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Thank you for inviting me to share my thoughts on how you might shape this enormously important initiative. Until now, Latin America has been largely reacting to what has been proposed by the advanced countries and reacting country by country. The result—even when invited to the table—is Latin America's voice has not been heard. Equally important, Latin America has not been able to play a role in setting the agenda that it would if it presented a united front. This action, and hopefully similar actions by countries in other regions (including those already under way in Africa), will change the global architecture—in this context, the architecture of international taxation. I can't tell you how important this is, not just for the region, but for the world.

Three decades ago, when I chaired President Clinton's Council of Economic Advisers, I argued that the system of taxation based on transfer pricing was so badly flawed that another one was needed—the formulaic approach that the Independent Commission that I chair and was previously chaired by Jose Antonio advocated. The system of transfer pricing (with allegedly arm's-length pricing) didn't and couldn't work within the US (in determining taxing rights amongst the states of the United States) and wasn't working and couldn't work in the increasingly globalized world. And that was before globalization really took off and before countries transitioned from manufacturing to digital, knowledge-based, and service economies.

Reform is needed because the current system is inequitable and inefficient, because it provides such opportunities for tax avoidance and evasion, and because it is not generating the revenues required for 21st century economies.

Failure to have a just and equitable tax system within and amongst countries has further ramifications. The unlevel playing field discriminates against small- and medium-sized enterprises vis-a-vis multinationals; the former cannot take advantage of the opportunities for tax avoidance that globalization affords.

Within a country, it undermines social cohesion and democracy. Across countries, it undermines the broader ability to cooperate, so necessary in a host of areas, including pandemics and climate. At both levels, it feeds populism—the rising tide of which is a fundamental threat to our entire civilization as we know it.

There are three parts to this talk: (a) Why this platform is particularly needed now in Latin America; (b) What are the critical failures of the OECD proposals; and (c) Priorities for Latin America going forward—including priorities for this platform. Throughout the talk I hope to keep in mind the vision of the platform—contributing to creating a more equitable, more efficient system that can generate badly needed revenue, designing a system to replace the current broken system.

The platform is badly needed in Latin America

Latin America and the Caribbean is the most unequal region in the world. The top 10% in the region owns 630 times more than the bottom 50%. This extreme concentration of wealth is much higher than in other regions. Sub-Saharan Africa for example , where the top 10% possesses 351 times more wealth than the bottom 50. For Europe, this ratio stands at 66 times. These numbers help us to discern the magnitude of the wealth concentration gap that the region must strive to narrow with more progressive and effective taxation.

For Latin America and the Caribbean to be successful in reducing inequality and closing the broader income gap with advanced countries—average per capita income is less than one seventh that of the US—the region will need to make choices, with substantial public spending for education, which stands at 4.2% of GDP compared with an average government expenditure on education in the OECD of 5.3%, health, which stands at 8.6% of GDP compared to the OECD average of 13.9% , infrastructure, and importantly now, technology. Industrial policies are back, with massive US spending likely to increase the knowledge and technology gap.

Climate change provides still another imperative. While it is the case that the current level of atmospheric concentration of greenhouse gases is attributed to the advanced countries, the developing world will bear a disproportionate share of the costs. It is in their own interests to do everything they can to curb it..

But who is going to pay for all this spending that is so badly needed? Debt can't simply be the main answer, even less in a context of high interest rates and quantitative tightening that are making access to international financing much more expensive for the region. In Latin America and the Caribbean, a decade (or more) of low tax collection with a significant increase in debt combined with high interest rates, is causing debt service in many countries to be much higher than social investment levels. **For LAC to avoid austerity, it means more tax revenues but especially more progressive taxation.** Tax revenues in Latin America as a per cent of GDP have been around 20%, with the latest numbers for 2022 showing an average of 21.7% of GDP for the region while the OECD average is 34.1%, a gap of almost 13 percentage points. This is 64% of that of OECD tax collection.

If those tax revenues are to be raised equitably and in ways that support social cohesion, corporations and the wealthy will have to pay their fair share. Too often that has not been the case.

Taxing the digital economy exemplifies what I have in mind. The tech giants have excelled not only in creating services that people want but also in corporate tax avoidance. How is it possible that high tech giants and other large corporations that are almost monopolies could be so profitable but still pay almost no taxes?

Understanding ongoing international tax negotiations

Let me turn now to **the second theme of the talk: understanding the international tax negotiations that have been underway**. A darker side of globalization was that it opened up new opportunities for tax avoidance which multinationals and the super rich had quickly seized upon, exacerbating the problems of the transfer price system. The international community finally recognized this, and thus began the OECD initiative as mandated by the G20.

But an initiative that initially held such promise has produced a molehill—something that risks making matters worse for developing countries and emerging markets. And specially so for Latin America and the Caribbean.

Let me explain why I have been so disappointed with the outcome.

Pillar II's principle of a minimum tax is good, but the rate is set too low—15%,with many exceptions—at a rate below that imposed by many Latin American countries and the average nominal rate of 23.4%. The worry is that the minimum will become the standard, and if that is so, corporate taxation in many countries will actually be reduced. As the 15% is legitimized as an acceptable minimum, calls for this to become the maximum have already started by the pro-business lobbies in my country and elsewhere. (Parenthetically, one needs to be careful in interpreting the data showing the low additional revenues to be expected, as a percentage of GDP; one needs to take into account the extent of informality. But because informality is so large in Latin

America and is so hard to tax, it is all the more important that multinationals pay their fair share of taxes.)

Pillar I is feeble to say the least. It applies to very few firms. It allocates only a small portion of profits. There is no economic justification behind its methodology—all of the profits of corporations are just that, profits, with the cost of capital, labor, and other inputs deductible. Corporate taxation does not reduce investment or employment—except to the extent that one country attempts to steal the business of another. The scope has been watered down to the point that the revenue generated will be tiny, and out of this tiny pot countries in Latin America will get almost nothing, the same revenue (or in certain cases even less) that they could get if they were to adopt alternative measures, such as withholding taxes and digital service taxes that are much easier to administer. And this is exactly what Colombia has introduced in its recent tax reform.

To make matter worse, in return for signing up to the multilateral convention for Pillar One Amount A, countries are supposed to forgo a range of other taxes, including digital taxes which are likely to be of increasing importance. Because the details have not been released, we cannot ascertain precisely what they are giving up, but this is simply testimony to the lack of transparency in the OECD process which has rightly been criticized.

Countries signing on to the Convention would also have to submit to an independent mandatory dispute resolution system. If not well designed, such panels are known to be excessively biased toward corporate business interests. Again, with so many details missing, with such a lack of transparency, it is difficult to ascertain precisely how bad such a dispute resolution system might be.

The upshot is that what looks like an unbalanced agreement today may well look even more unbalanced in 10 years' time.

Some might say, "let's wait and see. If it turns out to be anywhere near as bad as the critics claim, then we can fix the problems." But such a stance exhibits true political naivete: Changing the global architecture is hard, as we've seen. The flaws in the so-called "arm's length" transfer pricing tax system have been known for decades, but it's but hard to get rid of it.

Looking at the outcome it is clear that the voices of the advanced countries, and the corporations within them, were the dominant voices heard. Developing countries and emerging markets may have been at the table, but their concerns were given short shrift. One can see that in a multiplicity of detailed provisions as well as in the broad outcomes. The G-24 put forward a set of proposals that would have been the basis of a far more balanced agreement, but their proposals were largely ignored, as well thought out as they were. The outcome was largely based on proposals from the United States.

This is not a surprise: it was called an "inclusive framework," because invitations to attend the meeting were sent "inclusively," in the hope that developing countries and emerging markets might feel that because they were at (or at least "near") the table, they might be more willing to sign on. But being at, or near, the table is not a promise that one's voice will be heard. The OECD is an organization bringing together the advanced countries of the world; it simply doesn't have the interests and perspectives of the developing countries and emerging markets in its DNA.

I need to emphasize that the recent OECD so-called BEPS agreement does not bind any country not to impose digital taxes in the interim before Pillar I's convention is signed and ratified. Whether it ever will be remains a question. The likelihood that the US Congress would do so is low, with opposition on both sides of the aisle.
So countries in the region should really ask themselves whether this agreement is in their interest, or whether alternatives should be considered, especially to Pillar One.

And whether countries believe this agreement is in their interest or not, they need to ask, does it make sense to sign on, given that the likelihood that it will come into force is so low? If that is the case, almost surely, the main consequence of "signing on" is that the starting point to any future round of negotiations (and there will be future rounds) will be more adverse to the interests of developing countries and emerging markets.

Latin America and the Caribbean are now providing a platform that allows for discussions about different proposals and their consequences, to find solutions that are shaped by and reflect the needs of countries in region.

It is unfortunate that the current outcome is unlikely to provide much stability to the international tax system or sustainable long-term revenues to countries in this region, which rely on corporate tax revenues much more than the OECD average. A decade of political capital has been invested in a process that has not delivered on its promises.

The Way Forward

Now, **let me begin the critical discussion of where we go from here.** There are four parts to this discussion. The first is how Latin America specifically should react to the OECD initiative. The second is what alternative processes can be energized. The third is what particular tax initiatives should be on the table, and the fourth, and perhaps most important, is what should be the priority for the new platform.

On the response to the initiative: Of course, countries should impose taxes at the minimum level at least. Pillar II, without carve outs, should be the standard. I'll have a little more to say about this later.

Countries should not sign onto Pillar I, and if they think that the political pressure is too great and that they must sign, they should wait to ratify until the US does. As I noted above, the likelihood that the US Congress would do so is low, with opposition on both sides of the aisle. And if the US isn't in, why should any country tie its hands?

But it may still be possible for countries to demand positive changes. And it would certainly be good for countries to think about what a good agreement might look like.

There will be pressure on countries to sign quickly, possibly as early as September so as to scuttle the chances of a UN process towards a UN tax convention, which is due to be discussed at the UNGA in September. The African Union is strongly in support of the UNGA process, and there is scope for Latin American countries to collaborate in pushing this, to enable a more democratic global tax structure that benefits all countries. Success in this more-inclusive approach will be helped if countries can resist the pressure to sign onto the OECD convention.

In the meanwhile, while we're in limbo, not knowing whether the Convention will go into force—whether, in particular, the US will ratify—countries in the region need to proceed with imposing digital taxes and with other reforms to the system of multilateral taxation.

Let me now summarize and reiterate my views of the key issues that should be under discussion at the center of trying to create a just international tax order that I referred to in the beginning of this talk.

a) We need to increase the global minimum tax rate and eliminate the carve outs.
b) Pillar 1 needs to be abandoned and a fairer system of allocating tax rights introduced—beginning with a formulaic approach, one that takes into account the differences across parts of the economy. In the case of natural resources, most of the "rents" (pure profits) should be allocated to the source country. In the case of manufacturing, weight needs to be given to employment and capital.

c) I discussed earlier how globalization and the move to a service sector economy have undermined the old transfer pricing system and its rules. Ongoing and future changes in the structure of the economy, including digitalization, will have further important implications for the design of a good multilateral tax system.
d) There has to be a strong commitment to reduce tax avoidance, including shutting down tax havens, whether on shore or offshore, with reforms in the systems of exchange of tax information, etc.
e) There needs to be digital taxation and better frameworks for taxing services.
f) There are a host of technical reforms—physical presence, a standard requirement for the imposition of taxes, makes no sense in a world of services and especially so in a digital world. A good agreement would override the role of bilateral and other investment agreements and double tax agreements in constraining the design of tax structures.
g) There has to be a better way to resolve disputes—I alluded to the objections to the current system of arbitration.

It makes enormous sense to locate a new process at the United Nations. This is the inclusive global institution with legitimacy. It's not perfect—no human organization is. But we should strengthen our commitment to inclusive multilateralism.

The momentum to do so has already started, spurred by the frustration of the African countries which have also been frustrated by the lack of results to date and the inability for the international community to come up with solutions that are fair and deliver sustainable long-term revenues.

The countries in Latin America and the Caribbean last year approved a resolution for this negotiation to commence, and there is scope for Latin American countries to collaborate in pushing this, to enable a more democratic global tax structure that benefits all countries. It is in the interest of all countries to support this process.

Principles and further reforms

Let me turn now to the third question about the way forward: What are some additional measures beyond the technical reforms to Pillars I and II that ought to be discussed and the principles that should guide us?

Such a discussion should begin by considering what kind of societies we want to build and how this should best be done. Latin America should not, for instance, rely on tax competition to build the recovery or sustainability. A country's development should not be based a race to the bottom between countries, in attracting investment through tax incentives that only benefit large companies. If a tax incentive is in place, it should be to incentivize real social development.

Better than a race to the bottom is a race to the top: competition to have better infrastructure and human capital.

Another example where corporate tax reform could make a difference is the taxation of windfall and excess profits. We've seen a lot of this since the beginning of the pandemic. The disparity between the profits of our wealthiest firms and the distress of our poorest people, as many firms have taken advantage of the circumstances to raise margins enormously, undermines social cohesion and contributes to inflation. Such taxes make economic sense, especially at a time when so many countries desperately need money. I understand that Colombia is already considering a windfall profit tax on extractive industries, but it should be broader. And this is one of the things to be considered, expanded and designed on a regional basis.

I want to emphasize that what should be on the table of course is not just corporate taxation but other forms of taxation, too, such as on wealth and capital gains.

This platform that the countries of the region are establishing to discuss and promote tax reform provides the opportunity for countries in the region to collectively agree to raise taxes on the richest individuals, through truly inclusive and ambitious international collaboration to tax wealth and to stop tax competition and tax avoidance by the richest people.

To repeat: Our shared ambition must be to make our international and national systems work for everyone, not merely those who have money and power. And this means eliminating the ability of the ultra-rich to avoid paying what they should.

Better coordination on wealth taxation, including the automatic exchange of information, would shrink opportunities to avoid taxation while also allowing countries to raise vital funds to tackle the multiple challenges facing our world.

Some countries have shown that taxing wealth even at very low rates can create substantial revenues.

More broadly, this initiative should also help spur better practices by sharing experiences and coordinating common approaches and solutions to problems that are shared within the region.

But this platform should not just be a technical one, it should also be a political one. Latin America, by speaking with one voice, can, as I suggested in the beginning, go beyond reacting to discussions that will have repercussions at national, regional and global level.

Solutions identified in the platform can help countries advance national reforms in the areas of taxation of multinationals, tax competition, taxation of wealth, tax avoidance and tax evasion.

Priorities

Finally, let me say a word about my views on priorities among the rich list of items that have already been identified. All are important. I've already touched on many. The one I haven't perhaps emphasized enough is environmental and resource taxation. This is especially important because so many of the region's economies are resource dependent. We should be clear: The resources belong to the people, and the objective of resource taxation should be to collect as much of the resource rents as possible, consistent with the sustainable development of the resource. Latin America by and large has been falling short. Assessing the extent to which that is the case and how it can be corrected should be one of the goals of the platform.

Climate change is real, and Europe is considering imposing cross-border taxes on countries that have not imposed appropriate charges on carbon emissions. Both for Latin America to make its global contribution in this fight to save the planet and to avoid these cross-border taxes, all of Latin America has to quickly design and impose equitable and sustainable carbon taxes, or equivalent measures. The platform should give high priority to advancing this agenda.

At the same time, many of the countries in the region have been making enormous contributions to preserving biodiversity. It is a great disappointment that some countries, including the US, have refused to ratify the biodiversity convention—precisely because it would compensate countries for their eco-services. This is an injustice that countries in the region, working together, could work to correct.

I already mentioned the US is responding to climate change strongly by spending enormous amounts of money, not only to protect the people from this unprecedented heat but for industrial policy. The countries of the South can't respond in the same way because that don't have the revenues. So they have to raise the revenues, including by reform of multinational taxation in an equitable way, so that they have the revenue to respond to climate change, both for the cost of mitigation and for adaptation.

Even with the best of reforms, it's an unlevel playing field. If the advanced countries had had an ounce of humanity, they would have said: We have some disputes about where global revenues should be allocated. If we have any dispute, let's have that money go to a common global purpose. And what is our common purpose? Fighting climate change. This is the existential threat to the planet.

The advanced countries have committed to giving developing countries 100 billion dollars every year to respond to climate change. As climate change has proceeded, it's clear that that amount is insufficient. But the advanced countries haven't fulfilled that obligation.

In this context, wouldn't it have made sense to allocate any disputed revenues to help developing countries and emerging markets respond to climate change? But there was not that kind of generosity, humanity, or empathy, because the tax reform was being done not by those who are trying to create a fair global architecture, but the agenda was set by corporations whose objective was to minimize their taxes, given these forces that were demanding reform. So they wanted to minimize the reform, and they succeeded…or they would have succeeded except for the US. Almost surely, we're not going to get a ratified agreement.

Concluding remarks

I want to conclude with a few general thoughts about the reform process.

The first set of points relates to my reaction as an economist to the reform proposals. I've already emphasized my disappointment at how the people structuring this agreement didn't take on board what we have learned about corporate income taxes and their effects over the past half century. There is simply no economic justification for many of the provisions, indeed for the basic structure underlying Pillar I and for the carve-outs in Pillar II.

There are also some insights from economics and economic theory and political theory that may be relevant in thinking about the reform process.

Arrow's impossibility theorem makes the important point that process matters. How you organize the process will affect the outcome. It matters who is running the process, who is setting the agenda. How a process is organized affects the outcome, and indeed, even whether there is an outcome.

What we've seen—the inequities to which I have pointed—is not a surprise given the process.

None of us can guarantee what an alternative process, such as that convened under the auspices of the UN, will generate, but it is likely, if it generates an outcome, to be more equitable.

Any process of this complexity must involve a certain level of trust. There's an exchange: I'll give up this, you give up that. Unfortunately, the history of negotiations as they've been done, say, over trade, led by the United States and Europe, has not been good.

It has not been one that has led to trust. And that's the reality that we have to live with. When the developing countries entered the negotiations at the Uruguay Round, they had a number of things they wanted on the agenda. When the Uruguay round was completed, the advanced countries got most of what they wanted, the developing countries little. The developed countries said: “Trust us, we'll come to your issues like agricultural subsidies and escalating tariffs later, in the next round of trade negotiations.”

Then a few years later the Development Round of negotiations was begun to complete the task. What was the outcome of the Development Round? Zero. After 12 years it was abandoned. The Development Round was supposed to rectify the imbalances. But when it came to making the necessary compromises, Europe and the US were obdurate.

Even putting aside the long history of colonialism, the advanced countries have earned a certain amount of distrust. And as I illustrated before, what we've seen in these tax negotiations is consistent with this historical legacy.

So there has to be another forum besides one centered around the US and Europe.

That leads me to the next point: We are experiencing what I feel is a little bit like Kabuki theater, where there is a lot of drama but we're pretty sure what the outcome is going to be. As I said before, the outcome is no outcome. The US won't ratify.

And then one has to ask oneself, why are the arms of so many countries being so badly twisted knowing that the outcome is going to be zero? Why is so much political capital being spent? Why are you being asked to do so much for something that won't make any difference?

One hypothesis is that what's going on is a fight over where the next set of negotiations *begins.* Once the developing countries and emerging markets make a concession in these negotiations, that will be interpreted as giving a concession for the next process. So you need to be strong in the current process, thinking all the time about what outcomes might be desirable as part of the UN process.

The final set of markets concerns the alternative, what is the counterfactual, what happens if there is no ratified convention? That entails judgments less about economics and more about politics.

You will have the freedom to pass digital taxes. You have the freedom to redesign your rules. Your freedom is going to be inhibited by whatever bilateral agreements, investment agreements, you've signed; and by whatever double taxation agreements you signed. You can and should think about renegotiating those agreements. South Africa, years ago, decided to withdraw from its bilateral investment agreements.

Withdrawing from investment agreement will give you more space. Withdrawing from, renegotiating, or reinterpreting, some of the double taxation agreements should give you more space too. It's clear that the countries in the region need to get more space.

Some people have argued that if this agreement isn't signed, if you implement a digital tax, the US will retaliate with all kinds of taxes on your products. That's speculation. Even if they might have done that in the past, we have to ask the question, are we in a new world? A new world that is different from what it was five years ago? The political dynamics are different in two important ways.

The first is the new Cold War. It's real. Latin America is very well positioned for this new Cold War. You trade more with China than you do with the US. Would the US do something to push you closer into the orbit of China? I don't think so, but these are political speculations, and you'll have to make a judgment about the risk. But my own judgment is: likely not.

Moreover, America's and Europe's political futures are very much up in the air. If Trump wins, agreements don't mean anything anyway. They are at most a slight inconvenience. Even for Biden, when the WTO rules proved inconvenient, he said, in effect, "Though we wrote the rules in the first place, now that those rules are tying our hands we will rewrite them to suit our purpose."

It's not clear how much agreements mean to the US. So the question, is why should you tie your hands if the US isn't tying theirs?

In the future, the options for a better agreement are actually quite reasonable. On the left, if there is a good democratic government elected in the United States there will be more concern about developing countries, there will be more concern about global cooperation, about a recognition of our mission to work together and reduce poverty globally. If the Right prevails, it doesn't make much difference because they'll override any agreement not to their liking or that of the business interests they serve.

It is clear, that the countries of the region should think twice before they sign. And standard decision making under uncertainty suggests that one might not want to sign.

Let me conclude: The summit in Cartagena is the first step in a long road to build consensus to be able to face the multiple crises that affect the regions with tax policies that are inclusive, sustainable and equitable.

There is a lot the region can achieve here that can inspire the rest of the planet.

And I'm extremely happy to see the voice of civil society being heard and contributing.

This summit did not happen by chance. It happened due to the leadership of Colombia with my friend José Antonio Ocampo first, and Ricardo Bonilla now, together with Fernando Haddad of Brazil and Marcelo Marcel of Chile; and the cooperation of all the countries here in the room and the particular individuals who have already been recognized in helping organize this seminar. I thank them for their leadership in creating this platform and getting us here to Cartagena.