

Document: Concept Paper for World Public Finances in Nairobi

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Introduction

World Public Finances (WPF) has been launched by NIGD and Liberdade Brasil to constitute a process in which we work towards a common conceptual agreement on which measures are needed to safeguard public finances in all levels. Nobody is questioning the need for increased public finances, but most disagree its availability and its potential sources. It is the greatest paradox of our time, the wealth creation capability of the world has never been as high, and we seem to lack public finances to fund even the basic needs of citizens both North and South. What we argue through WPF is that there are widely available sources of financing that are not available due to large amounts of money used on debt repayments, lost to tax evasion, held up in currency reserves or lost due to corruption in public administration. The combined effect is that the 20 billion dollars of annual aid flows to Sub-Saharan Africa, is minimal compared to the 50 billion dollars lost due to illegal capital flight.

We therefore urgently need to turn away from focusing on aid as the main catalyst for prosperity in the developing world. In stead, we should turn towards public finances, domestic resource mobilisation, questioning the legitimacy of odious debt, debt arbitration and ownership of assets in the developing world. Ownership of assets includes burning issues such as land reform. One could envisage redrawing water ownership rights especially in Africa to shift the balance towards Sub-Saharan Africa on the Nile river. Mineral resources are crucial, for a massive transfer of wealth from North to South, thus introducing high (above 10%) royalties on extractive industries is needed. Such royalties would alone lift places like Ghana, Sudan and Angola out of poverty assuming proper oversight over the governance. Even the poorest countries have mining operations, though currently in Mauritania and Niger local populations benefit next to nothing from them.

The idea behind launching the WPF platform is to work together between these issues and campaigns in order to come up with a coherent proposal to shift the global financial system for the benefit of the poor. There are many campaigns looking at the national level, especially in terms of corruption, or working on single aspects where a potential tax base is not being utilised, for instance

currency transactions. Politically, we believe that the WPF platform has the capacity to contribute towards work of a complete overhaul of the global financial system, one which was last accomplished at the wake of the neo-liberal global market between 1979 and 1981 when Thatcher and Reagan were heads of state in countries with the two largest financial centres of the world, UK and USA. It is turning the neo-liberal tide that we are attempting to do.

We do this in the spirit of past visionaries such as Kwame Nkrumah, who started the wave of Pan-Africanism and led to a vast expansion of public finances in Ghana and across the African continent in countries that followed his spirit, freeing themselves from the slavery of colonisation. We can also look up to Alfred Marshall, who in the immediate aftermath of the second world war convinced European socialists to adopt the welfare state as the ideal type of social control over market disturbances and inequalities. In the era of globalisation, there is once again a lot of scope for national policies over public finances, but the main problems of capital flight, debt, tax evasion, and secrecy spaces needed for corruption lie outside the territories of most nation states. For these tax havens, offshore markets, legal loopholes, flags of convenience, the only type of regulation that works needs to happen on the global level, most notably within the UN and in the WTO. New global institutions are proposed to be founded to carry out global taxation.

We need a global financial system that responds to national welfare needs, away from the system where offshore markets have taken the role of setting the pace for regressive tax policies, tax competition and has created footloose and secretive space for money transfers. In the spirit of Karl Polanyi, who looked at how the market and the social spheres are in constant battle one over the other, we should look at how the market has changed in the post-1979 era, and mobilise the social forces that contest the new neo-liberal market. We may live in a market society, but we as citizens working through social movements have the opportunity to change this. These times require new conclusions and new methodologies to come up with proposals for change, therefore the initiative of the World Public Finances will be a participatory one, rooted in common mobilisations and principles of participation. The methodology is crucial to the concept of world public finances, as there will be no closed committees or ask of signatures without the opportunity to comment the draft. An 'open declaration' is like a source code used in the Free/Libre/Open-Source Software (FLOSS) movement. We hope in Nairobi to launch a process of coding or hacking the new financial architecture, but that code will be released after the WSF closes as an initial beta 0.1 version. Whether governments want to run the code will be up to the pressure that we as social movements exert on them, the networks that we build with political movements and parties, and the theoretical and conceptual debates we win in the public, academic and political spheres.

History of the initiative

The WPF platform recognises itself as a thematic platform of social movements

that emerged out of the open space provided by the WSF. The substantive content of the platform is derived from these meetings held within the WSF itself.

In the WSF 2005 the movements co-ordinated seminars under the platform of 'otro sistema financeiro'. In the polycentric WSF of 2006 the first participatory meeting of the platform was held in Bamako, where various movements expressed campaigns, concepts, processes and activism that gives us a clear indication of what problems we currently face with public finances across the world. The seminar in Bamako established a methodology to discuss world public finances, in order to create a common concept. The later stage will be one of assembly of the concept once the elements have been laid out. At the end of the later stage, we hope that a declaration would arise agreed upon by the movements.

Actions in Bamako

(a report is available at <http://www.nigd.org/docs/WPFBamakoMattiKohonen>)

The World Public Finances platform held one seminar in Bamako. The speakers presented the history of the initiative, and actions and mobilisations happening around the world for the support of public finances. Then the participants around the table were asked to contribute their understanding of world public finances, and we came up with the following list:

- a) Reparations from multinational corporations, in particular banks that financed the Apartheid regime in South Africa, for human rights violations committed during the Apartheid era;
- b) Cancellation of debt for all developing countries;
- c) Establishment of an independent debt arbitration panel to avert the possibility of a future debt crisis, and finish the current debt crisis much quicker;
- d) Establishing global taxes, particularly on cross-border activities that are currently not taxed, such as kerosene used as airplane fuel, and financial markets of all types;
- e) The draft treaty for the currency transaction tax lays out a global tax authority to collect and redistribute; this is proposed as a model for global taxation;

f) Enlarge the definition of money laundering to account for tax evasion as well; the Financial Action Task Force (FATF) of the IMF currently has a very limited view of what accounts for money laundering;

g) Implement a new set of international accounting standards that would show where profits are made, where taxes are paid, and how multinational corporations are structured so that they can be taxed more effectively and regulated under the public scrutiny of both the government and civil society;

h) Tax evasion needs to be tackled as an important topic, both individual and corporate tax evasion;

i) Tax competition needs to link the debates over special treatment of multinational corporations in both developing countries, where they ask for tax holidays before deciding to invest, and in the industrialised countries, where there is a need to halt the race to the bottom of corporate tax rates;

j) Information exchange between tax authorities is required to catch cross-border tax evasion, especially within subsidiaries of multinational corporations and private banking schemes;

k) Progressive taxation needs to be discussed because public finances are being eroded by proposals for flat taxes and single rate taxes on income, for example, or, on the other hand, on taxes like the VAT on consumption, which is regressive, due to the statistical fact that the poor use a proportionally larger amount of their income on basic consumption that falls under the VAT;

l) Public information is required on the economy, in terms of national budgets, especially regarding the activities of companies. Libraries were proposed to take on this political role of keeping the information on the economy for public scrutiny;

m) Issues also need to be linked from the ground level up in order to better coordinate our campaigns, and gain information on the achievements, and struggles in other countries, cities and communities;

n) There needs to be public scrutiny over the use of public finances, including schemes that are set up for developing countries, such as the HIPC and other grants or lending schemes, that constitute public finances in developing countries.

This list is not exhaustive of the topics that could be under world public finances, but they are the ones that have come out of the Bamako meeting by the

participants themselves. Some of the most interesting things that can happen are common campaigns. For example, Makoma Lekalakala from Jubilee South Africa identified Barclays bank as the main perpetrator of financial crimes in the Apartheid era, and John Christensen from Tax Justice Network said that they are among the most aggressive banks pushing for the creation of new tax havens (for example in Ghana) and facilitating money laundering. A global boycott of Barclays Bank and its subsidiaries may emerge as a result of this cross fertilisation of different strands of world public finances.

We also saw a convergence in the thinking about global taxes, such as the kerosene and financial transactions taxes, in the sense that it should not principally be a development finance tool, but a tool to regulate global markets and cross-border activities outside the reach of any single nation state. This was mentioned by Jacques Nikonoff of Attac France, as well as Mikael Bök of NIGD and Attac Finland. We hope further debate about the role of global taxes within world public finances.

There could be more participants in the participatory seminars to be held in Nairobi as compared to the one held in Bamako. For instance NGOs working as watch dogs over public expenditure and the use of aid money were only represented by one Nigerian NGO. Trade unions were there in the element of Finnish youth movements and international solidarity campaigns. Trade unions should realise their central role in the debate over public finances even further. Finally, ecological tax initiatives were under represented besides the kerosene tax.

The only area that was completely absent were trade issues, and in this respect the World Public Finances platform has to ask the question whether the platform is separate from all trade issues. I find taxation an integral part of any trade and investment decision, and if the trade issues are not explicitly taken in, then a link should be made to tell the trade campaigners that they need to look at taxation, money laundering as part of the terms of trade. West European economies gain tens of billions of dollars from developing country money laundering that is circulated in Western economies, especially in the housing market. You can, for instance, as a standard practice buy a house with a suitcase full of cash in London. There are no questions asked, and there is no compliance over Know Your Client requirements in most housing markets in Western Europe. The estate agents are in some ways worse than offshore banks, because there hasn't been any case of anti-corruption moves in the housing markets so far so they operate in an environment of complete regulatory ignorance in this respect.

Proposed actions for Nairobi

I find that we should in the first instance repeat in Nairobi what we did in Bamako in terms of the participatory session where ideas, issues and

mobilisations for public finances were shared. The session is likely to be a larger one in Nairobi, as more participants are expected to attend the Nairobi WSF. There will therefore be more input to the concept of the WPF from various organisations as long as we actively invite all relevant organisations to bring their input to the seminar. That session should be used to extend and clarify the list that currently from a to n.

In addition to what we did in Bamako, there could be a second session where the points are collected together, and work is done in attempt to collate points made by participants of the first session and propose a declaration of world public finances to be called for. This intent of a two-stage process should be made clear to participants, and that they can opt out of the second stage if they so wish. The declaration can only be made if enough organisations come to the second session to draft a declaration. The declaration would then be put to the public for comments as it need not be final. It would still constitute a historical piece of work that is then set out for further debate. Such a statement would arise from within the open space of the forum, unlike the Bandung appeal for instance that emerged from outside the space of the forum though coinciding with the event.

We understand that this sort of a methodology hasn't been attempted before, but we think that the WSF needs to innovate new working methods. We do not see the assembly of social movements as adequate in articulating systematically on one hand the grievances or on the other hand the potential energy and knowledge for change that the movements gathered to the WSF represent. This sort of a methodology of 'open declarations' isn't set to replace the assembly of the social movements, but rather to complement the assembly which at least has its place in calls for non-violent action against the structures of the neo-liberal global economic system, belligerency of states and non-state organisations and transnational corporations. The assembly of social movements is a good forum to call for actions, like the February the 15th 2003 demonstrations, but it cannot come up with declarations, as it isn't its role. Therefore new methodologies are called for when previous ones are deemed inadequate.

Therefore, two working seminars are planned for Nairobi. This, however, does not exclude a larger scale plenary session where the key concepts of world public finances are discussed with a wider public who may for the first time hear the topics that are being discussed. Finally, we would also like to encourage different strands of the WPF platform to organise their internal preliminary workshops especially before the WSF in Nairobi, in addition to some working seminars organised inside the space of the forum. If internal work is done before the WSF itself, then the time of the WSF can be more fruitfully used for drawing up open declarations and networking with wider platforms such as the WPF.

To concentrate work among the participants, we should additionally commence an edited publication project to collect chapters on world public finances from

various contributors and look how different themes are emerging in the understanding of public finances. This would make even further allow the meetings to focus on coming up with a coherent platform, and raise the profile of the platform.

Rationale

Transnational corporations only exist due to the secrecy space where they have been allowed to operate by national governments. Take away their current opportunity to use hundreds of thousands of offshore trusts to hide debt, profits and assets, the secrecy of intercompany transactions where through mispricing transactions profits can be shifted to low tax jurisdictions, the powerful armies of lawyers and accountants who negotiate tax holidays and design tax evasion schemes, the outright corruption of officials that requires large sums of money only TNCs can put together and hide, the paper tigers that TNCs are will mostly disappear. Only a few will remain, ones who genuinely are in industries where scale is necessary (possibly airplanes and ship building), and TNCs that execute not economic efficiency but are really controlled by powerful governments, such as military equipment, nuclear power and oil companies.

The very existence of TNCs is such a well organised scam that it needs a strong theoretical backing. It is the neo-classical economic theory that gives a smoke screen to the operations of TNC with their theories that legitimise the dominance of all enterprises by their sheer existence. The post-rationalisations that economists do in their models are the wrong way around to understand the economy, one should instead start by studying economic action and economic life from the qualitative and ethnographic standpoint, Companies generally do what they are told to do by whoever owns them. As most companies are asked to create shareholder value (often in the short term), they will look at ways it is best gained. It just happens to be so that hiring lots of accountants to cook your books is the best way to sustain profits these days. As a result many of the smaller companies that don't have access to over paid lawyers and accountants in offshore markets lose out in competition. Schematically this is what is happening, as one cannot explain the rise of the TNCs in my view in any other way than as a well organised scam.

Regulation has to start from a real understanding of the economy, i.e. who is benefiting from the current global economic system. The market cannot only be characterised by the logic of firms and individuals, as the logic of the firms and individuals is always met by regulative bodies that define the boundaries, duties and space of manoeuvre of the firm and the shape of the money economy. Incoherent boundaries create incoherent TNCs, that by using such loopholes give us a sense that the economy is more global than it actually is in the sense of movements of goods, services, money and people. The figures on world trade are a hoax as most of it is inter company transactions that on average are mispriced by an average of 5% in developing countries to avoid paying taxes where the profits are made. Companies don't actually do that much trade between different parts of the same parent company, these trades only happen

in books written by accountants that are read by government statisticians who are told to believe these books.

On top of trade issues, the coercive fiscal regime stifles prosperity in many developing countries due to the fragility of their domestic financial system that is overburdened with high public debt, inefficient tax collection, heavy bargaining by international investors for tax holidays, low levels of extractive industries royalties, and large foreign currency reserves. These reserves protect the economy against currency speculators that can ruin years of wealth accumulation in the majority of their populations overnight. Hyperinflation caused by a currency crisis can wipe out domestic bank savings such as happened in 1997 in Indonesia and other Asian economies and in 2001 in Argentina. There have been about thirty currency crisis in the past decade, and no solution is seriously put on the table apart from tightening the Basle rules for central bank and banking sector capital adequacy rules.

Most importantly however the WPF platform will turn the focus on domestic resource mobilisation and away from the debate between trade and aid. Aid will never lift the developing countries away from poverty, it rather creates new dependencies as a result. Much of trade as I noted before is bogus transactions that happen only on paper in the books of TNCs. Furthermore, trade distortions induced by subsidies in Europe and USA mean that without strong domestic public finances in developing countries they cannot even lobby their own interests at the WTO. Strengthening public finances is therefore the key to development, coupled together with global financial and trade regulation. This will not only benefit the poor, but solve the public finances crisis in the industrialised economies and reassert the distributive role of public finances. If public finances in the immediate post-war era in Europe were a vehicle for redistribution of wealth, they have largely lost that role now, where as in the developing countries, many movements and trade unions are looking at the vision of progressive taxation in solving pertinent social problems of inequality, poverty and power in modern capitalist economies.

Matti Kohonen, London June 2006