

Inequality, Redistribution and Taxation¹

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Introduction

I have been requested to speak about inequality, redistribution and taxation. The topic sounds interesting because the concepts are well connected both in their meaning and application. Looking at the topic differently we can see clearly that it also lands us at the middle of the relationship between citizenship and national state or simply phrased as state/society dichotomy.² Discussing the topic from this angle would thus refer to a kind of describing the quality of this interaction in terms of the rights conferred by the state to the citizens and duties and obligations of citizens to the state. In other words, this dichotomy assist to affirm that there is a strong link between inequality, redistribution and taxation.

Inequality

Indeed inequality is a serious issue which concerns all of us and is something which has featured in most of our discussions. It suffices to say that inequality is a matter of life and death. It concerns us because as Hobbes said there is no man strong enough to create it and thereafter, forever withstand the pressures from those suffering pains from it as he says,

Nature hath made men so equall, in the faculties of body, and mind; as that though there bee found one man sometimes manifestly stronger of body, or of quicker mind than

¹ I want to thank all those who read and commented on this presentation. They have made very positive and constructive critique to a number of issues. However, this final version is solely the responsibility of the author.

² Cf. Mikko Kuisma, Rights or privileges? The challenge of globalization to the values of citizenship, *Citizenship Studies* Vol. 12, No. 6, December 2008: 615

another; yet when all is reckoned together, the difference between man, and man, is not so considerable, as that one man can thereupon claim to himselfe any benefit, to which another may not pretend, as well as he. For as to the strength of body, the weakest has strength enough to kill the strongest, either by secret machination, or by confederacy with others, that are in the same danger with himselfe.³

From our analyses we know that inequality has always been and still is the cause of serious forms of injustice – all evils done against humanity from slavery to colonialism, all types of segregation and oppression, political and economic dominations, exploitation through cheap labour and child labour, just to generally mention few.

From our practical encounter with inequality we know that it carries much of the pains, disappointments, and mistrust. Yet with all this theoretical knowledge as well as practical knowledge from the struggle against it we are not sure whether there is much not yet known. The truth is that it is possible to fight inequality, but doing so requires sacrifices to be offered – all of us are guilty of this evil – policy makers and governments, donor communities, and civil society at large – together had not seriously enough concerned ourselves about offering those sacrifices in order to break the chains of inequality. Our guiltiness is that we either do not seriously want or for reasons we know we hesitate to fight it. The will to cross that boundary of guiltiness and start to act is the sacrifice to be offered.

The World Bank document *World Development Report 2006: Equity and Development* affirms that global inequalities are rampant. In order to unveil this massiveness the report shows clearly different trends through which it is realizable ranging from years of attending school, provision of health services, availability of clean and safe water, to Purchasing Power Parity and lack of safety nets, etc. Inequality indeed is a result of both uneven playground and unfair rules of the game. The report offers a lot of knowledge. Yet one wonders: with all that why are we failing again and again to level the play ground so as to allow things function fairly well and sustainably?

Redistribution

³ Hobbes, Thomas. 1985. *Leviathan*. Ed. C. B. Macpherson. London: Penguin, 183.

Let me start with a simple question I generalized from broader discussion on redistribution: what is to be redistributed and how should it be done? Michael Walzer tells us that distribution is what social conflict is all about and that the struggle for control of the means of production is a distributive struggle. There seems to be a continuous struggle between monopoly and dominance. When the two come together, i.e. reaching a point of claiming monopolization of dominant good then already have constituted an ideology. Consequently, we have some groups of men and women dominating certain goods – wealth seized by the strong, honor by the wellborn, office by the well educated.⁴ Simply said, that is how we have partitioned the world.

The WDR 2006 uses the concept ‘equity’ in its title joined to the word ‘development’ by a coordinating conjunction ‘and’ which is normally used to connect related ideas. Thus the title shows emphatically that equity and development are connected and that one presupposes the other. The general definition given in the report is that “equity relates to fairness, whether locally in families and communities, or globally across nations.” And that equity is defined in two basic principles namely equal opportunities and avoidance of absolute deprivation. One cause of inequities is the effects of unequal opportunities when markets are imperfect and the quality of institutions a society develops are poor.⁵ Inequity is basically a qualitative concept. A good quality of redistribution system is the best way to address it squarely.

From the point of view of the civil society, I am of the opinion that it is possible for a society to function well by formulating distributive policies which are realistic to contextual situations. This constitutes the creation of basic institutions that work to preserve and enhance the wellbeing of all members of society in a fair way. These are institutions which function justly and which are beneficent in the sense of producing good outcomes for everyone. In other words, these are institutions which treat all individuals and various groups with equal consideration and at the same time creating comparable opportunities for everyone. The way institutions function affects peoples’ opportunities and their ability to invest and benefit. In its mission the WB values equity because primarily it is not only instrumental in reducing poverty but also a principle for redistribution of benefits. Thus civil society believes that the WB and donor communities will

⁴ Walzer, *Spheres of Justice, A Defense of Pluralism and Equality*, (Basic Books, 1983), 12.

⁵ WDR 2006: 18f, Chap. 5.

live to this mission in advising governments, not only on policy issues but also supporting them in their implementation, so that redistribution of opportunities and outcomes will be realized.

We can talk of ‘real growth’ where laws, policies and institutions are functioning fairly well so as to offer those opportunities to all at the same time creating safety nets for those who remain victims of circumstances, henceforth growth can accurately be measured. It is the opinion of civil societies that in most Sub-Sahara African countries striking this balance between formulating good policies, enacting good and fair laws on the one hand; and creating institutions that administer them fairly well has in most cases been problematic. We have witnessed inequalities reproducing themselves over years. Laws, policies and institutions are products of the powerful and influential and are often in place to shield and further their interests. Changes are not realized because the labour market is not functioning fairly, and consequently employment opportunities, especially related to key positions, including very technical positions, have become a matter of selecting ‘the insiders’ who will protect the interests of the system. As a result in some countries we now witness that leadership and holding key positions have become almost a matter of inheritance just as if it is in absolute monarchical rule. Under such situations chances are narrow for those with small unfamiliar names. Most of our societies are already caught up in these kinds of inequality traps. If injustice is institutionalized and protected to the point of affecting in one way or another the enactment of laws and formulation of policies on the one hand, and poor administration of the same on the other, for the sake of personal benefits, then obviously the whole society is sitting on a time bomb.

There is another side of the story. For some Africa countries just like the rest of aid recipient countries, the story do not end up with unjust local political and economic structures that hinder fair redistribution. There is another setback at the international level related to the limits set up in the conditionalities attached to aid from donors. Dambisa Moyo puts it very well when she outlines the three ways in which donors restrict aid. First is related to procurement and staff – the recipient country has to spend the aid received on specified goods and services as specified by the donor. Likewise donors employ their own nationals even if qualified people are available in recipient countries. Secondly, donors have the right to preselect the sector and/or

project to be supported by their aid. Thirdly, the recipient countries have to agree to a set of economic and political policies. Moyo then comes to the heartbreaking conclusion,

On paper, conditionalities made sense. Donors placed restrictions on the use of aid, and the recipients would adhere. In practice, however, conditionalities failed miserably. Paramount was their failure to constrain corruption and bad governments.⁶

It is not a question of ruling out conditionalities completely. They are needed at certain times because they function as positive regulatory instruments. The point I want to make here is that if aid is seen through the spectacles of revenue inflows for the purpose of redistribution, then we need to see to it that they are not just an end in themselves. They have to get into circulation for redistribution. Thus among the conditions to be set, those addressing corruption and good governance should be included. Otherwise we start to question the reason for all the efforts put by such big global institutions like the World Bank and donor communities— all the language of leveling the playground, all the advise to regulate the policies and institutions in order to allow the markets to function fairly well, etc, - then for what purpose and for whose benefit are all these costly attempts being pursued! Are they doing all that for the purpose of pleasing those who are in power or is it for the purpose of contributing to the revenue inflows for redistribution in order to reduce inequality? Why should poor countries keep on paddling while the canoes are still tied onshore!

Taxation

Taxation is the basic means of revenue flows from private sector to the government in order to finance their expenditures particularly *to be used for the good of the society*. Whatever definitions of taxation in their entirety will echo or presuppose some kind of contractual relationship between the payer and the receiver. It is in taxes where the state/ society dichotomy bond reveals itself strongly and clearly. Taxes bind us together in a social contract with the governments – that in principle and by law all should pay them, and that the government should spend them the benefit of respective societies. Consequently, taxation systems are regulated by

⁶ Dambisa Moyo, *Dead Aid: Why Aid is Not Working and How is There Another Way for Africa*, Penguin Books: London, New York, and Toroto, 2009: 38f.

laws. Paying taxes is an obligation! In other words, revenues collected through taxes are peoples' moneys held in trust by the governments for meeting the administration expenses and for financing the distribution of services and other benefits to the society.

In order to have higher revenues states have to create favorable conditions that open up opportunities for investments and growth. These touch key issues such as market reforms and finance and economic policies that manage the markets and economies and their consequences. This is important because simply that is where societies get schools, hospitals and other health facilities, clean water, infrastructure, safety nets, and so forth. So it is through expenditure of revenues mainly from taxes that the redistribution balance could be struck - equity in the redistribution of opportunities and avoidance of absolute deprivation. If taxes are that much important the question now is how they should be structured, collected and who should pay them?

Tax structures, eligibility, and amounts to be paid have been the centre of contention in many developing countries. This had at certain times to do with fighting fiscal corruption and consequently achieving higher revenue flows to the government reserves. In order to increase tax bases African countries need at the local level to attract more investment as well as more Foreign Direct Investment (FDI) on a diverse of investments. The report produced by the World Economic Forum 2011 shows that Africa and particularly Sub-Sahara Africa is still performing worse in a number of economic competitive indices than other continents. In short what need to be done in order to make investment more profitable to Africa according to the report is to seriously try to integrate Africa economies in global exports markets, attracting growth enhancing FDI and raising overall competitiveness – opening doors of opportunities to Africa.⁷ These are to be seen as well as policy priority areas. However, a number of obstacles prevent the realization of these Africa's potential opportunities. Here I will mention some of them briefly.

The first signal comes through Global Financial Integrity (GFI) first report of 2003-2006 with the title *Illicit Financial Flows* (IFF). From its reports it is estimated that the cumulative stock of illicit financial flows from Africa amounted to US\$865 billion between 1970 to 2008,

⁷ Reading the report carefully one realizes that it is as if it tracks the WDR 2006. Chapter 2.1 it talks about higher education reforms in Botswana, Ethiopia, Kenya, South Africa, and Tunisia on the light of access, equity, and financing; whereas chapter 2.2 talks about strengthening women's entrepreneurship.

and that the figure could be as high as US\$1.8 trillion. Annual outflows from Africa have been estimated by GFI at US\$30 billion, while African Union estimates US\$148 billion. Although IFFs is a global problem yet Africa with its poor economy is losing massive revenues through these channels.

The Tax Justice Network – Africa (TFN-A) 2011 report entitled: *Tax Us if You Can: Why Africa Should Stand Up for Tax Justice* contains more eye opening information. The report intends to show that taxation is the surest open door for Africa's future development and success. However, in addition to that it also discusses a number of obstacles impeding that success. These include corruption, IFFs, debt servicing, tax incentives, and informal economy are among the mentioned loss channels. Due to space and time let me briefly discuss two – corruption and tax incentives. Corruption as it is defined in the report gives a different picture from conventional understanding as the report defines it:

The current tendency of the World Bank, Transparency International, the OECD, and many others is to restrict their definitions of corruption to the bribery of public officials. But corruption involves much more than this. . . . 'Corruption is the abuse of public interest and the undermining of public confidence in the integrity of rules, systems and institutions that are designed to promote the public interest.' (TJN – A: 8 – 9).

Having redefined corruption the report intends to show that even tax aversions are forms of corruption. The expanded definition drives the nail deeper down and of course, the result is that the number of countries, organizations and agencies to be circle in goes higher. The TJN then developed its own Financial Secrecy Index (FSI), which is intended to complement the Transparency International's Corruption Perceptions Index (CPI).

With my eye of civil society I am of the opinion that the World Bank, IMF and donor community never took the issue of corruption seriously enough in their dealing with bad governments as previously indicated by Moyo. Furthermore, they do not clearly enough put in place and transparently coordinated strategies the assist the weak and poor countries from manage the financial outflows which damages their already weak economies. This reluctance, as it weakens the revenue reserves needed for redistribution, it consequently strengthens the grips of inequality and the fight against poverty.

The second channel is the tax incentives which are also putting Africa's economy at stake. Tax incentives were designed to be used in many developing countries with the aim of attracting international companies, including the extractive industries. These incentives include

tax exemptions and tax holidays, tax deferrals, de facto control of national infrastructure such as railways, ultra-low royalty rates and excessively generous access to water, not forgetting fuel tax exemptions in countries like Tanzania. The TJN report confirms that many of these concessions are negotiated exclusively between multinationals and government ministers. They lack transparency. As against the expected outcomes, the fact is that, lower corporate income tax rates and longer tax holidays although are effective in attracting FDI, they do not boost growth.⁸

Another eye opening report is the NOU Official Report 2009: 19 with the title *Tax Havens and Development*. The report is very detailed and very technical revealing a whole range of tax problems. The report confirms that tax havens increase the inequitable distribution of tax revenues. Among other possible damages the report cautions that tax havens reduce the efficiency of resource allocation in developing countries; they make economic crime more profitable; and they can encourage rent-seeking and reduce private incomes in developing countries. For poor countries which lack both resources in terms of finance and human to track the situation, tax havens is among the deadly poison of their economy.

Another document which in a detailed analysis offers us information about tax avoidance is *Calling Time: Why SABMiller Should Stop Dodging Taxes in Africa*. The document is a product of ActionAid investigation on multinational companies like SABMiller regarding payment of taxes. SABMiller is a British Brewery, the first to operate in West Africa in the Ghanaian capital Accra since 1933. To make the long story short, the giant company has paid no income tax in the past two years to the time the report was written, but has transferred millions of pounds to sister companies in tax havens. According to the report the SABMiller group makes profits of £2 billion a year but the amount it avoids in taxes in Africa and India is as much as £20 million per year. According to the document SABMiller avoids taxes in four ways:⁹ *going Dutch*

⁸ Quoted from Alexander Klemm and Stefan Van Parys, *Empirical Evidence on the Effects of Tax Incentives*, IMF Working Paper WP/09/136, (Washington DC: International Monetary Fund ,2009)
<<http://www.imf.org/external/pubs/ft/wp/2009/wp09136.pdf>>

⁹ **Going Dutch** refers tax dodge through denying the countries of invention and consumption the right of ownership of local brands by SABMiller subsidiaries and avoiding paying taxes in those countries instead paying them to SABMiller International BV has negotiated a deal with the Dutch revenue that is worth tens of millions of pounds in reduced taxes. **The Swiss role** happens by SABMiller's African and Indian subsidiaries pay whopping 'management service fees' to sister companies in European tax havens where effective tax rates are lower, mostly to Switzerland. **A trip to Mauritius** means goods are procured by Accra Brewery from another SABMiller subsidiary in Mauritius, 7,000 km away in the Indian Ocean The Mauritius company, Mubex, makes a profit on this transaction, though tax haven secrecy which are difficult to trace. **Thinning on top** refers to a situation whereby Accra Brewery borrowed a large amount of money from the same Mauritius Mubex company. The loan is bigger than any mortgage lender would permit, more than seven times Accra Brewery's capital. This means that the company is 'thinly capitalised'.

whereby six SABMiller companies in Africa paid a Dutch company £25 million in royalties last year. This kind of transfer pricing costs Africa that amount or more. Second is *Swiss role* whereby SABMiller companies in Africa and India pay about £47 million each year to sister companies especially in Switzerland; hence denying each respective governments about £9.5 million each year. Third is *take a trip to Mauritius*, which although it is difficult to track is believed to cost Ghana about £670,000 in tax losses. Lastly is *thinning on top* which makes Ghana lose about £76,000 in unrealistic interests paid by the Accra brewery to Mubex brewery in Mauritius. This happens in part “with the large ‘transfer pricing’ payments made by SABMiller’s subsidiaries in developing countries to sister companies in tax havens.”¹⁰ This is massive amount of tax losses for poor countries.

It is the responsibility of civil societies to see to it that such information penetrate to the general public in respective countries so as to make people understand the situation. Beyond understanding all this we have to ask ourselves some profound questions: who are we to trust in this dirty game? In the context of such economic crimes how and when are we going to realize the ‘leveling of playgrounds’? Beyond our knowledge of all this who is to make the rules of fair game to be regarded as global economic ethical values? Can the roles of the WB, IMF and OECD go beyond being knowledge base to a kind of intervention? We, civil society suspect this passiveness by the WB, IMF, OECD and donor community regarding tax incentives, tax dodges tax havens, tax holidays and the like. The NOU and TJN reports show that most of those involved in this tax haven deals are known. When these international institutions invited them for meetings, almost all who were invited attended. This means that these international institutions have upper hand to curb the situation. They can still play a major role and are responsible for creating both the play grounds and the rules of the game.

After saying all that about taxes, does it make sense to talk about equity and development in a context which tax havens are poisoning and killing the economies of poor countries? Tax aversions which are well known in our countries have resulted in making people avert from paying taxes. If those rich companies do not pay taxes, and somehow our poor governments pay the rich through tax incentives in order to attract them, why should the poor people pay them?

¹⁰*Calling Time: Why SABMiller Should Stop Dodging Taxes in Africa*, 6.

Again because of low tax revenues the distribution trends become weaker and consequently the governments cannot provide the necessary services. People do not see their taxes coming back to them through good services from the governments. This is a kind of bleaching the taxation contract which I have explained in the state society dichotomy. In short, people are not motivated to pay taxes. We are playing with a situation which is a potential threat to peace and thus calls for serious changes both in policies and practice.

There is an argument being murmured that it is for the individual countries to arrest the situation. However, a number of developing countries have openly declared their incapacity to mobilize domestic revenues due to the effects of international tax evasion and avoidance on the one hand; and due to lack of laws that require multinational corporations to disclose their financial data on country-by-country basis enterprises. We all know that lack of coordinated actions damage these countries tax liability, notably through transfer pricing practices. We are happy to learn that in September 2010, the EU Commission undertook to consult and bring forward legislative proposals on country-by country financial disclosure within one year following repeated requests from the European Parliament.¹¹ This follows the passing in July 2010 of the Dodd-Frank financial reform bill in the United States, which includes a provision obliging US-listed companies engaged in oil, gas or mineral extraction to report how much they pay to governments in an annual report to the Securities and Exchange Commission. Let keep our fingers closed and hope that these efforts will bring positive changes. Therefore, these efforts by EU are highly commendable.

Concluding Remarks

I have learnt a good deal of lessons through the Extractive Industries Transparency Initiative (EITI) practices among which the biggest is that the more the main stakeholders work together transparently the more grows understanding and consequently trust. Further beyond the EITI practices, my engagement with advocating for mining justice have taught me other kinds of

¹¹ Quoted from European Council conclusions on tax and development, June 2010; and European Commission communication on good governance in tax matters (2010)

lessons – I have come to learn how volatile and dangerous it is to deal with those multinational mining companies; I have come to learn the way they manipulate the enactment of mining laws and the drafting of loose contracts; I have come to learn how these companies can turn our governments against their own people. As an example, in Tanzania we have very bad experiences of such situations. All these indicate that our governments are not strong enough to stand the mighty power of these giant multinational companies. How can we deal with the situation?

First we need globally coordinated actions against these economic crimes. This is another area which needs sacrificial offerings. Are the international institutions and donor community ready to walk with us through this journey and perhaps pay the price? Secondly, transparency and accountability should go beyond extractive industries. Through the EITI we start to see some light at the end of the tunnel. If donor community have supported transparency and accountability as good practices in the extractive industries, why not support its extension in other areas as will be agreed? Very unfortunate many substantive economic deals are being done between our governments and the other involved parties. In those deals, the outcome often depends on the negotiation powers of those sitting across the table. There are indications that even corruption has at certain times been part of the deals. Tanzanians have witnessed a number of such situations. The challenge is, how to engage civil society (as best practices require) in some of these discussions so as to enhance transparency and good governance. I believe by doing so more knowledge, experience, and participation will come into the process both at the policy formulation and implementation levels. Opening up in that way to transparency does not make our governments or any other key stakeholders weaker and of course, classified information beside normal joint business can be handled differently in the spirit of Public, Civil Society Partnership as prescribed in the concerned legislation. It is only by the assistance of powerful nations and more involvement of civil society we can contain economic brutalities of bad multinational companies. It is high time to act together.

Finally, but even more important, I wish to extend my profound gratitude to the Norwegian Ministry of Foreign Affairs and NORAD in collaboration with the World Bank for arranging the 2011 TFESSD Seminar, which availed us an opportunity to address a great topic on inequality. It has been a great honour indeed. The Norwegian Government's commitment to

address inequality and other ills mentioned in my presentation is well known and appreciated. Only recently, I read about the launching of Taxation for Development programme, which is aimed at helping poor countries increase their own tax revenues; and that Zambia, Mozambique and Tanzania are the first three countries Norway is cooperating with in this field. These efforts, together with those being put by Norway and Finland through the TFESSD I believe are poised to contribute to real and hopefully sustainable development in most poor countries. These are efforts worthy of emulating and we do appreciate them very much.

And those were my extended remarks. Thanks again and God bless you!