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OBAMA ATTACKS ROMNEY'S CORPORATE TAX PLAN FOR CREATING JOBS OVERSEAS

Edward J. O'Boyle, Ph. D.

Mayo Research Institute

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Several days ago President Obama attacked Mitt Romney's corporate tax plan that would exempt from U.S. taxation all profits earned by U.S. multinational corporations from activities in foreign countries. This so-called pure territorial tax system would, according to Obama, increase employment overseas by 800,000.

Unlike Romney, Obama does not propose a pure territorial tax system. Obama's offers instead a minimum tax on foreign earnings thus subjecting those earnings to double taxation: once by the country in which they were earned and again by the United States. The purpose of this double taxation is to penalize U.S. corporations for investing and creating jobs abroad.

The largest share of these 800,000 jobs – an estimated 189,000 – would go to Canada and Mexico with whom the United States has a free trade agreement. Obama's truth team, speaking on his behalf at www.barackobama.com, warns that Romney's plan could displace American workers for Chinese workers but says nothing about the much bigger estimated impact on the America's NAFTA trading partners. This tip of Obama's attack on Romney could be called "playing the China card."

Obama's numbers come from a June 2012 study by Kimberly Clausing of Reed College in which she assumes that the effective tax rate on corporate profits in the United States is 27.1 percent. The effective tax rate is lower than the current 35 percent statutory rate due to loopholes in the U.S. tax code. Portions of the data she employs in making her estimates come from U.S. multinational operations over the 1982-2004 period.

In citing her study, Obama referred to Clausing as a "nonpartisan economist" even though the Center for Responsive Politics reports that she contributed \$242 on September 14, 2011 and \$250 on May 18, 2012 to Obama's re-election campaign.

Most of the countries benefiting from the 800,000 increase in jobs, according to Clausing, are not tax havens. They have lower effective tax rates than the United States.

Nowhere in her study does Clausing indicate how much of the 800,000 jobs increase overseas is attributable (1) to a displacement of American workers that derives from differences in the cost of production, lower effective tax rates on earnings in other countries, or both, or (2) to attractive opportunities in countries where demand for goods and services is growing. The

first involves *relocating* U.S. operations in foreign countries. The second involves *starting up or expanding* operations in foreign countries.

Thus, consider her language: “a pure territorial tax ... *would* increase employment in low-tax countries by about 800,000 jobs” and “these new low-tax country jobs *could* displace jobs at home.” Obama’s website, where the Clausing study appears under the heading “Mitt Romney’s guide to creating 800,000 jobs overseas,” makes no mention whatever of the startup/expansion effect, leaving the impression that Romney’s territorial tax scheme would in fact displace hundreds of thousands of American workers.

Romney would reduce the statutory tax rate to 25 percent. Thus, the effective tax rate would be lower than 27.1 percent. As Clausing says “If the U.S. effective tax rate were to fall [below 27.1 percent] due to changes in the tax code, the calculated job responses would be lower.” Lower than 800,000. Obama makes no mention of this in his public remarks condemning Romney’s proposal.

Further, he makes no mention of the effect of current unemployment rates in the United States that, according to Clausing, “could displace jobs at home.” In other words, the failure of the Obama administration to achieve a much lower jobless rate raises the chances that the 800,000 jobs created abroad would actually displace jobs in the United States.

Thus, the very study that Obama cites in attacking Romney’s proposed tax plan also in effect takes to task Obama’s own failed economic policies. Understandably in a presidential election year with so much at stake for the winners, one can hardly blame a candidate for picking the data points that put him at some advantage. Even so, with his vast army of partisan data miners shouldn’t Obama be able to find just one who has done his homework and could warn him that the Clausing study can be turned against not only his own economic policies but the performance of the U.S. economy on his watch?

*Edward J. O’Boyle is Senior Research Associate with Mayo Research Institute
Offices in New Orleans, Lake Charles, and West Monroe
www.mayoresearch.org 318-396-5779 edoboyle737@gmail.com*
