



Committee On Finance

Max Baucus, Ranking Member

NEWS RELEASE

<http://finance.senate.gov>

For Immediate Release

Wednesday, March 3, 2004

Baucus Focuses on Sharpening America's Competitive Edge, Addresses "Offshoring"
Senator Outlines Proposal at Brookings Institute, Promotes Engagement and Job Growth

(WASHINGTON, D.C.) U.S. Senator Max Baucus today spoke at the Brookings Institute to address the issue of "offshoring" - the practice of U.S. companies using resources or employees outside of the United States - and laid out a legislative agenda to ensure that America remains competitive and internationally connected.

"Open any newspaper these days and you'll likely see a story about U.S. services jobs moving overseas," Baucus said. "Offshoring has become the issue of the day and it's our first instinct to want to throw up barriers and hold our jobs tight."

"But that's not how to succeed in this interconnected, international world. We need a vision for America based on embracing open markets, rewarding innovation and risk-taking, while at the same time preparing our workforce to take advantage of the opportunities of the future," Baucus added.

Baucus's strategy for addressing the issue of offshoring includes introducing a legislative package that will help create new jobs through provisions such as: expanding the R&D tax credit, increasing federal spending on research, and promoting educational programs to prepare today's children for tomorrow's economy. The proposal also focuses on the rising costs of health care and ways to help small employers provide health coverage to their employees.

A key component of Baucus's proposal focuses on helping out people who have already lost their jobs due to outsourcing by expanding the Trade Adjustment Assistance (TAA) program to service workers. The current TAA program has helped thousands of manufacturing workers get retraining and maintain their health insurance while looking for a new job. In addition, Baucus today highlighted the need to enforce existing trade agreements and negotiate future trade agreements with countries that will provide true economic benefits for America's economy.

"Trade can be an amazing stimulus for economic growth and is one of the best ways we can create jobs, especially those in manufacturing," Baucus said. "But we must be smart about trade. We must enforce our trade laws and our trade agreements, and we must continue to stay strong on labor and environment protections."

In addition to Baucus's legislative proposal to address offshoring, he also urged immediate passage of the "Jumpstart Our Business Strength" (JOBS) bill that is currently being debated on the Senate floor. The Baucus-Grassley JOBS bill will provide tax relief to domestic manufacturers and will repeal the Foreign Sales Corporation/ Extraterritorial Income (FSC/ETI) tax regime, which had been ruled against by the World Trade Organization. On March 1, the European Union (EU) imposed sanctions on U.S. goods and will continue sanctions until FSC/ETI is repealed.

Full text of Baucus's Brookings Institute Speech follows:

Speech of U.S. Senator Max Baucus

“Preparing America to Compete in the 21st Century and Beyond”

Brookings Institution

March 3, 2004

INTRODUCTION

I would like to talk today about a matter of some concern to many of us in Congress: the movement of American jobs offshore. Open any newspaper these days and you'll likely see a story about U.S. service jobs moving overseas. Offshoring has become the issue of the day.

Dramatic improvements in communications technology have allowed workers in India and China to provide services that before had to be provided by workers in America. This has resulted in cost savings for businesses, but dislocation and anxiety for American working men and women.

Those who support trade have long argued that trade eliminates some jobs but creates other, better paying jobs. Economists said that we needed to move up the value-added ladder from agriculture to manufacturing, and from manufacturing to services. We did, and it worked. Our economy grew. But now that we're losing service jobs, some wonder whether we have run out of rungs on the ladder. Where will the jobs of the future come from?

The Administration is wholly out of touch with these concerns. It offers no comprehensive approach to cope with the real fear that exists among working Americans. Instead, the Administration assures us grimly that offshoring is good for the economy, and that we should encourage – even accelerate – the movement of U.S. jobs overseas.

In the absence of any Administration strategy to respond to the concerns created by offshoring, some argue for raising trade barriers. They want to make it more difficult for U.S. companies to hire foreign workers.

I have a different vision. I believe in an America that remains strong not because we have isolated ourselves from the world, but because we have re-made ourselves to meet the challenges that arise in an interconnected world.

No nation has ever become stronger through economic isolation. But Americans have built the strongest nation in the world by embracing open trade and successfully confronting the challenges it brings. We should respond to offshoring as we have always responded to economic challenges. We should reward innovation and risk-taking. We should keep our market open, and fight to open new markets for U.S. goods and services. And perhaps most importantly, we must prepare our workforce to take advantage of the opportunities of the future.

Today I announce that I will introduce a package of legislative proposals to address the economic challenges that offshoring poses. We must focus on three broad goals.

We must advance policies to help create new jobs here in the United States. We must undertake measures designed to keep good-paying jobs in the United States. And finally, when jobs are lost to trade, we need to retrain people and help them get back into the workforce as quickly as possible.

CREATE NEW JOBS IN THE UNITED STATES

R&D Tax Credit

Let me begin with job creation. One of the best ways to help create jobs here at home is to expand the research and development tax credit, and make it permanent.

For more than twenty years, this tax credit has helped stimulate innovation and kept high-skill, high-wage jobs in the United States. It rewards precisely the sort of risk-taking and innovation that we should encourage.

This is important – in many information technology companies, for example, as much as fifty percent of revenues come from newly released products and services. We must continue to innovate to succeed.

Increase Federal Spending on Research

Much of the most innovative research is done at U.S. universities and research institutes, which attract students from across the globe. But over the last 20 years, federal research funding in the physical sciences and engineering, as a percentage of GDP, has actually declined by nearly one-third.

We should reverse this trend and dramatically increase federal spending on basic research. The money we spend will come back to us many times over in the creation of new jobs in new industries making products yet to be invented.

MAKE IT EASIER TO KEEP JOBS IN THE U.S.

Creating new jobs is critical. But we must also make it easier to keep jobs that we already have. To do that, we must create a better environment for companies operating in the United States.

JOBS Bill

This week, we're taking a critical step. We must pass the JOBS bill currently being considered in the Senate, and pass it quickly.

The JOBS bill provides a 9 percent tax cut for all companies manufacturing products here in the United States. It also contains a variety of provisions to help American companies compete more effectively. This will give a needed boost to ailing U.S. manufacturers and provide an incentive to keep U.S. manufacturing jobs in the United States.

Health Care

We also need to do something about health care costs. From the smallest family owned businesses in Montana to the largest multinationals, companies have told me the rising cost of health coverage is among their greatest concerns.

That's because in America, not only do employers pay much of the cost of health care, but costs are higher and rising faster than in other countries. Last year, employers paid an average of nearly \$2900 for single employee coverage and over \$6500 for family coverage.

Employers in America also bear much of the cost of the rising number of uninsured through cost-shifting by hospitals and other health care providers. This places U.S. corporations at a disadvantage to their foreign competitors, whose employees are often covered under a government-sponsored universal health program. These costs are a real disincentive for companies to hire more workers. If we want to increase employment in America, we can't ignore this growing problem.

Over the course of the next several months, I will convene a number of briefings with national health policy experts to explore possible large-scale health reform strategies, including the proposals put forth by the Democratic Presidential candidates and alternative approaches to reform.

And in the short-term, I will continue to support and work toward passing more modest, incremental steps. These include offering small employer tax credits, funding for employer-based group purchasing pools, increased funding for high-risk pools, building on Medicaid and the State Children's Health Insurance Program, and permitting a Medicare buy-in for the near-elderly. These incremental steps will help ease the cost of health care for American employers and encourage more hiring.

Trade

When people talk about jobs moving overseas, they frequently talk about trade. Too often, the proposed solution is to retreat into isolationism and raise barriers to trade. In my view, that's exactly the wrong approach. We should engage in more trade, not less.

But we must be smart about trade. We must enforce our trade laws and our trade agreements. We must ensure that markets remain open to U.S. companies, and that U.S. companies can compete on a level playing field.

We should reject the notion that we must lower standards in this country to compete. Instead, we must look to raise standards in the countries we trade with. The Trade Act of 2002 made tremendous progress in this regard, but we must continue to “race to the top.”

When it comes to standards on labor and the environment, the debate in the last three years has been about what this Administration and this Congress – not our trading partners – will accept. Our trading partners will accept higher standards in order to gain the prestige and access that a trade agreement with the United States gives them. But we’ve been negotiating with ourselves instead of with them. We’ve got to do better.

I also believe we need to refocus our efforts more on enforcement. Should we spend our limited resources negotiating trade agreements with countries with miniscule economies, or should we be working to break down tough trade barriers in much bigger markets like Japan, India, and China?

India in particular maintains a variety of trade barriers against U.S. products. You hear a lot about U.S. call centers moving to India, but you don’t hear much about U.S. companies increasing their sales to India. In fact, last year, we exported to India’s one billion people only half of what we exported to Switzerland’s seven million people. We’ve got to do more to open up India and other countries to U.S. products. That would have a real positive impact on creating new jobs in America.

Education

Tax incentives, more affordable health care, smarter trade policy – these are things that can help in the short term. But creating and keeping jobs in America requires a long-term vision.

The most important thing we can do is to support education. This is the key to America’s continued prosperity. Education provides the skills necessary to unleash the creativity of our citizens and helps prepare them for the jobs of the future. The education of our working men and women can be America’s most powerful competitive advantage.

We should improve, consolidate, and expand the multitude of education tax incentives that already exist to make them more effective. In particular, we should increase scholarships and loan forgiveness for engineering students to entice more people to study engineering.

We train only half as many engineers as Japan and Europe, and less than a third as many as China. Engineers play a critical role in the development of new jobs and new industries. America needs more engineers.

We also need to ensure that American students are prepared for college. When states have to slash education spending to balance their budgets, it’s not just the students who are hurt. It’s all of us – our economy, and our future. We should fully fund the No Child Left Behind Act and take other measures to ensure our young people are prepared for college. Like supporting community colleges. Community colleges not only prepare some students for university, they allow workers to

learn new skills. And they play a critical role helping to retrain those who lose their jobs due to trade.

RETRAINING FOR THOSE WHO LOSE THEIR JOBS DUE TO TRADE

This leads me to my last point. Changes in the economy due to trade cause real hardship to a lot of people, even if we're all better off in the long run. We need to help workers re-enter the workforce as soon as possible.

Trade Adjustment Assistance

That was the impetus behind the expansion of the Trade Adjustment Assistance program in the Trade Act of 2002. That program has helped thousands of manufacturing workers to get retraining, keep their health insurance, and make a new start.

Despite the obvious benefits of this program, the Administration fought tooth and nail against every penny, and against every provision. I fought to extend TAA to service workers, but that provision was struck in the final version of the bill. As we read about service jobs moving overseas, we can now see that was a mistake.

People should get retraining whether they work in services or manufacturing. Workers, employers, and the American economy all benefit when we equip our workers with the skills they need to fill jobs in growing industries. That's why yesterday Senator Coleman and I introduced legislation to extend TAA to service workers whose jobs move overseas.

This is not just an issue of fairness, it's common sense. If we want more people to be employed, we need to get serious about training them for the jobs that are available.

CONCLUSION

Let me conclude with a promise and a warning. The U.S. economy is the most flexible, vibrant, and dynamic in the world. We owe that to the ingenuity of the American people and their relentless thirst to create and to innovate.

We also owe it to the policies we have put in place to support the innovation that keeps our economy growing and creating jobs. That includes embracing open trade with the world. I promise to continue to fight for those policies – including open trade – and for the improvements to them I have discussed here today. That's my promise.

And now for my warning. Just as jobs can be created by innovation and trade, so too can they be destroyed. There is no question that this is a frightening process. In the short run, there will be losers as well as winners. It is perfectly understandable why workers whose jobs are lost due to trade would believe that they are worse off because of trade.

But in the long run, all of us are better off. If we forget that, and raise barriers to trade to cope with offshoring, we will only be hurting ourselves. We will hinder the ability of companies to innovate and our economy to create jobs.

We should act not out of fear, but out of purpose. No country in the world is better positioned to take advantage of the opportunities of the future than is America. With the right policies, and with faith in ourselves, America will continue to grow and prosper in the 21st century and beyond.
Thank you.

###

Preparing America to Compete in the 21st Century and Beyond: A Positive Response to Offshoring

As American companies have moved manufacturing and service jobs overseas, some policymakers have argued for raising trade barriers and making it more difficult for U.S. companies to hire foreign workers.

Senator Max Baucus has a different vision. He believes in an America that remains strong not because we have isolated ourselves from the world, but because we have re-made ourselves to meet the challenges that arise in an interconnected world. No nation has ever become stronger by isolating itself. But Americans have built the strongest nation the world has ever known by embracing open trade and successfully confronting the challenges it brings.

To confront the challenge of offshoring, Senator Baucus will introduce a legislative package that will:

Create New Jobs :

- **Expand the R&D Tax Credit.** For twenty years, the R&D tax credit has helped stimulate innovation and kept high-skill, high-wage jobs in the United States. Senator Baucus proposes to expand the R&D tax credit and make it permanent to reward further the risk-taking and innovation that keep our economy growing.
- **Increase Federal Spending on Research.** Federal research funding in the physical sciences and engineering as a percentage of GDP has declined since 1985 by nearly one-third. Senator Baucus proposes to reverse this trend and dramatically increase federal spending on basic research. The money we spend will come back to us many times over in the creation of new jobs in new industries making products yet to be invented.

Keep Jobs in the United States:

- **Pass the JOBS Act** The JOBS Act provides a tax cut for all companies manufacturing products in the United States. It also contains a variety of provisions to help U.S. companies compete more effectively against their foreign rivals. Senator Baucus helped draft this bill to give a needed boost to ailing U.S. manufacturers and provide an incentive to keep U.S. manufacturing jobs in the United States.
- **Deal with Rising Health Expenses.** Senator Baucus will convene in the next few months a number of briefings with national health policy experts to explore possible large-scale health reform strategies. In the interim, he will work toward offering small employer tax credits, funding for employer-based group purchasing pools, increased funding for high-risk pools, building on Medicaid and the State Children's Health Insurance Program, and permitting a Medicare buy-in for the near-elderly.
- **Enforce Trade Agreements.** Keeping markets open and opening new markets for U.S. goods and services will also help increase employment in America. In particular, opening up India's largely closed market – with its one billion people – would have a strong positive impact on creating new jobs. Senator Baucus will push for better enforcement of our existing trade agreements, and for negotiating trade agreements with countries that offer lucrative markets where U.S. companies could increase their sales.
- **Support Lifelong Education.** Education provides the skills necessary to unleash Americans' creativity and helps prepare them for the jobs of the future. Senator Baucus proposes to improve, consolidate, and expand education tax incentives; to increase scholarships for engineering students; to fund the No Child Left Behind Act fully; and to support community colleges.

Retrain Workers Displaced by Trade:

- **Trade Adjustment Assistance.** TAA has helped thousands of manufacturing workers get retraining, keep their health insurance, and make a new start. Senator Baucus has introduced legislation to improve TAA and expand it to cover service workers who lose their jobs to offshoring. People should get retraining whether they work in services or manufacturing. Workers, employers, and the American economy all benefit when we equip our workers with the skills they need to fill jobs in growing industries.