Transcript, the Taxcast, March 2021

Naomi: “Hello and welcome to the Taxcast from the Tax Justice Network, your monthly podcast that’s all about fixing our economies so they work for all of us. I’m your host Naomi Fowler. You can subscribe by emailing me at naomi@taxjustice.net – give me an email, say hello! Or just find us on your favourite podcast app, give us some five star ratings! Coming up later – economists in the dock:”

Tom Bergin: “These people are advancing ideas not based on fact, so what we’re seeing are lost opportunities.”

Naomi: “I’ll be speaking to finance journalist and writer Tom Bergin on how economics ruins the economy. Let’s head straight over to talk to John Christensen now of the Tax Justice Network to discuss this month’s developments:”

Naomi: “Okay, John. So this month, the Tax Justice Network published its 2021 results for the Corporate Tax Haven Index. So every two years, our researchers assess and rank the countries, which are the worst offenders in helping multinational corporations pay less tax than they should. The top 10 that we have this time round are the British Virgin islands, Cayman islands, Bermuda all British overseas territories. Number four, the Netherlands number five, Switzerland, number six, Luxembourg number seven, Hong Kong number eight Jersey, which is a British crown dependency, number nine, Singapore. And at number 10 it's the United Arab Emirates. Taxcast listeners can read up on the Corporate Tax Haven Index on www.corporatetaxhavenindex.com As usual, as you'll have heard the British Overseas Territories and Crown Dependencies feature heavily the UK itself on its own is at number 13. And as with all our indexes, the Financial Secrecy Index as well, so many of the global offenders are OECD countries. What would you highlight as being some of the most important stories from these latest results?”

John: “Well, I think the most important story told by this Corporate Tax Haven Index is how the most powerful countries in the world that is the countries represented by the Organisation for Economic Cooperation and Development have shaped the rules for a global tax regime, which totally ignores the interests of all other countries and that the Organisation for Economic Cooperation and Development countries have created between them this globalised economy in which tax havens, almost all of which are either OECD member States or dependencies and former colonies of OECD member States. These tax havens play a really central part in shifting wealth away from the countries, typically it's through illicit financial flows. So this wealth is shifted away from where wealth is actually created, into the hands of the owners of capital who use tax havens to avoid paying tax.”

Naomi: “Right. And OECD countries and their dependencies are responsible for 68% of the world's corporate tax abuse risks.”

John: “Well yeah, if we take just the top 10 players of the Corporate Tax Haven Index, we can see three OECD member States, Luxembourg, Netherlands, and Switzerland. We can see four dependent territories of the UK, which of course is another OECD member state, the British Virgin islands, Bermuda, Cayman and Jersey and two former colonies of the United Kingdom, Hong Kong and Singapore. Um, so the OECD member States dominate the whole index. Now, what this tells us is that the world of corporate tax havens is not some kind of unfortunate outcome of globalisation, it is in fact, a core part of the late 20th century model of globalisation. So as far as I'm concerned, the big story that the Corporate Tax Haven Index tells relates to the power of the world's biggest economies to rig the rules in their own special interests and to block the rest of the world from reforming those rules in ways that would prevent powerful corporations from avoiding tax and from extracting wealth from the world's poorest countries."

Naomi: "So I mean, it's obvious now, if it hasn't been obvious before and Taxcasters know we've been saying this for such a long time, the OECD is obviously not the right organisation to be deciding on global tax rules. We've long argued for the United Nations to be central in deciding global tax rules with more countries having a say, as the famous expression goes, if you're not at the table, you're on the menu! And uh, last month in addition, the United Nations high level panel on International Financial Accountability, Transparency and Integrity, FACTI called for a UN tax convention which would be an agreement adopted by the UN general assembly that would create all kinds of international norms and standards, which would become legally binding when UN member States ratify that convention. Let's talk a bit about that as a way forward."

John: "Well, yeah, it seems a no brainer to me that if the world wants to see an end to the institutional stranglehold that the British and powerful countries hold over the rule making process, the Organisation for Economic Cooperation and Development really needs to relinquish its rule setting role and hand over to a genuinely global and accountable body. Now in the best of all worlds, I think we'd see the creation of a world tax authority mandated by the United Nations to set rules for taxing multinational companies and also for protecting Nation States across the world from the predatory and race to the bottom tactics of the OECD tax havens. Um, but you know, realistically we've got to accept the very hard political fact that the prominent OECD Member States, including Britain and United States, both of which are major tax havens and protectors of tax havens, these States can exert powerful blocking measures within the United Nations political processes. So this might be a project that is handled best handled step-by-step and a first step would be to elevate the existing United Nations committee of experts on international tax matters, which has no political status by the way, to an inter-governmental body with political status. And this can be accompanied by a UN tax convention along the lines suggested by that high level FACTI panel you've mentioned. Now, I know from my own experience of working with the civil society group called the friends of the United Nations Convention Against Corruption, and I've been involved with that group over 15 years now, these conventions can take a really long time to draft and steer through the United Nations processes. And sometimes the initial conventions are weak and they will require strengthening. But I think we just have to accept that's the case. What's needed more than anything else is to have a global counterweight to the rules set by the Organisation for Economic Cooperation and Development. Now whilst the OECD rules don't have legal status in their own right, they are typically adopted into the tax laws of member States and States across the rest of the world. And they become a reference point which courts and tribunals will use when they're assessing the legality or otherwise of a tax avoidance scheme. So a UN tax convention could become a really powerful mechanism and a reference point for the whole process of reshaping tax rules to make them fit for the 21st century and for the needs of all countries, not just OECD Member States."

Naomi: "Yeah. And, uh, perhaps with the new administration, the Biden administration, uh, there may be more support for some meaningful activity on tax rules, global tax rules, um, and perhaps even more support for, UN involvement in that. And they've just announced a 21% minimum corporate tax rate proposal. So that's interesting."

John: "And alongside that, of course, the US also, I'm very excited about this if I'm honest, they're also talking about completely rebooting the Internal Revenue Service, massively refunding it to make it an effective body, so that in itself is exciting, but Joe Biden has spoken very publicly and for a long time about the United States re-engaging internationally, and there's no better place for him to demonstrate that kind of leadership role and engagement with the rest of the world than in the area of taxation and getting this one sorted, it has caused so many problems across the world now it would be really good to see a Biden administration take a leadership role in this area.”

Naomi: “Yes, it would. And, uh, speaking of, uh, the power of blocs and nations, in this area, let's look at the European Union. There is some movement there to do something about the EU's laughable list of non-cooperative jurisdictions. Their list, as we've said, many times on the Taxcast is all the more ridiculous because EU member States themselves aren't included on that list when many of them are major offenders and then, uh, you get sort of craziness is like the removal of the Cayman Islands from the EU list, which is crazy. We know it absolutely belongs right up there along with a lot of other jurisdictions responsible for stripping other nations of tax revenue. So, the EU?”

John: “Yeah, well, long sigh, this isn't the first time and certainly won't be the last time that you and I reflect on the absurdity of this European Union listing of so-called non-cooperative jurisdictions. Of course we call non-cooperative jurisdictions, tax havens, but they don't like that term! Now the European Union list published in February 2021 includes 12 jurisdictions, almost all small islands, most of them located in the Caribbean, the Pacific or the Indian ocean. This list, which is prepared by the code of conduct group on business taxation, and they do this work on behalf of the European Council. That begs an interesting question. Why isn't the United States of America listed? The US is ranked number 25 on the Tax Justice Network Corporate Tax Haven Index, and the US still hasn't signed up to the global Common Reporting Standard for tax information exchange, and yet somehow it avoids being listed by the European Union. So I think we can all recognise that the EU's listing process is ridiculous. If we look at the 12 jurisdictions listed in February, 2021, it includes places like Samoa, Fiji, Dominica, and Guam. Now these 12 jurisdictions between them are responsible for less than 2% of the global corporate tax abuse risk. And what makes the European Union listing all the more outrageous is if you tally up the global corporate tax abuse risks arising just from European Union Member States, that is Ireland, Luxembourg, the Netherlands, and so on, you can see they are responsible between them for 38% of that global risk identified by the Tax Justice Network Corporate Tax Haven Index. Politically, I think this is very damaging to the European Union and it sends a really strong signal to the rest of the world that the European Union is quite prepared to turn a blind eye to corrupt financial practices and the ways in which powerful corporations harm local economies and harm democracy.”

Naomi: “Yes, indeed. And just to add, the United States is number two in the Financial Secrecy Index. So yeah, they've got a lot of work to do. And, uh yeah, I mean the European Union need look no further, really, if you ask me, we we've got already the Financial Secrecy Index, and the Corporate Tax Haven Index, which thoroughly, non-politically, looks at the evidence and assesses countries. I mean, you know, the work is all there for them to use if they are serious.”

John: “Well, let's hope the European Union picks up the phone to the Tax Justice Network and asks us if they can formally adopt the Corporate Tax Haven Index and the Financial Secrecy Index as a key part, if not the key part of their listing process, the phone lines are open now!”

Naomi: “Thanks John! John Christensen of the Tax Justice Network. Now it’s time for the Taxcast special feature. Much of the world is run on the basis of economic theories that have become accepted truths of our era. But they actually have very little evidence to back them up, in fact they’re better described as faith-based beliefs. This month I’m talking to finance journalist and author Tom Bergin about his book ‘Free Lunch Thinking: How economics ruins the economy’. In his book he investigates the evidence for a series of economic theories – things like the notorious Laffer Curve – so, *do* lower taxes really aid growth? He looks at things like the hire and fire debate – does job security make us lazy? Does a minimum wage really lead to lost jobs? Are taxes on business damaging? Does regulation harm business? Things like that. And this book's great for anyone who wants to fully get *why* some of these beliefs are nonsense. Yet they endure. They're still central to policy-making around the world. We need to break this blind faith-based beliefs and change the narrative, so It was great to chat to Tom who's put these theories in the dock. And it's not just theories he puts in the dock. Here's Tom Bergin:"

Tom: "One of the jobs of an investigative reporter is to be shouted at and threatened by rich and powerful people! The particular one involving Donald Trump was whereby, uh, I was doing a story about him when he was running a, he was a candidate for the presidency. And one of the main, uh, kind of selling points that he was offering the American public was that 'I could fix America's finances and improve the economy because I'm a great businessman, I've done this in my own business'. I started to look at the area where he'd invested most of this money really over the previous 20 years, which was in the golf space. And I calculated based on his own statements, he'd invested over a billion dollars in golf assets and associated assets, which were worth about half that. So, when I presented that evidence to him, he wasn't very happy. And we spent about 20 minutes, half an hour on the phone in rather robust discussion. Um, uh, we also got around to talking about the economy and broader issues, uh, during which he shared with me his faith in in supply side economics and his general thinking that he could raise revenues and he could improve the balance by cutting t- well, later he became clear that the magic ingredient was tax cuts, which is essentially Lafferism, Laffer Curve that Donald Trump was campaigning on, something that I tackle in quite detail in the book."

Naomi: "Yeah. And it's such a good place to start with somebody like Donald Trump, because, um, you know, there's so much kind of buzz around him as a person and it's all about sort of presentation rather than substance, right? So in that same way, your book's all about economic theories which have little to no basis in any evidence, but it doesn't stop people like Donald Trump using that to prop up how he might like the world to work, or at least how he might like us to believe that the world works. Um, so I mean in the UK, not wanting to focus too much on the UK, but we just had the most saddening budget we've had for quite a long time, which seems to be based blatantly on the belief in trickle down economics. Um, and I just wonder what you think about whether politicians actually know that these economic theories are bullshit or whether they actually do believe in them? And I mean, I'm not really sure which is worse actually, uh, ignorance or cynical deployments of myths that are politically useful for them and keep their donors happy. I mean, what do you think?"

Tom: "It's an interesting question. I think that, uh, you know, if you look at Dick Cheney and Donald Rumsfeld who, uh, you know, really pillars of the Republican establishment for much of the past half century really they talked about seeing the Laffer Curve for the first time and that being a major moment in their education and economics. Um, I remember David Gauke, the former tax minister in the UK, asking him about why he was cutting corporate taxes so robustly. And he said you know, this was informed by the economic theory presented by the OECD and others which show that essentially the corporation tax was a bad tax and stunted growth. So there's definitely an influence there, a reliance on theory, it's true obviously some of these people can also be attracted to what's intuitive to them. In the case of Cheney, we certainly saw that as vice-president when it came to intelligence matters, he tended to have a little bit of a leaning towards information that he liked the sound of. Um, but I think also we can see where the, the theories' influence is also evident when we see people change their minds."

Naomi: "And you talk about one such person who seemed a really unlikely person to change his mind after having spent a career advancing really damaging faith-based economic theories – you talk in the book about the former member of the Chicago school of economics Paul Romer, who did change his mind and said the Chicago School was basically a libertarian anti-government project, not a scientific endeavour!"

Tom: "Absolutely, that was a really interesting meeting, you know, I've spoken to Paul Romer a few times and yeah, his journey is a really interesting one and he has made himself something of a pariah among the economic establishment in the United States by calling out by name specific, very senior economists, Nobel prize winners, and saying that basically they are dishonest. And he said that these people are advancing ideas not based on fact, it's totally ideology. And when they produce evidence using fancy maths to defend it, usually that maths is there intended to hide things rather than to reveal a complex truth. And you know, I think the fact that, that people do sometimes change their mind is massively interesting..Unfortunately, it's quite rare. And you know, one of the points that, that, again, that I discussed with Paul Romer was the way, unfortunately, within the economics community, there's a perverse incentive there that economists, it's in their interest to advance the view of the world as being a mechanism determined by price relationships. Because if people, if we all accept that's how the world works, then the people we need to go to, to provide the answers to the problems of the world are economists. This is just a wonderful position to be in for any profession, to be the people who, you know, the wise people of the world or the world leaders say, these are the people with the answers. So unfortunately I think that economists are faced with that incentive to advance ideas, which are not correct, or which afford them influence. Hopefully economists can learn to be humble, to accept perhaps a less influential role. If they do I think they might make a much more valuable contributions to the world."

Naomi: "Right. And you called your book free lunch thinking: how economics ruins the economy. Uh, it's a great title - why did you call it that?"

Tom: "I'm glad you like it! Um, the main title is a play on an old saying that was popularised by a conservative economist Milton Friedman. He would say there's no such thing as a free lunch. And I think that was really intended as a sort of right wing retort to liberals who argued that, uh, you know, there should be regulation of companies and taxation on the affluent to, you know, improve society. Um, now I'm one of those that thinks that Milton Friedman was an idealogue, more that than a social scientist..if you really follow the conclusion, uh, of the logic of people like Friedman to its conclusion, what you find that people who say, you know, there's no such thing as a free lunch in a very real politic kind of world, or, you know, hard fact truth position to say, actually they become the ones who are arguing for a free lunch. And so specifically, you know, we'll see situations where people end up arguing you know, if you cut taxes, you can raise revenue. I mean, there is a free lunch, isn't that wonderful?! Uh, or you can remove social protections like worker safety rules without making people less safe. And also in the meantime, make everyone richer. There we go, free lunch!"

Naomi: "And how about the second part of the title – how economics ruins the economy?"

Tom: "With respect to how economics ruin the economy, I think that ([12:16]) economic theory that markets determine the world has caused a lot of damage and not just social damage in terms of inequality, but also made us poorer, ideas like, you know, trying to raise tax revenue by cutting taxes actually can be damaging to the economy. So what I say in the book is I look through a number of policies which have been advanced and defended as a way to grow the economy, make it grow more quickly, um, and show that that it hasn't. So what we're seeing are lost opportunities. So..it's ruining the economy, it's damaging the economy. In terms of specific people of course the damage can be much worse. If you look at something like the minimum wage, economists argued for decades that the minimum wage is a bad idea, and that it would cost jobs among the least well off. They argue, worse, that there was lots of evidence to prove that - there was no evidence to prove that, and it hasn't been the case it's been tested again and again in different countries. You know, this means that people were denied wage increases that the economy could have very effectively paid them and their life has been significantly disadvantaged. There are lots of other cases for this. I think that it has caused a lot of damage that economists should answer for.”

Naomi: “Yeah, absolutely and it's so important to make this point that it actually harms the economy as well, it’s not just people and uh you know, this double standard in terms of the very wealthy and corporations perfectly happy to take all sorts of state subsidies but not being okay about, uh, you know, the minimum wage or, uh, you know, uh, expecting the state to, to cover food stamps and things like this when people can't afford to buy enough food for their families..Um, I wanted to ask you about how the field of economics is so dominated by men historically, that's very slowly changing. You've been a finance journalist for a long time. You’ve seen how the mainstream media commentators on business and finance, they're also very male dominated, and I don't want to push this too far, but..to what extent do you think popular ideas about business that are propagated in the mainstream media are kind of testosterone-fuelled?”

Tom: “I think with the depiction of the business world that you describe, I think it's true that it is described in testosterone-fuelled ways, it's described..as a battle, you know, it's competing forces, um, and this, you know, lends itself to, uh, the reporting of heroic figures who are being successful and I think you know,particularly in the retail end of the media there is a strong case of people are trying to sell business news stories to a broader audience, that there might be a case that that can help enliven it. But I think it is something that's very much informed by economic theory. And if you look at the general economic view of the world, which is that it's a series of markets where you have buyers and sellers constantly vying against one another, as you say, that's quite a testosterone-fuelled kind of environment and way to perceive the world, uh, and there's an ongoing battle for control and power between different sides and that that process leads to value creation itself, that people are forced to strive to compete in a more competitive way. Um, is that, is that influenced by by men, the fact that economics, uh, is, is, it has always been a male driven thing? I mean, I guess we should be surprised if it's not. That's the way that boys are taught to see the world, you know, competing on the fields, you know, playing fields or whatever. I don't think it's particularly accurate view or informative view of the wealth generation process. I think it totally overlooks the benefits and the gains from collaboration and cooperation. Big businesses who are interested in value creation know the way to make more money is to get their workers to cooperate together in a more effective way. So I think that that's something that's not depicted well within the theoretical framework of economics, which then informs..the way we perceive business. So, yes, I think that the kind of cliched easy lazy view of the way that business or the economy works is inaccurate. And I hope there is enough evidence coming through at the moment to show that that sort of rather old style view is not one that we can really make decisions based on.”

Naomi: “I wanted to ask you about those who are most responsible for some of these economic myths, um, and how they actually live their lives. I always find this so fascinating. It tells you everything about the nature of their connection to the rest of the world and to people in the country they live in, you know, and you describe in the book going to Arthur Laffer's house, Arthur Laffer being the main architect of the Laffer Curve, the theory that cutting taxes will lead to growth. And so when you visited him, you talk about how he chose a particular state to live in, in the US because of the tax benefits there. And he says from the savings he got from these tax benefits, he bought his entire house. And, you know, he sounds like a lot like a used car salesman, but I mean, what impressions did you have of this man whose work has really shaped bad economic decisions for decades that have been hurting so many people?”

Tom: “It's interesting, Arthur Laffer at a personal level is very gregarious. And I think that's probably one of the things that has helped him be influential. He's someone who's advised Democrats, as well as Republicans. He, you know, when you visit his house, he has pictures of him with, you know, the Kennedys and all kinds of people from, uh, you know, both sides of the aisle. And one of the points I make in the book is that he's very good at marketing. And that's, you know, those personal skills actually, you know, the ability, you know, quip with an anecdote, joke and, and able to paint a picture quite nicely. That's really one of the things that helped, uh, advance supply-side economics in the Laffer curve, something that really doesn't have any data, but, you know, there's lots of good stories there to back it up. Um, and, um, so there, there's a, there's quite strong, I would say personal skills. I mean, you know, I'm a journalist, I'm not a priest, so it's not my job to say if someone being a tax exile is, you know, morally repugnant that's, I think, you know, people can make their own decision on it. I would say that, you know, mathematically speaking, there is a, uh, a consequence to that, you know, that everybody can't decide to work in one country and pay their taxes on the moon, you know, where tax rates are zero. Basically, no idea of social responsibility.”

Naomi: “Yeah. It's a, it's a sad way to live actually, um, you know, to have this disconnect from the rest of society.”

Tom: “It can be quite a contemptuous view of their fellow man, particularly their fellow man who has not been as financially successful as they are, and natural human tendency to believe that everything good that comes into their life is their own just desserts.”

Naomi: “And we know that some of the super rich, you know, they're not necessarily living happy lives and Laffer is still so important, you know, he was, you know, an advisor to Trump before and during his presidency who then went on and made the 2017 tax cuts and jobs act kind of the centre of his economic policy. He gave Laffer the presidential medal of freedom, which is the US’s highest civilian honour. I mean, it's incredible how far a good story and the gift of the gab will get somebody!”

Tom: “Oh, absolutely. It's all in the way you tell them! The supply side economics kind of really leveraged off a few stories that just really captured people's imagination. The value of good stories, they really can have an outsized impact on how people accept ideas. Hopefully I think when you show people that the ideas they have aren't supported in the way they think they are, that evidence is not there. Just to call out and say the emperor has no clothes I hope is a valuable activity.”

Naomi: “Valuable indeed, thanks Tom. Tom’s book Free Lunch thinking: how economics ruins the economy is published by Penguin. That’s it for now. Thanks for listening. We’ll be back with you next month.”