

A New Accounting and Taxation Paradigm

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This paper responds to e.g. UN's 17 Sustainable Development Goals, COP 21's Paris Agreement and the ongoing work within the EU/EC to develop more responsive tax systems across Members States. Although many such reports and proposals have been issued, and some useful tools developed to facilitate environmental impact-assessment in economic terms (e.g. SEEA), the platform for this debate still remains the century-old assumption that income and profit must constitute a basis for taxation. This paper describes why and how the tax system must be even more fundamentally redesigned;

- (i) from being a tool that first and foremost is for the generation of public income and the discouragement of some (but not all) social, health and environmental ills (by increased levies).
- (ii) to being a tool that first and foremost reduces the need for corrective government action and expenditures - by guiding corporate activities (and hence eventually also those of the general public) towards what benefits society at large - leading to better socio-environmental conditions.

For this to occur both corporate and national accounting models will have to be redefined and redesigned to include a much wider range of costs, revenues, assets and liabilities. Achieving this however will also require redesigning incentive structures to make corporate activities become more profitable if/when the society at large *also* benefits, i.e. when the national accounts' balance sheet also improves. Examples could be to reward the delivery of in-house training and/or education that society at large also benefits from, and/or engagement in reforestation of wasteland. That would however require the national accounts to also account for the population's educational level as an asset in its balance sheet, and/or to record forest-reserves as national assets, neither of which is currently done.

If the national accounts' balance sheet on the other hand loses from an activity - for instance by corporate extraction of raw materials (reducing stock), or by corporate degeneration of the environment (causing reduced quality of life for the society, which hence also should be accounted for as a national asset), or by corporate disregard for ill-health consequences arising from its activities (adding to society's health expenses paid for by the state, in turn reducing actual or potential savings) - a new taxation system will need to compensate society at large for such drainage of 'assets', through imposing specific taxes on the entities causing the losses.

Such assessment can, at least partly, be made by using the statistical tool SEEA (the System of Environmental-Economic Accounting). But although technically calibrated with SNA (the System of National Accounts) it is not integrated in countries' national accounts.

The Missing Link

The corporate sector has, undoubtedly, a significant influence over our societies. Not only does the corporate sector employ many of us, and produce most of what we consume, it also drives our economies on a greater scale through lobbying our governments and elected politicians. German sociologist Jürgen Habermas (1984; 1991; 1992) famously divided what he termed the ‘public sphere’ in two main- and five sub-realms. The state, corporate sector / non-government institutions and media constituted the ‘public’ side, while the ‘private’ side divided in the ‘economic’ sub-realm (referring to institutional decision makers and influencers in person) and the ‘intimate’ sub-realm (referring to private individuals who were *not* part of the economic realm); which mainly participate in and influenced society through social means, e.g. family, friends and cultural activities.

Given the strong link between Habermas’ private-economic realm, i.e. the *individuals* who own and/or run the corporate (and non-gov) sector, and this sector itself, vis-à-vis the state, in which Habermas included parliament, government and state-bureaucracy, there is no surprise that some interests have a stronger voice than others, and that this is not a matter of *how many* people who say or want something, but of their *perceived importance* - i.e. whose claims supposedly make the largest impact on society. Recognising this, it is obvious that although most active politicians are elected – and hence both parliament and government are appointed – by members of the *private-intimate realm* (due to its much larger size than that of the *private-economic realm*), they will be forcefully lobbied and influenced throughout their tenures by both the corporate / non-governmental realm and the private-economic realm. Since the political party-establishment also emerged from the private-economic realm, aiming to secure their interest vis-à-vis the at the time (i.e. in the 18th century) still dominant intelligentsia, and only much later branched out in political parties actually representing the private-intimate realm, i.e. the working classes (Olsen, 1995; 2010; 2013), the direct links between the corporate and political realms - until this day – remain both strong and prevalent. Therefore it neither is, nor should be, a surprise that the corporate lobby remains one of the most powerful forces in politics.

The problem is that corporate interests rarely coincide with the interests of the electorate. For instance, while corporate interests drive for lower costs, meaning less employees and paying less than their share of environmental and societal costs, the interests of most voters is to have more jobs and lower taxes. Lower taxes can only be achieved if/when the corporate / non-governmental sector - directly or indirectly - picks up ‘more’ of our societies’ endless bills.

The direct link between our societies’ endless bills and the corporate sector’s interests is what is here referred to as the ‘missing link’. Below I will explain why.

Corporate Profits vs National Assets

Corporate profit is created by adding value to one’s input-resources. Input-resources are, like value-added output, supposedly priced by the market, i.e. as a result of the prevailing balance between supply and demand. Many input resources are also similarly priced - but not all. Both significant and less significant resources, all constituting necessary input for a wide range of corporate processes,

are frequently *not* priced in this way. Some do not even carry a price at all, and are virtually or totally free to the user. Nevertheless, this does not mean these resources do not carry any value. Every resource required for any process carries a value, simply because it is needed. If it is needed by somebody it could also be needed by somebody else - whereby a supply-vs-demand situation will appear, creating a value of some sort. This goes for tangible as well as intangible resources, for registered as well as unregistered resources, for private as well as public resources, and so on.

As no socio-economic society exists without people, people are its ultimate resource. Society's main role is to serve all its members - out of which humanity is the critical species, as humans act in ways that impact all other species. 'People' - and everything that retains their livelihood, including their environment, infrastructure and interactive systems (including administrative) - are important input-resources for all human processes. A problem is that many of these do not have any allocated or registered 'value' attached. Then, how can we expect the corporate sector to pay for its use, and/or to be rewarded for either not using it or actually adding to it?

Looking at a typical corporate profit and loss account (see e.g. IFRS), there is little in terms of 'costs' that can be traced back to the society's own balance sheet, i.e. the national accounts issued by the Ministry of Finance (see e.g. SNA), used to assess the value and financial muscle of the nation. National accounts typically lack useful references to many of its core 'assets', such as people - not only in terms of demographics, but also in terms of health and education, etc - to unexploited natural resources such as timber, minerals, oil and gas, to aqua-resources such as water and fish, to air quality, to capacity of commonly held infrastructure and administrative systems, etc. Instead they focus on monetary cash-flows, assets and liabilities, which, for example, register neither the society's educational capacity nor prevailing educational level per capita, making national investments in education appear only as costs, not as increasing assets. The same goes for natural resources, which are not valued until excavated or harvested, meaning that although resource consumption is recorded, the safekeeping of resources for future consumption is not allocated any value. Although some countries do recognise this shortcoming (see e.g. UK's HM Treasury's efforts to simplify and streamline annual report and accounts), closing this accounting gap is still a task ahead.

The 'missing link' is therefore the lack of connection between the corporate profit and loss account on the one hand, and the national account's balance sheet on the other. This despite the fact that all/any resources that any corporate entity makes use of (or generate) will impact society at large in one way or another. For instance all training will add to a society's capacity (an asset), while virtually all products produced will need to be discarded at some point in time, which is why resources for waste-management need to be set aside as a consequence (a liability). Such changes caused in the nation's net assets should therefore not only be accounted for and paid at the corporate level (and eventually also reflected on the personal level), but also be accounted for as a decrease or an increase of the nation's collective and accumulative assets.

Hence national asset values consumed or generated by corporate activities (and eventually also personal activities) ought to be compensated through the tax system. The starting point for making such a taxation system work must therefore be to redesign both the corporate and the national accounts. Taxation shall then

focus not on revenues (income) and/or profit (which are negotiable, and easily hidden or faked), but on how corporate (and hence eventually also private) resource-consumption and/ or contribution subtracts from, and/or adds to, our commonly held (local, national, regional and/or global) assets and liabilities. Although the debate on moving taxation from labour to consumption as well as from desired (non-polluting and non-offensive) consumption to undesired (polluting and offensive) consumption is indeed ongoing (e.g. Ekins, 1999; Pestel & Sommer, 2013; European Commission, 2013; 2015a; 2015b), a full switch to a resource-based consumption- and contribution taxation system is not yet on the table.

As described below the intention is neither to infringe on market forces nor on opportunities to make corporate profits, but simply to redefine the way taxes are calculated and charged.

Markets Are What We Make Them Into

Adam Smith spoke about market forces as an 'invisible hand'. Market forces are all about forging resources into opportunities, creating what is in demand from what is in supply (e.g. Stieglitz; Tapscott & Williams; Friedman; Gilman-Opalsky). If political power is in supply, market forces will make that a part of the resource-arsenal. If inaccurate accounting and taxation models - insensitive to future needs - can be used as 'smart' resources, and free-to-use commonly owned resources are made available on a 'first-come-first-serve' and/or 'bigger-is-stronger' basis, market forces will also pave the way for products and services promoting 'first' and 'big', leading to unsustainable ecological and socio-economical behaviour. However, if accurate accounting and taxation models - sensitive to future needs - can be used as 'smart' resources, and 'free-to-use', commonly owned resources are made available on a 'compensate-community' basis, and if the contribution of such resources are rewarded on a 'compensated-by-community' basis, then market forces will pave the way for the generation of ecologically and socio-economically beneficial products and services.

There is also no reason to believe that the taxation paradigm outlined in this paper will cause overall tax-pressure to increase. It is more likely that it will cause overall tax-pressure to decrease. If all parts of society, including the corporate sector, strive for what is good for society at large – and are rewarded by society (through the taxation system) if/when they achieve that – then incentives will develop that improve corporate ability to reduce the use and abuse of unsustainable resources, and replace them with sustainable ones. It will soon become as 'normal' for any management to demand the organisation to develop lean and green production- and distribution-cycles, as it currently is to expect them to launch a new model every 6th or 12th month to keep turnover high. Both efforts will improve the 'bottom line', to which most managers are addicted and from which s/he is rewarded. And if/when CEOs recognise that they can even earn negative taxes from direct contributions to their society's net assets, as a side-effect of his/her company's on-going operations, it is likely that their Boards will penalise CEOs who do not try to align corporate and social goals.

An enlightening example is how fuel consumption in cars is now almost half of what it was less than 5-6 years ago. For generations it was taken for granted that averaged sized cars take more or less a litre of petrol per 10 kms. But when oil prices

soared to around 150 USD per barrel consumers finally reacted, starting to look for cars running on less. Within a few years leading manufacturers like Toyota, BMW and Volvo launched medium sized cars offering half the fuel consumption, forcing others to follow suit. Today 0.6 litres per km is a ‘typical’ level, and many run on even less, saving 30-50% of petrol every day. Although the oil price now dropped to around 30 USD per barrel, new standards have already been set. It is revealing that this drastic reduction did not come through any political action, but through ‘the market’. Politicians’ role must therefore be to set the stage for the market to react, as well as counteracting the opposite - i.e. avoid situations where markets set the stage forcing politicians to react. After politicians redesign the accounting and taxation systems ‘the market’ will ensure that this new paradigm is vacuumed for practical applications, which - sooner rather than later - will be first refined and then implemented by the very same market forces.

Once the corporate sector, as a collective, starts operating in a manner conducive with our societies’ socio-environmental interests at large, many of the state’s current responsibilities will be notably reduced. For example current costs for unemployment and waste treatment, rehabilitation of overworked and overstressed people and the restoration of abused habitats, as well as tax-administration and other bureaucratic activities linked to the above, will reduce, and the state’s resources can instead be used for improved infrastructure and welfare.

Some Examples

Here are a few examples of how this paradigm-shift would affect our accounting and taxation systems:

Concerning ...	In Today’s Model:	In Tomorrow’s Model:
National Accounting	Transaction-driven national accounting, based on ‘economy’. Here HR and ecological factors appear only when generating transactions.	Asset-driven national accounting, based on ‘economy’ and ‘ecology’. Here HR and ecological factors appear also without generating transactions.
Corporate Accounting	Traditional views on ‘costs’ create commodity-based accounting systems. Commoditized standard-of-living approaches neglect the wider impact of corporate activities.	Revised views on ‘costs’ must include societies’ total costs for operations. All-out ‘environmental’ quality-of-life approaches must set the standard for corporate accounting.
Corporate Accounting & Taxation (i)	Output-driven corporate accounting and taxation. This serves as a good incentive to ‘cook the books’, as theory dominates reality.	Input-driven corporate accounting and taxation. This will place the term ‘lean’ in the center, as resource consumption will decide tax expenses.

Corporate Accounting & Taxation (ii)	<p>'Dow-Jones', representing the formal / male economy, claims sole recognition.</p> <p>'Dow-Jane', representing the informal / female economy, is treated as illegal.</p>	<p>'Dow-Jones' and 'Dow-Jane' will legally co-exist.</p> <p>This will place the term 'entrepreneurship' in the center, where 'local' ultimately can compete with 'global'.</p>
Corporate Taxation	<p>The most heavily taxed resource is the human.</p> <p>This leaves Inc Co Ltd with no choice but reduce human input, and leaves Governments with no choice but to pick up whatever unemployment-bill will result.</p>	<p>Human Resources are taxed as assets, incl. 'book'-depreciation.</p> <p>This gives Inc Co Ltd an incentive to retain already depreciated HR, reducing Government's costs for unemployment and unwanted early retirement.</p>
Personal Taxation	<p>Income-based personal taxation. Tax holidays and tax deductibles are focal points, driving partisan lobbying by 'industrial era' class-based interests, causing lasting political divides.</p>	<p>Spending- and saving- based personal taxation.</p> <p>If income is tax-free, but spending and saving is taxed, can governing bodies drive consumption to what is 'eco/eco-good', using tax levels.</p>

This paper calls for increased research in and debate about how a paradigm-shift like this can happen, and what steps are needed to set the ball rolling. An example of how to bring these ideas forward is an initiative at Örebro University in Sweden, where an interdisciplinary project is currently being drafted, aiming at researching how taxes can be redefined into incentives for sustainable consumption and lifestyles. If a group of economically interacting countries like the EU or ASEAN developed joint models, they could both implement it step-by-step and promote them internationally.

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