Congress of the United States
Washington, DC 20515

September 10, 2003

The Honorable George W. Bush
President of the United States of America
The White House
Washington, DC 20500

Dear Mr. President:

We are writing to express our deep concern about the direction of your Administration's economic and international trade policies and their continued negative impact on the manufacturing sector. As we know so well in Michigan, manufacturing is the engine of economic growth for our state and nation and has provided generations of Michigan workers with the best wages, health insurance, and retirement security in the nation.

Since January 2001, the U.S. economy has lost 3.3 million private sector jobs, of which 2.5 million were in manufacturing. In Michigan this has been particularly devastating. Michigan has lost 162,300 manufacturing jobs. This is a loss of 18% of the state's manufacturing employment, or 1 out of every 6 factory jobs.

We understand that globalization signifies economic changes and challenges to the status quo in all nations. We strongly disagree with the conclusion that this means that America will inevitably lose to others its strong manufacturing base and that the dynamics of globalization are beyond our control. Indeed, we believe that it is the responsibility of the Administration to actively shape the terms of globalization not passively accept them.

Michigan and other states affected by the current crisis in manufacturing cannot address these issues alone. Michigan's manufacturing industry needs real resources and real action from the federal government, not rhetorical flourishes and the re-arranging of bureaucratic titles.

In Secretary Evans' upcoming visit to Michigan, we urge the Administration to change course and support real action now to **H.E.L.P.** U.S. manufacturers. Your Administration must respond to skyrocketing **H**ealth care costs with a Medicare Prescription Drug benefit that supports employer provided coverage; address **E**mployer-Employee pension issues so that employers can contribute the appropriate amount to their pension funds, freeing up resources for investment, hiring, and wage increases; take action to **L**evel the International playing field; and support **P**artnerships with states, businesses and employees which promote research and development, future technologies, and a trained workforce.

<u>Action to Reduce Obstacles to the Competitiveness of U.S. Manufacturers</u>

Health Care and Prescription Drug Costs

The Michigan Manufacturing Association noted that, "Michigan health care costs are among the highest in the nation... Costs have increased at double-digit rates over the past three years." Our Michigan-based companies are competing in a global marketplace with companies located in countries that subsidize health care and have lower prescription drug and other health care costs. This gap puts Michigan at a competitive disadvantage—skyrocketing "legacy costs" hurt our businesses' ability to compete globally and endanger the stability and well-being of Americans who have worked their whole lives.

Prescription drugs are a key driver of the cost of retiree health benefits. Many Michigan employers, including most manufacturing companies, have retiree health plans that "wrap around" Medicare, paying health care costs which Medicare does not cover, including coinsurance, deductibles, and non-covered benefits like prescription drugs. According to a study by Hewitt Associates, drug benefits have been 40 to 60 percent of total cost of retiree health outside of Medicare, and were projected to rise to 80 percent this year. The study estimated that employers spend $22.5 billion a year on retiree drug benefits, and 40 percent of the employers said they were considering curtailing the drug benefit, especially for new retirees.

We need a prescription drug benefit that will help both business and their retirees. Washington has been promising for years that we would pass a Medicare prescription drug benefit for seniors. The only way to assure that the benefit will be available reliably and without complications to our seniors is to make it a guaranteed part of Medicare.

The current Republican proposals fall far short of that. Congressional Republican leaders oppose creating a government Medicare "fallback" plan to guarantee coverage to seniors, preferring to leave seniors and their wrap around retiree health plans at the mercy of private health insurance companies. Employer expenditures would not count toward the expenditures needed to reach the catastrophic cap, so employers would continue to be fully responsible for catastrophic expenses. CBO estimates that about one third of Medicare beneficiaries who would otherwise have employer-sponsored drug coverage will either lose all or part of it or not be offered it if the House or Senate bill becomes law.

We support Medicare coverage of prescription drugs in the same way it covers doctor visits and hospital care, with employers able to continue paying premiums, deductibles, and coinsurance without the penalties in the Republican proposals. Similarly, if employers prefer to continue providing their current coverage and it is as good as or better than Medicare, we propose that Medicare subsidize enough of the cost to make it attractive for the employer to continue the plan.

We urge the Administration to provide leadership to the Members of the conference committee currently meeting to report out a final Medicare Prescription Drug bill and urge Republican leadership to rectify the harm the current proposals will do to employers, their employees and retirees.

Pension Reform

Manufacturing workers have always planned for the future by forgoing some short-term wages in order to provide for themselves and their loved ones when they are no longer working. Most are covered by "defined-benefit" retirement plans, which promise to pay workers a monthly benefit based on their income and years of service when they retire. Unlike "defined contribution" plans, which can grow or shrink based on the stock market or the value of employer stock, manufacturing industry pensions have generally provided workers with a predictable, guaranteed income when they retire.

As their numbers of retired workers grow and they face increasing global competition, Michigan manufacturing companies face real challenges in continuing to provide these adequate, guaranteed retirement benefits. But their real problems have been compounded by a federal law which requires companies to over-estimate how much money they need to put aside to pay future pension benefits. Because companies are required to assume that their pension funds will grow at an artificially low rate, Michigan companies will soon be forced to make billions of dollars in short-term contributions to their pension funds to cover unlikely future losses. This problem harms business and workers alike. Businesses are forced to lock away resources that they could be using to upgrade plants, hire workers, and build for the future. Workers are forced to accept reduced wages or reduced future pension benefits.

This problem could be quickly and easily fixed by Congress. A broad consensus exists that the current rate should be replaced with a realistic rate, based on long-term corporate bond indices. That would not excuse companies from making the substantial retirement fund contributions needed to ensure that workers get the benefits they were promised, but it would ensure that companies did not have to lock away resources not needed for worker pension benefits.

Unfortunately, neither the Administration nor the Republican leadership in Congress has treated this rate correction issue like the crisis it is for workers and businesses. A prominent business trade association warned that if legislation correcting the rate was not passed by July of 2003, employers would choose to freeze or terminate pension plans, delay capital investments, and postpone hiring. Simultaneously, analysts are steering investors away from companies with large pension liabilities because of the uncertainty about the rate.

Rather than take quick action to resolve the pension contribution rate crisis, the Administration instituted a two-year contribution rate and then waited until this summer - just before the temporary rate was expected to expire – to unveil a complex new proposal using an unprecedented, long-term "yield curve" rate. This proposed new rate has a potentially disproportionate impact on manufacturers, and rather than building consensus, has caused more controversy and uncertainty and led to further delays in resolving the problem.

House Republicans have rejected the proposal, but also insisted on holding the rate correction hostage to a controversial and expensive tax package with uncertain prospects, rather than moving it quickly on its own. This approach lessens its overall prospects and dramatically slows down its progress, wasting precious time for businesses planning investments and workers negotiating future contracts.

We urge the Administration to support action before Congress adjourns on a simple, permanent correction to replace the current rate with a realistic rate based on long-term corporate bond indices.

Action to Level the International Playing Field

Tax Policy that Benefits Domestic Manufacturers

Due to a WTO dispute settlement panel ruling, the United States is required to repeal the Foreign Sales Corporation (FSC)/Extraterritorial Income (ETI) rules, which help manufacturers that produce in the United States and export abroad. Repealing FSC/ETI alone would mean a tax increase of about $50 billion over ten years on U.S. manufacturers, at a time when they can least afford it. A bipartisan group in the House has proposed legislation that would promote U.S.-based manufacturing and would provide an incentive to keep production in the United States and would be essentially revenue neutral. The bill would provide reduced taxes on U.S.-based production activities and would provide a greater reduction to companies that keep their operations in the United States. We need tax legislation that encourages U.S. manufacturers to keep their factories here at home and to build new factories here rather than in other countries.

The Chairman of the Ways and Means Committee has proposed an approach that would use repeal of the FSC/ETI as a pretext for another massive round of $200 billion in tax cuts, about half of which would be targeted toward the offshore operations of U.S. multinationals.

We urge your Administration to support the bi-partisan legislation introduced by Reps. Crane, Rangel, Manzullo and Levin and co-sponsored by over 135 House Members.

Close Corporate Expatriation/Inversion Loopholes

To level the playing field for U.S. manufacturers that play by the rules we must also close loopholes that allow U.S. corporations to avoid paying their fair share of U.S. taxes by "inverting" or reincorporating on paper in a tax haven when, in reality, its primary offices and production or service facilities remain in the U.S. These corporations use our police, fire, roads, etc., but avoid paying their share of the cost.

We urge the Administration to not only support proposals which prevent future inversions, but act to truly level the playing field by supporting proposals that prevent past inverters from enjoying significant future tax benefits that other U.S. companies cannot receive. We also urge the Administration to support prohibiting those companies that have inverted from receiving future government contracts.

End Currency Manipulation by China, Japan, and other nations

China, Japan, and other nations have been pursuing industrial policy through the currency markets – these countries have purposely kept their currencies undervalued relative to the dollar to promote exports to the United States and as a way of keeping out goods made in the United States. Economists estimate that China's currency is undervalued by between 15 and 50 percent relative to the dollar and that Japan's currency is undervalued by about 12 percent. In other words, on a $20,000 car, Japanese imports have an artificial $2400 price advantage over U.S. cars and U.S. exports to Japan face the equivalent of $2400 tax. This unfair advantage hurts U.S. manufacturers by leading to an increase in imports from those countries and limiting U.S. exports.

A law requires the Treasury Department to report on currency manipulation by foreign countries that harms the U.S. economy. The Treasury Department has routinely refused to find manipulation by China and Japan. According to the New York Times (August 27, 2003), "Japan has been spending 9 trillion yen to buy approximately $75 billion, effectively stalling the rise of the yen and the fall of the dollar." An analyst quoted in this article stated that there is "some complicity here from the Bush Administration" in Japan's currency manipulation.

In the Treasury Secretary's recent visit to Japan, he did not raise or press the issue, and in his recent trip to China his approach yielded little or no progress.

We urge your Administration to take the position that China should freely float its currency. Anything less -- like a float within a wider band -- would be allowing China to pursue a policy of currency-manipulation-lite. We also urge your Administration to pursue cases in the World Trade Organization (WTO) against China and Japan under WTO rules that prohibit members from gaining a trade advantage from currency manipulation.

Make China Play by International Rules

When China joined the WTO, China became obligated to play by the same rules as everyone else. Unfortunately, China is slow to comply with its obligations, is taking actions impermissible under WTO rules and is continuing to utilize WTO-inconsistent subsidies. Although China's WTO compliance is poor, the Administration has hesitated to take appropriate action and has failed to fully utilize the annual review required within the WTO to evaluate China's performance.

Additionally, U.S. manufacturers are increasingly reporting on widespread distribution of goods manufactured in China that are counterfeit or that contain false claims of meeting industry standards. Those goods are a threat to U.S. consumers and the Administration needs to act aggressively to shut down operations in these counterfeit and falsely labeled goods.

We urge the Administration to support America's manufacturing companies and workers by acting aggressively to ensure full compliance by China with its WTO commitments. This includes making the annual review within the WTO meaningful and where appropriate filing cases at the WTO to challenge China's non-compliance.

Of particular concern to Michigan is China's management of its automotive production and trade. China has taken WTO-inconsistent measures to block U.S. auto companies from setting up financing arms in China, making it difficult to sell U.S. cars there. In addition, the Chinese government will soon issue an auto industry policy that would give Chinese auto manufacturers an unfair advantage in the Chinese market at the expense of U.S. and other foreign auto manufacturers. China is trying to ensure that Chinese auto companies control half of the total Chinese auto market by the year 2010.

We urge the Administration to make clear that these types of policies issued by the Chinese government are unacceptable, violate commitments made when China joined the WTO and if pursued will be challenged through the WTO dispute settlement system.

Another critical way to level the playing field with China is to aggressively implement trade remedy laws against China. The structure for China's accession into the WTO contained a special safeguard law intended to ensure that the United States could defend itself against unfair dumping and subsidies of Chinese goods and damaging import surges. Tough enforcement of these laws is critical to U.S. manufacturing firms and workers. The Administration has not done this. In the cases brought to date under the special China safeguard, the Administration declined to provide relief to the U.S. industry, despite the fact that the independent U.S. International Trade Commission (ITC) had found that U.S. industry had been injured by a surge in Chinese imports.

The United States bargained hard for the right to use these strong trade remedies. We urge the Administration to stop denying relief to U.S. manufacturers injured by Chinese imports and to begin actively and vigorously using the special China safeguard law to prevent further injury.

Open Export Markets Blocked by Trade Barriers

The Administration has been devoting a tremendous amount of resources to negotiate free trade agreements (FTAs) with limited value to the U.S. economy – the independent International Trade Commission (ITC) estimates that the Chile and Singapore FTAs combined would have only about a 0.6 percent impact on the U.S. economy. In the meantime, the Administration has not actively sought to break down barriers faced by U.S. manufacturers in key export markets like China, Japan, the E.U., Korea, and other markets. While the Clinton Administration filed 27 cases in the WTO in its last three years in office, this Administration has filed just seven WTO cases in the past three years.

For example, the Administration has failed to take any action to open the automotive markets of Japan and Korea. The U.S. automotive trade imbalance with Japan - $46 billion in 2002 ($35 billion deficit in autos and $11 billion deficit in auto parts) - is the equivalent of more than 66 percent of the overall U.S. trade deficit with Japan and made up ten percent of the 2002 worldwide U.S. trade deficit. The Administration's own United States Trade Representative (USTR) has reported that access to Japan's automotive market continues to be impeded by a variety of overly restrictive government regulations, a lack of transparency in rule-making, and lackluster enforcement of antitrust laws, yet is does nothing to reverse these trends.

Korean automakers sold 633,000 automobiles to the United States last year while U.S. automakers sold only 3,300 in Korea. The imbalance speaks for itself and is unacceptable. The imbalance results from numerous trade barriers maintained by Korea – a tariff on automobiles more than three times the U.S. auto tariff; multiple taxes on automobiles, three of which have a disproportionate impact on imported vehicles; and a variety of automotive standards and certification requirements that serve as serious barriers to market access by U.S. automakers. And today, American auto makers sell less than a quarter as many U.S.-made vehicles in Japan as they did in 1995, which was already a very small number.

We urge the Administration to take action against foreign market barriers in the automotive sector through use of cases under Section 301 of the Trade Act of 1974, strong diplomatic pressure, and WTO challenges.

Address Non-Tariff Barriers in WTO Negotiations

For many U.S. businesses, the primary barriers to entry in foreign markets are not tariffs, but non-tariff barriers including government-tolerated cartels, limited access to finance and distribution channels, investment requirements, customs practices, burdensome product standards, prohibitive taxes and fees, and technology transfer requirements. Many of the sectors at issue are critical to the U.S. economy as a whole.

Yet, the Administration is pursuing a policy in the WTO negotiations that while further opening the U.S. market to imports, does not guarantee reductions in the non-tariff barriers U.S. producers face abroad. This is a formula for unbalanced concessions, which may only deepen the record U.S. trade deficit and cost American jobs.

We urge the Administration to place non-tariff barriers on par with tariff barriers in negotiations at the WTO. Trade negotiators must ensure through explicit linkages that U.S. tariff barriers will not be reduced unless other countries tackle the non-tariff barriers they use to keep out U.S. products.

Vigorous Enforcement of Trade Remedy Laws

Trade agreements have long included provisions to prevent unfair trade (dumping and government subsidies) and to allow our country to respond to injury caused by import surges. Vigorous enforcement of these laws is vital to American workers, farmers, and businesses. The Administration, however, has failed to do so. Recently, the House Commerce-Justice-State Appropriations Subcommittee stated that it was "skeptical of the level of effort the IA [Import Administration] has devoted to investigating [unfair trade] cases" and ordered a re-examination of all cases closed in the past three years. Tough enforcement of these trade remedy laws is critical to American manufacturing.

Shape Future U.S. Trade Agreements

Trade has the potential to promote jobs in the highly efficient and competitive U.S. manufacturing sector. But it does not do so automatically. Trade agreements must be carefully shaped under a strong framework of rules to ensure that they advance the interests of U.S. manufacturers and workers. A few principles are critical to ensuring that U.S. trade agreements provide the promised benefits:

- Concessions must be balanced – the U.S. economy is much more open than other economies. Future trade agreements must correct this imbalance and ensure that other countries provide U.S. firms the same access to their markets that they have to ours.

- Trade agreements must contain enforceable rules that countries adopt, implement, and enforce the five basic, internationally-recognized labor standards (right to organize, to bargain collectively, prohibitions on discrimination in employment, child labor, and forced labor). These five basic internationally recognized labor standards are important in developing a consuming middle class for our exports and ensuring that U.S. workers do not have to compete with workers who are exploited.

We urge the Administration to change its current negotiating position and make correcting market access imbalances and the inclusion of basic, internationally recognized labor standards priorities in the ongoing regional negotiations with Central America and in the Free Trade Area of the Americas as well as in bi-lateral agreements.

These provisions in bi-lateral and regional trade agreements are both vital for those agreements and as building blocks for progress on basic, internationally-recognized labor standards through multi-lateral institutions to which all of our all trading partners belong, including China whose lack of a free labor market and repeated violations of basic internationally-recognized labor standards have become a matter of deepening concern to both industrialized and developing nations.

Partnerships to Support Research and Development, Small Manufacturers, advanced technologies and a trained workforce

Preserve Manufacturing Extension Partnership

In our effort to maintain a strong manufacturing base, it is critical that we not overlook the value of programs that have proven successful in aiding the manufacturing sector. The Manufacturing Extension Partnership (MEP), which helps small and mid-sized American manufacturers modernize to stay competitive in our evolving marketplace, is a successful partnership between federal government, states and small manufacturers and is vitally important to Michigan. We should continue to fund the MEP at a level that will ensure its continued success. The Administration has consistently sought to severely underfund this important program, providing funding levels that would threaten its continued existence. In Fiscal Years 2003 and 2004, the Administration sought merely $12.6 million for the MEP, an 88% cut from the previous year's funding level.

We urge the Administration to support a FY 04 funding level of $110 million for the Manufacturing Extension Partnership (MEP) Program.

Support Advanced Technology Program

The Advanced Technology Program (ATP) encourages public-private cooperation in the development of pre-competitive technologies and has made important contributions to the manufacturing industry. ATP focuses on improving the competitiveness of American companies in the global marketplace and funds many research and development projects that have the potential to create broad-based U.S. economic benefits. In the FY04 budget the Administration only proposed enough money to close-out the ATP. This is exactly the wrong way to go.

We urge the Administration to support a FY 04 funding level of $185 million for the Advanced Technology Program.

Advance Research and Development and Incentives for fuel efficient technologies

We must put a much stronger emphasis on joint research and development between the government and the private sector, focusing additional attention and resources on key technology areas that will lead us to expanded use of hybrid electric, fuel cell and clean diesel technologies.

We also need to expand the requirements in existing law for the federal government to purchase advanced technology vehicles for fleet use, so that the purchasing power of the federal government can be used as a positive force to provide a market for advanced technologies.

Federal government investment is essential not only in research and development but also as a mechanism to push the market toward greater use and acceptance of advanced technologies. The ongoing cost-shared research and development programs at the Army's National Automotive Center (NAC) in Warren, Michigan are a good example of where this type of public-private partnership has worked well, and programs such as these should be expanded significantly.

We must do much more in the area of tax incentives for advanced technology than has been proposed by the Administration or included in either the House or Senate energy bills. We need to provide more generous tax credits for advanced technology vehicles, such as hybrid, fuel cell and clean diesel vehicles - credits that will be adequate to cover the additional cost of these vehicles and encourage consumers to make the investment in these technologies. We also need to provide adequate tax credits and deductions for purchase and installation of hydrogen refueling equipment so that investments will be made in the hydrogen infrastructure that will be required for widespread acceptance and use of fuel cell vehicles.

Finally, we need to provide incentives that will encourage conversion of existing manufacturing facilities to produce advanced technology vehicles. A significant investment is required to convert these facilities for production of the advanced engine and other power train components needed for hybrid, fuel cell and clean diesel vehicles. Development of federal grant programs and federal tax credits to encourage domestic production of these advanced technologies is critical.

We must have vigorous and robust federal research and development programs on advanced technologies and positive incentives to encourage broad consumer acceptance and use of advanced technology vehicles. We urge the Administration to support broader and bolder steps in this direction than are currently included in either the House or Senate energy bills.

Conclusion

At the same time the Administration has not taken the steps necessary to address the manufacturing job crisis, it has been insensitive to the plight of unemployed and other workers. Manufacturing workers grew to over 20% of the total unemployed population, and one in four manufacturing workers were out of work for more than six months. Long-term unemployment among manufacturing employees has grown faster than that of almost any other group.

The Labor Department discontinued the "mass layoffs report" in December of 2002, just as it began to show that manufacturing and its workers were in real trouble, and reinstated it in April 2003 after widespread criticism, denying Congress and the public access to critical information on the worsening situation. With more than three unemployed workers for every job opening, Labor Secretary Chao suggested to Congress that there was a "skills gap," not a jobs gap. Former OMB Director Daniels went further, saying the current unemployment system "incentivizes people to stay unemployed" and extended unemployment benefits were allowed to expire just before Christmas 2002 and action was resisted up until the last minute by Congressional Republicans again this May. When the Administration and Congress finally did act to extend unemployment benefits, they refused to help those who were out of work the longest. Michigan has acted to extend benefits for Michigan's long-term unemployed. Unfortunately, without a change in federal law, Michigan is limited in the number of long-term unemployed which can be helped by its action.

In addition the new overtime regulations proposed by the Administration will be detrimental to workers. Over 8 million workers losing overtime protections would result in longer work hours, less benefits and fewer new jobs being created. This policy might save a few dollars on a current pay roll, but will spell long-term financial deterioration to companies and their working families. When asked why he paid his workers higher than other businessmen of the day, Henry Ford responded that "You have to pay your workers enough to be able to afford your product." That simple lesson has been forgotten by this Administration.

Although the Administration is now saying the economy is turning around, the number of lay-offs is rising, not falling and real hourly wages shrank for all income groups this year. In August the economy lost 93,000 additional jobs, of these 44,000 were in manufacturing. We strongly urge Secretary Evans to use his upcoming trip to Michigan to demonstrate that your Administration is serious about taking the steps necessary to address the crisis in manufacturing.

Sincerely,

Carl Levin

Senator Carl Levin

Debbie Stabenow

Senator Debbie Stabenow

John D Dingell

Rep. John Dingell

Sander Levin

Rep. Sander Levin

John Conyers

Rep. John Conyers

Dale E. Kildee

Rep. Dale Kildee

Carolyn C. Kilpatrick

Rep. Carolyn Cheeks-Kilpatrick

Bart Stupak

Rep. Bart Stupak