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# A $545 Billion Private Stimulus Plan

*Let's bring home foreign earnings without tax penalty.*

By ALLEN SINAI

The U.S. economy has entered the second year of a deepening recession -- a downward spiral fueled significantly by severe limits on liquidity and credit.

Sales and earnings of businesses large and small are falling sharply, and companies desperately need cash to operate. For many, access to capital and credit is either nonexistent or prohibitively expensive. This is why the Federal Reserve has become a lender-of-last-resort for the private sector, rather than just performing its traditional role of lender-of-last-resort to banks. It's also why Congress is considering a stimulus package that will cost taxpayers more than $800 billion, in addition to the $700 billion Troubled Asset Relief Program established this past fall. And, with a cyclical downturn in tax receipts and substantial rises in federal government entitlements, the federal budget deficit will likely exceed $1 trillion this year.

In light of this, the Obama team should implement a private-sector funded stimulus and allow a temporary reduction in the 35% tax rate that U.S. companies pay to repatriate foreign subsidiary earnings. Doing so could inject more than $545 billion into the U.S. economy without expanding the deficit.

Driven by previously strong foreign economies and a low dollar, the foreign subsidiaries of many successful U.S.-based companies have generated substantial earnings that could be invested in the U.S. economy at virtually no cost to the federal government. These earnings reside overseas, however, because of U.S. tax laws that many foreign competitors do not face.

Under the current system, U.S. corporations are charged 35 cents for each foreign-earned dollar they bring back home to the U.S. If they keep that income overseas, it is taxed at lower rates. As a result, those dollars tend to stay overseas permanently, since companies know they will automatically lose more money by bringing that income home than they can reasonably expect to make by reinvesting it once it is here.

Indeed, these investments would have to yield more than 50% to make the venture profitable. This puts U.S. companies at a disadvantage vis-à-vis their foreign competitors, which are free to bring U.S.-generated income back into their home economies without facing such penalties.

In order to motivate businesses to bring this money back to the U.S., the new administration and Congress should consider legislation similar to a bipartisan 2004 law, The American Jobs Creation Act. This law incentivized U.S. businesses to bring $360 billion of foreign subsidiary earnings back into the U.S. at a reduced corporate tax rate of 5.25% for one year. A survey of several hundred of these companies found that they used, on average, 25% of those funds for U.S. capital investment, 23% for hiring and training of U.S. employees, 14% for U.S.-based R&D, and 13% for U.S. debt reduction.

A similar opportunity exists now as then, with an even greater need today. A new study by Decision Economics Inc., concludes that lowering the tax on repatriating foreign-earned income would inject $545 billion into our economy.

The injection of these funds into this credit-constrained environment could supplement, or substitute for, credit. In turn, this would alleviate companies' reliance on commercial paper, bonds, stock and the federal government.

This measure would also stimulate real economic activity (an additional $110 billion in real GDP in 2010); increase capital expenditures including R improve business financial conditions; and, with lags, produce more jobs (net increase of 614,000 in 2011).

The study also indicates that the U.S. Treasury would receive tax revenue it would not otherwise get: an average of $28 billion per year for five years. The resulting increase in aggregate economic activity -- higher personal income, corporate profits, capital gains, Social Security and excise taxes paid -- would generate even more tax receipts. State governments would also see some increase in revenues.

A private-sector stimulus could be a win-win for government and U.S. businesses, without further straining an already overextended Federal Reserve balance sheet.

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