TAX JUSTICE FOCUS

The newsletter of the tax justice network

HOW TO OCCUPY

*Drawing on the work of occupiers at Saint Paul's, **Zoe Young** and **Jamie Kelsey** introduce the techniques and principles of assembly as a forum for debate between equals.*

Occupy is about thinking differently. It is about imagining change, talking about what a more just society would look and feel like, and then doing something about it… It could be as simple as getting involved with your local occupation, setting up a Facebook event for your own Occupy, or holding an event at your local hall, school, university, union or church. Do something bold and make a statement, work through existing channels if you like - it's doing something that's important'. That's how one occupier, Frank Hobson, puts it, and it's a pretty good summary of what we've been trying to achieve here.

The images used in this edition are reproduced with kind permission of the originating artist, Oona Hassim. Oona's work focuses on the urban landscape, and the energies and atmospheres of the people who pass through and around them. A short film of Oona sketching at Occupy LSX in November 2011 is available here.

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How to make decisions using participatory democracy

- The facilitator looks for people with a finger raised, and invites them to speak.
- If you agree with the speaker, wave your hands. Everyone waving indicates consensus.
- If you disagree shake your hands downwards or hold your hands up, crossing at the wrist. People are invited to express their reason for disagreements. changes or amendments may then be made.
- If a disagreement cannot be incorporated, work through differences in a working group and bring an amended proposal back to the assembly. Statements can be improved by working closely with objections.
- If you will leave the Occupation if a decision is made, indicate a 'block' with a static closed fist. NB: This is not for common use.
- If you disagree with an idea but don't want to stop the process, 'stand aside'.
- If you want to make a 'technical point' immediately important to the space itself e.g. a fire alert,) make a 'T' shape with your hands.
- If someone is making a point that has already been made, roll your hands
- If someone speaks for too long, push your hands together, palms pointing up.
- When considering something complex, break the assembly into smaller groups to discuss the issue. Each break out group is a 'mini-assembly', where a nominated facilitator seeks consensus. A note-taker feeds back to the main assembly. Break out groups last around 20 minutes.

Across the world, people are standing up to say that the crises of unregulated finance, broken democracy, and corrupt institutions will not be solved by those who caused them. The Occupy movement has drawn attention to the role the banking and financial industries, including their regulators, played in the financial crisis and deepening social and economic inequalities.

The movement, and this article, are invitations to occupy the places where you live and work, and to reclaim the practice of deliberation between equals.

The assemblies seen around the world last year have certain formal similarities with the participatory democracies of classical Greece. But the techniques and conventions used have their origins in English non-conformism in the seventeenth century and have been used extensively in the modern era by Quakers, democratic activists in Latin America, and by the environmental movement.

What follows is a basic introduction to these conventions. It is up to you to experiment and adapt them to your particular circumstances

Whether you are in an assembly of a thousand people in a town square or of five people in a room, the principles remain the same. Each person present has the same right to speak, and to respectful treatment. The aim is not to make decisions as quickly as possible on the basis of a majority vote, but rather to explore issues as fully as necessary and to seek the broadest possible consensus for shared statements and decisions. Deliberation between equals creates an opportunity for mutual education and for the reasoned revision of previously entrenched views.

The consensus process may feel strange to begin with, but it is the most efficient way for everyone's voice to be heard, necessary when the ambition is to achieve unanimous agreement.

Ingredients for an Assembly

A space to assemble: a street corner, park, living room, community hall, historic site or symbol of social and economic injustice.

People: friends, family, neighbours, colleagues, online contacts

Publicity. flyers, posters, event pages on social networks, graphic art, video clips, local radio, group texts, press releases and public stunts to get attention.

A facilitator for the process so that everyone is heard: For larger groups you might also need a co-facilitator, a 'stack taker' who sets out the order in which people speak, a time keeper and someone to look after the microphone.

An agenda: For big Assemblies, hold a prior 'Process Group' meeting to agree all this.

A way for speakers to be heard: A mobile sound system, megaphone, or the new/ancient option that's free: the Peoples' Mic. The speaker uses short sentences, everyone else repeats them as in 'call and response'.

An Attitude of respect for all and the will to learn from each other.

Assembly as a Device for Establishing a Shared Position

Around a thousand people over Occupy LSX's first weekend reached consensus on a statement that included:

- The current system is unsustainable. It is undemocratic and unjust. We need alternatives; this is where we work towards them.
- We are of all ethnicities, backgrounds, genders, generations, sexualities dis/abilities and faiths. We stand together with occupations all over the world.
- We refuse to pay for the banks' crisis.
- We do not accept the cuts as either necessary or inevitable. We demand an end to global tax injustice and our democracy representing corporations instead of the people.
- We want regulators to be genuinely independent of the industries they regulate.
- We stand in solidarity with the global oppressed and we call for an end to the actions of our government and others in causing this oppression.

This is what democracy looks like. Come and join us!

Finding consensus is not easy but creates a strong bond amongst participants as it is their statement. they helped make it, and it speaks for them.

Remember: Consensus means you get your say—it doesn't mean you get your way.

Venues for Assembly, Styles of Assembly

Protesters have famously taken public and private spaces and used them as venues for assembly. UK Uncut, for example, have occupied corporate premises like banks and mobile phone shops to challenge the government to clamp down on tax avoidance and evasion by corporations and the rich. Avoidance costs the taxpayer £25 billion, while outright evasion costs £70 billion.

The assemblies themselves have often been adapted to provide 'teach-ins', where invited speakers provide information about matters of shared concern – the finance industry, tax justice, human rights, environmental change, community resilience, new solutions etc

There is no reason why the techniques of assembly can't be used in other institutional contexts. Powerful institutions often pursue policies that the vast majority of their employees consider futile or counter-productive. Perhaps people at the IMF, the World Bank, and similar organizations might like to start debating their governing principles. We know what the organizations think about regulation, financial secrecy and a host of other subjects. But what do their employees think, in their capacity as citizens?

The Athenians used coloured stones to vote quickly and anonymously. Perhaps it is a method that could be used by people who do not want to risk retaliation from their employers.

However you choose to adapt the principles and techniques of occupation and assembly, creativity, inclusivity, cheerfulness and humour are vital.

Look after yourself and each other, take responsibility for your words and actions… Remember to Occupy Yourself first of all. Then have fun, make new friends, and

Learn to Work and Redress Tax Injustice Together.

Zoe Young *is a writer, speaker and filmmaker specialising in questions of ecological and economic justice.*

Jamie Kelsey *has been an active member of Occupy LSX since October 15th. He has contributed to several working groups, including Corporations, Occupy Citizenship and Outreach. He has been a secondary teacher for 25 years and specialises in youth empowerment.*

The ideas in the text were formed by a working group of Occupiers who sought to create as definitive a document as possible on the principles of democratic assembly.

Links

For a more detailed introduction to the principles of assembly, see here.

Occupy London's website provides more information about the movement and its aims.

UK Uncut provide a primer for would-be occupiers.

There are more media tips here.

TJN and Transparency International have information about social and economic justice issues in your area.

For more information on tax avoidance, see here.

For more information on tax evasion, see here.

editorial

Dan Hind

WHAT A DIFFERENCE A YEAR MAKES

A great deal has changed in the campaign for tax justice since Tax Justice Focus last appeared.

In the autumn of 2010 demonstrators from UK Uncut started occupying Vodafone shops in London, to protest against the deal the company struck with the British government over its tax bill. In 2011 their campaign against high-level tax evasion became part of a global movement for democracy. UK Uncut inspired US Uncut. US Uncut merged with other groups and helped to create Occupy Wall Street. Meanwhile, in the Middle East the offshore fortunes of region's dictators became a focus for popular fury. People power began to stir, in ways the world had not seen for some time.

The Tax Justice Network itself has been busy since 2010. Its members around the world contributed to occupations in London, Rome, Geneva, New York, and elsewhere. Nick Shaxson, a previous editor of *Tax Justice Focus*, published the bestselling book on tax havens, *Treasure Islands*. Above you can see one of his readers with a copy of what has become a key text in the movement to bring finance capital to heel. New chapters of the network, in Australia and Canada, are now up and running.

To reflect the seismic shift in the profile of tax justice since 2010 we asked the Economics Working Group at Saint Paul's to act as the guest editor for this re-launch edition of *Tax Justice Focus*. Together they commissioned the four feature articles published here.

A masked protestor reads Treasure Islands – Nick Shaxson's seminal text on tax havens.

Philip Goff's article on the links between Occupy and the Arab Spring and Carsten Jung's piece on the role of offshore in the shadow banking sector demonstrate how Occupy has been able to create informal networks of expertise and they show how the movement has begun to set out an agenda. Meanwhile, the articles by Dave Dewhurst and by Zoë Young and Jamie Kelsey offer an insight into the techniques used in the many assemblies and working groups around the world.

It is still not clear how the Occupy movement will evolve in the months ahead. There are different tendencies in every country and every country faces different challenges with different resources and traditions of resistance. But in Britain and elsewhere, the political and media establishment have begun to take notice of tax justice in a way that would have been inconceivable less than two years ago. This is in large part down to the Occupy movement. We look forward to seeing how thing develop. Next month, *International Tax Review* is hosting a forum on Tax and Transparency – the details are to be found on the back cover of this edition of the *Focus*. It is only one indication of the distance travelled.

The campaigners that met last year in Wall Street and in hundreds of other cities around the world do not pretend to have all the answers. But they have asked the right questions, and asked them in a way that cannot be ignored. The Economics Working Group hasn't reached the end of its work, by a long way. But it has gone further and faster than any number of bureaucratic committees.

And that is very definitely something to celebrate.

Elsewhere in this edition, we look at the OECD Global Forum, a project led by the club of rich countries to tackle some of the worst abuses associated with tax havens. Our analysis of the Global Forum's work so far is rather damning – and its work has been particularly ineffective with respect to developing countries.

"The movement, and this article, are invitations to occupy the places where you live and work."

We have two book reviews. Christian Chavagneux takes a look at *Taxation and State Building: Towards a Governance Focused Tax Reform Agenda*, by Wilson Prichard, published as a long working paper for the UK's Institute for Development Studies. It addresses the crucial, but often overlooked role that taxation can play in building modern states and fostering better governance.

In our second review, Linda Arch looks at *Modelling Corporation Tax Revenue*, by two economists who explore whether, and how, governments can forecast their revenues from corporation tax. They seek to develop a mathematical model, and examine many of the pitfalls involved in such an exercise.

As with previous editions, we also have a news section, and a brief description of an extraordinary change in the field of international taxation, where previously quiescent developing countries appear to be finding their voice, and standing up to the OECD.

I'd like to thank the members of the Economics Working Group at St Paul's and the authors of our four feature articles; Philip Goff, Carsten Jung, Zoe Young, Jamie Kelsey and Dave Dewhurst. What Occupy has achieved so far is amazing. And this, as the saying goes, is only the beginning.

TAKING THE SHADOW BANKING SYSTEM SERIOUSLY

feature

Carsten Jung

'Other financial instruments', many of them hidden in offshore financial centres, continue to threaten the global economy. Without effective measures to address the opacity of the offshore sector, a re-run of the 2008 crisis remains a live possibility.

The shadow banking sector is a parallel financial universe that provides credit outside the regular banking system, comprising institutions such as money market funds, hedge funds, insurance companies, and so-called structured finance vehicles. Simply speaking, *shadow banking is where regulation is not.* This enables institutions to take up huge amounts of leverage, building up systemic risk. Mostly via "financial innovation", the shadow banking system re-packages debt and re-sells it with different maturity, different liquidity, different risk and different leverage.

It operates mostly in the US, the UK, small financial centres, such as Jersey, and a handful of advanced European countries (e.g. Luxemburg and Ireland). It is tightly interconnected with the ordinary banking system and, indeed, it is often either run by large banks or a vital source of financing for them.[1] A run on the shadow banking system after the collapse of Lehman Brothers was a key catalyst for the biggest global financial crisis since the Great Depression.[2] When house prices fell, shadow banking institutions such as money market funds stopped financing the banking system and brought credit supply to a halt. Since no one really knew who was exposed to the shadow banking system and to what extent, this shattered the global financial system beyond its direct connections to Lehman Brothers.

The shadow banking sector was so crucial because, between 2002 and 2007, it grew dramatically from $27 trillion to 60 trillion in 2007[3,4] and it lies at the heart of the disastrous pile-up of huge sums of private debt. It amounts to around 30 percent of the global banking system[5] and poses a large, unregulated, threat to financial stability.[6] After a slight decline, shadow banking is now back to its pre-crisis peak at $60 trillion – and growing. Shadow banking is back.

Shadow banking's cheerleaders argue that, if all goes smoothly, it provides safe assets, and uses resources most efficiently. The *Economist*, for example, speaks of the "insidious threat" of financial regulation, such as capital requirements or clearing houses for derivatives.[7] Unfortunately, history has shown, over and over again, that things in banking almost never go smoothly if left to themselves. As Reinhart and Rogoff argue in their path-breaking book *This Time is Different:* "financial professionals and, all too often, government leaders explain that we are doing things better than before (…), each time society convinces itself that the current boom, unlike the many booms that preceded catastrophic collapses in the past, is built on sound fundamentals, structural reforms, technological innovation, and good policy." However, the last two centuries show that such complacency sooner or later always leads to disaster: since 1800, the UK experienced 12 banking crises, the US experienced 13, France 15 and Germany 8. Most banking crises were triggered by large capital inflows, real estate or equity price bubbles.[8] The costs for society were always immense. Due to the "phenomenal recurrent nature of the problem"[9] we simply cannot afford to let the shadow banking system go unregulated once again. Due to its size and interconnectedness it has to be brought under tight supervision and regulation. This, however, leads us to the next problem: how to regulate the shadow banking system?

The biggest obstacle is its sheer degree of opacity. For example, unsurprisingly, the skyrocketing size of the shadow banking

1 IMF (2011): *The Non-Bank Nexus and the Shadow Banking System.*

2 Gorton & Metrick (2009): *Securitized Lending and the Run on Repo.*

3 *Financial Times*, Dec 28th 2011: *Traditional Lenders Shiver as Shadow Banking Grows.*

4 According to Andrei Shleifer (at a 2012 IMF conference) this is due a steadily increasing demand for safe investments, which can probably be ascribed to global imbalances (some countries with excessive savings). The shadow banking system 'created' these AAA-rated assets because of this demand. Addressing the problem of shadow banking, then, implies that one also has to address global imbalances or provide another source of safe assets (e.g. government bills).

5 Financial Stability Board (2011): *Shadow Banking: Strengthening Oversight and Regulation.*

6 *Ibid.*

7 *Economist*, Jan. 7th 2012: *Death by a thousand cuts.*

8 Reinhart, C & Rogoff, K. (2009): *This Time is Different.*

9 *Ibid.*

"In aggregate, offshore financial centres are crucial"

industry since the early 2000s was exactly matched by an equally large increase in assets and liabilities of *offshore financial centres* – their size tripled. These include places that range from the British Virgin Islands, to countries that are geographically 'onshore', like Luxembourg or Ireland, and they are marked by secrecy, low taxes and very lax regulatory standards.[10] Moreover, there is strikingly little academic literature on them and their impacts on the global economy.[11] As the IMF (2010a) shows, Bermuda has come to be among the dominant locations for the captive insurance industry – the unregulated arm of the insurance industry[12] – after having established 'attractive' regulatory and tax systems. The Cayman Islands now host three quarters of the world's hedge fund industry, including some of its key "feeder funds".[13] In 2007 they were the largest foreign holders of US mortgage backed securities, which were at the core of the above-mentioned run on the shadow banking system that triggered the financial crisis.

In aggregate, offshore financial centres are crucial. A conservative estimate of small financial centres' assets and liabilities is $18 trillion, equal to 8.5% of the world's total and more than those of France, Germany or Italy combined – and this is "most likely an underestimate".[14] Add Luxembourg to this, and these numbers more than double.[15] In many cases their financial holdings well exceed 800% of GDP! Many scholars reckon the share is a lot higher.[16] More than half of these financial assets and liabilities are "other investment" which means – yes – shadow banking activity. Three fourths of this is traded with the US, the UK and the Euro Area, all of which witnessed pronounced banking crises.[17]

Most of these countries do not report their balance sheet data in any detail and surveillance institutions are almost non-existent. An upshot of this is, as the IMF[18] points out, that there are four trillion dollars of assets – around twice the size of the UK's GDP – of which the counterparty is *unknown*. That is, we don't know who owns them and who ultimately bears the risk. Similarly, MIT economist Andrew Lo stresses that we plainly have *no information* on which we could base regulatory action. He says, for example in the case of hedge funds, "we don't know *what* the assets are, we don't know *how much* they are holding, we don't know the leverage, we don't even know how many hedge funds *are* out there – *because hedge funds are not required to report*."[19] This complicates regulation in various important ways: exposures of banks to shadow banking institutions are more difficult to assess and to constrain; capital requirements are harder to enforce; the *size* of interconnected institutions is more difficult to restrain and it complicates a whole range of more specific measures such as liquidity requirements. Thus, *aggressively tackling opacity* would be the first essential step to effective regulation of the shadow banking system. Of course, many other challenges are yet to come since, for example, the instruments of shadow banking are constantly changing and regulators will always be one step behind. Those, however, are not insurmountable and the major problem is arguably the financial sector's *reform fatigue* and the lack of political determination. Moreover, the Occupy movement has finally stepped up against powerful interest groups that try to prevent or water down regulations, based on "this time is different" arguments. Civil society must not let this happen. Indeed, without sufficient public pressure not enough will be done. As former IMF chief economist Simon Johnson argues: "we must re-evaluate the distorted political economy of the financial sector, before the excessive power of the few imposes even larger costs on everyone else.[20]"

One may now ask: hasn't shadow banking regulation already begun? No, it hasn't – on the contrary. As Pozsar and Singh from the IMF conclude: "[today's key] regulatory proposals, such as the Dodd Frank-Act and Basel III that are pushing riskier activities outside the banking system… will likely *increase* the shadow banking world". Moreover the FT (2011) argues that "while many [regulators] have sounded off on its potential dangers and the role it played in the build-up to the 2008 financial crisis, they have done far less to diminish it."[21] It is thus time to finally get serious about regulating, not only regular banks, but also the shadow banking system. Tackling the opacity that offshore financial centres create would be a first important step.

Carsten Jung is a postgraduate student in economics. He received his Masters from the London School of Economics and has previously worked as a research assistant at the IMF.

[10] For a more thorough definition see Shaxson, N (2011): *Treasure Islands, p. 8-10*

[11] IMF (2010a): Cross-Border Investment in Small International Financial Centres.

[12] *New York Times*, May 8th 2011: *Seeking Business, Sates Loosen Insurance Rules.*

[13] *Ibid.* and Shaxson, N. (2011): *Treasure Islands.*

[14] IMF (2010a): *Cross-Border Investment in Small International Financial Centres.*

[15] If you include other financial centres like the UK, Ireland and Switzerland, external assets rise to $70 trillion – more than four times US GDP, and higher than world GDP (*Ibid.*).

[16] IMF (2010b): *Bilateral Financial Linkages and Global Imbalances: a View on the Eve of the Financial Crisis.*

[17] IMF (2010a): *Cross-Border Investment in Small International Financial Centres.*

[18] *Ibid.*

[19] IMF Research Conference 2011: *Monetary and Macroprudential Policies: Challenges and Solutions.*

[20] Acemoglu, D. & Johnson, S. (2012): *Captured Europe.*

[21] *Financial Times*, Dec 28th 2011: *Traditional Lenders Shiver as Shadow Banking Grows.*

feature

HOW OCCUPY SEEKS ANSWERS

Dave Dewhurst

What's it like to participate in a working group? Former management consultant and expert on cybernetics, ***Dave Dewhurst****, makes the case for radical accessibility and equality in future debates about political economy.*

The psychologist Jerome Bruner once claimed that any scientific concept can meaningfully be taught to a twelve-year-old. The obverse of this is that, if you can't get a twelve year old to 'get' it, either you don't grasp 'it' sufficiently yourself or the idea is wrong. Until recently many economists dismissed the concerns of non-experts with a confidence that would have made a physicist blush. Now that they have been so comprehensively discredited by the financial crisis, it seems reasonable to require that they explain themselves in terms that everyone can understand and, if necessary, reject.

The Occupy movement is, at least in part, an attempt to place authoritative claims under general and uninhibited scrutiny. Expertise, useful though it is, generates a certain mystique and mystique, as we saw in 2007-8, is dangerous.

Now it is fair to say that we are generally quite poor at following arguments outside our own specialities. This might imply that the mixture of experience and naivety found in the various occupations is useless, but happily research suggests that we are rather better at following logic and evidence when we are in danger of being ripped off. In this respect economics is an ideal field for popular participation.

Members of the Tax Justice Network are perhaps self-selecting as more critical than average but none of us are free from group effects, and research tells us that groups have both inhibiting and enhancing effects. The following is what usually works for us.

Our meetings are radically accessible, in the simple sense that anyone can come along and join the discussions. One can criticize the occupations for many things. Groupthink isn't one of them. The Economics Working Group at Occupy London recognises that the newcomers and old hacks can shift roles as we shift perspectives. A professional may be confident that every one has enough to eat; a newcomer may know people who don't.

We don't have chairmen or chairs; we have 'facilitators'. One person has the responsibility

for ensuring that everyone gets heard as fairly and evenly as possible and, unlike chairpersons, the facilitator is not supposed to push their own agenda.

What do we do when they try it? Occasionally we have an internal coup (well, more like a couple of people calling for a vote) and replace them. Usually we more tactfully say, 'Perhaps someone with less to communicate should be facilitating' and they are gracious enough to cede.

Of course we almost always have our own agenda. The bottom line is an explicit recognition of that, and the usual procedure

'It is astonishing what foolish things one can temporarily believe if one thinks too long alone, particularly in economics.'

JM Keynes

of raising hands and taking contributions in turn constrains Robespierres. Sometimes it is necessary to have a 'stacker' who notes the order in which people want to speak and passes this on to the facilitator.

There is a set of signals to guide the facilitator. Zoe Young and Jamie Kelsey's article in this edition of *Tax Justice Focus* outlines the ones used in many occupations. The 'technical point' may be abused to queue jump, but rarely twice. The facilitator frequently makes the judgement that a contributor is trying it on and ignores them. Often the facilitator ignores minor infractions, like a five word interjection, but becomes more formal for anything else.

Another measure to avoid dominance is the regular rotation of facilitator. You can't do it more than twice in a row. Of course some people take on the role more than others but we do try to ensure that the more modest take their turn. A further strategy to demote those who try to grab a disproportionate amount of 'air time' is to make them facilitators so that they are obliged to give everybody else's contribution due weight.

The consensus process that Occupy uses has been a feature of many earlier protest movements. It derives originally from the Quaker meetinghouse, where a hundred percent agreement, or at least consent, was required before a viewpoint or a decision was accepted. This can encourage rigour, clarity and deeper understanding. But a 'block' can be abused so if not resolved by the next meeting something closer to a majority vote would be acceptable.

Readers will have gathered that we don't have committees; we have 'working groups'. Anybody can drop in to a working group. Time and location are pre-advertised. Does this mean that periodically we get lectures from newbies about the mindbogglingly obvious that we've dealt with weeks before? Of course. But usually it refreshes our perspective and emphasises what we've failed to communicate. And sometimes it's a revelation. People are more willing to acknowledge incomprehension than in an educational or professional setting, and this makes it harder to bluff.

Being publicly accessible has its tensions. The more visible and accessible you are, the more plausible and relevant and better linked in to a wider action network you will be. Nevertheless working groups are tempted to form cosy gangs, as in tribes and families. This can make life more comfortable but more inward-looking and irrelevant. Periodic vigilance from the 'General Assembly,' the overall Occupy group of which everyone is a member, with its demands for feedback, scares us out of comfortable isolation.

Process and procedure will never solve everything. Shared values are more use. So a meeting may start with only five robust people and apart from taking minutes we forget about 'process;' by the time we hit eight the majority appoint a facilitator to button the most loquacious.

This may not sound radically liberating, but from a career of committee meetings, staff meetings, PhD seminars, academic jousting, board and university governing body events, management consultancy brainstorming and sitting around in pubs with my mates, I have found the diversity and democracy of the Occupy discussion process the most intellectually liberating and enjoyable of the lot.

Why shouldn't you try something like it? 'These protesters don't have a coherent programme.' Er, no. If you click 'Statements' on our web-site[1] there are over 30 practicable 'doables' embodied therein. Slowly the EWG is evolving its economic roadmap of over 40 agreed items. I don't expect an agreed mode of introducing a Tobin tax to emerge without some stress. But rest assured abolishing Tax Havens, evasion and illegitimate avoidance is already there in the statements. But that's not the news the major media want to communicate about the occupations.

Calls for more open, 'flatter' ways of developing periodically appear in management literature and not all are mere simulacrums after they are implemented, although they are regularly undermined by human dominance strategies. At some stage we have to judge where institutional cohesion is turning into bad faith and denial of reality. Sometimes we may only be able to develop in networks away from our paymasters but for all of us a better form of learning and action network is possible. Once we know that, and experience something like it for, we become responsible, in our own way, for making it happen.

Dave Dewhurst has a PhD in Cybernetics and is the Secretary of the Cybernetics Society. He has been a member of Occupy London from its start on October 15th. He has been a teacher for most of his career but has also worked as a lead Ofsted inspector, management consultant and Tesco's floor cleaner.

[1] occupylsx.org/?page_id=2855

RE-CONCEIVING CLASS WAR

feature

Philip Goff

How does the Arab Spring relate to the Occupy movement? The philosopher ***Philip Goff*** *explores the points of contact, and argues that political struggle is best understood in terms of the conflict between democratic communities and global capitalism.*

In 2011 we witnessed two extraordinary international people's movements: the Arab Spring and the Occupy movement. The Occupy movement followed the Arab Spring, and seemed to draw inspiration from it, to feel a certain affinity with it. On the first day of the Occupation at St. Paul's one protestor put up a mock London street sign with 'Tahrir Square EC4' written on it, whilst Egyptians involved in the uprising against Mubarak ordered pizza for the Occupy Wall Street protestors.

But in what respect do these two movements resemble each other in their aims? To what extent can the Arab Spring and the Occupy movement be seen as *trying to do the same thing*?

The aims of the Arab Spring at the outset were clear: they wanted an end to dictatorship. Of course, different groups have different strategic objectives, but authoritarian regimes provided a clear point around which to mobilize.

The initial aims of the Occupy movement were less straightforward. It is clear what Occupy is *against*: the movement was born out of a deep concern with global capitalism, at least in its present form. But what is the movement *for*? I participated in an early attempt at the St. Paul's Occupation to draw up demands. It wasn't easy. Some suggested demanding a tax on financial transactions; others objected that they didn't believe in finance. Some suggested global government; others the abolishing of government altogether. With such a diversity of convictions and concerns, consensus proved elusive.

However, there is one thing which in my experience all those involved in the Occupation sign up to, and that is *democracy*. If there is to be one positive goal which unities the Occupy movement, it must be the desire to bring about true democracy: rule by the people rather than the powerful.

"There is one thing which in my experience all those involved in the Occupation sign up to, and that is democracy."

Counter-Democratic Forces

This might seem strange. Isn't the Occupy movement taking place in countries which already have democracy? In UK and USA, you can go in a little booth every five years and tick the person you want to have power. Isn't that democracy?

Well yes and no. It would be cynical to suggest that universal suffrage is not a significant achievement in the journey towards ideal democracy, and unfair to those who fought hard to get it. But it would also be naïve to think that the political system we have is anything more than a staging post on the way to full democracy. There are significant counter-democratic forces operating, to a greater and lesser extent, in all 'democratic' countries, which ensure that the powerful have undue influence in how society is shaped.

We can divide these non-democratic forces into two categories: *intra-national* and *trans-national*. The intra-national counter-democratic forces include corporate lobbying, funding of political parties by big business and the wealthy, and the selective information given out by major newspapers in the pursuit of their own political agenda. Democracy is about society being shaped by the people, where each person counts equally. But in all these ways the powerful few manage to have a weighty influence on governance.

But perhaps even more significant are the trans-national counter-democratic forces, and it is here that the aim of enhancing democracy connects with the Occupy movement's concerns regarding global capitalism. The defining contemporary problem is that (imperfect) democracy operates at a national level, whilst global capitalism operates at a global level. The power of an elected government to run the country as its voters want is severely constrained by the power of markets.

Perhaps the most straightforward example of this is in the setting of tax rates. Countries are continually held to ransom by trans-national corporations threatening to leave should their tax obligations be increased. The people should decide how much the corporations should contribute to the public good. Instead, to a large degree trans-national corporations decide for themselves.

"The new class war is between democratic communities and unrestrained global capitalism."

In a sense then, we can see the Arab Spring and the Occupy movement as having the same goal: true democracy. While the Arab Spring aims to achieve the beginnings of democracy at a *national level*, the Occupy movement is trying to perfect democracy within countries, and to attain it at a *global level*. Both of these things are essential.

How might global democracy be brought about? If the essence of the difficulty is that (imperfect) democracy exists at a national level, whilst global capitalism operates at a global level, there seem logically to be two ways to right this wrong: we can either pull capitalism down from a global to a national level (or get rid of it altogether), or we can pull democracy up from a national to a global level. My preference, at least in the first instance, is the latter approach, which I will now spell out in more detail.

Fiscal Solidarity

Global democracy need not entail global government, but perhaps a kind of 'fiscal solidarity' between democratic communities. Marx conceived of the class war as between workers and capitalists. But we might think of the contemporary class war as between democratic communities and unrestrained global capitalism. The 'collective dictator' of global capitalism sustains power by pitting democratic communities against each other. As individual nations compete by lowering tax rates and cutting regulation in order to attract capital, more and more wealth is transferred from the 99% to the 1%.

Marx said that workers need to organise to break their chains. Similarly, democratic communities have everything to gain if they organise. If we were to co-operate rather than compete, we could in principle slay the dragon of tax competition by ensuring global capital has nowhere to run to. In the absence of effective global institutions, progress could be made by countries united in fiscal solidarity refusing to trade with 'scab' nations, i.e. countries which unilaterally slash their tax rates and thereby put pressure on governments all round the world to spend less on the public good in order to compete.

Here's the (admittedly very far off) long term goal: If the citizens of the world could choose how to tax big business, finance and the wealthy, free from the need to be 'competitive', then we might finally begin to redistribute wealth back from the 1% to the 99%. The days of not having enough to provide the highest standards of health, education and public services to all would be consigned to history.

At the present time, this level of global co-operation seems not to be a realistic option, not least because national democracy is in each country either imperfect or non-existent. But what I am recommending is not overnight revolution but a long term direction of travel, an ideal which could be worked towards in stages. The establishment of a Robin Hood Tax on financial transactions, for which there has recently been enthusiasm amongst the leaders in continental Europe, would be an important first step. Once people see how much they have to gain from getting a grip on global capitalism, they may be inspired to go further.

Democratic communities unite!

This is a long term ideological battle against a powerful and resourceful enemy. Few talk about 'trickle down' any more, but the Koch brothers in the USA spend billions promoting the mythical fear of 'big government', in order to persuade the 99% to vote against their interests. We need to hit back with the message that freedom for capital and freedom for the great majority of people are diametrically opposed. The new class war is between democratic communities and unrestrained global capitalism, and it is a war we could one day win if we start to organise.

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reviews

Taxation and State Building: Towards a Governance Focused Tax Reform Agenda

Wilson Prichard

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Review by Christian Chavagneux, translated by John Christensen

Making tax systems serve development

Too often, economists reduce the role of fiscal systems in countries in the South to technical questions about revenue maximising for countries with weak public finances. However, many researchers have shown how a country's capacity for mobilising domestic resources involves more than simply raising revenue: it is key to the creation of the conditions for successful development, which includes having a government focused, in the long term, on creating the conditions for sustainable growth.

Wilson Prichard, one of the leading specialists in the field, outlines his proposal for a long term study synthesising the theoretical arguments and the available empirical studies on the subject. He places particular emphasis on studying the ingredients of success where this involves building the capacity of the tax authorities, improving the quality of the wider administration while at the same enhancing the legitimacy of the State.

The principles

International institutions like the IMF or World Bank have a tendency to treat tax reform as a simple matter of technical solutions. Their objective frequently involves strengthening the independence of the tax authorities, in order to insulate them from 'political interference', almost as if tax systems are totally divorced from the political life of a country.

In the last ten years, for example, Semi-Autonomous Revenue Agencies (SARAS) have been set up in fifteen African and twelve Latin American countries. While this autonomy might have initially have led to increased revenue collection, it appears to have been counter-productive to the wider long term project of creating an effective tax system. The Peruvian example illustrates this point: the National Superintendent for Tax Administration was initially an island of efficiency in a sea of incompetence, but changes to its leadership, weaknesses in the judicial system, and jealousies and rivalries from other departments, whose officials didn't have the same powers and privileges, eroded its effectiveness.

In other words, tax reform shouldn't happen in isolation. It has to be one element of a wider reform of the state to which, according to Prichard, it can contribute in four distinct ways: spreading a culture of administrative innovation; spreading improvements to tax administration into other areas (for example, commercial registries, cadastral systems); increasing the state's presence in remote or isolated regions; and providing information essential to political governance in such matters as planning, project and commercial development, industrial relations and so on.

The actions

Thus, when a tax system functions well over time, this signifies that the tax administration has succeeded in developing working methods that can serve as models for other areas of the public service. For example, customs officials can learn how to improve their statistics, which in the case of Bolivia led to better trade statistics, which in turn fed through to an improvement in the national account statistics. Audit processes in Chile, planning in Mauritius, and computerisation of tax administration in Ghana have all served as examples for improving other parts of the government administration. But these spillovers can only happen when the tax administration has links with other ministries, which is not the case when the tax administration operates in a semi-autonomous enclave.

A tax system worthy of its name would also serve to strengthen local tax systems. When tax systems are too concentrated in the major urban areas, local administrations put themselves in the position of being competitors, as in the case of Ghana where some local tax collectors advised people to pay local rather than national taxes! This challenge to the legitimacy of the central government is key to the success of development strategies, and the issue of tax has a crucial influence on their outcome.

In large part, the credibility of the state and acceptance of its tax rules rests on the public accepting that the rules apply to all. Therefore effectively taxing the elites plays a part in generating consent to tax the wider population. The same applies to taxing multinational companies, which all too often prefer to shift their profits to tax havens. Prichard offers several solutions to this problem, including: "(a) creating multilateral, and easier to

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access, mechanisms for information exchange, (b) implementing new corporate accounting standards that would require the reporting of revenues,profits and tax payments on a country-by-country basis, and (c) providing capacity-building support and international cooperation to improve enforcement in the developing world". Taxing the informal sector, even if only at a relatively symbolic rate, also serves as a useful encouragement to local businesses to pay their taxes, as the examples of Ghana and Kenya have shown.

Last but by no means least, tax systems must be transparent. This requires that citizens are kept informed about what revenues are being raised as well as how the money is being spent. Thus, in the case of Guinea, tax collection in market places doubled when the government explained how the revenues would be invested in improving the infrastructures serving the markets.

Building a tax system is often a challenge for poorer countries. But significant progress in many countries, from Ghana to Kenya, to Sierra Leone, and on to Chile, then Colombia, Nicaragua, Mongolia and several others, shows what can be achieved and that better tax systems can create the conditions for more sustainable development in the longer term.

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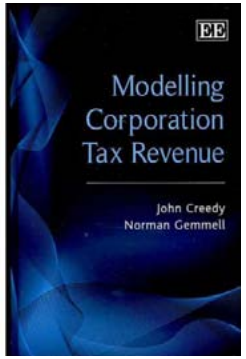

Modelling Corporation Tax Revenue

John Creedy and Norman Gemmell

Edward Elgar Publishing, Inc (2010)

The late Danish physicist Niels Bohr is reputed to have remarked that, 'Predictions can be very difficult—especially about the future'. Making predictions, or forecasting, is the central concern of John Creedy, an economics professor, and Norman Gemmell, the Chief Economist to the New Zealand Treasury, in their book, *Modelling Corporation Tax Revenue*. Their specific focus is whether, and how, governments can forecast their revenues from corporation tax. This question is important because, for both policy-making and planning purposes, governments need to know how their revenues from corporate profitability will vary, both within individual economic cycles and also over the longer-term, all other factors being equal.

In the UK, Corporation Tax was introduced in 1965. Before then companies paid income tax on their profits. Corporation Tax is 'a tax on the taxable profits of limited companies and some organisations including clubs, societies, associations, co-operatives, charities and other unincorporated bodies.'[1] From 1 April 2011 the main rate of Corporation Tax in the UK will be 27% and the small profits rate 20%.[2] In 2008-09 around 46,000 companies paid tax at the main rate while around 830,000 paid it at the small companies rate.

The authors point out that since the 1980s, in the OECD countries at least, corporation tax rates have declined quite significantly. The median OECD rate was around 50% in 1982 but by 2004 was around 35%. This would suggest that, in response to globalization, there has indeed been a so-called 'race to the bottom': that is, countries are seeking competitive advantage on the basis of their corporation tax rate. This phenomenon is very explicit in Ireland. The website of the Ireland Investment Promotion Agency states that, 'A key aspect of Government support for industry and R&D is an attractive and continually enhanced tax system'.[3] Their corporate tax rate is currently 12.5%

What might surprise many people – but which makes sense in the context of inexorably declining rates – is that in the UK Corporation Tax accounts for a relatively small proportion of total HMRC[4] receipts. In 2009-10, for example, total HMRC receipts were £409 billion. The contribution of corporation tax to this total was £36 billion, or 8.8% of the total. This has declined from 9.9% in 2001-02.[5]

1 http://www.hmrc.gov.uk/ct/getting-started/intro.htm

2 Payable on profits up to £300,000.

3 http://www.idaireland.com/why-ireland/tax/

4 Her Majesty's Revenue and Customs

5 See: http://www.hmrc.gov.uk/stats/tax_receipts/table1-4.pdf

reviews
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In '*Modelling Corporate Tax Revenue*' the authors attempt to develop a mathematical model for forecasting corporate tax revenue. The model is named 'CorpSim'. It can be used for a single firm and for firms in groups. The authors' starting point is to consider the relationship between, on the one hand, corporation tax revenue, and on the other, gross taxable profits (the tax 'base'). In the long run, the elasticity of corporation tax revenue in relation to taxable profit is one. That is to say, tax revenue will increase or decrease in proportion to total corporate profits, if everything else stays the same. However, the difficulty for governments in forecasting corporation tax revenue is that this is *not* the case in the short term. Many factors complicate the forecasting process and make modelling difficult. These factors include: the impact of deductions from gross taxable profits; the impact of tax rates and thresholds; the impact of companies belonging to groups and the 'group relief' which flows from that and, the impact of economic cycles.

'Deductions' are amounts which companies can deduct from their profits before they calculate how much corporation tax is due. In the UK the most important deductions from gross taxable profits are capital allowances and losses. In highlighting the role of losses, the authors have pinpointed an aspect of corporate taxation which would benefit from much deeper debate: what is the intellectual justification for allowing companies to carry forward losses from previous years so that they may be deducted from future taxable profits? This is, after all, an extraordinary privilege.

Does the justification still stand? The ability to deduct previous years' losses from current year profits may be one of the reasons why Barclays paid only £113m in UK corporation tax in 2009 when, as a group, it made global underlying profits before tax in that year of £5.6 billion. Having said that, the absence of country-by-country reporting of financial performance makes understanding the impact of losses on corporation tax revenues difficult.

As well as factors intrinsic to the tax regime (deductions, group relief, rates and thresholds) the authors' model offers an insight into the how economic cycles affect corporate taxation revenues. It suggests that in mild economic downturns the elasticity of tax revenue increases: tax growth will decline less than profits growth. Governments' corporate tax revenues may well hold up. However, more severe downturns can have a large and marked negative impact on tax receipts and on a government's ability to forecast them. This is well illustrated in the case in Ireland. In October 2008, Ireland projected that its corporate tax receipts in 2010 would be €5.7 billion. By December 2009 the forecast was €3.2 billion.

There are two areas not examined in detail in this book, which would benefit from further analysis. First, can a tax forecasting model ever adequately incorporate 'corporation tax avoidance activity' as one of its 'inputs'? Second, can such a model measure the extent to which the complexity of corporation tax law itself weakens the ability of planners and policy-makers to forecast tax revenue?

This book is well-written and its model carefully constructed. However, it is highly technical and, for that reason, is unlikely to be suitable for the general reader interested in tax. Instead, it furnishes econometricians and tax policy-makers with a complex but convincing explanation of the issues to be considered when forecasting a state's corporate tax revenues.

Linda Arch

news

Pressing questions

How much tax does Amazon pay on its UK profits?

In the UK the *Guardian* reported on April 4th that the online retailer Amazon paid no corporation tax in the UK. According to the newspaper, the company has 'generated sales of more than £7.6 billion' in the last three years 'without attracting any corporation tax on the profits from those sales'. Small retailers will be wondering when government starts looking into the impact of this.

How much does offshore cost American taxpayers?

The US Public Interest Research Group has published a hard-hitting report on tax avoidance by large companies and wealthy individuals. They estimate that avoidance costs the rest of society around $100 billion a year and point out that 'if ordinary tax filers were to pick up the full $100 billion tab in the form of higher taxes, they would need to pay an additional $426 on average'.

So we have a ballpark figure, tax avoidance in the US by the 1% costs the 99% four hundred dollars a year each, plus change.

The OECD Global Forum: captured from the start, not fit for purpose – Nick Shaxson

The Global Forum on Transparency and Exchange of Information for Tax Purposes is a project led by the OECD, a club of rich countries, supposedly to tackle some of the worst abuses associated with tax havens. Its stated aim is to get tax administrations in different jurisdictions to co-operate and share information with each other, and its main tool is a 'peer review' process, where jurisdictions get rapped on the knuckles if their laws are out of line with the OECD's standards on transparency.

Back in 1998 the OECD set out on a valiant effort to curb some of the worst abuses associated with tax havens, under its Harmful Tax Competition initiative. The tax havens mobilised. Tax haven lobbyists such as Daniel J. Mitchell of the Center for Freedom and Prosperity began a furious campaign in Washington, helped by the likes of the lobbyist Richard Hay and the U.S. Congressional Black Caucus, which had been duped into believing that the crackdown on tax havens represented an attack on developing countries. To cut a long story short, the lobbyists persuaded U.S. President George W. Bush and his Treasury Secretary Paul O'Neill effectively to neuter the OECD initiative. The end result has been that the OECD has continued to work with the tax havens – but the fox has been allowed into the henhouse.

Today, the 13-member Steering Group of the Global Forum, which emerged from this political tussle, includes Bermuda, the Cayman Islands, Switzerland, the United Arab Emirates and the United Kingdom and the United States: all major tax havens, or secrecy jurisdictions. Nearly half of the Forum's 30-member Peer Review Group are secrecy jurisdictions, and they operate on a 'consensus-minus-one' basis, which means that two jurisdictions acting together can block a report.

Still, the Global Forum is regarded by many as the leading body for dealing with tax haven issues, so Markus Meinzer of the Tax Justice Network has produced an assessment of its activities so far, with a particular interest in how it affects developing countries.

The short verdict goes as follows. While the Global Forum can claim some limited successes, the overall scorecard is not pretty, and it may have helped legitimise the illegitimate.

Since 2010 the Global Forum has been conducting peer reviews of different jurisdictions, and by January 2012 it had published 59 of these. Some of them have made pointed criticisms, and some jurisdictions have improved their laws to avoid further criticism from the Global Forum.

That is the good news. But overall, the TJN summary is rather damning:

> *"Broadly, the paper argues that the peer review process adds limited value in terms of increasing transparency, while no value added is discernible for developing countries."*

The charge sheet is long, and detailed.

For one thing, the entire edifice is built on the OECD's fatally flawed "on request" standard that underpin such mechanisms as its "Tax Information Exchange Agreements (TIEAS,)" the rule books under which tax havens are supposed to share information with others. This 'on request' approach is not serious: effectively, you have to know what you are looking for before you even ask for it, and you have to jump over various other hurdles before a tax haven will agree to cough up the information (which, by and large, you already know.) The standards won't help you find that information in the first place.

We have already shown on countless occasions how inadequate these OECD standards are – click here for instance – and many others agree with us. An article in the *Journal of International Taxation* last April by four top private sector practitioners concluded bluntly that "TIEAs in practice do not work." Recent U.S. research shows that when there is little or no routine information reporting, over half of the income goes unreported: a figure that would

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The OECD Global Forum (Continued)

be higher for developing countries. As I said in The Economist recently: "It's as if the OECD has been asked to drain a swamp, and they're handing out drinking straws." In short, the OECD process appears to take the 'just a few bad apples; approach, whereas the problem is clearly systemic in nature, and requires much stronger solutions.

The criticisms of the Global Forum mount up.

There is a lack of transparency in who is assessed and why, and in the treatment of miscreants. There are no comprehensive statistics provided about the volumes or types of information that is being exchanged, leading the paper to conclude: "It is impossible to assess whether or not the whole exercise is anything more than window-dressing." Civil society actors are excluded from the process.

The Global Forum carries out peer reviews rather than expert reviews – the latter approach would be far more robust, allowing outside experts without conflicts of interest to be used. The Global forum allows its members to charge money for information.

And then there is the matter of developing countries.

For starters, the peer review process means that they have to put in a lot of effort to demonstrate that they are compliant with these standards -and what do they get in return?

Not much, in fact. Here is one important reason why.

As we've explained in a separate briefing paper, there are broadly two types of information-exchange agreements: TIEAs, which only concern how information is exchanged, and Double Tax Agreements (DTAs,) which are much broader frameworks that include information exchange but also define how to tax an investor from one jurisdiction who invests in the other: which jurisdiction gets to tax which bits of income.

Some developing countries have found that they are denied tax information exchange agreements (TIEAs) with tax havens, and are instead pushed to sign Double Tax Agreements (DTA). The problem here is that under these DTAs they frequently have to sign away major rights to taxing income generated in their country, in exchange for the trickle of information that they might get from the OECD's dubious 'on request' standards embedded in the DTAs.

All in all, the paper's summary is a negative one:

> *"there is a significant risk that the international momentum to improve tax and financial transparency will be captured and neutralized by the peer review process, without addressing the core problem of massive illicit financial flows from southern to northern countries."*

comment

Globalisation: Battle over who sets the rules – David Spencer

With globalisation – significantly increased cross-border trade and finance – who sets the Rules? Traditionally, developed countries are the Rule Makers, while developing countries are Rule Takers.

But following the financial crisis that emerged in 2007, can developed countries be trusted to set appropriate rules? Kishore Mahbuhani, Dean of the Lee Kuan School of Public Policy in Singapore, noted in the Financial Times last year:

> *Most crises are known by their origin, from the Mexican peso crisis of 1994/5 to the Asian crisis of 1997/8. Given there are no doubts who caused our world's latest troubles, it should adopt its logical name: the Western Financial Crisis… most fundamentally, we need an end to the pretence that the U.S. and EU are masters of the universe.*

The United Nations, with its universal membership and legitimacy, ought to be the forum for developing international rules, but the OECD has strenuously fought this. In a March 2012 letter, the Indian government said of OECD efforts to impose its international tax rules and guidelines:

> *"It is inconceivable how a standard developed by governments of only 34 countries can be accepted as the "standard" . . . when it only takes care of the interests of developed countries and has seriously restricted the taxing powers of developing countries."*

(text abridged by TJN; original here.)

Meanwhile, rich countries have been trying to silence the United Nations Conference on Trade and Development (UNCTAD), which has often opposed western financial orthodoxy. An April 2012 letter by the G77 countries and China, describing battles in the preparation for a major UNCTAD conference in Doha, said:

> *"Some of our partners regressed to behavior more appropriate for the founding days of UNCTAD, when countries of the North felt they could dictate and marginalize developing countries from informed*

comment

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> *decision-making... we see behavior that seems to indicate a desire for the dawn of new neocolonialism."*

A few days earlier, senior former Unctad staffers said in a joint open letter:

> *"UNCTAD has always been a thorn in the flesh of economic orthodoxy. ... Now efforts are afoot to silence that voice. ... the crisis originated in and is widespread among the countries that now wish to stifle debate."*

As Philip Stephens said in the *Financial Times* in 2008:

> *"When American and European diplomats talk about the rising powers becoming responsible stakeholders in the global system, what they really mean is that China, India and the rest must not be allowed to challenge existing standards and norms. . . For more than two centuries, the US and Europe have exercised an effortless economic, political and cultural hegemony. That era is ending."*

Developing countries are finding their voice. And we welcome that.