

**Testimony of
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International Association of Machinists and Aerospace Workers
before the
Committee on Small Business of the
United States House of Representatives
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Mr. Chairman, Ms. Velazquez, and members of the Committee, the International Association of Machinists and Aerospace Workers (IAM) represents several hundred thousand active and retired workers in North America in a variety of industries including aerospace, defense, transportation, shipbuilding and repair, woodworking and electronics, just to name a few. IAM members work for multinational corporations and small businesses producing, assembling and maintaining almost every imaginable product in the manufacturing industry. Given our strong presence in this vital industry, we are grateful for the opportunity to testify before the Committee on Small Business as it examines the effect of the World Trade Organization (WTO) challenge to the Foreign Sales Corporation/Extraterritorial Income (FSC/ETI) rules on U.S. small businesses.

U.S. small business is highly dependent on the U.S. manufacturing industry. The WTO's challenge to our tax system must not result in the further demise of the U.S. manufacturing base. Indeed, the main objectives of any substitute tax policy should focus on incentives to keep production at home, facilitating the creation and maintenance of U.S. manufacturing jobs. Proposals that contain loopholes giving corporations incentives to move more work out of this country must be quickly dismissed. Moreover, proposals which contain provisions that are geared towards other tax policies which would distract policy makers from the urgent goal of facilitating the creation and maintenance of U.S. jobs, should also be quickly dismissed.

Currently, U.S. manufacturing is in the midst of a crisis not seen in decades. The most recent data reported by the Bureau of Labor Statistics confirms what we at the IAM have known for over two years: the number of jobs in the U.S. manufacturing industry are disappearing at an alarming rate. According to last Thursday's unemployment figures, the number of unemployed stood at 8.9 million. In August alone, employment fell by 93,000 with manufacturing alone accounting for 44,000 job losses. As the BLS Commissioner said in her statement: "Job losses continue to be pervasive --some 2.7 million manufacturing jobs have been lost, including a decline of 431,000 this year."¹ The massive numbers of unemployed who are officially reported doesn't even begin to reflect the real number of those who are unemployed because they are simply too discouraged to look for work.

Sharp declines in employment are occurring in almost every industry in this country. The massive job losses in the aerospace industry are typical. Since 1989, over

¹ See, "Commissioner's Statement on the Employment Situation", September 5, 2003.

600,000 jobs have been lost in the aerospace industry and over one million jobs have been lost in the aerospace and related industries. Like other major manufacturing industries, the U.S. aerospace industry is critical to the health of U.S. small businesses. As this industry declines, many of the smaller contractors that depend on aerospace are the first to be hurt. The decline of small business in this sector and the U.S. jobs they support is staggering as more and more U.S. work is outsourced to other countries.

Clearly, these dramatic job losses have an enormous effect on our nation's economy. Unlike other recessions, however, there is a sincere concern that job losses suffered during this recession will not come back. A recent article that appeared in the Washington Post notes that "[T]he vast majority of the 2.7 million job losses since the 2001 recession began were the result of permanent changes in the U.S. economy and are not coming back."²

Anyone who represents men and women who have built some of the greatest companies in the world only to be rewarded with a layoff knows what dire circumstances we are facing. Just look at the faces of workers who have lost their jobs. Feel their pain and anguish. Watch them as they try to feed their family, cloth their children and pay for skyrocketing health care insurance. Talk to them about their deep concern for their future as they see their retirement funds disappear.

Of course, there are many reasons for these job losses. One of the most significant reasons is the lack of a comprehensive manufacturing policy that puts workers and their communities first. Unfair trade agreements, outsourcing of production and assembly to workers in other countries, unfair competition, and the continued use of offsets -- that is the transfer of jobs and technology abroad -- are all just some of the related reasons why the U.S. is currently suffering such enormous job losses in manufacturing.

Given the severe decline in the number of U.S. manufacturing jobs during the past several months, it is imperative that any replacement for the FSC/ETI facilitate the critical need to create and maintain manufacturing jobs at home

The general approach taken by the Crane-Rangel-Manzullo-Levin bill, makes a great deal of sense. Basically, this bill would provide a tax benefit for production of goods in the United States, adjusted for the percentage of a company's worldwide production that takes place domestically. In effect, this approach could create a tax incentive to keep production in the United States. The legislation would also phase out FSC/ETI benefits over a period of time, permitting workers and companies to adjust to the new system.

A new bill offered by Representative Bill Thomas, Chairman of the House Ways and Means Committee, would repeal the FSC/ETI and replace it with a myriad of corporate tax cuts. This approach should be rejected. Among other things, it is filled with a series of corporate tax cuts that, at a minimum, distract policy makers from the

² Washington Post, September 5, 2003; noting a Federal Reserve Bank of New York study.

clear objective of enacting a tax policy that would facilitate the creation and maintenance of U.S. manufacturing jobs. Even more disturbing, however, the Thomas approach could present more incentives for corporations to shift manufacturing jobs out of the country. Policy makers must not replace FSC/ETI with provisions that create opportunities for corporations to take advantage of the WTO challenge by sacrificing U.S. manufacturing workers.

Companies are moving U.S. manufacturing jobs out of this country with increasing frequency. U.S. workers who built these companies are then left behind to face almost insurmountable obstacles as they try to put their lives back together.

As a replacement is crafted for the FSC/ETI, the IAM urges Congress to enact a tax policy that focuses on keeping production at home and facilitating the creation and maintenance of U.S. manufacturing jobs. We also urge you to develop legislation that closes loopholes and removes tax incentives for corporations to move jobs abroad.

Hundreds of thousands of U.S. manufacturing workers are losing their jobs only to see them reappear in other countries. Congress must heed the urgent call to pursue policies that will immediately reverse this shameful trend. A replacement for FSC/ETI in the wake of the WTO challenge that will create a tax incentive that encourages domestic manufacturing and that will facilitate the creation and maintenance of good and decent manufacturing jobs here at home is one solution that should be supported.