Insight

Anti-Inversion Measures as Fiscal Policy

GORDON GRAY | AUGUST 7, 2014

The administration and Congressional Democrats have signaled their intention to make corporate flight from the U.S. a populist issue in the run-up to the mid-term elections. The Democrats' policy prescriptions for these redomiciliations or "inversions" threaten to cost U.S. jobs and ignore the underlying flaws in the tax code that drive many of these overseas transactions. As tax policy, the anti-inversion proposals advanced by the administration and certain Congressional Democrats are flawed, and as budget policy, they are weaker still.

First, one can gauge the seriousness of a fiscal policy in terms of dollars and cents. The leading anti-inversion measure in Congress would raise about $19 billion over the next 10 years, or about $2 billion per year. While not insignificant, that represents only .05 percent on average of what the Congressional Budget Office (CBO) expects the federal government to collect each year. Importantly, this money can only be *saved* if inversions are presumed to continue to happen and become taxable – not a desirable outcome.

Second, while statistically insignificant, there are no doubt many constituencies in Washington that would gladly accept an extra $2 billion per year. The Obama Administration has seen fit to try to placate two for the price of one. On July 24th, the administration published an article on the White House Blog on the topic of so-called inversions. At the end of the piece, the administration, by way of a link to a video featuring Vice President Biden, notes that "this money would be put to good use rebuilding our infrastructure." Less than a week later, however, the president gave a speech in Kansas City where he called on Congress to close "the loophole to invest in things like education." A good indication for how unserious this policy proposal is from a purely fiscal perspective is that the administration isn't working from the same script on just how it should be spent – if at all.

And third, in some ways, this is a play observers have seen before, for example the last campaign season solution in search of a problem: the "Buffet Rule." As noted in previous analyses, this proposal sought to "fix" a problem that didn't exist in the tax code, while raising a relatively scant amount of revenue (a good indicator that the problem it sought to "fix" was largely illusory). Yet the president devoted an extraordinary amount of political capital to promoting it.

With economic growth still stuck in low gear and significant budget challenges confronting the nation, the administration and its allies in Congress should be pursuing a pro-growth economic agenda. Instead, they are indulging in anti-growth policymaking and rhetoric (e.g. "corporate deserters") that makes the U.S. all the more inhospitable to private-sector growth.