

MAKING SENSE OF *THIS* WORLD

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R&R Weekly Column
By Brunello Rosa



Minimum Corporate Tax Rates And Digital Taxes: A First Concrete Attempt At Tackling Inequality

[A number of studies](#) have shown how income inequality and wealth inequality worldwide have risen during the past few decades. A few years ago, Thomas Picketty's *Capital in the Twentieth-First Century*, a massive book on the rise of inequality, became an international bestseller. Even institutions such as the International Monetary Fund, for generations considered to be the "bad cop" of the international financial order, [named "inclusive" growth among its set of goals](#).

More in-depth analysis, such as [this study by the IMF itself](#) (and similar ones from the World Bank), have showed that inequality between countries has in fact diminished in the last few decades, especially thanks to [China moving from being a low-income to middle-income country, lifting 850 million people out of extreme poverty in the process](#). At the same time, however, inequality within countries has increased, with the richer segments of populations becoming even richer than they had already been, and the poorer segments becoming poorer in comparison.

There are several causes of this phenomenon, including the beginning of a new phase of globalisation of the world economy, kickstarted by US President Nixon's decision to suspend the US dollar's convertibility into gold, as well as by Nixon's trip to China, which under the rule of Deng Xiao Ping was then becoming a (state-)capitalist economy. But above all, there was the beginning of the disconnect between the increase in labour market productivity and salary increases, while, at the same time, a massive reduction in corporate taxes occurred globally.

The net effect of this was that the so-called labour share of income started to decrease significantly, while the capital share, or corporate profits, started to increase massively. The ideology underpinning these policies, promoted by market fundamentalists, was the so-called "trickle-down economics", the idea that making the rich richer would eventually also result in making the poor richer as well. We now know that did not work.


After two systemic crises (in 2008-9 and in 2020-21, both of which hit the poorer segments of the population disproportionately more than the richer ones) and after endless protest movements (such as Occupy Wall Street), the establishment finally realised that it was time to act. Some countries, such as the UK and France, introduced extra taxes on higher incomes. Others, such as Italy, introduced various forms of wealth taxes. Finally, a number of European countries started to introduce "digital taxes", to try and make the tech giants, especially those from the US, pay their fair share to society.

However, without the US on board, none of these extemporaneous initiatives could really make a difference. But finally, the Biden administration, under the influence of Treasury Secretary Janet Yellen, has made a move. First, as part of the wider package put together to repay the gigantic amount of debt issued to counter the economic effects of the pandemic, the US administration has announced some increases in taxes for the richer, and more entitled, segments of the population. This includes personal income and corporate taxes. The expected rise of the corporate tax over the next few years represents a welcome reversal of the well-established secular trend.

Second, the administration has launched the idea of [creating a global minimum corporate tax rate](#), of around 21%, so that the international competition to attract companies from one country to another solely on the basis of taxation regimes would be discouraged. Third, the aim of the new tax system would be for companies, in particular the tech giants, to pay taxes not on profits, which are always reduced to virtually nothing thanks to various accounting gimmicks, but rather on revenues generated in a certain country, irrespective of whether or not the company is legally based in that jurisdiction.

[In an effort to re-launch multilateralism](#), Biden has proposed the OECD as the correct forum for the discussion of these issues. The G20 is also taking a lead on this, under the Italian presidency. However difficult it will be for these proposals to become reality, we still think they are a step in the right direction, as a first attempt to tackle the rise in income and wealth inequality at the global level, a rise that has been exacerbated by the central bank's policies (such as QE) adopted to counter the effects of the systemic crises.

Our Recent Publications

 [Flash Preview: BOC Set For Another QE Taper and Maturity Extension](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 16 April 21

 [Flash Preview: ECB To Stay Put Amid Continued Economic Weakness](#), by Brunello Rosa and Karmen Meneses, 16 April 2021



Looking Ahead

The Week Ahead: US And EZ Manufacturing PMIs To Remain Broadly Unchanged

In the US, in April, PMI data for: *i*) manufacturing is expected to remain broadly unchanged at 59.3 (*p*: 59.1); and *ii*) services is seen to rise to 61.5 (*p*: 60.4).

In the EZ, in April: *i*) manufacturing PMI is expected flat at 62.0 (*p*: 62.5); while *ii*) services are likely to remain subdued at 49.1 (*p*: 49.6).

The Quarter Ahead: Vaccination Campaign In Over 155 Countries, But Supply Bottlenecks Constrain The Recovery

Since the beginning of the COVID-19 pandemic, more than 139m cases have been reported worldwide, with 3.0m deaths.

The WHO intended to deliver 100m vaccines to low-income countries by end of March through the COVAX plan, but only some 38m doses were distributed.

US president Biden imposed sharp sanctions against Russia, including: *i*) measures targeting 'government debt'; *ii*) the expulsion of 10 Russian diplomats; and *iii*) restrictions on 38 entities, individuals and companies accused of taking part in efforts to interfere in US elections and conducting cyber-attacks. Russia described the move as a blow to bilateral relations and vowed to impose swift retaliatory measures.

In Japan, in unusually blunt remarks about China's military activity near: 1) Taiwan (South China Sea); and 2) the Senkaku Islands, administered by Tokyo, but claimed by China (East China Sea), PM Suga said the US and Japan will "oppose the use of force in the South and East China Seas".

In the US, the Fed Chair Powell warned that reopening the economy too quickly could lead to another jump in COVID-19 cases, arguing that "the country has not completely turned the corner" and that the pandemic "continues to pose major risks to any recovery".

In Turkey, the CBT stated that it banned the use of crypto assets in payment-settlements as "they involve significant risks due to volatile market values and use in illegal transactions".

Last Week's Review

Real Economy: The Global Economic Recovery Remains Fragile; Inflationary Pressures Rise

In the US, March's retail sales jumped to 9.8% m-o-m (*c*: 5.9%; *p*: -2.7%), the biggest increase since May 2020, as: *i*) more businesses reopened; *ii*) the USD 1,400 checks - sent from mid-March - started to fuel demand; and *iii*) the weather improved, after unusually cold temperatures and winter storms in February.

In the US, in March the annual inflation rate jumped to 2.6% (*c*: 2.5%; *p*: 1.7%), the highest reading since August 2018 - with main upward pressure coming from: *i*) the energy sector; *ii*) rising commodities and material costs, coupled with supply constraints; while *iii*) producer prices rose and companies passed those costs to consumers.

In China, in Q1-2021 the economy surged by a record 18.3% from the deep coronavirus-induced trough of Q1-2020.

In the EZ, February's retail sales eased to -2.9%y-o-y (*c*: -5.4%; *p*: -5.2%), as many countries including Germany, France, Italy and Spain, re-imposed or extended restrictive measures to contain the spread of coronavirus.

In New Zealand and Turkey, both CBs kept their interest rate unchanged at 0.25%, and 19.0%, respectively.

Financial Markets: Stocks Moved To New Highs, As The Earnings Season Began Positively; USD Fell And Commodities Rose

Market drivers: investor sentiment was lifted by: *i*) strong retail sales and employment figures in the US; *ii*) optimism about a US-led, robust global recovery; *iii*) record quarterly GDP data from China; and *iv*) better-than-expected Q1 earnings.

Global equities rose w-o-w (MSCI ACWI, +1.5%, to 705). In the US, the S&P 500 Index finished at fresh records (+1.4%, to 4,185), as: *i*) health care shares were boosted by gains in insurance stocks; while *ii*) rising gold and copper prices boosted mining shares. In the EZ, shares rose (Eurostoxx 50, +1.4%, to 4,033) on hopes of: *i*) a strong recovery in the global economy; and *ii*) rising corporate earnings, despite a resurgence in COVID-19 infections.

Fixed Income: w-o-w global bonds remained flat (BAML Global, +0.2% to 292.9), and despite stronger-than-expected economic data, US Treasury yields declined (-9 bps, to 1.57%).

FX: w-o-w, the USD weakened, and the DXY moved below the 92-level for the first time in a month (DXY, -0.7%, to 91.556; EUR/USD +0.7%, to 1.198).

Commodities: Oil prices rose (Brent, +6.1% to 66.8 USD/b) after: *i*) both the EIA and API reported a larger-than-expected draw in crude oil inventories; and *ii*) both the OPEC and IEA revised up their forecasts for world oil demand growth in 2021. Gold rose (+1.9% to 1,776 USD/Oz) as the USD hit a four-week low.



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Abbreviations, Acronyms and Definitions

| | | | |
|-------|---------------------------------------|---------|---|
| a | Actual | LN | Northern League, Italy |
| AKP | Justice and Development Party, Turkey | MSS | Five Star Movement, Italy |
| ann. | annualized | m-o-m | Month-on-month |
| ARS | Argentinian Peso | mb | Million barrels |
| avg. | Average | mb/d | Million barrels per day |
| bn | Billion | MENA | Middle East and North Africa |
| BoC | Bank of Canada | MHP | Nationalist Movement Party, Turkey |
| BoE | Bank of England | mn | Million |
| BoJ | Bank of Japan | MPC | Monetary Policy Committee |
| bpd | Barrels per day | NAFTA | North-American Free Trade Agreement |
| bps | Basis points | NATO | North Atlantic Treaty Organization |
| BS | Balance sheet | OECD | Organization for Economic Cooperation and Development |
| c | Consensus | Opec | Organization of Petroleum Exporting Countries |
| C/A | Current account | p | Previous |
| CB | Central bank | P2P | Peer-to-peer |
| CBB | Central Bank of Bahrain | PBoC | People's Bank of China |
| CBK | Central Bank of Kuwait | PCE | Personal Consumption Expenditures |
| CBT | Central Bank of Turkey | PE | Price to earnings ratio |
| CDU | Christian Democratic Union, Germany | PM | Prime minister |
| CNY | Chinese Yuan | PMI | Purchasing managers' index |
| CPI | Consumer Price Index | pps | Percentage points |
| DJIA | Dow Jones Industrial Average Index | pw | Previous week |
| DJEM | Dow Jones Emerging Markets Index | QCB | Qatar Central Bank |
| d-o-d | Day-on-day | QAR | Qatari Riyal |
| DXY | US Dollar Index | QE | Quantitative easing |
| EC | European Commission | q-o-q | Quarter-on-quarter |
| ECB | European Central Bank | RE | Real estate |
| ECJ | European Court of Justice | RBA | Reserve Bank of Australia |
| EIA | US Energy Information Agency | RRR | Reserve Requirement Ratio |
| EM | Emerging Markets | RUB | Russian Rouble |
| EP | European Parliament | SWF | Sovereign Wealth Fund |
| EPS | Earnings per share | tn | Trillion |
| EU | European Union | TRY | Turkish Lira |
| EUR | Euro | UAE | United Arab Emirates |
| EZ | Eurozone | UK | United Kingdom |
| Fed | US Federal Reserve | US | United States |
| FOMC | US Federal Open Market Committee | USD | United States Dollar |
| FRB | US Federal Reserve Board | USD/b | USD per barrel |
| FX | Foreign exchange | UST | US Treasury bills/bonds |
| FY | Fiscal Year | VAT | Value added tax |
| GCC | Gulf Cooperation Council | VIX | Chicago Board Options Exchange Volatility Index |
| GBP | British pound | WTI | West Texas Intermediate |
| GDP | Gross domestic product | WTO | World Trade Organisation |
| IMF | International Monetary Fund | w | Week |
| INR | Indian Rupee | w-o-w | Week-on-week |
| IPO | Initial public offering | y | Year |
| IRR | Iranian Rial | y-o-y | Year-on-year |
| JPY | Japanese yen | y-t-d | Year-to-date |
| k | thousand | ZAR | South African Rand |
| KSA | Kingdom of Saudi Arabia | 2y; 10y | 2-year; 10-year |



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