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Shipping out jobs

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With campaign season comes predictable charges that Candidate X favors "tax breaks for corporations that ship US jobs overseas." It's a bogus claim.

With unemployment still stubbornly high, Americans are rightly worried about the economy. And politicians of both parties - from President Obama on down -- have seized on US multinational companies as a convenient scapegoat.

The charge *sounds* logical: Under the US corporate tax code, US-based companies aren't taxed on profits that their affiliates abroad earn until those profits are returned here. Supposedly, this "tax break" gives firms an incentive to create jobs overseas rather than at home, so any candidate who doesn't want to impose higher taxes on those foreign operations is guilty of "shipping jobs overseas."

In fact, American companies have quite valid reasons beyond any tax advantage to establish overseas affiliates: That's how they reach foreign customers with US-branded goods and services.

Those affiliates allow US companies to sell services that can only be delivered where the customer lives (such as fast food and retail) or to customize their products, such as automobiles, to better reflect the taste of customers in foreign markets.

In 2008, US companies sold more than \$6 trillion worth of goods and services through overseas affiliates -- three times what US companies exported from America. And, no, those affiliates aren't mainly "export platforms," set up to ship goods back to the United States: Almost 90 percent of what they produce abroad is sold abroad.

It's not about access to "cheap labor," either: More than three-quarters of outward US manufacturing investment goes to other rich, developed economies like Canada and the European Union. That's where they find the wealthy customers, skilled workers, open markets, efficient infrastructure and political stability to operate profitably.

Indeed, US manufacturing companies invest a modest \$2 billion a year in China, compared to \$30 billion a year in Europe.

Nor do jobs created by those investments come at the expense of American workers. In fact, the more workers US multinationals hire abroad, the more they tend to hire at their parent operations in America. Ramped up production at affiliates stimulates demand at home for managers, accountants, engineers and sales reps. It also stokes demand for the export of higher-end components and services from the US-based parent.

But the charge is worse yet -- because if Congress were to repeal the tax exemption for income earned abroad, it would kill American jobs. Affiliates would have to pay the relatively high US corporate income-tax rate, rather than the usually lower rate imposed by the host country -- putting US affiliates at a competitive disadvantage with their foreign counterparts, which would still be paying the lower domestic rate.

Without the ability to defer taxes on income earned and kept abroad, US multinationals would be forced to cut back their foreign operations, ceding important markets to their competitors from Japan, Korea or the European Union. That would mean fewer foreign sales and fewer jobs created by their US operations.

But it's the big picture that really shows how absurd these claims are. Year after year, the rest of the world invests more in *their* affiliates here in the United States than American companies invest in operations outside our country.

From 2005 to 2009, foreign manufacturers invested an average of \$87 billion a year in US factories, such as the Russian-owned Severstal steel plant in Mississippi and the German-owned BMW plant in South Carolina, while US manufacturing companies were investing an average of \$45 billion a year abroad.

In other words, by the populists' flawed logic, the world has been shipping more jobs to America than US companies have been shipping abroad.

The real fear behind those desperate political ads isn't that American workers are having their jobs "shipped overseas." It's the fear of incumbent politicians that they'll soon be losing their jobs because of the economic downturn they've created here in America.

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