

Naomi: "Hello, and welcome to the Taxcast from the Tax Justice Network. I'm Naomi Fowler. Coming up later, the story the mainstream media aren't telling you – how governments around the world are undermining our tax collection services. We look at how the building of South Africa's Revenue Service can bring hope:"

"it was known as the *higher purpose*...it was certainly one of the reasons why I think the revenue service was able to over the years grow and develop and become this world class institution that it did ultimately become. It was not just a job. It was a heart and mind labour of love."

Naomi: "But it's also a cautionary tale that shows how important tax consciousness is, and for us to always value and defend the most precious foundation of our nations. We're going to go straight to John Christensen now of the Tax Justice Network for his take on this month, another challenging one for the world as it struggles to deal with the covid19 pandemic.

Naomi: Okay, John, all eyes are on central banks of the world at the moment, far more than usual because governments are struggling to respond to the coronavirus pandemic and there's all sorts of questions like where is the money for recovery going to come from? And central banks are supposed to be independent from government and they supposedly make technical decisions, not political ones to protect national economies. But what central banks do is based on certain values and they tend to dodge all kinds of accountability. And you have to ask who is serving who? And there's a fascinating ruling this month by a German high court challenging whether or not the European central bank should have intervened in bond markets to basically digitally create money a few years back. And this is a real power struggle launched by conservatives with some very 19th century economic ideas. It as though the European Union's committing suicide with the Germans pulling the trigger. So tell us what's this case about and why is it so significant?

John: Right. So this, this is crucial. This ruling has come out of the German constitutional court, which by the way is based in a tiny little town called Karlsruhe, which is close to the German French border and the ruling relates to the actions of the European central bank since the financial crisis in 2008. Now at the time faced with appalling financial market crisis, which was very rapidly spilling into the real economy causing unemployment across Europe and impoverishing people on a colossal scale, the European central bank ultimately intervened on the bond markets by buying trillions worth of bonds from the commercial banks. And the European central bank did this to improve the balance sheets of the private banks so they had enough money on on hand to support businesses throughout Europe. I mean, in other words, they were intervening to prevent a wholesale collapse. Now look, one of the side effects of this huge bond buying exercise was that interest rates were pushed down in most countries, in some cases, into negative territories. For example, just this week, the UK has launched its first negative interest rate bonds and this is really angered conservatives, many of whom have considerable personal savings invested in bonds. And this has angered them to the extent that they're challenging the right of the central bank to act in such a momentous way on the financial markets. The conservatives argue that the European central bank risks igniting inflationary pressures in the European countries, not

necessarily immediately, but uh, in a, you know, a couple of years time. They're wrong. They're wrong in thinking that central banks should not stray beyond the function of inflationary targeting. And they're also wrong in thinking that inflation will be a pressing problem in the foreseeable future. Let's step back a bit and examine the role of central banking in a modern economy. And let's also challenge this myth that central banks are independent and this independence is a good thing for public policy making.

In many respects. it's been the Germans who've shaped the role of central banking during the course of the 20th century, the German or Austrian German branch of neoliberalism, they've been preoccupied with the threat of inflation and hyperinflation ever since the German economy collapsed in the 1930s, they initially they had a stock market collapse and then a complete collapse of the economy and followed by hyperinflation. Now their arguments go roughly along the lines that politicians are always irresponsible, voters are always irresponsible, they will always spend too much money and inevitably fuel inflation. So their remedy to this situation lies with taking decisions about monetary policy away from politicians and handing it to technocrats in the central banks. Let the central bankers make key decisions on setting interest rates and issuing money into the economy and allow the financial markets, which of course the dominated by the big banks and hedge funds to discipline the central banks when and if they become too spendthrift.

And that's the core of conservative thinking. And in their version of economic reality, central bank independence takes key decisions away from democratically accountable politicians and places these decisions into the hands of largely unaccountable bankers. Now all of that thinking kind of dominated economic thinking right up to the moment of the financial crisis in 2008 when bankers and hedge funders were suddenly revealed to be even more recklessly irresponsible than politicians. And needless to say, since 2008 central banks have been much more preoccupied with financial market instability with the problems of double dip recessions in Europe and elsewhere. And now increasingly they're facing the looming economic threats posed by climate crisis, which threaten not just the economy but the entire ecosystem. And yet, and yet, despite these far more pressing problems, German conservatives are still primarily preoccupied with the possibility of a return to inflation. And from where I'm sitting, frankly, the risk of price deflation, in other words, a sustained fall in prices resulting from low investment and low consumer expenditure is much more probable in the foreseeable future. So as far as I'm concerned, the conservatives are barking up the wrong tree.

So let's go back to the German constitutional court. When they made this ruling this month that the German government had failed to prevent the European central bank from overstepping its authority, the court was essentially saying the bank could not intervene on the scale in which it did because this intervention straight into the area of economic policy making, which the court seems to argue is the preserve of national governments. Now this seems to reveal several flaws in conservative thinking. Conservatives argued for central banking independence, but then they push back when the European central bank acting independently, takes necessary actions to protect the Eurozone from complete collapse.

Well it can't have it both ways. Either the bank is independent or it's not. And for what it's worth, the European court of justice has already previously ruled that the central bank that's the European central bank had acted within its powers under existing treaty arrangements. So so the German court has thrown a spanner right into the middle of the political arrangements of the euro zone area and it has done this at the very moment when the Eurozone faces an even greater challenge coming from the Covid19 pandemic and the economic slump which will be facing the global economy throughout the coming decade. Now, for listeners outside Europe, who might think that this is some obscure issue relating to political infighting by right wing conservatives in Germany - first, the European central bank is the second biggest in the world and second in importance only to the federal reserve in the United States, and anything that threatens the financial stability of the Eurozone economy will have powerful and destructive repercussions right the way across the world. But secondly, this court ruling coming out of Karlsruhe, this ruling might lead to a rethink about the role of central banks in the 21st century. To whom should they be accountable, whose interests are being served by the charade of political independence and how can we make central banks accountable to the public they notionally serve?

Naomi: Right. And this ruling comes just as EU States are fighting with each other about giving an extra helping hand to southern EU member States who've been particularly hit by the Coronavirus. Whether that helps should be in the form of loans or grants, we know loans would be unpayable and would sink those nations even further into despair and anti-EU feeling. And this ruling could endanger the ability of the EU to take concerted action. These things do need rethinking obviously, and economists like Adam Tooze say we need a new monetary constitution. It's obvious we need a rethink on the role of central banks and what we have now is way out of date. So what should this new relationship between the people in nations and their central banks look like?

John: Do you know that's such an important question. In so many respects, economic thinking in Europe and elsewhere is still rooted in the thinking of the 19th century and the 20th century, and central banks are now having to adapt to a globalised economy and a world facing genuinely existential threats. So I want to single out three threats to economic stability, which are imminent and in all three cases, sufficiently large to threaten democracy and social stability and therefore economic stability. But the first threat is of course financial market instability. No one should think that the reckless behaviour that went before the financial crisis has gone away. Just take one example. If you look at the problems of collateralised loan obligations, not collateralised debt obligations, now collateralised loan obligations, that's loans to companies, you'll see the genie of the financial market innovation have escaped the bottle yet again and the threats are as deep, if not deeper than they were before the great financial crisis. Now the second threat, again a global threat is the threat of inequality and poverty. This has been massively worsened by the Covid19 pandemic and by the coming slump and economic slump, which will leave arguably hundreds of millions of people utterly impoverished. And the third threat lies with the climate crisis and the decades-long failure to take the necessary steps to move beyond the fossil fuel economy. Now before discussing why the part that central banks must play in

tackling these crisis is kind of crucial. I want to quickly outline how conservatives are currently reacting to these threats. So faced with the Covid pandemic and the economic slump, conservative governments in Europe and the United States have had to pump trillions of government funding to keep the economies of blunt, even though they hate deficit spending, this has been the only way to avert an overwhelming disaster,. But as we come to the end of the first wave of the covert crisis, conservatives are reverting to their ideology. They're calling for a resumption of austerity and they're wanting to tackle the deficit by imposing tax rises across the board. Now both these measures would be a mistake of historic proportions. Austerity failed in the last decade. It weakened the economies, leaving them far too weak, you know, ahead of the coming slump and in the case of taxes, I'm all in favour of some tax increases, tax increases on wealth for example, or a surtax on excessive profiteering by hedge funds and private equity. I also think there's a strong case for withdrawing tax reliefs on pensions and imposing a Tobin tax to curtail speculative trading. But we in the tax justice movement should be firmly in favour of reducing taxes on labor and on consumers. This would be progressive, it would boost expenditure in the local economy. It would help with tackling unemployment. So these are amongst the matters the tax justice movement should be considering in the coming months.

But back to the central bank, we now need to rethink the role of central banks and question the idea that independence is a good thing. I'm not saying here that we should abandon inflation targeting, price stability must remain a one priority amongst others, but that needs to be balanced against the three pressing concerns I outlined earlier. In other words, threats to financial market stability, rising inequality and poverty and climate crisis. And to be blunt, the interests of self serving savers in Germany and in other countries needs to be balanced against the far more pressing interests of employed and unemployed people, and the need to rapidly finance a green new deal, which will allow countries to transition away from fossil fuels to renewable energy. Now, those should be the overriding priorities for politicians and central bankers in the coming decades. And central bankers need to accept a much greater degree of political and public scrutiny to ensure that they are pushing in the right direction.

Naomi: Okay, well the European central bank now has three months to justify its actions in this whole process. And we'll let you know what happens on the Taxcast. But if the German court and these conservatives do pull off this challenge to the European central bank, it really could block a more socially responsible European fiscal response in a coordinated way to the Coronavirus among other things and anything else. Um, and this would all be in the name of controlling inflation, which doesn't really need controlling, and in the name of sovereignty, which is impossible anyway against the power of globalized markets unless nations combine forces as a block. And it's in the name of balancing the books, which don't need to be balanced. I mean, this really could lead to the end of the European union!

John: Yeah. You know, I think you're absolutely right there. There's no question that the European union now faces existential threats. Um, for example, it's no secret that it failed, completely failed to support countries like Italy through the worst period of the first wave of the covid pandemic. And also there's no question that public support in Italy, France, and

other countries for the whole European union project is very rapidly draining away, mainly draining away - and this should be a matter of concern to everybody - In the direction of pro nationalist, very right wing politicians whose agenda is not a constructive one, but which will actually destroy European cooperation and uh, leave us in a very dark space. But you can add to that the threat of post Brexit. Britain will do everything possible to undermine the whole social Europe project and they'll do this through tax competition and through removing social environmental protections and competing in those areas as well. What I see is one of the great unresolved issues of the European union, which is whether or not it needs to move towards cooperation on fiscal policy matters, especially in areas relating to tax transparency and tax cooperation. As I see it, the choice facing the European union is either it chooses a degree of cooperation or it accepts that spoiler States, the tax havens like Ireland, Luxembourg, and Netherlands will continue to use tax wars to grab their tax revenues and force them into race to the bottom policies. Last year I wrote a chapter for a book in which I argued that the European union now faces what I call its Hamilton moment. Why is that the Hamilton moment? Well, if you go back to the 1790s, after the independence of the United States, the treasury secretary in the United States, Alexander Hamilton, pushed for a deeper federal union precisely because this was the only way of overcoming the instabilities that he saw arising if the States that make up the United States started to compete against one another on fiscal policy. So, as long as the European union continues to leave this question unanswered, that is the question of whether or not to cooperate on fiscal matters, the threats to its economic and political stability can only worsen unless they act decisively, there's every possibility that the Eurozone quite simply won't be there in just a few years time.

Naomi: "Thanks John! John Christensen of the Tax Justice Network. Now it's time for the Taxcast special feature. The coronavirus pandemic has shown us more than ever how important tax justice is for decent public services, caring for people when they need it. But for a long time our tax collectors have been under attack by governments:"

[Clips of demonstration outside Parliament: "We're having a little protest here today to say keep Ealing Tax Office open..." "We're very experienced people, our jobs are valuable, we're the best bargain you'll ever get, the money that we cost compared to the money that we raise for hospitals, for schools, for infrastructure, the roads, police, we're a great bargain" "Two years now nearly trying to save our tax office, we're really needed more than ever now especially in the light of coronavirus, we need all the taxes we can get to pay for the extra care that people will need" "This is purely a cost-cutting measure, 500 offices being closed, 50,000 staff being lost and yet you want the biggest budget spend and no money, nobody's going to be around to collect it! Stop this programme now. Support your tax staff, make sure we're still here to do the job you want us to do"]

Naomi: "Tax office workers protesting outside the British Parliament just before the lockdown. Their resources were virtually halved in a decade and they're still dropping. They can bring in up to [30 times](#) their salary, in terms of tax revenue. Yet no other tax authority in Europe has cut its staffing more than the UK – except for Greece. Yet the tax gap in the UK is high - avoided, evaded and uncollected tax is estimated to be around £119bn per year.

Unfortunately these cuts to British tax office workers is common across the world and tax takes everywhere are falling. Successive administrations in the US have been cutting back on their tax authority the IRS for years. This has resulted in billions in lost revenue each year, with more than a third less auditors to do the job than in 2010. It's all benefiting the wealthy and big companies the most which all the evidence suggests are the biggest and most persistent offenders. The outgoing commissioner of the IRS warned about cuts to tax collection back in 2016 speaking to PBS:"

[clip]

"That was John Koskinen there, former IRS Commissioner. And a few years before that he was already sounding the alarm:"

"The underfunding of the agency is the most critical challenge facing the IRS today. And the serious ramifications of five years of budget cuts are becoming increasingly visible and will worsen if action isn't taken soon. The IRS is now at its lowest level of funding since 2008. If you adjust for inflation our budget is now equivalent to where we were in 1998. While our budget has been shrinking however the taxpayer base has grown by millions...shrinking our workforce...we expect to lose another 3,000 this year"

Naomi: "As you can imagine, his public criticism of the cuts to the IRS didn't go down well. Here's Kevin Brady, Republican representative on Fox News:"

"It is long past time for John Koskinen to go, we need a fresh start at that agency, both for credibility and both to do what we wanna do which is we wanna bust up the IRS as it is today...and redesign it, really into a 21st century agency...we think you can do much better than that agency..."

Naomi: "Hmmm. And what does it actually mean when qualified staff lose their jobs? Where do they, and all their experience go? This is what the staff at the protest to try to save their jobs outside the UK Parliament told me:"

Naomi: "So how many, how long have you worked at the tax office?"

"It will be 21 years this year"

Naomi: "That's a lot of training and a lot of experience."

"Well, it is a lot of training, a lot of experience. I've actually worked in training other tax inspectors for a large part of that 21 years. So yes, it is... Up until recently I've loved the job that I do, I've always justified it because it pays for hospitals and schools and the whole infrastructure. And for me, it's the sort of bastion of civilised society that people pay into a tax system to support everybody else. I think that those people at the bottom of the rung, and I include myself in that will be, will always have to pay their taxes. The top of the rungs that we need to police. I just don't know who's going to police those businesses and it terrifies me, as a member of HMRC and also as a member of the public, as a tax paying member of the public."

"I've already been approached to come out and work for the opposition shall we say as an advocate in tribunal cases. I've never lost a tribunal case."

Naomi: "What do you mean the other side?"

"By the other side, as tax advocates for the appellants...Not necessarily accounting firms but tax consultants. I deal with evasion cases. My expertise is evasion. I've never lost an evasion case at a tribunal. And as a result I can be, I'm being approached by people that know me. and I know have already left the department to come out and represent their clients, which are generally evaders"

Naomi: "To defend them?"

"To defend them."

Naomi: Doesn't that stand against everything you believe in?

"It goes absolutely against my psyche. That's not what my vocation is. Um, but I know that there are people doing it and without the actual..."

Naomi: "You mean there are people doing that, that are losing their jobs, who have been working for us, for the people?"

"Yep. And know where we fall short. So at the end of the day we will stand to lose a higher rate of tax tribunals because we won't have the expertise in the staff there to present them. We're not going to win. We're not going to win. We're going to lose cases, and every case that we lose sets a precedent for a similar case that's in the waiting. Every, every assessment that's not upheld, undermines other assessments that are raised on the same basis. So when you've got a team like mine, which deals with projects somewhere in the region of 2000 cases a year, 2000 different projects. If we lose one, we lose, we undermine that project completely, the yield that comes in from that project. Without the experience, the expertise, the knowledge to present these cases and the challenge these traders who are evading, then we will never get the tax, we will never address the tax gap. The hidden economy items, we're never going to find. We're never gonna find the off record employees. We're never gonna find the millions that are going on, going around this country untaxed. Especially in the South east, there's lots of wealth down here. a vast proportion of it is not getting taxed. Those tax evasion cases, those tax avoidance cases cos tax avoidance is also being hit, they're not going to be addressed. They're not going to be addressed. That money is going to be lost forever. And no matter how much training or how many staff they recruit, it's going to take - to get to my level 35 years of experience to build up that expertise. And we're not even retaining them for two years. It is crazy."

Naomi: "Crazy indeed. So, this loss to us, the public, goes straight to private gain. Journalist Paul Kiel of ProRepublica covered the cuts to the IRS extensively:"

“We haven't got the audit numbers from last year, but it's already apparent that it's the lowest audit rate that I can find in the history, at least recent history of the IRS since they've been keeping the numbers the way they've been keeping them going back at least several decades. And the main reason for that in addition to just sheer lack of staff to do the audits was the shutdown of the government for about a month, January 2019 which stopped a lot of audits from even occurring so this year is obviously going to be a lot worse, who knows how low the audit rate is going to go but the number of those audits have been just completely, uh, uh, going through the floor in terms of the rates of audits of the largest corporations and, uh, the wealthiest taxpayers. And there's no reason to think that's going to stop from happening. The budget for enforcement is still very much depressed from what it was 10 years ago. So until Congress decides that it wants to, uh, audit people at a, at a rate that is more commensurate to what has been the case publicly, that's not gonna happen and it's gonna take quite a budget boost for the IRS to begin to recover. And it's going to be a process that is going to take several years, uh, as you have to train new staff and get people up to speed. Um, so, you know, I think it's safe to say several years from now is the earliest that we would see, um, a return to audit rates that are sort of normal by historical standards.”

Naomi: “Yet it could be so different. And it *has* been. The story of the South Africa Revenue Service provides hope. But it's also a cautionary tale. This is Johann van Loggerenberg, author of *Death and Taxes: how the South African Revenue Service made hitmen, drug dealers and tax dodgers pay their dues:*”

Johann: I joined the revenue service in South Africa in, uh, in 1998 and I left there in 2015. When I joined, I joined at a relatively junior level. And by the time I left the revenue service, um, I was the one of two group executives in the enforcement environment. And I left there in the wake of what was known as state capture, what is known as state capture in South Africa.

South Africa has a history and that history is partly informed by colonialism, which was followed by apartheid and the regime that enforced apartheid on the population, and then came 1994, which effectively brought the first legitimate democratically elected government into being, uh, in South Africa. South Africa remains a developing state. And by and large, the reasons for this is because of the remnants of those items that I've mentioned to you now that remain very relevant to this day in our society. I think almost from the beginning when the South African revenue service came into being, which was around 1995, so that's the year after democracy by law. It became a unique, state organ in that it was seen to be autonomous from government and part of that was informed by what I believe to be a deep recognition that the revenue service..particularly when it comes to developing States..enables one to embark on a journey that would ultimately lead to fiscal sovereignty, which is something any developing economy should strive towards. It would also enable government to get rid of the immense debts that it had inherited from the regime before. But it would more importantly be able to enable government to fund the future. And because you had to address the past and you had to do so in a sovereign basis, without going around with the begging bowl, the revenue service was seen to be at least

strategically a pivotal tool within the legitimate government to finance its future plans to uplift society and remedy the past. And what was born out of that realisation and acknowledgement was what was called from the early days in the revenue service, the late nineties and developed over time, it was known as the *higher purpose*. So, it was not just an institution that was there to enforce tax and customs and excise legislation and do what revenue and customs authorities do, but it, but the human beings that set in that institution could directly link what they did on a daily basis, wherever they were in the institution to a higher purpose, which was to address the past, make the country more fiscally sovereign and help the government to fund programmes and its plans to make a better country for all. And that higher purpose remained within the revenue service, very visible up until around 2014. It was certainly one of the reasons why I think the revenue service was able to over the years grow and develop and become this world class institution that it did ultimately become. It was not just a job. It was a heart and mind labour of love.”

Naomi: “In South Africa he says, they invested in education on the higher purpose of tax, on setting up on-the-ground tax offices to help people and they invested in effective enforcement, top skills:”

If one looked at the results of the revenue service over those years, bar for the fiscal year 2008, 9, the revenue service consistently over-collected on the annual targets of um, um, revenue set by government required to fund itself and its programmes every single year. And in fact, that curve increased year on year. The exception in 2008, of course can be attributed to the fiscal meltdown worldwide..I should add though that, um, when you do a comparison to other revenue services and the South African revenue service for that particular financial year, the drop was not that marked, uh, a drop. Uh, so it did affect revenue collections, but not as much as the norm appears to be worldwide. There was also a key drive in bringing in expert skills. So because the revenue service was autonomous, it was capable of going out into the market and recruiting and headhunting experts in their fields. And in that way, uh, the revenue service, for instance, managed to build a launch business center. It had it world-class transfer pricing unit. It had top class lawyers, it had the best forensic investigators and laboratory that money could buy. In fact, some of the people that worked in my division trained, um, the FBI and they trained, uh, uh, people in Australian revenue services and people in the middle East. And most African countries, a lot of the systems that we developed, we are also then provided for free do many of our African brothers and sisters and they implemented them within their revenue agencies and we helped them do that. Um, out of that, for instance, was also born the, uh, the African tax, um, administration, uh, which South Africa and the revenue service funded initially and, and hosted until it, uh, began to operate on its own.”

Naomi: “It shows what’s possible when a kind of tax consciousness is a solidaristic thing, a patriotic thing, based on common purpose. But, very sadly, it didn’t last:”

“All of this changed from around the fiscal year 2014, 15 onwards. And this is by and large attributable to what’s known as state capture. The leadership of the revenue service was effectively wiped out within a matter of a month, a few months, um, there were all sorts of people coming in and going out of, uh, the finance ministry, um, hot seat and, um, you

know, there were sort of greater issues of corruption going on in the country. Other institutions were also being weakened in the same way. It was done in a, in an incredibly brutal manner by humiliating people..And effectively those plans that, that brought the revenue service to the level that it was recognised worldwide as a, as a model, they were just discarded almost overnight. The revenue service was deliberately and actively undermined by a combination of people within government, people within our political structures, people who were in dispute with the revenue service, people who saw the revenue service as a threat. And to the extent that the revenue service happened to come across some of their dirty schemes. From the fiscal years, 2015, 16, there was an under collection of around 11 billion rand, South African Rand. Uh, the following year, it more than doubled to over 23 billion rand under collected, the following year it again more than doubled to, uh, just over 48 billion rand under collected. So effectively government became poorer and poorer, um, in, in, in the following years. Around 2017, 18, there was significant, um, pushback from society and the media and outsiders and civil society bodies and the public that began to somewhat, um, push back against those who were engaged in the capturing of the state and repurposing of the state. And as a consequence the, the person who was in charge of the, the revenue service during that horrible period ultimately left. Of course the damage has been done and you know, it takes many years to build something. You can break it very quickly with a 10 pound hammer, but to rebuild it, um, will not only require you to do almost start from scratch again, but you will also have to deal with the damage of the 10 pound hammer. And I think that's more or less where the revenue service finds itself in at the moment. You've lost a lot of institutional memory. You've lost a lot of experience. Um, the, the revenue service has shrunk. It lost over 2000 people during state capture. And those people that left..they were your superstars. It will take a very, very long time to rebuild that institution.”

Naomi: “It will take us *all* a very long time to rebuild our tax collection bodies, and to awaken a ‘tax consciousness’ in people, politicians and businesses. Even though the South Africa Revenue Service has been so weakened from its former glory, that labour of love still shows us what can be achieved in the most challenging and traumatic of circumstances. You’ve been listening to the Taxcast. Thanks for joining us. We’ll be back next month.”