CAN International Position Paper
A Just Reboot:
Who should pay the bill for COVID 19 recovery measures?
April 2021

Executive Summary

Who should pay the bill for the Covid19 recovery measures? This is a key topic needing urgent attention by Governments and international financial institutions. Properly resolving this question digs into the inequality crisis most countries are facing and the world globally. Alarming wealth concentration has emerged during the last 40 years. The Covid19 crisis has exacerbated this trend, impacting already vulnerable communities and countries. The last year has also generated unprecedented exponential inequality and inequity within richer nations, OECD and emerging economies alike and increasing the wealth of the billionaires, into several orders of magnitude.

While Climate Action Network does not make a specific answer to the question on "Who", we propose different options on this issue based on our Fundamentals for Recovery & Economic Stimulus Packages in response to Covid-19[1], that intends to open a debate of the distributional implications of resetting the economy, with the aim to foster a just reboot. In the following text, CAN states the urgent need for further exploration and discussion of different measures that have the potential to bring those in the position to contribute the most to match the challenge in financing the critical measures required.

This document highlights some underlying contradictions in the economic system that need to be debated. These are not new subjects, but this is a time to address them seriously. In this regard we call for a "moment of recognition". In a civilized world, debating ideas are moments for enlightenment with the aim to generate coherent action for the common good.

Among other topics, here we propose some measures that are framed around the need for a fiscal transition (from the fossil fuels-based economy to a digital, decentralized, sustainable carbon neutral and climate-resilient economy, involving a radically different financial architecture) and co-responsible sovereign debt global management.

[1]https://climatenetwork.org/resource/can-position-fundamentals-for-recovery-economic-stimulus-packages-in-response-to-covid-19-may-2020/

Therefore, we stand for a comprehensive and long term debt relief initiative, the definitive phasing out of fossil fuels subsidies (after 11 years since the G20 Pittsburgh pledge it is about time to be serious), a comprehensive social - environmental tax reform, including a Climate Damages Tax, a Wealth Tax, a Minimum Effective Tax Rate (METR) for corporations, a Financial Transaction Tax and a Digital Tax, among others. CAN, with many like-minded organizations and constituencies, is ready to engage in such a debate.

1. The current context

The world was under ongoing crises before the Covid19 pandemic shocked the global economy at an unprecedented level. To deal with this shock, countercyclical monetary and fiscal measures are being delivered by central banks and ministries of finance (or their equivalents) involving the injection of trillions of US dollars into the economic system in a relatively short period of time.

The increasing inequity, abandonment of public services (including health), climate and biodiversity ongoing crises are structural and require the recovery packages to deal with them at the source.

--- o ---

2. Who should pay the bill for COVID 19 recovery measures?

The multiple effects of Covid19, climate impacts, and an economic crisis are leaving millions of people sick, vulnerable, jobless, displaced & homeless. The socio-economic crisis induced by COVID-19 has called for governments, especially finance ministers and central banks, to inject trillions of dollars into the economy with huge and decisive implications for economic pathways. Policy makers must design and finance these measures with a long-term view so as not to worsen but on the contrary mitigate ongoing crises the COVID pandemic has added to - notably inequality, biodiversity loss and climate change[2].

Many of the economic stimulus measures have understandably been adopted in rapid response mode - even precipitously. The emergency liquidity measures often were the only option to avoid bankruptcies, losses of organizational capital and even higher unemployment rates. However, the scope of these measures makes it absolutely mandatory for policy and decision makers to be more conscious of the need for strings to be attached to such bailouts[3]. This is a prerequisite to ensure a resilient economy which is fit for a better future. This process must be framed under a just transition towards a sustainable, carbon neutral and

---

[2] https://www.un.org/en/coronavirus/UN-response

[3] See proposed CAN bailout conditionalities for the oil & gas and aviation sectors, here:
http://www.climatenetwork.org/publication/can-briefing-oil-and-gas-phase-out-part-just-economic-revitalization-october-2020
http://www.climatenetwork.org/publication/can-international-policy-manual-sustainable-policy-responses-aviation-sector-covid

climate-resilient global society ensuring fiscal stability and fairness, bringing the fair share perspective for international collaboration[4].

These necessary countercyclical measures mean huge amounts of public money are currently spent: With over 15 trillion USD spent[4] by May 2020 (around 17% of the 2019 global economy), the question of the sources for financing the response to the COVID crisis emerges. However, this figure varies from country to country, with some large G20 countries such as France, Germany, UK, and US spending upwards of 30% of GDP in stimulus, while some low-income countries that are also in debt distress spending less than 2% of their GDP in stimulus spending. **This briefing outlines key steps for a fair and robust fiscal response to the COVID crisis: Who and how should pay for these measures?**

Addressing Inequities is Key

The Covid19 pandemic has revealed the extreme inequities within and between societies around the world. Poorer economies have far fewer options and resources at hand to respond to this pandemic, general public health and other crises: Currencies in these countries are often less trusted and turning on the money printer risks sparking hyperinflation and / or increasing public debt. International solidarity and support will be a critical element of the global response in this context.

These inequities go, however, deeper and wider: Italy which met its health system capacity limits during the COVID crisis still has more than 5 times as many doctors and more than 4 times as many nurses per 1000 inhabitants than South Africa. The gap between South Africa and most Least Developed countries is even bigger. Nepal, for instance, has fewer than 500 intensive care unit beds for its 28 million people. The immense scale of global inequality in this crisis becomes even clearer looking at the health budgets: doubling the health budget of the 85 poorest countries would still total less than 10% of the last US Covid economic stimulus. With much of the crisis still ahead, in particular in the Global South, the United Nations University estimates the Covid19 crisis could push over half a billion people into poverty.

These evident inequities go beyond the health system and touch every single aspect of our global society. Coming from this Covid19 crisis, we should aspire to a fair and environmentally sustainable future. A just reboot is needed looking to the long term, to learn from the last years when multiple crises have been building up. The large amount of public money - taxpayers' money - must be used for a definitive shift addressing the climate, biodiversity and inequality challenges ahead. However, the existing amount of public money will not suffice. In many nations and resulting from privatisation policies of necessary public services and goods, the gap between available private and public capital had been widening enormously during the last decades and had led to often over-indebted and poor state budgets; federal, regional and local ones alike, despite growing average wealth in the countries as such. This part of inequity has led to lack of investments into ageing public infrastructure like sustainable

[4] http://www.climatefairshares.org

transport, affordable health and elderly care, public water services, biodiversity conservation, reliable and clean electricity, well-equipped education systems and social housing for the poor.

In order to deal with inequity and inequality, it is critical to ask "who should pay the economic recovery bill?" A key question to be resolved.

The debate on who pays the bill is deep and digs into the distributional debate in the history of economic thought. As this pandemic and its consequences may well last for years, understanding the need for this debate is critical. Therefore, we recognize a two-layer approach:

1. A moment of recognition and drawing lessons
2. Fiscal transition and emergency measures.

1) A Moment of Recognition and drawing lessons

The current multiple crises - economic, health, environmental (biodiversity / climate / water) and social – have shown how wrongly the current economic system is performing. Despite apparent macro-economic balance the society as a whole is hugely imbalanced.

Dismantling the welfare state – where it existed – or exacerbating inequity in most developing countries is the norm in a globalized world where capital movements are free and encouraged, but labour mobility is restricted. The competition between countries to attract financial flows has generated detrimental practices as a rush to the bottom in health, labour and environmental standards, a myriad of distorting investment subsidies and many other forms of possible favourable condition for capital flows to the erosion of other social consensus targets, including wages and salaries. If public money is to be poured into the system, the common good and interests need to prevail, responding to a different economic approach.

CAN recognize this as a broader debate that is becoming increasingly relevant to shape a better world. Among other topics to be discussed are the following:

- the role of the market and the role of the state
- revisiting the debt system and the international financial architecture - reform of the Bretton Woods Institutions (eg: mandates of multilateral development banks, IMF governance reform…)
- axioms: economic efficiency vs. social resilience
- inequity: privatization of benefits vs socialization of losses
- externalities: private productivity vs social and environmental costs
- free global capital transactions vs restricted labor mobility
- individualism vs solidarity
- wild competitiveness vs competitiveness within equity and fairness.
- GDP vs beyond GDP

However, as properly addressing these topics imply a radical change in the way we approach the dominant economic system debate, CAN will be addressing them in a short future, hoping the space for this debate increases in the following months. In this document, the focus comes back to “who should pay the, rapidly increasing, bill of the Covid 19 crisis and the economic recovery”.

2) Fiscal transition and emergency measures

An extraordinary period such as the current Covid19 economic crisis requires decisive measures. The short and long-term measures proposed here are not only emergency measures, but initiatives that should be established a long time ago. They will help to reshape the economy towards a fairer, more resilient society which enhances options for increasing wealth among the vast poorer segments of society and properly deals with the climate and biodiversity challenges.

While Economic Stimulus Packages and response measures to the COVID19 crisis will have to be partly financed through public debt, financial constraints in a pandemic that might last much longer than anticipated at the start will remain. Intra and intergenerational - among individuals - and global - among countries - equity requires using all tools available to finance these responses, namely monetary and fiscal policies, among these latter: budget, public investments, tax and subsidy reform.

Such fiscal reforms are furthermore timely as unjust taxation schemes exist in most countries generating a polarized income distribution[5] which lead to the disproportional vulnerability in most countries to COVID19 and other shocks, such as the lack of resilience observed in many societies. The beneficiaries of a broken system must lead in bearing the cost of an income distributional green reboot. CAN proposes a menu of measures, including some tax proposals, as a first step for a deeper exploration of options.

A deep fiscal reform entails working on a national level fiscal transition, framed within a new climate economy - and the reform of the international financial architecture. The current economic recovery efforts had revealed another key issue to address, the reduced fiscal space for the majority of governments around the world. The proposals CAN is making, built up in a long tradition of economic thought asking for a more progressive fiscal system and an environmental tax reform under the umbrella of a fairer multilateral financial regime.

a) Debt Relief

[5] for more detail, see Oxfam 2019, Available at: https://indepth.oxfam.org.uk/time-to-care/

As up to 12,000 people per day[6] could die from hunger linked to the social and economic impacts of the pandemic, hundreds of millions of jobs have permanently been destroyed already, people and the world's economy will only get through this pandemic and the economic crisis if the financing needs of developing and developed countries are met.

To fund health services, bridge gaps in financing to keep food on tables and minimize job losses, it is critical the poorest but also middle-income countries have the opportunity to restructure and relieve unsustainable debt and access global reserve funds.

The debt payment standstill provided to the 73 poorest countries must increase its ambition by:

- extending the eligibility criteria from income level to a widened understanding of debt vulnerability, considering other indicators beyond debt service payment capacity, including countries' long-term financing needs to pursue the SDGs, climate goals, and human rights and gender equality commitments;
- as immediate measure, extending the time to pause debt payments at least until 2023;
- considering a wide program for debt cancellation to developing countries;

Climate impacts have eroded many countries on their fiscal capacity and have increased their debt in order to be able to recover from the social and economic disaster caused. Then, to repay this debt, they have incurred in increasing their ecological debt[7] - as most are commodities' exporters - creating a vicious circle of debt.

An interest-free moratorium on debt payments should be provided immediately after a climate disaster hits, as it has the potential to provide immediate access to resources which are already available. In addition to the moratorium, a pre-designed framework for restructuring the entire stock of existing public external debt, including debt cancellation if needed, would be required.

A way forward by some are debt swaps for nature (including climate action). These are controversial in the fact that finally conditionalities need to be agreed between the two parties and it could mean to bring some vulnerability to sovereign decision making. This would depend on the process to reach agreement. Some positive conditionalities could be reached, benefiting the people of the relieved country. But progress on debt swaps should not be seen

[6] See Oxfam: https://www.oxfam.org/en/press-releases/12000-people-day-could-die-covid-19-linked-hunger-end-year-potentially-more-disease

[7] https://wedocs.unep.org/bitstream/handle/20.500.11822/8232/-Ecological%20Debt%20-%20Balancing%20the%20Environmental%20Budget%20and%20Compensating%20Developing-20012252.pdf?sequence=2&amp%3BisAllowed=

as a solution for moments of profound debt crisis such as the one triggered by the Covid-19 economic downturn.

As mentioned above, to truly meet the financing needs of the current crises, trillions of dollars are necessary. While rich countries with trusted currencies can inject large amounts of money into the economy, poor countries cannot implement such policies by essentially starting the money printing press. As mentioned above, doubling the public health budget of the 85 poorest countries would cost less than 10% of the second US economic stimulus package in response to COVID[8]. Even with significant debt relief, resources of many countries will be insufficient to effectively mitigate the multiple fallouts of the COVID pandemic.

Therefore, it is critical to allow for access to Special Drawing Rights of the International Monetary Fund to grant the necessary liquidity; in the coming months at least 3 trillion USD in special drawing rights should be granted.

CAN demand further multilateral work, including private creditors, to make the sovereign debt international regime co-responsible. In raw terms, this means that the creditor and the debtor need to be equally accountable for an operation and make the proper tracking in the use of the resources to the debtor country people's needs enabling or fulfilment. In this regard, we support the proposal made by other CSOs on creating a permanent multilateral sovereign debt workout mechanism under the auspices of the UN.

b) Phasing out Fossil Fuel Subsidies[9]:

Subsidies on fossil fuels impose large fiscal costs on governments and drain scarce financial resources away from other key interventions such as the responses to COVID19.

Fossil fuel subsidies distort markets, give the wrong price signals - especially now with historically low oil prices such subsidies are obsolete - and disincentives investments in renewable energy and energy efficiency, thus hampering the low carbon transition. One research estimated in 2014, that fossil fuel subsidies contributed up to 36%[10] of global emissions between 1980 and 2010, while also exacerbating health problems, local air and water pollution. Limiting their use is a key step towards reducing inequity and achieving inclusive growth, since fossil fuel subsidies disproportionately benefit the middle and upper classes.

While direct annual fossil fuel production and consumption subsidies are large with estimated costs of up to USD 1 trillion, the largest subsidies, as shown by the International Monetary Fund (IMF), are the external costs of fossil fuels, mainly from air pollution and climate damages which have to be paid by all citizens. These subsidies totaled $4.7 trillion (6.3 percent of global GDP) in 2015 and were projected to reach $5.2 trillion (6.5 percent of GDP) in 2017. The largest

[8] https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620973/mb-confront-coronavirus-catastrophe-public-health-plan-300320-en.pdf?sequence=
[9] http://www.climatenetwork.org/sites/default/files/can_g20_brief_2018_fossil_fuel_subsidies_0.pdf
[10] https://voxeu.org/article/inferred-fossil-fuel-subsidies-new-database

subsidizers in 2015 were China ($1.4 trillion), United States ($649 billion), Russia ($551 billion), European Union ($289 billion), and India ($209 billion)[11]. Freeing up these resources can significantly contribute to finance the COVID recovery. Starting to phase out fossil fuels will not only reduce their externalities but also save lives, nature and expand budgetary space for more important public action.

The largest economies in the G20 and all industrialized nations must urgently set a timeline for the complete and equitable phase-out of fossil fuel subsidies, leading with the full phase-out of fossil fuel *production* subsidies this year, as a minimum;

c) Taxes

For different reasons, including lack of accountability in public spending, no new tax is usually welcomed by the public. Nevertheless, the current ecological transition requires a fiscal transition and what is required is progressive, fair and transparent taxes and wise and transparent spending. It is important to recognise that traditional taxation in some areas such as lowering corporate, capital income and capital gains has led to unequal and unbalanced economies and societies. Tax cuts are commonplace. However, progressive income taxes and taxing income and wealth are cornerstones of a fair society where those who can shoulder a heavier burden do so in financing public services and public goods. Traditional tax systems tend not to be environmentally aligned. A fiscal transition is required and this is a time to start / strengthen a progressive and ecologically aligned tax and fiscal system. As a guiding principle, a precautionary approach needs to dominate setting new taxes to understand their environmental and social impacts of tax and fiscal measures. Distributional assessment is key as the poorest segments of society cannot bear additional economic burdens.

Under this cautious view, some taxation principles must prevail: New or reformed taxes must not be distortionary - as much as possible – of healthy competitive markets or other economic stability needs, they imperatively must target only those who can pay them and need to be fair, and to price in the wider social and environmental impacts via 'repricing' including (but not limited to) tobacco taxes, luxury taxes, as well as carbon and other environmental taxes. There are key principles to follow: tax and fiscal justice principles must prevail in redesigning tax systems, namely the 4Rs of raising revenue, redistribution, re-pricing and representation of citizens.

i) Upstream Fossil Fuel Tax[12]

A widely prevalent accepted principle is the polluter pays principle (as suggested by the OECD). Climate change is clearly an outcome of the intensive use of fossil fuels and they create the negative externalities associated with health and climate change.

---

[11] IMF 2019, available at: https://www.imf.org/en/Publications/WP/Issues/2019/05/02/Global-Fossil-Fuel-Subsidies-Remain-Large-An-Update-Based-on-Country-Level-Estimates-46509

[12] https://www.stampoutpoverty.org/climate-damages-tax/

This upstream FF tax is called the Climate Damages Tax (CDT). It would place a tax on the fossil fuel industry for each ton of coal, oil or gas they extract. Starting at a low rate and increasing every year, the CDT would raise billions for countries and often poor and uninsured communities devastated by climate change. It would raise billions more to help pay for general resilience building/adaptation and the transition to green energy, transport and jobs, and contribute to the phasing out of fossil fuels by 2050.

The CDT is a charge on the extraction of each tonne of coal, barrel of oil, or cubic meter of gas, calculated at a consistent rate globally based on how much climate pollution (CO_2e) is embedded within the fossil fuel.

Working with existing systems of payment, fossil fuel companies, who already pay royalties (or similar) to the states where they operate, will pay an extra amount on the volume they extract to a Solidarity Facility for loss and damage.

As example, a climate damage tax of only 5% for each barrel of oil with present prices of about USD40 per barrel, would yield an annual amount of more than USD60 billion. Add fossil gas and coal, and the sum arrives at around USD100 billion per year.

We propose this facility is managed by the already existing United Nations' Green Climate Fund (GCF). International law and precedents embodying the Polluter Pays principle, such as apply to oil and nuclear pollution, serve as working examples of similar facilities.

ii) Wealth taxes[13]

Inequality increased dramatically over the past three decades. When a crisis as the one experienced now erupts, immediate countercyclical actions take place with public (fiscal and monetary) interventions. These interventions imply huge disbursements in a relative short time. The money spent will come from very limited sources: monetary expansion, use of reserves and additional public debt. When the economy starts to stabilize, so public finances through taxes. Who is in the better position to contribute for the recovery? The wealthiest.

The top 10% wealthiest people could bear the burden of a good share of the fiscal cost. In most cases, these would not risk their economic health and in the long term they will benefit for the economic recovery.

However, it is important to make a distinction between idle or speculative and active capital when taxing it. Large amounts of money invested in luxury items do not generate further wealth for the society.

[13] https://www.theguardian.com/news/2020/apr/11/call-for-super-rich-to-donate-more-to-tackle-coronavirus-pandemic
https://www.theguardian.com/news/2020/jul/13/super-rich-call-for-higher-taxes-on-wealthy-to-pay-for-covid-19-recovery

In comparison, some capital is invested generating jobs and welfare. The patrimony tax should differentiate the former kind of non-productive capital. The effectiveness of these types of measures would be enhanced if there is an internationally concerted effort.

To give an idea, Global wealth (2019, Credit Suisse [14]) is estimated to amount to USD 360 trillion in 2019, more than 3 times the global annual GDP and had been growing by more than 200% since 2000. It is estimated that roughly half of that wealth lies in physical assets like land, buildings, factories and the other half primarily in cash, company shares, and overall consumption products.

Roughly, the globally richest 10% and 1% are estimated to own (not earn) about 70% and 35% of global wealth, respectively, while the lower 50% own only 2%. To illustrate, the richest 1% in the US, Europe and China comprise all above a wealth of €1.1 million, the richest 0.1% refer to all with a wealth starting with €5.2 million. While overall dire poverty had been reduced significantly in recent decades particularly in developing Asia and Africa, the national gap between rich and poor has widened.

The growth of wealth between 1987 and 2017 – no surprise unfortunately – was 1.9%/year globally on average per adult, but 2.8%/year in richer and emerging economies like the US, China and Europe. But for the richest 1% and 0.1% over same period wealth grew stronger by 2.6% and 3.5%/y, respectively, in same period worldwide and for the richer countries and China even by 3.5% and 4.5%/y, respectively (2018, 2019, World Inequality Data Lab Reports[15]). The discrepancy gets even more drastic if we look only to the about 2100 billionaires globally. Their wealth, now estimated at more than USD 8 trillion, grew in the pandemic 2020 by approximately USD 2trillion suggested by Swiss bank UBS[16].

Hypothetically, if a wealth tax of about only 1% annually and on average for only the richest 1% in the world would be established, and excluding productive assets like land, office buildings and factories etc. that provide jobs, more than USD 600 billion/year could be generated for social purposes. Or if you assume 2% wealth tax on average for the richest 10%, this would yield USD 2.4 trillion per year – but probably unrealistic indeed. However, the idea that the rich of the countries have to "bleed" for resurrecting large parts of the ongoing growth and existence of deep inequity everywhere needs to be stressed strongly - with or w/o Co-19. In that context, Oxfam just showed that the richest 10% are also by far the largest climate polluters with more than 50% of global emission.[17]

iii) Financial Transaction Tax (FTT) [18]

[14] https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html
[15] https://wid.world/document/activity-report-2019-world-inequality-lab/; https://wid.world/world-inequality-lab/
[16] ubs-billionaires-report-2020-spread.pdf
[17] https://assets.oxfamamerica.org/media/documents/Confronting-Carbon-Inequality.pdf
[18] https://www.investopedia.com/terms/t/tobin-tax.asp

The also-called Tobin tax was originally a tax on spot currency conversions proposed with the intention of penalizing short-term currency speculation and controlling the stability of a given country's currency.

The currency transactions tax does not impact long term investments. It is only imposed on the excessive flow of money that moves regularly between financial markets through the actions of speculators in search of high short-term interest rates. The tax is paid by banks and financial institutions that profit from market volatility by taking excessive short-term speculative positions in the currency markets.

According to Tobin, to work effectively such a tax should be adopted internationally and be uniform, and the proceeds donated to developing countries. Although Tobin suggested a rate of 0.5%, other economists have put forward rates ranging from 0.1% to 1%. But even at a low rate, if every financial transaction taking place globally was subject to the tax, billions in revenue could be raised.

CAN acknowledges the complexity for a proper set up a FTT, from its operationality and impact[19] to its real potential to finance climate action or other related SDGs. However, the most recent European experience[20/21] and the increased need and capacity to monitor financial markets make a renewed exploration worthy, mostly in the current exceptional times.

iv) Digital tax

In recent times, even before the Covid 19 crisis erupted, there was a growing demand to properly tax the larger internet corporations. The current economy is dominated by IT platforms, most of them using the internet as their core business foundation. The network economy is growing and the main internet enterprises have the ability to avoid taxation. They are a significantly dynamic sector and increasingly oligopolistic. They have developed business models that benefit from fiscal rush-to-the-bottom policies.

During the lockdown, they have been among the greater beneficiaries - as home office and social distant leisure require digital platforms and services. Then, when looking around for who has wealth enough to contribute to a just reboot, this sector is in the position to contribute for the fiscal effort, even more considering that they have not been contributing their fair share previously.

Their marginal costs of operation are very low. Therefore, most income is profit and thus, taxing it is not distortionary. A progressive digital services tax - not taxing small corporations, as it is a sector which needs to further develop - is a proposal to be considered that is already on the table. Due to its flexibility for operation, further international tax collaboration is required,

[19] https://oecdobserver.org/news/archivestory.php/aid/664/Tobin_tax:_could_it_work__.html
[20] https://en.wikipedia.org/wiki/European_Union_financial_transaction_tax
[21] https://taxfoundation.org/financial-transaction-taxes-in-europe/

through some sort of international framework. However, in the meantime, some taxation at a national level needs to happen soon.

v) Other environmental taxes

In line with the Upstream fossil fuel tax, a form of carbon pricing that could be implemented with other options, a myriad of other environmental taxes that internalize negative environmental externalities with their double dividend are possible. The basic principle is to shift the tax burden from the goods - wealth creation and employment - to the bads - pollution and ecosystem degradation - among other negative externalities. There are different considerations to take into account as any environmental tax needs to be designed and operate aligned with environmental policies and tools. Be framed under a social impact mitigation and compensation scheme. It needs to understand that, if successful, the tax base declines overtime.

However, some environmental taxes should be considered to finance the green and just recovery.

References:
https://www.greengrowthknowledge.org/resource/environmental-tax-reform-etr-policy-green-growth
http://www.oecd.org/tax/tax-policy/greengrowthandtaxation.htm
https://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_194183.pdf

vi) Close tax havens[22]

Tax havens (TH) have become a major problem for sound fiscal policies. A just and green recovery needs the proper use of the limited tools many countries have, among the most important are fiscal and monetary policies. However, due to the sovereign debt issue and tax havens, the actual space for maneuver by fiscal authorities is limited.

A concerted effort to make tax havens fiscally accountable and then disappear as such, will only benefit most societies around the world.

Tax havens collectively cost governments between $500 billion and $600 billion a year in lost corporate tax revenue, depending on the estimate (Crivelli, de Mooij, and Keen 2015; Cobham and Janský 2018), through legal and not-so-legal means. Of that lost revenue, low-income economies account for some $200 billion—a larger hit as a percentage of GDP than advanced economies and more than the approximately $150 billion they receive each year in foreign development assistance. American Fortune 500 companies alone held an estimated $2.6 trillion offshore in 2017. Corporations are not the only beneficiaries. Individuals have stashed $8.7

[22] Most information comes from:
https://www.imf.org/external/pubs/ft/fandd/2019/09/tackling-global-tax-havens-shaxon.htm

trillion (total of up to $36 trillion - as other estimates[23]) in tax havens. This includes individuals diverse as sport and entertainment stars, corrupt politicians and dictators, greedy business and finance managers etc. While often tax evasion into certain countries by both individuals and companies is not always illegal[24] in a narrow sense, it is highly and morally illegitimate and deprives the public budget of nations of their duty to invest into social and other services fundamentally important for the well-being of all, particularly the poorer segments of society.

Because the main corporate users of tax havens are large financial institutions and other multinationals, the system tilts the playing field against small and medium enterprises, boosting monopolization. Offshore capital tends to drain from poor countries to rich ones.

And the offshore system is growing. When one jurisdiction crafts a new tax loophole or secrecy facility that successfully attracts mobile money, others copy or outdo it in a race to the bottom. That has contributed to a dramatic decline in average corporate tax rates, which have decreased by half, from 49 percent in 1985 to 24 percent today. For US multinationals, corporate profit shifting into tax havens has risen from an estimated 5 percent to 10 percent of gross profits in the 1990s to about 25 to 30 percent today (Cobham and Janský 2017).

The top five tax havens are Switzerland, the United States, the British Virgin Islands, Bermuda, and the Cayman Islands—all last three British overseas territories. Various international initiatives have tried to address the problems: most notably the OECD's Base Erosion and Profit Shifting (BEPS) programme, which has tried to stem the $500-600 billion in annual leakage to corporate tax avoidance. However, BEPS is widely regarded to have failed[25].

Some proposals are already on the table: One is the shorter-term approach, to try and stem the losses under the existing framework. The Corporate Tax Haven Index provides a road map for tackling the leakage.

Another, the longer-term approach is to reconsider the fundamentals for the international tax system. In this field, there are two main proposals; the Destination-Based Cash Flow Tax and the Unitary Tax.

vii) Minimum Effective Tax Rate (METR) for corporations

To fight the shrinking of the fiscal space in many developing countries and emerging economies, it is of the utmost importance to extract a fair amount of resources from corporate taxation and avoid the race to the bottom to attract investments that reduce the ability to get revenue from large market operations. Due to this race, multinational companies' tax avoidance practices amount for hundreds of billions of dollars a year. A potentially breakthrough initiative, worth exploring, is to set up a minimum effective tax rate, METR. It could mean a way forward to

[23] These highly uncertain estimates vary widely because of financial secrecy and patchy official data and because there's no generally accepted definition of a tax haven.

[24] Some are not illegal, as these wealthy individuals and corporations constantly lobby in parliament for more flexible tax rules.

[25] https://www.corporatetaxhavenindex.org/en/introduction/solutions

address fair corporate taxation at the source of their operations. In its design, first is to identify "the share of each multinational's global profits that are undertaxed. Then, avoiding any disadvantage to lower-income countries, METR reallocates these undertaxed profits among all countries where the MNE has a taxable presence, to allow each such country to apply its own taxation under its own rules and rates...This means the reallocation of these undertaxed profits in proportion to the location of multinationals' real economic activity, including the location of sales. This initiative could be introduced by a coalition of willing states, without requiring global agreement or any treaty changes...By reallocating this undertaxed profit in proportion to the location of multinationals' real economic activity, including the location of sales, we are able to combine the benefits of pillars 1 and 2[26]: placing profits in market countries at the same time as the incentive to profit shift is reduced or eliminated. And because the METR is effectively a combination of two rules (for income inclusion and undertaxed payments) which the OECD has found could be applied under national tax rules, the METR would not require treaty changes. (To account for market and other countries where an MNE maintains no taxable presence, a "throw-back" rule would prevent relevant profits from going untaxed.)"[27]

The most recent development in this line, from a key actor - Janet Yellen, US's treasury secretary, was a call for countries to agree on a global minimum tax rate for large companies[28]. The US is the home of most multinational corporations and therefore its key position to develop such an instrument. CAN will support progress in this front, with the aim to enhance developing government ability to get more revenue from their own country's economic activities.

An opportunity to make our world more just

These times are exceptional and require bringing the best of everyone forward. In the way we resolve the question of "who pays the bill?" the equity in the world can start to be addressed and change the road to a social cliff that the current pathway is heading to.

Here CAN put forward some fiscal measures to explore all its consequences. On fiscal matters there is always a good way and a bad way to do it. Best fiscal practices need to be followed to make the transition to a better fiscality smooth.

This is a time for a responsible creativity, as the challenge is huge. These proposed measures could add to others, they are not exclusive of other initiatives. The basic principle is that in an extremely polarized world - between few very rich and the most in poverty, the fiscal stimuli should be financed by those who have more - and often very much more.

---

[26] In the OECD BEPS (Base Erosion and Profit Shifting) initiative that ran from 2013-2015, Pillar 1 addressed the ease of profit shifting, committing to go beyond both the arm's length principle and the traditional "permanent establishment" definition, thereby apportioning at least some of multinationals' global profits according to where their real economic activity took place. Pillar 2 addressed the incentives for profit shifting, by proposing a global minimum tax to put a limit on the race to the bottom.

[27] https://www.weforum.org/agenda/2021/03/here-s-a-simple-and-fair-way-to-end-corporate-tax-abuse/

[28] https://www.economist.com/finance-and-economics/2021/04/08/janet-yellen-calls-for-a-global-minimum-tax-on-companies-could-it-happen

There is enough money in the world by the rich to not only overcome striking inequality between rich and poor countries but also within countries to address systemic failures and necessary transformational change on a planet at crossroads with a growing number of challenges and dire worsening problems like but not limited to health, climate change, biodiversity, food security, water scarcity, poverty, etc. To face these challenges, bold action is required by governments on all fiscal fronts to change course rapidly.

As the great Mahatma Gandhi once said, there is enough in the world for everyone's need, but not enough for everyone's greed.