



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Remarks of Sen. Chuck Grassley to the National Association of Manufacturers Tuesday, March 2, 2004

The last time I spoke with you all was on September 24, 2003. The week before that speech, Sen. Baucus and I introduced the JUMPSTART OUR BUSINESS STRENGTH ACT, the JOBS Act, in the middle of Hurricane Isabel. Today, I am delivering this speech just before our legislative hurricane begins. Later today, probably around 2 in the afternoon, we will begin debate on the JOBS Act.

The JOBS Act was voted out of the Finance Committee on October 1st, in a 19 to 2 bipartisan vote. The JOBS Act will repeal the current FSC-ETI regime and use all of the money from repeal to provide a 3 point tax rate cut on income from U.S.-based manufacturing. We start phasing in those cuts this year. Unlike the pending Ways and Means bill and other bills that will be offered during the upcoming debate, these cuts apply to all who manufacture in America, regardless of their size.

Sole proprietors, partnerships, farmers, individuals, family businesses, multinational corporations, foreign companies that set up manufacturing plants in the U.S. -- all of these manufacturing enterprises will benefit.

The JOBS bill also includes the Homeland Reinvestment Act, sponsored by Sen. Smith, Sen. Ensign and Sen. Boxer. The whole JOBS bill is slanted toward manufacturing. Even the international tax reforms are targeted to manufacturers. Overall domestic losses, interest allocation, repealing the 90 percent AMT foreign tax credit limit are all examples of provisions that you have asked for. We have supported manufacturing. I must now ask manufacturing to support us. Over the next several days, there will be many challenges to our bill. Like all bills, there is never complete agreement on an approach. Some members do not favor including the Homeland Reinvestment Act in this bill. I anticipate we will have votes on that measure.

Our bill contains a temporary haircut on the rate reduction that some members would like to remove and others would like to retain. In my view, the haircut removes an important domestic manufacturing incentive for multinational companies. We create an incentive by offering a tax cut to expand manufacturing in the U.S., but take back the cut if you operate outside the U.S.

That doesn't make sense for the long-term, which is why we phase it out in the JOBS bill, and many want that phase-out accelerated. We will have amendments to strike all the international provisions. There will be amendments to expand the NOL carryback period to 5 years, and some

members want to accelerate the phase-in of the manufacturing rate cut. They believe this would improve the bill.

But one amendment that will not be an improvement is a proposal to scrap the manufacturing tax cut and international reforms in favor of an across the board rate cut. My guess is the most they can get from this is a 1.5 percent rate cut. I understand the desire for this simpler approach to cutting taxes, but a top-level rate cut would only go to the biggest corporations in America. Local family-held S corporations or partnerships which presently get ETI benefits get nothing from this. The Joint Committee states that 89 percent of all FSC-ETI benefits go to manufacturing. FSC-ETI repeal will not create a large tax increase on the services industry. But repeal will be a \$50 billion tax increase on manufacturing. If we redirect FSC-ETI repeal money to an across the board corporate cut, then it will be on the back of the manufacturing sector. Manufacturing is not a revenue raiser!

The people pushing a flat corporate rate cut say our manufacturing definition is too vague, and that it is too difficult to calculate manufacturing income. Our core definition of manufacturing is the same definition used for both FSC and ETI. This definition is 20 years old. Treasury claims it is too difficult to allocate income and expenses in determining the amount of manufacturing income. But for 20 years, Treasury has had administrative pricing rules that tell taxpayers how to allocate expenses in figuring FSC-ETI benefits. If they really wanted to support manufacturing, they would find a way to do this.

We have supported you and now we need you to support us. I would like for NAM to make passage of the JOBS bill a “key vote” for its members. I also ask you to “key vote” any amendment that would strip our bill, whether it is an amendment to strike all the international provisions or an amendment to strike everything in favor of a flat corporate rate cut. We have a strong bipartisan bill in the JOBS Act, and bipartisanship is the only way we will get it out of the Senate. Plus the fact that it is revenue neutral.

There is one other attack circulating on our bill, and it is coming from outside of Congress. Some lobbyists have suggested that we don’t have to repeal the FSC/ETI regime this year. They say sanctions don’t matter. After all, they argue, sanctions only start at 5 percent, and the decline of the dollar will take care of that. I’ll bet you anything these guys don’t represent anyone on the retaliation list. For those on the list, sanctions do matter. In fact, the lower value of the dollar against the Euro merely restores the status quo of the 1990s for a lot of American companies. The recent decline helps them regain lost market share in Europe. Why Congress would want to deprive them of that opportunity is beyond me. Besides, there is no guarantee that the value of the dollar won’t go up tomorrow, leaving America’s exporters in a much worse situation than they are in today. It is just plain wrong for us to gamble their future on the volatile international currency market.

Other lobbyists suggest we can just “cut a government check” to the U.S. exporter hurt by the sanctions. This suggestion is fraught with peril. First, it is likely that the WTO would find such a scheme to be a prohibited export subsidy, thus continuing the cycle of non-compliance and retaliation. Second, the scheme is totally unworkable. It would probably require a new government bureaucracy to administer – we want to encourage manufacturing jobs, not government jobs.

It has also been suggested that the U.S. government could simply pay compensation to foreign governments rather than comply with our international obligations. While this suggestion is theoretically possible, it is not realistic. Under the World Trade Organization dispute settlement system there is only one way a nation can bring itself into compliance with an adverse ruling – conform the WTO-inconsistent measure with the report adopted by the Dispute Settlement Body. As long as FSC/ETI is not repealed, the United States remains in violation of its international trade commitments. Paying compensation does not bring the United States into compliance. Furthermore, it must first be remembered that compensation in lieu of retaliation is only a viable option if the prevailing party agrees, something the EU is not inclined to do. Even if they were, I am certainly not going to be the one who suggests on the Senate floor that we start annually sending taxpayer money to France. I for one don't think the Congress will buy it. These proposals are nothing more than a "shell game" expounded by Washington lobbyists in an attempt to confuse Congress and the public, thus avoiding a real, permanent solution to the long-standing FSC/ETI dispute. These proposals are not realistic and they will not stop the imposition of sanctions. It's time to face facts! Gambling America's exports on the volatile currency markets won't work. Cutting government checks to U.S. exporters won't work. Transferring taxpayer money to foreign governments won't work. We need to quit playing "shell games."

There is only one real solution for America's workers, and that is getting the JOBS Act passed now! Now let's hope the Senate gets to work and puts American manufacturing back in the game. I urge you to support our bipartisan JOBS Act. I want to see this bill on the President's desk by Memorial Day.