

# **IFCs:**

## the economic perspective

**Richard Teather**

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Commonwealth – IFC Forum conference

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# Benefits of IFCs

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**“Tax competition brings great benefits, to all society and not just to those who directly take advantage of it”**

***The Benefits of Tax Competition***

# Benefits of IFCs

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- $\downarrow$  taxes =  $\uparrow$  wealth

# Benefits of IFCs

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- $\downarrow$  taxes =  $\uparrow$  wealth
- “Growth in government stunts general economic growth.” (*Federal Reserve*)
- Tax increases “result in a net efficiency loss to the whole economy” (*IMF*)

# Benefits of IFCs

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- $\downarrow$  taxes =  $\uparrow$  wealth
- efficient global capital markets
- encourages entrepreneurship
- encourages savings & investment
- encourages work

# Encourages work

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**75**  
**VAT (12)**  
**Tax (25)**  
**38.**



**20**  
**Tax 13**  
**NI 4**  
**VAT 7**  
**44**

# Research into low taxes

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“income taxes are generally associated with lower economic growth”

Arnold, OECD (2009)

# Research into low taxes

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“taxes have an adverse effect on industry-level investment.

In particular, corporate taxes reduce investment”

Vartia, OECD (2008)

# Research into low taxes

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“... the link between taxation and growth seems self-evident”

“... the effect of taxation on growth has frequently been demonstrated to be considerable.”

Myles, OECD (2008)

# Research into low taxes

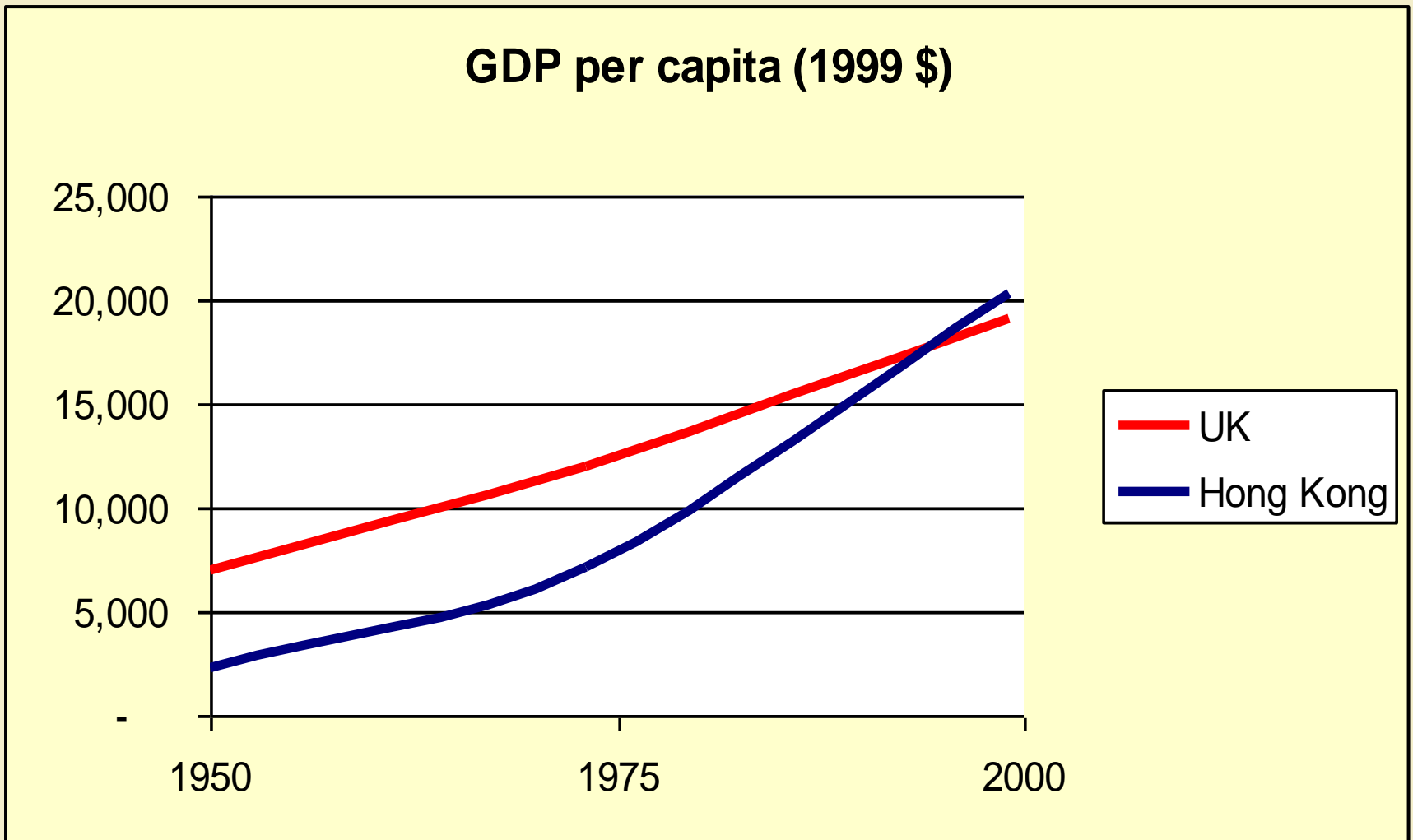
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“... in a global economy [tax] harmonisation would impede economic growth, and not promote it.”

UK government (2004)

# Effect of low taxes

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# Who benefits?

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- the rich get richer ?
- multinationals avoid tax ?

# Benefits of IFCs

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# Who benefits?

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# Who benefits?

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For \$100 reduction in corporate taxes, \$75 on average goes directly to the workers

Devereux, Oxford University (2009)

# Who benefits?

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70% of the cost of corporate tax increases falls on the workers

Felix, Federal Reserve (2007)

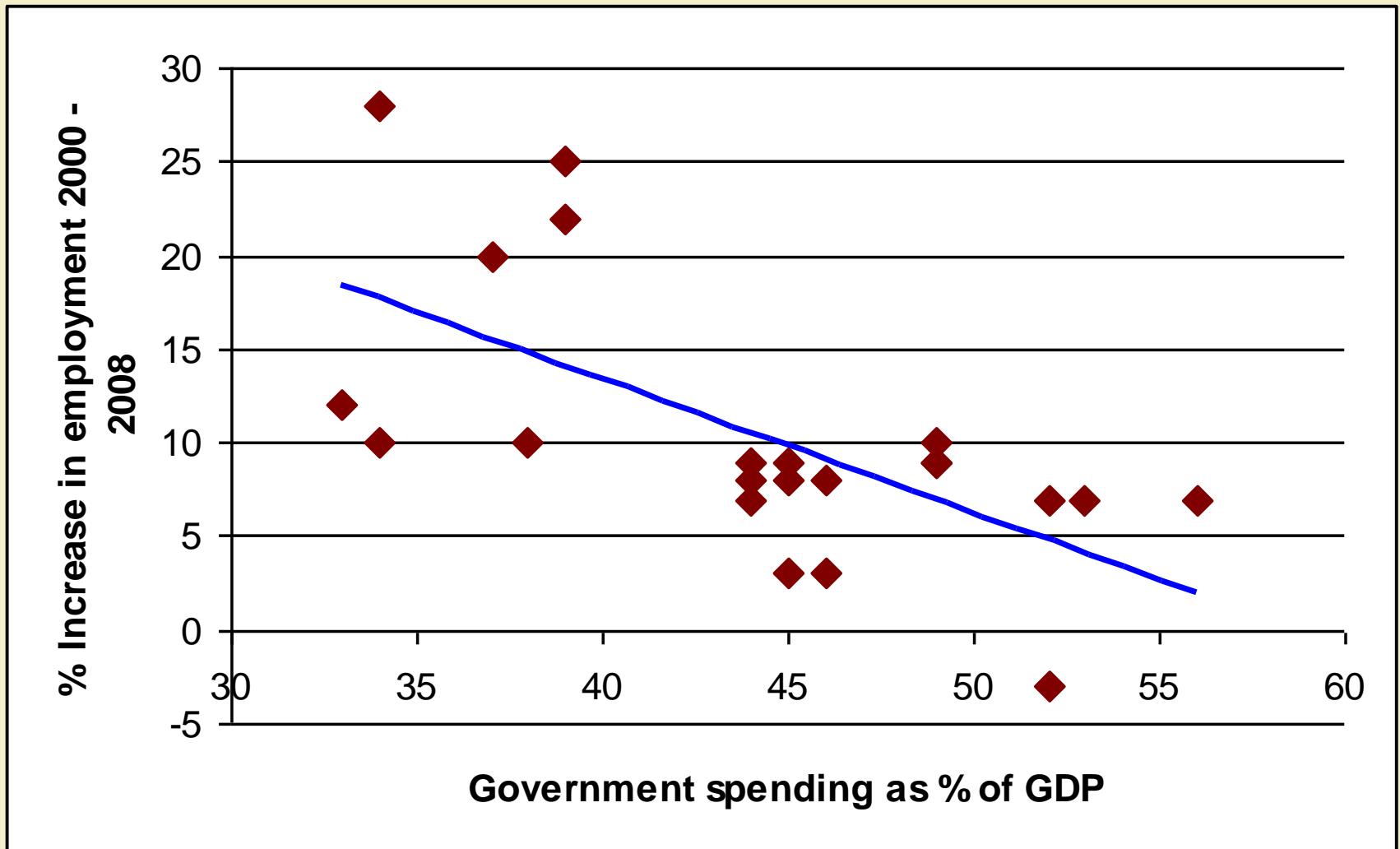
# Who benefits?

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Including the long-term effects, the true cost to workers is twice the corporate tax collected

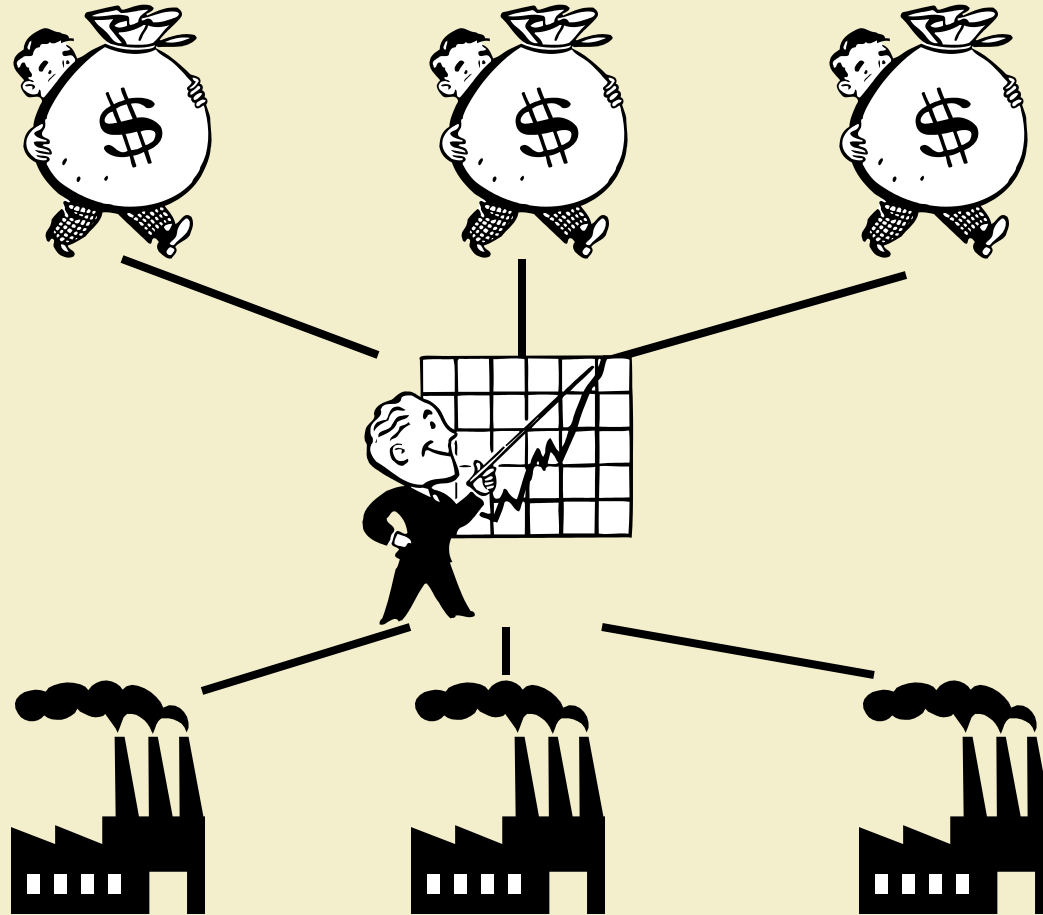
Harberger (1995)

# Research into low taxes



# Efficient global capital markets

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# Benefits of IFCs

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# The future

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- IFCs benefit developed countries
- Increased investment:
  - increase domestic economy
  - attract international capital
- Main benefit goes to workers

# The future

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- IFCs benefit developed countries
  - especially the UK
- Co-operative attitude:
  - attract international capital
  - increase domestic economy
  - generate jobs

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