will see the history of the woman suffrage movement preserved in our Nation's rotunda. I am honored to have taken part in an effort that, after so many years, makes visible the traditions of equality and democracy that make our country great.

USA TAX PLAN AND ITS PROVISIONS PROMOTING INTERNATIONAL COMPETITIVENESS

Mr. NUNN. Mr. President, today I would like to again discuss tax reform and in particular an aspect of the unlimited savings allowance [USA] tax plan which I believe is very important to our Nation's future—the USA tax plan's tax treatment of exports.

Before discussing this specific issue, I would like to refresh the memories of my colleagues about why the replacement of the current Tax Code with a superior alternative is so necessary for the health of the country and our economy. In my judgment, until we make this case to our fellow citizens on the economic merits of fundamental change, structural tax reform will not happen.

Central to this case is the urgent need to raise the level of national savings. It is critical that we recognize the current bias in our Tax Code against the saving and investment that are the key to higher living standards, and take steps to correct that bias.

Higher savings lead to more investment. More investment will, in turn, lead to increased productivity from American workers. The more productivity we have from our workers, the more competitive we are in the international arena. The more competitive we are in the international arena, the better jobs we have. The better jobs we have, the higher income we have as Americans.

Our current saving rate is low by our historical standards and it is the lowest of all major industrialized nations.

In the 1980's, our savings rate dropped to an average of 3.6 percent, half the level of the 1950's, 1960's, and into the early 1970's. In the first 5 years of this decade, 1990 to 1994, the U.S. savings rate has fallen almost 50 percent from the already low levels of the 1980,s, to just 2.1 percent, and reports show that our savings rate is continuing to erode. This is far below the comparable figures of 10 percent in Germany, 18 percent in Japan, and the even higher savers along much of the Pacific rim.

Without adequate savings, our level of investment will continue to be correspondingly low. Low saving, in short, directly imperils our future standard of living.

Behind the saving shortfall lurks a very serious abdication of our economic responsibility to the next generation of Americans. We seem to have forgotten the principle tenet of the American dream—that, like our forefathers did for our generation, we must improve and better prepare our country for the generations that follow.

Every day we are bombarded with messages equating spending with the good life and a strong economy—in short, consumption as personal privilege and patriotic duty. Proponents of thrift have been made to appear self-punishing, antisocial, and scrooge like.

Nothing could be further from the truth. Saving is simply the deferral of some consumption today so that we and our children can consume more in the future. Because our current level of national saving is so low, we cannot be assured of vigorous economic growth in the future. Politically, the failure of Americans to save for their future—one study estimates that the average American has about $7,000 in assets in retirement—means that entitlement programs such as Social Security have become economic life rafts that can not indefinitely support the load they are being asked to carry.

Polls have shown that a majority of today's younger generation believe it is more likely that UFO's exist than believe the Social Security program will exist—in its present form—when they reach retirement age. As our former colleague Russell Long used to point out, leadership if often determining which direction the people are going and running like heck to get in front of them to lead them where they already are going. The American people have a better understanding of the problems we face as a Nation than our political leaders seem to acknowledge and it is incumbent on our Nation's leaders—the President and the Congress—to begin to exercise responsible leadership in developing long-term policies to address these shortcomings.

As most of my colleagues acknowledge, the best thing we can do to improve national saving is to balance the Federal budget. Chronic budget deficits have in recent years siphoned away what meager private and business saving we have managed to amass. It has driven up the costs of acquiring this capital and it requires that we run massive trade deficits to finance our country's need for capital.

But progress against the deficit isn't enough. We have an even more difficult task before us: Helping our fellow citizens to understand that thrift isn't counterproductive to the long-term health of the economy.

This is a matter of leadership. But it is also a matter of policy. And that is where fundamental tax reform comes in.

For it is inescapable that the current Tax Code, because of its bias against saving relative to consumption, subsidizes the present at the expense of the future.

That is the core, intrinsic, systemic problem that requires fundamental correction. It is around this fact—that the government extracts revenues from the economy in a way that hinders the ability of people to provide for their futures and of companies to grow—that a lasting movement for change can be built.

Certainly it was America's saving and investment crisis that motivated Senator DOMENICI and me to develop the USA tax system. Our proposal rests on a few central features designed to end the current code's bias against saving and investment.

First, the USA individual tax treats all income alike regardless of source and it taxes that income once and only once.

Second, the USA individual tax permits every taxpayer an up-front, overt, and unlimited deferral on that part of their annual income they use to add to their total saving.

Third, the USA business tax allows the expensing of all real business investment.

These three points are at the revolutionary heart of the USA tax. They constitute a revolution in the tax base—in what we tax and how we tax. That is where the revolution is needed and where, given public understanding, it can have its most lasting impact.

The USA tax plan has other important features. It is more efficient then the current tax Code. According to the tax Foundation, the USA tax plan would cut by 76 percent the compliance costs now imposed by the individual and corporate income taxes.

In terms of fairness and understandability, the USA tax treats all income alike. It treats all businesses, from corporations to partnerships to farmers to sole proprietors, alike. It retains the progressivity of the current code.

It is designed to be revenue neutral. It is internally inconsistent to try to encourage private saving on the one hand and encourage public dissaving on the other. The USA tax maintains the proportion of the overall tax bill paid by individuals and businesses. There is no intention like the 1986 tax Reform Act to shift the tax burden from individuals to the corporate community.

The USA tax also grants to employees and to employers a dollar for dollar tax credit for the deeply regressive FICA payroll taxes. I have addressed this very important feature of our proposal in separate remarks.

Today, I would like to highlight another key feature of the USA plan, its treatment of imports and exports. With respect to competitiveness, the USA business tax levels the international playing field for American business by implementing a territorial and border adjustable tax. All goods, whether produced here or abroad, sold in the United States will bear the same US tax burden, while U.S. exports will not carry the cost of U.S. taxes when sold abroad.

Mr. President, many times I have heard my colleagues say that we must have a level international playing field on trade issues. I can recount some of the numerous legislative initiatives, including the super section 301 provision, the Market Promotion Program, and the Export Enhancement Program, that have been enacted to provide this level playing field. I have supported

many of these efforts. We recognize that we live and compete in a global economy. This economy is intensely competitive and it is increasingly important to our economy that the United States remain a global economic leader in this area. If anyone questions how important trade is to our economy, consider the following: Exports currently comprise 8 percent of the american gross domestic product [GDP] and 11 million jobs. If you include imports and cross-border investment with exports, trade-related components represent roughly one-third of the American economy. So we can and should continue to encourage U.S. exports.

To do so, we must address the single largest impediment currently shackling U.S. industry in its efforts to compete in the global economy—the current Tax Code.

As Salvatore Barone, the president of Harper Surface Finishing Systems, Inc., of Meriden, CT, and the chair of the International Trade Committee of the Association for Manufacturing Technology, pointed out in his July 18, 1996, testimony before the House Ways and Means Committee:

> . . . the present federal income tax in the Internal Revenue Code of 1986 is almost exactly opposite of what is needed to serve the best interests of the United States. Had one set out by design to create a tax system that works against us (and, therefore, in favor of our foreign competitors), it is hard to imagine a more successful job than the present federal income tax. It discourages saving and productive capital investment in the United States; it favors imports over exports; it makes it hard for U.S. companies to directly compete in foreign markets; and, if they do, it discourages them from bringing the money home for reinvestment in the United States.

I agree wholeheartedly with Mr. Barone. He has hit the nail on the head. At this point, Mr. President, I ask unanimous consent that the entire text of Mr. Barone's testimony be printed in the RECORD. I would recommend to my colleagues this testimony's international competitiveness index which grades various tax proposals in the international trade arena.

There being no objection, the testimony was ordered to be printed in the RECORD, as follows:

TESTIMONY OF AMT—THE ASSOCIATION FOR MANUFACTURING TECHNOLOGY

I. INTRODUCTION

I am Salvatore V. Barone, President of Harper Surface Finishing Systems, Inc., Meriden, Connecticut, and I am testifying today on behalf of AMT—The Association For Manufacturing Technology, whose International Trade Committee I am honored to chair. AMT is a trade association whose membership includes over 350 machine tool building firms with locations throughout the United States. America's machine tool industry builds and provides to a wide range of industries the tools of manufacturing technology including cutting, grinding, forming and assembly machines, as well as inspection and measuring machines, and automated manufacturing systems. The majority of the association's members are small businesses.

Today's topic—international competitiveness—embodies the essence of your Committee's continuing series of hearings on fundamental tax restructuring: the need to concentrate on creating a new tax system that will serve the long-term national interest in a global economy.

America urgently needs a tax system rebuilt from the ground up around a new set of design principles to compete and win in world markets. That is fact one. Fact two is also obvious: the present federal income tax in the Internal Revenue Code of 1986 is almost exactly the opposite of what is needed to serve the best interests of the United States. Had one set out by design to create a tax system that works against us (and, therefore, in favor of our foreign competitors), it is hard to imagine a more successful job than the present federal income tax. It discourages saving and productive capital investment in the United States; it favors imports over exports; it makes it hard for U.S. companies to directly compete in foreign markets; and, if they do, it discourages them from bringing the money home for reinvestment in the United States.

At the very time that successful competition in world trade has become increasingly important to national well-being, we are plagued by persistent trade deficits. We have become a debtor nation, dependent on borrowing from abroad. Productivity has lagged; real wage growth has been slow; annual economic growth rates have been less than satisfactory; and federal budget deficits have continued to mount. Given the seemingly intractable nature of these failings, some people have characterized the 1990s and beyond as an ''age of diminished expectations'' for America. From an international perspective, some pessimists may mistakenly view world trade as exporting more U.S. jobs than American-made products.

We at the AMT do not share this pessimistic view about the future. We believe that American industry can compete and win and that successful competition in world trade is the key to the kind of enhanced economic growth on which a more secure and prosperous America depends. We say this from the perspective of the industry which produces the machinery and new manufacturing technologies used by other businesses to produce products sold here and around the world. We are at the heart of the productive process—putting more and better factory-floor technology in the hands of American workers. We are also substantial exporters ourselves. About 35% of the output of our industry is exported. In total, we employ 53,300 people and most of these jobs are good paying manufacturing jobs using the best and newest technologies. My own company is one of the smaller members of the industry, but we employ approximately 50 people and, to date, more than 68,000 of our modern surface finishing systems have been installed worldwide. In recent years, 15 to 20% of our sales have been exports. Thus, we are strong believers in export trade and in the benefits to America that derive from an ever increasing flow of ''American-made'' goods into global markets.

We also believe that American businesses and their employees should be able to compete on a level playing field; most particularly that the tax system of the United States should not be biased against our own best interests in the global marketplace. American-made machine tools comprise only 13% of the world supply. Worse, about 50% of the machine tools used in the United States are of foreign origin. How much greater would our share of domestic and foreign markets be if the American tax system were not biased against us? It is hard to say. The same is true of American industry in general. Taxes are not the only factor as we all attempt to compete at home and abroad against foreign competitors. But we and our employees would like to have the opportunity to compete on a level tax playing field and we believe it is a matter of urgent national policy that we and they be given the chance.

It would be one thing if the anti-investment, anti-export biases in the Internal Revenue Code of 1986 were necessary—if there were no alternative. But that is not the case. There are alternative tax systems which are not only far more congenial to successful international competition but also more fair, efficient and consistent with the best interests of the United States and the American people. We hear much about ''tax fairness'', but there is certainly nothing fair about a tax system, such as the present federal income tax, which impedes economic growth, costs jobs and lower's living standards.

For the most part, the pro-job, pro-growth alternative tax systems are well-known and well-developed in substantial detail. The principal ones are identified in the notice of your Committee's hearings. We applaud the Chairman and the Committee for putting the international focus on the leading alternative tax systems and we welcome the opportunity to comment on them. This Committee, this Congress, and the next, have an historic opportunity to fundamentally restructure the American tax system for the better. Just as it is vital that we not lose that opportunity, it is equally vital that we not lose sight of the world trade aspects amidst the many other concerns that bear upon taking such a monumental step.

Focusing on international trade necessarily puts a heavy emphasis on taxes paid by businesses, but, in doing so, we do not mean to diminish the importance of the way individuals are taxed under any new alternative tax system. Successful international competition depends on a higher level of personal saving and investment in the United States. Therefore, from every perspective, fundamental tax reform must begin with removing the present strong bias against saving. Individuals should either be allowed to deduct the amount they save (and later pay tax when they withdraw their deferred income from the national savings pool) or, if they are allowed no deduction, the earnings on their savings should be excluded from tax. So long as the present bias against personal saving exists, no matter how good the new international tax rules may be, the U.S. economy will not be able to compete at its full potential in the global market. Similarly, to the extent that corporations and other businesses are taxed separately from individuals, businesses should be allowed to expense capital equipment purchases. Fortunately, the present law penalty on personal saving and business capital investment is so indefensible that its elimination is now almost synonymous with fundamental tax restructuring. In one way or another, elimination of the bias against saving and investment is embodied in all the leading alternative tax proposals we have evaluated. In that respect, AMT endorses them all.

Before going on to evaluate and compare the strictly international tax rules of the leading alternatives—most notably as related to exports, imports and taxation of foreign-source income—AMT would like also to share with the Committee a few overall perspectives which we believe are highly relevant to choosing between the various alternatives. First, any new tax system should be considered as a whole—the individual portion and the business portion must be considered together. In short, it must truly be a tax ''system'' that is internally consistent and that actually works. Indiscriminate cherry-picking of particular aspects of different proposals—no matter how appealing

they may seem in isolation—could produce a monstrosity similar to present law. Second, the new tax system for America's future must be enacted as a whole. Not only must it be fair, it must be perceived as fair by the American people.

Further, we believe that the new tax system should truly be an ''American'' tax system. International comparisons are often relevant, particularly when illustrating the relative disadvantages presently imposed by the Internal Revenue Code of 1986, but the basic elements of the new tax system should be chosen on their own merits, without regard to what other countries may or may not do. For example, there is an independent rationale, well-grounded in tax policy and economics, for allowing a deduction for personal saving and business capital investment. Cross-border adjustments for exports and imports in combination with a territorial rule that excludes foreign-source income provide a logical and meritorious framework that stands on its own. The presence or absence of similar rules, in varying degrees, in other countries' tax systems is not the reason for their adoption here. Similarly, the fact that a new American tax system may have some elements in common with a foreign tax system does not mean that we are adopting that foreign tax system per se. Quite to the contrary. For example, appropriate border tax adjustments for exports and imports are not the exclusive province of the European ''VAT''. They can directly or indirectly be incorporated into some tax structures which are more consistent with our American experience.[1]

There is no reason why the United States should be limited by the tax experiences of other countries. There is no reason why we should not have a better tax system than anyone else—one that is fairer, simpler, more efficient and, above all, in the long-term best interests of the United States in a global economy. You on this Committee have an historic opportunity and you should take advantage of it.

II. INTERNATIONAL COMPETITIVENESS INDEX

AMT has evaluated three leading alternative tax systems against a common set of criteria directly and indirectly related to international competitiveness. The criteria include all of those specified by the Chairman of this Committee in a public announcement in 1995, as well as several others. We fully endorse the Chairman's list of criteria for fundamental tax reform and agree with its emphasis on simplification and on international competitiveness. The alternative tax systems we have evaluated are: the business-level USA Tax (the Unlimited Savings Allowance System in S. 722 by Senators Pete V. Domenici and Sam Nunn); the business-level Flat Tax (in general, H.R. 2060 by House Majority Leader Armey); and the general idea of a retail sales tax.

In the cases of the USA Tax and the Flat Tax, the results of AMT's Competitiveness Index evaluations are set forth below in comparison to the present corporate income tax. Because the retail sales tax does not fit readily in this index format without further explanation, the retail sales tax is evaluated separately in connection with a later general discussion of that subject.

INTERNATIONAL COMPETITIVENESS INDEX

	USA tax	Flat tax	Present corporate income tax
Expenses capital equipment cost in U.S.	Yes (+1)	Yes (+1)	No (−1)

[1] See Gary C. Hufbauer, Fundamental Tax Reform and Border Tax Adjustments (Washington, D.C.: Institute For International Economics, 1996).

INTERNATIONAL COMPETITIVENESS INDEX—Continued

	USA tax	Flat tax	Present corporate income tax
Excludes from tax all exports of American-made products.	Yes (+1)	No (−1)	No (−1)
Taxes imports of foreign-made products.	Yes (+1)	No (−1)	No (−1)
Is territorial (i.e., applies only in U.S.).	Yes (+1)	Yes (+1)	No (−1)
Foreign royalty income is excluded export receipt.	Yes (+1)	No (−1)	No (−1)
Is neutral as between labor and capital.	Yes (+1)	No (−1)[2]	No (−1)
Allows credit for employer-paid payroll tax.	Yes (+1)	No (−1)	No (−1)
Solves transfer-pricing problem	Yes (+1)	No (−1)	No (−1)
Is revenue-neutral (No overall increase/decrease in business taxes).	Yes (+1)	No (−1)	Yes (+1)
Is simple and efficient	Yes (+1)	Yes (+1)	No (−1)
Net score (Max. 10)	+10	−4	−8

[2] At the business level, it is not neutral, but tends to be neutral when combined with the individual tax, except for the absence of a payroll tax credit. In this latter respect, returns to labor are taxed more heavily than returns to capital.

A. Discussion of Competitiveness Criteria in the Context of the USA Tax

Because it satisfies all the criteria within a simple and understandable framework, the USA business-level tax provides an excellent illustration of how a low-rate business tax which allows expensing of capital equipment in the U.S. can be combined with border-tax adjustments and ''territoriality'' to produce an essentially ideal result: a neutral, even-handed tax that treats all businesses alike (whether corporate or noncorporate, capital intensive or labor intensive, financed by equity or by debt, large or small) and which is neither tilted for or against us when we compete in foreign markets nor for or against foreign companies when they compete in our markets.

The USA business tax is ultimate simplicity. To calculate its fax for the year, a business (l) adds up the amount of its revenues for the year from sales of products and services in the United States, (2) subtracts the amount of its deductible input costs for the year, (3) multiplies the resulting ''gross profit'' by the 11% tax rate, and (4) takes a credit for the 7.65% employer-paid FICA tax imposed by present law on its payroll. The payroll tax credit is a unique feature of the USA Tax and is in lieu of any deduction for wages paid to employees. Like the Treasury's Comprehensive Business Income Tax proposal in 1992, and like other proposals designed to eliminate the bias against equity financing, no deduction is allowed for interest.

From a world trade perspective, the highly salutary and complementary relationships between border tax adjustments and territoriality can best be illustrated by applying the USA Tax in a series of fairly typical situations.

(1) TexCorp wishes to compete in the widget market in foreign Country A either by manufacturing widgets in Country A for sale in Country A or by manufacturing widgets in the U.S. and exporting them to Country A. Because the USA Tax is ''territorial'', it does not apply to TexCorp's direct manufacturing and sales operations outside the U.S. Therefore, like the local widget manufacturers in Country A, TexCorp only pays the Country A tax and can compete with these foreign companies on a level tax playing field. Similarly, because exports are excluded from U.S. tax, TexCorp would only pay the Country A tax if it manufactured widgets in the U.S. and exported them into the Country A market. The U.S. tax effect is the same in both cases. What actually happens, as is fairly typical, is that TexCorp starts off by manufacturing directly in Country A in order to penetrate the market and then follows up with exports of American-made components and related product lines. In other cases, also not unusual, TexCorp might start off-with exports to Country A and then follow up with some additional direct investments and operations in Country A in order to expand its export sales of American-made products in Country A. Thus, there is a complementary relationship between the export rule and the territorial rule. (If the tax were territorial, but exports were not excluded from tax, TexCorp would be tax-advantaged by manufacturing abroad to sell abroad.) It is also important to note that because the tax is territorial, TexCorp can bring home its profits from Country A and reinvest them in the U.S. tax-free; the same as it can reinvest its export profits in the U.S. tax-free.

(2) TexCorp also has a new technology related to widgets which, after developing a foreign market for widgets, it wishes to license to others for use in Countries B and C. In other words, TexCorp wants to export the fruits of some American ingenuity which is also a valuable product. Because of the export rule, the foreign royalty income under the license agreement is correctly excluded from tax.

(3) NewCorp wishes to sell widgets in the U.S. market. It can either manufacture the widgets abroad in Country X and ship them back into the U.S. or it can build a new plant in New England near its headquarters and manufacture the widgets there. Because of the 11% import tax under the USA Tax, there is no tax advantage for NewCorp if it manufactures abroad instead of in New England. If NewCorp manufactures a $100 widget abroad and sells it back into the U.S., an $11 import tax is paid. This is the same rate of tax NewCorp would pay if it manufactured the widget in New England. (Under a territorial rule without a complementary import tax, there might be ''runaway'' plants, but with the import tax there will be none. Thus, the synergistic combination of territoriality, an export exclusion, and an import tax provides the U.S. with all the advantages of territoriality without the disadvantages.)

(4) ForCorp, a foreign corporation headquartered in Country Y, wishes to sell widgets in the U.S. market. It could remain offshore, manufacture the widgets in Country Y and distribute them in the U.S. through a sales subsidiary or it could build a plant in Kentucky and both manufacture and sell in the U.S. Because of the 11% import tax, there is no tax advantage to ForCorp in remaining offshore.

(5) In a variation of Situation (4), ForCorp wishes to sell widgets all around the world; not just in the U.S. market. Because the USA Tax rate is only 11% and because U.S. production costs such as capital investment in the U.S. for new plants are deductible, and because of the export exclusion, the U.S. would be a very attractive place for ForCorp to locate its plant.

Not only does the combination of territoriality, an export exclusion, and an import tax produce consistent procedural or mechanical results in the tax calculation, the combination also produces important results as a matter of economic substance: income and job creation.

A good example is the combination of territoriality and the export exclusion. A recent study by Edward Graham at the Institute for International Economics will soon be published by the Oxford University Press.[3] It shows an extraordinarily high degree of

[3] Edward M. Graham, On the Relationships Among Direct Investment and International Trade in the Manufacturing Sector: Empirical Results for the United States and Japan. Institute for International Economics, 1996. To appear in Dennis Encarnation, editor, Does Ownership Matter: Japanese Multinationals in East Asia (London: Oxford University Press, forthcoming).

statistical correlation between the amount of direct investment by U.S. companies in a foreign country (as in Situation (1) above) and the amount of U.S. exports to that foreign country. In other words, the more U.S. companies penetrate foreign markets and gain market share by direct ''on-the-ground'' operations in a foreign country, the greater the amount of exports of American-made products to that country. Thus, U.S. foreign direct investment abroad is good for U.S. exports and good for U.S. jobs. The combination of territoriality, an export exclusion, and an import tax facilitiates this synergistic result.

B. The Flat Tax and the Competitiveness Index

The business portion of the classic Flat Tax (H.R. 2060) does allow expensing and is territorial, and both of these characteristics are positives. But, overall, the Flat Tax does not score well under AMT's International Competitiveness Index. There are may reasons for this deficiency, as indicated in the brief presentation of the Index itself, but the most significant reasons appear to be the absence of an import tax and the absence of an export exclusion.

Without belaboring the point, a few examples may suffice. In prior Situation (1) where TexCorp had the choice to manufacture in the U.S. for export abroad or to manufacture abroad for sale abroad, under the Flat Tax it would be to TexCorp's advantage to manufacture abroad insofar as U.S. taxes are concerned. This is because the Flat Tax taxes U.S. exports. Similarly, in prior Situation (2), because the Flat Tax taxes U.S. exports, foreign royalties from licensing U.S. know-how and technology would be taxed. TexCorp might be better advised to develop the technology abroad instead of developing it here and licensing the use abroad. In Situations (3), (4) and (5), because the Flat Tax does not tax foreign imports, it would have been to the advantage of NewCorp or ForCorp to manufacture abroad for sale into the U.S.

C. General Discussion of Sales Tax Option

Setting aside all other considerations and assuming that a retail sales tax replaced the federal income tax, the resulting tax system would score very high on AMT's International Competitiveness Index—in the area of 90 to 100%.

A retail sales tax is implicitly border adjustable for imports and exports and is implicitly territorial. These implicit or indirect characteristics arise because a tax is paid only to the extent that a retail sale occurs in the United States.

Even if, as some economic analysis suggests, the economic burden, of the retail sales tax is in significant part borne by businesses (and, ultimately, their owners and employees), there is an implicit export exclusion because no tax is ever paid with respect to a sale to a non-U.S. purchaser and no tax ever enters the system potentially to be passed back to the seller. Similarly, if a U.S. company is operating and selling abroad, there is never any U.S. retail sale and no U.S. tax ever enters the chain of price-tax-volume relationships between seller and purchaser. Thus, a retail sales tax is implicitly territorial.

On the import side, if either a U.S. company or a foreign company manufactures a product abroad which directly or indirectly finally shows up as a retail sale in the U.S., a tax liability arises. Thus, in this indirect sense, there is an implicit import tax, i.e., the retail sales tax is the same whether the product sold in the U.S. is of domestic or foreign origin.

III. CONCLUSION AND RECOMMENDATIONS

AMT believes that any new tax system for America's future should be terroritial, should include complementary export and import adjustments, and should relieve the bias against personal saving and business capital investment. The new tax system should also be simple.

Based on our analysis using the International Competitiveness Index, it appears that there are two fundamentally different ways of doing this. One is the USA Tax (which resembles a very simplified version of a corporate income tax with expensing and appropriate international adjustments engrafted on to it). The other is the general idea of replacing the entire federal income tax with a retail sales tax.

While the USA Tax and the retail sales tax are far apart and greatly different in many other respects, either one would have a beneficial impact on international competitiveness.

Mr. NUNN. Mr. President, Senator DOMENICI and I believe we have a solution to the export problems created by our current Tax Code. The solution is the U.S.A. tax plan. We believe our proposal will make America much more competitive.

The first thing the U.S.A. tax plan does to level the playing field is to make America's business tax—which replaces the corporate income tax—border-adjustable. We exclude from our domestic tax base any items made by American manufacturers for export, just as our major competitors do by rebating their value-added taxes when their goods are exported for sale here.

Conversely, when a company, foreign or U.S. owned, manufactures abroad and sells in the U.S. market, the company is, through the operation of a new import tax, taxed essentially the same as if the factory were located in the United States. Again, we are trying to give imports and exports the same treatment our competitors do, rather than perpetuate the present system which favors companies that are located abroad selling to this country. Imports would be subject to an import tax that would equal the overall business tax levied in this country.

The border adjustability feature of the U.S.A. plan is intended to favor and encourage production and employment here in the United States and to make American goods, services and know-how more competitive in foreign markets. Our current Tax Code does exactly the opposite.

For example, in Georgia, Ford Motor Co. operates a very large manufacturing facility which produces thousands of Ford Tauruses and Mercury Sables every year. These vehicles are mid-sized, moderately priced automobiles. Many of these vehicles are exported. When a $20,000 Taurus is exported to Great Britain, it carries with it the burden of today's U.S. Tax Code—a 34-percent rate on corporate profits, the alternative minimum tax, and numerous other business levies. In addition when this Taurus is sold in Great Britain, a 17 percent Value Added Tax [VAT] is also imposed on it. This adds $3,400 to the price of the car. In essence, doubling the tax burden on this single car.

Under this same scenario with the U.S.A. tax plan, when this Taurus is exported, no U.S. business income tax would be imposed. The car would still be subject to a VAT when it reaches Great Britain, but it would not be burdened with the cost of the U.S. Tax Code.

Conversely, under today's Tax Code, when Rover—a British automobile manufacturer—exports a vehicle to the United States, the VAT it carries in Great Britain is rebated to Rover before it leaves British soil. When this Rover vehicle is sold in the United States, it carries no U.S. corporate income tax burden nor does it carry a VAT. With the U.S.A. tax system, an U.S. import tax would be levied on the Rover vehicle. This levy would be the equivalent of the U.S. corporate tax carried on the Taurus built and sold in the United States. In other words the playing field would be level on goods manufactured abroad and sold in the U.S. market compared to goods both manufactured and sold in the United States.

The second, related feature of our business tax on imports and exports is that the U.S.A. tax is territorial. If a company located a plant in a foreign country in order to sell in that country's local markets, then under the U.S.A. tax plan we do not allow a deduction for those foreign costs, but neither do we include the proceeds of these foreign sales as part of our domestic tax base. Overseas sales would not be part of that company's U.S. corporate income tax calculations.

This is what we mean by saying the U.S.A. tax is territorial. Businesses would not have to include overseas sales in their profits when computing their business taxes, nor would they deduct costs they incur purchasing goods and services overseas. I might add that this will have another huge benefit—it will greatly simplify the computation of U.S. tax liabilities for our international corporations.

When I have highlighted this aspect of the U.S.A. tax plan to groups here in Washington and throughout the country, one of the first questions asked about this element of the U.S.A. tax plan is—is it GATT complaint? According to the many tax and trade experts, including officials at the Department of the Treasury, we have consulted, the weight of the legal argument is with the U.S.A. tax plan.

Should the U.S.A. plan be enacted, we can expect a GATT challenge. In fact, a number of our allies' Ambassadors have raised this question with me. When I explain the essence of the U.S.A. tax plan to them and point out that their country's value added taxes [VAT's] do the same thing to U.S. products exported to their nations as the U.S.A. tax proposes to do to their exports, the answer I usually receive is a blank stare. It seems to me that what is good for the goose is good for the gander.

Another question I receive is the question about the U.S.A. tax plan's omission of the deductibility of wages at the business level. Wages under the

U.S.A. tax plan would not be deductible. The principle reasons why this deductibility is denied are twofold: first under GATT rules, our Nation can not provide wage deductions while also providing, in essence, an excise tax on imports and second to provide wage deductibility and still maintain revenue neutrality the business rates would have to be raised significantly from the 11 percent flat rate we propose.

While this conclusion seems necessary, the wage nondeductibility issue is going to have to be thought through very carefully. Attaining a level playing field in international trade is a very important goal and to achieve it would be a sea change in U.S. tax policy. The same would be true to deny wage deductions to businesses. However, on this latter point, businesses need to keep in mind that the business rates proposed in the U.S.A. tax plan are much, much lower than today's business tax rates. In fact, they would be less than one-third of today's rates, yet these rates raise the same amount of revenue for the Federal Government as is raised today. It is also important to keep in mind that under our proposal, businesses would receive a credit for the employer share of Social Security taxes paid. So the effective business tax rate on wages paid up to the $62,000 Social Security tax wage limit would be 11 percent less 7.65 percent paid in FICA taxes, or just 3.35 percent.

Mr. President, in conclusion, the U.S.A. tax plan would promote U.S. competitiveness and level the international playing field for American business by implementing a territorial and border adjustable business tax. All goods, whether produced here or abroad, sold in the United States will bear the same U.S. tax burden. And U.S. exports, which are generally subject to a value-added tax when they are sold in foreign markets, would no longer be subject to a U.S. corporate income tax on top of that. It's time we had a Tax Code that works for us, not against us, and the U.S.A. plan, for this and many other reasons, provides the answers.

CRS REPORT ON ENVIRONMENTAL TOBACCO SMOKE

Mr. FORD. Mr. President, on November 14, 1995, the Congressional Research Services issued a report authored by C. Stephen Redhead and Richard E. Rowberg entitled Environmental Tobacco Smoke and Lung Cancer Risk. This report was prepared in response to multiple requests from congressional offices and presents an analysis of the potential health effects of environmental tobacco smoke [ETS].

Consistent with statutory requirements for CRS work, this report was prepared in a nonpartisan, unbiased manner and is an excellent example of the professional and academic quality of CRS work. The report calls into question some of the findings of the Environmental Protection Agency with regard to ETS. Not surprisingly, some of the conclusions contained in the report have proven controversial.

Subsequent to the release of the report, one of the authors of the report made statements to the press regarding the conclusions of the report. Reports of the author's statements have appeared in several newspapers. It appears that his statements have been either misconstrued or taken out of context in an apparent attempt to discredit the results of the report.

In a letter to me, dated March 19, 1996, Daniel P. Mulhollan, Director, CRS, clarified that, based on conversations with the author, news reports were either misleading or inaccurate. Further, Mr. Mulhollan stated that CRS continues to stand by the findings of the report.

I ask unanimous consent that a copy of this letter from Dan Mulhollan, dated March 19, 1996, be inserted in the RECORD at this point.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

CONGRESSIONAL RESEARCH SERVICE,
THE LIBRARY OF CONGRESS,
Washington, DC, March 19, 1996.

Hon. WENDELL H. FORD,
U.S. Senate,
Washington, DC.

DEAR SENATOR FORD: This is in response to the questions you raised yesterday concerning an article that appeared last month in the Kitchener-Waterloo record about the CRS report, Environmental Tobacco Smoke and Lung Cancer Risk. Based on my conversations with the analysts involved, the article was misleading and inaccurate. I can assure you that we continue to stand by the findings of the report.

I am advised that the article contains three specific statements about the content of the report which were attributed to one of its authors. First, it states that the report ''does not dispute the claim that second-hand smoke is a known, class A (human) carcinogen.'' In fact the report takes no position regarding the Environmental Protection Agency's classification of ETS as a class A carcinogen. The relevant sections in the report appear on page 1 (paragraph 3) and the last two paragraphs on page 16.

The article also states that the ''number of [ETS] deaths....likely ranges anywhere from several hundred to several thousand a year in the United States.'' The report cited several possible values ranging from zero to as high as 5,500 depending on the level of risk selected from those appearing in the published literature (see page 2, paragraph 2).

Finally, the article states that the CRS report attempted to ''point out the uncertainties of determining what level of exposure to ETS is likely to cause cancer.'' This statement is misleading and incorrect. The report presents an analysis of the uncertainties in performing a quantitative risk assessment of the ETS-lung cancer risk using epidemiologic data.

Notwithstanding any comments that have appeared in this or any other press articles or other published comments about the CRS report, we have not changed our position on any of its findings. We also believe that these findings are clearly expressed in the report.

I am also enclosing a copy of a March 18 letter from the Acting Chief of the Science Policy Research Division that was E-mailed to Ms. Martha Perske. The letter states that we have not changed our position on any of the findings of the report on ETS.

Sincerely,

DANIEL P. MULHOLLAN,
Director.

Mr. STEVENS. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. NICKLES. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mrs. FRAHM). Without objection, it is so ordered.

RELATIVE TO CAMBODIA HUMAN RIGHTS RECORD

Mr. NICKLES. Madam President, I ask unanimous consent that the Senate proceed to the immediate consideration of Calendar No. 629, Senate Resolution 285.

The PRESIDING OFFICER. Without objection, it is so ordered.

The clerk will report.

The assistant legislative clerk read as follows:

A resolution (S. Res. 285) expressing the sense of the Senate that the Secretary of State should make improvements in Cambodia's record on human rights, the environment, narcotics trafficking and the Royal Government of Cambodia's conduct among the primary objectives in our bilateral relations with Cambodia.

The PRESIDING OFFICER. Is there objection to the immediate consideration of the resolution?

There being no objection, the Senate proceeded to consider the resolution, which had been reported from the Committee on Foreign Relations, with amendments:

(The part of the resolution intended to be stricken are shown in boldface brackets and the parts of the resolution intended to be inserted are shown in italic.)

[ers, and helped finance both the Royal Cambodian Armed Forces and the Khmer Rouge in their civil war; and

[Whereas the desire to cite Cambodia United Nations peacekeeping success story has stifled official international expressions of concern about deteriorating conditions in Cambodia: Now, therefore, be it**]**

Whereas the Paris Peace Accords of 1991 and the successful national elections of 1993 brought two decades of civil war nearer to cessation, demonstrated the commitment of the Cambodian people to democracy and stability, and led to the creation of a national constitution guaranteeing fundamental human rights;

Whereas since 1991 the international community has contributed almost $2 billion to peacekeeping and national reconstruction in Cambodia and currently provides over 40 percent of the budget of the Royal Government of Cambodia (RGC);

Whereas recent events in Cambodia—including the arrest and exile of former Foreign Minister Prince Sirivudh, the expulsion of former Finance Minister Sam Rainsy from the FUNCINPEC Party and the National Assembly, a grenade attack against members of the independent Buddhist Liberal Democratic Party of Cambodia, mob attacks against pro-opposition newspapers, the assassination of journalist and Khmer National Party member Thun Bunly,