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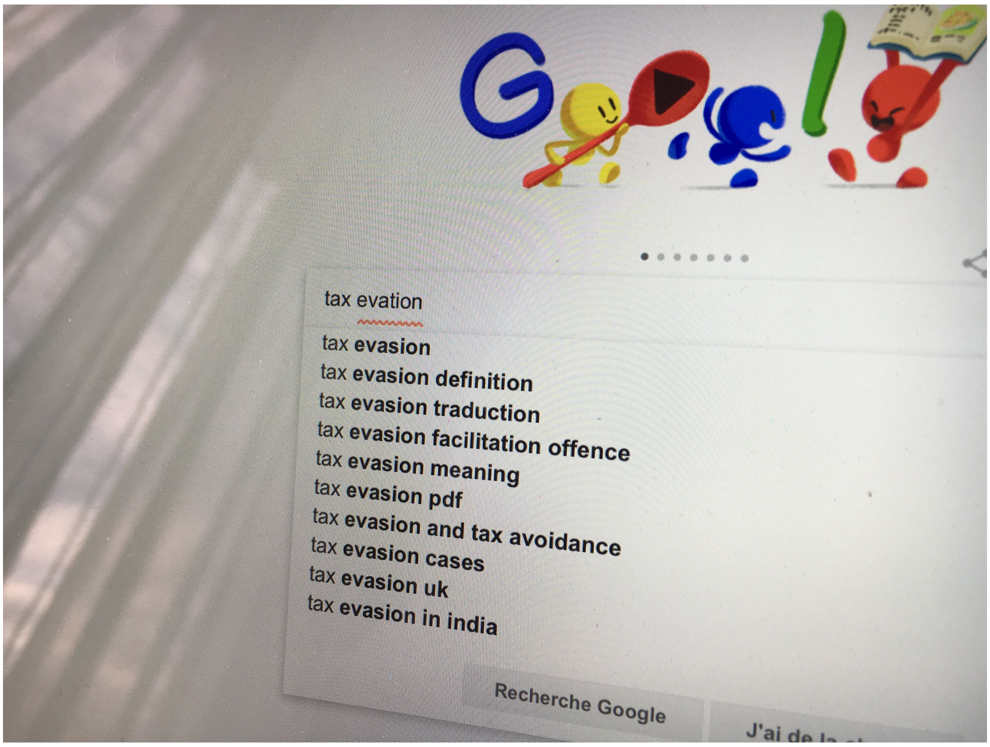
How tax evasion reinforces financial power, weakens public institutions and policies and perpetuates dependence

Luxleaks, Swissleaks, Panama papers, Paradise papers : every day brings revelations on the size of tax evasion resulting from the existence of tax havens and from the massive use of transfer prices by multinational companies and their leaders, some of whom are actively involved in politics.

In October 2015, during the launching of its programme to fight cross-border tax evasion, the OECD (Organisation for Economic Co-operation and Development), the rich countries' club, believed that international tax fraud represented every year forgone tax revenues of more than $240 billion.



Examples are many that illustrate the capacity of large multinational companies to exploit loopholes in national tax systems to "optimise legally" their tax payments, even within the European Union. For example, some of the GAFAs have successfully negotiated ridiculously low tax rates on their gigantic profits in Ireland or Luxemburg [read]. In France, the energy giant Total that made a total turn-over of USD184,7 billion and a profit of USD12 billion in 2011, only paid EUR1.2 billion tax that year, of which only EUR300 million of corporate tax, while it had not paid any corporate tax in 2010! [read]
The deficit in tax collection has implied either more austerity in budgets and in public expenditure (in particular for social expenditures) or more debt which tends to weaken States, or, in many cases, both. [read in French]

Forgone revenues also imply an increasingly close blending of public and private funds in the domain of international aid. This blending consists in supporting private investment with public funds [read], either through plain and simple subsidies [read in French] or by the signing of public-private partnership agreements [read].

The vacuum created by State impoverishment attracts towards development finance various new operators that have access to large funds and are on the border of private sector and philanthropy [read]. This is all the more true, as the achievement of the SDGs (Sustainable Development Goals) will require around $2.5 trillion annually until 2030, a gigantic amount which represents half of annual investments made in the world, but only a small fraction of the financial capital flowing around the world.

A good example of this type of operator is the Rise Fund that declares that it "*is committed to achieving social and environmental impact alongside competitive financial returns".* The fund was created by Bill McGlashan, a partner at the private equity firm TPG (that manages a fund of $73 billion); Bono, the musician, activist and investor; and Jeff Skoll, former president at eBay who heads several investment funds and one foundation. This fund also seeks "*to partner with creative entrepreneurs and build successful businesses*" and it invests in the areas of food and agriculture, education, financial services, health services, technology and infrastructure. It is representative of the growing influence acquired by private finance in the development of public goods and in funding of development.

If on the one hand, it is good to see an increased volume of funding available for investing in public goods and development activities as well as in areas that without blending would be too risky to attract private funds, one can worry, on the other hand, about the consequences this will have in terms of the priorities and the philosophy underpinning the provision of these goods and the implementation of these activities. It is worthwhile here to remember that private investment is first and foremost driven by profit. The fact is that making profit generally requires either to reduce operating costs or to increase the price to be paid for the goods and services produced, and - often - both. In all cases, these approaches are likely to cause exclusion of the poorest population groups. Two examples illustrate this idea:

- In domains as different as agricultural product marketing or agricultural extension, reducing costs is likely to imply that the funded programme will tend to deal preferably with larger producers or large producers associations rather than with small isolated producers who, therefore, risk to be excluded from the services provided;
- Road construction, because of the need for recovering costs, will involve the collection of a fee (toll) that carries the risk of excluding poorest population groups who will therefore not be allowed to benefit from the advantages created by a new road and will even see the preexisting roads they use degrade because of lack of maintenance and neglect.

Moreover, these financial partnerships may be considered as a type of subsidy that creates opportunities for increasing sales to poor countries of technologies developed in rich countries that either are no more competitive on rich country markets or have already saturated them. They may also, in some cases, compete with local companies in poor countries with increasing technical capacities who could otherwise have developed technologies better tailored to local conditions, but that cannot do it because of a biased, if not unfair, competition. Such a situation will then imply the artificial protection of a technological dependence of poor countries on companies based in rich countries.

Finally, the arrival of private funds in so-called “development” programmes may also have considerable effects on policies implemented in poor recipient as well as rich donor countries.

In the case of poor recipient countries, the emblematic example is the effect that the Rockefeller and Gates foundations had on health policies. A report published in 2016 by two German NGOs entitled “Philanthropic Power and Development - Who shapes the agenda?“ on which we have already reported on hungerexplained.org [read] showed how activities carried out by these two foundations led to a weakening of national health systems and an excessive allocation of funds to vaccination programmes that have seen their costs increase extravagantly to the profit of pharmaceutical companies (the cost of immunisation saw a 68 fold increase between 2001 and 2014!).

As for rich countries, it is their international cooperation and aid policy that was progressively modified. This change led to a decrease of budgets available to support public organisations and non-market public goods in poor countries, while funds for promoting investments by private companies originating from donor countries increased rapidly.

Changes observed probably are an expression of the application to international aid of the market and profit principle that goes along with a generalisation of financialisation of the economy. This financialisation is expressed by a rapid increase of presence of large financial operators in emergency programmes (distribution of financial support to poor population groups through cell-phone based applications) and, more generally, through the expansion of the provision of financial services that can certainly be useful to “clients” as long as costs remain modest, but that also contribute to the fulfillment of the vital and irrepressible need of market expansion that characterises capitalism since its emergence.

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To know more

- C. Cheney, Beyond aid: Insights from Social Capital Markets on achieving the SDGs, Devex, 2017
- « S’il n’y avait pas d’évasion fiscale, il n’y aurait pas de problème d’équilibre des finances publiques », Le Monde, 2017 (French)
- S. Bowers, Google pays €47m in tax in Ireland on €22bn sales revenue, The Guardian, 2016

Earlier articles on hungerexplained.org related to the topic:

- The World Economic Forum’s “New Vision for Agriculture” is moving ahead on the ground…, 2017
- How “philanthropic” is global philanthropy? 2016
- Intergenerational equity is possible, provided there is a fundamental change in the principles that govern the world, 2015
- Bringing people out of poverty by connecting them to the global economy: USAID’s Global Development Lab, 2014
- Le «Blending»: formule magique pour mobiliser plus de ressources pour le développement ou subvention à l’endettement?, 2013 (in French)
- Insufficient support to agricultural development, 2013

- Exclusion, 2012.