Funding the Future

Business is a good thing, but not when it participates ...

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Sen. Carl Levin, the Democrat Senator and chairman of the US Senate Permanent Subcommittee on Investigations, released a report today that found that the 2004 repatriation tax break that allowed U.S. companies to bring $312 billion in offshore earnings back to the United States at an extraordinarily low tax rate did not produce any of the promised benefits of new jobs or increased research expenditures to spur economic growth.

To be specific it found as a matter of fact that:

1. U.S. Jobs Lost Rather Than Gained. After repatriating over $150 billion under the 2004 American Jobs Creation Act (AJCA), the top 15 repatriating corporations reduced their overall U.S. workforce by 20,931 jobs, while broad-based studies of all 840 repatriating corporations found no evidence that repatriated funds increased overall U.S. employment.

2. Research and Development Expenditures Did Not Accelerate. After repatriating over $150 billion, the 15 top repatriating corporations showed slight decreases in the pace of their U.S. research and development expenditures, while broad-based studies of all 840 repatriating corporations found no evidence that repatriation funds increased overall U.S. research and development outlays.

3. Stock Repurchases Increased After Repatriation. Despite a prohibition on using repatriated funds for stock repurchases, the top 15 repatriating corporations accelerated their spending on stock buybacks after repatriation, increasing them 16% from 2004 to 2005, and 38% from 2005 to 2006, while a broad-based study of all 840 repatriating corporations estimated that each extra dollar of repatriated cash was associated with an increase of between 60 and 92 cents in payouts to shareholders.

4. Executive Compensation Increased After Repatriation. Despite a prohibition on using repatriated funds for executive compensation, after repatriating over $150 billion, annual compensation for the top five executives at the top 15 repatriating corporations jumped 27% from 2004 to 2005, and another 30%, from 2005 to 2006, with ten of the corporations issuing restricted stock awards of $1 million or more to senior executives.

5. Only a Narrow Sector of Multinationals Benefited. Repatriation primarily benefited a narrow slice of the American economy, returning about $140 billion in repatriated dollars to multinational corporations in the pharmaceutical and technology industries, while providing no benefit to domestic firms that chose not to engage in offshore operations or investments.

6. Most Repatriated Funds Flowed from Tax Havens. Funds were repatriated primarily from low tax or tax haven jurisdictions; seven of the surveyed corporations repatriated between 90% and 100% of their funds from tax havens.

7. Offshore Funds Increased After 2004 Repatriation. Since the 2004 AJCA repatriation, the corporations that repatriated substantial sums have built up their offshore funds at a greater rate than before the AJCA, evidence that repatriation has encouraged the shifting of more corporate dollars and investments offshore.

8. More than $2 Trillion in Cash Assets Now Held by U.S. Corporations. In 2011, U.S. corporations have record domestic cash assets of around $2 trillion, indicating that that the availability of cash is not constraining hiring or domestic investment decisions and that allowing corporations to repatriate more cash would be an ineffective way to spur new jobs**.**

9. Repatriation is a Failed Tax Policy. The 2004 repatriation cost the U.S. Treasury an estimated net revenue loss of $3.3 billion over ten years, produced no appreciable increase in U.S. jobs or research investments, and led to U.S. corporations directing more funds offshore.

As a result the report recommended against enacting a second corporate repatriation tax break due to the harms associated with a substantial revenue loss, failed jobs stimulus, and added incentive for U.S. corporations to move jobs and investment offshore.

But right now all make corporate USA - and especially the likes of Google, Microsoft and Apples, are arguing for such a measure. Why? Well, I suggest, specifically because they know this when coupled with their tax haven abuse makes the rich richer and the poor poorer. And I suggest that if the evidence is so clear that this is what such a measure does then this is their true aim.

No wonder people are Occupying Wall Street, Boston and elsewhere. So they should.

Business is a good thing, but not when it participates in organised abuse, and that's what's happening here.

Hat tip, Francine McKenna, @retheauditors