The Taxcast, April 2023: Tax Saves Lives

Naomi: “Hello and welcome to the Taxcast, the Tax Justice Network podcast. We’re all about fixing our economies so they work for all of us. I’m your host, Naomi Fowler. You can find us on most podcast apps. Our website is www.thetaxcast.com You can subscribe to the Taxcast there, or you can email me on naomi@taxjustice.net and I’ll put you on the subscriber’s list. Let me know what you think of the show!

So, this month on the Taxcast: isn’t it horrific that there are so many people across the world who still don’t have access to what we could call ‘survival rights?’ Things like basic sanitation. Clean water. Quality education. Decent healthcare so that mothers can survive childbirth. And so their children can even survive their childhood?! This is where tax justice gets the most urgent, because tax literally saves lives. I’m going to talk to people who’ve looked at new data that demonstrates this. And I wish every CEO, every company board member, shareholder and every government minister in the world would read their report. And then look us in the eye and tell us why they’re not moving every muscle in their body to do what is in their power to protect people, mothers and children. Because when they don’t, they do have blood on their hands.

Eilish: “The world needs to start looking at tax as a human rights issue. Fair tax saves lives, tax abuse costs lives and the pathway to paying fair tax is through tax transparency. So corporations publishing their taxes and profits on a country by country basis, but also governments creating the right environment so that this is the norm, as opposed to the exception.”

Naomi: “That’s Eilish Hannah of St Andrew’s University, one of the authors of the report “How can corporate taxes contribute to to sub-Saharan Africa’s Sustainable Development Goals? A Case Study of Vodafone.” Let’s start with a big multinational company. This report looks at Vodafone which, to its credit, for quite a few years, voluntarily published its accounts in each country it did business in. And yes, incredibly, many multinationals don’t have to do that still, we’ll talk more about that in a bit. Here’s one of their adverts – rather appropriately, this one features a mother giving birth in what looks like the back of a taxi:”

Vodafone advert: https://youtu.be/RGHyy_cTz7I

Naomi: "Isn’t that great?! Mother and baby are both doing well, all thanks to Vodafone! Now, most of these kind of companies are headquartered in wealthy, politically powerful nations. Vodafone is headquartered in the UK. But of course, they do business in many countries around the world. As this advert demonstrates. It’s an ad for Vodafone’s subsidiary in South Africa, Vodacom. It shows what looks like an emergency medical centre in the middle of nowhere, with a doctor and nurse, again, highlighting the lifesaving benefits of a decent phone connection:"

Vodacom advert: https://youtu.be/p_gZprbbMkk

Naomi: "So, Vodacom saves lives! Each year a company like this meets with its board and its shareholders, they publish a glossy brochure on how well things are going, and they take a few votes. But the accounts section of their glossy brochures may well be incomplete. That’s because for a long time many of these companies have been able to bundle up all their accounts from each country where they do business into one final convenient figure. That means they didn’t have to tell us their profits based on the business they were doing in each country, making it very challenging for tax authorities in those countries. Add to the mix that they were often using a tax haven or two, and shifting things all over the place to minimise their taxes still further! Well, the Tax Justice Network fought the good fight, arguing that multinationals should publicly report on their activities, country-by-country. For years we were told that it was an impossible dream, that it would never happen. Then the EU kicked off public country-by-country reporting for banks many years ago. And then they implemented - a watered down - country by country reporting version for multinationals headquartered in some jurisdictions. Under pressure, the OECD introduced its own version of country-by-country reporting, for the largest multinationals in all industry sectors. But, the data is private, and only easily accessible for OECD members. The EU has now required that this information is published by reporting multinationals operating in their jurisdiction, but, only for EU countries and a few others. You can see that bit by bit, it is getting harder for multinationals to hide from paying fair taxes in the places they're actually doing business. But there's still a long way to go. Here's Alex Cobham of the Tax Justice Network:"

Alex: "So as of today, more than 90 countries or jurisdictions have implemented country by country reporting for private data under the OECD standard. Now because that data is not public, and is only exchanged privately between tax authorities, the OECD reckons that there are more than 3,300 bi-lateral exchange of information arrangements for country by country reporting in place. But of those - 93, I think it is, jurisdictions who are participating in information exchange, only nine of them are African, only two of them are least developed countries, only 28 are middle income countries. So this is overwhelmingly favouring OECD members getting access, and much less so the rest of the world."

Naomi: "Hm. So, for example, African countries are rarely the headquarter countries for the world's largest multinationals, right? That's why what the most powerful nations do about this is so important. And obviously, there are historical reasons why, for example, African countries are so disadvantaged when it comes to getting access to country by country reporting by multinationals. There's a history of disempowerment of those nations that's a continuation of empire and patterns of extraction. Here's Rachel Etter-Phoya of the Tax Justice Network:"

Rachel: "It's interesting looking at the history because public country by country reporting or just getting companies to disclose tax information is not something new. Already in the 1960s and '70s African and Asian nations supporting the UN resolution on the new international economic order, were trying to gain sovereignty because they realised that even though they'd decolonised, the global economy was in the hands of the richest nations, in the hands of former imperial powers. And one of the ways this is done is through corporate power. Many of the multinationals are operating in these countries then, and still today are headquartered in the richest nations in the world, and those efforts of African and Asian nations through the UN was really undermined and the club of the rich, the Organisation for Economic Cooperation and Development really took the reigns to try and maintain their control over designing tax rules and designing and deciding on what information gets shared or not. So, although when the Tax Justice Network two decades ago started to raise the call again for having, for the first time, public country by country reporting, corporate transparency in tax matters, the OECD said it was impossible and not gonna happen. And now today we do see progress, so the OECD now publishes some data that some companies and countries are providing to the OECD about where they are paying their taxes and profits. But, this is all anonymised, it's not including all companies, it's not including all countries. And this information is only available to tax authorities that are part of the global network, exchanging information, and the majority of the African countries are not part of this. Not because they don't want to be, but because the way to get to join and the rules to be able to join are set by the OECD and there's some hurdles that are just not possible at the stage for African countries to jump through. Particularly because they are former colonised states, and it was the way that the colonies worked and they were plundered and they weren't able to, at those times, they were on the back foot when setting up systems. And so it means that there's just not the right access to information, even though African and Asian nations have been calling for this, and Latin American countries as well."

Naomi: “And so many of the OECD ‘rich country club’ member states are made up of – not only the worst global offenders for draining tax revenue from other countries, but a lot of them are former colonisers! And, before we get to the fascinating results looking at the data from Vodafone publishing its accounts country by country in six African nations – which we now know changed people’s lives - what can national governments do faced with multinationals taking advantage of rules that don’t force public reporting, country by country? Here’s Alex Cobham again:”

Alex: “If a multinational refuses to provide its country by country reporting data privately to its home country tax authority, or more likely if that home jurisdiction refuses to ask for the data in order to exchange it with others, then other countries are actually able in those circumstances to say to the multinational, 'you're operating in our country. And so you need to give us the information directly.' This is what's called local filing of country by country reporting data. But - that local filing is extremely rare, and in practice the local subsidiary of the multinational is able to say, 'oh no, we don't have that information. The parent of the group has that data, but they don't give it to us, and so we can't give it to you.' So, you know, again, it's just one of the ways in which this weakening of the OECD approach, moving away from public data, has ended up recreating these kind of power inequalities. Where the multinational's able to say ‘no,’ it often will do.”

Naomi: “Charming! The realities of power, eh? How likely are some of the world’s less politically and economically powerful governments to push multinationals?”

Alex: “A country that's weaker still has the power to demand local filing, and indeed you could demand local filing across the board rather than rely on information exchange. But you'd need, in a sense, the political support. In most cases, you know, this is a filing requirement, so you only have relatively small fines in place if companies don't comply. Again, you could say, 'this is a condition of operating in our economy. If you want to make money here, you have to give us this basic transparency.' But that would take significant commitment from the government. Of course, you know, increasingly as this data is published by companies rather like Vodafone, voluntarily, but also companies that are reporting under the Global Reporting Initiative standard, which is a much more technically robust standard than the OECD one, countries can go, tax authorities can go and get that data themselves. Most excitingly, Australia has just published draft legislation that would require all multinationals over the size threshold operating in Australia to publish their country by country reporting data. And that would give a whole set of other countries around the world access to that data directly. So look, we're on the road here. We're gonna see more and more of this data being made public one way or another, both voluntarily and by mandate in different places. If the OECD was at all forward thinking, they'd say, 'look, we need to get ahead of this. We need to finally respond to the public consultation that we did in 2020, to which the OECD has never published any response. What that showed overwhelmingly was that civil society and investors with trillions of dollars of assets under management were calling for the OECD simply to converge to the Global Reporting Initiative standard, which is much better, and to make the data public. That's where this goes. You know, even the big four accounting firms are starting to recognise that that's the end game. And it's a question of, you know, whether they can drag their heels for another couple of years, or accept it and get ahead now. So, countries at all income levels will have access to this data soon enough, and the entire OECD architecture, both the relatively weak OECD standard, and this ridiculous mechanism for information exchange, will become obsolete fairly quickly. In the meantime though, we're losing time, we're losing tax revenues, we're losing, as the Vodafone report shows, with those tax revenues, we're losing the lives of children, of mothers. We're losing public health and all sorts of public spending around the world. This is an urgent matter and we really should just move straight to public reporting, whichever way we can do it, wherever we are, as soon as possible.”

Naomi: “Yes indeed! With me now I’ve got Eilish Hannah from St Andrew’s University and, again, the Tax Justice Network’s Rachel Etter-Phoya. They're co-authors of the report looking at how corporate taxes contribute to what’s known as the sustainable development goals. Let’s start with you Eilish on what those are, just quickly:”

Eilish: “Yes, sustainable development goals are a set of 17 interlinked goals, grounded in human rights law. They were adopted by the United Nations in 2015 as a continuation of the Millennium Development Goals. And basically their aim is to make sure that no human being is left behind and to make sure that our actions today don't harm the wellbeing of the planet in the future and doesn't harm the wellbeing of future generations. So the specific goals that we looked at in this paper were: access to basic sanitation and clean water, quality education, and then maternal and child survival rates, sustainable development goals three, four, and six. The climate change emergency and the pandemic sadly have threatened their progress, and in some cases they've actually reversed the progress we've made.”

Naomi: “Rachel, you’re in Malawi, you know yourself how the pandemic, the climate crisis, and other events have undermined progress on those goals?”

Rachel: “So yeah, here in Malawi, we were already reeling from high inflation, I guess the global economic crisis, the impact of the war in Ukraine, and then Cyclone Freddie hit, not just Malawi but Mozambique as well in particular. And it's called so much devastation and people are starting to pick up their lives again now, working to rebuild. But it's had a huge impact on the individual level, but also on the national level with government needing to respond to immediate needs, but also longer term planning to provide public services that work for everyone.”

Eilish: “Yeah, climate change is unfortunately causing ecosystem disruption in high and low income countries but very sadly, this is worse in lower income countries. Governments are having to spend more money and revenue and resources on recovering from natural disasters caused by climate change as opposed to the sustainable development goals.”

Rachel: “Yeah and so with the sustainable development goals, they're a roadmap and it's not just for governments to implement, but for everyone, so all sorts of organisations, including companies and the private sector, which is why we were looking at Vodafone in the paper.”

Eilish: “So our modelling looks at decades-worth of government spending data that it gets from UNU WIDER database, and the World Bank database, so we know that from looking at past spending habits over decades that you know, if they do have, see an increase in revenue, they do spend more on these rights, and it's also supported in the literature as well.”

Naomi: “OK, so what did you find? Let's look at Vodafone and the data you've looked at and analysed - you've looked at their tax contributions in six African countries. Vodafone voluntarily published its profits on a country by country basis, right?”

Eilish: “Yeah, at the time of the study, it was voluntarily publishing its taxes and profits on a country by country basis.”

Naomi: “Ha! That in itself is a sign to me of how far things have come because when I first started producing the Taxcast in 2012, Vodafone was one of the first big symbols of tax injustice in the UK that came to popular consciousness. There was a huge scandal about a sort of behind closed doors deal that they did with with the tax authorities in the UK after some clever corporate maneouver when they bought a company and then they routed the purchase through Luxembourg. Some estimates say they legally dodged paying £6 billion in tax, you know, all perfectly legal. Vodafone says the dispute was over a complex interpretation of the law and that various courts reviewed it before they settled. We only really knew about that agreement with the UK tax authority because of a very brave whistleblower, a tax lawyer working there at the time. And if you're listening, thank you! There was also a protracted legal battle in India I remember with tax authorities there. Vodafone won that case in fact eventually, but they obviously decided that it was bad business to be fighting governments over tax. Now, whether their decision to voluntarily publish their activities at country by country level means they're actually paying for taxes that they should, that's another issue, isn't it? I mean, that would take another study, but good for them that they did this, right?"

Eilish: "Yeah, I completely agree. I guess there's no guarantee from what they've made publicly available that they're paying their fair share of their tax liability, you know, the only way to know that I guess would be to do misalignment studies and to have a full set of their accounts. But as you say, Naomi, I think publishing your taxes and profits on a country by country basis is a really important transparency measure, and I guess you should give credit where credit's due, so, yeah, there is public information available, which is why we chose them."

Rachel: "Yeah, and a company can be doing something right in one area and be doing something really problematic in another area, so there was allegations in 2020 that one of the companies that are part of the Vodafone Group in Tanzania blocked network or blocked SMSs when they related to the opposition party, and obviously that had an outcome for the elections and so yeah, it's really interesting to see how corporates engage, and Vodafone is very up front about it supporting the Sustainable Development Goals, and - it's not always such a straightforward story."

Naomi: "Yes, potentially not, although I imagine they'd deny that. Anyway, as far as I can tell today, Vodafone is not still voluntarily publishing its country by country accounts any more, which is interesting. It's headquartered in the UK, which, by the way, had committed years ago to requiring multinationals to report publicly, country by country but guess what? They reneged on that in 2020. We've estimated, with others, that that could have recovered at least £2.5 billion in corporate tax every year for the UK Treasury. Anyway, tell me about the data from Vodafone and what you did with it?"

Eilish: "Yeah, of course. So we have an econometrician on the team who does the modelling, so he looks at the impact that increased government revenue will have on access to clean water, sanitation and education and then the impact that has on survival rates. So we used that modelling to get these results, and we looked at how much tax Vodafone paid in six African countries, so: Tanzania, Mozambique, Lesotho, Kenya, Ghana and the DRC. We looked at their contributions to these governments between 2007 to 2017, the average contribution in that time period, and then worked out how many people would have increased access to their rights and then increased survival rates from there. It's probably important to mention, given we've brought up their tax controversies they had in 2012 that they only started publishing their tax reports on the country by country basis from 2012. So the estimates pre-2012 we've presumed is the same as the average between 2012 to 2017, which very well may not be the case. It may well be lower, so that is a limitation of the paper there."

Naomi: "Again, so many reasons why transparency is important!" <laugh>

Eilish: "Yeah, no, it's true!"

Rachel: "And what's interesting in the model is that you take the figure and look at how governments have historically allocated their budget and assume that the governments will continue to allocate their budget in the same way, so split between all the sectors government always spends on. And then also there's a five year lag because the research shows that generally, even if there's an increase in spending in a certain sector, there's a time lag of course before it has an impact on children being able to go to school or have access to clean water."

Eilish: "Yeah, exactly yeah, and that's based on their past spending habits, so the decades-worth of data from the databases that we talked about before."

Naomi: "Yes, so - if a government typically was allocating say 10% of its revenue to health spending for many years - we know now from Vodafone's data that each government received a certain amount of revenue from Vodafone, then you've kind of looked at it as 10% of this revenue will also be allocated to each sector the government is spending on, you can actually track it and its effects? That's how we know that Vodafone's taxes did change lives, right?"

Eilish: "Yeah, it's true."

Naomi: "Right. So what did Vodafone's taxes mean for people?"

Eilish: "So yeah, so because of the taxes Vodafone paid between 2007 to 2017 over these six countries, it allowed over a million people to gain access to basic sanitation each year, and nearly a million people to gain access to basic drinking water each year, and cumulatively over 800,000 children were able to spend the next year in school. And because of increased access to these rights, over 54,000 children survived, and almost 4,000 mothers survived. And that's just one company in just six countries. So, imagine how great it would be if every company did that in, in every country."

Naomi: "Amazing!" <laugh>

Eilish: "It's got huge potential!"

Rachel: "It does, and it shows us how important corporate income tax is and why it's so important that companies are paying their fair share where they do their business and they don't shift it offshore. And of course we're not saying that Vodafone is paying their fair share, but just judging on what they declared, that has already had a huge impact with children and women and whole societies where they're operating, which is really good. The other interesting thing that we observed is that the more income governments have, the better the governance is as well, so there's sort of a virtuous circle between the relationship between government revenue and governance, which then also then has another positive impact on governments being able to deliver public services and use money efficiently, whether it's raised through tax or through borrowing or other ways that the government generates income."

Naomi: "Yeah and we know from your report that in lower income countries, even a small increase in government revenue does have a massive impact. I should say that that's why the Tax Justice Network's really supportive of non-profit public services, right, whether that's state run or cooperative run, and I think you only have to look at the poor value for money that people in the United States get for healthcare access to see how important that is. Also, corporate tax is particularly important to lower and middle income countries because they get more of their share of tax revenues from that than in OECD countries, for example, where they have other tax bases to tax from, you know, like income tax?"

Eilish: "Yeah. Very sadly, in lower income countries, many individuals don't have access to their fundamental rights or survival rights. Clean water, sanitation and quality education, which we know have been the most pivotal reason for increased survival rates over recent years. Everyone should have access to these rights in every country. And tax revenue is so important in these countries because it does increase access to these rights and the most realistic, feasible short to medium term solution for individuals to access these rights is through corporation tax, over any other form of tax."

Rachel: "Mm. And so using the University of St. Andrew's and the University of Leicester's GRADE model, the government revenue and development estimations model, we find that an increase in revenue has a far greater impact for the number of children being able to attend school than in a richer country. So, an increase in corporate income tax just has a far greater impact for people and children being able to access their fundamental rights."

Eilish: "Yeah. Because it's - a lot of the rights they don't have access to are cheaper than say it would be to increase survival rates in a higher income country."

Naomi: "And something that comes up a lot in many countries is there's a lack of trust in a tax system and in the governments that administer the tax system. There's a popular belief, and not just in lower income countries, that taxes paid won't actually translate into better services for ordinary people. I mean, people often don't have a lot of trust that taxes will actually translate to a better life for them and that the state will use revenue in the public interest. What you would say to that?"

Eilish: "And it's a really good question because that's always the question that comes up, is government effectiveness. And so we've done some recent research looking at this, that has shown that increasing government revenue through tax does increase government effectiveness, and that's supported by other studies. I mean, it does take time, so there's a lag effect but you know, there's multiple reasons why it does improve government effectiveness. So we know when they spend more on education, an educated populace will hold their government to account more."

Naomi: "Yeah, this question is really all about one of our five Rs of tax, where we talk about representation being such an important aspect of tax in terms of building trust between the state and the people who live there. Improving representation is often a very neglected function of tax, but it's so important. It's very encouraging for us all to see that a large company like Vodafone is paying taxes into the system though isn't it?"

Rachel: "Yeah, it's really hard, isn't it? 'cause if you see it as, I guess the, the state public purse as a bucket and you feel like you're putting money in it, but it's got holes and it's coming out, it's really hard to be motivated to pay tax. And I feel that on a personal level, even though I so deeply and fundamentally believe in tax justice, and tax justice is part and parcel of the same coin about the need to have tax justice, but we also need to have justice in expenditure, which has an impact on effectiveness. And I think those really go hand in hand, and yeah, as the research does show, increase in government revenue does have a positive impact on governance or government effectiveness, and therefore eventually on public services, it takes a long time, but it is a virtuous circle."

Naomi: "Yeah, and again, it's also about keeping the profit motive out of the public realm, profits from things like water and health really degrade that belief and trust people have that governments can act in the public interest when it comes to tax revenue. We've seen that slow degradation of trust in the UK as the public service space has been squeezed harder and harder and opened up to private interests."

Rachel: "Yeah taxes save lives and our paper shows that, I mean taxes mean that more children go to school, can drink clean water, more mothers survive - this all contributes to sustainable development goals and to societies in a way the way where governments remain sovereign, I think that's really important that a lot of the companies historically have talked a lot about their corporate social responsibility and have talked up all their investments in schools in the area where they're working, like mining projects investing in schools, investing in farming cooperatives, is all really good and important, but if companies aren't paying their fair share of tax and are actually just shifting the profits out of the countries, it means that governments are losing their revenue, losing their right, their sovereign right to decide how to use taxpayer's tax money and determine how to allocate it best for the nation and government knows best, not companies."

Naomi: "Yes, all that can take a very long time, for sure. But I think we can all agree here that if you're a politically powerful wealthy country, you're probably a member of the OECD, you have a responsibility to the rest of the world to make sure that any multinational company that is headquartered in your jurisdiction must do country by country reporting publicly. And if you're not making that happen, then as I said earlier, you do have blood on your hands, because you're not doing all that you can to uphold the rights of people, not necessarily people in your own population, obviously that's important, but people who are living elsewhere too. And there is that duty - a legal duty - on governments in those wealthy countries where so many of these multinationals are headquartered."

Eilish: "A hundred percent. I think the world needs to start looking at tax as a human rights issue. As this paper's shown, fair tax saves lives, tax abuse costs lives. And as you say governments don't only have a duty to respect, protect and fulfill rights in their own jurisdiction, they have extra territorial duties as well to protect human rights abroad. And if a corporation that they have under their jurisdiction is undermining those rights, then they have an obligation to do something about that. And also the corporation has a duty to respect those human rights by supporting those governments in those countries by paying their fair share of tax, so yeah, in not tackling tax abuse, corporations are failing in their human right duties, host countries - they're failing in their human right duties and definitely home countries, like the higher income countries are a hundred percent failing in their human right duties."

Naomi: "Yeah. Nearly all of them have signed up to the UN's Convention on Human Rights and to support the sustainable development goals. So that is the way to do it!"

Eilish: "Yes. The only thing I would add is, you know, we've talked very much about the impact of tax in lower income countries, but, you know, it also does impact people living in higher income countries as well. The Tax Justice Network show that people who are living in higher income countries, they lose 8% of their health budget each year because of tax abuse, so while we facilitate it, we're also kind of shooting ourselves in the foot in doing that as well, and, you know, higher income countries, we do still have our own issues, we've got increasing health inequalities, the most deprived in the UK, their life expectancy is now going down, and increasing our revenue through tax would help with that!"

Naomi: "Yes indeed. We need governments everywhere and their finance ministers to be on the right side of history here. Public country by country reporting will save lives. You've been listening to the Taxcast from the Tax Justice Network. For more information on this and other issues, go to our website www.taxjustice.net Thanks for listening. We'll be back next month. Bye for now."