Senate Committee on Finance
U.S. Senator Orrin Hatch (R-UT), Ranking Member
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HATCH STATEMENT AT FINANCE COMMITTEE HEARING EXAMINING THE IMPACT OF TAX INCENTIVES FOR CAPITAL INVESTMENTS & MANUFACTURING

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing examining the impact of tax incentives for capital investments and manufacturing:

The manufacturing sector remains a critical segment of our economy. For the year 2010, the manufacturing sector generated about $1.8 trillion in gross domestic product. The United States still has the world's largest manufacturing sector. If it were a separate economy, with its own GDP, the U.S. manufacturing sector would be the world's ninth largest economy.

At the same time, America's manufacturing sector is not static, and it has experienced significant changes in recent decades. Manufacturing jobs have been in decline for a number of years. In 1979, manufacturing employment peaked at about 19.6 million workers. In 2010, manufacturing employment was about 11.5 million workers. Coupled with this decline in U.S. manufacturing jobs is a decline in U.S. manufacturing as a percentage of GDP — from about 27 percent of GDP in the 1950s to about 11 percent in 2010.

Much of the decline in manufacturing jobs is due to increased productivity and automation. Because U.S. workers are among the most productive in the world, the number of manufacturing jobs necessary to achieve similar outputs has declined.

However, part of the decline in U.S. manufacturing is also due to offshoring. In a recent survey of 287 manufacturing companies, labor costs were listed as the most important factor in selecting locations for manufacturing operations or supplier operations. And U.S. labor costs are significantly higher than labor costs in many countries around the world. After labor costs, the next three most important factors identified in the survey were proximity to the market, skills of the workforce and taxes.

As a result, taxes can play an important part in a company's decision about where to locate its manufacturing operations. In the United States, we have a top corporate tax rate of 35 percent. When coupled with state corporate taxes, a U.S. corporation may face a marginal tax rate of 39 percent, which is the second highest corporate tax rate in the world behind

Japan.

I want America to be the leader in many areas, including manufacturing. But having one of the highest corporate tax rates in the world isn't one of them!

In 2004, Congress enacted a deduction for manufacturers that reduces their effective tax rate by about three percentage points. But we need to do more — much more. We need to bring the corporate tax rate down to a level in line with other OECD countries. We need to reform our tax system to make our U.S. companies, including manufacturers, more competitive with the rest of the world.

Closely related to manufacturing is capital investment. We have a number of tax incentives with respect to capital investment. Some of these incentives are relatively new, such as bonus depreciation, but other incentives are quite old, such as the current accelerated depreciation rules that date back to 1986 and even earlier. Still other tax incentives seem to go in and out of the tax code, such as the investment tax credit, which was first enacted in 1962 and was last in effect in 1985.

When dealing with tax incentives, the focus seems to be on whether the incentives are achieving their intended purposes.

Do these tax incentives enhance economic growth? How much bang for the buck are we getting from the various tax incentives for capital investment?

For example, one recent economic paper suggests that the investment tax credit may be a better incentive for capital investment than accelerated depreciation. Sometimes tax incentives for capital investment are viewed as interchangeable with a corporate tax rate cut. Yet, they are really two separate issues.

First, a corporate tax rate cut would not affect many small businesses that are conducted as partnerships, S corporations, or limited liability companies. And second, a corporate tax rate cut affects both old and new corporate capital, while expensing and accelerated depreciation affect only new capital.

Finally, as we go about our business today, I think it is important for us to recall the damage that is done to the manufacturing sector not only by tax policy, but by over-regulation. We should not lose sight of underlying issues such as environmental and labor policies that artificially drive up the cost of labor, distort resource allocations, and make America an unnecessarily costly place to do business.

Chairman Baucus, we have a great panel here. We have some very learned economists and a prominent accounting professor with us today, and I look forward to their testimony.

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