

DEBATE

Susan Liautaud, Visiting Scholar at the Stanford Center on Philanthropy and Civil Society, Founder of Susan Liautaud & Associates Limited (SLA)

Let me come back to your point about tax avoidance. We have heard a lot about this and let me focus specifically on corporate tax for a moment. We have heard everyone from Margaret Hodge in the UK House of Commons to the US leadership. Everybody is up in arms and saying that this is an ethical issue and not a legal issue. In other words, corporations have a moral obligation to pay more taxes than the law requires. Where do you come out from the standpoint of inequality? Is fixing the tax law the right solution? Does the right solution mean that whatever the tax law is, corporations do have a moral obligation to pay more?

Jean Pisani-Ferry, General Commissioner for Strategy, Office of the Prime Minister, France

It is not a moral issue but it is becoming a major public finance issue. If you take the US, tax on corporations has effectively dropped over the last 15 years by 10 percentage points. Two thirds of these are apparently due to tax avoidance through the extensive use of tax havens. It is becoming a major finance issue for all countries, and that is why it is being addressed.

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It is being called a moral issue though. Is fixing the tax law the right solution for you? Or is it to put more pressure on corporations to pay voluntarily?

Jean Pisani-Ferry, General Commissioner for Strategy, Office of the Prime Minister, France

No, it has to be done first of all through bringing much more transparency and fixing the tax law. You could speak about what the OECD is doing, because the OECD has been at the forefront, pushed by the US in fact. It is creating more transparency and making sure that profit shifting is not part of the rules of the game. Tax competition in terms of having a better tax system and offering a different combination of public services and taxes is part of normal competition. However, simply profit shifting to wherever the tax law is more favourable without any economic basis behind it should not be part of the normal rules of the game.

Richard Cooper, Professor of International Economics at Harvard University

Can I comment on that? I think the direct answer to your question is that it has to be done through law. You cannot expect corporations to pay taxes that they are not legally bound to pay. However, there is another issue. I speak of the United States but I assume there is comparable authority in Inland Revenue and other tax authorities. The US Internal Revenue Service has ample authority for adjusting transfer prices, where corporations are avoiding taxes through their transfer pricing.



The IRS is systematically under funded, so it does not have the human resources to act on the authorities that it has. The under funding is supported by corporations in their lobbying of Congress, as are loopholes in tax legislation. You cannot really expect corporations to go beyond the law when it comes to paying taxes. However, you can expect them to be more circumspect and require them to be more transparent in the political positions that they take on taxation. This includes both loopholes and enforcement of existing tax law.

Mari Kiviniemi, Deputy Secretary General of OECD; former Prime Minister of Finland

International cooperation is also needed and this has been done at the OECD now, together with G20. When it comes to these multinational enterprises, there will not be cases where they are not paying taxes at all. They try to avoid paying too much tax in too many countries, but in many cases, they have not been paying taxes at all, which is by using the current legislation in a bad way. Another dimension is that transparency is needed and that will come via the automatic exchange of tax information, which has also been done at the OECD. However, all countries have to then agree and be part of the project.

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I would like to come back to my question to Changyong on technology, but before I do, inequality is not a standalone risk; it relates to a number of other major issues that we are seeing in the news. I would like you all to think of one other issue that is of particular interest. For example, there is Ebola, or perhaps the sharing economy, including Uber and Airbnb. These can be risks or opportunities, by the way. As Thierry called it, there is the so called Islamic State and human trafficking, to pick up on some of the human rights issues that Dr Sakong mentioned. I would appreciate your focusing on the relationship between inequality and one other issue. We will come to each of you afterwards. Changyong, do you want to go back to the technology question first?

Rhee Changyong, Director, Asia and Pacific Department, IMF

Technology is a real dilemma. You do not want technological progress to be slower because of inequality concerns, because that progress has lasting benefits for the whole of human society. Here I think it helps to distinguish between pre-tax and post-tax inequality. If you look at the Gini coefficient of OECD countries before taxation and transfer, they are much higher than in Asia. However, after taxation and transfer, they are much lower than in Asia.

In general, we need a system which gives more incentives for people to be innovative and achieve technical progress. And, relating to what Jean mentioned, people's tolerance of inequality is much higher when social networks are strong. Social cohesion is another dimension and we may need redistributive policy which is consistent with more encouragement of technological progress. This will help with achieving post-tax or ex-post equality.

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Would anyone like to take up an issue, either one I mentioned earlier or another that is of interest to you?

**Richard Cooper, Professor of International Economics at Harvard University**

I would make an obvious point but it is worth making. We have recognised this particular trade off for a long time. That is what patents and copyrights are all about. We confer a temporary monopoly on successful inventors and writers, which raises their income as a result of their successful contribution. It is judged on balance to benefit society at large. These dilemmas have been around for a long time. Patents and copyrights go back to the 18th century. They are authorized in the US Constitution, an 18th century document. We have grappled with them, sometimes more successfully, sometimes less successfully.

In my view the current American copyright law is totally preposterous. It protects for much longer than is required to incentivise writers to write, and I speak as a writer. The copyright law in this case is protecting a particular business model, of the cinema and music companies and publishing houses, and that is an illegitimate use of copyright, reflecting rent seeking by those corporations, not on behalf of composers and writers. Rent-seeking runs through politics in democratic society, and even more in non democratic societies. Those are the trade offs that we have to make at a practical level.

Il Sakong, Chairman of the Institute for Global Economics, Former Finance Minister of Korea

From the supply side, considering the rapid pace of these technological changes, a drastic educational sector reform, including training and retraining is urgently needed as the digital divide and the ability to utilise information makes inequality far worse than otherwise. I argue that it is time for all to give a serious thought to reforming the four year university education system itself. We need to establish a lifelong learning educational system, which does not just mean to provide extensive evening courses. Then academia and industry should have closer cooperation regarding training and retraining programmes and so forth. Technological changes are desirable. So we should take advantage of the changes, While minimising the downsides of the changes.

Jean Pisani-Ferry, General Commissioner for Strategy, Office of the Prime Minister, France

I just want to emphasise this point. We all wonder how to deal with inequality coming from the extraordinary return on innovation. There is the fact that technical progress has implied a multiplication of the ability of an individual with ideas to make a fortune out of those ideas. That is a really difficult problem for society to deal with. You want innovation, but you are concerned about the consequences.

We should not forget that a large part of the problems we are dealing with does not relate to those problems. They are problems to do with basic education and the ability of the school system to offset or correct inequalities of social, ethnic and spatial background and to promote social mobility. In many countries, our systems do not perform in the way they should be performing. That is a major public responsibility. Whatever happens during the course of your life and whether you make your fortune or not, because you are a little bit brighter, these issues remain fundamental, and we are under performing.

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I would also like to challenge the notion that innovation is necessarily linked to technology or something that is sellable. I would question what kind of innovation could help with this inequality problem. This is not just about another technological breakthrough or another product. Certainly we are seeing a lot now in the social enterprise area, where there is innovation in how we are delivering services, for example. Changyong will speak and then I will open it up to all your questions and comments.



Rhee Changyong, Director, Asia and Pacific Department, IMF

I just want to give you one example. There are many so called frugal innovations for poor people, so innovation does not necessarily have to equate with big breakthroughs.

Meir Sheerit, Member of the Knesset, former Minister of Internal Affairs of Israel

There are two differences in qualities. One is in qualities between countries, and globalisation is contributing to that a lot. You cannot compare the situation in Africa to the situation in Europe. Globalisation is usually used by countries that are rich, strong and perform well to use the resources of poor countries without really paying them back enough. It is part of general inequality. There is inequality within societies in every country, which depend on what kind of education people have and the distribution of the money coming from the economy etc.

In my opinion, there are things that Governments can do about this. There are two kinds of taxes. Income tax is a direct tax and it is a progressive tax, which means that everybody pays according to their own earnings. You pay as much as you earn and if you earn more you have to pay more. If you earn less, you do not have to pay. In some countries, like Israel and the United States, there is even negative income tax. In order to encourage people to work and get more money, the Government is paying them a grant if they are working instead of taking tax from them, in order to give them a motivation to work. This is a direct tax, which is much more justified and progressive. Then there is indirect tax, such as VAT, for example, for which everybody pays the same amount. It does not matter if they are rich or poor, because they pay the same taxes.

I think the Government can change tax policies and raise the level of income tax and direct tax and reduce the level of indirect tax like VAT. In that case, you are helping poor people, when you speak about food, for example. If a poor man goes to buy one piece of bread, he pays exactly the same price as the rich man who buys it because of tax. If you want to help poor people or people who are weak economically, you have to change the relationship between income tax and VAT, or rather taxes which are indirect. That is one thing the Government can do.

On your last question, things must be done by law, not by having people in companies pay more than they have to pay. Most of them are not. If they do something, they do it in order to have a good image. We can encourage it by doing something other than introducing tax laws. For example, we could encourage the creation of companies who make ratings of what we call company responsibilities or corporate responsibility. Every year, we should publish how much every corporation contributes to society from the responsibility point of view.

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Most companies do have that today and they have corporate social responsibility reports.

Meir Sheerit, Member of the Knesset, former Minister of Internal Affairs of Israel

They have reports that help people if they want to give over tax, but taxes should be done by law, not voluntarily.

Mohammed Laichoubi, Former Minister of Labor and Social Protection of Algeria

En fait je voudrais abonder dans le même sens. Je me suis longtemps posé la question et j'attendais que le débat aborde cette question. La première vision serait de se dire : « est-ce que la mondialisation accroît les inégalités ? » Et



je me suis posé la question si le véritable débat n'était pas celui de la mondialisation face aux inégalités. Nous sommes dans un espace de préoccupation vis-à-vis des relations internationales, de la gouvernance. Nous admettons tous assez facilement qu'il y a un certain nombre de questions maintenant qui ont pris une telle amplitude. Nous sommes demandeurs de gouvernance mondiale, c'est une évidence. Pour ce faire, pour expliquer mon propos, je voudrais évoquer un cas particulier, où j'ai été témoin, observateur, c'est le dossier du Sahel.

Le dossier du Sahel est maintenant une crise de dimension sécuritaire. J'ai vu des partenaires qui souffraient de graves problèmes de famine, de sécheresse, et qui étaient dans des systèmes absolument terribles et des organisations gouvernementales et étatiques incapables de gérer. A tel point que l'espace a évolué pour que la capacité financière budgétaire des pays équivaille un peu au 1/10ème de ce qu'était le trafic de drogue qui s'était installé dans cet espace. Ce que je veux dire, c'est que nous avons vu évoluer un dossier de famine, qui est devenu un dossier sécuritaire. Cela veut dire que nous avons une préoccupation fondamentale sur les questions d'inégalités quand elles atteignent des degrés structurels comme cela, qu'elles menacent des régions et qu'elles se transforment tout de suite en menaces sécuritaires. Il est extrêmement difficile de convaincre.

Moi, je reste quand même relativement étonné : quand l'intégralité de notre capacité intellectuelle d'investigation est interpellée sur les questions financières ou la fluidité commerciale, on imagine un certain nombre de mécanismes institutionnels internationaux pour l'assurer, pour intervenir. La gouvernance par le biais de la Banque mondiale se préoccupe des conditionnalités politiques. On met en place un certain nombre de dispositifs. En face, aucun dispositif, aucun sens de la responsabilité. Bien mieux, pour l'intégralité de ces pays, notamment de la région, on invoque le concept de la solidarité quand il s'agit de lutter contre le terrorisme ou l'immigration clandestine.

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So your point is that we need to be more focused on global governance mechanisms?

Mohammed Laichoubi, Former Minister of Labor and Social Protection of Algeria

Oui, non seulement je parle bien sûr de ces approches mais je parle aussi de la notion suivante, pour abonder dans le sens de l'intervenant qui a parlé avant moi : on ne peut pas percevoir l'inégalité tout simplement à l'intérieur des tissus nationaux, ou du tissu d'une seule société. Ce que je veux dire, c'est que l'inégalité prend aujourd'hui une autre amplitude de façon extrêmement plus importante. Et même dans les relations internationales, la solidarité contre le terrorisme et la solidarité contre l'immigration clandestine doivent avoir comme contrepartie une solidarité des approches sur des questions structurelles : la pauvreté, la santé. On commence à l'admettre sur la question environnementale, il est temps qu'on l'admette sur les questions d'inégalités.

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Exactly. I'm glad to hear your question. That's precisely why I asked the question about the relationship between inequality and human rights, Ebola, and human trafficking, and all these, as you say, issues that cross national boundaries. So, would anybody like to address that, or shall we go to another question?

Liu Chen, Professor, China's Foreign Studies University in Beijing

Thank you for sharing very insightful things with us. Given that the topic and the focus of this session is globalisation and inequality, my question is this: what is your opinion in general about the relationship between globalisation and inequality? For instance, many critics have argued about this. For instance, there was the MacBride report from the 1970s, entitled One World, Many Voices. There was also a report from a British international communications corporation 10 years ago. More currently, MIT published a report in the year 2007.

The coverage of the Third World by the First World has dramatically declined in terms of quality and quantity. On the other hand, the Third World has much less space to define, present and represent themselves since the 1970s. What do you think of this situation, regarding fighting inequality? What do you think about the impact of globalisation? Is it about good or harm? I would like your general opinion on this topic.

Richard Cooper, Professor of International Economics at Harvard University

I think that question illustrates the complexity of this topic of inequality. If one is talking about global inequality, then the answer is unambiguous: Globalisation has reduced global inequality. Why? Because it permitted China to grow as rapidly as it did. Without globalisation and without China entering the world market, China could never have taken off as rapidly as it did. A large part of the global story is what has happened in China, with over a billion people. There has been a tremendous reduction of poverty and a tremendous increase of income among very low income people, and that has reduced global inequality. If you are talking about the impact of globalization on inequality in the USA, that is a different question altogether. We have to specify what is really bothering us.

Mari Kiviniemi, Deputy Secretary General of OECD; former Prime Minister of Finland

I would like to try to answer these three questions which were raised by the public together. We are all here to try and figure out what the best recipe is for every single country in tackling inequality. As you have already heard, there is no single recipe, because every country has its own recipe. It depends so much on the level of development of the country regarding which measures should be taken and also how big the inequality is. In every case, a pre requisite to equality should be that the country is a democracy, follows the rule of law and is a secure state. That forms the basis for equality. Then there are the policies that governments can implement when it comes to the education system and the training system. There are other policies like social policies and transfers for low income and poor people.

Il Sakong, Chairman of the Institute for Global Economics, Former Finance Minister of Korea

During my brief remarks, I purposely referred to the North Korean situation in comparison to South Korea. I do not think North Koreans worry much about downsides of globalisation, but what are the consequences? Per capita income in North Korea in ppp terms is still below USD 2,000. In South Korea, it is well over USD 30,000 and it may be USD 35,000. By the way, as late as the early 1960s, North Korea had a per capita income that was twice as high as South Korea's.

As I said, no Gini coefficient is available for the North, but you can guess that the Gini coefficient there would be much worse than South Korea's too. Their leader was known to enjoy drinking French wine worth more than USD 2,000, so you can imagine their atrocious income distribution problem. In contrast, South Korea benefited so much from globalisation and a market based, capitalistic system. Economies are not easy to put in a lab, but the two Koreas are almost like a lab case, well illustrating what the two different systems can bring to their people.



There is also the Chinese case. China made 10-year long efforts to join the WTO and take advantage of globalization. And they are prospering with it. So, globalization may worsen income distribution which needs to be minimized, but we should not go against globalization which brings many benefits.

Jean Pisani-Ferry, General Commissioner for Strategy, Office of the Prime Minister, France

You can look at the global income distribution among individuals and the way it has been transformed over the years. As Richard said, it is difficult to summarise it in one coefficient, but it is clear that you see the emergence of a global middle class. One definition is that it refers to people who have between 10 and USD 100 to spend per day. On that account, there were less than 1 billion 20 years ago and most of them were in Europe and the US. Now I think we have two and a half and we will be at three and half in 15 years. This is a major transformation.

In terms of the historical relevance, this probably dominates everything. This should not make us more tolerant vis à vis inequalities in our own countries and there is no reason why we should be. I think we should address both these dimensions. We should praise this evolution but, at the same time, we should find ways to address the rise in inequality within countries.

I would also like to answer your question about taxation. Direct taxation is an obvious way to redistribute, but it is not the only way. We have complex tax systems, because we need to use both direct taxes and indirect taxes and redistribution through spending and taxation. In general, I agree with you that direct taxation has a major role to play, but it is by far not the only instrument we have.

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We are almost running out of time, so I am going to give each of you about three minutes each to make any final remarks. Could you try to include your highest priority policy initiative in that? If there is anything else you would like to add that you have not had a chance to note, please do so. If anybody is willing to take me up on my question about the relationship between inequality and other global issues in the three minutes I am giving you, please go ahead. Changyong, would you like to start?

Rhee Changyong, Director, Asia and Pacific Department, IMF

I have talked too much, so I will just address the last question you mentioned, regarding Ebola, human trafficking and all these issues. My personal opinion is that those problems can be addressed much better by reducing poverty rather than inequality. Poverty is a much more important factor in those social problems.

Jean Pisani-Ferry, General Commissioner for Strategy, Office of the Prime Minister, France

I will go back to the two dimensions I addressed. At the global level, we should put the emphasis on transparency, exchanges of information and all that makes it possible for our national tax systems to operate in a normal way. In spite of the progress being made at OECD level, I would say that this is not a done deal, especially since there are not only OECD countries in the world. There are other countries which may or may not participate in this exchange of information. Wealth is extremely mobile, so this is an important goal we need to achieve.

The idea of global taxation is not for this century, although we are at the beginning of the century. Perhaps it is not for the next few decades, but transparency and exchange of information is something that has started and should



continue. On Europe, we need to move beyond this. I do not think we are at the stage of having European taxation of individuals. However, the thinking on the way we should be evolving and the way European policies should address integration among nations and regional policies should also address the consequences of this integration of individuals. There should be a set of core principles upon which this integration is built. That is on the agenda for now.

Mari Kiviniemi, Deputy Secretary General of OECD; former Prime Minister of Finland

I totally agree with Jean when it comes to this issue about multinational enterprises, taxation and also automatic exchange of tax information. There is still a lot of work to be done, the implementation is not yet there and more countries are needed. However, it is a major step forward compared to the present and previous situation. I would also like to answer the question concerning what effect globalisation has on inequality. The OECD survey says that it has no direct effect, but it has a very strong indirect effect on inequality.

To conclude, I want to reiterate what I said earlier when it comes to what should be done when tackling inequality. We should be able to provide people with better skills and that is needed if we want to create more inclusive growth, and then we have to be able to deliver quality jobs. According to our survey, it is possible to create more jobs and at the same time improve the quality of jobs. There is no trade off between the amount and the quality, according to our surveys.

Il Sakong, Chairman of the Institute for Global Economics, Former Finance Minister of Korea

I have a few very brief points. We do agree on the fact that the appropriate redistributive measures and social policies are necessary, even from a purely economic point of view. The OECD and the IMF studies support that. The question is about how to design these measures. We need to design the package of redistributive policy measures and social welfare policies in such a way that they can be growth enhancing rather than growth inhibiting. In that regard, appropriate educational reform is important. My other point is that there are a lot of inter country data which shows that inequality is inversely related to inter generational and social mobility.. From that perspective again, the educational reform is important, as well as providing decent medical and health care services to poor segments of any society.

Richard Cooper, Professor of International Economics at Harvard University

I have two observations. The first concerns educational reform. I am an educator and it is hard to disagree with the desirability of improving education everywhere. However, I live in Cambridge, Massachusetts, which, as you can imagine, attaches high importance to education. Of all of the school districts in the United States, Cambridge is exceptionally high in spending per student. Yet I would evaluate the success of the Cambridge public school system as a B minus.

It has done some good work, but I am cautioning against putting burdens on the school system which the school system cannot bear. We cannot require the school system to correct all of the ills in society, even if you are prepared to take children away from parents at age one or one and a half and assign them to approved foster parents and well-designed pre-schools. There is a tremendous amount of inter generational inertia, regardless of what the school system does. That is just a cautionary remark.

I would like to make another remark, concerning inheritance. Tax free inheritance will increase inequality from one generation to another. Rich countries have settled this issue, for good or ill, although President George W. Bush tried to re-open the issue in the United States, for ill. But this is an important open issue in countries where incomes are growing rapidly. China and South Korea face it. Incomes have grown very rapidly in one generation and that generation is still alive. What are these countries, and others in similar circumstances, going to do about passing that



wealth to the next generation? Do they want to create a generation of rentiers, people who do not have to work to make a living, rather can live off wealth inherited from their parents or grandparents? That would contribute to higher inequality. It is a sensitive issue in any society, but one that needs to be faced.

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Thank you, and please join me in thanking our distinguished panellists.