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**Hearing Statement of Senator Max Baucus (D-Mont.)  
Regarding Tax Reform and Incentives for Capital Investment and Manufacturing**  
*As prepared for delivery*

Warren Buffett once said, "It's never paid to bet against America."

From Montana's lumber, to Michigan's automobiles, to California's semi-conductors, American products have always been world-class. And U.S. manufacturing remains critical to the long-term strength of the American economy. Make no mistake, "Made in the USA" still matters.

The reasons are simple: manufacturing creates jobs and manufacturing pays good wages. The average wage at a manufacturing company is twenty percent higher than those in the wider economy. These wages give Americans the purchasing power to help their families and the entire economy.

Manufacturing also spurs innovation, and the industry generates related jobs for engineers, scientists, designers, shippers and many others. In fact, though manufacturers accounted for only 11 percent of GDP in 2008, they contributed 68 percent of U.S. corporate spending on research and development. And in 2010, manufacturing employed 35 percent of all engineers in this country. If we want these jobs to stay in the United States, we need manufacturing to stay here.

U.S. manufacturing is essential to America's economic stability. It's critical to U.S. innovation, to our national security and intellectual property. And it's central to our balance of trade. So manufacturing is key to our competitiveness in the world and our economic growth.

Despite its importance, manufacturing is a declining percentage of our economy. After World War II, manufacturing made up more than a quarter of our economy's total output. Today, it makes up just a tenth. We need to stem this downward trend, and we should consider the best ways to do so through tax reform.

There are numerous incentives in the tax code to encourage manufacturing, and there are many provisions to boost capital investment in the U.S. generally. Manufacturers claim more than a quarter of the capital investment incentives. We need to ensure these tax incentives are effective. We need to make sure we're getting the most bang-for-the-buck.

These incentives include accelerated depreciation and expensing provisions. Accelerated depreciation is currently the largest business tax expenditure. In some cases, bonus depreciation and Section 179 allow companies to fully write off the cost of equipment in the year placed in service. The tax code also

provides special depreciation schedules for everything from race horses and NASCAR racetracks to corporate jets.

America's depreciation rules are some of the most generous among developed nations. Only Greece, Italy and Portugal are more favorable. Faster depreciation, however, helps to offset the United States' higher statutory corporate tax rate. As we work to make our corporate tax rate more competitive, we must carefully examine changes to our current depreciation system and strike the right balance.

Today we will ask whether these policies are working to encourage broad-based economic growth and job creation. Do they spur investment in the U.S. economy? And are they more effective than a rate reduction with the same cost?

We will also discuss the deduction for domestic production activities, which was enacted in 2004. This provision reduces the effective tax rate on manufacturing activity by three percentage points. But unfortunately even with this provision, manufacturing has declined.

There is no single cause for the struggles of U.S. manufacturing in recent years. Some argue that low labor costs and the availability of technically-skilled employees have pushed manufacturing overseas. Others say technological improvements and increases in productivity may have reduced the need for workers in the U.S.

But we can't give up on American manufacturers. We need to determine whether the current incentives adequately address the existing challenges or whether there are simpler, more effective ways to encourage manufacturing investment in the US.

So let us find the best and most efficient ways to boost American manufacturing. Let us ensure our tax code is helping businesses create jobs here at home. Let us keep the "Made in the USA" label strong.

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