COMMENT: Outsourcing is good for America

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US-based Heinz - with the famous 57 varieties - has 57 plants outside North America, according to its Securities and Exchange Commission filing. The management of Heinz obviously believes these operations serve shareholders' interests by boosting the value of its brands. Studies of multinational companies suggest this strategy not only raises the value of brands but also boosts the wealth of (mostly American) shareholders and promotes high-wage administrative and research jobs at home.

Oddly, John Kerry, the presumptive Democratic presidential nominee (and husband of Theresa Heinz Kerry), has outlined an objective of raising taxes on overseas investment by US companies. One supposes this policy shift is to keep "Benedict Arnold CEOs" from exporting US jobs. Such fulminations reveal the senator's misunderstanding of the business of multinationals and of the role of "offshoring" in the US labor market.

Multinationals such as Heinz - symbols of US industry with powerful brands - produce abroad largely to serve foreign markets. Their choice is less about producing "here" versus "there" than "there or not".

While details of the Kerry economic plan are sparse, he may be assailing the foreign tax credit (a traditional target of US trade unions) which is designed to mitigate double-taxation of US overseas earnings. Or he may be attacking US multinationals' ability to defer taxes on overseas income until those funds are repatriated. Recent work by Michael Devereux of the University of Warwick and me suggests that this longstanding policy, sometimes hailed as a tax subsidy for investing abroad, enhances US national well-being by raising the brand value of US companies. In contrast to Mr Kerry, President George W. Bush has urged Congress to modify the current tax system to enhance US competitiveness in global markets.

The second Kerry misperception is that offshoring of US workers by "traitorous" chief executives is responsible for US job losses. Offshoring is the global cousin of outsourcing, a feature of US labor and industrial flexibility for decades. Rants about offshoring are the top of a slippery slope towards (wrongly) condemning overseas operations and even trade itself.

Moreover, the facts are more subtle than such fuzzy accusations allow. Companies such as General Electric or IBM *gain* many jobs - again, higher-paying headquarters and research jobs - in the US by adding jobs in other countries. Those jobs outside the US, meanwhile, both secure market access for goods produced by US companies and increase global demand for those goods by reducing production costs.

The offshoring of personal computer equipment provides a case in point. The resulting lower costs of PCs have helped increase industry's demand for information technology. That, in turn, has driven demand for software writers and other technology professionals - in the US.

Turning to data, a recent study by Gordon Hanson and Matthew Slaughter, the economists, shows that overseas and home employment by US multinationals complement each other overall, although there are distributional effects (more high-paying jobs, but fewer low-skilled jobs at home.)

The decline in US manufacturing employment is explained by rapid growth in manufacturing productivity over the past 50 years. This structural change has not been about replacing "good jobs" with "bad jobs". The industries with the biggest employment gains in the past 50 years have been those with relatively highly skilled - and highly paid - jobs.

Mr Kerry's economic isolationism misses the significance of "insourcing" in the US, with 6.4m workers - including well-paid Honda and Mercedes-Benz workers in the motor industry - employed by foreign companies. This highlights the idea that multinationals' operations are not so much about a drive for the lowest labor costs but about access to markets, resources and skills. Indeed, the relocation by Novartis of its worldwide research and development facility to Mr Kerry's backyard in Cambridge, Massachusetts - with an initial 400 jobs set to grow to 1,000 in the next few years - is an example.

That Mr Kerry's attacks on US business are misplaced does not mean that policy should stand on the sidelines. US workers deserve assistance in training and education, as Mr Bush's proposal for "personal re-employment accounts" would suggest. And, as Mr Bush has observed, US businesses are rendered less competitive by the high costs of corporate taxation, litigation and health care in the US.

So, three cheers for the Heinz 57. Heinz ketchup famously comes out of the bottle slowly at first, but then flows quickly. Mr Kerry's ideas for economic isolationism deserve serious study before they are too far out of the bottle.

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