Oxfam Is Opposing Corporate Tax Reform That Would Actually Be Conducive to Economic Growth

The very growth that aids in the NGO's mission of fighting global poverty.

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I had an economics teacher who liked telling his classes he had a deal with the local grocery store: He doesn’t produce his own food and it doesn't teach economics.

I would like to make a similar offer to Oxfam: I promise to not become involved in the intricacies of its efforts to reduce global poverty if it stops opining on corporate tax policy.

Oxfam, the NGO dedicated to fighting global poverty, has apparently added this issue to its already-full public policy agenda with the release of a report upbraiding the U.S. for contemplating a corporate tax rate reduction as well as a move to a territorial tax regime for U.S. multinationals.

It rightly complains that the U.S. corporate tax code is broken, and laments that corporations manage to avoid trillions of dollars of tax obligations by moving their money across the globe.

That multinationals spend a lot of effort to move their corporate profits around to avoid taxation is not in question: The famed "Double Irish With a Dutch Sandwich" tax maneuver used by myriad multinationals (and at least one ostensibly globally minded rock band) to reduce the taxes legally owed is well known.However, to insist that any tax reform passed by the Trump administration will make it worse is nonsense. The one concrete tax plan currently on the table—the Ryan/Brady "Better Way" plan—is a destination-based cash flow tax that would essentially put every accountant, lawyer, and economist in the U.S. who works on transfer pricing out of a job by obviating the need for machinations. It is being lobbied against with an amazing ferocity by the realtors, retailers, and others who don't want the provisions that allow them to legally reduce their tax bills to disappear.

The Oxfam plan has one thing right, namely that most Republicans want any final reform to include a move from a worldwide tax regime to a territorial tax regime, whereby U.S. companies doing business overseas pay taxes only to those countries where it has operations.

In a worldwide tax regime, U.S. corporations have to pay additional taxes on foreign-sourced income, above and beyond the taxes paid abroad, when that money returns to the United States. As a result, most U.S-based companies try to to avoid repatriating foreign-sourced income, and as a result U.S. multinationals have more than $2 trillion parked abroad.

The Ryan plan—and most other conceptualizations of corporate tax reform—would impose some sort of "deemed repatriation" of roughly 10 percent all profits abroad as part of a transition to a territorial regime, such as most European countries have in place.

Oxfam protests that such a move amounts to taking hundreds of billions of dollars from the government, which could otherwise be used to fund various activities to combat poverty and inequality.

The assertion begs a simple question: Does Oxfam believe that the countries that already have a territorial tax regime for foreign-sourced income are somehow in the wrong?

Another question worth asking Oxfam is whether it thinks that a continuation of the current tax regime would generate more tax revenue from profits earned abroad than the U.S. government would get from a deemed repatriation. The Joint Committee on Taxation estimates that deemed repatriation would generate an additional $170 billion in the next decade. To assume that companies will otherwise bring that money back to the U.S. and pay taxes on it defies common sense and the nonpartisan research of the JCT, whose job it is to know such things. Er, unlike Oxfam.

The ultimate conceit of the Oxfam report is the notion that the corporate tax is the "right" way to address income inequality in the United States, and that efforts to reduce it will inevitably harm the poor. The reality is that the corporate tax code is a spectacularly poor way to collect revenue, something that the rest of the world has figured out in the last two decades. Every country has reduced its corporate tax rate at least once since the U.S. last cut its rate in 1986. Since the year 2000 alone there have been over 100 corporate rate reductions among OECD nations.

Its problem, in the parlance of the philosopher Jean-Baptiste Colbert, is that it entails a lot of squawking for relatively few feathers from the duck. Taxing capital income is an especially costly way to collect revenue, as the opportunity costs—in terms of foregone economic growth—are especially high.

Economists figured out that a better way to collect revenue is to tax consumption. The House "Better Way" plan would reform the U.S. tax code to do precisely this.

The corporate income tax is not even all that redistributive—workers also pay a sizable share of the corporate income tax in the form of lower productivity and wages, and there's no reason why a tax reform that had a sharply lower corporate income tax couldn't be just as progressive as what's in place today.

A tax code more conducive to economic growth would benefit everyone, rich and poor. For Oxfam to object to the U.S. doing such a thing is silly.

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