# A conversation with Alex Cobham and Will Snell, March 22, 2019

## Participants

- Alex Cobham – Chief Executive, Tax Justice Network
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**Note:** These notes were compiled by GiveWell and give an overview of the major points made by Mr. Cobham and Mr. Snell.

## Summary

GiveWell spoke with Mr. Cobham and Mr. Snell of Tax Justice Network (TJN) as part of its investigation into opportunities to improve policy in low and middle-income countries (LMICs). Conversation topics included TJN's goals and the potential impact of those goals, progress in tax justice reform since the early 2000s, methods of measuring progress and TJN's impact on that progress, and two tax justice reform case studies.

## Tax justice reform

### The problem

Multinational corporations may avoid taxation through profit shifting, a practice through which they shift profits earned in higher-tax jurisdictions to lower-tax jurisdictions. The tax revenue losses caused by profit shifting disproportionately affect LMICs. The International Monetary Fund (IMF) estimates that profit shifting causes LMICs to lose about $200 billion a year in tax revenue.

Wealthy individuals may evade taxation by holding undeclared income and assets in offshore accounts, which causes countries to lose the revenue that should be earned through income taxes and capital gains taxes. Though data on the extent of this practice is limited, some data does exist from global-scale analysis and from Swiss Leaks, a 2015 journalistic investigation that revealed a tax evasion scheme by the multinational bank HSBC. This data suggests that the tax revenue losses caused by offshore accounts, like those of profit shifting, are disproportionately experienced by LMICs, where a larger share of gross domestic product (GDP) is held offshore. Undeclared offshore accounts cause LMICs to lose an estimated $100-$200 billion a year in revenue, though the true figure could be significantly higher.

### TJN's goals and theory of change

TJN promotes a policy platform comprised of the "ABCs" of tax justice:

1. Automatic Exchange of Information
2. Beneficial ownership transparency
3. Country-by-country reporting (CBCR)

TJN also works to change the narratives through which people understand international taxation. For example, it aims to replace the perception that financial corruption is primarily a problem in LMICs with the more accurate view that the financial secrecy provided by typically high-income countries (HICs) facilitates financial corruption in other countries. These narrative shifts are the core component of TJN's theory of change.

Narrative shifts are important because they contribute to awareness of tax justice issues and support for policy changes. Without such engagement from the public and the media, policymakers may be unlikely to consider such policies, or those policies may be unlikely to be implemented. In the United Kingdom in 2018, Members of Parliament Andrew Mitchell and Margaret Hodge led a parliamentary campaign to add an amendment to the Financial Services Bill that would require all overseas territories and Crown dependencies to create public registries of beneficial ownership. However, this campaign received little attention from the public and the media, and after the government conceded that it would require registries to be created by 2020, it extended the deadline until 2023. This example illustrates that the tax justice policy platform is unlikely to be realized if it is not supported by narrative shifts and resulting public engagement.

Further, while implementation of TJN's policy platform would significantly reduce global inequalities in taxing rights in the medium term, there is no finite set of policies that would maintain tax justice indefinitely. Instead, narrative shifts are more likely to maintain tax justice over the long term. This is because such shifts will continue to influence the new policies that are inevitably implemented over time in response to global economic developments, such as the development of cryptocurrency or changes in regulatory competition.

## Potential impact of tax justice reform

Tax justice reform has the potential to impact the four functions of tax, which are revenue, redistribution, repricing, and representation.

### *Revenue*

Taxation provides governments with revenue. It is important for the governments of LMICs to earn tax revenue so that they can provide services that support human development. It is difficult to predict how much increased tax revenue countries would receive if tax evasion practices ceased. The increase would vary between countries but would not exceed a few percentage points of the country's GDP. This increase would cause the country's tax-to-GDP ratio, or the ratio of that country's tax revenue relative to its GDP, to rise.

The impact of an increased tax-to-GDP ratio would also vary between countries. HICs would not need to rely as heavily on regressive forms of taxation and could thus implement more progressive forms of taxation, but they would not otherwise be significantly affected. In contrast, this increase could dramatically affect the economic trajectories of LMICs. The IMF has found that there is a tipping point in a country's economic trajectory when its tax-to-GDP ratio rises to about 15%. Below this point, the ratio is often stagnant, and the country remains in low-income status. However, once the ratio hits this tipping point, it often continues to rise, and the country can progress to middle-income status. Even a slight tax revenue increase in LMICs with tax-to-GDP ratios of around 10-15% could move them past this tipping point.

*Redistribution*

Taxation can be used as a mechanism for redistributing wealth and income. National and international tax policies affect the ability of national governments to levy direct taxes on incomes, profits, and capital gains. In HICs, most redistribution occurs through this direct taxation. This is not usually the case in LMICs, both because their governments may be discouraged from levying direct taxes and because international tax policies may actually hinder their ability to do so. Enabling national governments to levy direct taxes would lead to greater redistribution and decrease both vertical and horizontal inequality.

*Repricing*

Taxation can be used as a mechanism for repricing goods, such as tobacco or carbon-based fuels, to capture their social costs or benefits. The can affect the consumption of these goods.

*Representation*

TJN believes that representation is the most important and under-appreciated function of taxation. Because taxpayers are aware that they are funding government spending, they are incentivized to hold their government to account. This causes the government to spend money more effectively and, over time, causes its overall effectiveness and accountability to improve. Consequently, the proportion of tax revenue in total government spending is one of very few measures that is consistently associated with improved governance and political representation and reduced corruption. Some evidence suggests that direct taxation has a stronger relationship with representation than indirect taxation because direct taxes are often more salient.

TJN published a paper with a collaborator from the Overseas Development Institute about the impact of tax structure on public health. The paper found that when government spending is more tax-financed, a higher proportion of that spending is directed to public health. This finding suggests that tax revenue is more likely to be spent on services that taxpayers value. The paper also found that when public health spending is more tax-financed, it is more effective (measured through health indicators such as maternal and child mortality) and inclusive (measured through health system coverage, particularly of marginalized groups). Crucially, this is true across levels of spending.

Citizens do not demand the same level of effectiveness and accountability when a large proportion of government spending is funded by non-tax sources, such as natural resource wealth, foreign aid, or borrowing. Foreign aid that is explicitly directed to public health may increase public health spending over the short or medium term. However, it is possible that governments that receive aid will simply redirect the money they would have spent on public health to other areas. Thus, TJN believes that the best way to increase spending on public health over the long term is to increase government's effectiveness and accountability through taxation. For this reason, TJN believes that over the long term, representation has an even greater impact on a country's trajectory than revenue. More research is needed on this topic.

## Progress

### Narratives

In the early 2000s, interest in tax justice issues began to grow. This was precipitated by the publication in 2000 of several key reports and by increasing engagement from expert professionals, academics, and activists with the social justice perspective of taxation, rather than only the technical perspective. TJN was founded in 2003 as a result of this growing interest.

Narratives about taxation have changed gradually but significantly since TJN was founded. At that time, popular narratives about international taxation conflicted with TJN's goals. Common responses to the issue of multinational tax avoidance were either skepticism that the practice existed at all or concern that increased taxation of multinational corporations would harm workers or consumers—a concern informed by the belief that tax avoidance is a good business strategy. As a result of such narratives, interest in tax justice issues from policymakers, the media, and civil society organizations was low or nonexistent.

TJN spent the next four years working to change these narratives. Over the course of six months in 2007, it supported three journalists from The Guardian in conducting an investigation into multinational tax avoidance. Finally, at the end of 2007, The Guardian published the first major reporting on multinational tax avoidance.

Now, news stories about tax avoidance by wealthy individuals and multinational corporations are common. Many people recognize that this is a problem and that it disproportionately harms LMICs, and in many countries, policymakers express opposition to these practices.

### Policy

The narrative shifts that have occurred since the early 2000s are important because heightened awareness encourages policymakers to consider policies to address tax justice issues. Accordingly, progress since the early 2000s on the tax justice policy front has been significant. TJN's policy platform has become part of the global political agenda, though it has yet to be implemented in a way that fully addresses the harms of tax avoidance, particularly those experienced by LMICs. Even after full implementation, these policies will require ongoing refinement as wealthy individuals and multinational corporations find new methods of avoiding taxation.

## Measuring progress

### Narratives

Measuring changes in popular narratives about taxation and financial corruption is difficult, and TJN has not yet identified the most effective methods for doing so. It is considering a few methods, including:

- **Polling —** There is very limited time series data on public opinion that could help TJN measure changes in popular narratives about taxation. In a few countries, public polling on questions relevant to tax justice has been conducted over time. The World Values Survey also contains some relevant questions, though they aim to measure national tax morale rather than perceptions about tax justice and thus may not provide useful data about tax justice narratives. TJN has not decided if it will use either of these sources for its research, as both are potentially promising but have limitations. It may be able to use this data to demonstrate global changes in narratives about taxation and financial corruption, but it is possible that national variations may dilute any broad trends.
- **Media archives —** TJN could review mainstream and international media archives to track how the language used to describe taxation and financial corruption has changed over time. Recently, TJN started using Signal, a media monitoring system that uses artificial intelligence to track key words. Over the next few months, TJN plans to test this system to assess its effectiveness in measuring changes in popular narratives.
- **Policy documents —** The language used to describe taxation and financial corruption is clearly and significantly different in the policy documents for the Millennium Development Goals (MDGs), established in 2000, and the Sustainable Development Goals (SDGs), established in 2015. However, these differences provide stronger evidence for changing perceptions amongst policymakers about TJN's policy platform, and only weak evidence for changing perceptions by the general public about tax justice.

### Extent of illicit financial flows

There is no consensus on how to measure progress on the SDG target of reducing illicit financial flows. This is because selecting indicators is both technically and politically challenging. Opinions differ on the strength of different methodologies. Those that are widely favored have succeeded in advancing tax justice in the global political agenda, but they produce estimates that are too rough to be used to track global trends over time or to inform national policymaking.

TJN has been working with the United Nations Conference on Trade and Development and the United Nations Economic Commission for Africa (ECA) to address the technical challenges of measuring progress. It has proposed indicators to measure two practices:

1. **Profit shifting —** What is the degree of misalignment between the location of multinational corporations' profits and the location of their real economic activity?
2. **Offshore accounts —** How much undeclared income and assets are held in offshore accounts by wealthy individuals?

TJN's goal is for these indicators to produce sufficiently reliable and precise estimates that can be used to track global trends over time and to inform national policymaking. This year, TJN will work with the ECA to conduct country pilots and test the two proposed indicators. TJN expects that these indicators will produce global-level estimates by 2022 and hopes that they will enable annual tracking at both global and national levels for the remainder of the SDG period, until 2030. The delay in developing indicators to measure targets that were established in 2015 reflects the difficulty of this work, but TJN notes that significant progress has already been made.

TJN will also publish a book with Oxford University Press in late 2019 or early 2020 that evaluates all available estimates of the extent of illicit financial flows. This book is intended to contribute to the literature on this topic and to guide policymakers, researchers, and activists through all existing estimates, data, and methodologies. It will identify the strengths and weaknesses of different data types and methodologies and make suggestions for future research. This kind of comprehensive review does not yet exist in the field, which has experienced a recent outpouring of research but has not yet been able to determine if the extent of illicit financial flows is changing.

## Measuring TJN's impact

It is difficult to determine how much of the progress made in tax justice reform can be attributed to TJN's work. This is particularly true of progress made on the narrative front, as even measuring that progress itself is difficult. In comparison, TJN feels more confident attributing a large amount of progress made on the policy front to its work. This is because TJN has been a primary advocate for each element of its policy platform, and it wrote the original policy proposals for some of the elements. It notes, however, that the evidence informing this attribution is more descriptive than quantitative, as many individuals and organizations have contributed to the advocacy of this policy platform.

In the next few months, TJN plans to publish a cost-benefit analysis of its work promoting the "ABCs" of tax justice and associated narrative shifts. To perform this analysis, TJN roughly estimated the global financial benefits of that policy platform, the amount of progress that can be attributed to its work, and the costs TJN incurred for this work. This analysis will also include a process evaluation of TJN's work.

This analysis is deliberately rough and is intended to generate interest from evaluators and researchers to perform a more robust analysis, which TJN aims to perform in 2020 or early 2021 and is currently designing. TJN plans to include comprehensive cost-benefit analysis, case studies, and attribution analysis of progress made on both the policy and narrative fronts. TJN hopes that performing this analysis will strengthen its ability to evaluate progress and attribution over time and will provide guidance to other organizations wishing to conduct similar analyses.

## Case studies

Two example case studies demonstrate both the significant progress made in tax justice reform and the difficulty of attributing that progress to various contributors.

### Progress of CBCR

In the 1960s and 1970s, a group of developing countries first introduced the idea of CBCR as a source of transparency for multinational corporations. This idea was promoted during United Nations (UN) discussions but was abandoned until 2003, when TJN reintroduced CBCR as a draft International Accounting Standard. Over the next ten years, CBCR received significant criticism from many sources, including the International Accounting Standards Board, which considered but then rejected the idea. Finally, in 2013, the G20 mandated that the Organisation for Economic Co-operation and Development (OECD) produce a CBCR standard. The OECD's standard is similar to TJN's original proposal, but it allows for data to be given privately to tax authorities instead of published. Because this process primarily benefits OECD and G20 countries, rather than LMICs, TJN continues to promote publishing CBCR data. Thus, while more work is needed to improve CBCR, significant progress has occurred in advancing this policy at a global level.

This case study is relatively uncomplicated because CBCR policy was originally drafted by TJN and because it passed through the G20, which is a smaller body than other international organizations such as the UN. Nevertheless, it would be difficult to precisely attribute the progress of this policy to its various contributors. By 2008, the tax justice reform movement existed at a global level, and policymakers were aware of CBCR. Then, the 2008 financial crisis generated much broader public engagement with this movement in many countries, which led to deeper engagement from policymakers in several G20 countries, eventually leading to the G20's 2013 mandate. Other contributors included development-focused non-governmental organizations in the United Kingdom (UK) that promoted CBCR to the UK government, which chaired the G8 summit in 2013. Quantifying the impact of these contributors would require answering many questions about the context of each of the G20 and G8 members, including: How engaged were citizens, policymakers, and the media with tax justice reform issues? To what extent was this engagement focused on CBCR? Who or what was the source of that engagement with CBCR? Quantifying TJN's impact would be similarly difficult, as its involvement and that of its partners varied by country.

### Shift from MDGs to SDGs

Between the MDGs, established in 2000, and the SDGs, established in 2015, there is a clear shift in the narratives about international taxation. The MDGs do not focus on tax justice reform issues and identify corruption in LMICs as the cause of suboptimal development outcomes. In contrast, the SDGs identify illicit financial services, which are facilitated by the financial secrecy provided by HICs, as the cause of suboptimal development outcomes. They also identify the importance of international cooperation in addressing tax evasion by multinational corporations.

It would be significantly more difficult to attribute this progress, which reflects a global shift in tax justice narratives, to its various contributors. TJN attributes much of the progress to a 2015 report on illicit financial flows delivered by the High Level Panel on Illicit Financial Flows from Africa, which was established in 2011 by the African Union and the ECA and led by former South African president Thabo Mbeki. This influential report led OECD countries to engage more deeply with tax justice issues, which they may have been more open to considering due to the aftermath of the 2008 financial crisis.