are threatened and need to be preserved, defended or even rescued.

Summarizing this chapter, there seems to be the need to deal with causes and treatment of rising inequality for a simple reason: ‘One cannot reduce income inequality without addressing how incomes are generated in the production process and how this affects functional inequality’.⁷⁷ And here, naturally, one finds major differences in analysis and assessment also in the publications quoted so far in this paper:

- While average income and wealth is increasing: What can be said about the status of poverty? While some detect a decrease in poverty, others insist that poverty is either unchangingly high (even though its forms and expressions might have changed) or that it even increased over the years.
- What are the prime causes behind increasing inequality in times of neoliberal globalization and how do they interact with each other?
- Related with the previous: What is specifically the role of financial capital ownership regarding the increase of private wealth and increasing inequality (and poverty)? While some argue that it is all decisive, others contest this and point to the impact of other factors such as technology or domestic policies.

Therefore it is necessary to look eventually into the causes underlying inequality of income and opportunity: What went wrong over the past decades in spite of all the hopes which once were linked to globalization? This will be done below, in the context of chapters 5 and 6. Before that, however, the background relating to the second goal of this research shall be examined, namely reducing governmental dependence on external financing.

3 Reducing governmental dependence on external financing

3.1 What are we talking about?

First of all it needs to be stated that the problem in this chapter is not governmental dependence or debt as such. In certain situations, acquiring credits to finance important projects or bridges in times of need is helpful and necessary. For example, debt might be good for all because of the necessity to stabilize a society in times of crisis or bridge spending gaps for large projects. If then, afterwards, this “abridgement” eventually can be recovered: No damage done.⁷⁸ In other words: it is not the fact of debt as such, but the structure, proportionality and inherent dynamic of debt and dependency. This entails a decreasing ability to invest for the common good and to support the poor and this is why this research

⁷⁶ See <http://www.oecdbetterlifeindex.org/>, regarding other national and international initiatives in this area see (Alt & Drempetic, 2012), which contains information about governmental and parliamentary initiatives in Europe, e.g. the presidential commission in France, the parliamentary Enquete in Germany and initiatives by the UN Secretary General or the UK by Prime Minister Cameron.

⁷⁷ (UNDP, 2013, p. 71), equally the IMF (Jaumotte, Lall, & Papageorgiou, 2013, p. 272).

⁷⁸ For example: The US government by now has recovered all the money it spent on stabilizing its financial sector during the World Financial and Economic Crisis – something European governments have not yet succeeded to do – see (International Monetary Fund, 2013a, p. 16).

wants to look into it. One should also be mindful that there are many reasons why a government or state can become indebted in the first place, e.g. mismanagement by the government, corruption, bad planning of oversized projects, etc., which place a fair share for the situation upon those who borrow. Last not least: state bonds are a (comparatively) safe investment for private, corporate and state investors.

The expression “external financing” originates within the business sector and refers to funds and capital for a company acquired outside as opposed to internally raised capital, e.g. from profits.⁷⁹ However: at least the World Bank uses the phrase “external financing” in an analogous way when talking about capital and investment within and between states. Here the distinction is drawn between finance raised by public institutions such as taxes or levies on the one side, and money acquired from outside. As has been shown in the preceding chapter 2: economic and financial policies guided by neoliberal beliefs reduced tax revenue e.g. due to tax competition between states, resulting in lowering direct progressive income taxes. And, as will be shown in the following chapters 5 and 6: due to global financial integration, opportunities open up for massive tax avoidance, tax evasion and other forms of illicit financial transfers; this enables private, corporate and criminal wealth holders to place money out of reach of the tax man. For those and more reasons, states increasingly fail to collect adequate taxes to finance public tasks. This is one among many other reasons why they have to bridge their “tax gap” with credits and loans collected and raised externally.

Therefore, the expression “governmental dependence on external financing” in the subtitle of the Tax Justice & Poverty project refers to a situation, where a state is structurally and over a long time dependent on external financing and therefore bound or severely restricted in its own spending decisions. In other words: dependence exists if external capital (owners) infringes both state sovereignty and weakens democratic principles upon which state actions should be based and legitimated and where state institutions may be rather at the mercy of private markets than being in control of them. This means that the markets and private capital owners dictate and control the terms of business rather than parliaments or voters.

This research adopts a wide concept of dependence insofar it will consider both direct and indirect dependence on external financing and related markets.

Direct dependence of states exists e.g. via “conditionalities” arising from credits and loans or from the need to spend large amounts of their annual budgets for the payment of interest or repayment of credits. Here one needs to bear in mind that it depends to a considerable extent on who the creditor to governmental institutions is: Is it a “Vulture Fund”?⁸⁰ An International Financial Institution (IFI) such as the IMF with its program of conditionalities? A western state giving Official Development Aid (ODA)? China with its “no strings attached” policy?⁸¹ Foreign Direct Investors? Clearly, with each credit or loan, a

⁷⁹ See e.g. http://en.wikipedia.org/wiki/External_financing

⁸⁰ A current example is the so-called “Vulture Fund” Elliot Management owned by Paul Singer who is pushing Argentina towards insolvency. For him, buying default and debt which he then attempts to cash in is simply a promising business model: In 1995 he bought defaulted debt from Peru for US\$ 20 million, afterwards suing successfully for US\$ 58 million. In 2002 he bought defaulted debt from Congo-Brazzaville for US\$ 30 million and eventually cashed in US\$ 100 million. In the case of Argentina, the proceeding is similar, but the stakes, of course are in the billions this time. Goodley, S. (2014, July 31) Profile: Argentina’s nemesis, hedge fund manager Paul Singer. In: *The Guardian*. Retrieved from <http://www.theguardian.com/business/2014/jul/31/paul-singer-hedge-funds-argentina>

⁸¹ Boghani, P./Conway-Smith, E. (2013, March 26) Chinas New President Offers Africa ‘No Strings’ Aid. In: CNBC. Retrieved from <http://www.cnbc.com/id/100593398#>

different set of conditions and expectations goes along which the debtor has to fulfill. For example: while loans and credits given by public institutions such as states or multilateral institutions are “burdened” with relative moderate interest rates and rather long repayment deadlines, loans and credit acquired from private donors may pose more serious problems: depending on the risk involved, they may be short time and ask for higher interest upon them.

But there is also indirect dependence which affects states’ sovereignty and autonomy even if they are not indebted to external creditors at all. In times of deregulation, financial globalization and integration, there are globally “systemic” and “anonymous” forces at large, normally referred to as “the markets”, on whose “benevolence” or “stability” states are dependent. If disturbances occur, they impact even the wellbeing of states which are not at the core, but at the periphery of global financial networks. This indirect dependence is nevertheless a real dependence because it may force states to intervene with taxpayers’ money in order to prevent worse from happening. The most current example here is the World Financial and Economic Crisis 2007/2008 and its consequences, which is why its impact on African and European states is dealt with in this chapter.

Before turning to the situation of sub-Saharan and European states, one more cautionary note: one needs to bear in mind that dependence from external markets is not only a problem of governments. Private, corporate and public actors were “sucked” or “seduced” into indebtedness towards external financing since the beginnings of deregulation and even further: When there was a lot of capital and “liquidity” upon “the markets” looking for investment, many states were seduced by the prospect of obtaining “cheap credit” when it was offered to them and without thinking about potential consequences at a later time (Azzimonti, de Francisco, & Quadrini, 2013). The complexity of existing interdependencies between debtors and creditors is illustrated by the following two examples from private and corporate households:

- It was excessive and irresponsible *private* borrowing and lending which, after all, was crucial to triggering off the World Financial and Economic Crisis in 2007.
- Regarding business and *corporate* borrowing, the World Bank states that ‘the ability of countries to meet their external financing need will depend largely on the extent to which firms can roll over their maturing debt. Some 700 corporations based in developing countries issued international bonds during the boom years of 2002-07, and almost 3,000 borrowed in the international syndicated and bank loan market. Those corporations account for the bulk of outstanding short-term external debt and around three quarters of the medium- and long-term private debt coming due.’ (World Bank, 2009, p. 4)

3.2 Sub-Saharan Africa

Since two partners of this research project come from sub-Saharan countries, the focus of this chapter is upon that region of Africa, leaving out the Maghreb. Therefore, the expressions “Africa” and “sub-Saharan Africa” are used interchangeably. For Europeans it is difficult to be aware of the huge differences between countries lumped together under this umbrella term: a country like Ethiopia with decades-long authoritarian government, kept relatively in isolation from the global financial and trading system, and South Africa, one of the biggest emerging economies in the global markets. Equally wide are differences between a multi-ethnic country with well a functioning democracy, whose income is largely dependent

on the export of raw materials like Zambia, and multi-ethnic states on the brink of civil war, whose wealth depends mainly on farming and agriculture, such as Côte d'Ivoire.

3.2.1 Dependence on external financing prior to 2007

The causes and reasons of African dependence on external financing, conditionalities and mismanagement going along with it, have been well researched by many authors⁸² and are also part of Andebo's contribution to this study (Andebo, 2014a), which is why this topic will not be treated here in detail.

Andebo examines in his chapter 2.3. a link between foreign developmental aid for Sub-Saharan Africa on the one side, and continuing, if not deepening, dependence on external financing on the other. He argues that wrong policies on both sides led to this deplorable situation, even though between 1960-1997 US\$ 500 billion were poured into these countries, which is the equivalent of money given to Europe after World War II with the Marshall Plan. The money was wasted due to corruption, wrong spending on weapons or prestigious projects of little or no use for the wider public, to debt servicing. Especially the latter was an increasing problem. Andebo quotes a research report done by Action Aid, saying:

Between 1982 and 1990 \$927bn was advanced to debtor states, but \$1,345bn were remitted in debt service alone. The debtor states began the 1990's 60% more in debt than they were in 1982. Sub-Saharan Africa's debt more than doubled in this period. When the issue of debt forgiveness is raised, Western banks have argued that it would create what economists call 'moral hazard' – failing to honour debts would simply encourage poor states to keep borrowing in the expectation that they would never have to repay their debts ... (W)hen the interest rates became unpayable – the creditor nations offered 'bridging loans' often to despots, with extraordinary interest rates and conditions attached. These loans were called 'Structural Adjustment Programmes' and administered through the IMF. This became known as the Debt Trap – and once you understand the Debt Trap, you immediately see the concept of 'development' as a myth. The West is not helping to develop Africa, Africa is helping to develop the West (Action Aid, 2013).

Thus way, whatever development in Africa could be initiated and secured, it profited donor institutions and Western banks rather than African countries. This game, Andebo argues, could only work with two partners, and here enters the co-responsibility of corrupt political and economic leadership in African countries, whose interest was rather in their own bank account than the in development of the nation. That this is the case is also proven by the extent of illicit financial flows out of Africa every year (see 6.4). This is an 'acknowledgement that in the end, a solution to Africa's poverty alleviation or reduction, increasing incomes of the people and generally seeing the continent on a path to sustained development, lies with the leaders and people of Africa themselves (Andebo, 2014a, p. 16).

Linked to that which Andebo touches here is that which is normally discussed under the heading "Odious Debt". The expression refers to loans given to African leaders even though creditors were aware that the money is not being put to use for the population at large, but rather to self-serving purposes of a corrupt government. Here, of course, the question is how justifiable calls for the repayment of those debts are in the first place and whether people's tax money is rightly used for that, if otherwise investment into infrastructure has to be put on the backburner (Ndikumana & Boyce, 2011). Financial flows originating in this context also touch the area of illicit financial flows and, consequently, the area of Stolen Asset Recovery.

⁸² From the perspective of African authors see e.g. (Moyo, 2009) (Ndikumana & Boyce, 2011).

For the sake of completeness the debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative shall be mentioned here because it was initiated explicitly because international institutions and donor countries recognized the link between government debts and dependency and poverty in poor countries. The initiative took off in 1996 and to date 36 countries have been selected for debt relief packages, 30 of those from Africa. Zambia, one partner of this study, also qualified for HIPC relief, but not the second partner, Kenya.⁸³

3.2.2 Impact of the World Financial and Economic Crisis

As to the impact of the World Financial and Economic Crisis, the international focus was much more on western (OECD), Central and Eastern European states than other parts of the world for many reasons. For example, because the crisis admittedly hit hardest those states in statistical quantity as far as plunge in GDP or the destruction of jobs is concerned. This should not blind one to the fact that those states have at least some functioning social support systems in place and also that poorer states in sub-Saharan Africa were severely hit by the crisis both directly and indirectly. One should also bear in mind that ‘a drop in GDP in low-income countries of the same magnitude as in developed countries can have a much more severe social impact on the former’ (UNCTAD/Hochschule für Technik und Wirtschaft, 2010, p. 3).

Admittedly, the banking sector in Africa was not as comparably affected by the crisis as the one in OECD states. It relies to a larger extent on domestic deposits and lending and usually does not have derivatives or asset-based securities among its portfolio. Even though some banks have significant foreign ownership, the parent banks are typically not from the US and the foreign ownership share is relatively small.⁸⁴ Africa suffered due to the subsequent and rather indirect consequences, when the financial crisis turned into an economic crisis including a global recession and GDPs dropped all over the world. Here it needs to be stated that ‘in many developing countries, the economic consequences of these indirect effects were as severe as the direct effects were on developed countries.’ (UNCTAD/Hochschule für Technik und Wirtschaft, 2010, p. 1). In this context, the following effects shall be highlighted:

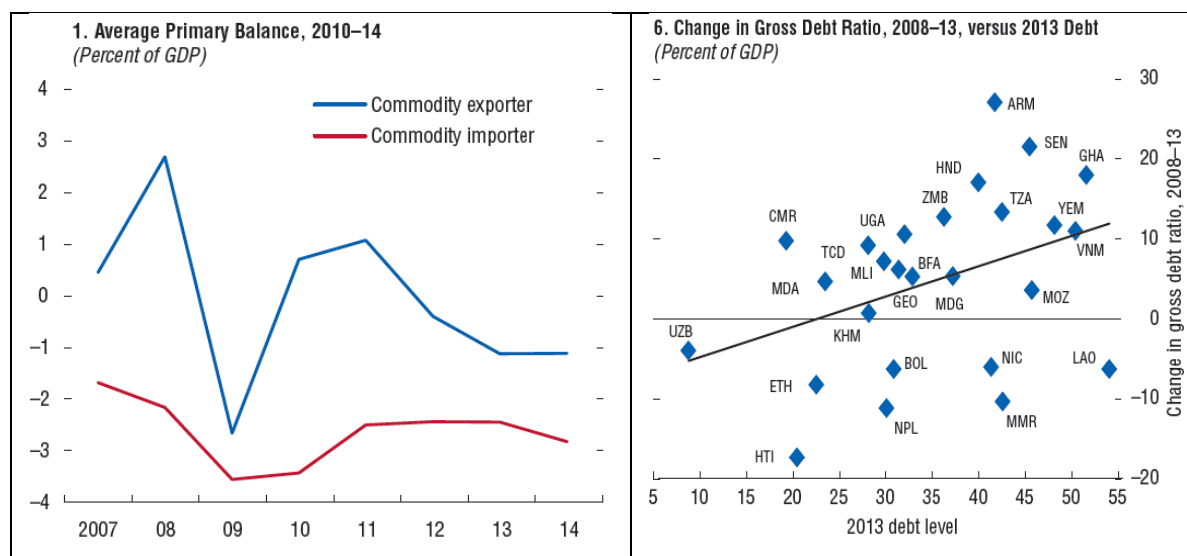
The crisis *destroyed values* in sub-Saharan Africa for several reasons. First of all, the exchange rates of many currencies had to be depreciated against the US\$. The highest depreciation occurred in the Seychelles (108%) and Zambia (54%), but 15 more African currencies had to be depreciated with rates ranging from 15% to over 30% (Osakwe, 2010, p. 210). This depreciation impacted on investment, output, growth, the repayment of debt and earnings from the sale of commodities. In Kenya the Nairobi Stock Exchange Index took a 35% slump in 2008, equally the local currency was heavily depreciated against the US Dollar.⁸⁵

⁸³ See, for example the Fact sheet “Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative” (2014, September 30). From: IMF. Retrieved from <https://www.imf.org/external/np/exr/facts/hipc.htm>. See also relevant passages in the country reports of this research.

⁸⁴ A table illustrating the predominating kinds and shares of bank ownerships in various African States is contained in (Osakwe, 2010, p. 205). See also The African Development Bank Group (2009) The African Development Bank Group Response to the Economic Impact of the Financial Crisis. Retrieved from http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/AfDB%20Response%20to%20the%20Crisis%20_%20web.pdf

⁸⁵ Mwega, F. The effects of the Global Financial Crisis: A case study of Kenya. Retrieved 23 June 2015 from <http://www.odi.org/sites/odi.org.uk/files/odi-assets/events-presentations/470.pdf>

Graphic 35 Impact of World Crisis upon revenue from commodities and debt in selected countries

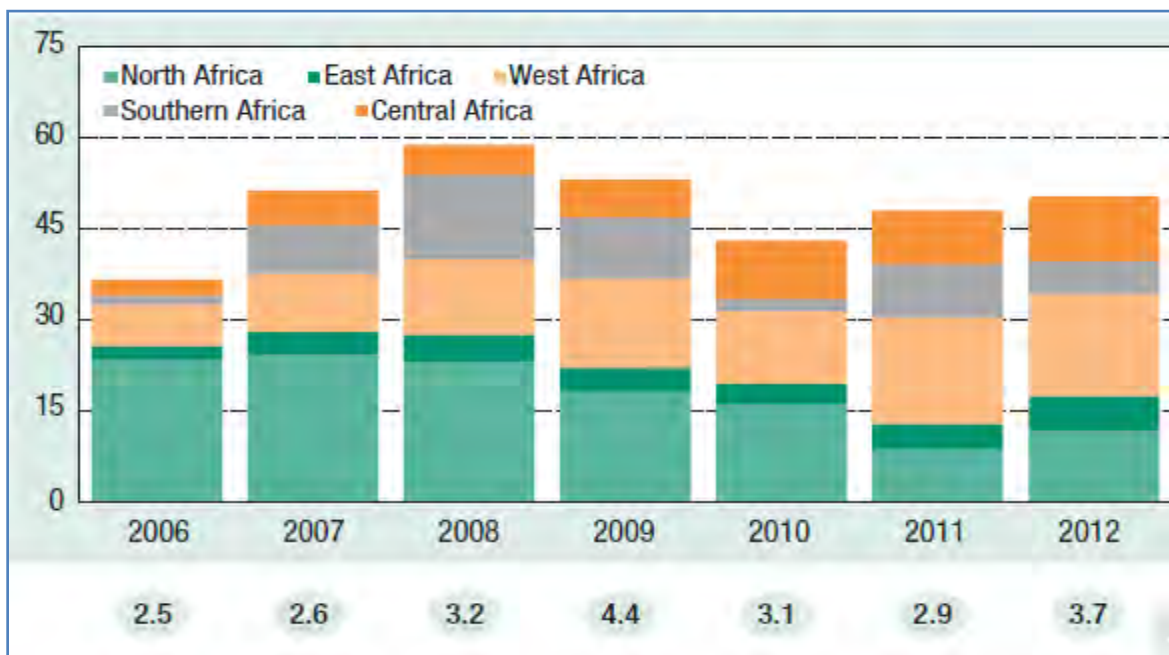


Source 18 (International Monetary Fund, 2013a, p. 10)

The crisis further impacted stock markets. The highest plunges in Stock Exchange indices occurred between 2007-2010 in Nigeria (62%), Kenya (33%), Zambia (27%), Namibia (18%), Ghana (17%). Consequences were also non-performing loans and a subsequent deterioration of balance sheets and market capitalization, requiring *interventions from central banks and governments* to provide money to banking institutions to keep them from collapse (Osakwe, 2010, p. 211f.).

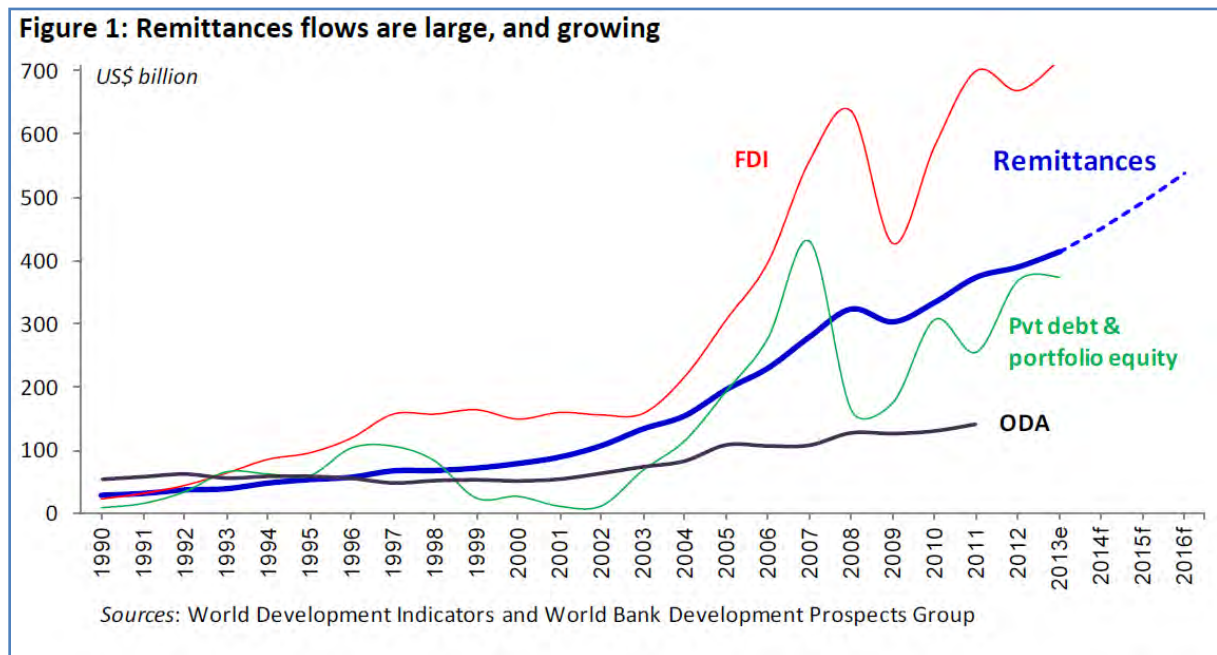
The worsening economic situation in developed countries sent *Foreign Direct Investment downhill*. Here, the situation for the whole of Africa is as follows:

Graphic 36 FDI inflows to Africa, 2006-2012, billions of dollars⁸⁶



Drop in remittances: Remittances by legal and illegal migrants are another important financial flow between developed and developing countries. Money earned in developed countries is transferred to relatives in poor countries with which they can buffer ups and downs in earnings and prices, make small investments or pay for school or health services. The subsequent World Bank's "guesstimates" are of limited value since they are unable to capture adequately transfers of illegal migrants. Remittance flows are of particular importance for development and poverty reduction since they can circumvent expensive financial and corrupt administrative structures and are directed towards population segments who are lower middle class or even poorer.

⁸⁶ Taken from p. 39 of UNCTAD (2014) World Investment Report 2013. Retrieved from http://unctad.org/en/publicationslibrary/wir2013_en.pdf Regarding the graphic, one has to bear in mind that "North Africa" includes oil rich countries such as Algeria and Libya, while "Southern Africa" includes Africa's powerhouse, the Republic of South Africa.



Since solidarity between families is solid and constant, the drop in remittances is not as pronounced as other drops during the crisis: people tend to starve rather than let their people suffer at home.

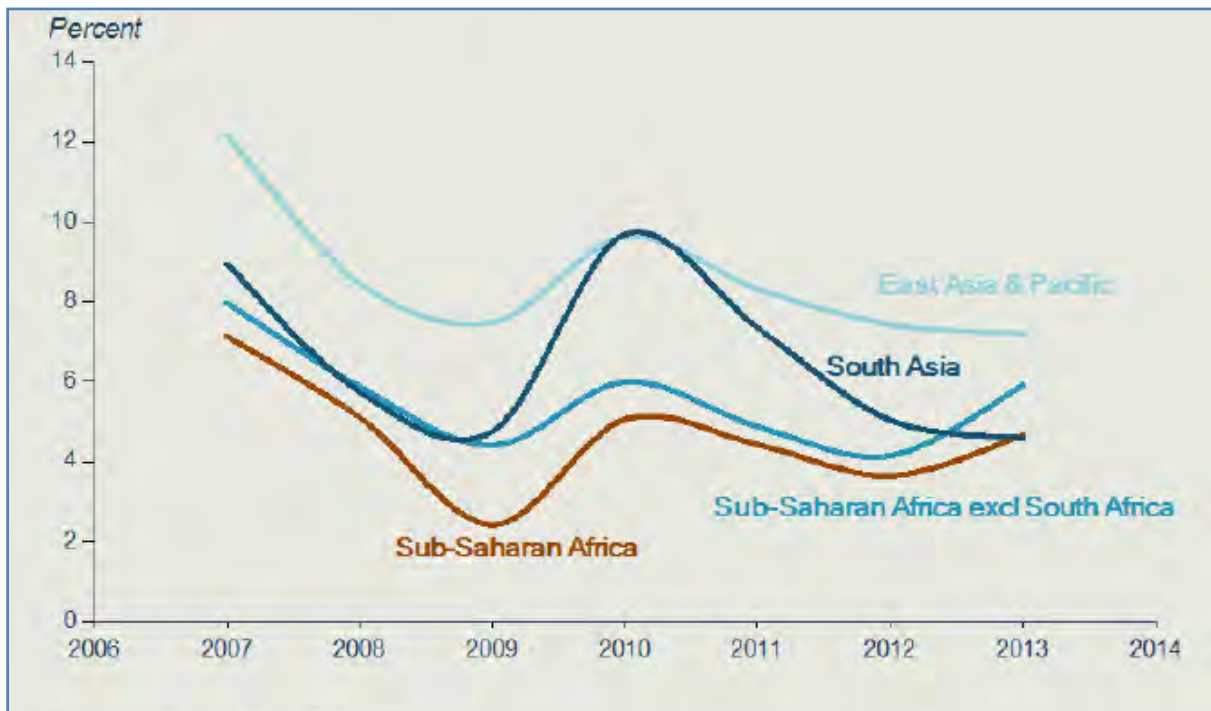
Beyond that, there were further indirect repercussions, namely insofar as they were caused by the extent and depth of impact the crisis had on developed states and resulted in *reduced trade, sinking prices for commodities, especially raw materials and less tourism*. In all areas, a drop occurred which was, however, recovering fairly quickly.⁸⁸

On the whole **GDP dropped** in sub-Saharan States and remains, compared with other developing regions of the world, at a comparatively low level:

⁸⁷ Taken from: World Bank (2014) Migration and Development Brief 21. Retrieved from <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief21.pdf> As to the limits of World Bank “guesstimates” (Alt, 2009).

⁸⁸ For summarizing information see (Osakwe, 2010) and (Lanzet, 2013).

Graphic 38 Real GDP growth in developing regions of the world⁸⁹



All this, of course, impacted the employment situation, as will be dealt with in more detail below, in 5.3.6 and, by using the example of the mining industry, in the Zambian country report.

Equally, these developments affected tax revenue: Be it a drop in customs and excise in the case of business investment and imports, be it in Turnover Tax and VAT, be it a drop in purchasing power in the case of fewer remittances. This in turn impacted the situation of the poor: ‘Recent estimates indicate that in sub-Saharan Africa government revenue (excluding grants) fell from 25 per cent of GDP in 2008 to 21 per cent in 2009. Revenue declines of this magnitude reduce the ability of governments to finance health, education and infrastructure projects, thus inhibiting poverty alleviation efforts.’ (Osakwe, 2010, p. 217)

3.2.3 Aid dependence

Particularly problematic was the situation of states that were and are aid-dependent. Because of the impact the crisis had upon developed states, cuts occurred there regarding the flow of *Official Developmental Aid (ODA)*. This increased the quantity and quality of problems already existing in poor countries:

‘A 10 percent cut in bilateral aid would lead to a reduction in spending of about ½ percent of GDP on average, without a compensating increase in domestic sources of revenue. Countries with high aid dependency (such as Burkina Faso, Haiti, Mali, Mozambique, and Tanzania) would have to scale down spending by more than 1 percent of GDP’.⁹⁰

The following table illustrates various degrees of aid dependence in selected African states:

⁸⁹ Figure 2.25 from p. 77 of World Bank (2014) Global Economic Prospects – Sub-Saharan Africa. Retrieved from http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2014b/GEP2014b_SSA.pdf

⁹⁰ (International Monetary Fund, 2013a, p. 8ff.), see also (Lanzet, 2013)

Table 7 Level of aid dependence in selected African countries (in % of GNI, 2004)⁹¹

<i>Highest Dependence</i>	<i>% of GNI</i>	<i>Lowest Dependence</i>	<i>% of GNI</i>
Sao Tome & Principe	70	Kenya	3.6
Guinea-Bissau	39	Sudan	2.9
Sierra Leone	36	Congo Republic	2.8
Eritrea	36	Swaziland	2.3
Congo Dem. Rep.	32	Zimbabwe	2.2
Burundi	31	Seychelles	1.9
Mozambique	30	Nigeria	0.7
Malawi	25	Botswana	0.6
Liberia	24	Gabon	0.5
Rwanda	20	South Africa	0.4
Mauritania	20	Mauritius	0.4

3.2.4 Policy responses

Looking at those problems one is, at the same time, forced to marvel how quickly and how seemingly well sub-Saharan states managed to get out of the crisis – however at high costs. Since risk aversion by private investors after the crisis resulted in a credit crunch at international capital markets (because nobody was willing to buy risky sovereign bonds), and since capital flows from public sources and drawdowns from foreign reserve could fill opening gaps in (re-)financing needs only partly,⁹² states had to resort to spending taxpayer's money. For example, African states reacted to the global crisis by spending billions for banks and the support of trade,⁹³ or by enacting countercyclical measures such as creating/supporting employment in agriculture and infrastructure. Those rescue and stimulus packages were, of course, not at all comparable in size to those created by the USA or EU. But once more one has to bear in mind also that the resources available were of a different order.

Many countries in the region, such as Cape Verde, Egypt, Gabon, Kenya, Morocco, Namibia, Nigeria, Tunisia, South Africa and the United Republic of Tanzania, implemented fiscal stimulus packages designed to boost growth and offset declines in export demand. The size of

⁹¹ Pages 57f. of African Tax Administration Forum (2012) A research report on Good Tax Governance in Africa. Pretoria. Retrieved from [http://content.ataftax.org/Ataf/KodiKaticontentWeb.nsf/0/c963bacf122f04aa42257b010038dccb/\\$FILE/A%20Research%20Report%20on%20Good%20Tax%20Governance%20in%20Africa.pdf](http://content.ataftax.org/Ataf/KodiKaticontentWeb.nsf/0/c963bacf122f04aa42257b010038dccb/$FILE/A%20Research%20Report%20on%20Good%20Tax%20Governance%20in%20Africa.pdf)

⁹² See (World Bank, 2009, pp. 1-4).

⁹³ 'For example, the African Development Bank (AfDB) took several actions to enable countries of the region to gain greater access to long-term finance. It established a US\$ 1.5 billion Emergency Liquidity Facility to support AfDB eligible countries, it provided a US\$ 1.5-billion loan to Botswana for infrastructure development (AfDB, 2010), and it established a US\$ 1-billion Trade Finance Facility to improve access to trade credit. These measures have enhanced resource flows to the region at a time when major sources of external financing are drying up.' (Osakwe, 2010, p. 219).

the fiscal injections varied: South Africa spent US\$ 4.2 billion, Nigeria US\$ 1.6 billion, the United Republic of Tanzania US\$ 1.3 billion and Kenya US\$ 0.3 billion Interestingly, the fiscal package unveiled by the United Republic of Tanzania represents 6.4 per cent of its GDP, while those of Nigeria and South Africa constituted only 0.7 and 1.5 per cent of their GDP respectively. The fiscal injections made by African governments were mostly for financing infrastructure and other public investments. As a result of these fiscal stimuli and other measures, it is estimated that sub-Saharan Africa's fiscal balance (including grants) shifted from a surplus of 1.2 per cent of GDP in 2007 to a deficit of 4.8 per cent in 2009. (Osakwe, 2010, p. 218)

Further spending was required to assist the poor and others hit by the crisis and to try to safeguard as much progress as possible towards an implementation of the Millennium Development Goals. Some examples:

- Subsidizing food prices: One of the reasons for revolts in sub-Saharan Africa (2008) as well as the “Arabellion” (2010/2011) was not so much disgust with old dictators, but the lack of jobs for a young generation and food prices which were increasing after financial investors discovered “agricultural commodities” to be a profitable investment and states had to subsidize food prices so that poor people could still feed themselves and their families.⁹⁴ It is unclear how the Millennium Development Goal Nr. 1, to cut global hunger into half, can be achieved until 2015.
- States had to make up for declining ODA support, e.g. by continuing health programs. Here, backlashes seem nevertheless likely: in the case of measles, for example, two vaccinations are needed to make immunization permanent. But due to the lack of funding, the second vaccination was threatened and child deaths may have reached as many as 1.7 million deaths between 2010 and 2013.⁹⁵ Even though money started flowing again, damage done due to interruption of vaccination cannot be amended.
- Similarly primary education: Some states, e.g. Burundi, DRC, Ethiopia, Ghana, Kenya, Malawi, Mozambique, Tanzania and Uganda had abolished school fees prior to the crisis which led to a surge of enrolment. To cover existing costs while international support is sinking (and cope with the increase of enrolment due to a young population), is stretching public means enormously.

The situation is even worse than it sounds, for the following reason: until the World Financial and Economic Crisis struck, sub-Saharan African states collected more revenue than they spent. Ever since the crisis, the relationship is the reverse until the present day:

Table 8 Discrepancy between state revenue and state spending in sub-Saharan Africa (% of GDP) ⁹⁶

	2007	2008	2009	2010	2011	2012	2013
State revenue in % of GDP	27.7	29.5	24.2	25.3	28.3	27.3	27.2
State spending in	26.5	28.7	29.6	29	29.8	29.6	28.4

⁹⁴ More information on developments in Africa and country examples see Sasson, A. (2012) Food security for Africa: an urgent global challenge. In: *Agriculture & Food Security* .Vol.1,1. Retrieved from <http://www.agricultureandfoodsecurity.com/content/1/1/2>

⁹⁵ See p. 28 of The Millennium Developments Goal report 2010. Retrieved from <http://www.un.cv/files/MDGReport.pdf>

⁹⁶ See (Lanzet, 2013, p. 18) using data from the World Banks World Development Indicators as well as the CIA Fact Book.

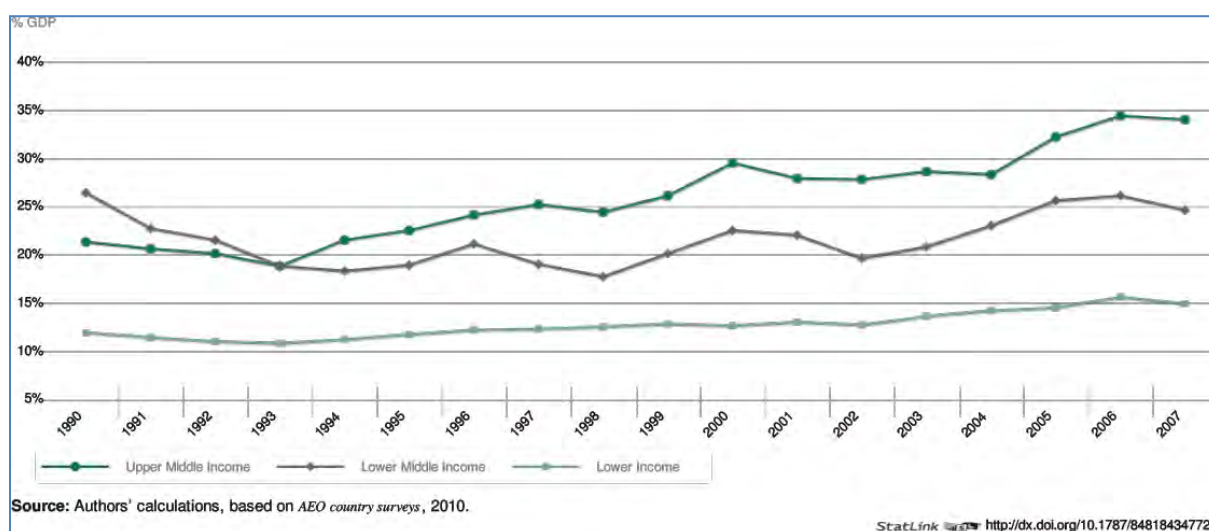
% of GDP							
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3.2.5 Efficiency in collecting tax revenue

This leads to the final point to be considered in this sub-chapter: the efficiency in collecting tax revenue, which is pretty low in sub-Saharan Africa. Sub-Saharan states mobilize still less than 17% of their GDP in tax revenue, while 20% is considered to be the minimum for fulfilling the MDGs. Major problems identified behind this situation are: (a) weak tax administration, (b) low taxpayer morale, corruption and poor governance, (c) “hard to tax” sectors. Besides all this, there are also deficits in the international mechanism of information exchange relating to tax matters (OECD, 2013c, p. 57ff.).

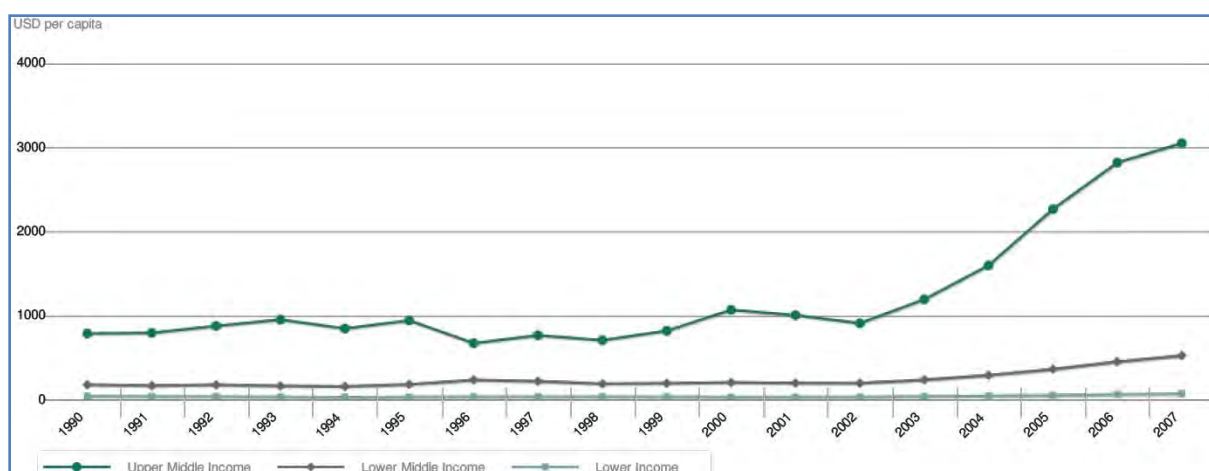
The following two graphics show the development of tax revenue in the whole of Africa, which means that the wealthy North African states and South Africa are included. The more relevant lines for sub-Saharan Africa would therefore be those labeled “lower middle income” and “lower income.”

Graphic 39 Tax share, 1990-2007, all Africa



Source 19 (OECD; African Development Bank, 2010, p. 85)

Graphic 40 Taxes per capita in Africa 1990-2007



And here a list of individual states and their tax revenue development:

Table 9 Non-oil tax revenue in selected sub-Saharan countries - tax/GDP ratio

Country	2003	2006	2007	2008	2009	2010	2011	2012(e)	2013 (p)
Ghana	11.9	20.2	24.1	11.6	11.1	12.1	14.6	14.5	14.1
Kenya	18.2	18.7	19.6	20.4	20.7	19	20.1	20.1	19.5
Malawi	17	15.6	16.6	17.6	18.7	18.6	19.9	16.2	18.7
Nigeria	7.1	4.6	5.4	5	5.1	4.4	4.7	4.2	4
Sierra Leone	12.2	11.3	10.3	10.9	8.7	8.7	11.5	12.2	11
South Africa	22.7	25.7	26.4	25.9	26.8	27	27.3	27.5	27.4
Zambia	18	16.4	17.7	18.6	15	16.4	19.3	18.5	17.6
Zimbabwe	24	-	3.4	2.5	16.2	27.1	30	29.6	29.2

Source: African Economic Outlook, Country Snapshots, ADB, OECD, UNDP, UNECA and AEO Country Notes (Macroeconomic Policy section).

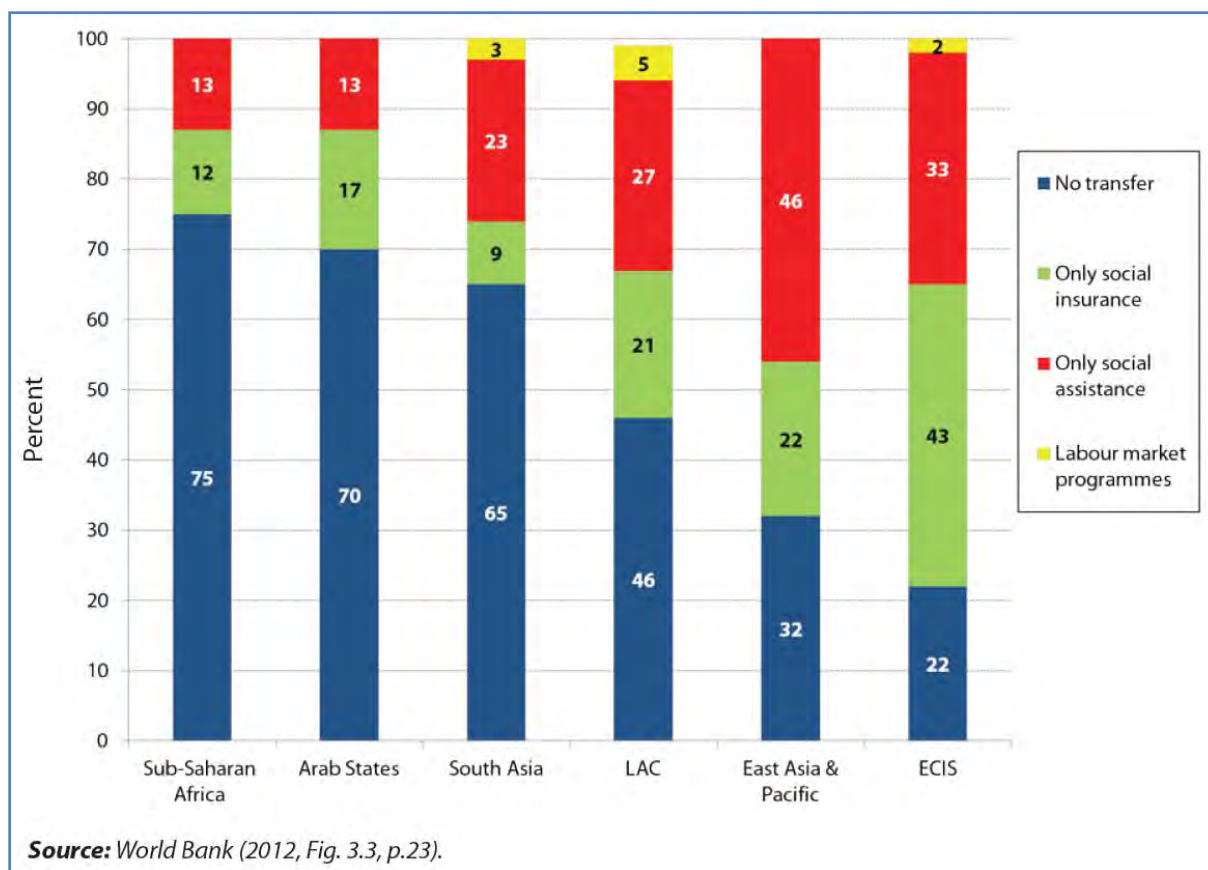
Source 21 (Christian Aid, 2014a, p. 27)

Even looking at these low figures, it needs to be borne in mind that the largest increases occurred not even in the field of administration-intensive progressive income taxation but in the field of low administration-intensive indirect taxation: indirect taxation accounted ‘for 66% of the increase in total tax collection between 1980 and 2005’ while the share of direct taxation of GDP rose from 6% in 1996 to 6.7% only in 2007.⁹⁷

On that background it does not surprise that social security provisions in sub-Saharan Africa are the weakest worldwide:

Graphic 41 Coverage of social protection and labour, by region

⁹⁷ (Christian Aid, 2014, p. 39): ‘In fact five of the eight selected countries have greater shares of indirect taxation than direct taxation in their overall revenue collection (Zimbabwe 59%; Malawi 57%; Sierra Leone 55%; Nigeria 54% and Ghana 53%).’



Source 22 (UNDP, 2013, p. 241)

Equally lacking is tax-funded investment in infrastructure, the precondition for any economic growth, job creation and taxable income (see below 5.7.)

Provided therefore that African states were able to establish an effective tax collecting institution, one could imagine that both the introduction of progressive income taxation, a very crucial element of tax justice and redistribution, as well as combating tax avoidance and tax evasion would lead to a considerable increase in tax revenue – but first such an effective administration needs to be established, which first requires funding.

3.2.6 Conclusion

Even though the World Financial and Economic Crisis had been triggered far away from Africa, the interconnectedness of global financial and economic markets also impacted Africa. It led to a plunge in tax revenue and required an increase in public spending. The World Financial and Economic Crisis caused a serious problem: private capital flows dropped from US\$ 1.2 trillion in 2007 to US\$ 707 billion, while developing states had difficulties ‘meeting their external financing needs, estimated at US\$ 1 trillion’ (World Bank, 2009, p. 3). The World Financial and Economic crisis has proven that sub-Sahara Africa is no longer isolated from good and bad tendencies of Globalization, disregarding whether states are actively participating in the game or not. Even after the crisis,

Africa ... remains a continent dependent on external players for the source of its growth, and so remains increasingly vulnerable to the vagaries of an interconnected global financial system. These are, at present, characterised by falling commodity prices, slowing capital, schizophrenic hot money flows, and exchange rate volatility. ... The outlook for Africa has therefore worsened since the crisis spilled over into EU Sovereign Debt Markets in 2011.

Human development and poverty reduction data show deterioration, as developed countries have failed to come up with the amounts pledged at Gleneagles in 2005.⁹⁸

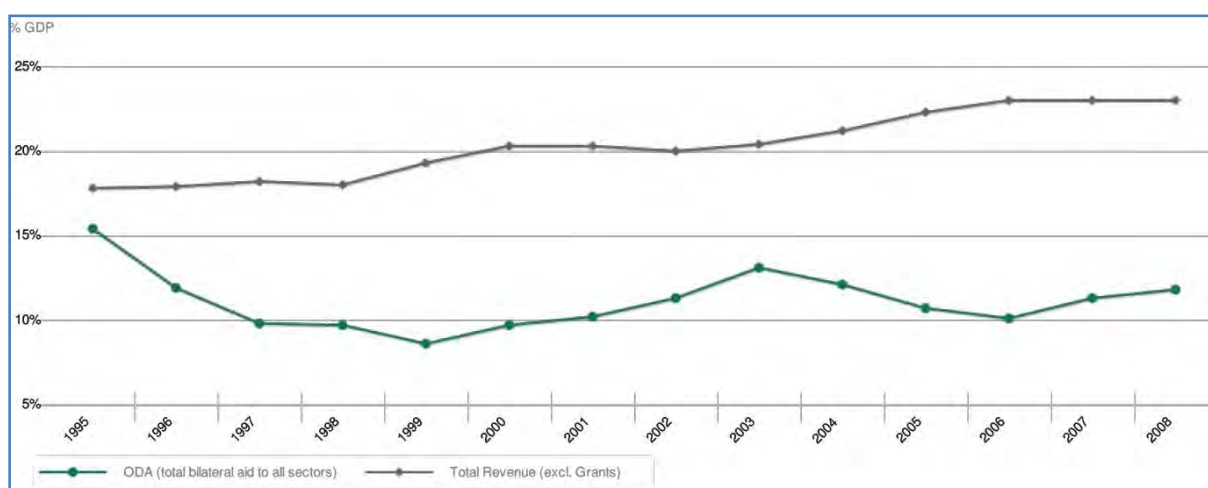
Africa is still paying the price for the crisis as the previous table has indicated. For that reason, UNCTAD is pointing out rightly that the first lesson to be drawn from the crisis by African nations and leaders should be the following: the crisis

has generated interest in reform of the international financial architecture and greater awareness of the need to increase Africa's voice and participation in the global governance of institutions that make decisions affecting the lives of people in the region. African countries have expressed concerns about the functioning and governance of these institutions for decades, but with little success in influencing significant reforms. The current crisis has exposed the weaknesses inherent in the present institutional set-up. Consequently, there is growing interest among both developed and developing countries in reforming the international financial architecture as an important step towards building a more democratic system of global governance. (Osakwe, 2010, p. 219)

Here, Africa would not have to act alone. After the World Financial and Economic Crisis a wealth of research and commission emerged in the attempt to understand the causes underlying the crisis and, from there, develops recipes for a cure. The Stiglitz Commission, commissioned by the President of the UN General Assembly with the intention to establish an alternative view towards those analysts paid by the more traditional IFIs or private financial institutions, also diagnosed malfunctioning international financial and economic governance to be one of the major causes for the crisis, the remedy being international cooperation of all (not just the G20) states towards a re-regulation of those markets.⁹⁹ It is also up to African states to demand that these recommendations are taken seriously and implemented before the next crisis hits (UNCTAD/Hochschule für Technik und Wirtschaft, 2010, p. 7f.).

But not only should the consequences of the World Financial and Economic Crisis bother Africa. Also the continuing dependence on outside assistance, e.g. ODA, is something shameful which could be averted and avoided:

Graphic 42 ODA and fiscal revenue as share of GDP



⁹⁸ Masie, D. (2012, June 11) Africa and the Financial Crisis: insulated no longer. In: *African Arguments*. Retrieved from <http://africanarguments.org/2012/06/11/africa-and-the-financial-crisis-no-longer-insulated-by-desne-masie/>

⁹⁹ Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System (2009, September 21). Retrieved from http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf

“Kulipa Ushuru ni kulinda Uhuru” or “Pay your Taxes and set your country free” was the famous saying of the Kenyan Commissioner General and head of the Kenyan Revenue Authority, G. Waweru.¹⁰⁰ Indeed, while African countries received their political independence some 50 years ago, their independence is continually infringed by external financing; structurally, directly and indirectly.

3.3 Europe

What has been said regarding the wide differences among states in sub-Saharan Africa, applies equally for Europe, which is also no homogenous entity. But at least there are some countries with similar cultural backgrounds and developments which can be grouped together, e.g. the “heartland” of the European Union (Germany, France and the BeNeLux), the Scandinavian states, the southern European states, the newly accessed states in Central and Eastern Europe and, finally, the Anglo-Saxon representatives, namely the UK and Ireland. All these states are highly incorporated into the globalized financial and economic markets, all of them were hit by the World Financial and Economic crisis, but all were hit differently and to a different extent.

3.3.1 Dependence on external financing prior to 2007

Europe took part in the adventure of financial integration right from the beginning, but some countries earlier (the United Kingdom with Margret Thatcher being at the forefront of deregulation), others much later. On the whole, however, it would be wrong to say that Europe was an innocent victim of events initiated by and occurring in the Anglo-Saxon world in 2007/2008.

By means of deregulation and the framework surrounding the creation of a common currency, the Euro, European governments also enabled the growth of a financial sector which eventually turned out to be a loose gun threatening to kill its creators: when the Euro came into being it led to a huge expansion of the financial sector in the Euro Area, its major banks and its business practices, being at eye level with those elsewhere in the world. Like the US, some of the Euro Area member states financed growth and consumption with credits raised at capital markets; the same applies to businesses and private households. Eventually, the Euro Area had, when the global crash started in the US, its own bloated real estate and housing market with many banks being unable to handle toxic mortgages and securities.¹⁰¹

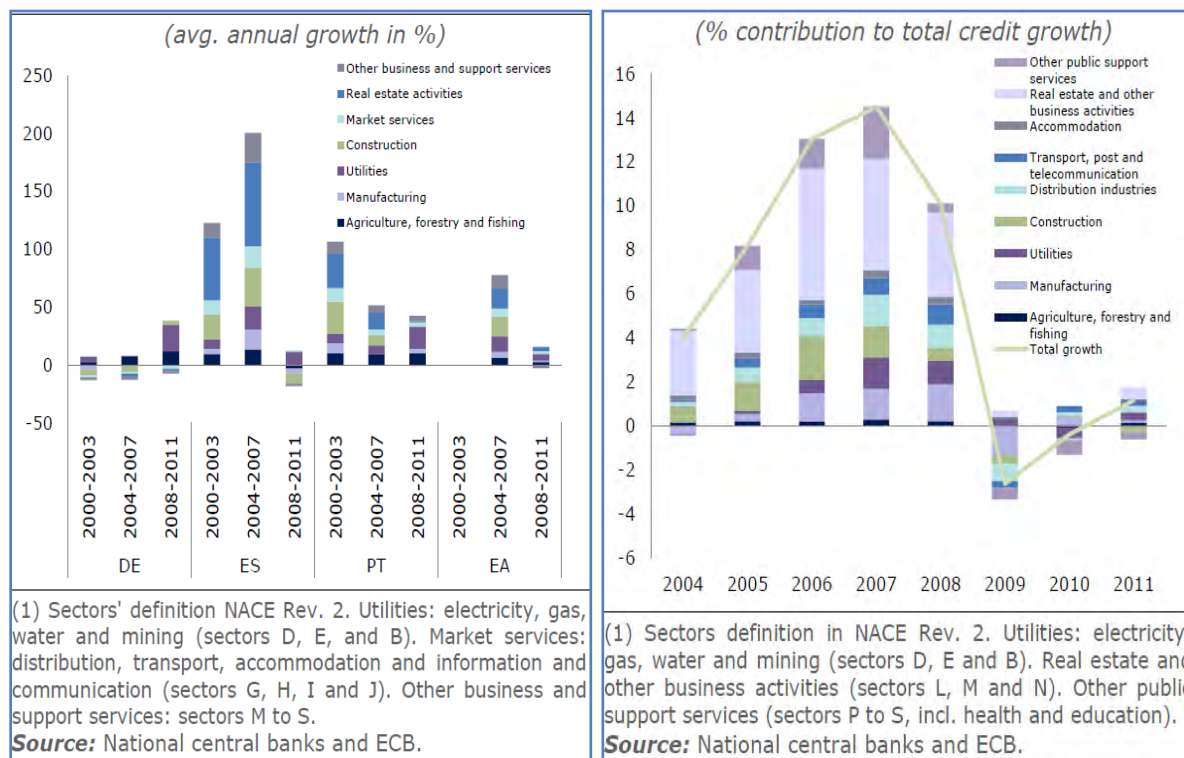
All this, together with reforms towards a more segmented labour market with emerging low-pay sector and reforms along the lines discussed above (2.4.) referring to the “Tax Consensus, privatization of public services, selling off of public assets or Public Private Partnerships led to a sinking independence and growing dependence of public institutions from external financing long before the issue of debt hit Europe with full force in 2007.

¹⁰⁰ Speech held on 8 October 2004, retrieved at <http://www.revenue.go.ke/speeches/cgspeechnationaldisasterfund081004.htm>

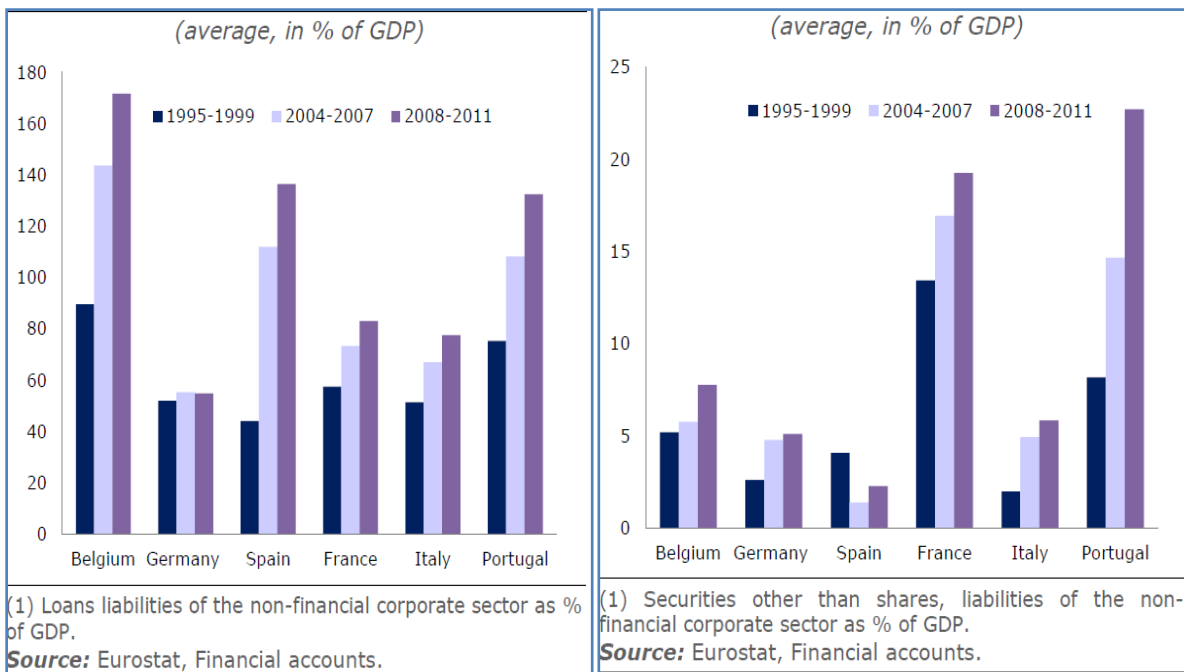
¹⁰¹ “The creation of the euro prompted an extraordinary expansion of the financial sector both within the euro area and in nearby banking hubs such as London and Switzerland. ... Southern European economies racked up huge current-account deficits in the first decade of the euro while countries in northern Europe ran offsetting surpluses. The imbalances were financed by credit flows from the euro-zone core to the overheated housing markets of countries like Spain and Ireland. The euro crisis has in this respect been a continuation of the financial crisis by other means, as markets have agonised over the weaknesses of European banks loaded with bad debts following property busts.” “The origins of the financial crisis – Crash Course” (2013, September 7). In: *The Economist*. Retrieved from <http://www.economist.com/news/schoolsbrief/21584534-effects-financial-crisis-are-still-being-felt-five-years-article>

Four graphics follow¹⁰² to illustrate the sectors which were of varying attractiveness for credits within and between different countries – clearly recognizable, for example, is the huge amount of money going into real estate.

Graphic 43 Credit growth and credit allocation by selected industries



Graphic 44 Credit markets for countries, corporate debt markets in selected countries



¹⁰² Graphics taken from the chapter European Commission/Economic and Financial Affairs (Ed.) "Focus: Financial dependence and growth since the crisis". In: *Quarterly Report on the Euro Area*. Vol. 12 (2013) Issue 3, pp. 7ff. Retrieved from http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/qrea3_en.htm

When the crisis struck, a similar development occurred in (certain) European states regarding lending and borrowing as had been presented for African states: When incurred debts had to be either paid or re-financed at reasonable rates, investors on the markets were reluctant to buy bonds and other state-issued titles for refinancing anymore (or interest rates were too high to be served) which led to the so-called Eurozone-Crisis. By then it was equally difficult for businesses and private households to repay or reschedule debt or for small and medium businesses to get new credits.

3.3.2 Impact of the World Financial and Economic Crisis

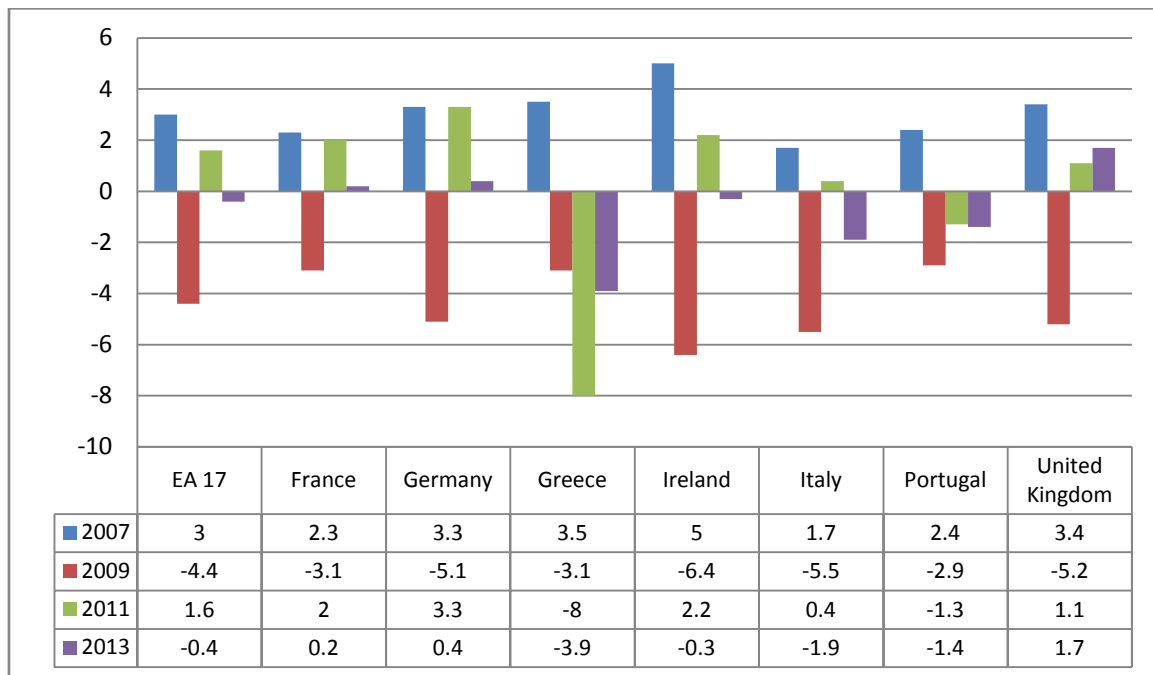
In Europe, the “crisis” which started in 2007 turned out to be a series of interlinked crises: after the “banking” crisis followed the “economic crisis” turning in to a “sovereign debt crisis” turning into the Eurozone crisis, deepening the economic and employment crisis, lasting on and continuing until the present day.

First of all, in Europe financial institutions were also affected by the US crisis due to the interconnectedness of the financial sector: Different forms of shared ownership caused a ripple effect throughout the global banking system. Northern Rock in the UK, Dexia and Fortis in France and Belgium and HypoRealEstate and IKB in Germany were among institutions which needed to be stabilized or even taken over by national governments.

As far as the *destruction of assets* in the 17 states of the Euro Area were concerned, they ranged, depending on calculating assumption and scenarios used by IMF and ECB, ‘between 219 and 406 billion EUR using the IMF estimate, and roughly half of that based on the ECB estimate. Such magnitudes would imply balance-sheet decreases amounting to 7.3% in the mildest scenario and 30.8% in the worst case scenario (period between August 2007 and end of 2010).’ (European Commission, 2009, p. 11). Equally, assets in real estate and stock markets plummeted, thus destroying and minimizing the values of assets into which “ordinary citizens” invested savings, attempting to take precautions for times of pensions.

When the banking crisis and the credit crunch hit the real economy, Europe-wide GDP decreased, in some states it has not yet recovered to pre-crisis levels:

Graphic 45 Development in GDP between 2007 and 2010 in selected countries¹⁰³



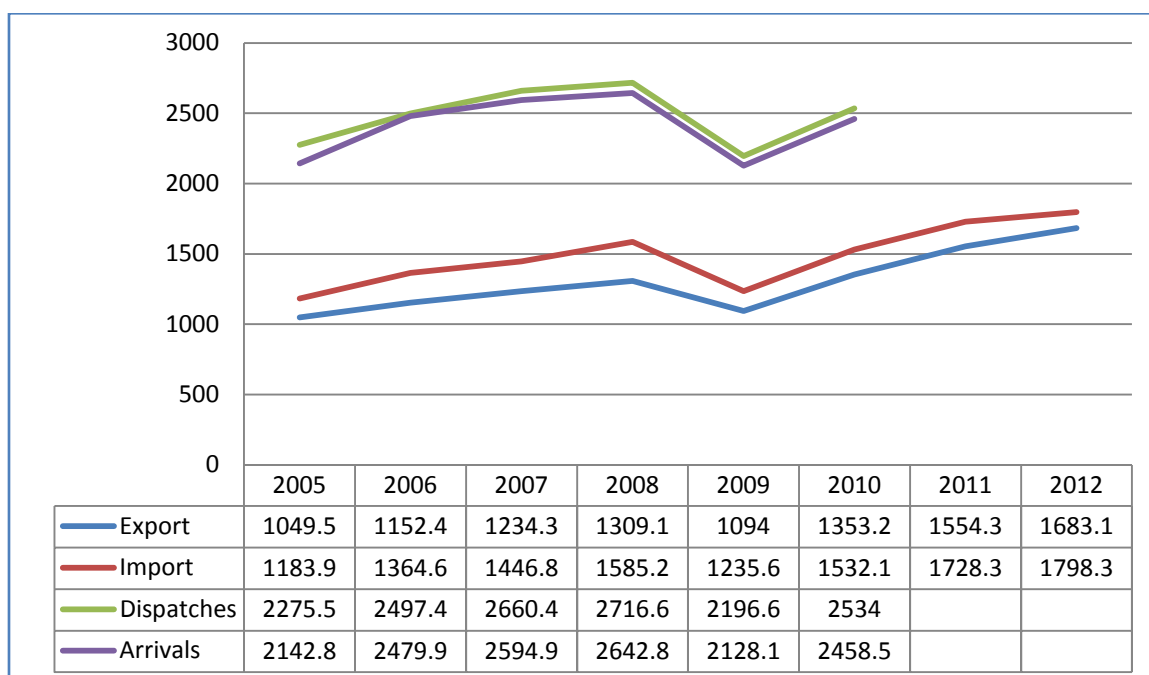
The drop in GDP is reflected in decreasing trading activity, regarding both exports and imports with states outside the EU, and dispatches and arrivals within the EU.¹⁰⁴

¹⁰³ Data from Eurostat, retrieved from

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00115>

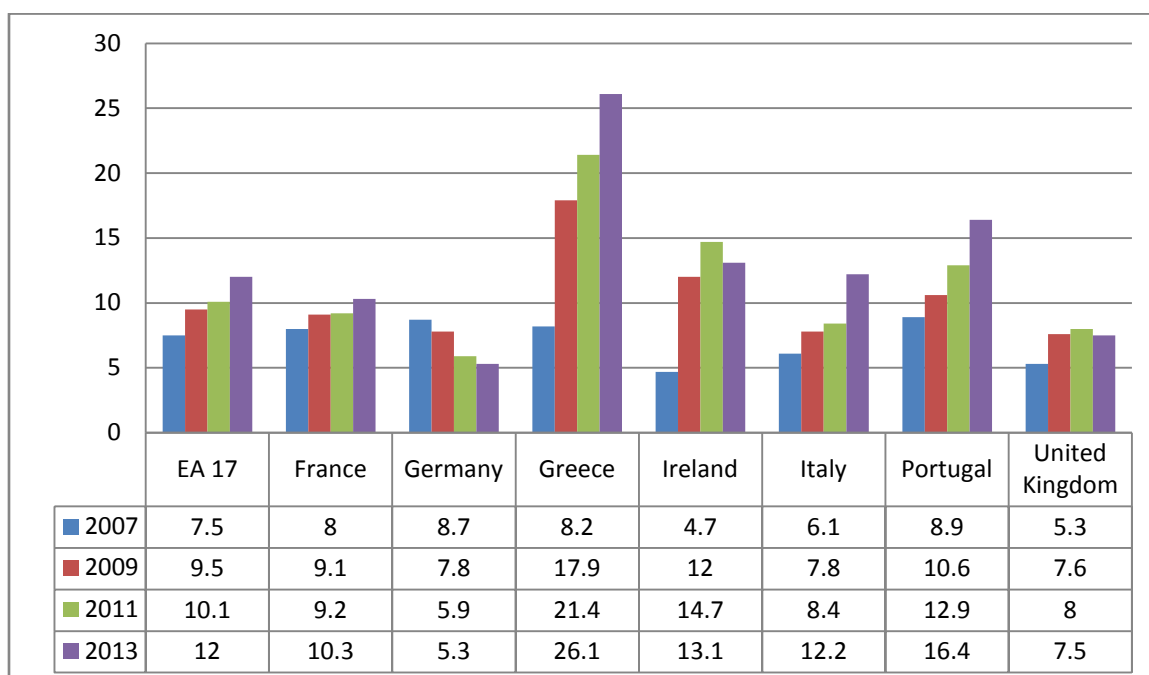
¹⁰⁴ 'Outward flows from a Member State to a non-member country (extra-EU) are called 'exports'; outward flows from one Member State to another (intra-EU) are called 'dispatches'. Inward flows into a Member State from a non-member country are called 'imports'. Inward flows into a Member State from another Member State are called 'arrivals'.' Quote from p. 10; statistics underlying graphics for export-import 2005-2012 pp. 14ff. in: European Commission/DG Trade (2014) DG Trade Statistical Pocket Guide. Retrieved from http://trade.ec.europa.eu/doclib/docs/2013/may/tradoc_151348.pdf. Data for dispatches-arrivals 2005-2010 from p. 84 of Eurostat (2011) External and intra EU trade. A statistical yearbook. Retrieved from http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-GI-11-001/EN/KS-GI-11-001-EN.PDF

Graphic 46 Development of export - import and dispatches-arrival in billion ECU/Euro



Decrease in trade and GDP, in combination with a drop in revenue and rising public spending triggered off the next crisis: the **Sovereign Debt crisis** of the Euro Area, when the debt burden of the so-called PIIGS¹⁰⁵ states threatened to pull the common currency zone apart. Financial assistance was linked to the adoption of fiscal and economic austerity measures which in turn speeded up the transformation towards a **crisis of employment**.

Graphic 47 Development in unemployment between 2007 and 2010 in selected countries¹⁰⁶



¹⁰⁵ PIIGS stands for the states Portugal, Ireland, Italy, Greece, Spain.

¹⁰⁶ Data from Eurostat, retrieved from

http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=une_rt_a&lang=en

Last but not least, the IMF attempts to include also a more cheerful note in its crisis reporting: the World Financial and Economic Crisis contributed also towards more equality in Europe, especially at its beginning; because in some of the most severely hit countries, e.g. Ireland, income especially from capital evaporated for many people at the top end of society (International Monetary Fund, 2013b, p. 4). These “gains” in equality were soon wiped out, however, when increasing unemployment hit the middle and bottom sectors of society.

3.3.3 Policy responses

Within the European Union and the Euro Area, a whole range of interrelated policy measures had been discussed and implemented: It contained financial, fiscal, economic and structural packages and combined diverse means such as lowering interest rates by the European Central Bank and national Central Banks, to the infusion of cash into banks and markets, to fiscal stimulus packages and state funded employment support schemes which avoided even more redundancies (European Commission, 2009).

The total extent of costs is difficult to assess until the present day. Of course, there are estimates. For example, Commissioner Barnier argued in a speech, held in 2012, that the public support to banks alone amounted to EUR 4,600 billion¹⁰⁷ But the difficulty for an overall assessment is caused by three reasons: First of all, the area of the EU and the Euro Area is not identical, and yet there were certain policy measures initiated and coordinated both within the EU and Euro Area frameworks respectively. Secondly, many, if not most, measures to counter the crises occurred on the level of individual member states and need therefore to be examined individually. Thirdly, it would be shortsighted to assess only the direct costs of financial assistance to banks or economic stimulus packages and not take into account the indirect costs such as the decrease in tax revenue by a simultaneous increase in publicly subsidized short-time employment, unemployment assistance and middle- and long-term liabilities for public social security schemes due to the destruction of capital-funded life insurance or pension schemes. For those reasons, the following figures are far from systematic, comprehensive and exhaustive:

On the level of the European Union, the initial fiscal response to the Global Financial Crisis was EUR 200 billion. Of these, only EUR 30 billion were contributed by the European institutions, while EUR 170 billion were contributed by member states.¹⁰⁸ Equally, the Euro Area Crisis was countered by a coordinated approach of individual states out of which commonly funded mechanisms and institutions emerged such as the European Financial Stability Facility (EFSF, EUR 440 billion), the European Financial Stabilisation Mechanism (EFSM, up to EUR 60 billion) and the European Stability Mechanism (ESM, up to EUR 500 billion).¹⁰⁹

Given the impact on national states, there follow some more detailed information on costs incurred at the very beginning of the crisis in 2008/2009:

¹⁰⁷ ‘Since 2008, European countries have given 4,600 billion euro in public support to their banks.’ Barnier, M. (2012, June 7), Financial regulation, fiscal consolidation, governance growth: Europe is taking up its challenges. Speech held at the Institute of International Finance. Retrieved from http://europa.eu/rapid/press-release_SPEECH-12-420_en.htm

¹⁰⁸ For the European Union see (European Commission, 2009) and Snower, D. (2009) The impact of the global financial crisis in Europe and Europe’s Response) Kiel Institute for the World Economy. Retrieved from http://www.bruegel.org/fileadmin/bruegel_files/Research_contributions/AEEF_contributions/Crisis_Developments_and_Long-Term_Global_Response/AEEF4PPDenisJ.Snower.pdf

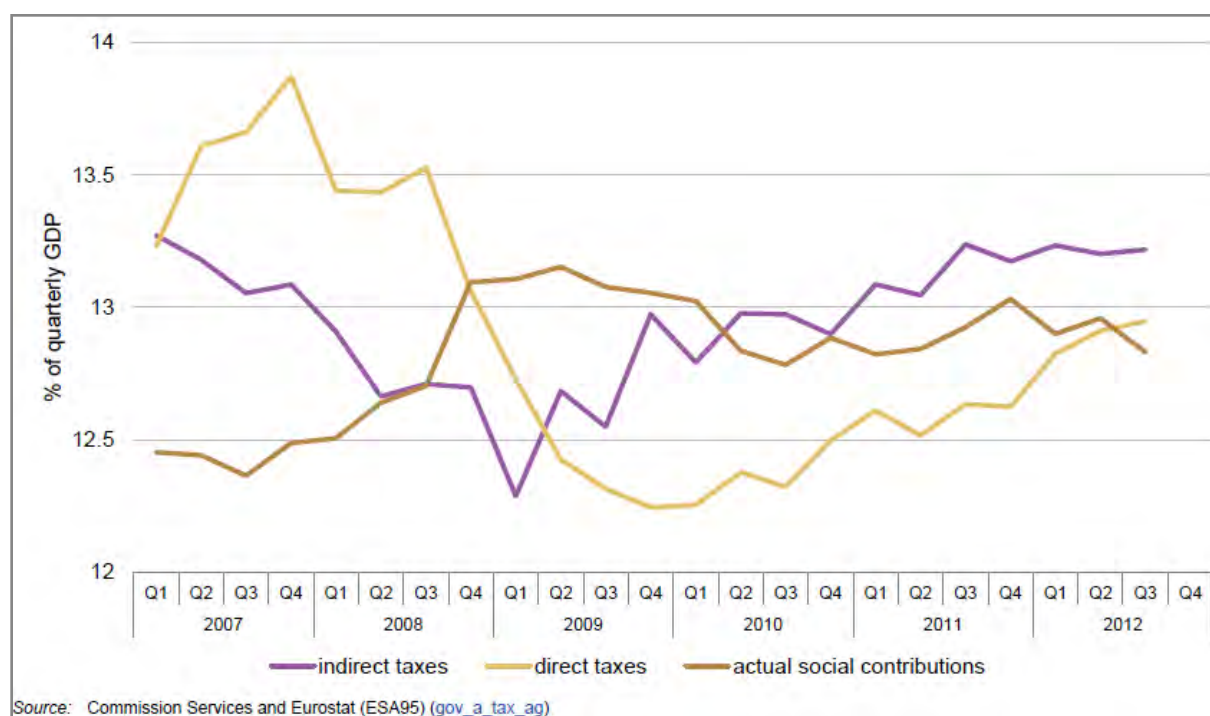
¹⁰⁹ For EFSF and EFSM see http://en.wikipedia.org/wiki/European_Financial_Stability_Facility, for the ESM see http://en.wikipedia.org/wiki/European_Stability_Mechanism

Table 10 Taxpayers bill when stabilizing the banking sector and stimulating economy, selected countries¹¹⁰

Intervention in banking sector in bn € % of GDP				Stimulus packages in bn dollars, % of GDP		
Germany	Commitments	700	28.1	Germany	130.4	3.4
	Outlays	151	6.1			
France	Commitments	368	18.9	France	20.5	0.7
	Outlays	104	5.3			
Italy	Commitments	n.a.		Italy	7	0.3
	Outlays	10	0.6			
Spain	Commitments	n.a.		Spain	75.3	4.5
	Outlays	31	2.8			
UK	Commitments	845	54	UK	40.8	1.5
	Outlays	690	44.1			

All this, of course, needed to be financed somehow. Where did that needed money come from? After all, during the same period tax revenue was declining which is shown in the next graphic:

Graphic 48 Main tax categories, seasonally adjusted % of GDP

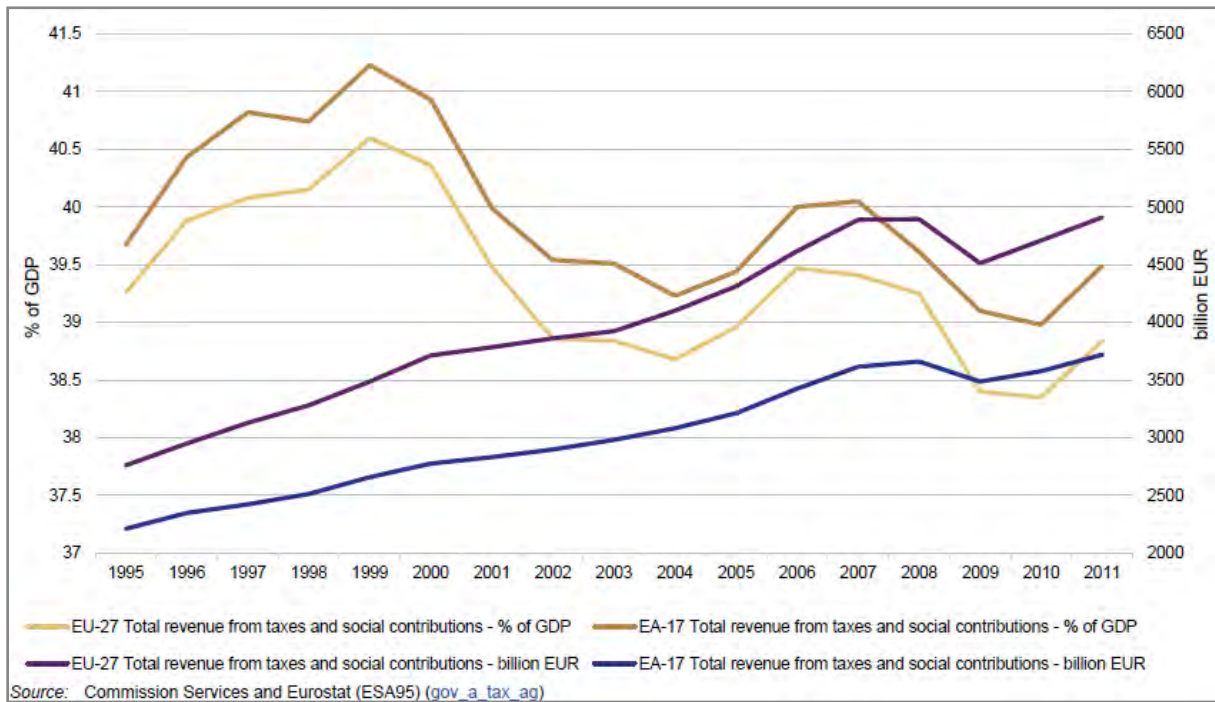


Source 24 (EUROSTAT, 2013, p. 23)

The next graphic shows a longer term, overall trend in total tax and social security contributions across the EU and EA, which demonstrates, interesting enough, that, EU wide, the “dot.com” crisis and subsequent reforms impacted more heavily on revenue than the World Financial and Economic Crisis:

¹¹⁰ Taken from Fact Sheet Nr. 1, part of: Fondation Robert Schuman (2011) Europe and the Global Financial and Economic Crisis Explained in 10 Sheets. Retrieved from <http://www.robert-schuman.eu/en/doc/questions-d-europe/qe-200-en.pdf>

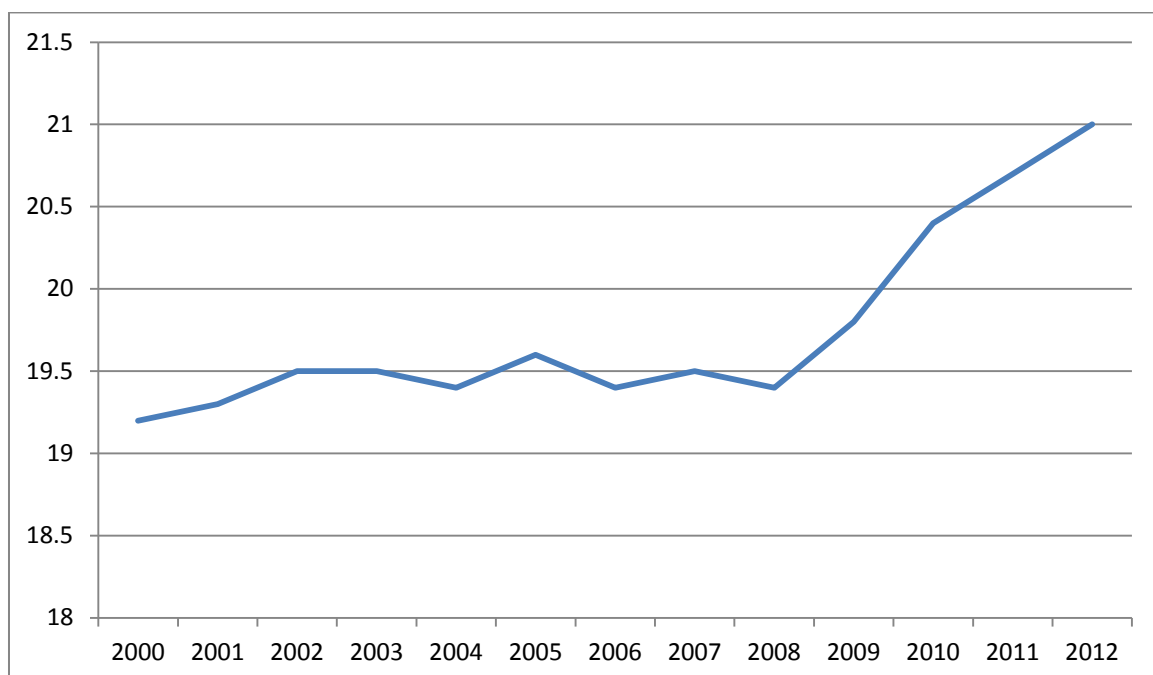
Graphic 49 Tax revenue (including social security contributions) EU 27, EA 17, % of GDP and billion EUR



Source 25 (EUROSTAT, 2013, p. 22)

When comparing the two previous graphics, however, one can discover that tax revenue is catching up well. When asking, how this is possible, the answer is that this increase stems from indirect taxation, while revenue from direct taxation has not yet recovered back to pre-crisis standards. This has been made possible mainly because of massive increase in indirect taxes, mainly VAT from 10.7 % of GDP (2009) to 11.2% of GDP in 2011. Rates across the EU vary greatly, but the tendency arising from the following picture depicting the development of EU average is clear:

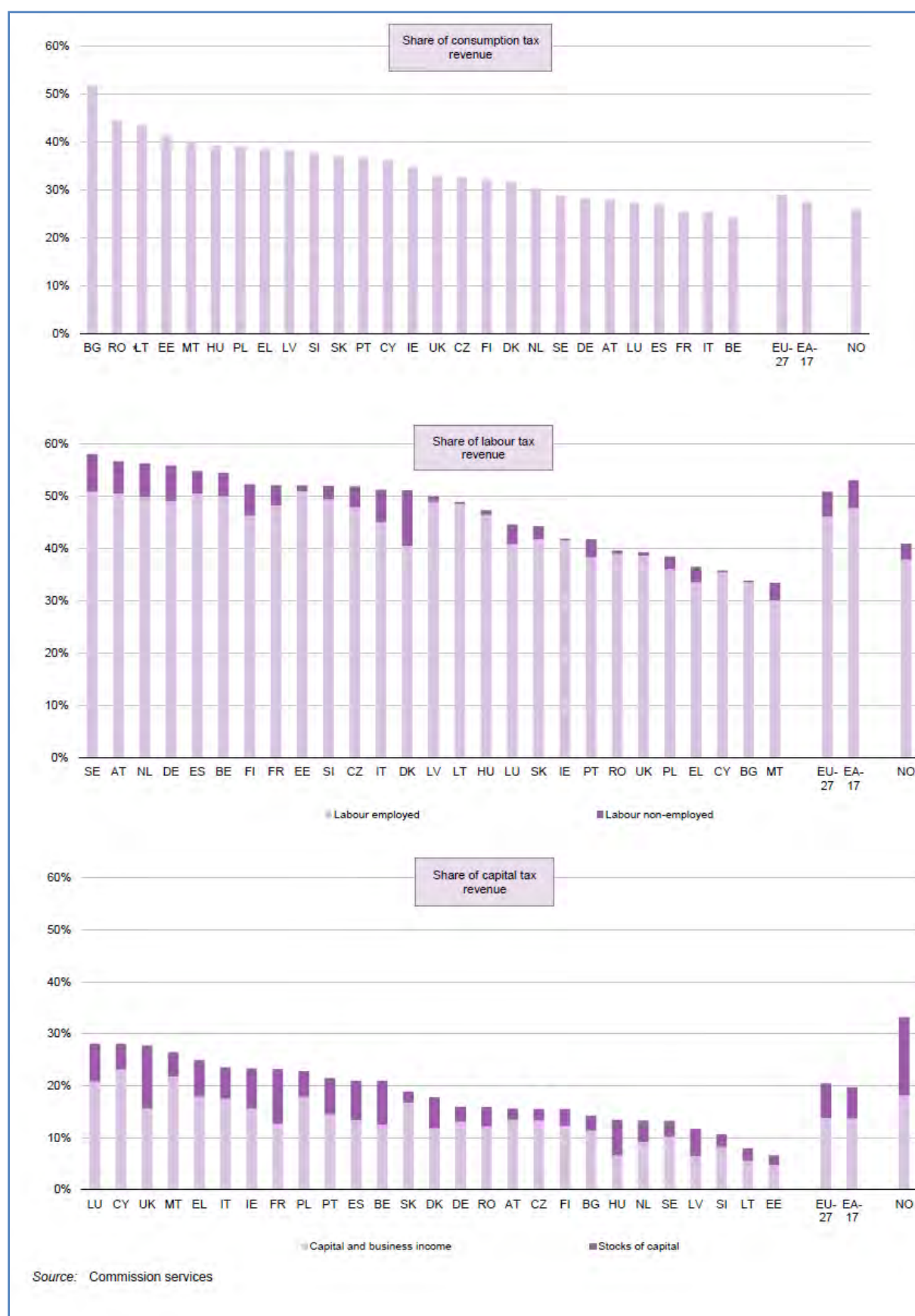
Graphic 50 EU28 Average standard VAT rate



Source 26 (EUROSTAT, 2013, p. 31)

The next graphic relating to tax revenue illustrates the importance of jobs, in particular broadly distributed income and consumption, for state revenue, as opposed to revenue generated from capital:

Graphic 51 Distribution of total tax burden according to type of tax base



Source 27 (EUROSTAT, 2013, p. 27)

Seen on EU average, therefore, tax revenue drawn from dependently employed labour is still the most important source of revenue ‘contributing almost 50% of receipts, followed by consumption at roughly one third and then capital at around one fifth’ (Eurostat, 2013, p. 28).

But there are more interesting insights contained in Eurostat’s dry report on numbers and statistics:

A first interesting observation by the Eurostat office is, however, that in spite of this hefty increase, actual VAT revenue is behind that which should be generated if the standard rate would indeed be paid at final consumption. But: ‘Tax exemption, reduced VAT rates as well as evasion resulted in only around 50% of the theoretical VAT revenues being collected’ (Eurostat, 2013, p. 31). This, however, is a complex calculation, because the total gap between VAT Total Liability and de facto collected VAT revenue is composed of very different posts: Exemptions such as imputed rents or public goods, which cannot be taxed at all, exemptions for political reasons (industries!) or non-enforceable avoidance and evasion nationally and internationally (European Commission, TAXUD, 2015).

Second: while the cost of labour was sinking over many years, its tax burden is again on the increase since 2011, endangering jobs and employment (Eurostat, 2013, p. 32ff.).¹¹¹

Next: even though Corporate Income Tax is in some countries well below Personal Income Tax rates, no noteworthy attempts have been undertaken to increase revenue here (Eurostat, 2013, p. 37).

The fourth and final observation regards the tax of capital. Here, tax rates have been declining for years, the drop in revenue could be slowed by a broadening of the tax base. Here, revenue held up well until 2007, but is decreasing since under the impact of recession and tax rate cuts. However, Eurostat authors point out national differences in taxation of capital: while the implicit tax rate (ITR)¹¹² on capital and business income cluster around 20% across the EU, the absolute levels of the ITR on capital differ widely and are as high as 44.4% in France, 39% in the Denmark and 34.9% in the UK. This might be the case, the authors conclude, that ‘the ITR on capital and business income differs from the general ITR on capital as it excludes the taxes on the stock of capital/wealth ... Their proceeds are very limited in some Member States, but contribute a significant amount of revenue in several others, depending not only on the tax rates, but also on the size and profitability of the capital stock.’ (Eurostat, 2013, p. 40f.).

Finally, the Eurostat authors look into Property Taxation, which would recommend itself for generating revenue since they ‘are considered to be the least detrimental to economic growth given the immobility of the tax base’. Here, relatively small changes have been undertaken to increase revenue since the beginning of the Europe wide inclusion of this tax into statistical recording (Eurostat, 2013, p. 44f.).

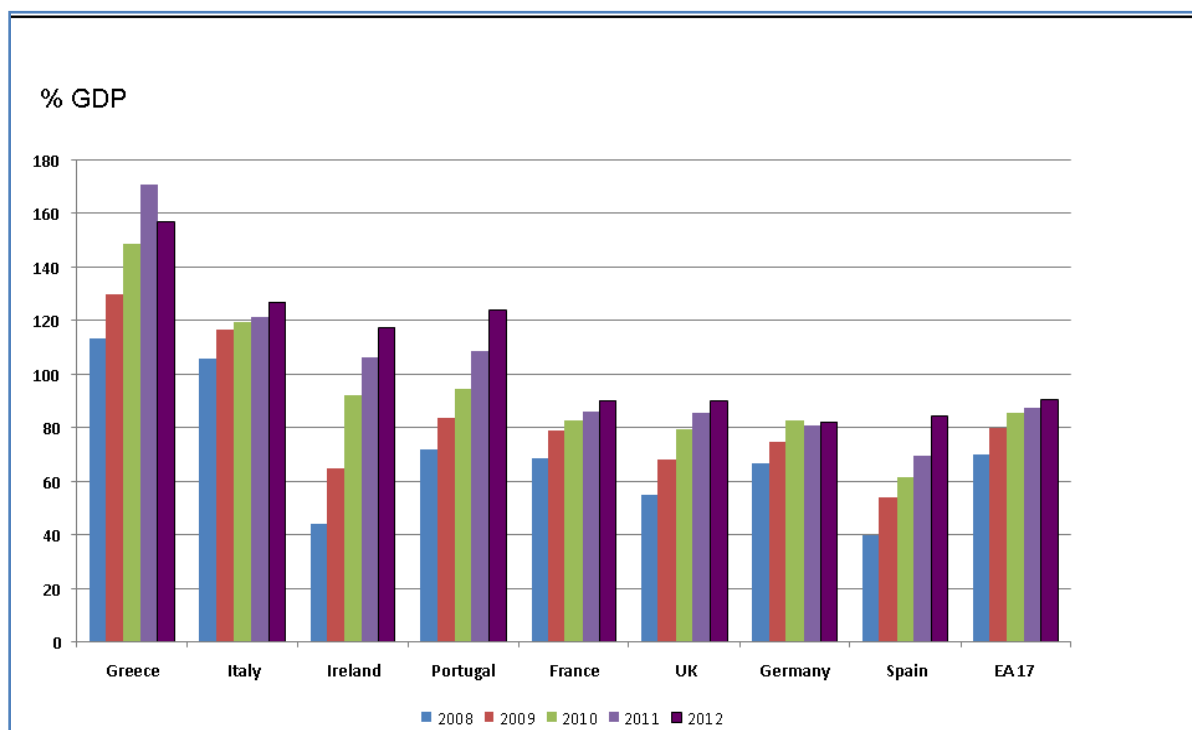
Since that which is indicated in the preceding paragraph concerns untapped resources, and given the need for public spending and the decreasing revenue, it should not surprise that

¹¹¹ This, of course must be taken as a reference to average costs for the EU area as a whole. For a long time, labour costs were rising in the southern parts of Europe while they were falling or stagnant in northern countries – another reason for the inner-European imbalances and tensions.

¹¹² ‘Implicit tax rates, in general, measure the effective average tax burden on different types of economic income or activities, i.e. on labour, consumption and capital, as the ratio between revenue from the tax type under consideration and its (maximum possible) base’ (Eurostat, 2013, p. 28).

the post-crisis situation led to higher debts due to the need to borrow from public institutions, banks and capital markets. All this pushed public debt up to heights unknown since the 1929 Global Financial Crisis.

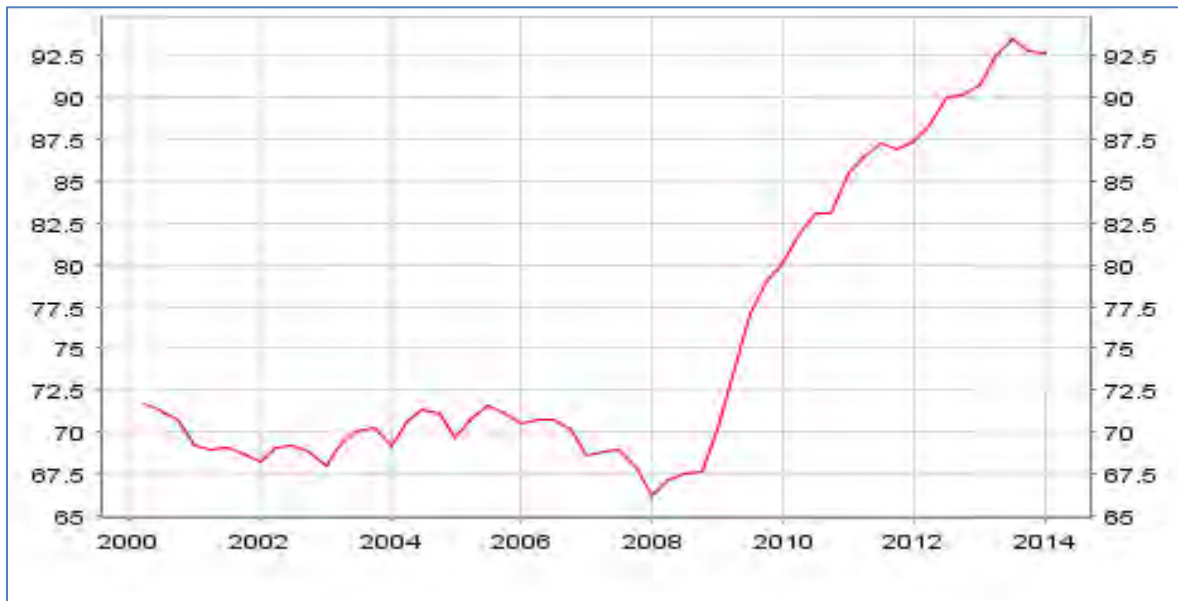
Graphic 52 Debt-to-GDP-ratio for selected European Countries¹¹³



Even more illustrative is the final graphic showing the “debt-to-GDP” development for the Euro Area as a whole since the 2008 crisis:

¹¹³ Wikimedia Commons, retrieved from http://en.wikipedia.org/wiki/File:Euro_Area_Countries_Public_Debt_to_GDP_Ratio_2010_vs._2011.png

Graphic 53 Government debt (as a % of GDP) ¹¹⁴



As is the case in Africa, so also in Europe this debt load is pulling down the ability of states to decide upon how to spend their revenue. They are forced to pay interest; they are forced to repay debt. And meanwhile they are forced to cut on spending which might be important regarding the common good or, in particular, the support and empowering of the poor.

3.3.4 Efficiency in collecting tax revenue

Different from Africa, the efficiency in collecting tax revenue in OECD states is considerably better. While the tax/mandatory social security contribution/GDP ratio in Africa is in most cases clearly below 30% or even below 20%, the lowest rate here is between 28% (Slovakia, Switzerland) and 48% (Denmark) – but even those states are suffering losses due to coordination deficits, as the large EU VAT-Gap of EUR 168 billion (2015) demonstrates (European Commission, TAXUD, 2015). ‘This equates to 15.2% of revenue loss due to fraud and evasion, tax avoidance, bankruptcies, financial insolvencies and miscalculation in 26 Member States.’¹¹⁵

Table 11 Taxes and Social Security Contributions in percent of the GNI¹¹⁶

¹¹⁴ Graphic found on the European Central Banks Statistical Data Warehouse Retrieved from http://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=GST.Q.I7.N.B0X13.MAL.B1300.SA.Q&

¹¹⁵ Press Release (2015, September 4) Commission presses Member States on VAT revenue collection. Retrieved from http://europa.eu/rapid/press-release_IP-15-5592_en.htm#_ftn1

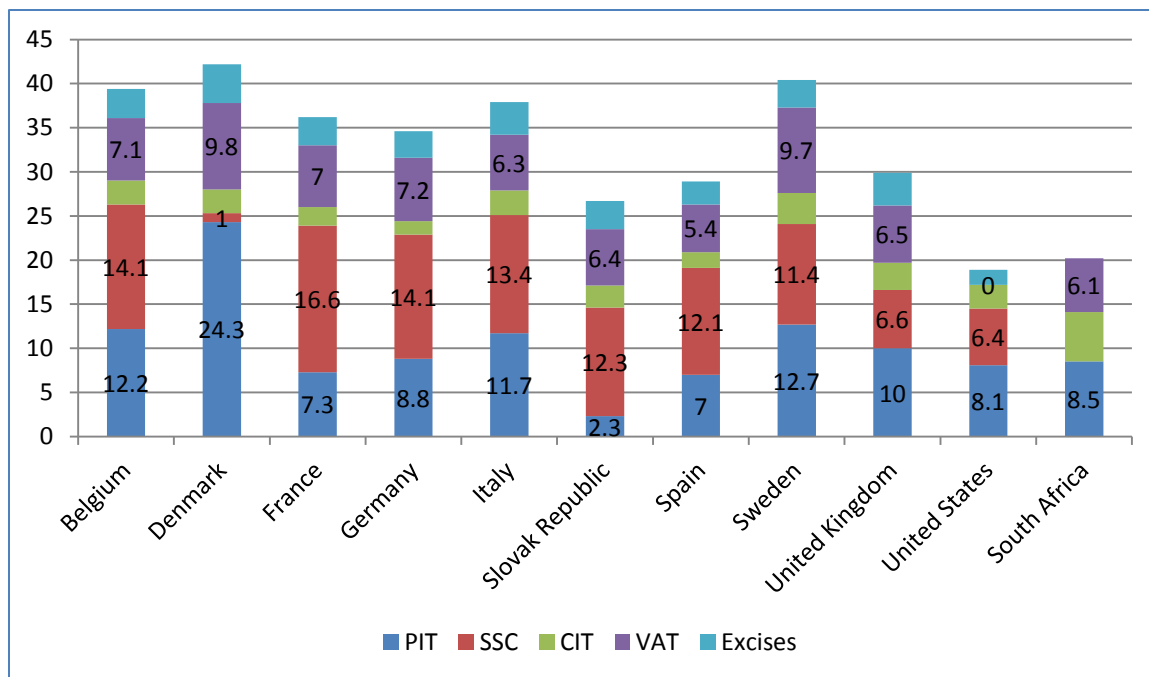
¹¹⁶ Fußnote 2: Nicht vergleichbar mit Quoten in der Abgrenzung der Volkswirtschaftlichen Gesamtrechnung oder der deutschen Finanzstatistik. Retrieved from Fußnote 3 1970 bis 1990 nur alte Bundesländer.

Based upon OECD-Revenue Statistics 1965 bis 2010, Paris 2012. Date: December 2012. Retrieved from <https://www.bundesfinanzministerium.de/Content/DE/Monatsberichte/2012/12/Inhalte/Kapitel-6-Statistiken/6-1-16-abgabenquoten-im-internationalen-vergleich.html>

Taxes and Social Security Contributions in percent of the GNI									
Country	1970	1980	1990	2000	2005	2008	2009	2010	2011
Deutschland^{1,2}	31.5	36.4	34.8	37.5	35.0	36.5	37.3	36.1	37.1
Belgien	33.8	41.2	41.9	44.7	44.5	43.9	43.1	43.5	44.0
Dänemark	38.4	43.0	46.5	49.4	50.8	47.8	47.7	47.6	48.1
Finnland	31.6	35.8	43.7	47.2	43.9	42.9	42.8	42.5	43.4
Frankreich	34.2	40.2	42.0	44.4	44.1	43.5	42.5	42.9	44.2
Griechenland	20.2	21.8	26.4	34.3	32.1	32.1	30.4	30.9	31.2
Irland	28.2	30.7	32.8	31.0	30.1	29.1	27.7	27.6	28.2
Italien	25.7	29.7	37.6	42.0	40.6	43.0	43.0	42.9	42.9
Japan	19.2	24.8	28.6	26.6	27.3	28.5	27.0	27.6	-
Kanada	30.9	31.0	35.9	35.6	33.2	32.3	32.1	31.0	31.0
Luxemburg	23.5	35.7	35.7	39.1	37.6	35.5	37.7	37.1	37.1
Niederlande	35.6	42.9	42.9	39.6	38.4	39.3	38.2	38.7	-
Norwegen	34.5	42.4	41.0	42.6	43.2	42.1	42.4	42.9	43.2
Österreich	33.9	39.0	39.7	43.0	42.1	42.8	42.5	42.0	42.1
Polen	-	-	-	32.8	33.0	34.2	31.7	31.7	-
Portugal	17.8	22.2	26.8	30.9	31.1	32.5	30.7	31.3	-
Schweden	37.8	46.4	52.3	51.4	48.9	46.4	46.6	45.5	44.5
Schweiz	19.2	24.6	24.9	29.3	28.1	28.1	28.7	28.1	28.5
Slowakei	-	-	-	34.1	31.5	29.5	29.1	28.3	28.8
Slowenien	-	-	-	37.3	38.6	37.1	37.1	37.5	36.8
Spanien	15.9	22.6	32.5	34.3	36.0	33.1	30.9	32.3	31.6
Tschechien	-	-	-	34.0	36.1	35.0	33.9	34.2	35.3
Ungarn	-	-	-	39.3	37.3	40.1	39.9	37.9	35.7
Vereinigtes Königreich	36.7	34.8	35.5	36.4	35.4	35.8	34.2	34.9	35.5
USA	27.0	26.4	27.4	29.5	27.1	26.3	24.2	24.8	25.1

Also different from Africa, and most likely linked to the efficiency of tax administration and tax law enforcement, the share of progressive direct taxation is much higher:

Graphic 54 Aggregate tax collections by major tax type for 2010 (tax/GDP%)



Source 28 (OECD, 2013e, p. 197)

In spite of all that, however, European countries are also short of revenue for all the needs they have. For example, to support families with children, to create jobs for the youth (see below, 5.3.6) and to maintain and repair infrastructure: the estimated need in Germany to catch up with delayed maintenance range from EUR 14 billion annually for four years to EUR 7 billion annually, while the German government provides merely EUR 5 billion over a time span of 4 years.¹¹⁷ At the same time, the payment of interest is with EUR 28.551 billion (2014) the third largest post in the federal budget.

3.3.5 Conclusion

Even though the states of the European Union and Euro Area paid (and are paying) a high price in direct and indirect costs for the World Financial and Economic Crisis, the Euro Crisis and the economic recession, surprisingly comparatively little has been done to recover the money spent from those who got it and profited from it.

Table 12 Selected Advanced Economies: Financial Sector Support (percent of 2012 GDP)

	Impact on Gross Public Debt	Recovery to date	Impact on Gross Public Debt and Other Support after Recovery
Belgium	7.6	2.5	5.1
Cyprus	10	0	10
Germany	12.8	1.9	10.9
Greece	21.8	6.4	15.4
Ireland	40.4	5.7	15.4
Spain	7.6	3.1	4.5
United Kingdom	6.6	2.2	4.4
United States	4.6	4.6	0

¹¹⁷ Kissler, A. (2014, May 19) IWF: Deutschland muss mehr für Infrastruktur ausgeben. In: *Wallstreet Journal*. Retrieved from <http://www.wsj.de/nachrichten/SB10001424052702304198504579572051848899342>

Average	6.9	4.1	2.9
Total in US\$ billion	1,752	1,029	722

Source 29 (International Monetary Fund, 2013, p. 16)

Certainly, some money has been paid back by banks, there is a bank levy in some states, banks were forced to increase capital stock, some modes of trading have been prohibited and there might be even a Financial Transaction Tax in some European countries. But this is nothing compared when it comes to counterbalancing all costs which were incurred directly and indirectly on the European economies. Certainly, these interventions also rescued savings and jobs of ordinary citizens. But there are indications that the wealthy profited over-proportionately both from these interventions and ‘from declining overall tax burdens’ (OECD, 2011a, p. 293) due to tax competition in previous decades and also from the public stabilization efforts of the financial sector. Harald Schumann showed in his documentary “Staatsgeheimnis Bankenrettung” how public rescuing of Irish and Spanish banks profited mainly the shareholders of other financial institutions elsewhere in the Euro Area (Schumann, 2013).

But if Eurostat’s figures are to be trusted, the burden of paying for the costs is more upon dependent labour (rising costs of labour), poor households (increase of VAT) and not so much with corporations and capital owners: Their tax burden remained at a pre-crisis low; no comparable changes were introduced regarding progressive taxation of income, taxes of corporations, capital, rents, real property, wealth or inheritances. Equally, known loopholes and weak spots assisting tax evasion and aggressive tax planning were not closed.

Besides (not) retrieving expenses, there is the problem of lacking activities which would be needed to prevent such a crisis from happening again.

There were numerous pledges in the early days of the crisis when G20, UN and European Council meetings promised to restructure financial markets and financial players, cutting them to size and forcing their business model back to the original idea, namely, serving the real economy. But still the public waits for the correction of some obvious mistakes from the past, e.g. separating risky investment banking from banking which serves the economy, a review of the risk inducing bonus, option and salary system for banks, the removal of tax privileges for corporations in Ireland or improved taxation of the wealthy in Greece.

This timid approach in both areas is scandalous for two reasons:

First, because European states had and have, due to their crisis intervention, a stronger leverage towards private and corporate actors than they have had for a long time.¹¹⁸ The problem lies in their discord, which is masterfully used to manipulate regulation creation and decision making by financial and economic elites.¹¹⁹

Second, because a number of proposals are on the table about how private and corporate holders of wealth could be forced to contribute a fairer share to the common good.

¹¹⁸ Piketty, for example, argues that the chances for a successful state intervention are better than it was in the 1930s ‘for a simple reason: the influence of the state is much greater now than it was then, indeed, in many ways greater than it has ever been’ (Piketty, 2014a, p. 473).

¹¹⁹ Here, too, Piketty has brought it to the point in the second last sentence of his book: ‘Those who have a lot of it never fail to defend their interests. (Piketty, 2014a, p. 577).

In this sub-chapter, good hints were included both regarding tax avoidance and tax evasion, as well as an increase of taxes in some areas which would hit primarily the wealthy.

Clearly, if European states would impose some hefty taxes upon the private and corporate holders of wealth there might be some risk that capital would leave the EU zone. This, however, is unlikely for two reasons.

The first is empirically backed up: The *Süddeutsche Zeitung* in its research on Tax Justice presented two studies from the United States, which looked into the tendency of wealthy people to leave their residence because of an increase in taxation. The result: even though spectacular individual cases are now and again reported in the media, there is no clear statistical proof of a link between increase of taxes and departure. Because people also see the good in taxation, e.g. that it is needed to maintain infrastructure and public services.¹²⁰ What may happen is, of course, that wealthy people and their lawyers put more energy into ‘tax optimization’, which is, however nothing unchangeable but also within the reach of legislation and tax enforcement (Bach, 2013a, p. 19).

The second reason is plain common sense: It is unintelligible why or how the wealthy and capital owners should on a longer term boycott the world’s largest zone of producers and consumers simply for taxation reasons. If this, however, is common logic, there should be a technically feasible and legally permissible way to get Europe’s super-rich to pay a fairer share in the common effort to make up for the losses incurred upon public budgets in the course of the series of crises and counter-measures – if only European states were for once able to stick to their common interest and not submit to the interest of the few.

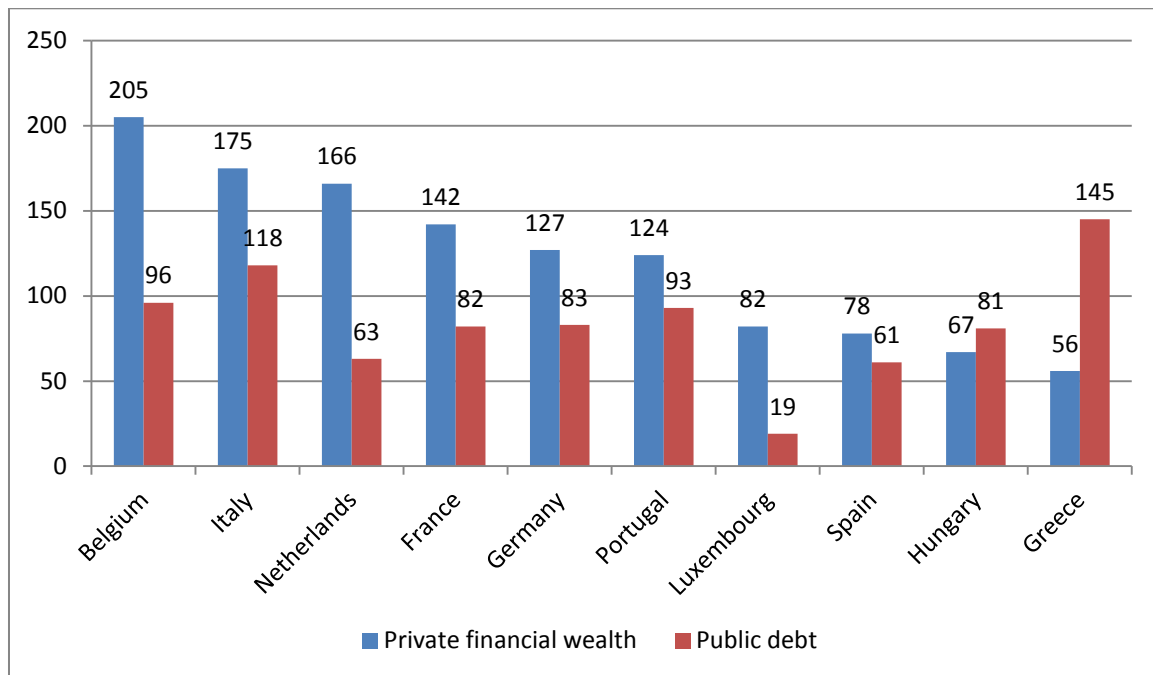
As the IMF rightly stated: ‘Maintaining debt at these historic peaks would leave advanced economies exposed to confidence shocks and rollover risks and hamper potential growth’ (International Monetary Fund, 2013a, p. 4). On the other hand, there are three ways to cope with that amount of debts: raising taxes, inflation and austerity measures. ‘The worst solution in terms of both justice and efficiency is a prolonged dose of austerity – yet that is the course Europe is currently following’ (Piketty, 2014a, p. 541).

3.4 Governmental debt and private wealth

Having come this far, something needs to be brought up which is striking the eye: the parallel growth in private wealth and public debt. The following graphic based upon findings of Eurostat demonstrates that in most European countries private wealth by far outweighs public debt:

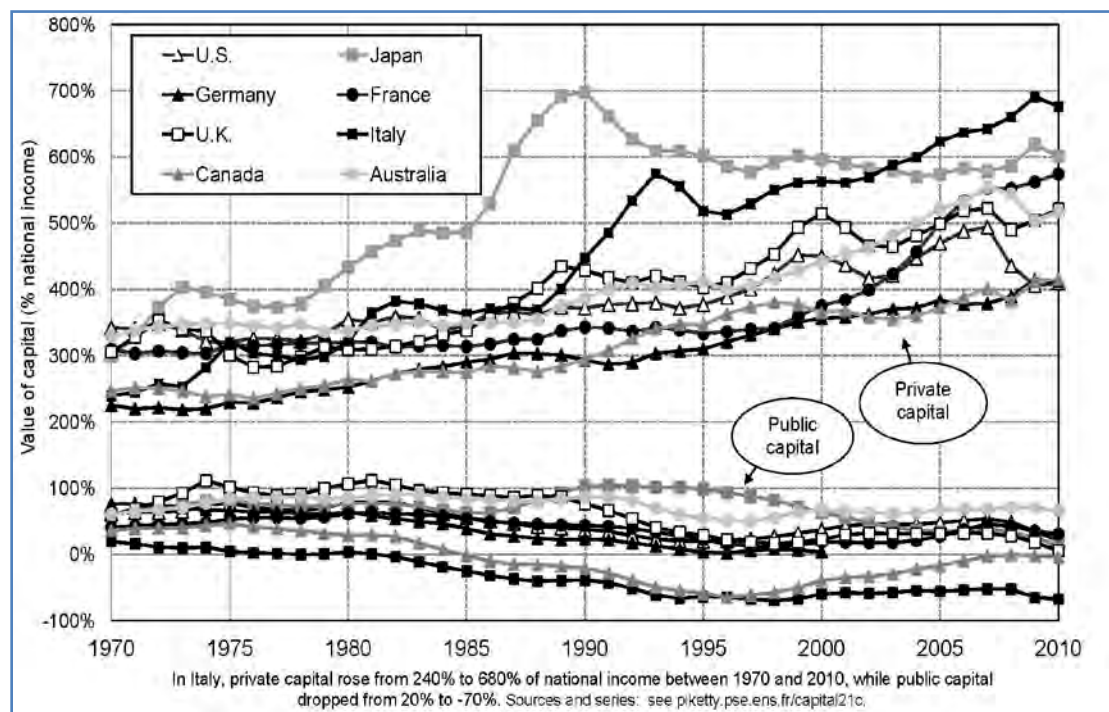
¹²⁰ Brinkmann, B./ Brühl, J. (2013, July 22) Absetzen und abhauen. *Süddeutsche Zeitung*. Retrieved from (Süddeutsche Zeitung, 2013b). The URL to the studies referred to are <http://minnesota.publicradio.org/features/2011/02/documents/millionaire-migration.pdf> and http://www.peri.umass.edu/fileadmin/pdf/published_study/Migration_PERI_April13.pdf.

Graphic 55 Private wealth and public debt in percent of GDP¹²¹



Taking a historical perspective, Piketty's starting point was the diverging developments regarding increasing private and decreasing public capital not just in one country, but as a general trend among wealthy countries:

Graphic 56 Private and public capital in rich countries, 1970-2010

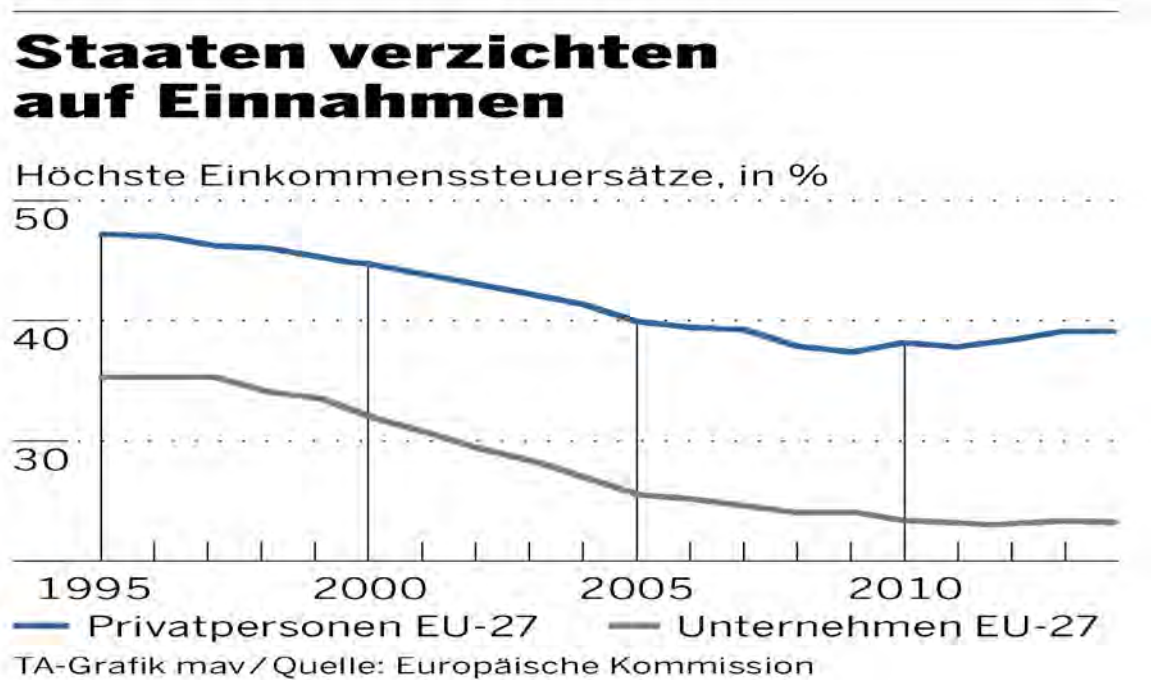


¹²¹ Based upon a graphic from Statista, which in turn is based upon data from Eurostat. Retrieved from <http://de.statista.com/statistik/daten/studie/215460/umfrage/privates-geldvermoegeen-und-staatsschulden-in-ausgewaehlten-laendern-europas/>

As it would seem, there are indeed some processes linking together the growth in private and the decrease in public wealth.

A first explanation might be indicated by looking at the development of top-tax rates for private and corporate wealth holder which more likely than not explains why public revenue/capital is sinking. For the EU 27, the picture beginning 1995 is as follows:

Graphic 57 Sinking tax revenue from private and corporate wealth-holder¹²²



Another important element here is the decade-long and widespread privatization of public assets, which is, of course, fully in tune with recommendations arising from precepts of neoliberal globalization. This happened for various reasons; for example, the idea was spread that private endeavour could provide better and cheaper services than public institutions. Another reason for selling off public assets was the need of states for cash, possibly selling off assets far below their real value. This leads to a decrease in reserves of public net wealth, in Germany from 52% GDP (1991) to merely 6% GDP (2009). This means that reserves which (perhaps) were helpful to counterbalance the effects of the “dot.com” crisis in 2000 and the Global Financial Crisis are spent and not much is left if further needs occur.

Diverging trends between increasing private wealth and decreasing public wealth must not be a tragedy as such.¹²³ For example, if public debts of a state are counterbalanced by private savings, this could indicate that, when seen under macroeconomic perspective, there are private resources taking care of health care and even pensions. Put differently: People could use private savings to counterbalance cuts in public spending or risks which in earlier times the state was covering. The problem reveals itself when turning from macroeconomic statistics to reality: Private wealth and savings are highly concentrated among the top 10% or even 1%, while cuts in public services would hit many more poor and low/middle income people harder than the few wealthy. Here exists a problem of both intragenerational and

¹²² Schmid, S. (2015, May 1) 200,000,000,000,000 –Dollar-Last. In: Tagesanzeiger. Retrieved from <http://www.derbund.ch/wirtschaft/200-000000000000DollarLast/story/24865034>

¹²³ See for most of the following in this paragraph (Bach, 2010)

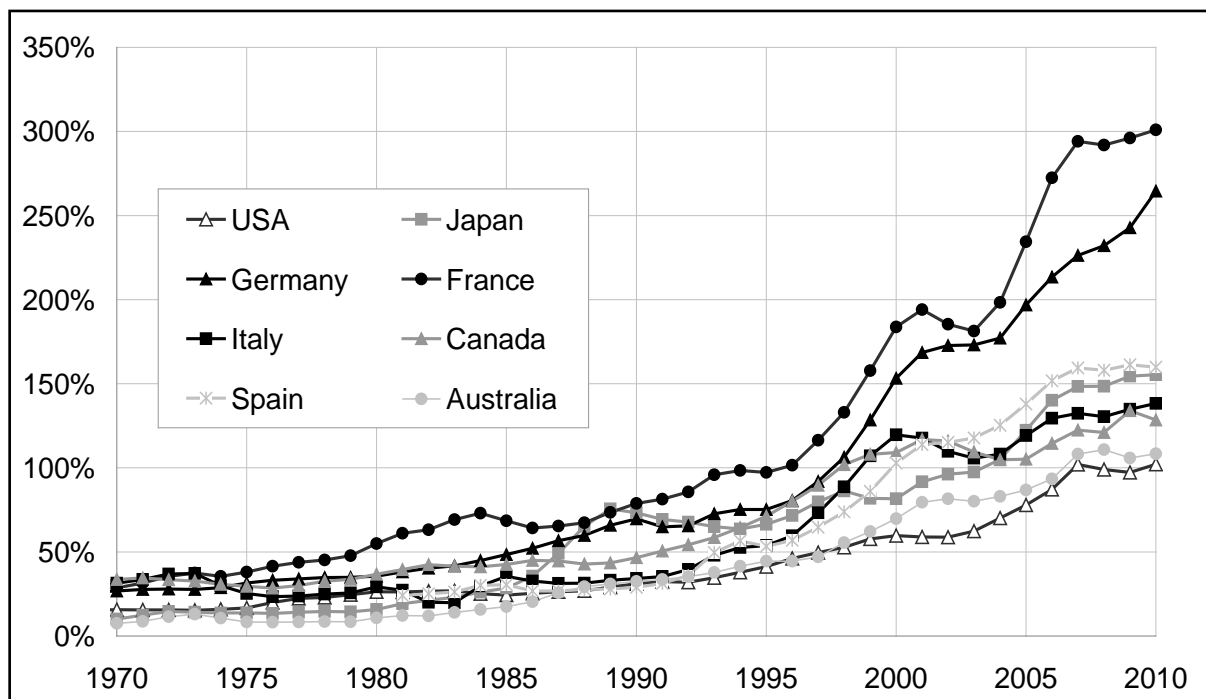
intergenerational justice because already distributional issues – due to indebtedness – afflict the wellbeing of presently-living and, at the same time, yet-unborn generations. The problem is urgent and imminent: For years now, investment has been neglected and cuts were implemented into public infrastructure and services affecting its availability and quantity already, while the budget for repaying credits and interest is among the largest – in the case of Germany the third largest post in the national budget (see#).

Before thinking about solutions one has to bear in mind, that, ‘the overall value of capital, measured in years of national income, has not really changed’ if one defines ‘national capital ... as the sum of private capital and public capital.’ In this case, ‘government debt, which is an asset for the private sector and a liability for the public sector, therefore nets out to zero (if each country owns its own government debt).’ The latter remark, however, points to the fact that also foreign stakeholders can buy into government bonds, so that “outsiders” also own parts of national wealth: ‘National capital, so defined, can be decomposed into domestic capital and net foreign capital. Domestic capital measures the value of the capital stock (buildings, firms, etc.) located within the territory of the country in question. Net foreign capital (or net foreign assets) measures the wealth of the country in question with respect to the rest of the world, that is, the difference between assets owned by residents of the country in the rest of the world and assets owned by the rest of the world in the country in question (including assets in the form of government bonds).’ This leads to a more diversified and much more complex view of the picture, if one decomposes national capital into the categories of ‘farmland + housing + other domestic capital + net foreign capital’ (Piketty, 2014a, p. 118f.).

Because of this, questions such as the following arise: Who owns what share in which country, thus having a powerful stake in controlling its course? Or, if we say: “Well, just get some of that private capital back!” one has to ask: “From where and from whom?” Recovery is not that easy in a world shaped by financial integration.

There is no longer a 1:1 correspondence between national debt and national private wealth because shares of national debt can also be owned by foreign public private and public investors, where national taxmen have no access. Piketty’s and Zucman’s research reveals the international financial interdependence among the wealthy states. Their research indicates a huge rise in gross foreign positions in the countries under examination. This is illustrated by two graphics, from which the UK is excluded because assets held there or held from there would blast the chart. First the assets which are held by foreigners inside the countries listed:

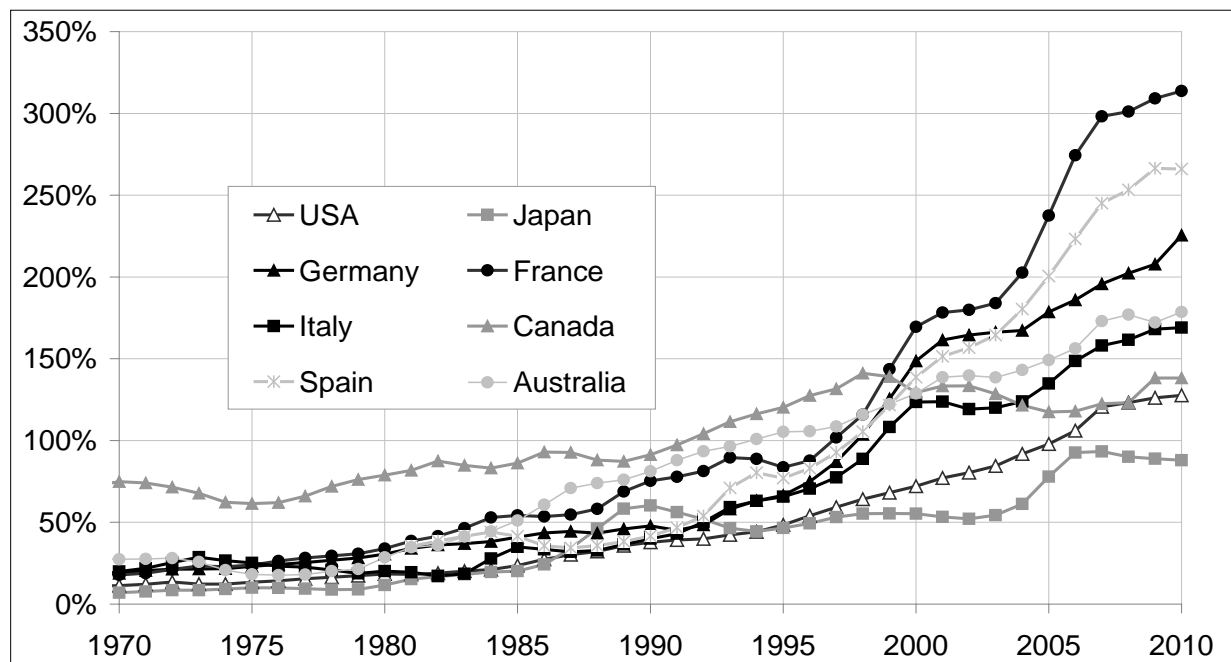
Graphic 58 Gross foreign assets-national income ratio 1970-2010



Source 30 (Piketty & Zucman, 2013a)

Now the assets held inside the countries by nationals abroad (if the UK were included, the left axis would have to go up to 700% and 800%):

Graphic 59 Gross foreign liabilities-national income ratios, 1970-2010



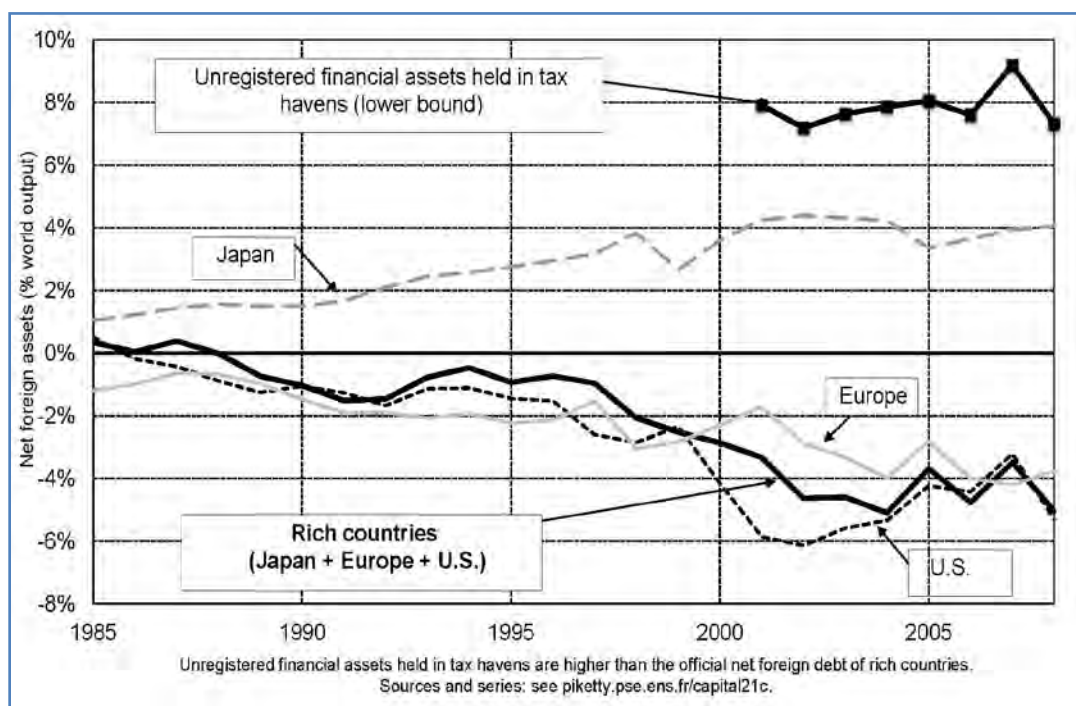
Source 31 (Zucman, 2013b)

Counterbalancing gross foreign assets and gross foreign liabilities would result in net foreign asset positions. Here, especially in the case of Germany and Japan, Piketty states an impressive plus of net foreign assets, among other reasons due to their trade surplus (p.192). On the whole, however, Picketty and Zucman caution: 'One caveat is that the official net foreign asset positions do not include the sizable assets held by a number of rich country

residents in tax havens. In all likelihood, including these assets would turn the rich world's net foreign asset position from negative to positive. The improvement would probably be particularly large for Europe.' (Piketty & Zucman, 2013b, p. 26).

And indeed, it seems that technological progress and financial integration lead to an increasing stashing away of wealth in offshore jurisdictions and it is there where large net foreign assets positions (*Auslandsguthaben*) reside:

Graphic 60 Net foreign asset position of rich countries



Therefore Piketty's conclusion seems to be correct when stating 'that the question of public debt is a question of the distribution of wealth, between public and private actors in particular, and not a question of absolute wealth. The rich world is rich, but the governments of the rich world are poor'. Europe is the most extreme case: it has both the highest level of private wealth in the world and the greatest difficulty in resolving its public debt crisis—a strange paradox'. However: 'This reality is obscured by the complexity of the system of financial intermediation' (2014: p. 541), which is why mechanisms of transparency are so important. Hence: There is some truth in the famous saying: "somebody's wealth is somebody's debt". Piketty concludes:

The nations of Europe have never been so rich. What is true and shameful, on the other hand, is that this vast national wealth is very unequally distributed. Private wealth rests on public poverty, and one particularly unfortunate consequence of this is that we currently spend far more in interest on the debt than we invest in higher education. (2014a, p. 562)

3.5 Private, Corporate and governmental debt

Given the inter linkages of today's financial system, private and corporate debt needs to be taken into consideration when talking about any "debt problem". First of all, today's financial system is far too ready to hand out credits for all sorts of purposes and to all sorts of customers, even if there is a likelihood that credits will not be repaid at any stage (see 3.3.1). This has to do, that "traditional banking" hardly exists anymore: According to classic

thinking, people go to banks, entrust them their savings, the bank hands out that money as credit to businesses, they create job and repay the credit with interest. Nowadays, however, banks create money, hand it out as credit or deal with it hidden in complex financial products. If anything goes wrong, public institutions have to pay the bill with “real” money, which is not “leveraged”, but backed by real assets and taxpayers money.¹²⁴

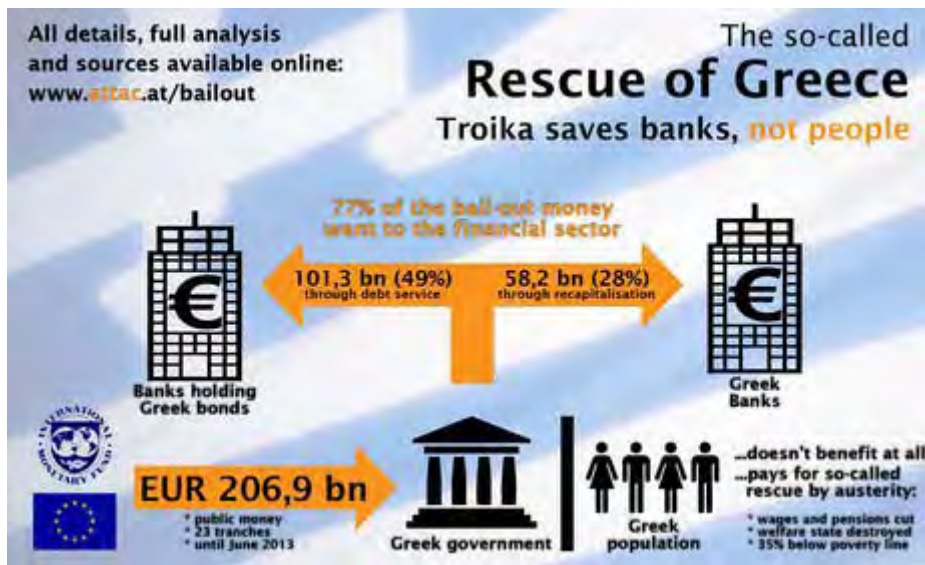
Here, credits to consumer bring households into debt, as do mortgages to prospective house-owner. Another important issue for this research is privileging, e.g. with taxation, of the financing of business activities rather with debt (external financing) instead with equity. All those levels of debt accrued at “the markets” are interlinked in complex financial products whose structure hardly anybody understands. Hence, when in 2007 the World Financial and Economic Crisis started from the US subprime market, nobody really knew who owes what to whom and the arising insecurity almost killed the global economy.

Or: The booming business German and other banks did with the housing market in Southern European States or the “happiness” with which those banks bought debt obligation from those states. When then the credit crunch hit the system, suddenly the banks sat on debt which almost brought them to the fall, which then prompted the states to bail them out. The more details emerge, the more the suspicion consolidates that the rescue operations of the European Governments are not about states, but about private and public banks, insurances, funds and other financial institutions.¹²⁵

Attac (2013a+b) did some research regarding the “rescuing of Greece” and found out that 77% of taxpayers’ money went to banks either for paying debt or for recapitalization. By doing that, the European taxpayers also assisted Greek Billionaires, for example Mr. Latsis, who owns many shares of the Greek Bank “Eurobank Ergasias” or blesses the Hedge Fund “Third Point” with a handsome profit of EUR 500 million. While the French and German government pressurize the Greek government not to save on military spending (due to large contracts benefitting German and French arms manufacturer), the ordinary citizens of Greece suffer cuts in wages and pensions, redundancies, poverty soars and public services collapse.

¹²⁴ See (Schick, 2014) and (Turner, 2014)

¹²⁵ (Schick, 2014, p. 33+137), (Schumann, 2013) (attac, 2013a) (attac, 2013b)



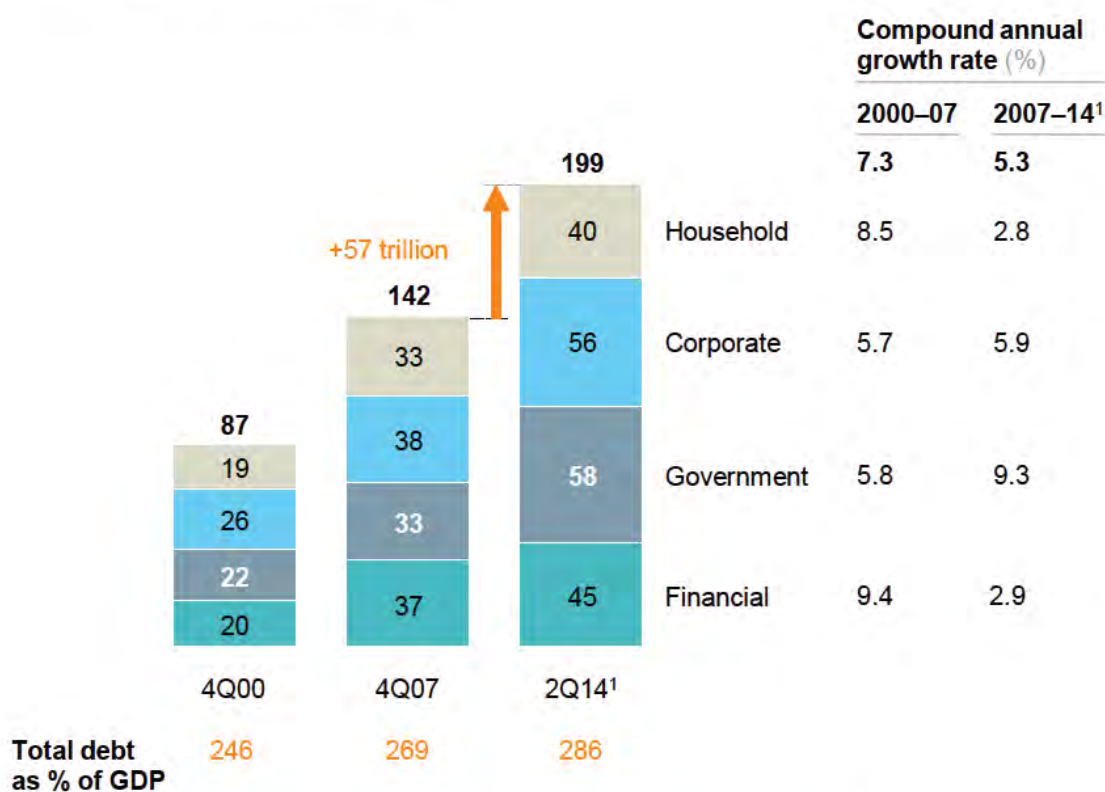
For that reason, this study agrees with all those who argue that public or governmental debt must not be analyzed and treated in isolation of other debt categories (Turner, 2014).

And the amount of debt for private, commercial, financial and public institutions is staggering. A study by McKinsey offered the following figures:

¹²⁶ Retrieved on 21. February 2015 from <http://www.w-t-w.org/de/wp-content/uploads/2013/06/Griechenland-Rettung-77-Prozent-flossen-in-Finanzsektor.jpg>

Graphic 62 Global debt has increased to USD 200 billion, outpacing economic growth

Global stock of debt outstanding by type¹
\$ trillion, constant 2013 exchange rates



¹ 2Q14 data for advanced economies and China; 4Q13 data for other developing economies.
NOTE: Numbers may not sum due to rounding.

Source 32 (McKinsey Global Institute, 2015, p. 1)

3.6 Fiscal consolidation and the call for redistribution

Having discussed these huge amounts of private wealth and being mindful of the three options given by Piketty for coping with the consequences of the World Financial and Economic Crisis (taxation, inflation, austerity), this sub-chapter wants to conclude with briefly mentioning the “medicine” most developed and developing states are following so far: austerity and fiscal consolidation. But in this point the cure might be as bad as the disease, since especially the discussion within the European Union reveals: consolidation has a continuing impact on keeping the levels of unemployment high. In spite of that the view dominates that this approach has to continue. The IMF, for example, argues: ‘Large fiscal adjustments are expected to be required in many countries for a long time in order to reduce debt-to-GDP ratios to sustainable levels.’ At the same time, the IMF admits that austerity measures, household consolidation and fiscal policies increase inequality, e.g. by larger unemployment numbers and ‘by lessening the generosity of social benefits and the progressivity of income tax systems.’ By now, even the IMF senses dangers here and admonishes that ‘costs associated with fiscal consolidations and weaker growth be shared equitably throughout the economy’ (International Monetary Fund, 2013b, p. 20). This seems to be quite right; but how to do that?

The IMF gives its answer in another publication by starting with the observation that popular support for redistribution increased considerably (International Monetary Fund, 2014a, p. 9+43). Perhaps it is because populations are no longer inclined to accept the

argument that harder taxes upon the wealthy and businesses impact on jobs, employment figures and the general welfare of nations? It is too obvious who profited more from public rescue and stabilization efforts than others. By now it is widely known why the most disastrous impacts of the crisis could be softened by state actions: it was possible with the help of more ordinary taxpayer's money, namely the one, who does not have the option of hiding his money from the tax man in tax havens. And, clearly, this insight exists in both developing and developed countries. This is even more the case, because in most of them huge tax-funded payments had to be shouldered to stabilize the financial and economic sector with resulting cuts in spending regarding the common good and the poor.

It remains to be seen whether the “conversion” of institutions such as OECD and IMF will be of some permanence or whether their support for a fairer tax-burden sharing and a more just and effective redistribution is lip service only, until the post-crisis excitement and attentiveness of public and media lessens. Since OECD, IMF and EU were, for a long time, promoters of policies which led to the situation we are in right now, and since the then-dominant majority-opinion constantly ridiculed and mocked critics such as Milan Brankovic of the World Bank, Josef Stiglitz (formerly IMF) or Heiner Flassbeck (UNCTAD) they are under some obligation to make up for what they are co-responsible for by providing legitimacy and support for decades to policies increasing the wealth gap and governmental dependency from external financing.

3.7 Conclusion

The aim of this chapter was to examine the second lead problem of our research, namely the persisting and/or increasing governmental dependence on external financing. It examined how states and societies got into dependence on markets and private capital in general, how they were affected by events triggered off by markets, and why they seem to be stuck here, their room for manoeuvring fettered by high levels of public debt and high shares in current national budgets earmarked for the payment of interest and (eventually) repayment of debt. There are rightly references to times where public debt in parts of the world were equally high and alarming, e.g. after World War II. However, the world today is different, most importantly due to financial integration, which makes “classic” solutions to resolve the crisis of governmental debt no longer possible.¹²⁷

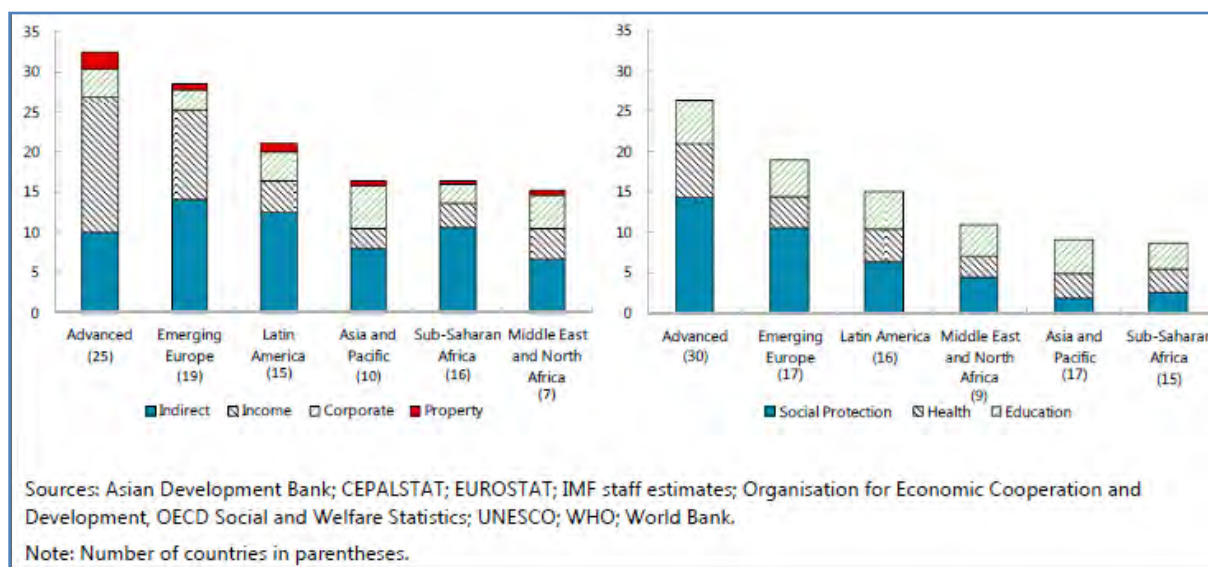
There is little hope for immediate improvement, especially given the weakness of sub-Saharan tax collecting and administrating systems. While the chapter on the wealth gap revealed a number of tax concessions worldwide since the start of neoliberal globalization towards the private and corporate wealthy, it seems to be the case that there is little willingness by any government in Africa and Europe to take back those concessions even when taking into account

- that it was the private and corporate wealthy who profited over-proportionately from public rescue and stabilization efforts during the 2007/2008 crisis;
- that an over-proportionate share of the tax burden regarding the rescue and stabilization efforts of 2007/2008 rested upon dependent labour and low income households rather than the owners of wealth and capital;
- That there are indications for massive tax avoidance and tax evasion by the private and corporate wealthy, as will be discussed more deeply in the following context-chapters 5 and 6.

¹²⁷ See e.g. Schmid, S. (2015, May 1) 200,000,000,000,000 –Dollar-Last. In: Tagesanzeiger. Retrieved from <http://www.derbund.ch/wirtschaft/200-000000000000DollarLast/story/24865034>

With continuing emphasis in Africa, and increasing emphasis in Europe on indirect taxation, the wealth gap will remain large (or increase) and the revenue to spend on social welfare, education and health care will stall (or decrease).

Graphic 63 Tax revenue and social spending in advanced and developing economies



Source 33 (International Monetary Fund, 2014a, p. 19)

The IMF further spells out an aggravating fact regarding the low share of social spending in sub-Saharan countries by arguing, that those transfers which are occurring do rather go to high income groups than the poor (International Monetary Fund, 2014a, p. 20),

Equally, the persisting or even rising governmental dependence on external finance is by now widely seen and accepted to be problematic. The IMF paper “Taxing times” predicts hard times, unless ‘compensating increase in domestic sources of revenue’ is possible’ (International Monetary Fund, 2013a, p. 8ff.). Indeed, it is the IMF, once promoter of the “Tax Consensus”, where most surprising changes of attitude regarding taxation can be seen in the post-crisis era: while some papers still contain the rather “classic” recipes such as budgetary tightening, spending cuts and austerity measures, new themes are pushing to the forefront, e.g. proposals about how to increase tax revenue.

Two proposals stand out: first, widening the tax base (e.g. by removing exemptions and subsidies), second, increasing tax rates or (re-) introducing new taxes. Of course: All the time, IMF subordinates revenue collection to the primary goal of economic growth which it sees best for lowering debt ratios (International Monetary Fund, 2013a, p. 15). This is, again of course, nothing bad as such, since growth, especially if well balanced, may (!) create jobs which in turn generate reliable revenue. But: IMF recommendations are moving even more towards the goals and objectives of this research project when publications in 2014 advance the view that taxation and redistribution may be even more suitable to growth than, e.g., a society shaped by inequality and a lack of regulation which continues to encourage risk-orientated behaviour (Ostry, Berg, & Tsangarides, 2014), a view that is supported by OECD publications (OECD, 2015a) and even McKinsey (2015) admits that tax related policies might be suitable and needed in order to decrease public debt.

Last not least, however: This research follows those who argue that, in order to understand the entire picture (i.e. the stability of the present global financial and economic system) one needs to keep private, corporate AND governmental debt in view: Due to the interconnected financial markets, default in the private sector OR corporate sector OR governmental sector can bust the entire system (Schick, 2014, p. 29ff.+74ff.).

Here it is again obvious that one needs to understand the underlying causes, contexts, structures and backgrounds which triggered off and maintain these developments, which will be done in the context chapter 5+6. Only then it is possible to discuss solutions which will work.

4 Poverty

Next, however, and on the background of the preceding, some remarks are needed about how we think that increasing inequality and persisting/increasing governmental dependence on external financing impacts on poverty. Since the concept of poverty is well researched and debated by governmental, intergovernmental and non-governmental institutions and organisations, and because a more extensive and specific discussion will follow in the country reports, here only a brief introduction and a clarification as to what definition is relevant to the “Tax Justice & Poverty” research.

4.1 *Wealth gap, governmental dependence and poverty*

For the purpose of this research we first have to establish the link between poverty on the one hand and the wealth gap/inequality and governmental dependence on external financing on the other.

Inequality need not result in poverty. Inequality may be high, and yet it may be possible for poverty to decrease. For example because “due to the rising tide” income and opportunities also of the lowest end of society might improve. Or, because inequality is a necessary interlude before poverty may decrease as the Kuznets hypothesis requires. And indeed: some still see growing inequality as one side effect of the more basic – positive – fact that the globalizing economy contributed to a dramatic decrease of worldwide poverty on the whole; or that the creation of conditions favourable to the accumulation of wealth is better suited to overcome poverty than redistribution by the state via taxation.¹²⁸

It is true that the course of globalization, over the past years, has been increasing average GDP and average income in many countries. In the eyes of the researcher it has been shown convincingly, however, that this creed is not keeping its promises specifically regarding the situation of the poor. Thomas Piketty and the UNDP report alerted us to the fact that Gini-Coefficient, average/medium income and similar statistics are blind to the de-facto situation at the top and bottom end of society: while net-income and net-wealth of households at the top end of households is indeed rising, net-income and wealth at the bottom end is stagnating and/or decreasing.

Regarding the paper so far, the following insights have been gained:

- The wealthy profited over-proportionately from deregulation and public intervention after the World Financial and Economic Crisis.

¹²⁸ See below, 5.3.7., but also (Booth, 2007c, p. 67), (Kennedy, 2007, p. 185) and other authors contributing to (Booth, 2007a).

- The middle-income and poor households carried a higher share in repaying the costs of state intervention after the World Financial and Economic crisis – directly due to a rise in VAT and indirectly due to cuts in public services and social welfare programs as well as less options for tax planning, avoidance and evasion.
- Reforms, which have been necessitated by the deregulation of capital, resulted in a fragmentation and “Americanization” of the labour market with a growing low wage sector.
- High liquidity and easy availability of credit was tempting for many low income households to take credits and loans without thinking about incurring costs – resulting in debts – which is why income on the top is not only rising, but indebtedness at the bottom as well.
- Poverty also depends on the composition and size of households and here internationally and nationally it can be observed that households with children are of particular vulnerability.
- Debt servicing of states necessitated cuts in investment into infrastructure and public services.

All this not only increases the wealth gap, but permeates/consolidates/worsens the situation of those living at the bottom of society.

4.2 Understanding poverty

It is difficult to define “poverty” in both absolute and relative terms and it always refers to a specific context. Of course, there is the widespread approach to define *absolute poverty* by linking it to a certain amount of money (i.e. 1.25 or 2 US\$/day). If you take this measure, poverty indeed has decreased over the past decades in many parts of the world. This approach is limited in several ways:

- First: This naked amount of money does not tell you what you are able to buy with this. And here, the Kenyan and Zambian partners to this study emphasize that decades ago people were better off with 1 USD only than they might be nowadays with 2 and more dollars since costs of living went up as well. Hence: Income may increase, but the situation of households is worse than it has been in the past, which the Kenyan and Zambian partners demonstrate with their annual Basic Need Basket analysis and statistics: Those findings confirm and supports UNDP’s observations (see above, 2.5.2).¹²⁹
- Second: This naked amount of money does not measure other relevant issues for the support of the poor such as access to education or healthcare.
- Third, it is not useful to measure abject poverty in wealthy countries.

Equally, definitions of *relative poverty* are wanting: take, for example, poor people whose earning is less than a certain percentage of this median or mean income and now give everybody in this country EUR 1000: Clearly, those poor people are better off with those extra EUR 1000 (provided prices are not rising at a similar pace), but they are still “relatively poor” because all received those EUR 1000 and the median or mean income just shifted for all. However: money alone is not everything. More factors need to be taken into account, e.g. the purchasing power (i.e. what one can de facto pay or buy with this amount) or inflation,

¹²⁹ Jesuit Centre for Theological Reflection: Basic Needs Basket. Online resource, see http://www.jctr.org.zm/index.php?option=com_content&view=article&id=61&Itemid=27. Jesuit Hakimani Centre: Kirii, M. Ph. (2006) The Nairobi Basic Needs Basket. Nairobi: Pauline’s Publication.

debt or taxes, which might totally devalue any increase in income one might receive beforehand.

There is some agreement on poverty within Germany and the European Union, building upon the concept of the median equivalised disposable income (*Nettoäquivalenzeinkommen*).¹³⁰ Median income is the amount that divides the income distribution into two equal groups, half having income above that amount, and half having income below that amount. It is to be distinguished from medium (average) income. Median equivalised disposable income is a complex figures arising from the number of persons (of different ages and, accordingly, differences in needs) who have to share in the household income resulting from earnings, minus taxes and plus public transfers, which then is available for actual spending. Starting from here, the EU defines

- Less than 70% of the respective national median equivalised disposable income signifies danger of poverty in situations of social risk.
- Less than 60% signifies risk of poverty.
- Less than 50% signifies relative income poverty.
- Less than 40 % poverty.¹³¹

But here, too, the monetary perspective is lacking. There are other factors, e.g. publicly provided goods which might increase opportunities and social mobility.

All this is pretty abstract, of course. Things are relatively easy to understand regarding poor countries, where people live from USD 2 or less a day. But how about Europe? Here the Eurostat office also collects data on “severely materially deprived people”, applying the following criteria:

The collection "material deprivation" covers indicators relating to economic strain, durables, housing and environment of the dwelling. Severely materially deprived persons have living conditions severely constrained by a lack of resources, they experience at least 4 out of 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone.¹³²

Some of those criteria are illustrated for various countries in the following table:
following table:

Table 13 Examples of poverty in Europe

The household cannot afford				
Country	Unforeseeable expenses beyond EUR 930	One week vacation outside the own house	Every second day an adequate meal	Heating the flat/house adequately

¹³⁰ See also

http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:Equivalised_disposable_income

¹³¹ Chapter “Armut”. See also

http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Income_distribution_statistics

¹³² Definition retrieved by entering “severely materially deprived people” in Eurostats search engine.

Schweiz	18,5	8,6	1,6	0,7
Niederlande	21,7	17,3	2,8	1,6
Österreich	22,8	21,6	7,2	2,6
Luxemburg	23,0	14,0	1,8	0,9
Dänemark	24,9	11,5	2,4	2,6
Belgien	26,1	27,8	4,8	7,1
Frankreich	33,0	27,7	6,8	6,0
Deutschland	34,5	22,8	8,8	5,2
Spanien	35,4	39,4	3,0	5,9
Vereinigtes Königreich	36,7	29,8	4,9	6,5
Europäische Union (EU 27)	37,7	37,8	9,6	9,8
Italien	38,6	46,7	12,4	18,0
Tschechische Republik	40,4	41,8	10,7	6,4
Polen	51,2	60,5	14,1	13,6

¹ Selbsteinschätzung der Haushalte
² Unerwartet anfallende Ausgaben in Höhe von mindestens 930 Euro aus eigenen Finanzmitteln zu bestreiten.
³ Mindestens eine Woche Urlaub im Jahr woanders als zu Hause verbringen.
⁴ Mindestens jeden zweiten Tag eine Mahlzeit mit Fleisch, Geflügel oder Fisch oder eine hochwertige vegetarische Mahlzeit zu essen.
Quelle: Statistisches Landesamt Baden-Württemberg/EU-SILC.

Source 34 (Elter, 2014, p. 39)

While the two items to the right explain themselves, the first item (no resources to cover unforeseeable expenses beyond EUR 930) indicates that in case of accident, sickness or some other uninsured damage to house, household, car, etc., people might be tempted to take up loans, which will bring the household into a debt situation (or increase existing debts).

4.3 The Capability approach

This research aligns itself with Christian Aid which discussed and defined its concept of “poverty” in the publication “Doing justice to poverty” (2008): According to Christian Aid’s paper, poverty can be best defined in the context of Amartya Sen’s “capability approach”: *‘in this approach, development is characterised as a series of freedoms or capabilities; and poverty, by implication, is unfreedom – the deprivation of capabilities.’* (Christian Aid, 2008, p. 3).

This definition is a rather formal tool which needs to be adapted and adjusted to each context under examination, but we feel that it is able to capture the tension between structural-social and individual aspects both nationally and globally, in the setting both of an industrialized and of a developing country. This conceptualisation of poverty overcomes the distinction between absolute and relative poverty because: in rich and poor countries alike, conditions of poverty, as identified with the “capabilities approach”, limit empowerment, capacities and options of poor people to lead a self-determined and free life, due to the lack of resources and opportunities. Poverty is thus gradable on a scale, but not categorized as “bad poverty” or “not so bad poverty” which might justify more efforts aiming to remove the former rather than the latter.

Following the “capabilities approach”, Christian Aid lists the following components to determine what specifies a “good” life outside of poverty. They are located in the following four dimensions:

1. Personal – health, education, mental well-being, decent work and leisure conditions.

2. Economic – income (as a basic aspect of material wellbeing), freedom from extreme inequality, economic security (that is freedom from extreme economic fluctuations).
3. Political – political freedom, political security (that is freedom from political violence or instability).
4. Social – community well-being, social relations, environmental conditions including environmental security (that is freedom from environmental fluctuations).

These components of a decent life ... can be summed up as empowerment. ... Empowerment – by allowing not unlimited, but fundamental, effective choices about economic, social, personal and political aspects of a life – is freedom from poverty. (Christian Aid, 2008, p. 9).

This position of Christian Aid concurs with postulates of Catholic Social Teaching, the foundation of this research, as, for example, reflected in II Vatican Council's Pastoral Constitution *Gaudium et Spes* which calls upon 'humanity to establish a political, social and economic order which will growingly serve man and help individuals as well as groups to affirm and develop the dignity proper to them' (GS 9). Or: The position of eminent Catholic Social Teaching expert Oswald v. Nell-Breuning who stated that in order to measure and improve poverty, not only *Lebenserhaltung* (sustenance of live) is an important measure, but also *Lebensgestaltung* (the ability of people to form their lives self-determinedly) (Nell-Breuning, 1980).

4.4 Present poverty and the poverty of future generations

Looking around and applying the definition above, we come across the following areas of poverty, where individuals and groups of people are hindered from unfolding their human potential and capabilities to their fullness:

- Individual poor (unemployed, homeless, working poor, recipient of social benefits, people without access to proper health care, education, water, sanitation...).
- Groups of poor people (all the unemployed, the homeless, the working poor, refugees, long-time sick...).
- Forms of cultural poverty such as individualism, consumerism, materialism, devaluation of basic human dimensions such as empathy, compassion, solidarity...
- Poverty in a national community (where even the wealthy with shiny cars have to use deteriorating roads, suffer from environmental degradation, and have to protect themselves from social conflict e.g. in "gated communities"...).
- Poverty in the entire worldwide community (where hunger exists which could be abandoned by a fairer distribution of goods, sickness, which could be healed, jobs which are destroyed, environmental degradation which afflicts agriculture...).

Beyond that, this research feels obliged to take into account also the situation of coming generations and people yet unborn. The way in which today's economic growth and wealth is created and accumulated will impact on the living-conditions of future generations by:

- Depletion of non-renewable resources due to today's exploitation;

- Deterioration of water supply, the quality of clean air, soil erosion, deforestation & desertification;
- Global effects of climate change will hit poor countries harder than wealthy countries (apart from the latter's ability to initiate counterbalancing measures while the poor lack capacities and capabilities);
- Increasing national and international public debts will limit poor states' capacity to advance the common good, e.g. because of the need to cut public services in order to service debts or to continue borrowing in order to sustain their public services;
- Countries with an ageing and declining population will encounter increasing problems to uphold the current systems of social security;
- Different and yet similar: in Africa, the middle generation will encounter massive problems by caring for the young and old during the transition process from a traditional to a modern-institutionalized social security system (Andebo, 2014a)

4.5 Declining social and economic mobility

Referring to the “Great Gatsby Curve”, it has been said in 2.7 that inequality in income and wealth is going along with inequality of opportunity. This is another legitimization problem for the existing situation: if a poor person has, at least in principle, a good chance to get out of his/her situation and move upwards economically and socially e.g. due to a good public education system, poverty and income inequality could be tolerable to a larger extent.

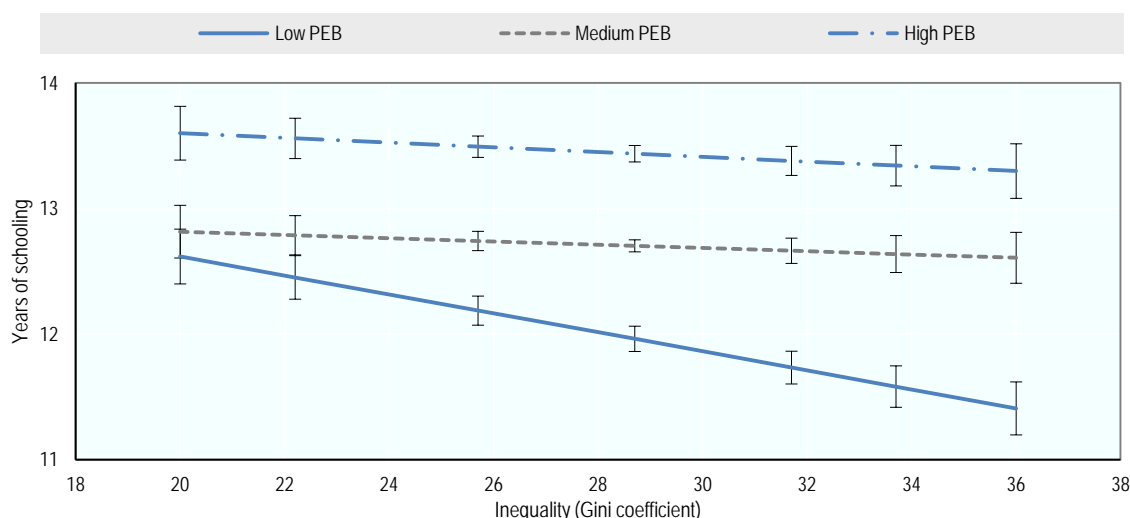
Not surprisingly, there is discussion whether (and to what extent) this link between inequality and social mobility exists (see also I/II/3.3). Some argue that Wilkinson, Pickett and their followers got it wrong and that data could also be evaluated and assessed differently, for example (Berthold & Gründler, 2014). But even global banks specialised in the management of large fortunes and private wealth start to indicate the danger inherent to inequality by referring to the “Great Gatsby Curve” and the observations accumulated here,¹³³ which is why this research rather follows those supporting than those criticising it.

As it has been shown in 2.7 (and will be deepened in the country reports) this kind of mobility is decreasing in societies which are characterized by inequality of income and wealth. For somebody's place in society it is increasingly important into which kind of family s/he is born and the likelihood is rising that the child will not move higher than the parents.¹³⁴ The wealthier somebody's parents are, the better the medical, educational, etc. institutions which are accessible to that person. This is one of the alarming findings of the third OECD study into inequality. The lower the Parental Educational Background, the higher the likelihood that also education of children is affected:

¹³³ See for example the report from an Credit Suisse Expert meeting “Inequality: Balancing the Extremes” (2014, July 9), beginning at minute 3.01. In: *YouTube*, Retrieved from <https://www.youtube.com/watch?v=gknsVufDL8g&list=PL0B44DF914C4FB3ED>

¹³⁴ Other related studies: OECD (2014, June) United States – Tackling High Inequalities, Creating Opportunities for all. Retrieved from <http://www.oecd.org/unitedstates/Tackling-high-inequalities.pdf>. For Germany see OECD (2012) Education at a Glance – Country note Germany. Retrieved from <http://www.oecd.org/germany/EAG2012%20-%20Country%20note%20-%20Germany.pdf>. Chapter 5 (“A Family Affair: Intergenerational Social Mobility in OECD countries”) of OECD (2010) Going for growth. Retrieved from <http://www.oecd.org/eco/labour/economicpolicyreformsgoingforgrowth2010.htm>.

Graphic 64 Link between parental education and childrens education opportunities



Source 35 (OECD, 2015a, p. 97)

With sinking tax revenue, both the quality of public institutions is declining in comparison to those privately owned, and also accessibility is afflicted: while wealthy families have little problem in paying high tuition fees, the public sponsoring system for gifted, but poorer children suffers under spending cuts in times of budgetary and fiscal constraints. Recent studies in the USA seem to prove this observation:

Wealthier parents have been stepping up education spending so aggressively that they're widening the nation's wealth gap. When the Great Recession struck in late 2007 and squeezed most family budgets, the top 10 percent of earners — with incomes averaging \$253,146 — went in a different direction: They doubled down on their kids' futures. Their average education spending per child jumped 35 percent to \$5,210 a year during the recession compared with the two preceding years — and they sustained that faster pace through the recovery. For the remaining 90 percent of households, such spending averaged around a flat \$1,000, according to research by Emory University sociologist Sabino Kornrich. "People at the top just have so much income now that they're easily able to spend more on their kids," Kornrich said.¹³⁵

One might argue against this that there are other publicly financed programs assisting kids from poorer social classes. This is not the case, however:

The education divide has grown despite the multi-decade presence of Head Start, the federal program for nutrition and early childhood education. Most states rely primarily on a private pre-school system that can reinforce the wealth gap, said Sean Reardon, a Stanford University professor who has studied education and income inequality.¹³⁶

Even worse: loans for poorer students enabling them to do and finish studies seem to be a major issue that many people cannot get out of the need to repay debt in the first place and are unable to start spending or saving for own needs.¹³⁷

¹³⁵ Boak, J. (2014, October 1) School spending by affluent is widening wealth gap. In: *Associated Press*. Retrieved from <http://finance.yahoo.com/news/school-spending-affluent-widening-wealth-164018926.html>

¹³⁶ Ibid.

¹³⁷ Thomson, C. (2014, March 27) \$1 trillion student loan debt widens US wealth gap. In: *Associated Press*. Retrieved from <http://finance.yahoo.com/news/1-trillion-student-loan-debt-141440433.html>

It is because of the danger that social mobility is decreasing and social status is solidifying, that active pro-poor policies are called for by OECD (see 2.3.3) and UNDP (see 2.5.). While one might expect such recommendation from UNDP, the OECD findings need to be emphasized who argues, by referring to their extensive data base from developed countries, that nowadays the household into which a child is born also determines the success of education.

But given the situation of public finance, it is exactly here where no adequate money is at hand to improve the situation. ‘The nations of Europe have never been so rich. What is true and shameful, on the other hand, is that this vast national wealth is very unequally distributed. Private wealth rests on public poverty, and one particularly unfortunate consequence of this is that we currently spend far more in interest on the debt than we invest in higher education.’ (Piketty, 2014a, p. 567)

4.6 Contemporary discussion

At least in the developed countries, awareness is growing about the problem of wealth on the one hand, and public, private and social poverty on the other. This is the case for various reasons: partly because of the World Financial and Economic Crisis and the Eurozone Crisis and its revelation of shortcomings of the neoliberal doctrine, partly linked to the “rescue packages” by the government for the financial and economic sector and the resulting burden of debt for the general taxpayer, partly because of the behaviour of the wealthy (e.g. bonus payments). There were also mass protests within the population such as the “We are the 99 percent”, the “Occupy Wallstreet” and the “Indignados” movement, “Anonymous” or the “Robin Hood” campaign. All that gained and continues to gain support among NGOs, churches, economic and political leaders. If, for example, the ground would not have been prepared by all those discussions and actions, the reception of Thomas Piketty’s book would not have been the way it happened to be wherever it was published. Opportunities increase in that, for the first time since the end of the “redistribution era” (1945-1970), another attempt can again be initiated to decrease national and global inequality and poverty.

But there are still major problems to overcome:

- Seeing the problem of a paradigm which has ruled supremely for decades is one thing, knowing a better alternative is another.
- Those who (still) profit from the present system oppose any changes and are able to do so since they are very powerful and influential.
- Many experts are still trained in the old paradigm and therefore unable to re-think issues and elaborate alternatives.

4.7 Taxation, poverty and the poor

Nobody likes taxation, levies, duties and mandatory social security contributions. But they are, for many reasons, an unavoidable necessity in the world which we know: Without tax revenues, hardly any state institutions, public services and systems of social security would exist – the latter an important instrument to establish social justice in a given society via instruments of redistribution. And nobody is seriously able to present a scenario where world society in its complexity could function without those institutions and services. Therefore it is not the fact of taxation as such, but the way and kind of taxation which is under discussion and the ways in which this money is collected and being spent.

Taxes are very democratic, and it is often overlooked that everybody pays taxes; even the poorest by paying indirect taxes such as VAT. More specifically regarding the poor, taxation affects them in three main ways:

1. Negatively, when they are paying tax. Here, obviously, the research has to demonstrate whether and how taxation worsens the situation of the poor.
2. Positively, (1) when they receive tax credits or allowances (when they have to pay less tax than others due to their social and material and economic situation).
3. Positively, (2) when they receive handouts (in kind or cash) from tax revenue.

Here, the discussion so far has resulted in the following insights:

1. The redistributive effect is decreasing, people receive less support.
2. The fragmentation of the post-crisis job market led to a deterioration of labour opportunities, decreased tax revenue and, in some areas, forced states to top-up wages so that labourers can lead a decent life in the first place.
3. The tendency of neoliberal globalization to reduce direct progressive personal and corporate taxes by re-focusing taxation efforts upon indirect taxes such as VAT puts an overly proportionate disadvantage on the low income and poor households.

The fact that even the poorest people pay taxes and (because indirect taxation has a regressive effect) carry a *proportionally* heavier tax burden than the wealthy, is often overlooked, but ethically important: insofar as the poor pay taxes, they, too, contribute to the revenue which in a second step is used to alleviate their situation.

4.8 Inequality and taxation

There is growing awareness that inequality impacts upon the potential of collecting taxes: the more unequal a society is, the more is the tax burden upon very few, the more revenue is lost if those few get into troubles. This is an insight common to developed and developing countries.

In Britain, employment has risen by 1.3m in the past five years, but the number of taxpayers has fallen by 2.2m. More than 40% of American households pay no income tax. In contrast, the most highly paid 1% of workers in Britain pay 28% of all income tax, while in America it is 46%. In 1979 those shares were 11% and 18% respectively. Corporate income taxes show the same concentration. In Britain just 830 firms pay almost half of all corporation tax. Five American industries account for 81% of the country's corporate tax revenue, but just a third of its companies.¹³⁸

It is similar in Africa: Tanzania, for example, had a registered 46 million inhabitants in 2008, but only 400,000 registered tax payers. In November 2010, ca. 400 taxpayers accounted for about 80% of all tax revenue.¹³⁹

¹³⁸ For Germany see#. "Inequality and the narrowing tax base: Too reliant on the few" (2014, September 20) Retrieved from <http://www.economist.com/news/leaders/21618784-taxes-are-best-raised-broad-base-many-countries-it-worryingly-narrow-too-reliant>

¹³⁹ Fjeldstad, O. (2015) Besser abkassieren. In: welt-sichten Nr. 4 (2015) S. 34-37. Retrieved from <https://www.welt-sichten.org/ausgaben/27564/unternehmen-fair-bringt-mehr>

A better spread of income and wealth will be beneficial for growth and tax revenue, no vicious, but a beneficial circle.

4.9 Conclusion: The global and the national

Clearly, how developments over the past decades afflict the situation of the poor can be best and most convincingly elaborated in view of national contexts, which is why our country studies will be important. Given the world as it is, the nation state is also continually the focal and starting point of everything pertaining to tax justice – which is the proper issue at stake for this research project.

There are still large differences among states, e.g. the three which participate in this study. Just one example: somebody earning as much as US\$ 10 per day is counted among the African middle class, which so far makes up 4% of sub-Saharan African society, a small percentage of the population but a number which is slowly growing (Christian Aid, 2014, p. 13). At the same time the median income in Bavaria, the focal point of the research in Germany, lies at EUR 1,846. There, the middle class still makes up the core of society, but fizzles out at both ends (Bayerisches Staatsministerium für Arbeit und Soziales, 2013, p. 10). At the same time, there are global developments and structures affecting the situation of each and every country, no matter whether it is developed or developing.

For another reason as well, it would be wrong to focus exclusively on the poor in developed countries and their situation and to neglect the situation and assistance for the poor worldwide: Globalization is not just a process in the area of trade and finance. It is not just a one-way road which profits exclusively the wealthy countries. Growing and achieved interdependence always works both ways. The infrastructure enabling travel and transportation of goods between global regions and countries, for example, provides for undesirable effects, hitting those who think that they are far away from trouble. Via transportation, problems in poor countries may well have repercussions on wealthy countries by overcoming national borders, e.g. by the emergence of virus illnesses travelling with tourists, (illegal) migration, worsening of the climate change by deforestation, national and global destabilisation and insecurity due to terrorism.... This is why Ulrich Beck coined the expression “globalization of risk” which may turn into a globalization of insecurity.

5 Context 1: Globalization and inequality

It is now time to look into the structures and the background of major developments underlying the kind of globalization which has been dominating the last decades. The following discussion is not dealing with the question whether globalization processes are good or bad as such. Rather, it is a treatment of just one aspect, namely, the relationship between globalization and inequality and why public poverty and governmental dependence on external financing grew to the existing level globally, regionally and nationally.

Here it has become increasingly obvious that quite a number of assumptions underlying the neoliberal paradigm of globalization are at odds with empirical developments: for example, the already mentioned Kuznets model,¹⁴⁰ the Heckscher/Ohlin prediction (see

¹⁴⁰ As to Kuznets see above 2.5. Here the IMF states ‘Indeed, income inequality has risen in most countries and regions over the past two decades, including in developed countries which were thought to have reached levels of prosperity where inequality would level off in line with the predictions of the Kuznets hypothesis.’ (Jaumotte, Lall, & Papageorgiou, 2013, p. 272+287f.).