Transcript of the Taxcast, edition 103 (not 100% accurate)

Naomi: “Hello and welcome to the Taxcast from the Tax Justice Network - our monthly podcast on how to take back control from the super rich and powerful, and how to re-programme our economies to work for all of us. I’m the producer and host, Naomi Fowler. I’m joined each month by the Tax Justice Network’s John Christensen, say hello John!”

John: “Hello, how are you!”

Naomi: “Coming up later you’ll hear our Part 2 on tax and systemic racism:”

Clip: “As we continue to ignore the racist history of the tax code, ignore the fact that policy is not race neutral and that the tax system is not immune to racism then we will continue to see the impact of black and Brown communities and communities of colour worsen in the most negative way.”

Naomi: “More on that later. So this month has been somewhat of a vindication for the tax justice network - yet again - for estimating so long ago the amounts of wealth stashed offshore. So John let's look at the context first. One of the Tax Justice Network's first major demands to unlock the numbers on global wealth stashed off shore was the automatic exchange of information on bank accounts between nations. Back in the early 2000s people laughed at this idea, they said it would never happen. It used to all be done by information upon request, which was a joke. Um, but it has slowly, if imperfectly been adopted by many countries and the OECD’s just announced that nearly 100 countries carried out automatic exchange of information in 2019. And that means tax authorities have got the data of 84 million financial accounts held offshore by their residents covering total assets of 10 trillion euros. So hidden accounts, unhidden means more tax revenue, trillions of dollars of offshore assets are now in tax authorities sights that wouldn't otherwise ever have been. Tell us the story, John, on this for the Tax Justice Network.”

John: “Yes it's true. In fact, less than 10 years ago, the head of the organization for economic cooperation and development told me that automatic information exchange wouldn't happen in my lifetime. And here I am, and here we are, and we've got automatic information exchange as a global standard, not perfect yet, but a work in progress. Great. But the reason it's so important is because the people who've been paying attention to the offshore world of secrecy, jurisdictions and tax havens knew that the sums involved the sums of private wealth and corporate wealth sitting offshore untaxed were simply eye-watering. Let me give you an idea. Back in 2005, when Tax Justice Network was just getting started. I got some information out of the Boston management consulting group had some limited data on offshore wealth. And I also had some limited information from the Bank for International Settlements. And I had a little bit of information from the IMF and working with that Richard Murphy and I came up with a figure of 11.5 trillion US dollars of personal wealth sitting offshore. And yet we knew all along that that was just a small part of the figures and that 11.5 trillion generated huge newspaper headlines, but we knew it was far, far too low, but others were telling us, no, it's nothing like that, it's far, far smaller, you've got it totally wrong! The gaps in our data sets were enormous. For example, there was no information about capital blows out of Africa. In other words, all those illicit financial flows accumulating over decades out of, coming out of Africa, they weren't part of the datasets and subsequently one of the senior regulators in Jersey, the tax agent of Jersey said that our estimates of the volume of wealth held in trusts, just in Jersey was about half of their estimates. So we knew we'd arrived at a very conservative picture, but I also knew that there was this person in New York who had a much better data set. And I think it was towards the year end of 2005. I went to New York and I met up with Jim Henry for the first time. And I realised Jim Henry had much, much better data than we could even dream about."

Naomi: "Right. And we've got Jim Henry, the tax justice network's senior advisor with us today, Jim, you got so much closer than anyone else ever has with these estimates that you did. And they are so difficult to estimate and you've called it yourself, you've called it 'an exercise in night vision' and you estimated offshore wealth to be between 21 trillion to 32 trillion, much higher than other estimates, now borne out by these OECD figures. What does this mean now for the world?"

Jim: "Well, it means we've discovered an eighth continent of wealth really. I mean, this is the equivalent of the combined wealth of a lot of developing countries is sitting there. What we did in our estimates that we published in 2012 with Tax Justice Network support was to really look at this as a kind of a black hole, and when astronomers estimate the size of a black hole, they triangulate on the methods cause you can't see, uh, the entity itself because it traps all of the light. So you have to look at it indirectly by looking at other metrics. So one of the methods we used was the one that John referred to and we updated that and I think, uh, got some more accurate information on the volume of so-called, uh, cross border deposits, the Bank for International Settlements publishes data on that. Deposits are only a share of the total portfolio of wealth has held offshore. And so we also interviewed private bankers who said that, you know, this is on average, like 25 to 30%, or even less as a fraction of the total portfolio. Uh, so you actually have to get an estimate, you can scale up the deposit number that we had back then from the Bank for International Settlements by a factor of four to five. And so that led to our original estimates of, you know, 21 to 32 trillion. In addition to that, we also looked at capital flight that was pouring out of the developing countries and the World Bank published a lot of a balance of payments data on, you know, the amount of loans and foreign investments that were supposedly flowing into countries specifically like Brazil or Mexico and the, the volume of international reserves and the current account that were used to, were being financed by this foreign capital. And you saw big discrepancies in these numbers. When you added up those discrepancies, it turned out that the developing world as a whole was, is actually suffering a lot of illicit flows, uh, unrecorded foreign investments, usually by the wealthiest people in the, in the countries and kleptocrats as well who are moving money offshore, hiding it in havens and, uh, then investing it mainly in the first world countries. So that allowed a second method for estimating this overall total. When you accumulated those uh, flows and looked at what they might be earning offshore, you found that the value of the private offshore financial wealth was on the order from the developing world, on the order of $12 trillion. And so that's, you know, consistent with the overall estimates for 21 to 32 for the world as a whole. But it's important, especially for developing countries because that compared with their foreign debt and their offshore reserves, shows that they're basically a net creditor of the rich world, cause most of this money is not invested in Cayman islands or Panama, it's basically invested in London and New York and Zurich. So that's an important finding, especially for developing countries. And the third estimate we got was just to go to the private banks themselves, the top 100 international private banks as of 2010, had a total of 12 trillion of offshore deposits and so-called client assets that they were reporting. And the top 10 of those banks, institutions like UBS and credit Suisse and JP Morgan, Citibank, HSBC, Barclays, these players, the so-called international private banks, had set up departments, private banking departments with global wealth management they call them now, to basically help wealthy people all over the planet, including developing countries, take money out of their countries, hide it, secure it and invest it, generally tax-free. And this is, you know, really an important part of this finding because our estimates are much more consistent with the existence and the importance of this global haven industry, which is led not by, you know, shady banks and sultry paradises or dubious law firms in places like Panama, but folks that are in the very heartlands of the first world uh, financial centers like city of London, certainly in New York and Frankfurt, Zurich. These are the real financial capitals of capital flight. It's important to note that the 10 trillion Euro number that you came up with leaves out the United States, which is one of the big recipients of these offshore deposits."

Naomi: "Right. The United States still refuses to participate, I mean it did a U turn under Obama administration. And as we know, the US is the tax haven of choice in the world – 2nd place in our Financial Secrecy Index in terms of secrecy and scale. Isn't that a disgrace that they aren't participating in a global standard?"

Jim: "Yeah it's absolutely a disgrace and this is an ongoing problem, basically Wall Street doesn't care which party it is, it's basically the bankster party and they have 2 or 3,000 lobbyists in Washington representing the financial services industry, very big contributors to elections, right up to now. There have been other analysts over time who have made a lot of noise about lower estimates. Basically I think what we've shown in the OECD estimates is we can have a lot of confidence in the scale in order of magnitude of this much larger range. That that's an important, I think, validation of the three-pronged destination method that we used and this funadamental critique that we've had of this global system."

Naomi: "Thanks John, thanks Jim! Now it's time for the Taxcast special feature. In episode #102 of the Taxcast we looked at the way white supremacy is embedded in the US tax system. We looked at how wealth is still overwhelmingly in white hands, passed down from generation to generation since the times of slavery. Those advantages continue, with white families disproportionately benefiting from laws that were created to make taxing them extremely difficult.

In so many countries, people of colour and marginalised communities still face barriers to full and equal economic participation. There are HUGE costs for people when they're discriminated against in so many ways, it's a painful thing to experience. But if governments don't care about *people,* they *should at least* care about the *economic* damage their structural racism is causing. Because you get lower levels of innovation and productive economic activity. And that means less tax revenue. And that means weaker public services to make people's lives better. This is Shawn Rochester, author of the book 'The Black Tax - the cost of being black in America'. He's giving a talk here at Hofstra University:"

Shawn: "How is it that after 400 years over 40 million African Americans only own about 2% of US wealth? Now normally when we talk about discrimination we talk about it from the perspective of the injustice or the immorality associated with it. I wanted to look at things a little differently. I wanted to look at what is the financial cost associated with it and more importantly what does research say that those costs are? What we have to remember is that people were emancipated, they left bondage with no capital, no resources. In 1870 African Americans owned about 0.17% of US wealth, it's effectively nothing. Right? Now there was some talk about providing land right, and a mule - that's the 40 acres and a mule, we all heard about that right? That of course never happened. There is something that did happen that's called the Homestead Act, right? In 1862 Congress passed this law, the Homestead Act and because of this law they would proceed to distribute about 246 million acres to 1.5 million white families. You're talking about 1.6 trillion dollars of total or the equivalent about a million dollars a family on the high end. So that means you have a chance to claim this land and if you did you took possession of it after five years. So you could come here literally with nothing but the shirt on your back and in five years be in an extraordinary financial position. Now researchers say that there are about up to 93 million white Americans are direct beneficiaries of this, direct beneficiaries - not tertiary, not secondary, not kind of sort of some way related. Direct - of a massive you know government giveaway. In terms of the potential of land that would have been distributed, you're talking about on the high end about a trillion dollars that was denied right? But at the same time 1.6 trillion dollars worth of value was distributed. Important to know."

Naomi: "Huh. Another reason why proper inheritance taxes are key to reparational justice. Even after slavery was abolished, most African Americans worked in slavery-like conditions. And less than 1% of African Americans had access to mortgages. Affordable loans are still difficult. And there's education. Shawn Rochester again:"

Shawn: "In the South for every dollar invested in a black child, you have 5 to 8 invested in a white child. Black teachers are being paid 25 to 34% on the dollar of what white teachers are being paid. White students are receiving 50% more years of education byt the time they're 25. Massive differential in human capital. It is so substantial that researchers say, listen, if you had just invested in the children the same, just keep all the discrimination and stuff in the marketplace, just invested in the children the same, that could have cut the income gap by up to 50%, just doing that. So when you start talking about this happening across millions of children for up to 90 years, in a generation you're talking about over six hundred billion dollars of financial impact and across that period of time you're talking about up to three trillion dollars, so there is a cost to discrimination. That's the cost to black people right? But what was lost by the country from not taking advantage of fully integrating black talent and excellence into the economy? And I want to look at it from an innovation standpoint. We'd be looking at another 280,000 patents. No innovation, no America as we know it. You're talking about over 2 trillion dollars in national income that we don't have now, year over year. You're talking about over nine trillion dollars of net worth that we don't have now. Having talented people involved in the innovation process is super critical. Now a researcher from University of Michigan State University did a really interesting study, she asked this I thought was a profound question which is - what would have happened to innovation if white Americans had experienced the level of trauma that black Americans experienced? So a really profound question and her research says that 40% of the patents would have never been created. You don't do discoveries in trauma, you need time and space to focus on stuff, right? 40% of the pat- that's a million patents. Which of these things would be affected by that? Lightbulbs and photocopiers, movies and transistors and so on and so forth. What would be the economic impact in terms of revenue? We're talking about over seven trillion dollars of revenue and over 30 trillion dollars of net wealth."

Naomi: "Astounding figures. And the structural disadvantages and exclusion faced by people of colour has been devastatingly clear in the coronavirus pandemic. It's disproportionately made them ill and resulted in many deaths. People of colour in the UK have also suffered disproportionately. Let's talk about the most basic human right - access to healthcare free at the point of delivery. Well, in the US's marketised system people of colour are the ones who tend to have the least access. The UK's public healthcare system has been undermined by private interests for years and it's now at grave risk from the US trade talks, post-Brexit. We discussed that in episode #92 of the Taxcast. Sadly, Parliament has just voted against a clause in the Trade Bill that would have protected our National Health Service from any form of control from outside the UK. Any policy that denies a basic human right of access to healthcare in a modern world is a devastatingly bad political choice. In the US about 27 million people in the US don't have any health insurance, many more millions are under-insured. And those who *do* have cover, struggle. Insurance premiums paid by employers are pretty much compulsory and they reduce your wages. Here's Economist Gabriel Zucman:"

Gabriel: "I want to talk about how unfair that system is and how it could be replaced by something more sustainable. The way this works today is that health insurance for workers is funded through what you could call a huge privatised poll tax. It's like a tax, but it's a private tax and it's crushing because this tax is growing very fast, private health insurance premiums now amount to 7% of national income, that's about 10% of labour compensation in the US. The current premiums are so regressive, are so unfair if you replace those by taxes that are proportional to income or maybe more than proportional to income, progressive higher rates when your income rises, this would lead to a huge reduction in costs for the vast majority of working families. If you do this very simple fix, you replace insurance premiums that are fixed amounts per head today by taxes based on ability to pay, you ensure that you can make sure that more than 90%, maybe up to 95% of Americans benefit from such a change in funding and for tens of millions of Americans that's the biggest take home pay increase in a generation."

Naomi: "So, for all that politicians love to talk about tax cuts, in the US they keep on failing to repeal and reform this most unfair private tax of all."

Cortney: "when we were hit with COVID-19 and the coronavirus struck, it was clear that States needed to adopt Medicaid expansion and extend healthcare to people who were most in need and people who were undocumented, people who didn't have access."

Naomi: "Cortney Sanders of the Center on Budget and Policy Priorities:"

"In the US there are huge disparities among people of colour, specifically black people and Hispanic and Latinx people, we know that they are in need of this. In this very crucial time it is crucial to keep people healthy and safe, containing the spread of the virus. And we can only do that as people have access to good healthcare. And with COVID you know, we may all be in this together, but the impact is not the same. And as we continue to ignore the racist history of the tax code, ignore the fact that policy is not race neutral and that the tax system is not immune to racism then we will continue to see the impact of black and Brown communities and communities of colour worsen in the most negative way."

Brandon: "We need to have a system that can ensure people have access to affordable healthcare and quality healthcare, no matter what happens."

Naomi: "This is Brandon McKoy, President of the New Jersey Policy Perspective:"

Brandon: "And then COVID happens and now it makes the point perfectly clear that the healthcare system that we currently have, even if we were to improve in the ways that people want, really wouldn't deliver the things that clearly folks need right now.

Naomi: "Right. I mean, I appreciate for a French man like Zucman it's such a simple logic, but in such a heavily marketised economy in the US it's much more of a political question. But I see that there's some leeway for some States to do something to address the healthcare disparities which as we know, affect people of colour so much more deeply. The governor in Kentucky has recognised that there is this urgent need to address the healthcare disparities and he's promising free healthcare for all who need it. And I wonder how he proposes to finance that."

Brandon: "Yeah. I'm waiting with bated breath to see that, because obviously the whole world is dealing with the pandemic and the financial crunch and the economic crisis but in America, we've had this unique moment of reckoning with racism and systemic discrimination in the wake of the deaths of George Floyd and Breonna Taylor and Ahmaud Arbery, and so many others. And so it's really brought to the fore just how much government policies and budgets drive inequality. And as someone who works on budgets day in day out and sort of has, you know, struggled to get people to realise how important budgets are, and that budgets are moral documents that we should all care about, it's an incredible and somewhat unexpected thing to see, right? So it's wonderful to see, um, the governor of Kentucky say we're gonna pursue a budgetary line item here that explicitly funds healthcare for black Kentuckians because this moment is very clearly calling out for the fact that we need direct and explicit programmes and services and investments in black residents, because they have been explicitly divested from for so long and disenfranchised for so long. For a very long time here, we've had a sort of a rising tide lifts all boats point of view in this country and saying, okay, well, you know communities of colour will benefit if we just invest in broad based policies. And I think this is a moment where people are saying, okay, we know that's not true, right? Like, it doesn't mean we shouldn't invest in these broad-based policies. And it doesn't mean we shouldn't push for things that benefit everyone, but communities of colour have been specifically and explicitly pushed behind and disenfranchised. And to address those harms are going to have to have explicit policies that benefit them."

Naomi: "Right. And I suppose one of the first things that he'll be looking at - I'm talking about the governor of Kentucky, you know, things like, um, wealth taxes would be the obvious ones, and you always come up against the same objections anywhere in the world when you try to tax wealthy people, you know, they have this hallowed status, which is often very undeserved of being wealth creators when they're usually wealth extractors, or very often like in President Trump's case, you know, just born into money, so never had to struggle for anything. They will say, Oh, these people, they will leave. They will leave. How do you respond to that?"

Brandon: "Yeah. And this is definitely a common, uh, point of contention in New Jersey where I work. Um, and New Jersey is a state with a lot of very wealthy people. Um, and we're, I think we go back and forth with like Massachusetts and Connecticut for the wealthiest States in the country. And the way that we, you know, we look at it is, okay, well, how many wealthy people live here compared to previously? And so going back into 1994, New Jersey had approximately 10,500 tax filers who earned over $500,000 a year. The data at that time only provided information for everybody who made 500,000 and over, that was like the highest level bracket you could, you could find information on. So that was 1994, 10,000 five hundred thousand-plus filers. And as of 2015, the number of folks who filed taxes in New Jersey with that level of income, 500,000 and more was over 62,000. That's a six fold increase in about 20 years. And the only times that we saw that number drop was during the two recessions that the country had was the recession of 2001, 2002. And then the great recession from 2007 to 2009. Other than those two periods, the number of wealthy tax filers in New Jersey has gone up continuously at a very healthy rate. Obviously, you know, $500,000 adjusting for inflation, that's something that we've got to take into account here and it's tough to do when we don't have the data on every single individual tax filer to figure out just how much money they're making, but still, you know, a six fold increase in raw figures, a significant increase. And so the other point that we've made is that when people say, okay, if they're were going to leave New Jersey because of taxes, uh, well, the number one place that people go to, if they, if they leave New Jersey is to New York state. New York state has higher taxes than we do. So, you know, it helps us make the point that it's not about the taxes. It's about what are the assets that you have, what are the opportunities for, you know, success and, you know, financial success that exists in your state. And that's what people are going to care about. That's, what's going to keep them around. And we work with an organisation called Patriotic Millionaires, which is a bunch of wealthy folks who make the same argument saying, you know, what's going to get me to leave New Jersey isn't, you know, another 2 cents tax on every dollar I make over a million dollars, which is basically the millionaires tax proposal that our governor has put forward in recent years. It's if I cannot ride the train and get to Midtown Manhattan in less than 40 minutes, right? Like, it's if the assets that exist here are not high quality enough for me to do what I got to do. And for me to be successful, it's it's if the schools are not high quality enough for me to have faith and trust that my children are going to have a proper education, that's what's going to get me to leave New Jersey. And so I think reframing the conversation, you know, by using that information, using that data to say, look, increasing taxes isn't causing people to flee. And when you look at the people who actually are leaving New Jersey, it's people who have low incomes because they can't afford to live here because we haven't done enough to invest in services and assets to reduce the structural cost in their daily lives. That should be the focus, right?"

Naomi: "Right. And part of rolling back the history of white supremacy that formed today's structures and laws which continue to exclude and discriminate against people of colour in the US, in the UK, in many countries is reparations, it *must be* reparations?"

Brandon: "Yes. Yes. When we think about the ways in which black Americans have been left out of opportunities to build wealth and security, not having the opportunity to own homes in an affordable fashion, not being able to live in diverse communities that have greater access to opportunity, not being able to achieve levels of education at an affordable rate that others have been subsidised to do. For me, a more complete vision of reparations would be, uh, reducing the cost and reducing the barriers to opportunities to build wealth for black Americans. And that's going to require having a tax system that supports, uh, those investments. You know, um, former representative John Conyers, who represented, Michigan for so long introduced a reparations bill in every Congress since 1989, up until his retirement and passing. It was just, it was just a bill to study the concept of reparations. It wasn't even just describing or prescribing what reparations should be, and that's gained more support in recent years but it still hasn't happened. That should happen. And New Jersey recently passed a bill or a law supporting the formation of a reparation study commission and just, you know, being able to study this in earnest and saying, what is it that is, what policies will succeed at reparative justice I think is an important step, but we haven't even been able to sort of study it in the governmental space, in an honest and earnest fashion. And so seeing that happen sometime soon is very exciting. And I think it's gonna allow for a more robust and comprehensive conversation about what reparations look like in America for black Americans."

Naomi: **"You've been listening to the Taxcast, thanks for joining us. We're going to be talking more about reparations models in action soon. I've been talking to Brandon McKoy of New Jersey Policy Perspective on www.njpp.org I've also been talking to Cortney Sanders of the Center on Budget and Policy Priorities, you can find them on www.cbpp.org All the details in the show notes, also for the other speakers. Thanks for listening. I'm going to take a much-needed break next month so I'll be back in September. Keep safe and well. Bye for now."**