

## The Taxcast, 25<sup>th</sup> February 2021

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. Subscribe by emailing me at [naomi@taxjustice.net](mailto:naomi@taxjustice.net) or find us on your favourite podcast app. Coming up later - the world’s broken. Apparently we need \$9 trillion to fix it:”

“we can do this, you know, there are solutions. The next 20 years could be one in which we rebuild a more just global economic system.”

Naomi: “I speak to Ben Tippet of the Transnational Institute who’s done the sums. There are three pieces of good news to tell you this month. It’s Portugal’s turn at the EU Presidency helm. After years of campaigning they’re putting a tax transparency law for corporations – country by country reporting - to a vote in the Council of Ministers. It makes it easier for us to know where companies should actually be paying their taxes. Germany has been a key blocker, but the vote’s now going ahead. The corporate lobbies have managed to include plenty of loopholes though, so it’s not perfect. But, a step forward.

And secondly, incredible news, what the Tax Justice Network calls an outright, global triumph for the advocacy efforts of the tax justice movement. The UN’s Financial Accountability Transparency and Integrity panel has called for a UN Tax Convention. It’s also backed our ABCs of tax justice solutions – so that’s Automatic multilateral exchange of information, Beneficial ownership registers – public registers of the real owners of companies, and country by country reporting. The heat is on now to move rule-making from the rich country club of the OECD to the UN, as we’ve called for for many years.

And finally the tax justice movement has been nominated for the Nobel Peace Prize. The Global Alliance for Tax Justice has been nominated jointly with our friends at the International Consortium of Investigative Journalists.

Great stuff! Ok, we’re speaking to John Christensen now for his take on this month – we recorded this just yesterday about the crazy Gamestop frenzy and since then the Gamestop share price is soaring again. Madness:”

Naomi: “Okay, John, we've had a great demonstration of everything that's wrong with our economies and why they're not really going anywhere with this Gamestop saga. And it shows yet again, doesn't it, why we so desperately need financial transactions taxes to discourage stock exchange casino business, which has nothing to do with real investment, or the real economy. So Gamestop is an ailing video game seller, the whole thing was spun as the valiant little guy supposedly championing the stock market by sabotaging a series of wall street hedge funds by 'revenge buying' this Gamestop stock. Um, without going too far down the rabbit hole of speculative trading, what actually did happen there, John?”

John: “Well, good question. For those not familiar with North American shopping malls, Gamestop is a retail business specialising in video games and games consoles and related electronics, much of which nowadays is bought online. Even before the pandemic, the company's turnover was being impacted by online sales and more closures since the pandemic started to have merely accelerated that trend towards buying online. So some analysts working for hedge funds, which specialise in a process known as shorting realised that GameStop shares were considerably over-valued and they had been trading in single figures in 2019 and early 2020. And so these analysts thought they could profit from the situation by taking a bet that the share price would go down. Now, normally when

they do this, they simply borrow shares from a stockbroker. They sell the shares at the current high price, watch the share price plummet, buy back at that lower price and return the borrowed stock to the stockbroker, pocketing vast profits which they've made. But that's not how it worked with GameStop. In late autumn 2020, the hedgies moved in to start shorting the GameStop shares. But some investors noted the shares were being shorted and they saw an opportunity to do what's called a short squeeze. So using social media, including YouTube and Reddit, they put out a whole load of promotional materials boosting Gamestop's prospects. Now loads of individual investors, and quite a few institutional investors as well saw an opportunity to sting the shorters. So they bought into the stock, watching the share price rise from about \$20 a piece at the beginning of January to close to \$500 at one stage in January 2021. At the moment of peak frenzy in January GameStop shares were trading at \$483, which is 24 times the trading price at the start of that month. And in January, the buying was so frantic that a major retail share trading app, which is known as Robinhood, widely used by individual investors because it provides its services for free. They had to block, Robinhood had to block customers from buying GameStop shares, claiming that they simply didn't have enough liquidity to handle the volume of share trading at such a high price level."

Naomi: "Right. And, uh, when Robin hood wanted to recapitalise, where did they get that from? They got it from the big banks."

John: "Yes. They very quickly borrowed a few extra billion dollars to get the buying up and running again, but not before loud complaints came from investors shouting that they were being excluded from the feeding frenzy. Now, several things happened during the course of those two crazy weeks in January. First, the hedge funds, which originally set out to short Gamestop shares found that the share price went up rather than down. And the more the share price rose, the more they stood to lose, and some funds like Melvin Capital have taken a spectacular hit running to billions of dollars. Second, while some of the retail investors who bought in early to the short squeeze, they made a whole bunch of money and sold out before the bubble peaked. But then a lot of other people got the timing wrong. They saw the share price surging. They borrowed money to buy whatever shares they could lay their hands on. And then they watched the share price tumble, leaving them holding shares which couldn't be sold for love nor money. These people have lost a lot of money from gambling at the very peak of a bubble. They should have known better, but greed and herd instinct took over. For what it's worth Gamestop shares were trading at \$40 this morning when I looked at the market price. So if you bought shares at the peak price in January, you're currently facing a loss of over 90% of your investment."

Naomi: "Okay, right! [laughs] Um, so I should preface my next question with the knowledge that, you know, when you go into the casino, the casino always wins. And this idea that we can all become kind of miniature financiers is really an illusion. And whilst there may have been a blip where a few small people got to, you know, to play with the big boys (and it nearly all *is* boys) um, who were the real winners and the losers in this scenario? There were lots of fairly big hedge funds and banks that also benefited from this whole frenzy. Let's talk about the heroes and the villains of this piece."

John: "Look, we have villains aplenty, but I don't see any heroes in this story. Now, some commentators have tried to spin this as a story of common Joe - and you're right, it's mainly men - up against the machine. So ordinary investors taking on the hedge fund billionaires, but that is way, way too starry-eyed. It's much more accurate to talk about one kind of gambler taking on another kind of gambler with the banks lending money to everyone as they took their seats at the gambling table. And that's what happened. Now, one of the interesting things about GameStop is how stock market influencers used social media to persuade investors that there was money to be made from squeezing the short positions of the big, bad hedge funds. Now, some people, including some

prominent politicians have claimed that internet posts were being used to manipulate the gamestop share price in a what's called a pump and dump scheme. In other words, you pump the price up and then you dump them as soon as you see quick killings to be made. But this kind of manipulation is very hard to prove in a court of law and the online boosters, and there were plenty of them, they can always claim that they were just exercising their right to free speech. This is the way the markets work. There may well be an inquiry or even multiple inquiries into what actually happened during those weeks of frenzied trading, but I'm not expecting that anyone will be found guilty of market manipulation. Those hedgies love to talk about the markets as a jungle. So it's a bit rich for them to complain when the junior predators bite back, but it's equally rich for the small scale gamblers, I mean, sorry, investors to moan about not getting their fair share of the pickings from the gamestop carcass."

Naomi: "Right. It sort of seems to be the casino winning again and again and again, despite some of these smaller people getting together in this way, but what does all this tell us about contemporary capitalism and how we fix that?"

John: "Now, in theory, the stock markets should lead to optimal allocation of investment. Investors should identify viable companies, producing useful goods and useful services. And their investments should support company directors with building the company and producing those goods and services. But in the same way that Bitcoin has surged in price - it was about \$30,000 a month ago per Bitcoin, now it's just shy of \$50,000 today, the gamestop bubble has no rooting in any kind of economic reality. And this especially applies to the day trading community who piled into the Gamestop share trading frenzy. They're making speculative short term trades. The British economist professor Susan Strange gave this kind of capitalism a name. She called it casino capitalism. And her book on that subject is probably one of the most important economic books of the late 20th century. One reform which really might help to discourage these kinds of trading frenzies is currently being considered by the New York state assembly. That's a proposal which was filed this week to reinstate a provision for a stock transfer tax. And it's interesting that senior officials in the Biden administration are showing interest, not just in the stock transfer tax, but more generally in financial transaction taxes. And I think that's encouraging."

Naomi: "Yeah, it's a hugely undertaxed area. Um, and there's a need, isn't there to reclaim the word investment because real investment, I mean, if we have a think about it, would I rather my pension was invested long-term into a co-operative, uh, let's say, I dunno, a care home run by nurses or a renewable energy company owned by its staff, no shares, no huge CEO bonuses, no private equity involved long-term decision making innovation and all of that. Or would I rather my pension flies from the seat of its pants on split second trading of the kind that we see every day?"

John: Yeah. That's a very interesting and important point you make there about investment, the word investment. As you say, so much of what they call investment is just speculation, but perhaps importantly, such a huge proportion of the cross border investment is not being made into new productive activities, it's going into mergers and acquisitions, which are leading to market concentration, concentrations of power and monopolies, and that's not at all good for an economy. Or it's going into real estate or something not into, into productive activity. So the term investment is very widely used and abused by politicians and by journalists and we need to think much more carefully about what kind of policies would serve best to restore investment or push investment into a productive economy rather than into the kind of extractive economy that I think typifies Wall Street and the City of London and some of the other big financial centres in the modern economy and in contemporary capitalism more generally."

Naomi: "Yeah, there's another thing that can be done, which is to restrict how quickly shares change hands?"

John: "Yes, absolutely. The average period of holding shares has fallen dramatically in the last 40 years. And perhaps there needs to be a recognition that shares should be held for a minimum period, maybe a few months before they earn dividends and so on because this type of short term speculative trading doesn't help company directors to invest for the long term, it has created a very short-term attitude in most of the major financial markets, this is extremely unhelpful, particularly at the moment when we need to see huge investment directed towards a new energy efficient, non-fossil fuel market. There's a huge transition facing humanity and at the moment, I don't think markets are in any way geared to making that kind of transition."

Naomi: "Thanks John! And yes, we're on the cusp of major transition and we can't dodge the hard choices any more. Climate change is already hurting people in many parts of the world. And now the pandemic is hitting everyone at the moment. In history, we've seen how huge change can come after catastrophe. I've got Ben Tippet of the fantastic Transnational Institute with me today - he says we can fix it. He's written a report called Paying for the Pandemic and a Just Transition. Welcome Ben!"

Ben: "Fantastic. Yeah. Thanks Naomi for inviting me on the podcast, I love the podcast and also the work of the Tax Justice Network. You know, I used quite a lot of your research in the report and I'd really recommend anyone go and see what you're doing if you want any understanding of what's going on in global finance and global economics."

Naomi: "Thanks! So Ben you've calculated that the world needs \$9 trillion in spending and your report tells us exactly how the world can raise that \$9 trillion. You make the really important point right at the beginning of your report, that even the IMF now agrees that rich governments who control their own currency can increase spending. And you describe that as a welcome departure from the false austerity narrative of the past 10 years, that the books need to be balanced. So really the point is that the onus is on rich governments to spend whatever is needed today. And, um, it's really important I think before we talk about your solutions that we so need to tackle this scarcity argument that's such a strong narrative internalised by so many people. Um, we *do* have the resources to solve the world's challenges and the global South's challenges at the same time. So, because of that ability by wealthy countries with strong currencies to create money, some of the solutions we're going to talk about *must* involve wealth transfers, or you could say investments really from the global North, and these are investments in all our futures, in all our interests."

Ben: "Yeah, we need to make those who have the most economic ability pay for this crisis because they are the ones who are able to bear the costs without violating their fundamental human or economic rights. And actually in some cases, we find that those with the greatest ability to pay are themselves the ones who are most responsible for these crises. So, the aim of the report really is to say, we can do this, you know, there are solutions."

Naomi: "And you make the point as well that we don't need to worry so much about the covid debts wealthy governments are running up at the moment?"

Ben: "Yeah, interest rates are at a historically low level, you know, interest rates are themselves decided upon by governments and central banks, well by central banks in particular. So it's not that they suddenly drop out of the sky, the government can have smaller repayments when interest rates are historically lower and this is, as you say, a very welcome departure from the austerity narrative. That said, we do still need to be thinking about taxation and redistributive policies at a global level."

And that's partly because this idea of printing more money and going into more debt is really just a solution for governments in the global North.”

Naomi: “Yes exactly. And if you take the UK for example, we basically owe ourselves the money. And you have to bear in mind all this is about investment, it's not just spending. But for nations that are hamstrung by debt and don't have strong currencies, yeah, it's not an option. And your report looks at how those things can be overcome. It's shocking that 64 countries are paying more on servicing debt than they are on healthcare.”

Ben: “Yes there's an ensuing debt crisis in the global South, it's to do with the fact that we need taxation policies to tackle inequality, militarism and climate change. COVID has opened up an opportunity to shape the economic discourse, you know, to say the next 20 years could be one in which we rebuild a more just global economic system, given the amount of suffering that people have had to go through over the last few years and before.”

Naomi: “Yes and that reminds me of what they call the spirit of 1945 in Europe – when people who suffered so much during the second world war and sacrificed such a lot demanded genuine, deep change – in the UK we eventually got the welfare state, and the National Health Service, things like that. OK, so, you've estimated in your report that over the next decade the world needs \$9 trillion each year to settle the costs of the pandemic, tackle the climate crisis, and make sure people have basic human rights – so, things like being able to go to a doctor or hospital, have drinkable water, an education, not going hungry. And you have two branches to your report – you've got solutions, which we'll talk about in a minute and six spending needs for the world – I prefer to call them investments.”

Ben: “Definitely. Yeah, I think that's a good place to start. And actually, it's interesting you say you prefer investments because actually I think you're right, maybe..investments captures more the building aspects of this and the opening up of new opportunities. So, yeah, there's six basic costs and investments - the problems of the pandemic, of climate change, of the sustainable development goals, climate reparations and reparations for slavery. So the estimations for these generally come from the UN, the OECD, the IMF, they tend to be quite mainstream institutions.”

Naomi: “Right – tot all that up and you end up with that \$9 trillion-worth of spending - or investment that we need each year over the next ten years to get the world out of the severe trouble that it's in. So, let's just look at one of those before we talk about how we can fix all this - the climate investments we need to make – just to stand still in the global south you say \$300 billion a year is needed in climate reparations just to pay for the loss and damages of climate change there?”

Ben: “Yeah many countries in the global South are suffering irreversible losses and costly damages from droughts, floods, typhoons, all of these kinds of severe weather events. One of the estimates for how much these countries are losing, uh, in loss and damages is roughly around \$300 billion per year. This is something that could be paid in a form of a climate reparation from the global North to the global South to deal with those loss and damages. You might be thinking, but don't the global North also suffer from loss and damages from climate change? They do, but really, uh, you know, the global South suffers apparently more than 90% of the costs and also 98% of the deaths associated with climate change.”

Naomi: “Right and then you've estimated there's a 3 trillion bill to fix the climate crisis globally?”

Ben: “Yeah, just to have like a ballpark of how much money we're talking about here - so according to the UN, the World Bank and the International Governmental Panel on Climate Change, we're

going to need roughly \$3 trillion per year to decarbonise the global economy and fight climate change. So what's that money going to be spent on? It's going to be on things like decarbonising energy, production, manufacturing, processes, transportation, all this kind of stuff. Within that though, we also need to think about the historic inequities and the historic injustice that is really embedded within climate change.”

Naomi: “OK, it’s good to understand the scale of the investments that are needed. So let’s have the good news on how we get those resources, and why we know it absolutely can be done, your ten proposals. Number one in your list is global wealth taxes which could raise over \$4 trillion a year:”

Ben: “Yeah this is the big headline proposal, you know, it’s the most revenue generating proposal. If you're in the top 0.01% of the global wealth distribution, you’d pay kind of an effective tax rate of 10%, but actually that in and of itself would also be spread out so that people at the top would be paying much higher amounts. It's effectively in a way, a proposal that would provide a kind of upper limit on how wealthy you could get. The fact that we have wealth levels that are much, much bigger than income, you know, wealth to income ratios have been rising very much over the last few years. And wealth tends to be a part of our economy that's massively undertaxed at the moment. And what we're seeing, I think particularly with the COVID pandemic is progressive wealth taxes becoming more and more mainstream, being more seriously considered by policy makers. Um, I mean, there's some interesting stuff happening around them in Latin America and also I think Spain has put out ideas of implementing some progressive wealth taxes.”

Naomi: “Yes, and polling shows wealth taxes are overwhelmingly popular with voters. If you look at taxing offshore wealth alone, I mean the estimates, and of course they have to be estimates don’t they because of the secrecy levels, the estimates say it's up to \$32 trillion being held offshore. Uh, so there's a huge need for a global asset registry and for transparency in tax havens to facilitate a fair taxation. And your second proposal reckons just from taxing capital income from offshore private wealth could raise \$125 billion a year:”

Ben: “Exactly yeah, I think really even if we didn't implement a new wealth tax and we were able to tax the income, just the income people earn from their offshore wealth, it would still be within the hundreds of billions of dollars that are, that are evaded, or that could be raised if this stuff was brought onshore. It does tend to be the richest people that hide their wealth offshore, something like two fifths of the wealthiest 0.01% in Colombia evade taxes, with these people kind of roughly concealing around a third of their wealth offshore. So it's very much pervasive and it has to be part of any platform to implement some kind of globally coordinated wealth tax system.”

Naomi: “Ok, third on your list of fixes is the excess profits tax which is something the Tax Justice Network's been advocating, and you know, it's interesting that you point out it's been done before.”

Ben: “Yeah, we know that there are some corporations that have benefited hugely from the crisis. I'm thinking the big tech giants, Amazon, Google, Apple, uh, also Microsoft and –”

Naomi: “And Netflix!”

Ben: “Oh yeah, it's true actually yeah, they've benefited hugely from the crisis. Should anyone be able to make profits from such an unexpected exogenous shock that really has nothing to do with their own making? Actually, should any company be earning such abnormal profits that aren't taxed at a higher rate? 95% of corporate profits, excess corporate profits were taxed in the UK during the war. So it has been done before, and it very much could be done again. You know, corporate profits are still very much unequally distributed. If you take the US as an example, which is where we have

some of the best data on this, when you actually work out how those corporate profits actually get down to individuals and households, well, the wealthiest 10% of Americans now own around 89% of all stocks. And I think something like the bottom half of Americans don't even own a single percent of company equities. So there's a huge equality, equity based reason why we have to tax these corporate profits, use it as a way to redistribute for more social spending."

Naomi: "If we, if we talk about proposal four, so taxing offshore corporate profits alone could raise, 2 to \$600 billion a year. Just looking at what companies are putting offshore and taxing that is, is also very significant."

Ben: "Yeah, corporate tax evasion's an interesting one to look at, how recent it is and how it's not inevitable, and it's not innate and it's not natural. And it's something that we can definitely clamp down on and change. Just the threat that companies could move and locate to Ireland, or the Canary islands pushes down corporate tax rates across all countries in the world."

Naomi: "The OECD has been fiddling around with the idea of a 12.5% global minimum corporate tax rate, uh, you know, which is, uh, pretty ridiculous. We think we need at least a minimum rate of 28% worldwide."

Ben: "Yes, I think a good minimum rate is around 28%, bringing us back up to where corporate tax rates were in the 1970s."

Naomi: "Let's look at proposal five - a financial transaction tax could raise between \$237 and \$418.8 billion annually - and that's quite a modest tax proposal in terms of the percentage you're talking about - and you can listen to edition 107 of the Taxcast for how much further that could go. Financial Transactions Tax is gaining momentum in New York, in the EU there are some advances there, and importantly it's all about reigning in unproductive speculation and bubbles."

Ben: "Yeah, this whole business with Gamestop, this exposes a lot of the wild speculation and gambling that goes on and on in the financial sector and just how completely divorced it is from productive investment or from quote, the real economy or from, you know, financing, all the things from kind of fighting climate change or tackling the sustainable development goals, all the things we're talking about here. We really need to take out a lot of the speculative incentives within the financial system. The financial sector is propped up at the moment and supported by public money, by central banks doing quantitative easing by central banks having low interest rates by the huge amount of public money that has been injected into the system. And then I think you know, the idea that some of that money has to be reclaimed through taxation at some point has to be part of a solution."

Naomi: "Yeah. And it's amazing how people seem to accept subsidies going in some directions, but yet it's so controversial in others. Um, and, your proposal six is, uh, is really an interesting one because that's all about eliminating public subsidies to the fossil fuel industry, which are absolutely huge, the UK is one of the biggest for fossil fuel subsidies. And, uh, you also talk about implementing a tax on the cost of pollution that could raise an extra 3.2 trillion a year."

Ben: "Yeah, direct subsidies by governments to the fossil fuel industry is huge, roughly around 300 to \$500 billion a year. We know that we have to transition away from fossil fuels. Taxes, I think, do have to be part of the solution, but if not properly designed this kind of tax can end up hitting poorest households the hardest. And I think part of the solution then has to be about building publicly owned, democratically organised, renewable energy with the money and providing a kind of sufficient social welfare."

Naomi: "Yeah, redistribution at its heart. Um, if we move on and talk about proposal seven, you estimate redirecting 10% of global military spending towards fighting the real security crises could raise up to 191 billion a year globally. That's an interesting one."

Ben: "Yeah there's a kind of opportunity cost, I guess, with every pound that we spend on military spending that means that we're not spending on this broader understanding of human security. Since the beginning of the war on terror in 2001, the US military has contributed to displacing roughly around 37 million people. So that's around the entire population of Canada. There are some examples of countries doing something similar. So South Korea, it has a, uh, basically a militarised border with North Korea, said that it would trim next year's defence budget by 2% in order to provide money to tackle the COVID pandemic and Thailand, as well said it will cut its military defence budget by 8% in order to provide money to tackle COVID. So, you know, other countries are following suit in often quite a tense geopolitical part of the world."

Naomi: "Yes. Let's look at proposal eight, um, a debt jubilee, um, of the size called for by unctad. I mean, that could free up the equivalent of a hundred billion dollars a year for the global south over the next 10 years, apparently. And it's really sobering to realise that 64 countries are currently paying more on debt servicing than they are on healthcare. That's really shocking."

Ben: "Yeah it really hits home just how trapped I think so many countries are within our global debt system. And we have to embed this debt crisis within the legacy of firstly neo-liberalism, and also the longer history of colonial inequality."

Naomi: "Yes. And proposal nine, uh, this warrants an entire programme, several programmes by itself, but a new issue in sort of special drawing rights, um, that would free up the equivalent of \$250 billion a year for the global south over the next 10 years. Proposal 10, that's \$50 billion a year for the global south over the next 10 years, um, with a new Marshall plan."

Ben: "Yeah so in addition to debt write-offs, and special drawing rights, there should also be aid given from the globe and world to the global South to fight the COVID pandemic. I mean, with the vaccine and everything that's been happening around this, we can see so clearly the fact that what happens in one country affects another country. You know, a variant in one country can spread to another country. And the idea that we can just isolate ourselves and not have to think about the similar economic impacts of cutting aid or not fighting this in a globally systemic level. I think will come back to haunt and come back to bite those of us in the global North."

Naomi: "Yes, in the same way as the rich world is hoarding vaccines, it won't work. I've been talking to Ben Tippet about his Transnational Institute report "Paying for the Pandemic and a Just Transition". The link to the report's in the show notes. Thanks for listening. We'll be back next month."