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'Replace the race to the bottom by a race to the top'

Do globalisation and inequality have to go hand in hand? Gabriel Zucman argues that this doesn't have to be the case — if we re-think our tax systems

In your book *The Triumph of Injustice, How the Rich Dodge Taxes and How to Make Them Pay*, you and your co-author Emmanuel Saez study the rise of inequality. What are your main findings?

The main finding is that there has been, what we call, 'the triumph of tax injustice' which is the combination of two phenomena. One is the rise of inequality, and the other is the decline in tax progressivity. This has happened pretty much all over the world, although it's been particularly extreme in the US where inequality has increased particularly strongly. There, the share of income by the top one per cent doubled from ten per cent of national income in 1980 to 20 per cent today.

At the same time, we have witnessed a particularly dramatic decline in tax progressivity. The US tax system in the middle of the 20th century was considered to be very progressive. Today, when you take into account all the taxes paid at all government levels, the US tax system looks like a giant flat tax where all groups of the population pay more or less the same effective tax rate. With only one big exception; billionaires, who have a lower effective tax rate than the middle class in the US. These evolutions have been particularly dramatic in the US, but qualitatively we can see the same patterns in France, Germany, and throughout the world.

For years, you argued that it is indeed possible to fight the tax avoidance practices of multinational enterprises. The new US administration has recently announced a tax plan consisting of a global minimum corporate tax rate of 21 per cent. If implemented, what would this mean for the international tax system?

It would be a real game changer. Over the last decade, politicians from

both left and right, were more or less convinced that tax competition is a law of nature. It exists, and the only way to adapt is to try to become more competitive by cutting corporate tax rates. But this is wrong. Tax competition is a choice. We can choose competition, or we can choose coordination or harmonisation. Now, for the first time, more and more people are actually realising this, including at the highest political level in the US and in European countries.

Now, we see a real political will to say, we are going to change the rules of the game. Instead of accepting tax competition, we can police multinational companies so that they pay a high minimum tax rate, no matter where they operate, no matter where they book their profits.

We can really change the face of globalisation. Right now, globalisation is characterised by the race to the bottom with corporate income taxation that enriches multinational companies and their shareholders. The main winners from globalisation pay less and less in taxes. This is detrimental to the rest of the population, who has to pay more.

This is a form of international competition that is not sustainable and that contributes to a divorce between the working class and the middle class on the one hand, and international and European economic integration on the other hand. With high minimum tax rates, you can change that dynamic. You can replace the race to the bottom by a race to the top. Because if companies were subject to a high enough minimum tax in their home country, there would be no point anymore for them to book profits in tax havens like Ireland or Bermuda.

These countries could still have low tax rates, but the low taxes paid there would be offset by higher taxes owed in the US or in Germany. Countries would be encouraged to increase their tax rates, to collect the taxes that other countries otherwise would collect on their behalf. As a result, today's tax havens would start to increase their corporate income tax rates. If this happens, a race to the top would start.

Of course, countries would still compete to attract activity, but they would compete differently. Instead of competing by offering low tax rates, they would be stimulated to have best infrastructure, by having the most productive workforce, the best universities, the biggest markets, and high purchasing power for customers. This kind of international competition would benefit the vast majority of the population. Suddenly, you have a much more sustainable globalisation that will reconcile globalisation with the people.

Tax negotiations within the OECD in the past have focused on a much

lower number: 14 per cent which is just 1,5 percentage points above the corporate rate of Ireland. So, the Biden team is aiming quite high. What can the US do if the other countries, especially the Europeans, do not play along? Your colleague Alan Auerbach from the University of Berkeley already said that "it's hard to see the OECD going along with what the US has proposed." How realistic is it to implement the plan?

I think it is very realistic because it is quite simple for countries to take unilateral measures that would be somewhat equivalent to imposing minimum taxes. First, Germany could police its own multinationals. The government could collect 100 per cent of the tax deficit from the German companies that pay too little in taxes compared to what they should pay, if they were subject to a high minimum tax in each country where they operate.

Second, Germany could collect part of the tax deficit of foreign multinationals, for instance, US multinationals. Let's say Apple has a €10 billion global tax deficit and makes 10 per cent of its sales in Germany. That's an extra €1 billion in taxes that must be paid by Apple in Germany to handle rights to have access to the German market.

Any country can do that unilaterally. This is a powerful incentive given to other countries to actually police their own multinationals. If you refuse to collect a minimum tax on your corporations, other countries who are willing to do that will collect those taxes. The message is: If you leave money on the table to grab, we will play the role of tax collector of last resort. And if countries do this, you will see very quickly that they will reach an international agreement. Therefore, I'm very optimistic.

What will be the effect for countries like Ireland and the Netherlands? Many EU countries would be faced with revenue losses in the billions, as well as the loss of corporate headquarters and probably thousands of jobs.

There would be a transition cost, yes. But what this illustrates is that the development model of tax havens is not sustainable. It's based on the assumption that tax competition will always be there. It is not a sustainable development model. The sooner it ends, the better for those countries.

Joe Biden plans to raise taxes in the US – mostly for the rich –, to finance his massive infrastructure programme. Do you see this as a model for Germany or other European countries as well?

It is important, of course, to invest in infrastructure, in higher education, in research, in healthcare, in all the things that make countries prosperous and productive. Especially in the current context of the post-Covid-19 recovery, we want to avoid the trap of the last recession where austerity measures kicked in very quickly, and governments were concerned about debts and deficits and underinvested in essential public goods and services. Now is the time, not only in the US, but in Europe as well, to be very ambitious in government spending and in paving the way for growth in the coming decades.

In your view, what are the best solutions to tackle inequality? What are the proper instruments to achieve a better distributive justice?

In the optimal tax system, you have, essentially, three instruments. You have a progressive income tax, and the corporate tax is part of that. You have a progressive wealth tax because the wealth tax is the proper way to tax billionaires, which cannot be taxed very well by the income tax. The reason for is that when you're extremely wealthy it's easy to own a ton of wealth while having little taxable income. However, the wealth tax is always going to play a limited role. It's only for the tiny sliver at the very top of the distribution, but it's still important. For billionaires or for people with hundreds of millions of euros, the proper way to tax them is primarily with the wealth tax.

And there is also the progressive inheritance tax to limit the intergenerational reproduction of inequality. These are the three key pillars. Today, what's most lacking is the wealth tax. My number one advice would be to recreate a wealth tax adapted to the challenges of the 21st century. Progressive, starting high in the wealth distribution, taxing old assets at their market value.

Today, most European countries do not have a wealth tax. France abolished it recently under Emmanuel Macron. Critics say it's very hard to measure, and it's very easy to avoid paying wealth taxes simply by moving. Therefore, it's just not working.

These are problems that existed in the past. Countries can choose not to tax their expatriates as they do today. Or they can choose to tax them. Germany could say, look, if you become a billionaire in Germany, and now you choose to move to Switzerland, we're going to continue taxing you for a number of years, which can maybe depend on the number of years you've been a tax resident in Germany. For instance, you've been a tax resident for 40 years, you will have to continue paying taxes in Germany for ten, 15 years. Tax competition is a policy choice. You choose as a government to tax or not to tax

wealthy people who leave the country.

For measuring wealth, the same: it's not that hard. First of all, a lot of the wealth at the top is in assets that have market values like listed equities. And for private businesses, you can allow business owners to pay in kind. Let's say, you have a three per cent wealth tax, then business owners would hand in three per cent of the shares in their company to the government, who could then auction the shares, sell them in the market, thus creating the market which currently is missing. There are creative ways to create market values when they are missing and to measure wealth.

Just like when the income tax was created, income was not well measured, and people said, 'oh, there would be a lot of tax evasion if you have an income tax'. When you create a tax, you also create the administrative infrastructure, the information, the accounting standards and concepts that are going to make it possible to measure and tax that one thing. That is what happened for the income tax, and the same will happen for the wealth tax.

This interview was conducted by Nikolaos Gavalakis.



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