Why are tax campaigners campaigning to make the poorest of the poor poorer? [1]

Written by **Tim Worstall** [2] | Wednesday 24 July 2013

Most here will know that my favourite blood sport is hunting Richard Murphy and his buddies in the Tax Justice movement. But even I am appalled at the latest demand from them: that multinationals should be forced into paying more corporation tax in poor countries. They make this demand because they are willfully blind to the most basic point about corporation taxation: the incidence of said taxes. Here's what is said [3]:

Corporate taxes are incredibly important to many developing countries. When many in their populations are too poor to pay any taxes and when corruption undermines much of the local tax base from commerce (and this fact has to be recognised at present) then the revenues to be earned from multinational companies form a significant part of the tax base of these states. In that case the base erosion that is now well documented due to transfer mispricing out of these countries on royalties, management services, interest, insurance and other charges levied on an intra-group basis, usually from tax haven subsidiaries within the same multinational entity, is of massive concern to these states and forms a major part of the illicit flows that prevent the provision of adequate services by many governments, undermining democracy and blighting many lives over succeeding generations.

We have argued for fundamental reform on behalf of these countries.

They're arguing that the poorest of the poor should be pushed further into poverty as a result of their determined ignorance about that tax incidence. We've known for well over a century now that companies do not actually bear the economic burden of taxes levied at the company level. It is either the workers, in the form of lower wages, or the investors, in the form of lower returns that do. This is not an arguable theoretical point: it's just a truth about this particular universe that we inhabit. No, don't worry about why for the moment, simply take it as being one of those truths.

We also know what it is that influences who carries the burden, workers or investors. The mobility of capital and the size of the economy of the taxing jurisdiction relative to the size of the world economy. The precise splits are argued about, volubly, but but all economists are agreed on those two basic points. It's some combination of the workers and shareholders and the smaller the economy and the more mobile capital the more it is the workers, the less the investors.

One more interesting point: Atkinson and Stiglitz, back in 1980 or so, showed that the burden could in fact be greater than 100%: the loss to workers and or shareholders could be greater than the sum raised in revenue. And yes, the smaller the economy and the more mobile capital the more likely this is and that this burden will be on the workers. So, what do we know about these developing economies where we are told that companies really must cough up more corporation tax in? In fact, that multinational companies must cough up more tax in? Quite: we know that these economies are very small compared to the world economy. That's why we call them developing economies: because they're small and poor ones.

Further, given that we are specifically talking about multinationals, the capital we're talking about must be perfectly mobile. It is outside investment going in: not domestic investment pondering whether to leave or not. If we piece all of this together then we get the ugly reality. The truth is that the burden of higher corporate tax on multinationals in these poor countries will be upon the backs of the workers. Those workers being, by our very definitions of poor and developing country, the poorest of the poor. These are the people we actually want to help and here the "Tax Justice" campaigners are insisting that their wages should be driven even lower. And as Joe Stiglitz has pointed out, their wages could be driven down by more than the actual revenue raised.

This is not, I would submit, a sensible way of improving people's incomes: imposing a tax which we know will reduce those incomes.

As above I usually take my pursuit of these people as a rather jolly blood sport. A day out with the hounds and if the odd vulpine gets harmed well, no matter and that's not really the point of it all: it's the jolly day out that is. But then we find them proposing something quite as barmy, even evil, as this. They simply will not listen to what they are being told about the incidence of corporate taxation. They just don't want to believe that it's not either the company or the evil capitalists who bear the burden of these taxes. As a result they ignore that their recommendations will grind the faces of the poor even more firmly into the dust. At which point the pursuit of their errors become less a jolly day out and more of a necessary duty.

If you want to raise wages in poor and small economies then you want more multinationals to invest in those poor and small economies. Trying to tax said multinationals more so that they invest less and thus depress wages just isn't a good method of raising living standards in these places. We want to tax less, not more.

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