



Committee On Finance

Max Baucus, Ranking Member

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BAUCUS AT NATIONAL PRESS CLUB: AMERICA MUST ACT NOW TO MAINTAIN COMPETITIVENESS IN CHANGING GLOBAL ECONOMY

Senator outlines immediate legislative steps to provide essential education improvements, to create and keep jobs in U.S., and to sustain economic leadership as China, India emerge

Washington, DC – U.S. Senator Max Baucus (D-Mont.), Ranking Member on the Senate Finance Committee, addressed the National Press Club today on the subject of “**Advancing American Competitiveness in a Changing World.**” The Senator reviewed his recent visit to China and India and detailed his upcoming legislative agenda for improving American competitiveness. Baucus has been working for some time to warn his colleagues and others that America needs to make changes now to maintain our global economic leadership. This month, he visited China and India to see global competitiveness close up, looking in particular at how and why jobs are flowing into the Asian technology sector so that we can address the issue of outsourcing and create sustainable jobs for Americans here at home.

Following is the prepared text of Baucus’s remarks.

“Pillars of a Competitive Economy” Statement by Senator Max Baucus Before the National Press Club January 25, 2006

INTRODUCTION

Forty three years ago, I set off on a trip around the world.

It was 1963. I was a student at a Stanford University program in France. But I spent most of my time with the other Americans there. And I learned little French. After six months, I decided to leave France and hitch-hike across the world.

The people I met on that trip changed my life. They sparked my interest in public service. They kindled my concern for foreign affairs. They broadened my appetite for the world.

43 years ago, I was in Delhi. I learned that Prime Minister Nehru met with Americans every second Thursday. So I made an appointment. I took my wrinkled blazer out of my backpack. I smoothed it out as best I could.

And I headed over to the Prime Minister's office. I met with Nehru for more than half an hour. Here I was, a young student from Montana, talking with the man who had led India to independence, united its many peoples, and steered its economy. It was a life-changing experience.

IMPRESSIONS OF CHINA AND INDIA

Last week – 43 years later – I went back to India. This time I went as a United States Senator, with a delegation of Montanans. We traveled to Bangalore and Delhi. We also went to Beijing and Chongqing, China. We went to learn about the challenges and opportunities presented by the economic rise of India and China.

43 years ago I saw Prime Minister Nehru, the Taj Mahal, and New Delhi's imposing British architecture.

43 years ago, I saw India's history. Last week, I saw India's future.

I saw the future in the faces of confident, young engineering students at Delhi's Indian Institute of Technology, who have no doubt that the India of tomorrow will be better than the India their parents left them. I saw the future in Delhi's super-modern subway that snakes its way beneath that teeming city of almost 14 million.

I saw the future at Bangalore's Infosys, whose futuristic architecture, state-of-the-art technology, and commitment to excellence has made it a global technology leader. I saw the future in the eyes of Indian government leaders, who are bent on making 21st century India the world's engine.

I also saw the future in China. I saw gleaming superhighways burrowing through brightly-lit tunnels. I saw robots stacking the shelves of the Chinese company that now produces the IBM Think Pad.

I saw teams of Chinese researchers at Microsoft's Beijing lab determined to discover the next big thing. I saw the new cars that replaced the old cars that – only a few short years ago – displaced Beijing's bicycles. I saw capitalists and entrepreneurs betting on China's rise. I saw a confident middle class ready for the future.

These sights reinforce what we already know. China and India – with over 2.3 billion people between them -- are reawakening civilizations on the march.

After a quarter century of growth, China is set to become the world's largest economy by 2030. China is already the world's third largest exporter. And China has surpassed America as the largest exporter of information technology products.

A steady flow of foreign direct investment seeks opportunity and profit in China. Ninety percent of Chinese exporters are backed by foreign investment, whether in clothes, computers or chemicals. The flock of construction cranes that I saw in Beijing and Chongqing hover over investments in real estate and construction.

India is no less impressive. It has developed a higher education system that produces tens of thousands of incredibly gifted graduates per year. It has created a world-class information technology sector, which has grown an astounding 50 percent annually for over 10 years.

And with new billion-dollar investments by Microsoft, Cisco Systems, Intel, and others India's IT industry could swell fivefold in just two years.

UNITED STATES: FACING FACTS

I went to China and India because I wanted to see these rising powers up close. I went to listen to government and business leaders, to students and entrepreneurs, and learn how they see the future. I went to talk with former Prime Minister of Singapore and elder statesman of Asia Lee Kuan Yew. I went with a delegation of Montanans. I went to face the facts.

Here are the facts. China is singularly focused on restoring its historical economic preeminence. It has already been enormously successful. Its businesses are thriving. Exports are soaring. Investment is booming. And China has every intention of making these successes broader, deeper, and enduring.

Technology is getting more sophisticated. Workers are becoming more skilled and productive. China's business leaders have vision and focus, and they know their economy holds enormous promise. These are the facts.

India has a large, highly-skilled, and fiercely ambitious workforce. They are led by entrepreneurs – like K. Dinesh of Infosys – who are fixated on quality, innovation, and performance. America's flagship companies are also investing billions in India. They are buying not low-skilled work, but high-caliber research and development. These are also the facts.

The U.S. economy is losing some of its competitive advantage – that too is a fact. We have lost our preeminence in information technology, falling behind Singapore, Iceland, Finland, and Denmark. At the same time, federal support for research and development is in a 30-year decline.

While multinationals scramble to tap India's talent pool, we are neglecting our human capital. When I started in the Senate, America ranked third in the world in the share of young people with science or engineering degrees. Thirty years later, we have slipped to 17th. In global rankings of math, reading, and science skills, our 15-year-olds have fallen even further.

Rising health-care costs threaten to cripple many companies. And too often employees have little or no coverage. The average American spends more than \$5000 a year on healthcare costs – twice as much as the next most-costly country. These are the facts.

The United States is set to rack up another record current account deficit. We borrow more than 80 percent of the world's savings.

Our net foreign debt has not been this high as a percentage of GDP since Grover Cleveland was in the White House. This is unsustainable and costly. And too few think about the day our debts come due.

In international trade, over the last few years, we have distanced ourselves from Asia, leaving China to engage the region. Instead, this administration has pursued politically-motivated trade agreements with very small countries of little economic significance that create few jobs at home.

By not pushing to open the world's biggest markets and not explaining the importance of trade, this administration fosters a surging protectionism.

These are the facts.

HARD AND HOPEFUL TRUTHS

But I did not come here today to declare the end of U.S. global economic preeminence. On the contrary, I come here to lay out the facts as I see them – both troubling and encouraging. And I come to call for a strategy to face these challenges.

America is capable of overcoming any challenge. America remains the world's economic powerhouse. We lead all major economies in output. Our companies and workers grow more productive each year.

At every stop during my trip – whether in Beijing, Chongqing, Singapore, Bangalore, or Delhi – I found unwavering admiration for the American economy. When I asked why, no one mentioned our growth, tax system, or productivity. The answer was much more fundamental. Without exception, students, business titans, and government ministers, gave me one word: Innovation.

American innovation drives new industries. American innovation creates new jobs. American innovation brings new and better ways of doing what we do today. Innovation is what Americans do best. Ingenious computers and handy gadgets may be “Made in China.” But the ideas that gave them life are “Made in the U.S.A.”

I am confident that America is – and must remain – economically preeminent. But I am equally confident that China and India are not going away. They are an increasing part of the world in which we live and work.

As far as I am concerned, one American job lost to foreign competition is one job too many. But we cannot kid ourselves. We cannot stick our heads in the sand. Our challenge is to learn why some jobs move overseas and work to keep them at home.

To do so, we must identify challenges and stand up to them. We must find our weaknesses and overcome them. We must recognize our strengths and multiply them.

SUCCESSFUL CHOICES

Whether we succeed or fail depends on the choices we make. Success requires making the right choices. Just look at China and India.

China's growing prosperity is the result of its deliberate choice to liberalize its economy and to encourage investment. China chose to join the World Trade Organization and reduce its tariffs to the lowest level of any developing country. China chose to create incentives for foreign investors. China chose to court closer trade and investment ties with its neighbors and the world.

China also faces daunting challenges. When we were in China, pollution dulled the gleaming infrastructure, labored our lungs, and stung our eyes. By official estimates, 300 million Chinese drink tainted water each day. So China is making choices. China is moving to dismantle its heavy polluters and initiate “green GDP” growth. It plans to double its use of cleaner-burning liquefied natural gas.

These are China's choices. What will we choose?

India's growth today is the result of its choice to leave behind decades of centralized planning, fiscal chaos, and protectionism. India chose to impose fiscal and monetary discipline. India chose to lower tariffs. India chose to invest in national technical institutes that rival our Ivy Leagues.

India too faces enormous obstacles. In Bangalore, I heard from entrepreneurs fed up with deteriorating infrastructure, poor sanitation, and frequent power failures. Infrastructure is abysmal throughout India.

So India has chosen to invest 40 percent of its government spending to update its infrastructure to meet the demands of modern international commerce. It has decided to build modern subways in over a dozen of India's cities.

These are India's choices. What will we choose?

CHOOSE COMPETITIVENESS

I believe that we must choose a path to greater economic competitiveness. That means taking advantage of opportunities that we see and meeting our challenges head on.

First, we must see the facts for what they are. We must stop viewing Chinese and Indian economic successes as a "zero-sum" game. Their economic gains do not depend on our losses. We can all prosper. We can all grow.

Opportunities for America abound in a successful China and India. But we are not there taking advantage of them.

India is investing tens of billions of dollars in rebuilding roads and building new ports and airports. Dozens of these infrastructure projects -- each worth hundreds of millions of dollars -- are open to American companies. But Indian government and business leaders reminded me in every meeting that American companies are not there. These opportunities are instead going to Malaysian, French, Korean, and other investors.

Likewise, in China, well over 100 cities have populations of 1 million or more. But foreign investment is concentrated in just a handful of them. I visited Chongqing, in central China, which has a population of 33 million, but very little U.S. investment. When I met with the few American businessmen there, they told me opportunity for Americans existed "in every sector."

Challenge and opportunity -- that's what China and India present to the United States. To meet the challenge, and to take advantage of the opportunity, we should have a comprehensive agenda for a 21st century competitive economy. We must look inward and scrutinize our own policies thoroughly, comprehensively, and honestly.

PILLARS OF COMPETITIVENESS

I have spent much of the last year developing such an agenda. In the coming months, I will launch seven individual legislative proposals to address our competitiveness in education, energy, health, savings, research, tax, and international trade.

I do not pretend to have all the answers. But we have to start tackling these questions now.

I visualize these proposals as six pillars of competitiveness. These pillars can only stand tall if we first build a solid foundation. That foundation is education.

We must again learn to value education. We must choose to value and honor our teachers and professors. We must make the priority of lifelong learning an inseparable part of American society and American culture.

China and India place an enormous premium on education. We need to do likewise.

Education Competitiveness Act of 2006

My education competitiveness legislation would dramatically increase access to the kind of education our economy demands.

Specifically, we will encourage more students to go into math and science by funding college scholarships for sciences, providing free tuition for science and engineering students, and creating partnerships with employers and continuing education centers to meet the technology needs of companies.

I will also propose legislation to invest in our teachers by raising starting teacher salaries and providing student loan forgiveness for teachers.

Energy Competitiveness Act of 2006

Energy is another critical element of our nation's competitiveness.

With oil and natural gas prices doubling and tripling over the past few years, one needs only go to the gas pump to see a crisis is imminent. The more China and India thrive, the higher they will drive energy prices. China and India understand this energy imperative, and are investing in nuclear, hydroelectric, and natural gas energy sources on a large scale.

We must choose alternative energy options that will support economic growth and make our economy more competitive. We already have in place tax incentives for alternative energy, but we must be bolder and harness America's best innovative minds to secure our energy future.

My energy competitiveness bill would create a new agency modeled on the Defense Advanced Research Projects Agency, which developed technologies including the Internet and stealth aircraft technology. This new agency, the "Advanced Research Projects Agency – Energy" or ARPA-E, will fund cutting-edge research to break out of the energy squeeze we now face.

Health Competitiveness Act of 2006

We must choose to make affordable health care a reality for all Americans. The problem of health care costs is real. Nearly one-third of American adults was unable to pay for medical care last year. That was nearly double the rate 30 years ago. Rising health care costs are a burden for American businesses and our economy's Achilles heel.

There is a lot of talk about health care reform these days. But too much talk is of cutting costs and cutting Medicare, rather than getting at the heart of the problem. What have we actually done drive systemic changes? We got a prescription drug benefit rolling, but we must now invest in innovation and efficiency. My health legislation does just that.

First, we can improve health care by boosting health information technology. Health IT serves as a litmus test for innovation. New and better IT systems mean patients will get the care that they need, and we will save money as paperwork becomes unnecessary.

China and India are strong today because they constantly forge ahead. We must do the same, creating an IT infrastructure linking patients and providers with the best health care America can provide.

This administration has a goal of creating an electronic health record network this decade. But to realize worthy goals we need real investment and political will. We need more than good intentions, we need real action – grant programs and technical assistance to help providers get on-line, and federal standards to link people together.

Second, we must start paying for quality and value in Medicare. More care is not necessarily better care. It makes no sense to pay all providers the same if some are providing much better quality – or much worse – care than others. Realizing pay-for-performance in Medicare will drive sector-wide reforms, because they are the largest payer.

Last year, the pay-for-performance bill I wrote with Senator Grassley came close to becoming law – but close is not far enough. This year, I will work to make Medicare pay-for-performance a reality.

Third, we must restructure priorities in the health care market. Focusing only on the short-term means failure in the long-term. Changing our focus means subjecting American companies to rigorous standards. It also means investing in independent research to determine which drugs, treatments, and devices give the best results – and by paying for them accordingly.

We must choose to create an environment where it is good business to innovate, where companies produce drugs that will make people healthier faster and more affordably.

If the key to America's future lies in education, the key to American's present lies in our nation's health. We have a long way to go.

Savings Competitiveness Act of 2006

With all of these challenges facing our economy, we need to invest in education, in technology and in innovation. But to invest in its future, a nation needs savings, which is why my fourth legislative proposal addresses savings competitiveness. America needs more savings – public and private – to invest in a competitive economy.

First, we need to make certain the federal government spends taxpayer dollars wisely. My legislation does this by restoring tough pay-as-you-go rules for both spending and tax cuts. These rules are simple, and are the same ones so many American households follow -- any new public spending or tax cuts must be paid for up front. If we don't have it, we don't spend it.

Second, we will boost private savings by making it easier for American families to save. We need to create a culture of saving in the home and in the workplace. More workers will be automatically enrolled in savings plans, with the choice to "opt-out." Those Americans who are not eligible for a 401(k) plan today, will be given new savings options, and we will encourage them by making the Saver's Tax Credit permanent.

Research Competitiveness Act of 2006

Innovation is America's greatest asset. I heard that time and again from government and business leaders on my trip. My fifth proposal will capitalize on it. My legislation will simplify, improve, and make permanent the R&D tax credit.

Some have rightly claimed that the current research credit is terribly complex and difficult for the IRS to administer. By simplifying the credit, businesses can more easily utilize it leading to a boost in U.S.-based research. American businesses rely on this credit to remain competitive in a global market, spur innovation, and provide high-paying research and technology jobs.

But the tax credit is not enough, especially when it comes to basic research. I believe that more support for private and public research partnerships can be an effective vehicle for basic research.

We did this in the 1980s when semiconductor companies and the government collaborated to share risk and leverage discoveries for semiconductor technology. My legislation will encourage such partnerships and boost our nation's basic research capacity.

Tax Competitiveness Act of 2006

In addition to providing incentives for American businesses to become more competitive internationally, we can also break down some of the barriers they face. Our corporate and international tax laws were written in a time where U.S. businesses were the only players on the block.

But in our fast-paced global economy, where consumers can purchase goods or services instantly from anyone in the world, U.S. businesses need flexibility in order to compete.

The tax code rightly contains a number of anti-abuse rules so that companies cannot shelter passive income, but we must allow U.S. businesses to redeploy resources from active foreign operations, as their competitors already do.

I will review these rules, as well as transfer pricing rules, cost recovery periods for businesses assets, and the inappropriate use of offshore tax havens to make sure U.S. businesses are able to compete fairly and on a level playing field with both domestic and foreign competitors.

Trade Competitiveness Act of 2006

Finally, trade and investment in international markets is a challenge that have I asked our companies to embrace. But when American companies embrace these new market opportunities, we must also send them a clear signal – the American government has their back.

In other words, when our companies work to invest and trade abroad, we will work to make sure these markets are open, that they stay open, and that our partners play by the rules.

My trade competitiveness legislation will require USTR to work with Congress to identify priority barriers to trade and investment each year, and address them expeditiously. It will also build on Senator Stabenow's idea to create a new Senate-confirmed Chief Trade Prosecutor at USTR dedicated to investigating and prosecuting trade enforcement cases.

Our workers must also know that we have their backs. We must do a far better job of taking care of the workers that trade leaves behind. The current Trade Adjustment Assistance is a good start, but it can work better. I already proposed expanding it to cover service workers. And Trade Adjustment Assistance benefits must be more accessible to all trade-displaced workers, including those who lose their jobs due to competition from China or India.

CONCLUSION

These seven legislative measures will build six pillars upon a solid foundation of education. Together, they will form the structure of a strong, dynamic, and competitive economy. But this is only the beginning.

We should not be afraid to think bigger in each of these areas. For example, we should think about establishing national schools for the brightest young American minds, like the enormously successful Indian Institutes of Technology.

We could harness our collective creativity by offering multi-million dollar rewards for the solutions to challenging problems, similar to the "X-prize" recently awarded for the first privately-funded manned space vehicle. We could provide health care coverage to all Americans, starting with our nation's children. We must not shy away from our challenges.

We face immense challenges. And we need a far-reaching agenda. But these challenges are only a fraction of those Prime Minister Nehru faced when I met him in 1963.

If we stand up to our challenges, if we make the right choices, America will continue to lead the world for the foreseeable future.

And 43 years from now – in 2049 – when some Chinese or Indian student decides to hitch-hike her way across this country, she will see an America whose economic leadership continues to inspire the present and define the future.

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