Globalisation Isn't Just About Profits. It's About Taxes Too

By Joseph Stiglitz, Guardian UK

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Big corporates are gaming one nation's taxpayers against another's: we need a global deal to make them pay their way.

The world looked on agog as Tim Cook, the head of Apple, said his company had paid all the taxes owed - seeming to say that it paid all the taxes it should have paid. There is, of course, a big difference between the two. It's no surprise that a company with the resources and ingenuity of Apple would do what it could to avoid paying as much tax as it could within the law. While the supreme court, in its Citizens United case seems to have said that corporations are people, with all the rights attendant thereto, this legal fiction didn't endow corporations with a sense of moral responsibility; and they have the Plastic Man capacity to be everywhere and nowhere at the same time - to be everywhere when it comes to selling their products, and nowhere when it comes to reporting the profits derived from those sales.

Apple, like Google, has benefited enormously from what the US and other western governments provide: highly educated workers trained in universities that are supported both directly by government and indirectly (through generous charitable deductions). The basic research on which their products rest was paid for by taxpayer-supported developments - the internet, without which they couldn't exist. Their prosperity depends in part on our legal system - including strong enforcement of intellectual property rights; they asked (and got) government to force countries around the world to adopt our standards, in some cases, at great costs to the lives and development of those in emerging markets and developing countries. Yes, they brought genius and organisational skills, for which they justly receive kudos. But while Newton was at least modest enough to note that he stood on the shoulders of giants, these titans of industry have no compunction about being free riders, taking generously from the benefits afforded by our system, but not willing to contribute commensurately. Without public support, the wellspring from which future innovation and growth will come will dry up - not to say what will happen to our increasingly divided society.

It is not even true that higher corporate tax rates would necessarily significantly decrease investment. As Apple has shown, it can finance anything it wants to with debt - including paying dividends, another ploy to avoid paying their fair share of taxes. But interest payments are tax deductible - which means that to the extent that investment is debt-financed, the cost of capital and returns are both changed commensurately, with no adverse effect on investment. And with the low rate of taxation on capital gains, returns on equity are treated even more favorably. Still more benefits accrue from other details of the tax code, such as accelerated depreciation and the tax treatment of research and development expenditures.

It is time the international community faced the reality: we have an unmanageable, unfair, distortionary global tax regime. It is a tax system that is pivotal in creating the increasing inequality that marks most advanced countries today - with America standing out in the forefront and the UK not far behind. It is the starving of the public sector which has been pivotal in America no longer being the land of opportunity - with a child's life prospects more dependent on the income and education of its parents than in other advanced countries.

Globalisation has made us increasingly interdependent. These international corporations are the big beneficiaries of globalisation - it is not, for instance, the average American worker and those in many other countries, who, partly under the pressure from globalisation, has seen his income fully adjusted for inflation, including the lowering of prices that globalisation has brought about, fall year after year, to the point where a fulltime male worker in the US has an income lower than four decades ago. Our multinationals have learned how to exploit globalisation in every sense of the term - including exploiting the tax loopholes that allow them to evade their global social responsibilities.

The US could not have a functioning corporate income tax system if we had elected to have a transfer price system (where firms "make up" the prices of goods and services that one part buys from another, allowing profits to be booked to one state or another). As it is, Apple is evidently able to move profits around to avoid Californian state taxes. The US has developed a formulaic system, where global profits are allocated on the basis of employment, sales and capital goods. But there is plenty of room to further fine-tune the system in response to the easier ability to shift profits around when a major source of the real "value-added" is intellectual property.

Some have suggested that while the sources of production (value added) are difficult to identify, the destination is less so (though with reshipping, this may not be so clear); they suggest a destination-based system. But such a system would not necessarily be fair - providing no revenues to the countries that have borne the costs of production. But a destination system would clearly be better than the current one.

Even if the US were not rewarded for its global publicly supported scientific contributions and the intellectual property built on them, at least the country would be rewarded for its unbridled consumerism, which provides incentives for such innovation. It would be good if there could be an international agreement on the taxation of corporate profits. In the absence of such an agreement, any country that threatened to impose fair corporate taxes would be punished - production (and jobs) would be taken elsewhere. In some cases, countries can call their bluff. Others may feel the risk is too high. But what cannot be escaped are customers.

The US by itself could go a long way to moving reform along: any firm selling goods there could be obliged to pay a tax on its global profits, at say a rate of 30%, based on a consolidated balance sheet, but with a deduction for corporate profits taxes paid in other jurisdictions (up to some limit). In other words, the US would set itself up as enforcing a global minimum tax regime. Some might opt out of selling in the US, but I doubt that many would.

The problem of multinational corporate tax avoidance is deeper, and requires more profound reform, including dealing with tax havens that shelter money for tax-evaders and facilitate money-laundering. Google and Apple hire the most talented lawyers, who know how to avoid taxes staying within the law. But there should be no room in our system for countries that are complicitous in tax avoidance. Why should taxpayers in Germany help bail out citizens in a country whose business model was based on tax avoidance and a race to the bottom - and why should citizens in any country allow their companies to take advantage of these predatory countries?

To say that Apple or Google simply took advantage of the current system is to let them off the hook too easily: the system didn't just come into being on its own. It was shaped from the start by lobbyists from large multinationals. Companies like General Electric lobbied for, and got, provisions that enabled them to avoid even more taxes. They lobbied for, and got, amnesty provisions that allowed them to bring their money back to the US at a special low rate, on the promise that the money would be invested in the country; and then they figured out how to comply with the letter of the law, while avoiding the spirit and intention. If Apple and Google stand for the opportunities afforded by globalisation, their attitudes towards tax avoidance have made them emblematic of what can, and is, going wrong with that system.