



Written by [Jack Kenny](#) on July 28, 2014

Obama Talks “Economic Patriotism” and “Corporate Deserters”

President Obama returned to his theme of “economic patriotism” last week, invoking the phrase “corporate deserters” to describe multinational companies that use mergers with overseas firms to reduce their tax liability in the United States.



“It’s legal, but it’s not right,” Obama said Thursday in an outdoor speech at the Los Angeles Trade-Technical College. The appearance came at the end of a California campaign trip in which the president spoke at fundraisers for this year’s Democratic candidates in congressional elections.

“They’re technically renouncing their U.S. citizenship,” he said of the companies. “They’re declaring they are based someplace else even though most of their operations are here. You know, some people are calling these companies corporate deserters.”

Obama is calling for congressional action against a process called “inversion” by which an overseas subsidiary legally becomes the parent company. Under current tax law, when a U.S. corporation acquires and merges with an overseas firm, the parent company may claim the overseas address as its corporate headquarters, so long as the foreign company owns at least 20 percent of the combined stock. In his 2015 budget, Obama has proposed raising that to 50 percent. A White House blog notes that the acquired company is “usually one that’s in a country with a lower tax rate than the United States.” It does not mention that countries with a lower tax rate include every other country in the industrialized world, since none has a corporate tax rate as high as the 35 percent levy against U.S. companies. While many large corporations are able to mitigate that cost through deductions, tax shelters, and other “loopholes” in federal tax law, many states also tax corporate income, pushing the effective tax rate above that 35-percent mark, according to the Washington, D.C.-based [Tax Foundation](#).

Last week Treasury Secretary Jack Lew called on Congress to discourage companies from shifting their corporate residences to avoid U.S. taxes. “Congress should enact legislation immediately,” Lew told a business conference in New York hosted by cable television channel CNBC. “We should have some economic patriotism here.” Republicans and some Democrats say the issue should be considered as part of an overall tax reform that will include lowering of the corporate tax rate.

“I don’t think trying to do something that might be patchwork or put together haphazardly is the way to deal with this,” said Rep. Charles Boustany of Louisiana, a senior Republican on the House Ways and Means Committee. “The fact of the matter is that our tax code has made U.S. companies relatively less competitive.” Bloomberg reported Friday that at least four Democrats on the Senate Finance Committee — Tom Carper of Delaware, Michael Bennet of Colorado, Mark Warner of Virginia, and Bob Casey of Pennsylvania — all declined to back a stand-alone retroactive tax bill to limit inversions.

“Do we get something done on this now?” Casey asked in an interview with Reuters, “or do we make it



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part of tax reform overall, which I hope we can begin to address as soon as the election is over.” But Senate Majority Leader Harry Reid called inversion a “corporate citizenship scam” in a Senate floor speech Wednesday and backed Lew’s call for immediate action.

“If we don’t do something about inversion, there will be nothing to do tax reform on,” the Nevada Democrat told reporters.

Democrats have been sounding the inversion alarm since May when the pharmaceutical giant Pfizer made an unsuccessful effort to merge with AstraZeneca, a British competitor. Last week, Dick Durbin, the Senate’s second-ranking Democrat, called the pharmaceutical company AbbVie in his home state of an Illinois a “corporate ingrate” for setting up the largest inversion ever with a nearly \$55 billion acquisition of an Irish competitor. U.S. pharmaceutical companies have grown rich with the help of research funded by the National Institutes of Health, legal protection from the U.S. Patent Office, and approvals by the Food and Drug Administration, the Illinois Democrat said. Durbin has also written to Walgreen’s president and CEO Gregory Wasson, asking that the company reconsider inversion plans with Swedish health and beauty retailer Allied Boots.

“I believe you will find that your customers are deeply patriotic and will not support Walgreen’s decision to turn its back on the United States,” Durbin wrote. Walgreens spokesman Michael Polzin told the Associated Press the company is evaluating its plans with the intent to “do what is in the best long-term interests of our customers, employees and stockholders.”

A total of 47 U.S.-based companies have merged with or acquired foreign businesses over the past decade through inversions, according to the Congressional Research Service. While Republicans have argued that the high corporate tax rate and the administration’s energy and environmental regulatory policies have contributed to the flight of capital, jobs, and tax revenue to overseas locations, Obama claimed “evasive” tax practices of large corporations are undermining America’s progress.

“It damages the country’s finances,” he told the crowd in Los Angeles. “It adds to the deficit. It makes it harder to invest in things like job training that help keep America growing. It sticks you with the tab to make up for what they’re stashing offshore through their evasive tax policies.”

“Economic patriotism” has been a recurring theme during the Obama presidency and during his two campaigns for election. His 2012 campaign used the phrase in TV ads and produced a glossy, 20-page brochure, called *The New Economic Patriotism: A Plan for Jobs and Middle Class Security*. “We could do so much more if we just rallied around an economic patriotism, a sense that our job is to get things done as one nation and as one people,” the president said again at the Georgetown Waterfront in Washington on July 1, invoking “economic patriotism” four times in a 16-minute speech.

Obama contends that companies would be more patriotic if they were willing to pay more in taxes in order to become more dependent on the federal government for things such as job training programs. Job training is among the myriad things government does that should be left to the private sector. Guaranteeing loans through the Export-Import bank is another. The Constitution grants to Congress the power to “regulate Commerce with foreign Nations and among the several States,” not to provide the capital or run the businesses. Obama’s justification in 2009 of the bipartisan Troubled Asset Relief Program to bail out banks and investment companies shows just how far the term “regulate” may be stretched:

Now, I don’t agree with some of the ways the TARP program was managed, but I do agree with the broader rationale that we must provide banks with the capital and the confidence necessary to start



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lending again. That is the purpose of the stress tests that will soon tell us how much additional capital will be needed to support lending at our largest banks. Ideally, these needs will be met by private investors. But where this is not possible, and banks require substantial additional resources from the government, we will hold accountable those responsible, force the necessary adjustments, provide the support to clean up their balance sheets, and assure the continuity of a strong, viable institution that can serve our people and our economy.”

In other words “We” will run the banks.

“You shouldn’t get to call yourself an American company only when you want a handout from American taxpayers,” the president said. Yet Obama boasts of government bailouts of failed banks and auto companies and has been quite generous in offering one “handout” after another to companies promoting “green” technologies. Solyndra, the solar panel company that received \$535 million in Department of Energy loans and then went bankrupt, is but one of [several examples](#). Obama has “invested” public funds by putting them behind risky corporate ventures, while [inveighing against “corporate welfare”](#) for companies that play by the rules both Democratic and Republican Congresses have set in writing and rewriting a vast and enormously complex tax code. The repeated calls for “economic patriotism” suggest the nation’s economic and fiscal woes have arisen and persist because our government collects too little in taxes rather than spends too much to multiply bureaucracies and enhance the reputations of political incumbents.

Obama administration officials told reporters Friday the reform the president proposed in his 2015 budget would save \$17 billion lost to inversion over a 10-year period, or an average of \$1.7 billion a year. That’s less than one half of one percent of what Obama proposes to spend in the next fiscal year. An administration unwilling to cut one half of one percent from a \$3.9 trillion budget can’t be too concerned about taxpayers allegedly burdened by what companies save through inversions.

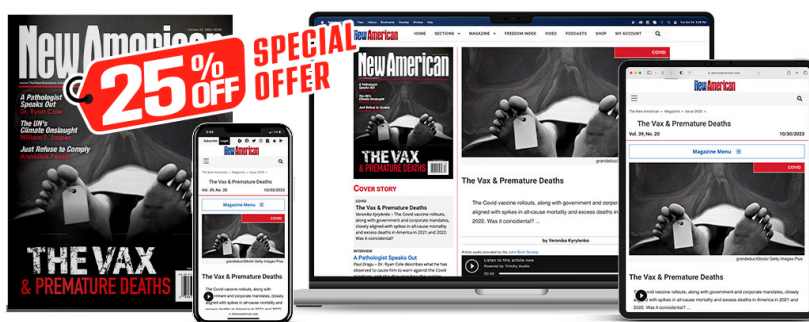


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