EMERSON

United States Senate Finance Committee
Hearing on

International Competitiveness: The View from Within – Tax Policy and Its Effect on the Domestic and International Competitiveness of U.S.-Based Operations

Tuesday, July 8, 2003

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Chairman Grassley, Ranking Member Baucus, and Members of the Committee:

Good morning. I am Jim Berges, President of Emerson.

We are a $14 billion global company headquartered in St. Louis, Missouri.

We manufacture and service such products as industrial valves, measurement controls and software for the petrochemical, pharmaceutical and other process industries; air conditioning compressors and components for the HVAC industry; network power equipment for the telecommunications industry; and motors and appliance controls for the home appliance industry. (We do <u>not</u> manufacture radios and televisions sets under the Emerson brand name. That is a different company, unrelated to ours.) Our products employ advanced technology for the benefit of our customers – our R and D spending is about 3.8% of sales, among the highest of our industrial peers.

Our annual revenues are 55% from domestic sales, 45% from international sales.

We have 320 manufacturing facilities worldwide: approximately 50% of our production and payroll is derived from the 135 plants we operate in the United States. We have 185 manufacturing facilities located in Europe, Asia, and Latin America. We employ over 100,000 people.

I would like to make a few simple points in my limited time this morning:

1. U.S. Manufacturing in Crisis

Manufacturing in the United States has taken a body slam over the last three years due to the global economic downturn, sharply diminished capital spending, global overcapacity, and negative price (i.e., year-over-year price declines for manufactured goods).

At Emerson, tragically, we have had to close 45 plants in the United States and eliminate 15,000 jobs in the last three years just to stay globally competitive in many of our markets.

I can tell you that no plant closure decision is taken lightly by our management. It's extremely painful to lay-off people who often have devoted their lives to manufacturing and to leave towns where we have been a vital part of the community. Frankly, I am tired of it.

I'm sorry to say that among the casualties of these actions have been an Emerson Appliance Motor facility in Senator Lott's state of Mississippi and two facilities in Senator Lincoln's state of Arkansas.

2. Importance of FSC/ETI for Manufacturing Investment Decisions in U.S.

At a time when manufacturing is in crisis, repealing FSC/ETI, without some back-fill for all manufacturers in the United States is like kicking a dog when he's down.

Such a policy choice by Congress will impose a $5 billion per year tax increase on the domestic manufacturing sector and provide one more disincentive, among many already, to not locate, or maintain, manufacturing in the U.S.

Let me give you just one example: Emerson's Fisher Controls facility in Marshalltown, Iowa.

We employ approximately 1000 highly skilled machinists and others in Marshalltown in the production, sales, and marketing of precision industrial valves for the oil and gas industry. 40% the product from the plant is exported.

The FSC/ETI provides a $4.4 million/year incentive to keep these jobs in Marshalltown, Iowa. Emerson is the direct beneficiary of the FSC/ETI benefit, but the benefits also flow down to all our domestic suppliers and our ability to supply customers, both domestic and for the export markets.

If FSC/ETI is repealed, and no domestic manufacturing incentive is provided as a replacement, the Marshalltown facility will have to make up for its lost FSC benefits with either new sales of at least $50,000,000 per year – unlikely in a very soft global market -- or through cost cuts of $7m to deliver the same after-tax earnings, which likely would mean lost jobs. Conversely, if some form of equivalent benefit remains available, savings of $7m would have to be available at another location just to be at parity with Marshalltown, a powerful incentive to stay there.

In establishing the DISC, the FSC, and ETI, Congress directed these incentives to businesses that make things in the United States in order to offset border adjustable-VAT rebates in countries such as the Members of the EU.

The FSC/ETI provides an important incentive for job creation for domestic manufacturing and production, at a time when manufacturers face negative price and

increasing costs in health care, unpredictable litigation judgments, and, until recently, a strong dollar.

Our view is that Congress should fashion a WTO-legal incentive for these same good public policy reasons, i.e., creating and maintaining high paying domestic manufacturing jobs and revitalizing a strong, competitive, industrial base in our country.

As Joel Popkin has pointed out in his recent study, "Securing America's Future: The Case for a Strong Manufacturing Base," -- economies without a growing and vital manufacturing sector are doomed to 1.5% growth annually; the argument that we should just get on with the conversion to a service economy does not hold water. If you want to see the effects of 1.5% growth on an economy just look at Japan and parts of Europe – not a pretty sight and not one that I care to be part of.

3. The American Manufacturing Jobs Proposal

Emerson, and many other manufacturers, have worked with interested Senators and Representatives on a WTO-legal, revenue neutral, manufacturing tax exclusion proposal as a replacement for the FSC/ETI.

We have shared these ideas broadly within the business community and with Members and staff of this Committee. I have also visited with key decision makers at the U.S. Treasury, the Commerce Department, and the White House on this proposal, as have other companies—both large and small—who share our perspective.

Our ideas are based on a Canadian manufacturing and processing tax benefit, which has existed in Canada for 30 years.

Under our proposal all manufacturers and processors, including agricultural processors, would receive a lower tax rate on their qualifying business income.

The proposal is not export dependent, has been privately estimated as revenue neutral, it has a short transition time, and would be available to all manufacturing and processing done in the United States: this includes small and medium sized manufacturers and pass-through entities like S corporations and partnerships—many of whom do not currently benefit under the FSC/ETI regime.

Pure and simple, the proposal is designed to help revitalize all U.S. manufacturing, to provide incentives for investing in domestic manufacturing, and to create jobs.

The response we have received from policymakers—from both parties—has been very encouraging. Copies of the proposal are attached to my written testimony and, Mr. Chairman, I would ask that this be included in the record of today's hearing.

<u>4. International Tax Reform</u>

As I have visited with key policymakers here in Washington, I am often asked, "Emerson is a global company. Wouldn't you rather see broad reform of our international tax laws?" My response is simple. These are good ideas and if you want to lower my company's international tax rates, fine. But it won't provide me any incentive to create, or retain, a single U.S. manufacturing job. Period. Full stop. In fact, lower effective tax rates at our international subsidiaries could actually encourage more job movement out of this country.

I don't mean to diminish the importance of international tax simplification and its role in U.S. global competitiveness. Congress obviously needs to address these important issues, <u>but not at the expense of sacrificing our domestic manufacturing base.</u>

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Mr. Chairman, I very much appreciate the opportunity to share Emerson's perspective with the Committee this morning.

We look forward to working with this Committee as you continue your consideration of the FSC/ETI issue and the need for vibrant job creation in the our country.

<u>We would urge that significant incentives for domestic manufacturing and job creation be the logical replacement for the FSC/ETI.</u>

Thank you for your time and attention.