18th Global Economy Lecture: Rachel Griffith Multinational Firms, Intellectual Property and Taxation

Compiled by
Julia Wörz

On October 10, 2013, *Rachel Griffith,* President elect of the European Economic Association and Research Director at the London-based Institute for Fiscal Studies (IFS), gave the 2013 Global Economy Lecture[1] at the OeNB. Her presentation focused on the challenges that governments face in designing and implementing nonfinancial corporate income taxes in the 21st century. Over the past three decades, economies have become more open and the movement of goods, services, people and, above all, capital across national borders has increased. The resulting global corporate structures make it more difficult for tax authorities to allocate taxable profits to individual entities and at the same time easier for firms to avoid taxes by shifting taxable profits between tax jurisdictions. In addition, a much greater share of income is now generated from investments in intangible assets which often have no clear geographical location and are harder to value than tangible assets.

Still, most countries operate a variant of a source-based tax system under which they attempt to tax profits that arise in their jurisdiction, raising fears of a "race to the bottom." Indeed, headline corporate tax rates have shown a seminal decline, foreign-sourced income is often subject to lower tax rates, and also income from intellectual property is often subject to preferential tax rates. Nevertheless, taxable profits as a percentage of GDP have increased in most countries, leading to steady or rising tax revenues. Professor Griffith raised awareness in her talk for the potentially costly distortions to economic activity implied by recent reforms to address the challenges of globalization on corporate taxation. Recalling that corporate taxes are ultimately paid by capital owners, workers and consumers, she pledged for more research on the nature of taxable profits in order to minimize distortions between the three groups. Policy recommendations differ greatly, depending on whether taxable profits represent normal (risk-adjusted) returns on equity, labor compensation or returns to market power.

The very lively discussion challenged, among others, Griffith's view that, in the OECD average, corporate tax revenues have risen sufficiently to offset lower tax rates. It was further observed that the relatively constant hierarchy of tax rates among countries has probably limited the redistribution of profits toward tax havens and prevented a complete race to the bottom. A discussion also emerged about the comparatively high tax rates in the United States, specifically about the difference between the statutory rates and the considerably lower level of effective tax rates. In her response to this observation, Rachel Griffith also stressed the costs involved in moving activity and income, as well as the importance of locational factors other than taxes. Being prompted on whether the race to the bottom is apparently a European problem, she acknowledged that international cooperation at the European and the global level alike would clearly increase welfare.

[1] *The Global Economy Lecture is an annual event jointly organized by the Oesterreichische Nationalbank (OeNB) and The Vienna Institute for International Economic Studies (wiiw).*