

The Taxcast, June 2020, episode 102 transcript

Hello and welcome to the Taxcast from the Tax Justice Network. Coming up later, we look at how tax justice is justice for people of colour:

“States have choices. They have a choice point and that's to cut services and continue to cut their budgets that harm families that are in need - or raise revenue, raise revenue on corporations, raise revenue on those that are most profitable and the wealthy. And that's a racialised choice.”

We'll look at the United States and how tax justice can help address systemic racism. By the way there's no research on this that I could find on the UK context, if you know any different, please let me know.

Meanwhile, in the news this month governments around the world are bailing out companies with few or no conditions as nations try to recover from the Covid19 pandemic. Protestors have been risking their health to fill the streets to stop police violence against, and murder people of colour and to call for deep societal change. And at the *same* time, in the US there's a huge looting process going on since the US administration is refusing to tell citizens which 4 and a half million businesses have received \$500 billion dollars-worth of government bailouts. They say what they're doing in the name of the public is 'confidential.' It's similar in Britain, where billions have been granted in bailouts, but almost all of it is hidden from public view.

As we've always said at the TJN, companies should, at the very least, commit to publishing country by country reports on their genuine business activities, not using tax havens, not hiding who the real owners are, protecting their employees, making sure there's no shareholder extraction. And – you'd think it's obvious – they should be paying fair taxes!

Let's talk to John Christensen now of the Tax Justice Network for his take on this month.

Naomi: Okay, John. So this month I released research I've been working on for a long time. This is research on Britain's slave owners compensation loan. And this is when the British government compensated slave owners, not the slaves after they passed the slavery abolition act in 1833. That debt was only settled by the government in 2015 on behalf of taxpayers, incredibly. And my purpose with the research was to try to identify which financial institutions were involved in restructuring the loan at various points, basically to hit them up for reparations money. And you can read more about my research in this month's show notes. I haven't yet got to the smoking gun to be able to identify those banks and institutions which profited from the loan. But obviously we, we know already that the city of London in Britain itself built its wealth from slavery and empire. We know still today that the city's finance sector has an extractive business model, that impoverishes some of the world's poorest nations. We know financial secrecy is another form of empire. At the same time I released my research, events have obviously moved very fast with the black lives matter movement. We've seen statues in Britain

commemorating slave traders coming down, the Bristol slave trader Edward Colston has been toppled. Around the world other statues have been toppled. Many others are now finally being moved to museums to be viewed in their proper shameful context. I didn't think I'd ever see that in my lifetime, to be honest. And I didn't think I'd ever see big finance sector companies coming forward and making apologies. That is what is beginning to happen. We should be extremely sceptical. Some of these financial institutions say they're setting up what they're calling reparations funds to go some way to addressing the terrible injustices that they profited from. The insurer Lloyd's of London is one of them, and several lawsuits were filed against them over the years by descendants of slaves in the U S and those failed. Now they're acknowledging what they should have done, could have done a long, long time ago. On the funds themselves, we don't have the details yet. We need to make sure, obviously that these institutions, aren't just going to heap more pain on people by making insultingly small 'charity donations'. I mean, how do we make sure that these funds are large and they're targeted in the right place and they're ongoing?

John: Well, first of all, thanks for your blog, which was an eyeopener. Everyone I know who has read your blog is asking the same question. How did Britain reach this situation where the public was still paying interest 180 years later on a loan taken out in 1834? And why were the slave owners being compensated for the fact that they were forced to stop running a slave economy? But the slaves themselves received no compensation whatsoever? Now what makes this conversation even more painful is that after the civil war, a few decades later in the United States, General Sherman issued a special order providing for the freed slaves in the Southern States to be granted 40 acres of land. This land was seized from the large confederate plantation owners, but just months later after president Lincoln was assassinated, his successor, Andrew Jackson, who by the way, was a full blown, racist, overturned Germans order and blocked the transfer of land. So, no compensation from the Brits after they abolished slavery in the Caribbean and no compensation from the Americans after the civil war. So the end of slavery just opened up another chapter in the immiseration of black people's lives in America and elsewhere, and many companies and personal fortunes among the white communities were built on slavery and its aftermath. So, so yes, it's time to have a really serious discussion about reparations and why we need economic justice for black communities. Now, the first thing we need to recognise is that we actually know very little about which banks, which trading houses, which manufacturing businesses were actually involved in slavery. So we need independent audits of the banks involved, and independent historians must play a lead part in those audits, and then remedy those injustices, so it must be independent audit-led. Then there needs to be a proper negotiation on what level of reparations should be paid and to whom and who will be responsible for holding reparation in trust funds for the genuine benefit of the descendants of slaves. What must not happen is that banks and other companies use tokenistic reparation payments as an exercise in white washing while not disclosing the full history of their involvement in slavery or in imperial plunder and pillage. It seems clear that most people in North America and Europe have really very little idea about how much of the accumulated wealth of our nations was built on

the back of slavery. For example, very few people in Britain seemed to recognise that the industrial revolution was built on the backs of slaves picking cotton in the Southern States or picking tobacco or cutting sugar in the Caribbean region, and so on. Now, this ignorance of history has fuelled a total misunderstanding of economic history, which has had consequences right up to the current day with many people in Britain seeming to want to return to those halcyon days of the British empire when free trade was imposed by the cannons of the royal navy. So it's, you know, there are consequences of not knowing about history. So I think the former slaving nations, and that includes Britain and France and Spain, Portugal, and the United States now need to do some reparation history, reparative history, understanding their roles in slavery and in colonialism and imperialism and how they looted and pillaged the wealth of other countries, especially in the global South. And I'd like to see some of those reparation payments put towards creating proper museums of slavery, colonialism, and imperialism, so that these aspects of our past are properly explained without the usual whitewash. How about using the palatial offices currently occupied by the Foreign and Commonwealth office in London, which was originally built in the 19th century as the 'India office'. How about turning those offices into the British museum of slavery, colonialism and imperialism? It would be an ideal location to teach children and adults of course, about this massively important part of our collective history. And another final thought for anyone who thinks the looting and the pillage stopped at the end of empire, they need to think again. As the old empire died, particularly in Britain, a new financial empire emerged around the City of London, with a vast spider's web of tax havens spreading from Hong Kong and Singapore through Mauritius, the Seychelles, Cyprus, Channel islands, Gibraltar Cayman, British Virgin islands and others. And these tax havens allowed the looting and the pillaging of the countries of the global South to continue just in a different guise. So let's hear no more about the looting being a thing of the past - it isn't, and reparations must also be paid for the more recent plundering.

Naomi: Yes. And, uh, it's, it's obvious that reparations are part of an essential transformation. Um, we need to see significant wealth transfers, and there's also been some work on how a reparations tax on big financial sectors might look in that respect, a kind of financial transactions tax to help get that flow of money, that wealth transfer back to the right places on an ongoing basis. Keval Bharadia has done some work on a super tax on the \$8 trillion a day financial markets. And you can find those details in the show notes, but how can we think about combining tax justice and reparations?

John: You know, there are many good reasons for imposing financial transactions tax, especially since so much of the trading that happens daily on financial markets is more about extracting wealth than creating wealth. So I'm all in favor of a Tobin type tax. And I think I'd go further in the case of paying for reparations, I also think that this moment of pandemic, which is really harming poor countries worst, this is a moment to use some of the money coming from a financial transaction to support poorer countries. Inequality has risen to extraordinary levels over the past 40 years, largely because neo-liberalism has played this shocking role in increasing inequality

because so much of the agenda was about cutting taxes on wealth and on profits and deregulating markets, especially labour markets. So wealth has become much more concentrated in the hands of billionaires than ever before. And billionaires have seen their wealth increase 10 fold. The legacy of centuries of institutionalised racism is that a wealth chasm has been created between black and white communities. Recent research coming out of Duke University in North Carolina has revealed that the average black family with children in the United States owns just 1 cent of private wealth for every dollar that the average white family with children holds. We need to tax wealth, and we need to redistribute significant amounts of wealth towards the descendants of slaves as reparation for the past, and present wrongs. I think there's a strong case for supporting Keval Bharadia's idea for a super tax. So I'm all in favour of financial transaction tax and a wealth tax and a super tax on profits. This is what a tax justice agenda needs to look like.

Naomi: "Thanks John! John Christensen of the Tax Justice Network. Now it's time for the Taxcast special feature. The writer William Faulkner wrote "The past is never dead. It's not even past." And many countries are still rooted in the laws made by those who profited from slavery and empire. This month on the Taxcast we look at how white supremacy is embedded in the US tax system and how tax justice can help address structural racism. I'm talking to Cortney Sanders and Michael Leachman of the Center on Budget and Policy Priorities. Also David Sorenson of the People's Tax Page."

Naomi: "This is all about power and about who makes the rules. And there's a long history of systemic racism in lots of countries, in Britain as well, just like in the United States and when you look at all the laws and who made them, the laws that we're still living by, in Britain we call them the 'landed gentry' or the landowners who made the system work for them. You write 'for much of our nation's history, people of colour had little to no power in state legislatures and white lawmakers could set policies that sustained white dominance.' There's a really interesting example, which is the oldest example in the United States, which continues to impact on people of colour today, where, and I'm quoting: 'wealthy white landowners in Mississippi demanded and won a constitutional requirement for a three fifths vote in both houses of the legislature for all state tax increases.' Can you talk a bit about that?"

Michael: Yes, sure. The history here is that after the civil war in the South the governments, the state legislatures that came into power, they included former slaves and white supporters of the union cause, anti slavery, and those legislatures were dealing with a situation where they, they had immense needs to address. They needed to build school systems for the first time for very large portions of their populations, right? It was a war-torn state, and so what they did was they increased property taxes significantly, property taxes were a major source of revenue, in order to raise the revenue needed to make those investments. Over the decades after the civil war, as white supremacist, former slave holders came back into power violently, overthrew the reconstruction era governments and took power, they put into place new state constitutions that protected their power and were deliberately designed to make sure that it couldn't happen again that their taxes would go way up, it would be harder for them to raise taxes on the former white slaveholders. One example of this

is in Mississippi in 1890 white supremacists, former white slaveholders came back into power, they adopted a new state constitution. The primary focus of that constitutional debate was to figure out how to disenfranchise African-Americans, and to otherwise solidify the power of the white supremacists. And this is one way that they did this. They said, well, we're going to put into the state constitution, which is hard to change, that you have to have a three-fifths vote of both legislative houses in order to raise any taxes at all. And that provision is still on the books today and still making it harder to raise the revenue that's needed to make investments in poorer black communities and in other communities of colour in the state.”

Naomi: So, just as in Britain, landowners have historically wielded almost all the political power and made sure they legislated for highly restrictive property tax limits and in Alabama, that's also a very interesting example of where that is written into the constitution, as you say, very difficult to change.

Michael: Yeah. The history here is similar to the history that I was just talking about in Mississippi. And so in Alabama, one form that that took is to establish limits on how quickly, how much property taxes could be increased. Some of the property tax limits that were put in place in that era are still on the books in several Southern States, Alabama, Arkansas, Texas, a couple of others, they're still on the books today. It's really undermined over a long period of time to raise the revenue needed for investments in communities of colour and other low income communities. So now Alabama still has the lowest property taxes per capita of any state in the country. And you think about what 150 years or so of that policy being in place and what the cumulative effect of that lack of investment and the privileges accorded to the land holders who are still very, you know, the value of landholding's still disproportionately in white hands - what that's meant.

Naomi: Yes. And..why inheritance tax is so important!

Cortney: Yes One of the things that we know as policy analysts is that white supremacy and structural racism created and continued to perpetuate disparities of power and resources. And an example of that is just thinking about who holds wealth in our country.

Naomi: Right. And, um, when it comes to questions about access to political power, and who's involved in the making of legislation itself today, how representative are state legislatures of the citizens they serve in terms of demographics?

Michael: Still not very representative. For decades, state tax policy was written by almost entirely all-white male legislators. Now that's changed some over the last few decades, but still African Americans are underrepresented in state legislatures, and other groups of colour are even more under-represented in state legislatures.

Cortney: You know, we're recovering from many things. We're recovering from COVID-19, we're recovering from 400 years of oppression, and we are also recovering from a looming economic downturn. And one thing we know for sure, and we continue to learn with every economic downturn is that States have choices. They have a choice point and that's to cut services and continue to cut their budgets

that harm families that are in need - or raise revenue, raise revenue on corporations, raise revenue on those that are most profitable and the wealthy. And that's a racialised choice, given the country's history and ongoing biases.

Naomi: Yes. I'm particularly interested about some of the really outrageous spends by some States in the United States on incentives for wealthy companies, large companies to set up in their States and, you know, we've seen the competition for the Amazon headquarters, where States were outbidding other States. And it's really bizarre because in some ways, some of those people would say 'it's very wrong, you mustn't give money to poor people' who've been held back so long by the system, but they've got no problem with subsidising wealthy corporations and they shouldn't be offering tax breaks and economic development incentives for profitable corporations who should be profit-making without those subsidies. I believe that economic development incentives are costing States about \$45 billion a year, ridiculous tax holidays being given, really er makes no sense at all."

Michael: Yes, exactly right. The way that States and localities typically go about economic development, as they say, is really backwards thinking and exacerbates the existing inequities. It's a really upside down way of thinking about how do you grow the economy. You just gave away a huge sum of money that you could invest in your community and grow the economy, grow jobs, grow quality of life using the resources that you have at your disposal. It's a much more sustainable and equitable way to go about it.

Naomi: "Yes, investing in people instead of paying sweeteners to big corporations. And there are lots of tax policies States have the power to enact which could begin to roll back the structural racism that's disadvantaged people of colour for so long."

Michael: Yes. Some specific policies that States could use is to increase taxes on wealth. You can do that through inheritance taxes. You can do that by increasing the income tax rate on very high incomes. You can increase the taxes on income from capital accumulation. We can do that in a number of ways with more progressive property taxes, by taxing the stock gains, the income from stock gains that wealthy people very disproportionately receive. And then you can also do things to improve the system, how the system works for people with less income.

Naomi: "Right, the most obvious one is to stop raising tax revenue from sales taxes which we know is a really regressive tax and it disproportionately hits poorer people, who are so often communities of colour. And then there's an urgent need to reform some of the things not really thought of as taxes but they are levies, very unfair levies. Health insurance is one good example in the States. Premiums are *like* taxes people are paying to private insurers instead of paying it to the government for a more efficient public system, based on the ability to pay. And the cost has been rising for decades, and it's completely out of reach for millions who can't afford it. And of course, there's also the way that States are funding their justice systems:"

Michael: Yes so increasingly, especially over the last decade, we've raised funding for our courts and our police through fees that are imposed on people who are caught up in the criminal legal system. And the impact of that is often egregious, that

often means that people end up in jail simply because they can't pay, people are often held just because they've been arrested, not because it's been proven they've actually done anything wrong. And so for many reasons that's a really egregious system that worsens racial inequities, we could shift how we're funding those justice systems to use more progressive sources of revenue. And one other example is we can increase tax credits that are targeted to low income families that help to turn around these state and local systems so that they're based more on ability to pay.

Cortney: Yeah. You know, addressing climate change and thinking about carbon tax is also important, because as our States are having a lot of disasters, you know, whether that be hurricanes and, you know, flooding and all these different things, it is also something that States have to address. And the people who are hardest hit, or it's harder to recover from natural disasters are communities of colour, are people who have low incomes, and so the people who are somewhat responsible for creating all of the CO2 emissions are also contributing to how people are impacted by those things and States can take that in consideration because they play a large role in making sure that communities recover from those natural disasters and budgeting for that is so important. So if we take incentives away from corporations and really think about the taxes that we're putting on things like carbon tax it can make a huge difference in communities, especially those on the coastal levels of the US.

Naomi: "Right, we know we need to take urgent measures and States need to finance a green transition. Yet the bigger businesses are in the United States, the more likely they are to be fuelling the climate crisis. Over the decades they've got used to paying less and less taxes, and getting more and more tax breaks. And wealthy people as well have got a much higher carbon footprint than ordinary people. But the world they live in was designed by them, for them. Let's look at the difference between a person born into a wealthy family who inherits a lot and they want relief on their pile of cash, versus a person whose family doesn't have enough to eat and needs assistance. This is David Sorenson of the People's Tax Page."

David: "Inheritance tax - this is the tax that once you hit \$11 million, the government takes 40% of it when you pass it on, when you die. But the, you know, difference in the way the government treats this and lower programmes are stark when you look at the fact that this tax is, in addition to obviously being easy to avoid, this tax is adjusted to inflation, so every year that \$11 million increases. If you then turn around and you look at the other side of the equation, you look at the people who are struggling, you look at our safety net programmes, most of our safety net programmes aren't adjusted to inflation. And so that means that every year, the safety net programmes that we're putting money into, they get less money. You know, our, our dollar is worth a little less and the safety net programmes have to be supporting a few more people, and you combine that and the safety net programmes are devalued over time. A stark example of this is the temporary assistance for needy families, TANIF. And that programme was started in 1996. But, because it wasn't adjusted for inflation it has the same funding today as it did then, or a very similar amount of funding today. So what's happened is that programme is now trying to support more people against a stronger dollar without any more money. And

so that's, you know, one stark example of how we sort of treat the high end differently in raising revenue, we give them breaks, compared to how we treat the low end in spending our revenue, we like to keep it pretty close to the chest.”

Naomi: “And when the Covid19 crisis hit, the US government made things worse as well by giving corporates all sorts of cash and also by giving the ultra wealthy another \$176 billion when the pandemic hit through what’s called the Cares Act. So, they looked after the wrong people *again!*”

David: “Yeah, absolutely. So when the American government wrote the Cares Act, they first decided they were going to spend \$2 billion on it, something like that. And within that \$2 billion one of the things they decided was that they were going to create a tax break for ultra wealthy real estate investors. And what it allowed them to do was it allowed them to go back three years and write their losses off from those years. And that was added up to be about 176 billion. The real kicker to this is that the only way you have those losses in the first place was if you were earning more than \$500,000 a year, which meant that you were really rich. So in the Cares Act, they wrote in this provision for real estate investors to give them a massive tax break. You know, it would amount to millions and millions of dollars for individuals. At the same time, you know, they weren't really funding those safety net programmes that I was just talking about.”

Naomi: “Right. With the Covid19 pandemic, how bad is the situation for States at the moment? I mean, the hit on State budgets looks like it’s going to be the biggest on record. And you point out Michael and Cortney, that they should really avoid the mistakes that were made in responding to the recession, to avoid making a bad situation worse.”

Michael: “Yeah, the budget shortfalls that States face in this downturn are unlike anything that we’ve seen at least since the great depression 90 years ago, or so. States depend on income and sales taxes for 70% of their revenue, and both of those revenue sources have fallen off the table because so many businesses are closed and so many people have been laid off. At the same time, their costs are increasing because more people need public assistance because they need to do a whole variety of things to fight the virus. And the combination of those things has really created an extraordinary fiscal crisis for States. We estimate that the shortfalls that States will face in the coming fiscal year will be much worse than anything they faced during the great recession, what we call the great recession 10 years ago, which at the time was record-breaking and historic.”

Cortney: “You know, we live in truly unprecedented times. Actually, in April alone States and localities furloughed or laid off nearly 1 million workers, a number that eclipses such losses following the great recession.”

Naomi: “Yes. And States need to be monitoring much better their policies in relation to marginalised communities through things like a special commission or task force to review their COVID-19 responses. And you can see how important that is when you realise that in France and Germany they don't even count how much more likely people of colour are for example, to be stopped and searched by the police, to be

discriminated against in the workplace, in the housing market or to die of the coronavirus. So they're not collecting data on communities of colour, so if you're not counting it, you can't know if you're formulating good policy?"

Cortney: "Yes, absolutely. You know, disproportionately, Black counties have five times, and disproportionately Hispanic counties have three times as many confirmed COVID cases per capita, as disproportionately compared to white counties, according to some recent analysis. And in early state and local data, it also showed that Black and Hispanic people were dying of complications from COVID-19 at much higher rates. And so it's important for States to think about the state health departments and how they are tracking the data in ways that follow best practices and are comparable across jurisdictions so that we can understand the crisis impact across race and ethnicity and other identities. Understanding its desperate impacts is a critical step in determining the policy responses that can address the underlining factors that have led to inequitable health outcomes. And, you know, another piece to this is these health disparities exist because too often, people of colour have experienced years of economic hardship, received lesser quality of healthcare and have been segregated into neighbourhoods that lack access to things like nutritious food and green space for exercise and clean air and jobs that pay enough for people to have the money or time for recreational activities or to think about their wellness. And so what, what the COVID-19 crisis has really exacerbated and underlined for us is that these health disparities are rooted in a lot of economic, but health system racism and discrimination and bias, and we need to track these numbers. We need to make a case for people to track, you know, by identities so that we can really show what's happening and who's really being impacted."

Naomi: "You've been listening to the Taxcast, thanks for joining us. You can see the reports on tax and racial equity from Cortney Sanders and Michael Leachman of the Center on Budget and Policy Priorities on www.cbpp.org David Sorenson of the People's Tax Page is on www.peoplestaxpage.org They have a great podcast there too. Tune in next month for part 2 of this discussion on how tax justice is racial justice. Thanks for listening, we'll be back next month."