http://online.wsj.com/article/SB20001424052748704022804575041253835415076.html

THE WALL STREET JOURNAL.
WSJ.com

OPINION
FEBRUARY 3, 2010

How to Destroy American Jobs

By MATTHEW J. SLAUGHTER

Deep in the president's budget released Monday—in Table S-8 on page 161—appear a set of proposals headed "Reform U.S. International Tax System." If these proposals are enacted, U.S.-based multinational firms will face $122.2 billion in tax increases over the next decade. This is a natural follow-up to President Obama's sweeping plan announced last May entitled "Leveling the Playing Field: Curbing Tax Havens and Removing Tax Incentives for Shifting Jobs Overseas."

The fundamental assumption behind these proposals is that U.S. multinationals expand abroad only to "export" jobs out of the country. Thus, taxing their foreign operations more would boost tax revenues here and create desperately needed U.S. jobs.

This is simply wrong. These tax increases would not create American jobs, they would destroy them.

Academic research, including most recently by Harvard's Mihir Desai and Fritz Foley and University of Michigan's James Hines, has consistently found that expansion abroad by U.S. multinationals tends to support jobs based in the U.S. More investment and employment abroad is strongly associated with more investment and employment in American parent companies.

When parent firms based in the U.S. hire workers in their foreign affiliates, the skills and occupations of these workers are often complementary; they aren't substitutes. More hiring abroad stimulates more U.S. hiring. For example, as Wal-Mart has opened stores abroad, it has created hundreds of U.S. jobs for workers to coordinate the distribution of goods world-wide. The expansion of these foreign affiliates—whether to serve foreign customers, or to save costs—also expands the overall scale of multinationals.

Expanding abroad also allows firms to refine their scope of activities. For example, exporting routine production means that employees in the U.S. can focus on higher value-added tasks such as R&D, marketing and general management.

The total impact of this process is much richer than an overly simplistic story of exporting jobs. But the ultimate proof lies in the empirical evidence.

Consider total employment spanning 1988 through 2007 (the most recent year of data available from the U.S. Bureau of Economic Analysis). Over that time, employment in affiliates rose by 5.3 million—to 11.7 million from 6.4 million. Over that same period, employment in U.S. parent

companies increased by nearly as much—4.3 million—to 22 million from 17.7 million. Indeed, research repeatedly shows that foreign-affiliate expansion tends to expand U.S. parent activity.

For many global firms there is no inherent substitutability between foreign and U.S. operations. Rather, there is an inherent complementarity. For example, even as IBM has been expanding abroad, last year it announced the location of a new service-delivery center in Dubuque, Iowa, where the company expects to create 1,300 new jobs and invest more than $800 million over the next 10 years.

This is true in manufacturing, too. Procter & Gamble calculates that one in five of its U.S. jobs—and two in five in Ohio—depend directly on its global business.

Compared to the rest of the world, U.S. corporate tax rates are sky-high and our system of corporate taxation is highly complex. The current U.S. federal statutory corporate tax rate of 35% is the highest among all 30 Organization for Economic Cooperation and Development countries, far above the OECD average of about 23%. Raise the international tax burden on U.S. multinationals by limiting foreign-tax credits, for example, and you will further reduce their ability to compete abroad. This, in turn, will reduce employment and investment in U.S parent companies.

Making it harder for U.S. multinationals to create U.S. jobs would be bad policy at any time. But it would be especially detrimental now because of how dramatically the private sector of the U.S. economy has contracted in the face of this recession.

Since the slowdown began in December 2007, private-sector payrolls have fallen precipitously. Today there are 2.4 million fewer private-sector jobs than 10 years ago. Moreover, in all four quarters of 2009, gross private-sector investment fell so low that it did not even cover depreciation. For the first time since at least 1947, the U.S. private capital stock shrank throughout an entire year.

The major policy challenge facing the U.S. today is not just to create jobs, but to create high-paying private-sector jobs linked to investment and trade.

Which firms can create these jobs? U.S.-based multinationals. They—along with similarly performing U.S. affiliates of foreign-based multinationals—have long been among the strongest companies in the U.S. economy.

These two groups of firms accounted for the majority of the post-1995 acceleration in U.S. productivity growth, the foundation of rising standards of living for everyone. They tend to create high-paying jobs—27.5 million in 2007.

Consider that in 2007, the average compensation per worker in these multinational firms was $65,248—about 20% above the average for all other jobs in the U.S. economy. These firms undertook $665.5 billion in capital investment, which constituted 40.6% of all private-sector nonresidential investment. They exported $731 billion in goods, 62.7% of all U.S. goods exports. And these firms also conducted $240.2 billion in research and development, a remarkable 89.2% of all U.S. private-sector R&D.

To climb out of the recession, we need to create millions of the kinds of jobs that U.S. multinationals tend to create. Economic policy on all fronts should be encouraging job growth by these firms. The proposed international-tax reforms do precisely the opposite.

International trade and investment policies are especially important to these firms. Passing the already negotiated trade agreements with Colombia, Panama and South Korea—and stopping trade barriers against key partners like China—are critical to increasing U.S. exports and related investment and jobs. If we are going to achieve the president's State of the Union aspiration to "double our exports over the next five years," we need to start now.

To help close looming fiscal deficits, the nation needs spending restraint and pro-growth sources of tax revenue. But Monday's proposals are far from that. These tax increases would destroy jobs in some of America's most dynamic companies.

Mr. Slaughter is associate dean and professor at the Tuck School of Business at Dartmouth, research associate at the National Bureau of Economic Research, and senior fellow at the Council on Foreign Relations. From 2005 to 2007 he served as a member of the White House Council of Economic Advisers.

Printed in The Wall Street Journal, page A17