MULTINATIONAL CORPORATIONS IN THE 21ST CENTURY ECONOMY: **PRINCIPLES FOR POLICYMAKERS**

Hutchins Center
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Principle 1:

Governments should avoid erecting barriers to realizing benefits that multinational corporations offer modern economies. They should avoid tariffs, punitive regulations, and taxes directed at foreigners, and other restrictions on the movement of goods, people, investment, and data across borders.

Multinational corporations contribute to investment, innovation, employment, and productivity by integrating their operations throughout the world. The economic benefits created by these firms accrue to countries rich and poor, notwithstanding certain multinational practices in low-income countries and the economic harm suffered by some workers and communities in high-income countries.

The multinational business model relies on the fluid movement of goods, services, ideas, people, and data across borders. Governments that throw sand in the gears of this otherwise highly functioning economic machine do their economies significant harm. Governments often are tempted to limit the penetration of foreign multinational firms in their economies to preserve the competitive positions of domestic firms. In fact, openness to foreign direct investment may be the best way to create good jobs, spread innovation, and spur market competition. Claims that national security concerns justify imposing limits on multinational investment and restrictions on research activities of multinational firms require skeptical scrutiny.

Principle 2:

Governments and multinational corporations should adopt policies and practices that ensure that all segments of society benefit from the activities of multinational corporations and from globalization more generally.

While the net effects of the activities of multinational corporations, and globalization more generally, are positive, there are costs—and they are disproportionately borne, at least in developed countries, by less-educated workers, particularly those who perform routine tasks that are easily moved offshore or automated. This has contributed to a worrisome increase in inequality within countries in recent decades. At the same time, labor's share of income—both in the United States and globally—has declined, and many measures of median income and wages have stagnated. Globalization and the activities of multinational corporations are not the only factors driving these trends, but they have played a role. The regional economic dislocation associated with abrupt plant closures or imports of low-cost foreign goods can be severe, even if more than offset by gains elsewhere in the economy. U.S. government efforts to offset the economic harm done to some workers, families, and communities have been inadequate.

The solutions involve spending more money, and spending it more wisely and creatively, and in experimenting with such programs as wage insurance, flexible training subsidies, and other measures targeted at individuals and communities who have not enjoyed the benefits of globalization. Multinational corporations and their executives should support—and be willing to pay taxes to help finance—such public efforts. They also need to invest more in training to better equip their employees to cope with a rapidly changing economy. Multinational corporations that do not identify and remedy the unwelcome side effects of their actions not only betray the standards they publicly proclaim for themselves and risk vilification, but also undermine support for economic policies from which they benefit, fuel the rise of populist politicians, and put their future prosperity at risk. Governments that stand idle in the face of severe economic pain risk popular backlash against the post-World War II political consensus that produced decades of peace and rising living standards around the world.

Principle 3:

Governments should cooperate to formulate consistent, cohesive policy frameworks because what happens in one place influences what happens elsewhere. These policy frameworks should respect the right of sovereign nations to reflect the preferences and needs of their people.

Policymakers should strengthen multilateral institutions that regulate international trade and investment, fixing their shortcomings and adapting them to the evolving global economy. Trade and investment disputes should be resolved more quickly. Trade rules should be extended to cover a broader set of services, and policies should be written to account for the growth of e-commerce. Guidelines on the appropriate role of government in promoting and supporting businesses should be negotiated. International investment and trade regulations that serve favored corporate interests but do not promote general economic welfare should be removed. Antitrust policy should be better coordinated across countries.

Because they span borders, multinational firms can transmit economic shocks from one part of the world to others. National regulators must, therefore, remain aware of their country's exposure to policy actions and economic conditions elsewhere. Lax financial regulation in one country, for example, can increase the fragility of the banking systems of others. Policymakers should coordinate efforts to make global systems more robust.

Climate change in particular presents an enormous challenge. No one company or one country can effectively reduce the dangers of climate change unless others join. Public policy should make private actors shoulder the cost of their contributions to greenhouse gas emissions; the obvious options include carbon taxes and cap-and-trade permit systems. Multinational corporations, many of which have announced climate-related goals, should support and help design such government efforts. National governments—and multilateral organizations—should use their leverage to get other governments to cooperate in what must be a global effort.

Principle 4:

Innovation is an important contributor to prosperity, so governments should pursue policies that encourage multinational corporations to pursue innovations and share the benefits with the world.

Multinational corporations are major innovators, and their efforts are the products of contributions by the best minds from every part of the world, rich and poor countries alike. The rise of economic nationalism, the aggressive use of tariffs, the opposition to immigration, and new restrictions on cross-border flows of data all threaten to limit rates of innovation and adoption of new goods and ideas. Policies that support the free flow of goods, services, human capital, and data are essential to supporting innovative activity. Innovations are often embodied in goods like new scientific equipment, and trade in these goods allows innovations to spread, facilitating further innovation. Immigration of highly educated foreign nationals plays a significant role in innovation that occurs within the United States; making it harder for foreign individuals to study and stay in the United States would impede research and, in turn, induce U.S. multinationals to locate more of their innovative activity abroad.

Strong and strictly enforced intellectual property rights are essential to provide incentives for multinationals to invest in innovation and to give them comfort in transferring technology to their foreign affiliates. While governments should commit to defending intellectual property rights, there are limits to how far these rights should extend. Corporations can abuse the patent system, protecting monopoly profits far beyond the period of exclusivity required to provide incentives for innovation. Governments should limit the ability of patent trolls to obtain intellectual property rights in a manner that limits innovation. And policy should ensure that innovations such as life-saving drugs are widely accessible even in low-income countries.

Principle 5:

Governments should forge consensus on principles governing the taxation of multinational corporations.

Governments struggle to craft appropriate taxes on multinational corporations amid widespread concern that multinational corporations pay very little in taxes, manipulate their accounting to exploit tax havens, and thereby starve governments of badly needed revenue. Firms do structure their affairs in ways that reduce their tax liabilities, but the more spectacular claims of lost tax revenue have flimsy empirical support and are inconsistent with the reality that multinational firms collectively pay considerable taxes. Self-help is not the only source of multinational tax reduction. Over time, governments have reduced their tax rates and enacted other tax provisions designed to make their countries attractive locations for multinational firms, including by their reluctance to adopt measures that would diminish the impact of tax-haven operations.

Governments frequently disagree over which country has the right to tax profits made by firms whose operations lie in many countries—and whether certain types of taxes are legitimate under international agreements. The governments of multinational home countries often bristle at taxes imposed by countries where their multinationals have operations, the most recent prominent example being the U.S. reaction to digital taxes imposed by several other countries that are alarmed by the rising presence of U.S. digital firms.

All countries stand to benefit from establishing agreement over principles that govern the taxation of multinational corporations. These principles should identify the types of taxes covered and identify in which countries, and under what circumstances, governments have rights to tax income. This does not entail agreement over tax rates but instead over taxing authority—and, in particular, the extent to which income is appropriately subject to taxation by the countries in which multinationals are based and the countries in which they have foreign operations. With agreed-upon principles, each country can better understand the scope of its legitimate taxing authority, cooperate with other governments in enforcing its taxes, and make reasoned choices over appropriate levels of taxation, given all the tradeoffs that taxing business income entails.

Principle 6:

Governments should invest in collecting more and better data about the activities of multinational corporations.

The availability of reliable and robust data is a necessary, albeit not sufficient, condition for good policy and for informing a public debate that is too often influenced by anecdotes. We relied heavily on data compiled by the U.S. Commerce Department's Bureau of Economic Analysis. Very few countries dedicate resources to conducting surveys of multinationals operating within their borders, making it hard to understand these firms, never mind regulate them. It is imperative that statistical agencies receive the resources they need to measure the activities of multinationals; policymakers, business managers, and the general public depend on it.

Legislation that requires firms to provide tax authorities with country-by-country reports of financial tax data has the potential to increase transparency regarding basic measures of economic activity as well as tax payments in different jurisdictions. Governments should create opportunities for researchers to access and analyze the data that are collected as a part of this and other efforts. Additional effort should also be dedicated to tracking more extensively forms of multinational activity that have likely grown in recent decades and present distinctive policy considerations, such as long-term contracts between companies that have no ownership relationship. Private data can supplement and improve the accuracy of government-collected data, but they cannot substitute for the breadth, historical continuity, and integrity of publicly gathered and distributed data.

To learn more about the underlying facts that inform these policy principles,
a summary of chapter one of *Global Goliaths* is available here.

To purchase a print or digital copy of *Global Goliaths*, visit:
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