THE INDEPENDENT
— A voice for Utah —

What Switzerland has to do with your paycheck

By Patrick Gleason

March 10, 2018

President Trump recently traveled to the annual World Economic Forum in Davos, Switzerland to deliver a message: America is once again open for business.

He found a receptive audience. Thanks to tax reform, foreign companies are giddy about expanding their operations in the United States. Ulrich Spiesshofer, CEO of Swiss robotics giant ABB, told President Trump the tax bill is a game changer for his company. During a roundtable with the president, Spiesshofer exclaimed that ABB, which already employs 26,000 people in the United States, now plans to "grow further and invest significantly" more.

Foreign direct investment, which currently totals $3.7 trillion and supports 13 million U.S. jobs, is set to surge thanks to passage of federal tax reform.

But investors won't set up shop just anywhere. If U.S. governors and state legislators want to attract an outsized share of this investment influx, they'll need to implement their own rate-reducing tax reforms. Switzerland's cantons offer U.S. states a proven model for the sort of tax competition that will allow state economies to flourish in the improved tax and regulatory environment.

Switzerland's 26 cantons, the equivalent of U.S. states, compete against each other to lure in corporations. Consider the canton of Obwalden, which in 2006 cut its corporate rate to 12.7 percent — the lowest in Switzerland at the time — to entice businesses from the neighboring canton of Zug. Almost 1,400 companies relocated to Obwalden in the three years following the cuts.

President Trump and Congress rolled out the welcome mat for foreign businesses by slashing the U.S. corporate tax rate from 35 percent — the highest in the developed world — to 21 percent. So far, at least 409 companies have announced wage and salary increases, bonuses, or 401(k) match increases.

Many top business leaders are certain the reform will prove successful. Mark Schneider, CEO of Nestle, told President Trump that his firm is "excited about what's going [on] in the U.S." Those weren't just empty pleasantries. The Swiss food and beverage conglomerate, which employs 50,000 Americans, recently announced new investments in the United States.

It's no coincidence that President Trump — as well as scores of American business leaders — headed to Switzerland to promote the tax bill. The tiny Alpine nation, which won the top spot in the Cato Institute’s Human Freedom Index, is America’s seventh largest source of foreign direct investment. Swiss companies have plowed $224 billion into the U.S. economy as of 2014.

These investors range from giants such as Nestle and Novartis to lesser-known manufacturers like Franke Food Services, which produces equipment for restaurants. Franke recently announced an $11.6 million expansion of one plant in Smyrna, Tennessee.

Now that foreign companies have decided to grow their operations in the United States, executives face a crucial question: To which states should we expand? Governors and legislators can attract these investors by embracing the Swiss model of local tax competition.

America is open for business, and foreign companies are already scoping out expansion opportunities in the United States. State politicians can roll out the welcome mat for these job creators by implementing their own tax reforms.