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The stateless company plays a risky game

Fly-by-night businesses that choose the most convenient home for tax will provoke a backlash

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In 1909 Edward Hall, a vice-president of the American Telephone and Telegraph Company, lamented in a speech that: "The public does not know us . . . It has never seen us, never met us, does not know where we live." His words were in response to the Supreme Court having given corporations the legal status of "persons" in 1886, and a chorus of popular complaint that they were soulless.

Discontent at the rise of large corporations and trusts in the early 20th century led to the trustbusting presidency of Theodore Roosevelt from 1901 onwards. It also encouraged the growth of corporate welfare: companies such as Cadbury in the UK, Le Bon Marché in France and National Cash Register in the US, which invested in supporting and housing employees.

The strongest echo today of Hall is the sense of corporations being rootless and stateless, that no one knows where in the world Facebook, Google or Pfizer live. "Wherever happens to be best for shareholders" seems to be the answer. For US technology companies, that means basing their European arms in low-tax Ireland; for Pfizer, it means merging with Allergan to reincorporate itself in the country.

Pfizer will not transport its head office, its primary stock market listing or most of its employees from New York to Dublin following the planned $160bn merger. It will simply shift its place of incorporation to benefit from Ireland's 12.5 per cent corporation tax rate. The technology companies remain US corporations, with European operations headquartered in Dublin to avoid higher tax rates in other countries.

In one sense, the multinationals' manoeuvres are a rational response to the strange US regime of having a high headline rate of corporate taxation yet allowing companies to shelter their overseas earnings offshore. This is a strong incentive not only to reincorporate through "tax inversion" mergers but to stash $2.1tn, the cash pile of the 300 largest US companies, in tax havens such as Bermuda.

It also fits with the stateless attitude of US companies in their own country — nearly half of publicly listed companies incorporate in the small state of Delaware, while most of their head offices remain elsewhere. They do so because of Delaware's courts, which allow executives plenty of leeway to exercise their judgment.

But taking a free and easy attitude to global incorporation, instead of the continental European view that a company has a natural identity — a nationality where its head office sits — raises the same problem that AT&T and others faced in the early 20th century. A rootless corporation feels like a soulless one — an institution that has no loyalty to any particular place.

This is a dangerous game to play, as the uproar over both tax inversions and US tech companies paying little corporation tax in countries such as the UK and France has demonstrated. Companies that appear to be fly-by-night and impersonal, picking and choosing which flag is most convenient, are likely to provoke the same backlash as the early 20th century trusts.

Walgreens, the US pharmacy chain that considered moving to Switzerland as part of its takeover of Alliance Boots in 2014, was wise to retreat from the idea. It would have looked rather stupid styling itself as "America's premier pharmacy" and recounting the homespun tale of how "it all started in a town called Dixon, Illinois" while residing for tax purposes in a Swiss canton.

Tax inversions and related gymnastics hurt the legitimacy of all multinationals, even those that do not indulge. There is a big difference between a stateless corporation and a cosmopolitan one (although some are both). One uses a convenient legal fiction to shift itself around the world without really moving; the other does the difficult work of expanding beyond national boundaries and transforming itself.

A cosmopolitan company is to be admired, even if many are less international than they claim, or appear, to be. Many multinationals employ more non-natives than people from their home country — 169,000 of General Electric's 305,000 employees, for example, are non-US — yet only 13 per cent of Fortune Global 500 companies have a non-native chief executive.

It is hard to forge an international culture, as a few such as ArcelorMittal, the Luxembourg-based steel group, and Nokia, the telecoms equipment group, have tried. Nokia was formed from Finnish and German companies (Nokia and Siemens Networks) and is now absorbing a French-American company (Alcatel-Lucent). Rajeev Suri, its chief executive, is Indian.

While such companies remake their businesses, those that incorporate financially merely preserve more cash for shareholders by reducing tax liabilities. At best, it does nothing for the company itself; at worst, it damages its standing with customers and governments everywhere it operates — the country it came from, its adopted tax home and other territories.

A multinational can be a solid corporate citizen in more than one country. It can contribute to society even if its head office is elsewhere. But treating its nationality as contingent makes that harder — it instead gives the impression of not being rooted at all. That might be a good deal for the shareholders in the short term but it carries a heavy long-term price.