SDG 10

Squeezing the State: corporate influence over tax policy and the repercussions for national and global inequality

BY KATE DONALD, CENTER FOR ECONOMIC AND SOCIAL RIGHTS

Reducing inequality is one of the central pledges of the SDGs, appearing as a stand-alone goal (SDG 10) and as a cross-cutting commitment to "leave no one behind". Reducing inequality requires resources; both *(re)distributing* currently available resources more fairly, and raising more resources to invest in goods and services which tackle inequality. Taxation is an essential tool for governments to achieve both of these objectives; hence the inclusion of fiscal policy in target 10.4 ("Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality"). But so far, corporate tax abuse closes off both these essential channels for reducing inequality.

The SDGs do not explicitly mention the need for redistribution, but fiscal policy can only really reduce inequality if it is redistributive, with progressive taxes (whereby high-income earners pay higher rates of tax) and pro-poor social spending. Certainly, it is clear that the current way that resources are distributed (skewing increasingly and obscenely to the very richest) is a major factor in the global inequality crisis which the SDGs seek to tackle.[1] On the other hand, the SDGs do recognize the need for raising more resources – SDG 17 (and indeed the Addis Ababa Action Agenda) is largely focused on how to find the money to finance the SDGs, and places a particular emphasis on domestic resource mobilization. At the same time, we have increasing evidence to show how government investment is a crucial determinant of inequality; public services reduce inequality and provide 'virtual income',[2] whereas recent austerity measures which have slashed investment in public services have increased economic inequality in those countries.[3]

Corporate tax avoidance and evasion (or tax 'abuse' collectively) close off both these essential channels for reducing inequality. They both perpetuate the mal-distribution of resources upwards – to multinational corporations, chief executives and major shareholders – and deprives countries of revenue they could use to progress towards greater equality. This type of corporate behaviour also affects inequality between countries (which SDG 10 also pledges to reduce), disproportionately draining developing countries of potential revenue, and perpetuating the unequal status quo in global economic power and governance.

1 The role of fiscal policy as a determinant of inequality is explored in more depth in CESR (2016), alongside a range of other crucial policy areas. This chapter focuses specifically on tax policy as a case study of corporate influence over a critical area of policy affecting the achievement of SDG 10.

2 Oxfam (2014).

3 Oxfam (2013). The OECD has also cautioned against the impacts of austerity on income inequality, see www.oecd.org/forum/government-balances-growth-and-income-inequality.htm.

Role of corporate power

Corporate tax abuses do not happen in a political vacuum, and the legal loopholes corporations use to evade taxes do not spring up independently. The largest corporations have a huge amount of political power, and they therefore play a major role in pushing for tax loopholes, tax incentives, financial secrecy regimes and other tax-related policies which benefit them.

There is a striking lack of transparency in most countries with regards to corporate lobbying and influence over policy decisions. By its nature, corporate influence is usually denied or concealed. However, there are certain contexts where corporate power over tax policy has been studied and/or quantified. Recent findings from Oxfam America show that from 2009 to 2015, the USA's 50 largest companies spent approximately US$ 2.5 billion on lobbying, with approximately US$ 352 million spent lobbying on tax issues. Meanwhile, they received over US$ 423 billion in tax breaks; US$ 1,200 for every US$ 1 they spent lobbying on tax issues.[4] Also in the US, researchers have found that increasing registered lobbying expenditures by 1 percent appears to lower effective tax rates by up to 1.6 percent in the following year for the average firm.[5] Taking the long view, since 1952 corporate profits as a share of the U.S. economy have risen from 5.5 to 8.5 percent, while corporate tax revenues as a share of the economy have plummeted from 5.9 to 1.9 percent.[6]

The Instituto Centroamericano de Estudios Fiscales (ICEFI) has shown how elites in many Central American countries (including from corporate sectors like finance, agribusiness, coffee and other export-oriented sectors) have used their influence to fight for favourable fiscal policies, block tax reforms and preserve loopholes and offshore arrangements.[7] Oxfam Peru has demonstrated how the mining sector there effectively 'captured the State', using its power to prevent reforms which would crack down on tax evasion, force mining companies to pay back unpaid tax debts, or impose new taxes in the midst of soaring metal prices.[8]

Beyond tax-specific lobbying, the detrimental political and economic effects of corporate lobbying have been starkly shown in several other cases. For example, a working paper by IMF staff found that lobbying by the financial industry could have contributed to the global financial crisis 2007/2008, as it was associated ex ante with more risk-taking and ex-post with worse performance.[9]

Domestic effects on economic inequality

The prevalent policies and practices which allow corporations to avoid paying their fair share of tax include low effective rates of corporate taxation, tax incentives such as tax breaks and subsidies, lack of transparency in corporate ownership and reporting, financial secrecy policies, and loopholes in tax policy which allow huge write-offs or profit shifting/minimization.

These methods have resulted in vast sums of potential revenue lost to government coffers:

- Corporate income **tax rates** have declined in both developed and developing countries by around 15–20 percent over the past three decades.[10]
- It is estimated that US$ 138 billion in revenue is lost annually in developing countries through corporate **tax incentives**.[11]

4 Oxfam America (2017).
5 Richter et al. (2008).
6 Blair (2016).
7 ICEFI (2015).
8 Mendoza/de Echave (2016) and Durand (2016).
9 Igan et al. (2009).
10 Crivelli et al. (2015).
11 ActionAid (2013).

- Corporate tax abuses facilitated by loopholes, lack of transparency and tax havens deplete revenues of developing countries yet further:

- US$ 100 billion annually through tax avoidance by multinational enterprises, according to UNCTAD;[12]

- US$ 212 billion per year through corporate base erosion and profit shifting (tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax jurisdictions) according to IMF economists.[13]

These figures in many cases represent more than developing country governments receive in Official Development Assistance (ODA), and compare to significant portions of their GDP, especially of their public services budgets. For example, in Zambia, combined losses from profit-shifting in the mining sector may equal as much as US$ 326 million annually, equivalent to about 60 percent of the 2015 health budget.[14]

The result of such corporate maneuvers is less government revenue to redistribute towards those who badly need it, and to pay for goods and services which help to equalize upwards (for example, public services and social protection). These policies and practices therefore stymie efforts towards greater equality and are in direct conflict with several SDG targets – in particular targets 10.1 ("By 2030, progressively achieve and sustain income growth of the bottom 40 percent of the population at a rate higher than the national average") and 10.4 – and undermine or hinder the achievement of many others (e.g., those that relate to public services or social protection and even gender equality and poverty reduction).

As described above, this situation also creates a kind of inequality trap, whereby growing economic inequality heightens political inequality, which then increases the ability of corporations and rich elites to manipulate policy-making to protect their wealth and privilege, while the power of labour unions, for example, is increasingly eroded).[15] A badly-resourced government also has less capacity to regulate corporate behaviour, to collect and audit taxes, and to shape the market in positive, human-rights compliant ways.

International effects

In addition to the myriad effects on domestic inequality, corporate capture over fiscal policy in one country can have profound effects internationally. This has been the case, for example, when corporations have lobbied for corporate tax 'incentives' as a precondition for investment – creating a 'race to the bottom' in terms of corporate tax rates and incentives from countries competing for investment. Low-income countries which rely more heavily on revenue from corporate tax (but also desperate for foreign investment) are particularly badly affected.

Countries' tax and finance policies have huge 'spillover' effects, especially those of rich countries with the greatest say over global economic governance. For example, when countries such as Switzerland, the UK, or the USA preside over financial secrecy jurisdictions (tax havens) where corporations can easily move their money to avoid or minimize taxable income in the countries where they operate, the effects are felt around the world. The tax abuses enabled by such jurisdictions and policy regimes represent a huge drain on developing countries, constraining their spending power, policy space, economic space, and furthermore their ability to reduce inequality. The impact is felt by real people in these countries; in particular, the poorest and most disadvantaged people bear the brunt, through lack of investment in poverty reduction, public and social services, and environmental protection. Often, progress towards greater gender and economic equality is threatened as a result, and violations of people's rights (for example to education, health, water and sanitation) may be worsened or perpetuated.

12 UNCTAD (2015).

13 Crivelli et al. (2015).

14 Alliance Sud et al. (2016).

15 Jaumotte/Osorio Buitron (2015).

As well as reinforcing or exacerbating inequalities within countries, cross-border corporate tax abuse undermines another stated aim of SDG 10 – to reduce inequality between countries. It operates like a magnified, international version of the vicious circle of economic and political inequality described above. By draining poorer countries of resources, it constrains the economic and political power of these countries, hindering their ability to push for meaningful changes in the international tax system or global economic governance. So, for example, developing countries' demand for an intergovernmental tax body has been resisted by rich countries, who insist that global tax rules should continue to be set within the Organisation for Economic Cooperation and Development (OECD) where they have effective control.[16]

Target 10.b of the SDGs pledges to "Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest". Currently, due to policies and practices which enable multinational corporations to avoid paying taxes where they make profits or extract resources, the opposite is happening. Finance is flowing out of the States where need is greatest, often to tax refuges in very wealthy States.

Bringing human rights to bear in countering corporate capture of tax policy

In recent years, corporate CEOs gathered in Davos for the World Economic Forum have bemoaned rising economic inequality, while at the same time, many of these same corporations go to great lengths to evade or minimize their tax responsibilities. Many multinational corporations are rushing to join multi-stakeholder partnerships for the SDGs, encouraged by many governments' uncritical embrace of the idea of the private sector as the benevolent engine of SDG implementation. Tellingly, only a small fraction of these partnerships are devoted to SDG 10 – the least out of any of the 17 goals, by a significant margin – while by far the largest number of partnerships have been registered for SDG 8 on economic growth where business entities naturally have a vested interest.[17]

The amount of taxes corporations pay, and where they pay, has profound effects on human rights and inequalities. How can the status quo of rampant corporate tax evasion and avoidance be remedied? This is not just a 'corporate social responsibility' issue (although it would be a step in the right direction for more large companies to recognize that paying a fairer share of taxes is an indispensable part of being a 'good corporate citizen'). It is ultimately the role and indeed obligation of governments to prevent tax abuse and to regulate corporate behavior.

In this area, human rights obligations – including extraterritorial obligations – can be of real strategic and moral value. There are many initiatives in the human rights field to address and rein in corporate behaviour that is infringing on human rights enjoyment. The UN Guiding Principles on Business and Human Rights were endorsed by the Human Rights Council in 2011. Unfortunately, they do not mention corporate tax practices, but this deficiency could potentially be remedied in the national action plans being developed for their implementation. In the meantime, there are ongoing efforts to negotiate a binding human rights treaty on transnational corporations and other business enterprises (with significant resistance from several UN Member States, notably the USA and the EU). The Committee on Economic, Social and Cultural Rights (CESCR) is in the process of drafting a new General Comment on business activities,[18] which would provide an authoritative interpretation of what States are obligated to do under the International Covenant on Economic, Social and Cultural Rights to regulate corporate behavior, including to tackle tax abuses.

Meanwhile, human rights monitoring bodies are beginning to tackle tax policy and tax abuses as a serious human rights issue. For example, the Committee on the Elimination of all forms of Discrimination Against Women recently challenged Switzerland on

16 Chonghaile (2016).

17 See https://sustainabledevelopment.un.org/partnerships/.

18 www.ohchr.org/EN/HRBodies/CESCR/Pages/Discussion2017.aspx.

Consolidating misery or catalyzing opportunity? The political economy of inequalities in East Africa

BY ARTHUR MULIRO WAPAKALA, DEPUTY MANAGING DIRECTOR, SOCIETY FOR INTERNATIONAL DEVELOPMENT

The past few years have seen the economies of the East African Community (EAC) Member States grow by leaps and bounds, with the region averaging some 6 percent annual GDP growth since 2011. These growth rates have been heralded as the proof that the region has finally made a structural shift in its economies, and this is now held out as a harbinger of greater things to come. Furthermore, the potential emerging from the recent hydrocarbon discoveries and the extractive industries in general as well as the long-awaited renewal of dilapidated rail, road and port infrastructure has also served to boost optimism. Indeed, the 'mix' of the region's economies suggests that there is a deeper and perhaps subtler set of changes taking place.

But this economic expansion has been accompanied by a growth in inequality in virtually all countries of the EAC. Put bluntly, not all citizens of East Africa have seen or felt the benefits of these stellar GDP growth figures. If anything, for a growing number of them, life has become a much harsher and unpleasant enterprise. The economic boom has not generated the jobs it was expected to generate and there is a growing frustration, perhaps a realization that these jobs will never materialize. For all the progress made in recent years, the levels of poverty, hunger and malnutrition in the region are still staggeringly high and serve to underline the adage, 'You cannot eat GDP'.

If any progress is to be made in closing the inequality gap in East Africa, it cannot be done without addressing the close linkages in the relationship between politics (domestic and regional) and inequality. In this regard, it is time to begin to ask hard questions of the leadership of the region. For instance: To what extent are the region's political institutions linked to the persistence of poverty? What political factors affect the evolution of inequality and what are the effects of inequality on political choices and outcomes? Is there a relationship between the various ethnic or national identity formations present today and how public goods are provided?

What is clear is that in the absence of committed efforts to dismantle and recreate the institutions that distribute power and the networks that have emerged to extract benefits from them, it is unlikely that the inequalities seen to date will simply vanish. If anything, they will become more glaring and eventually possibly even overwhelm the societies hosting them. Thus, the imperative that the leadership of the region – at all levels – needs to be committed to is one of institutional transformation to ensure that they are less amenable to capture and that their benefits are widely distributed within the population.

The Society for International Development (SID) 2016 *State of East Africa Report* considered the political economy of inequalities in East Africa and what role the regionalization process could play in helping to narrow the present inequality gaps.[1] The conclusion of the authors was that everything was dependent on the choices that the leaders are willing to make; whether they are willing to take bold steps to reconfigure the institutional and power architecture to ensure that all citizens of the region benefit from integration as opposed to only a (small) segment.

1 Society for International Development (2016).

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The report analyses nine sectors divided across three pillars: an economic pillar, a social pillar and a political pillar. In each of these sectors, the report asks questions that straddle an additional three domains:

- The **fiscal domain**: Where are resources obtained from and how are they spent?
- The **normative domain**: What policy decisions are made (or not) and who benefits?
- The **ethical domain**: Whose narrative prevails and what instruments are used to weaken the moral core of society?

This report sets out a number of key messages for its readers to consider. Whilst the emphasis of the messages focuses on changes that need to take place at the national level, it is impossible to divorce the needed changes from the regional integration question as each country comes into the regional space with its individual strengths and weaknesses and this has an impact and influence on the character and pace of regionalization.

As such – and as the report points out – the biggest task facing the state in East Africa today is not so much that of pursuing economic growth at any cost, but that of creating the foundations for lasting human development in the region.

For instance, the massive spending on 'key' infrastructure projects should factor in the broader public good at the outset and not as an afterthought. By reinforcing the livelihoods of each individual citizen, the potential for national and regional growth will be multiplied several times over.

When considering the levels of inequality present in the region today, it is evident that the implicit social contract that has accompanied East African States since their formation and independence needs to be rethought and renegotiated with a view to ensuring that the majority of the citizens get a fair return out of this bargain. It is highly likely that if inequalities continue to deepen, future generations of East Africans will live worse lives than the current generation of East Africans. In any case, a 'catastrophic convergence' of politics, economy and environment does not bode well for the region. Any magnification of systemic challenges could overwhelm its response and resilience mechanisms.

Thus, the challenge for East Africa today remains that of unmasking and tackling the political economies that are drivers of inequalities at the national level. Anything less will not deliver a regional integration process that is truly people centered and sustainable, one that is transformative for the lives and choices of East Africans. Anything less will be simply an effort in consolidating misery.

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Arthur Muliro Wapakala is Deputy Managing Director of the Society for International Development (SID), based in Nairobi, Kenya

the detrimental impact its financial secrecy policies have on women's rights and sustainable development in poorer countries.[19] The CESCR similarly expressed alarm[20] about several aspects of tax policy in the UK, recommending that the country take strict measures to tackle corporate tax abuse.[21] Pursuing accountability through human rights bodies is therefore one way forward with increasing potential.

In terms of targets for advocacy, domestic tax reforms are badly needed in many contexts, to make the tax system fairer and to crack down on tax abuse, but collective action at the global level is also indispensable. In a situation where capital is highly mobile and multinational corporations sprawl across borders, no country can tackle these issues in a vacuum. All countries have a role to play, but rich countries who effectively set the rules of the global marketplace and serve as home State to many of the most powerful multinational corporations have particular responsibility. Those countries that preside over tax havens are even more culpable.

Target 10.6 pledges to "Ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions in order to deliver more effective, credible, accountable and legitimate institutions". A more democratic, egalitarian decision-making system with regard to tax is badly needed to remedy many of the problems outlined above and facilitate progress towards SDG 10. An intergovernmental UN tax body, for example, in which all countries have an equal seat at the table (unlike the OECD) should be empowered to rewrite the rules of the broken international tax regime – in particular to redistribute the right to tax capital in a fairer way. Human rights arguments are increasingly being brought to bear in efforts by G77 countries and civil society groups to push for more equitable tax policy governance at the international level.[22]

In order to tackle outsize corporate influence over tax policy, stricter transparency requirements will be essential. This includes more stringent disclosure and reporting laws regarding corporate lobbying, political donations and access to policy-makers and policy processes, at the national and international level (for example at the OECD, UN or G20). But it will also require broader, more sweeping reforms regarding corporate financial transparency – for example compulsory registries of beneficial ownership, country-by-country reporting, and automatic exchange of tax information. Implementation of such measures is an essential step towards meeting the equality, governance and international cooperation goals of the 2030 Agenda, and so could usefully be included as SDG indicators. Unfortunately similar proposals[23] have been resisted so far at the level of the global indicators in favour of a set which is very weak on issues of corporate accountability and transparency, and international tax system reform. However, they could still potentially be included in national and regional indicator sets for SDG 10, SDG 16 to promote peaceful and inclusive societies, access to justice and inclusive institutions, and SDG 17 on means of implemention.

Conclusion

Currently, domestic and international tax systems benefit big corporations at the expense of people, exacerbating inequality and undermining human rights. Corporate tax abuses and prevailing trends with regard to under-taxation of multi-national enterprises are a major obstacle to achieving SDG 10. Indeed, by depriving countries of badly-needed revenue to spend on public services, environmental protection and poverty alleviation, they potentially threaten achievement of the whole 2030 Agenda. SDG 10 however is particularly vulnerable, because the issue of inequality is so directly related to who controls

19 www.cesr.org/switzerland-held-account-cost-tax-abuse-women%E2%80%99s-rights.

20 UN Doc. E/C.12/GBR/CO/6.

21 Both these decisions came about following submissions by human rights and tax justice advocates, including the Center for Economic and Social Rights and the Tax Justice Network. On Switzerland see Alliance Sud et al. (2016), and on the UK see CESR et al. (2016).

22 CESR (2017).

23 CESR/Christian Aid (2015).

resources, how much tax different groups pay, and who has access to power and influence over policy. The goal of reducing inequality within and between countries simply cannot be solved by market-based solutions or attention-grabbing private sector initiatives; it requires serious efforts to transform power relations and resource distribution to stand any chance of success.

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Kate Donald is Director of the Human Rights in Development Program at the Center for Economic and Social Rights (CESR)