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## WEED fact sheet

### International Taxation

#### Regulating Globalisation – Financing Development

International taxes have become a widely debated topic, because it became obvious that achieving the UN-Millennium Development Goals (MDG) would need a huge amount of additional resources. In order to create revenues that can finance the fight against poverty international cooperation on taxation is necessary. Besides the revenues international taxes can help to regulate economic globalization and fight some of its worse elements like currency speculation.

#### A New Paradigm

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. E.g.: through speculative gains on currency fluctuations, internal trade within transnational corporations, electronic trade or the enormous growth of international aviation.

At the same time the process of globalization produces poverty. The gap between rich and poor is widening faster than ever before.

Nearly half of humanity is extremely poor with an income of less than two Dollars a day. (See box) 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.

#### Why do we need international taxes?

International Taxes are necessary, because globalisation leads to an erosion of national tax systems. Global players and international investors use liberalisation, deregulation, tax loopholes and tax havens to save taxes on a large scale. Currently we are experienc-

#### **Take it from the rich and give it to the poor!**

- The collective net “worth“ of the worlds 697 billionaires is \$2.2 trillion
- 2.8 billion people live on less than two US-Dollars every day.
- \$1.9 trillion are traded in currencies each day – mostly speculative flows.
- 30,000 children die from poverty every day.
- It would cost \$8 billion to put all children into school.

ing a re-feudalisation of national 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 bottom to top. However, the production or mainte-

nance 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.

#### International Taxes for Financing Development

International taxes for financing development and fighting poverty have some advantages in comparison to traditional development

aid: They can access adequately high sums, guarantee a comparatively reliable and calculable flow of funds and maintain efficiency. There are a wide range of proposals for international taxes that all have their strengths and limitations.

The most important criteria for desirable international taxes are sufficient revenue, progressive taxation and regulating effects on the negative impacts of economic globalization. (See table) The Currency Transaction Tax (CTT) or “Tobin Tax” was proposed more than thirty years ago. It collects a low tax of e.g. 0.01% on currency transactions that currently account for 1.9 trillion US-Dollar every

of other less known taxes are under discussion.

There are also proposals for “innovative sources of financing” that are problematic. An example is the British proposal of an international finance facility (IFF). The IFF is a scheme where industrialized countries use credits to finance developmental aid. This frontloading of aid is initially able to create huge revenues. But as

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 policies, 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.

To use the momentum of these developments 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.

Tax	Positive	Negative
Tobin CTT (0.01%)	High revenues (€10-18 billion in EU15/Europe)	Does not prevent speculative attacks
Two tier CTT (0.01%/<100%)	High revenues (s.a.), is able to prevent speculative attacks	
Air Plane Ticket (€5 EU, €10 int.)	Broad political support.	Low revenues (max. €2.8 billion)
VAT increase (by 0.5% point)	High revenues (€14 billion in EU)	Highly regressive, will hurt consumption
IFF (GB proposal)	Initially high revenues (up to \$50 billion), Broad political support	Frontloading by increasing debts, which have to be repaid in the future.

day – most of them speculative flows.

A modification of the Tobin Tax, a two-tier CTT, is advocated by civil society. The CTT contains an additional second very high tax rate of up to 100% that is only applied in the case of speculative attacks on currencies. The two-tier CTT is the champion among the international taxes. It creates high revenues, makes problematic speculative investments less attractive. Taxing international financial flows also makes sense, because it reduces over-liquidity on the international financial markets, which is a constant source of crisis and instability.

Environmental taxes are another important contribution. Taxes on CO<sub>2</sub>, kerosene, air plane tickets and tolls on the use of air corridors can make the use of natural resources more expensive and help to preserve them. A variety

credits have to be paid back in the future, it is not a sustainable source. Only if the IFF is combined with international taxes, it might have some benefits.

### **International Taxes are realistic**

Despite the permanent failure of previous attempts to adequately finance development international taxes and especially the CTT can make a difference. The following crucial factors show that there is a window of opportunity for international taxes:

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 Lula, Chirac and Zapatero and recently even the German chancellor Schröder support the idea of a CTT.

For more information please **download our working paper on international taxation** (available in English), at: [www.weed-online.org/74736.html](http://www.weed-online.org/74736.html),  
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