But, but, people invest in order to get their profits back in their own pockets! [1]

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The US has a high corporation tax rate. The US also doesn't charge that tax to profits made outside the US and kept outside the US. Therefore, obviously, US corporations keep the profits they make outside the US outside the US. You know, that first great secret of economics, incentives matter?

Back a few years a temporary solution was suggestedL bring back the profits and we'll charge you only a teensie rate: many did. Again, incentives matter. Now there's vast mountains of money sitting offshore and perhaps that low tax trick might be tried again. Mebbe: but a common argument against it is the following [3]:

> ABSTRACT: This paper analyzes the impact of the Homeland Investment Act of 2004, which provided a one-time tax holiday for the repatriation of foreign earnings and thereby reduced the cost to U.S. multinationals of accessing a source of internal capital. Lawmakers and lobbyists justified its passage by arguing that it would alleviate financial constraints. This paper?s results indicate that repatriations did not lead to an increase in domestic investment, domestic employment or R&D?even for the firms that appeared to be financially constrained or lobbied for the holiday. Instead, estimates indicate that a $1 increase in repatriations was associated with a $0.60-$0.92 increase in payouts to shareholders?despite regulations stating that such expenditures were not a permitted use of repatriations qualifying for the tax holiday. The results indicate that U.S. multinationals were not financially constrained and were reasonably well-governed. The fungibility of money appears to have undermined the effectiveness of the regulations.

Note that this is used as an argument *against* the tax holiday, not in favour of it. when obviously it's an argument in favour of it.

The basic error is to think that investment is something only done by companies with the money that they have internally: thus the shock at the idea that shareholders might get some of their own money back. When in fact, all the really important investment in hte economy is actually done by individuals in new businesses: not by old ones ploughing back in their profits.

No, obviously, the amount of new investment is very much smaller than the amount of reinvestment. But that's not what I mean. The things that really change economies, that bring in the new disruptive technologies, are the entry and exit from the marketplace of firms. Which by definition means the creation of new firms able to do the entering (and exit of those going bust of course). And who are the people most likely to invest in a business from the outside? Clearly, those who have already shown that they will do so by virtue of the fact that they hold equity in a business or two.

At present there's some vast amount of money offshore in those corporations. $1.2 trillion, $1.7, estimates vary. Assuming that it is a good idea that this money leaves the Bahamas or wherever and gets injected into the US economy (which I think it probably is) then this argument about dividends is piffle. The very fact that it is likely to be paid out in dividends is the very reason why it's a good idea. For putting it into the

hands of investors increases the chances that it will be invested in new businesses: the long run lifeblood of economic growth.

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