Creating the Conditions for Economic Growth and Manufacturing Investment

Creating an economic environment designed to foster manufacturing competitiveness begins with establishing the conditions for strong economic growth at home. Congress has already taken several significant steps toward that goal by enacting President Bush's proposals reflected in the Economic Growth and Tax Relief Reconciliation Act of 2001, the Job Creation and Worker Assistance Act of 2002, and the Jobs and Growth Tax Relief Reconciliation Act of 2003.

By acting decisively to lower the tax burden on American manufacturers, particularly for small and medium-sized businesses, President Bush and Congress helped to keep the recession short and start the process of economic recovery. According to the U.S. Treasury Department, had President Bush and Congress failed to enact those measures, by the end of 2004, 3 million fewer jobs would have been created and a deeper recession and a far slower and more uncertain recovery would have resulted.

Nevertheless, there remains an enormous amount that government can still do to increase the certainty of the business environment in which U.S. manufacturers operate. The following steps would ensure that the government makes progress toward that goal.

Make Recent Tax Cuts Permanent to Enable Manufacturers to Attract Capital and Invest for the Future with Confidence

One of the key features of the recent recession was the sharp drop in business investment. Consumer spending, which makes up two-thirds of U.S. GDP, remained strong throughout both the recession and the subsequent recovery. Business investment, which accounts for the other one-third of GDP, has gained strength but has yet to reach pre-recession levels.

Fostering a climate for strong business investment, particularly in manufacturing, requires a stable economic environment that reduces risk. Reducing risk requires greater certainty. Congress should increase certainty and foster a healthier climate for investment in manufacturing and other sectors of the economy by making the recent tax cuts permanent.

The elimination of the estate or "death" tax, the temporary increase in expensing limits, and the new incentives for small business investment are among the most significant business-related features of the recent tax cuts. In addition, the reductions in individual marginal tax rates aid those businesspeople whose incomes flow through directly to individual returns, such as sole proprietors and partnership members. Congress should act to make the elimination of the death tax and the investment incentives for small businesses permanent to ensure that manufacturers, particularly small and medium-sized businesses, are able to attract the investment capital needed to ensure their future competitiveness.

Reduce the Costs of Tax Complexity and Compliance

U.S. tax laws have become unnecessarily complex. Complexity increases the cost of compliance and creates a drag on the economy, with businesses spending more time and resources on compliance and diverting talent and resources away from productive activities. Small business owners are particularly unprepared to deal with this complexity and do not have the resources to hire sophisticated tax counsel to advise them. It is time to make a serious effort to simplify the tax rules. The Treasury Department should undertake a study of tax simplification, focusing on those provisions that are particularly complex for manufacturers, including depreciation, the corporate alternative minimum tax, and the research and experimentation tax credit.

Make Permanent the Research and Experimentation Tax Credit

While public investment in research and development is a critical component in the development of new technologies, the private sector bears the burden of the research and development needed to bring those technologies to market.

To reinforce the existing incentive available under the Internal Revenue Code, Congress should make the research and experimentation (R&E) tax credit permanent.[1] Making the R&E credit permanent has been a consistent, long-time priority for advanced manufacturers. Doing so will increase the certainty associated with the tax treatment of research expenditures and thereby reduce the risk and cost associated with attracting or allocating capital expenditures to such activities.

Deepen the Pool of Investment Capital Available to Manufacturers by Introducing Incentives for Saving

Another key element for encouraging investment is deepening the pool of investment capital available to U.S. business. To do so, Congress should adopt tax incentives to increase the savings rate of American taxpayers.

Increasing U.S. savings and investment would also address the growing U.S. trade deficit. By providing incentives for savings and investment, the United States would reverse one of the main causes of the trade deficit, as well as expand access to, and lower the cost of, capital available to U.S. manufacturers.