Committee On Finance

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OPENING STATEMENT OF SENATOR MAX BAUCUS
FINANCE COMMITTEE HEARING ON COMPETITVENESS IN INTERNATIONAL TRADE, STRENGTHENING AMERICA'S ECONOMY

Today, the Finance Committee hosts the first of two scheduled hearings to consider the state of U.S. competitiveness at home and abroad.

Today, American companies face increasing international competition. They face it because the number of global competitors has increased. They face it because we have increasingly opened our markets. And they face it because technology increasingly renders our national borders irrelevant. Competition is usually a good thing. But we must ensure that we have policies in place so that the bad does not outweigh the good.

Today's hearing will examine the domestic implications of our current international tax policy. We will look at the effects of that policy on the competitiveness of U.S.-based operations. And we will look at the effect of that policy on investment in the U.S. This is an important hearing. And it comes at a difficult time in the U.S. economy.

Last Thursday, the Bureau of Labor Statistics reported that unemployment jumped to 6.4 percent. For the first time in a decade, the number of Americans looking for work exceeded 9 million people. The manufacturing sector has been particularly hard hit. As this chart shows, the unemployment rate in the manufacturing sector, which used to be below the national average, has risen above the national average in this recession. Nationwide, millions of jobs have been lost. Since July of 2000, roughly 2 million jobs have disappeared from the nation's economy.

Once again, the decline has been even worse in the manufacturing sector. Since July of 2000, manufacturing employment has fallen by more than 2.6 million jobs. More jobs have been lost in the manufacturing sector alone than in all sectors of the economy combined, as some sectors have produced new jobs in the same period.

The nation lost 56,000 manufacturing jobs last month alone. As this next chart shows, manufacturing jobs have declined continuously in each of the last 35 months. And as this next chart shows, the decline in manufacturing employment has been widespread. Every state in the Union, except for Nevada, has lost manufacturing jobs. 49 out of 50 states have lost manufacturing jobs.

We need to do something for the manufacturing sector. I've seen where we have lost jobs in Montana. And in my state, we cannot afford to lose these jobs. The loss of these jobs has nothing to do with America's work ethic. Our country is made up of the hardest-working, most dedicated workers anywhere. Our nation's firms have experienced historic, sharp declines in manufacturing jobs due, in part, to increasing global competition and other related pressures on U.S. manufacturing activity. These pressures include non-tariff barriers and unfair trade practices.

U.S. manufacturing jobs are important to the U.S. economy. Manufacturing jobs create jobs in supporting industries and other sectors. And manufacturing has one of the highest job-creation multiplier effects. Every 16 million manufacturing jobs create another 9 million jobs in retail, wholesale, finance, and other sectors.

The recent steep job losses in the manufacturing sector thus affect the entire U.S. economy through reduced purchasing power, through decreased consumption, and through a shrinking tax base. So far, the government has not done enough. This is an important issue. This is a continuing problem. We need to so something about it. And this hearing today will be a good first step.

Another purpose for our meeting today is to fashion a response to an international tax case that the United States lost in the WTO. In a dispute brought by the European Union, the WTO found that the Foreign Sales Corporation (or FSC) and Extraterritorial Income Act (or ETI) were impermissible export subsidy programs. It also found that FSC/ETI did not qualify under an exception to the subsidy rules for provisions to avoid double taxation of the same income. As a result, the WTO has authorized over $4 billion in sanctions against U.S. exporters. The EU has threatened to impose these sanctions on January 1, 2004, if we have not made significant progress in complying with the WTO's ruling by the fall.

I am disappointed with this issue on many levels. I am disappointed that the EU ever brought this case, thereby violating our long-term agreement on our respective tax systems. I am disappointed that the EU has pressed the case as aggressively as it has. I believe this issue has contributed to a general souring of our usually close relationship with the EU and undermined support for the WTO in the United States.

I am also disappointed with the administration, which has wholly ignored its obligations under the Trade Act of 2002. That Act required the administration to work to resolve this issue through WTO negotiations. As far as I am aware, the administration has done nothing on this score. Instead, the administration chose to seek repeal of FSC/ETI and other changes to the tax code. While I think that's the wrong choice, we're past the point where we can debate the merits of that strategy.

But if we're going to repeal FSC/ETI, we should make sure that we replace it with a worthy substitute. While examining alternatives, it is important to consider their effects on the U.S. economy in general, and the manufacturing sector, in particular. Our proposed replacement legislation should partially offset the loss of tax benefits to U.S. exporting companies once FSC/ETI is repealed. But it should also provide benefit to all domestic manufacturers. This could provide a needed boost for U.S. manufacturing firms.

A suitable replacement to FSC/ETI would satisfy the rules of international tax law, while seeking to maintain the health of the U.S. manufacturing base. What we need now is to choose the best plan for moving forward. To that end, I suggest a few guiding principles.

First, the EU is not required to impose the sanctions authorized by the WTO. Retaliation would hurt EU companies as much if not more than U.S. companies and would be decidedly unhelpful in bringing about a long-term solution. The only way to resolve this matter once and for all is by working toward a solution, not playing tit for tat.

A second principle to guide us through this matter is the "Do no harm" principle. In replacing FSC/ETI, we should seek to create incentives for U.S. companies to retain their domestic operations. This may sound like an obvious goal. But it needs to be said, because there are proposals under discussion that would do harm. I believe there are workable options with far less drastic consequences. Those are the options that we should pursue.

By offering tax and financial incentives to U.S. manufacturing firms, we seek to neutralize the tax advantage that other countries have. Thus we hope to allow U.S. manufacturers to provide their product at a competitive price and to keep jobs here in the U.S.

Finally, we must recognize that whatever the solution to the FSC/ETI matter, it needs to be done now. The EU has been authorized to impose sanctions at any time and is carefully watching what we do. We must work together to create a new set of rules to replace the current system.

Those rules should contain effective transition relief, perhaps along the lines of the transition relief the United States afforded the EU in the Bananas case. We will need to confer with the EU on that issue, but the EU should well understand that businesses will need some time to adjust to the new rules. Our agreement with the EU on that score will reassure businesses on both sides of the Atlantic. So let us begin today to address this issue, and to do something to help our nation's manufacturing sector.

Mr. Chairman, thank you for holding today's hearing. I look forward to working together with you to come to a resolution on this issue – a resolution that will allow us both to strengthen our nation's economy and to meet our international obligations.