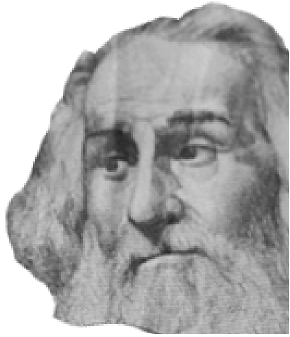
Talking taxes

Fiscal policy matters

Contents

Education International and PSI co-operation
Education International (EI) and PSI have agreed to publish jointly in areas of common interest and we have identified a number of areas where future publications could be jointly developed. However, there were one or two publications, including this one, which either EI or PSI had virtually completed at the time of the agreement and which should not wait for revision. This PSI publication is fully endorsed by EI, which will send it to its affiliates.



Introduction

Public sector workers around the world now face similar problems brought about by global forces. All of these forces converge in the area of public finances. If we are to understand and change what is happening in the public sector, we must understand how public financing works. We must also agree on and develop ways to highlight the issues and develop solutions. Not only our jobs, but the sort of society we live in depends on it.

In recent decades global pressure has pushed nations towards “smaller government”. This pressure results from huge increases in international trade and economic competition between countries, linked to policy obsessions with inflation rather than with employment. The smaller government movement has meant pressure to lower taxes and therefore to reduce spending on services. As a result we face problems such as cuts and denial of access to many public services, public sector job losses, privatisation and the increasing influence of transnational corporations (TNCs).

The issues centre on the need to ensure there are enough taxes to pay for public facilities and programmes. The solutions include fair tax policies, co-ordination rather than competition between countries and finding ways to fight tax evasion. Union campaigns are the way to achieve these changes. This is a guide to help make this happen.

What is fiscal policy?

Fiscal policy is about taxes and how they are spent. It is the ways used by a country to raise income (through taxes and charges) and to decide how much and in what way it is spent (on schools, defence, social security, etc.). The amount and manner of raising income through taxes is a major fiscal policy issue. So is the amount and nature of government spending.

Why tax?

Governments tax for three main reasons:

- to guarantee the security of the state (without income a country would have no defence against external or internal threats);
- to guarantee the security of the people (this means making sure that all people can have a decent life);
- to redistribute wealth.

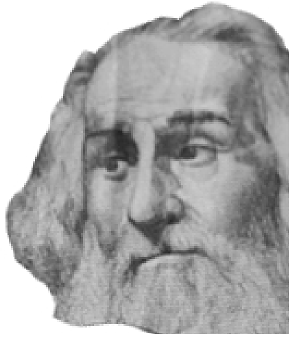
These reasons are inter-related. If governments do not redistribute wealth through taxation, then the gap between rich and poor widens. This leads to civil unrest, personal insecurity and is also a danger to the state. How to collect enough tax fairly is the basic fiscal question.

Redistributing wealth

There are two kinds of wealth redistribution:

- one that helps people spread their total life income over their entire life, including the periods of childhood and old age when they might earn nothing;
- one that redistributes wealth between the poor and the rich.

PSI and its affiliates believe in fair and adequate taxation, so that public goods and services can be provided effectively, efficiently and equitably. The need to combat tax evasion is critical to social justice.



Spending taxes

In redistributing wealth, a government must ensure the provision of certain goods and services. PSI policy is that these goods and services, whether delivered publicly or privately, must include :

- water, sewerage and energy and transport and communication facilities;
- housing;
- a full range of public health services and social security for all citizens at times of need;
- educational, training and employment services;
- protection of the natural environment consistent with sustainable development;
- police, defence, firefighting and a fair legal, justice and penal system;
- economic and social policy advisory services;
- cultural and recreational services, including broadcasting, public parks and national parks;
- institutions for international relations and foreign trade;
- banking, financial and insurance services;
- regulation and support of business and commerce;
- agricultural advisory and support services;
- taxation systems and services.

Tax competition

A particular problem facing many public sector workers today is the tax competition between political parties and between countries. Parties offer more and more tax cuts at election time, even if these will mean fewer public goods and services. Parties which stand for high taxation are often seen as political lemmings. The taxation of companies is also competitive. If a nation has high business taxation there are other countries which will cut tax rates to attract investment. This has become an important factor brought about by the expansion of transnational companies (TNCs). Both these aspects of tax competition have led to tighter squeezes on public sector budgets.

This in turn results in job losses, cuts in services, less funding, less quality services and more incentives to privatise.

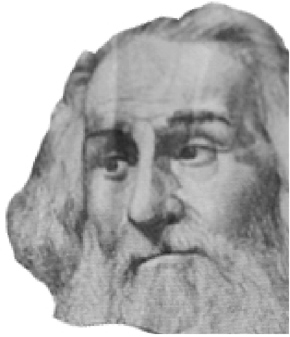
Fair taxes

A fair tax system is essential for the delivery of good public services. By fair we mean that people who can afford to pay should pay more. Those who can least afford to pay should pay least. Direct taxes (like income tax) are usually fairer than indirect taxes such as consumption taxes and other charges. This is because different rates of income tax can be set to fit different income levels. With indirect taxes everyone pays the same rate regardless of their wealth. The problem is that direct (income) taxes are easier for the wealthy to avoid, whereas indirect consumption taxes are harder to avoid paying. This is a debate which has to be settled on the basis of the full national situation.

Dirty money

Most countries have lost control of a large part of their flows of wealth. It is becoming extremely difficult to find out how much tax revenue is lost due to poor co-operation at the international level. This is made worse because governments compete with each other in tax measures and do not co-ordinate internationally. Institutions such as the World Bank and the International Monetary Fund have not helped. In many poor countries, their programs have cut state income before any fair and sustainable tax systems have been put in place.

Lack of government control and regulation inevitably leads to 'dirty money' and Mafia-style power moving in. This dirty money is undermining democracy where it is established and preventing its development in other countries. This has meant a sharp increase in inequity. As the spending power of the weakest members of society falls, so tensions in society grow and simplistic, extremist ideas flourish. Banking secrecy adds to the problem of dirty money because lost or avoided taxes can be transferred to secret accounts and never recovered.



These harmful effects of globalisation must be fought. There is a real need to develop the public authorities' regulatory and supervisory roles - internationally, nationally and sub-nationally (at the state, provincial, regional or municipal level).

Towards adequate taxes

Taxes are necessary because they pay for facilities so that all citizens can enjoy their basic rights. In many poor countries these services will often only be developed with the help of aid and development funds. These either come directly from rich nations or indirectly through international financial institutions. In both cases, the source of these funds is taxation, largely from workers.

Taxes are also essential for the redistribution of income and wealth. More public exposure should be focused on companies which proudly trumpet their ability to avoid taxes in their annual reports. It should be an aim of trade union campaigns to make companies wary of bragging about their tax avoidance. Companies are very sensitive about their compliance with laws on the environment or sexual and racial discrimination. They must be pressured likewise on tax payment.

A reasonably high level of taxes is inevitable, for several reasons:

- budgetary problems have not been solved in many countries. The World Bank and the IMF have put some countries in positions whereby they cannot generate the income they need to pay for their expenditure;
- the maintenance of social security systems (usually funded by general taxation to some degree) also requires reasonably high tax rates. The growth of poverty and divided societies of rich and poor in the absence of such systems is both unjust and unproductive;
- there is a growing demand for public services such as security and the environment. This cannot be fulfilled on the basis of low taxes;

- nations cannot protect the competitiveness of their economies without significant public expenditure to maintain and improve the existing infrastructure of facilities and services.

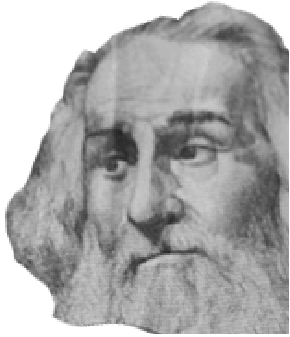
There is a strong arguable relationship between high taxation and high employment. A recent Swedish trade union-sponsored study shows that not only does low taxation reduce employment levels, but the unemployed are hit hardest by user-pays charges on degraded social services.

Checklist

OK. So there must be adequate levels of taxation. But there must also be measures aimed at increasing fairness of application. The PSI has developed an equity checklist on this.

To meet this checklist, taxes should be:

- based on each person's ability to pay. All too often the wealthiest avoid paying taxes; for example, by setting up asset management companies or foreign trusts;
- collected evenly throughout countries and regions, so that companies cannot relocate or set up subsidiaries in havens such as tax free economic export zones;
- evenly applied to all forms of income. Generally taxes on wages are higher than taxes on income from property or assets. Little or no tax is charged on capital. Public sector workers suffer most in countries with large informal sectors if only formal sector incomes are taxed. Income from social security benefits should also be taxed. While some unions regard this as controversial, there are strong arguments for it, based on the notion of equity;
- applied to all those who live in a country. It is possible for some people and companies to so arrange their affairs that they do not 'reside' in the country for tax purposes. Yet they do live in the country and use its facilities. Union members need to make themselves familiar with these issues as they relate to their own country;



- transparent. This means that people should be able to easily see how the taxes are spent and that they comply with budget decisions which are publicly available. France, for example, provides such information for all income tax payers. Unions might consider including this in their fiscal campaigns.

Key union demands on fiscal policy

These are the key demands of fiscal campaigns which can be developed in every country and co-ordinated by the PSI:

1. Integrated policy

Each country needs a centralised tax fraud service. It would be responsible for international co-operation on tax fraud and would provide international tax policing to deal with international crime.

2. Co-operation on the underground economy

In both rich and poor countries trade unions should insist on working with governments to reduce the "underground" (or "informal") economy. The informal economy brings about two results: it raises the level of taxes which are levied on the narrow tax-base of formal employment; and it also undermines the wages and conditions of organised workers. This in turn further lowers the total tax take. There are good trade union reasons for co-operating on this too. It is better to have people organised in the formal economy as part of the union movement.

3. Best use of resources

Governments must provide more effective and comprehensive training for tax officials. Training needs include:

- international techniques of tax evasion;
- languages of major trading partners;
- policies and structures of the tax authorities in their main trading partners;
- public relations and training in giving assistance to the public;
- modern technology and systems for tax administration.

Countries must pay tax officials fair competitive wages so that governments do not lose their skills to the private sector. They must also increase the motivation of officials who have the unpopular task of control, so that they acquire a true anti-fraud culture.

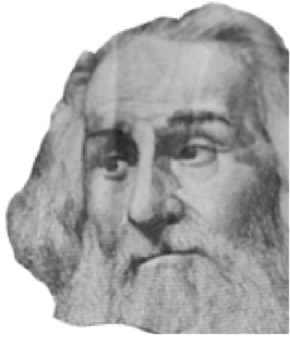
Making the maximum use of information technology is essential to co-ordinate communications effectively. The European Union FISCALIS programme is worth considering as a training model and best practice.

4. Introduce asset registers and asset taxes

European countries, which now have annual taxation of assets, include those with the highest level of economic and social well-being (Germany, Sweden, Norway, Luxembourg, Austria, France).

Countries which do not have such a tax are at the bottom of the economic and social indicators. In countries which do not have this form of taxation, unions should demand its introduction, subject to two conditions:

- the tax must apply only to those with assets substantially more than needed for an average standard of living;
- governments must find a way of setting up an asset register that covers real estate, financial deposits, bonds, shares and securities. Both individuals and companies must be subject to asset tax.



This is essential if public life is to be more morally based and if governments are to be seen as being genuine about pursuing equity in funding the state.

5. Harmonisation

This means that there should be consistent rules, descriptions and policies to do with taxes and tariffs. The level of taxation or tariff then becomes a matter for easy comparison between and within countries. The process of internationally harmonising accounting rules must be speeded up. Mutual recognition agreements between countries on taxation, tariff and accounting policies and mechanisms should be encouraged.

6. Co-operation between governments

More political initiative must be taken to prevent competition between governments, which pushes tax rates downward across competing countries. A system of direct taxation of speculative capital movements is also needed, otherwise the world monetary system will continue to be unstable. Such a tax could be used to finance UN activities and the protection and promotion of the oceans and the atmosphere, which are critical to the entire world.

7. Remove taxes on human labour

Governments should develop tax systems which do not penalise labour (e.g. payroll taxes) but which instead tax the use of non-renewable resources (e.g. oil) and undesirable forms of production (eg cigarettes). Offsets over time should automatically be found in increased tax revenue from higher employment and lower social welfare and health payments.

Trade unions and taxes: the future

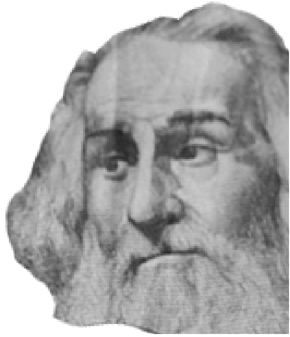
It may be necessary for union structures and processes to change so that fiscal workers can operate effectively across borders and with an international perspective. Fiscal workers from one country may need to be able to interrogate the residents of other countries, to deal with international tax fraud and evasion. Unions in different countries need to come to grips with this issue.

Governments must be forced to work more closely together. If they don't co-operate markets will set the rules and may undermine governments completely. This is no false fear: already the Organisation for Economic Co-operation and Development and the World Trade Organisation are examining the issue of electronic commerce (e-commerce) and taxation together with the private sector. The issue is not simply who should collect the tax (the government in the seller's country or in the buyer's country or in a distributor's country) but rather whether **any tax at all** should be paid on e-commerce. The private sector is already 'offering' to set the rules and collect the tax.

In general, the Internet raises a number of fiscal challenges. These include taxation rates, validation, collection, double taxation and privacy with respect to foreign governments. Trade unions must address these issues as a matter of urgency.

Sources

This pamphlet is based on the 1998 PSI Executive Board statement on fiscal principles for funding the state. The development of material by PSI's European affiliates is also acknowledged.



Feedback

The fiscal debate and associated campaigns needs further development. PSI encourages affiliates to provide feedback in the form or ideas and/or case studies (to be sent to PSI by 30 September 1999).

Action

- Raise the issues in this brochure with fellow unionists;
- Debate these issues for adoption of union policy;
- Raise these issues in public;
- Be part of union-lead campaigns;
- Talk to people sharing common interests with unions.

Notes

This version by Dain Bolwell for PSI in 1999.
Available in English, French, German, Japanese, Spanish and Swedish.

PSI Resources:
Public Services in a Globalised Economy - the PSI Alternative Strategy Revisited (1999).
Briefing Notes: *Fiscal principles for funding the State* (1999).

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