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FINANCING INEQUALITY

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1 INTRODUCTION

Economic inequality is a core concern for Oxfam. This is in the context of extreme and rising levels of inequality within many countries, and the importance of addressing inequality in the fight for social justice and to end extreme poverty.[1] Analysis of the economic distribution, which follows where money is generated and how it is shared in economies around the world, finds that rewards are increasingly enjoyed by capital owners rather than workers, and that within the labour market wage disparities have been growing.[2]

The financial sector has an important role to play in society and the economy. First, to provide safe custody of money; second, to facilitate payments/transactions; third, to provide insurance against risks; and fourth, to take our savings and allocate them to productive activities. A robust financial system should provide these needed services in a way that supports the functioning of our economies and society, especially meeting the financial service needs of vulnerable people living in poverty. The sector as currently configured however, may play a biased role in the way that economic rewards are distributed, which warrants deeper examination.

This discussion paper seeks to identify some of the way in which the structures, institutions and activities of the financial sector relate to inequality within countries.[3] The paper uses the UK as a case study, a country with a well-developed and highly influential financial sector, to illustrate the sector's ability to move the needle in terms of inequality. It draws on a range of evidence which suggests that in a country like the UK, we should be extremely concerned by the way that the current financial sector influences inequality by favouring those with extreme wealth and high incomes while penalizing and holding back those at the bottom of the distribution. Part one of the paper describes the links between the financial sector and inequality. Part two hypothesizes what this might mean if we continue with business as usual for the next decade, while part three suggests ways the financial system could be reconfigured to work better for all of society. This analysis has relevance beyond the UK, in other country contexts, both where there are well-established financial sectors and those where the sector is still developing. Given the global mobility of financial capital, this paper also provides insight relevant to cross-country cooperation and regulation. We encourage comment and discussion on this paper.

1 WHAT IS THE RELATIONSHIP BETWEEN THE CURRENT STRUCTURE AND ACTIVITIES OF THE FINANCIAL SECTOR AND INEQUALITY?

Economic inequality, as measured by the share of income going to the top 1%, has increased in recent decades in the UK.

In 1979, the richest 1% had almost 6% of total national income; this had more than doubled to almost 13% by 2012.[4] Pay at the top of companies continues to grow faster than the wages of the average UK employee. FTSE 100 companies earned an average of £5.5m in 2015, a 10% pay rise from 2014.[5] Meanwhile, wages in the rest of the economy increased by a modest 2%, the first time in six years that average wages exceeded inflation,[6] and only a quarter of FTSE 100 companies are accredited as paying the living wage.[7] Wealth is even more unequally distributed than income, with the richest 1% owning almost a quarter of total UK wealth,[8] more than 20 times the wealth of the bottom fifth.[9] In the UK, there has been a widening of the gap between the housing haves and have nots, with the wealthiest 10% holding an average of £420,000 worth of property compared with the least wealthy half of the population, who have negligible or no property wealth.[10] Consistent with the trends in most rich countries around the world, the share of income going to labour (wages) has been declining,[11] such that people with capital (the wealthy in society) are gaining an increasing share of national income. OECD data finds that as the size of the financial sector grows, top income earners benefit most, while the incomes of the poorest are negatively affected.[12] Sudip Hazra of Kepler Cheuvreux cites the effects of the 'finance curse'[13] on inequality,[14] since a bigger financial sector benefits only those at the very top while harming the (much larger) middle and poorer sections of society. In this section, we describe some of the mechanisms linking the financial sector with inequality.

Financial products reward the wealthy and cost the poor, increasing the inequality gap.

Individuals with incumbent wealth have access to a range of financial products at generous rates that enable their wealth to grow. The average annual growth rate of wealth of High Net Worth Individuals (HNWI) around the world was 7.2% from 2010 to 2014.[15] The business of maximizing returns for the wealthy is an attractive one, 'among the most attractive business segments in the financial services industry'.[16] If you have a very large amount of money, opportunities for increasing your returns through hedge funds,[17] private equity, property portfolios and other financial vehicles are plentiful. Meanwhile, despite low interest rates making credit cheaper across the economy, the cost of the debt tends to hit the vulnerable hardest. In the UK, 30% of households that had borrowed money and had an income of less than £13,500 per year reported spending more than 30% of their income on servicing debts (compared with only 10% of households on incomes between £25,000 and £50,000).[18] High street banks' overdraft charges also tend to hit the poorest – consumer group Which? found that some bank customers who borrow £100 for 30 days through an unarranged overdraft have to pay £180 in charges.[19] In contrast, those who have 'Black' or 'Gold' accounts are often offered lower (or no) overdraft charges. Furthermore, many, particularly those on low incomes, do not have access to a range of mainstream lower-cost credit options,[20] forcing them to borrow from non-mainstream credit providers (such as home credit, payday loans and pawnbrokers). The evidence of an increase in the use of high-cost credit by those on the lowest incomes and the exploitative rates charged[21] necessitated the November 2015 price cap, which has gone some way to guard against predatory lenders.[22]

The financial sector has outgrown its 'utility' role servicing the real economy and has moved into extracting rents.

The financial sector has an important social contribution to make (safe custody of money, facilitating transactions, insuring against risk, allocating people's savings to productive activities).[23] However, many of the activities that generate profit are completely disconnected from the real economy. In the USA, it is calculated that only 15% of the capital in financial institutions supports the real economy; the rest exists in a closed loop of trading and speculation.[24] A McKinsey paper from 2013 found that financing for households and businesses accounted for just over a quarter of the rise in global financial depth from 1995 to 2007 – 'an astonishingly small share, since providing credit to these sectors is the fundamental purpose of finance'. High Frequency Trading (HFT) is the clearest example of this disconnect, where computers using clever algorithms make profits from price arbitrage in markets, a pure rent extraction that has zero basis in the real economy. HFTs earned over $23m in trading profits in the E-mini S&P 500 Futures contract during the month of August 2010[25] alone. In other words, supernormal profits earned by financial institutions are not real value added, but a transfer to the financiers from other people: ordinary savers and pension fund holders.[26] [27] Mercer, a global investment adviser, estimated that the financial system extracts about a quarter of the value of pensions that should really belong to the pension savers over a 20-year period through investment leakages,[28] value that financial firms keep for themselves. These leakages include active management fees, manager transition costs,[29] excessive trading,[30] unwarranted Mergers and Acquisitions (M&A) activity and misaligned incentive structures. Vanguard's founder John Bogle has calculated that over 25 years ending in 2005, fund companies reaped $500bn in fees from overly complex products, while delivering returns to clients of less than one-third of the figure they would have made if they had paid into a simple low-cost alternative.[31]

Current Capital Markets system rewards short-term profit maximization by companies rather than sustainable business practices that create longer term value.

Sell-side equity research analysts continue to focus on quarterly earnings and short-term share price as the main basis for investment and business decision making, asserting pressures on real economy companies to extract value for shareholders rather than create decent jobs and invest in the future. This was apparent in the recent attempt to takeover Unilever, a company which tries to balance long-term sustainability with profitability, by Kraft-Heinz backed by debt laden, cost-cutting focused investors. This push for short-term rewards has also given rise to an increasing financialization of firms,[32] which moves them away from their core business. American corporations now get about five times as much of their revenue from financial activities as they did in the 1980s, such as offering credit to customers, tax 'optimization' and trading, and British firms are very much a part of this trend. The recent history of BP is an example not only of the rise of financial activities as a percentage of business, but also of the perverse effect that financialization can have on corporate culture: a focus on trading can lead to excessive risk-taking, and an overemphasis on short-term profit can undermine a company's financial future.[33] In addition, volatility in exchange rates and financial markets due to financial liberalization make physical investments in factories and equipment even less attractive, nudging corporate strategies to shift from 'retain and invest' to 'downsize and distribute'.[34] In the 1970s in Britain, £10 out of every £100 of profit was paid in dividends to shareholders. Today, companies pay £70 out of every £100[35] as dividends. Influenced by this pressure, companies are more concerned about financial engineering than productive activities: the biggest and most profitable corporations are investing more money in stock buy-backs than in research and innovation.[36] In the USA in 2016, public listed companies used 51% of net income in stock buy-backs (often advised by investment bankers) and 35% for dividends, leaving just 14% for all other purposes, i.e. investing in productive activities.[37] M&A, despite numerous studies showing that 70–90% of them destroy value,[38] are encouraged by investment bankers who are incentivized[39] by their fee structures. M&A can shift a chunk of firm profits from the productive

economy to the financial sector, sometimes destroying local industries and with them jobs and skills.[40]

The financial sector pays disproportionately high salaries, and pays men more than women.[41]

Today, financial firms are the most represented in listings of the largest firms in the world, with 23% of the biggest companies based in the financial sector.[42] In Europe, finance workers make up 20% of the top 1% of earners, despite making up only 4% of the entire workforce. Wages in finance are found to be 50% higher than in other sectors on average across OECD countries, and even after controlling for age, education and gender, the 'wage premium' for the financial sector in Europe is 28% of an average person's earnings.[43] Furthermore, employment and compensation in the financial sector contribute to gender inequality. In UK financial services companies, while women hold nearly a quarter (23%) of board positions, they comprise just one in seven (14%) of executive committee members.[44] On average, women are paid 40% less than men in the financial services sector, compared with 20% in other sectors.[45] A UK recruitment firm found that the gender pay gap was widest in finance and healthcare industries out of all professions, and reached nearly £45,000 in the finance sector in 2014.[46]

Bias in funding decisions exacerbates inequality, especially gender inequality.

Banks seem keen to lend to large businesses but not to small businesses, and to men rather than women, creating a critical inequality of opportunity. The Bank of England stated in October 2015 that 'credit continued to be more readily available for large firms, and remained relatively tight for small firms despite the gradual improvement of recent years'.[47] Additionally, the loan approval rate for female entrepreneurs is 20% less than it is for men in the US.[48] In the UK, a poll of 220 early-stage digital start-ups found that male entrepreneurs were 86% more likely to be venture capital funded than their female counterparts, and men were 59% more likely to secure angel investment.[49] This may in part be due to the lack of women working in venture capital; many top firms have no female partners at all.[50] A report from Babson College found that venture capital firms with women partners are more than twice as likely to invest in companies with a woman on the executive team (34% of firms with a woman partner, compared with 13% of firms without a woman partner), and more than three times as likely to invest in companies with women CEOs (58% of firms with a woman partner versus 15% of firms without a woman partner).[51]

The financial sector provides the infrastructure, personnel and technology necessary to allow companies and individuals to dodge taxes.

The UK financial sector plays a major role in this system. UK Overseas Territories and Crown dependencies that are intrinsically linked to the UK and the City of London are responsible for an enormous proportion of offshore wealth, as the Panama Papers found. The British Virgin Islands were the number one destination of choice for clients looking to dodge taxes – one in every two companies included in the leak were registered there. This leak also revealed that the UK was the number two source for intermediaries, after Hong Kong.[52] The banking sector has established a strong presence in tax havens, and banks have lobbied hard to preserve havens for international corporations looking to avoid taxes.[53] Tax dodging not only protects the income and wealth of those at the top of the distribution; it also starves national budgets of the funds it needs to deliver public services, which benefit the poorest most. Secrecy jurisdictions further allow the more pernicious Illicit Financial Flows.[54]

Legal loopholes facilitate the continuation of risky and extractive activities, in part to undue influence at the policy-making level.

Regulations on the formal banking sector, rather than reduce the amount of risky lending, have instead diverted some of this highly profitable activity into the 'shadow banking' sector. This includes lending by organizations previously limited to asset management, and high street pawn shops. Simon Gleeson, partner at Clifford Chance, remarked: 'The overriding message is that the size of shadow banking is going steadily up... the financial system is just becoming more brittle.'[55] The size of shadow banking relative to the size of the economy reached pre-crisis levels by 2013. The fact that the financial sector has been able to continue to find ways in which to pursue risky and high-profit activities – as opposed to being restricted to those which generate social contributions – is thanks in part to its influence over policies and regulations which govern the sector. The UK financial sector spent at least €34m in 2015 on lobbying in Brussels and employs more than 140 lobbyists to influence EU policy making. According to a report by Corporate Europe Observatory, 'the industry has emerged victorious from many lobbying battles in Brussels, with key victories on banking regulation, hedge fund regulation, and complicated financial products such as derivatives, often at the cost of regulation in the public interest'.[56] Inequality and financial deregulation 'should be seen as the two sides of the same coin' as the 'development of an unregulated financial sector and the rise of inequalities are likely to be two dynamics feeding each other and creating financial instability and possibly financial crises'.[57] The influence of financial sector interests, particularly in the USA,[58] which weaken policy and regulation in other countries is also a major concern given the extent of cross-border transactions and risk of contagion, as highlighted by the global financial crisis. The pervasiveness of the 'revolving door', which embeds vested and conflicts of interests[59] throughout the sector, has recently been highlighted by the appointment of the former president of the European Commission Manuel Barroso as non-executive chairman of Goldman Sachs,[60] and of a string of former Goldman Sachs executives by the Trump administration. It is no coincidence that the Dodd-Frank reforms are being dismantled in the USA and that 'Goldman Sachs' shares hit record high on Trump policy hopes – Bank buoyed by prospect of profit-boosting US government policies',[61] while 'All banks have rallied …but only a handful have done as well as Goldman…'. The White House is also considering scrapping the 'fiduciary rule' that orders financial brokers to act in the best interest of their clients, and has been the target of fierce lobbying by broker-dealers and financial advisers.[62]

The global financial crisis and its aftermath have hit the poorest people hardest.

A dangerous mix of excessive lending in the USA, the explosion of complex derivative products, the complacency of credit agencies, systematic under-pricing of risk, and financial returns delinked from the real economy gave rise to the global financial crisis that the rest of the world is paying the price of.[63] The richest have been the first to recover – and they have recovered strongly: in the USA, the top 1% have captured 95% of post-crisis economic growth.[64] Meanwhile austerity measures, particularly those imposed in European countries, have lowered the incomes of the most vulnerable groups.[65] The financial sector, despite the financial crisis and social outcry thereafter, has not made any fundamental change.[66] Given the impact that a financial crisis can have, support to financial institutions reflects the longer-term and still prevalent implicit guarantees to banks deemed Too Big To Fail (TBTF). In the UK, the explicit pledge to support banks peaked at £1.162 trillion.[67] TBTF can increase a bank's appetite for risk, lead to higher compensation and increase the overall size of the financial sector.[68] These implicit guarantees have been found to increase inequality.[69]

In turn, inequality increases the risk of credit booms and financial crises.

Seguino (2013) concluded that the deeper roots of the financial crisis can be traced to the widening income and wealth gap.[70] Bazillier and Héricourt (2016) found that there is strong

evidence that inequalities play a role in the dynamics of credit, finance and possibly financial crisis.[71] Inequalities are likely to affect both credit demand and credit supply, directly and indirectly. Firstly, households may increase their borrowing in order to boost their consumption in the absence of real wage growth. Secondly, central banks and governments may implement policies aimed at boosting aggregate demand through accommodative monetary policy and financial liberalization. The resulting expansion in consumer debt, which props up consumer demand in the short term, stores up trouble for the most indebted households in the future. Rajan (2010) identifies widening access to credit, driven by a policy response to inequality, as a significant underlying driver of the financial crisis.[72] As credit booms are one of the main determinants of financial crisis, it is critical to understand the possible direct and indirect impact of inequalities on credit booms and thus on financial crisis.

2 LEFT UNCHECKED, WHAT COULD THE INTERPLAY BETWEEN THE FINANCIAL SECTOR AND ECONOMIC INEQUALITY MEAN FOR THE FUTURE OF OUR SOCIETIES?

The financial sector continues to serve the interests of the 1% through risk-taking and tax avoidance tactics.

Wealth continues to accumulate at the top, and wealth managers help keep risk-taking and tax avoidance activities out of sight of the tax authorities. In order to avoid any increase in regulation, more and more financial products will be sold in the shadow banking system, making it ever harder to monitor transactions. The mostly male employees in the sector are rewarded with salaries that keep them in the 1%. Financial sector employees and the beneficiaries of the sector’s returns become increasingly detached from the real economy and broader society.

The financial sector fails to serve low-income households, who get left further behind.

The price of assets, particularly housing, continues to grow faster than average incomes, as average incomes stagnate. Low-income families face high rent costs or large mortgage debts to fund their housing. People in debt from mortgages, student loans and other more predatory credit facilities face increasing difficulties in servicing their debt and find it harder to build their assets base. The formal financial sector fails to serve those on lower incomes with little or no assets, so they become increasingly dependent on non-mainstream, high-cost credit providers.

Inequality increases and overall economic and social conditions worsen.

Rising inequality has been found by the OECD[73] and IMF[74] to harm overall growth, and by the World Bank[75] to slow poverty reduction, while other research has identified its negative relationship with social cohesion and environmental outcomes.[76] Unequal distribution of income can lead to harmful macroeconomic effects on output and employment. As income becomes more and more concentrated in the hands of the wealthy, aggregate demand continues to fall as the wealthy will spend a smaller percentage of income than lower-income households. In a wage-driven economy like the UK,[77] as ordinary wages stagnate and decline, consumer markets will begin to collapse. Businesses produce less and lay off workers, resulting in falling employment and output. Less and less investment will be made in people, such as investment in education and healthcare, further limiting productivity and living standards. The financial sector exacerbates this trend as increased financialization further leads to more volatile asset bubbles and less investment in the productive economy, putting the brakes on economic

growth.[78] Continuous preference for shareholder returns comes at the cost of funds for the productive economy – loans for business expansion, infrastructure and job creation.[79]

Rising inequality and economic slowdown leads to a social uprising against the status quo.

Inequality coupled with economic volatility creates tensions in society and mistrust in the elites and those in government, leading to political instability which comes back to hit the financial markets. Even where there have been signs of economic growth, as the benefits of such growth are not felt by most of the population, there is a rising sentiment of injustice and inequality. This effect has recently been witnessed by the UK's unexpected EU referendum result and the subsequent political and financial market turmoil; it is also demonstrated by the rise in populism around Europe, and in the USA with the election of Donald Trump. Social uprising can manifest in protests that could turn violent, or can be expressed through democratic means. Technical experts and advisers no longer determine policy. Tina Fordham, Chief Global Political Analyst at Citigroup opined last year that, '2016 and beyond may prove to be the era in which politics rather than economics comes to the fore', and 'these changes are structural, we may be entering a new paradigm, where policy-makers, including Central Banks, have less power to mitigate risks. This suggests a whole host of previously assured assumptions could be in the process of becoming obsolete.'

Risk-taking in the sector and credit boom increase the likelihood of another financial crisis.

Amid the continuing low-growth, low-interest environment, risk-taking within the sector increases as financial companies compete to offer a competitive edge to clients. Financial firms seeking to maximize profits through risky activities utilize revolving doors and lobbying tactics to minimize regulations,[80] or go into shadow banking. In an attempt to tackle stagnant growth, regulators implement even more accommodative monetary policy and financial liberalization. In the UK, the financial sector embraces the opportunity of Brexit uncertainties, and influences the government to free the UK financial sector from EU regulations and establish itself as a destination of choice for high net worth investors seeking to maximize returns through increasingly complex, secretive and risky vehicles. Meanwhile, middle- and low-income households need to rely more and more on credit to meet their daily needs, leading to more credit booms and making the financial system increasingly unstable.

3 HOW CAN THE FINANCIAL SECTOR BE RECONFIGURED TO WORK BETTER FOR ALL OF SOCIETY?

The relationship between the economic distribution in a country and the financial sector is complex and deeply rooted in the overall structure of the global economy, shareholder-focused business models and the financialization of businesses. It is therefore necessary to scrutinize and address the broader economic and business framework which drives policies and behaviours in our societies. Oxfam is pursuing this through our vision of a human economy[81] where societies' objectives go beyond GDP growth and maximizing shareholder returns[82] and instead appreciate the importance of fair, just, safe, healthy and sustainable societies.

In this section, we suggest ways in which the companies and individuals working in the sector, the government, and regulators setting the rules and regulations and international frameworks can help steer the financial sector towards delivering a human economy. We believe the measures outlined below (which are not intended to be exhaustive) are relevant not just for the UK, and hope that they will encourage discussion.

Governments and financial sector regulators create the environment to ensure the financial sector delivers for broader society.[83]

- Every policy decision should be analysed for its implication on inequality, focused on the interests of all citizens instead of the finance industry. For example, when deciding on a **national stimulus**, such as through quantitative easing or lowering interest rates, consider other methods which provide extra financial resources to ordinary people, particularly those on the lowest incomes, to create demand, as opposed to flows which will be directed towards financial sector agents and capital owners.
- Limit the **size** of the financial sector and financialization,[84] and review **public support** to systemically important financial institutions [85] to ensure that they are working in the interests of ordinary citizens. Reshape financial institutions to be purposeful, with incentives, structures and governance to drive them to deliver their core purpose.[86]
- Restrict **activities** of financial sector firms to those that deliver services for the real economy and the core purpose of the financial sector. Every financial institution should have a charter and mission focused on serving the ultimate provider of capital/ultimate customer, and not just the next intermediary in the investment chain.[87]
- **Tighten** regulation on when a company can distribute its profits as **dividends** or conduct a **buy-back**, to ensure investments in people and productive activities are made first, such as requirements that: (i) pension liabilities must first be met, (ii) a living wage is paid to all employees first; (iii) companies cannot increase debt just for the purpose of boosting dividends or share buy-backs (see Responsible Dividend Policy by BNParibas Investment partners).[88]
- **Limit investment chain leakages** (including by restricting fees, excessive trading and layers of intermediaries). Stock exchanges must be made to adhere that all buyers and sellers are treated fairly and have the same relevant information and the same access to the orders.[89]
- Review **take-over rules** to ensure companies which seek to balance profitability with long term sustainability and workers protection are not penalised
- Apply '**fiduciary duty'** to **intermediaries** – so that they are under obligation to act in the best interest of the ultimate individual beneficiaries. Introduce 'fiduciary audits'[90] (adopted by CalPERS) to examine how well an intermediary is fulfilling its obligations to produce value for ultimate beneficiaries.
- Curb **financial speculation** and **High Frequency Trading** by, for example, introducing a Financial Transaction Tax, banning HFT or introducing speed restrictions on stock exchanges.[91]
- End the era of **secrecy jurisdictions** for financial assets and tax haven use and abuse.
- Work hard to ensure that **policy-making processes** become less prone to capture by vested interests and more democratic. Specific commitments must include: mandatory public lobby registries and stronger rules on conflicts of interest.
- Rethink the existing business model that extracts value from ordinary people and the most vulnerable. For example, construct simple, **low-cost collective savings** and create community banks.[92]
- Ensure **independent financial advisers** are up to standard and up to date (including on sustainability issues) and are able to provide appropriate advice.
- Allow citizen investors to be empowered by forcing financial institutions to be more open and **transparent**, and provide useful information in simple language and figures (see example fund factsheet developed by the Investment Leaders Group[93]).
- In a world that is increasingly interconnected, financial regulators need to think beyond the financial markets and consider the broader impacts of the sector on society. Bold innovations are needed at the regulators' level to keep up with the changes in the world and in the

financial sector, such as working with **environmental and social (including pensions, work) agencies** in coming up with new interventions.

- Overhaul the pensions system to go back to basics and establish cost-effective **collective arrangements** that put the interests of savers at the core.

The companies and individuals that make up the 'financial sector' can create norms, standards and rules that repurpose financial firms to serve the real economy and society.

- The core purpose of finance (safe custody of money, facilitating transactions, insuring against risk, allocating capital to productive activities) should be central to university and industry-level **financial education and training for professionals**, which must also incorporate an analysis of the broader social and environmental implications of financial sector activities.[94]
- Economics must not be limited to mathematical theories and a narrow view of the world, but include social, cultural, institutional, environmental, moral and human **behavioural** considerations.[95]
- The ethical imperatives of the sector must go beyond individualized issues of fraud and conflicts of interest and address wider social impacts, to be incorporated **by professional standards bodies in the sector**.
- Financial sector firms should **improve working conditions** to increase job security, and reduce stress, incentives for short-term financial returns, long working hours and individualism, in order to incentivize longer term thinking with collective goals.
- **Financial sector valuations and investment advice** must include longer-term analysis of broader social and environmental impacts, which must be reintegrated into financial assessments. Furthermore, dominant valuation models need to be challenged and investment in creating new and/or use of alternative models should be encouraged.
- Firm decisions on share buy-backs and dividend payments as opposed to making investments in longer-term productive activities must require justification, and every business decision should be analysed with respect to its implications for inequality and impact on the **ultimate beneficiary**
- Financial institutions should become transparent and accountable for social and environmental impacts through their **financial supply chains**, in similar ways to how the consumer goods industry is accountable to its supply chains.

Global agreements are needed in response to international recognition of the risk of rising inequality, contagion between financial sectors, and the race to the bottom.

National regulations on financial products, restrictions on financial sector activities, and efforts to eliminate tax dodging as described above would have an important impact on both the configuration and purpose of the financial sector in any given country and its impact on economic inequality. For countries like the UK, national regulation can have far-reaching consequences given the importance of the sector globally. However, unilateral regulations in one jurisdiction could push risk, predatory and regressive activities and products to other jurisdictions, given the globally mobile nature of capital and financial flows. Global agreements are needed on all the essential aspects of a sustainable and progressive financial sector that delivers for the real economy.

NOTES

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