

Globalization, Multinational Firms and International Taxation

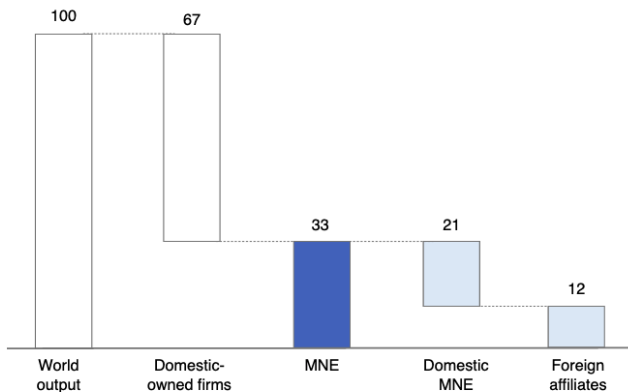
Is tax evasion inevitable?

Sciences Po - Saint-Germain-en-Laye, Fall 2025

1. Introduction

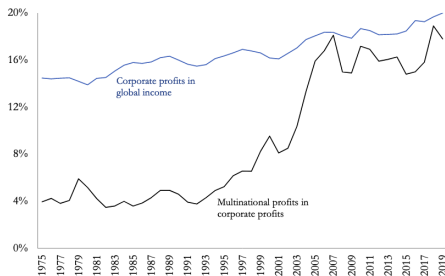
Multinational firms are important to understand globalization 1/2

Figure 3. Decomposition of global gross output by ownership status, 2014



Multinational firms are important to understand globalization 2/2

Figure 3: Global corporate profits and multinational profits, 1975–2019

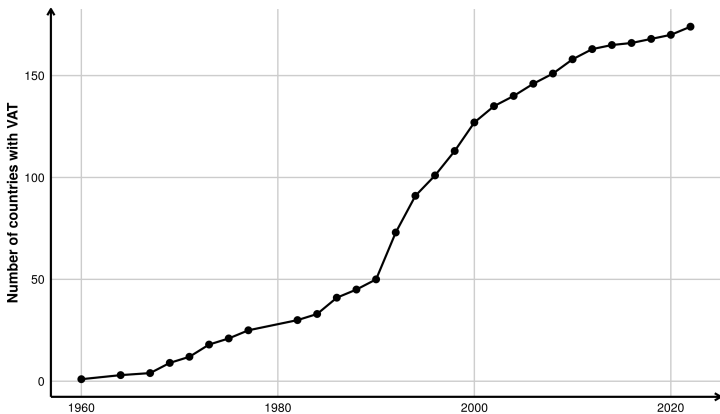


Note: the blue line shows the evolution of the share of global corporate profits in global income (defined as global GDP minus global depreciation). The black line shows the share of global multinational profits (as defined in the text) in global corporate profits.

Source: for 1975–2015: Torslev et al. (2022a), Data Appendix Table C7; for 2016–19 figures: Data Appendix, Table 1.

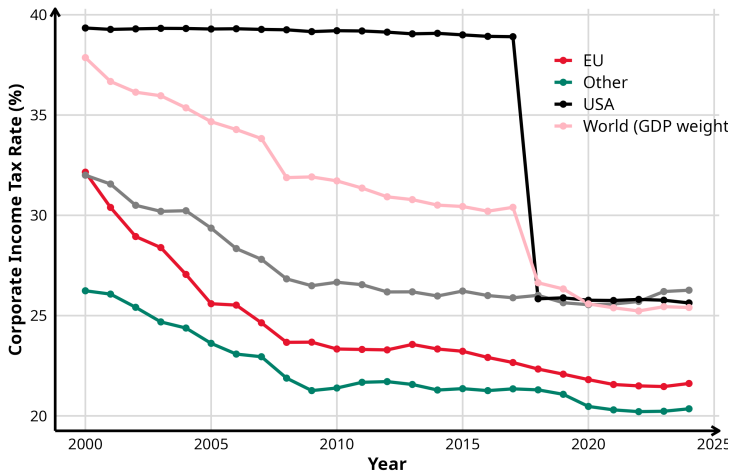
2. Four facts on globalization and taxes

Fact #1: The rise of consumption taxes



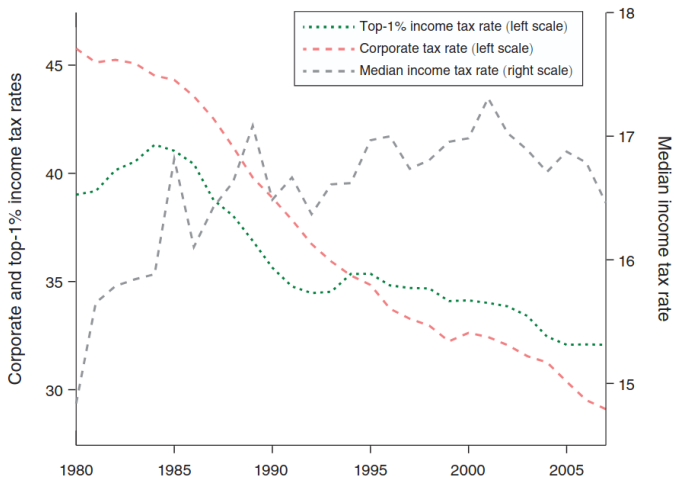
Source: OECD

Fact #2: Race-to-the-bottom of CIT rates



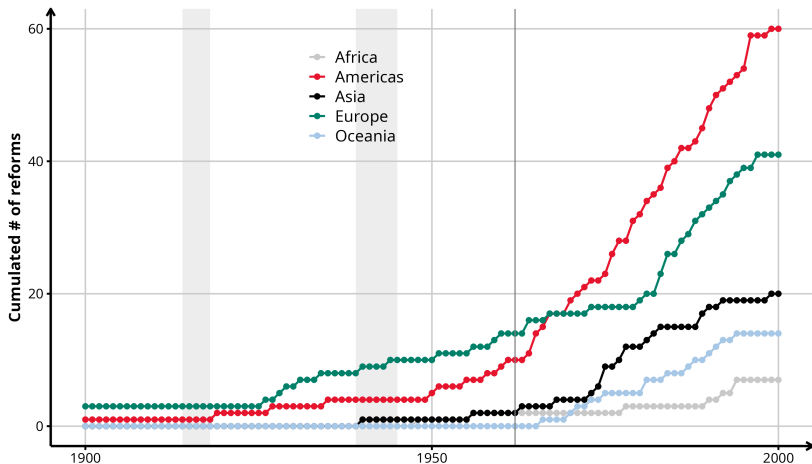
Source: OECD-Corporate Tax Statistics

Fact #2bis: The decrease of taxes on capital



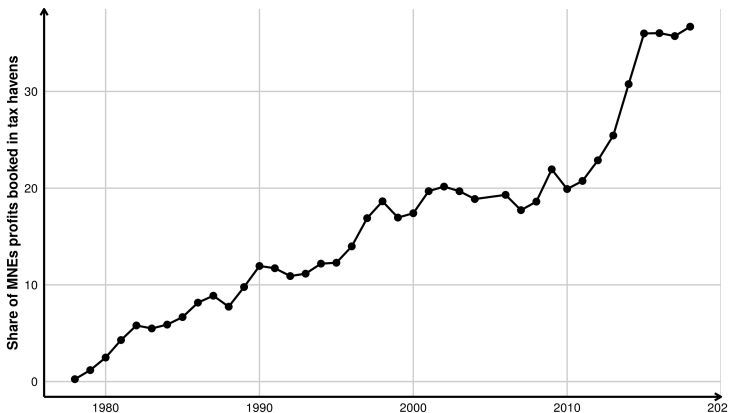
Source: Egger et al.

Fact #3: The rise of tax havens



Source: *La tte*

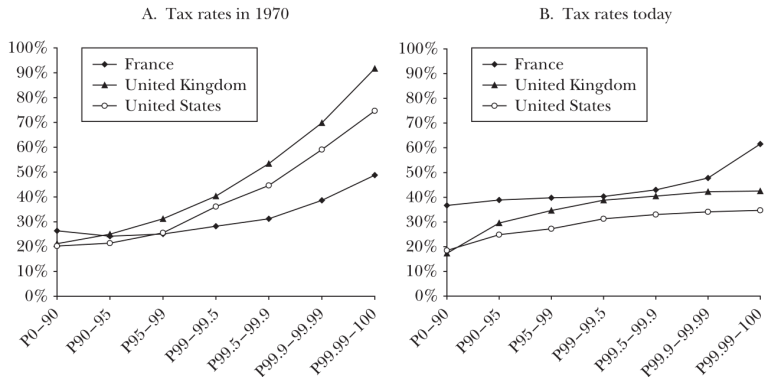
Fact #4: The rise of profit shifting



Source: Wier & Zucman

Fact #5: The slowdown of income tax progressivity

Tax Rates in France, the United Kingdom, and the United States in 1970 and Today



Source: Piketty & Saez, today=2005

Why is it a consequence of facts 1 and 2?

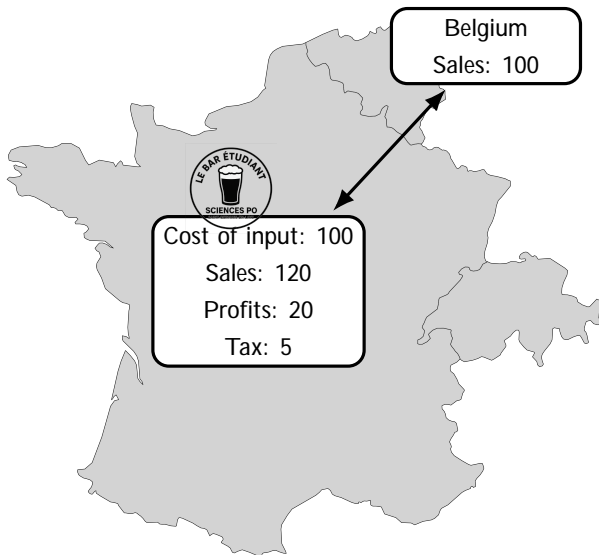
Income Composition

3. How do firms avoid taxes?

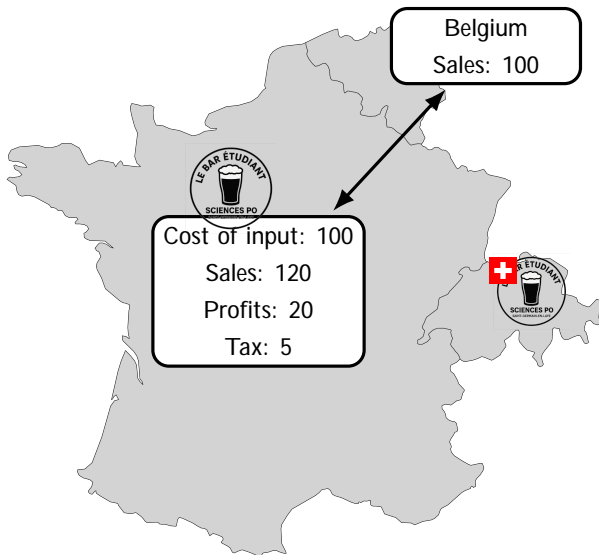
MNEs' Tax Avoidance Explained



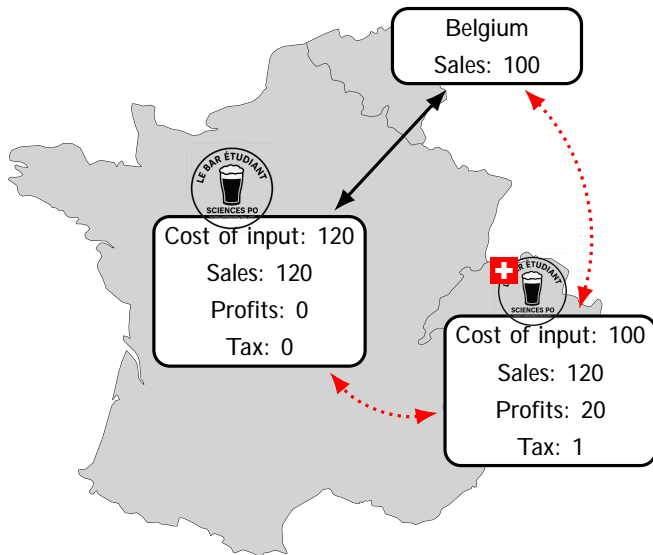
MNEs' Tax Avoidance Explained



MNEs' Tax Avoidance Explained



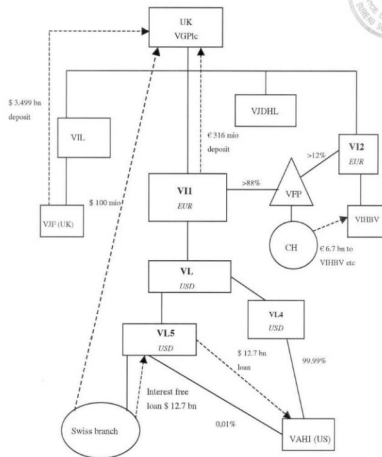
MNEs' Tax Avoidance Explained



MNEs' Tax Avoidance Explained

PRICEWATERHOUSECOOPERS 

Enclosure 2: Structure as at 31 March 2006



Regulating international tax competition?

- Corporate tax competition pushed tax rates towards too low rates.
- All countries would prefer to have larger rates, but incentives to deviate push them to a sub-optimal Nash equilibrium.
- Similarly, it is hard to regulate international tax avoidance.
 - Doing it raises taxes of firms operating domestically.
 - Other countries have an incentive not to regulate to attract firms from regulated countries.

4. How do government react to tax avoidance?


Regulating international tax competition?

	Business as usual	Anti avoidance
Business as usual	(10,10)	(12,9)
Anti avoidance	(9,12)	(11,11)

Regulating international tax competition?

	Business as usual	Anti avoidance
Business as usual	(10,10)	
Anti avoidance	(9,12)	

Regulating international tax competition?

	Business as usual	Anti avoidance
Business as usual	 (10,10)	
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Regulating international tax competition?


	Business as usual	Anti avoidance
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Regulating international tax competition?

	Business as usual	Anti avoidance
Business as usual		(12,9)
Anti avoidance		(11,11)

A red dot is located in the top-right cell of the table, corresponding to the (12,9) payoff.

Regulating international tax competition?

	Business as usual	Anti avoidance
Business as usual	 (10,10)	(12,9)
Anti avoidance		

Regulating international tax competition?

	Business as usual	Anti avoidance
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	Business as usual	Anti avoidance
Business as usual	 (10,10)	 (12,9)
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The Nash equilibrium is sub-optimal. What happens when we introduce a global minimum tax rate?

Regulating international tax competition?

- Global cooperation prevents free-riding and moves the Nash equilibrium to the social optimum.

Regulating international tax competition?

- Global implementation and cooperation prevent free-riding.

Regulating international tax competition?

- Global implementation and cooperation prevent free-riding.

5. The role of global institutions

The limited governance of international taxation

Problem is well identified but no consensus on the solutions
OECD vs. UN ?

Domain	Public Health	Climate	Digital	Trade	Macro & Finance	Migration	Competition	Banking Regulation	Taxation
Common problem identification			Black			Black	Gray		
Shared expertise source			Gray	Gray		Black	Gray		
Consensus on action principles	Gray	Gray	Black	Gray	Gray	Black			Gray
Transparent reporting mechanisms	Gray	Gray	Black			Black			Gray
Results evaluation and adaptation	Gray		Black	Black	Gray	Black	Gray		Gray
Trusted institutions	Gray	Gray	Black	Gray	Gray	Black	Black	Gray	Gray

Table: Evaluation of coordination: Black = De cient, Gray = Intermediate, White = Satisfactory, source: Pisani-Ferry & Papaconstantinou

International Negotiations at the OECD

The OECD was mandated by the G20 in 2013 to conduct international negotiations around Base Erosion and Profit Shifting (BEPS) in an inclusive framework format (= with non-OECD countries)

Around 150 tax lawyers (and a few economists) helping 154 countries designing a new tax system

2012-2015: BEPS 1.0 Negotiations

Coherence	Substance	Transparency / Certainty
<p>Action 2: Neutralising the effects of hybrid mismatch arrangements</p> <p>Action 3: Controlled Foreign Companies { reducing incentives to shift income from markets into low-tax countries.</p> <p>Action 4: Limitation on Interest Deductions { linking an entity's net interest deductions to its economic activity.</p> <p>Action 5: Harmful tax practices { countering harmful preferential regimes and improving transparency.</p>	<p>Action 6: Prevention of Tax Treaty Abuse Minimum Standard { developing model treaty provisions to prevent abuse.</p> <p>Action 7: Permanent establishment status { preventing artificial avoidance of PE status.</p> <p>Actions 8{10: Transfer Pricing { guidance on aligning profits with value creation (intangibles, risks, and capital).</p>	<p>Action 11: Measuring and Monitoring BEPS { analysing data on the economic and fiscal effects of tax avoidance.</p> <p>Action 12: Mandatory Disclosure Rules { requiring disclosure of aggressive tax planning arrangements.</p> <p>Action 13: Country-by-Country Reporting { ensuring MNEs report annually for each tax jurisdiction.</p> <p>Action 14: Mutual Agreement Procedure { making dispute resolution between jurisdictions more timely and effective.</p>
Cross-Cutting Actions		
<p>Action 1: Digital Economy { addressing the tax challenges of digitalisation.</p> <p>Action 15: Multilateral Instrument { implementing BEPS-related treaty recommendations to fix vulnerabilities.</p>		

Source: OECD

2018-?: BEPS 2.0 Negotiations

BEPS 1.0 was falling short on digitization

Two-Pillars solutions based on two observations:

Issue with tax base definition) Pillar 1 aims at thinking of profit globally and allocate them according to the share of sales made in each country.

Issue with the tax rate) Pillar 2 seeks at setting a Global Minimum Tax at 15%.

Economic diplomacy: theory...and practice

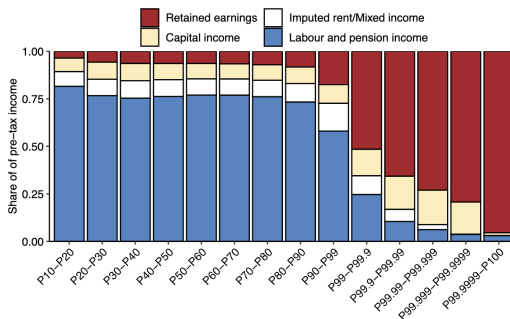
Source: Le Monde

6. Back-up slides

Income composition Back

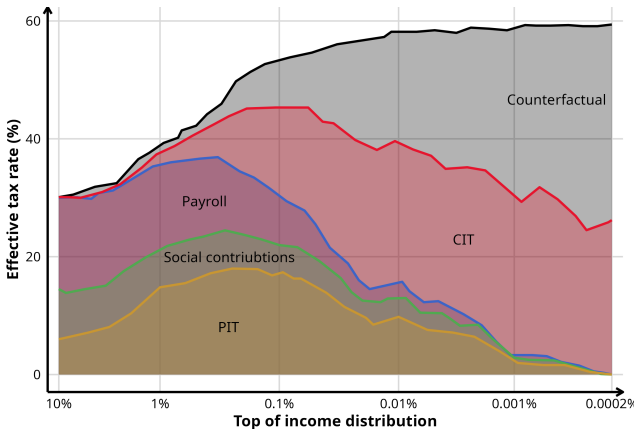
- Capital income is concentrated on the right of the income distribution.
- The figure is for Netherlands but this is true among most countries in the world .

Figure 2: The composition of pre-tax national income



Source: Bruil et al., 2024

Effective tax rate in France, by percentile

[Back](#)


Source: *Bach et al., 2025*