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International Taxation

Regulating Globalisation – Financing Development

(Executive Summary)

International taxes have recently become a widely debated topic, because it became obvious that achieving the UN-Millennium Development Goals (MDG) would need a huge amount of additional financing. The WEED-Brochure “International Taxation: Regulating Globalisation – Financing Development” debates the potential of international taxation for financing sustainable development as well as regulating globalisation.

International taxes are a completely new paradigm. Their realisation is an innovation of historical significance because until now, taxes have been firmly linked to the nation state. However, the process of economic globalization reveals the need for international taxation. As a consequence of the transnationalisation of economics and communications, new possibilities have emerged to create profits. For instance, through speculative gains on currency

fluctuations, internal trade within transnational corporations, electronic trade or the enormous growth of international aviation or maritime transport.

At the same time the process of globalization produces loser and accelerates the widening of the gap between rich and poor. Nearly half of humanity is extremely poor with an income of less than two Dollars a day. In the year 2000 the United Nations committed themselves to the MDGs that primarily aim to halve poverty until 2015, increase health and improve education. International taxes can absorb a part of the gains from globalisation and redistribute them to the losers of globalisation, e.g. to finance the MDGs.

The Need for International Taxation

International Taxes are necessary, because globalisation leads to an erosion of national tax systems. Global players and international investors use liberalisation and deregulation, tax loopholes and tax havens to save taxes on a large scale. Currently we are experiencing a re-feudalisation of tax systems, i.e. the economically powerful pay less and less and the tax burden on middle and lower incomes increases. This leads to a permanent structural crisis in public finances and a massive redistribution from below to the top. However, the production or maintenance of global public goods like environment, education, health, etc. requires additional financial resources. International taxes can play a major role in regulating and shaping globalisation, both with regard to their steering effect, for instance ecologically, distributively or regulatory, as well as through the tax revenues themselves. Contrary to the widespread belief of taxes being “evil” we insist on their role as a counterbalance to the “free market” and as an instrument for enforcing social justice and ecological sustainability.

In relation to this, the legitimacy problems of international taxes are discussed (“no taxation without representation”). Referring to Habermas we argue that economic globalisation leads to an erosion of democracy on the national level. Therefore, international taxes are seen as a means to regain options democratic decision making for democratic nation states. In this way, international taxes can derive some of their legitimacy without the existence of a democratic representation on the international or even global level.

International Taxes for Financing Development

The advantages of taxes in comparison to traditional development aid are also shown. For example, its potential to access adequately high sums, to guarantee a comparatively reliable and calculable flow of funds and to maintain efficiency.

Additionally, questions concerning the structure of international taxes are discussed, such as tax base, tax rates, expected tax revenue, levy methods, usage, determination of purpose, and conditionality. The possibilities go ahead introducing international taxes on a regional level, e.g. in the European Union, are evaluated and welcomed as a way to give the idea a momentum for discussion on the global level.

The WEED-Brochure analyses a wide range of proposals for international taxes concerning strengths and limitations. The main focus lies on the two-tier

currency transaction tax (CTT) in form of Spahn's modifications of the Tobin-Tax. Environmental taxes are another important contribution, they include taxes on CO₂, kerosene, air plane tickets and tolls on the use of air corridors. Furthermore, duties and taxes on emissions and dangerous goods in maritime shipping and taxation on sea straits are analysed.

Less well known proposals are also presented, like the taxation of transnational corporations, of banking secrecy, and of offshore centres, the taxation of the international arms trade, secondary trade with stocks and shares, of investment portfolios and direct investment, e-commerce and luxury goods as well as global public goods, such as outer space close to Earth and electromagnetic fields. The British proposal of creating an international finance facility (IFF) is assessed critically.

International Taxes are necessary and realistic

Despite the permanent failure of previous attempts to adequately finance development it is argued that international taxes and especially the CTT can make a difference. The following crucial factors are mentioned:

1. The Belgian parliament passed a law for a CTT, which can simply be adopted by other countries or the EU.
2. Leaders from important industrialised countries, like Chirac and Zapatero support the idea of a CTT.
3. For the first-time an increasing number of studies by independent scientist, government commissioned and international organisations confirm the feasibility and desirability of international taxes. The most important ones are the Landau-Report for the French president and the Spahn-Report for the German ministry of economic cooperation.
4. The topic of the CTT and international taxes is now even on the agenda of the IMF and World Bank.
5. Structural factors favour the realisation of international taxes, among them the failure of neo-liberalism in development policy, the structural crisis of state finances in industrial countries, strategic differences of interest within the G7, the increasing power of developing countries in the international arena, as well as the increasing role of social and global justice movements. It seems that a "window of opportunity" has been opened for the implementation of international taxes.

To use this opportunity different kinds of taxes should not be pitted against each other but seen as complementary instruments. An important aspect is linking the discussion to the development dimension of the topic with interests within the industrialised countries, such as tax justice and neutralisation of tax havens, and generally the political regulation of globalisation. It is also crucial that current and real policy opportunities are linked with long-term perspectives and a vision for global justice and solidarity. The democratic implementation of international taxes and their socially just design depend on constant pressure from the global justice movement and a broad discussion in the global community.