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WORKING PAPER SERIES

# Tax Avoidance: American Participation in Unsanctioned International Boycotts

by

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**LEADING IN THOUGHT AND ACTION**

**No. 97-3**

**TAXED AVOIDANCE:  
AMERICAN PARTICIPATION IN  
UNSANCTIONED INTERNATIONAL  
BOYCOTTS IN OPEN ECONOMIES**

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October, 1997

I thank Daniel Silverman for excellent research assistance, Mihir Desai, Kathryn Dominguez, Jeffrey Liebman, Joel Slemrod, and Shang-Jin Wei for helpful comments on an earlier draft, and the staffs of the League of Arab States and the Office of Antiboycott Compliance of the U.S. Department of Commerce for helpful discussions.

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**ABSTRACT**

American firms are subject to tax and civil penalties for participating in international boycotts (other than those sanctioned by the U.S. government). These penalties apply primarily to American companies that cooperate with the Arab League's boycott of Israel. The effectiveness of U.S. antiboycott legislation is reflected in the fact that American firms comply with only 30 percent of the 10,000 boycott requests they receive annually. The cross-sectional pattern is informative: the U.S. tax penalty for boycott participation is an increasing function of foreign tax rates, and reported compliance rates vary inversely with tax rates. Tax rate differences of 10 percent are associated with 6 percent differences in rates of compliance with boycott requests. This evidence suggests that U.S. anti-boycott legislation significantly reduces the willingness of American firms to participate in the boycott of Israel, lowering boycott participation rates by as much as 15-30 percent.

JEL Classification: F23, H87, F13.

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## 1. Introduction.

Boycotting an adversary entails the avoidance of commercial relations, such as trade and investment, and is a popular tactic of economic warfare. International boycotts have a long if inglorious history that includes Napoleon's continental system (Heckscher, 1922), the boycott of Megara by Athens in the fifth century B.C. (Kagan, 1969), and numerous modern efforts. Little is known about the extent to which boycotts coerce changes in boycotted countries, nor is it clear to what extent countries are able successfully to combat boycotts.<sup>1</sup>

One of the most visible modern boycotts is the Arab League's boycott of Israel.<sup>2</sup> Firms doing business in participating countries are expected to refrain from doing business in Israel and to avoid commercial relations with other firms and individuals that support Israel. Not all companies are willing to participate in this boycott, though many are. American firms report compliance with 30 percent of the nearly 10,000 annual requests made of them to boycott Israel.<sup>3</sup> One reason that this fraction is not considerably higher is that U.S. law prohibits American firms and individuals from participating in the boycott of Israel.

This paper examines the impact of U.S. anti-boycott legislation enacted in 1976.

During its deliberations over the Tax Reform Act of 1976, Congress became concerned that American

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<sup>1</sup>Hufbauer et al. (1985) draw cautious conclusions from their review of 103 boycotts and other economic sanctions since 1914. Martin (1992, 1993) analyzes the characteristics of economic sanctions that Hufbauer et al. classify as successful, but is likewise unable to draw strong conclusions due to the nonrandom allocation of sanctions. Lundahl (1984) offers a theoretical analysis of the impact of the South Africa boycott, while Fershtman and Gandal (forthcoming) estimate the cost of distortions to the Israeli automobile market from the Arab League boycott.

<sup>2</sup>Other modern boycotts include Iran's boycott of Iraq, the United Nations' boycotts of Rhodesia, Iraq and Libya, Pakistan's boycott of India, and the U.S. boycott of Cuba, Iran, and North Korea.

<sup>3</sup>See data for 1990 reported in Redmiles (1992). Requests to boycott Israel were issued by at least 12 members of the Arab League (Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates, and the Republic of Yemen), as well as others including Bangladesh, Iran, and Pakistan.

firms profiting from their participation in the international boycott of Israel were afforded the same tax benefits available to other U.S. taxpayers. Congress believed that denial of tax benefits could diminish the willingness of American firms to participate in international boycotts, and might even discourage foreign governments from demanding their participation. Consequently, the Tax Reform Act of 1976 penalizes American firms participating in international boycotts (other than those sanctioned by the U.S. government) by denying tax benefits that would otherwise be available to them.<sup>4</sup> The most economically important of the affected boycotts is the Arab League boycott of Israel. The 1976 legislation also requires American firms and individuals to report to the U.S. government any requests they receive from foreign governments to participate in international boycotts, and to report any compliance with boycott requests.<sup>5</sup> Legislation passed in 1977 further strengthens U.S. anti-boycott efforts by authorizing the Commerce Department to impose civil penalties on Americans participating in international boycotts.

The magnitude of the U.S. tax penalty for boycott participation is an increasing function of foreign tax rates. Since the tax rates of the countries that boycott Israel differ, the pattern of U.S. boycott compliance across countries in part reflects the effect of varying U.S. penalties. The evidence indicates that higher foreign tax rates (and therefore higher penalties) are correlated with lower boycott compliance rates. Regression results imply that 10 percent higher tax rates are associated with 6 percent lower rates of compliance with boycott requests.

Section two of the paper reviews the history of the economic boycott of Israel, the U.S. government's response, and the available aggregate evidence on boycott participation by American

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<sup>4</sup>Congressional sentiment is described in United States Congress (1976a, p. 282).

<sup>5</sup>The 1976 Act provides for prison terms of up to one year and fines of up to \$25,000 for failures to comply with boycott reporting requirements. It is noteworthy that penalties for failure to disclose boycott participation to tax authorities may exceed the penalties for boycott participation itself.

firms. Section three analyzes the incentives created by U.S. antiboycott legislation, and compares post-1976 boycott participation rates of American firms in countries with differing tax rates. Section four is the conclusion.

## **2. History and Evidence.**

Of all modern boycotts, the Arab League boycott of Israel is one of the most visible and lasting. Since it is also the boycott of most importance to American firms, and the focus of U.S. antiboycott efforts, this section describes the history of the boycott of Israel and the reaction of the United States.

### **2.1 History**

The League of Arab States was founded in 1944, and its boycott of what is now the state of Israel was institutionalized in 1945, when member countries agreed not to have business dealings with Jewish Palestine or its residents.<sup>6</sup> In the aftermath of the 1948 Mideast war, the boycott was broadened to proscribe dealings with non-Israeli firms and individuals that directly or indirectly support Israel. Foreign firms are understood to support Israel if they locate production plants there (either directly or through subsidiaries), or if they establish partnerships with Israeli firms, but not if they merely export consumer goods to Israel (since the last is thought to have adverse balance of payments consequences). Part of this expanded boycott is an agreement not to do business with firms that trade with others who are considered to be supporters of Israel. For purposes of implementing the

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<sup>6</sup>The original members of the Arab League were Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, Syria, and Yemen. Delegates of Palestinian Arabs also participated in the formation of the League. The League of Arab States now has 22 members. League resolutions are not legally binding on member states, though League members commonly enact national legislation consistent with League guidelines.



expanded boycott, Arab League countries maintain blacklists of firms considered to be Israel supporters. Government agencies in boycotting countries contact foreign firms doing business there to verify their compliance with the boycott and to threaten removal of business opportunities if boycott conditions are not met.

Since the goal of the boycott is to hinder the economic development of Israel, its expansion to include prohibitions on trading with supporters of Israel has the potential greatly to increase its effectiveness. While members of the Arab League are physically proximate to Israel, their position in the world economy is not sufficiently dominant to inflict egregious harm on Israel simply by cutting off trade. In the absence of active cooperation from non-League countries, the most effective way to implement the boycott is to confront foreign firms with the choice either of doing business with League members or of doing business with Israel.<sup>7</sup> The extension of the boycott to firms doing business with supporters of Israel prevents the boycott from being undermined by the use of intermediaries, and adds to the cost of doing business with Israel.

It is difficult to assess precisely the extent of the boycott organized by the Arab League, due in part to nonuniform degrees of enforcement among boycotting countries. Foreign firms whose actions are found to support the Israeli economy are generally given three months to desist, after which they are placed on the Arab League blacklist and their connections to business activity in League member countries (in principle) severed. Official and unofficial exceptions are commonly made, however, for firms providing League members with valuable goods and services for which there are no ready substitutes.<sup>8</sup> The willingness to make exceptions reflects differences among countries in degrees

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<sup>7</sup>To implement this choice, foreign firms are required to certify that they intend to comply with the boycott prior to undertaking business activities with Arab League countries.

<sup>8</sup>Chill (1976, pp. 32-37) cites numerous examples, as does Sarna (1986, pp. 51-54), who notes the occasional excessiveness of boycott enforcement. See also U.S. Congress (1976a, pp. 37-41) and the communication from Robert J. McCloskey, Assistant Secretary of State for Congressional Relations, to

of commitment to the boycott's goals and in the economic losses they sustain from strict adherence to the boycott. The practice of making exceptions reflects as well the difficulty of controlling agencies charged with enforcing the boycott. At the other end of the spectrum, there are also cases of overzealous enforcement of the boycott.

There is a related, and explosive, issue raised by application of the boycott to certain firms and individuals without regard to their behavior; specifically, the boycott appears at times to be directed at firms with Jewish employees, owners, or directors. The Arab League boycott targets supporters of Israel, including not only foreign firms doing business with Israel but also Zionists, people who advocate the creation and maintenance of a Jewish state in Palestine. Of course not all Jewish people are Zionists and not all Zionists are Jewish, a point readily acknowledged by Arab League protocols.<sup>9</sup> Given the loose character of the boycott, however, the imprecision inherent in identifying supporters of Zionism, and the personal views of some enforcers the boycott, it is not surprising that the distinction between people who are Jewish and those who are Zionists is occasionally lost. In years (after 1976) for which reliable U.S. data are available, there are numerous examples of boycotting countries drawing invidious religious distinctions - though not so many examples to suggest that discrimination against Jewish Americans was universal policy or indeed even uniform policy among any of the boycotting countries.<sup>10</sup> It is difficult to know the extent of such practices in earlier

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Thomas E. Morgan, Chairman of the House International Relations Committee: "The Arab boycott has not been uniformly administered among the participating Arab countries; nor is enforcement uniform even within particular countries. Individual countries observing the boycott have weighed their respective national interests generally and in the context of specific dealings with foreign firms. In many respects, enforcement responsibility is left to importers or to other businessmen in the respective countries." (U.S. Congress, 1976c, p. 30.)

<sup>9</sup>See the evidence cited by Losman (1979, p. 60) and the statement of Mohammed Mahmoud Mahgoub, Commissioner General of the Arab Boycott of Israel (U.S. Congress, 1976a, pp. 85-87).

<sup>10</sup>The U.S. Department of Commerce (1980, p. 21) lists examples of boycott requests made of American firms during April-September 1977, including: six requests for information on the religions

years, though the decades-long (prior to 1975) U.S. Army Corps of Engineers policy of not assigning Jewish personnel to projects in Saudi Arabia suggests the strength and persistence of local sentiment.<sup>11</sup>

American reaction to the boycott developed slowly, due in part to the existence of U.S.-led boycotts against China, Cuba, North Korea, and other countries.<sup>12</sup> While the United States generally supports Israel and opposes efforts to isolate her economically, potential costs of opposing the boycott include not only lost economic opportunities and strained relations with Arab League states, but also encouragement of opposition to U.S.-led boycotts. U.S. foreign policy often relies on the use of American economic muscle to persuade target states to reconsider their policies. The cooperation of occasionally-reluctant allies is extremely important to the success of these efforts.<sup>13</sup> Whereas the

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of staff members of firms interested in performing consulting, engineering, or architectural work for Saudi Arabia; three Syrian invitations to bid stating that contracts would be canceled if the contractor relied upon "suspected persons" or Jewish persons; a Jordanian request requiring an insurance firm to list names, nationalities, and religions of employees to renew its sales license; and a cable relating to registration of a branch in Egypt containing a request for the names and religions of company directors.

In his statement to the House Committee on International Relations, Joseph A. Greenwald, Assistant Secretary of State for Economic and Business Affairs, maintains that "There have been only a handful of discriminatory requests, mainly involving private practices, out of more than 50,000 boycott requests to U.S. firms reported to the Department of Commerce from 1970 through November 1975. As a general rule, we have received assurances that these are unauthorized exceptions and that it is not the policy of the governments applying the boycott of Israel to discriminate in business transactions on the basis of race or religion. High-ranking Arab government representatives have emphasized this with both public and private assurances that religion or creed bears no relationship to the Arab boycott." (U.S. Congress, 1976c, pp. 11-12.)

<sup>11</sup>See the testimony of Col. William L. Durham of the Army Corps of Engineers (U.S. Congress, 1975, p. 207).

<sup>12</sup>Hufbauer et al. (1985) describes the features of U.S.-imposed economic sanctions, many of them boycotts, in 64 separate episodes between 1914 and 1985.

<sup>13</sup>See Steiner (1976) and Lowenfeld (1977) for reviews of U.S. boycotts and tactics of their implementation. Lowenfeld concludes (p. 33) that "The United States has been the Olympic champion in imposing political trade controls: through a combination of persuasion, inducement, and threat of sanction, it has sought and largely secured the cooperation of foreign nations in its programs. And it has utilized many of the same devices used by the Arab League - questionnaires, certificates, and blacklists."

effectiveness of the Arab League boycott rests on its ability to coerce foreign firms, the U.S. boycotts typically rely on participation and enforcement by other countries (who may need to be coerced into joining). The United States has little interest in encouraging opposition to the concept of economic boycotts, a point that various Presidential administrations found sufficiently persuasive to make them resist Congressional pressure to intensify U.S. efforts against the boycott of Israel.

The United States did little to oppose the boycott prior to the mid-1960s. In reaction to constituent pressure, Congress in 1965 entertained legislation to prohibit American cooperation with the boycott. In a compromise with a reluctant executive branch, a 1965 amendment to the Export Control Act required American firms to report to the U.S. Commerce Department information on any requests by foreigners to participate in unsanctioned boycotts. Between 1965 and 1975 these reports were largely uninformative, however, since the Commerce Department required only exporters to report boycott requests, and then only those requests they received directly. Exports typically are handled by intermediate firms - such as foreign affiliates of the exporter, or independent freight companies - between leaving the United States and arriving at foreign destinations. The Commerce Department regulations did not oblige American exporters to report boycott participation if their exports passed through other firms (including their own foreign subsidiaries) before reaching boycott locations. Furthermore, exporters were not required to reveal to the Commerce Department whether or not they complied with boycott requests.<sup>14</sup>

Events of the early 1970s conspired to stiffen U.S. anti-boycott efforts. The fourfold rise in world oil prices following the 1973 Mideast war greatly increased the economic importance of

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<sup>14</sup>For an analysis of Commerce Department implementation of the 1965 amendment, see U.S. Congress (1976a, pp. 11-29). Prior to 1975 it was standard Commerce Department practice to circulate to U.S. firms information about business opportunities in Arab League countries containing clauses requiring boycott participation.

the boycotting countries and kindled fears that American firms would be unwilling to reject boycott requests. The Watergate scandal and subsequent election results in 1974 strengthened Congressional forces favoring strong U.S. action against the boycott. The end of the Vietnam war and thawing of the cold war reduced the strategic importance of some U.S.-led boycotts. And the gradual replacement of a foreign policy based on U.S. hegemony with one based on mutual interests of allies made the United States increasingly willing to consider actions that might raise questions about its own boycotts of other countries.<sup>15</sup>

In response to sharp Congressional criticism, the Commerce Department in late 1975 changed its reporting requirements to elicit boycott information from all affected American firms, including information on their responses to boycott requests. The Commerce Department also amended its regulatory interpretation of the 1965 amendments to proscribe participation in boycotts based on distinctions between U.S. citizens, specifically, distinctions based on race, color, religion, sex or national origin. Political standoffs during the 1976 election campaign prevented passage of legislation outlawing boycott participation, but Congress amended the much broader Tax Reform Act of 1976 (that both Congress and the President were eager to pass) to introduce tax penalties for American participation in international boycotts. These penalties (described in detail in section 3) vary with foreign tax rates, a feature that was generally unappreciated at the time of passage but that makes it possible retrospectively to estimate their impact.<sup>16</sup> Congress took further steps after the 1976 elections by passing the Export Administration Act of 1977, prohibiting participation in unsanctioned

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<sup>15</sup>Snidal (1985) argues that declining hegemonic power reduces the inclination of non-hegemonic states to defect from international cooperative arrangements. Martin (1992) offers evidence that cooperation with U.S. economic sanctions has improved over the postwar period as U.S. hegemony has declined.

<sup>16</sup>The contemporaneous Joint Committee on Taxation description and analysis of boycott tax penalties does not mention the correlation between foreign tax rates and penalty magnitudes (U.S. Congress, 1976b, pp. 282-288).

international boycotts, requiring firms to disclose to the Commerce Department boycott requests and boycott activity, and providing civil penalties for violations.

## 2.2 *Data*

American boycott participation rates are published periodically by the U.S. Treasury Department on the basis of information compiled from tax returns. Americans with operations in countries participating in unsanctioned international boycotts are required to file Form 5713, the International Boycott Report. In order to protect taxpayer confidentiality, the Treasury Department releases only country-level aggregate boycott participation statistics. Information is available on numbers of American firms receiving and complying with boycott requests, by boycotting country, for each year from 1977 to 1982 and for 1986. Country-level information on numbers of *firms* participating in boycotts after 1986 is not available, though the Treasury Department reports total numbers of boycott requests issued to Americans, and numbers of requests to which Americans agree, by boycotting country, in 1990.<sup>17</sup> Since firms often receive multiple boycott requests from the same governments, and since U.S. tax penalties for boycott participation apply to all of a firm's operations in any country in which it agrees to participate in an unsanctioned boycott, the impact of tax penalties on boycott participation is more appropriately measured by the number of firms participating than by the number of boycott agreements. The latter measure is used for 1990 because it is the only information available.

U.S. boycott penalties include the loss of foreign tax credits, thereby making their magnitude a function of local tax rates. Since the relevant tax rates paid by American firms in most

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<sup>17</sup>Boycott data for 1977-1982 are reported by Mose (1985); data for 1986 are reported by U.S. Department of the Treasury (1991b); data for 1990 are reported by Redmiles (1992).

boycotting countries are nowhere reported, statutory corporate rates are used as proxies for tax rates paid by American firms.<sup>18</sup> A single set of tax rates, applicable to American taxpayers in 1988 or nearby years, is constructed from information reported in Price Waterhouse (1989), Reavey (1988), and International Bureau of Fiscal Documentation (various). These tax rates for 13 Arab League countries are presented in column five of Table 2. Tax rates are not adjusted for changes over time because annual tax rate information for boycotting countries is not available on a consistent basis for all countries in the sample. In those countries for which annual tax rate data are available, relative tax rates vary hardly at all over time,<sup>19</sup> and studies of other countries for which tax information is abundant suggest that annual variation is likely to be swamped by cross-sectional tax rate differences.<sup>20</sup>

### 2.3 Evidence

Aggregate U.S. boycott statistics describe almost exclusively participation in the boycott of Israel.<sup>21</sup> Table 1 summarizes evidence of American participation in unsanctioned international boycotts in 1990. 256 American firms report receiving a total of 9,932 requests to

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<sup>18</sup>Statutory and effective average tax rates differ when firms receive tax holidays, special depreciation allowances and other tax adjustments, and when firms incur tax losses. Given the paucity of available data and the heterogeneity of U.S. activity in boycotting countries, it is difficult to distinguish applicable tax rates more finely than by statutory rate differences.

<sup>19</sup>For example, the tax rate in Iraq was 60% in 1977 and 55% in 1988, in Kuwait was 50% in 1977 and 55% in 1988, in Oman was 50% in 1977 and 55% in 1988, in Qatar was 50% both in 1977 and in 1988, in Saudi Arabia was 45% both in 1977 and in 1988, in Syria was 66% in 1977 and 61% in 1988, in the United Arab Emirates was 50% in 1982 and 55% in 1988, in Yemen was 37.5% in 1982 and 36% in 1988, and in Jordan was 38.5% in 1977 and 25% in 1988.

<sup>20</sup>See, for example, Hines and Rice (1994) and Desai and Hines (1996).

<sup>21</sup>The relative significance of the Israel boycott is indicated by the fact that, in 1977, Americans had 16,230 operations in countries boycotting Israel and 1,401 operations in countries engaging in all other unsanctioned boycotts. Comparable numbers for 1986 are 10,954 operations in countries boycotting Israel and 824 operations in countries engaging in other boycotts. (See Mose, 1985, p. 79 and U.S. Department of the Treasury, 1991b, p. 351.)

participate in boycotts; of these, 71 firms report complying with 3,122 of the requests. The 1990 participation ratio, defined as the ratio of the number of American *firms* participating to the number receiving boycott requests, is 27.7 percent. The 1990 agreement ratio, defined as the ratio of the number of *requests* to which Americans agree to the number of boycott requests they receive, is 31.4 percent.

U.S. law distinguishes five different types of boycott requests that American taxpayers identify separately on their tax returns. Requests of Type 1 are those to refrain from doing business in countries, or with firms or citizens, that are the objects of the boycott. As indicated in Table 1, 38 percent of the 1990 boycott requests are of Type 1. Type 2 requests are those to refrain from doing business with Americans who refuse to cooperate with the boycott; 16 percent of 1990 boycott requests are of Type 2. Requests of Type 3 are those to refrain from doing business with companies whose ownership or management includes individuals of particular nationalities, races, or religions, or to remove or refrain from selecting corporate directors of a particular nationality, race, or religion. Six percent of all 1990 boycott requests are of Type 3. Type 4 requests are those to refrain from employing individuals of a particular nationality, race, or religion; type 4 requests represent 4 percent of all boycott requests in 1990. Type 5 requests are those to refrain from shipping or insuring products with firms that do not cooperate with the boycott; 37 percent of 1990 boycott requests are of Type 5.

The pattern of American compliance varies across types of requests. As indicated in Table 1, American firms in 1990 agreed to cooperate with 48 percent of Type 2 requests, 37 percent of Type 5 requests, and 25 percent of Type 1 requests. Requests of Type 3 and Type 4, that involve the nationalities, races, and religions of owners, managers, and employees, meet with significantly lower (though nonzero) compliance rates. American firms report complying with 7 percent of such requests in 1990.



Country-level information on American boycott participation in 1977, the first year of U.S. penalties, is summarized in Table 2. In 1977, seven countries - Bahrain, Iraq, Kuwait, Libya, Saudi Arabia, Syria, and the United Arab Emirates - each requested boycott participation of more than 100 American firms. In each of these countries 35 or more American firms agreed to cooperate with the boycott, and altogether 191 American firms chose to participate in unsanctioned international boycotts in 1977. 510 different firms received requests to participate in boycotts, making the aggregate participation ratio 37.5 percent.

Information on the industrial distribution of firms filing boycott reports is available only for 1979, and is reproduced in Table 3. A total of 1,570 American corporations filed reports in 1979 because they had operations in or related to boycotting countries; of these, 462 received requests to participate in boycotts. The data reflect the industries of parents or affiliates filing boycott reports, which introduces inconsistencies, since a firm may file a single report even though it has multiple foreign affiliates in separate industries.<sup>22</sup> In spite of this limitation, the information in Table 3 is generally informative of the industries of American firms potentially affected by boycotts. The evident industrial dispersion makes it unlikely that single industries, such as oil and gas, influence aggregate boycott participation patterns.

### **3. Tax Incentives and Boycott Participation by American Firms.**

This section considers the effect of U.S. legislation on the rates at which American firms participate in unsanctioned international boycotts. One aspect of boycott participation is clear

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<sup>22</sup>Industry detail on boycott filings is reported in U.S. Department of the Treasury (1982). Firms filing multiple reports for activities in a single country are counted only once, but firms with affiliates in different countries filing independent boycott reports are counted separately in tabulating industry totals reported in Table 3. As a consequence, industry entries in Table 3 sum to greater than the number of firms in all industries filing reports.

from the information reviewed in section two: most boycott requests are refused, and most American firms report that they decline all of the boycott requests that they receive. This evidence taken alone does not, however, establish an effect of U.S. policies, since nonparticipation by American firms may reflect costs of boycott compliance other than those imposed by U.S. legislation. American firms that boycott Israel may forfeit otherwise-profitable commercial opportunities, and may also incur disruptions that stem from the reluctance of customers or employees to be associated with companies that agree to participate in such a boycott.<sup>23</sup> Hence any assessment of the effectiveness of U.S. anti-boycott measures requires consideration of aspects of post-1976 boycott behavior other than just aggregate participation rates.

The available evidence indicates that country-level boycott participation rates are inversely related to magnitudes of U.S. penalties, which suggests that the penalties significantly reduce boycott activity. Since differences in U.S. penalties stem from tax considerations, it is helpful to review the nature of U.S. penalties before examining country-level evidence on boycott participation by American firms.

### ***3.1 U.S. penalties for boycott participation***

American corporations that participate in unsanctioned international boycotts are subject to U.S. tax penalties and may incur sanctions imposed by the Commerce Department.<sup>24</sup> Since

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<sup>23</sup>See, for example, Chill's (1976, pp. 18-21) description of the experience of Coca Cola Inc., which in 1966 refused to grant a franchise to an Israeli bottling concern. Coca Cola's decision generated a negative reaction among American customers convinced that it constituted compliance with the boycott, a reaction strong enough that Coca Cola reversed its decision later that year. The Arab League subsequently put Coca Cola on its blacklist, though there is evidence of its continued operations in several boycotting countries.

<sup>24</sup>Individuals, trusts, and other noncorporate entities are subject to similar penalties for boycott participation, but this section focuses on corporate incentives because American corporate activity in boycotting countries is far greater than noncorporate activity. In 1986, American corporations had

finances and other sanctions imposed by the Commerce Department do not, in principle, vary systematically between countries, and since they are of less importance quantitatively to American firms than are the tax penalties, this section concentrates on the tax penalties.<sup>25</sup> The impact of tax penalties varies with local tax rates and the tax situations of penalized firms. American firms participating in unsanctioned international boycotts are not permitted to defer U.S. taxation of income connected to boycott activities, and are unable to claim foreign tax credits for taxes paid on boycott-related income. In order to gauge the likely significance of these tax penalties it is helpful to review the main features of U.S. taxation of foreign-source income.<sup>26</sup>

### ***3.1.1 U.S. taxation of foreign source income***

The United States taxes income on a residence basis, so American corporations owe taxes to the U.S. government on their worldwide incomes, whether earned inside or outside the United States. In order to avoid subjecting American multinationals to double taxation, U.S. law permits firms

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10,756 of the 11,778 reported U.S. operations located in boycott countries, for 91 percent of the total. No noncorporate filers report complying with unsanctioned international boycotts in 1986. (See U.S. Department of the Treasury, 1991b, p. 351.)

<sup>25</sup>Civil penalties for violation of the provisions of the Export Administration Act of 1977 consist of a maximum fine of \$10,000 for each violation and potential loss of export privileges for a period of time. In addition, the Commerce Department's Office of Antiboycott Compliance can refer particularly egregious cases to the Justice Department for criminal prosecution. Criminal penalties are rarely, if ever, imposed on boycott participants. Annual summaries of antiboycott compliance efforts (U.S. Department of Commerce, various) indicate that export privileges are also very seldom revoked. For example, in 1980, the Commerce Department fined 12 firms a total of \$128,500 for boycott-related activities and none was denied export privileges (U.S. Department of Commerce, 1981, p. 74). By contrast, the Treasury Department estimates boycott-related tax penalties for 1980 to be \$7.3 million (U.S. Department of the Treasury, 1991a, p. 3), an amount 57 times larger.

<sup>26</sup>Some parts of the following brief description of U.S. law are excerpted from Hines and Hubbard (1995).

to claim foreign tax credits for income taxes (and related taxes) paid to foreign governments.<sup>27</sup> The U.S. corporate income tax rate is currently 35 percent. Under the foreign tax credit system, a U.S. corporation that earns \$100 in a foreign country with a 10 percent tax rate pays a tax of \$10 to the foreign government and \$25 to the U.S. government, since its U.S. corporate tax liability of \$35 (35 percent of \$100) is reduced to \$25 by the foreign tax credit of \$10. If for some reason the firm were unable to claim a foreign tax credit for the \$10 paid to the foreign government, but were instead eligible to deduct the \$10 against its taxable U.S. income, then its U.S. tax liability would be 35 percent of \$90, or \$31.50. In this example the firm saves \$6.50 by virtue of being able to claim a foreign tax credit.

The U.S. government limits the foreign tax credits that taxpayers can claim in order to prevent credits from reducing U.S. taxes due on profits earned within the United States. A firm's foreign tax credit limit equals the U.S. tax liability generated by its foreign-source income. American taxpayers calculate foreign tax credits on a worldwide basis, averaging their taxable incomes and taxes paid in foreign operations when calculating foreign tax credits and foreign tax credit limits. As a consequence of worldwide averaging, American investors in low-tax locations, such as Hong Kong, can avoid U.S. taxes otherwise due on foreign income if they also have sufficient income from high-tax foreign locations, such as Germany, with which the Hong Kong income and taxes can be averaged. Firms have "excess foreign tax credits" if they pay foreign taxes that exceed U.S. tax liability on the same income, and therefore cannot apply all of their foreign tax payments to offset U.S. tax liabilities.<sup>28</sup>

An important restriction on worldwide averaging is that firms are required to calculate

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<sup>27</sup>Firms may claim foreign tax credits for taxes paid by foreign affiliates of which they own at least 10 percent, and only those taxes that qualify as income taxes may be credited.

<sup>28</sup>Excess foreign tax credits can be carried back two years or forward five to offset U.S. tax liabilities on foreign income in other years.

foreign tax credits separately for different categories of income, known as "baskets." An example is income from petroleum extraction, which is usually heavily taxed by host countries, and with which Congress is unwilling to let firms average their other foreign income in calculating foreign tax credits. Consequently, petroleum income has its own "basket," and it is therefore possible for some firms to have excess foreign tax credits in the "petroleum basket" while not having excess foreign tax credits in the "active basket" (consisting of most active foreign-source income).<sup>29</sup>

A certain category of foreign income is temporarily excluded from U.S. taxation. The excluded category is the unrepatriated portion of the profits earned by foreign subsidiaries; taxpayers are permitted to defer any U.S. tax liabilities on those profits until paid as dividends to the United States. This deferral is available only on the active business profits of American-owned foreign affiliates that are separately incorporated as subsidiaries in foreign countries. The profits of unincorporated foreign businesses, such as those of U.S.-owned branch banks in other countries, are taxed immediately by the United States.

The U.S. tax system contains several provisions designed to encourage American exports.<sup>30</sup> Domestic international sales corporations (DISCs), introduced in 1971, are conduits through which export transactions can be recorded for tax purposes. Firms exporting through DISCs are

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<sup>29</sup>Prior to 1986, American taxpayers calculated foreign tax credit limits separately for DISC dividends, FSC dividends, passive interest income, and oil and gas extraction income. The Tax Reform Act of 1986 added "baskets" for other forms of passive income, financial services income, shipping income, high withholding tax interest income, and dividends received from corporations owned between 10 and 50 percent by Americans. See Desai and Hines (1996) for an analysis of the economic impact of separate "basket" limitations.

<sup>30</sup>The following discussion omits mention of the §863(b) sales source rules, since antiboycott provisions did not affect firms receiving tax benefits under the sales source rules. Under §863(b), half of export income is deemed to have a foreign source if exporters pass title in foreign locations. The significance of foreign sourcing of export income is that firms with excess foreign tax credits pay no U.S. tax on their foreign income, which includes export income. For an analysis of the effect of the §863(b) rules, see U.S. Department of the Treasury (1993b).

entitled to defer indefinitely U.S. taxes due on a certain percentage of their export receipts. At the time of the introduction of DISCs in 1971, firms were permitted to route 50 percent of export profits through DISCs; the maximum percentage was reduced to 42.5 percent in 1982, and, since 1976, has been limited by a moving-average formula based on export receipts in previous years. In 1976, the General Agreement on Tariffs and Trade (GATT) found the U.S. DISC provisions to violate GATT prohibitions on export subsidies, so in response, the United States in 1984 replaced DISCs with foreign sales corporations (FSCs). FSCs share many of the features of DISCs, though they differ in that FSCs must have foreign presence and foreign management - which in practice means that most FSCs are located in the U.S. Virgin Islands. Firms can defer indefinitely U.S. taxation of 30 percent of export profits routed through FSCs.<sup>31</sup> DISC and FSC income have separate "baskets" for purposes of calculating foreign tax credits.

### ***3.1.2 Tax penalties for boycott participation***

Boycott participation triggers three different tax penalties: loss of foreign tax credits, loss of deferral of U.S. taxation of foreign-source income, and loss of tax deferral for export earnings attributable to DISCs and FSCs. American firms participating in boycotts are not entitled to claim tax credits for foreign taxes paid. Furthermore, American firms must treat boycott-related income as if distributed as dividends to parent companies in the United States, thereby increasing the portion of their foreign source incomes currently subject to U.S. taxes. Finally, DISCs and FSCs complying with

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<sup>31</sup>For a description and analysis of the DISC and FSC rules, see U.S. Department of the Treasury (1993a). In 1986, \$21.4 billion of U.S. exports were routed through FSCs (on paper; it is not necessary for export items actually to travel to the Virgin Islands in order to obtain tax benefits from FSC treatment). Under the FSC rules, firms can choose among alternative methods of calculating the exempt portions of their export incomes, some of which can be more generous than deferring 30 percent of export income.

boycott requests are not permitted to defer U.S. taxation of export profits. Since deferral of U.S. taxation is the only benefit that DISCs and FSCs offer American taxpayers, the penalty for boycott participation renders them valueless.

Tax penalties for boycott participation apply not only to business entities participating in boycotts but also to other connected members of controlled groups of companies associated with boycott participants. U.S. laws do not permit American firms to limit boycott penalties by creating separate subsidiaries that comply with boycott requests made of other affiliates. There is a presumption that all members of a controlled group share the boycott participation (and boycott penalties) of any one member, though income earned in activities unconnected to boycotts are not subject to tax penalties. It is incumbent on taxpayers to establish that activities are sufficiently separate to be unconnected to boycott participation.

Taxpayers are entitled to elect one of two methods to calculate tax penalties for boycott participation. The first method requires separate identification of the earnings and profits of each foreign business operation, and application of boycott penalties (loss of foreign tax credits and loss of deferral) to income from operations associated with foreign boycotts. The second method is a simple calculation of the fraction of total foreign income attributable to boycott activities.<sup>32</sup> Aggregate foreign tax credits are then reduced by this fraction, and taxable income increased by adding that fraction of unrepatriated foreign profits.<sup>33</sup>

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<sup>32</sup>The numerator of the fraction equals the sum of purchases, sales, and payroll of boycott-related operations; the denominator is the sum of purchases, sales, and payroll of all foreign operations.

<sup>33</sup>Firms must apply foreign tax credit limits *before* reducing foreign tax credits due to boycott participation. Consequently, an American company with excess foreign tax credits nevertheless pays some U.S. tax on its foreign income if the firm participates in boycotts and elects to calculate boycott penalties based on the fraction of foreign income attributable to boycott activity. In 1990, only 15 of 41 American firms paying boycott-related tax penalties did so on the basis of fractions of foreign income attributable to boycott activity (see Redmiles, 1992, p. 89).

### 3.1.3 Tax incentives

U.S. law gives American firms stronger incentives to decline boycott requests from high-tax countries than those from low-tax countries, since boycott penalties entail losses of more foreign tax credits per dollar of boycott-related profits in high-tax countries than in low-tax countries.

For firms with excess foreign tax credits, the loss of foreign tax credits is not always important, since such firms pay no U.S. taxes on their foreign-source profits. Aggregate boycott behavior is nevertheless likely to be influenced by local tax rates, since a significant number of firms do not have excess foreign tax credits, and therefore face higher tax burdens as a consequence of penalties for boycott participation.<sup>34</sup> Furthermore, firms with excess foreign tax credits may anticipate exhausting their foreign tax credits in the future, thereby making costly any current losses due to boycott participation.<sup>35</sup> Since foreign tax credit limits are calculated separately within "baskets," any relevant excess foreign tax credits must fall within the same income "basket" as boycott-related income. It is common for firms to have excess foreign tax credits in the "petroleum basket," but, as Table 3 suggests, firms engaged in petroleum extraction and refining represent only a small fraction of American companies in boycotting countries.<sup>36</sup>

The ability of U.S. taxpayers to use either of two methods to calculate tax penalties for

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<sup>34</sup>The 1986 reduction in the U.S. statutory corporate tax rate had the effect of increasing the fraction of American multinational firms with excess foreign tax credits. Grubert et al. (1996) report that firms with excess foreign tax credits received 33 percent of the foreign income of American corporations in 1984, and 66 percent in 1990. They also note that the fraction of income received by firms with excess foreign tax credits appears to be falling over time, reaching 35 percent in 1992.

<sup>35</sup>Altshuler and Fulghieri (1994) derive values of foreign tax credits as functions of discount rates and opportunities to transit out of excess foreign tax credit status.

<sup>36</sup>DISCs and FSCs have their own "baskets," but receive very small fractions of income subject to boycott penalties. The sum of DISC and FSC income on which American taxpayers lost deferral due to boycott penalties in 1986 is only \$136,000, and the corresponding figure for 1990 is \$69,000 (U.S. Department of the Treasury, 1991b, p. 352; Redmiles, 1992, p. 89).



boycott participation can introduce nonlinear effects of foreign tax rates on boycott participation. If boycott-related income is taxed at higher rates than other foreign income, then firms may have incentives to calculate boycott penalties based on the fractions of their total foreign incomes attributable to boycott activities. This method of applying boycott penalties reduces differences between the costs of boycott compliance in high-tax and low-tax countries.<sup>37</sup> Penalties calculated on the basis of fractions of total foreign incomes attributable to boycott activities apply equally to firms with and without excess foreign tax credits, thereby raising the cost of such an election for firms with excess foreign tax credits.

### **3.2 Behavior after 1976**

It is impossible to compare American boycott participation rates before and after the introduction of U.S. penalties due to the unreliability of data for years before 1976. It is, however, possible to examine boycott activity after 1976 for indicators of the effectiveness of U.S. antiboycott efforts.

American firms report boycott compliance rates that vary inversely with tax rates. Figure 1 depicts boycott compliance rates for 1977, the first full year during which the United States penalized boycott participation. The vertical axis of Figure 1 measures the ratio of the number of firms reporting boycott participation to the number receiving boycott requests from foreign governments. The horizontal axis measures local tax rates.

A strong negative correlation between tax rates and boycott compliance is evident from Figure 1. Regression results reported in column one of Table 4 are consistent with a negative and significant relationship between tax rates and boycott participation. The first column of Table 4 reports

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<sup>37</sup>The formula overweights activities in high-tax locations by using pretax purchases, sales, and payroll in calculating the fraction of foreign income attributable to boycott operations.

estimated coefficients from an OLS regression of boycott participation ratios on tax rates. The estimated coefficient of -0.5093 implies that tax rate differences of 10 percent are associated with 5.1 percent differences in participation ratios. Evaluated at the sample mean participation ratio of 0.43 in 1977, and at the sample mean tax rate of 0.48, this coefficient implies a -0.57 elasticity of boycott participation with respect to tax rates.

Columns two and three of Table 4 present results of regressions that repeat the same exercise using data on U.S. boycott participation in 1982 and 1986, respectively. The estimated tax rate coefficient of -0.6183 for 1982 (reported in column two) implies that tax rate differences of 10 percent are associated with 6.2 percent differences in participation ratios. The corresponding estimate for 1986 is -0.3251, roughly half of the magnitude of the 1982 estimate. The source of this difference is less the omission of a single observation<sup>38</sup> than it is the general reduction between 1982 and 1986 in reported boycott participation. The unweighted mean participation ratio fell from 42.2 percent in 1982 to 12.3 percent in 1986. As a result, the implied elasticity of boycott participation with respect to the tax rate increases (in absolute value) to -1.26 in 1986 in spite of the smaller estimated tax rate coefficient. Average boycott participation rates appear to fluctuate over time with changing political, military, and economic conditions in the Middle East.<sup>39</sup>

Country-level information on the fraction of American *firms* participating in unsanctioned boycotts is unavailable for 1990. Country-level information is, however, available on the fraction of boycott *requests* to which American firms report agreement in 1990. Column four of Table

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<sup>38</sup>In order to preserve taxpayer confidentiality, the U.S. Department of the Treasury (1991b, p. 353) suppresses information on 1986 boycott participation by American firms in the People's Democratic Republic of Yemen, thereby reducing the 1986 sample size to 12 observations. The People's Democratic Republic of Yemen subsequently joined with the Arab Republic of Yemen in 1990 to form a single country, the Republic of Yemen. Data for 1990 therefore includes country-level observations of U.S. boycott activity in 12 Arab League countries plus three others, Bangladesh, Iran, and Pakistan.

<sup>39</sup>See, for example, the analysis in U.S. Commerce Department (1991, p. 51).

4 reports coefficient estimates from an OLS regression in which the dependent variable is the ratio of the number of boycott agreements to the number of boycott requests issued by foreign governments. Data are available for 15 countries that impose unsanctioned boycotts.

The results reported in column four of Table 4 indicate that the rates at which American firms agree to boycott requests in 1990 is negatively correlated with local tax rates. The point estimate of the tax rate coefficient,  $-0.5955$ , implies that 10 percent higher tax rates are associated with 6.0 percent lower propensities to cooperate with boycott requests. Since the (unweighted) mean boycott agreement rate is 0.30, it follows that the elasticity of boycott agreement with respect to the tax rate, evaluated at sample means, is  $-0.95$ . This elasticity is consistent with evidence from earlier years on the relationship between tax rates and the fraction of firms participating in boycotts.

### **3.3 Implications**

The negative correlation between local tax rates and American boycott participation is consistent with incentives created by the antiboycott provisions of U.S. tax laws. Extrapolating the regression results for 1982 by taking the product of the estimated tax rate coefficient ( $-0.62$ ) and the mean tax rate (0.48) produces an estimated effect of U.S. tax penalties equal to 0.30. If all foreign tax rates were zero, so American firms did not lose foreign tax credits by participating in boycotts, then their participation rates would rise by 30 percent. A similar calculation for 1986 indicates that boycott participation rates would have been 15 percent higher in the absence of U.S. tax penalties.

These are large but plausible effects of U.S. tax penalties. Some firms that would otherwise cooperate with boycotts instead refuse requests if associated U.S. tax penalties are sufficiently large. U.S. policy is motivated by the possibility of inducing such responses. In addition, U.S. tax penalties may discourage firms that participate in boycotts elsewhere from setting up

operations in high-tax countries. There is surely some intrinsic heterogeneity between firms in the degree to which they are receptive to boycott requests. Tax penalties give firms inclined to participate in boycotts incentives to locate their activities away from high-tax boycotting countries, thereby affecting patterns of boycott participation without necessarily changing individual participation decisions. Finally, the observed pattern of boycott activity is consistent with *reporting* incentives under U.S. law. American firms in high-tax countries have stronger incentives to misreport boycott participation as nonparticipation than do similar American firms in low-tax countries. The regressions analyze self-reported tax information. Given the far greater penalties for willful tax misreporting than those for boycott compliance, however, correlations induced by reporting bias are likely to be confined to subtle and quantitatively minor matters of interpretation of boycott compliance.

There are conflicting sources of potential bias in estimating the aggregate effect of U.S. tax penalties. The cross-sectional pattern of boycott participation reflects in part the availability of substitute locations for American business activity among boycotting countries. Firms might relocate activities from Kuwait to Saudi Arabia if they anticipate participating in boycotts and losing foreign tax credits. Extrapolating from cross-sectional differences overstates the effect of U.S. penalties on aggregate boycott participation rates by ignoring that boycotting countries are closer locational substitutes for each other than are nonboycotting countries, and that therefore changes in average penalty levels may have smaller effects than differences in penalties among countries. This extrapolation simultaneously understates the effect of U.S. penalties for different reasons. The existence of U.S. tax penalties may discourage countries (particularly those with high tax rates) from demanding that American firms participate in boycotts, an effect that is not captured in the regression results reported in Table 4 and that may bias downward the estimated effect of tax rates on boycott participation. In addition, the cross-sectional pattern of boycott compliance does not reflect costs

imposed by immediate U.S. taxation of boycott-related profits, since these costs are roughly common across locations.<sup>40</sup> Consequently, it is not clear whether inference from the cross-sectional pattern overstates or understates the aggregate effect of U.S. penalties on boycott participation.

A final consideration is the limited quantity of data on which conclusions are based. The correlation between local tax rates and American boycott participation is calculated based on behavior in a small sample of countries. Numbers of observations used in the regressions reported in Table 4 range between 12 and 15. While it is possible to draw valid inferences from small samples, reliance on so few observations limits the confidence with which any results can be generalized.

#### **4. Conclusion.**

American companies report that they comply with 30 percent of the 10,000 requests they receive annually to participate in unsanctioned international boycotts, almost all of which are requests to boycott Israel. The pattern of compliance suggests that U.S. tax penalties reduce boycott participation rates by 15-30 percent, or as much as half of what they would have been in the absence of penalties.

Since U.S. tax penalties are functions of local tax rates, the effect of penalties on boycott participation can be identified by comparing the behavior of firms in countries with differing tax rates. The evidence suggests that tax rate differences of 10 percent are associated with 6 percent differences in boycott participation rates. Differentiation of U.S. penalties stems from the design of the tax penalties used to discourage boycott participation, themselves a byproduct of the politics of

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<sup>40</sup>On the benefits of deferring home-country taxation of foreign-source income, see Hartman (1985), Sinn (1993), and Hines (1994). For evidence of the extent to which American multinationals defer U.S. taxation of profits earned in countries with differing tax rates, see Hines and Hubbard (1990), Altshuler and Newlon (1993), and Altshuler, Newlon, and Randolph (1995).

American antiboycott efforts in the 1970s.

The United States uses its tax policy to pursue commercial and foreign policy objectives around the world. Tax incentives are often effective, which is not to say that their use is always well advised. As part of U.S. foreign policy changes in the mid-1970s, American firms and individuals were subjected to penalties for participating in international boycotts, prohibited from paying bribes to foreign government officials,<sup>41</sup> and encouraged to undertake other actions consistent with U.S. interests. Worldwide residence-based taxation makes it possible for the government to change the incentives of American multinational corporations and thereby exert greater control over their behavior than usually results from suasion or other noneconomic methods.<sup>42</sup> The costs of using the tax system in this way include the associated complexity of compliance and enforcement, the uncertainty introduced by the possibility that tax laws will change in the future, and the problem that tax policies often have effects that differ from what Congress expects when enacting them. In addition, antiboycott efforts are likely to reduce American commercial opportunities in boycotting countries.

For decades the United States has orchestrated its own boycotts of countries undertaking actions believed to be contrary to U.S. interests. It has proven difficult at times to convince other countries, including close U.S. allies, of the value of some of these boycotts; recent experience with the U.S.-led boycott of Cuba is a case in point. One lesson to be drawn from U.S. antiboycott efforts is that countries can effectively oppose boycotts by changing the incentives of their own citizens and firms. Since countries are often willing to defy boycotts in spite of the associated

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<sup>41</sup>See Hines (1995) for an analysis of the impact of U.S. antibribery legislation. Penalties for bribe payments were introduced by the Tax Reform Act of 1976, followed by provision of criminal penalties in the Foreign Corrupt Practices Act of 1977.

<sup>42</sup>See Hines (1997) for a survey of statistical evidence of the responsiveness of multinational corporations to tax incentives. Rodman (1995) concludes from case studies that the U.S. government's most effective methods of controlling American multinational corporations are those that affect their economic incentives.

costs, and since boycotts can damage the economies of originating countries, it is possible for boycotts simply to reduce the efficiency of resource allocation around the world while achieving few of their political objectives. Countries such as the United States that effectively oppose boycotts offer others, and themselves, evidence of the costliness of maintaining boycotts in the face of determined opposition.

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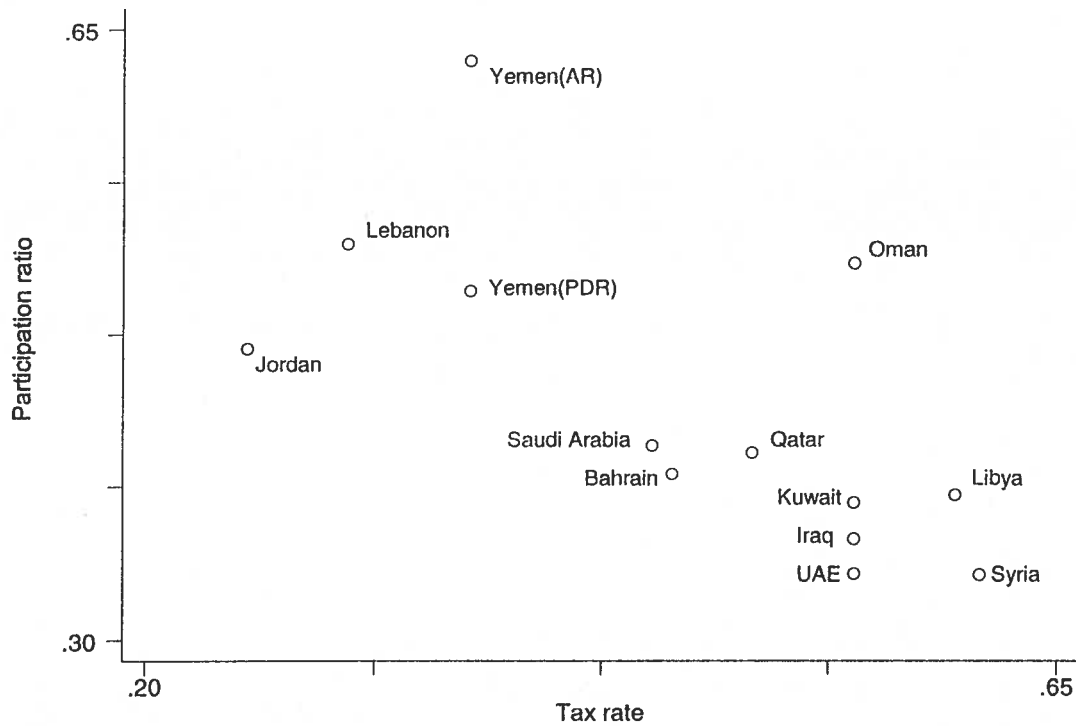
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**Figure 1**

**Boycott Participation and Local Tax Rates, 1977**



**Note:** The vertical axis measures the ratio of the number of American firms reporting boycott participation to the number receiving boycott requests from foreign governments in 1977. The horizontal axis measures local tax rates facing American firms. Since the U.S. tax penalty for boycott participation is an increasing function of local tax rates, the horizontal axis also measures the size of the U.S. tax penalties for boycott participation.

**Source:** Boycott data reported in Mose (1985); statutory corporate tax rates as described in text.

**Table 1**  
**American Boycott Activities, 1990**

Type of boycott request	No. of requests	% of total	No. of agreements	% of total	Agreement ratio
Type 1	3,786	38.1	952	30.5	0.251
Type 2	1,545	15.6	746	23.9	0.483
Type 3	581	5.8	43	1.4	0.074
Type 4	343	3.5	23	0.7	0.067
Type 5	3,677	37.0	1,358	43.5	0.369
Total requests	9,932	100.0	3,122	100.0	0.314

Total no. firms receiving requests	No. firms participating	Participation ratio
256	71	0.277

Type 1 requests are those to refrain from doing business with or in a country that is the object of the boycott or with the government, companies, or nationals of that country.

Type 2 requests are those to refrain from doing business with any U.S. person engaged in trade within a country that is the object of the boycott or with the government, companies, or nationals of that country.

Type 3 requests are those to refrain from doing business with any company whose ownership or management includes individuals of a particular nationality, race, or religion, or to remove or refrain from selecting corporate directors who are individuals of a particular nationality, race, or religion.

Type 4 requests are those to refrain from employing individuals of a particular nationality, race, or religion.

Type 5 requests are those in which, as a condition of the sale of a product to a government, company, or a national of a country, the requestee is asked to refrain from shipping or insuring products on a carrier owned, leased, or operated by a person that does not participate in, or cooperate with, an international boycott.

Notes to table 1: Entries in the first column of the top panel ("no. of requests") correspond to separate requests received by American firms during 1990 to participate in unsanctioned international boycotts. Entries in the third column ("no. of agreements") correspond to numbers of requests to which American firms report agreeing. Entries in the fifth column ("agreement ratio") are ratios of agreements to requests.

Entries in the second panel concern numbers of American firms rather than numbers of requests and agreements. Hence, 256 American firms report receiving one or more boycott requests during 1990, and of these, 71, or 27.7 percent of the total, report participating in one or more boycott.

Source: Data from Form 5713 reported in Redmiles (1992).

**Table 2**  
**American Activities in Boycott Countries, 1977**

Country	No. firms with operations	No. firms receiving requests	No. firms participating	Participation ratio	Tax rate
Bahrain	651	104	41	0.394	0.46
Iraq	691	238	85	0.357	0.55
Jordan	615	90	42	0.467	0.25
Kuwait	936	209	79	0.378	0.55
Lebanon	641	74	39	0.527	0.299
Libya	631	157	60	0.382	0.60
Oman	527	64	33	0.516	0.55
Qatar	522	64	26	0.406	0.50
Saudi Arabia	1,225	302	124	0.411	0.45
Syria	540	104	35	0.337	0.612
U.A.E.	818	172	58	0.337	0.55
Yemen (A.R.)	221	19	12	0.632	0.36
Yemen (P.D.R.)	202	12	6	0.500	0.36
Total all countries	1,627	510	191	0.375	na

Note: Data apply to tax year 1977. "No. of firms with operations" includes all taxpayers filing Form 5713. "No. of firms receiving requests" is the number of different U.S. firms receiving requests to participate in boycotts. "No. firms participating" is the number of different U.S. firms agreeing to participate in boycotts. "Participation ratio" is the ratio of the number of firms participating to firms receiving boycott requests. "Tax rate" is the local tax rate applicable to typical U.S. taxpayers.

Source: Calculations based on Form 5713 data reported in Mose (1985).



**Table 3**  
**Industrial Distribution of Activity in Boycott Countries, 1979**

Industry	No. of American corporations filing boycott reports
Agriculture, Forestry, and Fishing	11
Mining	115
<i>Oil and Gas</i>	<i>109</i>
Construction	84
Manufacturing	732
<i>Chemicals</i>	<i>124</i>
<i>Petroleum</i>	<i>28</i>
<i>Fabricated metal products</i>	<i>151</i>
<i>Nonelectrical machinery</i>	<i>172</i>
<i>Electrical equipment</i>	<i>152</i>
<i>Motor vehicles</i>	<i>31</i>
<i>Transportation equipment</i>	<i>41</i>
Transportation, Communication, and Public Utilities	119
Wholesale Trade	633
<i>Machinery</i>	<i>147</i>
<i>Motor vehicles and transportation</i>	<i>38</i>
<i>Chemicals</i>	<i>46</i>
<i>Petroleum</i>	<i>67</i>
Retail Trade	28
Finance, Insurance and Real Estate	180
<i>Banking</i>	<i>81</i>
Services	299
Total All Industries	1,570

Note: Entries are numbers of American corporations filing boycott reports in 1979, distinguished by industry of parent or affiliate filing the report. Corporations reporting multiple industries in a country are counted only once. Numbers do not sum to the total for all industries due to separate boycott reports filed by affiliates of the same parent in different countries and industries. Of 1,570 corporations filing boycott reports, 462 report receiving boycott requests, while 1,108 file the reports simply because they have operations in or related to a boycotting country.

Source: Data from Form 5713 reported in U.S. Department of the Treasury (1991a).

**Table 4**  
**Boycott Participation as a Function of Tax Penalties**

Dependent Variable: Fraction of Firms Acceeding to Boycott Requests, Defined As:				
Year	No. of U.S. Companies Participating/ No. of U.S. Companies Receiving Requests			No. of Agreements/ No. of Requests
	1977	1982	1986	1990
Constant	0.6727 (0.0881)	0.7113 (0.1166)	0.2782 (0.0483)	0.5887 (0.1472)
Tax Rate	-0.5093 (0.1714)	-0.6183 (0.2268)	-0.3251 (0.0973)	-0.5955 (0.2587)
R <sup>2</sup>	.461	.461	.452	.206
No. obs.	13	13	12	15
Mean of dep. var. (std. dev.)	0.4341 (0.0882)	0.4216 (0.1071)	0.1230 (0.0570)	0.2951 (0.1674)

Note: The columns report coefficients from OLS regressions in which the dependent variable is the fraction of U.S. firms acceeding to requests to participate in unsanctioned international boycotts. The dependent variable in the regressions reported in columns 1-3 is the ratio of the number of U.S. firms reporting boycott participation (on Form 5713) to the number reporting requests from foreign governments. These regressions are run separately with data covering the years 1977, 1982, and 1986. The dependent variable in the regression reported in column 4 is the ratio of the number of boycott agreements (reported on Form 5713) to the number boycott requests from foreign governments; the data cover the year 1990. The tax rate variable is the tax rate applicable to typical U.S. taxpayers; the tax rate (in 1990) has a mean of 0.4774 and a standard deviation of 0.1271. Observations are country-level aggregate figures for all U.S. taxpayers (almost exclusively corporations). Heteroskedasticity-consistent standard errors are in parentheses.

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