

Escaping Offshore

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BY ROBERT J. HERBOLD & SCOTT S. POWELL

It's easier than ever for corporations to move operations overseas. And if the federal government doesn't realize this soon, more and more companies will do just that. In the age of the Internet, with technology converging around the globe and engineering talent abundant in many nations, multinationals and even smaller companies can readily shift R&D, product-development, manufacturing and overall management out of the United States. Increasingly, executives are finding it tough to justify keeping major parts of their business here -- and being incorporated in America looks ever more like a bad bet.

Sorry, Washington: It's the new reality.

After Japan, America has the world's highest corporate-tax rate -- and Washington shows no willingness to bring those rates down. Indeed, President Obama's administration recently proposed taxing the foreign profits of US-based multinationals even when those profits aren't repatriated.

Yes, it backed away when executives threatened to move offshore. But Obama's aides openly plan to revisit the idea in a broader tax overhaul sometime next year. This and other threats of new taxes from Washington -- such as the billions in levies anticipated under the "cap and trade" scheme -- have already prompted 11 major US companies to move offshore in the last year.

Tyco International, Foster Wheeler, Weatherford International, Nabors Industries, Noble Corp., Transocean International, United America Indemnity, Cooper Industries, Covidien, Ingersoll-Rand and Accenture have all completed or taken steps to change their domicile of incorporation -- with Switzerland and Ireland as the most popular relocation destinations.

An Accenture board member explained with a question: "What shareholder would ever vote to incorporate in

a country that taxes your world-wide income?" But it isn't just taxation that is chasing corporations out of the country. Another top problem is access to talent.

America now spends more per capita on public education than any other Organization for Economic Co-operation and Development country -- but its students test in the bottom tenth. In the yearly "Nation's Report Card" (generated by the National Assessment of Educational Progress), fewer than 25 percent of US high-school seniors scored "proficient" in either math or science -- for the last 10 years running. In August, the ACT test service announced that only 23 percent of this year's high school grads tested as doing well enough in reading, writing, math and science to succeed in college.

This is a national embarrassment.

Washington forms commission after commission to find solutions -- but nothing much happens. Why? Because no one wants to take on the teachers unions, which are a major source of campaign cash.

Teacher quality is a key factor in academic success, and everyone knows it. But the unions don't want performance appraisals or merit pay. Many top-performing educators get frustrated and opt out -- leaving behind the less competent who keep the bar low. Our failing schools leave the nation short on technical talent, so many firms try to recruit foreign students. But with anti-immigrant regulations and sentiment coming from Washington, many corporations find it easier to hire abroad -- moving the job overseas, or creating a new position that could have been a job here.

Then there's the growing "political risk" in this country. Executives now worry about the future threats associated with excessive (and rising) government activism and a hostile business culture.

A culture whose dominant forces turn a blind eye to government failure, but are quick and unrelenting to blame society's ills on business, will naturally and subliminally embrace socialist solutions. And when one intervention fails, the government tries to fix its errors with yet more intervention -- a sort of creeping socialism that keeps on compounding waste and inefficiency.

So the nationalization of General Motors was followed by "cash for clunkers" and successive bailouts of GMAC, GM's financing arm. The TARP rescue of banks was followed by government micromanagement, wage controls, punitive salary caps for top talent and interference with hiring practices.

Such populist government meddling in our financial sector is sure to drive talent offshore. In fact, Deutsche Bank CEO Josef Ackerman recently commented, "We can't wait to get our hands on all that top talent."

Americans must realize that the geese that lay the golden eggs can take flight. Most US-born board members and executives of multinationals want their native country to be successful. But their fiduciary duty obliges them to face reality and respond to global competitors

who increasingly have an edge in taxation, access to educated talent and a more supportive political and cultural climate. Taking no action, and losing out to the competition, breaches their duty to shareholders.

Washington needs to wake up and see the big picture. Now, more than ever, it's all about keeping and creating jobs. We can't afford to chase corporations out of America.

Robert J. Herbold is the retired COO of Microsoft and managing director of the Herbold Group. Scott S. Powell is managing director of AlphaQuest and a visiting fellow at the Hoover Institution.