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## Chasing Corporations Out of the U.S.

By ROBERT J. HERBOLD AND SCOTT S. POWELL

Unemployment is foremost on everyone's mind today. Yet jobs can continue to leave the U.S. because of the threat of new taxes, the convergence of technology, the ease of digital collaboration and ready access to abundant foreign engineering talent.

Multinational corporate executives may have to move R&D, product development, management and manufacturing overseas when there is no longer a comparative advantage to staying in the United States. A shocking thought for sure, but it's the new reality.

After Japan, the U.S. has the world's highest corporate tax rate, and there is seemingly no willingness by Washington to bring rates down.

In fact, the Obama administration recently proposed taxing the foreign profits of U.S.-based multinationals even when those profits were not repatriated, but backed away when executives threatened to move offshore. Obama aides acknowledge that the administration has set aside the idea for now, but plans to revisit it in a broader tax overhaul sometime next year.

This ambiguity and the threat of new taxes from Washington, such as cap-and-trade, have already prompted 11 major U.S. companies to move offshore in the past 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.

Commenting on his company's decision, an Accenture board member asked, "What shareholder would ever vote to incorporate in a country that taxes your worldwide income?"

But it is not just taxation that is chasing corporations out of America. Another top consideration is access to talent. The U.S. now spends more per capita on public education than any other OECD country, but its students test in the bottom decile.

The U.S. Government's National Assessment of Educational Progress generates the "Nation's Report Card" annually. For the last 10 years, less than 25% of American high school seniors achieved a rating of "proficient" in either math or science. In August 2009, the ACT test service announced that only 23% of this year's high school graduates tested adequately in reading, writing, math and science to succeed in college. This is a national embarrassment.

Everyone understands teacher quality is the key determinant of academic success. However, teachers' unions don't allow performance appraisals and merit pay. So, many top-performing teachers get frustrated and opt out, leaving behind the less competent who keep the bar low.

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 re-election campaign dollars.

With the scarcity of technical talent in the U.S. resulting from failing schools, many corporations try to recruit foreign students. But with anti-immigrant regulations and sentiment imposed by Washington, many corporations find the easier course is to just hire abroad. Recently, Bank of America, among others, had to rescind job offers to dozens of foreigners because it had received federal bailout money.

Another major concern for American multinational executives is the increasing political risk in the United States. They now worry about the high cost of uncertainty associated with excessive government activism and a hostile culture.

A culture that turns a blind eye to government failure, but is quick and unrelenting to blame society's ills on business, will naturally and subliminally embrace socialist solutions. The problem is that when one intervention fails, the government attempts to fix its errors with yet more intervention — a sort of creeping socialism that results in a compounding of waste and inefficiency.

So the nationalization of General Motors was followed by Cash for Clunkers and successive bailouts of GMAC. The TARP rescue of banks was followed by government micromanagement, wage controls and punitive salary caps for highly paid talent.

Unfortunately, this kind of populist government meddling in our financial sector is sure to drive talent offshore. In fact, Deutsche Bank CEO Josef Ackermann 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 U.S.-born multinational board members and executives want their native country to be successful. On the other hand, their fiduciary duty requires that they 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 is all about keeping and creating jobs. We can't afford to chase multinational corporations out of the United States.

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*Robert J Herbold is the retired chief operating officer of Microsoft Corp. and managing director of the Herbold Group. Scott S Powell is managing director of Alpha-Quest and a visiting fellow at the Hoover Institution. Both live in Bellevue, Washington.*