

WHAT IS AN AMERICAN CORPORATION?

Article by Robert Reich, Huffington Post, May 17, 2015

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I congratulate Reich for thinking outside the "American Company vs. Foreign Company" box. He's absolutely right in that national incorporation means very little in today's globalized world, and will mean even less in the future. Some commentators have said even nation-states are fading in importance as well, but I believe the case for that is not nearly as strong; for one thing, we are seeing a proliferation of nations (currently 193), over a double since WWII, not a reduction. Despite Obama's contradictory impulse to "level the playing field" to the lowest common denominator through the TPP and TTIP agreements, there are still many reasons to retain the nation-state, monetary sovereignty among the highest, but also worker rights, good middle class jobs, environmental protections etc. It's clear that these features do not exist to the same

degree in countries that are taking our jobs and are asking corporations to pay so little in taxes that the inversion Reich speaks of, has become a major corporate trend.

However, tax subsidies are expensive and, as Reich points out, can be gamed into being applied abroad instead. Who is going to monitor this, and how? This will add another layer of bureaucracy to an over-burdened, under-funded government tax department.

The Export-Import bank should probably stay, for now, since getting rid of it would only put us at a disadvantage to other countries who have departments to do the same thing, but this is, at best, and almost by definition, a holding action, not one that can give any country a permanent advantage. Indeed, for all the subsidies Boeing is getting this way, it looks as though GE will undercut it, and maybe even itself, by helping China to create a competitive airplane industry, says Reich, and others.

But, there is another way to get the revenues government needs to function, and to make sure businesses in this country pay their fair share.

First, let's review the Cannons of Taxation, going back to Adam Smith. The canons or principles of taxation are:

1. Economic (cost effective, meaning it should cost less to collect the taxes than the tax revenue)
2. Equity (fair taxation in terms of horizontal and vertical equity)
3. Certainty (people should know how and when to pay)
4. Convenience (simplicity or ease) *Canon of certainty says that tax policies should not alter regularly and there are some more canons. Such as,
5. Canon of Neutrality (tax policy should not make abnormality in Market)
6. Canon of Incentives (a tax should not harm the factors which motivate economical sectors)

Our current tax system is largely none of these to any great degree. It is enormously complex, expensive to administer and to comply with, counter-productive, inconvenient, and non-neutral.

A much better system would tax those things that cannot be moved offshore, like Land (including location), pollution and resource use. It would also be more "fee-based" so that resource use/abuse would be fully charged for, especially externalities, which are barely taxed at all, relative to their harm.

Some examples of things that are under-taxed for their use now include:

A. Roads. Congress just barely prevented 700,000 jobs from being lost due to suspended (continued on p. 13)

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highway and infrastructure projects, by funding a stopgap measure in the Highway Bill just passed.

However, the cost was in allowing corporations to under-fund pensions (yet another giveaway to corporations that will ultimately do nothing to stop their net exodus). The Senate has yet to pass it, however, and if, as expected, they tinker with it, it will have to return to the House, where it may face opposition from the anti-Obama Republicans. We have only until August to rectify this, and Congress will go on vacation around then too. Both sides agree that the gas tax is insufficient to meet the needs of our nation's highways.

However, we could do something else. We could charge a tax by the mile instead of by the gallon (electric cars will also eventually put a dent in this revenue source). But, an even larger source of revenue would be to tax those locations that benefit from having a road run to or near them, through a Land Value Tax - basically collecting the rent on location.

A. Land Value Tax would meet all the canons of taxation, even number 6, since it is money that is now just going into private hands for doing nothing but being in the right place when a road goes through or is improved. Corporations and people should pay for what they use.

B. Ports. For those companies that do import goods, whether they are "American" or foreign, there ought to be a full charge for entering our country, including security checks, which are currently inadequate, says Representative Jerry Nadler and others. This will indeed add costs to importers of foreign made goods, but it is a price we are currently paying, either currently, or in possible future terrorist attacks that could have been prevented with proper screening. It is certainly a cost that ought to be borne by companies who import goods that could have been made here in America instead. Paying for corporate import "externalities" is not Free Trade, it is corporate socialism.

C. Virtual locations. Increasingly, business is conducted online, with the only physical location being a server farm in some distant area. Of course, we need to charge for the full cost of these highly energy-intensive farms, including pollution costs at the source, and water usage - a particular problem in the parched American West. But, we need to rethink how virtual locational advantage benefits corporations too. Facebook, for example, has a good product that people want to use. But, how many people use it largely because other people are already using it? With its rapid growth rate, it's hard to pin down, but there are currently over a billion users. Surely, most of those people were strongly encouraged to sign up because so many others were already there.

If Facebook is profiting from the size of its virtual community, shouldn't it pay rent just as it would have to in a physical community? Clearly, Facebook realizes it is in their interest not to charge users for using its product, but to pass those costs onto

advertisers, but we ought to go further and charge rent on the commons, even if those commons are virtual. This goes for other social media giants and software producers, like Microsoft, who gain advantage because of the large community of users, even if they do nothing more to improve their product. As J.S. Mill said of actual Landlords, "They grow richer, as it were in their sleep, without working, risking, or economizing."

There are more things to collect the "rent" upon, and Georgist economists like Mason Gaffney, Nic Tideman etc. tell us the rent may be as high as 1/3 of the GDP, or even more, certainly, as Henry George said "Enough and to spare" to run a decent sized government.

At the same time, we ought to untax labor so they can more easily compete with workers abroad. Without the deadweight loss of taxes, workers can accept less money overall, while keeping more of what they earn. We ought to untax sales to encourage commerce, particularly local commerce - which would pay less for road use, ports, and other distribution costs that are hidden by road, rail, air, and freight subsidies now.

A broadened Land Value Tax to include virtual locations and externalities would acknowledge the value of the commons and that things "rented" from the commons ought to result in rent returned to the commons (i.e. the People) as a dividend.

It would be easy to comply with and without loopholes. It is not so much the rate that counts (ours is technically 35%, but corporations, through gimmicks like offshoring and inversion, often pay less than half that), but how hard it is to evade, and who is doing the evading (only Big Corporations who can afford to go through the steps to reincorporate elsewhere).

Until Obama mentions specifics like this, I can't take him seriously. In fact, he may be deliberately or accidentally enabling this because he spouts useless nonsense about patriotism and fairness (neither of which are incentivized under corporate structures), while offering no real solutions, as if there aren't any (see above). This just feeds despair and hopelessness, and leaves corporations free to continue doing what they are doing.

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