Testimony

Of

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for the

Committee on Finance

hearing on

"Made in America: Effect of the U.S. Tax Code on Domestic Manufacturing"

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Good morning Chairman Wyden, Ranking Member Crapo, and members of the committee. Thank you for the opportunity to be here today. My name is Donnie Blatt, and I am the district director for United Steelworkers District 1, which covers the state of Ohio. Our union is the largest industrial union in North America, representing workers across the economy, but primarily in energy-intensive, trade-exposed industries that produce a wide array of materials and products, including paper, glass, ceramics, cement, chemicals, aluminum, rubber, oil, mining, and, of course, steel.

Introduction

I joined the union in April 1979 as a member of Local 5724 at Ormet Aluminum Corp. in Hannibal, Ohio, which was an aluminum smelter that employed nearly one thousand workers. I can speak personally about the hard work, pride, and economic security of a union manufacturing job. I can also speak about the devastation that a plant closure has on families and communities because the Ormet facility was idled in 2013, and torn down several years later. At the time, estimated impacts were net job loss of over 3,000 and a loss of $9 million in state tax revenue. While those numbers are terrible by themselves, I want to paint a more human picture. The once bustling downtown with lots of shops is now empty with only a handful of small businesses. Families no longer buy new cars, and many have moved away in search of good jobs. As a kid, I would never have predicted that my hometown would look the way it does today.

My personal experience is not all that different from many of our union's current, and former, members and across the state of Ohio. Those of us in the industrial heartland know the importance of manufacturing jobs in order to support the local tax base and build strong communities. We also see the unraveling of supply chains when good manufacturing jobs are lost. For example, the Economic Policy Institute found that 16.5 indirect jobs are lost per $1 million drop in demand for durable manufacturing, compared with 10.6 indirect jobs lost for the same demand drop in retail.[1] For these reasons, Congress and the Administration should use all of the tools available to retain and grow manufacturing jobs and domestic supply chains, including tax policy.

Ensuring American Workers Make Products in Critical Supply Chains

As the committee considers the effects of the tax code on manufacturing, we need to make sure that firms and their workers are globally competitive and are able to make the products for important technology, communications, energy, and medical supply chains (including personal protective equipment). This starts with better understanding our supply chains and improving our procurement policies. President Biden's Executive Order on America's Supply Chains furthers that process by a review of four vital products: semiconductors, critical minerals, advanced batteries, and pharmaceuticals and their ingredients. The Order also initiates a long-term review of the industry basis of six sectors of our overall economy over the next year.[2]

Another important way that the tax code can be used is to strategically drive investment in industrial facilities to upgrade, retool, or install new technologies that ensure the longevity of

[1] https://www.epi.org/press/job-loss-in-manufacturing-has-a-large-ripple-effect-on-other-jobs/
[2] https://www.whitehouse.gov/briefing-room/presidential-actions/2021/02/24/executive-order-on-americas-supply-chains/

the facility. Capital investments in manufacturing facilities are expensive and are expected to last for decades, and that upfront capital is hard to come by, especially during a recession like the one we are currently experiencing.

Our union certainly has had success stories where our employers have taken advantage of tax credits to ensure that our members' jobs continue. One example is Rotek in Aurora, OH. The 2009 authorization of the 48C tax credit helped Rotek make investments to upgrade the facility, and our members there continue to make large diameter slewing bearings and seamless forged rings that have applications in the oil, gas, mining, and wind energy industries. Because of this and other successes with 48C in other parts of the country, our union has endorsed the American Jobs in Energy Manufacturing Act of 2021, introduced by Senator Manchin and Senator Stabenow, to revive and expand the 48C tax credit. We particularly support that the legislation directs a portion of the spending to manufacturing facilities in communities with significant job losses in coal, power plants, and manufacturing.

It is also important that we put our tax code in perspective with the globe and that we protect against unnecessary tax base erosion. The fact is that the United States raises less revenue from corporate income taxes as a share of GDP than all other countries in the G7, and almost all other countries in the OECD.[3] While that may sound good to companies in the short term, we often have a saying that management will trip over dollars to pick up a penny. We need to ensure that our tax code allows government to rebuild our infrastructure, invest in our workers, and provide for our security.

Meanwhile, we need to work with our allies while improving our tax code to discourage outsourcing and profit shifting to low tax jurisdictions. We should not allow smaller domestic manufacturers to lose out to larger firms who seek to venue shop across the globe for lower tax rates. There are policies that this union has supported for years now, which would improve transparency and help prevent outsourcing of manufacturing.

USW has supported the Disclosure of Tax Havens and Offshoring Act, which would require multinational corporations to publicly release basic revenue and tax information that they are already required to collect and privately report to the IRS. This concept of country by country reporting will help investors, and prevent multi-national corporations from generating artificial profits through risky international tax planning.

Another piece of legislation the union has supported is the No Tax Breaks for Outsourcing Act. The legislation would level the playing field for small and wholly domestic businesses by eliminating the deep discount that multinational companies get for shifting profits offshore and outsourcing jobs. It is counterproductive to the goals of a fair and growing economy to allow U.S. companies to pay a lower tax rate abroad than they pay in the United States.

Creating Demand for U.S. Manufactured Products

The quest to build out domestic supply chains for critical technologies and materials will only be successful if we also use policy levers to ensure that domestic manufacturers have

[3] https://www.taxpolicycenter.org/briefing-book/how-do-us-corporate-income-tax-rates-and-revenues-compare-other-countries

customers who make long-term commitments to source domestically. Our union can provide many examples of U.S. companies whose prices are illegally undercut by foreign competitors. Our trade laws need reform, but so do our industrial policies that have not successfully created markets for domestic manufacturers on a scale large enough to develop robust supply chains in this country.

For example, the bulk of components for new energy technologies come from overseas. Yet, USW represents Sharon Tube, owned by Zekelman Industries, in Sharon, Ohio that can make steel tube to the specifications for utility scale solar, among other applications. And Thomas Strip Steel in Warren, OH, makes paper thin steel for battery casings. These companies are both nearly 100 years old and have adapted over time to produce products needed for the technology of the era. I am confident that U.S. manufacturers can, and would, innovate as long as they have customers.

As we look at the expansion of new technologies, the federal government has a big role to play in the buildout of supply chains, and in making sure that we retain existing supply chains. The auto supply chain is a good example. USW members at Warren Coke in Warren, OH, have long provided the coke to Cleveland Cliffs in Cleveland, OH (formerly ArcelorMittal) where our members make lightweight steel that goes into fuel efficient automobiles. Many car companies have made commitments to make more electric vehicles. As they work to meet those commitments, federal policy should ensure that we gain, rather than lose, jobs in the auto supply chain.

Our union has long been a supporter of Buy America policies in federal procurement for infrastructure as a way to build markets and to ensure that federal money is spent to support American workers. The U.S. federal procurement expenditures are estimated to have been equivalent to 9.3 percent of U.S. gross domestic product (GDP) in 2017.[4] We need to better harness that power. As President Biden said when he signed his Executive Order on Strengthening American Manufacturing, we need to "use taxpayers' money to rebuild America. We'll buy American products and support American jobs, union jobs."[5]

These principles are broadly popular. The Alliance for American Manufacturing has found in polling that 80 percent of Americans support requiring that all taxpayer-funded infrastructure projects use American-made goods and materials.[6] We encourage Congress to ensure that federal spending in the form of tax credits is used to benefit industries and companies that drive economic recovery in America, and grow our manufacturing base.

Conclusion

In conclusion, well-paid, union, American manufacturing workers are critical to our economy. You can see the evidence of that in my hometown and many others across the country. Growing a globally competitive manufacturing base with mature strategic supply chains is critical

[4] https://fas.org/sgp/crs/row/IF11580.pdf
[5] https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/01/25/remarks-by-president-biden-at-signing-of-executive-order-on-strengthening-american-manufacturing/
[6] http://s3-us-west-2.amazonaws.com/aamweb/2019_Slide_Deck_-_Infrastructure_and_Buy_America_FINAL.pdf

to both our economic recovery and our national security. I thank you for the opportunity to share today how important it is for Congress to use many tools – including tax policy – to meet that goal.