

Towards global taxation in the service of alternative globalisation

by Jacques Cossart (ATTAC-France)

In a letter dated 21 October 2003, the President of the French Republic, Jacques Chirac, appointed Jean-Pierre Landau, Inspector General of Finance, to chair a working group set up to "reflect upon the feasibility of new international financial contributions to reduce poverty, to promote development and to finance global public goods such as the environment, public health or rare resources", and to submit a report on its conclusions.

ATTAC was requested to participate and agreed to contribute its expertise.

It would like to compliment Jean-Pierre Landau upon the excellence with which he has steered not only the plenary sessions of this working group but also its reports, which are essential to measure general progress.

ATTAC was able to express its views freely and constructively.

It is entirely understandable that the general report of such a diversified group endeavours to give more weight to points of agreement than to the isolated opinions of individual group members. ATTAC endorses this principle unreservedly. The report nevertheless gives a highly objective account of diverging opinions.

This is the background against which ATTAC decided to accept the Chairman's invitation to the members to send him a special paper highlighting what they consider to be essential points.

ATTAC acknowledges the relevance of the President of the Republic's statement that "globalisation creates wealth and promotes freedom and growth. But it also generates new global risks and aggravates the persisting poverty and inequality in the world".

We believe that the globalisation stigmatised by the President of the Republic is one which allows itself to be regulated by the markets and so abandons those considered insolvent to "persisting poverty and inequality". The "new global risks" are unfortunately aggravated by the presence of billions of people in the world. This is what we refer to as neoliberal globalisation, i.e. a form of globalisation which undermines the legitimacy and effectiveness of public intervention in regulation. But how can we produce "global public goods" without public regulation?

I. REASONS FOR INTERNATIONAL TAXATION

1) Globalisation and tax competition

The existing tax systems were developed when borders and tax jurisdictions coincided with national states. Indeed, these systems predate national states by several centuries. The existence of national borders allowed states for many centuries to adopt sovereign and largely independent monetary and tax policies. **The ongoing globalisation process has radically changed the environment of tax policies.** The elimination of borders and the mobility of certain production factors have brought the era of independent national tax policies to an end. Tax policies have become interdependent, primarily because of their impact on trade and financial flows. Today, third countries can take advantage of tax hikes in neighbouring countries, which then lose the additional tax revenues expected from their measure. Right or wrong, many developed and developing countries are nowadays taking tax-related decisions based on external factors.

The well-known theory of the "prisoner's dilemma" permits two strategies. Either countries do not cooperate and play the game of "harmful tax competition" by lowering their taxes in order to attract foreign capital and multinationals. **Such Dutch-auction tactics reduce tax revenues.** Or countries cooperate in order to maintain homogeneous tax pressure, allowing them to preserve their public revenues. Tax cooperation can be strengthened by harmonising national tax policies or by creating common global taxes. Theoretically, the result is the same in both cases if countries adopt the same tax assessment bases and the same tax rates. This eliminates the practice of "free riders".

Within the context of market integration, cooperative tax policies are clearly difficult to implement, as witnessed by the European Union. One of the reasons for this is that multinationals, as part of their international tax optimisation strategies, push countries to compete with each other in order to lower the tax pressure upon their business. This tactic is particularly applied to foreign direct investment.

2) Taxation and mobility of factors

Production factors can be taxed all the more effectively when their mobility is low and their assessment basis does not respond elastically to changes in the tax rate. The removal of national borders in application of liberalisation policies has raised the mobility of certain production factors, primarily capital, whose main holders are industrial multinationals, banks and international investors. **The mobility of these players allows them to establish themselves in territories with lower tax pressure in order to optimise their tax strategy.** Businesses do not just want a state offering the best tax deal but also a state offering subsidies which allow them to cancel their tax burden or even to generate a negative tax burden. The profits of these major groups have become a moving and increasingly elusive target for the national tax authorities. **The net result is that the assessment basis of states has collapsed while multinationals have enlarged the space in which they can minimise their tax burden and maximise their profits.**

Multinational businesses use many techniques to avoid taxation. The most radical method is of course to base operations in all sorts of tax havens or free zones. Another solution is to use highly sophisticated window-dressing methods, of which the best known is to charge fictitious transfer prices between a parent company and its subsidiaries. In recent years we have seen particularly revealing examples of this tactic.

3) Globalisation and tax inequalities

Globalisation aggravates tax inequality between the different categories of holders of production factors, depending upon their degree of international mobility. On the one hand there are farmers and wage earners, who hold the land and labour and who represent almost all of humanity. **For most workers it is very difficult to move geographically due to obvious obstacles, such as cultural and language barriers and immigration laws.** As a result they are generally unable to shrug off their tax burden.

On the other hand we have senior managers who are at the top of the global income pyramid and who, because of their high mobility, have a very elastic assessment basis, i.e. they can move about to avoid taxation. **Globalisation has thus driven a new divide between wage earners, with on the one hand those who can relocate to take advantage of pay and tax spreads and on the other the overwhelming**

majority of wage earners who cannot do so.

The available statistics clearly show the link between the eroding tax base and the mobility of production factors. **The gap between the tax rate for labour and for capital has increased steadily since the inception of the globalisation process.** In the EU Member States, the weight of capital taxes dropped significantly from 50% in 1980 to 35% of total tax revenue in 1994, while the fraction of labour taxes rose from 35% to 40% in order to preserve national tax revenue. **Inequalities can only be fought by readjusting the entire balance.**

4) Global taxes and common goods of humanity

Another basic reason to consider the creation of global taxes is the certainty that globalisation generates new needs and the necessity to appropriate new or existing needs requiring the use of an international tax instrument. The concept of common goods of humanity - generally referred to as global public goods (GPG) - was created to describe these needs, which are felt at a worldwide scale and cannot be satisfied by the markets because of their two key features: no one can be excluded from consumption of a public good (principle of non-exclusion) and the use of a public good by any individual may not deprive the other members of a community (principle of non-rivalry). **The aim of balanced global development can only be achieved if such public goods as health, education and security are covered by clearly defined policies financed at an international level from public resources, such as global taxes.**

At the present time, production of GPGs falls far short of what is required. This lack of investment results in particular in international financial instability, pandemics, financial crime, lack of dissemination of knowledge and internet access and environmental damage. Shaken by globalisation and lack of global public goods, the planet has become unstable, inequalitarian, polluted and unhealthy. There are several reasons why there is a lack of GPGs. First, there is the problem of evaluating costs and returns, mostly because of their time horizon. Their results can only be measured in the long term. For instance, policies to fight financial instability and the destruction of biodiversity have a high cost and remote and uncertain returns, which may discourage initiatives by public players. Secondly, the current lack of GPGs is due to their sphere. Budgetary and tax policies are national in scope whereas the profits from these goods greatly benefit third countries. **We can only provide sufficient public resources if we develop and implement a global tax system operating across a larger area.**

5) Millennium Development Goals (MDG)

As pointed out by the President of the Republic, the MDGs are the result of a decision by the General Assembly of the United Nations and are therefore difficult to call into question.

*The MDGs remain for the most part to be assessed. **One thing is certain: the needs are considerable and require additional resources and it is hard to see how these could be provided without taxation.***

Goal 1, target 2, for example, is to "halve, between 1990 and 2015, the proportion of people who suffer from hunger". This is really a very modest objective in an area such as this, which has a direct impact on growth. In its report for 2003, the FAO tells us that midway through the period under review the number of people suffering from hunger, which had decreased in the first half of the nineties, had risen again to nearly 800 million people. The report also explains that it is impossible to fight hunger if we do not also fight AIDS, which is covered by Goal 6.

II. WHICH INTERNATIONAL TAXATION?

An international tax system can only be effective and fair and perform its three key roles - reducing various nuisances, redistributing income (in other words, complying with the MDGs) and producing international revenue, particularly to finance GPGs – if it includes several different kinds of international financial contributions. The general report fully covers the factors to be taken into account when introducing an international tax system. We will therefore not repeat them here. **We merely want to stress the advisability of a diversified international tax system rather than a single tax, however relevant.**

A. Financial taxation

In our globalised economy there is a wide variety of easily identifiable flows. These generate income for the parties who originate them. It is therefore perfectly fair to use them as a tax base for a collective tax system. As some of these flows are known to be harmful for the world order, their taxation would also play a dissuasive role and so benefit the world at large. This tax could be incentive-based (basically the purpose of taxes on foreign exchange transactions and carbon dioxide emissions) but it could just as well be levied on financing operations (i.e. a tax on FDI).

i. Tax on foreign exchange and securities transactions

ATTAC will not come back to taxation of foreign exchange transactions, which has become a global symbol and is extensively discussed in the general report. All the same, we need to remember that international speculation is one of the scourges of financial globalisation with a potentially high economic and social cost, particularly for the countries in the southern hemisphere, as the last decade has shown.

The purpose of taxation is also to collect revenues. A securities trading tax of about 0.01% for all financial markets would be a major source of tax revenues.

Regardless of the application difficulties and the methods to avoid collection, it is hard to see why such a tax should not be proposed. Taxation is also a matter of morality! **In view of its principles, the European Union needs to show the way in this area.**

ii. Measures against tax havens and banking secrecy

Taxes can only perform their function in a fair manner if the tax authority can verify their calculation and collection.

This basic principle is constantly undermined by the existence of tax havens and banking secrecy. **There is only one effective measure against tax havens: their elimination. No other regulation is genuinely productive in this area.**

The remedies against tax avoidance promoted by banking secrecy seem relatively easy to implement. Banks claim that they are morally obliged to preserve the secrecy of customer transactions. Fine! **Let them file anonymous returns and pay tax on these. Banks that refuse to do so could easily be subjected to a flat tax.**

iii. Tax on foreign direct investment (FDI)

The two key objectives of such a tax align perfectly with the MDGs: opposing tax avoidance by dissuading the selection of countries with low taxes and preventing the deterioration of employee rights in the countries with the lowest wages and laxest labour laws.

We must not delude ourselves about the contribution made by FDI to the economy of their host country. In 2000, the 10 largest beneficiaries accounted for 75% of global foreign direct investment. 9 of these were wealthy countries, the only exception being China (including Hong Kong). 90% of these FDI were used for mergers & acquisitions. It is therefore hardly surprising that technology transfers tend to be limited and that few jobs are created. One particularly harmful consequence is that competition by local firms bought and restructured by foreign investors causes bankruptcies and layoffs at other local businesses. The net result is negative for employment. The balance is just as bad for wages, working conditions and social protection since multinationals stir competition between countries in the southern hemisphere and locate their activities in countries offering the most attractive terms. ATTAC supports the proposal of a 20% tax on all investments in host countries whose respect for basic rights is at the bottom of the scale. This tax could be modulated and slide to 10% for countries with more respect for these rights or significant efforts in the right direction. Their "social rating" would be assigned by the International Labour Organization.

iv. A unified corporate profit tax

The aim is to restore the capacity of states to tax corporate profits. **The states have granted multinational companies the power to apply pressure by permitting free movement of capital. It is hard to see how states can get out from under this pressure unless a global unified tax is levied.** In the current situation, multinationals systematically threaten to invest in another country or to relocate if their home state does not grant tax cuts. This practice, which is a form of blackmail, has triggered a tax war between states, which are showering businesses with tax gifts. The contribution of the business community to national tax revenue has dropped as a result. In the United States, corporate income tax accounted for only 17% of federal tax revenues in 1990, down from 27% in 1965. The principle - if not the application -

of a unit tax is simple: regardless of the country or the region in the world where a multinational establishes itself, it is subjected to the same income tax rate. This would not only go far towards defusing the tax war, it would also curb tax avoidance and evasion possibilities. **Tax revenues are potentially high. In 2000, the thousand largest companies in terms of market capitalisation reported aggregate profits of USD 847 billion⁶. In 2000, UNCTAD estimated the sales of the hundred largest multinationals at USD 4,800 billionⁱⁱ, representing 4.3% of global GDP, up from 3.5% in 1990ⁱⁱⁱ.**

ATTAC is strongly in favour of this method of taxation, which would end the attrition of income tax from multinationals and is a vital step towards scaling back inequalities and achieving the MDGs.

This method of taxation is well documented in the general report.

v. Wealth tax

Although wealth is a stock rather than a flow, it can nevertheless be included in this report, since it is possible to tax the stock itself, according to the French model, or its income, according to the American model. A flat tax could be assessed, based upon the size of the fortune in question. We do not wish to give final figures here. We merely wish to point out that the assessment basis is relatively easy to establish using the figures published regularly by the UNDP. For instance, the report for 2003^{iv} states that "the richest 1% receive as much as the poorest 57%". Several valuations estimate the aggregate assets of the 200 wealthiest people on earth at USD 1,000 billion. **Assuming taxable assets are worth roughly USD 5,000 billion, a very low flat tax rate of 1% would nevertheless generate USD 50 billion.** In other words, without applying intolerable tax pressure on these fortunes, the revenue from this tax would be about as much as total ODA at the start of the new millennium.

B. Ecological taxation

This increasingly necessary taxation method is clearly intended to limit the negative externalities which jeopardise the future of our planet more and more seriously. **Only public regulation can bring this decline to a halt.** An international tax can become a strong regulatory instrument if its type and amount are judiciously chosen. The following list of five types of tax is not exhaustive and needs to be analysed more thoroughly. The public revenue from this tax could be used for the budget of a World Environment Organisation attached to the United Nations. The function of this WEO would be to oversee international rules to preserve the environment and to finance international programmes intended to promote research of alternative, renewable and pollution-free energies and of waste recycling techniques and to develop economical, pollution-free production techniques.

i. Carbon emission tax

The purpose of this report is not to discuss the many harmful externalities connected with activities producing carbon derivatives, particularly carbon dioxide^v. **It is crucial to develop a tax which gives producers a strong incentive to reduce their emissions and makes them pay costs previously borne**

quite unfairly by the whole community.

The tax rate will have to be chosen very carefully to create a strong incentive to reduce emissions. The projections are flexible. They reflect the lower end of the bracket. Some proposals for such a tax would generate revenue of USD 500 billion.

ii. Tax on nuclear waste with a very long life and very high activity

A compensative and dissuasive international energy tax designed to make the responsible parties pay for the negative externalities caused by carbon dioxide emission will only be taken seriously if it is accompanied by a nuclear waste tax. The purpose of this tax would be to reduce the production flows and even stocks of waste with a very long life and very high activity, particularly plutonium, minor actinides and other fission products.

The aim of this brief outline is not to discuss this vast issue, thoroughly analysed in the Charpin, Dessus, Pellat study^{vi}. We merely want to point out that it would be highly inadequate to limit energy taxation to carbon emissions.

We can dismiss the question whether plutonium and the minor actinides contained in irradiated nuclear fuel is an energy resource or a waste. In the current state of the art, these materials can only be stocked, not used. As long as they cannot be used for economic purposes as an energy source, they are negative externalities and need to be reduced. The externalities connected with plutonium in particular not only include very long term radioactivity, but also a considerable risk of proliferation of nuclear arms.

A tax is therefore not just a feasible option, it is indispensable.

The simplest and least controversial tax base would be the production of plutonium and minor actinides.

France's significant experience in this area would enable it to evaluate a possible tax. For instance, we know that France is willing to spend about EUR 150 million per tonne to reduce its plutonium and minor actinide production flows by about 20%. The authorities appear to have accepted a cost of up to EUR 300 million per tonne in order to magnify the decrease of these materials.

It seems therefore reasonable to contemplate a tax of EUR 200 million per tonne produced. With a worldwide flow of about 60 tonnes of plutonium and minor actinides a year, the tax revenue would be EUR 12 billion annually.

The question of a tax on stocks remains to be solved. If such stocks are considered negative externalities, they should also be taxed in order to give an incentive to scale them back. If so, civilian and military stocks are obviously equally harmful and must therefore be taxed the same way. We could imagine an annual tax equal to 10% of the tax on flows.

iii. Air transport tax

The fact that air transport occupies an important position in today's economy and that airlines currently generate low profits does not make it any less relevant to tax kerosene consumption. How could we consider a tax on carbon emissions and not on air transport? The economy needs to be adapted to the needs of humanity, not the other way round. This raises the question of how high the tax should be and how it should be assessed. On first analysis, ATTAC considers a tax of about USD 4 per tonne of kerosene wholly feasible. This is definitely part of the fight against negative externalities, as witness the fact that the "average" Frenchman making a return flight to Miami is responsible for the same quantity of carbon dioxide as if he were travelling a whole year by car in France. This also shows the inequality of the situation.

iv. Tax on arms sales

The externalities in this area are well known. Any tax proposal is therefore given sympathetic consideration. This is probably why President Lula Da Silva wants such a tax to finance part of his proposed World Fund to fight Hunger. This said, arms exports account for only USD 50 billion of the global defence budget of USD 800 billion. Moreover, light weapons and mines represent only a very small part of these USD 50 billion despite their intensely destructive consequences for humanity.

v. Taxes intended to protect the countries of the southern hemisphere

The brain, muscle and asset drain of the countries in the southern hemisphere continues at a large scale. Without suitable taxation, multinationals will probably continue to exploit these goods without giving anything in return to those countries whose development we are trying to achieve.

We will not discuss North-South imbalances in this report. They are adequately documented. They are so large that a global tax seems an indispensable instrument to start closing the gap and to leverage the necessary transfers.

This type of tax deserves closer examination.

III.CONCLUSION

There is an objective basis for an international tax system. Such a system is likely to generate large resources and possibly even the figures given in the appendix, although these may not all be reached at the same time. The economic operation of our planet would not be jeopardised by such a system but helped.

This nevertheless leaves a basic political question: do the leaders of our nations, particularly those of the G8 countries, intend to shoulder this historic responsibility? Taxing the wealthiest to facilitate access by the poorest to minimum goods and services. The goal is not so much to achieve a moral victory, which is left to the discretion of each citizen, but to comply with a decision adopted in 2000 by the General Assembly of the United Nations agreeing the eight Millennium Development Goals, the MDGs referred to in this report. This would moreover make it possible to reduce dangerous activities for humanity and for the planet.

The creation of a global tax system is therefore intended to give public policy renewed room to transform the existing globalisation process, which is exclusively dominated by market regulation. It would nevertheless be insufficient to consider global taxation merely an instrument to correct "market failures". This narrow notion would not entirely factor in another rationale for globalisation than the prevailing idea, commonly known as the "Washington consensus". **The purpose of this alternative rationale is to achieve more sophisticated regulation of the world economy and an innovative understanding of taxation and public goods.**

ATTAC obviously does not consider taxation, even global taxation, adequate to transform the entire

rationale of neoliberal globalisation. Other measures are required to regulate the activity of private actors and businesses in general in order to restore the power which the United Nations has lost in the wake of liberalisation. It is also necessary to define an international law system with strong international judicial institutions in the service of alternative globalisation, i.e. another scale of international values and standards.

The theoretical framework of this alternative approach, which focuses on the concept of global public goods or common goods of humanity, permits a new architecture for global governance. It must therefore be constructed around procedures designed to define and prioritise national and international public goods. This new architecture will have to include regulation and enforcement mechanisms as well as transnational official financing techniques. Global taxes would be the backbone of such new public regulation and finance mechanisms.

**APPENDIX: Estimated yield of a few global taxes
In USD billion**

| Name of tax | Assumptions | Annual yield <i>USD billion</i> |
|--|---|------------------------------------|
| Tax on foreign exchange transactions | Rate of 0.1%; 50% reduction of assessment basis ^{vii} | 110 |
| Tax on portfolio investments | Average rate of 25%, lowering volumes by 33% | 190 |
| Tax on FDIs | Average rate of 15% on an average assessment basis of USD 800 bn | 120 |
| Tax on multinationals' profits | Rate of 25% on the profits of the 1,000 largest companies (basis: 2000) | 200 |
| Wealth tax | Fixed rate of 1% applied to USD 5,000 bn | 50 |
| Carbon emission tax | Levy of USD 21 per tonne of carbon contents | 125 |
| Tax on the production of plutonium and minor actinides | Tax of USD 240 bn per tonne produced | 15 |
| Air transport tax | - Tax of 1% on ticket and freight prices | 2 |
| | - Tax of USD 3.65 per tonne of kerosene | 74 |
| Bit tax | 1 cent per 1,000 kilobytes (basis: 1996) | 70 |
| TOTAL | | 956 |

i) including USD 436 billion for companies based in the United States, USD 55.5 billion in Japan, USD 43 billion in Germany and USD 39 billion in France. See the special issue of Business Week, May 2001.

ii World Investment Report, UNCTAD, 2002

iii World Investment Report, *op.cit.*, p. 91

iv Human Development Report (Global Report) 2003, p. 39, UNPD

v CO2 emissions were estimated at 6.5 billion tonnes in 1995 and expected to rise to nearly 12 billion by 2035

vi *Etude économique prospective de la filière électrique nucléaire française* [Prospective economic study of French nuclear power industry], La documentation française, 2000

vii Does not factor in possible differentiated applications of such a tax