The Increasing Irrelevance Of Corporate Nationality

Robert Reich, 28/07/2014

"You shouldn't get to call yourself an American company only when you want a handout from the American taxpayers," President Obama said Thursday. He was referring to American corporations now busily acquiring foreign companies in order to become non-American, thereby reducing their U.S. tax bill.

But the President might as well have been talking about all large American multinationals. Only about a fifth of IBM's worldwide employees are American, for example, and only 40 percent of GE's. Most of Caterpillar's recent hires and investments have been made outside the US. In fact, since 2000, almost every big American multinational corporation has created more jobs outside the United States than inside. If you add in their foreign sub-contractors, the foreign total is even higher.

At the same time, though, many foreign-based companies have been creating jobs in the United States. They now employ around 6 million Americans, and account for almost 20 percent of U.S. exports. Even a household brand like Anheuser-Busch, the nation's best-selling beer maker, employing thousands of Americans, is foreign (part of Belgian-based beer giant InBev).

Meanwhile, foreign investors are buying an increasing number of shares in American corporations, and American investors are buying up foreign stocks. Who's us? Who's them? Increasingly, corporate nationality is whatever a corporation decides it is. So instead of worrying about who's American and who's not, here's a better idea: Create incentives for any global company to do what we'd like it to do in the United States.

For example, "American" corporations get generous tax credits and subsidies for research and development, courtesy of American taxpayers. But in reducing these corporations' costs of R&D in the United States, those tax credits and subsidies can end up providing extra money for them to do more R&D abroad. 3M is building research centers overseas at a faster clip than it's expanding them in America. Its CEO explained this was "in preparation for a world where the West is no longer the dominant manufacturing power."

3M is hardly alone. Since the early 2000s, most of the growth in the number of R&D workers employed by U.S.-based multinational companies have been in their foreign operations, according to the National Science Board, the policy-making arm of the National Science Foundation. It would make more sense to limit R&D tax credits and subsidies to additional R&D done in the U.S. over and above current levels – and give them to any global corporation increasing its R&D in America, regardless of the company's nationality.

Or consider Ex-Im Bank subsidies – a topic of hot debate in Washington these days. These subsidies are intended to boost exports of American corporations from the United States. Tea Party Republicans call them "corporate welfare," and Chamber-of-Commerce Republicans call them sensible investments. But regardless, they're going to "American" multinationals that are making things all over the world. That means any subsidy that boosts their export earnings in the United States indirectly subsidizes their investments abroad – including, very possibly, their exports from foreign nations.

GE, a major Ex-Im Bank beneficiary, has been teaming up with China to produce a new jetliner there that will compete with Boeing for global business. (Boeing, not incidentally, is another Ex-Im beneficiary). In fact, GE is giving its Chinese partner the same leading-edge avionics technologies operating Boeing's 787 Dreamliner. Caterpillar, another Ex-Im Bank beneficiary, is providing engine funnels and hydraulics to Chinese firms that eventually will be exporting large moving equipment from China. Presumably they'll be competing in global markets with Caterpillar itself.

Rather than subsidize "American" exporters, it makes more sense to subsidize any global company – to the extent it's adding to its exports from the United States. Which brings us back to American companies that are morphing into foreign companies in order to lower their U.S. tax bill. "I don't care if it's legal," said the President. "It's wrong." It's just as wrong for American corporations to hide their profits abroad – which many are doing simply by setting up foreign subsidiaries in low-tax jurisdictions, and then making it seem as if the foreign subsidiary is earning the money.

Caterpillar, for example, saved $2.4 billion between 2000 and 2012 by funneling its global parts business through a Swiss subsidiary (a ruse so audacious that one of its tax consultants warned Caterpillar executives to "get ready to do some dancing" when called before Congress to justify it). And what about American corporations that avoid U.S. taxes by never bringing home what they legitimately earn abroad – a sum now estimated to be in the order of $1.6 trillion?

Rather than focus on the newly-fashionable tax-avoidance strategy of changing corporate nationality, it makes more sense to tax any global corporation on all income earned in the United States (with high penalties for shifting that income abroad), and no longer tax "American" corporations on revenues earned outside America. Most other nations already follow this principle.

In other words, let's stop worrying about whether big global corporations are "American." We can't win that game. Focus instead on what we want global corporations of whatever nationality to do in America, and on how we can get them to do it.