Financial Speculation, Tax Justice, the IMF and the World Bank

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Introduction

Many of you will be familiar with the **Trade Justice Movement**, and the very real successes that that movement is beginning to have. I want to focus this evening on **Tax Justice,** which I would argue should be a key component of the wider social justice movement, and yet it's one that has received relatively little attention. The ongoing debate on Corporate Social Responsibility has touched on virtually every other area of corporate engagement with broader society**, but it's scarcely begun to question companies in the area where their corporate citizenship is most tangible and arguably most important – the payment of tax.** Extraordinarily, compliance with basic tax obligations doesn't seem to form part of the current CSR agenda.

Now that's pretty remarkable, considering that there have been so many corporate scandals in recent years, involving such high-profile companies as Enron, WorldCom, Yukos, Parmalat and the Big Four global accounting firms, which in turn have begun to draw public attention to the growth of tax avoidance mechanisms such as transfer-pricing, re-invoicing, offshore "special purpose vehicles", dubious charitable trusts and other vehicles for tax abuse.

Let's look at Enron in a bit more detail. Until December 2001, Enron was widely heralded as the role model for the 21^{st} century. Yet thanks to a total of 881 offshore subsidiaries, of which 692 were incorporated in the Cayman Islands, **Enron was able to devise an elaborate strategy to avoid taxes**. Data for the period 1996-2000 show that over a 5-year trading period, Enron generated pre-tax profits approaching $1.8 billion, but paid absolutely no federal income taxes and was, in fact, a net recipient of tax rebates.

I want to show how **this theft of public finances** is intimately connected to wider trade justice issues, and to propose a number of ways of addressing it.

Scale of the problem

But first a quick look at the scale of the problem. Compelled by the profit logic, and by a legal principle that asserts that tax payers are allowed to organise their affairs in such a way as to pay the least tax possible under the law, the majority of large businesses have been structured so as to enable tax avoidance in every jurisdiction in which they operate.

- In the UK, for example, **52% of the largest companies quoted on the London Stock Exchange** admit to **using "novel tax planning ideas**" – a euphemism for tax-avoidance schemes.
- **At least half of all world trade appears to pass through tax havens**, even though these jurisdictions account for only 3% global GDP
- The volume of funds that pass through tax havens annually is estimated at some US $7 trillion.

The ability of TNCs to engage in tax arbitrage (ie the process of transferring profits from a high tax location to a low or zero tax location) leads to a number of important trade distortions:

Prioritises transnational over local

First**, it provides TNCs with a significant commercial advantage over locally based businesses** which are not able to use tax havens or engage in transfer pricing, reinvoicing, or other similar mechanisms of aggressive tax avoidance. . A number of TNCs (Newscorp, Prudential, Virgin Atlantic) have structured themselves in such a way as to pay virtually no tax whatsoever – anywhere! –

whilst their locally based competitors might be paying tax rates ranging between 30-45%. This provides a major inducement for businesses to structure their affairs on a transnational basis in order to take advantage of tax arbitrage possibilities. Those that don't – or can't – are placed at an enormous disadvantage.

Race to the bottom

Second, TNCs can – and many do – exert enormous political leverage at national level: for example**, by playing one country off against another, they are able to negotiate significant financial and tax advantage in the form of export processing zones,** free trade zones, direct and indirect subsidies, tax holidays, and so on.

The current focus on attracting inward investment as a strategy for development inevitably encourages tax and regulation competition between nations, as each nation tries to offer the most conducive environment to business. In this case, what that means is that there is literally a race to the bottom, leading to a transfer of the tax responsibility away from multi-billion pound corporations and onto labour and consumption, disproportionately hurting the poorest people, those least able to pay.

Tax avoidance also translates into lower revenues for state expenditure on health, education, pensions, infrastructure investment and so on. Not only is it socially regressive, however, it's also economically inefficient, in the sense that higher taxes on labour lead to a substitution of capital for labour – hardly an appropriate strategy for a country with high unemployment.

Trade distortion

Thirdly, in the current neo-liberal discourse, tax is treated as a cost of doing business in the same way as labour and other production inputs are treated as costs. Businesses are under pressure from their shareholders to reduce costs in all areas – including tax – and directors are therefore expected to minimise tax payments.

Driving Inequality

Finally, tax avoidance represents a massive shift of wealth, both between and within nations, and also between generations, as current wealth-holders kick the ladder away from future generations by denying the means for states to sustain investment in physical and social infrastructure, and in broader social provision.

Summary of problem

In summary, then, the type of aggressive tax avoidance that has emerged over the past 30 years has significantly reshaped global investment and trade flows, and is a major driving force behind the current process of ever greater economic globalisation. It generally favours big businesses over small, and long-established businesses over start-ups. **It is socially regressive, encourages criminality, and widens inequalities within and between nations. It has to stop.**

So how should we address this?

Towards a Solution

In a globalised trading economy, it seems clear that nation states must co-operate to a far greater degree to sustain function tax regimes based upon globally agreed parameters – for example:

- Agreement on the definition of the tax base;

- Agreement on international accounting standards that require full transparency of trading transaction;
- International co-operation on automatic information exchange between tax revenue authorities to discourage tax evasion;
- The creation of a global tax authority to monitor tax regimes in order to protect the integrity of those regimes from predatory practices – including and especially the use of offshore tax havens.
- The tax avoidance industry has to be stopped through the adoption of General Anti-Avoidance Rules which would render the act of advising clients to engage in aggressive tax practices illegal.
- We need to re-establish the ethic that paying taxes is central to the sustainability of modern, democratically-based societies.

Localisation

Of course the key question is what can bring about the changes that will result in the kind of economic context that can allow tax justice to become a reality?

At present, the key demands of the Tax Justice campaign – and indeed those of the Trade Justice movement as a whole – risk being **undermined by the whole neo-liberal trend of reducing constraints on the movement of capital.** This, in conjunction with the reduction in protective trade barriers, ensures that TNCs can kill stone dead any tax justice proposals by simply citing the supposed threat it poses to their "international competitiveness", and threatening to relocate somewhere else more tax "efficient" – ie one that lets them off paying.

Indeed, it's hard to think of a greater obstacle to higher social and environmental standards, to the internalisation of external costs, to serious environmental taxation, and indeed to the whole raft of policies we need to shift to a fairer, more sustainable society **than this obsession with international competitiveness.** Because as soon as progressive proposals like these are suggested, corporations put the brakes on by this threat to relocate.

So we desperately need some different economic paradigms. One alternative that is being increasingly explored both North and South is the relocalisation of our economies.

Let me quote from John Maynard Keynes who also supported this approach:

"*I sympathise…with those who would minimise, rather than those who would maximise, economic entanglement between nations. Ideas, knowledge, hospitality, travel – these are the things which of their nature should be international. But let goods be homespun whenever it is reasonable and conveniently possible, and above all, let finance be primarily national*."

Localisation is precisely that - a set of interrelated and self-reinforcing policies that actively discriminate in favour of the more local whenever it is, as Keynes said, reasonable and conveniently possible. The "more local" in the first instance is often the nation, or a group of nations – and its a process of bringing the power of TNCs back to the level where we can have influence and control over it.

Over a period of time, there would be a gradual transition away from dependence on international export markets (with every country trying to compete with each other, leading to a downward spiral of social and environmental standards) towards the provision of as many goods and services as feasible and appropriate nationally. Long distance trade is then reduced to supplying what cannot come from within one country or geographical grouping of countries. This has the environmental advantage of no longer transporting so many goods over unnecessary distances, the developmental advantage of enabling poorer countries to protect their markets from unfair competition, and the democratic advantage of enabling greater local control of the economy, and offering the potential, at least, for its benefits to be shared out more fairly.

Among the policies that have been proposed as part of this long-term policy package are:

- **a 'site here to sell here' policy** for manufacturing and services domestically or regionally, so that market access is dependent on physical presence, making the threat of relocation less effective eg Dyson. This would "ground" TNCs by subjecting them to national legislation that would be much harder to evade.
- **localising money**, so that the majority of it stays within its place of origin, using controls on capital flows, a Tobin tax, and control of tax evasion, including off-shore banking centres
- the re-introduction of protective safeguards where necessary for domestic economies eg tariffs and quotas
- local competition policy to eliminate monopolies from the more protected economies
- the reorientation of the end goals of aid and trade rules so that they contribute to the rebuilding of more sustainable national and regional economies in developing countries.

Finally, some have responded to this programme by saying it's protectionist. About time we reclaimed the word "protect".

As former World Bank economist, turned ecologist, Herman Daly has said:

"We would be willing to accept the label of protectionist if it were understood that what we want to protect are efficient national policies of cost internalisation, health insurance and safety standards and a reasonable minimum standard of living for citizens. Historically these benefits have come from national policies, not from global economic integration. Protecting these hard won social gains from blind standards-lowering competition in the global market is what we are interested in."

In the same way, grounding TNCs through a localisation agenda could make a crucial contribution to bringing their domestic activities and levels of taxation back under democratic control, and to addressing what amounts to an enormous theft of public resources, which is both socially destructive and profoundly unethical.