

## Outsourcing

### *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

## 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

## 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
- 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
- Miller's Pizzeria
  - Owns its own farm, where it makes its flour and cheese
  - Moves its farm to Mexico

**Outsourcing!**<sup>1</sup>

## 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

## 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
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**No Outsourcing**

## Tax Outsourcing?

- Giovanni's Pizzeria
  - Headquartered in Cleveland
  - Brings in flour and cheese from its farm in Mexico
- Miller's Pizzeria
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**Outsourcing**

## Tax Outsourcing?

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**If we tax outsourcing, works at a cost disadvantage**

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  - Brings in flour and cheese from its farm in Mexico
- Miller's Pizzeria
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**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?

- Miller's Pizzeria
  - Headquartered in Cleveland
  - Brings in flour and cheese from its farm in Mexico

**Lays Management Staff Cleveland**

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

## Tax Outsourcing?

- Miller's Pizzeria
  - Headquartered in Cleveland
  - Brings in flour and cheese from its farm in Mexico

**Lays Management Staff**

**Taxing Outsourcing doesn't bring jobs back from Mexico,**

**The Law of Unintended Consequences Strikes Again!**

End

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