The Taxcast, edition #107 transcript, 17 December 2020

Naomi: "Hello and welcome to the Taxcast from the Tax Justice Network. We're all about fixing our economies so they work for all of us. I'm your host Naomi Fowler. Make sure you never miss an episode and ping me an email on naomi@taxjustice.net. Coming up later:"

Jim Henry: "It's a brilliant, easily collected tax. It doesn't cause any pain to investors. I mean there are damn few alternatives. Do you want us to really just fire all the state workers shutting down schools and laying off teachers, you know, how do you get Wall Street to pay its fair share here?!"

Naomi: "We take a look at the transformative power of financial transactions taxes. There's a chance that New York, home to two of the world's largest stock exchanges, could be about to set an important precedent.

Two bits of good news to share with you this month: In the United States campaigners have been fighting to end secret company ownership in the US for years and years. Enough politicians have woken up to the fact that facilitating money laundering through financial secrecy is a national security threat. It means Congress has passed a defence bill which includes making corporations identify who owns and controls them. It also strengthens whistleblower protections. The bill has plenty of weaknesses BUT it's an important step forward.

And also Portugal wants the European Union's council of member states to have a vote on public country-by-country reporting by multinationals. Portugal takes over the rotating presidency at the start of 2021. The EU already has rules that make banks and the extractives sector do *some reporting on their profits on a* country by country basis, and the OECD publishes *some* data but only for lots of companies all bundled up together. All eyes are on Germany for this EU vote which will need to switch its position from neutral to supporting - or for one of the other countries in opposition to switch. If the vote passes it could be good news for the Global South in being able to quantify how much tax big companies aren't paying in their countries - and for the public worldwide to know which companies, and which countries, are cheating the rest of us.

Ok, let's talk to John Christensen now from the tax Justice Network for his take on three major waves of change in 2020: the black lives matter protests, Trump's departure from the Whitehouse and the end of the Brexiteers dream.

Ok John, 2020 is a year most of us are glad to see the back of. The er COVID pandemic has dominated everything this year. And we're not really going to talk about that very much today, but it has at least reconnected people with the idea that the state should be there to protect them and act in their interests. And it's all reconnected people with the idea that tax is central, to everything, right at the heart of everything and things like universal public health care and all that sort of thing. After all, every second the equivalent of one nurse's annual salary is lost to a tax haven. Um, and it takes decades for discontent, the type that we've seen in recent years to boil over and for politicians to exploit and misdirect people's anger and the anger that Trump, for example manipulated, and the Brexiteers have manipulated has been building up for a such a long time, going all the way back to least Thatcher and Reagan. As Gramsci said, "the old world is dying and the new world struggles to be born, now is the time of monsters." We've had Bolsonaro, Orban, Trump, Johnson. How do you think historians are going to review these times that we're living through? As the age of monsters? The age of rule breakers? I mean, for decades, the powerful have been rigging economies in their favour, and this year there's been some quite strong pushes back against that. Let's take a look at three major curve balls this year in 2020."

John: “Well, I think you're absolutely right to ask this question about whether this is the age of monsters, and let's not forget that when Antonio Gramsci wrote that famous line about the age of monsters, he was being held in prison by the Italian fascist Benito Mussolini and that was during a very similar period of turmoil after the stock market collapses in New York and in Europe. And the old era was dying quite clearly dying, and capitalism had to be rebooted. And I think that's pretty much where we're at at the moment because, because neoliberalism has so clearly been dying for a long time now and to all intents and purposes is now dead. Now 2020 of course has been particularly uncomfortable because the COVID pandemic has exposed how monstrous the leaders of some of the countries really are, especially in terms of their indifference to public health. I mean, Donald Trump and yeah, Bolsonaro really stick out in this respect. Um, and I think Trump especially sticks out because of his really weak handling of the murder of George Floyd and the way in which he handled the subsequent uprising of communities who were protesting against the persistent racism in the police forces in the US.”

Naomi: “Right, and in the United States, there must be now an accountability process, a criminal justice process and Biden president elect Biden may be presenting a more diverse team on the surface, but he's going to need a diversity of professional experience. I mean, for example, reforming the criminal justice system, he's going to need a lot of criminal defence lawyers, not prosecutors, which is the tendency.”

John: “And the rallying of the black lives matters movement around George Floyd's murder has brought people onto the streets right away across the world. And it's opened up discussions around the legacies, including the legacies of slavery in so many countries. History is inevitably politicised to varying degrees in the interests of the powerful elites. And you can see why they'd want to close down any discussion around the legacy of slavery in many countries. But what black lives matters has achieved is the opening up of a debate that has largely excluded the voices of the victims of slavery, colonialism and the victims of imperialism. From an economist's perspective, this debate seems particularly important because students of economics, they seldom, if ever look at how power relations shape economic relations. But when you look at the rapid industrialisation of the big imperialist powers in the 19th century and the 20th century, it's absolutely clear that that much of the capital accumulate- all the wealth that was accumulated during that period originated from the slave economies and from the weapons industries that protected those economies. The plundering of India and the plundering of most African countries, not to mention the entire continent of South America, deprived those regions of the capital resources they needed to invest in their own longterm development processes. Let's not forget also that the plundering didn't come to an end when the wars of independence forced the colonialists to retreat, anyone who has watched the spiders web film, its subtitle is Britain's Second empire, will know about the global rise of tax havens and the rigging of the rules for taxing multinational companies to favour the interests of European and North American countries. These have been crucial parts of the globalisation project pushed by Margaret Thatcher and Ronald Reagan in the 1980s and historians have frankly only just started to explore the history of tax havens and how they have reinforced Imperial power relations and created new forms of systemic injustice.”

Naomi: “Right and so much work to be done there. And so we've seen Trump defeated, it wasn't the blue wave that the Democrats had hoped for, but it's still historic in the sense that the nationalist, anti-democratic agenda for the radical right will take a hit. But not for long. Democrats have got to be about much more than just opposing Trump right?! Are the Democrats going to understand that these times call for radical measures on the climate emergency and fair distribution of wealth? Are they understanding that the United States must do what it’s failed to do under many administrations and join in with global tax rules that really clamp down on unaccountable untaxed wealth and profits, and start to get criminogenic corporates and finance companies under some kind of control?”

John: “Well, of course that's something we'd all wish to happen..but..despite Biden winning the popular vote by an astonishing 9 million or so votes, Donald Trump gained a record number of votes for any Republican contender for the presidency ever. So president-elect Biden needs to take really urgent action to address the underlying systemic causes of the deep division in United States. And that will mean rewriting the rules that shape..the way in which the pie, the economic pie is divided between society..Biden needs to reverse the trend of the past 40 years towards cutting taxes on wealth and corporate profits. To begin with he should simply scrap the 21% corporate income tax rate set by Trump in 2018. And he needs to reinstate the previous rate of 35%. I mean, he's been talking about 28 or so, but that's not ambitious enough. It needs to be back to 35%. Um, and of course, very few large companies actually paid anything like that rate because of all the tax giveaways that had been accumulated over the last few decades and these tax, these giveaways achieve little or nothing, so cut them out as well. But I don't think that Biden should stop there. Wall Street still earns fortunes from the churning stock because of bonds and derivatives, so it's long overdue that the US applies a financial transaction tax, both as a mechanism for slowing down the churning process, but also for redistributing the revenue away from the speculators and into the public purse. And there are other measures that Biden could take at the domestic level to reduce extreme wealth inequality. Introducing a wealth tax for example. And another possibility is to introduce a carbon dividend tax to the big users of fossil fuels and redistribute the wealth to lower income households, and all of that could be done relatively easily. But of course, to do all of that effectively, he'll need to reinvest in the internal revenue service, which has been badly depleted by the cuts imposed on it, not just by Trump, but also by his predecessor Barack Obama. We in the tax justice community should be watching carefully to see what action Biden takes to restore the capacity of the internal revenue service but when it comes to internationalism, Donald Trump took a wrecking ball to the existing order. Biden is a self-proclaimed internationalist, and he'll need to take very strong measures to reverse that nationalist agenda. And for starters, he should sign the US up to the common reporting standard for automatic information exchange between tax authorities. The US has so far failed to sign up to that, and it can also promote the idea of country by country reporting by all us companies in all countries, where they operate. That's just catching up with the rest of the world. Under Trump, the US has not played any positive role in shaping the OECD base erosion profit shifting discussions. And those discussions have stalled as a result of a lack of leadership. Now, the only way forward, which will lead to a durable and equitable framework for international taxation lies with shifting away from the old arm's length method and adopting unitary taxation and from my point of view that might be the best test of Biden - will he or will he not make the necessary break away from the old order to a new order based upon unitary taxation? And will he then also lead the way in establishing a minimum tax rate, maybe aligned with the 35% tax rate that previously applied in the US to block the impulses of the radical right? So there you have it, a number of tests that we can apply to a Biden government to see whether he is the progressive and the internationalist that would like him to be.”

Naomi: “Right well, we'll see, won't we? And if we cross the pond on the one hand, so you've had the US electorate choosing a more internationalist president who sees the collective benefits of rules. And on the other hand, the UK is only one year into the absolute opposite ideology, trampling all over the rules in the name of so-called sovereignty, uh, which we could call ‘fake sovereignty’. Brexit is just another attempt exactly like Trump's brand of nationalism to undermine rules-based global trading agreements, push a race to the bottom of the benefit of elites, not ordinary people.

And at the tax justice network, we've been talking about the importance of a level playing field for years. And the European Union does seem to see the danger in what the UK is trying to and is pushing back against it. I can't help thinking that only the British and, well it's really the English - only the English could leave a club, reserve the right to all over it, and then still demand the same rights that the club offers and the European Union would be failing in its duty to its own citizens if it was going to allow a big trading partner right on its doorstep to drive down wages, working conditions, environmental standards, financial regulatory standards, and yet still give them access to the single market. Um, I mean, it's not that the European Union is as pure as the driven snow here, it does protect its tax haven nation states, but it doesn't want an extreme rule-breaking agenda that the Brexiteers want. So now we've got Britain, very isolated. Trump has gone, its rule-breaking partner in crime is no longer there, doesn't have many friends left, which I guess is what happens to neighbours from hell eventually, all of them!"

John: "Yeah, that's exactly what happens to neighbours from hell. While we don't yet know what the final outcome will be for the latest round of Brexit negotiations the Brits are determined to stick to a radical right wing agenda, which will allow access to the single market while still making it possible for the radical right conservatives on Boris Johnson's cabinet to degrade worker protections, erode social protections, and do little or nothing to protect the environment and that's their project. But the Europeans on the other hand..have been totally resilient in protecting the integrity of the single market and resisting Johnson's race to the bottom. As everyone knows, Johnson was politically aligned with the Trump project and was hoping that a quick and dirty trade deal, the US might provide political support for their kind of Singapore on the Thames economic model that he and his cabinets have in mind - deregulated, low tax, very right wing agenda. But it seems unlikely that Biden will play along with this project, which leaves Johnson facing the European Union negotiators, who despite all his attempts at dividing and rule apparently remain totally united. And that's not what he expected. So here we are, days away from the end of the Brexit transition. Um, trucks have already started to back up over many, many kilometres on both sides of the EU and the UK border and the free traders who pushed the Brexit project might well end up with a no deal, which introduces tariffs where previously there were no tariffs and which might lead to a whole raft of new customs paperwork when previously goods and services could flow freely between Europe and the European Union countries. The Brexiteer project was to break the European Union's resolve, to break the whole project of trying to create an international rules-based trading order, in other words, to create a kind of globalisation where there were no rules, no frameworks for cooperation. And that project has failed."

Naomi: "Thanks John! John Christensen of the Tax Justice Network. Now it's time for the Taxcast special feature. Many nations across the world have been hit hard by covid and they need to salvage their financial situations fast. And covid has highlighted even more all the underlying historical reasons for who's on top in our world, and who isn't. We know things like wealth taxes and excess profit taxes are part of the solution. But what about our historically *undertaxed* finance sectors that sit right at the top of the tree? This month, the Taxcast looks at Financial Transaction Taxes:"

[New York sounds, siren]

Jim: "New York is about 20 million people. This year it got hit very hard by the COVID epidemic."

Naomi: "This is Jim Henry speaking from New York. He's an economist, lawyer and Tax Justice Network senior advisor."

Jim: “We had an enormous surge in fatalities and hospitals were filled up and New York is pretty severely impacted, we've had a real surge in unemployment so States and municipalities are facing big deficits. New York's looking at a $60 billion deficit over the next two years which is substantial. It's the largest deficit it's ever had. They're looking at laying off, you know, thousands of state employees and reducing investments in things like the transit system, basically talking about a 20% reduction in services. So this has increased pressure on state, local governments to look at alternative sources of revenues. And that's where the topic of the financial transactions tax comes in because New York is the home to two of the world's largest stock exchanges, the NASDAQ, NAS DQ, and the New York stock exchange. And together, they kind of account for roughly 40 to 50% of all the transactions on stock markets in the entire world. This year has been on the average something like 4 to $5 trillion a month of stock trades have gone on on these two New York exchanges.”

Naomi: “It’s well worth asking, isn’t it, to whose benefit this high volume of exchanges is?! As Taxcasters will know, high levels of financial transactions aren’t necessarily a measure of productivity or investment in anything useful!”

Jim: “Yeah! What's happened on wall street in the last couple of years is just amazing in terms of the volumes of really speculative transactions, you know, the stock exchange has turned into kind of a casino. It's always been a bit of a casino, but you have something called high-frequency trading, the average trade lasts 10 seconds and accounts for 70 to 80% of volumes. And it's just simply firms that specialise in arbitrage that are sort of rushing a whole river of transactions through these exchanges that are purely speculative and financial transactions are enormous, but if you put a tiny tax, nobody will notice.”

Naomi: “No one *would* notice. But the finance sector hates the very idea of it because they know - once that door opens a crack and the fairness of it and the ease of collection is clear, that door will never close again and it could open even wider. And they also know a Financial Transactions Tax isn’t only about raising revenue, it’s about transparency around transactions, slowing them down and discouraging economically damaging transactions.”

Francis: “It's interesting that you know, now the gospel is spreading from Africa to the more developed world that have been overtaken by the likes of Kenya and Tanzania and South Africa in implementing a robin hood tax.”

Naomi: “Francis Karugu is an economist and international development specialist in Kenya:”

Francis: “Kenya has been running a deficit budget over the last seven years. And the government has also been trying to look for ways to raise new revenue. In Kenya the cabinet minister in charge of the treasury who went to parliament and said, I am proposing to apply a Robin hood tax on financial transactions in the budget statement that he read in June, July of 2018. And the robin hood tax in Kenya, which is really a financial transactions tax has been in effect now for two and a half years.”

Naomi: “It’s still early days with Kenya’s modest Financial Transaction Tax, or as Francis Karugu prefers to call it, a Robin Hood Tax.”

Francis: “It hasn't raised much, but it's definitely a good foundation, especially in a country like Kenya where, you know, the financial services sector is a vibrant one and it is growing and the fundamentals are there for it to afford the government to even, collect more revenue in the future. From inception the tax rate was very low at 0.05%. The biggest catchment here for the government was really the $45 billion worth of transactions that go through our banks every financial year, the 45 billion figure is what was transacted in 2018. 60% is larger transactions that are transacted through banks and the government put a minimum transaction size of 5,000 us dollars - that is 500,000 Kenya shillings. A figure of $5,000 is not a figure that most Kenyans you'll meet on the street will transact. And therefore it makes sense to call it you know, a Robin Hood tax, because the transactions of $5,000 is either high net worth individuals or corporations that are making purchases, or they're making payments. The transactions also capture payment of salaries. And only less than 5% of Kenyans earn salaries of more than 5,000 us dollars a month sp the application of a 0.05% levy on transactions of $5,000 and above definitely makes it a Robin hood tax in the Kenyan context."

Naomi: "Despite the small nature of Kenya's new tax, there was still huge opposition from the Kenyan banker association and stockbrokers. But the tax went ahead:"

Francis: "Applying a 0.05% on 60% of $65 billion, that's the amount of money that was transacted through banks in 2019, that raised a figure of $20 million. It may sound like a little amount of money but in an economy like Kenya, that's a very significant amount because that translates to 0.1% of the total tax revenue collected in the country. And in the second year of its application I think that's very good progress, especially for an economy like Kenya where, you know, Nairobi is one of the less than 100 international financial centres. And it's positioning itself to be a regional hub for financial services."

Naomi: "And given that positioning, there are additional strong benefits of Kenya's financial transactions tax other than raising revenue:"

Francis: "The good thing is that you know, the financial transactions tax also would be a way of tracking illicit flows, especially monies that come from other jurisdictions because the financial system in Kenya is very porous. And if you look at the tax justice network's financial secrecy index, Kenya is number one in Africa, so it means a lot of inflows come to Kenya from other countries without any verification of where the source was, or even the real motivation of these funds in this country. And since most of these funds come through you know, in the guise of investments in foreign direct investment maybe through fundraising, private placements or private equity, they have a way of avoiding paying taxes in Kenya, but, with the Robin hood tax it gives the government an opportunity to track these funds as they come into the country. And it's an opportunity for the government since they come and they are already liable to tax that the government is able to quantify or even understand the quantum of the flows that are coming into the country and be able to draw a line, what are illicit flows and what are genuine investments that are coming into the country. If developing countries are going to implement a Robin hood tax, really bank transactions would be a good start, especially given the fact that we have a lot of multinational activity here in Kenya, some of which are not even registered here in Kenya, but are registered in tax havens, but they do make transactions in Kenya so..the robin hood tax would be able to net some bit of revenue, especially since they are doing business here in Kenya. And you know, they're making money here from Kenya."

Naomi: "Back to Jim Henry in New York now, where he's been working with local politicians and other campaigners, teachers and nurses unions to get enough backing for a financial transactions tax bill in New York state:"

Jim: "New York actually first adopted a financial transaction tax of its own in 1905. And that tax is still on the books. It's called the stock transfer tax, it's a tiny tax it's about 5 cents, it's a nickel per hundred dollars in the US, but with the transactions running at you know, 5 trillion a month, that's enough to generate as much as 4 to $5 billion in taxes depending on the month, you know, on average, probably around $2 billion of tax revenue to New York state."

Naomi: "Thanks to bank lobbying, they stopped that tax dead in its tracks since 1981. It's just a 0.03% tax on all stock trades on the NASDAQ and New York stock exchange. Reintroducing just this modest tax would set a powerful precedent for finance sectors everywhere which have been raging relatively unchecked for so long. Campaigners in New York state now think they have enough support to get a vote on it. And pass it. And really New York state should be passing a more ambitious financial transactions tax. But this is just the beginning:"

Jim: "We're talking about a 0.1% tax, a dime for a hundred dollars of shares, and that's just not going to affect anyone. And, you know, all of the economists in the world basically agree on this. It's a brilliant, easily collected tax, doesn't cause any pain to investors. Wall Street, or the billionaires on wall street have seen a trillion dollar increase in their net worth since March because of the impact of the pandemic on the stock value of companies like Amazon, you know, so those folks are not hurting. I mean there are damn few alternatives. Do you want us to really just fire all the state workers shutting down schools and laying off teachers and fire people, you know, how do you get wall street to, to pay its fair share here?!"

Naomi: "In the European Union, talks are resuming on the long proposed EU-wide Financial Transaction Tax - a 0.1% tax rate for transactions in all types of financial instruments, except for derivatives which would be subject to a minimum 0.01 % tax rate. Various lobbies had managed to quash the EU wide attempt, leaving it just to individual member states to implement. But now the EU's revisiting it as part of the covid-rescue budget it's trying to pass. And there are bigger questions to ask about going further than just tapping financial sectors for a few cents or pennies:"

Keval: "The free movement of international capital needs to be disrupted and dismantled as part of a reparations agenda. Defunding the financial markets through an interative tax can provide a blueprint for building a post capitalist world."

Naomi: "Economist Keval Bharadia spent 15 years working in London Stock Exchange. He's talking systems change. And his work demonstrates how transformational a Financial Transactions Tax could be:"

Keval: "So how much money could be raised? The value of global capital flowing through financial markets..is actually 28 trillion pounds per day. That 28 trillion pounds per day comes from exchanges like the London stock exchange, the New York stock exchange, the Amsterdam stock exchange. But it also comes from the over the counter trading done by the world's biggest investment banks whose wealth can be traced directly back to enslavement and colonialism. Liberal campaigns for a financial transaction tax to date have not critically engaged with the financial markets intrinsic relationship with these issues. The tax could easily raise just by applying a 0.05% tax rate - don't forget, VAT is charged at 20%. So if we just charge a 0.05% tax rate, we're looking at 14 billion pounds per day to fund reparations and systems change. I've estimated how much that could be in the UK, which is around 500 million pounds per day. That's over a hundred billion pounds per annum. And actually these figures include exchange traded and over the counter markets, they also include the major asset classes traded across all financial markets, including equities, bonds, foreign exchange currencies, and commodities markets, and commodities markets are also large. That's where oil and gas is traded, oil and gas that's plundered, metals that are plundered get traded through the commodities markets. And also with the rise of financialisation most of financial markets trading is increasingly on paper without the need for these physical assets, but are still leveraging these physical assets. This number actually doesn't include the world's gold and silver exchange, which is based in London, they do not publish transparent data. So, the world is far from poor. The tax over the longer term enables the transformation of global power relations and the dismantling of Imperial capitalism that maintains poverty, inequalities, and ecocide."

Jim: "It seems like the right time..for everybody to get together, to have a kind of race to the top for the financial transactions tax. We could end up, I think with, you know, in the not too distant future quite a good success story here in New York."

Naomi: "We'll see how all that goes. Thanks for listening and for remaining with us throughout this year of turmoil. We'll be back next month, kicking off 2021 with practical ways to fix and heal our world. Bye for now."