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GLOBAL GOLIATHS: MULTINATIONAL CORPORATIONS IN THE 21st CENTURY ECONOMY

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Overview of Multinational Corporations:

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Multinational Corporations' Impact on Jobs:

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Multinational Corporations and Taxes:

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Closing Remarks:

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P R O C E E D I N G S

MR. WESSEL: Good afternoon. I'm David Wessel, the director of the Hutchins Center on Fiscal and Monetary Policy, at the Brookings Institution. Thank you for joining us today to celebrate the launch of this new book, "Global Goliaths: Multinational Corporations in the 21st Century." It's our attempt, 13 chapters, 27 authors, to bring some data, and facts, and rigorous analysis to a debate, which is often very heated, about the role the multinational corporation plays in the U.S. and the global economy.

We stand on the shoulders in this project from a book that was written in 1978, edited by Fred Bergsten, Thomas Horst, and Ted Moran, called, "American Multinationals and American Interests." They took a stab at some of these questions back then, a lot's changed, some things haven't changed, which we'll discuss this morning.

There are a couple of people I'd like to thank at the outset, Haowen Chen, Stephanie Cencula, and David Skidmore, who helped us prepare the manuscript and work on the -- getting this project done. It was a lot of moving pieces. I also want to call out Ray Mataloni, at the Bureau of Economic Analysis, who helped Jim, and Fritz, and me with the data and made sure that every footnote of every chart that we put in our chapter was precisely correct. Ray's good at that. And I also want to acknowledge the funding we received from the Smith Richardson Foundation and the European Tax Policy Forum.

We have a couple of panels this morning, and unfortunately, we can't all be in the same room. But if you go to sli.do, S-L-I-.-D-O, and type in #GlobalGoliaths, which is the title of the book, you can pose a question, and I'll pose -- post them, or share them with the moderators that we've lined up this morning.

Our plan for this morning, or this afternoon rather, is Fritz Foley, one of the co-editors of the book, will give a brief overview of some of our findings, some of the facts that we want to call to light. Then, our friend, Matt Slaughter, from Dartmouth, who helped get us into this project in the first place, will moderate a panel with David Levine and Lindsay Oldenski, both of whom are authors, on the always important question of what's the role of multinational corporations in creating or destroying jobs. And then Jim Hines, our other co-editor, will have a conversation about a very timely issue, taxing multinationals,

with Michelle Hanlon, who's one of the authors of a chapter, and my colleague at Brookings, Bill Gale.

You can find out more about the book. You can buy a copy. You can read the summary we've written, see some of the charts, on our Brookings website. And with that, I'd like to turn the virtual podium over to Fritz Foley.

MR. FOLEY: Super. Thank you so much, David. I'm going to share my screen and go through a few slides, that I hope will provide us with an overview of multinational firms and provide some facts that I think will inform the debates, that we'll hear in the panels that follow. So, as David mentioned, I'm Fritz Foley. I'm one of the authors that's involved in this book. Thank you so much for being here today.

And I wanted to provide some facts around some questions, and I started with a question that David mentioned. David mentioned the earlier book, the 1978 volume, on American multinationals. And one of the questions that arose in that work was this question of whether or not multinationals would come to dominate the world economy. In many regards, these types of firms have a very efficient structure. There was a view, at the time, and I think even still today, questions around how globalized economies would become, and there's a thought that these firms could become very dominant.

And so, the first set of data that I'll show are providing some information about the extent to which multinationals are active in the U.S. economy, and they do play a very predominant role in the U.S. economy. They account for 26.5% of employment, 31.8% of employment compensation, 27.6% of manufacturing employment, a larger share of manufacturing employment compensations. They're particularly prominent within manufacturing. They also account for more than half of capital expenditures, more than 80% of R&D, and more than half of trade.

And in these data, I'm capturing not only the activities of U.S. parents of multinationals, but also the U.S. arms of foreign headquartered firms. So, the -- that's our first point here, is that these firms are a very large part of the U.S. economy, as they are of other economies. This raises the question, I think, that was on the minds of the authors of the '78 volume, of whether or not these firms were increasingly taking over the world, receding in importance. What are the trends here?

We can have a look at that in this next figure, which provides data on the share of capital spending and employment in the U.S. economy, that is accounted for by U.S. multinational parent firms.

And we see these things are actually relatively stable, going from the 1982 to present time. The most recent data are from 2017. So, capital expenditures have hovered around 30 to 35%. U.S. parents are accounting for 30 to 35% of U.S. -- of capital expenditures and around 20% of employment. They're -- have been relatively stable. It doesn't seem as if these firms have been increasingly been taking share away from other firms in the economy.

And it is the case, however, that multinational firms have been growing abroad, and so, if we look at the share of U.S. multinational workers that are located outside of the U.S., this has increased from around 20% to around 35%, over the '82-2017 period, and this, in part, reflects the fact that the world economy has grown faster than the U.S. economy. Many countries have been growing fast than the U.S., so. So, U.S. multinationals have been locating employment in those types of jurisdictions. But it's, I guess, in this sense that they have been increasing their -- the scale of their operations.

Another question that commonly arises in public debates is this question of how aggressive multinational firms are in reducing their labor costs. And in some regards, I've already provided a little bit of insight in this, in that we saw early on that U.S. multinationals accounted for a smaller share of U.S. employment than employment compensation. So, that implies that firms actually pay well, relative to your average job in the U.S. But there are some other data that I think inform this debate, and we'll hear much more about the -- these labor issues in our first panel today.

One first fact that I wanted to put on the table here is just information about where employment is located for multinational firms, and so, if -- if firms were very aggressive in pursuing low-cost labor, you might think that there would be lots of employees in low-income countries. And what this chart displays is the share of employment across different types of countries that are classified by their income levels, and so, we have high-income, upper-middle-income, lower-middle-income, and low-income countries. These are as designated by the World Bank, using the 2006 classification of countries into those buckets.

And the data show that the share of employment in high-income countries has fallen from around 75% but is still in excess of 45%. Upper-middle-income countries account for about 18% of multinational employees. There's been this increase in the extent to which U.S. multinational firms employ people in low -- lower-middle income countries, but the share in low-income countries is low and

has remained low. The increase in lower-middle-income countries is primarily related to Asia, but this figure, at least, suggests that, by and large, U.S. multinational firms are employing people in other relatively high-income countries. And you may -- you make think that, no, there's not too much of a surprise here, in that it's important to remember that wages often reflect productivities, and so, firms may be attracted to these types of locations for those kinds of reasons.

Another point, I think, to make about this question of how aggressive firms are in reducing labor costs is there's often a view that U.S. multinationals are somehow decreasing employment in the U.S. and increasing employment abroad. And the BEA data that -- Ray Mataloni has already been mentioned. The BEA collects and processes what can be used to analyzed this. And this figure looks at the number of instances in which firms, over the 2004 to 2014 period, either increased or decreased their employment in the U.S. and abroad. And what it reveals is that the most common trend over this, the most common sort of set of circumstances is that firms are both increasing their U.S. employment and increase their foreign employment. So, there's 704 instances of that.

And while there are certainly instances, there are 354 instances in which firms are decreasing their U.S. employment and decreasing their foreign employment, it's almost just as likely that firms are decreasing U.S. and decreasing foreign employment. And we have almost 300 cases in which firms were increasing their U.S. employment and decreasing their foreign employment. So, if anything, these data suggest that they're -- there are things that make foreign and domestic employment often move together, and that the accusations that some multinational space of exporting jobs abroad, that while they may be true in some instances, by and large, that theme doesn't seem to capture the prominence pattern in the data.

So, let me shift to another question here, which is what role do multinationals play, with respect to innovation? And the answer is a big one, that if we look at the share of private sector R&D spending, that is accounted for by U.S. multinational parents, it's about 75%. The data in the early years is a little noisy, but it looks like there may be a little bit of an upward trend here. And I think this particularly interesting, given that we often think of small firms as being particularly important for innovation, and I think it's easy to forget that large firms, like U.S. multinational firms and multinational firms located elsewhere, can play really important roles in generating new innovations.

Another question that often is asked about multinational firms is whether or not their activities are ever integrated within the firm or across firm boundaries, kind of how integrated the international operations of firms are. And if we look at some trade data, we can see that there's considerable evidence of lots of integration. So, these data show the related party share of U.S. imports and exports. So, it's basically sort of how much intracompany trade takes place between parents and their affiliates. And intracompany trade accounts for about 38% of U.S. imports and about 33% of U.S. exports. So, there's a lot of coordination and activity within firms that happens, across boundaries.

And these data also just raise interesting questions, for me, about how to think about trade deficits and whether or not they're necessarily a good or a bad thing, if a lot of it's happening within a firm, and the firm's a U.S. firm. It's a different lens on the sort of question of balanced trade.

Finally, I wanted to say bit about the extent to which multinationals are aggressive in minimizing their tax obligations. This is something that has been receiving lots of policy attention, recently, especially. And there are lots of ways to look at this, and I'm sure we'll hear much more about it in panel that will follow today. But I did want to quickly show some data on the extent to which multinationals are using affiliates that are located in countries that can be characterized many ways. But one way of characterizing them is as tax havens, so that they have certain properties that make them attractive for tax reasons. And these data reveal that about 50% of multinational firms are active in tax haven countries.

So, to try to summarize, multinationals play a predominant role in U.S. and other economies. Most employees are in higher-upper-income countries. U.S. firms that expand abroad also tend to expand at home. So, this provides a perspective on labor, that there's much more richness to discuss here, and we will in a moment. Around 75% of private sector R&D is accounted for by multinationals, and it's important to remember that these firms are important innovators. They integrate activities across countries, and taxes seem to matter, quite a bit. So, with that, I will stop here, and we'll move onto the next session of today.

MR. SLAUGHTER: That's great. Thanks, Fritz. Hey, everybody. I'm Matt Slaughter. I'm the dean of the Tuck School of Business, here at Dartmouth, and I just want to commend Fritz, I'm holding up my copy of the book, Fritz, and Jim, and David, for editing what I think is a hugely important

and timely piece for our world. I would have loved to have been involved, but deaning doesn't cut -- permit as much time as I would like for these types of things, but it's great, and to be on this panel here, with two of the really important authors.

There's a wide range of different perspectives and research that's brought to bear in the many chapters of this book that David mentioned. I think one of the most important ones Fritz nicely alluded to, which is what's the labor market impact of multinational companies? Both in the host countries, in which they establish and expand their operations, and also back home, in the United States. And as Fritz rightly said, think about presidential campaigns for many years, at this point, other public policy conversations. One of the most important and I think volatile issues in people's perceptions of and our policies toward multinational companies is their labor market impacts. Are there Benedict Arnolds, CEOs exporting jobs, as has often been asserted, or are these firms actually spreading the benefits of globalization in a vehicle, through the innovation and the trade that they create? And the question may be some of both. And we've got two really accomplished authors with us, that have two of the important papers in this volume. David Levine, he and co-authors have a chapter in this volume, entitled, Do Multinational Corporations Exploit Foreign Workers? So, that's looking at, in particular, host country impacts of U.S. based multinationals. And Lindsay Oldenski, Lindsay's at Georgetown, David is at UC Berkeley, Lindsay has a chapter, entitled, "Do Multinational Firms Export Jobs?" So, these two chapters, in particular, offer a nice complement of host country impacts and U.S. impacts on labor markets, of what these firms do.

For our discussion, right now, I think David's going to open with a few remarks on his chapter, then he'll turn over to Lindsay, and then we'll entertain questions from the audience, as you might have them. So, David mentioned how you can provide questions, and we'll peek at the chat and bring in some questions, in the time we have. So, Lindsay, David, congratulations on your contributions to the book, and, David, you can kick it off for us.

MR. LEVINE: Hold on while I unmute. I'll start with a somewhat sad story, which is a Frenchman, and a professor at a business school, and a garment worker were all captured by hostile forces and were scheduled to be executed. They were given one last request. The Frenchman asked to sing "La Marseillaise" one last time. The business school professor asked to give his talk on exploitation

of -- by multinationals one last time. And the garment worker asked to be shot right away, so she wouldn't have to hear the professor talk about multinationals. So, my question to start, for you, is why would you listen to me in -- and instead of wanting to be shot? I'm hoping I can answer that.

We started this chapter thinking about exploitation by trying to decide what the word meant, and philosophers have given us one definition, which is to take unfair advantage of somebody, to use their vulnerability for your benefit. And so, with that background, which is a little different than how most economists think about it, we started to think about the very different types of exploitation that we should be worried about.

So, the first definition is exploitation compared to the market. Would workers in -- we're mostly focused on low-income countries, which is obviously only a subset. Would they be better off if they weren't employed by the multinational? But for a lot of people, there's a separate definition of exploitation, this unfairly treatment. You're not getting enough of what you produce, so, our profitable firms sharing sufficient profits, maybe billions of profits, with the low-income workers they and their suppliers employ to create this value. And the third definition we look at is quite different, yet again. It's asking are multinationals respecting human rights of their employees. And as we'll discuss, these can lead to quite different evaluations in multinationals.

So, we heard a little data from the U.S., showing that multinationals pay higher wages in the U.S., and that does seem to be true overseas, as well. It's partly because they hire workers with higher observable skills. It's partly because they operate in high-wage sectors, like manufacturing, and they tend to be larger, when large firms pay higher wages. And it may be they're paying above market wages, that it may be to increase the workers' effort or reduce turnover. And it's possibly sometimes to share the profitability of what they're doing.

So, by this definition, we don't see a lot of exploitation, but we could also think about not just the transaction, but how multinationals are affecting the entire wage structure. There definitely have been cases in which multinationals have helped expand the high-wage sector in the economy and other cases where they're largely sending low skill work to the low-wage places, and it's not clear that average wages are rising. There's not a lot of high-quality evidence from low-income countries, and the effects on high-income countries, the source countries, is what we'll hear about in the next group, the next session.

Our second definition of exploitation is whether they're paying a fair wage, given how profitable they are. And there's an enormous literature in psychology and behavioral economics that many people think that if someone has a lot of surplus, they should share it with others. And this is quite different from saying, do you pay at least the market wage? There's not a lot of evidence that multinationals are sharing profits, when they're highly profitable with their workers, or particularly with their suppliers. There's evidence in OECD, the prosperous countries, that the companies with high profits pay more. It probably happens in low-income countries, but we don't have a lot of wages.

Particularly, as we move down the supply chain, it's clear that workers tend to be paid close to market compensation. We see very high turnover rates, for example, in garment factories usually. It would suggest they're not sharing a lot of (inaudible), a lot of their surplus. If you have a theory of fairness that says rich consumers should be paying more for products in their prosperous supply -- branded producers should be paying more to their workers, then multinationals don't look as strong, on this definition of exploitation.

And the third, very different, definition of exploitation we'll think about is fundamentally respecting the human rights of their workforce, that the International Labor Organization has agreements that almost all countries have signed, saying that there will be certain human rights, that there will not be forced labored -- workers will get paid for their time, there's freedom to join unions, there won't be child labor, there won't be discrimination, and so forth. And this is a very different standard than just paying the market wage, for example.

It's tremendously difficult to measure these violations around the world, but we do have some evidence that multinationals audit their own branches and their suppliers, that sometimes NGOs audit, or there's researchers who do interviews. And what's quite clear is there are lots of violations of these rights. There are workers doing forced overtime, or companies taking the workers' documents so they can't easily leave. There's health and safety violations. There's sometimes horrific treatment of women. So, by this definition of exploitation, it -- it's pretty clear, multinationals, and more often their suppliers, are failing to uphold both local laws and international treaties.

At the same time, there is no consistent evidence that multinationals or the suppliers are worse than domestic firms, and suggested evidence, they're probably better. So, we can say these two

contradictory things. These can be both pretty bad, or sometimes terrible jobs, and not necessarily worse than the alternative, both in terms of compensation and in terms of these very important human rights.

So, I'm passing very quickly through a large literature. I think we can sum it up pretty quickly by saying, do multinationals exploit their workers? It depends on your definition of exploitation. They tend to pay market wages, but they don't tend to uphold all of the principles to which they should. If we broaden the question to say, how do we help the most vulnerable workers and their families, in poor countries, what's clear is that pressuring multinationals is not going to be enough. They just don't employ enough of the workforce. And so, to fundamentally address global poverty and the fact that, for many workers, taking a terrible job at a multinational or a supplier is still a step up, it is going to require much more fundamental change to domestic employers, to governments, to institutions, like schools, and so forth. I think that might --

MR. SLAUGHTER: Great, David. Thank you for that overview of your paper with Anne, and other -- and co-authors. And we'll turn it over to Lindsay, who's going to offer perspective on the question of do multinational companies export jobs. Lindsay?

MS. OLDENSKI: All right. Well, thank you, David. Thank you, Matt. Thanks to everyone for attending today. And as Matt mentioned, the question that I tackle, in my chapter in this book and that I'll be addressing today, is do multinational firms export jobs? And the short answer to this question is yes, they do. However, they also create jobs in their home country, which, for most of the firms we're looking at today, are -- is in the U.S. And so, I'm going to spend the next several minutes just giving a very high-level overview of how that works. You know, what are the aggregate effects of this job creation and job destruction? What are some of the implications for inequality, for the distribution of income? And then I'll touch briefly on, you know, perhaps some policies that might help address some of, you know, the damages, some of the, you know, the harm that happens to workers, in a way that can still preserve some of the benefits.

So, what happens when a multinational firm expands abroad? Well, Fritz touched on this briefly in his introduction, but you can see here, in the left panel, all firms that increase their hiring offshore, right, that offshore employment, that the vast majority of them, about 72%, also increased their hiring in the U.S., at the same time, and only 28% reduced their employment in the U.S., when they

increased their employment abroad. And then for firms that reduced their employment abroad, a smaller share of them expand in the U.S., and they're much more likely to also contract in the U.S., relative to these firms that are doing greater offshoring.

So, this suggests that, you know, a simplistic view that firms have some fixed number of jobs, and if they don't do them in the U.S., that they, you know, move them to another country, that that's somehow a net loss for the U.S., is just, you know, a -- really just an oversimplification, that these firms are very complex, they do many things, they're always adding new products, new research, new jobs, and sometimes that happens at the expense of old products or old jobs, and things are often shifted across borders.

But, in many cases, it's actually, you know, the offshoring that allows them to become more productive and create new jobs. And so, you know, here, I'll just point out I used the years 2009 to 2014 for this picture because those are years in which the Bureau of Economic Analysis, who collects these data, conduct very extensive benchmark surveys. However, you can use any number of different years. Even if use their smaller annual surveys, you get basically the same result. This is a pretty robust pattern, in terms of, you know, the complementarities between firms' expansion, domestically and overseas.

So, how does this work? Well, domestic and foreign workers are not perfect substitutes. So, the type of work that U.S. multinationals do in the U.S. often looks very different than the kind of work that they do in other countries. Firms like to hire managers, people doing research and development, engineers, you know, people in sales, and marketing, and high-skilled services, in the U.S., because this is what, you know, U.S. workers are exceptional at doing. However, for a lot of the lower-skilled tasks, like production and assembly, it's -- you can often find a lot more workers, at a much lower cost, if you look to another country, and so, you know, we see these different types of work being done, often, in different places.

And so, the NATA Fact has been found -- there have been a number of studies on this, if you, you know, get the book and read the chapter, go through a lot of details about these studies. But, you know, the overall conclusion is that, you know, the NATA Fact is either slightly positive or close to zero, when you look at all the job creation and the jobs that are lost. However, it's often, you know,

different jobs that are created than the ones that are lost, and this is the issue here. So, I'll give the example of Ford Motor Company. A few years ago, they announced that they were shutting down all of their production of small cars in the U.S. and moving that to Mexico, and, you know, that's -- that's bad for the workers who produce small cars at Ford, obviously. You know, that results in job losses. However, at the same time, they also announced a new investment of four and a half billion dollars, in developing new electric and driverless vehicles, and that work was to happen primarily in the U.S. And so, you have this, you know, this shift away of production in compact cars, but then the creation of jobs in electric and driverless vehicles. And so, you know, maybe you -- you have a net positive or maybe, you know, it washes out. However, you know, the workers who have the skills to assemble a compact car aren't necessarily going to be able to work on these, you know, higher-tact, newer vehicle lines, and that's really the challenge here.

And so, you know, you can think about who's, you know, most likely to benefit and who's most likely to be hurt, as a result of this offshoring, and it depends on a number of factors. So, skill is one of the most important. How highly educated or how well trained are the workers, whether they're doing routine or non-routine tasks also matters. If a task is very simple, it's very repetitive, it can be easily written down or communicated to someone in another country, it's pretty easy to offshore, whereas if something involves judgement, problem-solving, creative thinking, a lot of communication with management, that's a lot harder to move overseas. That's more likely to stay within the firm.

And finally, employment within multinationals is generally, you know, better than employment at non-multinationals, when we see these increases in offshoring. So, multinational firms are able to get benefits. When they're the ones doing the offshoring, you know, they can become more productive, they can capture a larger part of the global market share, with respect to their foreign competitors. This allows them to expand, hire more workers, you know, overseas and in the U.S., but this sometimes happens at the expense of their domestic competitors and sometimes even at the expense of their domestic suppliers or a form of suppliers.

So, what can we do from a policy perspective to address some of these losses? Well, the primary program within the U.S. is called Trade Adjustment Assistance, or TAA, and this program provides some limited wage support, but primarily job retraining for workers whose jobs have been lost,

as a result of offshoring or trade. And, you know, these programs are fairly successful at retraining workers. This is the official data from TAA. You can see that three months after the training ends, about 70 to 75% of workers are employed in new jobs, and of those workers who are employed three months after the training ends, more than 90% of them are still employed, after six months. And this doesn't include -- you know, the TAA likes to track workers that are employed. You know, so, they look at the three-month period after the training ends to see who's employed directly after the training. But as time goes on, you can add, you know, a few more percentage points to that 70 to 75%, as workers get jobs in month four, five, six, and so on.

And a recent study has shown that workers who go through the TAA training receive higher wages than workers who don't go through the training or than these workers, you know, otherwise may have received, and so, there seem to be benefits from this type of worker training. However, this program is very, very small, right now. Only about 90,000 workers per year are certified as eligible for TAA, and only about 40% of them participate. So, we're talking about 36,000 workers, approximately, per year. And, you know, that's not very many people, when you think about the scope of the U.S. economy, and the size of offshoring and trade, and simply, you know, the regular turn in the job market, as jobs are regularly created and destroyed. So, if this is going to be something that, you know, really is seriously going to address these losses and the real harm that comes from offshoring and trade, it would need to be expanded quite a bit.

And on top of that, there's also a question as to why workers who lose their jobs as a result of trade or offshoring should be eligible for this kind of training program, as opposed to a worker who loses their job for any other reason. For example, a lot of jobs are displaced due to automation and technology, and, you know, why should trade somehow be treated differently than a job who loses -- or than a worker who loses their job to automation, or even just changes in demand, or some other factor like that.

And then, finally, I'll touch on a point that's been mentioned a couple times already, which is that multinational firms pay much higher wages than purely domestic firms do. And this is true of U.S. owned multinationals. Part of this is because they do tend to be in industries and, you know, hire workers in occupations that are higher wage. Again, this is just a snapshot. However, there have been a lot of

more careful empirical studies done, where -- which have controlled for occupation and controlled for industry, and they still find that there is a multinational premium, that multinational firms still do pay a higher wage because they are more productive, and, you know, some share of that productivity does get passed to the workers. You know, it's a judgement as to how much should or whether it's enough, but at least some does, and so, these multinational firms are paying very highly, high wages in the U.S.

And that's true not just for U.S. owned multinationals. It's also true for foreign owned multinationals in the U.S. They pay wages that are at least as high as, and sometimes higher, than the wages paid by the U.S. owned multinationals, in the U.S. And, you know, again, this is partly a selection, in fact, of -- foreign firms are not coming to the U.S. for our low wages, right? They're here to hire high-skilled workers doing research and development, doing innovation, doing management, also to get closer to the market, but, of course, to hire U.S. workers for a lot of these high-skilled occupations. And foreign direct investment is costly.

It's costly to invest in the U.S. and start doing production here, if you're a foreign firm, and so, these are very productive firms. And they hire, you know, millions of U.S. workers every year, and so, you know, again, thinking from a policy perspective, one needs to be careful when thinking about, you know, the policies that could potentially restrict offshoring by U.S. firms, restricting, you know, kind of multinational activity, whether it's unilateral and you could face retaliation, or whether we're talking about future trade agreements and investment agreements, you know, that may or may not be as amenable to foreign and direct investment and offshore employment, that, you know, there's a flipside to this. It's not just the U.S. multinationals offshoring. It's also foreign multinationals offshoring some of their production to the U.S. that creates very high-skilled high-paying jobs, in the U.S., and so, you know, from a policy perspective, you also want to think about those benefits and not sacrificing those, as well.

So, in conclusion, overall, the net effect of multinational offshoring domestic jobs is either close to zero or a small positive. However, these aggregate effects hide distributional consequences. Less educated workers and those who perform routine tasks are -- tend to be more vulnerable, while more educated workers are much more likely to gain. And finally, Trade Adjustment Assistance, particularly work training programs, could potentially help mitigate some of the negative effects of offshoring, without sacrificing the benefits. However, these programs would need to be greatly expanded

and perhaps, in some ways, you know, rethought or reimagined, in order to really have an impact on the negative effects of offshoring.

MR. SLAUGHTER: Great. Lindsay, thank you for that overview. You and David, your chapters are rich in analysis and findings. So, thanks for giving us those cogent summaries. We've got about a little over 15 minutes for some conversation and questions, and there's a couple nice conversations people have put in through the website. So, please keep feeding those, if you want. I'll try to synthesize those. The first one I'll ask draws on a couple of panelists' guests, and questions about kind of global supply chains and global value chains. So, part of what's interesting about multinationals is they sit, often times, at the nexus of these very elaborate cross-border production networks that involve arm's length suppliers, beyond just their affiliates.

So, David, you touched upon this a little bit in discussing what are the dimensions of presence in foreign countries. But I ask each of you in turn, maybe start with you, David, and, Lindsay, come to you. How far, at all, do your findings speak to things that are beyond the direct boundaries of the multinational firms, but they clearly have economic impact through their supply chains? David, maybe I'll start with you.

MR. LEVINE: Sure. The first answer is the closer you are to a big, branded multinational, on average, the better working conditions.

MR. SLAUGHTER: Okay.

MR. LEVINE: Some of this is they tend to hire higher-skilled workers. As you move down the supply chain, in low-wage countries, multinationals tend to audit their first-tier suppliers, and particularly European, and U.S., Japanese ensure a certain level of labor standards. As I said, suppliers routinely fail those, but they try, and depending on the country of origin and the company, sometimes there are consequences, suppliers losing their market share.

As you move to the suppliers of the suppliers, and you go down, the data tend to disappear because no one's collecting it, but the --

MR. SLAUGHTER: Sure.

MR. LEVINE: -- scattered data we have is those jobs tend to be lower wages and worse working conditions, and as you move down that supply chain, it becomes as bad as a domestic employer,

once you're outside the purview of the branded companies. So, we don't have great data, but the collage of evidence I've seen says, as you move down the supply chain, conditions go from sometimes okay, sometimes bad, to uniformly tough jobs.

MR. SLAUGHTER: Got it. Thank you. That's great. Lindsay, how about you? I think some people -- you can find anecdotes, at least, saying, well, the jobs were destroyed in the United States. They weren't exported into the foreign affiliate of that multinational, but they were arm's length. The jobs were being done in the -- through the supply chain, and those jobs were being kind of imported back to the U.S. Thoughts on that?

MS. OLDENSKI: Yeah, certainly. And it is -- it's a tricky question to answer, in terms of data, because, you know, we have excellent information on U.S. multinationals, and they report to the Bureau of Economic Analysis exactly what they're doing within the firm. And so, we can track that very closely. It's much harder to see what happens outside the boundary of the multinational firm.

However, we can look at affiliate imports, to some extent, and, you know, we can look at sort of arm's length trade. And, you know, it does appear that there are -- there are some similarities. There are similar patterns in aggregate, and so, we're saying, so, it's not going to look dramatically different, in terms of, you know, where you're going to source from, if you're sourcing within your firm or arm's length.

However, you know, sort of to speak to David's point, we do see that once a multinational does locate in a country, that -- that can often lead to, you know, greater -- greater purchasing, greater imports, whether direct or indirect because they're components --

MR. SLAUGHTER: Yup.

MS. OLDENSKI: -- into things that are imported from foreign affiliates of local suppliers, which is actually, you know, good, from a development perspective --

MR. SLAUGHTER: Sure.

MS. OLDENSKI: -- if you're, you know, looking at a multinational affiliate locating in a country, and that kind of spurs production by the domestic firms then, as well.

MR. SLAUGHTER: Got it. Okay. Thank you, Lindsay. That's great. There's a question about innovation, and I think, to me, it speaks to -- you guys give, again, a crisp overview of your analysis,

and there's so many nuances. Maybe we could spend a little bit of time digging into some of the nuances, and sort of things that you could analyze more, of variation beneath the aggregate, on average findings that you've shared with us.

So, tell us a little bit -- maybe, Lindsay, I'll start with you, about how we live in this world where there's just ongoing, especially with IT, just whatever -- we're in the fifth or 32nd wave of the IT revolution. How did your analysis take account of ongoing innovation and productivity gains, inside these companies, and when you think and look to the future, do you think ongoing innovation will change some of the findings that you were able to document in your research, in the book?

MS. OLDENSKI: Yeah, I mean, they definitely take innovation into account, and that's one of the most important things, when you're doing research on multinationals, is that you have to consider that they are not static, and that, you know, there is not a fixed number of jobs, there's not -- you know, the distribution of the type of work they do in one year is not going to be the same, five or 10 years later. And so, you know, because of that, there's been, you know, a number of empirical studies that have dug into the data and found that multinational firms, because they do so much more innovation, Fritz put up a slide showing that they're responsible for the bulk of R&D, that they do get productivity benefits, and they do tend to grow and expand, in many ways, you know, more than firms who aren't doing that kind of research and that kind of investment.

And that can be, you know -- it's important to consider that, when you're thinking about these NATA Facts, if you were trying to hold the size of the firm constant, for trying to hold technology constant, you'd only pick up on the negative effects, and the negative effects are certainly there. But technology is a very important channel for these positive effects, and it's also important when you think about the issue of reshoring, bringing --

MR. SLAUGHTER: Yes.

MS. OLDENSKI: -- potentially some of these jobs overseas back to the U.S. And, you know, anecdotally, we have observed that when firms have done that -- let's say you're going to produce the same output in the U.S. that you had been producing in China, or Mexico, or Bangladesh. It's often done in a much less labor-intensive way, in the U.S.

So, you can't just look at a factory in a developing country, that hires 200 workers, and

think that if you move that production back to the U.S., you're going to create 200 jobs, in the U.S., because it's very likely that you're going to do that in a way that's much more automated, and much more technologically sophisticated, and is going to have a lot more machines and fewer workers, when done in the U.S.

MR. SLAUGHTER: Yeah. Thanks, Lindsay. For those in the audience, Lindsay's done a lot of really interesting earlier work on these broad set of topics, and that accounting for the technology variation, even within firms, is an important dimension to these companies' operations, that Lindsay and other scholars have looked at. So, that's great. Thank you. David, thoughts on kind of ongoing innovation, IT innovation, and how that shapes the findings of you and co-authors?

MR. LEVINE: Well, I think the big picture, which was outside the scope of our chapter, but what Lindsay alluded to, to the extent the multinational is helping increase skills and capabilities of a low-wage country, 200 years ago, when factories in New England were taking the best ideas out of Britain, or more recently in the parts of China, near Hong Kong or Taiwan, were low-wage areas, 40 years ago, are no longer low-wage manufacturing areas and now are very high tech companies, often, and innovation, not from the multinationals overseas, but the Chinese multinationals are.

To the extent that process is going on, multinationals are going to have much larger benefits for poor countries, than to the extent they're stuck just doing low-wage assembly work. And so, that's a -- outside the scope of our chapter, but --

MR. SLAUGHTER: Sure.

MR. LEVINE: -- but over this course of the history of capitalism, that's the real question. To what extent are the effects Lindsay referred to, where you locate, and then start working with domestic firms, and improving their capabilities? Sometimes, we see that showing up, and sometimes less so.

And then on the things closer, what we worked at, the innovation and IT is not just happening in big multinational labs, and so, some companies are branded companies, from the OECD, are putting in mobile phone reporting systems for their suppliers to report sexual harassment. And compared to the in-person system, where, you know, I'd been talking to a factory manager with thousands of workers, and they've said, yeah, we have this incredibly sophisticated complaint system, no worker has ever used it. That makes me sort of concerned. Workers do seem more willing to use these

SMS text-based message complaint systems. So, just saying the innovation takes place at all these different levels, the very sophisticated levels Lindsay was referring to, and even at these low-wage garment factories.

MR. SLAUGHTER: Yeah. Thanks, David. No, IT can enable kind of the monitoring, in a way that is very similar to the work yielded. Another dimension, just -- I'm wondering if you guys can take a minute each. Again, Lindsay, maybe start. Any variation that you saw, or that if you had, you know, the richer data, you might be able to analyze variation across industries or variations across particular countries in the world, with which these U.S. based companies are operating?

So, Lindsay, you mentioned the Ford Motor Company example. You know, manufacturing, that it gets a lot of focus, and there might be more concern about the exportability of those jobs, whereas, like, a lot of services activities, you often hear at least -- I think anecdotes would make it quite representative, which is services, industries. They have to have a presence. You have to cavalcade the production with consumers. That might have more complementarities. So, I'm just wondering, any industry variation or host country variation, that either of you saw, that was notable for your current work or perhaps future work? Lindsay, I'll start with you.

MS. OLDENSKI: Oh, gosh. How much time do we have?

MR. SLAUGHTER: Yeah, no, sorry, we've got seven minutes. So, I'll give you each about one to two minutes on this question, and then we'll ask one final one.

MS. OLDENSKI: Yeah, no, I mean, that's really -- just a really important question. There's a lot of variation. I mean, there's definitely a lot of variation by country. You know, there's been a lot of work done. So, I'm giving the very high-level overview of the sort of net effects on jobs, and who wins, and who loses, but we do see, you know, different effects, depending on the type of country that you're offshoring to, that if you're offshoring to another high-income country, you know, you're doing engineering in Germany, it's not going to have the same, you know, negative effects on low-wage workers as if you're doing, you know, assembly work in China, or Mexico, or somewhere.

It does vary a lot by industry. So, very broadly, you mentioned services. Some of the same principles apply, when you think about what's most likely to be offshored. It's -- within the services, the relatively lower-skilled services are more likely to be offshored, and this routine versus non-routine

distinction is even more important. So, call centers are a classic example of this, or data entry, right? These are the kinds of services that can easily be done somewhere else. You can, you know, just kind of explain very quickly, give very, very short written instructions, or often a script, in the case of call centers, and somebody can perform that --

MR. SLAUGHTER: Sure.

MS. OLDENSKI: -- anywhere in the country. And that's very different than, you know, offshoring research and development, offshoring something that involves you to respond, you know, to situations that are constantly evolving, that, you know, can't really follow a simple script. And then, so, you know, we see some of these same -- same principles. We also see the skill divide, but, again, it's all relative to a firm. So, imagine, you know, any firm, and they might be producing steel, they might be producing semiconductors, they might be producing accounting services, and, you know, they're likely to take whatever, for them, is relatively lowest-skilled --

MR. SLAUGHTER: Sure.

MS. OLDENSKI: -- or relatively most routine and offshore that. And so, that's going to be very different for the accounting firm than it's going to be for a textile producer. And so, it'll -- it will certainly look different across industries, and, you know, we'll see different effects. I mean, we were talking, you know, briefly about, you know, these spillover effects, right? What does this mean for the developing countries? And, you know, we see, generally, much more positive effects for the host countries, when we talk about things that are a higher tab. So, a great example is Intel investing in Costa Rica. You know, they invested a lot --

MR. SLAUGHTER: Yeah.

MS. OLDENSKI: -- in training, and really upskilling the workforce there, and, you know, you're not going to see that as much, with textiles, but you do see a lot with services --

MR. SLAUGHTER: Sure.

MS. OLDENSKI: -- and especially with things that might be, you know, even call centers, or something that requires English language training, for example.

MR. SLAUGHTER: Great. Oh, thank you, Lindsay. And, David, any variation you want to comment on in a minute or two?

MR. LEVINE: I mean, just related. If you are in a labor-intensive process, making low-cost goods, for a generic customer, based in a country that doesn't have great rights, for workers, on average, that's a worse job than if you're in a capital intensive, producing for Norway, and some high end granted. There's not a ton of evidence on this, but all of the scattered evidence shows these sorts of patterns, and so, just saying, what are the effects on workers, even if we're looking only in low-wage countries. There are a lot of predictors that, without enormous, you know, high quality data, seem to be consistent.

MR. SLAUGHTER: Great, thank you. And so, I encourage to all the people in the audience to read these chapters. There's a lot more than we will be able to cover here. In the last three minutes that we have, before turning over to the next panel, I'm going to ask you the -- what I call the magic wand question. Here's my magic wand. It doesn't always work. But imagine President Biden was taking a break from his busy schedule today, and attending this, and he asked you both to come to the Oval Office and spend a few minutes with him to talk about the policy implications of your work.

You each touched upon policy in different ways. Lindsay, you talked about TAA. So, if the president said, look, I'm trying to build back better, here in the United States, trying to have the United States reengage with the world, and give me the one broad policy recommendation that I should take away from your research, in this chapter, in this book, the answer would be? So, Lindsay, you can start.

MR. LEVINE: Lindsay, I'll let you go first.

MS. OLDENSKI: Education, education, education. Training, training, training, and it's -- you know, it's a little bit more complicated than that, but you gave -- you just gave me one work, and I gave you two of them, repeated three times.

MR. SLAUGHTER: It's great, you know?

MS. OLDENSKI: But, yeah. No, but to the job training, it's, you know, that, again, hopefully, that came across in the research that I presented, that there are huge benefits from offshoring. The same is true from trade, more broadly, that, you know, shutting down, kind of closing off the country, isolation is not the answer, but you want get these benefits. And it's not going to protect jobs because we've got forces, like automation, and, you know, much of the research has shown that the kinds of jobs that can be easily offshored are the same ones that can be easily automated.

MR. LEVINE: Automated, yeah, sure.

MS. OLDENSKI: If you do something that's very routine and repetitive, and it can be replaced by someone low-skilled and in a less developed country, you know, odds are that could also be done by a machine. And so, this is not how we're going to replace jobs. You have to think about, you know, on the -- that theme of technology, and growth, and constantly changing innovation. You know, what are the demands of the future, and how can we get people, you know, to have those skills, and to be able to do those jobs? And there needs to be some sort of safety net, in the meantime. There's going to be transitions.

MR. SLAUGHTER: Sure, great.

MS. OLDENSKI: But just putting off is not going to bring the jobs back.

MR. SLAUGHTER: Yeah, great. Don't be a wall, Mr. President, we need to educate, train, safety net. And then, David, last word to the president?

MR. LEVINE: I think we can help work with big companies and poor countries to monitor working conditions and make sure that, if we're losing jobs, it's not to create a race to a bottom, in poor countries that are killing people there. And so, creating more transparency and helping the companies achieve what they claim they want to do, which is obey the law and respect human rights.

MR. SLAUGHTER: That's great. Again, thank you both. Your contributions to this volume are really rich and interesting, and it's been a pleasure to be in this conversation with you. And with that, we have another panel, that's going to focus on another prominent policy issue, of international tax, and, for that, I'll turn it over to one of the editors of the book, Jim Hines.

MR. HINES: Thank you, Matt, and thank you, David and Lindsay, for a really uplifting and interesting session. We are going to talk about, now, about tax -- taxation, in multinational companies. Some of you may be aware that the -- there are some proposals on the table, right now, about taxing multinational firms. I think what happened was the Biden administration learned about the release date of the book, and they timed their proposals, you know, to take maximal advantage of the attention that the book was generating, and that is why we have quite a bit of interest, right at the moment, on some of these tax issues.

We have two tax experts here with us to discuss the taxation of multinationals. The first

is one of our chapter authors, Michelle Hanlon. Michelle Hanlon is the Howard W. Johnson professor and a professor of accounting at the MIT Sloan School of Business. And we have William Gale. Bill Gale, who holds the Arjay and Frances Miller Chair in Federal Economic Policy, at the Brookings Institution. Both Michelle and Bill have gobs of other achievements and qualifications I won't go into right now, but, suffice it to say, they're absolutely the best people to hear about on these subjects.

So, before we get to the policy issues, let's try to understand what is going on. Michelle, you know, based on your chapter in the book and other work, what do we know about how much multinational firms pay in tax, and how much they are avoiding tax?

MS. HANLON: Thank you, Jim. So, I think your question is very important because there's a lot of rhetoric and commentary about how corporations and, specifically, multinationals avoid tax, and we hear a lot about, you know, these certain companies, maybe, don't pay any tax. And so, people, I think, get that in mind, that multinationals don't pay tax. But, in fact, multinationals pay quite a lot of tax, and if we look at rates, one metric that we use, in the chapter and some of prior research that I've worked on, with some of my co-authors, is that we look at how much income taxes companies pay, actual cash tax is paid, around the world, relative to their pretax accounting earnings.

And if you look at that, multinationals, in the sample period that we look at, 1988 to 2018, what we find is that the cash effective tax rate, that ratio is 29%, for multinationals, and it's 26% for domestic only firms. So, they're not that far apart, but the surprising thing, I think, to a lot of people, and even to us when we first did that research, was that the multinationals' cash effective cash rate is slightly higher, if anything, than the domestic only effective tax rates. And so, I think, multinationals pay tax. There is certainly evidence that they avoid tax, as well, and we can talk about that a little bit, but, on average, if you look at a large sample of multinationals, there's certainly a lot of tax being paid.

MR. HINES: So, help us out because most of here are not accountants, and so, it would be great to get a sense about the, you know, the information that you're sharing with us here. So, you know, how confident can we be in the accounting data, that there's not, you know, hiding going on, or you know, other, you know, I don't know, tricks that -- or can we be confident, that, you know, there isn't something -- you say there's a 29% average tax rate, but how sure -- you know, how confident can we be in that number, I guess, is the question?

MS. HANLON: Yeah, that's a great question. So, I think, in the data that we use, it's the publicly traded firms, and these are their annual reports that they file with the SEC, and the number that we use for taxes, is the cash taxes paid. So, I -- there is less games that are able to be played with number because it's not an accrual number. So, companies can't be recording an accrual, to make it look higher, or, you know, lower, if they needed to make it look lower. It's literally the cash taxes paid, and the way that we use that number, usually, is over a long run time period.

So, we can look at that over a long run, and even if we look at it over a 10-year period, the difference in the cash taxes paid to their pretax accounting earnings, between multinationals and domestics, it's not all that different. So, I think, you know, what you're asking, what data we use is from their filed statements with the SEC, and we look at cash taxes paid. So, I think, there's not that many games, in that number, that could be played.

MR. HINES: So, again, let me, you know, I think there are questions on the minds of the audience, and, again, most of us are not -- don't use these accounting data. So, you know, obviously, there are stories that you read in the newspaper about tax dodges, that multinational firms sometimes use, and it's also -- you know, an international firm will operate in other countries, and many other countries, maybe most, have lower tax rates, than the Unites States, at least until recently. And so, how -- why is it that they're paying tax at such high rates, if these firms, you know, sometimes have available, these tax dodges, and also even if they're not dodging taxes, you know, they're often operating -- you know, when you operate around the world, until just a couple of years ago, the U.S. rate was a lot higher. So, it seems like your tax burden would be lower, on average. So, why was their tax rate so high?

MR. HINES: Yeah, I guess they're not shifting as much as we think, Jim. But you're right, there are some firms that have a low rate. So, I don't want to say no firms have a low rate. There are some firms that have a very low rate, and in our data, in general, you know, we run this over different time periods and different years, but, you know, roughly 20% of our sample firms can maintain a long run rate, less than 20%. And there are some firms that have very low rate, but, on average, you know, is the number I was referring to before. So, I think, both can be true, at the same time. You know, we can have some firms that actually do pay very little in taxes. Somehow, they avoid taxation, but, on average, multinationals, as a group, do seem to pay a reasonable effective tax rate.

MR. HINES: And that's -- and what does that say about tax avoidance? Are they engaging in tax avoidance?

MS. HANLON: The firms that have a low rate?

MR. HINES: Even the ones that have a high rate. Why aren't they engaging, or does it mean they're not -- or, I guess, what do we conclude about tax avoidance from this evidence, the 29%, for example?

MS. HANLON: You know, I'm not sure we can conclude too much, to be honest, from just that rate. Like I said, I think is there is -- you know, we have evidence in the literature, that some firms do avoid tax, and some firms are able to maintain a low rate, and I think maybe one conclusion may be, that you can come up with from the average high rate is, that it's not as easy as we might think it is, just to avoid taxes. So, not all firms are able to that, in all circumstances, and maybe not even all firms want to do that, in all circumstances. So, I guess that's one conclusion that you can make, from that.

MR. HINES: Okay. Bill Gale, what's you view on, you know, how much tax avoidance there is, and the tax burdens on multinational firms, especially, you know, especially, with the context of the United States, but more generally? Can't hear you there, Bill.

MR. GALE: My voice has been muted, which will help you anticipate what I'm going to say. I -- obviously, some firms pay a lot of tax, but my sense is where there's smoke, there's fire. And for me to convinced that there's not rampant tax avoidance, I'd want to know what the John Samuels of the world have been doing -- were doing at General Electric, when people said they turned the tax division into the most profitable center of the firm. I'd want to know why multinational firms locate so much of their foreign income in tax havens. I'd want to know why we have things, like the Double-Dutch Sandwich, or whatever it's called, the stateless income, and I'd want to know why OECD is so concerned about base erosion.

So, I think, there is a lot of circumstantial evidence, that there's a lot of avoidance going on, and I think logic and theory tells you it has to do with kind of the nooks and crannies, in different systems, and how they are integrated or not integrated. But it seems to me that there's a lot of tax, essentially, that is not being paid, not necessarily due to evasion. I'm not arguing evasion, but due to what you might call egregious avoidance.

MR. HINES: Okay. Well, let me press you, like I did Michelle. So, what -- how do we reconcile, you know, egregious avoidance, with the 29% number, you know, that high average cash effective tax rate numbers, that Michelle was referring to, a minute ago?

MR. GALE: Well, I don't know enough about the accounting measures to give the answer there. There is a huge difference, of course, between taxable income and accounting measures of income. So, I think it's quite possible, you know, the international taxes, multinational corporations are quite complicated. It's quite possible for different perspectives to co-exist.

MR. HINES: Okay. Well, let's -- you know. Let's move on to some of the policy questions, you know, that are not necessarily the proposals that are on the table. There are many proposals that are out there, these days, not just obviously the Biden administration, but, also, members of Congress have some proposals, and others, too, for that matter. So, but let's try to think about what this tells us about what a good system of taxing companies would be? Is -- you know, one possibility is the present system is a good system. Another possibility is we should make changes, either radical changes or medium sized changes. Michelle, we'll start with you. Do you have a sense, from the evidence? Does it give any guide about what would a good way forward?

MS. HANLON: I think, the evidence can tell us what a bad way is, and I think the bad way is our old system. The system we had before the Tax Cuts and Jobs Act. So, we have a lot of research on the economic effects of that system, where we had the highest tax rate in the world, and worldwide, with the referral system. There are just a lot of really negative economic outcomes, a lot of cash offshore, a lot of manufacturing that ended up offshore, you know, just a, really, lot of, in my opinion, bad outcomes for the U.S. And so, I think, you know, we don't want to go back there is my opinion. We don't want to go back to the old system. And, you know, maybe the way forward is to take this new system, the Tax Cuts and Jobs Acts, and try to improve it, you know, which I think there is a lot of room for improvement, actually.

And the other thing I think is a big issue, in terms of trying to incentivize certain types of behavior, is to try to come up with something that's stable. In other words, you know, we came up -- the Trump administration came up with the Tax Cuts and Jobs Acts, and now the Biden administration wants to change it, quite a lot, and that makes an unstable tax system. It's a lot of uncertainty for companies to

deal with, and so, for example, if want companies to invest in the U.S., in export, you know, we have the FDII Provision, in the Tax Cuts and Jobs Act.

And, you know, that can be improved, certainly, but I think it has not had the incentive effects that maybe we would like it to have because I've heard attorneys tell their clients that, basically, there's a 50-50 chance, we're going to get to keep the FDII, and so, it's, you know, a stable tax policy, an improvement upon what we have, but definitely not what we had before in the Tax Cuts and Jobs Acts.

MR. HINES: And, by FDII, you mean the Foreign Derived Intangible Income Provision in the --

MS. HANLON: Yeah.

MR. HINES: -- in the TCJA? Otherwise known as FODII, yeah. Okay, Bill Gale, what do you think the evidence says we should do differently than we're doing now, if we should do something differently?

MR. GALE: Well, I think, it's interesting that just characterizing the system we have, right now, leads to different opinions. Some people call it a territorial system, with a backstop. Some people, who know a lot about this, call it a worldwide system, with exempt returns, at a lower rate, on worldwide income, on foreign income, and that characterization, essentially -- which characterization you go with determines whether you think the Biden proposals, for example, with respect to GILTI, global, tangible low tax income are improving the system or changing the character of the system.

You could describe them as strengthening the GILTI. You can describe them as ending a territorial system. Both of them are accurate, right? So, how you characterize it matters. I think, probably, the rate cut -- let me take a step back. The old system was not a good one, as Michelle mentioned. I think the rate cut may have gone too far, and I think the international provisions, the GILTI beat FDII, I will not pronounce it, just spell the initials, were clearly well intended, but I would argue unbalanced or poorly designed, and much of what the Biden administration does -- wants to do I think of as improving those features.

Other people might think of them as, you know, changing, removing the impetus of those figures. So, I also want to highlight the -- Michelle's point about stability. That would be a great idea, and then it'd come back to Biden proposals again. If they're improving the system, then they're, you know, in

some sense, they're stabilizing it. If they're changing the system, then they're breeding a new world that will then have to be hashed out again. I guess the last thing I'll just mention is that there's a lot of focus on the rate, and whether 21 is too low, when -- whether it should be 28 or 25. I think it's important to focus on the base, as well. The whole race to the bottom issue depends on us having an income base, as opposed to, say, a consumption base, in the business tax and in corporate tax. So, there's lots of room for making the international system, the corporate system better, and I think TCJA, especially the novel features on the international side, merit some attention.

MR. HINES: So, Bill, I just want a clarification. You said, just a second ago, that the old system was not a good system. You mean the pre-2017 U.S. reasoning?

MR. GALE: Yeah, I think, I think the 35% rate was too high, and the deferral system, on active foreign income, was, at best, unproductive, and, at worst, distortionary and very costly, so.

MR. HINES: And so, your preference would have been, instead of enacting the Tax Cuts and Jobs Acts, in 2017, you know, it's international features. We should have enacted something, the Biden proposals, or something different than the Biden proposals?

MR. GALE: I think the Biden proposals move in the right direction, in the sense that they're moving the corporate rate up. The cut to 21%, from 35 to 21%, was a massive windfall gain to investments that corporations made in the past. Now, if you're thinking about corporation income in a particular year, most of it is from investments made in the past. So, if you cut the rate, you're benefitting those investments. That doesn't -- that's less efficient than generating investment incentives, sorry, incentives for new investment.

And so, some rate cut was appropriate, given where we were relative to other countries. But I can see us in the mid-20s, with a base that further incentivized investment. And then, on the international side, I don't know how into the we's we want to get, but BEAT and FDII are kind of disasters, and GILTI, I think, has a good basic structure, but could be made significantly better.

MR. HINES: Michelle, I want to pick up on something that Bill just referenced, which is what other countries do. And one way to think about, you know, one issue is does it matter what other countries' tax systems look like, when the United States, say, is designing its system? So, if we're thinking about, you know, changes currently, does it matter what, you know, Canada, Japan, Britain,

Germany, places like that, do, or should we figure out what we think is the right way to tax companies and just blast ahead, you know, no matter what other countries do?

MR. GALE: Well, I think both of those statements are right.

MR. HINES: Sorry, I was asking Michelle, but then I'll ask you.

MR. GALE: Oh.

MS. HANLON: He can go first, if he wants.

MR. HINES: Okay, Bill, sure. Gang, we can't have dead time, so.

MR. GALE: Go ahead. Go ahead.

MS. HANLON: All right, I'll go. So, I think it does definitely matter what other countries do because companies are mobile. So, if other countries have a much lower rate than we have, which is the situation we had before the Tax Cuts and Jobs Acts, then companies will choose to leave the U.S., and they'll leave by moving activity offshore, and they might even try to leave wholesale, meaning invert, and move their headquarters offshore. We had a lot of that activity before the Tax Cuts and Jobs Acts, too.

So, I think, we really need to consider what other countries are doing, and it doesn't mean we need to follow other countries exactly, and not think about what we want. But we -- it is a competitive world, and we need to think about what other countries are doing, when we design our policy or work with them, you know, ideally. So, Bill?

MR. GALE: Yes, I agree. We can't stick our head in the sand and just make our policy independent of what other countries are doing. On the other hand, we can have notions of what we think are right, or what we think is right, and we can also encourage other countries to do that. One of the key issues with the stability, that Michelle mentioned, is the -- is incentive compatibility, across countries.

MR. HINES: So, Michelle and Bill, it sounds like you guys sort of agree, actually, on -- you know, we should keep an eye on where we are -- what the United States is doing, relative to other countries. The -- suppose that, you know, you raised the issue of corporate inversions, you know, which is -- in the United States context, a U.S. company that becomes a foreign company, you know, in order to avoid the -- some of the U.S. tax treatment. So, suppose that you have very strong anti-inversion rules, you know, tax rules, put into place. Would that allay your concern and mean that maybe we should pay

less attention to what other countries do?

MS. HANLON: I think it -- it alleviates some concern, but then you worry about where companies start up. So, you know, before the Tax Cuts and Jobs Act, there was a saying that it was malpractice to tell your clients to start their company in the U.S. And so, you know, you don't want to get in that situation, where you lose the, you know, the startup activity in the U.S., which is very valuable to us. So, I think, you know, it's not just the companies that are here now, but it's all the future companies, that hopefully will get started in the U.S., and we want to keep them here, and so, I do think we need to still think -- even if we have the punishment in place for inversions, we need to get incentives in place, too, to keep business activity here.

MR. HINES: So, Bill, help us think through some, you know, one of the kind of big issues here, which is, look, usually, all of us work in tax policy. And almost always, with tax policy, there's a tradeoff between collecting revenue and, you know, creating good economic incentives, you know, because the government, obviously, needs revenue to finance what it does. On the other hand, almost every way you get the revenue does something bad for the economy. Now, some things are not as bad as others, and, you know -- but there's usually a tradeoff, of some kind, and in this case, how should we, you know, in the case of taxing multinational firms, how should we think about that tradeoff, you know, the -- something that's good for the economy is obviously something that goes along with creating jobs, investments, economic activities, you know, prosperity. But obviously we also need tax revenue, and there is -- you know, while there is such a thing as taxing economic activity too heavily, there's also such a thing as taxing it too lightly. So, how should we think about that tradeoff in the international tax context, Bill? We'll start with Bill.

MR. GALE: I think, this is where thinking about the base, as well as the rates, comes in particularly handy. Let me just mention one example. Harry Grubert and Rosanne Altshuler had a paper, almost a decade ago now, that talked about, essentially, a GILTI like provision, in a worldwide minimum tax, but the investment was given cash flow treatment, in the U.S. So, it was expense, but they didn't get interest deductions, and what that did was exempt, from U.S. taxation, the normal return, on foreign investment, but then it taxed excess returns. The U.S. taxed excess returns to foreign investment.

And something like that is, I think, kind of elegant. It maintains the base, but it also vitally

maintains economic incentives. It doesn't distort the investment decision. So, I think, there are options like that, but they all involve thinking about the base, not just whether the rate is higher or lower.

MR. HINES: I mean, a cash flow tax would be, you know, a pretty big departure, from what we have right now, you know, like denying interest deductions, for example, you know, would be a big deal, for some companies. There was a proposal, you know, in -- a couple of years ago, in the House of Representatives to -- about a destination-based cash flow tax. But it didn't seem to go very far. Why was that?

MR. GALE: There was a -- I mean, politically, the -- a variety of groups didn't like it, I think, because it taxed imports. The Walmart's of the world got behind it -- got against it, and I think, frankly, there was a lot of misunderstanding of the cash flow tax. I mean, we don't have a value added tax, as opposed to every other country in the world, and so, we're not used to thinking about the types of adjustments that have to made in a cash flow tax. And so, I think, it got -- probably got off to the wrong -- on the wrong foot, and it was, I mean, in terms of political debates, I feel like there was a lot of misinformation about it.

MR. HINES: Well, thank heaven we have the book because the book is full of accurate information, and so, you know, hopefully that will lead to better public policy, going forward. Now, we have -- a number of people in the audience have submitted questions. I don't mind sharing that a number of the questions are about the Biden proposals, the Biden administration proposals, and some of them are about the initiative at the OECD.

The OECD is the Organization for Economic Cooperation and Development, and they have some blueprints that they have circulated, you know, with proposals for taxing digital companies in a different way than is currently done, and also minimum taxes, around the world, that is every country would have, you know, at least a certain amount of tax on companies operating in their country. And, a number of people are interested in, what -- let's start with the OECD, international cooperation, you know, through the OECD.

And I'll start with you, Michelle, just, you know, without kind of diving into the details of these blueprints, none of which are agreements yet, you know, they're just kind of proposals. What are the -- what are the prospects for international agreement on taxing multinational companies, and what

would it do, if there were international agreement?

MS. HANLON: That's a tough question. I think the prospects are -- I don't even know what percentage to put on them, Jim. I mean, I would have said there's no hope, at some point, but I think the prospects are better than what I thought previously, I'll put it that way. There is still a lot of things that they need to work out, in a lot different, obviously, incentives, across the countries, of what countries are interested in.

I think, you know, I think it's right to say that maybe the U.S. is more on board now, than it used to be, but still, I think some of what U.S. wants is not going to be exactly received favorably by some of the other countries. So, I think, there's still a lot that remains to be seen. But they've done a lot of good work there, in trying to get the countries to agree, and to try to, you know, allocate income, even, differently around the world, than what is done now, which I think, probably, we need to think about that, and that's probably a good idea, in some respects, is just getting people in the countries to agree on how we're going to do that, going forward. It's a tough issue.

MR. HINES: Bill?

MR. GALE: I think the change in the U.S. position, with Secretary Yellen saying she's interested in pursuing, you know, a worldwide minimum tax posed, potentially, a gamechanger, in terms of the OECD, both the digital tax and the minimum tax. I mean, who knows how it'll work out, but there's certainly room for compromise. There's certainly net gains, that the countries who are negotiating could obtain, as a group, at the expense of the corporations, to be clear. So, I think there's a lot of options. The key issue is how the havens, the tax havens, play into the negotiation. It turns out there's a lot of tax avoidance across high-income countries.

We tend to think of avoidance as havens, versus high income countries, but there's a lot amongst high-income countries, and it will -- it's the high-income countries -- the high tax countries that, largely, are doing it, the negotiations. So, how they -- how they incorporate either sanctions or otherwise control the behavior of the havens will be really important.

MR. HINES: Yeah, just to clarify, to people who are watching. So, the OECD is a group of, you know, 35 roughly, countries, you know, all high-income, but as I -- is it correct that the agreement -- the concept behind the agreement is it would apply to the whole world, not just the OECD, but, you

know, non-OECD, too? How does that work? How do you get the whole world in, if they're not actually part of the agreement?

MR. GALE: I think the OECD throws its weight around. You know, there are all sorts of -- you could do -- we did this with, back a couple years ago, where we threatened sanctions against, you know, foreign financial institutions, that didn't report ownership of accounts and stuff like that, and, you know, between the OECD and the U.S., that's a pretty big part of the world.

MR. HINES: Okay. Michelle, there's a question from one of our viewers. The -- how much of the -- you were talking earlier about the variation in cash effective tax rates, you know, across these big companies. How much of that is accounted for by industry? Is that -- does that really just say that, you know, you got some firms in manufacturing, others in mining, others in other industries, and that's really what that is, or is it something other than that?

MS. HANLON: That's a good question. We looked into that quite a bit. I'm not going to be able to remember the exact percentages, but there is definitely variation by industry, and there is definitely variation, within industry. So, in other words, the industry does not explain all the variation, in cash effective tax rates. There are still significant variations within industry, as well. So, there is some by industry. Industry is an explainer, but it's not all of it, by any means.

MR. HINES: Okay. Bill, we have another question from a viewer, which is, if a company, you know, has foreign operations, that are lightly taxed because, you know, the foreign government really wants to attract the business, and so, they offer very low tax rates, or the company, itself, figures out a way to arrange its, you know, finances, or whatever to get a low tax rate, who are the winners and who are the losers, from that? Is that, you know, and more specifically, for the United States -- you know for, say, people in the United States, is that a good thing or a bad thing?

MR. GALE: Let me just say, that's a great question. I -- it -- I don't know that there's enough information in the question to give an answer. I mean, it combines questions of the incidents of the corporate tax with questions of, you know, foreign exchange flows, with questions of whether the benefits are domestic, are in the host country or the home country. I wish I could give a better answer, but I can't.

MR. HINES: Michelle, do you want to take a try at this really hard question?

MS. HANLON: Can you -- can you repeat, just the main part of the question, Jim?

MR. HINES: Yeah. There are -- let's say that you've got a multinational firm, and in -- I think they meant an American Multinational Firm --

MS. HANLON: Yeah.

MR. HINES: -- and they've got a low foreign tax rate, and, you know, suppose that it's just -- the foreign government, you know, offers a very low rate, and because they want business, or whatever they want. So, I guess the question is, is that good or bad? Who's the winner? Somebody has to be a winner. You know, obviously, somebody has to be a winner, and maybe somebody is a loser, from the low foreign tax rate. Is there a way to tell, who's the winner, and who's the loser?

MS. HANLON: I think, you know, in some sense, like Bill was saying, but related to some of your words, Jim, too, I think, you know, we can say that the U.S. multinational -- you know if they expand overseas, they'll -- it's better for everybody, if we have multinationals in the U.S., that expand overseas, and so, I think, you know, that's good. And it's hard to tell other countries not to compete on tax rates, in some sense, you know, if that's kind of the margin they have to compete on. It's kind of hard for us, the U.S., to say, you know, you can't do that. So, I think, there probably are winners and losers, but I don't -- it -- you know it's not so clear cut.

MR. HINES: So, what I'm getting from both of you, is it's not clear, actually, that -- who's the winner, and who's the loser, or maybe on that, whether it's, you know, good or a bad thing. So, okay. The -- Bill, we had another question from a viewer, and the question was, how much of the problem, you know, current problem, is tax havens, verses other things? You mentioned, Bill, you mentioned just a minute ago, that there's competition among government, you know, of countries, that we don't think of, as tax havens, you know, but they offer tax breaks, or you know, other things, to try to attract business. So, how -- I guess, how much of the problem is tax havens, verses, you know, I guess if there is a problem, how much is it tax havens, verses, other places that are not tax havens?

MR. GALE: I think, there's plenty of room on both margins. The presence of tax havens is not helpful for the U.S., in terms of, you know, enforcing of an erosion free base. On the other hand, the high-tech countries are doing things like, what are they called, patent boxes and stuff like that. Which don't help either. Which all of this, just stresses the need, or the potential benefits from international

agreement on some aspects of the tax system.

MR. HINES: And, you mean, enforceable international agreement, right?

MR. GALE: Yes, an enforceable, yes. Time consistent, insensitive, compatible, enforceable, yes.

MR. HINES: Okay. Michelle, you know, from the data, do we have a sense of how much of the issue is tax havens, verses, other things?

MS. HANLON: We do, but it's not clear that all that data is correct. In other words, there are some estimates in the literature, that have estimates, of how much, say income, or income shipping ends up in tax havens, but some of those estimates seem implausibly large. So, I think, we don't have a good handle on the magnitude, I think, you know, it clearly is an issue. We know that, you know, companies operate in these tax havens. We just don't know the magnitude of the issue, or whether it, you know, we don't have a good estimate of the magnitude, I'll say that.

MR. HINES: Okay. I want to, you know, we're almost out of time, and there's so much rich stuff here, and got to say, I love hearing from the two of you on this topic. Let's try one more topic, which is kind of moving forward. And we'll start with Bill, and then go to Michelle. But moving forward, how should we -- what's the right way to move forward on these issues? Obviously, everybody wants to move forward and both Bill and Michelle, have said they would make changes to what we currently have.

Bill, I think, more significant changes, then Michelle's, but how should we -- how should we do this going forward? Should -- do we need more information? Do we have the information, that we need, and we just need, you know, the designing new policies, or what's the -- what's the smartest way forward on international tax, and the taxation on multinational companies, so that we can get the revenues that we need, and do so, in a way that's consist with, you know, good economic growth, and all of that? Start with Bill.

MR. GALE: All right, in one minute or less. I mentioned the GILTI reform that I think would help. I think FDII's should just be abolished. I think B, needs to be significantly reformed, it interferes with the normal operations of tax paying organizations. The administration has to proposal to apply it, only to payments to low tax countries, which I think, makes a lot of sense. On GILTI, the issue, is do you go country by country, or do you stay with the global bases. There's actually an intermediate

proposal, by Senators Wyden and Warren, that would group countries into a low tax and high tax basket, we don't have time to talk about it, but I think, that makes a lot of sense too. I would raise the corporate rate, maybe not all the way to 28, bit I think, that's the general direction of the things I would do.

MR. HINES: Michelle?

MS. HANLON: I would also would probably raise the corporation slightly, but no more then, you know, 23%, I think is about as high as we can go. If we reform the GILTI, at a 21% rate, country by country, I think, we'll be so far out of whack with the rest of the world, I think that would be very harmful, unless the rest of the world does the same thing, which I -- I'm not sure what the odds of that are. I think another thing, we should consider, is maybe relying less on the corporate income tax, you know, we have other options, that maybe we should consider.

Like a carbon tax, or a low-rate (inaudible). We should increase the enforcement efforts, you know, maybe fund the IRS, a little bit more, and have them try to close that tax gap. I think, those are probably the top things on my list that I would try to do.

MR. HINES: Thank you, both, for a really enlightening discussion, and as a result, we will look forward to better public policy, going forward. Over to you Dave.

MR. HINES: Thank you.

MR. GALE: Thanks.

MR. WESSEL: Thank you, very much, Jim and Matt for organizing the conversations, and for all the people who participated, and again, I want to thank, everybody who helped make this big book project a reality. When Jim, and Fritz, and I were talking about the project, we talked a lot about how we think about the policy implications of what we did. And, we started down the path, of being specific, and the realized that was beyond us. So, the book ends with several principles for policy makers, and I want to discuss the briefly.

I mean, we all know, you don't need a Ph.D., or a lot of BEA data, to know that multinationals have an enormous impact on the incomes of people, on the products and services that they consume, on the quality of life around the world. And, we know that the size and scale of these forms, positioning to take advantages -- to take advantage of aspects of the global economic system, in ways that promote their narrow corporate self-interest. So, we need well designed policies, that allow the

free movement of goods and capital, so that multination -- and labor, so that multinational can operate efficiently, but at the same time protecting those who look when these efficiencies gains are realized.

The very nature -- the cross-border nature of the multinational firm, means that these policies need to be coordinated across jurisdictions, particularly policies related to innovation, and to taxes, as we just been discussing. And the formulation of well-designed policies, depends very heavily on better understanding of the activities of these firms, and understanding they can only be obtained, with extensive financial and operating data, that characterizes their behaviors. So, that one of the reasons, we under took this project.

I think given the extent of public skepticism about multinational corporations and in the risk that we will do things, and as a result of that, that may prove to be counterproductive. It's an imperative that regulators take action now, to address the risks that we outlined in the book, that are opposed by multinationals. So, we conclude the book with six principles. Principle one; government should avoid erecting barriers, to realizing benefits that multinational corporations offer modern economies. That means avoiding tariffs, punitive regulation, taxes directed primarily at foreigners, and other restrictions on the movement of goods, people, investment, and data across borders.

Principle two; governments, and multinational corporations, should adopt policies and practices, to ensure that all segments of society benefit from the activities of multinational corporation, and from globalization more generally.

Principle three; governments should cooperate, to formulate consistent cohesive policy frameworks, because what happens in one country, influences what happens in another. These policy frameworks have to have a balance. They need to respect the rights of sovereign nations to do what their people think is necessary, but also have to be compatible across countries.

Principal four; innovation is an important contributor of prosperity, so, governments should pursue policies, that encourage multinational corporations, to pursue innovations and to share those benefits widely around the world.

Principle five; governments should form a consensus on principles governing the taxation of multinational corporations, and as Michelle and Bill, just described, that's easier said than done.

And finally, governments should invest more, in collecting more and better data, about

the activity of multinational corporations. A lot of the inquiry in our book, including the limits to our understanding of how global supply chains work, is handicapped by the inadequacy of data, so we are -- think that investing in agencies, like the Bureau of Economic Analysis, and their counterparts around the world, is essential, if we're going to formulate policies, that are based on evidence, rather than supposition or rhetoric.

So, with that, I'd like to thank, Jim and Fritz for being such excellent partners, on this long project. We really have only dipped our toe in this -- in the wealth of information in the book. As I said, you can get the book online, or where ever books are sold. And, we put a summary of the book on our website, which I encourage you to read. I thank you, for those of you, who asked questions.

I apologize, if we didn't get to all of them. But this is a conversation, that I think will continue. So, with that, again thanks for joining us, and we'll put the video on YouTube and on the Brookings website, so you can watch it all over again, if you like. Thank you.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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