

WORKING PAPER | HBS WORKING PAPER SERIES | 2009

Securing Jobs or the New Protectionism?: Taxing the Overseas Activities of Multinational Firms

by Mihir A. Desai

- PRINT
- EMAIL

About the Author



Mihir A. Desai
Finance
Entrepreneurial
Management

[VIEW PROFILE »](#)[VIEW PUBLICATIONS »](#)

Abstract

Tax policy toward American multinational firms would appear to be approaching a crossroads. The presumed linkages between domestic employment conditions and the growth of foreign operations by American firms have led to calls for increased taxation on foreign operations—the so-called “end to tax breaks for companies that ship our jobs overseas.” At the same time, the current tax regime employed by the U.S. is being abandoned by the two remaining large capital exporters—the UK and Japan—that had maintained similar regimes. The conundrum facing policymakers is how to reconcile mounting pressures for increased tax burdens on foreign activity with the increasing exceptionalism of American policy. This paper address these questions by analyzing the available evidence on two related claims—i) that the current U.S. policy of deferring taxation of foreign profits represents a subsidy to American firms and ii) that activity abroad by multinational firms represents the displacement of activity that would have otherwise been undertaken at home. These two tempting claims are found to have limited, if any, systematic support. Instead, modern welfare norms that capture the nature of multinational firm activity recommend a move toward not taxing the foreign activities of American firms, rather than taxing them more heavily. Similarly, the weight of the empirical evidence is that foreign activity is a complement, rather than a substitute, for domestic activity. Much as the formulation of trade policy requires resisting the tempting logic of protectionism, the appropriate taxation of multinational firms requires a similar fortitude.

Keywords: [Multinational Firms and Management](#); [Policy](#); [Taxation](#); [Job Cuts and Outsourcing](#); [United States](#);

Language: English | Format: Print | 31 pages

[READ NOW](#)

Citation:

Desai, Mihir A. "Securing Jobs or the New Protectionism?: Taxing the Overseas Activities of Multinational Firms." Harvard Business School Working Paper, No. 09-107, March 2009.

[Export Citation](#)

[Map/Directions](#)

Related Links

[Christensen Center for Teaching and Learning](#)
[Global Research Centers](#)

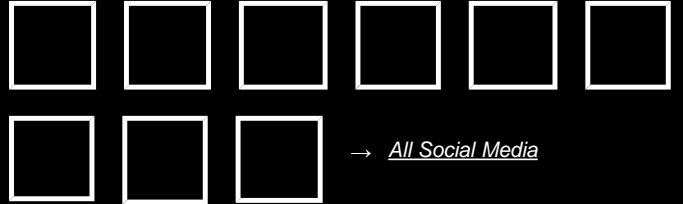
[Global Research Centers](#)
[Asia-Pacific Research Center](#)
[Japan Research Center \(English\)](#)
[Europe Research Center](#)
[Latin America Research Center](#)
[India Research Center](#)

[Initiatives & Projects](#)

[Initiatives & Projects](#)
[Business & Environment](#)
[Business History](#)
[Entrepreneurship \(Rock Center\)](#)
[Forum for Growth & Innovation](#)
[Global](#)
[Healthcare](#)
[Institute for Strategy & Competitiveness](#)
[Leadership](#)
[Networked Business](#)
[Public Education Leadership Project](#)
[Social Enterprise](#)
[U.S. Competitiveness](#)



Harvard Business School
Soldiers Field
Boston, MA 02163



→ [All Social Media](#)

[Map & Directions](#)

[More Contact Information](#)

[Site Map](#)

[Jobs](#)

[Harvard University](#)

[Trademarks](#)

[Privacy Policy](#)