# Repatriation CP Aff

### No Solvency

#### Repatriation does not create jobs – money goes to shareholders

J. D. Foster, Ph. D in economics from Georgetown University, and Curtis Dubay, Masters in economics from the University of Connetticut, 10-4-2011, “Would Another Repatriation Tax Holiday Create Jobs?,” The Heritage Foundation

Were Congress to enact another repatriation tax holiday, companies would almost certainly take advantage of the opportunity to slash their tax bills and strengthen their balance sheets by repatriating large sums. Businesses respond to shifts in tax policy—and a repatriation tax holiday is a large incentive to act. Congress passed the first repatriation tax holiday in 2004, accompanied by similar arguments regarding the expected surge in domestic investment. As expected, the tax holiday resulted in a large number of companies repatriating their earnings. According to a study by the Internal Revenue Service, 842 of the 9,700 businesses with foreign subsidiaries transferred a total of $362 billion from their foreign subsidiaries to their U.S. parent companies. The evidence clearly shows that these repatriated earnings did not increase domestic investment, job creation, or research and development (R&D). As the authors of the leading paper on the subject concluded in 2010, “repatriations did not lead to an increase in domestic investment, domestic employment, or R&D.” The authors continued: Instead, estimates indicate that a $1 increase in repatriations was associated with a $0.60–$0.92 increase in payouts to shareholders—despite regulations stating that such expenditures were not a permitted use of repatriations qualifying for the tax holiday. The results indicate the U.S. multinationals were not financially constrained and were reasonably well-governed. The fungibility of money appears to have undermined the effectiveness of the regulations.

#### Repatriation causes companies to spread around money, not invest it

J. D. Foster, Ph. D in economics from Georgetown University, and Curtis Dubay, Masters in economics from the University of Connetticut, 10-4-2011, “Would Another Repatriation Tax Holiday Create Jobs?,” The Heritage Foundation

Some repatriating companies may use the cash to declare a special dividend, paying out cash to shareholders. Others may buy back shares, which is effectively the same thing. The Dharmapala study noted above found that more than half the repatriated earnings were paid out to shareholders. Another study found that a firm was more likely to repatriate earnings if it had more free cash flow relative to its investment opportunities—it was more likely to repatriate if it was less likely to be capital-constrained. This study further found that such companies were more likely to repurchase shares as a way of distributing its repatriated earnings than invest it in the U.S. Of course, paying shareholders more dividends is generally a good thing, and there is nothing wrong with buying back shares. Neither course of action will harm domestic investment or the economy. But all that has happened in the end is that the company’s asset base has declined slightly along with its deferred tax liability, and the shareholders have a bit more cash and lower share prices in the event of a dividend, or slightly higher share prices under a share buyback program. In short, the companies received an unexpected tax break and the shareholders saw a shift in their portfolios. But these events did not create jobs.

#### **Repatriation tax repeal will fail – it has before**

Chuck Marr, Professor in economics at Georgetown University, Brian Highsmith, Bachelor in economics from Furman University, and Chye-Ching Huang , professor in economics at the New Zealand Institute, 10-12-2011, “REPATRIATION TAX HOLIDAY WOULD INCREASE

DEFICITS AND PUSH INVESTMENT OVERSEAS,” Center on Budget and Policy Priorities

Proponents of a repatriation holiday often frame it as an economic stimulus measure, contending that corporations would use the repatriated profits to expand in the United States and thereby boost economic growth and create large numbers of jobs. This is the same pitch that proponents used to sell Congress on the 2004 tax holiday, and studies by the National Bureau for Economic Research, the Congressional Research Service, the Treasury Department, and numerous outside analysts have found no evidence that the 2004 holiday had any of the promised positive economic effects. To the contrary, there is strong evidence that firms primarily used the repatriated earnings to benefit owners and shareholders, and that the restrictions Congress imposed on the use of the repatriated earnings — aiming to ensure that firms invested them in the United States — proved ineffective. In fact, many of the firms that repatriated large sums during the holiday actually laid off workers. Before enactment of the 2004 holiday, President Bush’s Council of Economic Advisers concluded that it “would not produce any substantial economic benefits.” A subsequent review by National Bureau of Economic Research (NBER) researchers found that the holiday “did not increase domestic investment, employment, or [research and development].” Similarly, the Congressional Research Service (CRS) reported that the various studies “generally conclude that the reduction in the tax rate on repatriated earnings . . . did not increase domestic investment or employment.” The JCT reached the same conclusion: “the research has shown little macroeconomic benefit” from the 2004 holiday. A second holiday would likely result in a similar policy failure. Goldman Sachs recently concluded that it “would not expect a significant change in corporate hiring or investment plans.” Fitch Ratings similarly concluded that, under a repatriation holiday, “most multinationals would likely return repatriated cash to shareholders through share repurchases and dividends rather than investing cash in U.S. growth projects or reduce debt.” The reason is simple: when the economy is weak, the primary problem that firms face is a shortage of demand for their products, not a shortage of cash. Companies currently already have on hand over $2 trillion of domestic cash and liquid assets — cash that they are not investing because they have concluded that the investment opportunities do not exist. Adding to firms’ vast domestic cash supply via a massive tax giveaway is unlikely to change this calculus or lead to significant new investment. As a recent Bank of America Merrill Lynch analysis concluded, “Today, businesses are investing slowly not because their tax burden is high but because demand for goods and services is soft. Supply-side measures such as a tax repatriation holiday will have limited effect in what remains a demand-deficient economy.”

### Impact Turn

#### Repealing repatriation leads to increased deficit

Chuck Marr, Professor in economics at Georgetown University, Brian Highsmith, Bachelor in economics from Furman University, and Chye-Ching Huang , professor in economics at the New Zealand Institute, 10-12-2011, “REPATRIATION TAX HOLIDAY WOULD INCREASE

DEFICITS AND PUSH INVESTMENT OVERSEAS,” Center on Budget and Policy Priorities

Despite proponents’ claims to the contrary, a proposal to enact a second tax holiday for the profits that U.S.-based multinational corporations bring back to the United States from foreign accounts would cost tens of billions of dollars in federal revenue — boosting deficits and debt – while not achieving its proponents’ promise of more jobs and higher investment in the United States. Its cost is particularly troubling given the high expectation of failure. In recent days, leading private analysts have raised serious doubts about the proposal. Goldman Sachs concluded that, with a holiday, “we would not expect a significant change in corporate hiring or investment plans.” Fitch Ratings added that a holiday would not likely “support growth-oriented investment by U.S. firms.” A holiday also would violate the “do-no-harm” rule because it ultimately would encourage corporations to shift investment, profits, and jobs overseas. Proponents, part of a massive lobbying campaign for the tax holiday, are distorting an analysis by the congressional Joint Committee on Taxation (JCT) on the proposal’s budgetary impact. JCT found that the proposal would boost revenues initially, as companies took advantage of the holiday to repatriate some profits they otherwise would have kept overseas for a number of years. But, JCT explained, the proposal would also reduce revenues by giving companies a large tax break for those profits they would have repatriated anyway in the next few years, even without the holiday, and by giving companies a strong incentive to shift more profits overseas in the future, in anticipation of future tax holidays. JCT found that the net impact of these three different revenue effects would be to reduce revenues by $79 billion over ten years.

#### Our massive deficit prevents us from protecting ourselves and being hegemon

Dick K. Nanto, Coordinator of Congressional Research Service, 1-4-2011, “Economics and National Security: Issues and Implications for U.S. Policy,” Congressional Research Service

At the macroeconomic level, the recession of 2008-2009 in combination with the wars in Iraq and Afghanistan and rising costs for domestic social programs have pushed the U.S. budget deep into deficit. Alarm bells have been sounding from many quarters that the nation is on an unsustainable fiscal path. The issues for Congress include whether to slow the growth of the budget deficit and how to do so without compromising national security, how to achieve a balance between military and civilian expenditures, and whether a “peace dividend” is forthcoming as expenditures for the wars in Iraq and Afghanistan diminish.

#### Heg is key to preserve security and halt prolif.

Bradley A. Thayer, Professor in the Department of Defense and Strategic Studies of Missouri State University. 2007. American Empire: A Debate. Pg. 16

Second, American interests abroad are protected. U.S. military power allows Washington to defeat its enemies overseas. For example, the United States has made the decision to attack terrorists far from America’s shores, and not to wait while they use bases in other countries to plan and train for attacks against the United States itself. Its military power also gives Washington the power to protect its interests abroad by deterring attacks against America’s interests or coercing potential or actual opponents. In international politics, coercion means dissuading an opponent from actions America does not want it to do or to do something that it wants done. For example, the United States wanted Libya to give up the weapons of mass destruction capabilities it pos¬sessed or was developing. As Deputy Defense Secretary Paul Wolfowitz said, “I think the reason Mu’ammar Qadhafi agreed to give up his weapons of mass destruction was because he saw what happened to Saddam Hussein.”2’ Third, our allies like Australia, Great Britain, Japan, Kuwait, Israel, and Thailand are protected by American military might and so we are able to deter attacks against them. They are aligned with the United States, and thus under its “security umbrella”—any attack on those states would be met by the mili¬tary power of the United States. Other states know this and, usually, that is sufficient to deter aggression against the allies of the United States.

#### Proliferation leads to nuclear war

Robert Pfaltzgraff, Professor of International Security Studies at The Fletcher School @ Tufts, and James Schoff, the Associate Director of Asia-Pacific Studies at the Institute for Foreign Policy Analysis (IFPA), Feburary 2009, “Updating U.S. Deterrence Concepts and Operational Planning,” IFPA White Paper, online

Moreover, as suggested above, as more nations seek or attain nuclear status, we may very well be entering an era in which nuclear “non-use” is ending. This means that the risk of deterrence failures is growing, and with it questions about the ability of the United States to control the escalation chain in a crisis situation. During the Cold War, escalation dominance was presumed to lie with the United States, or at least that it could be managed in the U.S.-Soviet context because the stakes of escalation were such that both states were putatively deterred from nuclear weapons use (against the other). Today, however, the same may not be true with respect to North Korea and Iran, let alone in the context of a Taiwan contingency, or with respect to India and Pakistan in a crisis over Kashmir. Deterrence failures in the regional context may result from an accident, a deliberate calculation, or the intervention of a third party (e.g., Israel or Taiwan) in a crisis contingency. However, regardless of their origins, the consequences might very well be an escalatory exchange that ultimately draws the United States into a regional nuclear conflict.