

AUSTRALIAN COUNCIL FOR THE DEFENCE OF GOVERNMENT SCHOOLS

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THE REALITY AND THE RHETORIC BEHIND

EDUCATIONAL INEQUALITY

Most of the commentary and debate in mainstream think tanks, interest groups, and political debate circle around the issue of growing educational inequalities.

The effects of inequalities, - if any are acknowledged - will have upon the national economy take centre stage. The political elite are waking up to the fact that their 'globalisation' 'trickle down' rhetoric has not convinced vast swathes of disadvantaged, disaffected voters. Hence the Brexit, Trump, and 'Independents in the Senate' phenomenon. As the wealthy avoid tax, the middle classes are hollowed out, the poor fall further into poverty and homelessness, and the 'economy', our democracy, and our children suffer. Educational deprivation and the running down of public education is part of a much bigger picture.

Academics, think tank commentariats, and politicians happily get bogged down in "To fund, or not to fund" debates.

Nobody is prepared to be politically incorrect and take on the 'poor parish school' myth perpetuated by the religious lobby. They seem incapable of working out why our nineteenth century forebears centralised public education, stopped State Aid and increased equality of opportunity.

The fear of being labelled 'sectarian' lurks in sensitive memories. Only a few look up from the diversionary NAPLAN and PISA hares let loose by number crunching politicians and IT experts and consider the broader national and international tax roting by multinationals – including those in the religious business. This would mean talking about a 'revenue' rather than a 'spending' problem and coming to terms with the much depleted national Treasury pie. Consider the commentaries of the last week listed on our Media website:

- Jim McMorrow has projected where [Coalition plans will take school funding](#) in the next few years. It's not pretty. Jim has been doing these outstanding reports for a number of years.
- Various [reports](#) on the Productivity Commission's draft conclusions about school and student performance. The Commission had a narrow brief....and when it comes to money and

performance has released equally narrow findings. NSW Education Minister Piccoli [slammed the report](#) (SMH Sept 7)

- ['We need to rethink school funding, Education Minister James Merlino says'](#) *The Age* Sept 2. When you compare NSW and Victorian investment in schools that must be the understatement of the year!
- Just released: [Ken Boston's speech](#) to ACEL NSW awards evening. A timely reminder of what did and didn't happen after Gonski.
- The SMH reports on a hard-hitting NSWSPC [media release about NAPLAN](#) and related matters.
- How about this? ['The halo effect that helps beautiful students get better marks'](#) SMH Sept 2.

To be fair, Trevor Cobbold at

<http://www.saveourschools.com.au/funding/apple-and-other-multinationals-are-fleeing-the-disadvantaged>, has lifted his sights higher to look at the much bigger picture. He notes that Apple and other Multinational are fleecing the Disadvantaged. He writes:

A ground breaking decision by the European Commission has highlighted massive tax evasion by large multinational firms that depletes government revenue to invest in essential services such as health and education. The loss falls most heavily on disadvantaged families who get reduced access to quality health services and education opportunities for their children.

The Federal Government claims that funding the \$7 billion for the last two years of the Gonski school funding plan is not sustainable given the state of the federal budget. However, tax evasion by large multinational companies is a major drain on government revenue and it needs to be stopped to provide decent health and education for disadvantaged families and children....

[Apple also pays little tax in Australia](#) by shifting profits on sales in Australia to Ireland. Last year, it paid only \$85 million in Australian income tax, despite making almost \$8 billion in local revenue. [An investigation by the Australian Financial Review](#) found that Apple shifted an estimated \$8.9 billion in untaxed profits from its Australian operations to its tax haven structure in Ireland in the last decade.

But Apple is not alone in shifting profits off-shore to reduce tax payments. [A report by Oxfam](#) in June this year estimated that nearly \$20 billion was "shifted" out of Australia and into tax havens in 2014. The estimated loss to tax revenue was \$5-6 billion; this is \$5-6 billion that could otherwise have been spent on schools, hospitals, and other essential public services.

Readers are encouraged to read the whole article.

But an even more interesting commentary on the extraordinary rorting of national tax systems by multinational corporations and the resulting inequalities in advanced as well as developing nations in found at <http://www.the-tls.co.uk/articles/public/hidden-costs/>. This is a book review by Edward N.

Luttwak of [*THE PANAMA PAPERS*](#) *Breaking the story of how the rich and powerful hide their money* by Bastian Obermayer and Frederik Obermaier
384pp. Oneworld. Paperback, £12.99.

DOGS reproduces part of it because this is an extremely important book – this decade’s most important rather than this year’s. Not because it uncovers the thoroughly unethical behaviour of politicians in countries as varied as Iceland (the Prime Minister of which briefly resigned – though he will be contesting the next election – and was only one of several ministers and ex-ministers there who had availed themselves of the services of Mossack Fonseca) and Malta, with plenty of the more predictable places in between, and nor even because it uncovers the exact machinery of corporate and personal tax avoidance and tax evasion, but rather because it offers an entirely new perspective on the greatest question of the age: ***why has income distribution in the more developed economies become increasingly unequal pari passu with the advance of globalization?***

Globalization’s advocates – and they are very many, including all the varied categories of worthies on both sides of the Atlantic and beyond who preside over almost all respectable academic institutions and elite gatherings – habitually celebrate its transfer of income from higher-income to lower-income countries while disregarding the overwhelming evidence that much of that consists of the transfer of income from lower-income people in higher-income countries to higher-income people in lower-income countries. When I presented overwhelming statistical evidence to that effect (in *The Endangered American Dream*, 1993, and *Turbo-capitalism*, 1999), Robert Solow in the *New York Review of Books* and Paul Krugman in a purpose-written little book attacked me as a simple-minded xenophobe, a sort of proto-Trump, who had no clue about the wonders of comparative advantage in ensuring the best possible economic outcome for everyone.

Less polemical economists did in due course pay attention to the evidence of rising inequality in the more developed economies (yes, even in ever so virtuous Norway and such), but they then explained it as very largely the result of the information technology revolution, which continues to devalue all forms of routine work in both production and distribution, as opposed to the globalization-caused decline in advanced-country manufacturing that drives once well-paid production workers into low-paid services. Others disagreed of course – but actually nobody of political consequence paid any attention. That remained so even after Thomas Piketty’s *Capital in the Twenty-first Century* became the Harvard University Press all-time bestseller in 2014 – and not because of that book’s shortcomings (now expertly re-examined in the current issue of *Commentaire* by André Babeau, Denis Kessler, Didier Maillard and Gilles Saint-Paul). It was just that national and international liberal elites are perpetually focused on “north–south” inequalities, never in internal advanced-country inequalities: hence the horrible electoral surprises of 2016, when in the US the victims of globalization found their candidates in Donald Trump on one side and Bernie Sanders on the other, while their British counterparts won their Brexit. That referendum has evoked shamelessly anti-democratic and madly over-the-top reactions from the princes of the international elite; Mario Monti, himself an unelected Italian Senator for life (on €147,000 per year) and unelected ex-Prime Minister (with a nice pension) as well as an ex-EU commissioner of note, loudly proclaimed the Brexit vote itself to be an abuse of democracy.

This is the context that makes The Panama Papers so very important. With this totally new evidence in hand, we now know that globalization has caused rising inequality in quite another way than the transfer of higher-paying manufacturing jobs and all other such phenomena – very unfortunate in my view but not shameful or criminal. It is just a matter of numbers: Mossack Fonseca’s 214,000 offshore companies alone (and there are many other such shell companies, formed by many other law firms) handled not millions or billions but trillions of dollars in their totality, thereby wholly subverting the presumptively equalizing effect of taxation. When the less affluent must pay their payroll taxes and income taxes in full, while the more affluent with offshore companies do not pay their own taxes, the total effect of the taxation system is regressive, even without adding the inherently regressive effects of sales and value-added taxes. Once we recognize the sheer magnitude of “offshored” income flows, and once we take into account the strongly regressive effects of supposedly progressive taxation systems, the phenomenon of rising inequality in affluent societies may not need much additional explaining – and it hardly matters if those were tax-avoidance or tax-evasion trillions.

Of course a great deal of money in shell companies is neither of those things, being more simply the proceeds of theft from public treasuries by the rulers who control them – such as President Putin, unless the distinguished cellist is the improbable thief. But that is irrelevant to the question of rising inequality in advanced countries: their rulers, such as David Cameron (until recently) or the current Prime Minister of Australia, Malcolm Turnbull, may avail themselves, or benefit from, (perfectly legal) tax-avoidance via offshore shell companies, but they do not steal public funds. That is not true of many of the political leaders whose names have been extracted from the Panama Papers until now, including four heads of state, four former heads of state, two heads of government, eight former heads of government, and hundreds of ministers, regional governors, mayors, Chinese potentates, or their stand-in close relatives (there is a Wikipedia list).

Among the many individual stories offered in the book – each succinctly presented because the authors have no need to pad them – a number are exemplary in different ways. Nicstate Development S.A. was allegedly controlled by José Arnaldo Alemán Lacayo, the former President (1997–2002) of Nicaragua (GDP per capita under \$2,000) who was sentenced on December 7, 2003 to twenty years in prison for corruption to the amount of some \$100 million – or, put differently, 50,000 times the average income of Nicaraguan citizens.

Any number of Arab potentates and sidekicks are Mossack Fonseca clients, and their offshore companies contain much more impressive sums than a mere \$100 million, but some of those clients, along with various Russians and others, also happen to be on UN, European or US sanction lists. Nevertheless in February 2015 Mossack Fonseca forthrightly declared to the *Süddeutsche Zeitung* that it did not accept any sanctioned clients – their ever so respectable website still makes that claim along with other affirmations of immaculate probity. What they did not realize back in Panama is that Obermayer and his cohort had already found the names of numerous sanctioned individuals, including Bashar al-Assad’s key financial and economic operator, Rami Makhlouf, Syria’s richest man, who has played a critical role along with his entire clan in keeping the regime going in spite of the catastrophic collapse of the country’s economy.

Much less surprising is the abundance of Mossack Fonseca clients in the leadership of UEFA and FIFA: because football earnings are so very large it stands to reason that they should be

offshored rather than wasted in paying taxes. Another story is just downright sad: Amedeo Modigliani's melancholy "Seated Man With a Cane", robbed from its Jewish owner, Oscar Stettiner, by the Nazis and thereafter trafficked in the usual way, is claimed by Stettiner's grandson Philippe Maestracci from the Helly Nahmad Gallery in New York, where it was last exhibited. But the owner, Helly Nahmad, noted that the painting did not belong to him but rather to a company called the International Art Center S.A. Its directors are of course appointed by Mossack Fonseca, and it stores the contested painting in the vaults of the Ports Francs et Entrêpôts de Genève S. A., aka the Geneva Freeport, where hundreds of artworks of global importance are denied to the rest of humanity – including Picassos owned by David Nahmad, a well-known Monte Carlo-based art dealer, the father of Helly and brother of the late Giuseppe Nahmad z.l. Giuseppe was a most talented art dealer with a genuine passion for art, who formed the International Art Center S.A. in 1995, assigning half the ownership to David, who became the sole owner on October 22, 2014, and thus of Modigliani's sad painting in spite of all denials (I, too, am sad because I know the Nahmad family from the Milan of my childhood, and wish they would honour their brother Giuseppe through their conduct).

Russians, mostly Putin's close life companions such as the ineffable cellist Roldugin, figure largely in the documents along with their companies (Sandalwood, Sunbarn, Ozon, etc.), sufficiently so to end any residual dispute about Putin's personal enrichment since his frugal days as a Leningrad University law student. Naive people such as myself did not believe that he had amassed enormous sums in foreign bank accounts, as many said, because he needs no money at all to acquire anything he desires. If Putin wants someone's Moscow mega-mansion, for example, he need only let the owner know whether he wants it as it is, or cleared of furniture, and the same is true of anything else in Russia: his power is limited only by his own considerable restraint. (Even so it is definitely patrimonial, as Mikhail Khodorkovsky found out when his Yukos mega-oil company was wanted: because he held out instead of handing it over with a smile, he lost ten years of his life in prisons, in addition to Yukos.)

As for China, Xi Jinping's relentless anti-corruption campaign that has sent many of his predecessors' favourites to prison has yet to reach Deng Jiagui, his own brother-in-law, and a multi-millionaire Mossack Fonseca client along with Li Xiaolin, the daughter of the former premier Li Peng (of ill fame because of Tiananmen); Yu Yiping, the husband of Deng Xiaping's niece (the owner of Galaxia Space Management, registered in the British Virgin Islands); Lee Shing Put, the son-in-law of Zhang Gaoli, a current Politburo member and shareholder in Glory Top Investments Ltd; and Zeng Qinghuai, the brother of the former Vice Premier.

In one of the email exchanges, John Doe understandably noted his own security concerns: "It is very likely that some of the firm's clients will try to find me. And some of those clients have intelligence agencies". He was also concerned for the journalists who "are not going to be particularly popular" among the clients – a fear realized in the case of Hong Kong's newspaper *Ming Pao*, whose sacked Editor, the brave Kevin Lau, was repeatedly knifed by the usual young Triad members who fled on the usual motorbikes. It is possible that they themselves were angered by a *Ming Pao* article on the Tan dynasty poet Wang Wei, but then again they might just have been sent by a Mossack Fonseca client, or the Beijing government. The abrupt firing of *Ming Pao*'s executive chief editor, Keung Kwok-yuen, on April 20 – coincidentally, no doubt, the very day that a report based on the Panama Papers was

published on its front page – was attributed to “difficult operating conditions” by management.

As the members of the consortium continued to extract actionable reporting from 2.6 terabytes of data (according to the Foreword by the *Guardian*'s Luke Harding, who may know better than I what a terabyte really is), they kept turning up the names of the tax avoiders and evaders who form a very large part of the members, attendants, sponsors and speakers of the elite institutions that so earnestly strive to guide all of us towards a better future: Davos of course, the various Aspens, the much-demonized but merely geriatric Bilderberg, and others such, which conjointly gather the official and unofficial leaders of advanced countries along with their would-be emulators in the rest of the world.

No wonder that their advocacy of ever-freer across-the board globalization is so relentless and so enthusiastic: I, too, share their enthusiasm when it comes to snorkelling in Polynesia as opposed to the unbalmy waters of Virginia Beach, or hiking in Bhutan as opposed to the overcrowded Appalachian trail; but they are all too often thinking of their darling little companies in Anguilla, the Bahamas, Belize, the British Virgin Islands, the Cayman islands, Costa Rica, Cyprus, Hong Kong, Malta, the Netherlands, Panama, Samoa, the Seychelles, the Isle of Man, Nevada and Wyoming among many more, which are sturdily safeguarding their money from the evils of taxation.

In a specific way – and I am not being frivolous – it is the outright crooks, drug-traffickers and such, who are more honest fiscally at least, because most would dearly love to pay income taxes on their earnings, if only they could do so without being arrested, thereby acquiring legal wealth they could enjoy and show off, instead of having to launder their banknotes and hide the washed money in offshore companies whose ownership is frustratingly abstract. The outright crooks, moreover, do not pontificate on the benefits of globalization at Davos and all other such jamborees under the benevolent smile of the Clintons and Blairs and Mario Monti of this world.

Given the international elite consensus, it is unsurprising that no move is made to stop offshore tax avoidance on declared incomes by simply making it more costly than the payment of taxes – and not many of the affluent in advanced countries would risk prison by switching from avoidance to outright evasion. Nor is it surprising that the pursuit of outright tax evasion is merely episodic instead of systematic: the same authorities that routinely identify, track and remotely kill individual terrorists in distant countries, which they occasionally bomb for one reason or another, profess themselves impotent before the blithely meretricious officials of micro-countries that contain little else but banks that conduct no local business, whose only *raison d'être* is very plainly to facilitate avoidance and collude in evasion. And even when the identities of tax evaders are exposed by data stolen from complicit banks (Swiss mostly), only the German tax authorities seem ready to buy it from the thieves without making a fuss, thereby recovering billions for a few million; the French are so bureaucratic that would-be sellers despair, while the Italian tax authorities have been known to refuse, pleading a lack of funds.

Finally I must add my own *mea culpa*: I too blithely participated in the cavalier disregard of the effects of tax avoidance and tax evasion on income distribution, simply assuming without any evidence whatever that it could only be marginal. When we read through *The Panama*

Papers, and the flood of articles produced by the insufficiently celebrated consortium, we discover otherwise.

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