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Studies Look at Labor Situation, Tax Havens in Latin America

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Amid a global crisis that has converted the world's largest economies into labor exporters, Latin America continues showing enviable employment indices, and, in 2012, its performance is expected to continue improving. That is the assessment of the Economic Commission for Latin America and the Caribbean (ECLAC) and the International Labor Organization (ILO) in the joint report in the May 2012 bulletin The Employment Situation in Latin America and the Caribbean. The two UN agencies say that this year the region will reduce its unemployment rate by 0.2%, from the 6.7% of the economically active population (EAP) posted in December 2011 to an average of 6.5%. The rate could be even lower for the 12 South American countries.

The report also says that underemployment is lower and that the proportion of formal-sector jobs with social benefits is growing. It attributes the good performance to inclusive programs, applied in the case of South America by progressive governments that support, first, an increase in public spending for infrastructure works and, second, social and wage-protection policies aimed at increasing domestic demand.

Nevertheless, not all the data in the ECLAC/ILO report are positive. The study notes that "important labor-market gaps and serious labor-market insertion issues remain," especially "for women and young people for whom unemployment rates are still unfavorable," and it points out that in most countries wages grew less than productivity, which means that income distribution continues to be unequal.

The agencies said that, despite the crisis in Europe—now in its third quarter of recession with an average of 10.4% unemployment, with extremes like Spain, where unemployment exceeds 25% (52.7% for those under 25 years of age)—the greater demand for work increased in real terms both median and minimum wages. But the UN agencies emphasized that the job expansion, which reduced the number of unemployed to some 16 million, has taken place within a situation of inequality.

In the forward to the study, ECLAC executive director Alicia Bárcena and ILO regional director Elizabeth Tinoco said that the region needs to grow more and better. "Productivity must grow at a steady pace, to serve as the basis for sustained improvements in the well-being of the populace and to narrow the gap between the economies of Latin America and the Caribbean and the more advanced economies," they said.

Dual challenge for sustained growth

The unequal distribution brings a challenge, said Bárcena and Tinoco. "Therein lies a dual challenge that must be addressed: continue to increase productivity while enhancing the mechanisms for distributing gains in a way that will encourage investment and boost worker and household income."
While the first part of the study deals with aspects that are essentially labor related, the second part analyzes whether the fruits of economic growth and increased productivity have been distributed equitably between workers and business. "Between 2002 and 2008 (the most recent expansionary economic cycle), wages as a percentage of GDP fell in 13 of the 21 countries of the region for which data are available and rose in just 8. This points to redistribution that is unfavorable to workers, which is worrying in a region which already has the most unequal distribution of income in the world," said Bárcena and Tinoco.

And that is true from Mexico to Argentina. This reason for this is that globally salaries have risen less than productivity. "Beyond the ethical dimension of this issue, it jeopardizes the social and economic sustainability of growth," the women say.

The report then gives the example of what happened in the US and says that "one of the root causes of the recent financial crisis was that households in the United States responded to declining wage income by borrowing more to pay for consumption and housing. This turned out to be unsustainable in the long run. Over time, it undermines the labor market's contribution to the efficient allocation of resources and its distributive function, with negative consequences for democratic governance."

In the global debate, among the causes of the "distributive worsening" is market deregulation—the practice currently imposed by European Union (EU) agencies and the International Monetary Fund (IMF) on the ailing economies of that region—and its impact on financial globalization, a technological change that favors capital over labor, along with the weakening of labor institutions.

"What is needed here," say Bárcena and Tinoco, "is a public policy effort to help keep wage increases from lagging behind increases in productivity."

In some countries, especially in South America, the UN agencies observed "promising developments" during the second half of the last decade, reflecting a positive trend reversal in wages as a percentage of GDP. They give the example of Brazil, where a "minimum wage policy tailored to the dynamics of the domestic market is considered to be one of the factors behind an upturn in the wage share of GDP."

Cost of offshore tax havens

In late July, and without any reference to the ECLAC/ILO study, the British nongovernmental organization (NGO) Tax Justice Network (TJN) presented a report in London, "The Price of Offshore Revisited," regarding the consequences of the movement of capital from its home countries to offshore tax havens.

Four Latin American countries are among the 20 countries whose millionaires and billionaires hide the most money in offshore banks. From Brazil, some US$520 billion is sent to tax havens abroad; from Mexico, US$417 billion; from Venezuela, US$406 billion; and from Argentina, US$399 billion. All was speculative capital that, had it been applied to production—and here is the relationship to the ECLAC/ILO study—it would have significantly and positively changed the labor and social indices published in that study.

The TJN report says that, as of the end of 2010, at least US$21 trillion in unreported wealth was hidden in tax havens, an amount equal to the GDP of the US and Japan together. The report says, however, that US$21 trillion could be a "conservative" figure because it does not include real
estate, planes, luxury yachts, and other nonfinancial assets. "Easily, we could be speaking of US$32 trillion," says TJN.

"If this unreported US$21-US$32 trillion, conservatively estimated, earned a modest rate of just 3%, and that income was taxed at just 30%, this would have generated income tax revenues of between US$190-US$280 billion—roughly twice the amount OECD [Organization for Economic Cooperation and Development] countries spend on all overseas development assistance around the world," says the report.

TJN director John Christensen and the US NGO Global Financial Integrity (GFI) agree in pointing out that Latin American elites were encouraged to send their resources abroad by large international banks, especially those based in the US and Switzerland. "This happened especially during the 1970s, during the dictatorships," said Christensen. "Institutions such as the [US] Bank of America, Goldman Sachs, JP Morgan, and Citibank, and [the Swiss] UBS and Credit Suisse are offering this service. As the US and Switzerland do not share tax information, it is very difficult for these countries to access these accounts and collect taxes on these resources."

Far from the exotic places most people imagine when they hear of "tax havens," the GFI places them in very specific points on the universal map: in the US state of Delaware, Luxemburg, Switzerland, and London. To those, he adds, in fifth place among receivers of offshore monies, the Caribbean paradise of the Cayman Islands. All investigations into tax havens agree that these are the five places where multinational banks launder money from arms and drug trafficking.

Economist James Henry, TJN senior advisor and main researcher for the TJN study, makes a revealing observation. "This new report focuses our attention on a huge 'black hole' in the world economy that never before has been measured—private offshore wealth, and the vast amounts of untaxed income that it produces." Addressing a BBC Mundo journalist, Henry added, "Once we take these hidden offshore assets and the earnings they produce into account, many erstwhile 'debtor countries' are in fact revealed to be wealthy. But the problem is, their wealth is now offshore, in the hands of their own elites and their private bankers." The wealth produces dividends without producing goods or employment.

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