The Law of Unintended Consequences

The Issue
- Companies move jobs outside the country.
- What are the consequences of “doing something” about this.

A Tale of Two Pizzerias
- Brown’s Pizzeria
  - Buys its flour and cheese from farmer Jones
- Miller’s Pizzeria
  - Owns its own farm, where it makes its flour and cheese

Going South
- Brown’s Pizzeria
  - Buys its flour and cheese from farmer Jones
  - Starts buying from Mexican farm
- Miller’s Pizzeria
  - Owns its own farm, where it makes its flour and cheese

Simply counts as import: usual arguments apply
Going South

• Brown’s Pizzeria
  – Buys its flour and cheese from farmer Jones
  – Starts buying from Mexican farm

• Miller’s Pizzeria
  – Owns its own farm, where it makes its flour and cheese
  – Moves its farm to Mexico

The Dreaded Term

• Brown’s Pizzeria
  – Buys its flour
  – Starts buying from Mexican farm

• Miller’s Pizzeria
  – Owns its own farm, where it makes its flour and cheese
  – Moves its farm to Mexico

Distinctions without Difference

• Brown’s Pizzeria
  – Buys its flour and cheese from farmer Jones
  – Starts buying from Mexican farm

• Miller’s Pizzeria
  – Owns its own farm, where it makes its flour and cheese
  – Moves its farm to Mexico

  In fact this is a distinction without a difference

Tax Outsourcing?

• Giovanni’s Pizzeria
  – Headquartered in Naples
  – Brings in flour and cheese from its farm in Mexico

• Miller’s Pizzeria
  – Headquartered in Cleveland
  – Brings in flour and cheese from its farm in Mexico

Tax Outsourcing?

• Giovanni’s Pizzeria
  – Headquartered in Naples
  – Brings in flour and cheese from its farm in Mexico

• Miller’s Pizzeria
  – Headquartered in Cleveland
  – Brings in flour and cheese from its farm in Mexico

  No Outsourcing
Outsourcing

Tax Outsourcing?

• Giovanni’s Pizzeria
  – Headquartered in Naples
  – Brings in flour and cheese from its farm in Mexico

Outsourcing

• Miller’s Pizzeria
  – Headquartered in Cleveland
  – Brings in flour and cheese from its farm in Mexico

Outsourcing

If we tax outsourcing, works at a cost disadvantage

Tax Outsourcing

• Giovanni’s Pizzeria
  – Headquartered in Naples
  – Brings in flour and cheese from its farm in Mexico

Gains Market Share

Tax Outsourcing

• Miller’s Pizzeria
  – Headquartered in Cleveland
  – Brings in flour and cheese from its farm in Mexico

Lays off Management Staff in Cleveland

Tax Outsourcing

Lays off Management Staff in Cleveland

Tax Outsourcing

Gains Market Share

Tax Outsourcing

Taxing Outsourcing doesn’t bring jobs back from Mexico, it moves jobs to Germany.

The Law of Unintended Consequences Strikes Again!
End