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Taxes, truth and CBS

By Richard W. Rahn
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How do you think the sanctimonious people at TV's "60 Minutes" would portray a company charged by the FCC with "serious indecency violations," that made expensive settlements with employees and others because of injuries related to asbestos and other hazardous material exposures, underfunded its employee pension, is legally accused of securities violations, employs those who widely distributed forged documents in an effort to destroy political opponents, failed to dismiss or discipline employees who violated the company code of conduct, owned offshore enterprises that paid little or no U.S. corporate tax, and operated in and/or dealt with countries harboring terrorists?

The company that engaged in all of these practices is Viacom, parent company of CBS, which produces "60 Minutes."

The folks at "60 Minutes" remind me of the preacher who damns the sinners every Sunday, but then is caught in the brothel. Viacom is a huge media company that not only owns CBS, but hundreds of individual radio and TV stations; cable operations like MTV, Showtime and Nickelodeon; Paramount Pictures; theme parks; publishing houses, including Simon & Schuster; and many other operations around the globe.

The problem with Viacom is not its difficulties with some acquisitions and operations, but that its CBS News unit has a long and continuing record of misrepresentation, hypocrisy, or worse is allowed to continue in clear violation of the company's own code of conduct and best economic interest.

The people who produce "60 Minutes" have a long history of pursuing corporate and individual wrongdoers. This is all to the good, provided it is done honestly, and not just to make those with different political or other views (such as religious) or competitors look silly or corrupt. Over the years, it has been all too obvious a (liberal Democrat) political agenda at CBS has taken priority over factual news.

In an attempt to discredit Vice President Dick Cheney, "60 Minutes" recently did a hatchet job on Halliburton, where Mr. Cheney once was chief executive officer. The central CBS charge was that Halliburton created offshore companies to reduce its tax burden. The fact virtually every large company with sizable foreign operations does the same thing, and it is totally legal and proper, escaped the people at "60 Minutes" in their rush to tarnish Halliburton and Mr. Cheney.

To make the story more interesting, "60 Minutes" reporter Lesley Stahl and her team went to the Cayman Islands where Halliburton has incorporated some of its affiliates. Miss Stahl first implied there was something illegal or shady about having a Cayman business -- which is both untrue and a slander on all world-class professionals in the Cayman financial industry. She then went to a local Cayman law firm to interview a couple of the lawyers who set up corporations, with the explicit agreement that the interview would not be filmed.

Instead, Miss Stahl and her crew hid a camera in a notebook, filmed and broadcast the interview in direct violation of their promise. (I learned about this accidentally when a colleague and I interviewed the founding partner of the same law firm regarding a book we are writing on Cayman economic success.)

Miss Stahl then went on to rap CBS competitor General Electric Co. (which owns NBC) for similar tax practices, even though both GE and Halliburton are the epitome of corporate virtue compared to Viacom and CBS.

The real scandal "60 Minutes" should have reported is the U.S. corporate tax has made U.S. businesses noncompetitive. Chris Edwards, director of Tax Policy at the Cato Institute, has authored a new study showing the U.S. corporate tax is second highest of all developed member countries of the Organization of Economic Cooperation and Development (OECD.)

The average U.S. corporate tax rate is 40 percent vs. 27.7 percent average among the European countries. Corporate managers have a fiduciary responsibility to their stockholders to legally minimize their tax burden. Businesses that do not do so put themselves at a competitive disadvantage to their foreign competition, which ultimately means lost market share and U.S. jobs. No company can avoid U.S. tax liability on its operations within the U.S. through the use of a Cayman or any other low-tax country affiliate.

U.S. companies still must pay tax in every country where they do business. Places like Cayman, Bermuda or Ireland merely allow them to avoid a tax disadvantage on foreign operations vis-a-vis overseas competitors. Offshore incorporation of foreign operations only helps defer the double tax.

The Viacom (CBS) corporate responsibility statement says: "Obeying both the letter and spirit of the law is one of the foundations of Viacom's ethical standards. It is Viacom's policy to comply with all applicable laws, rules and regulations. You must always conduct your business affairs with honesty, integrity and good judgment."

Obviously, Viacom has not been enforcing its own standards at CBS News. The blatant partisanship, continuing misrepresentation and lack of ethical standards at CBS News probably explains part of its continuing drop in market share -- not good for stockholders and a failure in top management.

(If you wonder where I got all of the dirt on Viacom reported in the first paragraph, it was found in its own filings with the Securities and Exchange Commission and recent news reports.)

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