This is an edited version of two pieces that appeared in Foreign Affairs in 2020 on the need for global taxation reform.

The Starving State -- Why Capitalism's Salvation Depends on Taxation

By Joseph E. Stiglitz, Todd N. Tucker, and Gabriel Zucman January/February 2020

Much of the blame lies with the existing transfer price system, which governs the taxation of goods and services sold between individual parts of multinational companies. This system was invented in the 1920s and has barely changed since then. It leaves important determinations (such as where to record profits) to companies themselves (regardless of where the profit-making activity took place), since the system was designed to manage the flows of manufactured goods that defined the global economy in the 1920s, when most trade occurred between separate firms; it was not designed for the modern world of trade in services, a world in which most trade takes place between subsidiaries of corporations.

Nowhere is tax avoidance more striking than in the technology sector. The richest companies in the world, owned by the richest people in the world, pay hardly any taxes. Technology companies are allowed to shift billions of dollars of profits to places such as Jersey, one of the Channel Islands, where the corporate tax rate is zero, with complete impunity. Some countries, including France and the United Kingdom, have attempted to impose a tax on some of the revenues the technology giants generate in their jurisdictions. But France's small, three percent tax, for example, has only reinforced the need for a new global agreement, for the tax does not go far enough; it targets only the digital sector, even though profit shifting is rampant across the board, including in the pharmaceutical, financial services, and manufacturing industries.

Nothing less than a bold new regime of domestic and international taxes will save wealthy democracies and economies from the distortions and dangers of rampant inequality. The first order of business should be establishing a fiscal system that generates the tax revenue required for a twenty-first-century economy—an amount that will need to be even higher than those prevalent in the middle of the twentieth century, the period of the fastest economic growth in the United States and in which prosperity was more evenly shared. In today's innovative economy, governments will need to spend more on basic research and education (12 years of schooling might have sufficed in 1950, but not today).

The Looming Tax War

A Decaying International Tax Regime Threatens the Global Economy

By Itai Grinberg January 17, 2020

While the trade war between China and the United States has hogged headlines and driven market anxieties over the past year, an equally large threat to the global economy has gotten little attention: a looming tax war. Since the early twentieth century, countries have largely agreed on how to tax income earned by multinational corporations that conduct business across borders. But this long-standing regime is coming apart, imperiling the broader international economic order.

The current system, established through decades of practice and convention, provides a basis for determining which country can tax income earned in one jurisdiction by a business that resides in another. The regime rests on the norms set in domestic tax laws as well as a patchwork of almost 4,000 bilateral treaties. For decades, the system was stable and functional enough that no one other than international tax lawyers even talked about it.

The digital age, however, has generated new concerns for these long-established norms. The Internet and advances in telecommunications have smoothed the way for businesses to participate meaningfully in the economic lives of countries where they have no physical presence—and to do so without paying significant income taxes in those countries. European governments, especially the French government, have attempted to impose digital services taxes on giant technology firms. Their efforts have rankled the United States, which views such new taxes as unfairly singling out U.S. companies.

Under historic international tax rules, governments taxed the profits of multinationals based on where intellectual property was owned, where financial risk was borne, where the parent of a multinational corporation was headquartered, and where management, research, and development took place. Countries such as China and India have long advocated major changes to the international tax system to allow more taxation of profits in "market jurisdictions"—where the customers of a corporation's goods and services reside—and less to the places where intangible property was invented or owned.