United States Senate

COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION

WASHINGTON, DC 20510–6125

September 29, 2003

Dear Colleague:

For sometime now our manufacturing base has been under assault from foreign competition. As a result, the United States has suffered significant job loss in this sector. In fact, the U.S. manufacturing sector has suffered job loss for 37 consecutive months with a job loss of nearly 3 million manufacturing workers during this time period, the largest since the Great Depression.

In an effort to stem the erosion of these high-wage, high value jobs, earlier this session, I introduced legislation (S. 970 -- The Job Protection Act of 2003) that would provide significant tax incentives to manufacture in the United States. Moreover, my legislation contains disincentives to manufacture abroad. Essentially, S. 970 would reduce the tax benefits a company receives as they produce more abroad. The more a company manufactures in the U.S. and the less it manufactures abroad, the greater the tax reduction. Conversely, the less it makes in the U.S. and the more it makes abroad, the lower the tax reduction. To reiterate: *This method is designed to: (1) create incentives to keep manufacturing in the United States; (2) establish disincentives to move jobs overseas; and (3) encourage new investment in the United States by making it comparatively more attractive to invest in the United States than abroad.*

Recently, a version of this legislation, S. 1637, was introduced by the leadership of the Finance Committee. In several ways, this effort improves on my proposal. In particular it quickens the phase in of the manufacturing incentives. Unfortunately and inexplicably, S. 1637 provides a number of tax breaks for the overseas operations of U.S. multinational companies. It ultimately eliminates the provision of my legislation that creates positive incentives to manufacture in the U.S., and eliminates the disincentives to ship jobs overseas. Specifically, after providing only a *temporary* advantage to companies manufacturing in the United States, S. 1637 extends the complete manufacturing tax reduction to all American companies, no matter where they are manufacturing, no matter how much manufacturing is done abroad.

Essentially, the U.S. taxpayer is being asked to fund benefits for companies who have shipped manufacturing jobs overseas. This is an astonishing provision. It asks the American taxpayer to pay for the operation of manufacturing facilities outside of the United States. Quite simply, this is an unacceptable result and I can not believe that the American people would stand for this. To add insult to injury, this provision is added at the end of the budget window to hide its true cost. Therefore, should this provision remain in the bill following mark-up by the Finance Committee, I will offer an amendment to strike this tax break from the bill.

In addition, the Finance Committee proposal contains multiple benefits to lower the tax rate on other overseas activities as well. Once again, the U.S. taxpayer is being asked to subsidize business activity abroad. Therefore, I will offer an amendment to strip these provisions as well.

The U.S. international tax scheme as it is currently set up actually discourages production in the United States. At a later date, we must revise it to more accurately reflect the modern realities. In the interim, however, we should not make it worse by adding provisions that do not assist domestic manufacturers.

Should you wish to co-sponsor the amendment, please let me know, or contact Gregg Elias of my staff at 224-0742.

With kindest personal regards, I am

Sincerely,

Ernest F. Hollings