Easy to see why US jobs move overseas

by Phyllis_Schlafly

Why do U.S. companies relocate their plants overseas, thereby abolishing U.S. jobs?

a. They can hire workers at very low wages (such as 30 cents an hour in China).

b. The companies don't have to pay any employee benefits.

c. They don't have to comply with safety and environmental regulations.

d. They don't have to pay foreign taxes when they export their products back to us.

The correct answer is all of the above. The United States cannot require foreign governments to impose a minimum wage or safety regulations, or pay employee benefits. But the U.S. can and should do something about (d), the huge tax-rebate racket that lures U.S. companies to lay off American workers and set up shop in foreign countries.

Corporations located in the United States pay big U.S. corporate income and property taxes. It does a lot for their bottom line when they move to a foreign, tax-free utopia.

Foreign governments also tax corporations, but if the company exports its products to the United States, or other countries, the foreign government rebates (forgives) the tax. That creates an irresistible magnet to attract U.S. companies to transfer their plants to a land where they can avoid most of both countries' taxes.

It's no wonder that DaimlerChrysler AG will soon start building cars in China to ship back and sell in the United States under Chrysler names such as Dodge and Jeep. This decision means that 11,000 manufacturing jobs and 2,000 white-collar jobs will be eliminated over the next 24 months.

The suburban utility vehicle assembly plant in Newark, Del., will be closed. The Warren, Mich., truck plant and the St. Louis County, Mo., assembly plants will each lose one of two shifts.

The combination of avoiding U.S. corporate taxes and having Chinese taxes rebated (forgiven) will help DaimlerChrysler AG to sell new cars in the United States much cheaper than any it can manufacture in Detroit.

This should be prohibited because it is a huge subsidy, but world trade agreements have peculiarly defined subsidy to exclude tax rebates to exporters by calling it a rebate of the value-added tax. They get by with this subterfuge because that term is not understood by most Americans.

One way the United States is different from nearly all other countries is its system of taxation. The United States imposes taxes on income. We pay taxes on what we earn. Whereas 157 other countries impose taxes on consumption. They pay taxes on what they buy and call them value-added taxes, or VAT. The VAT system not only operates as a bribe to induce U.S. plants to move overseas, but it also operates to prevent U.S. products from being competitively sold in foreign countries. Here is how it works.

When a U.S. product, such as an automobile, arrives at another country's port, the foreign government slaps on a VAT import tax that is a percentage of the price of the U.S. product, the transportation cost to get it to the foreign country, and the tariff that the foreign country charges.

For 40 years, the United States has been signing trade agreements that were supposed to reduce or eliminate tariffs and thereby promote free trade. European countries sanctimoniously proclaim that they are reducing their tariffs, but in fact they replaced their tariffs with a steadily increasing VAT.

In 1968, the average tariff rate collected by European Union countries was 10.4 percent, and the average VAT rate was 13.44 percent, making a trade barrier against U.S. goods of 23.84 percent. By 2006, the average tariff rate declined to 4.4 percent, but the average VAT rate climbed to 19.36 percent, making the trade barrier against U.S. products 23.76 percent.

Foreign countries substituted high VAT rates for high tariff rates, thereby maintaining their border barriers against competition from U.S. goods. The result is that most foreign countries still have de facto tariffs against U.S. goods that are as high or higher than their tariffs of 40 years ago.

Of course, this is flagrantly contrary to the announced goal of free-trade agreements. But don't look for any relief from the World Trade Organization because the WTO consistently rules against the United States.

Foreign governmental use of the VAT has inflicted U.S. industry with monumental costs, increasing every year, and reaching $327 billion in 2006. That's the sum of the VAT rebates paid to companies that ship foreign-made products to the United States, plus the VAT paid by U.S. companies for the privilege of selling their products in foreign countries.

The current system is not the result of the free market or free trade, but the failure of our government to expose and counter the dishonest practices of U.S. trading partners. After 40 years of tolerating this rip-off, it is time for national leaders to demand a new strategy and a level playing field.

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