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Three Essays on Tax Abuse and the Fulfillment of Economic and Social Rights

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Three Essays on Tax Abuse and the Fulfillment of Economic and Social Rights

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List of Acronyms

ALP	Arm's Length Principle
APF	Achievement Possibilities Frontier
ASEAN	Association of Southeast Asian Nations
BBC	British Broadcasting Company
BEPS	Base Erosion and Profit Shifting
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CERD	International Convention on the Elimination of All Forms of Racial Discrimination
CERD	International Convention on the Elimination of All Forms of Racial Discrimination
CESCR	Committee on the International Covenant on Economic, Social and Cultural Rights
CIP	Centro de Integridade Pública
CNPC	China National Petroleum Corporation
CPI	Transparency International Corruption Perception Index
CRC	Convention on the Rights of the Child
DFI	Development Finance Institution
DOTS	Direction of Trade Statistics
EITI	Extractive Industries Transparency Initiative
ESR	Economic and Social Rights
ETO	Extraterritorial Obligation
EU	European Union
FDI	Foreign Direct Investment
FI	Freedom Index
GC	General Comment
GDP	Gross Domestic Product
GEI	Gender Equity Index
GFI	Global Financial Integrity
GII	Gender Inequality Index
GNI	Gross National Income
HDI	Human Development Index
HIPC	Highly Indebted Poor Countries
IBA	International Bar Association
ICCPR	International Covenant on Civil and Political Rights
ICESCR	The International Covenant on Economic, Social and Cultural Rights
ICIJ	International Consortium of Investigative Journalists
IDS	Institute of Development Studies
IFF	Illicit Financial Flows
IFI	International, Financial Institution
ILO	International Labor Organization
IMF	International Monetary Fund
ITEP	Institute on Taxation and Economic Policy

MPI	Multidimensional Poverty Index
ODA	Official Development Assistance
OECD	Organization for Economic Co-Operation and Development
OFC	Offshore Financial Centers
OHCHR	Office of the High Commissioner of Human Rights
POLI	Physical Quality of Life Index
PPP	Public Private Partnership
PRAP	Poverty Reduction Action Plan
RPF	Respect Protect Fulfill
SDG	Sustainable Development Goals
SERF	Social and Economic Rights Fulfillment
SSA	Sub Saharan Africa
TJNA	Tax Justice Network Africa
TNC	Transnational Corporations
UDHR	Universal Declaration of Human Rights
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Program
UNGA	United Nations General Assembly
UNHRC	United Nations Human Rights Council
US	United States of America
VAT	Value Added Tax
WBG	World Bank Group
WDI	World Development Indicators
WHO	World Health Organization

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Abstract

Global tax abuse is one of the key obstacles to sustainable development. Each year more than USD one trillion are lost to cross border tax abuse and stored away in tax havens. We establish that tax abuse accumulates capital, makes tax systems more regressive and diminishes government revenues. Tax abuse consequently indirectly increases economic inequality and relative poverty and reduces social expenditure affecting both dimensions of economic and social rights fulfillment: the ability of people to claim their rights in the market place or through the provision of entitlements. We test our theory in a cross-sectional study and find empirical evidence for several of the factors in our theory.

Both revenue generation and expenditure of fiscal policy are subject to the obligations to progressively realize economic and social human rights by using the maximum of available resources. We confirm that Mozambique has respect, protect and fulfill obligations to refrain from granting extensive tax exemptions, prevent tax avoidance and prosecute tax evasion. State parties hosting and controlling multinational corporations committing tax abuse abroad have similar extraterritorial obligations. Tax havens and secrecy jurisdictions deliberately undermine the sovereignty of other states in domestic resource mobilization for rights fulfillment.

Introduction

Eight percent of global financial household assets, or USD 7.6 trillion, is held tax-free in tax havens. This includes about 30 percent of Africa's share of global financial wealth. In Russia and the oil-rich Middle East, this share raises to 50 percent.[1] In 2014, developing countries lost USD 970 billion to tax abuse, the equivalent of 24 percent of their total merchandise trade and more than ten times the total value of Official Development Assistance (ODA).[2]

The USD 970 billion-loss each year originates from fraudulent trade invoicing, also called misinvoicing, and leakage of balance of payments when products and services cross borders without paying taxes. Figures for tax evasion often mix with those of money laundering, drug trafficking and other cross-border crimes. Transnational corporations (TNCs), such as Starbucks, Apple, or Amazon, have come under fire for avoiding paying taxes abroad. In 2012, Starbucks recorded sales of 400 million pounds in the United Kingdom (UK), but by shifting its profit to the Netherlands, where favorable tax cuts were granted, it paid no corporate tax at all.[3] Such profit shifting arrangements are legal, but they illustrate the adage that the difference between tax avoidance and tax evasion is the "thickness of a prison wall".[4] Inefficient tax regimes, the weak rule of law, and a lack of accountability facilitate tax evasion and avoidance. Governments offer extensive tax exemptions to attract foreign investors and often encourage aggressive tax planning

[1]Zucman, G., 2015, The Hidden Wealth of Nations, University of Chicago Press, London, UK.
[2]Global Financial Integrity (GFI), 2017a, Illicit Financial Flows to and from Developing Countries: 2005-2014, Global Financial Integrity, Washington DC,
[3]British Broadcasting Company (BBC) News, 05/21/2013, Google, Amazon, Starbucks: The rise of 'tax shaming', British Broadcasting Corporation, London, UK
[4] Denis Healey, former Secretary of State for Defense and Chancellor of the Exchequer, Speech at the Labour Party conference, 1973, United Kingdom.

by their domestic firms abroad. Tax havens and secrecy jurisdictions battle among themselves to attract foreign capital.

Tax and domestic resource mobilization were a central issue at the third Financing for Development Conference in Addis Ababa, Ethiopia, in July 2015. Growing global consciousness has put Illicit Financial Flows (IFFs) on the 2030 Development Agenda. The Sustainable Development Goals (SDGs) pledge to significantly reduce illicit financial flows by 2030, but, at the same time, they promote Public Private Partnerships (PPPs) without any tax accountability. The global climate finance agenda promotes carbon taxes, to be balanced out by corporate tax cuts. Efforts to foster financial transparency and strengthen the international tax regime after the global financial crisis have so far failed to deliver effective results. Literature on the socioeconomic impact of tax abuse is still very limited and reliable data is largely missing. But access to information and technology and, most recently, document leaks such as the Panama and Paradise Papers have exposed the reckless regime of tax abuse, brought down world leaders, and increased awareness that many corporations and privileged individuals do not pay their fair share of taxes to society.

Inefficient and unjust tax systems at both national and international levels concentrate wealth in the hands of the rich, put a higher tax burden on the poor, and so contribute to the increase in economic inequality. Global economic inequality is staggering: One half of the world's household wealth is now owned by the top 1 percent.[5] While money uncontrollably flows through the private

[5]Credit Suisse Research Institute, 2015, Global Wealth Report 2015, Credit Suisse Research Institute, Zurich, Switzerland,

sector, the public sector lacks revenue and many poor countries remain, despite economic growth, highly aid-dependent.

Revenue from taxes is a principal means of domestic resource mobilization. Avoided and evaded corporate tax payments are forgone tax revenues that cannot be used for social and economic policies to eradicate extreme poverty, reduce inequality and fulfill economic and social human rights. The principal connection between poverty and human rights, as both a cause and consequence of violations, has been affirmed by the United Nations Human Rights Council (UNHRC), adopting the UN Guiding Principles on Extreme Poverty and Human Rights.[6] Based on the supremacy of international human rights law that requires its treaties to be incorporated in the domestic legislation of a sovereign state, any public policy should contribute to the fulfillment of the obligations set out in them. On a domestic level, fiscal and with-it tax policy, like any other public policy, is subject to international human rights obligations and should therefore reduce poverty and inequality and foster human rights enjoyment. On an international level, states must refrain from violating human rights abroad. At the same time, international human rights obligations are increasingly applied to businesses. Initial studies by the International Bar Association (IBA) and other civil society organization confirm the link between tax abuse and human rights, but much remains to be investigated to clearly differentiate between domestic and international human rights obligations. Therefore, the research question this thesis addresses is: **How does tax abuse impede the fulfillment of territorial and extraterritorial human rights obligations?**

[6] United Nations Human Rights Council (UNHRC), 2012, A/HRC/21/39, 21st session of the Human Rights Council: Reports, Final draft of the guiding principles on extreme poverty and human rights, submitted by the Special Rapporteur on extreme poverty and human rights, Magdalena Sepulveda Carmona

In three essays, we investigate the link between tax abuse, and the full enjoyment of economic and social rights by mapping out its impact on the capital share of income, the progressivity of the tax system and tax revenues. The first essay elaborates on the global scope of tax abuse and its harmful impact on sustainable development, and argues that tax evaders and states operating tax havens undermine a government's ability to mobilize the maximum of available resources and conduct non-discriminatory fiscal policy to progressively realize economic and social rights (ESR). We clearly distinguish between domestic and international human rights obligations.

The second essay applies the human rights framework developed in the first essay to a case study of Mozambique, one of the world's poorest countries, and finds that tax abuse is one of the causes of poverty, inequality and Mozambique's consequent limited enjoyment of economic and social rights. Using a case of tax avoidance by a TNC in Mozambique, we set out that in addition to Mozambique's domestic human rights obligations, the corporation has an extraterritorial respect obligation towards Mozambican citizens. The states that partly own corporations or are in a position to control them have both respect and protect obligations. Tax havens, facilitating global tax abuse, have clear respect obligations to refrain from undermining Mozambique's effort to collect taxes for rights fulfillment. The international community has a fulfill obligation to advance the fight against global tax abuse.

Finally, the third essay analyses available data on tax abuse and current measurements of economic and social rights and tests, via a simple cross-sectional study, if there is empirical evidence for the human rights framework presented above. We confirm that tax abuse increases the capital share in income and has a direct detrimental effect on inequality and relative poverty. We present evidence

that higher inequality and relative poverty, as well as reduced social expenditure reduce the full enjoyment of economic and social rights. This work contributes to the relatively sparse literature on tax abuse and human rights, discusses current available global data, and highlights vital areas for further research.

1. The Impact of Tax Abuse on the Realization of Economic and Social Rights

Tax abuse comprises the actions of individuals or corporations to reduce or avoid the taxes they owe in the jurisdiction they live, work, or operate in. The term tax abuse combines both legal tax avoidance and illegal tax evasion committed by non-state actors or individuals. Tax abuse can take various forms, the most common of which are controversial profit-shifting, fraudulent underreporting of taxable transactions, and the use of offshore accounts to hide taxable income.

Every year more than USD one trillion flows illegally out of developing and emerging economies due to crime, corruption, and tax evasion, more than these countries receive in foreign direct investment (FDI) and foreign aid combined. Much of the money remains hidden in tax havens, where 8 percent of global financial household assets are now stored.[7] Each year it is estimated that TNCs avoid USD 200 billion in taxes in the European Union (EU) by shifting profits to tax havens. In the United States (US), this number is estimated to be at least USD 130 billion, leading to the loss of hundreds of billions of dollars in global tax revenue every year.[8] The tax burden often then shifts to those individuals who pay the most through indirect taxes, such as Value Added Tax (VAT) and sales tax, making tax systems regressive and unfair. After decades of economic policy that promoted tax cuts for the wealthy to stimulate higher investment, productivity, and growth,

[7] GFI, 2017b, and Zucman, 2015.
[8] Garcia-Bernardo, J., Fichtner, J., Takes, F., Heemskerk, E., 2017, Uncovering offshore Financial Centers: Conduits and Sinks in the Global Corporate Ownership Network, Scientific Reports 7, article 6246, doi:10.1038/s41598-017-06322-9, Nature Publishing Group, London, UK.

today the bottom 99.9 percent of the US population pays 76 times as much tax in terms of their income as the top 0.01 percent elite.[9]

Tax justice strives to battle tax abuse, make domestic tax systems more progressive, and create a global tax regime in which multinational corporations and wealthy individuals pay their fair share of taxes. It is a broadly-based concept, but can be brought down to simple tax compliance on an individual and corporate level, and to promoting social wellbeing within and between societies. As such, we argue that ensuring tax justice is a key component of countries' territorial and extraterritorial economic and social rights obligations.

The link between tax justice and economic and social rights obligations has not previously been examined. In addition to synthesizing different works on tax evasion, avoidance, and exemption, the purpose of this essay is to provide that link by undertaking a comprehensive analysis of how tax abuse impedes the fulfillment of countries' territorial and extraterritorial economic and social human rights obligations. We first undertake a literature review of research by academics, civil society actors, and international institutions on the various forms tax abuse, its negative and potential positive impacts on poverty and economic inequality, and its implications for fiscal policy. We then lay out the international legal human rights obligations, and make the connection between tax abuse and human rights, highlighting the main channels through which tax abuse may affect the enjoyment of economic and social rights and identifying key areas for further discussion and research.

[9]Hatgioannides, J., Karanassou, M., Sala, H., 2017, Should the Rich be Taxed More? The Fiscal Inequality Coefficient, Review of Income and Wealth, City University of London, London, UK.

1.1 The Dilemma of Global Tax Abuse

The above-stated figure of USD 1 trillion flowing out of developing and emerging countries each year refers to illicit financial flows, IFFs, from these countries. Such illicit financial in- and outflows comprise illegal movements of money or capital from one country to another. These funds may be illegally earned through criminal activities, such as drug or arms trade and money laundering, illegally utilized to finance terrorism, or illegally transferred through trade misinvoicing to evade customs duties, VAT, or income taxes, and using anonymous shell corporations to transfer dirty money. Combined with all illicit funds that flowed back into developing and emerging countries, IFFs amounted to an estimated USD 2.5 trillion in 2014 (Global Financial Integrity, GFI, 2017b). Between 2005 and 2014, IFFs amounted to an average of 24 percent of the total value of developing country merchandise trade. In our analysis, we will focus on IFFs that are illegally transferred, in other words, the product of tax abuse. According to 2014 developing countries lost USD 970 billion to fraudulent invoicing, one of the most prevalent forms of tax abuse. An additional USD 126 billion left developing countries through leakages in the balance of payments. About half of this money remains in banks in developed countries, while the other half ends up in Offshore Financial Centers (OFC), which we also call tax havens (GFI, 2017b). An equivalent of 10 percent of the world's Gross Domestic Product (GDP) is now held in tax havens where it cannot benefit the development of any society (Zucman, 2015).

Without doubt, for as long as governments have collected taxes, people have tried to avoid paying them, but we have never before seen international tax abuse of such scope and magnitude. As Piketty (2014) elaborates, the industrial revolution and the technological innovations that ensued

from it increased returns on capital, enabling capital owners to accumulate more wealth and, consequently, more capital income.[10] Western nations became accustomed to high tax rates to finance government expenditures, especially during wartime, which kept inequality in capital distribution low. Tax systems were fairly progressive, and generous welfare states ensured that tax revenues were redistributed fairly. Likewise, an individual's payment of their fair share of taxes was considered by most, their duty to society.

Maturing capitalism changed the world, and market liberalization and globalization quickly facilitated the free movement of capital across economies. Between World War I and World War II, non-Europeans' wealth stored in Swiss banks increased tenfold in real terms, from around USD 10 billion to USD 125 billion, contrasting widely with the stagnation of European wealth during this period and coinciding with the increase in France's top tax rates. In the 1980s, as individuals in other countries increased their, stock and bond portfolios, as well as dividends and interest earnings from them, financial institutions in other countries began providing investment advice, and offering the possibilities to avoid taxes on dividends, interest, capital gains, wealth, or inheritance by limiting individual and corporate cooperation with foreign tax authorities (Piketty, 2014). Evading taxes became not only easy but also a seemingly victimless crime. While poorer nations remained mired in debt, dependent on aid and without key means to mobilize domestic resources, steady economic growth still continued to benefit Western societies. Until it didn't.

Let us turn to investigate the various forms of tax abuse to better understand what is happening. In the following we discuss tax avoidance and tax evasion and the significant role tax havens and

[10]Piketty, T., 2014, Capital in the 21st century, Harvard University Press, Cambridge, MA, United States

secrecy jurisdictions play in facilitating these practices. We also elaborate on tax exemptions, which legally and officially cut taxes but have the same harmful impacts.

1.1.1 Tax Avoidance

Tax avoidance, otherwise referred to as tax optimization or tax planning, is legal. Loopholes in both international and national tax regulations allow for profits made in one country or province to be shifted to another, where less or no income tax has to be paid. Profits are often shifted by paying tax-deductible royalties to a subsidiary for the right to use a company’s trademark. Sometimes, every unit in a company group is treated as an independent legal entity and taxed separately in the jurisdiction where it is domiciled. These various cross-border tax avoidance techniques are described as Base Erosion and Profit Shifting (BEPS). For example, in 2012 Starbucks recorded sales of USD 530 million in the United Kingdom, but by shifting its profit to the Netherlands, where favorable tax cuts were granted, it paid no corporate tax at all.[11] Starbucks’ profit registered in the Netherlands was also not subject to taxation in the United States.

Tax avoidance does not only occur on an international level, but also within and among domestic jurisdictions. At the US federal level, many profitable Fortune 500 companies have been able to sharply reduce or even avoid paying any income tax at all in years when they were profitable. Between 2008 and 2010, the 265 of the Fortune 500 companies that disclosed their state and local income tax payments, only paid income tax equal to 3 percent of their US profits on average, while the average state corporate tax rate was 6.2 percent. In other words, by shifting profits they were able to cut their profit taxes in half. Sixty-eight companies did not pay any income tax at all, and

[11]BBC News (2013)

16 of them enjoyed multiple no-tax years. Thus, between 2008 and 2010, 265 companies alone avoided USD 42.7 billion in state corporate income taxes by shifting profits among US states only.[12] This amounts to 1.6 percent of annual federal health expenditures in 2010.[13]

Corporate structures of TNCs have become highly complex, and accounting and law firms have created a consulting industry to help corporations reduce their tax burdens by taking advantage of loopholes and cross-country variations in tax codes and the general lack of an international taxation regime that prevents rampant tax avoidance. Goods and services flow around the world without adding value anywhere "on the books." Nor are the profits thus earned necessarily taxed as personal income. Channeled through private holding companies and fund managers, they often end up in tax havens.

1.1.2 Tax Evasion

Tax evasion or erosion, in contrast to tax avoidance, is illegal. Companies reduce their total taxes due by creating wholesale subsidiaries in low-tax states, selling products within the corporate structure at a low price (low profit). Products can then be sold for a high price by the subsidiaries in low-tax states, generating high profits at low tax rates (Institute on Taxation and Economic Policy, ITEP, 2011). There are various forms of transfer pricing, or "transactional profit methods", that all deprive host jurisdictions of tax revenue and shift capital elsewhere. Transfer pricing disregards the Arm's Length Principle (ALP), a valuation principle commonly applied to financial transactions between related companies, according to which one entity should charge the other as

[12]Institute on Taxation and Economic Policy (ITEP), 2011, Corporate Tax Dodging In the Fifty States, 2008–2010, ITEP, Washington D.C., United States, pp, 3-5.
[13] Centers for Medicare & Medicaid Services (CMS), 2017, National Health Expenditures by type of service and source of funds, CY 1960-2015.

if they were not related. When transfer pricing does not reflect market forces and is not based on the ALP, the tax liabilities of the associated enterprises and the tax revenues of the host countries are distorted.[14] The ALP has often been criticized for failing to prevent tax evasion due to its non-legal nature and the ever-increasing complexity of international commercial transactions. The lines between tax avoidance and evasion are often blurred when it comes to transfer pricing, and organizational constructs often remain obscured behind the corporate veil.

A clearly illegal form of tax abuse, however, is fraudulent trade invoicing, which is the largest component of global IFFs generated each year. Through misinvoicing, corporations or individuals deliberately misreport the value of commercial transactions on invoices submitted to customs. It is estimated that on average, USD 1.6 billion in IFFs from misinvoicing left Tunisia each year between 2003 and 2014. Over the same period the Republic of Congo lost USD 1.5 billion annually, and Botswana and Namibia around USD 1.2 billion each year. Figure 1 below lays out a simple network of trade misinvoicing, which generated IFFs of USD 500,000 (GFI, 2017a). In the example, a US exporter seeks to divert a half million dollars. It does so by selling 50 cars to a subsidiary in Mauritius at an artificially low price of one million dollars. The US exporter then ships 50 cars that the subsidiary in Mauritius paid one million dollars for directly to India. The 50 cars are then billed as coming from the Mauritius subsidiary at a higher price - 1.5 million dollars in total. This leaves the Mauritius subsidiary with a profit of half a million dollars that is then sent to an importer offshore account.

[14] OECD, 2010, OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2010, OECD Publishing, Paris, France.

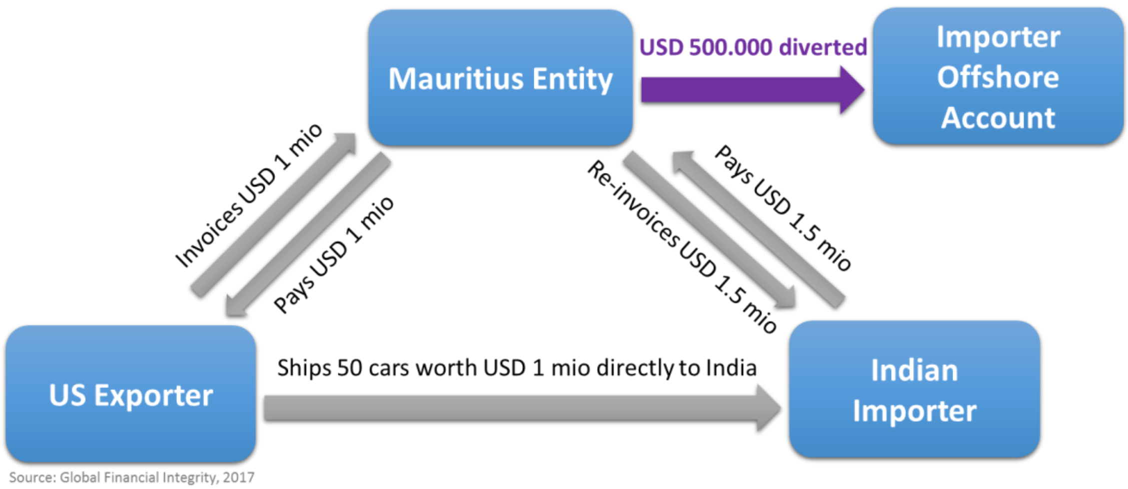


Figure 1 Basic Trade Misinvoicing Diagram

Through fraudulent invoicing of price, quantity, or quality of a good or service, taxes are immediately and directly evaded, and money easily and quickly shifted across international borders. Besides evading taxes, importers are able to evade substantial customs duties, and exporters may claim tax incentives by over-reporting their exports.[15]

1.1.3 Tax Havens, Secrecy Jurisdictions and Shell Corporations

While the difference between tax avoidance and tax evasion may be as thin as a prison wall, both practices are facilitated by secrecy jurisdictions, where tight bank secrecy and registration laws obscure the beneficial owners of capital, and by tax havens, where a country or domestic state offers low or no taxes on income and profits. To understand how both avoidance and evasion work, we take a closer look at tax havens and secrecy jurisdictions.

[15] GFI, 2017b, see also: GFI, 2017a, *Trade Misinvoicing*, Global Financial Integrity, Washington D.C.

Switzerland established itself as the world's first tax haven in the early 20th century. Bank secrecy laws allowed numbered accounts and, hence, absolute anonymity of the accounts' beneficial owners, making tax abuse a profitable activity. Previously, money had to be held largely in cash to remain hidden from tax authorities. Switzerland, however, did not tax money held in private accounts and did not cooperate with other countries' tax authorities. Soon it became known as the global hub for tax abuse and money laundering originating from all sorts of international crimes, ranging from terrorism financing and drug trafficking to bribing public officials. By facilitating the flow of capital, Switzerland became an international trade hub, and even though little of the money that entered and left the country yielded tax revenue for the benefit of the general Swiss population, those banks that stored all the money in their vaults did reinvest in the Swiss economy and credit became cheap for everyone. Moreover, while it is widely acknowledged that the social benefits of tax havens' wealth management arrangements are almost nonexistent, they nonetheless do provide access to financial services for developing countries without a well-established banking network (Zucman, 2015).

Soon, other countries built on the Swiss banking model and offered the same incentives for international business. Most countries on the Organization for Economic Co-Operation and Development's (OECD) "List of Unco-operative Tax Havens" can offer clients strong rule of law and the financial stability and security that come with it.[16] They mostly have small populations, and hence need less tax revenue for public expenditures, and are generally open to trade and investment. But what may seem like competition to the outsider is often only a façade, and banks in Hong Kong, Singapore, the Cayman Islands, or the Bahamas are often linked to Swiss banks

[16] OECD, 2017, OECD Secretary-General Report to G20 Leaders, July 2017, Hamburg, Germany, OECD Publishing, Paris, France

that are then tied to investment funds in Luxembourg, the British Virgin Islands, or Panama. They all function in symbiosis. The actual money managers, however, largely remain in the world's financial centers, close to their clients. Hence tax abuse remains a very centralized global business and there is hardly any job creation offshore.

Facilitating international crimes and storing the wealth of corrupt dictators quickly forced Switzerland to rein in money laundering and give up numbered accounts, actions that spurred the creation of the shell corporation, a company that holds a bank account. When registered in a secrecy jurisdiction, the shareholders or beneficial owners of a company often do not have to be listed. A corporation or an individual register a company in Switzerland, the Cayman Islands, or any other jurisdiction that offers a favorable tax code and starts buying services from this company. In this way, the company's taxable profit in the home jurisdiction is reduced and accounted for in the tax haven, where no taxes are due. Most of the money is not parked offshore for long but is reinvested in global financial markets where it generates income such as dividends, interest, or capital gains.

Such investments are mostly registered as liabilities, tipping the global asset/liability balance. In 2014, the world registered USD 6.1 trillion more in liabilities than assets (Zucman, 2015). Most banks handling accounts in tax havens are branches of international banks. That gives tax avoiders the opportunity to take a loan with their international bank of choice and leave the money parked or reinvested as collateral. As there are no taxes on liabilities on a company's balance sheet, if income or profits are not declared in either jurisdiction, tax authorities miss out twice. Corporations that retain their profits offshore can secure loans, finance foreign investments, and pay foreign

workers. They even can purchase foreign companies and merge with them to change their tax residence, a practice known as tax inversion. Google US, for instance, pays royalties to Google Ireland, which in return is registered as a Bermudian legal person (Zucman, 2015).

Today, anonymity is guaranteed by a network of intermediary shell companies instead of numbered accounts, which opens an entire new universe of opportunities for international business to dodge taxes. Zucman (2015) estimated that 55 percent of all the foreign profits of US firms are now kept in tax havens, namely in the Netherlands, Bermuda, Luxembourg, Ireland, Singapore, and Switzerland. He estimates US firms avoid taxes worth USD 130 billion each year. The revenue losses from this hidden wealth are the equivalent to 20 percent of the taxes paid by the US top 0.1 percent income group.

By 2015, shell corporations accounted for more than 60 percent of accounts held in Switzerland. Investment firms and lawyers have specialized in facilitating this process (Zucman, 2015). The data revealed by the Panama Papers in 2016 concerned just one of these law firms. As mentioned above, global wealth hidden in tax havens accounts for at least USD 7.6 trillion, equivalent to 8 percent of the global financial assets of households. Switzerland alone manages about 40 percent of the world's offshore wealth, some USD 2.5 trillion (Zucman, 2015). Unfortunately, what we still cannot account for in these estimates is banknotes held in tax havens often belonging to defrauders, drug traffickers, and other criminals. Judson (2012) finds that 70 percent of US 100-dollar bills are held outside of US territory.[17] Existing literature also largely fails to account for wealth invested in the insurance market, real estate, art, jewelry, gold, and other valuables traded

[17]Judson, R., 2012, Crisis and Calm: Demand for US Currency at Home and Abroad from the Fall of the Berlin Wall to 2011, International Finance Discussion Papers, Working paper of the Board of Governors of the Federal Reserve System.

tax-free. Additionally, money does not stay put, but is reinvested. Zucman (2015) estimates the average return on private capital, stocks, bonds, real estate, or bank deposits as 5 percent annually. That return may make up an additional 125 billion of evaded tax from investment income each year and complements the USD 55 billion tax revenue lost annually in inheritance taxes.

It becomes clear that understanding and controlling the web of shell corporations, secrecy jurisdictions, and tax havens is key to fighting tax abuse. In recent years document leaks have brought more clarity in this matter than bilateral and multilateral trade negotiations aiming to increase transparency in the financial sector could. In 2016 the International Consortium of Investigative Journalists (ICIJ) published the Panama Papers with the names and addresses of the owners of shell companies created by the law firm Mossack Fonseca that helped its clients to hide money in tax havens. The Panama Papers brought down the Icelandic Prime Minister Sigmundur David Gunnlaugsson, and, in 2017, Pakistan's Nawaz Sharif. The Panama Papers were especially shocking because it revealed that despite increased scrutiny after the global crisis, offshore wealth flows remained undisturbed.[18]

Although the leak brought down world leaders and exposed more than 140 politicians in 50 countries, a large number of shell companies could still not be linked to their ultimate owners. Even the efforts of more than 300 journalists on six continents could not untangle the web of tax abuse, making it impossible to differentiate between tax avoidance and evasion, since owning shell corporations, as such, is not illegal.[19] The Paradise Papers just released in November, 2017

[18]International Consortium of Investigative Journalists(ICIJ), 2017a, The Panama Papers Wins Pulitzer Prize

[19]Altstaedsaeter, A., Johannesen, N., Zucman, G., 2017, Tax Evasion and Inequality, NBER Working Paper 23772, JEL No. E21, H26, Cambridge, MA, United States, p.3.

similarly are expected to reveal the names of owners of shell companies, but are likely to face difficulties in differentiating between tax avoidance and evasion as well.[20] Other leaks have been more successful. The Swiss Leaks' release of HSBC Switzerland documents, for instance, revealed the beneficial owners of wealth channeled through shell companies incorporated in offshore heavens and drew a clear line between tax avoidance and tax evasion. Those who reported their Swiss bank accounts on their tax reports were not evading taxes. Unfortunately, 95 percent of wealthy individuals on the HSBC list did not report their Swiss bank accounts at home or abroad.[21]

1.1.4 Tax Expenditures

Besides illegal evasion and legal avoidance, another form of tax dodging is granted officially to encourage investment. Tax expenditures are defined as deviations from a benchmark tax system resulting in tax revenue losses. They may include tax credits, exemptions, exclusions, deferrals, allowances, reduced tax rates, and others, and can be bound to geographical locations, such as tax free economic zones, or time spans such as tax holidays.[22] These privileges are mostly negotiated under high secrecy and often nested in bilateral or multilateral investment treaties. Rudra (2008) finds that, in negotiating such arrangements, states have compromised domestic policies to please both domestic and foreign investors.[23] Additionally, tax breaks only work when offered as a competitive advantage by few states. Otherwise corporations broker to pay fewer taxes everywhere, creating a "race to the bottom" (ITEP, 2011). They not only reduce effective tax rates but also drive down statutory corporate tax rates. So, while in the 1990s, the G20 average statutory

[20]International Consortium of Investigative Journalists(ICIJ), 2017c, The Paradise Papers; Secrets of the Global Elite.
[21]International Consortium of Investigative Journalists(ICIJ), 2017b, Swiss Leaks; The leaked HSB files offer a rare glimpse inside one of the world's most private banking systems.
[22]Fuest, C., Riedel, N., 2009, Tax evasion, tax avoidance and tax expenditures in developing countries: A Review of the literature, Oxford University Centre for Business Taxation, Oxford, UK.
[23]Rudra, N., 2008, Globalization and the race to the bottom in developing countries: who really gets hurt?, Cambridge University Press, New York, United States, p.218.

corporate tax was 40 percent, by 2015, it was 28.7 percent.[24] The result is that governments not only lose tax revenue from tax fraud, but they also lose revenue on assets that are taxed regularly. Tax expenditure weakens tax revenue mobilization by deliberately reducing the tax burden on certain economic activities or taxpayers, thus shifting the structure of tax revenues towards labor and consumption taxes and making the system more regressive.

Apologists for tax expenditures argue that they are a means to realize policy objectives, just like other public expenditures, and are more effective than other expenditure policies when it comes to encouraging investment that would then generate economic wellbeing. But their beneficial effects have been largely disputed, as tax expenditures appear to lead to only minimal increases in employment and wage growth. Moreover, research has found that tax incentives have no impact on the investment decisions of multinationals (Oxfam International, 2016). Durst (2016) argues that a trade-off in corporate tax revenue to enhance local investment may be defensible for wealthier countries, but it is not justifiable for poorer countries that have greater unmet human needs.[25]

It is also worth noting that tax expenditures differ from usual government expenditures in several ways. Generally, they are less visible and less clearly integrated into the budgetary process and, hence, easily abused through corruption and nepotism. The lack of transparency in setting up tax expenditure agreements may also make the tax system seem unfair to other taxpayers and thereby encourage tax avoidance and evasion (Fuest and Riedel, 2009).

[24] Oxfam International, 2016, Tax Battles, The dangerous global Race to the Bottom on Corporate Tax, Oxfam Policy Paper, Oxford, UK.
[25]Durst, M., 2016, Self-Help and Altruism: Protecting Developing Countries' Tax Revenues, in Pogge, T., Metha, K., 2016, Global Tax Fairness, Oxford University Press, UK, pp. 316-338.

Having discussed the several types of tax abuse, we can agree that they all have at least one thing in common: They are hard to measure. The difficulties in fully grasping the scope of tax abuse contributes to the problem. Below we look at available approaches to quantifying the magnitude of tax abuse.

1.1.5 Understanding the Problem is Part of the Problem

There are two broad approaches to quantifying tax abuse. The first aims to quantify the activities of tax avoidance and evasion, while the second focuses on quantifying wealth that is hidden as a result of these activities. Most studies using the former approach identify profit shifting by analyzing international trade prices. Trade price distortions may arise between unrelated or related parties. In one of its first comprehensive studies, Oxfam International (2000) estimated corporate profit shifts out of developing countries at USD 50 billion annually. Baker (2005), in contrast, distinguishes between tax revenue losses through the mispricing of goods traded between independent parties, distortion of transfer prices of products within a multinational firm, and fake transactions, and notes that for all of these between USD 500 and 800 billion taxes would have been due.[26] Since 2009, Global Financial Transparency (GFI) has taken up Baker's (2005) methodology to produce the annual estimates of IFFs used in this thesis. We will further discuss approaches to measuring tax abuse in Essay 3. For now, however, it suffices to note that reliable data are limited due to the nature of tax abuse activities, which easily escape statistical registration and documentation. Most studies use methods that either generalize limited macro data or generate broad assumptions using insufficient micro data (Fuest and Riedel, 2009). Another shortfall of

[26] Baker, R., 2005, Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-market System, John Wiley & Sons, Inc. Hoboken, United States.

current measurement efforts is that they do not account for tax-motivated income shifting routed through tax havens.

The second broad approach to quantifying tax abuse aims to measure hidden wealth parked in the world's tax havens. Some methodologies start by looking at the imbalance of global assets and liabilities as a mirror of financial securities invested by tax havens but not accounted for. Others multiply registered cross-border bank deposits by an assumed factor, which results in vast differences in estimating private offshore wealth in tax havens, ranging from USD 21 trillion to USD 76 trillion.[27] Although these estimates confirm the enormous magnitude and global scope of the problem, they are not comparable to the methodologies described above that fail to account for tax evasion through BEPS or trade misinvoicing.[28]

Neither methodological approach accounts for criminal activities. It becomes clear, however, that the two approaches cannot be used together, as this would exaggerate the magnitude of tax abuse. Beyond that, another challenge is to translate these estimates into tax revenue losses. Zucman's (2015) estimates of hidden offshore wealth amount to 1 percent of global tax revenue, but he cannot account for additional tax revenue lost from tax exemptions granted to attract or prevent the flight of capital in the first place. To get the 1 percent of global tax revenue out of hiding, governments would likely have to offer extensive tax cuts to the abusers and create other incentives, such as free economic zones, which, at any rate, would not result in increased corporate tax revenue (Fuest and Riedel, 2009).

[27]Zucman, 2015 and Henry, J., 2012, The Price of Offshore Revisited: New Estimates for Missing Global Private Wealth, Income, Inequality and Lost Taxes, Tax Justice Network, July, 2012.
[28]Zucman (2015) bases his estimate on figures of the Swiss tax authorities that reveal that only 20 percent of assets held by national Banks are voluntarily declared.

Additionally, scholars of inequality have increasingly relied on tax data to study wealth distribution, but, as we see, tax rates, tax evasion technologies, and tax enforcement strategies differ across countries and have changed significantly over time, which may distort cross-country and time-series patterns in inequality (Altstaedsaeter et al, 2017). Roine and Waldenstrom (2015) therefore argue that tax exemptions probably have a more important impact on inequality than underreporting.[29] What all researchers agree upon, however, is that developing countries are hardest hit by tax abuse. According to some estimates, revenue losses to developing countries can reach USD 138 billion per year.[30] While GFI reports that developing countries in Asia are associated with the largest dollar-denominated IFFs, Sub-Saharan Africa clearly leads all other regions in illicit outflows, estimated at 11.6 percent of total trade (GFI, 2017b). Sub-Saharan Africa and Latin America are likewise the regions with the greatest measured wealth inequality.[31]

In Africa, after independence, wealth remained largely in the hands of a few across the continent. Even though the continent has enjoyed stable economic growth, Africans' welfare has generally failed to improve, and income inequalities have widened.[32] Developing countries are most vulnerable to the social costs associated with IFFs due to their critical dependence on commerce with advanced countries (GFI, 2017b). They generally have less effective tax rates compared to OECD nations to begin with and often have a large informal economy, which also limits the

[29]Roine, J., Waldentstroem, D., 2014, Long-Run Trends in the Distribution of Income and Wealth, IZA Discussion Paper Series, IZA DP No. 8157, ForschungsinstitutzurZukunft der Arbeit, Bonn, Germany.

[30]ActionAid, June 2013, Give us a break: How big companies are getting tax-free deals, ActionAid International Secretariat, Johannesburg, South Africa.

[31]IMF, 2012, Income Inequality and Fiscal Policy, Fiscal Affairs Department, D30, D63, H20, I14, I24, Washington D.C., United States.

[32] UNECA, 2012, Economic Report on Africa 2012: Unleashing Africa's Potential as Pole of Global Growth, Addis Ababa, Ethiopia.

national tax base, even though domestic revenue mobilization through tax revenues is a key means to escape foreign aid dependency.

Finally, we must ask who abuses taxes? From the examples discussed above, it appears that large international corporations take advantage of loopholes in tax systems and weak tax administration. But supporters of the free market who argue that economic growth is the principal driver of wellbeing and development, often maintain that big business should not suffer from extensive tax burdens, which are seen to discourage investment and provide negative incentives for growth.[33] Instead, these analysts argue that the bulk of tax evasion happens in the informal sector and is perpetrated by poorer individuals, highlighting fraud by the self-employed and abuse of refundable tax credits.[34] But while the size of the shadow economy certainly plays a role in limiting a country's tax base (Cobham, 2005), Altstadaeter et al. (2017) prove that tax evasion rises sharply with wealth. In Scandinavia, while, on average, 3 percent of taxes are evaded, the richest 0.01 percent evade about 30 percent of their taxes. Altstadaeter et al. (2017) also estimate that offshore wealth is extremely concentrated among the world's richest 0.01 percent, who own about 50 percent of offshore wealth, suggesting that both corporate and private tax abuse is a business of the privileged.[35] Most clients exposed through the HSBC Swiss leaks were Europeans: Swiss, French, and British, followed by 8,677 clients in Brazil.[36]

[33]Friedman, M., 1962, Capitalism and Freedom, University Press of Chicago, Chicago, USA.
[34]Cobham, Alex (2005), Tax evasion, tax avoidance, and development finance, Queen Elisabeth House Working Paper No. 129.
[35]Alstadsaeter et al, (2017), p.3. Estimates are based on studying Norwegian and Swedish Households combined with previous global estimates of marco stock of offshore wealth.
[36] ICIJ, (2017b), The Swiss leaks only revealed 9 Mozambican clients holding a few million USD each, but close to 1,800 South African customers, 69 from Zambia, 16 from Malawi and 198 from Zimbabwe. Venezuela's National Treasurer pushed his country on the third rank of highest values held in HSBC's accounts, hiding USD 11.9 billion on his account.

While economic and political uncertainty, fiscal deficits, financial repression, devaluation, and the threat of expropriation may be factors in capital outflow, the principal motivation of evading taxes seems clear.[37] The demand side of tax evasion services focuses on the rational behavior of a tax evader under uncertainty. Taxes will be evaded when evasion is a low risk activity and the gains to be made outweigh the risks taken, that is if one is unlikely to be caught and the penalties are low. But Alstadaeter et al (2017) maintain that this argument alone does not explain the sharp increase of evasion by the wealthy. The supply side of tax evasion plays a key role, too. Tax havens, banks, law firms, and shell corporations have spun a complex web of global tax abuse and, in so doing, internalized the cost of being caught. The more clients they serve, the higher the risk of getting caught, but by only serving the ultra-rich, they maximize their profit and minimize their risk. As a result, tax evasion services, as such, are inherently unequal and further contribute to the "inequality spirals" we will discuss further below. If it is primarily the rich that significantly evade taxes by hiding their wealth offshore, then they are even richer and wealth inequality is higher than we thought. Tax data thus may significantly under-estimate the increasing global concentration of wealth over the last decades. The harmful impact of tax abuse on society may be worse than we currently understand.

1.2 The Harmful Effects of Tax Abuse

Tax abuse is considered by many to be an understandable and essentially victimless crime. Everyone avoids paying taxes if they can. Indeed, those cheating the system have traditionally been seen as efficient businessmen. When accused of not paying taxes, even the current US

[37]Boyrie, M., Pak S. and Zdanowicz, J. (2005), Estimating the Magnitude of Capital Flight due to Abnormal Pricing in International Trade: The Russia–USA Case, Accounting Forum 29(3), pp. 249-270

President referred to himself as “smart” to avoid them.[38] But the loss of revenue from tax abuse is increasingly considered one of the most significant drains on public budgets.[39] Tax abusers are increasingly viewed as criminals who consciously inflict harm on society.

The 2030 Development Agenda underscores this perception and emphasizes domestic resource mobilization as the key source for long-term financing for sustainable development. Taxation is an essential source for domestic resource generation and the most stable and predictable source for public financing, which strengthens fiscal institutions and planning. Domestic revenue is the antidote to aid dependency.[40] Even though non-tax revenues, such as ODA, loans, and revenue from state-owned assets are important, tax revenue is crucial for financing development and can promote growth, equity, and poverty reduction.[41] Tax revenue has become increasingly important with the decrease in foreign aid budgets after the global financial crisis and in the wake of renewed populism in the West.

Tax abuse generates IFFs that can pose a major drain on government revenues. High levels of tax avoidance and evasion, excessive and unjust tax privileges, inefficient tax collection, and misguided use of property and capital taxes reduce government revenue available for programs that could fulfill economic, social, and cultural rights, and create and strengthen the institutions

[38]Voskuhl, J., 09/26/2016, Bloomberg Politics: Trump to Clinton: Paying No Income Taxes ‘Makes Me Smart’, Bloomberg L.P., New York, United States.
[39] CESR, 2016, Swiss Responsibility for the Extraterritorial Impacts of Tax Abuse on Women’s Rights, Submission to the Committee on the Elimination of Discrimination against Women 65th Session, October 24 – November 18, 2016, Geneva, Switzerland.
[40]UNGA, 2015a, A/HRC/26/28, 05/22/2015, Report of the Special Rapporteur on extreme poverty and human rights, Magdalena Sepulveda Carmona, Human Rights Council, Geneva, Switzerland, p.3.
[41]Pretoria Communique, 2008, International Conference on Taxation, State Building and Capacity Development in Africa, Pretoria, South Africa.

that uphold civil and political rights.[42] Those who abuse taxes, and their facilitators, actively diminish funds that otherwise could go to efforts to reduce poverty. Hence, tax abuse is considered to be one of the causes of global poverty (IBA, 2013).

Tax abuse not only likely reduces the level of tax revenue but is also likely to redistribute the tax burden. When governments are left without income from corporate tax, the tax burden is shifted from corporations to other, less mobile and less well-off taxpayers through increased indirect taxes, such as VAT; tax revenues become more regressive. Additionally, the loss of revenue due to tax abuse is a direct transfer of wealth from society to a company's shareholders (Dowling, 2013). Hence, Pogge and Mehta (2016) conclude that tax abuse promotes social inequality.[43] The same causal relationship has been identified by Sepúlveda (2014), who argues that taxation policies have the potential to reduce income and wealth inequalities and thus are a critical tool for realizing human rights (UNGA, 2015a, A/HRC/26/28).

Several other potential consequences of tax abuse bear mentioning. As mentioned above, tax abuse can induce a decline in effective tax rates. Large chunks of global wealth hidden from the rest of the financial world also cause basic macroeconomic statistics to lose significance, contributing to financial instability.[44] Additionally, tax expenditures lead to more complicated tax codes, and governments often react to tax abuse by adding new regulations to tax codes, making it more difficult for all companies to obey tax regulations. Corporate compliance costs rise, as do the

[42]CESR, 2015, Fiscal Policy and Human Rights in the Americas, Thematic Report, Center for Economic and Social Rights, New York, United States, p. 2.
[43]Pogge, T., Metha, K., 2016, Global Tax Fairness, Oxford University Press, Oxford, UK, p. 5.
[44]Zucman, (2015), profits shifted to Ireland to benefit from low tax rates result in a trade surplus of 25 percent of GDP in 2014, but there is no competitive advantage for the Irish population. Irish national income was only 80% of Irish GDP.

administrative costs of tax authorities.[45] These practices can severely reduce the competitiveness of local businesses, which have to sell products at higher prices to meet their tax obligations (ITEP, 2011).

Finally, tax abuse poses a challenge to democracy. Piketty (2015) affirms that modern democracies are based on the fundamental social contract that everybody has to pay taxes in a fair and transparent manner to finance public goods and services. If the bottom and middle parts of the income pyramid feel disadvantaged by their country's tax system and the global economy, they may reject the very notion of interclass solidarity and be tempted by nationalist and ethnic divisions.[46] Bohoslavsky (2015) stresses that tax abuse negatively affects the rule of law and contributes to the spread of criminal activities.[47] Dowling (2013) explains that because paying tax is a prime social responsibility of the modern corporation, tax dodging can be considered as civil disobedience and as socially irresponsible.

We turn now to examining several of these relationships in greater detail. In particular we elaborate on the state of poverty and inequality and its link with tax abuse, and the channels through which tax abuse can affect fiscal policy.

[45]Dowling, G., 2013, The Curious Case of Corporate Tax Avoidance: Is it Socially Irresponsible?, Journal of Business Ethics (2014) 124:173-184, Springer Science+Business Media, Heidelberg, Germany, p.176.
[46] Piketty, T., 2015, Foreword in The Hidden Wealth of Nations, University of Chicago Press, London, UK.
[47]UNGA, 2015b, A/HRC/28/60, 02/10/2015, Illicit financial flows, human rights and the post-2015 development agenda, Interim study by the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights, Juan Pablo Bohoslavsky, p. 5.

1.2.1 Poverty and Inequality

While progress has been made in reducing the gravest forms of poverty, economic inequality has risen steeply over the past decades. Half of the world's household wealth is now owned by the top 1 percent of the population, and the richest 10 percent hold a total of 87.7 percent of global assets. The bottom half of the world's population collectively owns less than 1 percent of total wealth.[48] In the United States, in the 1970s, the wealthiest 0.1 percent held 7 percent of wealth; today they own 22 percent.[49] Widening income gaps all around the world have put into question whether current economic policies can translate growth into social development. In 2015, globally about 795 million people were undernourished, 5.9 million children under the age of five died, only 68 percent of the world's population had access to improved sanitation facilities, 663 million people still relied on unimproved water sources, and 758 million adults, two thirds of them women, remained illiterate.[50] Although many developing countries have experienced significant economic growth in recent decades, poverty and inequality have not reduced proportionally; the benefits of growth have been concentrated in the hands of the few. Rising inequality has slowed the pace of poverty reduction, creating intergenerational poverty traps through uneven access to health and education. More often than not, ill health and poor education are the result of poverty and discrimination. The United Nations (UN), therefore, remains committed to reducing absolute poverty and expanding its effort to attain SDG goal 10: "reduce inequality within and among countries."

[48] Credit Suisse Research Institute, 2015, Global Wealth Report 2015, Credit Suisse Research Institute, Zurich, Switzerland
[49] Saez, E., Zucman, G., 2016, Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Tax Data, Quarterly Journal of Economics, Vol. 131, May 2016, Issue 2, Harvard University, MA, United States, pp. 519-578.
[50] SDG indicators, UNICEF, FAO, WHO.

In the 20th century, after World War II, comparatively rapid economic growth boosted labor income, which rose faster than personal wealth could accumulate, and progressive tax and expenditure policies kept inequality in check—at least for several decades. But this trend reversed as globalization and technological innovation increased returns on capital and enabled capital owners to accumulate more wealth and, consequently, more capital income (Piketty, 2014). These developments suppressed low-skilled wages and favored high-skilled workers. Political power shifted to higher income groups whose interests favored less progressive tax and spending policies. These trends along with the deregulation of the private and financial sectors increased the opportunities and technologies for tax abuse and help explain the increase in inequality observed in more recent decades. Between 1990 and 2005, economic inequality increased by 5 percentage points in Europe as measured by the GINI Coefficient (International Monetary Fund, IMF, 2012). Austerity measures introduced all around the world after the global financial crisis that began in 2008 imposed large cuts to public spending, affecting the quality and accessibility of public services. In 2010, health spending in Europe dropped for the first time in decades (Oxfam International, 2014). In some countries (Ireland, France, Spain), austerity measures caused a spike in inequality, while in others, including the United States, Iceland, and Portugal, the impacts were less evident (Thompson and Smeeding, 2011, in IMF 2012). For example, Iceland's continuously strong public spending on health, education, and social welfare mainly avoided an increase in income inequality (Oxfam International, 2014). However, the long-term effects of fiscal consolidation measures on income inequality have yet to emerge.

In 2012, the International Monetary Fund (IMF) confirmed that income inequality is the outcome of unfair access to resources and thus detrimental to social cohesion, and that the large variation

in average disposable income can largely be accounted for by the differences in the level and progressivity of tax and spending policies.[51] Hatgioannides et al. (2017) reveal that the US tax system has become less progressive over time. During 1980s, the poorest 99 percent of the US population paid nine times as much income tax, as a percentage of income, as the richest 1 percent; in 2014 they paid 21 times as much. By 2014, the bottom 99.9 percent of the US paid 76 times as much taxes as a percentage of their income as the elite 0.1 percent.[52]

The unproductive accumulation of wealth can have corrosive social effects in all countries, but particularly in developing countries, leading to increased inequality and diminished credibility of institutions.[53] Economic inequality makes it more likely that a large share of the population will be unable to purchase the goods and services necessary to secure their social and economic rights at any given income level. In the long run, achieving and sustaining adequate standards of living becomes difficult.

There is a growing consensus that low levels of tax revenue collection have a disproportionate impact on the poorest segments of the population, who depend on public services, and that improving income distribution is the key to poverty reduction.[54] While many of the causes of poverty and inequality are outside a government's control, the most extreme forms of poverty could be avoided through a modest reduction in global household income inequality. The IBA

[51] IMF, 2012, Income Inequality and Fiscal Policy, Fiscal Affairs Department, D30, D63, H20, I14, I24, Washington D.C., United States, p. 3
[52]Hatgioannides, J., Karanassou, M., Sala, H., 2017, Should the Rich be Taxed More? The Fiscal Inequality Coefficient, Review of Income and Wealth, City University of London, UK.
[53] GFI, 2017b and Oxfam International, 2014, Working for the Many, Public Services fight inequality, 182 Oxfam Briefing Paper, Oxford, GB.
[54] Grammy, A., Assane, D., 2006, The Poverty-Growth-Inequality Triangle Hypothesis: An Empirical Examination, Journal of Policy Models, Elsevier, Amsterdam, Netherlands.

(2013) estimates that with a shift of just one to two percent of global household income distribution to the lowest income groups, severe poverty could be eradicated. Indeed, the IMF (2014a) confirmed that, in most economies, redistribution achieved through income taxes is higher than for means-tested social transfers.[55]

The rise of income inequality has been coupled with the decrease in the redistributive impact of fiscal policy. Fiscal policy, in general, has become less redistributive since the 1990s, and reforms have reduced the progressivity of income tax systems. While in the ‘80s fiscal policy offset 73 percent of a three-percentage point increase in inequality, in the 2000s fiscal policy only offset 53 percent of a one percent increase in market income inequality (IMF, 2012). Supúlveda (2014) concludes that the lack of adequate taxation and redistribution of the proceeds of growth led to the increased concentration of wealth in society all around the world.

In a nutshell, tax abuse not only exacerbates poverty by reducing government revenue, it contributes to the accumulation of capital and is also a principal cause of economic inequality in any society, fueling the concentration of wealth in the top income quartile. Beyond that, tax abuse makes tax systems, and fiscal policy itself, less redistributive and thus has a multiplier effect on poverty and economic inequality. Therefore, we need to take a closer look at the function of fiscal policy in promoting economic and social development and, with it, the realization of human rights.

[55]IMF, 2014a, Fiscal Policy and Income Inequality, IMF Policy Paper, 01/23/2014, Washington D.C., United States.

1.2.2 Fiscal Policy and Progressive Taxation

Revenue and expenditure are the two main instruments of fiscal policy. Progressive tax policies along with progressive expenditure policies can play a significant role in reducing poverty and inequality (IMF, 2012, Fuest and Riedel, 2009, Cobham, 2005). However, there remains debate about the extent of any tradeoff with economic efficiency. Some argue that progressive spending policies provide a disincentive for low skilled workers to take up employment or to strive to ascend the socio-economic ladder (IMF, 2012). Additionally, others argue that a reduction in income inequality itself reduces economic growth claiming that economic inequality enables the accumulation of capital for investment and provides an important incentive for investment especially in the context of developing countries. (IMF, 2012; Friedman, 1962). Both arguments have largely justified the reduction of income taxes since the 1980s.

Kuznets's inverted-U hypothesis of 1955 examined the relationship between growth, and inequality, and hypothesized that the distribution of income tends to worsen in the initial stages of economic growth but eventually improves. This led to the claim that structural transformation and the accompanying tax policies necessary to promote growth in low-income countries, would cause a temporary increase in inequality, followed by a decrease.[56] This theory fostered the belief that economic growth alone would suffice to resolve poverty and inequality. This belief has dominated the policies of financial institutions and policy makers ever since.

The unexpected increase in economic inequality in high income countries in the 21th century inspired Piketty, among others, to challenge Kuznets's assertion. Piketty (2014) argues that rising

[56] Lyubimov, I., 2017, Income inequality revisited 60 years later: Piketty vs Kuznets, Russian Journal of Economics 3 (2017), pp. 42–53.

inequality leads to an increase in the influence of the wealthy, who then change the rules to favor their continued accumulation of wealth rather than broad based economic growth. That is, rather than promoting growth, Piketty argues high inequality retards growth, especially taking into account the adverse impacts on growth of credit market imperfections and corruption.[57]

Piketty (2014) strongly advocates for fiscal measures - both tax and spending policies - to combat inequality because fiscal policy influences income distribution both directly and indirectly. It directly affects current disposable incomes and indirectly affects individuals' future earning capacities by affecting their ability to build human capital and undertake investments that increase their future income.

Progressive taxation can, if supported by adequate administrative and enforcement mechanisms, lead to gradual forms of income redistribution within countries.[58] Personal income tax can be progressive tax, while indirect taxes, such as VAT or sales tax, are typically regressive because they consume a larger share of income from the poor than from the rich. The redistributive impact of taxes in developing countries is limited due to heavy reliance on indirect taxes and a narrower tax base. Taxes on imports appear to be the most regressive. Since capital is mobile and labor is not, the majority of the corporate tax burden falls on wages. While the personal income of top managers is either taxed less or shifted out of the country, workers and employees pay a disproportionate share of corporate tax from their salaries (IMF, 2012). Women, who tend to spend a larger share of income on basic goods, often are disproportionally affected by consumption taxes.

[57] Piketty, 2014, and Berg, A., Ostry, J., 2011, Inequality and Unsustainable Growth: Two Sides of the Same Coin? IMF Staff Discussion Note, SDN/11/08, International Monetary Fund, Washington DC, USA.

[58] UNESC, 1992, E/CN.4/Sub.2/1992/16, The Realization of Economic, Social and Cultural Rights, Final report submitted by Mr Danilo Tuerk, Special Rapporteur, Geneva, Switzerland, para 83.

Hayes and Vidal (2015) identify regressive US state tax policies as reinforcing income disparities as well as levels of inequality.[59]

But what about claims that increased corporate taxes on business reduce investment and therefore growth and employment? Influential research, has convincingly countered these claims and found that the efficiency costs of progressive taxation are minimal or nonexistent, and that increases in the top income quartile mostly reflect rent-seeking rather than productivity increases.[60] Further evidence suggests that the primary selection criteria for private investments are not tax benefits.[61] Nevertheless governments offer extensive tax exemptions to attract investment. Windfuhr (2010) recognizes that governments may tolerate negative short-term consequence of policies believing that they lead to a long-term positive effect.[62] Focusing on the spending side, Fukuda-Parr, Lawson-Remer and Randolph (2015) suggest that the expansion of social and economic rights through government spending from tax revenue is not an obstacle to economic growth but can strengthen it.[63] If revenue is used to finance public services, it creates conditions propitious to growth and mitigates the impact of skewed income distribution, directly contributing to reducing inequality.[64]

[59]Hayes, T. and Vidal, D, 2015, Fiscal Policy and Economic Inequality in the U.S. States: Taxing and Spending from 1976 to 2006, Political Research Quarterly, Vol. 68(2) 392–407, SAGE Publications Ltd, Thousand Oaks, CA, United States,pp.393-394.
[60] Piketty, T. and Saez, E., 2016, Income Inequality in the United States, 1913-1998, Quarterly Journal of Economics, 118(1), Harvard University, MA, United States, pp. 1-39.
[61]Balakrishwan, R., Elson, D., Heintz, J., Lusiani, N., 2011, Maximum Available Resources & Human Rights: Analytical Report, Center for Women's Global Leadership, Rutgers University, New York, United States, p.12. and Fjeldstad, O-H., Heggstad, K., 2011, The tax systems in Mozambique, Tanzania and Zambia, Capacity and constraints, Chr Michelsen Institute, R 2011:3. Bergen: Norway, p.xi.
[62]Windfuhr, M., 2010, The World Food Crisis and the Right to Adequate Food, in Universal Human Rights and Extraterritorial Obligations, edited by Mark Giney and Sigrun Skogly, Pennsylvania Press, Philadelphia, United States, pp. 154-155.
[63] Fukuda-Parr, Sakiko, Lawson-Remer, Terra, Randolph Susan, 2015, Fulfilling Social and Economic Rights, Oxford University Press. New York, United States, p. 159.
[64]Oxfam International (2014)

Nevertheless, fiscal policy reforms since the '90s have reduced the overall progressivity of the tax-benefit system. In 12 EU economies, the effective indirect tax rate is, on average, three times higher for the bottom income decile than for the top decile (IMF, 2012). The reduction of income tax rates, especially at higher income levels, have contributed to the decrease in the redistributive impact of fiscal policy. Social benefits on the expenditure side of fiscal policy, particularly unemployment and social benefits, have been reduced.[65] Additionally, fiscal consolidation has increased inequality by reducing economic output and increasing unemployment, with low-skilled workers typically hardest hit. Even after the financial crisis, the global financial sector remains largely undertaxed and underregulated. Taxes on financial transactions intended to both raise revenue and discourage speculation trading have only been successfully introduced in a few jurisdictions.

The resistance to making the tax system more progressive may partly be explained by a lack of research on the potential impacts of further increasing the progressiveness of the tax system. There remains a belief by many that the prospects for income redistribution through expenditure are greater than through the revenue side. The magnitude of redistribution of direct taxes is typically larger than that of public transfers (IMF, 2012). In developed economies, public pension funds, universal child benefits, and other non-means-tested transfers account for the largest impact of redistribution on the expenditure side. But on the revenue side, income tax has the largest impact, and in OECD countries, the redistribution achieved through taxes is higher than that of means-tested transfers. In the US taxes are already more redistributive than social transfers, and research

[65] OECD, 2011, Divided We Stand: Why Inequality Keeps Rising, OECD Publishing, Paris, France.

on Latin America revealed that regressive tax systems can reverse the distributive impact of government expenditures.[66]

Tax abuse reduces the revenue potential and redistributive impact of income taxes.[67] There is a growing consensus that besides increasing the progressivity of income taxes and cutting unproductive expenditures, the redistributive effect of fiscal policy should include reducing tax evasion and avoidance (IMF, 2012). High levels of tax noncompliance combined with a narrow tax base due to widespread tax exemptions and preferential treatment of capital and other income, hamper the progressiveness of direct taxes in developing countries and contribute to the low-income tax ratios and the overall regressiveness of tax systems (IMF, 2012). Reducing tax abuse can simultaneously increase revenue and make the tax system more efficient and redistributive.

The voices of those who would shield the private sector from government interference remain strong and argue that instead of going after big corporations that avoid taxes, states should focus on expanding their domestic tax base. Cobham (2005) thus argues that by reducing the size of developing countries' shadow economies by 12 percent (without considering illegal activities), an additional USD 110 billion in tax revenue could be raised each year. In the end, however, the sheer scope of global tax abuse in light of extreme poverty and inequality, should make it inexcusable for governments to ignore the problem any longer. States have an obligation under international human rights law to address tax abuse and use the maximum of their available resources for the fulfillment of economic and social rights.

[66] OECD, 2008, Growing Unequal? Income Distribution and Poverty in the OECD Countries, OECD Publishing, Paris, France , and Lustig, N., 2012, Taxes, Transfers, and Income Redistribution in Latin America, Inequality in Focus Volume 1(2): July 2012, World Bank Group, Washington D. C., United States.
[67] Gruber, J., Saez, E., 2002, The Elasticity of Taxable Income: Evidence and Implications, Journal of Public Economics, Vol. 84, No.1, Elsevier, Amsterdam, Netherlands, pp. 1-32.

1.3 The Link to Human Rights

Fiscal policy, as public policy, is subject to the human rights obligations of states and has enormous transformative potential in combating poverty and inequality (Balakrishwan et al, 2011). The below described human rights principles provide a framework that strengthens the two key functions of fiscal policy. The 166 states that are currently party to the International Covenant on Economic, Social and Cultural Rights (ICESCR) are obliged to progressively realize economic and social human rights.[68] "Freedom from want" can be achieved through the realization of the rights to adequate food and housing, to health, to social security, to water and sanitation, and to work. Unlike the obligations of states to protect civil and political rights, there are no immediate, prohibitive standards concerning ESRs, and governments can choose how and through which kind of economic and social policies, they want to realize these rights, as long as they use the "maximum available resources" to do so.[69] There are two ways to fulfill ESRs: people can claim their rights in the marketplace and/or through self-production, that is, exchanging their labor assets and other productive assets, or through entitlements to public services. Tax abuse affects both dimensions.

1.3.1 Creating an Enabling Environment

The ICESCR lays out in its preamble that freedom from fear and want can only be achieved if conditions are created whereby everyone can enjoy their human rights. The UN Declaration on the Right to Development further specifies these conditions by entitling all persons to an enabling

[68] United Nations Treaty Collection, 12/02/2017, Chapter IV Human Rights, 3. International Covenant on Economic, Social and Cultural Rights.
[69] CESCR, 2017, E/C.12/GC/24, 08/10/2017, Committee on Economic, Social and Cultural Rights, General Comment No. 24 on State obligations under the International Covenant on Economic, Social and Cultural Rights in the context of business activities.

environment for development.[70] The creation of an enabling environment requires that the structure of the economy and the distribution of income are such that all people are able to physically and financially access those goods and services that enable them to claim their economic and social rights. As discussed in the previous sections, in the face of tax abuse, the burden of taxes is shifted to those taxes that fall most heavily on labor and the relatively poor in general. Unjust tax systems at both the national and international levels concentrate wealth in the hands of the rich, increasing inequality and poverty. Tax abuse therefore also indirectly increases income inequality. In the face of increased poverty and inequality, the assets and income of the relative and absolute poor diminish, and with this, their ability to claim their economic and social rights, ESR, through the marketplace. Tax abuse has a detrimental effect on poverty and inequality, which are both causes and consequences of human rights violations.[71]

Although poverty and inequality themselves are not explicitly mentioned in international human rights treaties, the Universal Declaration of Human Rights (UDHR) proclaims “freedom from want” as one of the “highest aspirations of the common people.” Likewise, the ICSECR, the European Social Charter, the American Convention on Human Rights, the African Charter on Human and Peoples’ Rights, and the Association of Southeast Asian Nations (ASEAN) Human Rights Declaration all refer to freedom from want and improving standards of living.[72] While some

[70] See UNGA, 1966, A/RES/21/2200, 12/16/1966, International Covenant on Economic, Social and Cultural Rights, United Nations, Treaty Series, vol. 993, ICESCR, 1966, A/RES/21/2200, 12/16/1966, 2200 (XXI). International Covenant on Economic, Social and Cultural Rights, International Covenant on Civil and Political Rights and Optional Protocol to the International Covenant on Civil and Political Rights, and UNGA, 1986, A/RES/41/128, 12/04/1986, Declaration on the Right to Development: resolution / adopted by the General Assembly.

[71] IBA (2013), p.101 and UNHRC, 2012, A/HRC/21/39, 07/18/2012, 21st session of the Human Rights Council: Reports, Final draft of the guiding principles on extreme poverty and human rights, submitted by the Special Rapporteur on extreme poverty and human rights, Magdalena Sepulveda Carmona.

[72] See UNGA 217A, 1948, A/RES/3/217 A; UNGA, 1966, A/RES/21/2200; Council of Europe, ETS No.035, 10/18/1961, European Social Charter, Turin; OAS, 11/22/1969, American Convention on Human Rights, ‚Pact of San Jose‘, Costa Rica; Organization of African Unity, CAB/LEG/67/3 rev. 5, 21 I.L.M. 58 (1982), 06/27/1981, African Charter on Human and Peoples' Rights "Banjul Charter"; Association of Southeast Asian Nations (ASEAN), 11/18/2012, ASEAN Human Rights Declaration, Phnom Penh, Cambodia. The Cairo Declaration of Human Rights by the member states of the Organization of the Islamic Conference adopted

are skeptical that poverty itself constitutes a human rights violation, the UN Guiding Principles on Extreme Poverty and Human Rights confirmed that severe or extreme forms of poverty, especially when caused by acts or omissions of the state, could be associated with human rights violations (IBA, 2013). Tolerating and/or enabling tax abuse and, through it diminishing access to rights fulfillment, would fall under this definition. A different approach is that poverty and high inequality are not human rights violations as such, but rather a regrettable circumstance in which human rights are more at risk (IBA, 2013). The Committee on the International Covenant on Economic, Social and Cultural Rights (CESCR) encourages state parties to adopt extraordinary measures to accelerate the achievement of equality.[73]

1.3.2 Maximizing Available Resources

Under article 2.2 of the ICESCR countries are obligated to use the maximum of their available resources to progressively realize all the rights contained in the Covenant. Avoided and evaded tax payments are forgone domestic revenues that cannot be used for social and economic policies to eradicate extreme poverty, redress economic inequality, build economic infrastructure to facilitate people claiming their economic and social rights through the market and to directly fulfill economic and social human rights. Thus, not only does tax abuse impede people's ability to claim their ESR through the market, but also their ability to claim their ESR via government entitlements.

in Cairo, Egypt, 1990 does not explicitly refer to poverty or freedom of want, but only states that Islam forbids the exploitation of a man's poverty.

[73]CESCR, 2009, E/C.12/GC/20, 07/02/2009, General Comment No. 20, Non-discrimination in economic, social and cultural rights (art. 2, para. 2, of the International Covenant on Economic, Social and Cultural Rights).

The interpretation of the obligation to use the “maximum available resources” for the progressive realization of ESR has often been limited to the analysis of whether budget expenditures give sufficient priority to the direct provision of goods and services that enhance human rights enjoyment. Indeed, the CESCR’s General Comment (GC) 20 issued in 2009 specified that economic policies, such as budgetary allocations, should take into account the enjoyment of ESR without discrimination, but failed to address the revenue side of fiscal policy (CESCR, 2009, E/C.12/GC/20). But this has come to be recognized as too limited an interpretation. It is not enough to ensure that limited resources are effectively allocated towards rights realization. The supply side of fiscal policy matters as well, and countries’ obligations extend to increasing the availability of resources through domestic revenue mobilization (CESR, 2015).

Indeed, by 2014 the Special Rapporteur on Extreme Poverty stated that the right to equality and non-discrimination should be respected in all revenue-raising policies, and requires states to set up progressive tax systems with real redistributive capacity that preserves and progressively increases the income of poorer households and eliminates structural discrimination (UNGA, 2015a, A/HRC/26/28). Tax abuse limits domestic resource mobilization and accordingly social and economic expenditures that directly and indirectly fulfill economic and social rights. Progressive expenditure policies coupled with the necessary expenditure levels can play a fundamental role in redressing inequalities and thus fiscal policy is an instrument for the realization of human rights (UNGA, 2015a, A/HRC/26/28, Balakrishwan et al, 2011). While tax abuse as such is not a legal violation of human rights, the UNHRC confirms that actions or omissions that diminish public revenues by allowing large scale tax evasions or tax structures that have a disproportionate impact on the poorest segments of the population, could constitute a human rights violation, such as the

obligation to allocate the maximum available resources to the enjoyment of ESR or to eliminate discrimination (UNGA, 2015a, A/HRC/26/28).

Additionally, the right to self-determination encompasses the rights of peoples, not those of the state or government, to freely dispose of natural wealth and resources. Therefore, at a minimum, a state's population has the right to a fair share of financial and social benefits that natural resources can bring (UNGA, 2015a, A/HRC/26/28).

States are obliged to ensure coherence between corporate, tax, and human rights laws and policies at the domestic and international levels. Sepúlveda (2014) acknowledges that international human rights obligations do not prescribe precise tax policies. She stresses, however, that even though states have the discretion to formulate policies appropriate to their needs, international human rights law requires fiscal policies to be guided by their treaties. Fiscal policy and, within it, tax policy are subject to the central tenet of all international human rights treaties: the obligation to guarantee that human rights can be exercised without discrimination of any kind.

The ICESCR determines that non-discrimination is an immediate and cross-cutting obligation that undergirds the realization of all ESRs. Discrimination constitutes any distinction, exclusion, restriction, preference, or other differential treatment that has the intention or effect of nullifying or inhibiting the exercise of ESRs. Every state has the obligation to prevent any effect of public policy that might discriminate on prohibited grounds, and state parties must immediately adopt the necessary measures to prevent, diminish, and eliminate existing discriminatory conditions and attitudes. Laws, policies, or practices that appear neutral, but have a disproportionate impact on

the exercise of rights and create relative disadvantages for some groups, such as granting extensive tax exemptions to businesses and putting the tax burden on the poor, are referred to as indirect and/or systemic discrimination (CESCR, 2009, E/C.12/GC/20). An increase of VAT, for instance, will likely have a higher impact on low-income households that spend a larger share of their income on goods and services, and thus contribute to inequality. Such regressive taxation schemes are likely contradictory to the non-discrimination principle. In its General Comment 20, the CESCR (2009) confirmed that differential treatment by marital or family status in taxation policies or social security regulations, could constitute discrimination. Tax arrangements that directly or indirectly disincentivize women's participation in the labor force or that promote the male bread-winner model may threaten women's enjoyment of ESRs (UNGA, 2015a, A/HRC/26/28). Over the past decades, the Committee on the Elimination of Discrimination against Women (CEDAW Committee) has urged state parties to raise and spend adequate public resources, in a non-discriminatory manner to ensure equality for women.

The obligation to progressively realize ESR holds within it a prohibition of retrogressive measures that would impede gradual improvement of the enjoyment of ESR.[74] We have to acknowledge, however, that the ICESCR allows for a limited range of differential treatment for the sole purpose of promoting the general welfare in a democratic society.[75] As we have discussed above, economic growth is not the only path to general welfare and hence should not be the sole justification for regressive tax policies or extensive tax expenditures. Differential treatment must be proportional to the aim sought and its effects. Thus, the IMF (2012) urged that resource mobilization should

[74]Balakrishwan et al (2011), pp.10-12, UNHRC, 2012, A/HRC/21/39, 07/18/2012 and HRC, 2011, A/HRC/17/31/Add.3, 05/25/2011, Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, John Ruggie, Para, 28.
[75] Ibid.

focus on expanding corporate and personal income taxes by reducing tax exemptions and improving compliance (IMF, 2012).

Besides empowerment and entitlement, strengthening governance and accountability is the third critical function of fiscal policy related to human rights. Beyond the content and scope of a state's fiscal policy, its design, implementation, and evaluation are also subject to the right to participation (UNGA, 2015a, A/HRC/26/28). To be justifiable to taxpayers, tax systems need to be accountable and transparent. Taxpayers need to perceive the system as fair and just, which is especially relevant when tax exemptions are granted to special interest groups. Tax system needs to be effective in transforming public revenues efficiently into public goods. Finally, there needs to be a political commitment to shared prosperity that aligns with national development strategies. When this happens, paying taxes should give an incentive for citizens to engage with government and the political process, and, with this, strengthen democracy.[76] In this context, the World Bank Group (WBG) confirmed that an effective and fair tax system could prevent conflict in resource rich countries.[77]

1.3.3 Business and Human Rights

While the above-discussed dimensions of fiscal policy clearly also entail the so-called protect obligation to prevent, investigate, punish, and redress abuses through effective policies, legislation, regulations, and adjudication as well as remedies, the special role of private corporations merits

[76] Everest-Phillips, M., 2008, Business Tax as state building in developing countries: Applying Governance principles in private sector development, International Journal of Regulation and Governance, Issue 8, IOS Press, Amsterdam, Netherlands, pp. 123-154.

[77]Rios, M. et al, 2015, Preventing Conflict in Resource Rich Countries, A Discussion Paper, EU-UN Partnership on Land, Word Bank Group, Washington D.C., United States.

an in-depth discussion.[78] Transnational corporations account for a large part of global tax abuse, and non-state actors like law or accounting firms facilitate this practice. United Nations treaty bodies have stressed repeatedly that states should take steps to prevent violations of human rights caused by activities of business enterprises incorporated under their laws or that have their main seat or place of business within their jurisdiction.[79] Nevertheless, governments often grant extensive tax exemptions and encourage aggressive tax planning by companies abroad, or facilitate tax abuse in secrecy jurisdictions and tax havens. If governments do not monitor, prevent, or prosecute tax abuse by corporations, they may be forced to raise revenue from other sources of domestic taxation that are often regressive. Therefore, if states do not address tax abuse, they are likely to disproportionately benefit wealthy individuals to the detriment of the most disadvantaged. Fighting tax abuse by non-state actors is therefore an essential factor of compliance with human rights principles, while it also improves the distributive effects of tax systems.

Under Ruggie's Guiding Principles on Business and Human Rights, business enterprises themselves have the responsibility to respect human rights, as laid out in the Bill of Human Rights and the eight core Conventions of the International Labor Organization (ILO).[80] Businesses that knowingly avoid paying tax are purposefully depriving countries of the resources they need to fulfill ESR. Their practice thus has negative impacts on human rights and can constitute a breach of their obligations.[81]

[78]UNHRC (2012) A/HRC/21/39, 07/18/2012. See also Maastricht Principles, 2011, Maastricht, Netherlands, para 32-34.
[79]UNHRC, 2012, A/HRC/21/39, 07/18/2012 and HRC, 2011, A/HRC/17/31/Add.3, 05/25/2011
[80]UNHRC, 2011, HR/PUB/11/04, Guiding Principles on Business and Human Rights
[81]UNHRC, 2012, A/HRC/21/39, 07/18/2012 and HRC, 2011, A/HRC/17/31/Add.3, 05/25/2011

1.3.4 Extraterritorial Obligations of Human Rights

International business activities highlight the global dimension of tax abuse and clearly show that no country alone can prevent capital flight. In reaction to the Panama Papers, the head of the IMF acknowledged that "international tax rules appear to be skewed towards the global rich," and the president of the WBG confirmed that tax evasion has a negative effect on poverty reduction and prosperity creation.[82]

The obligation to ensure coherence between corporate, fiscal, tax, and human rights laws and policies at the domestic and international levels entails avoiding corporate, fiscal, and tax measures that have a retrogressive impact on the fulfillment of human rights everywhere. States also have an obligation of international cooperation and technical assistance, which should include cooperation in the field of taxation (IBA, 2013).

Extraterritorial Obligations (ETOs) define the responsibility of states to respect, protect, and fulfill the human rights of individuals outside their state territory.[83] They are rooted in the United Nations Charter, under which all members pledge to take joint and separate action to achieve the purposes of the United Nations.[84] The UDHR (article 22) sets out the duty of international cooperation for the realization of economic, social and cultural rights. Furthermore, article 28 stipulates that "everyone is entitled to a social and international order" in which human rights can be fully realized.[85] Skogly and Gibney (2007) confirm that only by taking into account ETOs can states

[82]The Guardian, 04/16/2016, IMC Chief: regulators long 'alarmed' over Panama's handling of taxation, Guardian Media Group, London, UK.
[83]Coomans, F. and Kuennemann, R., 2012, Cases and Concepts on Extraterritorial Obligations in the Area of Economic, Social and Cultural Rights, Intersentia, UK. p. 14.
[84] United Nations, 1945, Charter of the United Nations and Statue of the International Court of Justice, Art.1.
[85]UNGA 217A, 1948, A/RES/3/217 A, Universal Declaration of Human Rights, Art. 22, 28.

fulfill their obligation to international cooperation as laid out in the UN Charter.[86] Additionally, the ICESCR does not mention territory or jurisdiction. Therefore the Covenant can be interpreted as clearly establishing the extraterritoriality of its obligations.[87] The CESCR has defined that obligations are not restricted to state territory but are applicable to all territories over which the state has effective control.[88] On various occasions the CESCR has stressed that states are encouraged to do all they can to ensure that foreign trade policies and bilateral investment treaties, as well as the policies of intergovernmental organizations they are members of, conform with international human rights law.[89] Finally, Windfuhr (2010) emphasizes that the international dimension of ESR obligations is of utmost importance for their long-term guarantee. The Maastricht Principles on Extraterritorial Obligations of States in the area of Economic, Social and Cultural Rights (Maastricht Principles) have become an essential instrument to identify ETOs (Coomans and Kuennemann, 2012). Since 2012, the majority of UN human rights bodies have adopted the ETO rhetoric, including the Committee on the Rights of the Child (CRC Committee) and the CEDAW Committee.[90] In 2017, the CESCR published its General Comment 24, which clearly lays out the Respect-Protect-Fulfill (RPF) Framework of ETOs in the context of business activities.[91]

[86] Gibney, M. and Skogly, S., 2010, Universal Human Rights and Extraterritorial Obligations, Philadelphia, United States

[87] Coomans, F., 2004, Some Remarks on the Extraterritorial Application of the International Covenant on Economic, Social and Cultural Rights, in Coomans, F. and Kamminga, M.T., 2004, Extraterritorial Application of Human Rights Treaties, Intersentia, Antwerpen, Netherlands, pp. 183-200.

[88] Decisions have been made in the case of Israel and the Palestinian Territories. United Nations, 1988, UN Doc E/1999/22 E/C.12/1998/26, 04/12/1998, Report of the 18th and 19th Session, Para 232, 234. Also see International Court of Justice (ICJ), 2004, The Wall Opinion, Advisory Opinion, ICJ Reports, p.136.

[89] CESCR, 2010, E/C.12/CHE/Co/2-3, 11/26/2010, Committee on Economic, Social and Cultural Rights, Consideration of reports submitted by States parties under articles 16 and 17 of the Covenant, Concluding observations of the Committee on Economic, Social and Cultural Rights, Geneva, Switzerland and CESCR, 2011, E/C.12/DEU/CO/5, 07/12/2011, International Covenant on Economic, Social and Cultural Rights a Consideration of reports submitted by States parties under articles 16 and 17 of the Covenant, Concluding observations of the Committee on Economic, Social and Cultural Rights.

[90] See for instance, CEDAW, 2016, CEDAW/C/CHE/CO/4-5, 11/25/2016, Convention on the Elimination of All Forms of Discrimination against Women, Concluding observations on the combined fourth and fifth periodic reports of Switzerland or UNHRC, 2016, A/HRC/32/19, 32nd session of the Human Rights Council: Reports, Improving accountability and access to remedy for victims of business-related human rights abuse, Report of the United Nations High Commissioner for Human Rights.

[91] CESCR, 2017, E/C.12/GC/24, 08/10/2017, Committee on Economic, Social and Cultural Rights, General Comment No. 24 on State obligations under the International Covenant on Economic, Social and Cultural Rights in the context of business activities.

Every state has an obligation to fulfill ESR beyond its borders to create an international enabling environment that is conducive to fulfilling human rights, including matters related to trade, investment, taxation, finance, and development cooperation (Maastricht Principles, article 29). Without empowered national authorities, those with the greatest expertise on global tax abuse are the strongest participants and use their increased influence to bend the rules in their favor, creating what Pogge refers to as "inequality spirals" (IBA, 2013). Although all international treaties ought to be consistent with international human rights treaties, poor countries often lack bargaining power and are for the most part excluded from the negotiations to increase financial transparency.[92]

Under the right to self-determination, all peoples have the right to "freely pursue their economic, social and cultural development", which brings with it the duty of states to respect that right (ICESCR, 1966, A/RES/21/2200). Undermining the ability of other states to raise revenue and fund their own development may therefore contradict this fundamental right (UNGA, 2015a, A/HRC/26/28). Secrecy jurisdictions and tax havens such as Switzerland, which ranked number one on the Financial Secrecy Index in 2015, facilitate the large-scale cross-border tax abuse that deprives states of their public resources to realize ESR and promote substantive equality.[93] Even though bilateral agreements to share financial information have been made with most developed nations, taxable income generated in most developing nations still can be hidden easily in Switzerland without disclosure of corporate ownership, revenues, or tax payments. Switzerland

[92]Zucman, 2015, and Schutter O. de, 2006, 'Globalization and Jurisdiction. Lessons from the European Convention on Human Rights' 6 Baltic Yearbook of International Law.
[93] CESR, 2016, Swiss Responsibility for the Extraterritorial Impacts of Tax Abuse on Women's Rights, Submission to the Committee on the Elimination of Discrimination against Women 65th Session, October 24 – November 18, 2016, Geneva, Switzerland.

also does not offer any legal protection for whistleblowers who may shine a light on tax abuse (CESR, 2016).

In 2009, the G20 compelled tax havens to exchange bank information upon request with foreign authorities. However, even though more than 300 bilateral treaties for sharing financial information had been signed globally by the end of 2009, Johannesen and Zucman (2014) find that rather than repatriating funds, tax evaders are shifting their deposits to OFCs not covered by a treaty with their home country.[94]

In 2013, the G20 endorsed and Action Plan on BEPS that, among other initiatives, calls for a "multilateral instrument designed to provide an innovative approach to international tax matters."[95] Leading economists who analyzed the effectiveness of bilateral bank information-sharing treaties agree that a multinational agreement should be preferred to the current sequential approach.[96] Access to information, transparency, accountability, and participation are not only cornerstones of public policy but also human rights, which require mechanisms to enforce them. While national governments should provide comprehensive budgetary information, the international community is required to create a global regime to share financial information.

The Maastricht Principles 24 and 25 require states to take measures to ensure that businesses subject to state regulation do not participate in or facilitate tax abuse or IFFs, given their

[94]Johannesen, N., Zucman, G., 2014, The End of Bank Secrecy? An Evaluation of the G20 Tax Haven Crackdown, American Economic Journal: Economic Policy 2014, 6(1): 65-91.
[95] OECD, 2015, Developing a Multilateral Instrument to Modify Bilateral Tax Treaties, Action 15 – 2015 Final Report, OECD/G20 Base erosion and Profit Shifting Project, OECD Publishing, Paris, France.
[96]Johannesen, N, Zucman, G., 2014, The End of Bank Secrecy? An Evaluation of the G20 Tax Haven Crackdown, American Economic Journal: Economic Policy 2014, 6(1): 65-91, New York, United States.

detrimental impact on the realization of ESRs. United Nations treaty bodies, such as the committees guarding the Convention on the Rights of the Child (CRC), the International Covenant on Civil and Political Rights (ICCPR) and the CESCR have repeatedly affirmed that states should take steps to prevent violations of human rights outside of their territories.[97] In 2012, Starbucks recorded sales of 400 million pounds in the UK but, by shifting its profit to the Netherlands, paid no corporate tax at all.[98] In October 2015, the EU Commission took a step to acknowledge its international protect obligation and declared that Dutch tax rulings that artificially reduced Starbucks' tax burden by EUR 20-30 million are "…not in line with EU state aid rules. They are illegal…. All companies, big or small, multinational or not, should pay their fair share of tax."[99]

Growing global consciousness of tax abuse has put it on the 2030 Development Agenda. Additionally, with their own foreign aid budgets cut by austerity measures, donors have developed a greater interest in tax reform and domestic resource mobilization abroad. The SDGs pledge to significantly reduce illicit financial flows by 2030. The same agenda builds heavily on the participation of the private sector in realizing these goals by encouraging PPPs. By helping to realize the SDGs companies can polish their images without having to lay out their actual contributions to society through their obligatory tax payments. In the same vein, the climate finance agenda promotes carbon taxes balanced out by corporate tax cuts without considering that companies that do not pay their fair share of corporate tax in the first place will hardly be convinced

[97]See CRC Com, 2013, CRC/C/GC/16, General comment No.16 (2013) on State obligations regarding the impact of the business sector on children's rights, CRC Com, 2012, CRC/C/KOR/CO/3-4, 02/02/2012, Committee on the Rights of the Child, Consideration of reports submitted by States parties under article 44 of the Convention, Concluding observations: Republic of Korea, 19 September - 7 October 2011, CESCR, 2011, E/C.12/DEU/CO/5, 07/12/2011and HRC, 2012, CCPR/C/DEU/CO/6, 11/12/2012, Human Rights Committee, Concluding observations on the sixth periodic report of Germany, adopted by the Committee at its 106th session (15 October - 2 November 2012).

[98]BBC News. 05/21/2013, Google, Amazon, Starbucks: The rise of 'tax shaming', British Broadcasting Corportion.

[99]European Commission, 2015, IP/15/5880, Press Release: 10/21/2015, Commission decides selective tax advantages for Fiat in Luxembourg and Starbucks in the Netherlands are illegal under EU state aid rules, Brussels, Belgium.

to make up for it in carbon taxes. Climate funds, such as the Global Environment Facility and the Green Climate Fund, lend hundreds of millions of dollars on favorable terms to island jurisdictions that charge minimal or do not charge any tax on profits, income or capital share and hide most of the worlds IFFs. Determining a framework for responsible tax behavior in both the public and private sectors is essential to ensure beneficial cooperation, living up to the mantra “leave no one behind” and assuring that development finance itself does not contribute to tax erosion.

As a part of the Addis Ababa Initiative, GFI (2017b) advocates increasing financial transparency through beneficial ownership, anti-money laundering campaigns, country-by-country reporting, and exchange of tax information. Governments should establish public registers of verified beneficial ownerships, and banks should know who are the true beneficial owners of their accounts. Policymakers should require multinational companies to publicly disclose their revenues, profits, losses, sales, taxes paid, subsidiaries, and staff levels on a country by country basis. Customs officials need to be trained to detect trade misinvoicing and access real-time world market pricing information at a detailed commodity level (GFI, 2017a). Moreover, the highest level of scrutiny should be attributed to trade transactions involving tax havens. There is also a growing consensus that a new multilateral tax regime based on the premise of tax cooperation over competition is urgently needed, and that increasing top income tax rates in developing countries may require greater international cooperation to be effective. Finally, further research is needed to better understand the motivation, dimension, and distribution of tax abuse to be able to improve the enforcement of existing tax rules (Sulpúveda, 2014, Altstaedsaeter et al, 2017 and IMF, 2012).

1.4 Concluding Remarks

This essay highlighted the global scope and magnitude of tax abuse and its negative impact on the enjoyment of economic and social human rights. Tax abuse accumulates capital in the economy, makes tax systems more regressive and reduces government revenue. It aggravates poverty and economic inequality and hence reduces the ability of the poor to claim their rights in the marketplace. Illicit financial flows from tax abuse represent forgone domestic revenues that could have been invested in public services for the realization of economic and social rights. Fiscal policy is, with its core functions– revenue generation, expenditure and accountability – subject to human rights obligations. States ought to create an enabling environment for the progressive realization of economic and social rights without taking steps of deliberate retrogression. The right to non-discrimination prevents that some groups of society should be disproportionately affected by regressive tax policies. Differential treatments in the form of investment incentives should be proportional. The obligation to use the maximum available resources for rights fulfillment, does not only include government expenditure, but also applies to revenue generation. Governments also have the obligation to prevent and prosecute tax abuse committed by corporations they are in a position to control. The magnitude of global tax abuse and the special role of tax havens and secrecy jurisdictions in hiding 8 percent of global household income illustrate the extraterritorial human rights obligations of all states. No state, acting alone, can prevent and prosecute tax avoidance and evasion, nor can it prevent capital flight by itself.

2 Tax Abuse and Human Rights in Mozambique

Thirty percent of African wealth is held abroad, hidden in tax havens, and Sub-Saharan Africa (SSA) has the highest levels of Illicit Financial Flows (IFF) outflows that drain domestic resources. The continent is the worst affected by tax abuse, relative to its size, and given its lack of basic infrastructure and public services, the impacts of tax abuse are grave (Zucman, 2015, GFI, 2017b). Effective tax rates are far below the average Organization for Economic Co-Operation and Development (OECD) tax to GDP ratio. Many countries still have large informal economies that limit the national tax base. Weak tax administrations in resource-rich countries make it easy to avoid and evade tax at home, and for corporations to shift goods and services out of the country without paying taxes. African countries lack bargaining power on the international stage to negotiate both trade deals and bilateral treaties that would share financial and tax information. To attract investment and to prevent further capital flight, authorities often offer extensive tax exemptions, becoming caught in a vicious cycle. Mozambique is one of Africa's poorest nations. After the discovery of vast oil and gas reserves in the early 2000s, the government strongly encouraged investment to develop the extractives sector. However, investments in natural resources exploration have failed to translate into poverty reduction. In fact, the state of both civil and political rights, as well as economic and social rights has deteriorated. Instead, corruption is rampant and IFFs out of the country amounted to an average of USD 289 million a year between 2005 and 2014. According to this measure, Mozambique is, in relation to its level of per capita income, one of the countries worst affected by tax abuse. In 2016 the primary destination for all goods and services exported from Mozambique, was the Netherlands, amounting to 31 percent of all exports, but none of the top exporting companies in the extractives, industry or agricultural

sector is Dutch.[100] The Netherlands are the European Union's (EU) most notorious tax haven, and imports from Mozambique are insignificant in the country's trade balance.[101] This suggests that corporations active in Mozambique artificially shift their exports to the Netherlands to avoid taxation and that tax abuse as such may play a role in the country's poor development performance.

In our first essay, we established the link between tax abuse and the enjoyment of economic and social rights, and highlighted the need for further research. This essay provides a comprehensive human rights analysis of tax abuse and human rights in Mozambique. We apply the rights-based analysis of poverty, as proposed by the International Bar Association (IBA), to a case study of Mozambique (IBA, 2013). This first comprehensive study on the subject used the Respect-Protect-Fulfill (RPF) framework which defines the tripartite understanding of duty bearer responsibilities. States assume obligations under international law to respect, protect and fulfill human rights. The obligation to respect determines that states must refrain from interfering with the enjoyment of human rights. States have the obligation to protect the enjoyment of human rights by preventing violations by third parties. Finally, "the obligation to fulfill requires states to take appropriate legislative, administrative, budgetary, judicial and other measures towards the full realization of such rights."[102]

Using the RPF methodology allows us to identify the realization of human rights as the objective of development, detail the tripartite obligations born by the state in the context of tax abuse and

[100] Central Intelligence Agency (CIA), 2017, World Factbook, Mozambique – Economy Overview; and Sutton, J., 2014, An Enterprise Map of Mozambique, International Growth Center, London School of Economics, London UK.
[101] See The Guardian, 07/25/2017, Netherlands and UK are biggest channels for corporate tax avoidance, WBG, 12/02/2017, World Integrated Trade Solution: Netherlands Trade at a Glance: Most Recent Values.
[102] International Commission of Jurists (ICJ), 01/26/1997, Maastricht Guidelines on Violations of Economic, Social and Cultural Rights, Maastricht.

highlight the challenges for their implementation towards the full realization of economic and social rights (ESR). This chapter starts by giving an overview of the current state of human rights and development in Mozambique. We than analyze Mozambique's territorial obligations under the RPF framework focusing on the progressiveness of the country's tax system, the different forms of tax abuse involved and Mozambique's fiscal policy as such. The second part of this essay focuses on the extraterritorial rights obligations of various actors, including Mozambique. We discuss the duties of private corporations, states that act as tax havens and the obligations of the international community in combating tax abuse and respecting the enjoyment of ESR in Mozambique.

The findings of the case study are based on publicly available information and have been gathered through document search, analysis of available country statistics and company data. They reinforce the argument that tax abuse negatively impacts the enjoyment of human rights.

2.1 Overview of Mozambique's Development Performance

Mozambique, located in southern East Africa, is a former Portuguese colony. Independence in 1975 was followed by a harrowing 16-year civil war. With a population of about 28 million, 55 percent of Mozambicans still live below the international poverty line (USD 1.9 per day 2011 PPP$). Life expectancy is just 50 years.[103] HIV/Aids is the leading cause of death, killing 81.8 thousand people in 2012. Even though the World Health Organization (WHO) recommends having 0.2 doctors and one health professional for every 1000 habitants, Mozambique currently only has

[103]World Bank, 2015, World Bank Country Profiles, Mozambique

0.043 doctors and 0.21 health professional per 1000 habitants.[104] Insufficient water, sanitation, and hygiene are estimated to cause 17,000 deaths annually.[105] One third of the population is chronically food-insecure and half of the country's children below the age of two are undernourished.[106] Two-thirds of children who finish primary school leave the education system without basic reading, writing, and math skills.[107]

Even though the country has not ratified the International Covenant for Economic, Social and Cultural Rights (ICESCR) its constitution gives everyone a right to education, health, housing, and work. Mozambicans have a right to the environment that shall improve the quality of life of its citizens, but neither access to natural resources nor the right to food is mentioned in their constitution.[108] Nevertheless, the national food security strategy applies a RPF framework.[109]

About 80 percent of Mozambicans depend on subsistence agriculture for their livelihood, but the lack of infrastructure, technology, skills, and access to markets causes low agricultural productivity. The limited employment opportunities and weak economic infrastructure are further obstacles to development. Mozambique is also highly vulnerable to extreme climate conditions and climate change. Consequently, migration to urban centers is a major development challenge. Political tension leading to the restriction of civil and political freedoms has increased since the discovery of natural gas and oil in the north of the country. The exploration of offshore oilfields

104 WHO, 2015, Mozambique: WHO statistical profile
105 UNGA, 2010, A/HRC/WG.6/10/MOZ/2, Compilation prepared by the Office of the High Commissioner for Human Rights in accordance with paragraph 15 (b) of the annex to Human Rights Council resolution 5/1 Mozambique, para 67.
106 World Food Programme (WFP), 2015, Country Profile: Mozambique.
107 USAID, 2016, Mozambique Country Profile: Education.
108 Constituição da Republica Moçambique, 1990, Art. 84, 85, 88, 89, 90, 103, 113, 117.
109 Republica de Moçambique, 2007, Estratégia e Plano de Ação de Segurança Alimentar e Nutricional 2008-2015, Secretariado Técnico de Segurança Alimentar e Nutricional, p.3.

and an estimated 85 trillion cubic feet of natural gas could add USD 39 billion to Mozambique's economy by 2035.[110] In 2013, however, conflict between the same parties that fought the civil war resurfaced with armed clashes, political assassinations, and disappearances, causing thousands of people to flee to urban centers and neighboring Malawi.[111] In 2016, the Mozambican government finally signed a renewed peace accord with the opposition party.

Despite severe obstacles to economic development, Mozambique has enjoyed one of Africa's strongest performances with economic growth, between 6 and 8 eight percent, during the last decade. Much of this was due to foreign investment in natural resources such as natural gas, coal, titanium, or agricultural commodities.[112] Mozambique also benefited from the Highly Indebted Poor Countries (HIPC) Initiative, as its public debt in 2015 amounted to a very manageable 60 percent of GDP.[113] However, economic growth did not translate into comparable economic and social development. Between 1996 and 2009, poverty reduced by 0.26 percentage points for each percent of economic growth, only half as fast as in other SAA countries (0.5 percent) and this rate has even slowed further since 2003.[114] With a GDP per capita of USD 1,200, Mozambique still is the eighth poorest country in the world (WDI, 2013). The poorest half of the population holds about 14 percent of the country's wealth, while the top 10 percent holds 37 percent. The country's strong urban-rural divide traps more than 70 percent of the poor in the central and northern provinces where poverty has increased instead of declining. The World Bank Group (WBG) acknowledges that robust economic growth has mainly benefited the non-poor (Baez and Olinto,

[110] See WGB, 07/31/2017, Mozambique Economic Update: A Two-Speed Economy and Reuters, 02/27/2017, Sasol sees first Mozambique oil production in 2-3 years, Thomson Reuters, London, UK.
[111] UNHCR, 01/15/2016, Clashes drive Mozambicans to seek safety in Malawi.
[112] Central Intelligence Agency (CIA), 2017, World Factbook, Mozambique – Economy Overview.
[113] World Development Indicators (WDI), 2016, DT.TDS.DECT.GN.ZS.
[114] Baez J. E., Olinto, P., 2016, Accelerating poverty reduction in Mozambique: challenges and opportunities, World Bank Group, Washington D.C., United States.

2016). This development suggests that domestic resource mobilization and government expenditure may be a significant obstacle to the realization of economic and social rights.

As the above discussion demonstrates, Mozambique is a poor country and as such it is not surprising that its population's enjoyment of economic and social rights is limited. But Mozambique's potential to fulfill economic and social rights is much greater as can be seen from its score on the Social and Economic Rights Fulfillment (SERF) Index, in Table 1 below.

Social and Economic Rights Fulfillment Index Data for Mozambique						
Year	SERF Index	Education Index	Health Index	Housing Index	Food Index	Work Index
2005	67	61	76	44	100	54
2006	66	61	75	42	100	54
2007	67	66	74	42	100	54
2008	59	75	65	41	78	33
2009	58	74	65	41	78	33
2010	59	76	65	41	78	33
2011	56	72	63	41	71	33
2012	56	70	64	41	72	33
2013	55	68	63	41	72	33
2014	55	67	63	40	72	33
2015	55	67	63	40	72	33
Source: www.serfindex.org						

Table 1 Mozambique's SERF Scores 2005-2015

The SERF Index shows the percentage of the feasible rights enjoyment level achieved by a country given its per capita GDP and can be decomposed to show a country's performance relative to the feasible performance across five economic and social rights - the rights to education, health, housing, food, and work. The SERF Index shows that Mozambique achieved only 55 percent of what the best performing countries have achieve at its per capita income level. Of greater concern, Mozambique's overall SERF Index score fell from 67 percent in 2005 to 55 percent in 2015 indicating that the rapid growth in per capita GDP is not being translated effectively into improved wellbeing.[115] This general trend of falling performance is evident across all five rights. In the

[115] Randolph, S., 2017, Economic and Social Rights Empowerment Initiative, 2017 SERF Update, University of Connecticut.

following we examine how tax abuse has contributed to Mozambique's lackluster performance in improving the enjoyment of economic and social rights.

2.2 Domestic Human Rights Obligations

As discussed in Essay 1, Mozambique's fiscal policies, including revenue collection, budget allocation, and expenditure must comply with human rights standards.[116]. These obligations require that fiscal policy use the maximum of available resources to create an enabling environment in which people can claim and enjoy ESR in the marketplace and to directly fulfill ESR via entitlements to the extent the marketplace cannot provide. Fiscal policy should also be responsive and accountable. We analyze Mozambique's tax system according to these criteria and test the RPF Framework laid out to address the role of tax abuse in limiting Mozambique's success in fulfilling its ESR obligations.

Even though Mozambique is not a party to the ICESCR, it has signed and ratified the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), the Convention on the Rights of the Child (CRC) and the International Convention on the Elimination of All Forms of Racial Discrimination (CERD). Articles 2 and 3 of the CEDAW lay out the obligation to realize women's rights both within and outside a signatory's territory, and include the duties to refrain from making laws and policies that result in discriminatory enjoyment of rights, to protect against private conduct that has such an effect, and to cooperate internationally to mobilize the maximum of available resources, or *all appropriate means*, for the universal fulfillment of women's rights.

[116]UNHRC, 2012, A/HRC/21/39, 07/18/2012

Like any other United Nations (UN) Human Rights body, the CEDAW Committee and the CRC Committee have consistently highlighted the need for budgeting consideration and the adequacy of public resources in its member states' party reports, and calls for states to systematically review their taxation policies and to enter into agreements to combat tax evasion.[117]

2.2.1 Tax Base and Tax Collection

Mozambican tax revenue in 2015 was 17.9 percent of GDP, a decline from 2013.[118] In 2008, aid revenue per capita in Mozambique amounted to USD 93.4, but tax revenue per capita only to USD 66.1. While Tanzania and Zambia have significantly reduced aid dependency, Mozambique is still the fourth highest recipient of Official Development Assistance (ODA) in Sub-Saharan Africa (and eleventh globally), with ODA providing up to 63 percent of government revenue.[119] Mozambique witnessed an increase in the tax to GDP ratio from 14.3 percent in 2008 to 16.11 percent in 2010, consistent with the African average, but falling far short of the average OECD ratio of between 35 and 40 percent.[120] Tanzania and Zambia have lower tax to GDP ratios (12 and 14 % respectively) and also score lower on the SERF Index. South Africa and Botswana have average tax to GDP ratios of 25 percent and do better in realizing economic and social rights (65% and 57%,

[117]See for instance CEDAWC, 2015, CEDAW/C/LBR/CO/7-8, 11/20/2015, Convention on the Elimination of All Forms of Discrimination against Women (fifty-fifth session), Concluding observations on the combined seventh and eighth periodic reports of Liberia, CEDAWC, 2012, CEDAT/C/COG/CO/C6, 03/01/2012, Decision of the Committee on the Elimination of Discrimination against Women under the Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women (fifty-fifth session), Concluding Observations: Congo, CEDAWC, 2013, CEDAW/C/AGO/CO/6, 03/01/2013, Convention on the Elimination of All Forms of Discrimination against Women (fifty-fifth session), Concluding observations on the sixth periodic report of Angola, United Nation, 1995, A/CONF.177/20, 09/15/1995, Report of the fourth World Conference on Woman Beijing Declaration and Platform for Action, CRC Com, 2016, CRC/C/GC/19, 07/20/2016,General Comment no.19 on Public Budgeting for the Realization of Children's Rights. See also CESR, (2016).

[118] AfDB, 2016, African Economic Outlook: Mozambique 2014

[119] UNDP, 2013, Towards Human Resilience: Sustaining MDG Progress in an Age of Economic Uncertainty.

[120] Tax Justice Network Africa (TJNA), 2015, Policy Brief: Mozambique's Citizens' Perceptions on Tax Justice, TJN-A, Nairobi, Kenia.

respectively). This observation suggests that there is a relationship between tax revenue and the ability to realize ESR.

Fiscal reforms, such as the introduction of a Value Added Tax (VAT) in 1999, have improved the government's revenue collection abilities (Tax Justice Network Africa, TJNA, 2015). Still, the number of tax staff available for every 1000 citizens is 0.121, compared to a global average of 0.82.[121] In its Poverty Reduction Action Plan (PRAP) 2011-2014, Mozambique acknowledges that government revenues ought to rise through an improvement collection of direct taxes.[122]

In Essay One, we extensively discussed how the holding of domestic assets abroad, income shifting by multinational firms and tax competition erode the tax base and reduce tax revenues, in this case study we must also consider the domestic shadow economy and the shortcomings of domestic tax administration as further sources of tax revenue loss (Cobam 2005). Mozambique's large informal sector typically escapes taxation. The country ranks among the SSA countries with the highest proportion of people working in the informal economy, staggering 90 percent of its labor force.[123] Additionally, small-scale agriculture, the backbone of Mozambique's economy, is generally hard to tax (Fjeldstad and Heggstad, 2011). The national unemployment rate was 38.6 percent in 2009, but this understates the problem as a large number of those who are deemed employed are underemployed in low-productivity informal sector jobs. Consequently, the national tax base is relatively small.

[121]Fjeldstad, O-H., Heggstad, K., (2011), p. ix.
[122]República de Moçambique, 2011, 2-1, Poverty Reduction Action Plan (PARP) 2011-2014, 05/03/2011, approved at the 15th regular session of the Council of Ministers, p. 28.
[123] ILO et al, 2015, The Development of a Social Protection Floor in Mozambique, Maputo, Mozambique.

Although trade is concentrated in a limited number of ports, airports, and land crossings, which should facilitate tax collection, the administrative capacity of both the taxer and the taxed is low. Domestic tax evasion is common due to limited understanding of tax rules and access to tax institutions (TJNA, 2015). Mozambique has a positive fulfill obligation to strengthen the capacity of its tax administration. Improving access to institutions, especially in rural areas and increasing the tax capacity of its citizens through the realization of their rights to education, health and food form part of this positive obligation.

Although there is undoubtedly a need to extend the Mozambican tax base, such measures can easily make the tax system more regressive. Increasingly taxing small businesses in the informal sector may disproportionately affect the poor, especially women. It is also worth noting, that the tax base is further narrowed by tax evasion and numerous loopholes that decrease the redistributive impact of taxes, thereby supporting the human rights case to tackle tax abuse.

2.2.2 Progressive Taxation and Non-Discrimination

The obligation to fulfill ESR requires states to take necessary steps, to the maximum of their available resources, to facilitate and promote the enjoyment of human rights, which can mean directly providing goods and services. The Committee on the International Covenant on Economic Social and Cultural Rights (CESCR) explicitly states that this positive obligation includes enforcing progressive taxation schemes (CESCR, 2017, E/C.12/GC/24). In Mozambique's case, articles 10,11 and 13 of the CEDAW affirm women's rights to non-discrimination in education, employment, and economic and social activities, and layout the country's respect obligation to

refrain from discriminatory fiscal and tax policy that has a disproportional effect on women and the poor.[124]

Generally, African countries depend more heavily on indirect taxes, especially the VAT. In countries like Mozambique the above-described limited tax base, combined with low wages, makes personal income taxation a small revenue source that primarily affects the middle class and may discourage formal employment. Therefore, developing countries rely more on indirect taxes that are also easy to administer.[125] In 2009, VAT generated revenues equal to 5.4 percent of GDP, representing the country's largest source of tax revenues and generating more revenues than personal and corporate income taxes combined (Fjeldstad and Heggstad, 2011). The burden of taxation is skewed against labor and in favor of capital, and it falls disproportionally on low-income households that spend a larger share of their income on VAT, thus contributing to inequality. Although the share of taxes on income, profits and capital gains as percentage of total tax revenue increased from 33 percent in 2010 to 44 percent in 2013, Mozambique still falls short on this measure compared to its neighbors, Zambia, 62 percent and South Africa 55 percent.[126] Value Added Tax also disproportionately burdens women, who are over-represented in the low-income segment of society and who, since they are traditionally responsible for managing the household and caring for children, spend a greater share of their income on consumer goods, such as food.[127]

[124] CEDAW, 1979, Convention on the Elimination of All Forms of Discrimination against Women, articles 10, 11 and 13.
[125] Institute of Development Studies (IDS), 2016, Redistributing Unpaid Care Work – Why Tax Matters for Women's Rights, Policy Briefing, Issue 109, January 2016, UK. And CESR, (2016)
[126] World Development Indicators (WDI), 2017, GC.TAX.YPKG.ZS.
[127] CEDAW, 2005, CEDAW/C/MOZ/1-2, 11/14/2005, Consideration of reports submitted by States parties under article 18 of the Convention on the Elimination of All Forms of Discrimination against Women Combined initial and second periodic reports of States parties, Mozambique.

The total corporate tax rate was 36.1 percent in 2015, falling short of the global average of 40.7 percent, but was higher than in neighboring Zambia, 18.6 percent, 28.8 percent in South Africa, 32.8 percent in Zimbabwe and 34.5 percent in Malawi. Only Tanzania has higher corporate tax rates in the region (43 %).[128] Corporate tax is a crucial source of revenue for Mozambique, given its difficulty in collecting individual income taxes and its heavy reliance on VAT. A relatively small number of the country's 600 large enterprises, the majority registered in the capital city, Maputo, account for 60 to 70 percent of corporate tax revenue (Fjeldstad and Heggstad, 2011). Taxes on capital gains and property are underutilized in Mozambique as they are in most developing countries. Taxes on property, for instance, only make up 4 percent of tax revenue in developing countries, compared to 7 percent in developed nations (Institute of Development Studies, IDS, 2016). Moreover, with large foreign companies enjoying tax cuts in Mozambique, urban medium-scale enterprises are potentially disadvantaged, since they are not tax exempt and left to pay the full corporate tax rate.[129] Hence, extensive tax exemptions diminish corporate tax revenue and contribute to the regressiveness of tax systems

2.2.2.1 Tax Exemptions

The ICESCR specifies that "the obligation to respect economic, social and cultural rights is violated when signatory states prioritize the interests of business entities over Covenant rights without adequate justification, or when they pursue policies that negatively affect such rights."[130]Although tax exemptions are not commonly considered to be tax abuse, when considering territorial human rights obligations, to willfully refrain from collecting resources for

[128] World Development Indicators (WDI), 2017, IC.TAX.TOTL.CP.ZS.
[129]Fozzard, A., 2002, How, When and Why Does Poverty get Budget Priority? Poverty Reduction Strategy and Public Expenditure in Mozambique, Working Paper 167, Overseas Development Institute, London, UK
[130]CESCR, 2017, E/C.12/GC/24, 08/10/2017, para 12.

rights fulfillment may constitute to an abuse of human rights by the government. The negative impacts of tax exemptions are particularly severe in developing countries where fiscal transparency and political accountability are pressing issues (Zucman, 2014).

Mozambique provides extensive tax exemptions. Foreign-owned projects that profit from the tax exemptions in Mozambique account for up to 12 percent of GDP but for less than 3 percent of tax revenues and 3 percent of employment (TJNA, 2015). Even though the Mozambican government may tolerate negative short-term consequence of its policies, believing that they will lead to a long-term positive effect, the scope and impact of tax exemptions raises questions about the validity of this belief. Arndt and Dunem (2009) attribute the government's reluctance to protect its country's tax base in part to political leaders placing a higher priority on attracting foreign investments rather than collecting tax revenues.[131] Fjeldstad and Heggstad (2011) reveal that tax exemptions and the provision of extensive tax holidays of up to 15 years are the primary obstacle to revenue generation from corporate tax in Mozambique. Additionally, tax exemptions in Mozambique distort competition, create room for corruption, and open loopholes for tax evasion. There are no public reports on the fiscal costs of tax incentives (Fjeldstad and Heggstad, (2011). Mozambique's PRAP commits to expanding the tax base, but does not include any reference to reducing tax exemptions (República de Moçambique, 2011). New tax exemption rules were introduced in 2009 that limit the types and duration of these benefits, but already-granted tax exemptions were grandfathered (Fjeldstad and Heggstad, (2011).

[131] Arndt, C. and Van Dunem, J., 2009, Taxation in a Low-Income Economy, The case of Mozambique, Routledge Studies in Development Economics, New York, United States.

Ruggie (2011) argues that any protections for investors against future changes in law should not interfere with the state's effort to meet its human rights obligations (UNHRC, 2011, A/HRC/17/31/Add.3). Furthermore, The CESCR's General Comment (GC) 24 specifies that states should identify potential conflicts between their human rights obligations and trade and investment treaties, and should refrain from entering such treaties. The GC 24 also explicitly refers to tax exemptions that should be revised if businesses activities result in rights abuse (CESCR, 2017, E/C.12/GC/24). The Committee on the Rights of the Child (CRC Committee) stresses that appropriate legal and institutional frameworks, including effective tax systems, should enable businesses to respect the rights of the child (Com CRC, 2013, CRC/C/GC/16). Considering that the core contents of the rights to health, food, and education are not currently met in Mozambique, granting extensive tax exemptions for economic activities amounting to 12 percent of GDP instead of allocating potential tax revenue to poverty eradication and rights fulfillment programs, constitutes a violation of the obligation to respect ESR.

In sum, Mozambique falls short of its respect obligation to refrain from discriminatory fiscal and tax policy that has a disproportional effect on women and the poor and is, under its fulfill obligation, required to take steps to enforce progressive taxation schemes.

2.2.3 Tax Avoidance and Evasion

Given the lack of consistent and reliable data, the quantification of tax abuse in Mozambique is challenging. Between 2005 and 2015, estimates of illicit financial outflows averaged USD 300 million but registered outliers of above USD 1 billion in 2012 (GFI, 2017b). Kar et al. (2010)

estimate that between 1990 and 2008 Mozambique lost USD 3.6 billion to tax avoidance and evasion.[132]

The responsibility of Mozambique to address tax abuses lies in its obligation to maximize the resources available to progressively realize economic and social rights and eradicate poverty, as specified in the ICESCR, the CEDAW, the CRC and the country's Constitution.[133] In 2000, the CRC Committee affirmed that tax evasion and corruption are believed to have a negative effect on the level of resources available for the realization of children's rights.[134] The obligation to protect means that states must prevent infringements of ESRs by non-state actors. This protect obligation entails the duty to adopt and enforce a legal framework that prevents tax abuse (CESCR, 2017, E/C.12/GC/24). Like other countries, Mozambique has a protect obligation to regulate and influence the conduct of businesses, both national and foreign, under its jurisdiction and to protect citizens from the effects of corporate tax avoidance that impedes the realization of ESR by reducing government revenue for poverty reduction and rights fulfillment (IBA, 2013). The government has a positive fulfill obligation to prosecute evaders both domestically within its jurisdiction and through international cooperation outside of its jurisdiction. The CESCR called for measures to combat illicit monetary flows and tax evasion and fraud.[135]

Loopholes in Mozambique's tax system, unregulated double taxation treaties with other states, and weak enforcement capacity of the tax administration make cross-border tax evasion a widespread

[132]Kar, D. and Cartwright-Smith, D., 2010, Illicit financial flows from Africa: Hidden resource for development, Washington, D.C., Global Financial Integrity, United States.
[133] See IBA (2013), CEDAW, 1979, article 10, 11 and 13 and Constituição da República Moçambique, 1990
[134]CRC Com, 2000, CRC/C/15/Add.124, 06/28/2000, Consideration of Reports submitted by states parties under article 44 of the Convention, Georgia. Mozambique ratified the treaty in 1994.
[135]CESCR, 2015, E/C.12/NAM.CO/1, 03/23/2015, Committee on Economic, Social and Cultural Rights, Concluding Observations: Namibia, CRC Com, 2000, CRC/C/15/Add.124, 06/28/2000.

practice. Tax evasion on recorded imports is estimated at 36 percent and 57 percent for consumer products.[136] Global Financial Integrity (2017b) estimates that IFFs in the period between 2005 and 2014 amounted to up to 10 percent of total country trade (USD 86.7 billion).

Although there are no exact figures for Mozambique, revenue losses to Base Erosion and Profit Shifting (BEPS) are estimated to exceed 10 percent of existing tax revenues in developing countries (Arndt and Dunem, 2009). In neighboring Zambia, losses to the same form of tax avoidance are estimated at USD 2 billion a year (CESR, 2016). Anti-avoidance and anti-abuse legislation is a challenge in Mozambique, which applies the Arm's Length Principles (ALP) to transactions between related parties.[137] Mozambican tax authorities exercise a high amount of discretion and often enforce tax law unequally and discriminatorily.

In 2011 Eni, an Italian oil conglomerate that was the first company to discover offshore gas in Mozambique, won extensive tax credits from the Mozambican government to invest in exploration. In 2013 Eni avoided USD 539 million capital gains tax due in Mozambique for the sale of parts of its Mozambican natural gas holdings to the state-owned China National Petroleum Corporation (CNPC).[138] Eni had been operating in Mozambique since 2006, but since no considerable progress on extracting the discovered gas had been made and gas prices had since plummeted, the Italian company decided to sell off its natural gas holdings to CNPC. Instead, ExxonMobil and Eni acquired a 25 percent indirect interest in another offshore field in

[136] Arndt, C. and Van Dunem, J., 2009, Taxation in a Low-Income Economy, The case of Mozambique, Routledge Studies in Development Economics, New York, United States.
[137] Deloitte, 2015, International Tax, Mozambique Highlights 2015.
[138] Financial Times, 03/14/2013, CNPC and Eni seal USD 4.2 bn Mozambique deal, Nikkei, London, UK.

Mozambique for USD 2.8 billion in 2017. Eni also still holds a 71.4 percent stake in Eni East Africa that currently operates the concession.[139]

The figure below illustrates Eni's organizational structure for its operations in Mozambique, which we will further discuss below. When the company's Mozambique subsidiary was sold to a Chinese state-owned company, tax was avoided in Mozambique. Although the Italian conglomerate Eni is still 30 percent state-owned, its African operations are officially registered as having their seat of business in the Netherlands. The Dutch subsidiary than profits from double taxation treaties that allows profits to be accounted for at shell corporations in the British Virgin Islands, Bermuda and the Bahamas. Eni has also been trailed for corruption in Nigeria.

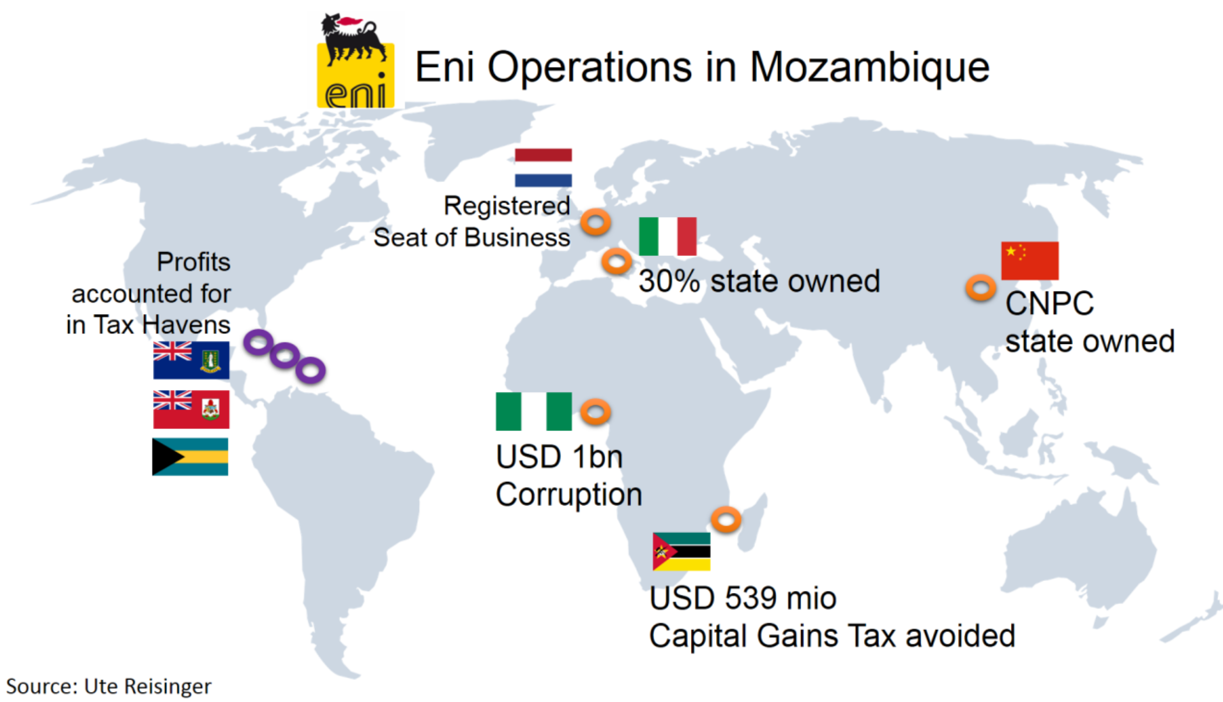


Figure 2 Eni Business Operations in Mozambique

[139]Eni, 2017a, Eni's activities in Mozambique.

The Italian government owns a 30 percent share in Eni, which specializes in finding, producing, transporting, transforming, and marketing oil and gas. It employs more than 84,000 workers, in 83 countries, producing 1.6 million barrels of oil and gas a day. Its 269 subsidiaries generated USD 134 billion in 2014, a sum reduced to a mere USD 1 billion profit after tax. After a successful advocacy campaign of an Italian civil society organization highlighting the Transnational Corporations (TNC) tax avoidance schemes, Eni committed, in 2009, to reducing the presence of the company's subsidiaries in tax havens and secrecy jurisdictions, and it has since addressed stakeholder concerns about tax avoidance and abuse at its annual shareholder meetings.[140] Nevertheless, it still holds subsidiaries or stakes in shell corporations in the world's most famous tax havens, but argues that the taxable income of these entities is immaterial to Eni's taxable profit.[141] Besides the Italian government, the People's Bank of China is an influential shareholder in the Eni.[142]

After Eni's tax avoidance scheme became public in 2013, the Mozambican government threatened to revoke the company's extraction license. In closed negotiations Eni agreed to pay USD 400 million capital gains tax and build a power plant.[143] In the meantime, Eni registered a 23 percent increase in profits in 2013, anticipating a USD 3.4 billion gain in their mineral property in Mozambique and reporting extraordinary success in the exploration phase.[144]

[140]Van Dorp, M., 2016, How Shell, Total and Eni benefit from tax breaks in Nigeria's gas industry, the case of Nigeria Liquefied Natural Gas Company (NLNG), Center for Research on Multinational Corporations, Netherlands. and Eni, 2014, Answers to the questions received prior to the Shareholders' Meeting 2014, pursuant to art.127-ter of Italian Legislative Decree no. 58/1998
[141]Eni, 2017b, The tax strategy.
[142]Eni, 2015, Eni Annual Report 2014
[143]International Business Time, 08/16/2013, Poverty-Stricken Mozambique lays down the law on Italian oil giant Eni.
[144] Eni, 2014, Answers to the questions received prior to the Shareholders' Meeting 2014, pursuant to art.127-ter of Italian Legislative Decree no. 58/1998.

At first sight, it appears as if Mozambique did live up to its protect obligation, but considering Eni's recent history, one may argue that the government should have prevented the company's tax abuse in the first place. Eni has long been accused of corruption in its Nigeria operations, which involved the payments of over USD 1 billion to a shell company owned by the Nigerian oil minister, and USD 466 million in direct bribes to Nigeria's then-president.[145] Nigerian courts ordered the temporary forfeiture of all assets involved and the transfer of operations of the Eni's oilfield.[146] In 2013 information about Eni's wrongdoing, corrupt practices, and tax avoidance in Nigeria was already widely available publicly, valuing lost taxes to the Nigerian government between 2005-2013 at USD 677 million (Van Dorp, 2016). Mozambique was in a position to take measures to prevent the foreseeable undermining of domestic resource mobilization through tax avoidance and corruption by Eni, and it had a direct, positive protect obligation towards its citizens. Both the Maastricht Principles and the CEDAW clearly articulate states' responsibilities to make provision for foreseeable negative effects in their jurisprudence.[147] Likewise the CRC Committee emphasized that states have the responsibility to address "foreseeable risks to children's rights form business enterprises that are operating transnationally".[148]

In sum, Mozambique only partly met its protect obligation to prevent tax abuse, having been in a position to prevent the foreseeable tax abuse of Eni. Additionally, Mozambique failed to meet its fulfill obligation to prosecute the tax avoiders.

[145]The Economist, 03/04/2017, Eni questions, A corruption probe raises uncertainty over the future of Eni's boss, The Economist Print Version, The Economist Newspaper Limited, London, UK.
[146]Reuters, 02/08/2017, Italy prosecutors ask Eni CEO to be sent to trial over Nigeria -sources, Thomson Reuters, London, UK.
[147] Maastricht Principles, (2011), para 9 and CEDAW, 2013, Comm33/2011, CEDAW/C/55/D/33, M.N.N. v. Denmark, 07/15/2013, Decision of the Committee on the Elimination of Discrimination against Women under the Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women (fifty-fifth session).
[148] CRC Com, 2013, CRC/C/GC/16, General comment No.16 (2013) on State obligations regarding the impact of the business sector on children's rights.

2.2.4 Accountability and Governance

Democratic governance and accountability are crucial in ensuring that tax collection and tax spending reflect public will, meet the needs of society, and promote human rights. Transparency and access to information are the foundation of democratic governance and accountability, essential to combating tax abuse. They are also essential to human rights principles and instruments that can be used to strengthen efforts to address tax abuse. Good governance is a critical part of improving taxation, but bad governance should not be used as an excuse for tax abuse and secrecy (IBA, 2013). Mozambique has a positive fulfill obligation to strengthen the capacity of its tax administration to combat corruption. Fiscal policies, including the granting of tax incentives should be open to judicial oversight and public officials held accountable for their decisions. Complaints and redress mechanisms should be in place (UNGA, 2015a, A/HRC/26/28).

Corruption is a major obstacle to revenue generation in Mozambique, with the country now ranked only 112th out of 168 countries on Transparency International’s Corruption Perception Index.[149] Transparency International’s chapter in Mozambique (Centro de Integridade Pública – CIP) estimates the annual cost of corruption as up to USD 4.9 billion, the equivalent of 30 percent of GDP or 60 percent of the government budget in 2015.[150] The sectors worst affected by corruption are customs, fishing, maritime security, and gasoline imports (CIP, 2016). In a survey of the African Tax Justice Network (TJNA) 64 percent of business members reported that they had paid bribes to tax officials (TJNA, 2015). Initial reports by the Extractive Industries Transparency

[149] Transparency International (2016), Corruption Perception Index 2015.
[150]Centro de Integridade Publica, 2016, Policy Brief: Custo da Corrupção para a Econômica Moçambicana, Edição N. 24/2016, Maputo, Mozambique

Initiative (EITI) showed substantial discrepancies between what mining companies reportedly had paid and what government entities reported having received.[151]

The Centro de Integridade Pública estimates losses of 11.6 percent of total tax revenues to corruption (CIP, 2016). As described in Essay 1, tax abuse itself is an unequal business, benefiting from expertise and influence available only to the wealthiest and most influential economic players. The CESCR determines that human rights violations are facilitated in highly corrupt environments, and that corruption itself constitutes one of the major obstacles to the effective promotion and protection of human rights by undermining a state's ability to mobilize resources for the delivery of services essential for the realization of ESRs (CESCR, 2017, E/C.12/GC/24).

But Fjeldstad et al. (2011) argue that the root cause of the weakness of Mozambique's tax system is the lack of political will. Indeed, the International Center for Asset Recovery ranks Mozambique as having the seventh highest country risk in the world for money laundering and terrorism financing.[152] Budget openness in Mozambique is classified as minimal.[153] As a result, unethical practices in government and minimal dialog on tax matters between the government and its citizens have eroded confidence towards paying taxes. They have also raised suspicion towards the government's willingness to realize ESR. At a minimum, a human rights-based approach to spending allocation decisions ought to be transparent and participatory, and information should be public and accessible.[154]

[151] EITI, 2014, Extractive Industry Transparency Initiative Mozambique: Fourth Reconciliation Report – year 2011, Maputo, Mozambique

[152] International Center for Asset Recovery, 2017, 2016 Basel AML Index. The Basel AML measures the risk of Money laundering and terrorist financing based on 14 indicators on regulations, corruption, financial standard, political disclosure and rule of law.

[153] International Budget Partnership, 2016, Open Budget Survey

[154] OHCHR, 2011, A/HRC/19/42, 12/14/2011, Comprehensive study on the negative impact of the non-repatriation of funds of illicit origin to the countries of origin on the enjoyment of human rights, in particular economic, social and cultural rights.

In early 2016, the IMF and WBG suspended their programs to Mozambique following the discovery of more than USD one billion in previously undisclosed government debt, mainly used for military expenditure. In 2013, Ematum, a government-owned fishing company, had issued foreign-denominated debt amounting to USD 850 million, backed by a sovereign guarantee. Instead of being invested in the promised tuna fishing fleet, the money was spent to arm the country's coast guard, and, in 2015, Ematum failed to meet its repayment installments and the Mozambican government had to pay the debt. In 2016, the government conducted a debt exchange, which was perceived as a default on government-guaranteed debt and a sign of diminished willingness on the part of the government to honor future debt obligations.[155] The country had fallen prey to the promise of fabulous wealth through the discovery of oil and gas. But while its leaders took secret loans worth USD 2 billion based on this promise, years after the discovery oil and gas have not yet been extracted and gas prices have collapsed. The IMF referred to this case as one of the largest provisions of inaccurate data by a government in Africa in recent times.[156] The scandal led to an immense devaluation of the local currency and caused inflation to spike at 25 percent.[157] After the recent debt crisis the ratio of debt to GDP, had risen from a manageable 60 percent in 2015 to 121 percent of GDP in 2016.[158] In 2017, Mozambique agreed to extensive austerity measures to tackle this sovereign debt crisis, reducing government expenditure on goods and services by 40 percent.

[155]Moody's, 04/15/2017, Rating Action: Moody's downgrades Mozambique issuer rating to Caa1, outlook stable, and assigns a Caa1 instrument rating to newly-issued exchange debt.
[156]Financial Times, 04/18/2016, IMF halts Mozambique aid after finding undisclosed debts of $1bn, Nikkei, London, UK
[157]The Guardian, 01/27/2017, Mozambique fell prey to the promise of fabulous wealth- no it can't pay nurses, Guardian Media Group, London, UK
[158] CIA, 2017, World Factbook, Mozambique – Economy Overview.

The latest downgrade of Mozambique's credit-status by Moody's stemmed directly from the Ematum debt exchange, which the agency views as "a default on government-guaranteed debt." Moody's noted that, although the exchange has had a positive impact on the Mozambican government's external debt amortization profile, the rating agency "views the default as a sign of diminished willingness on the part of the government to honor future debt obligations."[159]

Taking billions in secret loans and spending funds on the military instead of rights realization are a clear violation of the above-discussed human rights principles, and they have served to enrich a few rather than to serve the poor. Bad governance and corruption have caused huge inflation that, in the context of the country's most severe drought in decades, made basic staple food unaffordable for many of the country's poorest. At the end of 2016, 850,000 Mozambican children were affected by drought and 1.4 million people were food insecure. The price of basic consumer products had risen by up to 100 percent. A box of tomatoes sold for 700 *meticais*, instead of the 220 *meticais* the year before. In March 2017, the price of maize continued to remain 119 percent above the five-year average level for the same time of the year.[160] There were no political consequences or any criminal investigations following up the Ematum debt scandal. The austerity measures taken since will primarily affect Mozambique's poor and further reduce access to education and health. In January 2017, the Mozambican government could not pay interest on loans or civil servants' new year bonuses, among other government obligations.[161] Even before the most recent debt crisis, Mozambique had not spent the maximum amount of its resources on the full realization of ESR, which brings us to the last part of our domestic rights analysis.

[159]Moody's, 04/15/2017, Rating Action: Moody's downgrades Mozambique issuer rating to Caa1, outlook stable, and assigns a Caa1 instrument rating to newly-issued exchange debt.
[160] World Food Programme, 2017, Monthly Regional Food Price Update – March 2017, Southern Africa.
[161]The Guardian, 01/27/2017, Mozambique fell prey to the promise of fabulous wealth- no it can't pay nurses.

2.2.5 Fiscal Spending and Austerity Measures

The causal link between revenue collection and actual government expenditure is critical to making the human rights case. Government expenditure must create an enabling environment in which people can enjoy the full realization of ESR through empowerment or entitlement. Poverty, inequality, and the repressiveness of Mozambique's tax system limit the potential for obtaining rights through empowerment. The WBG acknowledged that forgone tax revenue in Mozambique is a forgone means for poverty eradication and rights fulfillment.[162]

It has been widely accepted that Mozambique's poverty reduction programs, including the IMF's and the WBG's austerity measures, have not brought the intended results. In 2015, 87.5 percent of the population lived below the poverty line of USD 3.10 a day (2011 PPP).[163] Beste and Pfeiffer (2016) found that the total share of income of the country's poorest 60 percent in 2008 was significantly less than in 2002. Even though there have been some improvements in health care over the past 30 years, poverty reduction plans fell short of their objectives. Mozambique still has one of the lowest life expectancies in SSA, and maternal mortality, an indicator commonly used as a proxy for the quality of national health care systems, has increased compared to the 1980s.[164] Although Mozambique's health spending increased over the last decades, this was mainly due to direct health aid funding outside of the government's budget. In 2013, government expenditure on health was 8.8 percent of GDP, still a lower figure than in Zambia, Tanzania, and South Africa.[165] Furthermore, actual total government budget allocation for health expenditure declined from 13.4

[162] World Bank, 2015, World Bank Country Profiles.
[163] World Development Indicators (WDI), 2017, SI.POV.2DAY.
[164] Beste, J., Pfeiffer, J., 2016, Mozambique's Debt and the International Monetary Fund's Influence on Poverty, Education and Health, International Journal of Health Services, Vol. 46 (2), SAGE Publications, Thousand Oaks, CA, United States, pp. 366-381.
[165] World Development Indicators (WDI), 2016, DT.TDS.DECT.GN.ZS

percent in 2006 to 9 percent in 2015. Consequently, the ratio of health facilities per capita has worsened since 2009 and is now among the lowest in the world, at only 1 per 16,795 inhabitants. More than 50 percent of health facilities do not have access to electricity, and more than 60 percent lack access to water.[166] The country has been reminded of its human rights obligation to use the maximum available resources and all appropriate means towards the realization of ESR, and it has been called upon to strengthen its effort to guarantee universal access to health care and the realization of economic and social rights (UNGA, 2010, A/HRC/WG.6/10/MOZ/2). Education and health programs are largely financed by domestic resources, rather than aid or debt, hence any decrease of revenue from taxes is likely to have a direct impact on the enjoyment of ESR.

The appearance of deliberate retrogression by the Mozambican government, particularly in light of humanitarian crisis, poverty, and inequality, clearly highlights the inadequacy of the government's efforts to meet its obligation of progressive realization.[167]

The RPF Framework paints a clear picture of how to realize ESR through fiscal policy, especially progressive taxation and strengthening tax authorities to fight tax abuse. However, a single country, especially one with limited global influence and negotiation capacity, cannot make much of a difference in the global arena and prevent capital flight while other countries facilitate cross-border tax abuse. Therefore, it is essential to consider the international scope of human rights obligations in our case study.

[166]Pfeiffer, J., Gimbel, S., Chilundo, B., Gloyd, S., Chapman, R., Sherr, K., 2017, Austerity and the "sector-wide approach" to health: The Mozambique experience, Social Science & Medicine, 187 (2017), Elsevier, Amsterdam, Netherlands, pps. 208-216.
[167]Balakrishwan et al (2011), pp.10-12 and UNHRC, 2012, A/HRC/21/39, 07/18/2012. Para, 28.

2.3 Extraterritorial Obligations

The core principle of states' tripartite duties also applies to human rights obligations in the international sphere.[168] In the following we discuss ETOs of states and corporations in the international arena. First, we analyze multinational enterprises' direct human rights duties. The discussion is focused on Eni, since little compliance information is available for other multinationals operating in Mozambique. Second, we describe the ETOs of all state parties involved in the Eni tax avoidance case. Then we discuss the facilitating role played by tax havens, before we conclude by elaborating on the obligations of the international community as such.

2.3.1 Taxing Multinationals

As laid out in Essay 1, the Ruggie Principles assign human rights duties to non-state actors themselves and thus would require that the RPF Framework be applied in all of Eni's business activities. Since 2001, Eni has been an accredited member of the UN Global Compact that has made the realization of the SDGs, and with it corporate tax responsibility under Goal 17, a priority. But Eni's widespread corruption and tax avoidance practices have not influenced its use of the UN Global Compact brand.[169] Eni's USD 677 million tax avoidance deal with the Mozambican government had the clear purpose of avoiding paying their fair share of taxes in Mozambique. The detrimental impact on public revenue and the realization of ESR was clearly foreseeable, hence Eni breached its human rights duty to respect the ESR of Mozambique's citizens.

[168]Gibney, M., 2013, Establishing a Social and International Order for Human Rights, in The State of Economic and Social Rights, Chapter 10, edited by Lanse Minkler, Cambridge University Press, New York, United States, p.265.
[169]UN Global Compact, 10/08/2017, UN Global Compact Participants: Eni, see also Business and Human Rights Resource Centre, 10/08/2017, Eni.

The ETO to protect extends to any business entity over which states may exercise control. States ought to seek to regulate corporations that are domiciled in their territory and/or jurisdiction. This includes firms incorporated under their laws, including shell corporations and every firm that has its statutory seat, central administration, or principal place of business in the state in question (CESCR, 2017, E/C.12/GC/24). To escape the taxation of profit or income, big multinationals often argue that their principal place of business is not where they register their profits. Google, for instance, argues that its principle place of business is in California, where they conduct all their research and product development. Their profits, on the contrary, are accounted for in the Bermuda-based, Irish-registered affiliate Google Ireland Holdings.[170] In this case, Bermuda, Ireland, and the United States share the protect obligation to prevent tax avoidance by international business.

In the same context, the Panama Papers revealed that wealth often leaves Mozambique via shell corporations in the Seychelles or the British Virgin Islands. Mossack Fonseca, the law firm that facilitated the tax evasion schemes exposed in the Panama Papers, had 28 officers registered in Mozambique who facilitated the transfer of capital to tax havens. Multinational corporations like Eni or Google have acquired the expertise and market dominance to take advantage of the weaknesses of every national tax system, and their business dealings have become unnavigable for national tax authorities.

[170]Reuters, 02/19/2016, Google accounts show 11 billion euros moved via low tax ‘Dutch sandwich’ in 2014, Thomson Reuters, London, UK.

2.3.2 Respecting and Protecting Mozambique's Tax Revenues

The Maastricht Principles specify o states' extraterritorial obligations to avoid causing harm. The extraterritorial protect obligation of states covers both acts of tax avoidance and tax abuse by the non-state actors they are in a position to regulate (Maastricht Principles, 2011, articles 13-25). Interpreting these principles, states offering secrecy jurisdictions that encourage or facilitate tax abuses, or frustrate the efforts of other states to counter tax abuse, fail to respect the economic and social rights of citizens beyond their borders who are affected by the detrimental consequences of tax abuse deriving from Mozambique's inability or unwillingness to mobilize the maximum available resources and conduct non-discriminatory fiscal policy (IBA, 2013). At a minimum, states must consider the foreseeable risk of impairing human rights and poverty beyond their borders by conducting human rights impact assessments of laws, policies, and practices (UNHRC, 2012, A/HRC/21/39). Sepúlveda (2012) specifies that this obligation requires taking steps to prevent, investigate, punish, and redress abuses through effective policies, legislation, regulations, and adjudication as well as remedies (UNHRC, 2012, A/HRC/21/39).

States are obliged to interpret bilateral or multilateral investment treaties according to their human rights obligations, specifically in Double Taxation Agreements that avoid taxation on corporate and personal income (Maastricht Principles, 2011, article 17). Mauritius signed such an agreement with Mozambique in 1997.[171] In normal circumstances, a 20 percent withholding tax on dividends and a capital gains tax of up to 32 percent would be due in Mozambique. However, by setting up a holding company in Mauritius, withheld tax can be as low as 8 percent and capital gains tax

[171] Agreement between the Republic of Mauritius and the Republic of Mozambique for the avoidance of Double taxation with Respect to Taxes on Income, Government Gazette of Mauritius No.37, 04/26/1997.

zero.[172] Mauritius facilitates and encourages tax avoidance in Mozambique, undermining Mozambique's revenue capacity for social and economic development. In so doing, Mauritius fails to respect the economic and social rights of Mozambicans.

Coming back to our example of Eni in northern Mozambique, we can establish clear responsibilities, as shown in Figure 3 below. Respect obligations of each state and private party involved are indicated with and "R", "P" specifies protect obligations and "F" fulfill obligations. The circles mark the locations of each state party involved.

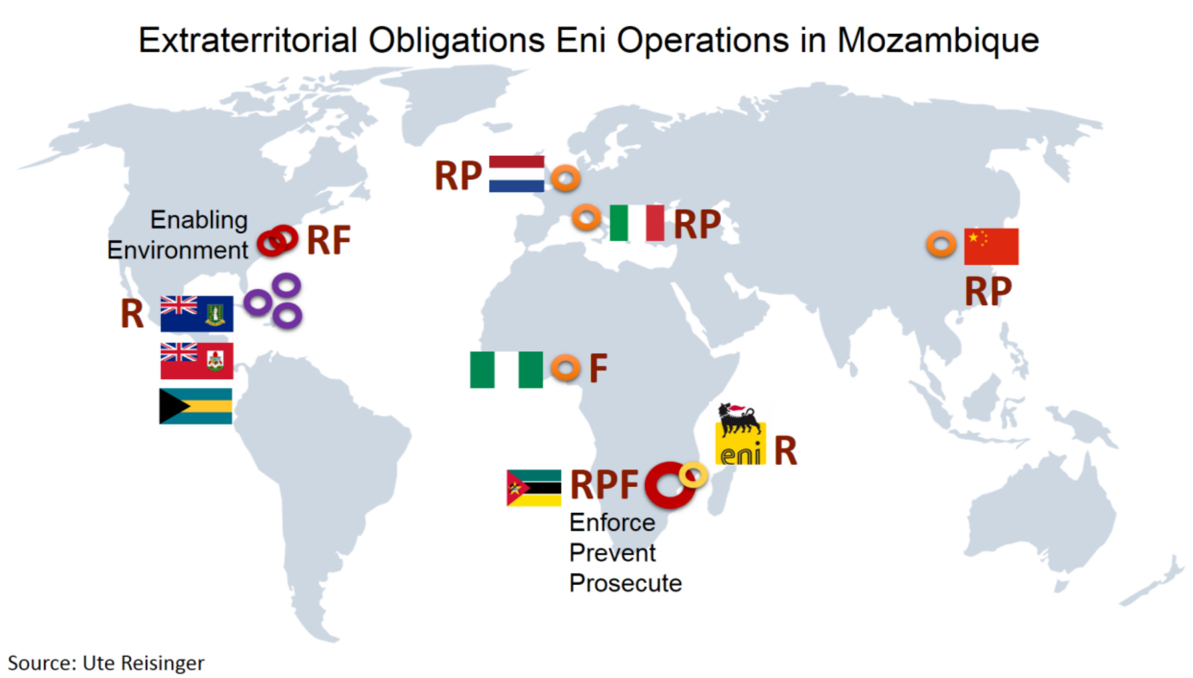


Figure 3 Extraterritorial Obligations in Eni's Tax Avoidance Scheme in Mozambique

Eni is 30 percent state-owned by the Italian government, and its current CEO was appointed by the former Italian Prime Minister. Italy has a direct negative respect obligation towards the human rights of citizens in Mozambique (and Nigeria) to refrain from impeding their enjoyment of rights

[172] Mauritius Revenue Authority, 04/25/2016, Double Taxation Agreements.

through the actions of Eni's board. Furthermore, Italy is clearly in a position to control Eni's conduct and has a positive protect obligation to take measures to prevent third parties from abusing human rights abroad. Beyond the immediate ETOs of human rights, under Italian law a company can be held responsible if it is deemed to have failed to prevent, or attempt to prevent, a crime by an employee that benefited the company. In the Nigerian oil corruption scandal, Italian authorities have prosecuted five current and former Eni executives.[173] Nigeria's request that Eni executives be held accountable has been supported by Italian authorities, and prosecutors have asked the CEO of Eni to stand trial in Nigeria.[174] Italy's action to prosecute corruption abroad is highly welcomed and should be extended to address tax abuse and Eni's extraterritorial human rights breaches. Likewise, China, with direct influence over its state-owned enterprise that acquired Eni's Mozambican subsidiary, has an obligation respect the rights of Mozambicans by refraining from business deals that avoid legally required taxes, limit Mozambican tax revenues, and undermine poverty reduction programs.

But several Eni Group companies that engaged in the exploration and development of oil and gas resources in the various host countries are incorporated in the Netherlands, where no taxes on capital gains are due and the government offers extensive tax credits amounting to the income tax that would be payable elsewhere. The Netherlands has been widely criticized for being Europe's primary tax haven and actively facilitating tax avoidance by multinational corporations.[175] Like Italy, the Netherlands is also clearly in a position to prevent foreseeable negative effects on rights enjoyment in Mozambique.

[173]The Economist, 03/04/2017.
[174]Reuters, 02/08/2017
[175]The Guardian, 07/25/2017, Netherlands and UK are biggest channels for corporate tax avoidance, Guardian Media Group, London, UK.

Nevertheless, not even Eni's Dutch companies are directly connected to the countries where oil and gas are extracted and taxes would be due. The Dutch subsidiaries are only linked to shell corporations in the following tax havens: Bermuda, the Bahamas, and the British Virgin Islands. According to Eni, these corporations do not "execute any operating activity, do not hold any assets and liabilities, and do not yield any income." (Eni, 2014). In this case, they do not pay taxes either in Mozambique or in the EU. Even if Eni were subject to taxation in the Netherlands or Italy, double taxation treaties protect it from paying taxes twice. The fact that the companies are tax exempt in the exotic tax havens does not make a difference.

In this way, aggressive tax planning liberates Eni from paying taxes anywhere, and even though the direct obligations of Italy, the Netherlands, and China are clear in the Mozambican case, we ought to take a closer look at Bermuda, the Bahamas, and the British Virgin Islands, which facilitate Eni's abusive tax conduct.

2.3.3 Tax Havens and Secrecy Jurisdictions

As a form of sovereignty, each country has the right to choose its forms of taxation, but when countries act as Offshore Financial Centers (OFC), they steal the revenue of foreign nations (Zucman, 2015). Customary international law prohibits a state from allowing its territory to be used to cause damage to the territory of other states. When the United Nations Human Rights Council (UNHRC) endorsed the guiding principles on extreme poverty and human rights, it confirmed that these prohibitions extend to human rights law (UNHRC, 2012, A/HRC/21/39). The extraterritorial obligation to respect creates the duty to refrain from obstructing another state from

complying with its obligations. General Comment 24 confirmed that this duty is particularly relevant to financial and tax treaties (CESCR, 2017, E/C.12/GC/24). The Office of the High Commissioner of Human Rights (OHCHR) stresses that countries receiving illicit financial flows understand that confronting tax abuse is not merely a discretionary measure but also a duty derived from the obligations of international cooperation and assistance (OHCHR, 2011, A/HRC/19/42).

The tax havens involved in Eni's business, Bermuda, the Bahamas, and the British Virgin Islands, fail to respect human rights abroad by knowingly undermining the ability of other states to mobilize the maximum available resources. They erode Mozambique's capacity to exercise its sovereignty in taxing legal and natural persons in its jurisdiction, and they destabilize the transparency, participation, and accountability of public institutions.

Furthermore, General Comment 24 lays out that states are in breach of their ETOs when violations reveal the failure of the state to take reasonable measures that could have prevented the occurrence of the violation (CESCR, 2017, E/C.12/GC/24). Here, tax havens and secrecy jurisdictions that deliberately hide the identities and wealth of their customers and actively facilitate tax abuse and prevent its persecution, are in a clear breach of their obligations, as indicated in Figure 3 above.

2.3.4 International Cooperation

All states have an obligation to fulfill ESR beyond their borders and to support the creation of an international enabling environment that is conducive to fulfilling human rights, including matters related trade, investment, taxation, finance, and development cooperation (Maastricht Principles, 2011, article 29). At the same time, civil and political rights obligations demand states ensure the

transparency and information necessary to effectively confront tax abuse and strengthen governance (IBA, 2013). The CESCR has called upon member countries to adhere to their extraterritorial economic and social rights obligations in foreign trade policies and agreements, and in their roles in intergovernmental institutions that shape an international economic order that facilitates and tolerates tax abuse (CESCR, 2010, E/C.12/CHE/Co/2-3).

These obligations create a space to put a hold on the international race to the bottom spurred by corporate tax exemptions and tax competition among states. General Comment 24 calls for international cooperation to combat transfer pricing and to reduce the risks of conflicts of jurisdictions that result in legal uncertainties and “forum-shopping by litigants.”[176] Additionally, permissive rules on tax exemptions may affect the ability of states everywhere to meet their obligation to mobilize the maximum available resources for the implementation of ESRs (CESCR, 2017, E/C.12/GC/24) .Therefore, international cooperation is also a means of protecting domestic tax sovereignty by preventing income from cross-border activities to go untaxed.[177] In the case of Mozambique, preventing the race to the bottom for corporate tax exemptions is especially relevant. Lowering corporate income tax solely to attract investment can undermine a government’s ability to mobilize resources domestically and, hence, is inconsistent with rights obligations (CESCR, 2017, E/C.12/GC/24). The global dialogue about taxation and development should include the above-mentioned considerations in order to lift the corporate veil of TNCs and define a new global tax regime for international business. After all, it was the private firm Deloitte, a US-based

[176]CESCR, 2017, E/C.12/GC/24, 08/10/2017, para 34-35.
[177]Corrick, L., 2016, The Taxation of Multinational Enterprises, in Pogge, T., Metha, K., 2016, Global Tax Fairness, Oxford University Press, UK, pp.173-203.

multinational service corporation, that advertised the described Mauritius-Mozambique tax avoidance scheme at a business conference in China.[178]

Poor countries often lack bargaining power in international negotiations and are, for the most part, excluded from negotiations to increase financial transparency and exchange tax information because of insurmountable administrative burdens (De Schutter, 2008, Zucman, 2015). Therefore, empowering national tax authorities is an essential part of the obligation for international cooperation. Mozambique lacks the capacity to provide reciprocal data, abide by confidentiality requirements, or implement additional safeguards for data protection (CESR, 2016). In Mozambique, the Tax Common Fund unites the efforts of the UK, Switzerland, Belgium, Germany, and the IMF in supporting the country's tax administration. To prevent Pogge's inequality spirals, states, especially tax havens and secrecy jurisdiction, should facilitate the sharing of financial and tax information with developing countries.

Mozambique itself has an extraterritorial obligation to enter into bilateral or multilateral agreements to share financial and tax information. In the Eni case, Nigeria had already uncovered Eni's corrupt practices and should have provided valuable information on how to prevent tax avoidance.

International cooperation to address tax abuse is indispensable and depends on the inclusion of Development Finance Institutions (DFI) in both addressing tax abuse and fashioning the macroeconomic policies of borrower institutions. Although not formally subject to international

[178]The Guardian, 11/02/2013, Deloitte promotes Mauritius as tax haven to avoid big payouts to poor African nations, Guardian Media Group, London, UK

law, their member countries do have ETOs, and the policies they determine and finance ought not have a detrimental impact on human rights abroad. Through their actions on the DFIs' boards of directors, states ought to respect, protect, and fulfill human rights in their decision-making and scope of influence. They have a direct influence and human rights obligations through their non-sovereign guaranteed lending to private entities and financial intermediaries, and an indirect influence through their sovereign guaranteed lending, to strengthen domestic tax administration. An initial study (Oxfam IBIS, 2015) found that none of the investigated DFIs were fit to take on the new development agenda for responsible taxation, emphasizing the lack of data, lack of transparency in private sector lending, and the limited scope of safeguard policies.[179]

Moreover, the effects of lending programs of DFIs based in neo-liberal and macroeconomic policies have long been criticized for their failure to generate social development and their harmful impacts on rights enjoyment.[180] Education and health programs are mostly required to be funded by domestic resources rather than aid or debt, because foreign assistance does not provide for long-term sustainable funding. Therefore, the IMF generally insists on single-digit fiscal deficits and places a ceiling on the public wage bill to prevent governments from overspending. Moreover, inflation needs to be kept low and aid funds used to buy foreign reserves to guarantee macroeconomic stability instead of increasing expenditures.[181] Consequently, any reduction in domestic revenue through a decrease in tax revenue, for instance, may have a direct effect on health

[179] Oxfam IBIS, 2015, Development Finance Institutions and the responsible tax agenda – fit for purpose?, Discussion paper prepared for two international conferences in Uganda and Peru in 2015, The tax Dialogue, Copenhagen, Denmark
[180]Metha, K., Dayle Siu, E., 2016, Ten Ways Developing Countries Can Take Control of their Own Tax Destinies, in Pogge, T., Metha, K., 2016, Global Tax Fairness, Oxford University Press, Oxford, UK, pp.339-357.
[181] Center for Global Development, 2007, Does the IMF Constrain Health Spending in Poor Countries? Evidence and an Agenda for Action, Report of the Working Group on IMC Programs and Health Spending.

and education. Additionally, most teachers and healthcare providers are on the public wage bill, so any changes in the wage bill has a significant effect on them.

International Financial Institutions have both a direct and indirect influence on the enjoyment of ESRs in borrowing countries and, therefore, have the duty to refrain from certain courses of conduct that negatively affect human rights. In the case of Mozambique, national poverty reduction strategies constrained education and health spending even when wage ceilings were removed in 2006. The wage bill was not increased, for fear that expanding the public-sector workforce would increase inflation above the targets contained in the loan agreement with the IMF (Beste and Pfeiffer, 2016). Pfeiffer et al. (2017) conclude that Mozambique's experience shows that ongoing austerity regimes that constrain public spending will continue to undermine health systems in Africa and impede progress towards the SDGs (Pfeiffer et al, 2017). Even the IMF failed to respect human rights by directly limiting public expenditure. It also has indirectly increased the populations' vulnerability to tax abuse by limiting health and education budgets to being financed by domestic resource mobilization.

2.4 Concluding Remarks

In a nutshell, tax abuse drains economic resources from Mozambique that are badly needed for sustainable development. We identify tax abuse of TNCs as a factor influencing Mozambique's poor performance on the SERF Index and with it its negative impact on the enjoyment of economic and social rights. We confirm the human rights framework laid out in Essay One: The Mozambican government has clear obligations to respect, protect, and fulfill the human rights of its citizens.

Extensive tax cuts granted by the Mozambican government may violate the obligation to protect ESR. The state has the obligation to protect its citizens from corporations avoiding or evading taxes in Mozambique and ought to fulfill ESR by continuously improving government accountability and committing to social expenditure programs. International corporations taking advantage of tax breaks and weak tax authorities have the duty to respect human rights. Finally, foreign governments, especially those of tax havens, have extraterritorial human rights obligations to refrain from undermining Mozambique's sovereignty of tax collection. Increased cooperation by states in the international arena, by multinational corporations, and by international institutions is needed to ensure that both the revenue and expenditure sides of fiscal policies facilitate the realization of ESR by empowering or entitling Mozambican citizens.

3 The Impact of Tax Abuse on Economic and Social Rights: An Empirical Analysis

Fiscal policy provides a key means for governments to meet their obligations to ensure the economic and social rights (ESRs) of their citizens. It can be wielded to create an enabling environment that empowers those in their jurisdiction to claim their economic and social rights in the market place. Fiscal policy can also directly fulfill economic and social rights via the provision of public entitlements. By raising ample tax revenues in a progressive manner and adopting progressive social spending policies governments can directly enhance the enjoyment of economic and social rights for those in their jurisdiction. Tax abuse, including extensive tax exemptions, legal tax avoidance schemes and illegal tax evasion, undermines the effectiveness of tax policy and reduces a government's ability to mobilize resources and allocate those resources in a manner that best ensures people's economic and social rights. Tax abuse can also adversely impact the ability of people to claim their economic and social rights through the market place. Hence, tax abuse negatively impacts the full enjoyment of economic and social rights.

In the previous essays we investigated the potential channels through which tax abuse can impede people's enjoyment of their economic and social rights and government's ability to fulfill their economic and social rights obligations. The purpose of this third essay is, based on the findings of the first two, to more succinctly lay out the channels through which tax abuse can directly or indirectly impede the enjoyment and fulfillment economic and social rights, and then to undertake a cross-country analysis to empirically test the importance of each of those channels. At the outset we acknowledge limitations of available data and most particularly on our two key variables - the

magnitude of tax abuse, and the extent to which people enjoy and especially governments meet their obligations to fulfill economic and social rights. Although our findings highlight the need for better harmonized data covering a broader set of countries and the need for further research, we none-the-less empirically confirm several of the channels through which tax abuse undermines economic and social rights.

The chapter proceeds as follows. Based on Essays 1 and 2, the next section lays a theory of how tax abuse undermines economic and social rights, identifying the direct and indirect channels through which tax abuse has its impact and sets forth the testable hypotheses flowing from it. We then discuss the variables used to test these hypotheses first focusing on the direct impacts of tax abuse and subsequently on the different channels through which tax abuse indirectly affects economic and social rights enjoyment and fulfillment.

3.1 Theory

Tax abuse has a negative impact on the enjoyment of economic and social rights. This relationship however is not a direct one. The evidence from Essays 1 and 2 points to three key channels through which tax abuse is expected to directly impede the enjoyment and fulfillment of economic and social rights.

First, tax abuse directly increases profits and the returns to capital and accordingly is expected to decrease the returns to labor relative to capital. Second, tax abuse makes the tax system more regressive by shifting the tax burden to those who cannot escape taxation easily. Third, tax abuse directly impacts domestic resource mobilization from tax revenues. These three direct impacts of

tax abuse that lead to the repression of economic and social rights are shown in Figure 4 below as the three arrows originating from the box labeled “Higher Tax Abuse”.

These direct impacts then ultimately affect the enjoyment and fulfillment of ESR through one of two channels - by impacting income inequality and relative poverty and by affecting government social spending.

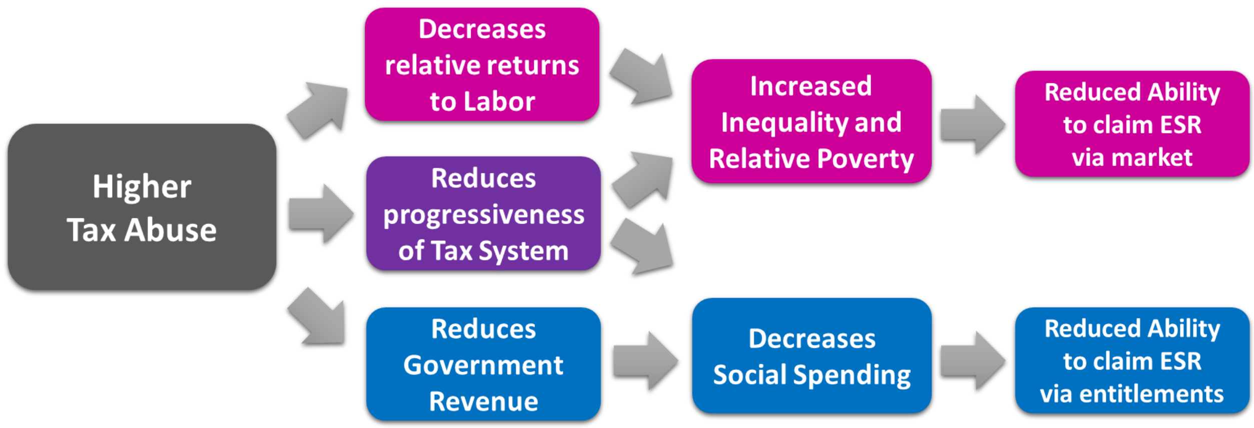


Figure 4. The impact of tax abuse on Economic and Social Rights

Specifically, as shown in Figure 4, factor 1 - decreased returns to labor relative to capital - and factor 2 – reduced progressiveness of the tax system--aggravate income inequality and increase relative poverty. The increase in inequality then directly reduces the ability of relatively impoverished citizens to claim their ESRs via the market place. Factor 3 – reduced government revenue assumes that avoided and evaded corporate tax payments are forgone tax revenues that will not be made up by expanding the tax base or increasing tax rates. The lower are government revenues, the less governments can invest in social policies that enable citizens to claim their rights via entitlements.

A relationship we have not considered in our analysis in Essay 1 and Essay 2, is that the regressiveness of the tax system could have a detrimental impact on social spending. That is, we hypothesize that as the tax system becomes less progressive, so too do government expenditures. This hypothesis assumes that those parties that are least able to avoid taxes will also have the least power to demand benefits from government spending. Support for this hypothesis is found by Rudra (2004) who reveals that social expenditure in least developed countries exacerbates inequality.[182] Similarly, the 2000/2001 *World Development Report* found that in developing countries the rich benefit more from social spending than the poor.[183]

3.2 Methodology and Hypotheses

To test whether and to what extent tax abuse affects the enjoyment of ESR through the channels we identified, we estimate a series of cross-section regressions with yearly data, accounting for one observation per country. Our discussion is organized around three sets of regressions: 1) those assessing the direct impact of tax abuse on the relative returns to labor, the progressiveness of the tax system and the magnitude of government revenues - which we will refer to as the direct impact for brevity, 2) those exploring the impact of the relative returns to labor, the progressiveness of the tax system, and the magnitude of government revenues on inequality and social spending—which we will refer to as the first level indirect impact, and 3) those exploring the effect of inequality and social spending on the ability of people to claim their ESR via the market or entitlements—which

[182]Rudra, N., 2004, *Openness, Welfare Spending, and Inequality in the Developing World*, International Studies Quarterly (2004), 48, 683-709.
[183] World Bank Group, 2000, *World Development Report 2000/2001*, Attacking Poverty, Oxford University Press, Oxford, UK.

we will refer to as the second level indirect impact. We set out the following hypotheses to test our theory in the table below:

Hypotheses	
Direct Impact	
H1	The greater is tax abuse, the lower are the returns to labor relative to capital, all else constant.
H2	The greater is tax abuse, the less progressive is the tax system, all else constant.
H3	The greater is tax abuse, the lower are government revenues, all else constant
First Level Indirect Impact	
H4	The lower are the returns to labor relative to capital, the greater is income inequality, all else constant.
H5	The less progressive is the tax system, the higher is income inequality, all else constant.
H6	The less progressive is the tax system, the lower is social spending, all else constant.
H7	The lower are tax revenues, the lower is social spending, all else constant
Second Level Indirect Impact	
H8	The higher is income inequality, the lower is ESR fulfillment, all else constant
H9	The lower is social spending, the lower is ESR fulfillment, all else constant

Table 2. Hypotheses

In what follows, we elaborate our hypotheses and operationalize the variables we will use to test them. It should be noted in advance that data limitations pose severe constraints on the sample size used to test several of the hypotheses. Additionally, in the face of current data limitations, the operationalization of several of the variables is far from ideal.

3.3 Direct Impact

Tax abuse is expected to directly impact three factors which in turn ultimately influence people's ability to claim their ESR through either the market or entitlements. In addition to discussing these relationships in greater detail and operationalizing the key variables, we discuss and operationalize a set of control variables that may influence the relationship. Omission of these control variables could bias our results.

3.3.1 Independent Variable

Quantifying tax abuse is challenging. The very nature of tax avoidance and evasion is to escape from statistical registration and documentation. As briefly noted in Essay 1, estimates of tax abuse are based on one of two approaches: 1) discrepancies in macroeconomic indicators or data from national and financial accounts, such as trade statistics, that can only be explained by unreported economic activities, 2) a bottom up approach that generalizes or scales up micro level data from individual taxpayers derived from surveys, stratified random audits, and anecdotal evidence. For our analysis, we use a method based on the first approach, specifically, we use an approach pioneered by Baker (2005) that distinguishes between tax revenue losses through border crossing activities of firms through legal commercial or criminal activities. Sixty percent of these Illicit Financial Flows (IFFs)result from three different legal activities: the mispricing of goods traded between independent parties, distortion of transfer prices of products within a multinational firm and fake transactions, for all of which taxes would be due. In 2005 Baker based his methodology on survey data of 550 expert interviews.[184] Since 2009, Global Financial Integrity (GFI) has taken up Baker's methodology and produces annual estimates of IFFs for developing countries.

Global Financial Integrity's methodology is the most suitable to quantify IFFs for our purpose because it is the only comprehensive and consistent dataset available that allows for country comparison and that provides an estimate of the magnitude of tax abuse relative to a country's resources. The organization uses estimates for trade misinvoicing from the International Monetary Fund (IMF) Direction of Trade Statistics (DOTS) and supplementary bilateral data published by Switzerland. Two estimates for IFFs are produced: Low estimates reflect trade gaps between

[184] Baker, R., 2005, Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-market System, John Wiley & Sons, Inc. Hoboken, United States.

developing countries and their advanced country trade partners. The higher estimates scale up the low estimates to account for misinvoicing between each country and other developing countries, assuming that each country's practice of misinvoicing with developing country partners is the same as with advanced countries (GFI, 2017b). A weakness of the methodology is that adding up high estimates may lead to double counting, a risk not applicable to our cross-section study. Furthermore, Fuest and Riedel (2009) argue that the mispricing approach used to calculate income shifting neglects half of the income shifting data produced by overpriced imports and underpriced exports out of developed nations.

We modify the GFI data and create a variable of **IFFs Outflows as a % of GDP**. For our investigation we use the high estimates provided since the low ones deliberately exclude trade between developing countries. The United States Human Rights Council (UNHRC) confirms that actions or omission that diminish public revenues by allowing large scale tax abuse could constitute violations of economic and social rights (UNGA, 2015a, A/HRC/26/28). To support the argument for domestic and international human rights obligations, we would like to see a statistically significant, negative relationship between IFFs and our dependent variables of concern.

3.3.2 Dependent Variables of Concern

Tax abuse is expected to directly impact three variables. It is expected to increase capital's share in income and consequently reduce labor's share, reduce the progressiveness of the tax system, and decrease government revenues. Piketty (2014) set out that if the after-tax return on capital is higher than economic growth, capital will be accumulated. Income that escapes taxation will increase the after-tax return on capital in an economy and hence accelerate its accumulation. An

increase in capital's share causes a decrease in labor's share in income, leaving the rental share of income out of the equation. The Organization of Economic Co-Operation and Development (OECD) (2012) found that the share of labor compensation in national income declined significantly in advanced economies. The evidence for emerging and developing economies is less strong, but suggests a similar effect.[185] Although one might argue that lower wages are necessary to attract investment and will in return boost job creation, the shift in income from labor to capital has not produced the expected results. This can be explained by income generation in the financial sector, the reinvestment of profits in financial assets rather than productive investments and weak household, government and trade demand as a result of the financial crisis.[186]

Guerriero (2012) highlights that there is currently no systematic attempt to create a global database and harmonize the conceptual issues around the measurements of capital, labor and rent share of income.[187] Confronted with this data limitation, we use data of the International Labor Organization (ILO) on **Labor Income share as % of GDP** to test the impact of tax abuse on capital's share of income. This is consistent with the literature in assuming an increase in capital's share will cause a decrease in labor's share. In any case, there is no reason to expect that tax abuse will reduce the rental share in income; if anything, the opposite is true. Currently, data are only available for about 50 countries. However, Labor Income Share as % of GDP has been determined as one of the Sustainable Development Goals (SDG) indicators, therefore we expect more comprehensive data in the future.

[185]OECD, 2012, *Chapter 3: Labor Losing to Capital: What Explains the Declining Labour Share?,* in OECD Employment Outlook 2012, Paris, France.
[186]ILO, 2011, *World of Work Report 2011*, Making Markets work for jobs, Geneva, Switzerland.
[187]Guerriero, M., 2012, *The Labour Share of Income around the World, Evidence from a Panel Dataset,* Institute for Development Policy and Management, Manchester UK.

The second direct relationship we test in our model is tax abuse's impact on the progressiveness of the tax system. Tax abuse makes the tax system more regressive by shifting the tax burden to those taxes that cannot be avoided easily. While income tax, which is often abused, is generally a progressive tax, indirect taxes such as Value Added Tax (VAT) or sales taxes are typically regressive because those at the bottom and middle of the income distribution spend a larger share of their income on consumption goods. Although domestic narrow tax bases and large shadow economies are common sources of revenue loss in developing countries, corporate tax avoidance and evasion as well as large tax cuts to attract investment are the principal drivers of global tax abuse. The global competition to attract investment and prevent capital flight has driven down statutory corporate tax rates. While in the 90s the G20 average statutory corporate tax was 40 percent, it was 28.7 percent in 2015 (Oxfam International, 2016). Although data on the corporate tax rates are globally available and reliably produced by the World Bank Group (WBG), such a variable cannot capture tax avoidance and expenditure. For instance, as noted in Essay 1, in 2010 the average corporate tax rate on state and local income was 6.2 percent in the United States, but the majority of Fortune 500 companies effectively paid only 3 percent (Institute on Taxation and Economic Policy, ITEP, 2011). As a result, rather than using tax rates to assess the progressiveness of the tax system, we focus on tax receipts. Specifically, we use the variable **Taxes on income, profits and capital gains as % of total tax revenue** to measure the progressiveness of a country's tax system. We interpret a higher share of taxes on income, profits and capital gains in total tax revenue as an increase in the progressiveness of the tax system. In our model we expect to see this progressiveness decrease with higher tax abuse.

Finally, the dependent variable we use to assess the third direct impact of tax abuse of concern, the hypothesized reduction in government revenues, is the level of **Government revenue share of GDP**. This indicator is also available in the WBG's World Development Indicators and is compiled from the IMF, Government Finance Statistics Yearbook, the WBG and OECD GDP estimates. Taxes are a principal means for domestic resource generation. In the face of tax abuse, governments can shift the burden of taxes to other economic agents and can even seek other sources of domestic revenue, but the extent to which this is possible is necessarily limited. Ultimately, tax abuse limits the ability of governments to mobilize domestic resources. Without revenue from taxes, governments have less resources available to invest in economic and social policies and in the case of developing countries may remain dependent on foreign assistance (UNGA, 2015a, A/HRC/26/28). The majority of these countries still fall far short of the average OECD tax to GDP ratio between 35 to 40 percent (Tax Justice Network Africa, TJNA, 2015).

3.3.3 Control Variables

Rate of Economic Growth: Neo-liberal economic policies are thought by some economists to accelerate economic growth. These policies seek to increase the reliance of the economy on market forces and reduce the role of the government given that government failures in their attempt to overcome market failures ultimately impede economic growth to a greater extent than the market failures they sought to correct. To the extent that they are correct, then countries with higher rates of economic growth will tend to have a greater share of capital in income, a less progressive tax system and lower government revenues. However, there exists considerable debate concerning whether neo-liberal policies promote per capita income growth. We measure economic growth as the 2006 to 2015 **average annual percentage growth rate of GDP per capita** based on constant local currency as published by the WGB in its on-line *World Development Indicators*.

Level of Development: Countries at higher levels of development tend to have a better administrative capacity, which facilitates efficient tax collection, and expanding the tax base. Additionally, structural shifts and capital accumulation with development tend to increase capital's share in income. Both factors affect the potential progressivity of the tax system. The level of development is measured with **GDP per capita (constant 2011 international PPP $)** in 2015.We expect labor's share in income to be lower, the progressivity of the tax system possibly greater, and tax revenues to be greater the higher is the level of development.

Size of the Industrial Sector: Countries with a large informal sector have a narrow tax base increasing their reliance on regressive VAT taxes, and sales taxes. The narrow tax base also limits potential government revenue. Although data on the size of the informal sector are limited, the size of the industrial sector is negatively correlated with the size of the informal sector and data on the size of the industrial sector are readily available. We measure the size of the industrial sector as **Industry's share in GDP.** These data are obtained from the WBG's on-line *World Development Indicators*. We expect labor's share in income to be lower, the tax system to be more progressive, and government revenues to be greater the greater is the size of the industrial sector.

Resource Dependency: Countries that depend on the export of natural resources are more vulnerable to tax evasion. At the same time, natural resources provide a highly visible industry to tax, and are often government owned, potentially increasing the progressivity, and magnitude of taxes. The rental share of income in natural resource dependent countries is also higher, so that for a given capital share in income, labor's share in income is lower. The WBG produces the widely

available data on **Total Natural Resource Rents (% GDP)** that aggregates oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents and is available in its on-line *World Development Indicators.* We expect labor's share in income to be lower, the tax system to be more progressive, and government tax revenues to be greater the more resource dependent is a country.

Good Governance: The ability of people to influences government policy and limit corruption is likely to influence the structure of the economy, including labor's share in income, the progressiveness of the tax system, and the size of the government sector. One would anticipate that stronger voice and accountability would lead to higher relative returns to labor, a more equitable tax system, and greater expenditures given increased demand for entitlements. Voice and accountability are greater in more democratic societies. They are also greater in countries conferring greater political rights and civil liberties on their citizens.

We assess the degree to which countries are autocratic versus democratic using the **Polity IV** data set compiled by the Center for Systemic Peace. The Polity IV data set provides annual data on the "level of democracy" captured on a 21-point scale: "autocracies" (-10 to -6), "anocracies" (-5 to +5) and "democracies" (+6 to +10).[188] Since a higher value of this variable reflects a more democratic country, we expect the relative returns to labor, the progressiveness of the tax system, and the level of tax revenues to be positively correlated with the Polity IV variable. The Freedom House "Freedom in the World" (FI) Index has been widely accepted as a measure of the state of civil and political rights in countries. The FI Index is based on expert judgment and rates countries on a range of political rights and civil liberties where a lower score reflects greater rights and

[188] Marshall, M, Gurr T., Jaggers K, 2017, *Polity IV Datasets' User Manual,* Center for Systemic Peace, Vienna, VA, USA.

liberties. We assess the extent of political rights and civil liberties offered in a country on the basis of the combined average of both FI's score on **Political Rights and Civil Libertie**s. In a 1 to 7 scale, countries are rated as free (1-2.5), partly free (3-5) and not free (5.5-7). We expect this indicator to be negatively correlated with the relative returns to labor, the progressiveness of the tax system, and the level of tax revenues.

Corruption: As discussed in Essays 1 and 2, corruption reflects weak governance that fosters a fruitful environment for tax abuse (Johannesen et al, 2016). Tax avoidance and evasion also spread corruption and facilitate the accumulation of wealth increasing the returns to capital and with-it income inequality (Piketty, Berg and Ostry, 2011). Corruption is also likely to cause countries to be more dependent on regressive self-policing taxes, such as VAT, and to reduce government revenues. To an important degree, corruption reflects elements of tax abuse that are not included in the GFI's IFF Outflow data we use to measure the level of tax abuse. To measure corruption, we use Transparency International's **Corruption Perception Index** (CPI). The CPI ranks countries by their perceived levels of corruption as determined by expert assessments and opinion surveys on a scale of 0 to 100 where 0 means highly corrupt and 100 very clean.[189] We expect the CPI to be positively correlated with labor's share in income, the progressiveness of the tax system and government revenues as a share of GDP.

[189] Transparency International, 11/21/2017, Corruption Perception Index 2016.

Table 3 below lays out the expected relationships between the dependent variables, tax abuse and the control variables for the regressions exploring the direct impact of tax abuse.

Direct Impact IFF Outflows – Expected Relationship			
	Labor Income Share as % GDP	Taxes on income, profits and capital gains as % of total tax revenue	Government Revenue as % GDP
IFF Outflows as % GDP	**H1:-**	**H2:-**	**H3:-**
Annual % Growth of GDP per capita	-	-	-
GDP per capita	-	+	+
Industry's Share in GDP	-	+	+
Total Natural Resource Rents (% GDP)	-	+	+
Polity IV (level democracy)	+	+	+
Political Rights and Civil Liberties	-	-	-
Corruption (CPI)	+	+	+

Table 3. Direct Impact IFF Outflows - Expected Relationship

3.4 First Level Indirect Impact

Let us now turn to the second step of our analysis, what we refer to as the First Level Indirect Impact of Tax Abuse on Rights Fulfillment.

3.4.1 Independent Variables

As noted previously, there are two primary ways people can claim their economic and social rights - through the market, and through entitlements. Income inequality, and in particular relative poverty is the key factor influencing people's ability to claim their rights through the market place. Government social spending is the key factor influencing people's ability to claim their rights through entitlements. The three independent variables of concern at this level indirectly influence people's ability to claim their rights through their direct impact on inequality/relative poverty and government social spending. The first, labor's share in income, directly impacts income inequality

and relative poverty. Those that are relatively poor in an economy derive a disproportionate share of their income from their labor. Labor income is also more equally distributed than earnings from capital or rent. Thus, as labor's share in income increases, inequality and relative poverty fall. As previously discussed, we measure **Labor Income share as % of GDP** using ILO data.

We hypothesize that the second independent variable of concern, the progressiveness of the tax system, directly influences both income inequality/relative poverty and social spending. If the tax burden is disproportionately borne by those with greater wealth or higher earnings, post tax income inequality will necessarily be lower than pretax income inequality. To the extent that those with the least wealth or earnings pay a lower proportion of their income in taxes, post tax relative poverty will also necessarily be less. Thus, we hypothesize that the more progressive is the tax system, the lower will be inequality and relative poverty, all else constant. The same political forces that influence the progressiveness of the tax system likely also influence social spending. Thus, we hypothesize that as the tax system becomes more progressive, so too will the expenditure system, and hence, social spending. As noted in the previous section, we measure the progressiveness of the tax system as **Taxes on income, profits and capital gains as % of total tax revenue**. The larger this percentage, the more progressive is the tax system.

The third independent variable of concern, government revenues as a share of GDP, directly influences the government's ability to provide social services. In the face of severely limited government budgets, social spending will necessarily be limited as well. Large budgets do not, however, ensure that the largess will be directed to social spending. However, the market will under invest in those goods and services that have a public good character – that is have large

positive externalities or are non-rival in consumption and non-exclusionary. Goods and services related to education and health have this character. As such, there are efficiency gains as well as social gains to be had from government expenditures on education and health, and both factors can be marshaled to support increased social spending in the face of increased government budgets. As such, we hypothesize that as the government budget share increases so too will the share of the budget spent on social services. As discussed previously, our data on **Government Revenue as a share of GDP** are extracted from the WBG's on-line *World Development Indicators*.

3.4.2 Dependent Variables of Concern

As income inequality rises, the ability of those falling behind to fulfill their economic and social rights through the market place diminishes. We use two variables to measure inequality, one the **Gini Coefficient**, and second, the **Income Share of the Bottom 40% of the Population**. Both are extracted from the WBG's on-line *World Development Indicators.* A Gini Coefficient of 0 represents perfect equality - everyone has the same income - while a Gini Coefficient of 100 implies perfect inequality - one person has all the income. The Gini Coefficient has become a commonly accepted method to test if the relatively poor are gaining over time (Rudra, 2004). A weakness of the Gini Coefficient is that it is more sensitive towards the changes to the shares in the middle of the income distribution than to the shares in the tails. As a result, in our analysis we complement it with an inequality indicator that focuses more directly on the bottom of the income distribution and accordingly relative poverty, the income share of the bottom 40% of the population. Inequality and relative poverty rise as the Gini Coefficient increases and the income share of the bottom 40% falls. Thus, we hypothesize that an increase in labor's share in income will reduce the Gini Coefficient but increase the income share of the poorest 40% of the population

and similarly as taxes on income, profits and capital gains as a percentage of total tax rise, the Gini Coefficient will fall and the income share of the poorest 40% of the population will rise.

We operationalize government social spending, considering two dimensions of social spending: public expenditure on health as a share of GDP and public expenditure on education as a share of GDP. Both indicators are available from the WBG's on-line *World Development Indicators* database. We combine these two to a single variable on social spending: **Social Expenditure (% of GDP),** using average values for the years 2010 to 2014. We hypothesize that both taxes on income, profits and capital gains as a percentage of total tax revenue and government revenues share of GDP will be positively related to public social expenditure (% of GDP).

3.4.3 Control Variables

Rate of Economic Growth: There remains debate concerning the link between the rate of economic growth on the one hand and inequality, relative poverty, and public social spending on the other. Neo-liberal economists argue inequality fuels growth and social spending impedes growth, while other economists argue causation runs in the opposite direction. As discussed previously, to the extent that countries adopt Neo-liberal policies inequality will be higher and public social spending lower. To the extent that these policies are in fact associated with more rapid growth, the 10-years **average annual percentage growth rate of GDP per capita** will be positively associated the Gini Coefficient, negatively associated with the income share of the bottom 40% of the population, and negatively associated with public social spending. However, the preponderance of evidence now supports the contention that high inequality defeats growth and that broad public provision of education and health fuels growth (Piketty, 2014, Berg and Ostry, 2011, Fukuda-Parr, Lawson-Remer and Randolph, 2015). Among other things, growing inequality may slow down economic

growth by marginalizing the poor's opportunities to accumulate human capital (Rajan and Zingales, 2004).

Level of Development: As discussed above, **GDP per capita (constant 2011 international PPP $)** in 2015, is our measure of the level of development. Kuznets (1955) famously hypothesized that in the course of economic development, income inequality secularly rises, stabilizes for a while, and then falls. Whether this can be considered a stylized fact or not has been the subject of much shrift. There also exists controversy concerning the source of any observed general trend in inequality in the course of development. The emerging wisdom is that political and social pressure and the policies they spawn influence the secular trend in inequality in the course of development. Kuznets (1955) himself argued as much. In that case, the level of development also likely influences social expenditures with higher levels of development associated with greater social expenditures. To control for any possible Kuznet's effect, we include GDP per capita and its square as control variables in those regressions with the Gini Coefficient or the income share of the bottom 40% of the population as the dependent variable. To control for the possibility that political and social pressures at higher per capita income levels tend to demand higher levels of social spending, we include GDP per capita as a control variable in those regressions with Social Expenditure (% GDP) as the dependent variable.

Size of the Industrial Sector: The industrial sector offers more opportunities for the accumulation of capital and accordingly **industry's share in GDP** is likely positively correlated with the Gini Coefficient and negatively correlated with the income share of the bottom 40% of the population. We do not hypothesize any prior relationship between industry's share in GDP and public social

spending, because there are forces working in both directions. A robust technologically advanced industrial sector requires an educated labor force putting pressure on governments to spend on education. Large industrial sectors are also associated with urbanization. Urban areas enjoy economies of scale in the provision of social services reducing the cost of the public provision of a given level of social services.

Resource Dependency: Rental income from privately owned natural resources is more unequally distributed than other sources of income. As such we expect total **natural resource rents (% GDP)** to be positively correlated with the Gini Coefficient and negatively correlated with the income share of the bottom 40% of the population. The public cost of providing the necessary infrastructure to support natural resource extraction competes with social spending so that we expect total natural resource rents (% GDP) to be negatively correlated with Social Expenditure (% GDP).

Good Governance: Good Governance determines the ability of people to influences government policy and accordingly is likely to influence inequality and social spending. One would anticipate that stronger voice and accountability would lead to the adoption of policies that reduced inequality and increased social spending. To the extent that voice and accountability are greater in more democratic societies and countries conferring greater political rights and civil liberties on their citizens we expect **Polity IV** to be negatively associated with the Gini Coefficient, and positively associated with both the income share of the bottom 40% of the population and Social Expenditure (% GDP) while the opposite will be the case for the FI score on **Political Rights and Civil Liberties**.

<u>*Corruption*</u>*:* Corruption enables a small set of people to amass substantial wealth and accordingly the Corruption Perception Index is expected to be negatively correlated with the Gini Coefficient and positively correlated with the income share of the bottom 40% of the population. For a given level of government revenue, corruption also siphons off funds that otherwise could go to public social expenditures. As a result, the CPI is expected to be positively correlated with Social Expenditure (% GDP).

Table 4 below lays out the expected relationships between the dependent variables (the Gini Coefficient, the income share of the bottom 40% of the population, and Social Expenditure % GDP), and the independent variable of concern (Labor Income Share as % of GDP, Taxes on Income, Profits and Capital Gains as a percentage of total tax revenue, and Government Revenues share of GDP), and the control variables for the regressions exploring the first level indirect impact of tax abuse.

First Level Indirect Impact – Expected Relationships			
	Gini Coefficient	Income share of Bottom 40% of Population	Social Expenditure (% GDP)
Labor Income Share as % GDP	H4: -	H4: +	NA
Taxes on Income, Profits, and Capital Gains as a Percentage of Total Tax Revenue	H5: -	H5: +	H6: +
Government Revenues Share of GDP	NA	NA	H7: +
Percentage Growth Rate of GDP per capita	?	?	?
GDP per capita	+	-	+
GDP per capita squared	-	+	NA
Industry’s share in GDP	+	-	?
Resource Rents (% GDP)	+	-	-
Polity IV	-	+	+
Political Rights and Civil Liberties	+	-	-
Corruption Perception Index	-	+	+

Table 4 First Level Indirect Impact - Expected Relationships

3.5 Second Level Indirect Impact

In the third step of our analysis, we investigate the second level indirect impact of tax abuse on rights fulfillment.

3.5.1 Independent Variables

With rising income inequality and relative poverty, the ability of those falling behind to fulfill their economic and social rights through the market place is reduced. As above, we use two variables to measure inequality and relative poverty, one the **Gini Coefficient**, and second, the **Income Share of the Bottom 40% of the population**. Inequality and relative poverty rise as the Gini Coefficient increases and the income share of the bottom 40% falls. We hypothesize that an increase in the GINI Coefficient will reduce rights enjoyment and fulfillment. Likewise, a decrease in the income share of the poorest 40% of the population will diminish rights fulfillment.

We also assess the second level direct impact relationships on the ability of people claiming their economic and social rights through entitlements. Therefore, **Social Expenditure (% of GDP),** using average values for the years 2010 to 2014, is our second main independent variable to test hypothesis 9. We hypothesize that a decrease in social expenditure will diminish people's ability to claim rights fulfillment via entitlements

3.5.2 Dependent Variables of Concern

We use two variables to assess the enjoyment and fulfillment of economic and social rights: The 2015 **Human Development Index (HDI),** provided by the UNDP, and the **Core SERF Index**

developed by Fukuda-Parr, Lawson-Remer and Randolph (2015). The HDI is an indicator of individual rights enjoyment and is the most widely used assessment of human wellbeing. The HDI is a summary measure of key average achievements in three areas: health, education and standard of living for which the following indicators are combined: life expectancy at birth, mean years of schooling for adults and expected years of schooling for children, and the log of Gross National Income (GNI) per capita.[190] While a common critique of the HDI is that it does not assess inequalities and poverty, our primary concern is that it does not reflect on state obligations towards the realization of human rights.

The HDI only assesses the extent to which rights holders enjoy their ESR – that is, the wellbeing of individuals. It does not assess the extent to which governments meet their obligations to fulfill ESR. This is because states only have an obligation to progressively realize the full enjoyment of ESR. Article 2.1 of the International Covenant on Economic, Social and Cultural Rights (ICESCR) lays out the following obligation: “each party...undertakes to take steps, individually and through international assistance and co-operation, especially economic and technical, to the maximum of its available resources, with a view to achieving progressively the full realization of the rights recognized in the present Covenant.”[191] This implies that the extent to which states are obligated to fulfill ESR differs by country and over time. The progressive nature of ESR obligations makes it difficult to assess the extent to which countries are meeting their obligations. The SERF Index addresses this concern and measures a state’s effort in realizing ESR using an evidence based method of determining what is feasible for a country to achieve at any per capita income level.

[190] UNDP, 11/22/2017, Human Development Index.
[191] See UNGA, 1966, A/RES/21/2200, 12/16/1966, International Covenant on Economic, Social and Cultural Rights, United Nations, Treaty Series, vol. 993.

The SERF index calculates the percentage of the feasible rights achievement realized given the country's per capita income level (GDP per capita measured in constant PPP international $). The SERF Index can be decomposed to show a country’s performance relative to its feasible performance across five economic and social rights: the right to education, health, housing, food and work. For our analysis we use the **Core SERF Index** values for the year 2015 compiled by the Economic and Social Rights Empowerment Initiative.[192] We expect both the HDI and the Core SERF Index to be positively correlated with the Gini Coefficient and Social Expenditure (% of GDP) and negatively correlated with the income share of the bottom 40% of the population.

3.5.3 Control Variables

For the third part of our analysis we consider the following explanatory variables.

Rate of Economic Growth: It is not clear whether there is a link between the rate of economic growth and the enjoyment or fulfillment of economic and social rights. One might argue that it takes time to translate the benefits of growth into the goods and services and social policies that enhance ESR enjoyment. To the extent that it does, we hypothesize that, all else constant, the rate of economic growth will be negatively correlated with ESR enjoyment and fulfillment. As above, we measure economic growth as average annual percentage growth rate of per capita GDP at market prices based on constant local currency provided by the WBG’s *World Development Indicators*. We hypothesize the **growth rate of per capita GDP** will be negatively related to both the **HDI** given the per capita income level and the **SERF Index**.

[192]Randolph, S., 2017, Economic and Social Rights Empowerment Initiative, 2017 SERF Update, University of Connecticut.

Level of Development: As before, we measure the level of development as **GDP per capita (constant 2011 international PPP$)** in 2015. The higher is per capita GDP, the greater is purchasing power at any level of inequality or relative poverty. Thus, we hypothesize that the higher is **GDP per capita** the greater will be the level of enjoyment of ESRs, and hence the **HDI**. Additionally, we account for the possibility that the impact may diminish and accordingly include **GDP per capita squared** in our regressions. Because the **SERF Index** already takes the per capita GDP into account, we do not anticipate any necessary relationship with per capita GDP.

Aid Dependency: The dependency on foreign resources for government expenditures may impact the consistency and effectiveness of social spending programs. As laid above, international organizations often dictate neoliberal economic and social policies, which prioritize growth as means to poverty reduction and tolerate short term inequality and cap expenditures. This argument is supported by multiple scholars who argue that international assistance poses a barrier to recipient country development and sustainable growth (Moyo, 2009, Braeuntigam and Knack, 2004, Cliff et al, 2004).[193] However to the extent that foreign aid is provided for humanitarian reasons and targeted to social spending, Official Development Assistance (ODA) will be positively correlated with ESR enjoyment and fulfillment. We measure Aid Dependency as Net Official Development Assistance as a percentage of Gross National Income, **Net ODA % of GNI,** averaged over the 2006-2015 period. We do not hypothesize a prior relationship between Net ODA % of GNI and our dependent variables, SERF Index and HDI. In interpreting our findings, we also need to take into account that foreign aid, is mostly given to countries with low per capita income that may also

[193]Moyo, D., 2009, Dead Aid: *Why Aid is not Working and How There Is a Better Way for Africa*, Penguin, London, UK: Braeuntigam, D., Knack S., 2004, *Foreign aid, institutions and governance in Sub-Saharan Africa, Economic Development and Cultural Change*, Vol. 52.2, pp.255-285; Cliff, J., Walt G., and Nhatave, I., 2004, *What's in a Name? Policy transfer in Mozambique: DOTS for tuberculosis and syndromic management for sexually transmitted infections*. Journal of Public Health Policy, 25.1, pp.38-55.

experience low levels of rights fulfillment. The Net ODA variable may therefore proxy for the level of development and mirror its effect on rights fulfillment. Causation may also run the other way, with countries with low levels of rights fulfillment attracting more aid.

Gender Equality: As mentioned above, women are disproportionally affected from public spending cuts and regressive taxation schemes. These factors influence women's ability to claim their ESR in both the market and via entitlements. Women's spending patterns also prioritize ESR fulfillment. The correlation between gender equality and human development has widely been acknowledged and emphasized in the 2030 Development Agenda (SDG 5: Achieve gender quality and empower all women and girls). Previous studies empirically confirm the positive impact of gender equality on ESR enjoyment and fulfillment (Anyanwu, Erhijakpor, 2007, Fukuda-Par, Lawson-Remer and Randolph, 2015).

We measure Gender inequality using the 2015 **Gender Inequality Index (GII)** produced by the United Nations Development Program (UNDP). It considers the dimensions of reproductive health, empowerment through education and political participation and labor market participation. Scores on the GII can potentially range from 0 to 1 with 0 reflecting no gender inequality.[194] We expect the Gender Inequality Index to be negatively correlated with both the HDI and the SERF Index.

Good Governance: The fulfillment of economic and social rights strongly depends on the existence of a functioning active state, high levels of democratic accountability and political freedom

[194] UNDP, 11/24/2017, Gender Inequality Index (GII).

(Fukuda-Parr, Lawson-Remer and Randolph, 2015, Chapan and Benegal, 2012). When people participate in and influence government policy, their impacts will likely be more effective in fulfilling ESR. Supporting the human rights principle of the interdependence and indivisibility of all human rights, a strong respect for civil and political rights is a determinant in creating an enabling environment in which citizens can enjoy ESR through entitlement or empowerment (Minkler and Sweeney, 2011, Kibwana, 1993, Johannesen et al 2016). Likewise, countries in which basic needs are being met are less likely to violate human rights because there is less need for suppression.[195] Accordingly, we hypothesize **Polity IV** to be positively and the FI score on **Political Rights and Civil Liberties** to be negatively associated with the SERF Index and HDI.

Corruption: Corruption is likely to influence ESR enjoyment and fulfillment by redirecting social spending to benefit the few rather than the broader population. As before, we measure corruption using the CPI and expect it to be positively correlated with the SERF Index and the HDI.

Commitment to Economic, Social and Cultural Rights: A government's willingness and ability to invest in rights fulfillment may also be influenced by whether it is party to international human rights treaties (Minkler and Sweeney, 2011, Camp Keith, 1999).[196] In our analysis, we calculate the years since the country has ratified the ICESCR to account for its commitment towards the progressive realization of ESR. Countries that have not signed or ratified the Covenant are assigned a value of 0. We hypothesize that the more years passed since the ratification of the ICESR, the higher will be the HDI and SERF Index scores.

[195] Henderson, C., 1993, *Conditions Affecting the Use of Political Repression*, Journal of Conflict Resolution, 1991, Vol.35(1), pp.120-142.
[196] Camp Keith, L., 1999, *The United Nations International Covenant on Civil and Political Rights: Does It Make A Difference in Human Rights Behavior?*, 36 J. PEACERES.95 (1999).

Table 5 below shows the expected relationships for the third step of our analysis. We have additionally included IFF outflows as a potential variable to test whether there also exists a direct relationship between IFF outflows and the enjoyment and fulfillment of ESRs.

Second Level Indirect Impact – Expected Relationship		
	SERF Index	HDI
IFF Outflows as % GDP	-	-
GINI Coefficient	H8: -	H8: -
Income Share Bottom 40%	H8: +	H8: +
Social Spending % GDP	H9: +	H9: +
Net ODA % GNI	?	?
Annual % Growth of GDP per capita	-	-
GDP per capita	?	+
GDP per capita squared	?	-
Polity IV (level democracy)	+	+
Political Rights and Civil Liberties	-	-
Corruption (CPI)	+	+
Gender Inequality (GII)	-	-
Years since ratified ICESCR	+	+

Table 5 Second Level Indirect Impact - Expected Relationships

3.6 Statistical Findings and Discussion

As laid out above, we conduct our analysis in three steps. We first investigate the Direct Impact of tax abuse on the relative labor share of income, the progressiveness of the tax system and government revenue, testing our hypotheses 1 to 3. We then turn to the second step of our analysis, the First Level Indirect Impact of tax abuse, testing hypotheses 4 to 7 describing the impact of the above-mentioned factors on inequality, relative poverty and social expenditure. Thirdly, we turn to the Second Level Indirect Impact analysis and investigate our hypothesis 8 and 9 and the relationship between inequality, relative poverty and social expenditure on economic and social rights fulfillment.

Table 6 below shows the descriptive statistics of all of our variables of concern. Further information about the definition, metrics and source of variables used is provided in the Annex.

Table 6 Descriptive Statistics

Descriptive Statistics					
	N	Mini	Max	Mean	Std. Dev
Core_SERF_2015	81	44.18	94.33	73.58	13.15
HDI_2015	187	0.35	0.95	0.70	0.16
IFF_Outlfows_%GDP_ave2005-2014	143	0.00	387.85	10.81	32.89
LaborShare_%GDP_2015	52	14.90	65.60	47.93	11.51
Government Revenue_%GDP_ave2010-2014	144	2.21	72.52	25.66	11.46
Tax Revenue_incomeprofitscapgains_av2010-2014	142	0.60	63.69	23.75	12.53
GINI Coefficient 2015	135	25.50	63.40	38.02	8.24
Social Expenditure_%GDP_ave2010-2014	139	2.04	17.59	7.93	2.99
Income_Bottom40%_2015	128	7.20	24.30	18.08	3.68
Income_Bottom20%_2015	128	2.50	10.00	6.77	1.81
Corporatetax_%profits_2015	177	0.00	65.80	15.90	9.58
GDPpercapita_PPP2011intl$_2015	183	581.14	132937.67	18190.26	20536.72
GDPpercapita_squared_PPP2011intl$_2015	183	337719.25	17672423131.77	750337799.18	1887987159.50
GDPpercapita_growth_ave2006-2015	204	-8.16	9.05	2.04	2.50
Resource Rent_%GDP_2015	184	0.00	46.44	5.63	8.03
Industry Share_%GDP_2015	166	2.59	61.36	26.99	10.53
ODAnet_%GNI_ave2006-2015	143	-0.17	76.82	6.90	10.68
CPI_2015	167	8.00	91.00	42.46	20.11
PolityIV_2015	162	-10.00	10.00	4.22	6.15
PRCL_2015	194	1.00	7.00	3.34	2.01
ICESCR_years	217	0.00	47.00	23.28	15.45
GII_2015	156	0.04	0.77	0.36	0.19

3.6.1 Direct Impact

Table 7 reports the relationship of tax abuse and the relative labor share as percentage of GDP. The base multiple regression model (Regression H1.1) statistically significantly predicted labor share value, F (7,11) = 6.204, p< 0.01, adj. R2= 0.669; all the regressions are statistically significant at the .01 level or better. The results confirm our hypothesis that tax abuse reduces labor's relative income share; we reject the null hypothesis that tax abuse has no impact on labor's

share in GDP. In fact, the relationship is virtually 1 to 1. As IFF outflows increase by one percent of GDP, labor's relative share in GDP falls by one percentage point.

Table 7 Regressions Hypothesis 1

H1: The greater is tax abuse, the lower are the returns to labor relative to capital, all else constant.			
Labor Share % GDP			
	H1.1	H1.2	H1.3
Constant	78.374	75.776	85.393
	(22.558)	(15.426)	(13.22)
	[0.005]	[0.000	[0.000]
IFFS Outflows % GDP	-0.927	-0.977	-0.909
	(0.434)	(0.423)	(0.4009)
	[0.058]	[0.041]	[0.045]
Resource Rent % of GDP	-0.708	-0.856	-0.602
	(0.351)	(0.382)	(0.32)
	[0.071]	[0.047]	[0.083]
Industry Share % GDP	-1.103	-1.02	-1.296
	(0.457)	(0.47)	(0.41)
	[0.036]	[0.053]	[0.008]
GDP per capita	0	0	
	(0)	(0)	
	[0.390]	[0.51]	
GDP per capita growth	-1.151	-0.882	
	(1.005)	(0.728)	
	[0.278]	[0.251]	
Corruption	0.509	0.482	0.352
	(0.287)	(0.24)	(0.165)
	[0.106]	[0.07]	[0.053]
Democracy	-1.6374	-1.431	-1.484
	(0.9567)	(0.8)	(0.673)
	[0.117]	[0.101]	[0.046]
Civil and Political Rights	0.715		
	(2.506)		
	[0.7810]		
F Statistics	5.059	6.204	8.619
	[0.010][b]	[0.004]	[0.001]
N	19	19	19
R squared	0.801	0.798	0.768
Adjusted R squared	0.643	0.669	0.679
Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. b: Predictors (Constant) Independent Variables			

All of the other variables have the expected sign, except GDP per capita, which is not significant and has an estimated coefficient that is indistinguishable from 0, and Democracy (Polity IV) which we discuss below.

The expected negative impact of resource dependency on labor's relative share of income and is significant at the 5% level in our base run (Regression H1.1) and at least at the 10% level in all other runs. This provides evidence that the extractive industries concentrate income and hence reduce labor's share. Our Industry Share of GDP variable similarly showed the expected negative impact on the relative labor share of income. Although it just barely missed being significant at the 5% level in our base run, it was significant at better than the 5% level in all other runs.

The growth rate of GDP per capita had the correct sign, but did not approach significance. Turning to our good governance variables, we find weaker relationships. As expected, less corruption has a positive impact on the relative share of labor in income with more transparency and higher accountability preventing the unjust accumulation of capital. However, this variable is never quite significant at the 5% level. The results for our Polity IV measure of democracy were somewhat surprising, and in one of the runs reached statistical significance at the 5% level. The results suggest that better democratic governance has a negative impact on the labor share of income, all else held constant.

Table 8 shows the results of regressions testing hypothesis 2: *The greater is tax abuse, the less progressive is the tax system, all else constant*. We did not find a direct relationship between tax abuse and the progressiveness of the tax system. In fact, the estimated sign is often wrong, although

it is never anywhere nearly statistically significant. Although these results indicate there is no relationship between tax abuse and the progressiveness of the tax system, our result may reflect current data limitations. Data on both IFFs and corporate tax revenue are still limited. We also tried eliminating observations that could be described as outliers, without success. Finally, we used the domestic corporate tax rate as an alternative dependent variable, which could, even though not accounting for tax exemptions, give a general estimate of the progressiveness of a tax system. Still, we did not find sufficient evidence for the expected relationship.

Table 8 Regressions Hypothesis 2

H2: The greater is tax abuse, the less progressive is the tax system, all else constant.					
	Taxes on income, profits and capital gains (% of revenue)				**Corp. Tax Rate**
	H2.1	H2.2*	H2.3*	H2.4*	H2.5*
Constant	12.983	15.559	8.341	36.584	17.680
	(20.107)	(21.411)	(10.679)	(17.833)	(8.708)
	[.523]	[.473]	[.440]	[.048]	[.046]
IFFS Outflows % GDP	-.005	.040	.118	-.016	.077
	(.202)	(.313)	(.296)	(.293)	(.142)
	[.981]	[.900]	[.693]	[.956]	[.587]
Resource Rent % of GDP	.275	.235	.125		.041
	(.494)	(.515)	(.467)		(.127)
	[.581]	[.652]	[.790]		[.744]
Industry Share % GDP	.475	.400	.308		.013
	(.355)	(.377)	(.345)		(.115)
	[.190]	[.297]	[.379]		[.911]
GDP per capita	-.001	.000	.000	.000	.000
	(0)	(0)	(0)	(0)	(0)
	[.142]	[.203]	[.255]	[.384]	[.001]
GDP per capita growth	.206	.173			.599
	(.879)	(.915)			(.364)
	[.816]	[.852]			[.104]
Corruption	.126	.147	.246	.027	.122
	(.205)	(.213)	(.175)	(.197)	(.101)
	[.544]	[.494]	[.169]	[.894]	[.231]
Democracy	.158	.030		-.461	-.465
	(.713)	(.775)		(.713)	(.342)
	[.827]	[.969]		[.522]	[.178]
Civil and Political Rights	-1.106	-1.452		-2.251	-1.266
	(2.541)	(2.707)		(2.605)	(1.187)
	[.666]	[.596]		[.393]	[.289]
F Statistics	.477	.434	0.566	.319	2.511
	[.863][b]	[.891][b]	[.725][b]	[0.898][b]	[.017][b]
N	42	39	40	41	88
R squared	.104	.104	.077	.044	.203
Adjusted R squared	-.114	-.135	-.059	-.093	.122
*excluding outliers: Costa Rica - 40.55%, Honduras 27.67 %, Nicaragua -35.26					
Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. b: Predictors (Constant) Independent Variables					

In contrast to results for hypothesis 1, industry's share in GDP and resource dependency did not yield statistically significant results although their signs were as expected. Our controls for economic growth and development did not yield conclusive results, showing inconsistent negative and positive impacts on the progressiveness of the tax system that are not statistically significant. Additionally, none of our governance variables displayed a statistically significant impact on the progressiveness of the tax system, although in all cases, the signs were as expected. Overall, none of our attempts yielded results with statistically significant F statistics.

Table 9 analyzes the impact of tax abuse on government revenue. In this case, all of the runs we tried had F scores that were statistically significant at better than the 5% level, although the adjusted R-square values were modest. Surprisingly, in the face of all the anecdotal evidence, we fail to reject the null hypothesis and do not find a statistically significant negative relationship between tax abuse and government revenue regardless of which variables we included in the runs or whether we excluded probable outliers.

On the one hand, although the sign was generally as expected, we did not find a significant impact of resource rents on government revenues either. On the other hand, domestic resource mobilization from the industrial sector seems to matter more for government revenue. This variable proved generally significantly positive and significant at the 5 or 10% level. It is noteworthy, that the impact of both variables was swamped by controlling for GDP per capita. Once this variable was included, the signs on both resource rents and industry's share flipped, and industry's share was no longer statistically significant. However, GDP per capita was highly significant and had the expected sign.

The relationship between our corruption variable and government revenue was, as expected, positive, but not significant. The sign on our democracy variable was inconsistent, and in any case, never significant. The sign on our civil and political rights variable was generally negative and occasionally significant, so that we can’t robustly conclude that government revenues tend to be higher in countries with more secure civil and political rights.

In short, in our first step of analysis, we only find robust proof that tax abuse reduces the relative share of labor in income but fail to identify statistically significant relationships with the progressiveness of the tax system and government revenue. While our control variables for good governance as well as those controlling for the structural factors of the economy, generally showed the expected results, the relationships of our economic growth and development variables were less conclusive. Some of our regressions had severely limited sets of observations.

Table 9 Regressions Hypothesis 3

H3: The greater is tax abuse, the lower are government revenues, all else constant							
	Government Revenue % of GDP						
	H3.1	R.3.2	R3.3	R3.4*	R.3.5	R.3.6	R.3.7
Constant	23.076	13.462	18.072	17.187	14.608	3.51	13.3
	(-9.641)	(6.03)	(10.025)	(10.553)	(6.277)	(5.226)	(3.356)
	[0.021]	[0.031]	[0.078]	[0.111]	[0.025]	[0.505]	[0]
IFFS Outflows % GDP	0.077	0.104	0.024	0.065	0.031	0.054	-0.259
	(0.077)	(0.075)	(0.079)	(0.098)	(0.076)	(0.078)	(0.827)
	[0.322]	[0.173]	[0.763]	[0.511]	[0.687]	[0.496]	[0.756]
Resource Rent % of GDP	-0.192	-0.174	0.06	0.039	0.08	0.055	
	(0.179)	(0.176)	(0.164)	(0.171)	(0.156)	(0.167)	
	[0.287]	[0.329]	[0.716]	[0.821]	[0.61]	[0.742]	
Industry Share % GDP	0.0848	-0.005	0.291	0.306	0.311	0.32	
	(0.195)	(0.183)	(0.15)	(0.158)	(0.142)	(0.152)	
	[0.666]	[0.977]	[0.058]	[0.06]	[0.034]	[0.041]	
GDP per capita	0	0					
	(0)	(0)					
	[0.062]	(0.008)					
GDP per capita growth	-0.654						
	(0.570)						
	[0.258]						
Corruption	0.0593	0.105	0.118	0.122	0.128		0.256
	(0.1011)	(0.091)	(0.103)	(0.107)	(0.099)		(0.086)
	[0.560]	[0.258]	[0.256]	[0.259]	[0.202]		[0.004]
Democracy	-0.150		-0.163	-0.117		0.307	
	(0.343)		(0.365)	(0.393)		(0.241)	
	[0.663]		[0.658]	[0.767]		[0.21]	
Civil and Political Rights	-1.472	0.194	-2.164	-2.144	-1.729		0.047
	(1.230)	(0.228)	(1.281)	(1.349)	(0.822)		(0.199)
	[0.238]	[0.401]	[0.098]	[0.12]	[0.041]		[0.814]
F Statistics	3.694	4.342	3.222	3.14	3.896	3.165	3.396
	[.002][b]	[.002][b]	[.010][b]	[.013][b]	[.005][b]	[.016][b]	[.025][b]
N	51	51	51	48	51	51	52
R squared	0.413	0.372	0.305	0.315	0.302	0.26	0.175
Adjusted R squared	0.301	0.286	0.21	0.215	.225	0.178	0.124
*without outliers: Costa Rica 40.55%, Honduras 27.67 %, Nicaragua 35.26% of IFF Outflows 2015							
Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. b: Predictors (Constant) Independent Variables							

3.6.2 First Level Indirect Impact

We now turn to the second part of our analysis, in which we test the First Level Indirect Impact of tax abuse on economic and social rights, namely the impact of the labor share of income, the progressiveness of the tax system and government revenue on economic inequality and social expenditure.

We show the results of our test on *H4: The lower are the returns to labor relative to capital, the greater is income inequality, all else constant* in Table 10 and Table 11 below. We fail to reject the null hypothesis and do not find a statistically significant relationship between inequality and relative poverty and the relative labor share of income, tested with both the GINI Coefficient and the Income Share of the Bottom 40%, although the signs were always consistent with our alternative hypothesis.

Neither resource dependency nor the size of the industry sector added statistically significantly to the predictions. In contrast to what we expected, the sign of the estimated coefficient on the share of industry in GDP suggests inequality falls as industry's share increases. The signs on our resource dependency variable are inconsistent, but nowhere near significance. GPD per capita and GDP per capita growth were not significant. While GDP per capita has no impact on our dependent variables, the signs of our GDP per capita growth variable were as expected, suggesting that growth aggravates inequality and relative poverty. GDP per capita's square, to account for a Kuznet effect only showed the expected positive impact in one of our regressions, using the bottom 40% share of income distribution.

Our corruption variable is consistent with our expectation that corruption increases inequality, but is only significant in some of the regressions with the income share held by the bottom 40% of population. Both the levels of democracy and the state of civil and political rights are not significant in our regressions. The signs for Democracy are inverted proposing an adverse impact on inequality and relative poverty. Our analysis was however severely hampered by a lack of data. Bringing in tax abuse data, reduces our sample size to 15 observations.

When testing for the direct impact of tax abuse in the regressions for Hypothesis 4, we uncover that tax abuse has a direct, statistically significant effect on the poorest 40% at $p < 0.05$. However, a one-unit increase of IFFs leads to a 0.605 increase in the income share held by the bottom 40% income holders of the population. This effect was not significant using the GINI coefficient as a dependent variable.

Table 10 Regressions Hypothesis 4

H4: **The lower are the returns to labor relative to capital, the greater is income inequality, all else constant.**							
	GINI	**Bottom 40%**	**Bottom 40%**	**Bottom 40%**	**Bottom 40%**	**GINI**	**GINI**
	H4.1	H4.2	H4.3	H4.4.	H4.5	H4.6	H4.7
Constant	47.016	14.988	22.31	16.97	19.42	38.65	43.199
	(20.258)	(7.716)	(6.611)	(7.706)	(7.419)	(19.299)	(20.171)
	[0.026]	[0.060]	[0.002]	[0.035]	[0.013]	[0.053]	[0.039]
IFFS Outflows % GDP							
Labor Share % GDP	-0.274	0.109	0.025	0.068	0.021	-0.081	-0.179
	(0.220)	(0.088)	(0.061)	(0.069)	(0.059)	(0.152)	(0.176)
	[0.221]	[0.222]	[0.684]	[0.336]	[0.726]	[0.598]	[0.317]
Resource Rent % of GDP	-0.061	-0.012					
	(0.383)	(0.147)					
	[0.874]	[0.931]					
Industry Share % GDP	-0.216	0.134		0.112	0.042	-0.053	-0.191
	(0.239)	(0.088)		(0.088)	(0.07)	(0.182)	(0.234)
	[0.372]	[0.136]		[0.211]	[0.549]	[0.774]	[0.419]
GDP per capita	0	0	0	0			0
	(0)	(0)	(0)	(0)			(0)
	[0.221]	[0.081]	[0.356]	[0.158]			[0.297]
GDP per capita squared	-5.08E-09	2.547E-09	0	1.923E-09			-4.1E-09
	(0)	(0)	(0)	(0)			(0)
	[0.176]	[0.0818]	[0.354]	[0.157]			[0.237]
GDP per capita growth	0.095	-0.194	-0.019	-0.213			0.198
	(0.894)	(0.336)	(0.293)	(0.3280			(0.858)
	[0.915]	[0.566]	[0.949]	[0.522]			[0.818]
Corruption	-0.139	0.093	0.068	0.081	0.046	-0.07	-0.12
	(0.151)	(0.056)	(0.053)	(0.054)	(0.037)	(0.093)	(0.143)
	[0.363]	[0.108]	[0.211]	[0.144]	[0.217]	[0.453]	[0.408]
Democracy	0.333	-0.311	-0.457	-0.308	-0.397	0.372	0.271
	(1.132)	(0.433)	(0.431)	(0.445)	(0.435)	(1.12)	(1.151)
	[0.770]	[0.477]	[0.297]	[0.495]	[0.367]	[0.741]	[0.815]
Civil and Political Rights	1.474	-0.792	-0.886	-0.809	-0.655	1.101	1.399
	(2.152)	(0.824)	(0.811)	(0.813)	(0.796)	(2.066)	(2.123)
	[0.498]	[0.343]	[0.282]	[0.327]	[0.416]	[0.597]	[0.514]
F Statistics	0.824	1.333	1.212	1.307	1.693	1.063	0.829
	[.598][b]	[.258][b]	[.322][b]	[.273][b]	[.160][b]	[.397][b]	[.583][b]
N	43	43	44	43	43	43	43
R squared	0.183	0.266	0.191	0.235	0.186	0.126	0.163
Adjusted R squared	-0.038	0.066	0.033	0.055	0.076	0.007	-0.034
Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. b: Predictors (Constant) Independent Variables							

Table 11 Regressions Hypothesis 4 continued

H4: **The lower are the returns to labor relative to capital, the greater is income inequality, all else constant.**								
	GINI	**Bottom 40%**	**GINI**	**Bottom 40%**	**Bottom 40%**	**GINI**	**Bottom 40%**	**Bottom 40%**
	H4.8	H4.9	H4.10	H4.11	H4.12	H4.13	H4.14	H4.15
Constant	51.661	10.89	34.95	22.818	22.288	48.358	7.092	14.399
	(10.254)	(3.979)	(18.153)	(7.062)	(6.581)	(42.737)	(14.120)	(16.34)
	[0]	[0.009]	[0.062]	[0.003]	[0.002]	[0.301]	[0.636]	[0.401]
IFFS Outflows % GDP						-0.804	0.710	0.469
						(0.470)	(0.200)	(0.315)
						[0.137]	[0.0164]	[0.17]
Labor Share % GDP	-0.194	0.082	-0.118	0.015	0.002	-0.823	0.384	0.063
	(0.164)	(0.065)	(0.185)	(0.075)	(0.068)	(0.384)	(0.120)	(0.147)
	[0.245]	[0.218]	[0.527]	[0.841]	[0.974]	[0.075]	[0.023]	[0.68]
Resource Rent % of GDP			-0.028	-0.032	-0.011	-0.398	0.117	
			(0.353)	(0.139)	(0.131)	(0.350)	(0.115)	
			[0.937]	[0.821]	[0.932]	[0.298]	[0.357]	
Industry Share % GDP	-0.15	0.09				-0.665	0.461	-0.007
	(0.195)	(0.075)				(0.775)	(0.256)	(0.338)
	[0.446]	[0.236]				[0.423]	[0.131]	[0.985]
GDP per capita	0	0	0	0		0.002	-0.001	0
	(0)	(0)	(0)	(0)		(0.001)	(0)	(0)
	[0.342]	[0.206]	[0.482]	[0.349]		[0.094]	[0.021]	[0.602]
GDP per capita squared	-3.35E-09	1.527E-09	-2.63E-09	1.112E-09		-6.92E-08	3.66E-08	7.784E-09
	(0)	(0)	(0)	(0)		(0)	(0)	(0)
	[0.282]	[0.209]	[0.379]	[0.35]		[0.115]	[0.026]	[0.653]
GDP per capita growth			-0.13	-0.027		-1.811	1.219	
			(0.77)	(0.299)		(1.290)	(0.442)	
			[0.867]	[0.93]		[0.209]	[0.040]	
Corruption	-0.162	0.094	-0.094	0.072	0.045	0.627	-0.250	0.018
	(0.126)	(0.049)	(0.147)	(0.057)	(0.037)	(0.307)	(0.101)	(0.102)
	[0.208]	[0.06]	[0.525]	[0.215]	[0.24]	[0.087]	[0.055]	[0.86]
Democracy			0.49	-0.47	-0.461	-0.315	-0.086	
			(1.121)	(0.441)	(0.429)	(1.064)	(0.336)	
			[0.665]	[0.294]	[0.289]	[0.776]	[0.807]	
Civil and Political Rights			1.542	-0.852	-0.743	5.465	-2.534	
			(2.132)	(0.836)	(0.8)	(2.478)	(0.792)	
			[0.474]	[0.315]	[0.359]	[0.069]	[0.024]	
F Statistics	1.439	2.091	0.745	1.039	1.562	1.621	4.041	0.874
	[.233][b]	[.088][b]	[.652][b]	[.427][b]	[.194][b]	[.286][b]	[.068][b]	[.549][b]
N	44	44	44	44	44	17	16	16
R squared	0.159	0.216	0.145	0.192	0.17	0.729	0.889	0.368
Adjusted R squared	0.049	0.113	-0.05	0.007	0.061	0.279	0.669	-0.053
Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. b: Predictors (Constant) Independent Variables								

Tables 12 and 13 below show the regression results for the impact of the progressiveness of the tax system on income inequality, as measured both by the GINI Coefficient and by the share of GDP held by the Bottom 40% of Income Distribution (H5). More revenue from taxes on income, profits and capital gains makes the tax system more progressive. In our regression we fail to reject the null hypothesis and find a reverse relationship instead: A less progressive tax system reduces income inequality. The statistically significant relationship, tested with both the GINI Coefficient and the income share held by the bottom 40% passes all robustness checks. We may interpret this finding, as causality running the opposite way: When economic inequality and relative poverty are high, states may invest in a more progressive tax system to combat these shortfalls of development.

Both the results for share of industry in GDP and resource dependency were not statistically relevant and the suggested impacts flipped across the regression variations. We hypothesized that an increase in GDP per capita and a decrease of its square would have a negative impact on inequality and relative poverty. But GDP per capital does not have an impact at all and GDP per capita squared suggests an unexpected positive impact on inequality and relative poverty, although never statistically significant across the regressions. The sign on the GDP per capita growth variable aligns with this suggestion, but is also far from being significant in all our regressions.

Including our IFFs variable in the model, shows a moderate, negative relationship, of tax abuse on the income share held by the bottom 40 percent, statistically significant at $p< 0.1$. Regressions with the GINI coefficient however, did not yield the same results. This suggests that, tax abuse disproportionally affects the poorest.

Table 12 Regressions Hypothesis 5

H5: The less progressive is the tax system, the higher is income inequality, all else constant.								
	GINI	**Bottom 40%**	**GINI**	**Bottom 40%**	**GINI**	**GINI**	**Bottom 40%**	**Bottom 20%**
	H5.1	H5.2	H5.3	H5.4	H5.5	H5.6*	H5.7*	H5.8*
Constant	36.895	16.176	41.999	15.525	45.554	42.479	15.057	5.848
	(8.415)	(3.835)	(9.382)	(4.558)	(10.306)	(9.332)	(4.533)	(2.26)
	[0]	[0]	[0]	[0.001]	[0]	[0]	[0.002]	[0.012]
IFFS Outflows % GDP								
Taxes on income, profits and capital gains (% of revenue)	.223	-.078	0.219	-0.096	0.256	0.228	-0.101	-0.049
	(0.077)	(0.034)	(0.078)	(0.036)	(0.085)	(0.077)	(0.036)	(0.019)
	[0.005]	[0.023]	[0.007]	[0.011]	[0.004]	[0.004]	[0.007]	[0.013]
Resource Rent % of GDP	-.135	.035	0.245	-0.152				
	(0.143)	(0.062)	(0.31)	(0.154)				
	[0.348]	[0.581]	[0.434]	[0.327]				
Industry Share % GDP	.091	-.034						
	(0.144)	(0.061)						
	[0.529]	[0.573]						
GDP per capita	-.001	.000	0	0	0	0	0	6.498E-05
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
	[0.009]	[0.009]	[0.024]	[0.107]	[0.052]	[0.014]	[0.076]	[0.166]
GDP per capita squared	3.035E-9	-1.602E-9	2.533E-09	-8.53E-10	2.123E-09	2.796E-09	-9.82E-10	-3.16E-10
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
	[0.1760	[0.101]	[0.211]	[0.382]	[0.333]	[0.161]	[0.311]	[0.51]
GDP per capita growth	-.091	.001	0.589	-0.12	0.321	0.589	-0.143	-0.09
	(0.540)	(0.232)	(0.578)	(0.28)	(0.634)	(0.576)	(0.279)	(0.137)
	[0.866]	[0.995]	[0.313]	[0.669]	[0.615]	[0.311]	[0.611]	[0.514]
Corruption	.074	-.006	0.004	0.031	-0.036	0.008	0.031	0.013
	(0.093)	(0.041)	(0.095)	(0.045)	(0.104)	(0.094)	(0.045)	(0.022)
	[0.424]	[0.880]	[0.966]	[0.486]	[0.728]	[0.932]	[0.496]	[0.569]
Democracy	.094	-.011	-0.051	-0.065	-0.137	-0.084	-0.033	-0.035
	(0.362)	(0.165)	(0.422)	(0.205)	(0.464)	(0.419)	(0.202)	(0.1)
	[0.796]	[0.945]	[0.904]	[0.753]	[0.769]	[0.841]	[0.87]	[0.73]
Civil and Political Rights	-.908	.653	-1.778	0.801	-2.001	-1.616	0.748	0.374
	(1.208)	(0.558)	(1.431)	(0.699)	(1.561)	(1.412)	(0.697)	(0.344)
	[0.455]	[0.245]	[0.219]	[0.257]	[0.205]	[0.257]	[0.288]	[0.282]
F Statistics	3.039	2.793	3.961	3.146	3.61	4.467	3.456	2.798
	[.003]^{b}	[.007]^{b}	[.001]^{b}	[.005]^{b}	[.003]^{b}	[.001]^{b}	[.004]^{b}	[.015]^{b}
N	93	90	65	63	66	65	63	62
R squared	0.247	0.239	0.361	0.318	0.303	0.354	0.306	0.266
Adjusted R squared	0.166	0.153	0.27	0.217	0.219	0.275	0.217	0.171
* Without outlier Spain								
Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. b: Predictors (Constant) Independent Variables								

Table 13 Regressions Hypothesis 5 continued

H5: The less progressive is the tax system, the higher is income inequality, all else constant.									
	GINI	**Bottom 40%**	**GINI**	**Bottom 40%**	**GINI**	**Bottom 40%**	**GINI**	**Bottom 40%**	**Bottom 40%**
	H5.9*	H5.10*	H5.11	H5.12	H5.13*	H5.14*	H5.15*	H5.15*	H5.17*
Constant	38.864	15.79	22.296	23.818	21.24	25.589	19.069	25.936	24.85
	(10.165)	(4.922)	(10.079)	(5.104)	(14.988)	(7.315)	(5.815)	(2.92)	(2.528)
	[0]	[0.002]	[.031]	[0]	[0.167]	[0.002]	[0.002]	[0]	[0]
IFFS Outflows % GDP			.283	-.126	0.241	-0.114	0.256	-0.126	-0.122
			(0.136)	(0.066)	(0.154)	(0.075)	(0.143)	(0.07)	(0.069)
			[0.041]	[0.064]	[0.129]	[0.14]	[0.082]	[0.079]	[0.086]
Taxes on income, profits and capital gains (% of revenue)	0.235	-0.102	.234	-.070	0.326	-0.132	0.321	-0.127	-0.131
	(0.082)	(0.038)	(0.097)	(0.050)	(0.129)	(0.067)	(0.115)	(0.061)	(0.06)
	[0.006]	[0.009]	[0.020]	[0.164]	[0.017]	[0.06]	[0.009]	[0.044]	[0.037]
Resource Rent % of GDP			.073	-.053					
			(0.225)	(0.107)					
			[0.748]	[0.620]					
Industry Share % GDP	0.087	0.02	.040	-.079	-0.046	0.054			
	(0.165)	(0.077)	(0.204)	(0.091)	(0.315)	(0.148)			
	[0.598]	[0.793]	[0.844]	[0.390]	[0.886]	[0.718]			
GDP per capita	-0.001	0	.000	5.769E-5	0.001	0	0.001	0	
	(0)	(0)	(0.001)	(0)	(0.001)	(0)	(0.001)	(0)	
	[0.017]	[0.128]	[0.726]	[0.861]	[0.482]	[0.491]	[0.373]	[0.454]	
GDP per capita squared	3.432E-09	-9.44E-10	-1.953E-8	3.428E-9	-2.84E-08	1.177E-08	-2.91E-08	1.164E-08	2.656E-09
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
	[0.139]	[0.391]	[0.424]	[0.781]	[0.316]	[0.401]	[0.234]	[0.357]	[0.495]
GDP per capita growth	0.401	-0.155	-.085	.008	-0.093	0.056			
	(0.653)	(0.312)	(0.592)	(0.280)	(0.875)	(0.423)			
	[0.541]	[0.621]	[0.887]	[0.977]	[0.916]	[0.896]			
Corruption	0.032	0.025	.234	-.081	0.211	-0.085	0.234	-0.095	-0.099
	(0.099)	(0.047)	(0.117)	(0.059)	(0.152)	(0.072)	(0.117)	(0.057)	(0.056)
	[0.749]	[0.587]	[0.051]	[0.172]	[0.176]	[0.25]	[0.054]	[0.104]	[0.09]
Democracy	0.008	-0.086	.167	-.083	0.118	-0.159			
	(0.434)	(0.209)	(0.391)	(0.193)	(0.524)	(0.255)			
	[0.986]	[0.681]	[0.671]	[0.670]	[0.823]	[0.538]			
Civil and Political Rights	-1.37	0.558	-.406	.374	-0.139	-0.152			
	(1.46)	(0.718)	(1.321)	(0.667)	(1.928)	(0.958)			
	[0.352]	[0.441]	[0.760]	[0.577]	[0.943]	[0.875]			
F Statistics	3.883	3.025	2.219	1.600	1.924	1.444	3.811	2.609	3.16
	[.001][b]	[.007][b]	[.030][b]	[.134][b]	[.088][b]	[.221][b]	[.008][b]	[.045][b]	[.027][b]
N	63	61	65	61	39	36	39	36	36
R squared	0.365	0.318	0.291	0.242	0.374	0.333	0.366	0.303	0.29
Adjusted R squared	0.271	0.213	0.160	0.090	0.18	0.102	0.27	0.187	0.198
* Without outlier Spain									
Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. b: Predictors (Constant) Independent Variables									

In the regression models for hypothesis 6, we test the effect of the progressiveness of the tax system on social expenditure, as displayed in Table 14.

Table 14 Regressions Hypothesis 6

H6: The less progressive is the tax system, the lower is social spending, all else constant.							
	Social Expenditure % GDP						
	H6.1	H6.2	H6.3	H6.4	H6.5	H6.7	H6.8
Constant	7.957	6.743	6.982	7.524	6.088	6.951	6.382
	(3.466)	(3.018)	(3.34)	(3.148)	(3.841)	(3.606)	(3.572)
	[.029]	[0.033]	[0.045]	[0.023]	[.126]	[0.065]	[0.085]
IFFS Outflows % GDP					.092	0.03	0.021
					(.057)	(0.031)	(0.03)
					[.121]	[0.342]	[0.48]
Taxes on income, profits and capital gains (% of revenue)	-.087	-0.085	-0.086	-0.078	-.081	-0.069	-0.08
	(.041)	(0.037)	(0.039)	(0.038)	(.043)	(0.042)	(0.041)
	[.041]	[0.03]	[0.035]	[0.049]	[.073]	[0.113]	[0.061]
Resource Rent % of GDP	-.055			-0.064	-.032	-0.082	
	(.076)			(0.071)	(.084)	(0.078)	
	[.475]			[0.374]	[.709]	[0.302]	
Industry Share % GDP	.009		0.001		.038		
	(.059)		(0.053)		(.072)		
	[.880]		[0.983]		[.607]		
GDP per capita	-3.175E-5	-1.41E-05	-1.39E-05	-5.7E-05	-5.979E-5	-6.33E-05	-1.2E-05
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
	[.749]	[0.863]	[0.876]	[0.549]	[.613]	[0.548]	[0.898]
GDP per capita squared	1.184E-10	8.58E-11	9.88E-11	3.18E-10	3.333E-10	3.96E-10	1.2E-10
	(0)	(0)	(0)	(0)	(0)	(0)	(0)
	[.854]	[0.873]	[0.864]	[0.596]	[.683]	[0.566]	[0.85]
GDP per capita growth	-.291	-0.177	-0.167	-0.184	-.305	-0.139	-0.133
	(.275)	(0.235)	(0.251)	(0.236)	(.304)	(0.26)	(0.261)
	[.300]	[0.457]	[0.511]	[0.442]	[.325]	[0.597]	[0.614]
Corruption	.090	0.087	0.081	0.1	.073	0.09	0.072
	(.054)	(0.048)	(0.053)	(0.05)	(.061)	(0.059)	(0.057)
	[.110]	[0.079]	[0.136]	[0.055]	[.247]	[0.143]	[0.217]
Democracy	.028	0.117	0.118	0.044	.138	0.089	0.164
	(.170)	(0.138)	(0.145)	(0.16)	(.200)	(0.175)	(0.16)
	[.872]	[0.4]	[0.422]	[0.784]	[.498]	[0.616]	[0.317]
Civil and Political Rights	-.368	-0.334	-0.358	-0.41	-.259	-0.337	-0.284
	(.505)	(0.483)	(0.507)	(0.492)	(.534)	(0.537)	(0.536)
	[.473]	[0.495]	[0.486]	[0.411]	[.632]	[0.536]	[0.6]
F Statistics	2.856	4.269	2.985	3.815	2.231	2.191	2.318
	[.016][b]	[.002][b]	[.014][b]	[.003][b]	[.052][b]	[.057][b]	[.049][b]
N	38	39	38	39	35	36	36
R squared	.479	0.491	0.452	0.504	.482	0.431	0.407
Adjusted R squared	.311	0.376	0.3	0.372	.266	0.235	0.231
Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. b: Predictors (Constant) Independent Variables							

Contrary to what we hypothesized, an increase in revenue from taxes on income, profit and capital gains has a statistically significant, negative impact on social spending. This may reflect policy choices of governments prioritizing rights fulfillment via empowerment rather than entitlement. In a more progressive tax system, it may be easier for people to claim economic and social rights in the market place, hence less social spending may be needed to claim rights enjoyment via entitlements in the form of public services.

When controlling for the influence of resource dependency and the size of the industrial sector we do not find statistically significant relationships. The negative signs of resource dependency are aligned with our expectations. Neither our growth nor level of development variables yielded anywhere nearly statistically significant results, and indicate they have no impact on social expenditures as a share of GDP. Again, neither of our governance variables is nearly significant, but they all suggest the anticipated positive impacts on social spending. The sign on our corruption variable implies that corruption reduces social spending as expected and is often significant at the 10% level.

In the last step of the First Level Indirect Impact analysis, we turn to testing hypothesis 7. Table 15 below tests for the impact of tax revenues on social spending.

Table 15 Regressions Hypothesis 7

H7: The lower are tax revenues, the lower is social spending, all else constant						
	Social Expenditure % GDP					
	H7.1	H7.2	H7.3	H7.4	H7.5	H7.6
Constant	1.508	1.512	1.057	-.302	-.743	.761
	(3.251)	(3.195)	(1.636)	(1.272)	(3.460)	(1.610)
	[.646]	[.640]	[.523]	[.813]	[.832]	[.640]
IFFS Outflows % GDP					.047	.028
					(.047)	(.041)
					[.330]	[.499]
Government Revenue % of GDP	.194	.195	.194	.186	.224	.223
	(.044)	(.043)	(.041)	(.043)	(.052)	(.047)
	[0]	[0]	[0]	[0]	[0]	[0]
Resource Rent % of GDP	-.077	-.078	-.081		-.072	-.103
	(.061)	(.060)	(.049)		(.065)	(.054)
	[.219]	[.207]	[.109]		[.280]	[.065]
Industry Share % GDP	-.054	-.057	-.061		-.047	-.076
	(.049)	(.044)	(.038)		(.059)	(.043)
	[.273]	[.199]	[.122]		[.434]	[.090]
GDP per capita	.000	.000	.000	.000	.000	.000
	(0)	(0)	(0)	(0)	(0)	(0)
	[.031]	[.027]	[.040]	[.092]	[.020]	[.016]
GDP per capita squared	1.001E-9	1.019E-9	8.288E-10	4.489E-10	1.429E-9	1.258E-9
	(0)	(0)	(0)	(0)	(0)	(0)
	[.067]	[.051]	[.102]	[.343]	[.041]	[.039]
GDP per capita growth	-.031			.118	.048	.155
	(.217)			(.032)	(.235)	(.034)
	[.887]			[.001]	[.839]	[0]
Corruption	.133	.133	.140		.132	
	(.046)	(.045)	(.034)		(.051)	
	[.007]	[.006]	[0]		[.017]	
Democracy	.040	.042			.147	
	(.135)	(.132)			(.158)	
	[0.767]	[.751]			[.362]	
Civil and Political Rights	-.099	-.110			.079	
	(.422)	(.408)			(.439)	
	[.816]	[.790]			[.859]	
F Statistics	5.611	6.53094	8.03793	10.377	4.739	7.165
	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.001][b]	[.000][b]
N	38	38	39	41	35	35
R squared	.643	.643	.601	.536	.664	.650
Adjusted R squared	.529	.545	.526	.484	.524	.559
Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. b: Predictors (Constant) Independent Variables.						

We reveal a consistently moderate positive impact of government revenue on social spending that is statistically significant at 5% or lower in all our regressions. We can therefore reject the null hypothesis and accept our alternative hypothesis that the lower are tax revenues, the lower is social spending, all else constant. The estimated coefficient indicates that a 1 percentage point increase in government revenue as a % of GDP induces a 0.2 percentage point increase in social expenditures as a % of GDP.

Even though not significant the signs on our resource dependency and industry share variables show a negative effect on social spending. We had anticipated this relationship for resource rents as % of GDP. We anticipated a positive impact of GDP per capita in our model, and find a statistically significant positive impact. However, the estimated value of the coefficient is effectively zero and hence GDP per capita does not substantively impact social spending. The signs for GDP per capita growth are inconsistent and flip across our regressions. We had not determined a prior relationship for this effect.

Again, our variables for Democracy and Civil and Political Rights are not significant, but Corruption is. We find a moderate positive impact on social spending, significant at 5% or better across our regressions. The result confirms our anticipations that a decrease in perceived corruption leads to an increase in social spending. This observation is consistent with the literature claiming that corruption undermines a government’s ability to realize their ESR obligations. The signs on our Civil and Political Rights variable have not been consistent across our regressions.

We could not identify a direct relationship with tax abuse. Although the estimated coefficient is slightly positive, it is far from statistically significant.

In a nutshell, testing the relationships set out for our First Level of Indirect Impact analysis, turned out to be challenging. We fail to prove a link between the labor's share in income and inequality and relative poverty. We also find that causality between the progressiveness of the tax system and inequality and relative poverty as well as social expenditure may run the opposite way. Confronted with high levels of inequality and relative poverty, governments may turn to more progressive tax policies. Likewise, progressive tax systems seem to reduce the need for social expenditure. Although the analysis of tax abuse on inequality and relative poverty was hampered by the lack of data, our results suggest that the poor are worse affected by tax abuse - we see a direct negative impact of IFFs on the income share of the bottom 40%. We do, however, find evidence that government revenue and social spending are positively related. Specifically, we find that when government revenue is increased by one percent of GDP, social spending rises by 0.2 percent of GDP.

3.6.3 Second Level Indirect Impact

In the third part of our analysis – investigating the Second Level Indirect Impact of tax abuse, we test hypotheses 8 and 9 that income inequality and relative poverty (H.8) and social spending (H.9) influence the ability to claim ESR, the former via the market, the latter via entitlement. We run our regression interchangeably with both the SERF Index and the HDI as dependent variables. The results are shown in the tables 16-20 below.

Hypothesis 8 focuses on the empowerment dimension of rights fulfillment. Although initially swamped by the correlation with the GII, we find a statistically significant relationship between the GINI Coefficient and the SERF Index, confirming our expectation that economic inequality dampens rights fulfillment. The same can be said for the HDI. The relationship with the income share of the bottom 40% of the population, was less clear. The signs of the impact change along our regressions and we can only identify a significant, positive relationship on the SERF Index, when controlling for social expenditure and anticipating testing our hypothesis 9. The positive link between the income share of the bottom 40% and the HDI is clearer than that with the SERF Index. Inequality has a smaller, negative impact on the HDI, but the relationship remains statistically significant across our regressions. Hence, we can reject the null hypothesis 8.

Economic growth does not appear to influence the SERF Index, but in several runs exhibited a positive and statistically significant relationship with the HDI. GDP per capita has a positive and statistically significant impact on both the SERF index and the HDI, but the size of the estimated coefficient is so small as to be substantively insignificant.

Taking a closer look at our governance variables, we fail to find a significant relationship between Corruption and either the SERF index or the HDI. The estimated coefficient on our Democracy variable is positive indicating greater ESR enjoyment and fulfillment in more democratic countries although it is only statistically significant when the SERF index is the dependent variable. Turing to the state of civil liberties and political rights, we again see an odd negative relationship with the SERF (greater civil and political liberties associated with a lower SERF Index), but a positive

correlation with the HDI. We see this pattern repeated in the regressions run for hypothesis 9. Neither of these trends is generally statistically significant.

The number of years since a country ratified the ISCESR does not statistically significantly add to the results and its impact, although small, is not always positive.

Our results fail to identify a direct impact of illicit financial flows on rights fulfillment. We also excluded the variable for gender equality in our analysis because it is highly correlated with both the SERF Index and the Human Development Index and swamps the effect of inequality and relative poverty.

Table 16 Regressions Hypothesis 8

H8: The higher is income inequality, the lower is ESR fulfillment, all else constant									
	SERF Index								
	H8.1	**H8.2**	**H8.3**	**H8.4**	**H8.5**	**H8.6**	**H8.7**	**H8.9**	**H8.10**
Constant	92.977	94.326	71.873	50.994	53.360	94.395	103.171	42.972	73.720
	(11.534)	(16.010)	(7.494)	(7.796)	(7.283)	(12.765)	(17.5150	(7.654)	(7.672)
	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]
IFFS Outflows % GDP									
GINI Coefficient	.085		-.358			.063			-.420
	(.153)		(.168)			(.172)			(.171)
	[.580]		[.037]			[.718]			[.018]
Income Share of the Bottom 40%		-.182		.514	.528		-.407	.712	
		(.360)		(.333)	(.332)		(.396)	(.345)	
		[.615]		[.129]	[.118]		[.312]	[.045]	
Social Expenditure % GDP						.333	.513	1.720	1.473
						(.494)	(.482)	(.520)	(.543)
						[.503]	[.294]	[.002]	[.009]
Net ODA % GNI	.133	.172	.382	.351		.037	.095		
	(.270)	(.264)	(.341)	(.314)		(.268)	(.251)		
	[.625]	[.518]	[.267]	[.268]		[.892]	[.707]		
GDP per capita	.000	.001	.001	.002	.001	.000	.001	.001	.001
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
	[.144]	[.038]	[0]	[0]	[0]	[.230]	[.117]	[0]	[0]
GDP per capita growth	.081	-.047				-.064	-.136		
	(.618)	(.616)				(.626)	(.586)		
	[.896]	[.940]				[.919]	[.817]		
Gender Inequality Index	-64.921	-57.036				-71.081	-67.730		
	(10.748)	(11.124)				(12.372)	(12.633)		
	[0]	[0]				[0]	[0]		
Corruption	-.119	-.099	-.006	-.018	.004	-.076	-.068	-.070	-.118
	(.125)	(.128)	(.134)	(.128)	(.126)	(.130)	(.121)	(.127)	(.137)
	[.347]	[.445]	[.967]	[.886]	[.977]	[.560]	[.578]	[.585]	[.394]
Democracy	.741	.668	.742	0.637	.560	.742	.680	.186	.317
	(.375)	(.379)	(.305)	(0.281)	(.271)	(.406)	(.393)	(.291)	(.313)
	[.054]	[.086]	[.018]	[.027]	[.044]	[.075]	[.093]	[.525]	[.316]
Civil and Political Rights	.496	.698	.637			.969	.827		
	(1.326)	(1.376)	(.281)			(1.382)	(1.354)		
	[.710]	[.614]	[.028]			[.488]	[.545]		
Commitment to ESCR	.073	.075				.014	-.053		
	(.084)	(.099)				(.090)	(.100)		
	[.385]	[.452]				[.877]	[.600]		
F Statistics	14.958	13.705	12.198	13.614	17.266	13.818	14.515	16.673	14.591
	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]
N	57	52	63	57	57		45	51	55
R squared	0.741	0.746	0.517	0.572	0.566	0.784	0.810	0.649	0.598
Adjusted R squared	0.692	0.692	0.475	0.530	0.533	0.728	0.754	0.610	0.557

Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. b: Predictors (Constant) Independent Variables. Regressions H8.6 and H8.9 are the base runs for testing Hypothesis 9 with the dependent variable SERF Index below.

Table 17 Regressions Hypothesis 8 continued

H8: The higher is income inequality, the lower is ESR fulfillment, all else constant								
	SERF Index		**HDI**					
	H8.11	**H8.12**	**H8.13**	**H8.14**	**H8.15**	**H8.16**	**H8.17**	**H8.19**
Constant	71.124	39.345	.701	.673	.648	.467	.614	.455
	(15.167)	(15.021)	(.062)	(.070)	(.064)	(.056)	(.075)	(.075)
	[0]	[.012]	[0]	[0]	[0]	[0]	[0]	[0]
IFFS Outflows % GDP	.125	.261					.000	.001
	(.171)	(.169)					(.001)	(.001)
	[.468]	[.129]					[.899]	[.362]
GINI Coefficient	-.374		-8.827E-6		-.002		-.002	
	(.186)		(.001)		(.001)		(.001)	
	[.050]		[.990]		[.007]		[.029]	
Income Share of the Bottom 40%		.629		.001		.004		.004
		(.384)		(.002)		(.002)		(.002)
		[.108]		[.756]		[.025]		[.043]
Social Expenditure % GDP								
Net ODA % GNI	.472	.396	-.002	-.002	-.002	-.002	-.006	-.007
	(.363)	(.328)	(.001)	(.001)	(.001)	(.001)	(.002)	(.002)
	[.199]	[.233]	[.013]	[.017]	[.004]	[.005]	[.001]	[0]
GDP per capita	.002	.002	9.556E-6	1.027E-5	1.535E-5	1.571E-5	1.281E-5	1.324E-5
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]
GDP per capita growth	.529	.404	.002	.002			.007	.007
	(.828)	(.760)	(.003)	(.003)			(.003)	(.003)
	[.526]	[.598]	[.582]	[.586]			[.043]	[.044]
Gender Inequality Index			-.411	-.394				
			(.058)	(.059)				
			[0]	[0]				
Corruption	-.053	-.031	.000	.000			.000	.000
	(.164)	(.157)	(.001)	(.001)			(.001)	.001
	[.746]	[.845]	[.647]	[.591]			[.739]	[.860]
Democracy	.737	.917	.004	.004	-8.144E-5	.000	.001	.001
	(.539)	(.513)	(.002)	(.002)	(.002)	(.003)	(.003)	(.003)
	[.177]	[.080]	[.057]	[.061]	[.972]	[.912]	[.779]	[.614]
Civil and Political Rights	-.440	.965	.003	.005	-.013	-.009	-.009	-.003
	(1.881)	(1.827)	(.007)	(.008)	(.008)	(.009)	(.009)	(.010)
	[.816]	[.600]	[.710]	[.535]	[.110]	[.325]	[.353]	[.722]
Commitment to ESCR	.051	.038	.001	.001	.001	.000	.001	.000
	(.108)	(.109)	(0)	(0)	(.001)	(.001)	(.001)	(.001)
	[.640]	[.727]	[.046]	[.073]	[.307]	[.491]	[.224]	[.401]
F Statistics	6.476	7.497	57.962	53.810	53.401	50.903	36.398	35.742
	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]
N	63	56	74	70	85	79	79	74
R squared	0.529	0.595	0.891	0.890	0.804	0.809	0.826	0.834
Adjusted R squared	0.447	0.515	0.875	0.873	0.789	0.793	0.803	0.811

Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. b: Predictors (Constant) Independent Variables

Table 18 Regressions Hypothesis 9

H9: The lower is social spending, the lower is ESR fulfillment, all else constant										
	SERF Index									
	H9.1	H9.2	H9.3	H9.4	H9.5	H9.6	H9.6	H9.7	H9.8	H9.9
Constant	64.504	42.169	69.404	68.799	39.436	73.266	45.192	48.694	43.888	56.345
	(12.629)	(7.785)	(6.887)	(12.862)	(14.649)	(6.684)	(7.881)	(9.793)	(7.823)	14.689
	[0]	[0]	[0]	[0]	[0.01]	[0]	[0]	[0]	[0]	[0]
IFFS Outflows % GDP										.289
										(0.167)
										[0.092]
GINI Coefficient	-0.418		-0.471	-0.43		-0.48				-.424
	(0.156)		(0.147)	(0.16)		(0.149)				(0.180)
	[0.01]		[0.002]	[0.01]		[0.002]				[0.023]
Income Share of the Bottom 40%		0.677			0.785		0.727	0.95	0.749	
		(0.33)			(0.369)		(0.342)	(0.424)	(0.339)	
		[0.045]			[0.039]		[0.038]	[0.029]	[0.032]	
Social Expenditure % GDP	1.557	0.81	0.912	1.444	0.892	1.251	0.892	1.523	0.685	1.066
	(0.481)	(0.35)	(0.391)	(0.493)	(0.42)	(0.457)	90.408)	(0.49)	(0.357)	(0.573)
	[0.002]	[0.025]	[0.023]	[0.005]	[0.039]	[0.008]	[0.034]	[0.003]	[0.061]	[0.070]
Net ODA % GNI						-0.235	-0.135	-0.901		.715
						(0.229)	(0.222)	(0.219)		(0.366)
						[0.309]	[0.547]	[0]		[0.058]
GDP per capita	0.003	0.003	0.002	0.001	0.001	0.001	0.001		0.001	.004
	(0.001)	(0.001)	(0.001)	(0)	(0)	(0)	(0)		(0)	(0.001)
	[0]	[0]	[0]	[0]	[0]	[0]	[0]			[0]
GDP per capita squared	-6.27E-08	-7.75E-08	-5.25E-08							-1.098E-7
	(0)		(0)							(0)
	[0.036]	[0.024]	[0.06]							[0.003]
GDP per capita growth	0.237	-0.214	0.126							.173
	(0.637)	(0.584)	(0.605)							(0.750)
	[0.711]	[0.715]	[0.836]							[0.819]
Corruption	-0.16			-0.126	-0.058					-.147
	(0.138)			(0.139)	(0.143)					(0.150)
	[0.25]			[0.368]	[0.685]					[0.335]
Democracy	0.476	0.1	0.436	0.631	0.57	0.506	0.302	0.25	0.351	.522
	(0.447)	(0.268)	(0.237)	(0.45)	(0.465)	(0.235)	(0.258)	(0.32)	(0.252)	(0.514)
	[0.292]	[0.711]	[0.071]	[0.167]	[0.226]	[0.035]	[0.246]	[0.438]	[0.17]	[0.316]
Civil and Political Rights	0.617			0.46	0.719					1.046
	(1.568)			(1.617)	(1.705)					(1.754)
	[0.696]			[0.777]	[0.675]					[0.554]
Commitment to ESR	0.043	0.026	0.05	0.069	0.072	0.058	0.033	0.113	0.055	-.021
	(0.095)	(0.098)	(0.089)	(0.097)	(0.11)	(0.089)	(0.101)	(0.124)	(0.099)	(0.099)
	[0.649]	[0.789]	[0.573]	[0.483]	[0.517]	[0.514]	[0.747]	[0.367]	[0.586]	[0.831]
F Statistics	9.749	12.518	12.624	10.968	9.996	13.671	12.606	5.827	15.396	8.414
	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]
N	61	58	64	61	56	63	57	58	58	53
R squared	0.632	0.637	0.612	0.592	0.593	0.594	0.602	0.359	0.597	0.692
Adjusted R squared	0.568	0.586	0.564	0.538	0.534	0.551	0.554	0.297	0.558	0.610

Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. B: Predictors (Constant) Independent Variables. Base run regressions for testing Hypothesis 9 with the dependent variable SERF Index are shown in Table 17.

Table 19 Regressions Hypothesis 9 continued

H9: The lower is social spending, the lower is ESR fulfillment, all else constant								
	SERF Index				**HDI**			
	H9.10	H9.11	H9.12	H9.13	H9.14	H9.15	H9.16	H9.17
Constant	29.947	71.833	36.391	78.8	0.467	.325	0.553	0.723
	14.621	(8.372)	(15.178)	(8.691)	(0.066)	(0.075)	(0.085)	(0.097)
	[0.048]	[0]	[0.021]	[0]	[0]	[0]	[0]	[0]
IFFS Outflows % GDP	.223	0.181	0.078	0.133				
	(0.165)	(0.171)	(0.097)	(0.205)				
	[0.186]	[0.297]	[0.423]	[0.521]				
GINI Coefficient		-0.451		-0.415	-0.002		-0.002	-0.001
		(0.175)		(0.201)	(0.001)		(0.001)	(0.001)
		[0.013]		[0.045]	[0.007]		[0.021]	[0.41]
Income Share of the Bottom 40%	.659		0.839			.004		
	(0.402)		(0.377)			(0.002)		
	[0.110]		[0.031]			[0.052]		
Social Expenditure % GDP	1.414	0.945	0.849	1.866	0.004	.007	0.004	0.001
	(0.570)	(0.522)	(0.425)	(0.585)	(0.003)	(0.003)	(0.003)	(0.004)
	[0.018]	[0.077]	[0.052]	[0.002]	[0.138]	[.025]	[0.233]	[0.781]
Net ODA % GNI	.613	-0.117		-0.823	-0.001	-.003	-0.002	
	(0.355)	(0.227)		(0.213)	(0.001)	(0.002)	(0.001)	
	[0.093]	[0.607]		[0]	[0.29]	[0.120]	[0.008]	
GDP per capita	.004	0.001	0.001		3.585E-05	3.365E-5	0.0000155	0.0000062
	(0.001)	(0)	(0)		(0)	(0)	(0)	(0)
	[0]	[0]	[0]		[0]	[0]	[0]	[0]
GDP per capita squared	-9.843E-8				-8.78E-10	-8.486E-10		
	(0)				(0)	(0)		
	[0]				[0]	[0]		
GDP per capita growth	-.014	0.501			0.005	.008		
	(0.725)	(0.703)			(0.002)	(0.004)		
	[0.985]	[0.480]			[0.042]	[.057]		
Corruption	-.088		-0.056		-0.001	-.001	0	-0.001
	(0.147)		(0.143)		(0.001)	(0.001)	(0.001)	(0.001)
	[0.556]		[0.699]		[0.417]	[0.417]	[0.814]	[0.585]
Democracy	.347	0.468	0.672	0.567	0.002	.001	0.003	-0.001
	(0.520)	(0.265)	(0.483)	(0.312)	(0.002)	(0.003)	(0.003)	(0.004)
	[0.508]	[0.084]	[0.171]	[0.075]	[0.421]	[.651]	[0.321]	[0.697]
Civil and Political Rights	.739		0.969		0	.002	-0.002	-0.031
	(1.804)		(1.739)		(0.008)	(0.009)	(0.01)	(0.012)
	[0.685]		[0.58]		[0.958]	[0.803]	[0.83]	[0.014]
Commitment to ESR	-.015	0.012	0.072	0.013	0.001	.001	0.001	0.001
	(0.103)	(0.099)	(0.11)	(0.118)	(0)	(0.001)	(0.001)	(0.001)
	[0.886]	[0.903]	[0.517]	[0.915]	[0.12]	[0.108]	[0.134]	[0.237]
F Statistics	8.348	9.149	8.764	5.621	52.6	44.984959	35.515	38.581
	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]
N	49	56	56	57	74	59	74	107
R squared	0.712	0.609	0.599	0.403	0.893	0.901774	0.814	0.732
Adjusted R squared	0.627	0.542	0.53	0.331	0.876	0.8817279	0.791	0.713
Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. B: Predictors (Constant) Independent Variables								

Table 20 Regressions Hypothesis 9 continued

H9: The lower is social spending, the lower is ESR fulfillment, all else constant								
	HDI							
	H9.18	H9.19	H9.20	H9.21	H9.22	H9.23	H9.24	H9.25
Constant	0.551	.474	.307	0.553	0.556	0.355	0.333	0.542
	(0.041)	(0.076)	.079	(0.041)	(0.047)	(0.048)	(0.094)	(0.093)
	[0]	[0]	[0]	[0]	[0]	[0]	[0.001]	[0]
IFFS Outflows % GDP		.001	.001	0	0.001	0.001	0.001	0
		(0.001)	(0.001)		(0.001)	(0.001)	(0.001)	(0.001)
		[0.289]	[0.451]	[0.685]	[0.54]	[0.37]	[0.622]	[0.887]
GINI Coefficient	-0.002	-.002		-0.002	-0.003			-0.002
	(0.001)	(0.001)		(0.001)	(0.001)			(0.001)
	[0.006]	[0.013]		[0.006]	[0.004]			[0.023]
Income Share of the Bottom 40%			.004			0.005	0.005	
			(0.002)			(0.002)	(0.002)	
			[0.038]			[0.012]	[0.025]	
Social Expenditure % GDP	0.004	.005	.006	0.004	0.006	0.008	0.009	0.008
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.004)	(0.004)
	[0.168]	[0.120]	[0.050]	[0.19]	[0.048]	[0.031]	[0.021]	[0.031]
Net ODA % GNI	-0.002	-.003	-.003	-0.003	-0.005	-0.005	-0.007	-0.007
	(0.001)	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)
	[0.003]	[0.147]	[0.140]	[0.003]	[0.001]	[0.001]	[0.001]	[0.001]
GDP per capita	1.546E-05	3.373E-5	3.430E-5	1.547E-05	1.397E-05	1.464E-05	1.478E-05	1.383E-05
	(0)	(0)	(0)	(0)	(0)	(0)		(0)
	[0]	[0]	[0]	[0]	[0]	[0]		[0]
GDP per capita squared		-7.935E-10	-8.570E-10					
		(0)	(0)					
		[0]	[0]					
GDP per capita growth		.009	.008		0.007	0.006	0.006	0.007
		(0.004)	(0.004)		(0.004)	(0.004)	(0.004)	(0.004)
		[0.032]	[0.059]		[0.056]	[0.109]	[0.106]	[0.065]
Corruption		-.001	-.001				-0.001	-0.001
		(0.001)	(0.001)				(0.001)	(0.001)
		[0.278]	[0.435]				[0.527]	[0.377]
Democracy		.002	.002		0.003	0.002	0.003	0.003
		(0.003)	(0.003)		(0.002)	(0.002)	(0.003)	(0.003)
		[0.534]	[0.595]		[0.101]	[0.392]	[0.33]	[0.368]
Civil and Political Rights	0.004	.002	.003	0.004			0.01	0.005
	(0.001)	(0.009)	(0.01)	(0.001)			(0.012)	(0.012)
	[0.019]	[0.791]	[0.740]	[0.018]	(0.001)		[0.427]	[0.662]
Commitment to ESR	0.001	.001	.001	0.001	0.001	0	0.001	0.001
	(0.001)	(0)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
	[0.18]	[0.181]	[0.159]	[0.194]	[0.207]	[0.545]	[0.275]	[0.126]
F Statistics	51.099	42.090	39.380	43.309	35.088	34.968	28.389	28.542
	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]	[.000][b]
N	74	62	59	78	66	62	53	62
R squared	0.812	0.902	0.902	0.812	0.831	0.841	0.855	0.848
Adjusted R squared	0.796	0.881	0.879	0.794	0.808	0.817	0.825	0.819
Notes: Standard Errors are reporting in parentheses, Statistical Significance in brackets. B: Predictors (Constant) Independent Variables								

Results for Hypothesis 9 are aligned with those presented for hypothesis 8 and confirm that both, social expenditure as well as inequality and relative poverty influence ESR fulfillment. Social expenditure matters more for rights fulfillment, but the magnitude of its impact is reduced when controlling for the income share of the bottom 40%, suggesting that the poorest benefit less from social spending. This result seems to suggest that social spending itself could be regressive, leading to relatively higher rights fulfillment of the economically better off, than for the population in the lowest income quartiles.

When substituting the SERF Index with the HDI the effect of inequality on rights enjoyment diminishes, but remains statistically significant. We can only establish a weak positive relationship with social spending by controlling for tax abuse in our model. This finding points to the methodological differences in the SERF Index and HDI, with the HDI only accounting for rights enjoyment, while the SERF takes into account the dimension of rights obligations. Social expenditure may be a key factor in realizing the obligation to progressively realize economic and social rights.

We find a statistically significant negative relationship with the level of ODA that is given to a country. At first sight, it seems as if in fact aid dependency negatively impacts rights enjoyment. However, as discussed above, we need to take into account that ODA is only given to countries with low per capita income. When controlling for GDP per capita, the effect vanishes.

As above, we must consider the relationship between the SERF Index and per capita income, which itself is a prominent indicator for human development. We find a weak, but positive relationship between the SERF Index and per capita GDP, indicating that as more resources become available, states are slightly more likely to invest more into fulfilling their ESR obligations. GDP per capita is highly correlated with the HDI, but the relationship with GDP per capita growth shows a similar, weak positive impact on the HDI.

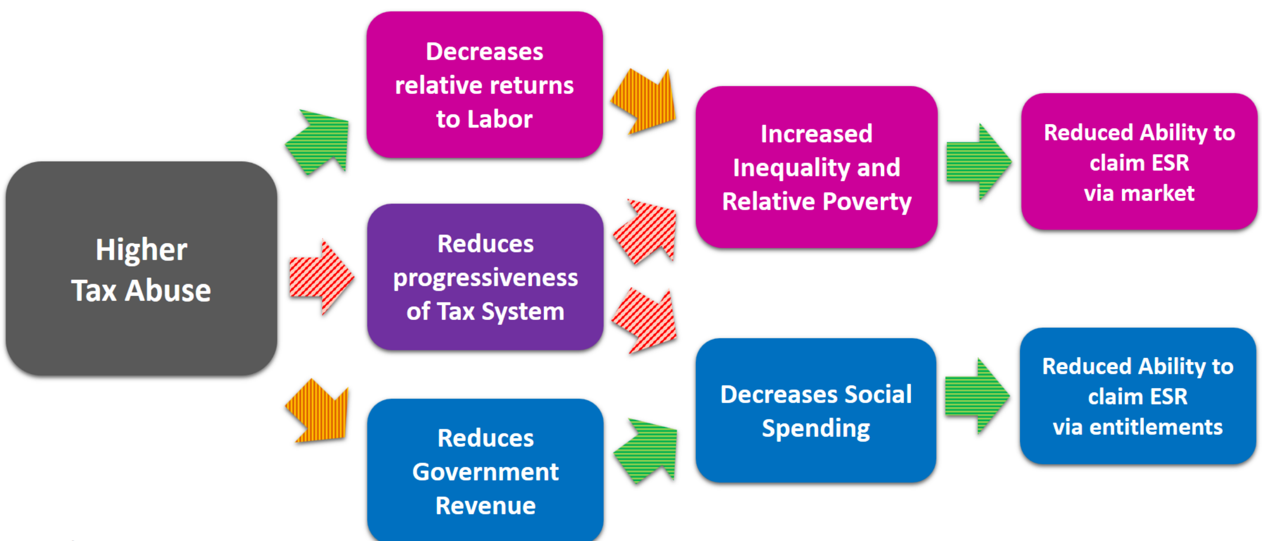
Our governance and corruption variables suggest similar trends as above. The state of civil and political rights is relevant in our HDI regressions, but its impact is minimal and flips across regressions. Corruption is not significant for the SERF Index but the positive impact of the level of democracy turns significant at 5% in some of our regressions. However, both the magnitude and significance of this relationship vanishes with the HDI. Again, we find an odd relationship of the state of civil and political rights, which suggest that more respect for civil and political rights reduces the enjoyment of economic and social rights measured by the SERF Index. Using the HDI as a dependent variable, we see the expected positive correlation, but the relationship is weak and not statistically significant. As above, the number of years since a country ratified the ISCESR is not significant and its impact minor.

Summing up, we find evidence for both dimensions of our Second Level Indirect Impact analysis. An increase in inequality and relative poverty diminishes the ability of people to claim the fulfillment of economic and social rights in the market place. The positive impact of social expenditure, or in other words, the provision of entitlements, on the fulfillment of economic and

social rights is stronger. Yet, social spending seems to be less effective in realizing rights for the bottom 40 % of the population.

3.7 Concluding Remarks

To conclude this Essay, let us go back to our theory that we have mapped out above. Figure 5 below shows in green, horizontally striped signs, the relationships for which we are able to reject the null hypothesis, in orange, vertically striped arrows, the ones we failed to reject but showed the expected relationships and in red, diagonally striped signs, the relationships that showed unexpected relationships, both statistically significant or not.



Legend:
Horizontally striped, green: statistically significant relationship
Vertically striped, orange: expected relationship, not statistically significant
Diagonal striped, red: unexpected relationship

Figure 5 The Relationships of the Impact of Tax Abuse on Economic and Social Rights

We found evidence for the negative impact of tax abuse on the relative returns to labor, as a proxy for increasing the returns on capital. However, we fail to prove the consecutive negative effect on

income inequality, which may be largely due to a lack of data on the income factor distribution. The need for better data to capture the state and impact of income inequality and the factor distribution of income on a global scale have widely been acknowledged (Suez and Zucman, 2016, Kelly and Witko, 2012).[197] The global effort to produce comprehensive indicators for the SDGs should facilitate further analysis in the future. The second level indirect impact of this first chain of our theory, the negative impact of inequality and relative poverty on rights fulfillment, is confirmed.

We could not determine a direct negative impact of tax abuse on the progressiveness of a country's tax system, although we expected a statistically significant impact of illicit financial flows on revenues from taxes on income, profits and capital gains. Instead we saw an unexpected positive impact, although not statistically significant. Likewise, we could not determine a statistically significant negative impact of the progressiveness of the tax system on either income inequality/relative poverty or social spending. Causality between the two may run the opposite way. Confronted with high levels of inequality and relative poverty, governments may turn to more progressive tax policies that in return reduce the need for social expenditure. Our results, that are statistically significant for both the effect on inequality/relative poverty and social expenditure, also seem to partly support the theory laid out by Rudra (2004) that social spending can be regressive by itself.

[197]Saez, E. Zucman, G., 2016, *Wealth Inequality in the United States since 1912: Evidence from Capitalized Income Tax Data*, Quarterly Journal of Economics Vol 131, Issue 2, pp. 519-678; and Kelly, N., Witko, C., 2012, *Federalism and American Inequality*, Journal of Politics 74:414-26.

Somewhat surprisingly, we could not establish evidence for the harmful impact of tax abuse on domestic resource mobilization. Although the second and third link in our theory – the First and Second Level Indirect Impact - stands: reduced government revenue decreases social spending, which decreases the ability to claim economic and social rights by entitlement. Again, we have to admit that our data and set of observations were far from ideal.

The Second Level Indirect Impact part of our analysis was the most conclusive and was also supported by the wealth of data and literature available. An increase in inequality and relative poverty diminishes the ability of people to claim the fulfillment of economic and social rights in the market place. But the impact of diminishing social expenditure, or in other words, the provision of entitlements, on the fulfillment of economic and social rights is stronger. Yet, the positive effect of social spending seems to be less robust in realizing ESR for the bottom 40 % of the population. The results seem to suggest that social spending itself could be regressive. But in the context of developing countries further research could unveil a correlation with increasingly rural-urban divides, as suggested by our Case Study on Mozambique.

When turning to our alternative dependent variable, the Human Development Index, the significance of social expenditure for rights fulfillment diminishes. Considering the obligations dimension of the SERF Index, we interpret this finding to confirm that social expenditure is a key instrument for states to realize their obligation to progressively realize economic and social rights.

The results for our explanatory variables throughout the stages of analysis were mixed and often inconclusive. We did not find consistent evidence for a Kuznets effect in our analysis that would

justify a temporary increase in inequality. GDP per capita growth suggested a positive impact on social spending, although not statistically significant. We therefore support the argument that political and social pressures influence the trend in inequality throughout the course of development. Finally, we uncover a weak, but positive relationship between the SERF Index and per capita GDP, indicating that as more resources become available, states are slightly more likely to invest more into fulfilling their ESR obligations.

Throughout the course of our analysis, we continued to test for the direct impact of tax abuse. When investigating the impact of the relative share of labor in income on inequality and relative poverty, we identified an unexpected direct positive impact of IFFs on inequality and relative poverty. But our sample size was not representative. Controlling for the progressiveness of the tax system, we also unearthed a direct impact of tax abuse on inequality and relative poverty. We found a statistically significant moderate, negative relationship, of tax abuse on the income share held by the bottom 40 percent, but could not establish the same evidence with the GINI Coefficient. This confirms our theory that tax abuse disproportionally affects the poorest, all else held constant.

The above-discussed challenges in tax data collection, including estimates of tax abuse as well as the systematic inconsistencies in global financial and trade statistics, seem to manifest in our analysis (Altstaedsaeter et al, 2017, Piketty, 2015, Fuest and Riedel, 2009). Another limitation of the tax abuse data available is that measurements assume that tax evasion and avoidance is the primary motivation for capital outflow, failing to adequately account for economic and political uncertainty, fiscal deficits, financial repression, devaluation and the threat of expropriation (Boyrie et al, 2005 in Fuest, Riedel 2009) – factors we could not account for in our analysis.

Our findings strongly support Fuest and Riedel (2009) that questioned how estimates of tax abuse are translated into tax revenue losses. Even though the magnitude of tax abuse is staggering, the amount of IFFs could not be directly converted into tax revenue losses that would have allowed us to show the expected negative impact on the progressiveness of tax systems. There is also a strong need for better data on the progressiveness of tax systems itself and consequently on its impact on economic and social development.

Finally, even though we have highlighted the special role of tax havens in global tax abuse in both Essay 1 and 2, with current data limitations we could not account for this factor in our empirical study. With more data becoming available, further research should take into account these considerations, especially in testing the impact of IFFs on government revenue.

4 Conclusion

Developing countries lose about USD 1 trillion to tax abuse each year and approximately eight percent of global financial household wealth is hidden in tax havens. Fifty percent of this offshore wealth is owned by the richest 0.01 percent of the global elite. Weak tax regimes and lack of accountability and rule of law facilitate cross-border tax avoidance and abuse committed by multinational corporations. Governments offer extensive tax exemptions causing a race to the bottom of effective corporate tax rates. Tax havens and secrecy jurisdictions enable tax abuse by deliberately hiding the beneficial owners of the illicit money stored offshore.

We determined three main channels through which tax abuse impacts the enjoyment of economic and social rights. First, large amounts of profits escaping taxation lead to the concentration of capital in the economy. Second, when corporations dodge taxes, the tax burden shifts to those who cannot escape taxation easily, and hence the tax system becomes more regressive. Third, tax abuse reduces government revenue.

By increasing the capital share of income and the making tax systems more regressive, tax abuse aggravates poverty and economic inequality and hence reduces the ability of the poor to claim their economic and social rights in the marketplace. Illicit financial flows from tax abuse represent forgone domestic revenues that could have been invested in public services for the realization of economic and social rights through the provision of entitlements.

Fiscal policy and with-it tax policy is subject to human rights obligations All core functions of fiscal policy – revenue generation, expenditure and accountability should strive to reduce poverty and inequality and fulfill economic and social rights. States ought to create an enabling environment for the progressive realization of economic and social rights without taking steps of deliberate retrogression. The right to non-discrimination demands that government prevent that some groups in society from being disproportionately affected by regressive tax policies. Corporate tax abuse shifts the tax burden to indirect consumption taxes, which disproportionally affect the poor and women that spend a higher share of their income on basic goods. Differential treatments in the form of tax exemptions for corporations should be proportional. Under the right to participation, fiscal policy should be accountable and foster democratic principles. Hence tax exemptions should be transparent. The obligation to use the maximum available resources for rights fulfillment, not only applies to social expenditure, but also applies to domestic revenue generation. Governments have positive obligation towards corporations they are in a position to control to prevent or prosecute tax abuse.

The special role of tax havens and secrecy jurisdictions in hiding eight percent of global household income illustrate the extraterritorial human rights obligations of all states. No state, acting alone, can prevent and prosecute tax avoidance and evasion, nor can it prevent capital flight by itself. States must refrain from undermining ESR through tax policy at home and abroad

In Essay 2 we tested the human rights framework we set up on a Case Study of Mozambique, one of the world's poorest countries that at the same time is one of the worst affected by tax abuse. Even though Mozambique enjoyed strong and stable economic growth in recent years, growth

failed to translate into social development. Tax abuse drained the society of economic resources for the fulfillment of economic and social rights. The Mozambican government has clear obligations to respect, protect, and fulfill the human rights of its citizens. Extensive tax cuts granted by the Mozambican government violate the obligation to protect ESR. The state has the obligation to protect its citizens from corporations avoiding or evading taxes in Mozambique and ought to fulfill ESR by continuously improving government accountability and committing to social expenditure programs.

International corporations are also duty bearers of human rights. While tax evasion is illegal, the duty to respect human rights of Mozambican citizens requires they also refrain from tax avoidance and deliberately undermining the populations ability to enjoy ESR. Finally, foreign governments, especially those of tax havens, have extraterritorial human rights obligations to refrain from undermining Mozambique’s sovereignty of tax collection. States that own shares in multinational corporations have a negative respect obligation to refrain from deliberately affecting resource mobilization abroad. Those governments in a position to control the actions of TNCs have a protect obligations towards citizens abroad to prevent and prosecute foreseeable tax abuse.

Increased cooperation by states in the international arena is needed to increase transparency in the financial sector and ensure that developing countries can obtain essential information to prevent tax abuse at home. The international community has a fulfill obligation to combat global tax abuse. International financial institutions also have a respect obligation to refrain from undermining domestic social expenditure through austerity measures.

While our case study clearly laid out the human rights obligations involved in global tax abuse and confirmed that developing countries are worst affected by the practice, we set out to test for empirical evidence of the impact of tax abuse on the fulfillment of economic and social rights in our third Essay. We found evidence for the negative impact of tax abuse on the relative returns to labor, as a proxy for increasing the returns on capital. We could not determine a direct negative impact of tax abuse on the progressiveness of a country's tax system, although we expected a statistically significant impact of illicit financial flows on revenues from taxes on income, profits and capital gains. Somewhat surprisingly, we also could not establish evidence for the harmful impact of tax abuse on domestic resource mobilization.

The second part of our regression analysis tested the consecutive indirect impacts of the three channels on economic inequality and relative poverty as well as on social expenditure. Although indicating the expected negative relationship, we fail to prove a statistically significant effect of a decrease in the relative share of labor in income on income inequality and relative poverty, which may be largely due to a lack of data on the income factor distribution.

Likewise, we could not reject our null hypotheses that a less progressive tax system increases inequality and relative poverty and decreases social spending. In fact, we found statistically significant positive relationships in both cases. The results suggest that causality may run the opposite direction. Confronted with high levels of inequality and relative poverty, governments may turn to more progressive tax policies that in return reduce the need for social expenditure.

The Second Level Indirect Impact part of our analysis was the most conclusive. An increase in inequality and relative poverty diminishes the ability of people to claim the fulfillment of economic and social rights in the market place. But the negative impact of diminishing social expenditure, or in other words, the provision of entitlements, on the fulfillment of economic and social rights is stronger. Yet, the positive effect of social spending seems to be less robust in realizing ESR for the bottom 40 percent of income distribution. The significance of social expenditure for rights fulfillment also diminished using our alternative dependent variable, the Human Development Index. We interpret this finding to confirm that social expenditure is a key instrument for states to realize their obligation to progressively realize economic and social rights, as suggested by the obligations dimension of the SERF Index. We uncover a weak, but positive relationship between the SERF Index and per capita GDP, indicating that as more resources become available, states are slightly more likely to invest more into fulfilling their ESR obligations.

A key finding of our analysis concerns the direct impact of tax abuse on inequality and relative poverty. We found a statistically significant moderate, negative relationship, of tax abuse on the income share held by the bottom 40 percent, but could not establish the same evidence with the GINI Coefficient. This confirms our theory that tax abuse disproportionally affects the poorest, all else held constant.

Our empirical study was hampered by a lack of data on both, tax abuse, the factor distribution of income on a global scale and the progressiveness of tax systems itself. Current data limitations also prevented us from accounting for the special role of tax havens in global tax abuse.

This thesis provides an important contribution to the very limited research on the impact of tax abuse on economic and social rights. The three channels of impact we have identified merit further research, both on the rights and responsibilities of affected parties involved and on data that strengthen our initial results. We clearly establish that global tax abuse severely undermines domestic and international efforts to reduce poverty and inequality and fulfill economic and social rights. While corporations go unpunished and hide their profits, the poorest bear the burden of regressive tax systems and reduced social expenditure. No country alone can prevent or prosecute global tax abuse. The extraterritorial application of human rights obligations is key to create more equal and fairer societies.

Annex

The table below provides information of the variables used in the empirical analysis in Essay 3.

Descriptive Statistics		**Variables**				
Variable Name	Reference	Official Definition	Metric	Primary Source	Access	Date
Core_SERF_2015		The SERF Index uses socio-economic statistics to gauge the extent to which rights-holding individuals enjoy economic and social rights. A country's level of obligation is specified using an innovative approach that maps Achievement Possibility Frontiers, APFs. APFs benchmark each country's level of obligation by relating countries' per capita GDPs with countries' performance on socio-economic statistics reflecting economic and social rights enjoyment.	percentage of achievable rights fulfillment	SERF Index	www.serfindex.com	5/21/2017
HDI_2015		The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions. The health dimension is assessed by life expectancy at birth, the education dimension is measured by mean of years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age. The standard of living dimension is measured by gross national income per capita. The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GNI. The scores for the three HDI dimension indices are then aggregated into a composite index using geometric mean.	0-1, increase indicates higher development	UNDP	http:// hdr.undp.org/en/data.	5/21/2017
IFF_Outlfows_%GDP_ave2005-2014		IFFs outflows, high estimate as share of GDP (current USD). Illicit Financial Flows are sum of Trade Misinvoicing and Hot Money Flows, data provided by GFI in Million USD, (current) . Percentages of GDP have been calculated with GDP (current USD) data for the same years provided by the WBG.	percentage of GDP	GFI	https://goo.gl/pQgK8Q	17/05/17
LaborShare_%GDP_2015	Labor income share as a percent of GDP	Labor share in GDP is the total compensation of employees given as a percent of gross domestic product (a measure of total output), both provided in	percentage of GDP	ILO	https://goo.gl/JEqXGE	11/4/2017

Descriptive Statistics		**Variables**				
Variable Name	Reference	Official Definition	Metric	Primary Source	Access	Date
		nominal terms: 2015 values including most recent value reaching back 5 years until 2010				
Government Revenue_%GDP_ave2010-2014	Revenue, Excluding Grants (% of GDP)	Revenue is cash receipts from taxes, social contributions, and other revenues such as fines, fees, rent, and income from property or sales. Grants are also considered as revenue but are excluded here.	percentage of GDP	WDI	GC.REV.XGRT.GD.ZS	11/3/2017
Tax Revenue_incomeprofitscapgains_av2010-2014	Taxes on income, profits and capital gains (% total taxes)	Taxes on income, profits, and capital gains are levied on the actual or presumptive net income of individuals, on the profits of corporations and enterprises, and on capital gains, whether realized or not, on land, securities, and other assets. Intragovernmental payments are eliminated in consolidation.	percentage of total taxes	WDI	GC.TAX.YPKG.ZS	5/20/2017
GINI Coefficient 2015		Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus, a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.	0-100, increase indicates more inequality	WDI	SI.POV.GINI	5/11/2017
Social Expenditure_%GDP_ave2010-2014	Total Public Social Spending: Education+Health (% of GDP)	Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds. General government expenditure on education (current, capital, and transfers) is expressed as a percentage of GDP. It includes expenditure funded by transfers from international sources to government. General government usually refers to local, regional and central governments. We are using a 5 years average, 2010-2014.	percentage of GDP	WDI	SH.XPD.PUBL.ZS, SE.XPD.TOTL.GD.ZS	5/11/2017
Income_Bottom40%_2015	Share of income held by the lowest 40% of income distribution	Computed: Income share held by lowest 20%+Income share held by second 20% including most recent values 5 years back (2010). Percentage share of income or consumption is the share that	percentage of income share	WDI	SI.DST.FRST.20, SI.DST.02ND.20	11/11/2017

Descriptive Statistics		Variables				
Variable Name	Reference	Official Definition	Metric	Primary Source	Access	Date
		accrues to subgroups of population indicated by deciles or quintiles.				
Income_Bottom20%_2015	Share of income held by the lowest 20% of income distribution	Income share held by lowest 20%, . Percentage share of income or consumption is the share that accrues to subgroups of population indicated by deciles or quintiles.	percentage of income share	WDI	SI.DST.FRST.20	11/11/2017
Corporatetax_%profits_2015	Profit tax (% of commercial profits)	Total tax rate measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions as a share of commercial profits. Taxes withheld (such as personal income tax) or collected and remitted to tax authorities (such as value added taxes, sales taxes or goods and service taxes) are excluded.	percentage of commercial profits	WDI	IC.TAX.TOTL.CP.ZS	11/11/2017
GDPpercapita_PPP2011intl$_2015	GDP per capita, PPP (constant 2011 international $)	GDP per capita based on purchasing power parity (PPP). PPP GDP is gross domestic product converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as the U.S. dollar has in the United States. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in constant 2011 international dollars.	USD	WDI	NY.GDP.PCAP.PP.KD	5/17/2017
GDPpercapita_squared_PPP2011intl$_2015	GDP per capita, PPP (constant 2011 international $)	see above	USD	WDI	NY.GDP.PCAP.PP.KD	5/17/2017
GDPpercapita_growth_ave2006-2015	GDP per capita growth (annual %)	Annual percentage growth rate of GDP per capita based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP per capita is gross domestic product divided by midyear population. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.	percentage annual growth	WDI	NY.GDP.PCAP.KD.ZG	11/6/2017

Descriptive Statistics		**Variables**				
Variable Name	Reference	Official Definition	Metric	Primary Source	Access	Date
Resource Rent_%GDP_2015	Total natural resources rents (% of GDP)	Total natural resources rents are the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents.	percentage of GDP	WDI	NY.GDP.TOTL.RT.ZS	11/4/2017
Industry Share_%GDP_2015	Industry, value added (% of GDP)	Industry corresponds to ISIC divisions 10-45 and includes manufacturing (ISIC divisions 15-37). It comprises value added in mining, manufacturing (also reported as a separate subgroup), construction, electricity, water, and gas. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The origin of value added is determined by the International Standard Industrial Classification (ISIC), revision 3. Note: For VAB countries, gross value added at factor cost is used as the denominator.	percentage of GDP	WDI	NV.IND.TOTL.ZS	11/4/2017
ODAnet_%GNI_ave2006-2015	Net ODA received (% of GNI)	Net official development assistance (ODA) consists of disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC countries to promote economic development and welfare in countries and territories in the DAC list of ODA recipients. It includes loans with a grant element of at least 25 percent (calculated at a rate of discount of 10 percent). We take a 10 years average	percentage of GNI	WDI	DT.ODA.ODAT.GN.ZS	11/3/2017
CPI_2015	Corruption Perception Index	perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean)	0-100, increase indicates less corruption	Transparency International	https://goo.gl/NhVsFc	5/17/2017
PolityIV_2015	Democracy Polity IV	The Polity IV indicator rates the level of democracy captured on a 21-point scale: autocracies (-10 to 6), anocracies (-5 to +5) and democracies (+6 to 10).	-10-10, increase indicates more democracy	Institute for Systemic Peace	https://goo.gl/Y6e14Q	5/28/2017
PRCL_2015	Freedom in the World Index	Combined average of Political Rights + Civil Liberties scores: , 1-2.5 free, 3-5 partly free, 5.5-7 not free	1-7, increase indicates less freedom	Freedom House	https://goo.gl/PnFpDU	11/4/2017
ICESCR_years	Years since Ratification of ICESCR	Number of years since ICESCR ratification, cutoff date 12/31/2015, countries not signed or ratified, value 0	number of years since ratification	UN Treaty Collection	https://goo.gl/LuKXaN	11/4/2017

Descriptive Statistics		Variables				
Variable Name	Reference	Official Definition	Metric	Primary Source	Access	Date
GII_2015	Gender Inequality Index	The Gender Inequality Index (GII) reflects gender-based disadvantage in three dimensions—reproductive health, empowerment and the labor market. It shows the loss in potential human development due to inequality between female and male achievements in these dimensions. It ranges from 0, where women and men fare equally, to 1, where one gender fares as poorly as possible in all measured dimensions. The GII is computed using the association-sensitive inequality measure suggested by Seth (2009), which implies that the index is based on the general mean of general means of different orders—the first aggregation is by a geometric mean across dimensions; these means, calculated separately for women and men, are then aggregated using a harmonic mean across genders.	0 no inequality, 1 full inequality	UNDP	https://goo.gl/1mFXMp	11/4/2017

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