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Computers and Business Equipment Manufacturers Association

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BAUCUS

STATEMENT OF SENATOR MAX BAUCUS

COMPUTER AND BUSINESS EQUIPMENT

MANUFACTURERS ASSOCIATION

April 16, 1986

Introduction

Thank you.

Edmund Burke once said, "you can never plan the future by the past."

I would add to that bit of wisdom the notion that you can't solve long-term problems with short-term "fixes."

It is this dual dilemma that faces us now as we try to reduce our budget deficit, reform our tax laws and halt the erosion of U.S. competitiveness in both trade and industrial production.

We face an uncertain economic future. And we have to respond with innovative approaches that will do more than just plug the dike.

The world has changed dramatically over the past few years, and so has the United States.

Let me remind you of a few facts.

You all know about our staggering trade deficit. Last year, our trade deficit with Japan was 50% higher than our 1980 deficit with the entire world.

That's not all.

The U.S. is now a debtor nation.

The last time that happened was 1914.

Then, we were borrowing to finance industrialization.

Now, we're borrowing to finance consumption, and the debt is piling up.

At the rate we're going, our international debt will soon exceed the debt of Brazil, Mexico and Venezuela combined.

These statistics remind us there's no guarantee that America will remain number one automatically. In the sweep of history, nations rise and fall: Egypt, Greece, Rome, Great Britain.

We can fall, too--unless we regain our competitive edge.

Trade

Our trade performance is a good barometer by which to measure our slipping competitiveness.

the Commerce Department predicts that our trade deficit in 1986 will hover around $150 billion, about last year's level.

While we can take some comfort in the fact that the deficit isn't likely to continue its exponential growth, it will be a long while at that rate before we regain some semblance of balance, even with the help of the depreciating dollar.

So what can we do?

First, we have to update our international trade laws.

When the GATT international trade code was written, the fastest computer made 5,000 computations per second. Now, we routinely calculate computations in <u>nanoseconds</u>--that is, in billionths of a second.

But our trade laws haven't kept pace. Our trade competitors invent new loopholes faster than we can close them.

For example, the Canadians funnel massive subsidies to their lumber producers. They have 35% of our market, even though a sawmill in British Columbia is no more efficient than one in Oregon or Montana. Until this week, our subsidy law couldn't touch them, because so-called "natural resource subsidies" were considered immune.

But we've had a victory of sorts--the Commerce Department on Monday reversed an earlier ruling that implies that such natural resource subsidies will be countervailable.

That's a start, but it's not a comprehensive reform of our trade laws.

We may have an opportunity to overhaul some of those laws this session.

I can't predict what the House might ultimately send over to the Senate, but I can guarantee that whatever it is, it will get a long, hard look.

We can't afford not to.

Neither can we afford to plunge headlong into negotiations or agreements that will have long-term repercussions without thinking them through carefully and making sure our best interests are served.

I'm referring of course to the Finance Committee's "discussion" last Friday of the administration's request for "fast-track" authorization for the U.S.-Canada Free Trade Agreement.

There's merit in the FTA proposal, but it's clear to me that we need to get our ducks in order and weigh our interests carefully <u>before</u> we conclude an agreement.

<u>Competitiveness</u>

If we are honest with ourselves, we must recognize that much of the trade problem is here at home.

In the end, we have to <u>compete</u> our way out of the trade deficit.

The overvalued dollar has been a large part of the problem.

But even after the dollar has fallen, we will have a competitiveness problem.

Because competitiveness depends on productivity. And American productivity is declining.

Between 1960-1983, U.S. productivity grew by 1.2% annually. Britain--which we view as an empire in decline--grew by 2.3%, almost twice as much. Germany grew by 3.4%. Japan, 5.9%.

Let's face facts.

We have to make some dramatic changes.

Savings

We have to increase savings rates, so that American companies have a pool of cheap capital for investment.

Our savings rate is much lower than that of any other industrialized country, and the tax system is largely responsible.

We use the tax system to encourage borrowing and discourage savings; our competitors do just the opposite.

Now that the Senate Finance Committee is debating tax reform, we have an opportunity to correct this imbalance.

That won't be politically popular, but it will put us on the right long-term track.

R&D and Education

We also must increase research and development, by making the R&D tax credit permanent.

And we must improve education, so that your companies can draw upon the most skilled workers in the world.

WE'RE LOSING THE BALL GAME

. . . AND WE'RE THE REASON

I compare the state of U.S. industry to a giant football game, a game that doesn't have the Chicago Bears playing the New England Patriots, but instead pits an American All-Star Team with the best that foreign countries have to offer, a Japanese All-Star Team.

The game is unusual in that each quarter lasts ten years.

The kickoff for my mythical game is January 1, 1960. So today is only halfway through the third quarter, and we can still influence how the game will end before the final whistle at the turn of this century.

As our game starts, it's obvious that the U.S. players, whose names are Business, Industry, Agriculture, Mining and Banking, are larger, more experienced and better prepared than their Japanese counterparts.

Unfortunately, many of them are also overweight and overconfident.

To no one's surprise, in the first quarter the U.S. team shows its superior athletic skills and leads 21-3, with the only points for Japan being scored by a camera manufacturer.

But we witness some unusual events that could change the course of this game.

The Japanese team is coached by the Prime Minister, with all the cabinet members as assistant coaches.

The team doctor and trainer are officials of the Ministry of Foreign Trade, and anytime a player appears to be hurt, they use what seem to be miracle drugs.

I managed to sneak a look into the Japanese doctor's kit, and I noticed that the primary ingredients were labeled "high duties," "infant industry protection," and "advertising and marketing restrictions for foreigners."

Although I couldn't read all the labels, I also noticed something called "Japan Incorporated," a very important prescription for working together.

But I also notice something else. The Japanese players have a long-term vision for their team. They make trades that may not pay off in the short run, but promise long-term growth.

The Japanese players are saving more of their income, and investing it in stronger and more productive players. They'll deny themselves big contracts today if it means a stronger team tomorrow.

And they're learning from us. Their scouts are copying our plays and making our equipment even better than we could.

It's obvious that all of this is working, because it's putting pep, vitality and even size into the Japanese players.

Things are much different on the U.S. side. The halfback called Agriculture has been injured and can't compete against most teams.

The fullback called Industry is getting clobbered as the foreign imports break through the U.S. line.

And the quarterback named Small Business can't figure out how to penetrate into the Japanese backfield. He's not big enough to do it himself, and no one on the U.S. side gives him any assistance.

There are other problems. The ticket proceeds--sometimes called Taxes--are being given away to an industry called Real Estate, who doesn't even play the international game, rather than to the industries that play on the front line.

Our team makes quick, dramatic deals, called "Mergers" and "High Dividends," which thrill the shareholder fans, but don't do much for the long-term growth of our team.

The second quarter is a disastrous quarter for the U.S. team as the Japanese score four touchdowns and take the lead at the half.

But an interesting thing has happened--the spectators, the U.S. public, seem very happy . . . they are cheering the Japanese and think it's marvelous that they can get all those foreign goodies at cheap prices.

So at halftime the U.S. is slightly behind but obviously in very deep trouble. This seems like an excellent time to make some adjustments.

The new coach--affectionately named "The Gipper"--doesn't believe the U.S. team should not have a game plan. He believes we will do best if each player just acts on his own.

He does promise to fatten his defensive linemen. "We need a heavy defensive establishment," he says, but one question goes unanswered: how can the defense hold up when the defensive backs, those basic industries that supply raw materials to that defensive line, appear to be in a lot of trouble?

So we go into the second half of the game. It's the decade of the '80s . . . the time to put up or shut up.

As we start the second half, it's clear that the Gipper's strategy isn't working.

Our players are forced to carry new weights. The strong dollar is the equivalent of a 40 percent burden. If a player weighs 200 pounds, we put lead weights of 80 pounds around his shoulders, then cheer him on with, "Run. Compete our there. I don't understand why you're so slow."

The combination of Japanese improvements and U.S. weights is making life miserable for our backfield.

Runner after runner limps off the field with injuries . . . there's Steel and Timber and Textiles and Mining. The ranks of our running backs are really getting thinned out.

But that's okay, say the coaches; our linemen, the service industries, are doing fine. They are blocking well and opening up gaping holes in the line.

But we're falling further behind because our backfield is dying. We can't score with linemen alone.

Our running has netted a deficit of over 150 billion yards in the last year alone.

So here it is, [date]. We have passed the middle of the third quarter, and the Japanese team has scored three more touchdowns and is threatening to make it a rout.

Very little seems to be happening to even up the rules, but there are 15 years left in this game. What will those years bring?

There are two ways in which this game can come out. In one, the U.S. suffers a devastating defeat. In the other, the U.S. stems the tide in the third quarter and rallies to win.

What are the differences in the two scenarios?

The U.S. will lose if we simply continue business as usual. We will lose if we do nothing about the events that created the huge budget and trade deficits of the last several years, and if we do nothing about our underlying lack of competitiveness.

But there is another way. There is a way in which we can still win. My game plan includes at least six points.

* <u>We need to even the playing field in international trade.</u> The countries we deal with

must be brought to the table to establish rules that permit our businesses to sell in their markets as freely as they sell in ours. If we don't establish fair rules, we won't win the ballgame.

* We must address our own lack of competitiveness. It's easy to blame foreign countries for our trade problems. But if we are honest with ourselves, much of the problem is our own lack of competitiveness. Between 1960 and 1983, U.S. productivity rose by 1.2% annually. Japan's productivity rose by 5.9%.

We don't sacrifice short-term profits for long-term investment that will do far more to increase our productivity and international competitiveness. We don't encourage savings, which provides a necessary pool for investment. And we don't aggressively learn how to sell better in foreign markets. The Japanese do all of these things, and they are killing us.

* We should change government policies that discourage competitiveness. At present, our

government discourages American competitiveness. Our tax code discourages capital formation, savings, and research and development, all of which are essential to American competitiveness. The Finance Committee's tax reform proposal would improve the tax code in all of these respects, and I support it. It may cause some pain for some people, but you can't win a ballgame without some sacrifice and pain.

* We need to reduce the budget deficit. Our continuously increasing budget deficit is a time bomb that must be addressed. It has increased the value of the dollar and threatens to halt future growth. I support Gramm-Rudman-Hollings, distasteful though it may seem.

* Insurance - [Add Paul's part]

* * *

Those are my ___ points for winning this ball game, but none of them will be easy.

In football terms, I feel that it's like having to score six touchdowns, usually starting with the ball on our own five-yard line.

Not an easy order, but it can be done.

Every day that our budget and trade deficits continue, every day that our industrial establishment grows weaker, every day that we become less competitive in domestic and global markets is a day wasted in the U.S. comeback.

All our efforts will be needed to reverse the current trends.

But we must act now--because this is the most important ballgame we'll ever be in.