

If I were Chancellor for a day

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Actually, this bog isn't about what I'd do if I was Chancellor for a day. This was the theme that the Taxpayers' Alliance and [Joe Stead of Christian Aid](#) were asked to speak to at the Association of International Accountants Founders' Lecture event on Thursday.

The TPA contribution is best forgotten. I'm sure the audience have. But Joe's talk was different in both the quality of thinking and presentation and I asked if I could post it here as a weekend think piece. So, with his permission, here it is:

If I Were Chancellor For a Day:

I know that the Treasury spends most of its time looking at the state of the UK's revenues, as it should, but given I'm only chancellor for a day, I think I would look beyond our shores, and look to see what I could do from my position as Chancellor to help developing countries raise revenues to enable them to be self sufficient.

In the long term this makes sense. UK doesn't want to be in a situation where we have to provide billions in aid every year; we should live in a world where countries have their destinies within their own hands. This is what Christian Aid is focused on, it's why we work with partners of all faiths and of none in over 45 countries around the world who want to make their societies thrive and be resilient; but we're far from there at the minute, it's why Christian Aid still exists, it's why the aid budget still needs to exist.

So as a start, and probably even before breakfast, I would make sure that the UK keeps to its commitment to provide 0.7 of GNI on overseas aid, as the government has claimed it will do. I would introduce the legislation that is already drafted and ready to go, and settle the issue. We made the promise to do this in 1970, with the aim of reaching the target in the mid 1980s at the latest. We are nearly 30 years late on delivering on this promise, while the world is a different place, the gulf between rich and poor remains. Aid, sadly, remains vital for many developing countries and reliable and predictable aid is far superior.

One of the things I might do in my day as chancellor is try to compare the task I face in managing public finances where revenues have gone down by 4.6% to my counterparts in developing countries who are facing much greater challenges —e.g. in Zambia revenues are due to contract by 16% between 2010 and 2013. Aid flows there have contracted by nearly 25% in the last four years, that's a significant shock to the economy to deal with. Indeed one of the main reasons why development assistance has not been as effective as it could have been is due to the unpredictable nature of it, aid to Africa has been much variable than aid to East Asia, part of the explanation for the differing results between the two regions.

So not quite six impossible things before breakfast, but I've brought clarity and hopefully finality to the aid issue, I've set us on the path to legislation. But what else could I do, what could I do to both make sure that the aid we are spending now provides the most value for money, and also to set the ground work so in the long term we can have an 'exit strategy for aid', for I realise that there are a few who may criticise me for making this commitment on aid.

Well the challenge is to see how we can support a process that brings long term sustainable development to all countries in the world. That's a big task. It requires action in many areas. It will require many countries to dramatically improve their governance, and reduce corruption. Christian Aid works with many partners who are engaged in this work. In some cases they could probably teach us some lessons. In Kenya the National Taxpayers Association does amazing work in holding their MPs to account on how constituency development funds for their constituencies are spent. The public meetings where the reports are discussed with the MP can have up to 3000 people. MPs have made significant changes as a result of this increased accountability, some have apparently resigned. I'd love to see that level of public engagement and accountability on spending here in the UK.

Talking to partners like the NTA in Kenya, and others elsewhere make us realise that action is being taken against corruption, things are getting better in many developing countries.

There is a growing body of evidence that shows that as countries become more reliant on tax revenue for their resources, they become more accountable and democratic, governments who are reliant on taxes have to respond to their citizens. It's one of the main reasons why we focus on tax issues at Christian Aid. But the fact remains that the route out of aid dependency still looks a long way away for many developing countries. There is still a need in many countries to increase their tax takes if they are going to be able to provide the essential public services, education, healthcare, infrastructure, rule of law etc that will enable a society to thrive. Most SSA countries have a tax to GDP ratio of less than 17%, the UN suggest that the minimum to meet the Millennium Development Goals is 20% (and bear in mind this is in a scenario where the developed world is all doing as the UK in keeping to its aid commitments).

What though is the role of the Chancellor in this though? I could provide more capacity building through HMRC to help developing countries improve their ability to collect tax, and to help the efforts to expand the tax base in these countries. But is there much more the Chancellor can do?

Well while helping expand the tax base is clearly important, the evidence is increasing that tax dodging and illicit capital flight are significant problems from developing countries. Estimates vary, but almost everyone agrees that the figures are huge, according to the OECD tax dodging may be up to three times the volume of overseas aid, illicit capital flight means that Africa is a net creditor to the rest of the world. There is clearly an international dimension to this (that money is going somewhere), and so the solutions are likely to have an international element, and so there is a growing opinion that there is more, much more, that the Chancellor of the UK, and indeed the finance minister in all developed and G20 countries could do. This comes from a range of sources, not just from the likes of Christian Aid, who some may criticise as having a naïve or idealistic view of things.

Indeed even from organisations that Christian Aid doesn't always (some might say often) agree with there is at least some convergence. Most notably in 2011 the IMF, WB, OECD and UN came together to provide some recommendations to the G20. While they may not have gone as far as I would have liked, they did give a lot of food for thought in how domestic policy could be used. What did the G20 do in response to these recommendations? Well they ignored them; at best they endorsed one of the 11 recommendations, the rest, basically ignored. So I'd probably make this the starting point to decide what else I could do, and which I could do unilaterally.

And to start with it is easy, they suggests that I review and increase support for capacity building. Given that currently this is about 0.03% of UK aid spending I think that we can manage that one. One down 10 to go.

Next.

'Undertake spillover analyses of the impact of changes in our own tax system on those of developing countries.'

This is perhaps more difficult. But lets unpack it. It should be possible to do unilaterally, after all, all it is asking us to do is apply what the development sector calls policy coherence for development. Which is basically the concept that when adopting new policies the potential impact on development should always be considered, if there could be an impact on development it should be assessed as far as possible, and if the impact would be negative identify remedial action that can be taken (or rethink the policy). Behind the principle is the idea that it undermines the value of aid if other policies are working against development.

But what would this actually entail — well there was the suggestion that moving from

an international to a territorial regime would be the kind of thing to look at. So really we should have done this with the CFC reforms, which we didn't (despite NGOs like Christian Aid and Action Aid asking them to). This is why it becomes more difficult.

However maybe it need not be that difficult. The International Development Committee has supported making a requirement that all new primary or secondary tax legislation require the impact on developing countries to be considered. So I ought to be able to get some parliamentary support. And it's not about saying that we can't make changes to our tax system if there is an impact on developing countries, in some cases we could, but we have to be honest about what the impact, let others know what we are doing, and offer to help alleviate any negative impact. Only if the impact is impossible to alleviate, and we would be creating rules that would undermine other countries systems would we have to say the changes should not be made.

So I think this ought to be something we can do, and I would follow the recommendations of the IDC, and seek to apply that principle starting with the 2013 finance bill.

Right next.

Actually no, I'm not going to go though all the recommendations with you now, even though if I were Chancellor for the day this is part of what I would do.

But lets pick up from the last point, about when one country's tax system undermines another, for the UN,OECD, IMF and WB — also suggested that it would be useful to do a baseline study to understand how the international tax system works, to understand to what extent that one country's tax system may be utilised to undercut another's, and the changes we could make to stop that happening. This would be a big piece of work, certainly more than a day, but I think it is something that we need to do. And it may need us to think slightly differently. We certainly need to think differently about developing countries, and their needs in international tax.

Many of the rules and norms have developed for relationships between developed nations, indeed from the OECD. They may work well for that purpose (though I'd question it), but there are questions on if they work well for developing countries.

There is a capacity gulf between the OECD and many developing countries, to reach the same ratio of tax officials as in the OECD sub Saharan Africa would have to find 670,000 more people. That's not going to happen. Yet developing countries are having to operate in the same globalised world as the OECD, they don't have the luxury that we had of developing our tax systems when it was difficult to move money around. We need to find ways to acknowledge that, to make allowances for that, and given that in the UK we talk often of the need to develop our exposure to emerging and developing country markets to be willing to accept that because we do need access to these markets we may need to compromise. But currently that doesn't seem to be happening.

One of the big concerns I have, personally, is that while as we continue to respond to the financial crisis there will be some progress on tackling tax dodging in the OECD—which would be a good thing, there is a big risk that we might make things a bit better here in the OECD, we make things worse elsewhere. One of the most worrying articles I have read this year is that Swiss banks are beginning to shift their business models from offering services to the rich in the OECD (as the pressure is increasing on them), to targeting those in developing countries and emerging markets. This is exactly the kind of problem Christian Aid warned about when we criticised the UK-Swiss deal last year. It might offer some benefits to the UK (I'll not get into that), but it does nothing to help developing countries who lack the political or economic power to negotiate such deal. We need to be more ambitious, to help developing countries get the access to the information they need. We need to place the pressure on the tax havens to open up, to share the information, not just with the UK, but with all countries.

We should also look at what we can do with what we have. Part of my background is working on trade deals, and there we have an established system of asymmetry in trade deals, can we do the same in our offer to developing countries over tax issues. If I were Chancellor I would look to see what I could do to up our offer to developing countries on what information we can exchange with them, and beyond that what assistance we would provide, not looking to do the minimum required under treaties, but to make a commitment to go beyond that, to show to developing countries we are serious in saying we want to help them tackle tax dodging, and provide reassurance that we would not overburden them with a requirement for full reciprocity which I know from speaking to officials in developing countries is their fear.

Essentially what we need to do is show we can have a system that works for all countries, that doesn't seem to be the case now. In transfer pricing we already see some of the big emerging economies tweaking (and more) the rules, as they realise that they are not getting a fair deal. Without reform those tensions are likely to get bigger. We need to find a way to move forward on this, to be able to have an honest debate about how we make national level taxes work in a globalised world. It's more than the work of one day as Chancellor, but it needs doing. Development requires a strong relationship between government, citizens and businesses, all ought to be able to have trust in the others, to be confident that all are working towards improving their society, not asset stripping it. It's one of the reasons Christian Aid has supported Country by Country reporting, we need to find a way to get more transparency and information to be able to have a proper debate about how we make the system work. As currently it isn't working for developing countries (and not for the UK).

So it would seem that a day is not long enough, as that debate is going to take some time, but starting it only takes a moment, and that's why alongside everything else I've outlined I'd do in my day as Chancellor, I'd find a moment to set this debate going.

So that's my day as Chancellor, if I had a few moments at the end of it, I think I'd like to spend it with one of Christian Aid partners, Suzanne Matale from the Zambian Council

of Churches, who for me summed up why Christian Aid does what it does, and why I think it's important that the Chancellor, as well as looking after the UK economy should look to how he can work in partnership with developing countries, she said simply 'our poverty is your poverty' you can interpret that in many ways, and I think I'd like to spend a few moments at the end of the day discussing it with her, and reassuring her that the UK agrees with her, and that the terrible poverty that exists in many developing countries is partly a poverty of our own ambition and action, and that we will do something about it.