The Washington Times

RAHN: Job-killing madness

Chasing foreign investment out of the U.S. is counterproductive

By Richard W. Rahn
-
The Washington Times
Monday, March 5, 2012

Most people intuitively understand that job creation requires capital investment, but many in the Obama administration and in Congress seem to have missed this basic fact of economic life. As the late Jack Kemp used to say, “How many truck drivers would you have if nobody had money to buy trucks?” There are numerous studies that try to measure the cost of the average job, but a figure of $225,000 on average is in the ballpark.

There has been much discussion in the press about all of the new job-killing environmental regulations coming out of the administration, such as the restrictions on coal plants and oil and gas drilling. The press has been less focused on the job killing that stems from all of the new financial regulations, which may end up eliminating tens of millions of jobs. An exaggeration you may say, but think about the following: The Dodd-Frank bank regulation bill was more than 2,000 pages long, with tens of thousands of impending regulations in the pipeline.

Assume for moment you are the head of a small community bank. You have two-dozen employees. The government then sends you many thousands of pages of new regulations. Who in your bank is going to be able to read and understand all of this and then set up the procedures for complying with all the new regulations? The government says hire lawyers and accountants to give the necessary information and set up the compliance systems. But lawyers and accountants are very expensive, and your bank may not be able to afford them and still make a profit. So the bank is left with the choice of going out of business or selling out to a larger bank. This, in turn, leads to more concentration and less competition in the banking industry and adds to the problem of “too big to fail.” As the costs of regulation grow, banks are forced to charge higher and higher fees in order to stay in business, and they make fewer loans, which means fewer trucks and truck drivers, and less of everything else, including jobs.

But it only gets worse. In a mindlessly stupid attempt to try to get a few billion more dollars in tax revenue, the government has put a large share of foreign investment that comes into the U.S. and millions of the resulting jobs at risk. The new rules (including the Foreign Accounts Tax Compliance Act) are so vague, complex and costly to administer that foreign financial institutions are ceasing to allow Americans to open accounts and are refusing to invest in the United States. Americans living abroad are particularly hard hit and have come together under a volunteer organization, American Citizens Abroad, which correctly notes: “Foreign investment in the U.S. amounts to $21 trillion, and $11 trillion of this is invested in U.S. securities. A KPMG survey indicates only 36 percent of financial institutions will comply with [the tax compliance act], leaving 64 percent still considering divesting out of U.S. securities. If even a fraction of those foreign investors divest, the loss to the U.S. would be in the trillions of dollars. This, at a time when the U.S. economy desperately needs more foreign investment, not less.”

As a rough rule of thumb, each $1 trillion of investment might well account for 5 million new jobs. Most countries, including the United States in the past, do everything they can to attract foreign investment. But now the folks at the Justice Department and the Internal Revenue Service are doing everything they can to drive foreign investment out of the U.S. For instance, the Justice Department is attacking banks in Switzerland where some of their American clients are accused of not declaring all of their income. Rather than focusing on the taxpayers who may not have paid the tax due, Justice decided to go after the foreign banks and their executives with both civil and criminal charges - even though these banks were totally compliant with their own country's laws and have no U.S operations. As a result, foreign financial institutions are increasingly fearful of having anything to do with the United States, including investing.

Extending U.S. law to foreign countries and institutions is dangerous because it puts all U.S. citizens and businesses at risk. Foreign governments can now argue that their laws should apply in the United States. If someone publishes an article or cartoon in the U.S. that a Muslim government finds offensive, should that government be able to arrest that person in this country or when that person travels outside the U.S.? If a foreign visitor from a country with strict gun laws legally purchases a gun in the United States but does not take it back to his home country, should his country be able to arrest him and the U.S. retailer who sold the gun? The point is that sovereign countries quite rightly have different laws, including tax and banking laws. If the U.S. continues to try to extend our laws beyond our borders, we are asking for trouble. It is already causing great resentment toward the United States and will result in millions of lost jobs.

The Foreign Accounts Tax Compliance Act and related regulations are passed, promulgated and implemented by destructive, small-minded people who cannot think beyond Stage One and have little appreciation for economic liberty, opportunity and growth. Their actions are causing all of the rest of us to suffer.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.