Could a new consensus emerge on corporate taxes?

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Recently TJN writers were on the LSE blog explaining the economic folly of corporate tax cuts. For example:

"*British corporations are awash with cash: according to Deloitte, non-financial companies held £731.4 billion in the third quarter of 2011, the highest ever. . . The U.S. is in a similar situation to the U.K., with corporates there sitting on an estimated US$1.7 trillion cash pile.*"

And the conclusion is that cutting corporate taxes is the equivalent of pushing on a string. But they are worse than that, because they are actually harmful. Corporate tax cuts take money from a sector that is investing (that is, government) and giving it to a sector that is letting it sit idle. Three weeks after we wrote that, the FT's influential Lex column stated, in response to the UK's budget:

"*Four years after the financial crisis, companies globally are awash with cash: $1.7tn among US companies, â,¬2tn in the eurozone, and £750bn in the UK. A really competitive tax regime would encourage companies to invest their cash, not just to grow it.*"

Rather a similar point, perhaps you'll agree. And we have Martin Wolftaking this point further on the same day:

"*Vastly more dubious are the cuts in corporation tax, to be lowered to 24 per cent, with the aim of cutting it to 20 per cent. Zero-sum competition among governments to attract mobile headquarters cannot make sense. Nor is there any reason to suppose the fiscal and economic benefits will be large. Meanwhile, the reduction in corporate tax will encourage retentions over distributions, while doing nothing to raise investment. A far more sensible proposal would be to increase investment incentives and maintain — or even raise — headline rates.*"

We could not agree more. We can't claim credit for his saying this - he's said things a bit like this before, though perhaps not as strongly, and others have too - such as Joseph Stiglitz:

"*[It is a myth] that lowering [the] corporate income tax rate across the board will stimulate investment in the United States. No evidence of that. … If you want to encourage investment, what you do is lower taxes on firms that invest and you raise taxes on firms that don't invest. You can restructure the taxes to provide incentives to invest.*"

Well, indeed. This isn't a new argument, but this does look a little bit like a consensus of the sensible emerging. There seems to be no real argument here - corporate tax cuts are a really, really foolish idea right now: exactly the wrong way to go. The UK, for instance, seems to be run by a ship of fools, with the deluded at the helm.

Read this, or this, or this, for more details on the corporate tax cut arguments.

What needs to happen now is that this message on corporate tax needs to spread far and wide. Journalists who interview corporate tax-cutting politicians need to put it to them, and persist in this line of questioning - then watch them wriggle.

Opposition parties can make huge mileage with this one. Why have they been so silent on this no-brainer?

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