Steve Weisman: This is Steve Weisman at the Peterson Institute with Gary Hufbauer, continuing our conversation about the controversy over whether American tax policies “ships jobs overseas.”

Gary, you’ve just explained why tax differentials for earnings overseas versus the United States produce a misleading impression about incentives for the multinational corporations. This controversy over outsourcing has been a curious phase of the Presidential campaign. What’s your sense of how much Americans are anxious that globalization is hurting the U.S. economy?

Gary Hufbauer: I think there’s quite a bit of anxiety. The first big thing is the unemployment rate and housing prices. But you go a step or two down in the debate, and this outsourcing idea is quite a big fear among a lot of people. And the fact that it’s a big fear was reflected in the Romney campaign. Instead of talking what I would regard as sensible economics on this issue, they tried to pile on and say that the Republican program would be more vigilant on preventing outsourcing than President Obama’s program. That was quite a surprise to me.

Steve Weisman: Yeah, it was interesting. If the evidence suggests that outsourcing actually leads to an increase in jobs in America, not a decrease -- although they’re not the same jobs, perhaps --

Gary Hufbauer: Right.

Steve Weisman: You would think that he would make that argument.

Gary Hufbauer: You would think. But I guess political campaigns are fought in sound bites, not lengthy analysis, and I guess the political wizards decided, let’s go with the inappropriate sound bite, but that’s the conversation of the moment.

But going back to the economics, there are two features which are ignored by this. One is that the United States gets more inward investment than any other country, and that includes China. Year in, year out, we get the most inward investment. So we obviously have a lot of good things going in this country. Tax policy is not one of them, but there are a lot of other things that overshadow the tax policy.

If you were in France, or Canada, or anyplace else, you could say, “Gee, the Americans are taking advantage of all this outsourcing, which for us is insourcing.” So that’s one thing. We’re getting a lot of investment, and the most recent big case was Airbus deciding to produce in Alabama. I don’t think this was just a political thing. I think they analyzed the market and analyzed the work force and said, “Hey, you know, the U.S. is a good place to assemble aircraft.”

Steve Weisman: You mentioned a second reason.

Gary Hufbauer: The second thing is that is unbeknownst to a lot of people, we do a lot of insourcing of jobs which are spread right across the economy from abroad. And if you took this same kind of political rhetoric to any other country, they’d say, “Gee, the U.S. is really doing a great business on insourcing,” and the figures seem to be that we do more insourcing than outsourcing.

So what kinds of jobs are they? You don’t have to go very far. Look at our universities. I mean, they are big insourcers. We get a lot of students from abroad.
Now they’re more and more selling their programs or offering their programs online abroad, and that’s a tremendous one that is not commonly thought of. Medical treatment is another one, where people come to our leading medical institutions, Rochester on and on, for treatment and not just wealthy people, we get a lot of Canadians. We get some Europeans and many Mexicans coming to this country for medical treatment.

But also, of course, the unpopular finance industry. Well, the finance industry does sell a lot of products to foreign countries, investment banking and other kinds of mutual funds, and so forth and so on, which are all a form of insourcing. Then you can go to various kinds of hardware, where we sell quite a few components, which are manufactured here. They could be manufactured someplace else, but we’re the best place in the world to manufacture them, so they are manufactured here and then exported. So we do a terrific amount of that.

Steve Weisman: You’ve cited studies in your writings and in the first part of this interview showing that multinationals that produce products abroad actually export from the United States. I think maybe as components to those production facilities abroad, so that investment overseas doesn’t necessarily mean jobs being transferred overseas. You mentioned the Treasury study, but there are a variety of studies suggesting this.

Gary Hufbauer: There are a lot of studies that suggest that. What happens is that there are a lot of components that go to that new factory opened abroad or that new company that’s purchased by a U.S. company, M&A.

In addition, and this is a very important point, these multinationals have a vast array of products. They may produce one of those products abroad, but by virtue of having that production site there, they have people in the country who can advertise and distribute and service. Often service is very important. You get these affiliated products that come with foreign investment, which are not the same ones being made abroad.

Steve Weisman: You said at the outset that President Obama and Governor Romney agreed on the corporate tax being too high generally. Is that a foundation for some kind of bipartisan agreement as an element of the mythological tax reform that we keep hearing so much about?

Gary Hufbauer: I think it’s the beginnings. I think there’s general recognition. The Simpson-Bowles Commission and several others, the Domenici-Rivlin Commission, and others all came around to the same view — that’s as much as a consensus as you get in the U.S. — that there is a rate which is too high.

There’s a lot of dispute over how’d you deal with the revenue supposedly lost. I don’t think that there will be any revenue lost if the rate is just lowered, but some people think there will be and they want to eliminate things that they call loopholes. I don’t agree with that terminology.

There’s a second level debate, but not a big debate, that our tax system is way, way out of line with world norms. I think related to that, there’s a general appreciation that we’re not going to deal with the deficit by hikes up the corporate tax. I mean, that’s a big thing. We’re going to deal with the deficit if we deal with it by cutting some entitlements and by raising taxes across a broad range of people.

Steve Weisman: Individuals?

Gary Hufbauer: Individuals, not business. I know that’s not a popular thing to say in a campaign, but I think it’s widely recognized.

Steve Weisman: Thank you, Gary.

Gary Hufbauer: Thank you.