DEMOS

Volume 1 Article 8

2018

Over There

Evangeline Bero
Lake Forest College

OVER THERE

Evangeline Bero

Lake Forest College
Class of 2020

This essay was originally submitted to POLS 110: Introductionto Global Politics with Dr. Gent Carrabregu on November 30, 2016. The topic of this essay is U.S Multinational Corporations and was written using knowledge from ECON 110 and of Political Economy theories.

American citizens have been well acquainted with concepts like offshoring and overseas investment, especially now as America may be witnessing, first hand, the dissolution of manufacturing jobs, which are also known as impersonal, non-service occupations (Blinder 2006, p. 120). Recently, America elected a populous president to take office in January of 2017. Campaign season saw promises of bringing these non-service occupations, most of which have been exported to other countries, back to America. I plan to explain how, under the proposals president-elect of the United States, Donald Trump, has offered, offshoring and the expansion of U.S. Multinational Corporations will become more common in the next four years because of interest rates and investment, tax breaks and tariffs, and the Trump Company's overseas interests.

Within the last few weeks, the United States dollar has seen appreciation and interest has increased. Both factors have the potential to deeply wound American business domestically, partly because of the lack of confidence in the American debt. This lack of confidence stems from the president-elect's plan to increase infrastructure spending while cutting taxes, making the debt rise dramatically (Gillespie 2016). It is this insufficient trust in a stable American debt that lowers bond prices and lower bond prices happen to raise the interest rate. People are less likely to invest in American bonds when there is a high interest rate and high cost of borrowing. Demand for money creates higher interest rates as well (Investopedia 2018). This demand was created by a stronger economy as well as a reliable currency in the United States (Gillespie 2015). This increased demand in the dollar will raise the price of the USD, making goods made in the United States look less attractive to foreigners due to their more expensive nature (Gillespie 2016). Foreign goods will also look more popular to Americans because of the increased buying power of the currency. Ultimately, the high interest rate discourages investors, domestic or foreign. Instead, investors will provide capital for businesses where interest rates are cheaper and the cost of borrowing is not so high. This means than investors or corporations will be turning to other countries where that risk is lesser. At the same time, exports will be too expensive to foreign buyers because of the value of the USD, hurting manufacturers and other producers in America (Gillespie 2016). To compensate for this, companies will answer with layoffs and cutting costs (Tully 2016), maybe by moving somewhere with a cheaper labor force, cheaper taxes, and lesser interest rates. In short, offshoring will become a more popular solution to the high cost of investment and goods in America. For this reason, companies will move offices or factories to other countries to give themselves the ability to compete against the other companies that are producing the cheap foreign goods Americans will be buying.

Furthermore, multinational corporations will benefit from possible tax breaks, but may suffer from the implementation of tariffs. Currently, there is a law that permits U.S. companies to keep foreign revenue overseas and not pay the corporate tax until that revenue is brought into the country (Morgan 2016). Republicans are looking at creating a corporate tax cut that moves from the current thirty-five percent down to twenty or even fifteen percent. An article from Reuters reported that republicans also promote "…forc[ing] multinationals to repatriate existing foreign earnings and adopt a 'territorial' system that would largely end taxation of U.S. companies' foreign income" (Morgan 2016). Decreasing the taxes on these multinational corporations will naturally leave them more revenue and thus more of a means to expand. Logically, this plan will reduce government revenues by

Published by Lake Forest College Publications, 2018

a large sum. This has the possibility to create even less confidence in the American debt and aggravate much of what was addressed in the paragraph above, including the interest rate, a loss of investment, and the desirability of offshoring jobs. Equally important is President-elect Trump's promise to pass an act titled "End Offshoring." This is a plan to levy tariffs to discourage companies from offshoring jobs (Kelly and Sprunt 2016). This would mean higher import prices and, consequently, a greater cost of goods. Businesses will, in the short term, see returns, but, in the long term they "…may see a decline in efficiency due to a lack of competition, and may also see a reduction in profits due to the emergence of substitutes for their products" (Radcliffe 2015). Regardless of short term benefits, there is a legitimate concern over how imposing tariffs for offshoring could cause a trade war and put people out of a job (Qiu 2016). While multinational corporations are looking at a possible tax deduction, they are also looking at tariffs that are anywhere from twenty to forty-five percent (Qiu 2016).

Mercantilists believe that politics determines economics and while interests may coincide between the government and corporate elites, this is not always the case. Conflict may arise between the government elite and the corporate elite (Gilpin 1976, p. 185). This happens to be a theory I agree with wholeheartedly. Presently, there is a worry about how President elect Trump will lead America as he manages his current real estate empire and investments, especially those in foreign countries. In short, he may have a conflict of interests. There are some who are calling attention to the Emoluments Clause of the U.S. constitution and claiming Donald Trump's overseas investments as a violation of it (Henning 2016). A real concern has come up that politics and business will not be kept separate, and, ultimately, politics will be determined by the potential economic profit of President elect Trump's multinational corporation (Sorkin 2016). Interests between the governmental and corporate elites, while typically conflictual, may harmonize more under a Trump administration. This could create a precedent where multinational corporations and politics are more closely related. Bringing the government elite and corporate elite closer together could lessen the conflict between them. The Marxist theory of Political Economy would then better suit this new situation and economics will determine politics while there is harmony between the governmental and corporate elites (Gilpin 1976, p. 185). The MNC then has the potential to become a large political bargaining chip and its expansion and well-being will take precedence in areas where they employ a large fraction of the citizens.

In the year and a half since this was written, the Federal Reserve has risen the interest rate from one and a half percent to one and three-quarters percent, the highest level since the financial crisis in 2007-2009 (Long 2018); President Trump has proposed tariffs on around sixty billion worth of Chinese products (Buckley & Wee 2018); and the Trump Organization is looking at deals in other countries, including India, possibly mixing foreign policy and business (Northam 2018). Additionally, the corporate tax rate was slashed from thirty percent to twenty-one percent by the recent GOP tax bill, and while the bill will force companies to bring their overseas money home, where it will be taxed eight to fifteen percent, American companies will not owe full corporate taxes on their future overseas profits any longer (Drucker & Rappeport 2017). Yet it was recently reported that long-term government bond yeilds "topped 3% for the first time in more than four years," signifying confidence in a stable economic growth (Kruger 2018). It could be assumed from recent events that the interests of political elites and corporate elites coincide while the Trump Administration is in the Oval Office.

References

Blinder, A. S. (2006). Offshoring: the next industrial revolution?. *Foreign affairs*, 113-128.

Buckley, C. and Sui-Lee Wee (2018, March 22). Responding to Trump, China Plans New Tariffs on U.S. Goods. *The New York Times*. Retrieved from https://www.nytimes.com/2018/03/22/world/asia/china-trump-retaliatory-tariffs.html

Drucker, J. and Alan Rappeport (2017, December 16). The Tax Bill's Winners and Losers. *The New York Times*. Retrieved from https://www.nytimes.com/2017/12/16/business/the-winners-and-losers-in-the-tax-bill.html

Gillespie, P. (2016, November 28). 2 Powerful Market Forces Could Hurt Trump's Plans. *CNNMoney*. Cable News Network. Retrieved from http://money.cnn.com/2016/11/28/news/economy/dollar-interest-rates-markets-trump/index.html

Gillespie, P. (2015, March 16). This Is the U.S. Dollar's Fastest Rise in 40 Years. *CNNMoney*. Cable News Network. Retrieved from http://money.cnn.com/2015/03/16/investing/us-dollar-fastest-rise-40-years/index.html

Gilpin, R. (1976). The political economy of the multinational corporation: three contrasting perspectives. *American Political Science Review*, 70(1), 184-191.

Henning, P. J. (2016, November 28). Congress May Hold Key to Handling Trump's Conflicts of Interest. *The New York Times*. Retrieved from https://www.nytimes.com/2016/11/28/business/dealbook/congress-may-hold-key-to-handling-trumps-conflicts-of-interest.html

Kelly, A. and Barbara Sprunt (2016, November 9). Here Is What Donald Trump Wants To Do In His First 100 Days. *National Public Radio*. Retrieved from https://www.npr.org/2016/11/09/501451368/here-is-what-donald-trump-wants-to-do-in-his-first-100-days

Krueger, D. (2018, April 24). Yeilds on 10-Year Treasurys Cross 3% Threshold. *Wall Street Journal*. Retrieved from https://www.wsj.com/articles/yields-on-10-year-treasuries-cross-3-threshold-1524577999

Long, H. (2018, March 21). Federal Reserve hikes interest rate to highest level in a decade amid stronger economy. *The Washington Post*. Retrieved from https://www.washingtonpost.com/news/wonk/wp/2018/03/21/federal-reserve-hikes-u-s-interest-rate-to-highest-level-in-a-decade-amid-stronger-economy/?utm_term=.68dc855834d4

Investopedia (2018). Money, Interest, Real GDP, and the Price Level. *Investopedia LLC*. Retrieved from https://www.investopedia.com/exam-guide/cfa-level-1/macroeconomics/supply-demand-money.asp

Morgan, D. (2016, November 11). U.S. Multinationals Eye Foreign Profits Tax Break with Trump Win. *Reuters*. Thomson Reuters. Retrieved from https://www.reuters.com/article/us-usa-election-tax-companies/u-s-multinationals-eye-foreign-profits-tax-break-with-trump-win-idUSKBN1352UK

Northam, J. (2018, January 15). After A Year in Office, Questions About Trump's Foreign Deals Go On. And On. *National Public Radio*. Retrieved from https://www.npr.org/sections/parallels/2018/01/15/577326163/after-a-year-in-office-questions-about-trumps-foreign-deals-go-on-and-on

Radcliffe, B. (2015, December 28). The Basics of Tariffs And Trade Barriers. *Investopedia LLC*. Retrieved from https://www.investopedia.com/articles/economics/08/tariff-trade-barrier-basics.asp

Qiu, L. (2016, November 10). Donald Trump's campaign promises for the first 100 days. *PolitiFact*. Times Publishing Company. Retrieved from http://www.politifact.com/truth-o-meter/article/2016/nov/10/donald-trumps-campaign-promises-first-100-days/

Sorkin, A. R. (28 Nov. 2016). Dear President-Elect Trump: Here's How to Fix Your Conflict-of-Interest Problem. *The New York Times*. Retrieved from https://www.nytimes.com/2016/11/28/business/dealbook/how-trump-could-ease-his-conflict-of-interest-problem.html

Tully, S. (2016, July 19). How a Spike in the Value of the Dollar Is Hurting the U.S. Economy. *Fortune*. Time Inc. Retrieved from http://fortune.com/2016/07/20/value-us-dollar-economy/

How to cite this journal article:

Bero, E. (2018, April). Over There. *Demos 1*, 44-46.

Find the online version at:

https://publications.lakeforest.edu/demos/vol1/8/