Eradicating poverty in a post-growth context: preparing for the next Development Goals

In response to call for input by the Special Rapporteur on extreme poverty and human rights

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TAX JUSTICE NETWORK

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Introduction

The current global financial architecture enables a staggering annual loss of $480 billion in tax revenue through cross-border tax abuse[1]. Such a reality is manifestly incompatible with the development of a just and inclusive international economy. This financial leakage, recently disclosed in the State of Tax Justice 2023 report, exposes the scale of the challenge faced by nations across the globe. Multinational corporations and rich individuals are at the forefront of these losses, utilising cross-border corporate tax abuse and private offshoring of wealth to siphon $311 billion and $169 billion, respectively, from state coffers.[2]

This financial drain is not evenly distributed across the economic spectrum. Lower-income countries, historically sidelined in global tax policy discussions, bear a disproportionate burden. Despite suffering fewer losses in absolute terms - $47 billion - these nations grapple with the profound reality that this sum equates to a staggering 49 percent of their public health budgets.[3]

On the flip side, higher-income countries shoulder the majority of the annual tax losses, standing at an alarming $433 billion. This substantial figure, equivalent to 9 percent of their public health budgets, poses a direct threat to the well-being of their citizens as well.[4]

As we navigate the complex landscape of international tax rule-making, a sobering projection emerges: if the current trajectory persists over the next decade, countries are poised to lose an astronomical $4.8 trillion. To put this into perspective, the cumulative losses over the next decade far exceed the entire global expenditure on public health, which amounted to $4.66 trillion in a single year.[5]

At the heart of the alarming $480 billion annual loss in tax revenue lies a pivotal component of the 'growth imperative'— economic paradigms that prioritise the perpetual pursuit of ever-increasing profits for the benefit of a select few. The systemic extraction of resources through cross-border corporate tax abuse by multinational giants and offshore tax strategies employed by affluent individuals serves as a central pillar sustaining this imperative. The asymmetrical distribution of these losses underscores a fundamental imbalance, with lower-income countries grappling with a disproportionate burden. It has systematically prejudiced women, people of colour and other historically marginalised groups through an economic architecture that is structurally discriminatory.[6] Addressing this challenge necessitates a concerted effort towards reforming international tax frameworks to restore equity and foster sustainable economic development for the benefit of all.

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[1] Tax Justice Network, *State of Tax Justice 2023* (2023) <https://taxjustice.net/wp-content/uploads/2023/08/State-of-Tax-Justice-2023-Tax-Justice-Network-English.pdf> [accessed 2 August 2023].
[2] Tax Justice Network, *State of Tax Justice 2023*.
[3] Tax Justice Network, *State of Tax Justice 2023*.
[4] Tax Justice Network, *State of Tax Justice 2023*.
[5] Tax Justice Network, *State of Tax Justice 2023*.
[6] See, for example, the recent letter to OECD tax policy chief Mathias Cormann from a group on nine UN special mandate holders. https://spcommreports.ohchr.org/TMResultsBase/DownLoadPublicCommunicationFile?gId=28676

Measures and tools for inclusive growth and reduction of inequalities

Just taxation and financial transparency policies are often categorised using the framework of the '5Rs'- revenue, redistribution, repricing, representation, and reparations. The 5Rs represent a comprehensive framework that not only highlights the benefits of just taxation but also can serve as a tool to drive the reduction of inequalities.[7] Collectively, they offer a multifaceted approach that addresses economic, social, and environmental dimensions of inequality.

Most fundamentally, governments require adequate revenue to provide for the enjoyment of human rights. The first 'R,' **revenue**, underscores the pivotal role of taxation in generating funds for public services, infrastructure development, and efficient administrative systems. When harnessed effectively, this becomes a pivotal aspect within human rights frameworks by emphasising the potential for leveraging increased funds to actively reduce disparities and promote equitable access to essential services. While the generation of additional government revenue does not inherently ensure the fulfilment of developmental needs such as health and education, it does create an opportunity for the state to fulfil its obligations in this regard.

Tax policy, as one of the most significant drivers of equality outcomes, must also be designed and implemented in such a way as to avert levels of international and intra-national socioeconomic inequality that would undermine the enjoyment of human rights. This **redistributive** function is intricately linked with Sustainable Development Goal (SDG) 10.1, which aims to reduce inequalities within and among countries. Through progressive taxation policies, resources can be redistributed to narrow the wealth gap among various groups and promote a more equitable society. This contrasts with the core tenets of the 'growth imperative', such as ever-increasing profits for multinational corporations, which are predicated on a societal value system that requires and exacerbates socioeconomic inequality.[8] In contrast, one of the key characteristics of 'degrowth' economic arguments is a conviction that extreme levels of socioeconomic inequality must be addressed and remedied meaningfully and deliberately, thus abandoning the false promises of 'trickle-down' economics.

Another of the chief roles of taxation is to **reprice**, goods and services, so as to incentivise or disincentivise activities and behaviours – such as tobacco or excessive fossil fuel consumption – that negatively impact the enjoyment of human rights.[9] Imposing higher taxes on very affluent individuals and corporations, especially those contributing significantly to environmental challenges, can lead to positive shifts in behaviour,

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[7] For in-depth explanation of taxation's human rights function in revenue, redistribution, repricing and representation, see: Tax Justice Network, Tax Justice & Human Rights: The 4 Rs and the realisation of rights, 2021. See: https://taxjustice.net/reports/tax-justice-human-rights-the-4-rs-and-the-realisation-of-rights/ See also, Gurminder K. Bhambra (ed), Imperial Inequalities: The Politics of Economic Governance across European Empires, Manchester University Press, 2022. https://manchesteruniversitypress.co.uk/9781526166142/imperial-inequalities/

[8] Jason Hickel, 2021, Less is More.

[9] See, for example, Towards a global fiscal architecture using a human rights lens, Report of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights, Attiya Waris, 2022. https://www.ohchr.org/sites/default/files/2022-11/Foreign-Debt-user-friendly.pdf

promoting environmental responsibility and contributing to broader justice and human rights goals. In this regard, it can also be argued that the repricing function of taxation could play a role in disincentivising the pursuit of extreme wealth and fostering shifts in societal values.[10] In this sense, a critical concern in the design and implementation of repricing taxation policies is that they should be progressive and serve to advance equality and collective wellbeing.[11] Recent flare-ups of popular unrest driven by unjust repricing taxes, such as the 'yellow vest' movement in France and the widespread protests in Colombia in 2021, have served to illustrate the necessity that repricing taxes be designed with justice and equality in mind.

The fourth 'R,' **representation**, emphasises the connection between taxation, democratic processes, and political representation. This enhances political representation and governance, fostering a system where the allocation of resources aligns with the needs and preferences of the population. In this sense, taxation is a key pillar of the social contract between governments and citizens in representative democracies; it is well documented that higher-tax economies are linked to more robust standards and expectations of governmental accountability, while low tax economies and rentier states tend to experience weaker social contracts. The repricing role of taxation is crucial to the democratisation of economies.

Finally, a just and transparent international financial architecture that precludes high levels of cross-border tax abuse is a key precondition to providing **reparations** for the full spectrum of human rights violations rooted in colonial systems of economic extraction. The fiscal capacity of governments across the Global South has been consistently restricted by an unjust international financial architecture that facilitates the extraction of hundreds of billions of dollars each year from lower income countries which flows overwhelmingly to a handful of countries in the Global North. The relentless siphoning of revenue away from state coffers in poorer countries and into financial centres of the Global North severely impedes capacity to provide for the enjoyment of human rights, including the right to life, and effectively precludes the meaningful exploration of alternative economic pathways. This unjust international financial architecture is not something which occurred by accident but just one of many examples of contemporary structures of historical racial oppression rooted in slavery, colonialism and apartheid.[12]

Opportunities for action

UN tax convention

The design and implementation of a UN tax convention could facilitate the establishment of an enabling international environment for alternative development pathways. This

[10] See for example, Hubert Buch-Hansen & Max Koch, 2019. Degrowth through wealth and income caps. https://www.sciencedirect.com/science/article/abs/pii/S0921800918314836 See also: Emmanuel Saez and Thomas Piketty, Why the 1% should pay tax at 80%, The Guardian, 24 October 2013. https://www.theguardian.com/commentisfree/2013/oct/24/1percent-pay-tax-rate-80percent

[11] Jason Hickel, 2019, Inequality and the Ecological Transition. https://www.jasonhickel.org/blog/2019/1/14/inequality-and-the-ecological-transition

[12] Tax Justice Network, Tax Justice & Human Rights: The 4 Rs and the realisation of rights, July 2021. Available at: https://taxjustice.net/wp-content/uploads/2021/12/Tax-Justice-Human-Rights-Report_July_2021.pdf

convention, if designed with a focus on equity and human rights, has the potential to play a pivotal role in diminishing global inequalities and alleviating poverty worldwide by fostering a more democratic and inclusive environment for the creation of global tax rules.

The current international tax system, heavily influenced by the Organisation for Economic Co-operation and Development (OECD), has perpetuated a system that exacerbates inequalities and favours the interests of economically powerful nations. Massive levels of financial malfeasance are driven by corporate tax abuse and private tax evasion by high-wealth individuals, with a staggering 78 per cent of cross-border tax losses caused by OECD member countries.[13]

By guaranteeing a more democratic system for tax governance, a UN tax convention provides an opportunity for Global South countries to have an equal say in how tax rules are shaped worldwide. This, in turn, can serve as a mechanism for reparation and redistribution, as well as increased resources for these nations to explore alternative economic pathways.

These resources are also fundamental to diminish inequalities by addressing fundamental issues such as healthcare, education, and social welfare. In essence, the convention becomes a practical tool for redefining global economic relations, correcting historical injustices, and translating tax justice principles into tangible outcomes that benefit the most vulnerable.

The ABC(DEFG3) of Tax Justice

A paradigm shift is required in global economic governance, and just tax policies are a critical lever in redirecting economic policies toward greater equity and social justice. The Tax Justice Network's ABCs of tax justice, expanded to ABC (DEFG3), provide a comprehensive set of measures that can effectively challenge the injustices embedded in the current global economic system and enable a more just and inclusive economic model.

Taken together, they represent the policy areas that must be addressed in order to tackle the unjust extraction of economies by multinational companies and a tiny economic elite, and in turn enable the exploration and, where appropriate, implementation of alternative economic approaches. The ABCs of tax justice undergird and facilitate the design and deployment of taxation policy in service of the 5Rs.

Focussing significantly on creating meaningful and comprehensive transparency over the tax affairs of multinational companies and wealthy individuals, the ABCs represent a framework for democratisation of taxation systems, at both national and international levels.

A: **Automatic exchange of information.** Automatic exchange of information is a data sharing practice that prevents corporations and individuals from abusing bank accounts they hold abroad to hide the true value of their wealth and pay less tax than they should. Under automatic exchange of information, a country takes the information it has on the financial activity of individuals and businesses who are operating within its borders but

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[13] Tax Justice Network, *State of Tax Justice 2023*.

are resident in, aka permanently living in or headquartered in, another country and shares that information with that country. The allows countries to know the true value of their residents' wealth and make sure they pay the right amount of tax.

B: **Beneficial ownership transparency.** A beneficial owner is the real person, made of flesh and blood, who ultimately owns, controls or receives profits from a company or legal vehicle, even when the company legally belongs, on paper, to another person or entity, like an accountant or a shell company. Companies must typically register the identities of their legal owners (which can be real people or other companies), but not necessarily their beneficial owners. Because multinational corporations often build complex ownership chains across multiple tax havens and secrecy jurisdictions, it can become impossible to track and fairly tax profits.

C: **Public country by country reporting** is an accounting practice that requires multinationals to disclose their actual economic presence, sales, profits, and taxes paid in each jurisdiction in which they operate. In so doing, it enables meaningful assessment of how much tax they should be paying in each country.

D: Linked to the above, **disclosure** of sufficient public data is fundamental to ensure tax transparency and accountability for both multinational companies and wealthy individuals with regard to their tax affairs.

E: **Enforcement** by well-resourced and operationally independent tax authorities is necessary to guarantee crucial tax measures are implemented effectively.

F: **Formulary apportionment with unitary taxation. Unitary taxation** is an approach that treats a multinational group as a single taxable unit, rather than treating individual subsidiaries in different countries that make up the group as separate. Current international tax rules are based on separate entity accounting, where transfer pricing mechanisms are used to establish the taxable profit that each entity within the multinational group would obtain, if it was operating at arm's length (independently) from each other entity in the group. This allows gross abuses, with huge volumes of profits being shifted from where they arise, into low- or no-tax jurisdictions. Unitary tax recognises that in reality, profits are maximised at the unit of the group as a whole. **Formulary apportionment,** meanwhile, is the name for the process that allocates those global profits as tax base between the different countries where the multinational has real economic activity (employment and final customer sales, for example). When deployed together, formulary apportionment and unitary taxation can end corporate tax abuse by ensuring that profits are taxed in the location of the real, underlying economic activity.

G1: **Governance reform** centred on the establishment of a genuinely, globally inclusive process for the setting of tax rules and standards, under UN auspices. As detailed above, shifting negotiations over international tax governance from the OECD, which is mandated to represent the interests of the world's most industrialised economies, to the UN represents a historic opportunity to develop a just and inclusive global tax convention through a genuinely participative negotiation process. The OECD's stewardship of international tax negotiations, along with the 'two-pillar' solution proposal which emerged from the BEPS process, has been repeatedly criticised as hindering the realisation of human rights in the countries of the Global South in particular. Most recently, a group of nine UN special mandate holders called on the OECD to account for the human rights shortfalls of its leadership of tax negotiations.[14] As such, the OECD proposals arguably run contrary to the prioritisation of human rights-centered economic metrics.

G2: A **Global asset register (GAR)**, linking together beneficial ownership registers across the world, and covering all legal vehicles and high-value assets, across jurisdictions, would provide a critical tool against abuse of tax, regulations and sanctions. Importantly, it would also deliver transparency on the true level and nature of economic inequality at the global level.

G3: **Good taxes:** a catch-all covering a progressive and effective overall tax system, and significant individual components of the tax justice agenda including wealth taxes, climate-related tax measures, excess profits taxes and minimum effective tax rates.

Conclusion

The interplay between tax policy and human rights outcomes is multifaceted, structural and determinative. Indeed the design and implementation of both taxation policies and international cooperation on tax matters serve to shape economies themselves and equality outcomes within those economies at both national and international levels. As such, further interrogation of how taxation policies can and must be deployed in the interests of both eradicating poverty and steering economic trajectories and the design of appropriate metrics will be essential in the years ahead. The conversation on this pressing issue is nascent, however, and determining the specificities of tax policy priorities as they relate to post-growth economic metrics will require extensive dialogue and consultation. Tax Justice Network is committed to carrying this conversation forward over the course of 2024 and beyond, and looks forward to further collaboration with the Special Rapporteur on Extreme Poverty and Human Rights in this endeavour.

[14] Mandates of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights; the Special Rapporteur on the right to education; the Special Rapporteur on the right to food; the Special Rapporteur on the right of everyone to the enjoyment of the highest attainable standard of physical and mental health; the Independent expert on the promotion of a democratic and equitable international order; the Independent Expert on human rights and international solidarity; the Special Rapporteur on contemporary forms of racism, racial discrimination, xenophobia and related intolerance; the Special Rapporteur on violence against women and girls, its causes and consequences and the Working Group on discrimination against women and girls, 22 December 2023. The letter can be accessed at: https://spcommreports.ohchr.org/TMResultsBase/DownLoadPublicCommunicationFile?gId=28676