



Inversions Incentivize Better Tax Policies

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“Tax competitiveness” is our last, best hope against ever encroaching government, but the shame campaigns against “inversions” could help governments across the planet tax us all at higher rates.

According to a highly regarded consumer satisfaction survey from the University of Michigan’s Ross School of Business, the companies that consistently receive the worst reviews are all clumped in one industry: cable television subscriptions.

Time Warner Cable, Mediacom Communications, Comcast, Suddenlink Communications, Charter Communications and Cox Communications, all cable providers, are all among the worst 10 companies for customer satisfaction.

Is this some remarkable coincidence? A cruel cosmic joke?

More likely, the explanation is competition, or lack thereof. To run wires into your home, cable companies lease the use of power lines from local governments, which is why the service has long been considered a “natural monopoly” by regulators. For the vast majority of American consumers, if they want to buy cable television, there’s only a single local provider.

No competition means little incentive to provide good service. In other, highly competitive spheres, like the television units themselves, quality has gotten better and better while the price goes down.

Most people agree competition is important for the marketplace, but give scant attention to another type of competition that offers a lot of hope to conservatives: competition between governments, particularly on taxes.

For nearly all of human history, governments only competed against each other sporadically, like in war, or tangentially, as in macroeconomic policies or even offering other peoples a glimpse of another way of living.

After all, the German sociologist Max Weber's famous definition of the State is an institution with a monopoly on violence in a given geographic territory. Monopolies aren't known for having to compete.

That's all changed in the last few decades because of several related trends that all fall under the umbrella of globalization.

What economists call the "transaction costs" of conducting business across borders have fallen off a cliff, largely because of the Internet, which made communication easy and cheap.

In turn, this has prompted the rise of businesses whose value comes not from physical capital – the factories, employees and so on that we think a business is composed of – but from a valuable idea.

Ideas, as you can surmise, are easy to "move" from one place to another. From a practical standpoint, it's a matter of paperwork.

So it's not surprising there has been a rise in companies, including U.S. companies, adopting more aggressive strategies for locating their assets in jurisdictions that have better tax rates.

It has also prompted much weeping and gnashing of teeth. Cries of "economic treason" come from the left. Democratic politicians call for boycotts.

Republicans generally accept the premise these so-called "inversions" are bad, but whenever any such move becomes a public controversy, they seize on the moment to call for tax reform. Notably, the last anti-inversions law was passed by a Republican Congress and signed by then-President George W. Bush.

Contrary to all this demagoguery, the fact remains that from a conservative, limited-government perspective, companies shifting their headquarters to low-tax jurisdictions is a profoundly positive development.

Think about it, for millennia, governments have been in the same position Comcast is. Suddenly they face the prospect of losing companies the way normal companies do customers, and we're supposed to think this is a bad thing?

Economists like Daniel Mitchell at the Cato Institute attribute "tax competition" between governments as having kept rates significantly lower than they would have been in the past several decades.

The U.S. has actually fallen way behind, with the highest corporate tax rate in the developed world, over ten points higher than the average rate in Europe. That's on top of a hugely complicated tax code filled with carve-outs for crony capitalists. It's only because it has the world's largest economy the U.S. hasn't lost more ground.

Thankfully, the spate of inversions are offering a catalyst to improve the situation, fostering economic growth and making all of us more wealthy.

That is, as long as politicians don't seize on one of the shame campaigns against companies that seek better tax rates to put an economic Berlin Wall around our country, which would eventually backfire anyway.

Every inversion is a step towards better tax policies in our country and the rest of the world. They ought to be welcomed. It's about time Uncle Sam felt the heat, lowered taxes, and incentivized companies to stay.