The Taxcast, November 2021

Naomi: “Hello and welcome to the Taxcast, the Tax Justice Network podcast. We’re all about fixing our economies so they work for all of us. I’m your host, Naomi Fowler. You can find us on most podcast apps. Make sure you never miss an episode by emailing me on naomi@taxjustice.net, and I’ll put you on the subscriber’s list. OK, so, coming up later, all’s not well in the beautiful island of Ireland:"

"it just became more and more clear to us that there was an enormous story to be told. We need to expose what is an awful system in terms of human development"

Naomi: “They only have 0.1% of the world’s population, but they became one of the biggest tax havens on the planet. What’s that meant for Irish people, and their road ahead? I’ll speak to authors of a great new book Tax Haven Ireland. There are lessons in it for citizens everywhere.

This month the Tax Justice Network released its State of Tax Justice annual report. Our researchers find that countries are losing $483 billion in tax a year to global tax abuse by multinational corporations and wealthy individuals. And that’s only the tip of the iceberg, it’s actually much worse than that. The report measures just two things – first, international corporate tax abuse by large multinational corporations, using OECD data from country-by-country reports – so, that’s really big companies with turnover of 750 million and above. And secondly, private tax abuse by rich people – undeclared offshore wealth in secrecy jurisdictions. That lost $483 billion would be enough to fully vaccinate the world’s people against covid three times over. Here’s the Tax Justice Network’s Alex Cobham:”

Alex: “In some ways you can read it as a counsel of despair. You know, we find this year that the member countries of the OECD, the richest and most powerful countries in the world are responsible for more than three quarters of the tax losses imposed globally. And this is the body that the G20 has mandated to find the solution to the international tax problems we face. It is perhaps unsurprising that the solutions the OECD has put forward this year, but also in previous years, have tended to favour their own members, have tended to point the finger at lower income countries, or less politically connected jurisdictions. But what that's done is laid clear that the countries with power are the same countries that are able to block progress. But we shouldn’t feel disheartened. We brought forward with the global movement for tax justice a set of policy proposals. One of them is to move away from the OECD and towards an intergovernmental body to set tax rules in a genuinely inclusive way under the auspices of the United Nations. Now, just looking at the media coverage of that to get a sense of how this can be influential - in the months before the publication of the State of Tax Justice 2020, the average global media reach for the term ‘UN tax convention’ was about 350,000 per month. Now, the global media reach for that term is 1.7 billion. In other words, it kicked the doors open to the idea. That doesn’t mean that it’s happened, but it's certainly helped I think the G77 to propose that at the UN again, this month. Now unfortunately the OECD countries have blocked it, but it's now a live political discussion, in a way that it hasn't been arguably for some time. I hope the G77 feel the very strong support of the movement.”
Naomi: “So, the member countries of the rich country club of the OECD are responsible for more than three quarters of the tax losses we've looked at. Guess which country is the worst offender? Yeah, it’s the UK – it's responsible for more than a third of the world’s tax losses. You can check out how your country threatens others, and/or how it suffers at the hands of other offender nations on our website. I'll put the details in the show notes. As Alex just said, the rich country club of the OECD isn't the only show in town. Here’s Pooja Rangaprasad of the Society for International Development on efforts to bring discussion and decision-making on international tax rules into the United Nations.”

Pooja: “The biggest obstacle continues to of course be political, and the fact that, you know, we have the kind of same group of OECD countries that are blocking this within the United Nations repeatedly, so that story hasn't really changed. One of the things we hear quite often is sort of this framing of UN versus OECD, which I always find quite strange in terms of framing because the UN tax body and convention isn't about stopping limited membership bodies from the work that they're doing, it is simply about establishing a principled process of global negotiations on tax that is inclusive, transparent, and centred around commitments to human rights and gender equality.

I think another issue that we hear quite often, at least in the context of the OECD processes really concerns the coordination of developing countries - how that can be improved, how they can represent the collective interests better? And again, in the UN you have several of those mechanisms already. Now, I mean, many of the ? of G77 which is the largest negotiation group of over 130 developing countries, but you also have groupings such as, you know, Asia Pacific Group, Africa Group, Arab Group, Group of Latin America and the Caribbean CARICOM which is the Caribbean community, small island developing states, LDC Group, which is least developed countries, landlocked developing countries, Group of like-minded middle income countries, and so on. So, I mean the starting point of South-South cooperation in the UN is the global south is not a monolith - decades of cooperation and countries with extremely limited resources have invested in having a permanent presence in the UN to prioritise international cooperation, as well as south-south cooperation. So these are not mechanisms you can just replicate overnight in a vacuum. I mean, they already exist. And these groupings are very important to pull in negotiation capacity precisely because there is recognition that they don't have the same resources as the other side. And in international negotiations that are fraught with power asymmetries, these groupings become really important, it's a lot harder to stick out your neck as individual countries, and it's much easier to be stronger within these groups.

The next point is really about the importance of transparency and accountability, the fact that such important decisions on public revenue is happening in complete secrecy is deeply problematic, unacceptable. And so the importance of the UN tax convention is really that it would be a process by which we can see what every government and every country’s position is. We can assess the negotiation dynamics for ourselves and hold our own governments accountable in that process. So, in
terms of where we go from here, it really depends on, you know, can we all come together as a global community to really press on how urgent this is?"

Naomi: “Can we indeed, that’s a very good question! Pooja Rangaprasad of the Society for International Development. Ok, now it's time for the Taxcast special feature. Ireland’s economic model has corrupted democracy and business. And there are better ways forward in the public interest – that's according to a brand new book out this month, Tax Haven Ireland. There’s a special discount for Taxcast listeners wherever you are in the world - I'll give you the details at the end. So, with me today are the authors of Tax Haven Ireland - Kieran Allen of the School of Sociology, University College Dublin and Brian O Boyle, lecturer in economics at St Angela's College.”

Brian: “We're political activists and we're academics as well so we want to bring the true nature of Irish capitalism and the true nature of the Irish establishment into the light - effectively, the failure of Irish capitalism. At the centre of the whole thing was an enormous tax haven and it just became more and more clear to us, especially when we started to look at the official statistics, that there was an enormous story to be told. We need to expose what is an awful system in terms of human development.”

Naomi: “Do you have examples of things that you noticed as citizens really, of things going bad that kind of really alerted you to all not being well in Ireland?”

Brian: “One was in 2016, there was an expose where a whole series of vulture funds, or, you know, international property funds were all simultaneously declaring their taxes as 250 euros per annum. And we were saying, what's this about? So that would be one, it's think the apple case was the other one.”

Kieran: “Yeah. I mean, what's interesting about the apple case is, is one of the biggest corporations in the world, has savings about 200 billion, but when it was set up in Ireland in 1980, initially it came in on the basis that it wouldn't be paying tax and then what you find over the years is that it's paying a tax rate of around 2%, but then apple think that's far too much. And you have these periodic meetings, which the EU Commission eventually gets the minutes of, and you find they keep pressurising to reduce the tax rate down below 1%. The Irish government won its appeal on this issue, but it's only won the appeal on the basis that apple is not unusual! We don't give preferential treatment to apple, this happens to a lot of multinationals. And certainly when you look at the tax, the actual tax rates that are paid by multinationals, you find that generally speaking, they're down at around 2, 3% and sometimes less.”

Brian: “Yeah, I think the Commission is going to appeal that judgement.”

Naomi: “Right. And, and Ireland famously refusing to take the taxes that it was owed is also a really bizarre situation for a nation state to be in!”

Brian: “Absolutely.”

Naomi: “I wanted to ask you, on the one hand you call Ireland a cess pit in terms of how you feel that the tax haven model has had its effect in Ireland, but it also is what
you call a neoliberal success story, right? So it's really interesting some of the attitudes, I mean I used to go to Ireland every Christmas to see my grandparents as a child and I saw how Ireland was transformed, especially after it joined the European Union. And, you know, you do hear this kind of rhetoric which is so common also in small island nations, we hear a lot, you know, that after hundreds of years of colonisation Ireland's entitled to bend the rules, and it's also got its roots so deeply in, you know, very, very strong Christian values. And yet its model really contradicts that. I just wonder what your thoughts are on that."

Kieran: “Well I would say you're absolutely correct that one of the ways the political elite operates is by using the history of suffering against colonialism to say, okay, we have a right - to do what? And do you have to spell out what they're doing - they are essentially facilitating multinationals to stop giving a share of their profits to the poor in America, but also crucially to the poor throughout the developing world. And we apparently are entitled to do this because we have suffered so much, so it's this kind of dynamic. And of course, when you operate as a tax haven, I mean Gabriel, Zucman points this out, you will get a higher proportion of your taxes from corporation profits because they tend to be all sucked into this one area. But you've also got to look at the consequences of that. And one consequence of that is that if corporations don't pay a lot of tax, even if their proportion of tax is relatively high, you have to get the tax from somewhere. And I would say that in Ireland, Irish workers below the wage of let's say 40,000 are paying a relatively high rate of tax for very poor public services.”

Brian: “In Ireland there's 10% of the population, 10% of the tax earners earn over a hundred euros. So there is an enormous payoff because there's actually quite a few people do very well out of the tax haven, and that's your, the neo-liberal success story. In the end, a neo-liberal success story is often a failure for people's development in the wider society. So we want to say yes, it's a cess pool if you're an ordinary worker, if you're in the 80% of people who don't benefit from the tax haven.”

Naomi: “Absolutely, absolutely. And there's also, there's a lot of playing around with figures aren't there about how many people are actually genuinely employed in Ireland, uh, through some of these big US companies, which you wrote about in the book. You talk a lot about the social consequences, not just for the global south that Ireland inflicts on them, but I'm interested as well in how you would kind of place Ireland in terms of the concept of the finance curse, you know, I'm thinking about costs to citizens have been estimated for example on citizens, 67,000 pounds per head in the UK estimates of the costs of the city of London, uh, four and a half trillion pounds in lost economic output in over a 20 year period, as much as $70,000 per head costs in the US over a 15 year period, that's Professor Gerald Epstein's work. I was just wondering how you would look at Ireland from that perspective and if there's been work done on the finance curse in Ireland?

Brian: “It is a very useful concept. I suppose the way we tried to approach it was maybe a bit more qualitative, for example when we talk about the establishment of the financial services centre, what they did was they embedded a thing called the clearing house group right into the centre of the department of the Taoiseach which
is our Prime Minister, very very unusual thing to do, except that what it was about was basically making sure that financial interests had not only the ear, but were actually directly hand in hand making government policy with the elites. So you know, on the one hand we're told in Ireland that we live in a republic, that it's based on democracy, that's it's transparent and that people have rights, and yet very few people know that for a long period of time and particularly true all the years of austerity, the corporate elites in the international finance sector and across the various multinationals had a direct say in policy, and that comes through in all types of policy. They gave tax breaks for really rich people - if they were going to bring some of their executives for example and they wanted to come and go to private school they were given up to 50k euros of their income that could be tax free as a sweetener – meanwhile, 1 in 5 children was going to school hungry in Ireland and if you'd have said 'listen, we're in a really difficult situation here for children's development, we'd like a bit more tax from the very rich and powerful and privileged' you'd have been told - not possible, that can't happen – so, in that sense, what they've done is they've corrupted our democracy and they've ensured that the corporate elite have had the whip hand over people in the country through the various institutions of the State, so that is in a way the very definition of the finance curse there I suppose, and it's been writ large in Ireland.”

Kieran: “Yeah, I would add to that just first of all of all the clearing house group, so this is a grouping composed of Bank of America, and so on, some of the main banks and finance houses, which don't function as a lobby group outside of the State, but are actually embedded in one of the key departments of the State. And what that does is for example, when it comes to the Tobin tax in Europe, Ireland was I think one of 11 countries that rejected the idea of a Tobin tax - on the advice of the clearing house group. So that that's one example how the financial curse operates. One other point is the role of accountancy firms. So accountancy firms we know have developed into units of tax planning, which in reality, we use the term tax dodging, but it's also the way the Irish State functions is often through going back to those same accountancy groups which are depriving it of money, paying the money for contracts to do research on elements of government policy. So for example, we find that PwC was commissioned to do a study on what do we do about Ireland's water infrastructure. And they come out with the argument, oh, we have to bring in water charges. So you get these very strange contradictions that really I would say fit into the category of the financial curse.”

Naomi: “Absolutely yeah and we see that in so many economies that are so dominated by the finance sector. You write as well that Ireland has long lacked a strategy for domestic industrialisation and again, that's such a strong element of the finance curse. I was just wondering how you would characterise what we might call the real economy or, you know, an economy that is not based on financialisation processes, fake foreign direct investment, profit shifting for tax purposes, you know I'm just thinking, you know, Jersey before it became this disastrous tax haven, once had a significant potato and dairy industry. How would you characterise Ireland's economy, how it could be, or should be?”
Kieran: “Tax havens differ, right? So Ireland is a tax haven of a particular type. And its main role is to function as a space for US corporations in particular to dodge taxes, US corporations that are selling in Europe. Now unlike other tax havens, these US corporations do employ people, so the overall figure in terms of the labour force in Ireland is somewhere between 8 and 10% of labour force is employed by multinationals, mainly American multinationals. So in that sense, there's a real economy as well as a grossly inflated economy through what they call booking in of sales which don't occur in Ireland. Secondly, there has been a shift in the real economy, even based on the multinationals, from one that was making computers, medical devices, pharmaceuticals are still quite strong in Ireland, to now one that's has a growing reliance on social media companies, Facebook and so on, so a lot of the elements come there. And lastly, I would say in terms of what you might call native Irish capitalism, it is still very, very weak. It is over-focused on property and it relies very heavily on State support in forms of all sorts of hidden subsidies, such as, for example, the State rents out offices from property developers and so on. So in that sense, if you strip away the multinational element, Irish capitalism is quite weak, reliant on the State, and consumes too many subsidies in my view from the State itself.”

Naomi: “Yeah. I want to ask you about Ireland's position regarding the 15% minimum global corporate tax rate, which was quite interesting, I mean, they insisted on adjusting the wording to, uh, from at least 15%. I can't quite remember how they adjusted the wording now. I was just wondering, what was going on there with Ireland, because you've also written about how the model Ireland has been pursuing is really under threat from all sorts of different movements and, uh, decision-making that's going on at a multinational level.”

Kieran: “I would say, first of all that Ireland was operating as one of the main, if you like ambassadors for the multinational, trying to get in as much of an amendment as they could, so as you said, they changed the word at the end. And then finally Ireland agreed formally to the 15% minimum. Now, why does it agree? You have to remember that its particular niche is that it is a respectable tax haven for corporations, it's not like the British Virgin islands or Bermuda, it markets itself as that. So therefore it had a vested interest in being seen to be inside the tent rather than outside the tent. But even while being inside the tent, it's the detail that the Irish, if you like, the political elite are very good at, so what the detail will come down to - 15% of what? You're talking about 15% of gross profits, are you talking about 15% of the taxable profits? What's going to be allowed? So they will be in there trying to essentially establish as many loopholes as possible, so in many ways their adherence to the 15% minimum is a tactical move to maintain their image, but also to get even more for more bargaining once they're inside the tent.”

Brian: “Yeah. I'd add three very quick points. One - it was interesting, they sort of proclaimed that this was a great victory for Ireland, that they had managed to get in a clause 'at least'. And somehow what that says is that, you know, we should celebrate when we undermine the tax base of every other country, because Ireland is somehow protecting itself, which is actually completely wrong. Second point is they were worried about the European Union imposing a more unilateral move that would
be more difficult for them. So there was always a sense that there were, and they were working hand in glove with the American Chamber of Commerce. It was interesting, originally the American Chamber of Commerce backed them in their sort of stance of being hesitating around whether they should sign and not sign. And then when it looked like they had to because in the end, as you know yourself Naomi, there was lobbying in the States and they were hoping that if the Republican party were strong enough in the American Capitol Hill, that that would torpedo the whole thing and when that looked like it wasn't going to happen, then you had to get in on the last sort of, you know, the ship was leaving, you've got to get on board, as Kieran said. So for those three reasons, that's why they did what they did.”

Naomi: “Yeah. Yeah. It's interesting. You write quite a lot about the financial services centre, and it's very important, it was established at the height of Thatcherism in the eighties, and you identify it today as not only being behind a lot of the rot that we've been talking about, but also posing ongoing major risks to the Irish economy and therefore to Irish people. You talk about the international financial services centre as currently housing one of the world's major shadow banking networks with trillions in assets managed completely outside the normal banking sector. So I was just wondering, could we talk a bit about that? 'Cause there's a lot of nations that are really busy at the moment, setting up their own international finance centres. They're really intense on expanding them. You know, we got Nairobi, Kigali, Johannesburg. What would your advice be to them? I mean, that's two questions in one really!”

Brian: “Well yeah, the financial stability report, that comes out annually and they've consistently had Ireland near the top in terms of the amount of transactions that are happening that are outside the regulatory system. And it's enormous, I mean, it's 10, 15 times bigger than the Irish economy. And one example we used in the book was a bank called DEPFA Bank. I'd never heard of it, and I had to look it up even for this because it's not rolling off my tongue, but DEPFA bank, the German, uh, you know, bank, it's not one of your high street banks, but it was an enormously important bank, and they had collapsed in the context of the great recession and it cost German taxpayers, a hundred billion. Now a hundred billion would be about a half of Irish GDP for a year, like it would be an enormous burden. And just by a stroke of luck that bank had been sold back to German shareholders about a year before it collapsed and therefore it landed on the German lap, rather than the Irish lap. Now the Irish had enough stuff landed in their lap during the great recession, but can you imagine if that was one of the banks that collapsed on their wat- in terms of their responsibility? So, you know, we all know that there's a sense in which prudence means that you should have some democratic oversight of what's happening in finance and the very opposite happens in the international financial services centre. You know, some people here call it the wild west because ultimately they trade on the fact that there's very, very lax regulation and very little transparency, so even from the point of view of prudence, when you don't know what's there and you know it's enormously big, you've got to worry. And then when you have some examples of what's happened in the recent past, you've got to worry even more. And then you think about the instability that's happening around Brexit, the COVID crisis, I mean, you know, just because we don't know about it, that's what covid has taught us, isn't
it, just because you don't know about something, that doesn't mean it's not going to upset you. So, we're kind of crazy to think that we could just be blase about that, but it seems the Irish establishment are."

Naomi: "So, so just briefly, what, what would you say to those in Nairobi, Kigali, Johannesburg, and other places that are busy kind of expanding and setting up their own centres?"

Kieran: "I would say they're going down the wrong road, I mean, it's a fool's game, I mean this is a model of development that's promoted across the world, you know, set up an export processing zone, set up a financial services centre. But as every country's doing that, there's a sort of race to the bottom where you have to offer some even more tax incentives, more deregulation. And ultimately it's a loser's game, basically."

Naomi: "Yeah, and you talk about the future not looking that great for the current economic model in Ireland, especially with some of the changes we've talked about a bit coming down the line regarding the arm's length principle for example, and other things, and Brexit taking one of the EU cheerleaders for tax havenry out - a natural ally out of the equation, but on the other hand the UK is now going to be quite a competitor for driving down those standards even further in this race to the bottom. So what do you think Ireland needs to do now?"

Kieran: "Well, I would say, first of all, why is there dangers ahead? Because Ireland for many years got under the radar, it was such a small economy it wasn't regarded as so important, and so on. That is changing. In addition to that, there is what might be called originally back in the seventies, a fiscal crisis of the State. States are having to spend far more money on COVID, on developing their infrastructure and therefore there is a certain pressure on States to gather taxes, and there's more of a focus on what's going on here. So, the game that the Irish ruling elite played may not work for the future. So what do we recommend doing? Well, we recommend an entirely different political economy model, where the State has to play more of an active role to strategically develop for example, look at the pharmaceutical industry, there are skills that have been established there though working for multinationals, there's no reason why the Irish State cannot help to develop a generic pharmaceutical industry run by the State, we are for a different model of the economy and indeed the development of a green economy based on state led investment rather than a reliance on multinationals at the moment."

Brian: "It's very important not to fall into the trap of seeing a tax haven as just, tax is one function amongst many. And the Irish establishment are quite, you know, they're sophisticated enough to know that you offer things beyond tax and one of the things they're offering now is the data centre model. That's one of the things that they've decided to do is to hedge their bets somewhat in terms of trying to get the multinationals even more embedded by giving them almost unlimited access to the country in terms of data centres. So there's a big controversy now in Ireland, because, you know, on the one hand we hear that there are data centres now that are taking as much electricity as small towns in the, in the State. And then at the same time, we face potential blackouts this winter. And the question is obviously,
why are we doing this? And the reason they're doing it is not because it creates jobs, but it's because it continues to allow the Irish State to seem relevant to the big multinationals who are using Ireland for all sorts of purposes. And that gives a complete lie to the idea that they take climate change seriously. What we want is for a just transition. We want the resources that have been built up in this State over 10, 15, 25 years, we want those now redirected into development that actually fulfils our emissions targets, but also gives people some sense that they have a future in the country because all too many people don't feel that way. So that's possible, I mean, the big barrier really is the corporate power and the undemocratic power of the elites, that's the big barrier. If you could get the corporate sector to pay more in taxes you could have a much better and small and medium-sized industrial policy, but you know, we would like it to go further because ultimately, beyond neo-liberalism, capitalism itself is destroying the planet.”

Naomi: “Yes! So, Ireland’s supposed 12.5% corporate tax rate gets repeated a lot by Irish people doesn’t it? And we know it’s very often been much lower, cheating many nations out of tax revenue – supposedly now it’ll be raised to the global minimum corporate tax rate of 15% for companies of 750 million euros turnover and above (although banks are exempt) – tax is now much more prominently in people’s minds than ever before, isn’t it? What do you really hope to achieve with this book?”

Kieran: “You have to understand, almost every single school child learns the 12.5%, well, it’s now 15%, but they almost internalise that, so it is a sacred cow and it is repeated ad nauseum. And, you know, people talk about the Soviet Union and how people are brainwashed in the same message repeated like a one party State, it’s like that here. And therefore, to some extent, this is an iconoclastic book in that we’re challenging a myth, so I suppose the first thing we’d like to do is to get people to think about what is a myth in our view, to undermine the fatalism - ah sure, we can’t do anything else but just give them this, and really to start thinking about how we can have a different economic model to capitalism. That’s really what we’re trying to do here. We’re trying to spell it out in absolute detail some of the things that are going wrong with this country.”

Naomi: “You’ve been listening to the authors of the brand new book Tax Haven Ireland, Kieran Allen and Brian O Boyle on the Taxcast. It’s a fascinating and an entertaining read, should be a set text for schools and universities, and not just in Ireland, there are lessons here that apply to any country in the world. For Taxcast listeners, as I said, there’s a 40% discount off the paperback edition, or the ebook, for wherever you are in the world. Go to the publisher’s website: www.plutobooks.com and enter the code TAX40 – all in the show notes. That’s it for this edition, I’ll be back with you next month.”