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"A man is none the less a slave because he is allowed to choose a new master once in a term of years." *Lysander Spooner*

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The Trillion-Dollar Zero-Cost Stimulus Program

by Brad Warbiany

Want to inject liquidity into the market, support American jobs, and do so without raiding the US Treasury or overheating the printing press? The answer is simple: get out of the way.

Now, some may say that's a libertarian's answer for everything. And they'd usually be right. But I'm not signing you up for a precipitous decline in federal revenue. I'm not resorting in protectionist and mercantilist policies destined to impoverish American consumers in favor of American exporters. All I'm asking — or relaying the request of Cisco CEO John Chambers and Oracle President Safra Catz, more accurately — is that the US Government make it easier to bring foreign profits back to our shores:

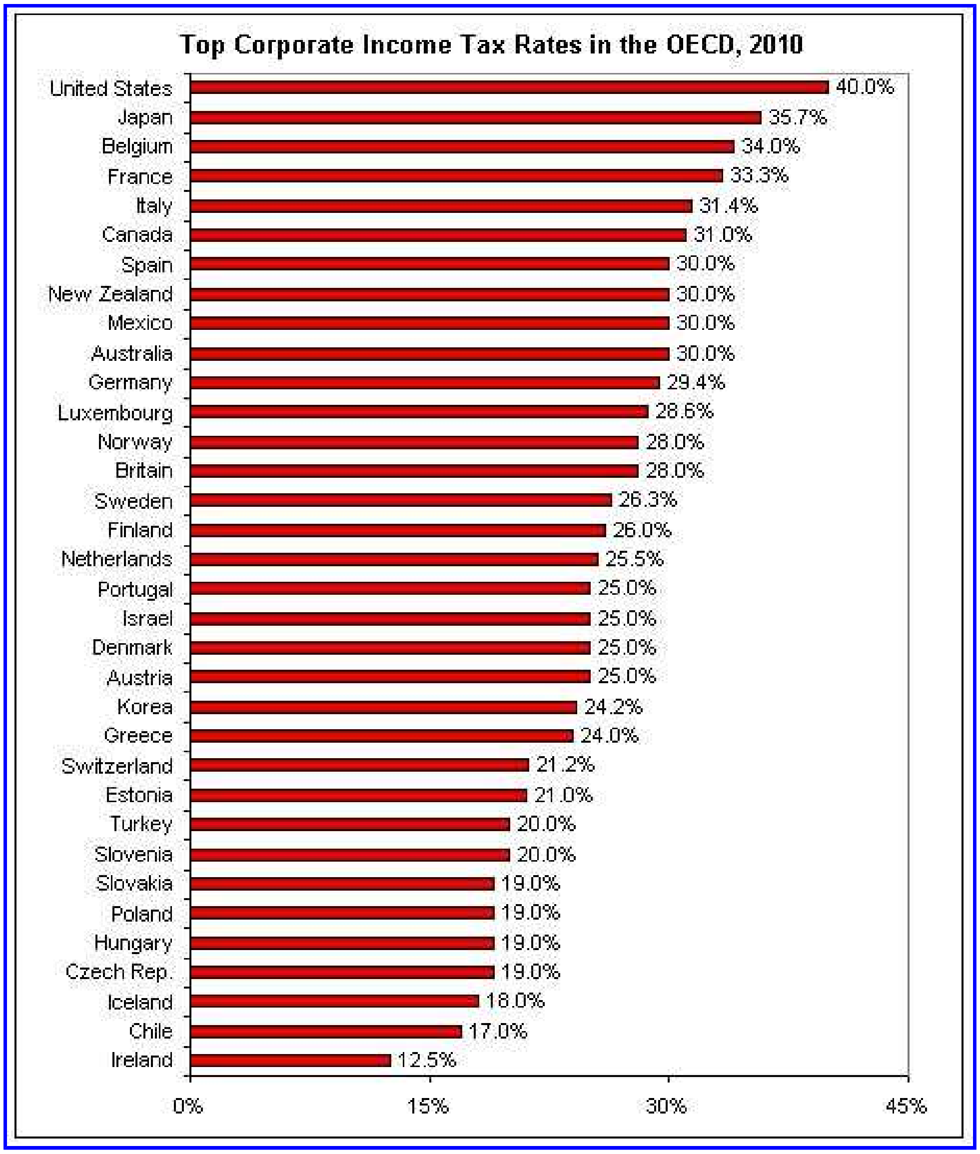
> One trillion dollars is roughly the amount of earnings that American companies have in their foreign operations—and that they could repatriate to the United States. That money, in turn, could be invested in U.S. jobs, capital assets, research and development, and more.
>
> But for U.S companies such repatriation of earnings carries a significant penalty: a federal tax of up to 35%. This means that U.S. companies can, without significant consequence, use their foreign earnings to invest in any country in the world—except here.
>
> The U.S. government's treatment of repatriated foreign earnings stands in marked contrast to the tax practices of almost every major developed economy, including Germany, Japan, the United Kingdom, France, Spain, Italy, Russia, Australia and Canada, to name a few. Companies headquartered in any of these countries can repatriate foreign earnings to their home countries at a tax rate of 0%-2%. That's because those countries realize that choking off foreign capital from their economies is decidedly against their national interests.
>
> …

> By permitting companies to repatriate foreign earnings at a low tax rate—say, 5%—Congress and the president could create a privately funded stimulus of up to a trillion dollars. They could also raise up to $50 billion in federal tax revenue. That's money the economy would not otherwise receive.

The tax picture described is very simple, and it makes American companies make some difficult decisions. A company with overseas profits and a need to reinvest can choose to invest them abroad or here in the US. Those overseas profits can be invested overseas with little or no tax penalty, or they can be invested here with significant tax penalty. The decision becomes simple. It is only smart to invest foreign profits in the US if it is investment that simply cannot be effectively done overseas, because the cost of repatriation is enormous. **It's a trade war, but it's aiming the artillery inward, not outward.**

Anyone who has read my work knows that I am not a fan of government subsidies. I personally think that American corporations and American workers can compete quite handsomely on the world market. We don't need our government to actively help industry here; we have an educated workforce, developed infrastructure, stable institutions and a strong rule of law. We have everything we need to make it profitable for companies to invest here. We could have a country where overseas profits are re-invested in American workers and the US economy. What we have instead are government policies actively hostile to that end. All I ask is that those policies be rescinded.

America is seen worldwide as pro-business. In many cases, that is true, but certainly not in our corporate income tax system, as described by the Cato Institute here. Rather than being a low-tax laissez-faire bastion of capitalism, we have the highest corporate income tax rate in the developed world:



Reducing the taxes on repatriated profits can be done in a revenue-neutral way. All that is necessary is to choose a tax rate that will balance the tax revenue earned on repatriated earnings at the current rate with the expected revenue earned on the much larger base of repatriated earnings at a lower rate. Some foreign cash is undoubtedly repatriated; as I said there is incentive not to do so, but that incentive in not insurmountable. However, at a lower tax rate it makes sense for more companies to repatriate much larger sums, and I think a baseline rate of 5% as suggested by Chambers and Catz is a good starting point for discussion if remaining revenue-neutral is a goal.

There is **up to a trillion dollars** out there that could be injected into the US economy without raising the deficit, without spinning up the printing press, and which would go immediately to the entities who have the best ability to invest it in stimulative ways — companies who are already profitable. While many in Congress may not like the idea, as they have little control over how the money is spent, I think that’s a feature — not a bug.

While I’m not a protectionist, I think we should stop government policy designed to hurt American employment and help employment overseas. Of all the policies in which our government engages, one that actively stops capital from flowing into America from overseas seems rather idiotic.

Full Disclosure: I work for a multinational electronics company, with worldwide staff, worldwide production facilities, and worldwide yearly revenue in the billions. My inspiration for this post was a discussion of the tax penalties inherent in my own employer repatriating foreign profits, but I chose to wait until the idea was publicly forwarded by heads of Cisco and Oracle before adding my own thoughts. Undoubtedly my employer would also benefit from such a policy, and I would be remiss to suggest this without disclosure. Also note that the opinions herein (and elsewhere I write on this blog) are purely my own, and are not in any way meant to represent those of my employer.

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