

EI Research Institute Board

GLOBAL CORPORATE TAXATION AND RESOURCES FOR QUALITY PUBLIC SERVICES

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1.3 Title of the project: *Global Corporate Taxation and Resources for Quality Public Services*

1.4 Applicability / transferability: The results of the research project will be highly profiled in upcoming Global Unions meetings and conferences. In particular, one of the Working Groups in the forthcoming Education International World Congress in Cape Town, July 2011, will be fully devoted to the issue of taxation and funding for education. The Report based on the findings of this research proposal, will inform policy of Education International and its affiliate organizations in the Europe and world.

1.5 Envisaged total duration of the project: from 1st February 2011 to 1st October 2011

Rationale

Starting with the Thatcher/Reagan era, which began 30 years ago¹, a set of ideas about the role of government in society and the role of taxation became entrenched in conventional economic wisdom. Thatcher and Reagan succeeded politically in establishing the concept of small government linked with lowered taxation and deregulation. Whether reality matched the rhetoric is debatable, but it became the conventional wisdom that public budgets could not cope with expansion of social needs, that the private sector was inherently more efficient than the public sector and that economic actors should be freed from the yoke of regulation. Reagan summed up his advocacy for tax cuts by proclaiming, in layman's terms, that citizens knew how to make better use of their money than governments.

¹ Margaret Thatcher was elected Prime Minister of Britain in May 1979 ; Ronald Reagan took up office as President of the United States in February 1981

After three decades, the time is right to reaffirm the vital role of public services in the community – quality, effective, ethical and adequately resourced public services.

One of the major issues for industrialized and developing countries alike is the question of resources for social needs – including education, health, safety nets for the poor, and services for migrants. Yet resource constraints derived from the dominance of the small government low tax movement have militated against the provision of quality public services. It is also timely to engage a renewed debate over the role of taxation in society – both as a source of revenue for public services, and as a mechanism of equity. The financial crisis and the attention given to tax havens by the G20 and the OECD have shown in a public spotlight the tax avoidance in a global economy. That spotlight has also shone on banking bonuses and profits, which are, often, associated with tax minimization techniques. Debate has developed anew over the case for taxation in international transactions. However the spotlight of the media has not yet shone on existing and mostly legal tax minimization by global corporations.

Preliminary work by the ICFTU in 2006² showed that **Multinational Companies use their global reach to avoid their responsibility to contribute through fair and responsible taxation to national and community social needs.** Techniques for “minimization” of corporate tax include the use of offshore tax havens, setting up competition between localities and countries for tax advantages (“arbitrage”), and the little-known technique of “transfer pricing”. The latter technique plays on the fact that an estimated 40% of global commerce occurs within global corporations, enabling them to avoid national taxes by manipulating the prices charged for the transfer of goods and services. This phenomenon has developed dramatically since the mid 1990s. The technique is available only to global companies, not to national small or medium enterprises (SMEs). It is estimated that several trillion US dollars of tax revenues are lost to national budgets annually through the use of such techniques – enough to provide the resource needs of the UN Millennium Development Goals (MDGs) and the budget requirements for social services in industrialized countries, including the growing costs associated with migration and global mobility.

Actually, one could argue that global corporations did not so much benefit directly from the tax cut movement of the last three decades; rather they cleverly managed to keep under the radar screen of public opinion, while working out their own (mostly) legal techniques for tax minimization. The amounts involved today are huge. What is going on is scandalous and needs to be exposed, on the basis of sound research, with credible facts and figures.

Why focus on global corporations? Precisely, because they are global they have opportunities to avoid their responsibilities to communities. National SMEs do not have the same opportunities.

² *Having their Cake and Eating it too: the big corporate tax break*, ICFTU July 2006

This also links to the debate on **corporate social responsibility (CSR)**, since the global push for philanthropy is really a substitute for paying taxes in all the jurisdictions where they operate³. Conceptually, we would present the need for corporate social responsibility through fair and reasonable taxation in all national jurisdictions.

The report would map out the general context of the debate on taxation and society but would place its main emphasis on the issue of **the payment of fair and reasonable taxation by global corporations**. It would expose the way in which existing tax regimes are manipulated by corporations with global reach. Through this report, citizens and political decision-makers can come to understand that the resources for quality public services can be found without increasing taxation on citizens or SMEs, or developing new forms of tax, but by applying the existing rules and putting in place principles for the mandatory respect by global corporations of their fiscal responsibilities to society.

Implementation

1. The study will be conducted by a 'taskforce' of 8-10 trade unionists and scholars, who will have overall responsibility for the project, under the auspices of the Council of Global Unions (CGU).
2. The Taskforce currently includes Kristian Wiese (LO, Denmark), Mike Kahn (NEA, USA), Pierre Habbard (TUAC), James Howard (ITUC), Jim Baker (CGU) and Bob Harris (EI), Andy Watt (ETUI).
3. The Taskforce is working on a structure for the study, based on draft chapter headings (annotated) and will seek authors for each chapter. Authors may be members of the Taskforce, or others invited by the Taskforce.
4. A Research Assistant will be engaged for the purpose of coordinating work among the authors and to assist the Taskforce in identifying key sources and information, and editing. In particular, besides editorial work, she will make search and selection of relevant literature and sources, write an overall background paper for the whole study, analyse and compare individual contributions, summarize findings and develop proposal for recommendations for the Task Force to adopt.
5. The draft study is to be completed by June 2011, for presentation as a first draft at the EI 6th Congress in Cape Town July 2011. It will be adjusted according to the discussions and revisions at Congress and be completed by the end of September 2011, to be published as EI Report by December 2011.

³See the chapter on MSPE's in EI's recent report *Public-Private Partnerships in Education* <http://www.ei-ie.org/research/en/documentation.php>

STRUCTURE OF THE REPORT

Introduction - *The magnitude: billions lost to communities*

Chapter 1: *Global imbalance; local impact*

- Globalisation of the economy has been accompanied by a major drop in tax revenues from the corporate sector, because multinational corporations (MNCs) minimise their tax payments to all the countries where they operate. With their global reach, many of these corporations operate in virtually every country in the world, but they pay little or no taxation in most of them, because they use techniques that are available only to them, precisely because of their global reach.
- At the same time, globalisation has increased demands on communities for the provision of public services. Increased movement of peoples through legal and illegal migration – creates new demands on education and health services, for example, as well as security services, housing, public administration and municipal services. These demands are both *quantitative*, because of changing demographics, and *qualitative*, because of language and cultural issues.
- A profound **imbalance has thus developed between resources available and demands for quality public services** – an imbalance felt most keenly at the local level.

Chapter 2: *Why should they pay taxes?*

- Why global companies should pay taxes.
- The political economy of taxation:
 - a) The Thatcher/Reagan argument: “government is a problem/burden” and “you (the citizen) can use your hard-earned money better than the government, so why give it to the government? How the real beneficiaries of the tax cut movement have been corporations (more than individual citizens/voters), and especially global corporations.
 - b) How taxation provides the resources needed for essential public services. Types of taxation in modern societies. Distributional issues.
 - c) The impact of taxation policy on growth and equity. Tax has a huge impact on the form of growth. Impact on financial stability.
 - d) Tax breaks and subsidies.
 - e) Where corporate taxation fits: the rationale for Corporate Income Tax (CIT). CSR must include paying fair and reasonable taxation.
 - f) Why global corporations should pay fair and reasonable taxation in all the countries where they operate. Why philanthropy cannot be a substitute.

Chapter 3: Community needs

- a) What the public expects and needs:
 - Education
 - Health
 - Utilities: sanitation, water and energy
 - Essential services – police, and other security services (including prisons), fire fighting and emergency services
 - Municipal services and public administration; regulatory services required in every community, from national to local levels
 - Services for ageing populations
 - Dealing with the consequences of climate change
- b) Quantifying the resources needed:
 - In OECD countries
 - In emerging and developing economies;
 - Achieving the **Millennium Development Goals (MDGs)**
 - New figures on resources needed for Education for All (EFA) from the UNESCO/World Bank/UNDP/UNICEF Global Monitoring Report
 - New challenges for community health: global pandemics, HIV/AIDS, flu

Chapter 4: Evading responsibility

1. General

- How the Multinationals avoid taxes - starting point and references: *'Having their cake and eating it too: the big corporate tax break'*, ICFTU 2006.
- Advantages available to MNCs compared to those available to Small and Medium Enterprises (SMEs).
- How existing laws are not applied.
- Tax dumping; tax arbitrage (playing on differences between jurisdictions).

2. Transfer Pricing

- The OECD guidelines
- Practices (citing specific cases)
- Estimates of revenue losses in the OECD countries.

3. Shaking financial stability

4. Disguising income as capital gains: turning capital into debt and other accounting strategies

- Avoidance schemes, including

- The case of private equity
- Estimates of revenue losses in the OECD countries, in emerging and developing economies (link with the “magnitude” presented upfront in the **Introduction**).

Chapter 5: *An agenda for Quality Services*

- The concept of quality in public services
- Priorities in OECD countries
- Priorities in emerging and developing countries

Challenges:

- Combating corruption
- Effective tax collection

Chapter 6: *Strategies for change*

- Challenging tax arbitrage, transfer pricing, and other avoidance strategies
- Our proposals
 - OECD Guidelines and their application
 - International Framework Agreements (IFAs)
 - A new compact: fair and reasonable taxation paid into public revenues by MNCs and the provision of effective quality public services in all communities.

Conclusions

A mobilization strategy: Political pressure points; coalitions with civil society organizations

First literature review

Don't waste the crisis: Critical perspectives for a new economic model, Nicolas Pons-Vignon, ILO, Geneva

Financial crises, deflation and trade union responses: What are the lessons? International Journal of Labour Research, Issue 1 Volume 2, 2010

Fighting for public services: better lives, a better world, F Keller, A Hoeflerl, PSI 2007

Responses to Criticisms of Taxes on Financial Speculation, D Baker, 2010,
<http://www.cepr.net/index.php/publications/reports/response-criticism-fft/>

The Potential Revenue from Financial Transactions Taxes, Dean Baker, Robert Pollin, Travis McArthur, and Matt Sherman, 2009
<http://www.cepr.net/index.php/publications/reports/fft-revenue/>

Financing development with global taxes: Fiscal revenues of a currency transaction tax B Jetin 2009 <http://gesd.free.fr/jetin39.pdf>

A general financial transaction tax: enhancing stability and fiscal consolidation, Stephan Schulmeister, 2009, Austrian Institute of Economic Research (WIFO),
www.etui.org/.../Stephan%20Schulmeister%20After%20the%20crisis.pdf

Senior Supervisors Group 2009 Report on Risk Management Lessons from the Global Banking Crisis of 2008
http://www.financialstabilityboard.org/publications/r_0910a.pdf

The Financial and economic crisis: a Decent Work response, ILO 2009
www.ilo.org/public/english/bureau/inst/download/tackling.pdf

Recovering from the crisis: A Global Jobs Pact, ILO 2009,
www.ilo.org/public/libdoc/ilo/2009/109B09_101_engl.pdf

The Political Economy of Corporate Governance. By MARCO PAGANO AND PAOLO F. VOLPIN, www.csef.it/pagano/AER-2005.pdf

The Key to the Asian Miracle: Making Shared Growth Credible, JE Campos and H Root,
<http://www.foreignaffairs.com/articles/52476/richard-n-cooper/the-key-to-the-asian-miracle-making-shared-growth-credible>

Capital and labour from centre to margins, Henry Bernstein, Keynote address for conference on *Living on the Margins. Vulnerability, Exclusion and the State in the Informal Economy*, Cape Town, 26-28 March 2007

www.livingonthemargins.org/_documents/Bernstein.pdf

G20 Summit Pittsburgh, Final declaration,

<http://www.pittsburghsummit.gov/mediacenter/129639.htm>

Having their Cake and Eating it too: the big corporate tax break, ICFTU July 2006,

www.taxjustice.net/cms/upload/pdf/tax_break_EN.pdf

EI, 2008, *Public-Private Partnerships in Education* <http://www.ei->

[ie.org/research/en/documentation.php](http://www.ei-ie.org/research/en/documentation.php)