



How do Financial Markets Create Global Inequality?

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Debt and Development Coalition (DDCI)

- DDCI is a **global financial justice organisation**.
- We want a fair and just economic system for **everyone**.
- We work on **debt** and **tax** issues.
- We focus on the **cause** of inequality, rather than the **symptoms**.

How do Financial Markets Create Global Inequality?

- What do we mean by ‘financial markets’?
 - Bonds/Commodities/stocks/derivatives??
- What are the links with the global south?
- Introduction and overview of the role of debt
- Introduction and overview of the role of tax



Walking Debate

Walking debate

“In countries where governments, even democratically elected governments, always protect the wealthy, the poor shouldn’t have to repay their debts.”

Walking debate

“A change of government means nothing without a change of economic policy.”

Walking debate

“Its only fair that, even when a government changes, the country is still obliged to repay its debts.”

Walking debate

“Governments have an obligation to reduce spending in line with their income.”

Walking debate

'There is a moral, as well as a legal, obligation to pay tax'

What do we talk about when we talk about Financial Markets?



7.34	+5.97%	▲	100.0
.89	+2.13%	▲	564.2
45	+6.43%	▲	765.9
67	-11.6%	▼	120.
64	+23.1%	▲	893.
89	+5.56%	▲	128.
8	-3.67%	▼	432.
7	+11.3%	▲	765.25



Some examples of Financial Markets

- **Bond markets** - buying and selling debt
- **Commodities markets** – buying and selling commodities (oil, etc)
(*futures market*)
- <https://www.youtube.com/watch?v=ySxHud7abko>
- **Stock market** – buying and selling shares/'equities' in companies
- **Derivatives market** – buying and selling products which 'derive' their value from an underlying entity (e.g. asset, index, interest rate)
- Also: foreign exchange markets, money markets, futures markets..

How do these markets affect the Global South?

Ghana: The Ghanaian Cedi has fallen by 50% against the US dollar since the start of 2013 after falls in prices for commodity exports such as oil and gold, and lower oil production than expected

Collapse in commodity prices leads to \$61 billion funding gap for impoverished countries

Mozambique: Since the beginning of 2013 the Mozambique Metical has fallen 40% against the US dollar. Prices for Mozambique commodity exports such as aluminium, oil, coal, gas, titanium and sugar have been falling. Mozambique is now expected to spend 10.1% of government revenue on external debt payments in 2016, compared to a prediction of 6.7% three years ago.

Jubilee Debt Campaign
11 April 2016

Amount is \$13 billion more than countries studied receive in aid each year

Impoverished countries governments could be up to \$61 billion in deficit due to the crash in global commodity prices and strengthening of the US dollar. This is reducing government revenue and increasing the relative size of debt payments in foreign currencies.

An analysis of low and lower middle income country governments by the Jubilee Debt Campaign finds that there have been significant falls in government revenue, and increases in debt payments compared to what was expected just three years ago. This leaves many countries facing a large funding gap on what was expected. For comparison, this is \$13 billion more than the \$48 billion of aid which is claimed by the OECD to be spent in the 51 countries included in the study.

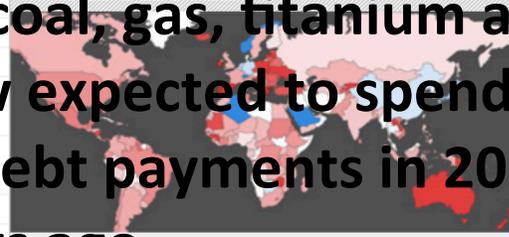
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What else can I do?

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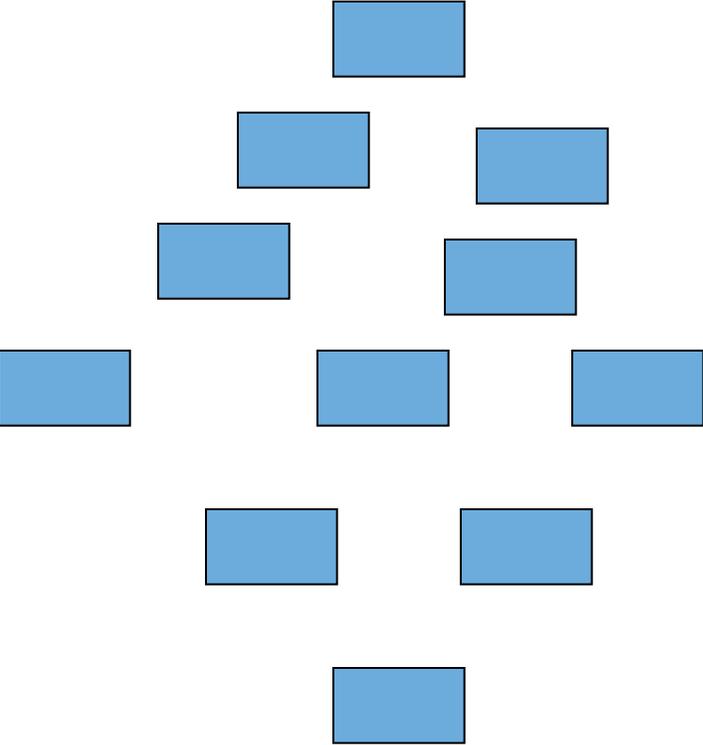
WORLD DEBT MAP



Our interactive map of debt around the world. [View >>](#)

A quick introduction to Debt.... Why debt justice?

Debt Diamond: Ranking the Debt Statements



Some key concepts

- How do countries become indebted in the first place?
- Illegitimate and unsustainable debt
- Cycles of indebtedness
- Power



Who is Lending? The creditors...

- **Public lenders - funded & run by governments:**
 - Multi-lateral: World Bank, IMF, Inter-American Dvmt Bank, Asia Dvmt Bank...
 - Bi-lateral: govmt – to – govmt
- **Private lenders - commercial lenders (banks, financial/ investment companies):**
 - Levels of private lending are rising;
 - Interest rates are higher; no development objectives; not easy to track.
 - Lending logic; cycles of lending; debt cancellation instead of lending.
 - Vulture funds

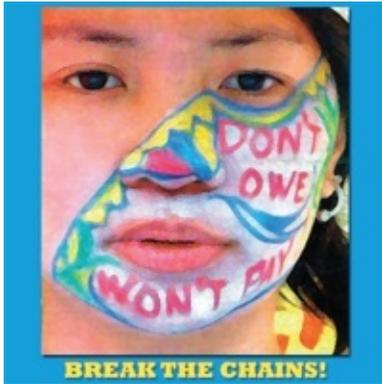
Who Controls Global Development Finance?

***IMF* - focus on global financial stability**

- Unaccountable leadership selection (Europe)
- Lack of Southern representation in decision-making (G8 46% of vote)

***World Bank* - clear development focus**

- Unaccountable leadership selection (USA)
- Lack of Southern representation in decision-making. 2010 richer countries have 60% of voting power



Debt Solutions

- **Debt cancellation:** creditors agree to cancel debt. (Complete debt write down.)
- In the case of **unsustainable** and **illegitimate debts**.
- There have been internationally agreed mechanisms that have sought to reduce the indebtedness of poor countries, such as **HIPC**, 1996, 1999, (Highly Indebted Poor Countries Initiative) and **MDRI**, 2005 (Multilateral Debt Relief Initiative).
- Some improvements due to these initiatives; US \$126 billion debt has been cancelled.
- However, organizations like **DDCI** and **Jubilee Debt Campaign (JDC)** point out that debt has been rising, and once again becoming unsustainable, in some of the countries who initially benefitted from these mechanisms.

A quick introduction to tax.... Why tax justice?

- Tax dodging in poor countries equals 3 times the global aid budget
- Africa was cheated out of US\$11 billion in 2010 through trade mispricing (Oxfam 2015)
- Developing countries lose estimated US\$100billion a year as a result of tax avoidance schemes involving tax havens (UNCTAD)

How does this work? Transfer pricing and tax havens

- Clip:

<https://www.khanacademy.org/economics-finance-domain/core-finance/taxes-topic/corporate-taxation/v/transfer-pricing-and-tax-havens>

Results:

- Cash-piles parked 'indefinitely' off shore

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US taxation

Barack Obama sets out plan to tax US companies on \$2tn profits held abroad

Apple, Microsoft and General Electric would face bills of \$10bn or more under president's budget proposal for one-off levy plus 19% tax on offshore cash

Rupert Neate in New York
@RupertNeate
Monday 2 February 2015 22.14 GMT

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Save for later



Barack Obama sets out his budget proposals in a speech at the Department of Homeland Security in Washington, DC. Photograph: SIPA/Corbis

Barack Obama's plan to force US multinationals to pay tax on the more than \$2tn

Top 10 US overseas cash piles

COMPANY	CASH PILE
General Electric	\$110bn
Microsoft	\$76.4bn
Pfizer	\$69bn
Merck	\$57.1bn
Apple	\$54.4bn
IBM	\$52.3bn
Johnson & Johnson	\$50.9bn
Cisco	\$48bn
Exxon Mobil	\$47bn
Citigroup	\$43.8bn

NOTE: Figures are from 2013, the latest available. Overseas cash has changed significantly for some.

SOURCE: Capital Economics

How easy is it to go off-shore?

- Very
- Planet money clip:
<http://www.npr.org/sections/money/2016/03/16/470722656/episode-390-we-set-up-an-offshore-company-in-a-tax-haven>

Table 1: US Company Foreign Profits relative to GDP, 2010

Country	Profits as % GDP
Italy	0.3
Germany	0.4
Japan	0.4
France	0.6
UK	2.1
Canada	3.3
G7 (weighted)	0.7

Table 1: US Company Foreign Profits relative to GDP, 2010

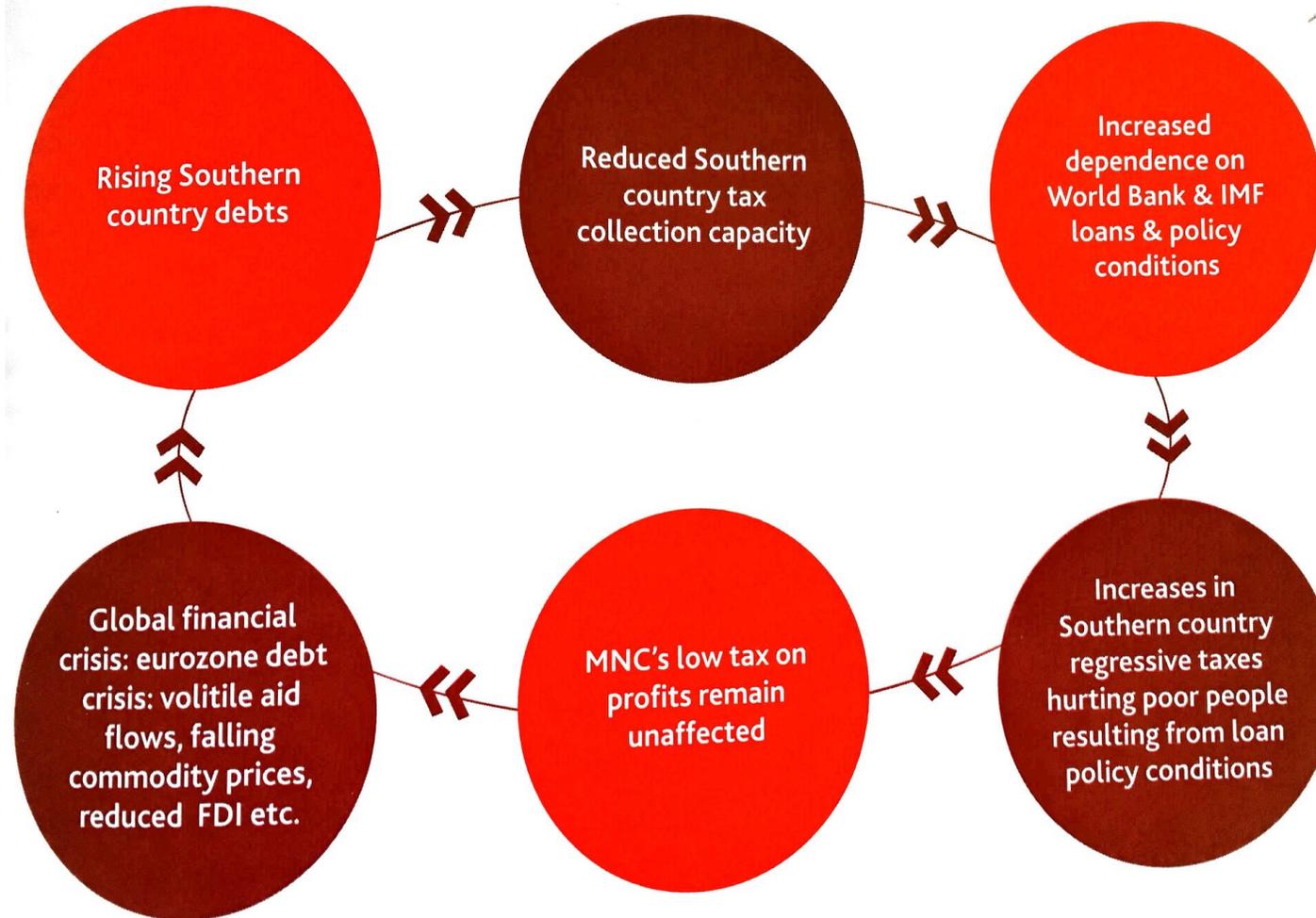
Country	Profits as % GDP	Country	Profits as % GDP
Italy	0.3	Panama	0.1
Germany	0.4	Hong Kong	2.6
Japan	0.4	Singapore	4.7
France	0.6	Switzerland	12.3
UK	2.1	Cyprus	13.6
Canada	3.3	Netherlands	17.1
G7 (weighted)	0.7	Ireland	41.9
		Luxembourg	127.0

What are the effects...

Table 1: US Company Foreign Profits relative to GDP, 2010

Country	Profits as % GDP	Country	Profits as % GDP	Country	Profits as % GDP
Italy	0.3	Panama	0.1	Barbados	5.7
Germany	0.4	Hong Kong	2.6	Bahamas	70.8
Japan	0.4	Singapore	4.7	Bermuda	1,614.0
France	0.6	Switzerland	12.3	British Virgin Islands	1,803.7
UK	2.1	Cyprus	13.6	Cayman Islands	2,065.5
Canada	3.3	Netherlands	17.1		
G7 (weighted)	0.7	Ireland	41.9		
		Luxembourg	127.0		

So then what are the longer-term effects?



What can be done?

- Regulation of banks and international financial flows
- Register of beneficial ownership
- UN having authority – NOT an OECD-only process
- UN arbitration mechanism for sovereign debt
- Support tax justice
- Ensure aid takes the form of grants not loans

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