



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Opening Statement of Sen. Chuck Grassley
Hearing on International Competitiveness: The View Beyond
An Examination of U.S. Tax Policy and Its Effect on the International Competitiveness of U.S.-
Owned Foreign Operations
Tuesday, July 15, 2003

This is the second of two hearings on international competitiveness and U.S. tax policy. Last week, we focused on the international competitiveness of U.S.-based businesses. Today, we focus on the international competitiveness of U.S.-owned foreign operations. During this hearing, we will examine what we mean by the term “international competitiveness.” Understanding this term, and how it is measured, is very important in light of last week’s testimony. As many of you know, it has been suggested that we repeal FSC-ETI and use the proceeds to reform our international tax rules. Advocates of this approach claim that this is the best way to shore up the U.S. economy and grow U.S. jobs. But during last week’s hearing, our witnesses said this approach would be a \$50 billion tax increase on U.S. manufacturing and the U.S. jobs base. They said a tax increase of this size could force them to move their operations out of the U.S. to remain “internationally competitive.” One witness with both foreign and U.S. operations candidly stated “you can reduce my foreign taxes if you want to, but I’ll just move my U.S. operations there.”

If we are forced to trade off a domestic tax increase against international tax reform, then we need to understand how international competitiveness will replace any jobs lost from the tax increase, what kind of jobs it will create, and how it benefits the everyday American. Personally, I think this trade-off is an unfortunate choice. Some have called it a “false choice.” International tax reform is long overdue. Our current system is based on a framework enacted during President Kennedy’s administration. In an era of expanding global markets, falling trade barriers, and technological innovations that melt away traditional notions of national borders, it is critical that our international tax laws keep pace with new business realities. Today, we will hear how our international tax laws have not kept pace. Today, we will hear some fresh and creative thinking on what we should do to reform our international provisions and remain globally competitive.

We are fortunate to have several senators on this committee who are deeply committed to reforming our international tax laws. Sen. Hatch and Sen. Baucus have led the charge on this issue for many years. In addition, during last July’s hearing, Sen. Graham expressed grave concerns about the problems in our international tax laws. As a result, he and Sen. Hatch formed an International Tax Reform Working Group within this committee to evaluate various international reforms and simplification measures. As I said last year in my floor remarks when Sen. Baucus and I introduced our anti-inversion bill, I recognize that the rising tide of corporate expatriations demonstrates that our international tax rules are deeply flawed. In many cases, those flaws seriously undermine an American company’s ability to compete in the global marketplace. We need to bring our international tax system in line with our open market trade policies. Reform of our international tax laws is necessary for our U.S. businesses to remain competitive in the global marketplace. More importantly, those U.S. companies that reject doing a corporate inversion are left to struggle with the complexity and competitive impediments of our international tax rules. This is an unjust result for companies that chose to remain in the United States of America. I am committed to remedying this inequity.