Insight

Taxation is the art of plucking the goose…

APRIL 2, 2012

Yesterday the Japanese government officially lowered its corporate tax rate, leaving the United States with the highest tax rate among the ranks of developed countries. While a growing chorus on both sides of the aisle are calling to remedy this, there is no signs of it changing anytime soon.

How do the opponents of corporate tax reform justify the status quo? With an appeal to American exceptionalism: those who see no pressing need to change insist that our economy is so vibrant, so enormous, and our market is so essential that companies have no choice but to locate in this country, pay our high tax rate, and produce and sell here. (I'm loathe to point out that this is probably the only context in which these people believe in American exceptionalism)

But as our global economy becomes more integrated and capital becomes more mobile, that reasoning is becoming increasingly tenuous. 95 percent of the nation's consumers live outside of the United States—a proportion that is only going to grow—and there is no shortage of companies earning a pretty dime catering to them and ignoring America.

But U.S. companies **cannot** afford to ignore overseas markets, and a high corporate tax rate makes it increasingly difficult to compete against countries that pay a much lower tax rate.

The philosopher Jean Baptiste Colbert once remarked that taxation is the art of plucking the goose as to obtain the largest amount of feathers with the least squawking. The corporate tax is akin to a pair of rusty pliers.