

Does the Tax System Create
Excessive Incentives
To Move Economic Activity Abroad?

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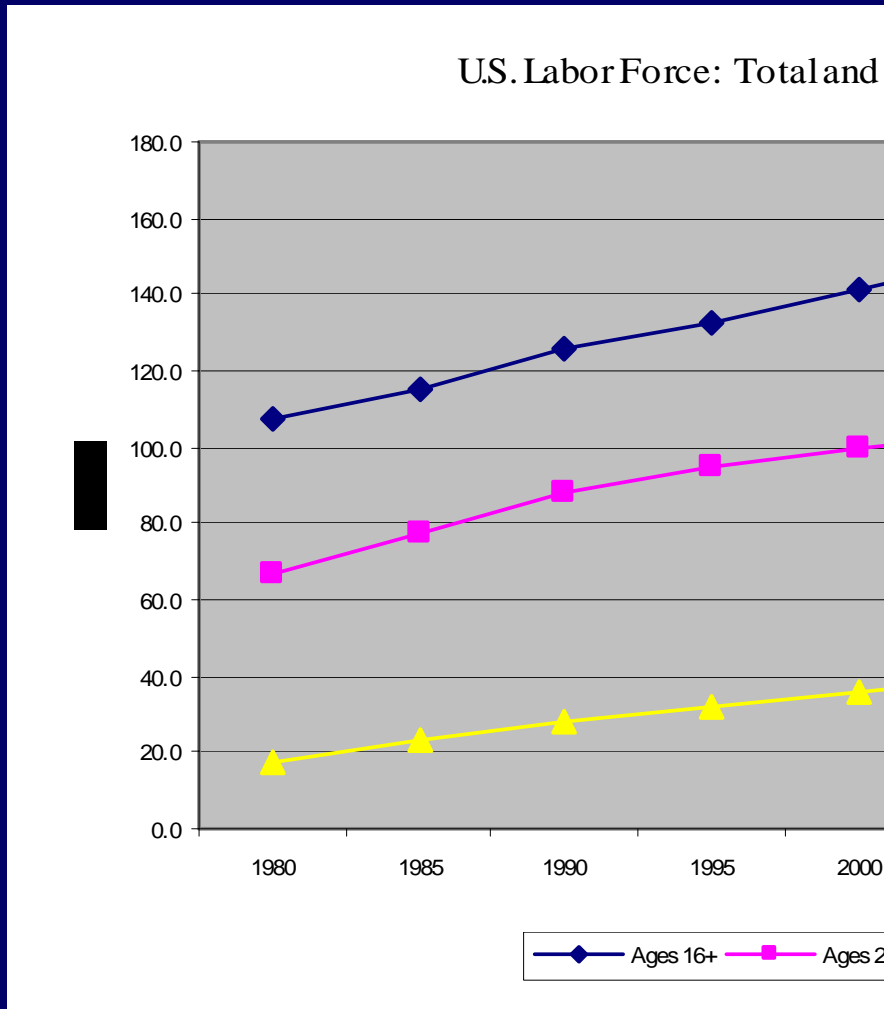
“Domestic Effects of Foreign Direct Investment”

Washington, D.C.

Remark #1

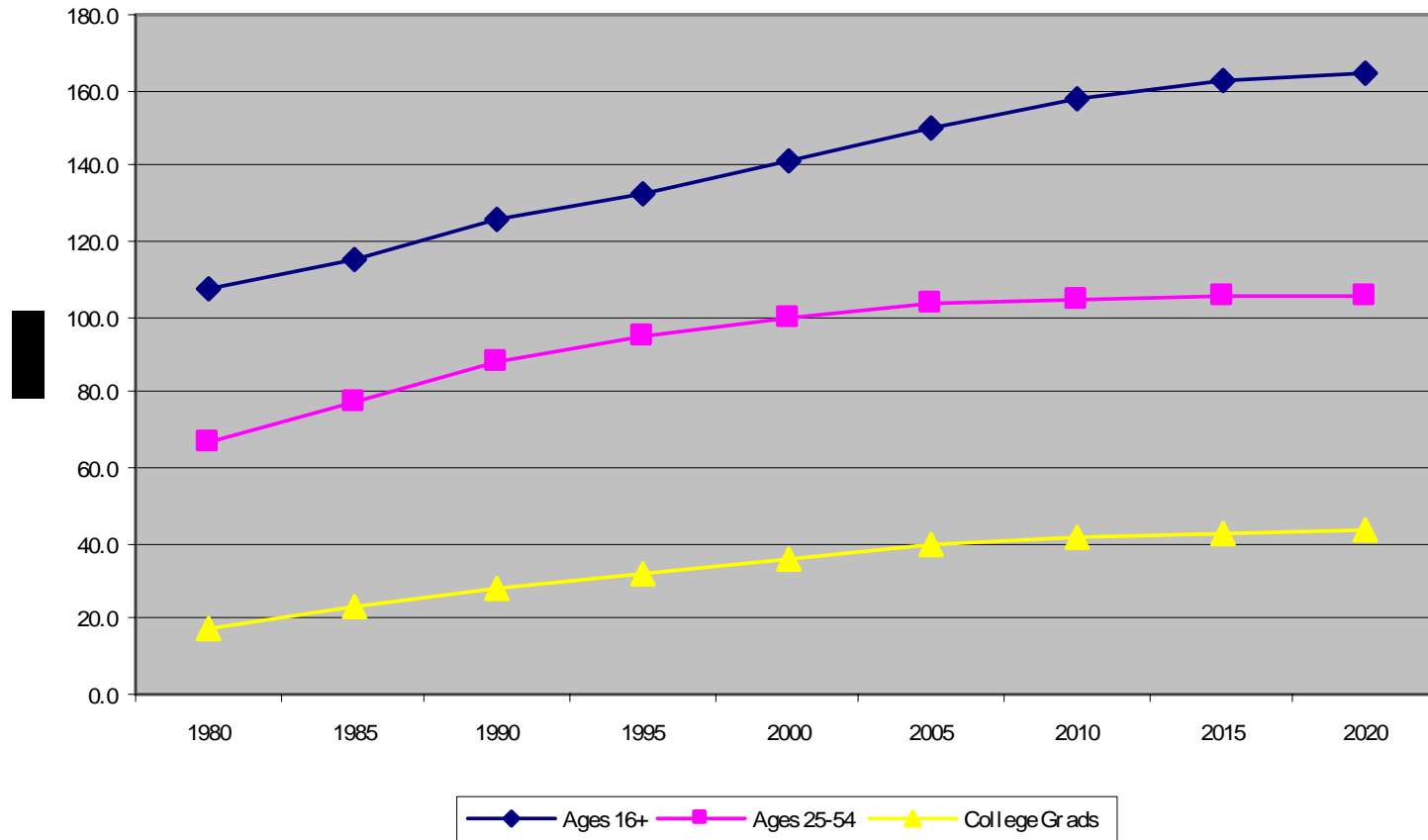
- Firms in the business of maximizing after-tax profits do indeed respond to tax incentives.
- But one way to properly answer the question of “excessive” is to weigh tax incentives versus other relevant incentives.
- So what might be a more pressing incentive?

The U.S. Labor Force of the Past



The U.S. Labor Force of the Future

U.S. Labor Force: Total and Skilled Supplies



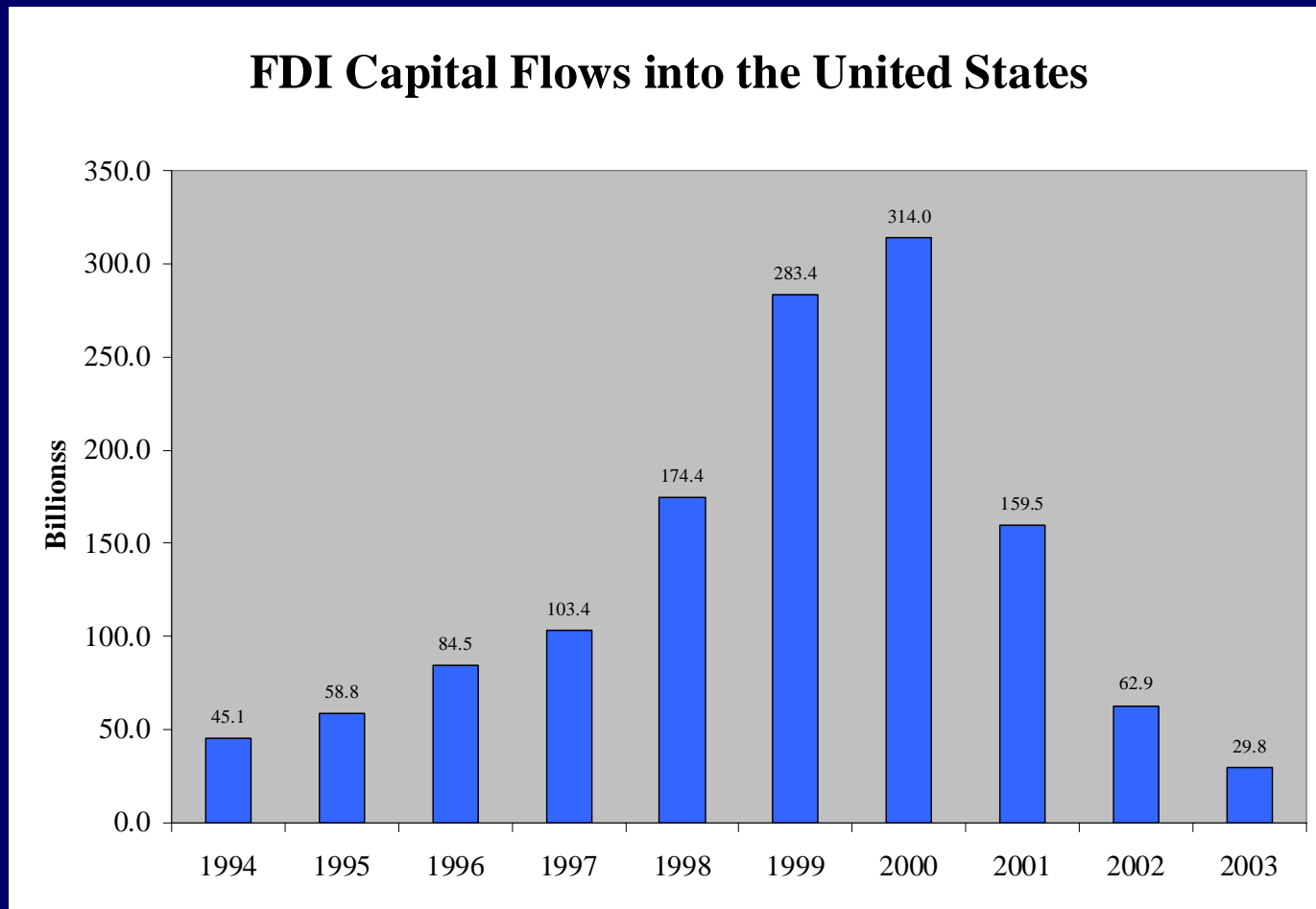
The Transition from Now to the Future

- The current U.S. operations of most companies have developed against a backdrop of rapidly expanding labor supply.
- How will they fare when that backdrop growth is much slower, older, and more diverse?
 - “In Tepid Job Scene, Certain Workers Are in Hot Demand”
 - *The Wall Street Journal* page-one story, 8/17/04
 - “Keeping America Competitive: How a Talent Shortage Threatens U.S. Manufacturing” --Nat’l Assoc. of Manufacturers 2003 Study
 - “Keeping Out the Wrong People: Tightened Visa Rules Are Slowing the Vital Flow of Professionals into the U.S.”
 - *BusinessWeek* story, 10/4/04

Remark #2

- If we think the U.S. tax system is encouraging the movement abroad of multinational capital, where to look for evidence of this?
- A good place may be at the U.S. affiliates of foreign-headquartered multinationals: for many reasons, these “insourcing” companies may be more footloose than U.S. parents.

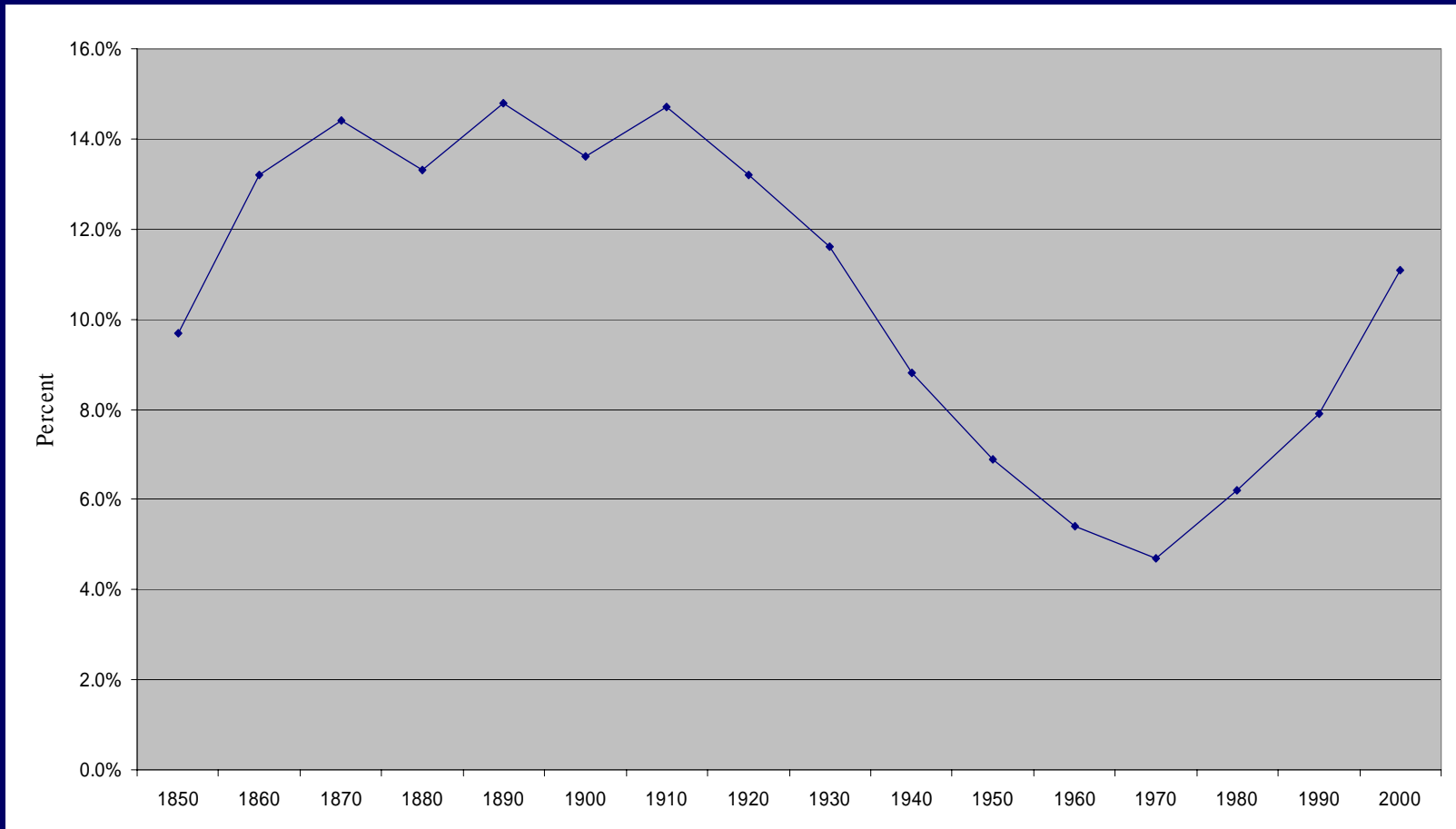
What Are Insourcing Companies Telling Us?



Remark #3

- If the U.S. tax system is encouraging the movement abroad of multinational capital, then it is very likely also encouraging movement *into* the United States of some other factor(s) of production.
- Which ones? We need to answer this question to give a complete answer to the question of this session in terms of impacts on economic growth and fiscal policy.

Foreign-Born Share of U.S. Population



The U.S. Labor Force of the Future

