The dangerous protectionism of Barack Obama

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Barack Obama, the likely Democratic presidential candidate, has proposed tax breaks for US corporations that invest at home rather than abroad. This column argues that his proposal is protectionist, reactionary, and economically unsound.

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Senator Barack Obama's campaign has been long on slogans and mood music but short on concrete proposals and policies. However, on 2 Aug 2007, along with Senators Dick Durbin and Sherrod Brown and Representative Jan Schakowsky, Obama introduced the yet unpassed Patriot Employer Act. On 13 February 2008, he stopped in Janesville, Wisconsin to give a speech extolling this accomplishment. Janesville was an ideal place to peddle his protectionist legislative initiative: the Janesville Assembly Plant of General Motors is the largest employer in town. This bit of political pandering no doubt contributed to his endorsement on 20 February by the Teamsters Union.

Of course Sen. Hilary Clinton has been no better in her shameless attempts to snare the funding and get-out-the-vote machine of organised labour. Bill Clinton's greatest achievement as President was his remarkable and unstinting support for a liberal international economic order. As candidate for the Democratic nomination, Hilary Clinton proposes to destroy her husband's one great legacy for the United States and the world. As Obama's populist co-sponsor Sherrod Brown said admiringly, 'Hillary's clearly moved way away from the old Clinton position.' Hilary Clinton, however, now appears unlikely to win the Democratic nomination, so we focus on Barack Obama's position.

The Patriot Employer Act

If the Patriot Employer Act proposal is anything to go by, we are in trouble if Obama wins. The legislation would provide a tax credit equal to one percent of taxable income to employers who fulfill the following conditions:

- First, employers must not decrease their ratio of full-time workers in the United States to full-time workers outside the United States and they must maintain corporate headquarters in the United States if the company has ever been headquartered there.
- Second, they must pay a minimum hourly wage sufficient to keep a family of three out of poverty: at least $7.80 per hour.
- Third, they must provide a defined benefit retirement plan or a defined contribution retirement plan that fully matches at least five percent of each worker's contribution.
- Fourth, they must pay at least sixty percent of each worker's health care premiums.
- Fifth, they must pay the difference between a worker's regular salary and military salary and continue the health insurance for all National Guard and Reserve employees who are called for active duty.
- Sixth, they must maintain neutrality in employee organising campaigns.

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Only the last of these conditions does not raise serious issues. In a free society, any worker should be able to join the union of his or her choice or not join.

The first restriction is distortionary. Companies ought to decide the location of their headquarters and their domestic and foreign employment levels without being subjected to fiscal incentives. It is also unenforceable. Foreign branches of domestic companies, whose workers count as employees of the parent, would be changed to subsidiaries, whose workers no longer count as employees of the parent. Companies ever headquartered in the United States would be sold to shell companies or shut down and immediately reopened with a different name and legal identity, headquartered abroad. Let Commerce Department lawyers try to use corporate DNA fingerprinting to determine the ancestry of these new corporations! Unfortunately, idiotic legislation that is unenforceable is not harmless – it breeds contempt for laws and institutions.

While requirement two is less damaging than raising the Federal minimum hourly wage (currently $5.85) to $7.80, Sen. Obama ought to realise that the natural response of firms to higher wages is to hire less labour and, even with a tax credit equal to one percent of taxable income, not every employer in the United States can provide these subsidies and still make enough of a profit to stay in business. The least skilled workers -- those who would be hired at a wage of, say, $6.50 an hour and who would be out of work when the wage is $7.80 -- are likely to find the passage of this act to be just another example of a (possibly) well-intentioned Democratic proposal unintentionally benefiting those not too badly off at the expense of the truly badly off.

The employers' contributions to employee retirement plans, mentioned in the third requirement, are a cost of employment as much as wages are and the above discussion applies. Moreover, requirement three does little to correct problems associated with retirement plans. Any real solution must make the investment and management of retirement plans independent of the employer. This ensures portability and stops employers from raiding them. A demise of the corporate defined-benefit pension fund would be a small loss. Companies do not have the expected life span or employee base to run proper defined benefit pension funds; the government is the natural agent to do this, through the (unfunded) Social Security retirement scheme. In addition, defined benefit plans are not always required to be fully funded at all times and part of these costs can be deferred. This has led to such pension fund liabilities being 'forgotten', hidden, or not viewed as debt at all: consider the plans of the US automobile industry or the remnants of the US steel industry.

Similarly, employers' contributions to employee health care costs are also a cost of employment. However, tax incentives, current or proposed, that link health insurance with being employed rather than with being alive, are distortionary and unfair. It discourages labour mobility and transfers income away from the self employed, the unemployed and the inactive.

Requirement five is a wonderful example of a policy that would end up hurting those it is intended to protect. It would create a strong incentive for companies *not* to hire any new employees who are National Guard or Reserve employees, and to fire any they already employ! If society deems it desirable that serving in the National Guard or Reserve not involve any loss of salary or benefits for the Guard member and his or her family, then *society* should pay for it, with general tax revenues.

Patriotism and Protectionism

The Patriot Employer Act is at least *intended* to help organised labour. Sen. Obama spends less time talking about those it will actively hurt. The cost will be borne by those who would not lose their jobs or see their US dollar wages fall in the face of foreign competition. These people – nurses, teachers, the unemployed and people living on social security, for example – lose out when restricting trade raises the price of consumer goods and cuts their real wages or the real value of their cash benefits.

The Patriot Employer Act seeks to transfer wealth from the truly downtrodden of the world to a limited number of favoured US workers: mainly those in once dominant manufacturing industries that have lost their global competitive edge. It is breathtaking hypocrisy to object to the often appalling conditions of work and employment in developing countries and emerging markets, including sweatshops and child labour, while at the same time trying to prevent the operation of the normal and effective mechanisms for remedying these deplorable circumstances: foreign direct investment, outsourcing, off-shoring and all other manifestations of free trade.

Sen. Barack Obama's proposal is reactionary, populist, xenophobic and just plain silly. It is time for him to stop pandering and to show the world that hope and reason are not mutually exclusive. Instead of increased protectionism, the United States might increase its competitiveness by sensible investments in infrastructure and education. Much of the US infrastructure is old and inadequate following decades of bipartisan neglect; it serves as an obstacle to the ability of the United States to respond and adapt to change. It should not take the collapse of more than one major bridge in a large US city to spur increased investment. The quality of primary and secondary education in the US has fallen behind the level provided by most other industrial countries and is even threatened to be eclipsed by levels in quite a number of emerging market nations. The best American universities are still the best in the world. But, in America they are islands of excellence in a sea of mediocrity. China, India, Vietnam, Brazil, Thailand, Bangladesh and Indonesia are a reality. The United States must adapt and invest or face extinction.

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