

CREATING EQUITABLE TAX SYSTEMS

CHALLENGES POSED BY FINANCIAL MARKETS

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WHAT PURPOSES DO FINANCIAL MARKETS SERVE?

1. A means of allocating society's resources
2. A mechanism for sharing risks

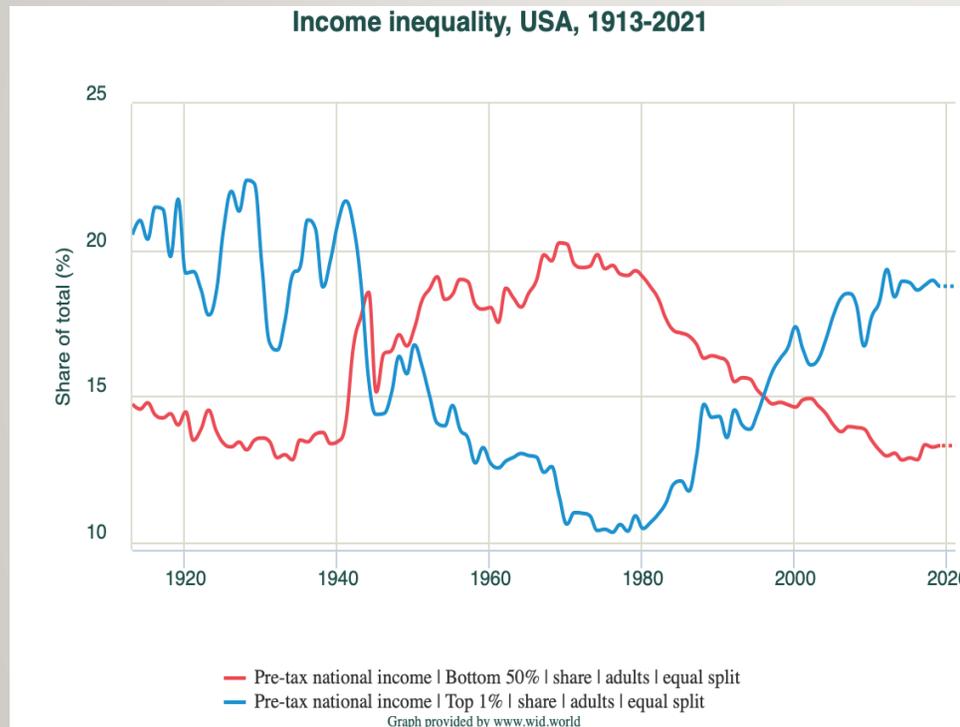
Over the course of history, markets have played a key role in contributing to social stability and in raising humanity's collective standard of living.

ARE MARKETS EFFICIENT IN SERVING THESE PURPOSES?

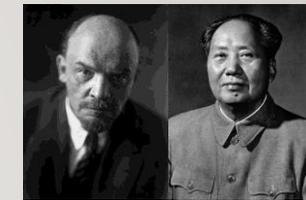
- Markets reflect collective **human financial decisions**
- Markets are driven by **incentives** created by **institutional frameworks**
- Markets have **no natural tendency towards equilibrium**

“Show me the incentive and I will show you the outcome.”
- Charlie Munger

HOW FINANCIAL CYCLES RELATE TO HISTORICAL CYCLES



Belle Époque



Communism

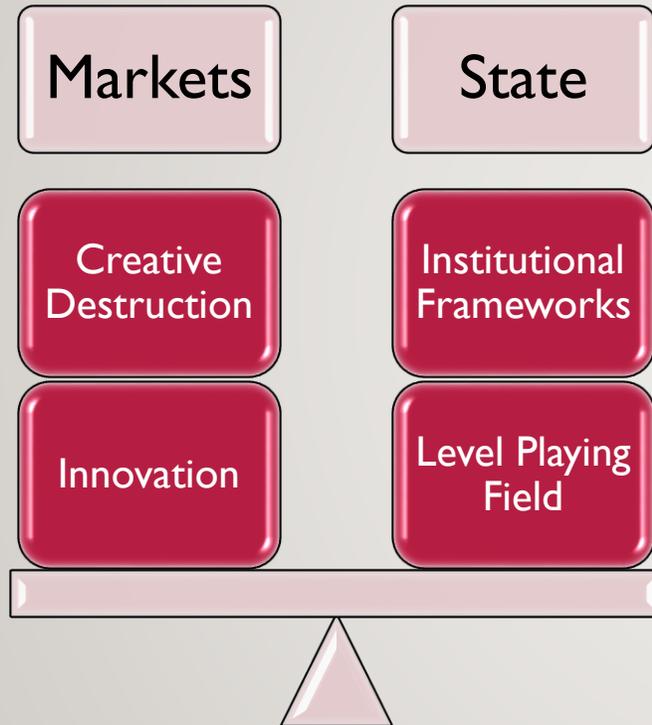


"Free Market"



Most 20th century experiments in communism clearly failed, but arguably the pendulum has now swung back too far, and we are at risk of repeating historical mistakes.

WE NEED TO FIND A BALANCE



Key Levers for State

- Transparent laws and regulations
- Competition policy
- Social welfare support
- Education provision
- **Fiscal policy**

The state plays a critical role in allocating society's resources in a way that balances the interests of different groups, including those of current and future generations.

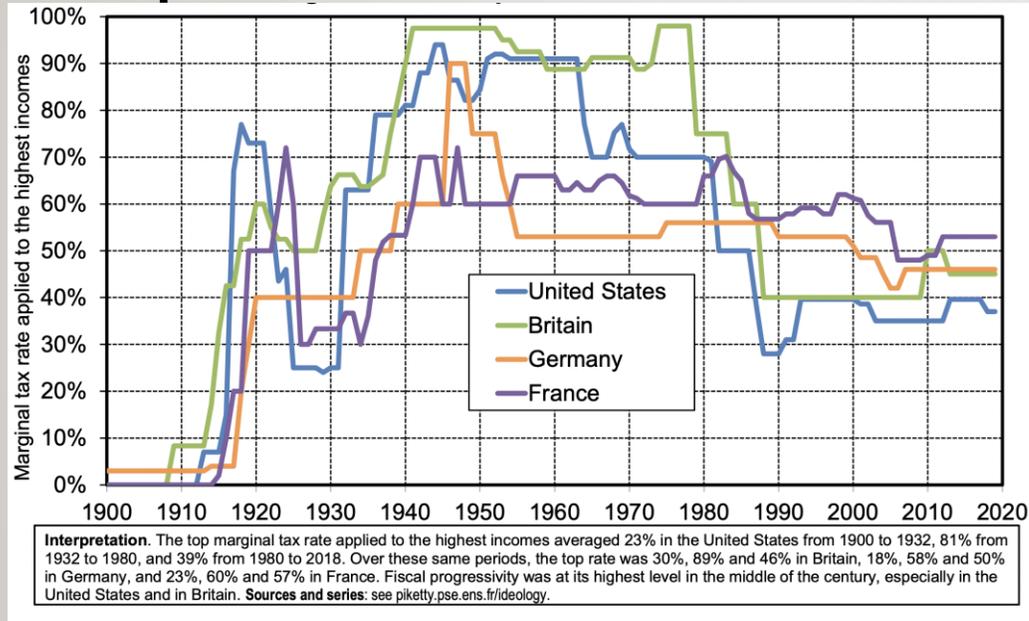
WHAT PURPOSE DOES TAXATION SERVE IN MODERN SOCIETY?



As technology and society continue to advance, the philosophy underpinning our tax systems may need to evolve.

HOW HAVE FINANCIAL MARKETS IMPACTED FISCAL POLICIES?

Top Income Tax Rate, 1900-2020



Forms of Global Fiscal Competition

- Corporate tax rates
- Taxes on capital income versus labour income
- Fiscal subsidies

Because capital is far more mobile than labour, fiscal competition has made tax systems around the world have become more regressive in recent years.

HOW CAN THIS BE ADDRESSED?

- Improved transparency
- Capital controls?
- Global minimum standards (e.g. G-7 agreement on corporate tax)

Ultimately, in a globalised world, creating more equitable tax systems will require international cooperation

Q&A

For more information, please see:

Jamesafok.com

